



L3Harris Technologies (LHX)

Updated February 1st, 2024 by Prakash Kolli

Key Metrics

Current Price:	\$208	5 Year CAGR Estimate:	7.2%	Market Cap:	\$39.05B
Fair Value Price:	\$202	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	03/09/24
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.7%	Dividend Payment Date:	03/24/24
Dividend Yield:	2.2%	5 Year Price Target	\$270	Years Of Dividend Growth:	22
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

L3Harris Technologies (LHX) is the result of a merger between L3 Technologies and Harris Corporation completed on June 29, 2019, forming the sixth largest defense contractor. The firm acquired Aerojet Rocketdyne in 2023. The company now reports four business segments: Integrated Mission Systems (~42% of revenue), Communication Systems (~23% of revenue), Space and Airborne Systems (~35% of revenue), and Aerojet Rocketdyne. The majority of L3Harris' sales are to the US Government or to other defense contractors. The company had revenue of about \$19.4B in 2023.

L3Harris reported Q4 2023 and full year results on January 26th, 2024. For the quarter, companywide revenue rose 17% to \$5,340M from \$4,578M on strength in two segments and the Tactical Data Links (TDL) and Aerojet Rocketdyne acquisitions. Diluted non-GAAP EPS increased 2% to \$3.35 from \$3.27 on year-over-year basis on higher revenue offset by interest expense and weaker margins, especially in ISR because of impairment from a pending sale. Diluted GAAP earnings fell 62% to \$0.83 from a loss of \$3.35 in comparable periods.

Integrated Mission Systems segment revenue decreased 6% to \$1,627M from \$1,729M in the prior year due to higher revenue in Maritime and CAS offset by ISR and aircraft missionization. Revenue for Space & Airborne Systems increased 6% to \$1,800M from \$1,702M. Growth came from Space, Intel & Cyber but offset by declines in legacy platforms. The segment has high demand and a record backlog. Communications systems revenue increased 14% to \$1,363M from \$1,193M due to higher volumes in night vision and the TDL acquisition. Aerojet Rocketdyne revenue was \$597M.

For the year, revenue climbed 14% to \$19.4 billion from \$17.1 billion, and EPS fell 4% to \$12.36 from \$12.90.

The funded book-to-bill ratio is 1.18X. The company won \$5.0B in awards and total backlog grew to \$33B.

The company updated its guidance at ~\$20.7B - \$21.3B in revenue and \$12.40 - \$12.80 for EPS in 2024.

Growth on a Per-Share Basis¹

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$5.00	\$5.14	\$5.70	\$5.12	\$6.38	\$10.08	\$11.60	\$12.95	\$12.90	\$12.36	\$12.60	\$16.86
DPS	\$1.68	\$1.88	\$2.00	\$2.12	\$2.28	\$2.87	\$3.40	\$4.08	\$4.48	\$4.56	\$4.56	\$5.55
Shares²	106	124	125	120	118	216	206	193	191	190	188	179

L3Harris is positioned for both top and bottom-line growth in high margin market segments. Increased defense spending will support top line growth over time. The COVID-19 pandemic impacted revenue in the commercial aviation business but has since recovered. Geopolitical conflicts should provide some tailwinds offset by supply chain disruptions and high labor costs. The firm indicated no more M&A will occur for some time. So, bottom line growth will be driven by organic sales increases and robust share buybacks offset by interest payments, pensions costs, and inflation. We have lowered our average annual earnings per share growth to 6% out to 2029 because of execution challenges. We are now forecasting on average 4% annual increase in the dividend out to 2029 because of the modest payout ratio, the target of 35% to 40% of free cash flow, and high leverage. Also, the company seems focused on share buybacks.

¹ Note that L3Harris is the successor organization to Harris and thus tabular data before 2019 is for Harris.

² Share count is in millions.

Disclosure: This analyst is long LHX.



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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	13.3	14.2	13.9	19.7	22.2	20.3	36.2	23.4	16.7	17.0	16.5	16.0
Avg. Yld.	2.5%	2.6%	2.5%	2.1%	1.6%	1.7%	1.8%	1.9%	1.9%	2.2%	2.2%	2.1%

L3Harris' stock price is up significantly since our last report because of the stock market recovery and optimism. We set our earnings estimate to the mid-point of updated 2024 guidance. Our fair value multiple is 16X, discounting for rising costs and execution challenges. Our fair value estimate is \$202. Our 5-year price target is now \$270.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	34%	37%	35%	41%	36%	28%	29%	32%	35%	37%	36%	33%

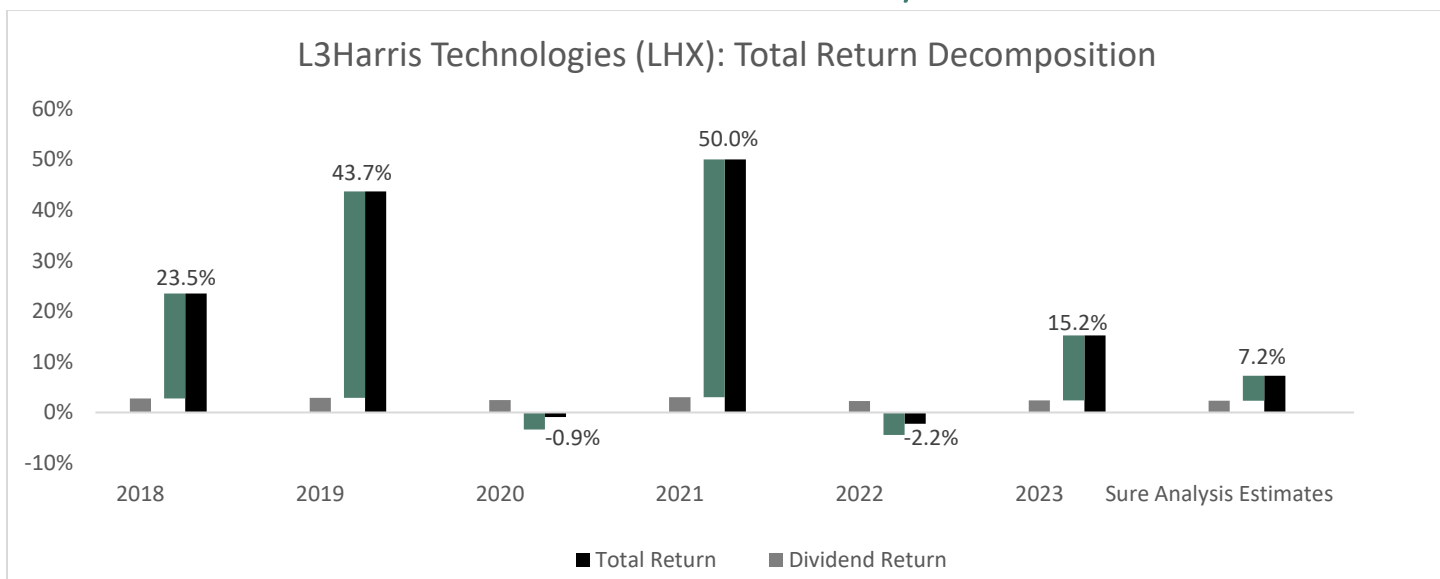
As a large defense contractor L3Harris has competitive advantages related to defense contracting, which often requires knowledge of acquisition regulations and accounting standards, particularly for large programs. The company develops and manufactures complex and bespoke systems for the DoD requiring a skilled work force with security clearances that is not easily replicated. Notably, L3Harris is the market leader in tactical communications. Furthermore, L3Harris has built long-term relationships with both the DoD and prime contractors in its areas of expertise. These attributes make it somewhat recession resistant. But the company may experience top and bottom-line declines if defense programs are cut, or the defense budget is decreased. The firm has conducted significant M&A, adding debt and uncertainty.

L3Harris took on debt to fund M&A. Short-term debt is \$1,602M, current long-term debt is \$363M, and long-term debt is \$11,160M offset by cash and equivalents of \$560M. Interest coverage is 3.9X, and the leverage ratio is about 3.8X.

Final Thoughts & Recommendation

We are forecasting 7.2% annualized total return over the next five years from a dividend yield of 2.2%, 6% EPS growth, and -0.7% P/E multiple contraction. Despite higher revenue, pension costs, M&A, higher interest payments, and execution are affecting earnings. The firm has grown by M&A but at the expense of more leverage. The company is positioned for growth, but execution and debt reduction are key. At the current share price, we rate this stock a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	3,885	5,992	5,897	6,168	6,801	9,263	18,194	17,814	17,062	19,419
Gross Profit	1,515	2,160	2,043	2,102	2,334	2,537	5,308	5,376	4,927	5,113
Gross Margin	39.0%	36.0%	34.6%	34.1%	34.3%	27.4%	29.2%	30.2%	28.9%	26.3%
SG&A Exp.	883	1,105	1,150	1,182	1,242	1,881	3,315	3,280	2,998	3,262
D&A Exp.	244	361	311	259	258	442	1,032	967	938	1,166
Operating Profit	632	1,055	893	920	1,092	656	1,993	2,096	1,929	1,851
Op. Margin	16.3%	17.6%	15.1%	14.9%	16.1%	7.1%	11.0%	11.8%	11.3%	9.5%
Net Profit	334	324	543	699	949	822	1,119	1,846	1,062	1,227
Net Margin	8.6%	5.4%	9.2%	11.3%	14.0%	8.9%	6.2%	10.4%	6.2%	6.3%
Free Cash Flow	706	772	450	615	1,024	766	2,422	2,352	1,906	1,647
Income Tax	109	273	261	206	160	73	234	440	212	23

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	13,127	12,009	10,090	9,851	10,117	38,336	36,960	34,709	33,524	41,687
Cash & Equivalents	481	487	484	288	530	824	1,276	941	880	560
Acc. Receivable	837	398	368	466	457	1,216	1,344	1,045	1,251	1,230
Inventories	1,015	867	841	411	360	1,219	973	982	1,291	1,472
Goodwill & Int.	8,123	6,583	6,470	6,361	6,210	28,459	26,784	24,830	23,284	28,519
Total Liabilities	9,725	8,952	7,162	6,573	6,754	15,592	16,119	15,390	14,900	22,858
Accounts Payable	581	494	540	622	525	1,261	1,406	1,767	1,945	2,106
Long-Term Debt	5,216	4,517	4,030	3,790	3,522	6,954	6,918	7,061	7,045	13,125
Total Equity	3,397	3,056	2,928	3,278	3,363	22,587	20,724	19,320	18,523	18,829
LTD/E Ratio	1.54	1.48	1.38	1.16	1.05	0.31	0.33	0.37	0.38	0.70

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.7%	2.6%	4.9%	7.0%	9.5%	3.4%	3.0%	5.2%	3.1%	3.3%
Return on Equity	12.8%	10.0%	18.1%	22.5%	28.6%	6.3%	5.2%	9.2%	5.6%	6.6%
ROIC	5.5%	4.0%	7.5%	10.0%	13.6%	4.5%	3.9%	6.8%	4.1%	4.3%
Shares Out.	106.8	125	124.3	121.1	120.5	223.7	215.9	203.2	193.5	190.6
Revenue/Share	36.38	47.94	47.44	50.93	56.44	41.41	84.27	87.67	88.18	101.88
FCF/Share	6.61	6.18	3.62	5.08	8.50	3.42	11.22	11.57	9.85	8.64

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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