

# FISCAL 2019 THIRD QUARTER EARNINGS CALL PRESENTATION

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# 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, free cash flow, earnings before interest and taxes ("EBIT"), margin on EBIT, segment revenue and operating margin and other segment guidance for fiscal 2019; and other supplemental information for fiscal 2019; changes in earnings guidance for fiscal 2019; potential contract opportunities and awards; the potential value and timing of contract awards; 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 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 and realize expected benefits and the 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; significant indebtedness and 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; or potential tax, indemnification and other liabilities and exposures related to Exelis' spin-off of Vectrus, Inc. and Exelis' spin-off from ITT Corporation; the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement; the risk that the parties may not be able to obtain (or may be required to make divestitures in order to obtain) the necessary regulatory approvals or to satisfy any of the other conditions to the proposed combination in a timely manner or at all; risks related to disruption of management time from ongoing business operations due to the proposed combination; risks related to the inability to realize benefits or to implement integration plans and other consequences associated with the proposed combination; the risk that any announcements relating to the proposed combination could have adverse effects on the market price of the common stock of either or both parties to the combination; and the risk that the proposed combination and its announcement could have an adverse effect on either or both parties' ability to retain customers and retain and hire key personnel and maintain relationships with suppliers and customers, including the U.S. Government and other governments, and on their operating results and businesses generally. 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

## Accelerate revenue growth across all 3 segments

- Revenue up 11%...highest growth in 8 years
- Orders \$1.8B...funded book-to-bill 1.03
- Year-over-year funded backlog growth of 15%

2

## Company margin expansion...double-digit EPS growth

- EPS<sup>1</sup> up 30% to a record \$2.11
- EBIT margin<sup>1</sup> expanded 80 bps to 19.7%
- Continued margin expansion in CS & ES

3

## Maximize cash flow with balanced capital deployment

- Robust FCF<sup>2</sup> of \$379M...LTM FCF<sup>2</sup> of \$1.25 billion
- 12-day year-over-year reduction in working capital
- Repaid \$300M of debt...last tranche of planned debt repayment

<sup>1</sup>Non-GAAP EPS and adjusted earnings before interest and taxes (EBIT) margin figures exclude, as applicable, L3 deal and integration costs, discontinued operations and 3Q18 one-time items related to tax reform and the decision to exit a commercial line of business. For non-GAAP reconciliations reference other quarterly earnings materials and the Harris investor relations website.

<sup>2</sup>Adjusted FCF (free cash flow) = operating cash flow less capital expenditures, excluding L3 deal and integration costs and 3Q18 voluntary pension contribution.

## Communication Systems

- Revenue up 19%...fourth consecutive quarter of double-digit growth
  - DoD Tactical up 55%...over \$100M in modernization revenue
  - Public Safety up double digits
- Strong progress on U.S. DoD modernization
  - SOCOM 2-channel OUA complete...\$39M production order
  - Marine Corps HF & manpack initial order
  - Tactical radio five-year budget request >\$7B...up >\$1B over GFY19 FYDP
- Tactical funded backlog >\$1B...up 21%
- YTD revenue up 15%; funded B:B 1.1

## Electronic Systems

- Revenue up 7%...eighth consecutive quarter of growth
  - Strong growth in Avionics and EW on domestic and international platforms, partially offset by UAE ELTS program transition
- Continued order momentum on long-term platforms (F-35, F/A-18 and F-16)
  - \$212M F-18 IDECM order...largest order-to-date...inception-to-date orders of \$2B
  - \$129M F-35 open systems dev. contract
- Increased scope in the UAE...successful IOC...awarded contract for support & training
- YTD revenue up 7%; funded B:B 1.2

## Space & Intelligence Systems

- Revenue up 7%...mid teens growth in Classified partially offset by Environmental
- \$400M in Classified orders; strengthened incumbency and increased share of wallet with existing customers
- Strengthened position as trusted mission partner on environmental & GPS programs
  - \$293M extension on GOES-R ground systems...extends contract to \$1.7B
  - \$243M for GPS III follow-on...first 2 of 22 space vehicles
- YTD revenue up 7%; funded B:B 1.1

## Strong First Three Quarters and Outlook

- YTD revenue up 10%; growth across all segments; funded B:B 1.1
- YTD EPS<sup>1</sup> up 26%; EBIT margin<sup>1</sup> expanded 90 bps to 19.6%
- YTD FCF<sup>2</sup> of \$788M, up 75%, returned \$444M to shareholders
- Increased revenue, EPS<sup>1</sup> and FCF<sup>2</sup> guidance

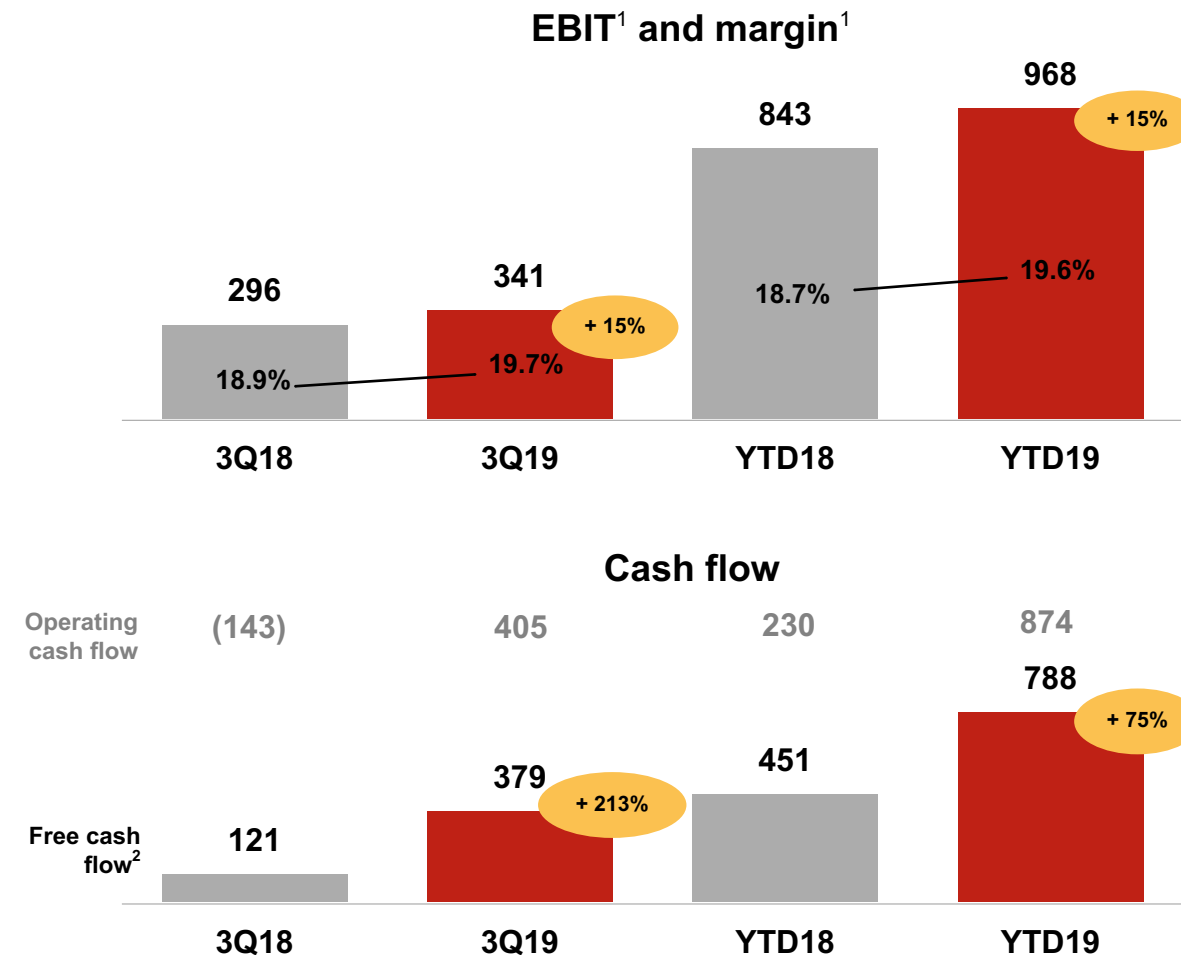
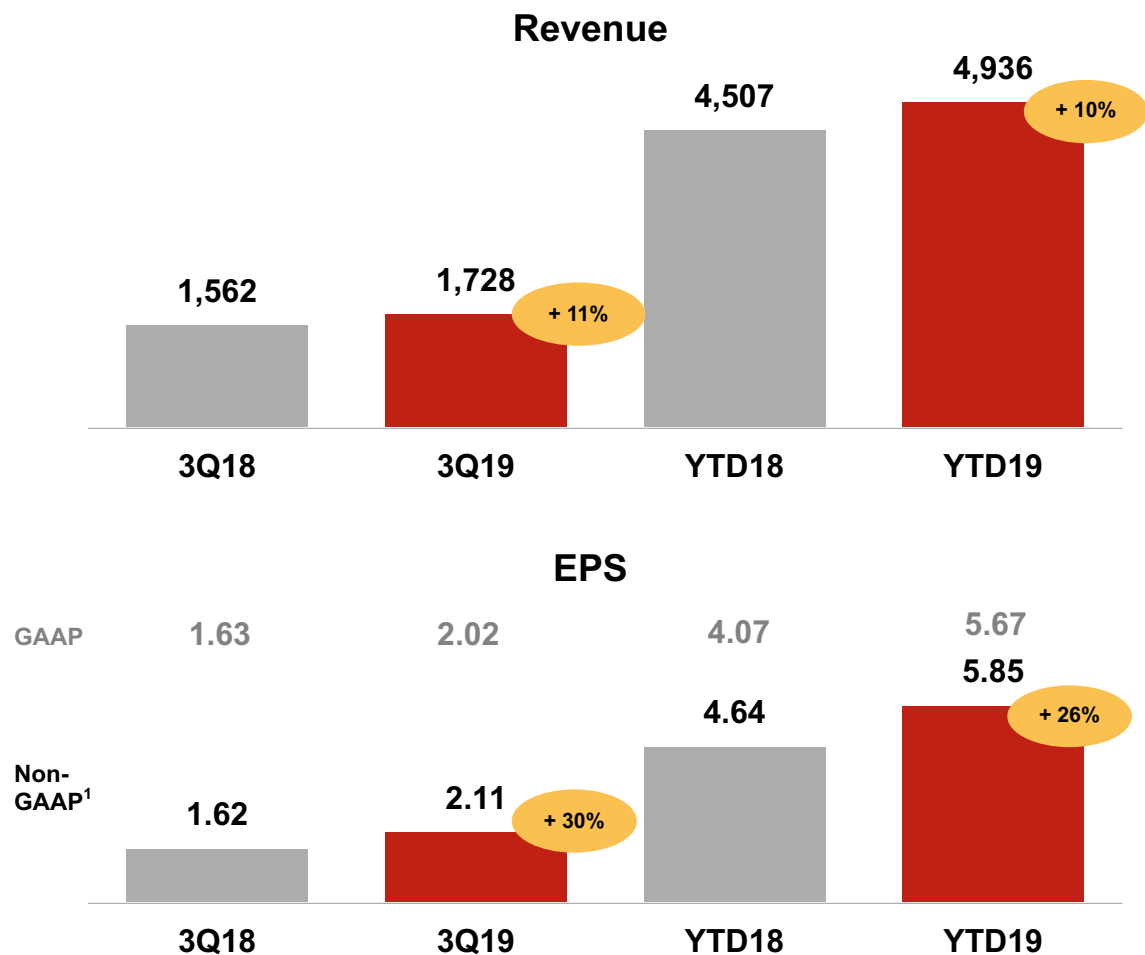
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# Strong 3Q19 and YTD financial results



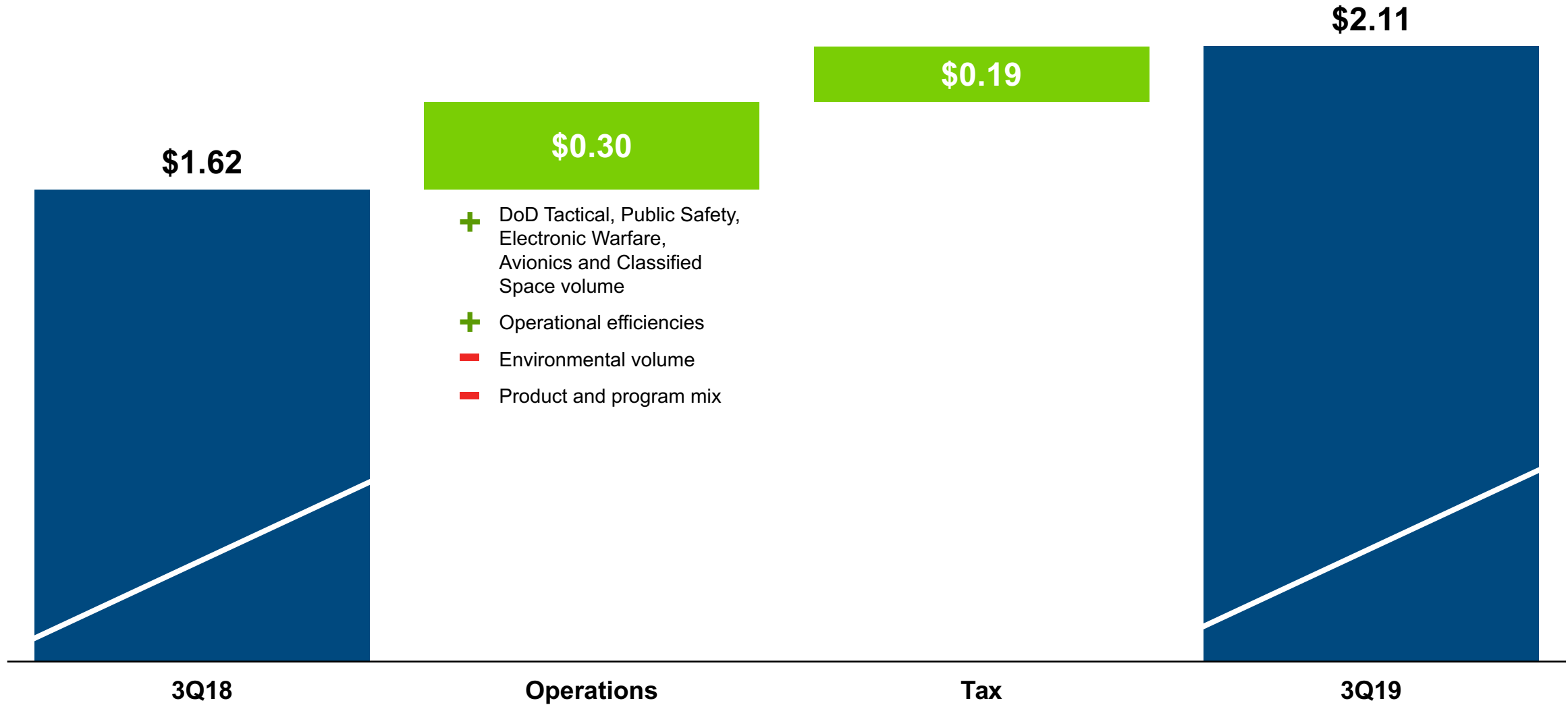
(\$million, except per share amounts)



<sup>1</sup>Non-GAAP EPS and adjusted earnings before interest and taxes (EBIT) and EBIT margin figures exclude, as applicable, L3 deal and integration costs, discontinued operations and prior year one-time items related to tax reform, deferred compensation and the decision to exit a commercial line of business and other items. For non-GAAP reconciliations, reference other quarterly earnings materials and the Harris investor relations website.

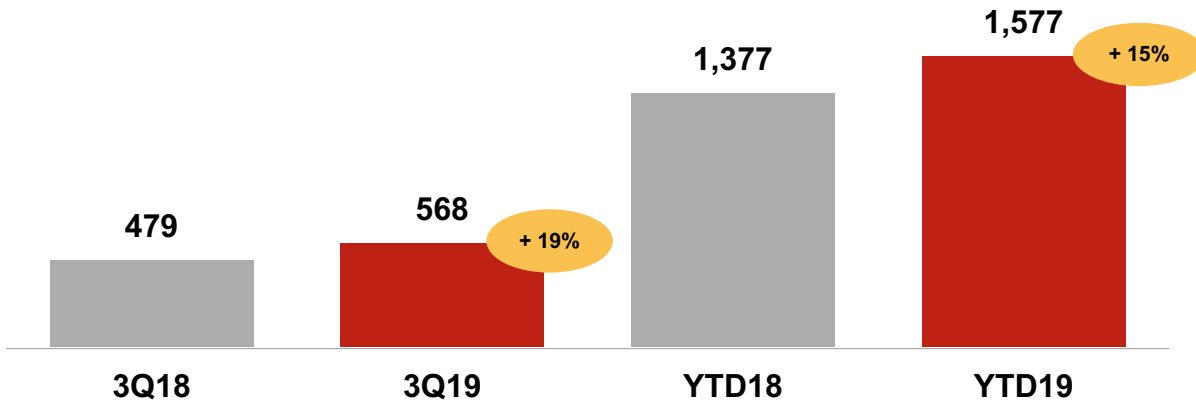
<sup>2</sup>Adjusted FCF (free cash flow) = operating cash flow less capital expenditures, excluding L3 deal and integration costs and 3Q18 \$300M voluntary pension contribution.

# 3Q EPS<sup>1</sup> bridge

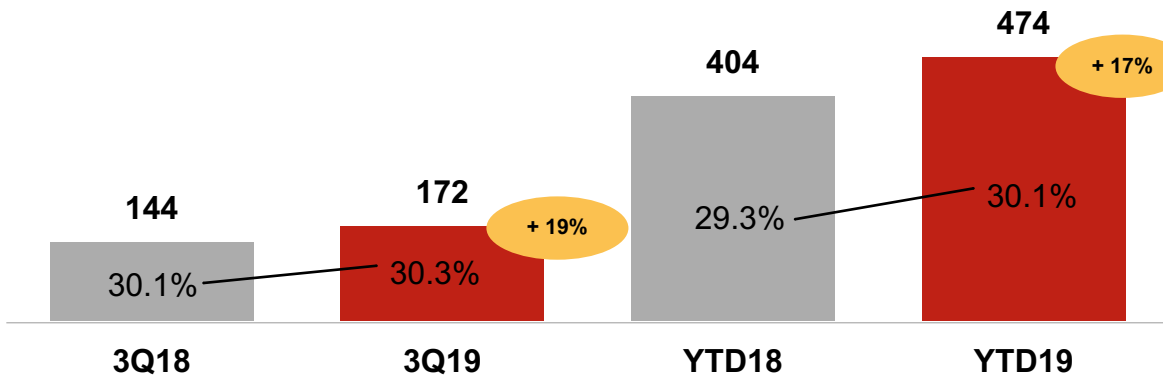


<sup>1</sup>Non-GAAP EPS excludes, as applicable, 3Q19 L3 deal and integration costs and 3Q18 one-time items related to tax reform, deferred compensation and the decision to exit a commercial line of business. For non-GAAP reconciliations, reference other quarterly earnings materials and the Harris investor relations website.

## Revenue

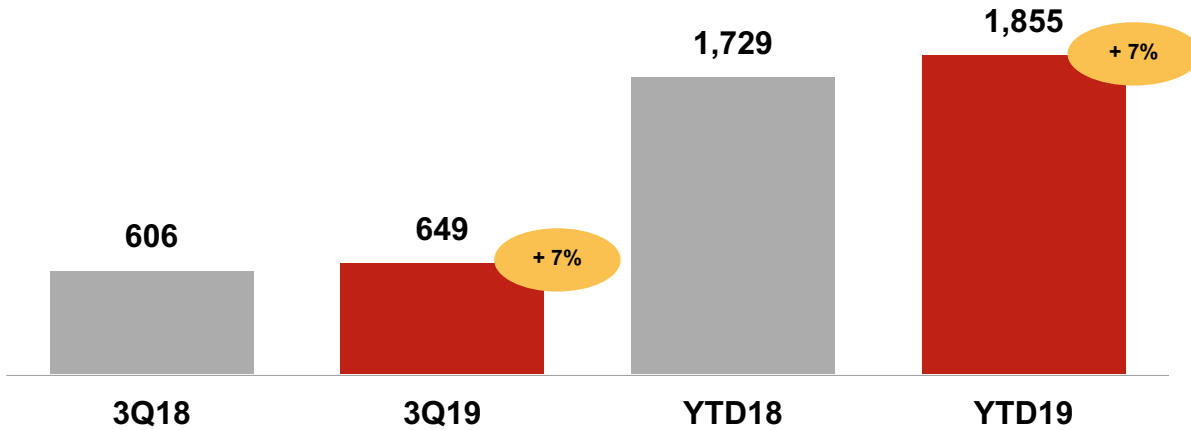


## Operating income and margin

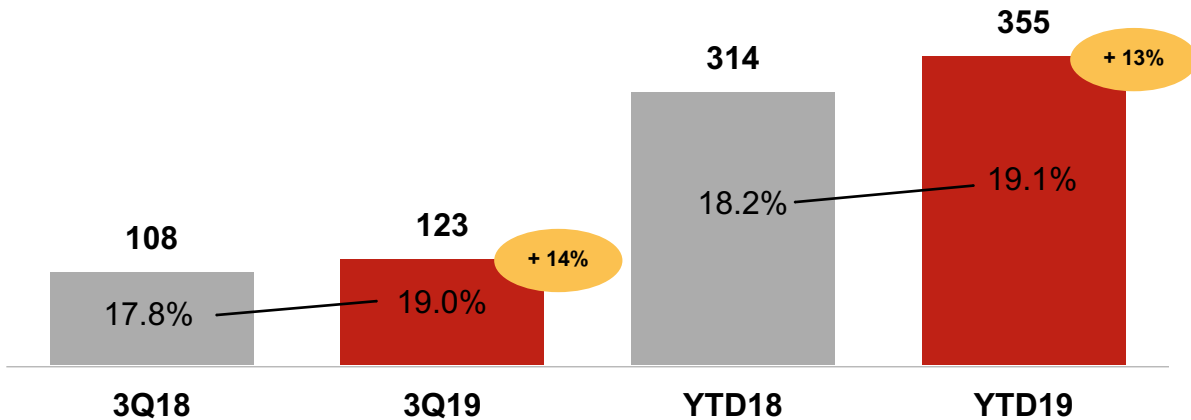


- 3Q revenue up 19%, YTD up 15%
  - Tactical Comms revenue up 14% YTD
    - DoD up 28% and International up 4%
  - Public Safety up double digits YTD
- 3Q operating income up 19%; YTD up 17%
- 3Q margin expanded 20 bps to 30.3%; YTD margin expanded 80 bps to 30.1%
- YTD funded B:B 1.1

## Revenue



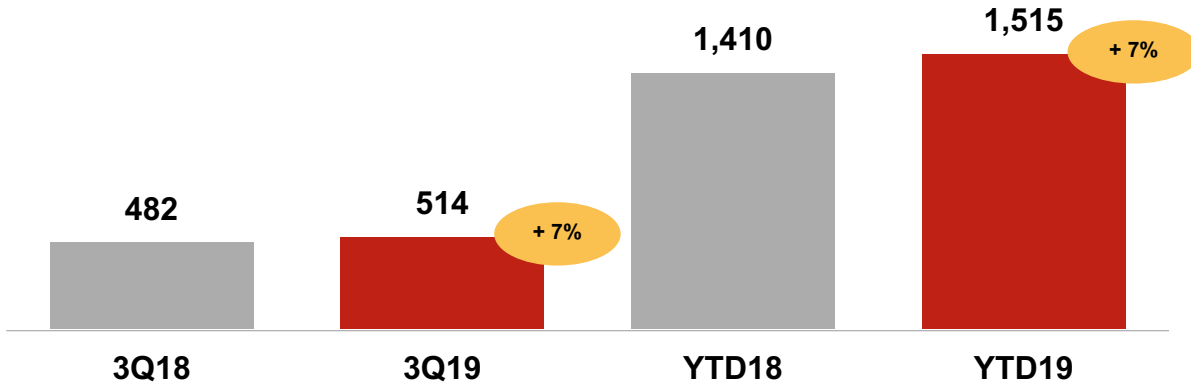
## Operating income and margin



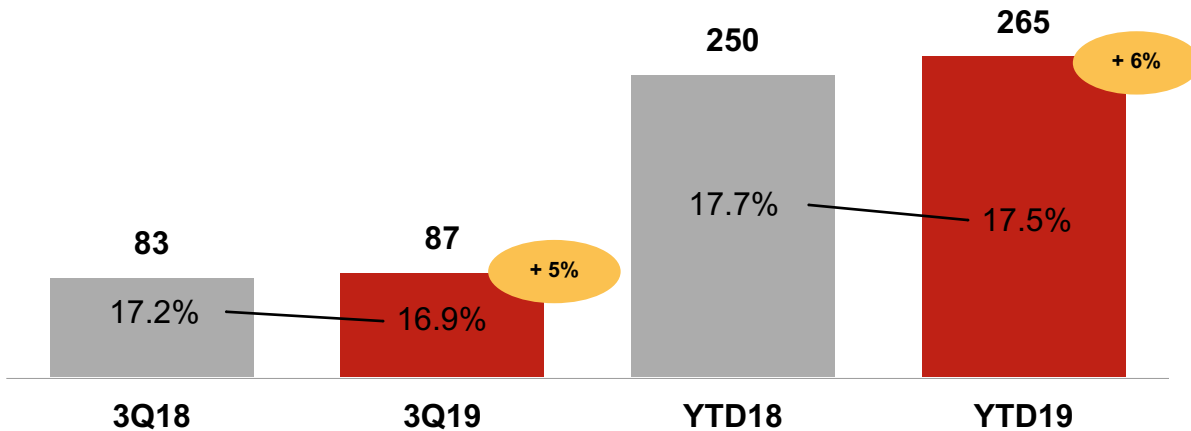
- 3Q and YTD revenue up 7%
  - Strong growth in Avionics and Electronic Warfare, partially offset by UAE program transition timing
- 3Q operating income up 14%; YTD up 13%
- 3Q margin expanded 120 bps to 19.0%; YTD margin expanded 90 bps to 19.1%
- YTD funded B:B 1.2
  - Seventh consecutive quarter of funded B:B > 1



## Revenue

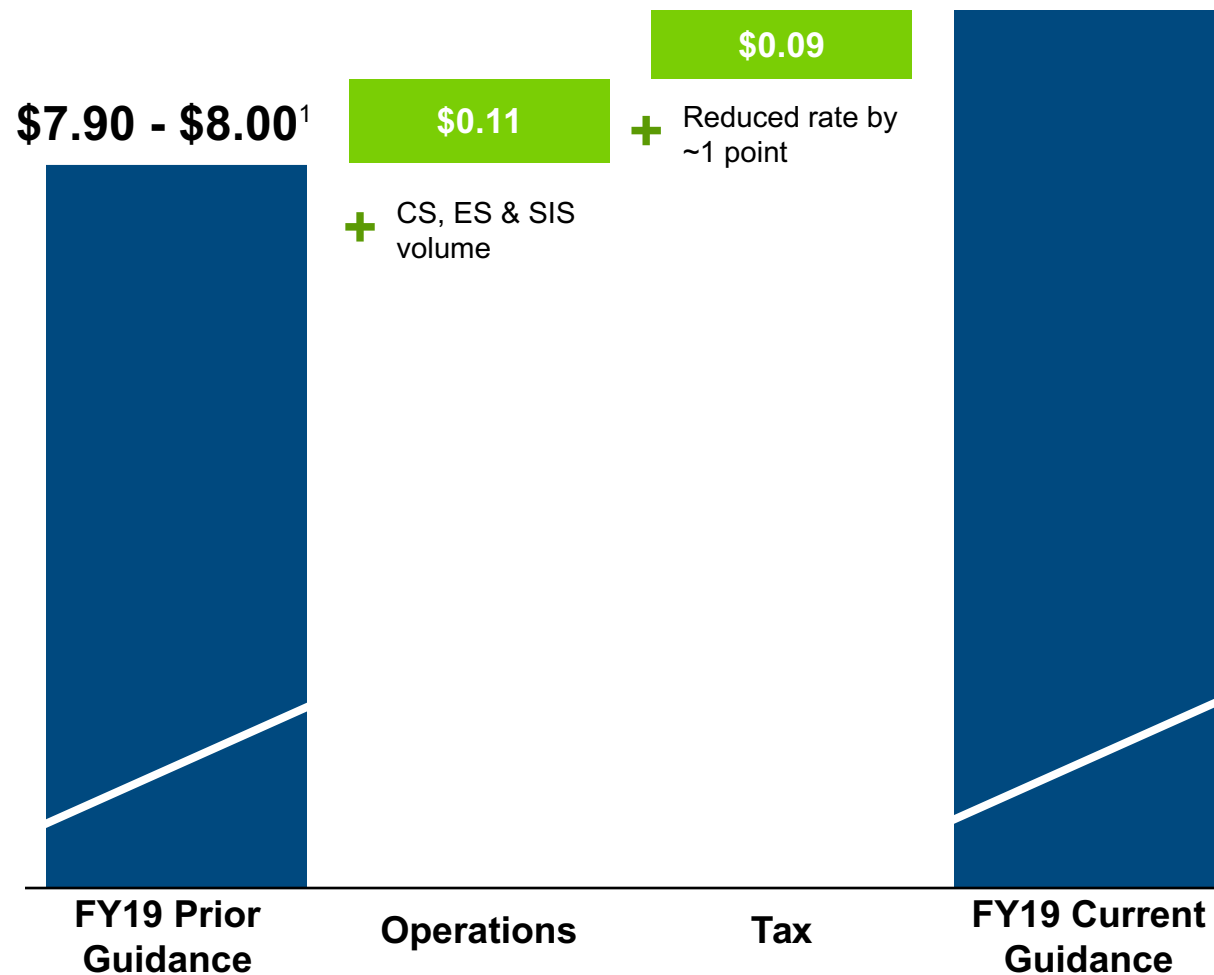


## Operating income and margin

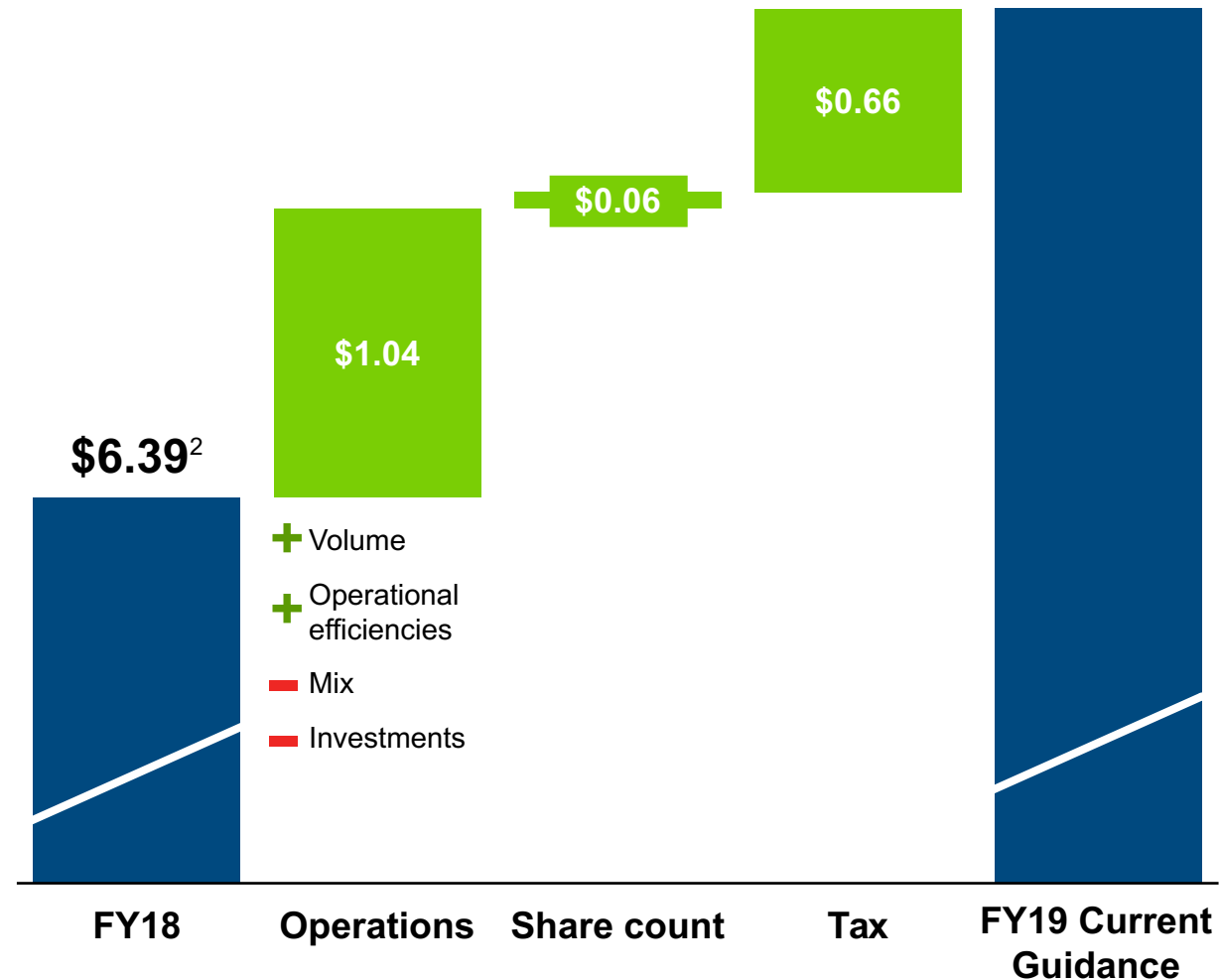


- 3Q and YTD revenue up 7%
  - Classified growth partially offset by environmental programs
- 3Q operating income up 5%; YTD up 6%
- 3Q margin 16.9%; YTD margin strong at 17.5%
- YTD funded B:B 1.1

## FY19 Non-GAAP EPS guidance bridge ~\$8.15<sup>1</sup>



## FY19 Non-GAAP EPS YoY bridge ~\$8.15<sup>1</sup>



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

<sup>1</sup>FY19 prior and current non-GAAP EPS guidance excludes L3 deal and integration costs.

<sup>2</sup>FY18 non-GAAP EPS excludes various adjustments.

## Total Harris

### Revenue

~9.0%

+ versus up 8.0 - 8.5%

### Margin<sup>1</sup>

19.5 - 20.0%

### EPS<sup>1</sup>

~\$8.15

+ versus \$7.90 - \$8.00

### FCF<sup>2</sup>

~\$1.025B

+ versus \$1.000 - \$1.025B

## By Segment

### Revenue

### Margin<sup>1</sup>

CS

up ~12.0%

+ versus up 10 - 11%

~30.0%

(midpoint of prior 29.5 - 30.5%)

ES

up ~8.5%

+ versus up 7 - 8%

~19.0%

(midpoint of prior 18.5 - 19.5%)

SIS

up ~7.0%

+ versus up 6 - 7%

~17.5%

(midpoint of prior 17.0 - 18.0%)

<sup>1</sup>Total Harris margin represents adjusted earnings before interest and taxes (EBIT) margin. Non-GAAP EPS and adjusted EBIT margin guidance exclude, as applicable, L3 deal and integration costs and discontinued operations. For non-GAAP reconciliations, reference other quarterly materials and the Harris investor relations website. Segment margin represents operating margin.

<sup>2</sup>Adjusted FCF (free cash flow) = operating cash flow less capital expenditures, excluding L3 deal and integration costs.

# Appendix

## Other information



(\$million except noted)

	<u>FY18</u>	<u>3Q19</u>	<u>YTD19</u>	<u>FY19</u>	
Amortization of Exelis acquisition intangibles	\$101	\$25	\$76	~\$101	
CHQ costs (non-GAAP)	\$60	\$15	\$50	~\$58	prior \$55-\$60
FAS pension expense/(income) <sup>1</sup>	\$(120)	\$(30)	\$(90)	~(\$120)	
Net capital expenditures	\$136	\$37	\$104	~\$170	
Net interest expense	\$167	\$42	\$128	~\$167	
Effective tax rate (non-GAAP)	22.3%	15.1%	16.1%	~15.5%	prior ~16.5%
Average diluted shares outstanding (million shares)	121.1	120.3	120.3	~120.3	prior ~120.0
Debt repayments <sup>2</sup>	\$555	\$300	\$300	~\$300	

<sup>1</sup>Amounts reflect FAS pension income adjusted for benefit harmonization costs.

<sup>2</sup>Excludes \$800M debt repayment in relation to 4Q18 debt refinancing.

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

# Supplemental information - tactical communications history



(\$million)

	3Q18	4Q18	1Q19	2Q19	3Q19	FY17	FY18	YTD FY19
<b>Orders</b>	<b>332</b>	<b>389</b>	<b>502</b>	<b>448</b>	<b>289</b>	<b>1,242</b>	<b>1,755</b>	<b>1,238</b>
<b>Sales</b>	<b>340</b>	<b>377</b>	<b>334</b>	<b>386</b>	<b>406</b>	<b>1,230</b>	<b>1,367</b>	<b>1,126</b>
DoD	121	139	144	170	188	392	530	502
International	219	238	190	216	219	838	837	625
<b>Funded Backlog<sup>1</sup></b>	<b>855</b>	<b>924</b>	<b>1,094</b>	<b>1,151</b>	<b>1,034</b>	<b>484</b>	<b>924</b>	<b>1,034</b>

<sup>1</sup>Historical funded backlog and sales have been restated for ASC 606. Funded backlog includes the impact of foreign currency translation.