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HII.N - Q3 2025 Huntington Ingalls Industries Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the third quarter 2025 HII earnings conference call. (Operator Instructions) Please be advised that this that today's conference is being recorded. (Operator Instructions).

I would now like to hand the call over to Christie Thomas, Vice President of Investor relations. Mrs. Thomas, you may go ahead.

Christie Thomas - *Huntington Ingalls Industries Inc - Vice President - Investor Relations*

Thank you, operator, and good morning everyone. Welcome to the HII third quarter 2025 conference call. Matters discussed on today's call that constitute forward-looking statements, including our estimates regarding the company's outlook, involve risks and uncertainties that reflect the company's judgment based on information available at the time of this call. These risks and uncertainties may cause our actual results to differ materially.

Additional information regarding these factors is contained in today's press release and the company's SEC filings. We will also refer to certain non-GAAP financial measures. For additional disclosures about these non-GAAP measures, including reconciliations to comparable GAAP measures, please see the slides that accompany this webcast, which are available on the Investor Relations page of our website at ir.hii.com.

On the call today are Chris Kastner, President and Chief Executive Officer; and Tom Stiehle, Executive Vice President and Chief Financial Officer. Now I'll turn the call over to Chris.

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

Thanks, Chris. Good morning, everyone. The United States Navy recently celebrated its 250th birthday, and the US Marine Corps will do the same in the coming weeks. So I would like to start today by thanking both of them for their enduring service to our country and their commitment to our national defense. Thank you for all that you have done and all that you do to protect us and future generations.

Moving on to the third quarter, I'll start by discussing our results and division highlights and provide an update on our operational initiatives. Then Tom will provide some details on our financial performance and outlook.

Before I begin, I'd like to reiterate our commitment to accelerate shipbuilding construction to meet our customers' requirements. We continue to support the identification of strategies to increase throughput across our shipbuilding programs and are working closely with our customer and partners to achieve this important mission.

Now turning to our results. This morning, we reported record third quarter sales of \$3.2 billion and diluted earnings per share of \$3.68. Shipbuilding sales growth of 18% year-over-year was driven by our shipbuilding division's focus on increasing throughput in our shipyards and supported by broader efforts underway to rebuild the US maritime industrial base.

Likewise, 11% sales growth at mission technologies was driven by our team's continued focus on delivering innovative solutions, including growth in the critical areas of C5ISR, cyber, electronic warfare in space, and live virtual constructive training, as well as unmanned systems.

Demand for our products and services remains strong. Third quarter contract awards were \$2 billion and our backlog is \$56 billion, of which \$33 billion is funded. At Newport News, we continue to make progress on submarines and aircraft carriers. The last two Virginia class Block 4 submarines are in the water with SSN 798 Massachusetts having recently completed sea trials and preparing for delivery this year.

As for our carrier program, CVN 79 Kennedy continues to make progress in this testing program, and we expect to conduct the ship's first sea trials around the end of the year. And shipbuilders are installing the large components that have now been received on CVN 80 Enterprise, which will allow erection progress to accelerate.

Moving to Ingalls in the third quarter, we successfully completed the builder's trial for DDG 128, Ted Stevens, bringing her a step closer to acceptance trials and delivery. Our amphibious warship construction continues to make progress with both LHA 8 Bougainville and LPD 30 Harrisburg going through integration and testing in support of trials next year.

Admission technologies, we had another strong quarter of sales at \$787 million along with a book to bill of [1.25] and announced key strategic partnerships around future opportunities.

First, we joined forces with Babcock International to integrate HII's unmanned underwater vehicles with the Babcock submarine weapon handling and launch systems while REMUS 620 was validated for torpedo tube deployment. This will position our torpedo tube launch and recovery solutions for international markets. We also announced a partnership with Shield AI to accelerate cross domain and modular mission autonomy solutions and a partnership with [Taus] to develop advanced autonomous undersea mine countermeasure capabilities.

Additionally, we unveiled the Romulus family of unmanned surface vessels powered by Odyssey autonomy software and have started building the flagship Romulus 190. Romulus is one example of numerous projects and contracts underway in mission technologies that combines internally developed technology with world-class partner technology to create best of breed technology solutions for the war fighter.

Now shifting to an update on our operational initiatives, both Ingalls and Newport News performance was stable to slightly improving in the quarter as we continue to work through ships that were contracted prior to COVID.

As I previously indicated, during the contract mixed transition from pre-COVID contracts to our newly awarded contracts, we continue to expect some choppiness in performance. The first operational initiative increasing throughput is showing improvement over 2024. Initial indications align with our expectation that the HII and Navy investments in workforce, infrastructure, and supply chain will have a positive impact on throughput trajectory.

Our updated expectation is to achieve approximately 15% throughput improvement for the full year 2025, as throughput improvements have accelerated throughout the year. From a labor perspective, we have hired over 4,600 shipbuilder year to date, and our retention rates have improved at both shipyards.

At Newport News, we've seen an increase in experienced hires following the wage investment this summer and increased hiring from regional workforce development pipelines, which provides more proficient incoming shipbuilders. These are important steps to stabilize and level up the experience of our workforce.

Also, we're seeing success and expansion of the industrial base with our distributed shipbuilding strategy resulting in significant outsourcing taking place at 23 partners and growing. With the Navy's support, we are partnering with shipyards and fabricators in multiple states to grow throughput and improve schedule adherence for all of our shipbuilding programs.

The second operational initiative is our \$250 million annualized cost reduction effort, and we remain on track to achieve this target. And the final operational initiative is achieving our new contract awards. Having completed the negotiations for the significant award of two submarines earlier this year, our teams have pivoted to negotiations of Block 6 and the next Columbia Award and are working towards having agreements in place late this year.

Shifting to activities in Washington, the new fiscal year began with a lapse in appropriations, and as a result, many activities of the federal government have halted. I will note in the Department of War shutdown guidance, shipbuilding is one of six departmental priorities that should be supported to the extent possible with available funds. To date, our programs in shipbuilding have been fully supported, and we've seen no impact to normal operations.

We have had an immaterial impact on emission technologies. We were watching those programs closely as they are more likely to be impacted by budget timing. We continue to support completion of the FY26 appropriations process as soon as possible to minimize the impact that a lapse in funding could have on our programs.

Both House and Senate defense appropriations bills include critical funding to support the submarine and maritime industrial base. And both bills reflect continued investment in our shipbuilding programs with funding provided for the Columbia class and Virginia class submarine programs for CVN 80 and 81 construction and CVN 82 advanced procurement for the DDG 51 program and for the second of three years of funding for the refueling and overhaul of CVN 75.

We also look forward to Congress completing work on the fiscal year 2026 National Defense Authorization Bill, codifying the strong support for shipbuilding and other national security priorities reflected in the respective House and Senate bills. The two defense authorization committees continue to show strong support for our company's programs.

In summary, we had a solid third quarter with record sales as we ran production in support of delivering on our commitments.

And now I'll turn the call over to Tom for some remarks on our financial performance, Tom?

Thomas Stiehle - Huntington Ingalls Industries Inc - Chief Financial Officer, Executive Vice President

Thanks, Chris and good morning. Let me start by briefly discussing our third quarter results, and then I'll address our outlook for the year. For more detail, please refer to the earnings release issued this morning and posted to our website.

Beginning with our consolidated results on slide 5 of the presentation, our third quarter revenues of approximately \$3.2 billion were a record for HII and increased 16.1% compared to the same period last year. The higher revenue was attributable to strong year-over-year growth at all three divisions.

Ingalls revenues were a record \$828 million and increased by 24.7% compared to the third quarter of 2024, driven primarily by higher material volume and surface combatants.

Newport News revenues of \$1.6 billion increased by 14.5% compared to the third quarter of 2024, driven primarily by higher volumes across submarine and aircraft carrier programs.

Together, shipbuilding revenue was \$2.4 billion, well ahead of our guidance for the quarter, as results benefited from higher than expected material receipt, as well as the impacts of wage investments and our broader efforts to drive higher shipbuilding throughput, including increased outsourcing.

Mission technologies revenues of \$787 million increased by 11% compared to the third quarter of 2024, driven by higher volume in C5ISR, cyber, electronic warfare in space, and live virtual and constructive training, as well as our growth in unmanned systems.

Moving on to slide 6, segment operating income of \$179 million and segment operating margin of 5.6% in the third quarter of 2025 were both up from prior year results, primarily driven by the prior year period's negative adjustments, as well as the positive impacts of the volume growth I discussed.

At Ingalls, segment operating income was \$65 million in operating margin of 7.9% compared to \$49 million and 7.4% in the third quarter of last year. The increases were driven by the volume increases in surface combatants.

The third quarter net cumulative adjustment at Ingalls was a positive \$6 million, and none of the adjustments were individually significant. At Newport News, segment operating income was \$80 million and the operating margin was 4.9% compared to \$15 million and 1.1% in the third quarter of 2024. Prior year results were impacted by negative adjustments resulting from the performance challenges and the delay of new contract awards.

For the third quarter of 2025, Newport News shipbuilding's net cumulative adjustment was negative \$13 million. None of the adjustments in the quarter were individually significant. Mission technologies operating income and margin more largely consistent year-over-year as changes in the contract mix offset the higher volumes I previously mentioned.

Consolidated operating income for the quarter was \$161 million and operating margin was 5% compared to \$82 million and 3% in the same period last year. The variance was primarily driven by the segment results I've just noted.

Net earnings in the quarter were \$145 million compared to \$101 million in the third quarter of 2024. Diluted earnings per share in the quarter were \$3.68 compared to \$2.56 in the same period last year. The effective tax rate in the third quarter was 28.9%, higher than our initial expectations, as results were impacted by a reduction in the estimated research and development tax credit for the prior year.

Turning to slide 7, cash provided by operations was \$118 million in the quarter. Net capital expenditures were \$102 million or 3.2% of revenues. Free cash flow in the quarter was \$16 million. Free cash flow results in the quarter were better than the guidance we had provided, largely due to stronger collections in the quarter, as well as some disbursements moving out of the quarter. I'll discuss our updated 2025 free cash flow guidance in a moment.

During the quarter, we did not repurchase any shares. We did pay a cash dividend of \$1.35 per share or \$53 million in the aggregate. Last week, we announced a modest increase in our quarterly dividend to \$1.38 per share.

Turning to liquidity in the balance sheet, we ended the quarter with a cash balance of \$312 million and liquidity of approximately \$2 billion. Our capital allocation priorities are unchanged. We value our investment grade credit rating, and we will continue to prioritize prudent debt levels while strategically investing in our shipyards and thoughtfully growing our dividend while continuing to use excess free cash flow for share repurchases.

Moving on to our outlook on slide 8. We have narrowed the shipbuilding revenue range to be between \$9 billion and \$9.1 billion, which is an increase of \$50 million at the midpoint from the prior guidance range. We are reiterating the shipbuilding margin range up between 5.5% and 6.5%.

The Mission Technologies, we are now expecting revenue between \$3 billion and \$3.1 billion, an increase of \$50 million from the prior guidance range at the midpoint. We expect Mission Technologies operating margins of approximately 4.5% and EBITDA margins between 8% and 8.5%.

Our 2025 guidance is predicated on achieving the operational initiatives we've laid out. We are pleased with the throughput improvement we saw in the third quarter, though we have not been able to overcome the slowest start to the year and therefore had to trim our throughput improvement expectations for the full year.

As Chris noted, we are continuing to work towards the Virginia Class Block 6 in Columbia built to submarine Awards later this year. If the award were to push into 2026, it would be a headwind to our guidance that would likely have us end the year slightly below the midpoint of our shipbuilding margin guidance range. Conversely, an award this year would support us ending at or slightly above the midpoint of the range.

The 2025 free cash flow, we are updating our guidance to be between \$550 million and \$650 million. At the midpoint, this is an increase of \$50 million compared to our prior guidance range. We're establishing a cumulative free cash flow target for 2025 and 2026 of \$1.2 billion. Using the 2025 free cash flow guidance midpoint, this does imply both years will generate about \$600 million in free cash flow.

As always, our cash flow in a particular quarter or year can be impacted by small changes in timing for large receipts and disbursements. We are also updating a number of discreet income statement guidance elements. We have made some minor revisions to our pension outlook, and you can find an updated 2025 and 2026 expectations in the appendix of today's slide presentation. We are also updating the expected effective tax rate for the year to 22%, given the elevated rate in the third quarter that I discussed previously.

To close, it was a good quarter as we continue to make steady progress working our way through challenging ships and executing our 2025 operational initiatives. Securing new contracts aligned to the current environment drive higher throughput and thoughtfully manage cost.

With that, I'll turn the call back over to Christie to manage Q&A.

Christie Thomas - *Huntington Ingalls Industries Inc - Vice President - Investor Relations*

Thanks, Tom. As a reminder to everyone on the call, please limit yourself to one initial question and one follow-up, so we can get as many people through the queue as possible.

Operator, I'll turn the call over to you to manage the Q&A.

QUESTIONS AND ANSWERS

Operator

Thank you very much. We will now open the Q&A session.(Operator Instructions)

Scott Mikus, Melius Research.

Scott Mikus - *Melius Research LLC - Equity Analyst*

Morning Chris and Tom. I wanted to ask Virginia Block 6 and Columbia build to negotiations. So you kind of touched on the fact that shipbuilding is not really impacted by the shutdown. Is there anything that's potentially holding up that negotiation maybe due to government employees being furloughed, and then also from a high level perspective, does it make sense for industry and the customer to commit to that many boats at once, or should the negotiation maybe split up into two or more negotiations to just get a better understanding of the cost and schedule to build those.

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

Yeah, thanks Scott. I think furlough is not impacting that negotiation. The team is working very hard to get that done. I won't comment directly on negotiations because it's inappropriate, but the team's working very hard to get that done before the end of the year.

I know, I also know the Navy's working on how that works with the shutdown and potential CR to make sure that we can get the ships awarded. So more to come there, but I think we're making good progress.

On the incremental award or potentially award less ships, really doesn't make sense and contrary to really what we think is the most important thing for the industrial base, which is a consistent demand signal, and as important as that is to us, the supply chain really needs it. So I think incrementally negotiating these rewarding does not make a lot of sense. We need to get all 10 of these awarded and be on our way. So thanks Scott. I appreciate it.

Scott Mikus - *Melius Research LLC - Equity Analyst*

Okay. And then a quick one, it looks like you mentioned the retention rates have been improving. You had the wage increase going in at Newport News, I think in June. When is the wage increase going in at Ingalls?

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

So we're in discussions with the union at Ingalls that the union agreement expires next year. So we're hoping to get that in place by next year, maybe end of this year, but we're in discussions. It makes it a bit more complicated because we have to engage with the union to get that done.

Scott Mikus - *Melius Research LLC - Equity Analyst*

Okay, got it. Thank you.

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

Sure.

Operator

Noah Poponak, Goldman Sachs.

Noah Poponak - *Goldman Sachs Group Inc - Analyst*

Morning everyone.

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

Good morning.

Noah Poponak - *Goldman Sachs Group Inc - Analyst*

Hey, thanks. Tom, you highlighted the shipbuilding revenue in the quarter being almost \$250 million ahead of your plan, but then only raising the full year by \$50 million. And to be in the full year range for shipbuilding revenue would need to be flat, actually maybe even down a little, and I think the compare is pretty easy. Can you help me with that math, and I guess the bigger picture question is just seeing this very high growth rate in the quarter on the ship building revenue, the question is, have you achieved much better ability to get the throughput relative to demand, and can we extrapolate, maybe, it's not [16] every quarter for a while, but can we extrapolate much better growth in the medium term, or was there something just with the outlay allocation or something kind of random to the quarter?

Thomas Stiehle - *Huntington Ingalls Industries Inc - Chief Financial Officer, Executive Vice President*

I appreciate the question there. Don't know. So a couple of things there. Newport News, they grew 15%. Ingalls grew 25%. From a Newport News perspective, what we saw there increased throughput, wages and outsourcing. It was primarily driven by the material that we see on those contracts as well.

From an Ingalls perspective, it was the material volume that we saw on the surface combatants. A mixture of FY23, the destroyers, the DG 1000, and some growth on some long lead contracts we have and some audits on that front. I do expect, we held the guidance right now. We took the bottom range up, we held the top range still what we gave you at the beginning of the year there.

There is some tailwinds, I'll tell you, so we want to see how we continue to improve, as Chris mentioned in his remarks up front, it was earned throughput. Charleston operations is providing a list in revenue. We've qualified over 23 new vendors on the outsourcing side, so all that's very favorable. We want to continue to see a positive trend as we go forward here.

I would say a couple of dollars I'll pull ahead from Q4 to Q3, but there's some foundation and some substance there of increased growth as we go forward here. Chris and I will evaluate how Q4 plays out and then we'll provide some guidance of revenue projections for shipbuilding on February call.

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

Yeah, I think to add to that, no, obviously, I think 4% mid-term growth is probably in the rear view mirror. But we want to make sure we roll up our plans and give you good guidance on the year-end call.

Thomas Stiehle - *Huntington Ingalls Industries Inc - Chief Financial Officer, Executive Vice President*

Yeah, I would comment if you pull back just even though Q3 with 18% growth that we had here, kind of year over year in shipbuilding. For the year itself it's 6.1%, between Q1, Q2 and Q3 here. So we do see some positive signs of the capacity and throughput. And I envision as we continue to execute on the backlog we have, we have the book of business, the investments mature, the wages take hold and the workforce becomes more senior. I would envision that, that's going to ramp us as we go forward here.

Noah Poponak - *Goldman Sachs Group Inc - Analyst*

Chris, 4% in the rear view mirror. What do you mean by that?

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

Just long mid-term guidance for shipbuilding. It's -- we provided kind of mid-term guidance for shipbuilding at 4%.

Noah Poponak - *Goldman Sachs Group Inc - Analyst*

Yeah. What do you mean by being in the rear view mirror?

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

It means it's not probably not valid anymore. It's probably in excess of that. We just need to roll up our plans.

Noah Poponak - *Goldman Sachs Group Inc - Analyst*

Okay, understood. And then, Tom, or Chris, the \$250 million cost initiative. It's a pretty big number just compared to your EBITDA base. Will that be a gross number? Do we need to net that number, and how much of that is already done and in your numbers versus is still ahead of you?

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

Yeah, it's all in our guidance. But we assume we're going to achieve that in our guidance, so it's all in.

Noah Poponak - *Goldman Sachs Group Inc - Analyst*

It's in your 2025 guidance?

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

Yes.

Noah Poponak - *Goldman Sachs Group Inc - Analyst*

And has that been benefiting the margin year-to-date?

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

Well, these are long-term contracts and you make assumptions about what the cost profile is going to be. So it's all been in our guidance.

Noah Poponak - *Goldman Sachs Group Inc - Analyst*

Okay. All right, thanks a lot. I appreciate it.

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

Sure, Noah.

Operator

Ron Epstein, Bank of America.

Ron Epstein - Bank of America - Analyst

Hey, yeah, good morning guys. Thanks for the question. Yeah, just maybe a quick one here. Can you give us more color on your partnering strategy on unmanned vessels? You announced recently a partnership with Shield AI and the progress you're having on your own internal autonomy systems for these vehicles.

Christopher Kastner - Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director

Sure, thanks. Thanks for that. It's a Odyssey software solution for autonomy. We've got the beauty of Odyssey, it's open source. So the implementation or incorporation of new software tools is pretty seamless. And so when we reviewed the space and opportunity we had to identify partners that could add capability into that software. Shield AI made a lot of sense. C3 AI makes a lot of sense. It just makes it more powerful for the mission. We've been working on that software for a long time. As you know, we have over 750 (inaudible) vehicles that have been delivered both the international and domestic partners. So it's been very positive and I don't know if you've seen the releases relative to our Romulus, lot of vehicles that we're building as well.

So Odyssey is a critical part of that. It only makes sense. It's part of MT's strategy to use, world class commercial solutions to make sure that we provide the best solutions for our customer and the open architecture of that software makes that pretty seamless. So we're excited about it. We think it's going to be a great tool and we tend to include it going forward in our unmanned products.

Ron Epstein - Bank of America - Analyst

Got it. And I mean, ultimately how big do you think the unmanned market can be for you?

Christopher Kastner - Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director

Yeah. So I don't want to give a specific size. It is ramping. It is becoming more material within Mission Technologies, and you see the budget environment, the allocation of additional unmanned opportunities in reconciliation is very positive, so it's ramping. I don't want to size it here, but it's definitely a place we're investing in.

Ron Epstein - Bank of America - Analyst

Got it. And then maybe just one last one. You probably saw it in the news yesterday, and then if you can't answer this, I mean it didn't happen that long ago. But the Trump administration suggested that (inaudible) is going to be making nuclear submarines at the Philadelphia Navy Yard. How's that changed things or not? I mean, how do you think about that strategically?

Christopher Kastner - Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director

Well, it's definitely been an exciting couple of days in shipbuilding. I don't want to comment specifically on that because that's pretty new information. But at the end of the day, we're going to build what the Navy wants us to build. We're going to partner with them and if they need our help, we're going to help them. So we're not getting distracted by anything. We're keeping our heads down and we're going to build what's in front of us, but that's pretty new information. I don't want to comment directly on it until we understand more details.

Ron Epstein - Bank of America - Analyst

Got it, yeah, thank you for that. Yeah. Thanks.

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

Sure.

Operator

Seth Seifman, JPMorgan.

Seth Seifman - *JPMorgan Chase & Co - Analyst*

Okay, thanks very much and good morning. So wanted to ask, I think you mentioned with regard to the margin rate, if the contract didn't come in in Q4, you'd be below the midpoint for the year, which I think would imply kind of a step down in the margin in Q4.

And just kind of curious what drives that given where the underlying margins are in each shipyard after EACs, it would seem that the underlying margin here with kind of neutral EACs is something that is above 6%, kind of in the maybe low towards mid 6 range. And so is that some conservatism that leads you to have that guidance, or is there some kind of anticipation of potential further negative adjustments?

Thomas Stiehle - *Huntington Ingalls Industries Inc - Chief Financial Officer, Executive Vice President*

I appreciate the question. And yeah, our shipbuilding margins for the first three quarters have been stable. We saw [6, 64, 58 and 59]. We're just tweaking the guidance on what will happen as we play out the Q4. The 15 vote award will have incentives in there, some performance incentives, some capital incentives, just the math that is the timing of when that happens and how we book that has incremental changes as we adopt the capital projects, take the CapEx incentives and how we book that.

So we're probably, being a little conservative on that front, and we're trying to guide the street as where we could land depending on the timing of those awards. Don't see some step backs right now. Through Q3, we've booked our performance for cost and schedule, and we're just reiterating the guide that we gave you at the beginning of [55 to 65], but no issues or concerns expect to kind of finish up around the midpoint as we go forward here.

Seth Seifman - *JPMorgan Chase & Co - Analyst*

Okay. Great. Thanks very much. I'll stick to one this morning.

Thomas Stiehle - *Huntington Ingalls Industries Inc - Chief Financial Officer, Executive Vice President*

Thank you.

Operator

[Scott Deutschler], Deutsche Bank.

Scott Deutschler - *Deutsche Bank - Analyst*

Hey, good morning. Chris, relative to that 15% throughput target, are you looking for a similar number from both Ingalls and Newport News or is that target materially different between the two yards?

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

No, they actually are ending up in about the same place. So that doesn't often happen. But yeah, they're they're ending up in about the same place and it's pretty equally distributed between increased outsourcing and performance of the labor force. So yeah, it's been pretty equal.

Scott Deutschler - *Deutsche Bank - Analyst*

Okay. And then relative to the reduction from the 20, was that also equal, or did one of the yards see like slightly less improvement than what's expected? It sounds like fairly equal as well, but I'm just curious for that.

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

Yeah, fairly equal.

Scott Deutschler - *Deutsche Bank - Analyst*

Okay. And then Chris, after you raised wages for your workers at Newport News, did you see any other local area industries respond in kind by also raising wages? You're just trying to get a sense as to whether you're maintaining a consistent spread above the market wage rate as a result of those increases, or if the market's also already eating into that at all.

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

Yeah. The market has not materially adjusted such that it's impacted our hiring in Newport News. It's been pretty positive in Newport News and the effect of those wages has been positive and reduced attrition, but we're probably most excited about repositioning the experience level of the workforce, where we have more experience, but we're also hiring about 50% out of what we call the pipeline, which are the regional workforce development centers, the apprentice schools, and the high school programs, which is very positive. So, Newport News labor is doing well, kind of cautiously optimistic. We have to keep it going.

Scott Deutschler - *Deutsche Bank - Analyst*

Thank you.

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

Sure.

Operator

Myles Walton, Wolfe Research.

Myles Walton - *Wolfe Research LLC - Analyst*

Great, thanks. Good morning. Tom. On the cash flow flatness implied in 2026, maybe just give us a little bit of a color there. Obviously an assumption that earnings will grow, CapEx, I would have thought maybe steps down a touch. Is there an offset to that to kind of keep in the flat range? And

then a couple of years back, there was a bigger target for cash flow in the [\$700 million] to \$800 million range. That's something that can only arrive with something like the [SaaS] being resolved.

Thomas Stiehle - Huntington Ingalls Industries Inc - Chief Financial Officer, Executive Vice President

I appreciate the question on that. Yeah, so, we brought back more than a guide, an annual guide here for a two year guide, a piece of that. It's just with five quarters this quarter this year and next year as the awards come through, we watch performance for Q4 and then we set the trajectory for next year. We wanted to kind of settle the street on where we think we're going to be.

We've talked about the book of the business we have, the performance that where we stand. I think it's consistent that we'll have a run rate here of about \$600 million between the two years. We'll just see what hits this year versus kind of next year between receipts and the awards. So I'm comfortable with that right now.

Relative to your math, yeah, the revenue does grow here. There is a lot of moving parts in there between the working capital that have CapEx. And again, the timing of receipts and the performance for the next five quarters that plays into all of that here.

But generally speaking, there's -- I'm comfortable with what we we're at. It's a conservative guide I would tell you for 2026 as we go forward here. I really want to close out the year, lock on our plan, get the awards from the customer, which has both opportunity around that, and then we'll give you more color of that in the February time frame.

Relative to your comment on the [\$700 million] to \$800 million. As we get back, obviously the top-lines growing, that's good. We've kind of hinted here that the 4% has some good tailwinds and you see for the first three quarters of this year it's over 6%, so we'll give you increased kind of guidance on that in the February time frame, but the top-line will grow kind of meaningfully, and the major piece that will change that cash flow inflection in the medium to long-term will be the return of the profitability.

We expect incremental profitability from year to year and as we continue to retire the pre-COVID contract work, the new contracts are aligned with the efficiencies and schedules and materials that we see. And as we get into those contracts, we start kind of looking more conservatively, but as we get into those contracts three to five years out, we will see us getting back to more traditional expectations of profitability in shipbuilding. Obviously higher top-line, higher bottom line, and that's where we get back to the cash flows that you've kind of (inaudible) on the tail end of the decade here so.

Myles Walton - Wolfe Research LLC - Analyst

Okay. Got it. And then Chris, let me one for you, and I don't know if you can answer this one either, but the President has recently quoted saying he's going to have an executive order moving aircraft carrier designs back to steam from emails. I'm just curious what what carrier could that cut over into if that was actually a change that was going to take place.

Christopher Kastner - Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director

Yeah. So again, I probably don't need to comment on that directly. What I will say is, we're going to build whatever the Navy asks us to build. So if they ask us to cut over (inaudible) or weapons elevators, we'll work with them to do it the most intelligent way and cut it over in the right way. But again, we're going to build what they asked us to build.

Myles Walton - Wolfe Research LLC - Analyst

Thank you.

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

Sure.

Operator

Gautam Khanna, TD Cowen.

(Operator Instructions)

Gautam Khanna - *Cowen and Company LLC - Analyst*

Hey, good morning. Can you hear me?

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

Morning. Yes.

Gautam Khanna - *Cowen and Company LLC - Analyst*

Great. Guys, I was wondering if you could update us on a couple of things. One, did you receive the modules for CVN 80 that were delayed in the quarter?

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

We did. We're, and we will install those in Q4 and begin to get back on the erection schedule for that both. So yeah, we did receive the modules.

Gautam Khanna - *Cowen and Company LLC - Analyst*

Perfect. And could you give us the net EACs by segment?

Thomas Stiehle - *Huntington Ingalls Industries Inc - Chief Financial Officer, Executive Vice President*

Yeah. So the net EACs that we had here were gross favorable was 37, unfavorable was 40, a net of minus 3, that was made up of Ingalls at (inaudible) 6, as I said in my remarks, and you put at minus 13. Those are the remarks as well as MT had positive 4.

Gautam Khanna - *Cowen and Company LLC - Analyst*

Okay. Sorry, I might missed that. Thank you. And then I was just curious Tom, on the Q4 implied shipbuilding, EBIT, pretty wide range, but you did mention that, it's going to be somewhere around the midpoint with or without the submarine contract signed. Is there the high end, is that like, what would get you to the high end of the implied range, and is there any reason to think that the extremes are actually in play. (multiple speakers)

Thomas Stiehle - Huntington Ingalls Industries Inc - Chief Financial Officer, Executive Vice President

Yeah, I appreciate the question. We gave you that guide at the beginning of the year in February. We have reiterated in May and July and now here. We just have not changed that. I mean, the math at the extremes, it would take a lot of things break in one way or another way. I would stick to the comments I had earlier here, we've been very consistent from quarter to quarter.

I don't really expect this to inflict significantly up or down from here for the end of the year. As I said earlier, I do expect as we go from year to year and incremental improvement here, but, we understand how we're operating, the performance has been really steady right now, and we, we're raising the focus on we have to do for the end of the year to close down within a guidance range (Inaudible - microphone inaccessible) .

Gautam Khanna - Cowen and Company LLC - Analyst

Perfect. And one last one. Tom, just, I know you talk about the pre-COVID and post-COVID contract mix. Can you remind us what it is this year and what do you expect it to be in 2026?

Thomas Stiehle - Huntington Ingalls Industries Inc - Chief Financial Officer, Executive Vice President

Yeah, we haven't given specific percentages on that, but we've said that when we get to 2027, there'll be more work post-COVID than pre-COVID. It'll be over 50%, so you can do the math of that of where we stand, but we're ramping from being in the 80s and 70s down to that by 2027, and it's fairly significant to retire those boats and ships every time we sell one off, obviously there's less pre-COVID work and then the opportunities set is in front of us there with the new contracts aligned to performance and schedule and cost that we see here.

Gautam Khanna - Cowen and Company LLC - Analyst

Thanks a lot guys.

Thomas Stiehle - Huntington Ingalls Industries Inc - Chief Financial Officer, Executive Vice President

Okay, thank you.

Operator

Noah Poponak, Goldman Sachs.

Noah Poponak - Goldman Sachs Group Inc - Analyst

Hey guys. Just one follow-up on kind of everything happening, right? Can you talk about why philosophically or mechanically and whether that's mechanically in the actual work or the nature of your contracting. Why would throughput and top-line growth improve before faster than the margins?

Christopher Kastner - Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director

Yeah, that's an interesting question. The throughput assumptions we have in our schedule support the EACs and we have risk and opportunity around them. So if we can execute on those throughput targets, then it mitigates a significant amount of risk, and there's potential upside, but you have to evaluate each every quarter. It's not a perfectly aligned metric tied to margin performance.

Noah Poponak - *Goldman Sachs Group Inc - Analyst*

Okay. Yeah, just sort of trying to better understand the much better top-line and your confidence in that continuing with the shipbuilding margin being kind of just flat through the year. And I guess, I would improve the labor, but I guess would maybe immediately drive higher throughput, but then you need the labor to refine and get better before it impacts the margin was maybe a thought or I didn't know if it's just the nature of percentage of completion accounting. It is sort of an interesting dynamic in the financials.

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

Yeah, so yeah, I think it's an interesting question. Tom can chime in here as well, but one quarter doesn't win the day, right, in an EAC. And you're running risk and opportunity throughout the entire program. So, well, yes, you're retiring risk, and if you're achieving your throughput targets and achieving your sales targets, you are retiring risk, but you aren't necessarily going to convert that into profitability in your EACs.

Noah Poponak - *Goldman Sachs Group Inc - Analyst*

Right. So perhaps one quarter is evidence of a start of everything you're doing, but you need more than that to put it in the actual booking rates.

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

That's why I consider this a stable quarter. It's stable, but we need to continue to keep our head down and work.

Thomas Stiehle - *Huntington Ingalls Industries Inc - Chief Financial Officer, Executive Vice President*

I'd comment on the back of that too. I'm with Chris that then our, it's 13 weeks, some of these contracts have two to six years to go. It's good, actual plus estimate to complete, and you put a quarter in the books, that's a solid quarter, which is good.

Expect that trend to continue if not improved, but that wouldn't necessarily mean that immediately we change the EACs. Incrementally will continue with good performance to retire down the risk and as the cost risk kind of goes away, that's the catalyst to really take the booking rates up. So I like the trends that I'm seeing right now and quarter-over-quarter as we continue to see that, that's what's going to drive the incremental improvement of the bottom line. Thanks for thanks for the follow-up.

Noah Poponak - *Goldman Sachs Group Inc - Analyst*

Yeah. It's interesting. I appreciate the the detail. Thanks a lot.

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

Thanks, Noah.

Operator

Thank you. I am not showing any further questions at this time. I would now like to hand the call back over to Mr. Kastner for any closing remarks.

Christopher Kastner - *Huntington Ingalls Industries Inc - President, Chief Executive Officer, Director*

Thank you for taking the time to join us today and for your interest in HII. At HII we're committed to delivering on our strategic priorities and aim to drive growth, improve efficiency and create value for all our stakeholders. Please have a safe and happy Halloween weekend ahead.

Operator

Thank you very much. That concludes today's call. You may now disconnect your lines.

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