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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the AeroVironment fiscal 2025 second-quarter conference call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Jonah Teeter-Balin. Please go ahead.

Jonah Teeter-Balin - *AeroVironment Inc - Investor Relations Vice President,*

Thanks, and good afternoon, ladies and gentlemen. Welcome to AeroVironment's fiscal year 2025 second quarter earnings call. This is Jonah Teeter-Balin, Vice President of Corporate Development and Investor Relations.

Before we begin, please note that certain information presented on this call contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve many risks and uncertainties that could cause actual results to differ materially from our expectations.

Further information on these risks and uncertainties is contained in the company's 10-K and other filings with the SEC, in particular, in the risk factors and forward-looking statement portions of such filings. Copies are available from the SECI, on the AeroVironment website at www.avinc.com, or from our Investor Relations team.

This afternoon, we also filed a slide presentation with our earnings release and posted the presentation to the Investors section of our website under Events and Presentations. The content of this conference call contains time-sensitive information that is accurate only as of today, December 4, 2024. The company undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Joining me from AeroVironment are Chairman, President and Chief Executive Officer, Wahid Nawabi and Senior Vice President and Chief Financial Officer, Kevin McDonnell.

We will now begin with remarks from Wahid Nawabi. Wahid?

Wahid Nawabi - AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer

Thank you, Jonah. Welcome, everyone, to our second-quarter fiscal year 2025 earnings conference call.

I will start by summarizing our quarterly performance, followed by Kevin, who will review our financial results in greater detail. I will then provide our expectations for the remainder of fiscal year 2025. And finally, Kevin, Jonah and I will take your questions.

I'm pleased to report another strong quarter with results in line with our fiscal year expectations. Our key messages, which are included on slide number 3 of our earnings presentation are as follows: first, second-quarter revenue rose to \$188 million, representing a new second quarter record for the company; second, our loitering munition systems segment continues to drive growth for the company with record second quarter revenues of nearly \$78 million, a 61% year-over-year increase.

Third, funded backlog continues to grow and is now at a healthy \$467 million. And fourth, given our strong execution, key contract awards, robust pipeline and 95% visibility to the midpoint of our guidance range, we reaffirm revenue, adjusted EBITDA and non-GAAP EPS guidance for fiscal year 2025.

Our strong second quarter results, coupled with other key achievements in the quarter, clearly positions us to continue creating value for all our key stakeholders. For example, we were awarded 2 large sole-source Switchblade IDIQ awards, representing a record \$1.7 billion in contract ceiling. While the funded amounts under these awards were expected for this fiscal year, the long-term visibility and demand for Switchblade has improved even further.

In addition, we launched our latest market-leading uncrewed system solution, the P550. This new Group 2 UAS further strengthens our portfolio and fills the gap between our Puma and JUMP 20 ISR platforms. The P550 offers unmatched payload capacity, endurance, flexibility and adaptability for our customers' most demanding missions.

This solution is performing well in the US Army's long-range reconnaissance competition, which is valued at approximately \$1 billion over the next decade. We're also receiving multiple additional domestic and international interest for this industry-leading solution. We believe the P550 will become another global franchise product similar to our Raven and Puma solutions.

With an expanding pipeline of opportunities and growing backlog, we continue to focus on increasing our production capacity and throughput to meet our customers' needs. We remain on track to achieve the production goals we shared last quarter.

And last but not least, we took a major step towards achieving our future state when we announced our agreement to acquire BlueHalo, a defense technology leader operating in several key franchises in space, counter-UAS, cyber and electronic warfare. This acquisition will enable us to become an even stronger and more diversified defense technology provider, delivering highly innovative mission-critical solutions with enhanced speed and agility.

We believe our combined portfolio will provide us with industry-leading positions in space communication, unmanned aerial systems, counter UAS, loitering munitions, electronic warfare and cybersecurity, all enabled by the best-in-class autonomy and AI software suite. On a pro forma basis, the combined company is expected to deliver approximately \$1.7 billion in annual revenue.

We continue to work diligently towards completing this transaction and expect it to close in the first half of calendar year 2025, subject to regulatory and shareholder approvals and other customary closing conditions. We're confident that as a combined business, we will leverage our strengths and deliver even better outcomes for our customers, employees and shareholders.

With that, I'd like to now discuss results from each of our three business segments, starting with loitering munition systems or LMS. As we stated previously, LMS was once again our strongest revenue growth driver for the quarter as expected.

Revenue increased by more than 2 times from the same period last fiscal year. Revenues totaled about \$78 million, a new second quarter LMS record. Our Switchblade products are performing very well in the field and have become the global standard for loitering munitions globally.

Our customers value Switchblade's unmatched ability to operate in heavily contested environments with very high success rates. Switchblade 300 and 600 continue to strike very high-value targets in a cost-effective manner, presenting an incredible value proposition for our customers.

Additionally, demand for both Switchblade 300 and 600 continues to grow as evidenced by our most recent multiple US DoD IDIQ awards. These contracts enable our customers to procure greater quantities of our products more quickly.

The US Army announced a five-year sole-source IDIQ award with a ceiling value of nearly \$1 billion, and we've already received an initial \$128 million task order under this contract for the US Army's directed requirement for lethal unmanned systems.

We also received a separate sole-source modification to an existing contract from the US Army, which increased the contract ceiling for Switchblade 300 and 600 by nearly \$750 million. Under this US Army IDIQ, we have received a task order valued at roughly \$55 million of Switchblade 600 and 300s. Both IDIQ awards contain beneficial new terms that allow for progress payments, which will significantly improve our cash flow and working capital usage.

These orders should also facilitate a faster procurement process for key additional domestic and international opportunities.

In addition to increasing domestic demand and orders, our Switchblade product line continues to see more international demand. As part of the \$55 million award I just mentioned, we received FMS orders from 3 additional allies, Lithuania, Romania and Sweden. Moreover, Taiwan and Greece have also publicly announced their intention to purchase significant quantities of Switchblades in the near future.

Looking ahead, we have even more countries in our pipeline planning to add Switchblades to their other AV offerings to create a comprehensive family of system solutions. Additionally, we're pleased to share that we delivered our first tranche of Switchblades to the US Marine Corps under the Organic Precision Fires Light program, or OPF-L.

We expect additional Switchblade task orders under the existing contract umbrella in the coming quarters. In support of all this growing demand, we remain focused on further scaling manufacturing to support more than \$500 million in annual Switchblade product revenue by the end of this fiscal year.

We have also selected an additional new location where we will expand our loitering munitions manufacturing beyond fiscal year 2025. In the meantime, AV's track record of delivering Switchblade and high quality, high reliability and high volume remains unmatched in the industry.

Finally, we continue to invest in new Switchblade variants and upgrades to current product. We hope to announce further details on these new offerings at a future date. In summary, we're very confident about the growth trajectory of our LMS business, and we anticipate continued momentum that goes well beyond fiscal year 2025.

Now on to our uncrewed systems segment. Revenue for the second quarter was nearly \$86 million, reflecting another quarter of solid performance. Our uncrewed systems segment remains a strong revenue and profitability driver for the company, largely due to our Puma and JUMP 20 platforms.

That said, we strengthened our portfolio with the P550, our latest uncrewed systems product, which we showcased at the annual AUSA Conference in Washington, D.C. in early October. Consistent with our track record, we expect this solution to be the gold standard for Group 2 UAS and create another global franchise in uncrewed solutions for the company.

The P550 is part of our recently submitted proposal for the US Army's Long Range Reconnaissance program, or LRR, and we hope to receive an update on our submission in the coming months. We also anticipate strong global demand for this product beyond the US Army's program record, with additional interest coming from the US Marine Corps, US Navy, US SOCOM, and multiple international customers.

The P550 demonstrates our continued commitment to provide innovative, intelligent autonomous platforms that ensure operational superiority for our customers, and we expect this platform to be a significant contributor to this segment's future growth. In addition, we're seeing continued momentum in our JUMP 20 system.

We now have a sales pipeline of more than \$0.5 billion and hope to share additional details on at least two expected wins soon. Additionally, we remain engaged with the US Army's FTUAS program office to potentially compete for upcoming tranches.

Given favorable feedback on our Puma, JUMP 20 and now the P550 platforms, we anticipate domestic international demand for our UxS solutions to remain healthy in 2025 and beyond.

Moving now to our MacCready Works segment. MacCready Works continues to make solid progress on its key opportunities with the goal to provide solutions and capabilities that meet our customers' evolving needs especially through the development of novel platforms and autonomous capabilities.

As an example, this past quarter, we continued our flight test program with the defense variant of our HAPS Sunlider, which demonstrated the ability to fly at high altitudes while providing persistent and reliable surveillance. As part of this flight test program, we flew a state-of-the-art Synthetic Aperture Radar, or SAR payload, and demonstrated advanced surveillance capabilities.

Additionally, our efforts with the US DoD are continuing to progress, and we were recently awarded another \$7 million follow-on contract to continue the HAPS defense flight test program. We remain convinced that our HAPS platform is another unique and game-changing capability for our customers' current and future missions.

MacCready Works continues to play a significant role in the overall development of AV's new and innovative solution offerings. We look forward to sharing more exciting announcements from this business segment in future quarters.

In summary, our strong execution, key contract awards and robust pipeline gives us confidence in the remainder of fiscal year 2025 and beyond. Our solid performance to date, a healthy backlog and recent orders has increased our visibility to 95% of the midpoint of our revenue guidance range, but we still see some risks with order timing, especially given the continuing resolution environment and change in administrations. Therefore, we are reaffirming our fiscal year 2025 revenue, adjusted EBITDA and non-GAAP EPS guidance and now expect third quarter revenue to represent about 40% of second half revenues.

With that, I would like to now turn the call over to Kevin McDonnell for a review of our second quarter financials. Kevin?

Kevin McDonnell - AeroVironment Inc - Chief Financial Officer, Senior Vice President

Thank you, Wahid. Today, I will be reviewing the highlights of our second quarter performance, during which I will occasionally refer to both our press release and earnings presentation available on our website. In summary, we posted another strong revenue and adjusted EBITDA quarter.

We also saw our funded backlog grow after several quarters of decline, and our outlook remains on track for another strong fiscal year. Given the pending BlueHalo acquisition, any references to future performance exclude the impact of BlueHalo, which is expected to close during the first half of calendar 2025.

As Wahid mentioned in his remarks, revenue for the second quarter of fiscal 2025 was \$188.5 million, an increase of 4% as compared to the \$180.8 million for the second quarter of fiscal 2024. slide 6 of the earnings presentation provides a breakdown of revenue by segment for the quarter.

Our largest segment during the quarter was uncrewed systems, or UxS, which is the combination of small UAS, medium UAS and the UGV businesses. UxS had revenue of \$85.4 million in the quarter, which is down 36% from last year's total of \$132.8 million, primarily driven by a decrease in Ukraine revenue of \$54 million. Puma demand remained strong, accounting for 71% of UxS revenue, but we also saw meaningful contributions from our UGV products, JUMP 20 and Tomahawk during the quarter.

Our loitering munition systems segment, or LMS, recorded revenue of \$77.7 million, a 157% increase as compared to the \$30.2 million during last year's second quarter. The LMS undefinitized contract actions or UCAS were definitized in Q2, which resulted in approximately \$10 million increase to Q2 revenue and gross margin.

Revenue from our MacCready Works segment came in at \$25.3 million, an increase of 42% as compared to \$17.8 million for the second quarter of last fiscal year, primarily driven by HAPS revenue from both SoftBank and the US Department of Defense for stratospheric flight testing.

In slide 6 of the earnings presentation, there is also a breakdown between product and service revenue. Specifically, during the second quarter, product revenue accounted for 80% of total revenues, which is in line with the corresponding quarter of the previous year, primarily due to strong product revenue from both our small UAS, LMS and medium UAS products. We expect product revenues as a percentage of revenue to remain above 80% for the foreseeable future.

Moving to gross margins. Slide 7 of the earnings presentation shows the trend of adjusted product and service gross margins, while slide 12 reconciles the GAAP gross margin to adjusted gross margins, which excludes intangible amortization expense. In the second quarter, consolidated GAAP gross margins finished at 39%, which was lower than the second quarter last year due to the higher margin UxS mix in the prior period.

Now turning to adjusted gross margins. Second quarter adjusted gross margins were 41%, which is lower than the 43% for the same period last year due to the change in sales mix as described previously. We expect adjusted gross margins for the second half of the year to be 38% to 40% and ending the full year between 40% and 41%.

We should exit the fourth quarter at the higher end of the second half range. Adjusted product gross margins for the second quarter were 44% versus 47% in the second quarter of last fiscal year.

Again, we had strong UxS revenue in the second quarter of last year, driven by Ukraine sales, which contributed to higher adjusted product margins.

We do expect adjusted gross product margin decline in the coming quarters as we continue to expect the contribution of product revenues from LMS to increase. In terms of adjusted service gross margins, the second quarter was at 28%, in line with the same quarter of last year.

In terms of adjusted EBITDA, slide 13 shows the reconciliation of GAAP net income to adjusted EBITDA. Adjusted EBITDA for Q2 was \$25.9 million, down from last year's Q2 of \$39.5 million. Just a reminder that our last year's first half was very strong because of Ukraine revenue.

Year-over-year revenue is up slightly, but SG&A and R&D expense are running higher, resulting in lower first half adjusted EBITDA versus last year. However, these higher SG&A and R&D expenses are in line with guidance for the year, and I'll go into more detail shortly.

We expect adjusted EBITDA for Q3 to be slightly down from Q2, but Q4 is significantly higher than any of the first three quarters. Also note that we incurred \$3.7 million of acquisition-related expenses in Q2. We'll continue to incur these expenses related to the BlueHalo transaction for the remainder of the fiscal year and likely into next fiscal year.

Because of the difficulty of predicting the timing and amount of transaction expenses which impact GAAP net income, we're only providing revenue, non-GAAP EPS and adjusted EBITDA guidance.

SG&A expense, excluding intangible amortization and acquisition expenses for the second quarter was \$33 million or 18% of revenue compared to \$26 million or 14% of revenue in the prior year. The increase in SG&A expense is partially the result of an increase in sales and marketing expense, primarily driven by an increase in bid and proposal activity, along with employee-related costs due to an increase in average headcount to help support our expected growth and expansion of our operations. We expect SG&A as a percentage of revenue before intangibles and acquisition-related expenses to decline in the next two quarters as we end the year in the 15% to 16% range.

R&D expense in the second quarter was \$29 million or 15% of revenue compared to \$22 million or 12% of revenue in the prior year. The R&D spend in the quarter was driven by several key development projects. Specifically, our Group 2 UAS, the P550 introduced at AUSA, the meritization of the JUMP 20 and the integration of the Tomahawk controller into several of our UxS products.

In addition, we continued development of several Switchblade variants. Our R&D investment reached a high point in dollars and percentage for the year in Q2, and we expect sequential decreases in dollars and percentage in Q3 and Q4. We expect R&D to be in the range of 12% to 13% of revenue for fiscal year 2025.

Now turning to GAAP earnings. In the second quarter, the company generated net income of \$7.5 million versus net income of \$17.8 million recorded for the same period last year. The decrease in net income of \$10.3 million can be attributed to several factors, namely a \$9.8 million increase in SG&A expenses, including a \$2.6 million increase in deal and integration costs, a \$6.7 million increase in investments in R&D, and a \$1.7 million decrease in gross margins.

These were partially offset by a \$2.9 million decrease in other losses, a \$2.4 million increase in our equity investment activities, a \$1.4 million decrease in taxes and a \$1.3 million decrease in interest expense.

Slide 11 shows a reconciliation of GAAP and adjusted or non-GAAP diluted EPS. The company posted adjusted earnings per share -- diluted share of \$0.47 for the second quarter of fiscal 2025 versus \$0.97 per diluted share for the second quarter of fiscal 2024.

Turning to the balance sheet. At the close of the second quarter, our total cash and investments amounted to \$91.2 million compared to \$103 million at the end of the first quarter of fiscal '25. Unbilled receivables declined \$15 million during the second quarter from the first quarter, but continued to be elevated, largely attributable to our LMS business segment.

Although our new payment terms on LMS contracts didn't have any impact on the second quarter, we expect these new terms to start favorably impacting our unbilled receivables beginning in the third quarter. We, therefore anticipate an improvement in working capital for the remainder of the fiscal year.

We also completed a \$200 million revolving credit facility with four banks during the quarter, which included paying down the remaining term loan balance and funding \$15 million on that revolver. I'd like to conclude with some highlights of our backlog metrics.

Our funded backlog at the end of the second quarter of fiscal 2025 finished at \$467.1 million, an increase of \$94.2 million or 25% compared to the first quarter of fiscal '25, driven by our recent LMS domestic and foreign military sales award. In addition, we currently have \$1.8 billion of unfunded backlog.

Now I'd like to turn things back to Wahid.

Wahid Nawabi - AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer

Thanks, Kevin. Our second quarter performance validates the increasing importance of our products and solutions to our customers. Global demand for autonomous, AI-enabled uncrewed solutions continues to rise, and we're well positioned to deliver innovative products and volume and quality to support our customers' evolving needs.

We believe we're well positioned to benefit from the US DoD's budget priorities and look forward to working with the new administration. We're also encouraged by the increase in international demand, especially for our Switchblade and JUMP 20 solutions.

Finally, we believe the addition of BlueHalo will position us as the best-in-class next-generation defense technology leader focused on our global customers' most critical mission objectives and priorities. We also just concluded our Technical Interchange Meeting, or TIM, where we hosted participants from 24 countries. The primary objective of our TIM event is to educate our customers on our market-leading solutions and hear their feedback and needs.

There is a fundamental shift occurring in war strategy requiring significantly more UAS and loitering munitions. We now see a new wave of procurements across the globe. Customers want sustainable partners with the experience, track record, and resources to deliver innovative and

cost-effective solutions with agility. These factors, coupled with our strong performance of our systems and combat, especially in Ukraine, position us to capture our fair share of this expanding opportunity.

Before turning the call over for questions, let me again summarize the key takeaways from today's call. First, second quarter fiscal year 2025 revenue grew to \$188 million, setting a new second quarter record. Second, our loitering munition systems segment continues to be the key growth driver for the company.

Third, funded backlog is a healthy \$467 million. And fourth, we reaffirmed our revenue, adjusted EBITDA and non-GAAP guidance -- EPS guidance for fiscal year 2025 and anticipate we will set new records for the company this fiscal year.

Before we take questions, I would like to thank our customers for their continued faith that our company and products can meet their high standards and support their critical missions. I would also like to thank our incredibly talented team here at AV for their dedication and hard work and enabling the growth and adoption we are now seeing.

And finally, I would like to thank our shareholders for their continued interest in support of our growth strategy. It is truly an honor to support our country and allies at this important time.

And with that, Kevin, Jonah, and I will now take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Peter Arment, Baird.

Peter Arment - Robert W. Baird & Co Inc - Analyst

Hey. Good afternoon, Wahid, Kevin, Jonah. Wahid, can we dig in a little bit on the uncrewed category? This is, I think, the lowest revenue quarter that you had that in the last, I think, like eight quarters. So maybe just -- can you describe what you're seeing from the demand environment there?

And -- because I guess we're not really expecting any revenues from P550 maybe this fiscal year, but it seems like it's going to be a great product for what we saw at AUSA. Just what can you describe about what you're seeing? And how do you think you're positioned in that category?

Wahid Nawabi - AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer

Thanks, Peter. Absolutely, it's my belief that our UxS segment has been and will continue to be one of the strongest revenue and profitability driver for our business as a whole. We believe that the UxS or uncrewed systems segment has a tremendous long-term growth and value proposition opportunities in several key areas.

The reason for the revenue and the UxS not being as high as historical levels because we transitioned away from the big Ukraine demand that happened last year. We expected that. We have been working successfully to diversify from that, and we are successfully delivering on that strategy.

Secondly, I would say that there's tremendous amount of demand for both our existing Puma systems, both Puma AE and LE, as well as our JUMP 20 system. For example, we have over \$0.5 billion worth of real solid pipeline of opportunities for our JUMP 20 systems. And that is both domestic and international. So it's a very good mix of customers in multiple geographies.

And third, we believe that the next wave of demand for our UxS systems, especially the nonlethal one, is going to be fueled dramatically over the next two to three years with our P550 introduction and a few other products that we have in the development pipeline.

So we believe that the position that we have right now with the LRR competition program record, which is another \$1 billion program, is going to fuel another wave of growth and establish a new what I call a franchise product similar to our Ravens, similar to Pumas and this Group 2 UAS category.

So overall, I'm very confident about that business's ability to be able to continue to grow. It's going to be lumpy and variable on a quarterly -- quarter-by-quarter basis. That's because of the nature of the business. And in the long term, though looks quite strong, and we are looking for lots and lots of opportunities for growth.

Peter Arment - *Robert W. Baird & Co Inc - Analyst*

Okay. I appreciate the color there. And just as my follow-up. Could you talk a little bit about where you stand on, I guess, replicated deliveries? And if you've started to ship to Taiwan? And any comments that you can make on the protest that was put against the IDIQ contract?

Wahid Nawabi - *AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer*

Sure. So related to Replicator, we're pleased to report that we are an incredibly successful company and being able to deliver on the promises and expectations of the US military and the Pentagon has had on that program, what I refer to as a poster child of that entire initiative. We have already shipped a significant portion of product, specifically the Switchblade 600s to that customer, and we'll continue to ship more as we go forward.

So in general, the Replicator program has been a quite good success for us, and there's more to come on that program as part of our backlog and as well as the future orders that we expect for the growing business of Switchblade in general.

Secondly, related to the protest, we are still waiting for the decision of the Department of Justice. They have until mid-December to late December to decide. And although during that time, the government -- the US Army has given us authorization to proceed to be able to ship products so we can meet our customers' needs.

We believe that our position is strong. I think we have a very compliant, competent bid and award, and we expect to continue delivering product under the Replicator as well as the IDIQ for our customer.

Peter Arment - *Robert W. Baird & Co Inc - Analyst*

Appreciate the details. I'll jump back in the queue. Thanks.

Wahid Nawabi - *AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer*

You're welcome, Peter.

Operator

Louie DiPalma, William Blair.

Louie DiPalma - *William Blair & Co - Analyst*

Wahid, Kevin, and Jonah, good afternoon.

Kevin McDonnell - *AeroVironment Inc - Chief Financial Officer, Senior Vice President*

Hi, Louie,

Wahid Nawabi - *AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer*

Hi there, Louie,

Louie DiPalma - *William Blair & Co - Analyst*

Good afternoon. Have you been making progress in terms of adding the Switchblade to the Kinesis ecosystem? You discussed the very robust growth for the Switchblade portfolio as it relates to Replicator and less so and for foreign military sales. And we're just wondering how you're making investments on the software front for Switchblade. Thanks.

Wahid Nawabi - *AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer*

Absolutely, Louie. So it has been our plan from the beginning to continue to integrate the Kinesis common ground control station and the software ecosystem with the rest of our portfolio. It is a major driver of value to our customers' missions to simplify the operating process for them and actually achieve the stated outcomes they've got. The priority list of which product to integrate first is primarily driven by our customers' priority.

Our customers today really need to deliver product to Switchblades with the existing controllers because there's a training process that has to happen with the customer in the field with all the products that we've got deployed. We are making progress, and we have plans to eventually integrate it with Switchblade as well. We're in the testing and integration phase. And soon, we will be able to announce that we are successfully now shipping that product, but we're not at that point yet. And that's primarily driven by prioritizing this activity with our customers' requirements and their ranked order of what they want to see first.

But overall, we're very pleased with the Tomahawk controller and their business and their team. They continue to grow and make really significant wins, and we're going to continue to integrate their controllers, not only with our product portfolio, but many other third-party products that are out there. So we're very pleased with the progress we're making on that so far.

Louie DiPalma - *William Blair & Co - Analyst*

Great. And along those lines, in terms of integrating Kinesis with third-party products, do you feel that Kinesis will be able to provide a common operating system for the many different BlueHalo product lines as well and tie those together with the Switchblade and the Puma and JUMP 20 product lines?

Wahid Nawabi - *AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer*

So Louie, absolutely, it's part of our plans to eventually provide our customer with a holistic common operating picture of our entire portfolio of solution set, including any other third-party platforms and assets that are potentially in the theater or in the battlefield. That is the objective that we've had from day 1, and we're going to continue to do that.

We're very, very excited about the possibilities of integrating our solutions with a -- with BlueHalo, although I'm not in a position to be able to comment on that because we're obviously through the regulatory approval process, and we must wait and follow the rules on the regulatory approvals that has to come from the department, from the government, in various departments, SEC, and also our shareholder approval.

However, in general, I could say that it's fundamental to our strategy to be able to provide this successfully for our customers because that is what the customer needs and has -- is expecting from players like us. We're fortunate to be in a position that we are because our solution set is widely used in the government, and they're very happy with the way that we've actually delivered this integration and our interoperability with our system so far, and we're going to continue to do that, Louie, in the future.

Louie DiPalma - *William Blair & Co - Analyst*

Great. And one final one. You discussed pressure from Ukraine for the uncrewed systems segment. And we were wondering how did Ukraine impact the loitering munition segment? And just in general, what are the overall expectations for Ukraine funding and contributions to your business for this year and for future years given all the discussions of a potential ceasefire there? Thanks.

Wahid Nawabi - *AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah. So Louie, it's a great question. I'm glad you asked the question because we feel very, very positive about the prospects of growth for our company regardless of Ukraine, regardless of any specific one conflict in any part of the world. The world is not safer than what it was before, and it doesn't look like it's continuing to become any better, safer, a; b, Ukraine has tremendous existing needs for our systems, and they continue to ask for more.

Even if there's a ceasefire, we believe that there's going to be a significant amount of buildup of capabilities to avoid another potential secondary or treachery conflicts in that region. Lastly, I would say our portfolio is incredibly diversified. The growth that we see in our loitering munitions is not fueled by one source or one particular customer of demand. It is global. It is multifaceted, and it's going to continue for the next, I see at least 5 to 10 years.

It is -- but it's essentially become a shift in the defense strategy around the world where small unmanned systems like our Pumas and Ravens and P550s and others, as well as loitering munitions such as Switchblade are becoming a much, much bigger integral piece of that defense strategy for every 1 of the allies that we have and for the US DoD. So I think that's going to be a very strong, healthy growth for us for the years to come besides and beyond Ukraine.

Louie DiPalma - *William Blair & Co - Analyst*

Sounds good. Thanks, everyone.

Wahid Nawabi - *AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer*

Thank you, Louie.

Operator

Greg Konrad, Jefferies.

Greg Konrad - Jefferies LLC - Analyst

Good afternoon.

Wahid Nawabi - AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer

Hi, Greg.

Greg Konrad - Jefferies LLC - Analyst

Maybe just to start on international Switchblade. I think you called out three additional allies as part of that \$55 million task order and also called out Taiwan and Greece.

Can you maybe just remind us where you stand? I think in the past, you've talked about 20 potential customers just in terms of converting the rest of the international pipeline. And then also with the awards that you did get, how do you think about those building over time? I'm assuming those were just initial quantities.

Wahid Nawabi - AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer

Sure. So Greg, as I mentioned on the call that as part of one of the task orders or contract awards of the \$55 million part of those IDIQs that we have -- under the IDIQ contract, there were initial orders for Lithuania, Romania, and Sweden.

On top of that, Taiwan and Greece has also publicly announced their intention to purchase significant quantities of Switchblade. And so that is, again, these are the initial orders that we're going to be -- we have just received. And as I said on the remarks, the list of countries that are planning to acquire and procure Switchblade, both 300 and 600, is growing every quarter. And we continue to make progress on that.

And so we think that the outlook for growth for Switchblade 300, 600 combined and the other variants is incredibly bright and positive, not only for this year but well beyond this year, for the next several years. For that same reason, we are continuing to invest in increasing our production capacity.

So by the end of this fiscal year, as I stated on the previous calls, we intend to be at about \$0.5 billion worth of production run rate capacity and volume. And we already are planning on actually bringing up another site to continue to grow that business beyond this fiscal year and fiscal '26.

And so our plans, our expectations and our progress has been solid. I believe that it would not surprise me over the next three to four years, though we have a very large international set of countries that are placed or are going to continue to place orders with Switchblade, and that's going to be a fantastic franchise for us long term.

And so lastly, I would say, we continue to invest in new variants of Switchblade, Greg, that allows us to continue to expand the portfolio. I mean, this is the new category for the entire defense industry. And we're the, by far, the leading player and provider there.

And we've got a massive, massive head start compared to everyone else. And our track record of performance was great. All of that bodes to a very, very good outcome in my view in terms of growth of that business.

Greg Konrad - Jefferies LLC - Analyst

And then maybe just to clarify one remark you made in the prepared ones. I mean, you talked about risk due to a change in administration. 40% of H2 revenues in Q3, but said you had 95% visibility for the year. I mean, how do you think about that risk materializing? And is that captured in the current guidance? How much of that's in the order front? And how does that materialize?

Wahid Nawabi - AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer

Sure. So we have executed our first half plans, Greg, incredibly well. I'm very proud of what our teams have been able to achieve so far. We're on track with our plans and we're setting new records, quarterly records, and we're going to be setting a new record with the current guidance.

With the 95% visibility at the midpoint of our revenue guidance, we're looking really strong historically compared to what we're providing. That's why we reaffirmed our guidance on the top-line and the non-GAAP EBIT profitability numbers.

In order for us to overperform beyond that, obviously, there's some risk with the change in administration. There's still an existing CR condition situation going on. And lastly, there is a time line associated with essentially converting backlog to revenue, recognizing it because of the supply chain production and customer acceptance process.

So with all that, we reconfirmed guidance, but it's going to be another record year with strong profits and top line growth and will set us up with a very healthy backlog for beyond fiscal '25. Our goal here is consistent with the past, which is to continue to deliver top, top performance in all metrics that we are being measured against and we hold ourselves accountable to.

Greg Konrad - Jefferies LLC - Analyst

Thank you.

Wahid Nawabi - AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer

Thank you, Greg.

Operator

Pete Skibitski, Alembic Global.

Wahid Nawabi - AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer

Hi, Pete.

Peter Skibitski - Alembic Global Advisors - Analyst

Hi there. Congrats. Hi.

Wahid Nawabi - AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer

Hi there, Pete.

Peter Skibitski - Alembic Global Advisors - Analyst

So hey, Wahid, I want to ask about a couple of Army programs that I don't think you were involved in and just maybe you can give us some context. The first was this Army short-range reconnaissance program. I think it's a program of record, I believe, Red Cat won.

But you guys didn't really talk about it as far as I can recall. So it leads me to believe that maybe you didn't compete for it at all. Maybe you could validate that and give us a sense of why you chose not to invest or compete there? And then I have a follow-up.

Wahid Nawabi - *AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer*

Sure, Pete, we intentionally chose not to compete for that program. It is a different set of capability that we strategically decided a while back that that's not a market that we're going to go very strongly on initially. There are several factors on the reasons why. A, making money in that market and that business is not an easy thing. And if you look at the financials of some of these companies, it's very evident in that regard.

B, we see that we can deliver a lot more value for our customers and our shareholders with focusing on much larger and more systemic areas of demand globally that we can deliver a lot more value to all of our customers as well as shareholders. So we did not compete in that opportunity.

At the same time, I just want to underline that we continue to monitor those specific capabilities and market niches. And we always have an option to come back in later if we needed to. And the customer also has not had a really good successful outcome so far in terms of executing on that program.

As you know, that program has been around for a long time, and still, the customers trying to find the right set of capabilities to execute on that program even further. But you are correct, based on my readings publicly and the announcements of the customer, that Red Cat Holdings has actually been awarded the next tranche of the SRR program.

Peter Skibitski - *Alembic Global Advisors - Analyst*

Okay. Okay. I appreciate all that color. And then just one follow-up. The other thing that we've seen over the last few months or so is the Army making an award.

I think the two companies were, I believe it was for company-level UAVs. And I know Anduril, I think, got one award. I forgot the name of the other company, I have to look it up again. But this seemed to be maybe a nonprogram of record. -- I know short turnaround type of an effort maybe.

Can you give us a sense for what the Army is thinking here? And would this niche turn into a program of record? And is it a threat to the LRR program? I just wanted to -- if you could give us some context. Thank you.

Wahid Nawabi - *AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer*

Sure. I'm glad you asked that question as well, Pete. That is not a threat to the LRR program. It is actually very complementary to the LRR. We believe that we have a very strong position in the LRR program.

That program has very good, strong support from the customer. It has an incredibly strong need from the war fighter's perspective. And we have a very, very compelling and strong position. And lastly, it represents almost \$1 billion worth of opportunity for AeroVironment or the market in general for the next half a decade to a decade long.

Now having said that, the one that you're referring to, the company-level ISR, UAV, a small opportunity, the US Army is experimenting with a couple of other platforms to see what the right solution set would be if they were to go into a program of record for an MRR, medium-range reconnaissance program record potential opportunity.

That program is further out. We're watching that, and we intend to compete for that program. This is the initial, what I call, experimentation phase where the Army would like to experiment with a couple of other systems with very small dollars to see how they work out and what they learned from the con ops, from the performance capabilities of these platforms.

However, we're keeping track of that, and we intend to compete for the MRR. And we believe that we can actually compete very successfully like we've done in the past in many other programs that we engage in.

But the main focus today for the US Army and us is the Long Range Reconnaissance program, which we expect to hear something from the customer in the next couple of months. And we believe that we are performing really well in that exercise and competition so far.

Peter Skibitski - *Alembic Global Advisors - Analyst*

Okay. Thanks so much for the color. I appreciate it.

Wahid Nawabi - *AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer*

You're welcome, Pete.

Operator

(Operator Instructions) Andre Madrid, BTIG.

Andre Madrid - *BTIG - Analyst*

Wahid, Kevin, thanks for the question. I know previously, you guys have called out that Ukraine was roughly about 40% of sales at some point. Could you maybe call out roughly how much attributed to this past quarter sales?

Wahid Nawabi - *AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer*

So Andre, historically, I think in fiscal year 2024 (corrected by company after the call) and our 10-K filings, it showed that about 40% of our revenue that year came from Ukraine. And that was the main driver for the surge in demand for our Pumas when Ukraine didn't have any and US Army and military decided to give a whole bunch of it to them. And since then, they have not reached, but in the last few quarters, we were expecting them to reach a level of what I call operating tempo of resources.

Now they love Pumas. They continue to acquire more Pumas to maintain the ones that they've got. And the performance of Puma is unmatched in Ukraine. We have intentionally decided to diversify our revenue mix about 1.5 years, 2 years ago so we can actually make sure that we still continue to grow if the Ukraine demand for Pumas went away, as well as for Switchblade. We see a tremendous amount of new demand for our solutions, and that's why we've been able to actually very successfully achieve that and deliver still top line growth as our business.

I would argue that regardless of the Ukraine situation, the demand for small UAS, including Pumas and P550s and Ravens and JUMP 20 and our loitering munition is going to continue to actually sustain itself well beyond Ukraine even if the world would have stopped tomorrow. We have a tremendous set of drivers for demand and lots of opportunities and a very healthy pipeline in all of those products well beyond Ukraine.

And as you could see from my remarks earlier, we announced several new countries. There's lots of new platforms. There's a lot of new program records that are coming up. So we feel very good about our position, both in small UAS as well as in our loitering munitions business.

Andre Madrid - *BTIG - Analyst*

Perfect. That's helpful. And on your final remarks on the number of countries you announced, I asked about this last quarter, you previously had said something around half a dozen plus different countries in which you're actively engaging with and in the red zone with, so to speak.

Where does this number stand out now? Have there been additions with some of those that we've seen finalization with? How should we think about how many we have in the red zone right now?

Wahid Nawabi - AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer

Sure. So I think you see just today, I reiterated three (corrected by company after the call) of the five countries Lithuania, Romania, Sweden, those three actually placed initial orders with us. We just received their initial orders. And then, Taiwan and Greece are asking for and are requesting and they have an active case. In addition to these countries, we have another half a dozen plus list of countries, which is in different phases of their acquisition process.

The process takes time. It also requires quite a lot of effort from the US government and state department side besides the customer side. And I believe that within the next several years, the list of countries are going to continue to grow. And the list of customers and installed base for Switchblade are actually going to continue to grow.

I foresee in the next two to three years that the loitering munitions business is going to have a robust set of international customers almost equivalent to our domestic business and very similar to our small UAS franchise that we have 55 countries internationally, we should have a fairly large list of countries internationally for Switchblade as well.

Switchblade is just the gold standard around the globe now with all of our allies in terms of loitering munitions. And we are thrilled because our strategy to invest in this segment and to deliver that capability has worked. And I think we're going to benefit from that and our customers are going to benefit from that in the next decade or so.

Andre Madrid - BTIG - Analyst

Really appreciate the color. Thank you, Wahid. I'll jump back in the queue.

Wahid Nawabi - AeroVironment Inc - Chairman of the Board, President, Chief Executive Officer

You're welcome, Andre.

Operator

I'd now like to turn the conference back to Jonah for closing remarks.

Jonah Teeter-Balin - AeroVironment Inc - Investor Relations Vice President,

Thank you, and thank you once again for joining today's conference call and for your interest in AeroVironment. As a reminder, an archived version of this call, SEC filings, and relevant news can be found under the Investors section of our website. We hope you have a good holiday season and look forward to speaking with you again following next quarter's results.

Operator

This concludes today's conference call. You may now disconnect.

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