



# FISCAL 2017 SECOND QUARTER EARNINGS CALL PRESENTATION

---

[HARRIS.COM](http://HARRIS.COM) | [#HARRISCORP](https://twitter.com/HARRISCORP)

**HARRIS**<sup>®</sup> TECHNOLOGY TO CONNECT,  
INFORM AND PROTECT™

# Forward-looking statements



Statements in this presentation that are not historical facts are forward-looking statements that reflect management's current expectations, assumptions and estimates of future performance and economic conditions. Such statements are made in reliance on the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements in this presentation include but are not limited to: earnings, revenue, expected integration charges, intangible amortization, synergy savings, pension, free cash flow, tax rate, segment and other guidance for fiscal 2017; the expected range of net dilution per share for fiscal 2018; potential contract opportunities and awards; the potential value and timing of contract awards; the anticipated uses of proceeds from the sale of the CapRock Communications business and the anticipated sale of the government IT services business; the anticipated level of share repurchases for fiscal 2017; reporting the government IT services business as discontinued operations beginning in the third quarter of fiscal 2017; the anticipated timing of the closing of the pending sale of the government IT services business; statements regarding the focus on core franchise when technology is a key differentiator and a streamlined portfolio of higher - growth, higher - margin businesses; and other statements regarding outlook or that are not historical facts. The company cautions investors that any forward-looking statements are subject to risks and uncertainties that may cause actual results and future trends to differ materially from those matters expressed in or implied by such forward-looking statements. The company's consolidated results, future trends and forward-looking statements could be affected by many factors, risks and uncertainties, including but not limited to: the loss of the company's relationship with the U.S. Government or a change or reduction in U.S. Government funding; potential changes in U.S. Government or customer priorities and requirements (including potential deferrals of awards, terminations, reductions of expenditures, changes to respond to the priorities of Congress and the Administration, budgetary constraints, debt ceiling implications, sequestration, and cost-cutting initiatives); a security breach, through cyber attack or otherwise, or other significant disruptions of the company's IT networks and systems or those the company operates for customers; the level of returns on defined benefit plan assets and changes in interest rates; risks inherent with large long-term fixed-price contracts, particularly the ability to contain cost overruns; changes in estimates used in accounting for the company's programs; financial and government and regulatory risks relating to international sales and operations; effects of any non-compliance with laws; the continued effects of the general weakness in the global economy and U.S. Government's budget deficits and national debt and sequestration; the company's ability to continue to develop new products that achieve market acceptance; the consequences of uncertain economic conditions and future geo-political events; strategic acquisitions and divestitures and the risks and uncertainties related thereto, including the company's ability to manage and integrate acquired businesses (including achieve estimated synergy savings and realize other expected benefits), the actual amount and timing of integration and other acquisition-related charges and potential disruption to relationships with employees, suppliers and customers, including the U.S. Government, and to the company's business generally; performance of the company's subcontractors and suppliers; potential claims related to infringement of intellectual property rights or environmental remediation or other contingencies, litigation and legal matters and the ultimate outcome thereof; risks inherent in developing new and complex technologies and/or that may not be covered adequately by insurance or indemnity; changes in the company's effective tax rate; increased indebtedness and significant unfunded pension liability and potential downgrades in the company's credit ratings; unforeseen environmental matters; natural disasters or other disruptions affecting the company's operations; changes in future business or other market conditions that could cause business investments and/or recorded goodwill or other long-term assets to become impaired; the company's ability to attract and retain key employees, maintain reasonable relationships with unionized employees and manage escalating costs of providing employee health care; potential tax, indemnification and other liabilities and exposures related to Exelis' spin-off of Vectrus, Inc. and Exelis' spin-off from ITT Corporation; delays in, or failures in respect of, achieving the closing of the sale of the government IT services business; uses of proceeds from the sales of the CapRock Communications and government IT services businesses different from the company's current expectations or a level of share repurchases or net dilution per share different from the company's current expectations. Further information relating to these and other factors that may impact the company's results, future trends and forward-looking statements are disclosed in the company's filings with the SEC. The forward-looking statements contained in this presentation are made as of the date of this presentation, and the company disclaims any intention or obligation, other than imposed by law, to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

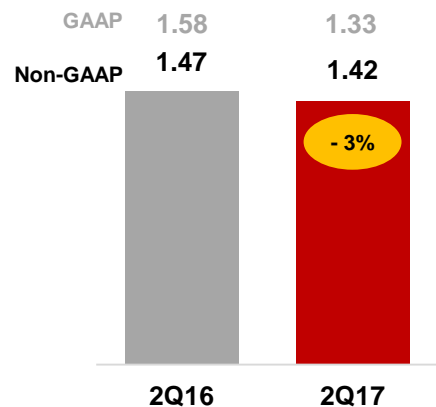
- **\$1.4 B divestitures completely reshapes company**
  - IT services sale pending @\$690M; CapRock sold @\$425M
  - Sharpens focus on core franchises where technology is key differentiator
  - Results in streamlined portfolio of higher-growth, higher-margin businesses
- **More than \$1B in net proceeds supports balanced, shareholder friendly capital allocation goals**
  - ~40% share repurchases; ~60% debt reduction, pre-funding pension
- **\$700M share repurchases expected in fiscal 17**
  - Largest in company's history
  - New \$1B share repurchase authorization adds to existing \$584M

# 2Q17 summary and highlights

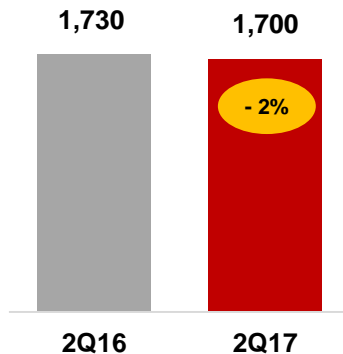


(\$million, except per share amounts)

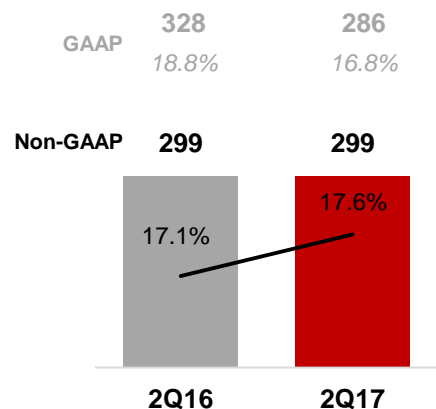
## EPS



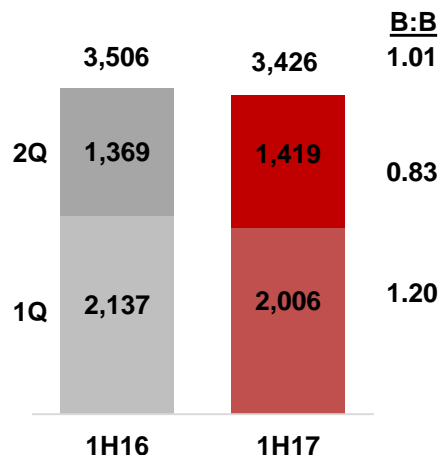
## Organic revenue\*



## Op. income and margin



## Orders

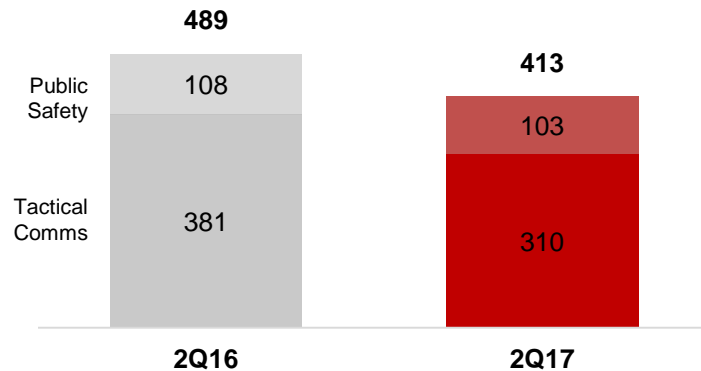


- CapRock reported as discontinued operations; final quarter reporting 4 segments
- Non-GAAP EPS \$1.42
  - Operating margin up 50 bps to 17.6% on lower costs and higher pension income
  - Improved operating performance offset by higher tax rate
- Revenue \$1.7B; organic\* down 2%
  - ES up 6%\*; SIS up 5%; CN up 2%; CS down 16%
- 2Q B:B of 0.83; 1<sup>st</sup> half B:B of 1.01 with good contract wins in key areas

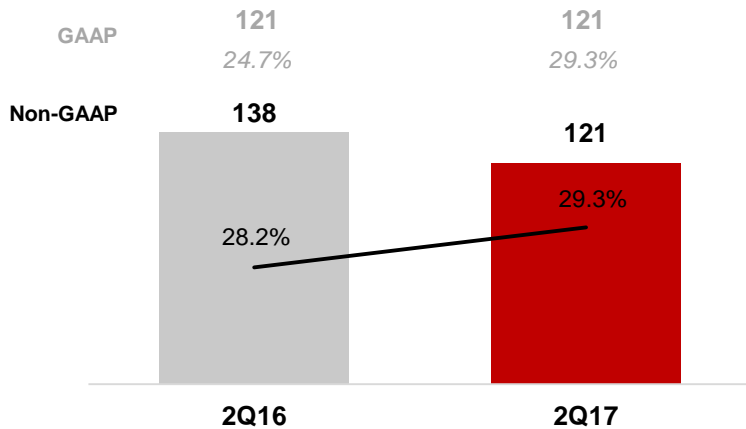
\*2Q16 results adjusted for \$18 million revenue attributable to Aerostructures divested in 4Q16. Reference slide 7. For non-GAAP reconciliations reference other quarterly earnings materials and the Harris investor relations website.

(\$million)

## Revenue



## Operating income and margin

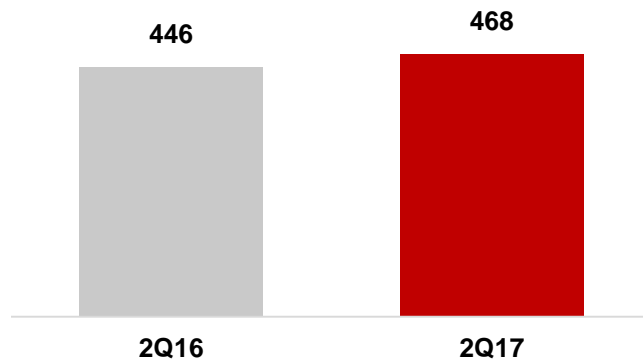


- Segment revenue down 16%; lower operating income due to lower volume, but margin trending higher on lower costs
- Tactical Comms revenue down 19% on higher DoD and lower international; B:B >1
- Legacy tactical:
  - Strong orders; B:B 1.10; international partially offset by relatively weak DoD
  - Backlog continues to increase, up 6% to \$493M; up 22% year-to-date
  - Key orders: \$75M from a country in Eastern Europe; \$19M, \$16M, and \$10M from 3 countries in Middle East; and \$18M from a country in Central Asia
  - Following quarter close, \$56M order from country in Northern Africa; \$403M IDIQ for U.S tactical radio spares
- U.S. modernizations progressing
- Public Safety revenue down 5%

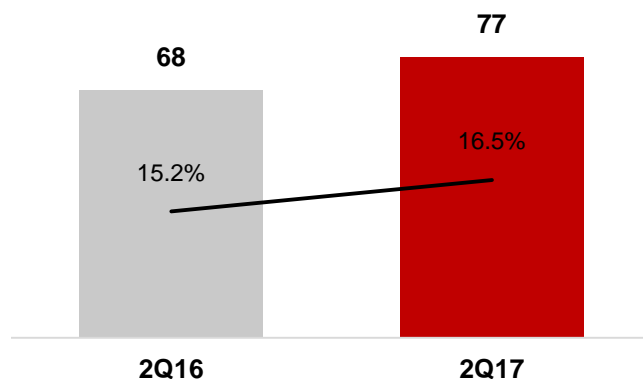
For non-GAAP reconciliations reference other quarterly earnings materials and the Harris investor relations website.

(\$million)

## Revenue



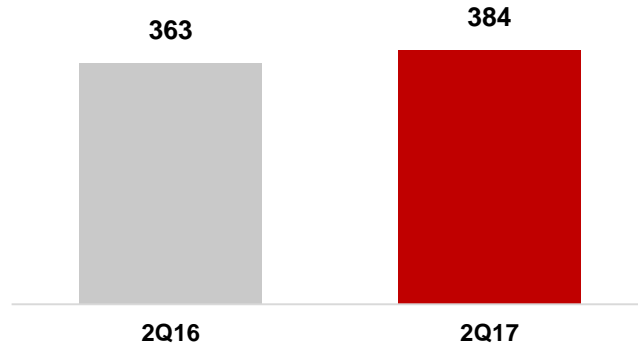
## Operating income and margin



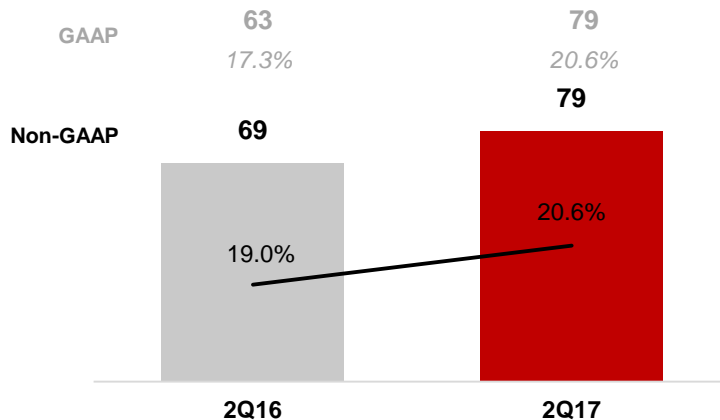
- **Segment revenue up 5%; higher operating income on continued strong program performance and higher pension income**
- **Higher revenue and continued strength from intel customers**
  - \$53M and \$29M follow-on contracts for space asset protection and situational awareness
  - Following quarter close, \$80M contract for classified ground-based adjacency; potential to become new franchise
  - Leveraging technology to broaden reach, moving from providing components to sub-systems to full mission solutions
- **Recapitalization and expansion in commercial space continues; awarded 2 reflectors in the quarter; another 10 future prospects**
- **\$90M contract and initial \$39M order for GPS III SV 9/10 navigation payloads**

(\$million)

## Organic revenue\*



## Operating income and margin

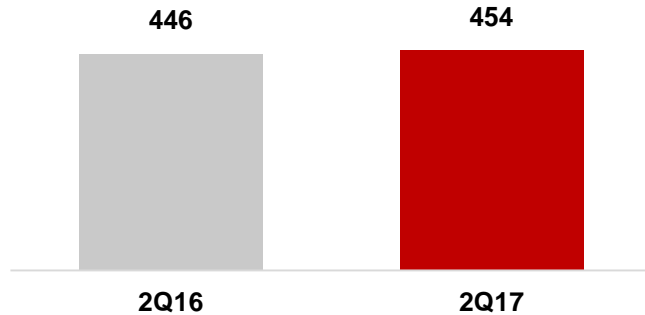


- **Segment organic revenue\* up 6%; higher operating income on continued strong program performance and higher pension income**
- **Higher revenue from electronic warfare and ramping of Middle East integrated battle management system partially offset by lower wireless product sales**
- **Success rebuilding EW franchise with international wins building on U.S. momentum**
  - \$91M IDIQ for EW pods on Moroccan F-16s
  - \$22M under IDECM program for capability upgrades on Australian F-18s
- **\$45M follow-on contract for F-35**

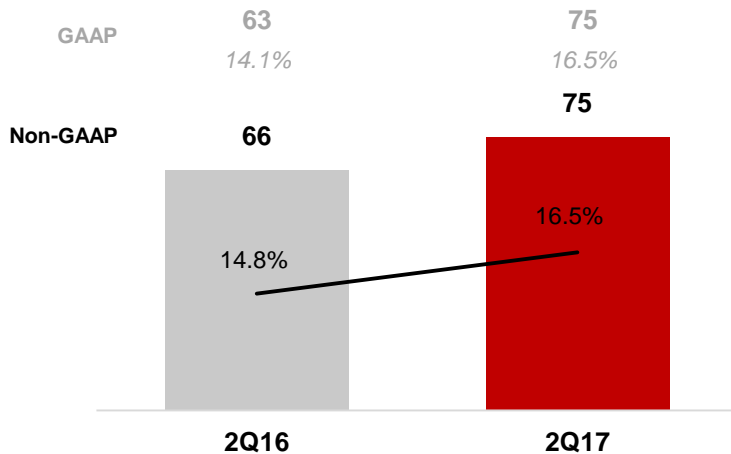
\*Revenue excludes Aerostructures, which was divested in 4Q16. Aerostructures revenue in fiscal 16 was \$60M with quarterly revenue of \$19M, \$18M, \$21M, \$2M, respectively. For non-GAAP reconciliations reference other quarterly earnings materials and the Harris investor relations website.

(\$million)

## Revenue



## Operating income and margin



- Segment revenue up 2%; higher operating income from contract settlement
- Higher revenue from FAA NextGen modernization programs and NASA's Space Communications Network partially offset by lower IT services
- Awarded \$700M Florida state-wide communications network with ~4,000 sites connecting public safety, law enforcement and other agencies
- CapRock reported as discontinued operations

For non-GAAP reconciliations reference other quarterly earnings materials and the Harris investor relations website.



# Transaction details, use of proceeds, and share repurchases



(\$millions)	CapRock	IT services	Total
Price:	425	690	1,115
FY17 expectations			
Revenue:	~300	~1,070	
Op margin	~5 - 6%	~7 - 8%	
	<ul style="list-style-type: none"> <li>• Reported as discontinued operations beginning 2Q17</li> <li>• Transaction closed Jan 1, 2017</li> </ul>	<ul style="list-style-type: none"> <li>• Reported as discontinued operations beginning 3Q17</li> <li>• Transaction expected to close before the end of fiscal 17</li> </ul>	
<b>Expected use of net proceeds</b>			
Debt paydown	225		225
Pension pre-funding		400	400
Share repurchases	185	250	435
	<u>410</u>	<u>650</u>	<u>1,060</u>

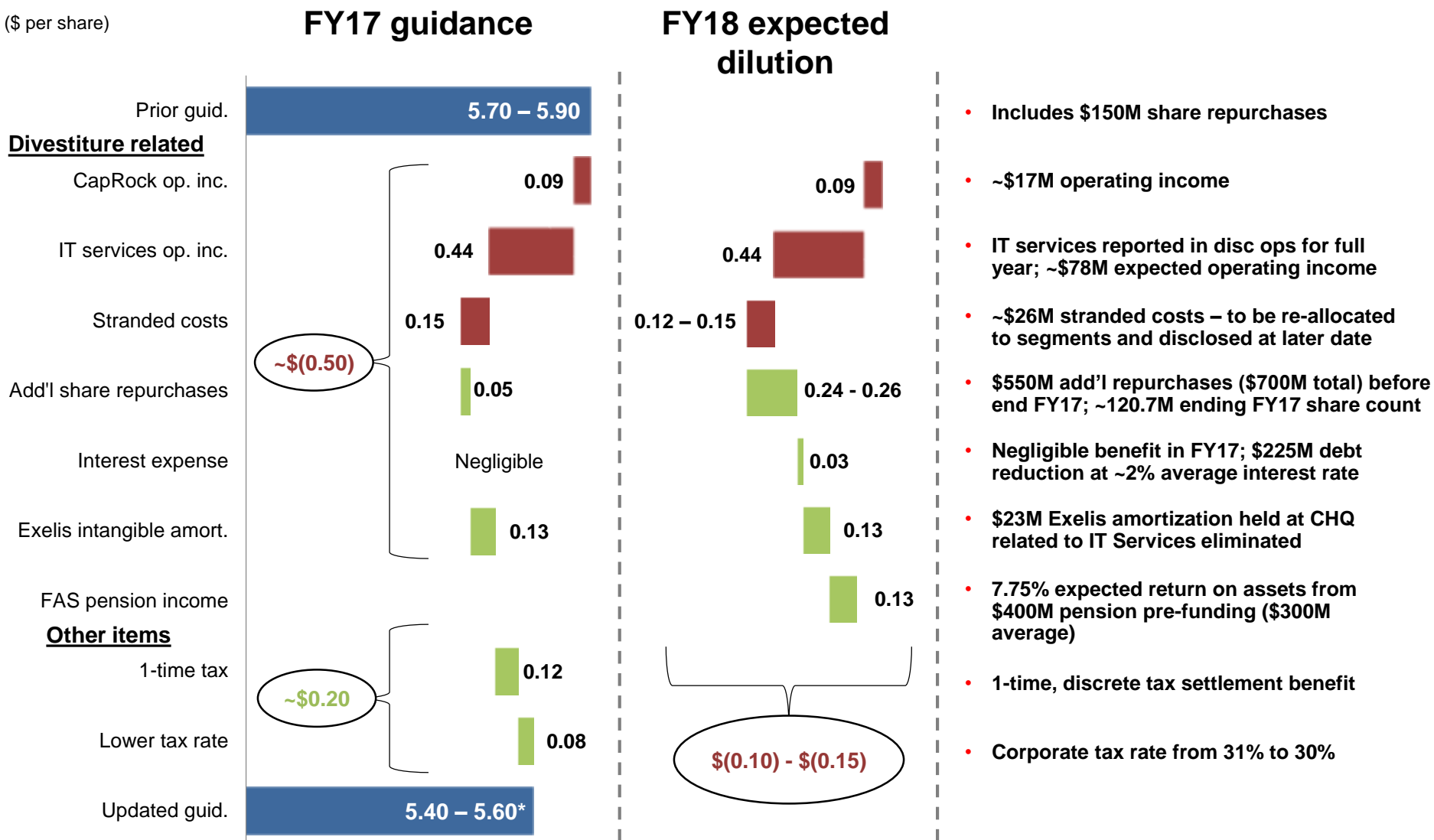
## Expected FY17 share repurchases

Divestiture proceeds	435
Original commitment	150
Incremental repurchases	115
Total	<u>700</u>

# Expected impact of divestitures and other items\*



(\$ per share)



- Includes \$150M share repurchases
- ~\$17M operating income
- IT services reported in disc ops for full year; ~\$78M expected operating income
- ~\$26M stranded costs – to be re-allocated to segments and disclosed at later date
- \$550M add'l repurchases (\$700M total) before end FY17; ~120.7M ending FY17 share count
- Negligible benefit in FY17; \$225M debt reduction at ~2% average interest rate
- \$23M Exelis amortization held at CHQ related to IT Services eliminated
- 7.75% expected return on assets from \$400M pension pre-funding (\$300M average)
- 1-time, discrete tax settlement benefit
- Corporate tax rate from 31% to 30%

\* Assumes IT services transaction closes by end of fiscal 2017.  
For non-GAAP reconciliations reference other quarterly earnings materials and the Harris investor relations website.

# Updated fiscal 2017 outlook – reflects CapRock and IT services in discontinued operations\*



(\$million, except per share amounts)

Guidance	Unaudited fiscal 16		Updated fiscal 17	
	\$	EPS	\$	EPS
Revenue	\$ 5,881		\$ 5,760 – 5,881	
GAAP EPS from continuing operations		~\$ 4.87		\$ 5.21 – 5.41
Acquisition-related				
Net liability reduction for certain post-employment benefit plans	(101)			
Gain on sale of Aerostructures, net	(10)			
Integration costs	104		~35	~\$ 0.19
Inventory step-up costs	11			
Restructuring and other charges	36			
Non-GAAP EPS from continuing operations		~\$ 5.12		\$ 5.40 – 5.60
<b>Other information</b>				
Synergy savings		\$ 85		\$ 130 - 135
Amortization of Exelis acquisition intangibles		110		~110
CHQ costs - non-GAAP		60		50 – 55
Estimated stranded costs		~33		~26
Pension - FAS expense/(income)		(26)		~(90)
Pension - cash contribution		174		~188 <sup>(1)</sup>
Free cash flow		772		~800 <sup>(1)</sup>
Net capital expenditures		152		~150
Net interest expense		181		~170
Effective tax rate - GAAP		~30.4%		~28.5%
Effective tax rate - non-GAAP		~29.9%		~28.5%

<sup>(1)</sup> Excludes 1-time \$400M cash contribution related to expected proceeds from the IT services divestiture expected to close by end of fiscal 2017.

\* Assumes IT services transaction closes by end of fiscal 2017. Estimated impact of IT services and CapRock reported in discontinued operations. FY16 revenue excludes Aerostructures revenue as referenced in slide 7.

For non-GAAP reconciliations reference the Harris investor relations website.

# Updated fiscal 2017 segment outlook\*



*Segment outlook updated only to reflect CapRock and IT Services as discontinued operations, add air traffic management business to Electronic Systems segment, and eliminate the Critical Networks segment*

(\$million)

Other information	Revenue		Segment operating margin*		
	Unaudited resegmented FY16	Updated FY17 for disc ops only	Unaudited resegmented FY16		Updated FY17 for disc ops only
			GAAP	non-GAAP	
Harris Corporation*	\$ 5,881 *	~flat to down 2%			
Communication Systems	\$ 1,864	down 7 to 9%	28.4%	29.5%	29.5% – 30.5%
Space & Intelligence Systems	\$ 1,899	up 1 to 3%	15.5%	15.5%	16.0% – 17.0%
Electronic Systems	\$ 2,174 *	up 2 to 4%	19.9%	20.4%	20.5% – 21.5%

\* Segment margins exclude estimated \$26M of stranded costs and \$12M of FAS pension income currently shown as separate lines on slide 13, which will be re-allocated to segments and disclosed at a later date. FY16 revenue excludes Aerostructures revenue as referenced in slide 7. For non-GAAP reconciliations reference the Harris investor relations website.

# Estimated historical non-GAAP reclassified segments\*

	FY16					FY17	
	1Q	2Q	3Q	4Q	FY16	1Q	2Q
Revenue							
Communication Systems	454	489	485	435	1,864	431	413
Space & Intelligence Systems	435	446	489	529	1,899	453	468
Electronic Systems	529	517	545	582	2,173	537	563
Eliminations	(17)	(13)	(9)	(16)	(55)	(17)	(18)
Total	1,401	1,439	1,511	1,531	5,881	1,403	1,426
Operating income							
Communication Systems	138	138	154	120	550	119	121
Space & Intelligence Systems	68	67	76	83	294	80	77
Electronic Systems	103	111	112	129	455	115	130
Eliminations / Other	1	(0)	1	(0)	1	(1)	(0)
Est. FAS pension to be re-allocated to segments*	1	1	1	1	3	3	3
Est. stranded costs to be re-allocated to segments*	(8)	(8)	(8)	(8)	(33)	(7)	(7)
Amortization from Exelis intangibles	(27)	(27)	(27)	(27)	(110)	(27)	(27)
Corporate expense	(19)	(8)	(18)	(15)	(60)	(17)	(14)
EBIT	255	273	289	282	1,100	265	283
Estimated tax rate	31.6%	26.2%	30.9%	30.9%	29.9%	25.5%	28.8%
Estimated non-GAAP EPS	\$1.14	\$1.34	\$1.34	\$1.30	\$5.12	\$1.30	\$1.34

\* Estimated historical results exclude stranded costs and FAS pension income currently shown as separate lines. Results will be finalized and re-allocated to segments and disclosed at a later date. FY16 revenue excludes Aerostructures revenue as referenced in slide 7.

For non-GAAP reconciliations reference the Harris investor relations website.

(\$million)

## Harris legacy tactical history

	<u>1Q15</u>	<u>2Q15</u>	<u>3Q15</u>	<u>4Q15</u>	<u>1Q16</u>	<u>2Q16</u>	<u>3Q16</u>	<u>4Q16</u>	<u>1Q17</u>	<u>2Q17</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u> <u>YTD</u>
<b>Orders</b>	<b>288</b>	<b>263</b>	<b>286</b>	<b>402</b>	<b>378</b>	<b>215</b>	<b>251</b>	<b>199</b>	<b>358</b>	<b>280</b>	<b>1,336</b>	<b>1,129</b>	<b>1,238</b>	<b>1,044</b>	<b>638</b>
<b>Sales</b>	<b>276</b>	<b>317</b>	<b>356</b>	<b>366</b>	<b>296</b>	<b>314</b>	<b>302</b>	<b>217</b>	<b>293</b>	<b>254</b>	<b>1,256</b>	<b>1,307</b>	<b>1,315</b>	<b>1,129</b>	<b>547</b>
DoD	77	99	89	122	98	75	81	68	101	92	577	461	387	322	193
International	200	218	267	243	199	238	221	149	192	162	678	847	928	808	354
<b>Ending Backlog</b>	<b>575</b>	<b>521</b>	<b>451</b>	<b>487</b>	<b>569</b>	<b>470</b>	<b>419</b>	<b>402</b>	<b>467</b>	<b>493</b>	<b>742</b>	<b>564</b>	<b>487</b>	<b>402</b>	<b>493</b>