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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the AeroVironment Fiscal Year 2024 First Quarter Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

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

Jonah Teeter-Balin - *AeroVironment, Inc. - Senior Director of Corporate Development & IR*

Thanks, and good afternoon, ladies and gentlemen. Welcome to AeroVironment's fiscal year 2024 first quarter earnings call. This is Jonah Teeter-Balin, Senior Director of Corporate Development and Investor Relations.

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

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

This afternoon, we also filed a slide presentation with our earnings release and posted the presentation to the Investors section of our website under Events and Presentations.

The content of this conference call contains time-sensitive information that is accurate only as of today, September 5, 2023]. The company undertakes no obligation to make any revision to any forward-looking statements contained in our remarks today or to update them to reflect the events or circumstances occurring after this conference call.

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

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

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Thank you, Jonah. Welcome, everyone, to our fiscal year 2024 first quarter earnings conference call. I will start by summarizing our performance and recent achievements, after which Kevin will review our financial results in the greater detail. I will then provide information related to the outlook for fiscal year 2024, after which Kevin, Jonah and I will take your questions.

I'm pleased to report that we are off to a very strong first quarter and we believe we're on track for our best year ever.

Our key messages, which are also included on Slide #3 of our earnings presentation, are as follows. First, first quarter revenue rose to $152 million, a 40% increase year-over-year and our best Q1 in AV's history. This reflects robust demand for our market-leading intelligent unmanned systems domestically and abroad. Second, our funded backlog rose to a new record at $540 million, up from $424 million at the start of fiscal year 2024. This backlog reflects $268 million of new bookings during the first quarter.

Third, we recently announced that AV will purchase privately-held Tomahawk Robotics, enabling multi-domain control of a wide variety of unmanned solutions from one user interface. And fourth, we're raising our previously issued guidance for fiscal year 2024, which I will cover later in more detail.

Gross margin for the first quarter was $65.7 million, an increase of 95% versus last fiscal year's $33.7 million, and our gross margin as a percentage of sales rose to 43% from 31% in fiscal year 2023. We continue to expect gross margins to remain strong in fiscal year 2024 as our revenue mix shifts to more favorable product sales.

Overall, fiscal year 2024 is off to a great start and we're squarely on track to meet our increased outlook for the full year.

Global trends continue to support broader long-term adoption of our solutions and we aim to take the company to new levels in both scale and performance this year and beyond. In line with our strategy, we recently agreed to acquire Tomahawk Robotics for $120 million, a leader in AI-enabled robotic common control systems and open standard communication technologies. We believe this transaction will enable AV to provide a deeper, broader and simpler integration between our own and other unmanned solutions, making it easier for our customers to successfully operate a variety of unmanned solutions in the field.

Tomahawk's technology will streamline the operation of AV family of unmanned systems, enabling our users to achieve their missions with greater efficiency and simplicity. Tomahawk's Kinesis Ecosystem provides unmatched tactical capabilities utilizing an AI-enhanced open architecture control system that -- operating -- that seamlessly integrates any unmanned assets, providing a common operating picture for the operator. We expect Kinesis to enable AV's products to achieve an elevated modular open systems approach, which is in high demand by customers across the globe.

In addition, combining features of AV's Crysalis operating system with the Kinesis platform means pairing the best common controller technology with the most ubiquitous unmanned systems on the market today. AV and Tomahawk have been working together over the past few years, integrating Tomahawk's Kinesis control system with AV's small unmanned aircraft family of systems, including Raven B and Puma 3 AE.

Through our partnership, we have gained first-hand knowledge of the solutions that Tomahawk offers and we're confident that the combined experience and expertise of our 2 teams will result in a variety of unmatched unmanned expeditionary vehicles that meet our customers' emerging needs and exacting standards.

Once the transaction closes, which we expect to occur later this quarter, Tomahawk will operate an additional product line reporting into our Unmanned Systems segment led by Senior Vice President and General Manager, Trace Stevenson. We expect this transaction to drive incremental revenues, adjacent market growth opportunities and product performance synergies driven by the integration of our [prospective] technologies.

All of this should drive increased shareholder value. We will provide updated guidance during our second quarter earnings call, reflecting the impact of this transaction to our anticipated fiscal year 2024 performance.

Before turning to the product lines results, I want to remind everyone that we consolidated our businesses into 3 reporting segments at the beginning of this fiscal year: Unmanned Systems, Loitering Munitions and MacCready Works.

Starting with our Unmanned Systems segment, revenue grew 45% year-over-year to a record $98.2 million. Shipments during the quarter were driven by strong demand across a broad range of products, particularly our Puma systems which are urgently needed overseas. We continue to deliver Puma LE and Puma 3 AE systems through last year's large Ukraine foreign military sales order, but are nearly through the $176 million ceiling value, with a portion to be delivered in the second quarter. Looking ahead, our backlog remains robust.

Moving to our JUMP 20 system. We recently secured a $42 million contract from the U.S. Army for the Ukraine Security Assistance Initiative, or USAI. JUMP 20 will be the first Group 3 UAS platform provided by the U.S. Department of Defense to Ukraine. This is also the largest aircraft platform that the U.S. DoD has provided to Ukraine so far.

We plan to ship these systems during this -- our second quarter of this fiscal year. We remain confident that our JUMP 20 is the most mature and capable solution in its class. We also recently finalized a 10-year technical [assistant] agreement with Mexico for JUMP 20 systems, allowing AV to continue providing UAS support and training to the government of Mexico's armed forces through the foreseeable future. The Mexican armed forces continue to rely upon JUMP 20 as the only Group 3 UAS platform in their operations.

With an unmanned ground vehicles, or UGV, we recently achieved -- received an [out] order from the Danish Ministry of Defense for 21 ground robot systems, a mix of telemax and tEODor products, which are the first for that nation.

We've also delivered the initial batch of 5 UGV systems to the Netherlands under a prior 30 robot contract. At the same time, we continue to mark progress providing UGVs to Ukraine on an accelerated schedule, which are performing life-saving [EUG] emissions in the field. Given our growing backlog across the entire Unmanned Systems segment, we are confident we're on track for another great year.

Moving to our Loitering Munitions segment. I'm pleased to say that growth continues with sales up 34% year-over-year. This reflects Switchblade shipments to an expanding number of allied countries across the globe. Recent demand for Switchblade 300 and 600 systems has been largely driven through the latest U.S. AI and the U.S. government.

The U.S. Army recently awarded us another contract for Switchblade 600 loitering munitions in support of the USAI. At the same time, we anticipate the U.S. government will continue to backfill and increase depleted DoD stockpiles. Additionally, we are responding to a request for information, or RFI, related to the U.S. Marine Corps Organic Precision Fire, or OPF, program.

Overall, we anticipate both U.S. and international demand for our loitering munitions systems to remain strong through the rest of fiscal year 2024.

It is also important to mention that the last batch of our Switchblade 300 Block 10C configuration has been shipped and we have transitioned to the next-generation Block 20 variant. Switchblade 300 Block 20 features significantly more endurance, a tablet-based fire control system and other enhanced performance capabilities. Switchblade 300 Block 20 has successfully completed the U.S. Army safety confirmation certification and is now being delivered to customers.

Moving to our MacCready Works segment. I'm pleased to report that segment revenues also grew 31% year-over-year to $23.2 million. We're also making solid progress in our stratospheric solar HAPS program. We successfully completed further flight test using a smaller scale version of the new Sunglider aircraft.

These tests allow our team to collect and analyze large amounts of data, which could not otherwise be obtained from computer-based simulations. We will now apply these learnings to our next-generation Sunglider, while at the same time, working with the FAA for type certification.

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

Kevin Patrick McDonnell - *AeroVironment, Inc. - Senior VP & CFO*

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 the website. Also, there is an 8-K available on our website, which recaps our historical results into the new segments.

Overall, we started the first quarter extremely strong in terms of backlog, revenue, adjusted gross margins and adjusted EBITDA. As Wahid mentioned in his remarks, revenue for the first quarter of fiscal 2024 was $152.3 million, an increase of 40% as compared to the $108.5 million from the first quarter of fiscal 2023.

Slide 5 of the earnings presentation provides a breakdown of revenue by segment for the quarter. Our largest segment during the quarter was Unmanned Systems, or UMS, which is a combination of our small UAS, medium UAS and UGV businesses with revenue of $98.2 million, an increase of 45% from last year's $67.8 million, driven primarily by our small UAS business unit, which shipped systems to 8 international countries during the quarter.

Loitering Munitions Systems, or LMS, recorded revenue of $30.9 million, a 34% increase compared to the $23 million last year during Q1. LMS demand continues to be driven by strong U.S. and international orders.

Revenue from our MacCready Works segment came in at $23.2 million, an increase of 31% compared to the $17.7 million from the first quarter of last fiscal year. We continue to see strong demand in MacCready Works services within the various agencies of the U.S. DoD and U.S. government, in particular, increasing demand for incorporation of our computer vision, autonomy and AI capabilities.

In Slide 5 of the earnings presentation, there's a breakdown between product and service revenue. Specifically, during the first quarter, product revenues accounted for 78% of total revenues, a notable increase from 53% in the corresponding quarter of the previous year due to strong product revenues from our small UAS business and to a lesser extent from lower MUAS COCO service operations with the closure of all the [site] locations.

For the remainder of fiscal 2024, we expect product sales to remain above 70% of total revenue, but expect LMS sales to increase as the percentage of product sales, which will have an impact of lowering overall product gross margins.

Now turning to gross margins. Slide 6 of the earnings presentation shows the trend of adjusted product and service gross margins, while Slide 12 reconciles the GAAP gross margins to adjusted gross margins, which excludes the intangible amortization and other non-cash purchase accounting items.

In the first quarter, consolidated GAAP gross margins finished at 43%, up compared to 31% in the previous year. The improvement in GAAP gross margins was largely a result of improved product service mix and strong product gross margins. In addition, gross margins were favorably impacted by a decrease of $4 million of depreciation on COCO ISR assets.

Adjusted gross margins for the first quarter were 45% compared to 34% in the first quarter of last year. The improvement in adjusted gross margins was also driven by the improved service mix and strong product gross margins.

Adjusted product gross margins for the quarter were 49% versus 44% in the first quarter of fiscal -- of last fiscal year, again, to a higher mix of revenue from our small UAS products during the quarter. In terms of adjusted gross -- service gross margins, the first quarter was at 28% versus 22% during the same quarter last year, again, due to the closure of the MUAS COCO operation sites.

We expect adjusted gross margins to continue to be strong during the first half of the year. However, as our product mix shifts, during the second half of the year we expect adjusted gross margins to end up in the high 30s for the year.

In terms of adjusted EBITDA, Slide 13 of our earnings presentation shows the reconciliation of GAAP net income to adjusted EBITDA. In the first quarter of fiscal 2024, adjusted EBITDA was $37 million, representing an increase of $24 million or 54%. The main factors contributing to this increase were higher sales volume and favorable sales mix, which was partially offset by incremental SG&A expenses, investments in R&D.

SG&A expense during -- SG&A expense, excluding intangible amortization and acquisition-related expenses for the quarter was $23 million or 15% of revenue compared to the first quarter in fiscal 2023 of $18 million or 16% of revenue. While R&D expense increased modestly year-over-year in dollar terms, R&D expense as a percentage of revenue was 10% versus 14% in the corresponding quarter of last year. R&D will run closer to 12% for the full year as we continue to invest in new products and upgrades to existing products to meet the evolving needs of our customers.

Now turning to GAAP earnings. In the first quarter, the company generated net income of $21.9 million versus a net loss of $8.4 million recorded in the same period last year. The increase in net income of $30.3 million can be attributed to several factors, mainly $31.9 million increase in gross margin, driven by a rise in sales volume and improvement in revenue mix, a $3.4 million decrease to intangible amortization and a $1.3 million decrease in taxes. This was partially offset by a $1.9 million increase in SG&A expenses, a $0.4 million increase in R&D spending and a $0.2 million increase in unrealized loss on equity-related investments.

Slide 10 shows the reconciliation of GAAP and adjusted or non-GAAP diluted EPS. The company posted earnings per diluted share of $1 for the first quarter of fiscal 2024 versus $0.08 per diluted share loss for the first quarter of fiscal 2023.

Turning to the balance sheet. Total cash and investments at the end of the quarter was $128.4 million, which is a decrease of $28 million from the fourth quarter of fiscal 2023. During the quarter, we reduced our long-term debt by $5 million to $130 million.

Inventories increased $37 million during the quarter of fiscal 2024. Inventories will remain at these levels as we prepare for shipments in the coming quarters and carry extra inventory as a result of supply chain risk minimization. With that said, inventory as a percentage of backlog are in line with recent historical averages and down from COVID period averages.

We continue to have a strong balance sheet with over $100 million of cash and investments and approximately $100 million available under our working capital facility.

I'd like to conclude with some highlights of our backlog metrics. Slide 8 of the earnings presentation provides a summary of our current fiscal 2024 visibility. As Wahid mentioned, our funded backlog at the end of the first quarter of fiscal 2024 was a record $540 million, an increase of 27% from the prior quarter. Visibility to the midpoint of our revised FY '24 revenue guidance range is over 100%. With our record-setting revenue and backlog, we are positioned well for another record-setting growth year in fiscal 2024.

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

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Thanks, Kevin. With a record backlog of orders and after a very strong first quarter, we're increasing our guidance for fiscal year 2024 as follows. We anticipate revenue of between $645 million and $675 million. We anticipate non-GAAP adjusted EBITDA of between $117 million and $127 million, representing about 18% of revenue. Net income guidance remains unchanged at $51 million to $59 million or $1.91 to $2.21 per diluted share. This is primarily due to increased R&D investments in support of our strong growth.

Non-GAAP earnings guidance also remains unchanged between $2.30 and $2.60 per diluted share. We expect R&D investments to be closer to 12% of revenue this fiscal year. As a reminder, we expect a more balanced revenue distribution with roughly 50% of revenues expected to occur in each half of this fiscal year. We now have nearly 100% visibility to the midpoint of our revised revenue guidance.

While we are confident in our ability to achieve our guidance, there are also numerous factors at play. This includes working with suppliers to scale their businesses to match our needs as well as securing long lead items.

We remain well-positioned to deliver nearly 20% growth in revenue, higher margins and overall improved bottom line results. The investments we're making this year should also position the company for continued growth in years to come.

While the overall geopolitical environment as well as battlefield trends towards significant greater use of unmanned platforms support our confidence in the future, we're mindful that the U.S. government is nearing the end of its fiscal year. We, as with most defense contractors, now regularly assume that a continuing resolution is more likely than not, which could impact contract timing.

However, I would say unequivocally that AV remains optimistic about our fiscal year 2024 given broad support for our systems and services. We believe the current administration will continue to provide the necessary budget dollars and prioritization for the type of mission-critical unmanned systems we supply, particularly in contested environment operations.

We are at the forefront of developing and offering in-demand solutions for autonomy, automatic target recognition and tracking. In addition, the U.S. DoD is investing more in loitering munitions and small unmanned systems, areas where we are well-positioned to thrive.

Now, let me once again summarize the key points from today's call. First, we delivered record first quarter results, which provide a solid start to fiscal year 2024. Second, our record funded backlog remains at historic levels, reflecting strong global demand for our solutions. Third, the acquisition of Tomahawk Robotics will further improve the outlook for interconnected unmanned solutions and opens new avenues for growth across our product portfolio. And fourth, overall, the fundamentals of our business look better than ever they have in our history and we're well-positioned to continue our growth trajectory as Congress begins laying the groundwork for the fiscal year 2024 budget.

Before turning the call over to questions, we're also excited to welcome Admiral Phil Davidson to our Board of Directors. Admiral Phil Davidson brings extensive knowledge of battlefield operations, especially in the INDOPACOM theater and the deployment of new defense capabilities. We look forward to the unparalleled strategic counsel and vision he will bring to AV.

I would also like to thank Catharine Merigold for her 8 years of service on our Board of Directors as she is stepping down at our upcoming annual meeting. Her passion for and interest in our company's future were instrumental to our success during her tenure.

And as always, my appreciation to our workforce goes without saying. Without such a dedicated and talented team of professionals, we would not have the market-leading position powered by the cutting-edge technological advancements that we enjoy today. We appreciate all our employees every day just as we do our longstanding investors and other stakeholders in the company. The future continues to look bright and we believe fiscal year 2024 will drive the company to new heights.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from the line of Gregory Konrad from Jefferies.

Gregory Arnold Konrad - *Jefferies LLC, Research Division - Equity Analyst*

Great quarter. Maybe just to start on the outlook, I mean, the revenue outlook, it's a pretty big raise 1 quarter in. Can you maybe just talk about what's changed since last quarter? Has there been some risk retirements? Is it orders? And just kind of what's driving that better revenue outlook for the year?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Sure. So we're very pleased with how great our team performed on the first quarter, Greg. There are several factors why we raised our guidance for full fiscal year 2024. One is we've had a tremendous first quarter. And our first quarter -- this is a historic first quarter for the company.

Second, our backlog, as you saw, is at a historic level also. We have another record on top of a record that we achieved this Q1. And in our visibility to the midpoint of our revised guidance is nearly at 100%. So you can look at that and say, based on our inventory position and ability for us to be able to secure long lead items, we feel fairly strong that at this time, we can achieve the revised guidance range that we provided.

The demand for our solutions remained very healthy, both domestically and abroad. And I think the whole aerospace and defense industry is in a point of inflection when it comes to small unmanned systems as a distributed architecture of warfare as well as loitering munitions, both categories which we have essentially invented in the marketplace over the last 2 decades. So we're positioned extremely well. The demand seems to be very strong even beyond fiscal 2024. And we felt that at this time, we should raise our guidance to be able to achieve the higher levels of revenue outlook on the top line that we provided.

Gregory Arnold Konrad - *Jefferies LLC, Research Division - Equity Analyst*

And then maybe just a follow-up. If you can talk about Tomahawk a little bit? You had Progeny, and just kind of how you view the shift from maybe hardware to more software and integration? And how you think about that kind of expanding the addressable market as you get more into control and software side versus the hardware?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Sure. So I'm glad you asked that question, Greg, because it's a really important point to make here. There are several reasons why we decided to acquire Tomahawk, which we have known by the way, for many, many years. We've worked with them in the past, as I mentioned on my remarks, and we know the technology, the products and their talent very, very well. It's very similar to the Progeny Systems.

There's a few key reasons I want to highlight. One, the overall customer trends are, when the warfighters are overwhelmed with so many robotics systems, small, medium, large, extra large, et cetera, et cetera, loitering munitions, ground robot, et cetera, it becomes very difficult for a warfighter to be able to carry multiple ground control stations and tablets and devices to control multiple UAVs.

So what Tomahawk does, it allows not only AeroVironment robotic systems, but also any other brand of robotic systems to be able to simply integrate together in the battlefield to simplify the life of our customers, meaning the warfighter.

In addition to that, it also enables a whole bunch of AI-enabled features and technology, which we have been investing and they're investing in as well. So one thing that's really not well known about our offering is that we've been investing in this category of autonomy, GPS-denied operations, contested battlefield environments like the ones that we see and witness every day in Ukraine. AeroVironment has been investing in this area for several years, and we expect that to continue and we're positioned extremely well on that.

So what Tomahawk does, it helps us accelerate that deployment and adoption and to meet the customers' need while we're better than anybody. So there are several reasons [that] the growth acquisition -- It allows us to grow further and faster and allows us to deliver more value to our customers in order to simplify their, what I call, ecosystem, an environment where they're operating multiple UAVs. Obviously, we just signed and we're going to close that this quarter -- we expect to close it this quarter and we'll provide more color on the financials at that time.

Operator

Our next question comes from the line of Peter Arment from Baird.

Peter J. Arment - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Wahid and Kevin, terrific results. Wahid, just a question on the product mix. I don't think we've ever seen you have a report 78% of the mix just kind of in the quarter for products. And I'm just wondering, just given how well your backlog is hitting new record levels, just kind of what we should expect going forward throughout this year, just thinking about service versus products?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Peter, as I said in my remarks, yes, we expect the product mix as a percentage of revenue to be more favorable towards products as it was in our Q1. And as you know that product sales generally -- because we invest our R&D in our products, and we sell them as -- majority of them, not all of them, as a commercial item, we enjoy a higher gross margin in that regard, because we invest in them and it's justified to our customers. So for the remainder of this year, we expect the gross margin percentage and the mix of revenue to be more favorable towards product sales and services for fiscal year 2024.

Peter J. Arment - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

And then just on the backlog -- the record backlog, can you maybe talk a little bit about how the FMS activity that you're seeing and just the opportunities there? I know you've been able to expand the countries that Switchblade is available for. And of course, you've had a huge installed base in the small UAS category internationally. But how is FMS activity we think about going forward?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Sure. So overall, our backlog, as you know -- as I mentioned, is at a record level, again. We had a record backlog entering first quarter of fiscal 2024, last quarter on our earnings call. And we actually built -- beat that or increased that by almost another $100 million this quarter. It is phenomenal how well we've been performing in terms of securing orders and working on growing our backlog.

Many additional FMS cases remain not to be in contract yet from our many allies for loitering munitions. We believe that over the next several quarters and maybe even beyond fiscal '24, we will see more countries placing orders and contracting these -- the demands that they have and the needs they have for loitering munitions.

The Ukraine conflict has essentially put an explanation mark on how effective and important small unmanned systems and loitering munitions are for a near peer kind of a conflict, the one that they are facing with Russia. So our systems have been incredibly vital. And I believe that this is an inflection point as we go into multiple years beyond now.

This is something that we work for very hard as a company. We've been saying this for a long time. We believe in this value proposition of our solution. And I think our customers are starting to realize that and that's accelerating their needs and requirements for acquiring those things.

So in short, backlog is very strong for this year. We expect that to remain strong throughout the whole year. And I believe that many additional FMS cases for Switchblade 300 and 600 remains to be not contracted yet. This could be contracted in the future. Those cycles take a little longer, but there's a very healthy pipeline that's being built as we progress throughout this fiscal year, which will help us in future years.

Operator

(Operator Instructions) And our next question comes from the line of Ken Herbert from RBC.

Kenneth George Herbert - *RBC Capital Markets, Research Division - Analyst*

I wanted to -- Wahid, I wanted to see if I could start out and ask a question on the backlog again. Is it possible to parse out how much of the growth in backlog is maybe direct with [USAID] to Ukraine versus maybe international customers or other U.S. domestic opportunities?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Ken, unfortunately, because of customer sensitivity, I'm not able to dive -- go further deeper into the colors of the backlog and what. But what I could say is that in general, our backlog is really strong in all 3 of our business segments, our Unmanned Systems segment, our Loitering Munitions segment and our MacCready Works segment. So we have seen significant growth in all of them. The backlog for Loitering Munitions is made up primarily because we only sell those to the U.S. government, including for international opportunities.

U.S. DoD has so far decided to fill those requests all through an FMS or USAI case. FMS case is coming through the U.S. Army. So really, the contracting office that handles our Switchblade family of systems for both domestic and international customers has been and remains to be the U.S. military and U.S. Army. The mix of customers in that area is pretty broad. I'm not able to comment on a specific contract or amounts of them because of the sensitivity of the conflicts that we have around the world and our customers.

But it's healthy across the board, and I believe that it's going to stay that way for the foreseeable next -- this year and beyond, hopefully as well. Because, as I said, we'll continue to build on our momentum and that's one of our fundamental goal and priority last several years to continue to build our backlog to also level load our revenue based on a quarterly basis. And as you can see, we expect this year to be nearly 50-50 between first half and second half of the year, primarily because of our backlog.

Kenneth George Herbert - *RBC Capital Markets, Research Division - Analyst*

And if I could, there's been a lot of press recently around some newer starts within the United States, whether it be the LASSO program or Replicator or others. I'm not sure [if] you could talk about these, but could you maybe just talk about how well you believe you're positioned from some of the newer efforts with the U.S. Army, the Marine Corps and other parts of the U.S. government of some of these new competitions and how meaningful they could perhaps be in '24 and in fiscal '25 for you?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

So Ken, I could not agree more with you in terms of the relevance of these large, very high priority focus areas for the U.S. DoD. You mentioned a couple. LASSO that's been -- recently been announced by the U.S. Army. We're tracking all of these. We are engaged with our customers very closely.

One of the things that we pride ourselves is that we spend a lot of energy making sure that we're very, very close and intimate to our customers so we can solve their problems the best way possible, better than anybody. And some of these requirements are squarely focused around the area that we, as a business, are offering as a pure-play player. There is no one on this planet that I can think of that has the breadth and the depth of our portfolio when it comes to unmanned systems and robotics.

So the Replicator, which was just recently announced by the U.S. DoD and Pentagon is very much another example of the type of capabilities that our defense customers, U.S. DoD specifically, is looking to sort of acquire over the next several years. That's very much focused around our system. So I think we're positioned really well. I believe we will be able to participate in these opportunities. The details of that, of course, I'm not able to disclose right now because it's quite early and it's sensitive to our customers' operations and business.

Operator

(Operator Instructions) And our next question comes from the line of Bryce Sandberg from William Blair.

Bryce Sandberg

Wahid, you referenced how the $176 million Ukraine Puma IDIQ is nearly fully drawn. Do you expect to be able to renew this contract?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

So the answer is we are already engaged on additional contracts. So the short answer is yes. Is it going to be exactly the same type of contract and the same exact amount? No. But there's definitely a lot of demand for our systems for Ukraine. As you all know, as I mentioned before, Ukraine has made many public statements that our Puma system is the workhorse in Ukraine and our Switchblade family systems is also one of their very critical capabilities that have helped them defend their nation and defend their independence against Ukraine so far.

I believe that, that's going to continue. We are engaged with the U.S. DoD on a very, very close and regular basis. There are several additional requests for our systems and the U.S. DoD is working with us to be able to fulfill those needs as they see appropriate.

As you can see, some of that is also, in fact, reflected our backlog today. So the strong backlog does include additional orders for our unmanned systems in small UAS as well as loitering munitions, but I expect that to grow and continue to expand over the next several quarters as we move forward because I think that, as I said, it's an inflection point. Many of these countries, including Ukraine, want to have more and more of our [types of] systems, which are far, far less expensive than much more (inaudible) other platforms and they're much more effective in what they're trying to do and how they're fighting their conflict with Russia.

Operator

(Operator Instructions) And our next question comes from the line of Pete Skibitski from Alembic Global.

Peter John Skibitski - *Alembic Global Advisors - Senior Analyst*

Nice quarter, guys. I'll echo that. Just, Wahid, you touched in your opening comments, I think, supply chain issues. Can you update us on what you're seeing in terms of -- as you ramp in volume, issues with GUIs, any other components that you're having whose lead times are extended?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

So Pete, we believe that the revised guidance we gave, we're pretty -- we're confident that based on all indicators today, we're going to be able to achieve the revised increased guidance on the top line. We have secured pretty much most of our long lead items. And as Kevin mentioned in his remarks, we have intentionally raised our inventory levels to some extent, primarily because our systems are in high demand and sense of urgency within our U.S. DoD as well as our allies is very high. As soon as they contract with us, they would like us to deliver the systems. So it's never a perfect situation. The supply chain is a game of -- I call it a Whac-A-Mole game.

Every day, every week, there's some sort of a new issue. But overall, we have handled this and managed this extremely well throughout the entire years of the COVID pandemic, the supply chain constraint, et cetera. So for fiscal '24, overall, we're in a very good position. And -- but there's challenges that arise every day and we try to address them. And we've actually done a really good job of managing those things.

Another challenge that we are also facing, that we're tackling is not only we have to manage the supply chain and making sure the parts are there, our revenue has grown considerably over the last 2 or 3 years.

And with this growth, we need to also make sure that we bring up the production capacity of some of our smaller suppliers. And that is something that doesn't happen overnight. And it requires effort on our part. And for them to increase capacity, they've got to scale up their production and

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their manufacturing and their operations. And we're working with many of them that are strategic to us to make sure that we don't have any bottlenecks.

And I'm very pleased with the progress that our team is making. And we've made it a concerted effort and focus for ourselves as a priority as a company and a leadership team to focus on that for the last 3 to 4 years. And I think that is starting to pay dividends for us as we see the kind of growth that we've been able to achieve and deliver to -- for our shareholders.

Peter John Skibitski - *Alembic Global Advisors - Senior Analyst*

And last one for me. On the Tomahawk deal, my question is, why buy this company? It's fairly young, right, only 5 years old. Why buy them instead of maybe team with them on an ongoing basis or some other business arrangements? It's -- this whole area of ground control systems, it's -- I guess you would have to have a comfort level that their IP is so high that it would -- other competitors would have a hard time overcoming that. Can you share your thoughts on why you pulled the trigger on this deal?

Wahid Nawabi - *AeroVironment, Inc. - Chairman of the Board, President & CEO*

Sure. So as you said -- that's a very good question, Pete. One, we've known it for many, many years, and we've known them since their founding days, in fact. So I've personally known the -- one of the founders through the industry, of course, for a long time. The reason why we did this is because it allows us to accelerate and achieve our growth objectives faster for ourselves as well as for our customers. As an independent company, while they continue to work with us, we won't be getting the level of priority and preferential treatment as we would like because at the end of the day, it's all about the mission of our customers, the warfighters.

And most of our customers have already chosen to go down the path of selecting their system -- Tomahawk systems as the open architecture to connect multiple unmanned and manned devices. So think about a battlefield where there are tanks, armored vehicles, ground robots, UAVs, et cetera, USVs, and you need to make sure that you provide a common operating picture for the operator, for the warfighter.

And so what Tomahawk does, it brings all those things and it connects them and integrates them and also introduces a lot of predictive AI feature set. So in order for us to deliver those capabilities to our customers faster and also integrate deeper in terms of our product road maps, technology investments, we felt that the acquisition was a better way to go.

And lastly, I would say, we're also growing in terms of our talent. Tomahawk Robotics is primarily based out of Florida and it's an area that we like to get access to more talent. So their site in Florida allows us to expand our workforce outside of California and areas where they're closer to our customers. So there are several reasons, their talent base, their IP, their product, their progress with customers as well as ability to support our growth in the years to come.

So I really feel strongly that this is a very good decision for our company and our shareholders. It's also a great outcome for our customers. So far, the feedback has been very positive and it positions us to basically marry the best, the most ubiquitous unmanned systems provider, which is AeroVironment, with the most advanced common controller technology enabled by AI from Tomahawk to be a integrated system solution for our customers.

Operator

And with no further questions in the queue, I'd like to turn the call back over to Jonah Teeter-Balin for any closing remarks.

Jonah Teeter-Balin - *AeroVironment, Inc. - Senior Director of Corporate Development & IR*

Great. 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, all SEC filings and relevant news can be found under the Investors section of our website. We wish you a good evening and look forward to speaking with you again following next quarter's results.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.
