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AeroVironment, Inc. (AVAV)

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MANAGEMENT DISCUSSION SECTION

Unverified Participant

Good morning, everyone. We're going to – in the interest of time, we'll get started as people filter in from breakfast. First off, it is just a great opportunity to welcome everyone to our 47th Annual Aerospace and Defense Panel or Conference. You may see [indiscernible] (00:00:25) wandering around. That is not his ghost. [ph] Kay (00:00:28) is very much alive and welcome to be here, and I think [ph] Gotham (00:00:33) may actually be trying to rehire him or something like that. So I don't know. I don't know how that's going to work out.

But – and then for those of you who may notice or may have heard, last night, President Trump said there wouldn't be a second reconciliation bill. So there won't be probably $1.5 trillion for defense. So, we all go home. I'm – no, I'm kidding. So, with that, it is a great pleasure to introduce our first two speakers and our first company, AV, still AeroVironment to me.

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

It's okay.

Unverified Participant

I make that mistake and then the ticker is AVAV. So even more confusing. Denise Pacioni, Head of IR; and Jeff Rodrian, Head of their MacCready Works operation, which is a fascinating business that we're going to hear about. So, thank you both so much for being here and making the trip.

QUESTION AND ANSWER SECTION

Q

So, I guess, just to set the stage, a company has evolved as sort of technology acquisition. So maybe if you just want to talk about the sort of the overall state of the business and where – major segments and strategically where the company is headed.

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

Sure. And thanks, [ph] Roman (00:01:43), for having us. We're very excited to be here. So for those who have followed AV in the past, we've made a remarkable shift this last year. So, if you would have looked at us a year-and-a-half go, we were probably a $700 million company. We were operating in three segments, loitering munitions, uncrewed aircraft, and then MacCready Works, which Jeff runs, which is sort of like our innovation engine technology, where everything's being developed. About a year ago, it was in May, it was actually May 1st we closed on the BlueHalo acquisition. So this was a very transformational change for the company. BlueHalo brings about new technologies, puts us in different market sectors than we were in before. It's all complementary to the products that legacy AV had in the past.

So currently right now, we operate in two different business segments. The first one is primarily legacy AV. So this is where you're going to see your uncrewed aircraft systems, your loitering munitions, and then again, you'll have MacCready Works, and we have UGV and UUV also in this first segment. So some of the products that are in there, I'll just kind of go through them because some are very quickly becoming household names, as there's emerging issues going around globally. So our Switchblade family of products is in our loitering munitions as well as our Red Dragon. And I'm sure that, Jeff, can answer any questions on that new product that we have.

The second category in there would be our uncrewed aircraft systems. So this is our Puma, our new P550. We have our Raven in there as well. And then the third operating group would be our UUV, MacCready Works, and UGV products. There's two additional things I'm going to touch on in just a second. I'm going to come back to that first segment. The second segment is primarily legacy BlueHalo products. So this is where we have two different operating groups in our space and defense. And then – I should say, space and defense, together it's SPDE.

Q

Space and Directed Energy.

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

...directed energy. So sorry, directed energy. So the two products there primarily would be our Badger product, which is operating under the SCAR contract, and then our Locust Laser Weapon System, which is a counter-UAS product. The other side is our cyber mission systems. This one operates a lot of high-tech stuff that's going on in there, a lot of proprietary things that we can't talk about that we're dealing directly with the government on. So when we bought BlueHalo, there was a few capabilities they had. But the one that that stands out to most people is the counter-UAS products.

So now AV has a complementary full suite, I should say, of counter-UAS, starting with our Titan. Titan is a counter-UAS product that is RF detect and defeat. The next we have is Locust. This is a directed energy solution. And then finally, we just announced probably six months ago, it's called Freedom Eagle-1 or FE-1. This is sort of AV's entry into the missile market. This was a capability that was requested by the government. Can you please come up with something? Right now we are using very expensive missiles to take down very cheap drones. This is not an efficient solution. So we came up with FE-1.

So we do have this broad counter-UAS sort of grouping. However, they're located in two different business segments. So, if you're looking at our financials, you'll see that we have Titan is in our first segment, which is primarily legacy AV. And FE-1 is also we just felt like it was more complementary fit based on the capabilities and technologies that are used in those. And then the Locust laser is in our second segment under the Space and Directed Energy piece. So that's sort of, I guess, broadly giving you this is how we've decided to sort of move the business forward after the acquisition of BlueHalo.

Q

Great. So, Jeff, you head up MacCready Works...

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Yeah.

Q

...as Denise said, sort of the innovation engine. But so how do you – well, talk about that. It's sort of the mission statement, and then, sort of how do you balance sort of near-term rapid innovation with sort of long-term discovery, science and technology, that kind of stuff?

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Yeah, great. Thanks, [ph] Roman (00:05:47). Yeah. So I have the pleasure of running this really fun group in AV called MacCready Works and to set the stage for how we think about that business, it's very worthwhile to rewind about 10 years ago, when both Switchblade and Puma, so our small UAV category in the loitering munition category. We're going through explosive growth, and as a leadership team at AV, we recognized that as these product lines went forward to continue to grow exponentially, technology was accelerating the pace of change in the markets, and we needed a group to focus on what's coming next to avoid the classical innovator's dilemma and so that led to the genesis of MacCready Works.

We grabbed the name from our Founder of AV, Dr. Paul MacCready, to bring some of his ethos into thinking about new problems differently, and over the last 10 years, where we've positioned MacCready Works is exactly you mentioned [ph] Roman (00:06:38). Let's look at where things will be in five years. So about five years ago, for example, we started looking at the changes coming on the battlefield and we'll talk about those in a second. I think about GPS denied, RF denied, what was evolving. Five years ago, we said we need to start investing this. So, MacCready Works took a five-year time horizon to start putting in place and developing software solutions for

autonomy, navigating visually, and now we're seeing those technologies hit the battlefield, right, whether it's going into emerging products at MacCready Works or into our Switchblade and Puma family of systems.

And so that's an example of going through that wave of started five years ago. Here we are today infusing these new technologies into our existing product lines and new exciting other areas. We also are looking, as you can imagine today, at what's coming in the next five years. And some of those are very exciting new programs, and we really try to focus on partnering very closely with our government customers as early as possible to, yeah, avoid going in the wrong direction any new technology developments, and so, some of the things are coming in the next five years are very closely held with the relationships we have there, but they're all really seating at this intersection of autonomy, AI, computer vision, what that can enable us to do with autonomous systems on the battlefield.

Q

Great. Great. I'm sure I'm interested to know what's in that [ph] far look (00:08:10)...

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Yeah. I know.

Q

...but I guess we'll have to wait a little bit...

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Yeah.

Q

...but maybe we'll get into that a little bit.

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Yeah.

Q

All right. Well, so, Denise, we just talked about those segments, the halves of the company, and I guess, within that, various product lines. Obviously, one-way attack munitions, counter-UAS, I mean, opportunities in space and golden dome. I mean, where do you all see the sort of biggest growth areas? And I mean, I know they're all growing a lot. So, I mean, I'm not asking you to rank them, but how should we think about them?

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

Well, at the risk of being too promotional, I would like to say there's a lot of high growth areas right now. I think it's across the sectors. So it's not necessarily unique to AV. But we do play in a lot of these areas that are growing. There's a lot of macro tailwinds that are helping us. So if I were to further define some of the products that we have on the first segment that I was describing, there's one product, the Titan counter-UAS. So this is RF detect and defeat. Right now we sell directly to the customer. We also sell as a subcontract to somebody. This market is opening up. I think it's important for people to think about this beyond traditional department of war-type customers. The future, I think you're going to need to see these things protecting air bases, protecting airports, protecting stadiums, and I think the customer base will evolve. So I think that Titan is definitely going to be a strong grower.

Switchblade, obviously, this is something that, like I said, I called it a household name before, but it really is the loitering munitions. The technology is really taking off here. We had a Switchblade 300, a Switchblade 600. We're working on different block variations of those. Just a few months ago, we announced the Switchblade 400. I think this is something that's going to continue to evolve. The technology is just moving faster than the pace where demand is right now. You know, for example, that the Switchblade 400, we had a Switchblade 300, which is a one-man portable. It's much lighter weight. Then we came up with a Switchblade 600. The Switchblade 600 can take out an armor tank. It has a heavier warhead, needs two people. So customer came to us and said, you know, we need a requirement where it's one-man portable, but I need it to have that warhead on there and so we developed the Switchblade 400.

My suspicion is we're probably going to see more variance going forward just as the sort of landscape of warfare today evolves. So I think that's going to continue to be a strong growth driver for the company. Along those lines, when you think about drone warfare, Red Dragon is something it's a one-way attack. I think you're going to – eventually you're going to start seeing swarms. I think there's going to be a very layered strategy in defense where you're going to have some of the larger loitering munitions come out, behind it some smaller. You're going to have swarms. The whole goal is to keep the war fighter off the enemy lines and back as far as they can be. So I think this is another sector that's going to just keep growing. Beyond that, we have our uncrewed, such as our Puma and our P550. I think the P550 is something that's going to have a very strong growth trajectory. And then one that's just right now becoming very popular is the JUMP 20. So the JUMP 20 is our Group 3 solution and there's a lot of maritime activity going on. So, we were just named as one of four people on a naval IDIQ. We're excited to be participating and more active with that customer going forward.

So, like I said at the beginning, I hate to be too promotional, but there really just are a lot of good things going on for AV right now in this entire sort of drone category. Beyond that, if I step into our other segment and I especially talk about the counter-UAS. Obviously, as drone technology evolves, the counter-UAS technology has to evolve just as quickly. It's just one little step behind. So besides the Titan, we also have the Locust. We've delivered nine of these right now. They're being used. They're being fielded. They're being tested. The directed energy solution, I think, is something that going forward on the counter-UAS front is going to be a leader. So I would look for that to be a growth driver for the company.

And then, we continue to do great things with our cyber emission systems. This is working directly hand in hand with the customer. They're creating and developing new things, technologies that are way above anything I can describe. I'm a finance person, not an engineer, and I certainly don't know how to deal with any of these different types of substances and particles and products that they're using to sort of protect assets. But there's a lot of growth opportunity there as well.

Q

And just to clarify one, Locust is actually fielded in an operational theater. Is that right? Am I...

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

They're being used right now. That's what I can say.

Q

Deployed. Okay. Fair enough. I guess, I'm going to skip a question because we keep on bringing up Red Dragon. It keeps on creeping up and it's like, what is this, and I mean, I – just the nerd side of me is very intrigued, but so – and maybe we can kind of merge it with sort of ongoing lessons...

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Yeah.

Q

...in the world about unmanned systems and GPS-denied autonomous, but so what is Red Dragon and what can you tell us?

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Yeah. Sure. Happy to go into that. So, as I mentioned, in MacCready Works, we started looking at this changing battlefield five plus years ago, and recognized the challenges we're going to face with navigation, communicating with our drones. Started investing in these software-defined technologies right, and so pulling these pieces together, we started looking at and then, obviously, unfortunately, Russia invades Ukraine. We get very quick real world feedback on what's happening. We've had teams there probably every couple of months learning, right? I've been there several times myself to pick up you, what's going on in the battlefield. We saw a need to take these technologies that were coming together and quickly put them together into a package to showcase to customers what the future could look like and that is the product we call Red Dragon, which brought in the software-defined capabilities for navigating without GPS, flying autonomously when you don't have reliable data link. So you can have intermittent challenges for data link and still complete your mission successfully.

So, it's been a fascinating journey to create that product very quickly, really think [ph] it was (00:14:25) like a software-defined drone and it's spurred on numerous new programs that we're chasing down right now, we can't go into too much detail on, but very exciting future and then it also helped spur on technology insertions into Switchblade and Puma and other products. So it's really, as Denise mentioned, capturing the lessons that we're all seeing from Ukraine, also thinking about how you go forward and do the layered swarm-type effects in the future and giving us the core product to do experimentation, demonstrations, and then eventually obviously develop very exciting opportunities for the company with that type of category.

Q

Two quick follow-ons.

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Yeah.

Q

One, I looked – I think it's a different form factor though from Switchblade. So this is not like a...

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Yeah. So that's not...

Q

...correct.

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Yeah, we started with the idea of how do we make – we need to get long distances, right, as Denise mentioned. You want to get off of the flock. You want to get away from that line of contact with your adversary. So we need longer distances. We saw that happening in Ukraine. So we had to optimize for distance, right? So Red Dragon will fly over hundreds of kilometers, right, on a single flight. We didn't see when you step back that far and need to come out of a tube like Switchblade. So that allowed us to go to a more classical like fixed wing aircraft configuration. It helps with additionally mass production. So if we read what's happening in Ukraine right now, it's something on the order of about 5,000 drones [indiscernible] (00:16:00) sent from Russia to Ukraine every month. And [indiscernible] (00:16:04) 60,000 drones a year. It's an insane amount of production that has to happen to make that realistic. And Ukraine is very successful in meeting those type of demands. We said what would be a product that would enable US manufacturing to hit scale like that and that heavily influenced the Red Dragon design as well.

Q

You mentioned you're chasing several opportunities. So when might we hear about those?

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Probably in the next couple of quarters.

Q

Well, when might you hear about them and then when might we hear about them?

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Let's say, right now, they're rapidly developing. And given the nature of who we're working with probably closely held and how we have to disclose those as they go forward.

Q

Sure. Okay. All right. Let's get to the one overhanging question if you want to talk – if you could tell us what's going on with SCAR and Badger, please.

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

Sure. I'm actually glad that you asked the question because I probably feel that about 65 so far. In case you're not aware, a few weeks ago, we issued an 8-K. So our Badger product is part of the SCAR program. There was a stop work order that was issued, and in my 45 second elevator pitch, I usually like to just sort of start off by saying, you know, it seems like this administration has come in and I applaud them for doing this with a very efficient, focused mind on all of their contracts going forward and on their current contracts. So if you think back, it started with DOGE efforts. You know, we're trying to find the most efficient solution. This stop work order to me falls in that category. So our Badger product is part of the SCAR program. We had 1 through 4 [indiscernible] (00:17:50). We announced a few months ago, we're going to be a firm-fixed price going forward.

For the past couple of years, we've been working with our customer on requirements. They've evolved, they've changed, and so we've been adjusting along the way, and I think right now the customer has said, you know what? Let's take a pause on this. Let's see what capabilities do we really need? We're focused on the American taxpayer. We want to make sure that we are getting the actual product we need. We're not paying for something additional that we don't need. So they in order to kind of revisit this contract and renegotiate it, there's the triggering mechanism for that is a stop work order.

I haven't looked into this, but I do know that there are several under the Space Force contracts that have been cancelled. Ours was not cancelled. It was a stop work order. We hit the pause button. Pencils down. No more working on it. No deliveries. No more billing. No more receivables coming in until we can renegotiate this. Both parties are working in good faith to complete this effort. They said since the stop work order was announced, they'd like to get this resolved within 90 days. We are working toward that. We are working to provide them a solution, which is exactly what they need. So what you will probably see going forward and I am not part of these negotiations, but what you'll probably see is a reduction in initial capabilities and it will lend itself to being a more commercialized product. So this is going to give the customer exactly what they need and it's going to help AV as well, and I think one of the most strong ways it's going to help AV is it allows us to commercialize this product.

So, instead of having to sell the product to one customer with these specific things and then building a commercialized product for someone else, I have one line. So there's two ways that this is going to help AV. One is I only have one line going. I don't have to have some of these products over here specific to this customer. This is going to help me with production efficiencies going forward. I have one line. It's commercialized. And the

second way it's going to help us that it's opening up and broadening our market. So I can now sell this product to other people, not strictly to the US government. And I think it's a pivot toward commercialization and I think it's a win for AV. I think it's a win for the Defense Department and I think that going forward, this pivot you may see in some other contracts as well, but that's sort of where it stands right now. And we're in a quiet period right now. I couldn't – sorry, I can't obviously tell you any financials, but we are releasing earnings on March 10 and we'll kind of give you an update at that time.

Q

But, yeah, thank you. And so, negotiations still underway...

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

Yes.

Q

...on a 90-day clock and you're probably what...

[indiscernible] (00:20:31)

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

It was like the beginning of the year.

Q

Yeah.

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

So, for us, you know...

Q

60 days.

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

I would say you're probably going to hear something around earnings time, perhaps after. But I don't want to be tied to that number.

Q

Of course, understood.

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

But, yeah, no both parties. I mean, the government wants the product and they want it faster. I mean, I think that's part of the whole procurement strategy is, I want companies to invest in this stuff. I don't want – the government doesn't want to be investing in this. I want you to build out your capacity ahead of demand and I want you to do it faster. So I would assume that this is probably going to be finalized sooner rather than later.

Q

Right. And then just briefly and again, knowing your finance person, but I mean, SCAR is for laser communications terminals or...

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

It's the satellite ground terminals. Yeah.

Q

Yeah, right.

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

No, don't ask me too much further than that because...

Q

Okay.

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

...that's personal.

Q

No, I know.

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

Okay, okay.

Q

Yeah. But was this a competitive program? And then what is that like program value like? I mean, if you think – if assuming you get the resolution, you get the fixed price, right, I think it started as an OTA [indiscernible] (00:21:43).

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

Yeah. It was an OTA. Yeah. I mean, there's not a lot of details that I can provide you on this.

Q

Okay.

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

You know, we've publicly said, like the initial contract was through FY 2030 and it was a $1.7 billion with a $1.4 billion, add on another $300 million. The entire contract is getting renegotiated. So again, those terms will come out and I suspect it will look slightly different.

Q

Right. Okay. So total program [ph] bill (00:22:05) is all within that.

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

Yeah.

Q

Got you. Okay. Thank you. Appreciate it. All right. Jeff, so we talked a little bit about sort of the evolution of drone warfare swarms, autonomy, GPS denied. But, I mean, obviously, to be frank, and I think like it's a competitive...

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Yeah.

Q

...market. Everybody and anybody's doing it right, I mean, or trying to do it, but you all been successful and competing. You know, it's a pretty open field. But again, so how do you stay ahead in that market, right?

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Yeah.

Q

And what does that competitive landscape look like...

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Sure.

Q

...or evolve?

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Yeah. Yeah. Yeah, that's a great thing to think about, right, because as we see now with defense tech exploding, many new US-based competitors that need to be taken seriously. Obviously, the Ukraine industry is very well established at this point, to be honest, like being there multiple times phenomenal to see the changes over the last four years for them to become more self-sufficient. So, looking at AV and how we have maintained this leadership position right across these defining categories of uncrewed systems, loitering munitions, one-way attack, there comes down to a couple of things. First, we do have a significant advantage of delivering something like 60,000 drones over the last couple of decades and that has given us a tremendous amount of real world learning. Right? So we've had drones, munitions in pretty much every major conflict that the US has participated in or of an adjacent to over the last two decades. And so we get a tremendous real world learning from that, right?

We're putting team members as close as we can to get real world feedback that we iterate quickly into our products, right? So that closing that development cycle very quickly with real world learnings is one area that we've stayed ahead. Some of examples from Ukraine, we've had Switchblades there throughout the whole conflict. And, yeah, there were frankly challenges along the way. Right? I think you can read about how the Russians evolved their abilities to mess with data links and cause challenges there. But we were able to like close development cycles in weeks, sometimes days, to push out new solutions, leveraging software to overcome some of these challenges. And so that ability to get real world feedback, iterate quickly into our products, I think is one of the key pillars for maintaining our leadership position in the autonomous system space.

I think the – that also feeds into really some exciting pieces with [indiscernible] (00:24:42) joining AV is that as we're learning and solving those problems on the battlefield for the offensive capabilities, we now have the ability to take those learnings and feed it into the defensive capabilities called counter-UAS to think about where do they need to go over the next couple of years to be best-in-class, right, because we have both sides that we can work together. We actually see here, have some internal fun dynamics across those two teams, right, trying to challenge each other. So that's really creating a great ecosystem for innovation and evolution of products.

I think the other piece that's really important that we look to is as we've grown and brought on new team members, we always look for obviously best-in-class engineers. That's kind of general motherhood you got to

have that today, right, to compete in an innovation landscape. But we're always looking for engineers, program managers, team members who can really connect with AV's core mission statement of serving the warfighter and being connected with the warfighter's mission. And so, we bring in our team members who're looking for that type of culture, dynamic in the team members so that as we innovate, we're not innovating for the sake of innovation, we're innovating for the sake of the battlefield, and I think we see that with how quickly our teams respond to the dynamics in the market today. So, I think those are some of the key areas [ph] really right as actually you capture (00:26:03) the learning, quick innovation cycles, and then commitment to the mission statements of our customers.

Q

Right. Okay. Yeah. No, I was really struck by, like, I mean going back to the history of Switchblade that I mean it was really, I guess, a mission need from Afghanistan...

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Yeah.

Q

...special operations community and iterated quickly and then big army said, Oh! That's kind of cool maybe we should do that, and it took them a long time to get there, but [indiscernible] (00:26:28) get there, yeah, but I mean, I guess, that's – in a weird way, that was also sort of your advantage because you had been through the pain and scars of test and evaluation and certifying you know all the traditional process, so.

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Yeah.

Q

Well, I mean, I guess, Denise, is thinking about that sort of the legacy business, right, which you never want to say legacy, but Raven, Puma, and I guess – but you're evolving to a new product line. How do you think about the mix of that business going forward? Raven, Puma, you mentioned P550, what does that look like, both US and internationally?

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

So, you're just talking on the legacy AV side?

Q

Well, I mean the unmanned – legacy unmanned...

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

Okay. Sure.

Q

Yeah, sort of.

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

So there's a couple macro demand signals that are out there. Obviously, international demand is picking up, the NATO spend. The uptick to 5% by GDP, 5% by FY 2030 is definitely going to help us. If you take a look at even breaking it down beyond that to some of the countries in there like Germany is extensively increasing their spend, and there is other European countries as well. So I think the use case for our products continues in Europe, even in the absence of a Ukraine conflict or in the US supplying directly through US aid package to Ukraine. We are seeing a lot of other countries interested what they're doing with their products. Either they're using it for their own homeland to defend or if they're buying from us and supplying to Ukraine. We're seeing a lot of that still go on. So the international peace is still there for the legacy AV and you're going to be looking at things like Puma. Puma is still being delivered over there. It's a very strong product sales for us in Europe. Switchblade will continue to be sold over there. As these products evolve, obviously, this will be a continuous revenue stream for us internationally. I think you still see Raven actually there. So you've got Puma, P550 Switchblades from the legacy side.

On the domestic side, these are going to continue to increase. I mean, we've been talking about overall that we're going to have a 15% revenue growth going forward and a lot of that revenue growth is coming from these legacy AV products. So I think the path forward for these is just going to continue. Other areas where we haven't really talked about yet is like Taiwan is another area that's definitely increasing their product capacity. So we are hopeful and we anticipate being able to sell into them at an increasing pace going forward. So I think, yeah, I mean domestically and internationally right now obviously domestic is growing at a very strong clip. But internationally, I think is probably more of your two to three out year, you're going to see increased growth there on the legacy products.

Q

Right. And the administration has been supportive of...

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

Absolutely.

Q

...drones over...

[indiscernible] (00:29:20)

Q

...unmanned overall and then exports specifically, right? [indiscernible] (00:29:24).

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

Yeah. Yes. Yeah. The Hegseth has definitely come in. He's very supportive of drone warfare. He definitely wants to get these products in the hands of warfighters right away. We are very hopeful and we are very encouraging if the government will allow some more efficient ways to sell internationally, that would help us with our commercialization efforts. You know, right now, there's a – we have to go through an FMS product. When you sell a product, it can take anywhere from 18 months to 2.5 years by the time a country says they're interested in buying a product and by the time they can actually accept delivery. So, we're hopeful that if this administration continues on their path toward efficiency that they will also look at these international procurement ideas. And that will definitely help us, as well as other peers in the sector, be able to deliver faster.

Q

Right. Right. Jeff, when you think about sort of the evolving technologies and industrial base, how do you guys sort of manage sourcing and partnerships and sort of – at the component level or things like that, how do you evolve the product line?

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Yeah. [indiscernible] (00:30:33) the last part of the supply chain base. We're all very well aware we're still sort of in that post-COVID challenges at times with certain commodities. And so across the organization, we have a very robust supply chain team that forward leans with key partners like NVIDIA and others to put in place long-term agreements to ensure we have the parts necessary to satisfy our customers. And so I think the bit of your question earlier about how do we stay in this leadership position in autonomous systems? I think, you know, given our track record of delivering mission results, we see a strong pull from other outside of the defense industry like NVIDIA and others, for example, to partner with AV because they recognize that we're delivering results that matter for the warfighter.

And so that's how we look at the supply chain side. I think managing that on a daily basis to ensure we can meet our customer demands. Taking a look at partnerships, it's a very interesting, fascinating ecosystem these days in defense, all the early stage startups, like the mid-late stage startups, kind of pre IPO to establish primes. And I think one of these I've seen is effectively we look at partners, we go back to solving customer problems on the battlefield, right? And if we can find partners that help us or we can help them solve those battlefield problems more quickly because we understand the sense of urgency that exists today, we bring those partnerships together and try to collaborate as best we can across companies that may be a competitor on one hand, but on certain areas, they can be a mission solution partner. And so it's been very refreshing, I think, to see in the US industrial base like a similar kind of culture. I think honestly existing across a range of companies, like I mentioned, across those three categories that all have exciting ongoing partnerships with AV to deliver unique solutions to the warfighter. So, yeah, in MacCready Works alone, we've got over a dozen different partnerships ongoing with those type of companies today.

Q

All right. I was just kind of thinking about, again, I always hesitate to ask a question I really don't know the answer to, but like within missile production, right, a lot of people today look at like solid rocket motors as...

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Yeah.

Q

...the choke point, right? But so for autonomous systems, is there a choke point? I mean, is it semi-conductors? Is it motors? Is it batteries? Is it motor control? Like, is there something – like, what's the hardest part of scaling production, right? I mean – and I'm going to ask you a follow-up question on like CapEx and hiring, but I mean, like building materials for Switchblade...

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Yeah.

Q

...like what's the hardest thing that you worry about?

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Sure. All of it. No, I think specifically, ramping production is one of the hardest things to do. I've [indiscernible] (00:33:27) on the innovation side, but I've also done a lot of product introductions over my career at AV and that comes with a lot of unique challenges, right? So today, we're very focused on, I'd say, yeah, semiconductor-based technologies, right, whether it's a particular sensor suite. So putting in place long-term partnerships with our sensor providers, compute modules, NVIDIA, GPUs, things like that. Obviously, NVIDIA is a massively scaled company, but trying to find sourcing from the right regions of the world, working with them to ensure we have the long-term agreements in place to provide those capabilities for the future, but those are the two areas. And then, motor – electric components, of course, dealing off and on with tariffs and things like that. And we've built those into our pricing models to both provide high value to our customers and also our shareholders.

Q

But I mean, I guess, I would assume – I mean, a lot of this is commercially available. So it's not like a solid rocket motor has a pretty mil-specific purpose.

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Right.

Q

[indiscernible] (00:34:31).

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Yeah. I mean [indiscernible] (00:34:33) mil-spec but, yeah, as we see, evolutions happening in the drone space is the dual use technologies, right?

Q

Yeah.

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

So we're able to source a lot of other type of components from the commercial world.

Q

Yeah.

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

Obviously, looking at national security interest and where we source them from today is different than it was a couple of years ago.

Q

Sure. Yeah. Right, right.

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

But over the several decades at AV, one of the unique aspects, as in the past year, there were really no supply base for some of these components like motors or batteries. So we actually have a long pedigree of solving those problems ourselves internally.

Q

Right.

Jeff Rodrian
Executive Vice President-MacCready Works, AeroVironment, Inc.

A

And so we always fall back on that and certain pain points.

Q

Yeah, yeah. Okay. And I guess, more sort of at the corporate level, right? With all this growth, right, you have to – it's a great problem to catch the car but then what do you do, right? What's the sort of CapEx labor? How do you grow and how do you anticipate that over the next five years to actually be able to deliver all this the contract wins?

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

Sure. So one thing unique to AV is, ahead of this administration taking over and saying, we're looking for companies to invest in CapEx growth. We're looking for companies to invest internally. AV had already been doing that. And one great example to point to is, maybe 18 months ago, maybe a little before that, we had decided that we were going to invest in a Salt Lake City facility. So this is going to be 100,000 square foot facility able to move Switchblade production. And if we need it for any of our other products, we're going to have available bays in that building to be able to produce there as well. So, AV has done a really good job of the internal R&D spend. I did a quick study of large defense primes and then defense tech peers. And we are leading and we have been for the past several quarters in the trailing 12 months on internal R&D spend for products. And we've been spending a lot toward growth CapEx. In fact, I think it's like $150 million over, like, the last couple or for the next two years on that.

And I think the Salt Lake City facility is really a testament to we're trying to get ahead of this demand that's coming. And I think the companies that are probably going to win out at the end of the day are the ones that can actually produce at the rate that the government needs. And we do feel like we're ahead of the curve on that. So we have put a lot of money into that. We are investing internally. We are very focused on being able to meet that demand. Our products are in production right now. So I think we're in a good state to be able to accomplish that.

But it is a priority for the company. Labor market is very strong in Salt Lake City also and the engineering talent that's flowing through at the younger – with the younger generation right now. I pulled a stat we had something like 120,000 applications for internships at AV, and we're only able to take a couple hundred. So, we're getting the best and brightest. I think that the best and brightest engineers are coming into this defense tech space because it's fast moving. It's AI. It's machine learning, like this is kind of the future. So I wouldn't be surprised if AV and others are pulling in that labor talent away from some of the larger defense primes even. I mean, this is where the movement is.

Q

Right. Right. And just curious, I mean, is there, I mean – ultimately, I guess, it doesn't matter. But, I mean, I know there is a desire for fixed price contracts versus cost plus, but I would imagine a lot of the history of the company is probably fine with fixed price, right, as opposed to the long cycle, extensive cost plus development, right? I mean, you guys have done a lot of self-funded development historically.

Denise Pacioni
Head-Investor Relations, AeroVironment, Inc.

A

Yeah. Yeah. This is sort of – this is our wheelhouse. This is what we do. And it's – the firm fixed price obviously is a great result for us because as you move forward, you get margin expansion but just being able to internally spend the dollars there, we're staying ahead of innovation, so we're one step ahead of everyone else. I'm not

waiting for government funding to be able to go figure out a solution to a problem. I've already figured it out on my own dime and then I can commercialize it and be rewarded with a firm fixed price contract, which I think this administration is, is pushing toward that. And I think it's an efficient process.

Unverified Participant

Yeah, absolutely. All right. I think we're going to leave it there. So, Denise, Jeff, thank you so much.

Jeff Rodrian

Executive Vice President-MacCready Works, AeroVironment, Inc.

Thank you.

Unverified Participant

Really appreciate it. Fascinating discussion and great future. So, thanks so much.

Denise Pacioni

Head-Investor Relations, AeroVironment, Inc.

Thank you.

Jeff Rodrian

Executive Vice President-MacCready Works, AeroVironment, Inc.

Thanks, everybody.