

Industrials | Aerospace & Defense and Airline Sectors

Top Picks

Commercial OE –

- **BA:** MAX production and deliveries are a key catalyst as investors bridge to positive FCF in 2026. We estimate MAX climbs to a 27/mo build and 30/mo delivery rate in Q2:25 exiting the year at 38/mo, slightly behind BA's schedule.
- **HWM:** 85% of sales from 1st/2nd market share position w/ 30%+ incrementals through recovery, share gains, and net pricing supporting margin expansion to 30%+, up from our previous thinking of mid-20%.

Commercial Aftermarket –

- **GE:** Premium Aerospace franchise with ~70% aftermarket mix and \$1BB+ EBIT upside in 2028 targets given conservative CFM56 shop visit schedule, ramping LEAP AM volumes/profits.
- **FTAI:** AM power provider offering significant cost & time savings through green-time optimization, w/ Aviation EBITDA on pace for \$1.4BB by 2026 (up 40% since mid-2024) and SCI upside.
- **WWD:** Unlocking volumes across Aerospace and Industrial is enabling strong incrementals, with a robust Comm'l AM inflection expected as LEAP/GTF shop visit volumes ramp, where WWD holds 5X services content than prior gen engines.

- **Defense – LHX:** DoD radio modernization, demand for airborne ISR, higher budgets, and electronic warfare orders lead to MSD organic growth w/ op leverage from incremental volumes and capture of synergies

- **IT Services – CACI:** Peer leading organic growth that is expected to continue in the face of DOGE given favorable exposure to new admin priorities (software-enabled network infrastructure & IT system modernization) & oppty for margin expansion on favorable Technology mix.

Prime Contractors			Diversified Manufacturers			Major Component Suppliers			Government IT Services			SMID A&D			Airlines		
Rank	Company	Rating	Rank	Company	Rating	Rank	Company	Rating	Rank	Company	Rating	Rank	Company	Rating	Rank	Company	Rating
1	LHX	Buy	1	BA	Buy	1	HWM	Buy	1	CACI	Buy	1	AVAV	Buy	1	UAL	Buy
2	GD	Hold	2	GE	Buy	2	FTAI	Buy	2	PSN	Hold	2	CDRE	Buy	2	DAL	Hold
3	NOC	Hold	3	TDY	Buy	3	WWD	Buy	3	LDOS	Hold	3	RDW	Buy	3	AC CN	Hold
4	LMT	Hold	4	TXT	Buy	4	LOAR	Buy	4	BAH	Hold	4	SPCE	Buy	4	LUV	Hold
			5	RTX	Hold	5	HEI	Buy	5	SAIC	Hold	5	EVEX	Buy	5	AAL	Hold
			6	HON	Hold	6	SARO	Buy									
						7	TDG	Buy									
						8	ESLT	Hold									
						9	HXL	Hold									
						10	MRCY	Hold									
						11	KTOS	Hold									
						12	TGI	Hold									

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Coverage List

Coverage: Aerospace, Airlines, Defense, IT Services, Space

Air Canada **American Airlines** **AeroVironment** **Boeing** **Booz Allen Hamilton** **CACI** **CAE**

Cadre **Delta Air Lines** **Elbit Systems** **Eve** **FTAI** **General Dynamics** **General Electric**

Heico **Hexcel** **Honeywell** **Howmet** **Kratos** **L3Harris** **Leidos** **LOAR** **Lockheed Martin**

Northrop Grumman **Parsons** **RTX** **Redwire** **Southwest Airlines** **StandardAero**

Teledyne **Textron** **TransDigm** **Triumph** **United Airlines** **VSE** **Virgin Galactic** **Woodward**

Valuation Table as of June 5, 2025

JEF Estimates			Revenue			EPS			EBITDA			FCF			Capitalization			%
	Company	FYE	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3	Diluted S/O	Mkt Cap	EV	Div Yield
Commercial Aerospace	BA	12/31	\$84,814	\$100,833	\$114,596	(\$1.40)	\$4.60	\$7.50	\$4,098	\$9,499	\$12,042	(\$3,935)	\$6,816	\$8,947	753	\$159,706	\$189,784	0.0%
	CAE	12/31	3,499	2,630	3,220	1.05	0.36	0.80	899	571	744	351	347	342	321	\$8,381	10,633	0.0%
	FTAI	12/31	2,327	2,852	3,509	4.85	6.75	9.00	1,166	1,381	1,716	632	887	1,191	103	\$12,670	16,126	1.0%
	GE	12/31	39,208	44,466	44,466	5.60	6.65	7.65	9,262	10,543	11,616	6,681	7,726	8,273	1,078	\$270,449	275,062	0.6%
	HEI	10/31	4,364	4,583	4,788	4.45	4.85	5.35	1,134	1,192	1,248	730	834	918	141	\$42,187	44,278	0.1%
	HON	12/31	40,532	41,917	43,507	10.35	11.55	12.50	10,367	11,124	11,784	5,458	5,911	6,145	652	\$148,229	170,678	2.0%
	HWMM	12/31	8,037	8,801	9,425	3.42	4.30	4.95	2,265	2,694	2,988	1,156	1,690	2,028	407	\$70,794	73,216	0.2%
	HXL	12/31	1,902	2,019	2,211	1.95	2.50	3.05	365	419	468	203	187	264	82	\$4,559	5,185	1.2%
	LOAR	12/31	487	529	564	0.74	0.95	1.20	184	205	227	83	120	153	96	\$8,663	8,669	0.0%
	TDG	9/30	8,850	9,560	10,158	36.90	44.40	51.00	5,100	5,487	5,903	0	0	0	58.1	\$84,169	104,053	0.0%
	TGI	3/31	1,338	1,467	1,566	0.63	1.10	1.45	187	234	266	58	96	125	78	\$2,019	2,718	0.0%
Defense	SARO	12/31	5,902	6,659	7,588	0.90	1.29	1.78	782	919	1,103	312	462	588	334	\$9,968	12,352	0.0%
	WWD	9/30	3,437	3,745	4,048	6.20	7.35	8.45	645	743	831	373	460	525	61	\$14,386	14,527	0.5%
	AVAV	4/30	\$789	\$918	\$1,031	\$3.10	\$3.83	\$4.43	\$140	\$165	\$190	\$56	\$99	\$109	28	\$5,143	\$8,387	0.0%
	ESLT	12/31	7,773	8,543	9,000	10.85	13.65	14.95	852	1,014	1,102	395	499	551	46	\$19,573	20,836	0.6%
	KTOS	12/31	1,273	1,455	1,625	0.45	0.65	0.75	115	147	173	(82)	10	40	156	\$6,264	6,173	0.0%
	LHX	12/31	21,542	22,690	23,774	10.50	11.80	13.10	4,059	4,387	4,609	2,458	2,793	2,864	189	\$45,821	57,033	2.0%
	LMT	12/31	74,283	77,363	80,428	27.15	29.10	31.10	10,589	11,055	11,517	6,672	6,285	7,045	235	\$113,464	131,481	2.7%
	MRCY	6/30	881	943	1,028	0.35	0.95	1.35	103	146	179	83	78	90	59	\$3,030	3,459	0.0%
	NOC	12/31	42,079	43,977	45,707	25.10	27.25	29.30	6,420	6,708	7,016	2,868	3,092	3,177	145	\$71,188	85,651	1.9%
	RTX	12/31	83,975	88,157	92,379	6.10	6.80	7.50	15,350	16,530	17,709	1,341	1,330	1,319	1,352	\$187,292	224,713	2.0%
	TDY	12/31	6,018	6,299	6,516	21.30	23.20	24.55	1,299	1,442	1,591	1,108	985	1,100	47	\$23,561	25,851	0.0%
IT Services	BAH	3/31	\$12,062	\$12,804	\$13,979	\$6.35	\$6.75	\$7.80	\$1,322	\$1,415	\$1,566	\$2,021	\$2,022	\$2,023	126	\$12,942	\$16,065	2.1%
	CACI	6/30	8,629	9,256	9,651	24.60	28.00	30.95	964	1,057	1,117	482	606	690	22	\$9,517	12,611	0.0%
	LDOS	12/31	17,077	17,714	18,402	10.70	11.55	12.25	2,198	2,304	2,376	1,231	1,524	1,611	131	\$18,919	\$23,447	1.1%
	PSN	12/31	7,086	7,086	7,086	3.40	3.45	3.85	648	657	721	350	524	503	111	\$7,635	8,557	0.0%
Biz Jets	SAIC	1/31	7,479	7,609	7,838	9.25	10.35	11.90	716	741	763	515	553	563	48	\$4,889	\$7,185	1.4%
	GD	12/31	\$50,195	\$52,109	\$53,872	\$14.75	\$17.40	\$19.85	\$6,088	\$6,765	\$7,432	\$3,383	\$4,829	\$5,666	272	\$74,739	\$84,082	2.2%
	TXT	12/31	14,423	15,421	15,694	6.00	6.70	7.15	1,834	1,970	2,029	806	1,006	1,165	184	\$13,681	\$16,304	0.1%
	AAL	12/31	\$54,715	\$58,227	\$61,514	\$1.00	\$1.75	\$2.30	\$4,267	\$4,992	\$5,546	\$685	\$351	\$1,182	659	\$7,524	\$36,019	4.8%
Airlines	AC-CA	12/31	22,541	23,766	25,141	2.25	2.75	3.00	3,484	3,442	3,664	(33)	(43)	(43)	330	\$6,191	\$12,251	0.0%
	DAL	12/31	57,148	60,807	63,351	5.35	6.85	7.45	8,264	9,408	10,059	1,687	2,244	2,907	652	\$31,935	50,462	1.2%
	LUV	12/31	27,973	29,835	31,199	1.24	2.50	3.25	2,357	3,220	3,700	(490)	(229)	(556)	584	\$18,846	\$18,133	2.2%
	UAL	12/31	59,223	63,279	67,224	11.00	13.15	15.00	8,355	9,365	10,100	1,963	2,247	1,662	333	\$27,179	44,052	0.0%
SMID/Space	EVEX	12/31	\$0	\$5	\$305	(\$0.72)	(\$0.82)	(\$0.83)	(\$194)	(\$181)	(\$131)	(\$223)	(\$236)	(\$144)	304	\$1,555	\$1,379	0.0%
	CDRE	12/31	636,542	681,927	704,843	1.15	1.38	1.49	119	130	135	75	75	86	41	\$1,397	1,488	1.1%
	RDW	12/31	334	385	454	(\$0.58)	(\$0.23)	\$0.05	9	36	59	(7)	20	45	71	\$1,212	\$1,518	0.0%
	SPCE	12/31	2	118	370	(7.17)	(2.42)	(0.24)	(248)	(133)	64	(446)	(246)	(75)	35	\$119	\$112	0.0%

Note: SPX is the S&P 500 index.

Source: Company data and Jefferies estimates

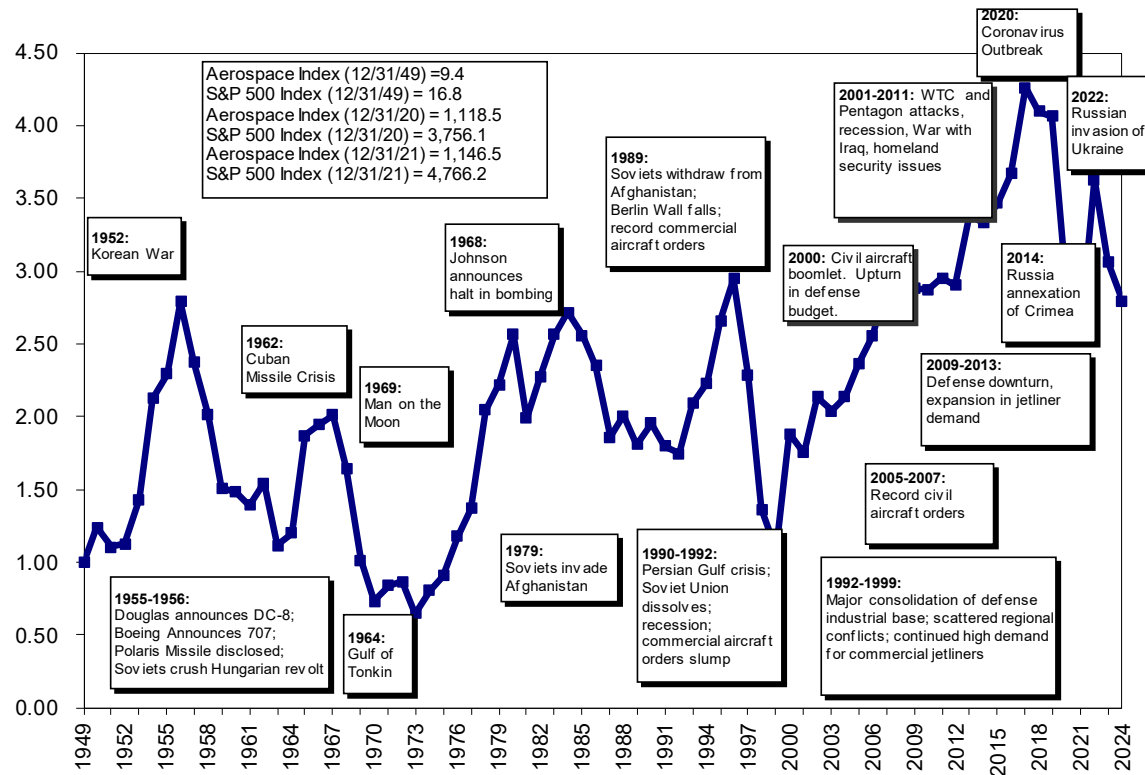
Valuation Table as of June 5, 2025

Sub-Sector	Company	Rating	Price Target	Price	Downside / Upside	Perf. YTD	P/E			EV/EBITDA			EV/Sales			% FY2 FCF Yield
							FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3	
Commercial Aerospace	BA	Buy	\$250	\$211.98	18%	-18.7%	-151.2x	46.1x	28.3x	46.3x	20.0x	15.8x	2.2x	1.9x	1.7x	NM
	CAE	Hold	\$27	\$26.10	3%	20.9%	24.9x	72.6x	32.5x	11.8x	18.6x	14.3x	3.0x	4.0x	3.3x	5.3%
	FTAI	Buy	\$175	\$122.82	42%	164.7%	25.3x	18.2x	13.6x	13.8x	11.7x	9.4x	6.9x	5.7x	4.6x	NM
	GE	Buy	\$260	\$250.88	4%	146.5%	44.8x	37.7x	32.8x	29.7x	26.1x	23.7x	7.0x	6.2x	6.2x	2.7%
	HEI	Buy	\$340	\$300.05	13%	67.7%	67.4x	61.9x	56.1x	39.0x	37.2x	35.5x	10.1x	9.7x	9.2x	2.0%
	HON	Hold	\$215	\$227.45	-5%	8.5%	22.0x	19.7x	18.2x	16.5x	15.3x	14.5x	4.2x	4.1x	3.9x	4.1%
	HWM	Buy	\$195	\$173.94	12%	221.4%	50.9x	40.5x	35.2x	32.3x	27.2x	24.5x	9.1x	8.3x	7.8x	2.2%
	HXL	Hold	\$55	\$55.80	-1%	-24.3%	28.7x	22.3x	18.3x	14.2x	12.4x	11.1x	2.7x	2.6x	2.3x	5.5%
	LOAR	Buy	\$110	\$90.46	22%	85.4%	122.0x	95.2x	75.2x	47.1x	42.3x	38.2x	17.8x	16.4x	15.4x	NM
	TDG	Buy	\$1,600	\$1,448.70	10%	43.2%	39.3x	32.6x	28.4x	20.4x	19.0x	17.6x	11.8x	10.9x	10.2x	3.1%
	TGI	Hold	\$26	\$25.84	1%	55.9%	40.8x	23.4x	17.8x	14.5x	11.6x	10.2x	2.0x	1.9x	1.7x	#N/A
	SARO	Buy	\$39	\$29.83	31%	-8.9%	33.2x	23.1x	16.8x	15.8x	13.4x	11.2x	2.1x	1.9x	1.6x	2.9%
	VSEC	Buy	\$150	\$131.16	14%	103.0%	21.2x	17.9x	15.5x	19.0x	16.6x	16.6x	3.0x	2.6x	2.6x	2.7%
	WWD	Buy	\$245	\$234.51	4%	72.3%	37.8x	31.9x	27.8x	22.5x	19.6x	17.5x	4.2x	3.9x	3.6x	3.1%
	Average					67.0%	29.1x	38.8x	29.7x	24.5x	20.8x	18.6x	6.2x	5.7x	5.3x	#N/A
Defense	AVAV	Buy	\$190	\$183.48	4%	45.6%	59.2x	47.9x	41.4x	60.0x	50.7x	44.1x	10.6x	9.1x	8.1x	1.7%
	ESLT	Hold	\$450	\$429.74	5%	101.5%	39.6x	31.5x	28.7x	24.4x	20.5x	18.9x	2.7x	2.4x	2.3x	NM
	KTOS	Hold	\$37	\$40.10	-8%	97.6%	88.8x	62.1x	53.7x	53.7x	42.1x	35.7x	4.9x	4.2x	3.8x	0.4%
	LHX	Buy	\$260	\$242.31	7%	15.0%	23.1x	20.5x	18.5x	14.1x	13.0x	12.4x	2.6x	2.5x	2.4x	6.2%
	LMT	Hold	\$500	\$482.21	4%	6.4%	17.8x	16.6x	15.5x	12.4x	11.9x	11.4x	1.8x	1.7x	1.6x	6.1%
	MRCY	Hold	\$50	\$51.58	-3%	41.0%	NM	54.3x	38.3x	33.7x	23.8x	19.3x	3.9x	3.7x	3.4x	2.4%
	NOC	Hold	\$510	\$491.29	4%	4.9%	19.6x	18.0x	16.8x	13.3x	12.8x	12.2x	2.0x	1.9x	1.9x	4.7%
	RTX	Hold	\$130	\$138.55	-6%	64.7%	22.7x	20.4x	18.5x	14.6x	13.6x	12.7x	2.7x	2.5x	2.4x	4.4%
	TDY	Buy	\$555	\$498.11	11%	11.6%	23.4x	21.5x	20.3x	19.9x	17.9x	16.2x	4.3x	4.1x	4.0x	5.1%
	Average					43.2%	36.8x	32.5x	28.0x	27.3x	22.9x	20.3x	3.9x	3.6x	3.3x	3.9%
IT Services	BAH	Hold	\$120	\$102.51	17%	-19.9%	16.1x	15.2x	13.1x	12.2x	11.4x	10.3x	1.3x	1.3x	1.1x	7.2%
	CACI	Buy	\$535	\$425.21	26%	31.3%	17.3x	15.2x	13.7x	13.1x	11.9x	11.3x	1.5x	1.4x	1.3x	6.3%
	LDOS	Hold	\$175	\$144.42	21%	33.4%	13.5x	12.5x	11.8x	10.7x	10.2x	9.9x	1.4x	1.3x	1.3x	8.3%
	PSN	Hold	\$70	\$68.77	2%	9.7%	20.2x	20.0x	17.9x	13.2x	13.0x	11.9x	1.2x	1.2x	1.2x	5.5%
	SAIC	Hold	\$115	\$102.27	12%	-17.7%	11.1x	9.9x	8.6x	10.0x	9.7x	9.4x	1.0x	0.9x	0.9x	12.2%
	Average					7.4%	15.6x	14.5x	13.0x	11.8x	11.2x	10.5x	1.3x	1.2x	1.2x	7.9%
Biz Jets	GD	Hold	\$285	\$275.03	4%	5.9%	18.6x	15.8x	13.9x	13.8x	12.4x	11.3x	1.7x	1.6x	1.6x	6.0%
	TXT	Buy	\$85	\$74.49	14%	-7.4%	12.4x	11.1x	10.4x	8.9x	8.3x	8.0x	1.1x	1.1x	1.0x	7.7%
	Average					-0.7%	15.5x	13.5x	12.1x	11.4x	10.4x	9.7x	1.4x	1.3x	1.3x	6.8%
Airlines	AAL	Hold	\$11.0	\$11.42	-4%	-16.9%	11.4x	6.5x	5.0x	8.4x	7.2x	6.5x	0.7x	0.6x	0.6x	6.7%
	AC-CA	Hold	\$18	\$18.76	-4%	0.4%	3.5x	2.7x	2.5x	6.1x	5.4x	5.0x	0.9x	0.8x	0.8x	NM
	DAL	Hold	\$46	\$48.98	-6%	21.7%	9.2x	7.2x	6.6x	6.1x	5.4x	5.0x	0.9x	0.8x	0.8x	9.6%
	LUV	Hold	\$33	\$32.27	2%	11.7%	26.0x	12.9x	9.9x	7.7x	5.6x	4.9x	0.6x	0.6x	0.6x	NM
	UAL	Buy	\$80	\$81.62	-2%	97.8%	7.4x	6.2x	5.4x	5.3x	4.7x	4.4x	0.7x	0.7x	0.7x	7.3%
	Average					23.0%	11.5x	7.1x	5.9x	6.7x	5.7x	5.2x	0.8x	0.7x	0.7x	8.2%
SMID Cap/Spac	EVEX	Buy	\$6	\$5.12	17%	-30.1%	-7.1x	-6.3x	-6.2x	-7.1x	-7.6x	-10.6x	NM	303.0x	4.5x	NM
	CDRE	Buy	\$42	\$34.08	23%	3.6%	29.5x	24.7x	22.9x	12.5x	11.5x	11.0x	0.0x	0.0x	0.0x	NM
	RDW	Buy	\$19	\$17.02	12%	497.2%	-29.5x	-74.8x	367.3x	178.0x	42.1x	25.8x	4.5x	3.9x	3.3x	NM
	SPCE	Buy	\$8	\$3.37	137%	-93.1%	-0.5x	-1.4x	-13.9x	-0.4x	-0.8x	1.7x	69.7x	0.9x	0.3x	NM
	Average					0.8x	-1.5x	-11.6x	74.0x	36.6x	9.0x	5.6x	18.6x	61.6x	1.6x	NM
SPX			\$5,970.81			25.2%	22.7x	20.0x	17.8x	20.4x	17.7x	16.2x	3.0x	2.7x	2.6x	

Note: SPX is the S&P 500 index.
Source: Company data and Jefferies estimates

The Impact of Political and Economic Events on Aerospace and Defense

Relative Price Performance versus the S&P 500 Index, through 2024



- Over the long term, Aerospace equities have outperformed the market. The outperformance comes in cycles and may occur due to political or economic developments, such as those highlighted above.

Note: Indexed to 1949. Includes: ARNC, BA, GD, TDG, TXT, LHX, LMT, NOC and RTX.
Source: FactSet and Jefferies estimates

Commercial Aerospace

Commercial Aircraft Backlog by Platform

Backlog vs. Production Rates - > 10 Years of Production in the Backlog for BA at 2025 Rates

Boeing				Airbus				Combined Total
Aircraft Type	Count	Months of Production at JEF 2025 Rate	Months of Production at Target Rate	Aircraft Type	Count	Months of Production at JEF 2025 Rate	Months of Production at Target Rate	
737-700	2			A318ceo	-			
737-800	9			A319ceo	2			
737-900ER	-			A320ceo	4			
BBJ	-			A321ceo	-			
Total 737 NG	11			Total A320ceo Family	6			17
-7	332							
-8	2,721							
-8200	294							
-9	199			A319neo	26			
-10	1,196			A320neo	1,883			
Unidentified	-			A321neo	5,305			
Total 737 MAX	4,742	162	95	Total A320neo Family	7,214	131	96	11,956
				A220	491	62	35	
Total Narrowbodies	4,753	162	95	Total Narrowbodies	7,711	122	87	12,464
747	-	-	-					
767	101	43	34	A330	7	2	2	
777	79	34	26	A330neo	227	67	57	
777X	521	223	174	A350	736	142	61	
787	828	151	83	A380	-	N/A	N/A	
Total Widebodies	1,529	155	90	Total Widebodies	970	114	61	2,499
Total Aircraft	6,282	160	94	Total Aircraft	8,681	121	83	14,963

Reported Backlogs of April 2025.
Source: Company data and Jefferies estimates

Production Rate Increases Focused on Narrowbodies

Stated and Estimated Production Rates Across Platforms

	Current Rate (units/month)	Announced Rate (units/month)	Comments	JEF Estimated 2024 Rate	JEF Estimated 2025 Rate
Boeing					
737 MAX	Mid-20s Pre-Strike	38/mo by mid-2025 50/mo by 2025/2026	Rollouts have lagged stated production rate given rework and supply chain	18/mo Production 23/mo Delivery	29/mo Production 32/mo Delivery
767	~3/month	Unchanged	Freighter Ending in 2027	~2/month	~3/month
777/777X	~2/month	4/mo in 2025/2026	Deliveries lags production given 777X and blanks; 2026 EIS	~2/mo Production ~1/mo Delivery	~2.5/mo
787	4-5/month	5/mo by end of 2024 10/mo in 2025/2026	Production lags delivery given inventory of 50-60 787s	3.8/mo Production 4.3/mo Delivery	5.5/mo Production 7.0/mo Delivery
Airbus					
A220	6.5/month	14/mo by Mid-Decade	No Update	6.5/month	7.4/month
A320 Family	52/month	75/mo in 2027	75/mo Target Delayed into 2027	52/month	56/month
A330	3/month	4/mo in 2024	In-Line with Plan	3/month	3/month
A350	6/month	9/mo by end of 2025 10/mo by 2026 12/mo by 2028	New 12/mo Target for 2028	5.9/month	6.4/month

- **737 - Target of 50/mo:** 29/mo in 2025E and 40/mo in 2026
- **777 - Target of 4/mo:** 4/mo in 2025 and 4.5/mo in 2026
- **787 - Target of 10/mo:** 5.5/mo in 2025 and 7/mo in 2026
- For Airbus, we assume delivery rates match production rates, with our estimates for 765 deliveries in 2024 (guidance of around 770) climbing to 829 in 2025, over 1,000 by 2027, and nearly 1,200 by 2030. The delivery growth is driven by the A220, A320, and A350, while the A330 is more stable. Management has set targets for the A220 up to 14/mo, the A320 up to 75/mo, and the A350 up to 12/mo. At full rate, this would support 1,200 annual deliveries per year across the 4 aircraft types.

Source: Company data and Jefferies estimates

Global Commercial Passenger Aircraft Installed Base

Net Passenger Installed Base Expanding at a 2.5% CAGR Off the 2019 Base Through 2030

Type	Total Passenger Aircraft Installed Base											
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
A220	110	148	198	249	315	390	481	581	706	851	996	1,141
A300	25	24	24	24	21	20	10	-	-	-	-	-
A310	27	19	18	16	16	16	8	-	-	-	-	-
A318	40	28	21	20	12	6	-	-	-	-	-	-
A319	1,284	1,247	1,203	1,146	1,060	1,010	926	831	727	617	505	394
A320	5,141	5,341	5,529	5,723	5,894	6,067	6,231	6,402	6,574	6,743	6,851	6,950
A321	1,977	2,146	2,349	2,600	2,869	3,195	3,483	3,794	4,114	4,478	4,928	5,374
A321XLR	-	-	-	-	-	3	53	143	258	383	508	633
A330	1,310	1,260	1,229	1,256	1,228	1,195	1,195	1,194	1,194	1,190	1,181	1,168
A340	190	157	145	143	130	128	108	88	68	48	33	18
A350	347	402	451	517	581	637	694	758	831	919	1,019	1,139
A380	240	240	242	235	229	220	200	175	150	125	100	75
707	-	-	-	-	-	-	-	-	-	-	-	-
717	148	147	144	143	139	124	115	106	95	83	71	57
720	-	-	-	-	-	-	-	-	-	-	-	-
727	6	5	4	4	3	3	-	-	-	-	-	-
737 (CFMI)	591	542	507	470	437	424	390	355	319	281	239	191
737 (JT8D)	30	25	25	20	18	17	11	5	-	-	-	-
737 Max	383	409	651	1,024	1,412	1,670	2,054	2,554	3,104	3,704	4,328	4,952
737 NG	6,463	6,382	6,270	6,112	5,946	5,820	5,616	5,419	5,229	5,046	4,844	4,602
747	182	130	111	103	92	80	65	50	35	20	8	-
757	394	372	350	320	281	258	236	215	193	169	144	115
767	463	426	387	351	304	278	252	227	204	182	160	136
777	1,336	1,281	1,269	1,280	1,259	1,247	1,222	1,198	1,174	1,145	1,111	1,072
777X	-	-	-	-	-	-	-	18	48	78	126	174
787	926	978	992	1,025	1,096	1,147	1,222	1,332	1,452	1,576	1,708	1,839
DC-10	1	1	1	1	1	1	-	-	-	-	-	-
DC-8	-	-	-	-	-	-	-	-	-	-	-	-
DC-9	5	3	3	3	3	3	-	-	-	-	-	-
MD-11	-	-	-	-	-	-	-	-	-	-	-	-
MD-80	305	259	243	214	204	178	153	123	88	48	-	-
MD-90	48	4	3	1	1	1	-	-	-	-	-	-
C909	21	42	63	94	115	149	189	229	274	324	374	424
C919	-	-	-	1	3	16	41	76	121	176	241	316
Bombardier	1,504	1,490	1,467	1,437	1,340	1,312	1,274	1,236	1,186	1,136	1,085	1,026
Embraer	2,173	2,178	2,206	2,236	2,258	2,284	2,294	2,307	2,315	2,306	2,287	2,273
Other	343	306	297	281	277	268	219	166	117	80	50	20
Total	26,013	25,992	26,402	27,049	27,544	28,167	28,742	29,582	30,576	31,708	32,897	34,089
Y-o-Y % Change	2.4%	-0.1%	1.6%	2.5%	1.8%	2.3%	2.0%	2.9%	3.4%	3.7%	3.7%	3.6%
CAGR Off 2019 Base		-0.1%	0.7%	1.3%	1.4%	1.6%	1.7%	1.9%	2.0%	2.2%	2.4%	2.5%

Update: April 2025.

Source: Cirium® and Jefferies estimates

Commercial Jetliners Actual and Projected Deliveries: 2008-2030E

Jefferies Civil Jet Delivery Forecast Assumes 21% Growth in Deliveries in 2025 Representing 14% Below the 2018 Peak

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Boeing:																							
707	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
717	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
737	281	362	361	359	401	425	467	476	490	529	580	127	43	263	387	396	265	385	500	550	600	624	624
747	14	8	-	9	23	24	19	18	9	14	6	7	5	7	5	1	-	-	-	-	-	-	-
757	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
767	8	12	11	20	26	21	6	16	13	10	27	43	30	32	33	32	18	36	36	18	18	18	18
777	61	87	73	73	83	98	98	97	99	74	48	45	26	24	24	26	14	30	24	18	12	-	-
777X	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
787	-	-	-	3	46	65	111	135	137	136	145	158	53	14	31	73	51	75	110	120	124	132	132
Total Boeing	364	469	445	464	579	633	701	742	748	763	806	380	157	340	480	528	348	526	688	736	796	834	834
Airbus:																							
A300	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A310	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A220	-	-	-	-	-	-	-	-	7	17	33	48	38	50	53	68	75	91	100	125	145	145	145
A318	10	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A319	93	81	43	41	34	34	33	25	4	10	8	6	3	4	6	7	2	2	2	2	2	2	2
A320	208	220	289	305	331	352	302	282	319	345	417	430	256	258	246	247	260	270	280	300	300	250	250
A321	66	87	51	66	83	101	150	184	222	203	201	206	187	221	264	317	337	313	336	348	396	486	486
A321XLR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	50	90	115	125	125	125
A330	70	71	82	82	97	102	105	103	66	67	49	53	19	18	32	32	37	39	44	44	44	44	44
A340	10	9	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A350	-	-	-	-	-	-	1	14	49	78	93	112	59	55	62	64	57	57	70	85	100	112	132
A380	12	10	18	26	30	25	30	27	28	15	12	8	4	5	-	-	-	-	-	-	-	-	-
Total Airbus	469	480	485	520	575	614	621	635	695	735	813	863	566	611	663	735	766	820	917	1,019	1,112	1,164	1,184
COMAC:																							
C919	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	2	12	25	35	45	55	65	75
Total Mainline	833	949	930	984	1,154	1,247	1,322	1,377	1,443	1,498	1,619	1,243	723	951	1,144	1,265	1,126	1,371	1,640	1,800	1,963	2,063	2,093
Regional Jets:																							
C909	-	-	-	-	-	-	-	1	1	2	6	11	22	21	34	22	38	40	40	45	50	50	50
Embraer	162	122	98	104	105	90	91	101	108	101	90	89	44	48	56	63	72	80	90	95	100	100	100
Bombardier	61	59	35	46	15	26	53	43	46	26	19	26	16	2	-	-	-	-	-	-	-	-	-
MHI	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
British Aerospace	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fokker/Other	7	7	6	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Regional	230	188	139	152	120	116	144	145	155	129	115	126	82	71	90	85	110	120	130	140	150	150	150
Total Deliveries	1,063	1,137	1,069	1,136	1,274	1,363	1,466	1,522	1,598	1,627	1,734	1,369	805	1,022	1,234	1,350	1,236	1,491	1,770	1,940	2,113	2,213	2,243
Y-o-Y % Change (Total, Incl. Regionals)	0%	7%	-6%	6%	12%	7%	8%	4%	5%	2%	7%	-21%	-41%	27%	21%	9%	-8%	21%	19%	10%	9%	5%	1%
Y-o-Y % Change (Widebody)	-9%	13%	-6%	15%	43%	10%	10%	11%	-2%	-2%	-4%	12%	-54%	-21%	21%	22%	-25%	37%	26%	6%	8%	8%	5%
Y-o-Y % Change (Narrowbody)	-3%	14%	-1%	4%	10%	7%	4%	2%	8%	6%	12%	-34%	-35%	51%	20%	8%	-9%	13%	15%	9%	9%	4%	0%
% Below 2018 Peak (Total, Incl. Regionals)													-21%	-54%	-41%	-29%	-22%	-29%	-14%	2%	12%	22%	29%

- We see 1,491 deliveries in 2025, up 21% from 2024, but still below the 1,727 aircraft delivered in 2018. The recovery in 2025 is based on a sharp improvement for the MAX (385 in 2025 from 265 in 2024)
- NBs grow 13% in 2025 after 9% declines in 2024, while WBs increase 37% in 2025 (-25% in 2024).

Source: Company data, Cirium® and Jefferies estimates

Destocking Inventory in the Channel Paces Boeing Production Rates Alongside Supply Chain

Quarterly Delivery Forecast - Deliveries Ahead of Production as BA Unwinds Inventory

Delivery																		Per Month								
	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25E	Q3:25E	Q4:25E		2023	2024	2025E	2026E	2027E	2028E	2029E	2030E		2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Boeing									Boeing																	
737	1	1	2	1	1	-	-	-	737	9	5	1	-	-	-	-	-	0.8	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0
737 MAX	66	69	90	35	104	93	93	94	737 MAX	387	260	384	500	550	600	624	624	32.3	21.7	32.0	41.7	45.8	50.0	52.0	52.0	52.0
747	-	-	-	-	-	-	-	-	747	1	-	-	-	-	-	-	-	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
767	3	6	6	3	5	6	12	13	767	32	18	36	36	18	18	18	18	2.7	1.5	3.0	3.0	1.5	1.5	1.5	1.5	1.5
777	-	7	4	3	7	8	10	5	777	26	14	30	24	18	12	-	-	2.2	1.2	2.5	2.0	1.5	1.0	0.0	0.0	0.0
777X	-	-	-	-	-	-	-	-	777X	-	-	-	18	30	42	60	60	0.0	0.0	0.0	1.5	2.5	3.5	5.0	5.0	5.0
787	13	9	14	15	13	17	21	24	787	73	51	75	110	120	124	132	132	6.1	4.3	6.3	9.2	10.0	10.3	11.0	11.0	11.0
Total Boeing	83	92	116	57	130	124	136	136	Total Boeing	528	348	526	688	736	796	834	834	44.0	29.0	43.8	57.3	61.3	66.3	69.5	69.5	69.5
Airbus									Airbus																	
A220	12	16	17	30	21	22	21	27	A220	68	75	91	100	125	145	145	145	5.9	6.5	7.9	8.7	10.9	12.6	12.6	12.6	12.6
A320 Family	116	145	135	206	129	159	148	199	A320 Family	571	602	635	708	765	823	863	863	49.7	52.3	55.2	61.6	66.5	71.6	75.0	75.0	75.0
A330	7	6	7	12	7	7	7	16	A330	32	32	37	39	44	44	44	44	2.9	2.9	3.4	3.5	4.0	4.0	4.0	4.0	4.0
A350	7	14	15	21	8	16	16	17	A350	64	57	57	70	85	100	112	132	5.8	5.2	5.2	6.4	7.7	9.1	10.2	12.0	12.0
A380	-	-	-	-	-	-	-	-	A380	-	-	-	-	-	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Airbus	142	181	174	269	165	204	192	259	Total Airbus	735	766	820	917	1,019	1,112	1,164	1,184	63.9	66.6	71.3	79.7	88.6	96.7	101.2	103.0	103.0
Total BA + Airbus	225	273	290	326	295	328	328	395	Total BA + Airbus	1,263	1,114	1,346	1,605	1,755	1,908	1,998	2,018	107.9	95.6	115.1	137.1	149.9	163.0	170.7	172.5	172.5

- Our 2025 BA delivery estimate calls for 526 units vs. 348 deliveries in 2024 (+51%) before rising another 31% to 688 in 2026E. This compares to pre-COVID MAX grounding deliveries of 806 deliveries in 2018.

Source: Company data, Cirium® and Jefferies estimates

Production Lags Deliveries in the Near Term

Destocking and Supply Constraints Maintain Pressure on Production Rates

Production																			Per Month							
	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25E	Q3:25E	Q4:25E		2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	
Boeing									Boeing																	
737	4	1	-	-	-	-	-	1	737	8	5	1	-	-	-	-	-	0.7	0.4	0.1	0.0	0.0	0.0	0.0	0.0	
737 MAX	71	54	55	15	72	81	93	105	737 MAX	337	195	351	480	540	564	612	624	28.1	16.3	29.3	40.0	45.0	47.0	51.0	52.0	
747	-	-	-	-	-	-	-	-	747	1	-	-	-	-	-	-	-	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
767	9	9	4	4	5	5	8	10	767	32	26	28	36	18	18	18	18	2.7	2.2	2.3	3.0	1.5	1.5	1.5	1.5	
777	6	6	5	3	6	6	6	6	777	24	20	24	18	14	12	-	-	2.0	1.7	2.0	1.5	1.2	1.0	0.0	0.0	
777X	1	2	2	1	1	1	2	2	777X	-	6	6	18	24	36	48	48	0.0	0.5	0.5	1.5	2.0	3.0	4.0	4.0	
787	13	9	11	13	15	15	18	18	787	33	46	66	84	114	124	132	132	2.8	3.8	5.5	7.0	9.5	10.3	11.0	11.0	
Total Boeing	104	81	77	36	99	108	127	142	Total Boeing	435	298	476	636	710	754	810	822	36.2	24.8	39.7	53.0	59.2	62.8	67.5	68.5	

- Production continues to lag deliveries somewhat with key variables around the 737 MAX and 787. We estimate that BA will roll out 737 MAX around 29/mo in 2025, rising to 40/mo in 2026E as we assume the FAA production cap currently at rate 38 is lifted given alignment to the six KPIs.
- On the 787, mgmt expects to reach 7/mo in 2025 after just under 5/mo in Q1

Source: Company data, Cirium® and Jefferies estimates

MAX and 787 Drive the Majority of Inventory

Boeing Inventory Expected to Unwind Through 2030

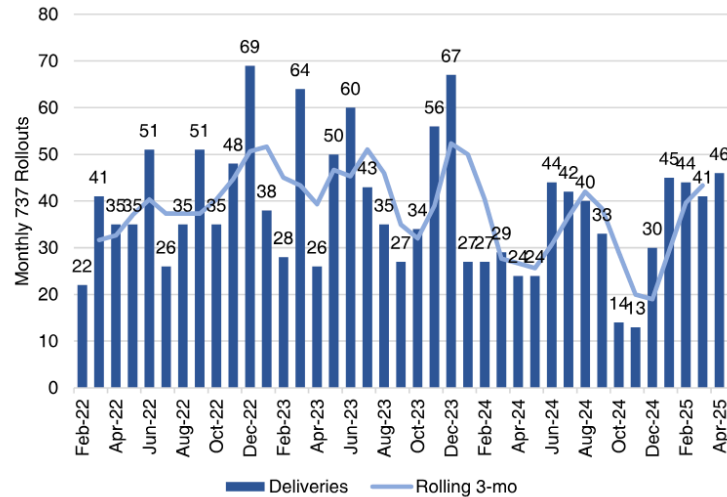
	Inventory															
	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25E	Q3:25E	Q4:25E	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Boeing									Boeing							
737	-	-	-	-	-	-	-	-	737	-	-	-	-	-	-	-
737 MAX	205	190	155	135	103	94	97	102	737 MAX	200	135	102	82	72	36	24
747	-	-	-	-	-	-	-	-	747	-	-	-	-	-	-	-
767	6	9	7	8	8	8	4	-	767	-	8	-	-	-	-	-
777	16	15	16	16	15	14	12	10	777	10	16	10	4	-	-	-
777X	29	31	33	34	35	36	38	40	777X	28	34	40	40	34	28	16
787	60	60	57	55	57	55	52	46	787	60	55	46	20	14	14	14
Total Boeing	316	305	268	248	218	207	203	198	Total Boeing	298	248	198	146	120	78	54

- Given production issues across both aircraft, inventory is primarily driven by the MAX and 787 across the board. At the end of Q1, BA had 103 MAX in inventory along with 57 787s. By the end of the year, we are factoring in 102 MAX and 46 787s.
- Nonetheless, inventory unwinds through 2027 with our estimates factoring in BA having a total of 120 aircraft in inventory at the end of 2027, including 72 MAX and 14 787s before depleting the remaining stock into 2030 and beyond.

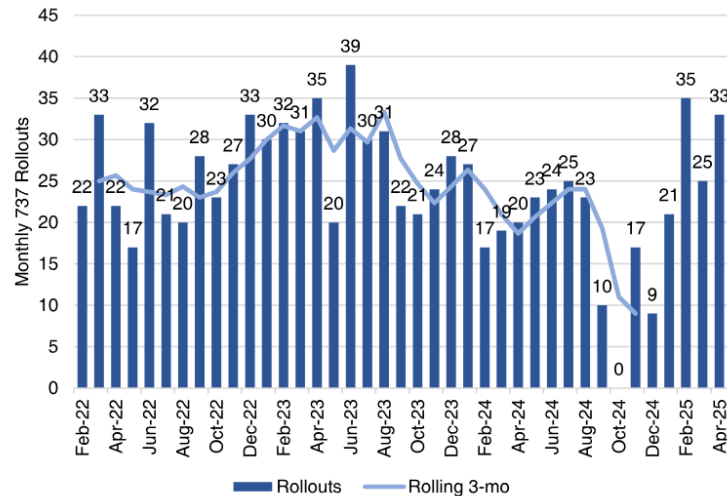
Source: Company data, Cirium® and Jefferies estimates

What's Up in Renton: Tracking at 46 April Deliveries; WB's at 16 Bounceback

~46 Deliveries In April Up Slightly From 43/Mo Q1 Avg



737 Rollouts at 33 For April



Source: AeroScan note from Aero Analysis Partners/AIR and Jefferies

Commercial Jetliners: Narrowbodies and RJs Set to Drive Near-Term Demand with 1,499 Annual Deliveries

- Base Case narrowbody + regional jet forecasts support an average of 1,499 deliveries per year from 2025-2027 (125/mo), which compares to the 2018 peak of 1,330 deliveries (111/mo). This represents 6.3% of the fleet on average. Retirements average 710 per year or 3.0% of the fleet compared to 2.2% in 2018-2019. The net installed passenger NB + RJ fleet increases at a 3.3% CAGR to 25,561 aircraft in 2027.

- NB + RJ air traffic (RPKs) and capacity (ASKs) increase at a 4.7% CAGR
- NB + RJ load factors remain steady at 83.8% compared to 83.8% in 2019
- NB + RJ average seats per trip increases at a 0.8% CAGR to 161 seats in 2027, up 2% vs 157 seats in 2024 and up 7% vs 150 seats in 2019
- NB + RJ average annual stage modestly increases at a 0.7% CAGR to 1.8MM annual kilometers

Narrowbody + Regional Jet Delivery Forecast - Underbuild of ~400 Aircraft by 2027 with Minor Overbuild in 2029-2030, But Cumulative OEM Target Rates Above Normal Demand in Outyears Could Lower Reality on Supply Chain Constraints

	Passenger Narrowbody + Regional Sensitivity												'25-'27 Average
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	
NB + RJ Installed Base	20,964	21,072	21,533	22,098	22,587	23,195	23,807	24,665	25,561	26,427	27,252	28,075	3.3%
Y-o-Y % Change	2.0%	0.5%	2.2%	2.6%	2.2%	2.7%	2.6%	3.6%	3.6%	3.4%	3.1%	3.0%	
CAGR off 2019 Base		0.5%	1.3%	1.8%	1.9%	2.0%	2.1%	2.3%	2.5%	2.6%	2.7%	2.7%	
Implied NB + RJ RPKs (BBs)	4,837	2,195	2,872	4,033	4,883	5,412	5,683	5,953	6,221	6,485	6,745	6,997	4.7%
Y-o-Y % Change	4.7%	-54.6%	30.9%	40.4%	21.1%	10.9%	5.0%	4.8%	4.5%	4.3%	4.0%	3.8%	
CAGR off 2019 Base		-54.6%	-22.9%	-5.9%	0.2%	2.3%	2.7%	3.0%	3.2%	3.3%	3.4%	3.4%	
NB + RJ ASKs (BBs)	5,779	3,296	3,866	5,112	5,987	6,444	6,766	7,104	7,424	7,739	8,049	8,355	4.8%
Y-o-Y % Change	3.8%	-43.0%	17.3%	32.2%	17.1%	7.6%	5.0%	5.0%	4.5%	4.3%	4.0%	3.8%	
CAGR off 2019 Base		-43.0%	-18.2%	-4.0%	0.9%	2.2%	2.7%	3.0%	3.2%	3.3%	3.4%	3.4%	
% Domestic Load Factor	83.7%	66.6%	74.3%	78.9%	81.5%	84.0%	84.0%	83.8%	83.8%	83.8%	83.8%	83.8%	83.8%
Y-o-Y % Pt Change	0.7%	-17.1%	7.7%	4.6%	2.7%	2.4%	0.0%	-0.2%	0.0%	0.0%	0.0%	0.0%	
Average Seats per NB + RJ	150.2	151.1	152.0	153.9	155.4	156.7	158.0	159.3	160.6	162.0	163.4	164.6	0.8%
Y-o-Y % Change	0.7%	0.6%	0.6%	1.2%	1.0%	0.9%	0.8%	0.8%	0.8%	0.8%	0.9%	0.8%	
% Change vs. 2019		0.6%	1.2%	2.5%	3.5%	4.3%	5.2%	6.1%	6.9%	7.8%	8.8%	9.6%	
Implied Annual Kilometers (MMs)	1.84	1.04	1.18	1.50	1.71	1.77	1.80	1.81	1.81	1.81	1.81	1.81	0.7%
Y-o-Y % Change	1.0%	-43.6%	14.1%	27.3%	13.5%	3.9%	1.5%	0.5%	0.0%	0.0%	0.0%	0.0%	
% Change vs. 2019		-43.6%	-35.7%	-18.1%	-7.1%	-3.4%	-2.0%	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%	
NB + RJ Aircraft per BB Domestic RPKs	4.33	9.60	7.50	5.48	4.63	4.29	4.19	4.14	4.11	4.08	4.04	4.01	-1.4%
Y-o-Y % Change	-2.5%	121.5%	-21.9%	-26.9%	-15.6%	-7.4%	-2.3%	-1.1%	-0.8%	-0.8%	-0.8%	-0.7%	
% Change vs. 2019		121.5%	73.0%	26.4%	6.7%	-1.1%	-3.3%	-4.4%	-5.2%	-6.0%	-6.8%	-7.4%	
Narrowbody + Regional Fleet Change													
Implied Annual Deliveries	917	591	841	1,029	1,109	1,048	1,299	1,555	1,643	1,634	1,646	1,663	1,499
Deliveries as a % of the Fleet	4.5%	2.8%	4.0%	4.8%	5.0%	4.6%	5.6%	6.5%	6.7%	6.4%	6.2%	6.1%	6.3%
Annual Retirements	497	483	380	464	620	422	687	697	747	768	821	840	710
Retirements as a % of the Fleet	2.4%	2.3%	1.8%	2.2%	2.8%	1.9%	3.0%	2.9%	3.0%	3.0%	3.1%	3.1%	3.0%
Net Change in Fleet	420	108	461	565	489	608	612	858	896	866	825	823	789
Y-o-Y % Fleet Change	2.0%	0.5%	2.2%	2.6%	2.2%	2.7%	2.6%	3.6%	3.6%	3.4%	3.1%	3.0%	3.3%
JEFe NB + RJ Deliveries	917	591	841	1,029	1,109	1,048	1,205	1,383	1,510	1,648	1,722	1,732	1,366
Aircraft (Deficit)/Surplus							(94)	(172)	(133)	14	76	69	(133)
Cumulative Aircraft (Deficit)/Surplus							(94)	(266)	(399)	(385)	(309)	(240)	

Source: Company data and Jefferies estimates

Commercial Jetliners: Narrowbodies and RJs Set to Drive Near-Term Demand with 1,499 Annual Deliveries

NB + RJ Aircraft Deliveries Sensitivity to Air Traffic & Retirements - Each 1pt of RPKs = 20.4/mo of Demand with Each 1pt of Retirement Rate = 20.6/mo of Demand

		2027 Domestic RPKs Y-o-Y % Change				
		2.5%	3.5%	4.5%	5.5%	6.5%
2027 % Retirements	1.5%	784	1,029	1,273	1,518	1,763
	2.0%	908	1,152	1,397	1,641	1,886
	2.5%	1,031	1,276	1,520	1,765	2,009
	3.0%	1,154	1,399	1,643	1,888	2,133
	3.5%	1,278	1,522	1,767	2,011	2,256
	4.0%	1,401	1,645	1,890	2,135	2,379
	4.5%	1,524	1,769	2,013	2,258	2,503

NB + RJ Aircraft Deliveries Sensitivity to Gauge & Stage - Each 1pt of Seats = (19.7)/mo of Demand with Each 1pt of Stage-Length = (21.4)/mo of Demand

		2027 Seats per NB + RJ vs. 2019				
		4.9%	5.9%	6.9%	7.9%	8.9%
2027 KMs / Aircraft	-3.0%	2,533	2,284	2,039	1,798	1,562
	-2.5%	2,398	2,149	1,906	1,666	1,432
	-2.0%	2,263	2,016	1,774	1,536	1,302
	-1.5%	2,131	1,885	1,643	1,407	1,174
	-1.0%	1,999	1,754	1,514	1,279	1,047
	-0.5%	1,869	1,625	1,387	1,152	922
	0.0%	1,740	1,498	1,260	1,027	798

- Each 1pt change in 2027 domestic RPKs y-o-y from our base case of +4.5% equates to 244 annual NB deliveries, or 20.3/mo build rate
- Each 1pt change in the 2027 annual NB + RJ retirement rate from our base case of 3.0% equates to 247 annual deliveries, or 20.6/mo build rate
- Each 1pt change (or 1.5 seats) in 2027 seats per NB + RJ vs 2019 from our base case of 6.9% above 2019 at 161 seats equates to 236 deliveries, or 19.7/mo build rate
- Each 1pt change (or 0.02MM kilometers) in 2027 KMs per NB + RJ vs 2019 from our base case of 1.5% below 2019 at 1.81MM KMs equates to 256 deliveries, or 21.4/mo build rate

Source: Company data and Jefferies estimates

Commercial Jetliners: Widebody Structural Supply Deficit Through 2030

Widebody Delivery Forecast - Structural Underbuild Persists Through 2030 in Base Case with 300+ Aircraft Deficit, Supporting Higher than OEM Announced Targets for 787/A350 Up to 12-15/mo Incl Freighters and 777X Up to 5-6/mo Incl Freighters

	Passenger Widebody Sensitivity												'25-'27 Average
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	
Widebody Installed Base	5,049	4,920	4,869	4,951	4,957	4,972	5,165	5,405	5,684	5,978	6,282	6,589	4.6%
Y-o-Y % Change	4.0%	-2.6%	-1.0%	1.7%	0.1%	0.3%	3.9%	4.7%	5.2%	5.2%	5.1%	4.9%	
CAGR off 2019 Base		-2.6%	-1.8%	-0.7%	-0.5%	-0.3%	0.4%	1.0%	1.5%	1.9%	2.2%	2.4%	
Implied WB RPKs (BBs)	3,753	1,086	985	2,209	3,225	3,612	3,879	4,110	4,344	4,581	4,823	5,076	6.3%
Y-o-Y % Change	4.7%	-71.1%	-9.2%	124.2%	46.0%	12.0%	7.4%	6.0%	5.7%	5.5%	5.3%	5.2%	
CAGR off 2019 Base		-71.1%	-48.8%	-16.2%	-3.7%	-0.8%	0.5%	1.3%	1.8%	2.2%	2.5%	2.8%	
WB ASKs (BBs)	4,577	1,729	1,699	2,815	3,895	4,340	4,660	4,931	5,210	5,493	5,784	6,084	6.3%
Y-o-Y % Change	3.7%	-62.2%	-1.7%	65.7%	38.4%	11.4%	7.4%	5.8%	5.7%	5.4%	5.3%	5.2%	
CAGR off 2019 Base		-62.2%	-39.1%	-15.0%	-4.0%	-1.1%	0.3%	1.1%	1.6%	2.0%	2.4%	2.6%	
% International Load Factor	82.0%	62.8%	58.0%	78.5%	82.8%	83.2%	83.2%	83.4%	83.4%	83.4%	83.4%	83.4%	83.4%
Y-o-Y % Pt Change	0.8%	-19.2%	-4.8%	20.5%	4.3%	0.4%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	
Average Seats per WB	306.2	306.4	307.9	308.2	308.7	308.7	306.8	304.1	301.1	298.1	295.7	293.7	-0.8%
Y-o-Y % Change	0.4%	0.1%	0.5%	0.1%	0.1%	0.0%	-0.6%	-0.9%	-1.0%	-1.0%	-0.8%	-0.7%	
% Change vs. 2019		0.1%	0.5%	0.7%	0.8%	0.8%	0.2%	-0.7%	-1.7%	-2.6%	-3.4%	-4.1%	
Implied Annual Kilometers (MMs)	2.96	1.15	1.13	1.84	2.55	2.83	2.94	3.00	3.04	3.08	3.11	3.14	2.5%
Y-o-Y % Change	-0.6%	-61.3%	-1.1%	62.7%	38.0%	11.1%	4.0%	2.0%	1.5%	1.3%	1.0%	1.0%	
% Change vs. 2019		-61.3%	-61.7%	-37.7%	-14.0%	-4.5%	-0.7%	1.3%	2.8%	4.1%	5.1%	6.2%	
WB Aircraft per BB Int'l RPKs	1.35	4.53	4.94	2.24	1.54	1.38	1.33	1.32	1.31	1.31	1.30	1.30	-1.7%
Y-o-Y % Change	-0.7%	236.9%	9.0%	-54.6%	-31.4%	-10.4%	-3.3%	-1.2%	-0.5%	-0.3%	-0.2%	-0.3%	
% Change vs. 2019		236.9%	267.3%	66.6%	14.3%	2.3%	-1.0%	-2.2%	-2.7%	-3.0%	-3.2%	-3.5%	
Widebody Fleet Change													
Implied Annual Deliveries	343	132	92	123	166	142	352	405	426	450	462	473	394
Deliveries as a % of the Fleet	7.1%	2.6%	1.9%	2.5%	3.4%	2.9%	7.1%	7.8%	7.9%	7.9%	7.7%	7.5%	7.6%
Annual Retirements	149	261	143	41	160	124	159	164	148	156	158	166	157
Retirements as a % of the Fleet	3.1%	5.2%	2.9%	0.8%	3.2%	2.5%	3.2%	3.2%	2.7%	2.7%	2.6%	2.6%	3.0%
Net Change in Fleet	194	(129)	(51)	82	6	15	193	241	278	294	304	307	237
Y-o-Y % Fleet Change	4.0%	-2.6%	-1.0%	1.7%	0.1%	0.3%	3.9%	4.7%	5.2%	5.2%	5.1%	4.9%	4.6%
JEFe Widebody Deliveries	343	132	92	123	166	142	216	318	379	408	446	466	304
Aircraft (Deficit)/Surplus							(136)	(87)	(47)	(42)	(16)	(7)	(90)
Cumulative Aircraft (Deficit)/Surplus							(136)	(222)	(270)	(312)	(328)	(335)	

- Base Case widebody forecasts support an average of 394 deliveries per year from 2025-2027 (33/mo), which compares to the 2017-2019 average of 340 deliveries (28/mo). This represents 7.6% of the fleet on average. Retirements average 157 per year or 3.0% of the fleet compared to 3.0% in 2018-2019. The net installed passenger WB fleet increases at a 4.6% CAGR to 5,684 aircraft in 2027.
- WB air traffic (RPKs) and capacity (ASKs) increase at a 6.3% CAGR
- WB load factors remain steady at 83.4% compared to 82.0% in 2019
- WB average seats per trip decreases at a -0.8% CAGR to 301 seats in 2027, down 3% vs 309 seats in 2024 and down 2% vs 306 seats in 2019
- WB average annual stage increases at a 2.5% CAGR to 3.04MM annual kilometers

Source: Company data and Jefferies estimates

Commercial Jetliners: Widebody Structural Supply Deficit Through 2030

WB Aircraft Deliveries Sensitivity to Air Traffic & Retirements - Each 1pt of RPKs = 4.5/mo of Demand with Each 1pt of Retirement Rate = 4.5/mo of Demand

		2027 International RPKs Y-o-Y % Change				
		3.7%	4.7%	5.7%	6.7%	7.7%
2027 % Retirements	1.2%	238	292	345	399	453
	1.7%	265	319	372	426	480
	2.2%	292	346	399	453	507
	2.7%	319	373	426	480	534
	3.2%	346	400	454	507	561
	3.7%	373	427	481	534	588
	4.2%	400	454	508	561	615

- Each 1pt change in 2027 international RPKs y-o-y from our base case of +5.7% y-o-y equates to 54 annual deliveries, or 4.5/mo build rate
- Each 1pt change in the 2027 annual WB retirement rate from our base case of 2.7% equates to 54 annual deliveries, or 4.5/mo build rate
- Each 1pt change (or 3 seats) in 2027 seats per WB vs 2019 from our base case of 1.7% below 2019 at 301 seats equates to 57 deliveries, or 4.8/mo build rate
- Each 1pt change (or 0.03MM kilometers) in 2027 KMs per WB vs 2019 from our base case of 2.8% above 2019 at 3.04MM KMs equates to 55 deliveries, or 4.6/mo build rate

WB Aircraft Deliveries Sensitivity to Gauge & Stage - Each 1pt of Seats = (4.8)/mo of Demand with Each 1pt of Stage-Length = (4.6)/mo of Demand

		2027 Seats per WB vs. 2019				
		-3.7%	-2.7%	-1.7%	-0.7%	0.3%
2027 KMs / Aircraft	1.3%	630	570	511	453	396
	1.8%	601	541	482	425	368
	2.3%	573	513	454	397	340
	2.8%	544	485	426	369	313
	3.3%	516	457	399	342	286
	3.8%	489	430	372	315	260
	4.3%	461	402	345	288	233

Source: Company data and Jefferies estimates

Commercial Installed Base to Expand Steadily from 2019 to 2030

Total Passenger Aircraft Delivery Forecast - Industry Undersupply Persists Through 2028 with a Cumulative Deficit of ~700 Aircraft Relative to Demand

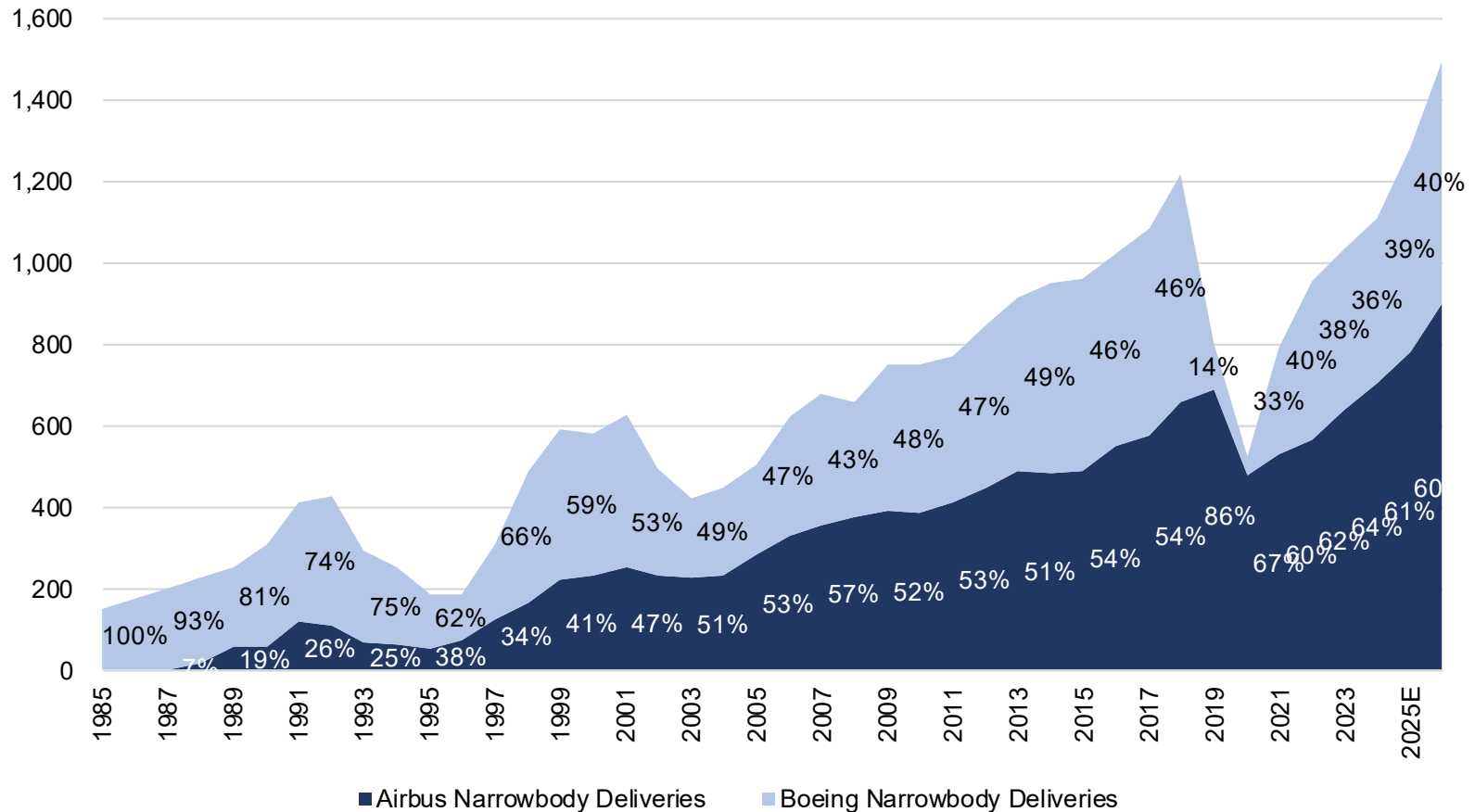
	Total Passenger Aircraft Sensitivity												'25-'27 Average
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	
Passenger Aircraft Installed Base	26,013	25,992	26,402	27,049	27,544	28,167	28,971	30,070	31,245	32,405	33,534	34,664	3.5%
Y-o-Y % Change	2.4%	-0.1%	1.6%	2.5%	1.8%	2.3%	2.9%	3.8%	3.9%	3.7%	3.5%	3.4%	
CAGR off 2019 Base		-0.1%	0.7%	1.3%	1.4%	1.6%	1.8%	2.1%	2.3%	2.5%	2.6%	2.6%	
Global RPKs (BBs)	8,588	2,940	3,583	5,888	8,077	8,920	9,497	10,020	10,545	11,073	11,606	12,151	5.7%
Y-o-Y % Change	4.2%	-65.8%	21.9%	64.3%	37.2%	10.4%	6.5%	5.5%	5.2%	5.0%	4.8%	4.7%	
CAGR off 2019 Base		-65.8%	-35.4%	-11.8%	-1.5%	0.8%	1.7%	2.2%	2.6%	2.9%	3.1%	3.2%	
Global ASKs (BBs)	10,371	4,499	5,349	7,480	9,795	10,644	11,331	11,955	12,580	13,209	13,844	14,493	5.7%
Y-o-Y % Change	3.3%	-56.6%	18.9%	39.8%	31.0%	8.7%	6.5%	5.5%	5.2%	5.0%	4.8%	4.7%	
CAGR off 2019 Base		-56.6%	-28.2%	-10.3%	-1.4%	0.5%	1.5%	2.1%	2.4%	2.7%	2.9%	3.1%	
% Load Factor	82.8%	65.3%	67.0%	78.7%	82.5%	83.8%	83.8%	83.8%	83.8%	83.8%	83.8%	83.8%	83.8%
Y-o-Y % Pt Change	0.7%	-17.5%	1.6%	11.7%	3.7%	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Average Seats per Aircraft	180.5	180.5	180.8	182.1	183.0	183.6	184.0	184.7	185.5	186.3	187.3	188.3	0.4%
Y-o-Y % Change	0.9%	0.0%	0.2%	0.8%	0.5%	0.3%	0.2%	0.4%	0.4%	0.4%	0.5%	0.5%	
% Change vs. 2019		0.0%	0.2%	0.9%	1.4%	1.7%	2.0%	2.3%	2.8%	3.2%	3.8%	4.3%	
Implied Annual Kilometers (MMs)	2.21	0.96	1.12	1.52	1.94	2.06	2.13	2.15	2.17	2.19	2.20	2.22	1.8%
Y-o-Y % Change	0.0%	-56.6%	16.9%	35.5%	28.0%	5.9%	3.3%	1.3%	0.8%	0.8%	0.7%	0.8%	
% Change vs. 2019		-56.6%	-49.3%	-31.3%	-12.0%	-6.8%	-3.8%	-2.5%	-1.7%	-1.0%	-0.2%	0.5%	
Passenger Aircraft per BB RPKs	3.03	8.84	7.37	4.59	3.41	3.16	3.05	3.00	2.96	2.93	2.89	2.85	-2.1%
Y-o-Y % Change	-1.7%	191.9%	-16.7%	-37.7%	-25.8%	-7.4%	-3.4%	-1.6%	-1.3%	-1.2%	-1.3%	-1.3%	
% Change vs. 2019		191.9%	143.3%	51.7%	12.6%	4.3%	0.7%	-0.9%	-2.2%	-3.4%	-4.6%	-5.8%	
Total Passenger Aircraft Fleet Change													
Implied Annual Deliveries	1,260	723	933	1,152	1,275	1,190	1,650	1,960	2,070	2,084	2,108	2,136	1,893
Deliveries as a % of the Fleet	5.0%	2.8%	3.6%	4.4%	4.7%	4.3%	5.9%	6.8%	6.9%	6.7%	6.5%	6.4%	6.5%
Annual Retirements	616	598	477	559	745	546	846	861	895	924	979	1,006	867
Retirements as a % of the Fleet	2.4%	2.3%	1.8%	2.1%	2.8%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Net Change in Fleet	614	(21)	410	593	530	644	804	1,099	1,175	1,160	1,129	1,130	1,026
Y-o-Y % Fleet Change	2.4%	-0.1%	1.6%	2.2%	2.0%	2.3%	2.9%	3.8%	3.9%	3.7%	3.5%	3.4%	3.5%
JEFe Total Deliveries	1,260	723	933	1,152	1,275	1,190	1,421	1,701	1,889	2,056	2,168	2,198	1,670
Aircraft (Deficit)/Surplus							(229)	(259)	(181)	(28)	60	62	(223)
Cumulative Aircraft (Deficit)/Surplus							(229)	(488)	(669)	(697)	(637)	(575)	

- Our Base Case total passenger aircraft is a consolidation of our narrowbody + regional jet and widebody forecasts, which together, support an average of 1,893 passenger aircraft deliveries per year from 2025-2027. This represents 6.5% of the fleet on average.
- Retirements average 867 per year or 3.0% of the fleet compared to the historic range of 2.5-3.5% per year, which drives the net fleet at a 3.5% CAGR to 31,245 aircraft in 2027, or 11% above the 2024 ending fleet of 28,167 aircraft and 20% above the 2019 ending fleet of 26,013 aircraft.
- This compares to JEF estimated production of aircraft of 1,526 per year on average from 2025-2027. The period average deficit is 367 aircraft per year, with the cumulative deficit up to a peak at ~700 aircraft in 2028 before unwinding to 575 as of 2030.

Source: Company data and Jefferies estimates

Boeing vs. Airbus Narrowbody Delivery Share (1985-2026E)

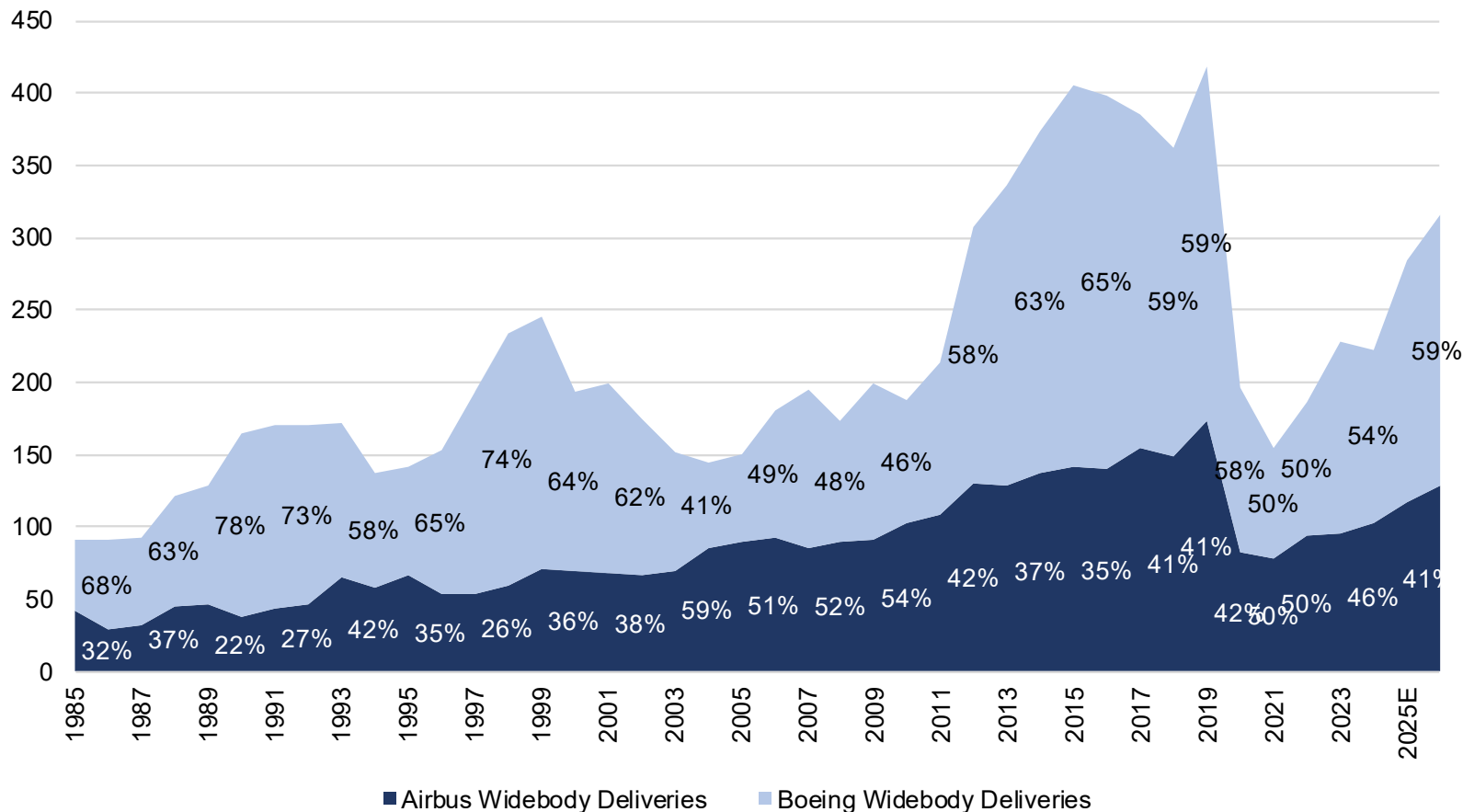
Airbus has an edge for narrowbody share with benefit from slower 737 MAX deliveries



Source: Company data and Jefferies estimates

Boeing vs. Airbus Widebody Delivery Share (1985-2026E)

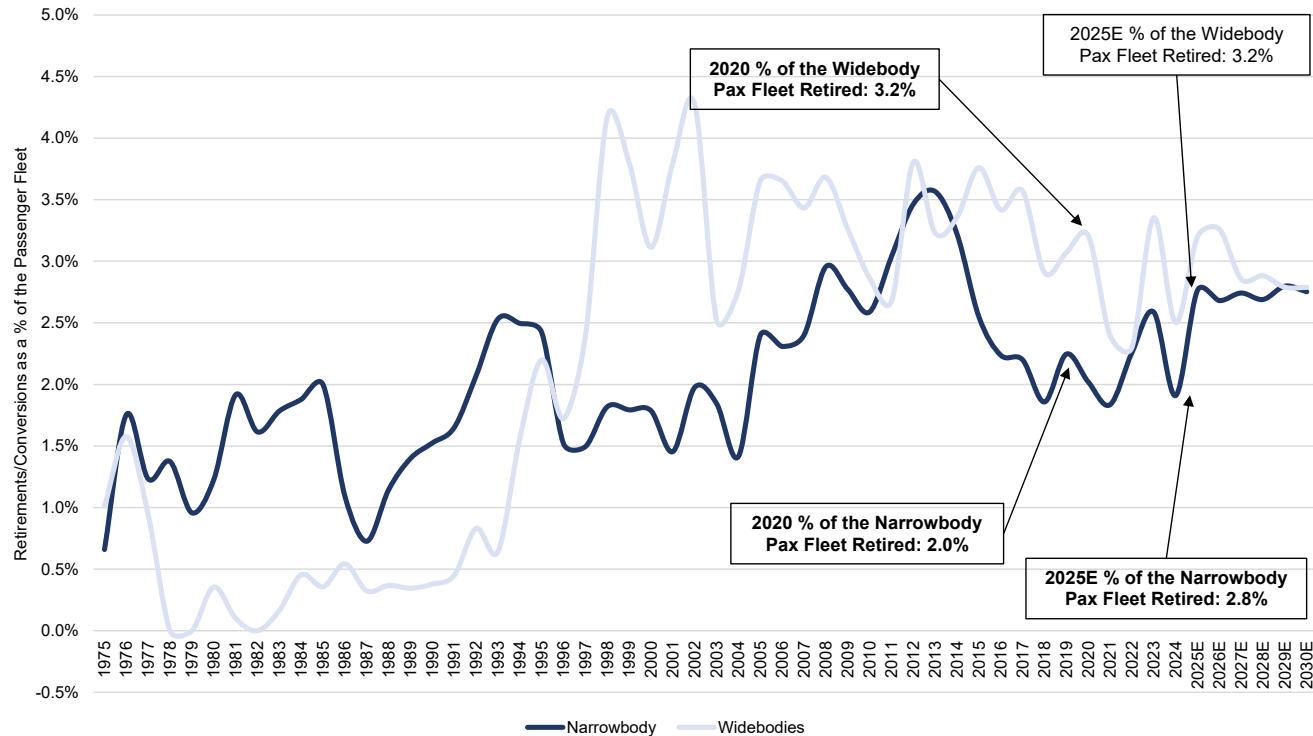
Boeing 787 Issues Caused Lost Share, But Unlikely to Be Permanent



Source: Company data and Jefferies estimates

Worldwide Aircraft Retirements: 1975-2030E

Retirements/Conversions Out of the Passenger Fleet - Widebody Fleet Removals Stepped Up to Peak Levels in 2020 But Narrowbody Retirements Have Remained Moderate

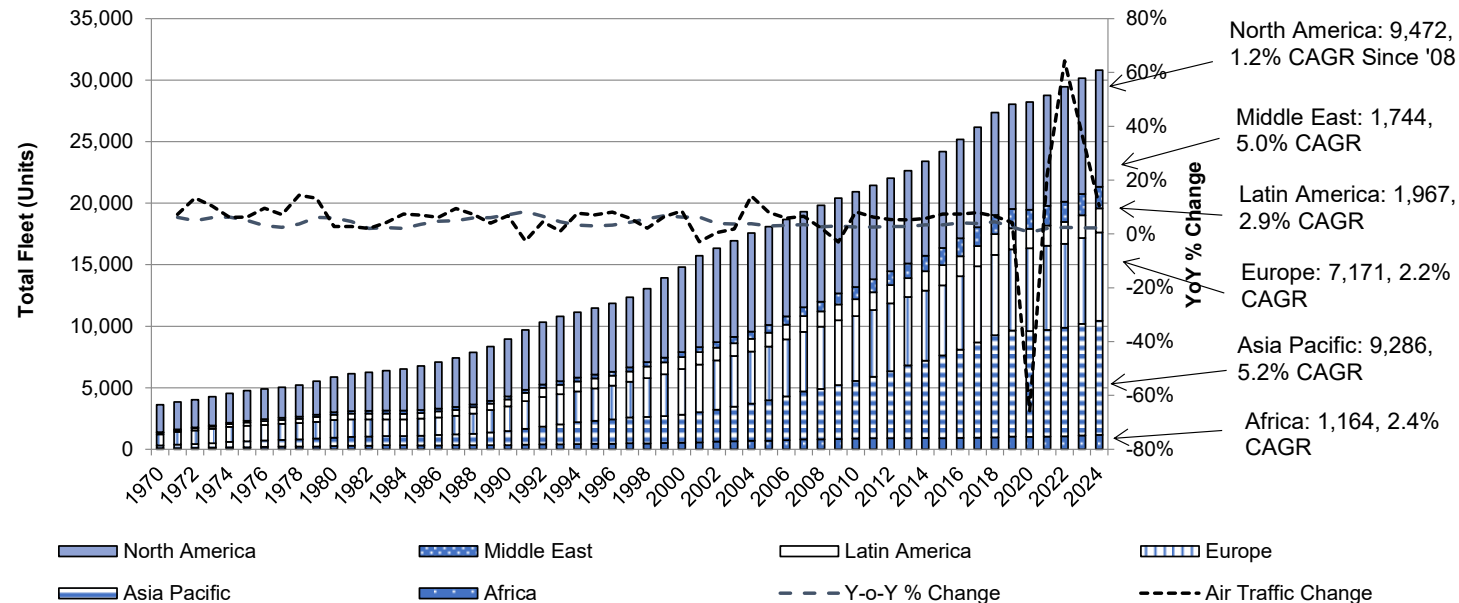


- We expect retirements are 2.9% of the fleet in 2025 (2.8% narrowbodies; 3.2% widebodies) and step down slightly to 2.8% of the fleet in 2026 (2.7 narrowbodies; 3.3% widebodies).
- This levels out through 2030 towards an average of 2.8%.

Source: Jet Information Services and Jefferies estimates

Fleet Growth by Geography (Western-built Commercial Aircraft)

Commercial Fleet by Region - Total Fleet Growth of 2.3% as Fleet Continues to Trend Back to Historical Normals Following a Low 2020



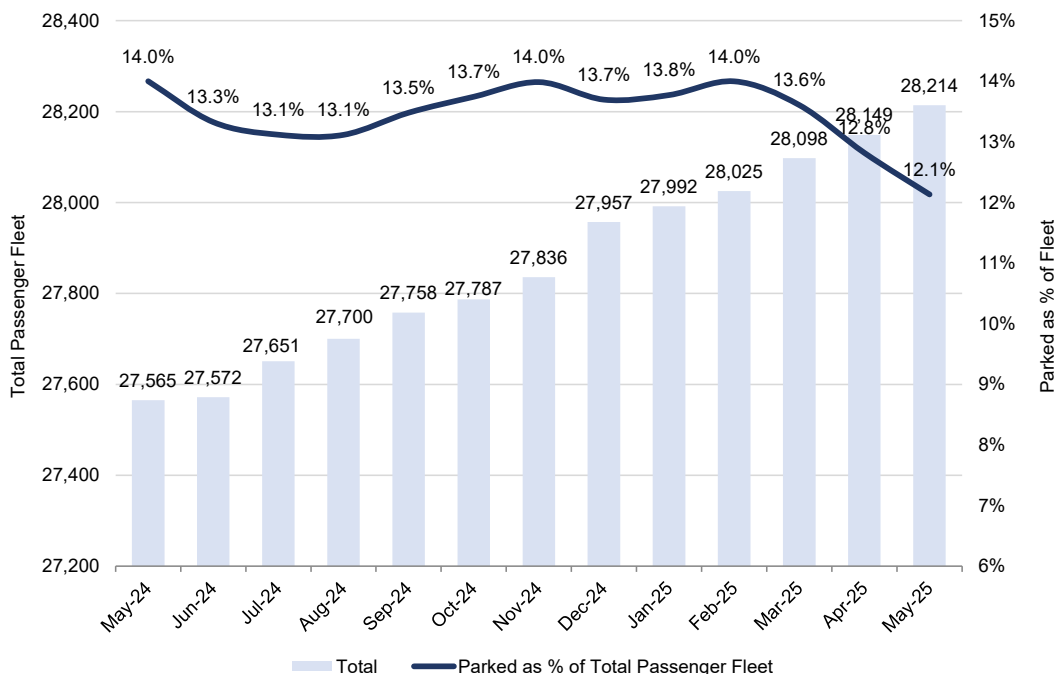
- The total fleet growth slowed since COVID, with the fleet expanding just 0.7% in 2020 with a return to 2.1% and 2.6% growth in 2021 and 2022, respectively.
- The fleet expanded at a 2.8% CAGR since 2008 which compares to 5.3% average growth in air traffic from 2008 to 2019.
- By region, Asia Pacific has led the expansion since 2008, with the fleet expanding at a 5.2% CAGR, followed by the Middle East expanding at a 5.0% CAGR since 2008. North America has been the most subdued grower given its maturity, with the fleet expanding at just a 1.2% CAGR since 2008.

Note: Includes freighters and regional jets.

Source: Cirium® and Jefferies estimates

Parked Fleet Continues Its Downward Trajectory

Parked Fleet 12.1% of the Total, Down from 14.0% a Year Ago

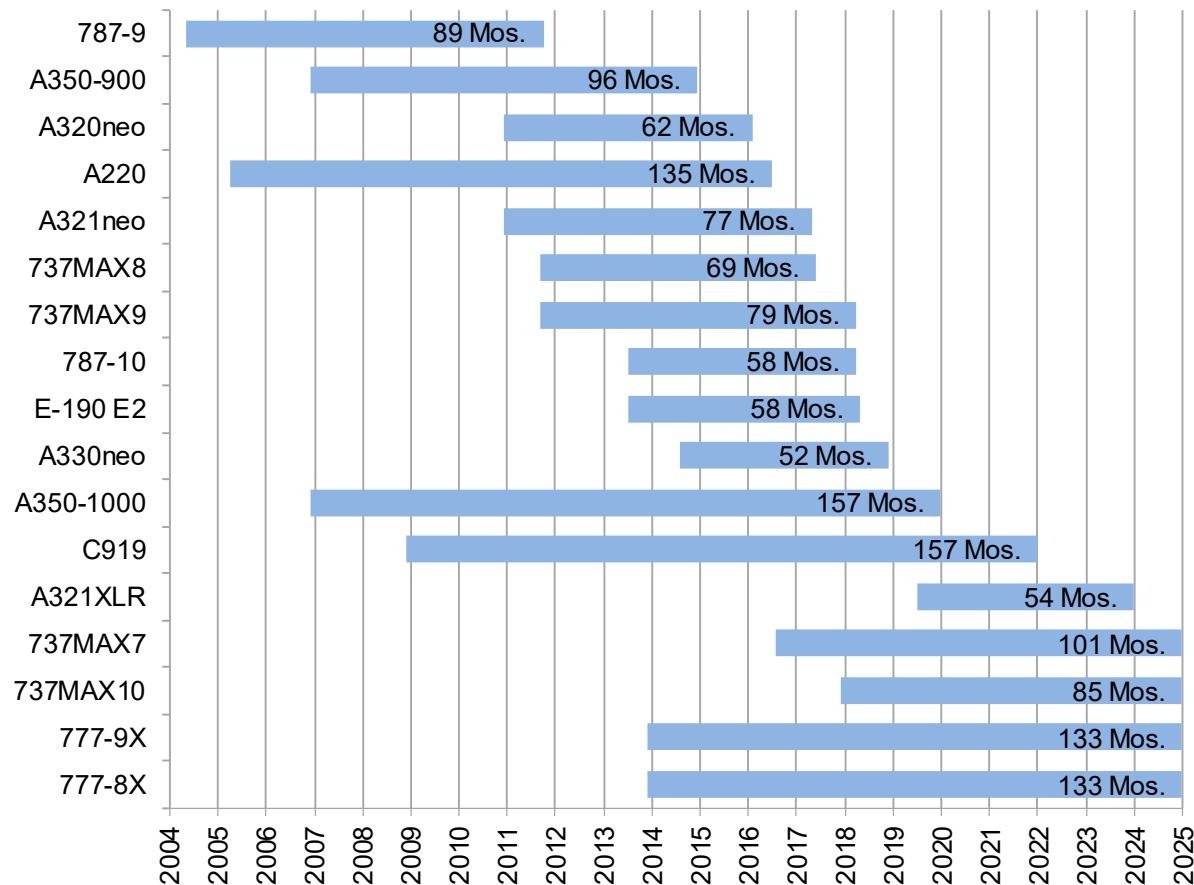


- In May, the parked fleet of 3,424 aircraft compared to the total passenger fleet of 28,214 aircraft. The parked fleet represents 12.1% of the total fleet in May, which compares to 14.0% a year ago.
- The passenger parked fleet has steadily declined from a peak of 60% in April 2020 down to around 12.1% today, as most commercial aircraft have been reintroduced into active service to meet capacity schedules. The parked fleet remains elevated at ~12% vs 7-9% historically.
- If we assume the delta between the current parked fleet of 12% and the average historical rate of 8% is retired given excess aircraft are likely older and will not return to service, the addressable fleet would still be larger than in 2019.

Source: Cirium® and Jefferies estimates

Timeline from Program Launch to First Delivery for Select Commercial Aircraft

New Aircraft Development Timelines – Increasingly Longer with Programs Such as 777X and C919 at >100 Mos



- Some of the aircraft currently under development have timelines approaching 10 years, much longer than the ~50 month timeline a decade ago. The C919 received certification the week of Sept 26, 2022 after 14 years.

Source: Company data and Jefferies estimates

737 MAX vs. A320neo Engine Market Share – LEAP w/ 78% of Decided Fleet on Sole-Source MAX Position

		737 MAX		A320neo		Total	Total		Grand
Customers		LEAP	LEAP	GTF	TBD		LEAP	GTF	
1	IndiGo	6	604	116	500	1,220	610	116	1,226
2	Unannounced commercial customer	430	6	-	563	569	436	-	999
3	United Airlines	513	20	230	2	252	533	230	765
4	American Airlines	215	230	-	-	230	445	-	445
5	Southwest Airlines	761	-	-	-	-	761	-	761
6	Air India	140	406	-	-	406	546	-	546
7	Delta Air Lines	100	-	155	-	155	100	155	255
8	EasyJet	-	350	-	-	350	350	-	350
9	AirAsia	-	404	-	-	404	404	-	404
10	China Southern Airlines	62	192	24	-	216	254	24	278
11	Turkish Airlines	60	-	118	150	268	60	118	328
12	Lion Air	233	177	-	-	177	410	-	410
13	China Eastern Airlines	7	186	-	-	186	193	-	193
14	Wizz Air	-	-	150	177	327	-	150	327
15	Frontier Airlines	-	82	147	90	319	82	147	319
16	VietJet Air	150	-	86	46	132	150	86	282
17	Air China	38	91	53	-	144	129	53	182
18	Spirit Airlines	-	-	215	-	215	-	215	215
19	Ryanair	298	-	-	-	-	298	-	298
20	Avolon	89	69	63	62	194	158	63	283
21	JetBlue	-	-	85	-	85	-	85	85
22	Volaris	-	-	173	39	212	-	173	212
23	Pegasus	100	155	-	-	155	255	-	255
24	BOC Aviation	113	-	-	133	133	113	-	246
25	Akasa Air	226	-	-	-	-	226	-	226
26	Lufthansa	-	28	54	6	88	28	54	88
27	Flynas	-	204	-	-	204	204	-	204
28	Sichuan Airlines	-	-	66	3	69	-	66	69
29	Avianca	-	38	-	79	117	38	-	117
30	Flydubai	186	-	-	-	-	186	-	186
Subtotal		3,727	3,242	1,735	1,850	6,827	6,969	1,735	10,554
Other Carriers		2,841	2,110	1,573	640	4,323	4,951	1,573	7,164
Total		6,568	5,352	3,308	2,490	11,150	11,920	3,308	17,718
Market Share		37%	30%	19%	14%	63%	67%	19%	100%
<i>Share of Decided</i>			62%	38%			78%	22%	

- The CFM Int'l LEAP has a market share lead powering the A320neo, but 14% of orders are undecided.
- When including the sole source position on the 737 MAX, CFM has about a 67% market share.

Source: Cirium® and Jefferies estimates

Wide Body Engine Market Share – GENx Controls 77% of Decided 787 Fleet, 20% of Total WB Fleet

Customers	767			777			787				A330		Grand Total
	CF6	PW4000	Total	GE90	GE9X	Total	GENx	Trent	TBD	Total	Trent	Trent	
1 Qatar Airways	-	-	-	92	124	216	191	-	-	191	2	76	485
2 Emirates	-	-	-	157	205	362	30	-	-	30	-	65	457
3 United Airlines	16	37	53	44	-	44	171	-	50	221	-	45	363
4 Turkish Airlines	-	-	-	45	-	45	32	-	-	32	28	110	215
5 FedEx	151	-	151	67	-	67	-	-	-	-	-	-	218
6 Delta Air Lines	35	26	61	-	-	-	-	-	-	-	39	64	164
7 Cathay Pacific	-	-	-	35	21	56	-	-	-	-	73	54	183
8 Korean Air	-	-	-	37	20	57	41	-	20	61	-	33	151
9 American Airlines	-	-	-	20	-	20	89	-	-	89	9	-	118
10 Singapore Airlines	-	-	-	30	31	61	-	31	-	31	-	72	164
11 ANA	21	-	21	15	18	33	13	81	-	94	-	-	148
12 British Airways	-	-	-	40	24	64	6	42	-	48	-	24	136
13 Unannounced commercial customer	8	-	8	17	12	29	44	-	23	67	21	28	153
14 Saudia	-	-	-	53	-	53	60	-	-	60	36	-	149
15 JAL	27	-	27	12	-	12	52	-	3	55	-	51	145
16 Air India	-	-	-	28	10	38	54	-	-	54	-	50	142
17 Etihad Airways	-	-	-	14	25	39	71	-	-	71	2	27	139
18 Air France	-	-	-	63	-	63	10	-	-	10	-	45	118
19 Lufthansa	-	-	-	-	19	19	5	22	7	34	7	67	127
20 Air China	-	-	-	28	-	28	-	14	-	14	46	30	118
21 Thai Airways International	-	-	-	17	-	17	52	8	-	60	5	23	105
22 Air Canada	8	-	8	25	-	25	58	-	-	58	20	-	111
23 Ethiopian Airlines	2	3	5	23	8	31	30	10	-	40	-	35	111
24 UPS	109	-	109	-	-	-	-	-	-	-	-	-	109
25 EVA Air	-	-	-	42	-	42	30	-	-	30	-	24	96
26 China Southern Airlines	-	-	-	23	-	23	30	-	-	30	10	20	83
27 China Airlines	-	-	-	20	14	34	24	-	-	24	-	25	83
28 China Eastern Airlines	-	-	-	20	-	20	-	-	-	-	55	20	95
29 Qantas	-	-	-	-	-	-	26	-	-	26	-	24	50
30 KLM	-	-	-	31	-	31	28	-	-	28	-	-	59
Subtotal	377	66	443	998	531	1,529	1,147	208	103	1,458	353	1,012	4,795
Other Carriers	322	78	400	365	23	388	347	245	71	663	817	380	2,648
Total	699	144	843	1,363	554	1,917	1,494	453	174	2,121	1,170	1,392	7,443

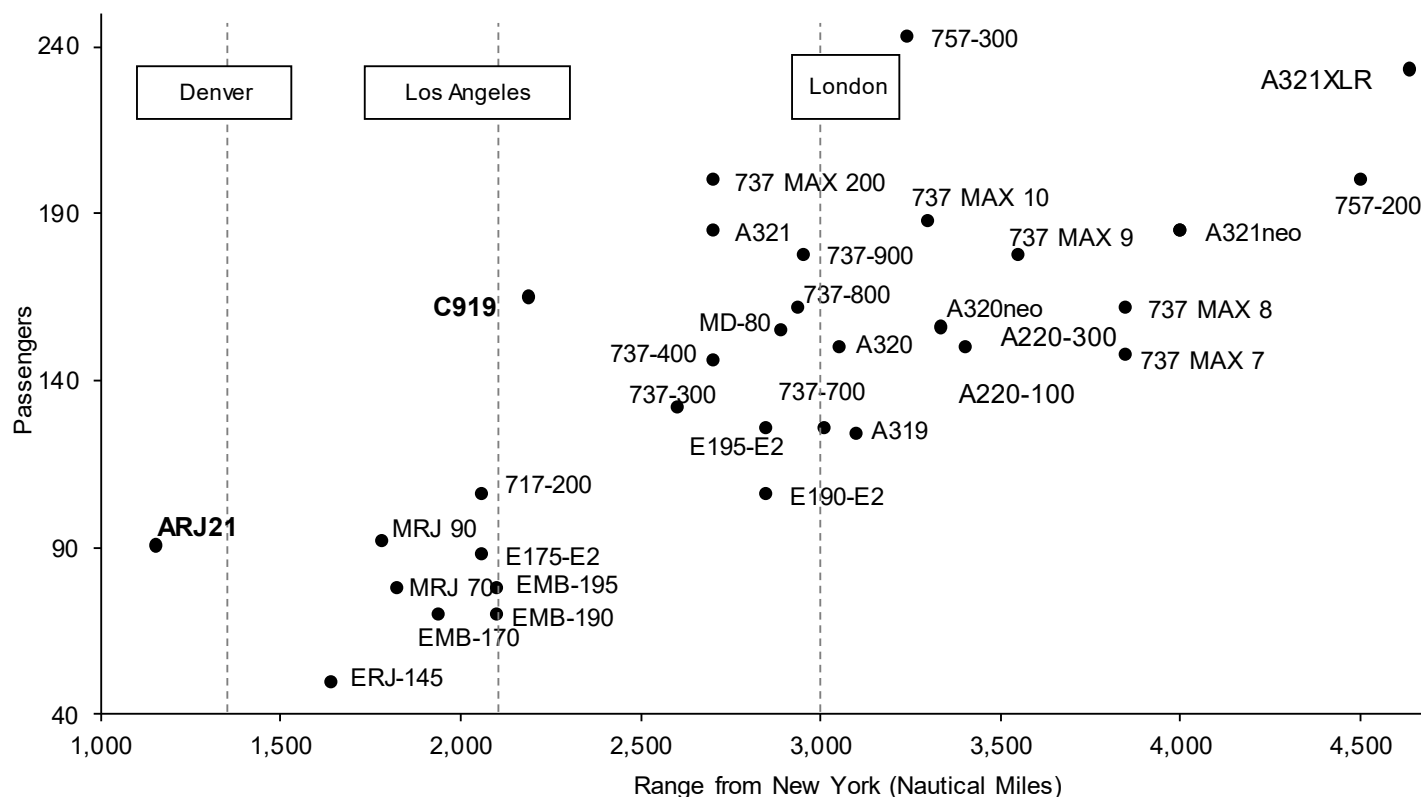
Market Share	9%	2%	11%	18%	7%	26%	20%	6%	2%	28%	16%	19%	100%
Share of Decided 787s							77%	23%					
Share of Total 787s							70%	21%	8%				

- The 787 is the only comm'l WB platform up for competition, with GE's GENx competing with Rolls's Trent. The PW4000 powered 767s are all military aircraft, with all other engines sole-sourced.
- GE holds an 77% of the decided 787 orderbook, a significant lead, w/ the Genx holding 20% share of the total WB fleet.

Source: Cirium® and Jefferies estimates

Product Comparison Between Range and Seats - A321XLR in a Class of its Own

Narrowbody Comparison Chart - Passenger Capacity vs. Range

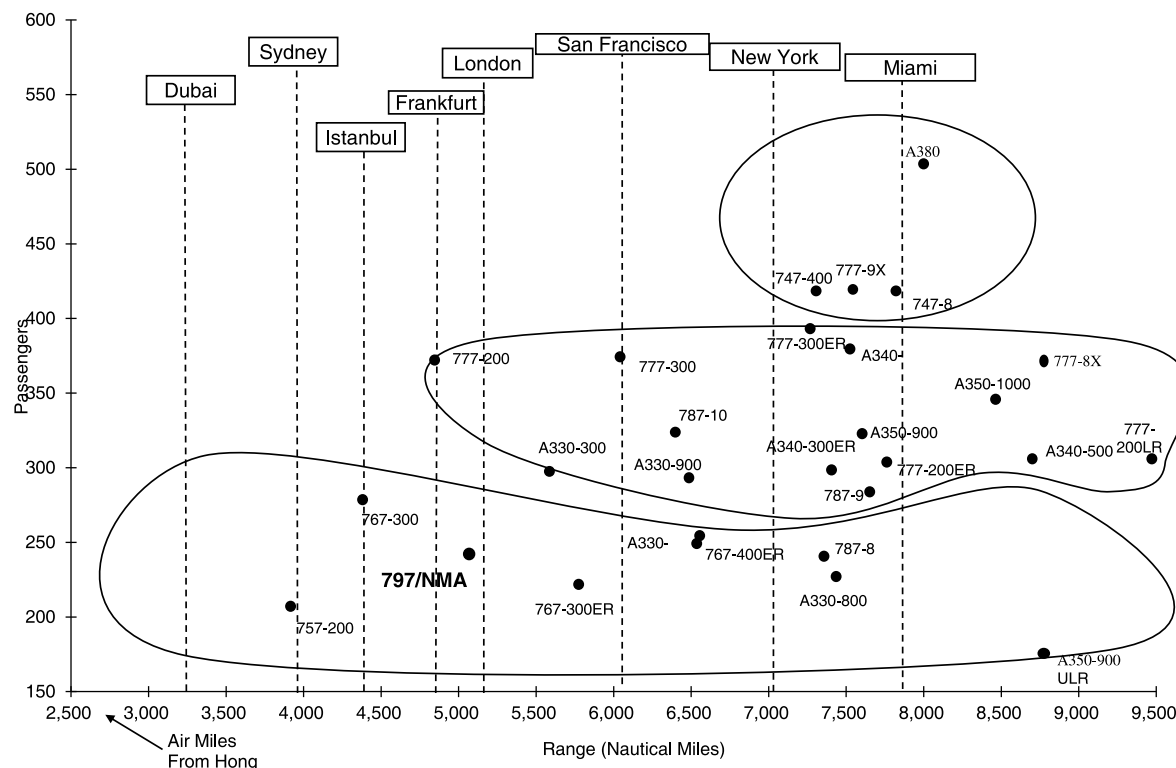


- The A320 family of aircraft represent 42% of the total passenger narrowbody fleet excluding regionals today, followed by the 737 at 42% of the market. The C919 is a new launch from China, occupying the lower end of the market.
- Airbus's A321XLR has an unprecedented combination of both range and seat capacity for a narrowbody platform, ahead of BA's 757, although EASA has expressed concern over the risk of fire spreading to the fuel tank, asking Airbus to strengthen using composites and other durable materials, delaying the launch of the XLR into 2024.

Source: Company data and Jefferies estimates

Widebody Aircraft: Passengers (Mixed Class Seating) vs. Range

Widebody Comparison Chart - Passenger Capacity vs. Range



- Widebodies account for only 11% of the order book across NBs, WBs, and RJs, but a larger proportion of expected dollars in the ~40% range.
- Widebody demand has been pressured by overbuilding pre-pandemic, compounded by the more gradual return of international air traffic and the replacement of long-range NBs on long-haul routes
- Given there are multiple aircraft that can service typical long-haul routes, economics on capacity and fuel efficiency increasingly drive decision-making, motivating a shift towards better WB efficiency on platforms such as the 787-10.

Source: Company data and Jefferies estimates

Supplier Exposure by Aircraft Platform

2025 Supplier Shipset Content and Revenue Exposure by Aircraft Platform - BA and HWM Most Exposed to 737, with HXL, HWM and RTX Most Exposed to A320

737			777			787		
	Content (\$MM)	% of '25 Rev		Content (\$MM)	% of '25 Rev		Content (\$MM)	% of '25 Rev
BA	\$52.0	23.6%	BA	\$190.0	6.8%	BA	\$149.0	13.3%
HWM	\$1.7	7.8%	HXL	\$1.5	1.6%	HXL	\$1.4	5.6%
TGI	\$0.3	6.3%	GE Aero	\$26.0	1.8%	HWM	\$5.2	4.3%
HXL	\$0.3	5.3%	HWM	\$2.2	1.3%	TGI	\$1.0	4.3%
GE	\$6.0	5.6%	HON Aero	\$3.0	0.5%	GE	\$25.1	4.0%
WWD	\$0.4	4.4%	TGI	\$0.5	1.1%	RTX Aero	\$10.0	1.1%
RTX Aero	\$2.5	1.3%	TDG	\$1.8	0.6%	TDG	\$1.3	1.0%
TDG	\$0.4	1.2%	RTX Aero	\$5.0	0.2%	HON Aero	\$2.0	0.8%
HON Aero	\$0.6	1.2%				WWD	\$0.2	0.4%

Airbus

A320			A330			A350		
	Content (\$MM)	% of '25 Rev		Content (\$MM)	% of '25 Rev		Content (\$MM)	% of '25 Rev
HXL	\$0.5	15.8%	RR	\$14.0	6.4%	HXL	\$4.8	16.9%
HWM	\$1.7	15.6%	HXL	\$1.1	2.0%	RR	\$14.0	13.1%
RTX Aero	\$14.8	15.0%	HWM	\$2.5	1.0%	TGI	\$0.3	1.8%
TGI	\$0.2	10.1%	TDG	\$0.8	0.3%	HWM	\$4.8	3.4%
WWD	\$0.3	4.8%	RTX Aero	\$3.5	0.2%	RTX Aero	\$6.5	0.6%
GE	\$6.0	4.4%	HON Aero	\$0.7	0.1%	HON Aero	\$1.5	0.5%
TDG	\$0.4	2.6%				TDG	\$0.5	0.3%
HON Aero	\$0.5	1.8%				WWD	\$0.05	0.1%

- The most levered to the 737 MAX (outside of BA) is HWM, which is also has 15.6% of its '25 revs exposed to the A320.
- Other suppliers with concentrated exposures includes HXL's 15.8% to the A320, while HXL is 16.9% exposed to the A350, and RTX Aero has 15.0% A320 exposure.

Source: Company data and Jefferies estimates

What's Up in the Skies: Global Flights Up 3% Y-o-Y, Now 2% Below 2019 Levels

Weekly Flights by Region - Flights Up 4% Y-o-Y Led by the Middle East & Africa, Now 2% Below 2019 Levels

Weekly Flights by Region						W-o-W %	M-o-M %	Y-o-Y %	vs. 2019
Region	6/9/2019	6/9/2024	5/11/2025	6/1/2025	6/8/2025	Change	Change	Change	Change
Asia	229,559	222,671	228,659	228,959	231,693	1%	1%	4%	1%
North America	226,441	211,307	207,631	213,225	217,501	2%	5%	3%	-4%
Europe	189,146	178,274	171,918	181,711	183,146	1%	7%	3%	-3%
South America	34,280	33,649	34,015	33,824	34,263	1%	1%	2%	0%
Middle East	24,880	26,061	25,688	26,348	26,878	2%	5%	3%	8%
Africa	24,266	24,749	24,939	25,543	25,893	1%	4%	5%	7%
Australasia	20,796	19,496	19,397	19,209	19,146	0%	-1%	-2%	-8%
Caribbean	7,695	6,553	6,584	6,710	6,852	2%	4%	5%	-11%
Central America	6,378	5,203	5,301	5,343	5,410	1%	2%	4%	-15%
Total	763,441	727,963	724,132	740,872	750,782	1%	4%	3%	-2%

% of Total Flights By Region					
Region	6/9/2019	6/9/2024	5/11/2025	6/1/2025	6/8/2025
Asia	30%	31%	32%	31%	31%
North America	30%	29%	29%	29%	29%
Europe	25%	24%	24%	25%	24%
South America	4%	5%	5%	5%	5%
Middle East	3%	4%	4%	4%	4%
Africa	3%	3%	3%	3%	3%
Australasia	3%	3%	3%	3%	3%
Caribbean	1%	1%	1%	1%	1%
Central America	1%	1%	1%	1%	1%
Total	100%	100%	100%	100%	100%

- We analyze air traffic, capacity, and aircraft utilization. We delve into airline route trends, in addition to how each aircraft is being optimized. We apply geospatial data to web scrapes.
- Key findings: 1) For the week beginning June 8, global scheduled flights are up 3% y-o-y to 2% below 2019 levels; on an ASM basis, capacity is up 5% y-o-y to 8% above 2019 levels. 2) All major region ASMs are now HSD+ >2019 levels, led by Africa +15%, followed by South America +12%. Asia and Europe remain relative laggards, up 5% and 8%, respectively, vs 2019 levels.

Source: Cirium® Hosted Service and Jefferies estimates

What's Up in the Clouds: Airline Web Traffic -4% Y-o-Y; US App Users +1% Y-o-Y

Web Traffic BY AIRLINE LOCATION: -4% Y-o-Y and -5% on a T3M Y-o-Y Basis

Airline Website Traffic Change					
Asia	W-o-W	2-Week	M-o-M	T3M-o-T3M	Y-o-Y
Asia Total	-4%	-9%	1%	1%	-3%
Australia	-7%	-12%	4%	5%	0%
China	-2%	-9%	-5%	4%	-6%
Hong Kong	0%	3%	4%	7%	20%
India	-4%	-5%	-4%	19%	7%
Japan	-4%	-13%	-2%	-2%	-9%
Singapore	0%	-6%	6%	1%	3%
South Korea	-2%	-14%	8%	-11%	-10%
Taiwan	-4%	-11%	5%	-7%	-13%
Thailand	4%	-5%	2%	-9%	-12%
Vietnam	-4%	3%	8%	2%	3%

Europe					
Europe	W-o-W	2-Week	M-o-M	T3M-o-T3M	Y-o-Y
Europe Total	-2%	-1%	8%	-4%	-1%
France	-2%	-4%	6%	-25%	-24%
Germany	-1%	0%	10%	-7%	-3%
Italy	7%	4%	26%	0%	15%
Netherlands	-5%	-7%	9%	-5%	-5%
Russia	-27%	-5%	39%	17%	34%
Spain	0%	-2%	3%	7%	6%
Switzerland	-5%	-6%	-1%	-10%	-19%
United Kingdom	-4%	0%	7%	-6%	0%

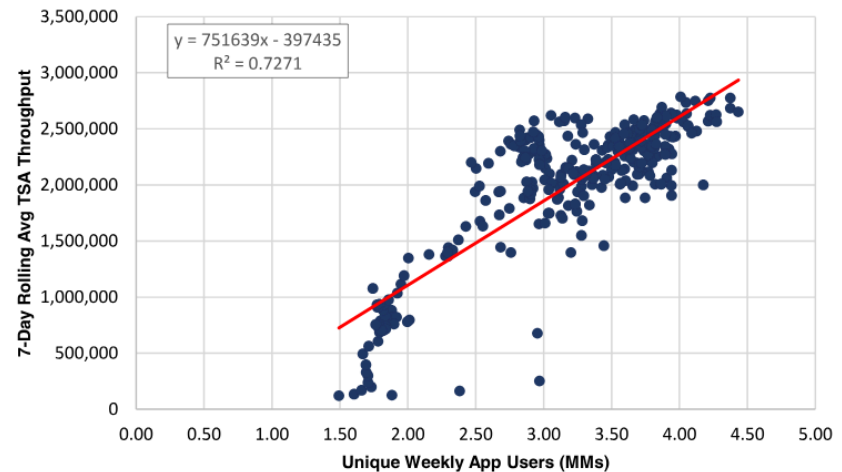
Middle East					
Middle East	W-o-W	2-Week	M-o-M	T3M-o-T3M	Y-o-Y
Middle East Total	1%	3%	8%	-7%	-2%
Qatar	5%	5%	10%	-19%	-13%
Turkey	3%	7%	7%	-4%	0%
UAE	-4%	-4%	7%	-3%	0%
Saudi Arabia	11%	16%	14%	0%	6%

Americas					
Americas	W-o-W	2-Week	M-o-M	T3M-o-T3M	Y-o-Y
North America Total	-3%	-1%	5%	-8%	-6%
Canada	0%	-1%	2%	6%	14%
United States	-3%	-1%	6%	-9%	-7%
Latin America Total	1%	9%	15%	-3%	5%
Mexico	46%	70%	76%	3%	73%
Brazil	-24%	-10%	-1%	10%	3%

Total					
Global Total	W-o-W	2-Week	M-o-M	T3M-o-T3M	Y-o-Y
Global Total	-2%	-3%	5%	-5%	-4%

- From May 24 to May 30, global airline and OTA web traffic by customer was -2% y-o-y (US traffic -6% y-o-y), while global traffic by airline location was -4% y-o-y (US -7% y-o-y).

3 Week Lagging App Traffic 0.85 Correlated With TSA Throughput



Web Traffic BY CUSTOMER LOCATION: -2% Y-o-Y Globally, -5% T3M Y-o-Y

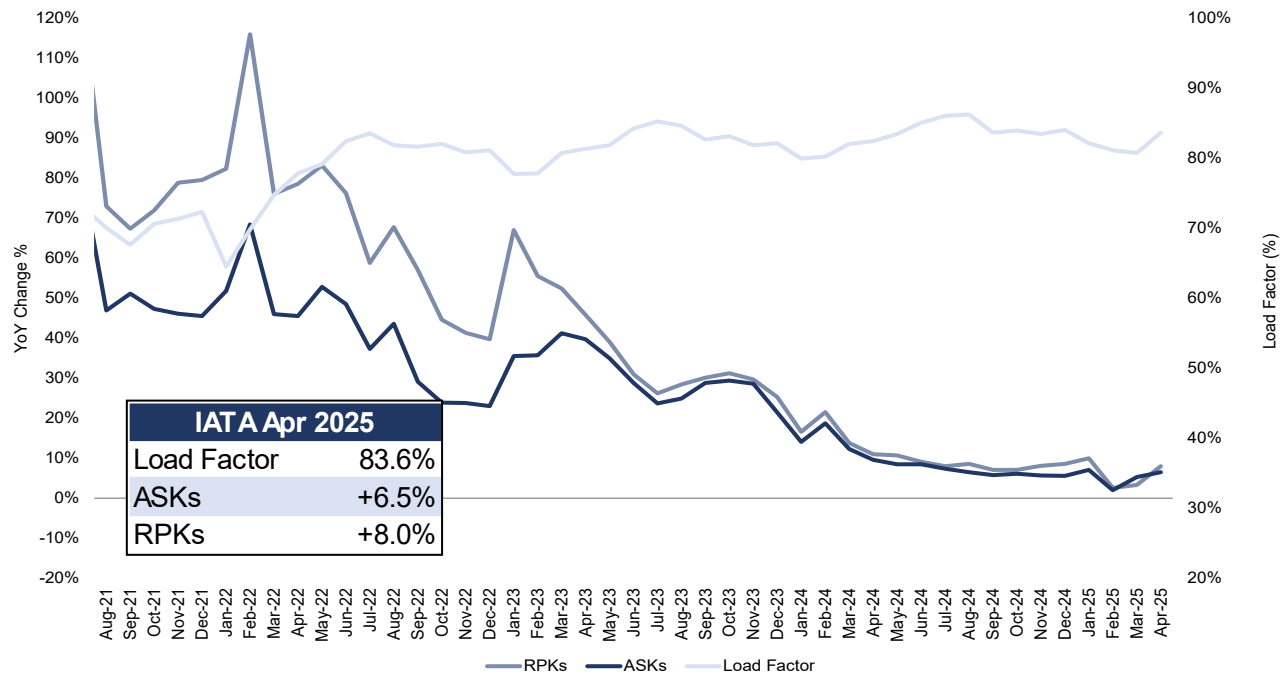
Location of Customer	Web Traffic Change				
	W-o-W	2-Week	M-o-M	T3M-o-T3M	Y-o-Y
US	-1%	2%	10%	-8%	-6%
Global Total	0%	2%	6%	-5%	-2%

Source: SimilarWeb and Jefferies estimates

Commercial Aftermarket

Air Passenger Traffic Modestly Ahead of 2019, but Still Below Pre-2020 Trendline

**IATA Air Traffic vs. Capacity - Air Traffic Up 8.0%
Y-o-Y in April**



- In April 2025, IATA reported an 8.0% increase y-o-y in air traffic, compared to +3.3% in March. ASKs increased 6.5%, driving load factors up 1.1 pts y-o-y to 83.6%. Seasonally adjusted RPKs rose 1.7% M-o-M.
- Domestic RPKs rose 3.3% on a 3.1% increase in ASKs, with LFs up 0.1 pts to 82.7%.
- International RPKs increased 10.8% on an 8.5% increase in ASKs with LFs +1.7 pts to 84.1%.

Source: IATA and Jefferies estimates

Air Traffic Trends From 1978 to 2030E – Deliveries Slowing, While Retirements Remain Elevated

Worldwide Traffic vs Airline Capacity

Worldwide Traffic vs. Airline Capacity									
Year	Year End Fleet	RPK/Aircraft (mils)	ASK/Aircraft (mils)	Air Traffic, RPKs (mils)	ASKs (mils)	Load Factor	RPK Growth	ASK Growth	Global GDP Growth
2000	15,317	198	280	3,037,533	4,286,203	70.9%	8.6%	5.8%	4.5%
2001	16,389	180	261	2,949,553	4,271,858	69.0%	-2.9%	-0.3%	2.0%
2002	17,097	173	244	2,964,531	4,167,106	71.1%	0.5%	-2.5%	2.3%
2003	17,752	170	238	3,019,104	4,227,863	71.4%	1.8%	1.5%	3.1%
2004	18,468	187	255	3,445,324	4,704,729	73.2%	14.1%	11.3%	4.5%
2005	18,987	196	262	3,721,692	4,975,913	74.8%	8.0%	5.8%	4.0%
2006	19,536	202	266	3,940,594	5,197,253	75.8%	5.9%	4.4%	4.4%
2007	20,144	209	270	4,201,000	5,435,000	77.3%	6.6%	4.6%	4.4%
2008	20,646	208	273	4,290,000	5,640,000	76.1%	2.1%	3.8%	2.1%
2009	21,219	196	254	4,160,000	5,400,000	77.0%	-3.0%	-4.3%	-1.3%
2010	21,721	230	260	4,989,932	5,645,000	88.4%	8.2%	4.5%	4.5%
2011	22,249	238	303	5,304,298	6,739,079	78.7%	6.3%	19.4%	3.3%
2012	22,818	245	307	5,585,426	7,008,643	79.7%	5.3%	4.0%	2.7%
2013	23,373	251	314	5,875,868	7,345,057	80.0%	5.2%	4.8%	2.8%
2014	24,124	257	321	6,210,792	7,749,036	80.1%	5.7%	5.5%	3.1%
2015	22,419	298	369	6,670,391	8,268,221	80.7%	7.4%	6.7%	3.1%
2016	23,384	306	380	7,164,000	8,888,337	80.6%	7.4%	7.5%	2.8%
2017	24,309	318	390	7,733,474	9,474,968	81.6%	7.9%	6.6%	3.4%
2018	25,389	325	395	8,238,948	10,035,858	82.1%	6.5%	5.9%	3.3%
2019	26,013	330	399	8,588,313	10,374,466	82.8%	4.2%	3.4%	2.6%
2020	25,992	113	173	2,931,756	4,507,879	65.0%	-65.9%	-56.5%	-3.1%
2021	26,402	135	201	3,576,803	5,317,429	67.3%	22.0%	18.0%	6.0%
2022	27,049	218	277	5,888,014	7,479,707	78.7%	64.6%	40.7%	3.1%
2023	27,544	293	356	8,076,982	9,794,935	82.5%	37.2%	31.0%	3.2%
2024	28,167	317	378	8,919,533	10,643,608	83.8%	10.4%	8.7%	3.2%
2025E	28,742	330	394	9,496,715	11,331,335	83.8%	6.5%	6.5%	
2026E	29,582	339	404	10,020,452	11,955,414	83.8%	5.5%	5.5%	
2027E	30,576	345	411	10,545,062	12,580,493	83.8%	5.2%	5.2%	
2028E	31,708	349	417	11,072,655	13,208,945	83.8%	5.0%	5.0%	
2029E	32,897	353	421	11,605,999	13,844,190	83.8%	4.8%	4.8%	
2030E	34,089	356	425	12,150,823	14,492,904	83.8%	4.7%	4.7%	

**2000-2010
Average
RPK
Growth:
5.6%**

**2011-2019
Average
RPK
Growth:
6.2%**

Source: IATA and Jefferies estimates

North America Leading the Aero Recovery With APAC Lagging

Change in Air Traffic by Region: RPKs Up 8.0% in April 2025 vs. ASKs Up 6.5%

Y-o-Y RPK Change								Y-o-Y ASK Change							
Date	Africa	Asia/Pacific	Europe	L. America	Mid East	N. America	Industry	Africa	Asia/Pacific	Europe	L. America	Mid East	N. America	Industry	
Jan-20	5.2%	0.4%	1.6%	0.4%	5.9%	5.7%	2.4%	6.1%	2.2%	-0.5%	0.0%	0.6%	3.6%	1.7%	
Feb-20	-0.7%	-41.3%	0.7%	3.1%	1.7%	5.5%	-14.1%	5.1%	-28.2%	1.2%	3.5%	1.5%	4.7%	-8.7%	
Mar-20	-44.6%	-59.9%	-51.8%	-39.3%	-46.0%	-49.8%	-52.9%	-34.4%	-44.4%	-39.7%	-27.2%	-33.6%	-22.8%	-36.2%	
Apr-20	-98.3%	-88.5%	-98.1%	-96.0%	-97.3%	-96.6%	-94.3%	-88.4%	-82.5%	-94.9%	-94.0%	-92.4%	-80.5%	-87.0%	
May-20	-97.9%	-82.7%	-97.7%	-95.4%	-97.9%	-92.5%	-91.3%	-79.9%	-77.6%	-95.5%	-93.8%	-93.9%	-83.1%	-86.0%	
Jun-20	-96.5%	-74.4%	-93.7%	-91.2%	-95.5%	-86.3%	-86.5%	-84.5%	-69.6%	-90.0%	-89.0%	-90.4%	-76.9%	-80.1%	
Jul-20	-93.7%	-72.2%	-81.3%	-87.5%	-92.5%	-80.6%	-79.8%	-84.3%	-64.9%	-72.7%	-83.2%	-84.7%	-63.9%	-70.1%	
Aug-20	-87.4%	-69.2%	-73.0%	-82.8%	-91.3%	-77.8%	-75.3%	-75.5%	-60.3%	-62.1%	-77.5%	-80.8%	-59.4%	-63.8%	
Sep-20	-85.6%	-63.5%	-75.8%	-76.2%	-88.9%	-74.7%	-72.8%	-72.4%	-57.7%	-64.3%	-72.4%	-77.2%	-60.0%	-63.0%	
Oct-20	-76.3%	-61.6%	-77.6%	-68.0%	-85.5%	-70.1%	-70.6%	-65.6%	-54.5%	-65.1%	-63.9%	-72.4%	-55.1%	-59.9%	
Nov-20	-75.6%	-61.6%	-82.2%	-59.8%	-84.5%	-67.6%	-70.3%	-63.6%	-52.9%	-71.6%	-55.3%	-69.5%	-48.7%	-58.6%	
Dec-20	-67.7%	-63.8%	-77.5%	-57.3%	-81.3%	-68.9%	-69.7%	-57.5%	-52.1%	-67.7%	-51.8%	-67.2%	-48.5%	-56.7%	
Jan-21	-66.0%	-71.4%	-77.7%	-58.2%	-81.7%	-69.0%	-72.5%	-56.0%	-59.8%	-68.3%	-49.6%	-66.0%	-48.5%	-59.3%	
Feb-21	-65.8%	-56.7%	-82.8%	-63.8%	-82.0%	-67.2%	-70.3%	-55.9%	-50.1%	-75.2%	-56.8%	-67.3%	-50.3%	-59.3%	
Mar-21	-41.0%	11.8%	-62.0%	-40.7%	-61.0%	-11.2%	-26.3%	-36.9%	-5.0%	-56.4%	-43.0%	-45.2%	-24.2%	-29.7%	
Apr-21	1190.1%	255.4%	780.2%	799.9%	550.0%	1407.7%	483.9%	619.5%	184.6%	414.4%	536.5%	372.5%	224.7%	245.4%	
May-21	1258.9%	122.5%	838.2%	821.0%	797.7%	643.2%	312.4%	725.1%	106.1%	528.6%	648.2%	496.9%	284.9%	226.6%	
Jun-21	1206.8%	46.2%	387.7%	449.7%	377.2%	351.2%	192.5%	632.0%	43.8%	291.9%	381.3%	267.7%	200.8%	145.6%	
Jul-21	N/A	33.1%	121.2%	318.3%	227.7%	254.8%	123.9%	N/A	30.9%	92.6%	249.5%	153.6%	101.3%	80.0%	
Aug-21	205.2%	-29.9%	80.0%	215.1%	228.7%	209.4%	72.9%	117.7%	-15.3%	57.2%	178.2%	123.1%	88.5%	46.9%	
Sep-21	129.2%	-16.0%	96.0%	153.9%	184.1%	171.4%	67.3%	93.4%	-3.4%	66.9%	133.3%	98.2%	96.3%	51.1%	
Oct-21	67.7%	-12.8%	144.0%	106.6%	181.3%	148.0%	71.9%	50.5%	-4.0%	85.7%	84.2%	80.1%	79.0%	47.3%	
Nov-21	77.2%	-21.1%	239.3%	83.6%	203.4%	149.2%	78.8%	48.3%	-12.5%	141.4%	66.2%	82.5%	64.1%	46.1%	
Dec-21	32.1%	-4.6%	177.5%	83.4%	163.6%	139.4%	79.5%	19.0%	-5.1%	120.3%	65.7%	76.7%	61.8%	45.5%	
Jan-22	21.3%	19.4%	161.4%	80.5%	128.1%	109.7%	82.3%	10.6%	15.7%	106.7%	59.2%	64.8%	59.0%	51.8%	
Feb-22	60.2%	42.9%	232.8%	100.5%	194.1%	134.9%	115.9%	33.1%	31.9%	136.1%	75.1%	80.9%	69.1%	68.4%	
Mar-22	76.4%	-17.9%	246.9%	119.8%	221.1%	96.5%	76.0%	46.8%	-14.9%	162.8%	94.3%	88.5%	48.6%	46.0%	
Apr-22	108.4%	-25.4%	301.6%	39.2%	139.2%	238.1%	78.5%	66.4%	-25.3%	172.5%	114.4%	91.3%	43.8%	45.5%	
May-22	124.9%	-4.7%	258.8%	99.3%	279.6%	56.3%	83.1%	76.8%	-8.2%	159.1%	89.5%	103.5%	36.6%	52.8%	
Jun-22	97.1%	33.7%	155.1%	74.0%	216.8%	39.2%	76.2%	62.0%	18.9%	96.1%	67.2%	89.3%	26.4%	48.5%	
Jul-22	81.9%	47.5%	84.0%	59.2%	176.7%	26.9%	58.8%	48.3%	28.1%	48.9%	53.2%	75.3%	21.2%	37.3%	
Aug-22	69.6%	141.6%	59.6%	55.0%	135.5%	29.6%	67.7%	47.6%	76.5%	37.8%	46.6%	65.4%	20.0%	43.6%	
Sep-22	89.2%	51.9%	60.4%	47.8%	138.6%	39.7%	57.0%	50.2%	22.2%	34.1%	39.4%	57.7%	18.1%	29.1%	
Oct-22	81.1%	36.8%	48.7%	40.0%	106.5%	31.2%	44.6%	48.0%	13.9%	28.1%	36.2%	51.1%	16.3%	23.9%	
Nov-22	84.5%	68.4%	37.0%	27.8%	77.9%	19.6%	41.3%	51.7%	31.3%	19.6%	27.6%	41.3%	13.3%	23.8%	
Dec-22	108.0%	63.3%	38.8%	16.2%	65.1%	18.4%	39.7%	72.5%	31.9%	18.9%	20.0%	35.9%	11.8%	23.0%	
Jan-23	113.8%	114.9%	53.2%	24.3%	91.1%	42.2%	67.0%	76.9%	58.8%	27.1%	20.0%	42.5%	19.6%	35.5%	
Feb-23	87.9%	105.4%	44.1%	23.7%	70.6%	25.1%	55.5%	62.3%	61.2%	27.9%	21.1%	37.6%	19.0%	35.7%	
Mar-23	66.1%	158.9%	37.0%	19.9%	40.4%	16.9%	52.4%	51.0%	109.0%	25.9%	19.8%	28.3%	15.9%	41.2%	
Apr-23	47.1%	170.8%	22.2%	15.3%	36.8%	13.9%	45.8%	41.7%	135.1%	15.6%	15.8%	26.4%	13.8%	39.7%	
May-23	38.6%	130.4%	19.1%	16.2%	30.1%	14.0%	39.1%	36.7%	109.5%	13.5%	16.5%	23.8%	13.6%	35.0%	
Jun-23	31.8%	90.1%	13.0%	18.7%	28.3%	12.9%	31.0%	40.5%	73.3%	11.5%	17.1%	24.5%	13.8%	28.8%	
Jul-23	25.0%	67.1%	11.7%	15.5%	21.9%	13.2%	26.2%	26.3%	53.4%	11.5%	11.4%	21.0%	11.9%	23.7%	
Aug-23	24.8%	73.4%	11.6%	17.6%	26.4%	12.6%	28.4%	24.3%	57.7%	10.2%	14.5%	21.6%	13.0%	24.9%	
Sep-23	24.6%	87.9%	13.8%	15.7%	26.1%	9.7%	30.1%	27.2%	75.5%	12.8%	14.3%	22.8%	12.5%	28.8%	
Oct-23	21.4%	90.9%	14.7%	13.6%	23.9%	10.5%	31.2%	29.0%	77.9%	12.4%	12.0%	21.4%	13.7%	29.4%	
Nov-23	20.3%	80.1%	13.6%	12.0%	18.7%	10.2%	29.7%	27.1%	71.7%	13.5%	9.1%	18.4%	11.3%	28.6%	
Dec-23	12.1%	60.7%	12.5%	16.3%	16.4%	10.6%	25.3%	18.7%	53.4%	12.3%	10.4%	17.2%	12.0%	21.4%	
Jan-24	18.1%	31.8%	10.0%	9.9%	16.2%	6.0%	16.6%	19.9%	26.6%	9.6%	5.5%	15.3%	4.1%	14.1%	
Feb-24	22.5%	37.8%	14.8%	13.0%	19.7%	8.9%	21.5%	24.3%	30.1%	14.6%	10.8%	18.8%	8.8%	18.7%	
Mar-24	10.0%	24.2%	10.6%	10.9%	10.5%	6.3%	13.8%	12.3%	17.9%	10.2%	8.8%	13.6%	7.6%	12.3%	
Apr-24	15.7%	17.4%	9.3%	8.0%	14.1%	4.2%	11.0%	11.6%	11.8%	9.2%	7.2%	9.7%	7.6%	9.6%	
May-24	13.4%	14.9%	10.3%	7.9%	10.2%	6.5%	10.7%	8.5%	9.2%	9.7%	5.3%	8.9%	6.5%	8.5%	
Jun-24	16.2%	12.5%	8.1%	9.1%	9.9%	5.4%	9.1%	5.8%	9.4%	8.4%	7.3%	9.5%	7.3%	8.5%	
Jul-24	6.6%	12.0%	7.2%	7.5%	6.1%	4.9%	8.0%	5.8%	9.8%	7.0%	8.4%	5.5%	5.1%	7.4%	
Aug-24	9.6%	13.4%	7.8%	6.5%	5.0%	4.8%	8.6%	6.7%	8.7%	7.3%	8.1%	5.9%	2.4%	6.5%	
Sep-24	12.2%	12.4%	6.7%	7.2%	4.7%	1.1%	7.1%	6.9%	8.0%	6.4%	7.6%	4.6%	2.2%	5.8%	
Oct-24	9.3%	12.7%	7.9%	7.0%	2.5%	0.3%	7.1%	5.2%	9.7%	6.5%	7.5%	2.7%	1.6%	6.1%	
Nov-24	10.9%	14.0%	8.3%	7.0%	8.9%	-0.7%	8.1%	6.0%	9.0%	6.1%	6.6%	4.1%	1.0%	5.7%	
Dec-24	12.2%	11.8%	7.3%	6.4%	7.6%	6.0%	8.6%	10.3%	8.1%	5.3%	5.7%	4.6%	2.3%	5.6%	
Jan-25	15.0%	16.1%	7.4%	7.9%	9.6%	3.4%	10.0%	11.5%	11.6%	5.3%	9.9%	4.3%	2.1%	7.1%	
Feb-25	6.8%	4.2%	4.3%	4.6%	3.3%	-3.2%	2.6%	4.7%	2.7%	3.9%	5.6%	1.3%	-1.9%	2.0%	
Mar-25	4.1%	6.3%	4.4%	6.2%	-0.7%	-1.1%	3.3%	5.0%	5.9%	6.4%	8.8%	3.0%	3.5%	5.3%	
Apr-25	14.2%	10.6%	8.3%	10.9%	11.3%	1.6%	8.0%	10.3%	7.9%	6.6%	10.1%	6.7%	3.2%	6.5%	

Source: IATA and Jefferies estimates

China Big 3 Air Traffic: +19% Above 2019 in April vs Mar +15%

China Airline Domestic RPKs 31% Above 2019 (+8% Y-o-Y) w/
Int'l RPKs Inline W/ 2019 (+24% Y-o-Y)

Total	Apr-19	Apr-23	Apr-24	Apr-25	% vs. 2019	% vs. 2023	% vs. 2024
China Eastern RPKs	17,805	13,792	18,610	21,506	21%	56%	16%
China Eastern ASKs	21,297	19,136	22,972	25,192	18%	32%	10%
China Southern RPKs	22,490	18,917	22,699	25,455	13%	35%	12%
China Southern ASKs	27,101	24,905	27,330	29,744	10%	19%	9%
Air China RPKs	19,225	17,155	21,858	23,738	23%	38%	9%
Air China ASKs	23,744	24,286	27,744	29,214	23%	20%	5%
China Big 3 Total RPKs	59,520	49,864	63,167	70,698	19%	42%	12%
China Big 3 Total ASKs	72,142	68,327	78,046	84,149	17%	23%	8%
Load Factor	82.5%	73.0%	80.9%	84.0%	1.5%	11.0%	3.1%

Domestic	Apr-19	Apr-23	Apr-24	Apr-25	% vs. 2019	% vs. 2023	% vs. 2024
China Eastern RPKs	11,403	12,308	12,864	14,239	25%	16%	11%
China Eastern ASKs	13,428	16,742	15,797	16,507	23%	-1%	4%
China Southern RPKs	15,142	16,538	17,111	18,295	21%	11%	7%
China Southern ASKs	18,262	21,761	20,588	21,292	17%	-2%	3%
Air China RPKs	10,961	15,020	15,466	16,472	50%	10%	6%
Air China ASKs	13,281	20,743	19,431	19,664	48%	-5%	1%
Big 3 Total Domestic RPKs	37,506	43,866	45,442	49,006	31%	12%	8%
Big 3 Total Domestic ASKs	44,971	59,246	55,817	57,463	28%	-3%	3%
Load Factor	83.4%	74.0%	81.4%	85.3%	1.9%	11.2%	3.9%

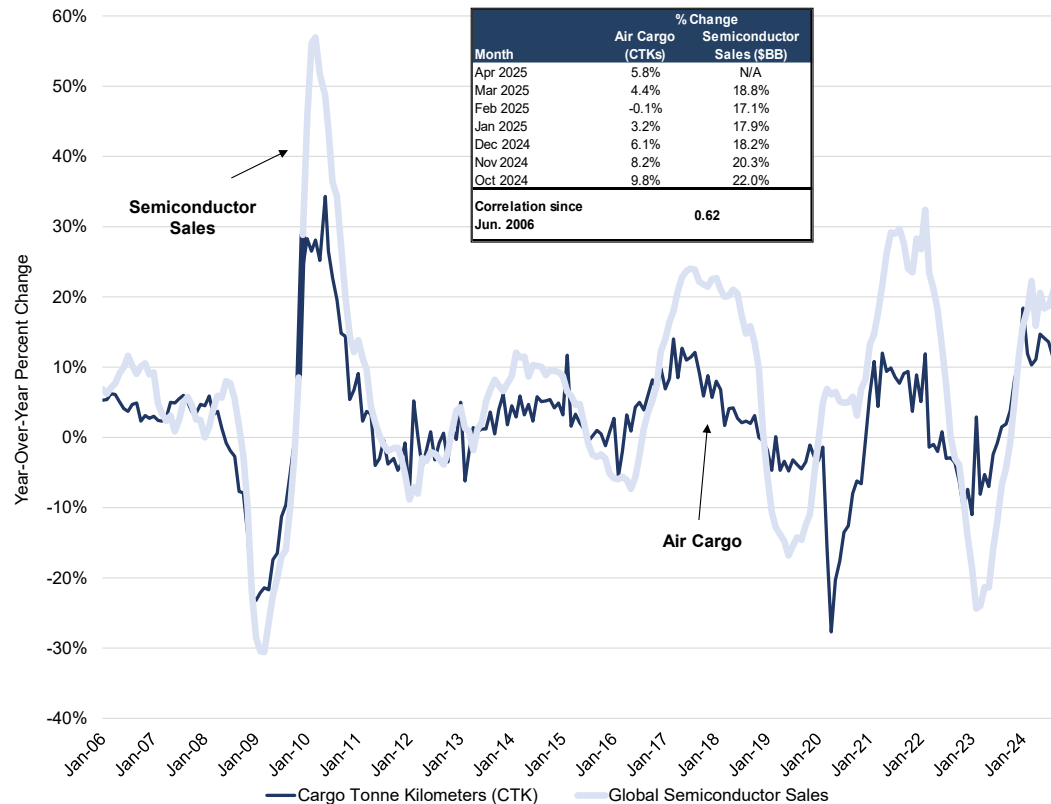
International	Apr-19	Apr-23	Apr-24	Apr-25	% vs. 2019	% vs. 2023	% vs. 2024
China Eastern RPKs	5,927	1,215	5,327	6,820	15%	461%	28%
China Eastern ASKs	7,291	1,994	6,633	8,150	12%	309%	23%
China Southern RPKs	7,042	2,199	5,373	6,955	-1%	216%	29%
China Southern ASKs	8,449	2,932	6,469	8,197	-3%	180%	27%
Air China RPKs	7,473	1,780	5,744	6,640	-11%	273%	16%
Air China ASKs	9,489	2,961	7,432	8,710	-8%	194%	17%
Big 3 Total Int'l RPKs	20,443	5,193	16,444	20,416	0%	293%	24%
Big 3 Total Int'l ASKs	25,229	7,888	20,534	25,057	-1%	218%	22%
Load Factor	81.0%	65.8%	80.1%	81.5%	0.4%	15.6%	1.4%

- The Big 3 Chinese airlines reported April traffic +12% y-o-y to 19% above 2019 vs +15% in March, and March IATA total RPKs of +3.3%. Domestic RPKs +8% y-o-y to +31% vs 2019 (+2% m-o-m) from +25% vs 2019 in March. Int'l RPKs improved up 24% y-o-y to inline vs 2019 (-2% vs 2019 in Mar). May 2025 published schedules show Big 3 ASMs +12% vs 2019 (+5% y-o-y) after +10% in Apr.

Source: Company data and Jefferies estimates

Air Passenger and Freight Markets Continue to Show Different Growth Profiles

YoY % Change in Global Air Cargo (RTK) vs. YoY % Change in Global Semiconductor Sales

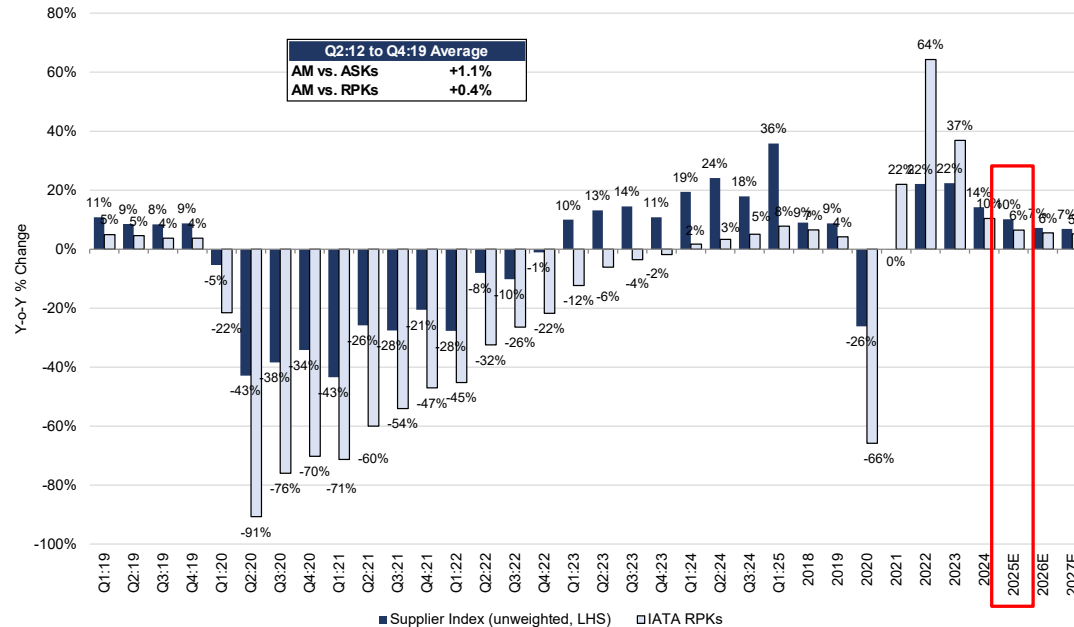


- In April, Air Freight rose 5.8% y-o-y. The rise was led by Latin America (+10.1%), Asia Pacific (+10.0%), Africa (+4.7%), and North America (+4.2%) while Europe and Middle East rose 2.9% and 2.3%, respectively.
- Global semiconductor sales are 0.62 correlated to air freight, with February sales up 17% y-o-y.

Source: IATA, Semiconductor Industry Association (SIA) and Jefferies estimates

Air Traffic Growth vs. Aftermarket Growth

Aftermarket Revenue Correlated with Air Traffic - Quarterly AM Performance Within ~1pt of RPKs/ASKs from 2012 to 2019

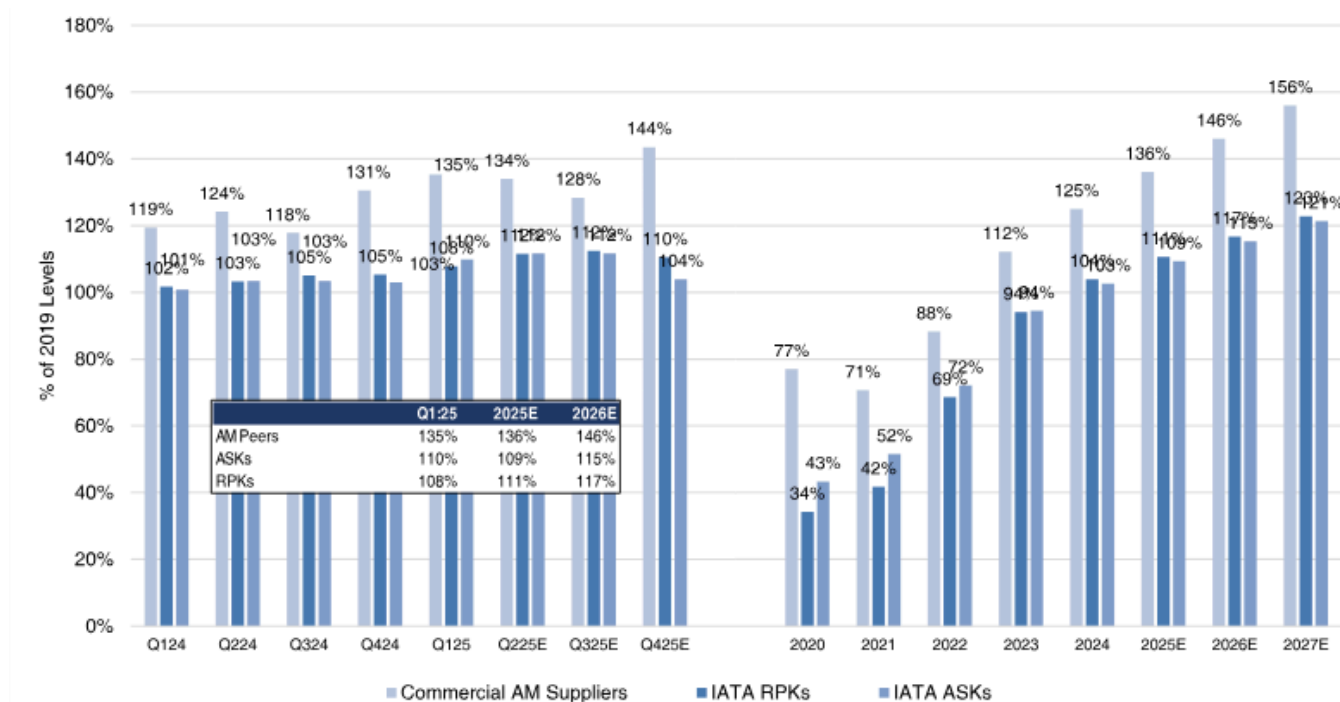


- Aftermarket revenue growth for suppliers is typically highly correlated with air traffic trends. Between 2012 and 2019, AM suppliers outperformed RPKs by just 40 bps on a quarterly basis and ASKs by 110 bps.
- AM revenues are also benefiting from pricing at or ahead of cost in the MSD+ range.

Note: Quarterly data vs. 2019.
Source: IATA and Jefferies estimates

Aftermarket Sales Relative to RPKs and ASKs

After Market Sales 135% above 2019 levels w/ RPKs and ASKs at 110% and 108%, respectively

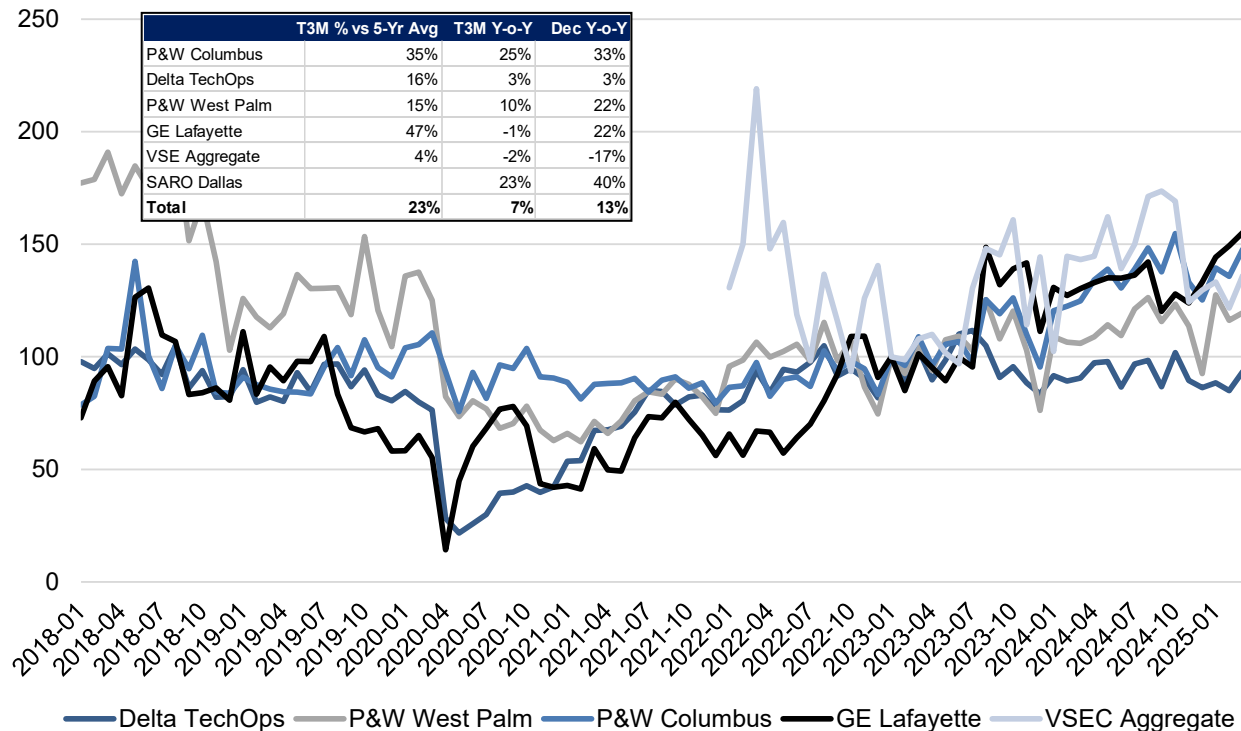


- While Commercial AM revenues had not fallen off to quite the same degree as air traffic during the pandemic, they have followed a similar trajectory through the recovery.
- As of Q1:25, aftermarket sales have risen to 135% above 2019 levels compared to RPKs and ASKs at 110% and 108%, respectively. This has been supported by the additional benefit of outsized demand amid new aircraft delivery delays, requiring older aircraft to run harder/longer, in turn needing more maintenance work to sustain operator capacity needs.

Source: Company data, IATA and Jefferies estimates

Checking Up on Shop Visits - Foot Traffic Up 8% Y-o-Y T3M Through March

Shop Visit Activity Trending 26% Above 5-Year Average in March



- We track 6 facilities, 2 dedicated to the GTF, 1 primarily LEAP, and 2 primarily CFM56, and DAL TechOps.
- Activity at each of the P&W sites is trending up 16% y-o-y w/ SARO Dallas trending up 59% y-o-y, offset by VSEC. T3M activity is +15% at P&W Columbus and GE Lafayette, but -2% at TechOps.

Source: Company data, IATA and Jefferies estimates

Addressable AM Fleet Up 24% vs. 2019 in 2025

6+ Year Aircraft Fleet Expands 0.5% Y-o-Y to 24% Above 2019 in 2025E Given 1,421 Deliveries Implying 617 Retirements (2.2% of Fleet)

	2018	2019	2020	2021	2022	2023	2024	2025
Prior Year Starting Fleet	24,306	25,398	26,012	25,997	26,410	27,050	27,546	28,167
(+) Deliveries	1,653	1,259	722	933	1,152	1,275	1,197	1,421
% of Starting Fleet	6.8%	5.0%	2.8%	3.6%	4.4%	4.7%	4.3%	5.0%
(-) Retirements/Conversions	561	645	737	520	512	779	576	617
% of Starting Fleet	2.3%	2.5%	2.8%	2.0%	1.9%	2.9%	2.1%	2.2%
Ending Fleet	25,398	26,012	25,997	26,410	27,050	27,546	28,167	28,971

	2018	2019	2020	2021	2022	2023	2024	2025
0-5 Year Aircraft	7,647	7,472	6,732	6,127	5,719	5,341	5,279	5,978
% of Fleet	30%	29%	26%	23%	21%	19%	19%	21%
Y-o-Y % Change	4.7%	-2.3%	-9.9%	-9.0%	-6.7%	-6.6%	-1.2%	13.2%
Change % vs. 2019			-9.9%	-18.0%	-23.5%	-28.5%	-29.3%	-20.0%
6+ Year Aircraft	17,751	18,540	19,265	20,283	21,331	22,205	22,888	22,993
% of Fleet	70%	71%	74%	77%	79%	81%	81%	79%
Y-o-Y % Change		4.4%	3.9%	5.3%	5.2%	4.1%	3.1%	0.5%
Change % vs. 2019			3.9%	9.4%	15.1%	19.8%	23.5%	24.0%
Total Passenger Fleet	25,398	26,012	25,997	26,410	27,050	27,546	28,167	28,971
Y-o-Y % Change	4.5%	2.4%	-0.1%	1.6%	2.4%	1.8%	2.3%	2.9%
Change % vs. 2019			-0.1%	1.5%	4.0%	5.9%	8.3%	11.4%

- In 2025, we estimate air traffic grows 6.5% y-o-y (vs IATA's 8.0%) with load factors steady at 83.8% and modest seat gauge and stage-length growth. The passenger fleet needs to increase 2.9% y-o-y to 28,971 aircraft to support this backdrop. Our OEM delivery estimates for passenger aircraft total 1,421 in 2025 (118/mo).
- Each 1pt of RPKs = 275 aircraft, which we believe will be met via retirements rather than slower OE build (which may separately face new supply chain risks under pro-tariff policies).
- Each 1pt reduction in air traffic = > 1.2pt impact to the addressable AM fleet of 6+ yrs, but likely an even greater impact to AM growth beyond retirements given utilization & maint deferrals come into play.

Source: Cirium® and Jefferies estimates

Aftermarket Addressable Market Increasing at a Greater Rate Than the Wider Fleet

2027 Fleet Composition - 6+ Year Aircraft Fleet Expands 2.0% Y-o-Y in 2027E Given 1,889 Deliveries Implying 690 Retirements (2.0% of Fleet)

	2018	2019	2022	2023	2024	2025	2026	2027
Prior Year Starting Fleet	24,306	25,398	26,012	27,050	27,546	28,167	28,971	30,070
(+) Deliveries	1,653	1,259	1,152	1,275	1,198	1,421	1,701	1,889
% of Starting Fleet	6.8%	5.0%	4.4%	4.7%	4.3%	5.0%	5.9%	6.3%
(-) Retirements/Conversions	561	645	114	779	577	617	602	690
% of Starting Fleet	2.3%	2.5%	0.4%	2.9%	2.1%	2.2%	2.1%	2.3%
Ending Fleet	25,398	26,012	27,050	27,546	28,167	28,971	30,070	31,269

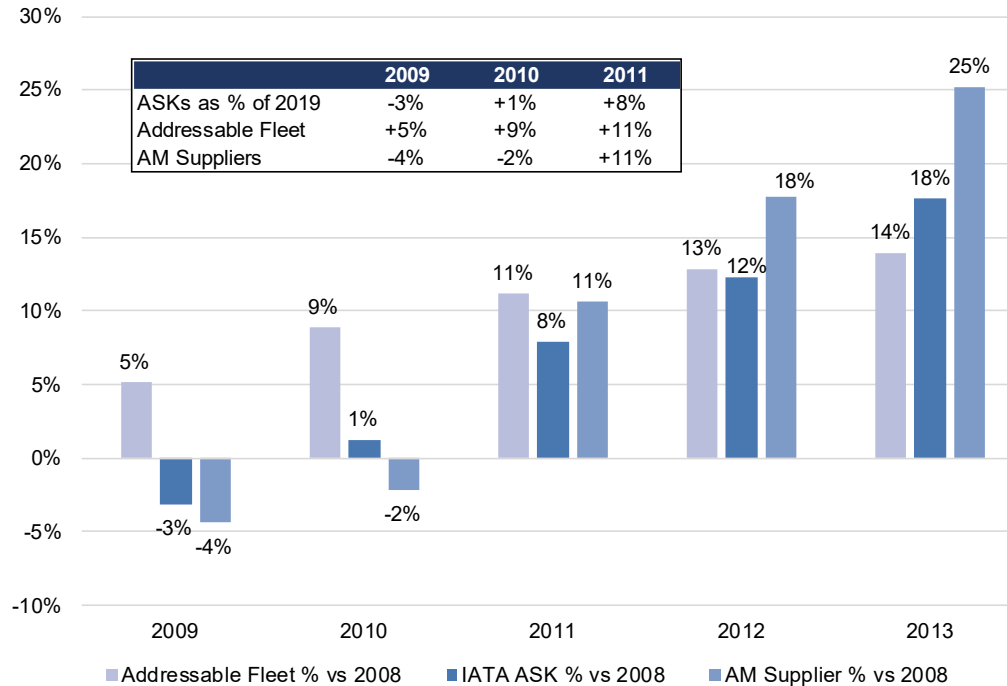
	2018	2019	2022	2023	2024	2025	2026	2027
0-5 Year Aircraft	7,647	7,472	5,719	5,341	5,280	5,979	6,747	7,484
% of Fleet	30%	29%	21%	19%	19%	21%	22%	24%
Y-o-Y % Change	4.7%	-2.3%	-6.7%	-6.6%	-1.1%	13.2%	12.8%	10.9%
Change % vs. 2019			-23.5%	-28.5%	-29.3%	-20.0%	-9.7%	0.2%
6+ Year Aircraft	17,751	18,540	21,331	22,205	22,887	22,992	23,323	23,785
% of Fleet	70%	71%	79%	81%	81%	79%	78%	76%
Y-o-Y % Change		4.4%		4.1%	3.1%	0.5%	1.4%	2.0%
Change % vs. 2019			15.1%	19.8%	23.4%	24.0%	25.8%	28.3%
Total Passenger Fleet	25,398	26,012	27,050	27,546	28,167	28,971	30,070	31,269
Y-o-Y % Change	4.5%	2.4%	2.4%	1.8%	2.3%	2.9%	3.8%	4.0%
Change % vs. 2019			4.0%	5.9%	8.3%	11.4%	15.6%	20.2%

- Looking to 2026 and 2027, we see another 1.4% and 2.0% respective increase in the out of warranty fleet, representing the recovery in deliveries post-COVID as well as persistent delivery delays. This supports double-digit growth in the out years with MSD air traffic in our model, modestly decelerating with an offset from fleet growth.

Source: Cirium® and Jefferies estimates

Aftermarket Addressable Market Back Testing

Recovery Post-2008 Growth In-Line with Addressable Market Expansion in 2011



- We can see that in 2010, ASKs recovered to 2008 levels and the addressable fleet was up 8.9% vs. 2008.
- Supplier volumes lagged somewhat in 2010 and did not rebound materially until 2011. In 2011, AM supplier organic sales were 11% ahead of 2008 levels, in line with the addressable fleet up 11%.

Source: Company data and Jefferies estimates

Business Jets

Business Jet Forecast and Market Share – Deliveries Up 13% Y-o-Y in 2025E

Jefferies Business Jet Forecast - Acceleration to 681 Deliveries in 2025E and 736 in 2026E

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Airbus	12	9	11	13	9	9	6	5	4	1	0	1	6	5	5	8	4	2	2	2	2
Boeing	7	6	4	10	8	12	7	10	11	4	10	6	2	1	4	2	1	6	6	6	6
Bombardier	226	247	173	150	182	181	179	204	199	163	140	137	142	114	120	123	138	146	150	155	155
Cessna	388	466	289	178	183	181	139	159	166	178	180	188	206	132	167	178	168	151	190	212	222
Dassault	70	72	77	95	63	66	77	66	55	49	49	41	40	34	30	32	26	31	38	41	43
Embraer	36	38	122	145	99	99	119	116	120	117	109	91	109	86	93	102	115	130	145	145	145
Gulfstream	138	156	94	99	99	94	144	150	149	119	120	121	147	127	119	120	111	136	150	175	190
Hawker Beechcraft	162	160	98	73	52	32	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	1,039	1,154	868	763	695	675	677	710	704	631	608	585	652	499	538	565	563	602	681	736	763
Total Deliveries YoY	18%	11%	-25%	-12%	-9%	-3%	0%	5%	-1%	-10%	-4%	-4%	11%	-23%	8%	5%	0%	7%	13%	8%	4%
Revenues (\$ bin)	\$19.1	\$20.4	\$12.9	\$15.9	\$17.5	\$18.0	\$20.9	\$22.3	\$23.7	\$21.2	\$20.0	\$18.5	\$19.8	\$17.7	\$18.8	\$19.8	\$19.7	\$21.4	\$24.1	\$26.4	\$27.7
Annual Business Jet Shipments YoY % Change																					
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Airbus	20%	-25%	22%	18%	-31%	0%	-33%	-17%	-20%	-75%	--	--	500%	-17%	0%	60%	-50%	-50%	0%	0%	0%
Boeing	-46%	-14%	-33%	150%	-20%	50%	-42%	43%	10%	-64%	150%	-40%	-67%	-50%	300%	-50%	-50%	500%	0%	0%	0%
Bombardier	6%	9%	-30%	-13%	21%	-1%	-1%	14%	-2%	-18%	-14%	-2%	4%	-20%	5%	2%	12%	6%	3%	3%	0%
Cessna	27%	20%	-38%	-38%	3%	-1%	-23%	14%	4%	7%	1%	4%	10%	-36%	27%	7%	-6%	-10%	26%	12%	5%
Dassault	15%	3%	7%	23%	-34%	5%	17%	-14%	-17%	-11%	0%	-16%	-2%	-15%	-12%	7%	-19%	19%	23%	8%	5%
Embraer	33%	6%	221%	19%	-32%	0%	20%	-3%	3%	-3%	-7%	-17%	20%	-21%	8%	10%	13%	13%	12%	0%	0%
Gulfstream	22%	13%	-40%	5%	0%	-5%	53%	4%	-1%	-20%	1%	1%	21%	-14%	-6%	1%	-8%	23%	10%	17%	9%
Total	18%	11%	-25%	-12%	-9%	-3%	0%	5%	-1%	-10%	-4%	-4%	11%	-23%	8%	5%	0%	7%	13%	8%	4%

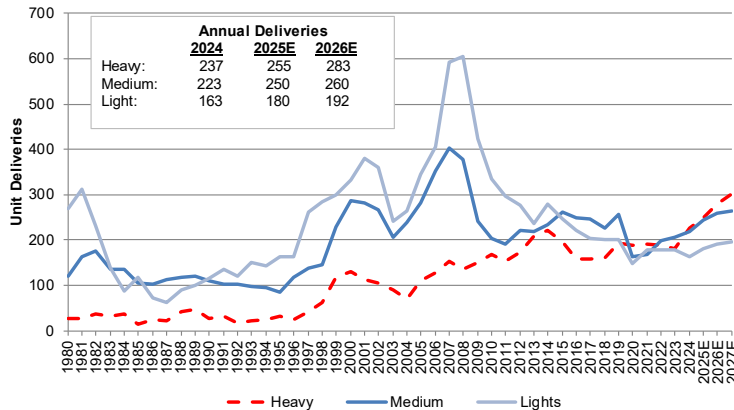
- Volumes had been relatively stable in 600-700 range in 2011-2019, partly due to the delay in new model introduction. We expect a recovery to that range in 2025 onward with some opportunity for upside from new entrants.
- In 2025, we estimate 13% y-o-y growth in business jet deliveries following 7% delivery growth in 2024, reflecting the ramp of the G700 and EIS of the G800 at Gulfstream.
- On an OEM basis, we see deliveries at each OEM increasing, with the largest growth coming from Cessna as deliveries increase 26% y-o-y off an easy comp, given the strike in September. Gulfstream should continue to show strength with a 10% improvement, following Embraer up 12%.

602 Deliveries in 2024 Rising to 681 for 2025

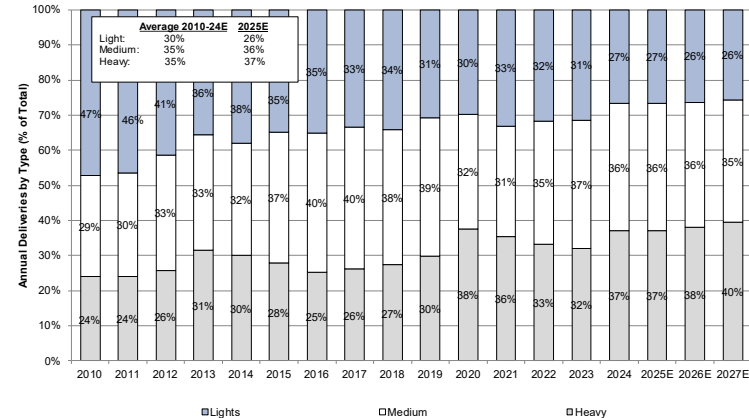
Source: Company data and Jefferies estimates

Business Jet Forecast and Market Share – Light Jet Share Declining as Large and Medium Size Grows

Near-Term Delivery Growth Led by Heavy Jets



Light Biz Jet Deliveries Decline to 26% of Total by 2026 vs 39% for Heavy Jets



- Business jet deliveries have historically been larger for medium and light jets. However, we forecast a spike in large jet deliveries in 2025E to 255 jets vs. 237 in 2024 as the Gulfstream G700 entered service. Total G800/700/600/500 deliveries were 88 combined in 2023 rising to 110 in 2025. This compares to a peak of 121 G650/G550/G450 combined jets in 2013.
- The 11% expected growth in FY25 biz jet deliveries is broad-based with Heavy jets expected up 11% to 255 aircraft vs 237 in 2024 and medium jets up 12%. Over the next 3 years, heavy jets lead up at a 10% CAGR w/ new models, followed by Medium and Light each up at an 7% CAGR. Light jets are expected to fall to 26% market share in 2026E at 192 jets vs. 163 in 2024. Light jets are expected to lose share given the end of production for Learjets and ramping new models in the medium/heavy jet space.

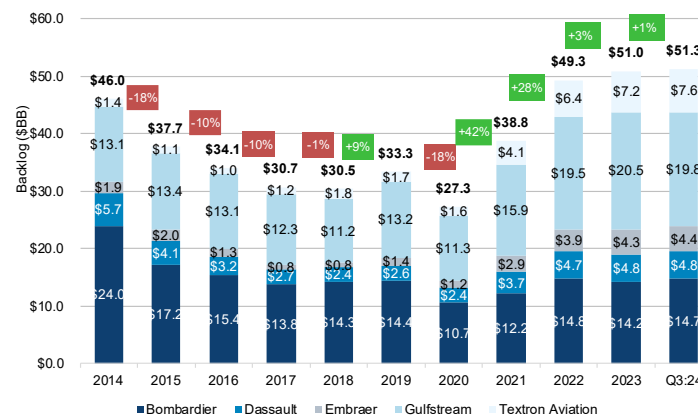
Heavy and Medium Jets Taking Share from Lights

Source: Company data and Jefferies estimates

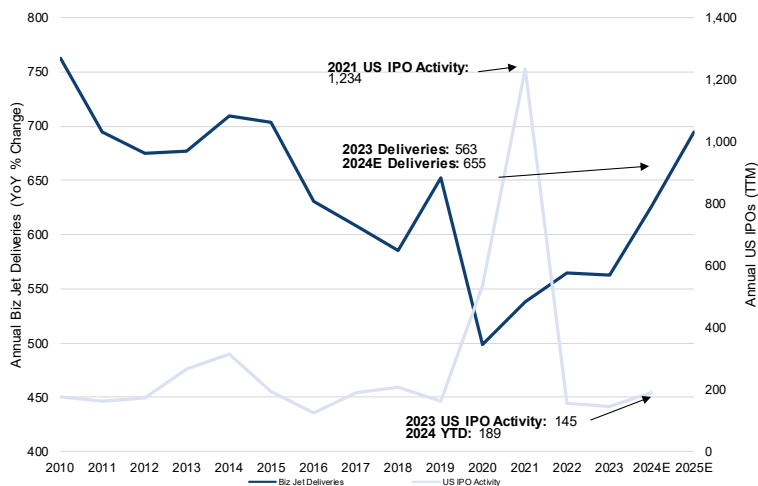
Business Jet Market: Biz Jet Demand Often Driven by Wealth Creation

- While the pace of order growth has fallen materially, it held up better than feared through 2024 so far with 1% backlog growth YTD to record levels.
- Into 2025, positive macro sentiment could spur additional orderbook strength, although present 18-24 month backlogs likely impact purchasing decisions. This has been previewed with pricing on new orders beginning to crack based on commentary from TXT.
- As supply chain issues improve, volumes are finally set to exceed 2019's 652 in 2025E, reaching 695. This combined with >2-year backlogs should support delivery tailwinds in so far as parts are available.

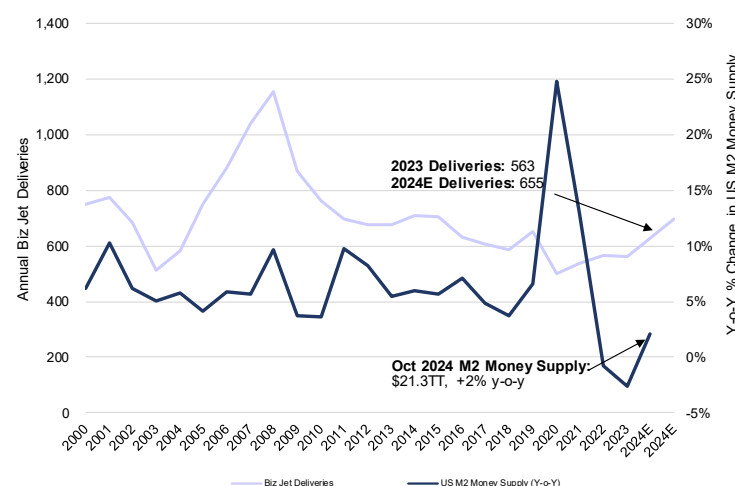
Biz Jet Backlogs at Record Levels in 2024



US Annual Avg M2 Money Supply Up 2% Y-o-Y in 2024



US IPO Activity +39% TTM y-o-y vs. Biz Jet Deliveries



Source: Jefferies, FRED, FactSet; As of March 2024

What's Up in Teterboro: Global Biz Jet Departures Up 3% in April and +3% YTD

- On a global basis, biz jet departures are up 32% from 2019 levels and up 3% y-o-y. The y-o-y increase was driven by North America which was +3% y-o-y and Asia Pac +4%, while Europe is flat y-o-y. In terms of operator types, the y-o-y increase is driven by Fractional/Charter +6% y-o-y and Private Flight Dept +4%, partially offset by Corporate Flight Depts -9% y-o-y, although corporate is up 5% m/m (days adj). The y-o-y decline in Corporate is driven by Europe (-10%) and N Am (-9%).
- Flight hours are up 3% y-o-y and +35% from 2019 in Apr. The avg trip duration is flat y-o-y at approx 1.6 hrs. If we look at the hrs flown per aircraft in the active fleet as identified by WingX, monthly hrs/aircraft averaged 25.9 in 2024, down from 26.3 hrs/aircraft in 2023. Hrs/aircraft in 2022 were at a recent high of 27.8. Apr flight hrs per aircraft avg'd 26.0, up 1% from 25.7 in Apr 2024 with YTD also at 26.0 hrs +1% y-o-y
- On a regional basis, the 3% growth in activity y-o-y was led by North America (72% of global departures) up 3% y-o-y. N Am departures are up 27% from 2019 in Apr. Asia Pac was up 4% y-o-y, but up 83% from 2019 levels. Asia Pac accounts for just 5% of global business aviation departures over the past 12 mos, with the increase from pre-COVID off a low base. On the other hand, European departures were flat y-o-y in April and up 7% from 2019. This compares to a peak of 30% above 2019 levels in Oct 2021 and 23% above 2019 in July 2022.
- Fractional/Charter > Aircraft Management > Corporate Flight Dept > Private Flight Departments
- NetJets > Flexjet > Wheels Up > flyExclusive

Global Biz Jet Departures: N Am and Fractional/Charter Lead Y-o-Y Growth

Departures	M-o-M	Y-o-Y	vs 2019
North America	1%	3%	27%
Europe	9%	0%	7%
Asia Pacific	2%	4%	83%
Global Total	2%	3%	32%

Fractional/ Charter	1%	6%	41%
Private Flight Dept	1%	4%	69%
Aircraft Management	0%	-5%	25%
Corporate Flight Dept	5%	-9%	-15%
Global Total	2%	3%	32%

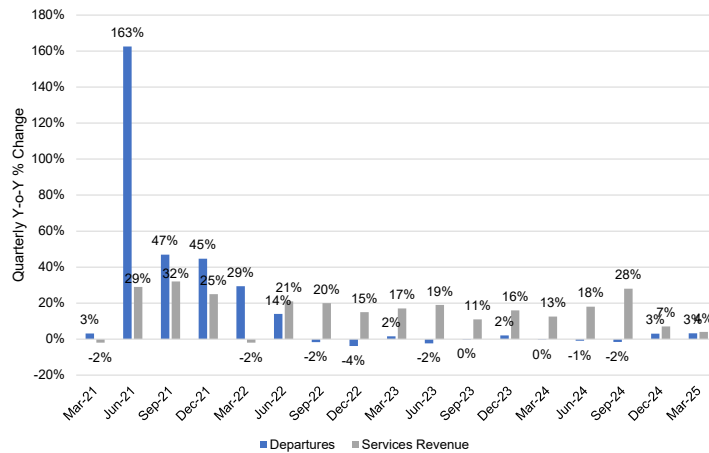
Top Fractional and Charter Operators: Flexjet and NetJets Up Most Y-o-Y

Departures	M-o-M	Y-o-Y	vs 2019
NetJets	0%	8%	57%
Flexjet	0%	16%	193%
Wheels Up	9%	2%	-23%
flyExclusive	-2%	6%	243%
Fractional/Charter Total	1%	6%	41%

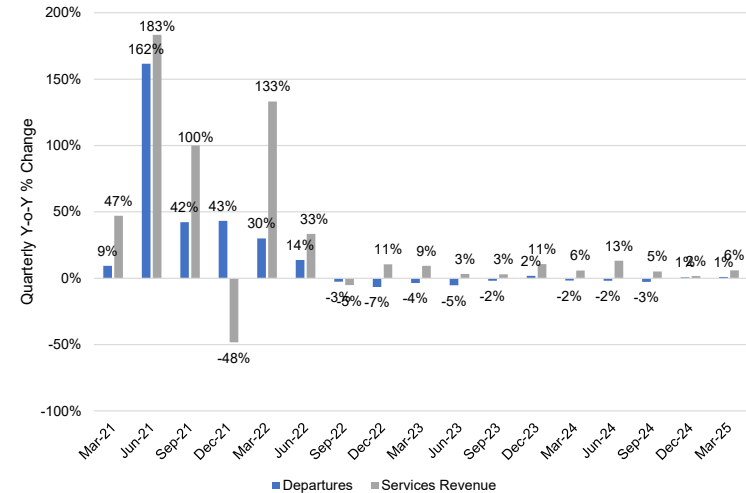
Source: WingX and Jefferies estimates

What's Up in Teterboro: Global Biz Jet Departures Up 3% in April and +3% YTD

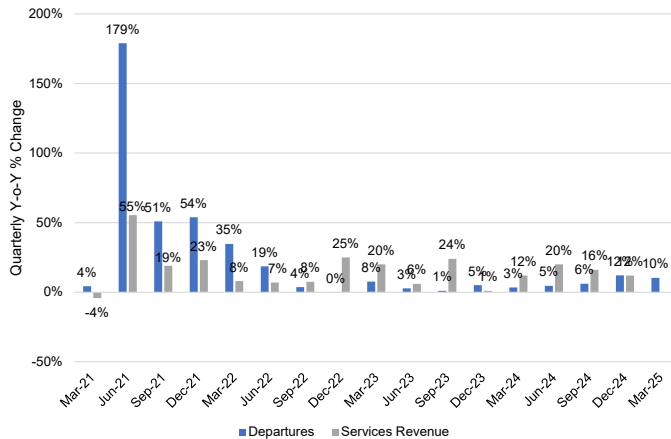
BBD Services Revenue 55% Correlated to Departures



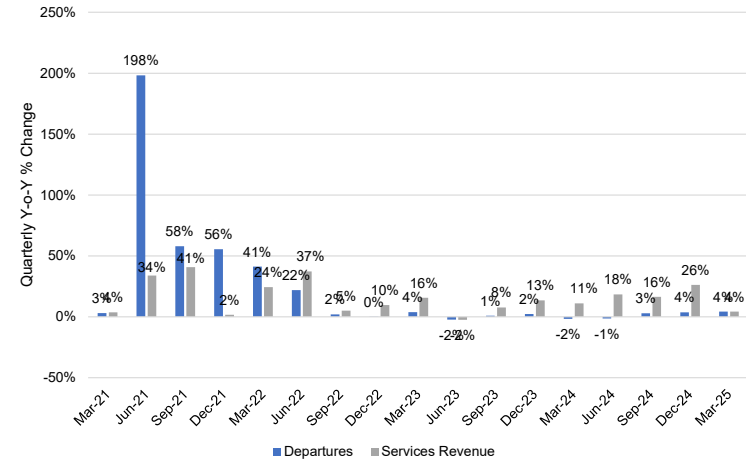
TXT Aviation Services Revenue 79% Correlated to Departures



ERJ Services Revenue 71% Correlated to Departures



Gulfstream Services Revenue 63% Correlated to Departures

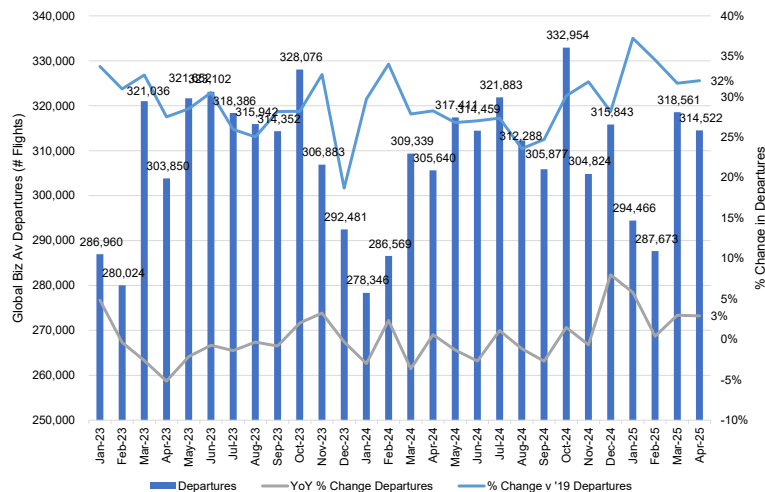


Source: WingX, Company data and Jefferies estimates

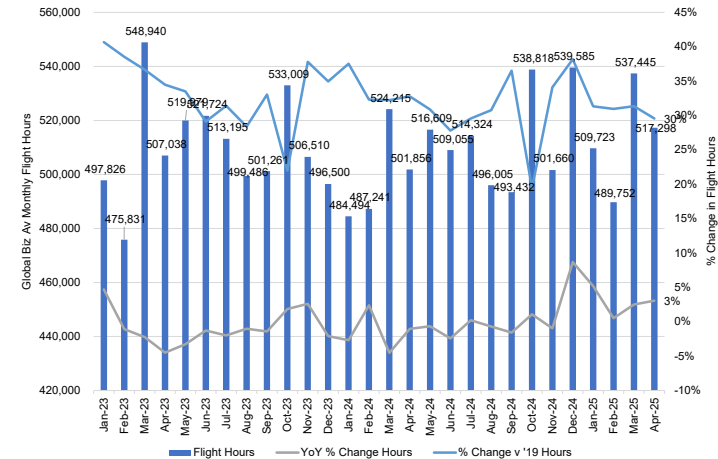
What's Up in Teterboro: Global Biz Jet Departures Up 3% in April and +3% YTD

- In April 2025, global business jet departures were up 3% y-o-y and were up 32% from 2019 levels. April was similar sequentially vs +3% in March.
- On a flight-hour basis, business jet utilization was also up 3% y-o-y in April and up 35% from 2019. Activity was flat on a y-o-y basis from March in terms of both flight hours and departures.

Global Business Jet Departures Up 3% Y-o-Y in April



Global Business Jet Hours Up 3% Y-o-Y in April



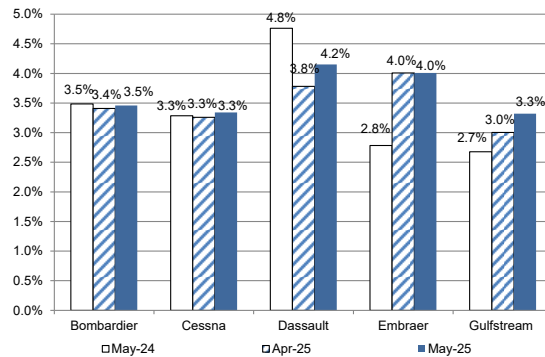
Global Business Jet Utilization Up 3% Y-o-Y in April

Note: 6-month trailing US departures.

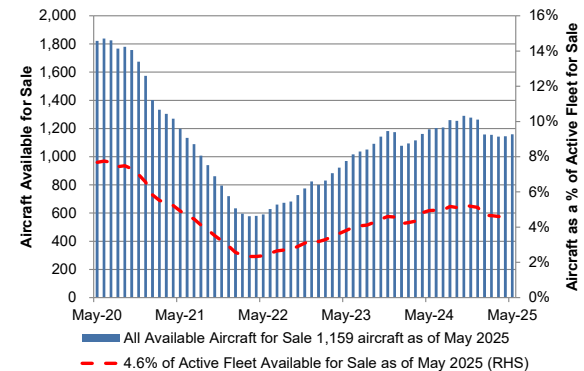
Source: FAA, GAMA, EBAA, FactSet and Jefferies estimates

The Jet Set: Prices Fall with April Showers, but Inventory Roughly Flat

Inventory as a % of the Active Fleet - May 2025 vs. Apr 2025 vs. May 2024

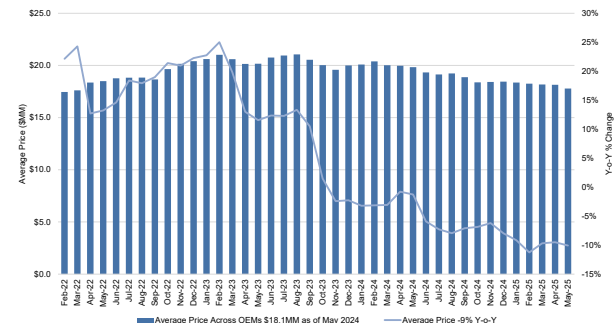


All Used Business Jets Available for Sale vs. Active Fleet as a % for Sale



- Used Business Jet Inventory by OEM stood at 3.5% in May 2025 (vs 3.4% in Apr '25 and 3.2% in May '24). Inventories rose 13% y-o-y (+29 units) and 4% m-o-m
- Medium Jet inventories were down 5% y-o-y and Light Jets -3%, while Heavy jets were flat.
- Average List Prices Down 10% from May 2025 and Down 1% M/M. Pricing is down 9% y-o-y over the trailing 6 mos and -9% T12M.

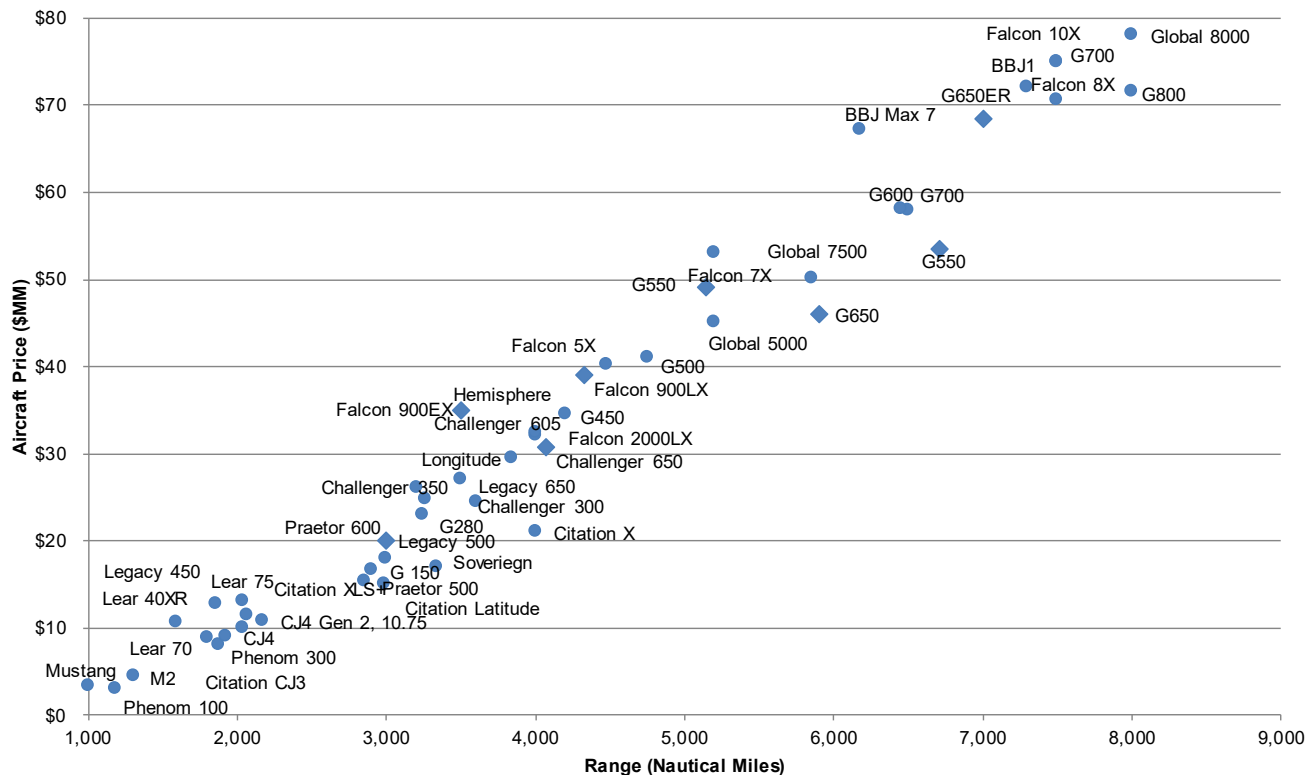
Average Used Jet Price Down 10% Y-o-Y in May 2025



Used Jet Inventories Normalizing

Source: AMSTAT and Jefferies estimates

Business Jets: Price vs. Range



- Just as important as replacement is the need for technology. New technology can alter the demand for the used fleet and accelerate replacement.
- We count six new planes expected to be introduced from 2023 to 2025. In terms of upcoming models, most are in the heavy market.

Technology Driving Aircraft Performance

Source: Company data and Jefferies estimates

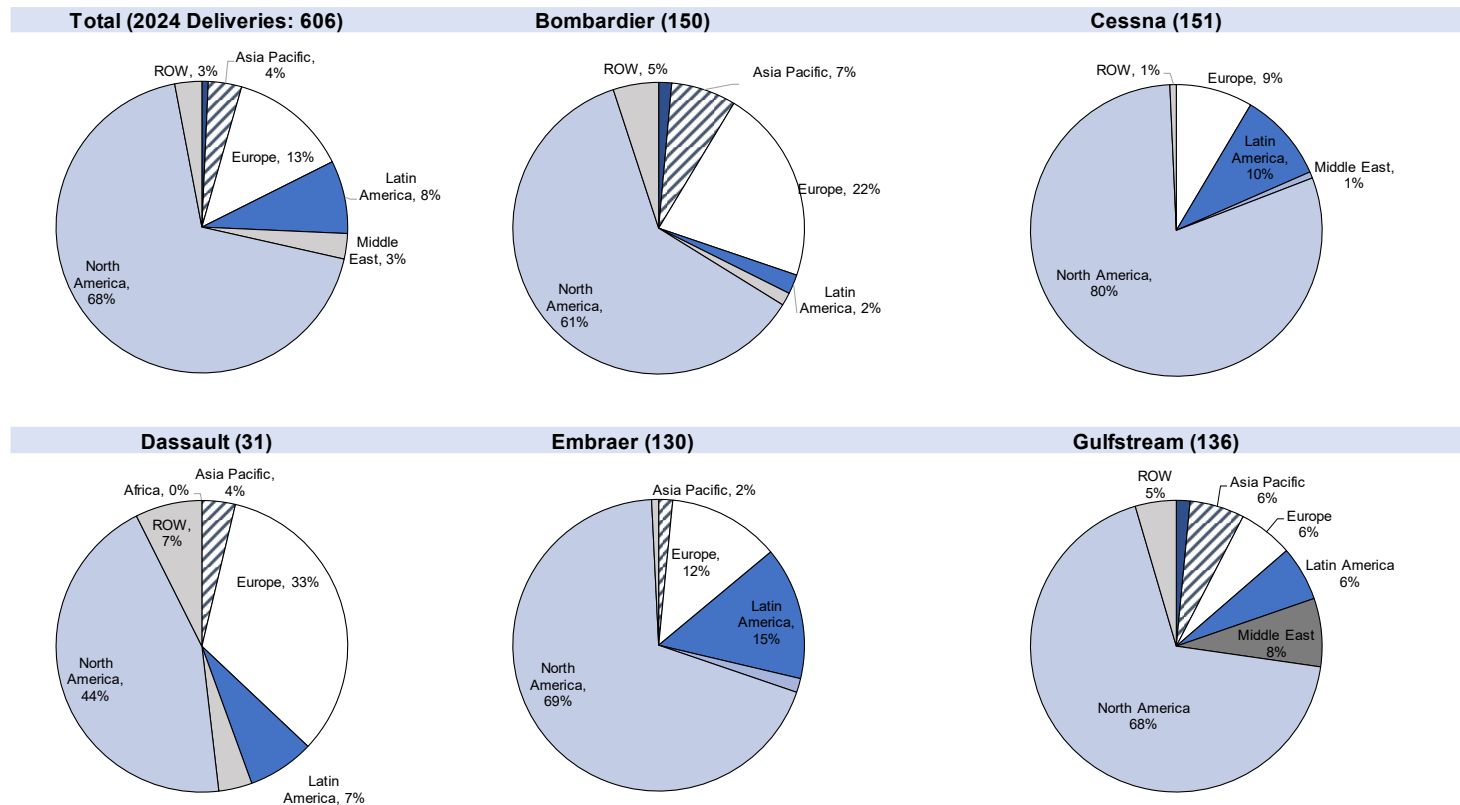
Business Jets: New Model Introductions

OEM	Model	Range (nm)	# of Seats (Typical Passenger Configuration)	Initial Announcement	EIS	Avionics Manufacturer	Engine OEM
Bombardier	Challenger 350	3,200	8	May 2013	June 2014	COL Pro Line Fusion	HON HTF7350
Cessna	Citation X	3,242	9	September 2011	June 2014	Garmin G5000	RR AE 3007C1
Embraer	Legacy 500	3,000	12	October 2007	October 2014	COL Pro Line Fusion	HON HTF7500E
Gulfstream	G650ER	7,500	16	May 2014	Q1:2015	HON Primus 1000	RR BR725
Bombardier	Challenger 650	4,000	12	October 2014	July 2015	COL Pro Line Fusion	GE CF34-3B
Cessna	Citation Latitude	2,700	8	October 2011	Q3:2015	Garmin G5000	PWC PW306D1
Embraer	Legacy 450	2,900	7 to 9	May 2008	Q4:2015	COL Pro Line Fusion	HON HTF7000
Dassault	8X	6,450	19	May 2014	October 2016	HON EASy III	PW307D
Pilatus	PC-24	2,035	9	May 2013	Late 2017	HON Pilatus ACE	Williams FJ44-4A
Bombardier	Global 7500	7,700	19	October 2010	H2:2018	COL Pro Line Fusion	GE Passport
Gulfstream	G500	5,200	18	October 2014	Q3:2018	HON Symmetry Flight Deck	PW800
Embraer	Praetor 600	3,900	8 to 12	October 2018	Q2:2019	COL Pro Line Fusion	HON HTF7000
Gulfstream	G600	6,500	18	October 2014	Q3:2019	HON Symmetry Flight Deck	PW800
Bombardier	Global 5500	5,700	16	May 2018	Jul-20	COL Pro Line Fusion	RR BR710 Pearl
Bombardier	Global 6500	6,600	17	May 2018	Q3:2019	COL Pro Line Fusion	RR BR710 Pearl
Cessna	Citation Longitude	3,500	12	November 2015	Q4:2019	Garmin G5000	HON HTF7700L
Embraer	Praetor 500	3,250	7 to 9	October 2018	Q4:2019	COL Pro Line Fusion	HON HTF7000
Cessna	CJ4 Gen 2	2,165	10	February 2021	2021	COL Pro Line 21	Williams FJ44-4A
Bombardier	Challenger 3500	3,200	10	September 2021	Q3:2022	COL Pro Line Fusion	HON HTF7350
Dassault	6X	5,500	16	February 2018	Q4:2023	HON EASy IV	PW812D
Gulfstream	G700	7,500	19	October 2019	Q2:2024	HON Symmetry Flight Deck	RR BR710 Pearl
Gulfstream	G800	8,000	19	October 2021	H2:2025	HON Symmetry Flight Deck	RR Pearl 700
Bombardier	Global 8000	8,000	19	May 2022	2025	Bombardier Vision	GE Passport
Cessna	Ascend	1,900	9 to 12	May 2023	2025	Garmin G5000	PW545D
Beechcraft	Denali	1,600	8 to 11	July 2026	2026	Garmin G3000	GE Catalyst
Gulfstream	G400	4,200	12	October 2021	2026	HON Symmetry Flight Deck	PW812GA
Cessna	CJ4 Gen3	2,165	11	October 2024	2026	Garmin G3000 PRIME	Williams FJ44-4A
Dassault	10X	7,500	19	May 2021	2027	Dassault Digital Flight Control	RR Pearl 10X
Cessna	CJ3 Gen3	2,040	10	October 2024	2027	Garmin G3000	Williams FJ44-3A
Cessna	M2 Gen3	1,550	8	October 2024	2027	Garmin G3000	Williams FJAA-1AP-21

Nine Models Entering In Service in 2025-27

Source: Company data and Jefferies estimates

Business Jet Market: 2024 Deliveries by Geography



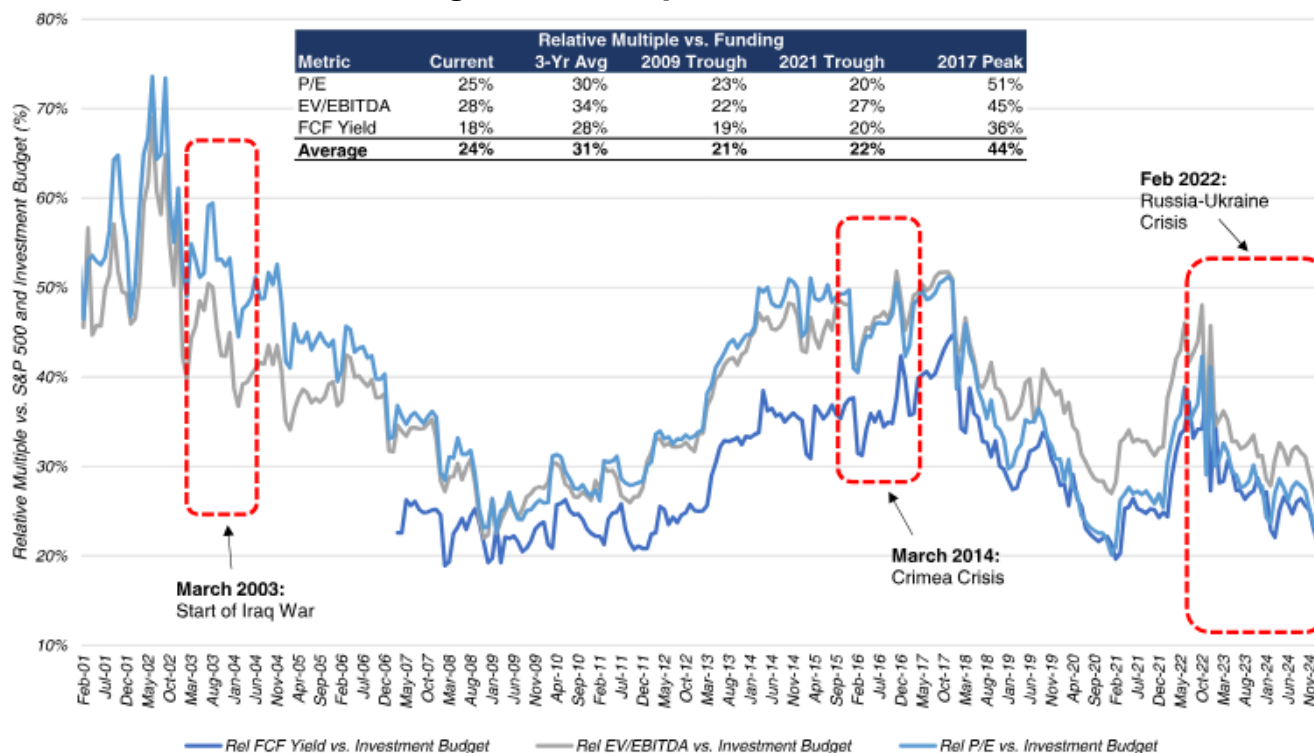
North America stands as the largest customer base for biz jet manufacturers, accounting for 68% of 2024 deliveries

Source: Cirium® and Jefferies estimates

Defense

Defense Valuation: Relative Vals Near Trough Point to Pricing In Potential Risk

Relative Valuation to Investment Budget at 24% on Average Remains Below Avg 3-Year Multiples of 31%



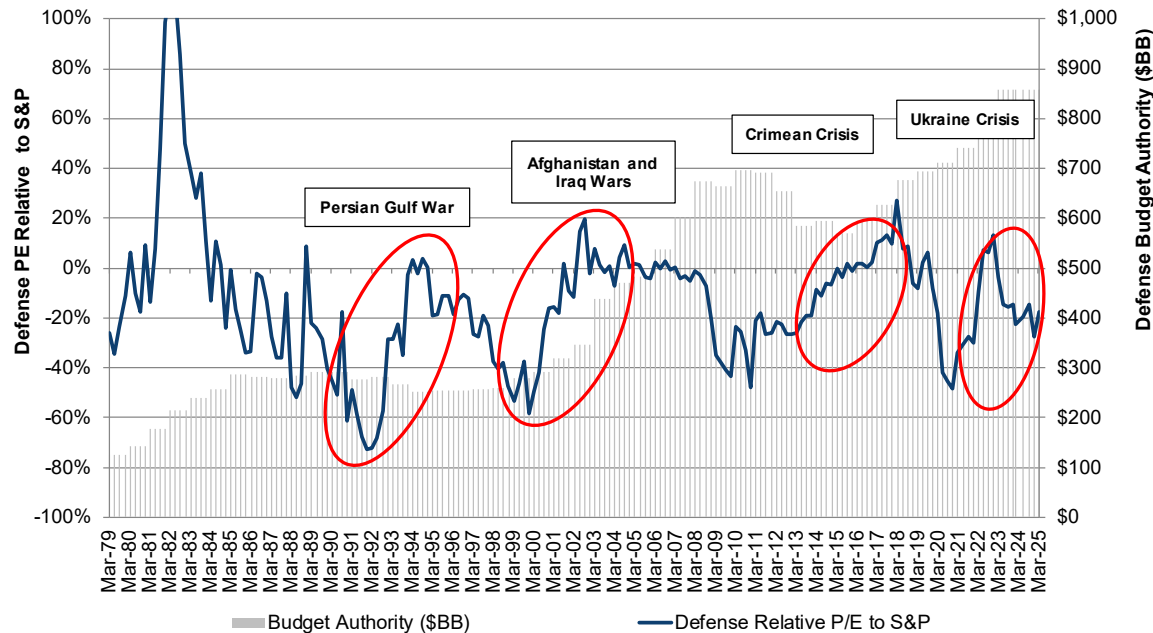
- Our Defense Index examines the relative valuation of the defense primes to the S&P index divided by the change in DoD investment budgets to determine defense valuation relative to defense spending increases.
- If we compare the relative multiples to the DoD investment budget to derive a budget-indexed valuation, the defense group is trading at 25% on P/E, 28% EV/EBITDA, and 18% FCF yield. Today's levels are ~7 pts below 3-year averages and ~3pts above the 2009 trough.

As of March 2025

Source: FactSet, DoD and Jefferies estimates

Defense Valuation: Relative Vals Near Trough Point to Pricing In Potential Risk

Defense Relative Valuations Reverting from 2022 Peak as Ukraine Conflict Comes to an End and DOGE Potentially Pressures Future Budgets



- Defense stocks tend to do best when there is runway out in front, with the proxy being the defense budget.
- This has largely been true looking back over the past 40 years. In the last recent cycle, the peak in relative valuation was in Q1:05, but the budget did not peak until 2010. The bottom in relative valuation was in Q4:09 at a 40% discount to the S&P 500 on P/E. Over the last cycle, defense relative valuations peaked at an 18% premium to the S&P in Q1:18 despite continued expansion of the total budget. On this basis (GD/LHX/LMT/NOC) currently trade at a 19% discount to the S&P 500 a FY2 P/E basis (15.6X vs. 19.4X for the market).

Source: FactSet, DoD and Jefferies estimates

FY25 Final Budget Request of \$850BB, Up 1% Y-O-Y from \$842BB in FY24 Request

FY25 DoD Spending Request Up 1% vs. FY24

Department of Defense Budget					
Line Item	FY23 Enacted	FY24 Request	FY24 w/CR Adj.	FY25 Request	FY25 Growth
Military Personnel	\$174.0	\$178.9	\$173.0	\$181.9	2%
Operation & Maintenance	320.7	331.4	321.8	339.6	2%
Procurement	162.8	170.0	163.9	167.5	-1%
RDT&E	139.4	145.0	139.7	143.2	-1%
Military Construction	19.0	16.7	19.0	17.5	5%
DoD - Total	\$815.9	\$842.0	\$817.3	\$849.8	1%
Other Defense	42.5	44.4	42.4	45.5	
National Defense	\$858.4	\$886.4	\$859.7	\$895.2	1%
Supplemental	35.8	58.3	58.3		
National Defense Total	\$894.2	\$944.7	\$918.1	\$895.2	-5%

- The FY25 budget request of \$850BB is up 1% from the \$842BB in the FY24 request. National Defense Spending of \$895BB in the FY25 request compares to \$886BB in the FY24 request.
- Versus the prior year's requests, growth is mostly from Military Personnel and O&M, both up 2% vs. a 1% decline for Procurement and R&D.
- Parsing the budget by service and category, and comparing to President's budget CR/Adjusted in FY24, overall procurement was up 2% led by Navy/USMC Ammunition (+90%), Army Missile Procurement (+62%), Air Force Missile Procurement (+46%) and Navy Weapons Procurement (+37%). Aircraft Procurement faces some headwinds with Army (-18%) and Air Force Aircraft Procurement (-10%) both taking a step back.
- In aggregate, RDT&E is requested at \$143BB or up 3% vs strong FY24 funding levels. The biggest advance is for Space Force RDT&E up 13% and Air Force +9%. Army RDT&E was the one area of weakness proposed to fall 18% in FY24.

Weapons Account Lead the Pack, With Aircraft Facing Some Headwinds

Procurement (\$BB)				
Line Item	FY23 Enacted	FY24 PB Request w/CR Adj.	FY25 Request	FY25 Request vs. FY24 Request
Army Aircraft Procurement	\$3.9	\$3.8	\$3.2	-18%
Army Missile Procurement	8.4	3.8	6.2	62%
Army Weapons & Tracked Combat Veh.	8.2	4.5	3.7	-18%
Army Procurement of Ammunition	8.7	2.8	2.7	-2%
Army Other Procurement	10.6	9.7	9.4	-3%
Navy Aircraft Procurement	19.0	19.0	16.2	-15%
Navy Weapons Procurement	5.0	4.8	6.6	37%
Navy and USMC Ammunition	1.7	0.9	1.7	90%
Navy Shipbuilding & Conversion	32.5	31.8	32.4	2%
Navy Other Procurement	12.2	12.1	15.9	31%
Marine Corps Procurement	4.3	3.7	4.2	16%
Air Force Aircraft Procurement	22.3	22.0	19.8	-10%
Air Force Missile Procurement	3.4	3.0	4.4	46%
Air Force Procurement of Ammunition	0.8	0.9	0.7	-17%
Space Force Procurement	4.1	4.5	4.3	-4%
Air Force Other Procurement	29.4	28.0	30.3	8%
Defense-Wide Procurement	7.7	8.6	5.8	-32%
Total Procurement	\$182.2	\$163.9	\$167.5	2%

Research, Development, Test, and Authorization (\$BB)				
Army RDT&E	\$17.1	\$17.1	\$14.1	-18%
Navy RDT&E	26.2	26.0	25.7	-1%
Air Force RDT&E	45.0	44.9	49.1	9%
Space Force RDT&E	17.0	16.6	18.7	13%
Defense Wide RDT&E	35.2	34.5	35.2	2%
Operational Test & Eval	0.4	0.4	0.3	-21%
Total RDT&E	\$140.9	\$139.7	\$143.2	3%
Total Investment Spending	\$323.1	\$303.5	\$310.7	2%

Source: Company data and Jefferies estimates

Baseline Federal Budget Outlook Supports Growing Deficits

LT Budget Plan Points to Growing Deficit on Increasing Interest Expense

	Outlays												2023-2030 CAGR	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033		
Discretionary Program														
Defense	\$752	\$800	\$880	\$902	\$912	\$926	\$944	\$965	\$988	\$1,010	\$1,034	\$1,058	3%	
Non-defense	912	936	992	986	1,011	1,024	1,028	1,047	1,072	1,093	1,117	1,141	2%	
Total Discretionary	\$1,664	\$1,736	\$1,872	\$1,888	\$1,923	\$1,950	\$1,972	\$2,012	\$2,059	\$2,103	\$2,151	\$2,199	2%	
Mandatory Programs														
Social Security	\$1,212	\$1,346	\$1,459	\$1,553	\$1,646	\$1,742	\$1,842	\$1,943	\$2,046	\$2,152	\$2,261	\$2,371	6%	
Medicare	747	821	842	959	1,033	1,117	1,276	1,223	1,388	1,482	1,596	1,844	8%	
Medicaid	592	608	556	581	617	652	693	731	774	826	874	926	4%	
Other Mandatory Program	1,581	1,200	1,060	986	1,002	993	1,063	1,038	1,093	1,110	1,150	1,220	-1%	
Total Mandatory	\$4,133	\$3,975	\$3,916	\$4,078	\$4,298	\$4,503	\$4,874	\$4,935	\$5,300	\$5,570	\$5,881	\$6,361	4%	
Interest	476	665	796	842	882	929	984	1,053	1,133	1,220	1,310	1,393	8%	
Total Outlays	\$6,273	\$6,376	\$6,584	\$6,808	\$7,103	\$7,382	\$7,830	\$8,000	\$8,493	\$8,894	\$9,342	\$9,954	4%	
Total Receipts	4,897	4,650	4,721	4,910	5,305	5,647	5,940	6,200	6,485	6,791	7,060	7,418	5%	
Total Deficit	\$1,376	\$1,726	\$1,863	\$1,897	\$1,798	\$1,735	\$1,890	\$1,800	\$2,008	\$2,103	\$2,282	\$2,535	2%	
Defense Outlay Growth		6%	10%	2%	1%	2%	2%	2%	2%	2%	2%	2%		
Discretionary Appropriation Levels														
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033		
Defense Allocation	\$782	\$858	\$886	\$905	\$924	\$944	\$964	\$970	\$977	\$984	\$991	\$998	2%	
Non-Defense Allocation	597	641	688	704	720	737	754	771	789	807	825	844	3%	
VA Medical Care Program	97	119	121	113	115	118	121	123	126	129	132	135	1%	
Total	\$1,477	\$1,618	\$1,695	\$1,722	\$1,760	\$1,798	\$1,838	\$1,864	\$1,892	\$1,920	\$1,948	\$1,977	2%	
Defense as % of Budget	53%	53%	52%	53%	53%	53%	52%	52%	52%	51%	51%	50%		
Defense Y-o-Y Growth		10%	3%	2%	2%	2%	2%	1%	1%	1%	1%	1%		

Major Programs Down 3% in FY24 Lagging 1% Decline in Investment Spending

Contractor	Program	Program	FY2022		FY2023		FY2024		FY2025		FY25 Request vs. FY24
			Budget	Quantity	Budget	Quantity	Budget	Quantity	Budget	Quantity	
LMT/RTX/NOCC	F-35	Joint Strike Fighter	11,890	73	11,846	77	13,590	83	12,431	68	-9%
GD/HI	OR	Columbia Class Ballistic Missile Submarine	5,163		6,273		6,218	1	9,873		89%
GD/HI	SSN 774	VIRGINIA Class Submarine	6,876	2	7,271	2	10,846	2	8,209	1	-24%
GD/HI	DDG 51	ARLEIGH BURKE Class Destroyer	4,205	2	8,221	3	5,075	2	7,071	2	39%
NOC	B-21	Long Range Strike	2,884		4,800		5,316		5,339		0%
Various	Ammunition	Ammunition	5,276		11,268		4,964		5,160		4%
LMT/NOCC/RTX	OPR	Space Based Overhead Persistent Infrared System	2,493		4,722		4,966		4,678		-6%
BANOC/RTX/GD	SATCOM	Satellite Communications Projects	2,617		2,787		4,020		4,203		4%
TBD	Cyberspace	Cyberspace	3,184		3,450		4,060		3,959		-2%
NOC	LGM-35A	Sentinel	2,476		3,438		4,290		3,732		-13%
BARTX	KC-46A	Tanker	2,345	14	2,600	15	3,007	15	2,973	15	-1%
LMT	CH-53K	Heavy Lift Replacement Helicopter	1,991	11	2,472	12	2,418	15	2,665	19	11%
BANOC/RTX/LMT	GMD	Ground-Based Midcourse Defense/NGI	1,632		3,076		3,076		1,520		-18%
LMT	Trident II	Trident II Ballistic Missile Modification	1,588		1,695		1,870		2,466		32%
NOC/LA/SpaceX/Others	SSLR/SLP	Launch Enterprise	1,799	5	2,305	10	3,003	15	2,398	11	-20%
BA	F-15 EX/Mod	Eagle	2,015	10	3,538	24	3,379	24	2,361	18	-30%
HI	CVN 78	GERALD R. FORD Class Nuclear Aircraft Carrier	2,846		3,206		2,704		2,338		-13%
B/AGE	F/A-18E/F	Super Hornet	2,131	12	2,064	8	1,832		1,806		-1%
HI	CVN	CVN Refueling Complex Overhaul	2,649		690		896		1,738	1	94%
HI	LPD-17	San Antonio Class Amphibious Transport			2,008	1	78		1,653	1	2030%
LMT/RTX	F-22	Raptor	1,035		1,263		1,521		1,630		7%
LMT/RTX/LHX/BAE	GPS	Global Positioning System	2,011	3	1,673	2	1,260		1,520	2	21%
Various	CJAD/C2	Combined Joint All Domain C&C			1,039		611		1,388		38%
NOC	B-1, B-2, B-52	Bombers	948		1,045		1,255		1,394		11%
LMT/RTX	AEGIS	AEGIS Ballistic Missile Defense/SM-3 Missiles	1,659	63	1,896	76	1,723	48	1,308	13	-24%
Italian Shipbuilder	FF(X)	Guided Missile Frigate	1,190	1	1,551	1	2,287	2	1,278	1	-44%
TXT	FLRAA	Future Long-Range Assault Aircraft			665		1,044		1,260		21%
LMT	MLRS	Guided Multiple Launch Rocket Systems	998	6,374	2,197		1,027		1,243		21%
RTX	SM-6	Standard Missile-6	902	125	788	125	1,615	125	1,224	125	-24%
OSK	JLTV	Joint Light Tactical Vehicle	1,047	3,812	1,430	3,762	1,192	3,111	1,180	2,609	-1%
GD	MA	Abrams Tank Modification	1,264	90	1,298	90	897	34	1,020	30	14%
LMT	JASSM	Joint Air-to-Surface Standoff Missile	625	525	959	600	1,819	550	1,069	550	-45%
LMT/RTX	Patrol/PA-C/3LTAMC	Patrol Advanced Capability	822		976		1,206		1,007	4	-17%
LMT/RTX	PAC-3/MSF	PAC-3 Missile Segment Enhancement Missile	1,333	328	2,471	252	1,213	230	963	230	-21%
BA	MQ-25	Stingray	373		1,134	1	969	3	898	3	-7%
BAE	ACV	Amphibious Combat Vehicle	592	83	605	74	661	80	871	80	32%
RTX	LRSD	Long Range Stand-Off Missile	580		953		978		834		-15%
NOC	AAR/EMER	Advanced Anti-Radiation Guided Missile	242	54	592	142	692	97	626	285	39%
RTX	AMRAAM	Advanced Medium Range Air-to-Air Missile	482	395	773	625	1,224	831	810	723	-34%
LMT	C-130J	Hercules	3,882	29	2,847	21	824	2	806		-2%
LMT	UH-60	Black Hawk	1,169	55	1,169	56	916	50	792	24	-13%
Bechtel	Chem-Demil	Chemical Demilitarization	1,093		1,060		1,092		776		-29%
RTX	Tomahawk	Tactical Tomahawk	529	70	924	68	924	34	765	22	-16%
NOC	RQ-4 / MQ-4C	Global Hawk/Trition/NATO AGS	767	2	979	3	824	2	750		-9%
BA	CH-47	Chinook	422	8	503	7	251	6	720	10	187%
LHX/Thales/RTX	HMS	Handheld, Manpack, and Small Form Fit	752		665		769		708		-8%
LMT	LRASM	Long Range Anti-Ship Missile	236	48	438	123	827	118	697	205	-16%
LMT	PrSM	Precision Strike Missile	348	54	413	42	657	110	677	230	3%
BANOC/LMT	AH-64E	Apache: Remanufacture/New Build	790	29	900	38	953	42	660	31	-31%
LMT	THAAD	Terminal High Altitude Area Defense	622	32	502	18	485	11	640	12	32%
TXT/BA	V-22	Osprey	1,713	12	1,094	5	650	59	539		-17%
BAE	AMPV	Armored Multi-Purpose Vehicle	985	0	1,237	213	567	91	528	81	-7%
GD	M10 Booker				411	29	497	33	509	33	2%
TBD	XM30	XM30 Combat Vehicle	195		519		997		505		-49%
NOC/LMT	E-2D	Advanced Hawkeye	1,208	5	1,647	7	583		499		-14%
GD	Stryker	Stryker	1,113	228	1,275	184	639	85	469	38	-27%
BAE	PM	Paladin Integrated Management	663	43	1,027	59	512	24	460	20	-10%
RTX	SDIB - II	Small Diameter Bomb II	380	1,140	661	2,385	447	1,170	454	1,148	2%
BA	PAR	VC-25B Presidential Aircraft Recapitalization	407		80		491		434		-12%
BA	E-7A	E-7A	16		412		681		419		-39%
RTX/LMT	Javelin	Javelin Advanced Anti-Tank Weapon	1,603	7,106	1,148	3,728	262	632	398	1,053	52%
SG Sauer/Vortex Optics	NGSW	Next-Generation Squad Weapon	128	9,360	200	16,513	328	33,473	389	39,896	19%
LHX	Armed Overwatch	Armed Overwatch/Targeting	189	6	247	9	269	12	336	12	26%
BA	MH-139A	Grey Wolf	157	8	213	5	275	7	333	8	21%
TBD	C-40	C-40 Fleet Expansion							329	1	#DN/0!
BA	T-7A Program	Advanced Pilot Training Program	182		43		77		319	7	313%
General Atomics	MQ-9	Reaper	748	12	723	5	530	5	305		-42%
GD/LHX	TNT-AMS	Tactical Network Technology	429		363		363		281		-22%
TBD	Medium Landing Ship				11		15		274	1	1765%
GD	T-AO 205	John Lewis Class Fleet Replenishment Oiler	1,576	2	1,061	1	968	1	261		-73%
RTX	AIM-9X	Air Intercept Missile - 9X	236	382	489	619	252	339	259	362	3%
LMT	HH-60W	Combat Rescue Helicopter	797	14	1,237	20	331		244		-26%
HI	LHA	LHA America Class Amphibious Assault Ship	76		1,428	1	1,874		234	1	-87%
BA	NSM	Naval Strike Missile	168	101	242	154	250	103	206	102	-18%
BA	JDAM	Joint Direct Attack Munition	97	944	329	7,275	206	3,236	200	2,960	-3%
TBD	USV	Medium and Large Unmanned Surface Vessels			300		238		185		-22%
RTX	RAM	Rolling Airframe Missile	81	70	109	100	126	120	160	148	27%
OSK	FMTV	Family of Medium Tactical Vehicles	144	317	274	277	143	253	154	240	27%
OSK	FHTV	Family of Heavy Tactical Vehicles	214	68	326	436	111	96	149	195	35%
LMT	JAGM	Joint Air-to-Ground Missile	197	559	297	1,004	386	1,165	148	205	-62%
BA	SDIB - I	Small Diameter Bomb	65	793	53	740	49	874	42	604	-13%
General Atomics	MQ-B/IMO-IC	Predator/Gray Eagle	142	0	488	12	22		31		41%
Subtotal			\$106,879		\$138,370		\$130,903		\$127,357		-3%
	Total Procurement		\$151,200		\$162,800		\$170,000		\$167,500		-1%
	Total R&D		\$118,600		\$139,400		\$145,000		\$143,200		-1%
	Total Investment Spending		\$269,800		\$302,200		\$315,000		\$310,700		-1%

Source: Company data and Jefferies estimates

- We highlight major programs which combined span 82 different systems with total funding of \$127BB or 41% of total investment spending of \$311BB. We compare to the FY24 budget request, with major programs down 3% vs. a 1% decline for total investment spending.

- Virginia Class funding request of \$8.2BB and 1 submarine down from \$10.8BB and 2 in FY24 with funding going toward first Block VI board under new MY along with advance procurement for four boats. Columbia Class funding in FY25 funds the second of two increments of the second boat and advance procurement at \$9.9BB vs. \$6.2BB in FY24.

- The largest program is the F-35, with a funding request of \$12.4BB down 9% vs FY24 w/68 aircraft down from 83 requested in FY24.

- B-21 request of \$5.34BB is flat vs FY24. Bombers supported with the FY25 budget request of \$1.4BB up 11% y-o-y.

- Sentinel funding of \$3.7BB is down 13% vs 2024 funding levels.

- FLRAA funding of \$1.26BB requested in FY25 up from \$1.04BB in FY24.

C4I Systems Lead Investment Spending

C4I Systems Leads Major Program Growth Up 46%, Other End-Markets Down

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY25 vs. FY21 CAGR
Aircraft & Related Systems	\$54.2	\$47.6	\$45.5	\$40.0	\$48.8	\$45.3	\$49.9	\$55.2	\$57.7	\$56.9	\$52.4	\$56.5	\$61.1	\$61.2	2%
Missiles & Munitions	11.0	10.3	9.2	9.0	11.9	13.9	16.4	20.7	21.6	21.3	20.3	24.7	30.6	29.8	9%
C4I Systems	10.9	8.2	7.0	6.6	7.4	7.4	8.6	10.0	10.2	11.9	12.7	12.8	14.5	21.1	15%
Science & Technology	12.0	11.9	12.0	11.5	12.3	12.5	13.2	13.7	14.1	14.1	14.7	16.5	17.8	17.2	5%
Ground Systems	16.1	10.9	8.4	6.3	8.2	9.8	11.2	15.9	14.6	13.0	12.3	12.6	13.9	13.0	0%
Shipbuilding & Maritime Systems	24.2	22.6	23.3	22.0	25.6	27.0	30.4	33.1	34.7	32.3	34.6	40.8	48.1	48.1	10%
Missile Defeat & Defense	10.1	9.0	8.5	8.2	8.8	8.5	9.2	12.0	11.6	11.6	10.9	12.3	14.8	13.5	4%
Space Based Systems	10.2	8.0	8.0	7.2	7.1	7.1	9.8	9.3	11.9	15.5	16.7	21.7	26.1	25.2	13%
Total	\$148.7	\$128.5	\$121.9	\$110.8	\$130.1	\$131.5	\$148.7	\$169.9	\$176.4	\$176.6	\$174.6	\$197.9	\$226.9	\$229.1	7%

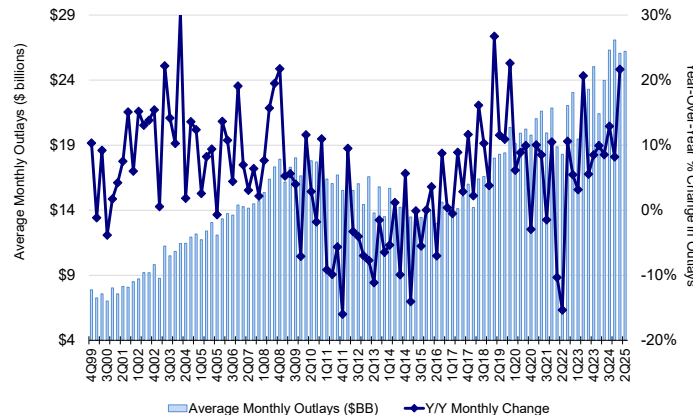
	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Aircraft & Related Systems	-12%	-4%	-12%	22%	-7%	10%	11%	5%	-1%	-8%	8%	8%	0%
Missiles & Munitions	-6%	-11%	-2%	32%	17%	18%	26%	4%	-1%	-5%	22%	24%	-3%
C4I Systems	-25%	-15%	-6%	12%	0%	16%	16%	2%	17%	7%	1%	13%	46%
Space & Technology	-1%	1%	-4%	7%	2%	6%	4%	3%	0%	4%	12%	8%	-3%
Ground Systems	-32%	-23%	-25%	30%	20%	14%	42%	-8%	-11%	-5%	2%	10%	-6%
Shipbuilding & Maritime Systems	-7%	3%	-6%	16%	5%	13%	9%	5%	-7%	7%	18%	18%	0%
Missile Defeat & Defense	-11%	-6%	-4%	7%	-3%	8%	30%	-3%	0%	-6%	13%	20%	-9%
Space Based Systems	-22%	0%	-10%	-1%	0%	38%	-5%	28%	30%	8%	30%	20%	-3%
Total	-14%	-5%	-9%	17%	1%	13%	14%	4%	0%	-1%	13%	15%	1%

- For the most part, most end-markets leveled off with 1% growth in the overall budget providing less runway in the investment budget.
- The one offset was Command, Control, Communications, Computers, and Intelligence (C4I Systems) which reflected \$21BB of funding within the request spread across Communications & Electronic Equipment (\$7.9BB), Technology Development (\$8.5BB) and Aviation & Support Equipment (\$1.8BB) as the biggest contributors to the 46% rise. Other areas of major programs were down LSD/MSDs, including Space Based Systems and Missiles & Munitions down 3% each. This is somewhat reflective of the stronger FY24 budget (eventually when it is enacted).

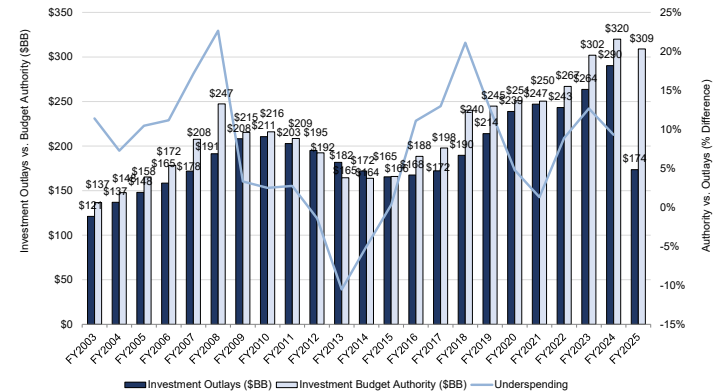
Source: DoD and Jefferies estimates

What's Up in Defense: Investment Outlays +14% yoy in April; +9% Trailing 3 Mos

Monthly Investment Outlays (\$BB) Tracking Up 7.1% on Rolling 3 Month Basis



Investment Outlays (\$BB) for FY24 of \$290BB Represent 91% FY24 Appropriations or \$30BB of Underspending



- Monthly DoD investment outlays were up 14% y-o-y in April to \$23.4BB.
- On a reported basis, R&D was up 5.7% y-o-y, driven by a 55.1% advance for Army. Procurement rose 22.9%, driven by Air Force +47.9%. Over the past three months, R&D is up 4.5% vs. Procurement spending up 14.0%, leading to investment outlays up 9.3% over the Feb to Apr timeframe.

- Investment Outlays for FY22 were \$243BB vs funding of \$267BB, or 91% of funding converted to outlays. For FY23, DoD investment outlays totaled \$264BB, or 87% of the FY23 Investment Budget Appropriation of \$302BB, with underspending at 13%.
- Underspending in FY19-FY23 averaged 8%, or \$108BB of underspending cumulatively. This is 34% of the current investment budget. FY24 ended with \$290BB of investment outlays or 91% of FY24 Investment Appropriations of \$320BB. The first seven months started strong (+8%), accounting for 56% of FY funding as the government operates under a full-year CR (\$309BB authorization).

Source: Company data and Jefferies estimates

What's Up in Defense: Investment Outlays +14% yoy in April; +9% Trailing 3 Mos

Investment Outlays (\$BB) Grew 13.5% in April, Up 9.3% on Rolling-Three-Month Basis

	Procurement					R&D					Investment Outlays				
	Army	Navy	AF	DW	Total	Army	Navy	AF	DW	Total	Army	Navy	AF	DW	Total
Oct-23	2,059	4,992	1,809	564	9,424	1,346	1,817	3,804	2,423	9,190	3,405	6,809	5,413	2,987	18,614
Nov-23	2,012	5,093	6,440	605	14,150	1,508	1,995	5,260	3,048	11,809	3,518	7,088	11,700	3,653	25,959
Dec-23	3,174	7,683	4,899	1,261	17,016	1,998	2,437	6,053	3,022	13,510	5,172	10,120	10,952	4,283	30,527
Jan-24	1,419	4,124	6,622	501	12,665	1,112	1,823	3,152	2,383	8,470	2,531	5,947	9,774	2,884	21,136
Feb-24	1,791	4,195	4,286	725	10,996	1,495	1,973	4,457	2,446	10,372	3,286	6,168	8,743	3,171	21,368
Mar-24	2,175	5,564	3,543	778	12,060	-1,004	2,149	5,438	3,120	9,702	1,171	7,713	8,981	3,898	21,763
Apr-24	1,858	4,534	2,378	581	9,351	1,176	2,233	5,216	2,661	11,286	3,034	6,767	7,594	3,242	20,637
May-24	1,891	4,869	5,363	637	12,760	1,420	2,894	4,781	2,943	12,038	3,311	7,763	10,144	3,580	24,798
Jun-24	2,312	5,966	4,808	645	13,730	1,252	2,261	6,210	3,042	12,766	3,564	8,227	11,018	3,687	26,496
Jul-24	1,884	4,352	4,757	657	11,649	1,297	2,257	4,716	2,965	11,236	3,181	6,609	9,473	3,622	22,885
Aug-24	2,315	5,048	4,303	619	12,286	1,601	2,198	4,866	2,997	11,663	3,916	7,246	9,169	3,616	23,947
Sep-24	2,611	6,926	5,823	810	16,171	1,379	2,514	8,178	3,850	15,922	3,990	9,440	14,001	4,660	32,091
Oct-24	2,196	4,457	5,302	718	12,674	1,345	1,950	3,951	2,616	9,861	3,541	6,407	9,253	3,334	22,535
Nov-24	2,271	5,271	4,363	615	12,519	1,503	2,252	5,419	2,963	12,137	3,774	7,523	9,782	3,578	24,657
Dec-24	3,274	8,807	7,398	1,823	21,303	1,401	2,171	5,790	3,404	12,767	4,675	10,878	13,188	5,227	34,068
Jan-25	1,358	3,966	3,894	2,592	11,810	936	1,774	5,315	2,740	10,765	2,294	5,740	9,209	5,332	22,575
Feb-25	1,800	4,524	4,143	710	11,176	1,327	2,053	4,273	2,707	10,360	3,127	6,577	8,416	3,417	21,537
Mar-25	2,405	5,792	4,963	1,105	14,264	1,407	2,198	3,418	3,455	10,478	3,812	7,990	8,381	4,560	24,743
Apr-25	2,268	4,944	3,517	760	11,488	1,824	2,079	5,110	2,918	11,931	4,092	7,023	8,627	3,678	23,420
Y-o-Y Percentage Change	22.1%	9.0%	47.9%	30.8%	22.9%	55.1%	-6.9%	-2.0%	9.7%	5.7%	34.9%	3.8%	13.6%	13.4%	13.5%
3 Mo 2024	\$5,824	\$14,293	\$10,207	\$2,064	\$32,407	\$1,667	\$6,355	\$15,111	\$8,227	\$31,360	\$7,491	\$20,648	\$25,318	\$10,311	\$63,768
3 Mo 2025	6,473	15,260	12,623	2,575	36,928	4,558	6,330	12,801	9,080	32,769	11,031	21,590	25,424	11,655	69,700
YoY	11.1%	6.8%	23.7%	23.6%	14.0%	173.4%	-0.4%	-15.3%	10.4%	4.5%	47.3%	4.6%	0.4%	13.0%	9.3%
Rolling 12 months year ago	\$24,584	\$62,480	\$53,025	\$8,312	\$148,399	\$11,857	\$24,575	\$57,404	\$33,326	\$127,163	\$36,441	\$87,055	\$110,429	\$41,638	\$275,563
Rolling 12 months	26,585	64,922	56,634	11,691	161,830	16,692	26,801	62,027	36,600	141,924	43,277	91,523	120,661	48,291	303,752
Y-o-Y % Change	8.1%	3.9%	10.6%	40.7%	9.1%	40.8%	8.2%	8.1%	9.8%	11.6%	18.8%	5.1%	9.3%	16.0%	10.2%
	15,229	36,799	30,836	5,820	88,687	9,184	13,218	29,477	16,568	68,448	24,413	50,017	60,313	22,388	157,132
	16,728	37,874	33,471	6,256	94,330	9,172	13,193	30,771	16,495	69,634	25,900	51,067	64,242	22,751	163,964

- Investment outlays were up 13.5% y-o-y in April and have advanced 9.3% on a trailing-3-month basis. The trailing three months saw R&D climb 4.5%, with three-month Procurement up 14.0%.
- In April, the 22.9% increase in Procurement (+14.0% T3M) was driven by Air Force +47.9% (+23.7% T3M) and Defense Wide +30.8% (+23.6% T3M). Additionally, RDT&E rose 5.7% y-o-y (+4.5% T3M), as Army outlays advanced 55.1% (+173% T3M on negative March) and Defense Wide expanded 9.7% (+10.4% T3M). The partial offsets were Navy -6.9% (-0.4% T3M) and Air Force -2% (-15.3% T3M). O&M outlays rose 6.5% y-o-y in April (+3.8% T3M).

Source: Company data and Jefferies estimates

International Defense Budget Implications - Germany Providing the Biggest Boost

NATO Members Defense Spending As Percentage of GDP - 2/3rd Under 2% of GDP Target

Country	2014 (\$BB)	2021e (\$BB)	Real change 2014-2021e (%)	Share of real GDP 2014 (%)	Share of real GDP 2021e (%)
Greece	4,358	7,097	62.86	2.22	3.59
United States	660,062	725,709	9.95	3.72	3.57
Poland	8,532	13,663	60.14	1.86	2.34
United Kingdom	61,287	69,358	13.17	2.13	2.25
Croatia	892	1,230	37.83	1.82	2.16
Estonia	431	620	43.75	1.93	2.16
Latvia	246	666	171.17	0.94	2.16
Lithuania	357	1,027	187.34	0.88	2.03
France	43,936	49,686	13.09	1.82	1.93
Romania	2,324	4,196	80.56	1.35	1.88
Norway	5,862	7,321	24.90	1.55	1.74
Slovak Republic	832	1,688	102.90	0.99	1.73
Hungary	1,035	2,524	143.73	0.86	1.69
Montenegro	59	73	23.48	1.50	1.63
Bulgaria	643	925	43.98	1.31	1.62
Turkey	11,783	17,679	50.03	1.45	1.60
Portugal	2,562	3,311	29.24	1.31	1.55
Italy	20,788	28,501	37.10	1.14	1.54
North Macedonia	106	169	60.52	1.09	1.54
Germany	39,274	52,518	33.72	1.19	1.49
Netherlands	8,650	12,200	41.04	1.15	1.45
Albania	150	188	25.08	1.35	1.41
Denmark	3,399	4,820	41.82	1.15	1.40
Czech Republic	1,683	2,907	72.68	0.94	1.40
Canada	15,562	22,754	46.22	1.01	1.36
Slovenia	411	625	52.11	0.97	1.22
Belgium	4,400	5,298	20.42	0.97	1.07
Spain	10,608	12,656	19.31	0.92	1.03
Luxembourg	216	381	76.21	0.37	0.54

- The war in Russia/Ukraine that began in February 2022 could drive modest restocking for products such as Javelin and Stinger missiles given restocking of expended munitions.
- Internationally, Germany could double defense spending, a potential positive for LMT (F-35) and helicopters (LMT or BA).
- Germany has vowed to increase defense spending in response to Russia's invasion, committing €100BB to defense spending. The €100BB budget would represent a near-doubling vs. the €53BB of funding for 2021.
- The catalyst is that other countries could follow suit, with the majority of NATO spending under that level. Incremental NATO spending could reach \$56BB annually.

Source: NATO and Jefferies estimates

The Opportunity Set: NGI Checked Off, SDA T2, NGAD & CCA for 2024

Key Defense Primes	Estimated Bid Potential	Key Competitions
Lockheed Martin	\$139BB	- NGAS - NGAD, F/A-XX, CCA - M-SHORAD Stinger Replacement - HALO - LRP - NSSL - Colombia, India Fighter Jets - Canadian Helo Modernization
Northrop Grumman	\$106BB	- NGAS - F/A-XX - CCA - CRS-2 - NSSL
Boeing	\$150BB	- NGAS - KC-Y - NGAD, F/A-XX, CCA - NSSL - Italy Tanker - India Fighter Jets - South Korea AEW&C - Canadian Helo Modernization
General Dynamics	\$79BB	- Marine ARV - OMFV - Landing Ship Medium - Romania IFV - Italy Tracked Vehicles - India Tracked Vehicles - Chile Wheeled Armored Vehicles
Raytheon	\$21BB	- NGAP - M-SHORAD Stinger Replacement - Manpack Radios - Saudi Arabia Weapons Package - HALO
L3Harris	\$33BB	- Manpack Radios - NGAS - OMFV
Textron	\$23BB	- FTUAS - Marine ARV - eLRV - Replicator

- We tally \$332BB of outstanding competitive awards in the global defense market today. The oppty is robust even after \$62BB of award in 2024 YTD, up from \$54.4BB in 2023 but down vs the \$157BB of awarded contracts in 2022. Key upcoming awards are relatively light following the push-out of NGAD (BA/LMT/NOC) and NGAP (GE/RTX) from the originally planned 2024, and the potential cancelation of LRP (RTX/LMT/NOC/Rafael/).
- We est LMT, BA, BAE, NOC, LHX, RTX, and TXT have award bid pipelines of \$139BB, \$150BB, \$93BB, \$106BB, \$33BB, \$21BB, and \$23BB, respectively.

Next 24 Months Bid Potential (\$ in BB)



Source: Company data, DoD and Jefferies estimates

FMS Sales Accelerated in 2023 and 2022 After Softer 2021...

\$107.3BB in FMS Notifications in 2023, Up 198% from 2021

Date	Country	System	Value (USD in MM)	Contractors
12/29/2023	Israel	M107 155mm Projectiles and Related Equipment	148	N/A
12/22/2023	NATO NSPA	C-17 Maintenance and Related Equipment	150	BA
12/22/2023	NATO NSPA	Slinger Missiles and Related Equipment	780	RTX
12/22/2023	Saudi Arabia	Blanket Order Training and Related Equipment	1,000	N/A
12/15/2023	Italy	M142 High Mobility Artillery Rocket Systems (HIMARS) and related equipment	400	LMT
12/15/2023	Japan	AIM-9X Block II Sidewinder Missiles and related equipment	59	RTX
12/15/2023	Greece	UH-60M Black Hawk helicopters and related equipment	1,950	LMT
12/15/2023	Japan	AIM-120C-8 Advanced Medium Range Air-to-Air Missiles (AMRAAM) and related equipment	224	RTX
12/15/2023	Taipei	Command, Control, Communications, and Computers (C4) Life Cycle Support and related equipment	300	NA
12/13/2023	Poland	Communications Equipment and related elements of logistics and program support	255	LHX
12/12/2023	Romania	Javelin Missiles and related equipment	80	RTX/LMT
12/9/2023	Israel	M830A1 High Explosive Anti-Tank Multi-Purpose with Tracer (MPAT) tank cartridges and related equipment	107	NA
12/7/2023	Germany	MK 54 Lightweight Torpedoes and related equipment	300	RTX
12/4/2023	Saudi Arabia	RE-3A Tactical Airborne Surveillance System Aircraft Modernization and related equipment	582	LHX
12/4/2023	UAE	AN/TPQ-50 Radar and related equipment	85	SRC
12/1/2023	Australia	AUKUS-related training and training devices and related equipment	2,000	HII/GD
12/1/2023	Korea	F-35 Munitions and related equipment	271	LMT/RTX/BA
11/17/2023	Japan	Tomahawk Weapon System and Related Equipment	2,350	LMT
11/15/2023	Korea	AIM-9X Block II and Block II+ (Plus) Sidewinder Missiles and Related Equipment	52	RTX
11/14/2023	Korea	Standard Missile 6 Block I (SM-6 Bk I) and Related Equipment	650	RTX
11/9/2023	Romania	M1A2 Abrams Main Battle Tanks and Related Equipment	2,530	GD/BAE/DRS/RTX/LMT/LHX
11/2/2023	Iraq	Bell Helicopter Contracted Logistics Support	300	TXI
10/24/2023	Latvia	M142 High Mobility Artillery Rocket Systems (HIMARS) (6) and Related Equipment	224	LMT
10/24/2023	Japan	Rolling Airframe Missiles (RAM) Block 2B Tactical Missiles (63)	75	RTX
10/23/2023	United Kingdom	Joint Air-to-Ground Missiles (JAGM) (3,000)	957	LMT
10/23/2023	Lithuania	AIM-120C-8 Advanced Medium-Range Air-to-Air Missiles (AMRAAM) (36)	100	RTX
10/23/2023	Finland	Advanced Anti-Radiation Guided Missiles-Extended Range (AARGM-ER) (150)	900	NOC
10/4/2023	Spain	PATRIOT Configuration-3+ Modernized Fire Units (4)	2,800	RTX/LMT
10/3/2023	Oman	TOW 2B Radio Frequency Missiles	70	RTX
9/21/2023	Saudi Arabia	Logistics Support Agreement for Abrams, M-60, M-2, MRAP, LAVs, and Other Equipment	500	NA
9/20/2023	Kuwait	Repair and Recertification of Patriot Advanced Capability-3 Missiles	150	LMT
9/15/2023	Canada	Munitions and Other Systems to be Integrated into MQ-9Bs	313	General Atomics
9/13/2023	Poland	F-16 Sustainment and Related Equipment	389	LMT
9/13/2023	Korea	F-35 Aircraft and Related Equipment	5,060	LMT/RTX
9/12/2023	Poland	Integrated Air and Missile Defense (IAMD) Battle Command System (IBCS)	4,000	NOC
9/1/2023	Bulgaria	Stryker Vehicles and Related Equipment	1,500	GD
8/28/2023	Japan	Joint Air-to-Surface Standoff Missiles with Extended Range (JASSM-ER)	104	LMT
8/23/2023	Taiwan	F-16 Infrared Search and Track (IRST) Systems and Related Equipment	500	LMT
8/21/2023	Poland	AH-64E Apache Helicopters and Related Equipment	12,000	BA
8/18/2023	Australia	M142 High Mobility Artillery Rocket Systems (HIMARS) and Related Equipment	975	LMT/LHX/DRS/IOSK
8/1/2023	Finland	M270A2 Multiple Launch Rocket System (MLRS) Upgrade and Related Equipment	395	LMT/DRS
7/31/2023	Romania	Assault Amphibious Vehicles (AAVs) and Related Equipment	121	NA
7/19/2023	Germany	AIM-120C-8 Advanced Medium-Range Air-to-Air Missiles (AMRAAM)	2,900	RTX
7/7/2023	Sweden	AIM-120C-8 Advanced Medium-Range Air-to-Air Missiles (AMRAAM)	605	RTX
7/7/2023	France	AGM-114R2 Hellfire Missiles and Related Equipment	203	LMT
6/30/2023	Romania	F-16 Mid-Life Update Block 10/15 aircraft	105	LMT
6/29/2023	Taiwan	30 mm Ammunition and Related Equipment	332	NA
6/29/2023	Taiwan	Blanket Order Cooperative Logistics Supply Support	108	Defense Logistics Agency (DLA)
6/29/2023	Taiwan	Arrangement (CLSSA)	332	Orbital ATK/GD
6/29/2023	Czech Republic	F-35 Aircraft and Munitions	5,620	LMT/RTX/BA
6/28/2023	Poland	Integrated Air and Missile Defense (IAMD) Battle Command System (IBCS)	15,000	RTX/LMT
6/28/2023	Norway	Small Diameter Bomb II and related equipment	293	RTX
6/27/2023	Canada	F-35 Aircraft	5,900	BA
6/16/2023	Netherlands	MQ-9A Block 5 Aircraft	611	General Atomics
6/14/2023	Spain	Excalibur Projectiles	48	RTX
6/13/2023	Kuwait	Follow-On Technical Support	1,800	BA/GE/LHX/LMT
6/13/2023	France	E-2C Hawkeye Sustainment Support	160	NOC
6/2/2023	Netherlands	MK 41 Vertical Launching System	110	LMT
5/24/2023	Ukraine	National Advanced Surface-to-Air Missile System	285	RTX
5/11/2023	Germany	60 CH-47F Chinook Helicopters and Related Equipment	8,500	BA
5/9/2023	Poland	Sniper Advanced Targeting Pods and Related Equipment	125	LMT
5/9/2023	Slovakia	M1278A1/A2 Heavy Gun Carriers Joint Light Tactical Vehicles (JLTVs)	250	OSK
5/4/2023	Australia	Surveillance Towed Array Sensor System Expeditionary (SURTASS-ES) Mission Systems	207	LMT
5/3/2023	Czech Republic	AH-1Z and UH-1Y Refurbishment/Modernization and Related Equipment	650	TXI/GE
5/2/2023	Latvia	Naval Strike Missile Coastal Defense System and Related Equipment	110	TBD
4/28/2023	UK	Advanced Precision Kill Weapon System-II	31	BAE
4/26/2023	Norway	MH-60R Multi-Mission Helicopters and Related Equipment	1,000	LMT
4/26/2023	Norway	C-130J Sustainment and Services beyond Block 6 through 2028	166	LMT
4/17/2023	Turkey	F-16 Aircraft Upgrade and Related Equipment	259	LMT
4/11/2023	Morocco	40 AGM-154C JSOW	250	RTX
4/11/2023	Morocco	18 High Mobility Artillery Rocket Systems (HIMARS)	524	LMT/LHX/RTX
3/29/2023	Bahrain	AH-1W Helicopter Refurbishment	350	TXI
3/29/2023	Kuwait	CADPAD and support	48	N/A
3/17/2023	Greece	Assault Amphibious Vehicles (AAVs) and Related Equipment	268	N/A
3/16/2023	Poland	800 AGM-114R2 Hellfire missiles and 4 M36 Hellfire CATM	150	LMT
3/16/2023	Australia	200 Tomahawk Block V and 20 Tomahawk Block IV	895	RTX
3/14/2023	Romania	95 Heavy Gun Carriers Joint Light Tactical Vehicles and Related Equipment	104	OSK
3/7/2023	Australia	225 Javelin FG-148F Missiles	60	LMT/RTX
3/7/2023	Japan	S E-2D Advanced Hawkeye Airborne Early Warning and Control Aircraft and Related Equipment	1,381	NOC
3/1/2023	Australia	63 AARGM-Ers Missiles and 20 AARGM-ER Captive Air Training Missiles (CATMs)	506	NOC
3/1/2023	Taiwan	F-16 Munitions and Related Equipment	619	RTX
2/28/2023	UK	600 Javelin FG-148F Missiles and US Government Technical Assistance	125	LMT/RTX
2/16/2023	Netherlands	20 M142 HIMARS and Associated Equipment	670	LMT
2/14/2023	Kuwait	Planning and Implementation, Systems for Kuwait Military Medical Command (KMMC)	250	Cerner
2/9/2023	Singapore	100 Air to Ground Munitions Kits	55	RTX
2/7/2023	Poland	18 M142 HIMARS Launchers and Associated Equipment	10,000	LMT
Total 2023			\$107.267	

Source: Company data, DoD and Jefferies estimates

... And With Further Improvement in 2024

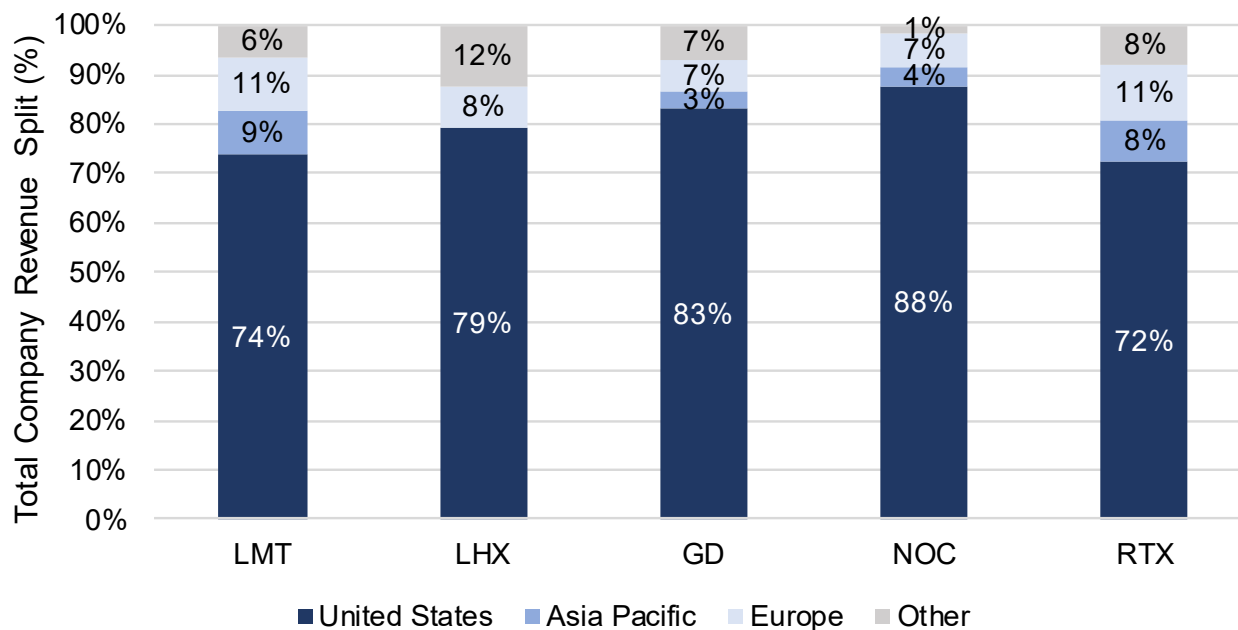
\$146BB in FMS Notifications in 2024, +36% Y-o-Y

Date	Country	System	Value (USD in MM)	Contractors					
11/5/2024	Czech Republic	Large Enterprise Terminals System and Related Elements	184	NA	8/9/2024	Norway	M142 High Mobility Artillery Rocket Systems and related equipment	580	LMT
11/24/2024	Korea	E7 Airborne Early Warning & Control Aircraft and Related Elements	4,920	BA	7/31/2024	Slovakia	AH-12 Attack Helicopters and Related Equipment	600	TXT
11/29/2024	Poland	Mobile Ground Control Approach Systems and Related Elements	105	LHX	7/25/2024	Belgium	Small Diameter Bomb-Increment II and related elements	115	RTX
11/29/2024	Argentina	F-16 Aircraft Equipment and Support	144	LMT	7/23/2024	Saudi Arabia	System Logistics and Sustainment Support	2,800	NA
10/29/2024	Denmark	AIM-120C-3 Advanced Medium Range Air-to-Air Missiles and Related Elements	744	RTX	7/17/2024	Czech Republic	Hellfire Missiles and Advanced Precision Kill Weapon System	138	LMT/BAE
10/28/2024	Switzerland	PATRIOT Sustainment and Related Equipment	450	RTX/LMT/LDOS	6/18/2024	Taiwan	ALTIUS 600M/V Unmanned Aerial Vehicles and related equipment	900	Anduril
10/25/2024	Taiwan	AN/TPS-77 and AN/TPS-78 Radar Turkey Systems and Related Equipment	828	NA	6/18/2024	Taiwan	Switchblade 300 Anti-Personnel and Anti-Armor Loitering Missile System	60	AVAV
10/25/2024	Taiwan	National Advanced Surface-to-Air Missile System and Related Equipment	1,160	RTX	6/13/2024	Netherlands	Advanced Medium-Range Air-to-Air Missiles-Extended Range and Related Equipment	678	RTX
10/25/2024	Japan	Subsonic Sea-Skimming Air Targets, Follow-On Technical Support, and Related Equipment	113	KTOS/NOC/LMT	6/11/2024	Norway	AIM-120C-8 Advanced Medium-Range Air-to-Air Missiles and Related Equipment	1,940	RTX
10/24/2024	Saudi Arabia	TOW Missiles and Related Equipment	440	RTX	6/7/2024	Denmark	AIM-120C-8 Advanced Medium Range Air-to-Air Missiles and Related Elements	216	RTX
10/23/2024	Poland	16 Viper Missile Upgrade and Related Elements	7,300	LMT	6/5/2024	Taiwan	F-16 Standard Spare and Repair Parts and Related Equipment	220	NA
10/18/2024	Japan	Rolling Airframe Missile Block 2B Tactical Missiles and Related Equipment	860	RTX	6/5/2024	Taiwan	F-16 Non-Standard Spare and Repair Parts and Related Equipment	80	NA
10/16/2024	Netherlands	Radio Equipment and Related Equipment	1,420	LHX	5/29/2024	Sweden	UH-60M Black Hawk Helicopters and Related Elements	900	LMT
10/11/2024	Saudi Arabia	M456 Series 105MM High Explosive Anti-Tank Tracer Cartridges	139	Other	5/29/2024	Sweden	UH-60M Black Hawk Helicopters and Related Equipment	900	LMT
10/11/2024	UAE	GMLRS Guided Multiple Launch Rocket Systems and ATACMS Army Tactical Missile Systems	1,200	LMT	5/24/2024	Brazil	UH-60M Blackhawk Helicopters and Related Elements	950	LMT
10/11/2024	Saudi Arabia	AGM-114R3 Hellfire II Missiles (2,503)	655	LMT	5/21/2024	Canada	Joint Direct Attack Munition Tail Kits and Related Elements	96	BA
10/7/2024	Saudi Arabia	AIM-9X Block II Sidewinder Missiles (220)	252	RTX	5/16/2024	NATO	Alliance Ground Surveillance Program Equipment and Support and Related Equipment	250	NOC
10/7/2024	India	MK 54 MOD 0 Lightweight Torpedos	175	NA	5/16/2024	Ukraine	Blanket Order Sustainment of U.S. Army Supplied Systems And Related Equipment	100	NA
10/7/2024	Italy	Electronic Attack (EA)-37B Mission Systems	680	BAE	5/14/2024	Romania	AIM-9X Sidewinder Block II Missiles and Related Equipment	341	RTX
10/7/2024	Romania	ANMPQ-64 F1 Sentinel Radar Systems (4)	110	RTX	5/10/2024	Ukraine	High Mobility Artillery Rocket Systems and Related Elements	30	LMT
9/27/2024	Australia	AARGM-ER Advanced Anti-Radiation Guided Missiles-Extended Range (100)	405	NOC	5/7/2024	UAE	Speeder Anti-Radiation Missile Control Section Modification Upgrade	80	RTX
9/24/2024	Iraq	Follow-On Technical Support Vessel Maintenance and Repair	65	Amentum	5/6/2024	Malaysia	Sniper Advanced Targeting Pods and Related Equipment	80	LMT
9/24/2024	Egypt	Stinger Missiles (720)	740	RTX	4/30/2024	Saudi Arabia	Blanket Order Training and Related Elements of Logistics and Program Support	250	NA
9/20/2024	Sweden	Multifunctional Information Distribution System Joint Tactical Radio Systems and related equipment	32	NA	4/24/2024	Netherlands	Advanced Anti-Radiation Guided Missiles-Extended Range and Related Equipment	700	NOC
9/20/2024	Bulgaria	Javelin FGM-148F missiles and related equipment	114	LMT/RTX	4/24/2024	Poland	Advanced Anti-Radiation Guided Missiles-Extended Range and Related Equipment	1,275	NOC
9/16/2024	Taiwan	Return, Repair, and Reshipment of Spare Parts and related equipment	228	NA	4/18/2024	Argentina	Basler BT-67 Aircraft	143	NA
9/13/2024	Japan	KC-46A Aerial Refueling Aircraft and related equipment	100	BA/RTX/NOC	4/15/2024	Iraq	C-172 and AC/RC-208 Aircraft Contractor Logistics Support and Training	140	NOC
9/12/2024	Israel	F-35 Aircraft and related equipment	7,200	LMT	4/10/2024	Saudi Arabia	Multifunctional Information Distribution Systems and related equipment	101	NA
9/12/2024	Israel	Heavy Duty Tank Trailers and related equipment	165	Leonardo DRS	4/9/2024	Ukraine	Hawk Phase III Missile System Sustainment	138	RTX
9/9/2024	Singapore	AIM-120C-8 Advanced Medium Range Air-to-Air Missiles and related equipment	133	RTX	3/19/2024	Bahrain	M142 Abrams Main Battle Tanks and Related Equipment	2,200	GD/BAE/DRS/HON/RTX/LMT
9/6/2024	Netherlands	AIM-9X Sidewinder Block II Missiles and related equipment	691	LMT	3/19/2024	Morocco	Javelin Missiles and Related Equipment	260	LMT/RTX
9/3/2024	Japan	AEGIS Class Destroyer Follow-On Technical Support and related equipment	190	RTX	3/15/2024	Italy	AIM-9X Sidewinder Missiles and Related Equipment	91	RTX
8/30/2024	Croatia	M142 High Mobility Artillery Rocket Systems and related equipment and services	390	LMT	3/12/2024	Poland	AIM-120C-8 Advanced Medium-Range Air-to-Air Missiles and Related Elements	1,690	RTX
8/29/2024	Netherlands	PATRIOT M903 Launching Stations New Buy and Upgrades and related equipment	224	LMT/RTX	3/12/2024	Poland	AGM-158B-2 Joint Air-to-Surface Standoff Missile with Extended Range All-Up-Rounds	1,770	LMT
8/23/2024	India	Anti-Submarine Warfare Sonobuoys and related equipment	53	NA	3/8/2024	Poland	AIM-9X Block II Sidewinder Missiles and Related Elements	219	RTX
8/23/2024	Australia	AH-64E Apache Sustainment Support Services and related equipment	300	BA/LMT	3/12/2024	North Macedonia	Engine and Sustainment for MH-60R Multi-Mission Helicopters and Related Elements	350	RTX
8/22/2024	Romania	AIM-120 Advanced Medium Range Air-to-Air Missiles and related equipment	592	RTX	3/7/2024	Canada	Mobile User Objective System Access and Related Elements	138	GD
8/22/2024	Norway	Advanced Medium Range Air-to-Air Missiles-Extended Range and related equipment	405	RTX	3/7/2024	Korea	Subsonic Sea-Skimming Air Targets for KDX-III Batch-II AEGIS Class Destroyers	171	KTOS/NOC
8/20/2024	Tunisia	65' SAFE Archangel Boats and related elements of logistics and program support	110	NA	2/27/2024	Germany	High-Frequency, Very-High Frequency, and Ultra-High Frequency Radios	281	LHX
8/20/2024	Denmark	Excalibur Projectiles and related elements of logistics and program support	110	NA	2/21/2024	Taiwan	Taiwan Advanced Tactical Data Link System Upgrade Planning and related equipment	75	NA
8/19/2024	Korea	AH-64 Apache Helicopters	3,500	RTX	2/15/2024	Italy	Small Diameter Bomb II and related equipment	150	RTX
8/19/2024	Finland	M1156A1 Precision Guidance Kits and related equipment	70	NOC	2/15/2024	Italy	AIM-120C-8 Advanced Medium-Range Air-to-Air Missiles and related equipment	69	RTX
8/19/2024	Netherlands	CH-47 and AH-64 Helicopter Training and related equipment	305	NA	2/15/2024	Poland	Airspace and Surface Radar Reconnaissance and related equipment	120	RTX/Anduril
8/19/2024	Australia	FGM-148F Javelin Missiles and related equipment	100	RTX/LMT	2/5/2024	Netherlands	Joint Air-to-Surface Standoff Missiles with Extended Range and related equipment	908	LMT
8/16/2024	Canada	AIM-9X Sidewinder Block II+ and Block II Tactical Missiles	265	RTX	2/2/2024	Netherlands	Hellfire Missiles and related equipment	150	LMT
8/15/2024	Germany	PATRIOT Advanced Capability-3 Missile Segment Enhancement Missiles	5,000	LMT	2/1/2024	India	MQ-9B Remotely Piloted Aircraft and related equipment	3,990	General Atomics
8/15/2024	Denmark	Precision Guidance Kits and related elements of logistics and program support	85	NOC	1/26/2024	Turkey	F-16 Aircraft Acquisition and Modernization and Related Equipment	23,000	LMT
8/15/2024	Italy	MQ-9 Block 5 Aircraft and related equipment	738	General Atomics	1/26/2024	Greece	F-35 aircraft and related equipment	8,600	LMT/RTX
8/13/2024	Israel	F-15A and F-15I Aircraft and related equipment	16,820	BA	1/26/2024	Croatia	UH-60M Black Hawk Helicopters and Related Equipment	500	LMT
8/13/2024	Israel	120mm Tank Cartridges and related equipment	583	GD/NOC	1/11/2024	Kosovo	Javelin Missiles and Related Equipment	75	LMT/RTX
8/13/2024	Israel	M1148A1P2 Family of Medium Tactical Vehicles (FMTV) and related equipment	583	OSK	1/10/2024	Australia	Geospatial Tomahawk Weapons System Support Services Uplift and Related Equipment	250	AM
8/13/2024	Israel	M933A1 120mm High Explosive Mortar Cartridges and related equipment	61	GD	1/10/2024	Egypt	Light Tactical Vehicle Chassis and Fleet Build and Related Equipment	200	AM General
8/13/2024	Israel	Advanced Medium Range Air-to-Air Missiles and related equipment	103	RTX	1/10/2024	Egypt	28-Meter Patrol Craft Kits and Related Equipment	129	Swiftships
Total 2024								\$146,125	

Source: Company data, DoD and Jefferies estimates

International Exposure – 21% Exposure Among Defense Primes

RTX Defense, LMT, and LHX Most Exposed to European Defense Budgets in 2024



- Overall int'l accts for 21% of sales on avg to the primes, including 9% directed to customers in Europe, 6% for Asia Pacific, and RoW (9%).
- LMT (11% of sales to EU), RTX Defense (11%), and LHX (8%) are most exposed to European defense budgets and stand to benefit from heightened spending levels.

Source: Company data and Jefferies estimates

Continuing Resolution Becomes the Norm

History of CRs - Twenty Straight Years

Fiscal Year	Number of CRs	Total Duration in Days	Average Duration for Each Act	Final Expiration Date
2005	3	69	23.0	12/8/2004
2006	3	92	30.7	12/31/2005
2007	4	365	91.3	9/30/2007
2008	4	92	23.0	12/31/2007
2009	2	162	81.0	3/11/2009
2010	2	79	39.5	12/18/2009
2011	8	365	45.6	9/30/2011
2012	5	84	16.8	12/23/2011
2013	2	365	182.5	9/30/2013
2014	4	110	27.5	1/18/2014
2015	5	156	31.2	3/6/2015
2016	3	83	27.7	12/22/2015
2017	3	216	72.0	5/5/2017
2018	5	173	34.6	3/23/2018
2019	3	138	46.0	2/15/2019
2020	2	81	40.5	12/20/2019
2021	5	88	17.6	12/27/2020
2022	3	165	55.0	3/15/2022
2023	2	90	45.0	12/29/2022
2024	3	173	57.7	3/22/2024
2025	2	172	86.0	3/14/2025
Avg	4	163	49.4	

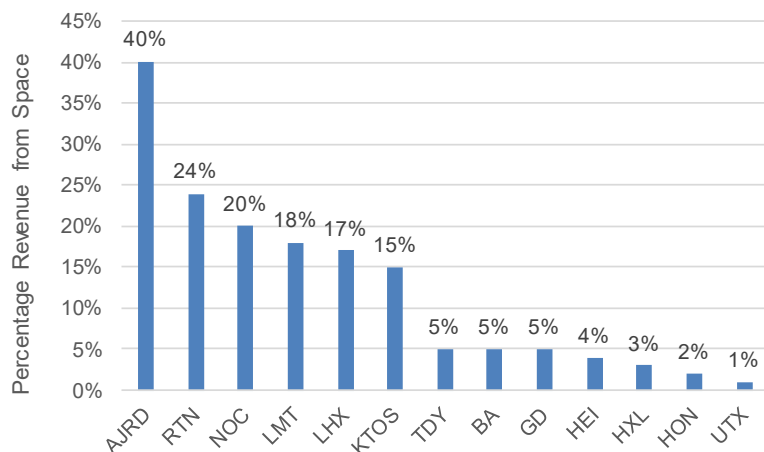
- Continuing Resolutions are the norm. Parts of the government have started under a CR every year since 2010.
- Since FY10, an average of four CRs have been passed per year, with an average duration of 169 days. This includes the government operating under full-year CRs in FY11 and FY13. It is also possible to carve out a defense bill (or bills involving other agencies), with part of the government having a full-year Appropriations bill and the remainder of the government covered under a CR.
- In FY19, the defense budget passed by the start of the fiscal year, with the rest of the government under a CR.

Source: Company data, DoD and Jefferies estimates

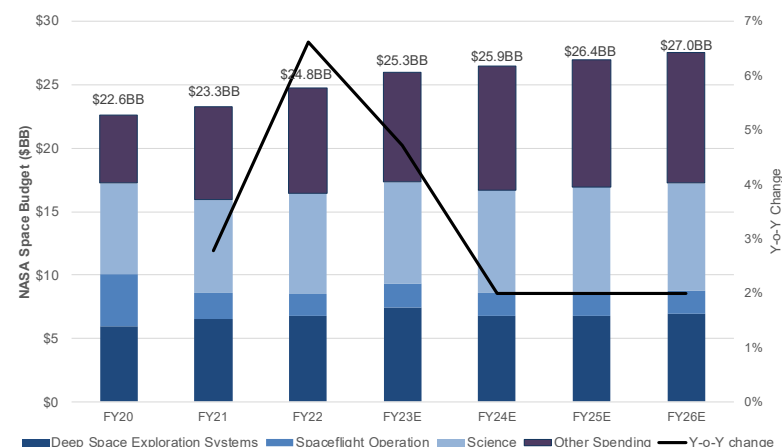
Space

Space Market Key Suppliers

Space Market Suppliers Exposure by Company



NASA Budget Proposed to Expand 5% in FY23



Major Space Propulsion Programs

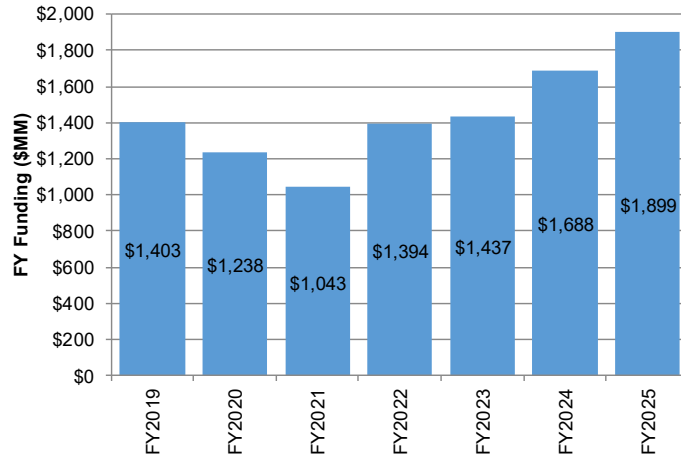
Company	Engine	Fuel	Applications	LBs of Thrust
Aerojet	AR-1	LOX-kerosene	N/A	500,000
Aerojet	AR-22/RS-25	LOX-liquid hydrogen	Space Shuttle Main Engine/Four RS-25Es power SLS	512,000
Aerojet	RL10	LOX-liquid hydrogen	Powers upper stage of Atlas V/Delta IV among others	25,000
Aerojet	RS-27A	LOX-kerosene	Core stage of Delta II	200,100
Aerojet	RS-68	LOX-liquid hydrogen	Common Booster Core of Delta IV	705,000
Aerojet	AJ-60A	Solid	Previously strap on booster for Atlas V	
Blue Origin	BE-4	LOX/LNG	Blue Origin orbital Launch Vehicles/ULA Vulcan	550,000
Blue Origin	BE-3	LOX-liquid hydrogen	First stage applications	110,000
NOC	Five-Segment SRB	Solid	Core stage of Space Launch Systems	3,600,000
NOC	STAR motors	Solid	upper stage motors	N/A
NOC	GEM	Solid	GEM-63 on Atlas V/GEM-63XL on Vulcan	N/A
NPO Energomash	RD-181	LOX-kerosene	Powers NOC Antares vehicle	430,000
RD AMROSS	RD-180	LOX-kerosene	Power common core booster of Atlas V	860,000
Rocket Lab	Rutherford	LOX-kerosene	First stage of Electron vehicle	5,000
SpaceX	Merlin 1D	LOX-kerosene	First/second stage of Falcon 9/Falcon Heavy; use nine to power falcon 9 first stage	185,500
SpaceX	Raptor	LOC/LNG	Power the BFR (cargo and crew to Mars)	380,000
Virgin Orbit	Newton	LOX-kerosene	Power air-launched LauncherOne vehicle	5,000/73,500

- AJRD (now LHX) has the highest exposure as a percentage of company revenue among the space market suppliers as an engine manufacturer for ULA and NASA, which continues to be supported by a rising DoD Space Budget.

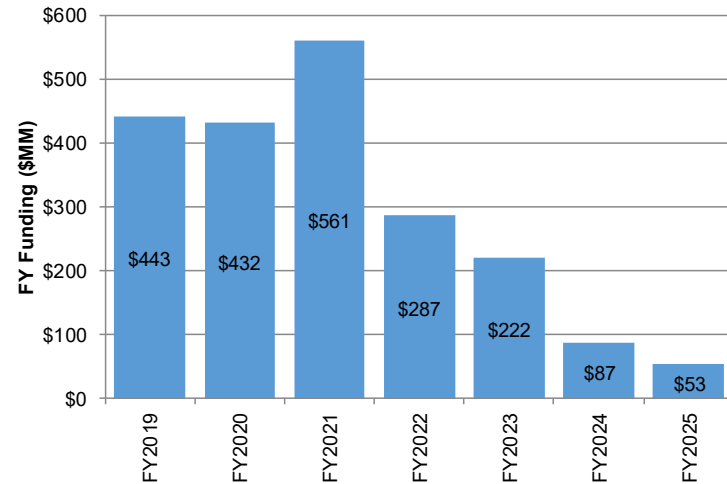
Source: Company data, NASA and Jefferies estimates

US Government Launch Programs: DoD Funding Profile 2019-2025

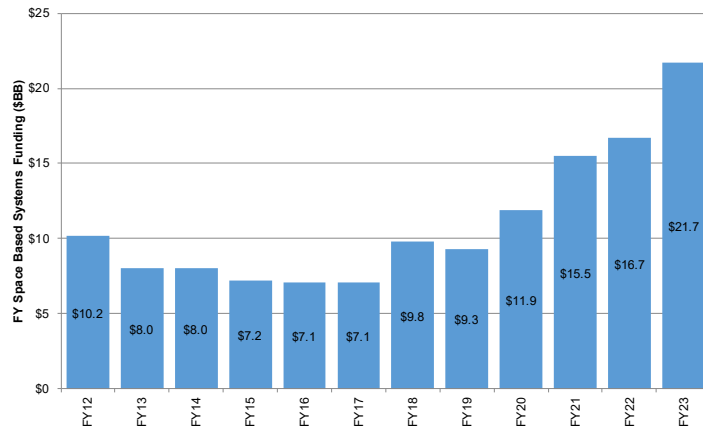
**National Security Space Launch Program
Procurement (\$MM)**



NSSL Program RDT&E Funding (\$MM)



FY23 DoD Space Up 30% YoY

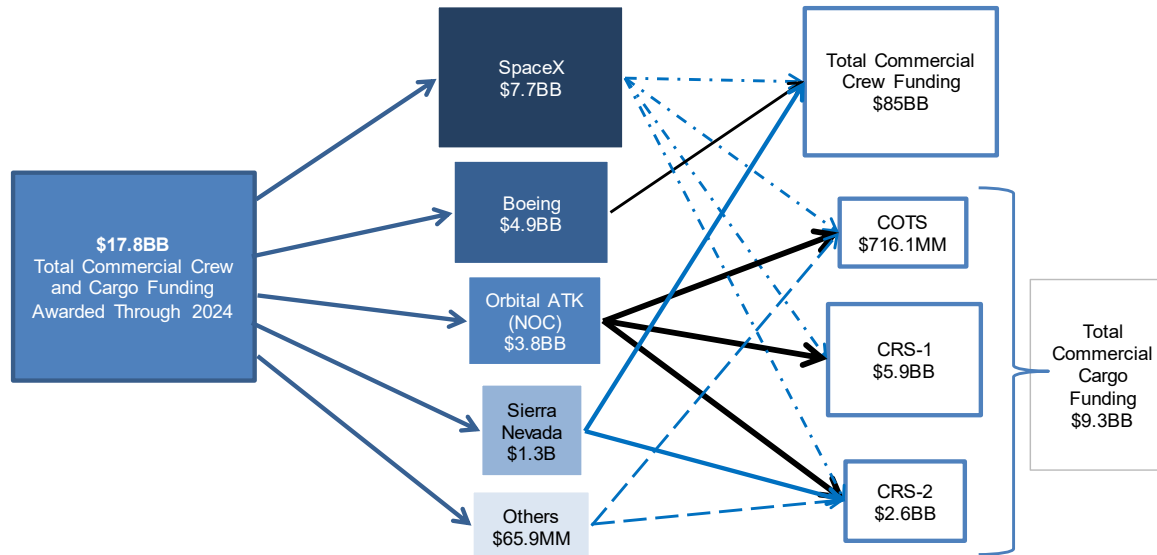


- National Security Space Launch Program funding is expected to expand to ~\$1.9BB in procurement funding in FY25.
- NSSL R&D funding is with ULA, NOC, and Blue Origin winning recent awards. The downselect led to SpaceX and ULA getting all future national security launches through 2028, with ULA winning 60% share with SpaceX at 40% share.

Source: DoD and Jefferies estimates

US Government Launch Programs: NASA Funding

NASA Commercial Cargo and Crew Funding 2019-2024



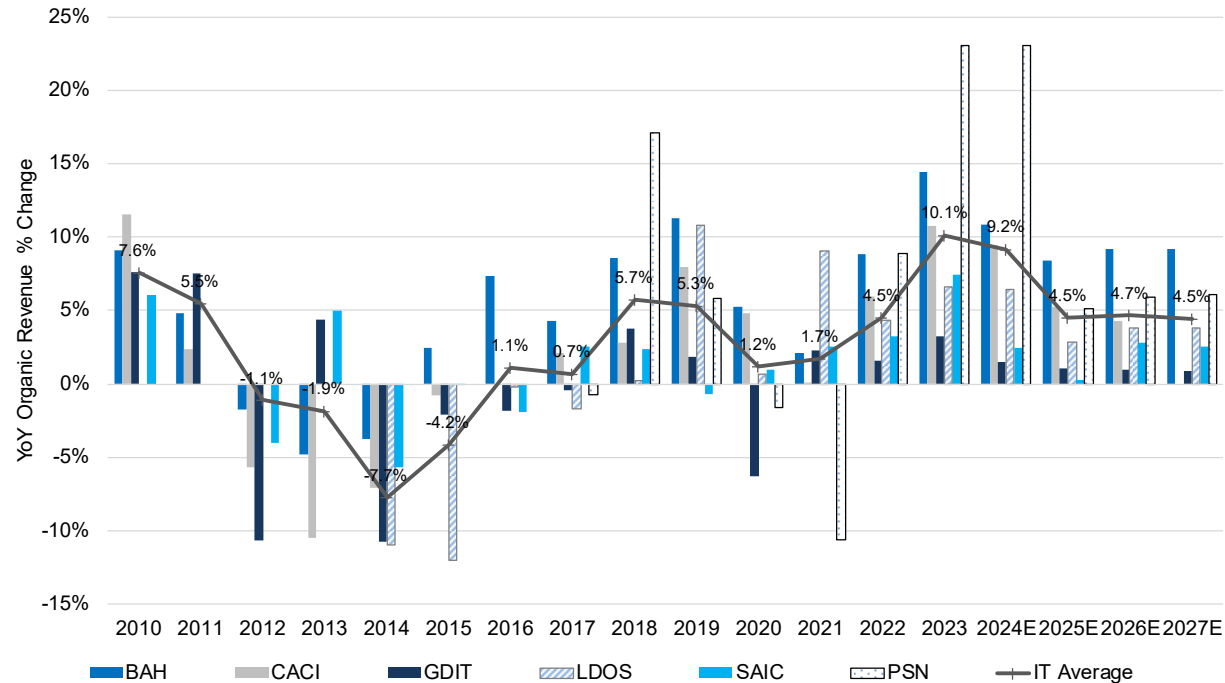
- The NASA mission to ISS has four main providers for crew and cargo payloads delivery to the International Space Station.
- SpaceX provides both Crew and Cargo missions
- BA's crew solution is launched on a ULA Atlas V, with BA experiencing technical issues with the Starliner that have pushed to the right its ability to carry crew.

Source: NASA and Jefferies estimates

IT Services

IT Services – Deceleration in 2025E to 5% from 9% in 2024E, but DOGE Remains a Question

IT Services Group Organic MSD in 2025-27E, from HSD-LDD in 2023-24

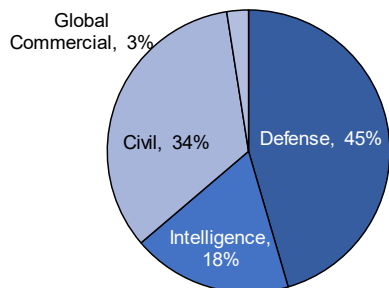


- The IT services group has grown at a 5.3% average rate in 2019-24E with a moderate deceleration to 4.6% expected in the next three years based on the deceleration of the DoD and Fed Civ budget in the FY25 request.

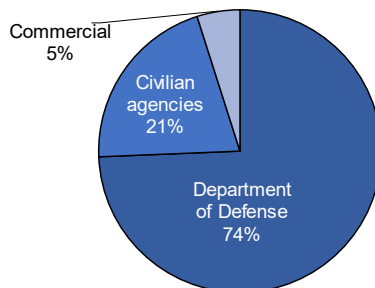
Source: Company data and Jefferies estimates

IT Services Provider Overview

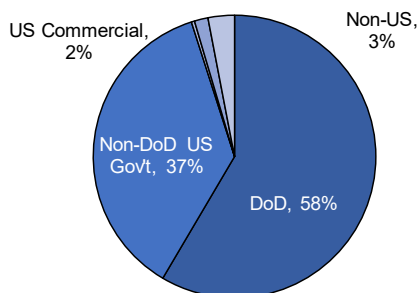
BAH



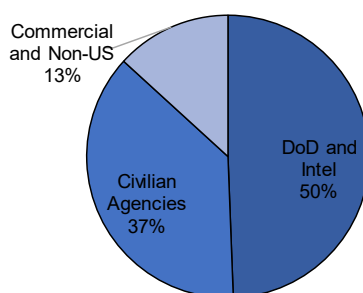
CACI



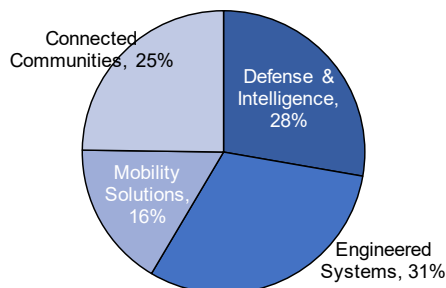
GD Technologies (GDIT)



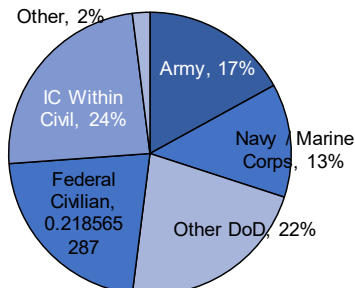
LDOS



PSN



SAIC



- **BAH:** Defense and Intelligence group contributes 63% of BAH's FY23 revenue, with Civil/Global Commercial contributing the remaining 37%.
- **CACI:** The DoD makes up 72% of CACI's FY24 client base in terms of revenue, followed by Civil with 21%. However, ex-Intel, Civil is 15% of CACI.
- **GD Technologies (GDIT):** GDIT has a relatively large source of US commercial and non-DoD revenue (37%) and non-US (3%) compared to peers. Nonetheless, DoD is still a large portion of revenue at 58%.
- **LDOS:** LDOS generates 37% of sales from Civilian Agencies with 50% from DOD and Intel. Intel in particular accounts for ~15% of sales. The Civilian Agency exposure includes the company's Health business (~20% of total sales) with ~\$1.35BB from the VA Medical Exam work.
- **PSN:** Defense & Intelligence and Engineered Systems, which fall under PSN's Federal Solutions business, contributed 59% PSN's total revenue.
- **SAIC:** 46% of SAIC's FY24 portfolio is contracted by the DoD (Army, Air Force, Navy, Marine Corps., and Other), with 46% originating from Federal Civilian including some IC exposure.

Source: Company data and Jefferies estimates

Federal IT Budget Up in FY25, With Cyber +10%

FY25 Cyber Spending Up 10%

Cyber Framework	FY24	FY25	% Change
Identify	3.2	3.6	12.0%
Protect	1.1	1.2	9.0%
Detect	4.9	5.2	6.2%
Respond	1.4	1.6	14.5%
Recover	0.3	0.3	-6.6%
Sector Risk Management	0.3	0.5	N/A
Total	\$11.2	\$12.3	9.9%

Federal IT Spending by Agency

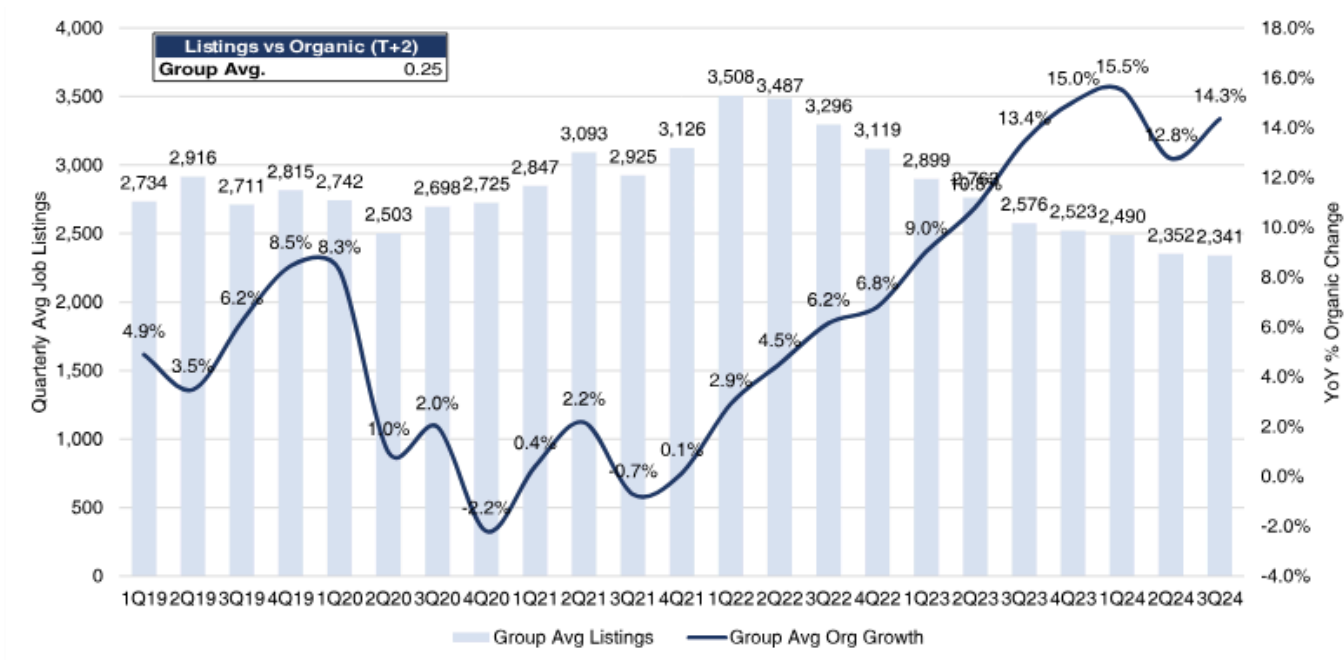
Agency	FY2025 Funding	% of Total
Department of Homeland Security	\$11.1	14.8%
Department of Health and Human Services	9.9	13.2%
Department of the Treasury	9.1	12.1%
Department of Veterans Affairs	8.8	11.8%
Department of Energy	5.5	7.3%
Department of Justice	4.4	5.9%
Department of Transportation	4.4	5.8%
Department of State	3.3	4.3%
Department of Agriculture	2.9	3.9%
Subtotal	\$59.4	79.1%
Other Agencies	\$15.7	20.9%
Total	\$75.1	100.0%

- The Civilian IT Services budget is proposed to increase to \$75.1BB in FY25, up from \$74.5BB in FY24, or a 1% rise. ~90% of spending is relatively split between IT infrastructure, security, and management and mission delivery. The remaining ~10% is for administrative support.

Source: Company data, DoD, DNI and Jefferies estimates

Job Listings 0.25 Correlated to Future Organic Growth – Implies Risk to +11% Est in Q4:24E

IT Services Listings vs. Organic Growth - T+2 Correlation of 0.25

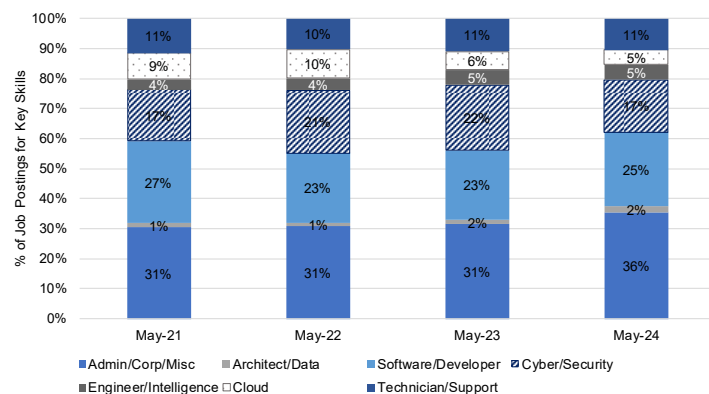


- Avg daily job postings were down 9% y-o-y in Oct 2024, with the T3M down 9% y-o-y, in part reflecting seasonality.
- With a two-quarter lag in listings relative to organic growth, T3M y-o-y listings -9% implies risk to Q4:24E organic growth expected up 11%.

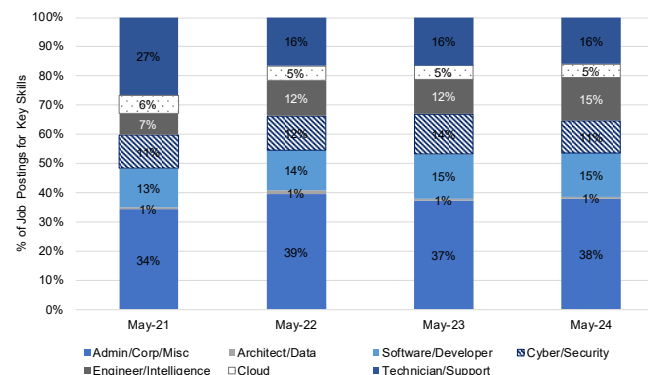
Source: Company data, Thinknum and Jefferies estimates

At Your IT Services: Job Listings by IT Services Companies' Technical Workforce

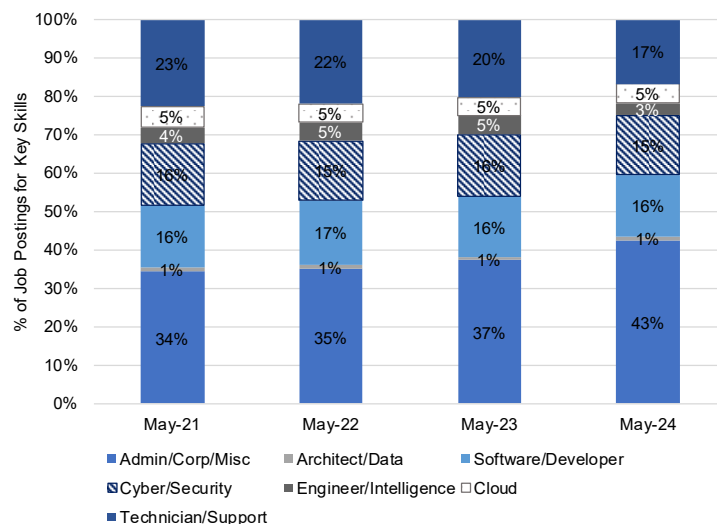
BAH Listings are 57% Technical



LDOS Listings are 47% Technical



CACI Listings are 41% Technical



- Based on BAH's job listings in October, we estimate that ~57% of the employee base is tied to highly technical fields, down from 58% in October 2023 and 2021, and from a high of 62% in 2022. The decline was driven by a 5-pt contraction in the proportion of postings for the software developer roll and a 3-pt contraction for cloud specialists.
- Cybersecurity listings account for 20% of BAH and 13% of CACI T12M postings, which positions them well for 10% Cyber funding growth in the FY25 budget request and the ~\$1BB of cybersecurity funding in the Infrastructure Bill.

Source: Company data, Thinknum and Jefferies estimates

Airlines

Global Air Traffic Forecast: Lowering 2025 Air Traffic by 1pt to +6.5% Global Across Both Domestic & International

JEF Air Traffic Forecast - Regional: The Return to Normalized MSD Air Traffic Growth in 2025-2030

	RPKs (BB)											
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
North America	1,920	670	1,171	1,703	1,964	2,054	2,075	2,137	2,201	2,256	2,313	2,370
Europe	2,288	698	890	1,781	2,141	2,327	2,455	2,554	2,656	2,749	2,845	2,930
Asia-Pacific	2,974	1,130	985	1,321	2,592	3,029	3,332	3,582	3,832	4,101	4,378	4,673
Middle East	782	218	237	579	766	838	913	977	1,036	1,098	1,153	1,211
Latin America	442	166	233	379	444	478	514	550	586	621	655	688
Africa	182	58	68	125	170	193	207	221	234	248	263	279
Total RPKs	8,588	2,940	3,583	5,888	8,077	8,920	9,497	10,020	10,545	11,073	11,606	12,151
% of 2019		34%	42%	68%	94%	104%	111%	117%	123%	129%	135%	141%

	RPK Growth											
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
North America	4.0%	-65.1%	74.7%	45.5%	15.3%	4.6%	1.0%	3.0%	3.0%	2.5%	2.5%	2.5%
Europe	4.2%	-69.5%	27.5%	100.2%	20.2%	8.7%	5.5%	4.0%	4.0%	3.5%	3.5%	3.0%
Asia-Pacific	4.7%	-62.0%	-12.8%	34.0%	96.3%	16.9%	10.0%	7.5%	7.0%	7.0%	6.8%	6.8%
Middle East	2.3%	-72.1%	8.5%	144.4%	32.3%	9.5%	9.0%	7.0%	6.0%	6.0%	5.0%	5.0%
Latin America	4.2%	-62.5%	40.5%	62.7%	17.0%	7.8%	7.5%	7.0%	6.5%	6.0%	5.5%	5.0%
Africa	4.7%	-68.2%	17.0%	84.9%	36.4%	13.2%	7.5%	6.5%	6.0%	6.0%	6.0%	6.0%
Total Change	4.2%	-65.8%	22.0%	64.3%	36.9%	10.4%	6.5%	5.5%	5.2%	5.0%	4.8%	4.7%

RPKs as Percentage of 2019												
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
North America		35%	61%	89%	102%	107%	108%	111%	115%	118%	120%	123%
Europe		31%	39%	78%	94%	102%	107%	112%	116%	120%	124%	128%
Asia-Pacific		38%	33%	44%	87%	102%	112%	120%	129%	138%	147%	157%
Middle East		28%	30%	74%	98%	107%	117%	125%	132%	140%	147%	155%
Latin America		38%	53%	86%	100%	108%	116%	124%	132%	140%	148%	155%
Africa		32%	37%	69%	94%	106%	114%	122%	129%	137%	145%	153%
Total RPKs		34%	42%	69%	94%	104%	111%	117%	123%	129%	135%	141%

	ASKs (BBs)											
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
North America	2,278	1,132	1,597	2,053	2,340	2,448	2,472	2,546	2,623	2,688	2,756	2,824
Europe	2,739	1,033	1,340	2,236	2,589	2,799	2,953	3,071	3,194	3,305	3,421	3,524
Asia-Pacific	3,585	1,656	1,557	1,818	3,184	3,577	3,935	4,230	4,526	4,843	5,170	5,519
Middle East	996	368	446	746	929	1,007	1,098	1,175	1,245	1,320	1,386	1,455
Latin America	531	218	299	463	530	567	610	653	695	737	777	816
Africa	242	92	109	165	223	245	264	281	298	316	335	355
Total ASKs	10,371	4,499	5,349	7,480	9,795	10,644	11,331	11,955	12,580	13,209	13,844	14,493

	ASK Growth											
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
North America	2.9%	-50.3%	41.1%	28.5%	14.0%	4.6%	1.0%	3.0%	3.0%	2.5%	2.5%	2.5%
Europe	3.5%	-62.3%	29.8%	66.8%	15.8%	8.1%	5.5%	4.0%	4.0%	3.5%	3.5%	3.0%
Asia-Pacific	4.4%	-53.8%	-6.0%	16.8%	75.1%	12.3%	10.0%	7.5%	7.0%	7.0%	6.8%	6.8%
Middle East	0.1%	-63.0%	21.2%	67.0%	24.6%	8.4%	9.0%	7.0%	6.0%	6.0%	5.0%	5.0%
Latin America	3.0%	-59.0%	37.3%	54.6%	14.5%	7.1%	7.5%	7.0%	6.5%	6.0%	5.5%	5.0%
Africa	4.5%	-62.1%	18.5%	51.8%	35.5%	9.9%	7.5%	6.5%	6.0%	6.0%	6.0%	6.0%
Total Change	3.3%	-56.6%	18.0%	39.8%	31.0%	8.7%	6.5%	5.5%	5.2%	5.0%	4.8%	4.7%

Source: Company data, IATA and Jefferies estimates

Global Air Traffic Forecast: Domestic to 2019 Levels in 2023 vs Int'l in 2024

Domestic vs. International: Normalized Domestic RPK Growth of 4.4% per Year with International RPKs Expected to Grow 5.8% Annually

	RPKs (BBs)											
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Domestic	3,118	1,596	2,238	2,481	3,236	3,420	3,591	3,762	3,931	4,098	4,262	4,422
International	5,470	1,344	1,349	3,409	4,841	5,499	5,906	6,259	6,614	6,975	7,344	7,729
Total RPKs	8,588	2,940	3,583	5,888	8,077	8,920	9,497	10,020	10,545	11,073	11,606	12,151

	RPK Growth											
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Domestic	4.5%	-48.8%	40.2%	10.9%	30.4%	5.7%	5.0%	4.8%	4.5%	4.3%	4.0%	3.8%
International	4.1%	-75.6%	0.4%	152.7%	41.6%	13.6%	7.4%	6.0%	5.7%	5.5%	5.3%	5.2%
Total Change	4.2%	-65.8%	21.9%	64.3%	36.9%	10.4%	6.5%	5.5%	5.2%	5.0%	4.8%	4.7%

	Total RPKs as Percentage of 2019											
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Domestic		51%	72%	80%	104%	110%	115%	121%	126%	131%	137%	142%
International		25%	25%	62%	88%	101%	108%	114%	121%	127%	134%	141%
Total Change		34%	42%	69%	94%	104%	111%	117%	123%	129%	135%	141%

	RPK Composition											
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Domestic	36%	54%	62%	42%	40%	38%	38%	38%	37%	37%	37%	36%
International	64%	46%	38%	58%	60%	62%	62%	62%	63%	63%	63%	64%
Total Change	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

	ASKs (BBs)											
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Domestic	3,728	2,397	3,012	3,142	3,968	4,067	4,270	4,484	4,686	4,885	5,080	5,273
International	6,643	2,102	2,337	4,338	5,827	6,577	7,061	7,472	7,895	8,324	8,764	9,220
Total ASKs	10,371	4,499	5,349	7,480	9,795	10,644	11,331	11,955	12,580	13,209	13,844	14,493

	ASK Growth											
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Domestic	3.7%	-35.7%	25.7%	4.3%	26.3%	2.5%	5.0%	5.0%	4.5%	4.3%	4.0%	3.8%
International	3.1%	-68.1%	9.3%	85.2%	34.4%	12.8%	7.4%	5.8%	5.7%	5.4%	5.3%	5.2%
Total Change	3.3%	-56.6%	18.9%	39.8%	31.0%	8.7%	6.5%	5.5%	5.2%	5.0%	4.8%	4.7%

	Total ASKs as Percentage of 2019											
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Domestic		64%	81%	84%	106%	109%	115%	120%	126%	131%	136%	141%
International		32%	35%	65%	88%	99%	106%	112%	119%	125%	132%	139%
Total Change		43%	52%	72%	94%	103%	109%	115%	121%	127%	133%	140%

	Load Factor											
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Domestic	83.7%	66.6%	74.3%	78.9%	81.5%	84.0%	84.1%	83.9%	83.9%	83.9%	83.9%	83.9%
International	82.0%	62.8%	58.0%	78.5%	82.8%	83.2%	83.6%	83.8%	83.8%	83.8%	83.8%	83.8%
Total Load Factor	82.8%	65.1%	67.2%	78.7%	82.3%	83.5%	83.8%	83.8%	83.8%	83.8%	83.8%	83.8%

Source: Company data, IATA and Jefferies estimates

Industry Revenue Fully Recovered In 2023

Total Airline Revenues - 2024 Expands 4% Y-o-Y on 6% Capacity Growth Given TRASMs -2% as AAL, AC See Significant Pricing Pressure

										Revenue Build			Y-o-Y % Change		
Airline	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2023	2024	2025E			
ASMs															
AAL	285,088	143,167	214,535	260,226	277,723	292,948	298,122	307,113	317,607	7%	5%	2%			
AC	112,814	37,703	33,384	82,558	99,012	104,381	107,065	113,017	119,362	20%	5%	3%			
DAL	275,379	134,339	194,474	233,226	272,033	288,394	294,236	304,399	314,082	17%	6%	2%			
UAL	284,999	122,804	178,684	247,858	291,333	311,185	326,074	341,712	358,454	18%	7%	5%			
LUV	157,254	103,456	132,006	148,467	170,323	177,250	179,306	182,821	186,521	15%	4%	1%			
Total ASMs	1,115,534	541,469	753,083	972,335	1,110,424	1,174,158	1,204,803	1,249,062	1,296,026	14%	6%	3%			
Load Factor															
AAL	84.6%	64.1%	75.3%	82.9%	83.5%	84.9%	84.7%	84.7%	84.7%	0.6%	1.4%	-0.2%			
AC	83.4%	61.6%	63.0%	80.5%	86.7%	84.9%	85.0%	85.1%	85.3%	6.1%	-1.7%	0.1%			
DAL	86.3%	54.6%	69.3%	83.8%	85.4%	85.4%	86.3%	86.4%	86.4%	1.6%	0.0%	1.0%			
UAL	84.0%	60.2%	72.2%	83.4%	83.9%	83.1%	83.3%	83.5%	83.8%	0.5%	-0.8%	0.2%			
LUV	83.5%	52.4%	78.5%	83.4%	80.0%	80.4%	81.5%	82.5%	83.0%	-3.4%	0.4%	1.1%			
Total Load Factor	84.6%	58.5%	73.0%	83.1%	83.8%	83.9%	84.3%	84.5%	84.7%	0.7%	0.0%	0.4%			
RPMs															
AAL	241,252	91,826	161,538	215,624	231,926	248,795	252,526	260,096	269,005	8%	7%	1%			
AC	94,113	23,239	21,045	66,495	85,802	88,643	90,984	96,193	101,770	29%	3%	3%			
DAL	237,680	73,412	134,692	195,480	232,241	246,145	254,052	262,933	271,412	19%	6%	3%			
UAL	239,360	73,883	128,979	206,791	244,435	258,503	271,494	285,456	300,231	18%	6%	5%			
LUV	131,345	54,221	103,562	123,843	136,256	142,515	146,134	150,828	154,812	10%	5%	3%			
Total RPMs	943,750	316,581	549,816	808,233	930,660	984,601	1,015,190	1,055,505	1,097,230	15%	6%	3%			
Passenger Yield (¢)															
AAL	17.41¢	15.81¢	16.13¢	20.67¢	20.92¢	19.93¢	20.20¢	20.77¢	21.15¢	1%	-5%	1%			
AC	18.31¢	18.86¢	21.37¢	21.41¢	22.61¢	22.29¢	22.39¢	22.60¢	22.80¢	6%	-1%	0%			
DAL	17.79¢	17.55¢	16.72¢	20.57¢	21.06¢	20.68¢	20.76¢	21.16¢	21.36¢	2%	-2%	0%			
UAL	16.55¢	15.98¢	15.66¢	19.36¢	20.07¢	20.05¢	20.01¢	20.24¢	20.46¢	4%	0%	0%			
LUV	15.82¢	14.14¢	13.58¢	17.29¢	17.35¢	17.53¢	17.69¢	18.18¢	18.62¢	0%	1%	1%			
Total Passenger Yield	17.16¢	16.19¢	15.89¢	19.85¢	20.36¢	20.01¢	20.12¢	20.52¢	20.81¢	3%	-2%	1%			
Passenger Revenue (\$MM)															
AAL	\$42,010	\$14,518	\$26,063	\$44,568	\$48,512	\$49,586	\$51,009	\$54,018	\$56,882	9%	2%	3%			
AC	17,232	4,382	4,498	14,238	19,403	19,760	20,370	21,742	23,204	36%	2%	3%			
DAL	42,277	12,883	22,519	40,218	48,909	50,894	52,746	55,643	57,963	22%	4%	4%			
UAL	39,625	11,805	20,197	40,032	49,046	51,829	54,314	57,776	61,421	23%	6%	5%			
LUV	20,776	7,665	14,066	21,408	23,637	24,980	25,845	27,422	28,822	10%	6%	3%			
Total Passenger Revenue	\$161,920	\$51,253	\$87,343	\$160,464	\$189,507	\$197,049	\$204,283	\$216,600	\$228,292	18%	4%	4%			
Other Revenue (\$MM)															
AAL	\$3,758	\$2,819	\$3,819	\$4,403	\$4,276	\$4,625	\$4,987	\$5,320	\$5,628	-3%	8%	8%			
AC	\$1,899	\$1,451	\$1,902	\$2,318	\$2,430	\$2,495	\$2,595	\$2,688	\$2,785	5%	3%	4%			
DAL	4,492	3,062	4,151	5,387	5,760	6,107	6,511	6,838	7,141	7%	6%	7%			
UAL	3,634	3,550	4,437	4,923	4,671	5,234	5,660	6,023	6,334	-5%	12%	8%			
LUV	1,652	1,383	1,724	2,406	2,454	2,503	2,600	2,726	2,860	2%	2%	4%			
Total Other Revenue	\$15,435	\$12,265	\$16,033	\$19,437	\$19,591	\$20,964	\$22,353	\$23,596	\$24,748	1%	7%	7%			
Total Revenue (\$MM)															
AAL	\$45,768	\$17,337	\$29,882	\$48,971	\$52,788	\$54,211	\$55,996	\$59,338	\$62,510	8%	3%	3%			
AC	19,131	5,833	6,400	16,556	21,833	22,255	22,965	24,430	25,990	32%	2%	3%			
DAL	46,769	15,945	26,670	45,605	54,669	57,001	59,257	62,481	65,104	20%	4%	4%			
UAL	43,259	15,355	24,634	44,955	53,717	57,063	59,974	63,799	67,754	19%	6%	5%			
LUV	22,428	9,048	15,790	23,814	26,091	27,483	28,445	30,148	31,682	10%	5%	3%			
Total Revenue (\$MM)	\$177,355	\$63,518	\$103,376	\$179,901	\$209,098	\$218,013	\$226,636	\$240,196	\$253,041	16%	4%	4%			
Total Revenue per ASM (¢)															
AAL	16.05¢	12.11¢	13.93¢	18.82¢	19.01¢	18.51¢	18.78¢	19.32¢	19.68¢	1%	-3%	1%			
AC	16.96¢	15.47¢	19.17¢	20.05¢	22.05¢	21.32¢	21.45¢	21.62¢	21.77¢	10%	-3%	1%			
DAL	16.98¢	11.87¢	13.71¢	19.55¢	20.10¢	19.76¢	20.14¢	20.53¢	20.73¢	3%	-2%	2%			
UAL	15.18¢	12.50¢	13.79¢	18.14¢	18.44¢	18.34¢	18.39¢	18.67¢	18.90¢	2%	-1%	0%			
LUV	14.26¢	8.75¢	11.96¢	16.04¢	15.32¢	15.51¢	15.86¢	16.49¢	16.99¢	-4%	1%	2%			
Total Revenue per ASM (¢)	15.90¢	11.73¢	13.73¢	18.50¢	18.83¢	18.57¢	18.81¢	19.23¢	19.52¢	2%	-1%	1%			

Source: Company data, IATA and Jefferies estimates

Managing the Cost Structure - Factoring in Structurally Lower Earnings Power vs. 2019 Going Forward

CASM-ex Estimates - 2025 Another Year Challenged by Labor Agreements, Maintenance and Low ASM Growth, but an Inflection of TRASM to CASM-ex Expected in Back-Half of the Year

CASM-ex	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
AAL	11.46¢	17.69¢	13.33¢	12.83¢	13.15¢	13.50¢	14.23¢	14.59¢	14.88¢
AC	11.09¢	21.01¢	23.32¢	13.21¢	13.49¢	13.80¢	14.58¢	14.94¢	15.17¢
DAL	10.87¢	15.61¢	12.12¢	12.87¢	13.17¢	13.54¢	13.87¢	14.08¢	14.18¢
UAL	10.21¢	17.13¢	12.96¢	11.73¢	12.03¢	12.58¢	13.00¢	13.29¢	13.50¢
LUV	9.19¢	11.77¢	10.21¢	11.22¢	11.08¢	11.95¢	12.46¢	12.81¢	12.92¢
Average	10.56¢	16.64¢	14.39¢	12.37¢	12.58¢	13.07¢	13.63¢	13.94¢	14.13¢
% YoY									
AAL	19.5%	54.4%	-24.6%	-3.8%	2.5%	2.6%	5.5%	2.5%	2.0%
AC	7.8%	89.5%	11.0%	-43.4%	2.2%	2.3%	5.7%	2.4%	1.6%
DAL	-0.8%	43.6%	-22.3%	6.2%	2.3%	2.8%	2.5%	1.5%	0.7%
UAL	1.0%	67.8%	-24.4%	-9.4%	2.5%	4.6%	3.4%	2.2%	1.5%
LUV	12.4%	28.0%	-13.2%	9.9%	-1.3%	7.9%	4.3%	2.8%	0.9%
Average	7.5%	57.5%	-13.5%	-14.0%	1.7%	3.9%	4.3%	2.3%	1.4%
% vs. 2019									
AAL		54%	16%	12%	15%	18%	24%	27%	30%
AC		90%	110%	19%	22%	24%	32%	35%	37%
DAL		44%	12%	18%	21%	25%	28%	29%	30%
UAL		68%	27%	15%	18%	23%	27%	30%	32%
LUV		28%	11%	22%	21%	30%	36%	39%	41%
Average		58%	36%	17%	19%	24%	29%	32%	34%

- CASM-ex across our group increases 4.2% y-o-y in 2025 following 3.9% growth in 2024, with most if not all airlines in a cost-out mode through re-engineering of processes like maintenance & procurement, along with staffing.
- By the end of 2025, we believe RASMs could again outgrow CASMs to expand margins.

Source: Company data and Jefferies estimates

Managing the Cost Structure - Factoring in Structurally Lower Earnings Power vs. 2019 Going Forward

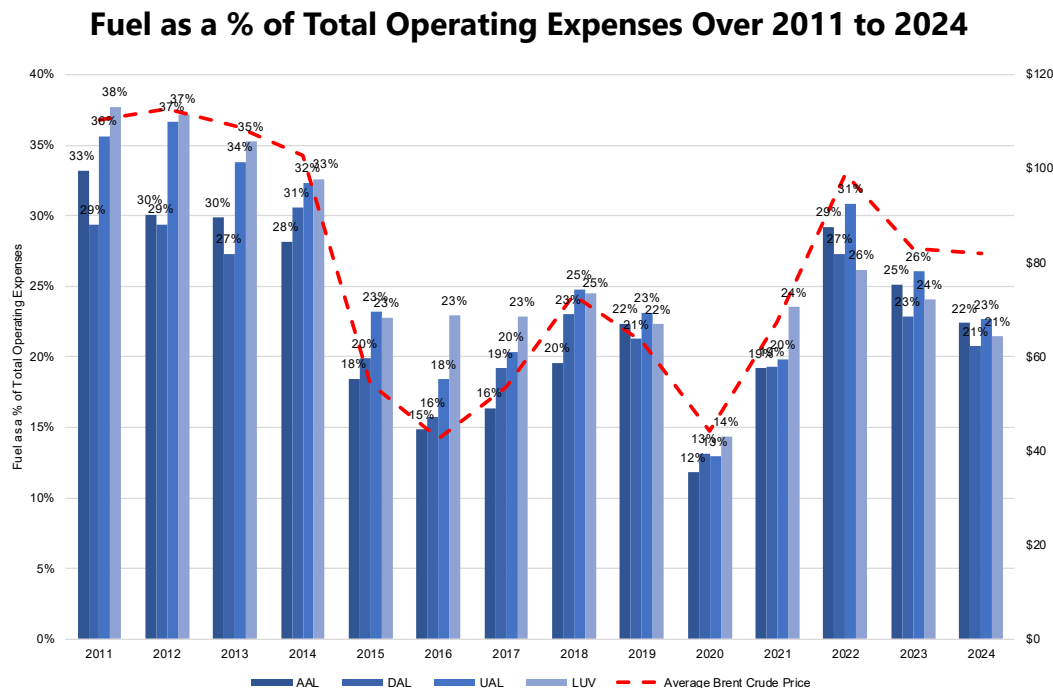
Adj. EBITDAR Estimates - Margin Expansion Returns to the Group in 2025 with Improved TRASMs and a Normalized of CASM-ex as Cost Pressures Annualize Through the Year

Adj. EBITDAR Build	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Revenue									
AAL	\$45,768	\$17,337	\$29,882	\$48,971	\$52,788	\$54,211	\$55,996	\$59,338	\$62,510
AC	19,131	5,833	6,400	16,556	21,833	22,255	22,965	24,430	25,990
DAL	47,007	17,095	29,899	50,582	58,048	61,643	63,257	66,481	69,104
UAL	43,259	15,355	24,634	44,955	53,717	57,063	59,974	63,799	67,754
LUV	22,428	9,048	15,790	23,814	26,091	27,483	28,445	30,148	31,682
Total	\$177,593	\$64,668	\$106,605	\$184,878	\$212,477	\$222,655	\$230,636	\$244,196	\$257,041
Adj. EBITDAR									
AAL	\$7,013	(\$8,006)	(\$2,070)	\$5,177	\$7,318	\$6,425	\$6,414	\$7,386	\$7,981
AC	3,636	(2,043)	(1,464)	1,457	3,982	3,586	3,322	3,501	3,717
DAL	9,692	(5,467)	(101)	6,181	9,207	9,077	10,063	11,160	11,884
UAL	7,096	(6,232)	(1,555)	5,200	8,135	8,404	9,144	10,069	10,854
LUV	4,358	(3,568)	196	2,666	2,620	2,218	2,797	3,545	4,464
Total	\$31,795	(\$25,316)	(\$4,993)	\$20,681	\$31,262	\$29,710	\$31,740	\$35,661	\$38,901
Adj. EBITDAR Margin									
AAL	15.3%	-46.2%	-6.9%	10.6%	13.9%	11.9%	11.5%	12.4%	12.8%
AC	19.0%	-35.0%	-22.9%	8.8%	18.2%	16.1%	14.5%	14.3%	14.3%
DAL	20.6%	-32.0%	-0.3%	12.2%	15.9%	14.7%	15.9%	16.8%	17.2%
UAL	16.4%	-40.6%	-6.3%	11.6%	15.1%	14.7%	15.2%	15.8%	16.0%
LUV	19.4%	-39.4%	1.2%	11.2%	10.0%	8.1%	9.8%	11.8%	14.1%
Total	17.9%	-39.1%	-4.7%	11.2%	14.7%	13.3%	13.8%	14.6%	15.1%

- In aggregate, we factor in cumulative Adj. EBITDAR of \$31.7BB in 2025E, up 7% y-o-y. This suggests margins expand 50 bps y-o-y to 13.8% from 13.3% in 2024.
- Structurally, margins should continue to climb back into the mid-teens range compared to the ~18% achieved in 2019.

Source: Company data and Jefferies estimates

Airline Exposure to Fuel Over Time – Fuel Prices Down from >\$100/bbl in 2011 to \$82/bbl in 2024



- Between 2011 and 2022, fuel exposure as a % of total operating expenses dropped as Brent fell from >\$100/bbl to closer to \$82/bbl in 2022
- In any given year, UAL and LUV are typically most exposed to fuel as a percentage of total operating expenses

Source: Company data and Jefferies estimates

Pilot Supply and Demand – Shortage Ramps Through 2030

Pilot Supply Strong in 2022 and 2023 Given Pent-Up Demand - Should Normalize in 2025 and Slowly Expand Through the End of the Decade as Airline Training Programs Expand

	Pilot Supply Outlook								
	2022	2023	2024	2025	2026	2027	2028	2029	2030
Beginning Pilots	137,000	139,222	141,821	144,109	144,154	144,287	145,077	145,944	146,556
Airline Training Programs:									
JetBlue Gateway	35	40	45	50	80	100	120	150	150
United Aviate Academy	0	0	0	250	400	450	500	500	500
Delta Propel	15	30	50	50	100	200	250	300	300
American Airlines Cadet Academy	100	100	150	150	200	250	300	300	300
Other Airline Training Academies	50	60	70	80	90	100	100	100	100
Airline Focused Pilot Training Academies/Aviation Universities	6,342	8,176	6,455	4,000	3,900	3,800	3,400	3,000	2,500
Military to Commercial Pilot Pipeline	600	500	500	500	500	500	500	500	500
Small Regional Flight Schools	1,500	1,100	1,200	1,250	1,250	1,350	1,400	1,500	1,500
Foreign Pilot Programs	100	250	200	200	100	100	100	100	100
Total Pilot Additions	8,742	10,256	8,670	6,530	6,620	6,850	6,670	6,450	5,950
<i>as a % of Total Pilots</i>	<i>6.4%</i>	<i>7.4%</i>	<i>6.1%</i>	<i>4.5%</i>	<i>4.6%</i>	<i>4.7%</i>	<i>4.6%</i>	<i>4.4%</i>	<i>4.1%</i>
Total Pilot Retirements	6,520	7,657	6,382	6,485	6,487	6,060	5,803	5,838	5,862
<i>as a % of Total Pilots</i>	<i>4.8%</i>	<i>5.5%</i>	<i>4.5%</i>	<i>4.5%</i>	<i>4.5%</i>	<i>4.2%</i>	<i>4.0%</i>	<i>4.0%</i>	<i>4.0%</i>
Ending Total Pilots	139,222	141,821	144,109	144,154	144,287	145,077	145,944	146,556	146,644
<i>Y-o-Y % Change</i>	<i>1.6%</i>	<i>1.9%</i>	<i>1.6%</i>	<i>0.0%</i>	<i>0.1%</i>	<i>0.5%</i>	<i>0.6%</i>	<i>0.4%</i>	<i>0.1%</i>

- Given ~130K pilots with active ATP certifications in the US between the ages of 20 and 65, ~47K are over the age of 55, or required to retire over the next 10 years. This means that more than a third of the current pilot base will be forced to retire before 2032.
- The moving pieces lead us to an undersupplied pilot market by ~1K pilots entering 2024 (1%), better than previously assumed, given ATP certificates have come in much stronger than anticipated, likely reflecting pent-up pandemic effects. Undersupply scales to ~3K pilots in 2024 (2%), ~6K pilots in 2025 (4%), and ~11K pilots in 2030 (7%).
- There continue to be questions around the ability to attract new candidates to the profession, given the pipeline and prohibitive costs to an individual; these have driven recent union pilot deals higher for both wages and work rules.

Source: FAA and Jefferies estimates

Pilot Supply and Demand – Shortage Ramps Through 2030

Commercial Pilot Demand Could Expand at a 2% CAGR Through 2025 and a 2% CAGR Through 2030 Driven by Narrowbody Expansion

Pilot Demand Projection	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Commercial Aviation										
Regional Aircraft	2,222	2,188	2,155	2,122	2,090	2,058	2,027	1,996	1,966	1,936
Pilots per Regional Aircraft	10	10	10	10	10	10	10	10	10	10
Regional Pilots	22,220	21,880	21,550	21,220	20,900	20,580	20,270	19,960	19,660	19,360
Narrowbody Aircraft	4,200	4,326	4,499	4,544	4,590	4,636	4,724	4,809	4,890	4,969
Pilots per Narrowbody Aircraft	12	12	12	12	12	12	12	12	12	12
Narrowbody Pilots	50,400	51,912	53,988	54,528	55,080	55,632	56,688	57,708	58,680	59,628
Widebody Aircraft	560	565	570	574	579	585	591	597	603	609
Pilots per Widebody Aircraft	17	17	17	17	17	17	17	17	17	17
Widebody Pilots	9,520	9,605	9,690	9,758	9,843	9,945	10,047	10,149	10,251	10,353
Total Commercial Pilots	82,140	83,397	85,228	85,506	85,823	86,157	87,005	87,817	88,591	89,341

Demand for total commercial pilots is expected to be flattish through 2026, driven primarily by narrowbodies (1% CAGR) as widebodies expand 1% and regionals decline 2% given a

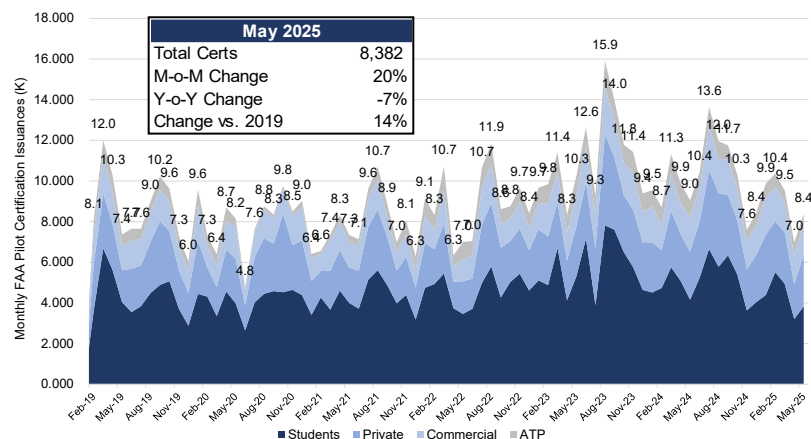
Demand for total commercial pilots is expected to expand at a 1% CAGR through 2030, driven primarily by narrowbodies (2% CAGR) as widebodies expand 1% and regionals decline 2% given a deemphasis on regional flying.

- In the Commercial space, we estimate the industry requires ~85,800 pilots in 2025, which expands to ~89,300 pilots by the end of the decade as the fleet expands.
- This is driven by 10/12 pilots needed per aircraft on the regional and narrowbody side of the business, which expands to 17 pilots needed per aircraft on the widebody side.
- Through 2030, we expect total pilot demand to increase at a 2% CAGR, driven by narrowbody demand expanding by 3%.

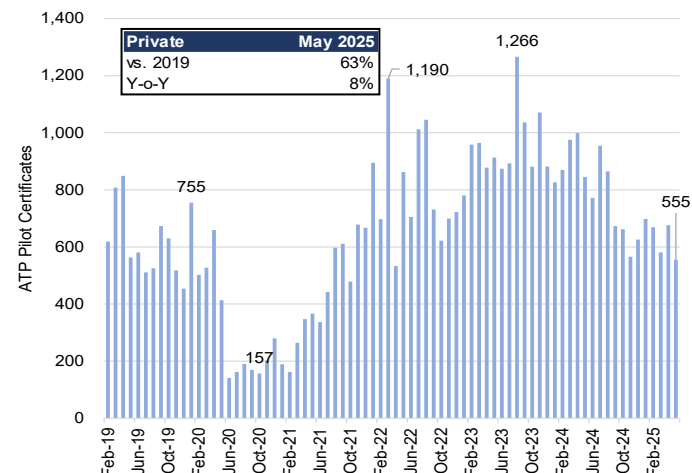
Source: FAA and Jefferies estimates

What's Up at the FAA: May T12M ATP Certs +23% vs 2019, But -27% Y-o-Y

May Single Month Total Certs of 8.4K Included 555 ATP Certificates, -34% Y-o-Y vs. Total Certs -7% Y-o-Y



Monthly Private FAA Certificates - May Certs Up 8% Y-o-Y to 63% Above 2019



May Single Month FAA Certificate Issuances - Total Certs -7% Y-o-Y To 14% Above 2019 Levels w/ ATPs -34% Y-o-Y To 1% Below 2019 Levels

	M-o-M	Y-o-Y	vs. 2019
Students	20%	-8%	-5%
Private	50%	8%	63%
Commercial	4%	-14%	20%
ATP	-18%	-34%	-1%
Total	20%	-7%	14%

Source: FAA and Jefferies estimates

Company Data

American Airlines Group, Inc. (AAL) – HOLD \$11 PT

1) Shares at Pandemic Lows, but Earnings Power in Question

2) Non-Committal but H2 Capacity to Trim

3) \$1.7BB of Q1 FCF, B/S in Shape

Related Notes:

- [2 Quarters of EPS in Quarter 2 Keeps You Out of the Big 3](#) *April 25, 2025*
- [Late to the Gate, Downgrade on Holding Pattern; AAL/DAL to Hold; AC/LUV to U/P](#) *April 1, 2025*
- [The American Dream of Accelerating Lost Share Recapture Faces Cost Reality](#) *January 26, 2025*

American Airlines (AAL): Domestic Main Cabin Overwhelming the On-Track Indirect Recovery in 2025

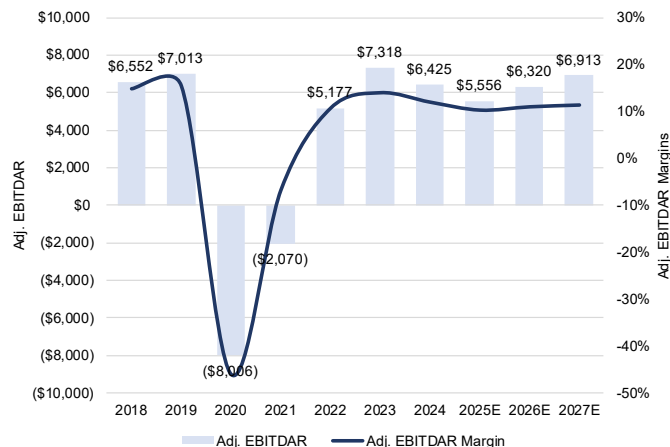
AAL Revenue Build by Region - Domestic (67% of Network) Faces Weakening Leisure Demand, while International Unit Revenues Remained Elevated on Capacity Discipline

Regional Revenue Build	2019	2022	2023	2024	2025E	2026E	2027E	YoY 2024	YoY 2025	YoY 2026	YoY 2027
ASMs:											
Domestic	189,221	176,447	185,206	195,250	198,765	204,727	212,405	5.4%	1.8%	3.0%	3.8%
Latin America	36,653	39,131	38,531	40,889	41,707	42,749	44,032	6.1%	2.0%	2.5%	3.0%
Atlantic	42,010	40,679	46,056	46,574	46,341	47,268	48,213	1.1%	-0.5%	2.0%	2.0%
Pacific	17,204	3,969	7,930	10,235	11,310	11,649	11,998	29.1%	10.5%	3.0%	3.0%
Total ASMs	285,088	260,226	277,723	292,948	298,122	306,394	316,648	5.5%	1.8%	2.8%	3.3%
Total International ASMs	95,867	83,779	92,517	97,698	99,358	101,666	104,244	5.6%	1.7%	2.3%	2.5%
Load Factor											
Domestic	85.4%	84.7%	83.9%	85.2%	84.5%	84.7%	85.0%	1.3%	-0.7%	0.2%	0.3%
Latin America	84.7%	83.0%	86.5%	86.7%	86.5%	86.5%	86.5%	0.1%	-0.2%	0.0%	0.0%
Atlantic	81.3%	76.1%	79.4%	82.5%	82.5%	82.5%	82.5%	3.0%	0.0%	0.0%	0.0%
Pacific	84.2%	70.5%	83.7%	84.5%	84.0%	83.5%	83.5%	0.8%	-0.5%	-0.5%	0.0%
Total Load Factor	84.6%	82.9%	83.5%	84.9%	84.4%	84.6%	84.8%	1.4%	-0.5%	0.1%	0.2%
Total International LF	83.1%	79.0%	82.7%	84.4%	84.3%	84.3%	84.3%	1.7%	-0.1%	-0.1%	0.0%
RPMs											
Domestic	161,580	149,410	155,374	166,302	167,956	173,404	180,544	7.0%	1.0%	3.2%	4.1%
Latin America	31,029	32,467	33,337	35,438	36,076	36,978	38,088	6.3%	1.8%	2.5%	3.0%
Atlantic	34,152	30,949	36,581	38,407	38,231	38,996	39,776	5.0%	-0.5%	2.0%	2.0%
Pacific	14,491	2,798	6,634	8,648	9,500	9,727	10,019	30.4%	9.9%	2.4%	3.0%
Total RPMs	241,252	215,624	231,926	248,795	251,764	259,105	268,426	7.3%	1.2%	2.9%	3.6%
Total International RPMs	79,672	66,214	76,552	82,493	83,808	85,701	87,882	7.8%	1.6%	2.3%	2.5%
Yield											
Domestic	19.11¢	22.03¢	22.26¢	21.25¢	20.94¢	21.73¢	22.19¢	-4.6%	-1.5%	3.8%	2.1%
Latin America	16.27¢	18.94¢	20.15¢	18.51¢	18.35¢	19.00¢	19.38¢	-8.2%	-0.8%	3.5%	2.0%
Atlantic	13.54¢	16.38¢	16.96¢	16.78¢	17.41¢	17.67¢	17.85¢	-1.1%	3.8%	1.5%	1.0%
Pacific	10.06¢	15.62¢	15.01¢	14.40¢	14.70¢	15.08¢	15.16¢	-4.1%	2.1%	2.6%	0.5%
Total Network Yield	17.41¢	20.67¢	20.92¢	19.93¢	19.80¢	20.48¢	20.88¢	-4.7%	-0.7%	3.5%	2.0%
Total International Yield	13.97¢	17.61¢	18.18¢	17.27¢	17.51¢	17.95¢	18.20¢	-5.0%	1.4%	2.5%	1.4%
Passenger Revenue (\$MM)											
Domestic	\$30,881	\$32,911	\$34,592	\$35,336	\$35,163	\$37,683	\$40,059	2.2%	-0.5%	7.2%	6.3%
Latin America	5,047	6,150	6,719	6,560	6,622	7,025	7,380	-2.4%	0.9%	6.1%	5.1%
Atlantic	4,624	5,070	6,205	6,445	6,656	6,891	7,099	3.9%	3.3%	3.5%	3.0%
Pacific	1,458	437	996	1,245	1,396	1,467	1,519	25.0%	12.2%	5.0%	3.5%
Total Passenger Revenue	\$42,010	\$44,568	\$48,512	\$49,586	\$49,837	\$53,066	\$56,057	2.2%	0.5%	6.5%	5.6%
Total International Passenger Revenue	\$11,129	\$11,657	\$13,920	\$14,250	\$14,674	\$15,383	\$15,998	2.4%	3.0%	4.8%	4.0%
Non-Passenger Revenue											
Cargo Revenue	863	1,233	812	804	828	868	907	-1.0%	2.9%	4.8%	4.5%
Other Revenue	2,895	3,170	3,464	3,821	4,050	4,293	4,551	10.3%	6.0%	6.0%	6.0%
Total Revenue	\$45,768	\$48,971	\$52,788	\$54,211	\$54,715	\$58,227	\$61,514	2.7%	0.9%	6.4%	5.6%

Source: Company data and Jefferies estimates

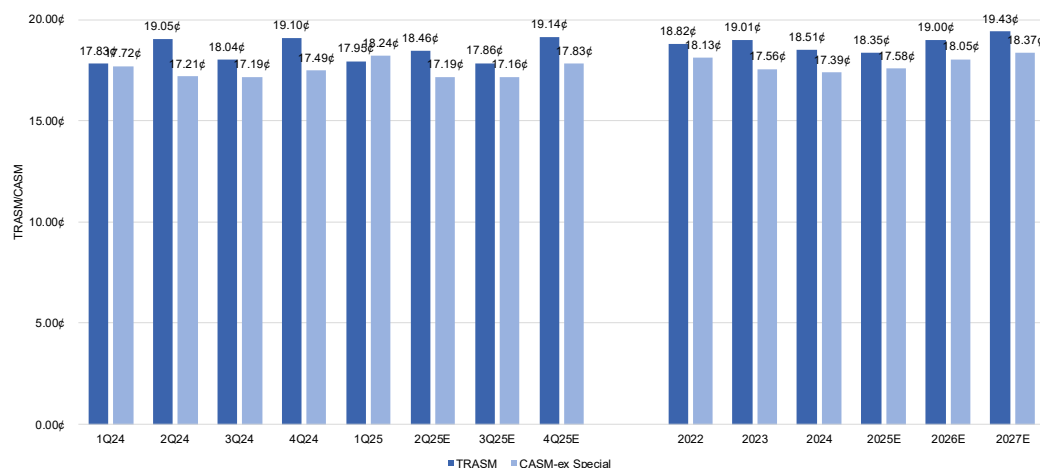
American Airlines (AAL): Target of 15-18% Adj. EBITDAR Margins in 2026 Needing Indirect Recapture and Cost Execution

Targeting Adj. EBITDAR of 15-18% by 2026; JEF Est 10-11% from 2025 to 2027 with Upside as Credit Card Deals Takes Effect in 2026 and Accelerates Remuneration Growth to a 10% CAGR



- Q1 CASM-ex increased 7.8% y-o-y as capacity slowed to -0.9% (vs >8% in H1:24). Q2:25 CASM-ex is guided up 3.5-5.5%, with our estimate at +5.0%, driven almost entirely by CBA contracts for the flight attendants, mechanics, and fleet service groups, along with the pilot wage step-ups of 4%. Management previously expected to exit 2025 in the LSD range, but could look to reduce schedules in H2, although the full-year is still expected in the MSD range (est 5.0%).
- Fuel is the major offset to lower leisure demand, with our \$2.28/gal estimate down from \$2.60/gal in 2024. This drives adj. operating margin of 4.2% in 2025, down 180 bps y-o-y, before improving to 5.0% and 5.4% in 2026 and 2027, respectively.

TRASMs vs. CASM-ex Special - TRASMs Soften on Weaker Macro, but CASM-ex Still a Strong Suit After Absorbing CBAs & Regional Restoration This Year



Source: Company data and Jefferies estimates

American Airlines (AAL): Balance Sheet in a Healthier Position, but Aircraft Capex Ticks Up on OEM Surety of Supply

Aircraft Capex Ticks Up to \$3.8BB/Yr in '26-'29, Up \$500MM/Yr from Prior Communication; Deleveraging Consumes Each FCF Dollar

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Net Income	\$1,686	(\$8,885)	(\$1,993)	\$127	\$822	\$846	\$576	\$1,159	\$1,536
Depreciation and Amortization	2,318	2,370	2,335	2,298	2,254	2,245	2,298	2,415	2,555
NWC	(1,686)	(186)	254	(410)	(566)	(867)	1,217	1,041	(182)
Stock Comp/Deferred Taxes/Other	1,497	158	108	158	1,293	1,759	(428)	107	1,681
CFO	\$3,815	(\$6,543)	\$704	\$2,173	\$3,803	\$3,983	\$3,663	\$4,722	\$5,590
Capex	(4,268)	(1,958)	(208)	(2,546)	(2,596)	(1,782)	(2,978)	(4,371)	(4,408)
FCF	(\$453)	(\$8,501)	\$496	(\$373)	\$1,207	\$2,201	\$685	\$351	\$1,182
Capital Deployment									
Debt Paydown, Net	(230)	8,245	4,847	(2,683)	(2,896)	(2,797)	(1,857)	(1,581)	(2,326)
Cash Dividends Paid	(178)	(43)	0	0	0	0	0	0	0
Share Repurchase	(1,097)	(173)	(18)	0	0	0	0	0	0
Total Deployment	(\$1,505)	\$8,029	\$4,829	(\$2,683)	(\$2,896)	(\$2,797)	(\$1,857)	(\$1,581)	(\$2,326)
FCF / Revenue	-1%	-49%	2%	-1%	2%	4%	1%	1%	2%
FCF / EBITDA	-8%	91%	-14%	-10%	20%	42%	16%	7%	21%
FCF / Net Income	-27%	96%	-25%	-294%	147%	260%	119%	30%	77%
FCF / Share	(\$1.02)	(\$17.57)	\$0.77	(\$0.57)	\$1.68	\$3.05	\$1.04	\$0.53	\$1.77
FCF Yield	-7.1%	-134.1%	7.8%	-5.9%	19.0%	34.7%	10.8%	5.5%	18.6%
Cash / Share	\$9.95	\$9.10	\$11.44	\$10.30	\$10.22	\$8.61	\$14.19	\$19.30	\$13.68

- Investor Day targets include ~\$2BB of FCF in 2024, >\$2BB in 2025, and >\$3BB in 2026+, with 2024 ending at \$2.2BB of adj FCF, including \$350MM of working capital release and \$2.7BB of total capex including \$1.9BB for 20 new and 10 used aircraft.
- In 2025, AAL expects to be record positive FCF if the current low-demand environment persists, although the initial guide was >\$2BB based on \$3.0-3.5BB of total capex including \$2.0-2.5BB of aircraft capex for 40-50 deliveries. Mgmt expects a further \$100MM+ from W/C. Q1:25 FCF totaled \$1.7BB, up from \$1.4BB a year ago.
- JEF estimates \$685MM of FCF in 2025 on \$3.0BB of capex, with \$351MM in 2026 on \$4.4BB of capex and \$1.2BB in 2027 on \$4.4BB of capex. This cumulative \$2.2BB of FCF over the next three years funds debt paydown along with cash on-hand.

Source: Company data and Jefferies estimates

American Airlines (AAL): Balance Sheet in a Healthier Position, but Aircraft Capex Ticks Up on OEM Surety of Supply

Total Debt Down \$16.6BB from 2021 Peak; Reaffirming Commitment to Sub-\$35BB in 2027

Debt Build	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Cash Equivalents									
Cash & Restricted Cash	\$438	\$854	\$1,263	\$1,435	\$1,488	\$1,536	\$1,398	\$1,668	\$2,024
Short-Term Investments	3,546	6,619	12,158	8,525	7,000	6,180	5,236	3,736	2,236
Total Cash and Short Term Investments	\$3,984	\$7,473	\$13,421	\$9,960	\$8,488	\$7,716	\$6,634	\$5,404	\$4,260
Debt Build									
Secured:									
2013 Term Loan Facility	\$1,807	\$1,788	\$1,770	\$1,752	\$990	\$980	\$970	\$960	\$950
2013 Revolving Credit Facility	-	750	-	-	-	-	-	-	-
2014 Term Loan Facility	1,202	1,220	1,208	1,196	1,183	1,171	1,156	906	-
2014 Revolving Credit Facility	-	1,643	-	-	-	-	-	-	-
April 2016 Spare Parts Term Loan Facility	970	960	-	-	-	-	-	-	-
April 2016 Revolving Facility	-	450	-	-	-	-	-	-	-
December 2016 Term Loan Facility	1,213	1,200	1,188	-	-	-	-	-	-
2023 Term Loan Facility	-	-	-	-	1,100	1,089	1,079	1,069	1,059
11.75% Senior Secured Notes Due July 2025	-	2,500	2,500	2,500	-	-	-	-	-
10.75% Senior Secured IP Notes Due February 2026	-	1,000	1,000	1,000	1,000	781	524	-	-
10.75% Senior Secured LGA/DCA Notes Due February 2026	-	200	200	200	200	156	105	-	-
7.25% Senior Secured Notes Due in February 2028	-	-	-	-	750	750	750	750	750
8.50% Senior Secured Notes Due in May 2029	-	-	-	-	1,000	1,000	1,000	1,000	1,000
Treasury Term Loan Facility	-	550	-	-	-	-	-	-	-
5.5% Senior Secured Notes Due Through April 2026	-	-	3,500	3,500	2,917	1,750	582	-	-
5.75% Senior Secured Notes Due Through April 2029	-	-	3,000	3,000	3,000	3,000	3,000	2,500	1,500
AAdvantage Term Loan Facility Due Through April 2028	-	-	3,500	3,500	3,150	2,450	1,750	1,050	-
EETCs Maturing Through 2024 to 2034	11,933	11,013	9,357	9,175	7,657	7,271	6,894	6,894	6,894
Equipment Loans and Other Notes Payable Through 2032	4,727	4,417	3,433	3,170	3,612	4,094	4,325	4,325	4,325
Special Facility Revenue Bonds Through 2026 to 2036	754	1,064	1,129	1,050	967	880	880	880	880
Other Secured Obligations	-	-	-	-	-	-	-	-	-
Unsecured:									
PSP1 Promissory Note Due in April 2030	-	1,765	1,765	1,757	1,757	1,757	1,757	1,757	1,757
PSP2 Promissory Note Due in January 2031	-	-	1,035	1,030	1,030	1,030	1,030	1,030	1,030
PSP3 Promissory Note Due in April 2031	-	-	946	959	959	959	959	959	959
6.5% Convertible Senior Notes Due in July 2025	-	1,000	1,000	1,000	1,000	1,000	-	-	-
6.125% Senior Notes Due in June 2018	-	-	-	-	-	-	-	-	-
5.5% Senior Notes Due in October 2019	-	-	-	-	-	-	-	-	-
4.625% Senior Notes Due in March 2020	-	-	-	-	-	-	-	-	-
5.0% Senior Notes Due in June 2022	750	750	750	-	-	-	-	-	-
3.75% Senior Notes Due in March 2025	500	500	500	500	487	-	-	-	-
Assumed Senior Notes Refinancing	-	-	-	-	-	-	1,500	2,600	3,250
Other Unsecured Obligations	-	-	-	-	-	-	-	-	-
Total Secured and Unsecured Debt	\$23,856	\$32,770	\$37,781	\$35,289	\$32,759	\$30,118	\$28,261	\$26,680	\$24,354
Less: Unamortized Debt Discount	(211)	(749)	(458)	(386)	(363)	(305)	(350)	(350)	(350)
Total Debt	\$23,645	\$32,021	\$37,323	\$34,903	\$32,396	\$29,813	\$27,911	\$26,330	\$24,004
Plus: Pension Liability	6,052	7,069	5,053	2,837	3,044	2,128	2,128	2,128	2,128
Plus: Lease Liability	9,129	8,428	8,092	8,024	7,761	7,068	6,715	6,379	6,060
Total JEF-Defined Debt	\$38,826	\$47,518	\$50,468	\$45,764	\$43,201	\$39,009	\$36,754	\$34,837	\$32,192
Less: Cash and Cash Equivalents	(3,984)	(7,473)	(13,421)	(9,960)	(8,488)	(7,716)	(6,634)	(5,404)	(4,260)
Total JEF-Defined Net Debt	\$34,842	\$40,045	\$37,047	\$35,804	\$34,713	\$31,293	\$30,120	\$29,433	\$27,932
Leverage Ratios									
JEF Net Debt/Adj. EBITDAR	5.0X	(5.0X)	(17.9X)	6.9X	4.7X	4.9X	5.4X	4.7X	4.0X
JEF Debt/Adj. EBITDAR	5.5X	(5.9X)	(24.4X)	8.8X	5.9X	6.1X	6.6X	5.5X	4.7X

Source: Company data and Jefferies estimates

- In 2024, AAL reduced total debt by \$2.8BB, closing out its post-pandemic total debt reduction target of \$15BB a year early compared to the plan through 2025.
- Total JEF-defined debt stands at \$37.9BB at the end of Q1:25, with net debt after cash and ST of \$29.8BB, or 6.3x trailing 12-mo EBITDAR. This is the lowest level since 2015 before the fleet modernization. Mgmt continues to expect to achieve its sub-\$35BB total debt target in 2027 compared to 2028 previously.
- On our estimates, AAL pays down \$1.9BB of debt in 2025, \$1.6BB in 2026, and \$2.3BB in 2027. This drives JEF-defined debt down to \$36.8BB at the end of 2025, \$34.8BB in 2026, and \$32.2BB in 2027. Net leverage falls to 5.4x in 2025, 4.7x in 2026, and 4.0x in 2027.

American Airlines (AAL): Relative Valuation to Peers

Price Target Derivation

Valuation Method	Price	Assumptions
P/E	11	6.3x P/E on 2026E EPS of \$1.75
Average	\$11	Blended Average

Relative Valuation Table (06/04/2025)

Airlines	Ticker	JEF Rating	Stock Px 6/4/2025	Consensus BUY Rating	Market Cap	Enterprise Value	P/E			EV / SALES			EV / EBITDA			Yield	
							2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	Dividend	FCF
Air Canada	AC-CA	Hold	\$18.85	82%	1,928	11,855	8.7x	7.0x	6.2x	0.5x	0.1x	0.5x	3.5x	3.1x	2.9x	0.0%	-6.2%
Alaska Airlines	ALK	N/C	\$51.33	82%	6,231	10,104	14.0x	8.1x	6.2x	0.7x	0.4x	0.6x	6.6x	5.0x	4.5x	0.0%	9.6%
Delta Airlines	DAL	Hold	\$49.09	84%	32,050	50,483	9.1x	7.3x	6.3x	0.9x	0.8x	0.8x	6.0x	5.3x	4.8x	1.2%	10.6%
JetBlue	JBLU	N/C	\$5.02	0%	1,779	7,688	N/M	N/M	N/M	0.2x	0.2x	0.7x	21.2x	10.7x	7.6x	0.0%	N/M
Southwest Airlines	LUV	Hold	\$32.32	31%	18,415	18,615	27.3x	12.8x	9.4x	0.7x	0.6x	0.6x	7.9x	5.6x	4.7x	2.2%	4.9%
United Airlines	UAL	Buy	\$81.57	88%	26,641	44,558	7.8x	6.6x	5.7x	0.5x	0.4x	0.7x	5.5x	4.9x	4.4x	0.0%	5.8%
Avg. Airlines				57%			13.4x	8.4x	6.8x	0.6x	0.4x	0.6x	8.4x	5.8x	4.8x	0.7%	4.9%
American Airlines	AAL	Hold	\$11.47	58%	7,561	36,041	11.5x	6.6x	5.0x	0.6x	0.6x	0.6x	8.4x	7.2x	6.5x	0.0%	10.7%
Premium / Discount							-14%	-21%	-26%	8%	46%	-9%	0%	25%	35%		

Source: Company data, FactSet and Jefferies estimates

American Airlines (AAL): Income Statement

Year Ending Dec.

(millions, except per share data)	2020		2021		2022		2023		2024		2025E		2026E		2027E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$17,337	100.0%	\$29,882	100.0%	\$48,971	100.0%	\$52,788	100.0%	\$54,211	100.0%	\$54,715	100.0%	\$58,227	100.0%	\$61,514	100.0%
Cost and Expenses																
Aircraft fuel and related taxes	3,402	19.6%	6,792	22.7%	13,791	28.2%	12,257	23.2%	11,418	21.1%	10,170	18.6%	10,502	18.0%	10,884	17.7%
Salaries, wages and benefits	11,229	64.8%	11,817	39.5%	12,972	26.5%	14,580	27.6%	16,021	29.6%	16,929	30.9%	17,629	30.3%	18,164	29.5%
Regional expenses	2,963	17.1%	3,204	10.7%	4,385	9.0%	4,643	8.8%	5,042	9.3%	5,485	10.0%	5,730	9.8%	6,080	9.9%
Maintenance, materials and repairs	1,584	9.1%	1,979	6.6%	2,684	5.5%	3,265	6.2%	3,794	7.0%	3,935	7.2%	4,167	7.2%	4,433	7.2%
Other rent and landing fees	2,005	11.6%	2,619	8.8%	2,730	5.6%	2,928	5.5%	3,303	6.1%	3,577	6.5%	3,922	6.7%	4,370	7.1%
Aircraft rent	1,341	7.7%	1,425	4.8%	1,395	2.8%	1,369	2.6%	1,242	2.3%	1,289	2.4%	1,328	2.3%	1,367	2.2%
Selling expenses	665	3.8%	1,098	3.7%	1,815	3.7%	1,799	3.4%	1,812	3.3%	1,997	3.7%	2,206	3.8%	2,438	4.0%
Depreciation and Amortization	2,040	11.8%	2,019	6.8%	1,977	4.0%	1,936	3.7%	1,926	3.6%	1,973	3.6%	2,080	3.6%	2,210	3.6%
Special items, net	(657)	-3.8%	(4,006)	-13.4%	193	0.4%	971	1.8%	610	1.1%	70	0.1%	0	0.0%	0	0.0%
Other (expense) income	3,186	18.4%	3,994	13.4%	5,422	11.1%	6,006	11.4%	6,429	11.9%	7,065	12.9%	7,752	13.3%	8,233	13.4%
Total Operating Costs	\$27,758	160.1%	\$30,941	103.5%	\$47,364	96.7%	\$49,754	94.3%	\$51,597	95.2%	\$52,492	95.9%	\$55,314	95.0%	\$58,178	94.6%
Operating Profit	(\$10,421)	-60.1%	(\$1,059)	-3.5%	\$1,607	3.3%	\$3,034	5.7%	\$2,614	4.8%	\$2,223	4.1%	\$2,912	5.0%	\$3,336	5.4%
Interest Expense, net	(1,186)	-6.8%	(1,782)	-6.0%	(1,746)	-3.6%	(1,554)	-2.9%	(1,466)	-2.7%	(1,416)	-2.6%	(1,367)	-2.3%	(1,280)	-2.1%
Other, net	154	0.9%	293	1.0%	325	0.7%	(359)	-0.7%	6	0.0%	(44)	-0.1%	0	0.0%	0	0.0%
Income before taxes	(\$11,453)	-66.1%	(\$2,548)	-8.5%	\$186	0.4%	\$1,121	2.1%	\$1,154	2.1%	\$763	1.4%	\$1,545	2.7%	\$2,056	3.3%
Taxes (rate %)	-2,568	22.4%	-555	21.8%	59	31.7%	299	26.7%	308	26.7%	175	23.0%	386	25.0%	520	25.3%
Net Income	(\$8,885)	-51.2%	(\$1,993)	-6.7%	\$127	0.3%	\$822	1.6%	\$846	1.6%	\$587	1.1%	\$1,159	2.0%	\$1,536	2.5%
Diluted Shares (millions)	484		644		655		720		721		676		664		668	
GAAP EPS	(\$18.36)		(\$3.09)		\$0.19		\$1.14		\$1.17		\$0.87		\$1.75		\$2.30	
Mainline operating special items, net	(657)		(4,006)		193		971		610		70		0		0	
Regional operating special items, net	(309)		(449)		5		8		33		0		0		0	
Nonoperating special items, net	170		60		74		362		24		48		0		0	
Other special items, net	0		0		0		0		0		0		0		0	
Adj. Pre-Tax Income	(\$12,249)		(\$6,943)		\$458		\$2,462		\$1,821		\$881		\$1,545		\$2,056	
Income tax special items	0		0		(9)		0		0		0		0		0	
Net tax effect	170		993		(62)		(304)		(151)		(31)		0		0	
Adjusted Net Income	(\$9,511)		(\$5,395)		\$328		\$1,859		\$1,362		\$674		\$1,159		\$1,536	
Adjusted EPS	(\$19.65)		(\$8.38)		\$0.50		\$2.65		\$1.96		\$1.00		\$1.75		\$2.30	

Source: Company data and Jefferies estimates

American Airlines (AAL): Cash Flow Statement

Year Ending Dec.

(millions, except per share data)	2020	2021	2022	2023	2024	2025E	2026E	2027E
Operating activities:								
Net Income	(\$8,885)	(\$1,993)	\$127	\$822	\$846	\$587	\$1,159	\$1,536
Adjustments:								
Depreciation and amortization	2,370	2,335	2,298	2,254	2,245	2,298	2,415	2,555
Net gains from sale of property and equipment	(95)	(22)	0	0	0	0	0	0
Special items, net non-cash	1,599	83	229	308	(1)	0	0	0
Pension and postretirement	(319)	(321)	(405)	(13)	(82)	0	0	0
Deferred income taxes	(2,568)	(555)	65	299	308	175	386	520
Share-based compensation	91	98	78	102	92	110	120	130
Other, net	47	38	(37)	(205)	(240)	0	0	0
Changes in operating assets and liabilities:								
(Increase) decrease in receivables	538	(304)	(637)	95	35	57	(45)	(28)
(Increase) decrease in other assets	(38)	(402)	(775)	(11)	(314)	81	72	2
Increase (decrease) in accounts payable and accrued liabilities	(626)	461	585	873	257	49	149	156
Increase (decrease) in air traffic liabilities	(51)	1,454	658	(545)	559	(81)	220	277
Increase (decrease) in loyalty program liabilities	580	(60)	10	182	727	346	243	418
Contributions to Pension plans	(9)	(247)	(5)	(73)	(300)	0	0	0
Increase (decrease) in other liabilities	823	139	(18)	(285)	(149)	39	3	24
Net cash from operating activities	(\$6,543)	\$704	\$2,173	\$3,803	\$3,983	\$3,663	\$4,722	\$5,590
Investing Activities:								
Capital expenditures and aircraft purchase deposits	(1,958)	(208)	(2,546)	(2,596)	(2,683)	(2,978)	(4,371)	(4,408)
Proceeds from sale-leaseback transactions	665	181	86	230	654	0	0	0
Proceeds from sale of property and equipment	351	193	61	0	0	0	0	0
Purchases of short-term investments	(5,873)	(19,454)	(11,257)	(7,323)	(7,194)	(1,806)	0	0
Sales of short-term investments	2,803	13,923	14,972	8,861	8,013	2,750	1,500	1,500
Increase (decrease) in restricted short-term investments	(308)	(401)	1	51	177	85	0	0
Other, net	(22)	(217)	(681)	275	65	(8)	0	0
Net cash from investing activities	(\$4,342)	(\$5,983)	\$636	(\$502)	(\$968)	(\$1,957)	(\$2,871)	(\$2,908)
Financing Activities								
Proceeds from issuance of long-term debt	11,780	12,190	1,069	4,822	1,670	0	0	0
Payments on long-term debt and finance leases	(3,535)	(7,343)	(3,752)	(7,718)	(4,467)	(1,857)	(1,581)	(2,326)
Proceeds from issuance of equity	2,970	460	0	0	0	0	0	0
Deferred financing costs	(93)	(209)	(4)	0	0	0	0	0
Treasury stock repurchases	(173)	(18)	0	0	0	0	0	0
Dividend payments	(43)	0	0	0	0	0	0	0
Other financing activities	88	208	56	(310)	3	0	0	0
Net cash from financing activities	\$10,994	\$5,288	(\$2,631)	(\$3,206)	(\$2,794)	(\$1,857)	(\$1,581)	(\$2,326)
Net increase in cash, cash equivalents and restricted cash	\$109	\$9	\$178	\$95	\$221	(\$151)	\$270	\$356
Beginning cash	290	399	408	586	681	902	751	1,021
Ending cash	\$399	\$408	\$586	\$681	\$902	\$751	\$1,021	\$1,377

Source: Company data and Jefferies estimates

AeroVironment (AVAV) – Buy \$190 PT

1) Fear and Stock Price Performance All at the Multiple with Visibility Building

2) Putting Ukraine Risk to Bed With Smooth Transition

3) Margin Runway from Mix and Product Evolution w/ 14%+ EBITDA CAGR

Related Notes:

- [Hard to Fight the Tape and Headlines, But No Switch from Robust FY26+ Outlook](#) *March 5, 2025*
- [Upgrade to Buy: No Feeling Blue About This Deal, Putting a Halo Above AVAV](#) *November 19, 2024*
- [Downgrading to Hold: Shares Could Loiter, While Munitions Restock](#) *November 12, 2024*

AeroVironment (AVAV): Loitering Munitions Supporting 17% Revenue CAGR Over the Next Three Years

JEF Estimates Versus Consensus

	FY21	FY22	FY23	FY24	FY25E	FY26E
Revenue	\$395	\$446	\$541	\$717	\$789	\$918
% change	8%	13%	21%	33%	10%	16%
Cons. Revenue	\$395	\$446	\$541	\$717	\$791	\$954
Adjusted EBITDA	\$78	\$62	\$90	\$128	\$140	\$165
% margin	19.7%	13.8%	16.7%	17.8%	17.7%	18.0%
Cons. Adj EBITDA	\$78	\$62	\$90	\$128	\$141	\$179
Diluted EPS (GAAP)	\$2.07	\$1.06	\$1.26	\$2.99	\$3.10	\$3.83
% change		-49%	20%	137%	3%	24%
Cons. EPS	\$2.07	\$1.06	\$1.26	\$2.99	\$3.12	\$4.18

- **AeroVironment (AVAV)** manufactures, develops, delivers, and services a wide portfolio of intelligent robotics for government agencies and businesses. By reportable segment products include:
 - **Unmanned Systems (58% of FY25 Sales):** Small UAS including Puma LE, Puma AE, Raven, WASP AE, VAPOR 55, and Quantix Recon along with Medium UAS w/T-20 and Jump 20 and Unmanned Ground vehicles. The segment also includes the recently acquired Tomahawk.
 - **Loitering Munitions (32% of 2025E Sales):** Switchblade 300, Switchblade 600, and Blackwing.
 - **MacCready Works (10% of 2025E Sales):** A developer of advanced solutions and unmanned robotic systems including for space in addition to HAPS that provides continuous remote sensing and communications in an affordable manner over great distances. The segment includes other customer funded programs.

Source: Company data, DoD and Jefferies estimates

AeroVironment (AVAV): Tapping Into Large Addressable Markets

Management Outlook: Long-Term by Business Segment

Market Outlook By Product Category			
Segment	Global TAM	Outlook	Highlights
SUAS (Group 1/2 UAVs)	\$2BB+	Growing	Global Leader Position in Group 1—Over \$2BB of revenue over last 15 years Adding Group 2 to Target Market Multiple New Product Introductions and Add-ons Well Positioned for Future U.S. DOD Programs of Record
MUAS (Group 2/3 UAVs)	\$4BB+	Disrupter	Targeting Group 2/3 Leading the way to next generation products Sole Selected for Increment 1 of Future Tactical UAS Program \$1BB+ Program Leveraging AV Global Franchise for U.S. and International Sales
LMS (Loitering Munitions)	\$5BB+	Growing	Global Leader in Loitering Munitions; Patented “Wave Off” Technology Expanding U.S. DOD Footprint; Authorized to Sell in 20+ Countries Targeting Multiple \$1+ BB Programs Preferred Partner to integrate on aircraft, ground vehicles and ships
UGV (Unmanned Ground Vehicles)	\$0.7BB+	Adapting	Part of Multi-Domain Solutions Benefits from Growing Defense Budgets Globally Positioning for future U.S. DOD programs
MW (MacCready Works)	\$2BB+	Innovating	Significant Increased Spending for Classified U.S. DOD Programs Center of Excellence for Autonomy and Machine Learning Source of Potential New Products

Source: Company data and Jefferies estimates

AeroVironment (AVAV): Loitering Munitions Supporting 17% Revenue CAGR Over the Next Three Years

AVAV Revenue Build - 10% Growth in FY25 Led by Loitering Munitions

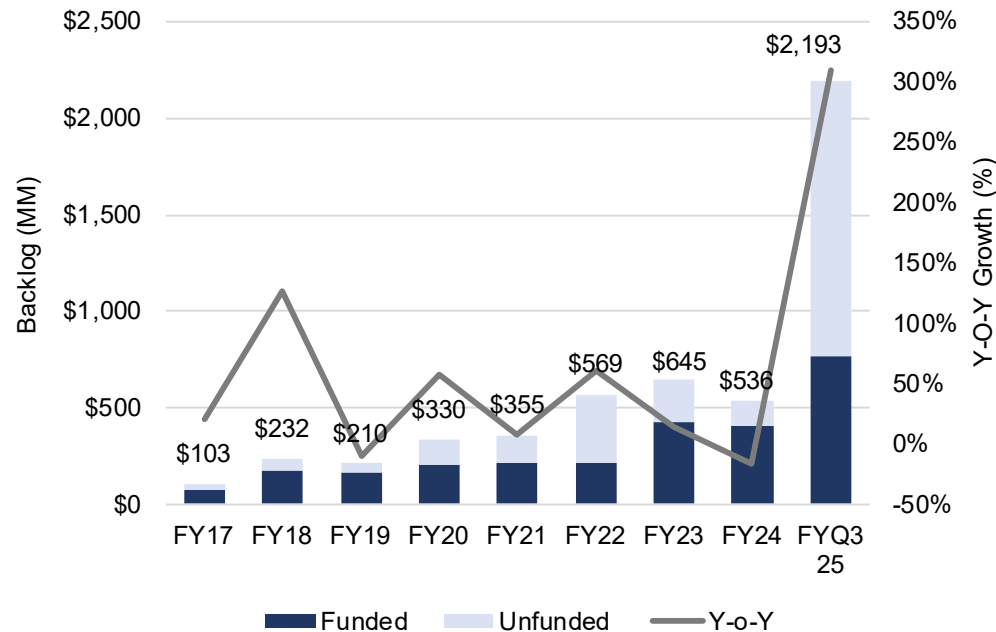
Revenue Build (\$MM)	2022	2023	2024	2025E	2026E	2027E	2028E
Uncrewed Systems	\$301	\$344	\$448	\$367	\$411	\$436	\$462
Loitering Munitions	76	121	193	339	420	504	605
MacCready Works	69	76	76	82	86	91	95
Total Revenue	\$446	\$541	\$717	\$789	\$918	\$1,031	\$1,163
Y-o-Y Change							
Uncrewed Systems		14%	30%	-18%	12%	6%	6%
Loitering Munitions		58%	60%	76%	24%	20%	20%
MacCready Works		11%	0%	8%	5%	5%	5%
Total Revenue		21%	33%	10%	16%	12%	13%
Composition (%)							
Uncrewed Systems	67%	64%	63%	47%	45%	42%	40%
Loitering Munitions	17%	22%	27%	43%	46%	49%	52%
MacCready Works	15%	14%	11%	10%	9%	9%	8%
Total Revenue	100%	100%	100%	100%	100%	100%	100%

- We forecast that AVAV can grow revenue by 10% in FY25 vs. the 33% revenue growth in FY24. Growth is weighted toward the Loitering Munitions segment on our estimates followed by ongoing growth in UAS.
- **AeroVironment** has laid out a plan to double revenues or 10 to 15% per year by increasing a focus on:
 - Increasing sales to conflict areas
 - U.S. DoD Programs of Record
 - Replenishment of Inventories which can be captured by recent U.S. awards
 - Growing International Sales
 - Integration of Autonomous Software Suite on Other Platforms
- These key trends support growth given both the sale of new systems plus the retrofit opportunity. AI & autonomy are likely key and support an expanding focus on operating in contested airspace. This likely has implications for programs such as Puma that have undergone a continuous upgrade cycle including the ability to fly vertically along with operations without GPS.

Source: Company data, DoD and Jefferies estimates

AeroVironment (AVAV): Growth Supported by Backlog and Recent Awards

Funded Backlog +65% YoY

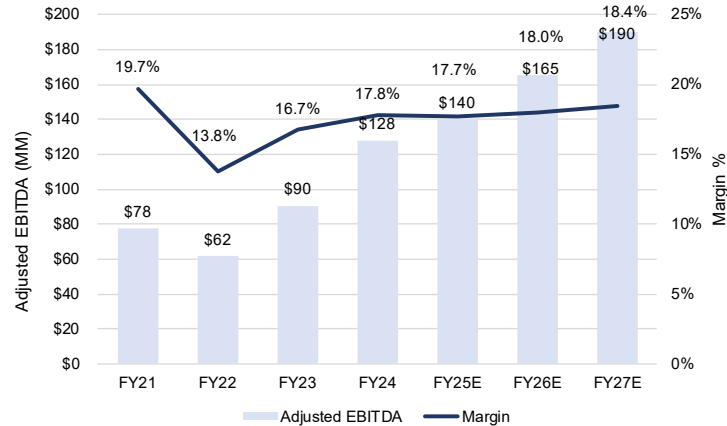


- Funded backlog as of FYQ1 of \$373MM is down from the beginning of the fiscal year given the timing of orders. The opportunity is through ongoing awards and continued expansion of backlog focused on Switchblade along with the line up of small and medium UAS. Current backlog does not include the initial \$128MM funding order for the Army's ID/IQ along with only initial funding for LASSO, OPF-L, Replicator and Ukraine Aid Initiative.
- Growth is expected to continue to be led by LMS along with Unmanned, tilted toward PUMA.

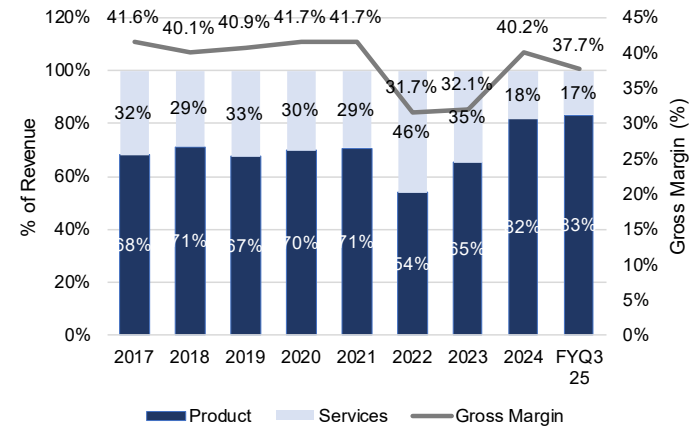
Source: Company data and Jefferies estimates

AeroVironment (AVAV): EBITDA Margin Expansion Driven by Mix and Op Leverage

Adjusted EBITDA Margin Expand to 18.0% in FY26E from 17.8% in FY24



Product Mix Bounces Back Into FY24



- On our estimates, adjusted EBITDA rises from a 17.3% margin in FY24 to 18.6% in FY25 with a 90 bps advancement in FY26E. This is driven by both gross margins and cost rationalization given the larger revenue base. This was exhibited in FY24, with EBITDA rising 41% on the 33% rise in sales.
- We forecast gross margins stabilize in FY25 at 39.5% from 39.6% in FY24 which included strong H1 performance >40%, that somewhat normalized given lower gross margin product mix.
- The mix is largely tied to a higher portion of products vs. services. In FY23, products revenue increased to 65% of total revenues up from 54% a year ago and expanded to 82% in FY24.

Source: Company data and Jefferies estimates

AeroVironment (AVAV): FCF Improvement Driven by NI and Moderating Working Capital Growth

FCF Improves to \$56MM Through FY26 Given More Moderate WC Usage

	FY21	FY22	FY23	FY24	FY25E	FY26E
Net Income	\$23	(\$4)	(\$176)	\$60	\$64	\$97
Depreciation and Amortization	19	61	100	36	40	40
NWC	23	(75)	(84)	(107)	(112)	(57)
Stock Comp/Deferred Taxes/Other	21	9	172	27	18	18
CFO	\$87	(\$10)	\$11	\$15	\$10	\$98
Capex	(11)	(22)	(15)	(23)	(39)	(41)
FCF	\$75	(\$32)	(\$3)	(\$8)	(\$29)	\$56
FCF Per Share	\$3.09	(\$1.31)	(\$0.14)	(\$0.28)	(\$1.04)	\$1.98
Deployment						
Dividend	\$0	\$0	\$0	\$0	\$0	\$0
Share Repurchases	0	0	0	0	0	0
Debt Paydown	0	(10)	(55)	(107)	(10)	(10)
Debt Issuance	200	0	0	0	0	0
Acquisition	(386)	(46)	(5)	(24)	0	0
Total Deployment	(\$186)	(\$56)	(\$60)	(\$131)	(\$10)	(\$10)
Ratios						
FCF to Net Income Conversion	322%	762%	2%	-13%	-46%	58%
FCF Yield (FCF / Mkt Cap.)	2.9%	-1.2%	-0.1%	-0.3%	-1.1%	2.2%
Capex as a % of Sales	2.9%	5.0%	2.8%	3.2%	5.0%	4.5%

- FCF will continue to be lumpy tied to the working capital requirement to expand the business.
- FYQ1 pointed to positive indications with FCF of \$23MM tied to positive inflows in A/R (+\$35MM) and Inventory (+\$4MM). This should continue to improve as inventory levels off given the build up of strategic stock, but also more favorable milestone payments as exhibited in the most recent Army contract. We have forecasted an improvement into FY25 as working capital needs moderate coupled with improved profitability from the DD expected revenue growth this fiscal year.
- FCF of \$41MM in FY25 improves to \$92MM in FY26 on our estimates.
- Working capital has been consumed as AVAV looks to counteract the supply chain in the face of rising demand. This has mostly been centered around the warhead for Loitering Munitions (provided by GD and NOC) along with semiconductor supply chain constraints across the portfolio including Small UAS, Medium UAS, UGV and other products. The opportunity is to drive improvement in inventory as AVAV executes on the backlog.

Source: Company data and Jefferies estimates

AeroVironment (AVAV): Relative Valuation to History and Market

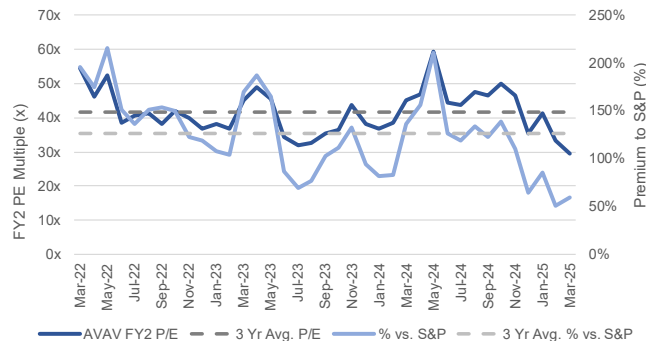
Relative Valuation

Ticker	AVAV
Current P/E	29.6x
3 Yr Avg. P/E	41.7x
Current / 3 Yr Avg.	-29%
Prem / Discr SP	60%
3 Yr Prem / Discr SP	126%
S&P500 Multiple	18.5x
Current EV/EBITDA	19.8x
3 Yr Avg. EV/EBITDA	24.5x
Current / 3 Yr Avg.	-19%
Prem / Discr SP	54%
3 Yr Prem / Discr SP	90%
S&P500 Multiple	12.9x

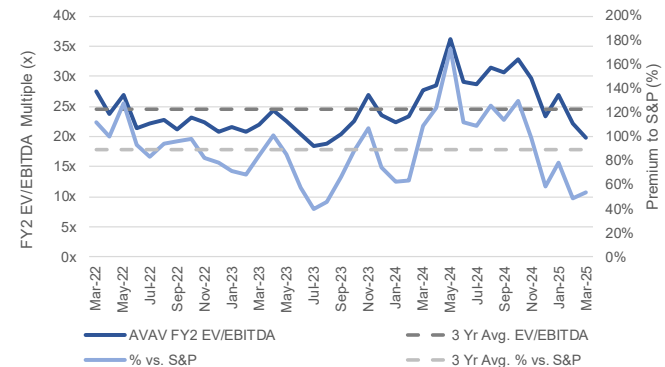
Price Target Derivation

Valuation Method	Price	Assumptions
EV/EBITDA	190	27.1x EV/EBITDA on FY27 EBITDA of \$190.MM
Price Target	\$190	

Trading at 29.6X FY2 P/E, 60% Prem to Mkt vs. Historical Avg Prem of 126%



Trading at 19.8X FY2 EV/EBITDA, 54% Prem to Mkt vs. Historical Avg Prem of 90%



Source: Company data, FactSet and Jefferies estimates

AeroVironment (AVAV): Income Statement

Year Ending April.

Years Ending April 30

(millions, except per share data)	2021	2022	2023	2024	2025E	2026E	2027E
Revenue							
Unmanned Systems	235.9	300.7	343.9	448.0	367.4	411.4	436.1
Loitering Munitions	87.3	76.4	120.6	192.6	339.0	420.3	504.4
MacCready Works	13.5	68.6	76.0	76.1	82.2	86.3	90.6
Consolidated	\$336.6	\$445.7	\$540.5	\$716.7	\$788.5	\$918.1	\$1,031.1
Gross Margin							
Unmanned Systems	119.1	97.5	112.0	201.6	183.7	193.4	205.9
Loitering Munitions	26.7	24.5	42.7	67.4	128.8	151.3	191.7
MacCready Works	2.8	19.3	18.8	14.5	20.1	23.3	24.5
Consolidated	\$148.6	\$141.2	\$173.5	\$283.5	\$316.6	\$368.0	\$422.0
Operating Income							
Unmanned Systems	58.2	(9.0)	(188.1)	78.3	58.8	82.3	91.6
Loitering Munitions	(3.1)	(3.1)	8.1	24.0	10.2	33.6	50.4
MacCready Works	(10.1)	2.3	1.3	(27.3)	(4.1)	0.9	1.8
Consolidated	\$44.9	(\$9.9)	(\$178.7)	\$75.1	\$64.8	\$116.8	\$143.8
Adjusted Operating Income							
Unmanned Systems	63.9	28.7	30.6	93.1	73.3	94.8	98.6
Loitering Munitions	(1.5)	(2.8)	8.1	24.1	10.2	33.6	50.4
MacCready Works	(8.7)	5.8	3.7	(24.8)	(1.8)	3.2	4.1
Consolidated	\$53.7	\$31.7	\$42.3	\$92.4	\$81.6	\$131.6	\$153.1

Source: Company data and Jefferies estimates

AeroVironment(AVAV): Cash Flow Statement

Year Ending April.

Years Ending April 30						
(millions, except per share data)	2021	2022	2023	2024	2025E	2026E
Operating Activities						
Net earnings	\$23	(\$4)	(\$176)	\$60	\$64	\$97
Adjustments:	0	0	0	0	0	0
Depreciation and Amortization	19	61	100	36	40	40
(Income) Loss From Equity Method Investm	10	(6)	2	2	0	0
Amortization of Debt Issuance Costs	0	1	1	1	0	0
Realized Gain	(0)	0	165	0	0	0
Provision for Doubtful Accounts	(0)	(0)	0	14	0	0
Other Non-Cash Expense	(0)	1	2	1	0	0
Non-Cash Lease Expense	5	7	8	10	8	8
Loss on FX	0	0	0	0	0	0
Deferred Income Taxes	(2)	(7)	(19)	(23)	0	0
Stock-Based Compensation	7	5	11	17	10	10
Loss (gain) on Disposal of Property and Eq	0	8	1	1	0	0
Amortization of Debt Securities/other	0	0	0	4	0	0
Change in Op Assets and Liabilities						
Accounts Receivable	17	3	(27)	19	(9)	(13)
Unbilled Receivables	8	(32)	(1)	(93)	(29)	(10)
Inventories	(5)	(27)	(62)	(23)	(8)	(26)
Income Taxes Receivable	0	(0)	0	0	(8)	(7)
Prepaid Expenses and Other Assets	(6)	(5)	(4)	(20)	(9)	(5)
Account Payable	3	(7)	13	13	(25)	4
Other Liabilities	6	(7)	(3)	(3)	(25)	0
Cash from Operating Activities	\$86.5	(\$9.6)	\$11.4	\$15.3	\$10.2	\$97.5
Cash from investing activities:						
Capital expenditures	(\$11)	(\$22)	(\$15)	(\$23)	(\$39)	(\$41)
Equity Method Investments	(3)	(7)	(11)	(3)	(8)	(8)
Acquisitions	(386)	(46)	(5)	(24)	0	0
Other	21	23	24	(2)	0	0
Cash from investing activities	(\$378.8)	(\$52.3)	(\$7.0)	(\$51.7)	(\$47.4)	(\$49.3)
Cash from financing activities:						
Term Loan Principal	\$0	(\$10)	(\$55)	(\$107)	(\$10)	(\$10)
Contingent Consideration	0	0	0	(3)	0	0
Tax Withholding on Equity Awards	(2)	(1)	(1)	(2)	0	0
Holdback and Retention Payments on Acq	(1)	(8)	0	0	0	0
Exercise of Stock Options	2	3	107	88	0	0
Payment of Debt Issuance Costs	(4)	(0)	0	0	0	0
Proceeds from Long Term Debt	200	0	0	0	0	0
Other	0	(0)	(0)	(0)	0	0
Net cash from financing activities	\$194.2	(\$16.6)	\$50.6	(\$22.9)	(\$10.0)	(\$10.0)
Effects of FX	0	(1)	0	(0)	0	0
Net increase in cash equivalents	(98)	(80)	55	(60)	(47)	38
Beginning cash	255	157	77	133	73	26
Ending cash	\$157.1	\$77.2	\$132.6	\$73.0	\$25.9	\$64.1

Source: Company data and Jefferies estimates

Air Canada (AC CN) – Hold C\$18 PT

- 1) 2025 Guidance Cut As Expected
- 2) Moving Capacity Where Demand Calls For
- 3) Costs Under Control
- 4) FCF Breakeven-ish Steady for '25

Related Notes:

- [Upgrade to Hold: Well Done Navigating Rocky Terrain](#) May 19, 2025
- [Late to the Gate, Downgrade on Holding Pattern; AAL/DAL to Hold; AC/LUV to U/P](#) April 1, 2025
- [A Frozen Guide For Now, Expect Numbers to Melt Lower](#) February 23, 2025

Air Canada (AC-CN): Air Canada Revenue Build

Air Canada Revenue Build - Air Canada Revenue Build - Trimming Capacity for Macro, 2025 Revenues +1.3% on Modestly Down Unit Revs

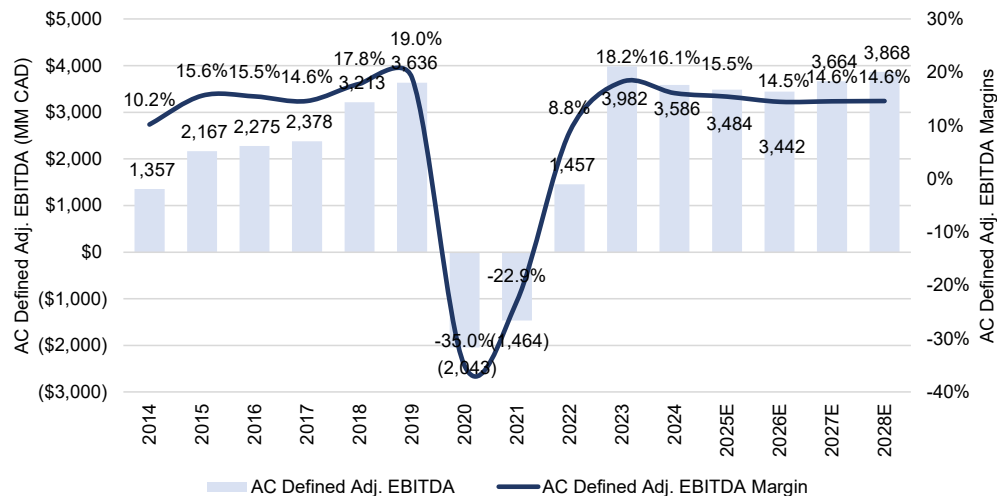
Regional Revenue Build	2019	2020	2021	2022	2023	2024	2025E	2026E	2024 YoY	2025 YoY	2026 YoY
ASMs:											
Canada	24,677	10,508	12,072	20,373	21,426	22,246	22,858	23,589	3.8%	2.8%	3.2%
US Transborder	19,491	5,501	4,190	15,290	18,342	18,892	17,759	18,291	3.0%	-6.0%	3.0%
Atlantic	34,837	11,211	11,396	30,188	34,894	35,103	35,805	37,596	0.6%	2.0%	5.0%
Pacific	23,011	5,683	2,956	7,484	13,610	17,421	18,292	19,206	28.0%	5.0%	5.0%
Other	10,798	4,800	2,770	9,223	10,740	10,719	11,362	11,816	-0.2%	6.0%	4.0%
Total ASMs	112,814	37,703	33,384	82,558	99,012	104,381	106,075	110,499	5.4%	1.6%	4.2%
Total International ASMs	88,137	27,195	21,312	62,185	77,586	82,135	83,218	86,910	5.9%	1.3%	4.4%
Load Factor											
Canada	82.4%	61.2%	66.3%	80.2%	85.1%	83.6%	83.9%	84.5%	-1.5%	0.3%	0.6%
US Transborder	81.3%	66.0%	64.6%	77.1%	83.5%	82.4%	81.2%	82.0%	-1.1%	-1.2%	0.8%
Atlantic	84.1%	53.4%	62.5%	83.1%	88.3%	85.6%	85.4%	86.5%	-2.7%	-0.2%	1.1%
Pacific	84.4%	61.7%	45.8%	81.9%	90.9%	88.9%	88.0%	86.5%	-2.0%	-0.9%	-1.5%
Other	85.5%	76.7%	67.1%	77.8%	84.5%	83.5%	83.3%	84.5%	-1.0%	-0.2%	1.2%
Total Load Factor	83.4%	61.6%	63.0%	80.5%	86.7%	84.9%	84.6%	85.1%	-1.7%	-0.3%	0.5%
Total International LF	83.7%	61.8%	61.2%	80.7%	87.1%	85.3%	84.8%	85.3%	-1.8%	-0.5%	0.5%
RPMs											
Canada	20,328	6,436	8,002	16,336	18,224	18,588	19,178	19,933	2.0%	3.2%	3.9%
US Transborder	15,846	3,630	2,705	11,781	15,313	15,566	14,420	14,999	1.7%	-7.4%	4.0%
Atlantic	29,284	5,984	7,126	25,072	30,823	30,052	30,578	32,520	-2.5%	1.7%	6.4%
Pacific	19,426	3,506	1,353	6,128	12,370	15,487	16,097	16,614	25.2%	3.9%	3.2%
Other	9,229	3,683	1,859	7,178	9,072	8,950	9,464	9,985	-1.3%	5.8%	5.5%
Total RPMs	94,113	23,239	21,045	66,495	85,802	88,643	89,737	94,050	3.3%	1.2%	4.8%
Total International RPMs	73,785	16,803	13,043	50,159	67,578	70,055	70,559	74,117	3.7%	0.7%	5.0%
Yield											
Canada	25.74¢	25.48¢	25.62¢	27.08¢	28.02¢	28.27¢	27.99¢	28.13¢	0.9%	-1.0%	0.5%
US Transborder	23.95¢	23.14¢	28.47¢	25.61¢	26.92¢	27.46¢	27.19¢	27.60¢	2.0%	-1.0%	1.5%
Atlantic	15.26¢	15.19¢	15.44¢	17.47¢	19.62¢	19.15¢	19.53¢	19.72¢	-2.4%	2.0%	1.0%
Pacific	12.61¢	13.35¢	18.11¢	18.24¢	19.24¢	18.03¢	17.94¢	18.12¢	-6.3%	-0.5%	1.0%
Other	13.95¢	14.25¢	17.91¢	18.08¢	19.24¢	18.82¢	19.00¢	19.10¢	-2.2%	1.0%	0.5%
Total Network Yield	18.31¢	18.86¢	21.37¢	21.41¢	22.61¢	22.29¢	22.23¢	22.41¢	-1.4%	-0.3%	0.8%
Total International Yield	16.26¢	16.32¢	18.77¢	19.57¢	21.16¢	20.71¢	20.66¢	20.87¢	-2.1%	-0.2%	1.0%
Passenger Revenue (\$MM)											
Canada	\$5,233	\$1,640	\$2,050	\$4,424	\$5,106	\$5,255	\$5,367	\$5,607	2.9%	2.1%	4.5%
US Transborder	\$3,795	\$840	\$770	\$3,017	\$4,123	\$4,275	\$3,921	\$4,139	3.7%	-8.3%	5.6%
Atlantic	\$4,468	\$909	\$1,100	\$4,381	\$6,049	\$5,754	\$5,972	\$6,415	-4.9%	3.8%	7.4%
Pacific	\$2,449	\$468	\$245	\$1,118	\$2,380	\$2,792	\$2,887	\$3,010	17.3%	3.4%	4.2%
Other	\$1,287	\$525	\$333	\$1,298	\$1,745	\$1,684	\$1,799	\$1,907	-3.5%	6.8%	6.0%
Total Passenger Revenue	\$17,232	\$4,382	\$4,498	\$14,238	\$19,403	\$19,760	\$19,946	\$21,078	1.8%	0.9%	5.7%
Total International Pax Revenue	\$11,999	\$2,742	\$2,448	\$9,814	\$14,297	\$14,505	\$14,578	\$15,471	1.5%	0.5%	6.1%
Non-Passenger Revenue											
Cargo Revenue	717	920	1,495	1,266	924	991	1,031	1,062	7.3%	4.0%	3.0%
Other Revenue	1,182	531	407	1,052	1,506	1,504	1,564	1,627	-0.1%	4.0%	4.0%
Total Revenue	\$19,131	\$5,833	\$6,400	\$16,556	\$21,833	\$22,255	\$22,541	\$23,766	1.9%	1.3%	5.4%

- For 2025 in aggregate, we estimate passenger revenues up 0.9% y-o-y to \$19.9BB CAD. The drivers are 1.6% ASM growth (guide 1-3%), LF's down 0.3-pts y-o-y to 84.6%, and yields down 0.3% y-o-y to 22.23¢. PRASMs down 0.7% y-o-y to 18.80¢ as a result.

Source: Company data and Jefferies estimates

Air Canada (AC-CN): Op Leverage Lacks Toward >17% Margins by 2028 Given TRASM Puts & Takes vs. Cost Growth

Adjusted EBITDA - Difficulty Finding Operating Leverage to >17% by 2028 on JEF Below Targeted TRASM Expansion of 2pts/Yr & Cost Inflation



- Air Canada targets at least C\$5BB of adj. EBITDA in 2028, or a margin of at least 17%, up from ~16% in 2024 after 2025 sees a slight step-back. This implies a 10% annual EBITDA CAGR. The bridge from 2024-2028 EBITDA is at least C\$1.5BB, driven by:
 - >\$1BB of Capacity Growth
 - ~\$1BB of Optimization Benefits
 - Inflationary Hotspots
- AC saw an 8pt improvement in OTP in 2024 versus 2023, with management targeting an additional 2pt improvement in 2025 and 2026 each on the continued contribution of existing investments, plus a growing contribution from a younger, more reliable fleet.

Source: Company data and Jefferies estimates

Air Canada (AC-CN): Fleet Refresh Yields Core FCF of C\$1-2BB from '24-'28, Relying on SLBs to Deploy Capital to Shareholders

**Lack of Core FCF in 2025-2028, with \$3BB of Sale-Leasebacks & Leverage
Up to 2X Enabling the <C\$2BB NCIB**

	2022	2023	2024	2025E	2026E	2027E	2028E
Net Income	(\$1,700)	\$2,276	\$1,720	\$931	\$792	\$770	\$797
Depreciation and Amortization	1,640	1,703	1,799	2,012	2,116	2,352	2,548
NWC	1,498	711	214	(213)	436	193	211
Stock Comp/Deferred Taxes/Other	930	(370)	197	228	156	154	173
CFO	\$2,368	\$4,320	\$3,930	\$2,957	\$3,500	\$3,469	\$3,728
Capex	(1,572)	(1,564)	(2,636)	(2,990)	(3,543)	(2,579)	(2,656)
FCF	\$796	\$2,756	\$1,294	(\$33)	(\$43)	\$889	\$1,072
Capital Deployment							
Net (Debt Paydown) / Issuance	(1,612)	(2,368)	(2,366)	(207)	(550)	(550)	(754)
Cash Dividends Paid	0	0	0	0	0	0	0
Share repurchase	0	0	(473)	(1,000)	(500)	(500)	(500)
Total Deployment	(\$1,612)	(\$2,368)	(\$2,839)	(\$1,207)	(\$1,050)	(\$1,050)	(\$1,254)
Discretionary FCF	(\$816)	\$388	(\$1,545)	(\$1,240)	(\$1,093)	(\$161)	(\$182)
Ratios							
FCF / Revenue	5%	13%	6%	0%	0%	4%	4%
FCF / EBITDA	39%	57%	29%	-1%	-1%	19%	21%
FCF / Net Income	-81%	161%	97%	-5%	-6%	117%	134%
FCF / Share	\$2.22	\$7.33	\$3.44	(\$0.11)	(\$0.15)	\$3.51	\$4.70
FCF Yield	11.8%	40.9%	19.2%	-0.5%	-0.6%	13.2%	15.9%
Cash / Share	\$22.31	\$22.74	\$18.57	\$18.50	\$16.57	\$17.72	\$18.89

- In 2024, AC generated \$1.3BB of FCF on \$3.9BB of CFO and \$2.6BB of capex, which fueled the paydown of ~C\$2BB of debt and the C\$473MM NCIB to cancel 20MM shares.
- In Q1:25, AC generated \$831MM of FCF, with the 2025 guidance for breakeven FCF plus-minus \$200MM reiterated. Our estimate of (\$33MM) in 2025 is based on \$2.99BB of capex for 21 fleet entries (vs C\$3.4BB planned for 16 deliveries).
- AC expects to convert ~90% of Adj EBITDA to OCF through 2028 with a targeted FCF margin of ~5% by 2028 through 2030. Management expects C\$19-20BB of capex split between new aircraft (50%), maintenance + inventory (25%), and technology, aircraft reconfigurations, and infrastructure (25%).
- From '24-'28, JEF estimates C\$3.2BB of FCF with C\$7.4BB of capital deployed to debt repayment (est C\$4.5BB vs target to remain gross debt around C\$14BB given repayments are offset by the A220 EDC and new capital leases) and repurchases (est C\$3BB).

Source: Company data and Jefferies estimates

Air Canada (AC-CN): Valuation Relative to History and Market

Price Target Derivation

Valuation Method	Price	Assumptions
EV/EBITDAR	15	4.0x EV/EBITDAR on 2026 EBITDAR of \$3.4BB
P/E	21	7.5x P/E on 2026E EPS of \$2.75
Average	C\$18	Blended Average

Relative Valuation Table (5/16/2025)

Airlines	Ticker	JEF Rating	Stock Px 5/16/2025	Consensus BUY Rating	Market Cap	Enterprise Value	2025E P/E	2026E P/E	2027E P/E	2025E EV / SALES	2026E EV / SALES	2027E EV / SALES	2025E EV / EBITDA	2026E EV / EBITDA	2027E EV / EBITDA	Dividend Yield	FCF
Alaska Airlines	ALK	N/C	\$53.40	82%	\$6,482	\$10,359	14.5x	8.4x	6.4x	0.7x	0.7x	0.6x	6.8x	5.1x	4.6x	0.0%	9.2%
American Airlines	AAL	Hold	\$11.93	58%	7,868	36,347	12.5x	5.8x	4.6x	0.7x	0.6x	0.6x	8.6x	6.9x	6.1x	0.0%	NM
Delta Airlines	DAL	Hold	\$50.98	80%	33,288	51,719	9.5x	7.6x	6.6x	0.9x	0.9x	0.8x	6.1x	5.4x	5.0x	1.1%	10.2%
JetBlue	JBLU	N/C	\$5.02	0%	1,777	7,686	NM	NM	NM	0.9x	0.8x	0.7x	21.2x	10.7x	7.6x	0.0%	NM
Southwest Airlines	LUV	Unpf	\$32.65	27%	18,606	18,811	NM	13.1x	9.7x	0.7x	0.6x	0.6x	8.0x	5.7x	4.8x	2.3%	4.9%
United Airlines	UAL	Buy	\$77.96	85%	25,463	43,357	7.5x	6.4x	5.5x	0.7x	0.7x	0.7x	5.4x	4.8x	4.3x	0.0%	6.1%
Avg. US Airlines				55%			11.0x	8.3x	6.6x	0.8x	0.7x	0.7x	9.3x	6.4x	5.4x	0.6%	7.6%
Chorus Aviation	CHR-CA	N/C	\$19.93	100%	537	881	8.6x	9.8x	8.9x	0.6x	0.6x	0.7x	4.2x	4.9x	5.0x	0.0%	19.8%
Avg. Canadian Airlines				80%			8.6x	9.8x	8.9x	0.6x	0.6x	0.7x	4.2x	4.9x	5.0x	0.0%	19.8%
Air Canada	AC-CA	Hold	\$18.83	82%	6,629	12,265	8.4x	6.8x	6.3x	0.5x	0.5x	0.5x	3.5x	3.6x	3.3x	0.0%	(5.6%)
Premium / Discount to US Airlines							-24%	-17%	-4%	-32%	-27%	-27%	-62%	-45%	-38%		

Source: Company data and Jefferies estimates

Air Canada (AC-CN): Income Statement

Year Ending Dec.

(millions of Canadian Dollars, except per share data)	2022		2023		2024		2025E		2026E		2027E		2028E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Revenues:														
Canada	\$4,424	26.7%	\$5,106	23.4%	\$5,255	23.6%	\$5,367	23.8%	\$5,607	23.6%	\$5,918	23.5%	\$6,246	23.6%
US Transborder	3,017	18.2%	4,123	18.9%	4,275	19.2%	3,921	17.4%	4,139	17.4%	4,438	17.7%	4,684	17.7%
Atlantic	4,381	26.5%	6,049	27.7%	5,754	25.9%	5,972	26.5%	6,415	27.0%	6,803	27.1%	7,178	27.1%
Pacific	1,118	6.8%	2,380	10.9%	2,792	12.5%	2,887	12.8%	3,010	12.7%	3,192	12.7%	3,353	12.7%
Other	1,298	7.8%	1,745	8.0%	1,684	7.6%	1,799	8.0%	1,907	8.0%	2,005	8.0%	2,098	7.9%
Total Passenger Revenue	\$14,238	86.0%	\$19,403	88.9%	\$19,760	88.8%	\$19,946	88.5%	\$21,078	88.7%	\$22,356	88.9%	\$23,559	89.1%
Cargo Revenue	1,266	7.6%	924	4.2%	991	4.5%	1,031	4.6%	1,062	4.5%	1,093	4.3%	1,126	4.3%
Other Revenue	1,052	6.4%	1,506	6.9%	1,504	6.8%	1,564	6.9%	1,627	6.8%	1,692	6.7%	1,759	6.7%
Total Operating Revenue	\$16,556	100.0%	\$21,833	100.0%	\$22,255	100.0%	\$22,541	100.0%	\$23,766	100.0%	\$25,141	100.0%	\$26,444	100.0%
Operating Expenses:														
Aircraft fuel	\$5,276	31.9%	\$5,318	24.4%	\$5,118	23.0%	\$4,655	20.7%	\$4,839	20.4%	\$5,089	20.2%	\$5,314	20.1%
Wages, salaries, and benefits	3,260	19.7%	3,955	18.1%	4,880	21.9%	4,855	21.5%	5,108	21.5%	5,296	21.1%	5,446	20.6%
Depreciation and amortization	1,640	9.9%	1,703	7.8%	1,799	8.1%	2,012	8.9%	2,116	8.9%	2,352	9.4%	2,548	9.6%
Airport and navigation fees	1,213	7.3%	1,418	6.5%	1,487	6.7%	1,559	6.9%	1,680	7.1%	1,806	7.2%	1,937	7.3%
Sales and distribution cost	797	4.8%	1,097	5.0%	1,085	4.9%	1,103	4.9%	1,215	5.1%	1,320	5.3%	1,416	5.4%
Capacity purchase fees	763	4.6%	858	3.9%	860	3.9%	880	3.9%	928	3.9%	984	3.9%	1,029	3.9%
Aircraft maintenance	706	4.3%	1,083	5.0%	1,237	5.6%	1,273	5.6%	1,392	5.9%	1,471	5.8%	1,550	5.9%
Ground package costs	474	2.9%	720	3.3%	782	3.5%	806	3.6%	862	3.6%	926	3.7%	993	3.8%
Communications and information technology	468	2.8%	555	2.5%	649	2.9%	743	3.3%	773	3.3%	811	3.2%	847	3.2%
Catering and onboard services	425	2.6%	628	2.9%	637	2.9%	636	2.8%	718	3.0%	776	3.1%	847	3.2%
Other	1,721	10.4%	2,219	10.2%	2,458	11.0%	2,545	11.3%	2,807	11.8%	2,999	11.9%	3,196	12.1%
Total Operating Expense	\$16,743	101.1%	\$19,554	89.6%	\$20,992	94.3%	\$21,068	93.5%	\$22,439	94.4%	\$23,829	94.8%	\$25,124	95.0%
GAAP Operating Income	(\$187)	-1.1%	\$2,279	10.4%	\$1,263	5.7%	\$1,472	6.5%	\$1,327	5.6%	\$1,312	5.2%	\$1,321	5.0%
Foreign Exchange Gain/(Loss)	(732)		389		(400)		(111)		0		0		0	
Interest income	168		416		431		314		230		174		157	
Interest expense, net	(909)		(944)		(763)		(677)		(570)		(525)		(470)	
Capitalized Interest	13		14		32		32		32		32		32	
Net interest relating to employee benefits	24		0		0		0		0		0		0	
Gain (Loss) on financial instruments recorded at fair value	133		115		28		54		0		0		0	
Gain (Loss) on debt settlements and modifications	(14)		(10)		(8)		0		0		0		0	
Other income (expense), net	(20)		(47)		(68)		(70)		(70)		(70)		(70)	
Total Non-Operating Expense	(\$1,337)		(\$67)		(\$748)		(\$358)		(\$378)		(\$388)		(\$351)	
Earnings Before Taxes	(\$1,524)	-9.2%	\$2,212	10.1%	\$515	2.3%	\$1,115	4.9%	\$948	4.0%	\$924	3.7%	\$970	3.7%
Income Expense (Benefit)	176		(64)		(1,205)		184		156		154		173	
Net Income	(\$1,700)	-10.3%	\$2,276	10.4%	\$1,720	7.7%	\$931	4.1%	\$792	3.3%	\$770	3.1%	\$797	3.0%
Diluted Share Count	358.0		376.0		376.0		310.4		280.6		253.3		228.0	
Diluted EPS	(\$4.75)		\$6.05		\$4.57		\$3.00		\$2.82		\$3.04		\$3.50	
Adjusted Net Income	(\$988)	-6.0%	\$1,713	7.8%	\$1,335	6.0%	\$698	3.1%	\$772	3.2%	\$760	3.0%	\$797	3.0%
Adjusted Diluted EPS	(\$2.76)		\$4.56		\$3.55		\$2.25		\$2.75		\$3.00		\$3.50	

Source: Company data and Jefferies estimates

Air Canada (AC-CN): Cash Flow Statement

Year Ending Dec.

(millions, except per share data)	2022	2023	2024	2025E	2026E	2027E	2028E
Operating activities:							
Net Income	(\$1,700)	\$2,276	\$1,720	\$931	\$792	\$770	\$797
Adjustments:							
Depreciation, amortization and impairment	1,640	1,703	1,799	2,012	2,116	2,352	2,548
Foreign exchange (gain) loss	735	(239)	623	46	0	0	0
Deferred income taxes	129	(47)	(1,235)	184	156	154	173
Excess of employee benefit funding over expense	128	59	568	27	0	0	0
Financial instruments recorded at fair value	(133)	(115)	(28)	(54)	0	0	0
Change in maintenance provisions	111	56	192	62	0	0	0
Other, net	(40)	(84)	77	(37)	0	0	0
Changes in non-cash working capital balances	1,498	711	214	(213)	436	193	211
Accounts receivable, net	(346)	(84)	32	(84)	1	(68)	(64)
Aircraft fuel inventory	(78)	31	(23)	1	(8)	(10)	(10)
Spare parts and supplies inventory	(16)	(50)	(31)	8	(8)	(10)	(10)
Prepaid expenses and other	(153)	71	(349)	(111)	77	(36)	(34)
Accounts payable and accrued liabilities	88	628	399	(36)	86	(65)	(30)
Current Aeroplan and other deferred revenue	312	178	115	8	38	99	93
Air traffic liability	1,778	237	46	1	249	281	265
Other current assets and liabilities	(87)	(300)	25	0	0	0	0
Net cash from operating activities	\$2,368	\$4,320	\$3,930	\$2,957	\$3,500	\$3,469	\$3,728
Investing Activities:							
Capital expenditures and aircraft purchase deposits, net of sale-les	(1,572)	(1,564)	(2,636)	(2,990)	(3,543)	(2,579)	(2,656)
Proceeds from sale-leaseback transactions	0	0	0	0	0	0	0
Purchases of short-term investments	(959)	(245)	1,274	0	0	0	0
Proceeds from sale of assets	36	9	0	0	500	250	250
Other, net	(3)	(27)	(1)	0	0	0	0
Net cash from investing activities	(\$2,498)	(\$1,827)	(\$1,363)	(\$2,990)	(\$3,043)	(\$2,329)	(\$2,406)
Financing Activities							
Proceeds from issuance of long-term debt	202	84	1,590	0	0	0	0
Payments on long-term debt and finance leases	(1,814)	(2,452)	(3,956)	(207)	(550)	(550)	(754)
Proceeds from issuance of equity	6	1	1	0	0	0	0
Financing fees	(6)	(1)	(34)	0	0	0	0
Treasury stock repurchases	0	0	(473)	(1,000)	(500)	(500)	(500)
Dividend payments	0	0	0	0	0	0	0
Other financing activities	0	0	0	0	0	0	0
Net cash from financing activities	(\$1,612)	(\$2,368)	(\$2,872)	(\$1,207)	(\$1,050)	(\$1,050)	(\$1,254)
Net increase in cash, cash equivalents and restricted cash	(\$1,722)	\$124	(\$299)	(\$1,240)	(\$593)	\$89	\$68
Beginning cash	4,415	2,693	2,817	2,518	1,278	685	775
Ending cash	\$2,693	\$2,817	\$2,518	\$1,278	\$685	\$775	\$843

Source: Company data and Jefferies estimates

Boeing (BA) – Buy \$250 PT

- 1) **\$1.5BB Risk from Tariffs & China Offset Q1's FCF Beat**
- 2) **Guardrails Around China**
- 3) **BCA Ramps Stay the Course**
- 4) **BDS and BGS Making Waves**

Related Notes:

- [You Can Take China Out of BAcKlog, But You Can't Take the 38 Out of Rate](#) *April 23, 2025*
- [Late Rate Thirty-Eight Holds FCF's Fate](#) *February 2, 2025*
- [Pre Announce Q4 Loss on 777X + Defense, 2024 FCF Usage of ~\\$14.4BB In Line](#) *January 23, 2025*

Boeing (BA) BCA Delivery Forecast - 787 & 737 Rate Ramps on Track, Aiming for 7/Mo & 38/mo, Respectively, Later This Year

Commercial Aircraft Deliveries - 348 Deliveries in 2024 Fall 34% Y-o-Y Driven by Slower MAX Delivery and 787 Before Re-Accelerating to 542 in 2025

	Commercial Deliveries											Delivery Monthly Rates						
	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2022	2023	2024	2025E	2026E	2027E	
737NG	455	324	70	16	18	13	9	5	1	0	0	1.1	0.8	0.4	0.1	0.0	0.0	
737MAX	74	256	57	27	245	374	387	260	384	500	550	31.2	32.3	21.7	32.0	41.7	45.8	
747	14	6	7	5	7	5	1	0	0	0	0	0.4	0.1	0.0	0.0	0.0	0.0	
767	10	27	43	30	32	33	32	18	36	36	18	2.8	2.7	1.5	3.0	3.0	1.5	
777	74	48	45	26	24	24	26	14	30	24	18	2.0	2.2	1.2	2.5	2.0	1.5	
787-8	26	10	10	5	2	9	10	1	5	5	5	0.8	0.8	0.1	0.4	0.4	0.4	
787-9	110	120	114	36	12	10	40	29	50	78	83	0.8	3.3	2.4	4.2	6.5	6.9	
787-10	0	15	34	12	0	12	23	21	20	27	32	1.0	1.9	1.8	1.7	2.3	2.7	
Total Deliveries	763	806	380	157	340	480	528	348	526	670	706							
% YoY Change	2%	6%	-53%	-59%	117%	41%	10%	-34%	51%	27%	5%							
% vs. Peak			-53%	-81%	-58%	-40%	-34%	-57%	-35%	-17%	-12%							
	Commercial Deliveries % of Total																	
	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E							
737NG	60%	40%	18%	10%	5%	3%	2%	1%	0%	0%	0%							
737MAX	10%	32%	15%	17%	72%	78%	73%	75%	73%	75%	78%							
747	2%	1%	2%	3%	2%	1%	0%	0%	0%	0%	0%							
767	1%	3%	11%	19%	9%	7%	6%	5%	7%	5%	3%							
777	10%	6%	12%	17%	7%	5%	5%	4%	6%	4%	3%							
787-8	3%	1%	3%	3%	1%	2%	2%	0%	1%	1%	1%							
787-9	14%	15%	30%	23%	4%	2%	8%	8%	10%	12%	12%							
787-10	0%	2%	9%	8%	0%	3%	4%	6%	4%	4%	5%							
Total Deliveries	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%							

- For 2025, we estimate 384 737 deliveries (32/mo), based on 351 produced aircraft (29/mo) and 33 net out of inventory (3/mo). In 2025, we estimate 737 climbs to a 27/mo build and 30/mo delivery rate in Q2:25, with production stepping higher through the year to 31/mo in Q3 and 35/mo in Q4.
- After 348 deliveries in 2024, down 34% y-o-y from 528 in 2023, deliveries rise to 526 in 2025 (+51%), with 384 737s (32/mo) and 75 787s (6.3/mo), and to 680 in 2026 (+31%), with 500 737s (42/mo) and 110 787s (9/mo). The MAXs compare to the 2018 peak of 580, with the 787s still well below the 158 in 2019.
- This compares to BA's 2025/2026 target of 800 deliveries, with 737 at 50/mo and 787 at 10/mo, vs the 2018 peak of 806 deliveries.

Source: Company data and Jefferies estimates

Boeing (BA) BCA Delivery Forecast - 787 & 737 Rate Ramps on Track, Aiming for 7/Mo & 38/mo, Respectively, Later This Year

Delivery vs. Production - Assuming 29/mo Production of the 737 in 2025 with 3/mo Out of Inventory Driving 384 Deliveries; 787 Production Avgs 5.5/mo with 1.5/mo Out of Inventory for 75 Deliveries

Boeing	Delivery															
	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25E	Q3:25E	Q4:25E	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
737	1	1	2	1	1	-	-	-	9	5	1	-	-	-	-	-
737 MAX	66	69	90	35	104	90	90	100	387	260	384	500	550	600	624	624
747	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-
767	3	6	6	3	5	5	12	14	32	18	36	36	18	18	18	18
777	-	7	4	3	7	7	8	8	26	14	30	24	18	12	-	-
777X	-	-	-	-	-	-	-	-	-	-	-	18	30	42	60	60
787	13	9	14	15	13	17	21	24	73	51	75	110	120	124	132	132
Total Boeing	83	92	116	57	130	119	131	146	528	348	526	688	736	796	834	834

Boeing	Production															
	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25E	Q3:25E	Q4:25E	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
737	4	1	-	-	-	-	-	1	8	5	1	-	-	-	-	-
737 MAX	71	54	55	15	72	81	93	105	337	195	351	480	540	564	612	624
747	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-
767	9	9	4	4	5	5	8	10	32	26	28	36	18	18	18	18
777	6	6	5	3	6	6	6	6	24	20	24	18	14	12	-	-
777X	1	2	2	1	1	1	2	2	-	6	6	18	24	36	48	48
787	13	9	11	13	15	15	18	18	33	46	66	84	114	124	132	132
Total Boeing	104	81	77	36	99	108	127	142	435	298	476	636	710	754	810	822

Boeing	Inventory															
	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25E	Q3:25E	Q4:25E	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
737	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
737 MAX	205	190	155	135	103	94	97	102	200	135	102	82	72	36	24	24
747	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
767	6	9	7	8	8	8	4	-	-	8	-	-	-	-	-	-
777	16	15	16	15	14	12	10	-	10	16	10	4	-	-	-	-
777X	29	31	33	34	35	36	38	40	28	34	40	40	34	28	16	4
787	60	60	57	55	57	55	52	46	60	55	46	20	14	14	14	14
Total Boeing	316	305	268	248	218	207	203	198	298	248	198	146	120	78	54	42

2023	2024	2025E	Per Month				2028E	2029E	2030E
			2026E	2027E	2028E	2029E			
0.8	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
32.3	21.7	32.0	41.7	45.8	50.0	52.0	52.0	52.0	52.0
0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.7	1.5	3.0	3.0	1.5	1.5	1.5	1.5	1.5	1.5
2.2	1.2	2.5	2.0	1.5	1.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	1.5	2.5	3.5	5.0	5.0	5.0	5.0
6.1	4.3	6.3	9.2	10.0	10.3	11.0	11.0	11.0	11.0
44.0	29.0	43.8	57.3	61.3	66.3	69.5	69.5	69.5	69.5

2023	2024	2025E	Per Month				2028E	2029E	2030E
			2026E	2027E	2028E	2029E			
0.7	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
28.1	16.3	29.3	40.0	45.0	47.0	51.0	51.0	52.0	52.0
0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.7	2.2	2.3	3.0	1.5	1.5	1.5	1.5	1.5	1.5
2.0	1.7	2.0	1.5	1.2	1.0	0.0	0.0	0.0	0.0
0.0	0.5	0.5	1.5	2.0	3.0	4.0	4.0	4.0	4.0
2.8	3.8	5.5	7.0	9.5	10.3	11.0	11.0	11.0	11.0
36.2	24.8	39.7	53.0	59.2	62.8	67.5	67.5	68.5	68.5

Source: Company data and Jefferies estimates

Boeing (BA) Commercial: MAX Deliveries vs. Production

737 MAX Delivery vs. Production Estimates - Production Tracking in Low 30/Mo Range in March 2025 with Rate Ramp Targeting 38/mo in Coming Months vs JEF as an Exit Rate

	Monthly Build Rate	Quarterly Production	Quarterly Deliveries Out of Inventory	Quarterly Total Deliveries	Ending Inventory
Q1 2021	12	35	23	58	398
Q2 2021	12	36	11	47	387
Q3 2021	14	42	20	62	367
Q4 2021	15	46	32	78	335
Q1 2022	20	60	21	81	314
Q2 2022	25	76	24	100	290
Q3 2022	22	66	20	86	270
Q4 2022	29	87	20	107	250
Q1 2023	29	86	25	111	225
Q2 2023	32	95	5	100	220
Q3 2023	33	99	(30)	69	250
Q4 2023	19	57	50	107	200
Q1 2024	24	71	(5)	66	205
Q2 2024	18	54	15	69	190
Q3 2024	20	55	35	90	155
Q4 2024	12	15	20	35	135
Q1 2025	24	72	32	104	103
Q2 2025E	27	81	9	90	94
Q3 2025E	31	93	(3)	90	97
Q4 2025E	35	105	(5)	100	102

	Monthly Build Rate	Annual Production	Deliveries Out of Inventory	Total Deliveries	Ending Inventory
2019	42	504		57	448
2020	0	0		27	421
2021	13	159	86	245	335
2022	24	289	85	374	250
2023	28	337	50	387	200
2024	16	195	65	260	135
2025E	29	351	33	384	102
2026E	40	480	20	500	82
2027E	45	540	10	550	72
2028E	47	564	36	600	36
2029E	50	612	12	624	24
2030E	52	624	0	624	24

- We estimate BA held 103 MAXs in inventory at the end of Q1:25, compared to 135 at YE24 and 155 in Q3:24. This is comprised of 30 China/India aircraft (down from 55 in at YE24 and 140 at YE23), and 35 -7s/-10s (unchanged), and ~38 WIP aircraft (down from ~45 at YE24). This is based on our assumed build rate of 24/mo in Q1.
- In reaction to tariffs, China has refused 3 aircraft deliveries from BA and although the firm backlog to the region represents just 2% of unfilled orders, BA had ~50 aircraft in the 2025 plan that will be re-directed where possible.
- The eventual lift to the FAA production expansion freeze and move above 38/mo will be dependent upon BA's progress along six KPIs, including: 1) notice of escape (NOE) hours; 2) parts shortage improvement; 3) employee proficiency; 4) rework by line; 5) traveled work at rollout; and 6) ticketing performance.
- Our 2025 deliveries of 385 737s assumed 351 produced (29/mo) and 3/mo out of inventory.

Source: Company data and Jefferies estimates

Boeing (BA) Commercial: 737 MAX Skyline Sold-Out Through the Decade with ~80% International Operators

737 MAX Skyline - Sold-Out Through End of Decade with Production the Pacing Factor to Unlock Delivery Upside

Operator	2025	2026	2027	2028	2029	2030	2031	Total	% of Total
Southwest Airlines	43	59	87	91	73	41	40	434	10%
United Airlines	44	11	57	40	56	48	37	293	7%
Ryanair	24	9	25	34	33	33	25	183	4%
VietJet Air	14	22	23	23	23	23	22	150	3%
Akasa Air	10	16	16	20	19	30	38	149	3%
SpiceJet	4	7	12	17	26	38	39	143	3%
American Airlines	14	23	0	13	30	30	32	142	3%
Lion Air	0	12	15	18	28	33	23	129	3%
Flydubai	17	23	19	23	23	22	0	127	3%
Air India	5	27	12	18	15	24	25	126	3%
BOC Aviation	0	3	11	20	32	27	15	108	3%
Delta Air Lines	0	20	20	15	15	16	14	100	2%
Avolon	0	0	11	16	17	23	20	87	2%
Gol	6	7	13	11	13	17	14	81	2%
Alaska Airlines	18	9	17	21	4	0	5	74	2%
Aviation Capital Group	0	7	7	11	8	18	19	70	2%
Pegasus	0	0	0	13	19	19	19	70	2%
SunExpress	7	0	12	27	19	5	0	70	2%
Unconfirmed Airline	21	27	21	0	0	0	0	69	2%
SMBC Aviation Capital	0	13	10	18	11	9	4	65	2%
AerCap	0	9	12	17	4	0	15	57	1%
WestJet	5	7	5	8	11	8	8	52	1%
Malaysia Airlines	20	0	0	0	13	15	2	50	1%
Norwegian	2	12	10	12	10	4	0	50	1%
Thai VietJet Air	3	8	0	9	14	8	8	50	1%
Sub-Total	257	331	415	495	516	491	424	2,929	68%
Other	197	213	186	191	167	175	237	1,366	32%
Total	454	544	601	686	683	666	661	4,295	100%

Source: Company data, Cirium®, and Jefferies estimates

Boeing (BA) Commercial: Widebody Upside Through the Decade as Long-Haul Aircraft Remain in Deficit After Pandemic Retirements

787 Skyline - Upside to Deliveries in 2025 and 2026, Pending Resolution of Continued Supply Chain Bottlenecks

Operator	2025	2026	2027	2028	2029	2030	2031	Total	% of Total
United Airlines	9	20	13	23	18	24	22	129	17%
Korean Air	10	3	3	5	5	7	6	39	5%
Riyadh Air	2	9	8	8	9	3	0	39	5%
Saudia	0	6	10	10	10	3	0	39	5%
Thai Airways International	0	4	6	5	6	11	6	38	5%
American Airlines	8	4	8	5	5	0	0	30	4%
Flydubai	0	0	7	7	7	7	2	30	4%
Lufthansa	15	7	3	4	0	0	0	29	4%
Etihad Airways	4	3	6	4	6	5	0	28	4%
China Airlines	1	5	3	6	4	5	0	24	3%
Air India	0	0	4	4	4	5	3	20	3%
Air Canada	1	3	6	5	3	1	0	19	3%
LATAM Airlines	2	2	1	2	4	2	2	15	2%
EVA Air	5	3	2	0	1	2	1	14	2%
Emirates	0	0	0	0	0	6	6	12	2%
Qantas	0	0	0	3	4	3	2	12	2%
Ethiopian Airlines	0	0	3	2	3	3	0	11	1%
Qatar Airways	6	5	0	0	0	0	0	11	1%
JAL	0	0	0	4	6	0	0	10	1%
ANA	3	1	2	2	1	0	0	9	1%
Turkish Airlines	2	3	4	0	0	0	0	9	1%
Unconfirmed Airline	1	6	2	0	0	0	0	9	1%
Air New Zealand	0	2	3	1	2	0	0	8	1%
Azerbaijan Airlines	0	0	0	0	2	4	2	8	1%
Iraqi Airways	0	2	1	3	2	0	0	8	1%
Sub-Total	69	88	95	103	102	91	52	600	79%
Other	24	21	25	19	17	29	24	159	21%
Total	93	109	120	122	119	120	76	759	100%

Source: Company data, Cirium® and Jefferies estimates

Boeing (BA) Defense: Fixed-Price Development Risk Continues W/ Opportunity for H2 Cash Inflection

Core BDS Margins Turned Negative in H2:24 with Cost Pressures on Fighters & P-8, with \$4BB of Charges on Fixed-Price Development Programs (15% of Sales); Focus Now on Improved Execution & Risk Retirement

Revenue by Program	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2023-2027E CAGR
Fixed Wing Aircraft										
F/A-18	\$1,357	\$1,160	\$1,239	\$840	\$1,342	\$671	\$915	\$915	\$0	NM
F-15	1,760	560	1,840	1,440	1,080	1,680	2,760	2,760	2,760	26%
P-8	2,430	2,175	2,320	1,764	1,639	596	1,490	1,490	1,490	-2%
KC-46	2,500	2,310	2,145	2,445	2,106	1,620	2,592	2,592	2,880	8%
Total Fixed Wing Aircraft	\$8,047	\$6,205	\$7,544	\$6,489	\$6,167	\$4,567	\$7,757	\$7,757	\$7,130	4%
Rotorcraft										
CH-47 Chinook	\$840	\$690	\$465	\$662	\$478	\$317	\$595	\$595	\$595	6%
AH-64 Apache	2,109	1,757	2,121	1,925	1,897	1,274	1,967	1,967	1,967	1%
V-22	725	725	700	675	675	700	725	750	750	3%
Total Rotorcraft	\$3,674	\$3,172	\$3,286	\$3,262	\$3,050	\$2,291	\$3,287	\$3,312	\$3,312	2%
Other Military Aircraft	1,600	1,200	1,501	1,580	2,140	3,620	1,620	1,500	1,800	-4%
Total Military Aircraft	\$13,321	\$10,577	\$12,331	\$11,331	\$11,357	\$10,478	\$12,664	\$12,569	\$12,242	2%
% YoY Change	4%	-21%	17%	-8%	0%	-8%	21%	-1%	-3%	
Network and Space Systems										
Commercial and Civil Satellites	\$320	\$320	\$495	\$510	\$850	\$340	\$510	\$510	\$510	-12%
Military Satellites	0	200	410	420	0	0	420	420	420	NM
NASA Space	1,300	1,500	1,600	1,700	1,800	1,750	1,800	1,850	1,950	2%
AWACS	450	450	450	450	450	450	450	450	450	0%
Other Defense & Space	4,537	6,040	4,400	4,575	4,926	4,750	5,050	5,150	5,250	2%
Minuteman	100	100	100	100	100	100	100	100	100	0%
Total Network and Space Systems	\$6,707	\$8,610	\$7,455	\$7,755	\$8,126	\$7,390	\$8,330	\$8,480	\$8,680	2%
% YoY Change	2%	28%	-13%	4%	5%	-9%	13%	2%	2%	
Other Defense and Space										
Total Other Defense and Space	\$6,199	\$7,070	\$6,754	\$4,076	\$5,450	\$6,050	\$5,850	\$6,300	\$6,500	5%
% YoY Change	-12%	14%	-4%	-40%	34%	11%	-3%	8%	3%	
Total Boeing Defense Revenue	\$26,227	\$26,257	\$26,540	\$23,162	\$24,933	\$23,918	\$26,844	\$27,349	\$27,422	2%
% YoY Change	-1%	0%	1%	-13%	8%	-4%	12%	2%	0%	
Forward Losses										
KC-46	\$148	\$1,320	\$402	\$1,374	\$309	\$2,002	\$0	\$0	\$0	
VC-25	0	168	318	1,452	482	379	0	0	0	
T-7A	0	0	0	552	275	1,770	0	0	0	
MQ-25	0	0	0	579	231	339	0	0	0	
Commercial Crew	489	0	185	288	288	523	0	0	0	
Total Forward Losses	\$637	\$1,488	\$905	\$4,245	\$1,585	\$5,013	\$0	\$0	\$0	
Total Boeing Defense EBIT	\$2,608	\$1,539	\$1,544	(\$3,544)	(\$1,764)	(\$5,413)	\$591	\$1,094	\$2,057	NM
Boeing Defense EBIT Margin	9.9%	5.9%	5.8%	-15.3%	-7.1%	-22.6%	2.2%	4.0%	7.5%	
% YoY Change	57%	-41%	0%	-330%	-50%	207%	NM	NM	88%	

Source: Company data and Jefferies estimates

Boeing (BA) Defense: Fixed-Price Development Risk Continues W/ Opportunity for H2 Cash Inflection

BDS Has Taken \$18.4BB of Charges Since 2014 on Five Primary Fixed-Price Development Programs

Program	Description	Forward Loss Position?	Size of Forward Loss (2014-2024 YTD)	Forward Loss Description
F-15	Fighter Program	No	-	N/A
F-18	Fighter Program	No	-	N/A
P-8	Maritime Patrol	No	-	N/A
KC-46	Tanker	Yes	\$9,128	\$8BB+ of forward losses taken over 8 years, split between BCA and BDS. Incremental opportunity for KC-46 follow-on of 75 tankers from USAF
CH-47	Chinook	No	-	N/A
AH-64	Apache	No	-	N/A
V-22	Osprey	No	-	N/A
VC-25	Presidential Replacement Aircraft	Yes	\$2,803	\$2.7BB of forward losses taken since 2020. Maturing build process with milestones for power-on and first flight ahead of deliveries in 2027-2028.
T-7A	Pilot Training Aircraft for Air Force	Yes	\$2,997	\$400MM forward loss taken at contract award on production; EMD charge in 2022. First T-7A delivered in Q3:23 with critical flight testing underway.
MQ-25	Carrier-Based Refueling Drone	Yes	\$1,542	\$291MM forward loss upon development award and the first 7 deliveries. Key build and flight test milestones and transition out of development by 2025/2026.
MH-139	UH-1N Replacement	No	-	N/A
SLS	Space Launch System for NASA	No	-	N/A
Commercial Crew	Human Space Transportation System	Yes	\$1,815	Program should have turned profitable upon transporting crew in Q2:24, but return to Earth delays led to fwd loss. Launch commitments to 2025/2026.
Total			\$18,351	

Source: Company data and Jefferies estimates

Boeing (BA) Defense: BDS Cash to Fall Short of \$2BB Target in 2026, w/ 2025 Mirroring 2023

Estimated Cash Unwind From Charges Contributes a ~\$2.5BB Headwind to 2024 Cash Before Moderating to a \$1.8B Headwind in 2025

Program	Estimated Ending Charge Balance	Estimated Unwind			
		2023	2024	2025E	2026E
KC-46	\$750	(\$1,000)	(\$1,980)	(\$1,350)	(\$400)
VC-25	700	(500)	(383)	(500)	(200)
T-7A	2,186	(250)	(1,686)	(400)	(100)
MQ-25	794	(150)	(444)	(250)	(100)
Commercial Crew	2,208	(500)	(508)	(500)	(200)
Total	\$6,639	(\$2,400)	(\$5,002)	(\$3,000)	(\$1,000)
BDS Free Cash Flow		(\$1,987)	(\$3,667)	(\$1,620)	\$812

- BA has taken \$18BB+ of cumulative charges across its Defense programs since 2014. Each charge is capitalized at the time of recognition and flows through the cash flow statement out of accrued liabilities as the cash loss is recognized, typically upon milestones.
- In Q4, Boeing again updated the forward loss provisions adding ~\$2BB of losses. Among the program updates, the KC-46 saw a \$0.8BB charge from higher manufacturing costs, in part due to the IAM work stoppage w/ total charges of \$2.0BB in '24 and \$9.1BB cumulative. The T-7A also took a pre-tax charge of \$0.5BB on higher costs for production lots in 2026++ w/ total charges of \$1.7BB in '24 and \$3.0BB cumulative. The remainder of the impact (~\$0.4BB) is spread across underperforming contracts, mainly driven by the MQ-25 and Commercial Crew programs. There were no incremental charges in Q1:25.
- We estimate BDS forward loss unwind was \$2.4BB in 2023, rising to \$5.0BB in 2024 unwinding closer to \$3.0BB in 2025 before improving at the tail end to \$1.0BB in 2026. This likely can shift based on updated charges and schedule shifts with some of the excess overhead accruing to defense. From a cash standpoint, 2025 is expected to mirror 2023 near a \$2.0BB usage (est -\$1.6BB), down from a \$3.7BB outflow in 2024.

Source: Company data and Jefferies estimates

Boeing (BA) Global Services: Global Services - 4% Y-o-Y Growth to 112% Above 2019 Levels in 2025

Global Services - Expanding Topline at 4% CAGR with Profits at 4% CAGR to 2027 Assuming Margins at ~18%

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2023-2027E CAGR
Revenue Breakdown										
Parts and Distribution	\$12,502	\$10,078	\$10,561	\$11,512	\$12,380	\$13,067	\$13,589	\$14,133	\$14,840	5%
Engineering Mods and Maintenance	3,219	2,607	2,738	2,902	3,134	3,166	3,261	3,358	3,459	2%
Digital and Training	2,747	2,857	3,029	3,197	3,613	3,721	3,907	4,103	4,349	5%
Total Boeing Services Revenues	\$18,468	\$15,543	\$16,328	\$17,611	\$19,127	\$19,954	\$20,757	\$21,594	\$22,648	4%
Parts and Distribution	11.8%	-19.4%	4.8%	9.0%	7.5%	5.6%	4.0%	4.0%	5.0%	
Engineering Mods and Maintenance	2.0%	-19.0%	5.0%	6.0%	8.0%	1.0%	3.0%	3.0%	3.0%	
Digital and Training	9.0%	4.0%	6.0%	5.6%	13.0%	3.0%	5.0%	5.0%	6.0%	
YoY % Change	9.5%	-15.8%	5.0%	7.9%	8.6%	4.3%	4.0%	4.0%	4.9%	
EBIT Margin										
Parts and Distribution	13.6%	1.8%	11.6%	15.0%	16.1%	15.6%	16.6%	16.6%	16.4%	
Engineering Mods and Maintenance	15.0%	1.0%	8.0%	11.0%	14.1%	14.8%	15.0%	15.0%	15.0%	
Digital and Training	15.0%	7.9%	12.0%	13.0%	16.5%	16.9%	17.0%	17.4%	17.4%	
% Margin	14.6%	2.9%	12.4%	15.5%	17.4%	18.1%	18.0%	18.0%	17.9%	
EBIT Contribution										
Parts and Distribution	\$1,696	\$185	\$1,222	\$1,732	\$1,987	\$2,034	\$2,250	\$2,340	\$2,433	5%
KLX Parts and Distribution	106	12	213	259	304	314	324	335	347	
Engineering Mods and Maintenance	483	26	219	320	442	469	489	504	519	4%
Digital and Training	412	227	363	416	596	629	664	714	757	6%
Total Boeing Services EBIT	\$2,697	\$450	\$2,017	\$2,727	\$3,329	\$3,618	\$3,727	\$3,893	\$4,056	5%
<i>Operating Margins</i>	14.6%	2.9%	12.4%	15.5%	17.4%	18.1%	18.0%	18.0%	17.9%	

- From a profitability standpoint, Q1 operating margins climbed 40 bps y-o-y to 18.6%, with both commercial and government margins in the DD+ range. This represents a modest step down from record levels in Q4 at 19.5%, but remains elevated compared to historical levels. FY24 margins of 18.1% compare to 17.4% in 2023, with our estimates assuming margins find a new level near prior peaks into 2025 at 18.0%, still elevated from benefits tied to supply tightness and operational excellence.
- Each 10 bps of margin is worth \$20MM of EBIT, which converts at nearly 100% to FCF.

Source: Company data and Jefferies estimates

Boeing (BA): FCF Usage Carries into 2025 on 777X, BDS and Not Enough 737 Offset

2025 FCF Usage Moderates Before Inflection into 2026 on Ramping BCA Deliveries & Abating BDS Losses

	2020	2021	2022	2023	2024	2025E	2026E	2027E
Net Income	(\$11,941)	(\$4,290)	(\$5,053)	(\$2,242)	(\$11,829)	(\$32)	\$4,485	\$6,755
Depreciation and Amortization	2,246	2,144	1,979	1,861	1,836	1,739	1,966	2,005
NWC	(14,151)	(7,046)	3,879	4,717	(7,627)	(4,364)	2,027	1,937
Pension Adjustment	(794)	(972)	(1,378)	(1,049)	(959)	(600)	(940)	(1,000)
Stock Comp/Deferred Taxes/Other	6,230	6,748	4,085	2,673	6,499	2,037	2,000	2,000
CFO	(\$18,410)	(\$3,416)	\$3,512	\$5,960	(\$12,080)	(\$1,221)	\$9,538	\$11,697
Capex	(1,303)	(980)	(1,222)	(1,527)	(2,230)	(2,714)	(2,722)	(2,750)
FCF	(\$19,713)	(\$4,396)	\$2,290	\$4,433	(\$14,310)	(\$3,935)	\$6,816	\$8,947
FCF Per Share	(\$34.64)	(\$7.48)	\$3.85	\$7.31	(\$22.11)	(\$5.22)	\$8.94	\$11.60

Capital Deployment								
Dividends	(\$1,158)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Share Repurchases	0	0	0	0	23,857	0	0	0
Debt Paydown	(10,998)	(15,371)	(1,310)	(5,216)	(8,673)	(1,173)	(8,025)	(4,364)
Debt Issuance	47,248	9,795	34	75	10,161	0	0	0
Acquisition	0	(6)	0	(70)	(50)	0	0	0
Total Deployment	\$35,092	(\$5,582)	(\$1,276)	(\$5,211)	\$25,295	(\$1,173)	(\$8,025)	(\$4,364)
Discretionary FCF	(\$20,871)	(\$19,767)	\$2,290	\$4,433	(\$14,310)	(\$3,935)	\$6,816	\$8,947

Ratios								
FCF to Net Income Conversion	165%	102%	-45%	-198%	121%	12210%	152%	132%
FCF Yield (FCF / Mkt Cap.)	-17.1%	-3.8%	2.0%	3.9%	-12.4%	-3.4%	5.9%	7.8%
FCF Change YoY	-1042%	-78%	-152%	94%	-423%	-73%	-273%	31%
Discretionary FCF Yield	-18%	-17%	2%	3.9%	-12.4%	-3.4%	5.9%	7.8%
Discretionary FCF % Change YoY	-1356%	-5%	-112%	94%	-423%	-73%	-273%	31%
Dividend as a % of Net Income	-10%	0%	0%	0%	0%	0%	0%	0%
Dividend Yield	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Share Repo as % of Mkt Cap	0%	0%	0%	0.0%	-20.7%	0.0%	0.0%	0.0%
% of Cash Returned to Shareholders	-6%	0%	0%	0%	167%	0%	0%	0%
Capex as a % of sales	2.2%	1.6%	1.8%	2.0%	3.4%	3.2%	2.7%	2.4%

- In Q1:25, FCF usage totaled \$2.29BB including a \$2.7BB working capital usage tied to Inventories -\$1.5BB outflow; Unbilled Receivables -\$671MM outflow; Accrued Liabilities -\$386MM outflow; AR -\$570MM outflow; partially offset by Advances & Progress Billings +\$781MM inflow. As previously messaged, this was comfortably ahead of the prior commentary for the burn to look similar to the \$4.1BB usage in Q4:24.
- For the remainder of the year, management indicates that the use of FCF in 2025 should improve relative to 2024's \$14.3BB usage including a \$7.6BB W/C outflow, while remaining an outflow.
- H1 FCF will therefore be a usage before inflecting positively in H2 as cash generation improves sequentially through the years, with our full year estimate calling for a \$3.9BB usage (down from \$6.3BB burn estimate prior) following a better-than anticipated Q1 at a \$2.3BB burn and demonstrated delivery traction YTD.
- Within this, we model capex of \$2.7BB in the year, up about \$485MM y-o-y to support planned growth across BCA & BDS, largely in-line with management commentary.

Source: Company data and Jefferies estimates

Boeing (BA): Valuation Relative to History and Market

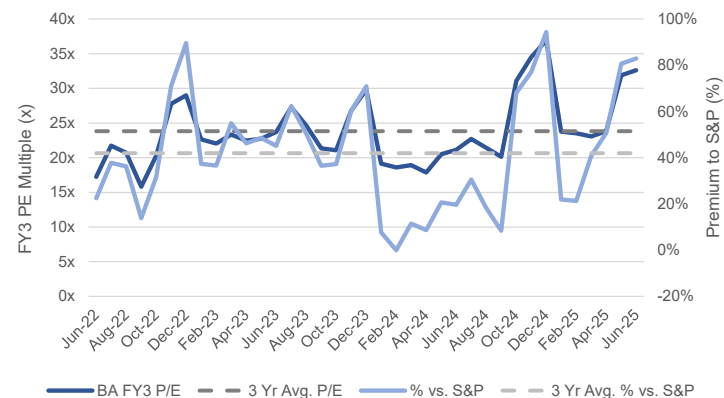
Relative Valuation

Ticker	BA
Current P/E	32.6x
3 Yr Avg. P/E	23.8x
Current / 3 Yr Avg.	37%
Prem / Discst SP	83%
3 Yr Prem / Discst SP	42%
S&P500 Multiple	17.8x
Current EV/EBITDA	17.6x
3 Yr Avg. EV/EBITDA	14.1x
Current / 3 Yr Avg.	25%
Prem / Discst SP	14%
3 Yr Prem / Discst SP	13%
S&P500 Multiple	15.5x
Current FCF Yield	5.7%
3 Yr Avg. FCF Yield	8.0%
Current / 3 Yr Avg.	39%
Prem / Discst SP	-40%
3 Yr Prem / Discst SP	-35%
S&P500 Multiple	3.4%

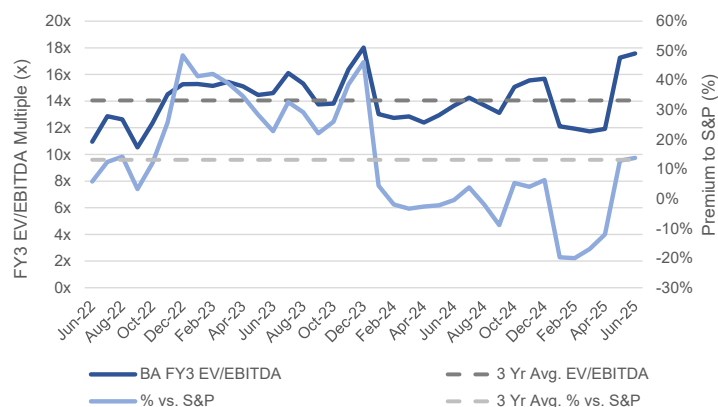
Price Target Derivation

Valuation Meth	Price	Assumptions
FCF	250	4.6% FCF Yield on 2027 FCF/Sh of \$11.60
Average	\$250	Average

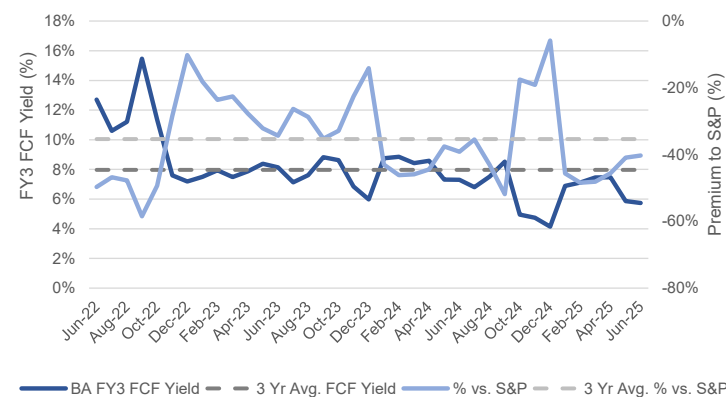
FY3 P/E: 23.8X FY3 P/E, 51% Prem to Mkt vs. Historical Avg Prem of 38%



FY3 EV/EBITDA: 11.9X FY3 EV/EBITDA, 12% Discst to Mkt vs. Historical Avg Prem of 13%



FY3 FCF Yield: 7.5% FY3 FCF Yield, 46% Discst to Mkt vs. Historical Avg Discst of 36%



Source: Company data, FactSet and Jefferies estimates

Boeing (BA): Annual Income Statement

Year Ended Dec.

<i>SMM except per share data</i>	2021		2022		2023		2024		2025E		2026E		2027E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Revenue	\$62,286	100.0%	\$66,608	100.0%	\$77,794	100.0%	\$66,517	100.0%	\$84,814	100.0%	\$100,833	100.0%	\$114,596	100.0%
Operating Expenses														
Cost of Goods Sold & Expenses	59,237	95.1%	63,078	94.7%	70,070	90.1%	68,508	103.0%	72,994	86.1%	82,621	81.9%	92,792	81.0%
General & Administrative	4,157	6.7%	4,187	6.3%	5,168	6.6%	5,021	7.5%	5,937	7.0%	7,058	7.0%	8,022	7.0%
Research & Development	2,249	3.6%	2,852	4.3%	3,377	4.3%	3,812	5.7%	3,609	4.3%	3,731	3.7%	3,855	3.4%
JV & Other Expenses	(487)	-0.8%	10	0.0%	(48)	-0.1%	(117)	-0.2%	(85)	-0.1%	(110)	-0.1%	(110)	-0.1%
Total Operating Expenses	\$65,156	104.6%	\$70,127	105.3%	\$78,567	101.0%	\$77,224	116.1%	\$82,455	97.2%	\$93,300	92.5%	\$104,559	91.2%
Earnings (Loss) from Operations	(\$2,870)	-4.6%	(\$3,519)	-5.3%	(\$773)	-1.0%	(\$10,707)	-16.1%	\$2,359	2.8%	\$7,533	7.5%	\$10,036	8.8%
Other Income	551	0.9%	1,058	1.6%	1,227	1.6%	1,222	1.8%	975	1.1%	950	0.9%	925	0.8%
Interest Expense	(2,714)	-4.4%	(2,561)	-3.8%	(2,459)	-3.2%	(2,725)	-4.1%	(2,900)	-3.4%	(2,760)	-2.7%	(2,494)	-2.2%
Earnings Before Taxes	(\$5,033)	-8.1%	(\$5,022)	-7.5%	(\$2,005)	-2.6%	(\$12,210)	-18.4%	\$434	0.5%	\$5,723	5.7%	\$8,467	7.4%
Income Taxes (% Rate)	(743)	14.8%	31	-0.6%	237	-11.8%	(381)	3.1%	122	28.0%	893	15.6%	1,367	16.2%
Preferred Dividends							46		345		345		345	
Net earnings (loss)	(\$4,290)	-6.9%	(\$5,053)	-7.6%	(\$2,242)	-2.9%	(\$11,875)	-17.9%	(\$32)	0.0%	\$4,485	4.4%	\$6,755	5.9%
Pension Earnings	1,347	2.2%	1,645	2.5%	1,298	1.7%	1,298	2.0%	1,050	1.2%	990	1.0%	990	0.9%
Core Earnings	(\$5,637)	-9.1%	(\$6,698)	-10.1%	(\$3,540)	-4.6%	(\$13,173)	-19.8%	(\$1,082)	-1.3%	\$3,495	3.5%	\$5,765	5.0%
Core Diluted EPS	(\$9.59)		(\$11.25)		(\$5.84)		(\$20.38)		(\$1.40)		\$4.60		\$7.50	
Basic Shares Outstanding	578		585		596		647		742		752		761	
Diluted Shares Outstanding	588		595		606		647		753		762		771	

Source: Company data and Jefferies estimates

Boeing (BA): Annual Segment Data

Year Ended Dec.

<i>\$MM except per share data</i>	2021	2022	2023	2024	2025E	2026E	2027E
Revenues							
Commercial Airplanes	\$19,493	\$26,026	\$33,901	\$22,861	\$37,413	\$52,090	\$64,726
Defense, Space and Security	26,540	23,162	24,933	23,918	26,844	27,349	27,422
Global Services	16,328	17,611	19,127	19,954	20,757	21,594	22,648
Boeing Capital	272	0	0	0	0	0	0
Other	(347)	(191)	(167)	(216)	(200)	(200)	(200)
Total	\$62,286	\$66,608	\$77,794	\$66,517	\$84,814	\$100,833	\$114,596
Operating Profit							
Commercial Airplanes	(\$6,377)	(\$2,341)	(\$1,635)	(\$7,969)	(\$1,610)	\$3,056	\$4,433
Defense, Space and Security	1,544	(3,544)	(1,764)	(5,413)	591	1,094	2,057
Global Services	2,017	2,727	3,329	3,618	3,727	3,893	4,056
Boeing Capital	0	0	0	0	0	0	1
Segment Operating Profit	(\$2,816)	(\$3,158)	(\$70)	(\$9,764)	\$2,708	\$8,043	\$10,546
Unallocated	(54)	(361)	(703)	(943)	(349)	(510)	(510)
Earnings From Operations	(\$2,870)	(\$3,519)	(\$773)	(\$10,707)	\$2,359	\$7,533	\$10,036
Operating Margin							
Commercial Airplanes	-32.7%	-9.0%	-4.8%	-34.9%	-4.3%	5.9%	6.8%
Defense, Space and Security	5.8%	-15.3%	-7.1%	-22.6%	2.2%	4.0%	7.5%
Global Services	12.4%	15.5%	17.4%	18.1%	18.0%	18.0%	17.9%
Boeing Capital	0.0%	-	-	-	-	-	-
Segment Operating Margin	-4.5%	-4.7%	-0.1%	-14.7%	3.2%	8.0%	9.2%
Earnings From Operations Margin	-4.6%	-5.3%	-1.0%	-16.1%	2.8%	7.5%	8.8%

Source: Company data and Jefferies estimates

Boeing (BA): Annual Cash Flow Statement

Year Ended Dec.

<i>\$MM except per share data</i>	2021	2022	2023	2024	2025E	2026E	2027E
Operating Activities							
Net Income	(\$4,290)	(\$5,053)	(\$2,242)	(\$11,829)	(\$32)	\$4,485	\$6,755
Depreciation & Amortization	2,144	1,979	1,861	1,836	1,739	1,966	2,005
Pension	(972)	(1,378)	(1,049)	(959)	(600)	(940)	(1,000)
Deferred Taxes	733	1,347	44	(567)	26	0	0
Other, net	5,707	2,447	2,252	6,681	2,109	2,000	2,000
Working Capital							
Change in Receivables	(1,299)	148	193	(97)	217	221	(455)
Change in Inventories	(1,127)	420	(1,681)	(12,353)	(4,392)	1,586	2,571
Change in Payables	(3,783)	838	1,672	(793)	171	868	203
Change in Accrued Liabilities	(3,687)	2,956	779	1,563	(1,925)	(1,125)	(585)
Change in Advances	2,505	108	3,365	4,069	1,565	477	203
Change in Other W/C	653	(300)	766	369	(98)	0	0
Cash Flow from Operations	(\$3,416)	\$3,512	\$5,960	(\$12,080)	(\$1,221)	\$9,538	\$11,697
Investing Activities							
Net Capital Expenditures	(\$451)	(\$1,187)	(\$1,500)	(\$2,181)	(\$2,714)	(\$2,722)	(\$2,750)
Acquisitions	(6)	0	(70)	(50)	0	0	0
Investments	9,776	5,568	(709)	(9,113)	0	0	0
Other, net	5	(11)	(158)	(629)	0	0	0
Cash Flow from Investing	\$9,324	\$4,370	(\$2,437)	(\$11,973)	(\$2,714)	(\$2,722)	(\$2,750)
Financing Activities							
Net Change in Debt	(\$5,576)	(\$1,276)	(\$5,141)	\$1,488	(\$1,173)	(\$8,025)	(\$4,364)
Share Repurchases	0	0	0	23,857	0	0	0
Dividends Paid	0	0	0	0	0	0	0
Other, net	(24)	10	(346)	(136)	0	0	0
Cash Flow from Financing	(\$5,600)	(\$1,266)	(\$5,487)	\$25,209	(\$1,173)	(\$8,025)	(\$4,364)
Net Change in Cash	\$269	\$6,543	(\$1,934)	\$1,109	(\$5,108)	(\$1,209)	\$4,583
Beginning Cash	\$7,835	\$8,104	\$14,647	\$12,713	\$13,822	\$8,714	\$7,505
Ending Cash	\$8,104	\$14,647	\$12,713	\$13,822	\$8,714	\$7,505	\$12,088
FCF	(\$4,396)	\$2,290	\$4,433	(\$14,310)	(\$3,935)	\$6,816	\$8,947
FCF Per Share	(\$7.48)	\$3.85	\$7.31	(\$22.11)	(\$5.22)	\$8.94	\$11.60
EBITDA	(\$726)	(\$1,540)	\$1,088	(\$8,871)	\$4,098	\$9,499	\$12,042

Source: Company data and Jefferies estimates

Booz Allen Hamilton (BAH) – Hold \$120 PT

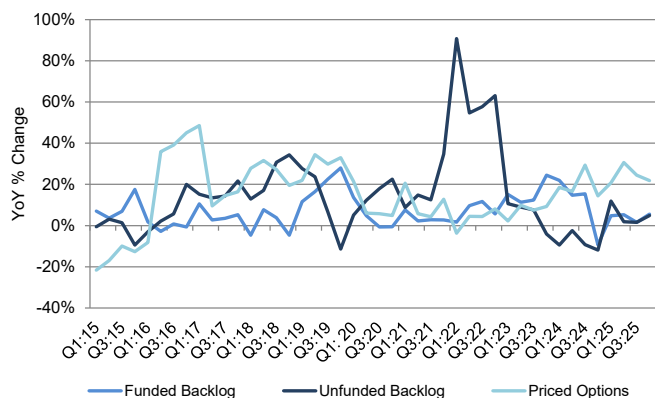
- 1) **FY26 Transition Year w/ Civil Undergoing a Reset (-10% vs +11% Since FY22)**
- 2) **Revenue Now Lead by Defense/Intel (+6%) w/ Civil Reset Lower - 1% Organic Growth in FY26E**
- 3) **Margins Range at ~11% as Defense Outperforms Civil (Mix Dilutive)**
- 4) **Underlying FCF Conversion Improves to 110% in FY26E from 94% in FY25**

Related Notes:

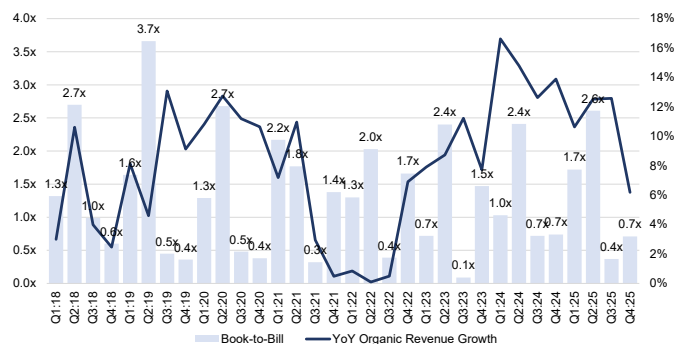
- [A Not So Civil Revenue Guide - LSD Organic Outlook vs 5-8% Target](#) May 27, 2025
- [Expert Feedback: The Quantum Computing Opportunity Set w/ BAH](#) March 31, 2025
- [A Civil Beat, But Waiting on DOGE Intel](#) February 2, 2025

Booz Allen Hamilton (BAH): FY26 (March YE) Guidance Initiated with 0-4% Top Line Growth with Deceleration Driven by Civil

Funded Backlog Up 6% in FQ4:25 with Total Backlog Up 15% in the Q



B2B of 0.71X in FQ4:25 and 1.4X in FY25 May Support FH2 Re-Acceleration

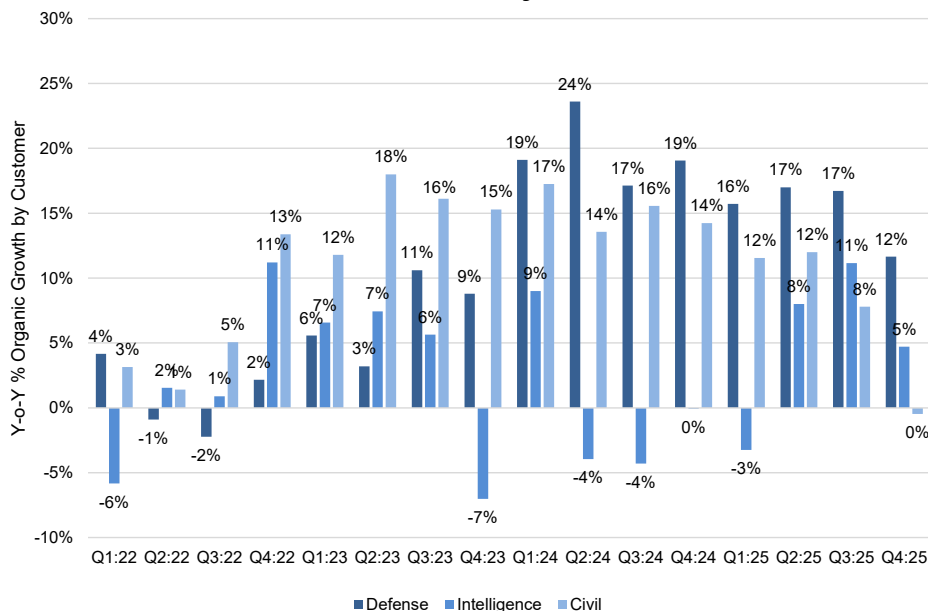


- Following 11.6% organic growth in FY25, management has initiated FY26 (Mar YE) revenue guidance to 0-4% growth, reflecting ~\$12.2BB at the midpoint. This includes ~\$20MM (20bps) of revenue acquired from the PGSC deal, closed in June 2024, offset by a \$122MM headwind from the absence of release of ICS claim audit reserves recorded in FQ2:25. The company pointed to continued momentum in Defense and Intel, while Civil (35% of FY25 revs) is expected down LDD (est -10% y-o-y for FY26E) leaving overall revenue flat on our estimate.
- Q4 Adj. EBITDA came in at \$316MM for 10.6% margins, taking FY25 EBITDA to \$1.315BB or 11.0% margins. Management has initiated the full-year guidance for ~11% EBITDA margins in FY26 as well, which would be the fourth consecutive year at this margin level.
- Funded backlog was up 6% y-o-y in FQ4 and Unfunded backlog was up 5%, with Priced Options up 22% leading to total backlog up 15% y-o-y.
- Net bookings were \$2.1BB in FQ4, up 3% y-o-y leading to a quarterly book-to-bill of 0.71X. FQ2 is historically BAH's best quarter for bookings, while FQ3 is historically the weakest. On average in the past 5 years, BAH has averaged 1.2X B2B in FQ4.

Source: Company data

Booz Allen Hamilton (BAH): FY26 Organic Growth +1% (Flat Reported) With Civil Down LDD

FQ4:25 Growth Led by Defense and Intel

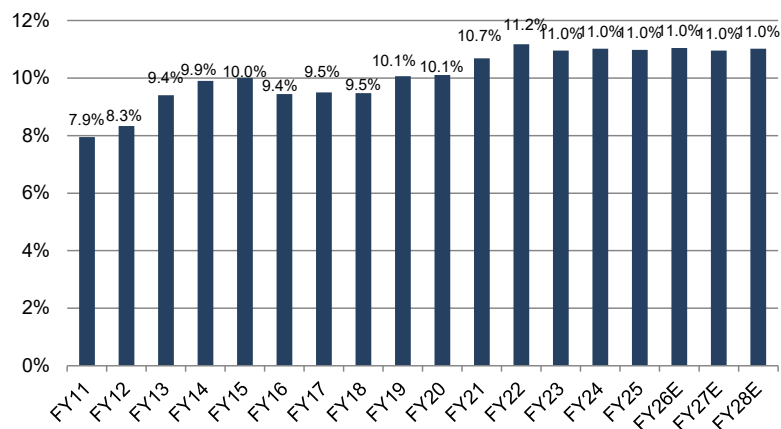


- Defense remained the largest market contributing 51% of revenues in FQ4:25, followed by Civil (33%). Defense was up 12% organically in FQ2, with the business aided by continued growth in ramping programs such as DoD EDITS as well as the continued sale of AI and commercial technology into missions. In FY25, we expect the business continues to lead growth, up 7% ex-items in the year on the continued ramp of larger contracts and a more modest impact from the funding environment.
- Civil volumes were flat y-o-y in FQ4 and up 8% in FY25 with FY26 expected down 10%, in line with guidance for a LDD decline. In response to a softer funding environment agency reorganization in the Federal Civil space, the company is restructuring and resetting its Civil business.
- Intel expanded 5% y-o-y in FQ4 ex-items, with Focused Fox now fully anniversaried. We estimate 1% growth in FY26. .

Source: Company data

Booz Allen Hamilton (BAH): Margins Range Bound Near 11%

Adj. EBITDA Margins Stable in the 11.0% Range



Every 2pts of Civil Growth Worth 7c with Every 1pt of Defense/Intel Worth 5c to FY26E EPS

		FY26E Civil Revenue Growth (%)				
		-14%	-12%	-10%	-8%	-6%
FY26E D&I Rev Growth (%)	1%	\$5.82	\$5.88	\$5.95	\$6.02	\$6.09
	2%	\$5.87	\$5.93	\$6.00	\$6.07	\$6.14
	3%	\$5.92	\$5.98	\$6.05	\$6.12	\$6.19
	4%	\$5.96	\$6.03	\$6.10	\$6.17	\$6.24
	5%	\$6.01	\$6.08	\$6.15	\$6.22	\$6.29
	6%	\$6.06	\$6.13	\$6.20	\$6.27	\$6.33
	7%	\$6.11	\$6.18	\$6.25	\$6.32	\$6.38

- For FY26, we forecast adjusted EBITDA margins of 11.0%, flat from FY23-FY25 levels. We assume the mix headwind leaves profitability relatively stable going forward as well.
- FQ4 EBITDA margins were in line with expectations at 10.6% included seasonal investments with FY25 at 11.0%. FY26 is expected in the ~11% range once more, where profitability has been stable since FY23.
- If we break out Civil growth and margin in FY26E (Mar YE), then we estimate that every 2pt of Civil revenue growth is worth 7c to EPS (1% of our \$6.20 est). Our base case incorporates a 10% reduction in revenue with guidance pointing to an LDD decline.

Source: Company data

Booz Allen Hamilton (BAH): FCF Growth Modest on a Core Basis with One Timers Boosting Cash in FY25

FCF Build - FCF Returns Above 100% In FY26E

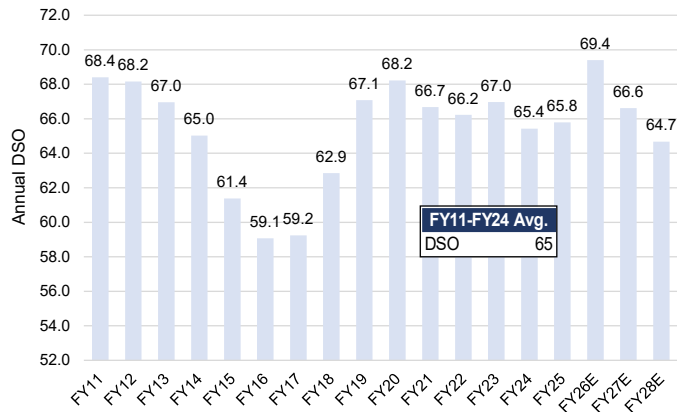
	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Net Income	\$419	\$483	\$609	\$467	\$271	\$606	\$935	\$731	\$799
Depreciation and Amortization	69	81	84	146	165	164	165	173	153
NWC	(35)	(184)	(334)	138	413	(196)	(128)	(127)	(80)
Pension Contribution	0	0	0	0	0	0	0	0	0
Section 174/Cash Taxes	0	0	0	(150)	(140)	(125)	(150)	(80)	(40)
DOJ Settlement	0	0	0	0	0	(378)	0	0	0
Stock Comp/Deferred Taxes/Other	47	172	359	136	(107)	187	187	187	147
CFO	\$500	\$551	\$719	\$737	\$603	\$259	\$1,009	\$883	\$979
Capex	(95)	(128)	(87)	(80)	(76)	(67)	(98)	(111)	(84)
FCF	\$405	\$423	\$631	\$657	\$527	\$192	\$911	\$773	\$895
FCF per Share	\$2.83	\$3.00	\$4.55	\$4.87	\$3.97	\$1.47	\$7.10	\$6.21	\$7.35
Deployment									
Dividends	(\$114)	(\$147)	(\$181)	(\$209)	(\$236)	(\$253)	(\$268)	(\$275)	(\$282)
Share Repurchases	(253)	(182)	(313)	(419)	(224)	(404)	(812)	(700)	(700)
Debt Paydown	(171)	(77)	(528)	(112)	(417)	(541)	(262)	(63)	(63)
Debt Issuance	102	498	691	547	415	1,136	844	(198)	0
Acquisitions	5	0	(74)	(780)	(440)	(0)	(97)	0	0
Total Deployment	(\$430)	\$92	(\$405)	(\$973)	(\$902)	(\$64)	(\$595)	(\$1,236)	(\$1,045)
Discretionary FCF (post pension contributions, dividends, and committed debt pay-down)	\$120	\$200	(\$77)	\$335	(\$126)	(\$1,007)	(\$431)	(\$265)	(\$150)
Ratios									
FCF to Net Income Conversion	97%	88%	104%	141%	194%	32%	97%	106%	112%
FCF Yield (FCF / Mkt Cap.)	1.7%	1.8%	2.7%	2.8%	2.2%	0.8%	3.9%	3.3%	3.8%
FCF YoY Change	39.3%	4.5%	49.2%	4.0%	-19.8%	-63.5%	374.1%	-15.2%	15.8%
Discretionary FCF Yield	0.5%	0.9%	-0.3%	1.4%	-0.5%	-4.3%	-1.8%	-1.1%	-0.6%
Discretionary FCF % Change YoY	nm	66%	-139%	nm	-138%	nm	nm	-39%	-43%
Dividend as a % of Net Income	27%	30%	30%	45%	87%	42%	29%	38%	35%
Dividend Yield	1.8%	1.4%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Share Repo as % of Mkt Cap	1%	2%	1%	2%	1%	2%	3%	3%	3%
% of Cash Returned to Shareholders	91%	78%	78%	96%	87%	342%	119%	126%	110%
Capex as a % of Sales	1.4%	1.7%	1.1%	1.0%	0.8%	0.6%	0.8%	0.9%	0.7%

- FCF was a source of \$911MM FY25 including \$85MM of discrete benefits related to a \$115MM insurance settlement against the DOJ payment paid last August, or \$85MM net of taxes. FQ4 FCF also included two discrete benefits: 1) payroll modernization shifted a payroll cycle out of the quarter (+\$200MM); and 2) a \$15MM gain on sale from SnapAttack, ~\$11MM net of taxes.
- Management introduced the FY26 FCF guidance at \$700-800MM including \$110MM of capex and \$80MM of Sec 175. The y-o-y bridge includes a \$20MM benefit from lower cash tax outlays tied to Section 174, offset by the absence of a \$200MM payroll benefit, an \$85MM insurance payment, and modest benefit from SnapAttack. Core FY25 FCF is \$765MM rising to \$853MM in FY26E with a more moderate expected use from accounts receivables, largely reflecting lower growth.
- We assume BAH maintains net leverage in the ~2X range in the near term with excess cash deployed to share repurchase.

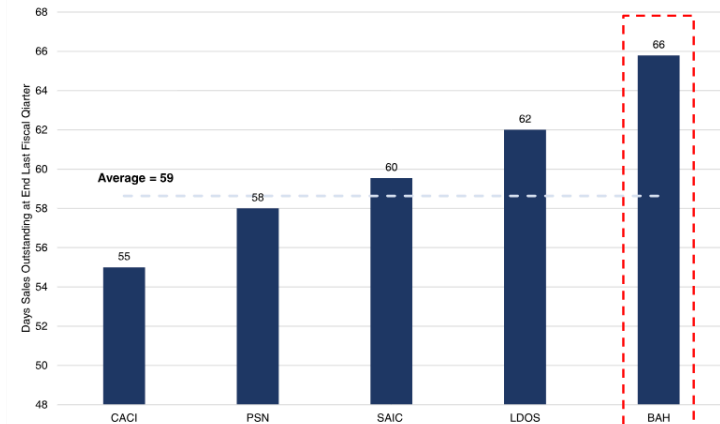
Source: Company data

Booz Allen Hamilton (BAH): FCF Growth Modest on a Core Basis with One Timers Boosting Cash in FY25

DSOs Elevated, In Part Reflecting DoD Audit Process



DSOs Elevated Relative to Peers at the End of FY25

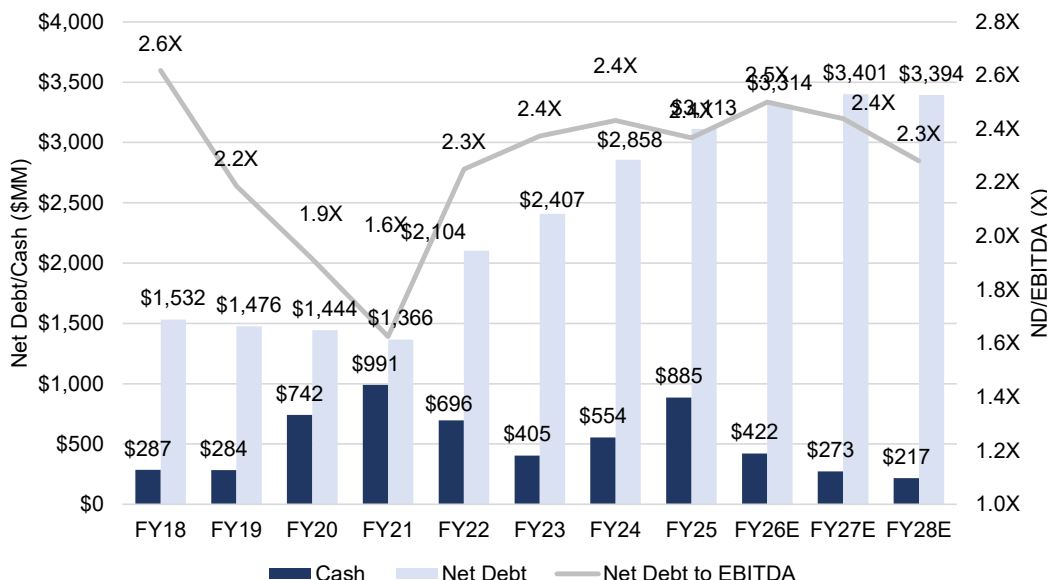


- BAH has \$245MM of outstanding unbilled receivables related to the audit of billable expenses by the DoD customer (flat q-o-q). The company is working with the DCAA and the DCMA to review those audits that were delayed since 2011 related to the DoJ investigation. The reduction q/q reflects learnings from the first four years of back audits that are underway leading to a lower estimated cost for the years since FY11. The reduction in the reserve impacted the P&L, but has not impacted FCF to date with no anticipated impact going forward given the reserve level is representative of expected future outlays.
- Given the build up of receivables related to back audits, BAH DSOs are elevated relative to peers. BAH ended FY25 with DSOs at 66 days, up modestly from 65 days at the end of FY24. We model in an increase in FY26E on lower top line growth and a less certain funding environment with an improvement once more in the out years.

Source: Company data

Booz Allen Hamilton (BAH): FCF Growth Modest on a Core Basis with One Timers Boosting Cash in FY25

Leverage Expected to Fall Below 2X by FY26E



- BAH ended FY25 with \$885MM of cash on the balance sheet and \$3.2BB of debt. Net leverage ended the year at 2.4X, up modestly q-o-q due to share repurchase activity, relative to the target range of 3-3.5X.
- BAH issued \$650MM of 5.95% Senior Notes due 2035 on March 11, which were used to repay borrowings on the revolver for share repurchase, as well as general corporate purposes. This adds \$39MM to FY26E interest expense.

Source: Company data

Booz Allen Hamilton (BAH): Relative Valuation to History and Market

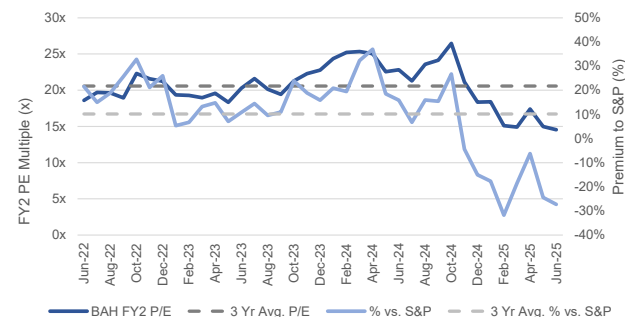
Relative Valuation

Ticker	BAH
Current P/E	14.5x
3 Yr Avg. P/E	20.6x
Current / 3 Yr Avg.	-29%
Prem / Discst SP	-27%
3 Yr Prem / Discst SP	10%
S&P500 Multiple	20.0x
Current EV/EBITDA	11.2x
3 Yr Avg. EV/EBITDA	14.9x
Current / 3 Yr Avg.	-25%
Prem / Discst SP	-19%
3 Yr Prem / Discst SP	15%
S&P500 Multiple	13.9x
Current FCF Yield	7.1%
3 Yr Avg. FCF Yield	5.2%
Current / 3 Yr Avg.	-27%
Prem / Discst SP	-41%
3 Yr Prem / Discst SP	-8%
S&P500 Multiple	4.2%

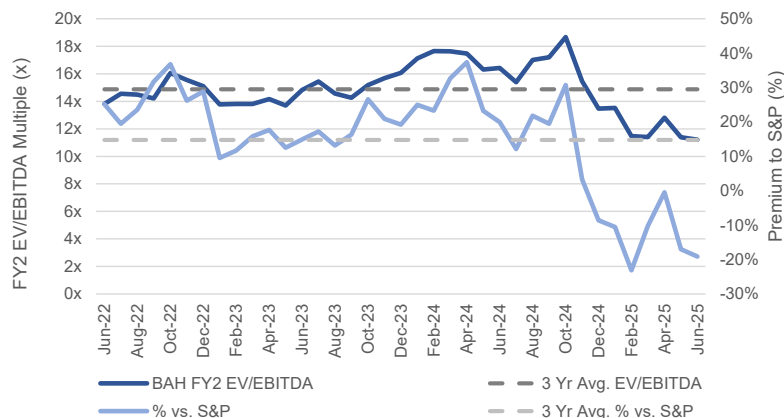
Price Target Derivation

Method	Price	Assumptions
EV/EBITDA	\$109	12.2x EV/EBITDA; FY27 EBITDA of \$1.4BB
P/E	\$122	17.6x P/E; FY27 EPS of \$6.90
FCF	\$129	5.4% FCF Yield; FY27 FCF of \$895MM
Average	\$120	Blended average

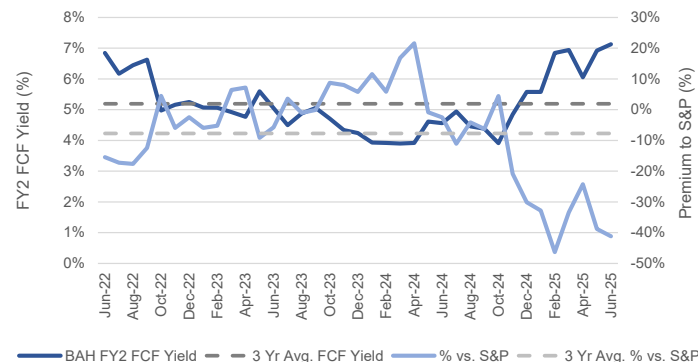
FY2 P/E: 27% Discst to Mkt vs. Historical Avg Prem of 10%



FY2 EV/EBITDA: 19% Discst to Mkt vs. Historical Avg Prem of 15%



FY2 FCF Yield: 41% Discst to Mkt vs. Historical Avg Discst of 8%



Source: Company data, FactSet and Jefferies estimates

Booz Allen Hamilton (BAH): Annual Income Statement

Year Ended March.

(millions, except per share data)	2020		2021		2022		2023		2024		2025E		2026E		2027E		2028E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$7,464	100.0	\$7,859	100.0	\$8,364	100.0	\$9,259	100.0	\$10,662	100.0	\$11,980	100.0	\$11,999	100.0	\$12,729	100.0	\$13,503	100.0
Costs and expenses																		
Costs of Sales	3,379	45.3%	3,658	46.5%	3,900	46.6%	4,305	46.5%	4,921	46.2%	5,419	45.2%	5,598	46.7%	5,938	46.7%	6,300	46.7%
Billable Expenses	2,298	30.8%	2,326	29.6%	2,474	29.6%	2,809	30.3%	3,282	30.8%	3,780	31.6%	3,630	30.3%	3,851	30.3%	4,085	30.3%
Selling, General & Administrative	1,036	13.9	1,037	13.2	1,159	13.9	1,533	16.6	1,281	12.0	1,246	10.4	1,445	12.0	1,545	12.1	1,630	12.1
Depreciation and amortization	81		84		146		165		164		165		173		153		149	
Total Operating Costs	\$6,795	91%	\$7,105	90%	\$7,679	92%	\$8,812	95%	\$9,648	90%	\$10,610	89%	\$10,847	90%	\$11,487	90%	\$12,164	90%
Operating Profit	\$669	9.0%	\$754	9.6%	\$685	8.2%	\$447	4.8%	\$1,013	9.5%	\$1,370	11.4%	\$1,153	9.6%	\$1,242	9.8%	\$1,339	9.9%
Other (income) expense, net	(7)		11		(11)		(41)		(13)		(17)		0		0		0	
Total interest	97		81		92		120		173		168		198		195		191	
Income before taxes	\$579		\$662		\$604		\$368		\$853		\$1,219		\$955		\$1,047		\$1,148	
Taxes (rate %)	97	16.7%	53	8.1%	137	22.8%	97	26.3%	248	29.0%	284	23.3%	224	23.5%	248	23.7%	273	23.8%
Net Income, continuing ops	\$483		\$609		\$467		\$271		\$606		\$935		\$731		\$799		\$875	
Net Income	\$483	6.5%	\$609	7.7%	\$467	5.6%	\$272	2.9%	\$606	5.7%	\$935	7.8%	\$731	6.1%	\$799	6.3%	\$875	6.5%
Diluted shares (millions)	141.2		138.7		134.9		132.7		130.8		128.3		124.5		121.7		118.9	
GAAP Diluted EPS	\$3.42		\$4.39		\$3.46		\$2.03		\$4.59		\$7.29		\$5.87		\$6.56		\$7.35	
Adjusted EPS																		
Certain stock-based compensation expense	\$3		\$1		\$0		\$0		\$0		\$0		\$0		\$0		\$0	
Amortization of intangible assets	\$0		\$0		\$38		\$52		\$54		\$54		\$54		\$54		\$54	
Transaction expenses	\$1		\$0		\$104		\$401		(\$3)		(\$220)		\$0		\$0		\$0	
Adjusted Operating Income	\$673		\$755		\$827		\$900		\$1,065		\$1,204		\$1,207		\$1,296		\$1,393	
Amortization	\$2		\$16		(\$9)		(\$38)		\$10		\$4		\$0		\$0		\$0	
Adjustment for tax effect, other	(\$40)		(\$84)		(\$31)		(\$81)		\$52		\$42		(\$13)		(\$13)		(\$13)	
Adjusted Net Income	\$449		\$542		\$568		\$605		\$719		\$815		\$772		\$840		\$916	
Adjusted EPS (Diluted)	\$3.18		\$3.90		\$4.21		\$4.56		\$5.50		\$6.35		\$6.20		\$6.90		\$7.70	

Source: Company data and Jefferies estimates

Booz Allen Hamilton (BAH): Annual Cash Flow Statement

Year Ended March.

(millions, except per share data)	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Operating Activities									
Net income	\$483	\$609	\$467	\$271	\$606	\$935	\$731	\$799	\$875
Depreciation & Amortization	81	84	146	165	164	165	173	153	149
Deferred Taxes & Investment Tax Credit	65	232	(130)	(354)	(101)	(91)	0	0	0
Stock based comp	43	60	70	80	95	94	94	94	94
Excess tax benefits from the exercise of stock options	0	0	0	0	0	0	0	0	0
Amortization of debt issuance costs and loss of	6	4	5	4	5	0	5	5	5
Losses on dispositions and impairments/debt	2	10	(1)	10	8	8	8	8	8
Gain on sales of business/Noncash lease expense	55	53	43	12	55	26	0	0	0
Op cash flow pre-working capital	\$735	\$1,053	\$599	\$190	\$832	\$1,137	\$1,010	\$1,059	\$1,130
Change in Working Capital	(\$184)	(\$334)	\$138	\$413	(\$573)	(\$128)	(\$127)	(\$80)	(\$52)
Cash Flow from Operations	\$551	\$719	\$737	\$603	\$259	\$1,009	\$883	\$979	\$1,078
Investment activities									
Capital expenditures	(128)	(87)	(80)	(76)	(67)	(98)	(111)	(84)	(82)
Cash paid for business acquisitions, net of cash acquired	0	(74)	(780)	(440)	(0)	(97)	0	0	0
Proceeds from sales of businesses	0	3	0	53	0	0	0	0	0
Escrow receipts	0	0	0	0	0	0	0	0	0
Cash Flow from Investments	(\$128)	(\$158)	(\$868)	(\$468)	(\$91)	(\$218)	(\$111)	(\$84)	(\$82)
Financing Activities									
Net proceeds from issuance of common stock	15	19	23	25	29	33	0	0	0
Stock option exercises	9	12	6	11	16	5	0	0	0
Excess tax benefits from exercise of stock options	0	0	0	0	0	0	0	0	0
Repurchase of common stock	(182)	(313)	(419)	(224)	(404)	(812)	(700)	(700)	(700)
Cash dividends paid	(147)	(181)	(209)	(236)	(253)	(268)	(275)	(282)	(289)
Dividend equivalents paid to option holders	0	0	0	0	0	0	0	0	0
Debt issuance/extinguishment costs	0	(9)	0	415	1,136	0	0	0	0
Repayment of debt	(77)	(528)	(112)	(417)	(541)	(262)	(63)	(63)	(63)
Proceeds from debt issuance	498	691	547	415	1,136	844	(198)	0	0
Cash Flow from Financing	\$35	(\$311)	(\$164)	(\$426)	(\$19)	(\$460)	(\$1,236)	(\$1,045)	(\$1,052)
Net change in cash items	458	249	(295)	(291)	149	331	(463)	(150)	(56)
Cash at the beginning of the period	284	742	991	696	405	554	885	422	273
Cash at the end of the period	\$742	\$991	\$696	\$405	\$554	\$885	\$422	\$273	\$217

Source: Company data and Jefferies estimates

Booz Allen Hamilton (BAH): Annual Balance Sheet

Year Ended March.

(millions, except per share data)	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Assets									
Cash and cash equivalents	\$742	\$991	\$696	\$405	\$554	\$885	\$422	\$273	\$217
Accounts receivable - net	1,459	1,412	1,623	1,775	2,047	2,271	2,292	2,355	2,431
Inventories and contracts in progress	0	0	0	0	0	0	0	0	0
Other current assets	127	233	127	108	137	157	156	165	176
Total Current Assets	\$2,328	\$2,636	\$2,446	\$2,288	\$2,739	\$3,313	\$2,870	\$2,793	\$2,823
PPE	208	205	202	195	188	177	244	241	231
Goodwill	1,581	1,581	2,022	2,338	2,344	2,405	2,405	2,405	2,405
Long-Term Note Receivable	0	0	0	0	0	0	0	0	0
Deferred Tax Assets	0	0	0	0	0	0	0	0	0
Total non-current assets	2,466	2,863	3,580	4,263	3,825	3,999	3,980	3,911	3,844
Total Assets	\$4,794	\$5,500	\$6,026	\$6,551	\$6,564	\$7,312	\$6,850	\$6,704	\$6,667
Liabilities									
Short-term borrowings	178	78	68	41	62	83	83	83	83
Accounts Payable and Other Accrued Expenses	698	667	903	1,317	1,051	987	960	993	1,026
Accrued Comp and Benefits	349	426	439	445	506	702	702	702	702
Deferred income tax liability	0	0	0	0	0	0	0	0	0
Accrued liabilities	103	121	124	94	74	74	74	74	74
Total Current Liabilities	\$1,328	\$1,291	\$1,534	\$1,897	\$1,692	\$1,846	\$1,819	\$1,852	\$1,885
Long-term debt	2,008	2,279	2,732	2,771	3,350	3,915	3,654	3,591	3,528
Deferred income tax liabilities	88	364	240	198	182	180	0	0	0
Other long-term liabilities	514	494	474	693	293	368	368	368	368
Total Non-current Liabilities	2,610	3,137	3,445	3,662	3,825	4,463	4,022	3,959	3,896
Total Liabilities	\$3,938	\$4,428	\$4,979	\$5,559	\$5,517	\$6,309	\$5,841	\$5,810	\$5,781
Total Stockholders equity	\$856	\$1,071	\$1,047	\$992	\$1,047	\$1,003	\$1,009	\$893	\$886
Total liabilities and S/E	\$4,794	\$5,500	\$6,026	\$6,551	\$6,564	\$7,312	\$6,850	\$6,704	\$6,667

Source: Company data and Jefferies estimates

CACI International (CACI) – Buy \$535 PT

1) 1.2X B2B Supports 10% Organic Growth in FY25E and 5% in FY26E

2) Insulated, Not Immune - Just \$1MM Lost to Doge To Date

3) FY25E Margins of 11.2% Expand to 11.4% in FY26E w/ a Full Year of Azure

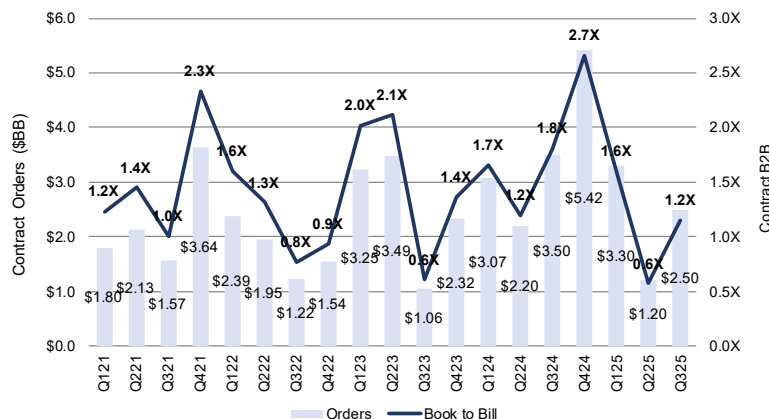
4) FCF/Sh Growing at a 12% CAGR

Related Notes:

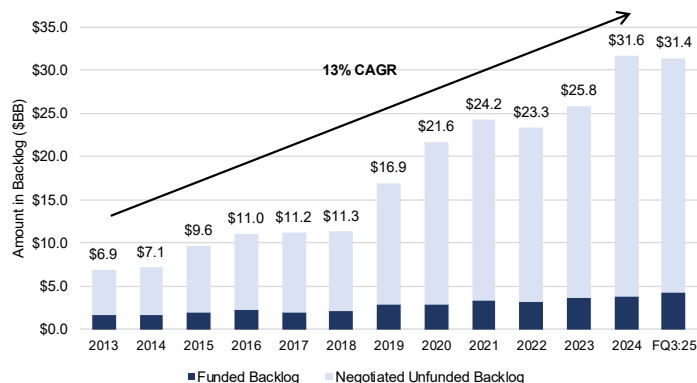
- [DOGE Can't Touch This](#) *April 27, 2025*
- [Mgmt Mtg Takes: Playing Good Defense and Offense, But Vals Can't Dodge the DOGE](#) *March 25, 2025*
- [Built Like A DODGE RAM; Ready to Power Through Trading at 10 Year Trough](#) *January 26, 2025*

CACI International (CACI): Bookings of 1.2X in FQ3 and TTM B2B at 1.5X, As Backlog Grows Another 10% Y-o-Y

Book to Bill of 1.2X in FQ3:25 Puts TTM at 1.5X, Supporting Organic Growth



Backlog has Expanded at a 13% CAGR to \$31.4BB in FQ3:25 Aided by Recent Large Technology Awards



- Contract awards totaled \$2.5BB in FQ3 (down from \$3.5BB a year ago), representing a 1.2X B2B in the quarter, with LTM contract awards totaling \$12.4BB putting TTM B2B at 1.5X. This provides some visibility, with the average duration of recent awards > 5 years.
- Of the total contract awards to CACI in FQ3:25, >60% represented new business to CACI. Total backlog grew by 10% y-o-y to \$31.4BB, with the funded portion of \$4.2BB up 31%.
- CACI now has \$17BB of submitted bids awaiting award (~80% new business) with \$10BB of bids expected to be submitted over the next two quarters (~75% new business).
- Notable contract awards in the quarter included:
 - \$434MM** for digital financial management solutions for an IC customer providing software-defined systems and functional knowledge to support clean audits.
 - \$400MM follow-on (\$500MM total contract value)** for continued procurement, training, and fielding for a mission-essential system built using commercial software-based technology for SIGINT and EW capabilities at the warfighter level.

Source: Company data and Jefferies estimates

CACI International (CACI): Organic Growth of 10% in FY25E Supported by Large Ramping Contracts

Organic Growth of 10% in FY25E Supported by Large Ramping Contracts

Revenue Build (\$MM)	FY23	FY24	FY25E	FY26E	FY27E
Revenue Bridge	\$6,203	\$6,703	\$7,660	\$8,629	\$9,256
Recompete Loss	(19)	(34)	(27)	(43)	(69)
Material Pass-through	0	200	(200)	0	0
New Program Wins	124	134	153	173	185
NASA NCAPS	0	0	80	100	70
DoD Network Mod.	0	0	75	0	0
FocusedFox	0	325	75	0	0
GENMOD	0	0	75	25	0
DIS ECS3	0	0	75	50	0
Cybersecurity (Intelligence Community)	0	0	60	65	0
Army Manpack	0	0	60	40	0
EITaaS	0	50	50	100	0
Spectral	0	40	30	80	0
USEUCOM & USAFRICOM	0	0	50	90	0
Logistics & Sustainment	0	0	25	15	0
DoD C3	0	0	20	10	0
TSA IMPACT	(35)	(35)	0	0	0
Contract End of Life / On-contract Growth	299	241	(94)	(249)	210
Organic Change	\$370	\$921	\$507	\$455	\$396
Acquisition Contribution	130	36	462	172	0
End Revenue	\$6,703	\$7,660	\$8,629	\$9,256	\$9,651
Y-o-Y % Change	8.1%	14.3%	12.7%	7.3%	4.3%
Y-o-Y % Organic Change	6.0%	10.8%	9.5%	5.3%	4.3%
Recompete Rate (% of Sales)	10%	5%	7%	10%	15%

FY26 EPS Sensitivity - Civil -10% at Consistent Margin is a ~31c Headwind to Base EPS of \$28.00 (-1%)

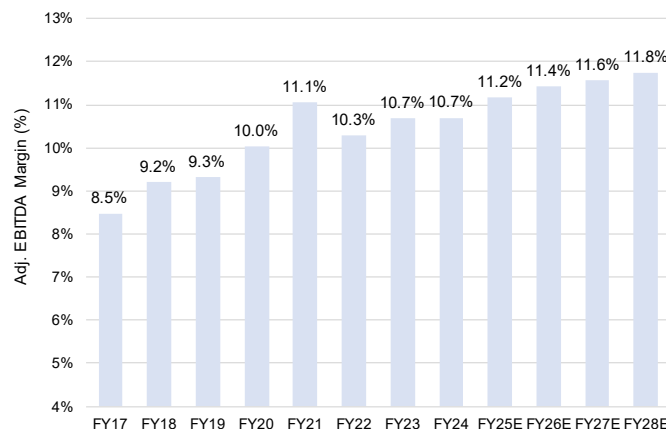
		US FedCiv FY26E Growth						
FedCiv Adj. EBITDA Margin		-10.0%	-7.0%	-5.0%	-3.0%	-1.0%	1.0%	3.0%
	10.0%	\$27.20	\$27.26	\$27.29	\$27.33	\$27.37	\$27.40	\$27.44
	10.5%	\$27.29	\$27.34	\$27.38	\$27.42	\$27.46	\$27.50	\$27.53
	11.0%	\$27.37	\$27.43	\$27.47	\$27.51	\$27.55	\$27.59	\$27.63
	11.5%	\$27.45	\$27.51	\$27.55	\$27.60	\$27.64	\$27.68	\$27.72
	12.0%	\$27.53	\$27.60	\$27.64	\$27.68	\$27.73	\$27.77	\$27.81
	12.5%	\$27.61	\$27.68	\$27.73	\$27.77	\$27.82	\$27.86	\$27.91
	13.0%	\$27.69	\$27.76	\$27.81	\$27.86	\$27.91	\$27.95	\$28.00

- CACI booked three large contracts during FY23 that contribute an est'd 2-pts to FY25 with a gradual ramp for each. Looking to FY26, NASA NCAPS (takeaway during FY25) and EITaaS led growth.
- Our base estimates have the FedCiv bucket growing to \$533MM in FY26E (+3% y-o-y from FY25E). Each 1pt to the FedCiv growth rate in FY26E adds about \$0.02 to our base EPS estimate of \$28.00, or largely immaterial given FedCiv accounts for just ~6% of total company sales. A 50 bps hit to Fed Civ margins would equate to a \$0.09 impact on EPS, or 0.3%. The more likely scenario is a contraction in Fed Civ revenue at a consistent margin.
- We assume a 13% margin for Civil in line with peers with downside risk to 11.0% worth just 47c. In a scenario where FedCiv growth is -10% and margins remain around 13%, EPS would come down to \$27.69, or just 1% below our base \$28.00 estimate.

Source: Company data and Jefferies estimates

CACI International (CACI): "Core" Margins Implied Up 50 bps with FY25 De-Risked by Strong FQ3

Adj. EBITDA Margin - Margins Expected to Expand to the High-11% Range in FY25E-FY27E



- CACI has been able to expand margins healthily over the past 6 years, with 140 bps of expansion just since FY19, supported by the shift in strategy from "expertise" work to "technology" work. CACI has stated Technology margins are typically 300-500 bps higher than Expertise margins, typically higher for high margin technology products. We estimate margins of 11.2% in FY25 and stabilizing over the next few years.
- If we look at CACI relative to peers (BAH, LDOS, PSN, and SAIC), the group is expected to only modestly expand margins from 2024 to 2027 given some normalization of the cost base related to indirect costs that were lower during 2020-22.
- CACI is expected to see 140 bps of margin expansion from FY24-FY28 vs peers up 90 bps in our models, led by LDOS +210 bps and PSN +60bps.

Source: Company data and Jefferies estimates

CACI International (CACI): FCF Up 21% Y-o-Y with FCF/Sh Growing 12% CAGR Through FY28

FCF Walk - \$465MM of FCF in FY25 As Lessening Tax Headwinds Are Offset By Inventory Usage

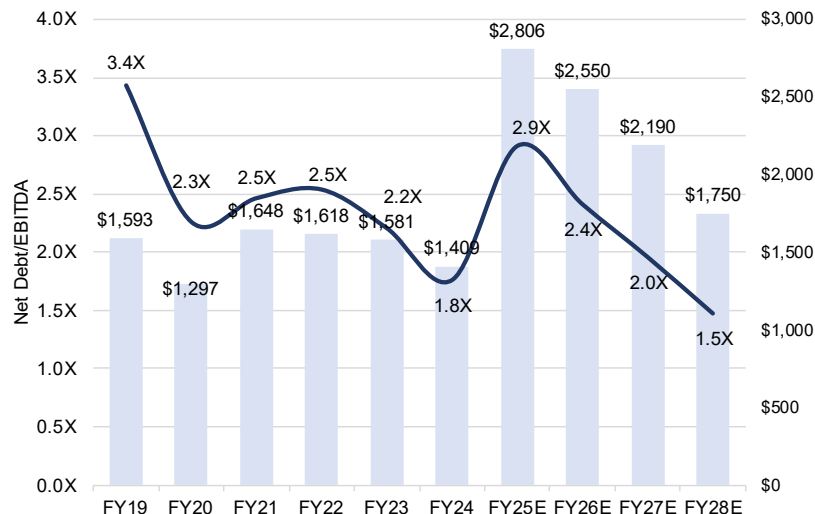
	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E
Net Income	\$266	\$321	\$457	\$367	\$385	\$420	\$460	\$521	\$567	\$624
Depreciation and Amortization	86	111	125	135	142	142	203	191	199	207
NWC	177	(77)	(173)	(13)	(9)	(64)	(151)	(56)	(26)	(26)
Pension Contributions	0	0	0	0	0	0	0	0	0	0
Stock Comp/Deferred Taxes/Other	27	164	182	257	(130)	(1)	25	5	25	40
CFO	\$555	\$519	\$592	\$746	\$388	\$497	\$537	\$661	\$765	\$845
Capex	(48)	(72)	(73)	(75)	(64)	(64)	(70)	(90)	(90)	(90)
FCF	\$507	\$446	\$519	\$672	\$324	\$434	\$467	\$571	\$675	\$755
FCF Per Share	\$19.98	\$17.52	\$20.77	\$28.36	\$13.85	\$19.21	\$20.83	\$26.17	\$31.81	\$36.62
FCF ex-Section 174	\$507	\$446	\$519	\$672	\$546	\$509	\$522	\$596	\$680	\$755
Adj. FCF per Share	\$19.98	\$17.52	\$20.77	\$28.36	\$23.33	\$22.53	\$23.29	\$27.32	\$32.05	\$36.62
Deployment										
Dividends	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Share Repurchases	(6)	(8)	(509)	(10)	(273)	(161)	(200)	(315)	(315)	(315)
Debt Paydown	(200)	(263)	(2,961)	(6)	(39)	(156)	(125)	(225)	(250)	(300)
Debt Issuance	775	0	3,290	0	0	0	1,000	0	0	0
Acquisitions	(1,083)	(106)	(356)	(616)	(14)	(90)	(1,642)	0	0	0
Total Deployment	(\$514)	(\$377)	(\$536)	(\$632)	(\$326)	(\$408)	(\$967)	(\$540)	(\$565)	(\$615)
Discretionary FCF (post pension contributions, dividends, and committed debt pay-down)										
	\$307	\$183	(\$2,442)	\$50	\$271	\$116	\$142	\$31	\$110	\$140
Ratios										
FCF to Net Income Conversion	191%	139%	113%	183%	84%	103%	101%	110%	119%	121%
FCF Ex-Sec 174 to Adj Net Income Conversion	169%	122%	102%	159%	124%	107%	95%	98%	104%	106%
FCF Yield (FCF / Mkt Cap.)	5.0%	4.4%	5.1%	6.7%	3.2%	4.3%	4.6%	5.7%	6.7%	7.5%
FCF Change YoY	117%	-12%	16%	29%	-52%	34%	8%	22%	18%	12%
FCF per Share Change YoY	167%	-12%	19%	37%	-51%	39%	8%	26%	22%	15%
Discretionary FCF Yield	3.0%	1.8%	-24.2%	0.5%	2.7%	1.2%	1.4%	0.3%	1.1%	1.4%
Discretionary FCF % Change YoY	408%	-40%	-1431%	-102%	445%	-57%	22%	-78%	254%	27%
Share Repo as % of Mkt Cap	0%	0%	5%	0%	3%	2%	2%	3%	3%	3%
% of Cash Returned to Shareholders	1%	2%	98%	1%	84%	37%	43%	55%	47%	42%
Capex as a % of Sales	1.0%	1.3%	1.2%	1.2%	1.0%	0.8%	0.8%	1.0%	0.9%	0.9%

- FY25 FCF guidance was raised to >\$465MM (up from \$450MM prior) including ~\$70MM capex, which implies ~85% conversion to adj NI including a net \$15MM headwind from cash taxes (\$55MM Sec 174 offset by \$40MM tax planning benefit). In Q3:25, CACI generated adjusted FCF of \$188MM (excl. MARPA of \$26MM). Q3 FCF reflected a \$38MM A/R use, offset by a \$24MM source from payables and \$13MM of pre-paid expenses unwinding.
- For FY25, we estimate FCF rises \$34MM y-o-y (+8%, ex-MARPA) to \$467MM from \$384MM (ex-MARPA).
- Our estimate of \$467MM is in-line with guidance of "at least \$465MM"; we estimate \$70MM in capex, aligned with the updated guide.

Source: Company data and Jefferies estimates

CACI International (CACI): Leverage Comfortable to 4.5X Range Now in the Low 2Xs

Leverage To Reach 2.4X By FY26 On Our Estimate Assuming Not Including Debt Raised to Fund M&A



- CACI has de-levered and strengthened its balance sheet through debt repayments and refinancing. CACI ended FQ3:25 with net debt of \$2.9BB, or 2.9X EBITDA on a TTM, Pro forma basis (incl. EBITDA from Azure Summit). We estimate CACI leverage could end FY25E at 2.9X and 2.4X in FY26 with FCF generation. More recently, management shared a target leverage range of 2.5-3.0x they aim to operate within.
- All of the debt on CACI's balance sheet is variable, although swaps are used to create 2/3rds of the debt as fixed rate. As a result, the rise in interest rates affects only a portion of the company's debt portfolio, with each incremental dollar of debt paydown reducing the highest interest rate debt. Net interest expense is guided up to ~\$160MM in FY25 from \$105MM in FY24.

Source: Company data and Jefferies estimates

CACI International (CACI): Relative Valuation to History and Market

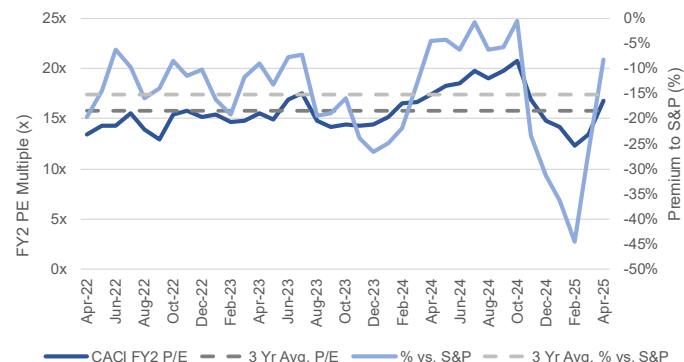
Relative Valuation

Ticker	CACI
Current P/E	16.7x
3 Yr Avg. P/E	15.7x
Current / 3 Yr Avg.	6%
Prem / Disct SP	-8%
3 Yr Prem / Disct SP	-15%
S&P500 Multiple	18.2x
Current EV/EBITDA	12.7x
3 Yr Avg. EV/EBITDA	12.0x
Current / 3 Yr Avg.	6%
Prem / Disct SP	1%
3 Yr Prem / Disct SP	-6%
S&P500 Multiple	12.6x
Current FCF Yield	5.9%
3 Yr Avg. FCF Yield	6.5%
Current / 3 Yr Avg.	11%
Prem / Disct SP	-20%
3 Yr Prem / Disct SP	-26%
S&P500 Multiple	4.7%

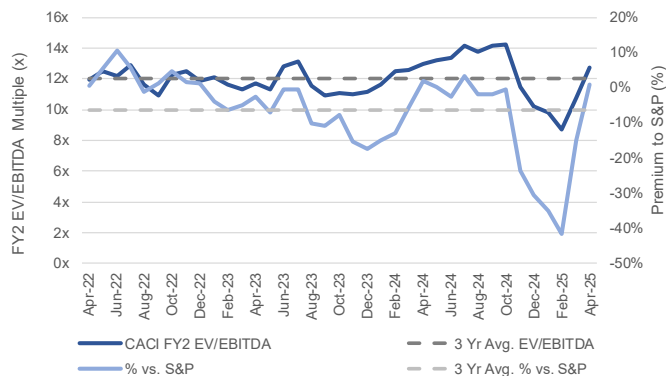
Price Target Derivation

Valuation Method	Price	Assumptions
EV/EBITDA	529	13.3X our 2026E EBITDA of \$1,057MM
P/E	530	18.9X our 2026E EPS of \$28.00
FCF Yield	545	4.8% Our 2026E FCF of \$571MM
Average	\$535	Blended average

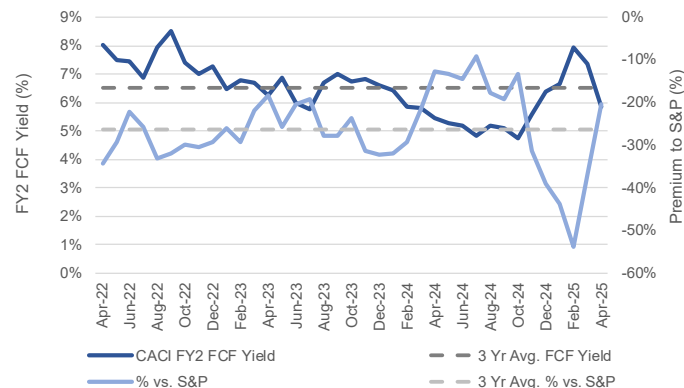
FY2 P/E: 8% Disct to Mkt vs. Historical Avg Disct of 15%



FY2 EV/EBITDA: 1% Prem to Mkt vs. Historical Avg Disct of 6%



FY2 FCF Yield: 20% Disct to Mkt vs. Historical Avg Disct of 26%



Source: Company data, FactSet and Jefferies estimates

CACI International (CACI): Income Statement

Year Ending June.

(millions, except per share data)	2022		2023		2024		2025E		2026E		2027E		2028E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$6,203	100.0	\$6,703	100.0	\$7,660	100.0	\$8,629	100.0	\$9,256	100.0	\$9,651	100.0	\$10,065	100.0
Costs and expenses														
Costs of Sales	4,051	65.3%	4,403	65.7%	5,148	67.2%	5,628	65.2%	6,014	65.0%	6,257	64.8%	6,507	64.6%
Selling, General & Administrative	1,521	24.5	1,591	23.7	1,720	22.5	2,036	23.6	2,184	23.6	2,278	23.6	2,375	23.6
Depreciation and amortization	135	2.2	142	2.1	142	1.9	203	2.4	191	2.1	199	2.1	207	2.1
Total Operating Costs	\$5,707	92%	\$6,135	92%	\$7,010	92%	\$7,868	91%	\$8,389	91%	\$8,733	90%	\$9,089	90%
GAAP Operating Profit	\$496	8.0%	\$568	8.5%	\$650	8.5%	\$762	8.8%	\$866	9.4%	\$918	9.5%	\$975	9.7%
Other (income) expense, net	0		0		0		0		0		0		0	
Total Interest	42		84		105		160		185		170		153	
Income before taxes	\$455		\$484		\$545		\$602		\$681		\$748		\$822	
Taxes (rate %)	88	19.3%	99	20.4%	125	22.9%	142	23.5%	160	23.5%	181	24.2%	199	24.2%
GAAP Net Income	\$367		\$385		\$420		\$460		\$521		\$567		\$624	
Diluted shares (millions)	23.7		23.4		22.6		22.4		21.8		21.2		20.6	
GAAP Diluted EPS	\$15.49		\$16.43		\$18.60		\$20.53		\$23.89		\$26.72		\$30.25	
Adjusted EPS														
Net Income	\$367		\$385		\$420		\$460		\$521		\$567		\$624	
Intangible Amortization	74		75		74		120		120		120		120	
Earnout adjustments	0		0		0		0		0		0		0	
Less: Related tax effect	(19)		(19)		(19)		(29)		(30)		(30)		(30)	
Adjusted net income	422		441		475		551		611		657		713	
Adjusted EPS	\$17.83		\$18.83		\$21.05		\$24.60		\$28.00		\$30.95		\$34.60	

Source: Company data and Jefferies estimates

CACI International (CACI): Cash Flow Statement

Year Ending June.

(millions, except per share data)	2022	2023	2024	2025E	2026E	2027E	2028E
Operating Activities							
Net Income	\$367	\$385	\$420	\$460	\$521	\$567	\$624
Depreciation and amortization	135	142	142	203	191	199	207
Tax benefit from stock option exercises	0	0	0	0	0	0	0
Deferred income taxes	10	(19)	(50)	0	0	0	0
Method Change Tax Election/Cares	143	(127)	0	0	0	0	0
Section 174	0	(95)	(75)	(15)	(35)	(15)	0
Investment gains	0	0	0	0	0	0	0
Stock comp	32	40	54	40	40	40	40
Other	73	72	70	0	0	0	0
Op cash flow pre-working capital	759	397	561	688	717	791	871
Receivables	(4)	32	(128)	(142)	(76)	(53)	(56)
Prepays and Other	(14)	(44)	1	(25)	(16)	9	10
Accounts Payable	81	(7)	125	(28)	19	12	12
Income Taxes Payable	45	11	(27)	0	0	0	0
Other Accruals	(74)	19	1	45	17	7	8
Other Assets/Liabilities	(46)	(21)	(36)	0	0	0	0
Changes in working capital	(13)	(9)	(64)	(151)	(56)	(26)	(26)
Cash Flow from Operations	\$746	\$388	\$497	\$537	\$661	\$765	\$845
Investment activities							
Capital expenditures, net of disposals	(75)	(64)	(64)	(70)	(90)	(90)	(90)
Capitalized software development	0	0	0	0	0	0	0
Proceeds from sale of PP&E	0	0	0	0	0	0	0
Acquisitions, net of cash acquired	(616)	(14)	(90)	(1,642)	0	0	0
Deferred compensation and other	1	2	2	0	0	0	0
Proceeds from sale of business	0	0	0	0	0	0	0
Cash Flow from Investments	(689)	(76)	(152)	(1,712)	(90)	(90)	(90)
Financing Activities							
Line of credit borrowings/(payments)	(6)	(39)	(156)	1,525	(225)	(250)	(300)
Purchase of treasury stock	(10)	(273)	(161)	(200)	(315)	(315)	(315)
Proceeds from stock options	10	10	11	0	0	0	0
Other	(15)	(14)	(21)	(37)	0	0	0
Stock issuances	0	0	0	0	0	0	0
Cash Flow from Financing	(21)	(316)	(327)	1,288	(540)	(565)	(615)
Effect of FX on cash and cash equivalents	(8)	5	0	0	0	0	0
Net change in cash items	27	1	18	113	31	110	140
Cash at the beginning of the period	88	116	117	135	248	279	389
Cash at the end of the period	116	117	135	248	279	389	529

Source: Company data and Jefferies estimates

CAE (CAE) – Hold \$27

1) FY26 (March YE) Revs Grow +6% w/ Civil H1 Destock (FY +6%)

2) Tempering Civil Expectations On Uncertainty, But End Market Aligning

3) Gaining Traction in D&S On Top and Bottom Line

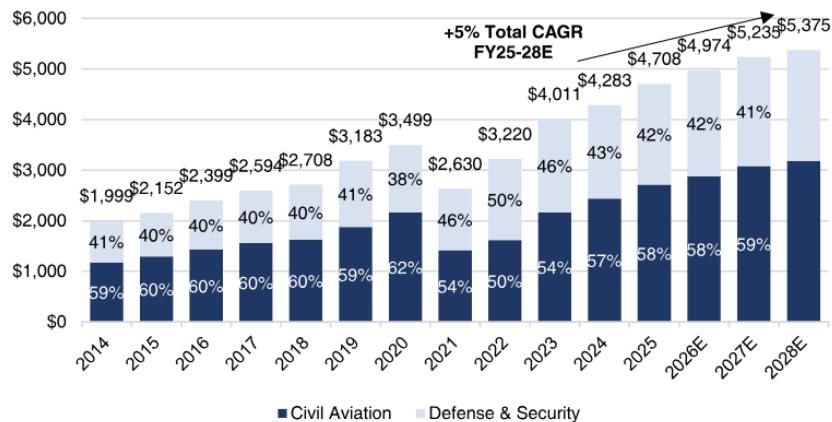
4) FCF Conversion Resets Higher - Now At 150%

Related Notes:

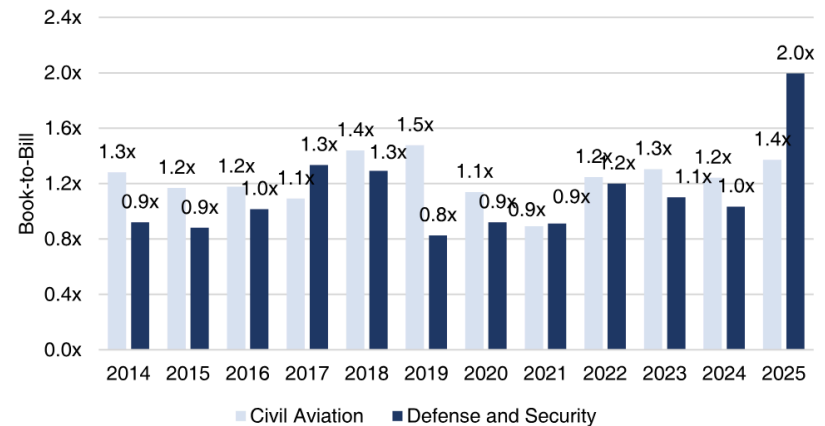
- [Initial Training Creates Initial Pressure in FY26 Before H2 Simulation](#) *May 16, 2025*
- [A Pilot Destock Before Riding the OE Wave](#) *February 19, 2025*
- [Bundling Up to Hit the H2 Slopes](#) *November 17, 2024*

CAE (CAE): Civil Growing at 6% With Defense Up 3% Supporting a 5% Total CAGR to 2028E

Revenue Growth - Civil Expands at 5% CAGR vs. Defense & Security at a 3% CAGR to FY28



Book-to-Bill - Sturdy B2B w/ Civil at 1.4X in 2025, D&S Leads at 2.0X



- CAE's revenue streams are backed by a highly regulated and thus highly recurring framework for pilot training within Civil Aviation, and growing adoption of simulated environment testing & mission support on the Defense & Security side.
- In FY26, management implied Civil revenue growth of MSD% with our estimate at 6.1% to \$2.88BB of revenue (58% of total sales). Defense & Security is expected to grow MSDs, estimated at 5.0% to \$2.1BB of sales (42% of total sales). We estimate sales growth of 6.9% to FY27, backed by increasing churn of pilots and growth of the fleet requiring training touch points along with leveraging backlog of new defense programs.
- In Q4, CAE saw a 1.05X B2B (1.64x TTM), supported by bookings of \$1.3BB (\$7.7BB TTM). By segment, Civil reported a B2B of 1.02X (1.37X TTM) with D&S at 1.09X (1.99X TTM). Orders in the quarter include 14 FFS and long-term training services contracts with commercial and business jet operators along with digital flight services contracts.

Source: Jefferies estimates, company data

CAE (CAE): Civil Aviation Revenue Build - Expecting Some Softening of Training Hours Near Term Given OEM Delays and Pilot Hiring Trends

Civil Aviation Revenue Build - Backlog Provides 2+ Years of Revenue Support w/ Forecast 6% CAGR to FY28 Driven by Both Services & Software and Deliveries

Civil Aviation	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Industry Deliveries									
Narrowbody + Regional	591	841	1,029	1,109	1,048	1,205	1,383	1,510	1,648
Widebody	343	343	343	343	343	343	343	343	343
Total Industry Aircraft Deliveries	934	1,184	1,372	1,452	1,391	1,548	1,726	1,853	1,991
% YoY Change	-26%	27%	16%	6%	-4%	11%	11%	7%	7%
Full-Flight Simulators									
FFS Starting Installed Base	286	306	317	316	324	343	363	391	419
FFS Deliveries	56	36	30	46	47	61	56	56	57
% YoY Change	-3%	-36%	-17%	53%	2%	30%	-8%	0%	2%
FFS Relocations / Power Downs	(36)	(25)	(31)	(38)	(28)	(41)	(28)	(28)	(29)
FFS Ending Installed Base	306	317	316	324	343	363	391	419	448
% YoY Change	7%	4%	0%	3%	6%	6%	8%	7%	7%
Aircraft Delivery Supported FFS	43	51	57	60	58	63	69	73	78
% Implied Share to CAE	132%	71%	52%	77%	81%	97%	81%	77%	73%
FFS Average ASP	\$12.5	\$14.0	\$15.0	\$15.5	\$15.5	\$15.8	\$16.0	\$16.5	\$16.8
FFS Sales Revenues	\$700.0	\$504.0	\$450.0	\$713.0	\$728.5	\$960.8	\$893.2	\$924.0	\$954.8
% YoY Change	10%	-28%	-11%	58%	2%	32%	-7%	3%	3%
% of Civil Revenue	32%	36%	28%	33%	30%	35%	31%	30%	30%
Training Services & Software									
Simulator Equivalent Unit	247	246	246	257	272	286	309	315	321
% YoY Change	13%	0%	0%	4%	6%	5%	8%	2%	2%
% of FFS Installed Base	81%	78%	78%	79%	79%	79%	79%	75%	72%
Available Flight Hours per SEU (24/7)	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Total Available Flight Hours in K	1,482	1,476	1,476	1,542	1,632	1,716	1,853	1,890	1,928
Utilization	70%	47%	60%	72%	76%	74%	75%	76%	76%
% YoY Change	-6%	-23%	13%	12%	4%	-2%	1%	1%	0%
Utilized Flight Hours	1,037	694	886	1,110	1,240	1,270	1,390	1,437	1,465
% YoY Change	4%	-33%	28%	25%	12%	2%	9%	3%	2%
Implied Price per Hour	\$1,415	\$1,310	\$1,319	\$1,309	\$1,376	\$1,376	\$1,450	\$1,504	\$1,519
% YoY Change	14%	-7%	1%	-1%	5%	0%	5%	4%	1%
Training & Software Revenues	\$1,467.5	\$908.9	\$1,167.8	\$1,453.4	\$1,707.3	\$1,747	\$2,015	\$2,160	\$2,226
YoY % Change	19%	-38%	28%	24%	17%	2%	15%	7%	3%
% of Civil Revenue	68%	64%	72%	67%	70%	64%	70%	70%	70%
Civil Aviation									
Total Civil Revenues	\$2,167.5	\$1,412.9	\$1,617.8	\$2,166.4	\$2,435.8	\$2,709.3	\$2,875.6	\$3,084.0	\$3,180.7
% YoY Change	16%	-35%	15%	34%	12%	11%	6%	7%	3%

Source: Jefferies estimates, company data

CAE (CAE): Defense & Security Revenue Build - Growing Backlog Suggests Traction on Enhanced Opportunity Set Post L3H MT Acquisition

Defense & Security Revenue Build - Growing Contribution from Transformational Awards Core Growth (And Profit) Driver, with the Segment Growing at 3.2% CAGR

Defense & Security	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Defense & Security									
Organic Revenue	\$1,326.4	\$1,217.1	\$1,192.2	\$1,713.5	\$1,847.0	\$1,998.6	\$2,098.5	\$2,151.0	\$2,194.0
M&A Revenue	\$4.8	\$0.0	\$409.9	\$130.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total D&S Revenues	\$1,331.2	\$1,217.1	\$1,602.1	\$1,844.2	\$1,847.0	\$1,998.6	\$2,098.5	\$2,151.0	\$2,194.0
% YoY Change	2%	-9%	32%	15%	0%	8%	5%	2%	2%
% YoY Organic Change	2%	-9%	-2%	7%	0%	8%	5%	2%	2%
Revenue Composition									
Transformational Awards					\$42	\$210	\$367	\$484	\$494
% YoY Change						405%	75%	32%	2%
% Average Annual Contribution					2%	11%	18%	23%	23%
% Ending Contribution					3%	15%	20%	25%	25%
Legacy CAE + L3H MT	\$1,331	\$1,217	\$1,602	\$1,844	\$1,805	\$1,789	\$1,731	\$1,667	\$1,700
% YoY Change	2%	-9%	32%	15%	-2%	-1%	-3%	-4%	2%
% Contribution	100%	100%	100%	100%	97%	85%	80%	75%	75%
Total D&S Revenues	\$1,331.2	\$1,217.1	\$1,602.1	\$1,844.2	\$1,847.0	\$1,998.6	\$2,098.5	\$2,151.0	\$2,194.0
% YoY Change	2%	-9%	32%	15%	0%	8%	5%	2%	2%
Backlog & Orders									
Backlog	\$4,117	\$3,908	\$4,658	\$5,066	\$5,744	\$11,296			
% YoY Change	-8%	-5%	19%	9%	13%	97%			
Coverage of NTM Revenue	3.4x	2.4x	2.5x	2.7x	2.9x	5.4x			
Orders	\$1,226	\$1,110	\$1,923	\$2,029	\$1,912	\$3,986			
% YoY Change	13%	-9%	73%	6%	-6%	108%			
Book-to-Bill	0.9x	0.9x	1.2x	1.1x	1.0x	2.0x			

- Defense & Security recorded \$1.99BB in revenues in FY25, a sharp acceleration from the flattish FY24. Higher revenue was tied to strength across North American programs, along with the absence of a \$54MM revenue adjustment for the negative EACs related to the rebaselining of the eight Legacy firm-fixed-price contracts in FY25. FY26 revenues are implied up MSDs with our estimate of up 5.0% to \$2.10BB.
- We estimate Defense & Security revenues grow at a 3.2% CAGR to \$2.19BB in FY28, relatively inline to budgets despite positioning to higher-growth areas in synthetic & simulated environments and communications.
- Core to growth are Transformational Programs, which include FSTSS, HADES, THAAD, Canada RPAS, and Canada FACt which represent an estimated ~\$200MM of sales exiting 2025.

Source: Jefferies estimates, company data

CAE (CAE): Civil Margins - Softening of Training Utilization Expected to Impact Civil Margin Conversion

Civil Aviation ASOI Bridge - LT Target of Mid-20% Outside Forecast Period Given Expected Softening of Training Hrs on Delivery Delays and Slower Pilot Hiring

Civil	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Start Adj. Segment Profit	\$351.1	\$479.4	\$164.3	\$314.7	\$485.3	\$548.9	\$581.5	\$622.3	\$676.0
Product Incremental Profits	9.3	(78.4)	(24.3)	65.8	2.3	11.6	(20.3)	9.2	9.2
Services Incremental Profits	80.4	(307.2)	168.3	142.8	76.2	5.0	35.1	44.4	16.5
Price	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
M&A	109.1	16.9	2.2	27.7	0.0	16.0	16.0	0.0	0.0
Productivity	0.0	0.0	40.0	(40.0)	(10.0)	1.0	10.0	0.0	0.0
FX	(1.4)	(0.2)	(4.4)	3.5	0.0	0.0	0.0	0.0	0.0
Other	(69.1)	53.8	(31.4)	(29.2)	(4.9)	0.0	0.0	0.0	0.0
Ending Adj. Segment Profit	\$479.4	\$164.3	\$314.7	\$485.3	\$548.9	\$581.5	\$622.3	\$676.0	\$701.7
% Margin	22.1%	11.6%	19.5%	22.4%	22.5%	21.5%	21.6%	21.9%	22.1%
% Product Incrementals	15%	40%	45%	25%	15%	5%	30%	30%	30%
% Service Incrementals	35%	55%	65%	50%	30%	12%	15%	25%	25%
% Net Price	0%	0%	0%	0%	0%	0%	0%	0%	0%
% M&A Contribution	25%	25%	1%	23%	NM	32%	30%	NM	NM

- In FY26, we estimate Civil Aviation margins are up 10 bps at 21.6% versus guidance for "modest margin expansion" from the 21.5% reported in FY25. Adj. SOI grows 7% in aggregate (vs M-HSD target), tied to improved services growth underpinned by an H2 ramp in commercial hiring and business aviation pilot replacement, aided by lower product mix on lower sim sales ofr the year..
- In our ASOI bridge, we estimate Product incrementals range from 10% to 30%, depending on customer mix and pricing mechanics, with Services incrementals at 20-30% given the recurring business, although our expected normalization of utilization of the FFS network keeps incrementals below prior 50%+ estimates in the near term.

Source: Jefferies estimates, company data

CAE (CAE): Defense & Security Margins - Transformational Awards & Bid Pipeline Supportive of Inflection, But Backlog Needs Time to Turn Over

Defense & Security ASOI Bridge - Multi-Year Trajectory to Overcome Legacy Contract Book as Transformational Awards Grow Within Mix

Defense & Security	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Start Adj. Segment Profit	\$131.5	\$114.5	\$87.0	\$119.2	\$53.1	\$0.8	\$150.5	\$170.0	\$200.7
Volume	3.7	(17.1)	(3.7)	16.7	0.4	45.5	8.0	15.7	12.9
Price	0.0	0.0	0.0	0.0	0.0	10.0	10.0	10.0	10.0
M&A	0.0	0.0	49.1	0.7	0.0	0.0	0.0	0.0	0.0
Productivity	6.5	6.7	6.1	(129.0)	30.0	4.0	1.5	5.0	0.0
FX	(1.4)	(0.2)	(4.4)	3.5	0.0	0.0	0.0	0.0	0.0
Other	(25.8)	(16.9)	(14.9)	41.9	(82.7)	91.1	0.0	0.0	0.0
Ending Adj. Segment Profit	\$114.5	\$87.0	\$119.2	\$53.1	\$0.8	\$150.5	\$170.0	\$200.7	\$223.6
% Margin	8.6%	7.1%	7.4%	2.9%	0.0%	7.5%	8.1%	9.3%	10.2%
% Volume Incremental	15%	15%	15%	15%	15%	30%	8%	30%	30%
% Net Price	0%	0%	0%	0%	0%	1%	0%	0%	0%
% M&A Contribution	0%	NM	12%	1%	NM	NM	NM	NM	NM

- In FY26, we estimate Defense & Security margins expand to 8.1%, up 60 bps y-o-y from the 7.5% in FY25.
- The contract book spans more than 500 contracts, with 8 Legacy contracts that turned loss-making post-pandemic given inflationary pressures, supply chain shortages, and complexity. There are other contracts that are lower-margin today given these effects, although only the 8 are in loss, that saw the advance risk recognition with the \$90MM of EACs, \$568MM of goodwill impairment, and \$36MM of technology intangible asset impairment at the end of FY24.
- Retirement of the remaining legacy programs and conversion of accretive backlog supports the ramp from 8.1% in FY25 to DD over time, w/ our margins ramping to 10.2% by FY28.

Source: Jefferies estimates, company data

CAE (CAE): FCF: Organic Investments and Deleveraging Take Priority as Defense Profitability Works to Inflect, Limiting NT Shareholder Returns

FCF Build - JEF-Defined FCF > 100% Conversion as CAE Defined FCF Now Set at 150% Conversion w/FY25 at 211% (C\$MM)

- In FY25, CAE reported \$814MM of FCF (211% conversion), up 95% y-o-y from \$418MM in FY24 (151% conversion), supported by a \$197MM benefit from noncash working capital.
- Company-defined FCF takes Operating Cash Flow less maintenance capex, less other adjustments, plus proceeds from disposal of PP&E, less net proceeds from equity accounted investees, plus net dividends, plus discontinued operations. The primary difference to JEF-defined FCF of OCF less total capex being the maintenance element of capex, which totaled \$84MM in FY25 (1.8% of sales) compared to total capex of \$356MM (7.6% of sales).
- On a JEF-defined basis, FY25 FCF was \$540MM at 140% conversion of adj. NI. In FY26E, we estimate \$478MM of JEF-defined FCF, down slightly just given the outperformance in FY25 with working capital a headwind offset by higher NI and slightly lower capex as guided.

	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Net Income	\$322	(\$77)	\$139	\$232	(\$296)	\$415	\$427	\$487	\$520
Depreciation and Amortization	305	320	311	342	375	415	448	471	484
NWC	(52)	(50)	23	(115)	128	197	2	(16)	(33)
Stock Comp/Deferred Taxes/Other	(30)	173	(54)	(51)	360	(130)	(50)	(50)	(50)
CFO	\$545	\$367	\$418	\$408	\$567	\$897	\$826	\$892	\$921
Capex	(283)	(108)	(272)	(269)	(330)	(356)	(348)	(366)	(376)
JEF-Defined FCF	\$262	\$259	\$146	\$140	\$237	\$540	\$478	\$526	\$545
FCF Per Share	\$0.98	\$0.95	\$0.47	\$0.44	\$0.75	\$1.69	\$1.49	\$1.65	\$1.71
Adjustments to CFO	(194)	(20)	(77)	(73)	(149)	(83)	(149)	(155)	(157)
Company-Defined FCF	\$351	\$347	\$342	\$336	\$418	\$814	\$676	\$737	\$764
Company-Defined FCF per Share	\$1.31	\$1.28	\$1.09	\$1.05	\$1.31	\$2.55	\$2.12	\$2.31	\$2.39
Deployment									
Dividends	(\$111)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Share Repurchases	(50)	0	0	0	0	0	(40)	(40)	(40)
Debt Paydown	(233)	(86)	(132)	(161)	(370)	(321)	0	0	0
Debt Issuance	876	(555)	774	76	37	287	0	0	0
Acquisitions	(10)	(187)	(1,884)	(6)	0	(308)	0	0	0
Total Deployment	\$472	(\$827)	(\$1,242)	(\$92)	(\$334)	(\$343)	(\$40)	(\$40)	(\$40)
Discretionary FCF	\$794	(\$382)	\$788	\$54	(\$97)	\$506	\$478	\$526	\$545
Ratios									
FCF to Adj. NI Conversion	72%	265%	58%	51%	86%	140%	115%	110%	107%
FCF Yield (FCF / Mkt Cap.)	3.2%	3.2%	1.8%	1.7%	2.9%	6.7%	5.9%	6.5%	6.7%
FCF Yield (FCF / EV)	4.6%	2.8%	1.3%	1.4%	2.5%	5.8%	5.4%	6.1%	4.9%
JEF FCF YoY Change	-6%	-1%	-44%	-4%	70%	128%	-12%	10%	4%
Dividend as a % of Adj. NI	34%	0%	0%	0%	0%	0%	0%	0%	0%
Dividend Yield	1.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Share Repo as % of Mkt Cap	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.5%	0.5%	0.5%
% of Cash Returned to Shareholders	61%	0%	0%	0%	0%	0%	8%	8%	7%
Capex as a % of Sales	8.1%	4.1%	8.5%	6.7%	7.7%	7.6%	7.0%	7.0%	7.0%

Source: Jefferies estimates, company data

CAE (CAE): Valuation Relative to History and Market

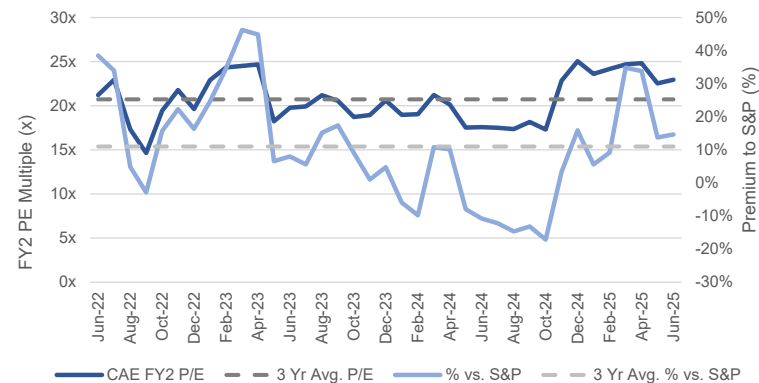
Relative Valuation

Ticker	CAE
Current P/E	22.9x
3 Yr Avg. P/E	20.7x
Current / 3 Yr Avg.	11%
Prem / Discst SP	15%
3 Yr Prem / Discst SP	11%
S&P500 Multiple	20.0x
Current EV/EBITDA	11.0x
3 Yr Avg. EV/EBITDA	10.8x
Current / 3 Yr Avg.	2%
Prem / Discst SP	-21%
3 Yr Prem / Discst SP	-17%
S&P500 Multiple	13.9x
Current FCF Yield	5.3%
3 Yr Avg. FCF Yield	5.4%
Current / 3 Yr Avg.	1%
Prem / Discst SP	-21%
3 Yr Prem / Discst SP	-10%
S&P500 Multiple	4.2%

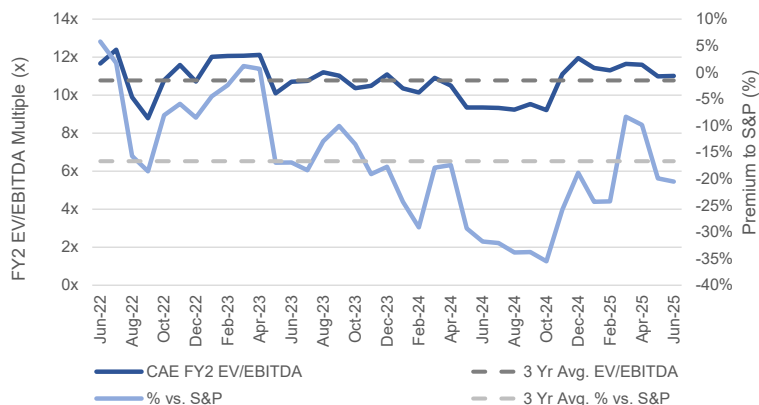
Price Target Derivation

Valuation Method	Price	Assumptions
EV/EBITDA	27	11.5x EV/EBITDA on FY27 EBITDA of C\$1.36BB
P/E	26	24.6x P/E on FY27 EPS of C\$1.50
FCF	27	4.3% FCF Yield on FY27 FCF of C\$526MM
Average	\$27	Blended average

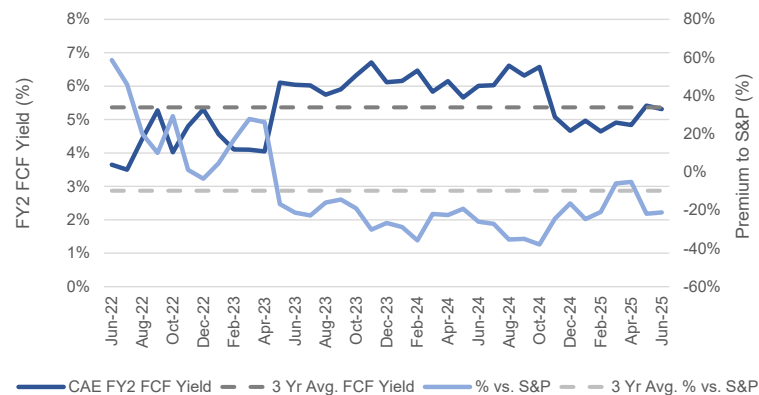
FY2 P/E: 15% Prem to Mkt vs. Historical Avg Prem of 11%



FY2 EV/EBITDA: 21% Discst to Mkt vs. Historical Avg Discst of 17%



FY2 FCF Yield: 21% Discst to Mkt vs. Historical Avg Discst of 10%



Source: Jefferies estimates, company data, FactSet

CAE (CAE): Income Statement

Year Ending Dec.

	2019		2020		2021		2022		2023		2024		2025		2026E		2027E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$3,183	100.0%	\$3,499	100.0%	\$2,630	100.0%	\$3,220	100.0%	\$4,011	100.0%	\$4,283	100.0%	\$4,708	100.0%	\$4,974	100.0%	\$5,235	100.0%
Operating Expenses																		
Cost of Goods Sold	2,239	70.4%	2,374	67.9%	1,786	67.9%	2,262	70.2%	2,927	73.0%	3,128	73.0%	3,408	72.4%	3,431	69.0%	3,542	67.7%
Research & Development	101	3.2%	138	3.9%	105	4.0%	121	3.8%	129	3.2%	150	3.5%	123	2.6%	149	3.0%	183	3.5%
Selling, General & Administrative	415	13.0%	438	12.5%	399	15.2%	489	15.2%	502	12.5%	535	12.5%	565	12.0%	602	12.1%	633	12.1%
Restructuring & Other	(49)	-1.5%	9	0.3%	321	12.2%	75	2.3%	(13)	-0.3%	655	15.3%	(118)	-2.5%	0	0.0%	0	0.0%
Total Operating Expenses	2,707	85.0%	2,958	84.5%	2,611	99.3%	2,946	91.5%	3,545	88.4%	4,468	104.3%	3,979	84.5%	4,182	84.1%	4,358	83.3%
Operating Profit	476	15.0%	541	15.5%	19	0.7%	274	8.5%	466	11.6%	(185)	-4.3%	729	15.5%	792	15.9%	877	16.7%
Adjustments	7		53		232		160		72		735		3		0		0	
Adj. Operating Profit	\$483	15.2%	\$594	17.0%	\$251	9.6%	\$434	13.5%	\$538	13.4%	\$550	12.8%	\$732	15.5%	\$792	15.9%	\$877	16.7%
Interest Expense	(81)		(144)		(136)		(131)		(174)		(205)		(216)		(220)		(220)	
Earnings Before Tax	395	12.4%	396	11.3%	(117)	-4.4%	143	4.4%	292	7.3%	(390)	-9.1%	514	10.9%	572	11.5%	656	12.5%
Taxes	60	-15.1%	74	-18.6%	(40)	-34.1%	4	-2.5%	63	-21.4%	(73)	-18.6%	99	-19.2%	145	-25.4%	169	-25.8%
Earnings from Continuing Operations	335		322		(77)		139		230		(318)		415		427		487	
Non-controlling Interest / Disc Ops	10		8		(0)		8		9		8		10		10		10	
GAAP Net Income	\$325	10.2%	\$315	9.0%	(\$76)	-2.9%	\$131	4.1%	\$221	5.5%	(\$325)	-7.6%	\$405	8.6%	\$417	8.4%	\$477	9.1%
After-Tax Restructuring	0		12		94		120		48		101		43		0		0	
Other Adjustments	10		37		80		0		7		501		(63)		0		0	
Adjusted Net Income	\$335	10.5%	\$363	10.4%	\$98	3.7%	\$251	7.8%	\$276	6.9%	\$277	6.5%	\$386	8.2%	\$417	8.4%	\$477	9.1%
Reported GAAP EPS	\$1.21		\$1.18		(\$0.28)		\$0.42		\$0.70		(\$0.96)		\$1.27		\$1.30		\$1.50	
Adjusted Diluted EPS	\$1.25		\$1.36		\$0.36		\$0.80		\$0.87		\$0.87		\$1.21		\$1.30		\$1.50	
Basic shares (millions)	266.6		266.0		272.0		311.0		317.7		318.2		319.7		318.7		318.2	
Diluted shares (millions)	268.0		267.6		272.0		312.9		318.4		318.2		319.7		319.7		319.2	

Source: Jefferies estimates, company data

CAE (CAE): Cash Flow Statement

Year Ending Dec.

(millions, except per share data)	2019	2020	2021	2022	2023	2024	2025	2026E	2027E
Operating Activities									
Net Income	\$335	\$322	(\$77)	\$139	\$232	(\$296)	\$415	\$427	\$487
Depreciation & Amortization	217	305	320	311	342	375	415	448	471
Other Operating Activities	(57)	(30)	173	(54)	(51)	360	(130)	(50)	(50)
OCF Before Working Capital	495	597	416	396	523	439	699	824	908
Change in Receivables	(1)	(40)	33	34	4	(11)	76	(25)	(23)
Change in Contract Assets	(72)	(30)	76	(49)	(67)	153	77	10	(25)
Change in Inventories	(22)	(88)	43	107	(66)	(76)	(11)	(32)	(28)
Change in Prepayments	(6)	(1)	2	(6)	(10)	(11)	(10)	(7)	(8)
Change in Income Taxes	7	8	(12)	(12)	(13)	30	(54)	0	0
Change in AP and Accrued Liabilities	157	54	(54)	(25)	22	11	54	38	43
Change in Provisions	(9)	(7)	28	(26)	(15)	14	(10)	(10)	1
Change in Contract Liabilities	(16)	51	(165)	(2)	30	18	74	28	23
Change in Deferred Revenue	(3)	0	0	0	0	0	0	0	0
Changes in Working Capital	35	(52)	(50)	23	(115)	128	197	2	(16)
Cash Flow from Operations	\$530	\$545	\$367	\$418	\$408	\$567	\$897	\$826	\$892
Investment activities									
Capital Expenditures	(252)	(283)	(108)	(272)	(269)	(330)	(356)	(348)	(366)
Intangible Asset Expenditures	(87)	(101)	(56)	(91)	(126)	(148)	(88)	(174)	(183)
Other Investing Activities, net	(1,041)	(112)	(180)	(1,874)	(5)	262	(288)	0	0
Cash Flow from Investments	(\$1,379)	(\$496)	(\$343)	(\$2,237)	(\$401)	(\$215)	(\$732)	(\$522)	(\$550)
Financing Activities									
Change in Revolver	0	708	(706)	345	45	(397)	(45)	0	0
Change in Debt	883	(65)	65	297	(130)	63	10	0	0
Repayment of Lease Liabilities	(22)	(80)	(201)	(90)	(83)	(70)	(60)	0	0
Net Proceeds for Share Issuance	18	27	821	696	16	8	67	0	0
Dividends Paid to Shareholders	(94)	(50)	0	0	0	0	0	(40)	(40)
Repurchase of Common Stock	(100)	(111)	0	0	0	0	0	0	0
Other Financing Activities, net	6	14	(1)	7	(0)	0	(22)	0	0
Cash Flow from Financing	\$690	\$443	(\$21)	\$1,256	(\$153)	(\$395)	(\$50)	(\$40)	(\$40)
Foreign Exchange (FX) Impact	(7)	8	(22)	(17)	16	(14)	19	0	0
Total Cash Flow	(\$165)	\$500	(\$20)	(\$580)	(\$129)	(\$58)	\$134	\$264	\$302
Cash at Beginning of Period	612	446	947	926	346	218	160	294	557
Cash at End of Period	\$446	\$947	\$926	\$346	\$218	\$160	\$294	\$557	\$860

Source: Jefferies estimates, company data

Cadre Holdings (CDRE) – Buy \$42 PT

- 1) 2025 Rev Guidance Up 8 Pts on Engineering Division Close.
- 2) Q1 Results Better Than Feared Pointing to Navigating Uncertainty
- 3) 2025 Adjusted EBITDA Guidance +12% on Est 12% Sales Growth
- 4) A Compounder With Room to Run

Related Notes:

- [Engineering a Guidance Raise, Organic Outlook Intact after Q1 Beat](#) *May 7, 2025*
- [A Solid End to The Year, W/Deal Optionality Into 2025](#) *March 12, 2025*
- [Cyber-Attacking Q4 To End The Year While Hinting at the 2025+ Potential](#) *November 7, 2024*

Cadre Holdings (CDRE): Engineering a Guidance Raise, Organic Outlook Intact after Q1 Beat

CDRE Summary Estimates - Assuming a ~25% Adj. EBITDA Incremental Margin Through 2027

(dollars in thousands)	2020	2021	2022	2023	2024	2025E	2026E	2027E	2025 Outlook
Revenue	\$404,642	\$427,288	\$457,837	\$482,532	\$567,561	\$636,542	\$681,927	\$704,843	\$618-648MM
% change	-3.8%	5.6%	7.1%	5.4%	17.6%	12.2%	7.1%	3.4%	
Organic % change	-3.8%	5.6%	0.3%	3.4%	4.9%	2.6%	3.5%	3.4%	
Gross Profit	\$152,938	\$170,690	\$175,678	\$200,726	\$233,481	\$270,170	\$293,569	\$304,800	
% Margin	37.8%	39.9%	38.4%	41.6%	41.1%	42.4%	43.0%	43.2%	
Adj. EBITDA	\$57,982	\$71,384	\$75,731	\$85,818	\$104,840	\$119,127	\$129,964	\$135,174	\$112-122MM
% Margin	14.3%	16.7%	16.5%	17.8%	18.5%	18.7%	19.1%	19.2%	
% Incremental Margin		59.2%	14.2%	40.8%	22.4%	20.7%	23.9%	22.7%	
Consensus EBITDA						\$113,100	\$125,500		
% Difference v. Cons.						5.3%	3.6%		
Capital Expenditures	(4,708)	(3,029)	(4,666)	(6,727)	(5,668)	(8,275)	(8,183)	(8,458)	
Adj. EBITDA Less Capex	\$53,274	\$68,355	\$71,065	\$79,091	\$99,172	\$110,852	\$121,781	\$126,716	
Adj. EBITDA Conversion	91.9%	95.8%	93.8%	92.2%	94.6%	93.1%	93.7%	93.7%	
Diluted EPS	\$1.40	\$0.44	\$0.16	\$1.02	\$0.90	\$1.15	\$1.38	\$1.49	
% change		-68.4%	-63.6%	532.5%	-12.1%	28.8%	19.8%	7.7%	
Consensus EPS						\$1.25	\$1.46		
% Difference v. Cons.						-7.7%	-5.3%		

- Q1 revs -6% y-o-y (+4% vs. our est) were better than expected despite headwinds on EOD/Armor products offset by M&A + crowd control products. Strong price/vol dropped through to the bottom line w/adj EBITDA of \$20.5MM down 16%, but +29% vs. our estimate, as Adj EBITDA margins of 15.8% were +3.1% vs. our estimate and better than the 12-14% guidance given for Q1. Any potential impact (prior estimate of \$18-22MM) from tariffs now appears to be largely offset given exemptions minimizing the impact along with countermeasures in place.
- revised Adj EBITDA guidance of \$112-122MM represents 12% growth at mdpt, or margins flat on ~30 bps of dilution from the Engineering division acquisition. On JEF 12% rev growth, we est a 20% incremental to adj EBITDA of \$119MM (18.7% margin, +20bps y-o-y) w/oppty from integration activities (implied 14% EBITDA margin contribution from Engineering division). Pricing offers an add'l lever tracking ahead of expectations along w/ normalized mix on improved Armor and EOD volumes in H2.
- 2025 rev guidance +8% at mdpt to \$618-648MM (from \$572-601MM prior) on \$46MM contribution from the close of Carr's Engineering division in April. Organic growth guidance holds in the 3% range with momentum across the portfolio. We est revs of \$637MM, or +3% organic.

Source: Company data and Jefferies estimates

Cadre Holdings (CDRE): Relative Valuation to History and Market

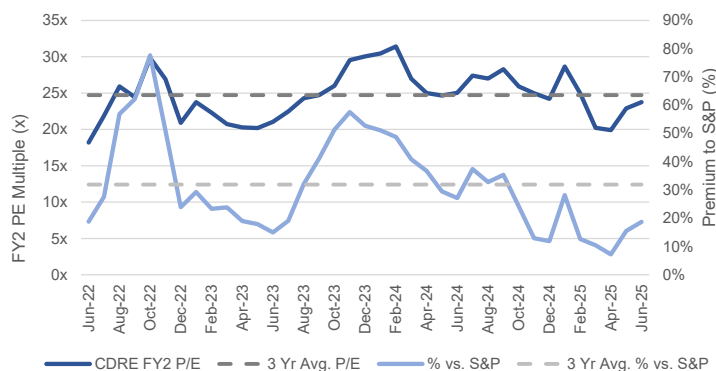
Relative Valuation

Ticker	CDRE
Current P/E	23.8x
3 Yr Avg. P/E	24.7x
Current / 3 Yr Avg.	-4%
Prem / Discst SP	19%
3 Yr Prem / Discst SP	32%
S&P500 Multiple	20.0x
Current EV/EBITDA	11.2x
3 Yr Avg. EV/EBITDA	12.3x
Current / 3 Yr Avg.	-9%
Prem / Discst SP	-20%
3 Yr Prem / Discst SP	-6%
S&P500 Multiple	13.9x
Current FCF Yield	4.5%
3 Yr Avg. FCF Yield	5.5%
Current / 3 Yr Avg.	21%
Prem / Discst SP	-7%
3 Yr Prem / Discst SP	-13%
S&P500 Multiple	4.2%

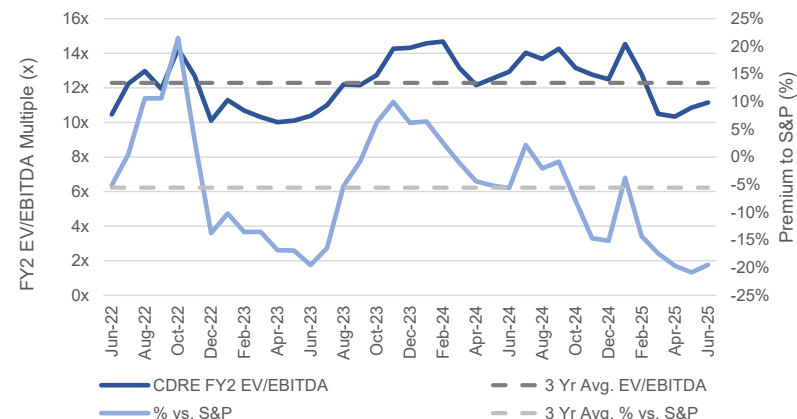
Price Target Derivation

Valuation Method	Price	Assumptions
EV/EBITDA	\$40	13.9X 2026E EBITDA of \$130.0MM
FCF Yield	\$44	4.1% FCF Yield on 2026E FCF of \$75.3MM
Average	\$42	

FY2 P/E: 19% Premium to Market vs. 32% Premium Historically



FY2 EV/EBITDA: 20% Discount to Market vs. 6% Discount Historically



Source: Company data, FactSet and Jefferies estimates

Cadre Holdings (CDRE): Income Statement

Year Ending Dec.

(Thousands, except per share data)	2020		2021		2022		2023		2024		2025E		2026E		2027E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Net Sales	\$404,642	100.0%	\$427,288	100.0%	\$457,837	100.0%	\$482,532	100.0%	\$567,561	100.0%	\$636,542	100.0%	\$681,927	100.0%	\$704,843	100.0%
Costs of Goods Sold	251,704	62.2%	256,598	60.1%	282,159	61.6%	281,806	58.4%	334,080	58.9%	366,373	57.6%	388,358	57.0%	400,043	56.8%
Gross Profit	\$152,938	37.8%	\$170,690	39.9%	\$175,678	38.4%	\$200,726	41.6%	\$233,481	41.1%	\$270,170	42.4%	\$293,569	43.0%	\$304,800	43.2%
Operating Costs																
SG&A	106,027	26.4%	114,862	26.9%	153,288	33.5%	140,519	29.1%	158,323	27.9%	187,780	29.5%	196,395	28.8%	200,176	28.4%
Restructuring and Transaction Costs	5,822	1.4%	3,430	0.8%	4,355	1.0%	2,192	0.5%	6,007	1.1%	3,183	0.5%	3,410	0.5%	3,524	0.5%
Related Party Expense	1,635	0.4%	579	0.1%	1,478	0.3%	1,496	0.3%	2,360	0.4%	637	0.1%	682	0.1%	705	0.1%
Other	(10,850)	-2.7%	0	0.0%	(1,159)	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total Operating Costs	\$193,134	25.5%	\$118,971	27.8%	\$158,962	34.7%	\$144,207	29.9%	\$166,720	29.4%	\$191,599	30.1%	\$200,487	29.4%	\$204,405	29.0%
Operating Profit	\$49,804	12.3%	\$51,719	12.1%	\$16,716	3.7%	\$56,519	11.7%	\$66,761	11.8%	\$78,571	12.3%	\$93,082	13.6%	\$100,395	14.2%
Interest Expense	(24,388)		(16,425)		(6,205)		(4,531)		(7,822)		(13,036)		(12,082)		(11,535)	
Other Income (Expense), net	2,459		(16,102)		(1,137)		936		(4,721)		1,287		0		0	
Pre-Tax Income	27,875	6.9%	19,192	4.5%	9,373	2.0%	52,924	11.0%	54,218	9.6%	66,821	10.5%	81,000	11.9%	88,861	12.6%
Benefit (Provision) for Income Taxes	10,578		(6,531)		(3,553)		(14,283)		(18,085)		(19,044)		(22,690)		(24,881)	
Net Income	\$38,453	9.5%	\$12,661	3.0%	\$5,820	1.3%	\$38,641	8.0%	\$36,133	6.4%	\$47,777	7.5%	\$58,320	8.6%	\$63,980	9.1%
Diluted shares (Thousands)	27,483.4		28,598.7		36,122.4		37,920.5		40,332.0		41,393.2		42,193.2		42,993.2	
Diluted EPS	\$1.40		\$0.44		\$0.16		\$1.02		\$0.90		\$1.15		\$1.38		\$1.49	
EBITDA	\$66,996		\$49,335		\$31,230		\$73,192		\$78,460		\$105,831		\$115,155		\$120,250	
Restructuring and Transaction Costs	5,822		3,430		5,355		3,192		7,757		3,183		3,410		3,524	
Loss on Extinguishment of Debt	200		15,155		(1,159)		-		-		-		-		-	
Other Expense, net	(13,609)		947		1,137		(1,028)		4,721		(1,287)		-		-	
Stock-based compensation expense	-		355		32,239		9,368		8,369		10,000		10,000		10,000	
Stock-based compensation payroll tax expense	-		-		305		234		441		300		300		300	
LTIIP bonus	-		2,162		1,369		860		49		1,000		1,000		1,000	
Other Add Backs	(1,427)		-		4,255		-		5,043		100		100		100	
Adj. EBITDA	\$57,982		\$71,384		\$75,791		\$85,818		\$104,640		\$119,127		\$129,964		\$135,174	

Source: Company data and Jefferies estimates

Cadre Holdings (CDRE): Cash Flow Statement

Year Ending Dec.

(Thousands, except per share data)	2020	2021	2022	2023	2024E	2025E	2026E	2027E
Net Income	36,453	12,981	5,820	38,641	38,133	47,777	58,320	63,960
Depreciation and Amortization	14,733	13,716	15,851	15,737	16,420	25,974	22,072	19,854
Amortization of original issue discount debt issue costs	2,216	3,193	740	479	1,109	450	450	450
Deferred Income Taxes	(12,248)	4,772	(1,087)	(210)	(2,084)	(2,112)	(2,547)	321
Stock-based compensation	0	355	31,858	9,368	8,369	11,000	11,000	11,000
(Recoveries from) provision for losses on A/R	177	(186)	0	66	764	0	0	0
FX loss (gain)	(940)	102	1,517	(602)	1,880	0	0	0
Other	(14,376)	15,155	247	(381)	5,539	0	0	0
Change in asset and liabilities								
Accounts Receivable	11,811	(4,841)	(11,536)	6,602	(24,902)	(5,882)	(3,351)	409
Inventories	1,639	(3,189)	1,162	(10,223)	10,019	(15,310)	(5,095)	(3,453)
Prepaid Expenses and Other Assets	1,837	(4,984)	(7,711)	(302)	(5,896)	5,122	(179)	(733)
Accounts Payable and Other Liabilities	2,117	2,720	5,483	14,034	(15,624)	16,321	2,842	2,452
Cash from Operations	\$45,419	\$40,094	\$46,409	\$73,209	\$31,777	\$83,339	\$83,513	\$94,279
Cash flows from investing activities								
Purchase of Property and Equipment	(4,708)	(2,832)	(4,494)	(6,727)	(5,668)	(8,275)	(8,183)	(8,458)
Business acquisition, net of cash acquired	0	0	(55,543)	0	(141,813)	(100,000)	0	0
Other	24,492	0	411	207	55	0	0	0
Net cash used in investing activities	\$19,784	(\$2,832)	(\$59,626)	(\$6,520)	(\$147,426)	(\$108,275)	(\$8,183)	(\$8,458)
Cash flows from financing activities:								
Proceeds from revolving credit facilities	382,056	257,980	43,000	0	5,500	99,750	0	0
Principal payments on revolving credit facilities	(384,215)	(258,612)	(43,000)	0	(5,500)	0	0	0
Principal payments on term loans	(276,444)	(266,000)	(10,116)	(10,000)	(43,334)	(14,134)	(14,134)	(14,134)
Principal payments on insurance premium financing	(2,697)	(3,061)	(963)	(24)	(2,187)	0	0	0
Payment of capital leases	(43)	(43)	(25)	0	0	0	0	0
Proceeds from Equity Offering, net of underwriter discounts	0	83,421	66,329	0	91,776	0	0	0
Taxes paid in connection w/ employee stock transactions	0	0	(6,300)	(2,725)	(5,311)	0	0	0
Dividends distributed	0	(12,751)	(11,509)	(12,006)	(13,948)	(14,353)	(14,833)	(14,913)
Other	216,641	192,470	(2,953)	33	(3,751)	0	0	0
Net cash used in financing activities	(\$64,902)	(\$6,596)	\$24,463	(\$24,722)	\$152,667	\$71,263	(\$26,767)	(\$29,047)
Effect of Foreign Exchange Rates	52	318	183	438	224	0	0	0
Net Change in Cash	353	30,984	11,429	42,405	37,242	46,328	48,563	56,774
Cash at the beginning of the period	2,530	2,873	33,857	45,266	87,691	124,933	171,261	217,824
Cash at end of period	\$2,873	\$33,857	\$45,286	\$87,691	\$124,933	\$171,261	\$217,824	\$274,598

Source: Company data and Jefferies estimates

Delta Air Lines, Inc. (DAL) – Hold \$46 PT

1) Setting Our Own Guideposts for \$4-6 of '25 EPS

2) Proactive in an Inactive Market

3) No Cracks Yet in the Premium/Atlantic Armor

4) A&D Reads - Higher Retirements, Refusing Tariffed Deliveries

Related Notes:

- [\\$4 to \\$6, Take It or Leave It](#) *April 13, 2025*
- [Late to the Gate, Downgrade on Holding Pattern; AAL/DAL to Hold; AC/LUV to U/P](#) *April 1, 2025*
- [Throwing a Centennial Party](#) *January 12, 2025*

Delta Air Lines (DAL): DAL Regional Revenue Build

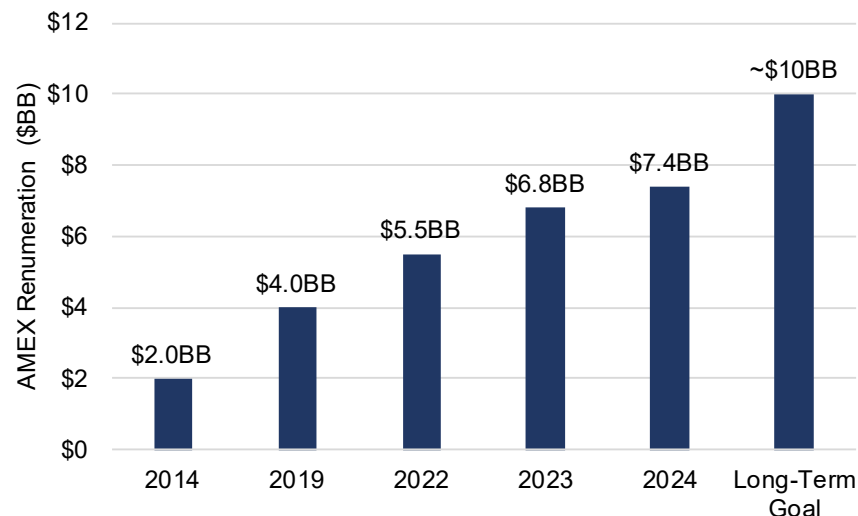
DAL Regional Revenue Build

Regional Revenue Build										Revenue vs. 2019 Compare			Revenue Y-o-Y Compare		
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2024	2025E	2026E	2024	2025E	2026E
ASMs															
Domestic	174,403	98,972	143,446	158,120	173,676	181,766	183,947	191,305	198,000	4.2%	5.5%	9.7%	4.7%	1.2%	4.0%
Latin America	23,200	11,851	21,251	20,294	23,523	27,004	27,544	28,370	29,221	16.4%	18.7%	22.3%	14.8%	2.0%	3.0%
Atlantic	52,971	15,479	21,953	46,290	59,940	60,027	61,678	62,603	63,855	13.3%	16.4%	18.2%	0.1%	2.8%	1.5%
Pacific	24,805	8,038	7,824	8,522	14,895	19,598	21,067	22,121	23,006	-21.0%	-15.1%	-10.8%	31.6%	7.5%	5.0%
Total ASMs	275,379	134,339	194,474	233,226	272,033	288,394	294,236	304,399	314,082	4.7%	6.8%	10.5%	6.0%	2.0%	3.5%
Total International	100,976	35,367	51,028	75,106	98,357	106,628	110,289	113,094	116,082	5.6%	9.2%	12.0%	8.4%	3.4%	2.5%
Load Factor															
Domestic	86.7%	54.1%	74.1%	84.8%	85.1%	85.1%	84.7%	85.0%	85.0%	-1.6%	-2.1%	-1.7%	0.0%	-0.4%	0.3%
Latin America	86.4%	63.6%	64.7%	82.9%	87.3%	86.9%	86.0%	86.5%	86.5%	0.5%	-0.3%	0.1%	-0.4%	-0.9%	0.5%
Atlantic	85.6%	53.3%	58.3%	83.3%	86.2%	86.9%	86.2%	86.0%	86.0%	1.3%	0.6%	0.4%	0.7%	-0.7%	-0.2%
Pacific	85.0%	50.8%	23.4%	70.5%	82.3%	81.0%	83.4%	82.5%	83.0%	-4.0%	-1.6%	-2.5%	-1.3%	2.4%	-0.9%
Total Load Factor	86.3%	54.6%	69.3%	83.8%	85.4%	85.4%	85.0%	85.2%	85.2%	-1.0%	-1.3%	-1.1%	0.0%	-0.3%	0.2%
Total International LF	85.6%	56.1%	55.6%	81.7%	85.8%	85.8%	85.6%	85.4%	85.5%	0.2%	0.0%	-0.2%	0.0%	-0.2%	-0.2%
RPMs															
Domestic	151,221	53,554	106,305	134,097	147,804	154,640	155,718	162,609	168,300	2.3%	3.0%	7.5%	4.6%	0.7%	4.4%
Latin America	20,038	7,534	13,759	16,832	20,535	23,471	23,698	24,540	25,276	17.1%	18.3%	22.5%	14.3%	1.0%	3.6%
Atlantic	45,347	8,244	12,794	38,545	51,650	52,166	53,152	53,839	54,915	15.0%	17.2%	18.7%	1.0%	1.9%	1.3%
Pacific	21,074	4,080	1,834	6,006	12,253	15,867	17,562	18,250	19,095	-24.7%	-16.7%	-13.4%	29.5%	10.7%	3.9%
Total RPMs	237,680	73,412	134,692	195,480	232,241	246,145	250,130	259,237	267,587	3.6%	5.2%	9.1%	6.0%	1.6%	3.6%
Total International	86,459	19,858	28,387	61,383	84,437	91,505	94,412	96,628	99,286	5.8%	9.2%	11.8%	8.4%	3.2%	2.3%
Yield															
Domestic	20.08¢	18.75¢	17.37¢	22.52¢	22.98¢	22.78¢	21.96¢	22.75¢	22.98¢	13.4%	9.3%	13.3%	-0.9%	-3.6%	3.6%
Latin America	14.98¢	14.77¢	13.61¢	17.16¢	18.50¢	17.02¢	16.93¢	17.18¢	17.35¢	13.6%	13.0%	14.7%	-8.0%	-0.5%	1.5%
Atlantic	14.07¢	14.20¢	13.89¢	15.81¢	17.54¢	17.51¢	18.37¢	18.40¢	18.50¢	24.4%	30.5%	30.8%	-0.2%	4.9%	0.2%
Pacific	11.99¢	13.68¢	21.87¢	17.30¢	17.02¢	16.01¢	15.76¢	16.17¢	16.23¢	33.5%	31.4%	34.8%	-6.0%	-1.5%	2.6%
Total Network Yield	17.79¢	17.55¢	16.72¢	20.57¢	21.06¢	20.68¢	20.28¢	20.86¢	21.05¢	16.2%	14.0%	17.3%	-1.8%	-1.9%	2.8%
Total International Yield	13.78¢	14.31¢	14.27¢	16.33¢	17.69¢	17.12¢	17.52¢	17.67¢	17.77¢	24.3%	27.2%	28.3%	-3.2%	2.3%	0.8%
Passenger Revenue (\$MM)															
Domestic	\$30,367	\$10,041	\$18,468	\$30,197	\$33,968	\$35,226	\$34,189	\$36,994	\$38,672	16.0%	12.6%	21.8%	3.7%	-2.9%	8.2%
Latin America	3,002	1,113	1,873	2,889	3,798	3,995	4,013	4,216	4,386	33.1%	33.7%	40.4%	5.2%	0.4%	5.1%
Atlantic	6,381	1,171	1,777	6,093	9,057	9,133	9,762	9,909	10,158	43.1%	53.0%	55.3%	0.8%	6.9%	1.5%
Pacific	2,527	558	401	1,039	2,086	2,540	2,768	2,950	3,099	0.5%	9.5%	16.7%	21.8%	9.0%	6.6%
Total Passenger Revenue	\$42,277	\$12,883	\$22,519	\$40,218	\$48,909	\$50,894	\$50,732	\$54,069	\$56,315	20.4%	20.0%	27.9%	4.1%	-0.3%	6.6%
Total International Passenger Revenue	\$11,910	\$2,842	\$4,051	\$10,021	\$14,941	\$15,668	\$16,543	\$17,075	\$17,642	31.6%	38.9%	43.4%	4.9%	5.6%	3.2%
Non-Passenger Revenue (\$MM)															
Cargo	753	608	1,032	1,049	723	822	883	944	1,005	9.2%	17.2%	25.3%	13.7%	7.4%	6.9%
Other Revenue	3,977	3,604	6,348	9,315	8,416	9,927	9,534	9,795	10,032	149.6%	139.7%	146.3%	18.0%	-4.0%	2.7%
Less: Third Party Refinery Sales/DPJ	(238)	(1,150)	(3,229)	(4,977)	(3,379)	(4,642)	(4,000)	(4,000)	(4,000)	1850.4%	1580.7%	1580.7%	37.4%	-13.8%	0.0%
Total Adjusted Revenue	\$46,769	\$15,945	\$26,670	\$45,605	\$54,669	\$57,001	\$57,148	\$60,807	\$63,351	21.9%	22.2%	30.0%	4.3%	0.3%	6.4%

Source: Company data and Jefferies estimates

Delta Air Lines (DAL): A Differentiated Strategy Benefiting Across Premium and International

AMEX Remuneration to Delta - Expected to Expand to \$10BB+ Long-Term



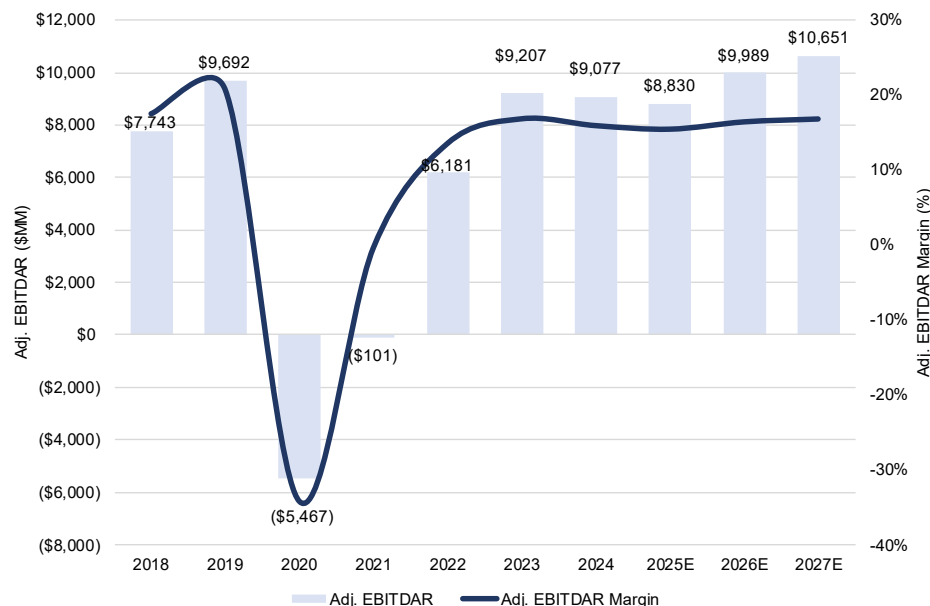
- In Q1, DAL generated \$2BB of AMEX remuneration, up 13% y-o-y despite moderating inflation. At its Investor Day, SkyMiles included 25MM active members, up 37% from 18MM in 2014, with 60% of revenues coming from SkyMiles members. Following the SkyMiles co-branded card benefits refresh, DAL saw record applications with growing premium acquisition mix. Loyalty Travel Award revenues grew 2% y-o-y in Q1 to \$807MM.
- The long-term aspiration by the end of the contract in 2028 is to reach \$10BB in a year. Growth decelerates given the increased restriction of credit despite new applications remaining very healthy. This offers significant growth opportunities across the board, w/ the loyalty ecosystem driving high-margin revenue. Our estimates assume that 40% of AMEX remuneration flows through to FCF. The remuneration target comes primarily through the loyalty growth opportunities through card and spend growth, with increasing customer value over time through engaging small businesses, greater personalization, as well as a gradual shift towards premium mix and greater non-air partnerships.

Source: Company data and Jefferies estimates

Delta Air Lines (DAL): Margins Falter on Path to Pre-COVID Levels Amid +LSD Cost and Price Pressure in Uncertain Macro Backdrop

Adj. EBITDAR Margins Closing in on 2019 Levels, but Steady LSD Cost Pressure and Stalling TRASMs Push Out Normalization

- DAL reported \$591MM of adj. operating income in Q1 for an operating margin of 4.6%, down 50 bps y-o-y, driven by adj. TRASMs down 1.0% y-o-y and CASM-ex +2.5% y-o-y. Average adj. price per gallon of fuel was down 11% y-o-y.

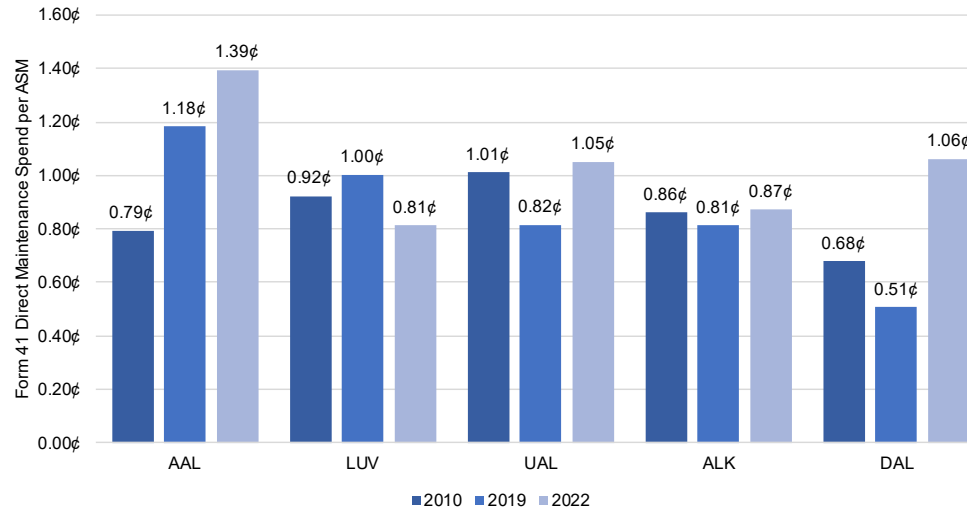


- CASM-ex was up 2.5% y-o-y to 14.44¢ (42% above 2019). The outlook for CASM-ex is unchanged from the Investor Day, assuming LSD growth in 2025. Focus is around known labor deals (plus MeToo, plus workrules) and maintenance, which has run elevated on limited parts, labor capacity, and elevated turnaround times.
- Q1 average staffing levels are 14% above Q1:19, with ASMs 10% above, with the opportunity to unlock some purpose-built buffers & redundancies over time as DAL secures operational reliability & grows into headcount, while letting normal attrition help reduce costs this year.
- DAL generated \$1.3BB of EBITDAR, or a 10.3% margin. Our estimates factor in \$8.83BB of adj. EBITDAR in 2025 for a 15.5% margin, as compared to 20.7% pre-pandemic. Margins compress in 2025 (-40 bps) as cost pressures abate modestly (adj. OpEx +0.9% y-o-y), offset by weaker than anticipated pricing, pushing out the TRASM inflection (-1.7% y-o-y in 2025).

Source: Company data and Jefferies estimates

Delta Air Lines (DAL): Margins Falter on Path to Pre-COVID Levels Amid +LSD Cost and Price Pressure in Uncertain Macro Backdrop

TechOps Benefit Clear in Maintenance Spend as DAL Spent 0.51¢ per ASM on Direct Maintenance Spend While Peers Spend Closer to 0.95¢ in 2019



- Delta TechOps is the largest airline MRO provider in North America and the 3rd largest globally. TechOps serves aircraft across the lifecycle from first technical acceptance and induction to late-life shop visits and part-outs, offering a reliable internal service capability (maintenance cancellations reduced by >99%) and providing revenue diversity and margin durability.
- Market and DAL mainline fleet are ~20% next-generation engines, but by 2032E, DAL will be ~60% next-gen and the total fleet will be ~50%. As a result, Delta TechOps shop visits for next-gen engines should grow from 30% of the mix today to ~75% in 2032E.
- The MRO business generated ~\$0.8BB in revenue in 2023 with potential to double to \$2BB in 2026E and again to \$5BB+ in 2030E. The business is 50% DAL aircraft and 50% external airlines (vs. 70% DAL pre-pandemic), with a target to be no more than 25% DAL aircraft by 2032E. At a mid-to-high-teens margin, this could be worth ~\$10BB of standalone value.

Source: Company data and Jefferies estimates

Delta Air Lines (DAL): Margins Falter on Path to Pre-COVID Levels Amid +LSD Cost and Price Pressure in Uncertain Macro Backdrop

Salary Build Assumes a Build of Efficiency with Average Salaries Expanding at a ~2% CAGR Through 2027

Salary Build	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Average Period FTE Employees	88,000	90,000	73,125	75,250	90,250	99,000	103,000	102,875	103,125	103,750
Average Period FTE per Average Period Aircraft	101.0	100.2	97.5	92.2	100.1	103.3	105.6	104.2	103.0	103.1
Y-o-Y % Change		-0.8%	-2.7%	-5.4%	8.5%	3.3%	2.2%	-1.3%	-1.2%	0.1%
% Change vs. 2019			-2.7%	-8.0%	-0.2%	3.1%	5.4%	4.0%	2.8%	2.9%
Average FTE Employees per Thousand ASMs	334.1	326.8	544.3	386.9	387.0	363.9	357.2	349.6	338.8	330.3
Y-o-Y % Change		-2.2%	66.6%	-28.9%	0.0%	-6.0%	-1.9%	-2.1%	-3.1%	-2.5%
% Change vs. 2019			66.6%	18.4%	18.4%	11.4%	9.3%	7.0%	3.7%	1.1%
Average Salary per Employee pre-Profit Sharing (\$K)	\$122.1	\$128.9	\$123.1	\$129.3	\$131.9	\$147.5	\$156.9	\$162.5	\$167.0	\$170.5
Y-o-Y % Change		5.6%	-4.5%	5.0%	2.0%	11.9%	6.3%	3.6%	2.8%	2.1%
% Change vs. 2019			-4.5%	0.3%	2.3%	14.5%	21.7%	26.1%	29.6%	32.3%
Annual % CAGR Off of 2019 Base			-4.5%	0.1%	0.8%	3.4%	4.0%	3.9%	3.8%	3.6%
Salary Expense	\$10,743	\$11,601	\$9,002	\$9,728	\$11,902	\$14,607	\$16,161	\$16,717	\$17,222	\$17,689
Profit Sharing	1,301	1,642	-	108	563	1,383	1,389	1,094	1,518	1,703
Salary Expense + Profit Sharing	\$12,044	\$13,243	\$9,002	\$9,836	\$12,465	\$15,990	\$17,550	\$17,811	\$18,740	\$19,392

- DAL ended 2024 carrying ~14% more employees than pre-pandemic, or roughly 104,000 employees at an average salary cost of ~\$156,000. 2024 saw a 4-5% aggregate wage rate step-up inclusive of pilots 5%+ and the remaining labor groups at LSD. Mgmt expects ending 2025 headcount to be down y-o-y through normal attrition, although DAL invests in its employees to lead the industry in execution.
- There are more modest hiring needs in 2025, focused solely on pilots. DAL expects to grow into its headcount and its elevated staffing levels and views elevated carrying costs as another investment to drive continued industry-leading execution.

Source: Company data and Jefferies estimates

Delta Air Lines (DAL): Cash Streams Enable Peer-leading FCF Generation

DAL Debt Schedule: Prioritization of Debt Repayment Drives 2026 Gross Debt/Adj. EBITDAR to 1.7x

Debt Build	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Cash Equivalents										
Cash and Cash Equivalents	\$2,701	\$3,518	\$9,863	\$8,406	\$3,266	\$2,741	\$3,069	\$1,432	\$1,023	\$1,105
Short-Term Investments	-	-	5,789	3,386	3,268	1,127	-	-	-	-
Total Cash and Cash Equivalents	\$2,701	\$3,518	\$15,652	\$11,792	\$6,534	\$3,868	\$3,069	\$1,432	\$1,023	\$1,105
Debt Build										
Unsecured Debt:										
Unsecured Notes	\$4,050	\$5,550	\$5,350	\$4,354	\$2,997	\$2,590	\$1,575	\$1,175	\$925	\$775
Unsecured Payroll Support Program Loan	-	-	1,648	3,496	3,496	3,496	3,496	2,496	1,496	-
Unsecured Payroll Support Program Extension Loan	-	-	-	-	-	-	-	-	-	-
Unsecured Payroll Support Program 3 Loan	-	-	-	-	-	-	-	-	-	-
Secured Debt:										
SkyMiles related financing:										
SkyMiles Notes	-	-	6,000	6,000	5,144	4,518	3,970	3,720	3,170	2,920
SkyMiles Term Loan	-	-	3,000	2,820	2,820	1,772	784	512	512	512
Financing secured by slots, gates, and/or routes:										
2020 Senior Secured Notes	-	-	3,500	2,589	1,542	838	812	-	-	-
2020 Term Loan	-	-	1,493	-	-	-	-	-	-	-
2018 Revolving Credit Facility	-	-	-	-	-	-	-	-	-	-
Financing secured by aircraft:										
Certificates	1,837	1,669	2,633	1,932	1,802	1,591	992	742	642	542
Notes	1,787	1,193	1,284	1,139	813	165	87	87	87	87
Other Debt:										
NYTDC Special Facilities Revenue Bonds, Series 2020	-	-	1,511	1,511	2,838	3,656	3,591	3,491	3,391	3,291
NYTDC Special Facilities Revenue Bonds, Series 2018	1,383	1,383	1,383	1,383	-	-	-	-	-	-
Other financings	251	196	412	68	67	67	66	66	66	62
Other revolving credit facilities	-	-	-	-	-	-	-	-	-	-
Total Secured and Unsecured Debt	\$9,308	\$9,991	\$28,214	\$25,292	\$21,519	\$18,693	\$15,373	\$12,289	\$10,289	\$8,189
Unamortized premium and debt issue cost, net	60	115	(240)	(208)	(138)	(83)	(26)	(26)	(26)	(26)
Total Debt	\$9,368	\$10,106	\$27,974	\$25,084	\$21,381	\$18,610	\$15,347	\$12,263	\$10,263	\$8,163
Plus Finance Lease Obligations	\$403	\$1,054	\$1,183	\$1,836	\$1,649	\$1,444	\$847	\$847	\$847	\$847
Plus: Sale-Leaseback Financing Obligations	-	-	2,283	2,234	2,180	1,887	1,835	1,785	1,735	1,685
Plus 7XLTM Aircraft Rent	2,758	2,968	2,793	3,011	3,558	3,923	3,178	3,964	4,066	4,147
Adj. Total Debt	\$12,469	\$14,013	\$34,473	\$32,374	\$28,906	\$25,947	\$21,233	\$18,885	\$16,937	\$14,868
Less: Cash and Cash Equivalents	(2,701)	(3,518)	(15,652)	(11,792)	(6,534)	(3,868)	(3,069)	(1,432)	(1,023)	(1,105)
Adj. Net Debt	\$9,768	\$10,495	\$18,821	\$20,582	\$22,372	\$22,079	\$18,164	\$17,453	\$15,914	\$13,763
Debt Build										
Debt to Adj. EBITDA	1.7X	1.5X	(5.9X)	(61.0X)	5.1X	3.0X	2.5X	2.3X	1.8X	1.5X
Debt to Adj. EBITDAR	1.6X	1.4X	(6.3X)	(322.1X)	4.7X	2.8X	2.3X	2.1X	1.7X	1.4X
Net Debt to Adj. EBITDA	1.3X	1.1X	(3.2X)	(38.8X)	3.9X	2.5X	2.1X	2.1X	1.7X	1.4X
Net Debt to Adj. EBITDAR	1.3X	1.1X	(3.4X)	(204.8X)	3.6X	2.4X	2.0X	2.0X	1.6X	1.3X
Adj. EBITDA	\$7,349	\$9,268	(\$5,866)	(\$531)	\$5,673	\$8,675	\$8,529	\$8,264	\$9,408	\$10,059
Adj. EBITDAR	\$7,743	\$9,692	(\$5,467)	(\$101)	\$6,181	\$9,207	\$9,077	\$8,830	\$9,989	\$10,651

Source: Company data and Jefferies estimates

Delta Air Lines (DAL): Cash Streams Enable Peer-leading FCF Generation

Delta Generating \$6.8BB of FCF from 2025 to 2027

Free Cash Flow Build	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Net Income	\$4,767	(\$12,385)	\$280	\$1,318	\$4,609	\$3,457	\$3,433	\$4,462	\$4,895
Depreciation and Amortization	2,581	2,312	1,998	2,107	2,341	2,513	2,558	2,760	2,936
NWC	526	1,949	2,567	1,952	(62)	873	115	511	263
Stock Comp/Deferred Taxes/Other	551	4,331	(1,581)	986	(424)	1,182	357	327	258
Cash from Operations	\$8,425	(\$3,793)	\$3,264	\$6,363	\$6,464	\$8,025	\$6,463	\$8,060	\$8,352
Cash from Investing	(4,563)	(9,238)	(898)	(6,924)	(3,148)	(3,739)	(4,976)	(6,016)	(5,645)
Gross Capex	(5,306)	(1,428)	(2,876)	(6,172)	(5,305)	(4,834)	(4,776)	(5,816)	(5,445)
Total FCF	\$3,862	(\$13,031)	\$2,366	(\$561)	\$3,316	\$4,286	\$1,487	\$2,044	\$2,707
FCF/share	\$5.92	(\$20.51)	\$3.69	(\$0.88)	\$5.16	\$6.61	\$2.27	\$3.11	\$4.09
Other Adjustments	302	6,252	(1,110)	804	(1,313)	(861)	200	200	200
Total Company-Defined FCF	\$4,164	(\$6,779)	\$1,256	\$243	\$2,003	\$3,425	\$1,687	\$2,244	\$2,907
Company Defined FCF/share	\$6.39	(\$10.67)	\$1.96	\$0.38	\$3.12	\$5.29	\$2.58	\$3.42	\$4.39
Capital Deployment									
Debt Paydown	(3,320)	(8,559)	(5,834)	(4,475)	(4,071)	(3,953)	(3,084)	(2,000)	(2,100)
Debt Issuance	3,807	26,051	1,902	-	878	-	-	-	-
Cash Dividends Paid	(980)	(260)	-	-	(128)	(321)	(391)	(453)	(525)
Share Repurchases	(2,027)	(344)	-	-	-	-	-	-	-
Total Capital Deployment	(\$2,520)	\$16,888	(\$3,932)	(\$4,475)	(\$3,321)	(\$4,274)	(\$3,475)	(\$2,453)	(\$2,625)
Metrics									
FCF/Revenue	9%	-43%	5%	1%	4%	6%	3%	4%	5%
FCF/Adj. EBITDA	45%	116%	-237%	4%	23%	40%	20%	24%	29%
FCF/Net Income	87%	99%	-48%	12%	50%	86%	48%	50%	59%
FCF Yield	9.6%	-15.6%	2.9%	0.6%	4.6%	7.9%	3.9%	5.2%	6.7%
Cash/share	\$5.40	\$24.63	\$18.40	\$10.19	\$6.02	\$4.74	\$2.19	\$1.56	\$1.67

- In Q1:25, DAL generated \$2.4BB of CFO w/ \$1.3BB of adj FCF after \$1.2BB of gross capex.
- DAL's Investor Day from 2024 targets \$9-11BB of operating cash flow per year translating to \$3-5BB of FCF per year, pointing to ~\$6BB of annual capex, of which aircraft capex likely comprises \$4-5BB per year. DAL has withdrawn its 2025 FCF guidance (initially >\$4BB), but we model \$1.7BB on a company-defined basis, rising to \$2.2BB in '26 and \$2.9BB in '27.

Source: Company data and Jefferies estimates

Delta Air Lines (DAL): Relative Valuation to Peers

Price Target Derivation

Valuation Method	Price	Assumptions
EV/EBITDA	49	4.2x EV/EBITDA on 2026E EBITDAR of \$11.2BB
P/E	44	5.5x P/E on 2026E EPS of \$8.05
Average	\$46	Blended Average

Relative Valuation Table (4/21/2025)

Airlines	Ticker	JEF Rating	Stock Px 4/21/2025	Consensus BUY Rating	Market Cap	Enterprise Value	P/E			EV / SALES			EV / EBITDA			Yield	
							2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	Dividend	FCF
Air Canada	AC-CA	Unpf	\$13.78	76%	1,410	10,869	6.8x	5.5x	4.6x	0.5x	0.4x	0.4x	3.2x	2.9x	2.7x	0.0%	0.9%
American Airlines	AAL	Hold	\$9.08	58%	5,967	36,370	6.1x	3.8x	3.2x	0.7x	0.6x	0.6x	7.5x	6.4x	5.8x	0.0%	20.6%
Alaska Airlines	ALK	N/C	\$43.56	78%	5,347	9,478	8.9x	6.4x	5.0x	0.7x	0.6x	0.6x	5.4x	4.4x	4.0x	0.0%	14.9%
JetBlue	JBLU	N/C	\$3.57	6%	1,263	6,765	N/M	N/M	N/M	0.1x	0.1x	0.6x	11.8x	8.0x	6.1x	0.0%	N/M
Southwest Airlines	LUV	Unpf	\$23.96	20%	13,748	14,733	16.4x	9.1x	6.9x	0.5x	0.5x	0.5x	5.8x	4.3x	3.7x	2.9%	7.3%
United Airlines	UAL	Buy	\$64.53	85%	21,077	38,875	6.2x	5.2x	4.5x	0.4x	0.3x	0.6x	4.8x	4.3x	3.9x	0.0%	8.2%
Avg. Airlines				54%			8.9x	6.0x	4.9x	0.5x	0.4x	0.5x	6.4x	5.0x	4.4x	0.5%	10.4%
Delta Airlines	DAL	Hold	\$39.25	81%	25,628	44,064	7.3x	5.7x	5.3x	0.7x	0.7x	0.7x	5.3x	4.7x	4.4x	1.3%	13.3%
Premium / Discount							-18%	-5%	9%	48%	58%	20%	-17%	-7%	1%		

Source: Company data, FactSet and Jefferies estimates

Delta Air Lines (DAL): Income Statement

Year Ended Dec.

(\$MM, except per share data)	2021	% Sales	2022	% Sales	2023	% Sales	2024	% Sales	2025E	% Sales	2026E	% Sales	2027E	% Sales
Domestic	\$18,468	61.8%	\$30,197	59.7%	\$33,968	58.5%	\$35,226	57.1%	\$34,189	55.9%	\$36,994	57.1%	\$38,672	57.4%
Latin America	1,873	6.3%	2,889	5.7%	3,798	6.5%	3,995	6.5%	4,013	6.6%	4,216	6.5%	4,386	6.5%
Atlantic	1,777	5.9%	6,093	12.0%	9,057	15.6%	9,133	14.8%	9,762	16.0%	9,909	15.3%	10,158	15.1%
Pacific	401	1.3%	1,039	2.1%	2,086	3.6%	2,540	4.1%	2,768	4.5%	2,950	4.6%	3,099	4.6%
Passenger Revenue	\$22,519	75.3%	\$40,218	79.5%	\$48,909	84.3%	\$50,894	82.6%	\$50,732	83.0%	\$54,069	83.4%	\$56,315	83.6%
Cargo	1,032	3.5%	1,049	2.1%	723	1.2%	822	1.3%	883	1.4%	944	1.5%	1,005	1.5%
Other	6,348	21.2%	9,315	18.4%	8,416	14.5%	9,927	16.1%	9,534	15.6%	9,795	15.1%	10,032	14.9%
Total Revenues	\$29,899	100.0%	\$50,582	100.0%	\$58,048	100.0%	\$61,643	100.0%	\$61,148	100.0%	\$64,807	100.0%	\$67,351	100.0%
Refinery	(3,229)	10.8%	(4,977)	9.8%	(3,379)	5.8%	(4,642)	7.5%	(4,000)	6.5%	(4,000)	6.2%	(4,000)	5.9%
Total Adj. Revenues	\$26,670		\$45,605		\$54,669		\$57,001		\$57,148		\$60,807		\$63,351	
Cost and Expenses														
Salaries and Related Costs	9,728	36.5%	11,902	26.1%	14,607	26.7%	16,161	28.4%	16,717	29.3%	17,222	28.3%	17,689	27.9%
Aircraft fuel and related taxes	5,633	21.1%	11,482	25.2%	11,069	20.2%	10,566	18.5%	9,578	16.8%	9,846	16.2%	10,053	15.9%
Regional carrier expense, ex fuel	1,736	6.5%	2,051	4.5%	2,200	4.0%	2,328	4.1%	2,501	4.4%	2,648	4.4%	2,795	4.4%
Contracted services	2,420	9.1%	3,345	7.3%	4,041	7.4%	4,228	7.4%	4,472	7.8%	4,688	7.7%	4,900	7.7%
Depreciation and amortization	1,998	7.5%	2,107	4.6%	2,341	4.3%	2,513	4.4%	2,558	4.5%	2,760	4.5%	2,936	4.6%
Passenger commission and other selling expense	953	3.6%	1,891	4.1%	2,334	4.3%	2,485	4.4%	2,589	4.5%	2,740	4.5%	2,890	4.6%
Landing fees and other rents	2,019	7.6%	2,181	4.8%	2,563	4.7%	3,150	5.5%	3,384	5.9%	3,592	5.9%	3,769	5.9%
Aircraft maintenance materials and outside repairs	1,401	5.3%	1,982	4.3%	2,432	4.4%	2,616	4.6%	2,619	4.6%	2,709	4.5%	2,795	4.4%
Profit sharing	108	0.4%	563	1.2%	1,383	2.5%	1,389	2.4%	1,094	1.9%	1,518	2.5%	1,703	2.7%
Passenger service	756	2.8%	1,453	3.2%	1,750	3.2%	1,788	3.1%	1,854	3.2%	1,979	3.3%	2,042	3.2%
Ancillary business and refinery	3,957	14.8%	5,756	12.6%	4,172	7.6%	5,416	9.5%	4,794	8.4%	4,822	7.9%	4,848	7.7%
Aircraft rent	430	1.6%	508	1.1%	532	1.0%	548	1.0%	566	1.0%	581	1.0%	592	0.9%
Other	(3,126)	-11.7%	1,700	3.7%	3,103	5.7%	2,460	4.3%	2,766	4.8%	3,105	5.1%	3,266	5.2%
Total Operating Costs	\$28,013	105.0%	\$46,921	102.9%	\$52,527	96.1%	\$55,648	97.6%	\$55,493	97.1%	\$58,209	95.7%	\$60,279	95.2%
Adj. Operating Profit	(\$2,529)	-9.5%	\$3,566	7.8%	\$6,334	11.6%	\$6,016	10.6%	\$5,706	10.0%	\$6,648	10.9%	\$7,122	11.2%
Other, net	(1,488)		(1,747)		87		(1,337)		(1,197)		(758)		(632)	
Income before taxes	\$398	1.5%	\$1,914	4.2%	\$5,608	10.3%	\$4,658	8.2%	\$4,458	7.8%	\$5,840	9.6%	\$6,441	10.2%
Taxes (% Rate)	118	29.7%	596	31.1%	999	17.8%	1,201	25.8%	1,025	23.0%	1,378	23.6%	1,546	24.0%
Net Income	\$280	1.0%	\$1,318	2.9%	\$4,609	8.4%	\$3,457	6.1%	\$3,433	6.0%	\$4,462	7.3%	\$4,895	7.7%
Diluted Shares (millions)	641		641		643		648		654		657		662	
GAAP EPS	\$0.44		\$2.06		\$7.17		\$5.33		\$5.25		\$6.79		\$7.39	
GAAP Pre-Tax Income	\$398		\$1,914		\$5,608		\$4,658		\$4,458		\$5,840		\$6,441	
Restructuring Charges	(19)		(124)		0		0		0		0		0	
Cares Act Grant Recognition	(4,512)		0		0		0		0		0		0	
Impairments and equity method losses	337		100		0		0		0		0		0	
MTM adjustment and settlement on hedges	319		29		(52)		21		50		50		50	
Equity investment MTM adjustment	108		0		0		0		0		0		0	
MTM adjustment on investment	(47)		784		(1,263)		319		40		0		0	
Adjusted Taxes	817		(650)		(1,200)		(1,212)		(1,046)		(1,390)		(1,558)	
Adjusted Net Earnings	(\$2,598)		\$2,052		\$4,020		\$3,989		\$3,502		\$4,500		\$4,933	
Adjusted EPS	(\$4.08)		\$3.20		\$6.25		\$6.16		\$5.35		\$6.85		\$7.45	

Source: Company data and Jefferies estimates

Delta Air Lines (DAL): Balance Sheet

Year Ended Dec.

<i>(\$MM, except per share data)</i>	2021	2022	2023	2024	2025E	2026E	2027E
Assets:							
Cash and cash equivalents	\$7,933	\$3,266	\$2,741	\$3,069	\$1,432	\$1,023	\$1,105
Short-term investments	3,386	3,268	1,127	0	0	0	0
Accounts receivable	2,404	3,176	3,130	3,224	3,053	3,165	3,211
Fuel inventory	694	1,424	1,314	1,428	1,428	1,428	1,428
Expendable parts and supplies inventories	404	0	0	0	0	0	0
Prepaid expenses and other current assets	1,119	1,877	1,957	2,123	2,024	2,060	2,086
Total Current Assets	15,940	13,011	10,269	9,844	7,938	7,677	7,830
Property and equipment	28,749	33,109	35,486	37,595	41,780	45,209	48,697
Operating lease right-of-use assets	7,237	7,036	7,004	6,644	6,644	6,644	6,644
Goodwill	9,753	9,753	9,753	9,753	9,753	9,753	9,753
Intangibles	6,001	5,992	5,983	5,975	5,975	5,975	5,975
Cash restricted for airport construction	473	0	0	0	0	0	0
Other noncurrent assets	4,306	3,387	5,149	5,561	5,204	4,877	4,620
Total Assets	\$56,519	\$59,277	\$63,375	\$65,528	\$69,356	\$72,458	\$75,688
Liabilities:							
Current maturities of debt and finance leases	\$1,782	\$2,359	\$2,983	\$2,175	\$1,355	\$1,195	\$1,027
Current maturities of operating leases	703	714	759	763	763	763	763
Air Traffic liability	6,228	8,160	7,044	7,094	6,840	7,185	7,359
Accounts payable	4,240	5,106	4,446	4,650	4,779	4,952	4,895
Accrued salaries and related benefits	2,457	3,288	4,561	4,762	3,343	3,444	3,449
Loyalty program deferred revenue	2,710	3,434	3,908	4,314	4,018	4,072	4,148
Fuel card obligation	1,100	1,100	1,100	1,100	1,100	1,100	1,100
Other accrued liabilities	1,746	1,779	1,617	1,812	1,812	1,812	1,812
Total Current Liabilities	20,966	25,940	26,418	26,670	24,011	24,524	24,553
Debt and finance leases	25,138	20,671	17,071	14,019	11,755	9,915	7,983
Pension and postretirement	6,035	3,707	3,601	3,144	3,144	3,144	3,144
Loyalty program deferred revenue	4,849	4,448	4,512	4,512	4,975	4,990	5,081
Noncurrent operating leases	7,056	6,866	6,468	5,814	5,814	5,814	5,814
Deferred income taxes	0	0	908	2,176	2,533	2,860	3,117
Other noncurrent liabilities	4,528	4,074	3,561	3,744	3,744	3,744	3,744
Total Liabilities	\$47,606	\$39,766	\$36,121	\$33,409	\$31,965	\$30,467	\$28,883
Equity:							
Common stock	0	0	0	0	0	0	0
Additional paid-in capital	11,447	11,526	11,641	11,740	0	0	0
Retained earnings	(148)	1,170	5,650	8,783	0	0	0
AOCI	(7,130)	(5,801)	(5,845)	(4,979)	0	0	0
Treasury stock	(282)	(313)	(341)	(251)	0	0	0
Total Equity	\$3,887	\$6,582	\$11,105	\$15,293	\$21,318	\$25,144	\$30,082
Total Liabilities and Equity	\$72,459	\$72,288	\$73,644	\$75,372	\$77,294	\$80,134	\$83,518

Source: Company data and Jefferies estimates

Delta Air Lines (DAL): Cash Flow Statement

Year Ended Dec.

(\$MM, except per share data)	2021	2022	2023	2024	2025E	2026E	2027E
Operating activities:							
Net income	\$280	\$1,318	\$4,609	\$3,457	\$3,433	\$4,462	\$4,895
Adjustments:							
Depreciation and amortization	1,998	2,107	2,341	2,513	2,558	2,760	2,936
Deferred income taxes	115	591	980	1,155	357	327	258
Pension/postretirement	(2,038)	(453)	(121)	(296)	0	0	0
Restructuring Charges	5	(46)	0	0	0	0	0
Impairment and equity method losses	337	20	0	0	0	0	0
Deferred CARES Act recognition	0	0	0	0	0	0	0
Hedge derivative contracts	0	0	0	0	0	0	0
Equity investment earnings	0	0	0	0	0	0	0
Other, net	0	874	(1,283)	323	0	0	0
Changes in assets and liabilities:							
Receivables	(981)	(728)	(7)	(126)	171	(112)	(46)
Fuel Inventory	(318)	(158)	121	0	0	0	0
Prepaid expense and other assets	(76)	(867)	17	(241)	(99)	36	26
Air traffic liability	1,814	1,902	(1,216)	50	(254)	345	174
Loyalty program deferred revenue	376	324	538	407	167	69	166
Profit sharing	108	455	821	6	0	0	0
Account payable and accrued liabilities	1,986	1,226	(285)	614	129	173	(58)
Other, net	(342)	(202)	(51)	163	0	0	0
Net cash from operating activities	\$3,264	\$6,363	\$6,464	\$8,025	\$6,463	\$8,060	\$8,352
Investing activities:							
Flight equipment, including advance payment	(1,596)	(4,495)	(3,645)	(3,914)	(3,576)	(4,516)	(3,995)
Ground property and equipment	(1,651)	(1,871)	(1,678)	(1,226)	(1,400)	(1,500)	(1,650)
Purchase of equity investment	0	(870)	(152)	0	0	0	0
Sale of equity investment	0	0	0	0	0	0	0
Purchase of short term investments	(12,655)	(2,704)	(2,312)	0	0	0	0
Redemption of short-term investments	15,036	2,804	4,547	1,137	0	0	0
Acquisition of strategic investments	0	0	0	0	0	0	0
Other, net	(32)	212	92	264	0	0	0
Net cash from investing activities	(\$898)	(\$6,924)	(\$3,148)	(\$3,739)	(\$4,976)	(\$6,016)	(\$5,645)
Financing activities:							
Payments on debt and finance lease obligation	(5,834)	(4,475)	(4,071)	(3,953)	(3,084)	(2,000)	(2,100)
Issuance of debt	0	0	0	0	0	0	0
Repurchase of common stock	0	0	0	0	0	0	0
Cash dividends paid	0	0	(128)	(321)	(391)	(453)	(525)
Fuel card obligation	0	0	0	0	0	0	0
Proceeds from short-term obligations	0	0	0	0	0	0	0
Proceeds from long-term obligations	1,902	0	878	0	0	0	0
Other, net	80	(60)	(73)	14	0	0	0
Net cash from financing activities	(\$3,852)	(\$4,535)	(\$3,394)	(\$4,260)	(\$3,475)	(\$2,453)	(\$2,625)
Net Change in Cash	(\$1,486)	(\$5,096)	(\$78)	\$26	(\$1,988)	(\$409)	\$82
Beginning Cash	10,055	8,569	3,473	3,395	3,421	1,432	1,023
Ending Cash	\$8,569	\$3,473	\$3,395	\$3,421	\$1,432	\$1,023	\$1,105

Source: Company data and Jefferies estimates

Elbit Systems Inc. (ESLT) – Hold \$450 PT

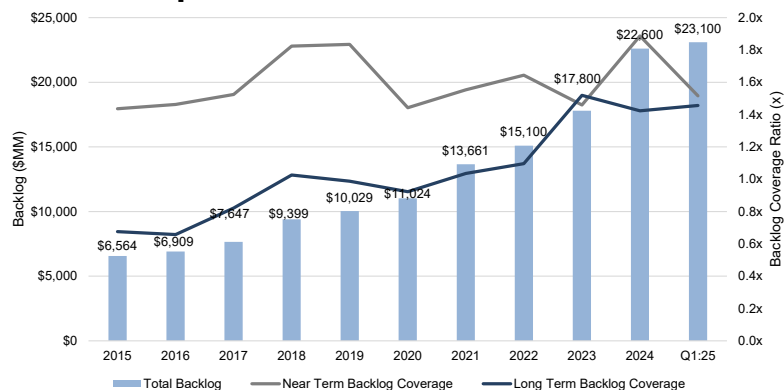
- 1) **Beating a High Bar, De-Risking Path to DD Top-Line Growth in '25 (Est +14%)**
- 2) **ESA Turn-Around & Land Op Leverage Drive Margins +100Bps in '25 & +90Bps in '26**
- 3) **Tangible FCF Traction Supports 70-80% Conversion Over Coming Years**

Related Notes:

- [Super Cycle of Defense Growth Driven by Israel and European Spend](#) May 22, 2025
- [Thesis Update: Geo Diversity Offering Sustainable HSD-LDD Outgrowth](#) April 30, 2025
- [Harvesting European/Israeli Spending Backdrop to Drive HSD Rev Growth + Cash](#) March 19, 2025

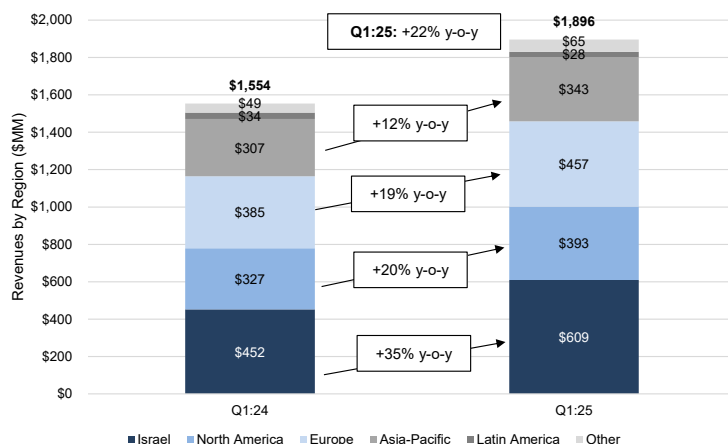
Elbit Systems (ESLT): Organic Growth in HSD in 2025E/2026E with Backlog Conversion

Backlog Supports Continued Growth - Backlog Expected to Ship Over 2025-2026 Offers 1.5X Coverage of Expected Annual Revenues This Year



- In Q1, total backlog increased 2% sequentially and 13% y-o-y to \$23.1BB, implying Q1 bookings of \$2.4BB for a B2B of 1.3X. 51% of the backlog is expected to be performed in 2025 and 2026 (\$11.8BB), which covers 73% of our estimated sales for the period.
- We estimate 14% total growth in 2025 (all organic) following the 14% organic growth in 2024. Approx 66% of the backlog is attributable to orders outside Israel, up 1-pts from a quarter ago.
- ESLT has called out five core growth drivers within the portfolio that are favorably aligned to the inflection in global defense spending, with ambitions to grow long-term revenues ahead of defense budget growth:

Revenue Growth by Region - Israel Sales Up 36% Y-o-Y, Offsetting 18% Decline in LatAm



1. Platform Protection
2. Command & Control (C2) and Communications
3. Electronic Warfare (EW)
4. Unmanned Aircraft Systems (UAS)
5. Precision Munitions

Source: Company data and Jefferies estimates

Elbit Systems (ESLT): 2025 Adj. Op Margin Expansion Enabled From Operating Leverage on Scaling Volume

2026 Sensitivity - Each 50 Bps to ESA Segment Margins Adds ~\$0.18 to EPS, or 1% Upside

ESA Segment Margin %	ESA 2026 Organic Growth (%)					
		6.0%	7.0%	8.0%	9.0%	10.0%
6.5%		\$13.08	\$13.10	\$13.12	\$13.14	\$13.17
7.0%		\$13.25	\$13.28	\$13.30	\$13.32	\$13.35
7.5%		\$13.43	\$13.45	\$13.48	\$13.50	\$13.53
8.0%		\$13.60	\$13.63	\$13.65	\$13.68	\$13.71
8.5%		\$13.78	\$13.80	\$13.83	\$13.86	\$13.89
9.0%		\$13.95	\$13.98	\$14.01	\$14.04	\$14.07
9.5%		\$14.12	\$14.15	\$14.19	\$14.22	\$14.25

2026 EPS Sensitivity - Each 1Pt to Rev Growth Adds \$0.05 to Base EPS, w/ Each 50Bps of Margin Worth \$0.25

Land Segment Margin %	Land Organic Growth 2026E					
		15.5%	16.5%	17.5%	18.5%	19.5%
10.0%		\$12.81	\$12.85	\$12.90	\$12.94	\$12.98
10.5%		\$13.06	\$13.10	\$13.15	\$13.20	\$13.24
11.0%		\$13.31	\$13.35	\$13.40	\$13.45	\$13.50
11.5%		\$13.56	\$13.60	\$13.65	\$13.70	\$13.75
12.0%		\$13.80	\$13.85	\$13.91	\$13.96	\$14.01
12.5%		\$14.05	\$14.10	\$14.16	\$14.21	\$14.27
13.0%		\$14.30	\$14.35	\$14.41	\$14.47	\$14.52

- In Q1, Adj gross profit of \$461MM was up 20% y-o-y, with gross margins contracting 40 bps y-o-y. ESLT reported \$165MM of adj EBIT (+36% y-o-y) for margins of 8.7% in Q1, up 90 bps y-o-y.
- We sensitize ESA's growth through 2026 and margins to EPS below, finding that every 50bps to segment margins would add an incremental \$0.18 to our base 2026 EPS estimate of \$13.65, or 1% upside.
- We sensitize Land's growth through 2026 and margins to EPS below, finding that every 50bps to segment margins would add an incremental \$0.25 to our base 2026 EPS estimate of \$13.65, or 2% upside.

Source: Company data and Jefferies estimates

Elbit Systems (ESLT): Contract Liabilities and IMOD Payments Drive a Turn in FCF Generation

FCF Conversion Steadies in the 80%+ Range on Renewed Focus on Cash Collection (\$MM, except per share data)

	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Income	\$229	\$238	\$275	\$275	\$216	\$322	\$460	\$589	\$652
Depreciation and Amortization	137	144	153	161	165	158	179	196	207
NWC	(383)	(75)	(44)	(139)	(257)	67	5	(13)	(20)
Stock Comp/Deferred Taxes/Other	(36)	(28)	33	(58)	(10)	(13)	(0)	(0)	(0)
CFO	(53)	279	417	240	114	535	644	772	839
Capex	(138)	(132)	(189)	(205)	(187)	(215)	(249)	(273)	(288)
FCF	-\$191	\$147	\$228	\$35	(\$73)	\$320	\$395	\$499	\$551
FCF Per Share	(\$4.35)	\$3.32	\$5.16	\$0.78	(\$1.64)	\$7.15	\$8.78	\$11.04	\$12.12
Deployment									
Dividend	(\$63)	(\$78)	(\$79)	(\$87)	(\$89)	(\$89)	(\$103)	(\$104)	(\$105)
Change in Debt	50	(120)	230	(49)	172	(199)	-	(100)	-
Buyback/Shares Issued	185	-	0	0	0	0	-	-	-
M&A	(357)	0	(446)	(63)	(10)	-	-	-	-
Total Deployment	(\$184)	(\$198)	(\$295)	(\$199)	\$73	(\$288)	(\$103)	(\$204)	(\$105)
Discretionary FCF (post dividends)	(\$254)	\$68	\$149	(\$52)	(\$163)	\$231	\$291	\$395	\$446
FCF to Adj Net Income Conversion	-64%	46%	62%	13%	-25%	82%	81%	81%	81%
FCF Yield (FCF / Mkt Cap.)	-1.1%	0.8%	1.3%	0.2%	-0.4%	1.8%	2.2%	2.8%	3.1%
Discretionary FCF Yield	-1.4%	0.4%	0.8%	-0.3%	-0.9%	1.3%	1.6%	2.2%	2.5%
Discretionary FCF % Change y-o-y	-1904%	-127%	118%	-135%	213%	-242%	26%	36%	13%
Capex/Sales (%)	3.3%	2.8%	3.6%	3.7%	3.1%	3.1%	3.2%	3.2%	3.2%
Dividend Yield (%)	0.4%	0.4%	0.4%	0.5%	0.5%	0.5%	0.6%	0.6%	0.6%
Net Debt/EBITDA (x)	1.4X	1.0X	1.3X	1.2X	1.6X	0.9X	0.3X	-0.1X	-0.5X
Working Capital % of Sales	9.2%	1.6%	0.8%	2.5%	4.3%	-1.0%	-0.1%	0.2%	0.2%

- In Q1, ESLT generated \$184MM of CFO, with \$23MM of capex translating to FCF of \$161MM or 137% conversion on adj. NI. Working capital was a \$44MM benefit in Q1, driven by a \$168MM benefit from contract liabilities and \$100MM inflow from Payables/Accrued partially offset by a \$132MM use of receivables and \$92MM use of inventory.
- 2024 FCF was \$320MM, or 82% of Adjusted NI, including a \$1BB benefit from contract liabilities. Into 2025E we expect \$395MM of FCF, or 81% of NI, with a more modest release of contract liabilities.
- ESLT ended Q1:25 with \$455MM of cash and short-term bank deposits, compared to LT loans, Series notes, and ST bank credit and loans totaling \$961MM, for net debt of \$506MM. We forecast ND/EBITDA ends 2025 at 0.3x from 0.9x in 2024 assuming another year of strong FCF generation.

Source: Company data and Jefferies estimates

Elbit Systems (ESLT): Relative Valuation to History and Market

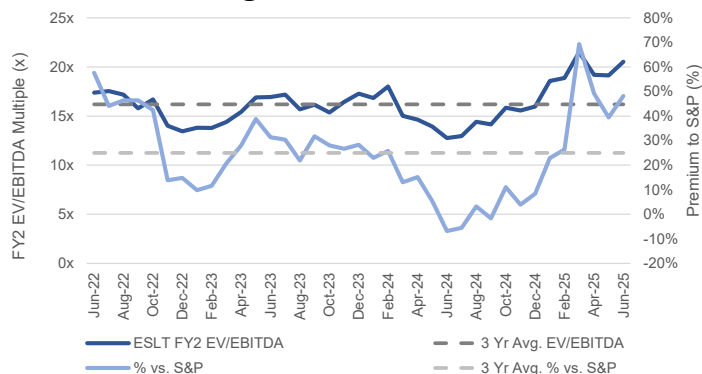
Relative Valuation

Ticker	ESLT
Current P/E	33.0x
3 Yr Avg. P/E	27.4x
Current / 3 Yr Avg.	20%
Prem / Discst SP	65%
3 Yr Prem / Discst SP	46%
S&P500 Multiple	20.0x
Current EV/EBITDA	20.5x
3 Yr Avg. EV/EBITDA	16.2x
Current / 3 Yr Avg.	27%
Prem / Discst SP	48%
3 Yr Prem / Discst SP	25%
S&P500 Multiple	13.9x
Current FCF Yield	2.6%
3 Yr Avg. FCF Yield	2.4%
Current / 3 Yr Avg.	-7%
Prem / Discst SP	59%
3 Yr Prem / Discst SP	157%
S&P500 Multiple	4.2%

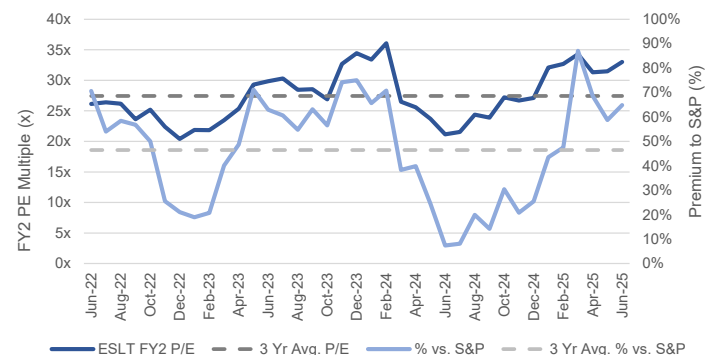
Price Target Derivation

	Price	Assumptions
EV/EBITDA	\$450	19.9X EV/EBITDA 2026 EBITDA of \$1.0BB
P/E	\$450	33.0X P/E 2026 EPS of \$13.65
Average	\$450	Blended average

Trading at 48% Prem to Mkt vs. Historical Avg Prem of 25%



Trading at a 65% Prem to Mkt vs. Historical Avg Prem of 46%



Source: Company data, FactSet and Jefferies estimates

Elbit Systems (ESLT): Annual Income Statement

Year Ended Dec.

Years Ending December 31	2021		2022		2023		2024		2025E		2026E		2027E	
Total Revenues	\$5,279	100%	\$5,512	100%	\$5,975	100%	\$6,828	100%	\$7,773	100%	\$8,543	100%	\$9,000	100%
Costs and expenses														
Costs of Sales	3,920	74%	4,138	75%	4,492	75%	5,186	76%	5,904	76%	6,444	75%	6,781	75%
SG&A	940	18%	1,075	19%	1,114	19%	1,153	17%	1,197	15%	1,281	15%	1,323	15%
Total Operating Costs	\$4,860	92%	\$5,213	95%	\$5,606	94%	\$6,339	93%	\$7,102	91%	\$7,726	90%	\$8,104	90%
Operating Profit	\$419	7.9%	\$299	5.4%	\$369	6%	\$489	7%	\$672	9%	\$818	10%	\$895	10%
Adj. Operating Profit	\$451	8.5%	\$357	6.5%	\$449	7.5%	\$550	8.1%	\$706	9.1%	\$852	10.0%	\$929	10.3%
Interest Expense	(40)		(51)		(138)		(151)		(150)		(132)		(132)	
Other, net	5		(24)		(5)		4		5		0		0	
Income before taxes	\$383	7%	\$224	4%	\$226	4%	\$342	5%	\$527	7%	\$686	8%	\$764	8%
Taxes (rate %)	131	34%	24	11%	23	10%	39	11%	75	14%	103	15%	118	16%
Net Income, continuing ops	\$252		\$199		\$204		\$303		\$453		\$583		\$645	
Minority Interest	\$22		\$7		\$12		\$18		\$6		\$6		\$6	
Net Income	\$274		\$206		\$215		\$321		\$459		\$588		\$651	
Diluted shares (millions)	44		45		45		45		45		45		45	
Earnings Per Share	\$6.20		\$4.63		\$4.82		\$7.18		\$10.20		\$13.02		\$14.32	
Adj. Earnings Per Share	\$8.30		\$6.03		\$6.70		\$8.76		\$10.85		\$13.65		\$14.95	

Source: Company data and Jefferies estimates

Elbit Systems (ESLT): Cash Flow Statement

Year Ended Dec.

	2021	2022	2023	2024	2025E	2026E	2027E
Operating Activities							
Net earnings	\$275	\$275	\$216	\$322	\$460	\$589	\$652
Adjustments	0	0	0	0	0	0	0
Depreciation and amortization	153	161	165	158	179	196	207
Write-off impairment	0	0	0	0	0	0	0
Stock-based comp expense	5	10	12	16	0	0	0
Amortization of Series A Notes	0	1	1	0	(0)	(0)	(0)
Deferred income taxes and reserve, net	39	(2)	(13)	2	0	0	0
Loss (gain) on sale of PP&E	(14)	(19)	(1)	(1)	0	0	0
Loss (gain) on sale of investments and deconsolidation of subsidiary	(15)	(7)	5	18	0	0	0
Equity in earnings of affiliated companies and partnerships, net of c	8	11	10	(8)	0	0	0
Trade and unbilled receivables and contract assets	(430)	97	(97)	(474)	(416)	(310)	(216)
Inventories	(336)	(305)	(352)	(480)	(258)	(215)	(173)
Trade payables, other payables, and accrued expenses	105	(123)	175	66	342	275	186
Contract liabilities	10	(52)	(24)	(40)	0	0	0
Cash from Operating Activities	\$417	\$240	\$114	\$535	\$605	\$779	\$826
Cash from investing activities							
Capital expenditures	(\$189)	(\$205)	(\$187)	(\$215)	(\$249)	(\$273)	(\$288)
Acquisition	(446)	(63)	(10)	0	0	0	0
Held-to-maturity securities	(2)	(4)	(5)	(4)	0	0	0
Proceeds from asset sales	49	118	2	40	0	0	0
Other	(0)	0	0	0	0	0	0
Cash from investing activities	(\$588)	(\$152)	(\$211)	(\$179)	(\$249)	(\$273)	(\$288)
Cash from financing activities							
Purchases of common stock	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Dividends paid	(79)	(87)	(89)	(89)	(103)	(104)	(105)
Proceeds from fixed-rate notes	1,052	40	20	36	0	0	0
Repayment from fixed-rate notes	(536)	(188)	(309)	(73)	0	(100)	0
Proceeds from options	0	0	0	0	0	0	0
Other	(285)	99	461	(162)	0	0	0
Net cash from financing activities	\$151	(\$136)	\$83	(\$288)	(\$103)	(\$204)	(\$105)
Net cash from disco opts	10	20	22	22	22	22	22
Net increase in cash equivalents	(\$20)	(\$48)	(\$14)	\$68	\$253	\$302	\$433
Beginning cash	279	259	211	197	265	518	820
Ending cash	\$259	\$211	\$197	\$265	\$518	\$820	\$1,253

Source: Company data and Jefferies estimates

Eve Holding, Inc. (EVEX) – Buy \$7 PT

- 1) Full-Scale Prototype Working Toward Flight Tests Later This Yr.
- 2) Revenue of \$4.3BB on 650 Deliveries by 2030
- 3) Sufficient Liquidity Through 2026, Low FCF Usage in Q1

Related Notes:

- [Full-Scale Prototype Going From Ground to Air in 2025](#) *May 12, 2025*
- [Working Toward 2027 Launch](#) *March 12, 2025*
- [Resetting Expectations w/ EIS in 2027 Toward 240 Aircraft/Yr](#) *November 5, 2024*

Eve Holding (EVEX): Revenue Build - Deliveries Begin in 2027 With 135% CAGR Through 2030

EVEX Revenue Build - eVTOL Deliveries Starting in 2027

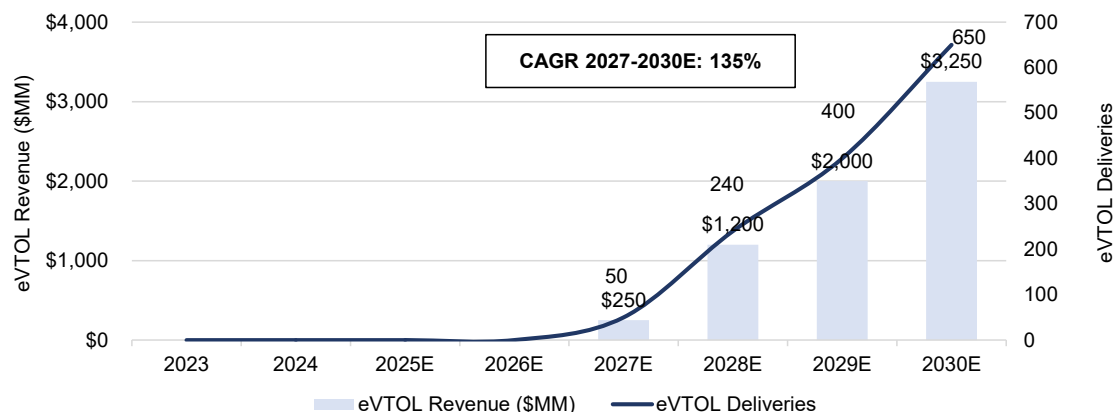
	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Revenue (\$MM)								
eVTOL	\$0	\$0	\$0	\$0	\$250	\$1,200	\$2,000	\$3,250
Fleet Operations	0	0	0	1	23	102	267	494
Services and Support	0	0	0	2	29	96	223	529
UATM	0	0	0	2	4	8	14	14
Total	\$0	\$0	\$0	\$5	\$305	\$1,405	\$2,504	\$4,286
YoY % Change								
eVTOL	NM	NM	NM	NM	NM	380%	67%	63%
Fleet Operations	NM	NM	NM	NM	2775%	343%	162%	85%
Services and Support	NM	NM	NM	NM	1338%	233%	133%	138%
UATM	NM	NM	NM	NM	100%	114%	87%	0%
Total	NM	NM	NM	NM	6609%	360%	78%	71%
Composition								
eVTOL		NM	NM	0%	82%	85%	80%	76%
Fleet Operations		NM	NM	18%	8%	7%	11%	12%
Services and Support		NM	NM	44%	9%	7%	9%	12%
UATM		NM	NM	38%	1%	1%	1%	0%
Total		NM	NM	100%	100%	100%	100%	100%

- In the near term, we expect minimal revenue generation, with an inflection in 2027 as aircraft deliveries begin, with modest medium-term contribution from Fleet Operations, Services and Support, and Urban Air Traffic Management (UATM), dubbed "Vector", until the global fleet scales.

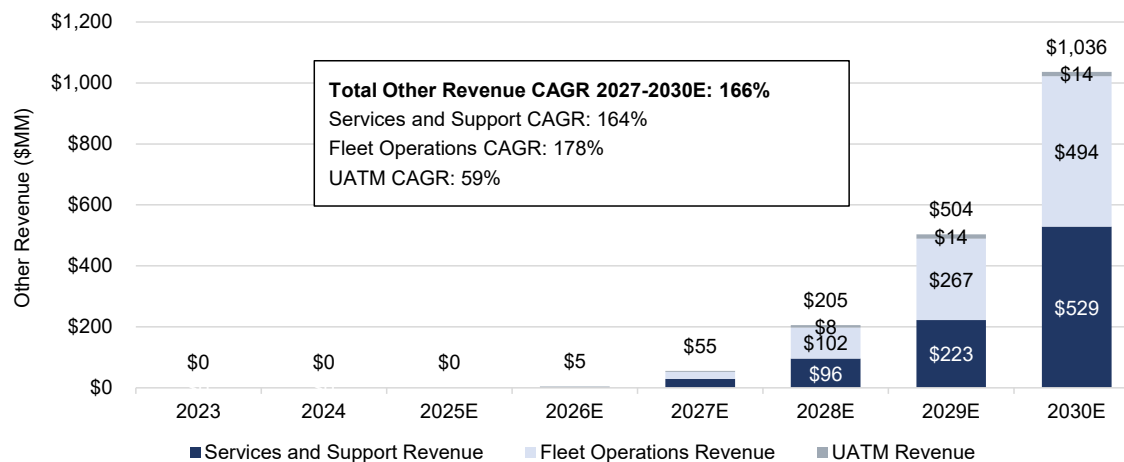
Source: Company data and Jefferies estimates

Eve Holding (EVEX): Revenue Build - Deliveries Begin in 2027 With 135% CAGR Through 2030

eVTOL Delivery and Revenue Build - 50 Deliveries in 2027 Scaling at a 76% CAGR to 650 in 2030



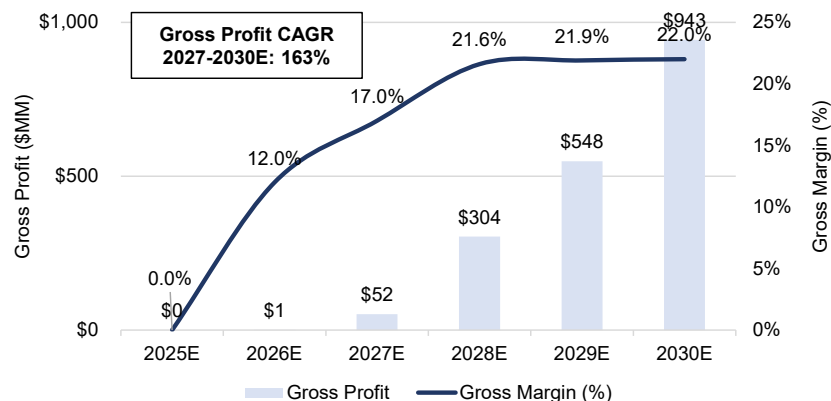
Other Revenue Build - Services and Support and Fleet Ops Scale Alongside Global Fleet



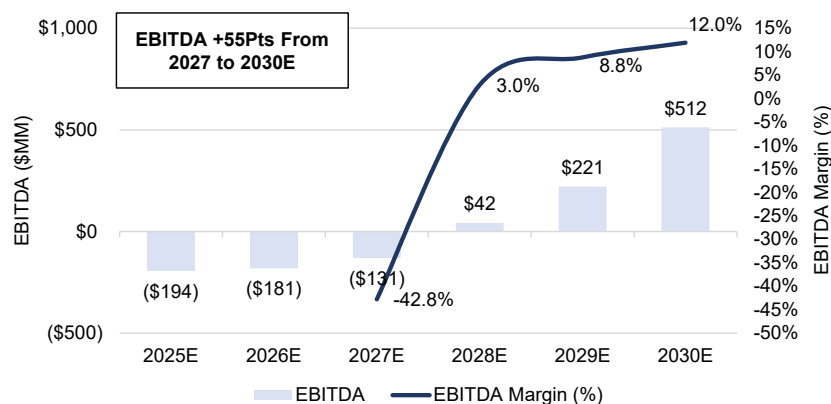
Source: Company data and Jefferies estimates

Eve Holding (EVEX): Margin Outlook - R&D Tied to Engineering and Manufacturing of eVTOLs

GMs Expanding from 12% in 2026 to 22% in 2030 as Gross Profit Grows at 107% CAGR from 2027 to 2030



EBITDA Margins Expanding from -43% in 2027 to 12% in 2030



- R&D expense is largely around the development of EVEX's eVTOL with an increase from \$130MM in 2024 to \$167MM in 2025 on our estimates related to higher engineering expense and cost of supplies related to the development of the first conforming prototypes and testing for the initial full-scale prototype vehicle.
- We estimate SG&A costs scale from \$26.5MM in 2024 to \$129MM by 2030, associated with hiring efforts to meet the requirements of maintaining public company status and in the later part of the decade, to support commercialization and sales efforts of the eVTOL..
- Gross profit expands at a 163% CAGR from 2027 to 2030 on our estimates..
- EBITDA turns positive in 2028 on our estimates as EBIT improves alongside higher deliveries and D&A ramps as EVEX develops its manufacturing facilities. We estimate runway to ~12% EBITDA margins by 2030.

Source: Company data and Jefferies estimates

Eve Holding (EVEX): Capex Needs Keep FCF Negative Through 2030 But NT Liquidity Sufficient to Support Ops for ~3 Years

FCF Build - Capex Needs Drive Negative FCF Until 2029 When NI Turns Positive

	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E
Net Income	(\$16)	(\$174)	(\$128)	(\$138)	(\$208)	(\$236)	(\$240)	(\$131)	\$5
Depreciation & Amortization	\$0	\$0	\$0	\$0	\$5	\$25	\$70	\$119	\$150
NWC	(\$0)	\$16	\$18	\$8	\$9	\$44	\$126	\$55	\$48
Stock Comp / Other	\$0	\$98	\$15	(\$6)	\$0	\$0	\$0	\$0	\$0
CFO	(\$16)	(\$59)	(\$95)	(\$136)	(\$193)	(\$166)	(\$44)	\$42	\$202
Capex	(\$1)	(\$0)	(\$0)	(\$5)	(\$30)	(\$70)	(\$100)	(\$150)	(\$200)
FCF	(\$17)	(\$60)	(\$95)	(\$141)	(\$223)	(\$236)	(\$144)	(\$108)	\$2
FCF Per Share	(\$0.08)	(\$0.24)	(\$0.34)	(\$0.49)	(\$0.77)	(\$0.82)	(\$0.50)	(\$0.37)	\$0.01

Deployment

Issuance/Repayment of Debt	0	0	25	111	225	225	200	200	0
Total Deployment	\$0	\$0	\$25	\$111	\$225	\$225	\$200	\$200	\$0

Discretionary FCF	(\$17)	(\$60)	(\$95)	(\$141)	(\$223)	(\$236)	(\$144)	(\$108)	\$2

Ratios

FCF to NI Conversion	NM	NM	NM	NM	NM	NM	NM	82%	46%
FCF Yield (FCF / Mkt Cap)	-1%	-4%	-6%	-9%	-15%	-16%	-9%	-7%	0%
FCF Y-o-Y Change	NM	NM	NM	NM	NM	NM	NM	NM	-102%
Capex as % of Sales	NM	NM	NM	NM	NM	NM	32.8%	10.7%	8.0%

- We estimate FCF remains negative until 2029 as deliveries are now pushed back to 2027, with capacity starting at just 240/yr once the facility is up and running and net income remaining negative until 2030. On our estimates, FCF burn hits (\$212MM) in 2025, stepping up modestly to (\$234MM) in 2026, before stepping down modestly toward the end of the decade at (\$138MM) in 2027.
- We estimate a modest \$30MM use of capex in 2025, stepping up sequentially to \$70MM in 2026 to bring the first production facility modules online. As revenues increase, capex as a percentage of sales is expected to normalize in the M-HSD range by 2029-2030. Each manufacturing module will require a \$250MM investment..

Source: Company data and Jefferies estimates

Eve Holding (EVEX): Relative Valuation to Peers

Price Target Derivation

	Price	Assumptions
DCF	\$7	11% WACC; 4% Terminal Growth Rate
Price Target	\$7	

Valuation Relative to Peers (5/12/2025)

eVTOLS	Ticker	JEF Rating	Stock Px 5/12/2025	Market Cap	Enterprise Value	P/E			EV / SALES			EV / EBITDA			FCF
						2025E	2026E	2027E	2025E	2026E	2027E	2025E	2025E	2027E	
Archer	ACHR	N/C	\$9.13	5,011	2,676	-8.7x	-9.9x	-10.5x	95.3x	18.9x	6.1x	-6.6x	-7.8x	-8.5x	-6.9%
Joby Aviation	JOBY	N/C	\$6.97	5,515	4,561	-10.4x	-10.2x	-11.5x	NM	76.6x	21.4x	-9.2x	-10.6x	-11.9x	-8.0%
Vertical Aerospace	EVTL	N/C	\$4.57	386	65	-2.8x	-3.3x	-3.6x	NM	NM	NM	-0.5x	-0.5x	-0.4x	-33.8%
Average						-7.3x	-7.8x	-8.5x	NM	47.7x	13.7x	-5.4x	-6.3x	-7.0x	-16.2%
Eve	EVEX	Buy	\$4.14	1,232	1,023	-5.7x	-5.1x	-5.0x	NM	NM	3.4x	-5.3x	-5.6x	-7.8x	N/A

Source: Company data, FactSet and Jefferies estimates

Eve Holding (EVEX): Income Statement

Year Ended Dec.

(millions, except per share data)	2021		2022		2023		2024		2025E		2026E		2027E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$0		\$0		\$0		\$0		\$0		\$5		\$305	
Costs and expenses														
Costs of Sales	0	NM	0	NM	0	NM	0	NM	0	NM	4	88.0%	253	#####
R&D	13	NM	52	NM	106	NM	130	NM	167	NM	152	#####	152	#####
SG&A	2	NM	138	NM	23	NM	27	NM	27	NM	30	659.3%	31	670.9%
Total Operating Costs	\$16	NM	\$189	NM	\$129	NM	\$156	NM	\$194	NM	\$186	4088%	\$436	9580%
Operating Profit	(\$16)	NM	(\$189)	NM	(\$129)	NM	(\$156)	NM	(\$194)	NM	(\$181)	NM	(\$131)	-42.8%
Interest income (expense), net	0		0		4		(1)		(9)		(29)		(39)	
Other income (expense), net	0		16		(2)		19		0		0		0	
Pre-Tax Income	(16)		(173)		(126)		(138)		(208)		(236)		(240)	
Taxes	(0)		(1)		(2)		(1)		0		0		0	
Net Income From Continuing Ops	(\$16)		(\$174)		(\$128)		(\$138)		(\$208)		(\$236)		(\$240)	
Foreign currency translation adjustment	(0)		0		0		0		0		0		0	
Net Income	(\$16)		(\$174)		(\$128)		(\$138)		(\$208)		(\$236)		(\$240)	
Diluted shares (millions)	220.0		254.1		275.8		288.5		288.5		288.5		288.5	
Diluted EPS	(\$0.07)		(\$0.68)		(\$0.46)		(\$0.48)		(\$0.72)		(\$0.82)		(\$0.83)	
EBITDA	(\$15.8)		(\$189.5)		(\$128.5)		(\$156.4)		(\$194.0)		(\$181.5)		(\$130.6)	

Source: Company data and Jefferies estimates

Eve Holding (EVEX): Balance Sheet

Year Ended Dec.

(millions, except per share data)	2021	2022	2023	2024	2025E	2026E	2027E
Assets							
Cash and equivalents	14	49	47	56	58	47	102
Related party receivable	0	0	0	0	0	0	18
Derivative financial instruments	0	261	194	247	247	247	247
Other current assets and inventories	0	2	1	9	0	0	27
Total current assets	14.6	313.2	242.2	312.8	304.9	294.3	395.3
Capitalized software, net	0	0	0	0	0	0	0
Total non-current assets	0.7	0.7	3.1	5.4	35.8	80.8	110.8
Total Assets	\$15	\$314	\$245	\$318	\$341	\$375	\$506
Liabilities							
Accounts and related party payable	0.9	14.7	24.8	36.9	36.9	36.9	36.6
Derivative financial instruments	0.0	3.6	14.0	7.0	7.0	7.0	7.0
Accruals and other current liabilities	0.6	7.6	13.2	15.4	15.4	15.4	15.4
Total Current Liabilities	\$2	\$26	\$52	\$59	\$59	\$104	\$275
Other noncurrent liabilities	1	1	3	3	3	3	3
Long Term Debt	0	0	26	132	357	582	782
Total Non-current Liabilities	0.7	1.0	29.3	135.0	360.0	585.0	785.0
Total Liabilities	2.2	26.9	80.3	194.3	419.3	689.3	1,060.0
Total Stockholders equity	\$13	\$287	\$165	\$124	(\$79)	(\$314)	(\$554)
Total liabilities and S/E	\$15	\$314	\$245	\$318	\$341	\$375	\$506

Source: Company data and Jefferies estimates

Eve Holding (EVEX): Cash Flow Statement

Year Ended Dec.

(millions, except per share data)	2021	2022	2023	2024	2025E	2026E	2027E
Net loss	(16)	(174)	(128)	(138)	(208)	(236)	(240)
Depreciation and Amortization	0	0	0	0	5	25	70
Amortization of Software	0	0	0	0	0	0	0
Long-term incentive plan expense/SBC	0	3	3	4	0	0	0
Change in asset and liabilities	0	0	0	0	0	0	0
Other assets	(0)	11	1	(4)	9	(0)	(27)
Related party receivable	(0)	3	(0)	(0)	0	(0)	(18)
Accounts and related party payables	0	2	18	12	0	0	(0)
Customer Deposits	0	0	0	0	0	45	171
Cash from Operations	(\$16)	(\$59)	(\$95)	(\$136)	(\$193)	(\$166)	(\$44)
Cash flows from investing activities							
Purchase of PP&E/Capitalized Software	(1)	(0)	(0)	(5)	(30)	(70)	(100)
Other	0	(258)	67	(51)	0	0	0
Net cash used in investing activities	(\$1)	(\$258)	\$67	(\$56)	(\$30)	(\$70)	(\$100)
Cash flows from financing activities:							
Issuance/Repayment of note payable	0.0	0.0	25.5	110.8	225.0	225.0	200.0
Parent company proceeds/transfer	14.3	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from common stock	0	0	0	94	0	0	0
Transaction costs	0	0	(0)	(2)	0	0	0
Capital contribution	15	353	0	0	0	0	0
Other	0	0	(0)	0	0	0	0
Net cash used in financing activities	\$29	\$353	\$25	\$203	\$225	\$225	\$200
Total cash flow	13	35	(2)	9	2	(11)	56
Cash at the beginning of the period	0.0	14.4	49.1	46.9	56.4	57.9	46.6
Cash at end of period	\$13	\$49	\$47	\$56	\$58	\$47	\$102

Source: Company data and Jefferies estimates

FTAI Aviation (FTAI) – Buy \$175 PT

- 1) **SCI Creates Demand Surety Over the Long-Term**
- 2) **21% of Reaffirmed 2025 AP EBITDA in Q1**
- 3) **11% of '25 FCF in Q1 w/ Q2 Windfall**

Related Notes:

- [Expanding Share While Learning to Share with SCI](#) *May 4, 2025*
- [Expanding Margins, Cash, The SCI, and Into Italy...The FTAI Chronicles](#) *March 2, 2025*
- [Mgmt Mtg Takes: A Small but Mighty MRO w/ Module Demand Lining the Walls](#) *February 24, 2025*

FTAI Aviation (FTAI): FTAI Revenue & Profits - 2026 Aviation EBITDA Grows at a ~30% CAGR to '26

FTAI Reaffirms 2025/2026 Aviation EBITDA, Expanding at Nearly 30% CAGR from '24 Base

	2021	2022	2023	2024	2025E	2026E	2027E	2025 Guide	JEF vs. Guide	2026 Target	JEF vs. Target
Revenues											
Aviation Leasing	\$298	\$503	\$682	\$628	\$499	\$504	\$516				
Aerospace Products	\$23	\$179	\$455	\$1,080	\$1,739	\$2,347	\$2,992				
Corporate	\$14	\$27	\$34	\$27	\$0	\$0	\$0				
Total Revenues	\$336	\$708	\$1,171	\$1,735	\$2,238	\$2,851	\$3,508				
% YoY Change		111%	65%	48%	29%	27%	23%				
Adjusted EBITDA											
Aviation Leasing	\$321	\$380	\$467	\$500	\$599	\$558	\$599	\$500	19.8%	\$550	1.4%
Aerospace Products	\$23	\$74	\$160	\$381	\$633	\$900	\$1,200	\$600-650	1.2%	\$850	5.9%
Corporate	(\$21)	(\$26)	(\$30)	(\$19)	(\$90)	(\$113)	(\$129)				
Total Adjusted EBITDA	\$323	\$428	\$597	\$862	\$1,141	\$1,345	\$1,670				
% YoY Change		33%	40%	44%	32%	18%	24%				
Adjusted EBITDA Margin											
Aviation Leasing	107.8%	75.6%	68.6%	79.6%	120.0%	110.6%	116.1%				
Aerospace Products	97.6%	41.6%	35.2%	35.2%	36.4%	38.3%	40.1%			35-50%	
Corporate	-150.9%	-97.9%	-87.8%	-70.0%	-	-	-				
Total Adjusted EBITDA Margin	96.2%	60.4%	51.0%	49.7%	51.0%	47.2%	47.6%				
% Incremental Margin		28%	37%	47%	56%	33%	49%				
Diluted EPS											
	(\$1.43)	(\$2.22)	\$2.11	(\$0.32)	\$4.85	\$6.80	\$9.00				
% YoY Change		55%	-195%	-115%	NM	40%	32%				

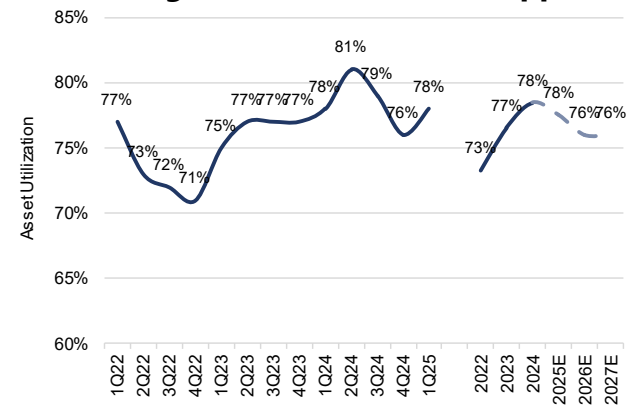
- FTAI operates two segments, within which revenue is generated through multiple channels:
 - Aviation Leasing (\$599MM or 49% of 2025E Aviation EBITDA):** Contains the core asset leasing business, wherein FTAI generates lease income via the leasing of its owned asset base, as well as gains (losses) on the sale of its owned assets and the SCI contribution of pro-rata lease income and management/incentive fees.
 - Aerospace Products (\$633MM or 51% of 2025E Aviation EBITDA):** Reflects the core maintenance, repair, and exchange ("MRE") business, wherein FTAI sources and rebuilds end-of-life engines before re-offering them customers.

Our 2025 Adj. EBITDA estimate is \$1.14BB, or \$1.23BB of Aviation EBITDA before Corporate's \$90MM loss. Aviation EBITDA expands to \$1.46BB in 2026E and \$1.80BB in 2027E. Total Adj. EBITDA expands at a 25% CAGR to 2026E.

Source: Company data and Jefferies estimates

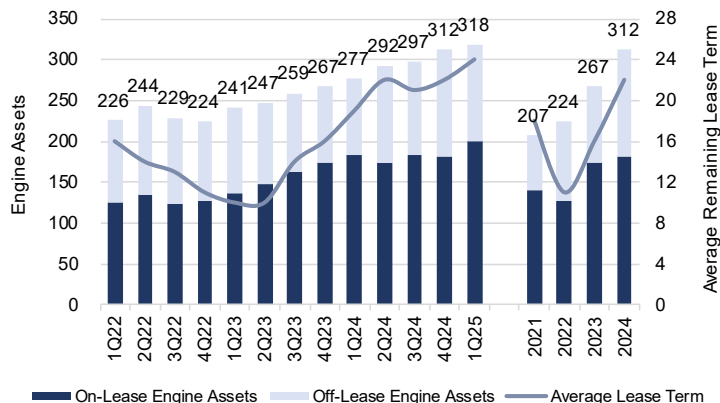
FTAI Aviation (FTAI): Aviation Leasing - SCI Seed Sales Partially Backfilled in Replacement Capex, with Gains & Insurance Driving Near-Term Results

Utilization - Percentage of On-Lease Days by Monthly Average Equity Value with Some Noise Around SCI Seeding, LT Utilization Well Supported

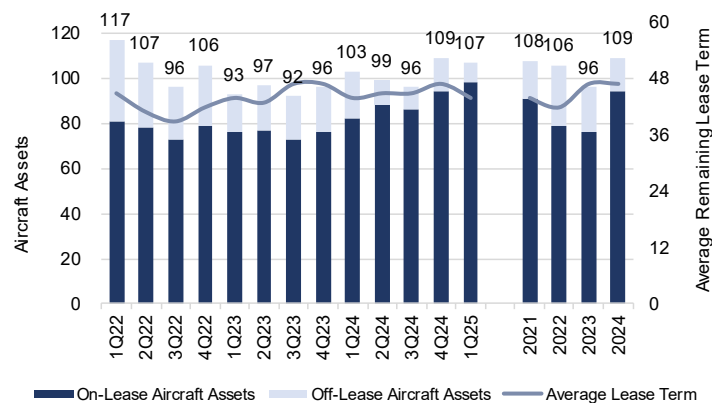


- At the end of Q1:25, Aviation Leasing owned and managed 425 assets, up from 421 assets in Q4:24, 393 in Q3:24 and 363 in Q4:23, including 107 aircraft (vs 103 a year ago, 109 in Q4:24) and 318 engines (vs 277 a year ago, 312 in Q4:24).
- Based on the percent of days on-lease weighted by the monthly average equity value, utilization was 78% in Q1:25 vs. 76% in Q4 and down from 79% in Q3, with 2024 averaging 78% compared to 77% in 2023 and 73% in 2022. Aircraft have a weighted average remaining lease term of 24 months for Engines and 44 for Aircraft as of Q1.

Engine Assets Up to 318 As of Q1:25 (+15% YoY) with Average Remaining Lease Term of 24 Months (+5 Mos Y-o-Y)



Aircraft Assets of 107 As of Q1:25 (+4% YoY) with Average Remaining Lease Term of 44 Months



Source: Company data and Jefferies estimates

FTAI Aviation (FTAI): Aviation Leasing - SCI Seed Sales Partially Backfilled in Replacement Capex, with Gains & Insurance Driving Near-Term Results

Aviation Leasing Top-Line - SCI Sales Treated as Other Income Given Non-Recurring Nature

Aviation Leasing	2021	2022	2023	2024	2025E	2026E	2027E
Revenues							
Lease Income	\$164	\$159	\$180	\$234	\$255	\$257	\$261
Maintenance Revenue	\$129	\$149	\$191	\$201	\$194	\$197	\$204
Asset Sales Revenue	\$0	\$184	\$303	\$192	\$50	\$50	\$50
Other Revenue	\$6	\$11	\$7	\$1	\$0	\$0	\$0
Total Revenues	\$298	\$503	\$682	\$628	\$499	\$504	\$516
% YoY Change		69%	36%	-8%	-21%	1%	2%
YoY % Change							
Lease Income	-	-3%	13%	30%	9%	1%	1%
Maintenance Revenue	-	16%	29%	5%	-3%	1%	4%
Asset Sales Revenue	-	-	65%	-37%	-74%	0%	0%
Other Revenue	-	106%	-35%	-86%	-100%	0%	0%
Total Revenues	-	69%	36%	-8%	-21%	1%	2%
% Composition							
Lease Income	55%	32%	26%	37%	51%	51%	51%
Maintenance Revenue	43%	30%	28%	32%	39%	39%	40%
Asset Sales Revenue	0%	36%	44%	31%	10%	10%	10%
Other Revenue	2%	2%	1%	0%	0%	0%	0%
Total Revenues	100%	100%	100%	100%	100%	100%	100%

- Aviation Leasing generated \$628MM in revenues in 2024, down 8% y-o-y from \$682MM in 2023. This was driven by Lease Income (+30% y-o-y; 37% of segment revenues) & Maintenance Revenue (+5% y-o-y; 32% of mix), as On-Lease Engine Assets increased to 190 from 175 in 2023, while On-Lease Aircraft Assets increased to 109 from 96 in 2023. Asset Sales Revenue are treated as ordinary course of business, booking \$192MM in 2024 (-37% y-o-y; 31% of segment revenues) compared to \$303MM in 2023. Other Revenue includes the handling, storage, and sale of raw materials.
- We estimate Aviation Leasing revenues decrease 21% in 2025 given the SCI sales are not included in Asset Sales Revenue (-74% to \$50MM in 2025) with the core Lease Income (+9% y-o-y) and Maintenance Revenue (-3%) given the moving pieces around the 45 narrowbodies sold into the SCI, which will be largely replaced through the year.

Source: Company data and Jefferies estimates

FTAI Aviation (FTAI): Aviation Leasing - SCI Seed Sales Partially Backfilled in Replacement Capex, with Gains & Insurance Driving Near-Term Results

Aviation Leasing Adj. EBITDA - JFe \$599MM of Adj EBITDA in 2025 Includes \$54MM in Insurance and \$121MM in Gains from SCI Seed at ~\$3MM per Aircraft

Aviation Leasing Assets	2021	2022	2023	2024	2025E	2026E	2027E
Beginning Assets	264	315	330	363	421	415	415
Acquisition of Leasing Eqpm	\$573	\$638	\$750	\$1,147	\$310	\$200	\$200
Period Avg Cost per Asset Purchased	\$5.1	\$6.2	\$5.3	\$6.1	\$7.9	\$6.1	\$6.1
Assets Purchased	112	103	141	188	39	33	33
Proceeds from Sale of Leasing Eqpm	\$159	\$409	\$478	\$969	\$560	\$200	\$200
Period Avg Cost per Asset Sold	\$2.6	\$4.6	\$4.4	\$7.5	\$12.4	\$6.0	\$6.0
Assets Sold	(61)	(88)	(108)	(130)	(45)	(33)	(33)
Total Assets	315	330	363	421	415	415	415
On-Lease Assets	231	206	231	280	322	315	315
% Utilization	73%	73%	77%	78%	78%	76%	76%
Revenue							
Monthly Lease Rate	\$59.1	\$64.4	\$64.8	\$69.8	\$66.1	\$68.0	\$69.0
% YoY Change		9%	1%	8%	-5%	3%	1%
Lease Income Revenue	\$163.7	\$159.1	\$179.7	\$234.4	\$255.2	\$257.4	\$261.2
% YoY Change		-3%	13%	30%	9%	1%	1%
Monthly Maintenance Deposit	\$46.5	\$60.3	\$69.0	\$59.8	\$50.3	\$52.0	\$54.0
% YoY Change		30%	14%	-13%	-16%	3%	4%
Maintenance Revenue	\$128.8	\$148.8	\$191.3	\$200.8	\$194.0	\$196.8	\$204.4
% YoY Change		16%	29%	5%	-3%	1%	4%
Core Leasing Revenue	\$292.6	\$307.9	\$371.1	\$435.2	\$449.3	\$454.2	\$465.5
% YoY Change		5%	21%	17%	3%	1%	2%
Adj. EBITDA							
Core Leasing EBITDA			\$386.0	\$448.8	\$413.3	\$463.3	\$474.8
% Margin			102%	103%	92%	102%	102%
Gain on Sales EBITDA			\$81.4	\$51.3	\$120.6	\$0.0	\$0.0
% Margin			27%	27%	241%	0%	0%
SCI Ending AUM				\$0	\$3,000	\$6,000	\$9,000
SCI Narrowbody Aircraft				0	200	400	600
SCI Lease Income					\$165.0	\$600.0	\$1,000.0
FTAI Pro-Rata Lease EBITDA					\$2.5	\$11.9	\$19.8
% FTAI Share					2%	2%	2%
Strategic Capital Fee EBITDA					\$8.5	\$32.4	\$54.0
% Fees					3%	3%	3%
Russian Insurance Recoveries					\$54.1	\$50.0	\$50.0
Adjusted EBITDA	\$0.0	\$0.0	\$467.4	\$500.1	\$599.0	\$557.5	\$598.6
% Margin	107.8%	75.6%	68.6%	79.6%	120.0%	110.6%	116.1%

- **EBITDA:** FTAI discloses Lease Income EBITDA, which totaled \$460MM in 2024, or ~100% recognition of the reported Lease Income in the revenue line. Leasing also included \$40MM of Gain-on-Sale EBITDA in 2024, compared to \$81MM in 2023 as FTAI has divested many of its non-core assets to-date, driving total Leasing EBITDA of \$500MM in 2024. In Q1:25, Leasing EBITDA of \$162MM included \$30MM in Insurance Recoveries and \$10MM in Gain-on-Sale (\$11MM from 4 SCI aircraft less \$1MM loss on \$19MM in Airframe revenues).
- **2025 Guidance:** FTAI has guided for \$500MM of Leasing EBITDA in 2025, flat y-o-y. The moving pieces include the lost Lease Income on the 46 NBs sold into the SCI, offset by the Gain-on-Sale for those aircraft and FTAI's pro-rata recognition of Lease Income for all aircraft within the SCI and management & incentive fees, which remain immaterial today. Our estimate for \$599MM of Adj EBITDA assumes \$413MM of core Leasing EBITDA (vs \$449MM in 2024), \$121MM in Gain-on-Sale at ~\$3MM per aircraft sold to SCI (vs \$51MM in 2024), \$54MM in Insurance Recoveries (Q1 \$30MM + Q2 guided at \$24MM with \$100MM remaining thereafter), and \$10MM from SCI management fees & contribution.
- **2026 Target:** The 2026 target is \$550MM of Adj. EBITDA from the Leasing segment, with our estimate now at \$558MM, which includes \$463MM of core Leasing EBITDA, \$50MM in Insurance Recoveries, and \$44MM from the SCI fees. This is on a flat asset base with expanding lease rates, although FTAI may grow the business opportunistically.

Source: Company data and Jefferies estimates

FTAI Aviation (FTAI): Aerospace Products - >75% Adj. EBITDA CAGR to 2026 Fueled by Market Penetration & Captive SCI, Augmented by PMA Profitability

- **EBITDA:** We estimate \$633MM of Adj. EBITDA in 2025 (36.4% margin) compared to the guidance of \$600-650MM and inline or better margins, improving to \$900MM in 2026 (38.3% margin) compared to the target of \$850MM.
- JEF 2026 includes \$719MM from The Module Factory with 625 modules at \$1.15MM EBITDA per module, \$100MM from V2500 MRE, ~\$40MM from Engine Teardowns, \$15MM from Piece-Part, and \$25MM from 3rd-party PMA.
- Adj. EBITDA expands at a 78% CAGR to 2026 in our view, with margin runway between 35-50% (from 40% target prior) based on: 1) 15pts from traditional MRO repairs; 2) 15-25pts from green-time optimization tied to module swaps and LLP recycling; 3) 5-10pts from USM and PMA penetration; and 4) white glove just-in-time & in-field services.

Aerospace Products Adj. EBITDA - 75% Adj. EBITDA CAGR to 2026 with 35-50% Margins Supported by Penetration of CFM56 Modules, V2500 MRE, and PMA Certification & Acceptance

Aerospace Products	2021	2022	2023	2024	2025E	2026E	2027E
Revenues							
Total Revenues	\$23.3	\$178.5	\$455.0	\$1,079.8	\$1,738.5	\$2,347.0	\$2,992.4
% YoY Change		666%	155%	137%	61%	35%	28%
Adj. EBITDA							
CFM56 Modules		104	178	361	500	625	800
% YoY Change							
Unique Customers		25	30				
Modules per Customer		4.2	5.9				
EBITDA per Module		\$0.50	\$0.70	\$0.76	\$1.00	\$1.15	\$1.20
% Implied Margin		35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
The Module Factory		\$52.0	\$124.6	\$274.4	\$500.0	\$718.8	\$960.0
% YoY Change			140%	120%	82%	44%	34%
V2500 Engines				23	31	42	52
% YoY Change					34%	33%	25%
EBITDA per Module				\$0.6	\$0.8	\$0.8	\$0.8
% Implied Margin		35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
V2500 MRE				\$42.0	\$75.0	\$100.0	\$125.0
% YoY Change							
Engine Teardowns		30	40	48	50	55	60
% YoY Change			33%	20%	4%	10%	9%
EBITDA per Teardown		\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0
Used Serviceable Material Through AAR		\$22.5	\$30.0	\$36.0	\$37.5	\$41.3	\$45.0
% YoY Change							
Piece-Part Repairs		\$0.0	\$0.0	\$0.0	\$10.0	\$15.0	\$20.0
Chromalloy JV 25% Ownership		\$0.0	\$0.0	\$0.0	\$10.0	\$25.0	\$50.0
Other EBITDA		(\$0.2)	\$5.4	\$28.2	\$0.1	\$0.0	\$0.0
Other EBITDA		(\$0.2)	\$5.4	\$28.2	\$20.1	\$40.0	\$70.0
Adjusted EBITDA		\$22.7	\$74.3	\$160.0	\$382.6	\$900.0	\$1,200.0
% Margin		35.9%	41.6%	35.2%	35.2%	36.4%	38.3%
% Incremental			33%	31%	35%	38%	44%

Source: Company data and Jefferies estimates

FTAI Aviation (FTAI): Entering Cash Harvesting Mode of Aerospace Products

Adj. FCF Build - ~\$650MM of Cash Generated in 2025 Prior to Any Growth Capex or Shareholder Returns Beyond the Dividend

- In **2024**, FTAI used \$657MM of FCF including \$1.33BB of growth investments, including LMCES (\$170MM), V2500 engine growth (\$423MM), CFM56 engine & inventory growth (\$546MM), other aviation growth (\$40MM), and the FIG buyout (\$150MM). Excluding the non-recurring growth capex, Adj FCF generated totaled \$672MM, or 78% conversion of Adj EBITDA.
- In **2025**, FTAI is targeting \$650MM of Adj FCF, which represents pre-growth capex (+) \$1,050MM of Adj EBITDA (+) \$550MM of Seed Portfolio sales into the SCI of 46 narrowbodies (-) \$240MM of Equity Investment into the SCI (-) \$310MM of Aviation Leasing replacement capex (-) \$225MM of Interest expense (-) \$125MM of Maintenance capex (-) \$50MM of Corporate expenses and working capital.
- Mgmt's preference is to continue to invest in growth verticals, but excess cash may also be redistributed to shareholders.

Free Cash Flow	2024	2025E	2026E	2027E
Adj. EBITDA	\$862	\$1,166	\$1,380	\$1,715
Less: Interest Expense	(\$222)	(\$248)	(\$219)	(\$214)
Less: Maintenance Capital Expenditures	(\$98)	(\$125)	(\$140)	(\$150)
Less: Working Capital	\$6	\$39	(\$121)	(\$45)
Add: Offshore Vessel Sales	\$124	-	-	-
Add: Aviation Leasing Asset Sales	\$152	\$560	\$200	\$200
Less: Aviation Leasing Replacement Capex	(\$152)	(\$310)	(\$200)	(\$200)
Less: SCI Equity Investment	-	(\$240)	-	-
Pre-Growth Capex Free Cash Flow	\$672	\$842	\$899	\$1,305
% Conversion of Adj. EBITDA	78%	72%	65%	76%
Committed Growth Capex				
Facility Acquisitions	(\$170)	(\$25)	-	-
V2500 Engine Capex	(\$423)	-	-	-
CFM56 Engine & Inventory Capex	(\$546)	(\$200)	-	-
Other / FIG Termination	(\$190)	-	-	-
Total Growth Capex	(\$1,329)	(\$225)	-	-
Adj. Free Cash Flow	(\$657)	\$617	\$899	\$1,305
% Conversion of Adj. EBITDA	-76%	53%	65%	76%
Capital Deployment				
Net Debt (Paydown) / Issuance	\$910	\$0	\$0	\$0
Cash Dividends Paid	(\$154)	(\$131)	(\$132)	(\$132)
Share (Repurchases) / Issuance	(\$105)	\$0	\$0	\$0
Total Deployment	\$650	(\$131)	(\$132)	(\$132)
Discretionary Cash	(\$7)	\$486	\$767	\$1,174
Ratios				
Adj. FCF / Revenue	-38%	28%	32%	37%
Adj. FCF / EBITDA	-76%	53%	65%	76%
Adj. FCF / Net Income	NM	123%	127%	140%
Adj. FCF / Share	(\$6.47)	\$5.95	\$8.66	\$12.56
Adj. FCF Yield	-7.4%	6.9%	10.1%	14.6%
Cash / Share	\$1.13	\$4.52	\$9.56	\$17.61

Source: Company data and Jefferies estimates

FTAI Aviation (FTAI): Price Target and Valuation

Price Target Derivation

Valuation Method	Price	Assumptions
EV/EBITDA	175	15.0x EV/EBITDA on 2026 EBITDA of \$1.38BB
P/E	174	25.5x P/E on 2026 EPS of \$6.80
Average	\$175	Blended Average

Sum of the Parts Valuation

FY26 Sum of the Parts						
	Adj. EBITDA	Peer EV / EBITDA	Prem Vs Peers	EV / EBITDA	EV	Share Value
Aviation Leasing	\$558	9.1x	0.0%	9.1x	\$5,093	\$49
Aerospace Products	\$900	24.5x	-29.5%	17.3x	\$15,545	\$150
FTAI	\$1,458	14.2x			\$20,639	\$199
Net Debt					\$2,448	(\$24)
Equity Value					\$18,191	\$175
Shares Outstanding					103.8	
Share Price					\$175	\$175

- Our PT of \$175 is based on: 1) 25.5X P/E (38% premium to S&P vs. 3-year average 3% discount) on 2026E EPS of \$6.80; 2) 15X EV/EBITDA (17% premium to S&P vs. 3-year average of 19% discount) on 2026E Adj. EBITDA of \$1.38BB.
- Our sum-of-the-parts values FTAI at \$175 per share based on: 1) Aviation Leasing at \$49/sh based on 9.1X 2026E EBITDA of \$558MM (inline to peers AER and AL); 2) Aerospace Products at \$150/sh based on 17.3X 2026 EBITDA of \$900MM (30% discount to avg aftermarket supplier peers); 3) Net Debt of (\$24)/sh.
- Sensitivities:**
 - \$50MM of incremental Aviation Leasing EBITDA above our baseline 2026 estimate of \$522MM is worth \$4/sh
 - \$50MM of incremental Aerospace Products EBITDA above our baseline 2026 estimate of \$900MM is worth \$10/sh
 - 1X change in the Aviation Leasing multiple above our baseline of 9.1X is worth \$5/sh
 - 1X change in the Aerospace Products multiple above our baseline of 20.5X is worth \$7/sh

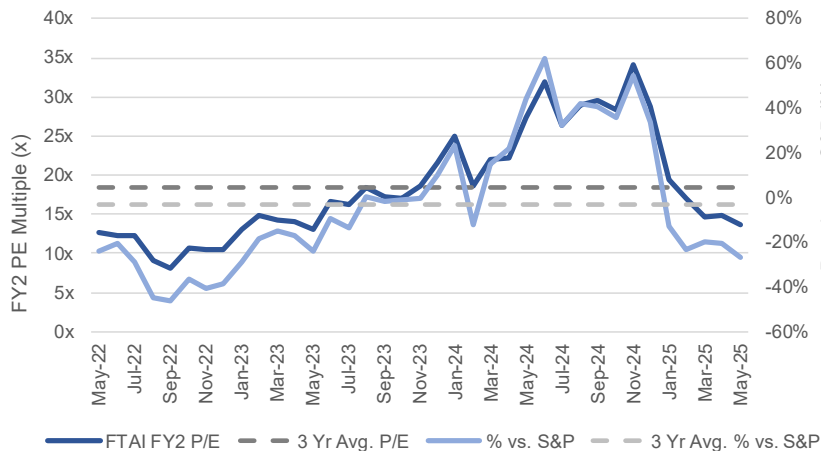
Source: Company data, FactSet and Jefferies estimates

FTAI Aviation (FTAI): Relative Valuation to History and Market

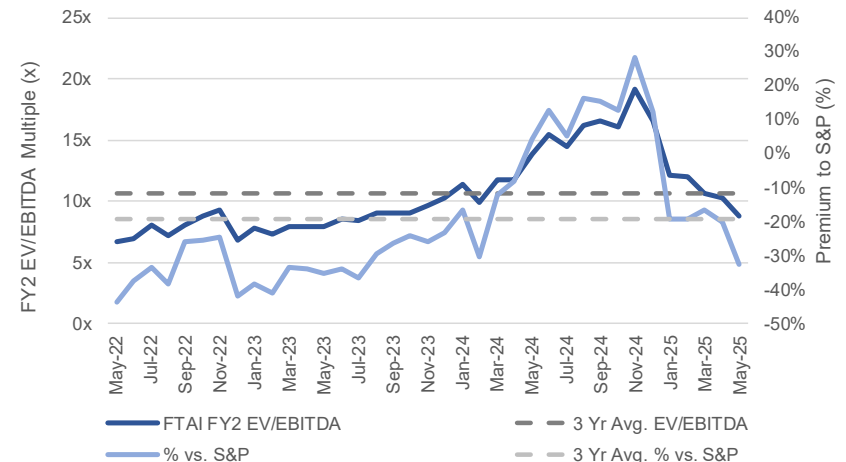
Relative Valuation Table (4/28/2025)

	Ticker	JEF Rating	Stock Px 5/1/2025	Consensus BUY Rating	Market Cap	Enterprise Value	P/E			EV / SALES			EV / EBITDA			Dividend Yield
							2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	
AerCap	AER	N/C	\$105.89	89%	19,778	64,543	8.7x	8.1x	7.3x	7.9x	7.8x	7.6x	9.7x	9.6x	8.8x	1.0%
Air Lease	AL	N/C	\$46.95	71%	5,247	24,986	12.3x	9.2x	7.8x	8.6x	8.0x	7.5x	9.4x	8.7x	8.1x	1.8%
Lessor Average				80%			10.5x	8.7x	7.6x	8.2x	7.9x	7.6x	9.6x	9.1x	8.5x	1.4%
General Electric	GE	Buy	\$203.61	86%	217,127	227,018	36.9x	31.4x	27.2x	5.7x	5.2x	4.8x	24.2x	21.5x	19.4x	0.7%
HEICO Corp	HEI	Buy	\$257.19	54%	14,152	38,808	58.0x	52.2x	46.0x	9.0x	8.4x	7.9x	33.9x	31.4x	29.2x	0.1%
MTU Aero Engines	MTX-DE	Buy	\$303.90	53%	16,357	17,906	19.1x	17.4x	15.9x	2.1x	1.9x	1.8x	11.5x	10.6x	10.1x	0.7%
Safran	SAF-FR	Buy	\$233.00	58%	98,706	96,056	29.5x	23.2x	20.5x	3.1x	2.8x	2.6x	15.4x	13.5x	12.2x	0.9%
TransDigm	TDG	Buy	\$1,434.19	70%	80,436	106,268	38.5x	33.2x	29.2x	12.0x	11.1x	10.4x	22.5x	20.7x	19.2x	0.0%
Aftermarket Average				64%			36.4x	31.5x	27.7x	6.4x	5.9x	5.5x	21.5x	19.5x	18.0x	1.1%
FTAI Aviation	FTAI-US	Buy	\$86.90	92%	8,912	12,149	17.9x	12.8x	9.7x	4.3x	4.3x	3.5x	10.4x	8.8x	7.1x	1.4%
Discount / Premium							-38%	-49%	-56%	-38%	-34%	-43%	-42%	-47%	-54%	

FY2 P/E: 27% Discount to Market vs. 3% Discount Historically



FY2 EV/EBITDA: 32% Discount to Market vs. 19% Discount Historically



Source: Company data, FactSet and Jefferies estimates

FTAI Aviation (FTAI): Income Statement

Year Ended Dec.

(millions, except per share data)	2021		2022		2023		2024		2025E		2026E		2027E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$335.6	100.0%	\$708.4	100.0%	\$1,170.9	100.0%	\$1,734.9	100.0%	\$2,237.8	100.0%	\$2,851.2	100.0%	\$3,507.9	100.0%
Operating Expenses														
Cost of Sales	14.3	4.3%	248.4	35.1%	502.1	42.9%	825.9	47.6%	1,178.6	52.7%	1,418.4	49.7%	1,722.2	49.1%
Operating Expenses	59.6	17.8%	132.3	18.7%	110.2	9.4%	115.9	6.7%	114.7	5.1%	142.2	5.0%	162.1	4.6%
General and Administrative	13.4	4.0%	14.2	2.0%	13.7	1.2%	14.3	0.8%	18.0	0.8%	20.0	0.7%	22.0	0.6%
Acquisition and Transaction Expenses	17.9	5.3%	13.2	1.9%	15.2	1.3%	32.3	1.9%	30.7	1.4%	16.8	0.6%	20.1	0.6%
Management Fees and Incentive Allocation	0.7	0.2%	3.6	0.5%	18.0	1.5%	308.4	17.8%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Depreciation and Amortization	147.7	44.0%	152.9	21.6%	169.9	14.5%	218.1	12.6%	200.7	9.0%	226.2	7.9%	251.1	7.2%
Asset Impairment	10.5	3.1%	137.2	19.4%	2.1	0.2%	1.0	0.1%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total Operating Expenses	\$264.2	78.7%	\$701.7	99.1%	\$831.2	71.0%	\$1,515.8	87.4%	\$1,542.7	68.9%	\$1,823.6	64.0%	\$2,177.6	62.1%
Operating Profit	\$71.4	21.3%	\$6.7	0.9%	\$339.7	29.0%	\$219.1	12.6%	\$695.1	31.1%	\$1,027.6	36.0%	\$1,330.4	37.9%
Interest Expense	155.0	46.2%	169.2	23.9%	161.6	13.8%	221.7	12.8%	248.4	11.1%	219.5	7.7%	214.5	6.1%
Equity in (Losses) Earnings of Unconsolidated Entities	(1.4)	-0.4%	(0.4)	-0.1%	(1.6)	-0.1%	(2.2)	-0.1%	(0.7)	0.0%	0.0	0.0%	0.0	0.0%
Gain on Sale of Assets, Net	49.0	14.6%	77.2	10.9%	0.0	0.0%	18.7	1.1%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Other Income (Expense)	(3.7)	-1.1%	(19.7)	-2.8%	7.6	0.6%	0.3	0.0%	178.3	8.0%	50.0	1.8%	50.0	1.4%
Earnings Before Tax	(\$39.7)	-11.8%	(\$105.3)	-14.9%	\$184.0	15.7%	\$14.2	0.8%	\$624.3	27.9%	\$858.1	30.1%	\$1,165.9	33.2%
Provision (Benefit) for Income Taxes	3.1	7.9%	5.3	5.0%	(59.8)	32.5%	5.5	-38.7%	103.0	-16.5%	144.4	-16.8%	223.8	-19.2%
Non-controlling Interest / Disc Ops	(87.8)		(101.4)		0.0		0.0		0.0		0.0		0.0	
Net Income	(\$130.7)	-38.9%	(\$212.0)	-29.9%	\$243.8	20.8%	\$8.7	0.5%	\$521.3	23.3%	\$713.7	25.0%	\$942.2	26.9%
Less: Net Income (Loss) Attributable to NCI	(26.5)		(18.8)		0.0		0.0		0.0		0.0		0.0	
Less: Dividends on Preferred Shares	24.8		27.2		31.8		40.8		18.1		7.5		7.5	
Net Income Attributable to Shareholders	(\$129.0)	-38.4%	(\$220.4)	-31.1%	\$212.0	18.1%	(\$32.1)	-1.8%	\$503.2	22.5%	\$706.1	24.8%	\$934.6	26.6%
Adjusted Diluted EPS	(\$1.43)		(\$2.22)		\$2.11		(\$0.32)		\$4.85		\$6.80		\$9.00	
Basic Shares Outstanding	89.9		99.4		99.9		101.5		103.2		103.3		103.4	
Diluted Shares Outstanding	89.9		99.4		100.4		101.5		103.7		103.8		103.9	

Source: Company data and Jefferies estimates

FTAI Aviation (FTAI): Balance Sheet

Year Ended Dec.

(millions, except per share data)	2021	2022	2023	2024	2025E	2026E	2027E
Assets							
Cash and Cash Equivalents	\$2.2	\$33.6	\$90.8	\$115.1	\$468.6	\$992.7	\$1,829.4
Restricted Cash	0.0	19.5	0.2	0.0	0.0	0.0	0.0
Accounts Receivable, Net	121.3	99.4	115.2	150.8	179.0	213.8	245.6
Inventory, Net	100.3	163.7	316.6	551.2	559.4	598.7	631.4
Total Current Assets	\$223.7	\$316.2	\$522.7	\$817.1	\$1,207.0	\$1,805.3	\$2,706.4
Leasing Equipment, Net	\$1,714.1	\$1,913.6	\$2,032.4	\$2,373.7	\$2,248.7	\$2,388.7	\$2,538.7
PP&E, Net	7.6	10.0	45.2	107.5	118.6	132.9	150.4
Investments	22.9	22.0	22.7	19.0	19.0	19.0	19.0
Intangible Assets, Net	31.0	42.0	50.6	42.2	57.8	80.5	111.2
Goodwill	0.0	0.0	4.6	61.1	61.1	61.1	61.1
Other Assets	97.5	125.8	286.5	617.4	537.1	627.3	649.0
Total Assets	\$2,096.9	\$2,429.6	\$2,964.7	\$4,038.0	\$4,249.4	\$5,114.9	\$6,235.8
Liabilities							
Accounts Payable and Accrued Liabilities	\$32.1	\$86.5	\$112.9	\$166.0	\$156.6	\$171.1	\$192.9
Debt, Net	0.0	2,175.7	2,517.3	3,440.5	3,440.5	3,440.5	3,440.5
Maintenance Deposits	106.2	78.7	65.4	106.7	106.7	106.7	106.7
Security Deposits	38.6	32.8	41.1	44.9	44.9	44.9	44.9
Other Liabilities	99.9	36.5	52.1	198.4	201.4	228.1	245.6
Total Liabilities	\$276.8	\$2,410.2	\$2,788.8	\$3,956.6	\$3,950.2	\$3,991.3	\$4,030.6
Total Equity	\$1,820.1	\$19.4	\$175.9	\$81.4	\$299.2	\$1,123.5	\$2,205.2
Total Liabilities and Equity	\$2,096.9	\$2,429.6	\$2,964.7	\$4,038.0	\$4,249.4	\$5,114.9	\$6,235.8

Source: Company data and Jefferies estimates

FTAI Aviation (FTAI): Cash Flow Statement

Year Ended Dec.

(millions, except per share data)	2021	2022	2023	2024	2025E	2026E	2027E
Operating Activities							
Net Income	(\$130.7)	(\$212.0)	\$243.8	\$8.7	\$521.3	\$713.7	\$942.2
Gain on Sale of Assets, Net	(49.0)	(141.7)	(160.7)	(377.9)	(120.6)	0.0	0.0
Depreciation & Amortization	201.8	193.2	169.9	218.1	200.7	226.2	251.1
Other Operating Activities	49.4	268.5	(48.0)	217.6	16.7	20.0	25.0
OCF Before Working Capital	\$71.4	\$108.1	\$204.9	\$66.5	\$618.0	\$959.9	\$1,218.3
Changes in Working Capital	(\$93.4)	(\$128.7)	(\$75.9)	(\$254.4)	\$39.4	(\$121.2)	(\$44.8)
Accounts Receivables	(88.9)	(66.0)	(40.4)	(41.2)	(28.2)	(34.8)	(31.7)
Inventory	0.0	(23.3)	(31.9)	(206.9)	(8.3)	(39.3)	(32.7)
Other Assets	(30.8)	(23.0)	(5.6)	(14.4)	80.3	(90.2)	(21.7)
Accounts Payable and Accrued Liabilities	25.1	(19.6)	1.3	15.9	(9.4)	14.4	21.9
Management Fees Payable to Affiliate	1.0	0.8	1.7	(5.5)	2.0	2.0	2.0
Other Liabilities	0.1	2.3	(1.0)	(2.4)	3.0	26.7	17.5
Cash Flow from Operations	(\$22.0)	(\$20.7)	\$129.0	(\$188.0)	\$657.4	\$838.7	\$1,173.5
Investing Activities							
Investment in Unconsolidated Entities	(\$54.7)	(\$7.3)	(\$19.5)	\$0.0	(\$265.0)	\$0.0	\$0.0
Principal Collections on Finance Leases / Notes	7.4	2.2	8.5	7.1	12.0	14.0	15.0
Acquisition of Business, Net of Cash Acquired	(627.1)	(3.8)	(29.6)	(147.6)	0.0	0.0	0.0
Acquisition of Leasing Equipment	(572.6)	(638.3)	(749.8)	(1,147.3)	(435.0)	(340.0)	(350.0)
Acquisition of PP&E	(157.3)	(144.2)	(6.1)	(9.2)	(11.2)	(14.3)	(17.5)
Acquisition of Lease Intangibles	(24.0)	(31.1)	(21.0)	3.2	(33.6)	(42.8)	(52.6)
Investment in Promissory Notes / Convertibles	(10.0)	0.0	(11.5)	(66.9)	0.0	0.0	0.0
Purchase Deposits for Acquisitions	(13.7)	(6.7)	(23.9)	(158.3)	0.0	0.0	0.0
Proceeds from Sale of Leasing Equipment	158.9	408.9	477.9	969.3	560.0	200.0	200.0
Proceed from Sale of PP&E	4.5	5.3	0.0	0.0	0.0	0.0	0.0
Proceeds for Deposit on Sale of Aircraft and Engine	0.6	3.8	1.4	79.8	0.0	0.0	0.0
Return of Purchase Deposits	1.0	0.0	0.3	0.5	0.0	0.0	0.0
Cash Flow from Investing	(\$1,287.0)	(\$411.3)	(\$373.3)	(\$469.5)	(\$172.8)	(\$183.0)	(\$205.2)
Financing Activities							
Proceeds from Debt	\$2,894.1	\$814.0	\$951.7	\$2,581.8	\$0.0	\$0.0	\$0.0
Repayment of Debt	(1,553.2)	(1,144.5)	(605.0)	(1,672.3)	0.0	0.0	0.0
Payment of Deferred Financing Costs	(52.7)	(18.6)	(12.2)	(17.4)	0.0	0.0	0.0
Receipt of Security Deposits	8.8	3.9	9.9	8.1	0.0	0.0	0.0
Return of Security Deposits	(1.2)	(2.1)	(2.4)	(0.4)	0.0	0.0	0.0
Receipt of Maintenance Deposits	31.5	47.8	30.4	49.3	0.0	0.0	0.0
Release of Maintenance Deposits	(20.7)	(1.5)	(0.3)	(7.1)	0.0	0.0	0.0
Proceeds from Issuance of Ordinary Shares	323.1	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from Issuance of Preferred Shares	101.2	0.0	61.7	(105.4)	0.0	0.0	0.0
Cash Dividends on Ordinary Shares	(118.0)	(128.5)	(119.8)	(121.6)	(123.8)	(124.0)	(124.1)
Cash Dividends on Preferred Shares	(24.8)	(27.2)	(31.8)	(32.8)	(7.5)	(7.5)	(7.5)
Other	(0.4)	501.6	0.0	(0.5)	0.0	0.0	0.0
Cash Flow from Financing	\$1,587.6	\$44.9	\$282.2	\$681.8	(\$131.4)	(\$131.5)	(\$131.6)
Total Cash Flow	\$278.6	(\$387.0)	\$37.8	\$24.4	\$353.3	\$524.2	\$836.7
Cash at Beginning of Period	161.4	440.1	53.1	90.9	115.3	468.6	992.7
Cash at End of Period	\$440.1	\$53.1	\$90.9	\$115.3	\$468.6	\$992.7	\$1,829.4

Source: Company data and Jefferies estimates

General Dynamics (GD) – Hold \$285 PT

- 1) 2025 EPS Ests Raised Slightly on Better Marine Start
- 2) Gulfstream Margins to 13.7% for 2025E w/ Strong Start of 14.3% in Q1 Despite End of Accretive G650 and G800 Cert
- 3) Tech B2B of 1.1X Despite DOGE w/ Combat Trucking Along
- 4) FCF Stuck in the 80-85% Range on New Jet Programs, Payroll

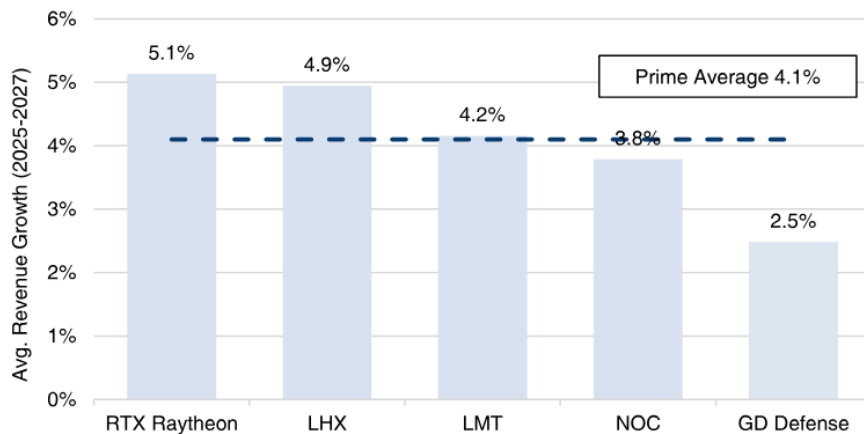
Related Notes:

- [Ships & Streams May Break My Margins, But Tariffs Will Never Hurt Me](#) *April 27, 2025*
- [Marine Margins Sink While G700 Looks to Liftoff](#) *February 2, 2025*
- [Downgrade to Hold: Peaked Defense Growth and a Slower Aero Ramp](#) *December 12, 2024*

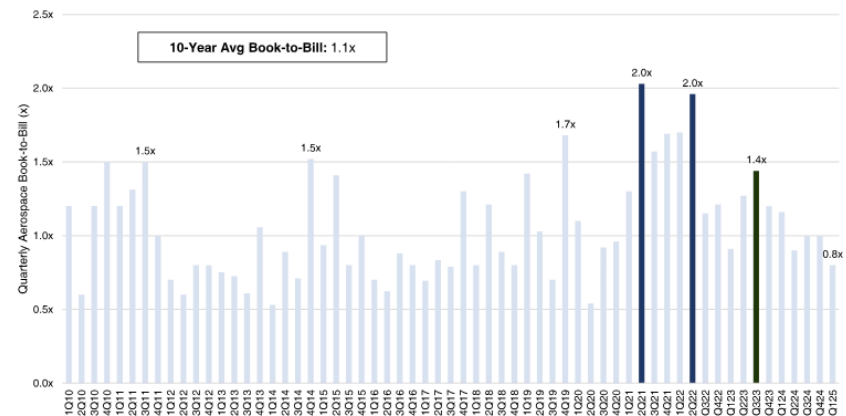
General Dynamics (GD): 2025 Revenues Expand 5% Driven by Aerospace Up 12% with Defense +3%

- We forecast GD's revenue CAGR to 2027E to be 3.9%, but Defense grows at a 2.5% CAGR (vs 5.2% between 2021-24). Peers in Defense are expected to grow at a 4.1% CAGR. 2025 Defense growth of 3% is a sharp deceleration from 8% in 2024 and 6% in Q1.
- For total GD, revenues were up 14% in Q1 driven by Aero (+45%) and Marine (+8%) and Technologies (+7%). Combat was up 4% in Q1 led by Engineering Services w/Weapons up 8% on artillery demand. This compares to 2025 growth guided at +5%, driven by Aero (+12%) as G700s ramp and G800 enters service (type cert April 16th), while Defense segments are expected to grow 3% for the full year led by Marine +4%.
- Orders of \$2.4BB in Q1 contracted 3% y-o-y and 38% sequentially (seasonally weaker Q), with B2B only at 0.8x on elevated deliveries (TTM B2B of 0.9X). Management expects a 1X B2B in 2025..

GD Defense Top Line Up 2.7% Through 2027 vs. Defense Prime Average of 3.9%



Q1:25 B2B of 0.8X Below 10-yr Average

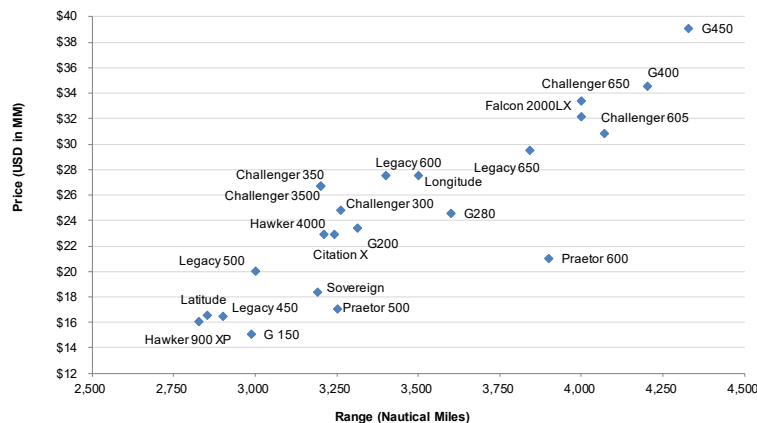


Source: Company data and Jefferies estimates

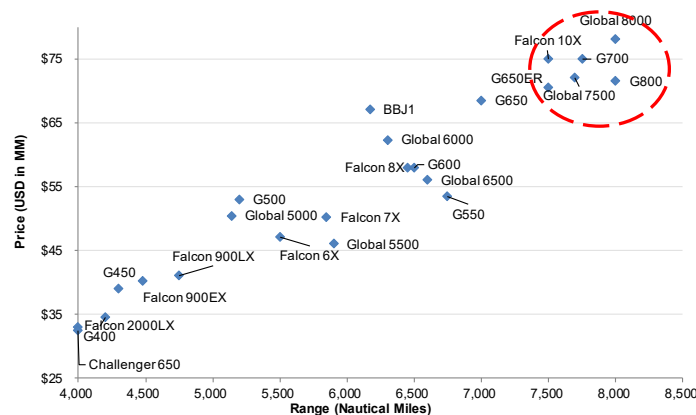
General Dynamics (GD): Five Heavy Jet Offerings.

- The G700 entered service on April 23, 2024 with 13 delivered in Q1, or 43 total since EIS.
- In October 2021, GD announced its new G400 super-midsize jet and its G800 heavy jet. The G800 is expected to enter service in mid-2025 after certification in April and was co-developed with the G500/G600/G700, so it will require a smaller incremental R&D investment. The fuselage is the same as the G650, intended as its replacement. The G800 lists at \$71.5MM and offers 8,000 nm range, powered by the RR Pearl engine and a maximum high speed cruise of Mach 0.90.
- The Pratt PW800 powered G400 sits between the G280 and G450 with a list price of \$34.5MM, offering a range of 4,200 nm and maximum high speed cruise of Mach 0.90. The first flight completed in August with the company no longer predicting a certification date.

Midsize Jet Price vs. Range - G400 Would Likely Sit Between the G450 and G280



Heavy Jet Range vs. Price - G800 Offers Longest Range in a Heavy Jet Category with Lots of Newbies



Source: Company data and Jefferies estimates

General Dynamics (GD): Aerospace Revenue and Profit Build

Manufacturing Revenues Step Up 10% in 2025E with 38 G700s (17% Est Margin) and 10 G800s (5%) in Our Est

	Aerospace Revenue Build								
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Aircraft Manufacturing & Completions									
G100/G150	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
G200/G280	809	539	392	588	550	486	540	540	540
G350/G450	0	0	0	0	0	0	0	0	0
G400	0	0	0	0	0	0	0	600	750
G500	865	1,274	1,274	1,138	828	1,128	1,715	1,715	1,960
G550	1,082	855	385	240	180	120	60	0	0
G600	405	1,582	1,595	1,639	1,860	2,040	2,440	2,440	2,440
G650	4,160	1,866	2,218	2,272	2,292	1,787	387	0	0
G700	0	0	0	0	0	2,250	2,850	3,000	3,000
G800	0	0	0	0	0	0	700	1,400	1,750
Aircraft Manufacturing Revenue	\$7,541	\$6,115	\$5,064	\$5,876	\$5,710	\$7,811	\$8,692	\$9,695	\$10,440
% change	20%	-19%	-4%	0%	-3%	37%	11%	12%	8%
Aircraft Services	\$2,260	\$1,960	\$2,271	\$2,691	\$2,911	\$3,438	\$3,954	\$4,072	\$4,194
Pre-owned Aircraft	\$0	\$0	\$0	0	0	0	0	0	0
Total Aerospace Revenue	\$9,801	\$8,075	\$8,135	\$8,567	\$8,621	\$11,249	\$12,646	\$13,767	\$14,634
% change									
Aircraft	20%	-19%	-4%	0%	-3%	37%	11%	12%	8%
Aircraft Services	3%	-13%	16%	18%	8%	18%	15%	3%	3%
Pre-owned Aircraft	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Revenue Change %	16%	-18%	1%	5%	1%	30%	12%	9%	6%
Deliveries									
G100/G150	0	0	0	0	0	0	0	0	0
G200/G280	33	22	16	24	22	18	20	20	20
G350/G450	0	0	0	0	0	0	0	0	0
G400	0	0	0	0	0	0	0	20	25
G500	19	28	28	25	18	24	35	35	40
G550	24	19	7	4	3	2	1	0	0
G600	7	28	29	29	31	34	40	40	40
G650	64	30	39	38	37	28	6	0	0
G700	0	0	0	0	0	30	38	40	40
G800	0	0	0	0	0	0	10	20	25
Pre-owned	0	0	0	9	9	10	10	10	10
Total New Build	147	127	119	120	111	136	150	175	190
Profitability									
Aircraft Manufacturing	1,345	755	595	718	725	938	1,264	1,592	2,136
Services	417	378	500	589	625	754	763	814	797
Pre Owned	292	126	126	-	-	-	-	-	-
Operating Profit	\$1,532	\$1,083	\$1,031	\$1,130	\$1,182	\$1,464	\$1,737	\$2,207	\$2,718
% change	3%	-29%	-5%	10%	5%	24%	19%	27%	23%
% margin	15.6%	13.4%	12.7%	13.2%	13.7%	13.0%	13.7%	16.0%	18.6%
Price/Mix % Change	-0.9%	-6.1%	2.3%	-0.6%	5.1%	11.6%	0.9%	-4.4%	-0.8%
Manufacturing Margins %	17.8%	12.3%	10.1%	12.2%	12.7%	12.0%	14.5%	16.4%	20.5%
Services Margins %	18.5%	19.3%	22.0%	21.9%	21.5%	21.9%	19.3%	20.0%	19.0%

We estimate Aerospace revenues grow at a 10% CAGR through 2027E, primarily driven by a recovery in volumes in 2025E and the EIS of the G400 and G800.

Operating margins are expected to expand to 13.7% in 2025 on better G700 Mix (-16% margin in 2025 vs -9% in 2024) and improvement on the learning curve for the G500/G600.

- We model GD by Aircraft Manufacturing and Services revenue with the split 69% and 31% in 2025. We expect Aircraft Manufacturing sales to rise 11% in 2025 on 10% higher deliveries w/ mix and pricing.
- Services Outperforming - Services is expected to increase 15% in 2025 after posting 17% growth in 2024, normalizing to 3% growth in 2026 supported by fleet growth yielding a growth in mandated annual checks. Services grew 4% in Q1.
- Our estimate of a 9% revenue CAGR at Gulfstream to \$14.4BB in 2027E compares to cons at \$13.9BB with upside potential from a better ramp of new jet models. We assume a margin ramp from 13.0% in 2024 to 13.7% in 2025E (in line w/guide) and 18.5% by 2027E vs cons of 15.8%.

Source: Company data and Jefferies estimates

General Dynamics (GD): G700 Learning Curve and Rework Driving H2 Ramp, but Lower-Than-Expected Start

Aircraft Manufacturing Margins Improve 70 bps in 2025 Due to Mix and New Jet Learning Curve

Aircraft Manufacturing EBIT and Margin by Model Type										
	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
\$ EBIT										
G100/G150	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
G200/G280	142	202	102	71	112	105	78	86	92	92
G350/G450	13	0	0	0	0	0	0	0	0	0
G400	0	0	0	0	0	0	0	0	84	105
G500	18	86	127	70	119	95	141	249	309	343
G550	159	271	154	46	12	9	6	3	0	0
G600	0	20	95	144	197	230	274	366	415	537
G650	963	765	276	264	278	287	250	50	0	0
G700	0	0	0	0	0	0	189	475	525	660
G800	0	0	0	0	0	0	0	35	168	350
Aircraft Manufacturing EBIT	\$1,295	\$1,345	\$755	\$595	\$718	\$725	\$938	\$1,264	\$1,592	\$2,087
% Margin										
G100/G150	15.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
G200/G280	20.0%	25.0%	19.0%	18.0%	19.0%	19.0%	16.0%	16.0%	17.0%	17.0%
G350/G450	15.0%	22.0%	22.0%	20.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
G400	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	12.0%	14.0%	14.0%
G500	4.0%	10.0%	10.0%	5.5%	10.5%	11.5%	12.5%	14.5%	18.0%	20.0%
G550	20.0%	25.0%	18.0%	12.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
G600	0.0%	5.0%	6.0%	9.0%	12.0%	12.4%	13.5%	15.0%	17.0%	22.0%
G650	23.0%	18.4%	14.8%	11.9%	12.2%	12.5%	14.0%	13.0%	13.0%	13.0%
G700	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	8.4%	16.7%	17.5%	22.0%
G800	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.0%	12.0%	20.0%
Aircraft Manufacturing EBIT	20.7%	17.8%	12.3%	10.1%	12.2%	12.7%	12.0%	14.5%	16.4%	20.5%
Services Margin	17.3%	18.5%	19.3%	22.0%	21.9%	21.5%	21.9%	19.3%	20.0%	19.0%
Total Aerospace Margin	17.6%	15.6%	13.4%	12.7%	13.2%	13.7%	13.0%	13.7%	16.0%	18.5%

The improvement in Manufacturing margins on our estimates in 2025 is driven by the G700, as well as a ramp of the G500/G600. We est the G700 entered service at 5% margins, improving to 22.0% by 2027.

For 2025, we assume G500 and G600 margins are 15% and 15% respectively.

Source: Company data and Jefferies estimates

General Dynamics (GD): Combat Systems Could Be a Source of Upside w/ 2025 EBIT up 4% on 2% Revenue Growth

Combat Systems Revenue Walk - Combat Grows 2% With Improving Margins in 2025E (\$MM)

	Combat Systems Revenue Build								
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Wheeled Combat & Tactical Vehicles									
Stryker	\$1,000	\$1,050	\$1,100	\$1,186	\$1,150	\$1,114	\$1,125	\$1,150	\$1,200
LAV's	175	175	220	200	200	200	200	200	200
Saudi Wheeled ProgrAN	825	850	800	800	800	800	800	800	800
Pandur	200	200	170	170	200	200	200	200	200
Piranha	150	150	140	150	200	200	225	300	325
Duro	150	150	150	150	150	150	150	175	175
Other	241	242	290	280	286	300	325	550	600
Total Wheeled Combat & Tactical Vehicle	\$2,741	\$2,817	\$2,870	\$2,936	\$2,986	\$2,964	\$3,025	\$3,375	\$3,500
% change	5%	3%	2%	2%	2%	-1%	2%	12%	4%
Weapon Systems, Armament, & Munitions									
Weapons Systems (air & sea)	\$1,100	\$1,100	\$1,150	\$1,150	\$1,300	\$1,700	\$1,800	\$1,850	\$1,800
Munitions	300	320	316	334	525	607	600	610	620
Tank ANmunition	200	221	200	200	277	300	300	310	320
Hydra-70	306	350	340	340	340	325	325	335	345
Total Weapon Systems, Armament, & Mu	\$1,906	\$1,991	\$2,006	\$2,024	\$2,442	\$2,932	\$3,025	\$3,105	\$3,085
% change	6%	4%	1%	1%	21%	20%	3%	3%	-1%
Tanks & Tracked Vehicles									
Abrams	\$850	\$870	\$854	\$800	\$1,200	\$1,200	\$1,250	\$1,300	\$1,350
ASCOD	250	250	225	195	150	150	150	150	150
AJAX	549	600	600	500	550	550	500	450	400
Other Tanks	120	150	150	150	150	237	225	225	225
Total Tanks & Tracked Vehicles	\$1,769	\$1,870	\$1,829	\$1,645	\$2,050	\$2,137	\$2,125	\$2,125	\$2,125
% change	24%	6%	-2%	-10%	25%	4%	-1%	0%	0%
Engineering & Other Services	\$481	\$545	\$646	\$703	\$790	\$964	\$993	\$1,043	\$1,095
Total Combat	\$7,007	\$7,223	\$7,351	\$7,308	\$8,268	\$8,997	\$9,168	\$9,648	\$9,805
% change									
Wheeled Combat & Tactical Vehicles	5%	3%	2%	2%	2%	-1%	2%	12%	4%
Weapon Systems, Armament, & Munitions	6%	4%	1%	1%	21%	20%	3%	3%	-1%
Tanks & Tracked Vehicles	24%	6%	-2%	-10%	25%	4%	-1%	0%	0%
Engineering & Other Services	16%	13%	19%	9%	12%	22%	3%	5%	5%
Total	12%	3%	2%	-1%	13%	9%	2%	5%	2%
Profitability									
Operating Profit	\$996	\$1,041	\$1,067	\$1,075	\$1,147	\$1,276	\$1,326	\$1,416	\$1,436
% change	4%	5%	2%	1%	7%	11%	4%	7%	1%
Operating Margin	14.2%	14.4%	14.5%	14.7%	13.9%	14.2%	14.5%	14.7%	14.6%

- Combat Systems includes three major sub-segments including Wheeled Combat and Tactical Vehicles (33% of 2025 revenues), Weapon Systems, Armament and Munitions (33%), Tanks and Tracked Vehicles (23%), with Engineering and Other Services generating the remainder of the revenue. In 2025, Military Vehicles (56% of segment) is expected +1% y-o-y, with Weapon Systems, Armament and Munitions (33% of segment) up 3%, while Engineering and Other Services (11% of segment) is expected up 3%.
- Combat revenues expanded 4% in Q1:25 as the segment driven by favorable performance at ordinance and tactical systems in European land systems, off of ~20% growth experienced in the prior year quarter, demonstrating solid compound growth. Management did not update their prior top-line guidance of \$9.1BB for 2025, up about 1% y-o-y, with operating margins of at 14.5% (+30bps y-o-y vs 2024's 14.2%).
- This compares with our ests of 2% top-line growth in 2025, following 9% growth in 2024, and op margin expansion of 30 bps y-o-y to 14.5% given mix of new start programs. Every 2-pts of Combat growth at 14.5% margins is worth \$0.08 to our 2025 EPS.

Source: Company data and Jefferies estimates

General Dynamics (GD): Marine Systems - Submarines Continue Growth; Virginia-Class Profitability Major Watch Area

Marine Systems Segment Revenue Walk - 3% CAGR through 2027E Supported by 4% CAGR in Electric Boat, Offset by Surface Combatants (\$MM)

Marine Systems Revenue Build									
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Nuclear-Powered Submarines									
Virginia Class	\$4,554	\$4,700	\$4,800	\$4,650	\$4,831	\$5,942	\$6,250	\$6,300	\$6,500
Columbia Class	1,700	2,238	2,317	2,660	3,800	4,450	4,600	4,700	5,000
Total Nuclear-Powered Submarines	\$6,254	\$6,938	\$7,117	\$7,310	\$8,631	\$10,392	\$10,850	\$11,000	\$11,500
% change	9%	11%	3%	3%	18%	20%	4%	1%	5%
Surface Combatants									
DDG-51	\$875	\$905	\$1,060	\$1,500	\$1,550	\$1,614	\$1,770	\$1,770	\$1,770
DDG-1000	250	250	250	0	0	0	0	0	0
Total Surface Combatants	\$1,125	\$1,155	\$1,310	\$1,500	\$1,550	\$1,614	\$1,770	\$1,770	\$1,770
% change	2%	3%	13%	15%	3%	4%	10%	0%	0%
Auxiliary & Commercial Ships									
ESB	\$358	\$460	\$515	\$515	\$500	\$500	\$500	\$500	\$500
TAO-X	350	360	498	540	643	700	700	700	700
Commercial	79	80	5	6	5	5	5	5	5
Total Auxiliary & Commercial Ships	\$787	\$900	\$1,018	\$1,061	\$1,148	\$1,205	\$1,205	\$1,205	\$1,205
% change	2%	14%	13%	4%	8%	5%	0%	0%	0%
Repair & Other Services	\$1,017	\$986	\$1,081	\$1,169	\$1,132	\$1,132	\$1,132	\$1,178	\$1,226
Total Marine	\$9,183	\$9,979	\$10,526	\$11,040	\$12,461	\$14,343	\$14,957	\$15,153	\$15,701
% change									
Nuclear-Powered Submarines	9%	11%	3%	3%	18%	20%	4%	1%	5%
Surface Combatants	2%	3%	13%	15%	3%	4%	10%	0%	0%
Auxiliary & Commercial Ships	2%	14%	13%	4%	8%	5%	0%	0%	0%
Repair & Other Services	11%	-3%	10%	8%	-3%	0%	0%	4%	4%
Total	8%	9%	5%	5%	13%	15%	4%	1%	4%
Profitability									
Operating Profit	\$785	\$854	\$874	\$897	\$874	\$935	\$1,012	\$1,109	\$1,194
% change	3%	9%	2%	3%	-3%	7%	8%	10%	8%
Operating Margin	8.5%	8.6%	8.3%	8.1%	7.0%	6.5%	6.8%	7.3%	7.6%

- Marine top line grew 8% y-o-y in Q1, dipping to HSD after 8 consecutive quarters of double-digit growth. The y-o-y Q1:25 growth was driven by Columbia class and Virginia class construction, as well as an increase in DDG-51 construction.
- 2025 guidance for Marine remains unchanged at \$15.0BB, implying 5% growth y-o-y, with operating margins guided to 6.8% (up 30 bps y-o-y, below the historical 7-8% range). We see 4% sales growth in 2025 to \$15.0BB, primarily driven by Electric Boat, which is expected up \$0.5BB y-o-y vs. the expected range of \$500-600MM annually given recent commentary on increased construction and engineering volume on Columbia, with GD previously indicating that EB growth following some pull-forward to 2024.
- On April 15th, Electric Boat's UAW Local 571 voted to authorize a strike option in the case that labor negotiations with management are negative. Union leaders claim that the aim is to avoid a strike for the >2,400 marine drafters in Groton, CT. We est that labor at the union accounts for 1% of segment costs, implying an impact of up to 20 bps over 5 years from a ~20% wage increase ex any productivity offsets from the co's current offer.

Source: Company data and Jefferies estimates

General Dynamics (GD): GDIT Drives 3% Growth in 2025E with DOGE Watch Point

Technologies Segment Revenue Walk - 2% CAGR through 2027E (\$MM)

	Technologies Revenue Bridge								
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
IT Services	\$8,422	\$7,892	\$8,069	\$8,195	\$8,459	\$8,761	\$9,154	\$9,330	\$9,492
C5ISR	4,937	4,756	4,503	4,297	4,463	4,366	4,233	4,214	4,197
Total Technologies	\$13,359	\$12,648	\$12,457	\$12,492	\$12,922	\$13,127	\$13,387	\$13,544	\$13,689
% Change	3%	-5%	-2%	0%	3%	2%	2%	1%	1%
% Organic	3%	-4%	-1%	0%	3%	2%	2%	1%	1%
Profitability									
Operating Profit	\$1,311	\$1,211	\$1,275	\$1,227	\$1,202	\$1,260	\$1,230	\$1,267	\$1,307
% Change	3%	-8%	5%	-4%	-2%	5%	-2%	3%	3%
Operating Margin	9.8%	9.6%	10.2%	9.8%	9.3%	9.6%	9.2%	9.4%	9.5%

- Technologies sales increased to \$3.4BB (+7% y-o-y) in Q1 on higher volume at GDIT and Mission Systems. Mission Systems is in its last transition year in 2025 with the completion of the WIN-T, LCS, and CHS-5 (~\$300MM of legacy revenue, lost late 2023) contracts. CHS-5 was lost to LDOS in the 2023 recompetes, while the other programs were canceled. During the Q1:25 call, management highlighted the total company top line shift towards IT services.
- The segment's guidance remains unchanged at \$13.5BB of revenue for 2025, up 3%, driven by GDIT up LSD and Mission down slightly given the ongoing transition from legacy programs and a slow ramp-up on new programs. We est 3% y-o-y growth to \$13.5BB this year with MS down 2% and GDIT up 5%.
- Strong order activity led to a Technologies' Q1 B2B of 1.1X, with backlog at \$14.4BB, up \$900MM y-o-y, and \$300MM sequentially. The funded backlog of \$9.8B (68% of total technologies backlog) was up 9% y-o-y, and 2% sequentially. During the quarter, GDIT announced an expanded technology partnership with Amazon Web Services through a new Strategic Collaboration Agreement to drive digital modernization, deliver efficiencies and advance government missions.

Source: Company data and Jefferies estimates

General Dynamics (GD): FCF Conversion Remains Below 100% on Slower Inventory Progress and Extra Payroll Cycle

FCF Walk - FCF Conversion at 83% in 2025E from 85% in 2024

FCF	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Net Income	\$3,484	\$3,167	\$3,257	\$3,390	\$3,315	\$3,782	\$4,034	\$4,607	\$5,064
Depreciation and Amortization	829	878	890	884	863	886	884	880	873
NWC	(1,557)	(188)	64	1,416	844	(850)	(645)	173	593
Section 174	0	0	0	(300)	(316)	197	(140)	(70)	(70)
Pension Contribution	(185)	(480)	(135)	(50)	(206)	(206)	(206)	(206)	(206)
Stock Comp/Deferred Taxes/Other	410	481	195	(761)	210	303	356	356	356
CFO	\$2,981	\$3,858	\$4,271	\$4,579	\$4,710	\$4,112	\$4,284	\$5,740	\$6,609
Capex	(987)	(967)	(887)	(1,114)	(904)	(916)	(929)	(936)	(960)
FCF	\$1,994	\$2,891	\$3,384	\$3,465	\$3,806	\$3,196	\$3,355	\$4,804	\$5,649
FCF Per Share	\$6.86	\$10.04	\$12.00	\$12.46	\$13.80	\$11.52	\$12.31	\$18.09	\$21.87

Deployment									
Dividend	(\$1,152)	(\$1,240)	(\$1,315)	(\$1,369)	(\$1,428)	(\$1,529)	(\$1,635)	(\$1,752)	(\$1,875)
Share Repurchases	(231)	(587)	(1,828)	(1,229)	(434)	(1,501)	(1,000)	(3,175)	(3,175)
Debt Paydown	(850)	(2,500)	(4,997)	(1,000)	(1,250)	(500)	(750)	0	0
Debt Issuance	0	3,960	3,494	0	0	0	0	0	0
Acquisition	(19)	(7)	0	0	0	0	0	0	0
Total Deployment	(\$2,252)	(\$374)	(\$4,646)	(\$3,598)	(\$3,112)	(\$3,530)	(\$3,385)	(\$4,927)	(\$5,050)

Discretionary FCF (post pension, dividends, and committed debt pay-down)	(\$258)	(\$1,443)	(\$4,756)	(\$133)	\$694	(\$334)	(\$30)	(\$123)	\$600

Ratios									
FCF to Net Income Conversion	57%	91%	104%	102%	115%	85%	83%	104%	112%
FCF Yield (FCF / Mkt Cap.)	2.4%	3.4%	4.0%	4.1%	4.5%	3.8%	4.0%	5.7%	6.7%
FCF Change YoY %	-19%	45%	17%	2%	10%	-16%	5%	43%	18%
Discretionary FCF Yield	NM	NM	NM	NM	0.8%	NM	NM	NM	0.7%
Discretionary FCF % Change YoY	NM	NM	NM	NM	-622%	-148%	-91%	305%	-587%
Dividend Yield	1.4%	1.5%	1.6%	1.6%	1.7%	1.8%	1.9%	2.1%	2.2%
Dividend as a % of Net Income	33%	39%	40%	40%	43%	40%	41%	38%	37%
Share Repo as % of Mkt Cap	0%	1%	2%	1%	1%	2%	1%	4%	4%
% of Cash Returned to Shareholders	69%	63%	93%	75%	49%	95%	79%	103%	89%
Capex % of Sales	2.5%	2.5%	2.3%	2.8%	2.1%	1.9%	1.9%	1.8%	1.8%

- GD posted CFO of \$148MM use in Q1, with FCF use of \$290MM after \$142MM of capex. This is better than the \$437MM use of FCF in Q1:24 on net income growth and a better inventory use on strong Q1 deliveries.
- Inventory was a \$92MM cash usage in Q1, while unbilled was a use of \$879MM, partially offset by a \$13MM inflow from customer advances and \$13MM from AP. FCF is guided to 80-85% conversion in 2025 including a \$175MM impact from an additional payroll cycle, as well as continued inventory use at Gulfstream and Marine.
- Our 2025 FCF estimate of \$3.4BB represents 83% conversion on NI, largely in-line with management's updated guidance for 80-85% conversion, and factors in guidance of capex flat (\$929MM) compared with \$916MM in 2024. Lower Section 174 taxes are a benefit (\$140MM in 2025E from ~\$250MM in 2024), while working capital moderates from a \$850MM use in 2024 to a \$645MM use in 2025 including a \$322MM use of inventory and \$137MM of A/R.
- The company repurchased \$1.5BB shares in 2024 with our estimate incorporating \$1BB in 2025 after \$600MM in Q1.
- Net interest was guided to roughly flat in 2025 from \$324MM with the paydown of the \$750MM April maturity offset by CP and the refi of the \$750MM May maturity. Our estimate assumes a 5.5% rate on the refi with interest to \$323MM.

Source: Company data and Jefferies estimates

General Dynamics (GD): Relative Valuation to History and Market

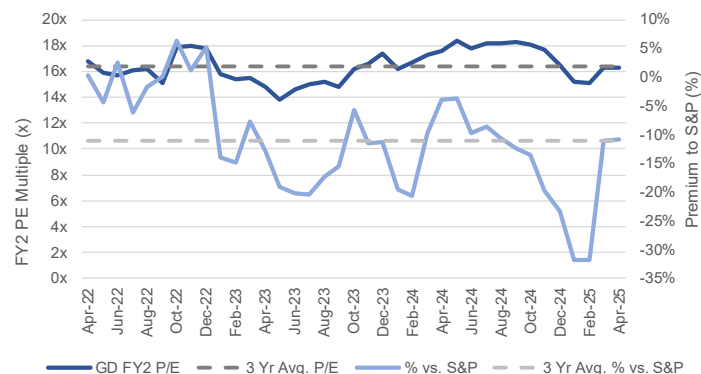
Relative Valuation

Ticker	GD
Current P/E	16.3x
3 Yr Avg. P/E	16.4x
Current / 3 Yr Avg.	-1%
Prem / Discst SP	-11%
3 Yr Prem / Discst SP	-11%
S&P500 Multiple	18.2x
Current EV/EBITDA	12.5x
3 Yr Avg. EV/EBITDA	12.9x
Current / 3 Yr Avg.	-3%
Prem / Discst SP	-1%
3 Yr Prem / Discst SP	0%
S&P500 Multiple	12.6x
Current FCF Yield	6.0%
3 Yr Avg. FCF Yield	6.3%
Current / 3 Yr Avg.	4%
Prem / Discst SP	-23%
3 Yr Prem / Discst SP	-25%
S&P500 Multiple	4.7%

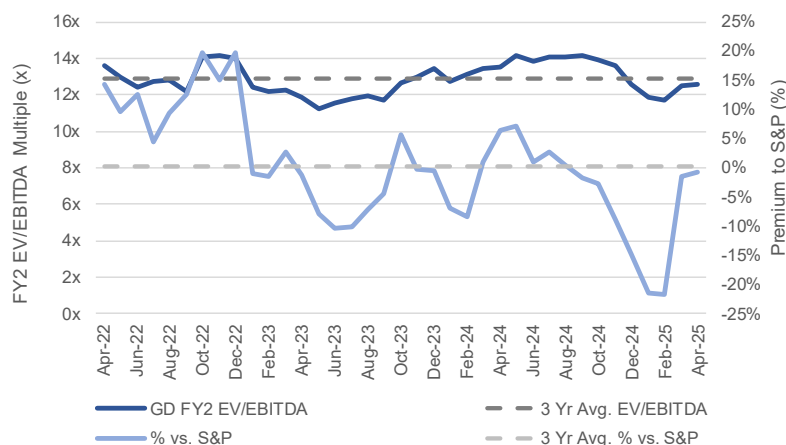
Price Target Derivation

	Price	Assumptions
EV/EBITDA	\$287	12.2X EV/EBITDA 2026 EBITDA of \$6.8BB
P/E	\$273	15.8X P/E 2026 EPS of \$17.35
FCF	\$295	6.1% FCF Yield on 2026 FCF
Average	\$285	Blended average

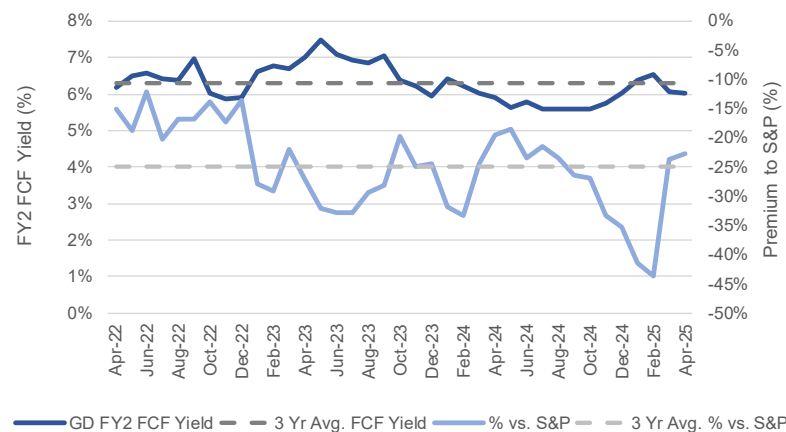
FY2 P/E: 11% Discount to Market vs. 11% Discount Historically



FY2 EV/EBITDA: 1% Discount to Market vs. 0% Premium Historically



FY2 FCF Yield: 23% Discount to Market vs. 25% Discount Historically



Source: Company data, FactSet and Jefferies estimates

General Dynamics (GD): Income Statement

Year Ended Dec. (MM, except per share data)

Years Ending December 31	2019		2020		2021		2022		2023		2024		2025E		2026E		2027E	
Total Revenues	\$39,350	100%	\$37,925	100%	\$38,469	100%	\$39,407	100%	\$42,272	100%	\$47,716	100%	\$50,232	100%	\$52,017	100%	\$53,330	100%
Costs and expenses																		
Costs of Sales	32,145	82%	31,327	83%	31,806	83%	32,635	83%	35,279	83%	39,818	83%	41,804	83%	42,792	82%	43,425	81%
SG&A	2,558	7%	2,465	7%	2,500	7%	2,561	7%	2,748	7%	3,102	7%	3,265	7%	3,381	7%	3,466	7%
Total Operating Costs	\$34,702	88%	\$33,792	89%	\$34,306	89%	\$35,196	89%	\$38,027	90%	\$42,920	90%	\$45,069	90%	\$46,173	89%	\$46,891	88%
Operating Profit	\$4,648	11.8%	\$4,133	10.9%	\$4,163	10.8%	\$4,211	11%	\$4,245	10%	\$4,796	10%	\$5,163	10%	\$5,844	11%	\$6,438	12%
Interest Expense	(460)		(477)		(424)		(364)		(343)		(324)		(323)		(306)		(306)	
Other, net	14		82		134		189		82		68		50		50		50	
Income before taxes	\$4,202	10.7%	\$3,738	10%	\$3,873	10%	\$4,036	10%	\$3,984	9%	\$4,540	10%	\$4,890	10%	\$5,588	11%	\$6,183	12%
Taxes (rate %)	718	17.1%	571	15.3%	616	15.9%	646	16%	669	17%	758	17%	856	18%	981	18%	1,119	18%
Net Income, continuing ops	\$3,484		\$3,167		\$3,257		\$3,390		\$3,315		\$3,782		\$4,034		\$4,607		\$5,064	
Diluted shares (millions)	291		288		282		278		276		278		273		266		258	
Earnings Per Share	\$11.98		\$11.00		\$11.55		\$12.19		\$12.02		\$13.63		\$14.80		\$17.35		\$19.60	

Source: Company data and Jefferies estimates

General Dynamics (GD): Segment Data

Year Ended Dec.

(MM, except per share data)	2019	% of Sales	2020	% of Sales	2021	% of Sales	2022	% of Sales	2023	% of Sales	2024	% of Sales	2025E	% of Sales	2026E	% of Sales	2027E	% of Sales
Revenues																		
Aerospace	\$9,801	25%	\$8,075	21%	\$8,135	21%	\$8,567	22%	\$8,621	20%	\$11,249	24%	\$12,646	25%	\$13,767	26%	\$14,389	27%
Combat Systems	7,007	18%	7,223	19%	7,351	19%	7,308	19%	8,268	20%	8,997	19%	9,168	18%	9,648	19%	9,805	18%
Technologies	13,359	34%	12,648	33%	12,457	32%	12,492	32%	12,922	31%	13,127	28%	13,462	27%	13,449	26%	13,434	25%
Marine Systems	9,183	23%	9,979	26%	10,526	27%	11,040	28%	12,461	29%	14,343	30%	14,957	30%	15,153	29%	15,701	29%
Total Revenues	\$39,350	100%	\$37,925	100%	\$38,469	100%	\$39,407	100%	\$42,272	100%	\$47,716	100%	\$50,232	100%	\$52,017	100%	\$53,330	100%
Revenue YoY % Change																		
Aerospace	16%		-18%		1%		5%		1%		30%		12%		9%		5%	
Combat Systems	12%		3%		2%		-1%		13%		9%		2%		5%		2%	
Technologies	3%		-5%		-2%		0%		3%		2%		3%		0%		0%	
Marine Systems	8%		9%		5%		5%		13%		15%		4%		1%		4%	
Total Revenues	9%		-4%		1%		2%		7%		13%		5%		4%		3%	
Operating Income																		
Aerospace	\$1,532	15.6%	\$1,083	13.4%	\$1,031	12.7%	\$1,130	13.2%	\$1,182	13.7%	\$1,464	13.0%	\$1,737	13.7%	\$2,207	16.0%	\$2,669	18.5%
Combat Systems	996	14.2%	1,041	14.4%	1,067	14.5%	1,075	14.7%	1,147	13.9%	1,276	14.2%	1,326	14.5%	1,416	14.7%	1,436	14.6%
Technologies	1,311	9.8%	1,211	9.6%	1,275	10.2%	1,227	9.8%	1,202	9.3%	1,260	9.6%	1,238	9.2%	1,262	9.4%	1,289	9.6%
Marine Systems	785	8.5%	854	8.6%	874	8.3%	897	8.1%	874	7.0%	935	6.5%	1,012	6.8%	1,109	7.3%	1,194	7.6%
Segment Operating Income	\$4,624	11.8%	\$4,189	11.0%	\$4,247	11.0%	\$4,329	11.0%	\$4,405	10.4%	\$4,935	10.3%	\$5,313	10.6%	\$5,994	11.5%	\$6,588	12.4%
Corporate	24		(56)		(84)		(118)		(160)		(139)		(150)		(150)		(150)	
Total Operating Profit	\$4,648	11.8%	\$4,133	10.9%	\$4,163	10.8%	\$4,211	10.7%	\$4,245	10.0%	\$4,796	10.1%	\$5,163	10.3%	\$5,844	11.2%	\$6,438	12.1%
Operating profit change YoY																		
Aerospace	3%		-29%		-5%		10%		5%		24%		19%		27%		21%	
Combat Systems	4%		5%		2%		1%		7%		11%		4%		7%		1%	
Technologies	3%		-8%		5%		-4%		-2%		5%		-2%		2%		2%	
Marine Systems	3%		9%		2%		3%		-3%		7%		8%		10%		8%	
Segment Operating Income	3%		-9%		1%		2%		2%		12%		8%		13%		10%	
Corporate	-204%		-333%		50%		40%		36%		-13%		8%		0%		0%	
Total Operating Profit	4.3%		-11%		1%		1%		1%		13%		8%		13%		10%	

Source: Company data and Jefferies estimates

General Dynamics (GD): Cash Flow Statement

Year Ended Dec. (MM, except per share data)

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Operating Activities									
Net earnings	\$3,484	\$3,167	\$3,257	\$3,390	\$3,315	\$3,782	\$4,034	\$4,607	\$5,064
Adjustments	0	0	0	0	0	0	0	0	0
Depreciation	466	523	568	586	608	644	644	644	644
Amortization	363	355	322	298	255	242	240	236	229
Equity-based comp expense	133	128	126	165	181	183	150	150	150
Deferred income tax provision	92	(127)	(66)	(178)	(177)	(86)	0	0	0
Discontinued operations	0	0	0	0	0	0	0	0	0
Accounts receivables	176	371	138	46	38	16	(137)	97	(23)
Unbilled receivables	(1,303)	(116)	(410)	(256)	913	(261)	(744)	(241)	(233)
Inventories	(376)	502	405	(980)	(2,219)	(1,195)	(322)	423	557
Other current assets	8	0	0	0	0	0	(68)	(64)	(47)
Accounts payable	6	(215)	194	224	(303)	247	323	130	96
Customer advances and deposits	(105)	(707)	354	2,082	2,415	343	304	(172)	243
Other, net	37	(23)	(617)	(798)	(316)	197	(140)	(70)	(70)
Cash from Operating Activities	\$2,981	\$3,858	\$4,271	\$4,579	\$4,710	\$4,112	\$4,284	\$5,740	\$6,609
Cash from investing activities									
Capital expenditures	(\$987)	(\$967)	(\$887)	(\$1,114)	(\$904)	(\$916)	(\$929)	(\$936)	(\$960)
Acquisition	(19)	(7)	0	0	0	0	0	0	0
Held-to-maturity securities	0	0	0	0	0	0	0	0	0
Proceeds from asset sales	14	0	0	0	0	0	0	0	0
Other	(2)	0	5	(375)	(37)	(37)	0	0	0
Cash from investing activities	(\$994)	(\$974)	(\$882)	(\$1,489)	(\$941)	(\$953)	(\$929)	(\$936)	(\$960)
Cash from financing activities									
Purchases of common stock	(\$231)	(\$587)	(\$1,828)	(\$1,229)	(\$434)	(\$1,501)	(\$1,000)	(\$3,175)	(\$3,175)
Dividends paid	(1,152)	(1,240)	(1,315)	(1,369)	(1,428)	(1,529)	(1,635)	(1,752)	(1,875)
Proceeds from fixed-rate notes	0	3,960	3,494	0	0	0	0	0	0
Repayment from fixed-rate notes	(850)	(2,500)	(4,997)	(1,000)	(1,250)	(500)	(750)	0	0
Proceeds from options	0	0	0	0	0	0	0	0	0
Other	236	(536)	56	127	18	161	0	0	0
Net cash from financing activities	(\$1,997)	(\$903)	(\$4,590)	(\$3,471)	(\$3,094)	(\$3,369)	(\$3,385)	(\$4,927)	(\$5,050)
Net cash from disco opts	(51)	(59)	(20)	20	(4)	(6)	0	0	0
Net increase in cash equivalents	(\$61)	\$1,922	(\$1,221)	(\$361)	\$671	(\$216)	(\$30)	(\$123)	\$600
Beginning cash	963	902	2,824	1,603	1,242	1,913	1,697	1,667	1,544
Ending cash	\$902	\$2,824	\$1,603	\$1,242	\$1,913	\$1,697	\$1,667	\$1,544	\$2,143

Source: Company data and Jefferies estimates

General Electric (GE) – Buy \$260 PT

- 1) Taking the Road Less Traveled on Tariffs & Macro
- 2) CES Margin Blowout Despite \$100MM Tariff Hit
- 3) FCF \$1.4BB at 22% of Full-Yr Midpt; Opportunistic Repos

Related Notes:

- [Executed Like a True General](#) *April 22, 2025*
- [The After\(market\) Party Goes On and On](#) *January 26, 2025*
- [The NB Shop Visit Bible Update: 46% of CES Profits Growing at 21% CAGR to '28](#) *June 20, 2024*
- [The WB Shop Visit Bible: 42% of CES Profits Growing 4% to '28, Overcoming GE9X](#) *June 20, 2024*

General Electric (GE): GE Aerospace Sales at an 11% CAGR to 2028 from Engines Ramp and Services

Revenue Build - 2025 LDD Growth Reaffirmed with Strong Start to Services +17% in Q1, Engines & DPT Soft at +9% and +1%, Respectively

	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2025 Guide
Services	\$17,686	\$19,775	\$22,642	\$25,406	\$27,525	\$29,470	\$31,346	\$32,938	+ LDD-MDD
Engines	6,169	7,106	8,360	9,858	11,135	12,468	13,182	13,659	+ High-Teens
Commercial	\$23,855	\$26,881	\$31,002	\$35,265	\$38,659	\$41,938	\$44,528	\$46,597	
DPT	8,961	9,478	10,202	11,236	12,261	13,129	14,092	14,809	+ M-HSD
Total	\$32,816	\$36,359	\$41,204	\$46,500	\$50,920	\$55,067	\$58,620	\$61,406	+ LDD

Growth YoY %	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Services		12%	14%	12%	8%	7%	6%	5%
Engines		15%	18%	18%	13%	12%	6%	4%
Commercial		13%	15%	14%	10%	8%	6%	5%
DPT		6%	8%	10%	9%	7%	7%	5%
Total Aerospace		11%	13%	13%	10%	8%	6%	5%

Composition %	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Services	54%	54%	55%	55%	54%	54%	53%	54%
Engines	19%	20%	20%	21%	22%	23%	22%	22%
Commercial	73%	74%	75%	76%	76%	76%	76%	76%
DPT	27%	26%	25%	24%	24%	24%	24%	24%
Total Aerospace	100%	100%	100%	100%	100%	100%	100%	100%

- GE Aerospace is a leading manufacturer of commercial and military aircraft engines, integrated engine components, electrical & mechanical systems, and aftermarket services.
- Commercial Engines (\$8.4BB in 2025 sales; +18% y-o-y; 20% of Sales):** In-production engines include the **GE_{nx}** (787), the **GE90 / GE9X** (777 / 777X), the **CF6** (767), the **CF34** (regional) and through its 50-50 non-consolidated joint venture with Safran, CFM International, the **LEAP** (737 MAX / A320neo / C919).
- Commercial Services (\$22.6BB in 2025 sales; +14% y-o-y; 55% of Sales):** MRO services and spares for current global engine fleet of ~42K engines.
- Defense & Propulsion Technologies (\$10.2BB in 2025 sales; +8% y-o-y; 25% of Sales):** In-production engines include the F404 (T-7A), F414 (F/A-18 / KF-21 / Tejas), F110 (F-15E/X / F-16), T408 (CH-53K), and T700 / T901 (FARA / Apache / Black Hawk); MRO services and spares for current global engine fleet of ~26K engines; Unison, Dowty, Avio Aero, and Additive.

Source: Company data and Jefferies estimates

General Electric (GE): Commercial Engines: 2025 Revs Up 18% on Units +15% Y-o-Y, But Slow Q1 Start with Units -9% and LEAP Units -13% vs. +15-20% Guide for 2025

Commercial Engine Revenue Build - LEAP & Total Engine Units +15% in 2025, with Revenues +18% from Mix Assuming Minimal Pricing Contribution

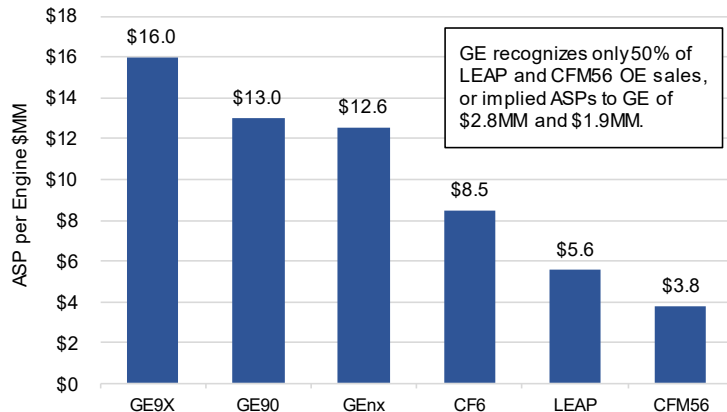
Commercial Engine Build	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Commercial – Engines										
LEAP - MAX / A320 (Incl. spares)	1,736	815	845	1,136	1,570	1,407	1,625	1,875	2,050	2,250
CF34 - E175 / E190 / Challenger 650	220	107	83	112	107	127	135	145	150	155
CF6 - 767 / A330ceo	50	44	41	39	40	22	31	31	0	0
CFM56 - 737 NG / A320ceo	327	68	92	28	19	11	2	0	0	0
GE90 - 777	99	57	52	52	57	44	53	40	31	26
GE9X - 777X	0	0	0	0	0	6	20	43	57	84
GENx - 747 / 787	272	116	57	44	61	88	126	151	204	222
CT7 & Other	344	513	317	252	221	206	200	225	235	240
Total Commercial Engine Deliveries	3,048	1,720	1,487	1,663	2,075	1,911	2,192	2,510	2,727	2,977
Commercial Engine Price per Unit										
LEAP - MAX / A320	\$2.3	\$2.3	\$2.3	\$2.5	\$2.5	\$3.0	\$3.0	\$3.0	\$3.1	\$3.1
CF34 - E175 / E190 / Challenger 650	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0
CF6 - 767 / A330ceo	\$8.5	\$8.5	\$8.5	\$8.5	\$8.5	\$8.5	\$8.5	\$8.5	\$8.5	\$8.5
CFM56 - 737 NG / A320ceo	\$1.9	\$1.9	\$1.9	\$1.9	\$1.9	\$1.9	\$1.9	\$1.9	\$1.9	\$1.9
GE90 - 777	\$13.0	\$13.0	\$13.0	\$13.0	\$13.0	\$13.0	\$13.0	\$13.0	\$13.0	\$13.0
GE9X - 777X	\$16.0	\$16.0	\$16.0	\$16.0	\$16.0	\$16.0	\$16.0	\$16.0	\$16.0	\$16.5
GENx - 747 / 787	\$12.0	\$12.0	\$12.0	\$12.0	\$12.0	\$12.5	\$12.6	\$12.6	\$12.7	\$12.7
Commercial Engine Sales										
LEAP - MAX / A320	\$3,906	\$1,834	\$1,901	\$2,840	\$3,886	\$4,151	\$4,774	\$5,672	\$6,304	\$7,031
CF34 - E175 / E190 / Challenger 650	660	321	249	336	321	381	405	435	450	465
CF6 - 767 / A330ceo	425	374	349	332	340	187	264	264	0	0
CFM56 - 737 NG / A320ceo	621	129	175	53	36	21	4	0	0	0
GE90 - 777	1,287	741	676	676	741	572	689	520	403	338
GE9X - 777X	0	0	0	0	0	96	320	688	912	1,386
GENx - 747 / 787	3,264	1,392	684	528	732	1,100	1,581	1,903	2,581	2,819
CT7 & Other	(1,205)	1,511	1,331	360	113	598	323	377	486	429
Total Commercial Engine Sales	\$8,958	\$6,302	\$5,365	\$5,125	\$6,169	\$7,106	\$8,360	\$9,858	\$11,135	\$12,468
YoY Growth %		-30%	-15%	-4%	20%	15%	18%	18%	13%	12%
Average ASP										
Average ASP	\$2.94	\$3.66	\$3.61	\$3.08	\$2.97	\$3.72	\$3.81	\$3.93	\$4.08	\$4.19
Implied CT7 & Other ASP	(\$3.50)	\$2.95	\$4.20	\$1.43	\$0.51	\$2.91	\$1.62	\$1.68	\$2.07	\$1.79

- Our commercial engine build is based on LEAP engine guidance and JEF estimated production rates / market shares for other commercial platforms. Spare engines typically represent ~10% to install ratio.
- LEAP:** Up 15% y-o-y to 1,625 engines in 2025. We assume \$5-6MM ASP, with 50% recognized by GE. LEAP OE translates to sales of \$4.77BB in 2025 and \$5.67BB in 2026
- GENx:** at an ASP of ~\$12.5MM contributes \$1.58BB in 2025 (+44%) and \$1.90BB in 2026 (+20%) based on 126 and 151 engines, respectively.
- Commercial Engines revenues increasing 18% vs High-Teens guidance in 2025 and another 18% in 2026, driven by volumes & mix.

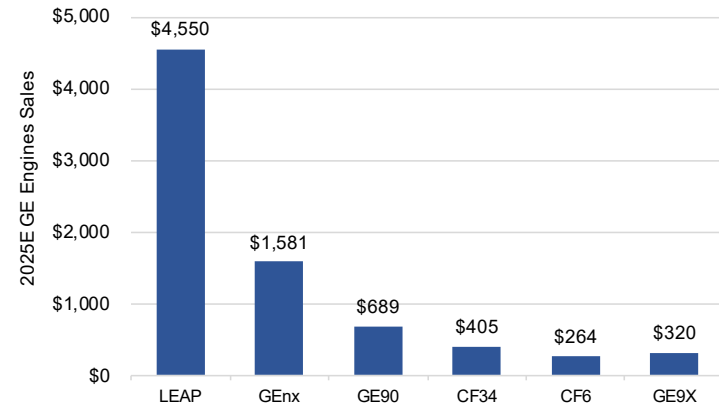
Source: Company data and Jefferies estimates

General Electric (GE): Commercial OE Build Based on Aircraft List Prices

**Assumed Engine Average Selling Price - Engines
~15% of Aircraft List Price, Discounted 50%+ for
New Installs**



**2025 Engines Revenue by Platform - LEAP Volumes of
1,625 Units at 64% of Engine Sales in 2025, Followed
by GEnx (22%) and GE90 (10%)**



- A rule of thumb is the engines represent 15% of an aircraft's list price. The 737 MAX 8 lists at ~\$122MM, implying the engines are worth ~\$18MM, or \$9MM each. Installed engines are heavily discounted in the range of 50%+ given the package economics of future spares and services, with spare engines less discounted to list.
- In 2025, the LEAP accounts for \$4.6BB in OE revenues, or 55% of the Engines business.
- The GEnx and GE90 represent 19% and 8% of the Commercial Engine revenue mix in 2025, respectively.

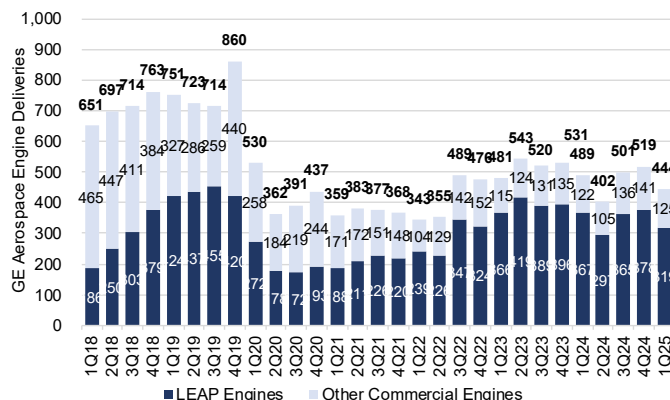
**Engines Represent ~15% of Aircraft List Price, Discounted
Heavily for Installed Engines and Less So for Spares**

	MAX-8	E190	767	777	787
Aircraft List Price	\$122	\$55	\$220	\$350	\$290
Engines as % of List	15%	15%	15%	15%	15%
Implied Engines List	\$18.3	\$8.3	\$33.0	\$52.5	\$43.5
Implied Per Engine List	\$9.2	\$4.1	\$16.5	\$26.3	\$21.8
Installed Engine Disct	50%	50%	50%	50%	50%
Spare Engine Disct	20%	20%	20%	20%	20%
Installed per Engine Price	\$4.6	\$2.1	\$8.3	\$13.1	\$10.9
Spare per Engine Price	\$7.3	\$3.3	\$13.2	\$21.0	\$17.4

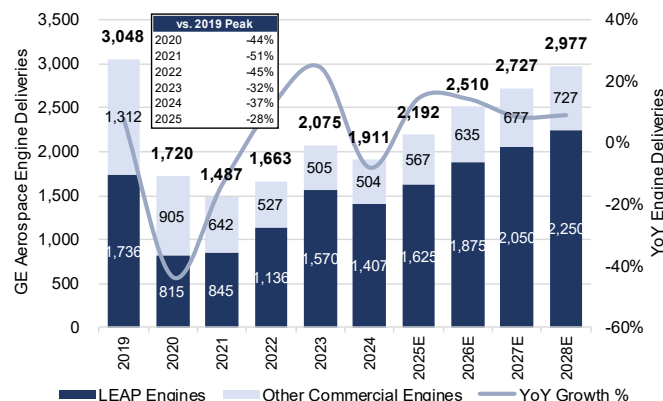
Source: Company data and Jefferies estimates

General Electric (GE): Commercial Engines: 2025 Revs Up 18% on Units +15% Y-o-Y, But Slow Q1 Start with Units -9% and LEAP Units -13% vs. +15-20% Guide for 2025

Quarterly GE/CFM Engine Sales - Widebody Engines Remain Muted Relative to Peak



Annual GE/CFM Engine Deliveries - LEAP Ramp Re-Accelerates at 1,625 in 2025

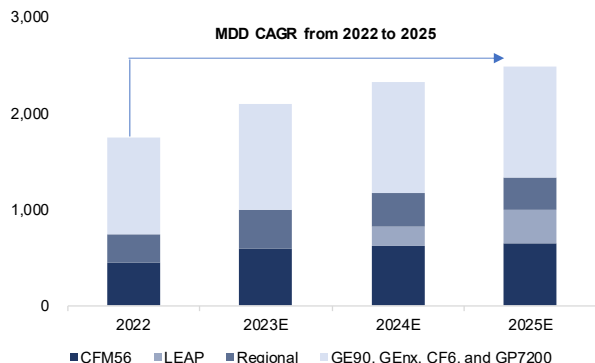


- GE received 880 orders for commercial engines in Q1 including 796 LEAPs, or 2.5X LEAP unit sales, which compares with the 5-year average of 1.4X orders-to-sales for the LEAP.
- Q1 Commercial Engines revenue grew 9% y-o-y to \$1.86BB despite units down 9% to 444, relative to the Engines guide for High-Teens growth in 2025 (est +18%).
- In 2019, GE Aerospace sold 2,863 commercial engines (or 3,048 including business aviation and aeroderivatives), up 1% y-o-y, including 1,736 LEAPs, up 55%. This declined 48% in 2020 given pandemic effects to 1,720 engines with LEAP sales falling 53% to 815 engines, before bottoming in 2021 at 1,487 total commercial engines. For 2025, we estimate 2,192 engine units, up 15% y-o-y.

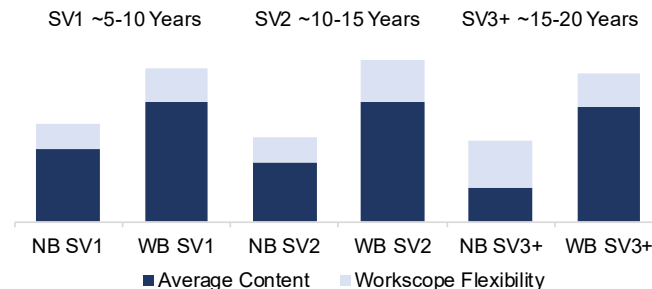
Source: Company data and Jefferies estimates

General Electric (GE): Commercial Services: 14% Growth in 2025 with >\$140BB Backlog and 1.3X T12M Book-to-Bill De-Risking 2025

Internal Shop Visits Expected to Grow at a MDD CAGR Through 2025



Performance Restoration Shop Visits - Most Content Opportunity on Narrowbody 1st Shop Visits and Widebody 2nd Shop Visits as Workscape Varies Across Fan, Compressor, Combustor & HPT, and LPT



GE/CFM Powered Aircraft Fleet by Build Year - 31% of the Fleet Candidates for 1st Shop Visits



- Total internal shop visits are set to expand at a mid-double-digit CAGR between 2022 and 2025, while widebody engine shop visits are guided to a HSD-LDD CAGR.

Source: Cirium®, Company data and Jefferies estimates

General Electric (GE): Comm'l Services Led by LEAP with CFM56 the Foundation

GE Aerospace Commercial Services Build - Est 14% Sales Growth with +17% in H1 and +11% in H2 on Conservative Departures Assumptions of Flat in H2 vs. +4% in H1

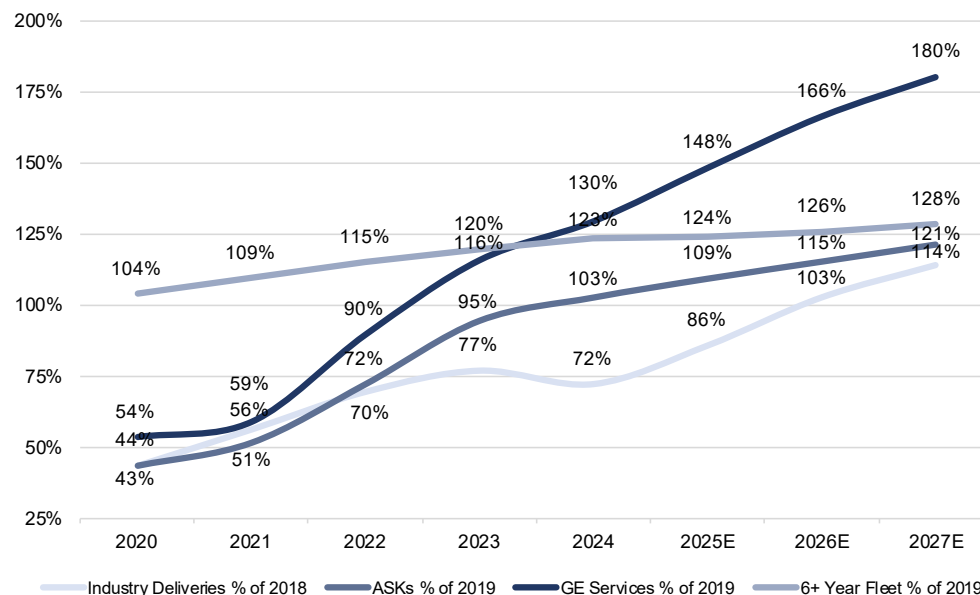
Engine Installed Base	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E
CFM56	23,370	23,082	22,772	22,328	21,864	21,510	20,974	20,345	19,633	18,848
LEAP	3,390	4,205	5,050	6,186	7,756	9,163	10,788	12,663	14,713	16,963
CF34	6,036	6,062	6,084	6,084	5,920	5,872	5,871	5,886	5,882	5,859
GENx	1,662	1,768	1,820	1,890	1,992	2,066	2,192	2,343	2,547	2,769
GE90	2,388	2,416	2,430	2,462	2,490	2,506	2,486	2,443	2,386	2,302
GE9X	0	0	0	0	0	6	26	69	126	210
CF6	3,176	3,114	3,060	3,048	2,992	2,908	2,787	2,665	2,548	2,429
GP7200	520	512	508	496	480	460	420	370	320	270
Total GE Engines	40,542	41,159	41,724	42,494	43,494	44,491	45,544	46,784	48,155	49,650
Annual Deliveries	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E
CFM56	284	68	92	28	19	11	2	0	0	0
LEAP	1,736	815	845	1,136	1,570	1,407	1,625	1,875	2,050	2,250
CF34	220	107	83	112	107	127	135	145	150	155
GENx	268	117	53	79	61	88	126	151	204	222
GE90	97	57	52	52	57	44	53	40	31	26
GE9X						6	20	43	57	84
CF6	51	44	42	40	40	22	31	31	0	0
GP7200	0	0	0	0	0	0	0	0	0	0
Other	392	512	320	216	221	206	200	225	235	240
Total GE Deliveries	3,048	1,720	1,487	1,663	2,075	1,911	2,192	2,510	2,727	2,977
% of Starting Fleet	7.9%	4.2%	3.6%	4.0%	4.9%	4.4%	4.9%	5.5%	5.8%	6.2%
Retirements	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E
CFM56	(392)	(356)	(402)	(472)	(483)	(365)	(538)	(629)	(712)	(785)
LEAP	0	0	0	0	0	0	0	0	0	0
CF34	(126)	(81)	(61)	(112)	(271)	(175)	(136)	(130)	(154)	(178)
GENx	0	0	0	0	0	0	0	0	0	0
GE90	(23)	(29)	(38)	(20)	(29)	(28)	(28)	(28)	(28)	(28)
GE9X						0	0	0	0	0
CF6	(75)	(106)	(96)	(52)	(96)	(106)	(152)	(153)	(117)	(119)
GP7200	0	(8)	(4)	(12)	(16)	(20)	(40)	(50)	(50)	(50)
Total GE Retirements	(616)	(580)	(601)	(668)	(895)	(694)	(894)	(990)	(1,061)	(1,160)
% of Starting Fleet	1.6%	1.4%	1.5%	1.6%	2.1%	1.6%	2.0%	2.2%	2.3%	2.4%
Cost to Operate	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E
CFM56	\$0.3	\$0.2	\$0.2	\$0.3	\$0.3	\$0.4	\$0.4	\$0.5	\$0.5	\$0.6
LEAP	\$0.1	\$0.1	\$0.1	\$0.1	\$0.2	\$0.3	\$0.3	\$0.4	\$0.5	\$0.5
CF34	\$0.3	\$0.1	\$0.1	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2
GENx	\$0.5	\$0.4	\$0.5	\$0.9	\$1.1	\$1.3	\$1.3	\$1.3	\$1.3	\$1.2
GE90/9X	\$1.1	\$0.5	\$0.5	\$0.9	\$1.2	\$1.4	\$1.5	\$1.6	\$1.7	\$1.9
CF6	\$0.4	\$0.2	\$0.3	\$0.4	\$0.6	\$0.6	\$0.5	\$0.5	\$0.5	\$0.5
GP7200	\$0.9	\$0.3	\$0.5	\$0.5	\$0.4	\$0.5	\$1.0	\$1.0	\$0.7	\$0.4
Average Operating Cost	\$0.5	\$0.3	\$0.3	\$0.5	\$0.6	\$0.7	\$0.8	\$0.8	\$0.8	\$0.8
Services Revenue	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E
CFM56	\$7,047	\$4,233	\$4,570	\$5,977	\$6,620	\$8,466	\$9,314	\$9,744	\$10,050	\$10,495
LEAP	459	280	434	815	1,521	2,619	3,502	5,613	7,396	8,293
CF34	1,990	870	834	956	1,323	1,191	1,241	1,047	957	1,065
GENx	845	718	840	1,651	2,224	2,604	2,885	3,071	3,207	3,379
GE90/9X	2,640	1,193	1,300	2,263	2,935	3,421	3,829	4,100	4,317	4,858
CF6	1,414	635	889	1,279	1,665	1,677	1,460	1,454	1,366	1,273
GP7200	455	150	248	237	185	222	411	376	232	108
Other	409	100	(120)	510	1,214	(425)	0	0	0	0
Total Services Revenue	\$15,259	\$8,177	\$8,995	\$13,688	\$17,686	\$19,775	\$22,642	\$25,406	\$27,525	\$29,470
YoY Growth % vs. 2019		-46%	-10%	52%	29%	12%	14%	12%	8%	7%
		-46%	-41%	-10%	16%	30%	48%	66%	80%	93%

- The CFM56 accounts for just under 50% of Commercial Services revenues, driving the bulk of revenue dollar growth through the remainder of the decade as shop visits are set to peak after 2025, while the LEAP aftermarket is the highest growth on a percentage basis.
- Widebodies represented 45-46% of Services mix in each of 2019 and 2022, and likely a similar level in 2024/2025 as growth is comparable between WBs and NBs this year.
- GE Commercial Services recognizes revenue and profits through three channels: customized service agreements (**CSAs**), time & material (**T&M**) shop visits, and **external**.
- CSAs are also the lowest-margin oppty given wrench-turning, while external spare part sales are most profitable.

Source: Cirium®, Company data and Jefferies estimates

General Electric (GE): Comm'l Services Led by LEAP with CFM56 the Foundation

CES Services at 130% of 2019 Levels in 2024, Increasing to 148% in 2025, Compared to ASKs at 111% and Pax Deliveries of 87%



- Commercial Services revenue increased 17% y-o-y in Q1, with internal shop visits revenues up 11% y-o-y (60% of mix) and spare part sales up >20% (40% of mix), with Q2 expected to post similar growth given 90% of spare parts sales in backlog and a line of off-wing engines awaiting shop visits slots that extend through the fall.
- We estimate +14% Services growth in 2025 to \$22.6BB, supported by growing departures, growing mix/workscope, and continued price. This follows +12% growth in 2024, +30% growth in 2023, 43% growth in 2022, 10% growth in 2021, and the 46% decline in 2020. GE Aerospace AM is implied at 148% of 2019 levels in 2025 on our estimates (from 130% recovered in 2024 and 116% in 2023), 24-pts ahead of ASKs at 124% recovered.
- GE's commercial fleet is the youngest major engine fleet in the world with an average age of 13.2 years, positioning favorably to ramping shop visits through mid-decade with particular exposure to higher content first and second SVs.

Source: Cirium®, Company data and Jefferies estimates

General Electric (GE): Strong 2025 Profit Start from Services & Pricing, w/ Confidence in \$0.5BB Tariff Mitigation Strategy Supporting 2025 & Beyond Margin & Profit Dollar Potential

Aerospace Profit Bridge - Aftermarket Incrementals of 35%+ Core Driver of Profit Growth Alongside Price-Cost (<1pt) and Productivity Initiatives (<0.5pt)

	2023	2024	2025E	2026E	2027E	2028E
Segment EBIT						
Starting Segment EBIT	\$6,551	\$8,116	\$9,160	\$10,497	\$11,575	\$11,575
Volume	1,386	906	1,327	953	957	957
Commercial Services	1,322	896	1,130	746	797	797
Commercial Engines	(2)	(110)	(26)	(20)	(27)	(27)
Defense & Systems	33	97	200	208	167	167
Propulsion & Additive Technologies	34	24	23	19	20	20
Price-Cost	352	302	198	188	190	190
Research & Development	(281)	(313)	(267)	(113)	(65)	(65)
Restructuring, FX & Other	(260)	0	0	0	0	0
M&A	0	0	0	0	0	0
Productivity & Other	368	149	80	50	45	45
End Segment EBIT	\$6,551	\$8,116	\$9,160	\$10,497	\$11,575	\$12,702
Margin %	20.5%	23.1%	23.2%	23.6%	23.7%	24.0%
Corporate Allocation	(\$990)	(\$864)	(\$825)	(\$1,025)	(\$1,100)	(\$1,150)
Standalone EBIT	\$5,561	\$7,252	\$8,335	\$9,472	\$10,475	\$11,552
Margin %	17.4%	20.6%	21.1%	21.3%	21.5%	21.9%
Incremental						
Commercial Services		63%	31%	41%	35%	41%
Commercial Engines		0%	-9%	-2%	-2%	-2%
Defense & Systems		18%	20%	25%	25%	25%
Propulsion & Additive Technologies		10%	10%	10%	10%	10%
Pricing		1.1%	0.9%	0.5%	0.4%	0.4%
Productivity		1.2%	0.4%	0.2%	0.1%	0.1%

LEAP reaches BE by 2025 but GE9X begins ramping in from Q4:2024 base.

AM incrementals 35-40%, D&S 25%, PAT 10%.

We assume margins reach 21.1% in 2025 on \$8.34BB of profits, +15% y-o-y.

Lean productivity and price/cost are incremental benefits to 2025, with our ests conservative to framework.

- In 2028, management has guided to \$10BB of EBIT at ~20% margins, compared to our estimate of \$11.6BB at 21.9% margins.
- Price actions are aimed at addressing inflationary pressures and are a sizable benefit to operating profits, focused on catalog prices in the AM (typically MSD+ raises across the engine) although GE has been net-price positive across the Aerospace portfolio for two years running. On the bridge from 2023 to 2025, price/cost remains firmly positive, with our est of a ~\$780MM cumulative contribution, or <1pt of annual benefit.
- Productivity represents the third largest benefit to operating profit behind volumes and price/cost from 2023 to 2025 as management executes on its lean deployment down the supply chain. This includes the hiring freeze in 2025 to manage tariffs. The plan assumes minor 2-3pts of gross productivity gains per year between 2023 and 2025, split roughly 60-40 between material and labor & overhead. On the material side, this includes working down the learning curve, reducing scrap, and leveraging the supply base, while labor actions include reducing non-productive time and driving higher output per full-time employee through shop improvements.

Source: Company data and Jefferies estimates

General Electric (GE): FCF Conversion and <1X Leverage Supports Balance Sheet Optionality

Leverage <1X and \$6.66BB of 2025 FCF Provides Ample Room to Act Opportunistically Around the Buyback

Free Cash Flow	2023	2024	2025E	2026E	2027E	2028E
Net Income	\$3,241	\$6,566	\$5,961	\$6,854	\$7,598	\$8,464
Depreciation & Amortization	797	834	912	994	1,063	1,129
NWC	623	(431)	813	1,018	802	542
AD&A	(\$200)	(\$200)	\$0	\$0	\$0	\$0
Long-Term Care/Pension/Other	\$728	(\$2,059)	(\$50)	(\$50)	(\$50)	(\$50)
CFO	\$5,189	\$4,710	\$7,636	\$8,816	\$9,414	\$10,085
Capex	(862)	(1,032)	(981)	(1,069)	(1,145)	(1,217)
Other Adjustments	417	2,411	0	0	0	0
Adj. FCF	\$4,744	\$6,089	\$6,655	\$7,746	\$8,269	\$8,868
Adj. FCF per Share	\$4.32	\$5.57	\$6.26	\$7.52	\$8.32	\$9.27

Deployment						
Dividends (Common & Preferred)	(589)	(1,008)	(1,489)	(1,723)	(1,990)	(2,298)
Share Repurchases	(1,233)	(5,827)	(7,000)	(7,500)	(8,000)	(8,000)
Debt (Paydown) Issuance	(3,353)	(786)	0	0	0	0
Acquisitions / Divestitures	(41)	364	0	0	0	0
Total Deployment	(\$5,216)	(\$7,257)	(\$8,489)	(\$9,223)	(\$9,990)	(\$10,298)

Discretionary FCF	(\$472)	(\$1,168)	(\$1,834)	(\$1,477)	(\$1,721)	(\$1,430)

Ratios						
FCF to NI Conversion	146%	121%	112%	113%	109%	105%
FCF Yield (FCF / Mkt Cap)	2.3%	3.0%	3.3%	3.8%	4.1%	4.4%
FCF YoY % Change	55%	28%	9%	16%	7%	7%
Discretionary FCF Yield	-0.2%	-0.6%	-0.9%	-0.7%	-0.8%	-0.7%
Dividend as % of NI	18%	20%	25%	25%	26%	27%
Common Dividend Yield	0.3%	0.5%	0.7%	0.8%	1.0%	1.1%
Share Repos as % of Mkt Cap	1%	3%	3%	4%	4%	4%
% of Cash Returned to Shareholders	110%	119%	128%	119%	121%	116%
Capex as % of Sales	2.7%	2.9%	2.5%	2.4%	2.3%	2.3%
Change in NWC as % of Sales	1.9%	-1.2%	2.1%	2.3%	1.6%	1.0%

- In Q1:25, GE Aerospace generated \$1.44BB of adj FCF, down 14% y-o-y on a difficult comp and representing 90% conversion of Adj. NI. Working capital helped by +\$0.1BB as AP (+\$0.7BB) and Progress Collections (+\$0.4BB) offset Inventory (-\$0.7BB) and AR (-\$0.3BB).
- We estimate 2025 FCF of \$6.66BB (112% conversion), up 9% y-o-y based on 18% net income growth. Working capital is a \$0.8BB source in 2025 including a \$0.2BB inventory usage. Capex is \$981MM on our estimates, at the high-end of the range of 2-3%.
- On our estimates, FCF improves to \$7.75BB in 2026 (113% conversion) and \$8.27BB in 2027 (109% conversion), with the LT target to 2028 to average ~100% FCF conversion.
- From 2024 to 2026, GE has identified \$34-36BB of cash, of which \$25BB is committed as available to return to shareholders, with 70-75% dedicated to the dividend and a \$15BB share buyback authorization, supporting >100% of FCF returned over this period. The remaining 25-30% (or \$6-7.5BB) is focused on M&A.
- Mgmt repurchased \$1.9BB of shares in Q1 with the plan to repurchase \$7BB in 2025, up 30% y-o-y vs. the \$5.4BB in 2024. There is \$3BB of additional authorization that mgmt may look to use opportunistically. The dividend at \$0.36/sh consumes \$1.5BB in 2025.

Source: Company data and Jefferies estimates

General Electric (GE): Relative Valuation to History and Market

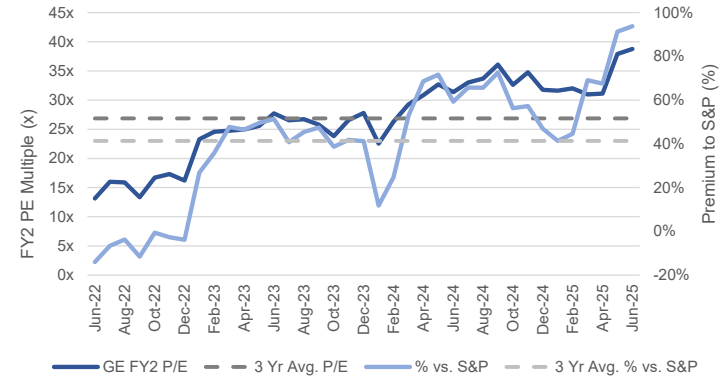
Relative Valuation

Ticker	GE
Current P/E	38.8x
3 Yr Avg. P/E	26.9x
Current / 3 Yr Avg.	44%
Prem / Discst SP	94%
3 Yr Prem / Discst SP	41%
S&P500 Multiple	20.0x
Current EV/EBITDA	26.0x
3 Yr Avg. EV/EBITDA	15.4x
Current / 3 Yr Avg.	69%
Prem / Discst SP	88%
3 Yr Prem / Discst SP	16%
S&P500 Multiple	13.9x
Current FCF Yield	2.7%
3 Yr Avg. FCF Yield	3.1%
Current / 3 Yr Avg.	18%
Prem / Discst SP	58%
3 Yr Prem / Discst SP	57%
S&P500 Multiple	4.2%

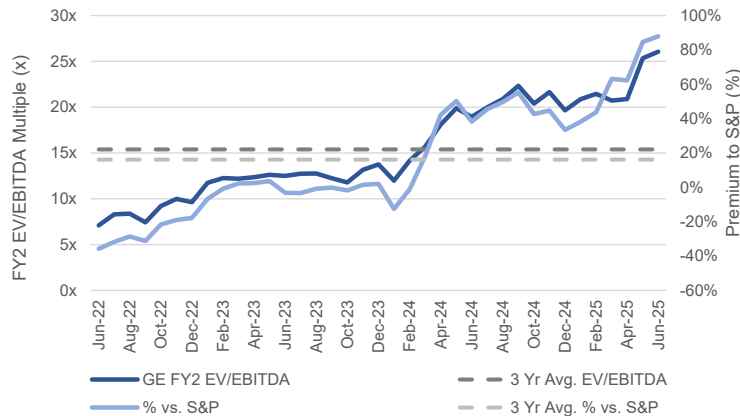
Price Target Derivation

Valuation Method	Price	Assumptions
EV/EBITDA	258	26.0x EV/EBITDA on 2026 EBITDA of \$10.5BB
P/E	266	40.0x P/E on 2026 EPS of \$6.65
FCF	255	2.9% FCF Yield on 2026 FCF of \$7.7BB
Average	\$260	Blended average

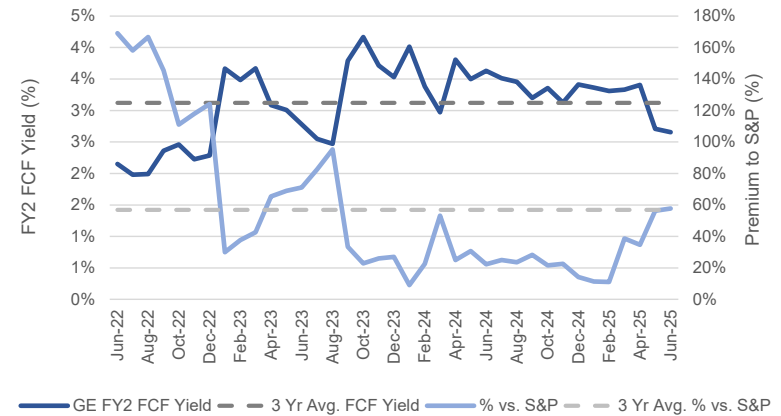
FY2 P/E: 94% Premium to Market vs. 41% Premium Historically



FY2 EV/EBITDA: 88% Premium to Market vs. 16% Premium Historically



FY2 FCF Yield: 58% Premium to Market vs. 57% Premium Historically



Source: Company data, FactSet and Jefferies estimates

General Electric (GE): Annual Income Statement

Year Ended Dec.

	2023		2024		2025E		2026E		2027E		2028E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$31,959	100.0%	\$35,121	100.0%	\$39,145	100.0%	\$44,458	100.0%	\$48,760	100.0%	\$52,785	100.0%
Segment Profit	6,551	20.5%	8,116	23.1%	9,215	23.5%	10,614	23.9%	11,710	24.0%	12,860	24.4%
Corporate	(990)		(864)		(850)		(950)		(1,025)		(1,075)	
Adj. Operating Profit	\$5,561	17.4%	\$7,252	20.6%	\$8,365	21.4%	\$9,664	21.7%	\$10,685	21.9%	\$11,785	22.3%
Interest Expense	987		958		957		947		942		932	
Earnings Before Tax	\$4,574	14.3%	\$6,294	17.9%	\$7,408	18.9%	\$8,717	19.6%	\$9,743	20.0%	\$10,853	20.6%
Taxes	(1,093)	23.9%	(1,260)	20.0%	(1,445)	19.5%	(1,752)	20.1%	(2,036)	20.9%	(2,290)	21.1%
Net Income from Continuing Operations	3,481		5,034		5,964		6,965		7,707		8,563	
Preferred Stock, NCI & Other	240		0		0		0		0		0	
Adj. Net Income	\$3,241	10.1%	\$5,034	14.3%	\$5,964	15.2%	\$6,965	15.7%	\$7,707	15.8%	\$8,563	16.2%
Adjusted Diluted EPS	\$2.95		\$4.60		\$5.60		\$6.75		\$7.75		\$8.95	
Basic shares (millions)	1,089		1,085		1,054		1,016		979		942	
Diluted shares (millions)	1,099		1,094		1,064		1,031		994		957	

Source: Company data and Jefferies estimates

General Electric (GE): Annual Segment Data

Year Ended Dec.

	2023	% of sales	2024	% of sales	2025E	% of sales	2026E	% of sales	2027E	% of sales	2028E	% of sales
Revenue												
Commercial Engines & Services (CES)	\$23,855	73%	\$26,881	74%	\$30,693	75%	\$35,222	76%	\$38,674	76%	\$41,906	76%
Defense & Propulsion Technologies (D&PT)	8,961	27%	9,478	26%	10,202	25%	11,236	24%	12,261	24%	13,129	24%
Total Revenue	\$32,816	100%	\$36,359	100%	\$40,895	100%	\$46,458	100%	\$50,935	100%	\$55,035	100%
Operating Profit												
Commercial Engines & Services (CES)	\$5,643	23.7%	\$7,055	26.2%	\$8,011	26.1%	\$9,152	26.0%	\$10,019	25.9%	\$10,960	26.2%
Defense & Propulsion Technologies (D&PT)	908	10.1%	1,061	11.2%	1,205	11.8%	1,462	13.0%	1,692	13.8%	1,900	14.5%
Segment Operating Profit	\$6,551	20.0%	\$8,116	22.3%	\$9,215	22.5%	\$10,614	22.8%	\$11,710	23.0%	\$12,860	23.4%
Corporate	(990)		(864)		(850)		(950)		(1,025)		(1,075)	
Total Operating Profit	\$5,561	16.9%	\$7,252	19.9%	\$8,365	20.5%	\$9,664	20.8%	\$10,685	21.0%	\$11,785	21.4%
Revenue YoY % Change												
Commercial Engines & Services (CES)			13%		14%		15%		10%		8%	
Defense & Propulsion Technologies (D&PT)			6%		8%		10%		9%		7%	
Total Revenue			11%		12%		14%		10%		8%	
Operating Profit YoY % Change												
Commercial Engines & Services (CES)			25%		14%		14%		9%		9%	
Defense & Propulsion Technologies (D&PT)			17%		14%		21%		16%		12%	
Segment Operating Profit			24%		14%		15%		10%		10%	
Total Operating Profit			30%		15%		16%		11%		10%	

Source: Company data and Jefferies estimates

Heico (HEI) – Buy \$340 PT

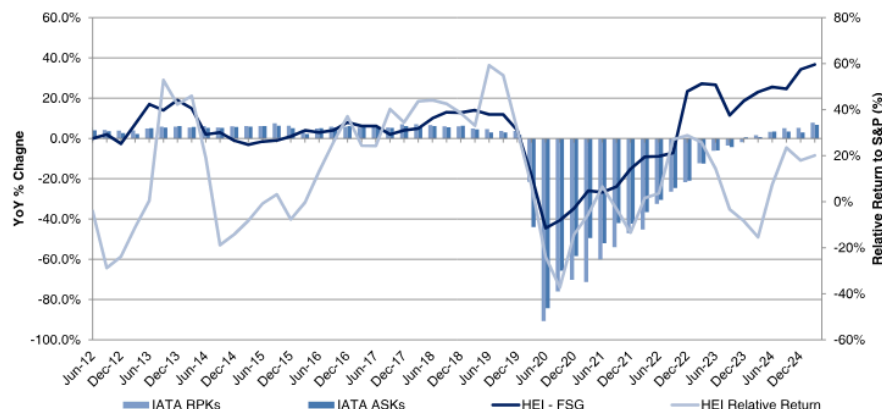
- 1) Raising FY25 (Oct YE) Rev on Organic Momentum Across Segments.
- 2) FSG Tailwind Ongoing to Support LDD Organic Growth.
- 3) ETG Organic Up 7% in FH1.
- 4) FCF Remains in the 115-120% Conversion Range.

Related Notes:

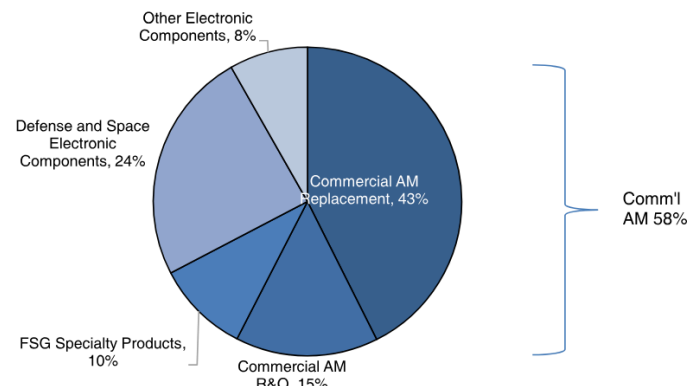
- [Demand Still Outpaces Supply with 14% Organic Aftermarket](#) *May 28, 2025*
- [Starting 2025 Strong with DD Organic Growth](#) *March 2, 2025*
- [Mgmt Mtg Takeaways: DOGEing the Aftermarket Bears w/ PMA Defense Oppty](#) *February 24, 2025*

Heico (HEI): FSG Sales Driven by Aftermarket, with Upside to FY25 from Expanding Fleet and Revenue Synergies, as well as Defense Momentum

FSG Sales Expected Up 12% vs IATA ASKs +8% in FY25



HEI Generates 58% of 2025E Sales from Commercial Aftermarket



- Revenue synergies come from cross-selling the catalogs to existing customers as well as expanding reach in component MRO shops. HEI is stronger in airlines, while Wencor had historically focused on MRO shops. Additionally, a catalog of 19K parts supports the go-to-market.
- In FQ2 (Jan Q), HEI FSG volumes grew 14% organically y-o-y, now 41% above 2019 levels, on our estimates. This compares to ASKs up 6% vs 2019 over the period. We estimate FSG growth tempers to +12% organically in FY25 driving FSG volumes to 39% above 2019 levels compared to ASKs 10% above.
- We see an opportunity for HEI to grow FSG top line through both pricing and market share gains. While HEI has increased list prices modestly with inflation, certain longstanding customers are paying legacy prices that do not reflect cost inflation. Additionally, OEMs have increased prices significantly (some still seeking incremental DD increases), which provides pricing power to HEI. This could support both better gross price contributions and increased market penetration with existing customers.

Source: Company data, IATA and Jefferies estimates

Heico (HEI): FSG Sales Driven by Aftermarket, with Upside to FY25 from Expanding Fleet and Revenue Synergies, as well as Defense Momentum

**FY25E Organic Growth of 12% vs FH1 +14%, Led by Aftermarket Replacement +13%
(vs FH1 +16%)**

FSG Volumes (Y-o-Y % Chang	FQ1:25	FQ2:25	FQ3:25E	FQ4:25E	FY23	FY24	FY25E	FY26E	FY27E
Aftermarket Replacement	15%	16%	10%	11%	50%	59%	13%	5%	5%
Repair and Overhaul	15%	11%	9%	10%	38%	62%	11%	5%	5%
Specialty Products	16%	9%	8%	12%	23%	7%	11%	4%	4%
Overall FSG Volumes	15%	14%	9%	11%	41%	49%	15%	5%	5%
<i>Organic % Change</i>	<i>13%</i>	<i>14%</i>	<i>9%</i>	<i>12%</i>	<i>21%</i>	<i>13%</i>	<i>12%</i>	<i>5%</i>	<i>5%</i>

- Revenues for FSG were ahead of expectations in FQ2, with FSG reporting a 14% organic increase (+19% total). For FH1, organic growth has averaged 14% (17% total). Organic growth was supported by all three sub-segments including strength in the Defense business within FSG.
- Aftermarket Replacement (63% of FSG sales) grew 16% organically, followed by Repair & Overhaul (22% of FSG) up 11%. Specialty Products (14% of FSG) was up 9% organically driven by Defense up 18%, while Comm'l Aero was down y-o-y. We expect the aftermarket business lines to continue to outperform Specialty Products with momentum from an aging fleet as well as revenue synergies from Wencor, while Specialty Products has been supported by Defense momentum related to missiles/munitions, although commercial OE is expected to improve with BA production cadence. The acquisitions of Capewell and Millennium contributed \$28MM to FQ2 sales. Rosen Aviation was acquired at the end of the quarter with minimal contribution.
- In addition to volumes, HEI has likely experienced some benefit from gross price, only as far as to maintain margins. There have been cost increases over the past four years that have been significant in some cases, so the company has increased list prices accordingly to maintain its margin rate.

Source: Company data and Jefferies estimates

Heico (HEI): FSG Sales Driven by Aftermarket, with Upside to FY25 from Expanding Fleet and Revenue Synergies, as well as Defense Momentum

Each 2-pts of FSG Organic Growth Contributes \$0.07 to FY25 EPS and Each 100 bps Margin Expansion Adds \$0.18

		FSG FY25 Organic Growth (%)						
FSG FY25 Op. Margin (%)		6%	8%	10%	12%	14%	16%	18%
	20.5%	\$3.79	\$3.85	\$3.91	\$3.98	\$4.04	\$4.10	\$4.16
	21.5%	\$3.95	\$4.02	\$4.09	\$4.15	\$4.22	\$4.28	\$4.35
	22.5%	\$4.12	\$4.19	\$4.26	\$4.33	\$4.40	\$4.46	\$4.53
	23.5%	\$4.29	\$4.36	\$4.43	\$4.50	\$4.57	\$4.65	\$4.72
	24.5%	\$4.45	\$4.53	\$4.60	\$4.68	\$4.75	\$4.83	\$4.90
	25.5%	\$4.62	\$4.70	\$4.78	\$4.85	\$4.93	\$5.01	\$5.09
	26.5%	\$4.79	\$4.87	\$4.95	\$5.03	\$5.11	\$5.19	\$5.27

- In FQ2, FSG margins expanded 110 bps y-o-y to 24.1% and represents the 11th consecutive quarter over 22% on a core basis. Incrementals were 30% in FQ2, improving from 24% in FY24 on a reported basis with FH1 tracking at a 31% incremental. The higher incremental includes a benefit from missile revenue mix, as well as high top line contribution.
- Our supply and demand model implies lower retirements will support low-teens aftermarket growth this year on our 6.5% air traffic growth expectation. This compares to our estimate of HEI FSG volumes up 12%. Upside to aftermarket volumes from the aging fleet could support better volumes in FY24, as well as upside from continued Wencor revenue synergies and PMA adoption. Each 2-pts of FSG organic growth in FY25E is worth ~7¢ to EPS.
- In FSG, we expect margins to expand another 100 bps from 22.5% in FY24 to 23.5% in FY25, benefiting from improved operating leverage (on 15% top-line growth, 12% organic) and missile mix within Specialty Products, amounting to a 30% total incremental y-o-y (vs 31% in FH1).

Source: Company data and Jefferies estimates

Heico (HEI): ETG Supported by Space & Aerospace in FQ2 with Other Electronics Starting to Turn

Every 20 bps of ETG Margin Worth 2c to Adj EPS in FY25E

		ETG FY25 Organic Growth (%)						
		0%	2%	4%	6%	8%	10%	12%
ETG FY25 Op. Margin	22.4%	\$4.36	\$4.39	\$4.42	\$4.45	\$4.49	\$4.52	\$4.55
	22.6%	\$4.37	\$4.40	\$4.44	\$4.47	\$4.50	\$4.54	\$4.57
	22.8%	\$4.39	\$4.42	\$4.45	\$4.49	\$4.52	\$4.55	\$4.59
	23.0%	\$4.40	\$4.44	\$4.47	\$4.50	\$4.54	\$4.57	\$4.60
ETG FY25 (%)	23.2%	\$4.42	\$4.45	\$4.48	\$4.52	\$4.55	\$4.59	\$4.62
	23.4%	\$4.43	\$4.47	\$4.50	\$4.53	\$4.57	\$4.60	\$4.64
	23.6%	\$4.45	\$4.48	\$4.52	\$4.55	\$4.59	\$4.62	\$4.65

- ETG was up 7% overall in FQ1 (+4% organic) with strength in Space and Aerospace products up DD as well as MSD growth for Other Electronics, whereas Defense and Medical were lower. The company has indicated full year reported growth in the M-HSD range including MSD organic growth in FH2 with a continued recovery for Other Electronics, as well as backlog conversion in Defense with FQ2 facing a difficult comp.
- The key driver of a return to growth this year is the Other Electronics business, which was down up MSD in FQ2 with supportive order volumes and backlog. The turn in volumes following a year of destocking has appeared to begin, although one quarter is not enough to establish a trend..
- ETG operating margins of 22.8% in FQ2 were down 80 bps from 23.6% last year, due mix offset by SG&A efficiencies. We assume 20 bps of expansion in 2025E to 23.0% from 22.8% in FY24 with top-line growth..

Source: Company data and Jefferies estimates

Heico (HEI): HEI Operating Margins Expected to Step Up to 22.1% in 2025, Driven by FSG +100 Bps

HEI EBIT Bridge - Margins Expand 30 bps in FY25E as Mix Improves and Acquisition Integration Progresses

	Q1:25	Q2:25	Q3:25E	Q4:25E	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Starting EBIT	\$180	\$209	\$216	\$219	\$376	\$457	\$377	\$393	\$497	\$625	\$824	\$969	\$1,026
FSG Organic	24	31	21	28	29	-98	1	66	120	72	104	36	38
ETG Organic	12	2	2	5	33	-3	6	-17	0	-3	21	11	11
M&A	4	6	5	4	10	8	15	26	64	160	19	3	0
R&D/Investments	0	0	0	-2	0	0	0	0	0	0	-2	0	0
Restructuring benefits/amortization	0	0	0	0	0	0	2	0	-20	11	0	0	0
Performance-based Comp	0	0	0	0	0	0	0	0	0	0	0	0	0
Productivity/Other	5	1	0	-1	6	-1	3	36	-28	-31	5	5	5
Non-segment expenses	3	-1	-3	-1	3	13	-13	-8	-8	-10	-2	3	3
End EBIT	\$227	\$248	\$242	\$252	\$457	\$377	\$393	\$497	\$625	\$824	\$969	\$1,026	\$1,083
Margin %	22.0%	22.6%	22.0%	21.9%	22.2%	21.1%	21.1%	22.5%	21.1%	21.4%	22.1%	22.3%	22.6%
Incremental Margin	12%	9%	6%	8%	10%	-15%	2%	8%	9%	11%	9%	4%	4%
FSG Incremental	32%	30%	29%	30%	25%	31%	390%	35%	23%	24%	30%	28%	28%
ETG Incremental	48%	11%	17%	11%	31%	33%	23%	-63%	6%	1%	19%	9%	14%

Margin expansion enabled by improved ETG vol incrementals (20% versus 15% in FY24) & efficiency gains as well as cont'd op leverage at FSG.

- In FQ2, HEI reported operating margins of 22.6%, up 70 bps y-o-y with expansion at FSG (+110 bps) offset by ETG (-90 bps). FSG margin expansion was supported by operating leverage on 14% organic growth as well as more favorable defense mix within Specialty Products. ETG margin contraction was driven by lower gross margins with less favorable Defense and Medical mix.
- The company has expanded margins through operational performance and volume, rather than pricing. The company increases price LSD, potentially the high end of LSD range. The company aims to be fair in pricing.
- Total company margins are expected to expand from 21.4% in FY24 to 22.1% in FY25E. The five-year average for margins is 21.4%, with FSG sustainably above historical levels, while amortization and Exxelia mix leaves ETG re-set lower.

Source: Company data and Jefferies estimates

Heico (HEI): FCF Generation Sustains ~120% Conversions in FY25+ with a Focus on Deleveraging in Near Term

FCF Walk - ~120% Conversions Sustained into FY25, Coming in at 118% on Our Est. (MM, except per share data)

Free Cash Flow	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Income	\$360	\$336	\$330	\$391	\$444	\$559	\$688	\$756	\$835
Depreciation and Amortization	84	89	93	96	130	175	175	175	175
NWC	(78)	(44)	(16)	(42)	(435)	(175)	(64)	(15)	(8)
Other	72	29	37	23	309	113	0	0	0
CFO	\$437	\$409	\$444	\$468	\$449	\$672	\$798	\$917	\$1,002
Capex	(29)	(23)	(36)	(32)	(49)	(58)	(70)	(74)	(77)
FCF	\$408	\$386	\$408	\$436	\$399	\$614	\$728	\$843	\$925
Deployment									
Dividends	\$19	\$22	\$23	\$24	\$27	\$29	\$34	\$37	\$41
Share Repurchases	55	0	0	24	8	(8)	0	0	0
Debt Paydown	0	0	505	(49)	0	249	100	300	300
Debt Issuance	(30)	(177)	0	0	(2,164)	0	0	0	0
Acquisitions	241	164	137	347	2,422	219	286	0	0
Total Deployment	\$315	\$185	\$665	\$346	\$2,457	\$489	\$420	\$337	\$341
Discretionary FCF (post pension contributions, dividends, share repo, and committed debt pay-down)									
	\$93	\$201	(\$257)	\$89	(\$2,058)	\$125	\$309	\$506	\$584
Ratios									
FCF / Net Income	125%	123%	134%	124%	99%	119%	115%	122%	121%
Cash Flow from Ops/NI	133%	130%	146%	133%	111%	131%	126%	133%	131%
FCF Change YoY %	43%	-5%	6%	7%	-8%	54%	19%	16%	10%
FCF Yield	1.4%	1.3%	1.4%	1.5%	1.4%	2.1%	2.5%	2.9%	3.2%
Net Debt/EBITDA	0.9X	0.7X	0.3X	0.2X	3.0X	2.0X	1.4X	0.7X	0.0X
FCF/Share	\$2.97	\$2.81	\$2.96	\$3.16	\$2.87	\$4.38	\$5.18	\$5.98	\$6.54
Cash EPS	\$3.18	\$2.98	\$3.22	\$3.39	\$3.23	\$4.80	\$5.67	\$6.50	\$7.09
Cash P/E	66.5X	71.0X	65.5X	62.1X	64.8X	43.2X	36.4X	31.7X	29.0X

- HEI generated FH1 FCF of \$374MM, or 115% conversion to NI, an improvement from 95% conversion in FH1:24. Working capital was a \$45MM headwind in FH1 including a \$12MM usage from inventory/contract assets, improving from the \$34MM usage in FH1:24.
- Following the \$614MM in FCF generated in FY24, we estimate FY25 FCF of \$728MM, implying 115% conversion. Our FCF estimate is up 18% y-o-y as higher net income (JEFe +24% y-o-y) and lower NWC usage is partly offset by higher capex of \$70MM vs \$58MM in FY24. Working capital is expected to be a \$70MM use in FY25E, better than the \$175MM use in FY24, more aligned to the historical average given the slower build of inventory tied to long lead components.
- Heico ended FQ1:25 with 1.86X ND/EBITDA with cash generation above 100% of NI supporting quick deleveraging to 0.7X by FY26E.
- Capital deployment remains focused on pursuing M&A across various sizes to accelerate growth and maximize shareholder returns, with opportunistic debt reduction only when it makes sense for the capital structure. The acquisition of Wencor is HEI's largest ever and led to 24pts of M&A contribution in FY24 on top of significant organic growth. We assume 3pts of contribution to FY25E based on acquisitions closed to date.

Source: Company data and Jefferies estimates

Heico (HEI): Relative Valuation to History and Market

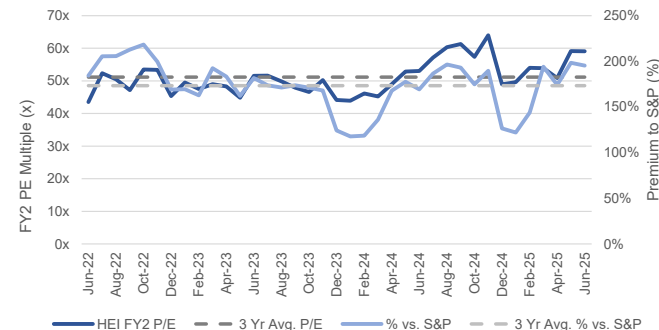
Relative Valuation

Ticker	HEI
Current P/E	59.1x
3 Yr Avg. P/E	51.1x
Current / 3 Yr Avg.	16%
Prem / Discst SP	195%
3 Yr Prem / Discst SP	173%
S&P500 Multiple	20.0x
Current EV/EBITDA	34.9x
3 Yr Avg. EV/EBITDA	30.3x
Current / 3 Yr Avg.	15%
Prem / Discst SP	152%
3 Yr Prem / Discst SP	133%
S&P500 Multiple	13.9x
Current FCF Yield	2.0%
3 Yr Avg. FCF Yield	2.3%
Current / 3 Yr Avg.	16%
Prem / Discst SP	109%
3 Yr Prem / Discst SP	100%
S&P500 Multiple	4.2%

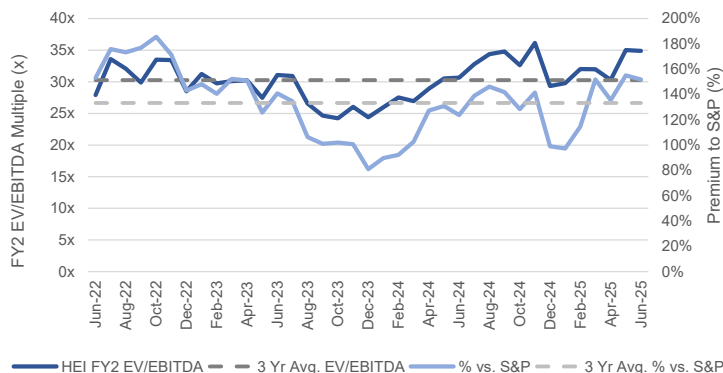
Price Target Derivation

Method	Price	Assumptions
EV/EBITDA	\$334	38.5x avg. EV/EBITDA; FY26 EBITDA of \$1,201MM
P/E	\$316	64.4X avg; FY26 EPS of \$4.90
FCF Yield	\$369	1.7% FCF Yield on FY26 FCF of \$843MM
Average	\$340	Blended average

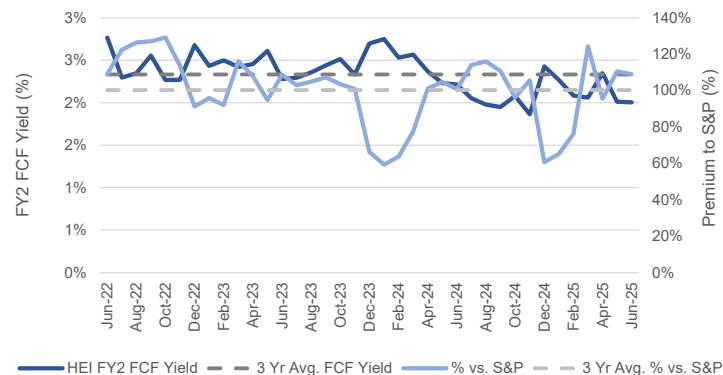
FY2 P/E: 195% Prem to Mkt vs. Historical Avg Prem of 173%



FY2 EV/EBITDA: 153% Prem to Mkt vs. Historical Avg Prem of 133%



FY2 FCF Yield: 109% Prem to Mkt vs. Historical Avg Prem of 100%



Source: Company data, FactSet and Jefferies estimates

Heico (HEI): Income Statement

Year Ended Oct.

(millions, except per share data)	2020		2021		2022		2023		2024		2025E		2026E		2027E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$1,787.0	100.0	\$1,865.7	100.0	\$2,208.3	100.0	\$2,968.1	100.0	\$3,857.7	100.0	\$4,379.0	100.0	\$4,596.2	100.0	\$4,803.1	100.0
Costs and expenses																
Costs of Sales	1,104.9	61.8%	1,138.3	61.0%	1,345.6	60.9%	1,814.6	61.1%	2,355.9	61.1%	2,621.8	59.9%	2,742.4	59.7%	2,855.2	59.4%
Selling, General & Administrative	305.5	17.1	334.5	17.9	365.9	16.6	528.1	17.8	677.3	17.6	788.2	18.0	827.3	18.0	864.6	18.0
R&D (included in COGS)	65.6	3.7	68.6	3.7	76.1	3.4	95.8	3.2	111.3	2.9	127.0	2.9	133.3	2.9	139.3	2.9
Total Operating Costs	\$1,410.4	79%	\$1,472.8	79%	\$1,711.5	78%	\$2,342.8	79%	\$3,033.2	79%	\$3,410.1	78%	\$3,569.7	78%	\$3,719.8	77%
Operating Profit (EBIT excluding rest.)	\$376.6	21.1%	\$392.9	21.1%	\$496.8	22.5%	\$625.3	21.1%	\$824.5	21.4%	\$969.0	22.1%	\$1,026.5	22.3%	\$1,083.3	22.6%
Other (income) expense, net	0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0	
Interest expense	(13.2)		(7.3)		(6.4)		(73.0)		(149.3)		(128.6)		(115.2)		(90.1)	
Interest income	1.4		1.4		0.6		2.9		2.4		4.4		14.6		30.8	
Total interest	(11.8)		(5.8)		(5.8)		(70.1)		(146.9)		(124.2)		(100.6)		(59.4)	
Income before taxes	\$364.9		\$387.1		\$491.0		\$555.3		\$677.6		\$844.8		\$925.9		\$1,024.0	
Taxes (rate %)	29.0	7.9%	57.3	14.8%	100.4	20.4%	110.9	20.0%	118.5	17.5%	157.1	18.6%	169.4	18.3%	189.4	18.5%
Net Income, continuing ops	\$335.9		\$329.8		\$390.6		\$444.4		\$559.1		\$687.6		\$756.4		\$834.5	
Non-controlling interests	(21.9)		(25.5)		(38.9)		(40.8)		(45.0)		(54.1)		(64.8)		(71.7)	
Net Income	\$314.0	17.6%	\$304.2	16.3%	\$351.7	15.9%	\$403.6	13.6%	\$514.1	13.3%	\$633.6	14.5%	\$691.6	15.0%	\$762.9	15.9%
Basic shares (millions)	134.8		135.3		136.0		137.2		138.5		138.5		138.5		138.5	
Diluted shares (millions)	137.3		137.9		138.0		138.9		140.2		140.7		141.0		141.3	
Basic earnings per share (cont. ops)	\$2.49		\$2.44		\$2.87		\$3.24		\$4.04		\$4.97		\$5.46		\$6.03	
Diluted earnings per share (cont. ops)	\$2.29		\$2.21		\$2.55		\$2.91		\$3.67		\$4.50		\$4.90		\$5.40	

Source: Company data and Jefferies estimates

Heico (HEI): Operating Segment Data

Year Ended Oct.

(millions, except per share data)	2020	% of sales	2021	% of sales	2022	% of sales	2023	% of sales	2024	% of sales	2025E	% of sales	2026E	% of sales	2027E	% of sales
Revenue																
Flight Support	\$924.8	52%	\$927.1	50%	\$1,255.2	57%	\$1,770.2	60%	\$2,639.4	68%	\$3,034.2	69%	\$3,188.0	69%	\$3,338.8	70%
Electronic Technologies	875.0	49%	959.2	51%	972.5	44%	1,225.2	41%	1,263.6	33%	1,391.3	32%	1,457.0	32%	1,515.3	32%
Intersegment	(12.8)		(20.6)		(19.4)		(27.3)		(45.3)		(46.5)		(48.8)		(51.0)	
Total Revenue	\$1,787.0	100%	\$1,865.7	100%	\$2,206.3	100%	\$2,968.1	100%	\$3,857.7	100%	\$4,379.0	100%	\$4,596.2	100%	\$4,803.1	100%
Revenue YoY % change																
Flight Support	-25%		0%		35%		41%		49%		15%		5%		5%	
Electronic Technologies	5%		10%		1%		26%		3%		10%		5%		4%	
Total Revenue	-13%		4%		18%		34%		30%		14%		5%		5%	
% organic	-16%		0%		11%		12%		7%		10%		5%		5%	
Operating Income																
Flight Support	\$143.1	15.5%	\$151.9	16.4%	\$267.2	21.3%	\$387.3	21.9%	\$593.1	22.5%	\$712.3	23.5%	\$754.7	23.7%	\$797.5	23.9%
Electronic Technologies	258.8	29.6%	\$277.3	28.9%	\$269.5	27.7%	\$285.1	23.3%	\$288.2	22.8%	\$320.2	23.0%	\$338.4	23.2%	\$355.5	23.5%
Segment Operating Income	\$401.9	22.5%	\$429.2	23.0%	\$536.6	24.3%	\$672.4	22.7%	\$881.3	22.8%	\$1,032.5	23.6%	\$1,093.1	23.8%	\$1,153.0	24.0%
Corporate	(25.2)	1.4%	(38.3)	1.9%	(39.8)	1.8%	(47.0)	1.6%	(56.8)	1.5%	(63.5)	1.5%	(66.6)	1.5%	(69.6)	1.5%
Total Operating Income	\$376.6	21.1%	\$390.9	21.1%	\$496.8	22.5%	\$625.3	21.1%	\$824.5	21.4%	\$969.0	22.1%	\$1,026.5	22.3%	\$1,083.3	22.6%
Operating profit change YoY																
Flight Support	-41%		6%		76%		45%		53%		20%		6%		6%	
Electronic Technologies	5%		7%		-3%		6%		1%		11%		6%		5%	
Segment Operating Income	-18%		7%		25%		25%		31%		17%		6%		5%	
Corporate	-18%		44%		10%		18%		21%		12%		5%		5%	
Total Operating Income	-18%		4%		26%		26%		32%		18%		6%		6%	
Incremental																
Flight Support	31%		390%		35%		23%		24%		30%		28%		28%	
Electronic Technologies	32%		22%		-59%		6%		8%		25%		28%		29%	
Segment Operating Income	32%		35%		31%		18%		23%		29%		28%		29%	
Total Operating Income	30%		21%		30%		17%		22%		28%		26%		27%	

Source: Company data and Jefferies estimates

Heico (HEI): Cash Flow Statement

Year Ended Oct.

(millions, except per share data)	2020	2021	2022	2023	2024	2025E	2026E	2027E
Operating Activities								
Net income	\$336	\$330	\$391	\$444	\$559	\$685	\$748	\$827
Depreciation & Amortization	89	93	96	130	175	175	175	175
Op cash flow pre-working capital	\$424	\$423	\$487	\$574	\$734	\$860	\$923	\$1,002
Change in inventory	(103)	(34)	(118)	(567)	(607)	(227)	(115)	(84)
Change in receivables	107	(34)	(50)	(264)	(244)	(50)	(34)	(16)
Change in payables	0	0	0	0	0	0	0	0
Changes in working capital	4	(69)	(168)	(831)	(850)	(277)	(149)	(100)
Cash Flow from Operations	\$409	\$444	\$468	\$449	\$672	\$800	\$908	\$995
Investment activities								
Capital expenditures	(23)	(36)	(32)	(49)	(58)	(70)	(73)	(77)
Change in other current assets	(6)	(1)	0	0	0	0	0	0
Acquisitions	(164)	(137)	(347)	(2,422)	(219)	(255)	0	0
Change in other current liabilities	(12)	(11)	(17)	(13)	(16)	(16)	0	0
Change in other LT liabilities	(88)	83	0	0	230	129	0	0
Change in tax liability	0	0	0	0	0	0	0	0
Cash Flow from Investments	(\$293)	(\$102)	(\$396)	(\$2,484)	(\$63)	(\$212)	(\$73)	(\$77)
Financing Activities								
Change in debt	178	(503)	54	2,164	0	(475)	(527)	(600)
Shareholders' equity	(40)	(55)	(95)	(27)	(29)	(34)	(37)	(41)
Cash Flow from Financing	\$138	(\$558)	(\$41)	\$2,137	(\$29)	(\$509)	(\$564)	(\$641)
Net change in cash items	\$254	(\$216)	\$31	\$101	\$580	\$79	\$271	\$278
Cash at the beginning of the period	57	407	108	140	241	821	900	1,171
Cash at the end of the period	\$407	\$108	\$140	\$241	\$821	\$900	\$1,171	\$1,448

Source: Company data and Jefferies estimates

Honeywell International (HON) – Hold \$235 PT

1) Sensitizing Potential Demand Destruction in IA (22% of '25 Revs) and BA (17%)

2) Profit Headwind on Conservative Short Cycle Assumptions

3) Margin Expansion at IA and BA, While Cost Inflation Leaves ESS Flat

4) FCF Expected at \$5.5BB with \$5.8BB Deployed to Share Repo/Divis in Our Est

Related Notes:

- [Short Cycle Inflection Pushed Once More on Tariffs, but Mitigation in Place](#) May 4, 2025
- [The Spin Ultimatum - 18mo to Find Love](#) February 9, 2025
- [Thesis Update: Getting the Spins w/ Deployment Puts & Takes; FV of \\$260](#) December 17, 2024

Honeywell International (HON): 2025 Rev Guidance of +2-5% At Low End of 4-7% LT Target Awaiting Short Cycle Inflection

Organic Growth by Segment - AT Leads 2025 Up HSD While IA Lags Down MSD

	Organic Revenue Growth										2024 - 2027	LT
	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	CAGR	Target
Aerospace	9%	8%	-18%	-5%	8%	15%	11%	8%	5%	5%	6%	M-HSD
HBT	3%	5%	-9%	4%	14%	1%	3%	3%	3%	3%	3%	M-HSD
PMT	2%	4%	-18%	9%	12%	4%	2%	2%	3%	3%	3%	M-HSD
SPS	11%	-4%	-1%	10%	-3%	-8%	-7%	-1%	3%	3%	2%	HSD
Total	7%	4%	-12%	4%	6%	4%	3%	4%	4%	4%	4%	4-7%

- We forecast HON revenues grow 4% organically in 2025 following 3% organic growth in 2024. The 2025 outlook assumes little to no recovery in the short cycle businesses across automation with some consideration of potential demand destruction at IA and ESS, while Commercial OE should improve at a DD rate (+8% in Q2-Q4 ex-BBD, or +3% for 2025 ex-BBD) as AM decelerates to the HSD range from 15% in Q1. As such, Aero is guided up HSD (or M-HSD ex-BBD in 2024), followed by BA +MSD, ESS +LSD, and IA -MSD.
- On our estimates in 2025, growth is led by Aerospace up 10% organically in 2025 (guide at +HSD) on relatively stable flight hour growth (AM +7% vs M-HSD guide), OE ramps despite some NT destocking risk (est +23% or +5% ex-BBD vs +DD guide or +LSD ex-BBD), and some moderation in Defense & Space (est +5% vs M-HSD guide). Industrial Automation is down 4% organically (guide down MSD), with some pressure in Sensing & Safety beyond the divestiture of PPE and uncertainty around Process Solutions particularly with smart meters. Building Automation expands 5% organically (guide +MSD), driven by longer-cycle projects and services particularly within Building Solutions. Energy and Sustainability Solutions is up 2% (+LSD), driven by UOP (catalysts).

Source: Jefferies estimates, company data

Honeywell International (HON): Aerospace Technologies Up 10% in 2025 on a Strong Start for Aftermarket and Absence of BBD Payment

Aerospace Technologies Targets a Long-Term M-HSD Growth Rate and 29% Margin

Aerospace Technologies	2020	2021	2022	2023	2024	2025E	2026E	2027E	LT Targets
Commercial Aviation OE	\$1,940	\$1,720	\$2,089	\$2,397	\$2,223	\$2,736	\$2,956	\$3,113	
Commercial Aviation AM	3,812	4,155	5,108	6,241	7,144	7,787	8,098	8,422	
Defense & Space	5,792	5,151	4,630	4,986	6,091	7,001	7,352	7,719	
Total Revenue	\$11,544	\$11,026	\$11,827	\$13,624	\$15,458	\$17,524	\$18,406	\$19,255	+M-HSD
% YoY Change									
Commercial Aviation OE	-35%	-11%	21%	15%	-7%	23%	8%	5%	
Commercial Aviation AM	-34%	9%	23%	22%	14%	9%	4%	4%	
Defense & Space	9%	-11%	-10%	8%	22%	15%	5%	5%	
Total % Change	-18%	-4%	7%	15%	13%	13%	5%	5%	
% Organic	-18%	-5%	8%	15%	11%	10%	5%	5%	
% Composition									
Commercial Aviation OE	17%	16%	18%	18%	14%	16%	16%	16%	
Commercial Aviation AM	33%	38%	43%	46%	46%	44%	44%	44%	
Defense & Space	50%	47%	39%	37%	39%	40%	40%	40%	
Total Revenue	100%	100%	100%	100%	100%	100%	100%	100%	
Operating Margin %	25.2%	27.7%	27.3%	27.6%	25.8%	26.0%	26.8%	27.4%	29%
Incremental Margin %	28%	-28%	22%	30%	12%	28%	43%	40%	

- The Aerospace Technologies segment has long-term targets of M-HSD organic growth and a 29% segment margin. The company announced on the Q4 call that it will spin the Aerospace business in H2:26 into a standalone business.
- Following 14% organic growth (ex-BBD) in 2024, the company still expects HSD (M-HSD ex-BBD) organic in 2025. We estimate 10% organic growth in 2025E (6% ex-BBD), with 9% organic growth from Commercial AM and 23% for OE (+5% ex-BBD). Profitability is expected to be up 20 bps to 26.0% in 2025E with ~100 bps of dilution from the integration of CAES, offset by the absence of the \$372MM BBD contra-revenue charge to support future platform development.

Source: Jefferies estimates, company data

Honeywell International (HON): Aerospace Technologies Up 10% in 2025 on a Strong Start for Aftermarket and Absence of BBD Payment

Aerospace Profit Build - Strong Operating Leverage on Commercial AM and Commercial OE, With D&S a Mix Headwind

Aerospace Segment Profit Bridge										Cumulative
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2025-2027E
Start EBIT	\$3,503	\$3,607	\$2,904	\$3,051	\$3,228	\$3,760	\$3,988	\$4,556	\$4,933	\$3,988
Commercial OE	33	(212)	(66)	74	62	40	28	44	31	104
Commercial AM	175	(877)	154	381	453	361	257	125	130	511
Defense	94	75	(96)	(78)	53	166	137	53	55	244
Transportation	(869)	0	0	0	0	0	0	0	0	0
SG&A and Other	121	222	43	(613)	(105)	(187)	(63)	96	(76)	(44)
Other	550	89	112	413	69	(152)	210	60	203	472
Incremental EBIT	104	(703)	147	177	532	228	568	377	343	1,288
End EBIT	\$3,607	\$2,904	\$3,051	\$3,228	\$3,760	\$3,988	\$4,556	\$4,933	\$5,276	\$5,276
% Margin	25.7%	25.2%	27.7%	27.3%	27.6%	25.8%	26.0%	26.8%	27.4%	
Incrementals										
% AT Incremental	(\$0)	\$0	(\$0)	\$0	\$0	\$0	\$0	\$0	\$0	
% Commercial OE	20%	20%	30%	20%	20%	20%	20%	20%	20%	
% Commercial AM	45%	45%	45%	40%	40%	40%	40%	40%	40%	
% Defense & Space	15%	15%	15%	15%	15%	15%	15%	15%	15%	

- Aerospace segment margins were 26.3% in Q1, down about 190bps y-o-y, in part due to the dilution tied to CAES integration costs. The 2025 guide implies segment margins fall ~150 bps year-over-year ex-BBD including a 100 bps impact from the CAES integration, as well as dilution from less favorable Commercial OE mix.
- The company's investments in its supply chain include expanding the set of suppliers that HON is covering over time in order to meet demand. CAES is expected to generate margins in line with legacy Defense & Space post integration, which is only modestly dilutive to overall AT.
- The long-term margin target is 29%, with our estimates for 27.4% margins in 2027E. Fixed-cost operating leverage and price supportive of margin expansion, particularly once supply chain begins to improve.
- Aerospace invests 5-8% of sales on R&D, w/ 50% to existing products, 25% to strategic investments, and 25% to mods & maintenance. Areas of emphasis include propulsion & sustainability (electric, SAF, next-gen biz jet, and T55 upgrade) and next-gen BTIs (vapor cycle cooling and UAM).

Source: Jefferies estimates, company data

Honeywell International (HON): Building Automation +LSD - MSD in 2025 on Ongoing Long-Cycle Growth in Projects and Services

Building Automation Segment - Healthy Sequential Margin Expansion Despite Slower Short Cycle

BA	2020	2021	2022	2023	2024	2025E	2026E	2027E
Building Solutions	\$2,218	\$2,366	\$2,362	\$2,448	\$2,672	\$2,899	\$2,993	\$3,090
Building Products	2,971	3,173	3,638	3,583	3,868	4,265	4,350	4,437
Total BA Revenue	\$5,189	\$5,539	\$6,000	\$6,031	\$6,540	\$7,163	\$7,343	\$7,527
% YoY Change								
Building Solutions	-8%	7%	0%	4%	9%	8%	3%	3%
Building Products	-10%	7%	15%	-2%	8%	10%	2%	2%
Total % Change	-9%	7%	8%	1%	8%	10%	3%	3%
% Organic	-10%	3%	13%	1%	2%	6%	2%	2%
% Composition								
Building Solutions	20%	19%	20%	23%	27%	32%	33%	33%
Building Products	27%	26%	31%	33%	38%	47%	48%	48%
Total Revenue	100%	100%	100%	100%	100%	100%	100%	100%
Operating Margin %	22.0%	23.1%	24.7%	25.4%	25.7%	26.7%	26.8%	26.9%

- Building Automation revenues grew 8% organically in Q1 (+19% reported). Growth was more balanced with Building Products up 6% organic (+27% total), while Building Solutions grew +11% org for Q1 (+8% total). BA also included a full quarter's contribution from Access Solutions (13 pts). Solutions growth was supported by backlog conversion with datacenter and hospitality leading, while Products growth was supported by fire and security.
- Q1 segment margins expanded 150 bps to 26.0%, driven by improved productivity and operating leverage, partially offset by adverse mix. For 2025 margins are expected to expand driven by both productivity along with ongoing accretion from Access Solutions with our estimate of 26.7% in 2025 up 100 bps y-o-y.

Source: Jefferies estimates, IATA, company data

Honeywell International (HON): Energy & Sustainability Solution Up 2% Organically in 2025 on UOP Catalysts

Energy & Sustainability Solutions Sees Slowdown on Advanced Materials Comps in H1:25E

ESS	2020	2021	2022	2023	2024	2025E	2026E	2027E	LT Targets
UOP	\$2,177	\$2,348	\$2,404	\$2,586	\$2,644	\$2,975	\$3,094	\$3,218	
Specialty Products	\$1,075	\$1,333	\$1,561	\$1,583	\$1,646	\$1,646	\$1,671	\$1,696	
Fluorine Products	\$1,581	\$1,721	\$2,031	\$2,070	\$2,135	\$2,135	\$2,220	\$2,309	
Total ESS Revenue	\$4,833	\$5,402	\$5,996	\$6,239	\$6,425	\$6,756	\$6,985	\$7,222	+MSD-HSD
% YoY Change									
UOP	-25%	8%	2%	8%	2%	13%	4%	4%	
Specialty Products	1%	24%	17%	2%	4%	0%	2%	2%	
Fluorine Products	-9%	15%	18%	2%	3%	0%	4%	4%	
Total % Change	-15%	12%	11%	4%	3%	5%	3%	3%	
% Organic	-18%	9%	12%	4%	2%	2%	3%	3%	
% Composition									
UOP	45%	43%	40%	41%	41%	44%	44%	45%	
Specialty Products	22%	25%	26%	25%	26%	24%	24%	23%	
Fluorine Products	33%	32%	34%	33%	33%	32%	32%	32%	
Total Revenue	100%	100%	100%	100%	100%	100%	100%	100%	
Operating Margin %	22.0%	24.5%	25.7%	23.8%	23.7%	23.7%	24.9%	25.2%	
Incremental Margin %	10%	14%	112%	15%	7%	5%	31%	27%	

- ESS reported 2% organic declines in Q1 (+2% total), anchored by UOP climbing 2% organically while Advanced Materials fell 4% organically. The 2% growth for UOP was led by petrochemical and refining projects and sustainability projects, along with benefiting from the second full quarter of the LNG acquisition (total UOP up 15% with acquisition), which is accretive to both growth and margins. However, Advanced Materials orders were up 7% y-o-y including DD growth in foreign products.
- ESS margins climbed 230 bps y-o-y to 22.2% in Q1 due to commercial excellence, productivity gains, and the incremental y-o-y contribution of LNG. We expect flat margins in 2025 with cost inflation including tariff impacts offsetting volume leverage LNG accretion. ESS has relatively higher exposure to China trade including UOP shipments from the US to China (125% reciprocal tariffs from China).

Source: Jefferies estimates, company data

Honeywell International (HON): Industrial Automation Down MSDs Organic in 2025 with Macro Uncertainty and PPE Sale Closing Early May

Industrial Automation Falls 4% in 2025 with Macro Uncertainty Delaying Short Cycle Recovery

IA	2020	2021	2022	2023	2024	2025E	2026E	2027E	LT Targets
Sensing and Safety Technologies	\$3,246	\$2,075	\$2,000	\$2,278	\$2,215	\$3,246	\$3,123	\$2,860	
Productivity Solutions & Services	1,273	1,778	1,739	1,313	1,202	1,094	1,127	1,160	
Warehouse and Workflow Solutions	1,962	2,913	2,308	1,443	914	887	931	977	
Process Solutions	4,590	4,611	4,731	5,767	6,111	6,050	6,231	6,418	
Total IA Revenue	\$11,071	\$12,425	\$11,638	\$10,756	\$10,051	\$9,027	\$8,995	\$9,288	+HSD
% YoY Change									
Sensing and Safety Technologies	47%	-4%	-8%	-4%	-8%	-45%	-29%	4%	
Productivity Solutions & Services	-1%	40%	-2%	-24%	-8%	-9%	3%	3%	
Warehouse and Workflow Solutions	14%	48%	-21%	-37%	-37%	-3%	5%	5%	
Process Solutions	-11%	-2%	3%	11%	2%	-1%	3%	3%	
Total % Change	7%	12%	-6%	-8%	-7%	-10%	0%	3%	
% Organic	-1%	10%	-3%	-9%	-7%	-4%	3%	3%	
% Composition									
Sensing and Safety Technologies	29%	17%	17%	21%	22%	36%	35%	31%	
Productivity Solutions & Services	11%	14%	15%	12%	12%	12%	13%	12%	
Warehouse and Workflow Solutions	18%	23%	20%	13%	9%	10%	10%	11%	
Process Solutions	41%	37%	41%	54%	61%	67%	69%	69%	
Total Revenue	100%	100%	100%	100%	100%	100%	100%	100%	
Operating Margin %	17.5%	16.6%	18.4%	20.5%	19.5%	19.8%	20.8%	21.5%	

- Industrial Automation (IA) volumes overall fell 4% (-2% organically) with Productivity Solutions & Services the laggard falling 15% org in Q1. The was offset by Warehouse and Workflow Solutions (+5%), its first positive growth quarter since Q3:21, while Process Solutions was flat and Sensing & Safety Technologies came in 5% lower in Q1.
- Q1:25 segment margins declined 130 bps to 17.8% driven by receivables write-downs and volume deleverage, partially offset by productivity actions. For 2024 margins of 19.5% were down 100 bps as inflation/lower sales deleverage were partially offset by productivity/commercial excellence. For 2025 we have factored in 30 bps of margins expansion to 19.8% benefiting from the H2 sale of PP&E along with favorable mix impacts and commercial excellence, offset by volume.

Source: Jefferies estimates, company data

Honeywell International (HON): Cash Deployment of \$5.8BB in 2025E Ahead of \$5.5BB FCF

FCF Build - FCF Ramping on Earnings Inflection

	2020	2021	2022	2023	2024	2025E	2026E	2027E
Net Income	\$5,063	\$5,542	\$4,966	\$5,672	\$5,705	\$5,772	\$6,391	\$6,849
Depreciation and Amortization	1,002	1,223	1,204	1,176	1,334	1,491	1,536	1,577
NWC	1,363	288	(745)	361	237	209	(44)	(329)
Deferred Taxes/Other	(936)	(1,015)	(151)	(1,855)	(1,179)	(710)	(650)	(650)
CFO	\$6,492	\$6,038	\$5,274	\$5,354	\$6,097	\$6,762	\$7,234	\$7,448
Capex	(906)	(895)	(766)	(1,039)	(1,164)	(1,300)	(1,300)	(1,300)
FCF	\$5,586	\$5,143	\$4,508	\$4,315	\$4,933	\$5,462	\$5,934	\$6,148
Adj. FCF	\$5,586	\$5,729	\$4,917	\$5,316	\$5,453	\$5,462	\$5,934	\$6,148
FCF Per Share	\$7.85	\$7.34	\$6.60	\$6.46	\$7.53	\$8.49	\$9.42	\$9.94
Deployment								
Dividends	(\$2,592)	(\$2,626)	(\$2,719)	(\$2,855)	(\$2,902)	(\$3,093)	(\$3,332)	(\$3,597)
Share Repurchases	(3,714)	(3,380)	(4,200)	(3,715)	(1,655)	(2,750)	(2,650)	(2,350)
Debt Paydown	(14,708)	(10,107)	(10,297)	(15,394)	(13,390)	0	(1,000)	(1,000)
Debt Issuance	20,599	7,711	10,614	15,977	24,246	0	0	0
Acquisitions	(261)	(1,326)	(178)	(718)	(8,880)	0	0	0
Total Deployment	(\$676)	(\$9,728)	(\$6,780)	(\$6,705)	(\$2,581)	(\$5,843)	(\$6,982)	(\$6,947)
Discretionary FCF	\$5,171	(\$3,259)	(\$2,094)	(\$1,672)	\$11,232	(\$380)	(\$1,048)	(\$799)
Ratios								
FCF to Adj. Net Income Conversion	105%	97%	78%	84%	84%	82%	82%	80%
FCF to Sales Conversion	17%	17%	13%	12%	13%	13%	14%	14%
FCF Yield (FCF / Mkt Cap.)	4.0%	4.1%	3.3%	3.1%	3.6%	3.9%	4.3%	4.4%
Discretionary FCF Yield	3.7%	-2.4%	-1.5%	-1.2%	8.1%	-0.3%	-0.8%	-0.6%
Discretionary FCF % Change YoY	-864%	-163%	-36%	-20%	-772%	-103%	175%	-24%
Dividend as a % of Net Income	51%	47%	55%	50%	51%	54%	52%	53%
Dividend Yield	1.9%	1.9%	2.0%	2.1%	2.1%	2.2%	2.4%	2.6%
Share Repo as % of Mkt Cap	3%	2%	3%	3%	1%	2%	2%	2%
% of Cash Returned to Shareholders	113%	117%	153%	152%	92%	107%	101%	97%
Capex as % of Sales	2.8%	2.6%	2.2%	2.8%	3.0%	3.2%	3.1%	3.0%

- HON generated \$346MM of FCF in Q1, representing just 6% of the unchanged full-year target for \$5.4-5.8BB in 2025. The guide represents 10-18% y-o-y growth, or closer to flattish ex-BBD, embedding a \$0.3BB improvement in working capital, offset by \$0.1BB higher capex and \$0.1BB lower net income. In Q1, HON deployed \$2.9BB of capital, including \$732MM for dividends and \$251MM in capex, with \$1.9BB of repurchases in the quarter.
- We forecast \$5.5BB generated in 2025 including \$1.3BB of capex and a \$209MM benefit from working capital (vs \$237MM benefit in 2024).

Source: Jefferies estimates, company data

Honeywell International (HON): Cash Deployment of \$5.8BB in 2025E Ahead of \$5.5BB FCF

HON SOTP - Valuing HON at \$239/Sh w/ AT at \$159/Sh Including Comm'l AM \$114, OE \$12, and D&S \$33

2026E	Sales	EBITDA	Margin	EV/EBITDA	EV \$bn	EV - % total	Low \$/sh	High \$/sh	Average \$/sh	Comps
Commercial OE	\$2,966	\$591	20.0%	15.0	\$8,883	5%	\$11	\$18	\$12	Garmin, GE, Thales & RTX
Commercial AM	\$8,098	\$3,239	40.0%	25.1	\$1,217	47%	\$86	\$140	\$113	TGG, HBI
Defense	\$7,352	\$1,544	21.0%	15.2	\$3,524	14%	\$25	\$29	\$33	CW, GD, LHX, LMT, MRCY, NOC
Total Aerospace	18,406	5,375	29.2%	18.4	113,625	66%	\$123	\$187	\$159	
BA	7,343	1,093	23.1%	13.7	23,144	14%	\$29	\$38	\$32	Emerson, Itron, Johnson Controls, Schneider & Siemens
IA	8,995	2,042	22.7%							
+ PPE	1,000	150	15.0%	8.8	1,325	1%	\$2	\$2	\$2	
+ Other IA	8,995	1,892	21.0%	8.4	15,886	9%	\$17	\$26	\$22	3M, Kion Group, TE Connectivity and Zebra Tech.
ESS	6,985	2,158	30.9%							
+ UOP	3,094	1,059	34.5%	8.4	8,973	5%	\$10	\$15	\$13	Albemarle, BASF, Dow-Dupont
+ AM	3,891	1,090	28.0%	10.0	10,895	6%	\$12	\$19	\$15	CC, AKE-FR
Corp & other	50	(184)		15.0	(2,750)	-2%	(\$1)	(\$1)	(\$4)	
Total Consolidated	\$2,774	11,084	21.6%	15.4	171,098	100.0%	\$192	\$317	\$239	
Net debt					20,574					
Pension										
Market cap					150,524					
Shares					630					
Implied share price					\$239					

- On Feb 6th, the company announced that it would split its Aerospace and Automation businesses as well. HON confirmed as part of a one-year portfolio review to separate Automation and Aerospace Technologies (\$15BB or 40% of sales), expected in H2:26.
- The decision comes amid ongoing pressure from activist Elliott, which has pushed to solve for conglomerate inefficiencies as unlocked by UTX, GE and IR. AT is HON's marquee franchise but has often been cited as a pain point for supply chain delays (4% HON-funded R&D and 7% customer-funded as % of sales).
- In our SOTP, we could see AT at \$159/sh: Comm'l OE (16% of sales) at \$12, Comm'l AM (44% of sales) at \$114, and D&S (40% of sales) at \$33. This rewards the businesses for more streamlined operations on a standalone basis with capital deployment strategies (namely M&A) more fitting to the segment, coming in above our base blended PT (below).

Source: Jefferies estimates, company data

Honeywell International (HON): Relative Valuation to History and Market

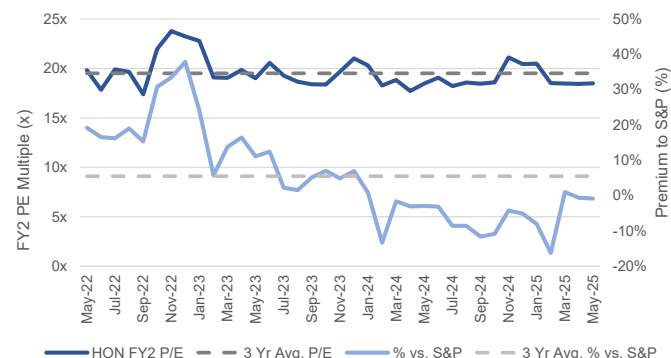
Relative Valuation

Ticker	HON
Current P/E	18.5x
3 Yr Avg. P/E	19.5x
Current / 3 Yr Avg.	-5%
Prem / Discst SP	-1%
3 Yr Prem / Discst SP	5%
S&P500 Multiple	18.7x
Current EV/EBITDA	14.2x
3 Yr Avg. EV/EBITDA	14.1x
Current / 3 Yr Avg.	0%
Prem / Discst SP	10%
3 Yr Prem / Discst SP	10%
S&P500 Multiple	12.9x
Current FCF Yield	4.5%
3 Yr Avg. FCF Yield	4.7%
Current / 3 Yr Avg.	4%
Prem / Discst SP	1%
3 Yr Prem / Discst SP	1%
S&P500 Multiple	4.5%

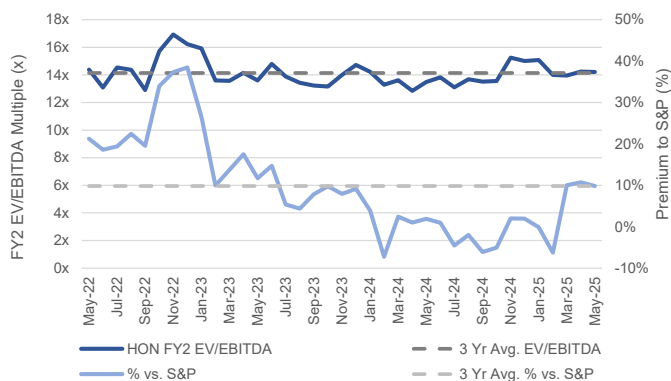
Price Target Derivation

Valuation Method	Price	Assumptions
EV/EBITDA	237	15.6x EV/EBITDA on 2026 EBITDA of \$11.1BB
P/E	239	20.8x P/E on 2026 EPS of \$11.50
FCF	229	4.0% FCF Yield on 2026 FCF of \$5.9BB
Average	\$235	Blended average

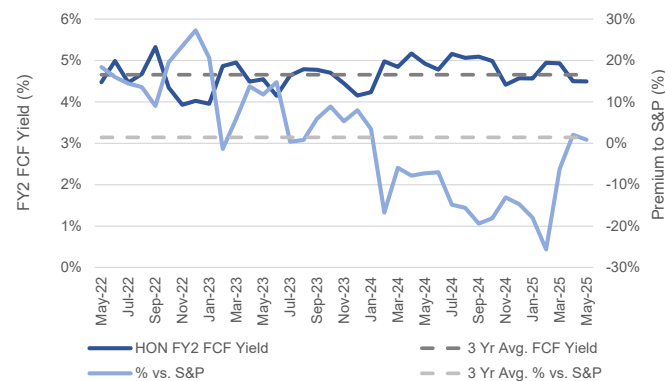
FY2 P/E Multiples: 1% Discount to Market vs. 5% Premium Historically



FY2 EV/EBITDA Multiples: 10% Premium to Market vs. 10% Premium Historically



FY2 FCF Yield: 1% Premium to Market vs. 1% Premium Historically



Source: Jefferies estimates, FactSet, company data

Honeywell International (HON): Income Statement

Year Ending Dec. (MM, except per share data)

	2021		2022		2023		2024		2025E		2026E		2027E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	34,392	100.0%	35,466	100.0%	36,662	100.0%	38,498	100.0%	40,520	100.0%	41,779	100.0%	43,342	100.0%
Costs and expenses														
Segment COGS	23,394	68.0%	23,825	67.2%	22,995	62.7%	23,836	61.9%	25,608	63.2%	26,195	62.7%	26,958	62.2%
Selling, General & Administrative	4,798	14.0	4,848	13.7	5,127	14.0	5,466	14.2	5,947	14.7	5,935	14.2	6,124	14.1
Total Segment operating Costs	28,192	82.0%	28,673	80.8%	28,122	76.7%	29,302	76.1%	31,555	77.9%	32,130	76.9%	33,083	76.3%
Segment profit (EBIT)	7,496	21.8%	7,973	22.5%	8,598	23.5%	8,699	22.6%	9,382	23.2%	10,032	24.0%	10,642	24.6%
Adjusted Segment Profit	7,496	21.8%	7,973	22.5%	8,598	23.5%	8,699	22.6%	9,382	23.2%	10,032	24.0%	10,642	24.6%
Net interest expense	(343)		(414)		(444)		(632)		(900)		(882)		(897)	
Stock comp. & Repositioning	(786)		(1,454)		(1,062)		(438)		(500)		(475)		(475)	
Pension/OPEB	1,154		1,034		557		603		550		550		550	
Other income (expense)	(2)		(476)		(490)		(1,019)		(710)		(660)		(660)	
Income before taxes (GAAP)	7,519	21.9%	6,663	18.8%	7,159	19.5%	7,213	18.7%	7,822	19.3%	8,566	20.5%	9,160	21.1%
GAAP Taxes (rate %)	(1,625)	21.6%	(1,412)	21.2%	(1,487)	20.8%	(1,473)	20.4%	(1,580)	20.2%	(1,705)	19.9%	(1,841)	20.1%
Noncontrolling interests	(68)		(1)		(14)		(35)		(40)		(35)		(35)	
Net Income (GAAP)	5,826	16.9%	5,250	14.8%	5,658	15.4%	5,705	14.8%	6,202	15.3%	6,826	16.3%	7,284	16.8%
Pension MTM & other one-off items	\$106		\$1,020		\$702		\$773		\$454		\$454		\$448	
Net Income (Adjusted)	5,932	17.2%	6,270	17.7%	6,360	17.3%	6,478	16.8%	6,656	16.4%	7,280	17.4%	7,732	17.8%
Reported GAAP EPS	\$8.32		\$7.69		\$8.47		\$8.71		\$9.64		\$10.83		\$11.78	
Adjusted Diluted EPS	\$8.47		\$9.18		\$9.52		\$9.89		\$10.35		\$11.55		\$12.50	
Dividends per share (payout %)	\$3.72	43.9%	\$3.97	43.3%	\$4.17	43.8%	\$4.37	44.2%	\$4.81	46.5%	\$5.29	45.8%	\$5.82	46.5%
Basic shares (millions)	692		677		663		651		639		626		614	
Diluted shares (millions)	700		683		668		655		643		630		618	

Source: Jefferies estimates, company data

Honeywell International (HON): Cash Flow Statement

Year Ending Dec. (MM, except per share data)

(millions, except per share data)	2021	2022	2023	2024	2025E	2026E	2027E
Operating Activities							
Net income	5,542	4,966	5,672	5,705	5,767	6,391	6,849
Depreciation & Amortization	1,223	1,204	1,176	1,334	1,491	1,536	1,577
Non cash impairment and DTA	(778)	438	(1,344)	(637)	(710)	(680)	(710)
Op cash flow pre-working capital	5,987	6,608	5,504	6,402	6,548	7,248	7,716
Change in inventory	(685)	(440)	(626)	(304)	(41)	(76)	(115)
Change in receivables	(8)	(739)	(42)	(96)	120	(30)	(289)
Change in payables	744	(155)	518	95	130	93	136
Changes in working capital	51	(1,334)	(150)	(305)	209	(14)	(269)
Cash Flow from Operations	6,038	5,274	5,354	6,097	6,757	7,234	7,448
Investment activities							
Capital expenditures	(895)	(766)	(1,039)	(1,164)	(1,300)	(1,300)	(1,300)
Net cash used in acquisitions	(1,326)	(178)	(718)	(8,880)	0	0	0
Other investing activities, net	1,160	851	464	(113)	0	0	0
Cash Flow from Investments	(1,061)	(93)	(1,293)	(10,157)	(1,300)	(1,300)	(1,300)
Financing Activities							
Change in debt	(2,396)	317	583	10,856	(2,000)	(53,741)	(52,741)
Repurchases of common stock	(3,151)	(3,880)	(3,519)	(1,118)	(2,750)	(2,650)	(2,350)
Dividends paid	(2,626)	(2,719)	(2,855)	(2,902)	(3,093)	(3,332)	(3,597)
Other financing cash flows	(81)	(48)	28	3	2,000	52,741	51,741
Cash Flow from Financing	(8,254)	(6,330)	(5,763)	6,839	(5,843)	(6,982)	(6,947)
Exchange rates adjustments	(39)	(183)	14	(137)	0	0	0
Net change in cash items	(3,316)	(1,332)	(1,688)	2,642	(385)	(1,048)	(799)
Cash at the beginning of the period	15,127	11,811	10,479	8,791	11,433	11,048	9,999
Cash at the end of the period	11,811	10,479	8,791	11,433	11,048	9,999	9,200

Source: Jefferies estimates, company data

Honeywell International (HON): Annual Selected Operating Metrics

Year Ending Dec. (MM, except per share data)

	2021	% of sales	2022	% of sales	2023	% of sales	2024	% of sales	2025E	% of sales	2026E	% of sales	2027E	% of sales
Revenue														
AT	11,026	32.1%	11,827	33.3%	13,624	37.2%	15,458	40.2%	17,524	43.2%	18,406	44.1%	19,255	44.4%
BA	5,539	16.1%	6,000	16.9%	6,031	16.5%	6,540	17.0%	7,163	17.7%	7,343	17.6%	7,527	17.4%
ESS	5,402	15.7%	5,996	16.9%	6,239	17.0%	6,425	16.7%	6,756	16.7%	6,985	16.7%	7,222	16.7%
IA	12,425	36.1%	11,638	32.8%	10,756	29.3%	10,051	26.1%	9,027	22.3%	8,995	21.5%	9,288	21.4%
Total Revenue	34,392	100%	35,466	100%	36,662	100%	38,498	100%	40,520	100%	41,779	100%	43,342	100%
Operating Income														
Aerospace	3,051	27.7%	3,228	27.3%	3,760	27.6%	3,988	25.8%	4,556	26.0%	4,933	26.8%	5,276	27.4%
BA	1,278	23.1%	1,479	24.7%	1,529	25.4%	1,681	25.7%	1,913	26.7%	1,964	26.8%	2,024	26.9%
ESS	1,325	24.5%	1,538	25.7%	1,487	23.8%	1,522	23.7%	1,601	23.7%	1,739	24.9%	1,820	25.2%
IA	2,068	16.6%	2,140	18.4%	2,209	20.5%	1,962	19.5%	1,787	19.8%	1,871	20.8%	1,997	21.5%
Corporate	(226)	-0.7%	(412)	-1.2%	(387)	-1.1%	(454)	-1.2%	(475)	-1.2%	(475)	-1.1%	(475)	-1.1%
Segment Operating Income	7,496	21.8%	7,973	22.5%	8,598	23.5%	8,699	22.6%	9,382	23.2%	10,032	24.0%	10,642	24.6%
Adjusted Segment Operating Income	7,496	21.8%	7,973	22.5%	8,598	23.5%	8,699	22.6%	9,382	23.2%	10,032	24.0%	10,642	24.6%
Revenue YoY % change														
AT	-4%		7%		15%		13%		13%		5%		5%	
BA	7%		8%		1%		8%		10%		3%		3%	
ESS	12%		11%		4%		3%		5%		3%		3%	
IA	12%		-6%		-8%		-7%		-10%		0%		3%	
Total Revenue	5%		3%		3%		5%		5%		3%		4%	
Operating profit change YoY														
Aerospace	5%		6%		16%		6%		14%		8%		7%	
BA	12%		16%		3%		10%		14%		3%		3%	
ESS	25%		16%		-3%		2%		5%		9%		5%	
IA	7%		3%		3%		-11%		-9%		5%		7%	
Total Operating Income	8%		6%		8%		1%		8%		7%		6%	
Incremental	31%		44%		52%		6%		34%		52%		39%	

Source: Jefferies estimates, company data

Hexcel (HXL) – Hold \$55 PT

1) 2025 Guidance Cut 4% on Revs, -9% on EPS, Pre-Tariffs

2) Airbus Rates Drag '25 Sales Outlook by 4%.

3) Solid FCF Conversion - May Lean into Repos

Related Notes:

- [A Gentle Let-Down on Margins](#) *April 27, 2025*
- [Looking Wide to Get Aero Back to DDs in 2025](#) *January 26, 2025*
- [Painting the Bottom Corner of the EPS Zone, Down on the Strike](#) *October 27, 2024*

Hexcel (HXL): Commercial Aero Fell 6% in Q1 with Guidance Implied +LSD in 2025E vs Our Est +1%

Commercial Revenue Build - Up 1% in 2025E, Driven by NBs Resuming Ramp & Continued WB Strength

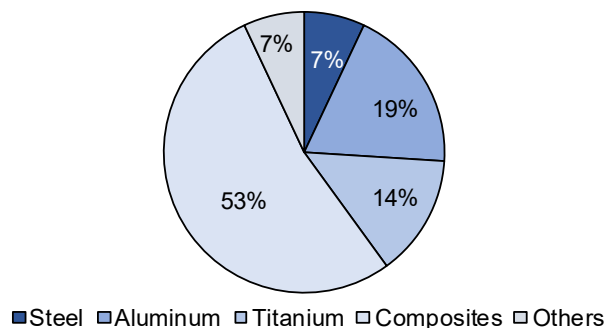
	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Boeing										
737	\$97	\$23	\$4	\$5	\$2	\$0	\$0	\$0	\$0	\$0
737 MAX	102	226	10	56	75	107	93	101	144	162
747-8	9	9	8	8	8	0	0	0	0	0
767	10	9	18	11	15	17	12	17	17	11
777	46	44	56	38	38	42	30	45	54	57
787	203	231	146	42	36	48	112	106	118	160
Sub-Total	\$467	\$542	\$240	\$169	\$174	\$216	\$247	\$269	\$332	\$389
Airbus										
A220	\$0	\$0	\$16	\$12	\$14	\$18	\$26	\$33	\$38	\$45
A320 Family	72	21	2	0	0	0	0	0	0	0
A320neo	174	236	194	141	200	259	295	300	319	344
A330	46	44	20	19	26	35	39	39	41	46
A350	514	523	206	197	312	315	345	321	336	411
A380	36	24	12	15	0	0	0	0	0	0
Sub-Total	\$841	\$848	\$451	\$384	\$552	\$626	\$704	\$693	\$733	\$847
Other Content (Biz Jet and other)	217	208	131	125	186	227	243	245	245	245
Total	\$1,525	\$1,598	\$822	\$668	\$912	\$1,069	\$1,194	\$1,207	\$1,311	\$1,481
Estimated Content From BA and AIR										
	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Boeing										
737	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,001	\$300,001
737 MAX	400,000	400,000	400,000	400,000	300,000	300,000	300,000	300,000	300,000	300,000
747-8	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
767	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000
777	1,000,000	1,250,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
787	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000
Avg. Content	\$866,667	\$908,333	\$950,000	\$950,000	\$933,333	\$933,333	\$933,333	\$933,333	\$933,334	\$933,334
Airbus										
A220	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
A320ceo	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
A320neo	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000	450,000
A330	900,000	900,000	900,000	900,000	900,000	900,000	900,000	900,000	900,000	900,000
A330neo	1,050,000	1,050,000	1,050,000	1,050,000	1,050,000	1,050,000	1,050,000	1,050,000	1,050,000	1,050,000
A350	4,800,000	4,800,000	4,800,000	4,800,000	4,800,000	4,800,000	4,800,000	4,800,000	4,800,000	4,800,000
A380	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
HXL Estimated Shipset Deliveries										
	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Boeing										
737	322	78	14	15	8	0	0	0	0	0
737 MAX	256	564	24	140	250	355	311	336	480	540
747-8	6	6	5	5	5	0	0	0	0	0
767	17	15	30	19	25	29	20	28	28	18
777	46	35	37	25	25	28	20	30	36	38
787	145	165	104	30	26	35	80	76	84	114
Sub-Total	792	863	214	234	339	447	431	470	628	710
Airbus										
A220	0	0	54	40	45	60	85	111	125	150
A320ceo	239	70	6	0	0	0	0	0	0	0
A320neo	386	524	432	314	445	575	655	667	708	765
A330	44	42	19	18	25	33	37	37	39	44
A350	107	109	43	41	65	66	72	67	70	85
A380	12	8	4	5	0	0	0	0	0	0
Sub-Total	788	753	558	418	580	734	849	882	942	1044
Total	1,580	1,616	772	652	919	1,181	1,280	1,352	1,570	1,754

- Commercial Aerospace revenues decreased 6.4% (-6.3% in constant currency; 61% of Q1 revenues), driven by declines in 787 and MAX and nominally lower A350. Other Commercial was up 7% as an offset.
- HXL's position in the supply chain leads to a 9-12 month lead time for most content. The company disclosed that it has >80 ship-to locations for the A320 family and >30 on the MAX, so it is a complex supply chain. The company is prepared to meet the production ramp for both narrowbody platforms once the OEMs are ready.

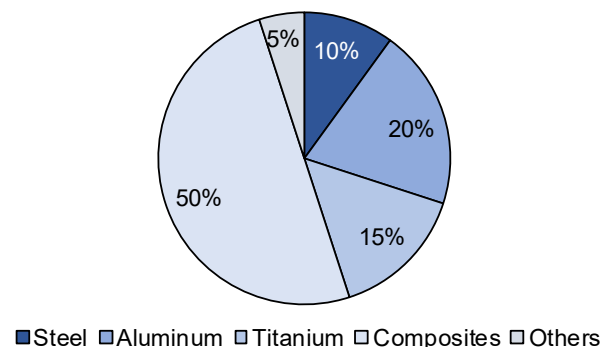
Source: Company data and Jefferies estimates

Hexcel (HXL): Revenue Growth in 2025 Curtailed by Slower Ramps, Especially A350

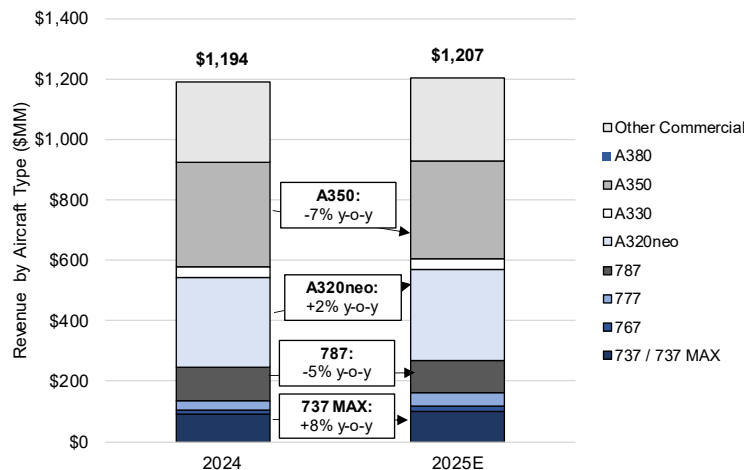
Airbus A350XWB Material Composition by Structural Weight - Highest Carbon Fiber Content of Current Aircraft



BA 787 is 50% Composites by Structural Weight



787 and A320neo Rate Ramps Support Growth in 2025



- We est the A320neo production rate climbs from 57/mo in 2024 to 58/mo in 2025. HXL revenues tied to the neo climb from \$295MM in 2024 to \$300MM in 2025 (+2% y-o-y). Initial guidance had pointed to a low-60s rate in 2025. The A320 adds 0.3-pts of growth to our 2025 total revenue forecast.
- We est the A350 generates \$321MM of revenues in 2025 (-\$24MM y-o-y), from \$345MM in 2024 with 2025 at an 6.1/mo rate vs 6.5/mo in 2024. The A350 is a 1pt headwind to our 2025 total revenue
- We estimate that the total contributions from Airbus were down 9% y-o-y in Q1, while Boeing programs were down 13% as Q1 faced a difficult MAX comp and 787 experience slower pull. Total commercial aero fell to \$280MM from \$299MM in the year ago quarter.
- We estimate widebodies were down 16%, while NBs were down 5% with the MAX offsetting A220 and A320neo growth.

Source: Company data and Jefferies estimates

Hexcel (HXL): Incrementals Hindered in 2025E Given Investments for Future Growth

Adj. EBIT Margin Expected to Decrease 10 Bps in 2025 to 12.3%, Driven by Muted Volume Growth w/ Adverse Mix

	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Revenues	\$1,973	\$2,189	\$2,356	\$1,502	\$1,325	\$1,578	\$1,789	\$1,903	\$1,902	\$2,019	\$2,211
COGS	\$1,422	\$1,608	\$1,715	\$1,263	\$1,075	\$1,221	\$1,356	\$1,433	\$1,444	\$1,514	\$1,647
Gross Profit	\$552	\$581	\$640	\$240	\$250	\$357	\$433	\$470	\$458	\$505	\$564
Gross Margin	28.0%	26.5%	27.2%	16.0%	18.9%	22.6%	24.2%	24.7%	24.1%	25.0%	25.5%
Incremental Gross Margin	29.0%	13.4%	35.8%	47.0%	-5.9%	42.3%	36.0%	32.1%	1215.0%	39.6%	30.8%
Adj. Operating Income	\$351	\$379	\$425	\$72	\$70	\$163	\$217	\$236	\$234	\$285	\$332
Adj. Operating Margin	17.8%	17.3%	18.0%	4.8%	5.3%	10.4%	12.1%	12.4%	12.3%	14.1%	15.0%
Incremental Op. Margin	19%	13%	28%	41%	1%	37%	25%	17%	-7%	43%	24%

- Adj operating income totaled \$45.3MM in Q1 for 9.9% margins, down 160 bps y-o-y, on gross margins down 260 bps y-o-y to 22.4%, reflecting the impact of lower sales leverage and 56% decrements. Margins were supported by 60 bps of FX tailwind in Q1.
- Sequentially, margins contracted 220 bps on lesser gross profit despite SG&A (-12% y-o-y at 9.5% of sales, -90 bps y-o-y) and R&T (-9% y-o-y at 3.0% of sales; -20 bps y-o-y). Mgmt notes it will carefully manage costs given the lower-than-previously expected A350 rate, including rightsizing headcount to not outpace future rate ramps by the OEMs. This means allowing for natural attrition with headcount down by ~100 vs YE24's 5,894 (trough of 4,500 during the pandemic vs 7,000 in 2019), or down 1.7%. At the end of March, staffing sits 5% lower than the previous expectation. This results in excess overhead as headcount per aircraft remains elevated
- On our estimates, adj. EBIT margins decline 10 bps to 12.3% in 2025, before reaching 14.1% in 2026 on 43% incremental margins.

Source: Company data and Jefferies estimates

Hexcel (HXL): FCF Conversion to Average 126% in 2025-27E, Up From 96% in 2023 and 120% in 2024

2025 FCF Guide of >\$220MM As Net Income Expands, W/ Slight W/C Unwind Offset by Larger CapEx Spend

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Net Income	\$307	\$32	\$16	\$126	\$106	\$132	\$158	\$196	\$232
D&A	143	142	141	127	125	124	131	134	137
NWC	13	117	(18)	(73)	(27)	(1)	(36)	3	(10)
Stock Comp/Deferred/Other	29	(26)	13	(7)	53	34	20	20	20
CFO	\$491	\$264	\$152	\$173	\$257	\$290	\$272	\$353	\$378
Capex	(204)	(28)	(28)	(76)	(108)	(87)	(85)	(90)	(90)
FCF	\$287	\$236	\$124	\$97	\$149	\$203	\$187	\$263	\$288
FCF Per Share	\$3.34	\$2.81	\$1.46	\$1.14	\$1.74	\$2.44	\$2.31	\$3.35	\$3.79

Deployment

Dividends	(\$54)	(\$14)	\$0	(\$34)	(\$42)	(\$49)	(\$55)	(\$56)	(\$57)
Share Repurchases	(143)	(25)	0	0	(30)	(252)	(200)	(250)	(250)
Debt Paydown	(10)	(135)	(104)	(150)	(128)	(160)	0	0	0
Debt Issuance	111	0	0	50	103	160	0	0	0
Acquisitions	(163)	0	0	22	58	0	0	0	0
Total Deployment	(259)	(174)	(104)	(112)	(40)	(302)	(255)	(306)	(307)

Discretionary FCF (post pension, dividend, and committed debt paydown)

	\$28	\$62	\$20	(\$15)	\$109	(\$99)	(\$68)	(\$43)	(\$19)

Ratios

FCF to NI Conversion	94%	1148%	534%	89%	96%	120%	119%	134%	124%
FCF Yield (FCF / Mkt Cap)	5.5%	4.6%	2.4%	1.9%	2.9%	3.9%	3.6%	5.1%	5.6%
FCF Change YoY	21%	-18%	-48%	-22%	54%	36%	-8%	40%	10%
Discretionary FCF Yield	0.5%	1.2%	0.4%	-0.3%	2.1%	-1.9%	-1.3%	-0.8%	-0.4%
Discretionary FCF % Change	NM	125%	-68%	-176%	-816%	NM	NM	NM	NM
Working Cap as % of Sales	16%	16%	15%	17%	13%	12%	14%	16%	17%
Change in W/C as a % Sales	0.7%	6.3%	(0.9%)	(3.7%)	(1.3%)	(0.0%)	(2.4%)	0.2%	(0.7%)
Dividend as % of Net Income	18%	45%	0%	27%	40%	37%	35%	29%	25%
Share Repo as % of Mkt Cap	3%	0%	0%	0%	1%	5%	4%	5%	5%
% of Cash to Shareholders	69%	16%	0%	35%	49%	149%	136%	116%	106%

- Following the \$203MM of FCF generated in 2024, HXL burned \$55MM of FCF in Q1 vs a use of \$36MM in Q1:24. Working Cap was a \$101MM use in Q1 vs a \$88MM use in Q1:24. A/R was an \$43MM use in Q1 (vs \$38MM use in Q1:24) w/ Inventory a \$17MM use (vs -\$23MM in Q1:24). AP/accrued was a \$33MM use (vs -\$14MM in Q1:24). HXL ended the Q w/ \$698MM of ND (\$89MM of cash), down from \$575MM in Q4:24.
- We estimate \$187MM of 2025 FCF (119% of adj NI) including a \$36MM use from working capital. Capex steps down \$2MM y-o-y to \$85MM, in-line with guidance of <\$90MM in 2025.

Source: Company data and Jefferies estimates

Hexcel (HXL): Valuation Relative to History and Market

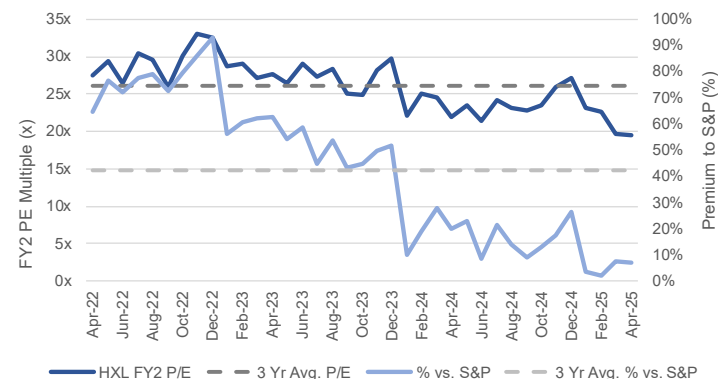
Relative Valuation

Ticker	HXL
Current P/E	19.5x
3 Yr Avg. P/E	26.1x
Current / 3 Yr Avg.	-25%
Prem / Discst SP	7%
3 Yr Prem / Discst SP	42%
S&P500 Multiple	18.2x
Current EV/EBITDA	11.0x
3 Yr Avg. EV/EBITDA	13.8x
Current / 3 Yr Avg.	-21%
Prem / Discst SP	-13%
3 Yr Prem / Discst SP	8%
S&P500 Multiple	12.6x
Current FCF Yield	6.2%
3 Yr Avg. FCF Yield	4.5%
Current / 3 Yr Avg.	-26%
Prem / Discst SP	-24%
3 Yr Prem / Discst SP	6%
S&P500 Multiple	4.7%

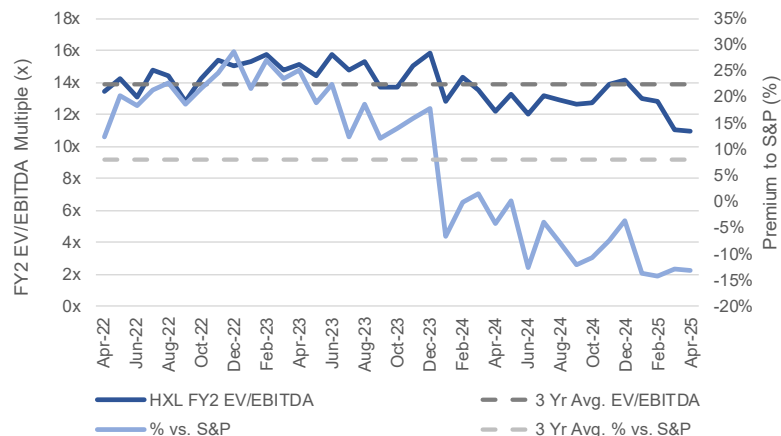
Price Target Derivation

Valuation Method	Price	Assumptions
EV/EBITDA	50	10.9x EV/EBITDA on 2026 EBITDA of \$419MM
P/E	54	21.5x P/E on 2026 EPS of \$2.50
FCF	61	5.5% FCF Yield on 2026 FCF of \$264MM
Average	\$55	Blended average

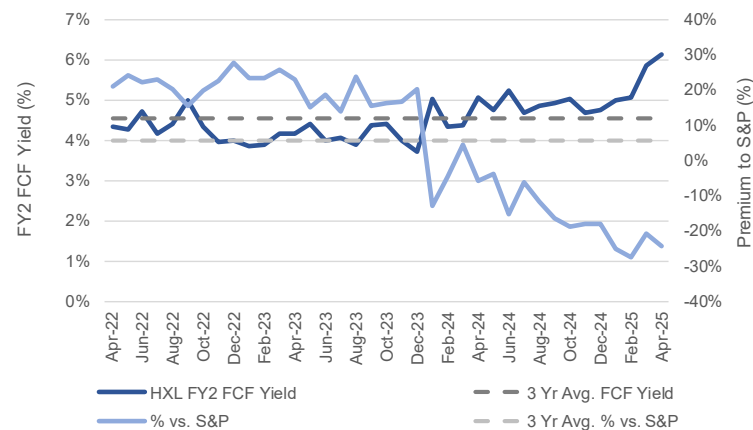
FY2 P/E: 7% Prem to Mkt vs. Historical Avg Prem of 42% Historically



FY2 EV/EBITDA: 13% Discount to Market vs. 8% Premium Historically



FY2 FCF Yield: 24% Discount to Market vs. 6% Premium Historically



Source: Company data, FactSet and Jefferies estimates

Hexcel (HXL): Annual Income Statement

Year Ending Dec.

	2019		2020		2021		2022		2023		2024		2025E		2026E		2027E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Net Sales	\$2,356	100.0%	\$1,502	100.0%	\$1,325	100.0%	\$1,578	100.0%	\$1,789	100.0%	\$1,903	100.0%	\$1,902	100.0%	\$2,019	100.0%	\$2,211	100.0%
Operating Expenses																		
Cost of Goods Sold	1,715	72.8%	1,263	84.0%	1,075	81.1%	1,221	77.4%	1,356	75.8%	1,433	75.3%	1,444	75.9%	1,514	75.0%	1,647	74.5%
Selling, General & Administrative	159	6.7%	121	8.1%	135	10.2%	148	9.4%	164	9.2%	177	9.3%	167	8.8%	162	8.0%	168	7.6%
Research & Technology	57	2.4%	47	3.1%	45	3.4%	46	2.9%	53	2.9%	57	3.0%	57	3.0%	59	2.9%	64	2.9%
Other Operating Expense (Income)	0	0.0%	58	3.9%	18	1.4%	(12)	-0.8%	1	0.1%	50	2.6%	0	0.0%	0	0.0%	0	0.0%
Total Operating Expenses	1,931	82.0%	1,488	99.1%	1,273	96.1%	1,403	88.9%	1,574	88.0%	1,717	90.2%	1,668	87.7%	1,735	85.9%	1,879	85.0%
Operating Profit	425	18.0%	14	0.9%	52	3.9%	175	11.1%	215	12.0%	186	9.8%	234	12.3%	285	14.1%	332	15.0%
Interest Expense	46		42		38		36		34		31		34		35		35	
Other Expense	0		0		(9)		(11)		72		0		0		0		0	
Earnings Before Tax	380	16.1%	(28)	-1.8%	22	1.7%	150	9.5%	110	6.1%	155	8.1%	199	10.5%	250	12.4%	297	13.4%
Taxes	77	-20.2%	8	28.9%	9	-38.6%	37	-24.7%	9	-8.5%	22	-14.2%	41	-20.8%	52	-20.8%	63	-21.3%
Net Income from Continuing Operations	303		(36)		14		113		100		133		158		198		234	
Equity in Earnings from Affiliates	4		(2)		0		8		8		0		0		0		0	
Adjusted Net Income	307	13.0%	(37)	-2.5%	14	1.0%	121	7.7%	109	6.1%	133	7.0%	158	8.3%	198	9.8%	234	10.6%
Reported GAAP EPS	\$3.57		\$0.38		\$0.19		\$1.49		\$1.24		\$1.59		\$1.95		\$2.50		\$3.05	
Adjusted Diluted EPS	\$3.57		\$0.25		\$0.27		\$1.28		\$1.81		\$2.03		\$1.95		\$2.50		\$3.05	
Basic shares (millions)	84.9		83.8		84.1		84.4		84.6		82.3		79.4		76.6		73.0	
Diluted shares (millions)	85.8		84.0		84.6		85.0		85.5		83.0		81.1		79.3		76.7	

Source: Company data and Jefferies estimates

Hexcel (HXL): Annual Cash Flow Statement

Year Ending Dec.

(millions, except per share data)	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Operating Activities									
Net Income	\$307	\$32	\$16	\$126	\$106	\$132	\$158	\$198	\$234
Depreciation & Amortization	142	141	138	126	125	124	131	134	137
Other Operating Activities	29	(10)	20	10	(19)	6	20	20	20
OCF Before Working Capital	478	162	174	262	211	262	309	352	390
Change in Receivables	37	110	(41)	(63)	(9)	11	(5)	(11)	(19)
Change in Inventory	(30)	129	(40)	(82)	(9)	(34)	(20)	(7)	(25)
Change in Prepaid	(6)	11	13	(8)	3	(7)	0	0	0
Change in Payables	13	(134)	50	81	(12)	29	(11)	21	34
Change in Other Working Capital	1	(15)	(4)	(16)	73	29	0	0	0
Changes in Working Capital	14	102	(22)	(89)	46	28	(36)	3	(10)
Cash Flow from Operations	\$491	\$264	\$152	\$173	\$257	\$290	\$272	\$354	\$380
Investment Activities									
Capital Expenditures	(204)	(28)	(28)	(76)	(108)	(87)	(85)	(90)	(90)
Other Investing Activities, net	(163)	0	0	22	58	0	0	0	0
Cash Flow from Investments	(\$367)	(\$28)	(\$28)	(\$55)	(\$51)	(\$87)	(\$85)	(\$90)	(\$90)
Financing Activities									
Change in Debt	99	(136)	(104)	(100)	(25)	0	0	0	0
Dividends Paid to Shareholders	(54)	(14)	0	(34)	(42)	(49)	(55)	(57)	(58)
Repurchase of Common Stock	(143)	(25)	0	0	(30)	(252)	(200)	(200)	(250)
Other Financing Activities, net	7	(4)	7	4	5	(0)	0	0	0
Cash Flow from Financing	(\$91)	(\$179)	(\$97)	(\$130)	(\$93)	(\$302)	(\$255)	(\$257)	(\$308)
Foreign Exchange (FX) Impact	(1)	4	(3)	(4)	1	(3)	0	1	1
Total Cash Flow	\$32	\$61	\$24	(\$16)	\$115	(\$102)	(\$68)	\$9	(\$16)
Cash at Beginning of Period	33	64	103	128	112	227	125	58	67
Cash at End of Period	\$64	\$126	\$128	\$112	\$227	\$125	\$58	\$67	\$50

Source: Company data and Jefferies estimates

Howmet Aerospace (HWM) – Buy \$195 PT

1) Q1 Struck on the Screws

2) Taking Extra Club Into the Macro Headwind

3) Margin Guide's a Gimme

4) Bunkering Down the Balance Sheet

Related Notes:

- [Better than Most, Better than Most](#) *May 4, 2025*
- [How High Ken EPS Go?](#) *February 16, 2025*
- [Planting the Victory Flag & Taking the House?](#) *November 10, 2024*

Howmet Aerospace (HWM): 8% Revenue Growth in 2025 with Rate Ramps, Share Gain, and Pricing

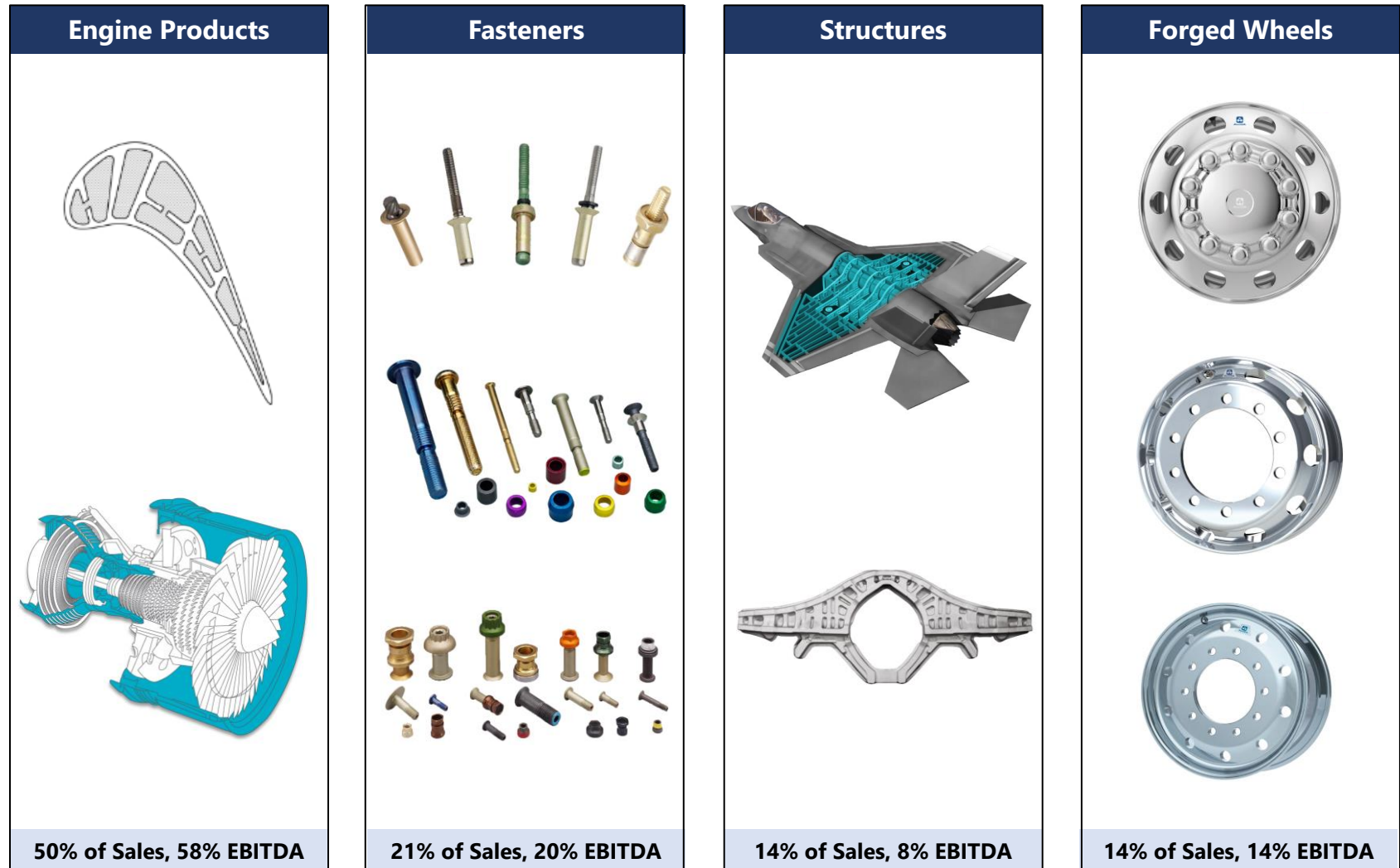
Revenue by Segment - Engines to Lead Growth in 2025 with Ramping OE Rates, Spares, and IGT Business Investments; Wheels Expected Soft on Truck Build Until H2

Howmet Revenue Build	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Engine Products	\$3,092	\$3,320	\$2,406	\$2,282	\$2,698	\$3,266	\$3,735	\$4,207	\$4,638	\$5,001	\$5,311
Fastening Systems	1,531	1,561	1,245	1,044	1,117	1,349	1,576	1,689	1,840	1,961	2,094
Engineered Structures	1,209	1,255	927	725	790	878	1,065	1,150	1,263	1,350	1,447
Forged Wheels	966	969	679	921	1,058	1,147	1,054	991	1,060	1,113	1,147
Total Revenue	\$6,778	\$7,098	\$5,259	\$4,972	\$5,663	\$6,640	\$7,430	\$8,037	\$8,801	\$9,425	\$9,999
YoY Change											
Engine Products		7%	-28%	-5%	18%	21%	14%	13%	10%	8%	6%
Fastening Systems		2%	-20%	-16%	7%	21%	17%	7%	9%	7%	7%
Engineered Structures		4%	-26%	-22%	9%	11%	21%	8%	10%	7%	7%
Forged Wheels		0%	-30%	36%	15%	8%	-8%	-6%	7%	5%	3%
Total Revenue		5%	-26%	-5%	14%	17%	12%	8%	9%	7%	6%
Composition %											
Engine Products	46%	47%	46%	46%	48%	49%	50%	52%	53%	53%	53%
Fastening Systems	23%	22%	24%	21%	20%	20%	21%	21%	21%	21%	21%
Engineered Structures	18%	18%	18%	15%	14%	13%	14%	14%	14%	14%	14%
Forged Wheels	14%	14%	13%	19%	19%	17%	14%	12%	12%	12%	11%
Total Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Segment Adj. EBITDA	\$1,394	\$1,647	\$1,152	\$1,200	\$1,352	\$1,587	\$2,009	\$2,339	\$2,769	\$3,063	\$3,325
Margin (%)	20.6%	23.2%	21.9%	24.1%	23.9%	23.9%	27.0%	29.1%	31.5%	32.5%	33.3%
Adj. EBITDA	\$1,252	\$1,568	\$1,087	\$1,135	\$1,276	\$1,508	\$1,914	\$2,265	\$2,694	\$2,988	\$3,255
Margin (%)	18.5%	22.1%	20.7%	22.8%	22.5%	22.7%	25.8%	28.2%	30.6%	31.7%	32.6%

- Howmet Aerospace is a leading supplier of multi-material engineered products for the aerospace & defense, commercial transportation, and industrial markets, with ~85% of revenue from first or second market share positions. By reportable segment:
 - Engine Products:** 52% of 2025E sales, 59% of segment adj EBITDA
 - Fastening Systems:** 21% of 2025E sales, 21% of segment adj EBITDA
 - Engineered Structures:** 14% of 2025E sales, 9% of segment adj EBITDA
 - Forged Wheels:** 13% of 2025E sales, 11% of segment adj EBITDA
 - Commercial Aerospace:** 54% of 2025E sales vs. 60% in 2019
 - Defense:** 16% of 2025E sales
 - Commercial Transportation:** 15% of 2025E sales
 - Industrial & Other:** 15% of 2025E sales

Source: Company data and Jefferies estimates

Howmet Aerospace (HWM): 8% Revenue Growth in 2025 with Rate Ramps, Share Gain, and Pricing



Source: Company data and Jefferies estimates

Howmet Aerospace (HWM): Commercial Aerospace Build

- In 2025, we assume 31/mo on the MAX, above management's current expectations for BA's own rate at a conservative 28/mo (up from 25/mo prior). We continue to expect a 5.5/mo rate for the 787, which is roughly inline to mgmt's lower expectations at 6/mo for 2025. Our Airbus estimates are unchanged for 58/mo A320s, but lower on the A350 at 5.2/mo vs 6/mo prior.
- nto 2025, we estimate 12% growth based on volume rate step ups, which typically require 6-mos+ of lead time, across platforms to bridge to OE targets in the coming years.
- 737 MAX** \$1.7MM content per shipset, with an est 372 deliveries in 2024 (31/mo) contributing \$623MM in revenues (up 14% y-o-y; 14% of 2025 Aerospace sales), or 2.0-pts of Comm'l Aero growth in 2025.
- A320** family is an est \$1.7MM content per shipset, making HWM agnostic to the narrowbodies. We est 690 deliveries (unchanged) in 2025, or 60/mo, compared to an estimated 55/mo in 2024 (using Airbus's 11.5 month production year).
- 787** \$5.2MM in content, and is expected to build at 5.5/mo rate in 2025, or 66 shipsets total, for revenues of \$343MM (8% of 2025 sales).
- A350** is an est \$4.8MM in content, with an expected 57 shipsets in 2025 (5/mo). This drives \$274MM in revenues in 2025, flat y-o-y.

Source: Company data and Jefferies estimates

Revenue per Platform (\$MM)	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Boeing											
B737	\$407	\$88	\$20	\$23	\$16	\$10	\$6	\$1	\$0	\$0	\$0
B737 MAX	358	80	38	176	391	505	546	623	804	905	1,005
B747	34	39	28	39	28	6	0	0	0	0	0
B767	37	93	76	67	78	69	56	60	78	39	39
B777	174	171	144	91	91	91	76	91	68	53	46
B777X	0	0	0	0	0	0	26	26	79	106	158
B787	754	822	692	234	62	172	304	343	437	593	645
Sub-Total	\$1,764	\$1,292	\$997	\$630	\$666	\$853	\$1,015	\$1,145	\$1,466	\$1,695	\$1,893
Airbus											
A220	\$40	\$58	\$46	\$60	\$64	\$85	\$94	\$114	\$125	\$156	\$181
A320ceo	\$201	\$77	\$13	\$47	\$18	\$0	\$0	\$0	\$0	\$0	\$0
A320neo	540	770	664	606	802	914	1,028	1,156	1,233	1,281	1,379
A330ceo	91	24	14	8	16	8	6	6	6	6	6
A330neo	7	98	29	34	58	69	71	83	88	100	100
A350	446	538	283	288	298	307	274	274	336	408	480
A380	77	51	26	32	0	0	0	0	0	0	0
Sub-Total	\$1,402	\$1,616	\$1,073	\$1,075	\$1,255	\$1,383	\$1,472	\$1,632	\$1,788	\$1,952	\$2,146
Spares and Biz Jet	829	1,278	527	324	685	993	1,384	1,556	1,623	1,663	1,677
Total	\$3,996	\$4,186	\$2,597	\$2,029	\$2,606	\$3,229	\$3,871	\$4,334	\$4,877	\$5,310	\$5,716
YoY % Change		5%	-38%	-22%	28%	24%	20%	12%	13%	9%	8%
Content per Shipset (\$K)											
Boeing											
B737	\$1,256	\$1,256	\$1,256	\$1,256	\$1,256	\$1,256	\$1,256	\$1,256	\$1,256	\$1,256	\$1,256
B737 MAX	1,400	1,400	1,400	1,400	1,400	1,500	1,625	1,675	1,675	1,675	1,675
B747	5,600	5,600	5,600	5,600	5,600	5,600	5,600	5,600	5,600	5,600	5,600
B767	2,160	2,160	2,160	2,160	2,160	2,160	2,160	2,160	2,160	2,160	2,160
B777	3,792	3,792	3,792	3,792	3,792	3,792	3,792	3,792	3,792	3,792	3,792
B777X	4,400	4,400	4,400	4,400	4,400	4,400	4,400	4,400	4,400	4,400	4,400
B787	5,200	5,200	5,200	5,200	5,200	5,200	5,200	5,200	5,200	5,200	5,200
Avg. Content	\$3,401	\$3,401	\$3,401	\$3,401	\$3,401	\$3,415	\$3,433	\$3,440	\$3,440	\$3,440	\$3,440
Airbus											
A220	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,250	\$1,250	\$1,250	\$1,250	\$1,250	\$1,250
A320ceo	\$840	\$840	\$840	\$840	\$840	\$840	\$840	\$840	\$840	\$840	\$840
A320neo	1,400	1,400	1,400	1,400	1,400	1,500	1,625	1,675	1,675	1,675	1,675
A330ceo	1,984	1,984	1,984	1,984	1,984	1,984	1,984	1,984	1,984	1,984	1,984
A330neo	2,400	2,400	2,400	2,400	2,400	2,450	2,450	2,450	2,450	2,450	2,450
A350	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800	4,800
A380	6,400	6,400	6,400	6,400	6,400	6,400	6,400	6,400	6,400	6,400	6,400
Avg. Content	\$2,718	\$2,718	\$2,718	\$2,718	\$2,718	\$2,746	\$2,764	\$2,771	\$2,771	\$2,771	\$2,771
HWM Shipset Deliveries											
Boeing											
B737	324	70	16	18	13	8	5	1	0	0	0
B737 MAX	256	57	27	126	279	337	336	372	480	540	600
B747	6	7	5	7	5	1	0	0	0	0	0
B767	17	43	35	31	36	32	26	28	36	18	18
B777	46	45	38	24	24	24	20	24	18	14	12
B777X	0	0	0	0	0	0	6	6	18	24	36
B787	145	158	133	45	12	33	59	66	84	114	124
Sub-Total	794	380	254	251	369	435	452	497	636	710	790
Airbus											
A220	33	48	38	50	53	68	75	91	100	125	145
A320ceo	239	92	15	56	22	0	0	0	0	0	0
A320neo	386	550	474	433	573	610	633	690	736	765	823
A330ceo	46	12	7	4	8	4	3	3	3	3	3
A330neo	3	41	12	14	24	28	29	34	36	41	41
A350	93	112	59	60	62	64	57	57	70	85	100
A380	12	8	4	5	0	0	0	0	0	0	0
Sub-Total	812	863	609	622	742	774	797	875	945	1,019	1,112
Total	1,606	1,243	863	873	1,111	1,208	1,248	1,372	1,581	1,729	1,902

Howmet Aerospace (HWM): Continued Acceleration in Incrementals Supports Margin Expansion Towards 30%+ Adj. EBITDA in the Outyears

EBITDA Bridge - Execution, Volume Growth, and Share Gain + Pricing on LTAs Supports Line-of-Sight to 30%+ Margins in Outyears

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Sales										
Net Sales	\$7,098	\$5,259	\$4,972	\$5,663	\$6,640	\$7,430	\$8,037	\$8,801	\$9,425	\$9,999
Inflation Pass-Through	0	0	0	(225)	(90)	0	0	0	0	0
Sales ex. Pass-Through	\$7,098	\$5,259	\$4,972	\$5,438	\$6,550	\$7,430	\$8,037	\$8,801	\$9,425	\$9,999
YoY Growth %		-26%	-5%	9%	20%	13%	8%	9%	7%	6%
EBITDA Bridge										
Engine Products	605	752	540	564	729	887	1,150	1,372	1,626	1,806
Fastening Systems	405	432	295	239	234	278	406	494	597	665
Engineered Structures	133	178	125	103	111	113	166	215	247	268
Forged Wheels	251	285	192	294	278	309	287	257	299	324
Starting Segment EBITDA	\$1,394	\$1,647	\$1,152	\$1,200	\$1,352	\$1,587	\$2,009	\$2,339	\$2,769	\$3,063
Volume										
Engine Products	68	(274)	(37)	125	142	164	165	215	164	140
Fastening Systems	9	(95)	(60)	22	46	91	85	91	60	67
Engineered Structures	9	(66)	(40)	13	13	34	26	28	22	24
Forged Wheels	1	(87)	73	7	27	(14)	(25)	28	27	17
Volume	88	(522)	(65)	167	228	275	250	362	272	247
Raw Material Costs										
Engines - Nickel (25%)	(59)	(2)	(13)	(29)	(8)	3	(6)	(0)	(1)	(0)
Structures - Ti/Ai (30%)	6	9	(11)	(14)	4	1	(2)	0	0	0
Wheels - Ai (Pass-Through)	17	28	(49)	(6)	17	(2)	(3)	(1)	0	0
Raw Material Costs	(37)	35	(73)	(50)	13	3	(11)	(1)	(1)	(0)
Depreciation & Amortization										
Engine Products	10	8	(1)	(1)	(5)	(9)	(12)	(11)	(8)	(5)
Fastening Systems	12	(12)	(1)	4	(1)	(1)	(2)	(3)	(2)	(3)
Engineered Structures	11	6	3	1	1	5	(4)	(2)	(1)	(2)
Forged Wheels	(1)	(7)	0	(1)	1	(3)	3	(1)	(1)	(0)
Depreciation & Amortization	32	(5)	1	3	(4)	(8)	(15)	(16)	(12)	(10)
Pricing & Productivity										
Pricing	78	38	97	67	105	120	80	55	30	20
Productivity & Other	92	(42)	88	(35)	(98)	32	25	30	5	5
Pricing & Productivity	170	(4)	185	32	7	152	105	85	35	25
Ending Segment EBITDA	\$1,647	\$1,152	\$1,200	\$1,352	\$1,596	\$2,009	\$2,339	\$2,769	\$3,063	\$3,325
Margin %	23.2%	21.9%	24.1%	23.9%	24.0%	27.0%	29.1%	31.5%	32.5%	33.3%
Corporate & Other	(79)	(65)	(65)	(76)	(88)	(95)	(74)	(75)	(75)	(70)
Adj. EBITDA	\$1,568	\$1,087	\$1,135	\$1,276	\$1,508	\$1,914	\$2,265	\$2,694	\$2,988	\$3,255
Margin %	22.1%	20.7%	22.8%	22.5%	22.7%	25.8%	28.2%	30.6%	31.7%	32.6%
Margin % ex. pass-through	22.1%	20.7%	22.8%	23.5%	23.0%	25.8%	28.2%	30.6%	31.7%	32.6%
Net Price	1.2%	0.5%	1.8%	1.3%	1.9%	1.8%	1.1%	0.7%	0.3%	0.2%

\$225MM of material pass-through (100 bps headwind) in 2022 and \$300MM of inflationary pass-through. 2023 saw \$90MM (50 bps headwind) of inflationary pass-through with majority non-material.

95% protection against raw material price fluctuations with effects from minor metals and energy.

Net price of \$67MM in 2022 and \$105MM in 2023, with 2024 estimated at \$120MM.

Productivity turning a corner in 2024, as attrition eases and new hires climb the learning curve and improve yields.

- Q1: HWM reported adj. EBITDA excluding special items of \$560MM, up 28% y-o-y and representing a 28.8% margin on 104% incrementals.
- The 2025 adj. EBITDA guide raised 7% at the midpoint to \$2.225-2.275BB, up 18% y-o-y at midpoint, for 28.0% margin (+220 bps). We estimate \$2.265BB of adj. EBITDA in 2025 (+18%) at a 28.2% margin on 58% incrementals. This is supported by smoother as volumes pick up and productivity of new hires improving.
- We previously had thought of 25%+ adj. EBITDA margins by mid-decade as a solid long-term placeholder, although recovered volumes, WB mix (complex fastener suites) price realization, and share gains could support LT margins of 30%+ in our view.
- Net price has averaged 1.7-pts over the past three years, with our ests assuming \$120MM or 1.8-pts was captured in 2024, inline to management's commentary for pricing to be similar or higher. 2025 could be another strong year for pricing.

Source: Company data and Jefferies estimates

Howmet Aerospace (HWM): FCF Conversion Funds Optionality Despite Engines Capex Projects

Long-Term Target of 90%+ FCF Conversion with \$1BB of Discretionary FCF from 2025 to 2027, Even After Annual Repo Growth and Dividend Policy of ~15% in 2025

Free Cash Flow	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Net Income	\$261	\$258	\$469	\$765	\$1,155	\$1,389	\$1,713	\$1,935	\$2,124
Depreciation and Amortization	338	270	265	272	277	290	306	318	328
NWC	(547)	(122)	(155)	(337)	(226)	(288)	(151)	(82)	(53)
Stock Comp/Deferred/Other	329	362	245	245	211	170	145	155	165
CFO	9	449	733	901	1,298	1,511	1,968	2,286	2,523
Capex	(267)	(199)	(193)	(219)	(321)	(355)	(278)	(258)	(256)
FCF	(\$258)	\$250	\$540	\$682	\$977	\$1,156	\$1,690	\$2,028	\$2,268
FCF Per Share	(\$0.59)	\$0.57	\$1.28	\$1.64	\$2.38	\$2.85	\$4.24	\$5.18	\$5.93

Deployment									
Dividends	(11)	(19)	(44)	(73)	(109)	(177)	(238)	(280)	(305)
Share Repurchases	(73)	(430)	(400)	(250)	(500)	(800)	(1,000)	(1,250)	(1,500)
Debt Paydown	(2,043)	(1,538)	(69)	(876)	(865)	1	0	0	0
Debt Issuance	2,400	700	0	400	500	0	0	0	0
Acquisitions	0	0	0	0	(5)	0	0	0	0
Total Deployment	\$273	(\$1,287)	(\$513)	(\$799)	(\$979)	(\$976)	(\$1,238)	(\$1,530)	(\$1,805)

Discretionary FCF	\$15	(\$1,037)	\$27	(\$117)	(\$2)	\$179	\$452	\$498	\$463

Ratios									
FCF to NI Conversion	-76%	57%	91%	89%	88%	83%	99%	105%	107%
FCF Yield (FCF / Mkt Cap)	-0.5%	0.5%	1.0%	1.3%	1.9%	2.2%	3.2%	3.9%	4.3%
FCF Y-o-Y % Change	43%	-197%	116%	26%	43%	18%	46%	20%	12%
Discretionary FCF Yield	0.0%	-2.0%	0.1%	-0.2%	0.0%	0.3%	0.9%	1.0%	0.9%
Dividend as % of NI	4%	7%	9%	10%	9%	13%	14%	14%	14%
Dividend Yield	0.0%	0.0%	0.1%	0.1%	0.2%	0.3%	0.5%	0.5%	0.6%
Share Repo as % of Mkt Cap	0%	1%	1%	0%	1%	2%	2%	2%	3%
% of Cash Returned to Sharehol	106%	515%	95%	117%	100%	84%	73%	75%	80%
Capex as % of Sales	5.1%	4.0%	3.4%	3.3%	4.3%	4.4%	3.2%	2.7%	2.6%
Change in NWC as % of Sales	10%	2%	3%	5%	3%	4%	2%	1%	1%

- 2025 FCF guidance was raised \$75MM at the midpt, now set at \$1.100-1.200BB, up 18% y-o-y at the midpt and at ~85% conversion (unchanged), despite capex stepping up to \$340-360MM (vs \$335MM prior) (+9% y-o-y at midpt) tied to Engines expansion. Elevated capex is in response to the two Engine OEM LTA renewals as well as a similar investment profile in the IGT business in both europe and Japan. Management expects these projects to come online in ~18 months in 2026, and expects to maintain ~90% FCF conversion LT.
- In Q1, HWM repurchased \$125MM of shares at an average price of \$124/sh and an additional \$100MM in April at \$126/sh for the YTD total of \$225MM, which is all that is included in the guide. We estimate \$800MM of repos compared to \$500MM in 2024. The quarterly dividend raise of 25% to \$0.10 per share took effect in Q1:25, following the 60% raise to \$0.08 per share in Q3:24 and 25% raise to \$0.05 per share in Q4:23. HWM previously initiated a 2025 dividend policy, with 15%, plus or minus 5%, of net income ex-special items to be paid out in dividends.
- From '25-'27, our model estimates cumulative FCF of \$4.87BB with \$3.75BB tied to the dividend & repos, or 77%. This is in light of net leverage down to 1.4X at \$2.79BB, with investment grade credit ratings.

Source: Company data and Jefferies estimates

Howmet (HWM): Valuation Relative to History and Market

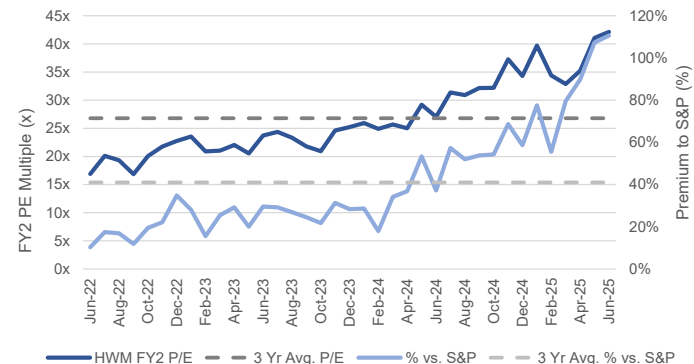
Relative Valuation

Ticker	HWM
Current P/E	42.1x
3 Yr Avg. P/E	26.8x
Current / 3 Yr Avg.	57%
Prem / Discst SP	111%
3 Yr Prem / Discst SP	41%
S&P500 Multiple	20.0x
Current EV/EBITDA	28.1x
3 Yr Avg. EV/EBITDA	17.2x
Current / 3 Yr Avg.	63%
Prem / Discst SP	102%
3 Yr Prem / Discst SP	30%
S&P500 Multiple	13.9x
Current FCF Yield	2.2%
3 Yr Avg. FCF Yield	3.9%
Current / 3 Yr Avg.	76%
Prem / Discst SP	88%
3 Yr Prem / Discst SP	25%
S&P500 Multiple	4.2%

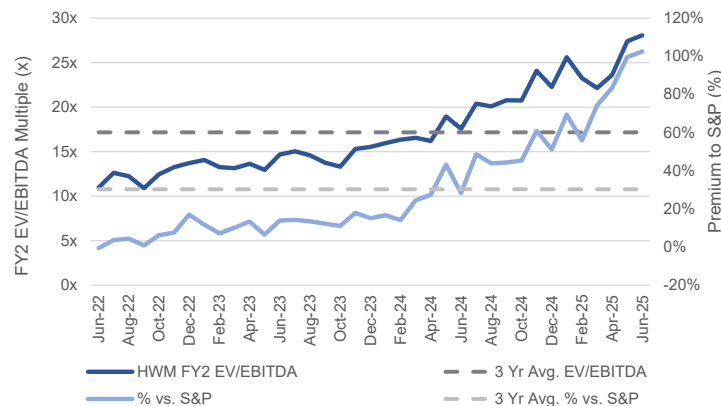
Price Target Derivation

Valuation Method	Price	Assumptions
EV/EBITDA	198	30.1x EV/EBITDA on 2026 EBITDA of \$2.69BB
P/E	191	44.4x P/E on 2026 EPS of \$4.30
FCF	197	2.2% FCF Yield on 2026 FCF of \$1.69BB
Average	\$195	Blended average

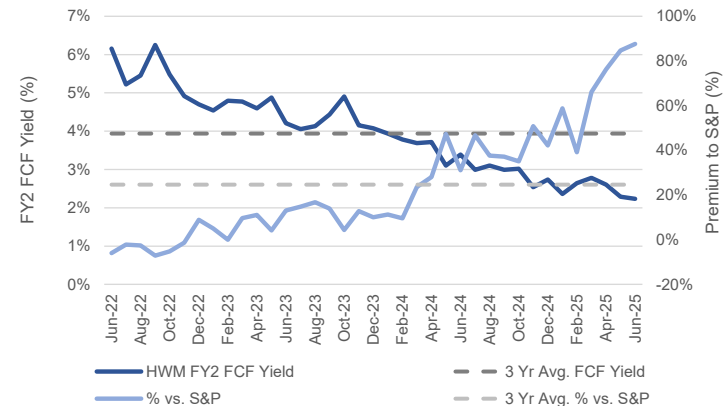
FY2 P/E: 111% Prem to Mkt vs. Historical Avg Prem of 41%



FY2 EV/EBITDA: 102% Prem to Mkt vs. Historical Avg Prem of 30%



FY2 FCF Yield: 88% Prem to Mkt vs. Historical Avg Prem of 25%



Source: Company data, FactSet and Jefferies estimates

Howmet (HWM): Annual Income Statement

Year Ending Dec. (MM, except per share data)

Years Ending December 31

	2019		2020		2021		2022		2023		2024		2025E		2026E		2027E		2028E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$7,098	100.0%	\$5,259	100.0%	\$4,972	100.0%	\$5,663	100.0%	\$6,640	100.0%	\$7,430	100.0%	\$8,037	100.0%	\$8,801	100.0%	\$9,425	100.0%	\$9,999	100.0%
Operating Expenses																				
Cost of Goods Sold	5,214	73.5%	3,878	73.7%	3,596	72.3%	4,103	72.5%	4,773	71.9%	5,119	68.9%	5,308	66.0%	5,592	63.5%	5,885	62.4%	6,159	61.6%
Selling, General & Administrative	400	5.6	277	5.3	251	5.0	288	5.1	333	5.0	347	4.7	422	5.3	462	5.3	495	5.3	525	5.3
Research & Development	28		17		17		32		36		33		44		53		57		60	
Depreciation & Amortization	295		279		270		265		272		277		290		306		318		328	
Restructuring & Other	582		182		90		56		23		21		(4)		0		0		0	
Total Operating Expenses	6,519	91.8%	4,633	88.1%	4,224	85.0%	4,744	83.8%	5,437	81.9%	5,797	78.0%	6,060	75.4%	6,413	72.9%	6,754	71.7%	7,071	70.7%
Operating Profit	579	8.2%	626	11.9%	748	15.0%	919	16.2%	1,203	18.1%	1,633	22.0%	1,977	24.6%	2,387	27.1%	2,671	28.3%	2,928	29.3%
Interest Expense	(338)		(381)		(259)		(229)		(218)		(182)		(155)		(163)		(163)		(163)	
Other Expense	(31)		(74)		(165)		(84)		(10)		(68)		(60)		(45)		(45)		(45)	
Earnings Before Tax	210	3.0%	171	3.3%	324	6.5%	606	10.7%	975	14.7%	1,383	18.6%	1,762	21.9%	2,179	24.8%	2,462	26.1%	2,720	27.2%
Taxes	(84)	40.0%	40	-23.4%	(66)	20.4%	(137)	22.6%	(210)	21.5%	(228)	16.5%	(374)	21.2%	(466)	21.4%	(527)	21.4%	(596)	21.9%
Net Income from Continuing Operations	126		211		258		469		765		1,155		1,389		1,713		1,935		2,124	
Non-controlling Interest / Disc Ops	344		50		(2)		(2)		0		0		0		0		0		0	
GAAP Net Income	470	6.6%	261	5.0%	256	5.1%	467	8.2%	765	11.5%	1,155	15.5%	1,389	17.3%	1,713	19.5%	1,935	20.5%	2,124	21.2%
Restructuring and other	582		182		90		56		23		21		(4)		0		0		0	
Discrete tax items	(25)		(115)		9		(8)		(9)		(59)		0		0		0		0	
Other special items	37		135		175		103		(13)		(11)		0		0		0		0	
Tax impact	(130)		(59)		(90)		(27)		0		1		0		0		0		0	
Allocation Adjustments	0		(13)		0		0		0		0		0		0		0		0	
Adjusted Net Income	590	8.3%	341	6.5%	442	8.9%	593	10.5%	766	11.5%	1,107	14.9%	1,385	17.2%	1,713	19.5%	1,935	20.5%	2,124	21.2%
Reported GAAP EPS	\$0.27		\$0.48		\$0.59		\$1.11		\$1.83		\$2.81		\$3.43		\$4.30		\$4.95		\$5.55	
Adjusted Diluted EPS	\$1.29		\$0.77		\$1.01		\$1.40		\$1.84		\$2.69		\$3.42		\$4.30		\$4.95		\$5.55	
Basic shares (millions)	446		435		430		416		412		408		403		397		389		381	
Diluted shares (millions)	463		439		435		421		416		410		405		399		391		383	

Source: Company data and Jefferies estimates

Howmet (HWM): Annual Cash Flow Statement

Year Ending Dec. (MM, except per share data)

(millions, except per share data)	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E
Operating Activities										
Net income	\$470	\$261	\$258	\$469	\$765	\$1,155	\$1,389	\$1,713	\$1,935	\$2,124
Depreciation & Amortization	536	338	270	265	272	277	290	306	318	328
Other Operating Activities	432	(43)	43	154	201	92	120	100	115	125
OCF Before Working Capital	1,438	556	571	888	1,238	1,524	1,798	2,119	2,368	2,577
Change in Receivables	(977)	(238)	(337)	(161)	(164)	(57)	(115)	(54)	(37)	(30)
Change in Inventory	(3)	74	60	(234)	(142)	(106)	(169)	(103)	(56)	(32)
Change in Payables	(1)	(381)	144	246	(7)	(49)	(4)	6	11	9
Changes in Working Capital	(977)	(547)	(122)	(155)	(337)	(226)	(288)	(151)	(82)	(53)
Cash Flow from Operations	\$461	\$9	\$449	\$733	\$901	\$1,298	\$1,511	\$1,968	\$2,286	\$2,523
Investment activities										
Capital Expenditures	(641)	(267)	(199)	(193)	(219)	(321)	(355)	(278)	(258)	(256)
Cash Paid for Acquisitions	0	0	0	0	0	(5)	0	0	0	0
Other Investing Activities, net	1,169	538	306	58	4	10	0	0	0	0
Cash Flow from Investments	\$528	\$271	\$107	(\$135)	(\$215)	(\$316)	(\$355)	(\$278)	(\$258)	(\$256)
Financing Activities										
Change in Debt	(406)	357	(838)	(69)	(476)	(365)	1	0	0	0
Dividends Paid to Shareholders	(57)	(11)	(19)	(44)	(73)	(109)	(177)	(238)	(280)	(305)
Repurchase of Common Stock	(1,150)	(73)	(430)	(400)	(250)	(500)	(800)	(1,000)	(1,250)	(1,500)
Other Financing Activities, net	45	(642)	(157)	(13)	(69)	(52)	0	0	0	0
Cash Flow from Financing	(\$1,568)	(\$369)	(\$1,444)	(\$526)	(\$868)	(\$1,026)	(\$976)	(\$1,238)	(\$1,530)	(\$1,805)
Foreign Exchange (FX) Impact	0	(3)	(1)	(2)	0	(1)	0	0	0	0
Total Cash Flow	(\$579)	(\$92)	(\$889)	\$70	(\$182)	(\$45)	\$179	\$452	\$498	\$463
Cash at Beginning of Period	2,282	1,703	1,611	722	792	610	565	744	1,196	1,694
Cash at End of Period	\$1,703	\$1,611	\$722	\$792	\$610	\$565	\$744	\$1,196	\$1,694	\$2,157

Source: Company data and Jefferies estimates

Kratos (KTOS) – Hold \$37 PT

1) Q2 Adequately Conservative on Microwave Timing

2) Forget the CR - The Future is Bright

3) Margin Uplift in 2026+

4) Valuation Near Peak Keeps Us Side-Lined

Related Notes:

- [CR or Not, There is Kratospheric Growth Ahead](#) *May 11, 2025*
- [Breaking Ground & Establishing a Foothold in the Hypersonic Race](#) *March 20, 2025*
- [A Prometheus Just Past the Horizon](#) *February 28, 2025*

Kratos (KTOS): Key KUS Programs

- **Valkyrie:** Awarded a contract for an initial 2 Valkyries from the USMC along with sensors and weapon systems payloads under the Affordable Autonomous Cooperative Killers program. The Valkyrie is currently under multiple contracts with customers including the US Navy, Marine Corps, and Air Force. KTOS continues to manufacture the second 12 Valkyrie serial production systems, with several units delivered to customers. The program is a continuation of previous work accomplished under the Skyborg Vanguard Program and represents transition of the program from Advanced Technology Development to Advanced Component Development and Prototypes (ACD&P). Recently introduced a new variant of the Valkyrie which features internal landing gear to support runway flexibility and independence for customer applications.
- **5GAT:** Through its acquisition of Sierra Technical Services (STS) for up to ~\$27MM of newly issued stock, Kratos has positioned itself competitively for the US Army's 5th Gen Aerial Target (5GAT) program. STS is a California-based defense technology company with capabilities including aerial targets with 50 full time employees. Financials are relatively unknown, but the company was awarded a \$77MM contract in August 2023 to deliver an innovative prototype uncrewed aerial target aircraft for the US Army's 5th Generation Aerial Target (5GAT) program. The single award contract entails the delivery of two stealth jet 5GAT aircraft, with an initial performance period 3 years, with production expected thereafter. The target drone is intended to be used to simulate various threats to test/evaluate weapons and other defense systems. STS is serving as a major subcontractor on the program with Advanced Technology International acting as the managing prime. STS is aiming for a unit price of the new 5GAT aircraft below \$10MM. In addition to the 5GAT, the US Air Force's Next Gen Aerial Target (NGAT) program represents an additional demand signal for updated aerial targeting drones. The DoD has indicated that the Test Resources Management Center is coordinating 5GAT and NGAT between the Army and Air Force. It is expected that KTOS / STS is competing with multiple other companies for the program.
- **AFSAT:** Production has been in the range of 20-21 per year to start, ramping to 35/yr. We estimate KTOS generates \$1MM of revenue per plane. KTOS is currently under contract for production years 14-16. The \$338MM production contract for Lots 17-21 was awarded in August 2021, which provides funding through 2027. Production continues on lot 17 of the BQM-167 aircraft for the Air Force, with KTOS having produced 500 of the aircraft so far under LRIP. The program continues to produce at a steady rate. Annual production is for 35 planes per year, with annual revenue in the range of \$50-70MM. Production for the Navy AFSAT program is supported by the new five-year production contract. The program is sole-source to KTOS. In Q3:19, KTOS received a \$35MM fixed-price US Air Force contract for AFSAT peculiar spares with work through March 2024.
- **SSAT:** Kratos began LRIP production on the BQM-177A for the U.S. Navy with a contract award in June 2017 valued at \$37MM. The contract was for 12-18 months. The target could contribute \$1-1.2MM per aircraft. In Q3:20, KTOS received the Sole Source Full Rate Production Award with a three-year value of \$130MM with potential upside driven by payloads, spares, peculiar and other related program materials solutions and services. Lot 1 covers 35 vehicles, with Lot 2 and 3 as options. There have been some indications that production could eventually go as high as 80-100 units. The SSAT program with the US Navy achieved full operational capability in Q3:22 with full rate production now expected to continue to ramp.

Source: Company data and Jefferies estimates

Kratos (KTOS): Key KUS Programs

- **Air Wolf (Previously Program F):** A small tactical drone with KTOS as the prime. Demand could be 1,000 units over three years at \$450K per unit. The vehicle is currently flying under two government funded contracts. Given its range, the Army mission set is an appropriate use case. In late 2021, it was reported that an Air Wolf drone successfully launched a tactical drone AVAV was awarded a place on the Replicator program with the Switchblade 600. In the past, the Switchblade 600 has been launched from KTOS's Air Wolf for additional range. The Air Wolf is scheduled to fly later this year.
- **Mako:** The drone can work as a loyal wingman and speeds of Mach 0.96 with weapon capabilities. The drone is designed as a jet fighter, and is now under contract with an estimated value of "tens of millions" over the next few years with an opportunity to expand the relationship with the customer further if successful. Apollo is expected to complete the next series of first flights under a customer-funded contract later this year. Kratos was informed its Apollo drone has been down selected with an unnamed customer, and is in the final documentation phase with the ramp to commence in 2025. The system had a successful customer-funded demonstration flight with a special payload during the quarter. The aircraft has completed a series of mission system and related flights and continues to achieve success under multiple programs, but most continues to be classified. The contract was referred to as Apollo, which likely indicates that the customer is outside the Navy.
- **Thanatos:** Development is expected to take 2 years from June 2020-2022 with the system currently being evaluated for customer needs. The total program size if it successfully moves forward could be in the range of Valkyrie implying an eventual \$100MM+ per year opportunity. KTOS is in negotiations with an undisclosed customer related to the Thanatos Tactical Drone System, with a version flying today. KTOS expects multiple Thanatos systems to be performing funded mission capability demonstration expansion flights with the new customer in the future. If a defense budget is approved, management expects to receive a funded prime contract for the system later this year. The company sees an opportunity for Thanatos to be as material to revenue as Valkyrie. Now, Thanatos is expected to have the next series of flights planned for later this year under a customer-funded contract.
- **Athena:** Now a classified program under contract. KTOS also entered into discussions with the undisclosed Thanatos customer regarding the Athena Tactical drone system, which is also currently flying. KTOS hopes to be under contract for this opportunity next year, and intends to fly under funded contracts.

Source: Company data and Jefferies estimates

Kratos (KTOS): KGS Overview

- **Satellite Communications (45% of KGS sales):** The ~\$400MM sub-segment is focused on designing ground equipment with exposure to 85% of all US missions. The largest operator is the Air Force, but KTOS also works with commercial companies such as Intelsat. KTOS systems enable, encrypt and distribute beams. KTOS is also the only company with a global network that can monitor beams for customers, and identify and geo-locate threats that intentionally disrupt signals. The business is transitioning toward software-based ground solutions, which are much higher-margin than the legacy hardware solutions. The shift to software sales is expected to continue to drive KGS segment operating margin expansion longer term. The Satellite and Cyber business is expected to grow 7% following a 7% organic decline in 2024 due to some delays in key software-defined satellite programs.
- **Modular Systems/C5ISR (14% of KGS sales):** We see opportunity for HSD-LDD growth for the business in the near term and it being one of the strongest future revenue generators for the company. GBSD should be the biggest driver, however, giving a long tail of growth for the next several years. There are a number of other pursuits for C5ISR. Contracts and pursuits for the C5ISR business span multiple large missile, radar, space, satellite and other system related programs focused on recapitalization of weapons programs. There are several programs beginning production or expected to begin production in 2025 and 2026 including Hypersonic and defense of WAM systems.
- **The microwave electronics** business acquired CTT at the end of Q4:21, for a total of \$21MM. The acquired business is consistent with KTOS's existing Microwave Products business including a focus on space and satellite systems. It provides a channel to additional new customer opportunity sets for KTOS. Management notes that the business is seeing elevated demand to support ongoing production ramps across the business's end users, with a record backlog and robust opportunity pipeline stemming from the conflict in Israel. We see this business rising 15%+ sustainably over the mid-term as supply chain bottlenecks abate in a resilient demand environment. KTOS is actively working on expanding its existing production facility in the region here, while adding a new plant coming online in 2025 to support the high level of demand in the region. Q2 sales and margin are expected to step back sequentially, in part due to a transition of production from one legacy facility to a new location, adversely impacting the timing of deliveries in the quarter. That transition is expected to take just 3 weeks.
- **KTT and TDI:** KTOS targets 25-35% market share in the missile engine market, which is dominated by Williams. Pratt & Whitney also supplies the market and will be the primary provider for RTX missile programs. KTOS targets programs primed by LMT, NOC, and BA through the recently acquired TDI business. KTOS aims for the engine business to be disruptive given the company's larger focus on the class of engines relative to competitors, and expects to be able to integrate the engine on to its jet drones longer term.
- **Hypersonics:** Each of the customer missions in the hypersonics space has a \$10-15MM ASP to KTOS, which includes the solid rocket motor as well as the front end (Erinyes, Dark Fury, or a third party front). This compares to competitor systems priced >\$100MM. The customer missions in this segment are expected to accelerate in 2025-27 related to KTOS's MACH-TB award. Barriers to entry in the solid rocket motor space are very high, often taking years to be qualified, with KTOS's offering being more unique in its role as a true merchant supplier.

Source: Company data and Jefferies estimates

Kratos (KTOS): Future Opportunities Focused on KGS with Blue Sky Over \$1.9BB by 2026

Opportunity for \$2.3BB in FY27 Revenue in Blue Sky Scenario

	2020	2021	2022	2023	2024	2025E	2026E	2027E
AFSAT	\$55	\$60	\$60	\$60	\$65	\$65	\$65	\$65
SSAT	55	55	61	63	68	72	72	72
FireJet	5	4	5	20	20	20	20	20
Gremlins	5	6	6	6	0	0	30	30
Valkyrie	10	20	20	25	27	30	200	220
Air Wolf (Program F)	0	2	3	4	5	5	75	100
OBSS/Demogorgon	0	0	15	0	0	0	0	0
Mako	0	2	3	4	5	5	100	125
Program Thanatos	0	0	0	0	0	0	40	80
Project Athena	0	0	0	0	0	0	40	80
International Other	27	63	29	25	51	32	50	75
Classified	30	20	20	5	30	60	100	150
Total KUSD	\$187	\$232	\$222	\$212	\$271	\$288	\$792	\$1,017
Microwave Electronics	\$62	\$68	\$75	\$81	\$94	\$108	\$120	\$133
Space & Satellite Communication	230	275	308	424	394	421	434	468
Modular Systems/C5ISR	75	85	102	112	123	133	142	148
Training Systems	70	50	19	19	24	26	27	29
Defense and Rocket Support Services	72	47	106	109	132	177	270	322
KTT	52	55	67	80	100	120	146	176
Total KGS	\$561	\$580	\$677	\$825	\$866	\$985	\$1,140	\$1,275
Total Kratos Blue Sky Revenues	\$748	\$812	\$898	\$1,037	\$1,136	\$1,273	\$1,932	\$2,292
Total Blue Sky Adj. EBITDA	\$79	\$83	\$71	\$87	\$106	\$115	\$203	\$276
Adj. EBITDA Margin (%)	10.5%	10.2%	7.9%	8.3%	9.3%	9.0%	10.5%	12.0%

- If we take a blue-sky scenario of the 10 or so named unmanned programs for Kratos, we see potential for the UAS division to reach \$792MM in 2026, implying a 55% organic CAGR from 2023. KTOS reported a backlog of \$1.51BB at the end of Q1:25, up 4% sequentially and up 18% y-o-y, which included \$347MM for the UAS segment. If we assume KGS grows at a more modest 11% organic rate over the next few years, there may be opportunity for \$1.9BB in 2026 total company sales.
- We estimate that adj. EBITDA margins could expand at an accelerated rate in a blue-sky scenario to reach 12.2% in FY27 as programs move out of development and into production.

Source: Company data and Jefferies estimates

Kratos (KTOS): Future Opportunities Focused on KGS with Blue Sky Over \$1.9BB by 2026

Base Case Revenue of \$1.6BB in FY27 at a Discount to Blue Sky

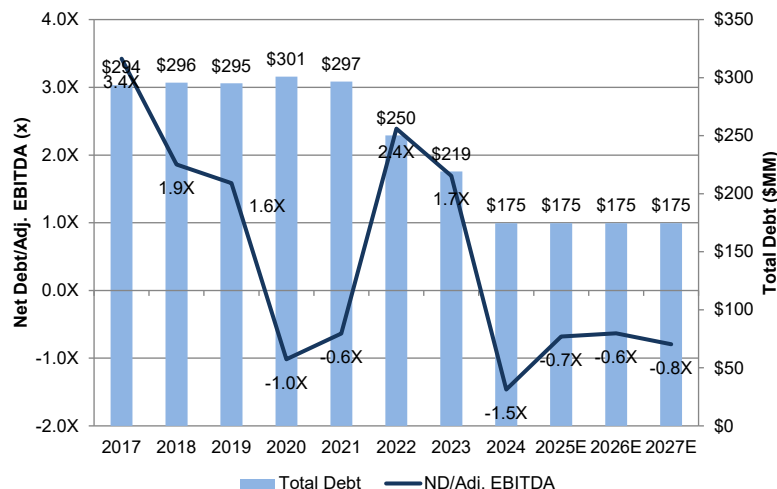
	2020	2021	2022	2023	2024	2025E	2026E	2027E
AFSAT	\$55	\$60	\$60	\$60	\$65	\$65	\$65	\$65
SSAT	55	55	61	63	68	72	72	72
FireJet	5	4	5	10	20	20	20	20
Gremlins	5	6	6	6	0	0	0	0
Valkyrie	10	20	20	25	27	30	40	50
Air Wolf (Program F)	0	2	3	4	5	5	15	25
OBSS/Demogorgon	0	0	15	0	0	0	0	0
Mako	0	2	3	5	5	5	10	20
Program Thanatos	0	0	0	0	0	0	10	12
Project Athena	0	0	0	0	0	0	15	15
International Other	27	63	29	19	51	32	29	32
Classified	30	20	20	20	30	60	40	40
Total KUS	\$187	\$232	\$222	\$212	\$271	\$288	\$315	\$350
Total KGS	\$561	\$580	\$677	\$825	\$866	\$985	\$1,140	\$1,275
Base Case Total Revenues	\$748	\$812	\$898	\$1,037	\$1,136	\$1,273	\$1,455	\$1,625
Base Case Adj. EBITDA	\$79	\$83	\$71	\$87	\$106	\$115	\$147	\$173
<i>Adj. EBITDA Margin (%)</i>	<i>10.5%</i>	<i>10.2%</i>	<i>7.9%</i>	<i>8.3%</i>	<i>9.3%</i>	<i>9.0%</i>	<i>10.1%</i>	<i>10.6%</i>

- However, our FY26 sales estimate of \$1.46BB and \$1.63BB in FY27 adjusts for the timing and competitive risk to the space including shifting priorities and program development and funding risk. Recent production contracts have provided improved visibility to unmanned growth; however, the majority of the build remains uncertain around funding, timing, and adoption.
- We assume a 10.6% Adj. EBITDA margin in our base case for FY27 due to improving mix and new program ramps, although this comes in shy of management soft commentary for margins to grow 100-150bps/yr in 2026+.

Source: Company data and Jefferies estimates

Kratos (KTOS): Investing Toward Execution on Existing Contracts Limits Cash Generation in Short-Term

Net Debt/EBITDA in a Net Cash Position Post-Share Offering



- In 2024, KTOS reported cash from operations of \$50MM. Capex was \$58MM translating to FCF use of \$8MM in the year. Working capital was a \$52MM usage in 2024 (including a \$37MM use from prepaid expenses).
- 2025 FCF is guided to be a \$75-85MM use, now including \$125-135MM of capex driven by:
 - \$28-30MM for the Lot 12 production build of Valkyries
 - \$22-24MM for a MACH-TB Payload Integration Facility
 - \$15-16MM for the Microwave Products expansion and build-out of facilities
 - \$14-15MM for an advanced manufacturing facility for hypersonics/engines & test cells
 - \$5-6MM for C5ISR facility and machinery for confidential programs
 - \$5-6MM for the space and satellite additional secure facility build-out
- We see FCF improving to a \$10MM inflow in 2026 as earnings ticks up and capex moderates to \$75MM into 2026 on program timing, before settling in the ~\$60MM/yr range.

Source: Company data and Jefferies estimates

Kratos (KTOS): Relative Valuation to History and Market

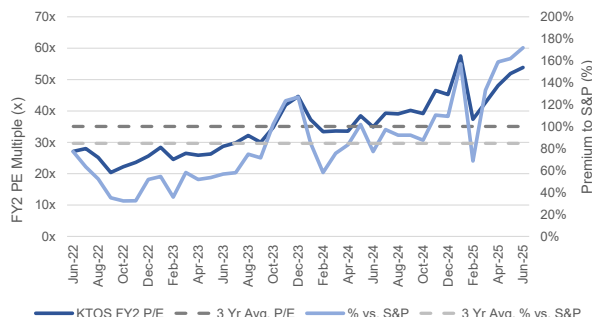
Relative Valuation

Ticker	KTOS
Current P/E	53.9x
3 Yr Avg. P/E	53.7x
Current / 3 Yr Avg.	0%
Prem / Discr SP	172%
3 Yr Prem / Discr SP	168%
S&P500 Multiple	19.8x
Current EV/EBITDA	38.2x
3 Yr Avg. EV/EBITDA	25.1x
Current / 3 Yr Avg.	53%
Prem / Discr SP	179%
3 Yr Prem / Discr SP	86%
S&P500 Multiple	13.7x

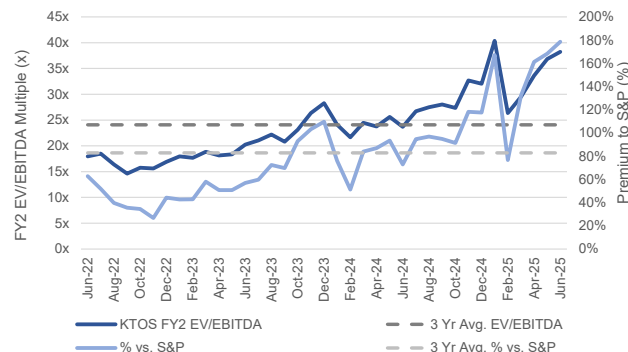
Price Target Derivation

Valuation Method	Price	Assumptions
EV/EBITDA	\$37	34.2X 2026E Adjusted EBITDA of 146.5
EV/Sales	\$36	3.4X 2026E Sales of \$1.46BB
Average	\$37	Blended average

FY2 P/E: 172% Prem to Mkt vs. Historical Avg Prem of 85%



FY2 EV/EBITDA: 179% Prem to Mkt vs. Historical Avg Prem of 83%



Source: Company data and Jefferies estimates

Kratos (KTOS): Annual Earnings Statement

Year Ending Dec.

(millions, except per share data)	2020		2021		2022		2023		2024		2025E		2026E		2027E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Revenues	\$747.7	100.0	\$811.5	100.0	\$898.3	100.0	\$1,037.1	100.0	\$1,136.3	100.0	\$1,272.5	100.0	\$1,455.0	100.0	\$1,625.0	100.0
Cost of Sales	(544.5)		(586.4)		(672.3)		(768.5)		(849.1)		(941.7)		(1062.2)		(1178.1)	
Gross Profit	\$203.2	27.7	\$225.1	28.0	\$226.0	25.2	\$268.6	25.5	\$287.20	27.5	\$330.85	26.0	\$392.85	27.0	\$446.88	27.5
Selling, General & Admin.	132.5	22.0	150.5	24.9	169.6	28.1	184.1	30.5	195.8	32.5	229.9	38.1	258.4	42.8	284.9	47.2
Research & Development	27.0	4.5	35.2	5.8	38.6	6.4	38.4	6.4	40.3	6.7	42.0	7.0	44.0	7.3	45.0	7.5
Merger and Acquisition Expense	2.4	0.4	1.8	0.3	7.5	1.2	1.3	0.2	3.9	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	5.2	0.9	5.0	0.8	5.5	0.9	6.9	1.1	9.6	1.6	10.0	1.7	10.0	1.7	10.0	1.7
Amortization of Intangible Assets	6.8	1.1	4.7	0.8	7.4	1.2	6.8	1.1	8.6	1.4	12.0	2.0	12.0	2.0	12.0	2.0
Other Operating Expense / (Income)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Operating Costs	173.9	28.8	197.2	32.7	228.6	37.9	237.5	39.4	258.2	42.8	293.9	48.7	324.4	53.8	351.9	58.3
Total Operating Profit (EBIT)	\$29.3	3.9	\$27.9	3.4	(\$2.6)	(0.3)	\$31.1	3.6	\$29.0	2.6	\$37.0	2.9	\$68.5	4.7	\$95.0	5.8
Interest Income / (Expense), net	(22.8)	(3.8)	(23.4)	(3.9)	(17.7)	(2.9)	(20.5)	(3.4)	(3.0)	(0.5)	(5.0)	(0.8)	(5.0)	(0.8)	(13.0)	(2.2)
Other Income / (Expense)	0.3		(0.1)		(12.4)		0.5		0.5		0.0		0.0		0.0	
Pretax Income	\$6.8		\$4.4		(\$32.7)		\$11.1		\$26.5		\$32.0		\$63.5		\$82.0	
Taxes	(73.5)	(1080.9)	3.9	88.6	1.4	(4.3)	8.9	80.2	10.2	38.5	9.6	30.0	12.7	20.0	16.4	20.0
Net Income, continuing ops	\$80.3	10.7	\$0.5	0.1	(\$34.1)	(3.8)	(\$17.8)	(1.7)	\$16.3	1.4	\$22.4	1.8	\$50.8	3.5	\$65.6	4.0
Disco. Ops/Accounting Changes	0.2		0.4		0.9		20.0		10.2		0.0		0.0		0.0	
Adj. Net income	\$80.5	10.8	\$40.4	5.0	(\$36.9)	(4.1)	\$54.2	5.2	\$73.9	6.5	\$61.9	4.9	\$89.8	6.2	\$104.6	6.4
Common shares (millions)																
Basic	115.5		124.6		126.7		130.4		149.0		134.0		136.0		137.0	
Diluted	118.7		128.0		126.7		130.4		150.9		137.0		139.0		140.0	
Earnings per share, cont. ops.																
Basic	\$0.70		\$0.00		(\$0.27)		(\$0.14)		\$0.11		\$0.17		\$0.37		\$0.48	
Diluted	\$0.68		\$0.00		(\$0.30)		(\$0.14)		\$0.11		\$0.16		\$0.37		\$0.47	
Adjusted EPS	\$0.33		\$0.32		\$0.31		\$0.42		\$0.49		\$0.45		\$0.65		\$0.75	

Source: Company data and Jefferies estimates

Kratos (KTOS): Annual Segment Data

Year Ending Dec.

(millions, except per share data)	2020		2021		2022		2023		2024		2025E		2026E		2027E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Sales by Segment																
Unmanned Systems	\$187.0	25.0	\$231.9	28.6	\$221.7	24.7	\$212.2	20.5	\$270.5	23.8	\$287.5	22.6	\$315.0	21.6	\$350.0	21.5
Government Solutions	560.7	75.0	579.6	71.4	676.6	75.3	824.9	79.5	865.8	76.2	\$985.0	77.4	\$1,140.0	78.4	\$1,275.0	78.5
Total Sales	\$747.7	100.0	\$811.5	100.0	\$898.3	100.0	\$1,037.1	100.0	\$1,136.3	100.0	\$1,272.5	100.0	\$1,455.0	100.0	\$1,625.0	100.0
Segment Income																
Unmanned Systems	8.7	4.7	13.2	5.7	(2.8)	(1.3)	4.2	2.0	2.9	1.1	10.0	3.5	20.5	6.5	30.5	8.7
Government Solutions	43.6	7.8	42.3	7.3	27.2	4.0	52.7	6.4	56.6	6.5	60.0	6.1	81.0	7.1	97.5	7.6
Total Segment Income	\$52.3	7.0	\$55.5	6.8	\$24.4	2.7	\$56.9	5.5	\$59.5	5.2	\$70.0	5.5	\$101.5	7.0	\$128.0	7.9
Corporate Expense	(23.0)		(27.6)		(27.0)		(25.8)		(30.5)		(33.0)		(33.0)		(33.0)	
Total Operating Income	\$29.3		\$27.9		(\$2.6)		\$31.1		\$29.0		\$37.0		\$68.5		\$95.0	
Depreciation & Amortization	\$24.6		\$25.7		\$30.5		\$33.2		\$31.7		\$35.0		\$35.0		\$35.0	

Source: Company data and Jefferies estimates

Kratos (KTOS): Cash Flow Statement

Year Ending Dec.

(millions, except per share data)	2020	2021	2022	2023	2024	2025E	2026E	2027E
Operating Activities								
Net income	\$80.3	\$0.5	(\$34.1)	(\$17.8)	\$16.3	\$22.4	\$50.8	\$65.6
Depreciation & Amortization	24.6	25.7	30.5	33.2	40.3	35.0	35.0	35.0
Deferred taxes	(78.2)	(0.4)	(3.1)	2.5	4.4	3.0	3.0	3.0
Share-based Compensation	21.0	25.8	26.3	25.3	29.8	28.0	31.0	31.0
Impairment of goodwill and long-lived asset	0.0	0.0	13.0	0.0	0.0	0.0	0.0	0.0
Working capital	(25.5)	(26.1)	(71.3)	(11.2)	(51.9)	(35.0)	(35.0)	(35.0)
Other	22.5	9.8	13.1	24.3	10.8	0.0	0.0	0.0
Cash Flow from Operations	\$44.7	\$35.3	(\$25.6)	\$56.3	\$49.7	\$53.4	\$84.8	\$99.6
					(\$8.5)	(\$81.6)	\$9.8	\$39.6
Investment activities								
Acquisitions	(\$51.5)	(\$12.3)	(\$132.2)	\$0.0	(\$11.5)	\$0.0	\$0.0	\$0.0
Capital spending	(35.9)	(46.5)	(45.4)	(52.4)	(58.2)	(135.0)	(75.0)	(60.0)
Asset Sales	0.0	2.2	0.0	8.3	0.0	0.0	0.0	0.0
Other activities, net	0.1	4.5	0.2	0.3	0.0	0.0	0.0	0.0
Cash Flow from Investments	(\$87.3)	(\$52.1)	(\$177.4)	(\$43.8)	(\$69.7)	(\$135.0)	(\$75.0)	(\$60.0)
Financing Activities								
Net borrowings	\$4.5	(\$5.1)	(\$52.3)	(\$32.0)	(\$42.5)	\$0.0	\$0.0	\$0.0
Common stock, net	240.4	0.0	0.0	0.0	330.7	0.0	0.0	0.0
Other	2.8	(4.2)	(11.0)	1.3	(10.6)	5.0	5.0	5.0
Cash Flow from Financing	\$247.7	(\$9.3)	(\$63.3)	(\$30.7)	\$277.6	\$5.0	\$5.0	\$5.0
Net change in cash items	\$205.1	(\$26.1)	(\$266.3)	(\$18.2)	\$257.6	(\$76.6)	\$14.8	\$44.6
Starting cash balance	172.6	381.5	347.6	81.3	63.9	321.5	244.9	259.7
Cash at year-end	\$381.5	\$349.4	\$81.3	\$63.9	\$321.5	\$244.9	\$259.7	\$304.3
Cash per share	\$3.21	\$2.73	\$0.64	\$0.49	\$2.13	\$1.79	\$1.87	\$2.17

Source: Company data and Jefferies estimates

Leidos (LDOS) – HOLD \$175 PT

1) Q1 Results De-Risk Conservative 2025 Guide

2) 2025 Rev +3% vs +7% Q1 Incorporating Some Conservatism

3) 5 Growth Pillars Aligned w/ Admin Priorities

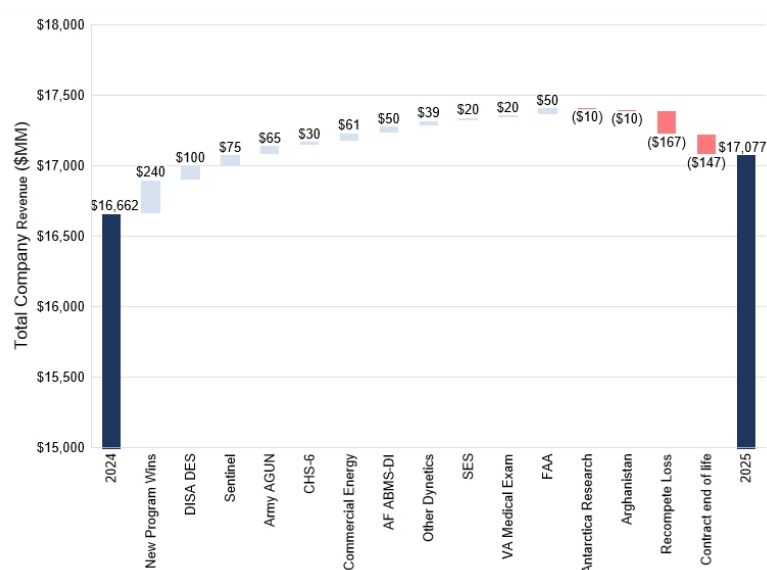
4) Margins Sustained at >12% vs Peer Avg of 10.6%

Related Notes:

- [No Consulting Needed Here, Using the North Star to Navigate Through DOGE](#) *May 11, 2025*
- [Conservative 2025 Guide as Healthy Discount Can't Dodge the Doge](#) *February 12, 2025*
- [Setting the Bar Low for 2025, Headline Risks Remain](#) *December 12, 2024*

Leidos (LDOS): 2025 Organic Growth of 3% Supported by New Program Ramps, Offset by Macro Uncertainty

2025 Organic Growth Expected at 3% Driven by DISA DES and Modest End Market Growth



- For 2025, we estimate 3% organic revenue growth to \$17.1BB from \$16.6BB, in line with management's guidance for \$16.9-17.3BB, which embeds conservatism around timing, the FY25 budget, and a strategic pivot away from lower margin work. Our estimate of 3% organic growth includes the following moving pieces:
 - DISA DES (\$100MM incremental to \$275MM in annual revs, +0.6pts)
 - Sentinel (incremental \$75MM to \$175MM in total revs, +0.5pts)
 - Army AGUN (\$65MM incremental, +0.4pts)
 - Commercial Energy (\$61MM Incremental, +0.4pts)
 - FAA (\$50MM incremental, +0.3pts)
 - Air Force Advanced Battle Management System (\$50MM Incremental, +0.3pts)
 - The remainder of growth is driven by on-contract and smaller wins

Source: Company data and Jefferies estimates

Leidos (LDOS): New and Ramping Contracts Support 3% Organic Growth in 2025E

National Security and Digital Growth Driven by Sentinel, DES in 2025E

NS&D Segment (\$MM)	2023	2024	2025E	2026E	2027E
Revenue Bridge	6,745	7,196	7,365	7,572	7,955
Recompete Loss	(67)	(72)	(74)	(76)	(80)
New Program Wins	472	94	81	227	239
NGEN	50	0	0	0	0
NASA AEGIS	50	0	0	0	0
Sentinel	0	100	75	0	0
DISA DES	35	75	100	200	200
DoD HR Contract	0	0	(10)	(5)	0
NASA UDS	(70)	0	0	0	0
NSA NANA	0	(75)	0	0	0
CHS-6	0	50	30	150	0
Army AGUN	0	0	65	0	0
Air Force ABMS-DI	0	0	50	0	0
Contract end of life/On-contract Growth	(15)	(3)	(110)	(114)	(119)
Organic Change	455	169	207	383	240
Acquisition Contribution	(4)	0	0	0	0
End Revenue	7,196	7,365	7,572	7,955	8,195
% change	6.7%	2.3%	2.8%	5.1%	3.0%
% organic change	6.7%	2.3%	2.8%	5.1%	3.0%
% contract end of life/on-contract growth	0%	0%	-2%	-2%	-2%

- Following 2% growth in 2024 and Q1:25 +5%, we model in 3% growth from National Security & Digital in 2025, with key programs including:
 - Army Common Hardware Systems 6 (CHS-6): The Army awarded LDOS a \$7.9BB fixed-price contract for hardware systems, system management solutions, components, customizable sustainable strategies, non-personal services, and continuous technology upgrades under CHS-6.
 - DISA Defense Enclaves Services (DES): DISA awarded LDOS a takeaway \$11.7BB IT contract to consolidate the DoD's networks across the non-warfighting support agencies (Fourth Estate) to eliminate unnecessary complexity.
 - Sentinel: LDOS will provide C5ISR capabilities to enhance technological innovation with a focus on rapid insertion of technologies across the mission spectrum for multiple services and integrate new technology with existing and legacy systems for enhanced effectiveness..

Source: Company data and Jefferies estimates

Leidos (LDOS): New and Ramping Contracts Support 3% Organic Growth in 2025E

Health & Civil Growth Impacted by Portfolio Pruning in 2025E Despite De-Risking of VA Medical Exams

Health & Civil Segment (\$MM)	2023	2024	2025E	2026E	2027E
Revenue Bridge	3,945	4,238	5,015	5,080	5,020
Recompete Loss	(39)	(42)	(50)	(51)	(50)
New Program Wins	118	424	75	102	226
Antarctica Research	10	0	(10)	(140)	0
Hanford	0	0	0	0	(50)
FAA	0	0	50	50	0
DHMSM	(50)	10	0	0	0
MFLC	0	0	0	0	0
RHRP	95	30	0	0	0
SSA ITSSC II	125	0	0	0	0
VA Medical Exam	80	370	20	0	0
Contract end of life/On-contract Grow	(46)	(14)	(20)	(20)	(20)
Organic Change	293	777	65	(60)	106
Acquisition Contribution	0	0	0	0	0
End Revenue	4,238	5,015	5,080	5,020	5,126
% change	7.4%	18.3%	1.3%	-1.2%	2.1%
% organic change	7.4%	18.3%	1.3%	-1.2%	2.1%
Recompete Rate (% of Sales)	20%	20%	20%	20%	20%

- The Health & Civil segment offers unique capabilities tied to public health, care coordination, life/environmental sciences, and transportation, supporting 18% growth in 2024 with 2025E expected up 1% following Q1 +8%:
 - In Health, LDOS's VA Veterans Benefits Association medical exam contract - We assume volumes increased \$370MM in 2024 related to PACT Act volumes and complexity. We expect 2025 to be up modestly y-o-y with the most recent recompete supporting similar revenue and profitability with any modest decrease offset by growth in international.
 - Defense Health Mgmt System Modernization Program (DHMSM): The DHMSM program is ~\$500MM of LDOS revenue and transitioned to the operations and maintenance phase in 2024 after the deployment was completed in Q4:23. Additional scope is supported by product enhancements for doctor and nurse users, as well as the use of data in a relational database to better support health outcomes. The program has been supplemented by related programs in recent years, such as Digital First (awarded Oct 2023).

Source: Company data and Jefferies estimates

Leidos (LDOS): New and Ramping Contracts Support 3% Organic Growth in 2025E

Defense Systems: Steady-State IFPC Into 2025 LRIP, Balance of Portfolio Seeing Expansion

Defense Systems Segment (\$MM)	2023	2024	2025E	2026E	2027E
Revenue Bridge	1,806	1,878	2,030	2,099	2,265
Recompete Loss	(18)	(19)	(20)	(21)	(23)
New Program Wins	72	131	61	63	68
Human Lunar Lander	0	0	0	0	0
IFPC	30	0	0	0	0
Other Dynetics	25	149	39	134	147
Contract end of life/On-contract Growth	(37)	(108)	(10)	(10)	(11)
Organic Change	72	154	69	165	181
Acquisition Contribution	0	(2)	0	0	0
End Revenue	1,878	2,030	2,099	2,265	2,446
% change	4.0%	8.1%	3.4%	7.9%	8.0%
% organic change	4.0%	8.2%	3.4%	7.9%	8.0%
Recompete Rate (% of Sales)	20%	20%	20%	20%	20%

- Growth in the Defense Systems business is supported by LDOS's core Dynetics work, maritime, and US-sponsored airborne surveillance, with revenues expected to be up 3% in 2025 following 8% growth in 2024.
 - We est Dynetics contributes \$1.2BB of revs, or ~7% of total LDOS, within the broader Defense Systems segment (\$2.1BB or 12% of total co).
 - Core Dynetics is expected to grow with support from US Navy MACH Test Bed, Mayhem, and thermal protection for hypersonic glide body. SDA WFOV (Wide Field of Vision) Tranche 1 was a key contributor to growth in H1:23, but the prime that LDOS supports was not awarded the recompete creating a difficult comp. Further upside comes from the growth of the Enterprise Test Vehicle contract, which LDOS has seen initial demand for its low-cost Black Arrow cruise missile. Going forward, the business is focused on small satellite payloads, hypersonics, and force protection to support growth going forward.
 - IFPC was awarded its Increment 2 contract, an up to \$4BB ID/IQ, in Q4:24 with the first task order for Guam booked. LDOS is the prime on the contract. As of Q2:24, the company delivered 14 IFPC Enduring Shield prototypes to date. In Q3:24, LDOS received an award for additional development work and four more launchers after government-led development tests successfully intercepted a mix of unmanned and cruise missile targets at the White Sands missiles test range. We assume stable revenue on the contract this year, although additional task orders on the Inc 2 vehicle could support upside to revenues in H2:25 or 2026. The contract is ramping, but at a slower rate.

Leidos (LDOS): 2025 Organic Growth of 3% Supported by New Program Ramps, Offset by Macro Uncertainty

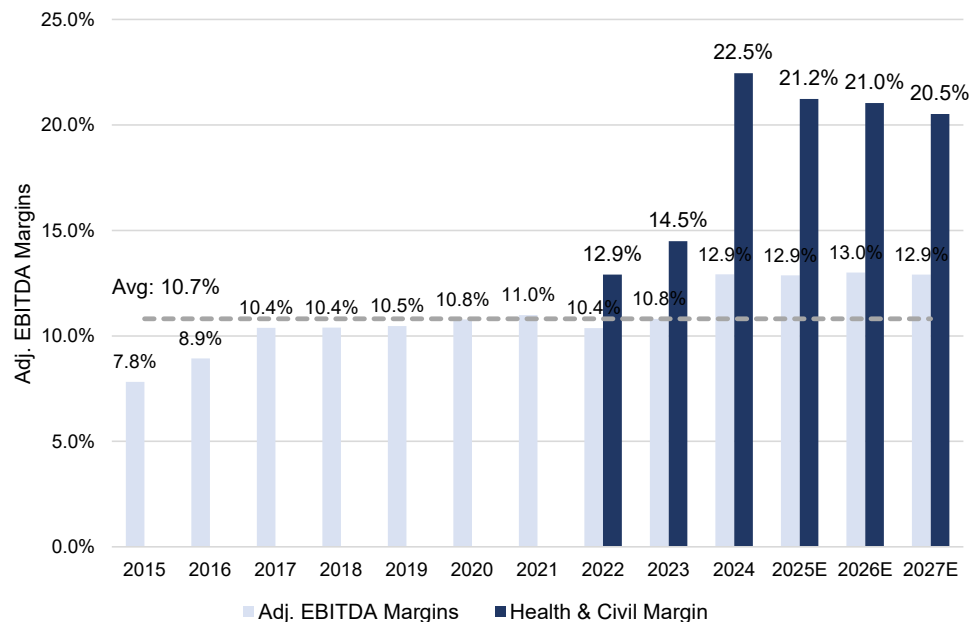
Commercial & International: Continued Recovery at SES in 2025, W/ Further Upside in Comm'l Energy

C&I Segment (\$MM)	2023	2024	2025E	2026E	2027E
Revenue Bridge	1,900	2,126	2,252	2,326	2,474
Recompete Loss	(19)	(21)	(23)	(23)	(25)
New Program Wins	76	85	23	70	74
Security Enterprise Solutions	36	0	20	42	46
Commercial Energy	50	55	61	67	73
Contract end of life/On-contract Grow	(11)	0	(11)	(12)	(12)
Organic Change	132	126	74	148	161
Acquisition Contribution	94	0	0	0	0
End Revenue	2,126	2,252	2,326	2,474	2,635
% change	11.9%	5.9%	3.3%	6.4%	6.5%
% organic change	6.9%	5.9%	3.3%	6.4%	6.5%
Recompete Rate (% of Sales)	20%	20%	20%	20%	20%

- Commercial & International combines the existing Security Enterprise Solutions (SES), previously in Civil, commercial energy, and work in the UK/Australia. Segment revenues are expected to increase 3% y-o-y into 2025 after 6% growth in 2024.
- LHX Security Detection and Automation (SD&A/SES) outlook in the US is dependent on government funding, whereas international demand is funded by ticket surcharges. LDOS has had conversations with international airports beginning to come forward with new post-COVID modernization plans for both checkpoint and baggage. LDOS is also investing in technology with a target of touchless passenger experience and other software upgrades to identify additional substances such as Fentanyl.

Leidos (LDOS): Profitability of 12.9% in 2025E as Health Stabilizes Around 20%+

Adj. EBITDA Margins To Remain at 12%+ Long-Term on the Structural Improvement of Health & Civil to the 20% Range



- After posting 12.9% EBITDA margins in 2024, LDOS has guided EBITDA margins to mid-high 12% for 2025. We assume 2025E EBITDA margins of 12.9% as Health & Civil continues its healthy trajectory (21.2% in '25 from 22.5% in 2024) as VA exams continue under the recompetes supportive of stable profitability, although we model conservatively given incentive fee performance in 2024. Q1 started strong at 14.2% including a 23.6% Health margin that benefited from a positive incentive fee (~22% ex-incentive fee).
- We assume margins expand 120 bps y-o-y in 2025E for the segment with the absence of these items to 9.1%.

Source: Company data and Jefferies estimates

Leidos (LDOS): FCF Conversion Remains in the 90% Range with Investments for Growth

Free Cash Flow Outlook - \$4.3BB FCF Generation Over FY25-27E (MM, except per share data)

	2020	2021	2022	2023	2024	2025E	2026E	2027E
Net Income	\$629	\$759	\$693	\$208	\$1,251	\$1,315	\$1,435	\$1,532
Depreciation and Amortization	282	325	333	331	290	256	235	209
Section 174/Payroll Tax Repayment	0	(60)	0	(220)	(60)	(30)	0	0
NWC	289	(106)	(65)	101	(163)	(166)	(41)	(25)
Stock Comp/Deferred Taxes/Other	(169)	53	25	745	74	85	85	(2)
CFO	\$1,031	\$1,031	\$986	\$1,165	\$1,392	\$1,461	\$1,714	\$1,714
Capex	(183)	(104)	(129)	(207)	(149)	(230)	(190)	(190)
FCF	\$848	\$927	\$857	\$958	\$1,243	\$1,231	\$1,524	\$1,524
FCF per Share	\$5.89	\$6.48	\$6.21	\$6.94	\$9.14	\$9.36	\$11.66	\$11.76

Deployment								
Dividends	(\$196)	(\$199)	(\$199)	(\$201)	(\$208)	(\$210)	(\$220)	(\$229)
Share Repurchases	(105)	(270)	(542)	(246)	(906)	(700)	(686)	(725)
Debt Paydown	(5,456)	(106)	(545)	(2,045)	(18)	(500)	(500)	(750)
Debt Issuance	7,225	380	380	1,743	0	0	0	0
Acquisitions	(2,655)	(622)	(192)	(6)	0	0	0	0
Asset Sales/Other	12	0	21	2	2	0	0	0
Total Deployment	(\$1,175)	(\$817)	(\$1,077)	(\$753)	(\$1,130)	(\$1,410)	(\$1,405)	(\$1,703)

Discretionary FCF (post dividends, committed share repo and debt pay-down)	(\$4,909)	\$352	(\$429)	(\$1,534)	\$111	(\$180)	\$119	(\$179)

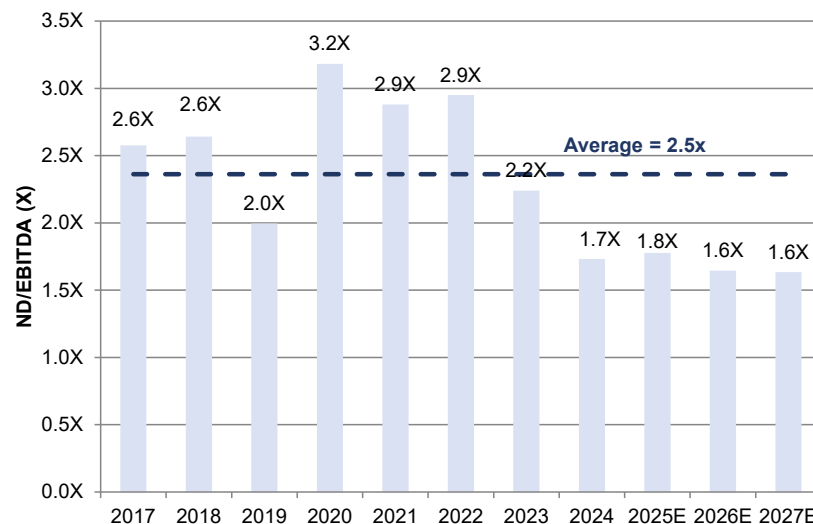
Ratios								
FCF to Net Income Conversion	135%	122%	124%	461%	99%	94%	106%	99%
FCF to Adj. Net Income	101%	98%	94%	95%	90%	87%	101%	96%
Capex as a % of Sales	1.5%	0.8%	0.9%	1.3%	0.9%	1.3%	1.1%	1.0%
FCF Yield (FCF / Mkt Cap.)	3.7%	4.1%	3.7%	4.2%	5.4%	5.4%	6.7%	6.7%
FCF Change %	-15%	9%	-8%	12%	30%	-1%	24%	0%
FCF/Sh Change %	-15%	10%	-4%	12%	32%	2%	25%	1%
Discretionary FCF Yield	-21.5%	1.5%	-1.9%	-6.7%	0.5%	-0.8%	0.5%	-0.8%
Discretionary FCF % Change YoY	NM	NM	-222%	NM	-107%	-262%	-166%	-251%
Dividend as a % of Net Income	31%	26%	29%	97%	17%	16%	15%	15%
Dividend Yield	1.3%	1.6%	1.4%	1.3%	0.9%	0.9%	1.0%	1.0%
Share Repo as % of Mkt Cap	0%	1%	2%	1%	4%	3%	3%	3%
% of Cash Returned to Shareholders	35%	51%	86%	47%	90%	74%	59%	63%

- LDOS reaffirmed 2025 OCF guidance at \$1.45BB, up slightly from 2024 at \$1.39BB. The company also guided to \$230MM of capex this year, implying FCF down 2% y-o-y. Section 174 is an estimated \$30MM impact this year, down from \$60MM in 2024. We assume a similar use of NWC this year relative to 2024.
- LDOS generated \$36MM of FCF in Q1:25, or 9% conversion to adj NI. Working capital was a \$372MM use in Q1:25, which included a \$246MM Receivables headwind and \$72MM use of Payables and a \$148MM use from Payroll. DSOs ended the quarter at 62, flat y-o-y but up 3 days q/q.
- We assume the majority of FCF is allocated to share repurchases and debt paydown over the next few years, with \$4.3BB of cumulative FCF through 2027E and \$4.5BB of deployment in our model.

Source: Company data and Jefferies estimates

Leidos (LDOS): Net Leverage Ended Q1:25 Comfortably Below ~3.0X Target

Net Debt/EBITDA Steps Up to 1.8X in 2025E with Share Repo Bringing Deployment Above FCF



- LDOS ended Q1:25 with net leverage of 1.9X, well within the target of net leverage <3.0X. At the end of the quarter, LDOS had \$842MM in unrestricted cash and cash equivalents and \$5.1BB of debt. In the quarter, LDOS also issued \$500 million of 7-year notes and \$500 million of 10-year notes with fixed rates of 5.4 and 5.5% respectively, then used the proceeds to pay down the \$500MM notes due in May.
- The company has a long-term 3.0x leverage target to maintain its investment grade rating, which makes it financially qualified for key contracts from its customer set while providing access to commercial paper at favorable terms.
- The company has historically shown willingness to go up to 4.5x leverage for the right M&A, although it currently prefers repurchases. LDOS is focused on integrating its recent acquisitions: 1901 Group (closed in Jan 2021 for \$218MM) and Gibbs & Cox (closed in May 2021 for \$380MM).

Source: Company data; Jefferies estimates.

Leidos (LDOS): Relative Valuation to History and Market

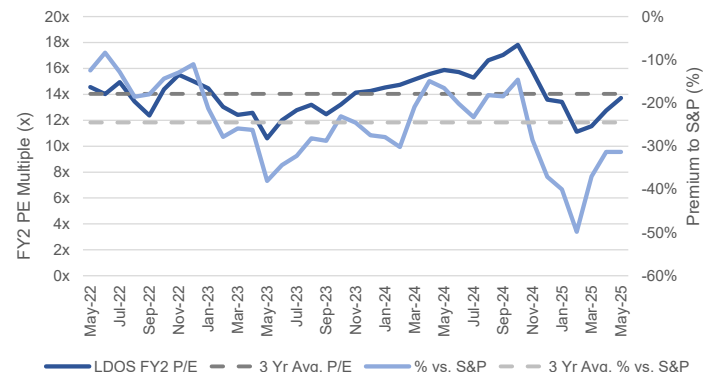
Relative Valuation

Ticker	LDOS
Current P/E	13.7x
3 Yr Avg. P/E	14.0x
Current / 3 Yr Avg.	-2%
Prem / Discst SP	-31%
3 Yr Prem / Discst SP	-25%
S&P500 Multiple	20.0x
Current EV/EBITDA	11.1x
3 Yr Avg. EV/EBITDA	11.6x
Current / 3 Yr Avg.	-4%
Prem / Discst SP	-20%
3 Yr Prem / Discst SP	-10%
S&P500 Multiple	13.8x
Current FCF Yield	7.4%
3 Yr Avg. FCF Yield	7.1%
Current / 3 Yr Avg.	-5%
Prem / Discst SP	-43%
3 Yr Prem / Discst SP	-33%
S&P500 Multiple	4.2%

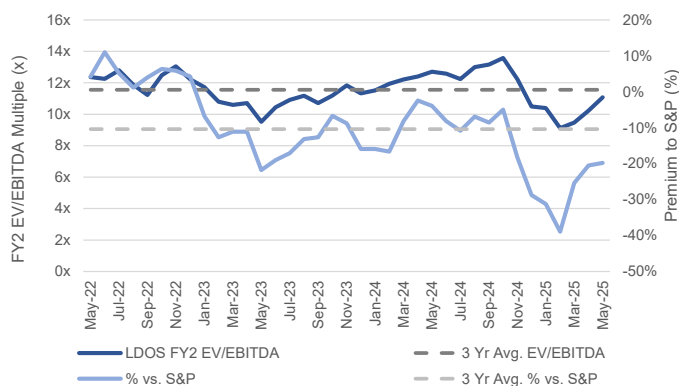
Price Target Derivation

Method	Price	Assumptions
EV/EBITDA	\$175	11.7x EV/EBITDA; FY26 Adj. EBITDA of \$2.3BB
P/E	\$163	14.1X P/E; FY26 Adjusted EPS of \$11.55
FCF Yield	\$188	6.2% FCF Yield
Average	\$175	Blended average

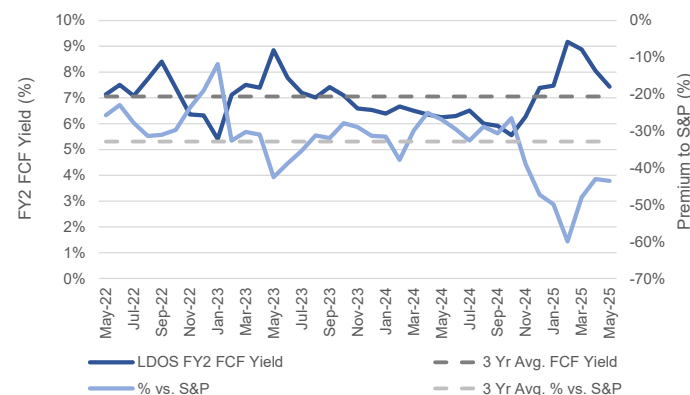
FY2 P/E: 31% Discst to Mkt vs. Historical Avg Discst of 25%



FY2 EV/EBITDA: 20% Discst to Mkt vs. Historical Avg Discst of 10%



FY2 FCF Yield: 43% Discst to Mkt vs. Historical Avg Discst of 33%



Source: Company data, FactSet, and Jefferies estimates

Leidos (LDOS): Income Statement

Year Ending Dec.

(millions, except per share data)																		
	2019		2020		2021		2022		2023		2024		2025E		2026E		2027E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$11,094	100.0	\$12,297	100.0	\$13,737	100.0	\$14,396	100.0	\$15,438	100.0	\$16,662	100.0	\$17,077	100.0	\$17,714	100.0	\$18,402	100.0
Costs and expenses																		
Costs of Sales	(9,546)	86.0%	(10,560)	85.9%	(11,723)	85.3%	(12,312)	85.5%	(13,194)	85.5%	(13,864)	83.2%	(14,077)	82.4%	(14,549)	82.1%	(15,096)	82.0%
Selling, General & Administrative	(689)	6.2	(770)	6.3	(860)	6.3	(950)	6.6	(942)	6.1	(983)	5.9	(1,076)	6.3	(1,116)	6.3	(1,159)	6.3
Other	35	(0.3)	17	(0.1)	(22)	0.2	(58)	0.4	(711)	4.6	(27)	0.2	(4)	0.0	0	0.0	0	0.0
Total Operating Costs	(\$10,200)	92%	(\$11,313)	92%	(\$12,605)	92%	(\$13,320)	93%	(\$14,847)	96%	(\$14,874)	89%	(\$15,156)	89%	(\$15,665)	88%	(\$16,255)	88%
Equity Earnings	18		14		20		12		30		39		20		20		20	
Operating Profit	\$912	8.2%	\$998	8.1%	\$1,152	8.4%	\$1,088	7.6%	\$621	4.0%	\$1,827	11.0%	\$1,941	11.4%	\$2,069	11.7%	\$2,167	11.8%
Other (income) expense, net	87		(38)		(1)		(3)		(6)		5		0		0		0	
Interest Expense	(133)		(179)		(184)		(199)		(212)		(193)		(216)		(193)		(160)	
Total Expense	(133)		(179)		(184)		(199)		(212)		(193)		(216)		(193)		(160)	
Income before taxes	\$692		\$857		\$969		\$892		\$415		\$1,629		\$1,725		\$1,876		\$2,007	
Taxes (rate %)	(196)	28.3%	(152)	17.7%	(208)	21.5%	(193)	21.6%	(195)	47.0%	(388)	23.8%	(410)	23.8%	(441)	23.5%	(475)	23.7%
Net Income	\$670		\$629		\$759		\$693		\$208		\$1,251		\$1,315		\$1,435		\$1,532	
Non-controlling interests	1		1		6													
Net Income attributable to LDOS	\$669	6.0%	\$628	5.1%	\$753	5.5%	\$693	4.8%	\$208	1.3%	\$1,251	7.5%	\$1,315	7.7%	\$1,435	8.1%	\$1,532	8.3%
Diluted shares (millions)	145.0		144.0		143.0		138.0		138.0		136.0		131.5		130.7		129.6	
GAAP EPS	\$4.61		\$4.36		\$5.27		\$5.02		\$1.51		\$9.20		\$10.00		\$10.98		\$11.82	
GAAP Operating Income																		
Acquisition and Integration Costs	5		39		27		17		36		22		4		0		0	
Amortization of Acquired Intangibles	182		197		226		229		202		147		119		98		72	
Asset Impairment Charges	0		12		4		40		687		11		0		0		0	
Restructuring	0		0		0		0		0		0		0		0		0	
Non-GAAP Operating Income	1,099		1,246		1,409		1,374		1,546		2,007		2,064		2,167		2,239	
Depreciation Expense	62		84		97		97		129		143		137		137		137	
Other (Expense) Income	0		(4)		4		4		(6)		3		(3)		0		0	
Adjusted EBITDA	1,161		1,326		1,510		1,493		1,669		2,153		2,198		2,304		2,376	
Depreciation Expense	(62)		(82)		(97)		(103)		(129)		(143)		(137)		(137)		(137)	
Interest Expense	(133)		(179)		(184)		(199)		(212)		(193)		(216)		(193)		(160)	
Adjusted Earnings before Tax	966		1,065		1,227		1,190		1,328		1,817		1,845		1,974		2,079	
Adjusted Income Tax Expense	(213)		(224)		(275)		(271)		(312)		(432)		(438)		(464)		(492)	
Non-GAAP Income	753		841		952		919		1,016		1,385		1,407		1,510		1,587	
Non Controlling Interest	3		1		6		8		9		(3)		0		0		0	
Non-GAAP Attributable to LDOS	750		840		946		911		1,007		1,388		1,407		1,510		1,587	
Adjusted EPS	\$5.17		\$5.83		\$6.62		\$6.60		\$7.30		\$10.21		\$10.70		\$11.55		\$12.57	

Source: Company data and Jefferies estimates

Leidos (LDOS): Annual Selected Operating Metrics

Year Ending Dec.

(millions, except per share data)	2019	% of sales	2020	% of sales	2021	% of sales	2022	% of sales	2023	% of sales	2024	% of sales	2025E	% of sales	2026E	% of sales	2027E	% of sales
Revenue																		
National Security & Digital	\$6,300	57%	\$7,341	60%	\$8,032	58%	\$6,745	47%	\$7,196	47%	\$7,365	44%	\$7,572	44%	\$7,955	45%	\$8,195	45%
Health & Civil	2,796	25%	2,994	24%	3,157	23%	3,945	27%	4,238	27%	5,015	30%	5,080	30%	5,020	28%	5,126	28%
Commercial & International	1,998	18%	1,962	16%	2,548	19%	1,900	13%	2,126	14%	2,252	14%	2,326	14%	2,474	14%	2,635	14%
Defense Systems							1,806	13%	1,878	12%	2,030	12%	2,099	12%	2,265	13%	2,446	13%
Corporate	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Total Revenue	\$11,094	100%	\$12,297	100%	\$13,737	100%	\$14,396	100%	\$15,438	100%	\$16,662	100%	\$17,077	100%	\$17,714	100%	\$18,402	100%
Revenue YoY % change																		
National Security & Digital	8%		17%		9%				7%		2%		3%		5%		3%	
Health & Civil	8%		7%		5%				7%		18%		1%		-1%		2%	
Commercial & International	10%		-2%		30%				12%		6%		3%		6%		7%	
Defense Systems									4%		8%		3%		8%		8%	
Total Revenue	8%		11%		12%		5%		7%		8%		2%		4%		4%	
% organic	11%		1%		9%		4%		7%		8%		2%		4%		4%	
Operating Income																		
National Security & Digital	\$471	7.5%	\$506	6.9%	\$569	7.1%	\$677	10.0%	\$719	10.0%	\$748	10.2%	\$762	10.1%	\$845	10.6%	\$877	10.7%
Health & Civil	231	8.3%	280	9.4%	248	7.9%	509	12.9%	614	14.5%	1,126	22.5%	1,079	21.2%	1,056	21.0%	1,052	20.5%
Commercial & International	242	12.1%	235	12.0%	442	17.3%	170	8.9%	166	7.8%	145	6.4%	193	8.3%	212	8.6%	231	8.8%
Defense Systems							104	5.8%	156	8.3%	161	7.9%	191	9.1%	213	9.4%	231	9.5%
Segment Operating Income	\$944	8.5%	\$1,021	8.3%	\$1,259	9.2%	\$1,356	9.4%	\$1,499	9.7%	\$2,019	12.1%	\$2,034	11.9%	\$2,113	11.9%	\$2,160	11.7%
Corporate	(32)	0.3%	(23)	0.2%	(107)	0.8%	(108)	0.8%	(130)	0.8%	(186)	1.1%	(154)	0.9%	(142)	0.8%	(110)	0.6%
Total Operating Income	\$912	8.2%	\$998	8.1%	\$1,152	8.4%	\$1,248	8.7%	\$1,369	8.9%	\$1,833	11.0%	\$1,880	11.0%	\$1,971	11.1%	\$2,050	11.1%

Source: Company data and Jefferies estimates

Leidos (LDOS): Cash Flow Statement

Year Ending Dec.

(millions, except per share data)	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Operating Activities									
Net income	\$670	\$629	\$759	\$693	\$208	\$1,251	\$1,315	\$1,435	\$1,532
Depreciation & Amortization	234	282	325	333	331	290	256	235	209
Non cash compensation	52	62	67	73	77	85	85	85	85
Receivables	116	(127)	(5)	(174)	(65)	(220)	(70)	(119)	(110)
Inventory, Prepaid and other assets	(44)	104	143	160	140	96	(99)	(35)	(38)
Accrued Payroll	(29)	161	(32)	98	(5)	121	(43)	29	31
Deferred Income Taxes	52	14	15	123	(158)	(28)	(30)	0	0
Other	(59)	209	(241)	(320)	637	(203)	46	85	92
Cash Flow from Operations	\$992	\$1,334	\$1,031	\$986	\$1,165	\$1,392	\$1,461	\$1,714	\$1,801
Investment activities									
Capital expenditures	(\$121)	(\$183)	(\$104)	(\$129)	(\$207)	(\$149)	(\$230)	(\$190)	(\$190)
Cash paid for acquisitions	(94)	(2,655)	(622)	(192)	(6)	0	0	0	0
Net Proceeds from Asset Sales	274	12	0	21	2	2	0	0	0
Other	6	11	(4)	(13)	0	5	0	0	0
Cash Flow from Investments	\$65	(\$2,815)	(\$730)	(\$313)	(\$211)	(\$142)	(\$230)	(\$190)	(\$190)
Financing Activities									
Proceeds from LT debt	0	7,225	380	380	1,743	0	0	0	0
Payments on LT debt	(80)	(5,456)	(106)	(545)	(2,045)	(18)	(500)	(500)	(750)
Dividends paid	(198)	(196)	(199)	(199)	(201)	(208)	(210)	(220)	(229)
Sales of common stock	27	35	44	48	50	55	0	0	0
Repurchases of common stock	(458)	(105)	(270)	(542)	(246)	(906)	(700)	(686)	(725)
Other	0	(52)	38	(7)	(16)	(7)	0	0	0
Cash Flow from Financing	(\$709)	\$1,451	(\$113)	(\$865)	(\$715)	(\$1,084)	(\$1,410)	(\$1,405)	(\$1,703)
Net change in cash items	\$348	(\$30)	\$188	(\$192)	\$245	\$156	(\$180)	\$119	(\$93)
Cash at the beginning of the period	369	717	687	875	683	928	1,084	904	1,023
Cash at the end of the period	\$717	\$687	\$875	\$683	\$928	\$1,084	\$904	\$1,023	\$930

Source: Company data and Jefferies estimates

L3Harris Technologies (LHX) – Buy \$260 PT

1) 2% 2025 Rev & EPS Cut on CAS Divestiture, But 2025 Organic Holds at 4%

2) Restoring Common Sense Through Leveraging What You Have

3) Charting a Path to >16% Margin for 2026

Related Notes:

- [Getting Back to the kuBasiks Through Embracing Common Sense](#) *April 25, 2025*
- [The Curious CAsE of 2025 Organic Growth](#) *February 2, 2025*
- [Still the Early Innings with Interoperability and Multi-Domain a Home Run](#) *October 27, 2024*

L3 Harris Technologies (LHX): Integration of AJRD Impact on Top-Line - with 5%+ Revenue CAGR

AJRD - Growing at a 5% Organic CAGR Through 2027, Led by Munitions

	2021	Aerojet						'24-'27 CAGR
	2021	2022	2023	2024	2025E	2026E	2027E	
Revenue (\$MM)								
THAAD	174	156	180	180	189	194	199	3.4%
Standard Missile	262	268	280	280	302	313	324	4.9%
Tactical Munitions	350	335	360	380	426	454	483	8.4%
Other Missile Defense	315	320	370	377	419	429	440	5.2%
ULA	153	135	150	153	163	173	184	6.3%
NASA Programs	436	469	465	391	399	409	418	2.3%
In-Space Propulsion	100	110	110	111	116	120	125	4.0%
Emerging Technologies	389	441	465	708	786	825	866	7.0%
Total Revenue	\$2,179	\$2,235	\$2,380	\$2,580	\$2,799	\$2,916	\$3,038	5.6%
Contribution to LHX			\$1,052	\$2,580	\$2,799	\$2,916	\$3,038	
YoY% Change								
THAAD	-23%	-10%	15%	0%	5%	3%	3%	
Standard Missile	-3%	2%	4%	0%	8%	3%	3%	
Tactical Munitions	0%	-4%	7%	6%	12%	7%	7%	
Other Missile Defense	34%	2%	16%	2%	11%	2%	2%	
ULA	-8%	-12%	11%	2%	6%	6%	6%	
NASA Programs	0%	8%	-1%	-16%	2%	2%	2%	
In-Space Propulsion	11%	10%	0%	1%	4%	4%	4%	
Emerging Technologies	31%	13%	5%	52%	11%	5%	5%	
Total % Change	5%	3%	6%	8%	8%	4%	4%	
Revenue % Composition								
THAAD	8%	7%	8%	7%	7%	7%	7%	0.8%
Standard Missile	12%	12%	12%	11%	11%	11%	11%	1.3%
Tactical Munitions	16%	15%	15%	15%	15%	16%	16%	1.8%
Other Missile Defense	14%	14%	16%	15%	15%	15%	14%	1.8%
ULA	7%	6%	6%	6%	6%	6%	6%	0.7%
NASA Programs	20%	21%	20%	15%	14%	14%	14%	1.8%
In-Space Propulsion	5%	5%	5%	4%	4%	4%	4%	0.5%
Emerging Technologies	18%	20%	20%	27%	28%	28%	29%	3.3%
Total % Composition	100%	100%	100%	100%	100%	100%	100%	12.0%
Operating Profit								
	\$0	\$0	\$0	\$307	\$351	\$394	\$426	9.3%
Contribution to LHX			\$311	\$307	\$351	\$394	\$426	
Margin	0.0%	0.0%	29.6%	11.9%	12.5%	13.5%	14.0%	

- For 2025, with a full year contribution of \$2.8BB on our est, HSD organic growth is led by missile defense in addition to continued program ramps around GBSD and hypersonics. The outlook for ULA programs have also improved, given the transition to the RL10 and Vulcan, although RL10 has faced supply chain issues that should resolve. The latter has a backlog of ~150 engines that should deliver as the Vulcan production ramps.
- Our assumption is underpinned by the view that supply chain disruptions continue to alleviate with missile primes starting to show acceleration around key programs such as PAC-3 and various tactical munitions programs, which could support MSD+ growth over the following years.
- LHX is focused on increasing capacity and output that is fostered by DPA money with a noticeable improvement expected into 2025 and accelerating into 2026.

Source: Company data and Jefferies estimates

L3 Harris Technologies (LHX): Communication Systems: Tactical Comms Supports Solid MSD CAGR Through 2027 (26% of 2025E Sales, 42% of Segment Profit)

Communication Systems - Growing at a 5% Organic CAGR Through 2027, Led by Tactical Comms

Communication Systems								'24-'27 CAGR
	2021	2022	2023	2024	2025E	2026E	2027E	
Revenue (\$MM)								
Tactical Comm. - International	\$824	\$1,208	\$1,268	\$1,399	\$1,469	\$1,571	\$1,650	5.7%
Tactical Comm. - DoD	\$931	\$1,198	\$1,265	\$1,392	\$1,461	\$1,563	\$1,642	5.7%
Radio Networks and Terminals	\$314	\$0	\$0	\$0	\$0	\$0	\$0	NM
Public Safety	\$421	\$436	\$476	\$480	\$504	\$530	\$556	5.0%
Night Vision	\$530	\$310	\$430	\$443	\$443	\$465	\$484	3.0%
Broadband Communication Systems	\$1,267	\$1,065	\$1,632	\$1,746	\$1,746	\$1,868	\$1,934	3.5%
Total Revenue	\$4,287	\$4,217	\$5,070	\$5,459	\$5,623	\$5,998	\$6,265	4.7%
YoY % Change								
Tactical Comm. - International	1%	47%	5%	10%	5%	7%	5%	
Tactical Comm. - DoD	-6%	29%	6%	10%	5%	7%	5%	
Radio Networks and Terminals	-2%	-100%	NM	NM	NM	NM	NM	
Public Safety	-1%	4%	9%	1%	5%	5%	5%	
Night Vision	0%	-10%	1%	3%	0%	5%	4%	
Broadband Communication Systems	-4%	-16%	53%	7%	0%	7%	3%	
Total % Change	-3%	-2%	20%	8%	3%	7%	4%	
Organic % Change	0%	0%	0%	0%	11%	3%	-3%	% of Total in 2024
Revenue % Composition								
Tactical Comm. - International	19%	29%	25%	26%	26%	26%	26%	6.5%
Tactical Comm. - DoD	22%	28%	25%	25%	26%	26%	26%	6.5%
Radio Networks and Terminals	7%	0%	0%	0%	0%	0%	0%	0.0%
Public Safety	10%	10%	9%	9%	9%	9%	9%	2.2%
Night Vision	12%	7%	8%	8%	8%	8%	8%	2.1%
Broadband Communication Systems	30%	25%	32%	32%	31%	31%	31%	8.1%
Total % Composition	100%	100%	100%	100%	100%	100%	100%	25.4%
Operating Profit								40.9%
Margin	24.3%	24.2%	24.2%	24.7%	24.9%	25.0%	25.3%	

- Looking forward, we expect growth of 4% in 2025 based on our estimate of \$5.65BB (guidance of ~\$5.6-5.7BB).
- Growth is expected to be supported by continued improvement in material availability and more consistent supply chains within Tactical Comms (52% of total sales including satcom and international systems), alongside broad based growth across Public Safety and Broadband.
- Tactical Communications (~14% of total sales and ~52% of segment sales) could grow MSD+ over the medium-term tied to modernization priorities and a continued requirement for resilient comms.
- The installed base is more than 60,000 Leader and Manpack radios for over 20 allied nations, with est. exposures to the US (50%), Europe (20%), Middle East (12.5%), Asia Pacific (12.5%), and rest of world (5%). The refined definition of Tactical comms includes the legacy TCOM business coupled with Satcom and International systems product line.

Source: Company data and Jefferies estimates

L3 Harris Technologies (LHX): Space and Airborne Systems: Gaining Momentum After a Slow 2024 (32% of 2025E Sales, 25% of Segment EBIT)

Space and Airborne Systems - Responsive Space Solutions Drive Growth w/ 9% Aggregate CAGR for Classified Satellites

	Space and Airborne Systems							'24-'27 CAGR
	2021	2022	2023	2024	2025E	2026E	2027E	
Revenue (\$MM)								
Classified Satellites	\$821	\$1,024	\$1,332	\$1,350	\$1,404	\$1,573	\$1,762	9.3%
Civil Satellites	\$481	\$496	\$521	\$521	\$536	\$558	\$580	3.7%
Commercial Satellites	\$196	\$206	\$214	\$216	\$223	\$229	\$236	3.0%
Intel & Cyber	\$947	\$1,253	\$1,340	\$1,407	\$1,478	\$1,596	\$1,692	6.3%
Space and Sensor Systems	\$513	\$541	\$562	\$562	\$491	\$520	\$546	-1.0%
Electronic Warfare	\$778	\$715	\$701	\$666	\$689	\$738	\$763	4.7%
Avionics	\$1,325	\$1,219	\$1,194	\$1,135	\$1,035	\$1,080	\$1,127	-0.2%
Mission Networks	\$903	\$930	\$992	\$1,012	\$1,012	\$1,012	\$1,012	0.0%
Total Revenue	\$5,965	\$6,384	\$6,856	\$6,869	\$6,867	\$7,305	\$7,718	4.0%
YoY % Change								
Classified Satellites	8%	25%	30%	1%	4%	12%	12%	
Civil Satellites	7%	3%	5%	0%	3%	4%	4%	
Commercial Satellites	7%	5%	4%	1%	3%	3%	3%	
Intel & Cyber	7%	32%	7%	5%	5%	8%	6%	
Space and Sensor Systems	7%	5%	4%	0%	-13%	6%	5%	
Electronic Warfare	-4%	-8%	-2%	-5%	3%	7%	3%	
Avionics	-4%	-8%	-2%	-5%	-9%	4%	4%	
Mission Networks	3%	3%	7%	2%	0%	0%	0%	
Total % Change	2%	7%	7%	0%	0%	6%	6%	% of Total in 2024
Revenue % Composition								
Classified Satellites	14%	16%	19%	20%	20%	22%	23%	6.3%
Civil Satellites	8%	8%	8%	8%	8%	8%	8%	2.4%
Commercial Satellites	3%	3%	3%	3%	3%	3%	3%	1.0%
Intel & Cyber	16%	20%	20%	20%	22%	22%	22%	6.5%
Space and Sensor Systems	9%	8%	8%	8%	7%	7%	7%	2.6%
Electronic Warfare	13%	11%	10%	10%	10%	10%	10%	3.1%
Avionics	22%	19%	17%	17%	15%	15%	15%	5.3%
Mission Networks	15%	15%	14%	15%	15%	14%	13%	4.7%
Total % Composition	100%	100%	100%	100%	100%	100%	100%	31.9%
Operating Profit								
Margin	\$761	\$745	\$783	\$812	\$843	\$906	\$967	24.7%

- Q1 SAS sales fell 8% y-o-y to \$1.7BB, or -6% organically excluding the impact from the divestiture of the Antennas business (~\$40MM in the quarter) completed in Q2:24.
- HBTSS** launched in 2024, proving out LHX's hypersonic missile defense capabilities through a digital twin model.
- SDA Tracking Layer Tranche 1** on track for launches mid-decade, with the \$700MM award for 14 satellites. The FY22 plus up of \$550MM to a total of \$1.2BB accelerated launch to early 2025 from 2026, with total program cost of \$2.5BB for T1. Maxar previously passed CDR for the bus for the satellites.
- SDA Tracking Layer Tranche 2** development is a continuation of work on SDA's Tranche 1 Tracking Layer. LHX has been awarded a contract of up to \$919MM to design 18 infrared space vehicles for the SDA's Tranche 2 (T2) Tracking Layer program
- For 2025, segment operating income is guided to be low 12% (from 11.8% in 2024) as program performance continues to improve and cost savings are generated from LHX NeXt, more than offsetting likely cost overruns in select challenged classified space programs. Our estimates calling for margins to climb from 11.8% in 2024 to 12.1% (+30 bps) in 2025.

Source: Company data and Jefferies estimates

L3 Harris Technologies (LHX): Integrated Mission Systems: CAS Divestiture Complete, But ISR/WESCAM Support 3% Organic (29% of 2025E Sales, 22% of Segment EBIT)

Integrated Mission Systems - Sales Down 5% (+3% Org) on Recat Basis Excluding CAS

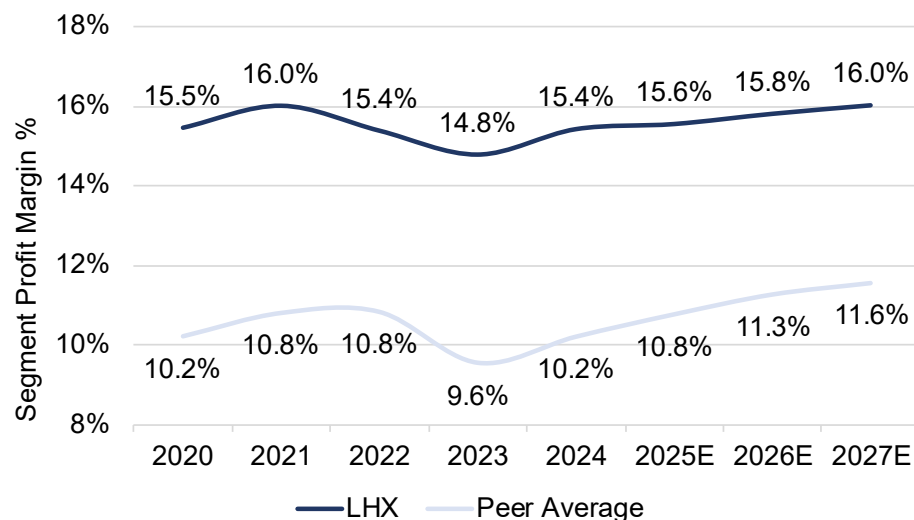
	Integrated Mission Systems							'24-'27 CAGR
	2021	2022	2023	2024	2025E	2026E	2027E	
Revenue (\$MM)								
Naval Power Systems	\$1,018	\$1,026	\$1,046	\$1,082	\$1,115	\$1,182	\$1,253	5.0%
Maritime Sensor Systems	\$483	\$445	\$458	\$476	\$490	\$520	\$551	5.0%
Electro Optical /Wescam	\$1,086	\$988	\$998	\$1,038	\$1,090	\$1,166	\$1,213	5.3%
ISR Systems	\$2,258	\$1,900	\$1,826	\$1,899	\$1,918	\$2,033	\$2,114	3.6%
Other ISR Integration	\$668	\$652	\$652	\$688	\$702	\$744	\$774	4.0%
Precision Engagement	\$485	\$475	\$475	\$266	\$266	\$281	\$293	3.3%
Commercial Aviation Solutions	\$509	\$570	\$622	\$600	\$155	\$0	\$0	NM
Link Training & Simulation	\$206	\$230	\$230	\$230	\$230	\$240	\$249	2.6%
Security & Detection Systems	\$0	\$0	\$0	\$0	\$0	\$0	\$0	NM
Defense Aviation Products	\$330	\$340	\$323	\$339	\$339	\$356	\$356	1.6%
Total Revenue	\$7,042	\$6,626	\$6,630	\$6,618	\$6,304	\$6,521	\$6,802	0.9%
YoY % Change								
Naval Power Systems	6%	1%	2%	3%	3%	6%	6%	% of Total in 2024
Maritime Sensor Systems	5%	-8%	3%	4%	3%	6%	6%	
Electro Optical /Wescam	1%	-9%	1%	4%	5%	7%	4%	
ISR Systems	8%	-16%	-4%	4%	1%	6%	4%	
Other ISR Integration	8%	-2%	0%	5%	2%	6%	4%	
Precision Engagement	-3%	-2%	0%	-44%	0%	6%	4%	
Commercial Aviation Solutions	-3%	12%	9%	-3%	-74%	-100%	N/A	
Link Training & Simulation	N/A	12%	0%	0%	0%	4%	4%	
Security & Detection Systems	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Defense Aviation Products	-3%	3%	-5%	5%	0%	5%	0%	
Total % Change	4%	-6%	0%	0%	-5%	3%	4%	
Revenue % Composition								
Naval Power Systems	14%	15%	16%	16%	18%	18%	18%	5.0%
Maritime Sensor Systems	7%	7%	7%	7%	8%	8%	8%	2.2%
Electro Optical /Wescam	15%	15%	15%	16%	17%	18%	18%	4.8%
ISR Systems	32%	29%	28%	29%	30%	31%	31%	8.8%
Other ISR Integration	9%	10%	10%	10%	11%	11%	11%	3.2%
Precision Engagement	7%	7%	7%	4%	4%	4%	4%	1.2%
Commercial Aviation Solutions	7%	9%	9%	9%	2%	0%	0%	2.8%
Link Training & Simulation	3%	3%	3%	3%	4%	4%	4%	1.1%
Security & Detection Systems	0%	0%	0%	0%	0%	0%	0%	0.0%
Defense Aviation Products	5%	5%	5%	5%	5%	5%	5%	1.6%
Total % Composition	100%	100%	100%	100%	100%	100%	100%	30.7%
Operating Profit								
Margin	\$948	\$861	\$740	\$826	\$750	\$783	\$826	25.1%
	13.5%	13.0%	11.2%	12.5%	11.9%	12.0%	12.1%	

- IMS revenues were down 2% in Q1 with lower aircraft missionization & Marine program volume and ramping down ISR mission operations programs, partially offset by higher airborne electro-optical sensor volumes.
- The largest portion of the Segment is ISR Systems, which includes intelligence, surveillance, and reconnaissance systems for large military aircraft platforms, as well as integrating ISR capabilities into select business jet/commercial aircraft such as the King Air 350, G550, Global 600, and others.
- The Electro Optical sub-segment provides airborne sensors and maintains 30% of market share with an incremental \$1.5BB of outlined opportunities across OMFV, IM-SHORAD, and the Saudi High-Speed Interceptor Vessels Upgrade, among others.
- For 2025, IMS operating income is guided at high-11% (down 60 bps from 12.5% in 2024 recast) due to the dilution from the CAS divestiture, which will be partially offset by continued LHX NeXt progress. This still embeds constrained mix with international expected to go from 25% of sales to 30% of sales over the next couple of years. Our estimate is for 11.9% margins in 2025 before rising +10bps to 12.0% in 2026.

Source: Company data and Jefferies estimates

L3 Harris Technologies (LHX): Industry Leading Mid-Teens Margins with LT Expansion Achievable

Margins Well Ahead of Defense Prime Average with Among the Largest Opportunity for Continued Expansion within the Enterprise



- Q1 segment margins of 15.6% expanded 50 bps y-o-y. For 2025, management has reiterated the guide for segment margins at mid- to high-15%, as IMS dilution tied to the divestiture of CAS (now high-11% target vs low-12% prior) is to be offset by modest improvement in CS (now ~25% from high-24% prior) and continued progress from LHX NeXt.
- LHX NeXt is now expected to deliver \$1.2BB of run rate annual savings, up from \$800MM realized in 2024 (2X '24 target) and above to initial expectations for a \$1BB improvement by YE25. Those savings are expected to offer at least 40% drop-through to margin. Our estimate comes to 15.6% in 2025, led by AR +60bps y-o-y to 12.5% (vs guide mid-12%), followed by CS +30bps to 25.0% (in-line to guide) and SAS +30bps to 12.1% (low-12% guide). IMS comes down 60bps to 11.9% as the primary offset, falling from 12.5% in 2024 on a recast-basis ex-FOS. From there, margins improve to 15.8% through 2026E, with the full run rate of LHX NeXt savings running above and one year ahead of schedule.

Source: Company data; Jefferies estimates.

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Jefferies

L3 Harris Technologies (LHX): FCF Pivot to Repos in 2025 Supporting DD FCF/Share Growth

2025 Guide for \$2.4-2.5BB of FCF w/Buyback Activity Stepping Up in 2025 (MM, except per share data)

	2021	2022	2023	2024	2025E	2026E	2027E
Net Income	\$1,842	\$1,061	\$1,198	\$1,512	\$1,909	\$2,180	\$2,368
Depreciation and Amortization	967	938	1,166	1,289	1,300	1,320	1,320
NWC	(112)	(568)	165	(529)	(41)	(46)	(142)
Pension Contribution	(6)	0	231	264	0	0	0
Stock Comp/Deferred Taxes/Other	(4)	727	(664)	23	(330)	(230)	(230)
CFO	\$2,687	\$2,158	\$2,096	\$2,559	\$2,838	\$3,224	\$3,316
Capex	(335)	(238)	(449)	(408)	(409)	(431)	(452)
FCF	\$2,352	\$1,920	\$1,647	\$2,151	\$2,429	\$2,793	\$2,864
FCF Per Share	\$11.58	\$9.92	\$8.64	\$11.28	\$12.87	\$15.12	\$15.85
Adj FCF/Share	\$13.52	\$10.49	\$10.54	\$12.16	\$13.02	\$15.12	\$15.85
Adjusted FCF	\$2,746	\$2,029	\$2,009	\$2,319	\$2,458	\$2,793	\$2,864
Adjusted FCF W/R&D Tax	\$2,746	\$2,029	\$2,489	\$2,145	\$2,698	\$2,913	\$2,864
Adjusted FCF/Share	\$21.96	\$16.32	\$13.06	\$11.25	\$14.30	\$15.77	\$15.85
Deployment							
Dividend	(\$817)	(\$864)	(\$868)	(\$886)	(\$1,041)	(\$1,121)	(\$1,206)
Share Repurchases	(3,675)	(1,083)	(518)	(554)	(1,500)	(2,000)	(2,000)
Debt Paydown	(13)	(14)	(3,170)	(4,392)	(700)	0	0
Debt Issuance	6	4	9,167	3,515	0	0	0
Acquisition	0	0	(6,688)	0	0	0	0
Total Deployment	(\$4,499)	(\$1,957)	(\$2,077)	(\$2,317)	(\$3,241)	(\$3,121)	(\$3,206)
Discretionary FCF	\$1,916	\$1,151	(\$2,029)	(\$2,959)	\$717	\$1,672	\$1,658
Ratios							
FCF to Net Income Conversion	128%	181%	137%	142%	127%	128%	121%
FCF Yield (FCF / Mkt Cap.)	7.8%	5.8%	5.7%	6.6%	7.0%	7.9%	8.1%
Discretionary FCF Yield	5.4%	3.3%	-5.8%	-8.4%	2.0%	4.7%	4.7%
Discretionary FCF % Change YoY	-239%	-40%	-4.6%	-6.7%	1.6%	3.8%	3.8%
Discretionary FCF per Share	\$9.43	\$5.95	(\$10.65)	(\$15.52)	\$3.80	\$9.05	\$9.17
Dividend as a % of Net Income	44%	81%	72%	59%	55%	51%	51%
Dividend Yield	1.9%	1.9%	2.5%	2.5%	3.0%	3.2%	3.4%
Share Repo as % of Mkt Cap	10%	3%	1%	2%	4%	6%	6%
% of Cash Returned to Shareholders	191%	101%	84%	67%	105%	112%	112%
Capex as a % of Sales	1.9%	1.4%	2.3%	1.9%	1.9%	1.9%	1.9%

- LHX has laid out a 2026 framework for FCF improving to \$2.8BB in 2026 from the \$2.45BB guidance in 2025 and \$2.3BB reported in 2024.
- Cumulatively this implies \$7.5BB of FCF from 2024-2026, with our estimates calling for \$2.4BB of adj. FCF in 2025, rising to \$2.79BB in 2026, aligned to guidance over the period with about \$7.4BB cumulatively. FCF is driven by organic growth, working capital help, and cash accretion from Aerojet.
- Notably, LHX has de-levered to 2.9X exiting 2024 (2.7X as of Q1:25), within its sub-3X target, enabling the capital deployment priorities to refocus on shareholder returns, with >\$1BB in buybacks expected in 2025 (est \$1.5BB), stepping up to \$2BB in 2026E on our estimates. Including roughly \$2BB in cumulative dividends over 2025-2026E, LHX returns 110% of FCF to shareholders over the period.
- The net result is FCF per share, with the companies repurchase activity and \$2.8BB of FCF in 2026 implying the potential to do ~\$15.12/share of FCF that year (13% CAGR).

Source: Company data and Jefferies estimates

L3 Harris Technologies (LHX): Relative Valuation to History and Market

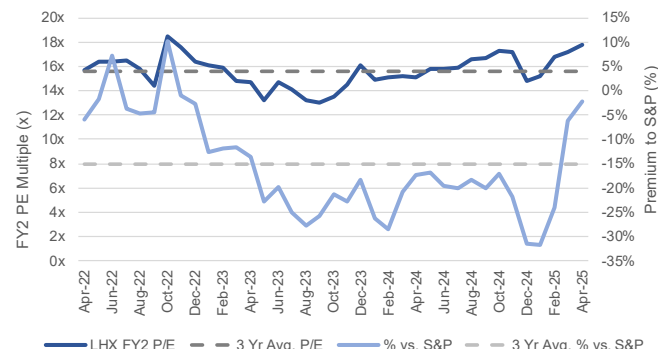
Relative Valuation

Ticker	LHX
Current P/E	17.8x
3 Yr Avg. P/E	15.6x
Current / 3 Yr Avg.	14%
Prem / Discst SP	-2%
3 Yr Prem / Discst SP	-15%
S&P500 Multiple	18.2x
Current EV/EBITDA	12.6x
3 Yr Avg. EV/EBITDA	12.8x
Current / 3 Yr Avg.	-2%
Prem / Discst SP	0%
3 Yr Prem / Discst SP	-1%
S&P500 Multiple	12.6x
Current FCF Yield	7.0%
3 Yr Avg. FCF Yield	6.3%
Current / 3 Yr Avg.	-9%
Prem / Discst SP	-33%
3 Yr Prem / Discst SP	-25%
S&P500 Multiple	4.7%

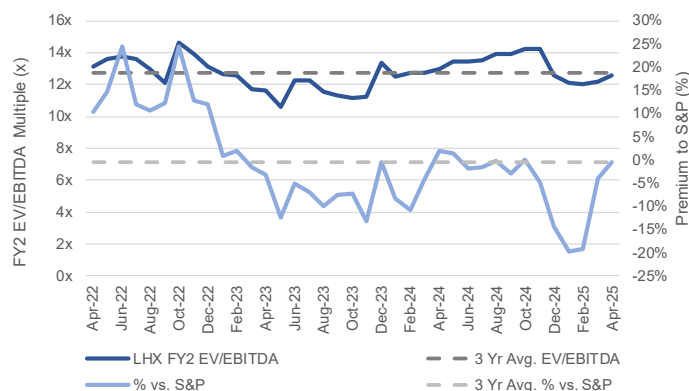
Price Target Derivation

Valuation Method	Price	Assumptions
EV/EBITDA	270	14.3x EV/EBITDA on 2026 EBITDA of \$4.4BB
P/E	242	20.5x P/E on 2026 EPS of \$11.80
FCF Yield	268	5.5% FCF Yield on 2026 FCF of \$2.8BB
Average	\$260	Blended average

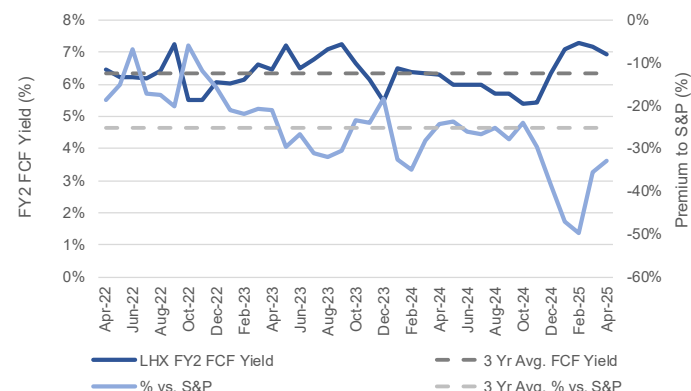
FY2 P/E: 2% Discst to Mkt vs. Historical Avg Discst of 15%



FY2 EV/EBITDA: In Lin to Mkt vs. Historical Avg Discst of 1%



FY2 FCF Yield: 33% Discst to Mkt vs. Historical Avg Discst of 25%



Source: Company data, FactSet and Jefferies estimates

L3 Harris Technologies (LHX): Income Statement

Year Ending Dec. (MM, except per share data)

	2021		2022		2023		2024		2025E		2026E		2027E
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars
Total Revenues	17,814	100.0%	17,062	100.0%	19,419	100.0%	21,325	100.0%	21,542	100.0%	22,690	100.0%	23,774
Costs and expenses													
Segment COGS	14,470	81.2%	14,033	82.2%	15,069	77.6%	15,197	71.3%	13,408	62.2%	14,129	62.3%	14,774
SG&A	(659)	(3.7)	(288)	(1.7)	644	3.3	2,110	9.9	4,839	22.5	4,983	22.0	5,162
R&D	606	3.4	580	3.4	660	3.4	725	3.4	732	3.4	771	3.4	808
Other operating costs	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0
Total operating costs	14,417	80.9%	14,325	84.0%	16,373	84.3%	18,032	84.6%	18,980	88.1%	19,883	87.6%	20,745
GAAP Operating profit (EBIT)	2,548	14.3%	1,127	6.6%	1,426	7.3%	1,919	9.0%	2,489	11.6%	2,807	12.4%	3,029
Adjusted operating profit (EBIT)	3,397	19.1%	2,737	16.0%	3,046	15.7%	3,293	15.4%	2,562	11.9%	2,807	12.4%	3,029
Net interest expense	(265)		(279)		(543)		(675)		(600)		(600)		(600)
Other income (expense)	0		425		338		354		270		260		260
GAAP income before taxes	2,283	12.8%	1,273	7.5%	1,221	6.3%	1,598	7.5%	2,159	10.0%	2,467	10.9%	2,689
Adjusted income before taxes	2,283	12.8%	1,273	7.5%	1,221	6.3%	1,598	7.5%	2,159	10.0%	2,467	10.9%	2,689
GAAP Taxes (rate %)	(440)	19.3%	(212)	16.7%	(23)	1.9%	(85)	5.3%	(250)	11.6%	(287)	11.6%	(321)
Noncontrolling interests	4		1		29		(10)		0		0		0
GAAP Net Income	1,847	10.4%	1,062	6.2%	1,227	6.3%	1,503	7.0%	1,909	8.9%	2,180	9.6%	2,368
Tax & other adjustments	\$790		\$1,435		\$1,129		\$347		\$73		\$0		\$0
Adjusted Net Income	2,637	14.8%	2,497	14.6%	2,356	12.1%	1,850	8.7%	1,982	9.2%	2,180	9.6%	2,368
Reported GAAP EPS	\$9.09		\$5.49		\$6.44		\$7.88		\$10.12		\$11.80		\$13.10
Adjusted Diluted EPS	\$12.98		\$12.90		\$12.36		\$9.70		\$10.50		\$11.80		\$13.10
Basic shares (millions)	201		192		190		190		187		183		179
Diluted shares (millions)	203		194		191		191		189		185		181

Source: Company data and Jefferies estimates

L3 Harris Technologies (LHX): Annual Segment Data

Year Ending Dec. (MM, except per share data)

	2021	% of sales	2022	% of sales	2023	% of sales	2024	% of sales	2025E	% of sales	2026E	% of sales	2027E	% of sales
Revenue														
Communication Systems	\$4,287	24%	\$4,217	25%	\$5,070	26%	\$5,459	26%	\$5,651	26%	\$6,028	27%	\$6,296	26%
Integrated Mission Systems	7,042	40%	6,626	39%	6,630	34%	6,618	31%	6,304	29%	6,521	29%	6,802	29%
Space & Airborne Systems	5,965	33%	6,384	37%	6,856	35%	6,869	32%	6,967	32%	7,405	33%	7,818	33%
Aerojet					1,052	5%	2,580	12%	2,799	13%	2,916	13%	3,038	13%
Non-Reportable Businessess	683	4%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Corporate/Eliminations	(163)	-1%	(165)	-1%	(189)	-1%	(201)	-1%	(180)	-1%	(180)	-1%	(180)	-1%
Total Revenue	\$17,814	100%	\$17,062	100%	\$19,419	100%	\$21,325	100%	\$21,542	100%	\$22,690	100%	\$23,774	100%
Operating Income (margin)														
Communication Systems	\$1,043	24.3%	\$1,022	24.2%	\$1,229	24.2%	\$1,348	24.7%	\$1,410	25.0%	\$1,508	25.0%	\$1,595	25.3%
Integrated Mission Systems	948	13.5%	861	13.0%	740	11.2%	826	12.5%	750	11.9%	783	12.0%	826	12.1%
Space and Airborne Systems	761	12.8%	745	11.7%	783	11.4%	812	11.8%	843	12.1%	906	12.2%	967	12.4%
Aerojet					122	11.6%	307	11.9%	351	12.5%	394	13.5%	426	14.0%
Non-Reportable Businesses	104	15.2%	0	N/A	0	N/A	0	N/A	0	N/A	0	N/A	0	N/A
Segment Operating Income	\$2,856	16.0%	\$2,628	15.4%	\$2,874	14.8%	\$3,293	15.4%	\$3,354	15.6%	\$3,592	15.8%	\$3,814	16.0%
Unallocated Expenses	(57)		24		62		0		(807)		(800)		(800)	
FAS/CAS Operating Adjustment	123		85		110		0		15		15		15	
Non-Operating Income, Net	475		0		0		0		0		0		0	
Operating Income	\$3,397	19.1%	\$2,737	16.0%	\$3,046	15.7%	\$3,293	15.4%	\$2,562	11.9%	\$2,807	12.4%	\$3,029	12.7%
Organic Revenue YoY % change														
Communication Systems	-3%		-2%		20%		8%		4%		7%		4%	
Integrated Mission Systems	4%		-6%		0%		0%		3%		3%		4%	
Space & Airborne Systems	2%		7%		7%		0%		1%		6%		6%	
Aerojet									9%		4%		4%	
Non-Reportable Businessess	N/A		N/A		N/A		N/A		N/A		N/A		N/A	
Total Revenue	2%		-4%		14%		10%		1%		5%		5%	
Operating profit change YoY														
Communication Systems	1%		-2%		20%		10%		5%		7%		6%	
Integrated Mission Systems	10%		-9%		-14%		12%		-9%		4%		5%	
Space and Airborne Systems	0%		-2%		5%		4%		4%		7%		7%	
Non-Reportable Businesses	-35%													
Total Operating Income	4%		-19%		11%		8%		-22%		10%		8%	
Incremental	-11%		30%		10%		22%		28%		21%		21%	

Source: Company data and Jefferies estimates

L3 Harris Technologies (LHX): Cash Flow Statement

Year Ending Dec.

(millions, except per share data)	2021	2022	2023	2024	2025E	2026E	2027E
Operating Activities							
Net income (incl. minorities)	\$1,842	\$1,061	\$1,198	\$1,512	\$1,909	\$2,180	\$2,368
Depreciation & Amortization	967	938	1,166	1,289	1,300	1,320	1,320
Pension contribution	(6)	0	231	264	0	0	0
Other	(53)	476	(528)	(640)	(380)	(255)	(305)
Op cash flow pre-working capital	2,750	2,475	2,067	2,425	2,829	3,245	3,383
Change in inventory	(68)	(310)	(182)	96	(6)	(71)	(67)
Change in contract assets	(820)	23					
Change in receivables	217	(210)	124	128	(5)	(57)	(54)
Change in payables	430	180	87	(90)	20	108	54
Change in contract liabilities	178	121					
Changes in working capital	(63)	(317)	29	134	9	(21)	(67)
Cash Flow from Operations	\$2,687	\$2,158	\$2,096	\$2,559	\$2,838	\$3,224	\$3,316
Adjusted OCF	\$3,081	\$2,158	\$2,458	\$2,559	\$2,838	\$3,224	\$3,316
Investment Activities							
Capital expenditures	(335)	(238)	(449)	(408)	(409)	(431)	(452)
Net cash used in acquisitions	0	0	(6,688)	0	0	0	0
Other investing activities, net	1,729	(12)	116	145	803	0	0
Cash Flow from Investments	\$1,394	(\$250)	(\$7,021)	(\$263)	\$394	(\$431)	(\$452)
Financing Activities							
Change in debt	(13)	(14)	(3,170)	(4,392)	(700)	0	0
Share Repurchases	(3,675)	(1,083)	(518)	(554)	(1,500)	(2,000)	(2,000)
Dividends paid	(817)	(864)	(868)	(886)	(1,041)	(1,121)	(1,206)
Other financing cash flows	92	10	9,150	3,608	41	41	41
Cash Flow from Financing	(\$4,413)	(\$1,951)	\$4,594	(\$2,224)	(\$3,200)	(\$3,080)	(\$3,165)
Effect of FX	(3)	(18)	11	(17)	0	0	0
Net change in cash items	(\$335)	(\$61)	(\$320)	\$55	\$32	(\$287)	(\$301)
Cash at the beginning of the period	1,276	941	880	560	615	647	359
Cash at the end of the period	\$941	\$880	\$560	\$615	\$647	\$359	\$58

Source: Company data and Jefferies estimates

Lockheed Martin (LMT) – Hold \$500 PT

1) 2025 Holds On Strong Q1 Start

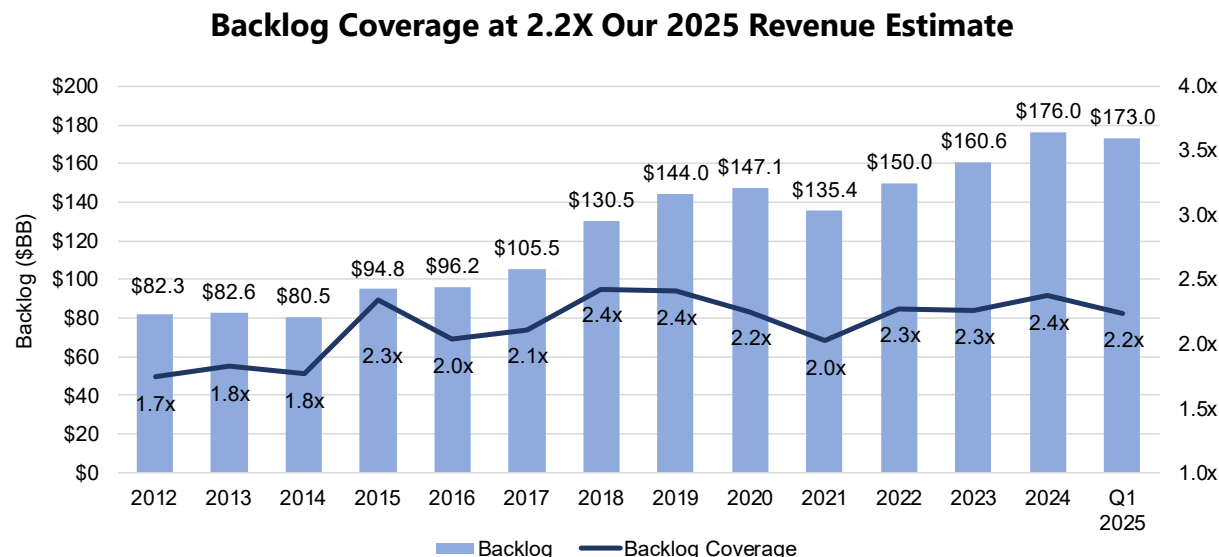
2) Margins Tracking Ahead, but Limited Op Leverage

3) Deployment Largely Baked in at 93% Return

Related Notes:

- [Still Looking to Rugby Taiclet Sixth Gen Fighters](#) *April 27, 2025*
- [In a DOGE Fight, While Classified Losses Get Left on the Tarmac](#) *February 2, 2025*
- [F-35 On The X](#) *November 24, 2024*

Lockheed Martin (LMT): Backlog Provides 2.2X Coverage of FY25 Guide



- LMT's backlog increased 9% y-o-y (-2% sequentially) to \$173.0BB, up from \$159.4BB a year-ago. The time to revenue conversion has improved in 2024-2025 supporting the outlook and balanced by the supply chain. On time delivery and part shortages have continued to improve.
- The Aero backlog increased 1% y-o-y (-8% sequentially) to \$57.5BB with LMT waiting for the definitization of 145 Lot 18 F-35s in Q2 and Lot 19 in H2. The MFC backlog was up 30% (+5% sequentially). The RMS backlog rose +3% sequentially. Space was -2% q-o-q, but delivered solid 8% improvement compared to a year ago. Q1 B2B of 0.8X in compared to 1.2X in 2024 with expectations for an improvement through the year on F-35 order conversion.
- At \$173BB, the backlog covers 2.2X full-year revenues of ~\$74.25BB, in line with the recent historical coverage.

Source: Jefferies estimates, company data

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Lockheed Martin (LMT): Aeronautics Advances 2% in 2025E with F-35 Delivery Rebound (39% of 2025E Revenues, 36% of EBIT)

Aeronautics Revenue Build - F-16 Leading Growth w/ F-35 Deliveries Beginning to Reaccelerate into 2025E (\$MM)

	Aeronautics Revenue Build									2023-2027 CAGR
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	
Combat Aircraft										
F-16	\$1,600	\$1,900	\$1,800	\$1,850	\$2,080	\$2,290	\$2,640	\$3,260	\$3,980	18%
F-22	850	850	1,000	1,080	1,050	900	900	1,050	1,050	0%
F-35	16,350	17,381	17,675	17,366	17,400	18,428	18,900	19,174	19,349	3%
Other Aircraft	215	984	802	832	514	689	536	410	472	-2%
Total Combat Aircraft	\$19,015	\$21,115	\$21,277	\$21,128	\$21,044	\$22,307	\$22,976	\$23,895	\$24,851	4%
% change	12%	11%	1%	-1%	0%	6%	3%	4%	4%	
Air Mobility										
C-5M	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	0%
C-130J	2,738	2,312	2,342	2,434	2,434	2,434	2,434	2,434	2,434	0%
Other Maintenance Upgrades	266	677	678	599	629	660	660	660	660	1%
Total Air Mobility	\$3,054	\$3,039	\$3,070	\$3,083	\$3,113	\$3,144	\$3,144	\$3,144	\$3,144	0%
% change	8%	-16%	1%	4%	0%	0%	0%	0%	0%	
R&D/Other	\$1,625	\$2,112	\$2,401	\$2,776	\$3,317	\$3,168	\$3,199	\$3,391	\$3,595	2%
% change	16%	30%	14%	16%	20%	-4%	1%	6%	6%	
Total Aeronautics Segment	\$23,693	\$26,266	\$26,748	\$26,987	\$27,474	\$28,618	\$29,319	\$30,430	\$31,589	21%
% change	10%	11%	2%	1%	2%	4%	2%	4%	4%	
Deliveries										
F-35	134	120	142	141	147	150	156	156	156	1%
F-16	0	0	0	0	5	16	24	36	48	76%
Profitability										
Operating Profit	\$2,521	\$2,843	\$2,799	\$2,866	\$2,825	\$2,523	\$2,940	\$3,082	\$3,229	-7%
% change	11%	13%	-2%	2%	-1%	-11%	17%	5%	5%	
Operating Margin	10.6%	10.8%	10.5%	10.6%	10.3%	8.8%	10.0%	10.1%	10.2%	

- Aeronautics revenues climbed 3% y-o-y in Q1 mainly due to \$215MM increase in F-35 (deliveries of 47 vs 0 in Q1:24) across production contracts. The framework for 2025 calls for another 3% gain in 2025, supported by a 63% increase in F-35 deliveries at midpoint to 170-190 aircraft as production continues at a rate of 156/yr, reflecting some catch-up from the delays in 2024.
- Q1 operating profit was up 6% y-o-y on a 3% sales improvement for a 10.2% margin, up 30 bps y-o-y, driven by \$20MM increase from higher volume and \$20MM of higher profit booking rate adjustments given a \$80MM adjustment from the completion of a classified program. The framework for 2025 profitability of \$2.940BB implies margins of 10.0%, down 20 bps year over year on an adjusted basis, or +120bps reported. LMT is attributing the adjusted decline primarily to lower net profit adjustments.

Source: Jefferies estimates, company data

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Lockheed Martin (LMT): Aeronautics Advances 2% in 2025E with F-35 Delivery Rebound (39% of 2025E Revenues, 36% of EBIT)

Implied F-35 Production EBIT Margins at ~11.1% Run-Rate Assuming Sustainment at 10% and Development at 5% (\$MM)

F-35 EBIT \$	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Production	1,232	1,359	1,560	1,472	1,374	1,216	1,289	1,342	1,342	1,320
Maintenance	245	312	340	518	370	430	460	476	513	550
R&D	53	69	80	60	91	105	100	100	95	95
Total F-35 EBIT \$	1,530	1,740	1,980	2,050	1,835	1,751	1,849	1,918	1,950	1,965
F-35 EBIT %										
Production	11.1%	10.8%	12.6%	11.8%	11.6%	11.1%	10.9%	11.1%	11.1%	11.1%
Maintenance	10.0%	12.0%	10.0%	14.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
R&D	5.0%	6.0%	5.0%	4.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Total F-35 EBIT %	10.5%	10.6%	11.4%	11.6%	10.6%	10.1%	10.0%	10.1%	10.2%	10.2%

In 2021, margins were abnormally high in maintenance due to EAC adjustments and slightly low in development. Thus, production margins were in the 11.7% range. Production profit declined ~\$95MM in 2023

We factor in maintenance EBIT margins in the 10% range, with development margins in the 5% range going forward. Pressure on profit adjustments could imply F-35 production margins in the high 10% range

- We estimate F-35 margins using annual disclosures of F-35 as a percentage of total company sales and incremental operating profit contribution.
- Given sustainment and R&D profitability change over time based on variances in performance-based logistics contracts, we assume a flat-lined 10% EBIT margin for sustainment and 5% for R&D, with some adjustments around timing. Production is the largest contribution to EBIT and is the focus below.
- LMT provides annual incremental F-35 EBIT contribution which we used to calculate total annual program EBIT based on an assumed 5% starting margin in 2010.
- In 2023, LMT disclosed that F-35 volumes declined by \$400MM with profitability on the program \$95MM lower due to a decline in net favorable profit adjustments on production contracts. This implies production margins fell 50 bps to 11.1% from 11.6% in 2022. This was expected to continue into 2024 with LMT flagging ~15 bps of margin pressure.

Source: Jefferies estimates, company data

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Jefferies

Lockheed Martin (LMT): Aeronautics Advances 2% in 2025E with F-35 Delivery Rebound (39% of 2025E Revenues, 36% of EBIT)

F-16 New Build Revenue - Production Revenues Ramp Further As Deliveries Increase From 16 in 2024 to 24 in 2025E (\$MM)

	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
F-16 Deliveries	0	0	0	0	0	5	16	24	36	48
F-16 Assumed Price	60	60	60	60	60	60	60	60	60	60
F-16 Production Revenues	\$0	\$0	\$0	\$0	\$300	\$680	\$960	\$1,440	\$2,160	\$2,880
F-16 Retrofit	\$1,550	\$1,600	\$1,900	\$1,800	\$1,550	\$1,400	\$1,330	\$1,200	\$1,100	\$1,100
Total F-16 Revenue	\$1,550	\$1,600	\$1,900	\$1,800	\$1,850	\$2,080	\$2,290	\$2,640	\$3,260	\$3,980
F-16 as % of Total Revs	3%	3%	3%	3%	3%	3%	3%	4%	4%	5%

- The F-16 program continues to generate substantial volume from fleet support and upgrades with the installation of the SABR radar.
- F-16-related production revenues could increase further in 2025 given the continuation of early booked revenues from new build F-16s, but the partial offset is lower modification and maintenance work. Deliveries could increase from 16 in 2024 closer to 24 in 2025 on our estimates. Total revenues are estimated to be \$2.64BB in 2025, or +15% program growth as production continues to ramp, more than offsetting moderate declines in retrofit revenues.
- We highlight major retrofit programs below, with a combined value of \$10BB. Major current/past retrofit programs include:
 - Pakistan, Belgium, Taiwan, Greece, UAE, South Korea, Singapore

Source: Jefferies estimates, company data

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Jefferies

Lockheed Martin (LMT): Rotary and Mission Systems Grow 6% in 2025E As CH-53K and IWSS Ramps (25% of 2025E Revenues, 25% of EBIT)

Rotary and Mission Systems Revenue Build - Expecting Steady Momentum at +6% in 2025E on CH-53K (\$MM)

Rotary and Mission Systems Revenue Build										2023-2027 CAGR
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	
Sikorsky										
Government Helicopters	\$2,210	\$2,240	\$2,610	\$3,182	\$2,860	\$3,960	\$4,510	\$4,674	\$4,674	13%
Commercial Helicopters	54	0	81	0	162	27	162	162	162	15%
International Military Helicopters	390	450	510	270	440	680	703	760	760	15%
Production Revenue	2,654	2,690	3,201	3,452	3,462	4,667	5,375	5,596	5,596	13%
Maintenance	1,705	2,345	2,373	2,102	2,091	1,024	965	885	1,031	-16%
Sustainment	1,100	1,000	1,000	850	800	801	802	803	803	0%
Total Sikorsky	\$5,459	\$6,035	\$6,574	\$6,404	\$6,353	\$6,492	\$7,142	\$7,284	\$7,430	4%
% change	-3%	11%	9%	-3%	-1%	2%	10%	2%	2%	
Integrated Warfare Systems & Sensors										
Aegis	\$1,650	\$1,700	\$1,775	\$1,850	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	0%
LCS/Ship Integration	950	1,000	900	950	950	950	950	950	950	0%
Advanced Hawkeye Radar Systems	400	400	400	400	400	400	400	400	400	0%
C2BMC	650	650	650	650	650	650	650	650	650	0%
Other	1,371	1,447	1,399	1,288	1,405	2,140	2,385	2,683	2,994	21%
Total Integrated Warfare System & Sensors	\$5,021	\$5,197	\$5,124	\$5,138	\$5,405	\$6,140	\$6,385	\$6,683	\$6,994	7%
% change	12%	3%	-1%	0%	5%	14%	4%	5%	5%	
C4 & Undersea Systems	\$3,119	\$3,213	\$3,200	\$2,995	\$2,995	\$3,160	\$3,286	\$3,450	\$3,623	5%
% change	10%	3%	0%	-6%	0%	5%	4%	5%	5%	
Training & Logistic Solutions	\$1,602	\$1,550	\$1,891	\$1,611	\$1,487	\$1,472	\$1,472	\$1,485	\$1,498	N/A
% change	22%	-3%	22%	-15%	-8%	-1%	0%	1%	1%	
Total Rotary Mission Systems	\$15,202	\$15,995	\$16,789	\$16,148	\$16,239	\$17,264	\$18,285	\$18,903	\$19,545	5%
% change	7%	5%	5%	-4%	1%	6%	6%	3%	3%	
Sikorsky Deliveries										
Government Helicopters	85	80	90	86	52	72	82	82	82	12%
Commercial Helicopters	2	0	3	0	6	1	6	6	6	0%
International Military Helicopters	13	15	17	9	11	17	19	20	20	16%
Profitability										
Operating Profit	\$1,421	\$1,615	\$2,030	\$1,906	\$1,865	\$1,921	\$2,055	\$2,144	\$2,237	5%
% change	9%	14%	26%	-6%	-2%	3%	7%	4%	4%	
Operating Margin	9.4%	10.1%	12.1%	11.8%	11.5%	11.1%	11.2%	11.3%	11.4%	

Source: Jefferies estimates, company data

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Lockheed Martin (LMT): Space Systems Expand 3% in 2025E On Decelerating New Program Growth (17% of 2025E Revenues, 15% of EBIT)

Space Revenue Build - Growth Rebounds +3% in 2025, Lapping Program Life-Cycle Deceleration in 2024 (\$MM)

	Space Revenue Build									2023-2027 CAGR
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	
Satellite Programs										
SBIRS/OPIR	\$1,100	\$1,400	\$1,450	\$1,350	\$1,325	\$1,400	\$1,300	\$1,200	\$1,200	-2%
GPS III	550	550	500	500	650	600	650	650	650	0%
AEHF	300	300	300	300	303	304	305	306	306	0%
Classified/Other/Services	4,409	4,645	4,783	5,121	5,284	4,954	5,003	5,247	5,395	1%
Total Satellite Programs	\$6,359	\$6,895	\$7,033	\$7,271	\$7,562	\$7,258	\$7,258	\$7,403	\$7,551	0%
% change	12%	8%	2%	3%	4%	-4%	0%	2%	2%	
Strategic & Defensive Missiles										
Trident II	\$1,150	\$1,200	\$1,200	\$1,200	\$1,200	\$1,250	\$1,300	\$1,350	\$1,350	-50%
AWE Management Program	1,600	1,600	885	0	0	0	0	0	0	N/A
Other/Hypersonics	685	1,065	1,644	2,134	2,768	3,035	3,328	3,648	4,048	2%
Total Strategic & Defensive Missiles	\$3,435	\$3,865	\$3,729	\$3,334	\$3,968	\$4,285	\$4,628	\$4,998	\$5,398	N/A
% change	12%	13%	-4%	-11%	19%	8%	8%	8%	8%	
Space Transportation										
Orion	\$1,065	\$1,087	\$1,000	\$880	\$800	\$800	\$800	\$800	\$800	-12%
Other	1	34	52	46	276	136	136	145	155	2%
Total Space Transportation	\$1,066	\$1,121	\$1,052	\$926	\$1,076	\$936	\$936	\$945	\$955	N/A
% change	0%	5%	-6%	-12%	16%	-13%	0%	1%	1%	
Total Space Segment	\$10,860	\$11,880	\$11,814	\$11,532	\$12,605	\$12,479	\$12,822	\$13,346	\$13,904	2%
% change	11%	9%	-1%	-2%	9%	-1%	3%	4%	4%	
Profitability										
Operating Profit	\$1,191	\$1,149	\$1,184	\$1,057	\$1,158	\$1,226	\$1,240	\$1,310	\$1,385	5%
% change	13%	-4%	3%	-11%	10%	6%	1%	6%	6%	
Operating Margin	11.0%	9.7%	10.0%	9.2%	9.2%	9.8%	9.7%	9.8%	10.0%	

- The 2025 outlook of \$12.8BB implies revenues are up 3% with our 2025 revenue estimate of \$12.8BB represents 3% growth and is in-line with guidance. The largest program in the Opportunity Set was the Next Generation Interceptor (NGI), which LMT won in April 2024 following a competition against NOC.
- LMT was awarded a \$3.69BB contract in March 2021 for the program's development phase competing against a NOC-RTX team for the \$17BB program (potential upside from additional interceptors) to replace up to 20 ground-based interceptors.

Source: Jefferies estimates, company data

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Lockheed Martin (LMT): Missiles and Fire Control Leads the Pack Up 9% 2025 (19% of 2025E Revenues, 24% of EBIT)

Missile and Fire Control Revenue Build - 9% Revenue Growth in 2025E Led by Tactical Missiles (\$MM)

Missiles and Fire Control Revenue Build										2023-2027 CAGR
	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	
Air & Missile Defense										
PAC-3	\$1,750	\$2,100	\$2,400	\$2,400	\$2,250	\$2,650	\$2,850	\$3,050	\$3,200	10%
THAAD	1,150	1,300	1,200	1,100	1,050	1,100	1,100	1,100	1,100	1%
MEADS	50	50	50	50	50	50	50	50	50	0%
Other	276	501	637	673	708	407	417	482	520	-7%
Total Air & Missile Defense	\$3,226	\$3,951	\$4,287	\$4,223	\$4,058	\$4,207	\$4,417	\$4,682	\$4,870	#REF!
% change	18%	22%	9%	-1%	-4%	4%	5%	6%	4%	
Tactical Missiles										
MLRS/GMLRS	\$600	\$750	\$750	\$725	\$725	\$900	\$950	\$1,000	\$1,050	10%
Hellfire	700	900	900	875	900	950	950	950	950	1%
JASSM	525	550	600	600	650	775	825	900	950	10%
ATACMS	520	520	500	510	520	500	500	500	500	-1%
Javelin	210	210	210	210	210	240	260	280	280	7%
JAGM	250	250	300	300	250	275	300	300	300	5%
Other	1,747	1,977	2,103	2,117	2,226	3,064	3,857	4,247	4,638	12%
Total Tactical Missile	\$4,552	\$5,157	\$5,363	\$5,337	\$5,481	\$6,704	\$7,642	\$8,177	\$8,668	12%
% change	37%	13%	4%	-1%	3%	22%	14%	7%	6%	
Fire Control										
Apache	\$700	\$700	\$650	\$650	\$650	\$650	\$650	\$650	\$650	0%
SNIPER	375	375	300	250	250	250	250	250	250	0%
LANTIRN	375	375	375	375	375	375	375	375	375	0%
SOF GLSS/Other	462	382	401	171	128	170	192	214	236	17%
Total Fire Control	\$1,912	\$1,832	\$1,726	\$1,446	\$1,403	\$1,445	\$1,467	\$1,489	\$1,511	2%
% change	1%	-4%	-6%	-16%	-3%	3%	1%	1%	1%	
Energy										
	\$152	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	N/A
% change	-30%	-100%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Other										
	\$288	\$317	\$317	\$311	\$311	\$326	\$331	\$336	\$341	2%
Total Missiles and Fire Control Segment										
	\$10,131	\$11,257	\$11,693	\$11,317	\$11,253	\$12,682	\$13,857	\$14,684	\$15,389	8%
% change	20%	11%	4%	-3%	-1%	13%	9%	6%	5%	
Profitability										
Operating Profit	\$1,441	\$1,545	\$1,650	\$1,637	\$1,541	\$413	\$1,931	\$2,047	\$2,145	9%
% change	15%	7%	7%	-1%	-6%	-73%	368%	6%	5%	
Operating Margin	14.2%	13.7%	14.1%	14.5%	13.7%	3.3%	13.9%	13.9%	13.9%	

- The 2025 revenue framework points to a HSD advance with guidance of \$13.75BB implying 8% growth at midpoint, again serving as the strongest growth driver into 2025. The opportunity is supported by investments that LMT has made for production capacity to meet US restocking requirements and global interest through 2027, with the growth drivers being largely intact y-o-y, coming from GMLRS, HIMARS, PAC-3, JASSM, and LRASM in particular.

Source: Jefferies estimates, company data

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Lockheed Martin (LMT): MFC Mix Impacts Profit: +4% Adj Segment EBIT Growth in 2025E vs Top Line +5%

Segment EBIT Bridges - Segment Margins Step Down 10 Bps On an Adjusted Basis in 2025 on MFC/Aero Mix / Margins +240 bps on a GAAP Basis (\$MM)

Aeronautics	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Start EBIT	\$2,272	\$2,521	\$2,843	\$2,799	\$2,866	\$2,825	\$2,523	\$2,940	\$3,082
Volume	262	274	52	25	52	118	62	111	117
Net change in EAC adjustments	11	40	(70)	42	(10)	(375)	355	30	30
Mix	(25)	9	(26)	0	(83)	(44)	0	0	0
Other	0	0	0	0	0	0	0	0	0
End EBIT	\$2,521	\$2,843	\$2,799	\$2,866	\$2,825	\$2,523	\$2,940	\$3,082	\$3,229
% Margin	10.6%	10.8%	10.5%	10.6%	10.3%	8.8%	10.0%	10.1%	10.2%
Missiles and Fire Control	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Start EBIT	\$1,248	\$1,441	\$1,545	\$1,648	\$1,637	\$1,541	\$413	\$1,931	\$2,047
Volume	246	160	60	(53)	(9)	68	38	115	98
Net change in EAC adjustments	(23)	(59)	85	32	(98)	(1,200)	1,450	0	0
Mix	(30)	3	(42)	10	11	5	30	0	0
Other	0	0	0	0	0	0	0	0	0
End EBIT	\$1,441	\$1,545	\$1,648	\$1,637	\$1,541	\$413	\$1,931	\$2,047	\$2,145
% Margin	14.2%	13.7%	14.1%	14.5%	13.7%	3.3%	13.9%	13.9%	13.9%
Rotary and Mission Systems	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Start EBIT	\$1,302	\$1,421	\$1,615	\$2,030	\$1,906	\$1,865	\$1,921	\$2,055	\$2,144
Volume	80	81	80	(78)	11	115	114	69	73
Net change in EAC adjustments	39	70	80	(47)	(71)	(155)	0	0	0
Mix	0	42	23	0	20	96	20	20	20
Other	0	0	232	0	0	0	0	0	0
End EBIT	\$1,421	\$1,615	\$2,030	\$1,906	\$1,865	\$1,921	\$2,055	\$2,144	\$2,237
% Margin	9.4%	10.1%	12.1%	11.8%	11.5%	11.1%	11.2%	11.3%	11.4%
Space	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Start EBIT	\$1,055	\$1,191	\$1,149	\$1,134	\$1,057	\$1,158	\$1,226	\$1,240	\$1,310
Volume	113	112	(6)	(27)	98	0	34	51	55
Net change in EAC adjustments	120	(100)	100	(20)	40	(55)	(20)	0	0
Mix	(97)	(54)	(109)	(30)	(37)	123	0	20	20
Other	0	0	0	0	0	0	0	0	0
End EBIT	\$1,191	\$1,149	\$1,134	\$1,057	\$1,158	\$1,226	\$1,240	\$1,310	\$1,385
% Margin	11.0%	9.7%	9.6%	9.2%	9.2%	9.8%	9.7%	9.8%	10.0%
Total Segment Margin	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Start EBIT	\$5,877	\$6,574	\$7,152	\$7,611	\$7,465	\$7,389	\$6,084	\$8,166	\$8,583
Volume	702	627	186	(133)	152	300	247	347	343
Net change in EAC adjustments	147	(49)	195	7	(139)	(1,785)	1,785	30	30
Mix	(152)	(0)	(154)	(20)	(89)	180	50	40	40
Other	0	0	232	0	0	0	0	0	0
End EBIT	\$6,574	\$7,152	\$7,611	\$7,465	\$7,389	\$6,084	\$8,166	\$8,583	\$8,997
% Margin	11.0%	10.9%	11.4%	11.3%	10.9%	8.6%	11.0%	11.1%	11.2%

2025 Aero margins increase 110 bps given the lapping of charges that included a \$555MM charge on a classified program. Adjusted for the charge, 2025 margins are down 30 bps from 10.2% adjusted in 2024 on mix with zero margin classified work. F-35 margins are

MFC sees the largest GAAP improvement with 2024 margins of 3.3% or 14.4% adjusted for the \$1.4BB of classified losses. Margins are down 40 bps on a core basis as zero margin classified work filters through results.

Margins expand 10 bps in 2025 as Sikorsky benefits from productivity post the 2024 absorption issues.

Margins decline 10 bps in 2025 on lower net EAC adjustments while ULA equity earnings are flat.

- LMT guided to segment operating profit of \$8.1 to \$8.2BB, up ~4% at the midpoint from adjusted numbers. Off of Adjusted numbers, Aero and MFC margins decline on classified mix, while RMS has some runway (+10 bps).

Source: Jefferies estimates, company data

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Jefferies

Lockheed Martin (LMT): MFC Mix Impacts Profit: +4% Adj Segment EBIT Growth in 2025E vs Top Line +5%

Consolidated EBIT Bridge - Adj Op Margins Fall in 2025 at 12.1% vs. 12.5% Given Mix/Pension - Up 220 BPS on GAAP Basis Given Charges (\$MM)

Total Company	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Start EBIT	\$7,334	\$8,545	\$8,644	\$9,123	\$8,348	\$8,507	\$7,013	\$8,981	\$9,398
Volume	702	627	186	(133)	152	300	247	347	343
Net change in EAC adjustments	147	(49)	195	7	(139)	(1,785)	1,785	30	30
Mix	(152)	(0)	(154)	(20)	(89)	180	50	40	40
FAS/CAS Adj.	246	(173)	84	(251)	(49)	(36)	(104)	0	0
Stock-based compensation	172	51	27	0	0	0	0	0	0
Severance/Corporate	96	(357)	(144)	(327)	286	(152)	(11)	0	0
Other adjustments	0	0	285	(51)	(2)	(1)	1	0	0
End EBIT	\$8,545	\$8,644	\$9,123	\$8,348	\$8,507	\$7,013	\$8,981	\$9,398	\$9,812
% Margin	14.3%	13.2%	13.6%	12.7%	12.6%	9.9%	12.1%	12.1%	12.2%

- We show our EBIT bridge for the entire company. Volume is a tailwind on improving supply chain issues, while mix is a headwind tied to development work MFC/Aero. We forecast operating margins of 12.1% in 2025, up from 9.9% in 2024. Margins are down from the 12.5% adjusted margins (ex charges) given both mix and pension headwind.
- In terms of the 2025 operating income walk, business segment operating profit of \$8.1 to 8.2BB sees a FAS/CAS operating adjustment of \$1,520MM (vs \$1,624MM in 2024) and other, net of \$705MM (vs. \$694MM in 2024)

Source: Jefferies estimates, company data

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Jefferies

Lockheed Martin (LMT): Reenergizing FCF Growth w/Cleaner Path Given Pension Prefund

FCF Build - Share Repurchases and Dividends a Focus of Capital Deployment With FCF Growth Resurgence in 2025 Given Pension Prefund (\$MM)

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Net Income	\$6,230	\$6,833	\$6,315	\$5,732	\$6,920	\$5,336	\$6,332	\$6,671	\$7,007
Depreciation and Amortization	1,189	1,290	1,364	1,404	1,430	1,559	1,608	1,657	1,706
NWC	(672)	101	9	(733)	317	(294)	215	143	(456)
Pension Contributions	0	(1,197)	(267)	(412)	(378)	(861)	391	(605)	395
Deferred Income Taxes	222	60	(183)	(757)	(498)	(588)	(240)	(150)	(150)
Section 174 R&D Amortization	0	0	0	(600)	(575)	(450)	(325)	(250)	(175)
Stock Comp/Non-Cash Gain/Pension	342	1,096	1,983	3,168	704	2,270	585	700	625
CFO	\$7,311	\$8,183	\$9,221	\$7,802	\$7,920	\$6,972	\$8,565	\$8,166	\$8,951
Capex	(1,484)	(1,766)	(1,522)	(1,670)	(1,691)	(1,685)	(1,894)	(1,881)	(1,906)
FCF	\$5,827	\$6,417	\$7,699	\$6,132	\$6,229	\$5,287	\$6,672	\$6,285	\$7,045
FCF per Share	\$20.53	\$22.82	\$27.85	\$23.17	\$24.80	\$22.10	\$28.60	\$27.42	\$31.27
Adj FCF ex-Section 174	\$5,827	\$6,417	\$7,699	\$6,732	\$6,804	\$5,737	\$6,997	\$6,535	\$7,220
Adj FCF per Share ex-Section 174	\$20.53	\$22.82	\$27.75	\$25.44	\$27.09	\$23.98	\$30.00	\$28.51	\$32.05
Deployment									
Dividends	(\$2,556)	(\$2,764)	(\$2,940)	(\$3,016)	(\$3,056)	(\$3,059)	(\$3,121)	(\$3,221)	(\$3,324)
Share Repurchases	(1,200)	(1,100)	(4,087)	(7,900)	(6,000)	(3,700)	(3,000)	(3,000)	(3,000)
Debt Paydown	(900)	(1,650)	(500)	(2,250)	(115)	(168)	0	0	0
Debt Issuance	(600)	1,131	0	6,211	1,975	2,970	0	0	0
Acquisitions	0	(282)	0	0	0	0	0	0	0
Total Deployment	(\$5,256)	(\$4,665)	(\$7,527)	(\$6,955)	(\$7,196)	(\$3,957)	(\$6,121)	(\$6,221)	(\$6,324)
Discretionary FCF	\$571	\$2,034	\$172	(\$823)	(\$967)	\$1,330	\$550	\$64	\$722
Ratios									
FCF to Net Income Conversion	94%	94%	122%	107%	90%	99%	105%	94%	101%
FCF Yield (FCF / Mkt Cap.)	4.0%	4.4%	5.3%	4.2%	4.3%	3.6%	4.6%	4.3%	4.8%
FCF Yield ex-Pension (FCF / Mkt Cap.)	2.6%	4.0%	4.2%	3.2%	3.3%	3.6%	4.6%	4.3%	4.8%
FCF % Change YoY	NM	10%	20%	-20%	2%	-15%	26%	-6%	12%
Discretionary FCF Yield	0.4%	1.4%	0.1%	-0.6%	-0.7%	0.9%	0.4%	0.0%	0.5%
Discretionary FCF % Change YoY	-127%	256%	-92%	-578%	17%	-238%	-59%	-88%	1033%
Dividend Yield	1.7%	1.9%	2.0%	2.1%	2.1%	2.1%	2.1%	2.2%	2.3%
Dividend as a % of Net Income	41%	40%	47%	53%	44%	57%	49%	48%	47%
Share Repo as % of Mkt Cap	1%	1%	3%	5%	4%	3%	2%	2%	2%
% of Cash Returned to Shareholders	64%	60%	91%	178%	145%	128%	92%	99%	90%
Capex as a % of Sales	3.7%	4.4%	3.2%	3.3%	3.1%	2.8%	2.9%	2.8%	2.9%

Source: Jefferies estimates, company data

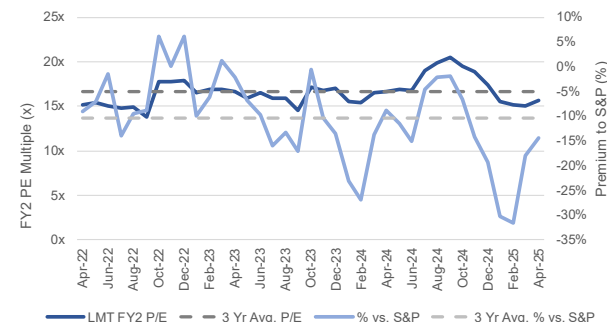
Lockheed Martin (LMT): Relative Valuation to History

Price Target Derivation

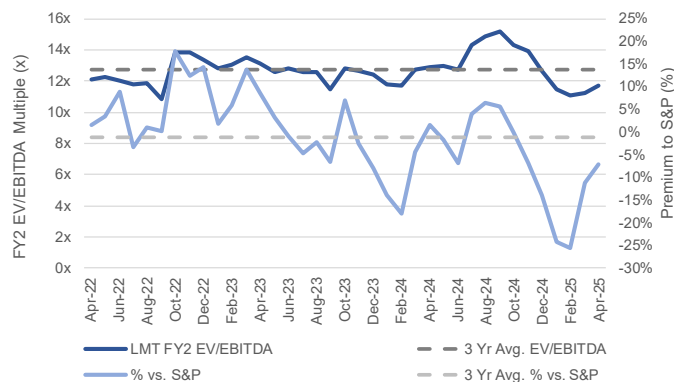
Ticker	LMT
Current P/E	15.6x
3 Yr Avg. P/E	16.6x
Current / 3 Yr Avg.	-6%
Prem / Discst SP	-14%
3 Yr Prem / Discst SP	-10%
S&P500 Multiple	18.2x
Current EV/EBITDA	11.7x
3 Yr Avg. EV/EBITDA	12.7x
Current / 3 Yr Avg.	-8%
Prem / Discst SP	-7%
3 Yr Prem / Discst SP	-1%
S&P500 Multiple	12.6x
Current FCF Yield	6.3%
3 Yr Avg. FCF Yield	5.8%
Current / 3 Yr Avg.	-8%
Prem / Discst SP	-26%
3 Yr Prem / Discst SP	-18%
S&P500 Multiple	4.7%

Valuation Method	Price	Assumptions
EV/EBITDA	508	12.1x EV/EBITDA on 2026 EBITDA of \$11.1BB
P/E	484	16.6x P/E on 2026 EPS of \$29.10
FCF	509	5.4% FCF Yield on 2026 FCF of \$6.3BB
Average	\$500	Blended average

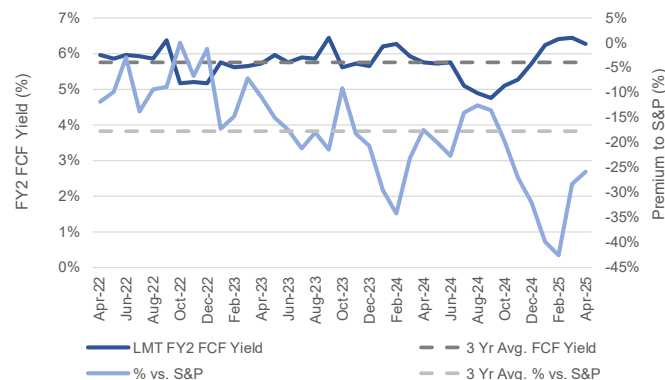
FY2 P/E: 14% Disct to Mkt vs. Historical Avg Disct of 10%



FY2 EBITDA: 7% Disct to Mkt vs. Historical Avg Disct of 1%



FY2 FCF Yield: 26% Disct to Mkt vs. Historical Avg Disct of 18%



Source: Jefferies estimates, company data

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Lockheed Martin (LMT): Annual Income Statement

Year Ending Dec. (MM, except per share data)

	2020		2021		2022		2023		2024		2025E		2026E		2027E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$65,398	100.0%	\$67,044	100.0%	\$65,984	100.0%	\$67,571	100.0%	\$71,043	100.0%	\$74,283	100.0%	\$77,363	100.0%	\$80,428	100.0%
Costs and expenses																
Segment COGS	56,754	86.8%	58,122	86.7%	57,841	87.7%	59,267	87.7%	64,243	90.4%	65,525	88.2%	70,286	90.9%	73,029	90.8%
Other income, net	0	0.0	(201)	(0.3)	(205)	(0.3)	(203)	(0.3)	(213)	(0.3)	(223)	(0.3)	(2,321)	(3.0)	(2,413)	(3.0)
Total operating costs	56,754	86.8%	57,921	86.4%	57,636	87.3%	59,064	87.4%	64,030	90.1%	65,302	87.9%	67,965	87.9%	70,616	87.8%
Segment profit (EBIT)	8,644	13.2%	9,123	13.6%	8,348	12.7%	8,507	12.6%	7,013	9.9%	8,981	12.1%	9,398	12.1%	9,812	12.2%
Net interest expense	(591)		(569)		(623)		(916)		(1,036)		(1,072)		(1,085)		(1,085)	
Other income (expense)	182		(1,004)		(1,045)		507		243		(391)		(395)		(395)	
Income before taxes (GAAP)	8,235	12.6%	7,550	11.3%	6,680	10.1%	8,098	12.0%	6,220	8.8%	7,518	10.1%	7,918	10.2%	8,332	10.4%
Taxes (rate %)	(1,347)	16.4%	(1,235)	16.4%	(948)	14.2%	(1,178)	14.5%	(884)	14.2%	(1,186)	15.8%	(1,247)	15.8%	(1,325)	15.9%
Noncontrolling interests	0		0		0		0		0		0		0		0	
Net Income (GAAP)	6,888	10.5%	6,315	9.4%	5,732	8.7%	6,920	10.2%	5,336	7.5%	6,332	8.5%	6,671	8.6%	7,007	8.7%
Other one-off items	\$0		\$0		\$1,474		\$38		\$1,360		\$0		\$0		\$0	
Net Income (Adjusted)	6,888	10.5%	6,315	9.4%	7,206	10.9%	6,958	10.3%	6,696	9.4%	6,332	8.5%	6,671	8.6%	7,007	8.7%
GAAP EPS	\$24.50		\$22.76		\$21.66		\$27.55		\$22.31		\$27.15		\$29.10		\$31.10	
Adjusted Diluted EPS	\$24.50		\$22.76		\$27.23		\$27.70		\$27.99		\$27.15		\$29.10		\$31.10	
Basic shares (millions)	280.0		276.4		262.9		250.3		238.3		232.3		228.4		224.4	
Diluted shares (millions)	281.2		277.4		264.6		251.2		239.2		233.2		229.3		225.3	

Source: Jefferies estimates, company data

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Jefferies

Lockheed Martin (LMT): Annual Selected Operating Metrics

Year Ending Dec. (MM, except per share data)

	2020	% of sales	2021	% of sales	2022	% of sales	2023	% of sales	2024	% of sales	2025E % of sales	2026E % of sales	2027E % of sales	
Revenue														
Aeronautics	26,266	40%	26,748	40%	26,987	41%	27,474	41%	28,618	40%	29,319	39%	30,430	39%
Missiles and Fire Control	11,257	17%	11,693	17%	11,317	17%	11,253	17%	12,682	18%	13,857	19%	14,684	19%
Rotary and Mission Systems	15,995	24%	16,789	25%	16,148	24%	16,239	24%	17,264	24%	18,285	25%	18,903	24%
Space	11,880	18%	11,814	18%	11,532	17%	12,605	19%	12,479	18%	12,822	17%	13,346	17%
Total Segment Revenue	65,398	100%	\$67,044	100%	65,984	100%	67,571	100%	71,043	100%	74,283	100%	77,363	100%
Eliminations/others	0		0		0		0		0		0		0	
Total Revenue	65,398	100%	\$67,044	100%	65,984	100%	67,571	100%	71,043	100%	74,283	100%	77,363	100%
Operating Income (margin)														
Aeronautics	2,843	10.8%	2,800	10.5%	2,867	10.6%	2,825	10.3%	2,523	8.8%	2,940	10.0%	3,082	10.1%
Missiles and Fire Control	1,545	13.7%	1,650	14.1%	1,637	14.5%	1,541	13.7%	413	3.3%	1,931	13.9%	2,047	13.9%
Rotary and Mission Systems	1,615	10.1%	2,030	12.1%	1,906	11.8%	1,865	11.5%	1,921	11.1%	2,055	11.2%	2,144	11.3%
Space	1,149	9.7%	1,184	10.0%	1,057	9.2%	1,158	9.2%	1,226	9.8%	1,240	9.7%	1,310	9.8%
Segment Operating Income	7,152	10.9%	7,664	11.4%	7,467	11.3%	7,389	10.9%	6,083	8.6%	8,166	11.0%	8,583	11.1%
FAS/CAS Adj. & Other	1,492		1,459		881		1,118		930		815		815	
Total Operating Income	8,644	13.2%	\$9,123	13.6%	8,348	12.7%	8,507	12.6%	7,013	9.9%	8,981	12.1%	9,398	12.1%
Revenue YoY % change														
Aeronautics	11%		2%		1%		2%		4%		2%		3.8%	
Missiles and Fire Control	11%		4%		-3%		-1%		13%		9%		6%	
Rotary and Mission Systems	6%		5%		-4%		1%		6%		6%		3%	
Space	9%		-1%		-2%		9%		-1%		3%		4%	
Total Revenue	9%		3%		-2%		2.4%		5.1%		4.6%		4.1%	
Operating profit change YoY														
Aeronautics	13%		-2%		2%		-1%		-11%		17%		5%	
Missiles and Fire Control	7%		7%		-1%		-6%		-73%		368%		6%	
Rotary and Mission Systems	14%		26%		-6%		-2%		3%		7%		4%	
Space	-4%		3%		-11%		10%		6%		1%		6%	
Total Operating Income	1%		6%		-8%		2%		-18%		28%		5%	
Incremental	2%		29%		73%		10%		-43%		61%		14%	

Source: Jefferies estimates, company data

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Lockheed Martin (LMT): Cash Flow Statement

Year Ending Dec.

(millions, except per share data)	2020	2021	2022	2023	2024	2025E	2026E	2027E
Operating Activities								
Net income (incl. minorities)	6,833	6,315	5,732	6,920	5,336	6,332	6,671	7,007
Depreciation & Amortization	1,290	1,364	1,404	1,430	1,559	1,608	1,657	1,706
Pension Contribution	(1,197)	(267)	(412)	0	0	0	2	2
Other/Deferred Income Taxes	19	1,328	453	(910)	867	811	(7)	393
Op cash flow pre-working capital	8,122	8,740	7,177	7,440	7,762	8,751	8,323	9,108
Change in inventory	74	564	(107)	(44)	(478)	(166)	(151)	(150)
Change in receivables	359	15	(542)	373	(219)	(100)	(102)	(101)
Change in payables	(372)	(98)	1,274	151	(93)	81	95	95
Changes in working capital	61	481	625	480	(790)	(185)	(157)	(156)
Cash Flow from Operations	8,183	9,221	7,802	7,920	6,972	8,565	8,166	8,951
Investment activities								
Capital expenditures	(1,766)	(1,522)	(1,670)	(1,691)	(1,685)	(1,894)	(1,881)	(1,906)
Net cash used in acquisitions	(282)	0	0	0	0	0	0	0
Other investing activities, net	38	361	(119)	(3)	(107)	0	0	0
Cash Flow from Investments	(2,010)	(1,161)	(1,789)	(1,694)	(1,792)	(1,894)	(1,881)	(1,906)
Financing Activities								
Issuance/repurchase of common stock	(1,100)	(4,087)	(7,900)	(6,000)	(3,700)	(3,000)	(3,000)	(3,000)
Cash dividends paid	(2,764)	(2,940)	(3,016)	(3,056)	(3,059)	(3,121)	(3,221)	(3,324)
Proceed from stock options	0	0	0	0	0	0	0	0
Repayments of long-term debt	(1,650)	(500)	(2,250)	(115)	(168)	0	0	0
Issuance of long-term debt	1,131	0	6,211	1,975	2,970	0	0	0
Other financing cash flows	987	(89)	0	0	2,788	0	0	0
Cash Flow from Financing	(4,527)	(7,616)	(7,070)	(7,331)	(4,139)	(6,121)	(6,221)	(6,324)
Effect of FX	0	0	0	0	0	0	0	0
Net change in cash items	1,646	444	(1,057)	(1,105)	1,041	550	64	722
Cash at the beginning of the period	1,514	3,160	3,604	2,547	1,442	2,483	3,033	3,097
Cash at the end of the period	3,160	3,604	2,547	1,442	2,483	3,033	3,097	3,819

Source: Jefferies estimates, company data

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Loar Holdings (LOAR) – Buy \$110 PT

- 1) Revs Advanced +11% Organic in Q1 (25% Total) w 12% Anticipated in 2025 (21% Total)
- 2) Conservatism in the OE Guidance of HSD w/MAX Content Expected to Exit at 30/mo.
- 3) Margins Expected +150 bps Y-o-Y Incl 110 bps from Applied Avionics Accretion
- 4) PF Net Leverage of 3.2X Provides Ample Capacity for M&A

Related Notes:

- [LOARd of All that Flies in Defense and Aftermarket](#) *May 15, 2025*
- [Equity Offering 40% Accretive to 2025 EPS, Float Up 52%, Leverage Down to 1.6X](#) *December 16, 2024*
- [Gimmie Gimmie LOAR](#) *November 17, 2024*

Revenue Expected to Grow at a 9% Organic CAGR Through 2027E

Organic CAGR 9% Organic CAGR Expected in 2025-27E

LOAR Revenue	2021	2022	2023	2024E	2025E	2026E	23-'26E CAGR	Organic CAGR
Commercial OEM	\$28	\$41	\$55	\$66	\$78	\$101	23%	17%
Commercial AM	52	67	89	122	154	171	24%	20%
Business Jet OEM	21	31	47	60	64	65	11%	5%
Business Jet AM	14	17	29	37	40	43	14%	4%
Military OEM	29	27	30	34	42	41	11%	11%
Military AM	29	32	29	34	53	57	26%	26%
Non-Aviation OEM	1	13	21	21	21	21	1%	1%
Non-Aviation AM	17	13	17	17	17	18	1%	1%
Total Revenue	\$189	\$239	\$317	\$391	\$469	\$518	18%	14%

Revenue (% Change)

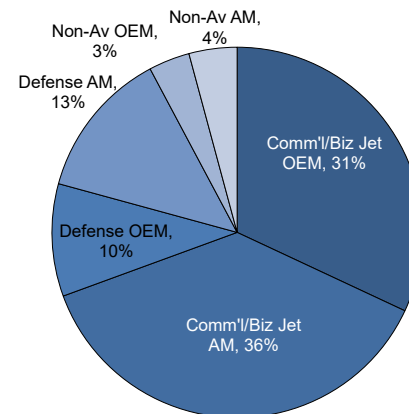
Commercial OEM		46%	34%	20%	19%	30%
Commercial AM		28%	34%	36%	27%	11%
Business Jet OEM		49%	51%	29%	5%	2%
Business Jet AM		22%	70%	29%	8%	7%
Military OEM		-7%	14%	12%	22%	-1%
Military AM		11%	-9%	18%	57%	7%
Non-Aviation OEM		2425%	67%	0%	-1%	3%
Non-Aviation AM		-22%	34%	0%	-1%	3%
Total % Change	15%	27%	33%	23%	20%	10%
% Organic		27%	27%	12%	13%	10%

Revenue (% Composition)

Commercial OEM	15%	17%	17%	17%	17%	20%
Commercial AM	28%	28%	28%	31%	33%	33%
Business Jet OEM	11%	13%	15%	15%	14%	12%
Business Jet AM	7%	7%	9%	10%	9%	8%
Military OEM	15%	11%	10%	9%	9%	8%
Military AM	15%	13%	9%	9%	11%	11%
Non-Aviation OEM	0%	5%	7%	5%	4%	4%
Non-Aviation AM	9%	5%	5%	4%	4%	3%
Total Revenue	100%	100%	100%	100%	100%	100%

Operating Margin %	12.5%	16.5%	21.9%	22.0%	23.5%	25.9%
EBITDA Margin %	41.1%	44.5%	37.8%	38.8%	44.5%	49.7%

2024A End Market Revenue Split - Commercial Aftermarket the Largest Sub-Segment



- In 2025, we expect Commercial OE to be up 10% on a consolidated basis organically with large commercial OE up 14% organically and BGA OEM up 6% organically based on our production estimates for key platforms. The company has guided to HSD Commercial OE organic growth this year including an exit rate of 30/mo on the MAX (our est 29/mo in the year) and 50/mo exit on the A320neo in guidance (our est 50/mo in the year) including some conservatism.

Source: Jefferies estimates, company data

Loar Holdings (LOAR): Commercial OEM Outlook: 8% Organic CAGR Driven by Conservative Narrowbody Ramp

Commercial OE Expected to Grow at a 13% Organic CAGR Through FY27E (17% Total)

Commercial OE Build	2021	2022	2023	2024	2025E	2026E	2027E	% CAGR
A220	60	53	68	75	91	100	125	19%
A320	489	516	571	557	580	708	765	11%
A330	24	32	32	32	37	39	44	11%
A350	48	62	64	57	57	70	85	14%
A380	0	0	0	0	0	0	0	--
B737	177	302	345	220	352	480	540	35%
B747	7	5	1	0	0	0	0	--
B767	31	36	32	26	28	36	18	-12%
B777	24	24	24	20	24	18	14	-11%
B787	0	3	0	6	6	18	24	59%
E-Jet	48	56	63	73	80	90	95	9%
Total Production	908	1,089	1,200	1,066	1,255	1,559	1,710	17%

Content per Shipset (\$K)								
A220	\$20	\$20	\$20	\$20	\$20	\$20	\$20	
A320	\$35	\$35	\$35	\$35	\$35	\$35	\$35	
A330	\$60	\$60	\$60	\$60	\$60	\$60	\$60	
A350	\$60	\$60	\$60	\$60	\$60	\$60	\$60	
A380	\$60	\$60	\$60	\$60	\$60	\$60	\$60	
B737	\$55	\$55	\$55	\$55	\$55	\$55	\$55	
B747	\$45	\$45	\$45	\$45	\$45	\$45	\$45	
B767	\$60	\$60	\$60	\$60	\$60	\$60	\$60	
B777	\$60	\$60	\$60	\$60	\$60	\$60	\$60	
B787	\$60	\$60	\$60	\$60	\$60	\$60	\$60	
E-Jet	\$20	\$20	\$20	\$20	\$20	\$20	\$20	

Revenue Per Platform (\$MMs)								
A220	\$1	\$1	\$1	\$2	\$2	\$2	\$3	19%
A320	17	18	20	19	20	25	27	11%
A330	1	2	2	2	2	2	3	11%
A350	3	4	4	3	3	4	5	14%
A380	-	-	-	-	-	-	-	--
B737	10	17	19	12	19	26	30	35%
B747	0	0	0	-	-	-	-	--
B767	2	2	2	2	2	2	1	-12%
B777	1	1	1	1	1	1	1	-11%
B787	-	0	-	0	0	1	1	59%
E-Jet	1	1	1	1	2	2	2	9%
Other	(9)	(6)	4	22	31	32	33	15%
Total Commercial OE Sales	\$28	\$41	\$55	\$65	\$83	\$98	\$105	17%
<i>Total % Change</i>		46%	34%	19%	28%	18%	7%	

- LOAR generates 17% of sales from Large Commercial OEM content. Content is across most major platforms at Airbus and Boeing in addition to Embraer E-Jets.
- 737 MAX (Est \$55K per Shipset, 6% of Sales):** We estimate a 29/mo rate in 2025E.
- A320neo (Est \$35K per Shipset, 6% of Sales):** We est 48/mo in 2025E.
- A220 (Est \$20K per Shipset, 1% of Sales):** We est 8/mo in 2025E.
- A330 (Est \$60K per Shipset, 1% of Sales):** We est 3/mo in 2025E.
- A350 (Est \$60K per Shipset, 1% of Sales):** We est 5/mo in 2025E.
- 767 (Est \$60K per Shipset, 1% of Sales):** We est 2/mo in 2025E.
- 787 (Est \$60K per Shipset, 1% of Sales):** We estimate 1/mo in 2025E.
- All in, LOAR shipsets grow at a 17% CAGR from 2025-27E with revenues also up at a 17% rate (13% organic). We assume 14% large Commercial OE organic growth this year with overall OE up 10% given more moderate BGA growth.

Source: Jefferies estimates, company data

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Loar Holdings (LOAR): Commercial OEM Outlook: 8% Organic CAGR Driven by Conservative Narrowbody Ramp

- In Business Aviation, which accounts for 24% of LOAR 2025E sales, the company has content on a variety of platforms including the entire Citation Jet portfolio as well as the G280, G550, G500, G600, and G650 at Gulfstream, the Falcon 2000 and Falcon 6X at Dassault, and the Phenom 100 and 300 at Embraer. Additionally, LOAR has content on the King Air turboprop portfolio at TXT.
- LOAR has disclosed that it has content on various business jets, but it does not disclose shipset content. We back into content in our business jet OE revenue build below, which implies an 3% revenue CAGR through 2027E based on our delivery estimates.
- The company does not break out organic growth within BGA separate from Commercial OE, but on a reported basis BGA OE was up 20% y-o-y including M&A contribution in Q1:25. We estimate 76% organic growth for BGA OE this year supported by ramping platforms such as the G600 and King Airs.

Business Jet OE Revenues (15% of Sales) Expected to Expand at an 3% Organic CAGR

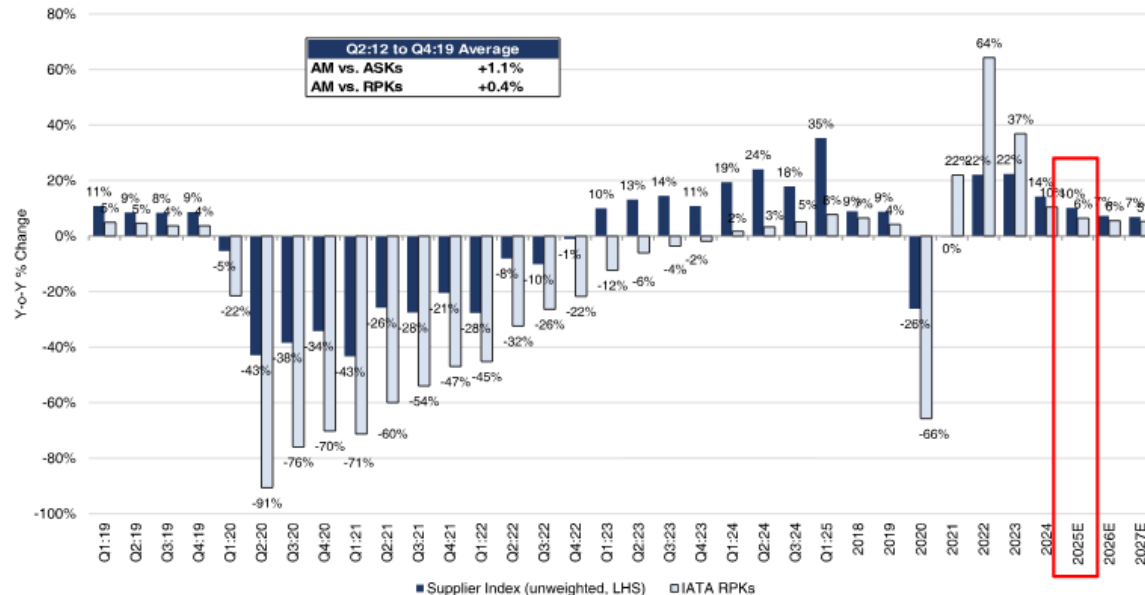
Biz Jet OE Build	2021	2022	2023	2024	2025E	2026E	2027E	% CAGR
G280	16	24	22	18	20	20	20	4%
G550	7	4	3	2	1	0	0	-100%
G500	28	25	18	24	35	35	35	13%
G600	29	29	31	34	40	40	40	6%
G650	39	38	37	28	6	0	0	-100%
Falcon 2000	13	15	9	11	8	8	5	-23%
Falcon 6X	0	0	4	4	10	13	17	62%
Citation Family	167	178	168	151	190	212	222	14%
Phenom 100	6	7	11	10	10	10	10	0%
Phenom 300	56	59	63	65	65	65	65	0%
King Air	71	69	56	44	55	55	55	8%
SkyCourier	0	6	18	13	22	22	22	19%
Denali	0	0	0	0	0	5	5	--
Cirrus	528	629	708	731	735	735	735	0%
Pilatus	135	123	148	147	155	160	160	3%
Total Production	432	448	422	391	440	458	469	6%
Content per Shipset (\$K)								
G280	\$30	\$50	\$75	\$75	\$75	\$75	\$75	
G550	\$80	\$80	\$100	\$100	\$100	\$100	\$100	
G500	\$80	\$80	\$100	\$100	\$100	\$100	\$100	
G600	\$80	\$80	\$100	\$100	\$100	\$100	\$100	
G650	\$80	\$80	\$100	\$100	\$100	\$100	\$100	
Falcon 2000	\$75	\$75	\$100	\$100	\$100	\$100	\$100	
Falcon 6X	\$70	\$70	\$95	\$95	\$95	\$95	\$95	
Citation Family	\$30	\$50	\$70	\$70	\$70	\$70	\$70	
Phenom 100	\$30	\$50	\$70	\$70	\$70	\$70	\$70	
Phenom 300	\$30	\$50	\$70	\$70	\$70	\$70	\$70	
King Air	\$20	\$20	\$30	\$30	\$30	\$30	\$30	
SkyCourier	\$20	\$20	\$30	\$30	\$30	\$30	\$30	
Denali	\$20	\$20	\$30	\$30	\$30	\$30	\$30	
Cirrus	\$10	\$10	\$15	\$15	\$15	\$15	\$15	
Pilatus	\$20	\$20	\$30	\$30	\$30	\$30	\$30	
Revenue Per Platform (\$MMs)								
G280	\$0	\$1	\$2	\$1	\$2	\$2	\$2	4%
G550	1	0	0	0	0	-	-	-100%
G500	2	2	2	2	4	4	4	13%
G600	2	2	3	3	4	4	4	6%
G650	3	3	4	3	1	-	-	-100%
Falcon 2000	1	1	1	1	1	1	1	-23%
Falcon 6X	-	-	0	0	1	1	2	62%
Citation Family	5	9	12	11	13	15	16	14%
Phenom 100	0	0	1	1	1	1	1	0%
Phenom 300	2	3	4	5	5	5	5	0%
King Air	1	1	2	1	2	2	2	8%
SkyCourier	-	0	1	0	1	1	1	19%
Denali	-	-	-	-	-	0	0	--
Cirrus	5	6	11	11	11	11	11	0%
Pilatus	3	2	4	4	5	5	5	3%
Other	(5)	(1)	1	26	26	26	26	1%
Total Biz Jet OE Sales	\$21	\$31	\$47	\$70	\$74	\$75	\$76	3%
Total % Change								
		49%	51%	49%	6%	2%	1%	

Source: Jefferies estimates, company data

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Loar Holdings (LOAR): Commercial Aftermarket Outlook: 10% Organic CAGR with Support from an Aging Fleet

Aftermarket Revenue Correlated with Air Traffic - Quarterly AM Performance Within ~1pt of RPKs/ASKs from 2012 to 2019



- LOAR notes that the platforms served have a total life of aircraft up to 50 years, which provides steady streams of aftermarket revenue. Commercial Aftermarket accounts for 39% of LOAR sales in our 2025 estimates, including 30pts from Large Commercial and 9pts from Business Jet/General Aviation. There is another 14pts of mix from Military AM and 3pts from Non-Aviation AM, with the total AM accounting for 56% of sales and ~70% of EBITDA.
- Additionally, the focus on 85% proprietary and essential parts ensures a historically higher market than OEM content. The company's aftermarket business includes OEM parts replacement and repair, as well as a PMA business acquired with DAC. PMA accounts for 8% of sales largely related to this transaction.

Source: Jefferies estimates, company data

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Loar Holdings (LOAR): Commercial Aftermarket Outlook: 10% Organic CAGR with Support from an Aging Fleet

Out-of-Warranty Fleet Growing 2% in 2025E and 1% in 2026E Supporting Aftermarket Growth Ahead of Air Traffic

	2018	2019	2021	2022	2023	2024	2025	2026
Prior Year Starting Fleet	24,306	25,398	26,012	26,410	27,050	27,546	28,167	28,971
(+) Deliveries	1,653	1,259	933	1,152	1,275	1,198	1,421	1,709
% of Starting Fleet	6.8%	5.0%	3.6%	4.4%	4.7%	4.3%	5.0%	5.9%
(-) Retirements/Conversions	561	645	535	512	779	577	617	796
% of Starting Fleet	2.3%	2.5%	2.1%	1.9%	2.9%	2.1%	2.2%	2.7%
Ending Fleet	25,398	26,012	26,410	27,050	27,546	28,167	28,971	29,884

	2018	2019	2021	2022	2023	2024	2025	2026
0-5 Year Aircraft	7,647	7,472	6,127	5,719	5,341	5,280	5,979	6,755
% of Fleet	30%	29%	23%	21%	19%	19%	21%	23%
Y-o-Y % Change	4.7%	-2.3%	-9.0%	-6.7%	-6.6%	-1.1%	13.2%	13.0%
Change % vs. 2019			-18.0%	-23.5%	-28.5%	-29.3%	-20.0%	-9.6%
6+ Year Aircraft	17,751	18,540	20,283	21,331	22,205	22,887	22,992	23,129
% of Fleet	70%	71%	77%	79%	81%	81%	79%	77%
Y-o-Y % Change		4.4%		5.2%	4.1%	3.1%	0.5%	0.6%
Change % vs. 2019			9.4%	15.1%	19.8%	23.4%	24.0%	24.8%
Total Passenger Fleet	25,398	26,012	26,410	27,050	27,546	28,167	28,971	29,884
Y-o-Y % Change	4.5%	2.4%	1.6%	2.4%	1.8%	2.3%	2.9%	3.2%
Change % vs. 2019			1.5%	4.0%	5.9%	8.3%	11.4%	14.9%

Every 2pts of Aftermarket Growth Worth 1c to 2025E Adj EPS

		2025E Commercial AM Growth (%)						
		5%	7%	9%	11%	13%	15%	17%
Incremental Margin (%)	25%	\$0.73	\$0.73	\$0.74	\$0.74	\$0.75	\$0.75	\$0.76
	35%	\$0.72	\$0.73	\$0.73	\$0.74	\$0.75	\$0.76	\$0.76
	45%	\$0.71	\$0.72	\$0.73	\$0.74	\$0.75	\$0.76	\$0.77
	55%	\$0.71	\$0.72	\$0.73	\$0.74	\$0.75	\$0.77	\$0.78
	65%	\$0.70	\$0.71	\$0.73	\$0.74	\$0.76	\$0.77	\$0.78
	75%	\$0.69	\$0.71	\$0.73	\$0.74	\$0.76	\$0.77	\$0.79

- In Q1:25, the average aftermarket supplier grew 15% organically with LOAR slightly below at +12% (although in line with the other diversified names vs engine names ahead). The company guided to LDD Commercial Aftermarket growth in 2025 with average backlogs of 1-3 months reflecting strong demand ahead of capacity in the near term.
- Our estimate of 11% organic aftermarket growth is slightly below our industry model that supports low-teens aftermarket growth based on 6.5% air traffic growth, MSD pricing, 2% growth in out-of-warranty fleet, and some catch up given supply chain headwinds.
- We consider the impact of higher organic Commercial Aftermarket growth in the sensitivity below. Relative to our base case of 11% organic AM growth in 2025E, we consider the impact of incremental growth at a 55% incremental margin. Every 2pts of aftermarket growth is worth 1¢ to our 2025E EPS of \$0.74 (1%).

Source: Jefferies estimates, company data

Loar Holdings (LOAR): Military Growing at an 10% Organic CAGR Through 2027E

Defense OE Revenue (9% of LOAR) Could Expand at an 4% CAGR Through 2027

Defense OE Build	2021	2022	2023	2024	2025E	2026E	2027E	% CAGR
F-15	16	12	9	14	23	23	23	18%
F-16	0	0	5	16	24	36	48	44%
F/A-18	21	14	22	11	15	15	15	11%
F-35	142	141	147	150	156	156	156	1%
Eurofighter Typhoon	185	186	187	187	190	190	190	1%
T6	5	10	13	10	10	10	10	0%
V-22	15	13	8	14	3	2	0	-100%
KC-46	13	15	13	10	16	16	16	17%
KC-390	0	1	2	3	5	5	5	19%
E-2D	6	6	7	7	7	7	7	0%
C-130	22	24	24	24	24	24	24	0%
Total Production	425	422	437	446	473	484	494	3%

Content per Shipset (\$K)								
F-15	\$70	\$70	\$70	\$70	\$70	\$70	\$70	
F-16	\$70	\$70	\$70	\$70	\$70	\$70	\$70	
F/A-18	\$70	\$70	\$70	\$70	\$70	\$70	\$70	
F-35	\$70	\$70	\$70	\$70	\$70	\$70	\$70	
Eurofighter Typhoon	\$75	\$75	\$75	\$75	\$75	\$75	\$75	
T6	\$70	\$70	\$70	\$70	\$70	\$70	\$70	
V-22	\$75	\$75	\$75	\$75	\$75	\$75	\$75	
KC-46	\$80	\$80	\$80	\$80	\$80	\$80	\$80	
KC-390	\$80	\$80	\$80	\$80	\$80	\$80	\$80	
E-2D	\$70	\$70	\$70	\$70	\$70	\$70	\$70	
C-130	\$60	\$60	\$60	\$60	\$60	\$60	\$60	

Revenue Per Platform (\$MMs)								
F-15	\$1	\$1	\$1	\$1	\$2	\$2	\$2	18%
F-16	-	-	0	1	2	3	3	44%
F/A-18	1	1	2	1	1	1	1	11%
F-35	10	10	10	11	11	11	11	1%
Eurofighter Typhoon	14	14	14	14	14	14	14	1%
T6	0	1	1	1	1	1	1	0%
V-22	1	1	1	1	0	0	-	-100%
KC-46	1	1	1	1	1	1	1	17%
KC-390	-	0	0	0	0	0	0	19%
E-2D	0	0	0	0	0	0	0	0%
C-130	1	1	1	1	1	1	1	0%
Other	(2)	(4)	(1)	6	8	8	8	
Total Defense OE Sales	\$29	\$27	\$30	\$38	\$42	\$43	\$44	4%
Organic % Change		-7%	14%	26%	10%	2%	2%	

- Military represents 22% of LOAR sales. Content on ramping platforms such as the CH-53K is the primary driver of growth in this business, as well as sustainment volumes tied to utilization and long-term contracts with the services.
- The company grew defense 33% organically in Q1:25 with broad-based support, including some lumpiness in certain platform content. The company implies a deceleration to reach high-DD (17-20%) for 2025 incorporating some conservatism. We assume 22% growth this year driven by Military AM +30% while OE is up 10% in our est. Growth is supported by broad-based program growth including sustainment volumes for the F-35 airframe and engine.
- On our estimates the KC-46 and KC-390 are among the largest content platforms given the larger size of the aircraft. We estimate that military OE sales could expand at an 4% CAGR through 2027E with Aftermarket the primary driver of Military growth for overall Military growing at a 10% CAGR in our model.

Source: Jefferies estimates, company data

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Loar Holdings (LOAR): ~100 bps of Annual Margin Expansion with Operating Leverage and Positive Net Price

EBIT Bridge - Margin Expansion with Volume Leverage and Accretive M&A (MM, except per share data)

	2022	2023	2024	2025E	2026E	2027E	Cumulative 2025-2027E
Start EBIT	\$24	\$39	\$69	\$88	\$117	\$139	\$88
Volume	16	25	17	20	16	16	52
OEM	7	6	3	2	3	1	6
Aftermarket	9	20	14	18	13	15	46
Price	0	6	4	5	6	6	17
M&A	0	2	12	18	0	0	18
Productivity and Other	(0)	(4)	(15)	(14)	0	0	(14)
End EBIT	\$39	\$69	\$88	\$117	\$139	\$161	\$161
% Margin	16.5%	21.9%	21.8%	24.0%	26.3%	28.5%	
% Incremental	31%	38%	21%	35%	52%	62%	
OE Incremental	20%	20%	15%	15%	15%	15%	
AM Incremental	55%	55%	55%	55%	55%	55%	

- LOAR generated 37.6% EBITDA margins in Q1:25 following 36.3% in 2024, including 180 bps of accretion from Applied Avionics in the quarter (assuming a 52% margin). The levers to margin expansion from here include volume incrementals on LDD organic growth as well as productivity with certain initiatives underway. We assume ~100 bps of net price per year in 2025-27E with the 80 bps of gross margin expansion in 2024 driven by net price, partially offset by less favorable Defense mix. Positive net price is supported by dual- and sole-source positions on all of its products and 85% proprietary part mix.
- Aftermarket accounted for >70% of EBITDA and 52% of sales, implying a ~30% aftermarket operating margin in 2023 rising toward 50% over time. On the OEM side, we estimate EBIT margins in the mid-teens. This corresponds to an estimated 20% incremental for OEM sales and aftermarket incrementals of 55%, on our estimates.
- This supports ~100 bps of annual margin expansion toward 40.2% in 2027E from 36.3% in 2024. We assume 150 bps of margin expansion this year on the absence of transaction costs around the IPO and a full-year contribution from the margin accretive Applied Avionics deal. The acquisition of LMB could add another ~100 bps of accretion, but it is not yet incorporated into estimates.

Source: Jefferies estimates, company data

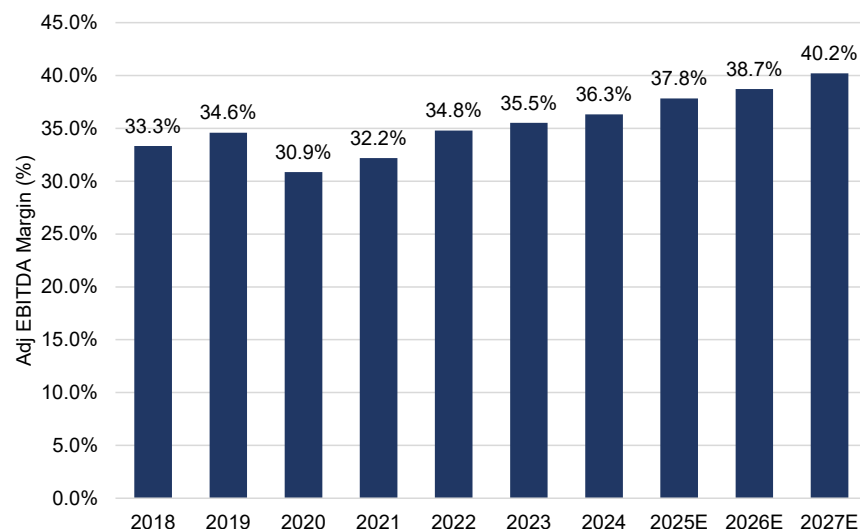
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Loar Holdings (LOAR): ~100 bps of Annual Margin Expansion with Operating Leverage and Positive Net Price

Adj EBITDA Margin Expansion Driven by Volume, Price, And Accretive M&A



- The company noted that pricing conversations have not materially changed in the past few months with pricing contribution likely higher in 2025 than 2024. Any incremental cost due to tariffs will be passed through dollar-for-dollar after the company verifies the cost increase with suppliers. There is not any material direct tariff impact to LOAR with current tariffs assessed in the guidance range.
- M&A can also be a lever for margin expansion through cost and revenue synergies, as well as acquiring assets with favorable mix. One example is General Ecology, which was acquired in 2016 and has more than tripled EBITDA since transaction close. LOAR improved profitability for the asset by implementing an ERP system, recruiting talent, optimizing the manufacturing process, implementing a KPI philosophy and customer-focused strategy, and focusing on part-specific pricing. Management looks to leverage the same strategy with its recently acquired Applied Avionics asset.

Source: Jefferies estimates, company data

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Loar Holdings (LOAR): FCF Conversion to Step Up to >125% in 2025, Supportive of Further Capital Deployment

FCF Build: Turn in Generation Supported by Debt Paydown and EBITDA Growth (MM, except per share data)

	2022	2023	2024	2025E	2026E
Net Income	(\$2)	(\$5)	\$22	\$60	\$82
Depreciation and Amortization	36	41	44	51	51
NWC	(20)	(21)	(26)	(29)	(14)
Deferred Taxes/Other	(1)	(2)	15	14	13
CFO	\$13	\$13	\$55	\$97	\$132
Capex	(8)	(12)	(9)	(14)	(12)
FCF	\$5	\$1	\$46	\$83	\$120

Deployment					
Dividends	\$0	\$0	\$0	\$0	\$0
Share Repurchases	0	0	0	0	0
Debt Paydown/Issuance	141	47	(258)	0	(105)
Acquisitions	(174)	(60)	(383)	0	0
Total Deployment	(\$33)	(\$13)	(\$641)	\$0	(\$105)

Discretionary FCF	(\$169)	(\$60)	(\$595)	\$83	\$15

Ratios					
FCF to Adj. Net Income Conversion			120%	115%	129%
FCF Y-o-Y		-87%	6689%	79%	45%
FCF to Sales Conversion	2%	0%	11%	17%	23%
FCF Yield (FCF / Mkt Cap.)	0.1%	0.0%	0.9%	1.7%	2.4%
Discretionary FCF Yield	-3.4%	-1.2%	-11.9%	1.7%	0.3%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Share Repo as % of Mkt Cap	0%	0%	0%	0%	0%
% of Cash Returned to Shareholders	0%	0%	0%	0%	0%
Interest Expense	\$42	\$67	\$52	\$28	\$23
ND/Adj EBITDA	5.4x	4.6x	1.5x	0.8x	0.1x

- LOAR ended Q1 with \$81MM of cash on the balance sheet and at 1.3X TTM EBITDA. PF for the acquisition of LMB expected to close in Q3, net leverage stands at ~3.2X. FCF generation improved materially to \$27MM in Q1 or 173% conversion from GAAP NI with Q2 a seasonally lighter quarter due to bonus payments and two cash tax payments (April & June). We estimate \$83MM in 2025E FCF supported by \$24MM lower interest expense and 45% EBITDA growth. The expected 16% CAGR for adj EBITDA from 2024 to 2027E helps to boost cash generation in the next few years. 2025 FCF was guided to >125%, with our estimate at 137% conversion to GAAP NI including 20% inventory growth.

- On working capital, the company used \$26MM of working capital in 2024, driven by a \$12MM use of inventory including some pre-buy of materials ahead of the tariffs. NWC was a \$4MM usage in Q1. We estimate an \$29MM use of working capital this year including another build in inventory to support growth.

Source: Jefferies estimates, company data

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Loar Holdings (LOAR): Valuation at a Premium to Peers Given Significant Runway for Accretive M&A

Price Target Derivation

Method	Target Price Assumptions	
EV/EBITDA	\$92	44.6X FY26 EBITDA of \$205MM
FCF Yield	\$127	1.0% FY26 FCF Yield
Average	\$110	Blended average

Relative Valuation Table (05/14/2025)

	Ticker	Stock Px 5/14/2025	Consensus BUY Rating	Market Cap	Enterprise Value	P/E			EV / Sales			EV/ EBITDA			Yield	
						2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	Dividend	FCF
Danaher	DHR	\$188	90%	134,417	150,973	24.4x	21.9x	19.8x	6.2x	5.8x	5.4x	19.7x	18.0x	16.4x	0.6%	4.5%
FTAI	FTAI	\$118	92%	12,138	15,739		17.5x	13.6x	6.8x	5.7x	4.9x	14.0x	11.3x	9.9x	1.0%	5.0%
General Electric Aero	GE	\$223	86%	238,060	248,179	40.4x	34.5x	29.9x	6.3x	5.7x	5.2x	26.4x	23.5x	21.3x	0.7%	3.1%
Heico	HEI	\$270	54%	14,831	40,541	60.8x	54.7x	48.2x	9.4x	8.8x	8.3x	35.4x	32.8x	30.5x	0.1%	2.5%
Roper	ROP	\$566	60%	60,847	68,318	28.3x	26.2x	23.7x	8.7x	8.1x	7.5x	21.9x	20.2x	18.1x	0.6%	4.4%
Transdigm	TDG	\$1,391	70%	78,139	103,512	37.2x	32.2x	28.2x	11.7x	10.8x	10.2x	21.9x	20.1x	18.7x	0.0%	3.3%
Woodward	WWD	\$206	31%	12,262	13,216	32.7x	27.9x	23.7x	3.8x	3.6x	3.3x	20.8x	18.2x	16.3x	0.5%	3.7%
Overall Average						37.5x	30.5x	26.2x	7.0x	6.4x	5.9x	22.4x	20.1x	18.1x	0.5%	3.7%
Heico	HEI	\$270	54%	14,831	40,541	60.8x	54.7x	48.2x	9.4x	8.8x	8.3x	35.4x	32.8x	30.5x	0.1%	2.5%
Transdigm	TDG	\$1,391	70%	78,139	103,512	37.2x	32.2x	28.2x	11.7x	10.8x	10.2x	21.9x	20.1x	18.7x	0.0%	3.3%
Compounder Average						49.0x	43.4x	38.2x	10.6x	9.8x	9.2x	28.7x	26.4x	24.6x	0.0%	2.9%
Loar Group	LOAR	\$83.41		7,804	8,195	112.5x	87.7x	69.3x	16.8x	16.0x	15.5x	44.5x	40.0x	36.1x	0.0%	1.5%
Overall Discount / Premium						200%	188%	164%	141%	151%	164%	99%	99%	99%		146%
Compounder Discount / Premium						130%	102%	81%	59%	63%	68%	55%	51%	47%		94%

Loar Holdings (LOAR): Annual Income Statement

Year Ending Dec.

(millions, except per share data)	2022	2023	2024	2025E	2026E	2027E
	dollars	dollars	% of sales dollars	% of sales dollars	% of sales dollars	% of sales dollars
Total Revenues	\$239.4	\$317.5	100.0	100.0	100.0	100.0
Costs and expenses						
Costs of Sales	127.9	151.3	47.7%	50.6%	50.5%	48.5%
Selling, General & Administrative	72.0	84.8	26.7%	27.6%	25.5%	23.0%
D&A	34.0	38.0	12.0%	10.7%	10.4%	9.0%
Total Operating Costs	\$233.9	\$274.1	86%	89%	86%	81%
GAAP EBIT	\$39.5	\$69.5	21.9%	21.8%	24.0%	26.3%
Interest Expense	42.1	67.1		52.1	27.7	22.7
Interest Income/Other	0.0	0.0		6.5	2.8	0.0
Income before taxes	(\$2.6)	\$2.4		\$29.1	\$86.3	\$116.2
GAAP Taxes (rate %)	(0.1)	7.1	-289%	6.8	-23.5%	25.9
Net Income, continuing ops	(\$2.8)	\$9.5		\$35.9	\$112.2	\$149.8
Adjustments						
EBITDA	\$73	\$108		\$131	\$168	\$190
Total Special Items	10	5		16	17	15
Adj EBITDA	83	113		146	184	205
D&A	34	38		43	51	51
Adj EBIT	49	75		103	133	154
Interest Expense	(42)	(67)		(52)	(28)	(23)
Interest Income/Other	0	0		(6)	(3)	0
GAAP Taxes	(0)	7		7	26	34
Adj to Taxes	(1)	(1)		(6)	(5)	(5)
Adj NI	7	14		46	124	160
Adj EPS	\$0.08	\$0.00		\$0.42	\$0.74	\$0.95

Source: Jefferies estimates, company data

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Loar Holdings (LOAR): Annual Selected Operating Metrics

Year Ending Dec. (MM, except per share data)

	2022	2023	2024	2025E	2026E	2027E
YoY Change						
Total Revenue Change %	21.8%	70.2%	34.7%	10.0%	7.0%	7.0%
Organic Change %	26.8%	26.6%	14.9%	12.1%	8.7%	6.7%
M&A %	0.0%	6.0%	11.9%	8.7%	0.0%	0.0%
EBITDA	\$73	\$108	\$131	\$168	\$190	\$212
Adj EBITDA	\$83	\$113	\$146	\$184	\$205	\$227
GAAP Net Income % Change			278%	212%	34%	26%
Adjusted Net Income % Change				171%	30%	24%
GAAP Margin Analysis						
Gross margin %	46.6%	52.3%	49.4%	49.5%	49.3%	51.5%
SG&A as % of sales	30.1%	26.7%	38.3%	35.9%	32.6%	32.0%
D&A as % of sales	14.2%	12.0%	10.7%	10.4%	9.6%	9.0%
GAAP EBIT %	16.5%	21.9%	21.8%	24.0%	26.3%	28.5%
EBT %	-1.1%	0.8%	7.2%	17.7%	22.0%	26.2%
Tax Rate %	-5.4%	-289%	-23.5%	-30.0%	-29.0%	-27.0%
Net margin %	-1.1%	3.0%	8.9%	23.1%	28.3%	33.3%
GAAP EBITDA	30.7%	33.9%	32.4%	34.4%	35.9%	37.5%
Adjusted Margin Analysis						
Adjusted EBIT %	20.6%	23.5%	25.6%	27.4%	29.1%	31.2%
Adj EBITDA Margin %	34.8%	35.5%	36.3%	37.8%	38.7%	40.2%
Adjusted Net margin %	2.7%	4.5%	11.3%	25.4%	30.3%	35.2%
Balance Sheet Analysis						
Net Debt / EBITDA as Defined	5.4x	4.6x	1.5x	0.8x	0.1x	-0.6x
Debt / EBITDA as Defined	5.8x	4.7x	1.9x	1.5x	0.8x	0.3x
Cash Flow Analysis						
Free Cash Flow	\$5	\$1	\$46	\$83	\$120	\$153
Free Cash Flow Conversion %			120%	115%	129%	129%
Free Cash Flow Yield %			0.7%	0.9%	1.3%	1.7%

Source: Jefferies estimates, company data

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Loar Holdings (LOAR): Cash Flow Statement

Year Ending Dec.

(millions, except per share data)	2022	2023	2024	2025E	2026E	2027E
Operating Activities						
Net Income	(\$3)	\$9	\$36	\$112	\$150	\$188
Depreciation & Amortization (excl. Amortiza	36	39	59	65	63	63
Op cash flow pre-working capital	\$33	\$48	\$95	\$177	\$213	\$252
Receivables	(9)	(14)	(2)	(16)	(7)	(6)
Inventories	(6)	(11)	(12)	(19)	(10)	(2)
Accounts Payable	1	1	(1)	2	1	0
Other items	(6)	(11)	(25)	(48)	(65)	(78)
Cash Flow from Operations	\$13	\$13	\$55	\$97	\$132	\$165
Investment activities						
Capital expenditures	(8)	(12)	(9)	(14)	(12)	(12)
Acquisition of businesses	(174)	(60)	(383)	0	0	0
Other	0	0	0	0	0	0
Cash Flow from Investments	(\$182)	(\$73)	(\$392)	(\$14)	(\$12)	(\$12)
Financing Activities						
Cash dividends paid	0	0	0	0	0	0
Issuance/Reduction of Debt, Net	141	47	(258)	0	(105)	(105)
Other funds	(5)	(1)	628	(0)	(0)	(0)
Cash Flow from Financing	\$135	\$46	\$370	(\$0)	(\$105)	(\$105)
Net change in cash items	(\$33)	(\$14)	\$33	\$82	\$15	\$48
Cash at the beginning of the period	69	35	21	54	136	151
Cash at the end of the period	\$35	\$21	\$54	\$136	\$151	\$199

Source: Jefferies estimates, company data

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Jefferies

Mercury Systems (MRCY) – Hold \$50 PT

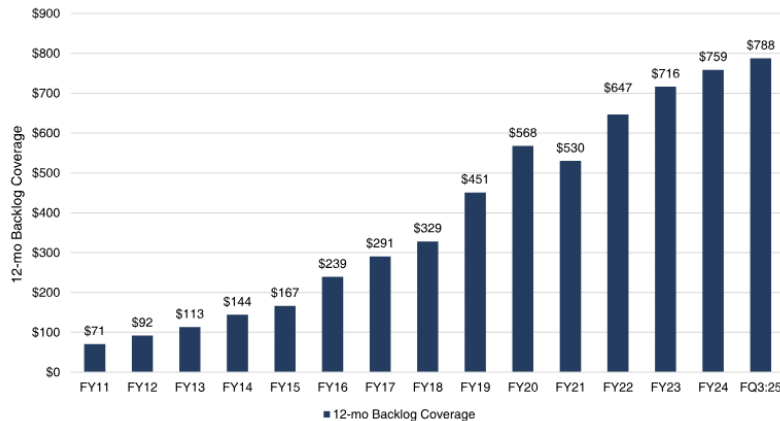
1. Growth Shifting to Left w/ Support for +HSD in FY26
2. Reaching a Mid-Teens Adj EBITDA Margin Exit Rate in FQ4 on the Road Back to 20%+
3. FCF Tracking Ahead of Targets on NWC Discipline

Related Notes:

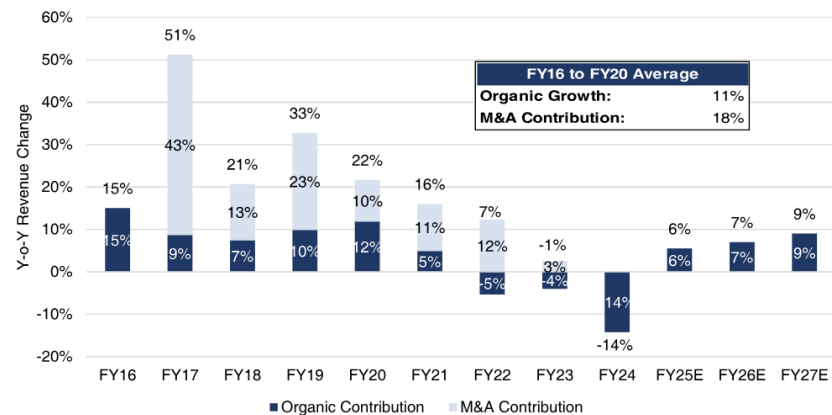
- [FCF Conv > Growth Until the Dust Settles in FY26](#) May 11, 2025
- [Taking the Ball to the Haus w/ Record FCF](#) February 9, 2025
- [Upgrade to Hold: Catching the Right Wave Frequency](#) November 11, 2024

Mercury Systems (MRCY): Growth Accelerating w/ FY25 Guidance Approaching MSD After +9% FYTD

Backlog Expected to Be Recognized Over the Next 12 Months at the Highest Level in History of the Company



Historical Organic Revenue at HSD to LDD with Further Contribution from M&A - Growth Stalls as Resources Focus on Challenged Programs

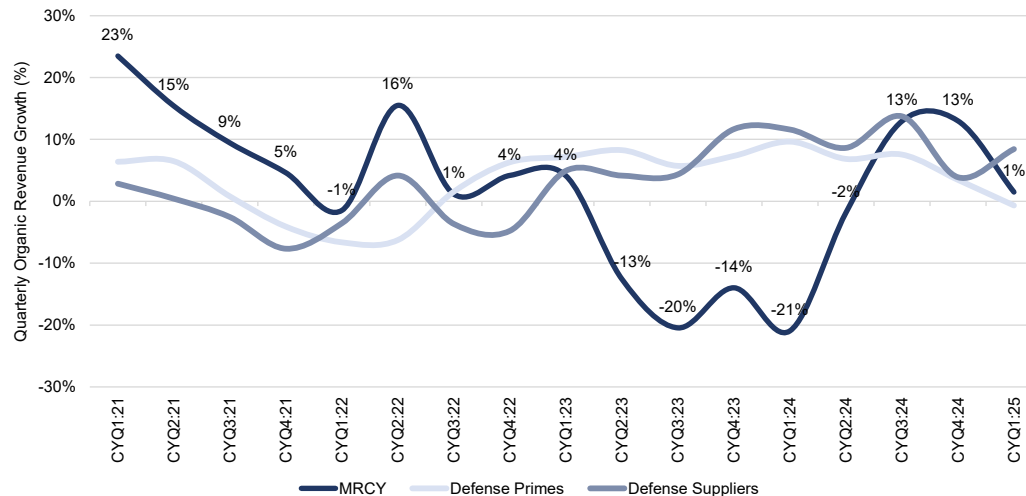


- MRCY's FQ3:25 ending backlog of \$1.34BB increased 4% y-o-y, with \$788MM (59%) expected to ship over the next 12 months. Mgmt still expects organic growth to approach MSD in FY25 compared to flattish expectations to start the year. We est FY25 revenues of \$881MM, or +5.5% y-o-y.
- FQ3:25 bookings were \$200MM, down 9% y-o-y and down 17% q-o-q from \$242MM in FQ2. Over 80% of TTM bookings are production in nature, including ~\$40MM in production contracts for the Common Processing Architecture and a \$20MM follow-on production order tied to the F-35 program. In April, management also noted it had received another \$20MM follow-on production agreement with a commercial space company for a US national security mission, a \$7MM development contract with the Navy for EW capabilities, and a \$6MM follow-on production order for classified avionics.
- FQ3 B2B totaled just 0.95X on sales up 1% y-o-y, with the TTM B2B of 1.1X compared to 1.22X in FY24 and 1.10X in FY23.

Source: Company data and Jefferies estimates

Mercury Systems (MRCY): Growth Accelerating w/ FY25 Guidance Approaching MSD After +9% FYTD

MRCY Revenue Tempers to +1% in FQ3, but YTD +9% Outpacing Peers' L-MSD for Primes & Suppliers

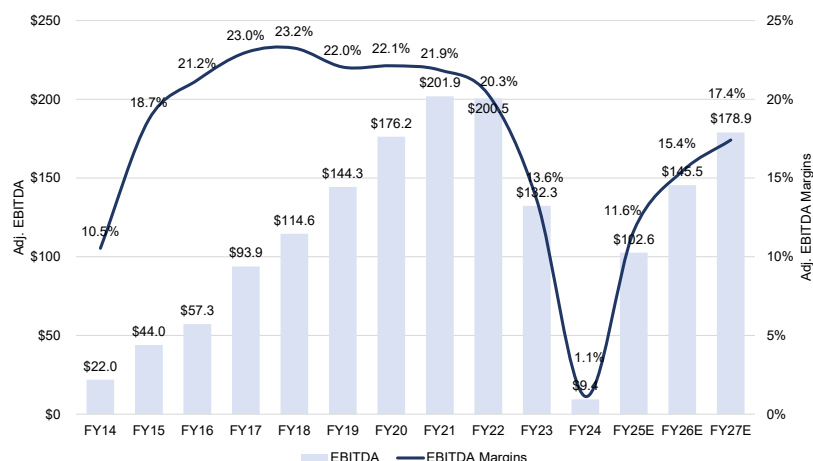


- In FQ3:25, MRCY recorded \$3.7MM of net EAC impacts, the lowest level in several years, down from \$4.4MM of one-time charges in FQ2, \$11MM in FQ1, \$16MM in FQ4, and \$39MM in FQ3. FY24 negative EACs totaled \$73MM including the deliberate pause on CPA production, which has since been solved for root-cause with production in pilot phase.
- MRCY had historically outperformed peers on organic revenue growth, although pressures from supply chain to revenue recognition to troubled development programs have caused underperformance lag despite healthy defense budgets.

Source: Company data and Jefferies estimates

Mercury Systems (MRCY): Reaffirmed FY25 at LDD with LT 20%+ EBITDA Margin Target Tied to Production Normalization & Op Leverage

Cost Program Growth and Challenged Program Mix Erases Adj. EBITDA in FY24 With Improvement in FY25 on Production Mix



- The gross margin profile for MRCY is low-to-mid 30% for development and >40% for production programs. The aggregate portfolio is impacted in the current periods as the development/production mix is 40/60 as compared to the normal 20/80 split. The normalization is a tailwind to profitability over the coming years as MRCY executes development programs and transitions those to follow-on production efforts. Importantly, management indicated that >80% of the fixed price program bookings in the TTM to FQ3:25 were production programs.
- In FY24, GMs declined to 23.5% or 900 bps from the 32.5% in FY23. This included an exit rate of 29.5%. The opportunity is to curtail the negative EACs on improved program performance, while shifting to more production like programs. We estimate 27.0% GM in FY25 on 5.5% sales growth.
- FQ3 Adjusted EBITDA of \$24.7MM translated to an 11.7% margin, compared to -1.2% margins a year ago and up 180 bps sequentially as expected. Opex decreased 14% y-o-y (-\$12MM) w/ SG&A flat y-o-y to 20.4% of sales (vs 20.7% a year ago) and R&D down 26% y-o-y to 7.6% of sales (vs 10.4% a year ago). This was tied to the workforce restructuring & streamlining undertaken beginning in FY24, which included the 130 headcount reduction and a focused investment philosophy of IRAD, including using the Advanced Concepts group to look at R&D spending on an integrated, company-wide basis rather than product silos like in the past.

Source: Company data and Jefferies estimates

Mercury Systems (MRCY): FY25 FCF Normalizes on Unbilled Release w/ Conversion at LT 50% Target

Free Cash Flow Walk - Conversion to EBITDA Improves to 81% in FY25 On Timing of Unbilled Receivable Unlock Before Settling in Around ~50% Target (MM, except per share data)

	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Income	\$62	\$11	(\$28)	(\$138)	(\$66)	(\$13)	\$14
Depreciation and Amortization	67	93	97	88	88	87	85
NWC	(63)	(159)	(79)	77	55	21	15
Stock Comp	28	38	43	42	44	44	44
Deferred Taxes/Others	3	(3)	(53)	(8)	(10)	0	0
CFO	\$97	(\$19)	(\$20)	\$60	\$110	\$139	\$157
Capex	(46)	(28)	(39)	(34)	(26)	(61)	(67)
FCF	\$52	(\$47)	(\$59)	\$26	\$83	\$78	\$90

Deployment							
Dividends	0	0	0	0	0	0	0
Net Borrowings	200	252	60	80	(25)	(50)	(50)
Acquisitions	(373)	(243)	0	0	0	0	0
Total Deployment	(\$173)	\$8	\$60	\$80	(\$25)	(\$50)	(\$50)

Discretionary FCF	(\$121)	(\$38)	\$1	\$106	\$58	\$28	\$40

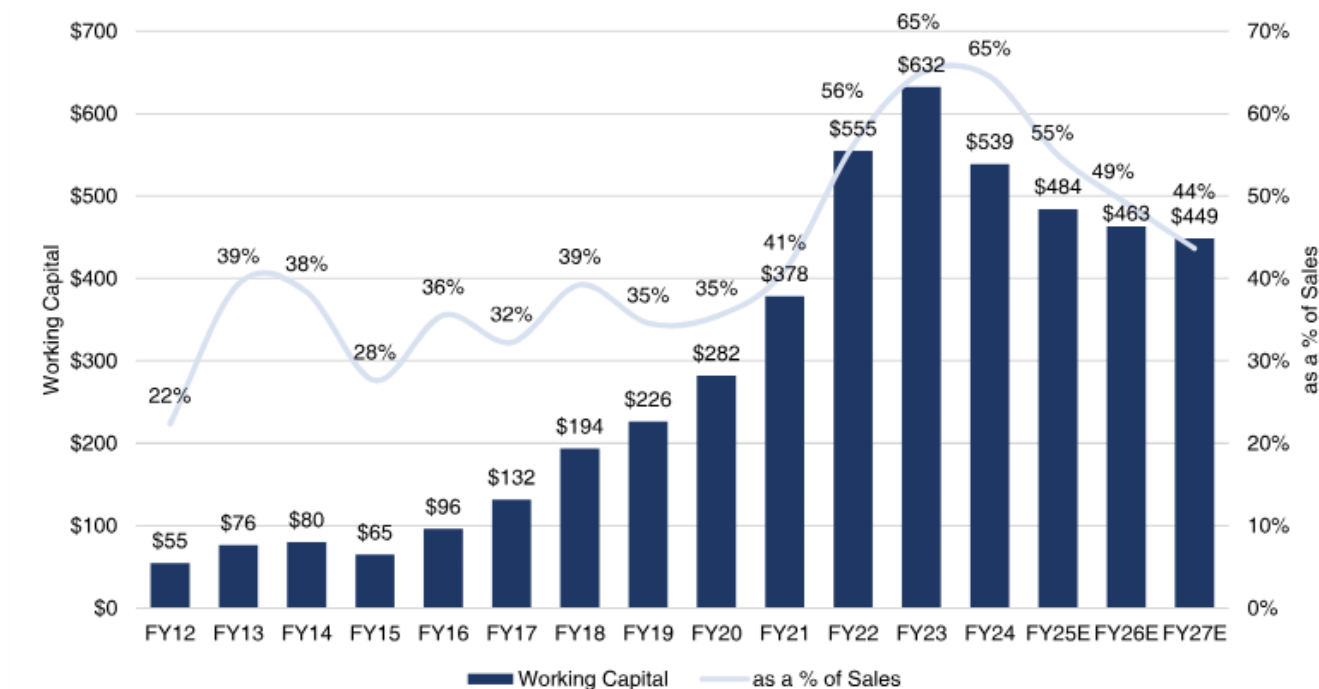
Ratios							
FCF to Sales	6%	-5%	-6%	3%	9%	8%	9%
FCF to Net Income Conversion	83%	-413%	208%	-19%	-126%	-618%	660%
FCF to Adj. EBITDA Conversion	26%	-23%	-45%	277%	81%	53%	50%
FCF Yield (FCF / Mkt Cap.)	3.0%	-2.7%	-3.4%	1.5%	4.8%	4.5%	5.2%
Discretionary FCF Yield	-7.0%	-2.2%	0.1%	6.1%	3.4%	1.6%	2.3%
Discretionary FCF % Change YoY	392%	-68%	-102%	11067%	-45%	-53%	45%
FCF / Share	\$0.93	(\$0.83)	(\$1.04)	\$0.45	\$1.42	\$1.31	\$1.51

- FCF was an inflow of \$24MM in FQ3:25 on a ~\$20MM net working capital tailwind mainly on \$15MM inflow from accounts payable, while unbilled receivables were another \$9MM tailwind. In August 2024, MRCY entered into a \$60MM committed receivables purchase & servicing agreement (RPSA) with a new party. As of FQ3:25, the company had a balance of \$55MM to date vs \$44MM over the period a year ago. With some of the milestone payments/deferred revenue having been pulled into FH1, management had expected H2 cash generation to be closer to breakeven, implying about +\$61MM on the year (all FH1). Following the \$24MM generated in FQ3, management now expects YTD generation of \$85MM to hold for the year, embedding another breakeven quarter in FQ4, with our estimate calling for \$83MM in the year.
- The NT driver is the accelerated unwind of inventory and unbilled receivables, which will likely be driven by program execution and supply chain improvements, with future bids incorporating milestone cash payments ideally. Specifically, the company is transitioning to more just-in-time (JIT) material/labor sourcing, with FQ2 - FQ4:24 featuring the highest billings on over time contracts in the company's history. Total inventory was up \$10MM y-o-y (+\$8MM q-o-q) but unbilled receivables of \$273MM was down from \$325MM in FQ3:24, but well above the \$90MM as of FY20.

Source: Company data and Jefferies estimates

Mercury Systems (MRCY): FY25 FCF Normalizes on Unbilled Release w/ Conversion at LT 50% Target

Working Capital Tempering to 51% of TTM Sales in FQ3:25 vs. 72% in FQ3:24 and 37% on Average Between FY12 and FY22



- FQ3:25 exhibited continued positive momentum with a \$20MM release of working capital tied to improved unbilled receivables and steady inventories. The efforts will likely extend into FY26 as Mercury is focused on balancing working capital with its work through trade-offs in the work completed. We have begun to unwind NWC in our estimates to the 40% range by FY27, factoring in the return of growth that comes with natural receivables & inventory growth.

Source: Company data and Jefferies estimates

Mercury Systems (MRCY): Relative Valuation to History

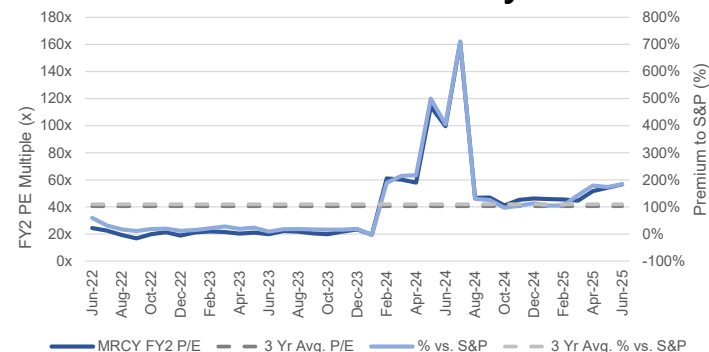
Relative Valuation

Ticker	MRCY
Current P/E	56.7x
3 Yr Avg. P/E	40.5x
Current / 3 Yr Avg.	40%
Prem / Discst SP	183%
3 Yr Prem / Discst SP	110%
S&P500 Multiple	20.0x
Current EV/EBITDA	23.9x
3 Yr Avg. EV/EBITDA	16.7x
Current / 3 Yr Avg.	43%
Prem / Discst SP	73%
3 Yr Prem / Discst SP	28%
S&P500 Multiple	13.9x
Current FCF Yield	2.4%
3 Yr Avg. FCF Yield	3.5%
Current / 3 Yr Avg.	43%
Prem / Discst SP	73%
3 Yr Prem / Discst SP	38%
S&P500 Multiple	4.2%

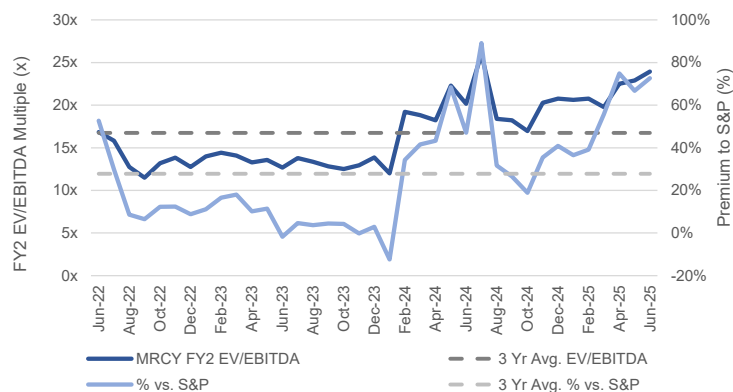
Price Target Derivation

Valuation Method	Price	Assumptions
EV / EBITDA	\$51	22.6x EV/EBITDA on FY26 Adj. EBITDA of \$146MM
P/E	\$48	50.5x P/E on FY26 EPS of \$0.95
FCF Yield	\$50	2.6% FCF Yield on FY26 FCF of \$78MM
Blended Average	\$50	

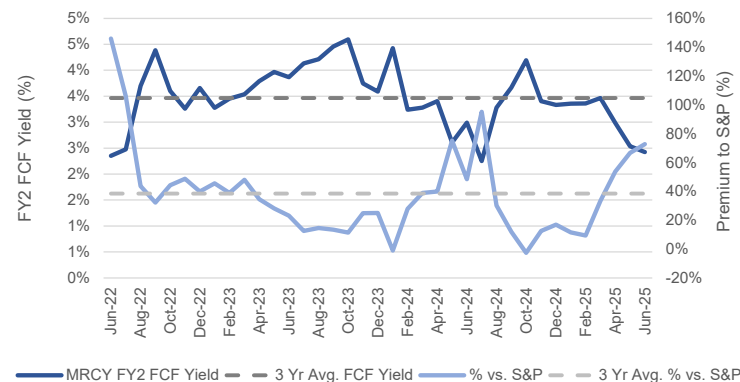
FY2 P/E: 183% Premium to Market vs. 110% Premium Historically



FY2 EV/EBITDA: 73% Premium, to Market vs. 28% Premium Historically



FY2 FCF Yield: 73% Premium to Market vs. 38% Premium Historically



Source: Company data, FactSet and Jefferies estimates

Mercury Systems (MRCY): Income Statement

Year Ending Jun.

(millions, except per share data)	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025E	FY2026E	FY2027E
Revenues	\$796.6	\$924.0	\$988.2	\$973.9	\$835.3	\$881.2	\$942.9	\$1,027.8
Cost of Sales	439.8	538.8	593.2	657.2	639.4	643.3	636.5	668.0
Gross Profit	\$356.8	\$385.2	\$395.0	\$316.7	\$195.9	\$237.9	\$306.4	\$359.7
Selling, General & Admin.	132.3	134.3	157.0	160.6	166.8	160.4	169.7	184.0
Research & Development	98.5	113.5	107.2	108.8	101.3	74.9	79.2	85.3
Amortization of intangible assets	30.6	41.2	60.3	53.6	47.7	45.0	43.5	41.0
Restructuring and other charges	1.8	9.2	27.4	7.0	26.2	8.0	0.0	0.0
Impairment of long-lived assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisition costs and other related expenses	2.7	6.0	11.4	8.4	1.7	1.0	0.0	0.0
Total Operating Costs	\$265.8	\$304.2	\$363.3	\$338.4	\$343.7	\$289.3	\$292.4	\$310.3
GAAP EBIT	\$91.1	\$81.0	\$31.6	(\$21.7)	(\$147.8)	(\$51.4)	\$14.0	\$49.4
Interest Income, net	1.1	(1.0)	(5.7)	(24.1)	(33.8)	(30.0)	(29.0)	(29.0)
Other Income / (Expense)	1.7	(2.8)	(7.6)	(2.8)	(7.7)	(7.0)	(2.0)	(2.0)
GAAP Pretax Income	\$93.9	\$77.2	\$18.4	(\$48.5)	(\$189.3)	(\$88.4)	(\$17.0)	\$18.4
Taxes	8.2	15.1	7.1	(20.2)	(51.6)	(22.1)	(4.4)	4.8
GAAP Net Income	\$85.7	\$62.0	\$11.3	(\$28.3)	(\$137.6)	(\$66.3)	(\$12.6)	\$13.6
Common shares (millions)								
Basic	54.5	55.1	55.5	56.6	57.7	58.6	59.1	59.6
Diluted	55.1	55.5	55.9	56.6	57.7	58.6	59.1	59.6
GAAP EPS from Cont Ops	\$1.56	\$1.12	\$0.20	(\$0.50)	(\$2.38)	(\$1.13)	(\$0.21)	\$0.23
P&L Adjustments								
Amortization of intangible assets	30.6	41.2	60.3	53.6	47.7	45.0	43.5	41.0
Restructuring and other charges	1.8	9.2	27.4	7.0	26.2	8.0	0.0	0.0
Impairment of long-lived assets	0.0	0.0	0.0	(1.6)	0.0	0.0	0.0	0.0
Total Adjustments (from P&L)	32.4	50.4	87.7	58.9	73.8	53.0	43.5	41.0
Other non-operating adjustments, net	(5.6)	(0.7)	2.9	0.0	(0.6)	(1.5)	0.0	0.0
Acquisition costs and other related expenses	5.6	8.6	13.6	10.0	4.4	5.0	0.0	0.0
Fair value adj from purchase accounting	1.8	(0.3)	(2.0)	0.4	0.7	0.7	0.0	0.0
Litigation and settlement (income) expense	0.9	0.6	1.9	0.5	4.9	9.5	0.0	0.0
COVID related expenses	2.6	9.9	0.7	0.1	0.0	0.0	0.0	0.0
Stock-based compensation expense	27.0	29.2	38.5	43.0	41.3	43.5	43.5	43.5
Impact to income taxes	(23.6)	(25.7)	(32.3)	(27.8)	(26.6)	(23.5)	(18.3)	(17.7)
Adjusted Net Income	\$126.8	\$134.1	\$122.3	\$56.7	(\$39.8)	\$20.5	\$56.2	\$80.4
Adjusted EPS	\$2.30	\$2.42	\$2.19	\$1.00	(\$0.69)	\$0.35	\$0.95	\$1.35

Source: Company data and Jefferies estimates

Mercury Systems (MRCY): Cash Flow Statement

Year Ending Jun.

(millions, except per share data)	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025E	FY2026E	FY2027E
Operating Activities								
Net income	\$85.7	\$62.0	\$11.3	(\$28.3)	(\$137.6)	(\$66.3)	(\$12.6)	\$13.6
Depreciation & Amortization	49.3	67.1	93.4	97.3	88.0	88.0	87.0	85.0
Deferred Taxes	(3.0)	(1.1)	(2.4)	(59.6)	(31.5)	0.0	0.0	0.0
Share-Based Compensation	26.5	28.3	38.3	43.4	41.5	43.5	43.5	43.5
Other	(2.3)	3.7	(0.5)	5.2	23.2	(10.0)	0.0	0.0
Working Capital	(41.1)	(62.8)	(158.9)	(79.3)	76.7	54.6	21.0	14.7
Receivables	(31.1)	(52.0)	(146.5)	(58.7)	76.5	27.7	1.1	(19.4)
Inventory	(31.6)	(27.4)	(40.9)	(64.1)	0.1	0.8	9.9	(2.7)
Prepaid Income Taxes	(2.8)	1.7	(5.0)	7.4	0.0	0.0	0.0	0.0
Prepaid Expenses and Other Current Assets	(2.1)	1.7	(4.4)	2.9	(1.7)	0.0	0.0	0.0
Accounts Payable & Accrued Expenses	13.6	(6.3)	58.4	(16.7)	0.7	11.1	1.7	16.8
Deferred Revenue & Customer Advances	7.1	13.7	(19.0)	40.7	17.3	16.0	2.2	14.6
Income Taxes Payable	(0.1)	4.1	1.0	9.9	(11.2)	0.0	0.0	0.0
Net Other Non-Current Assets & Liabilities	6.0	1.7	(2.6)	(0.7)	(5.0)	(1.0)	6.0	5.4
Other	0.0	0.0	0.0	1.0	0.1	0.0	0.0	0.0
Cash Flow from Operations	\$115.2	\$97.2	(\$18.9)	(\$21.3)	\$60.4	\$109.9	\$139.0	\$156.8
						\$83.4	\$77.7	\$90.0
Investing Activities								
Acquisitions	(96.5)	(372.8)	(243.5)	0.0	0.0	0.0	0.0	0.0
Capital spending	(43.3)	(45.6)	(27.7)	(38.8)	(34.3)	(26.4)	(61.3)	(66.8)
Asset Sales	4.3	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Other activities, net	0.0	0.0	(3.2)	0.2	0.0	0.0	0.0	0.0
Cash Flow from Investments	(\$135.5)	(\$416.9)	(\$274.3)	(\$38.6)	(\$34.3)	(\$26.4)	(\$61.3)	(\$66.8)
Financing Activities								
Net borrowings	\$0.0	\$200.0	\$251.5	\$60.0	\$80.0	(\$25.0)	(\$50.0)	(\$50.0)
Common stock, net	(10.9)	6.3	(2.8)	5.5	4.6	0.0	0.0	0.0
Other	0.0	(0.1)	(2.9)	(0.1)	(1.9)	0.0	0.0	0.0
Cash Flow from Financing	(\$10.9)	\$206.2	\$245.8	\$65.4	\$82.7	(\$25.0)	(\$50.0)	(\$50.0)
Effect of F/X on cash equivalents	0.1	0.4	(0.8)	0.3	0.2	0.0	0.0	0.0
Net change in cash items	(\$31.1)	(\$113.0)	(\$48.2)	\$5.9	\$109.0	\$58.4	\$27.7	\$40.0
Starting cash balance	\$257.9	\$226.8	\$113.8	\$65.7	\$71.6	\$180.5	\$239.0	\$266.7
Cash at year-end	\$226.8	\$113.8	\$65.7	\$71.6	\$180.5	\$239.0	\$266.7	\$306.7

Source: Company data and Jefferies estimates

Northrop Grumman (NOC) – Hold \$510 PT

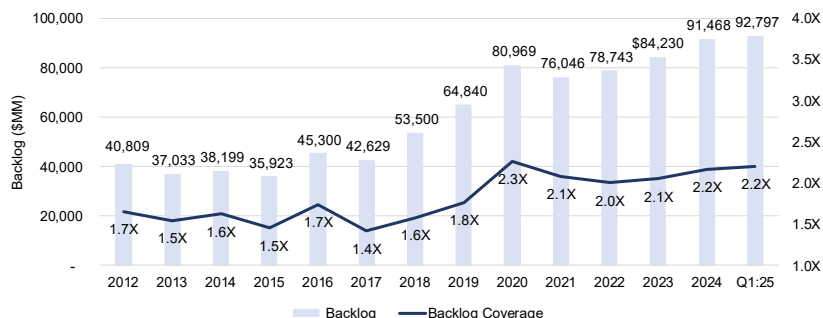
- 1) **Some Revenue Risk in Guide on Steep Ramp but Support Via Order Activity & Backlog Conversion**
- 2) **On A Mission - MS Margins Hit A Speed Bump**
- 3) **Trading at 20% Premium to Peer Avg Vs 40% 3Yr Avg Prem**

Related Notes:

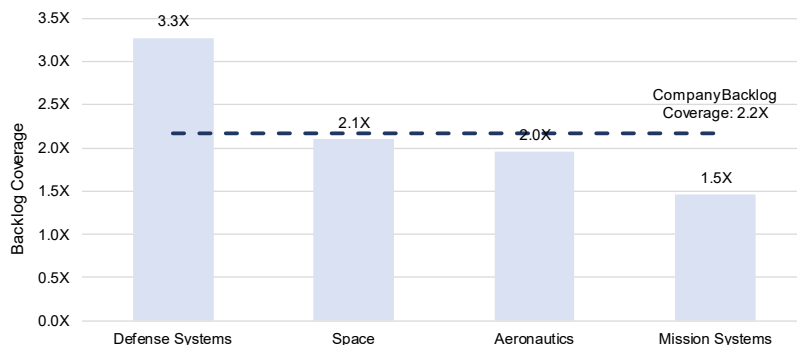
- [A \(L\)RIP in Multiple and Earnings from B-21](#) *April 23, 2025*
- [Spacing Out on Growth, Focusing on \\$4BB of 2028 FCF Instead](#) *February 2, 2025*
- [Hitting FCF Out of Park Like the Bronx Bombers, but Multiple The Ultimate Judge](#) *October 27, 2024*

Northrop Grumman (NOC): Backlog of \$92.8BB with 1.4X TTM Book-to-Bill, Providing Long-Term Visibility

Backlog Coverage Steadily Increasing - >2.0X Coverage for Total Company



Backlog Coverage Across Segments Stands at 2.2X 2025 Revenues with Defense at 3.3X



- NOC revenues fell 7% y-o-y in Q1 to \$9.5BB, driven by Space down 19% (25% of 2025E sales) and Aeronautics -8% (29%), partially offset by MS +6% (27%) and DS +4% (18%). The 2025 revenue guidance was unchanged at \$42.0-42.5BB, reflecting +3-4% organic growth with our estimate for 2.5% (3% organic) growth to \$42.1BB, led by the DS business growing 10%.
- Bookings have been strong, with an average B2B of >1X over the past two years. Q1 bookings of \$10.8BB equated to a 1.1X B2B, aided by international with a 1.4X B2B in Q1 contributing to the overall 1.4X TTM B2B. Management expects a full year 2025 B2B of ~1X following some large multi-year awards in the past year or so.
- NOC organic revenues expand at a 4% CAGR through 2027 on our estimates.
- The company's backlog coverage of 2.2X on 2025E revenues is primarily driven by DS with a backlog coverage ratio of 3.3X. SS carries backlog coverage of 2.1X, with AS at 2.0x and MS at 1.5X.

Source: Company data and Jefferies estimates

Northrop Grumman (NOC): Space Systems Down 6% in 2025E (25% of NOC 2025E Sales)

Space Systems Revenue Build - Flat CAGR Through 2027 As GBSD Growth Driver Removed From Launch & Strategic Missiles

Space Systems	2022	2023	2024	2025E	2026E	2027E	CAGR
Launch & Strategic Missile	\$3,110	\$3,820	\$3,550	\$3,250	\$3,425	\$3,525	0%
Space	\$7,460	\$8,053	\$8,181	\$7,800	\$8,006	\$8,266	0%
Total	\$10,570	\$11,873	\$11,731	\$11,050	\$11,431	\$11,791	0%

YoY % Change						
Launch & Strategic Missile	23%	23%	-7%	-8%	5%	3%
Space	11%	8%	2%	-5%	3%	3%
Total	14%	12%	-1%	-6%	3%	3%

% Composition						
Launch & Strategic Missile	29%	32%	30%	29%	30%	30%
Space	71%	68%	70%	71%	70%	70%
Total	100%	100%	100%	100%	100%	100%

Operating Margin	10.2%	9.5%	10.7%	10.8%	10.9%	11.0%

- We forecast Space Systems could generate revenues of \$11.1BB in 2025, down 6% organically following a 1% decline in 2024. Segment revenue is impacted by a \$1.5BB headwind from NGI and a classified program in 2023 that was a \$600MM headwind to 2024 (5pts) and will be a \$900MM impact primarily in H1:25 (8pts to full year).
- Full-year segment guidance for 2025 calls for revenues at ~\$11BB vs. the \$11.73BB of sales reported in 2024. Space therefore continues to decline in 2025, largely within H1, due to NGI (canceled April '24) and the contract termination within restricted space (also Q2:24).
- However, H2 returns to growth supported by SDA as well as other programs within restricted space with the portfolio outside of those two programs continuing to grow. On an adjusted basis, the segment generated \$2.6BB of revenues in Q1, down 18% y-o-y.

Source: Company data and Jefferies estimates

Northrop Grumman (NOC): Space Systems Down 6% in 2025E (25% of NOC 2025E Sales)

Space Systems Revenue Breakdown by Program - NGI And GBSD Realignment Pressure Growth Through 2027

Space Systems	2022	2023	2024	2025E	2026E	2027E	CAGR
Launch & Strategic Missile							
Antares/Space Launch Vehicles	\$425	\$425	\$450	\$450	\$450	\$450	0%
Interceptor Launch Vehicles	460	560	600	600	600	600	0%
Target Launch Vehicles	215	220	250	250	275	300	6%
Rocket Propulsion System	805	815	850	850	900	925	3%
Classified/NGI	1,205	1,800	1,400	1,100	1,200	1,250	-4%
Total Launch & Strategic Missiles	\$3,110	\$3,820	\$3,550	\$3,250	\$3,425	\$3,525	0%
% change	23%	23%	-7%	-8%	5%	3%	
Space							
Communication Sats	\$145	\$150	\$160	\$160	\$160	\$160	0%
Science and Remote Sensing Sats	155	155	155	155	155	155	0%
Space Technical Services	725	825	1,061	1,150	1,250	1,350	8%
Restricted National Security Sats	339	167	240	240	240	240	0%
CRS Contracts	35	35	35	35	35	35	0%
Stratolaunch/Other	500	560	585	610	610	610	1%
Space Components and Services	0	0	0	0	1	1	N/A
Advanced Extremely High Frequency (AEHF)	750	850	900	879	875	875	-1%
SBIRS/Next Gen OPIR	3,096	3,496	3,225	2,750	2,850	3,000	-2%
Classified/Artemis	1,410	1,510	1,510	1,510	1,510	1,510	0%
Payloads	7,460	8,053	8,181	7,800	8,006	8,266	0%
Total Space	\$14,715	\$15,901	\$16,152	\$15,389	\$15,792	\$16,302	0%
% change	11%	8%	2%	-5%	3%	3%	
Total Space Systems Segment	\$10,570	\$11,873	\$11,731	\$11,050	\$11,431	\$11,791	0%
% change	14%	12%	-1%	-6%	3%	3%	

- NOC has a wide range, with some more publicized programs pointing to the wide spectrum of satellite capabilities from large exquisite down to 90 kg. In general, NOC's satellite offerings are driven by the mission, with the best solution dependent on customer needs. There are applications for both large exquisite satellites and smaller satellites, dependent on the mission needs. Small sats have filled some need as technology has evolved in the electronics realm with both a need for resiliency and a desire to move fast. NOC has also leveraged differentiated technology.

Source: Company data and Jefferies estimates

Northrop Grumman (NOC): Space Systems Down 6% in 2025E (25% of NOC 2025E Sales)

2025 EPS on Space Systems Growth and Op. Margin - 3 pts of Growth Worth ~\$0.22 to 2025 NOC EPS w/ Each 50 bps of Op. Margin Worth ~\$0.32

		Space Systems 2025 Growth Rate				
		-12%	-9%	-6%	-3%	0%
2025 SS Op. Margin	9.8%	\$24.06	\$24.26	\$24.46	\$24.66	\$24.86
	10.3%	\$24.36	\$24.57	\$24.78	\$24.99	\$25.20
	10.8%	\$24.66	\$24.88	\$25.10	\$25.32	\$25.54
	11.3%	\$24.96	\$25.19	\$25.42	\$25.65	\$25.88
	11.8%	\$25.26	\$25.50	\$25.74	\$25.98	\$26.22

- In Q1, NOC reported Space segment operating margins of 11.0% which were up 50 bps y-o-y, driven by improved EACs. All in, we now model margins of 10.8% in 2025, up 10 bps y-o-y. This compares with NOC's guidance of high-10% operating margins in 2025 vs. the 10.7% and 9.5% in the restated 2024 and 2023, respectively.
- Given the recent performance of Space Systems, we sensitize 2025 NOC EPS on growth rate and op margin. Our base case factors in sales contracting 6% in 2025 with 10.8% op. margins. Each 3-pts of segment top-line growth would be worth ~\$0.22 to 2025 EPS w/ each 50 bps of margin expansion off of our base case worth ~\$0.32.

Source: Company data and Jefferies estimates

Northrop Grumman (NOC): Aeronautics Systems (29% of NOC 2025E Sales) Continues Solid Growth in 2025 as B-21 Offset Program Sunsets

Aeronautics Systems Revenue Breakdown by Program - Solid MSD Growth on B-21/F-35/Unmanned

Aeronautics Systems	2022	2023	2024	2025E	2026E	2027E	CAGR
Autonomous Systems							
Global Hawk/Triton	\$150	\$100	\$150	\$150	\$150	\$150	0%
Triton (formerly BAMS)	\$570	\$400	\$534	\$525	\$600	\$625	5%
NATO AGS	\$150	\$150	\$150	\$150	\$150	\$150	0%
MQ-8B Fire Scout	\$450	\$275	\$325	\$325	\$325	\$325	0%
Classified Unmanned	\$1,075	\$950	\$1,050	\$1,275	\$1,450	\$1,550	14%
Total Autonomous Revenue	\$2,395	\$1,875	\$2,209	\$2,425	\$2,675	\$2,800	8%
% change	-25%	-22%	18%	10%	10%	5%	
Manned Aircraft							
B-2 Stealth Bomber	\$250	\$250	\$250	\$275	\$250	\$250	0%
B-21 Bomber	2,181	2,348	2,876	3,112	3,631	4,211	14%
E- 2 Hawkeye	1,641	1,700	1,834	1,800	1,750	1,750	-2%
EA- 6B Prowler	325	325	325	325	325	325	0%
F- 35 Lightning II (F- 35)	1,704	1,704	2,152	2,215	2,215	2,215	1%
F/A- 18 Super Hornet Strike Fighter	450	259	150	50	50	50	-31%
Joint Surveillance Target Attack Radar System	125	0	0	0	0	0	N/A
Other Classified/Strike and Surveillance	1,350	2,200	2,475	2,775	2,850	2,950	6%
Aerospace Structures	110	125	125	125	125	125	0%
Total Manned Revenue	\$8,136	\$8,911	\$10,187	\$10,677	\$11,196	\$11,876	5%
% change	1%	10%	14%	5%	5%	6%	
Total Aeronautics Systems	\$10,531	\$10,786	\$12,396	\$13,102	\$13,871	\$14,676	6%
	-6%	2%	15%	6%	6%	6%	

- We forecast Aeronautics Systems expands 5% in 2025 after growing 15% in 2024 on a resegmented basis as the outlook has improved on the B-21. There were ~\$400MM of sales realigned from DS to Aeronautics, which primarily support sustainment activities of aircraft programs in the AS portfolio. In Q1, the segment fell 8% y-o-y driven by a \$100MM estimate to completion revision on B-21 LRIP, plus lower F-35 sustainment volumes and adverse timing of materials.
- In 2025, we expect revenues to be led by growth in B-21 and classified. The F-35 is expected to be a slight growth driver over the next few years given NOC is building to capacity and LMT's target of reaching 156/yr remains intact.

Source: Company data and Jefferies estimates

Northrop Grumman (NOC): Aeronautics Systems (29% of NOC 2025E Sales) Continues Solid Growth in 2025 as B-21 Offset Program Sunsets

Aeronautics Systems Revenue Build - Moderating in 2025 After Strong 2024, Supported by B-21

Aeronautics Systems	2022	2023	2024	2025E	2026E	2027E	CAGR
Autonomous Systems	\$2,395	\$1,875	\$2,209	\$2,425	\$2,675	\$2,800	8%
Manned Aircraft	8,136	8,911	10,187	10,577	11,196	11,876	5%
Total	\$10,531	\$10,786	\$12,396	\$13,002	\$13,871	\$14,676	6%

YoY % Change						
Autonomous Systems	-25%	-22%	18%	10%	10%	5%
Manned Aircraft	1%	10%	14%	4%	6%	6%
Total	-6%	2%	15%	5%	7%	6%

% Composition						
Autonomous Systems	23%	17%	18%	19%	19%	19%
Manned Aircraft	77%	83%	82%	81%	81%	81%
Total	100%	100%	100%	100%	100%	100%

Operating Margin	10.6%	-4.4%	10.0%	6.2%	8.8%	9.3%

- Overall, we expect manned aircraft to contribute ~80% of segment sales with \$2.2BB contribution from the F-35. NOC's content on the production of the fighter is 20% while sustainment is likely lower. There is some sustainment content for NOC internationally in Europe and Australia. The sustainment opportunity for the F-35 is higher in the Mission segment, given maintaining electronics. Volumes on the program have largely reached stability through 2024. There is little impact from the delivery delays given production continuing on schedule with upside coming on the timing of material as well as sustainment volumes.

Source: Company data and Jefferies estimates

Northrop Grumman (NOC): Mission Systems Expands at MSD (27% of 2025E Sales) On Classified Expansion

Revenue Breakout of Mission Systems - Expanding at a 3% CAGR Through 2027 with Growth Fairly Evenly Split Across the Business Lines

Mission Systems	2022	2023	2024	2025E	2026E	2027E	CAGR
Airborne Multifunction Sensors	\$3,331	\$3,365	\$3,524	\$3,850	\$4,000	\$4,100	5%
Maritime/Land Sensors	\$2,480	\$2,573	\$2,710	\$2,890	\$2,975	\$3,035	4%
Navigation, Targeting & Survivability	\$1,985	\$2,130	\$2,255	\$2,275	\$2,375	\$2,415	2%
Network Information Solutions	\$2,600	\$2,827	\$2,910	\$3,002	\$3,060	\$3,060	2%
Total	\$10,396	\$10,895	\$11,399	\$12,017	\$12,410	\$12,610	3%

YoY % Change						
Airborne Multifunction Sensors	2%	1%	5%	9%	4%	2%
Maritime/Land Sensors	5%	4%	5%	7%	3%	2%
Navigation, Targeting & Survivability	-13%	7%	6%	1%	4%	2%
Network Information Solutions	13%	9%	3%	3%	2%	0%
Total	2%	5%	5%	5%	3%	2%

% Composition						
Airborne Multifunction Sensors	32%	31%	31%	32%	32%	33%
Maritime/Land Sensors	24%	24%	24%	24%	24%	24%
Navigation, Targeting & Survivability	19%	20%	20%	19%	19%	19%
Network Information Solutions	25%	26%	26%	25%	25%	24%
Total	100%	100%	100%	100%	100%	100%

Operating Margin	15.6%	14.8%	14.0%	14.4%	14.6%	14.9%

- MS expanded 10% organic in 2024 at \$11.4BB, with the 2025 guidance for ~\$12BB implying MSD growth. We estimate 5% growth to \$12.0BB in 2025, supported by restricted, as well as microelectronics, G/ATOR, SABRE, and EW as well as some contribution from SEWIP.
- Growth drivers are fairly balanced across Mission Systems with opportunities across Airborne Multifunction Sensors (32% of 2025E sales), Maritime/Land Sensors (24%), Navigation, Targeting & Survivability (19%) and Networked Information Solutions (25%) in addition to cross-segment opportunities. Over time, the opportunity is leveraging the team's competitive position to compete for next-gen technologies to offset fourth-gen aircraft retirements where NOC has significant content. There is also the production of Microelectronics that supports both NOC and third party programs.

Source: Company data and Jefferies estimates

Northrop Grumman (NOC): Mission Systems Expands at MSD (27% of 2025E Sales) On Classified Expansion

Mission Systems Revenue Breakout - A Stable L-MSD Grower (MM, except per share data)

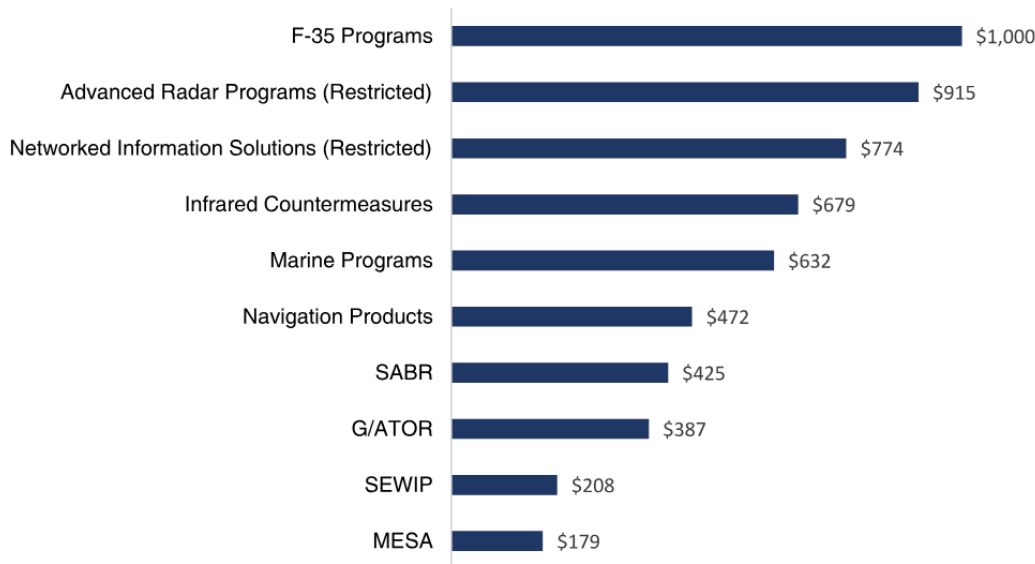
Mission Systems	2022	2023	2024	2025E	2026E	2027E	CAGR
Airborne Multi Function Sensors							
F-35	\$603	\$600	\$600	\$600	\$600	\$600	0%
F-16 / SABR	\$725	\$725	\$674	\$800	\$800	\$800	6%
F-22	\$450	\$450	\$450	\$450	\$450	\$450	0%
Classified/Other	\$1,553	\$1,590	\$1,800	\$2,000	\$2,150	\$2,250	8%
Total Airborne Multi Function Sensors	\$3,331	\$3,365	\$3,524	\$3,850	\$4,000	\$4,100	5%
Y-o-Y % change	2%	1%	5%	9%	4%	2%	
Maritime/Land Sensors							
SEWIP Block III	\$275	\$250	\$300	\$350	\$350	\$350	5%
G/ATOR	\$355	\$248	\$300	\$325	\$325	\$325	3%
Submarine Propulsion	\$450	\$485	\$485	\$485	\$500	\$515	2%
AQS-24B Mine Hunting Systems	\$100	\$100	\$100	\$100	\$100	\$100	0%
Restricted	\$325	\$350	\$375	\$400	\$450	\$475	8%
Other	\$975	\$1,140	\$1,150	\$1,230	\$1,250	\$1,270	3%
Total Maritime/Land Sensors	\$2,480	\$2,573	\$2,710	\$2,890	\$2,975	\$3,035	4%
Y-o-Y % change	5%	4%	5%	7%	3%	2%	
Navigation, Targeting & Survivability							
Litening Advanced Targeting Pod	\$375	\$400	\$400	\$400	\$400	\$400	0%
LAIRCM and CIRC	\$715	\$800	\$800	\$800	\$850	\$875	3%
Radar Warning Receiver program	\$200	\$200	\$200	\$200	\$200	\$200	0%
GPS	\$125	\$125	\$125	\$125	\$125	\$125	0%
UH-60	\$270	\$270	\$270	\$270	\$250	\$250	-3%
Restricted Programs/Other	\$300	\$335	\$460	\$480	\$550	\$565	7%
Total Navigation, Targeting & Survivability	\$1,985	\$2,130	\$2,255	\$2,275	\$2,375	\$2,415	2%
Y-o-Y % change	-13%	7%	6%	1%	4%	2%	
Networked Information Solutions							
BACN	\$270	\$275	\$285	\$285	\$285	\$285	0%
F-35 CNI	\$575	\$600	\$600	\$600	\$600	\$600	0%
JCREW	\$200	\$200	\$200	\$200	\$200	\$200	0%
Cyber	\$480	\$490	\$500	\$550	\$550	\$550	3%
Advanced Processing	\$425	\$425	\$425	\$425	\$425	\$425	0%
Restricted/Other	\$650	\$837	\$900	\$942	\$1,000	\$1,000	4%
Total Networked Information Solutions	\$2,600	\$2,827	\$2,910	\$3,002	\$3,060	\$3,060	2%
Y-o-Y % change	13%	9%	3%	3%	2%	0%	
Total Mission Systems	\$10,396	\$10,895	\$11,399	\$12,017	\$12,410	\$12,610	3%

- Airborne Multifunction Sensors is the largest portion, estimated to contribute 32% of sub-segment revenues. The business has benefited from restricted/classified volumes. MS likely neared peak production on the F-35 in 2021, with further benefit to largely come from sustainment as the program matures.
- Growth could come from areas such as missile defense, along with the usual growth drivers. G/ATOR (Maritime) moving into full-rate production with the contract initially booked in Q2 2019, although the program is not expected to be a significant growth driver.

Source: Company data and Jefferies estimates

Northrop Grumman (NOC): Mission Systems Expands at MSD (27% of 2025E Sales) On Classified Expansion

Top 10 Program Areas Led by F-35 and Restricted - 55% of Sector Sales



- Mission Systems is a diverse business with the top 10 program areas generating 55% of sales. There are over 240 major programs across the business that touch on all domains from sea to space and cyber.
- The largest program is the F-35 (about \$1BB per year, 10% of MS) that is in both the Airborne Multifunction Sensors business and Networked Information Solutions. The F-35 is followed by restricted program areas, which include Advanced Radar Programs (9% of MS sales) and Networked Information Solutions (7% of MS sales). Northrop continues to have a lot of opportunity to grow with a diverse set of products.

Source: Company data and Jefferies estimates

Northrop Grumman (NOC): Defense Systems (18% of NOC 2025E Sales) Driving DD Growth on Missiles and Missile Defense & Int'l Demand

Revenue Breakout of Defense Systems - Revenues Continue Growing With Help from GBSD (MM, except per share data)

Defense Systems	2022	2023	2024	2025E	2026E	2027E	CAGR
Mission Readiness	\$2,300	\$2,265	\$1,129	\$1,155	\$1,175	\$1,195	2%
Battle Management & Missile Systems	5,329	6,024	6,270	6,955	7,290	7,735	7%
Total	\$7,629	\$8,289	\$7,399	\$8,110	\$8,465	\$8,930	6%
YoY % Change							
Mission Readiness	-7%	-2%	-50%	2%	2%	2%	
Battle Management & Missile Systems	15%	13%	4%	11%	5%	6%	
Total	7%	9%	-11%	10%	4%	5%	
% Composition							
Mission Readiness	30%	27%	15%	14%	14%	13%	
Battle Management & Missile Systems	70%	73%	85%	86%	86%	87%	
Total	100%	100%	100%	100%	100%	100%	
Operating Margin	10.2%	10.0%	9.7%	9.7%	10.0%	10.3%	

- In Q1, Defense Systems sales increased 4% y-o-y to \$1.8BB with segment profit up 15% to \$179MM for 9.9% margins, up 90 bps y-o-y vs 9.0% in Q1:24. Growth was driven by the continued ramp-up of Sentinel and higher volume on certain military ammunition programs, partially offset by lower sales on the Stand-in Attack Weapon (SiAW).
- As of July 2024, DS includes the realignment of Strategic Deterrent Systems (SDS), which includes Sentinel, from Space Systems, as well as moving Strike and Surveillance Aircraft Solutions (SSAS) from DS to Aeronautics. The remaining DS portfolio includes munitions and missiles (such as AARGM/AARGM-ER) and battlefield management systems (such as IBCS) in support of strategic deterrence, advanced weapons, and missile defense. NOC is also divesting Mission Training and Satellite Ground System software (MT&S) business for \$327MM to Serco (~\$300MM in annual sales, closing mid-year at early Q3).

Source: Company data and Jefferies estimates

Northrop Grumman (NOC): Defense Systems (18% of NOC 2025E Sales) Driving DD Growth on Missiles and Missile Defense & Int'l Demand

Defense Systems Munitions and Defense Systems - Growth Steady w/IBCS and Missile Systems (MM, except per share data)

Defense Systems	2022	2023	2024	2025E	2026E	2027E	CAGR
Munitions and Defense Systems							
Tactical Missile Systems	\$825	\$1,000	\$1,050	\$1,200	\$1,250	\$1,350	9%
Defense Electronics	480	500	540	580	640	685	8%
Armament Systems	670	700	700	750	750	775	3%
Integrated Air and Missile Defense Programs/IBCS	594	650	700	900	1,000	1,150	18%
Advanced Capabilities	710	747	700	775	800	825	6%
GBSD/SDS	\$3,279	\$3,597	\$3,690	\$4,205	\$4,440	\$4,785	9%
% change	-1%	10%	3%	14%	6%	8%	
Mission Readiness							
	\$2,300	\$2,265	\$1,129	\$1,155	\$1,175	\$1,195	2%
Total Defense Systems Sales							
	\$7,629	\$8,289	\$7,399	\$8,110	\$8,465	\$8,930	6%
% change	7%	9%	-11%	10%	4%	5%	

- Battle Management & Missile Systems is the majority of the segment and on firmer footing benefiting from its position as a prime, but also as a supplier of Solid Rocket Motors.
- DS expanded 3% organic in 2024 (-11% with realignment) at \$7.4BB, with the 2025 guidance for low-\$8BB implying DD growth. We estimate 10% growth to \$8.1BB in 2025 and a MSD CAGR from there, supported by Sentinel and incremental opportunities around battle management, missile systems, & ammunition, particularly given the relatively high short-cycle exposure, with growing international interest.
- There are likely growing opportunities both domestically and internationally, given a renewed focus on the munition supply chain, with NOC's exposure through programs such as AARGM, SiAW, and tank ammunition, but also as a supplier of motors to programs such as GMLRS, which has seen robust international demand.

Source: Company data and Jefferies estimates

Northrop Grumman (NOC): Reiterating >10% FCF CAGR to \$4BB by 2028 Despite New B-21 Charges Impacting 2026-2028; FCF 100% Deployed to Repos/Divis

FCF Walk - Targeting ~100% of FCF Returned to Shareholders on >10% FCF Growth CAGR (MM, except per share data)

	2021	2022	2023	2024	2025E	2026E	2027E
Net Income	\$7,005	\$4,896	\$2,056	\$4,174	\$3,601	\$3,848	\$4,071
Depreciation and Amortization	1,239	1,342	1,338	1,370	1,414	1,444	1,474
NWC	(34)	(321)	514	(869)	(84)	(334)	(442)
Pension Contribution	(141)	(100)	(139)	(129)	(100)	(100)	(100)
Stock Comp/Deferred Taxes/Other	(4,502)	(2,916)	106	(158)	(469)	(293)	(318)
CFO	\$3,567	\$2,901	\$3,875	\$4,388	\$4,361	\$4,565	\$4,685
Capex	(1,415)	(1,435)	(1,775)	(1,767)	(1,494)	(1,473)	(1,508)
FCF	\$2,152	\$1,466	\$2,100	\$2,621	\$2,868	\$3,092	\$3,177
FCF Per Share	\$13.37	\$9.42	\$13.82	\$17.79	\$19.99	\$21.90	\$22.87

Deployment							
Dividends	(\$983)	(\$1,052)	(\$1,116)	(\$1,186)	(\$1,222)	(\$1,299)	(\$1,380)
Share Repurchases	(3,705)	(1,504)	(1,500)	(2,514)	(2,000)	(2,000)	(2,000)
Debt Paydown	(2,236)	0	(1,050)	0	(1,500)	0	0
Debt Issuance	0	0	1,995	2,495	0	0	0
Acquisitions	0	0	197	0	0	0	0
Total Deployment	(\$6,924)	(\$2,556)	(\$1,474)	(\$1,205)	(\$4,722)	(\$3,299)	(\$3,380)

Discretionary FCF (post pension contributions, dividends, and committed debt pay-down)							
	(\$4,772)	(\$1,990)	(\$71)	\$916	(\$2,104)	(\$307)	(\$303)

Ratios							
FCF to Net Income Conversion	31%	30%	102%	63%	80%	80%	78%
FCF Yield (FCF / Mkt Cap.)	3.1%	2.1%	3.0%	3.7%	4.1%	4.4%	4.5%
FCF Yield ex-Pension (FCF / Mkt Cap)	2.2%	1.2%	2.7%	3.4%	3.7%	4.4%	4.5%
FCF Change	-25%	-32%	43%	25%	9%	8%	3%
Discretionary FCF Yield	-6.8%	-2.8%	-0.1%	1.3%	-3.0%	-0.4%	-0.4%
Discretionary FCF % Change YoY	-285%	-58%	-96%	-1390%	-330%	-85%	-1%
Dividend as a % of Net Income	14.0%	21.5%	54.3%	28.4%	33.9%	33.7%	33.9%
Dividend Yield	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Share Repo as % of Mkt Cap	5.3%	2.1%	2.1%	3.6%	2.9%	2.9%	2.9%
% of Cash Returned to Shareholders	218%	174%	125%	141%	112%	107%	106%
Capex as % of Sales	4.0%	3.9%	4.5%	4.3%	3.6%	3.4%	3.3%

- We estimate \$2.87BB in 2025, up 10% y-o-y from \$2.62BB in 2024. The drivers include \$0.3BB lower capex (\$1.5BB vs \$1.8BB in 2024) and \$0.5BB lower NWC (\$503MM usage vs \$869MM usage in 2024), offset by lower net income (\$3.6BB vs \$4.2BB in 2024).
- Mgmt also reaffirmed the longer-term FCF plan for a >10% CAGR to \$4BB by 2028 as of Q1:25, noting performance & rationalized investments support the strategy, with the incremental B-21 charge likely absorbed at least partially given contingency in the plan. The checkpoints include \$3.1-3.5BB in 2026 (est \$3.09BB) and \$3.3-3.7BB in 2027 (est \$3.18BB).
- NOC aims to return ~100% of FCF to shareholders in 2025. Q1 saw \$1.5BB of LTD repaid, \$480MM of share repurchases and \$302MM of dividends paid. In 2025, we assume \$2.0BB of repos, down from \$2.5BB in 2024, and \$1.2BB in dividends. To 2027, we return 100% of cumulative FCF of \$9.1BB via \$6BB of repos and \$3.9BB of dividends.

Source: Company data and Jefferies estimates

Northrop Grumman (NOC): Relative Valuation to History and Market

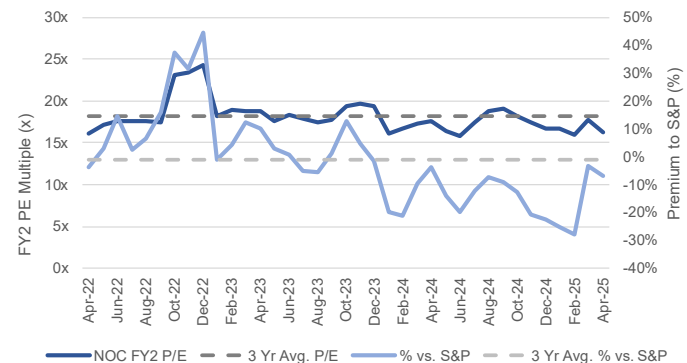
Relative Valuation

Ticker	NOC
Current P/E	16.3x
3 Yr Avg. P/E	18.1x
Current / 3 Yr Avg.	-10%
Prem / Discst SP	-7%
3 Yr Prem / Discst SP	-1%
S&P500 Multiple	17.5x
Current EV/EBITDA	14.4x
3 Yr Avg. EV/EBITDA	14.7x
Current / 3 Yr Avg.	-2%
Prem / Discst SP	18%
3 Yr Prem / Discst SP	16%
S&P500 Multiple	12.2x
Current FCF Yield	4.5%
3 Yr Avg. FCF Yield	4.1%
Current / 3 Yr Avg.	-8%
Prem / Discst SP	7%
3 Yr Prem / Discst SP	16%
S&P500 Multiple	4.9%

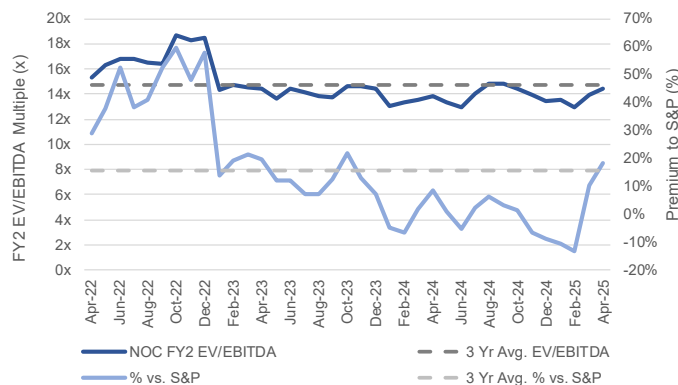
Price Target Derivation

	Price	Assumptions
EV/EBITDA	\$555	13.4x 2026 EBITDA of 6.7BB
P/E	477	17.5x 2026 EPS of \$27.25
FCF Yield	510	4.2% 2026 FCF Yield
Average	\$510	Blended average

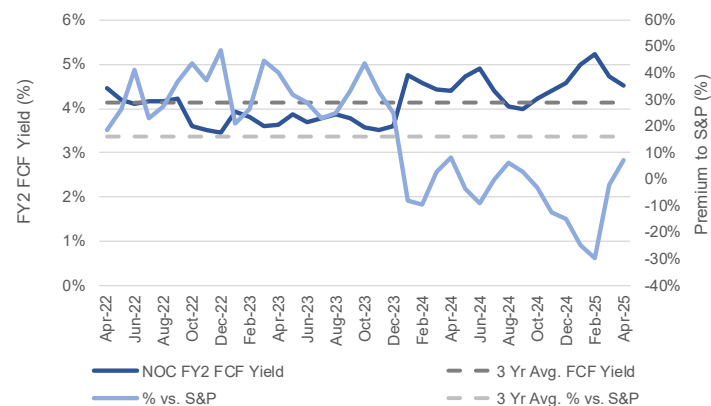
FY2 P/E: 7% Discst to Mkt vs. Historical Avg Discst of 1%



FY2 EV/EBITDA: 18% Discst to Mkt vs. Historical Avg Prem of 16%



FY2 FCF Yield: 7% Prem to Mkt vs. Historical Avg Prem of 16%



Source: Company data, FactSet and Jefferies estimates

Northrop Grumman (NOC): Income Statement

Year Ending Dec.

(millions, except per share data)	2021		2022		2023		2024		2025E		2026E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$35,667	100.0%	\$36,602	100.0%	\$39,290	100.0%	\$41,033	100.0%	\$42,079	100.0%	\$43,977	100.0%
Cost and Expenses												
Cost of Sales	26,271	73.7%	29,158	79.7%	32,628	83.0%	32,355	78.9%	33,319	79.2%	34,785	79.1%
General and Administrative	3,745	10.5%	3,843	10.5%	4,125	10.5%	4,308	10.5%	4,418	10.5%	4,618	10.5%
Total Operating Costs	\$30,016	84.2%	\$33,001	90.2%	\$36,753	93.5%	\$36,663	89.4%	\$37,737	89.7%	\$39,403	89.6%
Operating Profit	\$5,651	15.8%	\$3,601	9.8%	\$2,537	6.5%	\$4,370	10.6%	\$4,342	10.3%	\$4,574	10.4%
Interest Expense	(556)		(506)		(545)		(621)		(675)		(625)	
Net FAS (non-service) pension	1,469		1,505		530		656		545		570	
Other, net	2374		1236		-176		611		120		120	
Income before taxes	\$8,938	25.1%	\$5,836	15.9%	\$2,346	6.0%	\$5,016	12.2%	\$4,332	10.3%	\$4,639	10.5%
Taxes (rate %)	1,933	21.6%	940	16.1%	290	12.4%	842	16.8%	731	16.9%	791	17.1%
Net Income	\$7,005	19.6%	\$4,896	13.4%	\$2,056	5.2%	\$4,174	10.2%	\$3,601	8.6%	\$3,848	8.7%
Diluted Shares (millions)	161		156		152		147		143		141	
GAAP EPS	\$43.53		\$31.47		\$13.53		\$28.34		\$25.10		\$27.25	
Net Income	\$7,005		\$4,896		\$2,056		\$4,174		\$3,601		\$3,848	
MTM Expense	(2,355)		(1,232)		422		(443)		0		0	
MTM-Related Deferred State Tax Benefit/Other It	(996)		65		22		23		0		0	
Federal Tax Benefit	469		245		(84)		88		0		0	
After Tax MTM Expense	(2,882)		(922)		316		(332)		0		0	
MTM-Adjusted Net Earnings	\$4,123		\$3,974		\$2,372		\$3,842		\$3,601		\$3,848	
MTM-Adjusted EPS	\$25.63		\$25.54		\$15.61		\$26.08		\$25.10		\$27.25	

Source: Company data and Jefferies estimates

Northrop Grumman (NOC): Annual Selected Operating Metrics

Year Ending Dec.

(millions, except per share data)	2021		2022		2023		2024		2025E		2026E	
Revenue												
Aeronautics Systems	\$11,259	30%	\$10,531	27%	\$10,786	26%	\$12,396	29%	\$13,002	29%	\$13,871	30%
Mission Systems	10,134	27%	10,396	27%	10,895	26%	11,399	27%	12,017	27%	12,410	27%
Defense Systems	5,776	15%	7,629	19%	8,289	20%	7,399	17%	8,110	18%	8,465	18%
Space Systems	10,608	28%	10,570	27%	11,873	28%	11,731	27%	11,050	25%	11,431	25%
Total Segment Revenue	\$37,777	100%	\$39,126	100%	\$41,843	100%	\$42,925	100%	\$44,179	100%	\$46,177	100%
Eliminations	(2,110)		(2,524)		(2,553)		(1,892)		(2,100)		(2,200)	
Total Revenue	\$35,667		\$36,602		\$39,290		\$41,033		\$42,079		\$43,977	
Revenue YoY % change												
Aeronautics Systems	-7%		-6%		2%		15%		5%		7%	
Mission Systems	1%		3%		5%		5%		5%		3%	
Defense Systems	-23%		32%		9%		-11%		10%		4%	
Space Systems	21%		0%		12%		-1%		-6%		3%	
Total Segment Revenue	-2%		4%		7%		3%		3%		5%	
Eliminations	21%		20%		1%		-26%		11%		5%	
Total Revenue	-3.1%		2.6%		7.3%		4%		2.5%		4.5%	
Operating Income												
Aeronautics Systems	\$1,093	9.7%	\$1,116	10.6%	\$1,087	10.1%	\$1,236	10.0%	\$809	6.2%	\$1,220	8.8%
Mission Systems	1,579	15.6%	1,618	15.6%	1,609	14.8%	1,598	14.0%	1,736	14.4%	1,810	14.6%
Defense Systems	696	12.0%	781	10.2%	829	10.0%	716	9.7%	788	9.7%	850	10.0%
Space Systems	1,121	10.6%	1,078	10.2%	1,130	9.5%	1,254	10.7%	1,192	10.8%	1,240	10.9%
Intersegment Eliminations	(272)		(340)		(335)		(260)		(273)		(286)	
Total Segment	\$4,217	11.8%	\$4,253	11.6%	\$4,320	11.0%	\$4,544	11.1%	\$4,252	10.1%	\$4,834	11.0%
Net FAS/CAS Pension Adjustment	130	0.4%	(200)	-0.5%	(82)	-0.2%	40	0.1%	255	0.6%	110	0.3%
Unallocated Corporate Expense	1,980	5.6%	(452)	-1.2%	(141)	-0.4%	(214)	-0.5%	(165)	-0.4%	(370)	-0.8%
Other	(676)	-1.9%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Operating Income	\$5,651	15.8%	\$3,601	9.8%	\$4,097	10.4%	\$4,370	10.6%	\$4,342	10.3%	\$4,574	10.4%

Source: Company data and Jefferies estimates

Northrop Grumman (NOC): Cash Flow Statement

Year Ending Dec.

(millions, except per share data)	2021	2022	2023	2024	2025E	2026E
Operating activities						
Net Earnings	\$7,005	\$4,896	\$2,056	\$4,174	\$3,601	\$3,848
Adjustments						
Depreciation and amortization	1,239	1,342	1,338	1,370	1,414	1,444
Stock-based compensation	94	99	87	101	100	100
Excess tax benefits from stock-based comp	0	0	0	0	0	0
Deferred income taxes	603	579	(488)	(82)	0	0
Changes in assets and liabilities						
Accounts receivable, net	(10)	(44)	54	182	31	(34)
Inventoried costs, net	(52)	(205)	(220)	(358)	(18)	(110)
Prepaid expense and other assets	66	2	(86)	35	3	(36)
Accounts payables and other liabilities	376	572	519	(513)	52	120
Income taxes payable	215	(279)	(658)	1,143	1	2
Retiree benefits	(3,446)	(2,461)	(308)	(382)	(320)	(295)
Pension contributions	(141)	(100)	(139)	(129)	(100)	(100)
Advance Payments/Other, net	(1,968)	46	1,973	(438)	0	0
Net cash from operating activities	\$3,567	\$2,901	\$3,875	\$4,388	\$4,361	\$4,565
Investing activities						
Capital expenditures	(1,415)	(1,435)	(1,775)	(1,767)	(1,494)	(1,473)
Acquisitions	0	0	197	0	0	0
Other, net	3,473	194	(4)	18	0	0
Net cash from investing activities	\$2,058	(\$1,241)	(\$1,582)	(\$1,749)	(\$1,494)	(\$1,473)
Financing activities						
Common stock repurchases	(3,705)	(1,504)	(1,500)	(2,514)	(2,000)	(2,000)
Net proceeds from debt	0	0	1,995	2,495	0	0
Payments of debt	(2,236)	0	(1,050)	0	(1,500)	0
Cash dividends paid	(983)	(1,052)	(1,116)	(1,186)	(1,222)	(1,299)
Other, net	(44)	(7)	(38)	(132)	0	1
Net cash from financing activities	(\$7,002)	(\$2,613)	(\$1,761)	(\$1,395)	(\$4,772)	(\$3,298)
Increase in cash	(\$1,377)	(\$953)	\$532	\$1,244	(\$1,904)	(\$206)
Beginning cash	4,907	3,530	2,577	3,109	4,353	2,449
Ending cash	\$3,530	\$2,577	\$3,109	\$4,353	\$2,449	\$2,243

Source: Company data and Jefferies estimates

Parsons (PSN) – Hold \$70 PT

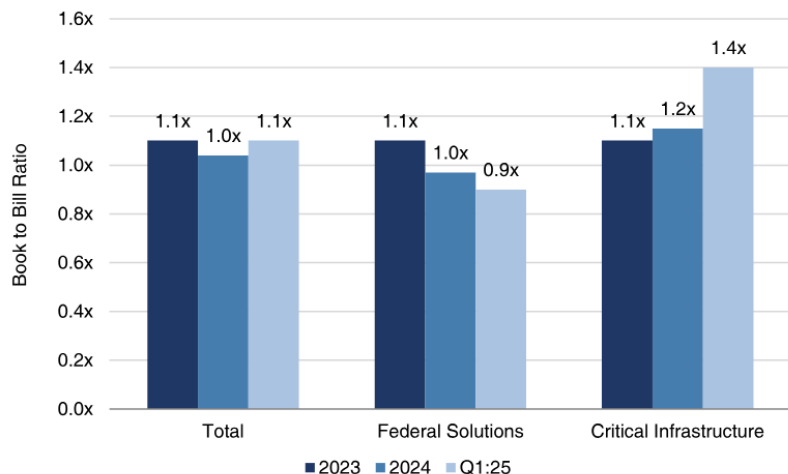
- 1) DD Growth Ex CP
- 2) Lowering Org Growth to +2% in '25 on 80% Scope of Confidential Program & +15% Org Elsewhere
- 3) CP Drives 270bps of Dilution in '25 Offset by CI Strength

Related Notes:

- [Downgrade to Hold; Confidential Clarity Puts Us On Sidelines](#) *May 4, 2025*
- [Keep Calm and Carey On - The MSD+ Path Forward Continues](#) *February 20, 2025*
- [A Free-Man from Singles and Doubles, It's All About the Homers](#) *October 30, 2024*

Parsons Corporation (PSN): New Contract Wins Support DD Organic in 2025 Excluding Confidential Headwinds, But Just 2% Org Total

Q1 Bookings Fall 15% Y-o-Y w/ a 1.1X B2B or 1.0X on TTM Basis



- Q1:25 revenue fell 2% organically (+1% total) to \$1.55BB as well as a \$45MM contribution from acquisitions. Excluding the impact of the confidential contract, revenue was up 7% organically in the quarter. Federal Solutions fell 9% organically and 7% total, with 9% organic (14% total) growth at Critical Infrastructure.
- B2B was 1.1X in Q1:25 (1.0X TTM) on \$1.8BB of contract awards, down 15% y-o-y and leading to backlog of \$9.1BB (+0.5% y-o-y). By segment, FS had a B2B of 0.9X (net bookings -42%) and CI had a B2B of 1.4X (net bookings +28%) in the quarter. The backlog is split 50% FS (39% funded) and 50% CI (99% funded), with an aggregate funded backlog of 69% of the total.
- CI programs are ~18 months while FS programs are 5-10 years on average. Re-competes are fairly minor in 2025 at <5% of revenue w/ bid guidelines put in place to focus on design & engineering work with aims to not bid anything under 10% EBITDA margins.
- Further opportunity comes from expansion of the addressable market across its six end markets:
 - Cyber & Intelligence: growing at an 8-10% three-year CAGR
 - Space & Missile Defense: growing at a 7-8% CAGR
 - Transportation: growing at a 8-10% CAGR
 - Critical Infrastructure Protection: growing at a 4-6% CAGR
 - Environmental Remediation: growing at a 6-8% CAGR
 - Urban Development: growing at a 5-7% CAGR

Source: Company data and Jefferies estimates

Parsons Corporation (PSN): New Contract Wins Support DD Organic in 2025 Excluding Confidential Headwinds, But Just 2% Org Total

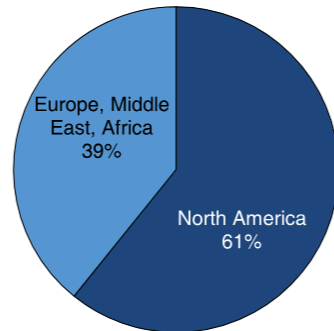
Confidential Headwind (-11pts/-8pts in '25/'26) Keeps Organic Growth at +2% in 2025 & Flat in 2026, Below MSD+ MT Framework (MM, except per share data)

Contract	Award Date	Total Value (\$MM)	Annual Sales (\$MM)	2023	2024	2025E	2026E	2023 % of Growth	2024E % of Growth	2025E % of Growth	2026E % of Growth
Start Revenue				\$4,195	\$5,443	\$6,751	\$7,086				
Confidential Work	Apr-23	\$750	\$250	450	853	(751)	(552)	10.7%	15.7%	-11.1%	-7.8%
Middle East Projects	Sep-22	\$220	\$155	155	50	75	75	3.7%	0.9%	1.1%	1.1%
Faro Mine Remediation Project	Feb-22	\$2,000	\$60	30	15	20	25	0.7%	0.3%	0.3%	0.4%
Radford	Sep-21	\$145	\$50	30	30	50	30	0.7%	0.6%	0.7%	0.4%
Giant Mine	Feb-23	\$4,000	\$120	15	35	40	50	0.4%	0.6%	0.6%	0.7%
CCMS	Apr-23	\$109	\$55	20	30	(150)	0	0.5%	0.6%	-2.2%	0.0%
GSA FEDSIM	Apr-23	\$1,200	\$240	40	50	140	35	1.0%	0.9%	2.1%	0.5%
Holston Army Plant	Apr-23	\$164	\$41	10	40	15	25	0.2%	0.7%	0.2%	0.4%
GSA CEOIS	May-21	\$618	\$124	10	40	10	60	0.2%	0.7%	0.1%	0.8%
Transportation	Apr-23	\$127	\$40	10	30	0	0	0.2%	0.6%	0.0%	0.0%
JFK (Port Authority)	Apr-23	\$130	\$43	40	50	(60)	(30)	1.0%	0.9%	-0.9%	-0.4%
Gateway	Feb-24	\$175	\$35	0	10	30	30	0.0%	0.2%	0.4%	0.4%
FAA	Apr-23	\$1,800	\$200	0	(60)	38	30	0.0%	-1.1%	0.6%	0.4%
Other NJ	Feb-24	\$280	\$56	0	20	30	30	0.0%	0.4%	0.4%	0.4%
Honolulu	Aug-24	\$1,660	\$33	0	17	53	20	0.0%	0.3%	0.8%	0.3%
Newark Air Train	Jan-25	\$1,200	\$40	0	0	50	30	0.0%	0.0%	0.7%	0.4%
King Abdullah Financial District	Aug-24	\$45	\$45	0	45	50	0	0.0%	0.8%	0.7%	0.0%
Georgia State Route 400	Aug-24	\$4,600	\$92	0	10	60	50	0.0%	0.2%	0.9%	0.7%
ABAD Europe & Africa	Jul-21	\$953	\$95	0	0	50	30	0.0%	0.0%	0.7%	0.4%
NASA	Jul-23	\$130	\$26	0	5	5	5	0.0%	0.1%	0.1%	0.1%
Other New Business Wins				297	21	488	163	7.1%	0.4%	7.2%	2.3%
Kwajalein Marshall Islands	Aug-19		\$85	(67)	0	0	0	-1.6%	0.0%	0.0%	0.0%
Total Ramping Contracts				\$1,040	\$1,291	\$243	\$106	24.8%	23.7%	4.5%	1.9%
Other Program Completions/Wins				(85)	(86)	(90)	(90)	-2.0%	-1.6%	-1.7%	-1.7%
Acquisitions				292	103	182	3	7.0%	1.9%	3.4%	0.1%
End Revenue				\$5,443	\$6,751	\$7,086	\$7,105	29.7%	24.0%	5.0%	0.3%
Organic Growth %				22.8%	22.1%	2.3%	0.2%				

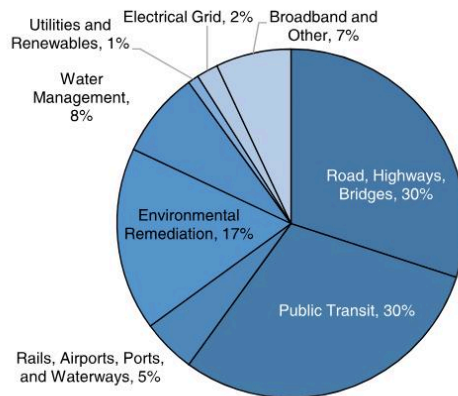
Source: Company data and Jefferies estimates

Parsons Corporation (PSN): New Contract Wins Support DD Organic in 2025 Excluding Confidential Headwinds, But Just 2% Org Total

Critical Infrastructure Regional Split - FY24 Revenues 61% Weighted to North America, 39% to EMEA (Largely Middle East)



Critical Infrastructure Segment Heavily Exposed to Infrastructure Bill Priorities w/ Transportation Nearly 70% of Revenue Exposure



- In infrastructure, out-year growth is supported by recent wins in the Middle East (NEOM, Oxagon, Riyadh metro & entertainment, The Line) the potential flow-through from global infrastructure bills that begin ramping outlays in the next several years, likely peaking in the FY27-FY30 timeframe. Recent reports have suggested that some of the megaprojects in the Middle East, notably including The Line, have been delayed, but PSN has encompassed the slower ramp in its guidance and has not yet booked the majority of the program value in the existing backlog. Separately, the US Infrastructure Investment and Jobs Act includes \$1.2TT of funding with \$550BB of new work, while the Middle East opportunity is \$1.5TT with 60-70% new work and Canada infrastructure bill is \$188BB with \$96BB of new work.

Source: Company data and Jefferies estimates

Parsons Corporation (PSN): Margins Up 10 bps in 2025E On Volume Leverage and Mix within CI, Weighed Down by Confidential Unwind

FY25 EPS Sensitivity - Each 1 Pt of Growth in CI Worth ~\$0.02 While Each Pt of Margin is Worth ~\$0.29

2025 FS Adj. EBITDA Margin	2025 Federal Solutions Growth					
		-3.6%	-2.6%	-1.6%	-0.6%	0.4%
	7.7%	\$2.79	\$2.82	\$2.85	\$2.88	\$2.91
	8.2%	\$2.97	\$3.00	\$3.03	\$3.06	\$3.09
	8.7%	\$3.15	\$3.18	\$3.22	\$3.25	\$3.28
	9.2%	\$3.33	\$3.37	\$3.40	\$3.43	\$3.47
	9.7%	\$3.51	\$3.55	\$3.58	\$3.62	\$3.66
	10.2%	\$3.69	\$3.73	\$3.77	\$3.80	\$3.84
	10.7%	\$3.87	\$3.91	\$3.95	\$3.99	\$4.03

FY25 EPS Sensitivity - Each 1 Pt of Growth in FS Worth ~\$0.03 While Each 50 Bps of Margin is Worth ~\$0.18

2025 CI Adj. EBITDA Margin	2025 Critical Infrastructure Growth					
		12.6%	13.6%	14.6%	15.6%	16.6%
	6.1%	\$2.49	\$2.51	\$2.52	\$2.54	\$2.55
	7.1%	\$2.78	\$2.80	\$2.82	\$2.83	\$2.85
	8.1%	\$3.07	\$3.09	\$3.11	\$3.13	\$3.15
	9.1%	\$3.35	\$3.38	\$3.40	\$3.42	\$3.45
	10.1%	\$3.64	\$3.67	\$3.69	\$3.72	\$3.74
	11.1%	\$3.93	\$3.96	\$3.98	\$4.01	\$4.04
	12.1%	\$4.22	\$4.25	\$4.28	\$4.31	\$4.34

Adj. EBITDA Bridge - Margin Expansion into 2025 Driven by Volume w/ CI JVs Rolling Off Supporting Another 10 Bps Increase into 2025, Partially limited by Confidential Dilution (MM, except per share data)

PSN EBITDA Bridge	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	2021	2022	2023	2024	2025E	2026E	2027E
Start Adj. EBITDA	\$90	\$118	\$128	\$128	\$141	\$150	\$167	\$147	\$343	\$310	\$353	\$465	\$605	\$648	\$657
Volume/Mix	54	47	59	36	3	1	16	30	(21)	41	187	196	50	3	79
IG&A	(22)	(11)	(25)	(27)	(23)	(18)	(32)	(8)	(28)	34	(93)	(85)	(80)	28	(55)
JV income	4	(17)	(9)	47	1	(0)	(18)	(30)	7	(21)	(64)	24	(47)	-	-
M&A	3	2	2	5	5	8	5	3	27	27	50	17	31	1	-
Other	12	11	13	(42)	22	10	34	34	(17)	(38)	32	(13)	89	(22)	40
End Adj. EBITDA	\$141	\$150	\$167	\$147	\$149	\$151	\$173	\$176	\$310	\$353	\$465	\$605	\$648	\$657	\$721

Source: Company data and Jefferies estimates

Parsons Corporation (PSN): Capital Allocation Optionality Supports Further Acquisitions

Capital Allocation Optionality Supports Opportunistic M&A Activity (MM, except per share data)

	2021	2022	2023	2024	2025E	2026E	2027E
Net Income	\$89	\$127	\$208	\$291	\$338	\$360	\$402
Depreciation and Amortization	144	120	120	99	113	115	117
NWC Change	(95)	(103)	(103)	(86)	(171)	(33)	(95)
Stock Comp/Deferred Taxes/Other Change	67	94	183	220	139	139	139
CFO	\$206	\$238	\$408	\$524	\$420	\$581	\$564
Capex	(21)	(31)	(40)	(49)	(70)	(57)	(61)
FCF	\$184	\$207	\$367	\$474	\$350	\$524	\$503
FCF per Share	\$1.64	\$1.99	\$3.50	\$4.38	\$3.23	\$4.84	\$4.64

Deployment							
(Distributions) / Equity Proceeds	(\$36)	(\$14)	(\$10)	(\$27)	(\$26)	(\$26)	(\$26)
Share Repurchases	(22)	(22)	(11)	(25)	(50)	(25)	(25)
Debt Paydown (Incl. Fees)	(50)	(200)	0	0	(50)	(50)	(50)
Debt Issuance (Incl. Fees)	0	350	0	302	0	0	0
Acquisitions / JV Investments	(198)	(379)	(222)	(429)	0	0	0
Total Deployment	(\$306)	(\$265)	(\$243)	(\$178)	(\$126)	(\$101)	(\$101)

Discretionary FCF	\$98	(\$7)	\$358	\$447	\$274	\$448	\$427

Ratios							
FCF to Adj. Net Income Conversion	108%	109%	142%	135%	96%	142%	123%
FCF Yield (FCF / Mkt Cap.)	2.7%	3.0%	5.3%	6.9%	5.1%	7.6%	7.3%
FCF YoY Change	-27.7%	12.2%	77.5%	29.2%	-26.2%	49.8%	-4.0%
Discretionary FCF Yield	1.4%	-0.1%	5.2%	6.5%	4.0%	6.5%	6.2%
Discretionary FCF % Change YoY	NM	NM	NM	25%	-39%	64%	-5%
Share Repo as % of Mkt Cap	0%	0%	0%	0%	1%	0%	0%
Capex as a % of Sales	0.6%	0.7%	0.7%	0.7%	1.0%	0.8%	0.8%

- CFO was a \$524MM source in 2024 with \$49MM of capex translating to FCF of +\$474MM. The 2025 CFO guide was reiterated at \$420-480MM w/ Capex still guided to ~1%, now at \$70MM versus \$60MM prior, implying FCF of \$350MM to \$410MM or ~85% conversion on adjusted NI as reported. FCF in 2025 is somewhat curtailed by a one time switch in 401k contribution from an annual to quarterly cadence, a \$30MM on time impact.
- In term of capital deployment, FCF usage tends to be weighted toward M&A. In 2024, PSN repurchased \$25MM of shares along with \$429MM across two deals including the \$233MM acquisition of BCC Engineering on November 1st, 2024 along with the \$204MM acquisition of BlackSignal Technologies on August 16th 2024. Acquisitions are focused on core technologies within AI, autonomous, cloud computing, and IoT and typically are within the PSN supply chain. Management targets 2-3 acquisitions per year. Deal criteria is for companies with >10% revenue growth and >10% adj. EBITDA margins with differentiated IP in PSN's core markets.

Source: Company data and Jefferies estimates

Parsons (PSN): Relative Valuation to History and Market

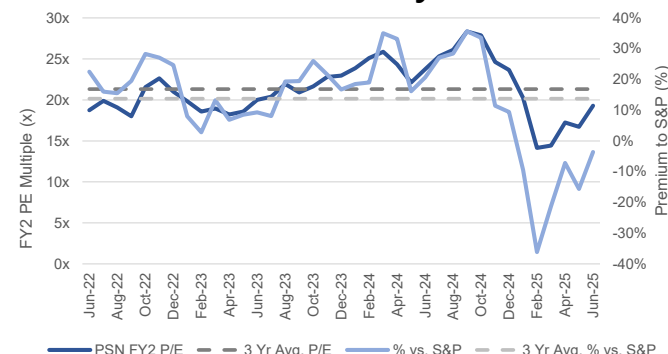
Relative Valuation

Ticker	PSN
Current P/E	19.3x
3 Yr Avg. P/E	21.3x
Current / 3 Yr Avg.	-10%
Prem / Discst SP	-4%
3 Yr Prem / Discst SP	14%
S&P500 Multiple	20.0x
Current EV/EBITDA	13.6x
3 Yr Avg. EV/EBITDA	14.5x
Current / 3 Yr Avg.	-7%
Prem / Discst SP	-2%
3 Yr Prem / Discst SP	11%
S&P500 Multiple	13.9x
Current FCF Yield	5.5%
3 Yr Avg. FCF Yield	5.4%
Current / 3 Yr Avg.	-2%
Prem / Discst SP	-24%
3 Yr Prem / Discst SP	-12%
S&P500 Multiple	4.2%

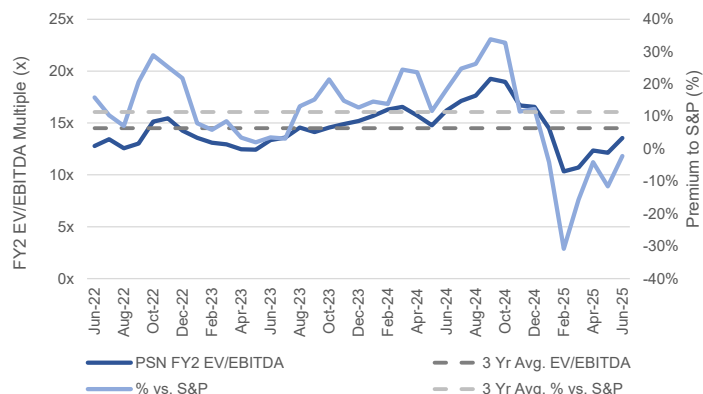
Price Target Derivation

Method	Price	Assumptions
EV/EBITDA	\$69	12.2x EV/EBITDA on 2026 EBITDA of \$657MM
P/E	\$70	20.4x P/E on 2026 EPS of \$3.45
FCF	\$71	5.5% FCF Yield on 2026 FCF of \$455MM
Average	\$70	Blended average

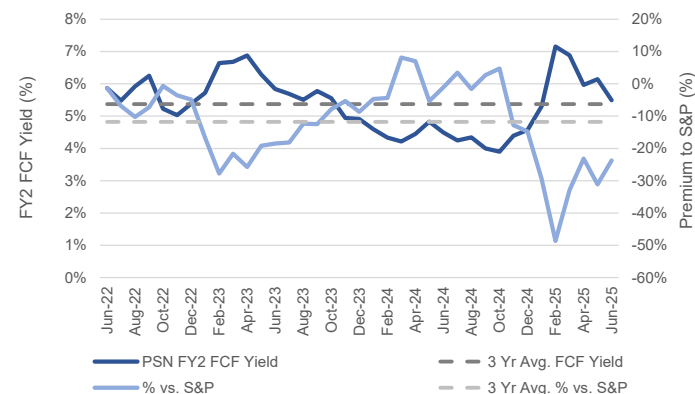
FY2 P/E: 4% Discst to Market vs. 14% Prem Historically



FY2 EV/EBITDA: 2% Discst to Market vs. 11% Premium Historically



FY2 FCF Yield: 24% Discst to Market vs. 12% Discount Historically



Source: Company data, FactSet and Jefferies estimates

Parsons (PSN): Income Statement

Year Ending Dec.

(millions, except per share data)	2020		2021		2022		2023		2024		2025E		2026E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$3,919	100.0	\$3,661	100.0	\$4,195	100.0	\$5,443	100.0	\$6,751	100.0	\$7,086	100.0	\$7,105	100.0
Costs and expenses														
Costs of Revenues	3,042	77.6%	2,808	76.7%	3,249	77.4%	4,237	77.8%	5,344	79.2%	5,506	77.7%	5,520	77.7%
SG&A/JV Equity Earnings	738	18.8	720	19.7	761	18.1	918	16.9	978	14.5	1,105	15.6	1,077	15.2
Total Operating Costs	\$3,780	96%	\$3,528	96%	\$4,010	96%	\$5,154	95%	\$6,323	94%	\$6,611	93%	\$6,597	93%
Operating Profit	\$139	3.5%	\$132	3.6%	\$186	4.4%	\$288	5.3%	\$428	6.3%	\$475	6.7%	\$507	7.1%
Interest income	0.8		0.4		1.0		2.2		11.4		11.0		11.0	
Interest expense	(21.0)		(17.7)		(23.2)		(31.5)		(51.6)		(51.0)		(51.0)	
Other income, net	3.8		(2.6)		2.8		5.0		(20.3)		0.0		0.0	
(Interest and other expense) gain associated w/claim	0.0		0.0		0.0		0.0		0.0		0.0		0.0	
Income before taxes	\$122		\$113		\$166		\$264		\$368		\$435		\$467	
Taxes (rate %)	42	34.7%	24	21.0%	40	23.9%	56	21.3%	77	20.9%	97	22.2%	107	23.0%
Non Controlling Interests	(20)		(25)		(30)		(47)		(56)		(71)		(70)	
Net Income	\$59		\$64		\$97		\$161		\$235		\$267		\$290	
Diluted shares (millions)	101.2		112.5		104.0		105.0		108.4		107.5		107.1	
Diluted earnings per share (cont. ops)	\$0.59		\$0.59		\$0.87		\$1.53		\$2.17		\$2.49		\$2.71	
Net Income attributable to Parsons	\$98.5		\$64.1		\$96.7		\$161.1		\$235.1		\$267.4		\$289.8	
Acquisition related intangible asset amortization	87.8		103.2		78.2		76.6		55.6		67.0		68.0	
Litigation-related expenses	0.0		0.0		0.0		0.0		0.0		0.0		0.0	
Amortization of deferred gain resulting from sale-leaseback transact	0.0		0.0		0.0		0.0		0.0		0.0		0.0	
Equity based compensation	9.8		19.6		24.4		36.2		61.5		43.0		34.0	
Transaction-related costs	19.9		12.0		16.3		12.0		17.1		17.0		1.0	
Restructuring	2.2		0.7		0.2		1.2		0.0		0.0		0.0	
HCM software implementation costs	0.0		0.0		0.0		1.9		0.0		0.0		0.0	
Other	1.2		3.3		3.0		0.0		19.3		0.0		0.0	
Tax effect on adjustments	(27.6)		(32.6)		(29.5)		(30.6)		(35.8)		(28.8)		(23.7)	
Adjusted net income attributable to Parsons	191.8		170.3		189.2		258.5		352.7		365.6		369.1	
Adjusted EPS	\$1.90		\$1.65		\$1.81		\$2.43		\$3.26		\$3.40		\$3.45	
Adjusted EBITDA attributable to Parsons														
Net (loss) income attributable to Parsons	\$99		\$64		\$97		\$161		\$235		\$267		\$290	
Net income attributable to noncontrolling interests	20		25		30		47		56		71		70	
Net income (loss) including noncontrolling interests	119		89		127		208		291		338		360	
Interest expense, net	20		17		22		29		40		40		40	
Income tax expense	42		24		40		56		77		97		107	
Depreciation and amortization	128		144		121		120		99		113		115	
Impairment of goodwill, intangible and other assets	0		0		0		0		0		0		0	
Litigation related expenses (income)	0		0		0		0		0		0		0	
Amortization of deferred gain resulting from sale-leaseback transact	0		0		0		0		0		0		0	
Transaction related costs	20		16		16		12		17		17		1	
Restructuring	2		1		0		1		0		0		0	
HCM software implementation costs	0		0		0		2		0		0		0	
Other	0		0		3		0		19		0		0	
Adjusted EBITDA	\$343		\$310		\$353		\$465		\$605		\$648		\$657	

Source: Company data and Jefferies estimates

Parsons (PSN): Cash Flow Statement

Year Ending Dec.

(millions, except per share data)	2020	2021	2022	2023	2024	2025E	2026E
Cash Flows from Operating Activities							
Net income including noncontrolling interests	\$119	\$89	\$127	\$208	\$291	\$338	\$360
Adjustments to Reconcile Net Income							
Depreciation and amortization	128	144	120	120	99	113	115
Amortization of deferred gain	4	3	3	3	0	0	0
Amortization of debt issue costs	1	0	0	0	26	0	0
Gain associated with claim on long-term contract	0	0	0	0	0	0	0
(Gain) loss on disposal of property and equipment	0	0	(0)	0	1	0	0
Provision for doubtful accounts/Debt Extinguishment	(2)	0	0	0	0	0	0
Deferred taxes	1	(3)	(1)	(9)	6	0	0
Asset impairment	0	0	0	0	0	0	0
Foreign currency transaction gains and losses	(0)	5	2	(0)	7	0	0
Equity in earnings of unconsolidated joint ventures	(30)	(37)	(16)	48	23	23	23
Return on investments in unconsolidated joint ventures	41	24	28	49	40	38	38
Contributions of treasury stock/stock-based comp	71	75	78	93	116	78	78
Changes in assets and liabilities, net of acquisitions							
Accounts receivable	(9)	100	(117)	(176)	(163)	(96)	(46)
Contract assets	9	1	(32)	(120)	32	(73)	33
Prepaid expenses and other assets	11	(19)	(1)	(95)	36	(17)	7
Accounts payable	1	(32)	(1)	24	(43)	(9)	1
Accrued expenses and other current liabilities	3	(75)	4	163	80	27	2
Contract liabilities	(30)	(30)	41	84	(11)	(6)	(35)
Billings in excess of costs	0	0	0	0	0	0	0
Provision for contract losses	0	0	0	0	0	0	0
Income taxes	(3)	3	(4)	3	(0)	5	5
Other long-term liabilities	(29)	(44)	7	13	(16)	0	0
Net Cash Provided by (Used in) Operating Activities	\$289	\$206	\$238	\$408	\$524	\$420	\$581
Cash Flows from Investing Activities							
Capital Expenditures	(\$34)	(\$21)	(\$31)	(\$40)	(\$49)	(\$70)	(\$57)
Proceeds from Sale of Property and Equipment	2	1	0	1	0	0	0
Investments in Unconsolidated Joint Ventures, Net	(11)	(38)	(18)	(120)	(134)	0	0
Payments for Acquisitions, Net of Cash Acquired	(303)	(198)	(379)	(222)	(429)	0	0
Return of investments in unconsolidated joint ventures	0	16	10	5	55	0	0
Net Cash Provided by (Used in) Investing Activities	(\$346)	(\$241)	(\$417)	(\$376)	(\$557)	(\$70)	(\$57)
Cash Flows from Financing Activities							
Draw / (repayment) of revolver	\$213	(\$50)	\$0	\$0	\$0	\$0	\$0
Draw / (repayment) of senior notes	400	0	(200)	0	302	(50)	(50)
Draw / (repayment) of term loan	(213)	0	350	0	0	0	0
Payments for debt costs and credit agreement	(51)	(2)	0	0	(19)	0	0
(Distributions) contributions to noncontrolling interests, net	(4)	(36)	(14)	(10)	(27)	(26)	(26)
Purchase of treasury stock	0	(22)	(22)	(11)	(25)	(50)	(25)
Deferred payments for acquisitions	0	0	0	0	0	0	0
IPO proceeds/Dividends Paid	4	0	0	0	0	0	0
Net Cash Provided by (Used in) Financing Activities	\$348	(\$107)	\$100	(\$22)	\$219	(\$126)	(\$101)
Effect of Exchange Rates	\$1	(\$1)	(\$2)	\$1	(\$5)	\$0	\$0
Net Increase (Decrease) in Cash	\$292	(\$143)	(\$81)	\$10	\$181	\$224	\$423
Cash at Beginning of Period	\$195	\$487	\$344	\$263	\$273	\$454	\$678
Cash at End of Period	\$487	\$344	\$263	\$273	\$454	\$678	\$1,101

Source: Company data and Jefferies estimates

Parsons (PSN): Balance Sheet

Year Ending Dec.

(millions, except per share data)	2020	2021	2022	2023	2024	2025E	2026E
Assets							
Cash and Cash Equivalents	\$484	\$343	\$263	\$273	\$454	\$678	\$1,101
Restricted cash and investments	4	1	0	0	0	0	0
Accounts Receivable, Net	699	598	717	916	1,100	1,197	1,243
Contract assets	577	579	634	758	742	815	782
Prepaid Expenses and Other Current Assets	81	111	106	191	167	184	178
Total Current Assets	\$1,843	\$1,632	\$1,720	\$2,138	\$2,462	\$2,873	\$3,303
Property and Equipment, Net	\$121	\$104	\$96	\$99	\$112	\$131	\$143
Goodwill	1,262	1,413	1,662	1,793	2,083	2,083	2,083
Investments in and Advances to Unconsolidated Joint Ventures	69	111	107	128	139	139	139
Intangible and Other Assets	246	208	254	276	350	350	350
Deferred Tax Assets	130	134	138	140	133	133	133
Total Assets	\$3,938	\$3,831	\$4,198	\$4,804	\$5,488	\$5,919	\$6,360
Liabilities & Shareholder's Equity							
Accounts Payable	\$226	\$196	\$201	\$243	\$208	\$198	\$199
Accrued Expenses and Other Current Liabilities	651	599	630	801	894	921	924
Billings in Excess of Costs	0	0	0	0	0	0	0
Contract liabilities	202	172	213	301	290	283	249
Provision for Contract Losses	0	0	0	0	0	0	0
Provision for Contract Losses of Consolidated Joint Ventures	0	0	0	0	0	0	0
Income Taxes Payable	5	8	4	7	8	8	8
Term Loan	50	0	0	0	463	0	0
Total Current Liabilities	\$1,187	\$1,031	\$1,108	\$1,411	\$1,916	\$1,463	\$1,432
Long-term Employee Incentives	\$22	\$16	\$17	\$23	\$32	\$32	\$32
Deferred Gain Resulting from Sale-Leaseback Transactions	0	0	0	0	0	0	0
Revolver	0	0	0	0	0	0	0
Senior Notes	540	592	744	746	784	734	684
Deferred Tax Liabilities	12	11	12	10	11	11	11
Other Long-term Liabilities	315	244	221	238	211	211	211
Total Liabilities	\$2,076	\$1,894	\$2,102	\$2,427	\$2,953	\$2,451	\$2,369
Redeemable common stock	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Common stock	\$147	\$146	\$146				
Treasury Stock	(899)	(867)	(845)				
Additional paid-in capital	2,701	2,685	2,717				
Accumulated (deficit) earnings	(121)	(54)	43				
Accumulated other comprehensive (loss) income	(14)	(10)	(18)				
Total Parsons Corporation Shareholder's Equity	1,814	1,901	2,044	2,287	2,416	3,415	3,939
Noncontrolling Interests	48	36	52	90	118	52	52
Total Shareholder's Equity	\$1,861	\$1,937	\$2,096	\$2,377	\$2,534	\$3,467	\$3,991
Total Liabilities and Shareholder's Equity	\$3,938	\$3,831	\$4,198	\$4,804	\$5,488	\$5,919	\$6,360

Source: Jefferies estimates, company data

Redwire (RDW) – Buy \$19 PT

- 1) Q1 Revenues Down 30%, But Bids Point to More Timing Than Change in Demand
- 2) 2025 Growth in the Bid Pipeline
- 3) Driving Profitability Through Leveraging the Cost Base

Related Notes:

- [Sluggish Q1 Start, But Still Wired to Capitalize on Space/Unmanned Pipeline](#) May 14, 2025
- [Moving Up Market While Crystallizing the Future Optionality](#) November 7, 2024
- [Redwire to Acquire Hera Systems: Moving Up Market and Expanding Multi-Orbit](#) August 15, 2024

Redwire (RDW): Sluggish Q1 Start, But Still Wired to Capitalize on Space/Unmanned Pipeline

PF Estimates For \$559MM of 2025 Revs, \$80MM of EBITDA.

Redwire				Edge Autonomy				Pro Forma			
	2024	2025	2026		2024	2025	2026		2024	2025	2026
Revenue	\$304.1	\$334.5	\$384.7	Revenue	\$195.0	\$224.2	\$246.7	Revenue	\$499.1	\$558.7	\$631.3
COGS	259.6	267.6	290.4	COGS	100.1	114.1	123.3	COGS	359.8	381.7	413.7
Gross Margin	44.5	66.9	94.2	Gross Margin	94.9	110.1	123.4	Gross Margin	139.3	177.0	217.6
SG&A	71.4	70.2	71.2	SG&A	50.5	52.0	58.0	SG&A	154.1	122.2	129.2
R&D	9.1	9.0	9.2	R&D	15.0	15.5	18.0	R&D	21.1	24.5	27.2
Other Expenses	6.1	0.0	0.0	Other Expenses	3.1	3.1	3.1	Other Expenses	29.5	3.1	3.1
Total Expenses	86.7	79.3	80.4	Total Expenses	68.6	70.6	79.1	Total Expenses	204.7	149.9	159.5
Op Profit	-\$42.2	-\$12.4	\$13.8	Op Profit	\$26.3	\$39.5	\$44.3	Op Profit	-\$65.4	\$27.1	\$58.1
Net Interest Expense	13.5	13.5	13.5	Net Interest Expense	6.3	12.2	12.2	Net Interest Expense	25.7	25.7	25.7
Other Expense	60.6	0.0	0.0	Other Expense	-0.4	-0.4	-0.4	Other Expense	62.4	-0.4	-0.4
Pre-Tax Income	-116.3	-25.9	0.3	Pre-Tax Income	32.2	51.3	56.1	Pre-Tax Income	-153.5	1.8	32.8
Taxes	-2.0	-0.3	0.0	Taxes				Taxes	-12.3	0.4	6.6
Net Income	-114.3	-25.6	0.3	Net Income				Net Income	-141.2	1.4	26.2
Adjustments	-41.1	-18.0	-18.0	Adjustments				Adjustments	-41.1		
Net Income	(\$155.4)	(\$43.6)	(\$17.7)	Net Income				Net Income	(\$182.2)	\$1.4	\$26.2
Shares	66.1	75.5	77.5	Shares	51.4	51.4	51.4	Shares	121.8	161.9	163.9
EPS	(\$2.35)	(\$0.58)	(\$0.23)	EPS				EPS	(\$1.50)	\$0.01	\$0.16
D&A Add Back	29.7	8.0	8.0	D&A Add Back				D&A Add Back	79.2	8.0	9.0
D&A	11.7	12.9	14.2	D&A	24.0	24.0	24.0	D&A	35.7	44.9	46.2
Adjusted EBITDA	-0.8	8.5	36.0	Adjusted EBITDA	50.3	63.5	68.3	Adjusted EBITDA	49.5	80.0	113.3
% Margin	-0.3%	2.5%	9.4%	% Margin	25.8%	28.3%	27.7%	% Margin	9.9%	14.3%	17.9%

- Our 2025 PF rev estimate of \$559MM compares to guidance of \$535MM to \$605MM w/ EBITDA of \$80MM (vs. \$70 to \$105MM guidance). Upside comes from both revenue synergies along with accelerated conversion of submitted bids.
- 2025 PF Growth at 7 to 21%. Redwire and Edge Autonomy PFs include: 1) Edge Autonomy generated sales of \$49.2MM, \$151.6MM, and \$195MM in 2022-2024 and profitable on a NI basis in all three years; 2) Customer A and B contributed 37% and 19% of sales; 3) Products/Services mix is 92%/8%; 4) Geographical mix is 64% US/33% Europe w/ 3% other - US sales nearly doubled in 2024 (\$125MM vs. \$70MM in 2023); 5) 2024 PF revs of \$499MM provide basis for 2025 PF guide of \$535MM to \$605MM or 7 to 21% growth.; 6) 2024 PF EBITDA of ~\$50MM and 2025 PF guide of \$70 to 105MM implies ~13%+ EBITDA margins or 40%+ growth in PF EBITDA.

Source: Company data and Jefferies estimates

Redwire (RDW): Sluggish Q1 Start, But Still Wired to Capitalize on Space/Unmanned Pipeline

dge Autonomy Income Statement - U.S. Revs Double W/ Healthy GAAP Profitability

	2022	2023	2024
U.S	\$30.7	\$69.8	\$124.9
Europe	14.7	79.8	64.2
Other	3.8	2.1	5.9
Revenue	\$49.2	\$151.6	\$195.0
Products	46.8	148.4	180.1
Services	2.4	3.3	14.9
Revenue	\$49.2	\$151.6	\$195.0
Cost of Sales	23.7	84.1	100.1
Gross Profit	\$25.5	\$67.5	\$94.9
SG&A	17.5	31.2	47.6
R&D	3.7	6.7	15.0
Transaction Expenses	2.0	0.1	3.1
Income From Ops	\$2.4	\$29.5	\$29.2
Interest Expense, Net	2.7	6.1	6.3
Other Expense, Net	0.3	1.5	2.6
Other Items	2.9	0.0	0.0
Income Before Income Taxes	2.2	21.9	20.4
Provision for Income Taxes	0.2	0.1	4.6
Net Income	\$2.0	\$21.8	\$15.8

Forward Projections For Edge Autonomy Point to a 20% Revenue CAGR

	2025	2026	2027	2028
Revenue	\$246.6	\$266.3	\$349.1	\$401.3
EBITDA	\$83.4	\$76.4	\$110.0	\$122.3
EBITDA %	33.8%	28.7%	31.5%	30.5%
EBIT	72.1	64.5	97.4	108.8
NOPAT	53.0	47.4	71.6	79.9
D&A	11.3	11.9	12.6	13.6
Capex	(8.2)	(10.5)	(13.1)	(15.9)
Increase/Decrease in NWC	11.9	2.6	12.5	8.9
Unlevered FCF	\$68.0	\$51.4	\$83.6	\$86.5

- The base of Edge Autonomy includes sales of \$195MM in 2024, up sharply from the \$49.2MM generated in 2022. The forward projections in the S-4 have the business growing at a 20% CAGR, with EBITDA margins largely stable in the ~30% range plus or minus and positive FCF generation for 2025-2028. There likely has been some moderation of forward projections given the current PF guide.
- The proxy also include potential PF estimates utilizing calendar year 2025 banking estimates and Redwire's estimates for Redwire and Edge Autonomy. The PF guide and estimates point to some conservatism on the part of management, which is likely prudent given the current award delays that has seen some pressure on U.S. spending. Nonetheless, it does point to the opportunity for the end market on a normalization of pipeline conversion.

Source: Company data and Jefferies estimates

Redwire (RDW): Relative Valuation to Peers

Price Target Derivation

	Price	Assumptions
EV/EBITDA	19	28.0x 2026 EV/EBITDA
Average	\$19	Blended average

Relative Valuation Table (05/13/2025)

Comps	Ticker	JEF Rating	Stock Px 5/13/2025	Market Cap	Enterprise Value	P/E			EV / SALES			EV / EBITDA			FCF
						2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	
Kratos	KTOS	Hold	\$33.75	5,179	5,291	68.9x	67.1x	66.1x	4.7x	4.1x	4.1x	50.1x	45.0x	45.0x	0.2%
Aerovironment	AVAV	Buy	\$167.10	7,627	4,696	54.7x	40.5x	34.7x	6.0x	4.3x	4.4x	33.6x	23.8x	22.8x	1.1%
Average						61.8x	53.8x	50.4x	5.3x	4.2x	4.3x	41.8x	34.4x	33.9x	0.7%
Redwire	RDW	Buy	\$11.01	848	906	-4.7x	-19.1x	-48.3x	2.7x	2.7x	2.4x	N/A	106.4x	25.2x	N/A

Source: Company data, FactSet and Jefferies estimates

Redwire (RDW): Income Statement

Year Ending Dec. (MM, except per share data)

	2020		2021		2022		2023		2024		2025E		2026E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$118	100.0	\$138	100.0	\$161	100.0	\$244	100.0	\$304	100.0	\$334	100.0	\$385	100.0
Cost Of Goods Sold	\$86	72.8	\$108	78.7	\$132	82.1	\$186	76.2	\$260	85.4	\$268	80.0	\$290	75.5
Gross Profit	\$32	27.2	\$29	21.3	\$29	17.9	\$58	23.8	\$44	14.6	\$67	20.0	\$94	24.5
Costs and expenses														
R&D	3	2.7	5	3.3	5	3.1	5	2.0	9	3.0	9	2.7	9	2.4
SG&A	56	47.6	79	57.2	70	43.8	69	28.1	71	23.5	70	21.0	71	18.5
Transaction Expenses	42	35.6	16	11.9	100	62.2	0	0.0	6	2.0	0	0.0	0	0.0
Warrant Other	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Total Operating Costs	\$101	85.9	\$100	72.4	\$175	109.1	\$74	30.2	\$87	28.5	\$79	23.7	\$80	20.9
GAAP Operating Profit	(\$69)	-58.7	(\$70)	-51.0	(\$146)	-91.2	(\$16)	-6.4	(\$42)	-13.9	(\$12)	-3.7	\$14	3.6
Interest Income	(0)		0		0		0		0		0		0	
Interest Expense	6		6		8		11		13		14		14	
Other Expenses	(1)		(4)		(16)		2		61		0		0	
Pre-Tax Income	(74)		(73)		(139)		(28)		(116)		(26)		0	
Taxes	(16)		(11)		(8)		(0)		(2)		(0)		0	
GAAP Net Income	(\$59)		(\$62)		(\$131)		(\$27)		(\$114)		(\$26)		\$0	
Diluted shares (millions)	59.7		45.1		62.2		64.7		66.1		75.5		77.5	
GAAP Diluted EPS	(\$0.98)		(\$1.36)		(\$2.10)		(\$0.73)		(\$2.35)		(\$0.58)		(\$0.23)	
Adjusted EBITDA	(\$23.1)		\$1.3		(\$11.0)		\$15.3		(\$0.8)		\$8.5		\$36.0	

Source: Company data and Jefferies estimates

RTX – HOLD \$130 PT

1) Tariffs Impact of \$850MM Net of Mitigation Actions.

2) Pratt Organic Growth of 14% in Q1

3) Collins Margin Expansion to 17.5% in 2025E

4) Raytheon Growth of 4% in 2025E

Related Notes:

- [A Tariff Scare, Although Ops Largely Fair](#) *April 27, 2025*
- [GTF Advantage Receives FAA Certification in Line with H1:25 Target](#) *February 27, 2025*
- [A Pratt Summer Needed for FCF Growth](#) *February 2, 2025*

RTX: Commercial Aftermarket Driving Recovery in 2025, With Raytheon Expected Up 4%

RTX Revenues Up 7% Organically in 2025 with P&W and Collins Up 7% and 6% Respectively

	2020	2021	2022	2023	2024	2025E	2026E	2027E
Revenue (\$MM)								
Collins Aerospace	\$21,989	\$21,152	\$23,052	\$26,198	\$28,284	\$28,963	\$30,382	\$32,092
Pratt & Whitney	17,224	18,150	20,530	23,697	28,066	30,161	31,518	32,532
Raytheon	26,177	26,611	25,176	26,350	26,783	27,267	28,793	30,412
Eliminations	(790)	(1,525)	(1,684)	(1,940)	(2,325)	(2,416)	(2,536)	(2,658)
Others	0	0	0	0	0	0	0	0
Total RTX Sales	\$64,600	\$64,388	\$67,074	\$74,305	\$80,808	\$83,975	\$88,157	\$92,379
YoY Organic % Change								
Collins Aerospace	-24%	-1%	10%	14%	8%	6%	8%	6%
Pratt & Whitney	-18%	5%	13%	15%	18%	7%	5%	3%
Raytheon	0%	2%	-3%	5%	7%	4%	6%	6%
Total	69%	0%	4%	11%	9%	4%	5%	5%
Organic	-14%	0%	4%	11%	10%	7%	7%	6%
End Market Composition								
Collins Aerospace	34%	32%	34%	34%	34%	34%	33%	34%
Pratt & Whitney	26%	28%	30%	31%	34%	35%	35%	34%
Raytheon	40%	40%	37%	35%	32%	32%	32%	32%
Total	100%	100%	100%	100%	100%	100%	100%	100%

We forecast sales up 7% organically in 2025 (4% reported). The commercial aero recovery leads growth with Pratt up 7% and Collins up 6% supported by cont'd AM momentum and OE ramps.

- Q1:25 revenues increased 8% organically led by a 14% y-o-y organic recovery in P&W, with Collins up 9% on an organic basis. For the defense business, Raytheon expanded 2% on an organic basis with higher volume in land and air defense systems, such as Patriot and LTAMDS, offset by NGI contributing in the prior year (anniversaries in late April). The Cyber divestiture was a 7pt headwind to Q1 at Raytheon with Hoist & Winch a 50 bps headwind to Collins revs.
- For 2025, management reiterated guidance as follows: Collins: Up MSD Organic (LDS reported) vs our est of +6% Organic; Pratt: Up HSD vs our est of 8%, Raytheon: Up MSD Organic (LSD reported) vs our est of 4%

Source: Company data and Jefferies estimates

RTX Collins: 2025 Increases 6% Organic, Driven by Comm'l OE and AM Up 7% and 9%

Collins Aerospace Systems - Sales Up 6% Organic in 2025, Driven by Commercial AM

	2020	2021	2022	2023	2024	2025E	2026E	2027E
Revenue (\$MM)								
Aero OE	\$6,092	\$5,270	\$6,177	\$7,227	\$7,317	\$6,778	\$7,285	\$8,043
Aero AM	5,965	6,289	7,944	10,031	11,213	12,334	12,951	13,598
Commercial Aero	12,057	11,559	14,120	17,258	18,530	19,112	20,235	21,641
Military OE	4,774	4,672	4,407	4,415	4,822	4,870	5,016	5,166
Military AM	5,158	4,920	4,525	4,525	4,932	4,981	5,131	5,285
Military	9,932	9,593	8,931	8,940	9,754	9,851	10,147	10,451
Total	\$21,989	\$21,152	\$23,052	\$26,198	\$28,284	\$28,963	\$30,382	\$32,092
YoY % Change								
Aero OE	-38%	-14%	17%	17%	1%	-7%	7%	10%
Aero AM	-37%	5%	26%	26%	12%	10%	5%	5%
Commercial Aero	-37%	-4%	22%	22%	7%	3%	6%	7%
Military OE	8%	-2%	-6%	0%	9%	1%	3%	3%
Military AM	2%	-5%	-8%	0%	9%	1%	3%	3%
Military	5%	-3%	-7%	0%	9%	1%	3%	3%
Total	-26%	-4%	9%	14%	8%	2%	5%	6%
Organic	-24%	-1%	10%	14%	8%	6%	8%	6%
End Market Composition								
Aero OE	28%	25%	27%	28%	26%	23%	24%	25%
Aero AM	27%	30%	34%	38%	40%	43%	43%	42%
Commercial Aero	55%	55%	61%	66%	66%	66%	67%	67%
Military OE	22%	22%	19%	17%	17%	17%	17%	16%
Military AM	23%	23%	20%	17%	17%	17%	17%	16%
Military	45%	45%	39%	34%	34%	34%	33%	33%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Commercial OE +6% organic (-7% after divestitures) while Comm'l AM grows 10% in 2025. Support for AM growth comes from disruptions to the new age fleet delaying retirements.

- Collins Aerospace organic revenue increased 9% in Q1:25 driven by Military (+10%) with the Commercial aftermarket business up 13% y-o-y, while Commercial OE was up 2%. The increase in sales was driven by strength in commercial, aftermarket and defense.
- Commercial OE (23% of segment sales) is estimated up 6% organically in 2025 (guide +MSD) with the MAX production expected to see some destocking in 2025. Commercial OE sales were up 2% y-o-y from higher A220 regional and 787 volume, partially offset by lower 737 Max volume. The offset is the A320neo production rate (\$7.0MM per shipset) ramping to 52/mo in 2025 from 51/mo in 2024, and the 787 rate (\$10MM per shipset) rising to 5.5/mo this year vs 5/mo in 2024 (loss-making margin).
- Commercial AM, which represents 41% of Collins sales, increased 13% organically y-o-y in Q1 driven by a 15% increase in parts and repair, an 18% increase in mods and upgrades, and a 1% increase in provisioning. We see growth moderating somewhat to 10% (still healthy, +HSD-LDD guide) before stabilizing at +5% in 2026/2027.

Source: Company data and Jefferies estimates

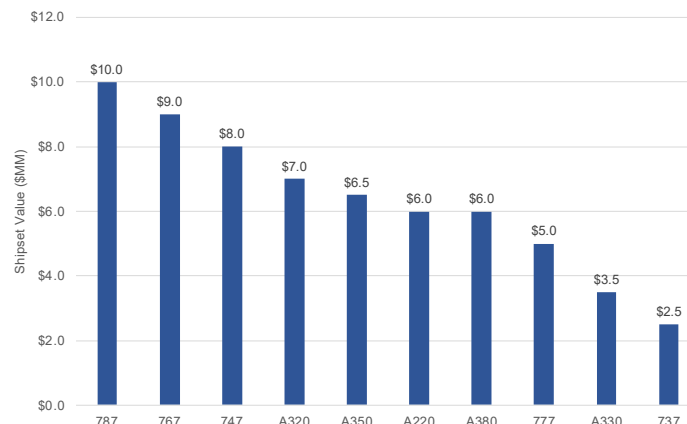
RTX Collins: 2025 Increases 6% Organic, Driven by Comm'l OE and AM Up 7% and 9%

Collins Commercial OE - 2025E Organic Up 7%, or Down 6% Incl Actuation Impact with MAX Currently Paused

Large Commercial OE	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Delivery Forecast									
737	504	70	113	289	337	290	300	480	540
747	7	0	0	5	1	0	0	0	0
767	43	0	0	36	32	26	30	36	18
777	45	93	105	27	24	26	30	36	39
787	158	0	40	20	33	60	66	84	114
Total Boeing	757	163	258	377	427	402	426	636	711
A220	48	54	60	53	68	75	85	90	100
A320 Family	642	489	489	516	571	592	625	708	765
A330	53	31	24	32	32	34	34	39	44
A350	112	71	48	62	64	57	70	88	100
A380	8	2	0	0	0	0	0	0	0
Total Airbus	863	647	621	663	735	756	814	925	1,009
Content per Aircraft (\$MM)									
737	\$2.5	\$2.5	\$2.5	\$2.5	\$2.5	\$2.5	\$2.5	\$2.5	\$2.5
747	\$8.0	\$8.0	\$8.0	\$8.0	\$8.0	\$8.0	\$8.0	\$8.0	\$8.0
767	\$9.0	\$9.0	\$9.0	\$9.0	\$9.0	\$9.0	\$9.0	\$9.0	\$9.0
777	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0
787	\$10.0	\$10.0	\$10.0	\$10.0	\$10.0	\$10.0	\$10.0	\$10.0	\$10.0
Weighted Average Boeing	\$4.6	\$3.9	\$4.7	\$3.8	\$3.7	\$4.2	\$4.3	\$4.0	\$4.0
A220	\$6.0	\$6.0	\$6.0	\$6.0	\$6.0	\$6.0	\$6.0	\$6.0	\$6.0
A320 Family	\$5.0	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0
A330	\$3.5	\$3.5	\$3.5	\$3.5	\$3.5	\$3.5	\$3.5	\$3.5	\$3.5
A350	\$5.0	\$6.5	\$6.5	\$6.5	\$6.5	\$6.5	\$6.5	\$6.5	\$6.5
A380	\$6.0	\$6.0	\$6.0	\$6.0	\$6.0	\$6.0	\$6.0	\$6.0	\$6.0
Weighted Average Airbus	\$5.0	\$6.7	\$6.7	\$6.7	\$6.7	\$6.7	\$6.7	\$6.7	\$6.7
Revenue per Aircraft (\$MM)									
737	\$1,260	\$175	\$282	\$722	\$842	\$725	\$750	\$1,200	\$1,350
747	56	0	0	40	8	0	0	0	0
767	387	0	0	324	288	234	270	324	162
777	225	465	525	135	120	130	150	180	195
787	1,580	0	400	200	330	600	660	840	1,140
Total Boeing	\$3,508	\$640	\$1,207	\$1,421	\$1,588	\$1,689	\$1,830	\$2,544	\$2,847
A220	\$288	\$324	\$360	\$318	\$408	\$450	\$510	\$540	\$600
A320 Family	3,210	3,423	3,423	3,612	3,997	4,144	4,375	4,956	5,355
A330	186	109	84	112	112	112	119	137	154
A350	560	462	312	403	416	371	455	572	650
A380	48	12	0	0	0	0	0	0	0
Total Airbus	\$4,292	\$4,329	\$4,179	\$4,445	\$4,933	\$5,077	\$5,459	\$6,205	\$6,759
Other Platforms	\$2,042	\$1,123	-\$116	\$311	\$706	\$573	\$530	\$530	\$530
Total Commercial OE	\$9,841	\$6,092	\$5,270	\$6,177	\$7,227	\$7,339	\$7,819	\$9,279	\$10,136
Y-o-Y Change	-38%	-14%	-17%	17%	2%	7%	19%	9%	
Revenue Splits									
737	67%	43%	44%	77%	79%	72%	70%	75%	76%
747	1%	0%	0%	1%	0%	0%	0%	0%	0%
767	6%	0%	0%	10%	7%	6%	7%	6%	3%
777	6%	57%	41%	7%	6%	6%	7%	6%	5%
787	21%	0%	16%	5%	8%	15%	15%	13%	16%
Total Boeing	100%	100%	100%	100%	100%	100%	100%	100%	100%
A220	6%	8%	10%	8%	9%	10%	10%	10%	10%
A320 Family	74%	76%	79%	78%	78%	78%	77%	77%	76%
A330	6%	5%	4%	5%	4%	4%	4%	4%	4%
A350	13%	11%	8%	9%	9%	8%	9%	10%	10%
A380	1%	0%	0%	0%	0%	0%	0%	0%	0%
Total Airbus	100%	100%	100%	100%	100%	100%	100%	100%	100%

- We look at Collins Commercial OE revenue build by aircraft type. We estimate revenues of \$6.78BB in 2025, down from \$7.32BB in 2024 including a \$970MM divestiture headwind, up 6% organically.
- The partial offset is the divestiture of Actuation, which we estimate at a \$800MM headwind to 2025 OE and \$800MM in 2026 given a mid-year expected close.

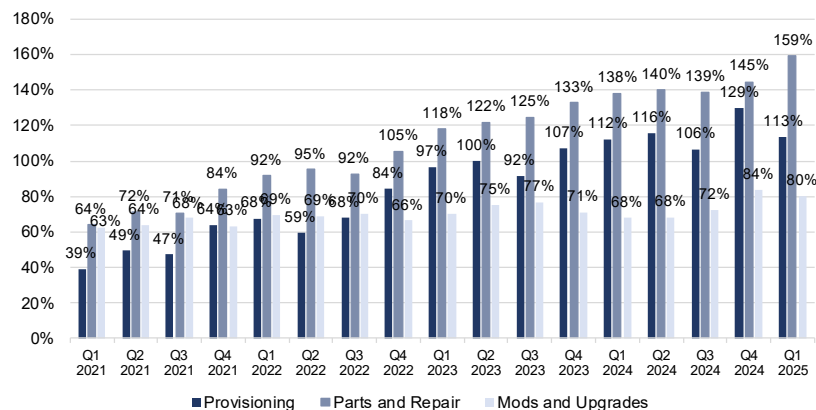
Collins Shipset Content Value on Key Platforms



Source: Company data and Jefferies estimates

RTX Collins: 2025 Increases 6% Organic, Driven by Comm'I OE and AM Up 7% and 9%

Collins Comm'I AM As a Percentage of 2019 Levels - Parts and Repairs Rebound Most Profound at 145% of 2019 Levels in Q4:24



- On a y-o-y basis, Mods & Upgrades and Parts & Repair led growth, up 18%/15%, respectively, while Provisioning lagged up 1%. Our estimate of 10% commercial aftermarket growth implies a deceleration in the remainder of the year despite easier mods/upgrades comp in Q2-Q3.
- We estimate each of the Collins Comm'I AM channels as a percentage of 2019 sales. Parts and Repair is most recovered into 2025 at 159% of 2019 levels vs. 113% for Provisioning and just 80% for Mods and Upgrades. Discretionary aftermarket continues to weaken as planes are flying more limiting downtime for discretionary aftermarket and airlines see profitability pressure. Parts/Repair and Provisioning are supported by an older fleet and catalog price increases.

Source: Company data and Jefferies estimates

RTX Collins: 2025 Increases 6% Organic, Driven by Comm'l OE and AM Up 7% and 9%

Collins Adj. EBIT Up 11% in 2025 with Margins Expanding 140 Bps to 17.3%

	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
GAAP Starting EBIT	\$2,191	\$2,303	\$4,100	\$2,010	\$2,380	\$2,816	\$3,825	\$4,135	\$4,924	\$5,497
Organic growth	460	336	(3,872)	341	979	1,099	741	632	587	462
Aero OE	66	(1)	(2,012)	(86)	248	(50)	(5)	108	327	190
Aero AM	219	239	(1,932)	389	987	1,148	449	505	216	227
Military OE	88	71	50	10	(101)	1	134	10	22	23
Military AM	88	27	22	28	(155)	0	163	10	22	23
FX	(22)	32	(1)	0	0	0	0	0	0	0
M&A	0	2,125	(12)	(91)	(12)	(2)	(2)	(87)	(64)	0
Productivity	(88)	0	0	0	0	(50)	0	(10)	50	0
R&D Expense	0	(58)	200	0	0	(40)	(50)	0	0	0
SG&A Expense	(153)	(81)	(125)	114	(288)	(114)	(50)	0	0	0
Pension	0	0	0	0	0	0	0	0	0	0
Contract Negotiations	0	0	(145)	209	(52)	0	0	0	0	0
COL Amortization	0	(547)	181	0	0	0	0	0	0	0
Other	(86)	(12)	1,684	(203)	(191)	172	(329)	255	0	0
Incremental profit	112	1,797	(2,090)	370	436	1,065	310	789	573	462
GAAP Ending EBIT	\$2,303	\$4,100	\$2,010	\$2,380	\$2,816	\$3,881	\$4,135	\$4,924	\$5,497	\$5,959
Adjusted EBIT	\$2,613	\$4,863	\$2,014	\$2,420	\$3,047	\$3,896	\$4,496	\$5,063	\$5,497	\$5,959
GAAP EBIT Margin %	13.8%	15.8%	9.1%	11.3%	12.2%	14.6%	14.6%	17.0%	18.1%	18.6%
Adjusted EBIT Margin %	15.7%	18.7%	9.2%	11.4%	13.2%	14.9%	15.9%	17.5%	18.1%	18.6%
Incremental/Decremental OE	36%	-1%	56%	11%	26%	-5%	-5%	25%	25%	25%
Incremental/Decremental AM	-529%	34%	57%	120%	60%	55%	38%	45%	35%	35%
Incremental/Decremental Margin	20%	33%	16%	20%	45%	15%	33%	20%	15%	15%

- Collins reported a 17.0% adjusted segment margin in Q1, expanding 130 bps y-o-y on a 17% aggregate increase in operating profit, with unfavorable mix of 787s more than offset by commercial aftermarket and defense volumes.

- We est full-year 2025 Collins adj margins to 17.5%, up 160 bps y-o-y, with 2026 expected at 18.1%.

- We assume 45% AM incrementals with 25% OE (better mix vs high 787 in 2024) and minimal benefits from net pricing and productivity in 2025.

- OE incrementals are somewhat pressured by B787 production ramping at breakeven margins with further pressure from the heat exchanger move from Russia to the US/UK.

Source: Company data and Jefferies estimates

RTX: Pratt & Whitney Expected to Grow 7% in 2025 Driven By Aftermarket Once More

Pratt Volumes Remain Elevated at +7% in 2025 Driven by Aftermarket

	2020	2021	2022	2023	2024	2025E	2026E	2027E
Revenue (\$MM)								
Large OE	\$1,794	\$1,973	\$2,462	\$3,163	\$4,274	\$4,529	\$4,665	\$4,604
Large AM	\$4,825	\$5,503	\$6,772	\$8,207	\$9,332	\$10,452	\$10,974	\$11,523
Total Commercial Sales	\$6,618	\$7,476	\$9,234	\$11,370	\$13,606	\$14,980	\$15,639	\$16,127
PWC OE	\$1,494	\$1,413	\$1,788	\$2,000	\$2,520	\$2,801	\$3,157	\$3,326
PWC AM	\$2,272	\$2,682	\$3,203	\$3,684	\$4,178	\$4,386	\$4,606	\$4,836
P&W Canada	\$3,766	\$4,095	\$4,991	\$5,684	\$6,698	\$7,187	\$7,763	\$8,162
Military OE	\$4,750	\$4,370	\$4,140	\$4,185	\$3,863	\$3,899	\$3,899	\$3,899
Military AM	\$2,090	\$2,209	\$2,165	\$2,457	\$3,900	\$4,095	\$4,218	\$4,344
Military	\$6,840	\$6,579	\$6,305	\$6,642	\$7,762	\$7,993	\$8,116	\$8,243
Total	\$17,224	\$18,150	\$20,530	\$23,697	\$28,066	\$30,161	\$31,518	\$32,532
YoY % Change								
Large OE	12%	10%	25%	28%	35%	6%	3%	-1%
Large AM	-15%	14%	23%	21%	14%	12%	5%	5%
Total Commercial Sales	-9%	13%	24%	23%	20%	10%	4%	3%
PWC OE	-18%	-5%	27%	12%	26%	11%	13%	5%
PWC AM	25%	18%	19%	15%	13%	5%	5%	5%
P&W Canada	4%	9%	22%	14%	18%	7%	8%	5%
Military OE	162%	-8%	-5%	1%	-8%	1%	0%	0%
Military AM	15%	6%	-2%	14%	59%	5%	3%	3%
Military	89%	-4%	-4%	5%	17%	3%	2%	2%
Total	19%	5%	13%	15%	18%	7%	5%	3%
End Market Composition								
Large OE	10%	11%	12%	13%	15%	15%	15%	14%
Large AM	28%	30%	33%	35%	33%	35%	35%	35%
Total Commercial Sales	38%	41%	45%	48%	48%	50%	50%	50%
PWC OE	9%	8%	9%	8%	9%	9%	10%	10%
PWC AM	13%	15%	16%	16%	15%	15%	15%	15%
P&W Canada	22%	23%	24%	24%	24%	24%	25%	25%
Military OE	28%	24%	20%	18%	14%	13%	12%	12%
Military AM	12%	12%	11%	10%	14%	14%	13%	13%
Military	40%	36%	31%	28%	28%	27%	26%	25%
Total	100%	100%	100%	100%	100%	100%	100%	100%

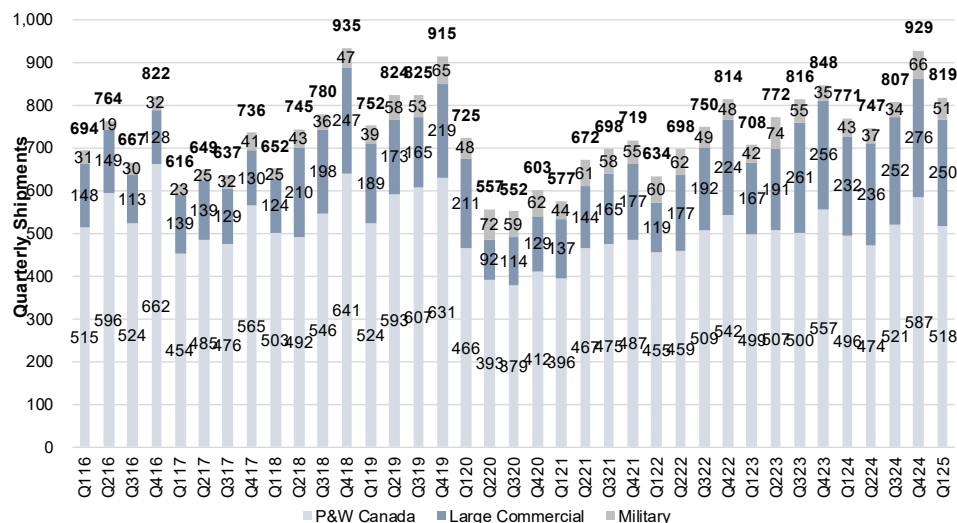
Large Commercial OE and AM expected to grow 6% and 12%, respectively in 2025 due to continued improvement in shop visits and GTF shipments.

- Pratt is expected to generate \$30.2BB in 2025 RTX revenues (35% of total) and 25% of total company segment EBIT.
- In Q1:25, Pratt sales increased by 14% organically y-o-y, primarily driven by Commercial AM up 28%, on 7% V2500 shop visit growth and +35% GTF MRO output, as well as Commercial OE up 3% on 8% unit growth.

Source: Company data and Jefferies estimates

RTX: Commercial OE Driven by GTF Ramp - Mix Shift to Installs From Spares in 2025E

P&W Quarterly Engine Shipments of 819 in Q1:25 up from 771 a Year Ago - Large Commercial Shipments of 250



- In Q1:25, Large OE sales grew 3% y-o-y on an 8% increase in large commercial engine shipments. We forecast a 6% recovery in Large Commercial OE in 2025E on 15% more GTF shipments offset by less favorable spares mix. The number of spare engines delivered in 2025 is expected to be roughly even with 2024 with the growth driven by installed engines.
- Total Q1 engine shipments of 819 were up 9% from Q1:19 at 752 engines. Large commercial engine shipments of 250 were up 8% from 232 a year ago, but down 9% sequentially from 276 units in Q4 given seasonality.
- We expect 1,150 large engines shipped in 2025 with revenue growth lower due to favorable mix of spares, up from 996 in 2024 and from 746 in 2019. P&W Canada shipments of 518 in Q1 compare to 496 a year ago, or up 4% year over year.

Source: Company data and Jefferies estimates

RTX: P&W Large Commercial Aftermarket Build - Growing PW1000G Presence in Fleet Expected to Offset Impact of Accelerated Retirements

Aircraft Installed Base	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	% Composition
Total JT3D Aircraft	21	19	14	14	5	4	4	3	1	-	-	-	0%
Total JT8D Aircraft	793	698	612	490	415	397	363	344	312	293	268	236	7%
Total JT9D Aircraft	71	58	47	42	20	18	18	15	13	2	2	2	0%
Total GP7200 Aircraft	125	129	130	130	128	127	125	120	115	107	98	88	2%
Total PW1000G Aircraft	58	154	377	711	942	1,201	1,495	1,882	2,265	2,522	2,809	3,130	21%
Total PW2000 Aircraft	332	301	285	284	264	262	255	243	239	224	224	224	5%
Total PW4000 Aircraft	924	872	837	818	728	711	683	658	640	546	511	474	12%
Total PW6000 Aircraft	14	11	8	6	2	-	-	-	-	-	-	-	0%
Total V2500 Aircraft	3,047	3,143	3,162	3,119	3,033	2,985	2,947	2,865	2,803	2,749	2,696	2,626	52%
Total P&W Aircraft	5,385	5,385	5,472	5,614	5,537	5,705	5,890	6,130	6,388	6,443	6,608	6,780	100%
Utilization Calculation	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	
Utilization Assumption													
JT3D	85%	88%	90%	90%	35%	55%	75%	85%	85%	85%	85%	85%	
JT8D	70%	70%	80%	75%	55%	60%	70%	75%	75%	75%	75%	75%	
JT9D	70%	70%	80%	75%	25%	30%	60%	70%	70%	70%	70%	70%	
GP7200	80%	80%	80%	85%	20%	25%	50%	60%	65%	70%	70%	70%	
PW1000G	90%	90%	90%	95%	70%	80%	85%	85%	80%	80%	80%	85%	
PW2000	80%	80%	80%	85%	45%	50%	60%	65%	70%	70%	70%	70%	
PW4000	90%	90%	90%	90%	25%	30%	65%	85%	85%	85%	90%	90%	
PW6000	90%	90%	90%	90%	45%	50%	70%	75%	80%	80%	80%	80%	
V2500	90%	90%	90%	95%	65%	75%	85%	90%	90%	91%	96%	93%	
Average Utilization	83%	83%	86%	87%	43%	51%	69%	77%	78%	78%	80%	80%	
Utilized Aircraft													
JT3D	18	17	13	13	2	2	3	3	1	-	-	-	
JT8D	555	489	490	368	228	238	254	258	234	220	201	177	
JT9D	50	41	38	32	5	5	11	11	9	1	1	1	
GP7200	100	103	104	111	26	32	63	72	75	75	69	61	
PW1000G	52	139	339	675	659	961	1,271	1,600	1,812	2,017	2,247	2,660	
PW2000	266	241	228	241	119	131	153	158	167	157	157	157	
PW4000	832	785	753	736	182	213	444	559	544	464	460	427	
PW6000	13	10	7	5	1	-	-	-	-	-	-	-	
V2500	2,742	2,829	2,846	2,963	1,971	2,239	2,505	2,579	2,523	2,502	2,588	2,442	
Total Utilized Aircraft	4,627	4,652	4,817	5,144	3,193	3,821	4,703	5,239	5,365	5,436	5,723	5,926	
Annual Cost to Operate Engine													
JT3D	\$1.4	\$1.4	\$1.4	\$1.4	\$1.3	\$1.3	\$1.3	\$1.3	\$1.4	\$1.4	\$1.4	\$1.5	
JT8D	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.5	
JT9D	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.6	
GP7200	1.3	1.3	1.3	1.3	1.2	1.2	1.2	1.3	1.5	1.6	1.8	2.0	
PW1000G	0.5	1.0	1.0	1.0	0.9	1.0	1.1	1.2	1.5	1.7	1.8	1.8	
PW2000	1.7	1.7	1.7	1.8	1.6	1.6	1.8	1.9	2.1	2.1	2.1	2.1	
PW4000	1.5	1.6	1.6	1.7	1.6	1.6	1.7	1.9	2.1	2.1	2.1	2.1	
PW6000	0.8	0.8	0.8	0.8	0.7	0.8	0.8	1.0	1.0	1.0	1.0	1.0	
V2500	0.8	0.9	1.4	1.4	1.3	1.4	1.5	1.7	1.8	1.9	1.9	2.0	
Average Operating Cost	\$1.2	\$1.3	\$1.4	\$1.4	\$1.2	\$1.3	\$1.3	\$1.5	\$1.6	\$1.6	\$1.7	\$1.7	
Total Aftermarket Revenue													
JT3D	\$24	\$23	\$18	\$18	\$2	\$3	\$4	\$3	\$1	\$0	\$0	\$0	0%
JT8D	750	673	688	517	289	307	335	346	321	307	286	257	7%
JT9D	73	61	57	48	7	8	15	15	14	2	2	2	1%
GP7200	130	134	135	144	30	38	76	96	110	122	123	121	2%
PW1000G	26	139	339	675	593	913	1,398	1,936	2,718	3,429	4,045	4,788	9%
PW2000	444	411	397	428	190	209	269	305	356	333	333	333	5%
PW4000	1,247	1,256	1,241	1,274	283	332	761	1,054	1,128	961	954	885	16%
PW6000	10	8	6	4	1	0	0	0	0	0	0	0	0%
V2500	2,194	2,546	3,984	4,148	2,563	3,022	3,632	4,255	4,541	4,684	5,038	4,945	53%
Other	1,227	1,549	749	542	867	671	283	197	145	613	193	191	7%
Total Aftermarket Revenue	\$6,126	\$6,799	\$7,615	\$7,798	\$4,825	\$5,503	\$6,772	\$8,207	\$9,332	\$10,452	\$10,974	\$11,523	100%
Y-o-Y Change	11.5%	11.0%	12.0%	2.4%	-33.0%	14.1%	23.1%	21.2%	13.7%	12.0%	5.0%	5.0%	

PW1000G is expected to be the only platform with the installed base growing as deliveries continue on the A220 and A320neo family aircraft.

We expect the P&W installed base expands at a 6% CAGR in 2024E to 2027E as PW1000G deliveries offset a higher retirement rate.

We expect the utilization rate of aircraft using P&W engines to partially recover to 80% in 2026 vs. 78% in 2024 as demand for air traffic falls. Given a significant number of the P&W installed base is on older aircraft on which we expect the utilization rate to remain below 2019 levels. GTF AOG is a ~10% impact from the powder metal issue in '23-26.

We expect P&W Aftermarket revenue to grow 12% in 2025 following a 14% increase in 2024. GTF AM revs expected to grow \$2BB from '24 to '27E incl +\$0.7BB in '25.

Source: Company data and Jefferies estimates

RTX: Engine NPV - GTF Contributes \$9/Sh

GTF Worth \$8.65/Sh - AOG Concessions and Lowering Structural Profitability of GTF Program Accounting for Loss Provisions

			Negative Engine Margin	Annual Engine OE Losses	GTF AOG Concessions Charge		First Overhaul Revenue	Second Overhaul Revenue	Third Overhaul Revenue	Total Aftermarket Revenues		Aftermarket Profit (\$MM)	Net Profit (\$MM)	AT Net Profit (\$MM)	Present	
Year	Deliveries	Retirements	(\$MM)	(\$MM)		Fleet	(\$MM)	(\$MM)	(\$MM)	(\$MM)	Op Margin	(\$MM)	(\$MM)	(\$MM)	Value	
2017	389		(\$2.5)	(\$959)		524				139	0%	\$0	(\$959)	(\$772)	(\$772)	
2018	620		(2.1)	(1,322)		1,144				339	0%	0	(1,322)	(1,064)	(1,064)	
2019	743		(1.6)	(1,200)		1,887				675	0%	0	(1,200)	(966)	(966)	
2020	546		(2.0)	(1,118)		2,433				593	0%	0	(1,118)	(900)	(900)	
2021	623		(2.0)	(1,260)		3,056				913	0%	0	(1,260)	(1,015)	(1,015)	
2022	712		(1.8)	(1,309)		3,768				1,398	-2%	(29)	(1,339)	(1,078)	(1,078)	
2023	875		(1.7)	(1,463)	0	4,643	1,936			1,936	16%	305	(1,157)	(932)	(932)	
2024	996		(1.6)	(1,605)	(1,100)	5,639	2,718			2,718	10%	261	(2,444)	(1,967)	(1,967)	
2025	1,150		(1.5)	(1,758)	(1,200)	6,789	3,429			3,429	15%	530	(2,427)	(1,954)	(1,843)	
2026	1,200		(1.5)	(1,778)	(700)	7,989	4,045			4,045	17%	693	(1,785)	(1,437)	(1,279)	
2027	1,200		(1.5)	(1,769)		9,189	4,788			4,788	20%	959	(810)	(652)	(547)	
2028	1,200		(1.4)	(1,680)		10,389	3,115			3,115	22%	685	(995)	(801)	(634)	
2029	1,200		(1.3)	(1,560)		11,589	3,560	2,334		5,894	22%	1,297	(263)	(212)	(158)	
2030	1,200		(1.2)	(1,440)		12,789	4,375	3,720		8,095	22%	1,781	341	274	193	
2031	1,200		(1.0)	(1,200)		13,989	4,980	4,458		9,438	22%	2,076	876	705	469	
2032	1,200		(0.6)	(720)		15,189	5,750	3,276		9,026	22%	1,986	1,266	1,019	639	
2033	950		(0.4)	(380)		16,139	6,000	3,738		9,738	22%	2,142	1,762	1,419	840	
2034	950		(0.4)	(380)		17,089	6,000	4,272		10,272	22%	2,260	1,880	1,513	845	
2035	950		(0.4)	(380)		18,039	6,000	5,250		11,250	22%	2,475	2,095	1,686	888	
2036	950		(0.4)	(380)		18,989	6,000	5,976	3,112	15,088	22%	3,319	2,939	2,366	1,176	
2037	950		(0.4)	(380)		19,939	6,000	6,900	4,960	17,860	22%	3,929	3,549	2,857	1,340	
2038	950	(124)	(0.4)	(380)		20,765	6,000	7,200	5,944	19,144	22%	4,212	3,832	3,085	1,364	
2039	950	(273)	(0.4)	(380)		21,442	6,000	7,200	4,368	17,568	22%	3,865	3,485	2,805	1,171	
2040	950	(382)	(0.4)	(380)		22,011	4,750	7,200	4,984	16,934	22%	3,725	3,345	2,693	1,060	
2041	950	(506)	(0.4)	(380)		22,454	4,750	7,200	5,696	17,646	22%	3,882	3,502	2,819	1,047	
2042	950	(649)	(0.4)	(380)		22,755	4,750	7,200	7,000	18,950	22%	4,169	3,789	3,050	1,069	
2043	950	(700)	(0.4)	(380)		23,006	4,750	7,200	7,968	19,918	22%	4,382	4,002	3,222	1,065	
2044	950	(750)	(0.4)	(380)		23,205	4,750	7,200	9,200	21,150	22%	4,653	4,273	3,440	1,073	
2045	950	(871)	(0.4)	(380)		23,284	4,750	5,700	9,600	20,050	22%	4,411	4,031	3,245	955	
2046	950	(987)	(0.4)	(380)		23,247	4,750	5,700	9,600	20,050	22%	4,411	4,031	3,245	900	
Totals	28,354			(\$18,829)	(\$3,000)								\$42,719	\$34,389	\$11,631	
															Shares (MM)	1,345
															PV/Share	\$8.65

First engine check completed 6-7 years after delivery and engine exits warranty. We est. a \$5MM ASP for the first check.

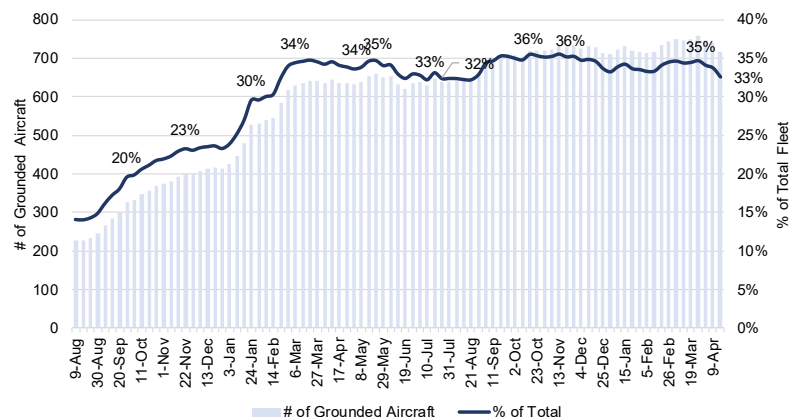
Second engine check completed 12-13 years after delivery. We est. a \$7MM ASP for the 2nd check.

Third engine check completed 18-19 years after delivery. We est. a \$8MM ASP for the 3rd check.

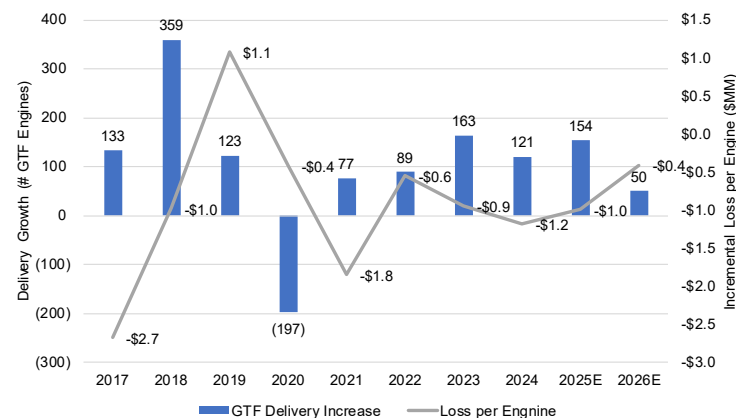
- In 2024, the core GTF program contributed \$7.0B to revenues but at a \$1.5BB operating loss, improving to \$7.9BB in 2025 revenues but still an operating loss of \$1.4BB as NEM peaks in mid-decade offset by AM margins in the DD range.
- We have also layered in concession costs in line with the cash outflows including \$1.1BB in 2024, \$1.2BB in 2025, and \$700MM in 2026 assuming a similar 2025 impact to prior guidance.

RTX: OE - Engine Deliveries Growing 15% Y-o-Y:

Weekly Grounded GTF Progression - Modestly Improving from Peak To Low-30% Range of Fleet



NEM Stabilizing Around \$1MM per Incremental Engine



- In 2025, we estimate 1,150 GTF engines, up from 996 in 2024. The company had guided unit deliveries grow at a rate comparable to 2024, which saw a 14% increase. Management expects with an incrementally higher install rate in 2025, although the spares mix is expected to remain elevated. At an estimated unit price of \$3.75MM per engine, the GTF contributes \$4.3BB of OE revenues in 2025, climbing to \$4.4BB by 2026 as production scales to 1,200 units. The company intends to continue to balance spares vs OE mix to support Airbus' production ramp.
- On a profit basis, we assume a \$1.8MM NEM, translating to an annual loss for GTF OE of \$1.77BB. The NEM should continue to come down the learning curve as volumes ramp, with the annual loss peaking in 2026 at \$1.94BB as unit deliveries climb to 1,200. However, it is worth noting that spares are included in the EBIT bridge disclosures and are very profitable at delivery. We estimate the long-term mature NEM is ~\$400K loss per engine, achieved by 2029, and consistent with the V2500 being OE loss-making throughout its production life reflecting the cost base, volumes, and market share-pricing dynamics.

Source: Company data and Jefferies estimates

RTX: Powder Metal Issue Reaffirmed at a \$3BB Impact to FCF Through 2026

Every 25 Day Improvement in TATs Worth \$475MM to Gross Concession Costs

		Number of Engines Inspected			
		2,800	2,300	1,800	1,300
TAT (Days)	200	\$3,780	\$3,105	\$2,430	\$1,755
	225	\$4,253	\$3,493	\$2,734	\$1,974
	250	\$4,725	\$3,881	\$3,038	\$2,194
	275	\$5,198	\$4,269	\$3,341	\$2,413
	300	\$5,670	\$4,658	\$3,645	\$2,633
	325	\$6,143	\$5,046	\$3,949	\$2,852
	350	\$6,615	\$5,434	\$4,253	\$3,071
	375	\$7,088	\$5,822	\$4,556	\$3,291

- The concession costs of \$6-7BB on a gross basis include 80% customer compensation that are tied to the assumption of 250-300 day TATs. MRO congestion with 250-300 day turnaround times (150 days awaiting induction and 150 days of maintenance) is expected to result in an average of 350 AOGs from 2024 to 2026. The \$5BB of concessions equates to an average daily wet lease of \$14-16K.
- The company has contracts in place to bound the daily payments for AOG events. The primary metric that could change the magnitude of the payments is the number of days to turn around an engine from wing-to-wing.
- The base assumption of 250-300 days is well above peer GE's turnaround time of ~100 days with the limitations from the number of MRO shops (18 currently up to 19 by 2025) as well as material flows. The time in the shop for the heavy check should be 100-150 days, while the remainder of the time is waiting for a slot in the MRO facility or for materials.
- Material flows are improving, with 30% better throughput for PW1100G MRO shops in 2024 and management targeting >30% throughput improvement in 2025, although management has reaffirmed prior recall program expectations despite the progress.

RTX: Commercial Aftermarket Expanding at a 35% Incremental

PP&W EBIT Bridge - Negative Engine OE is a ~\$150MM Headwind to 2025 EBIT

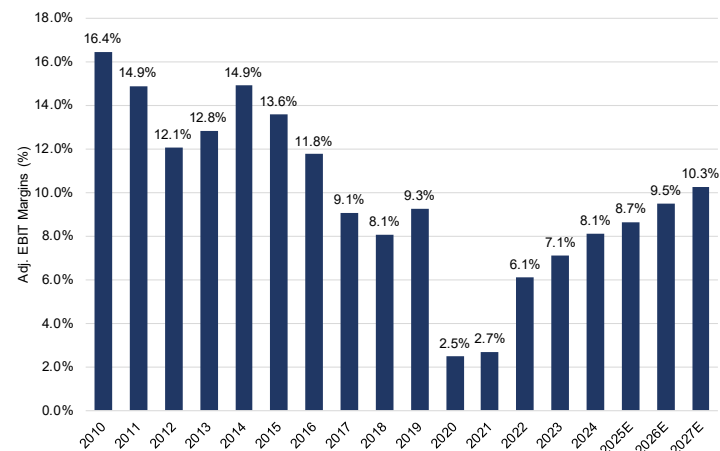
	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Revenue	\$19,397	\$20,902	\$17,224	\$18,150	\$20,530	\$23,697	\$28,066	\$30,161	\$31,518	\$32,472
Y-o-Y Growth	17%	8%	-18%	5%	13%	15%	18%	7%	5%	3%
	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
GAAP Starting EBIT	\$1,300	\$1,269	\$1,715	(\$336)	\$454	\$1,034	(\$1,549)	\$2,015	\$2,530	\$2,907
Organic growth	13	356	(1,513)	91	1,040	487	678	432	327	294
Large OE	(351)	133	82	(142)	(49)	(153)	(142)	(153)	(20)	9
Large AM	299	27	(1,612)	240	761	502	480	392	157	165
P&W Canada	0	37	(111)	46	314	104	142	147	173	102
Military	65	159	128	(52)	14	34	198	46	18	19
FX	0	(18)	(5)	0	0	0	0	(20)	0	0
M&A	0	(10)	0	0	0	0	0	0	0	0
Pricing	0	0	0	0	0	0	0	0	0	0
R&D	(26)	(56)	300	(150)	(292)	(139)	(25)	15	0	0
Restructuring / Productivity	(65)	(183)	(47)	173	(13)	(54)	(28)	87	50	50
Pension	0	0	0	0	0	0	0	0	0	0
Licensing arrangements	(52)	0	0	0	0	0	0	0	0	0
Legacy Hardware Sales	0	0	0	0	0	0	0	0	0	0
Unfavorable contract adj.	(104)	0	(544)	593	50	10	0	0	0	0
Other	203	356	(242)	283	(205)	(2,886)	2,939	0	0	0
Incremental profit	(31)	446	(2,051)	990	580	(2,582)	3,564	514	377	344
GAAP Ending EBIT	\$1,269	\$1,715	(\$336)	\$654	\$1,034	(\$1,549)	\$2,015	\$2,530	\$2,907	\$3,252
Adjusted EBIT	\$1,562	\$1,934	\$426	\$487	\$1,250	\$1,688	\$2,281	\$2,610	\$2,987	\$3,332
GAAP EBIT Margin %	6.5%	8.0%	-3.3%	2.5%	5.2%	-6.1%	7.2%	8.4%	9.2%	10.0%
Adjusted EBIT Margin %	8.1%	9.3%	2.5%	2.7%	6.1%	7.1%	8.1%	8.7%	9.5%	10.3%
Large OE Incremental Margin %	-72%	49%	-13%	-84%	-10%	-22%	-13%	-60%	-15%	-15%
Large AM Incremental Margin %	37%	15%	59%	77%	45%	35%	43%	35%	30%	30%
Segment Incremental Margin %	2%	25%	41%	7%	32%	14%	14%	16%	28%	36%

Every 5pts of Commercial AM Incremental Worth \$155MM to 2025E FCF

		Large Commercial AM CAGR (% , 2024-27)				
Large Commercial AM Incremental (%)	17%	3.3%	5.3%	7.3%	9.3%	11.3%
	22%	9.0%	9.1%	9.3%	9.4%	9.6%
	27%	9.1%	9.4%	9.6%	9.9%	10.1%
	32%	9.3%	9.6%	10.0%	10.3%	10.6%
	37%	9.4%	9.9%	10.3%	10.7%	11.1%
	42%	9.6%	10.1%	10.6%	11.1%	11.7%
	47%	9.8%	10.4%	11.0%	11.6%	12.2%
		9.9%	10.6%	11.3%	12.0%	12.7%

- RTX has guided to Pratt operating profit up \$325-400MM or 16% growth at the midpt.
- The headwind is Large Commercial OE which is - \$150MM y-o-y on our est (guided -\$150-200MM). Negative engine margins were ~\$1.8BB in 2024 rising to \$1.9BB in 2025E.
- In 2025 guidance implies an 8.7-8.8% margin driven primarily by Commercial Aftermarket growth. There is also an offset from the absence of a \$157MM charge from an airline bankruptcy in Q4:24. We assume AM profit grows \$0.4BB, implying a ~35% incremental on GTF aftermarket revenue, below the \$0.5BB guided growth.

P&W Adj. EBIT Margin Recovers Gradually to 10.3% by 2027E



Source: Company data and Jefferies estimates

RTX: Margins Expand 60 Bps Driven by Commercial Aftermarket

P&W Large Commercial Aftermarket Margins Could Partially Recover to 18.4% in 2025E

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Large Commercial OE	\$1,510	\$1,661	\$2,150	\$2,424	\$1,794	\$1,973	\$2,462	\$3,163	\$4,274	\$4,529	\$4,665	\$4,604
Large Commercial AM	\$6,126	\$6,799	\$7,615	\$7,798	\$4,825	\$5,503	\$6,772	\$8,207	\$9,332	\$10,452	\$10,974	\$11,523
PWC	3,450	4,090	4,707	4,692	3,766	4,095	4,991	5,684	6,698	7,187	7,763	8,162
Military	3,808	3,993	4,925	5,988	6,840	6,579	6,305	6,642	7,762	7,993	8,116	8,243
Total P&W Sales	\$14,894	\$16,545	\$19,397	\$20,902	\$17,224	\$18,150	\$20,530	\$23,697	\$28,066	\$30,161	\$31,518	\$32,532
Large Commercial OE	(627)	(982)	(1,333)	(1,200)	(938)	(1,170)	(1,394)	(1,631)	(1,789)	(1,932)	(1,953)	(1,944)
Large Commercial AM	1,198	1,134	1,481	1,524	(263)	37	697	1,234	1,644	1,923	2,130	2,345
PWC	901	854	854	891	780	826	1,140	1,244	1,386	1,533	1,705	1,825
Military	279	495	560	719	846	794	808	841	1,040	1,086	1,104	1,123
Total Adj. EBIT	1,751	1,501	1,562	1,934	426	487	1,250	1,688	2,281	2,610	2,987	3,350
Large Commercial OE	-41.5%	-59.1%	-62.0%	-49.5%	-52.3%	-59.3%	-56.6%	-51.6%	-41.8%	-42.7%	-41.9%	-42.2%
Large Commercial AM	19.6%	16.7%	19.4%	19.5%	-5.4%	0.7%	10.3%	15.0%	17.6%	18.4%	19.4%	20.3%
PWC	26.1%	20.9%	18.2%	19.0%	20.7%	20.2%	22.8%	21.9%	20.7%	21.3%	22.0%	22.4%
Military	7.3%	12.4%	11.4%	12.0%	12.4%	12.1%	12.8%	12.7%	13.4%	13.6%	13.6%	13.6%
Total P&W Adj. Margin	11.8%	9.1%	8.1%	9.3%	2.5%	2.7%	6.1%	7.1%	8.1%	8.7%	9.5%	10.3%

Improved engine shipments lead to an incremental ~\$150MM headwind in 2025E and ~\$20MM in 2026E.

Large Comm'l AM profitability could expand 80 bps y-o-y to 18.4% in 2025E.

We assume Military margins are in line with the primes at ~13%.

- In 2019, adjusted operating margins were 9.3% vs. 8.1% in 2024. Pratt margin in Q1 of 8.0% included favorable mix of commercial aftermarket. 2025 is expected to improve 60 bps y-o-y to 8.7% with better AM mix and volume continuing.
- Mgmt expects Pratt adjusted operating profit to grow by \$325-400MM y-o-y in 2025E based on the sales outlook of up HSDs. We forecast an 8.7% margin in 2025E at P&W, led by higher aftermarket volume partially offset by higher large commercial OE engine deliveries which is an \$153MM impact or (~50 bps impact).
- We back into Commercial AM margins based on assumed ~12% EBIT margins for Military and ~19% PWC in 2019. Given these estimates, we back into Large Commercial AM margins in Exhibit 9. We estimate Commercial AM segment operating margins were 19.5% in 2019, falling to 17.6% in 2024. We estimate that AM margins will gradually recover to 18.4% in 2025E.

Source: Company data and Jefferies estimates

RTX: Raytheon Defense Growth Acceleration Supported by B2B, NT Performance

Improving on Int'l Mix, Productivity

Raytheon Segment Growth Improving to 5% in 2025-2027

Raytheon	2020	2021	2022	2023	2024	2025E	2026E	2027E
Revenue (\$MM)								
Air Warfare Systems (AWS)	\$3,313	\$3,348	\$3,111	\$3,267	\$2,809	\$2,669	\$2,829	\$2,999
Air and Missile Defense Systems (AMDS)	1,401	1,415	1,203	1,191	1,489	1,504	1,624	1,754
Naval and Area Mission Defense (NAMD)	1,382	1,396	1,186	1,305	1,344	1,358	1,398	1,440
Land Warfare Systems (LWS)	1,391	1,405	1,054	1,043	1,064	1,128	1,196	1,267
Advanced Missile Systems (AMS)	1,711	1,728	1,745	1,815	1,865	1,977	2,116	2,264
Mission Systems and Sensors (MSS)	1,834	1,871	1,908	1,891	1,948	2,084	2,230	2,386
Integrated Air and Missile Defense (IAMD)	3,374	3,441	3,854	4,008	5,131	5,644	5,870	6,104
Seapower Capability Systems (SCS)	1,762	1,797	1,797	1,977	1,997	2,057	2,119	2,182
Advanced Technology (AT)	1,662	1,695	1,695	2,119	2,543	2,593	2,723	2,859
Cybersecurity and Special Missions (CSM)	0	0	0	0	0	0	0	0
Global Training Solutions (GTS)	270	275	0	0	0	0	0	0
Navigation and Environmental Solutions (NES)	1,660	1,693	1,657	1,657	1,686	1,703	1,822	1,950
Global Intelligence Solutions (GIS)	1,687	1,720	1,106	1,173	1,185	1,196	1,280	1,370
Mission Support and Modernization (MSM) & others	1,596	1,628	1,661	1,644	460	0	0	0
ISRS	0	0	0	0	0	0	0	0
Secure Sensor Solutions (S3)	1,544	1,575	1,575	1,669	1,703	1,754	1,877	2,008
Electronic Warfare Systems (EWS)	1,590	1,622	1,622	1,622	1,654	1,704	1,823	1,951
Integrated Communications Systems (ICS)	0	0	0	0	0	0	0	0
Space Systems (SS) & others	0	0	0	0	0	0	0	0
Other/Elims	0	0	0	(32)	(95)	(104)	(113)	(122)
Total	\$26,177	\$26,611	\$25,176	\$26,350	\$26,783	\$27,267	\$28,793	\$30,412
Y-o-Y Growth								
Air Warfare Systems (AWS)	5%	1%	-5.4%	4.7%	1.8%	5.6%	5.6%	5.6%
Air and Missile Defense Systems (AMDS)	5%	1%	-15%	-1%	25%	1%	8%	8%
Naval and Area Mission Defense (NAMD)	5%	1%	-15%	10%	3%	1%	3%	3%
Land Warfare Systems (LWS)	6%	1%	-25%	-1%	2%	6%	6%	6%
Advanced Missile Systems (AMS)	6%	1%	1%	4%	3%	6%	7%	7%
Mission Systems and Sensors (MSS)	6%	2%	2%	-1%	3%	7%	7%	7%
Integrated Air and Missile Defense (IAMD)	6%	2%	12%	4%	28%	10%	4%	4%
Seapower Capability Systems (SCS)	6%	2%	0%	10%	1%	3%	3%	3%
Advanced Technology (AT)	6%	2%	0%	25%	20%	2%	5%	5%
Cybersecurity and Special Missions (CSM)	NM	NM	NM	NM	NM	NM	NM	NM
Global Training Solutions (GTS)	-55%	2%	-100%	NM	NM	NM	NM	NM
Navigation and Environmental Solutions (NES)	7%	2%	-2%	0%	2%	1%	7%	7%
Global Intelligence Solutions (GIS)	8%	2%	-36%	6%	1%	1%	7%	7%
Mission Support and Modernization (MSM) & others	7%	2%	2%	-1%	-72%	-100%	NM	NM
ISRS	NM	NM	NM	NM	NM	NM	NM	NM
Secure Sensor Solutions (S3)	7%	2%	0%	6%	2%	3%	7%	7%
Electronic Warfare Systems (EWS)	6%	2%	0%	2%	2%	3%	7%	7%
Integrated Communications Systems (ICS)	NM	NM	NM	NM	NM	NM	NM	NM
Space Systems (SS) & others	NM	NM	NM	NM	NM	NM	NM	NM
Total	-2%	2%	-5%	5%	2%	2%	6%	6%
Organic	0%	2%	-3%	5%	7%	4%	6%	6%
Total Revenue Change	-2%	2%	-5%	5%	2%	2%	6%	6%
End Market Composition								
Air Warfare Systems (AWS)	13%	13%	12%	12%	10%	10%	10%	10%
Air and Missile Defense Systems (AMDS)	5%	5%	5%	5%	6%	6%	6%	6%
Naval and Area Mission Defense (NAMD)	5%	5%	5%	5%	5%	5%	5%	5%
Land Warfare Systems (LWS)	5%	5%	4%	4%	4%	4%	4%	4%
Advanced Missile Systems (AMS)	7%	6%	7%	7%	7%	7%	7%	7%
Mission Systems and Sensors (MSS)	7%	7%	8%	7%	7%	8%	8%	8%
Integrated Air and Missile Defense (IAMD)	13%	13%	15%	15%	19%	21%	20%	20%
Seapower Capability Systems (SCS)	7%	7%	7%	8%	7%	8%	7%	7%
Advanced Technology (AT)	6%	6%	7%	8%	9%	10%	9%	9%
Global Training Solutions (GTS)	0%	0%	0%	0%	0%	0%	0%	0%
Global Training Solutions (GTS)	1%	1%	0%	0%	0%	0%	0%	0%
Navigation and Environmental Solutions (NES)	6%	6%	7%	6%	6%	6%	6%	6%
Global Intelligence Solutions (GIS)	6%	6%	4%	4%	4%	4%	4%	5%
Mission Support and Modernization (MSM) & others	6%	6%	7%	6%	2%	0%	0%	0%
ISRS	0%	0%	0%	0%	0%	0%	0%	0%
Secure Sensor Solutions (S3)	6%	6%	6%	6%	6%	6%	7%	7%
Electronic Warfare Systems (EWS)	6%	6%	6%	6%	6%	6%	6%	6%
Integrated Communications Systems (ICS)	0%	0%	0%	0%	0%	0%	0%	0%
Space Systems (SS) & others	0%	0%	0%	0%	0%	0%	0%	0%
Other/Elims	0%	0%	0%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Cybersecurity
Divestiture to PE closed
at the end of Q1:24.

We forecast
Raytheon returns to
6% org growth in
2024, remaining at
6% in 2025 as the
supply chain eases
and programs ramp.

- Following ~5% growth in 2023, Raytheon growth accelerated, growing 7% organic in 2024, or 2% as reported following the divestiture of the Cybersecurity business (close in Q1:24), which is a 9-month headwind of ~\$1.3BB in sales and ~\$80MM in profit. Cyber is expected to be a \$400MM headwind in Q1.
- Raytheon sales increased 10% organically in Q4:24, supported mainly by higher volume in land and air defense systems, such as Patriot, NASAMS, and c-UAS, while the restart of contracts with a middle eastern customer contributed 5pts in Q4.
- Guidance calls for +MSD organic growth in 2025, a slight deceleration from 2024's 7% organic growth. For Raytheon overall, growth is expected to be re-energized by bookings with a TTM book-to-bill ratio of 1.48X. Raytheon backlog totals \$63BB as of the end of Q4 with ~\$10.2BB in bookings in the quarter.

Source: Company data and Jefferies estimates

RTX: FCF Ramps to \$7.1BB in 2025E from \$4.5BB in 2024, Helped by Absence of One-Timers And W/C Unwind

RTX FCF Build (\$MM) - Working Capital Benefit Helps Mitigate Some of the Powder Metal Impact

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Net Income	\$7,045	(\$1,664)	\$4,145	\$5,327	\$3,380	\$5,013	\$6,492	\$7,358	\$8,209
Depreciation and Amortization	\$3,700	\$4,156	\$4,557	\$4,108	\$4,211	\$4,364	\$4,361	\$4,471	\$4,580
NWC	(271)	(318)	(278)	522	1,515	(1,085)	1,294	513	(409)
Pension Contribution	(386)	(1,357)	(59)	(94)	(157)	(61)	(200)	(200)	(200)
R&D Amortization Provision	0	0	0	(1,600)	(800)	(100)	(300)	(100)	0
Powder Metal Impact	0	0	0	0	0	(1,100)	(1,200)	(700)	0
Stock Comp/Deferred Taxes/Other	(599)	3,548	(1,223)	(1,095)	(266)	128	(765)	(565)	(565)
CFO	\$9,489	\$4,365	\$7,142	\$7,168	\$7,883	\$7,159	\$9,682	\$10,777	\$11,615
Capex	(3,198)	(2,064)	(2,134)	(2,288)	(2,415)	(2,625)	(2,603)	(2,733)	(2,862)
FCF	\$6,291	\$2,301	\$5,008	\$4,880	\$5,468	\$4,534	\$7,079	\$8,044	\$8,754
FCF Per Share	\$4.13	\$1.52	\$3.32	\$3.28	\$3.81	\$3.37	\$5.22	\$5.98	\$6.56

We forecast ~\$1.3BB source of working capital in 2025E and \$513MM in 2026E supported by inventory.

Deployment									
Dividends	(2,200)	(2,732)	(2,957)	(3,128)	(3,239)	(3,217)	(3,740)	(4,080)	(4,452)
Share Repurchases	(869)	(2,041)	(2,327)	(2,803)	(12,870)	(444)	0	(3,000)	(3,000)
Debt Paydown	(300)	(14,078)	(192)	0	0	(2,500)	(3,500)	0	0
Debt Issuance	0	0	0	487	12,336	0	0	0	0
Acquisitions/Proceeds from Divestitu	(8)	0	(1,088)	(66)	0	1,795	1,800	0	0
Total Deployment	(\$3,377)	(\$18,851)	(\$6,564)	(\$5,510)	(\$3,773)	(\$4,366)	(\$5,440)	(\$7,080)	(\$7,452)

Discretionary FCF (post pension contributions, dividends, and committed debt pay-down)									
	\$3,791	(\$14,509)	(\$468)	(\$564)	\$1,695	(\$1,627)	(\$161)	\$964	\$1,302

Ratios									
FCF to Adj Net Income Conversion	47%	78%	69%	75%	58%	86%	88%	\$0.88	
FCF Yield (FCF / Mkt Cap.)	1.4%	3.1%	3.0%	3.4%	2.8%	4.4%	5.0%	5.4%	
FCF Yield (FCF / EV)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	
FCF YoY Change	-63%	118%	-3%	12%	-17%	56%	14%	9%	
FCF/Sh YoY Change	-63%	119%	-1%	16%	-11%	55%	15%	10%	
Discretionary FCF Yield	-9.0%	-0.3%	-0.4%	1.1%	-1.0%	-0.1%	0.6%	0.8%	
Discretionary FCF % Change YoY	-483%	-97%	21%	-401%	-196%	-90%	-699%	35%	
Dividend as a % of Net Income	-164%	71%	59%	96%	64%	58%	55%	54%	
Dividend Yield	1.7%	1.8%	1.9%	2.0%	2.0%	2.3%	2.5%	2.8%	
Share Repo as % of Mkt Cap	1%	1%	2%	8%	0%	0%	2%	2%	
% of Cash Returned to Shareholders	207%	106%	122%	295%	81%	53%	88%	85%	
Capex as a % of Sales	3.2%	3.3%	3.4%	3.3%	3.2%	3.1%	3.1%	3.1%	
Change in NWC as a % of Sales	-0.5%	-0.4%	0.8%	2.0%	-1.3%	1.5%	0.6%	-0.4%	

- RTX generated \$4.5BB of FCF in 2024, which embedded \$1.5BB of one-time charges, \$1.1BB of Powder Metal payments, offset by \$0.5BB of tax benefits. The bridge to 2025 guidance of \$7.0-7.5BB includes the absence of the following items:

- RTX entered into a deferred prosecution agreement w/ the DoJ due to improper payments made by RTX due to certain Middle East contracts since 2012. The company took a \$918MM pre-tax charge in Q3:24 related to the issue, although with agreement between RTX, the DOJ, SEC, and FCA finalized, RTX incurred a \$959MM payment in Q4:24.
- RTX incurred a \$500MM cash hit from the contract termination payment within Raytheon from its legacy fixed price development contract, paid mostly in Q4:24. Tax payment efficiencies should serve as a partial \$500MM offset, for a net \$1BB impact across the three buckets cumulatively.
- RTX paid ~\$1.1BB of customer concessions associated with the GTF powder metal issue in 2024. Given P&W's ~51% share of the program, total comp was about ~\$2.2BB. Guidance includes \$1.1-1.3BB in 2025E, or a \$0.1BB y-o-y headwind as a partial offset to the above items.

Source: Company data and Jefferies estimates

RTX: Relative Valuation to History and Market

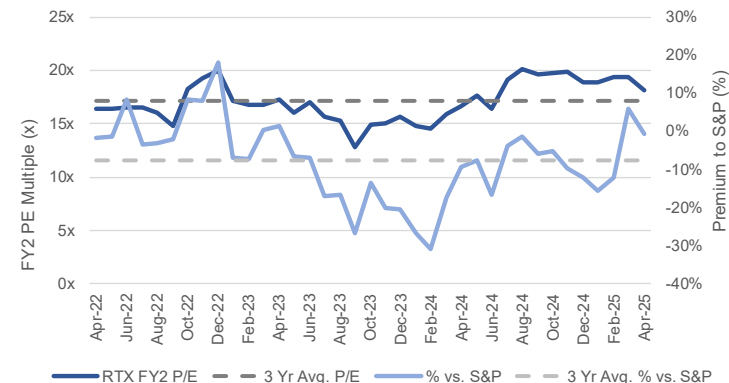
Relative Valuation

Ticker	RTX
Current P/E	18.1x
3 Yr Avg. P/E	17.1x
Current / 3 Yr Avg.	6%
Prem / Discst SP	-1%
3 Yr Prem / Discst SP	-8%
S&P500 Multiple	18.2x
Current EV/EBITDA	13.5x
3 Yr Avg. EV/EBITDA	12.8x
Current / 3 Yr Avg.	5%
Prem / Discst SP	7%
3 Yr Prem / Discst SP	0%
S&P500 Multiple	12.6x
Current FCF Yield	5.1%
3 Yr Avg. FCF Yield	4.8%
Current / 3 Yr Avg.	-5%
Prem / Discst SP	-8%
3 Yr Prem / Discst SP	-2%
S&P500 Multiple	4.7%

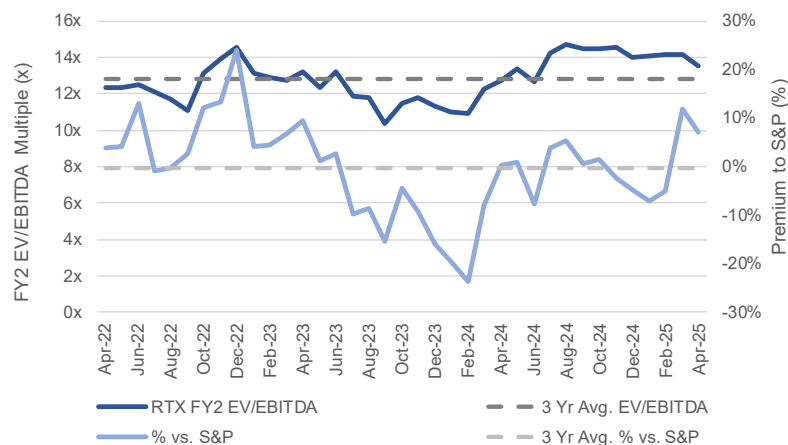
Price Target Derivation

	Price	Assumptions
EV/EBITDA	\$132	13.1x EV/EBITDA on 2026 EBITDA of \$15.9BB
P/E	127	18.7x P/E on 2026 EPS of \$6.80
FCF	133	4.5% FCF Yield on 2026 FCF of \$8.BB
Average	\$130	Blended average

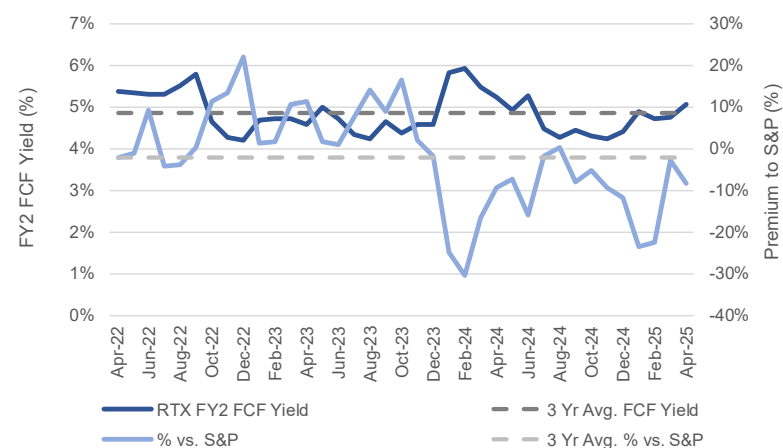
FY2 P/E: 1% Prem to Mkt vs. Historical Avg Discst of 8%



FY2 EV/EBITDA: 7% Prem to Mkt vs. Historical Avg Discst of 0%



FY2 FCF Yield: 8% Discst to Mkt vs. Historical Avg Discst of 2%



Source: Company data, FactSet and Jefferies estimates

RTX: Income Statement

Year Ending Dec. (MM, except per share data)

	2020		2021		2022		2023		2024		2025E		2026E		2027E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$64,600	100.0%	\$64,388	100.0%	\$67,074	100.0%	\$74,305	100.0%	\$80,808	100.0%	\$83,975	100.0%	\$88,157	100.0%	\$92,379	100.0%
Costs and expenses																
Segment COGS	51,700	80.0%	51,897	80.6%	53,406	79.6%	56,831	76.5%	65,328	80.8%	63,917	76.1%	66,577	75.5%	69,274	75.0%
SG&A	5,540	8.6	5,224	8.1	5,663	8.4	5,809	7.8	5,806	7.2	6,046	7.2	6,347	7.2	6,651	7.2
R&D	2,972	4.6	2,732	4.2	2,711	4.0	2,805	3.8	2,934	3.6	3,023	3.6	3,174	3.6	3,326	3.6
Total operating costs	60,212	93.2%	59,853	93.0%	61,780	92.1%	65,445	88.1%	74,068	91.7%	72,986	86.9%	76,098	86.3%	79,251	85.8%
Segment profit (EBIT)	4,388	6.8%	4,535	7.0%	7,913	11.8%	8,860	11.9%	6,740	8.3%	10,989	13.1%	12,059	13.7%	13,128	14.2%
Net interest expense	(1,292)		(1,294)		(1,230)		(1,553)		(1,868)		(1,741)		(1,777)		(1,773)	
Other pension expense	1,044		1,785		1,891		1,780		1,518		1,400		1,400		1,400	
Income before taxes (GAAP)	6,203	9.6%	7,904	12.3%	8,528	12.7%	9,170	12.3%	9,839	12.2%	10,648	12.7%	11,681	13.3%	12,754	13.8%
GAAP Taxes (rate %)	(1,080)	17.4%	(1,225)	15.5%	(1,308)	15.3%	(1,702)	18.6%	(1,837)	18.7%	(2,130)	20.0%	(2,290)	19.6%	(2,500)	19.6%
Noncontrolling interests	(183)		(232)		(122)		(205)		(230)		(244)		(251)		(248)	
Net Income (GAAP)	4,940	7.6%	6,447	10.0%	7,098	10.6%	7,263	9.8%	7,772	9.6%	8,275	9.9%	9,141	10.4%	10,007	10.8%
Other one-off items	\$0		\$0		\$0		\$0		\$0		\$0		\$0		\$0	
Net Income (Adjusted)	4,940	7.6%	6,447	10.0%	7,098	10.6%	7,263	9.8%	7,772	9.6%	8,275	9.9%	9,141	10.4%	10,007	10.8%
Adjusted EPS (diluted)	\$3.26		\$4.27		\$4.78		\$5.06		\$5.78		\$6.10		\$6.80		\$7.50	
Adjusted Cash Diluted EPS	\$3.26		\$4.27		\$4.78		\$5.06		\$5.78		\$6.10		\$6.80		\$7.50	
Basic shares (millions)	1,511.7		1,501.6		1,475.5		1,426.0		1,332.1		1,340.7		1,329.8		1,318.9	
Diluted shares (millions)	1,515.8		1,508.5		1,485.9		1,435.4		1,343.6		1,355.6		1,344.7		1,333.8	

Source: Company data and Jefferies estimates

RTX: Annual Selected Operating Metrics

Year Ending Dec. (MM, except per share data)

	2020	2021	2022	2023	2024	2025E	2026E	2027E
YoY Change								
Total Revenue Change %	-14%	0%	4%	11%	9%	4%	5%	5%
Net Income Growth %	-28%	31%	10%	2%	7%	6%	10%	9%
EPS Growth %	-28%	31%	12%	6%	14%	6%	11%	10%
Margin Analysis								
Gross margin %	20.0%	19.4%	20.4%	23.5%	19.2%	23.9%	24.5%	25.0%
SG&A as % of sales	4.6%	4.2%	4.0%	3.8%	3.6%	3.6%	3.6%	3.6%
EBIT Operating Margin %	6.8%	7.0%	11.8%	11.9%	8.3%	13.1%	13.7%	14.2%
Adjusted EBITDA	10,607	11,998	12,021	13,106	14,547	15,350	16,530	17,709
Adjusted EBITDA Margin %	16.4%	18.6%	17.9%	17.6%	18.0%	18.3%	18.8%	19.2%
EBT %	9.6%	12.3%	12.7%	12.3%	12.2%	12.7%	13.3%	13.8%
Tax Rate %	17.4%	15.5%	15.3%	18.6%	18.7%	20.0%	19.6%	19.6%
Net margin % (continuing)	7.6%	10.0%	10.6%	9.8%	9.6%	9.9%	10.4%	10.8%
Balance Sheet Analysis								
Net Debt / EBITDA	2.2x	2.0x	2.1x	2.8x	2.5x	2.0x	1.9x	1.7x
Cash Flow Analysis								
Free Cash Flow	2,301	5,008	4,880	5,468	4,534	7,079	8,044	8,762
Free Cash Flow Conversion % of GAAP NI	47%	78%	69%	75%	58%	86%	88%	88%
Free Cash Flow Conversion % of Adjusted NI	47%	78%	69%	75%	58%	86%	88%	88%
Free Cash Flow Yield %	1.4%	3.0%	2.9%	3.3%	2.7%	4.2%	4.8%	5.2%
Dividend Yield %	2.7%	2.3%	2.1%	2.7%	2.2%	2.4%	2.6%	2.9%

Source: Company data and Jefferies estimates

RTX: Annual Segmented Operating Metrics

Year Ending Dec. (MM, except per share data)

	2020	% of sales	2021	% of sales	2022	% of sales	2023	% of sales	2024	% of sales	2025E	% of sales	2026E	% of sales	2027E	% of sales
Revenue																
Collins Aerospace	21,989	33.6%	21,152	32.1%	23,052	33.5%	26,198	34.4%	28,284	34.0%	28,963	33.5%	30,382	33.5%	32,092	33.8%
Pratt & Whitney	17,224	26.3%	18,150	27.5%	20,530	29.9%	23,697	31.1%	28,066	33.8%	30,161	34.9%	31,518	34.8%	32,532	34.2%
Raytheon	26,177	40.0%	26,611	40.4%	25,176	36.6%	26,350	34.6%	26,783	32.2%	27,267	31.6%	28,793	31.7%	30,412	32.0%
Total Segment Revenue	65,390	100%	\$65,913	100%	68,758	100%	76,245	100%	83,133	100%	86,391	100%	90,693	100%	95,037	100%
Eliminations/others	(790)		(1,525)		(1,684)		(1,940)		(2,325)		(2,416)		(2,536)		(2,658)	
Total Revenue	64,600	100%	\$64,388	100%	67,074	100%	74,305	100%	80,808	100%	83,975	100%	88,157	100%	92,379	100%
Operating Income (margin)																
Collins Aerospace	2,014	9.2%	2,420	11.4%	3,047	13.2%	3,896	14.9%	4,496	15.9%	5,063	17.5%	5,497	18.1%	5,959	18.6%
Pratt & Whitney	426	2.5%	487	2.7%	1,250	6.1%	1,688	7.1%	2,281	8.1%	2,610	8.7%	2,987	9.5%	3,350	10.3%
Raytheon	2,861	10.9%	3,160	11.9%	2,498	9.9%	2,434	9.2%	2,728	10.2%	2,880	10.6%	3,152	10.9%	3,439	11.3%
Eliminations	(18)	0.0%	(11)	0.0%	(47)	-0.1%	(81)	-0.1%	(48)	-0.1%	(50)	-0.1%	(52)	-0.1%	(55)	-0.1%
Segment Operating Income	5,283	8.2%	6,056	9.4%	6,748	10.1%	7,937	10.7%	9,457	11.7%	10,504	12.5%	11,584	13.1%	12,693	13.7%
FAS/CAS Adj. & others	1,168		1,385		1,165		958		726		485		475		435	
Total Operating Income	6,451	10.0%	\$7,441	11.6%	7,913	11.8%	8,895	12.0%	10,183	12.6%	10,989	13.1%	12,059	13.7%	13,128	14.2%
Revenue YoY % change																
Collins Aerospace	-16%		-4%		9%		14%		8%		2%		5%		6%	
Pratt & Whitney	-18%		5%		13%		15%		18%		7%		5%		3%	
Raytheon	-15%		2%		-5%		5%		2%		2%		6%		6%	
Total Revenue	-14%		0%		4%		11%		9%		4%		5%		5%	
Operating profit change YoY																
Collins Aerospace	-59%		20%		26%		28%		15%		13%		9%		8%	
Pratt & Whitney	-78%		14%		157%		35%		35%		14%		14%		12%	
Raytheon	-23%		10%		-21%		-3%		12%		6%		9%		9%	
Total Operating Income	-28%		15%		6%		12%		14%		8%		10%		9%	
Incremental	24%		-467%		18%		14%		20%		25%		26%		25%	

Source: Company data and Jefferies estimates

RTX: Annual Cash Flow Statement

Year Ending Dec. (MM, except per share data)

(millions, except per share data)	2020	2021	2022	2023	2024	2025E	2026E	2027E
Operating Activities								
Net Income	(1,664)	4,145	5,327	3,380	5,013	6,492	7,358	8,224
Depreciation & Amortization	4,156	4,557	4,108	4,211	4,364	4,361	4,471	4,581
Other	1,809	(2,070)	(3,204)	(815)	(2,077)	(2,445)	(1,545)	(745)
Op cash flow pre-working capital	4,301	6,632	6,231	6,776	7,300	8,408	10,284	12,060
Change in inventory	412	163	(1,575)	(1,104)	(1,474)	592	187	(574)
Change in receivables	1,318	(570)	437	(1,805)	(175)	311	(90)	(330)
Change in payables	(1,666)	917	2,075	4,016	1,508	371	396	470
Changes in working capital	64	510	937	1,107	(141)	1,274	493	(435)
Cash Flow from Operations	4,365	7,142	7,168	7,883	7,159	9,682	10,777	11,626
Investment activities								
Capital expenditures	(2,064)	(2,134)	(2,288)	(2,415)	(2,625)	(2,603)	(2,733)	(2,864)
Net cash used in acquisitions	0	(1,088)	(66)	0	1,795	1,800	0	0
Other investing activities, net	4,826	1,858	(475)	(624)	(704)	(600)	(600)	(600)
Cash Flow from Investments	2,762	(1,364)	(2,829)	(3,039)	(1,534)	(1,403)	(3,333)	(3,464)
Financing Activities								
Change in debt	(14,078)	(192)	487	12,336	(2,500)	(3,500)	0	0
Share Repurchase	(2,041)	(2,327)	(2,803)	(12,870)	(444)	0	(3,000)	(3,000)
Dividends paid	(2,732)	(2,957)	(3,128)	(3,239)	(3,217)	(3,740)	(4,080)	(4,452)
Other financing cash flows	14,991	(1,280)	(415)	(754)	(456)	0	0	0
Cash Flow from Financing	(3,860)	(6,756)	(5,859)	(4,527)	(6,617)	(7,240)	(7,080)	(7,452)
FX Effect	(22)	(1)	(42)	18	(28)	0	0	0
Cash from Discontinued Ops	(2,383)	0	0	0	0	0	0	0
Net change in cash items	862	(979)	(1,562)	335	(1,020)	1,039	364	710
Cash at the beginning of the period	8,363	8,802	7,832	6,220	6,587	5,578	6,645	7,009
Cash at the end of the period	9,225	7,823	6,270	6,555	5,567	6,617	7,009	7,719

Source: Company data and Jefferies estimates

Science Applications International Corporation (SAIC) – HOLD \$115 PT

- 1) **FY26E Organic Growth of 2% Following 2% in FQ1**
- 2) **FY26E Driven by On Contract Growth Relies on 4-5% Market Growth in Our Est.**
- 3) **Surprisingly Slow Start to Profitability Due to Negative EAC (20 bps) and Cost Overruns on Bid Activity**
- 4) **Surprisingly Slow Start to Profitability Due to Negative EAC (20 bps) and Cost Overruns on Bid Activity**

Related Notes:

- [Slow Start in a DODGE-Y Year](#), June 2, 2025
- [FQ1 Preview: LSD Rev Outlook Reflected in Val Disc; Cost an Oppty](#) May 15, 2025
- [DOGE-ing Concerns In The Clouds Led by Civil Growth](#) March 18, 2025

SAIC: Revenue Bridge - Ramping Contracts Support Organic Revenue Growth Offset by Losses

Organic Revenue Growth in FY26E Supported by Ramping Contracts, Offset by 5pts of Recompete Losses and Transitions (\$MM)

	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Revenue Bridge	4,454	4,659	6,379	7,056	7,394	7,704	7,444	7,479	7,609	7,838
Recompete Loss	(36)	(37)	(70)	(106)	(100)	(50)	(100)	(59)	(150)	(152)
Decreased activity due to in-theater work	0	0	0	0	0	0	0	0	0	0
New Program Wins	89	47	153	71	74	539	345	322	304	353
S3I AMCOM Contract	(32)	0	0	15	75	25	0	0	0	0
Amphibious Combat Vehicle	0	0	0	0	0	0	0	0	0	0
Assault Amphibious Vehicle program	(80)	(60)	0	0	0	0	0	0	0	0
NASA Contract	30	0	0	0	(100)	(65)	(215)	(90)	0	0
EPA Contract	20	0	0	0	0	(50)	0	0	0	0
HITS	40	0	0	0	(50)	(50)	0	0	0	0
AOC Falconer	0	0	0	0	15	45	0	0	0	0
ACE RITS	0	0	0	40	40	0	0	0	0	0
DCSA One IT	0	0	0	0	0	50	60	0	0	0
FSG-80	0	0	20	2	20	0	0	0	0	0
Cloud One (Cleared Protest Jan. '20, \$75MM)	0	0	55	20	5	0	0	(215)	0	0
AF EITaaS (Jan. '20)	0	0	20	5	0	0	(75)	0	0	0
FAA ATEPS	0	0	0	0	0	0	0	0	0	0
FAA Controller (Re-Compete April '20)	0	0	(50)	30	20	0	0	0	0	0
TCloud (Jan '23)	0	0	0	0	0	25	75	100	0	0
T4NG2	0	0	0	0	0	0	0	25	75	0
GMASS (Sept '23)	0	0	0	0	0	25	85	20	0	0
DTAMM (Mar '24)	0	0	0	0	0	0	35	40	0	0
Additional Week	0	0	0	0	110	(195)	0	0	0	0
Supply Chain revenues	66	30	(170)	60	25	(493)	(188)	0	0	0
Pre-separation joint work	0	0	0	0	0	0	0	0	0	0
Contract end of life/Other	0	(130)	(22)	(203)	(11)	77	13	(13)	0	0
Organic Change	107	(130)	36	169	238	(117)	35	130	230	201
Divested Contract	0	0	(25)	(25)	0	0	0	0	0	0
Acquisition Contribution	98	1,850	641	169	72	(143)	0	0	0	0
End Revenue	4,659	6,379	7,056	7,394	7,704	7,444	7,479	7,609	7,838	8,039
% change	4.6%	36.9%	10.6%	4.8%	4.2%	-3.4%	0.5%	1.7%	3.0%	2.6%
% organic change	2.4%	-2.8%	0.6%	2.4%	3.2%	7.4%	3.0%	1.7%	3.0%	2.6%

Growth in FY26 is led by ramping programs including GMASS and TCloud.

The offset is about 5pts of recompete losses/transitions along with normal end of life contracts including NASA NCAPS and CloudOne.

The divestiture of L&SCM was a \$188MM headwind to FY25.

Source: Company data and Jefferies estimates

SAIC: Revenue Bridge - Ramping Contracts Support Organic Revenue Growth Offset by Losses

- Civil exposure could be at risk (25% of sales at SAIC) in the current funding environment. Civil work does not require clearance, so there is more opportunity for direct work w/ commercial companies. Additionally, the current Administration has put more emphasis on 17 protected capabilities within the DoD with the current CR including language about a cut to nondefense funding. However, one must bear in mind 5-yr avg contract duration. We saw a \$119BB cut to non-defense funding in the FY26 skinny budget, although the majority is outside the scope of the IT services contractors' work. On the other hand, FY26 defense spending increased to \$1.1TT. We have also seen a first set of funding cuts across the government, including \$5BB from the DoD, but once again the implications to our IT services names is minimal. Audits are ongoing, including at GSA, so the risk is still outstanding, although cuts to SAIC work to date are in the realm of 1% of annual revenue on our estimate.
- The areas that could be more at risk include the Department of Energy, which is just 0.3% of sales, and some of the agencies in the other bucket. However, the greater risk is from increased competition across this group if the Federal Civil budget is cut.

Federal Civil Accounts for 25% of SAIC Revenue (\$MM)

SAIC Federal Civil Work	FY26E	% of Total Co
Dept Transport	\$450	6%
DHS (Mostly CBP)	250	3%
State Dept	200	3%
Treasury/Fed Financials	200	3%
VA (mostly T4NG)	175	2%
State & Local	150	2%
NASA	100	1%
HHS	75	1%
DoJ	50	1%
Dept Energy	25	0.3%
Agriculture/Commerce/Interior/Other	265	3%
Total	\$1,940	25%

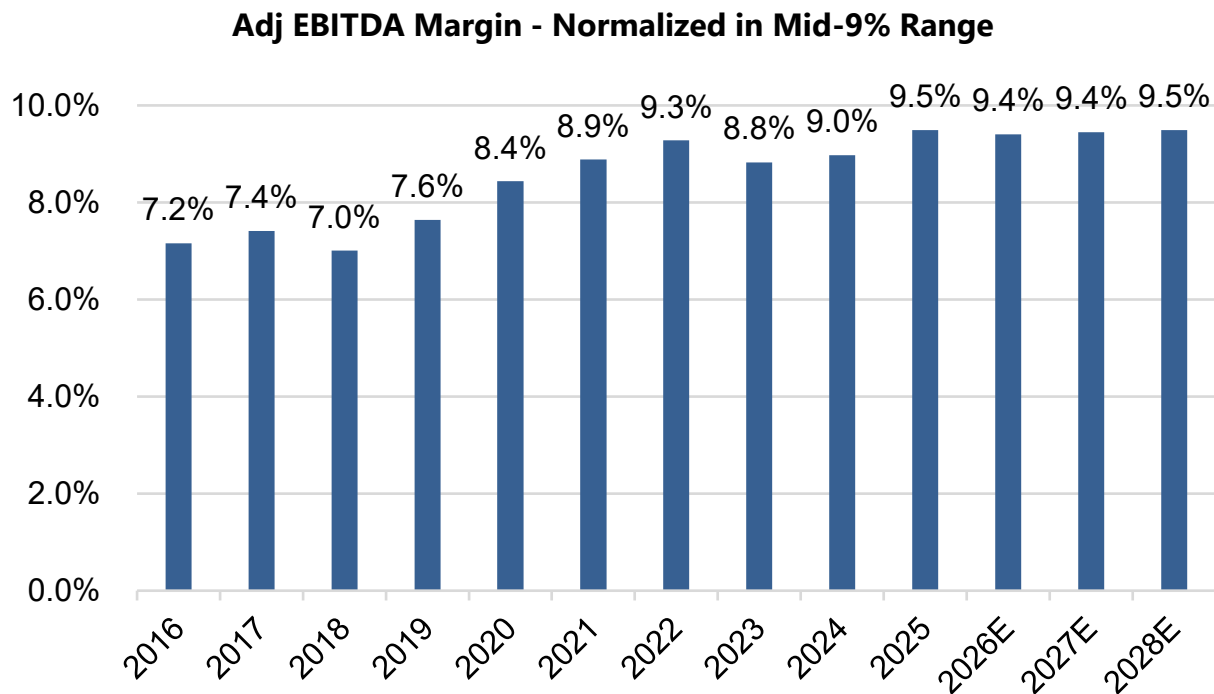
Civilian to Lead Growth in FY25E Given Recompete Losses (\$MM)

	FY23	FY24	FY25	FY26E	FY27E	FY28E
Defense & Intelligence	5,876	5,817	5,726	5,665	5,781	5,932
Civilian	1,828	1,627	1,753	1,944	2,057	2,108
Total Revenue	\$7,704	\$7,444	\$7,479	\$7,609	\$7,838	\$8,039
YoY % Organic Change						
Defense & Intelligence		12%	2%	-1%	2%	3%
Civilian		-11%	8%	11%	6%	2%
Total Organic		-3%	3%	2%	3%	3%
Adj Segment Margin (%)						
Defense & Intelligence	8.6%	8.7%	8.9%	8.7%	8.7%	8.7%
Civilian	12.2%	12.7%	12.3%	12.2%	12.4%	13.4%
Corporate	-1.0%	-0.7%	-0.3%	-0.6%	-0.6%	-0.6%
Total Adj EBIT	8.5%	8.9%	9.4%	9.0%	9.1%	9.3%
Total Adj EBITDA	8.8%	9.0%	9.5%	9.4%	9.4%	9.5%

Source: Company data and Jefferies estimates

SAIC: Profitability Expected Flattish at 9.4% in FY26E with Slow Start Adding Risk to the Year

- SAIC generated 8.4% adj EBITDA margins in FQ1, down y-o-y and well below the reiterated FY26 guidance of 9.4-9.6% due to timing and mix. We assume a 9.4% margin in FY26E at the low end of the guidance range.
- The company's indirect cost management could be a primary focus going forward. Given cost plus mix, every \$100MM of costs cut is a \$35MM benefit to EBITDA, with the remainder returned to the customer through cost-plus contracting. However, any indirect cost cuts, including corporate overhead and bid & procurement investments, are fully realized in EBITDA.



Source: Company data and Jefferies estimates

SAIC: FCF Supports Share Repurchase in FY26-28E

FCF Bridge - FY26 Adj FCF Expected Up 2% Y-o-Y (MM, except per share data)

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Net Income	\$137	\$229	\$211	\$279	\$303	\$477	\$362	\$336	\$360	\$396
Depreciation and Amortization	49	138	185	165	157	142	140	145	145	128
NWC	(106)	5	293	(21)	42	(21)	(51)	81	76	63
Section 174	0	0	0	0	(90)	(70)	(45)	(25)	(5)	0
Stock Comp/Deferred Taxes/Other	104	86	66	95	120	(132)	88	15	15	15
CFO	\$184	\$458	\$755	\$518	\$532	\$396	\$494	\$551	\$591	\$602
Capex	(28)	(21)	(46)	(36)	(25)	(27)	(36)	(37)	(38)	(39)
FCF	\$156	\$437	\$709	\$482	\$507	\$369	\$458	\$515	\$553	\$563
FCF ex-MARPA/L&SCM Expenses	\$156	\$437	\$524	\$467	\$457	\$486	\$507	\$515	\$553	\$563
FCF per Share (ex-MARPA/L&SCM)	\$3.54	\$7.41	\$8.93	\$8.04	\$8.19	\$9.05	\$10.04	\$10.93	\$12.46	\$13.50
Deployment										
Dividends	(\$53)	(\$87)	(\$87)	(\$86)	(\$83)	(\$79)	(\$75)	(\$74)	(\$69)	(\$65)
Share Repurchases	(69)	(197)	(34)	(226)	(267)	(382)	(558)	(375)	(375)	(375)
Debt Paydown	(779)	(274)	(399)	(119)	(990)	(441)	(1,381)	0	(100)	(100)
Debt Issuance	1,833	100	1,000	116	840	160	1,499	0	0	0
Acquisitions	(1,001)	0	(1,202)	(255)	0	356	0	0	0	0
Proceeds from Divestitures	0	3	9	6	0	0	22	0	0	0
Total Deployment	(\$69)	(\$455)	(\$713)	(\$564)	(\$500)	(\$386)	(\$493)	(\$449)	(\$544)	(\$540)
Discretionary FCF (post pension contributions, dividends, share repo, and committed debt pay-down)										
	\$34	\$93	\$513	\$100	(\$833)	(\$533)	(\$1,556)	\$66	\$9	\$23
Ratios										
Adj FCF to Adj Net Income Conversion	68%	131%	142%	111%	108%	115%	110%	118%	120%	113%
FCF Yield (FCF / Mkt Cap.)	3.2%	9.0%	14.5%	9.9%	10.4%	7.6%	9.4%	10.6%	11.3%	11.6%
FCF YoY Change	-20%	180%	62%	-32%	5%	-27%	24%	12%	7%	2%
Discretionary FCF Yield	0.7%	1.9%	10.5%	2.1%	-17.1%	-10.9%	-31.9%	1.4%	0.2%	0.5%
Discretionary FCF % Change YoY	-176%	171%	452%	-81%	-933%	-36%	192%	-104%	NM	NM
FCF/Share % Change YoY	-10%	109%	21%	-10%	2%	11%	11%	9%	14%	8%
Dividend as a % of Net Income	38%	38%	41%	31%	27%	17%	21%	22%	19%	16%
Dividend Yield	1.7%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
Share Repo as % of Mkt Cap	1%	4%	1%	5%	5%	8%	11%	8%	8%	8%

- On a FCF/sh basis, we see a 10% CAGR through FY28E including 9% growth in FY26E and 14% in FY27E, with share repurchase offsetting the cash tax headwind.
- FY25 FCF was \$507MM adjusted for MARPA (\$41MM headwind in FY25) and \$8MM of L&SCM divestiture transition expenses, up from \$486MM of adj FCF in FY24. FY25 FCF was a use of \$44MM excluding the \$136MM benefit from MARPA. FCF use in the quarter included a \$51MM usage of accrued payroll, partially offset by a \$33MM benefit from A/P.

Source: Company data and Jefferies estimates

SAIC: Relative Valuation to History and Market

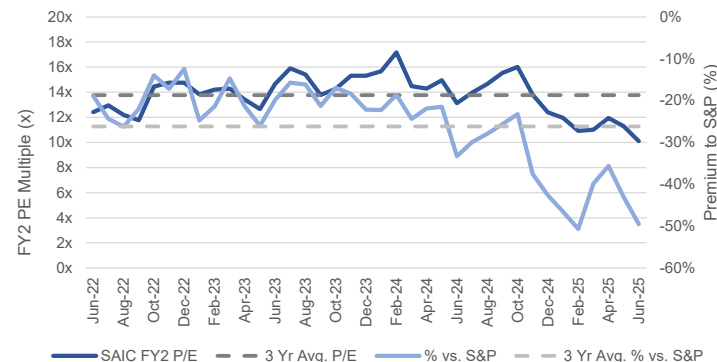
Relative Valuation

Ticker	SAIC
Current P/E	10.1x
3 Yr Avg. P/E	13.8x
Current / 3 Yr Avg.	-27%
Prem / Discst SP	-50%
3 Yr Prem / Discst SP	-26%
S&P500 Multiple	20.0x
Current EV/EBITDA	9.6x
3 Yr Avg. EV/EBITDA	11.6x
Current / 3 Yr Avg.	-18%
Prem / Discst SP	-31%
3 Yr Prem / Discst SP	-10%
S&P500 Multiple	13.9x
Current FCF Yield	12.1%
3 Yr Avg. FCF Yield	9.2%
Current / 3 Yr Avg.	-24%
Prem / Discst SP	-65%
3 Yr Prem / Discst SP	-49%
S&P500 Multiple	4.2%

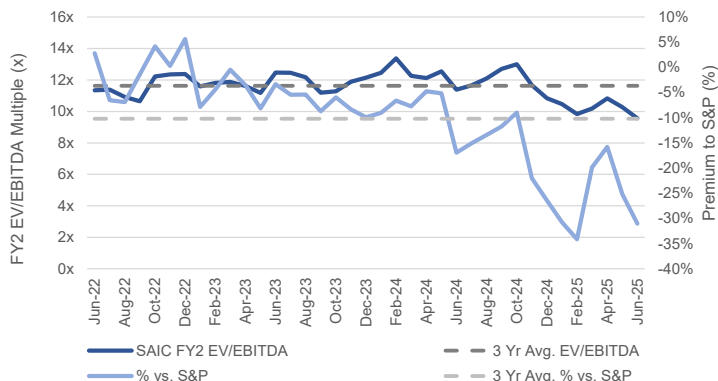
Price Target Derivation

Valuation Method	Price	Assumptions
EV/EBITDA	96	8.8x EV/EBITDA; FY27 EBITDA of \$741MM
P/E	102	9.9x P/E; FY27 EPS of \$10.35
FCF	147	8.0% FCF Yield
Average	\$115	Blended average

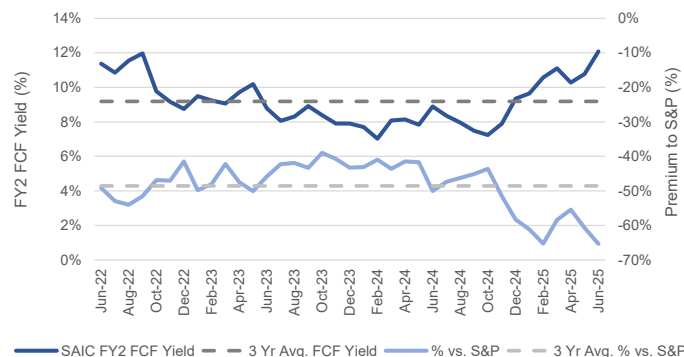
FY2 P/E: 50% Disct to Mkt vs. Historical Avg Disct of 26%



FY2 EV/EBITDA: 31% Disct to Mkt vs. Historical Avg Disct of 10%



FY2 FCF Yield: 65% Disct to Mkt vs. Historical Avg Disct of 49%



Source: Company data, FactSet, and Jefferies estimates

SAIC: Income Statement

Year Ending Jan.

(millions, except per share data)	2021		2022		2023		2024		2025		2026E		2027E		2028E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$7,056	100.0	\$7,394	100.0	\$7,704	100.0	\$7,444	100.0	\$7,479	100.0	\$7,609	100.0	\$7,838	100.0	\$8,039	100.0
Costs and expenses																
Costs of Revenues	6,264	88.8%	6,535	88.4%	6,816	88.5%	6,572	88.3%	6,587	88.1%	6,680	87.8%	6,874	87.7%	7,034	87.5%
Selling, General & Administrative/Integration	402	5.7	397	5.4	387	5.0	131	1.8	329	4.4	358	4.7	368	4.7	370	4.6
Total Operating Costs	\$6,666	94%	\$6,932	94%	\$7,203	93%	\$6,703	90%	\$6,916	92%	\$7,038	93%	\$7,243	92%	\$7,404	92%
GAAP Operating Profit	\$390	5.5%	\$462	6.2%	\$501	6.5%	\$741	10.0%	\$563	7.5%	\$571	7.5%	\$596	7.6%	\$635	7.9%
Total Interest	122		105		120		120		126		120		113		106	
Other (income) expense, net	3		1		(6)		(1)		(9)		(15)		(15)		(15)	
Income before taxes	\$271		\$358		\$375		\$620		\$428		\$436		\$468		\$514	
Taxes (rate %)	60	22.1%	79	22.1%	72	19.2%	143	23.1%	66	15.4%	100	23.0%	108	23.1%	117	22.9%
Net Income	\$211		\$279		\$303		\$477		\$362		\$336		\$360		\$396	
Non Controlling Interest	(2)		(2)		(3)		0		0		0		0		0	
Net Income	\$209		\$277		\$300		\$477		\$362		\$336		\$360		\$396	
Diluted shares (millions)	58.7		58.1		55.8		53.7		50.5		47.1		44.4		41.7	
Diluted earnings per share (cont. ops)	\$3.56		\$4.77		\$5.38		\$8.88		\$7.17		\$7.13		\$8.10		\$9.50	
Adjusted EPS																
Acquisition and integration costs	\$58		\$58		\$25		(\$222)		\$9		\$0		\$0		\$0	
Amortization	\$147		\$128		\$126		\$114		\$115		\$115		\$115		\$115	
Adjusted Operating Profit	\$595		\$648		\$651		\$633		\$687		\$686		\$711		\$750	
Interest	(\$122)		(\$104)		(\$126)		(\$120)		(\$141)		(\$120)		(\$113)		(\$106)	
EBT	\$473		\$544		\$525		\$513		\$546		\$566		\$598		\$644	
Tax	\$103		\$120		\$101		\$90		\$85		\$130		\$138		\$147	
Adjusted Net Income	\$368		\$422		\$421		\$423		\$461		\$436		\$460		\$497	
Adjusted EPS	\$6.27		\$7.27		\$7.55		\$7.88		\$9.13		\$9.25		\$10.35		\$11.90	

Source: Company data and Jefferies estimates

SAIC: Cash Flow Statement

Year Ending Jan.

(millions, except per share data)	2021	2022	2023	2024	2025	2026E	2027E	2028E
Operating Activities								
Net Income	\$211	\$279	\$303	\$477	\$362	\$336	\$360	\$396
Depreciation & Amortization	\$185	\$165	\$157	\$142	\$140	\$145	\$145	\$128
Non cash compensation	\$42	\$46	\$48	\$68	\$53	\$45	\$45	\$45
Other	\$24	\$49	(\$18)	(\$270)	(\$10)	(\$55)	(\$35)	(\$30)
Op cash flow pre-working capital	\$462	\$539	\$490	\$417	\$545	\$471	\$515	\$539
Receivables	\$221	(\$31)	\$79	(\$46)	(\$86)	\$72	\$27	\$17
Inventory, prepaids, other	\$8	\$14	(\$10)	(\$43)	\$24	(\$1)	(\$3)	(\$3)
Accounts Payable	(\$76)	\$30	(\$9)	\$13	\$48	(\$14)	\$22	\$19
Accrued payroll and employee benefits	\$95	\$10	(\$36)	\$49	(\$31)	\$3	\$10	\$9
Other Assets/Liabilities	\$45	(\$44)	\$18	\$6	(\$6)	\$20	\$20	\$20
Changes in working capital	\$293	(\$21)	\$42	(\$21)	(\$51)	\$81	\$76	\$63
Cash Flow from Operations	\$755	\$518	\$532	\$396	\$494	\$551	\$591	\$602
Investment activities								
Capital expenditures	(46)	(36)	(25)	(27)	(36)	(37)	(38)	(39)
Cash paid for business acquisitions, net	(1,202)	(255)	0	356	0	0	0	0
Purchases of marketable AFS securities	(6)	(9)	(3)	(2)	(14)	0	0	0
Proceeds from sale of investments	9	6	0	0	22	0	0	0
Other	14	2	(8)	(13)	(7)	0	0	0
Cash Flow from Investments	(1,231)	(292)	(36)	314	(35)	(37)	(38)	(39)
Financing Activities								
Proceeds from notes payable and LT debt	1,000	116	840	160	1,499	0	0	0
Payments on notes payable and LT debt	(399)	(119)	(990)	(441)	(1,381)	0	(100)	(100)
Dividends paid to minority interest stockhold	(87)	(86)	(83)	(79)	(75)	(74)	(69)	(65)
Sales of common stock/Other	13	16	16	17	20	1	1	1
Repurchases of common stock	(34)	(226)	(267)	(382)	(558)	(375)	(375)	(375)
Cash Flow from Financing	493	(299)	(484)	(725)	(495)	(448)	(543)	(539)
Net change in cash items	(12)	(75)	3	(15)	(39)	67	10	24
Cash at the beginning of the period	202	190	115	118	103	64	132	141
Cash at the end of the period	190	115	118	103	64	132	141	166

Source: Company data and Jefferies estimates

Southwest Airlines Co. (LUV) – Hold \$33 PT

1) Maximizing Revs/Sqft w/ ELR Cabin

2) Bags, Basic, & Loyalty Contribute \$0.4BB to '25

3) Cost Beats at 2/3rds of Managers in Q1

Related Notes:

- [Mgmt Mtg Takes: Changing for the LUV of the Customer; Upgrade to Hold](#) *May 27, 2025*
- [The Net-Net: Initiatives Don't Net to EBIT and Net Cash No Longer](#) *April 25, 2025*
- [Late to the Gate, Downgrade on Holding Pattern; AAL/DAL to Hold; AC/LUV to U/P](#) *April 1, 2025*

Southwest Airlines (LUV): Working All the Initiative Angles to Drive Revenues in 2025 Ahead of ELR/Assigned

Summary Estimates - 2025 In Limbo with Certain Tactical Initiatives & an Uncertain Fleet Strategy Based on Delivery Cadence; Awaiting 2026's Turn on of ELR & Assigned Seats

	2019	2022	Estimates Summary					% YoY 2024	% YoY 2025E	% YoY 2026E	% YoY 2027E
	2023	2024	2025E	2026E	2027E						
Revenue											
ASMs (MM)	157,254	148,467	170,323	177,250	179,019	182,668	186,392	4.1%	1.0%	2.0%	2.0%
Load Factor	83.5%	83.4%	80.0%	80.4%	79.0%	81.0%	82.0%	0.4%	-1.4%	2.0%	1.0%
RPMS (MM))	131,345	123,843	136,256	142,515	141,425	147,961	152,842	4.6%	-0.8%	4.6%	3.3%
Passenger Yield	15.82¢	17.29¢	17.35¢	17.53¢	17.98¢	18.40¢	18.64¢	1.0%	2.6%	2.3%	1.3%
Passenger Revenue (\$MM)	\$20,776	\$21,408	\$23,637	\$24,980	\$25,433	\$27,221	\$28,484	5.7%	1.8%	7.0%	4.6%
Other Revenue	1,652	2,406	2,454	2,503	2,540	2,614	2,715	2.0%	1.5%	2.9%	3.9%
Total Revenue (\$MM)	\$22,428	\$23,814	\$26,091	\$27,483	\$27,973	\$29,835	\$31,199	5.3%	1.8%	6.7%	4.6%
RASM	\$14.26	\$16.04	\$15.32	\$15.51	\$15.63	\$16.33	\$16.74	1.2%	0.8%	4.5%	2.5%
Expenses											
CASM ex-Fuel/Special/Profitsharing	9.19¢	11.22¢	11.08¢	11.95¢	12.37¢	12.63¢	12.79¢	7.9%	3.5%	2.1%	1.2%
Operating Expenses ex-Fuel/Special	\$14,457	\$16,660	\$18,872	\$21,184	\$22,147	\$23,073	\$23,833	12.3%	4.5%	4.2%	3.3%
Fuel:											
ASMs per Gallon	75.7	77.2	79.5	80.8	82.6	83.8	84.6	1.6%	2.2%	1.5%	1.0%
Gallons Consumed	2,077	1,922	2,143	2,194	2,168	2,180	2,202	2.4%	-1.2%	0.5%	1.0%
Adjusted Price per Gallon	\$2.09	\$3.11	\$2.89	\$2.64	\$2.29	\$2.27	\$2.28	-8.7%	-13.3%	-0.7%	0.2%
Adj. Fuel Expense	\$4,347	\$5,975	\$6,196	\$5,790	\$4,962	\$4,951	\$5,014	-6.5%	-14.3%	-0.2%	1.3%
Total Adj. Operating Expense (\$MM)	\$18,804	\$22,635	\$25,648	\$27,641	\$27,109	\$28,254	\$28,975	7.8%	-1.9%	4.2%	2.6%
Profitability											
Adj. Operating Income	\$2,957	\$1,120	\$900	\$341	\$711	\$1,533	\$2,002	-62.1%	108.4%	115.7%	30.6%
% Margin	13.2%	4.7%	3.4%	1.2%	2.5%	5.1%	6.4%	-2.2%	1.3%	2.6%	1.3%
Adj. EBITDA	\$4,176	\$2,471	\$2,422	\$1,998	\$2,357	\$3,220	\$3,700	-17.5%	18.0%	36.6%	14.9%
% Margin	18.6%	10.4%	9.3%	7.3%	8.4%	10.8%	11.9%	-2.0%	1.2%	2.4%	1.1%
Adj. EBITDAR	\$4,358	\$2,666	\$2,620	\$2,218	\$2,651	\$3,606	\$4,192	-15.3%	19.5%	36.0%	16.3%
% Margin	19.4%	11.2%	10.0%	8.1%	9.5%	12.1%	13.4%	-2.0%	1.4%	2.6%	1.3%

Source: Company data and Jefferies estimates

Southwest Airlines (LUV): Working All the Initiative Angles to Drive Revenues in 2025 Ahead of ELR/Assigned

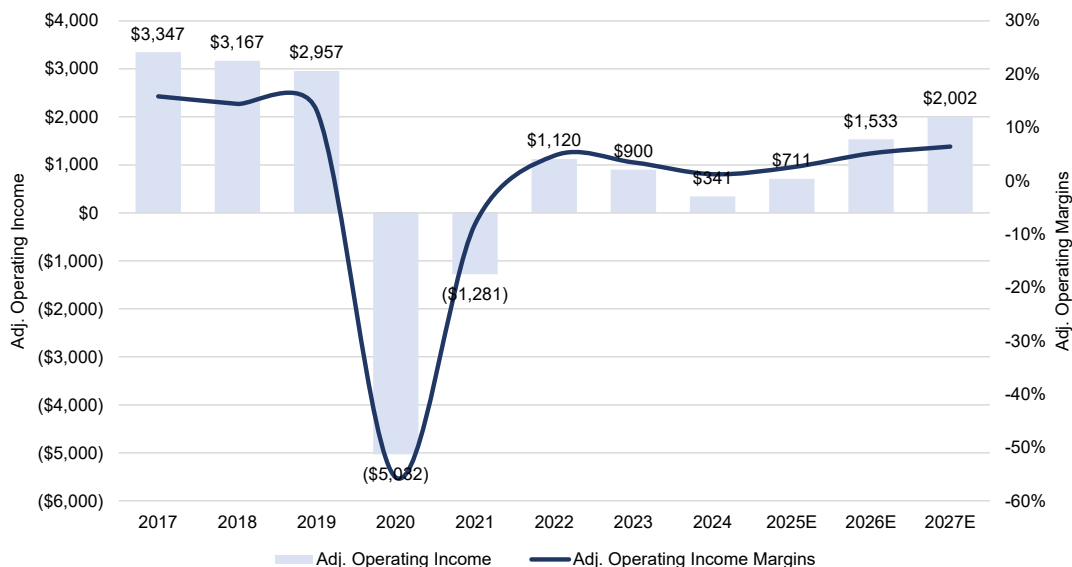
Detailed LUV Revenue Build - 2025 Revenue Expands 1.8% Y-o-Y on 1% ASM Growth and RASMs Up 0.8% on JEFs

	LUV Revenue Build						% YoY 2024	% YoY 2025E	% YoY 2026E	% YoY 2027E
	2019	2022	2023	2024	2025E	2026E	2027E			
Fleet Build										
Average Aircraft in Fleet:										
737-700	506	426	387	353	304	254	204	-9%	-14%	-16%
737-800	207	207	207	205	203	168	140	-1%	-1%	-17%
737 MAX 7					-	35	90			
737 MAX 8	34	137	223	245	290	320	350	10%	18%	10%
Period Average Aircraft	747	770	817	803	797	777	784	-2%	-1%	-3%
Flight Build										
Flights per Day:										
737-700	5.5	4.9	5.1	5.2	5.2	5.2	5.2			
737-800	4.4	4.5	5.0	4.6	4.8	4.9	4.9			
737 MAX 7	-	-	-	-	5.2	5.2	5.2			
737 MAX 8	0.6	4.5	5.0	4.6	4.8	4.9	4.9			
Total Flights per Day per Aircraft	5.0	4.7	5.0	4.9	4.9	5.0	5.0	-4%	1%	1%
Flights During Period:										
737-700	1,023,998	766,455	713,726	671,544	573,863	481,875	388,953			
737-800	330,345	339,463	379,627	344,764	354,086	297,433	251,578			
737 MAX 7	-	-	-	-	-	66,400	171,597			
737 MAX 8	7,650	224,669	408,970	412,035	505,838	566,538	628,946			
Total Flights	1,361,993	1,330,587	1,502,324	1,428,343	1,433,787	1,412,246	1,441,074	-5%	0%	-2%
ASM Build										
Seat Count:										
737-700	143	143	143	143	143	143	143			
737-800	175	175	175	175	175	175	175			
737 MAX 7					150	150	150			
737 MAX 8	175	175	175	175	175	175	175			
Average Seat Count per Trip	150.9	156.6	159.8	160.0	162.2	162.9	163.4	0.1%	1.4%	0.4%
Stage Length:										
737-700	660.8	669.6	672.4	690.0	690.0	690.0	690.0	3%	0%	0%
737-800	1,014.0	818.7	791.0	832.4	855.7	868.6	879.4	5%	3%	1%
737 MAX 7					690.0	690.0	690.0			0%
737 MAX 8	1,014.0	818.7	791.0	832.4	855.7	868.6	879.4	5%	3%	1%
Weighted Average Stage Length	748.5	732.8	734.6	765.5	789.4	799.2	805.7	4.2%	3.1%	1.2%
ASMs (MMs):										
737-700	97,336	75,633	72,083	69,454	61,188	52,228	43,082	-4%	-12%	-15%
737-800	58,620	48,634	52,547	50,468	47,958	44,927	38,330	-4%	-5%	-6%
737 MAX 7		-	-	-	-	3,436	12,334			
737 MAX 8	1,298	24,200	45,693	57,328	69,873	82,077	92,646	25%	22%	17%
Total ASMs	157,254	148,467	170,323	177,250	179,019	182,668	186,392	4.1%	1.0%	2.0%
Revenue Build										
Load Factor	83.5%	83.4%	80.0%	80.4%	79.0%	81.0%	82.0%	0.4%	-1.4%	2.0%
Total RPMs	131,345	123,843	136,256	142,515	141,425	147,961	152,842	4.6%	-0.8%	4.6%
Passenger Yield per RPM (cents)	15.82¢	17.29¢	17.35¢	17.53¢	17.98¢	18.40¢	18.64¢	1.0%	2.6%	2.3%
Total Passenger Revenue (\$MM)	\$20,776	\$21,408	\$23,637	\$24,980	\$25,433	\$27,221	\$28,484	5.7%	1.8%	7.0%
Freight Revenue	172	177	175	175	177	180	184	0%	1%	2%
Other Revenue	1,480	2,229	2,279	2,328	2,363	2,434	2,531	2%	1%	3%
Total Revenue (\$MM)	\$22,428	\$23,814	\$26,091	\$27,483	\$27,973	\$29,835	\$31,199	5.3%	1.8%	6.7%

Source: Company data and Jefferies estimates

Southwest Airlines (LUV): EBIT Targets Suspended for 2025 and 2026; JEF \$0.7BB in 2025 and \$1.5BB in 2026

JEF \$711MM of Op Profits in 2025, Inclusive of \$200MM Gains on Sale, with \$1.8BB in Initiatives Implying Core LUV Losses of \$1.3BB (-\$1.6BB Y-o-Y)



- In March 2025, LUV guided core EBIT to \$1.7BB in 2025 and \$3.8BB in 2026, inclusive of incremental EBIT from initiatives of \$1.8BB and \$4.3BB, respectively. This implied the core LUV business eroded ~\$0.5BB in 2025 from the \$341MM of reported profits in 2024. This translates to the low-end of the prior margin rate guides, with Fleet strategy the opportunity for upside: 3-5% in 2025, 5-8% in 2026, and >10% by 2027.
- Mgmt has now suspended the EBIT dollar guides given the macro. Our estimates assume \$711MM of adj operating profit in 2025 (2.5% margin, or 1.9% ex-gains), \$1.5BB in 2026 (5.1% margin, or 3.9% ex-gains), and \$2.0BB in 2027 (6.4% margin, or 5.2% ex-gains). The Fleet target is \$400-500MM/yr, with our estimates including ~\$200MM in 2025 and ~\$450MM/yr in 2026 and 2027, respectively.

Source: Company data and Jefferies estimates

Southwest Airlines (LUV): Fleet Strategy In the Works, but Net Cash Off the Books

Net Capex to \$2BB/yr Through 2027 Enables FCF to be Deployed to the \$2.5BB Repo Authorization and \$450MM/yr Dividend

	2019	2022	2023	2024	2025E	2026E	2027E
Net Income	\$2,300	\$539	\$498	\$465	\$679	\$1,210	\$1,498
Depreciation and Amortization	1,219	1,351	1,522	1,657	1,646	1,687	1,698
NWC	606	1,483	1,206	(1,586)	146	377	190
Stock Comp/Deferred Taxes/Other	(138)	417	(62)	(74)	(12)	(79)	34
CFO	3,987	3,790	3,164	462	2,460	3,196	3,419
Gross Capex	(1,027)	(3,924)	(3,520)	(2,054)	(2,950)	(3,425)	(3,975)
FCF	\$2,960	(\$134)	(\$356)	(\$1,592)	(\$490)	(\$229)	(\$556)
Sale-Leaseback / Sale Proceeds	\$0	\$0	\$0	\$871	\$825	\$2,056	\$1,654
Net Capex	(\$1,027)	(\$3,924)	(\$3,520)	(\$1,183)	(\$2,125)	(\$1,369)	(\$2,321)
Adj. FCF	\$2,960	(\$134)	(\$356)	(\$721)	\$335	\$1,827	\$1,099
Debt Issued	0	0	0	0	0	0	0
Debt Paydown and Finance Leases	(615)	(2,437)	(85)	(1,337)	(2,610)	(1,115)	(23)
Cash Dividends Paid	(372)	0	(428)	(430)	(385)	(349)	(332)
Share Repurchases	(2,000)	(648)	0	(250)	(2,250)	(2,000)	(1,500)
Shares Issued and Stock Options	40	45	48	54	57	60	63
Total Deployment	(\$2,947)	(\$3,040)	(\$465)	(\$1,963)	(\$5,189)	(\$3,404)	(\$1,792)
Discretionary FCF	\$1,973	(\$2,571)	(\$869)	(\$3,359)	(\$3,485)	(\$1,693)	(\$910)
FCF / Revenue	13%	-1%	-1%	-6%	-2%	-1%	-2%
FCF / EBITDA as Defined	71%	-5%	-15%	-80%	-21%	-7%	-15%
FCF / Net Income	129%	-18%	-36%	-267%	-72%	-19%	-37%
FCF / Share	\$5.49	(\$0.21)	(\$0.56)	(\$2.48)	(\$0.90)	(\$0.47)	(\$1.21)
FCF Yield	16.1%	-0.7%	-1.9%	-8.6%	-2.7%	-1.2%	-3.0%
Discretionary FCF Yield	10.7%	-14.0%	-4.7%	-18.2%	-18.9%	-9.2%	-4.9%

- Q1:25 FCF totaled \$383MM including \$24MM of SLB proceeds, with \$860MM of OCF and \$501MM of capex for 11 deliveries.
- LUV's balance sheet has been a differentiator through the pandemic, maintaining investment grade ratings, although the net cash position has dwindled to \$1.6BB today from a recent peak of \$5.9BB in Q2:22. This includes \$8.1BB of cash and \$118MM of ST investments compared to total debt of \$6.7BB. On a JEF-defined basis, net debt is just ~\$257MM, accounting for the \$1.3BB lease liability as well.
- At Investor Day, LUV set targets for \$2BB per year of capex through 2027, including \$1.5BB of non-aircraft capex and \$0.5BB of aircraft capex. This compares to a contractual order book with 60 firm deliveries per year for \$3BB+. The total order book includes 672 aircraft, including 300 -7s, 196 -8s, and 176 options.
- Our 2025-2027 estimates include 45, 65, and 85 deliveries for gross aircraft capex of \$1.4BB, \$1.8BB, and \$2.3BB, respectively. Non-aircraft capex averages \$1.7BB/yr.

Source: Company data and Jefferies estimates

Southwest Airlines (LUV): Debt Schedule

Debt Schedule - Targeting the Take-Out of the \$2.1BB in PSP Loans in 2025 and 2026 (MM, unless otherwise stated)

Debt Build	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Cash Equivalents									
Cash and Cash Equivalents	\$2,548	\$11,063	\$12,480	\$9,492	\$9,288	\$7,509	\$2,549	\$862	\$1,274
Short-Term Investments	1,524	2,271	3,024	2,800	2,186	1,216	1,216	1,216	0
Total Cash and Cash Equivalents	\$4,072	\$13,334	\$15,504	\$12,292	\$11,474	\$8,725	\$3,765	\$2,078	\$1,274
Interest Income	\$90	\$32	\$13	\$217	\$583	\$497	\$305	\$132	\$73
Debt Build									
Term Loans:									
Term Loan Payable Through 2020	134								
Term Loan Payable Through 2021									
Term Loan Payable Through 2021									
Term Loan Payable Through 2025		119							
Term Loan Payable Through 2026	178	159							
Term Loan Payable Through 2028		184							
Payroll Support Program Loan		976	976	976	976	976			
Payroll Support Program Loan			566	566	566	566	566		
Payroll Support Program Loan			526	526	526	526	526		
Notes/Bonds:									
Notes Due 2020	500								
737 Aircraft Notes Payable Through 2020	20								
Notes Due 2022	300	300	300						
Pass Through Certificates Due 2022	197	137	71						
Notes Due 2023		1,250	1,250						
Convertible Notes Due 2025		1,945	1,842	1,611	1,611	1,611			
Notes Due 2025		1,550	1,550	1,302	1,302				
Notes Due 2026	300	300	300	300	300	300	300	300	300
Notes Due 2027	300	300	300	300	300	300	300	300	300
Notes Due 2027		2,000	2,000	1,727	1,727	1,727	1,727	1,727	1,727
Debentures Due 2027	122	119	116	114	111	107	104	101	98
Notes Due 2030		500	500	500	500	500	500	500	500
Assumed Debt Issuance									
Other:									
Other									
Finance Leases	627	542	459	189	104	91	71	51	31
Revolving Credit Facility									
Total Debt	\$2,678	\$10,381	\$10,756	\$8,111	\$8,023	\$6,704	\$4,094	\$2,979	\$2,956
Less: Debt Discount and Issuance Costs	(13)	(50)	(29)	(23)	(16)	5	0	0	0
Plus: Pension Liability	0	0	0	0	0	0	0	0	0
Plus: Lease Liability	1,331	1,868	1,554	1,343	1,193	1,359	1,321	1,284	1,249
Total JEF-Defined Debt	\$3,996	\$12,199	\$12,281	\$9,431	\$9,200	\$8,068	\$5,415	\$4,263	\$4,205
Less: Cash and Cash Equivalents	(4,072)	(13,334)	(15,504)	(13,542)	(11,474)	(8,725)	(3,765)	(2,078)	(1,274)
Total JEF-Defined Net Debt	(\$76)	(\$1,135)	(\$3,223)	(\$4,111)	(\$2,274)	(\$657)	\$1,650	\$2,185	\$2,931
Leverage Ratios:									
Net Debt:									
JEF-Defined Net Debt/Adj. EBITDA	(0.0X)	0.3X	N/M	(1.7X)	(0.9X)	(0.3X)	0.7X	0.7X	0.8X
JEF-Defined Net Debt/Adj. EBITDAR	(0.0X)	0.3X	N/M	(1.5X)	(0.9X)	(0.3X)	0.6X	0.6X	0.7X
Total Debt:									
JEF-Defined Debt/Adj. EBITDA	1.0X	(3.2X)	N/M	3.8X	3.8X	4.0X	2.3X	1.3X	1.1X
JEF-Defined Debt/Adj. EBITDAR	0.9X	(3.4X)	N/M	3.5X	3.5X	3.6X	2.0X	1.2X	1.0X

- LUV reports a \$1.6BB net cash position as of Q1:25, down from \$2.0BB at year-end 2024, with \$8.7BB of cash & ST investments compared to total debt of \$6.7BB. JEF-defined debt includes lease liabilities and totals \$8.0BB at the end of 2024, or (0.1X) net leverage of (\$250MM).
- In Q4, LUV early redeemed its \$1.3BB of 5.25% Notes due 2025. Mgmt expects to prepay \$1.0BB of PSP loans in Q2:25 along with the \$1.6BB of convertible notes. The remaining \$1.1BB of PSP loans are expected to be repaid in 2026. Our model assumes this paydown is through cash on-hand, driving leverage into a net debt position in Q2.

Source: Company data and Jefferies estimates

Southwest Airlines (LUV): Relative Valuation to Peers

Price Target Derivation

Valuation Method	Price	Assumptions
EV/EBITDAR	33	5.0x EV/EBITDAR on 2026E EBITDAR of \$3.6BB
P/E	32	13.0x P/E on 2026E EPS of \$2.50
Average	\$33	Blended Average

Relative Valuation Table (06/05/2025)

US Airlines	Ticker	JEF Rating	Stock Px 6/5/2025	Consensus BUY Rating	Market Cap	Enterprise Value	P/E			EV / SALES			EV / EBITDA			Yield	
							2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	Dividend	FCF
American Airlines	AAL	Hold	\$11.42	58%	7,532	36,011	12.0x	5.6x	4.4x	0.7x	0.1x	0.6x	8.5x	6.8x	6.0x	0.0%	10.7%
Alaska Airlines	ALK	N/C	\$51.11	82%	6,204	10,077	13.9x	8.1x	6.2x	0.4x	0.4x	0.6x	6.6x	5.0x	4.5x	0.0%	9.6%
Allegiant Airlines	ALGT	N/C	\$56.38	15%	1,029	2,210	16.4x	8.6x	6.3x	0.4x	0.3x	0.7x	5.1x	4.2x	3.8x	1.1%	-12.4%
Delta Airlines	DAL	Hold	\$48.98	84%	31,982	50,415	9.0x	7.3x	6.3x	0.9x	0.8x	0.8x	5.9x	5.2x	4.8x	1.2%	10.7%
Frontier Airlines	ULCC	N/C	\$3.96	8%	902	5,004	N/M	N/M	4.5x	1.3x	1.1x	1.0x	N/M	N/M	N/M	0.0%	-12.7%
JetBlue	JBLU	N/C	\$5.03	0%	1,782	7,691	N/M	N/M	N/M	0.2x	0.2x	0.7x	N/M	N/M	7.6x	0.0%	-40.5%
United Airlines	UAL	Buy	\$81.62	88%	26,657	44,574	7.8x	6.6x	5.7x	0.8x	0.4x	0.7x	5.5x	5.5x	4.9x	0.0%	5.8%
Avg. US Airlines				48%			11.8x	7.2x	5.6x	0.7x	0.5x	0.7x	6.3x	5.3x	5.3x	0.3%	-4.1%
Southwest Airlines	LUV	Hold	\$32.27	31%	18,390	18,589	26.0x	12.9x	9.9x	0.6x	0.6x	0.6x	7.9x	5.8x	5.0x	2.2%	4.9%
Premium / Discount								79%	78%	-6%	26%	-18%	24%	8%	-5%		

Source: Company data, FactSet and Jefferies estimates

Southwest Airlines (LUV): Income Statement

Year Ending Dec.

(millions, except per share data)	2021		2022		2023		2024		2025E		2026E		2027E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$15,790	100.0%	\$23,814	100.0%	\$26,091	100.0%	\$27,483	100.0%	\$27,973	100.0%	\$29,835	100.0%	\$31,199	100.0%
Cost and Expenses														
Fuel costs	3,310	21.0%	5,975	25.1%	6,217	23.8%	5,812	21.1%	4,962	17.7%	4,951	16.6%	5,014	16.1%
Salaries, wages, and benefits	4,783	30.3%	9,376	39.4%	11,109	42.6%	12,240	44.5%	12,651	45.2%	12,987	43.5%	13,273	42.5%
Maintenance materials and repairs	854	5.4%	852	3.6%	1,188	4.6%	1,353	4.9%	1,253	4.5%	1,425	4.8%	1,491	4.8%
Landing fees and airport rentals	1,456	9.2%	1,508	6.3%	1,789	6.9%	1,962	7.1%	2,148	7.7%	2,283	7.7%	2,423	7.8%
Depreciation and amortization	1,272	8.1%	1,351	5.7%	1,522	5.8%	1,657	6.0%	1,646	5.9%	1,687	5.7%	1,698	5.4%
Other	2,394	15.2%	3,735	15.7%	3,999	15.3%	4,138	15.1%	4,602	16.5%	4,969	16.7%	5,298	17.0%
Total Operating Costs	\$14,069	89.1%	\$22,797	95.7%	\$25,824	99.0%	\$27,162	98.8%	\$27,262	97.5%	\$28,302	94.9%	\$29,197	93.6%
Operating Profit	\$1,721	10.9%	\$1,017	4.3%	\$267	1.0%	\$321	1.2%	\$711	2.5%	\$1,533	5.1%	\$2,002	6.4%
Interest Expense	418		84		(347)		(283)		(178)		(38)		20	
Other, net	(22)		205		(62)		6		18		0		0	
Income before taxes	\$1,325	8.4%	\$728	3.1%	\$676	2.6%	\$598	2.2%	\$870	3.1%	\$1,572	5.3%	\$1,982	6.4%
Taxes (rate %)	348	26.2%	189	25.9%	178	26.3%	133	22.2%	191	22.0%	361	23.0%	484	24.4%
Net Income	\$977	6.2%	\$539	2.3%	\$498	1.9%	\$465	1.7%	\$679	2.4%	\$1,210	4.1%	\$1,498	4.8%
Diluted Shares (millions)	609		642		640		643		547		485		461	
GAAP EPS	\$1.61		\$0.84		\$0.78		\$0.72		\$1.24		\$2.50		\$3.25	
GAAP Pre-Tax Income	\$1,325		\$728		\$676		\$598		\$870		\$1,572		\$1,982	
Payroll Support and Voluntary Employee Programs, net	(\$2,960)		\$0		\$498		\$14		\$0		\$0		\$0	
Fuel hedge contracts settling in current period, gains (losses) from AOCI	(8)		40		16		(34)		0		0		0	
Interest rate swap agreements, losses reclassified from AOCI	(3)		0		0		0		0		0		0	
Gain from Aircraft Sale-Leaseback Transactions	0		0		0		0		0		0		0	
Gain on Sale of Retired Aircraft	0		0		0		0		0		0		0	
Impairment of Long-Lived Assets	12		35		0		0		0		0		0	
Other	21		156		98		199		0		0		0	
Adjusted Pre-Tax Income	(\$1,613)		\$959		\$1,288		\$777		\$870		\$1,572		\$1,982	
Adjusted Taxes	(342)		236		302		180		191		361		484	
Adjusted Net Income	(\$1,271)		\$724		\$986		\$597		\$679		\$1,210		\$1,498	
Adjusted EPS	(\$2.15)		\$1.13		\$1.57		\$0.96		\$1.24		\$2.50		\$3.25	

Source: Company data and Jefferies estimates

Southwest Airlines (LUV): Balance Sheet

Year Ending Dec.

(millions, except per share data)	2021	2022	2023	2024	2025E	2026E	2027E
Assets:							
Cash and cash equivalents	\$12,480	\$9,492	\$9,288	\$7,509	\$2,549	\$862	\$1,274
Accounts receivable	1,357	1,040	1,154	1,110	1,150	1,226	1,282
Inventories of parts and supplies, at cost	537	790	807	800	806	822	839
Prepaid expenses and other current assets	638	686	520	639	661	693	720
Total Current Assets	18,036	14,808	13,955	11,274	6,381	4,820	4,115
Property and equipment	14,842	17,342	19,375	19,056	20,078	21,098	22,551
Goodwill	970	970	970	970	970	970	970
Operating lease right-of-use assets	1,590	1,394	1,223	1,369	1,437	1,509	1,585
Other non-current assets	882	855	964	1,081	1,081	1,081	1,081
Total Assets	\$36,320	\$35,369	\$36,487	\$33,750	\$29,947	\$29,478	\$30,302
Liabilities:							
Accounts payable	1,282	2,004	1,862	1,818	1,705	1,755	1,812
Accrued liabilities	1,624	2,043	3,563	2,206	2,277	2,338	2,389
Current operating lease liabilities	239	225	208	328	328	328	328
Current maturities of LT debt	453	42	29	1,630	0	0	0
Total Current Liabilities	9,164	10,378	12,213	12,276	10,859	11,362	11,651
LT debt	10,274	8,046	7,978	5,069	4,094	2,979	2,956
Deferred income taxes	1,770	1,985	2,053	2,167	2,238	2,387	2,496
Construction obligation	0	0	0	0	0	0	0
Total Liabilities	\$25,906	\$24,682	\$25,938	\$23,400	\$21,041	\$20,541	\$20,880
Total Stockholder's Equity	\$10,414	\$10,687	\$10,549	\$10,350	\$8,906	\$8,938	\$9,422
Total Liabilities and Equity	\$36,320	\$35,369	\$36,487	\$33,750	\$29,947	\$29,478	\$30,302

Source: Company data and Jefferies estimates

Southwest Airlines (LUV): Cash Flow Statement

Year Ending Dec.

(millions, except per share data)	2021	2022	2023	2024	2025E	2026E	2027E
Operating Activities							
Net Income	\$977	\$539	\$498	\$465	\$679	\$1,210	\$1,498
Adjustments:							
Depreciation and amortization	1,272	1,351	1,522	1,657	1,646	1,687	1,698
Unrealized/realized gains on fuel derivative instruments	(15)	(56)	0	0	0	0	0
Deferred income taxes	(21)	282	169	132	191	361	484
Changes in assets and liabilities:							
Accounts and other receivables	(701)	422	(89)	19	(40)	(77)	(56)
Accounts payable and accrued liabilities	38	936	1,343	(1,363)	(42)	110	109
Air traffic liability	591	525	29	(37)	255	392	180
Other liabilities	(103)	(334)	(137)	(197)	0	0	0
Cash collateral received from derivative counterparties	141	(69)	(56)	(28)	0	0	0
Other, net	28	28	(171)	(88)	0	0	0
Net cash from operating activities	\$2,322	\$3,790	\$3,164	\$462	\$2,460	\$3,196	\$3,419
Investing Activities							
Capital expenditures, gross	(505)	(3,924)	(3,520)	(2,054)	(2,950)	(3,425)	(3,975)
Proceeds from Sale-Leaseback Transactions	0	0	0	871	825	2,056	1,654
Assets Constructed for others	(6)	(22)	(33)	(26)	0	0	0
Purchases of short-term investments	(5,824)	(5,592)	(6,970)	(5,014)	0	0	0
Proceeds from sales of short-term and other investments	5,071	5,792	7,591	5,995	0	0	1,216
Other, net	0	0	0	(33)	(107)	(109)	(111)
Net cash from investing activities	(\$1,264)	(\$3,746)	(\$2,932)	(\$261)	(\$2,232)	(\$1,478)	(\$1,215)
Financing Activities							
Issuance of common stock	0	0	0	0	0	0	0
Proceeds from issuance of LT debt	1,136	0	0	0	0	0	0
Proceeds from employee stock plans	51	45	48	54	57	60	63
Reimbursement for assets constructed for others	0	0	0	0	0	0	0
Payments of LT debt and finance lease obligations	(612)	(2,437)	(85)	(1,337)	(2,610)	(1,115)	(23)
Cash dividends paid	0	0	(428)	(430)	(385)	(349)	(332)
Repayment of construction obligation	0	0	0	0	0	0	0
Repurchase of common stock and conversions of convertible debt	0	(648)	0	(250)	(2,250)	(2,000)	(1,500)
Other, net	(216)	8	29	(17)	0	0	0
Net cash from financing activities	\$359	(\$3,032)	(\$436)	(\$1,980)	(\$5,189)	(\$3,404)	(\$1,792)
Increase in cash	\$1,417	(\$2,988)	(\$204)	(\$1,779)	(\$4,960)	(\$1,686)	\$412
Beginning cash	11,063	12,480	9,493	9,288	7,509	2,549	862
Ending cash	\$12,480	\$9,493	\$9,289	\$7,509	\$2,549	\$862	\$1,274

Source: Company data and Jefferies estimates

StandardAero (SARO) – Buy \$39 PT

1) Raising 2025E EBITDA 1% on Strong Start to the Year

2) Comm'l Momentum Un-Phased Up LDD to Mid-Teens in 2025E with +18% in Q1

3) CRS +13% Organic in '25E from +5% in Q1

4) FCF Turning Positive - \$164MM Generated in 2025E from \$40MM Use in '24 due to Lower Interest/Absence of IPO/Refi Costs

Related Notes:

- [Aftermarket Continues to Surprise w/Key Ramps Progressing](#) *May 13, 2025*
- [Comm'l Aero Up LDD to Mid-Teens Drives Beat and Raise](#) *March 12, 2025*
- [A Standard Beat Out of the Gate w/ EBIT Growth > EBITDA Growth > Rev Growth](#) *November 20, 2024*

StandardAero (SARO): Revenue Expected to Grow at 12% Organic CAGR, Supported by Volumes on New and Legacy Platforms

Summary Financials - EBITDA Grows at a 17% CAGR to 2027, Ahead of Revenues +13% (MM, unless otherwise stated)

	2021	2022	2023	2024	2025E	2026E	2027E	'21-'23 CAGR	'24-'27 CAGR
Revenue									
Engine Services	3,122.9	3,723.3	4,049.9	4,644.7	5,175.5	5,844.8	6,656.6	13.9%	12.7%
Component Repair Services	357.0	427.2	513.4	592.4	726.2	814.4	931.4	19.9%	16.3%
Total Revenues	\$3,479.9	\$4,150.5	\$4,563.3	\$5,237.2	\$5,901.8	\$6,659.2	\$7,588.0	14.5%	13.2%
% Y-o-Y Change		19.3%	9.9%	14.8%	12.7%	12.8%	13.9%		
Adjusted EBITDA									
Engine Services	361.5	447.7	520.0	610.9	672.3	787.3	939.4	19.9%	15.4%
Component Repair Services	77.4	96.7	124.6	154.7	197.0	222.9	260.5	26.9%	19.0%
Corporate / Public Company Costs	(58.7)	(68.9)	(83.5)	(75.2)	(87.0)	(91.3)	(96.8)	19.3%	8.8%
Total Adjusted EBITDA	\$380.2	\$475.4	\$561.1	\$690.5	\$782.3	\$919.0	\$1,103.1	21.5%	16.9%
% Y-o-Y Change		25.1%	18.0%	23.1%	13.3%	17.5%	20.0%		
Adjusted EBITDA Margin									
Engine Services	11.6%	12.0%	12.8%	13.2%	13.0%	13.5%	14.1%	1.3%	2.4%
Component Repair Services	21.7%	22.6%	24.3%	26.1%	27.1%	27.4%	28.0%	2.6%	2.3%
Total Adjusted EBITDA Margin	10.9%	11.5%	12.3%	13.2%	13.3%	13.8%	14.5%	1.4%	3.3%
% Incremental Margin		14.2%	20.8%	19.2%	13.8%	18.0%	19.8%		
FCF	\$68.6	(\$13.6)	(\$13.9)	(\$45.0)	\$163.9	\$356.0	\$514.7		
% of Net Income					54.5%	82.5%	86.5%		
GAAP EPS	(\$0.11)	(\$0.08)	(\$0.13)	\$0.04	\$0.90	\$1.29	\$1.78		

- **Engine Services (\$5.18BB or 88% of 2025E Revenues; \$672MM or 77% of 2025E Segment EBITDA):** Full-service engine maintenance, repair, and overhaul (MRO), including on-wing and field service support, asset management, and engineering and related solutions in support of engines across the commercial aerospace, military and helicopter, and business aviation end markets.
- **Component Repair Services (\$726MM or 12% of 2025E Revenues; \$197MM or 23% of 2025E Segment EBITDA):** Engine piece part component and accessory repair, as well as some engine new part manufacturing, primarily in support of the Commercial aerospace and military end markets.

Source: Jefferies estimates, company data

StandardAero (SARO): Engine Services Growth Driven by Commercial Aero in 2024E and 2025E

Engine Services Expected to Grow 11% in 2025E Driven by Commercial Aerospace (MM, unless otherwise stated)

Engine Services	2021	2022	2023	2024	2025E	2026E	2027E
Commercial Aerospace	\$1,582	\$1,986	\$2,145	\$2,696	\$3,051	\$3,387	\$3,887
Military, Helicopters, & Energy	627	856	933	899	980	1,137	1,289
Business Aviation	913	881	972	1,050	1,144	1,322	1,480
Total	\$3,123	\$3,723	\$4,050	\$4,645	\$5,176	\$5,845	\$6,657
% Revenue Change							
Commercial Aerospace		26%	8%	26%	13%	11%	15%
Military, Helicopters, & Energy		37%	9%	-4%	9%	16%	13%
Business Aviation		-4%	10%	8%	9%	16%	12%
Total		19%	9%	15%	11%	13%	14%
% Organic		10%	8%	15%	11%	13%	14%
% Composition							
Commercial Aerospace	51%	53%	53%	58%	59%	58%	58%
Military, Helicopters, & Energy	20%	23%	23%	19%	19%	19%	19%
Business Aviation	29%	24%	24%	23%	22%	23%	22%
Total	100%	100%	100%	100%	100%	100%	100%

- The Engine Services business is expected to grow 11% in 2025E led by Commercial Aero up LDD to Mid-Teens (+13% in our est) with the Biz Av and Military businesses each guided up HSD (est +9% each).
- Military accounts for 18% of revenues and has overhaul capability for the F-35 engine, F-15 and F-16, along with C-130Js, V-22s, and training aircraft. We assume organic growth decelerates to an MSD rate in the out years with near term growth supported by increased sustainment needs on an aging fleet of military aircraft.

Source: Jefferies estimates, company data

StandardAero (SARO): CRS Profitability to Expand 190 bps from 2024 to 2027E with Operating Leverage

Component Repair Services Includes 11% In-Sourced Revenue Growing to 21% by 2027E
(MM, unless otherwise stated)

Component Repair Services	2021	2022	2023	2024	2025E	2026E	2027E
Third Party Revenue			\$466	\$525	\$567	\$618	\$673
Insourcing Revenue (CFM/LEAP)			48	68	100	129	181
Total	\$357	\$427	\$513	\$592	\$726	\$814	\$931
% Revenue Change							
Third Party Revenue				13%	8%	9%	9%
Insourcing Revenue (CFM/LEAP)				42%	47%	30%	40%
Total		20%	20%	15%	23%	12%	14%
% Organic		11%	19%	13%	12%	12%	14%
% Composition							
Third Party Revenue			91%	89%	85%	83%	79%
Insourcing Revenue (CFM/LEAP)			9%	11%	15%	17%	21%
Total			100%	100%	100%	100%	100%

- SARO has invested more than \$400 million in component repair since 2017, having grown that business from \$116MM of sales in 2016 to \$592MM in 2024, or a more than 15% CAGR including 6 acquisitions. The Component Repair Services segment accounted for 11% of sales in 2024, but 20% of EBITDA given the 26.1% margins in 2024. 11% of the work in CRS is for internal consumption, which is targeted to reach 30% overtime (beyond our investment horizon).
- Every 5pt Increase in In-Sourced Repair Work from Engine Services to CRS is Worth 1c to 2027E EPS
- CRS services 75 platforms with over 20,000 unique repairs across 12 facilities. Engine Component Repair is a ~\$20BB market that is the second step of the engine maintenance process. After an engine is disassembled, certain parts and components are repaired at a component MRO shops. SARO has in-sourced a portion of that work in order to improve turn-times and reduce its costs.
- Repair capabilities extend across cleaning/inspection, coatings, welding/brazing, heat treatments, machining, and composites.

Source: Jefferies estimates, company data

StandardAero (SARO): Engine Services Profitability to Reach Mid-teens Over Time

Engine Services Margin Driven by Operating Leverage (MM, unless otherwise stated)

Engine Services	2022	2023	2024	2025E	2026E	2027E
Start EBITDA	\$362	\$448	\$520	\$611	\$672	\$787
Total organic	43	67	125	73	108	142
M&A earnings	43	5	0	0	0	0
Productivity / Other, net	0	0	-35	-12	8	10
End EBITDA	\$448	\$520	\$611	\$672	\$787	\$939
Adj EBITDA Margin	12.0%	12.8%	13.2%	13.0%	13.5%	14.1%
Incrementals						
Volume	14%	23%	21%	17%	20%	20%
M&A	15%	15%	15%	15%	15%	15%
Incremental margin	14%	22%	15%	12%	17%	19%

- In Engine Services, margins are expected to contract 20 bps y-o-y in 2025E due to the ramp of LEAP revs (breakeven margin, 10 bps dilutive y-o-y) and CFM56 (LSD margin, 20 bps dilutive y-o-y) as the programs ramp into new capacity.
- The company generates similar margins for Military and Airline & Fleet MRO with higher margin on business aviation due to the mix of material passthroughs.
- In 2024, the company adjusted its contract with RR on the AE3007 contract to eliminate \$60MM of annual material pass-through sales with no impact to profitability. This supports a higher incremental in 2024E with the adjustment 20 bps accretive to total segment margin. In total, ~\$3BB of COGS within Engine Services are from pass-throughs of materials, or ~70% of sales.

Source: Jefferies estimates, company data

StandardAero (SARO): CRS Profitability to Expand 330 bps from 2023 to 2027E with Operating Leverage

Component Repair Services Expected to Expand Margins by 190 bps Through 2027E (MM, unless otherwise stated)

CRS	2022	2023	2024	2025E	2026E	2027E
Start EBITDA	\$77	\$97	\$125	\$155	\$197	\$223
Total organic	11	27	20	19	26	38
M&A earnings	8	1	10	18	0	0
R&D / Investments	0	0	0	0	0	0
Productivity / Other, net	0	0	0	5	0	0
Incremental profit	\$97	\$125	\$155	\$197	\$223	\$260
Adj EBITDA Margin	22.6%	24.3%	26.1%	27.1%	27.4%	28.0%
Incrementals						
Volume	30%	33%	43%	26%	32%	35%
M&A earnings	25%	25%	31%	30%	25%	25%
Incremental margin	28%	32%	38%	32%	29%	32%

- In CRS, profitability is higher than Engine Services due to the lower mix of material pass throughs, as well as leverage from process IP for internally developed repairs.
- The business generated a 26.1% margin in 2024, expanding to 27.1% in 2025E with support from value-based pricing as well as operating leverage as the company ramps into existing capacity and new accretive repairs are introduced. In Component Repair, 80% of costs are tied to labor and 20% to materials.
- In Q1, CRS margins were 28.3%, up 240 bps y-o-y and 170 bps q/q with productivity initiatives, price, and operating leverage. The opportunity longer term comes from higher utilization of USM as it becomes available given a 40%+ cost savings relative to new OEM parts, as well as better terms on new repairs developed for the LEAP and CFM56.
- The acquisition of Aero Turbine, which closed in late August, is accretive to segment margin on an annualized basis with a 31% implied annual margin in its first year with a higher incremental in the 9-month contribution to 2025E given acquisition expenses this year.

Source: Jefferies estimates, company data

StandardAero (SARO): FCF and Capital Deployment: FCF Turns Positive in 2025E With Lower Interest Payments, Absence of IPO/Refi Costs

FCF Expected to Turn in 2025E Supported by Lower Interest Expense and Ramping Engine Platforms (MM, unless otherwise stated)

FCF Build	2021	2022	2023	2024	2025E	2026E	2027E
Net Income	(\$31)	(\$21)	(\$35)	\$11	\$301	\$431	\$595
Depreciation and A/Nortization	196	195	197	187	196	195	195
NWC	4	(144)	(99)	(144)	(193)	(135)	(157)
Stock Comp/Deferred Taxes/Other	(39)	(3)	5	22	(16)	(8)	0
CFO	\$131	\$27	\$68	\$76	\$288	\$482	\$632
Capex	(62)	(41)	(82)	(121)	(124)	(127)	(118)
FCF	\$69	(\$14)	(\$14)	(\$45)	\$164	\$356	\$515
FCF Per Share	\$0.25	(\$0.05)	(\$0.05)	(\$0.16)	\$0.49	\$1.06	\$1.54
Deployment							
Dividend	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Share Repurchases/Proceeds	0	0	0	1,203	0	0	0
Debt Paydown	(31)	(171)	(1,491)	(4,237)	(155)	(315)	(450)
Debt Issuance	267	145	1,480	3,247	0	0	0
Acquisition	(233)	(20)	(31)	(114)	0	0	0
Total Deployment	\$3	(\$46)	(\$43)	\$99	(\$155)	(\$315)	(\$450)
Discretionary FCF (post pension, dividends, and committed debt pay-down)	(\$195)	(\$204)	(\$1,536)	(\$3,193)	\$9	\$41	\$65
Ratios							
FCF to Net Income Conversion	--	--	--	-410%	55%	83%	87%
FCF Yield (FCF / Mkt Cap.)	0.8%	--	--	--	1.9%	4.0%	5.9%
FCF Change YoY %	--	--	--	--	--	117%	45%
Discretionary FCF Yield	--	--	--	--	0.1%	0.5%	0.7%
Discretionary FCF % Change YoY	--	--	--	--	--	359%	58%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Share Repo as % of Mkt Cap	0%	0%	0%	0%	0%	0%	0%
Working Capital as a % of Sales	0%	-3%	-2%	-3%	-3%	-2%	-2%
Net Debt to EBITDA	7.9x	6.5x	5.6x	3.1x	2.5x	1.8x	1.0x
Capex % of Sales	1.9%	1.1%	1.9%	2.4%	2.1%	1.9%	1.6%

- SARO has been a user of cash in recent years with a \$14MM usage in 2023 and \$45MM usage in 2024. 2025 FCF was guided to be \$155-175MM of generation (est \$164MM) including \$90MM of major platform investment. The major platform investment includes \$30MM for the CF34 licensing under a new agreement signed with GE in Q4:24 (\$20MM of CF34 licensing in 2024) with \$15MM paid in Q1. The remainder of the investments are related to the LEAP and CFM56, which totaled \$21MM combined in Q1.
- We expect FCF to reach 55% of adj NI in 2025E and 87% by 2027E with the majority of FCF generation allocated to debt repayment in the next three years. Capital has historically been deployed to M&A with \$433MM allocated since 2021.

Source: Jefferies estimates, company data

StandardAero (SARO): 11 Acquisitions Completed Since 2017

Recent Acquisitions Focused on Expanding MRO Customer and Platform Exposure

Company	Year	EV (\$MM)	History of Expanding Capabilities and Reach Through Add-ons			Segment	Strategic Rationale
			Sales (\$MM)	EV/Sales			
Aero Turbine Inc	2024	\$141	\$93	1.5x	Component Repair Services	MRO and Engineering Services or US and foreign militaries	
WesternJet	2023	33	37.743	0.9x	Business Aviation	US West Coast & Gulfstream Airframe Expansion	
EB Airfoils	2022	20	12	1.7x	Component Repair Services	Cold Section Airfoil Repair Capabilities	
PTS Aviation	2021	13	17	0.8x	Commercial Aerospace	CFM56 Asset Management Specialists	
Dallas AirMotive/H+S Aviation	2021	226	532	0.4x	Business Aviation	High-Growth Biz Jet Platforms and Dallas Footprint	
TRS Global Services	2020	--	30	--	Component Repair Services	Hot Section Airfoil Repair Capabilities	
SAFE Fuel Systems	2019	--	36	--	Component Repair Services	Accessory Repair Capabilities	
Vector Aerospace	2017	600	700	--	Airlines & Fleets + Military	Added Turboprop & Helicopter Platforms; Expanded U.K. and Asia Footprint	
PAS Technologies	2017	--	100	--	Component Repair Services	Repair, Specialty Process & Manufacturing	
JAS	2017	--	--	--	Component Repair Services	IGT Engine Combustion Components	
Kelly Aviation Center	2017	--	--	--	Military	Access to High Thrust Test Cells & Capacity	
Average		\$172	\$173	1.1x			

- Since 2017, SARO has acquired 11 companies, including six within Component Repair Services. The Component Repair business is expected to be the focus of M&A going forward with an interest in acquisitions with cost and revenue synergies as well as an opportunity for new engine platforms, customers, geographies, or cross-selling.
- On average the company has paid 1.1X sales with an average transaction value under \$200MM.
- Most recently, in late August, the company acquired Aero Turbine for \$141MM (incl \$21MM of contingent considerations and \$120MM cash), or 1.5X expected 2025 sales.
- Our model includes the majority of FCF generation being allocated to debt repayment in the absence of M&A.

StandardAero (SARO): SOTP Values SARO at \$39/Sh

Fair Value of \$39/Sh Based on a SOTP with Key Engine Platforms Estimated to Add \$8/sh

	2026 JEF Estimates					EV/EBITDA	Enterprise		Value			% Total	\$ per Share			
	Revenues	EBITDA	% Margin	Low	High		Low	High		Low	High		Low	High	Base	Comps
Engine Services	\$5,845	\$787	13.5%													
Other Engine Services	4,089	558	13.7%	10.9x	22.8x	14.8x	\$6,067	\$12,722	\$8,255	58%	61%	56%	\$15	\$35	\$22	GE, FTAI, MTX-DE, RTX
Key Engine NPVs	1,756	229	13.0%	13.3x	13.3x	13.3x	3,042	3,042	3,042	29%	15%	21%	\$8	\$8	\$8	
Component Repair Services	814	223	27.4%	10.9x	32.3x	21.1x	2,423	7,201	4,709	23%	34%	32%	\$6	\$20	\$13	FTAI, TDG, HEI
Corporate & Other	0	(91)		11.7x	22.8x	15.0x	(1,065)	(2,080)	(1,369)	-10%	-10%	-9%	(\$3)	(\$6)	(\$4)	
Total SARO	\$6,659	\$919	13.8%	11.4x	22.7x	15.9x	\$10,467	\$20,886	\$14,637	100%	100%	100%	\$26	\$58	\$39	
Net Debt							\$1,609	\$1,609	\$1,609							
Market Capitalization							\$8,858	\$19,277	\$13,028							
Shares Outstanding							334	334	334							
Implied Share Price							\$26	\$58	\$39							

- Our PT of \$39 is based on a SOTP with key engine platforms valued on an NPV analysis including the LEAP at \$6/sh, CF34 a \$3/sh, CFM56 at \$1/sh, and RB211 at \$0.60, or a total of \$8/sh.
- We also place an average engine services multiple of 13.7X on the remainder of the Engine Services segment, implying a value of \$22/sh.
- The Component Repair Services business is more akin to a parts supplier such as LOAR, TDG, and HEI, as well as high margin engine component repair (FTAI), implying a fair multiple of 21.1X based on peer average. This implies that CRS could be worth \$13/sh with a partial offset from \$1.6BB of net debt in our 2026E and \$4/sh of corporate expense.

StandardAero (SARO): Relative Valuation to Peers

Relative Valuation Table (5/13/2025)

	Ticker	JEF Rating	Stock Px 5/13/2025	Consensus BUY Rating	Market Cap	Enterprise Value	P/E			EV / SALES			EV / EBITDA			Yield	
							2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	Dividend	FCF
AAR Corp	AIR	N/C	\$61.58	100%	2,223	3,174	13.8x	12.3x		1.1x	1.1x		9.1x	8.3x		0.0%	5.9%
FTAI	FTAI	Buy	\$117.32	92%	12,032	15,626	24.7x	17.5x	13.5x	6.7x	5.6x	4.8x	13.9x	11.2x	9.8x	1.1%	5.0%
General Electric	GE	Buy	\$221.89	86%	236,621	246,777	40.2x	34.3x	29.7x	6.2x	5.6x	5.2x	26.3x	23.3x	21.1x	0.7%	3.2%
MTU Aero	MTX-DE	Buy	€ 331.10	53%	17,821	19,404	20.7x	19.1x	17.2x	2.3x	2.1x	1.9x	12.4x	11.6x	10.9x	0.6%	2.9%
Raytheon Technologies	RTX	Hold	\$131.09	69%	175,123	216,872	21.9x	19.6x	17.5x	2.6x	2.4x	2.3x	15.7x	14.4x	13.6x	1.9%	4.7%
Rolls-Royce	RR-GB	Buy	£7.96	78%	67,419	66,570	33.6x	27.7x	24.3x	3.5x	3.2x	3.0x	18.6x	16.5x	15.3x	0.8%	5.0%
Safran	SAF-FR	Hold	€ 250.70	56%	106,205	103,422	31.7x	25.0x	22.0x	3.4x	3.0x	2.8x	16.5x	14.5x	13.2x	0.9%	3.9%
Average				80%			28.2x	23.1x	21.0x	3.6x	3.2x	3.2x	16.4x	14.6x	14.0x	0.8%	4.2%
StandardAero			\$29.89		9,997	12,126	33.3x	23.2x	16.8x	1.8x	1.8x	1.6x	15.5x	13.2x	11.0x	0.0%	3.6%
Discount / Premium							18%	0%	-20%	-49%	-43%	-50%	-6%	-9%	-22%		17%

StandardAero (SARO): Annual Income Statement

Year Ending Dec.

(millions, except per share data)	2021		2022		2023		2024		2025E		2026E		2027E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$3,479.9	100.0%	\$4,150.5	100.0%	\$4,563.3	100.0%	\$5,237.2	100.0%	\$5,901.8	100.0%	\$6,659.2	100.0%	\$7,588.0	100.0%
Cost of Sales	3,063.4	88.0%	3,604.8	86.9%	3,928.0	86.1%	4,483.0	85.6%	5,009.6	84.9%	5,611.9	84.3%	6,333.7	83.5%
Gross Profit	\$416.5	12.0%	\$545.7	13.1%	\$635.3	13.9%	\$754.1	14.4%	\$892.1	15.1%	\$1,047.3	15.7%	\$1,254.3	16.5%
SG&A	156.4	4.5%	188.1	4.5%	202.8	4.4%	254.1	4.9%	226.5	3.8%	242.4	3.6%	260.3	3.4%
Amortization of Intangibles	94.0	2.7%	93.7	2.3%	93.7	2.1%	95.5	1.8%	95.5	1.6%	95.5	1.4%	95.5	1.3%
Acquisition Costs	8.4	0.2%	1.3	0.0%	1.5	0.0%	1.4	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total Operating Expenses	\$258.8	7.4%	\$283.1	6.8%	\$298.0	6.5%	\$350.9	6.7%	\$322.0	5.5%	\$337.9	5.1%	\$355.7	4.7%
Operating Profit	\$157.7	4.5%	\$262.6	6.3%	\$337.4	7.4%	\$403.2	7.7%	\$570.1	9.7%	\$709.5	10.7%	\$898.6	11.8%
Interest Expense	205.3	5.9%	243.0	5.9%	309.6	6.8%	282.5	5.4%	152.7	2.6%	130.5	2.0%	98.8	1.3%
Other Expense (Income)	2.8	0.1%	2.4	0.1%	(22.6)	-0.5%	(39.0)	-0.7%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Earnings Before Tax	(\$44.8)	-1.3%	\$22.0	0.5%	\$5.1	0.1%	\$81.8	1.6%	\$417.4	7.1%	\$579.0	8.7%	\$799.8	10.5%
Income Tax Expense	(13.8)		43.0		40.2		70.8		116.9		147.6		204.8	
Net Income (Loss)	(\$31.0)	-0.9%	(\$21.0)	-0.5%	(\$35.1)	-0.8%	\$11.0	0.2%	\$300.6	5.1%	\$431.3	6.5%	\$595.1	7.8%
GAAP Diluted EPS	(\$0.11)		(\$0.08)		(\$0.13)		\$0.04		\$0.90		\$1.29		\$1.78	
Diluted Shares Outstanding	275.2		275.2		275.2		289.8		334.5		334.5		334.5	

	2021	% of sales	2022	% of sales	2023	% of sales	2024	% of sales	2025E	% of sales	2026E	% of sales	2027E	% of sales
Revenue														
Engine Services	\$3,122.9	90%	\$3,723.3	90%	\$4,049.9	89%	\$4,644.7	89%	\$5,175.5	88%	\$5,844.8	88%	\$6,656.6	88%
Component Repair Services	\$357.0	10%	427.2	10%	513.4	11%	592.4	11%	726.2	12%	814.4	12%	931.4	12%
Total Revenue	\$3,479.9	100%	\$4,150.5	100%	\$4,563.3	100%	\$5,237.2	100%	\$5,901.8	100%	\$6,659.2	100%	\$7,588.0	100%
Adj EBITDA														
Engine Services	\$361.5	11.6%	\$447.7	12.0%	\$520.0	12.8%	\$610.9	13.2%	\$672.3	13.0%	\$787.3	13.5%	\$939.4	14.1%
Component Repair Services	77.4	21.7%	96.7	22.6%	124.6	24.3%	154.7	26.1%	197.0	27.1%	222.9	27.4%	260.5	28.0%
Corporate / Public Company Costs	(58.4)		(68.9)		(83.5)		(75.1)		(87.0)		(91.3)		(96.8)	
Adj EBITDA	\$380.4	10.9%	\$475.4	11.5%	\$561.1	12.3%	\$690.5	13.2%	\$782.3	13.3%	\$919.0	13.8%	\$1,103.1	14.5%
Revenue YoY % change														
Engine Services			19%		9%		15%		11%		13%		14%	
Component Repair Services			20%		20%		15%		23%		12%		14%	
Total Revenue			19%		10%		15%		13%		13%		14%	
Adj EBITDA YoY % Change														
Engine Services			24%		16%		17%		10%		17%		19%	
Component Repair Services			25%		29%		24%		27%		13%		17%	
Corporate / Public Company Costs			18%		21%		-10%		16%		5%		6%	
Adj EBITDA			25%		18%		23%		13%		17%		20%	
Incremental			14%		21%		19%		14%		18%		20%	

StandardAero (SARO): Annual Cash Flow Statement

Year Ending Dec.

(millions, except per share data)	2021	2022	2023	2024	2025E	2026E	2027E
Operating Activities							
Net Income	(\$31.0)	(\$21.0)	(\$35.1)	\$11.0	\$300.6	\$431.3	\$595.1
Depreciation & Amortization	196.4	195.2	197.1	187.1	195.9	194.6	194.6
Amortization of finance charts and discounts	15.1	16.2	15.3	11.9	13.0	13.0	11.7
Amortization of loss on derivative instruments	(2.5)	(2.0)	(1.4)	(0.3)	0.0	0.0	0.0
Deferred Taxes	(57.2)	(26.5)	(19.8)	(22.5)	(38.7)	(31.2)	(21.6)
Stock-based comp	0.0	0.0	0.0	17.4	10.0	10.0	10.0
FX loss	3.0	2.9	3.2	(1.4)	0.0	0.0	0.0
Other	2.9	6.4	7.9	17.3	0.0	0.0	0.0
OCF Before Working Capital	\$126.7	\$171.2	\$167.2	\$220.4	\$480.7	\$617.7	\$789.7
Changes in Working Capital	\$4.1	(\$144.0)	(\$99.3)	(\$144.1)	(\$192.8)	(\$135.2)	(\$157.4)
Accounts receivable, net	(108.9)	(181.7)	(111.4)	(150.6)	(97.6)	(71.3)	(50.1)
Inventories	(113.6)	(53.1)	(91.2)	(138.0)	(56.0)	(62.6)	(100.5)
Prepaid Expenses and Other Current Assets	29.1	(26.8)	26.3	5.2	(5.7)	(2.9)	(3.4)
Accounts P, Accrued Expenses, and Other Current Liabilities	97.6	95.1	(25.7)	104.4	(33.6)	1.6	(3.3)
Unearned revenue	82.5	4.4	137.4	43.2	0.0	0.0	0.0
Due to Related Parties	0.0	0.0	(0.3)	1.5	0.0	0.0	0.0
Income Taxes Payable and Receivable	17.2	18.1	(34.3)	(9.7)	0.0	0.0	0.0
Cash Flow from Operations	\$130.7	\$27.3	\$67.9	\$76.3	\$287.9	\$482.5	\$632.4
Investing Activities							
Capital expenditures	(\$65.7)	(\$44.2)	(\$85.3)	(\$123.2)	(\$123.9)	(\$126.5)	(\$117.6)
Cash paid for acquisitions	(232.5)	(19.9)	(31.1)	(114.1)	0.0	0.0	0.0
Proceeds from sale of assets	3.6	3.4	3.5	1.8	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow from Investing	(\$294.6)	(\$60.8)	(\$112.9)	(\$235.4)	(\$123.9)	(\$126.5)	(\$117.6)
Financing Activities							
Proceeds from issuance of LT debt	\$266.8	\$145.0	\$1,479.6	\$3,247.0	\$0.0	\$0.0	\$0.0
Repayment of LT debt	(31.5)	(170.8)	(1,491.4)	(4,236.8)	(155.0)	(315.0)	(450.0)
Deferred financing charges	(2.1)	0.0	(2.9)	(9.3)	0.0	0.0	0.0
IPO Proceeds and Other	0.0	0.0	0.0	1,202.8	0.0	0.0	0.0
Cash Flow from Financing	\$233.2	(\$25.8)	(\$14.7)	\$203.8	(\$155.0)	(\$315.0)	(\$450.0)
Effect of Foreign Exchange	(3.4)	(3.8)	(2.4)	(0.0)	0.0	0.0	0.0
Total Cash Flow	\$65.9	(\$63.1)	(\$62.1)	\$44.6	\$8.9	\$41.0	\$64.7
Cash at Beginning of Period	117.3	183.2	120.1	58.0	102.6	111.5	152.5
Cash at End of Period	\$183.2	\$120.1	\$58.0	\$102.6	\$111.5	\$152.5	\$217.2

StandardAero (SARO): Annual Balance Sheet

Year Ending Dec.

(millions, except per share data)	2021	2022	2023	2024	2025E	2026E	2027E
Assets							
Cash and Cash Equivalents	\$183.2	\$120.1	\$58.0	\$102.6	\$111.5	\$152.5	\$217.2
Accounts Receivable, Net	995.5	1,205.9	1,328.7	1,495.9	1,593.5	1,664.8	1,714.9
Inventories	574.3	605.0	698.8	847.0	903.0	965.6	1,066.1
Prepaid Expenses & Other Current Assets	29.0	68.9	39.1	29.7	35.4	38.3	41.7
Advance to Related Parties	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Income Tax Receivable	16.0	11.1	11.0	10.0	10.0	10.0	10.0
Total Current Assets	\$1,798.0	\$2,010.9	\$2,135.8	\$2,485.1	\$2,653.3	\$2,831.1	\$3,050.0
PP&E	\$574.7	\$536.8	\$522.2	\$568.6	\$627.6	\$680.9	\$715.0
Operating Lease and Right of Use Assets, Net	185.2	172.8	168.5	172.2	172.2	172.2	172.2
Goodwill and Other Intangibles, Net	3,098.2	3,001.6	2,928.2	2,982.2	2,838.2	2,703.8	2,581.1
Other Non-Current Assets	34.0	2.4	0.0	4.4	4.4	4.4	4.4
Deferred Income Tax Assets	2.5	4.0	4.7	1.1	1.1	1.1	1.1
Total Assets	\$5,692.7	\$5,728.6	\$5,759.4	\$6,213.6	\$6,296.9	\$6,393.6	\$6,523.8
Liabilities							
Accounts payable	\$415.9	\$503.7	\$468.6	\$645.7	\$590.2	\$566.0	\$531.2
Accrued expenses and other current liabilities	164.1	174.1	192.1	178.7	200.7	226.4	258.0
Operating lease liabilities, current	14.9	15.3	17.0	17.7	17.7	17.7	17.7
Due to related parties	0.0	0.0	0.0	1.3	1.3	1.3	1.3
Unearned revenue	205.7	210.1	355.7	400.0	400.0	400.0	400.0
Income taxes payable, current	27.1	41.3	9.3	6.7	6.7	6.7	6.7
Long-term debt, current portion	24.3	24.3	26.7	23.4	23.4	23.4	23.4
Total Current Liabilities	\$852.0	\$968.8	\$1,069.4	\$1,273.5	\$1,240.0	\$1,241.6	\$1,238.3
PPE	\$3,172.8	\$3,164.0	\$3,172.1	\$2,208.0	\$2,053.0	\$1,738.0	\$1,288.0
Operating lease right of use asset, net	175.7	164.0	159.5	164.2	164.2	164.2	164.2
Goodwill and other intangibles, net	234.1	209.4	182.3	169.8	131.1	99.9	78.3
Other non-current assets	5.6	5.6	3.1	0.0	0.0	0.0	0.0
Deferred income tax assets	30.9	17.8	26.2	24.6	24.6	24.6	24.6
Total Liabilities	\$4,471.1	\$4,529.6	\$4,612.7	\$3,840.2	\$3,612.9	\$3,268.3	\$2,793.4
Total Equity	\$1,221.5	\$1,199.0	\$1,146.7	\$2,373.4	\$2,684.0	\$3,125.3	\$3,730.4
Total Liabilities and Equity	\$5,692.7	\$5,728.6	\$5,759.4	\$6,213.6	\$6,296.9	\$6,393.6	\$6,523.8

TransDigm Group (TDG) – Buy \$1,600 PT

1) 7% Organic Growth in FH1 Supports 8% for FY25 (Sept YE)

2) Still Driving Double Digit Aftermarket Growth

3) Comm'l OE to Improve +3% in FY25E (from +5% prior) vs -2% in FH1

4) Refinancing \$2.65BB of 2027 Notes, Pushing the Nearest Maturity to 2028

Related Notes:

- [Don't Let H2 Conservatism Mask Interior Aftermarket Engine](#) *May 11, 2025*
- [Freight Comps AM Down at the Interior, But Don't Yank the AM Trade Yet](#) *February 9, 2025*
- [Aftermarket Still Red Hot, But The Multiples Want To Go Blue](#) *November 10, 2024*

TransDigm Group (TDG): 8% Organic Growth in FY25E Driven by Commercial AM Up 11% and Defense +10%

TDG Revenue Build - Commercial AM Leads Growth Up 11% in FY25 On Our Estimates, Followed by 10% Defense Growth (MM, unless otherwise stated)

Revenue YoY % Change	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY25 Guidance
Commercial OEM	-25%	24%	24%	20%	3%	13%	6%	7%	Up LSD-MSD
Commercial AM	-18%	43%	31%	12%	11%	8%	8%	8%	Up HSD-LDD
Defense	5%	-3%	11%	19%	10%	5%	5%	5%	Up HSD-LDD
Total Pro-Forma Growth	-7%	15%	18%	16%	8%	8%	6%	6%	
Total Divestitures	0%	0%	0%	0%	0%	0%	0%	0%	
Total M&A	1%	-1%	3%	4%	3%	0%	0%	0%	
Revenue % Split									
Commercial OEM	25%	27%	27%	28%	26%	27%	27%	27%	
Commercial AM	25%	31%	35%	32%	33%	33%	33%	34%	
Defense	50%	42%	38%	40%	41%	40%	39%	39%	
Total	100%	100%	100%	100%	100%	100%	100%	100%	
MAX Production Rate (per Month)			25	23	25	41	46	48	
B787 Production Rate (per Month)			3	4	6	8	10	11	

- On a PF organic basis, revenues are expected to grow 7-9% in FY25 following 8% organic growth in FY24 and 7% in FH1 including 7% in FQ2.
- Management's revenue outlook was unchanged, but end markets were tweaked with Commercial OE slightly weaker now +LSD-MSD (vs. +MSD before) and flat YTD, while Defense was slightly better at +HSD-LDD from +HSD prior and tracking at 9% YTD. The outlook for Commercial Aftermarket of +HSD-LDD was unchanged and is tracking up 11% YTD.
- Bookings for each end market improved sequentially. We expect FY25 organic growth of 8%, led by Commercial AM up 11% (guidance HSD-LDD) and Defense up 10% (guidance HSD-LDD), while we assume Commercial OE is up 3% (vs guidance of LSD-MSD).

Source: Company data and Jefferies estimates

TransDigm Group (TDG): Commercial AM Continues its DD Momentum +11% in FY25

FQ2 Aftermarket Growth Broad Across End Markets

PF % Change	FQ1:24	FQ2:24	FQ3:24	FQ4:24	FQ1:25	FQ2:25	FQ3:25E	FQ4:25E	2024	2025E
Passenger AM	36%	18%	18%	9%	9%	11%	6%	13%	18%	10%
Interiors AM	3%	2%	2%	3%	6%	15%	5%	12%	2%	9%
Freight AM	0%	-15%	-8%	1%	2%	14%	14%	14%	-5%	11%
BGA AM	3%	-5%	10%	13%	18%	23%	6%	10%	5%	14%
Total Commercial AM	22%	8%	11%	8%	9%	13%	7%	12%	11%	11%

- Commercial AM revenues rose 13% in FQ2:25 and are now up 11% in FH1, which compares to guidance of HSD-LDD for the year. On an absolute basis, AM volumes were up 3% sequentially. In the quarter, commercial transport (~80% of aftermarket portfolio) grew 11% (vs +7% in FQ1), while Biz Jet / Helicopter revenues (~20% of the aftermarket portfolio) grew 23% y-o-y (from +18% in FQ1).
- After 12% growth in the Aftermarket in FY24, the up HSD-LDD guidance is relatively steady vs. the +11% in FH1. Assuming Freight aftermarket sales improve 11% y-o-y in FY25, this implies passenger transport and Biz Jet / Helicopter aftermarket (~85% of the aftermarket portfolio) grows at an 10% and 14% rate to support our estimate of 11% growth. For 2025, we expect aftermarket revenues to be up 11% following 11% growth in FY24 and inline with the 11% growth FYTD (+13% in Q1).

Source: Company data and Jefferies estimates

TransDigm Group (TDG): Commercial OE to Up 3% in FY25 with Commercial Transport Recovery As Expected; Some Heli Overhang

Commercial OE Revenue Build - 2025 Expected Up 3% Following 20% Growth in FY24 (MM, unless otherwise stated)

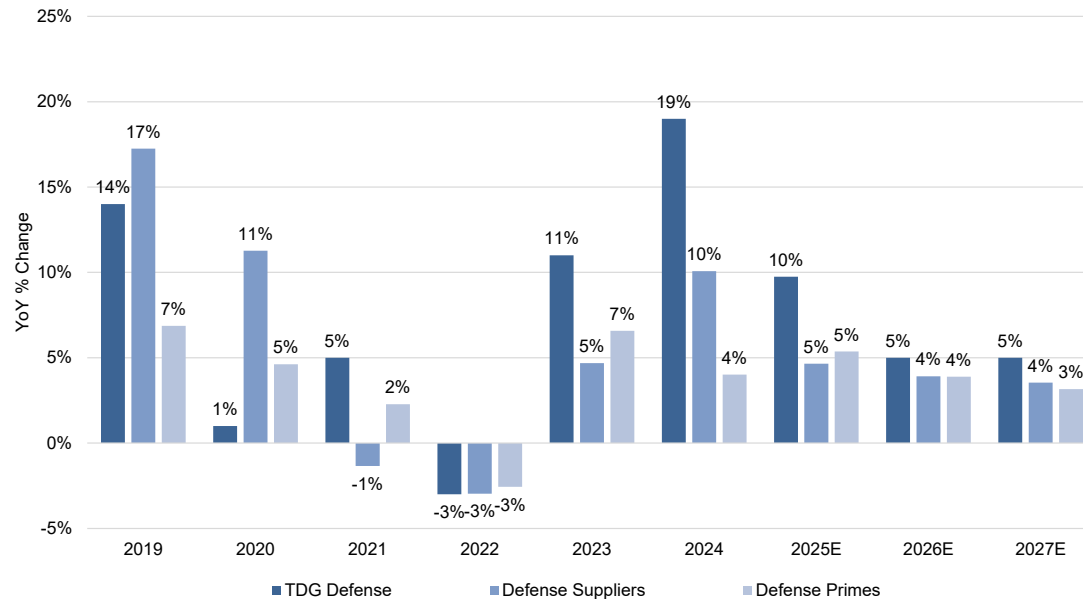
Commercial OE Build	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
B737	578	594	141	191	281	301	275	300	495	546
A320	625	642	515	496	530	579	610	653	722	780
B777	46	45	30	24	24	24	26	30	36	38
A330/340	44	53	35	24	32	32	32	37	39	44
B787	145	158	100	39	20	36	51	71	92	117
A350	93	112	84	52	63	62	57	60	74	89
A380	12	8	5	0	0	0	0	0	0	0
B747	6	7	6	7	5	1	0	0	0	0
B757/767	17	43	35	31	36	32	26	28	36	18
CRJ & CSeries	33	48	50	43	60	64	73	87	98	119
Gulfstream	121	147	135	121	120	113	130	147	169	183
Total Production	1,720	1,857	1,136	1,027	1,170	1,245	1,280	1,413	1,760	1,932
ASP (\$Ks)										
B737	\$275	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350
A320	\$538	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350
B777	\$760	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750
A330/340	\$760	\$800	\$800	\$800	\$800	\$800	\$800	\$800	\$800	\$800
B787	\$760	\$1,300	\$1,300	\$1,300	\$1,300	\$1,300	\$1,300	\$1,300	\$1,300	\$1,300
A350	\$760	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500
A380	\$2,661	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000
B747	\$489	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000
B757/767	\$489	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750	\$1,750
CRJ & CSeries	\$760	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Gulfstream	\$760	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300
Revenue Per Platform (\$MMs)										
B737	\$159	\$208	\$49	\$67	\$98	\$105	\$96	\$105	\$173	\$191
A320	336	225	180	174	185	203	214	229	253	273
B777	35	79	53	42	42	42	46	53	63	67
A330/340	33	42	28	19	26	26	26	30	31	35
B787	110	205	130	51	26	47	66	92	119	151
A350	71	56	42	26	31	31	29	30	37	44
A380	32	48	30	0	0	0	0	0	0	0
B747	3	42	36	42	30	6	0	0	0	0
B757/767	8	75	61	54	63	56	46	49	63	32
CRJ & CSeries	25	48	50	43	60	64	73	87	98	119
Gulfstream	92	44	41	36	36	34	39	44	51	55
Other	103	450	706	565	731	1,037	1,487	1,400	1,450	1,450
Total Commercial OE Sales	\$1,007	\$1,522	\$1,406	\$1,118	\$1,328	\$1,651	\$2,120	\$2,117	\$2,337	\$2,416
Organic % Change	1%	11%	-23%	-25%	24%	24%	20%	3%	13%	6%

- Commercial OE business was flat in Q2, some improvement from Q1 and now down 2% FYTD. In the quarter commercial transport volumes fell 2% with biz jet/helicopter sales up 4%.
- Bookings were up sequentially, but were slightly down y-o-y with softness driven by the biz jet and helicopter sub markets. This was behind the slightly lower outlook, with management now guiding to LSD-MSD y-o-y growth in FY25 vs. MSD growth expectations prior.
- We expect Commercial OE volumes are up 3% in 2025E following 20% organic growth in FY24. On the 737, we estimate ~300 shipsets in FY24 (~25/mo), up 9% y-o-y, while we estimate 71 787 shipsets (~6/mo), up 39% from 51 in FY24 (~4/mo). Airbus continues to be a driver of OE growth with the A320neo expected to rise from 53/mo in FY24 to 57/mo in FY25 and continued movement upward on the A350.

Source: Company data and Jefferies estimates

TransDigm Group (TDG): Defense Expected Up HSD-LDD in FY25 After +10% FH1

Defense Sales +9% in FQ2 vs. Suppliers Average +8% in the March Quarter

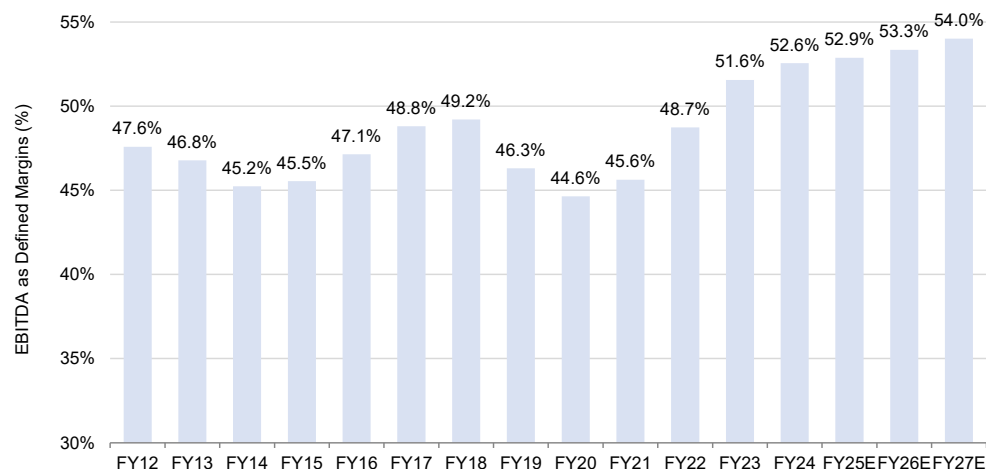


- In FQ2, the Defense business was up 9% y-o-y (+10% H1) following 19% growth in FY24 with OEM growth ahead of AM. This compares to the average supplier up 8% in calendar Q1 (TDG FQ2). Guidance for FY25 growth was tweaked higher now +HSD-LDD, up from HSD prior, implying consistent growth for the year given tracking at up 10% in H1 and our full year estimate of 10%. Bookings are supportive of continued growth in the segment with contracts broad based at Airborne Systems North America, Armtec, Calspan, Chelton Limited along with Korry Electronics.
- The company notes revenue growth was broad-based across the defense businesses in the quarter with OE tracking slightly ahead of AM. The outlook is supported by good bookings in the Q across the entire defense business with defense bookings for both the quarter and YTD significantly outpacing sales. The company did not see any business area that was notably stronger than others.

Source: Company data and Jefferies estimates

TransDigm Group (TDG): EBITDA as Defined Margins Tracking Ahead of Guidance w/Mix and Conservatism Driving FH2 Lower

Adjusted EBITDA as Defined Margins to Expand 30 bps in FY25 on 56% Incrementals



- FQ2 EBITDA as Defined increased 14% y-o-y to \$1.16BB, or a margin of 54.0%, expanding 80 bps y-o-y, driven by favorable commercial aftermarket volumes, as well as operational efficiency. Excluding the impact of SEI, Raptor, Calspan, and CPI EDB, EBITDA as Defined margins were 55.3%, or 130 bps of M&A dilution for the quarter.
- For FY25, guidance was reaffirmed at \$4.615-4.755BB of EBITDA as Defined, with margins of ~52.9% at the midpt. Our estimate of 52.9% EBITDA as Defined in FY25 is up 30 bps y-o-y from 52.6% in FY24, but implies some step down from FQ2 (54.0%, 53.5% in H1) through the remainder of the year due to the expected increase in Commercial OEM mix. This includes an expected ~70 bps dilutive impact from CPI EDB (June 6), SEI (May 22), and Raptor (Jul 31) to FY25 relative to FY24, or ~30 bps of core margin expansion supported by mix and productivity initiatives.

Source: Company data and Jefferies estimates

TransDigm Group (TDG): EBITDA as Defined Margins Tracking Ahead of Guidance w/Mix and Conservatism Driving FH2 Lower

EBITDA as Defined Bridge - Volume Incrementals of 64% in FY25 Above FY24 Average (MM, unless otherwise stated)

	FQ1:25	FQ2:25	FQ3:25E	FQ4:25E	FY22	FY23	FY24	FY25E	FY26E	FY27E
Starting EBITDA as Defined	\$912	\$1,021	\$1,091	\$1,148	\$2,189	\$2,646	\$3,395	\$4,173	\$4,680	\$5,100
Commercial OE Organic	(3)	(9)	0	10	40	93	118	(1)	90	33
Commercial AM Organic	1	43	23	109	341	304	148	177	93	100
Defense Organic	57	44	50	(66)	(61)	18	175	85	27	28
Non-Aviation	(5)	0	(2)	1	3	6	10	(6)	2	1
Price	70	34	48	20	213	299	247	163	208	225
M&A	36	27	26	0	18	48	97	89	0	0
FX	0	0	0	0	0	0	0	0	0	0
Productivity/Other	0	0	0	0	(70)	0	0	0	0	0
Other	(7)	1	(3)	0	0	(19)	(16)	0	0	0
Non-segment expenses	(0)	0	4	(2)	(27)	(0)	(0)	0	0	0
End EBITDA as Defined	\$1,061	\$1,162	\$1,237	\$1,220	\$2,646	\$3,395	\$4,173	\$4,680	\$5,100	\$5,487
<i>Reported Margin</i>	52.9%	54.0%	53.0%	51.7%	48.7%	51.6%	52.6%	52.9%	53.3%	54.0%
<i>Acquisition Margin</i>	36.4%	27.3%	33.3%	0.0%	23.7%	28.1%	33.7%	32.0%	30.0%	30.0%
<i>Divestiture Margin</i>	0.0%	0.0%	0.0%	0.0%	20.8%	0.0%	0.0%	0.0%	0.0%	0.0%
<i>'Core' TDG Margin</i>	53.8%	55.3%	53.5%	51.8%	48.4%	52.2%	53.3%	53.6%	53.3%	54.0%
Volume Incremental Margin	43%	60%	34%	31%	102%	75%	58%	64%	47%	51%
Commercial OE Incremental	13%	122%	20%	44%	18%	35%	42%	38%	38%	38%
Commercial AM Incremental	-9%	65%	90%	92%	57%	59%	84%	88%	65%	65%
Defense Incremental	80%	38%	71%	275%	26%	29%	40%	37%	38%	38%

Acquisitions 70 bps dilutive to both FY24 and FY25E.

Incremental of 64% in FY25 in line with FY22-23 avg.

- In FQ2 the company had volume incrementals of 60% on our estimate with M&A contributing an average margin of 27.3%, down from 36.4% in FQ1 likely reflecting seasonality of the assets.
- The inflationary environment has facilitated pricing for TDG, and the company has been able to pass along any increase in material costs. The mix within cost of goods sold is ~35% labor, ~50% raw materials, and ~15% other. Mgmt said it has been successful in capturing real pricing above inflation. We have assumed \$163MM of net price in 2025, a potential source of upside given the estimated \$247MM captured in 2024 on our estimates. This is reflective of moderating inflation. Tariffs are not expected to be a major headwind or impact to Transdigm given mix and the more localized manufacturing base which also means likely limited incremental pricing power to offset higher costs.
- FY24 margin guidance of ~52.9% implies 30 bps of margin expansion from 52.6% in FY24. We factor in margins of 52.9%, or core margins ex-M&A of 53.6% reflecting the ~70 bps headwind from the three acquisitions that closed in May, June, and July. On a full year basis, the assets are expected to be ~70 bps dilutive to FY25E with 1 quarter contribution to FY24 from the majority.

Source: Company data and Jefferies estimates

TransDigm Group (TDG): FH1 FCF as Defined of \$1.1BB Tracking Toward Full Year at \$2.3BB

FCF as Defined Benefiting from Stronger Volumes with Deployment Optionality (MM, unless otherwise stated)

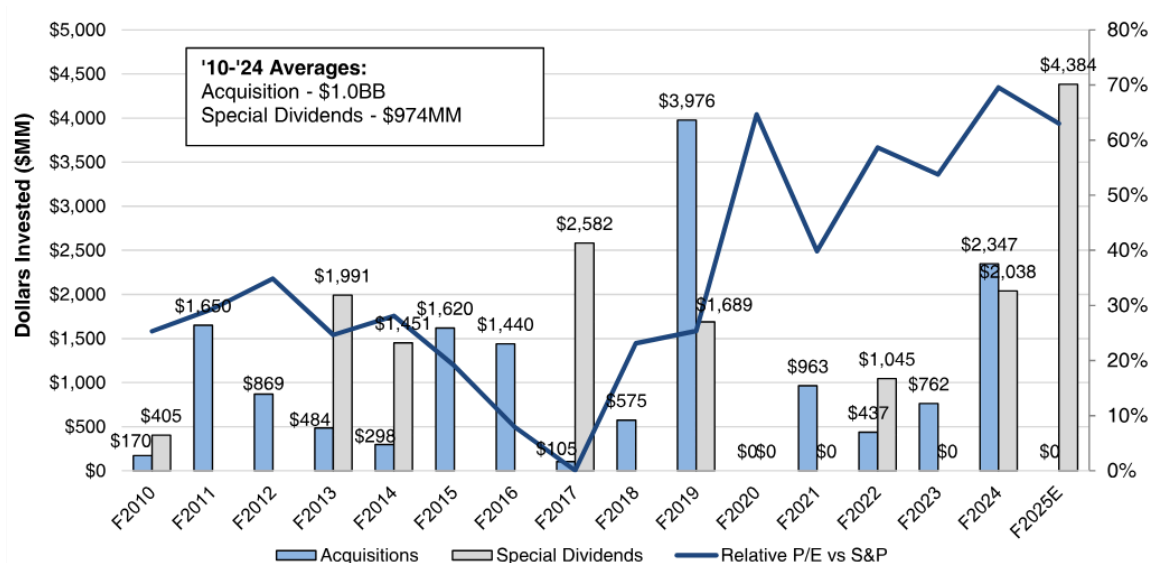
	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
EBITDA as Defined	\$1,876	\$2,419	\$2,278	\$2,189	\$2,646	\$3,395	\$4,173	\$4,680	\$5,100	\$5,487
Cash tax	(141)	(317)	(275)	(180)	(220)	(260)	(400)	(621)	(780)	(916)
Interest	(663)	(860)	(1,029)	(1,059)	(1,057)	(1,160)	(1,286)	(1,530)	(1,342)	(1,168)
Capex	(73)	(103)	(105)	(105)	(119)	(139)	(165)	(266)	(263)	(264)
FCF as Defined	\$998	\$1,139	\$1,108	\$845	\$1,250	\$1,836	\$2,322	\$2,263	\$2,714	\$3,139
Working Capital	(51)	(214)	239	36	(271)	(521)	(393)	(75)	(242)	(203)
Debt Issued	605	500	3,072	2,132	0	9,742	6,400	0	0	0
Debt Paydown	0	3,353	0	(2,257)	(277)	(9,915)	(1,565)	(488)	(3,845)	(2,832)
Cash Dividends Paid	(56)	(1,712)	(1,928)	(73)	(1,091)	(38)	(2,038)	(4,384)	0	0
Proceeds from Sale of Assets	57	189	904	254	3	1	71	0	0	0
Acquisitions	(668)	(3,976)	0	(963)	(437)	(762)	(2,347)	0	0	0
Share Repurchases / ▲ in Capital Stock	0	82	97	128	(912)	215	245	(316)	0	0
Total Deployment	(\$112)	(\$1,860)	\$2,287	(\$871)	(\$2,073)	(\$1,493)	\$128	(\$4,947)	(\$4,087)	(\$3,035)
FCF / Revenue	26%	22%	17%	18%	23%	28%	29%	26%	28%	31%
FCF / EBITDA as Defined	53%	47%	38%	39%	47%	54%	56%	48%	53%	57%
FCF / Adj Net Income	101%	111%	105%	119%	125%	124%	118%	105%	103%	103%
FCF / share	\$17.96	\$20.25	\$15.17	\$14.49	\$21.48	\$32.10	\$40.15	\$38.92	\$46.21	\$52.89
FCF yield	5%	4%	3%	2%	4%	4%	3%	3%	3%	4%
Cash / share	\$37.29	\$26.08	\$82.32	\$82.04	\$51.56	\$60.70	\$108.25	\$54.60	\$29.04	\$28.85

- FQ2 Free cash flow as defined (EBITDA less cash interest payments, Capex and cash taxes) was ~\$340MM, with the slightly lower generation tied to the timing of interest and cash tax payments as FCF fell from the >\$800MM generated in Q1. FH1 FCF as Defined of \$1.14BB is roughly half of the full year guidance of \$2.3BB for the year.
- For the full year, TDG continues to forecast \$2.3BB for FY25. Below the line, TransDigm consumed \$190MM of working capital in FQ2 tied to AR to support higher FQ2 shipments and higher inventory to support FH2 shipments. For the year, TDG expects working capital to be roughly inline with historical levels as a % of sales. FCF includes an expected \$255-285MM of capex for the year.

Source: Company data and Jefferies estimates

TransDigm Group (TDG): Capital Deployment Capacity Despite Pending Acquisition

Announced Capital Deployment in FY25E Includes the Largest Ever Special Dividend



- Historically, TDG shares have been rewarded for capital deployment. The company paid a \$4.4BB special dividend (\$75/sh) in October, which was the largest ever, with no M&A announced to date. The company notes that the pipeline remains as active as it was 6 months ago despite the lack of transaction announcements.

Source: Company data and Jefferies estimates

TransDigm Group (TDG): Capital Deployment Capacity Despite Pending Acquisition

Debt Profile Debt Profile - TDG to End FY25 with Net Debt-to-EBITDA as Defined of 4.6X (MM, unless otherwise stated)

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Cash	\$2,073	\$1,467	\$4,717	\$4,787	\$3,001	\$3,472	\$6,261	\$3,168	\$1,667	\$2,050
R/C	0	0	200	200	0	0	0	0	0	0
\$650m AR securitization facility	300	350	350	350	350	350	488	0	0	0
First lien term loan E due 2025 (L + 2.25%)	2,244	2,221	2,199	2,177	2,155	0	0	0	0	0
First lien term loan F due 2025 (L + 2.25%)	3,560	3,524	3,489	3,454	3,418	0	0	0	0	0
First lien term loan I due 2028 (SOFR + 2.75%)	0	0	0	0	0	0	271	671	419	425
First lien term loan J due 2031 (SOFR + 3.25%)	0	0	0	0	0	0	1,732	1,332	0	0
First lien term loan K due 2030 (SOFR + 2.75%)	1,796	1,778	1,761	1,743	1,725	0	199	199	0	0
First lien term loan L due 2032 (SOFR + 2.5%)	0	0	0	0	0	0	1,500	1,500	1,500	0
Senior secured notes due 2026 (6.25%)	0	4,000	4,400	4,400	4,400	4,400	0	0	0	0
Senior secured notes due 2028 (6.75%)	0	0	1,100	1,100	1,100	2,100	2,100	2,100	2,100	2,100
Senior Secured Notes due 2029 (6.375%)	0	0	0	0	0	0	2,750	2,750	2,750	2,750
Senior secured notes due 2030 (6.875%)	0	0	0	0	0	1,450	1,450	1,450	1,450	1,450
Senior secured notes due 2031 (7.125%)	0	0	0	0	0	0	1,000	1,000	1,000	1,000
Senior Secured Notes due 2032 (6.625%)	0	0	0	0	0	0	2,200	2,200	2,200	2,200
Senior Secured Notes due 2033 (6.0%)	0	0	0	0	0	0	1,500	1,500	1,500	1,500
SWAPS 6.35% due June 2024	0	0	0	0	0	900	0	0	0	0
SWAPS 6.25% due March 2025	0	0	0	0	0	500	500	500	0	0
SWAPS 6.35% due March 2025	0	0	0	0	0	1,500	1,500	1,500	0	0
SWAPS 4.55% due Sept 2025	0	0	0	0	0	700	700	700	0	0
Interest rate cap due Sept 2025	0	0	0	0	0	700	700	700	0	0
Interest rate collar due Sept 2026	0	0	0	0	0	1,600	1,600	1,600	1,600	1,600
Interest rate collar Sept 25 to Sept 2027	0	0	0	0	0	0	0	0	1,338	425
Total Senior Secured Debt	\$7,900	\$11,873	\$13,499	\$13,424	\$13,148	\$14,200	\$20,190	\$19,702	\$15,857	\$13,450
Senior sub notes due 2029 (4.625%)	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Senior sub notes due 2029 (4.875%)	750	750	750	750	750	750	750	750	750	750
Senior sub notes due 2026 (6.375%)	950	950	950	950	950	0	0	0	0	0
Senior sub notes due 2026 (6.875%)	500	500	500	500	500	0	0	0	0	0
Senior sub notes due 2033 (6.375%)	0	0	2,650	2,650	2,650	2,650	2,650	2,650	2,650	2,650
Senior sub notes due 2027 (7.50%)	0	550	550	550	550	550	0	0	0	0
Capital Lease Obligation (Gross)	0	50	57	100	146	214	262	262	262	262
Total Debt	\$11,300	\$15,873	\$20,156	\$20,124	\$19,894	\$19,564	\$25,052	\$24,564	\$20,719	\$18,312
Interest Expense, net	\$663	\$860	\$1,029	\$1,059	\$1,076	\$1,164	\$1,286	\$1,539	\$1,384	\$1,232
Interest Income	(\$1)	(\$1)	(\$1)	(\$1)	(\$13)	(\$90)	(\$150)	(\$92)	(\$55)	(\$38)
Interest Rate	6.2%	6.2%	5.4%	5.3%	5.0%	5.7%	6.3%	6.1%	6.0%	6.0%
Change in Debt	\$1,931	\$4,198	\$4,283	(\$32)	(\$230)	(\$45)	\$5,203	(\$488)	(\$3,845)	(\$2,407)
Ratios	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Debt / EBITDA as Defined	4.9x	5.8x	6.8x	7.0x	6.4x	4.8x	4.5x	4.6x	3.7x	3.0x
Debt / EBITDA as Defined	6.0x	6.4x	8.6x	8.9x	7.3x	5.7x	5.9x	5.1x	3.9x	3.2x

- TDG is comfortable with a high level of net leverage, prioritizing capital deployment to accretive M&A, repurchases, and dividends. Net interest is expected to be \$1.54BB in FY25, including \$80MM of interest income (from \$150MM in FY24 on a lower SOFR rate and cash balance post divi), compared to \$1.29BB in FY24. Our estimate had previously pointed to \$1.53BB of net income with net interest income ahead of guidance, but we now assume \$1.54BB, given higher interest expense after the refinancing. The weighted average interest rate is 6.2% post-refi, with ~75% of TDG's \$25BB of gross debt hedged/fixed-rate through FY27. The company assumes an average SOFR rate of 4.4% this year..

- We assume the cash balance ends 2027E at \$1.2BB, with excess cash allocated to debt paydown in our model, which leaves limited interest income at \$38MM, based on an estimated 2.2% interest rate on cash in FY27.

Source: Company data and Jefferies estimates

TransDigm Group (TDG): Relative Valuation to History and Market

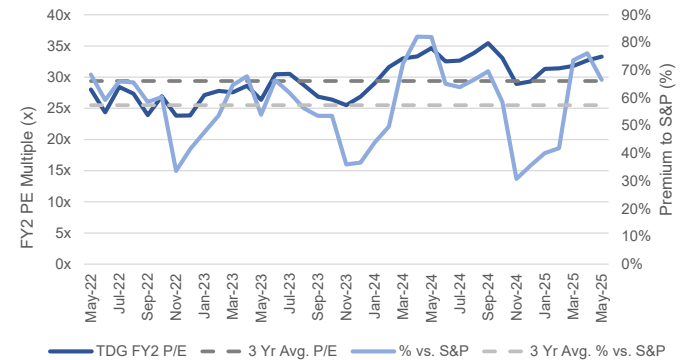
Relative Valuation

Ticker	TDG
Current P/E	33.3x
3 Yr Avg. P/E	29.4x
Current / 3 Yr Avg.	13%
Prem / Discr SP	67%
3 Yr Prem / Discr SP	57%
S&P500 Multiple	20.0x
Current EV/EBITDA	20.2x
3 Yr Avg. EV/EBITDA	17.7x
Current / 3 Yr Avg.	14%
Prem / Discr SP	46%
3 Yr Prem / Discr SP	37%
S&P500 Multiple	13.8x
Current FCF Yield	3.1%
3 Yr Avg. FCF Yield	3.5%
Current / 3 Yr Avg.	13%
Prem / Discr SP	35%
3 Yr Prem / Discr SP	33%
S&P500 Multiple	4.2%

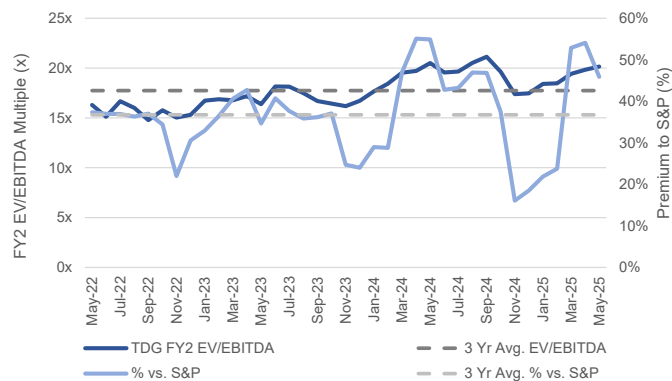
Price Target Derivation

Method	Price	Assumptions
EV/EBITDA	\$1,442	20.6X FY26 EBITDA of \$5.1BB
P/E	\$1,475	33.2X FY26 EPS of \$44.40
FCF Yield	\$1,882	2.5% FY26 FCF Yield
Average	\$1,600	Blended average

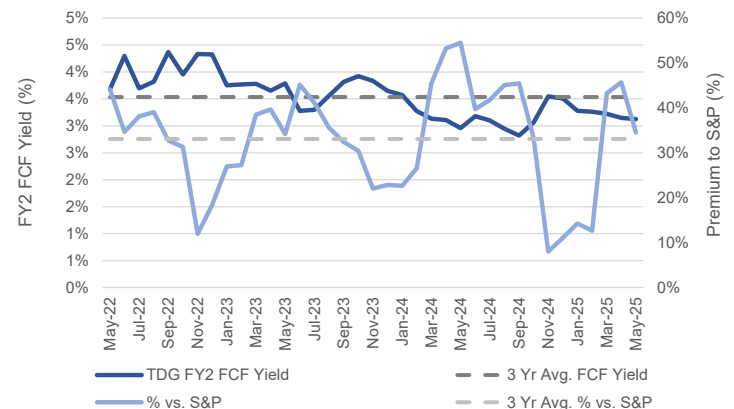
FY2 P/E: 67% Premium to Market vs. 57% Premium Historically



FY2 EV/EBITDA: 46% Premium to Market vs. 37% Premium Historically



FY2 FCF Yield: 35% Premium to Market vs. 33% Premium Historically



Source: Company data, FactSet and Jefferies estimates

TransDigm Group (TDG): Income Statement

Year Ending Sept.

(millions, except per share data)	2019		2020		2021		2022		2023		2024		2025E		2026E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$5,223.2	100.0	\$5,103.0	100.0	\$4,798.0	100.0	\$5,429.0	100.0	\$6,585.0	100.0	\$7,940.0	100.0	\$8,850.0	100.0	\$9,560.3	100.0
Costs and expenses																
Costs of Sales	2,413.9	46.2%	2,456.0	48.1%	2,285.0	47.6%	2,330.0	42.9%	2,743.0	41.7%	3,268.0	41.2%	3,439.8	38.9%	3,627.5	37.9%
Selling, General & Administrative	748.8	14.3	727.0	14.2	685.0	14.3	748.0	13.8	780.0	11.8	980.0	12.3	1,106.3	12.5	1,195.0	12.5
R&D (included within SG&A)	116.8	2.2	130.9	2.6	105.6	2.2	94.9	1.7	105.0	1.6	107.0	1.3	115.1	1.3	124.3	1.3
Amortization of Intangible Assets	135.0	2.6	169.0	3.3	137.0	2.9	136.0	2.5	139.0	2.1	161.0	2.0	196.0	2.2	179.0	1.9
Total Operating Costs	\$3,297.7	63%	\$3,352.0	66%	\$3,107.0	65%	\$3,214.0	59%	\$3,662.0	56%	\$4,409.0	56%	\$4,742.0	54%	\$5,001.5	52%
GAAP EBIT	\$1,925.5	36.9%	\$1,751.0	34.3%	\$1,691.0	35.2%	\$2,215.0	40.8%	\$2,923.0	44.4%	\$3,531.0	44.5%	\$4,108.0	46.4%	\$4,558.8	47.7%
Other (expense) income	0.9		(46.0)		(120.0)		11.0		(13.0)		(28.0)		(32.0)		0.0	
Refinancing Costs	3.0		28.0		37.0		1.0		56.0		58.0		0.0		0.0	
Total Interest	(859.8)		(1,029.0)		(1,059.0)		(1,076.0)		(1,164.0)		(1,286.0)		(1,538.8)		(1,384.0)	
Income before taxes	\$1,069.7		\$704.0		\$549.0		\$1,151.0		\$1,802.0		\$2,275.0		\$2,537.2		\$3,174.8	
GAAP Taxes (rate %)	(222.0)	20.8%	(86.5)	12.3%	(34.0)	6.2%	(261.0)	22.7%	(417.0)	23.1%	(500.0)	22.0%	(598.3)	23.6%	(730.2)	23.0%
Net Income, continuing ops	\$839.9		\$653.5		\$681.0		\$866.0		\$1,299.0		\$1,715.0		\$2,002.9		\$2,444.6	
Non-controlling interests / Other	(112.6)		(186.9)		(73.5)		(86.0)		(39.0)		(234.0)		(35.0)		(35.0)	
Net Income	\$727.3	13.9%	\$466.7	9.1%	\$607.5	12.7%	\$780.0	14.4%	\$1,260.0	19.1%	\$1,481.0	18.7%	\$1,967.9	22.2%	\$2,409.6	25.2%
Diluted shares (millions)	56.3		57.3		58.4		58.2		57.2		57.8		58.2		58.8	
GAAP EPS	\$12.93		\$8.96		\$10.41		\$13.40		\$22.03		\$25.62		\$33.84		\$41.01	
Adjustments																
Segment EBITDA as Defined	\$2,419		\$2,278		\$2,189		\$2,646		\$3,395		\$4,173		\$4,680		\$5,100	
D&A	226		283		253		253		268		312		380		351	
NON-GAAP EBIT	2,193		1,995		1,936		2,393		3,127		3,861		4,300		4,749	
Interest	(860)		(1,029)		(1,059)		(1,076)		(1,164)		(1,286)		(1,539)		(1,384)	
NON-GAAP Pre-Tax Profit	1,333		966		877		1,317		1,963		2,575		2,761		3,365	
GAAP Tax	(222)		(87)		(34)		(261)		(417)		(500)		(598)		(730)	
Tax Adjustment	(112)		(93)		(146)		(65)		(73)		(122)		(17)		(26)	
Total Non GAAP Tax	(334)		(180)		(180)		(326)		(490)		(622)		(616)		(756)	
Minority	0		1		0		0		4		13		0		0	
Other	29		42		11		7		0		0		0		0	
Adjusted Net Income (calc)	1,028		829		708		998		1,477		1,966		2,145		2,608	
Adjusted EPS (calc)	\$18.27		\$14.46		\$12.13		\$17.14		\$25.84		\$33.99		\$36.90		\$44.40	

Source: Company data and Jefferies estimates

TransDigm Group (TDG): Cash Flow Statement

Year Ending Sept.

(millions, except per share data)	2019	2020	2021	2022	2023	2024	2025E	2026E
Operating Activities								
Net income	\$840	\$654	\$681	\$866	\$1,299	\$1,715	\$2,003	\$2,445
Depreciation & Amortization (excl. Amortization)	226	247	204	253	268	312	380	351
Op cash flow pre-working capital	\$1,066	\$901	\$885	\$1,119	\$1,567	\$2,027	\$2,383	\$2,796
Change in inventory	(427)	(50)	98	(147)	(284)	(260)	(27)	(153)
Change in receivables	(363)	348	(71)	(176)	(263)	(151)	(79)	(117)
Change in payables	103	(59)	9	52	26	18	31	28
Other items	637	74	(8)	100	329	411	53	53
Cash Flow from Operations	\$1,015	\$1,213	\$913	\$948	\$1,375	\$2,045	\$2,361	\$2,607
Investment activities								
Capital expenditures	(102)	(\$105)	(105)	(119)	(139)	(165)	(266)	(263)
Acquisition of businesses	(3,976)	\$904	(963)	(437)	(762)	(2,347)	0	0
Change in other LT liabilities	189	\$0	283	3	72	71	0	0
Cash Flow from Investments	(\$3,889)	\$799	(\$785)	(\$553)	(\$829)	(\$2,441)	(\$266)	(\$263)
Financing Activities								
Cash dividends paid	(1,712)	(\$1,928)	(73)	(1,091)	(38)	(2,038)	(4,384)	0
Issuance/Reduction of Debt, Net	3,853	\$3,072	(125)	(277)	(173)	4,835	(488)	(3,845)
Other funds	130	\$86	128	128	195	374	(316)	0
Cash Flow from Financing	\$2,271	\$1,230	(\$70)	(\$1,240)	(\$16)	\$3,171	(\$5,188)	(\$3,845)
Net change in cash items	(\$607)	\$3,242	\$58	(\$845)	\$530	\$2,775	(\$3,093)	(\$1,501)
Cash at the beginning of the period	2,072	\$1,466	4,717	4,787	3,001	3,531	6,306	3,213
Cash at the end of the period	\$1,466	\$4,717	\$4,787	\$3,001	\$3,531	\$6,306	\$3,213	\$1,712

Source: Company data and Jefferies estimates

Teledyne Technologies (TDY) – Buy \$555 PT

1) Hanging in There Despite Market Uncertainty and Choppiness

2) Putting a Finer Point on Tariffs Impact

3) Teledyne Still Has Defense in an Uncertain World

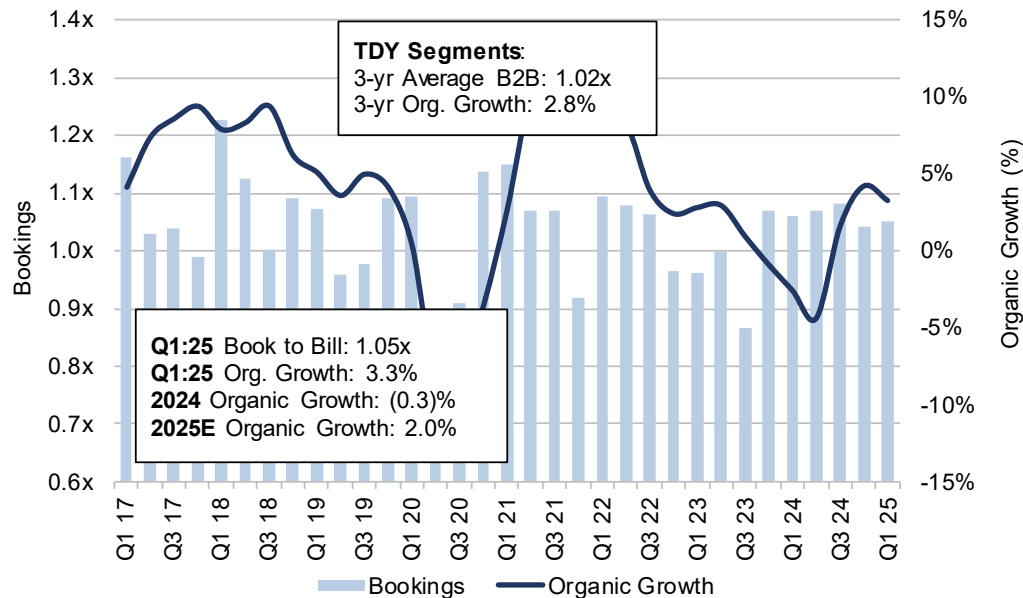
4) All Cap Deployment Levers Intact Into 2025

Related Notes:

- [Some Long Cycle Certainty in an Uncertain World](#) *April 27, 2025*
- [Getting Back Into the Groove](#) *January 26, 2025*
- [TDY Read-Throughs: Life Science Pressures, Healthcare Down, and China Stimulus](#) *November 10, 2024*

Teledyne (TDY): 2025 Organic Stay Positive, But Baking in Some Potential Softness

Teledyne Organic Growth vs Book-to-Bill - A More Muted Recovery Expected in 2025 Despite Potential Headwinds

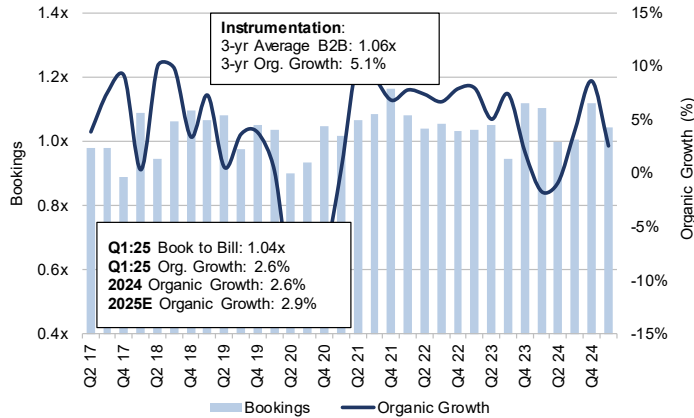


- Q1 exhibited positive organic growth for the third quarter in a row, with the 3.3% representing the lapping of tougher comps with the longer-cycle businesses continuing to support a higher growth tempo. There were notable improvements across T&M, A&D Electronics, and Engineered Systems while Marine exhibited ongoing growth off tougher comps (+6.5% off of +15.3% comp a year ago). Organic volumes increased 3.3% in Q1 (+7.4% total) off of a -2.6% comp a year ago.
- Our 2025 revenue estimate comes down slightly by 0.7 point, which implies 6.1% growth or closer to 2% on an organic basis. The opportunity for better performance likely represents the part of the portfolio that is short-cycle with the potential for normalization to come faster than expected, which would likely be additive to 2025. Given recent booking trends for A&D Electronics, FLIR Defense and Marine, there is more conviction in long-cycle.

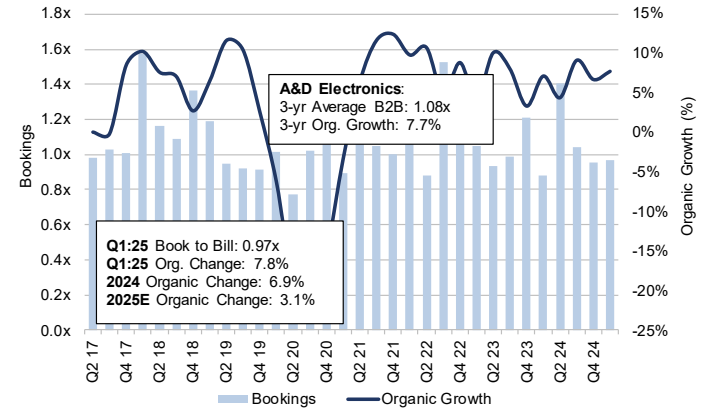
Source: Company data and Jefferies estimates

Teledyne (TDY): Organic Growth Stays Positive in 2025 Despite Market Choppiness

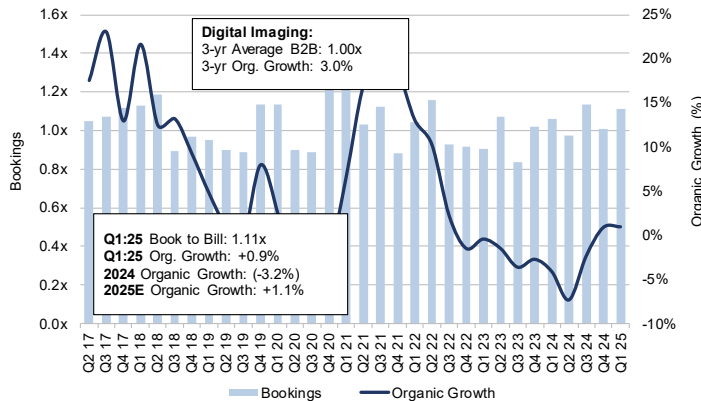
Marine Leads Instrumentation 2025 Organic Growth - 2.9% Organic Growth vs. 2.6% in 2024



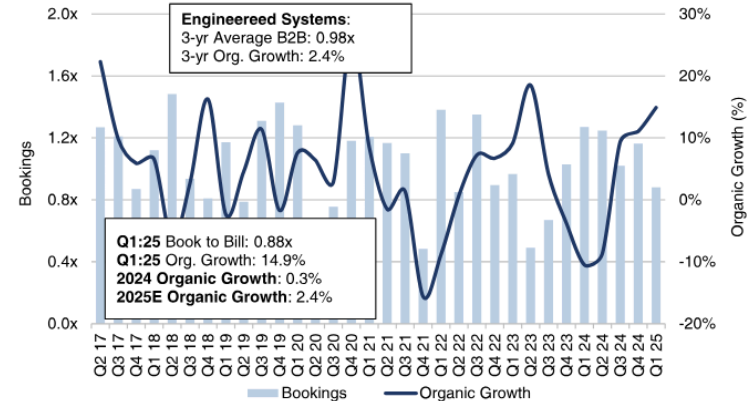
A&D Electronics - 2025 Outlook Driven by M&A + Defense



Digital Imaging Turns Positive in 2025, But Modest Recovery in Short Cycle



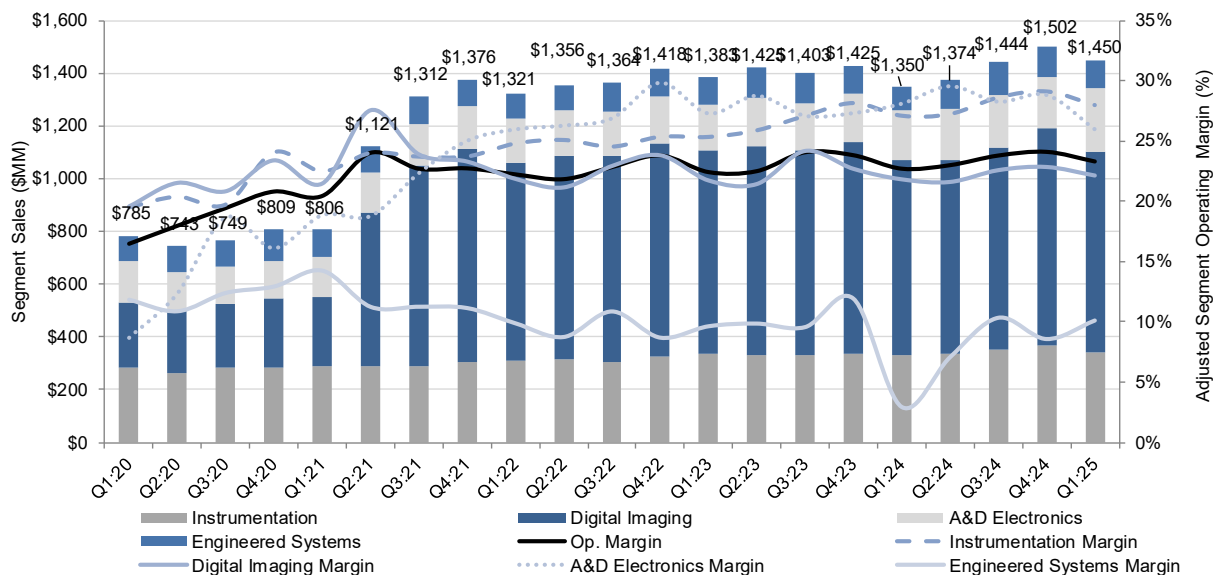
Engineered Systems - Organic Growth and Bookings



Source: Company data and Jefferies estimates

Teledyne (TDY): 2025 Organic Stay Positive, But Baking in Some Potential Softness

Adjusted Operating Margins +80 bps at 22.0% in Q1:25 On Easier ES Comps and Instrumentation Improvement



- Adjusted operating margins (post-corporate and excluding amortization) were up 80 bps year over year at 22.0% as a 60 bps expansion in segment margins was boosted by lower adj corporate.
- The increase was largely tied to Engineered Systems margins, which expanded 720 bps, while Instrumentation also enjoyed solid performance up 90 bps y-o-y. DI also advanced 30 bps. The one offset was A&D Electronics that declined 210 basis points with the dilution from recent M&A. The deal is accretive to TDY, but dilutive to segment margins.
- For 2025, we estimate adj segment operating margins of 23.7%, up 30 bps from 2024 and an acceleration from the 20 bps of expansion in 2024. The benefit comes from both op leverage and more beneficial mix, implying a ~31% incremental margin.

Source: Company data and Jefferies estimates

Teledyne (TDY): 2025 Organic Stay Positive, But Baking in Some Potential Softness

Annual Margins - Margin Expansion Opportunity of 150+ Bps to 2026 from the 2023 Base (MM, unless otherwise stated)

	2020	2021	2022	2023	2024	2025E	2026E
Instrumentation	\$1,094.5	\$1,166.9	\$1,254.0	\$1,326.2	\$1,382.6	\$1,426.8	\$1,486.9
Digital Imaging	986.0	2,412.9	3,110.9	3,144.1	3,070.8	3,127.1	3,278.9
Aerospace and Defense Electronics	589.4	628.7	682.4	726.5	776.8	1,014.0	1,070.0
Engineered Systems	416.3	405.8	411.3	438.7	439.8	450.2	463.7
Total Revenues	\$3,086.2	\$4,614.3	\$5,458.6	\$5,635.5	\$5,670.0	\$6,018.1	\$6,299.5
YoY % Change							
Instrumentation	-1%	7%	7%	6%	4%	3%	4%
Digital Imaging	-1%	145%	29%	1%	-2%	2%	5%
Aerospace and Defense Electronics	-15%	7%	9%	6%	7%	31%	6%
Engineered Systems	11%	-3%	1%	7%	0%	2%	3%
Total Revenue	-2%	50%	18%	3%	1%	6%	5%
Adjusted Operating Profit							
Instrumentation	\$233.0	\$273.8	\$312.5	\$352.5	\$387.2	\$400.9	\$418.6
Digital Imaging	210.9	586.3	699.0	707.9	683.2	711.5	790.6
Aerospace and Defense Electronics	81.7	134.0	184.9	200.4	222.5	271.3	297.8
Engineered Systems	50.1	48.6	39.2	44.7	32.9	45.0	45.9
Total Segment EBIT	\$575.7	\$1,042.7	\$1,235.6	\$1,305.5	\$1,325.8	\$1,428.7	\$1,553.0
Adjusted Operating Margin							
Instrumentation	21.3%	23.5%	24.9%	26.6%	28.0%	28.1%	28.2%
Digital Imaging	21.4%	24.3%	22.5%	22.5%	22.2%	22.8%	24.1%
Aerospace and Defense Electronics	13.9%	21.3%	27.1%	27.6%	28.6%	26.8%	27.8%
Engineered Systems	12.0%	12.0%	9.5%	10.2%	7.5%	10.0%	9.9%
Total Segment EBIT	18.7%	22.6%	22.6%	23.2%	23.4%	23.7%	24.7%

- Our 2025 estimates assume segment op income is up 9% on a 6% rise of sales, representing improved mix and productivity partially offset by a slower recovery of higher-margin short-cycle sales and some dilution from Qioptiq within the A&D Electronics segment.

Source: Company data and Jefferies estimates

Teledyne (TDY): Sustaining ~\$1BB/Annual FCF + Low Leverage Sets Up for Accretive Deployment

FCF Build - FCF to Net Income Conversion Stays Well Above 100% in the Outyears (\$MM)

	2020	2021	2022	2023	2024	2025E	2026E
Net Income	\$402	\$445	\$789	\$887	\$821	\$830	\$940
Depreciation and Amortization	116	372	332	316	310	317	321
NWC	99	(47)	(592)	(154)	82	(20)	(18)
Stock Comp/Deferred Taxes/Other	2	54	(43)	(213)	(21)	(5)	(5)
CFO	\$619	\$825	\$487	\$836	\$1,192	\$1,122	\$1,239
Capex	(71)	(102)	(93)	(115)	(84)	(138)	(145)
FCF	\$548	\$723	\$394	\$721	\$1,108	\$984	\$1,094
FCF per Share	\$14.47	\$16.32	\$8.26	\$15.06	\$23.28	\$20.79	\$23.03
Deployment							
Dividends	\$0	\$1	\$2	\$3	\$4	\$5	\$6
Share Repurchases	0	0	0	0	(354)	0	0
Debt Paydown	(101)	(1,142)	(175)	(554)	(601)	0	0
Debt Issuance	3	3,976	0	0	0	0	0
Acquisitions	(29)	(3,723)	(100)	(78)	(124)	(700)	0
Total Deployment	(\$127)	(\$888)	(\$272)	(\$629)	(\$1,074)	(\$695)	\$6
Discretionary FCF							
	\$447	(\$418)	\$221	\$170	\$512	\$989	\$1,100
Ratios							
FCF to Net Income Conversion	136%	162%	50%	81%	135%	119%	116%
FCF Yield (FCF / Mkt Cap.)	3.0%	3.6%	2.0%	3.6%	5.5%	4.9%	5.5%
FCF Change YoY	39%	32%	-45%	83%	54%	-11%	11%
Discretionary FCF Yield	2.4%	-2.1%	1.1%	0.8%	2.6%	4.9%	5.5%
Discretionary FCF % Change YoY	74%	-194%	-153%	-23%	200%	93%	11%

- TDY generated \$225MM of adj FCF in Q1:25 compared to \$275MM in Q1:24 a year ago on slightly higher working capital, while capex stepped up slightly to \$18MM (from \$15.9MM a year ago). Q1 FCF puts Teledyne on track for another ~\$1BB year coming off record full-year FCF of \$1,108MM in 2024. We estimate \$984MM of FCF in 2025, providing ample flexibility.
- Net debt stood at \$2.5BB with cash of \$462MM. Post the close of FLIR, near-term the focus had been on delevering from the 3.8X at the time of the close of FLIR with leverage standing at 1.8X at the end of Q1. That is even after deploying \$758MM on Micropac and Qioptiq that closed in Q1. The credit facility is largely undrawn and available, coupled with FCF availability for potential M&A as opportunities present themselves.
- With strong FCF in 2025, if TDY were to not deploy anything, leverage would end the year at 1.2X. M&A is the preferred route, but Teledyne can be nimble based on the value it finds, exhibited by Teledyne purchasing 885.3K shares in 2024 for a total price of \$354MM. This is another potential source of EPS upside in absence of additional M&A, with our near-term expectations excluding additional repurchases.

Source: Company data and Jefferies estimates

Teledyne Technologies (TDY): Relative Valuation to History and Market

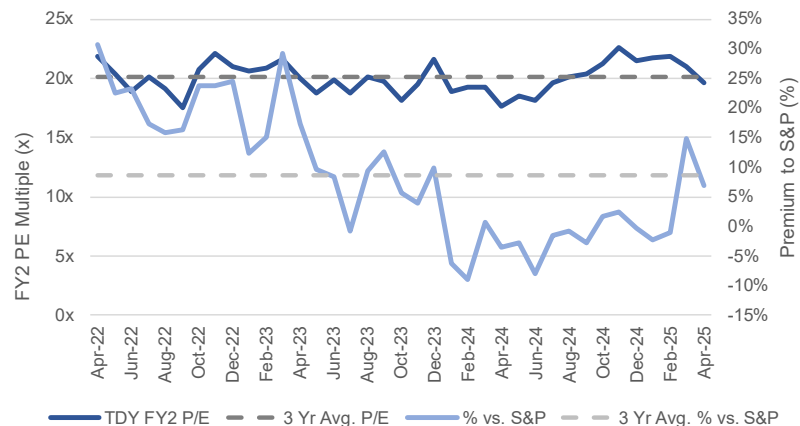
Relative Valuation

Ticker	TDY
Current P/E	19.6x
3 Yr Avg. P/E	20.1x
Current / 3 Yr Avg.	-2%
Prem / Disct SP	7%
3 Yr Prem / Disct SP	9%
S&P500 Multiple	18.4x
Current EV/EBITDA	15.1x
3 Yr Avg. EV/EBITDA	15.4x
Current / 3 Yr Avg.	-2%
Prem / Disct SP	18%
3 Yr Prem / Disct SP	20%
S&P500 Multiple	12.8x

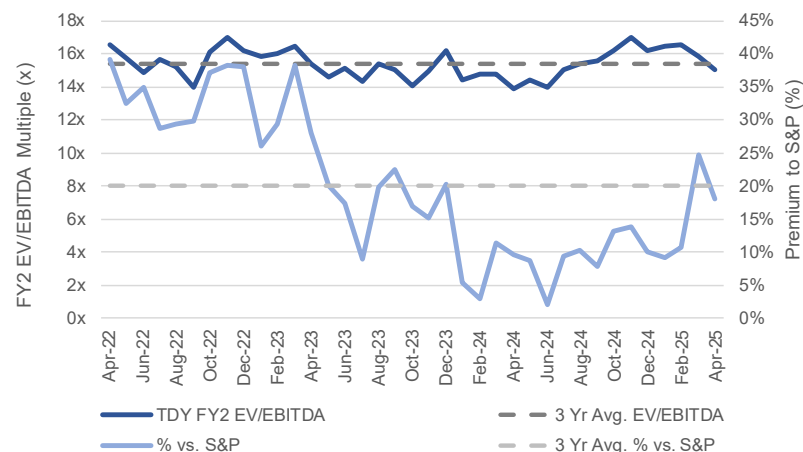
Price Target Derivation

Valuation Method	Price	Assumptions
EV/EBITDA	\$555	18.0X 2026 EV/EBITDA
Average	\$555	Blended average

FY2 P/E: 7% Premium to Market vs. 9% Premium Historically



FY2 EV/EBITDA: 18% Premium to Market vs. 20% Premium Historically



Source: Company data, FactSet and Jefferies estimates

Teledyne Technologies (TDY): Income Statement

Year Ending Dec.

(millions, except per share data)												
	2021		2022		2023		2024		2025E		2026E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Revenues												
Instrumentation	\$1,166.9	25.3	\$1,254.0	23.0	\$1,326.2	23.5	\$1,382.6	24.4	\$1,426.8	23.7	\$1,486.9	23.6
Digital Imaging	2,412.9	52.3	3,110.9	57.0	3,144.1	55.8	3,070.8	54.2	3,127.1	52.0	3,278.9	52.0
Aerospace and Defense Electronics	628.7	13.6	682.4	12.5	726.5	12.9	776.8	13.7	1,014.0	16.8	1,070.0	17.0
Engineered Systems	405.8	8.8	411.3	7.5	438.7	7.8	439.8	7.8	450.2	7.5	463.7	7.4
Total sales	\$4,614.3	100.0	\$5,458.6	100.0	\$5,635.5	100.0	\$5,670.0	100.0	\$6,018.1	100.0	\$6,299.5	100.0
Segment Income												
Instrumentation	\$253.7	21.7	\$295.3	23.5	\$338.3	25.5	\$370.3	26.8	\$386.7	27.1	\$404.4	27.2
Digital Imaging	325.6	13.5	519.3	16.7	517.4	16.5	442.0	14.4	528.5	16.9	606.6	18.5
Aerospace and Defense Electronics	133.2	21.2	184.1	27.0	199.6	27.5	221.7	28.5	242.3	23.9	287.8	26.9
Engineered Systems	48.6	12.0	39.2	9.5	44.7	10.2	32.9	7.5	45.0	10.0	45.9	9.9
Total Segment Income	\$761.1	16.5	\$1,037.9	19.0	\$1,100.0	19.5	\$1,066.9	18.8	\$1,202.5	20.0	\$1,344.8	21.3
Corporate Expense	(136.8)		(65.9)		(65.6)		(77.8)		(78.0)		(75.0)	
Total Operating Income (EBIT)	\$624.3	13.5	\$972.0	17.8	\$1,034.4	18.4	\$989.1	17.4	\$1,124.5	18.7	\$1,269.8	20.2
Adjusted Segment Income												
Instrumentation	\$273.8	23.5	\$312.5	24.9	\$352.5	26.6	\$387.2	28.0	\$400.9	28.1	\$418.6	28.2
Digital Imaging	\$586.3	24.3	\$699.0	22.5	\$707.9	22.5	\$683.2	22.2	\$711.5	22.8	\$790.6	24.1
Aerospace and Defense Electronics	\$134.0	21.3	\$184.9	27.1	\$200.4	27.6	\$222.5	28.6	\$271.3	26.8	\$297.8	27.8
Engineered Systems	\$48.6	12.0	\$39.2	9.5	\$44.7	10.2	\$32.9	7.5	\$45.0	10.0	\$45.9	9.9
Total Segment Income	\$1,042.7	22.6	\$1,235.6	22.6	\$1,305.5	23.2	\$1,325.8	23.4	\$1,428.7	23.7	\$1,553.0	24.7
Corporate Expense	(59.7)		(65.9)		(65.6)		(77.8)		(74.4)		(75.0)	
Total Adjusted Operating Income (EBIT)	\$983.0	21.3	\$1,169.7	21.4	\$1,239.9	22.0	\$1,248.0	22.0	\$1,354.3	22.5	\$1,478.0	23.5
Interest Expense	(104.2)		(89.3)		(77.3)		(57.9)		(66.0)		(70.0)	
Other income	13.7		25.4		1.8		6.7		(3.7)		6.0	
Income before income taxes	\$533.8		\$908.1		\$958.9		\$937.9		\$1,054.8		\$1,205.8	
Adjusted Income Before Income Taxes	\$923.1		\$1,105.8		\$1,164.4		\$1,196.8		\$1,284.6		\$1,414.0	
Income taxes (rate %)	88.5	16.6	119.2	13.1	72.3	7.5	117.2	12.5	223.6	21.2	259.2	21.5
Adjusted taxes	176.2	19.1	238.0	21.5	221.1	19.0	257.6	21.5	277.2	21.6	312.2	22.1
Net Income	\$445.3	9.7	\$788.6	14.4	\$885.7	15.7	\$820.7	14.5	\$831.2	13.8	\$946.5	15.0
Adjusted Net Income	\$746.9	16.2	\$867.8	15.9	\$943.3	16.7	\$939.2	16.6	\$1,007.4	16.7	\$1,101.8	17.5
Shares outstanding	44.3		47.7		47.9		47.6		47.3		47.5	
Earnings per share	\$10.05		\$16.53		\$18.49		\$17.24		\$17.57		\$19.93	
Adjusted EPS	\$16.86		\$18.19		\$19.69		\$19.73		\$21.30		\$23.20	

Source: Company data and Jefferies estimates

Teledyne Technologies (TDY): Cash Flow Statement

Year Ending Dec.

	2021	2022	2023	2024	2025E	2026E
(millions, except per share data)						
Cash Flow from Operations						
Net Income	\$445.3	\$788.9	\$886.6	\$820.7	\$831.2	\$946.5
Depreciation & Amortization	371.8	332.2	316.4	309.9	317.1	321.1
Deferred taxes	0.0	0.0	0.0	0.0	0.0	0.0
Non-cash Working Capital	(68.1)	(627.0)	(384.7)	(38.3)	(49.7)	(47.7)
Other	33.9	(7.3)	17.8	99.6	25.0	25.0
Cash Flow from Operations	\$782.9	\$486.8	\$836.1	\$1,191.9	\$1,123.6	\$1,244.9
Cash Flow from Investing Actvts.						
Capital Expenditures	(\$101.6)	(\$92.6)	(\$114.9)	(\$83.7)	(\$138.4)	(\$144.9)
Asset Sales & Other	0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions	(3,723.3)	0.0	0.0	0.0	0.0	0.0
Cash Flow from Investing Actvts.	(\$3,824.9)	(\$92.6)	(\$114.9)	(\$83.7)	(\$138.4)	(\$144.9)
Cash Flow from Financing Actvts.						
Change in Debt	\$2,834.2	(\$174.8)	(\$553.9)	(\$600.6)	\$0.0	\$0.0
Common Stock, net / Other	25.4	23.6	45.4	37.9	30.0	30.0
Cash Flow from Financing Actvts.	\$2,859.6	(\$151.2)	(\$508.5)	(\$562.7)	\$30.0	\$30.0
Net increase in cash	(\$182.4)	\$243.0	\$212.7	\$545.5	\$1,015.2	\$1,130.0
Beginning cash	673.1	490.7	733.7	946.4	1,491.9	2,507.1
Ending cash	\$490.7	\$733.7	\$946.4	\$1,491.9	\$2,507.1	\$3,637.1

Source: Company data and Jefferies estimates

Triumph Group (TGI) – Hold \$26 PT

1) FY25E Revenue Expected Flat w/ Comm'l AM Momentum Offset by Comm'l OE Weakness

2) Adj EBITDAP Margins of 17.6% in FQ3 Expanding 7.8pts Y-o-Y

3) FYTD FCF Use of \$126MM with \$32MM Generated in FQ3 Following Seasonality

4) Announced Acquisition by Warburg/Berkshire Partners for \$26/Sh

Related Notes:

- [Flying Away Like the Eagles by Calendar Year End](#) *February 10, 2025*
- [TGI to Be Acquired for \\$26/share or 13X FY2 EBITDA; 39% Upside from Close](#) *February 3, 2025*
- [A H2 Ramp and Strategic Actions on Deck](#) *November 17, 2024*

Triumph Group (TGI): TGI to Be Acquired for \$26/share or 13X FY2 EBITDA

Average Aero M&A Multiple of 13.1X In Line with TGI Price

Buyer	Asset	Date	Price	EV/Sales	EV/EBITDA	End Segment
Apollo	Barnes Group	Jan-25	\$3,600	2.2X	10.6X	Comm'l Aero
VSEC	Kellstrom	Dec-24	\$200	1.1X	9.8X	Comm'l Aero
LOAR	Applied Avionics	Aug-24	\$385	9.6X	18.3X	Comm'l Aero
TDG	Raptor Scientific	Aug-24	\$655	7.3X	18.0X	Comm'l Aero
TDG	CPI Electron Device Business	Jun-24	\$1,385	4.6X	15.4X	Comm'l Aero
TDG	SEI	May-24	\$170	5.7X	16.2X	Comm'l Aero
HEI	Wencor	Aug-23	\$2,050	2.8X	13.4X	Comm'l Aero
VSE Corp & Loar Group	Desser Aerospace	Jul-23	\$124	-	8.5X	Comm'l Aero
Thales	Cobham Aerospace Communications	Jul 2023	\$1,100	5.5X	15.0X	Defense/Comm'l Aero
Safran	RTX Collins Flight Controls	Jul 2023	\$1,800	1.2X	13.8X	Comm'l Aero
Ducommun	BLR Aerospace	Mar-23	\$115	--	--	Comm'l Aero
TDG	Calspan	Mar-23	\$725	3.6X	11.5X	Comm'l Aero
Aernnova	Embraer	May-23	\$174	1.0X	--	Comm'l Aero
Kaman	Parker Hannifin Aircraft Wheel & Brakes	May-22	\$440	6.3X	14.0X	Comm'l Aero
TXT	Pipistrel	Mar-22	\$240	6.0X	--	Comm'l Aero
Daher Aerospace	TGI Stuart	Mar-22	\$150	0.6X	6.0X	Comm'l Aero
TDG	DART Aerospace	Mar-22	\$360	3.6X	14.4X	Comm'l Aero
Parker Hannifin	MGGT	Aug-21	\$8,700	3.6X	16.3X	Defense/Comm'l Aero
TDG	Cobham Aero Connectivity	Nov-20	\$965	4.3X	12.1X	Defense
SPR	BBD Aerostructures	Oct-20	\$865	1.1X	13.7X	Comm'l Aero
Mitsubishi	BBD CRJ Program	Jun-20	\$550	0.8X	--	Comm'l Aero
Stanley Black & Decker	Consolidated Aerospace Manufacturing	Jan-20	\$1,500	4.0X	--	Comm'l Aero
Marubeni/Mizuho	Aircastle	Nov-19	\$7,300	8.8X	9.4X	Defense/Comm'l Aero
Platinum Equity	Wesco Aircraft Holdings	Aug-19	\$1,900	1.1X	10.8X	Comm'l Aero
TDG	Esterline	Oct-18	\$4,000	1.9X	12.5X	Comm'l Aero
UTX	Rockwell Collins	Sep-17	\$30,000	3.4X	14.1X	Comm'l Aero
Rockwell Collins	B/E Aerospace	Oct-16	\$8,360	2.6X	12.8X	Comm'l Aero
TDG	Breeze-Eastern	Jan-16	\$206	2.3X	13.7X	Comm'l Aero
Average				3.7X	13.1X	

- TGI has entered a definitive agreement w/ Warburg Pincus and Berkshire Hathaway set to acquire the co through a newly formed entity for an EV of ~\$3BB, implying a ~13.0X FY26 EBITDA multiple based on FY2 cons of \$230MM. This compares to the avg comm'l aero multiple of 13X for major transactions since 2016. Upon completion of the deal, existing shareholders will receive \$26/sh, and TGI will become privately held. The \$26/sh price represents a 123% premium over its closing price as of Oct 9, 2024, the last day before reports indicated the co was evaluating a potential sale, and a 58% premium over the VWAP over T3M as of Jan 31. The transaction is expected to close in calendar H2:25.

Source: Company data and Jefferies estimates

Triumph Group (TGI): FYTD FCF Use of \$126MM with \$32MM Generated in FQ3 Following Seasonality

Quarterly FCF - Typical Seasonal Pattern Requires Meaningful FQ4 Ramp on Unwinding W/C and Earnings Inflection

(\$MMs)	Q1:25	Q2:25	Q3:25	Q4:25E	FY25E
Adjusted EBITDA	\$27	\$43	\$55	\$62	\$187
Working Capital	(102)	(55)	10	124	(\$23)
747 Charge	0	0	0	0	\$0
Stuart	0	0	0	0	\$0
Stuart IT Wind	0	0	0	0	\$0
Spokane	0	0	0	0	\$0
Disco Ops	0	0	0	0	\$0
Capex	(8)	(6)	(1)	(7)	(\$22)
Interest	(2)	(42)	0	(50)	(\$94)
Pension/Other	(23)	19	(30)	11	(\$23)
Pre-Tax FCF	(108)	(42)	35	139	\$25
Cash Tax	(5)	(3)	(3)	(1)	(\$12)
Adjusted FCF	(\$113)	(\$45)	\$32	\$138	\$13

- TGI reported a \$126MM FCF use in FYTD with FQ3 FCF of \$32MM, in line with our estimate. FQ3 FCF was supported by a \$21MM benefit from A/R and a modest \$1MM benefit from inventory, despite the pause of MAX production in the beginning of the quarter due to the strike. We expect \$13MM of FCF generation in FY25 including \$138MM in FQ4 following typical seasonality for a FQ4 inventory unwind (+\$29MM in FQ4E vs \$32MM in FQ4:24).
- We align our price target with the take-out price of \$26/sh in the announced agreement with Warburg Pincus and Berkshire Partners, which is just 3% upside to current shares. The acquisition is expected to close in calendar H2:25 with no significant impediments to close anticipated.

Source: Company data and Jefferies estimates

Triumph Group (TGI): Valuation Relative to History and Market

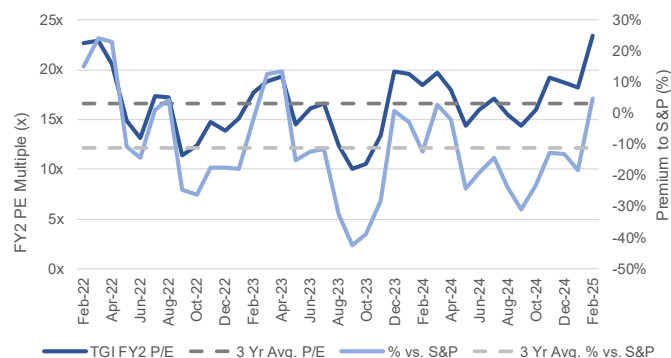
Relative Valuation

Ticker	TGI
Current P/E	23.4x
3 Yr Avg. P/E	16.6x
Current / 3 Yr Avg.	41%
Prem / Disct SP	5%
3 Yr Prem / Disct SP	-11%
S&P500 Multiple	22.3x
Current EV/EBITDA	12.0x
3 Yr Avg. EV/EBITDA	10.2x
Current / 3 Yr Avg.	17%
Prem / Disct SP	-21%
3 Yr Prem / Disct SP	-21%
S&P500 Multiple	15.1x

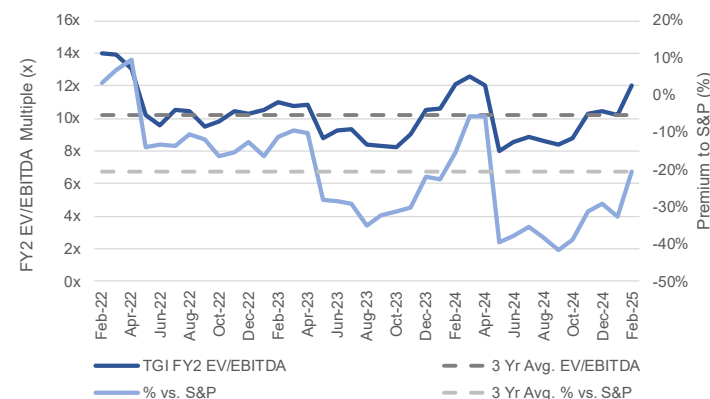
Price Target Derivation

Valuation Method	Price	Assumptions
EV/EBITDA	\$31	13.3X EV / FY26 Adj. EBITDA of \$234MM
FCF Yield	\$21	3.5% on \$58MM FY26 FCF
Average	\$26	Blended average

FY2 P/E: 5% Premium to Market vs. 11% Discount Historically



FY2 EV/EBITDA: 21% Discount to Market vs. 21% Discount Historically



Source: Company data, FactSet and Jefferies estimates

Triumph Group (TGI): Income Statement

Year Ending Mar.

(millions, except per share data)	2022		2023		2024		2025E		2026E		2027E		2028E	
	dollars	% of sales	dollars	% of sales		% of sales		% of sales		% of sales		% of sales		% of sales
Total Revenues	\$1,460	100%	\$1,131	100%	\$1,192	100%	\$1,195	100%	\$1,338	100%	\$1,467	100%	\$1,566	100%
Costs and expenses														
Costs of Sales	(\$1,073)	74%	(\$810)	72%	(\$869)	73%	(\$832)	70%	(\$925)	69%	(\$1,018)	69%	(\$1,087)	69%
Selling, General & Administrative	(\$202)	14%	(\$191)	17%	(\$180)	15%	(\$185)	16%	(\$187)	14%	(\$191)	13%	(\$196)	13%
Depreciation and amortization	(\$54)	4%	(\$32)	3%	(\$30)	2%	(\$30)	2%	(\$31)	2%	(\$31)	2%	(\$31)	2%
Acquisition and integration expenses	\$0	0%	\$0	0%	\$0	0%	\$0	0%	\$0	0%	\$0	0%	\$0	0%
Curtailments and early retirement incentives	(\$22)	1%	(\$3)	0%	(\$14)	1%	(\$19)	2%	\$0	0%	\$0	0%	\$0	0%
Special Charge	(\$14)	1%	\$102	-9%	(\$12)	1%	\$0	0%	\$0	0%	\$0	0%	\$0	0%
Total Operating Costs	(\$1,365)	93%	(\$935)	83%	(\$1,106)	93%	(\$1,066)	89%	(\$1,143)	85%	(\$1,240)	85%	(\$1,313)	84%
Operating Profit	\$95		\$196	17%	\$86	7%	\$129	11%	\$195	15%	\$227	15%	\$253	16%
Non recurring (pre tax):														
747-8	\$0		\$0		\$0		\$0		\$0		\$0		\$0	
Losson Divestitures/BBD Global Expense	\$0		(\$84)		\$0		\$7		\$0		\$0		\$0	
Restructuring charges	\$22		\$5		\$4		\$12		\$0		\$0		\$0	
Curtailment & Settlement/Goodwill trade	\$0		\$0		\$0		\$0		\$0		\$0		\$0	
Other Impairments / Charges	\$9		(\$2)		\$25		\$5		\$0		\$0		\$0	
EBIT excluding non-recurring items	\$135		\$115		\$115		\$153		\$195		\$227		\$253	
Total Interest	(\$136)		(\$115)		(\$123)		(\$95)		(\$95)		(\$95)		(\$95)	
Pension income	\$5		\$20		\$2		\$5		\$4		\$4		\$5	
Income before taxes (GAAP)	(\$35)		\$100		(\$34)		\$39		\$104		\$136		\$163	
Income before taxes (adjusted)	\$5		\$19		(\$6)		\$62		\$104		\$136		\$163	
Taxes (GAAP rate %)	\$5	-14%	\$3	3%	\$7	-21%	\$7	18%	\$18	17%	\$22	16%	\$32	20%
Taxes (Adjusted rate %)	\$5	105%	\$3	18%	\$7	-116%	\$13	21%	\$18	17%	\$22	16%	\$32	20%
GAAP Net Income	(\$40)		\$97		(\$41)		\$32		\$86		\$114		\$131	
Adjusted Net Income	\$5		\$18		(\$7)		\$51		\$86		\$114		\$131	
Diluted shares (millions)	64.6		71.7		74.1		77.6		78.2		78.8		79.4	
Adjusted EPS	\$0.79		\$0.51		(\$0.06)		\$0.63		\$1.10		\$1.45		\$1.65	

Source: Company data and Jefferies estimates

Triumph Group (TGI): Cash Flow Statement

Year Ending Mar.

(millions, except per share data)	2022	2023	2024	2025E	2026E	2027E	2028E
Operating Activities							
Net income	(\$51.6)	\$89.6	\$512.4	\$26.3	\$86.3	\$114.3	\$131.1
Depreciation & Amortization	49.6	35.6	33.3	29.7	31.0	31.0	31.0
Other Items	(181.0)	(143.3)	(493.6)	31.4	(24.3)	(15.2)	(2.3)
Op cash flow pre-working capital	(\$182.9)	(\$18.1)	\$52.0	\$87.5	\$92.9	\$130.1	\$159.8
Change in inventory	39.3	(30.4)	71.1	(45.1)	(21.2)	(19.1)	(22.7)
Change in receivables	15.4	(18.1)	58.5	(7.6)	(12.1)	(10.8)	(3.6)
Change in payables	(17.9)	36.4	(30.6)	0.0	20.0	18.1	13.9
Changes in working capital	36.7	(12.1)	99.1	(52.7)	(13.3)	(11.9)	(12.4)
Cash Flow from Operations	(\$146.2)	(\$30.2)	\$151.1	\$34.8	\$79.6	\$118.2	\$147.4
Investment activities							
Capital expenditures	(19.7)	(20.7)	(21.8)	(22.0)	(22.0)	(22.0)	(22.0)
Proceeds from sale of assets	224.5	(6.2)	713.4	0.0	0.0	0.0	0.0
Cash used for businesses acquired	(23.7)	(0.3)	(1.7)	0.0	0.0	0.0	0.0
Cash Flow from Investments	\$181.2	(\$27.2)	\$689.9	(\$22.0)	(\$22.0)	(\$22.0)	(\$22.0)
Financing Activities							
Change in debt	(368.1)	102.3	(613.6)	(85.6)	0.0	0.0	0.0
Cash dividends paid	0.0	0.0	0.0	(10.3)	(10.4)	(10.5)	(10.6)
Dividend payment / Buyback	0.0	(10.2)	(10.2)	(10.3)	(10.4)	(10.5)	(10.6)
Cash Flow from Financing	(\$368.1)	\$92.1	(\$623.8)	(\$106.2)	(\$20.7)	(\$20.9)	(\$21.1)
Net change in cash items	(\$333.0)	\$34.8	\$217.2	(\$93.4)	\$36.9	\$75.3	\$104.3
Cash at the beginning of the period	589.9	240.9	392.5	392.5	322.3	522.8	522.8
Cash at the end of the period	\$240.9	\$227.4	\$392.5	\$275.0	\$322.3	\$408.0	\$522.8

Source: Company data and Jefferies estimates

Textron (TXT) – Buy \$85 PT

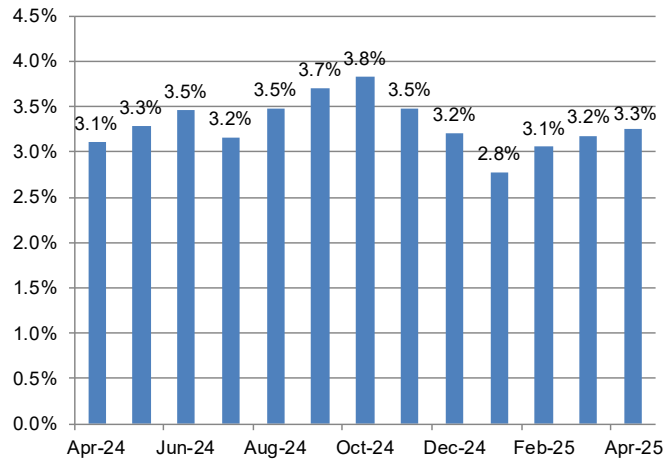
- 1) Raising 2025 EPS to \$6.00 from \$5.90 to Reflect Slightly Better Industrial Margins Ex-Arctic Cat.
- 2) Aviation Margins of 10.5% Include Lingering Strike Impact, but Record Backlog of \$7.9BB Provides 2.0x Years Coverage.
- 3) Divestiture of Power Sports (6% of Total Industrial) Provides a Modest Lift to Industrial Margins (10 bps)
- 4) Bell Revs Up 35% in Q1 and +9% in '25, Although EBIT -1% on FLRAA Dilution

Related Notes:

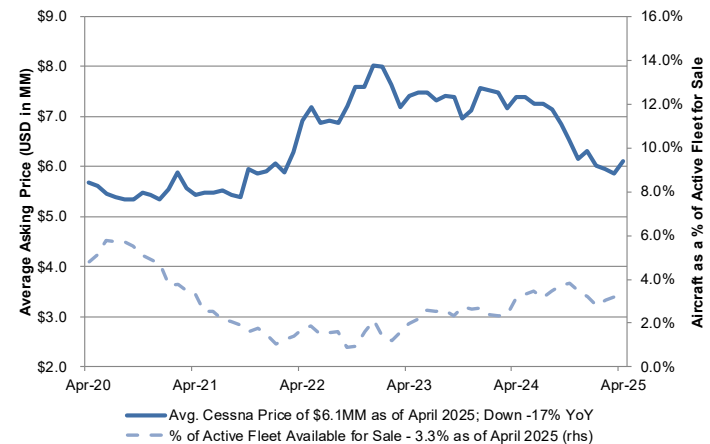
- [Strategic Divestments May Unlock Arctic Chill Over Valuation](#) *April 27, 2025*
- [Powering Through FLOOR Mix Headwinds To Catch Aviation Glide](#) *January 27, 2025*
- [Powering Down Powersports - Another Restructuring Charge Cuts '24 EPS, '25 FCF](#) *December 19, 2024*

Textron (TXT): Underlying Used Jet Market Relatively Healthy

Used Cessna 12 Months of Inventory as a % of Active Fleet as of April 2025



Avg. Cessna Price of \$6.1MM as of Apr 2025, Down 17% Y-o-Y vs. Active Fleet Available for Sale

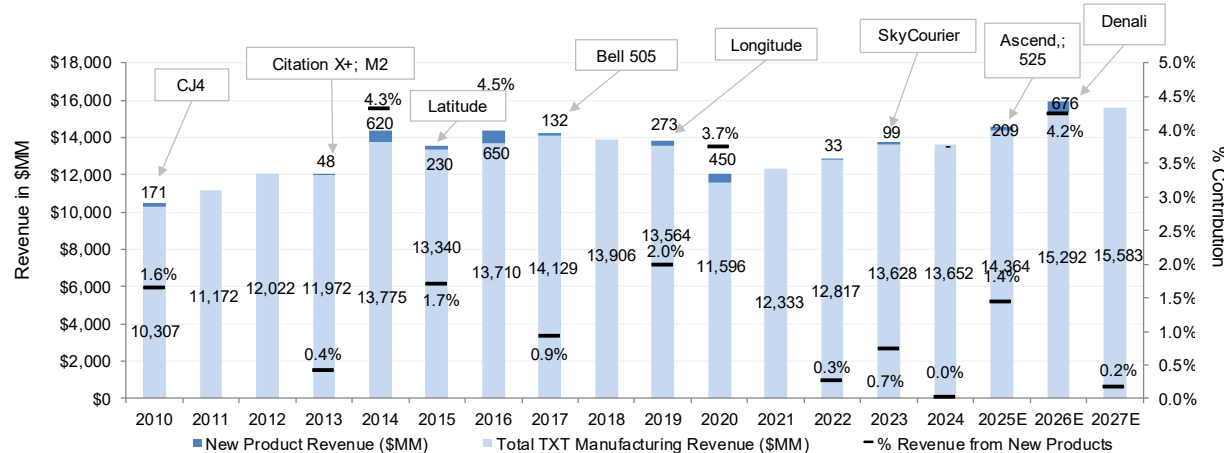


- In terms of market fundamentals, the used jet inventory levels are fairly healthy. Cessna used inventories were 3.3% of the active fleet in April 2025 from all-time low of 1.4% in February 2022 (Exhibit 7). However, Cessna used jet pricing was down 17% y-o-y in April at \$6.1MM (-5% excluding the impact of the CJ3 -21% given a very small sample set of aircraft for sale reflecting strength of the CJ3/CJ4 mkt).
- The used market is much healthier and more supportive of new jet sales currently than it was in 2008-2009 and rebalancing after a period of undersupply in the past couple years. While inventories are up significantly y-o-y and there is a slight moderation in used jet pricing, each remain supportive of new jet sales.

Source: Jefferies estimates, company data

Textron (TXT): Textron Aviation Business Jet Deliveries Expected Up 26% in 2025 to 190

New Product Introductions Since 2010 Have Contributed 2-Pts to Growth



- There have been several new product introductions over the past 10 years at Textron Aviation and Bell. New products have contributed 2.0% to growth on average with the next drivers including Ascend, 525 and Denali all of which are slated to be certified in 2025 following the 2023 introduction of the SkyCourier.
- In May 2023, Textron Aviation announced the Cessna Citation Ascend, the newest business jet in the 560XL series, offering a fully customizable interior for 9-12 passengers. The Citation Ascend will be powered by the new RTX PWC PW545D engine, with preliminary performance targets for four-pax range of 1,900 nm at high-speed cruise power (est max range of 2,100 nm), cruise at 441 kts, and the ability to climb direct to 45K ft. EIS is for 2025. The updated Ascend midsize jet will replace the XLS Gen 2 with a \$16.725MM list price (vs \$16MM for the Gen 2). The aircraft completed its first flight in June with 700 flight hours to date in the test program. Entry into service is expected during Q4:2025.
- The Denali is expected to enter service in 2026 as well, following delays in the certification process now expected to complete in late 2025. The test program has completed over 2,700 flight hours through Q1:25 across 3 test articles with the GE Catalyst engine certified in late February, allowing the cert process to be re-prioritized. Additionally, the Bell 525 is expected to enter service this year with modest contribution in our estimates following certification.

Source: Jefferies estimates, company data

Textron (TXT): Textron Aviation Business Jet Deliveries Expected Up 26% in 2025 to 190

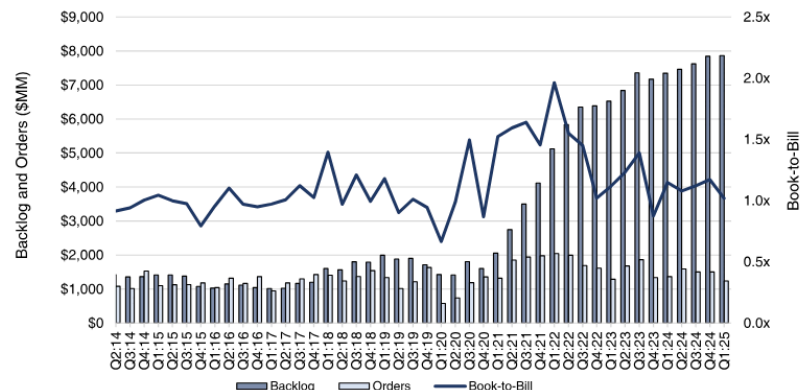
Textron Aviation Deliveries and Revenue (\$MM) - Forecasting 26% Business Jet Delivery Increase in 2025 to 190 Jets

Annual Deliveries	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Backlog	\$1,791	\$1,714	\$1,603	\$4,120	\$6,387	\$7,169	\$7,845	\$8,237	\$8,649	\$9,082
Mustang	0	0	0	0	0	0	0	0	0	0
M2	34	34	24	34	33	25	22	35	35	35
CJ1	0	0	0	0	0	0	0	0	0	0
CJ2	0	0	0	0	0	0	0	0	0	0
CJ3	37	37	21	26	29	30	24	30	35	35
CJ4	29	33	23	27	29	31	26	30	35	40
XL5+	21	22	13	19	19	17	15	20	0	0
Ascend	0	0	0	0	0	0	0	5	27	27
Latitude	57	58	26	34	42	41	40	40	40	40
Sovereign	6	8	6	3	0	0	1	0	0	0
Citation X	4	1	1	0	0	0	0	0	0	0
Longitude	0	13	18	24	26	24	23	30	40	45
Total Business Jets	188	206	132	167	178	168	151	190	212	222
Caravans	70	83	51	54	77	97	83	92	97	97
Pistons	40	218	314	40	40	40	40	40	40	40
Turboprop	94	93	62	71	69	56	44	55	55	55
Delivery Change YoY%										
Business Jets	4%	10%	-36%	27%	7%	-6%	-10%	26%	12%	5%
Caravans	1%	19%	-39%	6%	43%	26%	-14%	11%	5%	0%
Pistons	0%	445%	44%	-87%	0%	0%	0%	0%	0%	0%
Turboprop	9%	-1%	-33%	15%	-3%	-19%	-21%	25%	0%	0%
Annual Revenue	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Mustang	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
M2	156	156	110	156	155	118	103	165	165	165
CJ1	0	0	0	0	0	0	0	0	0	0
CJ2	0	0	0	0	0	0	0	0	0	0
CJ3	311	311	176	218	287	297	238	297	347	347
CJ4	267	297	207	243	273	291	244	282	329	376
XL5+	269	275	163	238	295	264	233	310	0	0
Ascend	0	0	0	0	0	0	0	84	452	452
Latitude	923	928	415	543	672	759	740	740	740	740
Sovereign	105	140	105	53	0	0	18	0	0	0
Citation X	84	21	21	0	0	0	0	0	0	0
Longitude	0	273	450	612	694	696	667	870	1,160	1,305
Total	\$2,115	\$2,401	\$1,647	\$2,062	\$2,376	\$2,424	\$2,242	\$2,747	\$3,191	\$3,383
YoY % Change	9%	14%	-31%	25%	15%	2%	-7%	23%	16%	6%
Metrics										
Aviation Revenue	\$4,971	\$5,187	\$3,974	\$4,566	\$5,073	\$5,373	\$5,284	\$6,039	\$6,571	\$6,829
Orders	\$3,902	\$5,200	\$3,860	\$7,083	\$7,340	\$6,155	\$5,960	\$5,250	\$5,000	\$5,000
Backlog	\$1,791	\$1,714	\$1,603	\$4,120	\$6,387	\$7,169	\$7,845	\$8,237	\$8,649	\$9,082
Book to Bill	0.8x	1.0x	1.0x	1.6x	1.4x	1.1x	1.1x	0.9x	0.8x	0.7x

2025 growth driven by a recovery in biz jet deliveries +26% and turboprops +25% vs strike-impacted 2024.

- TXT Aviation revenue of \$5.3BB in 2024 fell 2% y-o-y with a recovery up 14% to \$6.0BB expected in 2025E (guidance \$6.1BB) with the absence of the strike (+\$500MM y-o-y) as well as core delivery growth.
- The company faced a 4-week strike in Wichita from Sept 23 to Oct 23 with full representation returned on Monday, Oct 28. The total impact of the strike was ~\$500MM of revenue and ~\$150MM of segment EBIT last year. The production line began ramping once the workforce fully returned with lingering inefficiencies into Q1. This led to 151 jet deliveries in 2024 including a ~20 jet strike impact with a rebound to 190 expected in 2025E including 11% growth off of the 2024 cadence ex-strike.

Textron Aviation Orders Down 10% Y-o-Y in Q1, but Backlog 7% Higher Y-o-Y



Source: Company data and Jefferies estimates

Textron (TXT): 2025 Profitability Ramps Through the Year with Lingering Productivity Headwinds in Q1 Post Strike

Each 10 Biz Jets Worth 6c and Each 50 Bps of Aviation Margin Worth 14c to 2025 EPS

		2025 Aircraft Deliveries						
		170	180	190	200	210	220	230
TXT Aviation Margins	10.0%	\$5.32	\$5.38	\$5.43	\$5.48	\$5.54	\$5.59	\$5.65
	10.5%	\$5.46	\$5.51	\$5.57	\$5.63	\$5.69	\$5.74	\$5.80
	12.0%	\$5.86	\$5.93	\$6.00	\$6.06	\$6.13	\$6.19	\$6.26
	12.5%	\$6.00	\$6.07	\$6.14	\$6.21	\$6.27	\$6.34	\$6.41
	13.0%	\$6.14	\$6.21	\$6.28	\$6.35	\$6.42	\$6.49	\$6.56

- We sensitize 2025E EPS to business jet deliveries and Aviation margins with variables including net pricing (vs none expected) and the pace of deliveries post-strike, which are a factor of supply chain improvements and labor efficiency.
- The company noted that certain deliveries in 2025 were priced with the intention of delivering in 2024, leading to a price headwind in Q1. If we assume 20 aircraft shifted from 2024 to 2025 with an annual gross price increase of ~3pts, then the impact could be a 10 bps headwind to 2025 profitability on an annual basis.

Source: Company data and Jefferies estimates

Textron (TXT): 2025 Profitability Ramps Through the Year with Lingering Productivity Headwinds in Q1 Post Strike

Aviation EBIT Bridge - 130 bps of Margin Expansion in 2025 with the Absence of the Strike

EBIT Bridge	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Start EBIT	\$234	\$400	\$389	\$303	\$445	\$449	\$16	\$378	\$560	\$649	\$566	\$725	\$808
Volume	47	(20)	16	35	20	(347)	231	101	9	(76)	116	84	44
Price	0	(27)	56	57	(28)	(45)	57	91	159	36	0	0	0
Organic	47	(47)	72	92	(8)	(392)	288	192	168	(40)	116	84	44
M&A	24	7	0	0	0	0	0	0	0	0	0	0	0
Performance / Synergies	93	65	(43)	20	49	(41)	43	0	(79)	(43)	43	0	0
R&D	(5)	0	(85)	0	0	0	0	12	0	0	0	0	0
Mix	19	(29)	(30)	30	(37)	0	0	0	0	0	0	0	0
Pension	0	0	0	0	0	0	32	2	0	0	0	0	0
Acq. Related costs / restructuring	(12)	(7)	0	0	0	0	0	(24)	0	0	0	0	0
End EBIT	\$400	\$389	\$303	\$445	\$449	\$16	\$378	\$560	\$649	\$566	\$725	\$808	\$852
EBIT Margin	8.3%	7.9%	6.5%	9.0%	8.7%	0.4%	8.3%	11.0%	12.1%	10.7%	12.0%	12.3%	12.5%
Business Jet Deliveries	166	178	180	188	206	132	167	178	168	151	190	212	222
Volume incremental	134%	61%	-5%	19%	10%	28%	44%	33%	-25%	28%	14%	20%	20%
Net Price	0.0%	-0.5%	1.2%	1.1%	-0.5%	-1.1%	1.2%	1.8%	3.0%	0.7%	0.0%	0.0%	0.0%

Net price was 70 bps in 2024. We assume no net price in our 2025E with the push out of 2024-priced deliveries into H1:25.

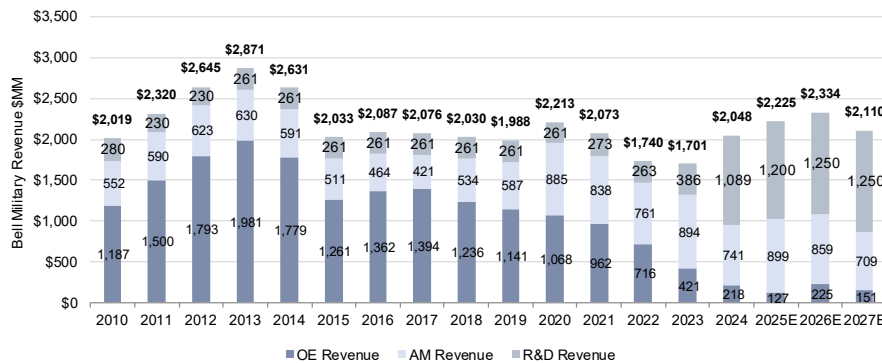
- In Q1:25, Textron Aviation reported segment profit of \$127MM, down \$16MM or 11% y-o-y, largely due mix of aircraft sold, offset by higher aftermarket vols. This translates to a margin of 10.5%, down 150 bps y-o-y in Q1. For the full year 2025, the company guided to 12-13% margins vs an est 12.3% ex-strike impact in 2024.
- We estimate segment profit margins of 12.0% in 2025 with \$725MM of operating profit, or a \$159MM expansion. The company guided to a ramp through the year with Q1 100-200bps below the guide (in line with results) and Q4 100-200bps above given Q1 includes 2024 pricing levels and lingering strike inefficiencies. Through the year, there is a significant improvement in factory efficiencies, particularly on a y-o-y basis in H2 given the strike.

Source: Jefferies estimates, company data

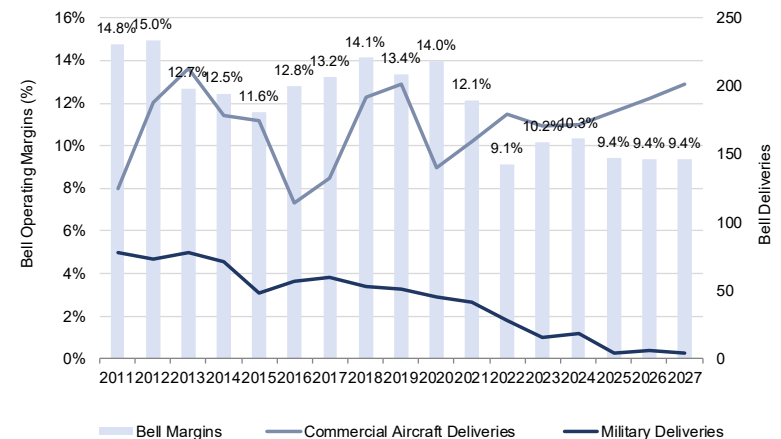
Textron (TXT): Bell Margins See Some Compression on FLRAA Dilution and Commercial Mix

- Bell accounts for 27% of total company revenues in 2025 on our estimates and 27% of segment manufacturing profits. In Q1, revenue was up 35% y-o-y, with commercial unit sales +61% (29 units vs 18 in Q1:24).
- In Military OE, Bell delivered 0 H-1s in the quarter (vs 2 in Q1:24), with 2 V-22 (vs 0 in Q1:24). FLRAA was the main contributor to y-o-y growth in Q4 (~\$100M higher y-o-y to \$280MM est), with military volumes up \$154MM y-o-y, as well as Commercial deliveries driving commercial revs +\$102MM.

Bell Military OE and AM Volumes Contract in Coming Years, But FLRAA R&D Provides Lift



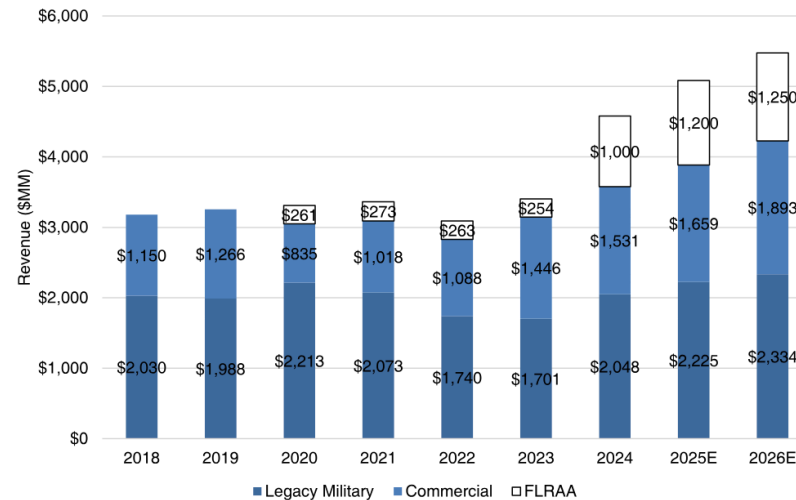
Bell Margins vs. Deliveries - Margins Contract on Comm'l OE and FLRAA Mix



Source: Jefferies estimates, company data

Textron (TXT): FLRAA Generates \$1.1BB of Revenues in 2025, Rising to \$1.2BB in 2026

FLRAA EMD Revenues Provide Major Step Up to Bell, Expected to Begin Offsetting Legacy Military's Slowdown in 2025



- The Future Long-Range Assault Aircraft (FLRAA) program was awarded to TXT Bell and its V-280 Valor offering in December 2022. The US Army's \$70BB program (\$100BB including FMS) is the replacement effort for the UH-60 Black Hawk, which has a global fleet of nearly 4,000 helicopters. The initial award is for \$1.3BB and initial funding of \$232MM to cover the next 19 months of work, with the total EMD phase valued at \$7.1BB. Six prototypes are expected to be delivered by 2025 with Milestone C expected in the 2027 timeframe and EIS currently targeted for 2030.
- Other opportunities at Bell include the Navy and Marine Corps FVL Maritime Strike, which can leverage investments made in the V-280 program. Additionally, high-speed VTOL could be a longer-term opportunity at Bell

Source: Jefferies estimates, company data

Textron (TXT): 2025 Margins Contract 90 bps on FLRAA Dilution, Roll-Off of Legacy Platforms

Bell EBIT Bridge - Margins Contract to 9.4% in 2025E on FLRAA Dilution and Commercial OE Mix

	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Start Profit	\$386	\$415	\$425	\$435	\$462	\$408	\$282	\$320	\$370	\$370	\$389
Volume	(37)	(10)	4	16	(31)	(135)	(49)	(92)	14	19	(8)
Pricing, net of inflation	0	0	0	0	13	(1)	13	17	0	0	0
Performance (i.e. restructuring)	66	77	6	(8)	34	39	(10)	30	0	0	0
R&D	0	(17)	0	19	(70)	6	84	95	(14)	0	0
Mix	0	(40)	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	(35)	0	0	0	0	0
Total Change In Profit	29	10	10	27	(54)	(126)	38	50	0	19	(8)
End Profit	\$415	\$425	\$435	\$462	\$408	\$282	\$320	\$370	\$370	\$389	\$381
% Margin	12.5%	13.4%	13.4%	14.0%	12.1%	9.1%	10.2%	10.3%	9.5%	9.5%	9.4%
% Volume Incremental	-65%	7%	5%	39%	-115%	41%	-2%	-3%	10%	10%	10%

- For Bell, operating margins contracted 180 bps y-o-y to 9.2% in Q2 reflecting negative mix from FLRAA (~100 bps to Q1) and commercial deliveries. FLRAA continues to ramp after the Milestone B award in Q3:24 that transitioned the program into EMD and yielded \$2.3BB of backlog growth at Bell in Q3:24. However, the option exercised for limited user test aircraft was FFP and below average program margin resulting in a lower booking rate on the contract going forward (est ~2%). Bell received a one-time gain at the cancellation of FARA in Q1:24 related to R&D work, which was another ~50 bps y-o-y headwind to 2025 margins.
- TXT has initiated the 2025 Bell segment margin guide at 8.5-9.5%, down from the 10.3% reported in 2024 on FLRAA dilution, with EMD revenues being low-margin at around 2% on our estimate following the reduction of the booking rate with the option exercise in Q4:24. FLRAA's contribution is 210 bps dilutive to 2024 on our estimate with 40 bps of y-o-y dilution to 2025E within our estimate of 9.4% toward the upper-end of guidance.

Source: Jefferies estimates, company data

Textron (TXT): Systems: 2025E Up 1% Across the Portfolio

Systems Revenue Up 1% in 2025, With Stable Margins Ahead of Down Selects

	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Revenues											
Air Systems	\$714	\$612	\$572	\$581	\$505	\$430	\$450	\$450	\$455	\$473	\$492
Land and Sea Systems	470	311	208	219	228	228	239	240	242	252	262
Other	448	541	545	513	540	515	545	551	556	579	602
Total Revenue	\$1,840	\$1,464	\$1,325	\$1,313	\$1,273	\$1,172	\$1,235	\$1,241	\$1,253	\$1,303	\$1,355
YoY % Change											
Air Systems	-6%	-14%	-7%	2%	-13%	-15%	5%	0%	1%	4%	4%
Land and Sea Systems	60%	-34%	-33%	5%	4%	0%	5%	0%	1%	4%	4%
Other	8%	21%	1%	-6%	5%	-5%	6%	1%	1%	4%	4%
Total Change YoY	5%	-20%	-9%	-1%	-3%	-8%	5%	0%	1%	4%	4%
EBIT Margin	7.6%	10.7%	10.6%	11.6%	14.8%	11.3%	11.9%	12.4%	12.5%	12.8%	13.1%

- Q1:25 sales of \$296MM were down \$10MM y-o-y, or -3%, largely due to lower volume, which included the impact of the cancellation of the shadow program in 2024, partially offset by higher volume for the ship to shore connector program. Q1:25 earnings of \$40MM increased \$2MM y-o-y, or +5%, primarily due to lower research and development costs, partially offset by lower volume; margins of 13.5% were up 110 bps y-o-y. Backlog at the end of the Q1:25 was \$2.3BB, down 11% from \$2.6BB in the prior quarter, but up 26% from \$1.8BB in the prior year.
- Looking ahead to 2025, we expect another 1% growth, supported by variety of contracts including GBSD, Aerosonde UAS, RCV, ATAC, and work within Land Systems and Electronic Systems. For 2025, Systems margins are guided to 12.0-13.0%, up ~10bps y-o-y at the midpoint. This compares to our estimate for 12.5% in 2025, up 10bps y-o-y as international opportunities, such as anti-tank munitions, as well as domestic UAS and land systems, offer upside.

Source: Jefferies estimates, company data

Textron (TXT): Systems: 2025E Up 1% Across the Portfolio

Systems Opportunity Set:

- **Army's Future Tactical UAS II (FTUAS 2).** The initial Increment II down select was awarded to TXT and four other bidders (AVAV, Griffon Aerospace, NOC, and Sierra Nevada) in March 2023. In September 2023, TXT and Griffon Aerospace were downselected for the FTUAS Inc 2 Prototyping second option contract. TXT, along with Griffon, were awarded contracts on options 3 and 4, with a potential final RFP expedited on the FARA cancelation to as early as the end of this year. The down-select is expected in H2:25.
- **Marine Advanced Reconnaissance Vehicle (ARV).** Land Systems unveiled its Cottonmouth 6×6 armored vehicle for the ARV program in 2023. In July 2021, Marine Corps selected TXT and GDLS to build prototypes for the program, with TXT delivering on December 1st, followed by GD's prototype being delivered on December 23rd. The program offers value of up to ~\$6.8BB, although Force Design 2030 is reviewing requirements. Testing was expected to be completed in H1:23 with next steps expected to be announced in 2024. Production could be \$1.8-6.8BB over five years. In March 2024, both TXT and GD received contracts to design and produce a 30MM auto cannon variant of the MARV for delivery in FY25. TXT received \$11.8MM to build a single prototype.
- **Optionally Manned Fighting Vehicle (OMFV).** In July 2021, the Army selected five teams led by Point Blank, BAE, General Dynamics, Oshkosh, and Rheinmetall for the OMFV Bradley replacement program, now referred to as XM-30. TXT is part of the Rheinmetall team along with RTX and LHX. The total program opportunity is estimated to be in the \$45BB range, or \$11MM per vehicle. In June, GD and Rheinmetall were down-selected for the program with a final down select scheduled for late 2027 with fielding to begin in FY29. The Army now anticipates transitioning to a Major Capability Acquisition Pathway at Milestone B in FQ2:25, with plans to enter LRIP in FQ1:28. A Full Rate Production decision is slated for FY30. The FY25 budget includes \$505MM for the program, which funds the fully digital, detailed prototype vehicle designs from PDR through to the CDR in preparation for the prototype builds and testing portion of Phase 3 & 4. The Army completed a preliminary design review August 2024, with the Army planning a "quick turnaround" to complete critical design reviews in order to begin building physical prototypes.
- **Ground Based Strategic Deterrent (GBSD).** TXT is the provider of missile payload integration for NOC. NOC won the \$60BB program in December 2019. In Q3:19, TXT was awarded a \$100MM task order to develop and integrate advanced reentry system technology to the GBSD program. TXT began recognizing the revenue from the contract in Q4:20, and expects the program to drive revenue growth over the five-year contract period, with a gradual ramp through 2022. We estimate that GBSD content will contribute ~\$30MM to sales once ramped, even on its delayed timeline.

Source: Jefferies estimates, company data

Textron (TXT) Industrial: Power Sports Divestiture Previously Accounted for in Revs

TSV Driving 9% Top-Line Decline in 2025E, With Kautex Also Soft

	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Revenues											
Textron Specialized Vehicles	1,956	1,939	1,561	1,249	1,395	1,694	1,887	1,624	1,348	1,382	1,416
Kautex	2,330	2,352	2,237	1,751	1,735	1,771	1,954	1,891	1,853	1,890	1,928
Total	\$4,286	\$4,291	\$3,798	\$3,000	\$3,130	\$3,465	\$3,841	\$3,515	\$3,201	\$3,272	\$3,344
YoY % Change											
Textron Specialized Vehicles	28%	-1%	-19%	-20%	12%	21%	11%	-14%	-17%	2%	2%
Kautex	3%	1%	-5%	-22%	-1%	2%	10%	-3%	-2%	2%	2%
Total % Change	13%	5%	-6%	-21%	4%	7%	11%	-8%	-9%	2%	2%
% Composition											
Textron Specialized Vehicles	46%	45%	41%	42%	45%	49%	49%	46%	42%	42%	42%
Kautex	54%	55%	59%	58%	55%	51%	51%	54%	58%	58%	58%
Total % Composition	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Power Sports ~15% of '24 TSV sales divested April 23, 2025.

Industrials Margins Up 10 bps in 2025E as Cost Actions and Mix Offset Volume Headwinds

	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Start EBIT	\$329	\$290	\$218	\$217	\$111	\$140	\$155	\$228	\$151	\$135	\$143
Volume	(6)	(13)	(82)	(195)	(14)	44	54	(105)	(36)	9	9
Price	(23)	(21)	18	26	37	1	58	(15)	0	0	0
Organic	(29)	(34)	(64)	(169)	23	45	112	(120)	(36)	9	9
M&A	0	(22)	(22)	0	0	0	0	0	0	0	0
FX	0	0	(9)	2	(4)	(10)	1	0	0	0	0
Restructuring benefits / productivity	(10)	(16)	94	61	10	(10)	(40)	43	20	0	0
Other	0	0	0	0	0	(10)	0	0	0	0	0
Incremental EBIT	(39)	(72)	(1)	(106)	29	15	73	(77)	(16)	9	9
End EBIT	\$290	\$218	\$217	\$111	\$140	\$155	\$228	\$151	\$135	\$143	\$152
Margin %	6.8%	5.1%	5.7%	3.7%	4.5%	4.5%	5.9%	4.3%	4.3%	4.5%	4.6%

- In Q1:25, Industrial revenues were down 11%, largely due to lower volume mix. TSV revenues decreased \$62MM y-o-y due to lower volume and mix (-15%), primarily in Golf given the PLTV, and Kautex revenues decreased \$38MM y-o-y from lower volume (-8%).
- On April 23, 2025, TXT closed on the sale of the Power Sports business. Powersports represent roughly 25% of total TSV revenues (Sport, 10% + Snow, 15%, Ex 19). As a result of the sale, we expect golf to comprise 80% of total TSV revenues (up from 60%), and Aviation Ground Equipment to comprise 20% (up from 15%).
- Our estimate is for 4.5% margins in 2025, up 20 bps y-o-y as volume softness is outweighed by restructuring action benefits and improved mix following the divestiture of Power Sports.

Source: Jefferies estimates, company data

Textron (TXT) eAviation - \$40MM Contribution to Sales in 2025E, But Loss-Making of \$70MM



- In April 2022, TXT closed its acquisition of Pipistrel, an electric aviation company, for €218MM, or \$240MM in cash. The biz has ~\$40MM in annual run-rate revs (implies ~6X sales multiple).
- Pipistrel is included in the fifth segment, eAviation, which is expected to support TXT's push into sustainable aviation comprising legacy electrification research & development efforts.
- We estimate \$45MM in sales in 2025, in line with guidance of \$45MM. In Q1:25, eAviation contributed \$7MM in sales, flat y-o-y; similarly, segment losses of \$17MM in the quarter were relatively unchanged from the prior year.
- We estimate losses moderate to -\$70MM in 2025, aligned with guidance of -\$70MM. Pipistrel was modestly positive on the EBIT line before the acquisition, but was likely loss-making on the net income line.

Source: Jefferies estimates, company data

Textron (TXT): FCF Rebounds After Strike Takes Down 2024, Reaching \$806MM in 2025E

FCF Improves to \$832MM, 77% Conversion Given Restructuring Cash Outflow and NWC Use

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Net Income	\$937	\$618	\$747	\$1,012	\$1,126	\$1,041	\$1,089	\$1,177	\$1,225
Depreciation and Amortization	416	386	380	396	395	382	382	390	397
NWC	131	1,123	295	419	157	(52)	(90)	(75)	(33)
Pension Contribution	(50)	(47)	(52)	(49)	(50)	(50)	(50)	(50)	(50)
Section 174 R&D Tax	0	0	0	(284)	88	(120)	(150)	(60)	0
Stock Comp/Deferred Taxes/Other	(474)	(1,247)	99	(33)	(446)	(193)	50	50	50
CFO	\$960	\$833	\$1,469	\$1,461	\$1,270	\$1,008	\$1,231	\$1,431	\$1,590
Capex	(339)	(317)	(375)	(354)	(402)	(364)	(425)	(425)	(425)
FCF	\$621	\$516	\$1,094	\$1,107	\$868	\$644	\$806	\$1,006	\$1,165
FCF per Share	\$2.67	\$2.25	\$4.83	\$5.15	\$4.30	\$3.38	\$4.44	\$5.73	\$6.80
Manufacturing FCF	\$642	\$596	\$1,149	\$1,178	\$868	\$644	\$806	\$1,006	\$1,165
Deployment									
Dividends	(\$22)	(\$18)	(\$18)	(\$17)	(\$16)	(\$12)	(\$15)	(\$14)	(\$14)
Share Repurchases	(503)	(183)	(921)	(867)	(1,168)	(1,122)	(442)	(433)	(349)
Debt Paydown	(303)	(548)	(524)	(18)	341	0	0	0	0
Debt Issuance	301	1,137	0	0	0	0	200	0	0
Acquisitions	(2)	(15)	0	(202)	(1)	(13)	0	0	0
Total Deployment	(\$529)	\$373	(\$1,463)	(\$1,104)	(\$844)	(\$1,147)	(\$256)	(\$448)	(\$362)
Discretionary FCF (post pension contributions, dividends, and committed debt pay-down)	\$296	(\$50)	\$552	\$1,072	\$1,193	\$632	\$792	\$992	\$1,151
Ratios									
FCF to Net Income Conversion	66%	84%	146%	109%	77%	62%	74%	85%	95%
FCF Yield (FCF / Mkt Cap.)	3.8%	3.2%	6.7%	6.8%	5.3%	4.0%	4.9%	6.2%	7.1%
FCF Change YoY	-63%	-17%	NM	1%	-22%	-26%	25%	25%	16%
Capex as a % of Revenue	2.5%	2.7%	3.0%	2.8%	2.9%	2.7%	2.9%	2.7%	2.7%
Discretionary FCF Yield	1.8%	-0.3%	3.4%	6.6%	7.3%	3.9%	4.9%	6.1%	7.1%
Discretionary FCF % Change YoY	-80%	NM	NM	94%	11%	-47%	25%	25%	16%
Dividend as a % of Net Income	2%	3%	2%	2%	1%	1%	1%	1%	1%
Dividend Yield	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Share Repo as % of Mkt Cap	3%	1%	6%	5%	7%	7%	3%	3%	2%
% of Cash Returned to Shareholders	85%	39%	86%	80%	136%	176%	57%	44%	31%

- Management reaffirmed 2025 manufacturing FCF guidance at \$800-900MM, up 23% y-o-y (74% conversion) on \$1.175-1.275MM of OCF and \$425MM of capex (\$364MM in 2024), with a \$50MM add-back from pension contributions. Capex includes a return to the 2023 baseline with growth to support FLRAA at Bell.
- We estimate \$806MM of FCF in 2025, inclusive of a \$80MM R&D tax impact relative to the \$120MM payment in 2024, as well as the guided \$70MM impact from restructuring including a \$25-35MM cash charge related to late '24 actions (~\$19MM paid in Q1:25) and another \$35-45MM from late 2023 restructuring actions.
- Cash stood at \$1.2BB exiting Q1, with our estimates factoring in ~\$440MM of repurchases in 2025 with \$215MM in Q1. In March, the company refinanced \$500MM of notes at a rate of 5.5% replacing \$350MM of 3.875% Notes as well as incremental borrowings for general corporate purposes. This is an \$14MM annual headwind to interest expense, or \$12MM to 2025E given the March timing.

Source: Jefferies estimates, company data

Textron (TXT): Valuation Relative to History and Market

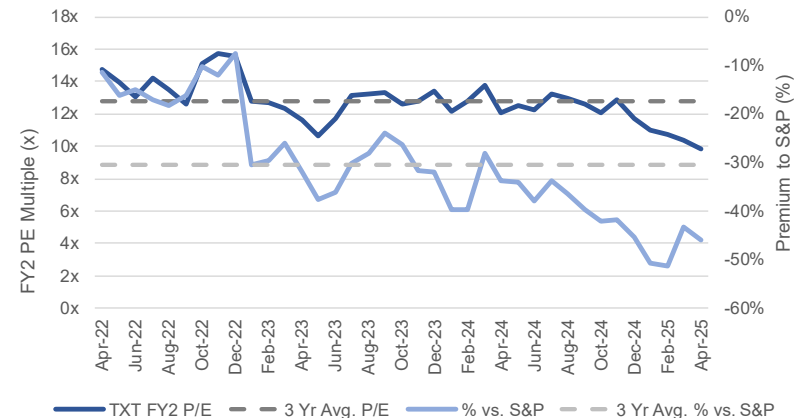
Relative Valuation

Ticker	TXT
Current P/E	9.9x
3 Yr Avg. P/E	12.8x
Current / 3 Yr Avg.	-23%
Prem / Disct SP	-46%
3 Yr Prem / Disct SP	-31%
S&P500 Multiple	18.2x
Current EV/EBITDA	7.9x
3 Yr Avg. EV/EBITDA	9.4x
Current / 3 Yr Avg.	-17%
Prem / Disct SP	-38%
3 Yr Prem / Disct SP	-27%
S&P500 Multiple	12.6x
Current FCF Yield	8.4%
3 Yr Avg. FCF Yield	7.2%
Current / 3 Yr Avg.	-15%
Prem / Disct SP	-45%
3 Yr Prem / Disct SP	-34%
S&P500 Multiple	4.7%

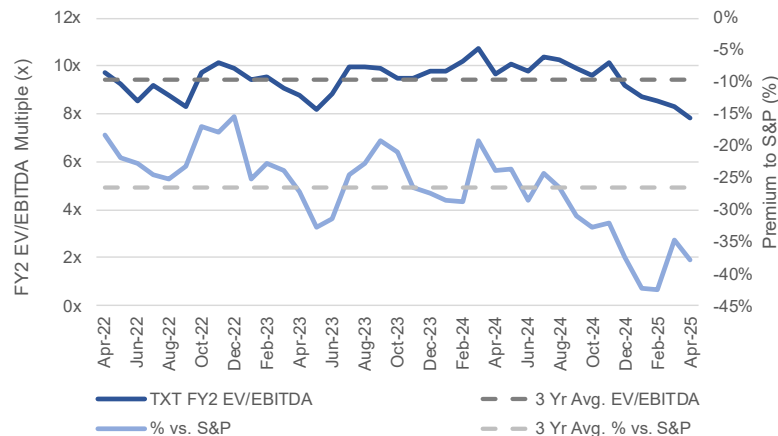
Price Target Derivation

Valuation Method	Price	Assumptions
EV/EBITDA	94	9.1x EV/EBITDA on 2026 EBITDA of \$2.0BB
P/E	82	12.3x P/E on 2026 EPS of \$6.70
FCF	79	7.3% FCF Yield on 2026 FCF of \$1.0BB
Average	\$85	Blended average

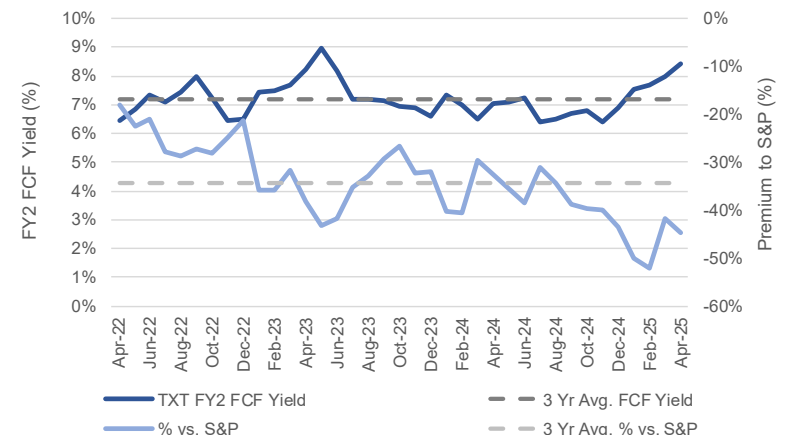
FY2 P/E: 46% Disct to Mkt vs. Historical Avg Disct of 31%



FY2 EV/EBITDA: 38% Disct to Mkt vs. Historical Avg Disct of 27%



FY2 FCF Yield: 45% Disct to Mkt vs. Historical Avg Disct of 34%



Source: Company data, FactSet and Jefferies estimates

Textron (TXT): Income Statement

Year Ending Dec. (MM, except per share data)

	2019		2020		2021		2022		2023		2024		2025E		2026E		2027E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$13,630	100.0%	\$11,651	100.0%	\$12,382	100.0%	\$12,869	100.0%	\$13,683	100.0%	\$13,702	100.0%	\$14,444	100.0%	\$15,320	100.0%	\$15,610	100.0%
Costs and expenses																		
Costs of Sales	11,251	82.5%	9,834	84.4%	10,156	82.0%	10,573	82.2%	11,309	82.7%	11,195	81.7%	11,749	81.3%	12,379	80.8%	12,579	80.6%
Selling, General & Administrative	1,152	8.5	1,045	9.0	1,221	9.9	1,186	9.2	1,225	9.0	1,370	10.0	1,444	10.0	1,524	10.0	1,561	10.0
Provisions for Losses (Finance)	0		0		0		0		0		0		0		0		0	
Total Operating Costs	\$12,403	91.0%	\$10,879	93.4%	\$11,377	91.9%	\$11,759	91.4%	\$12,534	91.6%	\$12,565	91.7%	\$13,193	91.3%	\$13,904	90.8%	\$14,140	90.6%
Operating Profit (EBIT excluding rest.)	\$1,227	9.0%	\$772	6.6%	\$1,005	8.1%	\$1,233	9.6%	\$1,335	9.8%	\$1,347	9.8%	\$1,451	10.0%	\$1,567	10.2%	\$1,620	10.4%
Net interest expense	146		145		124		94		62		78		130		126		122	
Income before taxes	\$1,001	7.3%	\$259	2.2%	\$890	7.2%	\$1,139	8.9%	\$1,273	9.3%	\$1,269	9.3%	\$1,321	9.1%	\$1,441	9.4%	\$1,498	9.6%
Adjusted Taxes (rate %)	127	12.7%	(27)	-10.4%	126	14.2%	126	11.0%	146	11.5%	226	17.8%	235	17.8%	265	18.4%	271	18.1%
Adjusted Net Income, continuing ops	\$937		\$618		\$748		\$1,012		\$1,127		\$1,042		\$1,086		\$1,176		\$1,227	
Income (loss) from discontinued ops	0.0		0.0		(1.0)		0.0		(0.5)		(1.0)		0.0		0.0		0.0	
Adjusted Net Income	\$937	6.9%	\$618	5.3%	\$747	6.0%	\$1,012	7.9%	\$1,126	8.2%	\$1,041	7.6%	\$1,086	7.5%	\$1,176	7.7%	\$1,227	7.9%
Diluted shares (millions)	233		229		227		215		202		190		184		178		174	
Adjusted EPS	\$4.03		\$2.70		\$3.30		\$4.71		\$5.58		\$5.47		\$5.90		\$6.60		\$7.05	

Source: Jefferies estimates, company data

Textron (TXT): Annual Selected Operating Metrics

Year Ending Dec.

(millions, except per share data)	2019	% of sales	2020	% of sales	2021	% of sales	2022	% of sales	2023	% of sales	2024	% of sales	2025E	% of sales	2026E	% of sales	2027E	% of sales
Revenue																		
Textron Aviation	\$5,187	38%	\$3,974	34%	\$4,566	37%	\$5,073	39%	\$5,373	39%	\$5,284	39%	\$6,038	42%	\$6,570	43%	\$6,828	44%
Bell	3,254	24%	3,309	28%	3,364	27%	3,091	24%	3,147	23%	3,579	26%	3,904	27%	4,126	27%	4,033	26%
Textron Systems	1,325	10%	1,313	11%	1,273	10%	1,172	9%	1,235	9%	1,241	9%	1,253	9%	1,303	9%	1,355	9%
Industrial	3,798	28%	3,000	26%	3,130	25%	3,465	27%	3,841	28%	3,515	26%	3,153	22%	3,223	21%	3,294	21%
eAviation	0	0%	0	0%	0	0%	16	0%	32	0%	33	0%	45	0%	47	0%	49	0%
Total Manufacturing	\$13,564	100%	\$11,596	100%	\$12,333	100%	\$12,817	100%	\$13,628	100%	\$13,652	100%	\$14,394	100%	\$15,270	100%	\$15,560	100%
Finance	66	0%	55	0%	49	0%	52	0%	55	0%	50	0%	50	0%	50	0%	50	0%
Total Revenue	\$13,630	100%	\$11,651	100%	\$12,382	100%	\$12,869	100%	\$13,683	100%	\$13,702	100%	\$14,444	100%	\$15,320	100%	\$15,610	100%
Revenue YoY % Change																		
Textron Aviation	4%		-23%		15%		11%		6%		-2%		14%		9%		4%	
Bell	2%		2%		2%		-8%		2%		14%		9%		6%		-2%	
Textron Systems	-9%		-1%		-3%		-8%		5%		0%		1%		4%		4%	
Industrial	-11%		-21%		4%		11%		11%		-8%		-10%		2%		2%	
eAviation	0%		0%		0%		0%		100%		3%		36%		5%		5%	
Total Manufacturing	-2%		-15%		6%		4%		6%		0%		5%		6%		2%	
Finance	0%		-17%		-11%		6%		6%		-9%		0%		0%		0%	
Total Revenue	-2%		-15%		6%		4%		6%		0%		5%		6%		2%	
Operating Income																		
Textron Aviation	\$478	9.2%	\$81	2.0%	\$378	8.3%	\$560	11.0%	\$649	12.1%	\$566	10.7%	\$725	12.0%	\$808	12.3%	\$852	12.5%
Bell	435	13.4%	462	14.0%	408	12.1%	282	9.1%	320	10.2%	370	10.3%	372	9.5%	390	9.5%	381	9.4%
Textron Systems	141	10.6%	189	14.4%	189	14.8%	132	11.3%	147	11.9%	154	12.4%	156	12.5%	167	12.8%	177	13.1%
Industrial	255	6.7%	152	5.1%	140	4.5%	155	4.5%	228	5.9%	151	4.3%	138	4.4%	147	4.5%	155	4.7%
eAviation	0		0		0		(24)	-150.0%	(63)	-196.9%	(76)	-230.3%	(70)	-156.0%	(70)	-148.5%	(70)	-141.5%
Total Manufacturing	\$1,309	9.7%	\$884	7.6%	\$1,115	9.0%	\$1,105	8.6%	\$1,281	9.4%	\$1,165	8.5%	\$1,321	9.2%	\$1,442	9.4%	\$1,495	9.6%
Finance	28		10		19		31		46		35		25		25		25	
Segment Operating Income	\$1,337	9.8%	\$894	7.7%	\$1,134	9.2%	\$1,136	8.8%	\$1,327	9.7%	\$1,200	8.8%	\$1,346	9.3%	\$1,467	9.6%	\$1,520	9.7%
Operating profit Change YoY																		
Textron Aviation	1%		-83%		367%		48%		16%		-13%		28%		12%		5%	
Bell	-3%		6%		-12%		-31%		13%		16%		1%		5%		-2%	
Textron Systems	-21%		34%		0%		-30%		11%		5%		2%		6%		6%	
Industrial	17%		-40%		-8%		11%		47%		-34%		-9%		6%		6%	
eAviation	0%		0%		0%		0%		163%		21%		-8%		0%		0%	
Total Manufacturing	-1%		-32%		26%		-1%		16%		-9%		13%		9%		4%	
Finance	22%		-64%		90%		63%		48%		-24%		-29%		0%		0%	
Segment Operating Income	0%		-37%		30%		10%		4%		-1%		10%		13%		4%	
Manufacturing Incremental	3%		22%		31%		-2%		22%		-483%		21%		14%		18%	

Source: Jefferies estimates, company data

Textron (TXT): Cash Flow Statement

Year Ending Dec.

(millions, except per share data)	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E
Operating Activities									
Net income	\$937	\$618	\$747	\$1,012	\$1,126	\$1,041	\$1,086	\$1,176	\$1,227
Depreciation & Amortization	416	386	380	396	395	382	382	390	397
Op cash flow pre-working capital	\$1,353	\$1,004	\$1,127	\$1,408	\$1,521	\$1,423	\$1,467	\$1,565	\$1,624
Change in inventory	(251)	556	45	(82)	(364)	(157)	(74)	(130)	(3)
Change in receivables	103	134	(51)	(17)	(13)	(81)	(59)	(61)	(20)
Change in payables	279	(602)	10	232	5	(80)	65	61	20
Changes in working capital and other items	131	88	4	133	(372)	(318)	(68)	(130)	(3)
Cash Flow from Operations	\$1,073	\$833	\$1,468	\$1,461	\$1,270	\$1,008	\$1,257	\$1,443	\$1,590
Investment activities									
Capital expenditures	(339)	(317)	(375)	(354)	(402)	(364)	(425)	(425)	(425)
Net cash used for acquisitions	30	(4)	(10)	(235)	(35)	(32)	0	0	0
Other investing activities, net	(428)	(98)	(671)	78	92	108	0	0	0
Cash Flow from Investments	(\$737)	(\$419)	(\$1,056)	(\$511)	(\$345)	(\$288)	(\$425)	(\$425)	(\$425)
Financing Activities									
Change in debt	58	583	(522)	(3)	344	(279)	0	0	0
Other	353	33	771	(31)	(16)	(374)	(15)	(15)	(14)
Shareholders' equity	(503)	(183)	(921)	(867)	(1,168)	(1,122)	(231)	(171)	(349)
Cash Flow from Financing	(\$92)	\$433	(\$672)	(\$901)	(\$840)	(\$1,775)	(\$245)	(\$185)	(\$362)
Net Change in cash items	\$244	\$847	(\$260)	\$49	\$85	(\$1,055)	\$586	\$586	\$833
Cash at the beginning of the period	987	1,231	2,078	1,818	1,867	1,952	897	1,483	2,070
Cash at the end of the period	\$1,231	\$2,078	\$1,818	\$1,867	\$1,952	\$897	\$1,483	\$2,070	\$2,903

Source: Jefferies estimates, company data

United Airlines Holdings, Inc. (UAL) – Buy \$80 PT

1) Cutting 2025 EPS 2% For Domestic; A Recession Lite Scenario

2) International PRASMs Hold its Path (+5.2% in Q1) vs. Some Domestic Softening (-3.9% in Q1)

3) Tight Cost Control w/CASM-X +0.3% in Q1

4) \$2.3BB of FCF in Q1, \$2.4BB for Year Despite \$6.4BB of Capex

Related Notes:

- [A Tale of Two Scenarios, But Uniting Forces to Meet the Numbers](#) *April 17, 2025*
- [Late to the Gate, Downgrade on Holding Pattern; AAL/DAL to Hold; AC/LUV to U/P](#) *April 1, 2025*
- [Uniting the Pieces to Double-Digit Margins](#) *January 26, 2025*

United Airlines (UAL): 2025 Revenues Up 4% Y-o-Y on 4% Higher ASMs

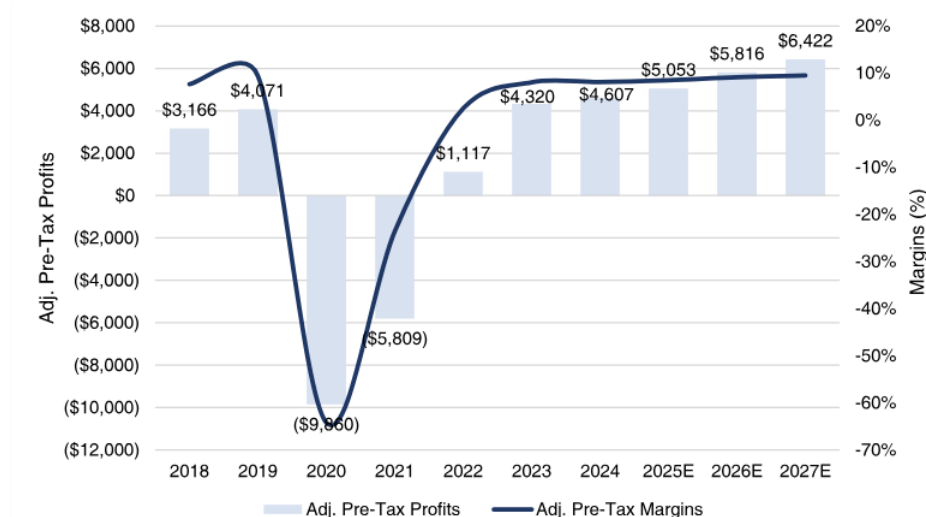
UAL Regional Revenue Breakout - Total Revenue Up 4% Y-o-Y on ASMs Up 4% in 2025 (MM, unless otherwise stated)

Regional Revenue Build	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
ASMs:									
Domestic	161,492	76,302	112,901	145,314	161,324	168,206	176,616	187,213	198,914
Atlantic	52,608	21,071	29,966	57,014	66,641	65,104	67,871	70,077	72,179
Pacific	43,632	12,295	10,041	17,415	33,790	44,301	45,453	46,816	48,221
Latin America	27,267	13,136	25,776	28,115	29,578	33,574	34,917	36,314	37,766
Total ASMs	284,999	122,804	178,684	247,858	291,333	311,185	324,857	340,420	357,080
Total International ASMs	123,507	46,502	65,784	102,544	130,009	142,979	148,241	153,207	158,166
Load Factor									
Domestic	85.2%	63.2%	79.9%	85.5%	85.1%	85.1%	84.3%	85.2%	85.3%
Atlantic	79.6%	50.0%	60.2%	82.7%	82.6%	81.9%	81.9%	82.0%	82.0%
Pacific	80.8%	52.9%	28.9%	68.3%	78.5%	75.4%	77.7%	78.0%	79.0%
Latin America	84.6%	65.4%	69.2%	83.6%	86.4%	85.2%	84.8%	85.0%	85.0%
Total Load Factor	83.4%	60.2%	72.2%	83.4%	83.9%	83.1%	82.9%	83.5%	83.8%
Total International LF	81.1%	55.1%	59.0%	80.5%	82.4%	80.6%	81.3%	81.5%	81.8%
RPMs									
Domestic	137,640	48,251	90,189	124,240	137,329	143,192	148,888	159,506	169,674
Atlantic	41,861	10,534	18,042	47,151	55,039	53,288	55,586	57,463	59,187
Pacific	35,248	6,504	2,907	11,889	26,523	33,422	35,317	36,517	38,095
Latin America	23,062	8,594	17,841	23,511	25,544	28,601	29,610	30,867	32,101
Total RPMs	237,810	73,883	128,979	206,791	244,435	258,503	269,400	284,352	299,056
Total International RPMs	100,171	25,632	38,790	82,551	107,106	115,311	120,513	124,846	129,383
Yield									
Domestic	18.11¢	16.76¢	16.43¢	20.86¢	21.53¢	21.56¢	21.29¢	21.56¢	21.83¢
Atlantic	16.17¢	14.34¢	12.78¢	16.84¢	18.47¢	19.45¢	19.93¢	20.03¢	20.13¢
Pacific	12.49¢	14.13¢	21.05¢	17.87¢	17.53¢	16.71¢	16.68¢	16.93¢	17.01¢
Latin America	15.31¢	14.96¢	13.81¢	17.21¢	18.28¢	17.50¢	17.77¢	17.95¢	18.13¢
Total Network Yield	16.66¢	15.98¢	15.66¢	19.36¢	20.07¢	20.05¢	20.02¢	20.26¢	20.48¢
Total International Yield	14.67¢	14.50¢	13.87¢	17.09¢	18.19¢	18.17¢	18.45¢	18.61¢	18.72¢
Passenger Revenue (\$MM)									
Domestic	\$24,925	\$8,089	\$14,816	\$25,920	\$29,561	\$30,876	\$31,705	\$34,391	\$37,041
Atlantic	6,769	1,511	2,306	7,940	10,165	10,362	11,081	11,512	11,917
Pacific	4,401	919	612	2,125	4,650	5,586	5,889	6,181	6,480
Latin America	3,530	1,286	2,463	4,047	4,670	5,005	5,261	5,539	5,819
Total Passenger Revenue	\$39,625	\$11,805	\$20,197	\$40,032	\$49,046	\$51,829	\$53,937	\$57,623	\$61,256
Total International Passenger Revenue	\$14,700	\$3,716	\$5,381	\$14,112	\$19,485	\$20,953	\$22,231	\$23,232	\$24,216
Non-Passenger Revenue									
Cargo Revenue	1,179	1,648	2,349	2,171	1,495	1,743	1,856	1,952	2,059
Other Revenue	2,455	1,902	2,088	2,752	3,176	3,491	3,805	4,072	4,275
Total Revenue	\$43,259	\$15,355	\$24,634	\$44,955	\$53,717	\$57,063	\$59,598	\$63,647	\$67,591

Source: Company data and Jefferies estimates

United Airlines (UAL): A Pathway to Expanded Margins with United Next Targeting DD

Adj. Pre-Tax Profits - Defined Pathway to Higher Margins vs. United Next 14% Margin Target (MM, unless otherwise stated)



- Q1 CASM-ex up 0.3% y-o-y, supported by some timing benefit from later maintenance expense (pushed into Q2) and the 2-3pt comps from the MAX grounding last year, which points to Q1 being the low-point for 2025 in terms of quarterly y-o-y CASM-ex growth.
- The underlying CASM-ex assumption in UAL's 2025 EPS guide is LSD+, embedding an unchanged estimated headwind of 2-3pts from labor costs (including expected flight attendant contract), another 0.5pt from ongoing investments in the business, and some lingering inflationary headwinds as costs unwind from peak levels, but remain elevated for longer than initially anticipated.
- We estimate CASM-ex up 3.1% y-o-y in 2025 (from +3.4% prior), based on 4% ASM growth. Within that, salaries expense increases 7% y-o-y to encompass wage rate step-ups (est headcount +2%), greater benefits and workrules, and the accrual of the outstanding labor agreement negotiations, including the flight attendants, amounting to a 2-3pt headwind. Maintenance is the other outsized pressure, with our estimate for a 12% y-o-y increase that is seasonally weighted to Q1 and Q4.

Source: Company data and Jefferies estimates

United Airlines (UAL): FCF Generation Funds Sub-2x Leverage and \$1BB+ per Year of Repos

FCF Outlook - Capex Cadence of \$7-9BB Supports \$7BB in Aggregate FCF Generation From 2025-2027 (MM, unless otherwise stated)

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Net Income	\$3,009	(\$7,069)	(\$1,964)	\$737	\$2,618	\$3,149	\$3,968	\$4,434	\$4,875
Depreciation and Amortization	2,288	2,488	2,485	2,456	2,671	2,928	3,067	3,274	3,402
NWC	523	227	1,670	2,255	664	1,901	528	1,292	826
Stock Comp/Deferred Taxes/Other	1,395	221	(124)	618	958	1,467	1,258	1,382	1,548
CFO	7,215	(4,133)	2,067	6,066	6,911	9,445	8,821	10,382	10,650
Adj. Capex	(5,043)	(3,449)	(2,907)	(4,838)	(7,948)	(5,615)	(6,438)	(7,739)	(8,594)
FCF	\$2,172	(\$7,582)	(\$840)	\$1,228	(\$1,037)	\$3,830	\$2,383	\$2,644	\$2,057
FCF / Share	\$5.57	(\$20.11)	(\$2.54)	\$4.04	(\$3.75)	\$14.74	\$8.53	\$8.21	\$6.23
Deployment									
Debt Paydown	(1,240)	(4,449)	(5,205)	(4,011)	(4,248)	(10,138)	(1,582)	(1,980)	(1,000)
Share Repurchase	(1,645)	(353)	0	0	0	(162)	(1,000)	(1,500)	(1,500)
Total Deployment	(\$2,885)	(\$4,802)	(\$5,205)	(\$4,011)	(\$4,248)	(\$10,300)	(\$2,582)	(\$3,480)	(\$2,500)
Inflows									
Debt Issuance	1,847	15,676	11,096	736	2,388	6,139	0	0	0
Equity Issuance	0	2,103	532	0	0	0	0	0	0
Total Inflow	\$1,847	\$17,779	\$11,628	\$736	\$2,388	\$6,139	\$0	\$0	\$0
CFO Y-o-Y Change	17%	-157%	-150%	193%	14%	37%	-7%	18%	3%
FCF Y-o-Y Change	4%	-449%	-89%	-246%	-184%	-469%	-38%	11%	-22%
FCF / Revenue	5%	-49%	-3%	3%	-2%	7%	4%	4%	3%
FCF / EBITDA	32%	118%	47%	25%	-13%	47%	27%	27%	20%
FCF / Net Income	72%	107%	43%	167%	-40%	122%	60%	60%	42%
Capex / Revenue	12%	22%	12%	11%	15%	10%	11%	12%	13%
FCF Yield	6%	-21%	-2%	3%	-3%	11%	7%	7%	6%

- 2025 capex guidance was lowered to sub-\$6.5BB (from sub-\$7BB prior) vs the 2025-2027 midterm guide for \$7-9BB/yr on average. We forecast \$6.4BB in capex this year for the 76 aircraft deliveries. FCF is \$2.4BB in 2025 on our estimate, \$2.6BB in 2026 and \$2.1BB in 2027 on higher capex.
- Longer term, mgmt outlined plans for capex to step up to \$7-9BB during 2025-2027 to support 100 NB deliveries annually, encompassing a range of scenarios from Boeing production standpoint which should account for ~60% of narrowbodies to ~40% A321s. There is downward bias in 2025 due to OEM delays, as reflected in the initial fleet plan. In 2025, we estimate 76 deliveries (from 81 prior), including 8 787s, 44 MAXs, and 25 A321neos.
- Through 2025-2027, we estimate cumulative CFO of \$30BB, offset by \$23BB of aggregate capex that translates to \$7.1BB in aggregate FCF. Our estimates encompass 277 deliveries from 2025 to 2027, requiring ~\$7.6BB of annual capex on average in our estimates.
- On our est, UAL pays off ~\$2BB in debt in both 2025 and 2026, driving leverage to 1.6x EBITDAR in 2025 and 1.4x in 2026. Our ests include \$1BB+/yr of repos in 2025-2027, funded by FCF.

Source: Company data and Jefferies estimates

United Airlines (UAL): Relative Valuation to Peers

Price Target Derivation

Valuation Method	Price	Assumptions
EV/EBITDAR	80	4.0x EV/EBITDAR on 2026E EBITDAR of \$10.1BB
P/E	81	6.0x P/E on 2026E EPS of \$13.60
Average	\$80	Blended Average

Relative Valuation Table (4/21/2025)

Airlines	Ticker	JEF Rating	Stock Px 4/21/2025	Consensus BUY Rating	Market Cap	Enterprise Value	P/E			EV / SALES			EV / EBITDA			Yield	
							2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	Dividend	FCF
Air Canada	AC-CA	Unpf	\$13.85	76%	1,417	10,869	6.8x	5.6x	4.6x	0.5x	0.1x	0.4x	3.2x	2.9x	2.7x	0.0%	0.9%
American Airlines	AAL	Hold	\$9.09	58%	5,977	36,370	6.2x	3.8x	3.2x	0.7x	0.1x	0.6x	7.5x	6.4x	5.8x	0.0%	20.6%
Alaska Airlines	ALK	N/C	\$43.73	78%	5,368	9,478	9.0x	6.5x	5.0x	0.7x	0.3x	0.6x	5.4x	4.4x	4.0x	0.0%	14.8%
Delta Airlines	DAL	Hold	\$39.41	81%	25,733	44,064	7.4x	5.9x	5.1x	0.8x	0.4x	0.7x	5.3x	4.7x	4.3x	1.3%	13.3%
JetBlue	JBLU	N/C	\$3.58	6%	1,269	6,765	N/M	N/M	N/M	0.1x	0.1x	0.6x	11.8x	8.0x	6.1x	0.0%	N/M
Southwest Airlines	LUV	Unpf	\$24.08	20%	13,817	14,733	16.5x	9.1x	7.0x	0.5x	0.5x	0.5x	5.8x	4.3x	3.7x	2.9%	7.2%
Avg. Airlines				53%			9.2x	6.2x	5.0x	0.5x	0.3x	0.6x	6.5x	5.1x	4.4x	0.7%	11.4%
United Airlines	UAL	Buy	\$65.17	85%	21,285	38,875	5.9x	5.0x	4.3x	0.6x	0.6x	0.6x	4.5x	4.0x	3.7x	0.0%	8.1%
Premium / Discount							-35%	-20%	-13%	16%	144%	3%	-30%	-21%	-16%		

Source: Company data, FactSet and Jefferies estimates

United Airlines (UAL): Income Statement

Year Ending Dec.

(millions, except per share data)	2019		2020		2021		2022		2023		2024		2025E		2026E		2027E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$43,259	100.0%	\$15,355	100.0%	\$24,634	100.0%	\$44,955	100.0%	\$53,717	100.0%	\$57,063	100.0%	\$59,598	100.0%	\$63,647	100.0%	\$67,591	100.0%
Cost and Expenses																		
Salaries and Related Costs	12,071	27.9%	9,522	62.0%	9,566	38.8%	11,466	25.5%	14,787	27.5%	16,678	29.2%	17,870	30.0%	18,620	29.3%	19,230	28.5%
Aircraft Fuel	8,953	20.7%	3,153	20.5%	5,755	23.4%	13,113	29.2%	12,651	23.6%	11,756	20.6%	10,787	18.1%	10,705	16.8%	11,031	16.3%
Regional Capacity Purchase	2,849	6.6%	2,039	13.3%	2,147	8.7%	2,299	5.1%	2,400	4.5%	2,516	4.4%	2,696	4.5%	2,894	4.5%	3,142	4.6%
Landing Fees and other rent	2,543	5.9%	2,127	13.9%	2,416	9.8%	2,576	5.7%	3,076	5.7%	3,437	6.0%	3,736	6.3%	4,085	6.4%	4,464	6.6%
Depreciation and Amortization	2,288	5.3%	2,488	16.2%	2,485	10.1%	2,456	5.5%	2,671	5.0%	2,928	5.1%	3,067	5.1%	3,274	5.1%	3,402	5.0%
Aircraft Maintenance Materials and Outside Repairs	1,794	4.1%	858	5.6%	1,316	5.3%	2,153	4.8%	2,736	5.1%	3,063	5.4%	3,151	5.3%	3,438	5.4%	3,642	5.4%
Distribution Expenses	1,651	3.8%	459	3.0%	677	2.7%	1,535	3.4%	1,977	3.7%	2,231	3.9%	2,339	3.9%	2,621	4.1%	2,821	4.2%
Aircraft Rent	288	0.7%	198	1.3%	228	0.9%	252	0.6%	197	0.4%	193	0.3%	233	0.4%	291	0.5%	340	0.5%
Special Charges	246	0.6%	(2,616)	-17.0%	(3,367)	-13.7%	140	0.3%	949	1.8%	112	0.2%	(108)	-0.2%	0	0.0%	0	0.0%
Other operating expenses	6,275	14.5%	3,486	22.7%	4,433	18.0%	6,628	14.7%	8,062	15.0%	9,053	15.9%	10,071	16.9%	11,234	17.7%	12,426	18.4%
Total Operating Costs	\$38,958	90.1%	\$21,714	141.4%	\$25,656	104.1%	\$42,618	94.8%	\$49,506	92.2%	\$51,967	91.1%	\$53,841	90.3%	\$57,162	89.8%	\$60,498	89.5%
Operating Profit	\$4,301	9.9%	(\$6,359)	-41.4%	(\$1,022)	-4.1%	\$2,337	5.2%	\$4,211	7.8%	\$5,096	8.9%	\$5,756	9.7%	\$6,486	10.2%	\$7,092	10.5%
Interest expense	(731)		(1,063)		(1,657)		(1,778)		(1,956)		(1,629)		(1,372)		(1,214)		(1,030)	
Interest capitalized	85		71		80		105		182		227		192		146		103	
Interest income	133		50		36		298		827		726		548		399		257	
Unrealized gains (losses) on investments, net	153		(194)		(34)		20		27		(199)		(21)		0		0	
Miscellaneous, net	(27)		(1,327)		40		8		96		(53)		36		0		0	
Income before taxes	\$3,914	9.0%	(\$8,822)	-57.5%	(\$2,557)	-10.4%	\$990	2.2%	\$3,387	6.3%	\$4,168	7.3%	\$5,140	8.6%	\$5,816	9.1%	\$6,422	9.5%
Taxes (rate %)	905	23.1%	(1,753)	19.9%	(593)	23.2%	253	25.6%	769	22.7%	1,019	24.4%	1,172	22.8%	1,382	23.8%	1,548	24.1%
Net Income	\$3,009	7.0%	(\$7,069)	-46.0%	(\$1,964)	-8.0%	\$737	1.6%	\$2,618	4.9%	\$3,149	5.5%	\$3,968	6.7%	\$4,434	7.0%	\$4,875	7.2%
Diluted Shares (millions)	260		279		322		330		332		333		332		326		323	
GAAP EPS	\$11.58		(\$25.30)		(\$6.10)		\$2.23		\$7.89		\$9.45		\$11.95		\$13.60		\$15.10	
GAAP Pre-Tax Loss	3,914		(8,822)		(2,557)		990		3,387		4,168		5,140		5,816		6,422	
Special charges (credit)	246		(2,616)		(3,367)		140		949		112		(108)		0		0	
Special Termination Benefits	0		687		31		0		0		0		0		0		0	
Unrealized (gain) losses on investments, net	(153)		194		34		(20)		(27)		199		21		0		0	
Debt extinguishment and modification fees	0		0		50		7		11		128		0		0		0	
Credit loss on BRW term loan and guarantee	0		697		0		0		0		0		0		0		0	
Other adjustments	64		0		0		0		0		0		0		0		0	
GAAP Income Tax	905		(1,753)		(593)		253		769		1,019		1,172		1,382		1,548	
Tax adjustments	35		(404)		(728)		33		200		54		(20)		0		0	
Special income tax adjustments	0		0		0		0		14		0		0		0		0	
Adjusted Income Tax	940		(2,157)		(1,321)		286		983		1,073		1,152		1,382		1,548	
Adjusted Net Earnings	\$3,131		(\$7,703)		(\$4,488)		\$831		\$3,337		\$3,534		\$3,901		\$4,434		\$4,875	
Adjusted EPS	\$12.05		(\$27.57)		(\$13.94)		\$2.52		\$10.05		\$10.61		\$11.75		\$13.60		\$15.10	

Source: Company data and Jefferies estimates

United Airlines (UAL): Balance Sheet

Year Ending Dec.

(millions, except per share data)	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Assets:									
Cash and cash equivalents	\$2,762	\$11,524	\$18,320	\$7,166	\$6,058	\$8,769	\$9,178	\$7,911	\$7,467
Short-term investments	2,182	414	123	9,248	8,330	5,706	5,706	5,706	5,706
Receivables, less allowance for credit losses	1,364	1,295	1,663	1,801	1,898	2,163	2,041	2,005	1,944
Aircraft fuel, spare parts and supplies, less obsoles	1,072	932	983	1,109	1,581	1,572	1,559	1,568	1,571
Prepaid expenses and other current assets	814	635	745	734	640	673	680	690	692
Total Current Assets	8,194	14,800	21,834	20,058	18,487	18,883	19,164	17,877	17,381
Total operating property and equipment, net	30,170	31,466	32,074	34,448	39,815	42,908	46,793	50,797	54,702
Operating lease right-of-use assets	4,758	4,537	4,645	3,889	3,914	3,815	3,744	3,675	3,607
Goodwill	4,523	4,527	4,527	4,527	4,527	4,527	4,527	4,527	4,527
Intangibles, less accumulated amortization	3,009	2,838	2,803	2,762	2,725	2,683	2,683	2,683	2,683
Restricted Cash	106	218	213	210	245	0	1,172	2,554	4,102
Notes receivable, less allowance for credit losses	671	31	76	91	0	0	0	0	0
Investments in affiliates and other, net	1,180	1,103	2,003	1,373	1,391	1,267	1,267	1,267	1,267
Total Assets	\$52,611	\$59,520	\$68,175	\$67,358	\$71,104	\$74,083	\$79,351	\$83,380	\$88,269
Liabilities:									
Advance ticket sales	4,819	4,833	6,354	7,555	6,704	7,561	7,983	8,528	9,066
Accounts payable	2,703	1,595	2,562	3,395	3,835	4,193	4,202	4,293	4,417
Frequent flyer deferred revenue	2,440	908	2,239	2,693	3,095	3,403	3,603	3,753	3,853
Accrued salaries and benefits	2,271	1,960	2,121	1,971	2,940	3,289	3,485	3,538	3,557
Current maturities of long-term debt	1,407	1,911	3,002	2,911	4,018	3,453	4,000	4,000	4,000
Current maturities of sale-leasebacks	0	0	834	23	57	0	0	0	0
Current maturities of finance leases	46	182	76	104	172	0	0	0	0
Current maturities of operating leases	686	612	556	561	576	467	467	467	467
Payroll Support Program deferred credit	0	0	0	0	0	0	0	0	0
Other	566	728	560	779	806	948	954	955	946
Total Current Liabilities	14,938	12,729	18,304	19,992	22,203	23,314	24,693	25,534	26,306
LT debt	13,145	24,836	30,361	28,283	25,057	25,203	19,071	17,091	16,091
LT obligations under finance leases	220	224	219	115	91	0	0	0	0
LT obligations under operating leases	4,946	4,986	5,152	4,459	4,503	4,510	4,510	4,510	4,510
Frequent flyer deferred revenue	2,836	5,067	4,043	3,982	4,048	4,038	4,038	4,038	4,038
Postretirement benefit liability	789	994	1,000	671	637	1,233	1,233	1,233	1,233
Pension Liability	1,446	2,460	1,920	747	968	0	0	0	0
Deferred Income Taxes	1,738	0	0	0	594	1,580	2,752	4,134	5,682
Other Financial Liabilities	0	0	863	844	2,265	0	0	0	0
Other	1,024	2,296	1,284	1,389	1,414	1,530	1,530	1,530	1,530
Total Liabilities	\$41,080	\$53,592	\$63,146	\$60,462	\$61,780	\$61,408	\$57,827	\$58,070	\$59,390
Total Stockholder's Equity	\$11,531	\$5,928	\$5,029	\$6,896	\$9,324	\$12,675	\$21,524	\$25,311	\$28,879
Total Liabilities and Equity	\$52,611	\$59,520	\$68,175	\$67,358	\$71,104	\$74,083	\$79,351	\$83,380	\$88,269

Source: Company data and Jefferies estimates

United Airlines (UAL): Cash Flow Statement

Year Ending Dec.

(millions, except per share data)	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Operating activities:									
Net income	\$3,009	(\$7,069)	(\$1,964)	\$737	\$2,618	\$3,149	\$3,968	\$4,434	\$4,875
Adjustments									
Deferred income taxes	882	(1,741)	(583)	248	756	935	1,172	1,382	1,548
Depreciation and amortization	2,288	2,488	2,485	2,456	2,671	2,928	3,067	3,274	3,402
Special charges, non-cash portion	175	1,448	32	16	84	158	(108)	0	0
Unrealized (gains) losses on investments	153	194	34	(20)	(27)	199	19	0	0
Other operating activities	185	320	393	374	145	175	175	0	0
Changes in operating assets and liabilities									
(Increase) decrease in receivables	44	135	(448)	(158)	(100)	280	122	36	61
(Increase) decrease in other assets	(252)	484	(292)	(86)	(463)	(166)	6	(17)	(8)
Increase in advance ticket sales	438	14	1,521	1,200	(851)	857	422	546	538
Increase (decrease) in frequent flyer deferred reven	271	699	307	393	468	298	200	150	100
Increase (decrease) in accounts payable	324	(1,079)	985	796	572	178	9	91	123
Increase (decrease) in other liabilities	(302)	(26)	(403)	110	1,038	454	201	54	11
Net cash from operating activities	\$7,215	(\$4,133)	\$2,067	\$6,066	\$6,911	\$9,445	\$9,253	\$9,951	\$10,650
Investing activities									
Capital expenditures	(4,528)	(1,727)	(2,107)	(4,819)	(7,171)	(5,615)	(6,438)	(7,739)	(8,594)
Purchases of short-term and other investments	(2,897)	(552)	(68)	(11,232)	(9,470)	(5,809)	0	0	0
Proceeds from sale of ST investments	2,996	2,319	504	2,084	10,519	8,661	0	0	0
Loans made to others	(174)	0	0	0	0	0	0	0	0
Investment in affiliates	(36)	0	0	0	0	0	0	0	0
Other, net	79	10	(1)	138	16	112	0	0	0
Net cash from investing activities	(\$4,560)	\$50	(\$1,672)	(\$13,829)	(\$6,106)	(\$2,651)	(\$6,438)	(\$7,739)	(\$8,594)
Financing activities									
Proceeds from issuance of short-term debt	0	0	0	0	0	0	0	0	0
Proceeds from issuance of long-term debt	1,847	15,676	11,096	736	2,388	6,139	0	0	0
Proceeds from equity issuance	0	2,103	532	0	0	0	0	0	0
Payments of long-term debt	(1,240)	(4,449)	(5,205)	(4,011)	(4,248)	(10,138)	(1,582)	(1,980)	(1,000)
Repurchases of common stock	(1,645)	(353)	0	0	0	(162)	(1,000)	(1,500)	(1,500)
Principal payments under finance leases	(151)	0	0	0	0	0	0	0	0
Capitalized financing costs	(61)	0	0	0	0	0	0	0	0
Other, net	(30)	(20)	(27)	(74)	(32)	(21)	0	0	0
Net cash from financing activities	(\$1,280)	\$12,957	\$6,396	(\$3,349)	(\$1,892)	(\$4,182)	(\$2,582)	(\$3,480)	(\$2,500)
Net Increase in Cash	\$1,375	\$8,874	\$6,791	(\$11,112)	(\$1,087)	\$2,612	\$232	(\$1,268)	(\$443)
Beginning cash	1,789	3,164	12,038	18,533	7,421	6,334	8,946	9,178	7,911
Ending cash	\$3,164	\$12,038	\$18,829	\$7,421	\$6,334	\$8,946	\$9,178	\$7,911	\$7,467

Source: Company data and Jefferies estimates

Virgin Galactic Holdings (SPCE) – Buy \$8 PT

1) Defined Catalysts for the Stock Anchored Around Executing on the Timeline

2) All Tied to Unlocking the Full Business Model

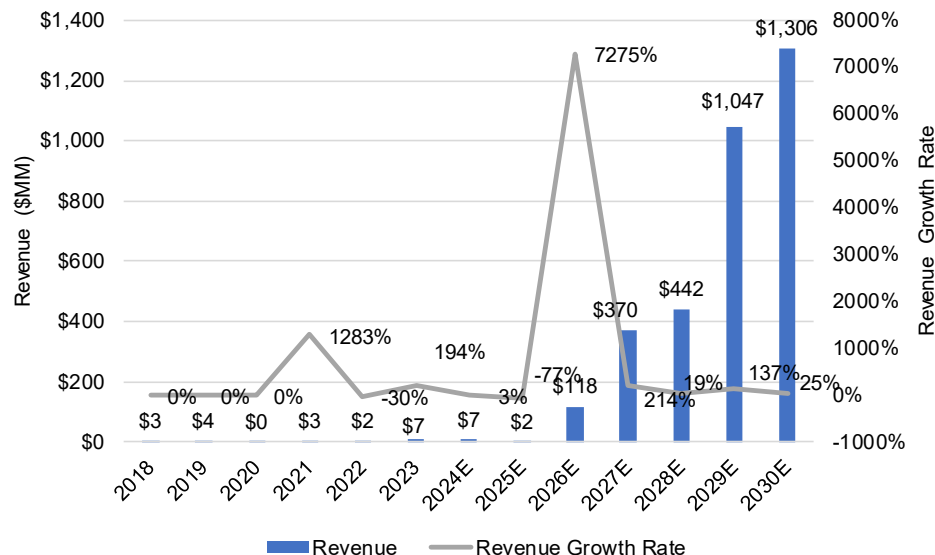
3) Cash Provides a Window of Safety

Related Notes:

- [Firming Timeline for 2026 Prosperity With Balance Sheet Providing a Cushion](#) *March 2, 2025*
- [Base Plan Stays on Track, with Acceleration of Expansion Plans](#) *November 7, 2024*
- [MGMT Meetings: All Delta As Execute Toward a Plan](#) *October 4, 2024*

Virgin Galactic (SPCE): Revenues to Reach \$370MM in 2027E on 720 Passengers

Revenue Growth to Accelerate in 2026E as Commercial Flights Relaunch on Delta Introduction w/More Full Run Rate in 2027

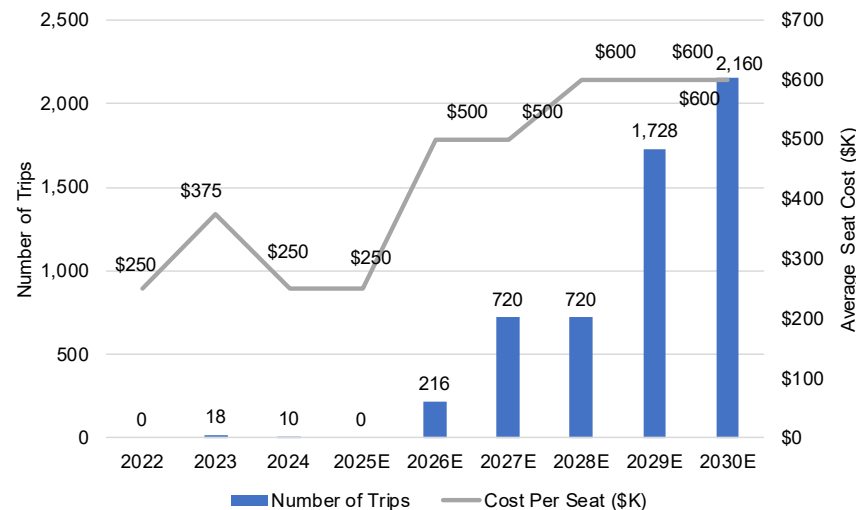


- Growth in revenue should be driven by growing demand for commercial space travel, coupled with the ability to support the demand through increased utilization of assets. Acceleration comes with the introduction of the Delta Class ship, which could be introduced into private astronaut in the fall 2026 timeframe.
- 2023 saw a step-up in revenues as Virgin Galactic ramped up flights to meet growing demand. Virgin completed Galactic 05 on November 2, the sixth and final suborbital spaceflight of the year, with Galactic 06 completed on January 26, 2024. With Galactic 07 completed in June, Virgin has shifted assets to a focus on Delta development.
- Revenues should be subdued in 2025 with the main activity around Delta development. 2025 could see modest revenue from the amortization of spaceflight membership revenue. The big acceleration is in 2026, as Delta begins commercial service with a magnified benefit from the ability of two spaceships and one mothership to support > 10 flights per month vs. the capacity of 1 per month for Unity. Partial revenue flights should launch in summer 2026 with research spaceflights, with full-scale flights in the Fall of 2026 tied to private astronaut flights.

Source: Company data and Jefferies estimates

Virgin Galactic (SPCE): Revenues to Reach \$370MM in 2027E on 720 Passengers

Number of Paid Passengers Start Stepping Up in Late 2026E

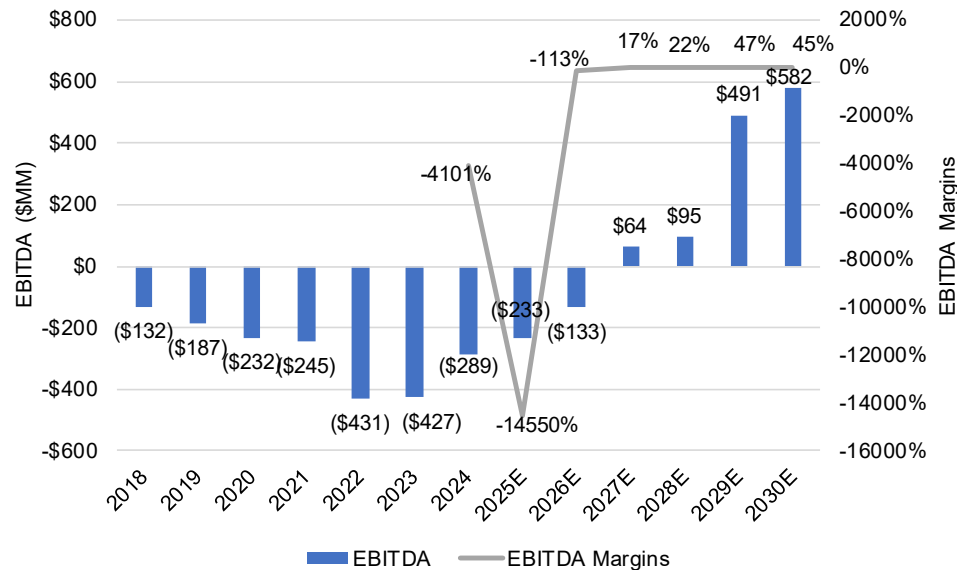


- Near term it is about ramping capacity to meet demand. The real ramp comes with the introduction of additional motherships coupled with Delta Class. The major pieces are now in place with Virgin Galactic facilitated to transition from R&D to development/production. This has included:
 - **Locking in the Production Ramp of Delta.** Virgin selected Mesa, AZ in July 2022 as the site of its Delta Class manufacturing facility. The site furthers the plan to have capacity to produce up to six spaceships per year. This number is lower given the increased durability of the Delta in addition to absorbing production of the new mothership. Assembly is expected to start in March 2025, with building and testing continuing through summer/fall/winter 2025.
 - **Locking in the Supply Base.** On November 2, 2022, Virgin Galactic announced major primary supply for the Delta Class spaceships. This supports production. Textron Bell will supply the unique feathering system and flight control surfaces, with Qarbon Aerospace producing the fuselage and wing.

Source: Company data and Jefferies estimates

Virgin Galactic (SPCE): High Incremental Margins with EBITDA Positive in 2027E

EBITDA to Turn in 2027E with Ramp of Delta



- Virgin Galactic's success is largely predicated on volume given a high fixed cost base, which includes building the actual spacecraft and the facilities to host and provide the full experience to astronauts.
- During Q4:24, SPCE generated Adj. EBITDA of -\$63.4MM, an improvement from the \$83.8MM loss a year ago. On our estimates, losses peaked in 2023 before improving as focus shifts to Delta development, which includes the \$25MM of savings from prior restructuring, coupled with some element of R&D shifting to capex, as investments are more focused on areas such as tooling, test equipment, and building early aircraft for test flights.
- Virgin is targeting 20-25% EBITDA margins as the first set of Delta spaceships ramp and enter service, with the expanded fleet scenario (four Deltas, two motherships) supporting 45 to 50% margins. With the addition of a second spaceport and fixed cost rationalization, SPCE forecasts EBITDA margins exceeding 50%. We expect an ongoing ramp in profitability as fixed costs are leveraged and turning positive in 2027 with ~47% EBITDA margins in 2029 on a more expanded fleet of two motherships and four deltas.

Source: Company data and Jefferies estimates

Virgin Galactic (SPCE): Cash Flow Growth Supported by SpaceShip Ramp and Deposits

OCF Turns Positive in 2027E (\$MM)

	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Net Income	(138)	(211)	(273)	(353)	(500)	(502)	(347)	(305)	(195)	(33)	(23)	343	419
Depreciation and Amortization	6	7	10	12	11	13	15	32	43	59	70	80	91
NWC	(13)	(7)	(0)	14	50	8	(38)	18	36	30	7	59	8
Stock Comp/Deferred Taxes/Other	(1)	2	30	96	59	33	17	30	30	30	30	30	30
CFO	(146)	(209)	(233)	(231)	(380)	(448)	(353)	(225)	(85)	86	84	512	548
Capex	(11)	(14)	(17)	(5)	(16)	(44)	(122)	(200)	(160)	(160)	(160)	(160)	(160)
FCF	(156)	(223)	(250)	(235)	(397)	(493)	(475)	(425)	(245)	(74)	(76)	352	388
FCF Per Share	(\$0.81)	(\$1.15)	(\$1.14)	(\$0.95)	(\$1.50)	(\$29.21)	(\$19.01)	(\$11.13)	(\$3.88)	(\$0.98)	(\$1.01)	\$4.66	\$5.12

Ratios

FCF / Revenue	N/A	N/A	N/A	-7151%	-17160%	-7243%	-6745%	-26561%	-208%	-20%	-17%	34%	30%
FCF / EBITDA	118%	119%	108%	96%	92%	115%	164%	183%	184%	-115%	-80%	72%	67%
FCF / Net Income	113%	106%	92%	67%	79%	98%	137%	139%	126%	226%	329%	103%	93%
FCF yield	-13%	-19%	-21%	-20%	-34%	-42%	-40%	-36%	-21%	-6%	-7%	30%	33%
Cash / share	\$0.00	\$2.47	\$3.04	\$3.66	\$3.56	\$56.08	\$25.02	\$8.69	\$4.54	\$4.13	\$3.12	\$7.78	\$12.90

- Free cash flow improvement is largely tied to revenue and the crossover in profitability that comes from a step-up in commercial flight activity. Working capital usage and capex requirements have been pretty modest until this point. Given the absence of revenue, capital usage has largely been tied to supporting the business in its pre-revenue phase, which includes both the building of spaceships (R&D) and overall G&A to support the business.
- FCF usage improved slightly in 2024 at \$475MM, with an improvement in 2025 as R&D activity tapers down with \$425MM of usage. FCF usage is expected to improve sequentially throughout the year, exiting the year below \$100MM usage vs. the guidance for \$115MM to \$125MM usage in Q1. The introduction of rapidly expanding flights/revenue in 2026 further improves the FCF outlook.
- Virgin has set a target of being FCF positive exiting 2026, which seems reasonable based on the ramp of the Delta Class satisfying demand. We are slightly more conservative given capex spending tied to growth and expanding beyond the initial two ships.

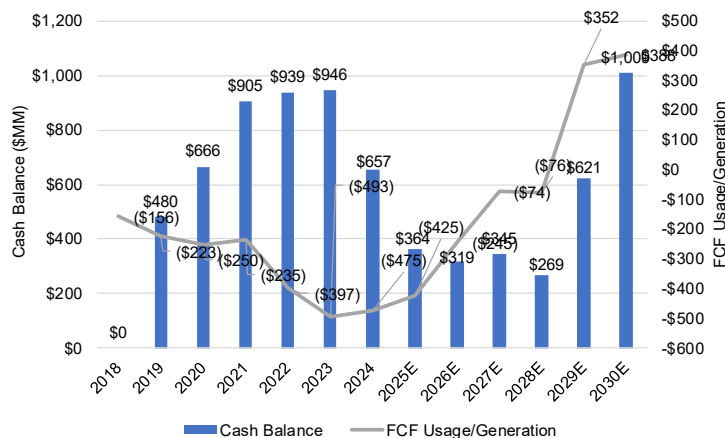
Source: Company data and Jefferies estimates

Virgin Galactic (SPCE): Cash Flow Growth Supported by Ramp and Deposits

Deposits Should Stabilize as Focus Is on Ramping Commercial Flights and Restarting Sales in Late 2025

	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Starting Deposits	\$80	\$91	\$103	\$98	\$84	\$84	\$117	\$124	\$131	\$149
Completed Passenger Flights	12	0	18	10	0	216	720	720	1,728	2,160
Liquidation Per Flight	0.13	0.13	0.20	0.20	0.20	0.15	0.20	0.20	0.20	0.20
Total Liquidation	\$2	\$0	\$4	\$2	\$0	\$32	\$144	\$144	\$346	\$432
New Sales	108	80	-10	-70	0	259	756	756	1,814	2,268
Deposits	0.15	0.15	0.15	0.15	0.20	0.25	0.20	0.20	0.20	0.20
Total Deposits	\$16	\$12	-\$2	-\$11	\$0	\$65	\$151	\$151	\$363	\$454
Ending Deposits	\$91	\$103	\$98	\$84	\$84	\$117	\$124	\$131	\$149	\$170

Cash Balance Is Adequate to Fund Near-Term Expansion



- Currently, Virgin Galactic has \$84MM in deposits, which are from the initial round of signups in 2014, coupled with recent orders. At a price per flight of \$450K, each contract included a \$150k deposit, of which \$25k is nonrefundable.
- New flights have risen to \$600K and will likely include similar deposits. Customer deposits were a source of \$11.8MM of cash in 2022 but a use of \$4.8MM in 2023 and \$13MM in 2024, given the timing of the rundown in backlog and lack of availability of near-term flights.
- Virgin Galactic's balance sheet should be adequate to fund near-term expansion, with SPCE expecting the \$657MM to be enough to get the company through development of Delta and to be FCF positive in 2026/2027 as flights ramp.

Source: Company data and Jefferies estimates

Virgin Galactic (SPCE): Valuation

Price Target Derivation

DCF implied target price	
WACC	17.0%
Growth rate	2.8%
NPV up to 2030	(395)
TV @ PV	1,279
Enterprise Value	884
Net debt	156
Equity value	728
Number of shares	93
Equity value per share (\$)	\$8
Current market price	\$3.35
Difference	133.0%

Source: Company data, FactSet and Jefferies estimates

Virgin Galactic (SPCE): Income Statement

Year Ending Jan.

(millions, except per share data)	2021		2022		2023		2024		2025E		2026E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$3	100.0	\$2	100.0	\$7	100.0	\$7	100.0	\$2	100.0	\$118	100.0
Costs and expenses												
Customer Experience	0	NM	2	82.4%	51	743.2%	90	1279.5%	96	6000.0%	130	110.0%
SG&A	173	NM	175	NM	179	2636.2%	125	1783.6%	108	6775.0%	119	100.4%
R&D	149	NM	314	NM	295	4340.3%	153	2170.0%	80	5000.0%	53	45.0%
D&A	0	NM	11	NM	13	196.6%	15	219.8%	32	2012.7%	43	36.3%
Total Operating Costs	\$323	9798%	\$502	21726%	\$538	7916%	\$384	5453%	\$317	19788%	\$344	292%
GAAP Operating Profit	(\$319)	NM	(\$500)	NM	(\$532)	NM	(\$377)	NM	(\$315)	NM	(\$226)	NM
Change in fair value of warrants	(35)		0		0		0		0		0	
Interest income (expense), net	1		0		29		29		10		10	
Other income (expense), net	0		0		0		1		0		0	
Pre-Tax Income	(353)		(500)		(502)		(347)		(305)		(216)	
Taxes	(0)		(1)		(0)		(0)		0		22	
Net Income From Continuing Ops	(\$353)		(\$500)		(\$502)		(\$347)		(\$305)		(\$195)	
Foreign currency translation adjustment	(2)		(5)		(0)		(0)		(0)		(0)	
GAAP Net Income	(\$355)		(\$506)		(\$502)		(\$347)		(\$305)		(\$195)	
Diluted shares (millions)	247.6		263.9		16.9		25.0		38.2		63.2	
GAAP Diluted EPS	(\$1.43)		(\$1.89)		(\$29.79)		(\$13.89)		(\$7.99)		(\$3.08)	
EBITDA	(\$244.8)		(\$430.6)		(\$427.0)		(\$288.5)		(\$232.8)		(\$133.4)	

Source: Company data and Jefferies estimates

Virgin Galactic (SPCE): Cash Flow Statement

Year Ending Jan.

(millions, except per share data)	2021	2022	2023	2024	2025E	2026E
Net loss	(353)	(500)	(502)	(347)	(305)	(195)
Stock-based compensation	62	46	44	30	30	30
Depreciation and Amortization	12	11	13	15	32	43
Change in fair value of warrant liability	35	0	2	0	0	0
Other operating activities	0	13	(14)	(13)	0	0
Change in asset and liabilities	0	0	0	0	0	0
Accounts receivable	0	0	0	0	0	0
Inventories	1	6	5	0	0	0
Prepayments	0	0	0	0	0	0
Other current and non-current assets	(3)	(3)	12	11	0	0
Accounts payable and accrued liabilities	8	35	(2)	(29)	18	4
Customer deposits	8	12	(5)	(13)	0	32
Other current and non-current liabilities	1	1	(1)	(6)	0	0
Cash from Operations	(\$231)	(\$380)	(\$448)	(\$353)	(\$225)	(\$85)
Cash flows from investing activities	0	0	0	0	0	0
Purchase of PP&E	(5)	(16)	(44)	(122)	(200)	(160)
Other	(383)	(270)	(72)	298	0	0
Net cash used in investing activities	(\$388)	(\$286)	(\$116)	\$176	(\$200)	(\$160)
Cash flows from financing activities:	0	0	0	0	0	0
Payments of finance lease obligations	(0.1)	(0.2)	(0.2)	(0.2)	0.0	0.0
Issuance/Repayment of note payable	(0.3)	425.0	0.0	0.0	0.0	0.0
Parent company proceeds/transfer	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from common stock	520	103	484	138	100	200
Transaction costs	0	0	(5)	(2)	0	0
Withholding taxes paid	(23)	(4)	(3)	(1)	0	0
Other	(7)	(65)	0	(0)	0	0
Net cash used in financing activities	\$489	\$459	\$475	\$134	\$100	\$200
Total cash flow	(129)	(207)	(89)	(43)	(325)	(45)
Cash at the beginning of the period	679.0	930.9	939.4	945.6	657.0	332.0
Cash/Marketable Securities	\$931	\$939	\$946	\$657	\$332	\$287

Source: Company data and Jefferies estimates

VSE Corporation (VSEC) – Buy \$150 PT

- 1) **Adjusting 2026 EPS to \$4.50 to Reflect Interest Post Turbine Weld and Normalized Tax Rate**
- 2) **Double Digit Organic Aviation Growth in 2025**
- 3) **Aviation Margins Started Strong, De-Risking 16-17% Guide**
- 4) **FCF Improving with Portfolio Moves**

Related Notes:

- [This WELDED Aviation Pureplay is EaTiNg](#) *May 11, 2025*
- [Kellstrom Solidifies Proprietary Distribution & Services Model 7% EPS Accretion](#) *December 10, 2024*
- [Aftermarket Double Digit on Deck for '25%; With Deal Integration on Tap](#) *November 10, 2024*

VSE Corp. (VSEC): 11% Organic Revenue CAGR Through 2027 Supported by New Wins and Continued Market Growth

Aviation Revenue - Durable Above Market Growth with 11% Organic CAGR Through 2027E (\$MM)

Aviation Revenues	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Repair	56.0	119.0	82.4	75.7	107.4	157.2	293.1	322.4	367.5	404.3
Distribution	89.5	105.5	82.6	172.1	300.7	386.9	493.2	542.5	602.2	662.4
Aviation Revenues	\$145	\$225	\$165	\$248	\$408	\$544	\$786	\$1,088	\$1,220	\$1,342
% YoY		54%	-26%	50%	65%	33%	45%	38%	12%	10%
% Organic		11%	-14%	36%	42%	20%	16%	10%	12%	10%
% M&A		43%	-13%	14%	23%	13%	28%	28%	0%	0%
% YoY Change										
Repair		113%	-31%	-8%	42%	46%	86%	10%	14%	10%
Distribution		18%	-22%	108%	75%	29%	27%	10%	11%	10%
Aviation Revenues		54%	-26%	50%	65%	33%	45%	38%	12%	10%
% Composition										
Repair	38%	53%	50%	31%	26%	29%	37%	37%	38%	38%
Distribution	62%	47%	50%	69%	74%	71%	63%	63%	62%	62%
Aviation Revenues	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

- **Distribution (63% of 2025E sales)** is supported by a new Hamburg, Germany facility that reached full capacity in Q4:24 to support the PWC EMEA contract signed in 2023. We assume 10% organic distribution growth for the year with 2026 expected up 11% organically with support from overall market growth in the HSD-LDD range as well as continued market share gains. Q1 grew 49% on a reported basis and a little over 12% organically.
- **MRO (37% of 2025E sales)** grew 76% y-o-y in 2024 and mid-teens organically with the TCI acquisition contributing ~\$86MM and Kellstrom also incorporated into the reported number (\$15MM in Q4 with ~45% from MRO incl USM). TCI has been tracking ahead of expectations at the time of the acquisition with an annual contribution likely closer to \$120MM than the initial guide of \$85MM. We assume 10% organic MRO growth for 2025 incorporating some slowness in USM in Q1 with a rebound for the remainder of the year with normal ebbs and flows of demand.

Source: Jefferies estimates, company data

VSE Corp. (VSEC): Profitability: EBITDA Margins to Expand from 15.5% in 2025E to 16.3% in 2027E

Aviation Profit Bridge - Expansion Towards 17% Margins from Volume Leverage, Improved Mix, and Productivity Efforts (\$MM)

Aviation	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Start Segment Profit	\$11.1	\$17.9	(\$35.5)	(\$14.4)	\$36.4	\$71.2	\$101.4	\$135.4	\$158.6
Distribution - Organic Volume / Price / Mix	(6.5)	(16.5)	47.2	42.0	19.4	5.3	9.9	11.9	12.0
Repair - Organic Volume / Price / Mix	15.8	(9.1)	(1.7)	7.9	12.4	12.4	5.9	11.3	9.2
M&A	6.3	(2.9)	2.3	5.6	5.3	21.4	22.3	0.0	0.0
Amortization / Corporate	(6.8)	0.0	(2.9)	(4.7)	(2.4)	(8.9)	(4.0)	0.0	0.0
Productivity & Other	(1.9)	(24.9)	(23.7)	0.0	0.0	0.0	0.0	0.0	0.0
Ending Segment Profit	\$17.9	(\$35.5)	(\$14.4)	\$36.4	\$71.2	\$101.4	\$135.4	\$158.6	\$179.9
% Margin	8.0%	-21.5%	-5.8%	8.9%	13.1%	12.9%	12.4%	13.0%	13.4%
Depreciation & Amortization	12.4	10.7	11.1	12.7	16.1	25.5	37.0	41.5	45.6
Adjustments	1.9	37.7	24.6	3.0	0.1	4.6	7.3	6.0	6.0
Adj. EBITDA	\$32.2	\$12.9	\$21.3	\$52.1	\$87.4	\$131.5	\$179.7	\$206.1	\$231.5
% Margin	14.3%	7.8%	8.6%	12.8%	16.1%	16.7%	16.5%	16.9%	17.3%
% YoY		-60%	66%	145%	68%	51%	37%	15%	12%
% Distribution Organic Incremental	-41%	72%	53%	33%	23%	10%	20%	20%	20%
% Repair Organic Incremental	25%	25%	25%	25%	25%	25%	20%	25%	25%
% M&A Incremental	10%	10%	10%	10%	10%	10%	10%	15%	15%

- VSEC Aviation achieved 16.9% adjusted EBITDA margins in Q1, down 60 bps y-o-y from 17.5% in Q1:24 after adjusting out SBC. 2024 was ~16.7% on our estimate based on new adjustments (vs 16.3% including SBC). Guidance in 2025 now excludes SBC at 16-17% driven by 90 bps of dilution from Kellstrom at an ~11% EBITDA margin prior to synergies. The TCI acquisition closed in April 2024 and is accretive to segment EBIT.
- Our estimates factor in adj. EBITDA of \$180MM in 2025 for 16.5% margins, up 37% y-o-y on 38% sales growth. Margins are down 20 bps y-o-y. We use 20% organic incrementals in Distribution given integration activities in 2024 not repeating, 20% organic incrementals in Repair, as well as 10% of contribution margin from M&A on an EBIT basis including some synergies.
- Management indicated a more balanced mix would be ideal between Distribution, which accounts for ~65% of segment revenues, and Repair, the remaining ~35%. Broadly, the MRO repair work is higher-margin and expected to help drive margins toward ~20% longer term.

VSE Corp. (VSEC): FCF Expected to Be Positive in the Remainder of 2025E

FCF Build - Significant W/C Investments for Initial Provisioning of New Business Overrides Cash Generation (\$MM)

	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Net Income	\$37	(\$5)	\$8	\$28	\$39	\$15	\$68	\$94	\$115
Depreciation and Amortization	27	24	25	25	23	29	39	41	46
Accounts Receivable	(3)	8	(9)	(27)	(26)	(40)	(9)	(25)	(23)
Inventory	(44)	(50)	(80)	(59)	(88)	(32)	(33)	(37)	(11)
Accounts Payable	8	4	33	36	24	(32)	(14)	15	19
Other NWC	(11)	17	(19)	(1)	(3)	(3)	(15)	13	2
Stock Comp/Deferred Taxes/Other	5	39	25	6	8	32	13	14	14
CFO	\$18	\$36	(\$18)	\$8	(\$22)	(\$31)	\$49	\$115	\$161
Capex	(10)	(4)	(11)	(11)	(19)	(21)	(18)	(21)	(23)
JEFF-Defined FCF	\$8	\$31	(\$28)	(\$3)	(\$40)	(\$52)	\$31	\$94	\$138
FCF Per Share	\$0.76	\$2.84	(\$2.23)	(\$0.25)	(\$2.85)	(\$2.88)	\$1.49	\$4.51	\$6.57
Initial Provisioning		42	42	42	40	30	0	0	0
FCF excl. Provisioning		\$73	\$14	\$39	(\$0)	(\$22)	\$31	\$94	\$138
FCF excl. Provisioning per Share		\$6.65	\$1.10	\$3.03	(\$0.03)	(\$1.21)	\$1.49	\$4.51	\$6.57
Deployment									
Dividends	(\$4)	(\$4)	(\$4)	(\$5)	(\$5)	(\$7)	(\$8)	(\$8)	(\$8)
Share Issuance	0	0	52	1	130	326	0	0	0
Net Debt Paydown/Issuance	110	(19)	33	2	144	(1)	(56)	(65)	(95)
Acquisitions	(113)	0	(53)	0	(219)	(283)	(50)	0	0
Divestitures	0	25	3	9	2	40	140	0	0
Total Deployment	(\$7)	\$1	\$31	\$6	\$52	\$75	\$26	(\$73)	(\$103)
Discretionary FCF	\$2	\$33	\$2	\$3	\$11	\$24	\$57	\$21	\$35
Ratios									
FCF to Adj. NI Conversion	21%	108%	-315%	-11%	-86%	-92%	44%	100%	120%
FCF Yield (FCF / Mkt Cap.)	0.3%	1.3%	-1.2%	-0.1%	-1.7%	-2.1%	1.3%	3.9%	5.7%
FCF YoY Change	-47%	275%	-190%	-89%	1181%	28%	-160%	204%	46%
FCF/Sh YoY Change	-	275%	-178%	-89%	1059%	1%	-152%	203%	46%
Dividend as a % of Adj. NI	10%	-77%	56%	18%	14%	46%	12%	9%	7%
Dividend Yield	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%
Capex as a % of Sales	1.3%	0.7%	2.2%	1.7%	2.2%	1.9%	1.7%	1.7%	1.7%

- Since 2020, FCF usage totaled \$72MM cumulatively, including >\$160MM of one-time initial provisioning investments with >\$120MM for three new Aviation programs and \$40MM for the Memphis facility expansion in Fleet. Adjusted FCF generation averaged ~\$30MM per year.
- Q1 was a \$25MM usage of FCF, better than the \$87MM usage in the year ago quarter with a \$15MM y-o-y improvement in NWC. We expect \$31MM generated in 2025E given lower interest expense with debt repayment, as well as EBITDA growth, offset by a continued headwind from NWC to support growth.
- From 2024 to 2026, VSEC targets positive FCF before new program investments, driven by increased sales, optimized inventory positioning, and improved supplier payment terms. We estimate FCF generation of \$70MM over the period, or \$100MM adjusted for provisioning. The business is more working capital intensive as a distributor than other MRO parts and repair assets.

Source: Jefferies estimates, company data

VSE Corp. (VSEC): Price Target and Valuation

Price Target Derivation

Valuation Method	Price	Assumptions
EV/EBITDA	157	18.0x EV/EBITDA on 2026 EBITDA of \$193MM
P/E	144	32.0x P/E on 2026 EPS of \$4.50
Average	\$150	Blended Average

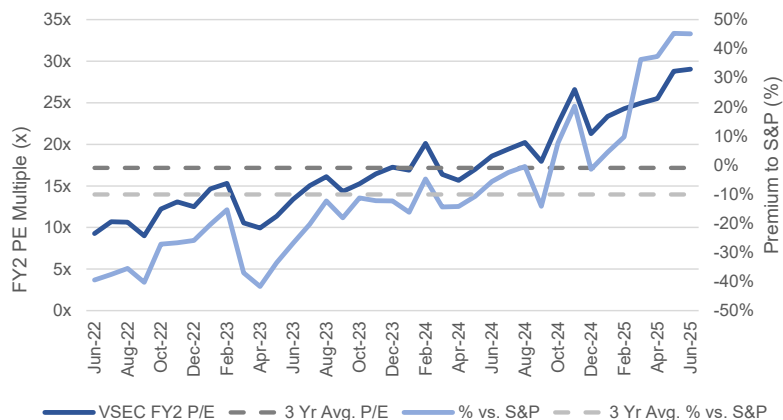
- Our PT of \$150 is based on: 1) 18.0X EV/EBITDA (9% prem to peer average) on 2026E EBITDA of \$193MM; and 2) 32.0X P/E (23% prem to peer average) on 2026E EPS of \$4.50.
- Top-line growth of 38% in 2025E for Aviation (10% organic) and 12% in 2026E.
- Adj EBITDA margins of 15.8% in 2026E from 13.4% in 2024.
- Adj EPS of \$4.50 in 2026E.
- PT: \$150 based on 1) 18.0X EV/EBITDA (9% prem to peers avg) on 2026E EBITDA of \$193MM; and 2) 32.0X P/E (23% prem to peers avg) on 2026E EPS of \$4.50.

VSE Corp. (VSEC): Price Target and Valuation

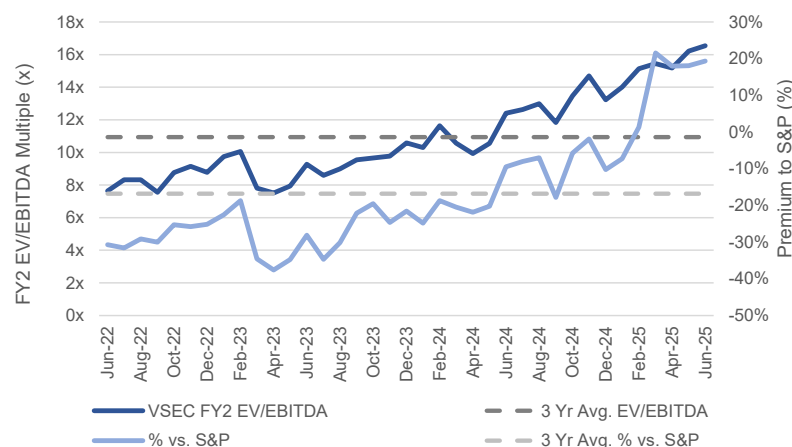
Relative Valuation Table (05/07/2025)

	Ticker	JEF Rating	Stock Px 5/8/2025	Consensus BUY Rating	Market Cap	Enterprise Value	P/E			EV / SALES			EV / EBITDA			Dividend Yield
							2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	
AAR Corp.	AIR-US	N/C	\$58.64	100%	2,117	3,065	17.6x	15.6x	13.1x	1.3x	1.1x	1.1x	12.7x	9.7x	8.7x	0.0%
Ducommun	DCO	N/C	\$64.39	100%	958	1,217	16.8x	13.8x	11.0x	1.5x	1.4x	1.3x	9.2x	8.2x	7.1x	0.0%
HEICO Corp	HEI	Buy	\$269.74	54%	14,842	40,570	60.8x	54.7x	48.2x	9.4x	8.8x	8.3x	35.4x	32.8x	30.5x	0.1%
Parker-Hannifin	PH	Buy	\$637.90	75%	81,510	92,105	23.9x	22.0x	20.1x	4.7x	4.5x	4.2x	18.0x	16.9x	15.7x	1.0%
TransDigm	TDG	Buy	\$1,392.60	70%	78,218	103,594	37.2x	32.3x	28.3x	11.7x	10.8x	10.2x	21.9x	20.2x	18.7x	0.0%
Triumph	TGI	Hold	\$25.53	0%	1,976	2,825	23.4x	17.3x	13.7x	2.1x	1.9x	1.8x	12.1x	10.5x	9.3x	0.0%
Woodward	WWD	Buy	\$196.41	31%	11,686	12,622	31.2x	26.6x	22.6x	3.7x	3.4x	3.2x	19.8x	17.4x	15.5x	0.5%
Peer Average				46%			30.1x	26.0x	22.4x	4.9x	4.6x	4.3x	18.5x	16.5x	15.1x	0.2%
VSEC Corp.	VSEC	Buy	\$127.63	100%	2,638	3,130	37.6x	28.4x	23.4x	2.6x	2.6x	2.3x	18.5x	16.2x	14.3x	0.3%
Discount / Premium							25%	9%	4%	-48%	-44%	-46%	0%	-2%	-5%	

FY2 P/E: 45% Premium to Market vs. 10% Discount Historically



FY2 EV/EBITDA: 19% Premium to Market vs. 17% Discount Historically



Source: Jefferies estimates, FactSet, company data

VSE Corp. (VSEC): Income Statement

Year Ending Dec.

(millions, except per share data)	2020		2021		2022		2023		2024		2025E		2026E		2027E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Net Sales	\$661.7	100.0	\$481.4	100.0	\$669.4	100.0	\$860.5	100.0	\$1,080.1	100.0	\$1,087.9	100.0	\$1,219.7	100.0	\$1,341.7	100.0
Costs and expenses																
Costs of Sales	586.3	89%	464.9	97%	596.5	89%	750.5	87%	954.2	88%	939.7	86%	1,046.8	86%	1,148.1	86%
Selling, General & Administrative	3.1	0.5%	3.5	0.7%	3.6	0.5%	7.6	0.9%	14.6	1.3%	9.8	0.9%	11.0	0.9%	12.1	0.9%
Amortization & Other	58.3	9%	15.8	3%	15.7	2%	14.4	2%	30.0	3%	24.0	2%	24.3	2%	22.6	2%
Total Operating Costs	\$647.7	98%	\$484.1	101%	\$615.8	92%	\$772.5	90%	\$998.7	92%	\$973.5	89%	\$1,082.1	89%	\$1,182.8	88%
Operating Profit (EBIT)	\$13.9	2.1%	(\$2.7)	-0.6%	\$53.6	8.0%	\$88.0	10.2%	\$81.4	7.5%	\$114.4	10.5%	\$137.6	11.3%	\$158.9	11.8%
Special Items	38.2	5.8%	26.6	5.5%	3.6	0.5%	4.7	0.5%	26.3	2.4%	2.9	0.3%	0.0	0.0%	0.0	0.0%
Adj. EBIT	\$2.1	7.9%	23.9	5.0%	57.2	8.5%	92.7	10.8%	107.7	10.0%	117.3	10.8%	137.6	11.3%	158.9	11.8%
Net Interest Expense	13.5	2.0%	12.1	2.5%	17.9	2.7%	31.1	3.6%	34.9	3.2%	26.1	2.4%	16.0	1.3%	9.9	0.7%
Earnings Before taxes	\$0.4	0.1%	(\$14.8)	-3.1%	\$35.7	5.3%	\$56.9	6.6%	\$46.5	4.3%	\$88.4	8.1%	\$121.6	10.0%	\$149.0	11.1%
Taxes	(\$5.6)	-0.8%	\$3.8	0.8%	(\$9.1)	-1.4%	(\$13.8)	-1.6%	(\$10.0)	-0.9%	(\$20.1)	-1.8%	(\$27.7)	-2.3%	(\$34.4)	-2.6%
GAAP Net Earnings	(\$5.2)	-0.8%	(\$11.0)	-2.3%	\$26.7	4.0%	\$43.2	5.0%	\$36.5	3.4%	\$68.3	6.3%	\$93.9	7.7%	\$114.6	8.5%
Discontinued Operations	0.0	0.0%	19.0	3.9%	1.4	0.2%	(4.0)	-0.5%	(21.2)	-2.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Net Earnings	(\$5.2)	-0.8%	\$8.0	1.7%	\$28.1	4.2%	\$39.1	4.5%	\$15.3	1.4%	\$68.3	6.3%	\$93.9	7.7%	\$114.6	8.5%
Adjustments	(34.2)	-5.2%	(19.9)	-4.1%	(2.7)	-0.4%	(3.9)	-0.4%	(19.7)	-1.8%	(2.2)	-0.2%	0.0	0.0%	0.0	0.0%
Adj. Net Earnings (Cont Ops)	\$29.1	5.0%	\$8.9	1.9%	\$29.4	4.9%	\$47.0	6.3%	\$56.2	5.9%	\$70.5	7.5%	\$93.9	9.0%	\$114.6	10.0%
Adj. Diluted EPS	\$2.63		\$0.71		\$2.29		\$3.31		\$3.13		\$3.40		\$4.50		\$5.45	
Basic Shares Outstanding	11.0		12.6		12.8		14.1		17.9		20.7		20.8		20.9	
Diluted Shares Outstanding	11.0		12.6		12.8		14.2		18.0		20.8		20.9		21.0	

VSE Corp. (VSEC): Balance Sheet

Year Ending Dec.

(millions, except per share data)	2020	2021	2022	2023	2024	2025E	2026E	2027E
Assets								
Cash and Cash Equivalents	\$0	\$1	\$0	\$8	\$29	\$86	\$107	\$142
Accounts Receivable	55	77	91	128	198	207	232	255
Contract Assets & Unbilled	22	32	7	8	30	30	30	30
Inventories	253	323	380	501	576	609	646	657
Other Current Assets	23	32	70	129	42	54	49	54
Total Current Assets	\$355	\$464	\$549	\$774	\$875	\$986	\$1,064	\$1,138
PP&E, Net	36	42	41	58	86	89	93	92
Intangible Assets, net	104	106	87	114	197	173	149	126
Goodwill	238	249	217	352	491	541	541	541
Operating Leases	21	27	22	29	53	53	53	53
Other Assets	27	28	85	24	32	32	32	32
Total Assets	\$780	\$919	\$1,000	\$1,350	\$1,735	\$1,876	\$1,933	\$1,983
Liabilities								
Current Portion of Debt	20	14	10	23	30	30	30	30
Accounts Payable	73	115	129	173	188	174	189	206
Accrued Expenses and Other	45	49	32	36	62	62	62	62
Dividends Payable	1	1	1	2	2	2	2	2
Other Current Liabilities	0	0	53	53	0	0	0	0
Total Current Liabilities	\$139	\$180	\$225	\$287	\$282	\$268	\$283	\$302
Long-term debt	231	270	276	407	400	345	280	185
Deferred compensation	16	14	7	8	7	7	7	7
LT operating lease obligations	23	27	19	25	48	48	48	48
Deferred tax liabilities	15	9	5	7	0	0	0	0
Other long-term liabilities	0	0	18	0	9	9	9	9
Total Liabilities	\$424	\$501	\$550	\$734	\$746	\$677	\$627	\$551
Total Equity	\$356	\$417	\$450	\$617	\$988	\$1,198	\$1,305	\$1,432
Total Liabilities and Equity	\$780	\$919	\$1,000	\$1,350	\$1,735	\$1,876	\$1,933	\$1,983

VSE Corp. (VSEC): Cash Flow Statement

Year Ending Dec.

(millions, except per share data)	2020	2021	2022	2023	2024	2025E	2026E	2027E
Operating Activities								
Net Income	(\$5)	\$8	\$28	\$39	\$15	\$68	\$94	\$115
Depreciation & Amortization	24	\$25	\$25	\$23	\$29	\$39	\$41	\$46
Stock Based Comp & Other	39	\$25	\$6	\$8	\$32	\$13	\$14	\$14
Op cash flow pre-working capital	\$58	\$57	\$58	\$71	\$76	\$120	\$149	\$174
Changes in working capital	(\$22)	(\$75)	(\$50)	(\$92)	(\$107)	(\$70)	(\$34)	(\$13)
Receivables	8	(9)	(27)	(26)	(40)	(9)	(25)	(23)
Contract Assets	20	(6)	(6)	5	8	0	0	0
Inventories	(50)	(80)	(59)	(88)	(32)	(33)	(37)	(11)
Accounts Payable	4	33	36	24	(32)	(14)	15	19
Other Current Assets & Liabilities	(3)	(13)	6	(8)	(11)	(15)	13	2
Cash Flow from Operations	\$36	(\$18)	\$8	(\$22)	(\$31)	\$49	\$115	\$161
Investment activities								
Capital expenditures	(\$4)	(\$11)	(\$11)	(\$19)	(\$21)	(\$18)	(\$21)	(\$23)
Acquisitions	0	(53)	0	(219)	(283)	(50)	0	0
Proceeds from Asset Sales	25	3	9	2	40	140	0	0
Other	0	(1)	0	0	0	0	0	0
Cash Flow from Investments	\$20	(\$62)	(\$2)	(\$236)	(\$264)	\$72	(\$21)	(\$23)
Financing Activities								
Cash Dividends Paid	(\$4)	(\$4)	(\$5)	(\$5)	(\$7)	(\$8)	(\$8)	(\$8)
Change in Capital Stock	0	52	1	130	326	0	0	0
Issuance/Reduction of Debt, Net	(19)	33	2	144	(1)	(56)	(65)	(95)
Other	(33)	(1)	(3)	(4)	(3)	0	0	0
Cash Flow from Financing	(\$56)	\$79	(\$6)	\$265	\$316	(\$64)	(\$73)	(\$103)
Total Cash Flow	(\$0)	\$0	(\$0)	\$7	\$21	\$57	\$21	\$35
Cash at Beginning of Period	1	0	1	0	8	29	86	107
Cash at End of Period	\$0	\$1	\$0	\$8	\$29	\$86	\$107	\$142

Woodward (WWD) – Buy \$245 PT

1) Aero Powered by Comm'l AM & Defense OE

2) Comfort at Aero Margin High End...

3) ...and High-End Industrial Margins

Related Notes:

- [JDAM Strong – OE Seesaw w/ Defense Carrying Commercial's Slack](#) *May 4, 2025*
- [Major Aftermarket in Q, but A Minor for the Year](#) *February 4, 2025*
- [Aero Margins Win Back Brain-Share w/ Thesis Still In Front of It](#) *December 2, 2024*

Woodward (WWD): EPS Expands at 11% CAGR to FY27E, Even With a FY25 Blip

FY25 EPS Sensitivity - Each 2pts to Revenue Growth Worth \$0.16 to EPS, W/ Each 100 Bps to Segment Margins Worth \$0.45

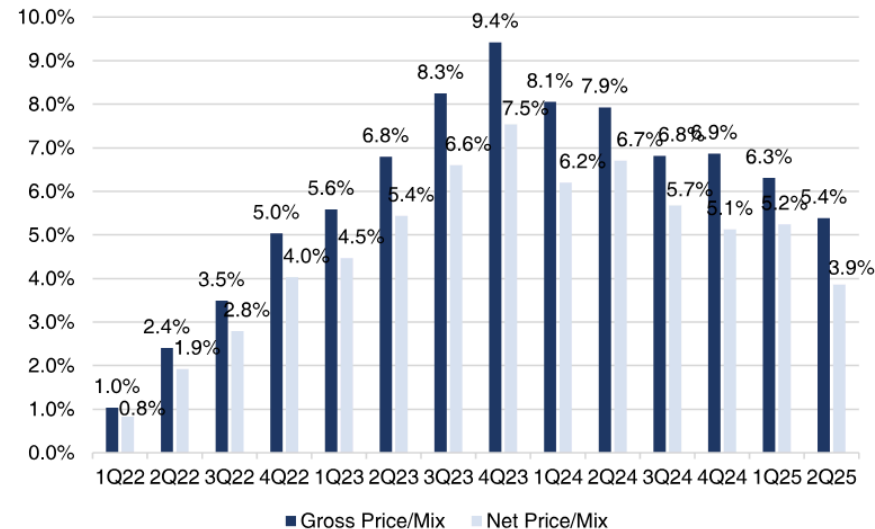
FY25 Segment Margin		FY25 Revenue Growth Rate				
		-0.6%	1.4%	3.4%	5.4%	7.4%
	16.6%	\$5.01	\$5.16	\$5.30	\$5.45	\$5.59
	17.6%	\$5.44	\$5.60	\$5.75	\$5.90	\$6.06
	18.6%	\$5.88	\$6.04	\$6.20	\$6.36	\$6.52
	19.6%	\$6.31	\$6.48	\$6.65	\$6.82	\$6.99
	20.6%	\$6.74	\$6.92	\$7.10	\$7.28	\$7.46

- Our base case for FY25 assumes 3% revenue growth following the 14% growth in FY24, and 2% growth in FH1, which is driven by Aerospace +10% and Industrial down 7% (all organic before FX). We factor in Adj. Segment margins of 18.6%, which includes 21.1% margins in Aerospace (+210 bps) and 14.0% margins in Industrial (-370 bps).
- This translates to 2025E Adj. EPS of \$6.20, which compares to the guide of \$5.95-\$6.25. We estimate that each 2 pts of revenue growth off the base is worth \$0.16 to FY25E EPS, with each 100 bps of segment margin expansion off the base worth \$0.45.

Source: Company data and Jefferies estimates

Woodward (WWD): EPS Expands at 11% CAGR to FY27E, Even With a FY25 Blip

Gross and Net Price / Mix - WWD Captured 3.9-Pts of Net Price in FQ2:25



- A meaningful component of the profitability equation at WWD is price realization, particularly on OE contracts within Aerospace and Industrial, as management looks to recover inflationary costs from labor and materials, while AM catalog pricing is quicker to take effect.
- WWD realized 6pts of gross pricing benefit in FY23 and a further 7pts in FY24, with strong performance of escalation indices that flow through LTA OE contracts and increases on catalog prices for AM/spares. Filings include price, sales mix and productivity in one line, which we parse out into price/mix and productivity using an 80% drop-through of price, mix, and productivity sales.
- Mgmt stated FQ2 gross price of roughly 5pts, with Aero contributing slightly more than Industrial in the quarter. That trend is expected to continue for the full year, with Aero driving 5pts in FY25.

Source: Company data and Jefferies estimates

Woodward (WWD): Commercial Aero OE Rates and AM Utilization Provide Visibility to 10% Growth in FY25

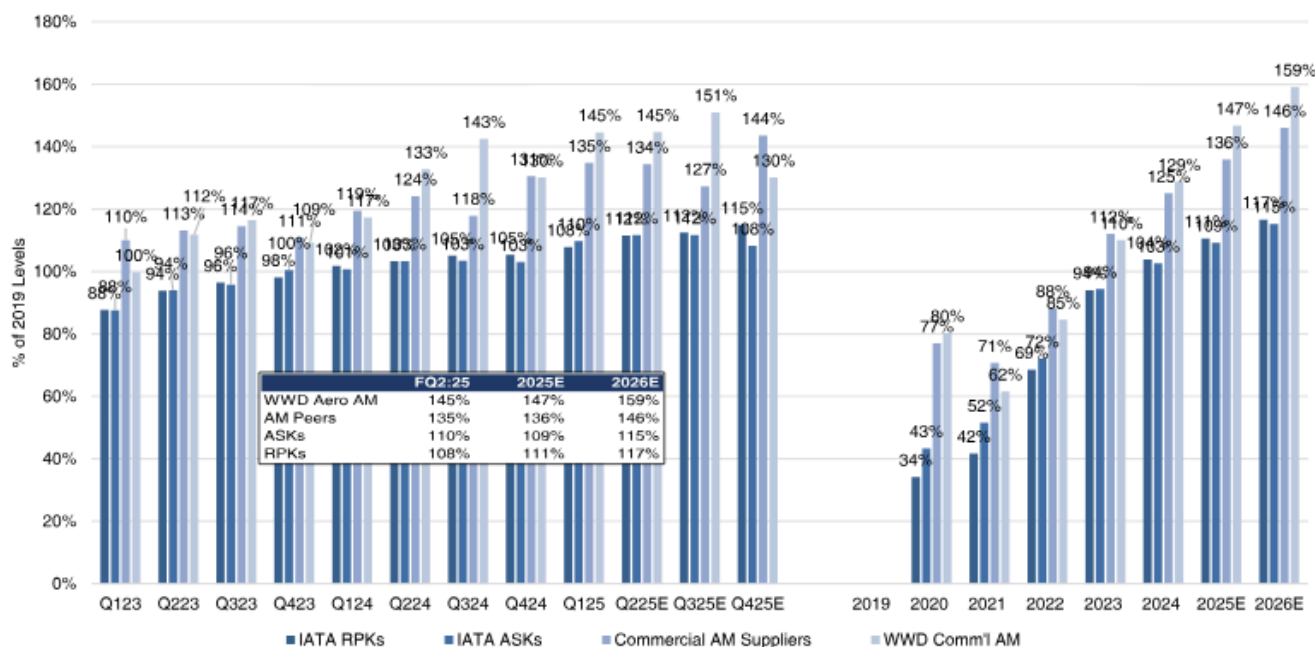
Commercial OE Revenue Build - Ramping Production Rates Provide 9% CAGR Through FY27 (MM, unless otherwise stated)

Aircraft Revenue (\$MM)	Content (\$K)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Boeing								
737	\$125	\$1	\$2	\$1	\$1	\$0	\$0	\$0
737 MAX	\$275	44	89	108	131	140	169	191
747	\$800	6	6	1	0	0	0	0
767	\$25	1	1	1	1	1	1	0
777	\$285	7	7	7	7	9	10	11
787	\$210	9	4	15	13	14	16	21
Boeing		\$67	\$108	\$134	\$153	\$163	\$197	\$222
Airbus								
A220	\$0	\$14	\$14	\$16	\$18	\$22	\$24	\$30
A320neo	\$230	112	124	131	152	160	178	193
A330	\$40	1	1	1	1	1	2	2
A330neo	\$200	10	11	13	11	11	14	17
A350	\$46	2	2	3	3	3	4	5
Airbus		\$140	\$153	\$165	\$185	\$198	\$222	\$247
Regional								
CRJ	\$110	\$0	\$0	\$0	\$0	\$0	\$0	\$0
E-Series	\$185	9	13	12	13	15	17	18
Total Embraer and CRJ		\$9	\$13	\$12	\$13	\$15	\$17	\$18
Other Content		109	146	249	285	270	284	298
Total Commercial Aircraft		\$325	\$419	\$559	\$636	\$646	\$719	\$784
% YoY Change		-11%	29%	33%	14%	2%	11%	9%

Source: Company data and Jefferies estimates

Woodward (WWD): Commercial Aero OE Rates and AM Utilization Provide Visibility to 10% Growth in FY25

**FQ2 Commercial AM Revenues at 145% of 2019 Levels vs Peers' 135%;
CY25 Rises to 147% of 2019 Levels Versus Peers' 136%**



- WWD's core platforms are new-generation narrowbodies including the GTF and LEAP engines supporting the A320neo family and 737 MAX, which are coming up on a significant ramp in AM shop visits starting in 2024 and ramping through the decade. Mgmt expects these to be sizable contributors in 2028+. In FQ2, management indicated that new-gen engine shop visits doubled y-o-y, indicative of the ramp to come, albeit off a low base.
- In terms of the time on wing issues for the GTF and LEAP, as well as the recent contaminated metal powder issue at Pratt, there is limited impact on WWD, given the company's LRUs can stay on the engine during hospital shop visits.

Source: Company data and Jefferies estimates

Woodward (WWD): Commercial Aero OE Rates and AM Utilization Provide Visibility to 10% Growth in FY25

Aerospace Revenue by End Market - OE Outgrows AM in FY25 Given Strength in Volumes Across Commercial Platforms and Smart Munitions while AM Faces Difficult Compares

(\$MM)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues							
OE	\$325	\$419	\$559	\$636	\$646	\$719	\$784
Aftermarket	307	421	548	641	731	792	879
Commercial	\$632	\$840	\$1,107	\$1,277	\$1,377	\$1,511	\$1,663
OE	510	422	369	407	521	570	604
Aftermarket	201	177	201	243	230	247	261
Military	\$711	\$599	\$569	\$649	\$751	\$816	\$865
Biz Jet / Comml Helo	61	80	92	103	105	111	117
Total Aerospace	\$1,404	\$1,519	\$1,768	\$2,029	\$2,232	\$2,438	\$2,646
% YoY Change							
OE	-11%	29%	33%	14%	2%	11%	9%
Aftermarket	-23%	37%	30%	17%	14%	8%	11%
Commercial	-17%	33%	32%	15%	8%	10%	10%
OE	-3%	-17%	-13%	10%	28%	9%	6%
Aftermarket	-13%	-12%	13%	21%	-5%	7%	6%
Military	-6%	-16%	-5%	14%	16%	9%	6%
Biz Jet / Comml Helo	-12%	30%	15%	12%	2%	6%	6%
Total Aerospace	-12%	8%	16%	15%	10%	9%	9%
YoY % organic change	-12%	8%	16%	15%	10%	9%	9%

- In FQ2, WWD generated Aerospace margins of 22.2%, up 340 bps y-o-y, driven by estimated positive vol/mix (+290 bps). We estimate productivity/inflation was a \$7MM headwind in FQ2 (-60 bps) vs. \$8MM in FQ1:24, alongside \$5MM headwind from hiring (-40 bps) vs. \$9MM last year.
- FY25 guidance calls for 100-200 bps of y-o-y margin expansion in Aerospace to 20-21% (from 19.0% in FY24), largely enabled by improved pricing and operating leverage on higher volumes. We estimate 10% sales growth, driven largely by Military OE +28% and Commercial AM +14% y-o-y. This supports 42% incrementals versus the implied guidance for ~36% at the midpoint.

Source: Company data and Jefferies estimates

Woodward (WWD): Commercial Aero OE Rates and AM Utilization Provide Visibility to 10% Growth in FY25

Aerospace Bridge - FY25's 10% Top-Line Growth Supported by ~5pts of Price and ~5pts of Volume; 210 Bps of Margin Expansion to 21.1% Tied to Volume Incrementals, Net Price, and Lessening Labor Headwinds (MM, unless otherwise stated)

(\$MM)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25E	4Q25E	2023	2024	2025E	2026E	2027E
Start Revenue	\$395.7	\$437.0	\$480.5	\$454.9	\$460.8	\$497.5	\$517.6	\$552.8	\$1,519.3	\$1,768.1	\$2,028.6	\$2,232.4	\$2,438.1
Organic Contribution	64.4	60.5	38.2	97.5	33.1	64.2	58.9	47.6	248.8	260.5	203.8	205.7	207.9
Volume	34.5	29.1	2.7	60.1	(7.2)	34.2	38.9	32.9	144.3	126.5	98.8	155.7	172.9
Price and Mix	29.9	31.3	35.5	37.5	40.3	30.0	20.0	14.7	108.7	134.2	105.0	50.0	35.0
M&A	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FX	0.7	(0.5)	(0.6)	(0.0)	0.0	0.0	0.0	0.0	(1.5)	(0.4)	0.0	0.0	0.0
Other	0.0	0.5	(0.6)	0.3	0.0	0.0	0.0	(0.0)	(2.7)	0.2	0.0	0.0	0.0
Incremental Revenue	65.1	60.5	37.0	97.9	33.1	64.2	58.9	47.6	248.8	260.5	203.8	205.7	207.9
End Revenue	\$460.8	\$497.5	\$517.6	\$552.8	\$493.9	\$561.7	\$576.4	\$600.4	\$1,768.1	\$2,028.6	\$2,232.4	\$2,438.1	\$2,646.0
Start Operating Profit	\$55.4	\$73.3	\$83.1	\$78.3	\$79.0	\$98.5	\$101.8	\$106.1	\$230.9	\$290.1	\$385.4	\$469.9	\$536.6
Organic Contribution	36.5	42.2	31.0	47.0	25.3	31.3	27.8	34.2	149.4	156.8	118.6	86.7	79.9
Volume & Mix	14.1	17.2	0.9	17.3	(9.0)	10.3	12.8	20.5	62.4	49.5	34.6	46.7	51.9
Est. Selling Price and Mix	22.4	25.1	30.1	29.7	34.3	21.0	15.0	13.7	86.9	107.3	84.0	40.0	28.0
Est. Productivity/Inefficiencies	(10.3)	(8.3)	(8.4)	(17.3)	(5.1)	(6.5)	(4.5)	(3.9)	(31.9)	(44.4)	(20.0)	(10.0)	(5.0)
FX	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
R&D / Investments / Costs Related to Hiring	(2.6)	(8.8)	(3.8)	(1.9)	(4.4)	(4.5)	(2.0)	(3.1)	(20.3)	(17.2)	(14.0)	(10.0)	(7.5)
Variable Compensation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(44.7)	0.0	0.0	0.0	0.0
Restructuring	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	5.9	0.0	(5.9)	6.7	0.0	0.0	0.0	0.0
Incremental Profit	23.6	25.1	18.8	27.8	15.7	26.2	21.3	21.4	59.2	95.3	84.6	66.7	67.4
End Operating Profit	\$79.0	\$98.5	\$101.8	\$106.1	\$94.7	\$124.6	\$123.2	\$127.4	\$290.1	\$385.4	\$469.9	\$536.6	\$604.0
% Margin	17.1%	19.8%	19.7%	19.2%	19.2%	22.2%	21.4%	21.2%	16.4%	19.0%	21.1%	22.0%	22.8%

- Looking out over the next few years, management outlined targets for Aerospace sales to increase at an 8-10% CAGR from FY23 to FY26, compared to our est of +11% from the FY23 base. Mgmt targets a FY26 margin of 20-22%+, w/ our FY26 est at 22.0%. In Comm'l AM (33% of FY25E Aero sales), mgmt anticipates that WWD sales expand at a 12% CAGR to FY31 compared to 6% growth for the market. WWD has 5x greater services value (\$ per repair/overhaul and frequency of occurrence) on the next-gen NBs than legacy engines.
- Most commercial OE contracts are tied to LT agreements, with minimal ability to move price outside of contract rollovers, typically in January of each year. Management highlighted opportunity for modest price power, particularly in the hot section of the engine, where there is high IP content. There is more pricing power in AM catalogs.

Source: Company data and Jefferies estimates

Woodward (WWD): Core Industrial Striving for Mid-Teens MT Target as China LNG Drags

Industrial Revenue by Business - Sales Drop 7% Y-o-Y in FY25 on 21% Decline in Transportation Tied to China LNG (\$50MM in FY25 vs \$215MM in FY24) (MM, unless otherwise stated)

(\$MM)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Power Generation	\$292	\$317	\$383	\$424	\$449	\$485	\$524
Transportation	399	355	527	642	509	571	626
Oil & Gas	150	192	236	230	246	251	252
Total Industrial	\$842	\$863	\$1,146	\$1,296	\$1,204	\$1,307	\$1,402
% YoY Change							
Power Generation	-23%	8%	21%	11%	6%	8%	8%
Transportation	10%	-11%	49%	22%	-21%	12%	10%
Oil & Gas	61%	28%	23%	-3%	7%	2%	0%
Total Industrial	-7%	3%	33%	13%	-7%	9%	7%
Organic Growth	-3%	9%	37%	13%	-7%	9%	7%
% Composition							
Power Generation	35%	37%	33%	33%	37%	37%	37%
Transportation	47%	41%	46%	50%	42%	44%	45%
Oil & Gas	18%	22%	21%	18%	20%	19%	18%
Total Industrial	100%	100%	100%	100%	100%	100%	100%
% Margin	12.9%	9.6%	14.1%	17.7%	14.0%	14.6%	15.2%
% Incremental	-13%	-119%	28%	46%	67%	22%	23%

- In FQ2, sales fell 5% y-o-y to \$322MM as Oil & Gas (+21%) and Power Generation (+4%) helped offset declines Transportation (-18%), mainly related to China LNG, which contributed just \$21MM in quarterly sales (vs \$66MM in FQ2:24; -68% y-o-y).
- For FY25, guidance was inched higher at the low end, calling for sales down 7-9% y-o-y (vs -7-11% prior), including just \$50MM of China LNG sales (-77%). After -10% in FQ2 sales are implied down 6% at the midpoint for the remainder of the year. Ex-China, core industrial is set to increase 3-7% y-o-y. China LNG is expected to contribute about \$50MM in FY25 (vs \$215MM in FY24), embedding about \$10MM per quarter amid customer de-stocking; we estimate \$50MM in China LNG sales for the year, in line with the guide.

Source: Company data and Jefferies estimates

Woodward (WWD): Core Industrial Striving for Mid-Teens MT Target as China LNG Drags

Industrial Bridge - FY25's 7% Top-Line Decline Driven by 13pts of Volumes Tied to Weaker China OH Offset by ~6pts of Price; 370 Bps of Margin Deterioration to 14.0% Tied to Decrementals on Volumes Tied to China

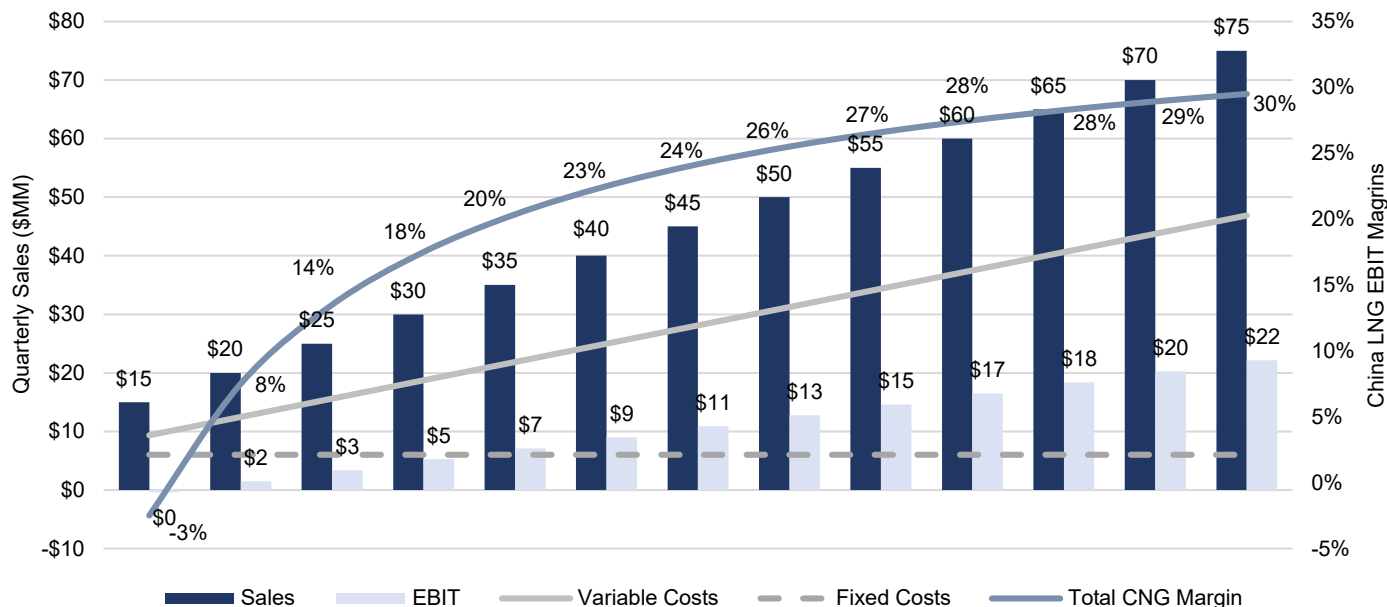
(\$MM)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25E	4Q25E	2023	2024	2025E	2026E	2027E
Start Revenue	\$222.9	\$281.2	\$320.1	\$322.2	\$326.0	\$337.8	\$330.1	\$301.7	\$863.5	\$1,146.5	\$1,295.6	\$1,204.1	\$1,307.1
Organic Contribution	99.1	59.9	14.4	(21.4)	(45.8)	(15.9)	(27.9)	(0.6)	322.2	152.0	(90.2)	103.0	94.5
Volume	79.2	34.3	(4.7)	(37.2)	(55.1)	(30.9)	(48.9)	(30.3)	249.7	71.5	(165.2)	78.0	69.5
Price and Mix	19.9	25.6	19.1	15.9	9.3	15.0	21.0	29.7	72.5	80.5	75.0	25.0	25.0
M&A	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FX	3.9	(2.8)	(5.0)	1.2	(1.3)	0.0	0.0	0.0	(28.4)	(2.6)	(1.3)	0.0	0.0
Other	(0.0)	(0.5)	0.6	(0.3)	(0.0)	0.0	0.0	0.0	(10.8)	(0.2)	0.0	0.0	0.0
Incremental Revenue	103.0	56.6	10.0	(20.5)	(47.1)	(15.9)	(27.9)	(0.5)	283.0	149.2	(91.5)	103.0	94.5
End Revenue	\$326.0	\$337.8	\$330.1	\$301.7	\$278.8	\$321.9	\$302.2	\$301.2	\$1,146.5	\$1,295.6	\$1,204.1	\$1,307.1	\$1,401.6
Start operating profit	\$11.4	\$37.6	\$58.2	\$54.5	\$66.9	\$65.2	\$59.7	\$38.0	\$82.8	\$161.6	\$229.9	\$168.5	\$191.3
Organic Contribution	59.7	34.7	3.5	(16.2)	(30.8)	(1.1)	(6.5)	8.8	168.9	81.7	(29.6)	38.3	32.6
Volume & Mix	43.7	11.6	(11.8)	(26.3)	(37.8)	(12.4)	(22.3)	(13.5)	111.0	17.3	(85.9)	19.5	13.9
Price and Mix	15.9	23.1	15.3	10.1	7.0	11.3	15.8	22.3	58.0	64.4	56.3	18.8	18.8
Productivity	(2.0)	1.5	2.5	5.8	6.8	(6.0)	(5.5)	(4.3)	(28.0)	7.8	(9.0)	(7.5)	(5.0)
FX	0.0	0.0	0.0	0.0	3.1	0.0	(1.0)	(0.8)	(6.8)	0.0	1.3	0.0	0.0
M&A Earnings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
R&D / Investments / Costs Related to Hiring	(2.2)	(8.6)	(4.5)	(6.0)	(5.8)	(7.0)	(5.0)	(6.2)	(19.0)	(21.2)	(24.0)	(8.0)	(6.0)
Variable Compensation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(26.5)	0.0	0.0	0.0	0.0
Restructuring	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	(5.2)	0.0	5.2	(9.7)	0.0	0.0	0.0	0.0
Incremental profit	55.5	27.7	1.5	(16.4)	(26.7)	(19.3)	(18.0)	2.6	78.8	68.2	(61.3)	22.8	21.6
End Operating Profit	\$66.9	\$65.2	\$59.7	\$38.0	\$40.2	\$46.0	\$41.7	\$40.6	\$161.6	\$229.9	\$168.5	\$191.3	\$212.9
% Margin	20.5%	19.3%	18.1%	12.6%	14.4%	14.3%	13.8%	13.5%	14.1%	17.7%	14.0%	14.6%	15.2%

- In FQ2, WWD generated Industrial margins of 14.3%, down 500 bps y-o-y, driven by just \$20MM in China LNG sales at est 8% margins and \$301MM in Core sales at 14.8% margins (vs > 14% in FY24), aided by price realization & FX, offset by lower volume & mix.
- FY25 margins are reaffirmed at 13-14%, down 370-470 bps y-o-y, based on just \$50MM in annual China LNG sales at negative margins. Excluding China, the core Industrial business was guided to 14-15% margins, tracking up > 100bps y-o-y and nearing the MT target for mid-teens+ margins by FY26 outlined at the Investor Day. The y-o-y bridge is supported primarily by continued pricing power and operating leverage on improving volumes across the non-China businesses.

Source: Company data and Jefferies estimates

Woodward (WWD): Core Industrial Striving for Mid-Teens MT Target as China LNG Drags

China LNG Economics - Segment Neutral at \$25MM & 40% Margin on ~\$55MM in Quarterly Sales



- Mgmt explicitly disclosed China natural gas truck earnings in FQ1, which stood at a loss of \$941K on a sales base of \$9.6MM, or a -10% margin. This compares to FQ1:24 sales of \$74.3MM and earnings of \$28.7MM for 39% margins. We estimate the CNG business runs at ~\$6MM of quarterly fixed costs with estimated 60% variable costs as a % of sales aligning to the touch points provided by management. This would suggest that \$21MM in sales came at an ~8% margin level in FQ2.

Source: Company data and Jefferies estimates

Woodward (WWD): FCF Conversion of ~100%, but <60% Committed in the FY25 Plan

Turning the Page on Working Capital w/ FCF Conversion Nearing 100% (MM, unless otherwise stated)

(\$MM)	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Income	\$260	\$240	\$209	\$172	\$232	\$373	\$388	\$453	\$520
Depreciation and Amortization	142	131	130	121	120	116	127	135	140
NWC	(21)	(30)	121	(94)	(28)	(38)	(17)	(4)	(10)
Deferred Income Taxes	(10)	1	(12)	(23)	(40)	(45)	(45)	(45)	(45)
Stock Comp/Non-Cash Gain/Pension	20	7	17	18	25	33	35	40	45
CFO	\$390	\$349	\$465	\$194	\$309	\$439	\$488	\$580	\$650
Capex	(99)	(47)	(38)	(53)	(77)	(96)	(115)	(120)	(125)
FCF	\$291	\$302	\$427	\$141	\$232	\$343	\$373	\$460	\$525
FCF per Share	\$4.51	\$4.71	\$6.51	\$2.23	\$3.77	\$5.52	\$6.06	\$7.45	\$8.53

Deployment									
Dividends	(\$39)	(\$38)	(\$36)	(\$45)	(\$51)	(\$58)	(\$68)	(\$70)	(\$73)
Share Repurchases	(110)	(13)	(33)	(485)	(126)	(391)	(250)	(350)	(500)
Debt Paydown	(146)	(1,512)	0	(1)	(2,393)	(2,822)	0	0	0
Debt Issuance	(6)	1,248	0	(885)	2,324	2,963	0	0	0
Acquisitions	23	41	0	0	1	4	0	0	0
Total Deployment	(\$278)	(\$275)	(\$69)	(\$1,416)	(\$246)	(\$304)	(\$318)	(\$420)	(\$573)

Discretionary FCF (post dividends, repos and debt pay-down)	(\$4)	(\$1,261)	\$358	(\$390)	(\$2,339)	(\$2,928)	\$55	\$39	(\$49)

Ratios									
FCF to Net Income Conversion	112%	126%	205%	82%	100%	92%	96%	101%	101%
FCF Yield (FCF / Mkt Cap.)	4.5%	4.6%	6.5%	2.2%	3.6%	5.2%	5.7%	7.0%	8.0%
FCF % Change YoY	69%	4%	41%	-67%	65%	48%	9%	23%	14%
Discretionary FCF Yield	-0.1%	-19.3%	5.5%	-6.0%	-35.8%	-44.8%	0.8%	0.6%	-0.7%
Dividend as a % of Net Income	15%	16%	17%	26%	22%	16%	17%	15%	14%
Dividend Yield	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
Share Repo as % of Mkt Cap	2%	0%	1%	7%	2%	6%	4%	5%	8%
% of Cash Returned to Shareholders	51%	17%	16%	377%	76%	131%	85%	91%	109%

- In FQ2, WWD generated \$59MM of adj. FCF or \$60MM FYTD, down from \$88MM in FH1:24 a year ago. Mgmt continues to guide \$350-400MM of FCF in FY25, or ~100% conversion at the midpoint, with our est of \$373MM, compared to \$348MM generated in FY24. Our FY25 estimate represents 96% conversion, and includes the ~20% y-o-y increase in capex to \$115MM to support manufacturing automation investment. This remains well below the \$127MM in FY19, as existing capacity supports higher OE build rates for several years.
- WWD's plan assumes \$65MM of dividends after the 12% raise in FQ1 to \$0.28/sh and \$150MM of buybacks, or \$215MM of committed capital representing <60% of the guided FCF. This compares to WWD returning \$58MM in dividends and \$391MM in share repurchases in FY24. The excess FCF is not earmarked and net leverage stands at 0.9x at the end of FQ1 based on \$364MM of cash vs. \$912MM of debt.
- We estimate FY25 FCF of \$373MM, inclusive of a \$17MM usage of working capital (vs \$38MM usage in FY24), with inventory turns improving. Mgmt's target is to convert NI to FCF at >100% through 2026, w/ FCF generation target of \$1.2BB for FY24-FY26. This compares to our est of 96% conversion in FY24-26E (\$1.2BB).

Source: Company data and Jefferies estimates

Woodward (WWD): Relative Valuation to History and Market

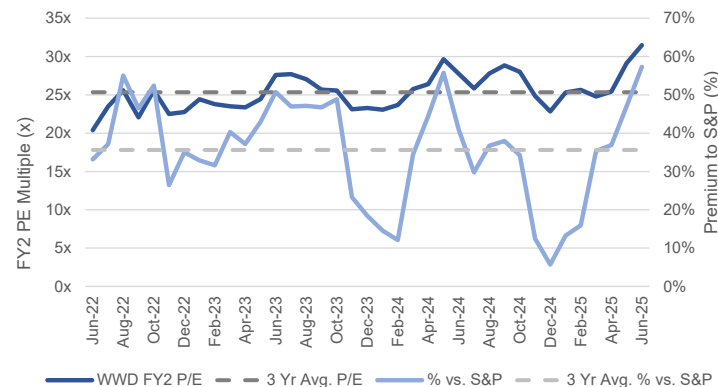
Relative Valuation

Ticker	WWD
Current P/E	31.5x
3 Yr Avg. P/E	25.4x
Current / 3 Yr Avg.	24%
Prem / Discst SP	57%
3 Yr Prem / Discst SP	36%
S&P500 Multiple	20.0x
Current EV/EBITDA	19.8x
3 Yr Avg. EV/EBITDA	15.4x
Current / 3 Yr Avg.	29%
Prem / Discst SP	43%
3 Yr Prem / Discst SP	18%
S&P500 Multiple	13.9x
Current FCF Yield	3.1%
3 Yr Avg. FCF Yield	4.3%
Current / 3 Yr Avg.	39%
Prem / Discst SP	35%
3 Yr Prem / Discst SP	9%
S&P500 Multiple	4.2%

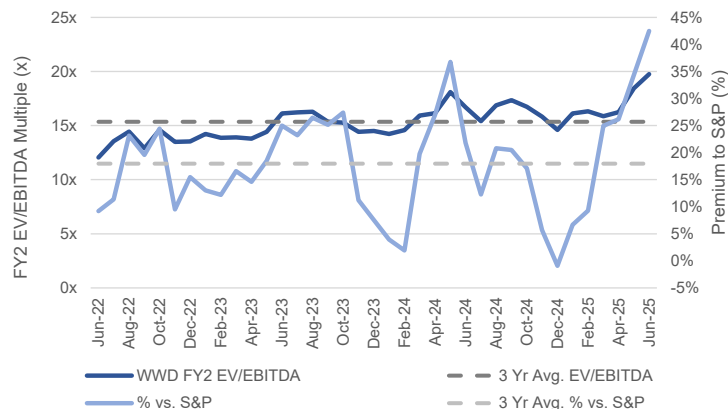
Price Target Derivation

Valuation Method	Price	Assumptions
EV/EBITDA	\$245	20.7x EV/EBITDA on FY26 EBITDA of \$743MM
P/E	\$241	32.8x P/E on FY26 EPS of \$7.35
FCF Yield	\$248	3.0% FCF Yield on FY26 FCF of \$460MM
Average	\$245	Blended Average

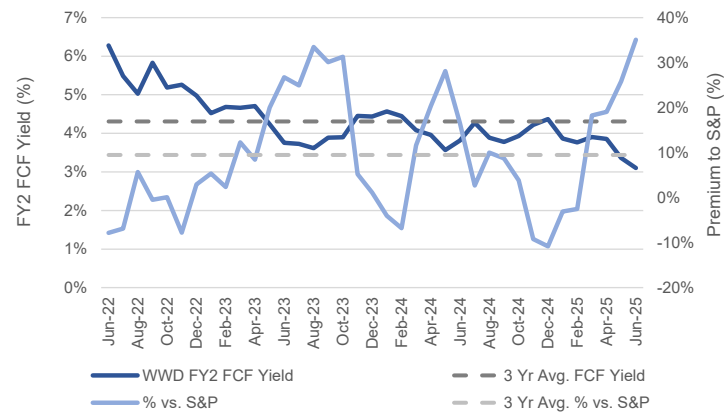
FY2 P/E: 57% Premium to Market vs. 36% Premium Historically



FY2 EV/EBITDA: 43% Premium to Market vs. 18% Premium Historically



FY2 FCF Yield: 35% Premium to Market vs. 9% Premium Historically



Source: Company data, FactSet and Jefferies estimates

Woodward (WWD): Income Statement

Year Ending Sept.

(millions, except per share data)	2020		2021		2022		2023		2024		2025E		2026E		2027E	
	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales	dollars	% of sales
Total Revenues	\$2,495.7	100.0%	\$2,245.8	100.0%	\$2,382.8	100.0%	\$2,914.6	100.0%	\$3,324.2	100.0%	\$3,436.6	100.0%	\$3,745.3	100.0%	\$4,047.7	100.0%
Costs and expenses																
Costs of Sales	(1,855.4)	-74%	(1,694.8)	-75%	(1,857.5)	-78%	(2,237.0)	-77%	(2,447.8)	-74%	(2,505.4)	-73%	(2,692.9)	-72%	(2,874.5)	-71%
Selling, General & Administrative	(217.7)	-9%	(186.9)	-8%	(203.0)	-9%	(269.7)	-9%	(307.5)	-9%	(326.5)	-10%	(355.8)	-10%	(384.5)	-10%
Research and development costs	(133.1)	-5%	(117.1)	-5%	(119.8)	-5%	(132.1)	-5%	(140.7)	-4%	(154.6)	-5%	(168.5)	-5%	(182.1)	-5%
Amortization of intangible assets	0.0	0%	0.0	0%	0.0	0%	0.0	0%	0.0	0%	0.0	0%	0.0	0%	0.0	0%
Restructuring and other charges	(29.6)	-1%	(5.0)	0%	3.4	0%	(5.2)	0%	0.0	0%	0.0	0%	0.0	0%	0.0	0%
Other (income) expense, net	56.2	2%	36.5	2%	26.7	1%	50.3	2%	67.2	2%	75.0	2%	80.0	2%	85.0	2%
Total Operating Costs	(\$2,179.7)	-87%	(\$1,967.2)	-88%	(\$2,150.2)	-90%	(\$2,593.7)	-89%	(\$2,828.8)	-85%	(\$2,911.5)	-85%	(\$3,137.2)	-84%	(\$3,356.2)	-83%
GAAP Operating EBIT	\$315.9	12.7%	\$278.6	12.4%	\$232.6	9.8%	\$320.9	11.0%	\$495.5	14.9%	\$525.0	15.3%	\$608.1	16.2%	\$691.4	17.1%
Adj. Operating EBIT	\$343.2	13.8%	\$283.6	12.6%	\$235.5	9.9%	\$355.8	12.2%	\$503.6	15.1%	\$518.5	15.1%	\$608.1	16.2%	\$691.4	17.1%
Net Interest Expense	(34.0)		(32.8)		(32.7)		(45.1)		(41.5)		(45.2)		(44.8)		(43.7)	
GAAP Earnings Before Tax	\$281.9	11.3%	\$245.8	10.9%	\$199.9	8.4%	\$275.8	9.5%	\$454.0	13.7%	\$479.9	14.0%	\$563.2	15.0%	\$647.8	16.0%
Taxes (rate %)	(41.5)	14.7%	(37.2)	15.1%	(28.2)	14.1%	(43.4)	15.7%	(81.0)	17.8%	(91.7)	19.1%	(109.8)	19.5%	(127.6)	19.7%
GAAP Net Earnings	\$240.4	9.6%	\$208.6	9.3%	\$171.7	7.2%	\$232.4	8.0%	\$373.0	11.2%	\$388.2	11.3%	\$453.4	12.1%	\$520.2	12.9%
Adj. Net Earnings	\$254.0	10.2%	\$212.4	9.5%	\$173.8	7.3%	\$258.6	8.9%	\$379.1	11.4%	\$381.6	11.1%	\$453.4	12.1%	\$520.2	12.9%
Adj. EPS	\$3.96		\$3.24		\$2.75		\$4.21		\$6.11		\$6.20		\$7.35		\$8.45	
Basic shares (millions)	62.3		63.3		61.5		59.9		60.1		60.0		59.9		59.6	
Diluted shares (millions)	64.2		65.6		63.3		61.5		62.1		61.5		61.7		61.6	

Source: Company data and Jefferies estimates

Woodward (WWD): Operating Segment Data

Year Ending Sept.

(millions, except per share data)	2020	% of sales	2021	% of sales	2022	% of sales	2023	% of sales	2024	% of sales	2025E	% of sales	2026E	% of sales	2027E	% of sales
Revenue																
Aerospace	\$1,591.0	64%	\$1,404.1	63%	\$1,519.3	64%	\$1,768.1	61%	\$2,028.6	61%	\$2,232.4	65%	\$2,438.1	65%	\$2,646.0	65%
Industrial	904.7	36%	841.7	37%	863.5	36%	1,146.5	39%	1,295.6	39%	1,204.1	35%	1,307.1	35%	1,401.6	35%
Total Revenue	\$2,495.7	100%	\$2,245.8	100%	\$2,382.8	100%	\$2,914.6	100%	\$3,324.2	100%	\$3,436.6	100%	\$3,745.3	100%	\$4,047.7	100%
Revenue YoY % change																
Aerospace	-15%		-12%		8%		16%		15%		10%		9%		9%	
Industrial	-11%		-7%		3%		33%		13%		-7%		9%		7%	
Total Revenue	-14%		-10%		6%		22%		14%		3%		9%		8%	
Operating Income																
Aerospace	\$310.1	19.5%	\$234.4	16.7%	\$230.9	15.2%	\$290.1	16.4%	\$385.4	19.0%	\$469.9	21.1%	\$536.6	22.0%	\$604.0	22.8%
Industrial	100.3	11.1%	108.7	12.9%	82.8	9.6%	161.6	14.1%	229.9	17.7%	168.5	14.0%	191.3	14.6%	212.9	15.2%
Segment Operating Income	\$410.5	16.4%	\$343.0	15.3%	\$313.7	13.2%	\$451.7	15.5%	\$615.2	18.5%	\$638.5	18.6%	\$727.9	19.4%	\$816.9	20.2%
Corporate	(67.3)	2.7%	(59.4)	2.6%	(78.3)	3.3%	(95.9)	3.3%	(111.6)	3.4%	(120.0)	3.5%	(119.8)	3.2%	(125.5)	3.1%
Total Operating Income	\$343.2	13.8%	\$283.6	12.6%	\$235.5	9.9%	\$355.8	12.2%	\$503.6	15.1%	\$518.5	15.1%	\$608.1	16.2%	\$691.4	17.1%
% YoY Change																
Aerospace	-20%		-24%		-1%		26%		33%		22%		14%		13%	
Industrial	-12%		8%		-24%		95%		42%		-27%		14%		11%	
Segment Operating Income	-19%		-16%		-9%		44%		36%		4%		14%		12%	
Corporate	-16%		-12%		32%		23%		16%		8%		0%		5%	
Total Operating Income	-19%		-17%		-17%		51%		42%		3%		17%		14%	
Incremental																
Aerospace	27%		41%		-3%		24%		37%		41%		32%		32%	
Industrial	12%		-13%		-119%		28%		46%		67%		22%		23%	
Segment Operating Income	23%		27%		-21%		26%		40%		21%		29%		29%	
Corporate																
Total Operating Income	20%		24%		-35%		23%		36%		13%		29%		28%	

Source: Company data and Jefferies estimates

Woodward (WWD): Cash Flow Statement

Year Ending Sept.

(millions, except per share data)	2020	2021	2022	2023	2024	2025E	2026E	2027E
Operating Activities								
Net Income	\$240	\$209	\$172	\$232	\$373	\$388	\$453	\$520
Depreciation & Amortization	131	130	121	120	116	127	135	140
Other	8	5	(5)	(15)	(12)	(10)	(5)	0
Changes in Working Capital	(\$30)	\$121	(\$94)	(\$28)	(\$38)	(\$17)	(\$4)	(\$10)
Cash Flow from Operations	\$349	\$465	\$194	\$309	\$439	\$488	\$580	\$650
Investment activities								
Capital Expenditures	(47)	(38)	(53)	(77)	(96)	(115)	(120)	(125)
Acquisitions/Asset Sales	41	0	0	1	4	0	0	0
Other	(0)	2	(13)	2	3	0	0	0
Cash Flow from Investments	(\$7)	(\$35)	(\$65)	(\$74)	(\$89)	(\$115)	(\$120)	(\$125)
Financing Activities								
Cash Dividends Paid	(38)	(36)	(45)	(51)	(58)	(68)	(70)	(73)
Repurchases of Common Stock	(13)	(33)	(485)	(126)	(391)	(250)	(350)	(500)
Payments on LTD	(2)	0	(1)	(3)	(76)	0	0	0
Other	(238)	35	89	(16)	307	100	110	120
Cash Flow from Financing	(\$290)	(\$35)	(\$442)	(\$196)	(\$218)	(\$218)	(\$310)	(\$453)
Net change in cash items	\$54	\$397	(\$341)	\$30	\$145	\$155	\$149	\$71
Cash at the beginning of the period	99	52	448	108	137	282	437	587
Cash at the end of the period	\$153	\$448	\$108	\$137	\$282	\$437	\$587	\$658

Source: Company data and Jefferies estimates

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