

L3Harris Technologies: A Missile Business at the Market Gate

Internal ID: S&F-STR-352

Topic: Growth Strategy, Operations Strategy, Pricing Strategy

Industry: Aerospace & Defense

Source: Strategy & Finance

Publication date: 5 October 2026

License: Not specified

Classroom case for MBA and executive strategy discussion. Information cutoff: October 2, 2026, 4:00 p.m. Eastern Time.

A decision that has not yet been made

In July 2026, L3Harris CEO Christopher Kubasik said the company would revisit the potential initial public offering of its missile business in mid-2027. He did not say that an offering would launch then. He said management believed market conditions did not reflect the value it was building. Less than three weeks later, Sam Mehta became CEO; L3Harris reaffirmed its \$3 billion capital buildout, but the appointment announcement gave no new view on offering timing. The board now needs a process for deciding what evidence should govern that reassessment.

The choice is more complex than “IPO or no IPO.” A public offering could bring outside price discovery, public reporting and potentially a financing path. Continuing to operate Missile Solutions inside L3Harris could preserve coordination while capacity expands and contract economics become clearer. In either path, the company must account for the Department of War (DoW) investment agreement and its conversion, warrant and redemption provisions. Those paths are contingent and cannot be treated as cumulative costs.

Classroom decision exercise: Assume CEO Sam Mehta has asked the board strategy committee to recommend how L3Harris should manage the potential qualifying public offering (QIPO) pathway through the mid-2027 reassessment. This is an author-created exercise; no such request or new CEO position was publicly disclosed by the cutoff.

Decision question: What evidence and stage gates should determine whether L3Harris advances, delays or does not pursue a public offering within the contractual framework?

Assignment: Prepare a two-page board memo choosing a course and sequencing the next 12 months. Identify the strongest counterargument, key information requests, three to five measures, and evidence that would change your recommendation. Do not calculate an offering value; disclose assumptions and distinguish them from reported facts.

The business and its legal perimeter

L3Harris reports three segments: Space & Mission Systems, Communications Systems, and Missile Solutions (MSL). MSL is an operating segment, not a separate public issuer. Aerojet Rocketdyne Holdings, Inc. (AR), a wholly owned subsidiary, operates the segment. AXYV Inc. is a newly formed wholly owned subsidiary named in the preferred-conversion terms. The company's filing describes a QIPO of AR; the DoW preferred converts into AXYV common shares. The public summary does not supply the full qualifying-offering definitions or milestone mechanics. Those distinctions matter when assessing which assets, liabilities and shares might be involved. [1, Note A, lines 377-385; Note B, lines 423-456]

The portfolio boundary could also shift. In July, the company reported a planned transaction in which AE Industrial would acquire about 60% of certain Space Propulsion and Power Systems and Space Avionics & Communications assets for \$825 million net enterprise value, with L3Harris retaining about 40%, subject to closing conditions. The filing did not confirm completion. The filing does not fully separate this planned disposal group from MSL historical results. MSL core propulsion assets are not all part of the planned sale. [1, Note P, lines 919-951]

Operating evidence: growth with unanswered questions

The cleanest recent comparison is the 13-week second quarter. MSL revenue grew 14% and segment operating income grew 12% year over year, while its reported operating margin eased to 12.3% from 12.5%. Management attributed revenue growth chiefly to higher propulsion production and development volumes and growth in Advanced Effects. Product-level margins, capacity utilization, program cash conversion and the economics of a standalone issuer were not disclosed. [1, MSL tables and MD&A, lines 1013-1058 and 1423-1431]

Exhibit 1. MSL operating snapshot

USD millions, except margin	Q2 2026	Q2 2025	H1 2026	H1 2025
Revenue	1,054	925	2,044	1,765
Segment operating income	130	116	254	212
Segment operating margin	12.3%	12.5%	12.4%	12.0%
Fiscal weeks	13	13	26	25

- [F] Source: L3Harris Q2 2026 Form 10-Q, segment reorganization and MSL results, Note A and MD&A, lines 373-385, 1013-1058, 1418-1431. Q2 periods are equal-length. H1 periods are not: 2026 has one extra week. The 2026 H1 operating income includes a \$39 million product-line asset-sale gain and a \$31 million unfavorable estimate-at-completion adjustment. Segment operating income excludes unallocated corporate costs, interest and tax; these margins are not standalone issuer margins. [1]*

MSL's reported contractual backlog was \$10.531 billion on July 3, up from \$9.661 billion on January 2. Company-wide backlog was \$42.0 billion; management expected about 40% to be recognized within 12 months and 65% within 24 months. Backlog includes funded and unfunded orders and excludes options and possible future orders. The recognition profile is company-wide, not specific to MSL, and recognized revenue is not cash flow. [1, Note O, lines 914-917; MSL MD&A, lines 1423-1427]

On the July earnings call, Kubasik said MSL was negotiating more than \$20 billion of new contracts that could potentially triple backlog. Those negotiations were not awards or booked backlog. He also described capacity expansion and improving deliveries; these remain management claims to test against results. [2, presentation, PDF pp. 3-4, lines 105-138]

Exhibit 2. MSL in L3Harris's reported revenue

For H1 2026, MSL reported revenue of \$2.044 billion, including \$23 million of intersegment revenue. Consolidated revenue was \$11.625 billion. **[C] External MSL revenue share:** $(\$2.044\text{bn} - \$0.023\text{bn}) / \$11.625\text{bn} = \$2.021\text{bn} / \$11.625\text{bn}$, or about **17.4%**. This is a revenue share, not an earnings contribution, valuation multiple or estimate of separable value. [1, Note Q, lines 1157-1166; calculation from reported values]

DoW investment and the contractual paths

The DoW completed a \$1 billion preferred investment in AR in April 2026. L3Harris reported \$973 million net proceeds, intended primarily for missile-manufacturing capacity development and construction. The security has a \$1 billion stated face value and a 7% cumulative annual dividend compounded quarterly. If the contractually defined QIPO of AR occurs, the preferred converts into AXYV common stock at a 20% discount to the offering price. L3Harris estimated DoW ownership at about 10%, depending on valuation. DoW also received warrants representing 3% of AXYV common stock on a fully diluted basis, subject to stated tranches and exercise prices. [1, Note B, lines 423-456]

The filing's July 3 accounting figures describe different things. The preferred carrying amount was \$968 million after an \$89 million deferred tax liability, \$27 million transaction costs and \$14 million of preferred deemed-dividend accretion. The filing separately disclosed a **current highest redemption value of \$1.422 billion**, reevaluated quarterly, with accretion recognized ratably through April 16, 2031. This is not the July carrying amount. A simplified full-year calculation of \$1 billion at 7% compounded quarterly yields about \$71.9 million, but that arithmetic is not the filing's redemption treatment or a cash interest expense. [1, Note B, lines 441-455 and 481-494]

If a QIPO has not occurred by December 31, 2027, redemption depends on specified milestones. The filing summarizes an alternative 110% premium to liquidation preference if milestones are not met by that date; if milestones are met, later redemption may be the greater of liquidation preference or fair market value. The public summary does not provide complete definitions or legal mechanics. The executed agreement and counsel's interpretation are necessary to map which branch applies in each scenario. Conversion, warrants and redemption are distinct contractual paths; the \$1.422 billion current highest redemption value should not be added to the conversion discount, warrant value and 7% reference as though all were parallel, certain payments. [1, Note B, lines 423-456, 481-494]

Exhibit 3. What is known and what remains contingent

Path or amount	Disclosed terms	What the board still needs to establish
QIPO / conversion	Contract describes QIPO of AR; preferred converts into AXYV shares at 20% discount; issuer estimated ~10% DoW ownership depending on valuation	Full offering definition, milestones, issuer perimeter, dilution, parent retention, governance, pricing and standalone accounts
Warrants	3% of AXYV common stock on a fully diluted basis, with pre-/post-offering tranches and exercise prices	Scenario-dependent value, exercise and interaction with ownership; not 3% of L3Harris equity
Redemption	No QIPO by Dec. 31, 2027 invokes milestone-dependent terms; alternate 110% premium if milestones are unmet; if met, later redemption can be greater of liquidation preference or fair market value	Executed agreement, milestone evidence, timing, applicable branch and counsel analysis
July 3 accounting	\$968m carrying amount; \$1.422bn current highest redemption value; \$89m DTL, \$27m costs and \$14m deemed-dividend accretion in the carrying-value bridge	Quarterly reevaluation and accounting sensitivities; do not treat accounting values as equivalent to cash proceeds or stack mutually contingent outcomes

- [F] Company-reported terms and accounting. Source: Form 10-Q, Note B, lines 423-456 and 481-494. [I] The final column lists decision information gaps, not company disclosures. [1]*

Capital, leadership and timing

The DoW investment is not the only stated capital source. In August, L3Harris reaffirmed a \$3 billion capital buildout to increase solid rocket motor production and reaffirmed 2026 consolidated guidance. The public material reviewed does not show the buildout's phasing, funding split, spend to date or sufficiency relative to the plan. [3, lines 16-24]

The July CEO said the IPO would be revisited in mid-2027 because market conditions did not reflect the value management believed it was creating. That is a reassessment date, not a committed launch date. In August, the board appointed Sam Mehta CEO after Kubasik stepped down. No post-appointment primary source reviewed disclosed Mehta's position on the QIPO. The prior CEO's rationale should not be attributed to the new CEO. [2, PDF pp. 3-4, lines 128-138; 3, lines 10-24]

Three strategic positions

The board can direct management to prepare for a possible public offering while preserving a price and readiness gate; maintain MSL within L3Harris and manage the agreement's contingent alternatives; or keep both paths open, with a defined reassessment tied to operational, legal, financial and market evidence. These are governance approaches for the exercise, not descriptions of disclosed board decisions. Each approach must address operating coordination, customer and security continuity, capital allocation, the preferred instrument and incomplete contract information.

Possible value from an offering includes a more visible market signal, greater reporting discipline, and a way to align capital with the missile business. Possible costs include offering

and standalone expenses, parent-service and governance complexity, minority-holder conflicts, customer concerns, and reduced coordination. Remaining integrated may retain engineering, facilities, program management, security and customer interfaces; the filings do not quantify these benefits or the cost of losing them. The DoW's \$973 million net investment and the parent's capital plan mean students should test, rather than assume, that an IPO is necessary to fund capacity.

The company's planned sale of certain space propulsion and avionics assets creates another boundary question. A future offering might occur after portfolio changes, but historical segment data do not provide a complete pro forma for the resulting issuer. Students must state what perimeter they assume and what information would validate it.

Student discussion and deliverable

Submit a two-page board memo and be ready to defend it in discussion:

1. Which path should management prepare for, and what must be true before the board advances it?
2. What is the strongest value argument for preserving integration? What is the strongest argument for external ownership and price discovery?
3. Which three to five indicators would you track through mid-2027? Define the population, frequency and decision trigger for each; do not invent company targets.
4. How would you treat the preferred conversion, warrants and redemption branches without double counting? Which contract and standalone-accounting disclosures are essential?
5. What evidence would reverse your recommendation?

State reported facts, calculations, assumptions, interpretations and gaps separately. Do not convert contract negotiations into backlog or treat management expectations as outcomes.

Sources

1. L3Harris Technologies, Form 10-Q, quarter ended July 3, 2026, filed July 30, 2026. [SEC filing](#). Relevant locators are identified in the exhibits and text above.
2. L3Harris, Q2 2026 earnings-call transcript, July 29, 2026. [Issuer-hosted transcript PDF](#), presentation pp. 3-4 / PDF pp. 4-5, lines 105-138.
3. L3Harris, “L3Harris Technologies Appoints Sam Mehta as Proven Aerospace and Defense Leader as Chief Executive Officer,” August 17, 2026. [Company release](#).