



Eaglewing Research

AI-Augmented Equity Research

EAGLEWING INVESTMENT THESIS

L3Harris Technologies Inc

LHX | Fundamental Dislocations

Report date: 2 October 2026

Evidence cutoff: 2 October 2026 at 18:45 UTC

Our investment thesis, valuation scenarios and key risks over a 12-24 month horizon. The analysis reflects the evidence available at the stated cutoff. Outcomes are uncertain and outperformance is not guaranteed.

Investment overview

L3Harris Technologies Inc operates as a Tier-1 defense technology prime contractor delivering mission-critical capabilities across Space and Mission Systems, Communications and Spectrum Dominance, and Missile Solutions. The company's common stock has undergone a 37.0% drawdown from its March 2026 peak of \$378.5 to \$238.4 on October 1, 2026. In our judgment, this sell-off represents an excessive market dislocation driven by governance anxiety following the August 17, 2026 chief executive officer departure and procurement uncertainties surrounding federal continuing resolutions. However, underlying operational fundamentals remain intact, highlighted by second-quarter 2026 revenue expansion of 8.4% to \$5,881.0M, operating income growth of 14.5% to \$654.0M, and a record contractual backlog of \$42.0B covering nearly two years of revenue.

Our investment thesis is supported by visible multi-year demand visibility as the Pentagon and international allies replenish missile, munition, and resilient tactical communication inventories. L3Harris benefits from sole-source positions in solid rocket motor manufacturing through Aerojet Rocketdyne, supported by a \$1.0B Department of War strategic co-investment. Leadership continuity is secured under Chief Executive Officer Sam Mehta, who previously led operating segments generating over 80.0% of corporate revenue, alongside an independent board that reaffirmed full-year 2026 financial guidance. The primary risks to our thesis include potential schedule delays under prolonged federal continuing resolutions, technical execution and cost overruns on fixed-price development contracts, and capital structure claims arising from the Department of War mezzanine preferred stock.

EWRS assessment

92.8 / 100



Scores reflect our evidence-based assessment, not a probability of profit. Each bar shows points earned out of that dimension's maximum. Displayed values are rounded to one decimal place; totals use the unrounded scores. Read the scores alongside the valuation assumptions, risks and limitations; a high score does not guarantee investment success.

Our investment thesis

Our investment thesis over a 12 to 24 month horizon is centered on the disconnect between L3Harris's compressed equity valuation and its durable position as a national security prime contractor. Trading at approximately 19.0x annualized second-quarter 2026 diluted earnings of \$3.1 per share, the company is valued at a steep discount to historical defense prime multiples despite robust structural tailwinds. In Communications and Spectrum Dominance, proprietary software-defined tactical radios delivered an operating margin of 26.9% in the second quarter of 2026. Simultaneously, the Missile Solutions division is ramping production to meet urgent multi-domain stockpiling requirements for systems such as Guided Multiple Launch Rocket Systems, Standard Missile-6, and Long Range Anti-Ship Missiles.

We project maintainable earning power of \$9.5 to \$12.0 per share (with a midpoint of \$10.8) and maintainable free cash flow per share of \$11.5 to \$13.8 (midpoint of \$12.5). Revenue visibility is underpinned by a \$42.0B contractual backlog, of which approximately 40.0% converts over the next 12 months and 65.0% over 24 months. While the executive transition on August 17, 2026 created near-term market hesitation, an independent board inquiry confirmed that former leadership conduct had zero impact on financial statements, internal controls, customer relationships, or operations. Under Chief Executive Officer Sam Mehta and Independent Chairman Lewis Hay III, we believe execution across core programs will drive progressive multiple re-rating.

What market expectations may be missing

The 37.0% decline in L3Harris's share price from \$378.5 to \$238.4 indicates that market participants are pricing in permanent operational impairment and governance disruption. In our view, consensus expectations fail to differentiate between personal conduct violations at the executive level and the operational reality of the business. The board-directed departure of Christopher Kubasik on August 17, 2026 caused abrupt institutional de-risking, yet the board confirmed that the underlying matter was completely unrelated to financial reporting, internal controls, or customer contracts. Furthermore, incoming Chief Executive Officer Sam Mehta previously directed the Space and Mission Systems and Communications and Spectrum Dominance divisions, ensuring operational familiarity across programs generating more than 80.0% of total revenue.

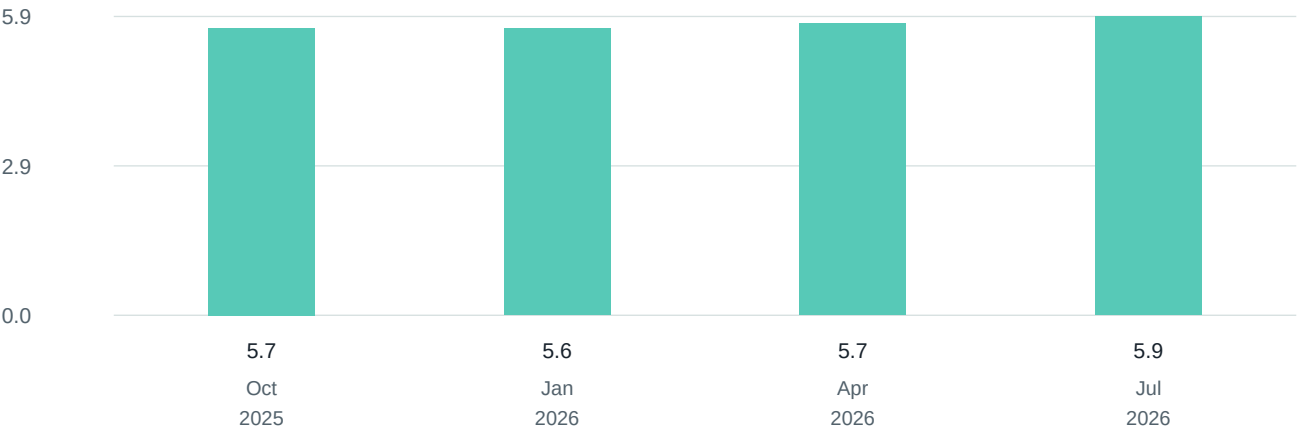
Market sentiment has also been weighed down by fears surrounding federal continuing resolutions beginning October 1, 2026, as well as balance sheet complexity from the \$1.0B Department of War investment in Aerojet Rocketdyne. However, reverse valuation analysis shows that at \$238.4, the market implies roughly 0.0% real growth and operating margins stagnating below 9.5%. We view these implied expectations as overly pessimistic. Defense budget authorization marks for Government Fiscal Year 2027 support \$1.1T for the Department of War base budget, while the Department of War co-investment validates Aerojet's critical national security role rather than signaling commercial distress. Continuing resolutions historically delay award obligations without destroying underlying program demand.

Business quality and financial condition

L3Harris operates through three streamlined business segments. Space and Mission Systems generated second-quarter 2026 revenue of \$2,966.0M (up 7.1% year-over-year) and operating income of \$290.0M with a 9.8% margin, holding a backlog of \$22,431.0M. Communications and Spectrum Dominance generated revenue of \$1,943.0M (up 4.4% year-over-year) and operating income of \$522.0M with a 26.9% operating margin, backed by a \$9,031.0M backlog. Missile Solutions delivered revenue of \$1,054.0M (up 13.9% year-over-year) and operating income of \$130.0M with a 12.3% operating margin, backed by a \$10,531.0M backlog. Consolidated second-quarter gross profit reached \$1,502.0M on revenue of \$5,881.0M, reflecting an overall gross margin of 25.5%.

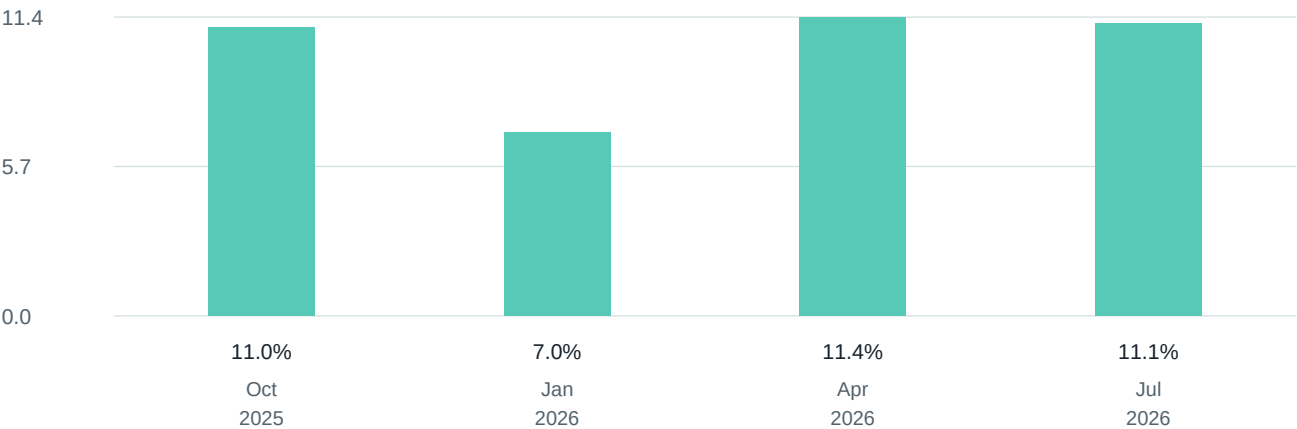
The company's balance sheet and liquidity profile provide substantial financial flexibility. As of July 3, 2026, cash and cash equivalents stood at \$1,521.0M, supported by an entirely undrawn \$2.5B five-year revolving credit facility expiring in February 2030 and zero commercial paper borrowings, yielding \$4,021.0M in immediate available liquidity. Total long-term debt was \$10,999.0M, including a current portion of \$1,815.0M that primarily consists of \$550.0M in 3.85% notes maturing in December 2026 and \$1,250.0M in 5.40% notes maturing in January 2027. Immediate liquidity covers these 24-month maturities by 2.2x. Operating cash flow totaled \$784.0M for the first half of 2026 (\$3,106.0M in full-year 2025), and net contract assets improved to \$655.0M as customer advances reached \$2,936.0M. Mezzanine equity includes \$968.0M of redeemable preferred stock carrying value, which accretes toward a \$1,422.0M redemption value by 2031 if no qualified initial public offering occurs.

Revenue | Quarterly | USD billions



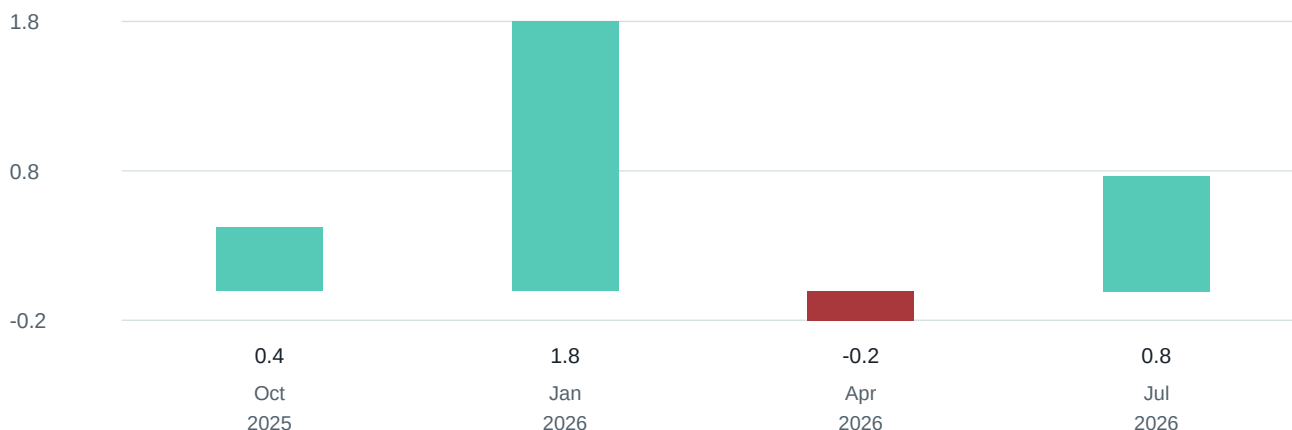
Showing 4 available quarterly periods, up to the latest 15. Period ends are shown below each value. Normalized reported values, not forecasts. Latest retained filing at the evidence cutoff; unavailable or conflicting values remain gaps.

Operating margin | Quarterly | %



Showing 4 available quarterly periods, up to the latest 15. Period ends are shown below each value. Operating income / revenue. Zero or unavailable revenue has no margin. Latest retained filing at the evidence cutoff; gaps are not zero.

Free cash flow | Quarterly | USD billions



Showing 4 available quarterly periods, up to the latest 15. Period ends are shown below each value. Normalized reported values, not forecasts. Latest retained filing at the evidence cutoff; unavailable or conflicting values remain gaps.

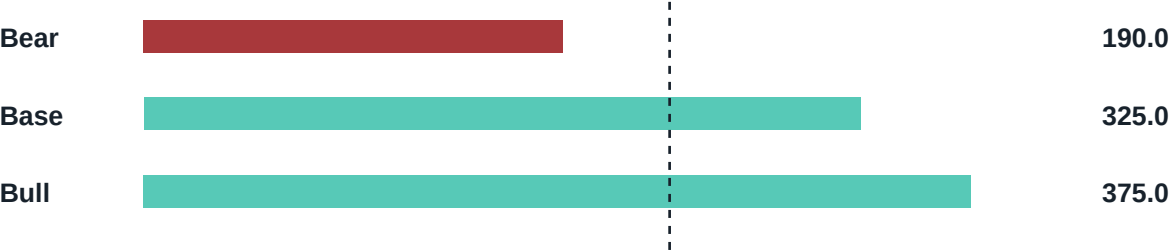
Valuation: bear, base and bull cases

Our valuation analysis evaluates three discrete scenarios across a 24-month horizon ending October 1, 2028, starting from the reference closing price of \$238.4 on October 1, 2026. In our enterprise-to-equity bridge, we account for \$10,999.0M in total debt, \$1,521.0M in cash, \$316.0M in derivative and warrant liabilities, and Department of War mezzanine preferred equity at either its \$968.0M carrying value in the base case or its \$1,422.0M contractual redemption value in our stress case. In our bear case, lingering continuing resolution freezes, \$100.0M+ in cumulative development contract cost growth, and rocket motor expansion cost pressures hold revenue at \$22.5B and compress operating margin to 9.5%, generating \$9.5 per share in earnings. Applying a derated 20.0x price-to-earnings multiple yields a target price of \$190.0 (-20.3% return).

In our base case, steady program execution under Chief Executive Officer Sam Mehta, enactment of the \$1.1T Department of War base budget, and planned backlog conversion drive revenue to \$25.6B with a 12.5% operating margin (\$3,200.0M in operating profit). Earnings per share expand to \$12.2, and multiple normalization to 22.1x enterprise value to operating profit (26.7x price-to-earnings) produces a target price of \$325.0 (+36.3% cumulative return, or 16.8% annualized). In our bull case, accelerated munitions demand and double-digit international growth expand revenue to \$27.0B with a 13.0% margin, delivering \$13.5 per share and a target price of \$375.0 (+57.3% return, or 25.4% annualized). Applying scenario weights of 20.0% bear, 60.0% base, and 20.0% bull results in a probability-weighted target of \$308.0, representing a 13.7% annualized return and an upside-to-downside asymmetry ratio of 1.8x.

Scenario price comparison

USD per share. Reference price 238.4 on 1 October 2026. Scenario horizon: 1 October 2028. Estimates, not guaranteed outcomes.



Dashed line: dated reference price. Scenarios are model assumptions, not historical observations.

Bear: Continuing Resolution award delays persist; \$100M+ technical EAC charges; Aerojet rocket motor expansion encounters cost overruns; DoW preferred accretes toward \$1,422M contractual redemption; revenue stagnates at \$22.5B, operating margin slips to 9.5%, and EPS declines to \$9.50; multiple contracts to 20.0x P/E.

Base: Seamless execution under CEO Sam Mehta; Congress passes FY2027 defense appropriations bill (\$1.1T DoW base budget); \$42.0B backlog converts smoothly (65% over 24 months); revenue reaches \$25.6B with 12.5% operating margin (\$3,200M EBIT); EPS expands to \$12.17; valuation normalizes to 22.1x EV/EBIT (26.7x P/E), yielding 16.8% annualized return.

Bull: Accelerated global munitions replenishment and NATO5% GDP defense spending commitments; Aerojet solid rocket motor production doubles ahead of schedule; successful AXYV QIPO by late 2027 eliminating preferred redemption liability; revenue reaches \$27.0B with 13.0% operating margin; EPS reaches \$13.50; stock re-tests March 2026 peak of \$378.48.

The case for potential S&P 500 outperformance

We believe L3Harris presents a compelling opportunity for potential outperformance relative to the S&P 500 price index over the next 12 to 24 months. Our base case projects a 16.8% annualized return and our probability-weighted model indicates a 13.7% annualized return, both offering attractive risk-adjusted profiles compared to broader equity market price returns. This thesis does not depend on speculative multiple inflation but rather on multiple normalization from cyclical lows as governance uncertainty subsides and operational milestones are delivered.

Company-specific drivers of outperformance include the conversion of the \$42.0B contractual backlog into billable revenue, margin expansion in high-volume tactical radio production, and the scaling of solid rocket motor facilities co-funded by the Department of War. Unlike cyclical commercial businesses, L3Harris operates with multi-year program visibility anchored by statutory defense authorizations. As congressional appropriations resolve the temporary continuing resolution and production capacity expands, we expect cash generation and earnings growth to decouple favorably from general macroeconomic trends.

Catalysts over the next 12-24 months

Over the next 12 to 24 months, several concrete events could catalyze operational recovery and valuation multiple normalization. The initial catalyst is the reporting of third-quarter 2026 financial results in late October 2026, where we look for management under Chief Executive Officer Sam Mehta to validate program stability and reaffirm full-year 2026 revenue, margin, and cash flow targets. A second near-term milestone is the refinancing and repayment of \$550.0M in 3.85% notes due in December 2026 and \$1,250.0M in 5.40% notes due in January 2027, which will demonstrate balance sheet liquidity and eliminate debt maturity overhangs.

In early 2027, the anticipated congressional enactment of the full-year Government Fiscal Year 2027 defense appropriations bill will serve as a major macro catalyst, releasing delayed procurement obligations and accelerating conversion across the \$42.0B backlog. In the second half of 2027, operational milestones include the commissioning of expanded solid rocket motor manufacturing tooling under the \$1.0B Department of War agreement and demonstrable progress toward a qualified initial public offering for subsidiary AXYV Inc on or before December 31, 2027.

No sufficiently dated event series was available for a timeline. See the catalysts and risks discussed in the report.

Risks and contrary evidence

A disciplined investment assessment requires addressing contrary evidence and the strongest bear case, which establishes our downside price target of \$190.0 (-20.3% return). First, independent evidence from the U.S. Government Accountability Office underscores proposal and program execution risk: in Decision B-422943, the Comptroller General denied L3Harris's protest of the Army's airborne intelligence aircraft award to Sierra Nevada Corporation after the Army identified four technical deficiencies in L3Harris's proposal. Furthermore, the Government Accountability Office's major defense acquisitions assessment highlighted \$49.3B in cost growth across 30 major programs, illustrating the persistent risk of developmental schedule delays and cost growth across the sector.

Second, contract execution risk is demonstrated by recent negative Estimate-at-Completion adjustments, including a \$31.0M charge on a legacy naval sensor program in the first quarter of 2026 and \$30.0M across two programs in Space and Mission Systems in the second quarter. Third, potential competitive displacement risks exist in government communications, illustrated by congressional inquiries regarding whether commercial constellations like SpaceX's Starlink could compete with Federal Aviation Administration infrastructure contracts held by L3Harris. Finally, the Department of War strategic investment carries capital structure risk: if operational milestones are missed and no qualified public offering occurs before December 31, 2027, the preferred stock accretes toward a \$1,422.0M contractual redemption amount by 2031.

What remains uncertain

Several material uncertainties cannot be fully resolved from current disclosures. First, the duration of the federal continuing resolution taking effect on October 1, 2026 remains dependent on congressional negotiations during an election cycle; while continuing resolutions preserve base operations, they restrict new program starts and can delay milestone billings into subsequent fiscal quarters.

Second, execution on the \$3.0B solid rocket motor expansion involves complex facility construction and specialized supply chain coordination for energetic materials. The ultimate realization of the qualified public offering for subsidiary AXYV Inc by December 31, 2027 depends on achieving specific operational milestones with the Department of War. Finally, the timing and net proceeds of the announced sale of an approximately 60.0% interest in the Space Propulsion and Power Systems business to AE Industrial Partners for \$845.0M remain subject to closing conditions in the second half of 2026.

What would invalidate our thesis

We establish explicit, verifiable metrics that would invalidate our thesis and prompt a rating downgrade. Operationally, our thesis would be disproven if the company's book-to-bill ratio falls below 0.95x on a trailing 12-month basis, or if total contractual backlog declines below \$40.0B by mid-2027, indicating market share losses or customer award cancellations. Similarly, cumulative net negative Estimate-at-Completion adjustments exceeding -\$75.0M across two consecutive quarters would signal systemic fixed-price contract distress.

Financially, our thesis would be falsified if consolidated operating margin declines below 9.5% on a maintainable basis, or if annual free cash flow drops below \$1,800.0M, jeopardizing planned debt reduction and dividend growth. Structurally, any formal notice of material schedule breach, cost default, or cancellation of the Department of War investment agreement eliminating the qualified public offering path for subsidiary AXYV Inc before December 31, 2027 would invalidate our capital structure assumptions.

Methodology note

We use our proprietary Eaglewing Research System (EWRS) to assess evidence, valuation, risks and contrary views. We develop and cross-check our investment thesis and research report, weighing the supporting evidence against risks, alternative explanations and valuation assumptions.

Important disclaimer

Research and informational purposes only, not investment advice. Valuation scenarios are assumptions, not promises. Outperformance is not guaranteed; an investment may lose value. The S&P 500 comparison uses price returns and excludes dividends, fees and taxes.

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