THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

HRS - Q4 2013 Harris Earnings Conference Call

EVENT DATE/TIME: JULY 30, 2013 / 12:30PM GMT

OVERVIEW:

Harris announced 4Q13 revenues of $1.36b and non-GAAP EPS of $1.41. FY13 non-GAAP EPS came in at $4.90. Management guided to FY14 revenues down 1-3% and EPS of $4.65-4.85.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Pamela Padgett *Harris Corp - VP of IR*

Bill Brown *Harris Corp - President & CEO*

Gary McArthur *Harris Corp - SVP & CFO*

CONFERENCE CALL PARTICIPANTS

Noah Poponak *Goldman Sachs - Analyst*

Yair Reiner *Oppenheimer & Co. - Analyst*

Joe Nadol *JPMorgan Chase & Co. - Analyst*

Bill Loomis *Stifel Nicolaus - Analyst*

Gautam Khanna *Cowen and Company - Analyst*

Pete Skibitski *Drexel Hamilton - Analyst*

Chris Quilty *Raymond James & Associates - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Harris Corporation fourth-quarter 2013 earnings call. My name is Sue, and I will be your operator for today. At this time, all participants are in listen-only mode. We will conduct a question-and-answer session towards the end of this conference.

(Operator Instructions)

As a reminder, this call is being recorded. Now, I would like to turn the call over to Pamela Padgett, Vice President of Investor Relations. Please proceed, ma'am.

Pamela Padgett - *Harris Corp - VP of IR*

Thank you. Good morning, everyone. Welcome to our fourth-quarter fiscal 2013 earnings call. I'm Pamela Padgett, and on the call today is Bill Brown, President and CEO; and Gary McArthur, Senior Vice President and Chief Financial Officer.

Before we get started, a few words about forward-looking statements. In the course of this teleconference, management may make forward-looking statements. Forward-looking statements involve assumptions, risks, and uncertainties that could cause actual results to differ materially from those statements. For more information and a discussion of such assumptions, risks, and uncertainties, please see the press release and filings made by Harris with the SEC.

In addition, in our press release and on this teleconference, and the related presentation, we will discuss certain financial measures and information that are non-GAAP financial measures. A reconciliation to the comparable GAAP measures is included in tables of our press release and on the Investor Relations section of our website, which is www.harris.com. A replay of this call will also be available on the Investor Relations section of our website.

With that, Bill, I will turn the call over to you.

Bill Brown - *Harris Corp - President & CEO*

Thank you, Pam, and good morning, everyone. Welcome to our fourth-quarter earnings call.

Fiscal '13 was a challenging year, but we accomplished a lot. When we started the year, we promised to take out costs to match the tough government spending environment, and we did just that. We said we would maximize free cash flow by doing things like ratcheting down capital spending, which we reduced by 24%, contributing to record free cash flow in the year. We committed to deploy capital more effectively, like returning more cash to shareholders, which we did by using $400 million in cash to repurchase shares and by increasing the quarterly dividend 12% in fiscal '13, on top of a 32% increase in fiscal '12. These efforts are reflected in the solid results we are reporting today and illustrated on pages 3 and 4.

In the fourth quarter, revenue was down as expected by about 5%, to $1.36 billion, with non-GAAP EPS of $1.41, about flat with the prior year. Fourth-quarter earnings were a bit stronger than expected as a result of ongoing cost reduction efforts, including fourth-quarter restructuring actions and favorable product mix in RF Communications, where we also had a $0.04 one-time benefit from the cumulative effect of an accounting correction in the timing of cost recognition. By executing the restructuring actions announced in April faster than expected and expanding their scope somewhat, we generated additional savings in the quarter amounting to a $0.07 pickup, versus the guidance we provided back in April. For the quarter, restructuring, asset impairment, and debt prepayment costs were $127 million and, with the exception of facility consolidations, are largely completed. These actions are now expected to generate annualized cost savings of $60 million, versus the $40 million to $50 million originally anticipated.

Fourth-quarter free cash flow was also substantially better than expected at $273 million, bringing us to a strong $655 million for fiscal '13, up 6% versus prior year and 119% of non-GAAP net income. Orders were solid in the quarter at $1.43 billion, down from prior year but 105% of revenue, ending the year with funded backlog up 2% sequentially and 4% year over year. In RF Communications, we are particularly encouraged by the strong new orders momentum in the international tactical radio market. Tactical book-to-bill was 1.49 and greater than 1 in both international and US markets. We ended the quarter with a substantial increase in tactical backlog.

The international tactical radio market is being driven by two factors -- a transition to wideband radios and demand for network systems solutions, and Harris is at the forefront of both. In the quarter, we booked a $61 million order for wideband radios from Poland -- our largest single international Falcon III wideband order to date. On the systems front, we booked our largest single order ever in the Middle East -- $79 million for an integrated command, control and communications system that combines wideband tactical radios and 4G tactical cellular into a fully integrated systems solution. Our extensive line of international radios is designed to operate and interface well together and support a variety of tactical requirements, giving us a competitive advantage in international markets that require integrated solutions. We are anticipating capturing additional systems opportunities in fiscal '14.

We also had solid wins in the DoD market in the quarter, including a $38 million order from the Air Force for two-channel Falcon III wideband radios. We successfully completed government tests delivering data messages using the Wideband Networking Waveform, WNW, in our MNVR radio offering. While JTRS radio procurements for the Army have slipped to the right, we are encouraged that the major programs, the Manpack, the Rifleman, and MNVR, are well supported in each of the committee mark-ups of the GFY '14 authorization bill. We are hopeful about a favorable decision on MNVR in September. We're also encouraged that the DoD is proceeding with an effort to replace the previously canceled JTRS airborne radio program known as AMF. The new program, Small Airborne Networking Radio, or SANR, has a potential value of about $700 million. And we expect the RFP to be issued within the next few months and be awarded in late spring of 2015.

In Government Communications, we added to our wins on NextGen, which is the FAA's initiative to transform the national airspace system. Following the close of the quarter, we were awarded the seven-year $150-million network services component of the previously won DCIS, or Data Communication and Integrated Services program, bringing the total contract value to $481 million. If you remember, DCIS will provide digital messaging services between air-traffic towers and the cockpit. We have made good progress on the program and are reaching agreement with four major airlines on DCIS equipage.

On our other major NextGen win, the National Airspace Voice System program, or NVS, we're on track to install demo systems at FAA facilities in Atlantic City and Oklahoma City within the next few months. Now, I mentioned progress on these programs because we are performing well and delivering real value to our customer, as we need to especially in today's fiscal environment. But it is also important because we are leveraging our strong capabilities and reputation with the FAA to broaden our reach in the global air-traffic management market and pursue opportunities in areas such as Brazil, Korea, and India, and in the global voice switch market.

Finally in the quarter, we were encouraged by the rebound in CapRock's revenue growth to 9%, contributing to high single-digit growth for the year, and by the solid 5% growth in IT Services, a good result in the current environment. I would also add that we continue to reduce losses in Healthcare Solutions and make progress towards an important software release in Q1.

For the full fiscal year, orders were down 4%, revenue was down 6%, book-to-bill was 1.03, and non-GAAP EPS was down 6%, to $4.90. Now, heading into fiscal '14, we are expecting an environment similar to this year with government operating under continuing resolutions and sequestration. Every indication we have seen points to protracted negotiations, with tax reform and the debt ceiling coming into the mix. But whatever the outcome, we'll continue to focus on executing our strategy, improving our business performance, and delivering value to our customers and our shareholders.

With that, I'll turn it over to Gary to comment on segment results and guidance for 2014.

Gary McArthur - *Harris Corp - SVP & CFO*

Thank you, Bill, and good morning.

Moving to segment results on slide 5, revenue for RF Communications was $501 million and declined 14%, compared to $584 million in the prior year. Orders for the segment totaled $646 million and were up 22%. Book-to-bill was 1.29. In Tactical Communications, revenue was $336 million, declining 18%. Tactical communication orders were $498 million and were up 40%. Book-to-bill was 1.49, and backlog increased significantly to $743 million. Book-to-bill was greater than 1 in both international and US markets. International tactical radio orders included $79 million from a country in the Middle East, $61 million from Poland, $55 million from a country in Africa, $23 million from another country in the Middle East, and $39 million from several customers in Brazil -- exceptional order performance in international.

DoD orders for Falcon III wideband radios included $38 million from the Air Force, $36 million from Special Operations Command, and $20 million from the Marine Corps. The 12-to-18-month international opportunity pipeline is $2.2 billion, with over $800 million in the proposal or closure phases. This compares to 3Q's $2.4 billion with over $1 billion in the proposal or closure phases. The US pipeline is about $1 billion, with $400 million in the proposal or closure phases. This compares to 3Q's $1 billion, with $500 million in the proposal or closures phases. While there have been delays in the awarding of the JTRS Manpack, Rifleman radio, and MNVR modernization opportunities, we believe our proven track record with the most widely deployed family of wideband networking radios, our recent successes demonstrating the JTRS Wideband Networking Waveform, and our new two-channel Manpack radio solution bolster our competitive position on these procurements.

In Public Safety and Professional Communications, project delays and unexpected lower terminal cells resulted in revenue declining 6%, to $165 million, orders down 14%, and book-to-bill of 0.9. Public Safety orders in the quarter included $17 million from Los Angeles County, $13 million from the United Arab Emirates, a $15 million follow-on order from the San Francisco Municipal Transport Authority, bringing orders to date to $47 million under that $85 million contract.

Non-GAAP operating income for RF Communications segment was $185 million. A favorable product mix, cost-reduction savings from operational excellence initiatives, and a $7-million benefit from the cumulative effect of an accounting correction in the timing of cost recognition on tactical radio programs, allowed us to achieve a 36.9% non-GAAP operating margin in the quarter.

Turning now to slide 6, Integrated Network Solutions fourth-quarter revenue increased 6% to $402 million, driven by growth across the segment in CapRock Communications, Healthcare Solutions, and IT Services. In CapRock, revenue was up slightly in the government market, up high-single digits in energy, with significant double-digit growth in maritime. Segment orders were down 36% as a result of a tough compare with CapRock in the maritime market, due to the large Royal Caribbean award last year, and as a result of delayed government awards in IT Services and Healthcare.

CapRock was awarded a three-year, $25-million contract extension from an international oil and gas drilling company. In Healthcare Solutions, we received a five-year, $4-million contract from Allina Health Systems to provide a clinical-integration platform utilizing our soon-to-be released version 5.1 software, the beta version of which was released last week. In Integrated Network Solutions, non-GAAP segment operating income was $35 million, compared with $34 million in the prior year. Improved operating performance at Healthcare Solutions was offset by weaker performance in CapRock.

Moving to slide 7, revenue in Government Communications was $481 million, decreasing 3% from the prior year due to the transition of the GOES-R weather program to the integration and test phase. Excluding GOES-R, revenue for the rest of the business was 4% higher as a result of recent wins in the civil area of our business. Non-GAAP operating income was flat to the prior year at $66 million. Non-GAAP operating margin was solid at 13.6%.

Turning to slide 8, free cash flow was $273 million, versus $311 million last year. Capital expenditures were $47 million, compared to $59 million in the prior year. Free cash flow for the year came in at a strong $655 million and benefited from the significantly lower capital expenditures. During the quarter, we repurchased about 2.8 million shares of our common stock for a total cash outlay of $140 million. Share repurchases for the year totaled $400 million. Our non-GAAP effective tax rate for the quarter was 34.1%.

Moving to slide 9, we are providing fiscal 2014 guidance that assumes a continuing resolution and sequestration. For total Harris, revenue is expected to be down 1% to 3% and EPS in the range of $4.65 to $4.85. In RF Communications, we expect revenue to be about flat, with low single-digit decline in Tactical Communications, offset by mid-to-high single-digit increase in Public Safety. Operating margin is expected to be around 30%, with savings from restructuring and operational excellence mostly offsetting mix impact from higher Public Safety and International Systems revenue, higher investment in R&D and sales and marketing, and the one-time, $7-million benefit we have already discussed. In Integrated Network Solutions, revenue is expected to be about flat, with the growth in CapRock Communications and Healthcare Solutions offset by a decline in IT Services, including the NMCI re-compete loss. Operating margin is expected to be 8% to 10% for the segment, with improvement in CapRock and Healthcare offset by a decline in IT Services.

In Government Communications, we expect revenue to be down 5% to 7%, due to further declines in government spending and delays in new program awards. We expect operating margin to be around 14%. As indicated on the slide, to better align our segments, FY '14 segment guidance includes moving the cyber security network testing business area, roughly $40 million of revenue and $3 million of operating income, from Government Communications to Integrated Network Solutions as of the beginning of the fiscal year. Our tax rate for the fiscal year is expected to be approximately 33% and does not assume the continuation of the R&D tax credit. Free cash flow, as a percent of net income, is expected to be around 100%.

With that, let me turn it back to Bill.

Bill Brown - *Harris Corp - President & CEO*

Thank you, Gary. Our guidance reflects the environment as we see it today. We are planning cautiously and conservatively, and we continue to focus on the things we control -- satisfying customers, driving operational excellence, and maximizing free cash flow which can be returned to shareholders. We are committed to investing in the future in R&D and strategic growth initiatives. We have strong leadership in place and a talented workforce, who are committed to delivering against customer expectations and creating shareholder value.

I would now like to ask the Operator to open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Noah Poponak, Goldman Sachs.

Noah Poponak - *Goldman Sachs - Analyst*

From a high level, when I look at the initial look at 2014, calling for RF to be flat -- why would this be the year that RF was flat following a couple of years of reasonably sharp top-line declines, if we are just now moving into the environment where, in the US, sequestration is actually going to impact the P&L? I know you have had some order delays and you have talked about feeling like sequestration had already happened, and I know you're citing international picking up, here -- but I wonder how much conservatism you feel is in that top-line outlook for RF given the environment it sounds like you think we're going to stay in for a little while?

Bill Brown - *Harris Corp - President & CEO*

Thank you very much for the question. I think given the fact we don't yet have a US government budget nor a DoD budget -- nor how that gets down to the line-item details that affect tactical radios, I think what we've done is we have taken the most prudent assumption we have.

Our assumption, right now, going into next year is that the DoD tactical radio business is going to be down even further, probably in the mid-teens range, offset by the international business, which we see being up mid- to high-single digits. So, overall tactical going into next year, we see to be down low-single digits. We think that is, given the environment we are in right now, today, and given what we see in the budgets, we think that's a prudent and cautious approach.

Noah Poponak - *Goldman Sachs - Analyst*

Okay, that's helpful on the breakdown there. One other, I guess also big-picture question on the segments -- when I look at the individual segment outlooks, all of them really not calling for margin expansion. I just wonder if you could elaborate on why you would not expect to see some margin expansion given all of the cost takeout and restructuring you have done coming into the year?

Bill Brown - *Harris Corp - President & CEO*

As you go across the segments in GCS, I think we performed very well. We're at the level of margin at -- in fact, above the expectation we had set back in June of last year, long-term margins in GCS in 13% to 14% range. And, we feel the guidance that we have given reflects the programs that we see there and the performance we have seen in GCS. In RF, what's happening here is -- clearly, as we go into next year, we are seeing more international business and DoD. And while we've said in the past, international and DoD tend to have somewhat similar [ROS] trends, we are seeing more systems business coming in fiscal '14 that we have seen in the past, and that's going to dilute the margins a little bit.

We also see a shift towards the PSPC business, and that's going to bring the overall segment margins -- at least constrain them a little bit going into next year. In INS, what we've done is, I think, we've reflected the fact that NGEN -- NMCI comes out of the process. We've lost on NGEN, it's under protest at the moment -- that was a very good margin business in NMCI. So, we're reflecting the HITS business, the IT Services business, with a volume decline and NMCI going away, is going to see pretty substantial margin erosion -- something on the order of about 300 basis points in the IT service business, offset by pretty strong margin growth in both CapRock as well as in Health Care.

Noah Poponak - *Goldman Sachs - Analyst*

Okay. That's very helpful. Thank you.

Operator

Yair Reiner, Oppenheimer.

Yair Reiner - *Oppenheimer & Co. - Analyst*

Congrats on the good bookings this quarter. In terms of the restructuring, is this it for now, or is there more work to be done that you can foresee at this stage and for 2014?

Bill Brown - *Harris Corp - President & CEO*

Yair, thank you very much for the question. I think what we have done in the fourth quarter is some pretty substantial restructuring. You recall back in April, we estimated restructuring would be $65 million to $115 million. We came in above the higher end as we found additional opportunities. I think we have seen over the course of fiscal '12 and fiscal '13 is we continue to take out costs as the market environment changes, and we will continue to do that, going forward, into fiscal '14. We have no further plans on the table at the moment, but we continue to look for opportunities to take costs out again to match the revenue environment.

Yair Reiner - *Oppenheimer & Co. - Analyst*

Got it. And then, in terms of the guidance, you said that it contemplates continuing resolution, and also, sequestration. Can you give us a sense of, systematically, how you went through and tried to bake those impacts into your forecast? Was it done on a program-by-program basis? Or, did you look across your government contracts and assume that you will be getting a 10% to 15% cut below what you would otherwise expect?

Bill Brown - *Harris Corp - President & CEO*

No. In fact, we have got people that have been in the business a long time and know the customers very well -- and a lot of this is through conversations with the end customer. We do it program by program, line by line as best as we know it, and then we put some judgment on that based on what we see in the political environment and what we see happening in Congress, and we make the best estimate we can. But, it really is on a bottoms-up, program-by-program basis, opportunity by opportunity. That's really across both the government business, as well as what we do internationally in Tactical, as well as what we do in CapRock and Healthcare business -- it is really from a bottoms-up perspective.

Yair Reiner - *Oppenheimer & Co. - Analyst*

Got it. Then, one last quick one -- for 2013, what was the mix of international within Tactical? And then, what do you expect it to be next year? Thank you.

Bill Brown - *Harris Corp - President & CEO*

This year, international was substantially higher than DoD in that mix in Tactical, and we see that shift even further going into next year. We saw orders and revenue this year being 7, 8 points higher. Backlog is a bit higher in international ending the year, so we expect the mix to shift even further towards international, modestly, into fiscal '14.

Yair Reiner - *Oppenheimer & Co. - Analyst*

Thank you.

Operator

Joe Nadol, JPMorgan.

Joe Nadol - *JPMorgan Chase & Co. - Analyst*

Good morning, and congrats on the good results.

Bill Brown - *Harris Corp - President & CEO*

Thank you, Joe.

Gary McArthur - *Harris Corp - SVP & CFO*

Thank you, Joe.

Joe Nadol - *JPMorgan Chase & Co. - Analyst*

Bill, on the restructuring -- you come from a UTC culture where this was -- this is a way of doing business year in, year out. And then, I think, coming into Harris, there were definitely some low-hanging fruits, some opportunities for you, but you have obviously done a lot. As we go forward, are you thinking about this as a journey where every year, like at UTC, there is always going to be something that gets done? Or, is this -- what we saw in this last quarter, the culmination of what you think is a big, one-time restructuring of the Company after becoming CEO?

Bill Brown - *Harris Corp - President & CEO*

There's two parts to that. One is the pretty substantial restructuring we did in the fourth quarter, which I think was pretty broad and pretty deep, and they don't tend to repeat very often. As I've mentioned before, we don't have plans on the table to do any further restructuring at this point. Of course, we continue to look for opportunities, but there is nothing that's pressing.

What I'm spending more of my time on, frankly, is building a culture of operational excellence throughout Harris Corporation. That is a multi-year journey -- that's not multi quarter, it's multi year. I think we've had a really good start in the last 18 months, and we are getting the engine moving well looking at things we can do on the factory floor, things we can do in our field service organization, things we can do in supply chain management -- frankly, things we can do in our admin functions to make ourselves leaner. Sometimes, those activities do lead, over time, to restructuring; many times, they don't. And, that's really what I'm spending a lot of my time on and where I'm focusing the Organization.

Joe Nadol - *JPMorgan Chase & Co. - Analyst*

Okay. And then, over on the margins in Tactical -- or, I guess in RF, but really, specifically, in Tactical -- a couple things -- it seems like you are expecting some, basically, some mix pressure -- I understand the Public Safety, but really, within Tactical, it's the systems? How else can we think about the profitability of systems? Is that a certain percentage of them we should think about as Falcon radios with Falcon-type margins? And then, other components of the system are lower margin? Is there a generic pro rata -- generic percentage that we can think about in terms of hardware versus, I guess, the other components of it? Just trying to get to gauge a little bit how, as your mix becomes more and more systems oriented, what that might do to your margins?

Gary McArthur - *Harris Corp - SVP & CFO*

Sure, Joe, let me take a little bit of that. I don't want to get into the specific percents, but it is clear that the systems business is at a lower margin. And, looking at our business outlook for next year, we do see that systems business almost doubling in the international marketplace. So, that will bring down margins overall on those, as a result of those systems sales. That's really the biggest component of the mix that we see within the Tactical Communications business. And, you mentioned on the Public Safety side, obviously, as that grows with its lower margins, it will impact the RF margins as well. But we're -- as we've said in the past, we are really targeting in at that 30% margin, we're running the business in that kind of range, and we think that's sustainable.

Joe Nadol - *JPMorgan Chase & Co. - Analyst*

It probably should be fair to expect the margin profile would be higher in the first part of the year because you just had that one systems order that you announced anyway, and then you noted in your prepared remarks that you are expecting more that. Is it fair to say that we should have a downward sloping margin, starting up much higher at the beginning of the year?

Bill Brown - *Harris Corp - President & CEO*

I don't think, Joe, we're going to give guidance across the quarters, in terms of margins in a sub-segment of a segment. I think I am going to stay away from that. But, what I would say is we did have unusually strong margins in Tactical in the fourth quarter. It did come from the fact we had more international sales, but more importantly, it was a lot of product part of international that came with some very full-feature products and software upgrades -- that drove the margin to be very strong in the fourth quarter. That won't continue into next year.

We will see, as you see in the guidance, over the course of the year, margins coming back down to a more normal level for the segment -- around 30%, which we laid out last year. And -- tactical has a lot to do with the fact that we -- more systems business coming into next year in international. With respect to -- today, that's about all we're going to say. To the balance across the quarters going into next year, we will see a little lighter first half than second half, and probably a lighter Q1 than Q2, only because of just what is happening in our order pattern, but also what is happening in Washington. I think that is all I would say in terms of calendarization, if you will, of our guidance for next year.

Joe Nadol - *JPMorgan Chase & Co. - Analyst*

Okay. That's helpful. Thanks, and congrats again.

Bill Brown - *Harris Corp - President & CEO*

Thank you.

Operator

Bill Loomis, Stifel.

Bill Loomis - *Stifel Nicolaus - Analyst*

On tactical radio, we have seen some press about the Army considering going to one winner on Rifleman, and possibly Manpack as well -- can you help us understand -- I know your looking for a mid-teens decline, but what happens if they do go to one winner, and let's say Harris is not it, is this completely block you out on Falcon sales to US military, or are there other routes here?

Bill Brown - *Harris Corp - President & CEO*

Bill, that's a great question. Thank you.

First of all, it is still not clear what path the Army, more importantly, the DoD as a whole, is going to take on the Manpack and the Rifleman radio. We think a multi-vendor award is in the best interest of the government and the war fighter. It drives up competition throughout an IDIQ contract, it incentivizes product innovation, drives performance, drives costs down -- and then you get, not just us, but other parties in the industry have that same view. We have seen on similar award programs, where if it is a multi award, it tends to drive down costs and drive up innovation and performance over time. So, we think it is in the best interest, all around, to go with a multi-vendor solution.

That being said, we don't know what the government is going to do. We expect the RFP to come out over the next couple of months, but that has been moving to the right, so right now we are still thinking it is in the next one month or two months. Going into fiscal '14, we have very little actual revenue associated with winning or losing either of those two products -- it's in the tens of millions. It is not very big. Over time, we are going to keep our head down, keep doing the things that we do to drive innovation, and eventually, if we do not get a position on the first award, make sure that we find our way onto the program over time. I would say, outside of the Army, we are very strong, as we've always been was SOCOM, Marine Corps, Air Force, Navy, and we do very well there. So, our business is not just Army, and it's not just Manpack and Rifleman.

Bill Loomis - *Stifel Nicolaus - Analyst*

Got it. And then, staying in RF, but on Public Safety -- could you expand a bit more on delays and lower bookings? We are starting to see -- I think in fact, it was today's Wall Street Journal, I think, had an article about how cities are now, once again, net hiring on police and fire and other infrastructures, so I assume that's good news for you down the road. What's happening there in the quarter? How do you see that changing over the next year?

Bill Brown - *Harris Corp - President & CEO*

It is a good question, and we are encouraged by the improving finances, generally -- not that there's some, obviously, some specific exceptions to that. But generally, improving finances in the state and local area, and they're hiring back firefighters and police force -- other first responders. For the year, in Public Safety, we were up 3.5%. We were very strong in the first half, up 10% to 12%, so pretty good double-digit revenue growth in the first half. In the back half, we were flat to down; and in fourth quarter, we were down 5%, 5.5%, 6%, in that range.

As Gary said in his prepared remarks, it does have to do with project delays. It is sort of a lumpy business at times, and we didn't see the orders coming in earlier in the year, and the revenue was a bit soft. And, we did had some slower terminal sales in the fourth quarter -- and that's a watch item for us, frankly, we've got to keep an eye on that as it's an important growth initiative going for us in fiscal '14. But we saw, in our largest competitor, a fairly similar pattern over the course of the year. If you exclude the benefit they saw from narrow banding, which we don't participate in because we don't participate in some of the lower end of the market, we saw about 3.5% growth for the full year.

So, I think we're holding our own, not gaining share, not losing, but holding our own. Over time and going into next year, we expect our business to rebound. We are pushing our team very hard to do that. We expect stronger book-to-bill, stronger growth, stronger orders momentum going into next year and better margin performance.

Bill Loomis - *Stifel Nicolaus - Analyst*

Great. Thank you.

Operator

Gautam Khanna, Cowen.

Gautam Khanna - *Cowen and Company - Analyst*

Congratulations, very surprising results in RF. I wanted to ask if you could elaborate on order timing as we move through the year -- you've had a lot of international stuff come through of late. Should we expect that momentum to continue in the first and second quarters? Any commentary on the cadence of orders through the year?

Gary McArthur - *Harris Corp - SVP & CFO*

Gautam, this is Gary. I don't think we're going to get specific as to timing on these orders. We did point out that we have a large amount of orders in that final stages of the process. As we have said in the past, timing prediction on these things is very difficult. A lot of things come into play with governments and their funding, and really going to stay away, other than to say what -- echo what Bill said, I think, first half, a little lighter, probably, than the second half on the sales side. And right now, probably, Q1 a little lighter than Q2.

Bill Brown - *Harris Corp - President & CEO*

Maybe if I can offer a little bit more because as we go into next year, Gautam, I know that our business and our Tactical business hinges more on international. It has been lumpy. Our pipeline, as Gary pointed out, is pretty strong. It's $2.2 billion. We have got $800 million in proposals and closure, which is pretty good and still pretty healthy.

And, the names of the countries, that we've described in the past, that are in that pipeline remain the same ones. More than 50% is Middle East and Asia, where we know security is an issue. We know that US is pulling back a little bit. We see Iraq in there. We see more opportunities in Saudi Arabia. We see opportunities in Jordan, the UAE, Afghanistan, et cetera, and I think we are well positioned in each of those. We see 15% to 20% of that pipeline to be coalition countries that are deploying wideband. It's Australia, it's Norway, UK, Canada, and we see good opportunities emerging in those markets as they upgrade to wideband radios.

And, Latin America looks pretty good at this point as well. We are well-positioned in Brazil. We've got a great position on SISFRON, partner with Embraer. We see other opportunities in Brazil. We see Mexico getting a bit stronger. We see other countries -- smaller ones that will start to materialize over the course of fiscal '14.

So, I am pretty encouraged by the strength -- where the pipeline happens to be at this point. But as you know, Gautam, the timing of the orders over the course a year is really difficult.

Gautam Khanna - *Cowen and Company - Analyst*

Is there anything you can say with respect to that $800 million in proposals, and the $400 million on the US side, about lumpiness? Is there anything where you have one or two that are north of $100 million, [that are] or anything that could move the needle in a given quarter?

Bill Brown - *Harris Corp - President & CEO*

I think we are going to stay away from that. The biggest orders tend to be in the tens of millions now. We don't see a big Australia coming in. Obviously, the one we took a couple of weeks ago with Saudi Arabia is unusually big. We don't see many more that are that size. Surprises do happen, but we don't see any that size on the near-term horizon.

Gautam Khanna - *Cowen and Company - Analyst*

Okay. Last one on the cash redeployment for fiscal '14, what are you assuming in terms of buybacks and what have you? Thanks.

Bill Brown - *Harris Corp - President & CEO*

Going into next year, we are still looking at about $200 million of share buyback. Our dividend payout ratio -- we've been talking about 30%. And the balance, we will tend to use for paying down debt or returning in other ways to shareholders. That is our plan right now.

Gautam Khanna - *Cowen and Company - Analyst*

Thanks a lot. Great job.

Operator

Pete Skibitski, Drexel Hamilton.

Pete Skibitski - *Drexel Hamilton - Analyst*

Just to beat a dead horse a little bit -- on the Tactical projections next for international -- what is your sense of how heavily you factored the revenue flow for international delays? It sounds like, with no huge chunks, that the opportunity for timing issues to crop up may be less. I would like to hear you give your thoughts on how heavily factored you think the projections are for timing issues?

Bill Brown - *Harris Corp - President & CEO*

I wouldn't call it a dead horse because it is a very important discussion. We've got a really strong international dealer channel and a really strong international sales force in Tactical. They know their customers really well. They know the process. They know what it takes to get things approved. They know our competitive landscape. We have gone through the FMS processes within the US for international opportunities dozens of times, so we understand it very well.

That being said, it's hard to predict the timing of particular orders in a quarter. We feel good about the outlook for the year. We feel good about our 12-to-18 month pipeline. We're not going to get pushed into trying to call the ball on a particular quarter with a particular order. It is going to set us up for failure, and we're going to avoid doing that, Pete.

Pete Skibitski - *Drexel Hamilton - Analyst*

Okay. So you feel good about the year, it's just quarter to quarter that [could be down] --?

Bill Brown - *Harris Corp - President & CEO*

Yes.

Pete Skibitski - *Drexel Hamilton - Analyst*

Okay. Then, last one, I'm trying to get a sense on INS -- how conservative you're being on the top line for INS. Because, you about HITS being down, and it sounded you think NMCI is the biggest issue there. With the protest, how likely is it you are going to be able to book NMCI revenue for the full year in fiscal '14, do you think?

Bill Brown - *Harris Corp - President & CEO*

A couple of things -- maybe a little more color on the INS growth. We are expecting the IT Services business to be down about 10% next year, and that does include the loss of NGEN. So, even though we've protested and we feel we have strong grounds for the protest, we thought it was prudent to pull out of our numbers. That means that some NMCI does continue into fiscal '14, not for the full-year effect, but some part of the year, we will continue to see NMCI sales.

With that 10% down in IT Services, if I pull out the NMCI piece, the other parts of IT Services will be down about 6%, which is sort of consistent with where we see the budgets being in IT Services for the course of next year. We are seeing, on the NMCI revenue down about 33%, about one-third down into next year, because it is going to start to wind down and transition to NGEN over the course of the year. On the other two parts of INS, CapRock and Healthcare, we see both businesses to be pretty strong next year, both up high-single digits or slightly better. In total, we see revenue flat -- to be flat at the INS segment level.

Pete Skibitski - *Drexel Hamilton - Analyst*

Very helpful. Thanks very much.

Operator

Chris Quilty, Raymond James.

Chris Quilty - *Raymond James & Associates - Analyst*

I guess, recently, you picked up a certification on PRC-152 handheld, but we haven't heard any announcements regarding your efforts to get the two-channel radio certified, which I believe is a prerequisite for the Manpack competition. Can you give us an update on where you feel you stand in that certification?

Gary McArthur - *Harris Corp - SVP & CFO*

I will have to check with the team, Chris, and get back to you with that. I don't have any real update to share on the certification. I know that we've made major progress, as we talked about, with WNW and our maneuver radio, and that is working effectively. But, I haven't heard anything, specifically, about a certification from the team that's an issue or a concern with regards to the timing of the awards.

Chris Quilty - *Raymond James & Associates - Analyst*

Okay. And, regarding your ANW2 certification, I know you were looking to get that put in the repository and potentially deployed across even competitor radios. Is that still something that you are focusing on?

Gary McArthur - *Harris Corp - SVP & CFO*

It is, actually, and we are making good progress there. In fact, we would expect that would happen in the first half of our fiscal year, maybe even in the first quarter.

Bill Brown - *Harris Corp - President & CEO*

Although, we worked on that all throughout fiscal '13 as well. We opened a dialogue with the DoD customer, and we expect it's going to occur in the course of next year, but timing that -- even calling a time on that is a bit uncertain.

Chris Quilty - *Raymond James & Associates - Analyst*

And just to clarify that proprietary ANW2 waveform, I think originally, you had to get a waiver for that to be deployed in Afghanistan, but is it now being widely used throughout your product platform --?

Gary McArthur - *Harris Corp - SVP & CFO*

Yes, absolutely (multiple speakers). Absolutely, across the 117G family, it's very much a part of that. It's done very well in these NIE testing. It has played a very important role in that, as well, and I think the customers are seeing that it is very beneficial to the solution going forward.

Chris Quilty - *Raymond James & Associates - Analyst*

Great. Thank you.

Pamela Padgett - *Harris Corp - VP of IR*

Okay, I think that wraps us up for the day. Thank you, everyone, for joining us, and see you next quarter.

Operator

Thank you for your participation in today's conference.