

General Dynamics Corporation (GD) Q1 FY2026 earnings call transcript

Apr 29, 2026, 9:00 AM EDT

Earnings call

General Dynamics delivered a robust Q1 2026, with revenue up 10.3% YoY to \$13.5B, EPS rising 12% to \$4.10, and operating margin expanding to 10.5%. Management raised full-year EPS guidance to \$16.45–\$16.55, citing broad-based segment strength, record cash flow, and a 48% YoY backlog increase, while highlighting continued investment and supply chain improvements.

Nicole Shelton

VP of Investor Relations

0:00:00

Welcome to the General Dynamics first quarter 2026 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 Danny Deep, President, and Kim Kuryea, Chief Financial Officer. I will now turn the call over to Danny.

Danny Deep

EVP of Combat Systems

0:00:45

Thank you, Nicole. Good morning, everyone, and thanks for being with us. The first thing I'll note is that our Chairman and CEO, Phebe Novakovic, had a family illness that required her absence. I'll be conducting today's call along with Kim. At the very outset of these remarks, let me share with you our view that this was a very powerful quarter in all respects. Earlier today, we reported earnings of \$4.10 per diluted share on revenue of \$13.5 billion, operating earnings of \$1.42 billion, and net earnings of \$1.125 billion. These results compare quite favorably to the year-ago quarter, which in and of itself was a very good quarter.

Danny Deep

EVP of Combat Systems

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For example, revenue is up 10.3%, and importantly, operating earnings are up 12%, and net earnings are up 13.2%. As a result, earnings per diluted share are up \$0.44, 12% more than a year-ago quarter. The operating margin for the entire company was 10.5%, a 10 basis point improvement over a year-ago quarter, which coupled with the revenue growth led to very strong earnings growth. While Aerospace and Marine led the way on revenue increases, each of the other two segments enjoyed revenue increases as well. A similar pattern is true with respect to operating earnings. Each of the segments demonstrated better performance led by Marine Systems with a 26.4% increase from improved operating performance across all of our shipyards, coupled with the revenue increase.

Danny Deep

EVP of Combat Systems

0:02:19

We beat consensus by \$0.43 in the quarter on more revenue and better operating margins than expected by the sell side. In short, this performance exceeded our own expectations. We also had a terrific quarter from a cash flow perspective, together with strong order intake which led to a larger backlog, which Kim will discuss in greater detail in a moment. From our perspective, we have opened the year on a very positive note. At this point, let me ask Kim Kuryea, our CFO, to provide details on our superb cash flow, order activity, and solid backlog before I come back with segment observations.

Kim Kuryea

CFO

0:02:55

Thank you, Danny, and good morning. Let me start by addressing our outstanding cash performance during the first quarter. The first quarter was a very strong start to the year with operating cash flow of \$2.2 billion. We got out of the gate with our business units overwhelmingly exceeding their planned cash flow and driving operating working capital down. Compared to the first quarter of 2025, capital expenditures were up over 40% to \$203 million. While capital expenditures were around 1.5% of sales in the quarter, we continue to expect capital expenditures between 3.5% and 4% of sales for the full year. You should expect the profile of our investment to grow each quarter as we continue to invest, especially in our shipyards, to accelerate production and meet demand.

Kim Kuryea

CFO

0:03:45

After considering capital expenditures, our free cash flow for the quarter was just shy of \$2 billion, yielding a cash conversion rate in the quarter of 174%. We continue to expect a free cash flow conversion rate of 100% of net income for the year, but the strong cash acceleration into the first quarter results in a profile that will look a little different than what I provided in January. We now expect the first quarter to represent the largest quarter of free cash flow with positive cash flow in each of the remaining quarters supporting our continued efforts to drive cash to the left. Also in the quarter, we paid dividends of approximately \$400 million and repurchased about \$200 million of our common stock to cover dilution.

Kim Kuryea

CFO

0:04:31

After adding it all up, we ended the quarter with a cash balance of \$3.7 billion and a net debt position of \$4.4 billion, down \$1.3 billion from last quarter. Moving now to orders and backlog. Our order activity and backlog continued to be a strong story and a highlight for us in the first quarter. We received over \$26 billion of orders, achieving an overall book-to-bill ratio of 2:1, even as revenue grew by over 10% from the year-ago quarter. The robust demand across our portfolio resulted in total backlog of \$131 billion, an impressive 48% increase over last year and 11% higher than just a quarter ago.

Kim Kuryea

CFO

0:05:16

Total estimated contract value, which includes options and IDIQ contracts, ended the quarter at another record level of \$188 billion, a 33% increase from last year. Some final items in my area to address. We have \$500 million of notes coming due in both June and August 2026 for a total of \$1 billion. Our plan assumes that the \$1 billion will be refinanced, but this is something that we will continue to evaluate throughout the year. Turning to interest. Our net interest expense in the quarter was \$69 million compared to \$89 million in the respective 2025 period. The

decrease is due almost entirely to the interest we paid for commercial paper borrowings in the first quarter of 2025.

Kim Kuryea

CFO

0:06:04

Wrapping up with income taxes. Our effective tax rate in the first quarter of 2026 was 17.8%, generally consistent with our full-year guidance of 17.5%. Danny, that concludes my remarks. I'll turn it back over to you.

Danny Deep

EVP of Combat Systems

0:06:20

Thanks, Kim. I'll review the financial performance for each of the groups. First, Aerospace. Aerospace did very well in the quarter. It had revenue of \$3.3 billion and operating earnings of \$493 million with a 15% operating margin. Revenue is \$253 million more than last year's first quarter, an 8.4% increase. To give you a little perspective here, the increase was driven by two more aircraft deliveries and higher services revenue at both Gulfstream and Jet Aviation. The 38 deliveries in the quarter are exactly as planned. Operating earnings of \$493 million are up \$61 million, driven in part by the increased revenue, but most importantly, by a 70 basis point improvement in operating margin. The comparison with last year's first quarter is particularly instructive from my point of view.

Danny Deep

EVP of Combat Systems

0:07:13

The number of deliveries is similar, but up by 2 in the quarter. Neither quarter was significantly burdened by tariff costs, and neither has any unusual items of significance. As a result, the improvement quarter-over-quarter comes from a lot of measurable improvements across the entire business. From an operational perspective, we are off to a strong start to the year. As I mentioned, with 38 deliveries in the quarter, that happens to be the highest number of deliveries for any first quarter in Gulfstream history. We see durable productivity improvements on the G700 and 800 in both manufacturing and completions. Performance on the G800 has been a particular standout. This quarter, they delivered with very good gross margins. In fact, it was better than the G650s that it replaced, which delivered in the first quarter of 2025.

Danny Deep

EVP of Combat Systems

0:08:04

Quite remarkable given how recently G800s have entered into service. In fact, we will deliver only our 25th G800 this coming quarter, so very positive given how early we are in that program. Turning to market demand, we had a 1.2x book-to-bill in the quarter with 17 more airplane orders than the year-ago quarter. We were on our way to a spectacular quarter. Numerous transactions slowed at the end of the quarter as a result of the conflict in the Middle East. The book-to-bill over the trailing 12 months is 1.3x. We see very active interest across all models in the U.S., but some cautious concern for some customers in the Middle East. We are also off to a solid start in the first month of this quarter. In summary, the Aerospace team had a special quarter operationally.

Danny Deep

EVP of Combat Systems

0:08:56

Let's move on to the Defense businesses. First, Combat Systems. Combat Systems had revenue of \$2.28 billion, up almost 5% over the year-ago quarter. Earnings of \$310 million are up 6.5%. Margins at 13.6% are up 20 basis points against the year-ago quarter. The increased revenue performance was at Ordnance and Tactical Systems and European Land Systems. We also experienced good order performance at 0.9 to 1 book-to-bill, given the third and fourth quarters of 2025 book-to-bill of 2x and 4.3x, respectively. In fact, on a trailing twelve-month basis, the book-to-bill has been 2.1x. Demand for Combat Systems products is strong, driven primarily by U.S. allies. Wheeled and tracked vehicles are up, reflecting the increased threat environment.

Danny Deep

EVP of Combat Systems

0:09:51

In addition, Ordnance and Tactical Systems continue to lead this group's growth with particularly strong growth in munitions. What is encouraging for Combat is during this period of recapitalization and transition to next-generation platforms for our U.S. Land Force customers is the breadth of this portfolio with both international vehicles as well as our Munitions group that continue to provide a nice growth outlook with very solid margins. Turning to Marine Systems. Once again, our shipbuilding units are demonstrating strong revenue growth. Revenue has continued to increase to reflect increased demand and, importantly, increased throughput across all of our shipyards. This quarter's growth of 21% was driven primarily by the Columbia- and Virginia-class programs, followed by the oiler at NASSCO. Repair volume has also increased at both our East and West Coast repair yards.

Danny Deep

EVP of Combat Systems

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Of significance, earnings improved 26.4% on improved productivity in each of our shipyards. As you know, to support this growth, we have made significant investments in each of our shipyards, particularly at Electric Boat, and we will continue to invest as we go forward to support the additional demand we see. Turning to operating performance, momentum is building at each of our shipyards. At Electric Boat on the Columbia program, we have seen a 29% increase in the number of hours earned as compared to first quarter of 2025. While we still have areas in the supply chain where we need an increased cadence, we have seen a marked improvement versus first quarter a year ago. For sequence-critical material, we have seen a 52% increase in the number of items received as compared to this time period last year.

Danny Deep

EVP of Combat Systems

0:11:39

At Bath Iron Works, the DDG-51 program continues to improve in both efficiency and schedule. At NASSCO, we'll deliver the final Expeditionary Sea Base ship this summer with capacity to support additional T-AOs or other auxiliary or commercial programs. Finally, Technologies. This group also experienced growth in revenue and earnings, albeit not at the pace of the other segments. Revenue of \$3.6 billion was an increase of 4.2% over the first quarter of 2025. Both businesses contributed to the growth, Mission Systems led the way with an 11.7% increase. Operating earnings of \$339 million were up 3.4% over the year ago quarter. Operating margins decreased 10 basis points from 9.6% to 9.5%.

Danny Deep

EVP of Combat Systems

0:12:34

The group's order activity was also encouraging, with a book-to-bill of 1.3x for the quarter and 1.2x for the trailing 12 months. This segment continues to compete very well in its markets, with win and capture rates between 80% and 90%. For GDIT, we're seeing strong demand for our AI and cyber capabilities. Q1 orders exceeded our internal plans across the portfolio, with particular strength in defense. Despite elongated procurement cycles and fewer customer adjudications, GDIT ended the quarter with a 5% increase in the backlog as compared to year-end 2025, which is encouraging given their near record revenue this quarter.

Danny Deep

EVP of Combat Systems

0:13:17

Mission Systems had a strong quarter from an operational standpoint, with a 50 basis point expansion in margins as compared to a year ago, driven by a favorable product mix and their broader transition away from legacy programs to highly differentiated systems. To wrap things up, while we historically have not updated our guidance after the first quarter, given our strong start, we thought it would be prudent to revise our EPS guidance to reflect our performance thus far and its implication for the full year. As a reminder, in January, we told you to assume an EPS range of \$16.10-\$16.20. Our updated guidance for 2026 would be an EPS range of \$16.45-\$16.55.

Danny Deep

EVP of Combat Systems

0:14:09

Looking at the year from a quarterly perspective, the first and fourth quarters would represent the high points, favoring the fourth quarter, given its typical increased volume, with the second and third quarters trailing a bit on expected mix. As is our long-standing practice, we will refresh our internal forecast in detail during the second quarter and elaborate more on the specifics by segment on the July call. Nicole, back to you.

Nicole Shelton

VP of Investor Relations

0:14:34

Thank you, Danny. 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

0:14:45

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 will take our first question from Robert Stallard at Vertical Research.

Robert Stallard

Analyst

0:15:06

Thanks so much. Good morning.

Danny Deep

EVP of Combat Systems

0:15:08

Morning.

Robert Stallard

Analyst

0:15:09

Danny, I was wondering if you could comment on the supply chain situation. You seem to have touched on it a little bit in Marine Systems, but I was wondering how you're getting on across the broader group, whether there are any tight points that you're trying to address.

Danny Deep

EVP of Combat Systems

0:15:24

Yeah, I would say broadly speaking, as it relates to the supply chain for the whole Marine group, we have seen an increased cadence, on-time deliveries are up. I think we're not seeing the same number of quality issues that we saw in the previous year. I think we still see some areas in the supply chain where we need to get the cadence up, and those problems tend to be where we have complex components or complex systems where there are just single sources of supply. Broadly speaking, we are seeing improvements.

Robert Stallard

Analyst

0:15:58

Okay, a quick follow-up. It looks like the Ajax program is back in testing again in the U.K. Maybe for Kim, I was wondering if there had been any accounting or financial implications of the stoppage from there, the restart.

Kim Kuryea

CFO

0:16:12

No, there have not. Everything is business as usual from an Ajax perspective.

Robert Stallard

Analyst

0:16:19

Okay, that's great. Thanks so much.

Operator

0:16:23

We'll move next to Kristine Liwag at Morgan Stanley.

Kristine Liwag

Analyst

0:16:28

Hey, good morning, everyone. You know, when we look at the fiscal 2027 budget request from the White House, there's a fairly large step up in shipbuilding dollars. You know, you guys have talked about, you know, the tightness in labor historically and the supply chain issues in Marine Systems. I was wondering, as you look at, you know, the significant step up in opportunity, are there things that General Dynamics could do to capture more of this growth sooner? It seems like there's more of an urgency to rebuild our U.S. Navy.

Danny Deep

EVP of Combat Systems

0:17:01

Yeah, like, as you can imagine, the lead times for producing these ships are pretty extensive. I think what we see in the budget is good support for the programs that are already in work and certainly, it helps the volume. We don't anticipate that any of these awards are gonna change dramatically the number of ships that we have to produce in the immediate term.

Kristine Liwag

Analyst

0:17:27

Thanks. Also when we look at that force projection by number of ships, you've got, you know, your traditional programs, but there's also, you know, some of these smaller surface vehicles and smaller unmanned undersea vehicles. I was wondering, can you talk about the opportunities for that? Is there a way for you to capture more of that smaller end market, especially if we're looking at higher volumes?

Danny Deep

EVP of Combat Systems

0:17:53

Yeah. We have been investing in the unmanned undersea platforms for a number of years with our Mission Systems group through Bluefin. We're, I think, poised well to participate in the growth in that market. As far as smaller ships on the surface combatant side, we don't really see that. We're going to focus on what we do at NASSCO with oilers and sealift and sub tenders and at Bath Iron Works with DDG-51s and the next destroyer that's out there. We don't anticipate moving into the smaller ship surface-wise.

Kristine Liwag

Analyst

0:18:35

Great. Thank you.

Operator

0:18:39

Next, we'll go to Peter Arment at Baird.

Peter Arment

Analyst

0:18:43

Yeah, thanks. Good morning, Danny, Kim. Hey, Danny, maybe if you'd give some comments on just any impacts you've seen out of the Middle East, whether it's affecting Gulfstream or whether you've had any other impacts, you know, more favorably, I guess, on the munition side of things. Maybe just some overall color of any early feedback from Middle East operations. Thanks.

Danny Deep

EVP of Combat Systems

0:19:04

Sure. Let me just maybe focus on aerospace initially, as I think we said in our comments. We were having a spectacular quarter from an order standpoint across the board here in the U.S., as well as the Middle East. As the

conflict started to take form, we saw some slowing in ordered intake in the Middle East. Certainly impacted on the order side, albeit still pretty robust. From a supply side, as you can imagine, some of what we get from that part of the world is impacted, and it's really a labor force issue. All of the airplanes that we delivered in the first quarter of 2026, we actually had those airplanes in inventory ready for completion prior to the conflict.

Danny Deep

EVP of Combat Systems

0:19:57

I mean, we're watching that, but certainly, world events could impact, supply there. From a demand side on the defense side, I mean, it's a little early. We're certainly in plenty of discussions with a number of customers where we've had long-standing relationships, but we haven't necessarily, matured those opportunities to the point where I can comment that we see increased demand. I think a lot will depend on how long this goes and, what sort of, demand we see in terms of refilling their inventories.

Peter Arment

Analyst

0:20:30

Appreciate that. Just a quick follow-up. Just you mentioned, Columbia construction is progressing. Can you just give us the latest of, like, where you are on kind of the first hull and where things are progressing otherwise? Thanks.

Danny Deep

EVP of Combat Systems

0:20:43

Sure. Really positive momentum on Columbia. All the major modules we received by the end of last year, and so we're in the process of integrating and assembling those in one of our larger yards and expect to have a real key milestone achieved by the end of this year and on a path to deliver that first boat in by the end of 2028. Excellent progress in the last six or nine months on the Columbia program and on a path to deliver.

Peter Arment

Analyst

0:21:16

Appreciate it. Thanks, Danny Deep.

Operator

0:21:20

Our next question comes from Seth Seifman at JPMorgan.

Seth Seifman

Analyst

0:21:25

Hey, thanks very much. Morning, everyone.

Danny Deep

EVP of Combat Systems

0:21:28

Morning.

Seth Seifman

Analyst

0:21:29

Wanted to ask about aerospace and, you know, I know you said you weren't refreshing guidance within the segments, but, you know, the first quarter came in nicely ahead of the expectation for the year on margin rate. The reasons for that that you mentioned seem to be fairly enduring. Are there particular things we should be watching for that would be pushing margin down going forward? Or has Gulfstream in particular, maybe aerospace more broadly kind of gotten over the hump with regard to some of these, you know, supply chain challenges and margin headwinds that you faced?

Danny Deep

EVP of Combat Systems

0:22:14

Yeah. Look, I think, as you know, we had a pretty strong quarter at aerospace and Gulfstream specifically. I think you'll see some mix movement in the second and third quarter, but certainly as planned, and then you'll see a really strong fourth quarter. From a delivery standpoint, we should expect that second quarter will be very similar to first quarter, and then the third and fourth will be our highest, and that's per plan. I think all of those things give us some optimism about where we are in aerospace in terms of margins and to use your word, certainly durable.

Seth Seifman

Analyst

0:22:52

Right. Okay. Okay. Excellent. Then maybe in Combat, if you could talk a little bit about the facility in Mesquite. I know, I think the release talked about some goodness in artillery and you mentioned OTS in your comments. You know, if we've been reading the trade press over the past couple of months, you know, there's been some customer concerns expressed about Mesquite and the ramp up there. You know, how should we be thinking about the risks and the opportunities around that facility?

Danny Deep

EVP of Combat Systems

0:23:25

Yeah. I think as you've seen, the customer put out a recent release on that. We've reached agreement with the Army customer on the path forward for that facility. We are very well aligned. We expect that we will be in production next year and producing artillery rounds for them and for the foreseeable future. We have a very good path forward with the customer and as I said, we're well aligned. Just I think about that happening and coming online next year.

Seth Seifman

Analyst

0:23:56

Excellent. Excellent. Thanks very much.

Operator

0:24:01

Next, we'll move to Ken Herbert at RBC.

Ken Herbert

Analyst

0:24:08

Yes. Hi, good morning. I just wanted to follow up on the aerospace comments. It sounds like, Danny, when you think about some of the production coming out of Israel, on some of your programs, how has that been impacted, and is that a potential risk as we think about sort of the next few quarters?

Danny Deep

EVP of Combat Systems

0:24:28

Yeah. As I mentioned, all of the airplanes that we delivered in Q1, we had received a fair bit ago and we completed them over the quarter and delivered, so we weren't impacted this quarter. I think we could see a small impact the longer this goes on. They're still producing those airplanes ready for us to complete. We could see some minor impact. As you know, that's on the Gulfstream G280.

Ken Herbert

Analyst

0:24:59

Great. Thanks. Maybe Kim, really nice cash generation in the quarter. Can you give any comments maybe around any one-time advances or other items that could have been supported some of the upside in the quarter, and how we think about specifically then the progression here into the second and third quarter as cash steps down relative to the strong first quarter?

Kim Kuryea

CFO

0:25:23

Sure. First let me start out with, and I think I mentioned in my remarks, that it was really outperformance on our own expectations across the business units. If we think of our 10 business units, I think, you know, they all exceeded expectations. So that was really great performance. When I think about customer advances specifically, you know, they sort of come with the, with the business, so it wasn't anything of terrible significance. From that standpoint, and certainly anything that we got from an advanced standpoint was planned. So I would say this was more outperformance against our expectations for the quarter, which does mean moving some of the cash from second quarter into the first quarter.

Kim Kuryea

CFO

0:26:13

As I mentioned, you know, cash will be positive, but down in the quarters to follow. Very strong for the year. We're certainly, you know, looking at the cash conversion rate for the year, in terms of is it possible that we could exceed 100%, and we'll see where we go there too.

Ken Herbert

Analyst

0:26:36

Great. Thank you.

Operator

0:26:40

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

Ron Epstein

Analyst

0:26:45

Hey. Yeah, yeah. Good morning, guys. Danny, a quick question for you. We've seen, you know, I guess, the DoD putting pressure on some contractors to make investments for, how do I say it, you know, the promise of future volume. Have you seen that? Have you guys had to make some investments up front? How are you handling that, particularly in, you know, the munitions and, you know, defense consumable area?

Danny Deep

EVP of Combat Systems

0:27:16

In particular for munitions, we have been investing. We've been investing in artillery capability, solid rocket motors, energetics, and some of the down components to support the missile primes. We have been doing that, and are continuing to do that, and we're fully committed to making sure that we're part of the solution as it relates to the munitions issue. As you know, well, we've been investing for a long time on the marine side, and we anticipate that continuing for a number of years. I don't know that I would necessarily say that we saw pressure from the administration.

Danny Deep

EVP of Combat Systems

0:27:55

I think we've been investing because we see that the demand is there, and the need is there, and the threat environment is dictating that, and that has been happening for a while with us.

Ron Epstein

Analyst

0:28:05

Gotcha. Gotcha. Maybe just shifting to Marine. You know, there's been discussion about this Trump-class battleship. When would you expect some more details on that, a possible down select or, you know, as outsiders looking in, when do you think we could learn more about it?

Danny Deep

EVP of Combat Systems

0:28:22

Yeah. Look, I think we're in the very early stages of that. We're working with the partner on doing some of the detailed design now. I know that the administration wants to move as quickly as possible on it and it's just a little early now for us to be able to define exact timelines. We're part of that process today, but it's in the early stages.

Ron Epstein

Analyst

0:28:47

Got it. Thank you very much.

Operator

0:28:51

We'll take our next question from David Strauss at Wells Fargo.

David Strauss

Analyst

0:28:58

Thanks. Morning.

Danny Deep

EVP of Combat Systems

0:29:02

Morning

David Strauss

Analyst

0:29:03

I wanted to ask about Mission Systems. Dan, I heard you said was up around 12% in the quarter. You know, I think the business has been flat to down for quite a while now. You had some programs rolling off. You know, what's driving the growth there? Maybe touch on the growth outlook from here and what that might mean for margins overall for Technologies.

Danny Deep

EVP of Combat Systems

0:29:30

Yeah. Look, I think Mission Systems has done an excellent job of transitioning from what we've termed legacy programs into very highly differentiated systems that are in demand. If you look at where they have invested and focused a lot of their attention over the last several years and as they look forward, it's in areas that are very much aligned with the administration's priorities. Think strategic deterrence, unmanned systems, proliferated space and contested space, encryption modernization, next generation command and control, and precision munitions. I think all of those things, given the alignment with some of the administration's priorities, and where Mission Systems has focused their attention, it bodes well for them in the future.

Danny Deep

EVP of Combat Systems

0:30:21

I'm not sure that margins were at 12.6% that you mentioned, but that we'll come back to you. I think they're even a little higher than that, we're continuing to be bullish about where we think they can be.

David Strauss

Analyst

0:30:33

Oh, I think you said the growth in Mission Systems was around.

Danny Deep

EVP of Combat Systems

0:30:37

Oh, the growth.

David Strauss

Analyst

0:30:37

12%. Yeah.

Danny Deep

EVP of Combat Systems

0:30:39

Yeah, yeah, the growth. Sorry. The growth was at 12%. That's right. We feel good about the growth in that part of the portfolio going forward based on all the things I just mentioned.

David Strauss

Analyst

0:30:52

Okay, great. Kim, in terms of the CapEx step up this year, your updated thoughts on your ability to kind of recover that through working capital over the near term?

Kim Kuryea

CFO

0:31:08

Yeah, I mean, it certainly, you know, as we continue to invest throughout the year, it certainly has an impact on our cash flow, and that's what we're evaluating as it impacts the quarter. We're certainly driving to, you know, get our working capital off the balance sheet to offset the increase in CapEx.

David Strauss

Analyst

0:31:29

Okay. Thank you very much.

Operator

0:31:33

We'll take our next question from Myles Walton at Wolfe Research.

Myles Walton

Analyst

0:31:38

Thanks. Good morning. Danny, you mentioned 1Q representing the highest output for jets at Gulfstream. Where does capacity currently sit for large cabin production at this point on an annual basis? I noticed in the fourth quarter of last year, you had a pretty material step up in CapEx, I imagine you're expanding capacity. Maybe you can just update us on the trajectory to get to whatever capacity you're targeting.

Danny Deep

EVP of Combat Systems

0:32:08

From a, from a demand and backlog standpoint, certainly we have enough of that to increase production on the long-range and the ultra-long range family of airplanes. I think the issue here really is the supply chain and their ability to ramp up as quickly. In terms of overall capacity, we're putting it in place because the demand is there, and it's just a matter of when the supply chain can ramp up to support that.

Myles Walton

Analyst

0:32:42

Okay. In your tariff outlook, is it still contemplating \$40 million or north thereof after the Supreme Court and Section 232 and all the other changes that have taken place?

Danny Deep

EVP of Combat Systems

0:32:53

Yeah. I think when you reference the \$41 million, you're talking about what we reported in the fourth quarter of 2025. As we mentioned in the remarks, when you make a comparison of first quarter 2025 to first quarter of 2026, neither of those two quarters had any tariffs to speak of. We only assumed a very modest amount or included a very modest amount of recovery in the first quarter, so really nothing material. Going forward, as it relates to these IEEPA tariffs, we haven't assumed anything different.

Myles Walton

Analyst

0:33:29

Okay. Very good. Thank you.

Operator

0:33:33

We'll move to Sheila Kahyaoglu at Jefferies.

Sheila Kahyaoglu

Analyst

0:33:38

Good morning, guys, thank you. Danny, really strong start across the businesses. Is it fair to say that the 2% EPS raise is primarily related to Aerospace and the 15% margins versus the 14% guide? Maybe how much of that came from 800 accretion versus maybe services, you know, one-time items with fuel?

Danny Deep

EVP of Combat Systems

0:34:02

I think the increase in guidance is for what we see today. I mean, I think as we mentioned in the remarks, we'll have more fidelity in the second quarter to share. The contribution to that increase came from more than Aerospace, also from Marine and a little bit from Technologies. The expectation for Aerospace is that we will continue to execute the way we're executing, and we'll see what that means for the second quarter.

Sheila Kahyaoglu

Analyst

0:34:43

Great. Sticking to aerospace, just to follow up, two business jet OEMs have called out supply chain issues, Honeywell more publicly. Maybe if you could just talk about, you're still growing deliveries 25% year-over-year in aerospace. Should we expect any cadence changes to deliveries for the rest of the year for biz jets?

Danny Deep

EVP of Combat Systems

0:35:04

For us specifically, I think you should expect second quarter to look a lot from a cadence and delivery standpoint, a lot like what you just saw in the first quarter. Then, third and fourth quarter will be higher, and fourth quarter will be our strongest, both from a mix and a margin standpoint. From a supply chain perspective, as I mentioned, they're keeping up for us.

Sheila Kahyaoglu

Analyst

0:35:25

Thank you.

Operator

0:35:30

Next, we'll move to John Godyn at Citi.

John Godyn

Analyst

0:35:34

Hey, guys. Thanks for taking my question. first, you know, Marine Systems alignment with the \$1.5 trillion budget, extremely clear. can you elaborate a bit more on Combat Systems and Technologies just in light of the priorities proposed in the, in the \$1.5 trillion?

Danny Deep

EVP of Combat Systems

0:35:53

Yeah. As you mentioned, I think it's very clear where the Marine programs sit in the base budget, and we're encouraged by that. As far as combat goes, I think there's good support for where we are in the munition space. As far as combat vehicles goes, they're really in a period of transition, the Army and even the Marine Corps to some extent. There's a fair bit of development activity going on. During this period, and speak specifically to next generation main battle tank with M1E3, we'll see some lower volumes on the current version of the tank. As it relates to the Stryker program, for example, those rates are down.

Danny Deep

EVP of Combat Systems

0:36:36

Although that vehicle and that platform continues to be versatile and used in a number of different applications, those rates won't replace what we had seen historically. Certainly supported from an RDT&E standpoint for the programs that we're pursuing, and that includes M1E3 and Advanced Reconnaissance Vehicle for the Marine Corps. From a technology standpoint, the areas, we see good alignment in the budget. As you can imagine, in their space, there are a lot more line items to look at. In the areas, whether it's cyber and space and some of the

areas I mentioned earlier for Mission Systems, we see good support in the budget for programs that we are heavily involved in.

John Godyn

Analyst

0:37:25

Great. Just changing gears on capital returns and appetite for buyback, obviously, that was sort of a, an interesting topic last quarter for a lot of the companies. As we sit here today, you guys are executing well, the stock is still, you know, kind of down on the year. We'll see how this all plays out. Maybe you could just kind of remind us of what the appetite and the view on buybacks may be if you continue to execute well this year and the stock is lags the market. Thank you.

Danny Deep

EVP of Combat Systems

0:38:01

Yeah. As you know, share repurchases are a highly sensitive subject in this current environment. I think in this atmosphere, it behooves us to continue to be cautious, and that's exactly what we've been. As Kim mentioned, we only acquired shares to address dilution. That's really dilution from our compensation programs, and we think that's just fair to all that are concerned. In terms of dividends, we have, we remain committed to paying our dividend. We've increased it for 29 straight years, really think it's part of our investment identity and part of our value proposition. That's sorta how we see it. We'll continue to be cautious and move as we move forward.

John Godyn

Analyst

0:38:51

Appreciate the color. Thank you.

Operator

0:38:56

Next, we'll go to Doug Harned at Bernstein.

Doug Harned

Analyst

0:38:59

Good morning. Thank you. In Marine, you had a, you know, large increase in revenues which you attributed, mainly to Virginia-class and Columbia-class. Can you separate what items led to that growth, such as the mix, pricing, throughput improvement, additional labor funding, or some specific milestones? How should we think about where that growth is coming from?

Danny Deep

EVP of Combat Systems

0:39:31

Yeah. Look, I think, I think you should think about it as a story of throughput, and I think both in terms of labor output, and so more earned hours as well as material. Both of those things. I think what drives it, I mean, obviously, there's always a mix change quarter to quarter, but what has been driving that growth is throughput. That throughput is both labor and material.

Doug Harned

Analyst

0:39:59

When you look at the throughput now, how do you see this as sort of getting on the way to the goal of, say, two deliveries per year for Virginia-class submarine, that target that's been so difficult to progress against over time?

Danny Deep

EVP of Combat Systems

0:40:17

Sorry, do you, could you repeat that? How are we doing towards the delivery of two per year? Is that the question?

Doug Harned

Analyst

0:40:23

Yes, it is progressing towards that. Yeah.

Danny Deep

EVP of Combat Systems

0:40:27

Yeah. We are progressing towards that. I won't get into the specific rates that we're currently producing at, but suffice to say that it's up significantly over last year already. The path to two Virginias and one Columbia per year, can't predict the exact timing, but we are on the way there, and certainly, that is the target. I don't think it's prudent to get into specific rates over this call.

Doug Harned

Analyst

0:40:57

Okay. All right. Thank you.

Nicole Shelton

VP of Investor Relations

0:41:01

Audra, I think we have time for one more question.

Operator

0:41:04

Thank you. That question will come from Scott Mikus at Melius Research.

Scott Mikus

Analyst

0:41:09

Danny, Kim, very nice results. Just a couple quick questions on Columbia-class Build II, Virginia-class Block VI contract. Just wondering when you're expecting that to be awarded. Also going back to Rob's question earlier on the supply chain at Marine. Is there any chance that you or the Navy could dual source the steam turbine on the

Columbia program to improve supply chain resilience?

Danny Deep

EVP of Combat Systems

0:41:35

As it relates to Block VI and Build II, we have had and have been in ongoing and detailed discussions with the Navy on that. We'll update you in more detail when we have something to report. That continues to proceed and we're in detailed discussions and we've only assumed that it'll come in due course. As it relates to, sorry, remind me your second question.

Scott Mikus

Analyst

0:42:00

Is there a possibility that you or the Navy could seek to dual source the steam turbine on the Columbia program?

Danny Deep

EVP of Combat Systems

0:42:06

Oh, yes.

Scott Mikus

Analyst

0:42:06

just to improve supply chain resilience?

Danny Deep

EVP of Combat Systems

0:42:09

Yeah. Look, I think there's been some activity with the Navy over the last several years on adding some capacity to be able to build turbine generators. So they've been the focus of that activity and I think that is, you know, as I mentioned, some of the challenges with single source suppliers, you can conclude which some of those are. That's an area that is very critical to the overall success of the submarine enterprise. The Navy has been working on that for a little while now.

Scott Mikus

Analyst

0:42:42

Okay. Got it. Thank you.

Nicole Shelton

VP of Investor Relations

0:42:45

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

Operator

0:43:01

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