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Presentation

Operator

Good day, ladies and gentlemen, and welcome to Northrop Grumman's Third Quarter 2026 Conference Call. Today's call is being recorded. My name is Josh and I will be your operator today.

[Operator Instructions]

I would now like to turn the call over to your host, Mr. Randy Sinclair, Vice President of Investor Relations. Mr. Sinclair, please proceed.

Randy Sinclair

Vice President of Investor Relations

Good morning, and welcome to Northrop Grumman's Third Quarter 2026 Conference Call. Before we begin, please note that matters discussed on today's call, including guidance and outlooks for 2026 and beyond, reflect the company's judgment based on information available at the time of this call. They constitute forward-looking statements under the safe harbor provisions of federal securities laws.

Forward-looking statements involve risks and uncertainties, including those noted in today's press release and our SEC filings, which may cause actual company results to differ materially. Today's call will also include non-GAAP financial measures, which are reconciled to our GAAP results in the earnings release. Additionally, we will reference a presentation that has been posted on our Investor Relations website.

Joining us on the call today are Kathy Warden, our Chair, CEO and President; and John Greene, our CFO.

With that, I'll now turn the call over to Kathy.

Kathy J. Warden

Chair, CEO & President

Thanks, Randy, and good morning, everyone. Northrop Grumman's third quarter results reflect strong and disciplined execution across the company. We're delivering on our commitments, and we're doing it with innovation and urgency. Our execution is based on an enduring strategy and adaptive approach, meeting our customers' needs through technology innovation, a laser focus on performance and value-driven capital deployment. Guided by that strategy, we've deliberately and continuously shaped our portfolio to align with our customers' top priorities. And I'm confident our investments and industry-leading performance will enable durable sales and earnings growth for the foreseeable future.

As the threat environment evolves, maintaining America's advantage requires significant and balanced investment in both the attributable mass that supports resilience and the exquisite capabilities that remain the backbone of deterrence and power projection. In a complex world with growing needs for solutions that scale and perform in contested environments, our customers continue to turn to Northrop Grumman.

We have leading roles in the strategic triad, space superiority, microelectronics and homeland defense. We also offer innovative and cost-effective solutions in emerging market segments, including counter-UAS and autonomous systems. And we are investing to rapidly expand our munitions and missile capacity to meet operational needs and increased demand.

Our company's portfolio breadth, matched with our execution, turns strategic alignment into delivered capability and value creation as demonstrated in our third quarter results. In the quarter, our book-to-bill was 1.5x, which drove a new record backlog of \$110 billion, reflecting robust demand and years of durable sales. Performance across the portfolio was exceptional with a segment operating margin rate over 12%. These outcomes are built on disciplined program execution, and our team continues to deliver many significant accomplishments.

On Sentinel, all aspects of the program are progressing as planned as we complete multiple tests and achieve our milestones on this complex development effort. In the quarter, we completed the first full vertical assembly of an inert missile at Vandenberg Space Force Base and gained approval from the U.S. Air Force on Sentinel design maturity for first flight to proceed in 2027. This program is a key growth driver this year and throughout the 2030s as we complete the development and transition into production.

In Space Systems, we provide space vehicles and ground systems for the Space Development Agency's Proliferated Warfighter Space Architecture. We recently launched and deployed our first 21 satellites for the Tranche 1 transport layer, a critical step in the execution of unparalleled space-based communication for the U.S. Space Force.

In the next 6 months, we expect a sustained cadence of launches with nearly 50 of our 150 satellites planned for deployment to support transport and tracking missions. Across our company, we see a sustainable and profitable growth trajectory. As John will share in more detail, we are exceeding our own expectations and increasing our 2026 guidance for segment operating income, margin rate and earnings per share. We expect to drive that momentum into 2027 as we ramp B-21 testing and production, advance Sentinel, continue our leadership in national security space and meet increased demand for missile and munitions production.

Our confidence in program execution is reflected in our 2027 outlook, where we expect to accelerate growth and expand margins and cash to offset increased capital investments for the B-21 acceleration, maintaining our previously communicated cash flow range. Beyond 2027, we expect growth to again accelerate and margins to further expand as we ramp on franchise programs, increase production volumes and grow international sales.

Our outlook reflects both the depth and promise of our premier portfolio with new sources of growth already taking shape. One example of our response to growing market demand is Raid Hunter, our latest addition to our counter-UAS portfolio. Raid Hunter is a cost-effective product line that's designed to close a critical short-range defense gap as drone swarms and cruise missiles become more common. This gun-based air defense system combines our proven Bushmaster Chain Gun technology and new precision-guided 50-millimeter ammunition to deliver powerful protection against high-volume raids.

We're receiving clear demand signals for Raid Hunter from key allies and expect it to drive incremental growth for an already rapidly growing defense systems portfolio. We also definitized the Virginia-class Block VI submarine procurement for an additional 12 shipsets of main propulsion units and ship service turbine generators. The award value adds \$1.4 billion to backlog, supporting our partnership with the Navy through 2032.

Additionally, we had multiple competitive strategic award wins in our restricted space portfolio associated with our leadership role in space sensing and superiority. Each advancement adds to breadth in future growth vectors, and we are investing and delivering products to capture it. We deploy capital with discipline, investing first to profitably grow and meet our customers' needs. In the last 3 months, we've opened or expanded facilities in Utah, Maryland, Arizona and Florida, adding over 1 million square feet of manufacturing and engineering space and creating more than 2,000 new jobs at these sites.

These investments support key customer priorities, including the accelerated production of the B-21 Raider, increased capacity for solid rocket motors and hypersonic propulsion systems, advanced space system design and manufacturing and aircraft design and manufacturing. Each is a continuation of our strategy to invest and perform.

Today, our investments have provided the capacity necessary to deliver durable growth as we expand our product offerings and capacity. Staying ahead of tomorrow's threats takes leadership in technology. And this quarter, we extended that leadership in several areas.

In Aeronautics, Talon Blue completed its first fully autonomous flight with the aircraft handling taxi, takeoff, flight maneuvers and landing on its own. Designed and built in 24 months, Talon Blue demonstrates how we're accelerating modular design with manufacturing innovations to deliver real results with speed. After the successful test flight, we used Talon Blue to rapidly test and mature new autonomous capabilities, moving them into the field faster and at lower cost. Building on 7 decades of autonomous leadership, we expect this product line to be a competitive entry in a market with clear growing demand signals, both in the U.S. and internationally.

We also introduced FORTITUDE, a significant advancement in microelectronics technology. This single chip, the size of a grain of rice, uses patented technology to deliver up to 3x the power and 20x the signal quality of comparable solutions in the market today. It can replace dozens of individual components while reducing the weight and power demands of the system it serves. It's a capability with broad application from radar to GPS, electronic warfare and future 6G networks, and we're building it for both defense and commercial applications.

FORTITUDE is just one example of our unmatched microelectronics capability. For more than a decade, we've leveraged our expertise in cutting-edge semiconductors and our secure U.S. foundries to pioneer leading quantum computing technologies. Today, we see a significant opportunity to scale this transformative technology for commercial and government customers. To fully realize its potential, we are actively evaluating strategic alternatives and believe we are uniquely positioned to lead in this field. We'll share more details on our approach to scale this capability in the coming months.

Turning to the budget and starting with the U.S. We remain optimistic about the strong bipartisan support in Congress for national security. We are operating under a continuing resolution, and we're hopeful that an agreement for appropriations will be reached in the coming months. We understand how to navigate this environment, and we've done so effectively in the past. Importantly, our portfolio includes a set of prioritized growth drivers firmly anchored in the U.S. base budget request, including full coverage of our prime programs and solid support across the rest of our business.

As a result, we believe we're relatively insulated from incremental funding uncertainty, leaving us well positioned and confident in our outlook. Globally, we continue to witness unprecedented levels of demand for defense capabilities. Allied defense budgets are in the midst of a multiyear secular upswing, and we are responding by providing a range of ready-now capabilities, including munitions, missile defense, sensors as well as crewed and uncrewed aircraft. These demand signals give us confidence in our goal to double international sales by 2031.

In closing, I'm proud of our team and our ability to execute and innovate with speed. This quarter extended our reputation for driving performance through a strategy fundamentally aligned to our customers' highest priorities. For decades, Northrop Grumman has been solving the world's most difficult challenges, including those that require staying ahead of advanced and evolving adversaries. While we continue to adapt and innovate, the core of our advantage is in the technology leadership and our portfolio that underpins deterrence and power projection.

We will continue to deliver unmatched capabilities that serve to protect the United States and our allies around the world. That is why I'm excited about our future and confident in our performance trajectory in the years ahead.

Now I'll turn it over to John for a review of our quarterly results and updated guidance. John?

John Thomas Greene
Corporate VP & CFO

Thank you, Kathy, and good morning, everyone. I'll start with our third quarter financial results as shown on Slide 4. Momentum continues to build throughout our portfolio. As Kathy shared, backlog increased 20% to \$110 billion compared to the third quarter of last year, driven by bookings of over \$16 billion. This performance reflects a book-to-bill ratio of 1.5x for the quarter and 1.45x on a year-to-date basis.

Key awards in the quarter include \$4.6 billion on restricted programs, an additional \$2 billion on Sentinel and 3 additional E-2D production aircraft for \$1 billion. Third quarter sales were \$11.1 billion, up 7% year-over-year, driven by higher sales at all 4 segments. Operating performance was outstanding. Segment operating income grew 5% with a margin rate of 12.1%.

From a year-over-year comparison standpoint, the prior year benefited from a favorable \$68 million EAC adjustment at MS. Earnings per share increased to \$7.89, up 3%, driven by higher top line, segment operating income expansion and additional tax benefits. Capital expenditures were \$306 million, reflecting continued investment in our business to enable long-term profitable growth. And adjusted free cash flow was \$1.8 billion in the period, up over 40% compared to the prior year, driven by improvements in working capital and \$371 million of proceeds from the sale of a test asset on the B-21 program. Overall, it was an outstanding quarter of disciplined program execution that demonstrated the strength of our portfolio.

Moving to segment performance, starting with Aeronautics on Slide 5. AS continues to fire on all cylinders with backlog, sales and operating income all up meaningfully from the prior year. Sales increased by 14%, driven by higher production volumes and sustainment volumes on the F-35 program. We're also seeing higher volumes in our strike portfolio, driven by the continued ramp on B-21 and higher sustainment sales on the B-2 program.

Operating margins improved to 10.5%, enabled by product mix and disciplined program execution throughout the portfolio. Defense Systems third quarter sales accelerated to \$2.3 billion, up 12% compared to the prior year. Higher sales were driven by continued ramp on Sentinel as well as higher volumes on tactical solid rocket motor programs. Operating income increased to \$250 million with third quarter segment operating margin rate of 10.8%, supported by good execution on tactical missile programs.

Mission Systems delivered another quarter of exceptional bottom line performance. Sales increased 2%, primarily due to the ramp-up on restricted airborne radar programs and higher volumes on marine systems. Segment operating income was outstanding at 15.8%, driven by continued excellent portfolio execution.

And at Space, sales increased by 2%, driven by strength on national security programs, including restricted efforts and GPI, partially offset by timing of revenue on the Commercial Resupply Service contract. Margins improved to 11.3%, including stable performance on GEM 63XL. We resumed delivery of rocket motors in the third quarter.

Turning to earnings per share on Slide 9. Third quarter diluted EPS was \$7.89, up 3% compared to the prior year. Strong segment operating performance and tax benefits were partially offset by lower returns on marketable securities. The improvement in the third quarter effective tax rate was driven by the recognition of higher research credits. These past 2 quarters have reflected ongoing efforts to optimize our tax positions, both federally and at the state level. We'll continue to assess our positions in future periods and expect the cash benefits associated with these efforts to land over the next several years.

Moving to company-level guidance on Slide 10. We continue to expect full year sales of \$43.75 billion to \$44.25 billion. Similar to last year, we expect higher fourth quarter sales throughout the portfolio, driven by production throughput, material volumes and normal seasonality. We expect continued strong awards in the fourth quarter and a full year book-to-bill ratio of at least 1.3x. Due to continued strong operating performance throughout the portfolio and our confidence in the fourth quarter, we are increasing the midpoint of our segment operating income by \$65 million. The updated guidance range of \$4.94 billion to \$5.04 billion reflects a full year segment operating margin rate of approximately 11.3% at the midpoint. We are increasing EPS guidance by \$0.70, driven by higher segment performance and a lower tax rate, partially offset by higher corporate unallocated costs and interest expense. And we are maintaining our adjusted free cash flow guidance at \$3.1 billion to \$3.5 billion for the year.

Turning to segment level guidance on Slide 11. We are reaffirming our sales guidance at all segments. For operating income, we are increasing our guidance at AS to high 9% and at MS to mid-15% due to their excellent program execution. Collectively, this implies a fourth quarter segment operating margin rate of mid- to high 11%, driven by production mix and continued strong operating performance.

Before concluding my prepared remarks, I'll take a few moments to build on Kathy's comments regarding our 2027 outlook. Given the strong support for our key programs and the enduring global demand for our capabilities, we continue to expect robust sales growth next year and well into the next decade. For 2027, we project sales growth between 5% and 7%, representing further acceleration from the growth expected this year with higher sales in all 4 segments.

Beyond 2027, we are confident that sales growth will continue to accelerate. We expect segment operating income will grow faster than sales with 10 to 20 basis points of margin expansion beyond the current 2026 guidance midpoint. Capital expenditures continue to be projected at 4.5% of sales as we build out the capacity to support a higher B-21 production rate. In total, we expect approximately \$2.1 billion in 2027 CapEx. We also expect a 2027 adjusted free cash flow in the range of \$3.3 billion to \$3.7 billion.

Relative to the previous outlook, higher capital intensity for B-21 acceleration is being offset with stronger operating performance, disciplined working capital management and cash tax optimization.

In closing, the results and the outlook we've discussed today are not the product of a single quarter, but the output of the strategy that Kathy described at the onset of the call. That strategy is translating directly into our financial results, and it provides a visible runway for durable long-term growth. We expect that growth to come with expanding margins, driven by strong program execution, cost efficiency, growing international sales and a mix shift towards more production as our development programs mature. Our pairing of intentional strategy and the combination of accelerating growth, expanding margins and capital discipline underpins our confidence in the years ahead. Lastly, we'll continue to be guided by our consistent, balanced and disciplined capital allocation priorities, which drive value to our shareholders through strategic investments in our business and shareholder distributions. With that, let's open the call for Q&A.

Question and Answer

Operator

[Operator Instructions]

Our first question comes from Kristine Liwag with Morgan Stanley.

Kristine Tan Liwag
Morgan Stanley, Research Division

I guess, Kathy and John, you previously talked about acceleration in growth in 2028. But I think when we think about the potential range of outcomes in 2027, can you just give us an understanding of what drives the low end versus the high end of your outlook? And also with this meaningful step-up in 2028 of acceleration, what are the key operating milestones or potential enablers that could potentially bring forward some of this 2028 growth into 2027? Is that a possibility?

John Thomas Greene
Corporate VP & CFO

Okay. Kristine, it's good to hear your voice. So let me phrase '27 this way, and I'm going to move it back to '26 and talk about our execution here this year. We talked about in the last quarter that we're building momentum. And what you saw in this quarter, building momentum and that momentum continues into 2027. So as we pulled the guide together for 2027, we considered a number of factors. Certainly, the strong backlog that we have, the great execution, the placement of our programs in the national defense priorities, all giving us confidence that we're going to be able to execute strongly into '27 and out beyond into 2028.

So the low end reflects, frankly, where we are in the budgeting cycle for ourselves. So we've got some more work to do internally to get greater level of confidence. The high end reflects our belief that we're going to continue to execute very, very strongly and be able to deliver great outcomes for our customers. So it's probably a little bit wider than you would like. And I hear the read in terms of '28, what can we pull in.

Certainly, we've got some marquee programs, B-21, Sentinel and the multiyear programs that we're all working on. So 5% to 7% is where we are today. And in our fourth quarter call, we'll tighten that range. And if there's some more upside on it, we'll certainly share.

Kristine Tan Liwag
Morgan Stanley, Research Division

Great. And on as a follow-up, Kathy, on FORTITUDE, you called out your microelectronics, the size of a grain of rice delivering 3x the power and 20x the signal quality of comparable solutions. It's also particularly interesting that you called out the commercial opportunity for this product. So first, can you give us more context on how differentiated this technology is and how we should think about the growth opportunity for Northrop Grumman for this kind of defense and commercial TAM?

Kathy J. Warden
Chair, CEO & President

Yes. Thanks, Kristine. So as we have, for decades, been at the forefront of microelectronics technology, we've largely focused technology development on miniaturized processing power. I've talked before about having the most powerful chip in terms of processing speed. And that geared toward military applications has meant that in very small form factors that are power efficient, we are able to deliver extreme processing capability. We recognize that there's commercial applications for those underlying technologies as well. And with FORTITUDE, and I also mentioned quantum technology, we are sitting on patents that have relevance outside of the defense space.

So we have been doing a strategic review of our microelectronics capability and looking at how do we bring some of these out to a more both defense, we're not straying from our defense core, but also commercial applications for this underlying technology in our business. So we are optimistic about what that could look like. We are doing some strategic reviews. FORTITUDE clearly is a mature technology. Quantum is progressing towards some very important technical milestones in the next couple of years, but we see both of them as addressing very large both defense and commercial markets.

Operator

Our next question comes from John Godyn with Citi.

John David Godyn
Citigroup Inc., Research Division

I also wanted to just ask for a little bit more color on the 2027 comments. This quarter, we saw relative strength in Aeronautics and Defense Systems, while Mission Systems and Space lagged. I know you're going to give sort of segment detail later on. But just in terms of the shape, when we're thinking about the drivers of '27, are the leading segments accelerating further? Are the laggards sort of snapping back a bit? Any color you can give us just to give us a little bit of a better sense would be helpful.

John Thomas Greene
Corporate VP & CFO

Sure, John. So all 4 segments, we will see positive year-over-year growth. So we expect that growth to come from both new programs as well as backlog. And certainly, our 2 leading franchise in terms of growth will be DS. It's approaching 10% this year. We expect AS continued growth on the back of B-21. And then Mission Systems, certainly, that business has generated year-over-year growth on average somewhere between 3% and 5%. We're going to continue to take a look at that and see if that can be accelerated. And in space, this year, we're looking at relatively muted growth. We expect next year to (sic) [for] that to accelerate a bit from where we are this year. So hopefully, that's helpful color.

John David Godyn
Citigroup Inc., Research Division

Yes, that's great. And just sort of similar question on the margins improving comment. Any puts and takes or leaders and laggards that you'd call out just as we're trying to visualize the upcoming year?

John Thomas Greene
Corporate VP & CFO

Yes. So AS had really, really strong margins this year. So as B-21 becomes a larger percent of sales, we're going to certainly expect that program to deliver continued profitability. But certainly, as that becomes a larger percent of sales, that will put some level of basis points pressure on the AS margin. DS, we expect strong execution, but we have a similar situation with Sentinel, but also growing international sales and program execution that will be helpful. Space, relatively consistent margins. And then MS, it's been a banner year in terms of execution there. So we're looking to see if we can repeat that. Where we are today is likely on the upper end, and I would expect that to fall in a bit.

And just one other point on overall margins. We're still early in the planning process here. So the takeaway should be that we're early. We've got strong program performance. We're going to have a slight contract mix shift. And then relative to Kathy's comments on quantum, we haven't included any specific investment dollars for quantum yet. What we're trying to do is work out the strategic alternatives and make sure we can maximize shareholder value in whatever way we take that initiative.

Operator

Our next question comes from Ronald Epstein with Bank of America.

Ronald Jay Epstein
BofA Securities, Research Division

Can you speak a little bit to the ramp on B-21? You're ramping up production by about 25%. How's that going?

Kathy J. Warden
Chair, CEO & President

Sure, Ron. Thanks for the question. As you know, it is a ramp that will happen over time. We will be investing in that acceleration capacity over the next couple of years and then expect to see the translation into higher volumes later in the decade. We, of course, are ramping beyond production as well. We have sustainment starting to come into the program. We also have modernization that is ongoing in the program. So as we've talked about top line drivers for the B-21, it is beyond that production acceleration to other elements of the full program life-cycle support. But as you pointed to the capacity expansion, that really starts to take effect once we get through the large part of the facilitization, which is through 2028.

Ronald Jay Epstein
BofA Securities, Research Division

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And then maybe as a follow-on B-21, a question we frequently get from investors is, how should they think about potential risk of another charge in the future around the fixed price, low rate initial production runs?

Kathy J. Warden
Chair, CEO & President

The program is performing very well. We are continuing to progress through test. And as we are testing the aircraft, it is performing against our key performance parameters such that the largest risk in any development program, which is that you would find discoveries late and particularly the later you get in test, we are knocking down that risk with each progressing day and test milestone that is successful. We also are working our way through the production learning curve. And so again, there, each and every day that we perform, we are improving our performance cadence and retiring risk. It is not without risk because we still have a ways to go, clearly, in production of our remaining LRIP units, but our confidence continues to grow in the team's ability to execute on that program.

Operator

Our next question comes from Scott Deuschle with Deutsche Bank.

Scott Deuschle
Deutsche Bank AG, Research Division

Kathy, just to be more explicit, when you talk about the strategic review for the foundry business, are you suggesting you might sell it or spin it? Or is there a broader landscape of strategic alternatives than just those 2 outcomes?

Kathy J. Warden
Chair, CEO & President

It's a broader landscape. Clearly, to the degree that we and others see value in that business, we could continue to fully invest in it ourselves with the support of our current shareholders. We could think about broadening that base of investment or we could think, as you noted, about separating the business. All of those options are on the table and certainly, the degree to which we do that and the timing are all the things that we would be taking under advisement here in the coming months.

Scott Deuschle
Deutsche Bank AG, Research Division

Can you quantify at all what the size of the investment might be required if you were to go it alone?

Kathy J. Warden
Chair, CEO & President

It would be premature to do that because it depends on how quickly we want to scale to particular technical milestones and our appetite for that. So we really shared this with you today to just give you the broader purview of what is happening in our microelectronics business with several technologies like the RQL, which is our unique advantage in quantum. It stands for Reciprocal Quantum Logic, and it's an ultra-efficient superconducting chip technology. And as we said, we believe it has applicability not only for us to scale a quantum computer, but that others might also be able to leverage this technology. So that's what we are exploring.

Scott Deuschle
Deutsche Bank AG, Research Division

Okay. And then, John, when the B-21 charges were first booked, I believe the expectation on cash timing was that 60% of the cash impact would hit by or before 2026. I think the remaining 40% was 2027 or later. Is that still the kind of rough cadence and timing expectation for those cash losses? Or has that moved at all?

John Thomas Greene
Corporate VP & CFO

Yes. So the way to think about that is on the loss burn down. And what we've said is about \$100 million a quarter is what we will typically burn down. This quarter, the number happened to be \$70 million. So you can just do the math on that to have a better estimate of the cash impact.

Operator

Our next question comes from Sheila Kahyaoglu with Jefferies.

Sheila Karin Kahyaoglu
Jefferies LLC, Research Division

I thought the slide was super helpful in terms of the program funding that highlights the base request funding for almost 70% of the portfolio and the 5% to 7% growth for 2027. How do you think about the major drivers of that 5% to 7%? And I guess, where are areas of potential acceleration that might move the needle as you suggested potentially for 2028 growth?

Kathy J. Warden
Chair, CEO & President

Sheila, certainly, the programs that we outlined on that chart are key drivers of growth, areas like B-21, Sentinel, our support to shipbuilding. And in addition, things that are not fully represented on the chart like our weapons portfolio scaling into new Munitions Acceleration Council weapons where we have not been a key provider, but we now are entering into contracts to become a key provider. Those would scale over the course of 2027.

International is obviously not represented on this chart. It's meant to be a U.S.-based budget analysis, but international is also a key driver of acceleration of our growth in 2027 and beyond. And international, as always, is more difficult to pin down in terms of exact timing for getting under contract. So it becomes a driver of question as to how much of that falls into '27 and how much falls more into 2028. And then the other area that isn't as significantly called out on this chart, but we expect to be a key growth driver is our restricted space portfolio. About 2/3 of our space portfolio falls into the category of national security space and both the base budget and the reconciliation package has pretty significant increases that could drive further growth.

So when you think about what will drive us towards the bottom end versus the top end of our growth range for 2027, it's the rate at which we get these areas on contract and can scale our production. It's the rate at which international contracts are awarded and begin to have a meaningful impact in 2027. And probably most importantly is the level of appropriations and the timing of appropriations, the amount of time we stay in a continuing resolution certainly could impact 2027. But the point being, we expect acceleration throughout the year with further acceleration into 2028.

Sheila Karin Kahyaoglu
Jefferies LLC, Research Division

Got it. That's super helpful. And maybe, Kathy, if I could follow up to that. The weapons portfolio, solid rocket motors is about 8% of the mix, 75% funded. How do we think about that solid rocket motor opportunity, second sourcing? Like what's the potential size of that business?

Kathy J. Warden
Chair, CEO & President

Yes. So we've talked before about having approximately \$1 billion of work in that area today. And we are looking at not only scaling off of that \$1 billion because we are seeing growth in quantities for the contracts where we already are performing but we are entering into agreements to become a component provider, most notably solid rocket motors that I should mention, fuses, warheads, nozzles are all also part of our component offering mix. And as we enter into those new agreements, that will become a primary growth driver for us in '27 and beyond. But '27 will be a ramping year on all of those contracts as they start out small and then we progress towards the minimum guaranteed quantities and work to secure even more of that work going forward.

Operator

Our next question comes from Maggie Schooley with Rothschild & Co. Redburn.

Margaret Rose Schooley
Rothschild & Co Redburn, Research Division

I wanted to ask about Talon Blue. You mentioned it recently had its first fully autonomous flight. And I was wondering if you could provide any more details on how PRISM, the mission software system is performing and particularly how the interoperability with other third-party autonomy systems is working. So any color on that would be very helpful.

Kathy J. Warden
Chair, CEO & President

Absolutely. So Talon is an investment that we've made both in the platform, which is Talon Blue and in the systems that control the CCAs and associated platforms. And that's what we call Talon IQ. And Maggie, your question goes largely to Talon IQ, which has demonstrated through test the ability to interoperate with other companies' autonomous software and to integrate that software, we're working with about half a dozen companies who have come into our test bed and done cooperative integration projects with us.

We also, through that test bed, have demonstrated the ability to control other platforms. So those milestones have been proven and demonstrated. And it's the combination of a platform that allows us to do this testing and the test bed itself that allows us to derisk integration and work with partners that really is creating the optionality for us to work with multiple U.S. customers on defining their requirements for the next generation of combat collaborative aircraft and with international partners as well.

Operator

Our next question comes from Seth Seifman with JPMorgan.

Seth Michael Seifman

JPMorgan Chase & Co, Research Division

I wanted to ask, John, maybe just starting off on the cash flow. If you could help us a little bit in thinking about the drivers there moving from '26 to '27, the growth of a couple of hundred million but there's the headwind from the payment for the test article this year and then the broader increase in CapEx. So we can see the growth and the drop through on that growth and that provides a portion of it. But if you could quantify the other pieces perhaps.

John Thomas Greene

Corporate VP & CFO

Sure, sure. So cash flow is actually quite a good story this year. So in the third quarter, we're up about \$550 million. Year-to-date, we're up \$900 million. So good performance year-to-date. In the fourth quarter, we expect a meaningful step-up in the level of CapEx to support some of the key initiatives, including B-21. So you can think about the fourth quarter CapEx to be approaching \$1 billion.

And then as we look at 2027 and beyond, really, what's driving it is program execution. So sales growth, consistent margin with some level of margin expansion, tax optimization, working capital optimization. And then we're going to continue to be disciplined on the allocation of our CapEx dollars. So I mentioned in the prepared remarks, we do expect another step-up of CapEx to about \$2.1 billion, and that's to be able to invest in the infrastructure to deliver key programs for our customers.

So overall, building cash momentum on the back of strong sales and execution from a margin perspective and disciplined capital allocation and working capital management.

Seth Michael Seifman

JPMorgan Chase & Co, Research Division

Okay. Great. Great. And then maybe just a follow-up. If you can help out a little bit in terms of where we are on the Sentinel program. It looks like you've achieved a lot of the development of the missile. And I've kind of thought about the missile as ramping in production more in the next decade. And so in terms of the activity at the company between now and kind of late in the 2020s, is that primarily related to sort of infrastructure and C2 in terms of incremental growth? And how to think about the magnitude of that incremental growth, that percentage of sales that you guys helpfully put on the slide, does that increase in the coming years?

Kathy J. Warden

Chair, CEO & President

So over the next several years, we will continue to execute the development program, and there will be aspects of all 3 lines of effort, which include the missile itself. We will be continuing the integration as we demonstrated that first vertical stack and taking that through a rigorous test campaign. We will also be continuing design work on the launch facilities. Think of that as the infrastructure part of the program, the building out of the missile silos and the command centers.

And then the third component of the program is command and control. And that's all the systems that integrate and allow the government to operate the system. So all 3 of those work streams have continued development work over the next several years, leading into an integrated test campaign. At the same time, towards the end of the decade, we'll begin looking at ramping production on all aspects of the program. So the missile itself as well as the infrastructure will begin to deploy those capabilities and scale them. And that is something that we're really excited about. And yet our focus in these next several years will be on completing the development program.

Seth Michael Seifman

JPMorgan Chase & Co, Research Division

Okay. Great. And so does that -- is that kind of a 7%-ish, think of that sales percentage through the development portion kind of remaining fairly consistent? Or is that growing above the company pace?

Kathy J. Warden

Chair, CEO & President

It's been growing above the company pace modestly and we expect that it will be in the same range around the company growth rate or a little above.

Operator

Our next question comes from Anthony Valentini with Barclays.

Anthony Valentini

Barclays PLC

Kathy, I'm curious what you're most excited about in the portfolio that's outside of B-21 and Sentinel and then obviously, like the classified stuff that you can't talk about.

Kathy J. Warden

Chair, CEO & President

Yes. You're asking me to pick amongst a lot of favorite children. Today, really, what we wanted to highlight is some of the microelectronics technology that we are bringing out of what we would call deeper research and development work into ready for commercialization. And so we talked about FORTITUDE as a new product line. We've talked about quantum. And I think many people don't recognize that our company has that strong pedigree of microelectronics expertise because we have largely directed it toward government application.

Our government customers are very open now to us taking that technology, working it into a commercial ecosystem and then in commercial terms, selling it back to the government. I can't underemphasize how important that is, and it's an opportunity that as a company, we are going to take advantage of in complete partnership with the government, but do it in a way that also opens up access to commercial markets that before we did not have as strong as an opportunity to pursue because of the restricted nature of the work we were doing. So to me, that's the biggest change that we are sharing with you today and something that I'm quite excited about.

Operator

Our next question comes from Noah Poponak with Goldman Sachs.

Noah Poponak

Goldman Sachs Group, Inc., Research Division

Apologies if this is some combination of splitting hairs or obvious, but I just want to make sure I'm using the right definitions and understanding the outlook correctly. So with the outlook for 2027 organic revenue growth of 5% to 7% and then further acceleration in 2028, I just want to make sure that the literal interpretation of that is 8% or more growth in 2028 as opposed to just meaning that it's up again.

And then, John, you didn't specify -- you're not guiding '29 or '30, but you made comments along the lines of sustainability of acceleration into the next decade. Should we be thinking about 8% or more 2029 and 2030? Or is that reading what you're saying too much?

Kathy J. Warden

Chair, CEO & President

Noah, this is Kathy. I'll start and then John can add in. We are suggesting that a 5% to 7% growth rate next year would accelerate, meaning be higher in '28 than we experienced in '27. I'm not sure I would jump all the way to 8%. We're not going to guide a specific number for 2028. But to answer your question directly, we are saying that we expect the growth rate in '28 to be higher than it is in '27. There is potential for further acceleration beyond that. But of course, the further out you go, the more dependent that is on factors that today we didn't cover.

We see strong visibility through contracts we have, through backlog we have today through that '28 period. Just to give you a little bit of insight there, as we have done in the past, we shared that our backlog burn down tends to be weighted towards the later part of our planning horizon. So for 2027, we expect about 35% of our backlog to burn down over the next 12 months, another 55% over the following 24 months, leaving the remainder past 36 months. And when you think of it in that way, our backlog today is more robust and durable than what we would typically experience, which is why it gives us that strong visibility to talk multiple years out. So hopefully, that gives you some good insight.

Noah Poponak

Goldman Sachs Group, Inc., Research Division

That's super helpful. I appreciate it. And then, Kathy, I guess the margins in the quarter are strong and the margin outlook you're providing is discussed with confidence, but the margins have been a little bit choppy over the last few years. I guess maybe level setting on what's been behind that. How should we be thinking about the extent to which the items that have driven margin headwind in recent periods are behind you versus still have some risk?

Kathy J. Warden

Chair, CEO & President

I really look at it with the mix of our portfolio in mind. Whenever we have a high concentration of development work, that carries a higher risk profile, and it's why margins tend to be lower on development programs. And we can't always predict that. So you see a little bit of choppiness, right, taking earnings adjustments as a result of discovery in development.

As our portfolio has progressed and will continue to progress very notably over the remainder of this decade toward more production, we tend to see less variation and fewer EAC adjustments and therefore, higher margin performance. So it's that dimension of our portfolio that is really worth thinking through. We've talked and given numbers about how we expect that cost plus, which is, in some ways, synonymous with development contracts shifting to fixed price over the next several years, but it's a pretty material shift that we are expecting that derisks the portfolio.

Operator

And our last question comes from Michael Ciarmoli with Guggenheim Securities.

Michael Frank Ciarmoli

Guggenheim Securities, LLC

Maybe, Kathy, you talked earlier about Talon Blue. That's been in the news. But can you talk more broadly maybe about your kind of overall CCA strategy? It seems like we've got Increment 1. It's moving a bit slower. You've got Talon Blue, but then you've also got the MUX TACAIR program. So what are the overall expectations? I mean do you kind of envision being a significant player in that market? Do we have to wait more for Increment 2 and some of the follow-on directives and orders from the Air Force? Or maybe just some color there.

Kathy J. Warden

Chair, CEO & President

Yes. We aren't waiting for direction, but we are engaging with all of our customers to utilize the expertise we have. As I've talked about before, we've got over 500,000 flight hours of experience with unmanned systems, more than anyone that I'm aware of in the world. And so as a result, we're bringing that skill set to bear in 2 ways. One is in how an architecture of CCAs can work and integrate. And I talked earlier in response to Maggie's question about how Talon IQ is doing that, not just for us, but for other companies who are developing autonomy software and command and control.

And then for the platform itself, we are working to drive towards affordability and scaled manufacturing because we know that's going to be important to deliver affordable mass. We think that is going to be true across all customers, the services domestically and our international customers. So those are our goals for our product line, and we are demonstrating capability so that customers can see the art of the possible.

Michael Frank Ciarmoli

Guggenheim Securities, LLC

Got it. That's helpful. And then just a quick follow-up on microelectronics. Would a potential direct investment from Office of Strategic Capital or Department of War be on the table there? Or is truly everything, any and all options on the table?

Kathy J. Warden
Chair, CEO & President

Everything is on the table. We believe there is such a strong commercial application for this that we are not wanting to be overly dependent on any government, particularly the U.S. government in this case but all options are on the table.

Randy Sinclair
Vice President of Investor Relations

Thanks, Josh. I'd like to turn the call back to Kathy to close, please.

Kathy J. Warden
Chair, CEO & President

Right. Thanks, Randy, and thanks to all of you for joining us. I just want to end by saying it's a really exciting time at Northrop Grumman. We are seeing a sustained and robust global demand cycle, and our team is stepping up and responding to that. But we also see application for leading technologies that we have for broader application to support shareholder value and to deliver new innovations to our customers. And so you heard us talk about several examples of that today. I look forward to following up with all of you following this call so we can share some more insights. Thanks for joining us.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for your participation.

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