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AVAV.OQ - Q1 2026 AeroVironment Inc Earnings Call

EVENT DATE/TIME: SEPTEMBER 09, 2025 / 8:30PM GMT

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to AeroVironment's first-quarter and fiscal year 2026 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. Please go ahead.

Denise Pacioni - AeroVironment Inc - Investor Relations

Thank you, and good afternoon, ladies and gentlemen. Welcome to AeroVironment's first-quarter fiscal year 2026 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 is contained in the company's 10-K and other filings with the SEC, in particular, in the risk factors and forward-looking statements 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 & Presentations. The content of this conference call contains time-sensitive information that is accurate only as of today, September 9, 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 first-quarter fiscal year 2026 earnings conference call. I'll start by summarizing our quarterly performance, followed by Kevin, who will review our financial results in greater detail and then discuss guidance for fiscal year 2026. After this, Kevin, Denise, and I will take your questions.

I'm pleased to report a very strong start to our fiscal year with excellent first-quarter financial results setting new records for the company. We are better positioned than ever to drive industry-leading organic revenue growth and profitability. Our acquisition of BlueHalo has created significant new growth opportunities in critical areas that are aligned with our customers' highest priorities, and our integration efforts are progressing ahead of plan. Our first-quarter results benefited from programs tied to this acquisition, and we look forward to building on that momentum in the coming quarters.

Now let me summarize the key messages for the first quarter of fiscal year 2026, which are included on slide number 3 of our earnings presentation. As a reminder, this is the first quarter where our results are inclusive of our recent BlueHalo acquisition.

First, we achieved another record first quarter with revenue of nearly \$455 million. Second, bookings for the first quarter reached nearly \$400 million and our funded backlog grew to \$1.1 billion. Unfunded backlog is now at \$3.1 billion. Third, we introduced several innovative solutions in counter-UAS, Space Communications and Directed Energy, among other areas that are directly aligned to our customers' urgent priorities and represent multibillion-dollar market opportunities over the next several years. And fourth, we're maintaining our fiscal year 2026 guidance with revenues between \$1.9 billion and \$2 billion.

Overall, AV is uniquely positioned as a leading defense stack prime with our innovative product offerings, along with the experience and capacity necessary to scale manufacturing on an expedited time line. This is what is required for the urgent national security priorities of our nation, and our allies around the globe. We have worked very hard throughout the past few years to position AV for such a historic set of opportunities.

Since our last earnings call, we announced several key program wins and milestone achievements. For example, yesterday, we announced a nearly \$240 million award for our long-haul space laser communication terminals that will be delivered over the next 3.5 years with options for additional systems. To put this in perspective, we expect the laser communication is going to be one of the most important aspects to warfare in the space domain and represents a multibillion-dollar opportunity for AV. AV is clearly leading the industry in this critical area and technology.

Our technology allows the secure transfer of high-bandwidth data in the most challenging space environments at the fastest rates and across very long distances than any other current capability on the market. This is a strategic and critical milestone for our customers, and we're now excited to move it from development into full rate production.

With our decades of proven track record, AV is well positioned to efficiently scale our laser comms manufacturing to capture growing demand in this multibillion-dollar new market. In addition, AV was also recently awarded a \$95 million contract to further the development and scale manufacturing of our Freedom Eagle-1, or FE-1, for long-range kinetic interceptor program for the US Army.

This missile is designed to deliver extended range, higher altitude and all-weather performance against a broad set of emerging threats. AV's FE-1 missile addresses a much broader set of requirements at much affordable price points than anything available on the market today. Our nation needs capabilities such as FE-1 to affordably defend our nation against such emerging threats. This award enables AV to enter and disrupt a multibillion dollar missile defense market.

The US Army considers our innovative FE-1 solution, the leading capability in this critical area. We're looking forward to sharing future progress with you on FE-1 and our next-generation counter-UAS missile efforts in the coming quarters.

Another key achievement in the first quarter was the recent delivery of two of our counter-UAS inventory squad vehicle-mounted LOCUST laser weapon system under the US Army's multipurpose high-energy laser program, or AMP-HEL. We're set to deliver two additional joint light tactical vehicles, or JLTVs, mounted LOCUST laser weapon systems next month for the second increment of the AMP-HEL program. These deliveries marked a major milestone in the US Army's objective of operationalizing directed energy capabilities to defend against the emerging proliferation of drone warfare.

Our LOCUST laser weapon system use of Directed Energy is a critical emerging technology that is key to defending against Group 1 through 4 drones and in the future, will enable defense against hypersonic missiles, cruise vessels, and other projectiles at much lower and affordable costs. We also see this emerging market exceeding several billion dollars in the coming years and AV is ahead of most, if not all industry players to scale and capture a significant portion of this very large opportunity.

And finally, we delivered multiple P550 Group 2 UAS Systems along with training to the US Army for the long-range reconnaissance or LRR program of record. For persistent, low-cost, reliable ISR at the edge of the battlefield represents a shift in defense strategy around the globe and we believe our P550s performance specifications meet the US Army's program requirements better than any other competitor solution on the market. This program of record represents approximately \$1 billion in value over the next five years, and AV is very well prepared to execute and deliver on it.

The successful adoption of our P550 with the US Army's LRR program should also lead to more international adoption of this capability by our allies in the coming years. We've experienced such a trend with our other global franchises, such as the Raven, Puma, and Switchblade. We look forward to continued progress with this significant program record.

In addition to these significant program wins and milestone achievements last week we unveiled AV_Halo, a software platform and ecosystem that is hardware agnostic and unifies our suite of mission-ready software tools and offerings. AV_Halo clearly demonstrates the depth and breadth of our AI-powered software ecosystem for our end markets.

At launch, these software modules include our multi-domain command and control, intelligence analysis, synthetic training, and autonomous targeting. AV_Halo blends the best of both Legacy AV and BlueHalo software solutions and offers our customers a comprehensive mission-ready suite of AI-powered software tools that empowers war fighters to dominate the mission across air, land, sea, space, and cyber domains. We're excited to share more details over the coming months about how AV_Halo software enhances the speed, autonomy, modularity, and interoperability of our offerings to address growing market needs.

As the industry continues to grow and demand for our customer-driven solutions increases we are focused on leveraging our strategic partnerships to unlock new opportunities for AV, both domestically and abroad. Since our last earnings call, we have announced several key partnerships that will advance our long-term growth objectives and broaden our exposure in new areas.

First, we announced a strategic partnership with Sierra Nevada Corporation for a limited area of defense architecture under the Golden Dome for America initiative. This partnership focuses on integrating and aligning existing open-architecture solutions using passive and active sensing, radio frequency, directed energy, kinetic energy, electronic warfare, and cyber solutions and addresses the complete kill chain to neutralize Group 1 to 4 Unmanned Aerial Systems, Advanced Cruise Missiles and other next-generation aerial threats. With our broad suite of technological solutions, AV is uniquely positioned to help protect our nation by implementing a cast of active solution for sovereign missile defense.

Second, we signed a memorandum understanding in Denmark for expanding airport utilization for medium UAS training, demonstrations and customer integration activities in the region. And finally, we announced an expanded partnership with the Dutch Ministry of Defense to modernize and expand their Puma fleet highlighting the rising demand for adaptable mission-ready on [crude] systems across NATO.

In summary, we're currently pursuing more than 20 different programs of record which exceed \$20 billion in potential value over the next five years. Included in these programs are OPF Light and Medium, One Way Attack, LASSO, LRR, Laser Communications, MGCM, HMIF, and additional options with our SCAR space program among several others. As we pursue these significant opportunities and programs ahead, we're also focused on managing the business efficiently during this period of high growth and capacity expansion.

This past quarter, we successfully raised more than \$1.5 billion through equity and convertible debt. Funds were used to pay down debt from the acquisition of BlueHalo and the balance will be used to help support the company's growth, including necessary production capacity expansion. As we've discussed over the past year, our current facilities are capable of scaling manufacturing to meet rising demand through at least fiscal year 2027.

We're making progress on our new state-of-the-art manufacturing facility in Salt Lake City, Utah, which will allow us to considerably increase our manufacturing capacity for demand beyond fiscal year 2027. As part of our distributed approach to manufacturing for resiliency and risk diversification, we now have manufacturing sites operating across 12 different states.

Now I would like to provide brief updates on our two business segments. Our first segment, Autonomous Systems achieved revenues for the first quarter of \$285 million. This segment continues to remain a strong growth driver for the company as demand continues to increase for our family of UAS solutions such as Puma, P550, and JUMP 20. We anticipate further growth in our position -- precision strike and counter-UAS group for our Switchblade family products, Red Dragon One Way Attack drone; as well as from our RF cover US solution, Titan; and our next-generation counter-UAS Missile Defense System, FE-1.

Now on to our second segment, Space, Cyber and Directed Energy, or SCDE segment. Our SCDE segment posted first quarter revenues of \$169 million. Our Space Technologies and Directed Energy solutions will continue to drive growth in this segment and for the company. As I mentioned earlier, we announced yesterday a \$240 million contract award for our long-haul space laser communication system. In addition to anticipated revenue growth from this area, we're confident that our BADGER phase array solution and our counter-UAS Directed Energy solutions, LOCUST, will be key growth drivers for this segment in the future.

Let me conclude my comments with the following. With the acquisition and successful integration of BlueHalo, we have significantly expanded our cutting-edge and battle proven portfolio to include Space Technologies, counter-UAS, Directed Energy, Electronic Warfare and Cyber Solutions. We have broadened our growth opportunity in a demand fueled market, this has been a deliberate part of our long-term strategy. Our high-volume manufacturing expertise and capacity in these critical areas is also another key differentiator that is unrivaled in the industry.

AV's installed base of more than 42,000 platforms fielded in performing in high demand environments across multiple domains is another aspect of our competitive differentiators. And finally, our track record of exporting and supporting solutions to more than 100 allies around the world sets us further apart than any other player in this industry. We have worked hard to position our company for success and we're very excited to help our nation and allies across the globe. AV stands ready to continue executing and delivering on our promise to our key stakeholders so they can proceed with certainty.

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 first-quarter performance during which I will occasionally refer to both our press release and earnings presentation available on our website. Just a reminder that we closed our BlueHalo acquisition on May 1. So the results for Q1 and projected FY26 will include the financial activity from BlueHalo. I'll briefly comment on the results for the quarter and then turn to guidance for the remainder of FY26.

In summary, we are very pleased with the results of the new AV on all metrics, delivering solid top line and EBITDA growth. As Wahid mentioned, our equity and debt raise in July position us well for growth with over \$700 million of cash and investments on the balance sheet. Wahid also mentioned his remarks, we started the year with \$454.7 million of revenue in the first quarter, which represents a 140% increase over the prior year as reported or 18% increase on pro forma revenue basis. Since the acquisition of BlueHalo, our regional revenue mix has shifted towards the increase in domestic revenue.

For Q1, 78% of our revenue came for domestic customers and 22% from international customers. In the first quarter, Ukraine represented 8% of revenue. The rest of Europe represented another 6% of revenue. We expect Ukraine revenue to remain between the 5% and 8% of total revenue in FY26. When compared to pro forma revenue for the first quarter of FY25, several of our products realized tremendous growth.

Switchblade 600 product had over 200% revenue growth, JUMP 20 had over 6x revenue growth, our LOCUST Directed Energy counter-UAS has also had 5x pro forma revenue growth. It's a sign, revenue is nearly double as a reflection of the strength of our counter-UAS business. And finally, BADGER, the advanced RS satellite ground station grew nearly 40%. Notably, we were awarded -- we received an award for \$70 million for additional BADGER units in the quarter, and as this is part of a larger order we expect to receive in Q2.

As mentioned on prior earnings call, AV is now operating under two reporting segments. Autonomous Systems, or AxS; and Space, Cyber and Direct Energy, or SCDE. AxS ended the quarter strong with \$285 million of revenue, which represented a 22% increase over FY25 pro forma revenues. Of the total in the quarter, about 35% came from Switchblade 600 products, 15% came from Puma products, 9% from Switchblade 300, 7% from counter-UAS RF, and 6% from JUMP 20.

SCDE ended the quarter with \$169 million of revenue, which represented a 12% increase over pro forma FY25. Of the total for the quarter, approximately 19% came from BADGER's Satellite ground station, 12% from LOCUST Directed Energy counter-UAS Systems, and 12% from our Advanced R&D businesses, which focuses on research, development, testing, and evaluating emerging technologies to ensure their effectiveness, active transition to the war fighter.

In terms of adjusted EBITDA, slides 10 to 11 on our earnings presentation shows the reconciliation of GAAP gross margin to adjusted gross margins and net income to adjusted EBITDA. Adjusted EBITDA in Q1 was \$56.6 million, up from last year's Q1 of \$37.2 million as reported, primarily due to the incremental BlueHalo results. EBITDA as a percentage of revenue ended at 12.4% of revenue, which was in line with our expectations. We continue to forecast full-year adjusted EBITDA at 16% of revenue.

Moving to gross margins. In the first quarter, consolidated GAAP gross margin finished at 21% versus 43% in the prior year. The decrease in GAAP gross margins can be attributed to the higher service mix of 31% of revenues versus 16% in the prior year, plus an increase of intangible amortization and other noncash accounting expenses of \$33.7 million over FY25. First year -- first-quarter adjusted gross margins were 29% versus 40.5% in the first-quarter FY25.

As noted, the business landscape of the combined new company has changed significantly with a higher service mix and several products at early stage with a maturation. We believe adjusted gross margins to continue to improve throughout the year ending up in the mid-30s by Q4, with an average for the year in the low-30s.

Moving on to operating expenses. Reported GAAP SG&A for the quarter was \$131.3 million versus \$33.8 million in the prior year. Net of intangible amortization, deal integration costs, adjusted SG&A was \$65.2 million versus \$32.7 million in the prior year. The increase is largely a result of the combination of BlueHalo. As a percentage of revenue, adjusted SG&A in the quarter was 14.3% of revenue versus 17.3% in FY25. Again, these SG&A levels represent a shift in the business model, and we expect to end the year in the 11% to 13% range as we begin to realize synergies and achieve higher revenue.

R&D expense for the first quarter was \$33.1 million or 7.3% of revenue compared to the \$24.6 million or 13% of revenue in the prior year. Again, this is a shift in the business model and expect R&D as a percent of revenue to end the year at between 6% and 7% revenue range.

Now turning to GAAP earnings. In the first quarter, the company generated a net loss of \$57.4 million versus net income of \$21.2 million recorded in the same period last year. The decrease in net income of \$88.5 million can be attributed to increased intangible amortization, other noncash purchase accounting expenses of \$74.9 million from the BlueHalo acquisition, plus another \$23.7 million of deal and integration -- \$23.7 million of deal and innovation costs.

In addition, interest and other income expense increased \$14.6 million year over year. This was offset by an additional \$6.3 million of income from operating activities and a decrease in taxes of \$16.7 million. Slide 12 shows the reconciliation of GAAP and adjusted and non-GAAP diluted EPS.

The company posted adjusted earnings per diluted share of \$0.32 for the first quarter of fiscal 2026 versus \$0.89 per diluted share for the first quarter of fiscal 2025.

Moving to the balance sheet. At the close of the first quarter, our total cash investment amounted to \$722 million. As most of you know, we completed a \$1.7 billion financing during the first quarter, of which approximately \$950 million used to pay down the debt from the BlueHalo acquisition. We now have a completely new balance sheet as a result of our BlueHalo transaction.

Consequently, many of our balances are not comparable to prior periods. For instance, our overtime revenue recognition has increased from 41% to 75% of revenue year over year driving unbilled receivables. With that said, unbilled receivables continue at a higher level than we are targeting. We have been negatively affected by the alignment of the contracting officers for our Switchblade product. This transition has been completed, and we expect unbilled to be down significantly in the next quarter.

Turning to backlog. Our funded backlog at the end of first quarter of fiscal 2026 finished at \$1.1 billion. Unfunded backlog grew to \$3.1 billion at the end of Q1. I should note that we include in our visibility from expected (inaudible) long-term contracts, which we expect to perform during the fiscal year, which have not been funded as of this date. Given this, the visibility to the midpoint of our revenue guidance range is 82%. We expect our unfunded backlog to continue to grow significantly during the second quarter due to the recently announced contracts and new contracts in the pipeline.

Finally, I would like to provide you with our updated FY26 guidance. On page 6 of the presentation, we provide fiscal 2026 guidance. Fiscal year revenue is still expected to be between \$1.9 billion and \$2 billion, adjusted EBITDA remains between \$300 million and \$320 million. Non-GAAP adjusted EPS is now projected to be between \$3.60 to \$3.7 due to the refinancing of our debt. The midpoint of our revenue guidance range represents nearly 15% growth over the pro forma FY25.

As mentioned previously, our visibility to the midpoint revenue guidance range was at 82%, which is at the higher end of the historical range at this point during the year. I'd like to close by echoing Wahid's remarks, we are very well aligned with the US DOW priorities and those of the 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'd like to reiterate all the positive momentum we have entering our second quarter of fiscal year 2026. First, we achieved another record first quarter with revenues of nearly \$455 million. Second, bookings for the first quarter reached nearly \$400 million, and our funded backlog grew to \$1.1 billion. Unfunded backlog is now at \$3.1 billion.

Third, we introduced several innovative solutions in counter-UAS, Space Communications and Directed Energy, among other areas that are directly aligned to our customers' urgent priorities and represent multibillion-dollar market opportunities over the next several years. And fourth, we're maintaining our fiscal year 2026 guidance with revenue between \$1.9 billion and \$2 billion.

Our strong first-quarter results underscore the confidence we have in the future of AV and our ability to reshape the future of defense. Our integrated capabilities across every domain of modern warfare combined with our enhanced innovation and ability to scale, strengthens our ability to address emerging global priorities. We stand ready and committed to deliver just as we've always done.

With strong support on both sides of the aisle in Congress, the current administration, and our customers, we're confident that AV will not be negatively affected should Congress fail to pass a budget resulting in a continuing resolution. The support for our solutions and the urgency behind the need for our products gives us confidence that we will remain a high priority and either scenario.

Additionally, we have significant momentum internationally with our allies, where our ability to deliver battle-proven solutions quickly at scale is certainly a competitive advantage. I want to thank our employees, shareholders and customers for their continued commitment to AV and our

mission. We're honored to support the most critical defense missions at this pivotal moment and we're ready to seize the tremendous opportunities ahead.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Ken Herbert, RBC.

Ken Herbert - RBC Capital Markets Inc - Analyst

Good afternoon, Wahid, Kevin, and Denise, really nice results. Maybe next, Wahid. Yes. Maybe, Wahid, just to start off. Obviously, good revenues. You didn't change the full year outlook. I think you've obviously got better visibility at the 82% than you've had at this point in prior years.

Can you just talk about some of the puts and takes as we think about the \$1.9 billion versus \$2 billion full-year revenue outlook and how you're thinking about risk of the guidance on the top line and opportunities to maybe outperform that this year?

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

Thank you, Ken. Yes, we're very pleased with the results. I'm very pleased also with the integration of BlueHalo with AV. As you know, this is no easy feat. And this is a very large undertaking, combining two pedigreed companies creating a \$2 billion enterprise that addresses all the key areas of our defense priorities, both domestically and internationally with our allies.

In terms of our guidance, we feel very good about our first-quarter results, but it is first quarter. We've got three more quarters to go. The budgets for the year are not totally set, there is a potential for a continued resolution, which we don't believe that it's going to affect our fiscal year. But in order for us to perform above and beyond that, it's still a lot more questions left.

And so given all those bases -- also some of these contract timing is really critical because the US DoD is going through a lot of changes in transformation in many of their services. And given all that, we believe that we're on track, again, it's going to be a fantastic year with record revenues and profitability, nearly \$2 billion in revenues and \$300 million worth of adjusted EBITDA, we're going to be the poster child of what a defense tech company and the prime should look like, and we're pleased that we've achieved the results we have so far, and we look forward to updating you in the future.

Operator

Anthony Valentini, Goldman Sachs.

Anthony Valentini - Goldman Sachs Group Inc - Analyst

Thank you for the question. I'm curious, are you guys seeing increased competition now that there is an emphasis on the unleashing of American drone dominance? And how do you think price will be impacted over time by competition, like you guys on your Switchblades, specifically, I think

you guys have talked about low hundreds of thousands of dollars as the price there. If there's more competition over time, is there a risk that, that price is going to go down and margins will suffer?

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

Anthony, thank you for that question, and great to talk to you again. Obviously, the focus of the US for the American drone dominance is really important, and we support it, and we're very pleased with that. We are used to competition and competitors ever since I've been with this company for over 1.5 decades. It is not new to us. We've had the drone insanity when the commercial drone industry was going on. We've had that with our small UAS, there's been doubts about that on our performance for decades.

AV has continued for decades and decades to be able to deliver and prosper and stay as the leader in the spot market. What that tells me is that actually the focus in this market and the amount of growth that there is, it's actually attracting more and more investments, of course, but also attention to our customers. So it's a good side that the US is on, AV believes that we've got to scale and we've got to grow. But we really feel strong about our portfolio.

There are several, several key competitive differentiators that enables us to actually lead and continue to stay as the leader and there are no shortcuts in this business. It's one thing to say that we can -- somebody can do it, actually doing it and delivering it at scale, it's a very, very high bar.

I want to remind everybody that our systems are used by the tens of thousands globally and have scaled repeatedly multiple times in our history. And we have a unique competitive advantage in terms of having the manufacturing capacity to produce these things at urgent and very short cycles based on the demand and urgency and priority from the US and our allies. That is a clear, clear advantage for AV amongst many other things, and we look forward to that.

So while we always take competitors seriously, we're very confident about the best-in-class solutions that we've got in our track record and the positioning that we have in the marketplace.

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

I mean, we've always provided a very cost-efficient product and had a lot of the competition -- or a lot of that is about the value versus alternatives. So Unmanned Solutions provide incredible value. A lot of the pressure would probably come more in the low end of the market than in our categories, which, as you know, is Group 2 and above.

Operator

Louie D DiPalma, William Blair.

Louie DiPalma - *William Blair Capital Partners - Analyst*

You announced the AV_Halo unified software platform last week. Can you talk about how your software integrates with third-party hardware providers in addition to the AV portfolio of systems?

And secondly, is there the potential that your software platform can be open to third-party software developers such that others can build applications on top of your software, similar to how like Palantir has their Maven Smart System and it's becoming a platform and you have this command and control system that seems to have a lot of similarities there for command and control for the S UAS and C UAS and your count -- your laser systems, et cetera.

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

Welcome, Louie. Of course, AV_Halo's software we just announced is really a great example of how we brought the best of the both worlds from AV's portfolio of software solutions as well as BlueHalo's software solutions into one cohesive umbrella of an ecosystem and platform that allows us to deliver and innovate in lots and lots of different areas of this entire market.

There's certainly a major, major need and a market opportunity for companies like AV and others to try to help simplify and integrate and inter-operate all these systems together. That's precisely what AV_Halo's strategy and product road map and the value proposition is all set to be.

In regards to your first question, yes, we already today enable third-party devices, third-party platforms, hardware systems to actually integrate and be interoperable with AV_Halo, and many, many other subsystems or modules of AV_Halo. AV_Halo is going to be an umbrella brand with lots and lots of different tools and applications underneath it. And we continue to invest in that. So that's definitely a yes for that.

In terms of allowing other third-party companies to develop software as an API and open platform, absolutely true, yes, that's the case as well. In fact, we already have some solutions that we provide to our customers to our small UAS and our low munitions, which uses third-party apps as a software that is plug and play into our system.

And so the last thing I want to mention is that we've developed AV_Halo ecosystem from the ground up based on the expertise that we have on the edge of the battlefield with all the platforms and tens of thousands of systems that we make out there in all the different domains. That gives us a unique competitive advantage because it's much, much harder to do the C2, the commanding control connectivity and operability at the lower level at the edge of the battlefield than it is just represented at the graphical user interface at the high levels.

The high level gets a lot of limelight and a lot of hype, but the real value and the hard work is how you interconnect the subsystems in an open modular architecture approach. And that's precisely how we built a software platform that we've got. We're going to continue to invest in it. The software department of our engineering department is the largest department within our entire innovation groups.

And so we intend to continue to invest in the best area and innovate and deliver more capability. And that's why our solutions are always been known as software-defined platforms. And I'm glad you asked that question, Louie.

Louie DiPalma - *William Blair Capital Partners - Analyst*

Thanks really extensive answer, Wahid. And I will save the rest of my questions for Albuquerque. So Thanks, everyone.

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

Wonderful. We look forward to seeing you there, Louie.

Operator

Jan Engelbrech, Baird.

Jan-Frans Engelbrecht - *Robert W. Baird & Co Inc - Analyst*

Congrats on a very strong set of results. I guess with the BlueHalo now operating for the group and clearly, a big domestic presence. I just wanted to sort of have the sense of the exportability of the BlueHalo product offerings. Just given sort of what Europe is planning to spend and sort of their strength in sort of lack of industrial base to do things themselves, but just look at things like sort of the local system and space capabilities that you now have. If you could just talk more about that.

And then just a small addition, but with the Red Dragon now being placed on the blue list US period last in August, does that sort of imply that it can be explored immediately? Or is that near term, more of a domestic opportunity?

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

Sure. So really, the BlueHalo solution set brings tremendous complementary capabilities to AV. And as I mentioned earlier that -- in the space domain, obviously, the large \$1.5 billion-plus program record that we won with the space force, it is an incredibly advanced innovation and standard capability in the next phase of the race, and you're going to see some of that and hopefully, if you to come to our open house in Albuquerque later next month.

So we're the leader in that, and that's a very large program. The LOCUST System, which I mentioned is the leading Directed Energy, counter draw or counter-UAS solution in the market today. We delivered our first batch of systems to the US Army. We continue to deliver some more mounted on a moving mobile JLTV, as I mentioned. And it is going to be a very large multibillion-dollar market.

We believe that the counter-UAS Directed Energy Solution, the lasers which is the LOCUST platform, as an example, is a multibillion-dollar long-term opportunity for the company, and we're the leader in that space clearly. And lastly, I'll mention also the Titan RF solutions, we're already getting a lot of orders for international customers for that. It's one of the best performing solutions out there in the market, and that market is multibillions of dollars over the next decade as well.

So absolutely, we view that the BlueHalo solution suite is incredibly complementary to our solution set. They're growing, we're winning a lot of opportunities and programs and we're positioned for a lot more. And then being the part of the BlueHalo certified product, which you saw are one of our products, absolutely allows us to actually sell internationally easier and also the US DoD and other government agencies can buy easily because of the certification.

And so that's another great progress for our company and our teams. And we're very pleased with the products we're making so far.

Jan-Frans Engelbrecht - Robert W. Baird & Co Inc - Analyst

Great. Very helpful. And just a quick follow-up. In terms of Golden Dome, we're obviously that great program win in [GEO with Legend Terminals] where you sort of seem to have no competition, really. And we've seen in lower or with sort of the problems that vendors are experiencing on the optical terminals.

Is that -- so I mean, would you still consider that a Golden Dome opportunity given that it's going to have a bit more latency than the satellites in low Earth orbit? And I guess a follow-on, is there any willingness to move down into that orbit just given sort of the delays in vendors have seen in the PWSA program?

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

Yes, I'm glad you brought that up because our solution for the laser comms and phase arrays addresses both of those two key areas that you mentioned. Absolutely with you that as we start to think about the Golden Dome initiative and objective, the ability to communicate in space by itself. We learned very, very convincingly in Ukraine, all the world has learned that RF communication is not safe and secure. It is not immune; it can be jammed.

The same thing is true of all the satellites that we have in the space, whether it's commercial satellites or military satellite, national security satellites, they are susceptible to the same jamming issues because they talk to systems on the ground and they talk to each other. So the laser communications, which were the -- currently the undeniable industry leader technologically as well as product maturity-wise, is the clinical way of the future of satellites to be able to communicate and talk to them.

And so we offer that capability. And absolutely, we can do that not only for the geosynchronous satellites, but for [MEO and LEO] satellites as well. In fact, we have a product, a separate product in our [phase theory] product set called the [Panther] that is a smaller system that allows us to offer that to international allies and many other customers for LEO and MEO satellites as well. And so that's why I said that market is a multibillion-dollar market, which we believe is just that it's infancy.

And we've got a leading full position and as we continue to execute on our strategy, I think we're going to see a lot of growth in that area and a lot of more attention and focus on the US and a lot of commercial companies as well, and customers as well.

Operator

Jonathan Siegmann, Stifel.

Jonathan Siegmann - *Stifel, Nicolaus & Company Inc - Equity Analyst*

Maybe just on funded backlog. You had disclosed back in November that BlueHalo had about \$600 million of funded backlog. So when I add that into what you had on April 30, it seems like maybe it's a little bit lower than what we expected. So can you confirm, number one, do the accounting change when you merge that in, just they got a question that maybe something that dropped out and I was hoping you could confirm that is not the case.

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

I don't know where the \$600 million comes from. But at the beginning of the period -- well, I don't have a BlueHalo, but the current SCDE division had about just over \$300 million and increased that during the quarter of backlog -- funded backlog.

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

Yes. Just to add to that, Jonathan, we have won and booked quite a lot of really significant unfunded contracts that allows our customers to add dollars to it. Some of that, Jonathan, is related to the fact that a lot of the funding that has been authorized and approved by Congress as well as by the President, for the department as part of the additional funding sources that they're getting, that money hasn't transitioned yet and been released to the services and the program executive offices to authorize or put task orders against it.

So what we have is a great situation where in the -- this quarter and next quarter, Q2 and Q3, we expect to book an enormous amount of funded orders and firm contracts against those large unfunded existing obligations. And so in general, our funded backlog which was roughly about \$1.1 billion, the unfunded part is much, much bigger. It's almost 3 times bigger. And we're going to see more bookings and task orders to come in this quarter or next quarter to keep building on that momentum that we've got established.

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

Yes. I mean we think contract signings in the second quarter. I mean we have the evidence of the laser contract we just signed could be well over \$1 billion, approaching \$2 billion in the second quarter. So we see a lot of momentum already in this quarter, which we have some time left. So we're very optimistic.

Operator

Greg Konrad, Jefferies.

Greg Konrad - Jefferies LLC - Analyst

Maybe just kind of following up on that question. I mean in the script, you called out 20 programs, \$20 billion over the next five years. Can you maybe talk about how much of that is competitive versus follow-on? And when you think out the next maybe six months, what are some of the larger decisions within that pipeline that you expect to be made competitively?

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

Sure. So Greg, as you know, we haven't shared such statistics in the past, and I intentionally wanted to share that to emphasize the fact that we are a different company today. And the opportunities in front of us are massive, literally massive. And the 20-plus programs that we're changing and we're pursuing, we're actively engaged in and majority of those cases, if not all, we're one of the top contenders for those programs.

We're very, very confident that many of those programs over the next several years is going to convert into some sort of a backlog and demand for our solutions. Number one. Number two. Look, you can look at our track record. We have a very high win rate. The timing of those contracts and the selection process may change slightly because of the way that the US DoD and the funding and the congressional budgets work.

But overall, we have a very high win rate when we engage in opportunities. And so we don't expect it to be 100%, of course, but there's going to be more competition. But the magnitude of programs and the quality and the size of these programs that we're going after is quite remarkably significant. And we're very pleased with that. It encourages me as a member of this team is that we worked really hard to get here, and I think we've got a lot of great years ahead of us.

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

And I think the emphasis has shifted to more off-the-shelf, proven capabilities, companies that can scale as kind of part of the formula. But it also means they may pick other -- more than one vendor for some of these programs because they want to kind of hedge their bets on the scalability place.

Greg Konrad - Jefferies LLC - Analyst

And I guess just as a follow-up, I mean that part seems to kind of fit what we're hearing about maybe how Golden Dome is awarded. I mean you called it out a couple of times in the script, but how do you think about award timing or decisions tied to that program, just given the accelerated schedule? And how much of that opportunity is maybe tied to Golden Dome?

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

Yeah. So we're not really counting Golden Dome specifically as part of that 20 programs. Maybe some parts of it, it's very small parts of it, not much. These 20 programs that I'm referring to is well these are things that we've been pursuing well before the Golden Dome was even announced. And so Golden Dome obviously adds to that does not subtract from it and that is not inclusive of that, number one.

Number two, we really believe that we have got a very compelling solution that the US department of Defense and our national security agencies and the President and the department can actually implement very quickly at almost no R&D cost. These are systems that we've already developed. And a lot of folks are talking about space and missiles in the space and satellites space. This is about our home land and how we protect critical sites on our home land territory.

And the solutions that we've developed that really addresses the emerging threats against drones and hypersonic missiles and cruise missiles and ICBMs we've got this solution set today, not only the hardware platforms, but also the software solutions that can sense them that can actually

identify them and then also to actually integrate and operate any few different systems within our existing customer footprint to work as an interoperable integrated system.

So we've invested quite a lot of energy in the last several months to architect that solution set, and that's why we made the public announcement with our partner Sierra Nevada Corporation. And we're looking forward to actually engaging with the government, we are engaged with us today. They're obviously getting spooled up on that, and that we really wish the opportunity that we'll have an opportunity to actually discuss this with them and show them what we can do right away.

And we go as far as I'm confident that if they give us a chance we can implement a solution at a site this calendar year, this calendar year. And so we feel good about it.

Operator

Andre Madrid, BTIG.

Andre Madrid - BTIG LLC - Equity Analyst

On LRR, I know you mentioned last quarter that a decision would likely be released within the next three to six months. Is that kind of -- is that still in the cards right now? Should we expect kind of a decision now imminently?

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

I do, Andre. I mean we're talking to the program office of the US Army very, very regularly. They're very impressed and happy with our solution set. We believe that our solution meets the US Army's requirements for the LRR program better than any other solution on the market. We also know that they most likely will down select the two. And as Kevin said earlier, that they would keep at least two vendors sort of warm and engage in this development.

We have ramped up manufacturing. We're ready to go. We've been getting ready because we know that the US Army has an urgent need. Persistent low-cost ISR at the end of the battlefield and the different theaters is incredibly important, and we've got one of the most affordable low-cost solutions out there. And the P550 delivers on that quite well.

So I'm hoping that the announcements will come sooner. We're still within that time frame that I mentioned three to six months. We're very close to getting to that three-month period. It's not actually have been three months yet, but we're looking forward to it. And I believe that the Army will make some kind of an announcement quite soon.

Andre Madrid - BTIG LLC - Equity Analyst

Got it. Got it. That's helpful. And I guess, sticking on LRR and P550 you mentioned the international opportunity that's present. I guess just how big is that on a relative basis?

And then kind of in that same mindset, you mentioned that you could potentially see the first P550 order as early as this past quarter. So I just wanted to see if there's any update there?

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

Yeah. So we do hope that we receive an order. There's known opportunities in our pipeline, both domestically and internationally beyond the US Army for the P550. As I said that the P550 in my personal opinion, is going to be another product that is going to be similar and consistent to the other product franchises that we already have.

The success of the P550 with the US Army as part of the LRR program will translate -- most likely will translate into a global franchise product franchise, similar to Puma, Switchblade 300, Switchblade 600, Raven and many other products that we have.

And so I already know that we're engaged with multiple countries, many of them would love to procure P550. We're ramping up manufacturing for that reason. And we expect -- we hope to actually update you in the next quarter or so some successful reasons, some wins and some awards.

Andre Madrid - BTIG LLC - Equity Analyst

Awesome. Wahid, I appreciate the color. I'll step away and leave it open to the rest of the queue.

Operator

Colin Canfield, Cantor Fitzgerald.

Colin Canfield - Cantor Fitzgerald LP - Analyst

Could you maybe just walk us through the cash flow bridge for the rest of the year. And essentially kind of how should we think about normalized working capital balances for the business maybe as a magnitude in terms of total dollars or as a percentage of revenue?

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

Well, as I said, I mean, I think there's opportunity on the balance sheet, particularly in the unbilled receivables area. Our goal is to be cash flow positive to have some cash conversion this year versus last year. And we feel that we're positioned at that now.

The only caveat to that is as we look at our plans for growth, we may see a situation where several of our products may need to ramp up here. And as I said earlier, the US DoD is putting the premium on manufacturers you can scale up. So it's kind of a balancing act between cash generation and that. But we do feel comfortable with the cash flow savings from working capital that we could offset any increases in the CapEx but it should be in line with our guidance. But if it goes up a little above that, it would probably be offset by its worth of capital improvement.

Colin Canfield - Cantor Fitzgerald LP - Analyst

Got it. I just your normalized view in terms of kind of Capex growth environment? Is there like a kind of proxy for how large the account would be, like a rough kind of sense?

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

How long the unfunded or what?

Colin Canfield - Cantor Fitzgerald LP - Analyst

How much working capital should go onto the balance sheet? Just how much --

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

For the year, all set and done, it shouldn't go much higher than it is right now.

Operator

Trevor Walsh, Citizens.

Trevor Walsh - *Citizens JMP Securities LLC - Analyst*

Great. I wanted to just follow up on the \$240 million work for the laser terminals. I understand a three-year delivery period. Can you maybe just give us a rough framework for how that revenue will probably flow over the course of that?

And then just kind of what the kind of upside opportunity is something similar to that deal or just timing of that potential upside? Just again, I know just not specifics, but just from a general outlook.

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

Sure, Trevor. So we consider that award a landmark event for us for multiple reasons. Number one, it's a very large contract. Number two, it's the technology of the future that is going to make a huge impact in our entire space domain as a whole for the country. And we are the best in the world in that category. Our technology is second to none. There's nobody that can actually do it better than us in this area. And I expect this to actually go.

So our customers very more limited to go past. Obviously, the funding is to do a couple of things. One is to finish the development and the first article of the system and also the second one is to actually transition it to initial rate low production and prepare for full-rate production, which will happen a year later -- or well over a year later. So that's exactly what we're working on. We're very bullish on that. I think the market for laser communication is huge.

There's two reasons for that. Number one, there's lots and lots of satellites in space that is going to require this mechanism of communication. Our existing communication, as I said earlier, is basically compromised and compromised already, satellites need to communicate to the ground into each other. We've got the secret sauce and the technology to do it. We've got the full position in the market.

We've got a solution that works and the customer's bought. And as more and more satellites come online, the need for this is going to become more and more evident. And so it's a groundbreaking event for us, and we feel very good about that for the long term. So I think it's going to be a significant growth driver over the next several years beyond just fiscal '26 for us once we just transition from low rate production to full-rate production and deployment of the systems out in space.

Operator

Austin Moeller, Canaccord Genuity.

Austin Moeller - *Canaccord Genuity Corp - Equity Analyst*

So just my first question, just looking through the budget and the congressional drafts of the budget, there's about \$68 million in there for launch effects, which is, I guess, what they renamed LMAMS. And I presume that does not include FMS to Ukraine, correct? That's just purely Army stock filing.

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

That is also my understanding, Austin, that the \$68 million that's in the budget, for launch effect is all -- it's only for the US domestic consumption of the different variants of the launch effects because launch effects comes from small, medium and different sizes and different effects, it's only for the domestic US DoD not for the FMS customers and demand.

Austin Moeller - Canaccord Genuity Corp - Equity Analyst

Okay. And could you just go into a little bit of detail on the energy requirements for LOCUST on an [Ampol or DEM Shore] ad platform, mobile ground vehicle versus the energy budget that's available for a fixed in placement or on a Navy ship, for example?

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

Yes. So Austin, that's another area I'm very optimistic for because our Directed Energy low-cost laser system trying to solve the problem, the real mission problem of how do you detect and to feed a Group 1 or 2 or 3 drone or a fast-moving missile. And the way you do it, most people are trying to add more energy and pop more energy at the target. But if you're not firing correctly at the target and accurately, it's essentially useless. So that you can make it as big as you like, it isn't going to be affected.

The secret sauce to our solution is that we have the best technology when it comes to actually delivering those photons and the laser at the right points of the target and actually identifying the target, classifying it and then pointing the laser directly where you want to actually defeat the target and make it come up from the platform in the ground. And so that secret sauce is very, very unique to AV's core competency and expertise, and that's why our solution doesn't require a lot of power.

We are roughly about 20 kilowatts, 15 to 20 kilowatts system, and we have plans to go higher. The MOAs and other systems are much, much more expensive, much bulkier and bigger and less mobile and maneuverable. Our system can be -- has been installed. As I said on the call in my remarks that we've installed it and we delivered it to the US Army on a JLTV, and we're going to deliver more of them.

US Army is very pleased with our system. It's performing really well on various tests and missions. And we believe that this is a market that we're just scratching the surface today. And I believe it's going to be a very large part of the counter-UAS and Counter-Hypersonic missile and defense system, including the Golden Dome. So it has multiple implications in the market for various missions. And we're actually quite encouraged and enthused by that.

Austin Moeller - Canaccord Genuity Corp - Equity Analyst

That's very interesting. Thank you for the detail.

Operator

Austin Bohlig, Needham.

Austin Bohlig - Needham & Company LLC - Equity Analyst

Congrats on the solid results, guys. My question has to deal with the full-year guidance. And I think you guys have discussed this in prior questions. But if I'm understanding you right, with all this big funding that was in the OBB, has yet been allocated to specific departments.

Is it fair to assume that none of that is baked into your current guidance? So might leave some move to upside if current contracts flow over the next couple of quarters?

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

So Austin, some of that is baked in, but not all of it. And the reason for that is because it's a very fluid sort of timing in the market. Those funding of the OBB and as I said, when it hit all the accounts within our customers' systems were not to be able to contract that out. Now how long it takes to do that really matters as to how much we can deliver this year, primarily because of how much time we're going to have left in the year to be able to execute against it. There's only so much ahead planning and at risk that we can go given the situation that we're in right now.

So for that reason, I would say, we feel very strong about our current guidance. Some of the OBB dollars is baked into our guidance and our expectations, but some of it is not. And then every day that goes by, by the budgets not being approved or continuing resolution going forward or the dollars, not hitting their accounts, it could actually add more risk for that not to happen this year, but it will happen in the following year.

Regardless we're going to have a great year and we're going to most likely going to finish the year strong with a very strong pipeline in bookings that can set us up for even more success beyond fiscal two.

Austin Bohlig - Needham & Company LLC - Equity Analyst

Got it. Just a quick follow-up, like within of that funding that you guys are including in your current guidance, like, which technologies or products is that focused on? Is that more on the UAS side, counter-UAS. Would just love some color there.

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

Austin, so it is so difficult to just name one particular product or technology that we have relative to the priorities of the defense. I am a very firm believer that the prospects for growth and prosperity for AV has never been better. And we're going to have a fantastic year this year, and we're positioned and poised to grow even more beyond this fiscal year.

There is money responding and there's need urgent requirements for drones for low munitions, for counter-UAS RF, for lasers, for the Golden Dome, for software solutions that we have as our AV_Halo and therefore our Titan family as well there is money for space laser communication and needs for that. And it's also for phase arrays and scar and BADGER Systems that we have.

I think the opportunities are for us, both domestically and internationally, has never been better. And we've worked hard over the last decade to position ourselves for this type of an opportunity that really is remarkably unique in my view. And so we're very pleased with the execution of our team. pleased with our results and how we put investments we've made and the best we've made and the company we've built to position ourselves, and we look forward to updating you in the quarters to come.

Operator

Thank you. I would now like to turn the conference back to Denise for any closing remarks.

Denise Pacioni - AeroVironment Inc - 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 today's conference call. You may now disconnect.

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