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LHX - Q3 2019 L3Harris Technologies Inc Earnings Call

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OVERVIEW:

Co. reported 3Q19 non-GAAP EPS of $2.58. Expects 2019 non-GAAP EPS to be about $10.00. Expects 2H19 non-GAAP EPS to be approx. $5.35.

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CORPORATE PARTICIPANTS

Anurag Maheshwari *L3Harris Technologies, Inc. - VP of IR*

Christopher E. Kubasik *L3Harris Technologies, Inc. - Vice Chairman, President & COO*

Jesus Malave *L3Harris Technologies, Inc. - Senior VP & CFO*

To aid with year-over-year comparability following the L3Harris merger, discussions also will be on a combined basis with prior year results as well as year-to-date and first half 2019 results reflecting combined L3 and Harris historical operating results as if the businesses had been operating together during prior periods under the 4-segment structure.

With that, Bill, I will turn it over to you.

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Okay. Thank you, Anurag, and good morning, everyone. Earlier today, we reported strong third quarter results with non-GAAP earnings per share

Our fifth priority is to maximize free cash flow with shareholder-friendly capital deployment. In the quarter, we generated $618 million of free cash flow, up 123% over prior year through higher earnings, tight management of capital spending and a 2-day sequential improvement in working capital. We've also improved the linearity of cash generation with about 70% of free cash flow guidance delivered in the first 3 quarters of the year compared to less than 50% for the same period last year. And in the third quarter, we returned $922 million to shareholders, including $750 million in share repurchases, which keeps us on track to buy back 1.5 billion of shares in the second half of calendar '19.

And finally, reshaping our portfolio to focus on high-margin, high-growth, technology-differentiated businesses where we can win and generate attractive returns. While this is an ongoing process, we've begun marketing several businesses that we've assessed as non-core. And our plan is to announce transactions as they occur and use the net proceeds to repurchase shares to offset dilution.

So in summary, on the back of successful execution against our strategic priorities, strong third quarter performance and a solid backlog, we're increasing our second half guidance for non-GAAP earnings per share to $5.35 with revenue growth of 10% and free cash flow of approximately $1.35 billion, the higher end of the previous guidance range. And as we go into 2020 and assuming appropriations are enacted in line with the recent budget agreement, we continue to expect mid-single-digit-plus revenue growth and expanding margins off a higher 2019 base than we anticipated in S-4, driving double-digit cash and earnings per share growth.

So with that, let me turn it over to Chris to provide an update on operational and segment financial performance. Over to you, Chris.

Christopher E. Kubasik - *L3Harris Technologies, Inc. - Vice Chairman, President & COO*

Okay. Thank you, Bill, and good morning, everyone. We are performing very well right out of the gate due in large part to months of premerger work accomplished by the joint integration team.

Expanding on Bill's comments. In addition to e3 and other enterprise-wide initiatives, we are also driving a common business development capture process, we're incorporating best practices from across the company and we're focusing on a bottoms-up effort to improve working capital performance. All of these enterprise-wide initiatives are gaining momentum and expected to contribute to our future growth, profitability and cash generation.

Let me now turn to operating results by segment. On Slide 5, Integrated Mission Systems revenue grew by 10% for the quarter and 11% calendar year-to-date from strength in ISR missionization and increased global demand for Wescam turret systems. Orders were strong as we continue to solidify our position on Big Safari programs, increase share in electro-optical and enhance our unmanned maritime franchise. This resulted in a book-to-bill of 0.99 for the quarter and 1.11 year-to-date. Segment operating income was up 24% and margin expanded 160 basis points to 13.8% for the quarter, resulting in a year-to-date margin of 12.7%. This solid performance was driven by increased volume, integration savings, pension income and operational excellence, slightly offset by program mix.

In Space and Airborne Systems on Slide 6, revenue increased 20% for the quarter and was up 18% calendar year-to-date from increased content

utilities. And Integrated Mission Systems received ENVG-B test certification and made initial deliveries in August, resulting in a significant follow-on quarter.

Additionally, last week, we achieved an important milestone on the SOCOM handheld program with the award of a full rate production order for $86 million following a successful field test in early August. Not only is this a significant step in the $390 million sole-source program, but the core architecture of the SOCOM handheld radio is also shared by the $250 million SOCOM manpack program. The SOCOM handheld radio is also the foundational radio for the Army 2-channel and several international modernization programs. The investment in common architecture facilitates our customers' desire for interoperability and future capability.

Segment operating income was up 18% and margin expanded 140 basis points to 22.7% for the quarter, resulting in a year-to-date margin of 21.9%. This strong performance derived from higher volume and operational excellence more than offset the mix impact from the ramp in Tactical radio modernization program.

Lastly, on Slide 8. In Aviation Systems, we grew in defense while declining in commercial aviation for a net flat quarter and 9 months. The decline in commercial aviation is the result of lower volume in commercial training solutions as orders for full flight simulators continue to slip to the right. We received 3 simulator awards in the first half and we're expecting 12 in the second half. And although our pipeline remains strong, due to uncertain timing of bookings, we have now lowered our award expectation to lower single digits for the second half, which is reflected in our revised segment guidance. Aside from simulators, order strength was good, resulting in a segment book-to-bill of 1.16 for the quarter and 1.05 year-to-date. Segment operating income was up 32% and margin expanded 330 basis points to 13.4% for the quarter, resulting in a year-to-date margin of 11.5%. This performance was driven by integration savings and improved operational performance primarily in our traveling wave tube business, partially offset by mix.

I'm very pleased with our first quarter as L3Harris, with 3 of the 4 segments outperforming and more than making up for the shortfall in AS. Our customers remain supportive of the merger, both domestically and internationally and as we build a mission focused -- mission solution-focused company. And I'm increasingly encouraged by our company outlook.

With that, I'll turn it over to Jay.

Jesus Malave - *L3Harris Technologies, Inc. - Senior VP & CFO*

Thank you, Chris, and good morning, everyone. Recapping third quarter results on Slide 9. Successful execution against our strategic priorities through our strong results for the quarter with revenue growing 10% and EPS increasing 26% or $0.54. Of this growth, $0.49 came from higher volume, solid program execution and integration synergies and $0.15 from pension and elimination of L3 intangibles, offset by a net $0.10 headwind from taxes, share count and interest.

On the back of this performance, we are revising our outlook for the second half as noted on Slide 10. Starting with the top line, we are tightening second half revenue to be up approximately 10%, at the midpoint of the previous range of 9.5% to 10.5% from strength in SAS and CS, offsetting lower volume in AS.

Second half total company EBIT margin is expected to be 17.1%, 40 basis points improvement from the previous guidance of 16.7% driven by higher cost synergies and pension income. This, combined with lower interest in tax expense, results in a second half EPS expectation to approximately $5.35, up $0.35 from the prior midpoint of guidance to $4.95 to $5.05. This EPS guidance also reflects $1.5 billion in share repurchases for the second half, bringing the second half share count to around 224 million shares and effective tax rate to 17% versus our prior expectation of 18%.

In the second half, we expect to generate free cash flow of approximately $1.35 billion at the high end of our prior range of $1.3 billion to $1.35 billion, driven by increased earnings and a 2- to 3-day working capital reduction from June. Capital expenditures are unchanged and expected to be $190 million or 2% of revenue.

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As noted on Slide 11, for the full year, revenue is expected to be up around 10%, with EBIT margin of approximately 16.4% and EPS of about $10 per share. Full year free cash flow is expected to be approximately $2.35 billion or about $420 million higher than last year for the combined company.

Turning to the EPS bridge on Slide 12. Expected full year EPS of approximately $10 per share reflects a total increase of $2.08, with $1.74 from volume, operational improvements and cost synergies as well as $0.29 from the elimination of L3 intangibles and higher pension income and $0.05 net of interests and taxes.

Switching to the segment outlook. In IMS, revenue guidance is unchanged and up approximately 10.5% for the second half, driven by strength in airborne imaging systems and growth in ISR aircraft missionization. Segment operating margin is now expected to be approximately 13.3% versus previous guidance of 12.5%, driven by higher cost synergies and pension income. This implies full year segment revenue up approximately 11.2% with operating margin of approximately 12.7%. SAS revenue is now expected to be up approximately 15.5% in the second half versus up 11.5% previously, driven by stronger growth on long-term aircraft platforms and classified space. Segment operating margin is expected to be approximately 18.8%. This implies full year segment revenue growth of approximately 16% with operating margin of approximately 18.5%. CS revenue is now expected to be up approximately 10% in the second half versus previous guidance of 9.5%, resulting from better-than-expected modernization orders in DoD Tactical. Operating margin is now expected to be approximately 22.5% versus previous guidance of 22.1%, driven by higher volume, cost synergies and operational excellence. This implies full year segment revenue growth of approximately 10.8% with operating margin of approximately 22.1%.

Finally, with AS, we are lowering revenue guidance for the business with second half revenue now expected to be up approximately 3% versus previous guidance of up 7% driven by slower simulator sales. At this guidance, we believe that we have sufficiently derisked the uncertainty related to simulator sales. Segment operating margin is unchanged at 14%. This implies full year segment revenue growth of approximately 2% with operating margin of about 12.3%. So in summary, an improved outlook reflecting a strong start for the combined company.

With that, I'll ask the operator to open the line up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Sheila Kahyaoglu with Jefferies.

Sheila Karin Kahyaoglu - *Jefferies LLC, Research Division - Equity Analyst*

Bill, in your prepared remarks, you mentioned 14 revenue synergy proposals that totaled about $3 billion in lifetime value. As you guys have combined the 2 portfolios, how do you think about the potential wins? How do they change the growth profile of the business over maybe the coming year or 2? And where are you seeing the most opportunity?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Sheila, it's a great question. So we have 14 proposals that are in. It's very early days but we're pretty encouraged especially given the fact that we've been down selected on 2 of them. So this is, I think, good news. So when we talked about $3 billion in value, that's lifetime value, so read that over the next 10 years.

I think the way these things will work, there's a bit of an incubation period, the studies or the small awards you do receive upfront that eventually lead into bigger opportunities over time. So I think in '20, probably minimal impact, and getting to '21, maybe a little more. I think it should ramp a bit beyond that.

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So I went through the 14, but there's about 80 total ideas that we're tracking here. So hopefully, we see some other good news coming over the next number of months. They broadly really come into mostly right now, electronic warfare and space-sensing domains mostly relative to leveraging complementary technologies. But it's an encouraging start and we hope to see more over time.

Operator

Our next question comes from the line of Carter Copeland with Melius Research.

Carter Copeland - *Melius Research LLC - Founding Partner, President and Research Analyst of Aerospace & Defense*

Just a couple of quick ones. One, I wondered if you could just give us some color on the slippage in the simulator sales. It just seems strange given all the talk about pilot training out there. And I wondered if maybe that's a particular customer behavior for one reason or another in the commercial realm. I just wondered if you could talk a little bit about that.

And as a secondary one, I'm just kind of curious on the efforts on e3. How does that differ from what you were each individually trying to accomplish with HBX or L365? And what's unique to the opportunity set that you think you have together?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

So maybe Chris will take on the piece on the simulators. Let me hit quickly on the e3 or the OpEx program. So both L3 and Harris had operational programs. We called ours HBX, theirs was L365. And e3 really is a combination of the best across both programs. And the objective really, as I mentioned in remarks, is to develop that operational excellence and muscle to go after labor reductions, go after supply chain savings, go after improving quality performance, on-time delivery, program execution. All of those things, we need to do to keep winning over time.

So we know that there's going to be an organic margin expansion opportunity separate from cost synergies. It goes side by side with what we're doing on integration. But really over the next couple or 3 years, they'll start to merge together. And what we want to make sure is we build that muscle so that once we get beyond integration, we continue to see that regular cost takeout, improving quality well beyond integration period.

And that's really what we're trying to do. I think we're off to a great start. We've got core people work on this. We have a new hire driving this across the company doing a great job. And I think we're off to a really good start.

So I'll let Chris comment on the simulators.

Christopher E. Kubasik - *L3Harris Technologies, Inc. - Vice Chairman, President & COO*

Yes. Good morning, Carter. As I said in my prepared remarks, we had 3 in the first half of the year. We only had 1 in the third quarter. And while we have a lot of letters of intent signed and such, we've yet to secure those in the fourth quarter.

And I think what we're really seeing is that the airlines and the training companies are slowing down their discretionary spend probably as a result of the pending issues with the MAX aircraft. As you know, that's put financial pressures on the airlines themselves and there's still some uncertainty surrounding that.

So we've -- actually, speaking of e3, we've had a lot of progress on the simulators. We've been able to reduce the cost and the cycle time of building them. We just now need to go ahead and sell them. So still a good business, still optimistic. Just a little lumpy here in dealing with market trends somewhat outside our control.

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William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Carter, just to add a comment there that the pipeline is pretty solid. It's just that the orders are lumpy and that the timing is difficult to predict. And so we thought it's prudent, with one quarter left, to just push it to the right and take it out of the year. We'll revisit that for 2020, but the pipeline is pretty solid.

Operator

Our next question comes from the line of Noah Poponak with Goldman Sachs.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

I was kind of hoping to just get your updated thoughts on where you think you can take the total operating margin of the business long term because you're going to exit the year at this kind of 17 or a little better than 17. And then the incremental cost synergies you still have yet to achieve alone get you at least 100 basis points if not more -- higher than that.

And then Bill, you just spoke to continuing the drumbeat of operational improvement beyond the synergies. And each legacy business had a couple sort of temporarily depressed pieces that look like they were going to improve. So I mean is this a 20% sustainable -- starting 4 to 5 years outne

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Yes. So yes, C-17 drag will go away. But overall, we -- in my comments, I talk about mid-single digit plus. So just based on where we were at in the S-4, L3 was at 5%. We're at 6.5%. So it's in that range and it's coming off of a much higher base in 2019, so about $0.5 billion above the S-4. So we're still expecting good growth going into next year.

I think we'll see Communication Systems to be pretty good. It's more short cycle. We'll see IMS and space business sort of in the middle, both doing pretty well. And we'll see Aviation Systems probably being a little bit less than the other 3. Part of this, some of the trends that Chris talked about will continue into next year. I don't think I'll go into any more detail within the segment. But the reality, those are the major drivers at a pretty macro level across the 4 segments.

Operator

Our next question comes from the line of David Strauss with Barclays.

David Egon Strauss - *Barclays Bank PLC, Research Division - Research Analyst*

Wanted to -- 2-part question. First of all, on the margins. They're implied in the fourth quarter, lower than what you did in Q3 despite having more in the way of synergies coming through. Can you just explain what exactly is going on there?

And then on the working capital side. Jay, it looks like you were relatively flat overall in terms of working capital in the quarter. Can you just maybe update us how you're thinking about this target? I think the longer-term target you have out there to produce working capital day is from 75 down to 50 to 60 days.

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

So let me get the first one and I'll pass it onto Jay. So yes, we did see really good performance in Q3. It steps down sequentially in Q4, still up year-over-year. And it's really coming from higher cost synergies going from Q3 to Q4, offset by some additional investment. Quite a big chunk of investment coming in Q4 both in R&D as well as in B&P.

So there's a little bit of sloppiness here in our Q3, but we see good opportunities to invest. Investing in some of the ideas that are coming at us. We're really busy on B&P activity. And really, it's just a measure of additional step-up in investment in Q4 from Q3. So I'll let Jay hit the working capital.

Jesus Malave - *L3Harris Technologies, Inc. - Senior VP & CFO*

Sure. Just a quick one on margins, David. We did 210 basis points in Q3. We're almost 200 basis points in Q4. So expansion is fairly similar. We're just starting off a little bit of a lower base in Q4.

As far as working capital, we've got a couple of days that we achieved in the third quarter. As I mentioned, we'll be flat to maybe a day in the fourth quarter over the longer term. We're still kind of holding out to the 6, 7, 8 days of reduction to get us to the $3 billion in 2022. So really, nothing has

Christopher E. Kubasik - *L3Harris Technologies, Inc. - Vice Chairman, President & COO*

And I'll just chime in and say the working capital improvement really begins and ends with the operations. And we have 1,200 program managers. And we are pushing down specific goals and education at the program management level in addition to the general managers and through the finance organizations. So it's part of a top-down, bottom-up effort to focus on and improve working capital.

David Egon Strauss - *Barclays Bank PLC, Research Division - Research Analyst*

And Bill, just a quick follow-up of the investment. So you're talking about -- it would look like from the margin guidance, these are mostly in IMS and SAS. Is that the right way to think about it?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Yes. That will be -- that's primarily in 2 places. Yes, correct. A little bit in CS but mostly in the other 2.

Operator

Our next question comes from the line of Richard Safran with Buckingham Research Group.

Richard Tobie Safran - *The Buckingham Research Group Incorporated - Research Analyst*

Bill, another philosophical or a strategic question to open up here. Could you elaborate on your building a new performance culture and grow revenue remarks on Slide 4? Now you're constantly using the word innovation, and it's clear there's been a substantial benefit from innovation. But what works against that is size. And I think you're all aware of the rule of thumb that a bigger a company gets, the less nimble and the less they are able to innovate. So you say you're going to invest in innovation. But I thought you might discuss a bit more on how you're going to incentivize and foster innovation at the much bigger L3Harris.

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

So Richard, that's a good question. And I won't be long-winded on it, but this is fundamentally what Chris and I and the rest of the senior team are focusing quite a bit of time on. It's just building the culture that we want to see in the organization.

Going back 8 years ago, Harris went from a holding company to an operating company. This is the path that Chris has been on. That is a clear statement of intent within the organization. It's moving towards an operating company. That means more centralized coordination of the things I talked about in my remarks: shared services, resources, technologies, talent across the organization to leverage the power of the enterprise. And there's lots of things that spill off of that that's driving a lot of change with the organization. That's fundamentally where we're heading. And I think that speaks to the culture we're trying to create.

That also flows into R&D and how we're thinking about R&D development. Again, back to where Harris was a number of years ago, we are developing R&D plans by each segment, very siloed. That's what L3 has been doing. We're moving towards more of an integrated model where we're sharing ideas across the company. We had our technologies together at the end of September, starting to share different ideas.

So how we remain innovative and agile? Look, it comes through multiple dimensions. Part of it is structural in how we set up the organization with tools for us to be able to share ideas across the enterprise on things like cyber or AI or waveforms, capabilities that really embed across all that we do. Part of it is in processes and going to a common stage gate process for developing programs, making sure there's good business cases, managing things on a portfolio so you're trading off investments across the organization. And then a lot of it is going to come from just culturally. And part

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of that is Jay, Chris and I being willing to step forward and invest ahead of the curve on innovation, ahead of need. We've been demonstrating a willingness to do that. And then of course, you mentioned that part of it is the type of people we're selecting, how we incentivize them.

Look, Richard, it's a long-winded answer and it went longer than I wanted to. But the reality, this is fundamental to how we're creating a different

Jonathan Phaff Raviv - *Citigroup Inc, Research Division - VP*

Okay. And then you talked about investments a lot on this call. You talked about it a lot over the past months and quarters. Has that investing calculus changed at all if, for instance, the customer wouldn't allow you higher return if you take on more risks? Are you investing ahead of need more often today than in the past perhaps? And what could that mean for long-term profitability?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

I think we're running just shy of 4% of revenue this year. That's what we've been guiding investors to on an overall basis. I think we'll still be in that range over the next couple of years. I think the mix of where those dollars happen to go will likely shift and move around. As we move from running things locally to more as a portfolio, we'll start to see shifts in spend between programs. You may see more shift towards revenue opportunities to backstop those. Only about 10% or so of our IRAD is in support of OTAs. I mean that's certainly been a trend, but that's not going to be a big driver here.

As I mentioned, culturally, we have been willing to step up and invest ahead of the need, and we're going to continue to be able to do that. Our job is to drive operational excellence, drive cost synergies and make sure that we can invest in great return programs for share owners. And that's something that Chris and I and Jay, sitting here and looking at each other, are committed to go and do, Jon.

Operator

Our next question comes from the line of Seth Seifman with JPMorgan.

Seth Michael Seifman - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Wanted to maybe ask the divestiture question in a different way. We shouldn't think of the divestitures at all as being potentially standing in the way of the $3 billion cash flow target for 2022, correct?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

That's correct. That doesn't stand in the way. Each business we have or most of them that we're thinking about generates free cash. But we think with some of the levers we can pull, we'll be able to offset any cash loss from divestitures.

Seth Michael Seifman - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Okay. And then maybe as a quick follow-up. The DoD radios, in terms of the order flow and kind of what's needed from a fiscal '20 budget, how does that shake out in terms of your visibility into your calendar/fiscal '20 based on where things stand with CR and the budget?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

No. I think what we're assuming a CR through the balance of this year, through December. If it gets deeper into 2020, it could have some impact on the DoD business mainly because it's more of a short-cycle business. But we've talked about this before. The visibility has become a lot better. We've got a good backlog. The order trends have been very good. At least the GFY '20 budget is up again for Tactical radios to about $1.1 billion from, I don't know, $900 million or so in GFY '19. There's still some unspent fund. If you go out over the flight of the next 5 years, I think the number grows to $1.6 billion, $1.7 billion, in that range.

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it actually gets enacted, when the appropriations bills are enacted. We're hopeful that will happen by the end of this year. But we'll have enough time as we get into January to assess where we're at. And as we guide on '20, we'll incorporate the latest thinking out of DC on budget and budget timing.

But the reality, I think what's encouraging here is there is a top line 2-year agreement. There's a lot of alignment between House and Senate bills on funding areas. And as I look through that, we feel pretty good about the budgets as they're starting to shape up. And I'm optimistic that the overall budget will get approved. It will get approved on a timely basis, a lot of pressure on that to happen. So right now, it's not a concern for '19, and we'll revisit this in early '20.

Operator

Our next question comes from the line of George Shapiro with Shapiro Research.

George D. Shapiro - *Shapiro Research - CEO and Managing Partner*

Bill, just wondering that UTX has got to sell their Collins GPS business. I would think that would be pretty attractive for you and I was wondering if

George D. Shapiro - *Shapiro Research - CEO and Managing Partner*

Okay. And one quick one, if I might squeeze in. You should benefit next year from the discount rate coming down for your -- with pension income going up. Can you kind of just give us any benchmark as to how much it might change per every 25 basis point drop in DR or something along those lines?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Yes. The 25 basis points, up or down, is about $10 million of P&L impact. The balance sheet impact is about $300 million in the liability.

Operator

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

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

A lot of questions already asked here, but I'll just ask a quick one here, Bill, on all the investing and then just kind of highlighting, I think, these great revenue synergy proposals that have been put out. I guess what are you hearing from the customer in terms of the feedback on your investing? Obviously, it sounds very encouraging. And then anything about just share gains that you're going to be looking at.

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Well, look, I mean I'll jump in with -- and Chris can jump in as well and build on this. So Peter, look, first of all, we're very encouraged on the revenue synergies. Chris mentioned about being early in the process and we are. So there's a lot more to do. We have to go and win some things. So it's all sort of good indications. The feedback from the customers, I think, has been very good. But they've seen us do what we've been trying to do individually. And that's step up, invest in R&D, invest ahead of the need, be proactive in providing or offering solutions, being agile, moving things quickly. So overall, the feedback has been very good. And I think the fact that these revenue synergies are moving like they're moving is an indication of the trust and confidence that the customer community puts in this new company we call L3Harris. So I'll let Chris maybe build on that.

Christopher E. Kubasik - *L3Harris Technologies, Inc. - Vice Chairman, President & COO*

Yes. Absolutely. And I put the customers into 2 buckets, the end users, the DoD. We've had meetings as recently as last month. And they're very supportive of the merger. They like the agility. They like the significant investments that we are making.

And again, the mission solutions prime, the mission solutions provider plays in very well with the strategies that our customer has. And whether it's older platforms with new capabilities or new platforms with better capabilities, it's really in the sweet spot of where the challenges are.

And of course, we work collaboratively with a lot of other prime contractors. And again, those relationships are going well. And our capabilities that we bring to like an F-35 are appreciated and noticed. And we work collaboratively to provide those capabilities. So pleasantly surprised with the feedback. And we just have to continue to execute and deliver on time quality products.

Operator

Our next question comes from the line of Josh Sullivan with Seaport Global.

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Joshua Ward Sullivan - *Seaport Global Securities LLC, Research Division - Director & Senior Industrials Analyst*

Just a question on the classified budget exposure. I know you provided some color there on the space exposure. But what about the rest of the classified budget? How big of an opportunity is that outside of space? And then maybe what percentage of the total portfolio at this point is coming from the classified budgets?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Yes. We kind of -- I probably can come back to you on the piece of the portfolio. We knew where legacy Harris was. I think we have to commonize our definition, but it could be in the 20% range.

The reality is when you look at the combined military and national intelligence budgets, it's north of $80 billion, $82 billion, something like that. So our piece of that or share of that still is relatively small. I think lots of opportunities to grow into it. But more importantly, the places where that budget -- or those budgets are shifting are more in line with the direction that we move. Clearly, there's been a shift towards resiliency and how you define that with space architecture. And I think we're ahead of the curve on that a little bit and we're enjoying some of the benefits of that. I think it's -- so we'll have to come back to you on what piece of our overall company is now -- part of it is definitional as well. So I think we'll come back and maybe have a different answer on that.

Joshua Ward Sullivan - *Seaport Global Securities LLC, Research Division - Director & Senior Industrials Analyst*

Okay. That's fair enough. And then just on the footprint consolidation efforts. Where are you moving faster? Are there any hurdles popping up? And I'm not sure if you mentioned but any metrics on square footage or the number of facilities maybe targeted for the end of the year?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

No. We didn't mention it. I mean we -- I think we've talked publicly that we have about 20 million square feet of space, just over 400 facilities. So we've obviously moved pretty quickly on a couple of different facilities, headquarters, facilities. We've moved pretty quickly on a few others. There's a number of projects that are working itself through the process. We're evaluating each one in turn.

William M. Brown

We feel good about our increased guidance as we enter the final innings of what has really been an exceptional year. And our relentless focus on our strategic priorities puts the company in a strong position to continue to outperform next year and beyond.

So thank you again for joining us today.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.

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