



Fiscal 2015 Fourth Quarter

Reconciliation of Non-GAAP Financial
Measures and Regulation G Disclosures

Regulation G Disclosures



To supplement our condensed consolidated financial statements presented in accordance with U.S. generally accepted accounting principles (GAAP), we provide additional financial measures that exclude or include amounts, or are subject to adjustments, so as to be different from the most directly comparable financial measures calculated and presented in accordance with GAAP. Harris management believes that these non-GAAP financial measures, when considered together with the GAAP financial measures, provide information that is useful to investors in understanding period-over-period operating results separate and apart from items that may, or could, have a disproportionately positive or negative impact on results in any particular period. Harris management also believes that these non-GAAP financial measures enhance the ability of investors to analyze Harris' business trends and to understand Harris' performance. In addition, Harris may utilize non-GAAP financial measures as guides in its forecasting, budgeting, and long-term planning processes and to measure operating performance for some management compensation purposes. Any analysis of non-GAAP financial measures should be used only in conjunction with results presented in accordance with GAAP. A reconciliation of these non-GAAP financial measures with the most directly comparable financial measures calculated in accordance with GAAP follows:

Reconciliation of Non-GAAP Financial Measures – Earnings Release Information



Operating Income as a % of Revenue

(\$ in millions)

| | <u>FY14-Q4</u> | <u>FY15-Q4</u> | <u>FY14</u> | <u>FY15</u> |
|--|-----------------|-----------------|-----------------|------------------|
| Revenue from product sales and services | \$ 1,329.4 | \$ 1,534.9 | \$ 5,012.0 | \$ 5,083.2 |
| Cost of product sales and services | (899.6) | (1,038.2) | (3,310.5) | (3,362.0) |
| Engineering, selling and administrative expenses | <u>(203.9)</u> | <u>(405.1)</u> | <u>(819.6)</u> | <u>(1,008.6)</u> |
| GAAP operating income | 225.9 | 91.6 | 881.9 | 712.6 |
| <i>GAAP operating income as a % of Revenue</i> | <i>17.0%</i> | <i>6.0%</i> | <i>17.6%</i> | <i>14.0%</i> |
| Costs related to or acquisition of Exelis Inc. (1) | | 127.1 | | 135.6 |
| Charges for restructuring and other items | | <u>40.3</u> | | <u>40.3</u> |
| Non-GAAP adjustments | | 167.4 | | 175.9 |
| Non-GAAP operating income | <u>\$ 225.9</u> | <u>\$ 259.0</u> | <u>\$ 881.9</u> | <u>\$ 888.5</u> |
| <i>Non-GAAP operating income as a % of Revenue</i> | <i>17.0%</i> | <i>16.9%</i> | <i>17.6%</i> | <i>17.5%</i> |

(1) Adjustment includes transaction, integration, restructuring and other costs.

Reconciliation of Non-GAAP Financial Measures – Earnings Release Information



Free Cash Flow Calculations

(\$ in millions)

| | <u>FY14-Q4</u> | <u>FY15-Q4</u> | <u>FY14</u> | <u>FY15</u> |
|-----------------------------------|----------------|----------------|----------------|----------------|
| Operating cash flow | \$ 395.2 | \$ 458.8 | \$ 849.2 | \$ 854.0 |
| Less net capital expenditures (1) | <u>(61.6)</u> | <u>(46.1)</u> | <u>(174.3)</u> | <u>(141.4)</u> |
| Free cash flow | \$ 333.6 | \$ 412.7 | \$ 674.9 | \$ 712.6 |

- (1) Reflects capital expenditures, net of \$8.0 million and \$7.0 million of proceeds from the sale of property, plant and equipment in FY14-Q4 and FY15, respectively; and net of \$35.0 million of proceeds from the sale of property, plant and equipment (including \$27.0 million from the sale of our Cyber Integration Center) in FY14-Q4.

Reconciliation of Non-GAAP Financial Measures – Earnings Release Information



RF Communications Segment - Operating Margin

(\$ in millions)

| | FY14-Q4 | FY15-Q4 | FY15 |
|--|----------|----------|------------|
| Revenue from product sales and services | \$ 493.2 | \$ 504.7 | \$ 1,774.8 |
| Cost of product sales and services | (253.9) | (245.5) | (850.2) |
| Engineering, selling and administrative expenses | (98.8) | (102.6) | (375.5) |
| GAAP operating income | 140.5 | 156.6 | 549.1 |
| <i>GAAP operating income as a % of Revenue</i> | 28.5% | 31.0% | 30.9% |
| Charges for restructuring | | 2.8 | 2.8 |
| Non-GAAP operating income | \$ 140.5 | \$ 159.4 | \$ 551.9 |
| <i>Non-GAAP operating income as a % of Revenue</i> | 28.5% | 31.6% | 31.1% |

Integrated Network Solutions Segment - Operating Margin

(\$ in millions)

| | FY14-Q4 | FY15-Q4 |
|--|----------|----------|
| Revenue from product sales and services | \$ 373.4 | \$ 288.7 |
| Cost of product sales and services | (309.0) | (250.5) |
| Engineering, selling and administrative expenses | (31.8) | (59.5) |
| GAAP operating income | 32.6 | (21.3) |
| <i>GAAP operating income as a % of Revenue</i> | 8.7% | -7.4% |
| Charges for restructuring and other items | | 37.1 |
| Non-GAAP operating income | \$ 32.6 | \$ 15.8 |
| <i>Non-GAAP operating income as a % of Revenue</i> | 8.7% | 5.5% |

Reconciliation of Non-GAAP Financial Measures – Earnings Release Information



Earnings Before Interest and Taxes ("EBIT") Margin

(\$ in millions)

| | FY15 |
|--|--------------|
| Revenue from product sales and services | \$ 5,083.2 |
| Cost of product sales and services | (3,362.0) |
| Engineering, selling and administrative expenses | (1,008.6) |
| GAAP operating income | 712.6 |
| Non-operating income (loss) | (108.1) |
| GAAP EBIT | 604.5 |
| <i>GAAP EBIT as a % of Revenue</i> | <i>11.9%</i> |
| Costs related to or acquisition of Exelis Inc. (1) | 135.6 |
| Charges for restructuring and other items | 40.3 |
| Charges to non-operating income (expense) (2) | 109.6 |
| Non-GAAP adjustments | 285.5 |
| Non-GAAP EBIT | \$ 890.0 |
| <i>Non-GAAP EBIT as a % of Revenue</i> | <i>17.5%</i> |

(1) Adjustment includes transaction, integration, restructuring and other costs.

(2) Adjustment includes loss on prepayment of long-term debt, partially offset by pre-tax gain on sale of our commercial healthcare solutions operation.

Reconciliation of Non-GAAP Financial Measures – Earnings Release Information



CHQ Expense

(\$ in millions)

| | <u>FY15</u> |
|-------------------------------|----------------|
| GAAP CHQ expense | \$ 199.0 |
| Acquisition integration costs | (112.2) |
| Acquisition transaction costs | (23.4) |
| Non-GAAP CHQ expense | <u>\$ 63.4</u> |

Net Interest Expense

(\$ in millions)

| | <u>FY15</u> |
|---|----------------|
| GAAP net interest expense | \$ 127.6 |
| Bridge term loan facility costs | (18.4) |
| Pre-acquisition interest on debt securities | (9.4) |
| Non-GAAP net interest expense | <u>\$ 99.8</u> |