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AeroVironment, Inc. (AVAV)

Q4 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to the AeroVironment Fourth Quarter and Full Fiscal Year 2026 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, we'll open up for questions. [Operator Instructions] Please be advised that today's call is being recorded.

I would now like to hand it over to our first speaker, Denise Pacioni, Head of Investor Relations. Please go ahead.

Denise Pacioni

Director-Investor Relations, AeroVironment, Inc.

Thank you and good afternoon, ladies and gentlemen. Welcome to AV's fourth quarter and full fiscal year 2026 earnings call. My name is Denise Pacioni, Head of Investor Relations for AV. 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, 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, June 29, 2026. The company undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Joining me today from AV are Chairman, President and Chief Executive Officer, Mr. Wahid Nawabi; and Executive Vice President and Chief Financial Officer, Mr. Sean Woodward.

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

Wahid Nawabi

Chairman, President & Chief Executive Officer, AeroVironment, Inc.

Thank you, Denise. Welcome, everyone, to our fourth quarter and full fiscal year 2026 earnings conference call. I will begin by summarizing our quarterly and full-year performance, followed by Sean, who will review our financial results in greater detail and then discuss guidance for fiscal year 2027. After this, Sean, Dennis and I will take your questions.

I'm pleased to report record fourth quarter results across several key financial performance metrics, delivering AV's strongest financial performance to date. We reported fourth quarter revenues of nearly \$642 million, with increased funded backlog of \$1.2 billion, strong adjusted EBITDA of \$140 million, and bookings of \$572 million.

For the full fiscal year, we delivered revenue of nearly \$2 billion, ahead of our most recent quarterly guidance and in line with our initial guidance from about a year ago; and bookings of \$2.7 billion. Full-year adjusted EBITDA of

\$286 million came in above the high end of our most recent guidance range, and non-GAAP EPS was \$3.31 per share, well above the higher end of our guidance.

With demand for our solutions continuing to rise, our work over the past year has positioned AV as a stronger, more resilient, and diversified company. Before outlining several opportunities and key growth drivers that will help us reach our strategic goals for fiscal year 2027 and beyond, let me first cover some key highlights from the fourth quarter and full fiscal year 2026.

First, we achieved record fourth quarter revenue of \$642 million and record full-year revenue of nearly \$2 billion. Organic revenue growth for the quarter was 31% and 30% for the full fiscal year. Second, we delivered strong fourth quarter adjusted EBITDA of \$140 million or 22% of revenue on higher sales volume, demonstrating AV's profitability potential with increased volume.

Third, we developed and launched several new products, won several key program awards, and made strong software advancements that will strategically facilitate growth for AV into the future. Fourth we successfully diversified our portfolio with the transformational acquisition of BlueHalo, nearly doubling in size and adding additional capabilities in counter-UAS platforms, space technologies, cyber, and advanced solutions.

And fifth, looking ahead, we're establishing fiscal year 2027 revenue guidance to between \$2.125 billion and \$2.225 billion. Adjusted EBITDA guidance for fiscal year 2027 is set between \$305 million and \$325 million dollars. Our confidence in fiscal year 2027 is grounded in the momentum we built this past year and the significant wins we have achieved across our platforms.

In lethal drones, we introduced several new products, including Switchblade 400 and MAYHEM 10. Our new one-way attack solution, Red Dragon, was awarded several contracts, and we're preparing to bring additional Switchblade production online at our Salt Lake City facility at the beginning of next calendar year.

Our non-lethal drones reached several successful milestones as well. AV P550 was selected for the US Army's Long-Range Reconnaissance program. JUMP 20-X secured multiple contract awards and VAPOR CLE won a significant award for the US Army's Medium Range Reconnaissance program.

In counter-UAS, orders for our Titan family of RF, detect and defeat systems more than doubled this year while demand for this differentiated solution continues to rise, and our LOCUST Laser Weapon System achieved a series of key milestones that are setting the stage for significant future contract awards. These wins reflect the core strengths that AV is set apart from others. We believe there are several important differentiating factors that best position AV to capture a significant portion of the anticipated rising demand in our served markets.

We have a strong install base that is unrivaled across several of our product lines. For decades, our customers have confidently relied on AV to deliver best-in-class solutions while giving them an advantage over our adversaries. Our solutions are battle-proven in today's critical conflicts. This dependability along with our ability to quickly scale manufacturing differentiates us from many of our competitors, especially new entrants.

In fiscal year 2027, we are investing additional capital to further increase our manufacturing capacity across several products and platforms to meet anticipated rising demand. We are sensing strong customer indications that our solutions will receive significant contract wins in the next 12 to 24 months. AV is very well-positioned for these unprecedented levels of demand in our served markets.

Now, I will turn to segment performance for the quarter and full fiscal year. Our Autonomous Systems segment, or AxS, continues to drive revenue growth for the company. During the fourth quarter, AxS contributed \$492 million or 76% of total company revenue; and for the full fiscal year, AxS contributed \$1.3 billion or 69% of total company revenue. This is a strong validation that our solutions are well-positioned for the current needs of our nations and our allied across – allies across the globe.

Our Group 1 through 3 Uncrewed Aircraft Systems operating group won several key awards during the quarter and made progress on several key initiatives. For example, AV's VAPOR 55 CLE unmanned helicopter was awarded a nearly \$15 million US Army company-level UAS Directed Requirement Tranche 2 production contract. This is a significant win and we believe it opens the door for additional future long-term awards for the Medium Reconnaissance program.

Just after the quarter closed, our P550 Group 2 drone was awarded a \$117 million contract by the US Army under the Long-Range Reconnaissance or LRR program. We believe that these two key contract wins will help set AV up for future contract awards on large program of record within the US Army.

In addition to these successes, our Group 3 medium UAS solutions, namely, JUMP 20 and JUMP 20-X, continue to make significant strides both operationally and with new demand. Our JUMP 20-X successfully demonstrated two special missions in Yuma, Arizona and is deployed in support of Operation Epic Fury.

Our Precision Strike & Defensive Systems operating group continues to drive growth for the company. During the quarter, our loading munitions team made significant progress in several strategic areas of the company. For example, the Switchblade 400 received a key award from the US Army for its Low-Altitude Stalking and Strike Ordinance or LASSO program. Built specifically for this program, the Switchblade 400 combines the compact attributes of our Switchblade 300 with the warhead capabilities of a Switchblade 600.

Also during the quarter we debuted our latest multi-role launched effects system, AV's MAYHEM 10, which is built on the foundation and success of our Switchblade family of products. Designed for the US Army's launched effects program of record, MAYHEM 10 has the ability to fly autonomously and has a versatile forward payload option that can accommodate lethal and non-lethal payloads up to 10 pounds.

Our MAYHEM 10 addresses a significant capability gap for the US Army. It can be launched from the ground, in maritime conditions, or from a manned or unmanned aircraft. These unique features positions MAYHEM 10 as a very compelling solution for the future needs of our customers.

Slightly over a year ago, we announced our one-way attack solution, Red Dragon. Red Dragon most recently received a \$17 million production contract for the US Army during the fourth quarter. We anticipate significant increased demand for this product and are expanding production levels to ensure we can meet our customers' anticipated needs.

Progress continues on our Salt Lake City manufacturing facility, which has the potential to produce more than \$2 billion worth of Switchblades or other AV products per year. We're on track to begin production in the spring of calendar year 2027.

As a reminder, two of our counter-UAS products we acquired with BlueHalo reside in this operating group. Our RF jamming detect and defeat family of counter-UAS solution, Titan, continues to play a critical role in the company's growth. In fact, Titan sales more than doubled this past fiscal year on a pro forma basis. We expanded production rates during the fourth quarter and anticipate demand for this product to rise through 2027 and beyond.

In addition to this counter-UAS offering, we're also making progress on our Freedom Eagle-1 or FE-1 program with the US Army, which, as you may recall, was awarded a \$96 million contract last fall for the US Army's Long Range Kinetic Intercept program. We are progressing on that development contract and moving towards flight testing in approximately 12 months.

This program represents close to \$1 billion of market opportunity for AV over the next several years, with an even larger opportunity in the years that follow. We're among one of the very few new missile producers in the last 30 years and are confident that our cost-effective solution will be well-received by our customers. The momentum behind this program is building, with Congress increasing funding to accelerate production due to a gap in low-cost missile production.

Given these demand signals, this past quarter, we announced efforts to expand our manufacturing facility in Huntsville, Alabama, to scale production of this groundbreaking capability in anticipation of increased demand. We're also seeing increased traction in our Space, Cyber and Directed Energy segment, which represents an important new phase of AV's multi-domain growth strategy. The segment reported revenues of \$150 million for the quarter and \$619 million for the full fiscal year.

Despite some near-term disruptions during the third and fourth quarter due to the government shutdown and SCAR contract termination for convenience, we remain very optimistic about several opportunities within this segment, including directed energy counter-UAS, long-haul laser communications, space technologies, and other advanced solutions.

During the fourth quarter, our LOCUST directed energy counter-UAS platform achieved several key milestones. As global threats continue to evolve, directed energy has emerged as an essential and cost-effective solution for countering high-volume, low-cost drone attacks. At under \$10 per shot, LOCUST flips the cost advantage between offensive and defensive systems and provides the warfighter with an unlimited magazine. We believe our LOCUST directed energy solution is a game-changing capability, which is at the very early stages of a large and strong market adoption cycle.

Building on this foundation, we introduced LOCUST X3 during the fourth quarter. One of the critical differentiators that sets LOCUST apart is that its modularity allows detection and defeat while on the move onboard a ground vehicle or ship. The precision with our ability to pin and track is what makes LOCUST as accurate when targeting adversarial drones.

In parallel, a demonstration aboard the USS George H.W. Bush validated LOCUST in an operational maritime environment. During this exercise, our LOCUST system was able to shoot down incoming drones with a 100% success rate, showing that our laser weapon systems can protect ships against drone threats. This is an unprecedented level of success with such laser weapon systems on real maritime operations. Our Army and Navy need this capability desperately, and we're aggressively expanding its manufacturing capacity to meet this demand.

Additionally, in early May, the FAA cleared the way for directed energy systems such as our LOCUST to operate in domestic national airspace to protect critical assets in the homeland. The LOCUST Laser Weapon System is included in our offering to the US Department of War as part of the nation's Golden Dome program.

Our proposed system called, Halo_Shield, includes other AV counter-UAS solutions such as Titan SV and Titan 4 to work in conjunction with LOCUST, as well as our AV_Halo software ecosystem to protect critical assets from

drone threats, which includes swarming attack scenarios. We look forward to providing additional updates on this important initiative.

We're confident our LOCUST Laser Weapon System provides a solution for our customers on the modern battlefield. We recently announced a \$30 million investment to significantly expand manufacturing operations in our Albuquerque, New Mexico facility. We're preparing to transition LOCUST to full rate production this year and we expect significant demand for this product line on several fronts.

In addition to counter-UAS, we have also made strides with our long-haul laser communication terminals. It's worth highlighting that we were awarded a \$240 million contract last fall for our long-haul laser communication terminals, one of the largest awards on record. These terminals will be deployed on orbit for critical national security missions.

Subsequent to the quarter closing, the US Department of War selected AV for a \$43 million contract through its Test Resource Management Center to integrate our Phased Array Next-Generation Telemetry Hypersonic Emitter Receiver or PANTHER product on DOW's SkyRange platforms. The award reflects our growing strategic position within the DOW.

Looking ahead, we intend to invest in our BADGER and WASP phased array antenna technology platforms by developing a more commercialized solution that will compete on the U.S. Space Force's upcoming program as well as look to broaden our offering to other commercial customers.

This past quarter, our Cyber & Mission Solutions business received a \$20 million contract to advance ceramic materials research for the U.S. Air Force and Space Force. The \$20 million contract represents a vital investment in technologies that will preserve America's advantage across air and space domains by advancing next generation ceramic materials and manufacturing processes that enhance mission readiness, extend operational endurance, and strengthen the technological superiority of the Air and Space Forces.

In addition, this group also received the \$25 million award from the Air Force Research Laboratory to mature human health and performance technologies for warfighter readiness. We're continuing to expand our AV_Halo software platform and recently announced two new modules: AV_Halo INSTINCT, which provides an autonomous software framework; and AV_Halo DETECT, which delivers autonomous RF detection in contested environments. Today, they enable our customers to deliver synchronized autonomy, faster decision-making, and more effective mission execution. We remain highly confident that continuing to invest in our leading platforms is the best path to keeping our advantages in our dynamic industry and to drive long-term value creation.

Before turning the call over to Sean, let me summarize with the following comments. We delivered record financial performance in fiscal year 2026 with strong revenue growth, expanding profitability and increased backlog, demonstrating the strength and scalability of our business. Demand across our portfolio remains robust, supported by a growing pipeline of awards and \$2.7 billion total year-to-date bookings, positioning us for continued growth in fiscal year 2027 and beyond. And we continue to invest in our highly differentiated solutions, which enables us to continue our strong growth and value creation trajectory.

With that, I would like to now turn the call over to Sean Woodward for a review of our fourth quarter and full fiscal year 2026 financials. Sean?

Sean T. Woodward

Chief Financial Officer & Executive Vice President, AeroVironment, Inc.

Thank you, Wahid. Before I turn to our results, I want to address the incremental goodwill impairment charge of \$89 million and the related restated third quarter 2026 results, which we disclosed last week. This was an incremental charge related to the termination for convenience of the SCAR program. This was a non-cash charge and had no impact on previously reported current assets, current liabilities, revenues, cash used in operating activities or our non-GAAP adjusted EBITDA or adjusted EPS measures. In addition, it does not relate to updated estimates of the long-term cash flows used in the goodwill impairment analysis. The full year results we are discussing today reflect the corrected impairment. In connection with the restatement, we identified a material weakness in our internal control related to the preparation and review of the goodwill impairment analysis. We have implemented enhanced controls and review procedures to strengthen this process.

Now, I will walk you through our fourth quarter and full year performance and fiscal 2027 outlook, referring to our press release and earnings presentation available on our website. I will briefly comment on our results for the quarter and then turn to guidance for fiscal year 2027.

Fourth quarter revenue reached a record \$642 million, representing a 31% organic growth year-over-year, our strongest quarterly growth rate of the year, and a 30% year-over-year increase on a pro forma basis. This performance was driven by exceptional demand across several of our key franchises, including Switchblade loitering munitions, Titan counter-UAS, Red Dragon one-way attack and JUMP 20 Group 3 tactical systems. With nearly \$2 billion of revenue in fiscal year 2026, AV remains one of the largest and most profitable defense technology companies. Our leadership rests on a diversified portfolio of proven systems, manufacturing excellence, and next generation capabilities.

Turning to the quarter four results, we secured bookings totaling \$572 million and new authorized contract value. Our book-to-bill ratio for the quarter four was 0.9 times, reflecting the exceptional quarter four revenue performance, partially offset by some timing delays of anticipated large program awards while our trailing 12 months book-to-bill ratio stands at 1.4 times. Funded backlog closed at \$1.2 billion, unfunded backlog at \$1.5 billion, which now excludes SCAR contract values following the contract termination for convenience announced in March.

Slides 7 and 8 of the earnings presentation shows the fourth quarter and full year revenue by operating group for each of our two segments compared to pro forma fiscal year 2025 revenue. The Autonomous Systems or AxS segment recognized \$492 million in revenue in the quarter, which represented a 49% increase over fiscal year 2025 pro forma revenues. The Precision Strike & Defensive Systems operating group led with \$333 million in revenue in the fourth quarter, which represented an 80% increase over fiscal year 2025 pro forma revenues, driven by strong sales in our loitering munition Switchblade family, one-way attack Red Dragon, and counter-UAS RF Titan products.

Uncrewed Aircraft Systems operating group grew 17% year-over-year, led by JUMP 20-X, Puma and P550. The Space, Cyber & Directed Energy segments generated \$150 million in the quarter four revenue, down 8% pro forma year-over-year, reflecting the SCAR termination in March and the US government funding delays that disproportionately affect Cyber Mission Solutions (sic) [Cyber & Mission Solutions] (00:26:48) operating group.

Within the segment, the Space & Directed Energy operating group, sales grew 23% year-over-year, driven by strong demand for LOCUST directed energy counter-UAS systems. SCAR-related revenue was \$31 million during fourth quarter, totaling \$121 million for full fiscal year 2026. Cyber & Mission Solutions revenue declined at 26% pro forma primarily due to discontinued programs and funding delays from the government shutdown.

Moving now to gross margins, slide 14 shows the adjusted product and service gross margins, including reconciliations to GAAP gross margin. Fourth quarter overall adjusted margins, gross margins, were 34%, the highest quarter of fiscal year 2026 and 730 basis points above quarter two low, demonstrating strong sequential trajectory. This is lower than 40% in the fourth quarter of fiscal year 2025. As noted on prior earnings calls, the business composition of the combined new company has changed significantly with higher service mix, increased flexibility price contracts, and several products in the early stages of maturity.

Quarter four adjusted product gross margins were solid at 44% due to the strong finish of the year in terms of sales volume whereas quarter four adjusted service gross margins were lower at 2%. The reason for the decline in quarter four service margins was related to our Cyber & Mission Solutions business, in which a service contract funding was delayed and within our Precision Strike & Defensive Systems business, which experienced a one-time forward loss and EAP revision related to a legacy BlueHalo contracts following the organizational indirect rate alignment tied to our integration strategy. Full year fiscal 2026 adjusted gross margin landed at 30%, in line with our original guidance.

Moving on to operating expenses, adjusted SG&A which excludes intangible amortization and deal and integration costs were \$72 million versus \$37 million the prior year. The increase is largely the result of the combination with BlueHalo. As a percentage of revenue, adjusted SG&A in the quarter was 11% of revenue versus 13% in fiscal year 2025. Full year fiscal 2026 adjusted SG&A was 13% of revenue, down from 17% in fiscal year 2025 and in line with our projection, reflecting BlueHalo's synergy realization and operating leverage at scale.

Quarter four R&D expense was \$31 million or 5% of revenue compared to \$25 million or 9% in the prior year. Full year fiscal 2026 R&D totaled 6% of revenue, down from 12% in fiscal year 2025 as projected.

In terms of adjusted EBITDA, slide 15 of our earnings presentation shows a reconciliation of GAAP net income to adjusted EBITDA. Quarter four adjusted EBITDA reached \$140 million or 22% of revenue, more than doubling from \$62 million in the prior year quarter driven by BlueHalo accretion and strong organic growth. This represents significant margin expansion from 11% in quarter three.

Full year fiscal 2026 adjusted EBITDA totaled \$286 million, exceeding the high end of our revised guidance range with a 14% margin. AxS segment adjusted EBITDA was \$289 million for the full fiscal year 2026, with 21% adjusted EBITDA margin reflecting strong revenue and gross margin contributions. This was partially offset by SCDE segment adjusted EBITDA, which was negative \$3 million following lower revenue and the resulting under absorption of fixed cost in both the space SCAR program and the Cyber Mission Solutions (sic) [Cyber & Mission Solutions] (00:30:37) business.

Now, turning to non-GAAP earnings per share. Slides 13 and 16 shows the reconciliation of GAAP and adjusted or non-GAAP diluted EPS. Adjusted EPS reached \$1.84 in quarter four, up from \$1.61 the prior year quarter. Full year fiscal 2026 adjusted EPS was \$3.31, above the high end of our guidance range and compared to \$3.28 in fiscal year 2025.

Moving to the balance sheet at the close of the fourth quarter, our total cash and investments amounted to \$713 million, a \$65 million increase versus quarter three of fiscal year 2026. AV total debt composed solely of zero coupon convertible notes was \$747.5 million and a net leverage ratio of 1.2 times adjusted EBITDA. Cash flow rebounded in quarter four with \$73 million of free cash flow driven by strong operating performance throughout the quarter. This marks AV's first positive free cash flow quarter since quarter one of fiscal year 2025.

During fiscal year 2026, working capital needs scaled with revenue growth and our cash conversion cycle was extended in part by the acceptance testing process of our Switchblade products. During quarter four of fiscal year 2026, we've worked closely with the US government to streamline the Switchblade acceptance process. We believe this procedural improvement will shorten our cash conversion cycle and improve working capital efficiency going forward.

Turning now to backlog, funded backlog totaled \$1.2 billion at quarter end with \$869 million or 73% attributable to the AxS segment and \$314 million or 27% to the SCDE segment. Unfunded backlog finished the year at \$1.5 billion, which now excludes \$1.5 billion related to the SCAR program with \$1.25 billion or 86% attributable to SCDE and \$209 million or 14% to AxS. It's important to note that our unfunded backlog figures exclude ceiling values from sole source IDIQ contracts such as the remaining balance of the \$990 million U.S. Army Switchblade contract, and the remaining balance on the \$874 million UAS and counter-UAS FMS contract. These contracts, amongst others, represent significant additional contract capacity beyond our reported unfunded backlog.

Turning to fiscal 2027 guidance, before I walk through the numbers, I want emphasize that we manage our business on a full year basis. Given the nature of our contracts, award timing, and customer acceptance testing can create significant quarterly variability that does not reflect the underlying business performance. We encourage investors to focus on our full year guidance and multi-year trajectory rather than quarter to quarter fluctuations.

I also want to frame our fiscal 2027 outlook in the context of deliberate strategic investments we're making to capture long-term market expansion. We're accelerating commercialization across our product portfolio, expanding international sales capacity, and building production infrastructure to meet rising global demand for autonomous systems. We expect that these investments will drive revenue and EBITDA growth of approximately 10% year-over-year.

With that context, on slide 9 of the earnings presentation, we provide our fiscal year 2027 guidance. As Wahid mentioned in his remarks, fiscal year 2027 revenue is expected to be between \$2.125 billion and \$2.225 billion or 10% growth at the midpoint of our fiscal year 2026 results. This excludes any SCAR-related revenue.

Adjusted EBITDA is expected to be between \$305 million and \$325 million and non-GAAP adjusted EPS between \$3.02 and \$3.34. Near-term non-GAAP adjusted EPS remains relatively flat year-over-year due to the higher anticipated depreciation and cloud amortization expense from the significant capital deployed in fiscal years 2026 and 2027. Depreciation and cloud amortization expense is projected to increase by approximately \$37 million or 77% year-over-year.

A few details on the revenue cadence, adjusted EBITDA profile along with non-GAAP EPS distribution. We expect revenue to be stronger in the second half of fiscal 2027 as we anticipate increased booking and order activity prior to the current government fiscal year-end. We're planning on an approximate 45/55 revenue split between first half and second half. Given we anticipate the uptick in orders to come through the latter part of the summer, we anticipate revenue in the first quarter to be 45% of the total revenues for the first half.

Following this revenue cadence, we expect adjusted EBITDA to be one-third first half and two-thirds second half of the year. This is similar to the fiscal year 2026 results from a distribution perspective. We anticipate first quarter adjusted EBITDA to be one-third of first half totals, reflecting improved sales mix and higher sales volume in the back half of the year.

Non-GAAP EPS is anticipated to be 25/75 first half, second half distribution. This reflects the adjusted EBITDA profile and the impacts of depreciation expense. First quarter non-GAAP EPS is expected to be 25% of first half's total. To accelerate these efforts, we're investing between 7% to 9% of revenue in research and development and 12% to 14% of revenue in CapEx primarily focused on production capacity expansion. Adjusted SG&A expenses are projected at 14% to 16% of revenue. The year-over-year increase in adjusted SG&A as percentage revenue reflects strategic investments in sales and business development resources to support our expanding international footprint and commercial pipeline as well as infrastructure to scale the combined organization.

In summary, fiscal 2026 was a milestone year. We achieved nearly \$2 billion in revenue, exceeded our revised adjusted EBITDA guidance, and demonstrated the power of our diversified portfolio with 31% organic growth in quarter four. As we enter fiscal 2027, we believe we have strong momentum across our product lines and a robust \$2.7 billion of total backlog. We expect that the production capacity and R&D investments we're making this year will position us to scale with the accelerating global demand for our lethal and non-lethal drones along with our suite of counter-UAS solutions, markets where we hold leading positions and where we see multi-year tailwinds driven by the evolving threat environment.

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

Wahid Nawabi

Chairman, President & Chief Executive Officer, AeroVironment, Inc.

Thanks, Sean. We are encouraged by the strong level of funding for our opportunities and priorities in the defense budget. That said, the timing of that funding, particularly given the reconciliation process, remains uncertain. As a result, our revenue guidance reflects that we're not assuming funding arrives early in the government fiscal year 2027. As stated earlier, we are initiating our fiscal year 2027 revenue guidance between \$2.125 billion and \$2.225 billion with adjusted EBITDA guidance between \$305 million and \$325 million, and adjusted EPS of \$3.02 and \$3.34 per share.

In closing, we're very pleased with several results from this past quarter and the full fiscal year 2026. We delivered a record fourth quarter and a solid fiscal year, capping a transformational year for AV. We secured a series of marquee program wins including LASSO, LRR, MRR, LRKI, and received several additional orders for franchise programs such as Red Dragon and long-haul laser communications, each representing opportunities that could be more than a \$0.5 billion in revenue for AV over time. We remain focused on execution including advancing a more commercially oriented approach across the portfolio while aggressively expanding capacity and scaling manufacturing to meet a growing demand that will drive profitability.

Taken together, record financial results, a pipeline of significant and growing opportunities, and the manufacturing capacity to deliver on them, the long-term opportunity for growth and value creation has never been stronger for AV. We hope you will join us at our Investor Day on July 8 where we will outline our growth priorities and long-term goals in greater detail.

I would like to thank our employees, shareholders, and customers for their continued commitment to AV and our mission. And with that, Sean, Denise, and I will now take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question will come from the line of Sheila Kahyaoglu from Jefferies. Your line is open.

Sheila Kahyaoglu

Analyst, Jefferies LLC

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Hey. Good afternoon, guys, and thank you. Maybe one positive question, and one just cleaning up item question. So, I guess, Wahid, you talked about counter-UAS is one of your four growth pillars. Maybe can you size the business today and how you think about the growth profile of that? You mentioned LOCUST achieving key milestones.

And then just to clean up, can you just touch on the goodwill impairment? You disclosed additional. You restated that last week. How do we think about the \$1.2 billion left on the balance sheet? And if you could help bridge us as we look forward to 2027 as it relates to SCAR. Thanks.

Wahid Nawabi

Chairman, President & Chief Executive Officer, AeroVironment, Inc.

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Thank you, Sheila, and good afternoon. First of all, I'll take the first half of that question and then the second one, I will yield it to Sean to respond to.

In terms of the – our counter-UAS strategy and business and growth prospects, today, we're early stages of this counter-UAS adoption cycle. We have a very crisp and clean strategy on a layered defense approach to counter-UAS or defending against drones. We don't believe just in one solution set or one technology. We have a multi-layer solution set and approach to it.

First, we offer the world's – one of the world's best RF jamming and detect systems called the Titan series of solutions. That business doubled over last year and it continues to grow and I think we're early stages of adoption on that. Would say it's roughly about a couple of hundred million dollar business in the counter-UAS in general for us as a company in fiscal 2026.

The second layer of defense for us is our directed energy solution, which is literally on its early, early inception phases of adoption. We are aggressively expanding manufacturing and we believe that directed energy is going to be a significant portion of the market opportunity for counter-UAS globally. The cost and economics, it basically flips in favor of defensive systems against drones. And that gives US a major – and our allies a major advantage.

And lastly, we also have been awarded a contract, as I mentioned on my remarks, for our Freedom Eagle-1, which is a kinetic defeat system. It's a category of missile that is a significant gap not only in the U.S. Army, which this program is starting at, but in our entire military. Our entire military has a gap and a size of a missile that can actually take down Group 1 through 3 drones cost-effectively at way, way less, a fraction of the cost of standard missiles. Most missiles that are being used today are in the millions of dollars. This is going to be targeted to be in \$100,000, \$150,000 a copy when we're done with it and we're making significant progress on that. And Congress is asking us to accelerate that.

So, I strongly believe, if you recall, Sheila, four, five years ago, our loitering munition business was a small business, small low-double digit numbers, \$10 million, \$20 million, \$30 million business. And we're now at about a

\$0.5 billion business roughly in that in terms of growth. It will not surprise me in the next three to five years that our directed energy and our counter-UAS business would be equally as large if not two to three times bigger. That opportunity is ours to have. We're executing on all those three fronts. We're making significant progress. Our customers are very happy with our solutions, and we're looking forward to updating you on our progress in the future.

Sean T. Woodward

Chief Financial Officer & Executive Vice President, AeroVironment, Inc.

A

And Sheila, related to your second question around the impairment and the goodwill, let me just highlight a few points related to that. First, the impairment was related to the previously announced stop work order and termination for convenience on the SCAR BADGER program. The impairment did not result from changes in the cash flow projections of the space reporting unit. The impairment did not result from any new events or additional negative business trends. The additional impairment was filed due to an error in the Q3 calculations in which an estimated allocation of goodwill associated with the acquired tax attributes were not included in the measurement of goodwill impairment for the space reporting unit.

As disclosed in our 8-K we file with the SEC, the error was detected by management. A third-party accounting firm was engaged to prepare the Q3 goodwill impairment analysis. The error in the third quarter by the third-party was identified by management, detected and corrected in the fourth quarter. Additional internal controls have been implemented and were executed in Q4 to prevent this potential for future errors. These controls will need to be tested for additional quarters in order to remediate the SOX control error. Related to the overall goodwill in the space – in cyber Directed Energy business, it's \$1.2 billion and the remaining of that is \$291 million associated with the Space business unit specifically.

Operator: Thank you. One moment for our next question. Our next question will come from the line of Seth Seifman from William Blair – sorry, Seth Seifman from JPMorgan. Your line is open.

Seth M. Seifman

Analyst, JPMorgan Securities LLC

Q

Yeah. Thanks very much and good afternoon. Wanted to clarify a little bit about what you said about the timing of revenue and referencing the reconciliation. I guess which reconciliation were you referring to? And if it's – yeah, I think there's a fair amount of funding in last year's reconciliation and that that could kind of proceed from here and probably started to become helpful in the last quarter. And to what extent are you depending on another reconciliation bill to drive expectations for this year, for fiscal 2027?

Wahid Nawabi

Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Good afternoon, Seth, and thank you for the question. So, generally speaking, as you know, government fiscal year 2027 starts in October and we – currently based on all the indicators that we see, we're assuming that there's going to be a continuing resolution and a full defense budget will not be passed on time at the beginning or before the beginning of the next government fiscal year. The best estimates that we have put together based on industry experts and our own experts inside the company is that probably we'll see a budget approved sometimes December or January of next calendar year.

And so if that were to happen, the customers' accounts and the services, U.S. Army, Navy, Air Force, et cetera, they're probably not going to see those dollars until March timeframe roughly. And so which means that there's going to be a delay in the government fiscal year 2027 budget, which there is significant dollars, significant. When

I say that significant is unprecedented amount of dollars for the type of systems that we make and we're positioned for.

So, from now until literally this year, we're going to be living off of our current very strong backlog, but also the funding dollars that have been approved before that is making its way into contract and acquisition and awards up until the end of this calendar year. We still expect a growth year and if the situation were to change positively, obviously we will update you. And our goal is to be as close to the pin as possible given the information that we have.

And again, we strongly believe that the long-term prospects for growth are strong. That's why we're investing in our manufacturing capacity expansion on several products. Half a dozen of our products are scaling significantly because we know that these capabilities are needed desperately and we know that our military is very pleased with our systems and we're going to get a fair share of that spend over the next 12 to 24 months. However, the timing of that is not very certain and in the next three to four months.

Seth M. Seifman

Analyst, JPMorgan Securities LLC

Q

Got it. Thanks. And then maybe just a follow-up, the investments that you mentioned, it's a pretty significant step-up in CapEx. And I think you talked about some of the drivers of that. Where do you expect free cash flow to come in for the year?

Sean T. Woodward

Chief Financial Officer & Executive Vice President, AeroVironment, Inc.

A

Yeah, great question. Significant investment we're making in fiscal year 2027 CapEx, between 12% and 14% of our revenue. That's going to be really in production capacity growth CapEx. We believe that's going to help fund the Salt Lake City facility, as Wahid mentioned, our Huntsville facility build-out. There's additional expansion in Albuquerque as well as in Dayton, Ohio. So, multiple production capacity sites being expanded to support our long-term revenue growth potential. From a free cash flow perspective, we're not expecting fiscal year 2027 to be positive on free cash flow given the amount of CapEx that we're planning on spending during the year.

Operator: One moment for our next question, please, comes from Louie DiPalma with William Blair. Please proceed.

Louie DiPalma

Analyst, William Blair & Co. LLC

Q

Wahid, Sean, and Denise, there have been many discussions regarding the Department of War looking to quadruple production of exquisite missile systems such as the PAC-3, and THAAD, and precision strike missile and others. I mean, you've been ramping capacity at your Salt Lake City facility. Does the Switchblade or even the Freedom Eagle have the potential to be excluded as part of this exquisite missile system category? And related to this, two years ago, you won the \$990 million Switchblade 600 IDIQ. Do you view the Switchblade production as or should it be increasing like with or without that category of exquisite missile systems? Thanks.

Wahid Nawabi

Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Thank you, Louie. Obviously, we feel very bullish and very optimistic about all of our lethal, call it, drones and missiles solutions. That includes the Switchblade family of products, Switchblade 300, Switchblade 600, Switchblade 400, MAYHEM 10. It also includes our Red Dragon one-way attack. It also includes our Freedom

Eagle-1. So, overall, I feel quite bullish that this category, irrespective of exquisite or non-exquisite, is going to get significant funding, number one.

Number two, the categories that we're in, these are the categories that is going to get probably the highest percentage of growth of funding compared to the previous years because they're starting with much smaller numbers in dollar sense. And for that specific reason, we're actually expanding manufacturing in literally all three of those product families.

We're significantly expanding the manufacturing of our loitering munitions, as you know, in our Salt Lake City facility. That's an additional \$2 billion worth of production capacity a year and that's going to come online at the beginning of next calendar year, basically this winter.

Second, we're expanding aggressively. We already expanded, but we're going to continue to expand further the Red Dragon family of one-way to attack drones. We have secured several contracts and we expect a lot more contracts and awards on that in the next 12 months.

And lastly, our Freedom Eagle-1, as I mentioned, we've already secured about \$100 million worth of contract awards from the U.S. Army to accelerate that program. And Congress actually added more money to that to accelerate even further. And we're working diligently not only to accelerate that development and testing of that capability, but also to actually expand manufacturing with the investments we're making on our Huntsville, Alabama facility. That facility is specifically targeted to produce the FE-1 platform, and I feel very good about it because our product is meeting all of our customers' requirements so far and it's doing very well.

So, overall, Louie, whether exquisite or non-exquisite, I really don't know which way it's going to go, but I would argue that this category of our systems is going to get a significant amount of funding over the next several years not just next year, but it is going to continue to grow and be a bigger portion of the pie of the spend for the US government on missiles in general because they are way more effective in lots of different missions than the current traditional solutions that are out there, which we still need as a nation because they're generally depleted heavily. But our category is going to do really well, in my view.

Louie DiPalma

Analyst, William Blair & Co. LLC

Q

Definitely. So, you're confident that there will be funding for the production ramp like regardless of the characterization and that some investors believe that there's almost a competition between like the high-end missiles versus the low-end missiles. And yeah, we're just looking for a sense of what is your visibility in terms of the increase in CapEx and having like production orders associated with that increase in CapEx.

Wahid Nawabi

Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Yeah. So, a significant portion of our – meaningful portion of – I should say of our CapEx spend this year is on expanding production capacity across all of our platforms. And obviously, our lethal drone category, which I just described, is a very sizable portion of that portfolio. So, we are investing aggressively in this area because we expect this category to grow. I don't believe that the large, exquisite, expensive missiles is genuinely competing for dollars related to the loitering munition or one-way attack drones. This is an expanded category and new sets of missions that really did not exist before the Ukraine conflict and the conflict in the initiative, the Epic Fury.

So, I don't think that we're going to suffer from lack of funding in these categories because the government is investing or buying more of the exquisite missiles. Our nation and our allies across the globe need more of all of

these things because the inventories are depleted and the US capabilities are desperately needed to expand and grow in these categories significantly.

Operator: Thank you. Our next question comes from the line of Andre Madrid with BTIG. Please proceed.

Andre Madrid

Analyst, BTIG LLC

Hey. Good afternoon, everyone. Thanks for taking my question.

Q

Wahid Nawabi

Chairman, President & Chief Executive Officer, AeroVironment, Inc.

Thank you, Andre.

A

Andre Madrid

Analyst, BTIG LLC

Maybe, Sean, maybe this one might best tailored for you. I mean, just can you call out what organic growth is implied in the FY 2027 outlook? I mean, maybe put a little bit differently, how much is ESA – ESAero expected to contribute?

Q

Sean T. Woodward

Chief Financial Officer & Executive Vice President, AeroVironment, Inc.

Sure. Thanks for that question. So, overall, we're expecting the midpoint of our guidance range about 10% year-over-year growth. We don't really provide breakdowns below that, but overall, we're expecting 10% year-over-year growth. ESAero contributed from the time of acquisition to the end of fiscal year 2026 around \$20 million for fiscal year 2026 totals.

A

Andre Madrid

Analyst, BTIG LLC

Got it. Got it. That's helpful. And then I wanted to dive a little bit deeper into Cyber & Mission Systems. It seemed like in the quarter there were some funding delays. That was flat quarter-over-quarter, down year-over-year. I guess when we think about the long-term prospects of this business, when might things start to turn around and I guess what are your expectations for longer term?

Q

Wahid Nawabi

Chairman, President & Chief Executive Officer, AeroVironment, Inc.

So, Andre, I'll take that question. Look, when we acquired BlueHalo a year ago, approximately a year ago, we were really, really – the main thesis for the acquisition was the majority of the portfolio that we were making significant progress. And – but we also cared about the cybersecurity business because it gives us a lot of advantages in the marketplace and have synergies with the rest of our products. That business over the last year has been affected significantly by two things: the government shutdown that we had because a lot of that is basically employees that are being deployed onsite with our customers as well as the fact that the government had a DOGE effect. If you recall the beginning of the year, there was a significant impact on that in terms of reduction on government services in general.

A

We believe that we have a very compelling solution set there. That business is a business that we would like to continue to grow. We do believe that the market is now sort of stabilized and we expect that business to grow

slowly. It is not considered the highest growth area of our portfolio, but that's the beauty of our business. We have diversified our portfolio and our business significantly over the last 24 months or so.

We do not rely on a single customer, single program, single product, single business unit for us to be able to achieve our growth and our value creation targets. We remain very bullish on this. Our portfolio is robust. We're on up in the right categories of the defense budget and the national defense strategy priorities. Our allies need it. We've got a track record of success. We know how to do this, and we're going to continue to execute as we've been doing before.

So, if you look at our track record over the last decade, you'll see that while our portfolio keeps evolving, we tend to be able to deliver on our promises and our plans successfully over time really well.

Operator: Thank you. Our next question is from Michael Leshock with KeyBanc Capital Markets. Please proceed.

Michael Leshock

Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Good afternoon. Just given the various platforms that you're in the process of ramping aggressively, do you feel like the supply chain is prepared to support that level of growth? Just curious where you see the biggest potential bottlenecks today. Or are there any changes that you've made from a supply chain perspective to support your production ramps? Thanks.

Wahid Nawabi

Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Thank you, Michael. The short answer is absolutely yes. We're not only just expanding our manufacturing footprint ourselves. All of the CapEx investment and initiative that we have within the company this year to significantly ramp up several platforms in the multiples in terms of growth targets capacity-wise is to work with our suppliers to expand the number of suppliers and also help our suppliers increase their throughput. And we've made significant progress, number one, over the last several years, A; B, we're continuing to keep investing in that and actually addressing those sort of bottlenecks and areas that needs more attention and more expansion.

But I must add the following comment. Relative to our competitors in the market, we are one of the best when it comes to this because we've got two decades of track record of success, knowing how to scale production effectively, reliably, and profitably. We have done that over and over and over again by tens of thousands of units a year so far. And that is unmatched in the entire industry. While we focus on expansion and growing our industrial base and working with our suppliers, we're way above and shoulder ahead of our competitors in this area. It's actually one of our competitive advantages against almost everyone in the marketplace.

So, it's always going to be a challenge because we're growing and we've got a large supply base and we have a diversified portfolio, but we do way better than all of our competitors in this area, in my opinion, and I think we're going to continue to focus on that and keep growing our gap in this area against our adverse – peers.

Michael Leshock

Analyst, KeyBanc Capital Markets, Inc.

Q

Great. And then maybe following up on the Space segment, could you talk about the impact of the growing number of satellite constellations that are being and are expected to be deployed over the coming years? I'm just

wondering if there's opportunities for AV to perhaps act as a merchant supplier into these satellite programs like optical comms or other components. Is there any way to frame that satellite opportunity over the longer term?

Wahid Nawabi

Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Absolutely, Michael. That is certainly an area, as I mentioned on my remarks earlier, that we're quite bullish. I'm very bullish on our Space and Cybersecurity business in general, and the reason is because we're at still early stages of a very large adoption cycle with some highly, highly differentiated technological solutions, right?

Technologically, our phased arrays is unmatched really in the industry. So is our optical laser communication terminals that we have demonstrated the ability to do way better than anyone else and we've secured a \$25 million contract last – this past fiscal year. I believe that business is very early in its infancy. The vast, vast majority, if not all of the satellites that we have in LEO, MEO and geosynchronous orbits around Earth are going to get upgraded with the capability of long-haul laser optical communication.

That is an expertise that AV is uniquely qualified and is a significant player in the market. It's just that the market is still early. And we believe that as the adoption continues, that we're going to do better and better as the time goes by, A. B, related to the merchant supplier to many of these programs, yes, we are actually actively looking at those things and those programs, and we're engaged with multiple partners to be able to actually provide some systems there and some capabilities to our customers.

It's a little bit early, but as we make progress, and some of these are sensitive programs as well and I'm not in a position to be able to talk very openly about it, but we're making very good progress and I believe that we're on the right track.

Operator: Thank you. Our next question is from Peter Arment with Baird. Please proceed.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Hey, good afternoon, Wahid and Sean. Wahid, the unmanned segment has always had a lot of foreign military sales activity. Could you give us the latest, kind of what you're seeing from a bookings environment, particularly just given that we're seeing a lot of volatility around US domestic kind of timing of budgets? How are things looking from an FMS perspective?

Wahid Nawabi

Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Good afternoon, Peter, and absolutely, very positive in my view. As you said, you've known us for a long time and our international franchises for these products is a significant portion of our revenue generation and value creation strategy. It's been part of our strategy to continue to win programs domestically and then expand internationally.

We've done extremely on our non-lethal drones category over the last decade or two, and then last three to four years, we've really expanded the Switchblade category significantly. But the rest of our portfolio, things such as our one-way attack drones and our FE-1 platform and our LOCUST Laser Weapon Systems, and even I would say our P550 and our Titan series even, we have significant potential for growth in terms of the – both DCS and FMS spend and opportunities internationally.

One of the key areas that we're investing in fiscal 2027 in terms of SG&A is international expansion to have better presence in these markets based on requests and signals that we're getting from specific countries around the world. I recently returned from a trip from Asia Pacific, and the demand for our solution is quite, quite compelling and strong. And we need to keep investing in this, expanding our presence to be able to support those customers, and I think that's going to start to pay dividends over the next several years for AV quite handsomely.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Got it. And just as a follow-up, Sean, on the two-thirds of adjusted EBITDA on the second half of the year, could you just give us a little more color on that? Is that just volume and mix or is there anything to call out on that? Thanks again.

Sean T. Woodward

Chief Financial Officer & Executive Vice President, AeroVironment, Inc.

A

Yeah, thanks, Peter. Yeah, the second half of the year, we're expecting to have the two-thirds of our total adjusted EBITDA. As the sales volume picks up in the back half of the year, the volume and the mix should be more favorable, resulting in a higher adjusted EBITDA in the back half, similar to what we had in fiscal year 2026.

Operator: Thank you. One moment for our next question, that comes from Jonathan Siegmann with Stifel. Please proceed.

Jonathan W. Siegmann

Analyst, Stifel

Q

Thank you. Wahid, Sean and Denise. Maybe just on margins, can you help us bridge fiscal 2027 versus 2026? I know there's a fair amount of puts and takes and appreciate you called out the changes in SG&A and IRAD, but any other color you can give on that would be helpful. Thank you.

Sean T. Woodward

Chief Financial Officer & Executive Vice President, AeroVironment, Inc.

A

Sure, Jon. Yeah. So, overall, we're expecting next year's adjusted EBITDA between \$305 million and \$325 million, which is essentially 14.5% at the midpoint, similar to our fiscal year 2026 ending results. But we're able to increase the overall R&D investment between 7% and 9% and SG&A between 14% and 16%. That increased investment is going to come from improved adjusted – or gross margins from our product sales and overall services mix that we're going to have in fiscal year 2027.

Operator: Thank you. And our next question is from Pete Skibitski with Alembic Global.

Pete Skibitski

Analyst, Alembic Global Advisors LLC

Q

Hey, good afternoon, guys.

Wahid Nawabi

Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Hi, Peter.

Pete Skibitski

Analyst, Alembic Global Advisors LLC

Q

All right. I guess first for Sean, can you quantify for us the impact – you said you took a one-time charge on a BlueHalo contract in the fourth quarter, it was a negative EAC adjustment. I guess it was a services contract. I don't know if it was Titan or something else, but if you'd quantify that, that'd be great.

Sean T. Woodward

Chief Financial Officer & Executive Vice President, AeroVironment, Inc.

A

Sure. Yes, there was a one-time adjustment in two parts of the business. Our CMS business had a contract that was not awarded and we had expenses incurred that we posted in fiscal year 2026. And then there was an indirect rate realignment that took place which resulted in a forward loss and one-time EAC adjustment in our Precision Strike & Defensive Systems business. Those were one-time only events.

Operator: Thank you. Our next question is from Clarke Jeffries with Piper Sandler. Please proceed.

Clarke Jeffries

Analyst, Piper Sandler & Co.

Q

Thank you for taking the question. First one for Wahid, I was just wondering if you could give us sort of an overview and some context for the Q4 result in Precision Strike. It seems like the tone had been, over the last few quarters, that some of these contracts might have been languishing in the contracting process in the government's hands. Just wanted to sort of assess that and where we stand in terms of the sort of throughput.

And then also maybe you could dig into that customer acceptance testing part, some of the improvements there, and is that applicable across all blocks and SKUs of Switchblade or even the entire portfolio? And then one follow-up.

Wahid Nawabi

Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Sure. Thanks, Clarke. So our Precision Strike & Defensive Systems really is one of the shining sort of business groups or groups of businesses that we have that is performing incredibly well, not only in fiscal 2026, but we expect it to perform really well in 2027 as well. We believe that again our momentum in this area is very strong. You heard Sean earlier talk about the different sole source IDIQ contracts that we have to the tune of about \$1 billion each.

The government still has options to actually either extend the timeframe of those contracts or increase the ceiling of those contracts to make room for more awards as a result of that. In one of them, we are getting close to like two-thirds or three-quarters of fulfilled, so to speak, but the government has options and we know that our solutions are working and our customers are happy with them and they want us to keep continuing to build them.

Another indicator that's really important is that last fiscal year, the US Army also funded us to actually increase the production of our Switchblade 600 Block 1, and we're now at the historic levels of production of that product. We have the capacity to produce literally several thousands of those a year now. And so we're prepared to get these contracts and then convert these contracts into revenue as soon as we get them as we're ramping up production.

Besides loading munition though, I must say also that I feel very good on our Red Dragon family one-way attack. That is much earlier in its adoption cycle. We are also ramping that up and we won several contracts this year, this

past year. And so I expect that to continue to grow, and it would not surprise me if that was a very significant portion of the revenue of that category over the next couple or three years, because it's – the capability and the mission sets that the Red Dragon family of one-way attack long-haul product addresses is quite unique and compelling.

And then lastly, our Freedom Eagle-1, it's really at its infancy. We're just developing the product, going through testing, and Congress has even funded it to expand and accelerate the rate of testing and development and expansion, which we're actively doing this year.

So in all three of those categories, we expect growth and we expect adoption to continue and the government funding as well as international allies to continue to buy more of those from us. I believe you're going to continue to see positive announcements and results from us in that in the several months ahead of us in the future.

Operator: Thank you. Our next question comes from the line of Cashen Keeler with BNP Paribas. Please proceed.

Cashen Keeler

Analyst, BNP Paribas Securities Corp.

Q

Yeah. Hi. Thanks for the questions. I guess for Sean, congrats on the appointment to the CFO role. I know you're not a newcomer to AV, but now that you've been in the CFO role for a little bit now, what have been some of your early learnings and are there any areas or anything we should expect to be different under your leadership?

Sean T. Woodward

Chief Financial Officer & Executive Vice President, AeroVironment, Inc.

A

Yeah, thanks for the question. Yeah, as you mentioned, I've been here for 16 years, so I know the company very well, been very fortunate to be able to take this opportunity. Worked well with Wahid for last decade-plus very closely and really excited for this opportunity. I plan on continuing with our growth projections and growth momentum, assisting Wahid and our new Chief Operating Officer, Rob, on making decisions on our capital investments and research and development and what markets we're going after, and continue with our overall expansion efforts over the years to come.

Operator: Thank you. Our next question is from Trevor Walsh with Citizens. Please proceed.

Trevor J. Walsh

Analyst, Citizens JMP Securities LLC

Q

Great. Hey, team. Thanks for taking the question. Wahid, maybe for you. You mentioned MAYHEM 10 in your prepared remarks. Could you maybe just give us a little bit of a double-click there around how that product is going to be differentiated from Switchblade in terms of, I guess, maybe the opportunity set that you're going after?

And do you – it sounded like you were – that was designed specifically for an Army contract, but I would imagine other components probably have a need there so, and then I guess along with that, is the ramp that you saw in Red Dragon maybe similar to what we could maybe expect from MAYHEM 10 as you kind of again push that out to market? Thank you.

Wahid Nawabi

Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Sure. Thank you, Trevor. So, as you know or you may have noticed in my remarks, MAYHEM 10 is built on the foundation of our Switchblade portfolio and product line. It is really the next generation capability, but it's purpose built, just like the other Switchblade that we've introduced in the past, for a specific requirement and program for the US Army and other customers that we've had.

The US Army has a program called Launched Effects, and in the Launched Effects, the idea here is that while Switchblade 300 and 600 are what's referred to as a weapon system or a loading munition for dismounted troops on the go, this MAYHEM 10 allows it to be actually integrated on all other types of platform; unmanned airplanes, manned airplanes, helicopters and ground vehicles, and even ships.

So we've designed this product to be, essentially, very compliant with the common launch tube, that the US Army refers to as a common launch tube that essentially enables them to mount this to any other platforms as a weapon system.

That opens up a whole new area of opportunities for us in the loading munition category, and then we've purpose-designed this for that. In addition to that, it has a few other features that you can have different payloads, whether it's lethal or non-lethal, for other types of missions inside the product tube.

I do believe that we're positioned well. We're focused on that Launched Effects program. We are engaged with US Army, but I do agree with you that there's – beyond the US Army, there's applications and demand for this and a need for this with lots of other customers, both domestically and internationally. It is a little bit early. It's really dependent on the US Army's pace or progress on that program, but we're very focused on it, like we have always been on other programs, and we're going to continue to update you on our progress.

On the other product you mentioned, Red Dragon, we are ramping that up, and I do believe that MAYHEM 10, hopefully as we get down selected and if we get down selected over the next several months, to make progress. I mean, we have prepared ourselves for these scenarios. We constantly work that as part of our strategy and our execution plans for operations, and our factories are very capable of switching between different models if we have to based customer demand. And that's inherent to our product design philosophy and our manufacturing readiness programs.

Operator: Thank you. Our next question is from Gavin Parsons with UBS. Please proceed.

Gavin Parsons

Analyst, UBS Securities LLC

Thank you. Good afternoon.

Q

Wahid Nawabi

Chairman, President & Chief Executive Officer, AeroVironment, Inc.

Good afternoon, Gavin.

A

Gavin Parsons

Analyst, UBS Securities LLC

I know quarter-to-quarter is super lumpy, but if I'm doing the math right, it implies first quarter will be down year-over-year. Anything specific behind that?

Q

Sean T. Woodward

Chief Financial Officer & Executive Vice President, AeroVironment, Inc.

A

Yeah, Gavin, thanks for the question. We try to provide that level of color in our prepared remarks. We have the stop work on SCAR leaving around a \$30 million hole as well as some of the order timings coming through later this summer that we expect to ramp up the back half of fiscal year 2027. So we're just taking our time to really think through what the distribution of revenue will look like given the lack of the SCAR revenues coming through in the first half of the year.

Operator: Thank you. One moment for our next question, that comes from the line of Brian Dobson with Clear Street. Please proceed.

Brian Dobson

Analyst, Clear Street LLC

Q

Hey, thanks very much and good evening. So, as you're looking at the BlueHalo portfolio, I guess what products are you most excited about and how do you expect I guess demand for those products to ramp over the next several years? What are you really looking for?

Wahid Nawabi

Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

Thanks, Brian. So for me, it's always very difficult to pick favorites between our products. I consider them like our kids, and it's really hard to do a favoritism towards one or the other because they all have their own unique value propositions and position in the market. But if you were to ask me in terms of real potential for game-changing capabilities, BlueHalo already is contributing significantly, for example, to our RF jamming and detect systems in the counter-UAS category with our Titan series. That is one of the fastest-growing products in our entire portfolio as a combined entity, and it's one of our more profitable products, if the most profitable product lines that we have. So BlueHalo has done a fantastic job on that.

Very close second to that would be the LOCUST Laser Weapon Systems. The LOCUST Laser Weapon System is at the infancy, as I said on my remarks, of its adoption cycle. I personally believe that that's \$1 billion to a multibillion-dollar market opportunity over the next five-plus years and I think that we're at a cusp of that inflection point this year.

There is a very important program of record that the US Army has called E-HEL or Enduring-High Energy Lasers (sic) [Laser] (01:19:25), and we are anticipating a decision on that, we're competing on that program. It's supposed to be, based on the Army's announcements, about \$0.5 billion program in size, total, and they have so far indicated that they are going to announce that and award that in the next few months.

That is going to be an inflection point because it's the first of its kind program of record in the US Department of War's, basically history on a production level, laser weapon system. And it's a holy grail. It's a whole new category that is going to be created as a result of it. And we all know the threat and the kind of demand that there is for defending against drones at low cost and with unlimited magazine.

And I would also point out two other things real quick. Our laser communication terminals is the – one of the best, if not the best in the world, and we're the leader in that space. That's also at its infancy. And then lastly, the Freedom Eagle-1. We are now entering a new category that AV historically has never played in, truly being a full [ph] upground (01:20:37) missile producer.

And we're ramping that up today, this year. We're investing significant dollars on production and manufacturing, and we're aggressively tackling the testing and validation phase because the US Army is pushing us really hard to go faster, and we are. And it's going to be at an unprecedented, like sort of speed of -- from the time that we started this program until we're going to get to production. It's nearly like two years or so. That's unprecedented in missile categories in the history of the department.

And so we're pleased with that because I think it opens up a whole new category for us in the long run, and I'm really bullish about that as well. So you can see it's really difficult to win -- to pick which one is going to be best. They all have their own strong profiles of value creation and we're very happy with them.

Operator: Thank you. And our last question comes from the line of Austin Moeller with Canaccord Genuity. Please proceed.

Austin Moeller

Analyst, Canaccord Genuity LLC

Q

Hi, Wahid and Sean. So just my first question here, I understand you think that the regular Defense budget probably won't be passed until probably the winter or into the new calendar year. But if the up to \$350 billion reconciliation bill is passed before the midterms and we see more demand from a contracting perspective for uncrewed aircraft systems product sales in the mix, how should we be thinking about the gross margin potential that we could see in the fiscal if that occurs?

Wahid Nawabi

Chairman, President & Chief Executive Officer, AeroVironment, Inc.

A

So, good afternoon, Austin. Thank you for the question, and you've actually caught something really important in this discussion, which is besides the regular budget, there's also a reconciliation bill in front of Congress, which has historic a dollar -- amounts of dollars, in the billions of dollars, as you mentioned, for primarily a lot of the categories that we're the leader or one of the key, key players in the market and providers in the market.

So the range of outcomes there, Austin, is very wide and quite favorable in many ways, but it's really hard to count on the timing of that. The best indicators that we have, that, that is also going to be delayed given the election cycle and given how the Congress is engaging themselves in the bills and in the approval of the budgets. So we are cautiously optimistic. Long term, we're going to do really well. But first quarter, second quarter, it's really hard to predict that because it's really difficult to know exactly when these budgets are going to pass, so we're not really assuming that some of that is going to come through.

If that situation changes positively, of course, we're going to update you, and it will have a positive impact. We believe that it should and it could have a positive impact, both on top line revenue and on the profitability profile because we're producing these things and our margin profile on these are really good and our pricing is quite competitive in the market. And so we look forward to hopefully you being right and that scenario coming to fruition and keeping you guys updated.

Operator: Thank you. And this will conclude the Q&A session. I will turn the call back to Denise for final comments.

Denise Pacioni

Director-Investor Relations, AeroVironment, Inc.

Thank you once again for joining today's conference call and for our interest in AV. As a reminder, an archived version of this call, SEC filings and relevant news can be found under the Investor section of our website. We hope you enjoy the rest of your evening and we look forward to speaking with you again following next quarter's results.

Operator: This concludes our conference. You may now disconnect.

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