Aerojet Rocketdyne
Q2 2022 Earnings Conference Call
August 1, 2022

Presenters
Kelly Anderson, VP, Investor Relations
Eileen P. Drake, CEO
Dan Boehle, CFO

Q&A Participants
Greg Konrad, Jefferies
Seth Seifman, J.P. Morgan
Michael Ciarmoli, Truist Securities

Operator
Hello and welcome to the Aerojet Rocketdyne Second Quarter 2022 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance, please press star-zero on your telephone keypad.

It's now my pleasure to introduce Kelly Anderson, Vice President of Investor Relations. Kelly, please go ahead.

Kelly Anderson
Thank you. Good morning and welcome to the Aerojet Rocketdyne second quarter 2022 earnings results conference call. Leading our discussion today are Eileen Drake, Chief Executive Officer and President, and Dan Boehle, Chief Financial Officer. Following their prepared remarks, we will open the line for your questions.

Before we begin the call, I'd like to remind you that our remarks this morning may contain forward-looking statements that relate to the future performance of the company, and these statements are intended to qualify for the safe harbor protection from liability established by the Private Securities Litigation Reform Act.

Any such statements are not guarantees of future performance, and factors that could influence our results are highlighted in today's press release, and others are contained in our filings with the Security and Exchange Commission. Such statements are based upon information available to the company as of the date hereof, and are subject to change for future developments. Except as required by law, the company does not undertake any obligation to update such statements.

Our remarks this morning and in today's press release also contain non-GAAP financial measures within the meaning of Regulation G promulgated by the Securities and Exchange Commission. Included in such release is a reconciliation of these non-GAAP financial measures to the comparable financial measures calculated in accordance with GAAP.

With that, I'd like to turn the conference call over to Eileen Drake, Chief Executive Officer and President of Aerojet Rocketdyne. Please go ahead, Eileen.

Eileen Drake
Thank you, Kelly. Good morning, everyone, and welcome to Aerojet Rocketdyne's second quarter 2022 earnings call. Before we kick things off, I wanted to say how pleased I am to be hosting our company's first earnings conference call as Aerojet Rocketdyne. Our new board is in place and, along with management, is refining our strategy to strengthen our company, increase value for shareholders, and provide affordable, highly reliable, and innovative products for America's national security and space programs.

Today I'll discuss our second quarter results at a high-level and then I'll touch on some of our longer-term objectives for the business, with the understanding that we'll be providing additional details in the coming quarters given the board's ongoing work. I'll then turn it over to Dan for a review of Q2 financial results and macro trends.

The fundamentals of our business remain strong. Robust orders drove book-to-bill of 1.2 and contributed to our quarter-end backlog of $6.9 billion, $2.3 billion of which we expect to convert to sales over the next 12 months. We also expanded adjusted EBITDAP margins, excluding EAC adjustments. We remain confident in our ability to hit our revenue and adjusted EBITDAP targets, excluding EAC adjustments, and meaningfully increase free cash flow in the second half of 2022.

That said, we're experiencing some near-term headwinds, including supply chain delays, contract adjustments, and some discrete issues that negatively impacted our second quarter results. Let me talk a little bit about what we're doing in the near-term to address the challenges we're facing, and then I'd like to spend some time talking about longer-term focus areas as we look to the future.

First, we're experiencing supply chain issues like the rest of the industry. Delays in the RS-25 program which impacted our first quarter results have continued. Those delays are not related to a lack of raw materials or components, but rather they're related to delays in first article qualification testing as we continue to ramp up our supply chain again after several decades without any RS-25 production. We're working closely with our suppliers, and we're confident we'll manage to these issues and see accelerated sales growth for the second half of the year.

Second, we've had disruption to our supplies of certain materials and components, and we're making necessary technical and manufacturing changes on a portion of the standard missile program in order to increase production capacity and accelerate unit delivery throughout the remainder of our contract period of performance. Dan will speak to the accounting implications of this, which significantly impacted year-to-date results. While this particular contract is creating a headwind for us, we have a diverse portfolio of development contracts and legacy production contracts that we are advancing aggressively.

Lastly, like many other companies in our industry and beyond, we're impacted by a highly competitive labor market, which is affecting our rate of hiring for skilled workers needed to support the impressive sales growth we foresee in the second half of the year. We're intently focused on attracting and retaining talent, and this is a core area of focus for us going forward.

Stepping back from the quarter, we see exciting and enduring opportunity ahead to provide affordable, highly reliable, and innovative products for America's national security and space programs. To do that, we're focused on investing in line with our nation's space and defense priorities and driving competitive improvements to create value for our shareholders. I'll walk through our progress against those objectives today.

We're humbled to play a significant role in many of the most important space and defense programs in the United States. On the defense side, one area of particular importance is our work to advance the nation's hypersonic capabilities. Aerojet Rocketdyne is an industry leader that delivers a broad range of capabilities to support hypersonic production, including scramjets, solid rocket motors, warheads, and missile defense technologies.

To provide some additional color on the role we play, compared to the history making scramjet engine that powered the United States Air Force X-51 Waverider to sustained hypersonic speed, our scramjets today take 75 percent less time to produce and the cost to manufacture them is 75 percent less. And thanks to a greater design flexibility, we manufacture those scramjets with 95 percent fewer parts.

In April, we announced that an advanced Aerojet Rocketdyne scramjet engine powered a successful flight test of the Hypersonic Air Breathing Weapon Concept, known as HAWC, in a joint effort with the Defense Advanced Research Projects Agency, or DARPA, the Air Force Research Laboratory, and Lockheed Martin. This test set a record for scramjet endurance, and we strongly believe that advancing hypersonic and missile defense technologies contributes to the next generation of defense programs and empowers our nation to reclaim leadership in hypersonic weapons.

Furthermore, in May, we announced that Lockheed Martin selected Aerojet Rocketdyne to build an advanced solid rocket motor booster for the second stage of a DARPA hypersonic weapons system known as Operational Fires, or OpFires. The project is proceeding according to schedule, and our teams are excited to help advance this important work.

Our company won a significant role in Sentinel, the Air Force's next-generation strategic deterrent system. We're also participants on the two remaining teams competing for the Missile Defense Agency's next generation Interceptor program. We're expanding our capacity at multiple sites to accommodate the growth from these programs, which includes production of the solid rocket motor and advanced post-boost propulsion systems we'll provide for the Sentinel program.

Apart from our investments in hypersonics, we're also advancing against other critical defense priorities. Recently, we've officially opened our center of excellence for undersea propulsion to support the U.S. Navy's next generation torpedoes. The facility will be used to produce the innovative undersea propulsion known as Stored Chemical Energy Propulsion System, or SCEPS, and the entire torpedo afterbody. And I'm proud to say that this is the first of its kind in the nation for industry.

Aerojet Rocketdyne propulsion is also playing a role in the U.S.'s effort to reassure our NATO allies who are close to the war zone in Ukraine. What's more, the Ukrainian government has described how their military is successfully using Stinger air defense missiles and anti-armor Javelin missiles to defeat Russian helicopters and tanks attacking their cities. We produce both the launch motor and flight motor for U.S.-made Stinger missiles and make the advanced propulsion unit for Javelin. We also manufacture the motors that power the battle proven Patriot missile.

Turning to space, a large segment of the space business unit is focused on NASA exploration, which for us includes low Earth orbit and beyond low Earth orbit. And with the Artemis program, our nation is poised to return astronauts to the moon while laying the groundwork for sending humans to Mars.

We're advancing our efforts across a number of priorities; supporting Boeing's commercial crew system to transit astronauts to the space station, supporting the Artemis mission, and supporting robotic missions like Mars 2020 that delivered the Perseverance rover to the surface of the Red Planet. As the national security space community shifts its focus to increasing the resiliency of our space assets, propulsion will become increasingly important.

With respect to launch, we're working with new and traditional customers by offering affordable, innovative propulsion solutions to meet small to heavy lift needs with new RL10 offerings, our AR1 engine, and our low-cost family of Bantam engines. Our work so far has been quite successful.

United Launch Alliance recently awarded Aerojet Rocketdyne the largest RL10 contract ever to deliver 116 RL10C-X engines for its Vulcan Centaur rocket. The new engines will support ULA as it works to fulfill its commitments under a contract they recently received from Amazon as a part of the largest commercial launch contract in history to support the launch of its Kuiper satellite constellation.

Another priority for the business unit is in-space propulsion. We're a world leader in electric propulsion systems, and our chemical propulsion is present in almost every domestic spacecraft. With space transportation constantly evolving, there is an increasing need for more in-space maneuvering capabilities. In order to meet this demand, we're maturing and advancing our medium power solar electric propulsion offerings and extending our solar electric propulsion to smaller satellites.

We're also working on high power electric thrusters for NASA's Gateway program. And beyond electric propulsion solutions, we're expanding our chemical propulsion offerings to support modular CubeSats as well as green alternatives.

In addition, we're providing advanced technologies for future NASA and DOD missions, including nuclear thermal propulsion, nuclear power, and additive manufacturing. And this is all to say that we're playing a central role in a broad range of major programs, which is both exciting for our business and personally rewarding for our team, who every day get to come in to work to expand the boundaries of space and technology.

In addition to our strong alignment with national defense and space priorities, we're working to position our company for a strong and successful future and to increase our competitive edge. This includes our investments in R&D, production, facilities, and operations.

We're also investing to advance our manufacturing processes and capabilities and modernize our facilities to increase our development contracts, which have always been a reliable and strong area of our business. And the work we're doing in all of these critical areas underpins our long-term financial success.

The board and I are committed to ensuring that we remain intentional about pursuing strategies that create significant value for our shareholders, and we're confident in our ability to hit our revenue and adjusted EBITDAP targets, excluding EAC adjustments, and meaningfully increase free cash flow in the second half of 2022. We look forward to sharing more as our work progresses.

In just a minute, Dan will go into greater detail regarding our quarterly financial results. I just want to say, before handing the call over to him, while the last few months have not been easy, we continue to execute on our goals and played a valuable role in providing innovative and reliable technology that supports our nation's defense and space exploration priorities. We are continuing to drive improvements to increase our competitive edge, and we have a strong financial position and outlook that will support our efforts to create value for shareholders.

And with that, I'll turn the call over to Dan and join you later to answer questions.

Dan Boehle

Thank you, Eileen, and thank you all for joining us for our first earnings conference call. This is an important day, and I look forward to taking you through our financial results and highlighting some of the more significant initiatives underway regarding our second quarter financial performance.

As Eileen outlined, we continue to win important new programs and finished the quarter with near record total backlog of $6.9 billion. We also remain focused on operational execution, and improved our adjusted EBITDAP margin, excluding EAC adjustments, versus a year ago.

Today I'll discuss year-over-year results for our key metrics and also actions we are taking to mitigate the industrywide challenges we are currently facing. We will not provide formal guidance on this call, but that is something we will endeavor to do in the future. With that, I'll jump right in.

Our second quarter sales of $528.5 million were down approximately 5 percent from the prior year and up approximately 3 percent from the prior quarter. On a year-to-date basis, sales of approximately $1.04 billion were comparable to prior year, with a decrease of about 1 percent. Sales for the quarter were negatively impacted by a reversal of revenue on a portion of the standard missile program as the contract moved into a loss position.

Supply chain issues on a portion of the standard missile program and on the RS-25 program also impacted revenue during the quarter. As Eileen discussed, we are working closely with our customers and suppliers and are confident we will manage through these issues and see accelerated sales growth for the second half of the year. Overall, the remainder of our portfolio programs in both defense and space are performing quite well on revenue, and we continue to expect mid single digit top line growth by year-end.

Also as Eileen discussed in her remarks, as with many other companies in our industry and even more broadly, one of the challenges we face in achieving sales for the year will be hiring skilled workers at the rate required to support the anticipated sales growth in the second half of the year. We are closely monitoring this and are working to attract and retain top talent.

Switching now to backlog, our book-to-bill ratio was 1.2 in the first six months of the year, bringing total backlog to $6.9 billion, close to a record high and equal to approximately three times our annual sales. This is an increase of $100 million from December 2021 and $200 million from a year ago.

This strong backlog position reflects the major wins that Eileen discussed, including the largest ever RL10 contract signed with ULA for Amazon's Project Kuiper satellite broadband system, as well as a number of key multiyear contracts such as GBSD, THAAD, standard missile, RS-25, and PAC-3, which were signed over the past couple of years. These large contract wins demonstrate the confidence that our customers have in our diverse portfolio of propulsion products and emphasize the continued importance of our products in the defense of our nation and our allies as well as space exploration.

Moving on to adjusted EBITDAP, our adjusted EBITDAP for the second quarter of $41.5 million was a decrease of 52 percent from the prior year and a decrease of 40 percent from the prior quarter. The year-to-date adjusted EBITDAP of $110.8 million was a 24 percent decrease from the prior year.

The current quarter and year-to-date profit results were greatly impacted by the unfavorable cumulative contract adjustment in the second quarter related to a portion of the standard missile program. Excluding EAC adjustments from sales and adjusted EBITDAP for all periods, the underlying adjusted EBITDAP margin increased year-over-year from 11.8 percent to 13.0 percent from the second quarter and 12 percent to 13.5 percent for the six month period respectively.

Supply chain issues on a portion of the standard missile program, combined with an outlook from the U.S. government and the customer that they would like to increase annual production rates, led to the conclusion that substantially increasing the annual capacity was the best course of action. The investment in increased capacity not only allows us to complete our current contract within the period of performance, but also puts the capacity in place to address anticipated quantity increases starting in 2024 to 2025.

The investment in capacity and the estimated total cost of the technical and manufacturing changes drove the contract into a loss position this quarter. And as required by contract accounting rules, this resulted in the reversal of prior profit and the recognition of the total anticipated contract loss in the current period.

In addition, the second quarter of last year, 2021, included a significant favorable adjustment from completion of the RS-68 program, which provided a comparative headwind for the current period. Including this significant accounting adjustment, we saw a 7.9 percent adjusted EBITDAP margin for the second quarter, bringing the year-to-date margin rate to 10.7 percent.

Excluding the EAC adjustments, the adjusted EBITDAP margin was 13 percent for the second quarter and 13.5 percent for the year-to-date respectively. We have a diverse portfolio of new development contracts and legacy production contracts which continue to perform very well, and we believe, with a continued focus on execution, we can achieve our long-term goal of 14 percent adjusted EBITDAP, excluding EAC adjustments.

The strength of the portfolio is evident when you analyze the profit margin without the effect of the net contract EAC adjustments. For the second quarter of 2022, the net contract EAC adjustments were unfavorable to profit by $29.5 million compared with favorable adjustments totaling $24 million in the second quarter of the prior year. And for the year-to-date period of

2022, the net contract EAC adjustments were unfavorable to profit by $32.2 million compared with favorable adjustments of $21.6 million in the six month period of the prior year.

When you remove the net contract EAC adjustments from sales and adjusted EBITDAP for all periods, the underlying adjusted EBITDAP margin increased 120 basis points in the second quarter, from 11.8 percent last year to 13 percent this year, and 150 basis points for the year-to-date period, from 12 percent last year to 13.5 percent this year respectively, as compared with the same periods in the prior year.

So, the underlying profit margin run rate is continuing to improve across our program portfolio. For the year-to-date, the primary drivers of the increase in adjusted EBITDAP, excluding EAC adjustments, were increased profitability on PAC-3, ATACMS, and the remaining portions of standard missile.

Lastly, our free cash flow for the second quarter was an outflow of $43.1 million as compared to an inflow of $81.1 million in the same period of the prior year. For the six months year-to-date, we have had outflow of $120.3 million as compared to an inflow of $7.9 million in the same period of the prior year. The current year negative free cash flow is largely impacted by working capital growth on a large multiyear fixed price contracts in the defense business unit.

The large multiyear contract wins for THAAD, standard missile, and PAC-3 drove very strong free cash flow for 2019 through 2020, as milestone-based payments generated cash advances that are subsequently being deployed. In general, multiyear contracts from the defense industry create lumpiness in cash flows because the cash advances take longer to replenish upon signing of the next multiyear contract, which can be two to three years later.

Our stated target for free cash flow is to meet or exceed 100 percent of net income each year. However, these multiyear contracts resulted in an average ratio of more than 160 percent over the past three years. That makes 2022 and 2023 more challenging as we complete those prior multiyear contracts and begin the upward cycle again with new multiyear contracts beginning in 2024.

In addition to the programmatic drivers, year-to-date free cash flow reflects higher cash taxes than the prior year given by the change in treatment for research and development expenditures, which is an item affecting everyone in the industry, and some normal fluctuations in year-over-year timing of cash receipts and cash payments.

Nevertheless, we ended the quarter with total cash and short-term investments of $572.4 million, a net cash position of $115 million, and we continue to manage the balance sheet working capital to generate predictable free cash flow results over the long-term.

In terms of broader balance sheet management, I should mention a subsequent event that is disclosed in the 10-Q. On July 15th, we announced that the company issued a notice of redemption to all holders of its outstanding 2.25 convertible notes, stating our intention to redeem all outstanding 2.25 notes in full on September 19th, 2022. We will settle conversions of these notes using all cash.

We decided to call these notes to eliminate negative interest carry and eliminate the impact of the 5.6 million share dilution in our diluted EPS calculation. This is expected to be $0.03 accretive to our diluted EPS for the year and $0.10 accretive on a full year basis going forward.

As a closing thought, we remain enormously confident in the business based on the strong demand for our innovative products and the execution of our team. Looking ahead, as Eileen discussed, we are investing in line with the nation's top defense and space priorities. We're driving improvements to enhance our competitive edge and deploying balance sheet cash to capture accretion for our shareholders, and positioning the business to create value for our shareholders.

With that, operator, please open the line for questions.

Operator
Thank you. We'll now be conducting a question and answer session. If you'd like to be placed in the question queue, please press star-one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star-two if your line is in the question queue. One moment, please, while we poll for questions.

Our first question is coming from Greg Konrad from Jefferies. Your line is now live.

Greg Konrad
Good morning. Maybe just to start, if you can square the top line commentary with the next 12 month backlog, I think you reiterated mid single-digit growth revenue for the year. But is the next 12 month backlog still a good guide or is there some slippage from the headwinds you called out?

Dan Boehle
Good morning, Greg. Good question. No, the next 12 months is a pretty good guide for where we think the year-end and where our top line growth is. So, it's consistent.

Greg Konrad
And then you mentioned positive margin performance in the quarter ex-EACs. Do the negative charges in the quarter limit the opportunity in the second half around EACs, just given they've been a pretty big contributor in the past to kind of second-half performance?

Dan Boehle
Sure, Greg. They do limit, obviously, the full year performance. But we do expect-- on average over the last three to five years, we've seen about $10 million of positive EAC adjustments per

quarter, averaging up to about $40 million per year. So, we do expect there to be some upside in the second half of the year.

Obviously, we had a pretty large charge this quarter. But going forward, I don't see that there's any reasons for expecting challenges on some of the other projects in our portfolio to perform as they have in the past. So, to your point, we do see generally backend improvements in both profit and cash, especially toward the fourth quarter.

Greg Konrad
And then just last one for me. Just in terms of general capital deployment, obviously there's been some restrictions as the proxy fight was ongoing. But now that that's behind you, you called out paying off the convertibles, but it still seems like there's quite a bit of capacity. How are you thinking about capital deployment going forward, whether M&A or share repurchases, and kind of the outlook there?

Eileen Drake
Hey, Greg. So one of the board's immediate actions, as you mentioned, was to approve the call of the outstanding 2.25 notes. And so, these notes were maturing at the end of next year, but we believe that this was the right time to act in order to remove the debt from our balance sheet and really eliminate the impact of this convertible instrument on our diluted EPS calculations.

But outside of that, working with the board, we're certainly looking at the right level of internal investment to support our program needs, as well as, potential to return capital to shareholders through a share buyback. And also, in addition to that, we're obviously reviewing the M&A landscape to determine whether opportunities exist for inorganic growth.

So, the new board and the management team will work together, evaluate all options, and together we'll set those capital allocation priorities, with the primary intention of creating maximum value for our shareholders. Matter of fact, I'm excited. In about four hours, we have our very first board meeting with the new board, and that is certainly a topic of discussion today.

Greg Konrad
Thank you.

Eileen Drake
Thanks, Greg.

Operator
Thank you. The next question is coming from Seth Seifman from J.P. Morgan. Your line is now live.

Seth Seifman
Hey, thanks very much. Good morning, everyone. Thanks for doing the call today. So, just thinking about the rest of the year, Dan, it sounds like--you talked about aiming to get back to mid single-digit growth by the end of the year. So, let's say that's 620 million bucks or something like that in the fourth quarter. Just given the labor headwinds and supply chain risks out there, how do you assess the feasibility of that? How do you assess kind of the risk around that level of sales by the time you're exiting the year?

Dan Boehle
Thanks, Seth. Good question. Certainly there are headwinds in both the supply chain as well as, hiring. So we're having the same challenge as others in our industry and broader than our industry. But on the supply chain side, we are primarily domestic based supply chain, so we don't have some of the global issues that some folks are having on a larger scale.

So, we only have about-- I think 75 percent of our overall supplies come from 25 key suppliers, so we can closely manage those supply--that supply chain. We work very closely with them. We have supply chain engineers that are on-site with our key suppliers. And so, that's how we're managing it.

For the second half the year, a large driver of those sales will be some of the catch up on RS-25, as I mentioned, in both the first and second quarter. Material delays have slowed that program on the sales side and then the volume coming through on the profit. So, that's a key focus for us.

And then on the defense side, we do have some-- the new development programs that are bringing growth in hypersonics NGI, and those are going to need hiring, right? So, we need to hire people, and we're very focused on that. So, same issues as others. And you're right. We've got have a very clear focus on those two items, but we do have a line of sight to those sales in the second half.

Seth Seifman
Great. Thanks. Is there a--sort of a target level of employees that you're looking to add by--whether it's year-end or some other point in the future?

Eileen Drake
Yep. So--and this is Eileen. Good morning.

Seth Seifman
Morning.

Eileen Drake

It's a good problem when you need more employees, and it's a positive sign, obviously, of the demand of our products. So, there's a need for about 400 employees, and I would say that's mostly on the labor side, and it's mostly in defense due to growth.

So, we have a huge effort, working with recruiting firms and also internal recruiting and partnering with the different organizations around Camden, Arkansas, Huntsville, Alabama primarily, where we're doing our hiring. So, total focus on it, and it's just an issue that's in the industry, but laser focused on it.

Seth Seifman
Great. Thanks. And then if I could maybe sneak in one on the execution, and so just thinking about standard missile from here, it's something that I think Raytheon has been fairly vocal about. Do you feel like these changes that you're making get your arms around the issues and enable you to execute on the contract? And then should we think about this as being, let's say, a zero margin, but when the next standard missile contract comes in 2024, that will be a positive contributor to earnings and cash flow?

Eileen Drake
Yeah, great question. So, first, I'd like to just point out that the cost growth that really gave rise to the negative EAC in this quarter is only a portion of the program. So, we have several different products that we supply for standard missile family of missiles, and parts of this portfolio are performing extremely well. So, when you see that cost growth, it's not on 10 percent of the business. It's--to think about it, it's rather just a subset of that.

We mentioned we had some supply chain issues and we fell behind deliveries on one of the contracts, and we also had some impact due to COVID, also combined, as Dan mentioned, with an outlook from the government and the customer that they wanted to increase this production rate. We really sat back and said in order to substantially increase the annual capacity, the best course of action was to make an investment in tooling, training, hiring, and really reengineering of the manufacturing process.

These investments, not only do they allow us to complete our current contract within the period of performance, in fact it actually allows us to shorten the period of performance by about six months. It also gives confidence to our customers that we have the capacity in place to address the quantity increase that we expect to start in 2024 and 2025.

Although EAC adjustments are never an easy decision to accept, in this case the investment in capacity really allows us to better keep our commitments to the customer, but also prepare for the growth market demand.

And I just want to maybe end that piece of the question with, we're performing very well throughout the rest of our portfolio. So, all the components of the standard missile, THAAD, ATACMS, and other tactical programs performing well, which is really evident when you look at the EBITDAP margins excluding this one-time EAC adjustment.

With the one-time impact of EAC adjustment on a portion of standard missile behind us, we really see a return to more normalized margins in the second half of the year. And obviously we're in active discussions for next and future contracts, to your point, with all of our customers on these programs, but I think putting in these changes really allow any follow-on contracts to be even stronger.

Seth Seifman
Great. Thanks. Thanks very much. And then maybe just a final one for me to follow up on Greg's question about capital deployment. We see the cash balance now, if we pro forma for the redemption of the convertibles, I think it's something like 400 and change million, and then it sounds like you intend to generate cash in the second half the year. So, if you could give us a sense of the magnitude of that cash generation expected in second half, Dan, and also what's an appropriate level of cash to have on the balance sheet going forward?

Dan Boehle
Sure thing, Seth. Over time we've kind of analyzed what we think is the minimum level of cash, and we think that we could operate with about $150 million to $200 million of cash on the balance sheet. To your point about the rest--the second half of the year, our working capital has grown quite a bit, and we're going to be working to burn that down toward the second half of the year.

This year has trailed a bit, but the pattern is similar to our historical pattern that most of our cash will come in the fourth quarter. Depending upon the contract mix, our working capital growth can fluctuate from year to year. And as I mentioned in my discussion, we had multiyear contracts that drove quite a bit of negative working capital through cash advances through '19 and '20.

Those large contracts are now burning down those advances, so 2022 and 2023 will be challenging years. I can tell you this year we're not going to meet our 100 percent of net income goal. In addition to the working capital, we also have some headwinds, as everyone else in the industry, from the R&D tax changes, which will drive probably $40 to $50 million of additional cash taxes this year unless they repeal that.

Currently we're generating probably all of our cash for the year in the fourth quarter. We're going to trail until then. And we'll be below our net income goal. We probably will get close to that next year, but then in 2024, when we do our new multiyear contracts, we'll start seeing the uptick again.

Seth Seifman
Great. Thanks very much for taking all the questions.

Eileen Drake
Thank you.

Dan Boehle
Thanks, Seth.

Operator
Thank you. As a reminder, that's star-one to be placed into question queue. Our next question today is coming from Michael Ciarmoli from Truist Securities. Your line is now live.

Michael Ciarmoli
Hey, good morning, guys. Thanks for taking the questions. Maybe, Dan, just to kind of stay on Seth's free cash flow and thinking about current levels of inflation, your ability to flow those higher costs through contracts, you mentioned you've got, I guess 400 new hires. Presumably they're coming in under higher wages. Should we expect some inflationary headwinds on the EBITDAP margins until you're able to re-up contracts and current fixed price contracts come to a conclusion?

Dan Boehle
Yeah. Sure. You hit it on the head. Obviously, where we have current fixed price contracts, our prices are locked in, so we're not seeing that in the near-term. And then on our cost type contracts, obviously, your cost plus a fee is allowed to be charged through, so no real risk there.

As we negotiated our upcoming annual buys and then our multiyear buys on the new--on the fixed price contracts, there'll be pressure from our suppliers, that their costs are going up, and so that inflationary pressure will drive our potential cost up. But we'll deal with that in the next level of negotiations, and that could put pressure on our margins going forward.

Michael Ciarmoli
--Got it--.

Dan Boehle
--Been working with our suppliers on that. So, we're not seeing it in the near-term, but it will in the next couple years.

Michael Ciarmoli
Okay. But it's--presumably the 14 percent kind of target EBITDAP margins contemplate some of these higher cost pressures.

Dan Boehle

Yeah. So, that's our long-term goal, Mike. And we haven't given guidance, right? So, as I mentioned at the beginning of my comments, as we go forward, we'll try to give you some more specific guidance.

But the 13.5 to 14 percent is our long-term range. We do expect to see uptick towards the second half of this year, as I mentioned earlier. The one contract that we had a large charge on on this quarter is one contract. We have a diverse portfolio that is performing quite well. And the 14 percent is the long-term goal, but we do see that as achievable.

Michael Ciarmoli
Got it, got it. And then just back to standard missile, obviously, the kind of challenges there, but the broader portfolio of your tactical missile systems motors, are there any supply chain constraints with some of those higher volume programs, especially maybe what we're seeing in the context of demand from Ukraine and the ability to potentially surge production there?

Eileen Drake
We don't see any major supply chain issues. We mentioned there was a bit on this one program and as well as the RS-25 really around first article inspection since starting up those programs again. But haven't seen any major supply chain issues on the defense side that would hold back any orders.

Michael Ciarmoli
Got it, got it. And then just on the backlog in the bookings, was the biggest driver to backlog grow sequentially the 116 engine orders for the Vulcan, or was there any other sort of orders you could talk to that maybe came in that contributed?

Eileen Drake
Yep. So, the bump in the quarter from the $6.4 billion at Q1 is in large part due to the ULA award that we announced in April. And that was our largest RL10 award to date, as Dan mentioned. With that award, our year to date book-to-bill is 1.2. Other large components of that backlog number are the SLS, PAC-3, standard missile, and THAAD.

Michael Ciarmoli
Got it, got it. Last one, Eileen, just as it relates to what had been the proxy battle. Should we expect everything kind of totally put to bed now? I know, obviously, Steel still owns five percent. Do you guys have any clarity as to what they expect to do with their position, or how should we think about any residual kind of impact going forward here?

Eileen Drake
Yeah. I don't have a crystal ball, but I don't see any impact. I think most of our shareholders realize the value of Aerojet Rocketdyne and the strength of this business. The fundamentals of the business are very strong. And our shareholders know that we're focused on the right areas

by investing in line with their nation's space and defense priorities and driving competitive improvement.

So, I don't know of any changes with that one shareholder. But we'll certainly let you know if something pops up.

Michael Ciarmoli
Perfect. Thanks, guys. Thanks for hosting the call.

Eileen Drake
Thank you.

Dan Boehle
Thanks a lot.

Operator
Thank you. We have reached the end of our question and answer session. I'd like to turn the floor back over for any further or closing comments.

Eileen Drake
Thank you. And before we end the call, I'd like to say how incredibly proud I am of our Aerojet Rocketdyne team that has maintained a steadfast focus on delivering our innovative products for the critical defense and space missions that our company is very proud to support.

I'd also like to thank our new Board of Directors. I look forward to working with them, and I look forward to our first board meeting this afternoon. And thanks to everyone for your time today, and I look forward to speaking with you soon. Have a great day.

Operator
Thank you. That does conclude today's teleconference webcast. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.