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AVAV.OQ - Q4 2024 AeroVironment Inc Earnings Call

EVENT DATE/TIME: JUNE 26, 2024 / 8:30PM GMT

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the AeroVironment fourth quarter and full fiscal year 2024 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 for today, Jonah Teeter-Balin. You may begin.

Jonah Teeter-Balin - *AeroVironment Inc - Investor Relations*

Thanks, and good afternoon, ladies and gentlemen. Welcome to AeroVironment's fourth quarter and full fiscal year 2024 earnings call. This is Jonah Teeter-Balin, Senior Director 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 SEC 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 Investor 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, June 26, 2024. The company undertakes no obligation to make any revision to any forward-looking statements contained in our remarks today or to update them to reflect the events or circumstances occurring after this conference call.

Joining me today from AeroVironment, our Chairman, President, and Chief Executive Officer, Mr. Wahid Nawabi; and Senior Vice President and Chief Financial Officer, Mr. 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 fourth quarter and full fiscal year 2024 earnings conference call. I will start by summarizing our performance and recent achievements, after which Kevin will review our financial results in greater detail. I will then provide our expectations for fiscal year 2025. And finally, Kevin, Jonah, and I will take your questions.

I'm pleased to report strong results for the quarter and a record-breaking fiscal year for AeroVironment. Our key messages, which are included on slide number 3 of our earnings presentation, are as follows. First, for the full fiscal year, revenue increased 33% to a record $717 million compared to $541 million last fiscal year. This is now our seventh consecutive year of top-line growth. Fourth quarter revenue rose to $197 million, a 6% increase from the same period last year, and a new fourth quarter record.

Third, our loitering munitions systems segment continues to accelerate, with record full fiscal year revenues of nearly $200 million, a 60% increase compared to last fiscal year. And fourth, given our strong execution, key program awards, and growing pipeline of opportunities, we expect revenues between $790 million and $820 million, reflecting 10% to 15% top-line growth in fiscal year 2025.

During this past fiscal year, global demand continued to surge for autonomous systems and AV responded accordingly. We invested across the organization to strengthen our team, expand our manufacturing capacity, and enhance our solution offerings to meet the evolving needs of our customers. With these investments and our core strengths in innovation, capacity, and experience, we continue to lead in this growing market.

In the past year, we added three strong Directors to our Board with impressive defense and global policy expertise, whose counsel has been instrumental to our continued growth. We also added key leaders at our headquarters in the DC area to enhance customer engagement and help shape and define future requirements.

In addition, we made strides in expanding our manufacturing capacity, while level loading production to improve operational efficiencies. Due to this hard work, we were able to grow revenue by more than 30% while retaining very high levels of product quality, performance, and profitability. With increasing orders in our pipeline, we plan to increase our production capacity even further in fiscal year 2025, while maintaining strong operational efficiencies.

Finally, we leveraged the combat experience of our products, nine of which are currently serving in Ukraine, and our close relationship with our customers to implement important product upgrades. Our solutions portfolio is more resilient in contested environments, more autonomous, more effective, and more interconnected than ever before. By utilizing our autonomy suite of solutions, including AVACORE, Kinesis, Autonomy Retrofit Kit or ARK, and SPOTR-Edge, our customers can now utilize autonomous vehicles to sense, make sense and act on relevant information across the battle space.

We believe that AV is the best positioned defense tech firm to meet our customers' needs. Our uncrewed solutions and loitering munitions are helping our customers achieve their vital missions today, tomorrow, and into the future. We're proud of our accomplishments this year, and we have even greater expectations for the years ahead.

With that, I'd like to discuss results from each of our three segments, starting with loitering munitions systems or LMS. As we mentioned earlier, LMS segment was our strongest growth driver this past quarter and for the full fiscal year. Fourth quarter revenue grew 74% from the same quarter last year to $74 million. For the full year, revenue increased by 60% totaling $193 million. Demand for both Switchblades 300 and 600 grew at an unprecedented rate this past year, and we expect this growth to continue in fiscal year 2025 and beyond.

In the past few months alone, we've had numerous program wins and awards announcements, many of which are not yet reflected in our backlog. These key wins further validate the effectiveness of our solutions and active conflicts around the globe and our ability to deliver in volume.

For example, Switchblade 600 was selected by the US Army as their first procurement under the Low Altitude Stalking and Strike Ordnance or LASSO program, and was subsequently selected to participate in tranche one of the first iteration of the US DoD's Replicators Initiative. In fact, we just delivered the first batch of Switchblade 600s to the US Army. Similarly, Switchblade 300 was selected by the United States Marine Corps for their first tranche of their Organic Precision Fires-Light or OPF-L program of record.

In addition to these three significant announcements, Switchblade was also announced for the recently authorized Ukraine security assistance initiative. The approximate value of these awards, which are not yet under contract exceeds $300 million.

While demand from our US DoD customers is growing, we also continue to see increasing interest from our international allies. We are getting closer to our US DoD multi-year ID/IQ contract that will better facilitate further future international sales to Ukraine and other foreign countries. In fact, we just received our first Lithuanian order for Switchblade 300 and 600. As demand for Switchblade continues to rise, AV stands ready to meet our customers' increasing expectations.

Our current manufacturing levels have expanded to support more than $500 million in annual product revenue, and we're actively planning for additional capacity growth. We are factory ready today to supply the US DoD and our allied countries with the products and technology they need to succeed in their missions. The LMS business has grown tremendously this past year and we expect it to similarly lead our growth in fiscal year 2025.

Now on to our uncrewed systems segment, which was formerly referred to as our unmanned systems segment. Revenue for the fourth quarter was $104 million, slightly down from the same quarter last year, primarily due to award timing. However, revenue for fiscal year 2024 grew 30% from the prior year, totaling $448 million.

Much of the uncrewed systems segment growth came from our Puma and JUMP 20 system. Puma continues to lead the small UAS market as the dominant ISR workforce in current conflicts, providing much-needed reconnaissance and surveillance. As evidenced, Ukraine continues to utilize Puma heavily on the battlefield and we expect additional orders in the future quarters.

We will continue to support Puma to ensure the system remains best-in-class in contested environments while advancing the development of the next generation small UAS products. We similarly continue to make enhancements to our JUMP 20 platform, especially for the maritime environment. We believe maritime operations are of growing importance to our customers given recent and emerging geopolitical threats.

As we are nearing the one year anniversary of our Tomahawk Robotics acquisition, we could not be more pleased with how well they are performing. We continue to integrate Tomahawk's Kinesis software with our other autonomous vehicles and are pleased by the amazing common control capabilities this technology provides to our customers.

While we continue to define the uncrewed systems market, we are not standing idle as our adversaries adjust tactics and our customers missions evolve in response. We're pushing ourselves to innovate every day to remain best in class for our customers and prepare for future programs of record. Uncrewed systems continue to be in high demand around the globe and we anticipate strong domestic and international demand for both Puma and JUMP 20 in fiscal year 2025.

Moving now to our M0acCready works segment. This past year, the MacCready works team continued their mission of incubating new solutions and expanding our AI and autonomy capabilities. We're heavily involved in developing the next generation of solutions for the US DoD's Replicator program and hope to provide additional details soon.

In addition, we continue to make progress on HAPS and in fact, just secured another $25 million contract with SoftBank that is reflected in our visibility for fiscal year 2025. We similarly continue to make strides with contested logistics, maritime uncrewed systems, space robotics, and other exciting platforms and innovations.

Just recently, AV was down selected by DARPA for continued development of its X-Plane design for the agency's ANCILLARY program. Our solution named Wildcat is a group 3 vertical takeoff and landing UAS that is developed specifically for ship-based operations and maritime environments.

Wildcat also provides complimentary capabilities for JUMP 20 for future missions. Maritime missions are becoming more important as the US DoD increases focus on the INDOPACOM theater and we're proud to continue our support of our customers in this region.

In addition to this key achievement, we also announced our new suite of autonomy solutions including Autonomy Retrofit Kit or ARK and AVACORE. ARK enables operators to task a single or multi-vehicle uncrewed scheme with mission objectives for fully autonomous execution while operating in contested environments. ARK also comes pre-installed with SPOTR-Edge, AV's computer vision software suite, which enables onboard detection, classification, localization, and tracking of operationally relevant objects day or night.

Additionally, AVACORE is AeroVironment's autonomy software suite, providing an open framework for uncrewed systems. It features a modular set of interfaces such as autopilot, RF communication, communication devices and sensors and supports rapid integration with new platforms and applications.

In summary, MaCcready works is fulfilling its mission to develop and deliver disruptive novel solutions and we anticipate further exciting announcements in fiscal year 2025.

With that, I would like to now turn the call over to Kevin McDonnell for a review of the fourth quarter and full year financials. Kevin?

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

Thank you, Wahid. Today I'll be reviewing the highlights of our fourth quarter and full year fiscal FY24 performance, during which I will occasionally refer to our press release and earnings presentations available on our website. As Wahid mentioned, we will now refer to the unmanned system segment as the uncrewed or UxS segment.

FY24 was a record year and the fourth quarter finished strong with our highest revenue quarter ever. We expect this business momentum to continue into FY25. In terms of the full year, revenue totaled $716.7 million, an increase of 33% as compared to the $540.5 million for the fiscal year 2023.

Our largest segment during the year was uncrewed systems or UxS, which is a combination of our small UAS, which includes our Tomahawk acquisition, medium UAS and UGV businesses. UxS had revenue of $448 million in the year, which is up 30% from last year's $343.9 million. Puma demand remained strong, accounting for 62% of UxS revenue, but the segment also generated $61.5 million from our JUMP 20 product, along with contributions from our ground vehicles and Tomahawk products during the year.

Loitering munitions systems or LMS recorded revenue of $192.6 million, a 60% increase compared to the $120.6 million last fiscal year. 62% of LMS revenue came from the Switchblade 600 products and services, while the remainder came primarily from the Switchblade 300 Block 20 products.

Revenue from our MacCready works segment came in at $76.1 million. This was flat compared to the $76 million from last fiscal year. MacCready works growth was negatively impacted by the US government budget authorization delays. In terms of the fourth quarter revenue, we achieved a record total of revenues of $197 million and increased to 6% as compared to the $186 million for the fourth quarter of fiscal 2023.

Uncrewed systems or UxS had revenue of $103.7 million, down 15% from last year's $122.2 million, with small UAS showing the biggest decline as a result of lower Ukraine revenue. Puma demand accounted for 45% of UxS revenue, whereas JUMP 20 product sales represented close to 30% of UxS revenue during the fourth quarter.

Loitering munition systems or LMS recorded revenue of $73.8 million, a 74% increase compared to the $42.5 million last year during Q4, with comparable revenue contribution from both our Switchblade 600 and Switchblade 300 Block 20.

Revenue from our MacCready works segment came in at $19.5 million, a decrease of 9% compared to the $21.4 million from the fourth quarter of last fiscal year, primarily again, due to delays in HAPS SoftBank revenue and US DoD funding delays as a result of the continuing resolution, which impacted several MacCready works programs.

In slide 6 of the earnings presentation, there is a breakdown of between product and service revenue. The product revenue accounted for 82% of total revenues, an increase from the 65% in the previous year, primarily due to strong product revenue from both small UAS and loitering munition systems and medium UAS systems. 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 13 reconciles the GAAP gross margins to adjusted gross margins, which excludes intangible amortization expense and other non-cash purchase accounting items.

For the year, consolidated GAAP gross margins finished at 40%, up from 32% in the previous year. The improvement in GAAP gross margins is a result of a combination of a higher mix of product revenues and higher service gross margins.

Moving to adjusted gross margins, fiscal 2024 full-year adjusted gross margins reached 42%, a significant increase from the 35% recorded in the same period last year. The improvement was driven by the same factors as the GAAP gross margins. We expect adjusted overall gross margins to be slightly down in FY25 but continue to run in the low 40%s.

Adjusted product gross margins for the year were 43%, flat with the fiscal year -- last fiscal year, even with the increasing LMS product revenue. In terms of adjusted service gross margins, the full year ended at 33% versus 18% last year. As a reminder, last years' service gross margins were negatively impacted by the wind down of the MUAS COCO operations.

Fourth quarter adjusted gross margins ended at 40%, marking an increase from the 39% recorded in the same period last year. The improvement was driven by the same factors as for the full fiscal year. Adjusted product gross margins for the quarter were 41% versus 47% in the fourth quarter of last fiscal year, reflecting the increase of loitering munitions systems product revenue and the overall mix in this year.

In terms of adjusted service gross margins, the fourth quarter was at 38% versus 13% during the same quarter last year. Again, last year's Q4 service gross margins included the impact of the wind down of the COCO operations.

In terms of adjusted EBITDA, slide 14 of our earnings presentation shows the reconciliation of GAAP net income to adjusted EBITDA. For the full fiscal year 2024, adjusted EBITDA was $128 million, representing an increase of $38 million or 42% from last fiscal year. The main factors contributing to this increase were increases in revenue and gross margins, which were partially offset by increased investments in R&D and incremental SG&A expenses.

In the fourth quarter of fiscal 2024, adjusted EBITDA was $22 million, representing a decrease of $24 million or 52% from the fourth quarter of last fiscal year. The lower year-over-year adjusted EBITDA is a result of higher R&D and SG&A expense, which I will cover next.

SG&A expense, excluding intangible amortization and acquisition related expense, for the year was $107 million or 15% of revenue compared to $81 million or 15% of revenue in the prior year. The SG&A expense is the percentage of revenue stayed flat, but includes increases from the Tomahawk acquisition and continued expansion of our domestic and international sales team.

SG&A expense for the fourth quarter was $33 million or 17% of revenue compared to $23 million or 13% of revenue in the prior year. The year-over-year increase is attributed to the Tomahawk acquisition, the expansion of our sales team and increased performance-based compensation after another record year.

R&D expense for the year was $98 million for 14% of revenue compared to $64 million or 12% of revenue in the prior year. The increase of R&D expense in both dollar terms and percentage of revenue is a result of our investments in our next generation Group 1 UAV, the maritime version of the JUMP 20, investments in our HAPS solar aircraft and investments in other new products.

R&D expense for the fourth quarter was $35 million or 18% of revenue compared to $16 million or 9% of revenue in the prior year. A significant portion of our AV R&D dollars in Q4 were directed to some of our US DoD programs for which funding had been delayed due to the pending finalization of the US federal budget for the government fiscal year. We expect R&D expense to range in the 12% to 13% area in fiscal 2025 as we continue to make investments across the product portfolio.

Now, turning to GAAP earnings. In fiscal year 2024, the company generated net income of $59.7 million versus a net loss of $176.2 million recorded in the fiscal year '23, an increase in net income of $235.8 million. In fiscal 2023, the company recognized $156 million goodwill impairment for its medium UAS business and $34.1 million of accelerated intangible amortization following the closure of its associated COCO site.

The balance of the favorability can be attributed to a $10.1 million decrease in intangible amortization and other acquisition related expenses, a $110.4 million increase in adjusted gross margin, a $5.1 million decrease in interest expense, a $0.8 million increase in equity related investment income. These were partially offset by a $33.4 million increase in R&D spending, a $26.4 million increase in SG&A expenses excluding intangible amortization, $16.6 million increase in taxes, and a $4 million increase in other losses, mostly related to unrealized losses in our equity investment portfolio.

It should be noted that our full year tax rate ended up being approximately 3%. However, we expect our tax rate for FY25 to increase in the range of 8% to 9%. In the fourth quarter, the company generated net income of $6 million versus a net loss of $160.5 million reported in the same period last year.

Slide 11 shows a reconciliation of GAAP and adjusted or non-GAAP diluted EPS. The company posted adjusted earnings per share -- diluted earnings per share of $2.99 in fiscal 2024 versus $1.26 per diluted share in fiscal 2023. Adjusted earnings per share for the fourth quarter of fiscal 2024 were $0.43 versus $0.99 per diluted share for the fourth quarter of fiscal 2023.

Turning to the balance sheet, at the close of the fourth quarter, our total cash and investments amounted to $94.3 million compared to $129 million at the end of the third quarter. Our total debt at the end of the fiscal 2024 was $28 million, and as we paid down $107 million of the term loan facility during the course of the fiscal year.

Looking forward to fiscal 2025, we expect working capital to remain at the current levels with some quarter-to-quarter fluctuations. Our expectation is we start to see some reductions in our unbilled receivables as we enter into a new contract with the US Army.

Our capital expenditures should remain in the low single digits or around 5% of revenue. We continue to invest in new systems, facilities, and manufacturing tooling and fixtures to support our growth. Overall, we expect significant increase in our free cash flow in FY25.

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

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

Thanks, Kevin. With a strong fiscal year 2024 behind us, we're pleased to provide our guidance for fiscal year 2025 on slide number 7 as follows. We anticipate revenue between $790 million and $820 million. We forecast net income between $74 million to $83 million, or $2.61 to $2.92 per diluted share. Non-GAAP adjusted EBITDA are between $143 million and $153 million, and we expect R&D to be 12% to 13% of revenues.

Our funded backlog at the end of fiscal year 2024 remain healthy at $400 million. As a result, visibility to the midpoint of our fiscal year 2025 revenue guidance range is at 55%. While this level of visibility is lower than recent years, it is important to note that our visibility reflects some uncertainty in the government contracting process.

Many additional awards have been announced by our customers, but are not yet included in our backlog, including more than $300 million in orders for our LMS business alone. We are confident in achieving our full-year guidance and will update our visibility accordingly in future quarters as these awards and other opportunities in our pipeline convert to orders and revenue.

We expect first-half revenue to represent almost 45% of the full fiscal year. Further, we expect Q1 revenue to account for approximately half of the first-half revenues.

We anticipate accelerating global demand for autonomous AI-enabled uncrewed solutions to drive continued growth across our business. Given our strong performance and execution, we remain confident that fiscal year 2025 will be another record-breaking fiscal year for AeroVironment. We are uniquely positioned in this marketplace with decades of trusted experience, battle-tested solutions, an unparalleled install base, best-in-class technology, and unrivaled manufacturing capacity.

We remain well-positioned to benefit from US DoD budget priorities as an industry leader and the original defense tech innovator. We have positioned the company for a healthy multi-year top-line growth, which lends itself to strong shareholder value creation. Our company is poised for significant growth that extends well beyond fiscal year 2025.

Before turning the call over for questions, let me summarize the key takeaways from today's call. First, full-year revenue and profitability set new records, marking our seventh consecutive year of top-line growth. Second, we delivered strong fourth-quarter performance and met or exceeded our financial expectations.

Third, our loitering munition system segment continues to be the key growth driver for the company, and we anticipate demand for our Switchblade family of solutions to increase again in fiscal year 2025. And fourth, the fundamentals of our business are as strong as they have ever been, and we expect fiscal year 2025 to be yet another record-setting year for the company.

I would like to thank the AeroVironment team for their dedication and hard work in helping our customers achieve their vital missions. Thank you to our shareholders for supporting our company, and most notably, thank you to our customers for entrusting us to serve you. We're honored to support our country and ally at this critical time and into the future.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Greg Konrad, Jefferies.

Greg Konrad - *Jefferies LLC - Analyst*

Good evening. You called out annual production capacity for LMS greater than $500 million, which is about 2.5 or more than 2.5 times the fiscal year '24 sales. Can you maybe give a timeline given that you called out continued growth in LMS of kind of reaching that annual production capacity?

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

Sure, Greg. So we continue to expand capacity and production rates almost on a monthly basis. So the rate keeps growing. And as you saw, our fourth quarter, we finished the quarter with $74 million-plus worth of revenue. Just as the fourth quarter, and you see the increase from Q3 to Q4 was significant. We expect that same rate of increase to continue.

Our goal is to always, always stay ahead of our customers' demand in terms of capacity. So far in the last three-plus years, especially during COVID's era, as well as the shortages of semiconductors and chips. We were successful at meeting our customers' demand appropriately.

So it is not that far away from today that we're going to be able to reach about half of the [$1 billion] worth of production capacity. And that is going to be right in line with our customers' expectation and the demand signals that we're seeing, especially with the orders we expect to receive in the next couple quarters.

Greg Konrad - *Jefferies LLC - Analyst*

And then maybe just as a follow-up, if I look at the guidance, EBITDA margins are up about 60 bps at the midpoint in '25. You called out expect R&D to stay in the 12% to 13% range in fiscal year '25. But can you maybe talk about the drivers? How much of that is LMS mix? Do you expect margin expansion within LMS or just some of the moving pieces of the margin expansion?

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

Sure. So, Greg, generally speaking, our margin for fiscal year '25 is going to be very healthy, despite the fact that we have a significant mix shift between our small UAS demand and our much faster-growing LMS business. While the growth in LMS is aggressive and quite robust, we've been able to successfully increase the margin profile of that mix within our LMS business as well.

So as we are negotiating new contracts with the US Army and our international allies, we expect to see those margins improve throughout the year. But overall for the year, we believe that the market is going to continue to grow. LMS continues to be the faster-growing segment of our business.

And the fact that we have capacity to increase and we're level-loading the factory, we believe that we're going to continue to be able to improve the margin profile of our LMS business. All of that should translate into, basically, roughly the similar margins to 2024 for the full year.

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

So our gross margin slightly improving adjusted gross -- EBITDA.

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

That's right.

Greg Konrad - *Jefferies LLC - Analyst*

I'll leave it at that. Thanks.

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

Thank you, Greg.

Operator

Peter Arment, Baird.

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

Hey, thanks. Good afternoon, Wahid, Kevin, and Jonah. Nice results. Wahid, you mentioned that $300 million, you kind of listed them all off, LASSO, Replicator, OPF-L, some of that was in the Ukraine. I think Lithuania was also mentioned.

So you just talked about that fourth quarter run rate. So how do we think about that $300 million rolling through LMS? Is it kind of like an 18-month period, and then we're going to see additional orders from domestic customers? Just how do we think about how those contracts roll through?

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

Sure. So, Peter, we're working on several fronts. The primary reason for those orders not be secured yet is the contracting capacity and timeline of our customers. The US government has been really challenged in terms of not having their budgets approved for almost half of their government fiscal year, and now they're trying to contract all those with different suppliers.

Especially in our case because we are working on a multi-year contract that takes a little bit longer, especially since we're negotiating some of the key critical terms and conditions of that contract. So having said that, we expect pretty much all of those $300 million worth of potential orders and even more than to that, to materialize or convert into contracts this fiscal year. We expect all of that and then some more.

I was just trying to point out that our backlog at the end of the year was not as strong and the visibility was not as strong as last fiscal year, even though our full-year number is much higher now. But we see significant upside on the orders that are in the works that we believe we're going to convert that into contracts in the next 9 to 12 months.

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

And the timing of those contracts will dictate our ability to recognize the revenue this year or next year.

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

That's right.

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

Understood. And just as a follow-up, Kevin, you mentioned the unbilled on your prepared remarks. So that was up for the year, about $95 million year-over-year. But does it continue to grow? You mentioned that you're going to have a new contract, and then that changes, I guess, maybe the terms. But how do we think about unbilled from here? And where that will go as we think about fiscal '25? Thanks.

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

Yeah. I mean, it'll be a nice milestone when we get the new contracts. We'll be able to recognize or take progress payments for some of that revenue. But we're not expecting that in the near term. So you'll probably see some fluctuations in the unbilled in the near term. And then hopefully reach a point when we get the new contract that will start to come down as the older contracts go off and the new ones come on board. But I think overall for the year, we should be about the same place that we are. We'll just bounce up and down a little bit.

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

Got it. Thanks again.

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

You're welcome, Peter.

Operator

Ken Herbert, RBC.

Ken Herbert - *RBC Capital Markets - Analyst*

Yeah. Hi, good morning or good afternoon, Wahid and Kevin.

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

Good afternoon.

Ken Herbert - *RBC Capital Markets - Analyst*

Yeah. Hey, I just wanted to follow up on the -- for the top line outlook next year, if we apply some of the numbers you're talking about for the LMS segment, it implies limited growth, obviously, in the former UAS segment. So how do we think about growth respectively, maybe to put a finer point on it between the two segments in fiscal '25?

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

So ken, we expect all of our segments to grow, not only this year, but also in the next few years. All of our segments have very, very handsome, attractive growth trajectories and forecast for the multiple years, including fiscal year '25, number one. Obviously, loitering munition is going to be one of the fastest growing ones, because of very large announcements and awards that we've won recently, which is going to translate into contracts soon.

In terms of the unmanned -- uncrewed systems business, that demand really is based on contract timing. So as you know, we've been notified and we were announced as part of the Ukraine assistant package for Ukraine. That's one potential growth opportunity, which is not reflected in our orders either.

And we've got several international opportunities. A lot of our international allies are also loading up and increasing their inventories of our small UAS, especially given the performance of our solutions and Ukraine. And we will continue to see that grow because our pipeline is growing.

So overall we do expect UxS or our uncrewed systems to grow, but the largest growth or the strongest highest growth is going to come from our LMS business. And that picture is going to optically look different each quarter versus quarter or year, primarily because of the timing of the contracts that we're going to convert it into actual orders.

Ken Herbert - *RBC Capital Markets - Analyst*

Okay. Helpful. Thank you. And maybe if I could just, obviously a lot more discussion these days around the shifting competitive landscape. And as we look at some of the potential volume from some of the recent foreign military sales for companies like Andrew and others seem to be -- they seem to be taking share fairly aggressively.

Maybe, Wahid, you can just address the competitive landscape and where you view competitive strengths for AVAV in particular and how we should think about your ability to maybe continue to take share or as the market grows, just how we think about your growth relative to other companies?

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

Sure. So that's a great question, Ken. And I'm glad that you were addressing it or asking us that question, because we are very close and we follow these things very closely. First and foremost, the recent announcement that you saw for the FMS, it's just an authorization. It's actually not a contract yet. It is just an authorization by the State Department that they will allow these companies. And there is a lot more work to be done for those to actually convert into contract and orders, number one.

Number two, we know that Taiwan prefers and would like to acquire more of AV's solutions, including Switchblade. Three, as I said before, this market is growing quite rapidly. So it's very natural for a lot more competitors to show up because it's going to attract more competition and the US military and our allies by definition are going to make sure that there's more than one player in the market.

Given all that, the track record that we have in terms of our win rate and the ability for us to deliver in volume now, a battle proven test and battle tested solution is unmatched. A lot of people can talk about, they can deliver solutions or they have solutions, but there's a huge difference between prototypes and announcements than actually delivering battle tested solutions in volume.

So we like our odds of success. The market is going to continue to grow. We will probably see more competition in this space, but that's not new to us. We've been competing in this space for lots and lots of years.

And whenever -- we've seen this movie over and over again, whenever competitors can't deliver on their promises, we stand ready to deliver, and that's been actually happening more than once in our history in the past. And so there's no one there that can actually deliver these things in volume in a timely manner as we do, especially given the time sensitivity of the [BAT] conflicts that are booming in the Indo-Pacific right now.

Ken Herbert - *RBC Capital Markets - Analyst*

Great. Thanks, Wahid.

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

Thank you, Ken.

Operator

(Operator Instructions) Bryce Sandberg, William Blair.

Bryce Sandberg - *William Blair & Company, LLC - Analyst*

Wahid, Kevin, and Jonah, good afternoon. I'm wondering if you can talk a little bit about the P550 aircraft you announced, like what is the vision for that aircraft? And I guess, how does it differentiate from the long endurance Puma or the JUMP 20?

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

I'm sorry, I couldn't hear you that well. Could you repeat your question, please?

Bryce Sandberg - *William Blair & Company, LLC - Analyst*

Yeah, just wondering if you can talk a little bit about the P550 aircraft you announced, like what the vision is for that aircraft and how does it differentiate from the long endurance Puma or the JUMP 20?

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

Got it. Okay, the P550. So P550 is our next generation Group 1/Group 2 UAS that is purpose designed for the US Army's long range reconnaissance program requirements. If you look at the requirements that the US Army has for the LRR program and you look at the performance specifications that we've so far published, a limited amount of those, for the P550, it's really directly related to the needs of our customer, the requirements that they have written.

We believe that this is a fantastic capability. It actually enhances the missions of our JUMP 20 as well as the Puma's. Long term, I expect in multiple years down the road that the P550 will be a stronger seller than our Puma. So essentially it's our way of continuing our innovation and continuing to lead the market with disruptive category innovations that is going to keep us ahead of all of our competition.

And so that's what P550 is all about. We're going to share a lot more about that tomorrow with our investors at our Investor Day Conference here in New York City. And we look forward to competing on the LRR as well as many other opportunities that are out there. The LRR opportunity was published recently and we've actually delivered our proposals and we're looking forward to their decision in the near future.

Bryce Sandberg - *William Blair & Company, LLC - Analyst*

Great. Thanks, Wahid.

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

You're welcome.

Operator

Andre Madrid, BTIG.

Andre Madrid - *BTIG, LLC - Analyst*

Hey guys. Thanks for taking my question. I want to start first with maybe just talking a bit more about the Taiwanese FMS sale that was announced last week.

So if you think about the mix of that program, with you and your competitor, I mean how marketable do you think Switchblade can be in the Indo-Pacific, just given the limited range relative to competitors and the focus that there is on range in such a vast region as the Indo-Pacific? And are there any thoughts then within that context of maybe expanding up the range as you move further on the Switchblade product line?

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

Andre, so that's a great question again. And let me point out a couple of thoughts on that. Number one, those announcements were basically approvals, not yet orders. So there's still a long way to go from there to actual orders being secured by both us and our competitors.

Number two, the two solutions are actually not targeted for the same missions. They're quite different in terms of what type of missions they address, number two.

Number three, Switchblade 600, as you saw, is the only loitering munitions that we know of that's publicly been announced as part of a Replicator program.

And we all know from public information that the Replicator initiative within the US DoD is by far highly, highly focused to the INDOPACOM theater, and the conflicts that are brewing there. So obviously our customers know what they need most, and they selected our solution. And the recent public announcement by our customer was that they are going to be procuring over 1,000 Switchblade 600s for the Replicator as part of the US Army's contribution to that.

So we let our records speak for itself. We've already delivered thousands of these systems. As I said, we will see more competitors in the space. We've been competing in the space for over a decade, and we've delivered thousands and thousands of systems. And we're the only company that I know of who can deliver them in high volume, in thousands, at high level of reliability and battle-proven quality today, and that's really critical to the INDOPACOM conflict.

And so we're very proud of that, and we think that that's unmatched in industry. Announcements could happen a lot and as you've seen from many announcements in the past that the end outcome seems to be somewhat different than what the announcements ended up being in the beginning. And so we look forward to competing and we'll keep you updated as this progresses through the process.

Andre Madrid - *BTIG, LLC - Analyst*

Perfect. That's really helpful, color. Thank you. And then I guess just as we look more so on FMS and the prospect of further international sales and that mix shifting, I mean, what kind of quantitative metrics can you give as to the interest you've received, how much actual -- active conversations are going on?

I know that's something that you've highlighted before with reference to the over 50 countries that you were approved for sales for. So maybe just some degree of quantitative color on how those conversations are advancing and how much more demand you're getting from incremental US allies?

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

Sure, Andre. So we -- as you know, we've received approval to market and engage with up to 50 of our allies on both Switchblade 300 and 600. As I said today on the call, that we received our first international order for Lithuania for both Switchblade 300 and 600.

In addition to that, we also, as you saw the announcement from the State Department that they have approved Switchblade 300s for Taiwan. In addition to those, we still have close to half a dozen plus countries that are very actively engaged in the various stages of the acquisition of Switchblade 300 and 600 for their needs. And these countries are pretty much both in European theater as well as in the Asia-Pacific.

And so the process is long because the US State Department and the export arm of the US military has been very, very busy. The FMS office is extremely busy, and the US exports and FMS sales have really, really skyrocketed. But we're engaged, and we see that almost all of those cases are probably most likely in the next 12 to 24 months are going to convert into some sort of orders for us.

The timing of that is extremely difficult to pinpoint exactly. It really depends on each and every case independently and through the process that we go through, but we're very engaged. The countries are interested. US Pentagon is supportive and State Department has been very receptive to us as well. It just takes time.

Andre Madrid - *BTIG, LLC - Analyst*

Super helpful. Thank you.

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

Thank you, Andre.

Operator

Thank you. Ladies and gentlemen, I'm showing no further questions in the queue. I would now like to turn the call back to Jonah for closing remarks.

Jonah Teeter-Balin - *AeroVironment Inc - Investor Relations*

Thank you, once again, for joining today's conference call and for your continued 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 look forward to seeing many of you tomorrow at our 2024 Investor Day and wish you a good evening.

Operator

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