

General Dynamics: Backlog Is Not Delivery

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On July 29, General Dynamics reported second-quarter revenue of \$14.1 billion, up 8.1% year over year, and diluted earnings per share of \$4.24, up 13.4%. Operating margin expanded 40 basis points to 10.4%. The company also reported a record \$136.5 billion backlog and a 1.4-to-1 company-wide book-to-bill ratio.

For an outside investor, the headline suggests an unusually visible revenue pipeline. But General Dynamics is not one business, and backlog is not a guarantee of when work will be funded, produced, accepted or earned at a particular margin. A large portion of its backlog sits in Marine Systems, where the company is investing in production capacity even as the U.S. Navy's shipbuilding industrial base faces schedule and workforce constraints. Meanwhile, the other segments have different demand and operating patterns.

The investor's task is to assess what the backlog says about future execution and earnings power-and what it does not say-without treating one quarter as proof of a longer-term trend.

A portfolio moving at different speeds

General Dynamics has four segments: Aerospace, Marine Systems, Combat Systems and Technologies. The defense segments-Marine, Combat and Technologies-serve the U.S. government, including the Navy, Army and intelligence agencies, as well as international government customers. Aerospace is centered on Gulfstream business jets and aircraft services, serving corporate and individual customers.

Q2 results were strongest in Aerospace and Marine Systems. Aerospace revenue grew 15.1%, operating earnings grew 26.6%, and margin rose to 14.5%. The company delivered 41 Gulfstream aircraft, compared with 38 a year earlier. Marine revenue grew 10.4%, operating earnings grew 17.5%, and margin rose to 7.3%. General Dynamics attributed Marine growth in part to increased material and labor volume on Columbia-class submarine construction and higher throughput on John Lewis-class oilers, alongside improved performance at its shipyards.

Combat Systems revenue was nearly flat at 0.3% growth, and operating earnings declined 1.9%. Artillery and international vehicle revenue increased, while U.S. military-vehicle revenue fell because of lower Army demand and the termination of the M10 Booker program. Management attributed the margin decline to program mix. Technologies revenue grew 4.1%, but margin eased to 9.4%; management cited higher volume across several C5ISR programs and a less favorable program mix.

Q2 2026	Revenue	Year-over-year growth	Operating margin	Margin change
Aerospace	\$3.525bn	15.1%	14.5%	+1.3 percentage points
Marine Systems	\$4.660bn	10.4%	7.3%	+0.4 percentage points
Combat Systems	\$2.290bn	0.3%	13.9%	−0.3 percentage points
Technologies	\$3.619bn	4.1%	9.4%	−0.2 percentage points
General Dynamics	\$14.094bn	8.1%	10.4%	+0.4 percentage points

Source: General Dynamics, Q2 2026 Form 10-Q, MD&A pp. 29-33; Q2 release exhibit C. Management's explanations of segment changes are attributed company statements.

What sits inside \$136.5 billion?

General Dynamics reported \$136.5 billion in remaining performance obligations, which it calls total backlog. It expects approximately 50% of those obligations to be recognized as revenue by the end of 2027, another 30% by the end of 2029, and the remainder thereafter. This is the company's estimate of timing, not a contractual guarantee of annual revenue or earnings.

The company distinguishes funded from unfunded backlog. Its defense-segment definition says funded amounts have been authorized and appropriated by Congress and funded by customers, including comparable approved and funded international commitments. Unfunded backlog is work that General Dynamics believes is likely to be funded; future budgets and appropriations may differ. Separately, the company estimates \$50.4 billion of potential contract value, mostly from unexercised options and expected funding on certain indefinite-delivery/indefinite-quantity contracts. It recognizes options as backlog when customers exercise them and establish firm orders. The \$186.9 billion "total estimated contract value" adds that potential value to firm backlog, but the two categories have different levels of commitment.

At July 5, 2026	Funded backlog	Unfunded backlog	Total backlog	Estimated potential contract value
Aerospace	\$22.992bn	\$0.985bn	\$23.977bn	\$1.170bn
Marine Systems	\$42.356bn	\$22.826bn	\$65.182bn	\$7.442bn
Combat Systems	\$27.507bn	\$1.843bn	\$29.350bn	\$10.847bn
Technologies	\$11.256bn	\$6.733bn	\$17.989bn	\$30.945bn
Total	\$104.111bn	\$32.387bn	\$136.498bn	\$50.404bn

Source: General Dynamics Q2 2026 earnings supplement, backlog exhibit H; Q2 Form 10-Q p. 35. Estimated potential contract value includes unexercised options and certain IDIQ work; it is not firm backlog.

The quarter's book-to-bill ratio was 1.4 for the company, 1.4 for the defense segments and 1.5 for Aerospace. Orders were \$14.7 billion in defense and \$5.3 billion in Aerospace. For the first six months, defense book-to-bill was 1.8 while Aerospace was 1.3. Management attributed the backlog increase primarily to Virginia-class submarine awards in Marine Systems and armored combat-support vehicle awards in Combat Systems.

Capacity and contract execution

General Dynamics describes Marine Systems as the lead designer and builder of nuclear-powered submarines for the U.S. Navy. Electric Boat is the prime contractor and lead shipyard on Navy nuclear-powered submarine programs. The company says demand for submarines is significant and that it has invested in facilities and workforce, while working with the Navy to stabilize and grow suppliers. It also reports that increased demand places pressure on the shipbuilding industrial base and hiring of skilled workers.

The government's view adds a caution to the company's strong Marine quarter. In April 2026, the Government Accountability Office (GAO) reported that the Navy expected the lead Columbia-class submarine to be at least 18 months behind its contract delivery date. Virginia-class construction was progressing at one per year as of June 2025, half of the Navy's two-per-year goal; two boats accepted in 2025 were each more than three years late. GAO also described workforce, facility, supplier and oversight challenges across the submarine industrial base. These are Navy program-level findings; they do not assign all delay or cost responsibility to General Dynamics. They coexist with General Dynamics' reported Q2 Marine revenue and margin growth.

Contract estimates add another layer. The company says long-term contract profitability depends on estimates of remaining revenue and costs, including labor productivity and availability, work complexity, material costs, subcontractor performance and customer funding. When those estimates change, the company applies cumulative catch-up accounting, which can affect reported earnings in the period of revision.

Research that frames the problem

Two peer-reviewed studies suggest why award value and nominal competition may not reveal execution quality. Neither estimates General Dynamics' returns.

Carril, Gonzalez-Lira, and Walker studied U.S. Department of Defense procurement contracts around a \$25,000 rule that required wider public solicitation. The contracts in their analysis were small purchases, generally between \$10,000 and \$40,000. Wider publicity increased bidder participation and lowered award prices, while some specifications also showed more cost overruns and delays; results varied with product complexity and contractor selection. The study provides a framework for thinking about contract incompleteness and supplier execution, but its threshold, scale and purchase types are far removed from multi-year submarine programs.

Kim, Roberts, and Brown studied more than 2,000 DoD contracts from 2004-08, together with expert ratings of 29 product categories. Their analysis found that contract type varied with product specification difficulty, specialized investment and market structure. Fixed-price arrangements were more common for many products, while cost reimbursement appeared more often in some difficult-to-specify categories; mature production could help explain fixed-price contracts for some technically complex products. Their study examines contract-design correlates, not General Dynamics' contract terms or the profitability of its programs.

Investor's task

You are assessing General Dynamics after its July 29 release. The company has strong order activity and a large backlog, but the backlog spans funded work, unfunded amounts and potential options; the segments are growing at different rates; and the Navy's industrial base faces execution challenges. Public disclosures do not show program-level contribution margins, supplier recovery rates or classified capacity details.

1. What does the \$136.5 billion backlog tell you about revenue visibility? What additional risks remain between backlog and earnings?
2. How should you compare the funded, unfunded and estimated potential contract-value categories? Which category deserves the most weight in an investor's assessment, and why?
3. What do Q2 segment results reveal about the sources and quality of growth? Which divergent segment signals would you monitor?
4. How should GAO's Navy-wide delivery findings affect your interpretation of General Dynamics' Marine Systems backlog and Q2 improvement? What should not be inferred from GAO's findings?
5. How do the two studies help frame execution risk, and where do their settings differ from General Dynamics' major programs?
6. Identify the evidence you would seek in later disclosures to update your view of backlog conversion, production capacity and segment economics.

Sources available by the case date

- General Dynamics, [Q2 2026 Form 10-Q](#), filed July 29, 2026.
- General Dynamics, [Q2 2026 earnings release and supplemental data](#), July 29, 2026.
- U.S. Government Accountability Office, [GAO-26-109068, Navy and Coast Guard Shipbuilding](#), April 22, 2026.
- Carril, Gonzalez-Lira, and Walker, "[Competition under Incomplete Contracts and the Design of Procurement Policies](#)", *American Economic Review* 116(2), 2026.
- Kim, Roberts, and Brown, "[Impact of Product Characteristics and Market Conditions on Contract Type](#)", *Public Performance & Management Review* 39(4), 2016.