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HII.N - Q4 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 fourth quarter 2025 HII earnings conference call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions) I would like now to hand the call over to Christie Thomas, Vice President of Investor Relations. Mrs. Thomas, you may [begin].

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

Thank you, operator, and good morning, everyone. Welcome to the HII fourth 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 and 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 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.

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Thanks, Christie. Good morning, everyone, and thank you for joining us on our fourth quarter 2025 earnings call. Before discussing the results, highlights and guidance, I'd like to take a moment to reflect upon our progress over the past year. The solid results we posted this morning are the outcome of a measurable increase in Shipbuilding throughput, a key indicator for scheduled performance.

During 2025, in partnership with our government customers, we've taken steps to increase our hiring, improve our retention and strengthen proficiency levels within our workforce. What these efforts represent our thousands of skill shipbuilders, engineers, technologists and professionals who are committed to HII's mission.

I'd like to say thank you to our 44,000 employees. Every improvement in our operations, every efficiency we unlock, every day we reduce from a schedule translates directly into capability our customers urgently need and can deploy to protect American interest.

Now turning to our 2025 results. Revenues of \$12.5 billion grew 8.2% and EPS was \$15.39. 2025 awards totaled \$16.9 billion. All three of our divisions reached record revenue levels and hit key milestones. Now I'd like to share some of the 2025 division highlights starting with Mission Technologies.

In 2025, Mission Technologies delivered another year of top line growth with record revenues topping the \$3 billion mark for the first time. Throughout 2025, we announced key milestones that highlight the breadth of our defense technology offerings.

These included developing the US Army's high-energy laser weapon system debuting GRIMM spectrum dominance EW solution delivering Lionfish, small unmanned underwater vehicles to the US Navy, expanding shipboard and shore-based training for US and coalition forces and delivering our 750th REMUS Autonomous Underwater Vehicle.

To accelerate support of a hybrid fleet, we unveiled the ROMULUS family of unmanned surface vessels powered by our own Odyssey autonomy software suite and construction of the first prototype is well underway on the Gulf Coast.

In summary, the Mission Technologies team is executing well, and we are confident in continuing this success, particularly given how closely our portfolio maps to our defense customers' needs. Shifting to Shipbuilding. At Ingalls, we delivered our second Flight III destroyer, DDG 128 Ted Stevens, launch Jeremiah Denton and authenticated the keel DDG 135 Thad Cochran.

Also in January, we completed sea trials on DDG 1000 Zumwalt. On the amphibious ship programs, we christened LPD 30 Harrisburg and began fabrication of LPD 32 Philadelphia, and LHA 8 Bougainville is actively in the test program and has achieved generator light-off. We also signed a memorandum of agreement with HD Hyundai Heavy Industries, reinforcing our strategic collaboration to explore future partnership opportunities.

Additionally, in December, the US Navy announced a golden fleet, which includes the Trump class battleship as well as a frigate which will leverage the proven design of the Ingalls built legend class national security cutter. I have great confidence in Ingalls' team to execute this program and in our ongoing efforts with our partners to successfully expand the US shipbuilding industrial base to meet the Navy's needs.

In 2025, at Newport News Shipbuilding, we delivered Virginia-class submarine, SSN 798 Massachusetts launched SSN 800 Arkansas, laid the keel of SSN 804 Barb and undocked SSN 796 New Jersey in preparation for redelivery to the fleet. We also delivered the bow of the first Columbia class submarine SSBN 826 District of Columbia.

In our aircraft carrier programs, last year, we completed dock trials on CVN 79 Kennedy and the team is now finishing up for first sea trial evolution, moving another step closer to preliminary acceptance and delivery. In addition, having completed deck over of both engine rooms post receipt of the remaining major interim components, CVN 80 has now reached 50% erected in the dry dock and CVN 81 keel units are in fabrication, and we continue to receive major material components in support of production.

After delivering two ships in 2025, DDG 128 and SSN 798 we expect to deliver another two ships in 2026, SSN 800 and LPD 30 as well as complete preliminary acceptance of CVN 79. I'll note that we've accelerated our forecast of LPD 30 delivery into 2026 and adjusted LHA 8 Bougainville delivery to 2027. This ensures that we avoid any potential conflicts, people or equipment and establishes clear and consistent priorities for the joint Ingalls and Navy teams throughout all the interim milestones leading to delivery.

Now I'd like to update you on our operational initiatives. In 2025, we set out to improve throughput and achieved 14% year-over-year increase. As we continue to invest with our customer partner in our workforce, facilities, technology and supply chain, we've established our 2026 target to increase throughput by another 15%, supporting the throughput increase, we hired over 6,600 shipbuilders in 2025 and expect to hire at least this many in 2026.

Given recent investments in wages and workforce, we expect continued improvement in our retention rate, and we'll continue to develop our workforce to maximize productivity. Also, we plan to continue to ramp our distributed shipbuilding strategy. While we doubled outsourcing year-over-year in 2025, we are planning to increase outsourcing by another 30% in 2026.

Our second operational initiative in 2025 was a cost reduction target of \$250 million, which we met by removing mostly overhead and support labor costs for improved efficiency. Lastly, we expect several shipbuilding contract awards in 2026, including Virginia-Class Block 6, Columbia Build 2, CVN 75 RCOH and CVN 82 Long-Lead material.

Regarding capital allocation, we've historically taken a very balanced approach, leading with reinvestments into our shipyards. Stakeholders that have visited our yards have seen firsthand the tremendous amount of investment we have made over the past decade at both Ingalls and Newport News.

In 2026, we will again target hundreds of millions of dollars of capital investment in the shipyards. Specifically at Newport News, these projects include finishing a multipurpose carrier refueling and overhaul work center, making peer updates to support carrier inactivation significant investments in manufacturing centers of excellence to support higher submarine throughput and completion of the new parking garage that began construction in 2025.

Now I'd like to say a few words about guidance, and Tom will provide more detail in his remarks. With our keen focus on execution, the progress made this past year the large investments in shipbuilding and the unprecedented demand for our products and services, we are raising our medium-term shipbuilding revenue growth guidance from approximately 4% to approximately 6%.

We did have some sales driven by material timing move into 2025 that were expected in 2026. So our current year outlook for shipbuilding revenues is between \$9.7 billion and \$9.9 billion and shipbuilding margins in the range of 5.5% to 6.5%. For Mission Technologies, we expect revenues between \$3 billion and \$3.2 billion and margins of approximately 5% with EBITDA margins between 8.4% and 8.6%. Our free cash flow outlook for 2026 is between \$500 million and \$600 million.

Turning to activities in Washington for a moment. Congress on a bipartisan basis passed the National Defense Authorization Act for fiscal year 2026 in December. The fiscal year 2026 NDAA strongly supports our shipbuilding programs including incremental funding and block buy procurement authorization for CVNs 82 and 83.

Incremental funding and procurement authorization for up to five Columbia class submarines and continuous production authority for a range of Virginia-class components to optimize construction schedules and supply chain resilience.

The fiscal year 2026 defense appropriation bill shows strong support for our programs. The bill includes continued incremental funding for CVN 80 and 81 along with advanced procurement for CVN 82. Continued funding for CVN 74 RCOH, funding for the Virginia-Class and Columbia-class submarine programs, advanced procurement for the DDG 51 program and funding for long-lead materials for the new frigate program. Combined with the shipbuilding funding provided in the budget reconciliation bill that was enacted into law in July 2025, the FY26 defense appropriations bill continues the strong support for the shipbuilding industry.

In summary, we have made meaningful progress over the past year and have increased throughput and improved execution. We must build on this momentum and continue to increase our shipbuilding throughput. The US Navy and all of our defense customers need our ships and technologies now more than ever. The global security environment demands that we operate with a sense of urgency and purpose that matches the seriousness of the threats to our nation faces.

Now I will turn the call over to Tom for some remarks on our financial results and guidance. Tom?

Tom Stiehle - *Huntington Ingalls Industries Inc - Executive Vice President and Chief Financial Officer*

Thanks, Chris, and good morning. Today, I'll review our fourth quarter and full year results and also provide some additional color regarding our outlook for 2026. For more detail on the segment results, please refer to the earnings release issued this morning and posted to our website.

Beginning with our consolidated results on slide 6. Our fourth quarter revenues of \$3.5 billion increased approximately 16% compared to the same period last year. The higher revenues were driven by growth at all three segments.

Ingalls fourth quarter 2025 revenues of \$889 million increased \$153 million or 21% compared to the fourth quarter of 2024, driven primarily by higher volumes on amphibious assault ships and surface combatants. At Newport News fourth quarter 2025 revenues of \$1.9 billion increased \$303 million or 19% from the fourth quarter of 2024, primarily due to higher volumes in both submarines and aircraft carriers.

At Mission Technologies, fourth quarter 2025 revenues of \$731 million increased \$18 million or 2.5% from the fourth quarter of 2024, primarily driven by higher volumes in Warfare Systems, global security and unmanned systems.

Moving to slide 7. Segment operating income for the quarter was \$195 million and segment operating margin was 5.6%, this compares to \$103 million and 3.4%, respectively, in the fourth quarter of 2024. Results at all three segments improved compared to the fourth quarter of 2024.

Ingalls' fourth quarter 2025 operating income of \$68 million and margin of 7.6% compared to \$46 million and 6.3%, respectively, in the fourth quarter of 2024. The improvement was due to the higher volumes I noted as well as lower unfavorable cumulative adjustments for amphibious assault ships and surface combatants compared to the fourth quarter of 2024.

Newport News fourth quarter 2025 operating income of \$84 million and margin of 4.4% compared to \$38 million and 2.4%, respectively, in the fourth quarter of 2024. If you recall, these results are lapping the fourth quarter of 2024, which included unfavorable accumulative adjustments for Virginia-class submarines and new carrier construction as well as contract incentives related to the Columbia-class program.

Fourth quarter 2025 results also include favorable contract adjustments on the Virginia-class program. Shipbuilding margin for the fourth quarter of 2025 was 5.5%. Mission Technologies fourth quarter 2025 operating income of \$43 million and segment operating margin of 5.9% compares to \$19 million and 2.7%, respectively, in the fourth quarter of 2024.

The improvement was driven by better performance in warfare systems, global security and unmanned systems as well as the high emission technologies volume I noted earlier. Net earnings in the quarter were \$159 million compared to \$123 million in the fourth quarter of last year. Diluted earnings per share in the quarter were \$4.04 compared to \$3.15 in the fourth quarter of the previous year.

Moving on to consolidated results for 2025 on slide 8. Revenues of \$12.5 billion increased \$949 million or 8.2% compared to 2024. While each segment contributed to the higher revenue, growth was particularly strong at Ingalls and Newport News shipbuilding.

Ingalls' revenues of \$3.1 billion in 2025 increased \$311 million or 11.2% from 2024, driven primarily by higher volumes in surface combatants and amphibious assault ships. At Newport News, 2025 revenues of \$6.5 billion increased by \$538 million or 9% from 2024 due to higher

volumes in both submarines and aircraft carriers. At Mission Technologies, 2025 revenues of \$3 billion increased \$107 million or 3.6% from 2024, primarily driven by higher volumes in warfare systems, global security and unmanned systems.

Moving to slide 9. Segment operating income for the year was \$717 million, and segment operating margin was 5.7%, this compares to \$573 million and 5%, respectively, in 2024. Ingalls operating income of \$233 million and margin of 7.6% in 2025 compared to \$211 million and 7.6%, respectively, in 2024.

The increase in operating income was primarily driven by the higher volumes noted earlier and favorable contract adjustments in surface combatants, partially offset by lower performance in amphibious assault ships.

Newport News 2025 operating income of \$331 million and margin of 5.1% compared to \$246 million and 4.1%, respectively, in 2024. The increases were primarily driven by favorable contract adjustments in the Virginia-class submarine program, partially offset by contract adjustments and incentives in 2024 in the aircraft carrier refueling and complex overhaul program.

Shipbuilding margin for 2025 was 5.9%, within the guidance range we provided for the year and consistent with my commentary on our last earnings call. This represents a 70 basis point improvement over 2024s results.

Net cumulative adjustments for the year were negative \$28 million. Newport News net cumulative adjustments was negative \$64 million, which included adjustments related to CVN 80 and CVN 81 carrier construction. The negative Newport News cumulative adjustment was partially offset by positive net cumulative adjustments at Ingalls of approximately \$16 million, in Mission Technologies of approximately \$20 million.

Moving on, Mission Technologies 2025 operating income of \$153 million and segment operating margin of 5%, both improved from \$116 million and 3.9%, respectively, in 2024. The improvement was driven primarily by the lower purchased intangible amortization, better performance in warfare systems as well as higher revenue volumes noted earlier.

Mission Technologies 2025 results included approximately \$89 million of amortization of purchased intangible assets compared to approximately \$99 million in 2024. Mission Technologies EBITDA margin for 2025 was 8.6%, up from 7.9% in 2024. Net earnings in 2025 were \$605 million compared to \$550 million in 2024. Diluted earnings per share in 2025 were \$15.39 compared to \$13.96 in 2024.

Turning to cash flow on slide 10. 2025 free cash flow was \$800 million, above the guidance range we had provided for the year as we finished the year very strong from a working capital position, slightly underran our planned capital expenditures for the year.

During the year, the company invested \$396 million in capital expenditures or 3.2% of sales as we continue to prioritize investments to drive higher throughput in our shipyards. We paid dividends totaling \$213 million in a year and did not repurchase any shares during the year.

We ended 2025 with \$774 million in cash and cash equivalents on hand and liquidity of approximately \$2.5 billion. Cash contributions to our pension and other postretirement benefit plans totaled \$54 million in 2025. You can find our updated five year pension outlook in the appendix of today's presentation on slide 14.

Turning to slide 11 and our financial outlook. First, I will highlight that the guidance we are providing today is predicated on achieving the shipbuilding throughput improvements that we've outlined as well as reaching agreement on the next Virginia and Columbia class submarine contracts in the first half of the year.

Regarding our multiyear targets, we're updating the medium-term growth targets that we have provided previously. We now expect the consolidated HII medium-term top line CAGR of approximately 6%. This is comprised of shipbuilding growth of approximately 6% and Mission Technologies growth of approximately 5%.

We believe this shipbuilding growth has additional upside as the forecast does not yet account for the recently announced frigate or battleship programs. We will need to revisit these growth assumptions once we have a better understanding how each of these programs will proceed forward.

Regarding our 2026 expectations, Chris provided our outlook, but let me provide a bit more color on our free cash flow expectations for the year. We expect 2026 free cash flow of between \$500 million and \$600 million.

At the midpoint, that puts combined 2025 and 2026 free cash flow at \$1.35 billion, an increase from the \$1.2 billion target we discussed last quarter for the two year projection. As I noted earlier, we finished 2025 very strong from a working capital perspective. Overall, working capital was a tailwind of approximately \$170 million in 2025.

We think careful working capital management, along with beneficial cash tax impacts from the One Big Beautiful Bill will continue to be a cash tailwind in 2026. As Chris mentioned, we continue to prioritize strategic capital investments into our shipyards.

We expect 2026 capital expenditures to be approximately 4% to 5% of sales. This represents approximately \$500 million to \$600 million of investment to drive capacity and throughput. You can find additional 2026 guidance elements on the 2026 outlook table on slide 11 of the presentation or in the earnings release. This includes an anticipated 2026 effective tax rate of approximately 17%. This lower tax rate is primarily attributable to an expected reduction in total tax expense related to research and development tax credits.

Turning to our provided look ahead for the first quarter of 2026. We expect approximately \$2.3 billion for shipbuilding revenues and \$700 million to \$750 million of Mission Technologies revenues with shipbuilding operating margin near 5.5%, and Mission Technologies operating margin up between 4% and 4.5%.

Consistent with normal cash flow cadence, we expect first quarter free cash flow to be negative, representing a use of approximately \$600 million as some of the fourth quarter working capital benefit unwinds.

To close my remarks and echo Chris' comments, we have exited 2025 with good momentum and are focused on a clear set of goals and objectives for 2026 that are aligned to our customers' needs and our national security while continuing to create value for the HII enterprise.

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

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

Thanks, Tom. (Operator Instructions) Operator, I will turn it over to you to manage the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Robert Stallard, Vertical Research.

Robert Stallard - *Vertical Research Partners LLC - Analyst*

Thanks so much. Good morning.

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Good morning.

Tom Stiehle - *Huntington Ingalls Industries Inc - Executive Vice President and Chief Financial Officer*

Good morning.

Robert Stallard - *Vertical Research Partners LLC - Analyst*

Chris, I'd like to follow up on those productivity numbers that you gave, the 14% progress in 2025. I was wondering if the performance there was the same across the various shipbuilding programs and then how much more is needed, for example, on the Virginia-class, if you're going to get consistently to two a year?

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Yeah. It was pretty broad-based improvement across the programs. The Virginia-class program actually did very well in 2025. Remember, those schedules were reset post COVID. So there's an incremental walk-up in throughput required to get to the two Virginia-class per year. But they had a very good year last year, but it was really broad-based improvement across the portfolio, both at Newport News and Ingalls.

Robert Stallard - *Vertical Research Partners LLC - Analyst*

Okay. And then quickly as a follow-up, you mentioned that there's a step-up in CapEx this year. How do you expect the long-term CapEx to progress from here? Do you expect it to remain around 4% of sales going forward?

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Well, we don't have guidance beyond this year yet, Rob. But I do expect it to continue to be elevated simply because there's such opportunity out there. Tom, I don't know if you want to give any more additional details related to that. But I do expect it to continue to be elevated and -- but we're not going to provide additional guidance at this point.

Tom Stiehle - *Huntington Ingalls Industries Inc - Executive Vice President and Chief Financial Officer*

That's right, Chris. I'll just comment on that. And as he says, there's opportunity -- the awards are plentiful going forward. And obviously, that's going to drive the top line. There's going to be a need for capital and investments, both from our Navy partner and ourselves in that. So I haven't provided that yet, but I would expect it to be higher than where we've been in the past and probably consistent with where we are right now going forward in 2026.

Robert Stallard - *Vertical Research Partners LLC - Analyst*

Okay. That's great. Thanks so much.

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Thanks, Rob.

Operator

Doug Harned, Bernstein.

Doug Harned - Bernstein - Analyst

Good morning. Thank you.

Chris Kastner - Huntington Ingalls Industries Inc - President and Chief Executive Officer

Good morning.

Doug Harned - Bernstein - Analyst

Yeah, good morning. So you saw really good revenue growth in Q4 in both yards. In Newport News, though, your margins are still pretty low. Tom, you mentioned the two negative EACs on the CVN program. But when you look across the programs at Newport News, my assumption is you're working hard to get those margins higher. How do you see each of the programs in terms of their ability to improve and get to the goals that you're really looking for longer term?

Tom Stiehle - Huntington Ingalls Industries Inc - Executive Vice President and Chief Financial Officer

I appreciate the question there. Yes. So when we look at Newport News, the EACs are stable. The booking rates, obviously, we want to get those up right there. That's going to be a function, as we've described in the past, of working off the existing portfolio we have right now.

And we have these pre-COVID ships that have been impacted by scheduled inefficiency. And as those continue to evolve out, we talk about the portfolio in 2027 becoming more post than pre-COVID, that's going to assist in that list. I believe what we've done in wages and what we've done in contract adjustments, some change management RIAs that we have in that will assist in that, too.

A piece of what we're seeing at Newport News is fairly consistent across all four quarters there. It's just a mix of the portfolio itself, contract type, additional work scope that we have. The growth, which is good on the top line, is coming about both in labor and material. But on the material side, it's hitting contracts at either advanced procurement, which have restrictions on margins and fee right now.

And then as we kind of work ourselves forward and definitize either those contracts and new contract awards, we'll see a moderate ramp in either fee on the existing contracts or incentives that can come in place on the new awards there.

So that's the playbook going forward. We're working hard to kind of stabilize performance. We've seen improvement in hiring, attrition, moderately improvements in rework. So it's the stabilization, the EACs, making our milestones, working off the existing portfolio and getting into those new start contracts.

Doug Harned - Bernstein - Analyst

Well, when you look at -- you've got a lot of money for the industrial base of those last two Block V boats. And as you commented, the '26 budget has really in a big support for shipbuilding. One of the things that we found challenging is the money can be there, but it's getting it through the throughput that you're talking about.

Right now, you've probably seen a lot of the commentary about a pretty significant addition to the 2027 budget potentially, which could include money for the industrial base. When you look at it from a shipbuilding standpoint, do you need more? Or are you in already a good position given the large amount of funding that's come in? And is that enabling you to get where you need to be with respect to the -- to your industrial base?

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Yeah. So Doug, let me take that, and I can -- Tom, if he wants to add, that's great. But definitely, the Block V two boat contract assisted us from a capital standpoint and wages standpoint to increase throughput at Newport News. There is more capital required. We're going to continue to ramp the throughput within Newport News on the submarine program and the aircraft carrier program. So there will be additional capital requirements.

We hope to partner with our Navy customer to provide that capital, both our internal capital as well as incentives. But there's plenty of opportunity to increase throughput in both internally within the shipyards and then through distributed shipbuilding as well because it's not just labor, it's not just additional labor and throughput within the shipyards.

We need to expand distributed shipbuilding as well. We had a pretty good year last year. We'll have another good year this year in expanding the industrial base and some of the investments could go there as well. So we welcome the opportunity to continue investment to increase throughput, and we're going to continue to do that.

Tom Stiehle - *Huntington Ingalls Industries Inc - Executive Vice President and Chief Financial Officer*

I'd piggy back on the backside of that. I'm with you about the budgets and opportunity sets there. We're seeing it flow into the company. So it's not just on the budget line. Both Q3 and Q4 saw HII have quarters of 16% growth.

We finished out the year -- this year in 2025 at 8.2% growth from '25 over '24. We saw shipbuilding at 9.7%, for the year for '25 over '24. And I'm inspired by several quarters now in a row of seeing double-digit growth in shipbuilding. Ingalls was at 11.2% and Newport News 9% for the year. So the dollars are there. There's a need for our products and services. The funding is in place, both with our backlog and anticipated awards that we have coming in 2026.

And I'm happy to see an inflection of the labor material flowing into the yards, increased outsourcing. We've established over 23 vendors last year, and there's more to follow going forward. You can see from our earnings release, we're going to increase -- we've increased outsourcing by 100% last year. We have a 30% target this year.

So the inflection that we've discussed is happening right now. The guide right now at 6% is probably a conservative guide, but it's the beginning of the year, let's get into it. We've beaten that the last two quarters, and we'll see that we can continue hiring, retention and outsourcing.

Doug Harned - *Bernstein - Analyst*

Very good. Thank you.

Operator

Scott Mikus, Melius Research.

Scott Mikus - *Melius Research LLC - Equity Analyst*

Good morning, Chris and Tom. A quick question. Ingalls and Newport News, both exited '25 with a lot of top line momentum. You did note that the fourth quarter had some pull forward. But the first quarter guide, if my math is right, calls for shipbuilding sales to be up 13% year-over-year. But then that implies that shipbuilding sales are down 1% for the remaining three quarters. Is that just a function of tougher comps because it seems like you have a healthy amount of opportunity based on the milestones laid out in the slides.

Tom Stiehle - *Huntington Ingalls Industries Inc - Executive Vice President and Chief Financial Officer*

Yeah, I wouldn't get too tied up in how that plays out for the whole year. There's a lot of timing in that, both we saw a little bit material unexpected EBITDA guide we gave you going from 8.9% to 9.1% to 9.0% to 9.1% and then we came out at 9.5%. So there's some material that got pulled to the left.

I would tell you it's not a onetime trick there of getting revenue up in Q4 because as I just answered in the previous question, Q3 and Q4 saw some good growth. The backlog and the new awards are going to facilitate that and then the outsourcing and the hiring is all going to continue that.

I think it's more just a conservative guide that we have right now. It's the beginning of the year. We want to make sure we continue with the momentum we're exiting last year on the top line. And I would anticipate -- I expect that to continue going forward here. So there's always some choppiness from quarter-to-quarter on milestones and margin recognition on ship deliveries and major milestones. So there's nothing overly to highlight that's going to be problematic as the revenue, I expect, to continue to ramp into 2026.

Scott Mikus - *Melius Research LLC - Equity Analyst*

Okay. And then on the new battle ships, is there a possibility that a Japanese or Korean shipyard could fund some of the CapEx to fulfill their obligations under the recent trade deals, and then you contribute the workforce and the design sort of in a joint venture-type format? That way, it would be an attractive investment for Huntington from a return on invested capital standpoint.

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Yeah, I'm really not sure. I think the aperture is open relative to the industrial base and how that battleship is going to get built. There's a need for additional capacity in the industrial base. And could a foreign investor bring more capacity into the industrial base? Sure.

I don't know if it'd be necessarily for the battleship, but that's always an opportunity. So you need to keep the aperture open and depending on how the acquisition profile or the acquisition strategy develops, then I think the investments will follow.

Scott Mikus - *Melius Research LLC - Equity Analyst*

Alright. Thank you.

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Sure.

Operator

Noah Poponak, Golden Sachs.

Noah Poponak - *Goldman Sachs Group Inc - Analyst*

Hey, good morning, guys.

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Good morning, Noah.

Noah Poponak - *Goldman Sachs Group Inc - Analyst*

So I guess, if I kind of zoom out and look at the shipbuilding margin, it's kind of flattish through 2025. I mean it's actually down sequentially a little bit through '25, '26 guidance kind of flattish versus '25. Recognizing it's a long-cycle business and manufacturing process and these things take time.

I guess just with the incremental funding, the throughput achievements, the labor achievements, Tom, you just reiterated better mix of contracts by '27. Help us better understand how the shipbuilding margins are flat for that full two year window?

Do they snap in '27 when the mix flips to more post-COVID? And to what extent is the weighting on the next batch of nuclear subcontracts pretty binary in this discussion because you have to book so much long lead at a low margin before you get that?

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Let me start on that Noah, and then Tom can chip in on the back end. But I mean you know our process I think, relative to how we evaluate risk and opportunities when we do our plan, and we're very disciplined in how we evaluate them and how we develop our guidance for the subsequent year, and that's what we've done.

I would say that we are -- there's investment required that we're making in outsourcing and overtime to prioritize schedules on these ships, which is impacting our profitability. There's no doubt. We think that makes sense. We're going to continue to do it because the strategy to get out of these ships into the next ships just makes great sense.

Relative to the submarine program, we think that needs to get done by the end of the first half of the year. We need to make sure that we don't incur risk related to a delayed start on that program. The teams are meeting. I have high hopes that after the '26 budget was done and then the '27 budget, we get a little more clarity that everything will fall into place and we'll get started, but we really need to get that done in the first half of the year. Tom, I don't know if you have anything else.

Tom Stiehle - *Huntington Ingalls Industries Inc - Executive Vice President and Chief Financial Officer*

Yeah, I have some comments for you, [Scott], and the Street there. So to your point on the -- with the new contract starts that are coming with the awards and we book low, that's baked in already into the guidance that we provide, right? So nothing's changed just because those awards are coming and what we gave you in 2026. And then Chris and I have said that, hey, the 9% to 10% is not just aspirational. We've been there before, and we want to get there. We haven't given the Street the timing of that.

We've said incrementally, we would expect to improve annually. And we still feel that way right now, going from '25 to '26. If you think about '24, it was 5.2%; '25, it was 5.9%, that's up 13%. And although we gave you a range of 5.5% to 6.5%, it's kind of in line. Chris said back in Q3 '24, heading in the next 18 months to 24 months, it's going to be choppy.

We're going to work off these old ships. So a reguide of what we gave you last year is not inconsistent. And even in Q3 when I gave you the -- I said it's around the midpoint. It could be a little bit higher with the awards. It could be a little bit lower without the awards.

We didn't get the awards in '25. They've fallen into this year. We finished at 5.9% rough. So we're not surprised. It's off what we've been talking about that we're dealing with here. I'd tell you that the range is consistent in '26 as it is in '25. We finished the '25 at 5.5% for the quarter. And when we look at Q1 right here, there's not a plethora of milestones or sell off that's going to change what the last 13 weeks did for the next 13 weeks.

So again, if we think about it, we shouldn't be surprised that we guided fairly conservative at the beginning of the year and consistent with what the actuals were for Q4. As we look at Q4, there's timing in there. There's a higher volume of the new starts that I've talked about, advanced procurement that kind of either no fee or limits fee. So we'll work that off. And then the material, which is good for the top line, pulls a little less fee on a couple of our contracts as we work ourselves through that.

The 5.5% to 6.5%, it's still a good range of outcomes. Last year, it was just about at the midpoint without the award. So we're expecting those awards to happen this year. In my remarks, I said in the first half of the year. And then with the milestones that we've given you in this Q2, Q4, we provided the milestones.

We met most of them last year, and we expect to go do that most all of them this year. So that's going to be a lift on where we go forward here. The awards will have some incentives to them to that we didn't have last year. So that's going to be an assist as we go forward.

And then I mentioned the increase from the 5.2% of '24 to 5.9% of 2025. And the midpoint of 6%, although moderate, is still kind of better than the actual of last year, and we have a whole year to go work the contracts here.

And then kind of lastly, as Chris said, it was baked in already, but we have had -- as we put focus on milestones and delivering the ships as fast as possible for our Navy customer, we have put a premium on additional overtime. We have both sites working high overtime than usual. So there's a little bit of draw on cost efficiency on that.

And then the first -- outsourcing and first-time bills, just a little bit of extra cost in that. Not unanticipated. Again, it's all in our guide and our progression as we turn the portfolio heading towards 2027. I hope that was helpful.

Noah Poponak - *Goldman Sachs Group Inc - Analyst*

That was very helpful. It's a lot of detail, and I appreciate it. When you provided the shipbuilding medium-term revenue growth target, the 6%, you have the sub bullet point there that has additional upside from recently announced programs. Can you talk a little bit more about that? I mean how much upside? And specifically on the SSC win, when does that start ramping up for you?

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Yeah, so -- yeah. Thanks, Noah. The frigate win, that pretty confident -- very confident we're going to build the first two boats or first two ships in that class. We're unsure what the acquisition strategy is beyond that. I think we'll learn more when the '27 budget comes out.

But we're fortunate on that program that we still have a lot of material from NSC11, which is really a lot of the upfront cost on a ship. So I don't expect material impact to sales this year. It should start to ramp in '27. The battleship is a little different. We're still engaged with the Navy on understanding how that design is going to unfold with us, the Navy and BIW. So there will be modest revenue this year and then a little ramp from there. We don't have specific numbers for you right now. But as we understand them, we will provide them.

Noah Poponak - *Goldman Sachs Group Inc - Analyst*

Okay. Thank you.

Operator

Pete Skibitski, Alembic Global.

Pete Skibitski - *Alembic Global Advisors - Analyst*

Thank you. Good morning, guys. Hey, Chris, could you talk more about the supply chain? -- Chris, can you talk more about supply chain at Newport News? I think you touched on it in your remarks. I didn't hear all of it. Did you receive all the equipment from the supply chain that you expected in the fourth quarter on CVN 80? Or was it later than expected? Is that what drove the negative EACs? And kind of where are you right now in that program? And just want to get a better sense of that.

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Yeah. So we have received all of the engine room material, done deck over. As I said in my prepared remarks, we're 50% erected, and we'll continue to make progress this year. Have a little bit of momentum on that program. Throughput has actually accelerated and the key there is to getting back in sequence, which they're working very hard to do. So it did -- there was investment in overtime on 80 to get back on schedule or try to get back on schedule. And as I said, they're working hard to do that.

Pete Skibitski - *Alembic Global Advisors - Analyst*

Okay. Sounds good. And then just, Chris, between reconciliation and the '26 Appropriations Bill that's law now, did you get all of your priorities through in the budget this past year that you wanted? Just wondering if there's anything that didn't get into those bills that is going to be a priority for you in fiscal '27?

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

No, it's universal support for shipbuilding and reconciliation the '26 budget. The potential '27 budget, it's all on us to execute now. But all of our programs are supported.

Pete Skibitski - *Alembic Global Advisors - Analyst*

Okay. Great. Thank you.

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Sure.

Operator

Seth Seifman, JPMorgan.

Seth Seifman - *JPMorgan Chase & Co - Analyst*

Okay. Thanks very much and good morning. I wanted to follow up quickly on the frigate. I think you talked about that being a driver of potentially of growth in 2027. I mean, given the target of having a boat in the water in 2028, should we think about that ramping up rather quickly? And is there anything you could say about the magnitude of the lift there at Ingalls and what it will do to the mix as well, given that the -- I think the NSC was a very profitable ship for that yard?

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

I think it's a little bit too early for that. I think if you were to project the cost related to ship getting in the water in two years, less the long-lead material, there's probably enough data out there for you to figure out what that could mean from a sales standpoint. So that is upside. But beyond that, I think it's a little bit too early to talk about potential top line upside related to that until we get a little bit further along.

Seth Seifman - *JPMorgan Chase & Co - Analyst*

Okay. Okay. And should we think about that being -- mix-wise being NSC like?

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

I wouldn't necessarily think that, right? We're going to work with our customer to get a fair deal on that contract. So I wouldn't necessarily think about that. I think on a blended rate, getting to 9% to 10% margin is still our objective, and I think we'll eventually get there.

Seth Seifman - *JPMorgan Chase & Co - Analyst*

Okay. Okay. Thanks. And then just to follow up, given where you ended the year with the cash balance, and what you're forecasting for '26 to have a decent amount of excess cash on the balance sheet. But by year-end, I know there's understandably a certain amount of reticence about repurchases at this point. But with good performance, does that become more of an option? Or are there other things you would think about doing with it? Or do we just kind of maybe sit with some excess cash for a little while?

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Remember, in the words of one of my predecessors, cash can be pretty lumpy. So it will continue to be lumpy in shipbuilding. But we think the overwhelming opportunity from a value standpoint is to continue to invest in the shipyards. So we're going to do that. It's going to improve both the top and bottom line. So that's our focus right now, and it's been our focus for a while.

Seth Seifman - *JPMorgan Chase & Co - Analyst*

Great. Thanks very much.

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Sure.

Operator

John Godyn, Citigroup.

John Godyn - Citigroup - Analyst

Hey, guys. Thanks for taking my questions. I wanted to just revisit shipbuilding margins one more time. There was a lot of good detail. I think you made clear that there is some conservatism in the outlook. What I'm interested in is in the first quarter, you have shipbuilding margins kind of at the low end of the full year guidance. It suggests that the conservatism is more of a back half event as it plays out. Is that right? Or is that not?

Can you help us just think about the shape of margins throughout the year? And is that conservatism something in the back half? Or might we just see a stronger start to the year than expected as you suggested?

Tom Stiehle - Huntington Ingalls Industries Inc - Executive Vice President and Chief Financial Officer

Yeah. So obviously, we gave you the annual guidance, 5.5% to 6.5%. We've been giving for the last couple of years the next quarter, so it's 5.5%. That kind of leaves you guessing for Q2, Q3, Q4. I'd say you stay consistent with just what you've seen from us over the years.

It's about the milestones. It's about performance. It's about the deliveries. There's nothing that's going to alter it one way or the other, other than timing, how we perform over the next 11 months. And then the awards themselves will bring about a good balance of affordability to profitability, the contract terms and conditions.

There'll be some incentives in there. So we'll have to work ourselves through that. I'm not going to give any more comment on that as we're in negotiations -- through negotiations as that effort is trying to get through approval cycle right now.

But yeah, I mean, I think it's the beginning of the year. We don't want to get ahead of ourselves. And really it makes sense that we exit Q4 at 5.5% kind of run rate over there. So we've got a whole path at this number. We'll update you in May, and you're going to look to see both for what's going to happen as a forecast in Q2. We have hinted that we'd like to see the awards -- expect the awards for the first half of the year. So that's going to facilitate a good pace and a trajectory of at least midpoint or better going forward here for the year.

John Godyn - Citigroup - Analyst

I guess my question is, is it even possible that we start the year at the higher end at 6.5% that we fast forward a quarter or two when we realize that we delivered numbers like that or in terms of the art of the possible, that's not even on the table?

Tom Stiehle - Huntington Ingalls Industries Inc - Executive Vice President and Chief Financial Officer

The range is for the entire year. Stay focused on what we gave you for the quarter.

John Godyn - Citigroup - Analyst

Okay. Fair enough. And then if we just double click on the milestones and the time line. As you guys know, with deliveries, with the milestones, there's an intense focus on different milestones as we get closer to the dates.

Are there any milestones or delivery dates that you would just flag for us right now to kind of bracket and sensitize a little, one that might be pushed a little bit more than others, just so that we can have that conversation now instead of on the eve of expecting some sort of delivery or milestone event. Any risk around anything that you would just kind of take the opportunity to bound for us?

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Sure. Delivery of 30 and the delivery of 800 towards the end of the year, very focused on getting both of those -- those boats done. So those -- that's how I call it, from a risk standpoint and an opportunity standpoint, those two -- that boat and that ship are very critical to us.

John Godyn - *Citigroup - Analyst*

Got it. Thank you, guys.

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Sure.

Operator

Scott Deuschle, Deutsche Bank.

Scott Deutschler - *Deutsche Bank - Analyst*

Hey, good morning. Tom, do you expect the company to make money on CVN 80 and 81 given this trend of negative EACs?

Tom Stiehle - *Huntington Ingalls Industries Inc - Executive Vice President and Chief Financial Officer*

Yeah. Well, yeah, we do. We think we booked accordingly right now. We've described what transpired on those ships upfront will be impacted by some material that goes deep into the ship. That risk is behind us. Obviously, that's caused an impact on the schedule. So the schedule is a little bit longer and has created some cost inefficiency.

We're working 80 specifically out of sequence. But with the deck over right now, the team is seriously working with the experience they have building carriers, getting that back on sequence, getting out of the dry dock and then doing the ship/shore work kind of going forward here. But we have not forecasted and we do not expect it not to be profitable.

Scott Deutschler - *Deutsche Bank - Analyst*

Okay. And then, Chris, there are a lot of data centers under construction in the state of Virginia. It looks like within one hour or two drive from Newport News. Are you seeing that have any kind of impact on the labor situation at Newport News, particularly for trades like electricians or pipe fitters?

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

That's interesting. We haven't seen the impact and the applicants and the hiring in Newport News was very, very strong over the back half of the year. So we haven't seen it yet. We'll watch out for it. We're fortunate. And the regional workforce development centers have been coordinating with the federal government, state governments to produce good shipbuilders, and we're going to continue to work on that pipeline, but we have not seen that.

Scott Deutschler - *Deutsche Bank - Analyst*

Good to hear. Thank you.

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Sure.

Operator

Myles Walton, Wolfe Research.

Myles Walton - *Wolfe Research LLC - Analyst*

Thanks. Good morning. Tom, I was wondering -- I'm wondering if you can give us a little bit more color on the improvement in attrition because I'm trying to put the math together. You hired 6,600 shipbuilders. I think you've got another 500 employees from W International's acquisition, but I also think that you finished headcount flat versus the start of the year. So walk me through what your definition of improvement in attrition is? Did you end up with the headcount you expected? And then do you expect headcount to grow in '26?

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

So let me start and if Tom has anything additional, he can add it. So attrition did improve year-over-year. It's about a 15% to 18% improvement across both shipyards. Both shipyards improved. In that data, the 44,000 employees, Myles, we have supported labor in that as well. And obviously, Mission Technologies labor in that as well.

So we did increase staff in both shipyards. We ended pretty much where we wanted to be, and we're in a pretty good place from an applicant flow and a hiring standpoint for next year. So from a labor standpoint, we're in a pretty good place. We do need to continue to improve attrition and efficiency of the workforce, which we're working very hard at.

But with that, we also need to continue to focus on distributed shipbuilding because in order to get through all of these ships, it's not just the shipyards that are going to be required to be more efficient. We need to work on distributed shipbuilding, continue to qualify suppliers and make sure they're efficient in producing what they need to produce as well.

Tom Stiehle - *Huntington Ingalls Industries Inc - Executive Vice President and Chief Financial Officer*

I'll just comment on that. As Chris said, there's the mix of it. What's the direct -- it's Tom, here. I'll comment just on that. It's the mix of the labor. It's direct labor, the support, the job shop is that we have that's not in the number. And then there's outsourced work that we have. So all that goes into our ability to kind of ramp and both get more earned progress and get more work accomplished towards the milestones going forward.

Myles Walton - *Wolfe Research LLC - Analyst*

Okay. And then one quick one on Mission Technologies. I think you're benefiting by another \$20 million runoff in amortization, which should imply an 80 basis point step down in EBITDA margins, basically very little growth in EBIT despite the \$20 million runoff. Is that right? And if so, what's driving the year-on-year profile for Mission Technologies profit?

Tom Stiehle - *Huntington Ingalls Industries Inc - Executive Vice President and Chief Financial Officer*

Yeah. So you're talking about, I guess, the guide? Or are you talking about how we performed in '25 to '24 or the guide to '26?

Myles Walton - *Wolfe Research LLC - Analyst*

2026 guidance for 5% EBIT, but it should be benefiting, I believe, about 80 basis points of amortization runoff.

Tom Stiehle - *Huntington Ingalls Industries Inc - Executive Vice President and Chief Financial Officer*

Yeah. I think the amortization runoff is about \$10 million improvement. So it's not as much as that. I would tell you that -- so that's a piece of it. It's about half of it. And then just the other half is what we're seeing in our contract performance, the maturity of how we're executing. We had some fee write-ups in 2025 that we took and there's a potential of opportunity sets in 2026.

Our nuclear business with equity income always has upside, and we have to see how the year plays out and how our scores are. We get evaluated by the customer set. So that's included in there. Although your question was specifically on the return on sales side, the EBIT side. I would tell you, on the EBITDA side, you saw we raised the guidance from 8% to 8.5% last year to 8.6% finish, up almost 50 bps on that now to 8.4% to 8.6%.

Again, just the maturation of the portfolio. I'm trying to, although it's predominantly cost-type contracts, trying to see where we can get the additional value of adding more products than services, a little bit more how we bid these jobs and a focus on profitability there. So it's an incremental improvement. I like how we finished out from '25 versus '24, and it's good to see an incremental improvement on both metrics going forward in '26.

Myles Walton - *Wolfe Research LLC - Analyst*

Thank you.

Tom Stiehle - *Huntington Ingalls Industries Inc - Executive Vice President and Chief Financial Officer*

Thanks. Thanks for questions.

Operator

Gautam Khanna, TD Cowen.

Gautam Khanna - *Cowen and Company LLC - Analyst*

Hey, good morning, guys.

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Good morning.

Tom Stiehle - *Huntington Ingalls Industries Inc - Executive Vice President and Chief Financial Officer*

Good morning, Gautam.

Gautam Khanna - *Cowen and Company LLC - Analyst*

Wanted to ask on Ingalls. I know there was -- and maybe you addressed it and I missed it, but the union contract, did you guys push the wage increases through in Q4? And was that part of the revenue upside at shipbuilding broadly in the quarter?

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

No, not at Ingalls. No.

Gautam Khanna - *Cowen and Company LLC - Analyst*

No. And what's sort of the timing on that?

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

We expect to get through that in the first quarter. I don't want to comment directly on union negotiation, but we're engaged heavily with the -- to get that done, almost daily. So -- but we expect that to get done in the first quarter.

Gautam Khanna - *Cowen and Company LLC - Analyst*

Got you. And just on the VCS Block VI and the Columbia-class contract, what is your best sense on timing of when that might get awarded formally?

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Gautam, it's really hard to say. We need it before the end of the first half of the year in order to maintain our production schedules. But it's just hard to say. We're engaged heavily with Electric Boat and the Navy to get it behind us. And I think we will get it done. And as I said previously, the '26 budget getting done and then clarity around what's going to happen in '27 and the fit up, I think, really helps. And after that falls into place, we can get those contracts behind us.

One thing I know for sure, the Navy is going to buy submarines. So we need to get it done before the first half of the year, so we can maintain the production schedules and make sure that is not a risk that we have to deal with.

Gautam Khanna - *Cowen and Company LLC - Analyst*

And I would just love to get your perspective, if you're willing to share them, on how -- like this thing was expected at one point to be done over a year ago than we were thinking year-end 2025. Is there any long poles in the tent? Or is this just sort of T's and C's, minor stuff that needs to get hashed out? Or is there a big -- I'm just curious if you can give us any sort of update just because we've been talking about it for north of a year.

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Gautam, I just think it's a big complicated contract. And you have three parties involved that need to all be comfortable with what the solution is. Fortunately, those teams work very well together. But it's just a big complicated contract, and we need to get to the finish line here.

Gautam Khanna - *Cowen and Company LLC - Analyst*

Okay. Thank you, guys.

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Sure.

Operator

Mariana Perez Mora, Bank of America.

Mariana Mora - *BofA Securities Inc - Analyst*

Thank you very much for taking my question. Good morning, everyone.

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Good morning.

Mariana Mora - *BofA Securities Inc - Analyst*

So my question is going to be about Mission Technologies. How should we think about the share of the mix towards like unmanned solutions, autonomy and those things in that portfolio? Because I would imagine those are growing double digits. And I'm wondering when we should start to see that reflected in the growth for that segment.

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

So interesting. Let me start here, and thank you for bringing up that question. We don't break out growth rates within Mission Technologies by market segment. But I will say that unmanned doing very well, unmanned undersea and unmanned surface as you can see by the launch of our new ROMULUS vehicles.

And I think it's interesting when you think about the new or the evolving Navy strategy around the hybrid fleet or the hedge fleet that we're right in the middle of that with obviously a very keen understanding of large capital ships. But then also being the largest provider of unmanned undersea vehicles and then have an unmanned surface vehicles, all predicated upon an autonomy software that's really world-class.

So from an unmanned standpoint, I do believe there's potential tailwinds there. But I think there's also tailwinds with the intersection between man and unmanned. When you think about the Minotaur suite that we provide for the Navy, we're the Chief Developer of that. So I think it's going to continue to evolve. I think it's going to continue to play right into our sweet spot. And I thank you for the question because I think it's something that's going to be very positive going forward.

Mariana Mora - *BofA Securities Inc - Analyst*

And then when you think about those opportunities, right, and an administration that is leaning into what we're going to call like commercial terms. How do you think about like investing your own dollars, owning that IP and actually getting, I don't know, out of these like mid-single digit, like cost-plus type of like margins for that segment, I don't know, 5, 10 years from now? Is that a possibility? How do you think about like investments from that end?

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

I definitely think there's more profitability potential within that segment. I think the IP situation or that argument gets to be a little bit more complex because we actually design our autonomy software to Navy standards and it's open architecture, which allows you to plug and play and bring really good providers into the space. So that is a different argument. That's a different discussion on profitability.

I do think that there's upside related to the unmanned space. I do think there's upside related to integrating the software into the product sets. And so that's why we've invested against it. And we will continue to invest it against it. And it's probably our highest source of IRAD internally within the organization.

Mariana Mora - *BofA Securities Inc - Analyst*

Alright. Thank you so much.

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Thank you.

Operator

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

Chris Kastner - *Huntington Ingalls Industries Inc - President and Chief Executive Officer*

Sure. Thank you, and thanks for joining the call today. Hey, I want to give a shout out to the CVN 79 team, both the sailors and the shipbuilders had a really great trial this week. It was an excellent week to be a shipbuilder, I'm proud of the team. And I think the ship performed very, very well. And we'll keep that momentum towards delivery on CVN 79. So thanks, everybody, for joining, and we'll see you out there.

Operator

That concludes today's conference call. You may now disconnect.

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