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HRS - Q1 2014 Harris Earnings Conference Call

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OVERVIEW:

Co. reported 1Q14 EPS of $1.18. Expects FY14 revenue decline of 1-3% vs. prior-year and diluted EPS from continuing operations of $4.65-4.85.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the quarter-one 2014 Harris earnings conference call. My name is Matthew, and I will be your operator for today.

(Operator Instructions)

And 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, IR*

Thank you. Good morning, everyone, and welcome to our first-quarter fiscal 2014 earnings call. I'm Pamela Padgett, and on the call with me today is Bill Brown, President and CEO; Gary McArthur, Senior Vice President and Chief Financial Officer.

Before we get started, a few words on 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, 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.

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Bill Brown - *Harris Corp - President & CEO*

Thank you, Pam, and good morning, everyone. And welcome to our first-quarter earnings call. I am pleased to report a positive start to the fiscal year.

Previous restructuring actions and our continuing focus on the things we control in this challenging government environment, such as improving operational excellence, driving free cash flow, and returning cash to shareholders led to solid results, with higher earnings per share and significantly higher free cash flow. We also had some key winds, which I will touch on in a minute. And our book-to-bill for the Company was slightly higher than 1.

Turning to slides 3 and 4 of the presentation, earnings per share was $1.18, up 4% on revenue down 6%. We generated $139 million of free cash flow compared to $77 million in the prior year, with a conversion rate of 109% of income.

And we continued to deliver on our commitment to return cash to shareholders during the quarter, increasing our dividend 13.5%, spending $100 million in cash to repurchase shares, and approving a new $1 billion share repurchase authorization.

Over the past year, as we restructured and focused on operational excellence to lower cost, we also continued to invest in the future. We increased R&D investment in fiscal 2013 by about 5%, and it was up again in the first quarter, and we focused the R&D spend on the most strategic and highest return projects.

This strategy is beginning to bear fruit, and I thought I would point out a few specific examples that provide some insight into our future competitiveness. By investing R&D resources in a two-channel tactical radio system, we were successful in winning the Army's highly contested $141 million Mid-Tier Networking Vehicular Radio procurement, called MNVR.

As you well know, this replaces the canceled JTRS program called Ground Mobile Radio, or GMR. Our solution for MNVR is based on our Falcon III radio. With more than 45,000 units fielded around the world, it is the most widely deployed wideband radio in the market.

And just as Harris was first to have the government's SRW waveform certified and working in a radio, MNVR will be the first production radio to deploy the government's wideband networking waveform, WNW. Initial shipments will be in time for the Army's network integration evaluation 15.1 in the fall of 2014, and over the next 10 years the Army has budgeted about $600 million to spend on mid-tier radios.

We're also focusing investment on other upcoming JTRS procurements, and were pleased to hear that the Army is moving back towards a multi-vendor acquisition strategy for both the Manpack and the Rifleman radio, an approach we believe is in the best interest of the war fighter and the taxpayer, as competition drives innovation, speed to market, and cost-effective solutions.

We officially launched our two-channel Manpack radio at last week's AUSA. Our radio weighs less and is a third smaller than competitor radios, has a simple keypad-driven user interface familiar to some 45,000 current tactical radio users, and has the ability to support the full suite of waveforms without requiring expensive add-on appliques.

Our Rifleman radio offering is the US equivalent to our international soldier radio, of which more than 44,000 have been already fielded around the world. Our US product, the RF 330E wideband team radio, provides significant differentiation from existing radios, including a substantially longer battery life, shorter connect time to the network, and a unique dashboard display that provides the user operational and network status at a glance, such as battery time remaining, and number of users, and where they are on the network.

We also stepped up investment on the international front, and in a recent London trade show announced our entry into the international ground-to-air radio market. Our international offering is a variant of the radio that will compete for the US market's small airborne networking radio, or scanner procurement, that replaces the previously canceled JTRS airborne radio program, AMF.

Overall, good early returns on a key strategy to increase and focus our R&D spend. As we mentioned in our fourth-quarter call, growing revenue in international markets is important to our year, and we have had some pretty positive news on that front.

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Our international tactical pipeline has increased in value, funding has firmed up as a result of improving relations between the US and Pakistan, and contract vehicles supporting foreign military sales are in place, with encouraging recent increases in ceiling value.

Earlier this month, we were awarded an $847-million increase in the ceiling value of a sole source C-comp contract, and you may recall that last third quarter we received a $500-million ceiling-value increase on a similar sole-source contract, giving us some comfort that communications equipment is a spending priority. In government communications, we made significant progress on one of our FAA NextGen programs known as Datacom.

Under Datacom, the FAA is transitioning air traffic control from mainly voice communications to specialized data messaging, improving safety and reliability, as well as providing other efficiencies for the airlines, such as saving fuel and reducing arrival and departure times. To jumpstart industry adoption early in the Datacom program, the FAA established an incentive program for equipping aircraft with digital avionics. And Harris has played an integral role working with the FAA to garner industry support for using the incentives to begin equipping airplanes.

This quarter, we received a big boost from industry when five major US airlines committed to outfit their aircraft with digital avionics equipment, achieving nearly 80% of the FAA's six-year target in just the first year of the program. This strong commitment by industry demonstrates that the Datacom program will continue to be a valued and funded component of the FAA's NextGen initiative.

In our integrated network solutions segment, we have particularly strong orders in IT services, and made significant progress in strategically expanding our maritime business. Earlier this month CapRock was awarded, in a competitive bid, a five-year contract from Carnival Corporation for satellite voice, data, and Internet services across its fleet of 103 ships, dramatically improving bandwidth capacity to meet growing demand from passengers and crew. With this significant award and our previous Royal Caribbean win, we are now the satellite communications provider for the top two cruise lines in the world.

Overall, a pretty solid start to the year. And now we will turn it over to Gary to comment on segment results and guidance for 2014, and then we will open it up for some of your questions.

Gary McArthur - *Harris Corp - SVP & CFO*

Thank you, Bill, and good morning, everyone. Moving to segment results on slide 5, RF communication orders were $348 million compared to $363 million in the prior year. Revenue was $423 million compared to $445 million. Book-to-bill was 0.8.

In tactical communications, orders were $225 million, up in the US but down in international due to timing. Tactical revenue was $305 million, and declined 1% compared to the prior year. The 12- to 18-month international pipeline grew to $2.4 billion, expanding somewhat from the previous quarter's $2.2 billion. The US pipeline is also a bit higher at $1.1 billion compared to the previous quarter's $1 billion.

In public safety, revenue was weak at $118 million, declining 14%. Orders were $123 million, up 12%, and book-to-bill was greater than 1. The decline in revenue reflects both the general weakness across system and terminal sales in state and local, and from federal government orders booking too late in the quarter to turn to revenue. Public Safety orders in the quarter included $40 million from Mobile County, Alabama, to deploy a P25 emergency communication system, a good win resulting from a growth initiative to migrate customers from existing legacy systems to the P25 inter-operable standard.

Operating income from the RF communications segment was $135 million, with a 32% operating margin in the quarter, driven by lower cost and favorable product mix.

Turning now to slide 6 and integrated network solutions. First-quarter revenue decreased 3%, to $376 million. In CapRock, growth in energy and maritime was more than offset by lower government revenue. In IT services, while revenue was down 3%, the decline was less than expected.

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Segment orders were higher than revenue as a result of record orders in IT services. The outstanding orders performance at IT services was driven by several wins -- $89 million from the VA; $35 million under the US State Department Consular Affairs Support Services contract; and $22 million from the US Air Force for NORAD and NORTHCOM.

Other awards included a $65-million follow-on contract for the US Air Force's satellite control network and a position on the NETCENTS-2 Application Services IDIQ contract with a ceiling value of $960 million. And following the close of the quarter, we received a $54 million order from the US Navy to extend continuity of services on the Navy Marine Corps Internet contract through June 2014.

In CapRock, we were awarded a seven-year $45-million contract, including options, and received an initial order under this contract of $24 million from an oil and gas equipment services company for the global fleet of offshore service vessels. In healthcare we were less successful than expected on government re-competes and new program wins, and the release of our clinical innovation platform version 5.1 software slipped from the planned August launch date. The software has now been released, and is operating in a few live environments. So, so far so good.

In integrated network solutions, segment operating income was $30 million compared with prior year of $33 million. Lower costs were more than offset by the impact of lower revenue and margin pressure from a competitive government market environment.

Moving to slide 7, revenue in government communications was $412 million, decreasing 9% from the prior year, primarily due to the timing of NOAA's GOES-R weather program transitioning to an integration and test phase, and partially from lower revenue from Department of Defense customers. The declines more than offset higher revenue from classified customers and from other civil agency customers, including the FAA.

Excluding GOES-R, revenue for the rest of the business was flat with the prior year. Awards in the quarter included the seven-year $150-million network services component of the previously won Datacom program that Bill just discussed and a five-year multi-vendor communications and transmission system IDIQ contract called CTS from the US Army, with a $4.1-billion ceiling value to provide upgrades and maintenance of the Army's worldwide terrestrial communications networks. Operating income was $64 million and operating margin was strong, at 15.5%, as a result of very good program performance.

Turning to slide 8, free cash flow was strong at $139 million versus $77 million last year. Capital expenditures were $33 million compared to $44 million in the prior year. During the quarter we repurchased about 1.7 million shares of our common stock for a total cash outlay of $100 million. And our effective tax rate for the quarter was 32.2%.

Moving to slide 9, fiscal 2014 guidance remains unchanged at a range of $4.65 to $4.85 per diluted share for income from continuing operations and a revenue decline of 1% to 3% compared to the prior year. We have also made no changes to segment information, which is detailed on the slide. And with that, we will turn it back to the operator and open the line for questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Carter Copeland of Barclays.

Carter Copeland - *Barclays Capital - Analyst*

Hey, good morning guys, and good quarter.

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Bill Brown - *Harris Corp - President & CEO*

Good morning, Carter.

Carter Copeland - *Barclays Capital - Analyst*

Just a couple of questions. The weakness you saw in the quarter at PSPC, you quoted the system and terminal sales orders -- or the order shifted to the right. Does that weakness abate and we returned to growth there? Is that what is implied by that statement later in the year?

Bill Brown - *Harris Corp - President & CEO*

Yes. We were a little bit weak on revenue. Part of it was, I think, market-driven, this weakness in systems and terminals for state and local. We also had some orders that came in pretty late in the quarter on federal side, which didn't make the quarter and shifted into Q2. So that was a factor as well, but you remember back the last couple of years our book-to-bill has been less than 1 for about seven or eight of the last nine quarters. Decent bookings in Q1, I would say. We're up about 12%, 13%, and solid book-to-bill in the quarter.

And we do expect that over the balance of the year we will return to growth. As I mentioned last time, our guidance for the year in Public Safety was mid- to high single-digits. Certainly coming out of the gates at down 14%, puts a little more stretch into the back half. We still think that this is a growth business. We think the market is growing in the 3% to 5% range. Our biggest competitor in the space did have some challenges like we did in the most recent quarter and seeing the same sort of market phenomena that we're seeing.

We're making some changes in the way we organize at Public Safety. I think we have added people into sales and marketing, both on the terminal and system side to drive growth in that space. We're investing in the product offering. I think over time, we're going to start to see ourselves come back to full growth, and we do expect that will be towards the back end of the year, Carter. So thank you.

Carter Copeland - *Barclays Capital - Analyst*

Great. On the CECOM, the ID/IQ ceiling increase, were there any associated task orders that came with that? Or it was just the ceiling change for now?

Bill Brown - *Harris Corp - President & CEO*

These two vehicles have been in place for some time. There was a ceiling increase. We've been, over time, receiving some task orders against each of them.

I think what we saw in -- the one we saw back in Q3 at $500 million and the most recent one is, again, just a little more encouragement, a little more confidence that orders on the FMS side will start to flow through those vehicles. They are sole-source, they're communication-specific, Harris-specific. So that was a -- I think, a big vote of confidence in what we expect to see as better growth in the international side for the balance of the year.

Carter Copeland - *Barclays Capital - Analyst*

Okay, great. Thanks. I will get back in the queue.

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Bill Brown - *Harris Corp - President & CEO*

Thank you, Carter.

Operator

Yair Reiner of Oppenheimer.

Yair Reiner - *Oppenheimer & Co. - Analyst*

Great, thank you. Congrats on the good margins this quarter. On the margin front, at GCS you seem to be batting pretty strongly here. Kind of opposite story at INS. Maybe you could help us think through how the balance of the year plays out, and what was behind the decision not to raise the guidance for GCS margins and not to lower it for INS?

Bill Brown - *Harris Corp - President & CEO*

At GCS we feel really good about the margin progression over the last several years, and we have felt great where we ended it fiscal 2013. We feel good about where we came out in the first quarter of fiscal 2014 at 15.5%. That is pretty strong. Of course, we still guiding to 14% for the year.

We saw unusually strong product business in the first quarter, and we saw some really good award fees coming through on a number of our programs, and particularly on the classified side. Those things you tend not to want to put in the guidance or forecast to repeat for the balance of the year, so we did not do that. We do see over the course of the year a little less product business, a little more systems and program business, which will be at slightly lower margins. So again, we are one quarter into the year. I think we are maintaining a cautious approach for the year, and we held our guidance.

Yair Reiner - *Oppenheimer & Co. - Analyst*

And INS?

Bill Brown - *Harris Corp - President & CEO*

In INS, I think we came out of the gates. We saw pretty good orders at the IT services business, and as Gary had mentioned, we did see an extension to the NMCI contract going for the balance of the year. So we will see some improvement in the segment, just simply because we've got a little bit better performance in the IT services business.

In Q1, both IT services and CapRock were down modestly year-over-year in margins in Q1. Of course, CapRock was improving sequentially, and we see that improving over the balance of the year. Again, it's a little bit early to change our outlook for the year on margins for INS. I think we had, I guess, a solid start, coming just below 8%, 7.9% margin for the INS segment, and we look for now 8% to 10% for the year is about the rate range, given what we see in our business.

Yair Reiner - *Oppenheimer & Co. - Analyst*

Great, and then just one more if I could. Tactical was good this quarter in terms of the top line. Seems to be trending maybe a little bit above the guidance for the year, which was down, I think, low single-digits. Should we think of that as perhaps being ahead of plan, and TSS business, to Carter's point, maybe being a bit behind?

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Bill Brown - *Harris Corp - President & CEO*

If you try to extrapolate from Q1, one could draw that conclusion. But it's still one quarter in the year, and we still have a lot left in. I think we came out of the gate strong on Tactical. We feel good about that. We had good orders in the DoD side. And of course the MNVR win was nice wind at our back, and we feel strong about that.

I think the backlog remains pretty healthy in the Tactical business. You may recall we had very strong orders in Q4. We ended the year with very, very good backlog. Of course, with orders being down a little bit and the book-to-bill, as Gary mentioned, in Tactical being less than 1, we saw backlog erosion over the course of the quarter. But you can run the math. It dropped about $80 million sequentially through Q1. Where we stand today in terms of backlog in Tactical versus where we were 1 year ago, we're about 8% to 9% higher. And that does give us a little more encouragement that we will see pretty good business this year in Tactical Radios. And we hope that, that might offset what could be more of a stretch in Public Safety in the back half.

Yair Reiner - *Oppenheimer & Co. - Analyst*

Got it, Thank you very much.

Operator

Joe Nadol of JPMorgan.

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

Thanks. Good morning, guys. Bill, on the pipeline, which went up both in international and domestic. Is that due to the changes in the weightings that you guys give them? Given, I think, Pakistan, you mentioned that. That seems like probably an important change, and also you mentioned the multi-vendor strategy for jitters. Were those basically incorporated, and that's why they went up, or was it other drivers?

Bill Brown - *Harris Corp - President & CEO*

On the DoD side, it came up I'd say modestly year-over-year. Last time it was about $1 billion, now it's about $1.1 billion. There's various parts of the geography that move around, but I would not over-read too much into it. It going up by $100 million, it's in that range of accuracy, but we still feel pretty good about the pipeline for DoD. Only about 25% of that pipeline is on re-modernization.

The rest is what we see happening in the Air Force, Marine Corps, SOCOM, all of which is standardized on Falcon III, other Army spares and some other things. On the DoD side, I would characterize it as remaining pretty solid for us. On the international side, it did come up by a $200 million, and it was not waiting. It was very specific opportunities that just have grown in value since we spoke about 3 months ago, and they are very specific ones. The shape, or the contour, of that $2.4 billion pipeline has not moved a lot.

It is still more than half Middle East and Asia where we know security is an issue and the US is starting to pull back. Iraq is an important market for us and that is pretty strong country in Africa. Obviously Pakistan has been big, and I mentioned that in the script, and that is getting a little bit more solid. A lot of it is, about 15% of the pipeline is coalition countries that are deploying Wideband, and interestingly enough they are standardizing on our product, moving from 117S to 117Gs. And the balance is in Latin America. It's in various pieces, but the growth is specific opportunities in some of those markets that I just mentioned.

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

Just over on the margins, they were pretty strong in Tactical Comm looks like. A little lower obviously than the unusual Q4 number, but higher than they were in the first part of last year. You mentioned on the last call, I believe, that you are looking for mix to be a little bit of a headwind for you as you go through the year. Is that still true, or are you feeling a little better but the sustainability of the margins here?

Bill Brown - *Harris Corp - President & CEO*

No, that is still true. My comments today are very consistent with what we talked about last time. We did end the year fiscal 2013 very strong. We had unusually strong international margins based on the mix of what was in international. We did say over the course of fiscal 2014 as we see more international business and more systems business that we will see margins trending down over the course of the year. So we're not terribly surprised that we came in a little bit higher in Q1. It feels good. Dana and his team are performing exceptionally well in managing the various mix shifts and driving innovation, driving operational excellence. I think they're executing extremely, extremely well.

We still see the full year coming in around 30%. We continue to invest in our business. I made a specific, maybe long-winded discussion around our R&D investment over the course of my prepared remarks to really drive home the point that as we do take out costs, we are investing. And we are investing quite a bit in that very, very important franchise we have in Tactical Communications. We are investing in sales and marketing and R&D, and we feel good about our ability to continue to take out costs and drive operational excellence in that segment, which remains really, really strong. We are still at about 30% for the year, and we think we've got a pretty good roadmap to achieve that, Joe.

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

Okay, thank you.

Operator

Bill Loomis of Stifel.

Bill Loomis - *Stifel Nicolaus - Analyst*

Thank you. Good morning, good quarter. Just looking at the shutdown impact and sequestration. Ironically you are talking about your shorter-cycle businesses. IT services had great awards and good performance, and then Tactical, your DoD pipeline looks better and awards have been good there. Can you talk about how you have seen the shutdown, how that impacted your business going into the December quarter? And then just some thoughts as we were past -- we're already obviously into fiscal 2013 sequestration, 2014 coming up. Any new thoughts there on how it could impact some of your shorter-cycle US federal business? Thanks.

Bill Brown - *Harris Corp - President & CEO*

Sure. We saw little bit of disruption in the early part of October in some of our factories, mainly with the DCMA inspectors when they were on furlough. They came back shortly thereafter, and very quickly we got back into business. We did not see much of a disruption on the product side based on the fact that the DCMA inspectors came back relatively quickly. In some of our IT business we did see a couple of programs where we had to be pencils down for a couple of weeks. It was temporary, it was in the tens of people, it was small, small numbers. Not a lot of big impact in our quarter.

The bigger impact that we see, and I think others I've seen, is just the push-out in awards, and that's going to take some time for the government to catch up with that. Overall, the impact is more push-out on awards and less on what would happen day to day in the early part of October. In terms of the shutdown and what is happening in DC, the shutdown is over but here we are again operating under a Continuing Resolution. And

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that is going to go on through mid-January when obviously sequestration could in fact get triggered again, depending upon what happens in the budget committee.

I understand they are starting to meet this week, and who is to say what is going to happen over the next 6 weeks? Will they create a budget, will they do something that is different than we are all expecting? We don't know. There's a lot of uncertainty in the market place. So for now we are maintaining a pretty cautious view of where we at in the first half of the year, just as we previously expressed. We are not going to get into calling where we are in a first half versus second half, but we did say we'd be a bit more cautious in the first half, and I think that was an important point.

It's playing out as we had thought just a couple of months ago. I think we had a good start in Q1, and we saw some encouraging news. We are focused on the actions that drive performance and generate solid free cash in the year, but as I said though quite a bit of uncertainty and we managing through it just as best as we can.

Bill Loomis - *Stifel Nicolaus - Analyst*

Just one more on NMCI. What revenue run rate are you carrying to the year end? If you could talk about that, and how quickly do you think it will drop off?

Bill Brown - *Harris Corp - President & CEO*

On NMCI it comes in at relatively strong margins, and they are not going to be too terribly different than what we've seen in the past. They're quite a bit above the normal segment margins we see in IT services. I don't think I would want to speculate as to what they happen to be, but that, Bill, does give us, I'd say, a little more upside on the IT services side of INS. And that will offset probably a little bit more pressure in some other parts of the INS segment, which is why I was couching my remarks on the 8% to 10% for the year.

Bill Loomis - *Stifel Nicolaus - Analyst*

Is it running at the full rate going into the end of the year?

Bill Brown - *Harris Corp - President & CEO*

I would say it has been run very, very strongly. We don't see that it's going to change much through the balance of the year.

Bill Loomis - *Stifel Nicolaus - Analyst*

Okay, thank you.

Operator

Peter Skibitski of Drexel Hamilton.

Peter Skibitski - *Drexel Hamilton - Analyst*

Good morning. Guys, I just wanted to ask you a couple more questions about the FMS radio contact that had the ceiling increase a few weeks ago. I was just wondering, was that increase kind of in line with what you expected? And then maybe if you could share how much value was left on that contract? And just kind if that contract vehicle carries the majority of your international orders?

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Bill Brown - *Harris Corp - President & CEO*

We did expect that those ceiling increases would come. Obviously we watch as we draw down some of the existing ceilings, and watch carefully as to much is remaining. We weren't surprised that the increases happen. We can't really get into specifics as to how much is left or where the numbers happen to be. But when you take a $500 million increase a few quarters ago, another $850 million recently, that is some pretty healthy headroom in those two contracts, just based on the increases that we have seen. I think that's -- I'm not sure, there was another part to your question, Pete?

Peter Skibitski - *Drexel Hamilton - Analyst*

Yes, is that contract vehicle, is that the majority of your international RF orders flow through that contract vehicle?

Bill Brown - *Harris Corp - President & CEO*

No, no. We've got other things that we do. There's some that go direct, there's some other vehicles. No, that represents some parts of our international business, but not all of it.

Peter Skibitski - *Drexel Hamilton - Analyst*

Okay, got it. And just one follow-up. On the $1 billion share authorization -- I forget how long that lasts for, but are you still expecting to do, I think it was $200 million in repurchases this year? And I guess what is the rationale for maybe not doing more, given the size of the authorization?

Gary McArthur - *Harris Corp - SVP & CFO*

Pete, this is Gary. There is no limitation on the time as to the $1 billion authorization. And they're looking at our capital deployment. At this point we have not changed our outlook for the year. We're going to maintain a dividend payout ratio again at 30% or above. We are targeting $200 million in share buybacks.

Peter Skibitski - *Drexel Hamilton - Analyst*

Okay, thank you.

Operator

Gautam Khanna of Cowen and Company.

Gautam Khanna - *Cowen and Company - Analyst*

Yes, thank you. Could you help us figure out when the SRW Applique, the Manpack production awards, may actually be awarded? What is your expectation on timing?

Bill Brown - *Harris Corp - President & CEO*

Both the Manpack and the Rifleman do -- have been shifting to the right. Our expectation today, based on what we are hearing, is that the RFP on the Rifleman should come out around the Christmas time. And we think the Manpack to follow 45 to 60 days after that possibly, but again there

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are a lot of moving parts. And I think the shutdown and the budget debates, and I think part of it is they're rethinking positively for Harris Corporation, going from single vendor to multi-vendor is also causing a little bit of a shift in the timing, but that's when we think the RFP is going to come out.

The award time has not changed from what we're hearing from the DoD, sometime in the summer of next year. Again as you move the front end, it could move the back end a little bit. My understanding is they want some delivery orders prior to 15.1. So we think that is still the timing that they are shooting for.

Gautam Khanna - *Cowen and Company - Analyst*

What about the SRW Applique in terms of funded orders?

Bill Brown - *Harris Corp - President & CEO*

The Appliques, we think the award is going to come out sometime at the end of the year, around December.

Gautam Khanna - *Cowen and Company - Analyst*

Thank you.

Operator

Chris Quilty of Raymond James.

Chris Quilty - *Raymond James & Associates - Analyst*

Just a follow-up on orders. Can you remind us, when does the protest period end for the MNVR contract? And have you seen a protest yet?

Bill Brown - *Harris Corp - President & CEO*

We understand, Chris, that the time for the -- a timely protest on MNVR expired yesterday. We have -- the debriefings did happen, and we have heard nothing. So we are under the impression that there will be no protest.

Chris Quilty - *Raymond James & Associates - Analyst*

Congratulations. Follow-up question on the CapRock business. Congratulations on that Carnival win, with that with the Royal Caribbean, I think is about 60%. If you can confirm that, of the cruise industry. Can you speak specifically about what factors led to those wins, given the fact that MTN had been the incumbent, I think, for the better part of a decade? Was it something specific in the technology implementation? Or pricing or bundling of other services that you think contributed to those wins?

Bill Brown - *Harris Corp - President & CEO*

I wouldn't want to try to generalize it to a specific factor, because they are very big complicated awards. And the decision factor by the Royal Caribbean was probably a little bit different than Carnival. When you have thousands of people on your boats and you have a hundred boats in your fleet and cruises going every year -- every week rather, and the importance of people bringing devices on the boat. It is very, very important for the cruise line to pick a very reliable communications partner to handle interactions with their customers and their crew.

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I think they were very, very thoughtful on this. This RFP went on for some time. It was price competitive, but they were looking for a solution, they were looking for reliability, they were looking for the ability to bring other communications technologies, not just V-SAT, do things differently on the boat. I think the variety of expertise that Harris Corporation has in this space plus the financial backing of the Corporation and the wherewithal of our entity I think was some of the factors that went behind Carnival choosing us.

We feel very good about the award. We feel very good about where we are at with Royal Caribbean, and we see there is more opportunities in the space. In terms of the share, I'm not really sure exactly what their share is. You have 100 boats for Carnival and another 35, 34-ish for Royal Caribbean. I think you can run the math from that. We are not going to be 60% of the segment at this point, I don't think.

Chris Quilty - *Raymond James & Associates - Analyst*

Okay, and to what degree are you going to be able to generate operating leverage from the fixed amount of transponders that you are already leasing? Or would something like Caribbean require a large new incremental purchase of transponder capacity?

Gary McArthur - *Harris Corp - SVP & CFO*

I don't believe so, Chris. We basically have our global teleports established, and then have good coverage in that region that their ships would be sailing. Is not really on the transponder side. With regards to the bandwidth, we've definitely gone out and contracted for the bandwidth. So we're pretty sure that we're going to be able to do those at competitive rates. So we're pretty well positioned and should be able to leverage the infrastructure that is already in place.

Chris Quilty - *Raymond James & Associates - Analyst*

Great, thanks a lot.

Bill Brown - *Harris Corp - President & CEO*

Thank you Chris.

Operator

Josh Sullivan of Sterne Agee.

Josh Sullivan - *Gleacher & Company - Analyst*

Morning. On the Government Communications side, can you talk about the balance between the cost initiatives you have obviously been successful with versus new business and competing for new contracts? Now using the operating leverage for growth, you've given this focus on cost going forward, are you more comfortable enough in your position to just continue in more of a harvesting mode at this point?

Bill Brown - *Harris Corp - President & CEO*

We are definitely not in a harvesting mode in GCS. In fact, when I talk -- I talked a lot about investments in Company-funded R&D in Tactile Communications, but we are substantially raising our Company-funded R&D within the GCS segment, as well. Geared towards in many ways a lot of the products that we sell. It's been very successful. We talked about this in an Investor meeting 1.5 years ago or so. We have seen the amount of product business we do at GCS come up. It keeps getting a little bit better. We see opportunities to extend some of the product business around the world into international markets, and we're investing to capture some of that. It's not harvest, it is actually continuing to grow.

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Sheldon and his team have done an outstanding job in managing their programs and executing on the programs to continue to keep margins on an upward trajectory. And I think there is not much more to say about that. They've just done on outstanding job in that segment. Even in the first quarter, while the revenues came in a little bit lighter than maybe people would have expected, and to what we are guiding to for the year, even the revenue performance I think in the first quarter was pretty good. It, outside of a pretty tough compare, which is just really the first quarter only on GOES-R. Outside of that, the revenue would have been about flat. They're off to a good start in the year as well on the top line. And as we talked before, pretty good on the margins as well.

Josh Sullivan - *Gleacher & Company - Analyst*

That's good to hear. Then can you just update us on the healthcare platform rollout? I might have missed is. I came on a little late. Just curious.

Bill Brown - *Harris Corp - President & CEO*

We were a little bit late in the release of critical piece of software for the commercial healthcare market. We thought it would have happened earlier in Q1, but it is launched. It's live in a couple of environments. It hasn't been very long. So the feedback is still very nascent, but no surprises. And we keep a watch-eye on it. We hope that that's going to be successful. We expect that, that's going to be successful and we will see better performance in the back end of the year on the commercial side.

Josh Sullivan - *Gleacher & Company - Analyst*

Is there any way to kind of size that opportunity maybe longer term?

Bill Brown - *Harris Corp - President & CEO*

Look, healthcare for us is a relatively small piece of our portfolio. The business is $200 million and the commercial side is $50 million or less. Right now it is small. We're focused on getting the software deployment right, getting it working right in the space. And then once we do that, we will see the effect it has on the portfolio over time. It is just too soon to say. Right now, it is really not a big part of Harris Corporation.

Josh Sullivan - *Gleacher & Company - Analyst*

Good to hear. Thanks. I will jump back in the queue.

Pamela Padgett - *Harris Corp - VP, IR*

Operator, is there anyone else in the queue? Josh, do you have another question? (multiple speakers)

Operator

There are no more questions in the queue.

Pamela Padgett - *Harris Corp - VP, IR*

Okay, I think with that we will wrap up the call, and thank you everyone for joining us today.

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Operator

Thank you very much for joining today's conference, ladies and gentlemen. This concludes the presentation. You may now disconnect. Have a very good day.

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