

Northrop Grumman: Can a faster B-21 ramp improve the economics?

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The investor's question

On October 3, 2026, an investor reviewing Northrop Grumman's latest public disclosures faces an unusual combination: a strategically important aircraft program, a production-capacity expansion, a large remaining loss accrual, and limited public visibility into the economics of future lots.

Northrop says it expects to invest approximately \$2.5 billion over multiple years to expand B-21 production capacity. The company says the expansion creates an opportunity to earn improved returns on the program's low-rate initial production (LRIP) and later not-to-exceed (NTE) phases. At the same time, the company has previously recognized about \$2.0 billion in cumulative losses on the LRIP phase and still reports a \$1.0 billion remaining loss accrual.

The Air Force separately says its agreement with Northrop applies \$4.5 billion in already authorized and appropriated FY2025 reconciliation funding and increases annual production capacity by 25%. These are distinct disclosures about different parties and uses. Public evidence does not establish a dollar-for-dollar flow of that federal funding to Northrop or a basis for offsetting it against the company's expected investment.

You are an outside investor assessing how much confidence to place in Northrop's claim that added capacity can improve B-21 returns. What evidence supports the opportunity? What remains uncertain? What future disclosures would change your assessment?

Contract economics remain partly opaque

Northrop's second-quarter 2026 Form 10-Q describes the B-21 contract as a base engineering and manufacturing development contract plus five LRIP options for a baseline 21 aircraft. The development phase is largely cost-type; the LRIP options are largely fixed-price and expected to be awarded and executed through about the end of the decade.

Northrop and the Air Force have also established NTE pricing for two additional lots. As of June 30, 2026, their final terms, prices, and quantities were still under negotiation. Northrop says their average value is above the average unit price of the five LRIP lots and that the NTE lots include an economic price adjustment clause for certain inflationary pressures. The filing does not disclose the adjustment formula, final unit prices, estimated margins, or the full cost baseline. A higher average unit price does not by itself establish a higher return.

The company's estimates have shifted between lots. During the first quarter of 2026, the capacity agreement and higher estimated production costs resulted in a \$157 million net unfavorable estimate-at-completion adjustment on the first four LRIP lots, offset by a reduction in the loss-contingency accrual on the remainder of the program. In the second quarter, Northrop reported no significant change to the previously recognized LRIP loss. As details were finalized, some costs shifted among lots, leading to favorable EAC effects on the first four lots and a higher loss-contingency accrual on the remainder.

These updates describe changes in estimates across portions of the program. They do not show that the total expected loss was reversed. The approximately \$2.0 billion cumulative losses and the \$1.0 billion remaining loss accrual are separate reported measures; do not add them as if they were independent losses.

Segment results offer context, not a program return

Northrop's Aeronautics segment reported second-quarter 2026 sales of \$3.519 billion, up 13% year over year, and an operating margin of 10.3%, unchanged from the prior-year quarter. The company attributed sales growth to multiple activities, including B-21 and other restricted programs, TACAMO, B-2, F-35, and E-2, partly offset by final F/A-18 production deliveries.

Year-to-date Aeronautics operating income rose \$529 million, or 383%. Management attributed the increase primarily to the absence of the prior-year B-21 loss provision. The year-to-date B-21 sales increase also included the sale of a company-owned test asset that had previously been planned as a test asset. These results do not isolate B-21 production volumes, cash returns, or recurring program economics.

Northrop reported total backlog of \$104.7 billion and second-quarter net awards of \$20.0 billion. Backlog includes funded and unfunded firm orders across the company's programs. The company expects 35% of total backlog to become revenue over the next 12 months and 55% over the next 24 months. The awards highlighted in the quarter included Sentinel, restricted programs, F-35, GPI, and MESA. Neither total backlog nor the segment results provide a B-21-specific measure of funded work or profit.

A broader procurement lesson, with limits

Research on defense procurement suggests that award price and contract execution can move in different directions. Carril, Gonzalez-Lira, and Walker (2026) use a regression-discontinuity design around a \$25,000 solicitation-publicity threshold. Their sample includes roughly 86,000 competitively awarded, fixed-price Department of Defense definitive contracts worth \$10,000-\$40,000 in fiscal years 2015-19, excluding research and development. Around the threshold, greater solicitation publicity increased the number of offers by about 0.4, lowered average award price by 0.06 log points, and increased cost-overrun incidence by 2 percentage points and delays by 1.5 percentage points.

The study's small, short-duration contracts differ sharply from the classified, largely sole-source B-21 program. Its estimates cannot be transferred to Northrop's capacity plan. They offer a general reminder to assess execution and cost risk alongside planned price and capacity.

Wang and San Miguel (2013) present a principal-agent analysis of defense contract design. They discuss how fixed-price contracts can reward cost control when scope and costs are well specified, but can place substantial risk on a contractor when uncertainty and information asymmetry are high. Cost-plus arrangements have their own incentive and information problems. Their paper is an analytical and policy argument, not an empirical estimate of B-21 outcomes. Northrop has disclosed that the B-21 LRIP lots are already largely fixed-price; the

public record does not disclose enough about the NTE terms to assess their full risk allocation.

What is known and what is not

The company has described a multiyear investment expectation and an opportunity to improve returns. The Air Force has described federal funding and a capacity target. Northrop's filings show past cumulative LRIP losses, a remaining accrual, and adjustments in estimated costs across lots. Public information does not provide the investment schedule, lot-level payment and cost data, supplier cost baselines, capacity utilization, or project-level cash flows needed to calculate a B-21 return.

The risk is not only financial. Supplier negotiations, cost to complete, production readiness, workforce, quality, and the timing of future appropriations or exercised options could affect the ramp. National-security restrictions limit the detail the company can disclose. The investor must distinguish an announced capacity plan from realized output and an opportunity for improved returns from realized profitability.

Assignment

Prepare a concise investor assessment as of October 3, 2026:

1. How much confidence should investors place in Northrop's claim that expanding B-21 capacity can improve program returns? State what you mean by confidence and identify the strongest evidence on both sides.
2. Separate the economics and risks of the company's capacity investment, the existing LRIP loss position, and the not-yet-final NTE lots. Explain why the \$2.5 billion Northrop investment expectation and the Air Force's \$4.5 billion funding statement cannot simply be netted.
3. Identify at least four indicators or disclosures that would raise or lower your confidence. For each, explain why it matters and what it would not prove on its own.
4. Explain how the academic evidence informs your reasoning and where it cannot be applied to B-21.

Do not calculate a B-21 return, unit margin, or internal rate of return from the company-wide figures. Do not assume future lot terms, production outcomes, or management decisions that are not in the public record.

Sources

- Northrop Grumman, Q2 2026 Form 10-Q, especially Note 1, pp. 5-6, and MD&A, pp. 23-24, 28-30, 34. [SEC filing](#)
- U.S. Air Force, “DAF increases B-21 Raider production capacity to deliver combat capability fast,” February 23, 2026. [Official article](#)
- Carril, Rodrigo, Andres Gonzalez-Lira, and Michael S. Walker (2026), “Competition under Incomplete Contracts and the Design of Procurement Policies,” *American Economic Review* 116(2): 535-581. [DOI](#)
- Wang, Chong, and Joseph G. San Miguel (2013), “Are Cost-Plus Defense Contracts (Justifiably) Out of Favor?” *Journal of Governmental & Nonprofit Accounting* 2(1): 1-15. [DOI](#)