

General Dynamics Corporation (GD) Q4 FY2025 earnings call transcript

Powered by Quartr

Jan 28, 2026, 9:00 AM EST



Earnings call

General Dynamics posted Q4 EPS of \$4.17 on \$14.38B in revenue, up 7.8% YoY. FY25 revenue rose 10.1%, with EPS up 13.4%. Record backlog of \$118B (+30%) and strong 2026 guidance (EPS \$16.10–\$16.20) underscore management's confidence in durable growth across all segments.

Powered by Yahoo Scout

[View more](#)

Operator

0:00:00

Good morning, and welcome to the General Dynamics fourth quarter 2025 earnings conference call. All participants will be in a listen-only mode. After the speaker's remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press the star key followed by the number one on your telephone keypad. If you would like to withdraw your question, press star one again. Please note, this event is being recorded. I would now like to turn the conference over to Nicole Shelton, Vice President of Investor Relations. Please go ahead.

Nicole Shelton

Head of Investor Relations

0:00:31

Thank you, operator, and good morning, everyone. Welcome to the General Dynamics fourth quarter 2025 conference call. Any forward-looking statements made today represent our estimates regarding the company's outlook. These estimates are subject to some risks and uncertainties. Additional information regarding these factors is contained in the company's 10-K, 10-Q, and 8-K filings. We will also refer to certain non-GAAP financial measures. For additional disclosures about these non-GAAP measures, including reconciliations to comparable GAAP measures, please see the slides that accompany this webcast, which are available on the investor relations page of our website, investorrelations.gd.com. On the call today are Phebe Novakovic, Chairman and Chief Executive Officer, Danny Deep, President, and Kim Kuryea, Chief Financial Officer. I will now turn the call over to Phebe.

Phebe Novakovic

Chairman and CEO

0:01:24

Thank you, Nicole. Good morning, everyone, and thanks for being with us. Earlier this morning, we reported fourth quarter earnings of \$4.17 per diluted share on revenue of \$14.379 billion, operating earnings of \$1.452 billion, and net earnings of \$1.143 billion. To briefly summarize, on a quarter-over-quarter basis, revenue is up 7.8% and operating earnings are up 2%. Net earnings and diluted earnings per share are relatively flat to the year-ago quarter, which you may recall was a terrific quarter. It included some significant one-time items, which drove unusually high margins, but more about that later. The sequential comparisons are quite attractive.

Phebe Novakovic

Chairman and CEO

0:02:17

Here, we beat the prior quarter's revenue by 11.4%, operating earnings by 9.1%, net earnings by 7.9%, and fully diluted EPS by \$0.29. Full year numbers are absolutely terrific. Revenue is up 10.1%, operating earnings are up 11.7%, net earnings are up 11.3%, and fully diluted EPS is up 13.4%. Both revenue and operating earnings were up for each of the segments, led by Marine Systems and Aerospace, with revenue growth of 16.6% and 16.5%, respectively. They also led the parade in operating earnings, with Marine Systems up 25.9% and Aerospace up 19.3% for the year. All of this follows terrific revenue and earnings growth in 2024 over 2023.

Phebe Novakovic

Chairman and CEO

0:03:19

It would appear that we beat analyst consensus for both the year and the quarter. So let's move on to the business units. First, Aerospace. In Aerospace for the year, we experienced continuing growth of both revenue and earnings, continuing strong demand for Gulfstream aircraft, overall strength in Gulfstream service business, and continued growth and performance improvement at Jet Aviation. In the quarter, Aerospace had revenue of \$3.788 billion and earnings of \$481 million. This represents a 1.2% increase in revenue, but \$104 million decrease in operating earnings on a quarter-over-quarter basis. While the earnings numbers are very good on a standalone basis, they do not compare favorably to a standout fourth quarter in the prior year, aided by a number of discrete positive items that were significant increments to earnings.

Phebe Novakovic

Chairman and CEO

0:04:17

However, the sequential numbers are very positive, with a 17.1% increase in revenue, coupled with an 11.9% increase in operating earnings. Importantly, for the year, Aerospace revenue of \$13.1 billion is 16.5% greater than 2024. This is on top of a 30.5% growth in 2024 over 2023. Revenue growth was driven in large part by the delivery of 158 new aircraft, which is 22 more than the year ago. Earnings of \$1.75 billion are up 19.3% over 2024. So let's talk a little about demand. It was a strong quarter, bordering on exceptional.

Phebe Novakovic

Chairman and CEO

0:05:03

Aerospace had a book-to-bill of 1.3 times in the quarter, and Gulfstream alone had an aircraft book-to-bill of 1.4 times, even as deliveries increased significantly in the quarter. Orders exceeded our internal plan. The delivery of the G700 and G800 and their performance in customer hands is driving increased demand for them, which we experienced in the quarter. We continue to see improved interest across all models in all sales jurisdictions. Interestingly, the overall number of prospects in all areas continues to increase. Let me turn the discussion over to Danny for his perspective on the quarter.

Danny Deep

President

0:05:46

Thank you. So I want to spend some time exploring the \$104 million decrease in operating earnings on a quarter-over-quarter basis. As you might imagine, there were lots of puts and takes in the quarter. The margin issue was the G600 product line, which had \$75 million less in earnings. That was attributable to the delivery of 3 fewer aircraft in the quarter- ... a \$21 million variance in liquidated damages and favorable settlements in the prior year's quarter, some higher overhead than in the prior quarter, and the imposition of tariffs in this quarter, but not in the fourth quarter of 2024. If we adjust for these items, the earnings and margin rate on the G600 are very similar for both quarters. On a quarter-over-year-ago quarter basis, earnings on the G500, Gulfstream services, and Jet Aviation were down modestly. Now, in all of this, there are some good news. The earnings for the G800 more than replaced the G650 earnings on the same basis. The G700 also experienced higher earnings despite 2 fewer deliveries. Obviously, margins are improving nicely on that product. Phebe?

Phebe Novakovic

Chairman and CEO

0:06:57

So let's move on to the defense businesses. First, Combat Systems. Combat Systems had revenue of \$2.5 billion for the quarter, 0.8% more than the year-ago quarter. Earnings of \$381 million are also up 7% on a 10 basis point operating margin improvement. Operating margin of 15% is very good. The sequential growth of revenue and earnings at 12.6% and 13.7% is even stronger, with particular strength at OTS. For the full year, revenue of \$9.2 billion is up 2.8%, and earnings of \$1.33 billion are up 4.3% as a result of a 20 basis point increase in operating margins as compared to a year ago. All in all, a very nice profile, but the real story is in the order book.

Phebe Novakovic

Chairman and CEO

0:07:52

Combat saw robust order intake for the fourth quarter, resulting in book-to-bill of 4.3 to 1. Orders came from across the portfolio, with notable awards in munitions, but exceptional intake in wheeled and tracked vehicle programs at European Land Systems. The book-to-bill for the year is 2.1 times. This all rolls up to a total backlog of \$27.2 billion and total estimated contract value of almost \$42 billion. This positions Combat Systems very well for the future. In short, this group had a very solid year operationally, with expanded margins, explosive order activity, and a strong order pipeline as we go forward. But before I turn to Marine Systems, I'd like to ask Danny to provide some additional color.

Danny Deep

President

0:08:45

Let me give you some additional detail on several key awards. For some time, we have been talking about the strong demand signals we are observing, particularly in our international portfolio, and as Phebe mentioned, that demand transitioned to some significant awards in the fourth quarter. In Germany, we received two awards for more than \$4 billion for our Eagle tactical vehicles. In Norway and the United Kingdom, we were awarded \$600 million for our bridges, and in Canada, we received awards for \$640 million for Light Armored Vehicles and additional logistics vehicles. Altogether, a nice order distribution, both geographically and across our product portfolio. Here in the United States, working closely with the U.S. Army, we continue to make good progress on the acceleration of the next generation M1E3 main battle tank.

Danny Deep

President

0:09:33

All of this provides a strong base for continued strength at Combat. I'll pass it back to Phoebe.

Phebe Novakovic

Chairman and CEO

0:09:39

So turning to Marine. Once again, our shipbuilding group had exceptional revenue growth. Marine Systems revenue of \$4.8 billion is up 21.7% against the year-ago quarter. All the shipyards were up, but the submarine programs at Electric Boat were the real drivers of this growth. I am very pleased to report that operating earnings of \$345 million are up 72.5% on a 210 basis point improvement in operating margin. To be fair, the fourth quarter of 2024 was the group's poorest operating earnings in that year. Nevertheless, 7.2% last quarter represents a meaningful improvement and real progress in submarine construction. Sequentially, the numbers are much the same. Revenue increased 17.6% and operating earnings, 18.6%.

Phebe Novakovic

Chairman and CEO

0:10:34

For the full year, Marine revenue of \$16.7 billion is up 16.6%, and earnings of \$1.18 billion are up 25.9%. So the story of revenue growth continues with some improvement in operating margin and measurable improvement in productivity. Once again, the operating metrics tell us that we have, in fact, increased our productivity at all shipyards. Danny, feel free to interject your thoughts on Marine from an operating perspective.

Danny Deep

President

0:11:06

As Phebe just mentioned, we have seen demonstrable increases in productivity and throughput at our shipyards. At Electric Boat, as you all know, we have made considerable investments over the last several years, and those investments have enabled a significant increase in output. One key measure of output is submarine tonnage produced, and Electric Boat is up 13% over last year. At Bath Iron Works, we are seeing consistent ship-over-ship learning, and at NASSCO, we are seeing a very positive trend in terms of schedule variances against plan for each successive ship we build. Our priority in the Marine group is to remain laser-focused on execution and continue to accelerate production, and we are seeing good progress on that front.

Phebe Novakovic

Chairman and CEO

0:11:48

Lastly, Technologies. It was a solid but no-growth quarter, with revenue of \$3.24 billion, about the same as the year-ago quarter. Operating earnings in the quarter of \$290 million are down \$29 million on an 80 basis point decrease in operating margin. The full-year comparisons are somewhat better. Revenue at \$13.5 billion is up 2.6%. Earnings of \$1.28 billion are up 1.3% on a very similar operating margin. Let me say that these businesses did very well in an extremely difficult market. The long continuing resolution was particularly impactful, and the examination of all contracts by the Department of Government Efficiency hurt growth and slowed contracting activity early in the year. Nevertheless, these businesses persevered and came through it all on a very good basis.

Phebe Novakovic

Chairman and CEO

0:12:47

Given all of that, the group had very nice order activity for the year. Total orders for the group reached \$15.9 billion, resulting in a book-to-bill of 0.9 to 1 for the quarter and 1.2 times for the year. This left the group with an increased year-over-year backlog at \$16.7 billion, and total estimated contract value of \$49.9 billion. Pretty well done under the circumstances. Danny will give you a little bit more here.

Danny Deep

President

0:13:17

I'll just give a little more color on how this group is positioned going forward. Phebe mentioned the very solid backlog to end the year. This, combined with a robust order pipeline of close to \$120 billion of qualified opportunities, certainly presents a healthy market picture as we look forward. In addition, at Mission Systems, the transition from legacy programs is complete, allowing them to focus where they have deep domain expertise. This expertise aligns well with their customers' priorities in areas including encryption, subsea warfare, and strategic deterrence. The market outlook, coupled with very solid win and capture rates, positions this group for durable growth beyond this year. I'll turn it back to Phebe.

Phebe Novakovic

Chairman and CEO

0:14:00

Thanks. And let me ask Kim to provide details on our cash performance for the quarter and the year, overall order activity and backlog, and any other items she might like to address. I'll then come back to discuss our thoughts on 2026.

Kimberly Kuryea

CFO

0:14:16

Thank you, Phebe, and good morning. Let me first start with orders and backlog. Our order activity and backlog continued to be a strong story and a highlight for us in 2025. We achieved an overall book-to-bill ratio for the year of 1.5 to 1, even as revenue grew by 10%. Let me go through the full year book-to-bill rates for 2025 at each of the segments. First, the defense segments. Combat Systems achieved a book-to-bill of 2.1 times, driven by continued robust demand at each business, particularly at European Land Systems, where we received over \$10 billion in new awards. Marine Systems achieved a book-to-bill of 1.7 times, with each of our shipyards receiving awards for additional ships in 2025. Technologies achieved 1.2 times on nice award activity at both GDIT and Mission Systems.

Kimberly Kuryea

CFO

0:15:09

Moving to Aerospace, Gulfstream finished the year really strong with their second-best orders quarter since second quarter 2008. The full-year dollar-based book-to-bill for this segment was 1.2 times, marking the 5th consecutive year achieving a book-to-bill greater than one. The robust demand across our portfolio resulted in finishing the year with a record total backlog of \$118

billion, an astonishing 30% increase over last year. Total estimated contract value, which includes options and IDIQ contracts, ended the year also at a record level of \$179 billion, a 24% increase from last year. It's interesting to note that each of the defense segments ended the year at record levels for both of these metrics, and Aerospace ended at levels not seen since the announcement of the G650 in 2008.

Kimberly Kuryea

CFO

0:16:06

Turning now to our cash performance for 2025. I think it's worth noting how we started the year. As a reminder, at the beginning of 2025, we were expecting a free cash flow conversion rate between 80% and 85% as we worked through some working capital challenges. As we progressed through the year, we upped that projection to the low 90s. Well, I'm happy to report that we ended 2025 in line with our third quarter expectations. Let's get to the specifics. The fourth quarter was another strong cash quarter, with operating cash flow of \$1.6 billion, which brought us to \$5.1 billion of operating cash flow for 2025, \$1 billion higher than 2024.

Kimberly Kuryea

CFO

0:16:49

After considering capital expenditures, our free cash flow for the year was just shy of \$4 billion, for a cash conversion rate of 94%. Working capital for the year improved nicely over our original plan due to stronger-than-expected collections and inventory reductions at Gulfstream. While all of our business units contributed nicely to our cash flow for the year, during the fourth quarter, Combat Systems and Aerospace had particularly strong cash generation. As we signaled, capital expenditures were up significantly in the fourth quarter to \$609 million, which adds up to \$1.2 billion spent for the full year. For 2025, capital expenditures were in line with our expectations and up almost 30% over 2024. In the fourth quarter, we also paid \$490 million to purchase assets that were originally under lease.

Kimberly Kuryea

CFO

0:17:44

Combined, we invested 3.1% of revenue on assets to support the facilities and fixtures that enabled the continued growth of our businesses. During the fourth quarter, we were in the commercial paper market to support our liquidity during the government shutdown, but ended the year with no commercial paper outstanding. Our cash balance as of year-end was \$2.3 billion, with a net debt position of \$5.7 billion, down \$1.4 billion from 2024. Moving on to our 2026 cash flow projections. We expect to return to our free cash flow conversion rate goal of 100% of net income.... This is based on particularly strong operating cash flow, offsetting elevated levels of continued investment across our businesses. Capital expenditures are expected to increase over \$900 million or 79% from 2025.

Kimberly Kuryea

CFO

0:18:40

Our capital expenditures will equal between 3.5% and 4% of sales as we continue to invest, especially in our shipyards, to accelerate production and meet future demand. The free cash flow for the year breaks down as follows: The quarters are expected to each be positive and grow slightly, with the fourth quarter still representing the largest, but much less of a climb as compared to 2025's plan. We have \$1 billion of notes coming due in 2026. Our plan assumes these notes will be refinanced, but this is something that we will continue to evaluate as time approaches. Turning to interest. Our net interest expense in the fourth quarter was \$63 million, bringing interest expense for the full year to \$314 million.

Kimberly Kuryea

CFO

0:19:26

That compares to \$76 million and \$324 million in the respective 2024 periods. Under the assumption that we refinance the maturing notes, we expect interest expense to increase to approximately \$340 million due to higher expected interest rates on the new debt. Wrapping up with income taxes. Our 2025 full year effective tax rate ended up at 17.5%, consistent with our guidance. Looking ahead to 2026, we expect the tax rate to remain at a similar level. Additionally, our cash taxes should remain around the same level, with both years receiving some benefit from the R&D capitalization recovery. That concludes my remarks. I'll turn it back over to you, Phoebe.

Phebe Novakovic

Chairman and CEO

0:20:11

Thank you, Kim. So let me provide our operating forecast for 2026 with some color around our outlook for each business group and then the company-wide roll-up. In 2026, we expect Aerospace revenue to be about \$13.6 billion, up around \$500 million over 2025. Operating margin is expected to be increased to around 14%. This should result in operating earnings of around \$1.9 billion. Gulfstream deliveries will be 160 with a little upside. This is fairly close to 2025. In Combat Systems, we expect revenue in a range of \$9.6 billion-\$9.7 billion, coupled with an operating margin of 14.1%. This should lead to improved earnings around \$1.36 billion at the midpoint of the revenue range.

Phebe Novakovic

Chairman and CEO

0:21:06

As I noted earlier, the Marine Group has been on a remarkable growth story. It will continue in 2026. Our outlook for this year anticipates revenue in a range of \$17.3 billion-\$17.7 billion, with a

30 basis point improvement at the operating margin line. This should result in operating earnings around \$1.3 billion. In technologies, 2026 revenue is expected to be up to \$13.8 billion. Operating margins are expected to decrease around 30 basis points to 9.2%. We continue to see long-term, low single-digit growth from the group and continued industry-leading margins. The EBITDA margin is quite impressive. This should leave operating earnings of about \$1.3 billion. So for 2026 company-wide, we expect to see revenue in the range of \$54.3 billion-\$54.8 billion.

Phebe Novakovic

Chairman and CEO

0:22:05

We anticipate operating margins of 10.4%, up 20 basis points from 2025 actuals. This should leave us with operating earnings around \$5.7 billion at the midpoint of the anticipated revenue range. All of this rolls up to an EPS forecast between \$16.10 and \$16.20. None of this contemplates or includes any capital deployment. On a quarter basis, if one were to assume an average of \$4 per quarter, the first quarter would be off \$0.40, the second off \$0.30, the third off \$0.10, and the fourth up \$0.80 on a typical fourth quarter increased volume. To wrap up, as we go into 2026, we feel very good about our business and the prospects for the year.

Phebe Novakovic

Chairman and CEO

0:22:57

We will do our level best to execute and beat the forecast we have given you. As always, we will be laser-focused on operations. Nicole, back to you.

Nicole Shelton

Head of Investor Relations

0:23:07

Thank you, Phoebe. As a reminder, we ask participants to ask one question and one follow-up so that everyone has a chance to participate. Operator, could you please remind participants how to enter the queue?

Operator

0:23:19

Thank you. We will now begin the question-and-answer session. If you have dialed in and would like to ask a question, please press star one on your telephone keypad to raise your hand and join the queue. If you would like to withdraw your question, simply press star one again. We'll take our first question from Seth Seifman at JP Morgan.

Seth Seifman

Analyst

0:23:39

Hey, thanks very much. Good morning, everyone.

Phebe Novakovic

Chairman and CEO

0:23:42

Morning, Seth.

Seth Seifman

Analyst

0:23:44

Wanted to start off asking maybe about Aerospace profitability, and if you could talk about the margin path from here for kind of through the product transitions to 700 and 800 and 600 going away. There's some market expense for this year, but-

Phebe Novakovic

Chairman and CEO

0:24:07

Seth, you're breaking up a bit. Are you asking about margin on?

Seth Seifman

Analyst

0:24:10

Yeah. Sorry. Can you, can you hear me a little bit better now?

Phebe Novakovic

Chairman and CEO

0:24:12

Yeah, that's better. Thank you.

Seth Seifman

Analyst

0:24:14

Oh, okay. Great. Thanks.

Phebe Novakovic

Chairman and CEO

0:24:15

If you could say it again, because-

Seth Seifman

Analyst

0:24:17

Yeah. So-

Phebe Novakovic

Chairman and CEO

0:24:17

We got every other word.

Seth Seifman

Analyst

0:24:20

Cool. Aerospace profitability, I guess now that we're through the product transitions, you know, there's some improvement expected in 2026 here, but you know, I think the hope is that those margins become more robust. And so how do you think about getting there? And is it the supply chain that's the chief impediment as you know, we're seeing in some other places as well, and what are the plans to mitigate that?

Danny Deep

President

0:24:44

... Yeah, I, I can take that. This is Danny here. Yeah, look, we think margins are going to continue to improve. As you said, you know, we're up about 70 basis points in 2026 versus 2024. I think we'll see some improved pricing, improved efficiency, some lower overheads, and some lower research and development costs, so that will be helpful. I think right now we have headwinds around tariffs. Some of the cost increases that we've incurred in the supply chain happened before we're able to reflect them in our increased pricing. And we do have the opportunity to

increase pricing, but that's often in periods subsequent to when the cost increase has been incurred from the supply chain. But we continue to expect improvement there.

Seth Seifman

Analyst

0:25:32

All right. Okay. Okay, great. And then, maybe if you can update us on your expectations for future submarine contracts for both Columbia and Virginia, that would be great in terms of maybe timing and in terms of how they are different than in the past.

Phebe Novakovic

Chairman and CEO

0:25:55

So, to be quite honest, we don't know. We know that both of those contracts are out there, the demand is there, and it's simply up to the government when they come to us. So we don't know very much, but when we do, we'll tell you.

Seth Seifman

Analyst

0:26:14

Okay, great. Thanks very much.

Operator

0:26:19

We'll move next to Doug Harned at Bernstein.

Douglas Harned

Analyst

0:26:23

Good morning. Thank you.

Phebe Novakovic

Chairman and CEO

0:26:24

Hi, Doug.

Douglas Harned

Analyst

0:26:25

You know, hi. Hang on, Marine. You know, the revenues look great. You know, clearly, it appears your throughput's going way up. You know, the Navy has been pushing so long to get throughput up, get to the 2 Virginia class per year rate and... How would you describe Marine now in terms of kind of closing that gap on where the Navy ultimately wants to be here, given that you've got so much money in the budget right now?

Phebe Novakovic

Chairman and CEO

0:27:02

So I'd say we are continuing to improve efficiency, retention at Electric Boat. Our throughput, as you know, is up, and proficiency is really key, as is retention. The supply chain remains the gating item, and we have seen significant improvement in some areas, but we still have some suppliers and parts of the supply chain that are at risk. The government has been heavily investing in the supply chain, which is why we've seen some improvement. But we need to focus and do more, particularly with respect to sole source suppliers, where they are bottlenecks. So as the supply chain begins to improve and increase their productivity, and by the way, the quality still remains high. So it's not an issue.

Phebe Novakovic

Chairman and CEO

0:27:56

It's simply really about the constraints that they have in capacity and getting their throughput up. But once they do, that will improve. That will be the next big step in improving our productivity throughput and the ability to further accelerate deliveries to the customer.

Douglas Harned

Analyst

0:28:18

Then on combat, I mean, you know, the backlog story was really strong, and clearly, European demand is very high. You know, our assumption would be that that kind of demand growth would continue. When you look at the scale of the backlog increase you're seeing there, how, you know, how long will it take or how, what are your expectations in the ability to convert that to revenue growth over time?

Phebe Novakovic

Chairman and CEO

0:28:46

So we'll see some increase in revenue growth, this year and when accelerating into 2027, when we begin to move into production of some of these programs in Europe. This year will be largely planning and engineering R&D work, and then as we move into production. So we are, we have a pretty smooth path, we believe, to transition from our engineering work into production, and now we've got the resources, property, plant, and equipment, personnel to execute.

Douglas Harned

Analyst

0:29:25

Very good. Thank you.

Operator

0:29:29

We'll go next to Gautam Khanna at TD Cowen.

Gautam Khanna

Analyst

0:29:34

Yeah, thanks. Good morning.

Phebe Novakovic

Chairman and CEO

0:29:35

Good morning.

Gautam Khanna

Analyst

0:29:35

Danny, you made a reference to a tariff impact at Gulfstream, at Arrow. I was wondering, how much you guys absorbed in 2025, and what are you expecting in 2026? If you could frame that for us. Yeah, sure.

Danny Deep

President

0:29:49

Sure. So the impact of tariffs in 2025 was \$41 million. But let me help you a little bit with tariff, as best as I can. So there's a cash outlay, when the tariff is imposed, when the material is coming into the country, and, but the cost to earnings happens at a different point. As you know, we recognize revenue and earnings when we actually deliver the plane, and that's also when we recognize the tariff impact.

Danny Deep

President

0:30:21

And so then there's this other element where, how much of that can we get back in terms of some sort of reimbursement? And that's difficult to predict. So the tariffs that we are going to see in 2026 are largely based on cash that we expended in 2025. It will be higher than in 2025, so higher than the \$41 million, but those tariffs are contemplated in our 2026 margins.

Gautam Khanna

Analyst

0:30:50

... Gotcha. Thank you. That's helpful. And if we're going to shift to marine, the increase in 18% sequentially, how much is that at the yard itself in terms of productivity versus in the supply chain? Because historically, you guys have called out the supply chain kind of being a constraint. I'm just wondering how that has improved relative to before.

Sheila Kahyaoglu

Analyst

0:31:14

Yeah, look, I mean, I don't know how to apportion both of those impacts, but they're both impactful on the margins. I think, as Phebe said, when we get the supply chain operating at a full cadence and at full efficiency, that will have an impact on margins. And then equally so, our own productivity and focus on execution. As we continue to improve, and we're on that path, we should expect to see improvements in margins. And we think those improvements will be durable and steady, as you've seen from 2024 to 2025. We'll see continued strength there and increases.

Gautam Khanna

Analyst

0:31:53

Thank you.

Operator

0:31:55

We'll take our next question from Scott Deuschle at Deutsche Bank.

Scott Deuschle

Analyst

0:32:02

Hey, good morning. Kim, can you walk us through what drives free cash flow conversion to the 100% range in 2026?

Kimberly Kuryea

CFO

0:32:07

Sure.

Scott Deuschle

Analyst

0:32:07

despite that big step up in CapEx?

Kimberly Kuryea

CFO

0:32:11

Yeah, sure. So we're really looking at, you know, basically strong operating performance out of the business units, and that's the major driver. Obviously, we are increasing CapEx to a significant extent, but that's factored in. And, we you know, our goal is to be at 100%, and that's what we're targeting for 2026, and quite frankly, into the next couple of years.

Scott Deuschle

Analyst

0:32:38

Okay. Just to clarify, is the Navy offering some working capital support for the Navy CapEx?

Kimberly Kuryea

CFO

0:32:46

Not at this point.

Scott Deuschle

Analyst

0:32:49

Okay.

Kimberly Kuryea

CFO

0:32:49

Not to our knowledge.

Scott Deuschle

Analyst

0:32:51

Okay. And then, Danny, given the strong orders and demand at Gulfstream, as well as the strength on the production and supply chain side, I guess, why wouldn't the delivery growth in 2026 be higher than this 1% increase? To ask another way, what's the limiting factor on delivery growth at Gulfstream?

Phebe Novakovic

Chairman and CEO

0:33:09

Well, let me, let me take that on. We have provided you with the deliveries that we are quite comfortable at the moment that we can execute. Completion, final test, delivery tend to be the long poles in the tent, but we're working to expand our completion capacity through increased efficiency and where necessary, additional tooling and fixtures. But let's, let's just put this in some perspective. In 2024, we had a 30.5% increase in revenues, and in 2025, we had a 16.5%. That's in the hard-to-do category. So what we're doing right now is working to absorb that growth while increasing margins. So we believe this is a prudent plan. It's focused on meeting our obligations to our customers and expanding our productivity.

Scott Deuschle

Analyst

0:34:05

Makes sense. Thank you.

Operator

0:34:09

We'll move next to Sheila Kahyaoglu at Jefferies.

Sheila Kahyaoglu

Analyst

0:34:13

Good morning, everyone, and great quarter.

Phebe Novakovic

Chairman and CEO

0:34:15

Good morning.

Sheila Kahyaoglu

Analyst

0:34:15

Maybe, Phebe, just on, just on your last comments, given we're on aviation, the order momentum has been superb. Can you talk a little bit about what's driving that, maybe by geography? Was it bonus depreciation, or is it the new model introductions you have going in?

Phebe Novakovic

Chairman and CEO

0:34:32

I think a number of factors have driven the increased demand. Certainly, our new products have. The 800 led the demand, followed by the 700 and the 600. I suspect bonus depreciation was a factor, as is the strength of various economies. I would also tell you that the pipeline is active and growing, and we have a good activity. So we like what we see on the demand side.

Sheila Kahyaoglu

Analyst

0:35:06

Great. If I could follow up maybe on the capital deployment comments. How do we think about GD combat and what's going on there? There's been a lot of press about capacity and munitions and ammo. You know, how are you thinking about capacity coming online for combat and how that factors into the 3.5% of CapEx to sales ratio over the next few years?

Phebe Novakovic

Chairman and CEO

0:35:30

So the majority as or half at least of the CapEx for this coming year is at Electric Boat. We have been investing in Combat Systems across the portfolio and will continue to do so. On the munitions side, we have capacity and have executed that capacity up in Northeast Pennsylvania at 36 rounds a month for the last 12 months. We've increased the load pack and established a load pack and assembly facility and with the capacity of 50,000 rounds a month, and we've increased our propellant capacity. So all in all, we see some instances of need for additional investment, and we'll make that accordingly.

Sheila Kahyaoglu

Analyst

0:36:18

Great. Thank you.

Operator

0:36:22

We'll take our next question from Matt Akers at BNP.

Matthew Akers

Analyst

0:36:26

Yeah, good morning, everybody. Thanks for taking my question. I guess, Phoebe, historically, you guys have usually guided ex capital deployment, and I think probably a lot of us just go ahead and stick it in our models anyway. But just, I guess, given some of the pressure we've seen on the industry on buybacks, I guess, could you comment on maybe whether we should be a little bit more cautious on assuming that this year?

Phebe Novakovic

Chairman and CEO

0:36:51

... So our capital deployment strategy for the last number of years has been to continue to invest in our growing business. That's resulted in increased backlog. So we think, we believe, and plan on additional investments in our portfolio to ensure that we're able to efficiently execute that backlog and provide for the demands and needs of our customer. We have on this, on the dividend, you know, we've paid a dividend for over 25 years, and every year in March, the board decides the extent of any increase. But we're committed to the dividend, and we never comment on share repurchase. I'd note that it's not particularly popular right now, so our our habit and penchant for not commenting on share repurchases, I believe, appropriate.

Phebe Novakovic

Chairman and CEO

0:37:46

But I think it's our strategy remains heavily invested in the business because it's justified, given the demand and the backlog.

Matthew Akers

Analyst

0:37:57

Yeah. Got it. Thanks. And then I guess just one more on kind of the CapEx. With the step this year, I mean, should we think of this as kind of a multiyear investment that needs to be made, or is this more something that will kind of revert to more normalized levels in 2027 and beyond? Thanks.

Phebe Novakovic

Chairman and CEO

0:38:14

We'll continue to invest, year over year in our businesses, because we have the long-term growth there, and it's embedded in our backlog. We believe that that's appropriate. So the investments year over year, in CapEx may vary a bit, but you should expect that strategy going forward.

Matthew Akers

Analyst

0:38:38

Great. Thank you.

Operator

0:38:41

We'll move next to Myles Walton at Wolfe Research.

Myles Walton

Analyst

0:38:46

Thanks. Good morning. You've previously given medium-term margin expansion, sort of color for Aerospace. I was curious if you could maybe update those, those margin outlook targets.

Phebe Novakovic

Chairman and CEO

0:39:00

We believe there's margin improvement, headroom at Gulfstream, and we'll continue to pursue that. You know, it's not about necessarily pursuing growth that's in our backlog, but it's about execution, execution, execution. That's throughout the whole company. It's really a strategy. Gulfstream and Jet Aviation are no different. So we'll continue to push margin, and we see high probability of improved margins over time.

Myles Walton

Analyst

0:39:30

Is mid to high teens still reasonable for 27?

Phebe Novakovic

Chairman and CEO

0:39:35

Look, well, I think as we execute this backlog, we'll continue to push margins. We've, there are lots of puts and takes in this business, as you well know, and how all of the costs and the pricing opportunities play out over the next couple of years will drive it. But you should expect significant and consistent margin improvement over time throughout our plan period.

Myles Walton

Analyst

0:40:02

Is the combat growth in 2026 absorbing much of any headwind on the Ajax program? If you could size that. Thanks.

Phebe Novakovic

Chairman and CEO

0:40:09

Wouldn't say there's any headwind on the Ajax program. We have a pause in the fielding, but we are highly, highly confident in this vehicle. It has been tested for tens of thousands of miles, and we have great confidence in it.

Myles Walton

Analyst

0:40:26

Okay, thank you.

Operator

0:40:31

We'll take our next question from Robert Stallard at Vertical Research.

Robert Stallard

Analyst

0:40:36

Thanks so much. Good morning.

Phebe Novakovic

Chairman and CEO

0:40:38

Good morning.

Robert Stallard

Analyst

0:40:40

Phoebe, given some of the geopolitical activities over the last few weeks, I was wondering if you've seen any change in the conversation with your European customers with regards to buying U.S.-sourced equipment rather than stuff you actually make in Europe?

Phebe Novakovic

Chairman and CEO

0:40:58

We have not, but let me remind you, the biggest source of business that we have in Europe are European-based and almost fully sourced, European businesses. They're indigenous businesses that we've had for, in some cases, over 25 years, and they are manned, run, led, and sourced in Europe.

Robert Stallard

Analyst

0:41:25

Okay. And then secondly, on the Aerospace side, you know, there's been concerns over the last few months, perhaps, over this AI bubble. I was wondering if there has been any notable change in your backlog here and whether there has been any increase in AI-related orders over the last, say, six to 12 months?

Phebe Novakovic

Chairman and CEO

0:41:43

You mean at Gulfstream, AI-driven?

Robert Stallard

Analyst

0:41:45

Yes.

Phebe Novakovic

Chairman and CEO

0:41:46

From AI-driven companies. We haven't seen any of that. I'd say the demand is across the portfolio, very heavy in the Fortune 500, high net worth and Fortune 500 companies, high net worth individuals, but there's no one particular segment that jumps out or is anomalous.

Robert Stallard

Analyst

0:42:03

Okay. That's great. Thank you very much.

Operator

0:42:07

We'll go next to Ron Epstein at Bank of America.

Ronald Epstein

Analyst

0:42:14

Hey, good morning, everybody.

Phebe Novakovic

Chairman and CEO

0:42:15

Good morning, Ron.

Ronald Epstein

Analyst

0:42:17

Just a couple quick ones here for you, Phoebe. Battleships. How are you thinking about battleships? Battleships, Golden Dome. I mean, that's a lot of stuff going on. How do you think about that with your ship business?

Phebe Novakovic

Chairman and CEO

0:42:30

Bath is participating in the design with other industry partners on that battleship. It's just recently announced, so I think it'll be quite some time in playing out. But it really is at its beginning design phases, so really too soon to project anything in terms of timing.

Ronald Epstein

Analyst

0:42:52

... Is there like gonna be a down select? Have they aborted it? You know what I mean, is it, I don't know how to think about it. Is it gonna be like a typical-

Phebe Novakovic

Chairman and CEO

0:42:58

I don't believe we know the competition strategy right now.

Ronald Epstein

Analyst

0:43:02

Got it. Okay. Yeah, fair enough. And then, is this too simple of a way to think about Gulfstream? So let me just, you know, everybody's been asking biz jet questions, so sorry, apologies everyone. But in kind of really simple terms, you guys have brought to market sort of a refreshed fleet of kit,

right? So a bunch of new airplanes. That's driving demand, right? Because you got the newest stuff out there. You know, it's early days in many of these programs, so as you go down the learning curve, naturally you should get some margin expansion. So as we walked out over the next several years, naturally, should we just see margins improve because you just get better at building the new airplanes, and you're presumably, not to put words in anybody's mouth, not gonna launch anything immediately.

Ronald Epstein

Analyst

0:43:51

So you've got this stuff maturing, margins go up, and demand stays good because you've got a new product out there. That too simple a way to think about it?

Phebe Novakovic

Chairman and CEO

0:44:00

I think you have quite eloquently defined and expressed our strategy. Our new airplanes are driving demand. We continue to come down our learning curve. The supply chain is improving, has a ways to go, but it's definitely better than it was, and all of that will drive additional margin improvement measured over time.

Ronald Epstein

Analyst

0:44:24

Sure.

Phebe Novakovic

Chairman and CEO

0:44:25

But the investments we made years ago in these new products are coming to fruition, and the market is benefiting from this whole new family of clean sheet airplanes. Nobody else has anything like it. We worked hard, we earned it. This isn't something that just happened overnight.

Ronald Epstein

Analyst

0:44:45

No, sure.

Phebe Novakovic

Chairman and CEO

0:44:45

There's a lot of long, thoughtful, targeted R&D and capital investments.

Ronald Epstein

Analyst

0:44:53

Got it. Got it. And then maybe if I can just slip in one last one.

Phebe Novakovic

Chairman and CEO

0:44:57

Sure.

Ronald Epstein

Analyst

0:44:57

You've been running a company for a while, and you've been on the Hill, been all over. How do you think about some of the stuff coming out of the administration, directing defense companies on what, how to deploy capital? I mean, as a, as a leader of an organization that's, you know, deployed capital, arguably pretty prudently over the years, how do you think about that?

Phebe Novakovic

Chairman and CEO

0:45:20

Well, our strategy over the last several years is aligned with the administration's commitment and intent to increase production, and the demand signals are very strong. So we have been investing in our business, and we'll continue to do so. I think that's the best way to think about it.

Ronald Epstein

Analyst

0:45:43

Got it. All right. Thank you.

Operator

0:45:47

We'll take our next question from Jason Gursky at Citi.

Jason Gursky

Analyst

0:45:52

Hey, thanks for taking my question. Phoebe, I wanted to keep digging into the trend in munitions. You had so many positive call-outs in the prepared remarks. You know, obviously, we've seen a lot of growth in the weapon systems and ammunition subsegment within Combat Systems, and I get a lot of questions on how long that strength might last, where production rates and run rate revenue can go over multiple years, and what incremental margins on munitions revenue like, look like versus overall Combat Systems margins. So I, I know you might not want to give all that detail, but I was hoping we could just dialogue a bit about the trajectory just to get a better handle on the shape on the, of the business over the coming years.

Phebe Novakovic

Chairman and CEO

0:46:34

We'd we have a good business in munitions. We are a supplier to many of the missile companies. So we expect that the demand signals that the administration and outside the US have been issuing are manifesting in contracts. We expect that to continue. Stores and inventories are low, and those inventories need to be replaced. So we are well positioned. We'll continue to work our margins as we always do. This is a business that tends to be in the 14%-15% margin range. We expect that to continue with some variability. It's all about their operating leverage and their ability to come down their learning curves and control their costs.

Jason Gursky

Analyst

0:47:27

Okay, that's, that's very helpful. And if I could just ask one more on supply chain and Gulfstream, and I know there's been some dialogue on that already on the call, but specifically with commercial Aerospace productions, volumes, ramping, do you think there's any knock-on impact on biz jet supply chain, whether it's demand for materials, subcomponents, labor, et cetera? Anything there to think through?

Phebe Novakovic

Chairman and CEO

0:47:54

Well, labor is not a problem. Are you asking whether we see material issues in the supply chain?

Jason Gursky

Analyst

0:48:05

With Boeing ramping production dramatically, Airbus as well-

Phebe Novakovic

Chairman and CEO

0:48:09

Yeah.

Jason Gursky

Analyst

0:48:09

Is there a knock-on effect in-

Phebe Novakovic

Chairman and CEO

0:48:11

I'd say that some-

Jason Gursky

Analyst

0:48:12

-supply chain?

Phebe Novakovic

Chairman and CEO

0:48:12

Well, let me answer it this way. I'd say that some of the suppliers have ramped more successfully than others. We know the ones who still have some work to go. They're committed to making the

investments to increase their capacity. So it's really about capacity throughput. And the causes for that constrained environment in some of those suppliers is really just about the investment in capacity, training a workforce, but quality remains good, which is critical. So Audra-

Jason Gursky

Analyst

0:48:48

Yeah, thank you.

Phebe Novakovic

Chairman and CEO

0:48:48

I think we have time for one more question.

Operator

0:48:51

Thank you. That question comes from Andre Madrid at BTIG.

Andre Madrid

Analyst

0:48:57

... Thank you for taking my question. Good morning. I wanted-

Phebe Novakovic

Chairman and CEO

0:49:00

Morning.

Andre Madrid

Analyst

0:49:01

I wanted to really nail down into international a bit. Could you maybe tell us what the book-to-bill was for the quarter and for the year? And, I mean, how are you thinking about demand moving into 2026? I know we've talked about it in each of the business individual segments, but is it fair to say that international growth will probably outpace the broader business in the next year?

Phebe Novakovic

Chairman and CEO

0:49:23

Are you talking about Combat Systems primarily? Because there is none in Marine Systems, Gulfstream, so-

Andre Madrid

Analyst

0:49:29

Yeah. Yeah.

Phebe Novakovic

Chairman and CEO

0:49:30

Yeah. Okay. Yeah.

Danny Deep

President

0:49:32

Yeah. Yeah, I can answer that. Yeah, so I think, as, as Kim said, we had a book-to-bill in the fourth quarter at, specifically at European Land Systems of 4, over 4 to 1. So that was by far the biggest impact. And I think as you think about it in the context of combat, which is where the bulk of our international activity is, European Land Systems will be the fastest grower, by far. And so we expect to see really, really positive growth over the plan period, and you'll start to see the real acceleration, as Phoebe said earlier, in 2027 and beyond. Some of these are long cycle programs, but certainly at European Land Systems, we expect to grow quickly.

Andre Madrid

Analyst

0:50:15

Got it. And then if I could squeeze one more in. I know back at AUSA in October, you highlighted some of the demand that you're seeing around UGVs. We've seen them being used to, you know, extreme effect in Eastern Europe right now. What do you think the market looks like for unmanned ground? I mean, is that something that might be much more tangible in the years to come? Is there, like, kind of a, you know, a benchmark that you guys are setting to, for how that business might perform?

Phebe Novakovic

Chairman and CEO

0:50:43

We're not setting a particular benchmark, but I would say that the US Army is in a period of transition, where they move to the most advanced, technologically capable, systems, both in their unmanned systems, their Mobile Protected Firepower, communications, in GPS-denied environments. So we're seeing really a transition as the US Army modernizes its forces. And we don't have any particular benchmarks, with respect to some of the smaller areas of investment for us. But we've made those investments to support that growth, and we're quite confident that we are well-positioned to support them going forward.

Andre Madrid

Analyst

0:51:34

Thank you. Appreciate this.

Nicole Shelton

Head of Investor Relations

0:51:37

All right. Well, thank you everyone for joining our call today. Please refer to the General Dynamics website for the fourth quarter earnings release and highlights presentation. If you have additional questions, I can be reached at 703-876-3152.

Operator

0:51:53

This concludes today's conference call. Thank you for your participation. You may now disconnect.

What's trending

Dow Jones
S&P 500
DAX Index
Nvidia
Tesla
DJT

Explore more

Mortgages
Credit Cards
Sectors
Crypto Heatmap
Financial News

About

Data Disclaimer
Help
Feedback
Sitemap
Licensing
What's New

