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CORPORATE PARTICIPANTS

Denise Pacioni *AeroVironment Inc - Director of Investor Relations*

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

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

CONFERENCE CALL PARTICIPANTS

Louie DiPalma *William Blair - Analyst*

Greg Konrad *Jefferies Group LLC - Analyst*

Peter Arment *Baird - Analyst*

Steve Strackhouse *RBC Capital Markets - Analyst*

Andre Madrid *BTIG LLC - Analyst*

Pete Skibitski *Alembic Global - Analyst*

Jonathan Siegman *Stifel - Analyst*

PRESENTATION

Operator

Good day and thank you for standing by. Welcome to AeroVironment's fourth quarter and full fiscal year 2025 earnings conference call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Director of Investor Relations, Denise Pacioni.

Denise Pacioni - *AeroVironment Inc - Director of Investor Relations*

Thank you and good afternoon, ladies and gentlemen. Welcome to AeroVironment's fourth quarter and full fiscal year 2025 Earnings Call. My name is Denise Pacioni, Director of Investor Relations for AeroVironment. 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 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 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 & presentations. The content of this conference call contains time-sensitive information that is accurate only as of today, June 24, 2025.

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 AeroVironment are Chairman, President and Chief Executive Officer, Mr. Wahid Nawabi; and Executive 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, Denise. Welcome, everyone, to our fourth quarter and fiscal year 2025 earnings conference call. I will start by summarizing our quarterly and full year performance, followed by Kevin, who will review our financial results in greater detail and provide guidance for fiscal year 2026. I will then provide a summary of our key messages. And finally, Kevin, Denise and I will take your questions.

Please be aware that our fourth quarter and fiscal year 2025 financial results do not include any financial activity from BlueHalo acquisition except for pre-closing deal and integration-related expenses. I'm pleased to report that once again we have achieved another record fourth quarter and full year results, exceeding our expectations while positioning us for even greater long-term profitable growth.

We had an incredible year marked by robust demand for our innovative solutions, which enabled us to achieve double-digit organic revenue growth and significant increase in profitability. Our investments in all business segments helped drive demand for our products, which led to key domestic and international wins and enabled us to launch three new groundbreaking products this year, namely the P550, the JUMP 20x and the Red Dragon.

Now I would like to highlight our key messages for fiscal year 2025, which are included on slide number 3 of our earnings presentation. First, we achieved record fiscal year revenue of $821 million, which is 14% higher than the prior year period, and record fourth quarter revenues of $275 million, which is 40% higher than prior year period. Second, in fiscal year 2025, we secured $1.2 billion in total bookings, underscoring the robust demand for our innovative and battle-proven solutions.

Third, we ended fiscal year '25 with funded backlog of $726 million, which is 82% higher than the prior fiscal year. Fourth, we closed our acquisition of BlueHalo, further strengthening our industry-leading position as the next-generation defense tech prime, with an all-domain portfolio of innovative solutions across air, land, sea, space and cyber.

And fifth, we are confident AV is better positioned than ever as a result of important company milestones we achieved throughout the fiscal year, and we're setting our fiscal year '26 revenue guidance between $1.9 billion to $2 billion. Let me be clear in a growing and evolving market, AV's 50-plus years of proven track record of delivering next-generation solutions with a proven ability to manufacture at scale remain key differentiators that sets us apart.

We've been working side by side with our customers in the battlefields to help them find and deliver solutions, which are shaped by real-world threats they face. Over the past decade alone, we have invested nearly $2 billion in R&D to develop disruptive software-defined hardware solutions. And we believe we remain extremely well positioned to meet our customers' rising demands by delivering them the best-in-class solutions aligned with their needs.

As an example, this past fiscal year, we introduced three significant new products that are directly aligned to our customers' highest priorities. The first is our new Group 2 AI-driven autonomous UAS, the P550, which leverages a modular open-system approach. Second, we unveiled our JUMP 20x, which is a vertical takeoff and landing, or VITOL, Medium Uncrewed Aircraft System, or MUAS, engineered to revolutionize Shipboard UAS operations.

With an advanced heavy-fuel engine and fully autonomous takeoff and landing on a moving small battleship, JUMP 20X enhances operational flexibility, simplifies refueling logistics and ensures mission adaptability across diverse maritime and expeditionary environments. And finally, we introduced our new one-way attack drone solution, Red Dragon, which is a fully autonomous-capable GPS-denied one-way attack UAS that directly ties to the needs of our US Department of Defense customers.

As demand for our new and existing solutions continues to rise, we remain confident in our robust manufacturing capacity to scale at affordable cost to meet our customers' urgent needs. We are confident that we're well positioned for strong organic growth in fiscal year 2026 and beyond. With that, now I would like to provide updates on each of our three business segments, starting with Loitering Munition Systems, or LMS.

Our LMS segment continues to drive expansive growth for the company. LMS revenues for the fourth quarter rose 87% to $138 million, and for the full fiscal year revenues of $352 million were 83% higher. Fiscal year '25 reiterated the importance and effectiveness of all our Switchblade family of solutions. This fiscal year, we secured a total of $477 million in funded contract awards.

We also secured the single largest award in our 54-year history with the Farmers Army IDIQ contract for Switchblade products and services valued at nearly $1 billion. International demand for our Switchblade products also remain strong. There are now eight countries that have placed firm initial orders and an additional eight allies actively engaged in the foreign military sales process.

With demand for Switchblade on the rise, we remain active in our manufacturing facility expansion efforts in Utah and expect to have initial production capability by the end of this fiscal year. This new production facility will enable us to support more than $1 billion in annual Switchblade revenues. Now on to our Uncrewed Systems segment, or UxS.

Our UxS segment posted fourth quarter revenues of $113 million, which is higher than the prior year period by nearly 9%. For the full fiscal year, revenues were slightly lower than the same period last year at $382 million. The Puma AE UAS, a multibillion-dollar product franchise for AV, remains a profitable and sustainable growth driver for the company. As I mentioned earlier, we introduced our new P550 UAS this past fiscal year.

Our P550 will continue to lead the entire small UAS industry with many unique features, and we're expanding our manufacturing capacity in anticipation of increased demand. As we noted last quarter, the Department of Defense announced two programs worth over $1 billion in value. We're confident our P550 solution will compete effectively and win key contracts.

Our Group 3 medium UAS, JUMP 20, has gained significant traction, particularly in the international marketplace. Most recently, we secured a $46 million contract with the Italian Ministry of Defense. Maritime efforts on the JUMP 20X are progressing, and we anticipate strong interest and demand for this in the near future.

Additionally, our Uncrewed Ground Vehicle, or UGV, business received a contract to deliver 41 UGVs to the German Federal Armed Forces with deliveries scheduled for the summer of 2025 through 2027. This represents one of the largest UGV awards in our company's history. We remain confident in our UxS segment's long-term outlook due to market growth, key contract wins and expanding international opportunities.

Moving now to our MacCready Works segment. MacCready Works continues to develop industry-leading, next-generation solutions and is driving force -- is the driving force behind our latest one-way attack drone, Red Dragon. Revenues for the fourth quarter rose 24% to $24 million. For the full fiscal year, revenues were $87 million, which was 14% higher than the prior year period.

As stated earlier, Red Dragon is a fully autonomous-capable, software-defined uncrewed aircraft system that can operate in high-threat, GPS-denied and communication-degraded environments. This cutting-edge solution includes AV's AVACORE autonomous flight software suite and AV's SPOTR-Edge perception system, which we believe are the most advanced technologies in the battlefield today.

Red Dragon provides critical advantages to warfighters. It is designed to be mass produced affordably and can be deployed across land and sea. Red Dragon is now part of our Precision Strike and Counter UAS group under our Autonomous Systems segment. MacCready Works continues to push the boundaries on leading-edge technologies, and we anticipate many more solutions from this group in the future.

With an excellent fiscal year '25 behind us, we are now setting our sights on further growth as a combined company for fiscal year 2026 and beyond. Having successfully completed the largest acquisition in our company's history with the addition of BlueHalo, our position as the proven defense tech leader. We're now better equipped to provide our nation and our allies around the world with new disruptive solutions they need.

Our integrated capabilities across every domain, including air, land, sea, space and cyber as well as our innovation engine, coupled with the ability to scale positions us to address emerging global priorities and meet rising demand. As an example, recently, the US Department of Defense reiterated the importance our solutions and capabilities play in national defense strategy from precision fires and loitering munitions, autonomous counter UAS and to space technologies, cybersecurity solutions and advanced munitions.

As we look ahead and to better align with customer missions in our financial reporting structure, starting in fiscal year 2026, we will operate under two distinct business segments. The first is Autonomous Systems, which encompasses uncrewed systems or Group 1 through three UAS, precision strike and one-way attack systems, including Switchblade loitering munitions and Red Dragon, defensive systems or counter UAS solutions that use both radiofrequency sensors and advanced electronic warfare capabilities.

Ground and maritime robotic solutions, and MacCready Works, the company's innovation engine where autonomy, AI and advanced platform technologies converge to deliver next-generation capabilities. The second segment is space, cyber and directed energy, which encompasses space technologies, directed energy solutions, cyber solutions and mission services.

By adding space technologies, Counter-UAS directed energy, electronic warfare and cyber solutions to our cutting-edge and battle-proven offerings, we have expanded our growth opportunity in a market fueled by strong tailwinds and now offer a comprehensive set of solutions across all domains air, land, sea, space and cyber. With more than 50,000 platforms already fielded and performing in high-demand environments, AV now exports systems to more than 100 allies around the world.

Since the close of BlueHalo acquisition, we've been working tirelessly on integration and we're very excited to finally be one AV team. With that, I would like to now turn the call over to Kevin McDonnell for a review of our fourth quarter and full year financials. Kevin?

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

Thank you, Wahid. Today, I will be reviewing the highlights of our fourth quarter performance, during which I will occasionally refer to both our press release and earnings presentation available on our website. Just to remind you that we closed our BlueHalo acquisition on May 1, so the results for Q4 and FY '25 do not include any financial activity from BlueHalo except pre-closing, deal and integration expenses.

We ended a record year with a record quarter in terms of revenue and adjusted EBITDA. This is the third consecutive year we've met or exceeded our initial annual revenue and adjusted EBITDA guidance. This has been challenging in terms of quarterly year-over-year comparisons, but it's gratifying to end the year with a strong fourth quarter and achieve our annual goals.

I'll briefly comment on our results for the quarter and the year and spend a bit more time providing some guidance for FY '26 since the financial landscape of the company will change significantly. As Wahid mentioned in his remarks, we ended the year with a record $275 million of revenue in the fourth quarter, which represented a 40% increase over the prior year.

This completed a record year at $821 million in revenue, which represents 14% growth despite the challenges of reduced revenues to Ukraine. Ukraine revenues in FY '25 end up being at 18% of total revenue for the year and 12% of revenue in the quarter. We expect Ukraine revenue to be less than 5% in FY '26. However, it should be noted we continue to receive orders for upgrades to their Puma fleet and for Switchblade.

It's interesting to note that 52% of the company's revenues were from international customers, of which a little over 24% came from non-Ukraine European customers. We continue to demonstrate a strong international franchise for our Puma, Switchblade and JUMP 20 product lines. In fact, we received orders from eight countries for Switchblade products with nearly $0.25 billion in FY '25, and the JUMP 20 received nearly $100 million of orders in the fourth quarter alone, from which over half came from international customers.

As Wahid mentioned, LMS ended the year strong with $138.3 million in revenue in the quarter, of which about 80% came from Switchblade 600 product. UxS had a strong quarter at $112.6 million, which represented 9% year-over-year growth, led by revenues from Puma products represented over 50% of the UxS revenue, and the JUMP 20, almost 20% of the total segment revenue. In terms of adjusted EBITDA, slides 13 and 14 of our earnings presentation shows a reconciliation of GAAP gross margins to adjusted gross margins and net income to adjusted EBITDA.

Adjusted EBITDA for Q4 was $61.6 million, up from last year's Q4 of $22.2 million, driven by higher revenue, higher gross margins and lower investments in R&D spending, partially offset by higher SG&A expenses. Full year adjusted EBITDA was $146.4 million, which is 17.8% of revenue and a 15% increase in EBITDA over FY '24.

In terms of the fourth quarter, consolidated GAAP gross margins finished at 36%, which is more than the fourth quarter last year primarily due to a $4.6 million negative impact due to non-cash accelerated intangible amortization expenses related to our UGV business. Fourth quarter adjusted gross margins were 39%, a decrease from the 40% for the same period last year due to a change in sales mix and lower service margin.

Adjusted product gross margins were flat, while service gross margins were down 8% primarily due to service mix. Full year fiscal 2025 gross margins were at 41.2% versus 41.5% in fiscal 2024. While adjusted product gross margins improved year-over-year from 43.3% to 43.8%, the 6% decline in adjusted service gross margins resulted in the slight decline in overall adjusted gross margins.

Moving to operating expenses. Reported GAAP SG&A for the quarter was $43.3 million, but this includes $5.6 million for deal and integration costs, $2.1 million for a legal accrual and $0.8 million of intangible amortization. Net of these items, SG&A for the quarter was $34.8 million compared to $32.7 million for the prior year in the same period, a 6% increase.

For fiscal 2025, SG&A net of these same types of adjustments was $133 million versus $107.3 million in FY '24 or 16% of revenue in FY '25 and 15% of revenue in FY '24. The increased SG&A is -- largely was driven by increased global sales footprint, and more importantly, increased bid and proposal activity. R&D expense for the fourth quarter was $25 million or 9% of revenue compared to $35 million or 18% of revenue in the prior year.

The large year-over-year reduction in R&D was a result of the HAPS flight testing, which occurred in Q4 of FY '24. Total R&D spend for 2025 ended at 12% of total revenue and within the 12% to 13% range of our initial guidance. Now turning to GAAP earnings. In the fourth quarter, the company generated net income of $16.7 million versus net income of $6 million recorded in the same period last year.

The increase in net income of $10.6 million can be attributed to a $36.3 million increase income from ongoing and business activities offset by non-recurring expense from an $18.4 million goodwill impairment in the UGV business, a $5.2 million increase in deal and integration expenses and a $2.1 million legal accrual. For the full year, the company generated net income of $43.6 million versus net income of $59.7 million in FY '24.

The decrease in net income of $16 million can be attributed to additional income from normal business activities at $21.7 million, more than offset by the $18.4 million goodwill impairment, $17.2 million increase in deal integration costs and a $2.1 million legal accrual. Slide 12 shows the reconciliation of GAAP and adjusted or non-GAAP diluted EPS.

The company posted adjusted earnings per diluted share of $1.61 for the fourth quarter of fiscal 2025 versus $0.43 diluted share for the fourth quarter of fiscal 2024. Moving to the balance sheet at the close of fourth quarter, our total cash and investments amounted to $72.5 million, in line with the same amount at the end of the third quarter of fiscal 2025.

Unbilled receivables increased $60 million during the fourth quarter. The increase is largely attributed to the LMS business as the volume in process Switchblade has reached record levels. Contract definitizations, except testing schedules and new payment terms have unfavorably impacted the near-term working capital. We expect favorable improvements to these working capital balances in early FY '26.

I should note that after the quarter ended as part of the BlueHalo transaction, at closing, we paid off the acquired company's debt and transaction expenses, which totaled $925 million, utilizing our $700 million loan facility and part of our $350 million revolving credit facility. Turning now to backlog, our funded backlog at the end of the fourth quarter of fiscal 2025 finished at a record $726.6 million, thanks to a record $1.2 billion in bookings in fiscal 2025.

Finally, I'd like to discuss the reporting structure going forward and provide you our FY '26 guidance. As Wahid mentioned earlier, AV will now operate under two reporting segments. These descriptions as well as the pro forma FY '25 information for each segment can be found on slide 10 of the presentation. Total pro forma revenue for 2025 was approximately $1.7 billion for the combined businesses.

Our first segment, Autonomous Systems, or AxS, will be led by Trace Stevenson, who formerly led AV's Uncrewed Systems segment. The AxS segment is basically the legacy AV business, adding encounter UAS RF, maritime robotics and electronic warfare businesses from legacy BlueHalo. The total pro forma FY '25 revenue for AxS segment is just over $1 billion.

Our second segment is Space, Cyber Directed Energy, or SCDE, and is led by Trip Ferguson, who formerly was the Chief Operating Officer for BlueHalo. The pro forma FY '25 revenue for the SCDE segment is $646 million. Starting in the first quarter of fiscal 2026, our earnings results will include aggregated revenue performance for each of the revenue categories listed on slide 10 under the two product segments.

Now into fiscal 2026 guidance. On page 8 of the presentation, we provide fiscal 2026 guidance inclusive of the recent acquisition of BlueHalo, which closed May 1, 2025. Given the shift in our financial model, we are giving more color on the guidance for the year. Fiscal year revenue is expected to be between $1.9 billion and $2 billion, adjusted EBITDA between $300 million and $320 million and non-GAAP adjusted EPS between $2.80 and $3.

The midpoint of our revenue guidance range represents nearly 15% growth over the pro forma FY '25 results. Our visibility to the midpoint of the revenue guidance is at 70%, which is higher -- at the higher end of our historical range at this point during the year. We expect adjusted gross margins to remain at 29% to 31%. Adjusted gross margins for the first half of fiscal -- of the fiscal year should be in the high 20% range, moving toward the low 30% as -- throughout the year.

R&D expenses is expected to remain at 6% to 7% of revenue and BlueHalo deal integration expenses at a range of $40 million to $45 million, of which approximately $20 million is related to deal closing costs. The revenue for the year is 45% for the first half of the year and 55% for the second half. Overall adjusted EBITDA percentage of revenue for the year is approximately 16% at the midpoint of the guidance range.

This should trend by quarter from 10% to 12% in Q1, trending up to the high teens in the third and fourth quarters as we start to realize synergies, a higher proportion of product sales and increased revenue levels. Slide 10 further breaks down the expected fiscal 2026 revenue by business segment. Autonomous Systems fiscal year revenue is expected to be between $1.2 billion and $1.4 billion, representing over 20% growth versus pro forma FY '25.

And space, cyber and directed energy fiscal year 2026 revenue expected to be between $700 million and $900 million, representing double-digit growth versus pro forma FY '25. I'd like to close by Wahid remarks. We are very well aligned with the US DoD priorities and those of its allies and are excited about our prospects.

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

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

Thanks, Kevin. Before turning the call over for questions, I would like to reiterate the incredible positive momentum we've achieved while entering fiscal year 2026. First, we achieved record fiscal year '25 revenues of $821 million, which is 14% higher than the prior year period. And record fourth quarter revenues of $275 million, which is 40% higher than the prior year period.

Second, in fiscal year '25, we secured $1.2 billion in total bookings, underscoring the robust demand for our innovative and battle-proven solutions. Third, we ended fiscal year '25 with funded backlog of $726 million, which is 82% higher than the prior fiscal year. Fourth, we closed our acquisition of BlueHalo, further strengthening our industry-leading position as the next-gen defense tech prime with an all-domain portfolio of innovative solutions across air, land, sea, space and cyber well aligned to our customers' highest priorities.

And fifth, we are confident AV is better positioned than ever as a result of important company milestones we achieved throughout the fiscal year. And we're setting our fiscal year '26 revenue guidance between $1.9 billion and $2 billion. Our decades worth of investing in autonomous systems has paved the way for our industry, and we will continue to lead with best-in-class solutions that are aligned to our customers' needs.

We are encouraged by the current administration's ambition for deploying defensive assets our warfighters desperately need, and we stand ready to deliver as we have always done. We're honored to support the most critical defense missions of our nation at this pivotal moment. I want to thank our employees, shareholders and customers for their continued commitment to AV and our mission.

We would not be in the position we are today without them. Together with BlueHalo, we're poised to seize these incredible opportunities to realize the benefits from adding their capabilities across space technologies, counter UAS directed energy, electronic warfare and cyber solutions to AV's existing robust portfolio.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Louie DiPalma, William Blair.

Louie DiPalma - *William Blair - Analyst*

Wahid, Kevin and Denise, congrats on closing the major acquisition.

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

Thank you, Louie.

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

Thank you, Louie.

Louie DiPalma - *William Blair - Analyst*

For Wahid, the fourth quarter demonstrated pretty robust Switchblade growth. Can you discuss your view of the Army's announcement of their transformation initiative that came out last month and the report that the Army wants to outfit combat divisions with more than 1,000 drones?

And can you discuss that in the context of how the Army has already ordered thousands of Switchblades from AeroVironment and thousands of Pumas in the past? And so do you view this Army transformation initiative as incremental to what you've already provided for them?

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

Thank you, Louie. Yes, first of all, we are very, very pleased with the results that we delivered in the fourth quarter, setting another record for the quarter as well as for the year, not only our overall business, but as you mentioned, in loitering munition. I mean that business is growing rapidly. And on fourth quarter, we grew over 83%, as you saw.

And another key figure that's really important is that throughout fiscal year 2025, not only do we book a record $1.2 billion worth of new orders -- funded bookings, but the LMS business or segment alone booked close to $477 million in contract awards. And it's a variety of mix of customers, some for the US Army, some part of the Replicator initiative of the US Pentagon, international customers about ADM so far.

And all of that means that we have tremendous momentum with our LMS business going forward. We expect that business to continue to grow. Specific to your question related to the US Army's robotics or transformation, General George has made a very clear statement and so has the Secretary of the Army that they would like to shift and modernize the US Army and there is significant potential upside.

And the key areas that they would like to modernize and transform the US Army, one of them is related to loitering munitions, drones, counter UAS and counter drones, directed energy and RF-jamming capabilities, such as our Titan solution set from BlueHalo. So if you look at the priorities of the US DoD and its US Army, AV is positioned incredibly well.

Not only do we represent more than 2/3 or 3/4 of the US DoD's priorities and the Army's priorities, we also are very unique because we have the capabilities that we can deliver today with that -- we have the production capacity to deliver to make them and produce them at scale, which we've done in the past, and our systems are battle-tested and proven.

So my -- so the short answer is yes, we expect additional incremental opportunities. Details of that is not well known yet, but I think the momentum is very much on our back. And I think the loitering munition business is going to continue to grow.

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

That also includes counter UAS in the army transformation, too.

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

That's right.

Louie DiPalma - *William Blair - Analyst*

Great. That makes sense. And another question. You guys discussed the very strong foreign military sales pipeline and how I think you are shipping the Switchblade to 8 countries, and you are involved in negotiations with another eight. And so I'm just wondering, was there a write-down in the unfunded backlog? And was that write-down related to foreign military sales and the different policies under the new administration?

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

No. Louie, the answer is no. We did not have any write-downs related to our LMS business or FMS sales on our financials this quarter at all. The LMS business is doing great. We have a lot of momentum behind it. We continue to work with more and more countries and allies who want to get Switchblades into their hands of their warfighters.

And I believe the opportunity is just beginning and that trend is going to continue over several years in the future. We're positioned very, very well. But no write-downs related to LMS business in the fourth quarter.

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

Well, the unfunded backlog converts to funded backlog during the period. So --

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

That's right.

Louie DiPalma - *William Blair - Analyst*

Okay. Yes. Investors were just wondering on a sequential basis, the total backlog adding funded and unfunded went down significantly. And so was there any write-downs in terms of -- or was just everything just unfunded converted to funded and then there was the revenue burn associated with the backlog?

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

No. I mean, like I said, it really just with a conversion of the unfunded to funded orders during the period and revenue.

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

And if you know -- Louie, if you recall, earlier this last fiscal year, we had a nearly $1 billion sole-source IDIQ for the US Army that I mentioned in my remarks. And when -- as the US Army places orders farm-funded orders against that, it converts from unfunded to funded backlog. So that dynamic has been occurring for the last few years.

And we explained specifically that, that multi-year IDIQ award from the US Army for nearly $1 billion is specifically intended to achieve that, because they would like to make sure that we easily can put things on contract and convert them into funded backlog. And we're going to continue to see more orders in the future for our loitering munitions in fiscal year 2026.

Louie DiPalma - *William Blair - Analyst*

Okay. Great. And one last one, if I may. Has -- is there still a significant market opportunity for the P550? And you -- can you just discuss the broad market opportunity for both the P550 and the Red Dragon, which I don't think have generated any revenue for you yet. But they seem to have significant potential for fiscal '26?

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

Yes. So first about P550, as I mentioned in the remarks, we introduced three groundbreaking products, 2 of which you just mentioned, and the third one is the JUMP 20x Group 3 UAS. On P550, we expect that product to do extremely well. We're positioned really well. The US Army has announced multiple programs, at least two, one of which were expected to be down selected and received an order for essentially in the next two quarters.

And that's our LRR program of record potentially, which is worth about $1 billion by itself. Besides that, the international demand for P550 has been tremendous so far. There's a lot of interest in it. And we expect to book our first initial order, most likely from an international customer this first quarter or the next quarter after that.

So we expect the P550 to do very well. It is a very large market there. There's a growing demand. And let me just remind everyone again that the P550 is an incredibly capable solution. It is incredibly disruptive, the economics of it. The multi-payload and multi-mission aspect of its features is uniquely positions it to be a very competitive offering.

So we feel very good about the P550. In regards to the Red Dragon, we actually have some revenue. It's part of our MacCready Works so far. But in the future, it will be reflected as part of our segment, one that I described under the precision munitions and fires. So we do have initial revenue, but that product is expected to do really well long term. It's just at the early stages.

It is a capability that is highly differentiated. And it's -- there is a lot of interest in that capability and not only domestically but also internationally. So we feel pretty strongly, really well, as I mentioned in my remarks, in all of our three new products that we launched. We believe that in the next two to three years, these products will generate hundreds and hundreds of millions of dollars, if not billion-dollar-plus worth of backlog for our company to execute against going forward.

Operator

Greg Konrad, Jefferies.

Greg Konrad - *Jefferies Group LLC - Analyst*

Maybe just to start with a clarification on the revenue guidance. If I look at the bottom end of autonomous and space, it adds to the $1.9 billion. But if you look at the upper end, autonomous at $1.4 billion, space cyber at $0.8 billion, it adds to $2.2 billion. Is that conservative? Is there any type of intercompany elimination? Just kind of what drives that rents lower than the segments?

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

I mean these are obviously ranges of potential outcomes. I mean we don't operate with large programs of record. So if things go the right way, they'll be at the higher end of the ranges. And if -- just in business in general, some areas go better than others and others overperform and underperform. So there's obviously opportunity to hit them both at the higher end of the range. But in terms of the total, we've taken some judgment on the totals.

Greg Konrad - *Jefferies Group LLC - Analyst*

And then it's been a little bit less than two months of ownership with BlueHalo. I mean, I think that the guidance excludes some of the potential expenses and amortization. Did you include anything in the way of either revenue synergies or cost synergies in terms of the '26 outlook?

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

We -- as we've put in the S-4, we had some cost synergies projected. We'll be able to achieve those. But obviously, you don't get the full benefit of those until -- for the full year. And as I said in my remarks, we'll begin to realize that throughout the year and kind of hit our original $10-plus million target for the first year. We -- in some ways, we have some revenue synergies, but it's going to take some time for those to fully play out before we can put those into our forecast and guidance and things like that.

So we're still early days here, but there's lots of opportunity, lots of excitement about the things we can do together, but haven't had a chance really to start monetizing that in our forecast.

Greg Konrad - *Jefferies Group LLC - Analyst*

And then maybe just last one for me. In terms of the 70% visibility going into the year, I think you mentioned that's above where you typically guide. Can you maybe talk to the drivers of that? Does BlueHalo have higher visibility? Did you take a more conservative route in terms of guidance? What kind of drives that higher visibility into '26 at 70%?

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

Well, the visibility is similar between the two segments. There is -- when you look at the Space, Cyber and Directed Energy segment, particularly on the cyber side, they operate off of longer-term contracts with task orders. So there's somewhat more visibility on those. It's not reselling every quarter for them. So they have ongoing relationships there that we forecast in our revenue. But other than that, it's pretty much the same or very similar in terms of percentage of visibility.

Operator

Peter Arment, Baird.

Peter Arment - *Baird - Analyst*

On the -- just kind of focusing on the guidance, I guess, in the individual segments. When you look at autonomous, the year-over-year kind of growth range is quite wide from the -- kind of the pro forma number that you provided, the 14% on the lower end and 33% the higher end. Wahid, is it just assumptions around what LMS volumes can be in Switchblade or maybe first orders for P550? What are some of the kind of key drivers that affect the lower end of the range and the higher end of the range?

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

Really, Peter, it has to do primarily with the US DoD contracting and timing of these contracts and awards that drives a lot of that range -- the spread of the range. So we are ready. We have the capacity as a company. We've been -- one of the key differentiators that we have is our ability to turn around and convert backlog or orders into revenue.

That is one of our key competitive differentiators and also have the ability to scale quickly and produce at mass and volumes. But -- however, what we can't really predict effectively, which is really difficult in the entire industry, is how does the US DoD funding and budgets, the congressional approvals and all of that works out, it plays out and eventually makes it into a contract to us.

So those are the primary reasons for the range of outcomes and the spread of that range with essentially both segments but more acutely into our Autonomous Systems segment. Overall, we feel very strong because if the timing of Congress, the signing of the President's budget and the DoD converting it into contracts happens in a timely manner, we could have a significantly strong year.

But it is too early to predict that, and we're just getting started. What we really want to work on is long-term consistent double-digit profitable growth, which is a great position to be for us given the backlog and the opportunity that we've developed.

Peter Arment - *Baird - Analyst*

Yes. That's helpful color. And then just on -- you mentioned the budgets. Just have you had a chance to evaluate kind of some of the key BlueHalo portfolio programs, how they've stood up under the budgets? I know the directed energy solutions and the car program certainly have gotten a lot of attention recently.

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

Absolutely. So we've purpose-built our company from the ground up to be ready for this moment, I call it. This is our moment. We have an incredible opportunity in front of us. We represent more than 2/3 of the Secretary of Defense's priorities. If you look at any documents from Congress, from the National Defense strategy, from the administration or from the Pentagon, you will see from almost pretty -- almost all the services and the COCOMs.

You will see that the categories that we play in and we lead and we have the ability to deliver and scale are categories that is important to national security. And what are those? Drones, counter drones, direct energy, laser communications, space communications, electronic warfare. All of these are things that -- and one-way attack. These are the categories that we, in many cases, invented or we're the leader in.

And so we're positioned very, very well on those categories. And I think that we have many years of very strong potential performance and value-creation opportunity here in front of us.

Operator

Ken Herbert, RBC Capital Markets.

Steve Strackhouse - *RBC Capital Markets - Analyst*

This is Steve Strackhouse on for Ken Herbert. Congrats on the closing of BlueHalo, but I was hoping you guys could dive a little further into the FY '26 outlook. How much of the revenue is stemming from the organic legacy AV versus BlueHalo? If you can give some color there.

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

Well, I think we tried to provide the pro formas in the guidance. So you can see on that, I think it's slide 10. We show the pie chart with the different revenue levels for the different product groupings. Those are the pro forma FY '25 revenues for each of those groupings. So anything -- all the growth that we're forecasting is from those pro forma revenues.

And so you're looking at over 20% growth to the midpoint of the Autonomous Systems Group and over double digit for the space, Cyber and Directed Energy group.

Steve Strackhouse - *RBC Capital Markets - Analyst*

Okay. That's helpful. And then maybe just as a follow-up. Can you maybe discuss the profitability across the two segments? You guys have previously -- you used to give like either an adjusted operating income or gross profit across the two. Should they be about the same? Or is there a different way to kind of think about each of them?

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

Well, I think we're not really giving guidance on the breakout of the -- say, adjusted EBITDA. That will be reported on a quarterly basis for each of the segments. But I would say, as I said in my remarks, the AxS segment is very similar to the to the existing AV business in terms of its profitability profile. So that's 1/2 I'm giving you.

Steve Strackhouse - *RBC Capital Markets - Analyst*

Fair enough. And then maybe if I could just ask one more just in terms of the free cash outlook for the year. I don't think I saw that as part of the guide. Should we assume that it's maybe somewhat similar to FY '25? I can appreciate that there's a lot of moving pieces here.

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

Well, we definitely have some opportunities on the working capital front, as I outlined in the script. And we're very hopeful that we actually generate some cash on working capital this year. We do have a fair amount of capital expenditures expected in the year, but we're looking for a positive cash conversion this year versus last year.

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

And that's all because of the fact that we're growing and we're making sure that we invest in the areas that allows us to continue to grow and capitalize on these very large opportunities in the future. We are deliberately investing.

And as you could see from our track record, the areas that we invested, whether it's R&D or capital, have actually panned out and delivered incredible good value and created value for our company. So I think we want to continue to do that because we're in a very, very good position to capitalize on these opportunities.

Operator

Andre Madrid, BTIG.

Andre Madrid - *BTIG LLC - Analyst*

We're seeing now it's looking like NATO might move to 5% GDP spending pledge given how much of a sizable portion of sales international is becoming specifically amongst NATO customers. I mean, what's your initial assessment on what the impact of this 5% pledge could be if it does get moved through?

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

Andre, that's an excellent point and question. We believe that, as we mentioned in my remarks and in Kevin's remarks, we already do quite a lot of business internationally. And we continue to see more and more demand for our systems primarily in Europe, but beyond Europe, even in Asia Pacific as well. The world, unfortunately, is not a safer place than we all wish. There's lots of challenges.

There's lots of conflicts. The recent wars and attacks you've seen has basically put an exclamation mark on what you can do with the type of capabilities that we're the leader in. And all of that equates into a very, very large seismic shift in demand and opportunity for us internationally. It's going to take some time. We're going to continue to invest in being more present in Europe.

As you know, we already have a subsidiary in Germany. We have a legal entity as well in other parts of Europe, but we want to continue to expand there to capitalize on this. The reason why we are more even bullish on this is because we're uniquely positioned to be able to deliver. Most of these countries want to spend these dollars quickly because they lack these capabilities today in mass and volume. Our systems are battle-proven and tested.

They work. They have seen its effectiveness, and they trust our company and delivering these systems for decades. And so I think we're incredibly positioned well to be able to capitalize on this opportunity because we can deliver at scale and we are trusted in our solutions do work. So I think that's going to be a trend you're going to continue to see on essentially all of our products, not just on our loitering munitions but our nonlethal drones, on our counter UAS solution set, on our direct energy solutions.

Even our space communication technologies has incredible opportunities ahead of it in the space domain globally and internationally, especially with the European countries.

Andre Madrid - *BTIG LLC - Analyst*

Got it. Super helpful. Moving, I guess, to Red Dragon, Wahid. I know we've spoken on this one. But could you maybe just break down a little bit more about what that TAM looks like? I know with Switchblade, you guys have approval to sell to 50 allied nations. But I remember our conversation, it seems like those same restrictions are not imposed on Red Dragon given the ITAR regulations at play. I mean maybe just provide some more detail, if possible.

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

Sure. So as you all know, we introduced Red Dragon just a few -- a couple of months ago. We do believe that it's a category that we're the lead player that is growing incredibly fast. As part of these one-way attack drones and autonomous -- and autonomy-capable solution set and a degraded GPS environment or degraded communication environment is going to be very key.

We believe the market for that is well over $1 billion. The data is quite difficult to get, but we can -- I can tell you that this market, the one-way attack drone category, should be equal, if not bigger, than even loitering munitions as a whole. So we believe that this product is going to continue to expand. And you're correct, the foundational level of the Red Dragon solution set is a commercially developed product on our own IRAD that we do not have ITAR restrictions.

Obviously, if we were to put specific payloads or communication devices, then it would become subject to that. But internationally, we can export the base unit quite easily. And it is designed to be modulars, where the payload and the war hit could be actually even integrated outside US with a domestic supplier internationally.

And I -- we feel very good about it. It's going to take some time, but we believe that product is going to be a significant driver of growth for us in the long run.

Operator

Pete Skibitski, Alembic Global.

Pete Skibitski - *Alembic Global - Analyst*

I guess just to go down the CapEx route on the 6% to 8% guidance on the cloud build-out. Is that a one-term -- not one-term, one-year type of a thing? Should we expect CapEx to go back to the kind of that 2% to 3% range in the future after this cloud build-out?

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

That's just -- that note meant too that it includes cloud capitalization. It's not all cloud build-out. It's really the normal range of facilities, equipment for manufacturing, and to a certain extent, software systems and things like that. So that includes all of that. We expect it to probably trend down over time. But at the same time, we have tremendous opportunities in front of us. So I'm not going to make any predictions at this point in time.

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

Yes. So Pete, just to echo what Kevin said, we have several very serious, large growth potential opportunities in front of us. Let me just name a couple of them. The space communications, the space force, is really, really behind and upgrading the entire satellite command and control and communication network that the US relies on.

We have won that program of record. It's worth about a $1.7 billion program funded through the congressional documents. We can scale that and expedite deliveries in the fiscal year '26 and beyond. That's one. Loitering munition is another one. We're building another factory to increase capacity up to $1 billion in production.

Red Dragon is another category that we believe that we're going to have significant upside coming in the next few years. And then just to name a few other ones, in the directed energy space, counter UAS, we are the leading player globally. And we know that we have significant needs in our country and around the world, protecting critical infrastructure, refineries, airports, nuclear power plants or military bases embassies, you name it.

There is an enormous opportunity for us, and we have the leading solution that is deployed and it's effective in the field. So these are just some examples of areas that we see tremendous upside and potential opportunity for ourselves. And so we have made the decision that we want to increase because we see that this will play a significant role in delivering more value to our shareholders and our company in the long run.

Pete Skibitski - *Alembic Global - Analyst*

Okay. Fair enough. I appreciate it. Just one last one for me, just going back to Louie's question on the backlog, right? So you generated $275 million in revenue this quarter, right? Total backlog declined by a little under $700 million. So the math just indicates there's a little over $400 million that is kind of unaccounted for. It seems like it just kind of fell out of backlog. I think that's what people are trying to kind of figure out there. Any -- can you give us any sense of what was going on?

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

That's the year-over-year number.

Pete Skibitski - *Alembic Global - Analyst*

What's that?

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

No programs are canceled. Nothing was canceled.

Pete Skibitski - *Alembic Global - Analyst*

How do we --

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

So Peter, I think what you're looking -- I'm not sure exactly what number you're looking at, but our backlog is significantly higher at the end of this fiscal year relative to fiscal year '24, number one, a significant increase because we booked over $1.2 billion throughout the year and we recognized $821 million in revenue. So that increase helped as well.

The unfunded backlog, which is that IDIQ that I mentioned, has converted to funded backlog, you might be looking at the number there. But we will be glad to explain the details more. Our funded backlog from Q3 to Q4 slightly decreased, slightly, not much, because we also booked a lot of orders in Q4, which essentially, again, backfilled the revenue that we shipped in the quarter.

Pete Skibitski - *Alembic Global - Analyst*

Yes. Fair enough. We can take it off-line.

Operator

(Operator Instructions) Jonathan Siegmann, Stifel.

Jonathan Siegman - *Stifel - Analyst*

On booking trends at BlueHalo, we haven't had an update on that since you announced the transaction now over six months ago. Maybe can you help us comment on whether things there are going better or less than what you expected. And you mentioned space, cyber, Directed Energy will lag Autonomous Systems sales growth. Can they keep up on bookings this year?

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

Jonathan, so we actually feel pretty strong and solid about our expectations for the previous -- or the former BlueHalo business and their ability to book orders. We have very similar trends within the BlueHalo former businesses, traditional businesses compared to AV. The only difference I would say is that some of their business related to the cyber and intel are long contracts where a lot of the business is actually selling very highly differentiated engineering sort of content to customers.

The growth in that business really has to do with how we scale employees and engineers and people. So it doesn't have these significant higher growth like the rest of our products business. That's one unique difference. On the other hand, they also are looking at very large strategic wins and program and bookings that could be very large step-function growth opportunities.

And so for example, in the space communication and space operations, we have a huge potential there. Laser comms is another one. Directed energy is another one. Electronic warfare as well as counter UAS, our Titan solution set is another one. And the trends in the market is such that these are very specific areas that the US DoD needs a lot of help. And so the short answer is yes.

We expect the BlueHalo business to actually grow, and there's opportunities for significant booking increases going beyond fiscal '25 there as well.

Jonathan Siegman - *Stifel - Analyst*

But back to Pete's question on the CapEx. I really love the enthusiasm you have for lots of opportunities to increase and invest in these really exciting areas. Are those in the future? Or are you already accelerating CapEx plans this year? Because it does seem like your guided CapEx is higher than what you had asked for, for the combined business?

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

That is correct, Jonathan. We have already initiated some increases in CapEx in fourth quarter. Most of that is going to show up in our financials in fiscal year '26. That's why the percentages are higher in '26. And it's related to both of our businesses and lots of different products. As I mentioned, the areas are space communication, directed energy, counter-UAS, loitering munition, one-way attack.

Those are the key areas -- and also unmanned systems is another area that we're investing to scale primarily because we see opportunities coming our way. Let's keep in mind that one of the reasons why we've been able to actually capitalize on growth and these opportunities is that our ability to be able to deliver quickly and have the production capacity.

We're uniquely qualified in this area than other competitors who are either in the prototype stage or very early even trying to build a facility to make their initial low rate initial production. We're not in that category. We have battle-proven systems with capacity today that needs to scale even further. So those are the areas, Jonathan, that we expect that to continue to grow.

Obviously, we don't expect that to stay forever, but we're only providing you figures for the fiscal '26 and we will provide more color as we go forward beyond fiscal '26.

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

I do have some clarification on unfunded backlog. During the year, they moved the purchasing of the Switchblade from one purchasing group to another, to PEO Soldier is where now all of Switchblade orders are coming through. So the JUONs contract was with the prior purchasing group, and that expired actually on the last day of the year.

And they did not renew that one because now everything is going to be going through the PEO Soldier group put them up from here on out. So they'll be likely increasing that IDIQ.

Operator

I would now like to turn the call back over to Denise for any closing remarks.

Denise Pacioni - *AeroVironment Inc - Director of Investor Relations*

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

Operator

Thank you. This concludes the conference. Thank you for your participation. You may now disconnect

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