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# **L3HARRIS CY2020 SECOND QUARTER EARNINGS CALL PRESENTATION**

July 31, 2020

# 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: revenue, earnings per share, margin, free cash flow, segment and other guidance for 2020; cost synergies, integration expenses, tax rate, average shares outstanding, capital expenditures and other supplemental financial information for 2020; statements regarding strategic priorities, including regarding seamless integration, targeted cost synergies, increasing net synergies in 2020, flawless execution, margin expansion, operational excellence, growing revenue, differentiated technology and innovation, reshaping the portfolio, high margin and high growth businesses, future sale transactions, maximizing cash flow, shareholder friendly capital deployment, potential share repurchase amounts and timing, confidence in free cash flow targets and growth thereafter; working capital opportunity; potential program and contract opportunities and awards and the potential value and timing thereof (including from revenue synergies); 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: actual impacts related to the COVID-19 pandemic; risks related to disruption of management time from ongoing business operations due to the combination of L3 and Harris; risks related to the inability to realize benefits or to implement integration plans and other consequences associated with the combination; the risk that any announcements relating to the combination could have adverse effects on the market price of the company's common stock; the risk that the combination could have an adverse effect on the company's 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 its operating results and businesses generally; 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 transactions, including mergers, acquisitions, divestitures and spin-offs and the risks and uncertainties related thereto, including the company's ability to manage and integrate acquired businesses and realize expected benefits, the potential disruption to relationships with employees, suppliers and customers, including the U.S. Government, and to the company's business generally and potential tax, indemnification and other liabilities and exposures; 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; downturns in global demand for air travel and other economic factors impacting our commercial aviation products, systems and services business; 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; and 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. 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. Persons reading this presentation are cautioned not to place undue reliance on forward-looking statements.

# L3Harris strategic priorities update



## **Execute seamless integration...\$500M in gross cost synergies**

- Cost synergies ahead of plan...increasing to \$185M, \$20M above prior guide
- Plan to achieve \$300M net (\$500M gross) in 2021 intact...1 year ahead of schedule

## **Drive flawless execution and margin expansion...e3 operational excellence**

- 150 bps of adjusted EBIT margin<sup>1</sup> expansion in 2Q to 18.2%
- Updated full-year margin guidance to 17.5%+, versus prior ~17.5%
- Culture of excellence...lean assessments, quality clinics and value engineering

## **Grow revenue...invest in differentiated technology and innovation**

- Rigorous R&D process...with increased focus in select areas
- Multi-billion dollar pipeline of revenue synergies...down-selected on 13 of 23 proposals

## **Reshape portfolio to focus on high margin, high growth businesses**

- 4 transactions to date totaling more than \$1 billion...EOTech set to close today
- Estimating 8-10% of revenue to be divested with ~1/3 complete
- More progress expected in the coming quarters

## **Maximize cash flow with shareholder friendly capital deployment**

- \$785M adjusted FCF<sup>2</sup> in 2Q; ~\$2.7B adjusted FCF<sup>2</sup> LTM
- 2-day sequential working capital improvement...13-day improvement since merger
- Confident in \$3B FCF target for 2022 with growth thereafter

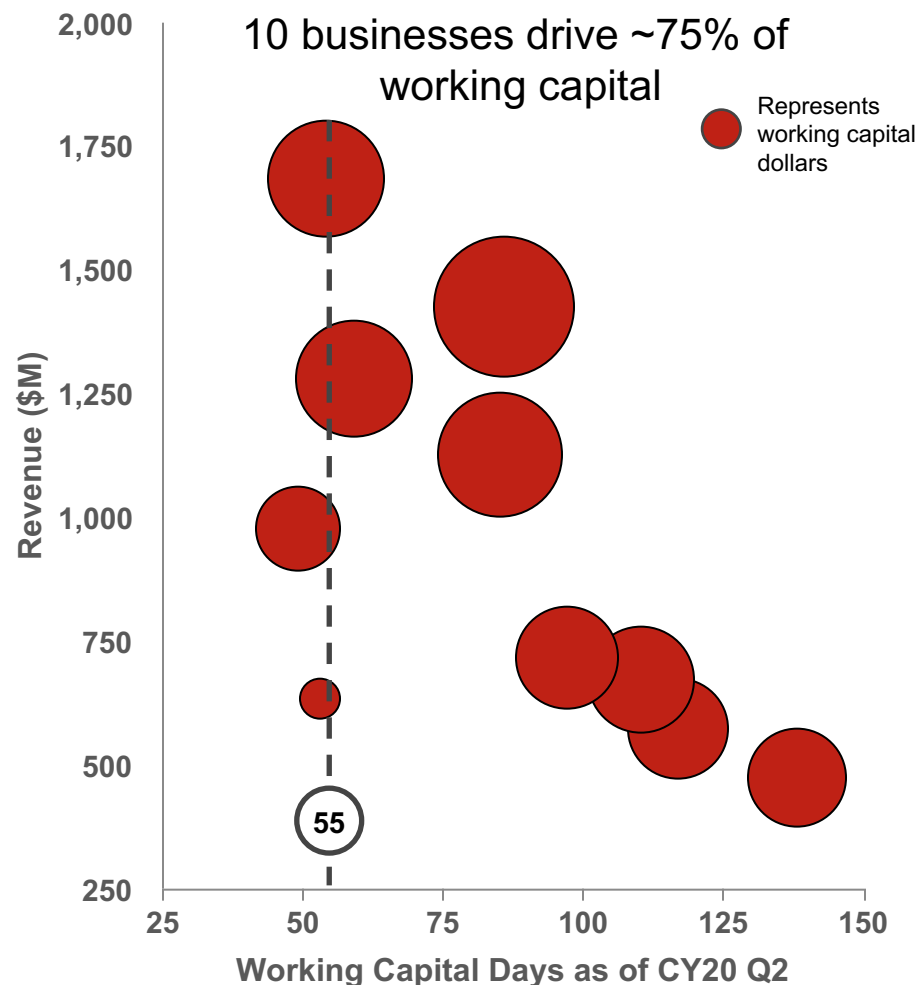
<sup>1</sup>Comparison to prior-year pro forma results; "pro forma" refers to applicable prior-year result in the pro forma condensed combined income statement information (prepared in a manner consistent with Article 11 of Regulation S-X) included in L3Harris' Current Report on Form 8-K filed May 4, 2020. Non-GAAP adjustments exclude discontinued operations, merger deal and integration costs, COVID-19-related charges and adjustments (including charges and adjustments for impairment of goodwill and other assets), restructuring and other items, divestiture expenses and losses, amortization of acquisition-related intangibles, additional cost of sales related to the fair value step-up in inventory sold and other prior-period items; refer to non-GAAP financial measure reconciliations in other quarterly earnings materials and the L3Harris investor relations website.

<sup>2</sup>Adjusted FCF (free cash flow) = operating cash flow less capital expenditures, adding back cash flow for merger deal and integration costs. For non-GAAP reconciliations reference other quarterly earnings materials and the L3Harris investor relations website.

# Working capital opportunity



## Roadmap of opportunities...



## ...to drive best in class working capital

Path to 40 - 50 days in 2022 and beyond

### Inventory (55 - 65 days)

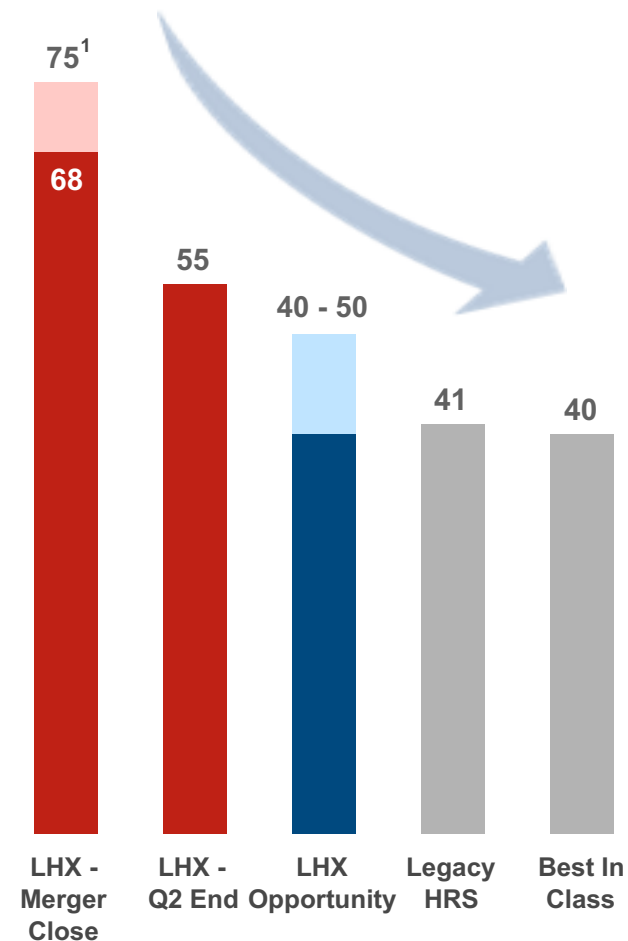
- Reduce cycle times
- Enhance forecasting accuracy
- Implement vendor managed inventory
- Improve supplier delivery performance
- Increase advanced payment position
- Reduce billing cycle time

### Receivables (20 - 30 days)

- Disciplined negotiation of contract terms

### Payables (35 - 45 days)

- Standardize and extend vendor payment terms
- Implement shared service business model

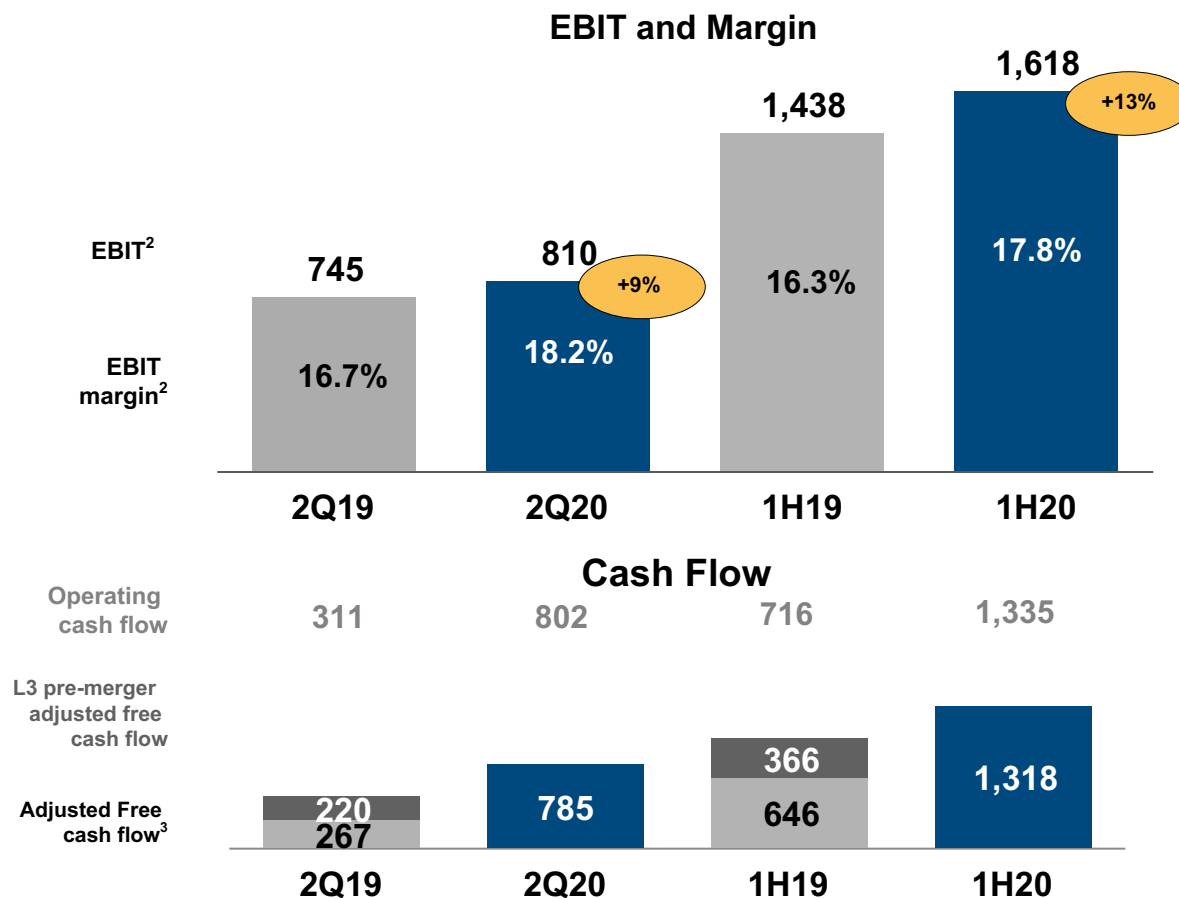
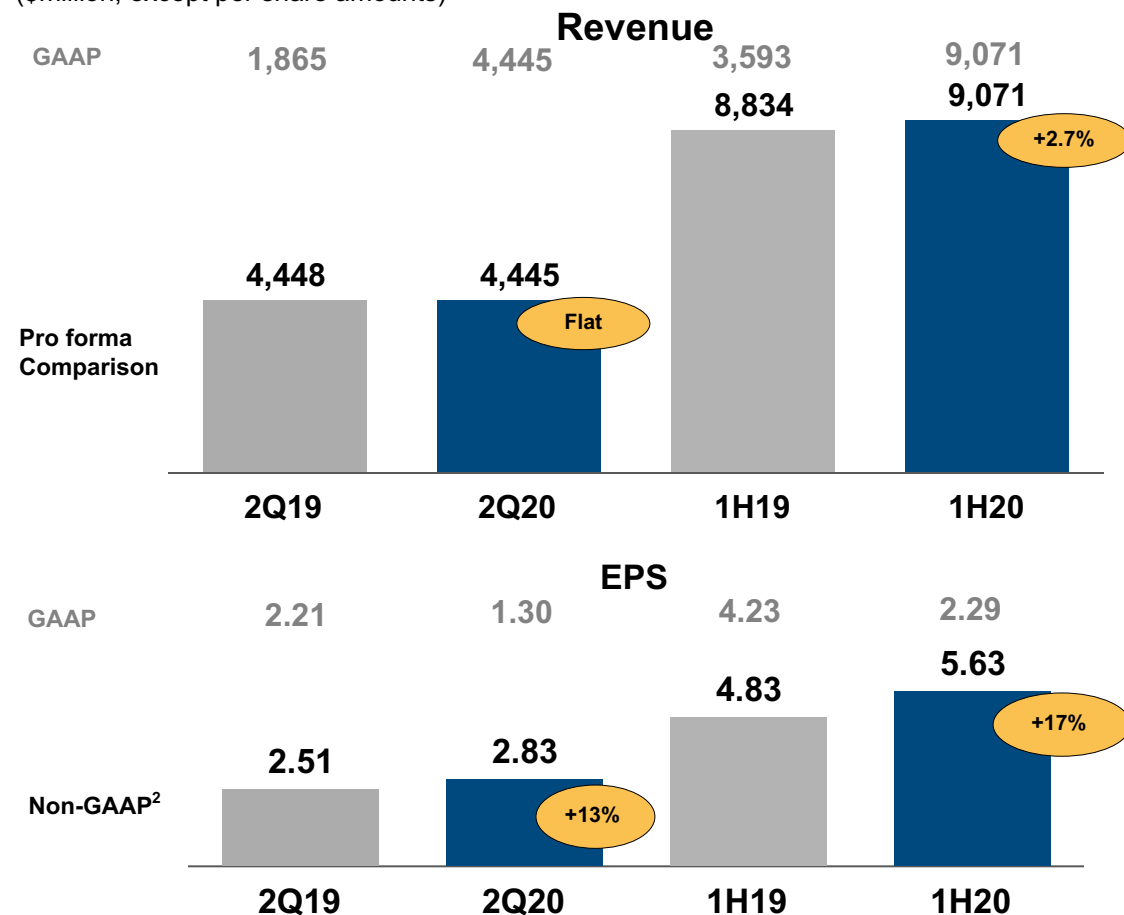


<sup>1</sup>Excludes impact of divestitures and accounting related adjustments

# Solid 2Q20 financials<sup>1</sup>



(\$million, except per share amounts)



<sup>1</sup>Comparisons are to prior-year pro forma or adjusted pro forma results; "pro forma" refers to the applicable prior-year result in the pro forma condensed combined income statement information (prepared in a manner consistent with Article 11 of Regulation S-X) included in L3Harris' Current Report on Form 8-K filed May 4, 2020; and "adjusted pro forma" refers to such result as adjusted for certain item(s) indicated in the non-GAAP financial measure reconciliations in other quarterly earnings materials and the L3Harris investor relations website.

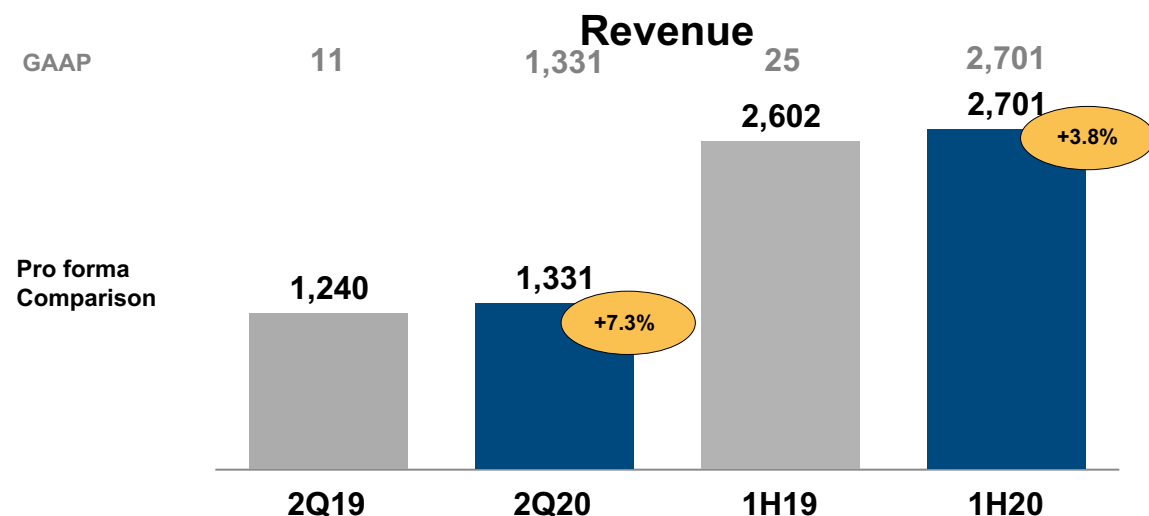
<sup>2</sup>Excludes discontinued operations, merger deal and integration costs, COVID-19-related charges and adjustments (including charges and adjustments for impairment of goodwill and other assets), restructuring and other items, divestiture expenses and losses, amortization of acquisition-related intangibles, additional cost of sales related to the fair value step-up in inventory sold and other prior-period items; refer to non-GAAP financial measure reconciliations in other quarterly earnings materials and the L3Harris investor relations website.

<sup>3</sup>Adjusted free cash flow is operating cash flow less capital expenditures and adjusted to add back cash flow for merger deal and integration costs; refer to non-GAAP financial measure reconciliations in other quarterly materials and the L3Harris investor relations website.

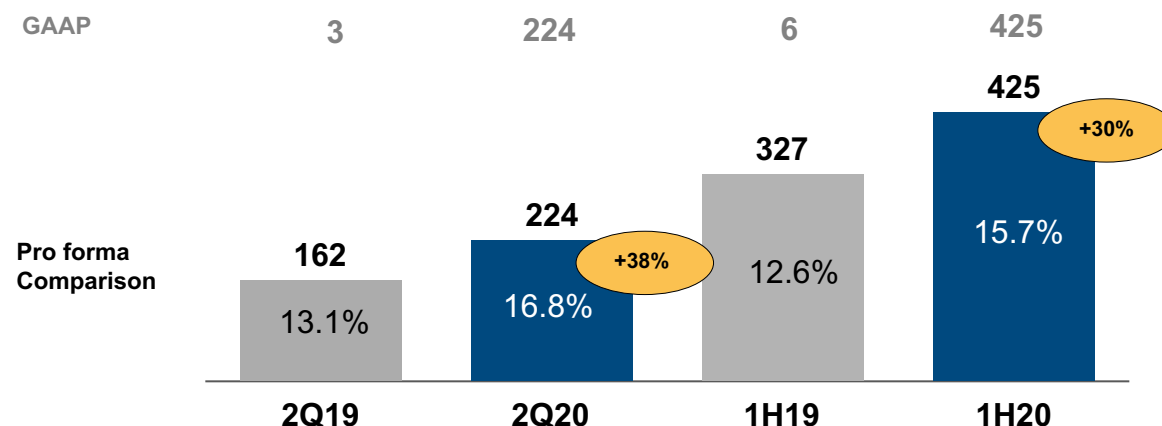
# Integrated Mission Systems<sup>1</sup>



(\$million)



## Operating income and margin



## 2Q20

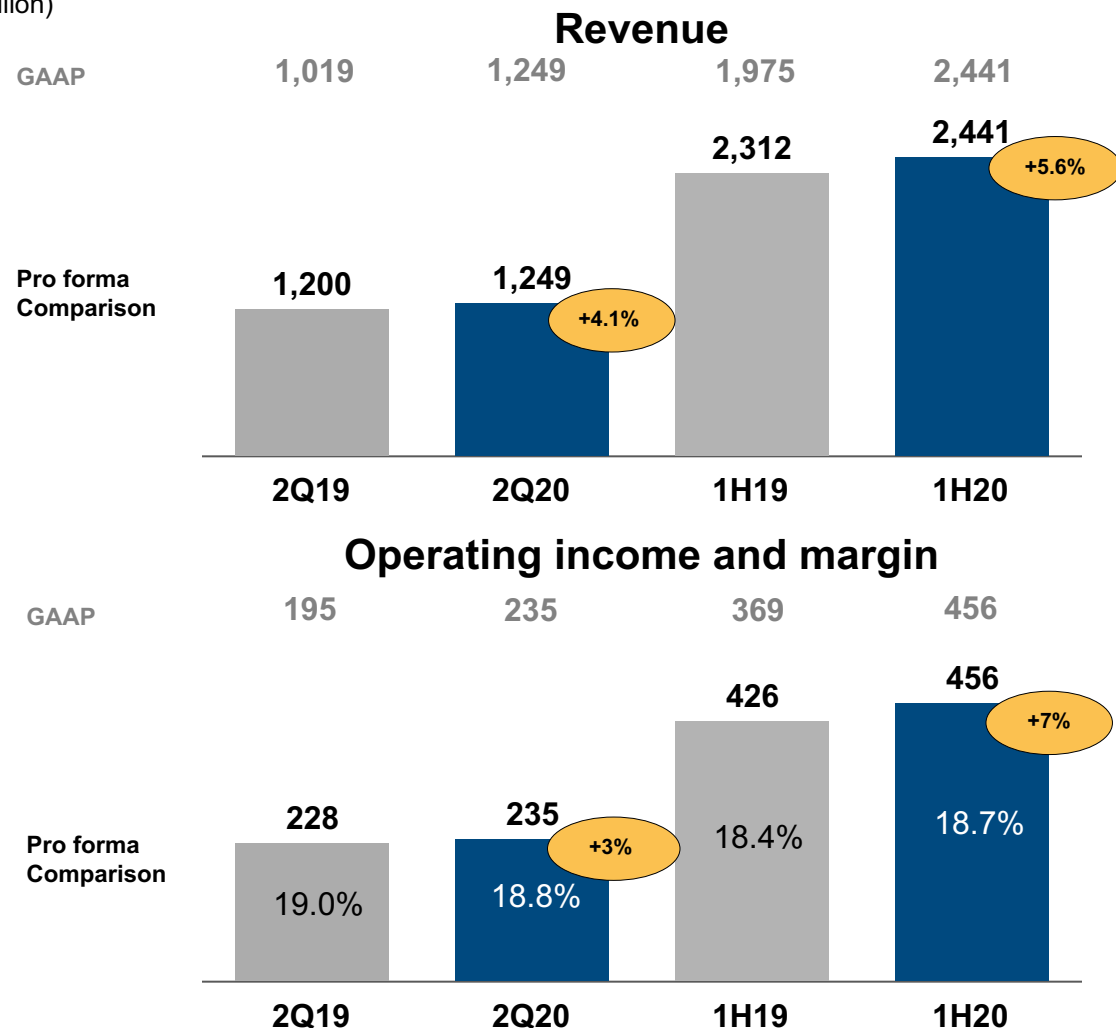
- Revenue up 7.3% versus prior-year pro forma<sup>1</sup>
  - Growth in Electro Optical and Maritime
  - ISR flattish
- Operating income increased 38% versus prior-year pro forma
- Margin expanded 370 bps to 16.8% versus prior-year pro forma
  - Integration benefits, operational excellence and cost management
- Funded B:B 1.19 and 1.12 since merger close

<sup>1</sup>All segment comparisons are to prior-year pro forma results, unless otherwise noted; "pro forma" refers to applicable prior-year result in the pro forma condensed combined income statement information (prepared in a manner consistent with Article 11 of Regulation S-X) included in L3Harris' Current Report on Form 8-K filed May 4, 2020.

# Space & Airborne Systems<sup>1</sup>



(\$million)



## 2Q20

- Revenue up 4.1% versus prior-year pro forma<sup>1</sup>
  - F-35 growth in Avionics and classified growth in Intel & Cyber
  - Partially offset by program transition timing and tough compare in Space
- Operating income up 3% versus prior-year pro forma
- Margin contracted 20 bps to 18.8% versus prior-year pro forma
  - Operational excellence and integration benefits more than offset by unfavorable mix
- Funded B:B 0.94 and 0.97 since merger close

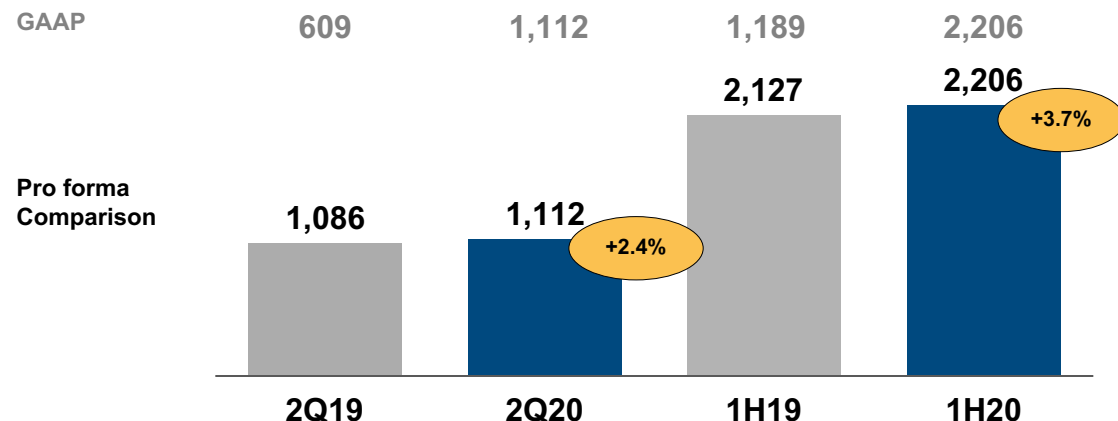
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# Communication Systems<sup>1</sup>

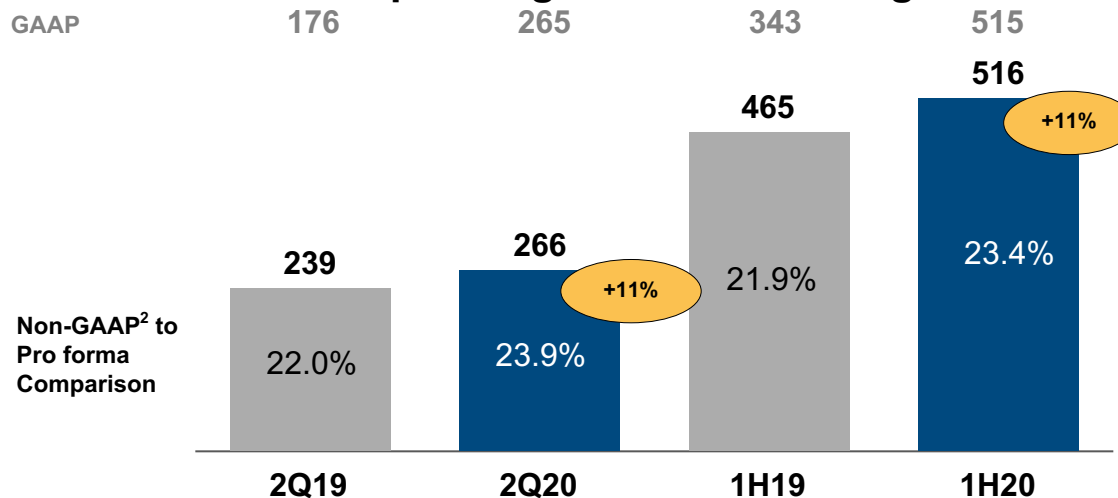


(\$million)

## Revenue



## Operating income and margin



## 2Q20

- Revenue up 2.4% versus prior-year pro forma<sup>1</sup>
  - DoD Tactical and Integrated Vision Systems modernization demand
  - Partially offset by International Tactical sales timing and COVID-19 impact on Public Safety
- Non-GAAP<sup>2</sup> income increased 11% versus prior-year pro forma
- Non-GAAP<sup>2</sup> margin increased 190 bps to 23.9% versus prior-year pro forma
  - Integration benefits and cost management
- Funded B:B 1.03 and 1.03 since merger close

<sup>1</sup>All segment comparisons are to prior-year pro forma results, unless otherwise noted; "pro forma" refers to applicable prior-year result in the pro forma condensed combined income statement information (prepared in a manner consistent with Article 11 of Regulation S-X) included in L3Harris' Current Report on Form 8-K filed May 4, 2020.

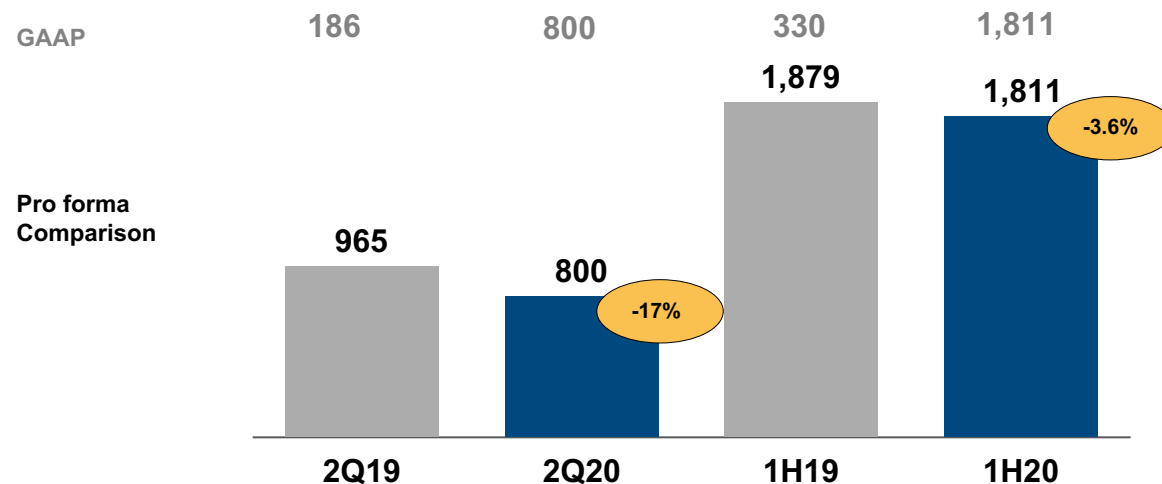
<sup>2</sup>Non-GAAP operating income and margin excludes COVID-19-related charges; refer to non-GAAP financial measure reconciliations in other quarterly earnings materials and the L3Harris investor relations website.

# Aviation Systems<sup>1</sup>

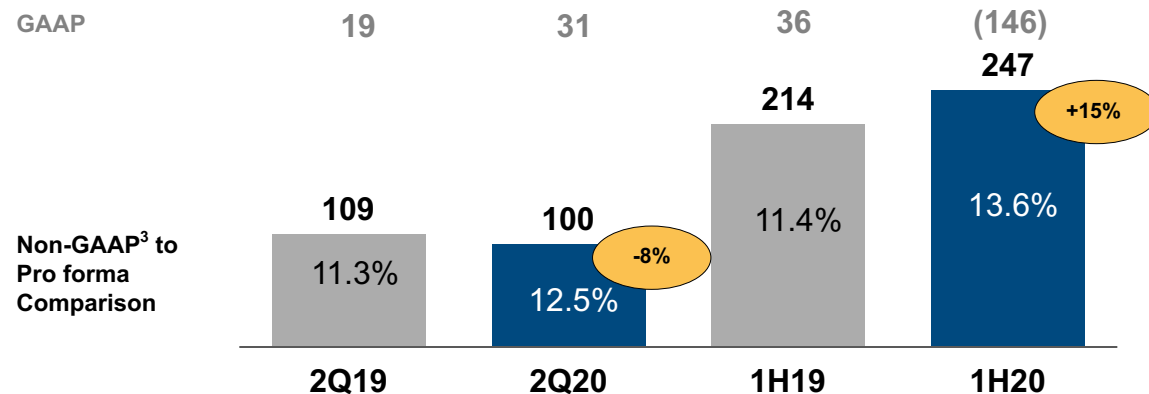


(\$million)

## Revenue



## Operating income and margin



## 2Q20

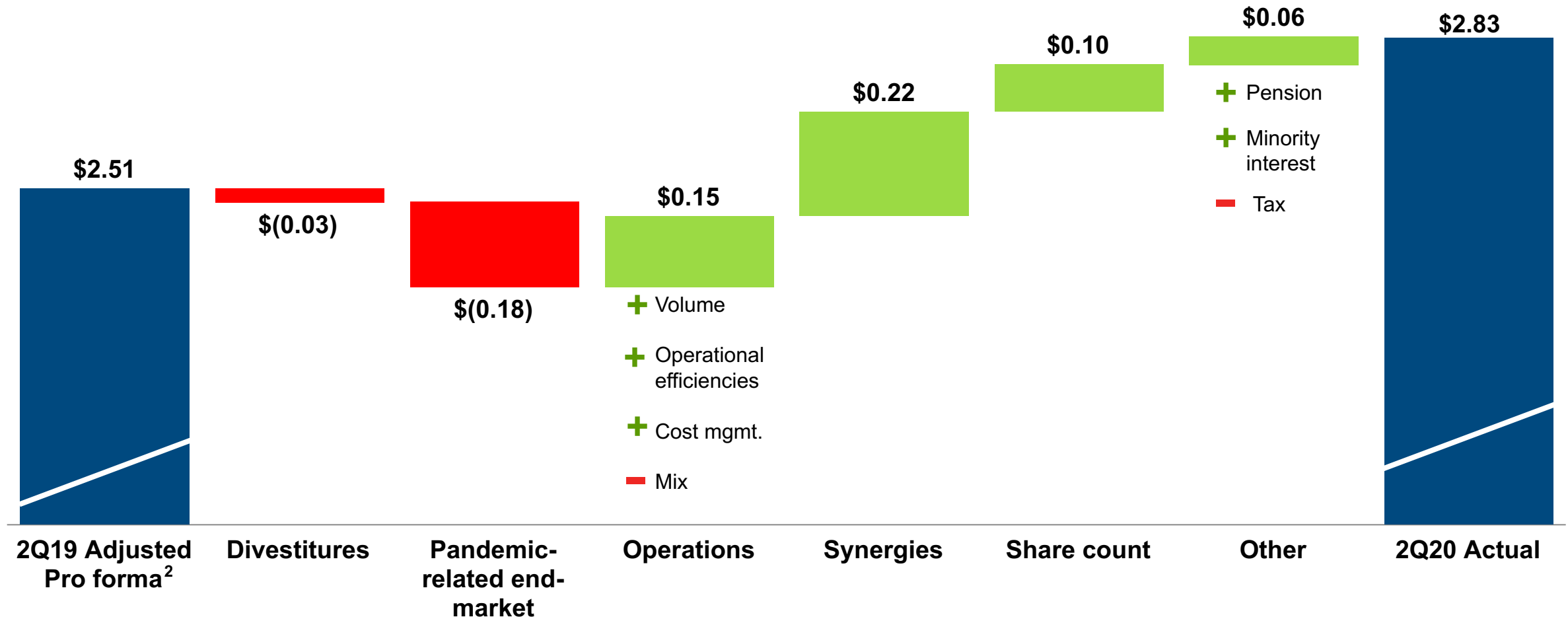
- Revenue down 17% versus prior-year pro forma<sup>1</sup> and down 7.4% on an organic<sup>2</sup> basis
  - Commercial Aviation Solutions performance in-line with expectations
  - Mid-teens growth in Defense Aviation Products
- Non-GAAP<sup>3</sup> income down 8% versus prior-year pro forma<sup>1</sup> and up 4% on an organic basis<sup>2</sup>
- Non-GAAP<sup>3</sup> margin expanded 120 bps to 12.5% versus prior-year pro forma
  - Operational efficiencies, integration benefits and cost actions partially offset by COVID-19 headwinds
- Funded B:B 1.26 and 1.13 since merger close

<sup>1</sup>All segment comparisons are to prior-year pro forma results, unless otherwise noted; "pro forma" refers to applicable prior-year result in the pro forma condensed combined income statement information (prepared in a manner consistent with Article 11 of Regulation S-X) included in L3Harris' Current Report on Form 8-K filed May 4, 2020.

<sup>2</sup>Organic revenue and income growth excludes revenue and operating income attributable to each divested business for the remaining portion of the prior-year quarter that is equivalent to the balance of the current-year quarter following the date the business was divested; refer to non-GAAP financial measure reconciliations in the tables.

<sup>3</sup>Non-GAAP operating income and margin excludes COVID-19-related charges and adjustments (including charges and adjustments for impairment of goodwill and other assets), restructuring and other items; refer to non-GAAP financial measure reconciliations in other quarterly earnings materials and the L3Harris investor relations website.

# Non-GAAP 2Q20 EPS<sup>1</sup> bridge



<sup>1</sup>Non-GAAP EPS excludes merger integration costs, COVID-19-related charges and adjustments (including charges and adjustments for impairment of goodwill and other assets), restructuring and other items, divestiture expenses and losses, amortization of acquisition-related intangibles and additional cost of sales related to the fair value step-up in inventory sold, and other-period items; refer to non-GAAP financial measure reconciliations in other quarterly earnings materials and the L3Harris investor relations website.

<sup>2</sup>Adjusted pro forma" refers to the applicable prior-year result in the pro forma condensed combined income statement information (prepared in a manner consistent with Article 11 of Regulation S-X) included in L3Harris' Current Report on Form 8-K filed May 4, 2020, as adjusted for certain item(s) indicated in the non-GAAP financial measure reconciliations in other quarterly earnings materials and the L3Harris investor relations website.

# 2020 full-year guidance



## Total L3Harris

### Organic revenue<sup>1</sup>

**up 3.0 - 5.0%**

### Margin<sup>2</sup>

**17.50%+**  
(vs. ~17.50%)

### EPS<sup>2</sup>

**\$11.15 - \$11.55**

### FCF<sup>3</sup>

**\$2.6 - \$2.7B**

## By Segment

### Organic revenue<sup>1</sup>

### Margin<sup>2</sup>

**IMS**

**up 5.5 - 7.0%**

**13.50%+**  
(vs. ~13.50%)

**SAS**

**up 6.0 - 7.5%**

**~18.75%**

**CS**

**up 3.5 - 5.0%**

**~23.75%**

**AS**

**down 1.0 - 5.0%**

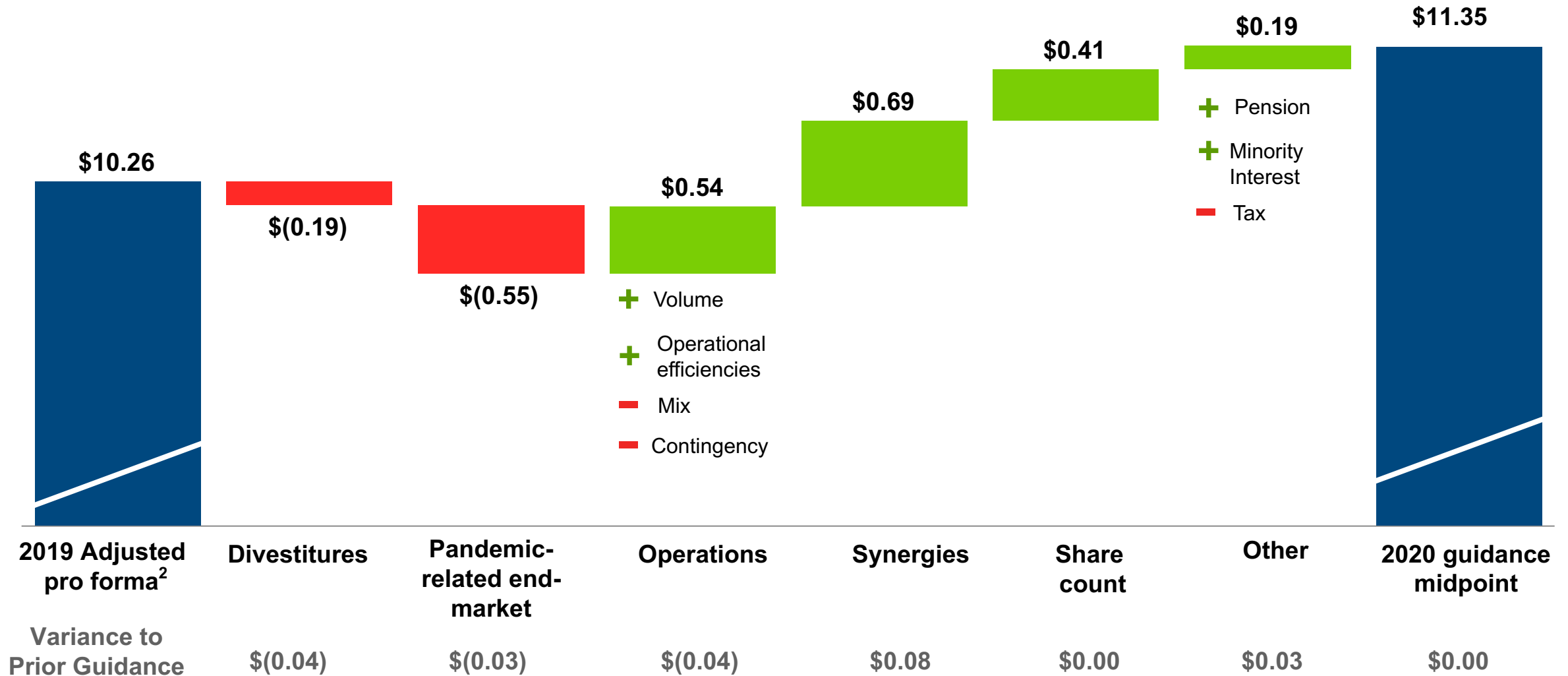
**~13.25%**

<sup>1</sup>Compared with prior-year pro forma revenue; "pro forma" refers to the applicable prior-year result in the pro forma condensed combined income statement information (prepared in a manner consistent with Article 11 of Regulation S-X) included in L3Harris' Current Report on Form 8-K filed May 4, 2020. Organic comparison then excludes revenue attributable to each divested business for the remaining portion of the prior-year quarter that is equivalent to the balance of the current-year quarter following the date the business was divested; refer to non-GAAP financial measure reconciliations in other quarterly earnings materials and the L3Harris investor relations website.

<sup>2</sup>Non-GAAP EPS and adjusted earnings before interest and taxes (EBIT) margin figures exclude discontinued operations, as applicable, merger integration costs, COVID-19-related charges and adjustments (including charges and adjustments for impairment of goodwill and other assets), restructuring and other items, divestiture expenses and losses, amortization of acquisition-related intangibles and additional cost of sales related to the fair value step-up in inventory sold; refer to non-GAAP financial measure reconciliations in other quarterly earnings materials and the L3Harris investor relations website.

<sup>3</sup>Adjusted free cash flow is operating cash flow less capital expenditures and adjusted to add back cash flow for merger integration costs; refer to non-GAAP financial measure reconciliations in other quarterly earnings materials and the L3Harris investor relations website.

# Non-GAAP 2020 guidance EPS<sup>1</sup> bridge



<sup>1</sup>Non-GAAP EPS excludes merger deal and integration costs, COVID-19-related charges and adjustments (including charges and adjustments for impairment of goodwill and other assets), restructuring and other items, divestiture expenses and losses, amortization of acquisition-related intangibles, additional cost of sales related to the fair value step-up in inventory sold, and other prior-period items; refer to non-GAAP financial measure reconciliations in other quarterly earnings materials and the L3Harris investor relations website.

<sup>2</sup>Adjusted pro forma" refers to the applicable prior-year result in the pro forma condensed combined income statement information (prepared in a manner consistent with Article 11 of Regulation S-X) included in L3Harris' Current Report on Form 8-K filed May 4, 2020, as adjusted for certain item(s) indicated in the non-GAAP financial measure reconciliations in other quarterly earnings materials and the L3Harris investor relations website.

# Appendix

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# Other financial information



(\$million except noted)

	<u>2Q19</u>	<u>2Q20</u>	<u>CY20 Guide</u>
Cost synergies (net)	n/a	\$60	~\$185 (prior ~\$165)
Net interest expense <sup>1</sup>	\$63	\$65	~\$255
Integration expenses <sup>2</sup>	\$18	\$37	~\$158
Effective tax rate (non-GAAP)	16.0%	16.9%	~17%
Noncontrolling interests, net of income taxes <sup>1</sup>	\$6	\$2	~\$10 (prior ~\$24)
Average diluted shares outstanding <sup>1</sup> (million shares)	225.7	217.8	~217
Net capital expenditures	\$57	\$60	~\$370 (prior ~\$400)

<sup>1</sup>2Q19 reflects pro forma results; "pro forma" refers to the applicable prior-year result in the pro forma condensed combined income statement information (prepared in a manner consistent with Article 11 of Regulation S-X) included in L3Harris' Current Report on Form 8-K filed May 4, 2020.

<sup>2</sup>CY20 guidance for integration expense includes approximately \$5M of restructuring charges recorded in the second quarter.

# Supplemental L3Harris tactical communications history



(\$million)

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20
<b>Orders</b>	<b>289</b>	<b>488</b>	<b>371</b>	<b>486</b>	<b>450</b>	<b>458</b>
<b>Sales</b>	<b>407</b>	<b>435</b>	<b>401</b>	<b>435</b>	<b>454</b>	<b>477</b>
DoD	189	195	193	227	270	279
International	218	240	208	208	184	198
<b>Funded Backlog<sup>1</sup></b>	<b>1,034</b>	<b>1,079</b>	<b>1,049</b>	<b>1,100</b>	<b>1,096</b>	<b>1,077</b>

<sup>1</sup>Funded backlog includes the impact of foreign currency translation.