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AVAV.OQ - Q3 2026 AeroVironment Inc Earnings Call

EVENT DATE/TIME: MARCH 10, 2026 / 8:30PM GMT

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PRESENTATION

Operator

Good day, everyone, and welcome to AeroVironment third-quarter fiscal year 2026 earnings call. (Operator Instructions) Please note, this conference is being recorded.

I would now like to turn the call over to the Head of Investor Relations, Denise Pacioni. Please proceed.

Denise Pacioni - AeroVironment Inc - Investor Relations

Thank you, and good afternoon, ladies and gentlemen. Welcome to AV's third-quarter fiscal year 2026 earnings call. My name is Denise Pacioni, Head of Investor Relations for AV. Before we begin, please note that certain information presented on this call contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve many risks and uncertainties that could cause actual results to differ materially from our expectations.

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

This afternoon, we also filed a slide presentation with our earnings release and posted the presentation to the Investors section of our website under Events and Presentations. The content of this conference call contains time-sensitive information that is accurate only as of today, March 10, 2026. The company undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Joining me today from AV are Chairman, President and Chief Executive Officer, Mr. Wahid Nawabi; and Executive Vice President and Chief Financial Officer, Mr. 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 third-quarter fiscal year 2026 earnings conference call. I will begin 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. This past quarter's results came in below expectations, primarily driven by revenue timing and adjustments made in our space business.

Given industry-wide delays in government funding, along with the shutdown, several orders we anticipated to receive in the third quarter have shifted to the right by a quarter or 2. Recognizing we fell short on expectations this quarter, we are now more than ever focused on leveraging our unique operational and execution capabilities and driving long-term value creation.

We have a track record of delivering strong results and our core strengths in product innovation, deep customer relationships, and manufacturing scalability will enable us to capture increased demand in this high-growth market. Strong order flow increased our funded backlog in the third quarter, which is positioning us for record fourth quarter revenue and a solid start to our fiscal year 2027.

Before providing details on our progress to achieve our growth targets, let me cover key highlights from the third quarter. First, we achieved strong orders and grew our funded backlog to \$1.1 billion with year-to-date total awards of \$4.6 billion. Second, we announced several key program awards and bookings in high-growth markets where AV holds a competitive advantage over our peers. Third, we're transitioning certain programs to commercial product solutions that are aligned with customer expectations, leading to improved long-term profitability and broader market adoption. And fourth, looking ahead, we're adjusting our revenue guidance range to between \$1.85 billion and \$1.95 billion and adjusted EBITDA to between \$265 million and \$285 million and remain on track for record fourth quarter revenue.

You're going to hear a lot about what we have underway and what's behind our strong forecast. Let me start by outlining exactly what drives our confidence in our fourth quarter and fiscal year 2027. The demand for cost-efficient AI-enabled autonomous nonlethal and lethal drones and counter drones are unprecedented. NAV is well positioned to capitalize on this generational opportunity that is in front of us. Our products and solutions are helping shape the newly defined battlefield with the full suite of lower offerings, long-range one-way attack drones, advanced radio frequency-based counter UAS solutions, one through three uncrewed aircraft systems, and space, cyber and directed energy platforms and technologies to support our US defense and international allies.

Producing in high volume and continuously scaling production ahead of demand are key differentiators that allow us to stay ahead of our customers' needs. During this past quarter, we progressed the build-out of our new manufacturing facility in Salt Lake City, Utah, and we expect it to be operational about a year from now. This 140,000 square foot facility has the potential to produce more than \$2 billion worth of Switchblade or other AV products annually.

In addition to expanding our manufacturing footprint, we continue to evaluate the strength of our supply chain by identifying long lead items and ensuring all suppliers can scale along with increased demand. Taken together, these actions reflect our company's strategy and focus that have guided our business for more than a decade. Investing capital into the business, developing commercial products, building out capacity slightly ahead of demand, and most importantly, ensuring we are delivering best-in-class solutions that meet our customers' mission objectives.

We remain in active discussions with the US space force regarding the Badger phased array antenna system to support the SCAR or Satellite Communication Augmentation Resource program. We appreciate that the contract was temporarily paused while we worked together on a firm fixed price contract that provides a commercialized product solution.

As of this morning, we could not come to a mutually acceptable agreement with our customer to modify the existing contract and resume work. Therefore, the US Space Force has concluded to terminate our existing contract for convenience. Pay us for our allowable incurred costs with a fee and enable AV to recompute for the program with their revised requirements and our proposed solution.

I must emphasize that we remain fully committed to delivering this innovative capability to the market while aligning to our customers' needs and transitioning our phased array solution to a commercial offering and business model. The need for this capability gap has become more important and more urgent than before, and we believe we have an innovative and compelling solution that is unmatched in the industry.

By developing our solutions as a commercial product and recompeting for this program's revised requirement, it will enable AV to build a more flexible and profitable business in the long term while meeting our customers' critical needs. This is a recipe and strategy that AV has successfully demonstrated and achieved multiple times in our history.

Additionally, we're actively working to transition several of our other new and disruptive capabilities towards commercial products across our space and directed energy segment. These include our locust directed energy counter UAS solution, our laser communications terminal for space command and control, and our laser communication gun sites. By transitioning these offerings to commercial products, we can quickly scale manufacturing to meet accelerated delivery schedules, improve margins, and broaden our customer base while also satisfying our customers' desire for a firm fixed price and commercialize off-the-shelf solutions.

Again, this is a recipe that AV has demonstrated successfully several times in its history over the last two decades. This is precisely our strategy with BlueHalo solutions. We are confident that this is a new approach and a win for our customers and a win for AV.

I would like to now walk you through Q3 achievements within each of our segments as well as near- and long-term growth and profitability initiatives that will help us reach our strategic growth objectives. Our Autonomous Systems segment continues to drive revenue growth for the company, making up 68% of our overall revenue for the third quarter. Even though the government shutdown in early November caused a delay in funding and shifted the timing of certain orders, revenue for the segment still experienced significant growth compared to the same quarter last year. We expect additional delayed orders from the third quarter to be booked in the fourth quarter of this year and first quarter of fiscal year 2027.

Several commercially developed and mass reduced products in our Autonomous Systems segment are key growth drivers for the company, including our Group 2 Puma AE and P550-UAS systems, our Group 2 JUMP 20 and JUMP 20X systems, all variants of Switchblade, our Red Dragon family of one-way attack drones, and our counter UAS solutions, including the Titan family of AI-enabled RF jammers and Freedom Eagle-1 or FE-1. These are all key strategic products that AV has developed, successfully transitioned into commercial solutions, and scaled production to meet increased customer demand.

During the third quarter, we were awarded an additional 5-year sole source IDIQ contract worth \$874 million from the US Army for our UAS and counter UAS product lines to support foreign military sales or FMS demand. This contract enables our allies to procure a range of AV Group 1 through three unmanned aerial systems and counter UAS systems, including vapor, JUMP 20, P550, Puma, Raven, and Tiner Counter-UAS. In addition to this large award, we received a \$168 million task order from the US Army for Switchblade 300 Block 20 and Switchblade 600 Block 2 loading munition systems.

This additional delivery order represents the US Army's first procurement of AV's next-generation Switchblade product line and was issued under the US Army's existing 5-year IDIQ contract for lethal unmanned systems in August of 2024 with a total ceiling value of \$990 million.

Looking ahead, we anticipate continued strong demand for our Switchblade family of products from both domestic and international customers. Domestically, we are working now to increase capacity at our new Salt Lake City facility in preparation for an increase in demand, including from the low altitude stalking and strike ordinance or Lasso, program for our new Switchblade variant, the Switchblade 400.

Internationally, we're engaged with several allied nations, including Taiwan, Japan, and South Korea on Autonomous Systems, namely the Switchblade 600 to support their national security needs.

Turning to our counter UAS capabilities. The use case for AI-enabled RF detect and defeat counter US continues to rapidly expand both domestically and abroad. In fact, just last week, we were awarded a \$23 million contract from the US Marine Corps for additional deliveries of our Titan SV.

With demand on the rise for our Titan family of products, we are actively increasing manufacturing by more than 4 times this year, with additional plans to increase by more than 10 times current levels by fiscal year 2030.

Titan is the leading AI-enabled counter UAS solution for RF detect and defeat at home and globally. Our Titan family of Counter US solutions, which was part of the BlueHalo portfolio, as one of AV's strongest revenue growth drivers in the coming quarters and will contribute greatly towards future margin expansion as well. We're also making progress on our FE-1 program with the US Army, which, as you may recall, was awarded a \$96 million contract last fall for the US Army's long-range kinetic interceptor program. We are progressing on the development contract and moving toward flight testing in late fiscal year 2027 or early fiscal year 2028.

We're seeing continued strong growth with our UAS products contributing the most revenue for the segment this past quarter. We're also seeing increased interest in our newest one-way attack lethal USA drone, Red Dragon. Red Dragon is an easily deployed lethal drone that offers modular mission integration and is complementary with our Switchblade family of products. Red Dragon is anticipated to be a key growth driver in this segment for future quarters, and we're rapidly scaling the production of this product line to meet anticipated customer demand.

Just as we created the loitering munition category with our Switchblade products, the Red Dragon is positioned to define the next category in autonomous one-way attack drones. An example of how we will disrupt the market once again with the creation of another category.

Our Group 2 solution, Puma AE continues to see strong domestic and international growth, operating in 45 countries and remaining the dominant ISR platform, both domestically and internationally. Just this past quarter, we expanded our Puma visual navigation kit to our Puma LE variant. This additional capability uses advanced computer vision and onboard processing to deliver precise global navigation satellite systems or GNSS, an independent navigation in degraded or communication denied environments. This is an industry-leading critical software upgrade that ensures our war fighters have successful missions in contested environments.

Interest in our P550 continued -- during the quarter, AV was awarded a \$13 million contract to provide P550 UAS for the US Army's long-range reconnaissance program or LRR. This key initial win opens the door for additional orders that will help drive growth in fiscal year 2027, and is another platform we're currently scaling its production to much higher volumes.

Besides growing demand for our Group 2 products, we're also seeing strong international and domestic growth for our JUMP 20 and JUMP 20X, which is the best-in-class Group 3 solution offering on the market. As we stated in our last earnings call, JUMP 20 was recently added to the US Navy's basic offering agreement, allowing us to compete for all applicable future US Navy task orders. In addition to this, we have won five additional programs of records in Europe this past year alone.

Let me remind you JUMP 20x can operate in extreme maritime environments with long range, long endurance, multimission capabilities for our domestic and international maritime customers. JUMP 20 unique ability to land on smaller-sized moving ships, provides a distinct advantage over its larger Group 4 competitors, and is offered at a more competitive price point. We have already seen significantly increased demand and we're increasing the production capacity of this product line this fiscal year, and we plan to increase it again by 3 times in fiscal year 2027.

Turning now to our space, cyber and Directed Energy segment. Revenues in this segment accounted for nearly one-third of AV's total third quarter revenue. Coming off a record second quarter for bookings, our Space, Cyber, and Directed Energy segment continues to make progress on several key programs across the portfolio. Within our space and directed energy operating group, we delivered two of our Joint Light Tactical Vehicle, or JLTV mounted locus laser weapon systems to the US Army.

Locus is a cutting-edge cost-effective solution to counter Group 1 through three drones. Our Locus laser weapon system is performing well in the field in multiple theaters and we're preparing to commercialize Locus to broaden our market base and while increasing production. As Locus moves into a higher volume production to meet the US Army's needs, it will be a significant revenue driver for the company in the coming years.

Additionally, we have proposed our Locus system to the Department of War as part of the nation's Golden Dome Safeguard solution. It is currently being evaluated as part of the Golden Dome architecture, and we look forward to providing additional updates on this important initiative.

Our Cyber & Mission Systems operating group continues to make strides to recover from the impact of the government shutdown last quarter and was awarded a \$75 million task order extending a contract to advance biotechnology and smart materials for the US Air Force. We look forward to enhancing our capabilities in laser communications, space-related satellite communications, and directed energy.

Building on the achievements across our segments and profitability initiatives, we're also continuing to prudently reinvest capital into our software solutions, including AV Halo. We do this because we believe in the future of our business and our ability to turn these investments into value creation. This open architecture software platform is designed to unify command and control intelligence analysis, synthetic training and autonomous targeting across all domains to create advanced communication among critical assets during conflict.

We are continuing to deploy critical counter UAS solutions through our collaboration with Grand Sky to establish the foundation for a Golden Dome for America Limited area defense architecture at Grand Fork, Air Force Base and North Dakota. The Golden Dome for America initiative provides an opportunity for AV to focus how our software hardware and services all support their inner layer of the Golden Dome.

Based on engagements with our customers, we estimate that this opportunity could represent approximately \$0.5 billion to AV over the next three years, and we expect that we will create a model which can be replicated across other critical US national security sites. We're also successfully integrating BlueHalo and are realizing meaningful synergies from the acquisition.

Before turning the call over to Kevin, let me summarize with key following comments. While results were below expectations, we are extremely confident in the top line growth on several of our key programs and product lines in the fourth quarter and beyond, and are on track for a record fourth quarter and record fiscal year. We're focused on scaling manufacturing to meet rising demand on several of our product lines and high-growth markets.

We recognize the once in a generation opportunity we're part of, and we will continue to drive results. The current conflict in Iran is a reminder that our country and our international allies rely on our defense, aerospace, and space capabilities. AV's innovative portfolio is very well positioned to meet this demand and support our country and our allies critical defense needs.

We're confident that we are well positioned to deliver high priority multi-domain solutions due to our scalable manufacturing, differentiated technology and innovation, and strong customer alignment, which enables us to meet our customers' evolving needs.

Before I turn the call over to discuss our Q3 financial results in more detail, on behalf of our Board and leadership team, I want to thank Kevin for his contributions to the company since 2020. Over this period, AV's market cap increased from approximately \$1 billion to over \$10 billion today. As we previously announced, Kevin will retire at the end of July and will stay on to support our new CFO with a smooth transition in the coming months. We wish him all the best in his retirement. Kevin?

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

Thank you, Wahid. Today, I'll be reviewing the highlights of our third quarter performance during which I will occasionally refer to both our press release and an earnings presentation available on our website. I will briefly comment on our results for the quarter and then turn the guidance for the remainder of FY26.

While the third quarter did not meet our expectations on several fronts, and we are lowering our expectations for the year slightly -- we continue to be well positioned for continued high growth as many of our products move from the test and evaluation phase to full adoption by the US military at allies. The best example of this is our Locus Counter-UAS directed energy product which we expect to be a significant growth driver in the coming years. And has proven to be the leader in this extremely important category for national defense. In addition, our mature product categories like UAS and Switchblade provide significant growth, resulting in AV organic growth of 38% year over year in the third quarter.

At \$1.6 billion of revenue in the last 12 months, AV is one of the largest, most profitable defense technology companies. We are the leader in defense technology with a diversified portfolio of proven and emerging products. The well-publicized stop work order for the SCA program did have a negative impact on the quarter and is in part the reason we are lowering our full year guidance. This resulted in a non-cash \$151 million goodwill impairment as the evaluation of the acquired asset, the space business was triggered by the stop work order. The reevaluation resulted in a reduction in the acquisition value of the acquired space business of approximately 17%.

We do not expect any further adjustments to the impairment as a result of the notification of the customer to terminate the contract for convenience. It is important to note that even with the program changes, we are still confident in our growth trajectory as a result of the diversified business model and the strength we're seeing in other product areas.

Now turning to the quarterly results. We ended the quarter with \$1.1 billion of funded backlog and approximately \$3 billion of unfunded backlog. I should note that approximately \$1.5 billion of the unfunded backlog relates to the program, for which we were under contract at the end of the quarter. We expect an adjustment to the unfunded backlog as a result of the intent of the customer to terminate for convenience and the resolution of the customers' obligations under the current contract.

As Wahid mentioned in his remarks, revenue totaled \$408 million in the third quarter, which represented a 143% increase over the prior year as reported or a 6% increase on a pro forma basis. As mentioned previously, legacy AV organic growth was 38% in the third quarter. Slide 6 and 7 of the earnings presentation shows the third quarter and year-to-date revenue by operating group for each of the two segments compared to pro forma FY25 revenue.

The AxS segment recognized \$279 million in revenue in the quarter, which represented a 25% increase over FY25 pro forma revenues. In crude Aircraft Systems composed of Groups 1, 2, and 3 UAS led revenue growth for the segment with more than a 50% increase compared to the pro forma FY25 third quarter results. uncrewed air systems revenues grew 54% year-over-year driven by Puma, JUMP 20, and the Tomahawk family of systems.

Precision Strike and counter US products improved more than 21% for the pro forma results for the same quarter last year. Switchblade 600, Switchblade 300 and time sales continue to be very strong in the third quarter.

The Space, Cyber, and Directed Energy segment recognized \$129 million of revenue in the third quarter, a pro forma 19% decline year over year following the stop work order on the space car program and the US government funding delays. The space and directed energy products declined 14% in the quarter versus the prior year pro forma, driven by the scar stop work order, while locus Directed Energy Canada UE continued growth. Cyber Mission Systems that showed a 22% decline in pro forma revenue largely result of programs that were discontinued and also negatively impacted by funding delays which associated with the US government shutdown.

Moving to gross margins. Slide 13 shows the adjusted product and service gross margin, including reconciliations to GAAP gross margin. Third quarter overall gross margin -- adjusted gross margins were 27%, which was flat to the second quarter of FY26, but lower than the 40% third quarter -- the third quarter FY25 adjusted gross margin. As noted, the business landscape of the combined new company has changed significantly with higher service mix and several products in the early stage of maturation.

The third quarter did present some additional challenges to adjusted gross margins. Specifically, third quarter margins were also affected by a last-minute shipping and supply chain issues resulting in a \$40 million of high-margin revenue pushed to Q4. We, however, we believe

adjusted gross margins should improve to the low to mid-30s in Q4. We are now projecting a full year outlook for adjusted gross margins in the high 20s, low 30s, which is consistent with our original guidance for the year.

Moving to operating expenses. As mentioned earlier, the SCAR stop work order represents a trigger event requiring a goodwill impairment test resulting in the \$151 million noncash impairment charge. Adjusted SG&A, which is net of the intangible amortization and deal integration costs was \$61 million versus \$33 million in the prior year. The increase is largely a result of the combination with BlueHalo. But as a percentage of our revenue, adjusted SG&A in the quarter was 15% of revenue versus 20% in FY25.

And again, the adjusted SG&A levels represent a shift in the business model as we expect to end the year in the 13% to 14% range as we begin to realize synergies and achieve higher revenue levels. Year-to-date, we have largely achieved our expected year 1 synergies. R&D expense in the third quarter was \$27 million or 7% of revenue compared to \$22 million or 13% of revenue in the prior year. Again, the shift in the business model, and we expect R&D as a percentage of revenue to end the year between 6% and 7% of revenue range, which represents an increase in R&D dollars over the prior year for the combined company.

In terms of adjusted EBITDA, slide 14 of our earnings presentation shows the reconciliation of GAAP net income to adjusted EBITDA. Adjusted EBITDA for Q3 was \$44 million up from last year's Q3 of \$22 million as reported, primarily due to the incremental BlueHalo results and the legacy AV revenue growth -- organic revenue growth.

Adjusted EBITDA as a percentage of revenue was 11% in the quarter, a sequential improvement from the 10% of adjusted EBITDA margin in the second quarter. We continue to forecast full year adjusted EBITDA margin between 14% and 15% of revenue.

Now turning to non-GAAP earnings per share. Slide 12 shows you the reconciliation of GAAP and adjusted or non-GAAP diluted EPS. The company posted adjusted earnings per diluted share of \$0.64 for the third quarter of fiscal 2026, more than double of the \$0.30 per diluted share for the third quarter of fiscal 2025.

Moving to the balance sheet. At the close of the quarter, our total cash investments amounted to \$649 million, a \$20 million sequential decline versus Q2 of FY26, primarily driven by an increase in our inventory to support Q4 revenue. Also, our unbilled receivables continue to be at a higher level than we are targeting. However, we had significant collection activity at the end of the quarter -- into the fourth quarter, and we expect that to continue throughout the fourth quarter.

Turning to -- now to backlog. As noted earlier, our funded backlog at the end of the third quarter was \$1.1 billion, and unfunded backlog was \$3 billion, which includes the \$1.5 billion car-related portion of which was discussed earlier. Our visibility to the midpoint of revised guidance range is 98%.

Finally, I'd like to provide you our updated FY26 guidance. On slide 8 of the presentation, we provide a revised fiscal 2026 guidance. Fiscal year revenue is now expected between \$1.85 billion and \$1.95 billion, adjusted EBITDA between \$265 million and \$285 million and non-GAAP adjusted EPS is now projected between \$2.75 and \$3.10. The midpoint of our revenue guidance raise represents 12% growth over the pro forma FY25 results.

Although the revised guidance raise reflects lower expectations for the year, our confidence in the Blue Halo acquisition remains higher than ever. This combination is a force to be reckoned with within the defense technology sector and the full potential of the combination will be realized over the coming quarters as some of the BlueHalo acquired products start moving into a more terminal cadence.

This is likely my last quarter as CFO. I want to thank Wahid and the AV Board for the opportunity and belief in me. I am very proud of the success of AV so far and my contributions to that success. I also value my relationships established with hundreds of investors and the many analysts who have invested in AV and follow AV.

As mentioned earlier, the potential of AV as a leader in the defense technology sector and its impact on National Defense are virtually limitless.

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

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

Thanks, Kevin. Before turning the call over for questions, I would like to reiterate the positive momentum we have entering the fourth quarter of fiscal year 2026. First, despite challenging headwinds in the quarter, we achieved third quarter revenues of \$408 million, up 38% organically year over year.

Second, our funded backlog grew to \$1.1 billion and we have recorded \$4.6 billion worth of total year-to-date awards, which is another record for the company. These results have positioned us to achieve another record fourth quarter financial results. And third, overall demand and business momentum remains strong across many of our product lines, as evidenced by our robust and growing funded backlog supporting our strong growth well beyond fiscal year 2026.

We remain focused on execution. This includes transitioning more commercial products and business model approach in the BlueHalo portfolio, while scaling manufacturing to meet growing customer demand and improving profitability. The long-term prospects for growth and value creation for the company have never been better. I would like to thank our employees, shareholders, and customers for their continued commitment to AV and our mission.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Andre Madrid, BTIG.

Andre Madrid - BTIG LLC - Equity Analyst

And Kevin, thank you so much for everything. It's been a pleasure to work with you and select with everything ahead.

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

Thank you.

Andre Madrid - BTIG LLC - Equity Analyst

I want to I wanted to start by maybe just talking about the long-term prospects of SADE now with the absence of SCAR. I mean how should we be thinking about growth at the business moving forward? And not even just growth, but you could break it down a little bit further, I mean, to the margins, I understand SCAR was a pretty big driver of what you guys were expecting to do in EBITDA this year for that segment? What else could be kind of carrying the weight here on out, not just in '26 but beyond?

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

Thanks, Andre, for the question. So -- the situation with the Space Force and the SCAR program is evolving daily. I was in Albuquerque New Mexico yesterday, met with the key decision-makers and the program leaders of the SCAR-BADGER program that's space force. And we -- as you know, we started negotiations with the customer so we can resume the work. Unfortunately, we could not come to a mutually acceptable solution that allows us to have a win-win outcome moving forward by renegotiating and resuming the work.

So the customer has to choose to terminate for convenience and we're entitled to our allowable legal costs incurred plus a profit fee. We are more bullish than ever before that the Phased Array BADGER system and the technology that we have is best-in-class and needed badly for the needs of our country and for the constellation of geosynchronous satellites to US military house.

The urgency and the priority on that capability gap and the need for our solution is actually stronger and more urgent now than ever before. Space Force has directly told me that they're actually going to invest more money in this area because we need it at the country.

Lastly, we're not going to stop our efforts because we are a firm believer in developing this solution as a commercial item and basically applying our recipe that we've done for years. We're going to continue to develop the capability. We believe we have at least a 3 to 3.5-year head start on all competitors. If space force is successful to recompute, great, we will be eligible to recompute and participate. And our ultimate goal is to basically able to sell the solution to them as a commercial item.

We believe that's much more favorable for the customer and for AV financially and operational. So we do not expect the SCAR program to have a significant impact on our growth profile beyond this year. We're still going to have a growth year this year. We're going to have a record fourth quarter, record fiscal year performance, both on top line and profitability. And we're positioned for strong growth next year and beyond.

There are several other products and technologies within our space and directed energy business that is in high, high demand and a transition to commercialization today. That includes our local system, our directed gun site, and our laser communication terminals, all of which are expected to grow rapidly over the next two to three years.

So we're very bullish in this segment. We're very confident about this acquisition in this segment, in this business in general. We are more than ever before, committed to accelerating our progress. This is something that we've done several times in our history, and we have prevailed and we've demonstrated that business success outcome both for ourselves and value for our customers.

Andre Madrid - BTIG LLC - Equity Analyst

Got it. Got it. Really appreciate the color there, Wahid. Maybe on a if we could pivot to the Autonomous Systems business. You look there, I mean, on the \$990 million IDIQ that you guys have, you've got a recent delivery order of \$16 million over less than two years, you're already up to over \$700 million in terms of -- on that vehicle.

Have you been having discussions with the customer as to when that could potentially be upside? Is that something that's in the cards? Or is that something that comes up in conversations often?

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

Andre, the short answer is yes. We're actively talking to the customer. And as I mentioned in my remarks. The customer just placed another contract, and awarded as a contract for over \$800 million for our family of products, including Switchblade family products, primarily for FMS sales. But it does not -- it gives them a lot of flexibility.

So we have two large contract awards and platforms that the customer can buy under a; b, the customer does have the ability to increase the ceiling on these contracts and the customer also has the potential option to extend the time frame of these contracts. We've had that

several times in our past. And I believe, to your point, we are reaching a point where they could consume more products than the ceiling allows today, and we're actively working those different options with the customer. And that's the reason why we feel so bullish to increase our production capacity and going beyond this fiscal year into even next fiscal year 2028 and build another factory that could produce another \$2 billion of our products. So we feel very strong about that momentum.

Operator

Louie DiPalma, William Blair.

Louie DiPalma - *William Blair Capital Partners - Analyst*

Kevin, congratulations. It was great working with you. Definitely. For my first question, how much revenue does AV expect to recognize from SCAR for fiscal 2026 when taking into account the termination fees and the other fees associated with the -- ending the contract?

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

We don't get the specific forecast for each product, but it's included in our guidance. We've factored that all in. And so we feel comfortable, even though this was late breaking news, we're very comfortable with the guidance for the year.

Louie DiPalma - *William Blair Capital Partners - Analyst*

Yes. I was wondering from the perspective of investors are going to be wondering how they should be modeling fiscal 2027 if this contract ended. And so is there a ballpark in terms of is it like 5% of total revenue? Or is it less than 5%? Or how should we be thinking about that for fiscal [26]?

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

It will be less than 5%. It's not a significant amount next year. That was factored into all of our modeling for the goodwill impairment that all stays intact. But I'd say it's less than \$100 million.

Louie DiPalma - *William Blair Capital Partners - Analyst*

Great. And Wahid and Kevin, you recently announced the \$186 million Army order for the directed requirement involving the Switchblade 600 and the Switchblade 300. Four of your competitors have made contract announcements recently for the Army program and the Marine core organic precision fires light. How has AV progressed with both of those programs? And what's the timing in terms of when you expect your awards and the timing for a potential production award, I think, for lasso you are using your Switchblade 400. So yes, what's the sense of timing for those programs?

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

So Louie, we are very actively engaged with the US Army on several fronts on the Swiss blade family products. First of all, you're absolutely right. We were just awarded a \$186 million contract for production delivery, not prototypes, not early testing and evaluation, but production units of our second-generation Switchblade 600 Block 2 and then also our Block 20 Switchblade 300. These are the initial two orders for the next generation of Switchblade -- 300, Switchblade 600 products.

In regards to the LASSO program, if you recall, a year plus ago, we were awarded multiple tranches of task orders by the US Army for the direct degree who was referred to as directed requirements, which was essentially part of the LASSO program. So we were the only company who received those awards about a year to two years ago. And most of the other players didn't get anything at that time. So it's actually a catch-up for the other players to stay in the game and receive some awards as part of the competition in order to put the competition for the LASSO to be valid and fair, so A.

B, I must also say that our Switchblade 400 is purposely designed for the LASSO program. We've designed this from the ground up to be a very well-suited product for that capability. It is quite likely for both LASSO and OPF, Marine Corps, that there is more than one solution for the mission that they require to be part of the final selection of the portfolio of solutions they're going to have. And we feel very good about our options. We had a program review with the Army this past week in our offices for a couple of days. We're doing really well. We're executing. We're performing. Our product is performing really well. We're delivering products to them, and we continue to actually see increased demand from them.

They are asking us to produce more because they're going to buy more from us. That's the signal that we're getting from the US Army. Exactly what this means for those competitors, I can't comment on that. that needs to be directed towards them.

But what I can tell you is that we're positioned quite well on these programs. We're focused on these. We believe we have the right solutions. We have been executing we've been delivering, and we believe that we're going to be a serious recipient of some orders in this in the long run.

Louie DiPalma - *William Blair Capital Partners - Analyst*

Great. And one final one, do you see the Iran or accelerating the time line for your Freedom Eagle-1?

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

Absolutely, yes, Louie. We have seen an unprecedented amount of requests and demand for proposals and quantity and ROMs, rough order of magnitude quotes from both domestic US customers as well as international customers, not just for the Freedom Eagle-1, but also for our suite of our product line. The conflict in Iran is another example of how well we're positioned on the type of solutions that we've got that means the desperate need of our customers, the US military and our allies.

I just read a press release or a report this week that Iran has launched close to 1,400 one-way attack drones into UAE alone in one week. The need for locust, the need for our RF jammers, the Titan series, the need for our one-way attack drones such as Red Dragon or the need for Freedom Eagle-1, and the need for our JUMP 20 and P550 is starting to look better and better, and I expect all this to convert to some additional demand in fiscal year '27 and beyond.

So I do believe that this is a good critical moment to showcase our capabilities. And also, we're the only ones or one of the very few that can actually produce in volume and deliver a battle-tested proven technology or capability to warfighters today. Most players are talking about production capacity two to three years from now. And manufacturing sites they're going to build that's going to produce whatever number later. We're doing that today across several of our product lines.

Operator

Jan Engelbrecht, Baird.

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

Congrats on retirement, Kevin. I think -- yes, sure. And an update on the up on the direct energy portfolio, just some of the key programs and many milestones we should look out for the rest of calendar year '26 and then '27, just some recent developments. There was a laser weapons test in Albert this past weekend. You got an RFI from the Air Force for a new laser weapon system on Friday -- last Friday?

And then just any updates on your specific programs on FPIC, AMP or JLTV integration? Just how should we think about that? Because it does seem like we're getting closer to an important sort of time for laser weapons, especially if you just look at what's going on in Iran?

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

So Jan, thank you for the comments on the question. And it is really important for our investors and our audience to recognize that the situation that we saw three to four years ago in Ukraine, where it was a showcase of our loading munitions, one-way attack, reconnaissance drone led to a significant shift in the market in terms of demand for those capabilities and higher rate production and more orders and more growth for us. I believe we're in an inflection point with both our RF counter UAS systems as well as our direct energy local systems. I was in Albuquerque facility where we manufacture these systems, and our customers would love to have a lot more of them. In fact, most of our customers are behind the 8 ball as an analogy, if I may use that, in terms of having systems in their hands.

So we are building systems currently not only for that particular conflict today, but I believe that is going to transition into additional long-term demand in these categories which we are clearly not only the leader, but we're the only game in town that actually has a solution that works, and it's been performing in the field today. It is actively involved and engaged in theater -- multiple theaters -- and the customer is extremely satisfied with its performance. And we have an unprecedented opportunity and position in the market, which we are really trying to scale production and go forward.

Exactly how much that demand it is -- means for next year, I can't quantify right now. It is going to be strong demand, and we expect that to eventually turn into a similar situation as it was in Ukraine, even if the conflict stops tomorrow because Locus was developed specifically for Group 1, 2, and 3 drone defensive solution. It is the only direct energy solution that I know of in this size and range that achieves the mission outcomes for our customers successfully, and we're delighted about being able to help our customers.

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

Perfect. Very helpful. And a quick follow-up, if I may. In the event, it's very uncertain in theater is sort of drawn out or prolonged in the coming weeks. Are there any systems? I mean, I imagine you're very well positioned, but any systems you want to call out that could be fielded sort of on an accelerated basis by the DOW or sort of be part of this \$50 billion emergency reconciliation munitions package that we heard about last week. Is there anything sort of a few programs or platforms you can call out where you could see that happening?

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

Yes. Jan, in particular, I will highlight a very strong imminent demand for accelerated adoption of our one-way long-range attack drones such as Red Dragon and its family. Our directed energy systems called LOCUST, and our Titan series of RF detect and defeat solutions as well as our reconnaissance drones such as JUMP 20 and P550. Those five products, specifically, I expect us to have a increased demand going into fiscal '27 and then hopefully beyond.

Operator

Ken Herbert, RBC.

Ken Herbert - RBC Capital Markets Inc - Analyst

Congratulations, Kevin. Maybe just to talk about the revised guide for adjusted EBITDA. How much of that -- and apologies if I missed it, but how much of that is SCAR? And anything else that's moved to the right on the adjusted EBITDA and how we think about then bridging from fiscal '26 to '27 on the adjusted EBITDA in terms of the margin potential upside?

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

Well, I mean, some of it is obviously related to SCAR, some of it, which is basically a reduction in the revenue. So most of the EBITDA revised guidance is a result of the revenue -- lower revenue guidance and somewhat more R&D during the year. But in terms of expenses are right on track, obviously, a little -- we're higher than we would have probably done if we know the revenue was a little lower, but the business model is definitely intact. I think that as we look at the commercialization, as Wahid was talking about of LOCUST and some of the other things in the space and directed energy segment that we expect to achieve higher gross margins next year than this year, which will drive accelerated -- continued EBITDA growth probably greater than revenue next year.

Ken Herbert - RBC Capital Markets Inc - Analyst

Okay. And maybe just an update on the Switchblade now that you officially have the 400 in the product family, how do we think about capacity on that program? And it sounds like that franchise obviously continues to be very well viewed by the customer set. What's maybe the mix of 300, 400, 600, where is capacity? And how do you see that scaling in the next 6 to 12 months?

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

You're welcome, Ken. So I continue to see a lot of potential and growth in revenue for our Switchblade 300 Block 20 and Switchblade 600 Block 2, which is -- we just did our initial shipments to the US Army. I think the demand for those two products, irrespective of the LASSO program [record] or the US Marine Corps OPF program record is going to be very robust, both domestically and internationally.

We do not intend to reduce those or slow those down. I think we're going to continue to see demand for that, and it's going to continue to grow.

Switchblade 400 is purposely developed for the future longer term growth and adoption of this family. It's primarily developed for the two key things. One is to be able to capture the LASSO program of record. And two, it's designed in such a way that it could be actually mounted in a variety of different platforms much easier. So future helicopters, future airplanes, future ground vehicles, are all -- future drones, larger drones are all potential recipients of the Switchblade 400 variants in the long run. But that's going to be about a year plus later based on the program adoption cycles that we see.

And the reason why we're increasing our production even further with the Salt Lake City facility is because I believe that beyond fiscal year '27, we're going to continue to see demand in these categories in these products, and the mix will shift eventually more towards 400 but not any time soon.

Operator

[Seth Seifman, JPMorgan].

Unidentified Participant

This is Rocco for Seth. Thanks for all the help, Kevin. It's been great working with you. Was the SCAR contract split between the cyber and mission systems and space and directed energy subsegments in SCDE? And if not, what kind of weight on Cyber and mission Systems revenue in the quarter?

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

So that revenue is actually part of that entire segment. And the SCAR program is under the space not the directed energy piece. I'm sorry, the space and direct energy, not the cyber piece. So the cyber security and cyber and mission systems, that business is separate, and it's not affected by the SCAR program. It's primarily the other side of the segment to our business, which is the space and direct energy.

Unidentified Participant

Right.

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

I mean, even though it's down year over year in that segment, most of that was planned because of some programs that had gone away before we even acquired BlueHalo. But obviously, we're just doing a pro forma versus the prior year. And there's parts of that business is doing very well on orders, but it's not necessarily showing up in revenue right now.

Unidentified Participant

Right. That makes sense. And I guess if we're looking at CD&E moving on in Q4 without SCAR, should we be thinking about the segments being able to see growth in Q4 versus the pro forma numbers? And what are the main growth drivers we should think about in the segment?

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

So long term, I'll let Kevin answer the first part of the question. But long term, we expect our space and cyber business to actually be a significant growth and revenue drivers for the next few years. There are several products, as I mentioned, in technologies that we're at the cusp of transitioning into a commercial item and scaling its production. We did the first one, which was our RF Titan series from Blue halo, but that's in Segment 1. However, the products that are in segment 2, which is essentially the local systems, the laser communication terminals and the direct -- also the gun site, the gunsight, the laser and gunsight system, these are just transitioning to production. And they should be significant growth drivers in fiscal year '27 and beyond. So we expect that segment to grow aggressively over the next several years, that's part of the portfolio.

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

Yes. And we do expect Q4 to be strong. I mean obviously, the actual space business is going to take a hit with the SCAR program. But the other businesses like directed energy, we expect to have a very strong fourth quarter.

Operator

Jonathan Siegmann, Stifel.

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

Just on SCAR, I know we've been talking a lot about it. Can you just talk a little bit about what success looks like in the recompetes? Is it splitting share with somebody else? Is it selling more units at less of a price? Is it having a different role in the contract?

And then also an idea of when we might hear something on how you guys make out in that recompetes?

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

Sure. So Jon, we intentionally work with our customers to find a win-win solution on the current contract, the way it's structured. We couldn't do that. Success will look like as follows. We want to develop this product on AV's R&D dollars as a commercial item.

Because we believe the market opportunity for this is massive, and the billions of dollars globally besides just this space force. We also know that the need for this capability gap has not gone away, and it's stronger. And if we had a commercial off-the-shelf solution available today, I'm a firm believer that the space force and many of the customers would be procuring them as a commercial product with more favorable pricing and more favorable profit profile because typically, we take more risk on R&D upfront and then we sell the product at a higher margin once it becomes commercialized. That is precisely our strategy.

While we're doing that, Space Force is going to try to recompetes this and see if there's other better product or more than one product that can meet their needs. Because the need for this is actually increasing, not decreasing. And they have indicated to me directly that funding for this actually is going to increase, not decrease over the next three to four years. So our intent is as we develop our commercial product, to then provide a commercial solution to the US space force and be able to sell it to them when they are procuring it.

And that's the decision that we made jointly with the space force that I believe is a win-win for both parties. It achieves their objective, and it achieves our objective, what we want to do long term.

Obviously, we're not happy that we're taking a hit on the short term, but it is a very good option for us long term, and we're committed to it. My personal commitment and confidence in this solution set is stronger than before. And I believe if we had a commercial offering today, we would be selling it now. It does not exist, and we want to go faster, not slower.

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

We've already had inquiries from other customers for the product. So as well --

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

That's right.

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

But is it conceivable you could be selling this revised product as early as maybe fiscal '27? Or is this more of a longer-term development effort?

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

So most likely, we're redoing that based on the requirements. One of the challenges is to get our customers to agree to a set of requirements that we lock in lock down. And most likely it will be more of a contributor in fiscal year '28 than '27, in terms of significant revenue contribution to the overall portfolio. There are other items in the space business that's going to contribute revenue, but most likely not the BADGER systems in the next fiscal year.

Operator

[Ronald Epstein, Bank of America].

Samantha Stiroh - Bank of America - Analyst

This is Samantha Stiroh on for Ron today. We're just wondering, are there other programs under OTAs that could be at risk and the programs you highlighted as in transition? Are these programs of record? Or are they still under OTA as well?

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

So Vanessa, this is the only program that I know of today. Obviously, we have a large portfolio of programs that are very long, small, and medium sizes and large. But this is the only one that I know of right now that is in this situation, -- and it's not just because it's OTAs. It's primarily because of the circumstances of the customer and their need to go to a commercial model and the capability gap and the desire that we would like to transition there, too. The other products or technologies that we have, we're already transitioning anyway, and there's not a program record for those today. We're competing for some, but we expect those to be successful in the models that we want. So this would be the only one to my knowledge today of this size and magnitude that we're talking about.

Samantha Stiroh - Bank of America - Analyst

Got it. And then when you talked about the mix shift pushing margins down for the combined BlueHalo AV. Do we see that turn more positive? Or do we expect it to be structurally lower for the near future?

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

We think as we become more commercial items in the space BE business that will drive both the adjusted gross margins, but more importantly, the adjusted EBITDA margins higher over time. Before the merger, we had about adjusted 18% EBITDA margins. BlueHalo much of their business was more like a traditional defense contractor, but the opportunity is significant to take a lot of the things that they were working on with different customers and make them more commercially available. LOCUST is just one of them, that the Gunsite product is -- we're very optimistic on that. It's getting a lot of traction. Also the Wasp product, which is kind of a derivative of BADGER for existing ground stations is also showing some traction. So we're very optimistic as we take these things to commercial markets, it will be significant growth and improve them, the gross margins and the EBITDA margins.

Operator

Trevor Walsh, Citizens.

Trevor Walsh - *Citizens JMP Securities LLC - Analyst*

Wahid, maybe just a clarification. For the programs that you called out within space and direct energy, specifically the locus, the laser comms and the laser gun sites. As you take those to more of a commercialized approach. Can you just -- I'm assuming -- that doesn't mean that you're necessarily retooling those from a technology perspective to make them more cost similar to what's happening with BADGER? Or is it just more the go-to-market and just that more of just as you kind of move them to just a different phase of their cycle, if you will?

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

It's more, Trevor, a go-to-market business model and strategy than the programs. The reason why the BADGER was both is because we already had a contract that was a cost-plus contract, and terms and conditions of that contract basically constricted us from being able to go to a commercial model. So we had an opportunity to renegotiate that with the space force. And now we're moving more expeditiously towards that model. But most of it's -- no, there's not really any change in the technology.

We have very compelling differentiated solutions and technology. We're trying to change the business model and the go-to-market strategy with our customers in the market on how we price these, how we offer this, and how we actually want to build the business going forward and scale it.

Trevor Walsh - *Citizens JMP Securities LLC - Analyst*

Got it. Super helpful. And Kevin, maybe just one quick follow-up for you. Just piggybacking on around the guide and just maybe a more directed question. So -- if I just look at the midpoint from where you had the FY26 guide to where you guided now, it's about a \$75 million shift down.

Is it fair to assume that, let's call it, a strong majority of that sum is SCAR related or maybe even more even split of SCAR and the other programs that you alluded to? Just trying to get a sense of kind of what the full range of that impact was?

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

Well, I mean, this has been a tough year in many ways. I mean, you've had all the government funding delays and the pushing of things to the right, some of the things that usually drive our margins higher. To be honest, we've been somewhat capacity constrained on the things that really, we could have probably shipped this year that we now are in the process of building capacity for. So when you put that all together, at the end of the day, we hit the midpoint of both the guidance is. Obviously, we're hopeful that we'll be well into the over 1.9 range on the revenue as our original guidance set, it just drives that EBITDA margin down because of the volume and the mix, but it's really the volume that drives down the number.

But we're very optimistic about next year, seeing the activity that's coming in. The money is starting to flow. It seems like to the different forces, different branches, and then down to the programs, then the war that activity is significant and likely to drive our growth higher than this year for next year.

Operator

Austin Bohlig, Needham & Company.

Austin Bohlig - *Needham & Company LLC - Equity Analyst*

First one just has to do with your guys' updated full year revenue guidance. If you're just looking at the autonomous segment, obviously, demand trend seems to be strengthening. How has that changed compared to the beginning of the year when you gave this guidance when you kind of back out the SCAR opportunity?

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

So Austin, we don't go into that level of detail for the future forecasts. We will provide our forecast that later. What I can tell you is that the demand on our systems are quite strong. So -- we had three primary -- that led to a quote that we're not satisfied with. I'm not happy with, and I'm holding my accountable more than anyone else for that.

We are committed to actually deliver on our fourth quarter. We've had a long history and track record of being successful and growing and delivering value to our shareholders. We had a miss because of two external issues and one internal issue, as I described in my remarks, the demand of fundamental underlying demand for our systems never been stronger in my tenure at AV for 16 years. And both in our autonomous systems segment as well as in the space and cyber business, we've got strong long-term growth opportunities here. We're committed to those.

We're going to have a great still year growth year, as Kevin mentioned earlier in his remarks, and we're going to be positioned really well for fiscal '27. And so we are committed to performing and delivering value and results to our shareholders. And in Q4, we're going to see strong growth. But unfortunately, there's not a lot of time because of the timing delays, we can't convert all that to revenue that quickly. There's only so much that our customers can take and how fast we can put through the factories and get them sold off to our customer satisfaction and keep the quality where we would like to be at 100%, great quality.

So it's going to go into Q1 and beyond. And I think it's going to be a growth year again next year for us.

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

There's nothing wrong with this year. I mean \$1.9 billion of revenue, putting these two companies together and facing all those challenges and still be able to accomplish that with all of the government funding turmoil and things like this, a SCAR. I'm very proud of that hitting that target. And the EBITDA will be within, say, 90% of what our original guidance was. So there's not -- nothing to be ashamed about this.

It's still the leading biggest defense technology company out there in terms of EBITDA, in terms of revenue, any metric you want to have. So I think it's overall and all, it was a great first year of this merger.

Austin Bohlig - *Needham & Company LLC - Equity Analyst*

Okay. And then kind of my second question has to do with LRR. That line item in the budget got a significant increase, which includes SR, MR, and LRR. Do you guys have a sense of kind of like what the allocation might be for you guys in or related to LRR in total?

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

So Austin, we have not received any specific sort of breakdown of how the funding is going to be allocated to those categories. Well, what I do know and what we are certain about is that our customer is in desperate need to acquire more of these solutions as quickly as possible.

We've had our manufacturing ready review with the customer for P550. They just gave us an initial order, which I described on my earnings remarks comments. And I expect the P550 and LRR to be a significant growth driver in fiscal year '27.

And for that specific reason, we're actually ramping up production even more. And so I think we're going to be most likely receiving based on my understanding and reading the market and the customer interest healthy significant growth in our P550 product line in terms of revenue next fiscal year in orders.

Operator

[Nicolas Labadie, UBS].

Unidentified Participant

Zooming out of it, as UAS bordering munitions, one-way attack drones and many of your other technologies continue to evolve daily on the modern battlefield. How do you balance meeting the current demand surges that you're seeing from the customer with the risk of building excess inventory given the pace of advancements in the space and how quickly some technologies are becoming obsolete?

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

So thank you for asking that question because it's an important one. We really watch that very carefully to make sure that we do not have built inventory excessively that then could become obsolete or not useful for our customers. The situation is such that the customers today and most likely in the foreseeable future, will take all the demand that we can build on the categories that we are talking about. The UAS, load ammunition, one-way attack, RF counter UAS, et cetera, et cetera, in direct energy. So we're scaling these things based on really, really solid anticipated demand that we see in fiscal '27 and fiscal '28, number one.

Number two, the second point I want to make is that the system, the products are designed such way that we can make upgrades and improvements to them on a modular fashion quite quickly. And so the situation in the battlefield could change. And when it does change, we make adjustments, we make improvements, and we've rolled those out on the existing platforms and even on our existing systems and the architecture. So it is not a very large change in risk in that regard.

Lastly, throughout the last three to four years, we've learned a lot from the Ukraine conflict. We're there involved with a dozen of our different products and thousands. And so there is not a lot that the adversary can throw at us that can surprise us. And we're staying ahead of that. We've been staying ahead of that, and I think that's a recipe that we know how to execute on quite well compared to everyone else.

And so I feel pretty good about that. At the same time, our customers are really, really asking us ramping up. There is not only a shortage in terms of what they can use today. There's a shortage in terms of stockpiling and filling their magazines for the future because the world is not a safe place. And this is -- looks like it's going to continue for a while, and we're positioned quite well.

Operator

Clarke Jefferies, Piper Sandler.

Clarke Jeffries - Piper Sandler - Analyst

Kevin, maybe to put the funding turmoil in the rearview mirror. I mean we're now here with the new budget. There were reports last week that there might be an appetite to pull forward some of the reconciliations funding. Is it too early for you to see some of that contract activity or some of the new sort of process start to proceed with the budget underway? And maybe just maybe paint us a picture of the next six to nine months on how some of this spending authority plays out?

Do you expect the peak of the sort of contract activity to happen between now and September? Or how do you expect it to play out? And then one follow-up.

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

So Clarke, I do expect an uptick in contracting and awards for us in the Q1 and Q2 time frame, primarily because of the budgets. I'm in Washington, Capitol Hill, and Pentagon regularly. We have a team very focused on tracking the funding and the approval of this money, while it's authorized and appropriate, it still has to come in from the OMB to the Pentagon and to specific accounts within the services in order for the program officers to be able to execute on those contracts. They are priming the pump. They are working with us.

We're tracking it very closely. I see really positive signs. I can't predict it exactly to the right quantity, but I think that the momentum is moving in the right direction. And I think you're right that in Q1 and Q2, we should see an uptick, primarily because the next budget cycle starts out after that, and the government budgeting cycle ends towards the Q2 -- or Q2 roughly.

Clarke Jeffries - Piper Sandler - Analyst

Perfect. And just a follow-up, I think you touched on a lot of coverage of the BADGER program and the commercialization in other of the CGE program. But I just wanted to specifically ask what commercialization might look like for the BADGER program? How does that change your current manufacturing lines or the capacity plans you may have, does the commercialization look like a retool of that technology to bring the capability more in line of what the off-the-shelf offering would look like. I'd just love a little margin detail on commercialization for BADGER going forward.

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

Sure. So let me add some color there, Clarke. We understand the capability gap. We understand that our C2, the command and control systems for all of our military and intelligent satellite needs to be upgraded in overhauled. Phased array is going to be one of the key solutions in that problem statement.

And we have about a 3-, 3.5-year head start than anyone else. We also understand what it takes to actually have a solution that works. In fact, we've demonstrated some of that already. So as long as we can neck down the requirements with the customer to a definitive crisp level, we're going to go ahead and lock down the design and we're going to convert that into a product that we can produce and deliver to our customers. That will take about a year or so time frame.

And at the end of that, we will have a product just like a Switchblade or just like a Puma or just like a JUMP 20 with a whole bunch of different features and functions and a price tag and a lead time that our customers can procure. We do not have to engage in black word. They have to actually watch over us on how we develop the solution and how much progress we make every day on that design effort. It is all going to be within our control.

We want that because it allows us to go fast. It allows us to design the best solution for our customer. So success would look like that in the next 12 to 18 months. And I believe that the need continues to actually grow rather than shrink. And the urgency in our customer is increasing, not decreasing.

It is a very high priority for the US space force to solve this problem and address the problem with the solution. And we are well ahead of everyone else. We just need to get it done and deliver the solution as a commercial item.

Operator

Michael Leshock, KeyBanc Capital Markets.

Michael Leshock - KeyBanc Capital Markets Inc - Equity Analyst

I wanted to follow up on your commentary on the conflict in Iran, and particularly the Switchblade portfolio, given that the industry has evolved since the start of the Russian-Ukraine war and there have been some new entrants into the UAS market. How might the possibility of boots on the ground in Iran, be similar or different versus several years ago? And then what do you view as the biggest differentiators of the Switchblade family from other competitive offerings?

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

Well, so -- we have several competitive differentiators than anyone else, right? We're already battle proven. We're already relevant. We've already validated that it works against those kinds of threats. The type of drones you see such as Shahed and others that Iran is firing, we have faced those already in the battlefields of Ukraine. And we're also the one that could produce them to day reliably, at that scale.

Lastly, as the enemy lines move, our systems are going to be more relevant because of the ranges that you have to reach and hit, and the offensive side. On the defensive side, we've got the best solutions in the market that is actually working today, right? Both in the RF detect and defeat jammers, the Titan. I mean, literally, we can't make those fast enough. We are ramping production as fast as humanly possible, while keeping the quality high.

I want to emphasize we want to make sure that our product is always of highest quality when it gets to our customers' hands. That is how we built our reputation, and we're not going to compromise on that. And lastly, I want to mention the locus direct energy. The number of drones and one we attack drones that Iran is firing at us and our allies in the region is quite, quite overwhelming, right? And we need solutions such as LOCUST to be able to fight this economically and protect us.

Our ships, our bases, civilian sites, critical infrastructure, oil refineries, power plants, the grid, all of these things need to be protected, and they are all phenomenal candidates for our solutions. So I expect that demand to increase probably more than even the supply that we have. But I think we're going to get a very good share of this demand if there were boots in the ground or if there was no goods in the ground.

Operator

Austin Moeller, Canaccord Genuity.

Austin Moeller - Canaccord Genuity LLC - Equity Analyst

We'll miss you here, Kevin. So I guess just to start off, on Badger, so I mean the system was designed to be modular and built out of tile. So how difficult will it be, I guess, to reformulate it into a more commercial solution with the smaller form factor since that's what the space force has indicated they wanted. And I guess, -- you said, I think, on the last question that you think it will take 12 months to produce a product?

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

Yes. So Austin, about 80% to 90% of what we've already developed and designed is going to be applicable to the modifications that we want to make. The modifications are essentially to do two things: To simplify the solutions in its manufacturing processes, a; and b, to make it more cost effective. So we can actually achieve the overall program objectives for the customer, which is a right? And so those two things

mean that almost 80% plus of what we've done in the tile architecture of the Phased Array of the BADGER is reusable, if not more, if not more.

What we're trying to do is to reduce the parts count simplify the design, shrink it to a smaller size, reduces complexity, make it more of a viable commercial product while utilizing 90% or so plus of the existing development and architecture and design that we've already done. It's not really -- we don't have to invent new technologies or new designs to achieve that. Really, those risk factors have already been burned out. Now is the time to execute on transitioning to production and lower cost and reliability, so we can scale.

Operator

And thank you, ladies and gentlemen. This concludes the Q&A session. I will pass it back to Denise Pacioni for closing comments.

Denise Pacioni - AeroVironment Inc - Investor Relations

Thank you once again for joining today's conference call and for your interest in AV. 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

This concludes our conference. Thank you for participating, and you may now disconnect.

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