

L3Harris Technologies Inc (NYSE: LHX) - closing share price on April 4, 2025: \$202.06; dividend yield: 2.4%

L3Harris Technologies is the sixth largest U.S. defense contractor with a mission to deliver end-to-end technology solutions connecting the space, air, land, sea, and cyber domains. The company supports mostly government customers in over 100 countries, with over 75% of revenue generated through the U.S. Government. The company prides itself on being 'The Trusted Disruptor', which embraces a speedy and agile development culture with access to innovative, startup technologies through venture investments.

Although its history dates back decades, L3Harris was formed through the 2019 merger of Harris Corporation and L3 Technologies. L3Harris develops several military and defense products including intelligence, surveillance, and reconnaissance (ISR) solutions, satellites, avionics and electronic warfare systems, tactical radios, and propulsion systems, among others.

In 2023, L3Harris completed two significant acquisitions which will allow the company to participate in key growth initiatives. First, L3Harris purchased the secure communication product business from satellite network operator, Viasat, for nearly \$2 billion. Link 16 is a standardized communications system used by U.S., NATO and Coalition forces for real time tactical data transmission across all domains – air, sea, space and land. This acquisition allows L3Harris to participate in the hardware and software components of the secure communications platform.

Second, L3Harris acquired Aerojet Rocketdyne, one of the largest developers of rocket propulsion systems, for \$4.7 billion. Aerojet was scheduled to be acquired by Lockheed Martin; however, the Department of Justice challenged the acquisition which ultimately caused Lockheed to back out. L3Harris took advantage of the opportunity to add a complementary product offering to its portfolio. Aerojet provides propulsion systems to the Artemis moon landing and deep space exploration. It has contracts with NASA for nine space launches with over 40 propulsion systems per launch. Additionally, L3Harris has contracts with the United Launch Alliance (ULA) for over 35 launches for the Vulcan heavy-lift vehicle program.

Following these key acquisitions, L3Harris management plans to now focus on organic revenue growth, margin expansion, returning excess cash to shareholders and divestment of non-core assets. L3Harris' competitive position has improved as it has expanded its product portfolio enabling a better value proposition for large government contracts. With the acquisition of Aerojet, L3Harris is now able to address over 50% of the cost content on every missile program with its own products, providing a distinguishable advantage over competitors.

One key component to the growth and success of L3Harris is current and expected U.S. defense spending. Government fiscal year 2024 Department of Defense spending has reached nearly \$850 billion, which has increased at an annualized rate of 6.5% since 2021. Uncertainty exists around future defense program efficiency initiatives that could reduce overall defense spending. However, spending is expected to be reallocated to top priority initiatives that we believe would benefit L3Harris – in particular, homeland missile defense. Additionally, global defense spending could continue to increase as the U.S. defense spending shifts to our allies and the world experiences continued military conflicts and geopolitical uncertainties.

L3Harris has increased its dividend for 23 consecutive years. The company has repurchased nearly \$8 billion worth of shares since 2020 as it prioritizes the return of excess cash to shareholders. Management believes that it will continue to increase cash flow through 2026 through its LHX NeXT initiative which strives to realize \$1.2 billion of gross cost savings through enhanced organizational agility, driving operational efficiencies and leveraging its scale and relationships across segments.

L3Harris Technologies is a core holding for our Growth and Growth & Income investment strategies.

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