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LLL - Q3 2016 L-3 Communications Holdings Inc Earnings Call

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OVERVIEW:

Co. reported 3Q16 consolidated net sales of $2.5b and diluted EPS of $1.88. Expects 2017 preliminary outlook for consolidated sales to grow 1-2%, which is $10.450b at midpoint. Increased 2016 consolidated sales guidance by $100m to $10.3b and 2016 EPS guidance at midpoint by $0.15 to $7.90.

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PRESENTATION

Operator

Good day, and welcome to the L-3 Communications third-quarter 2016 conference call.

(Operator Instructions)

Please note this event is being recorded. I would now like to turn the conference over to Mahmoud Siddig. Please go ahead.

Mahmoud Siddig - *L-3 Communications Holdings, Inc. - IR*

Thank you. Good morning, and thanks for joining us for L-3's 2016 third-quarter earnings conference call. With me are Michael Strianese, Chairman and Chief Executive Officer; Christopher Kubasik, President and Chief Operating Officer; and Ralph D'Ambrosio, Senior Vice President and Chief Financial Officer. After their formal remarks, management will be available to take your questions. Please note that during this call management will reiterate forward-looking statements that were made in the press release issued (technical difficulties). Please refer to this press release, as well as the Company's SEC filings for a more detailed description of factors that may cause actual results to differ materially from those anticipated. Please also note that this call is simultaneously broadcast over the internet. I would now like to turn the call over to Michael Strianese. Mike, please go ahead.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

Thank you, and good morning everyone. Third-quarter results were in line with our expectations. And we're feeling confident about the remainder of the year. Throughout the past year we drove organic sales growth in our US government business, announced bolt-on acquisitions, and enhanced our profitability by expanding our capabilities of higher margin, higher returning businesses. Our performance reflects the hard work and dedication of our employees. So I'd like to thank everyone on the L-3 team for their focus on program execution and delivering results for our customers.

Overall L-3's agility, talented work force, broad portfolio and market-leading positions form the foundation of this Company. By leveraging these resources we are concentrating our efforts on developing cutting-edge technologies that meet the evolving needs of our customer base. We continue to execute on our strategy to identify efficiencies across the Company, make key acquisitions that strengthen our business, and pursue opportunities for growth and long-term success.

In the third quarter net sales were $2.5 billion, which was a slight decrease from the same period last year. We had healthy increases in our organic sales to the US government for both the third quarter and year-to-date periods, which were offset by declines in international and commercial sales. We are seeing an improving pipeline of opportunities both in the international and commercial spaces. And our outlook remains positive. Our EPS for the quarter was $1.88. Net cash from operating activities from continuing operations was $210 million. And funded orders were $2.7 billion. The book-to-bill ratio improved to a healthy 1.07.

While segment operating margins of 8.6% were down in the third quarter versus 2015, they increased on a year-to-date basis. We expect to end the year at 9.6%, thanks to our ongoing margin improvement efforts which are helping L-3 to become more agile and a more streamlined Company. All in all, we're tracking on a multi-year course to improve our sales growth and margins, and are concentrating on areas we are confident we can consistently compete and win. In July's guidance update we increased our sales guidance by $150 million. And we have raised it again by another $100 million today. As for our outlook for 2017, we expect to grow sales margin and EPS. Ralph will give you more information on the 2016 guidance update and the 2017 preliminary outlook.

In addition to a focus on our organic growth opportunities, we intend to make acquisitions that build upon our core businesses. We're looking at companies that compliment our operations, expand our market share, broaden our offerings, and bring us new customers. Just recently we added a couple of business that do just that. And our pipeline remains robust. Chris will discuss the acquisitions in more detail, but these companies bring innovative technologies that streamline our platform for growth. We are winning new contracts and expanding our scope of work on existing programs through contract extensions and recompete wins across all our business segments.

Let me touch on a few new business highlights. We've secured major awards in training and simulation, as well as new contracts and extensions in our customer logistics support work and market-expanding wins internationally in communications and warrior systems productions. These include our work music on the KC10 program, which is now underway following the resolution of a bidder's protest. This is a significant CLS contract which adds to the roster of aircraft and customers that we support. On our specialized modification program for Head of State aircraft, I'll provide a brief update. As you know, we have three projects, all of which are stable. Just two weeks ago we delivered the first aircraft on schedule for a promised 2016 delivery date. And we're on track to deliver the other two in 2017, although we're expecting potential customer change orders that could extend those schedules. And in the UK we're selected to provide our enabling communications equipment to a new MOD program. Chris will talk about these more, and our wins across the Company.

We're also investing in developing technologies that will yield future benefits for both L-3 and our customers. As a technology Company, we're always looking to reduce the size and weight of our products while delivering a higher capability. Earlier this month we announced that our next generation military code, or M-code, GPS user equipment has successfully completed the final step in the government security certification process. This is a milestone, and makes L-3 the first DoD contractor to complete security certification for this critical technology.

Now turning to the budget and some of the broader industry trends that affect our business. As many of you know, military spending has been the focus of lawmakers in recent weeks as Congress works to come to an agreement on a budget for the new fiscal year. Following a five-year decline, the DoD budget cycle is beginning to rebound and grow. The op tempo environment is rising, and we are starting to see results of the uptick in spending that we mentioned last quarter. L-3 remains well positioned in the defense market place. We expect a positive book-to-bill ratio for our DoD business this year because we provide solutions in priority areas such as protected communications, sensors, ISR, power systems, and night vision and image intensification equipment.

Shifting gears to our capital deployment strategy. We will continue to generate strong free cash flow and deploy our capital to create value. We are maintaining our healthy and efficient capital structure which provides us with the flexibility to invest in our business, when and where it makes sense. We continue to evaluate companies that build and leverage our capabilities in high potential areas. And, of course, returning capital to shareholders through our dividend and share repurchase program continues. To conclude, we are pursuing market leadership in our business by addressing evolving customer needs, continuing our investment in growth areas and maximizing operational efficiencies, which is becoming increasingly important in the current environment. Now let me turn it over to Chris who will provide some additional operational details. Chris?

Chris Kubasik - *L-3 Communications Holdings, Inc. - President & COO*

Thank you Mike, and good morning. Year to date we've accomplished a lot, but we have more to do. I like the teamwork at L-3 and how we're working together to capitalize on L-3's strengths. We're streamlining operations, improving productivity, and optimizing our portfolio for the long term. I've seen firsthand the entrepreneurial spirit and agility that drives this organization, along with the dedication of our talented employees and the trust that is placed in us by our customers. While we are realizing improvements in our performance, we continue to see opportunities to do better and fire up our growth trajectory.

As Mike mentioned, we are repositioning ourselves into higher margin, higher returning businesses. And we are accomplishing this by putting more emphasis on organic growth through program execution, thereby resulting in better past performance evaluations. We're focusing on follow-on work with existing customers and competing for new businesses. We are getting more attuned to our customers and redirecting our R&D efforts towards the new technologies that align with customer priorities. The acquisitions we announced this quarter, while all very different, fit our criteria of expanding market share and increasing our customer base.

Aerosim gives us a stronger presence in cadet pilot training in the United States and the Asia Pacific marketplace. And it brings additional capabilities to L-3, including distance learning and flexibility and, low cost flight training devices. By integrating Aerosim's into our other training businesses, L-3 commercial training solutions has strengthened its global operations that span the complete spectrum of commercial training aviation, including simulators, cadets and pilot training. This consolidation will help us meet current and emerging customer requirements and drive efficiencies. In September we acquired Micreo Limited, a specialized electronic warfare subsystem provider based in Australia, an important international market. L-3 Micreo specializes in high performance microwaves, millimeter waves, and photonic technology solutions that compliment a wide range of sensors and strengthens our development of future products in the higher EW RF bandwidth.

Finally, we announced an agreement to acquire certain assets of Implant Science Corporation in an uncommon but innovative transaction. Implant is a provider of explosive trace detection solutions. These assets will augment our existing security and detection systems businesses. And we are evaluating several other modest but strategically significant additions that are a good fit with our portfolio. We may announce a few more before the end of 2016 or early next year. We've passed on several deals after due diligence, due to higher valuations or significant issues being flagged. We'll keep our discipline process in place.

Let me turn to operations. As we look across the Company, we've taken several steps to maximize efficiencies through the consolidation of business units. For example, in August we merged three of our leading aviation products divisions into a single unit focused on cockpit displays, avionics, and black box equipment. By better sizing our operations, we're becoming more responsive to customer demands. We are amping up our drive to develop and offer competitive solutions to a customer base that faces the challenges of performance and cost.

Turning to contract wins, Mike mentioned a few across the segment. But here are some of the more noteworthy ones. First in defense. We were selected for the development and production of the TB-29X Towed Array Passive Sonar Receiver installed aboard US Navy submarines. If fully exercised, this five-year contract has a value of approximately $250 million. For the Army, we won a production contract for our night vision equipment and our Storm SOX Rifle-(ounted Laser Range Finding System. Also we'll be providing operational flight trainers and associated stimulation and training services for the UH-60M helicopter program. Finally, for the Air Force we won a contract for E-3 flight crew training systems. And we will provide maintenance services on the US Air Force King Air aircraft and expand our CLS work on the C-12 aircraft.

In commercial aviation, demand remains strong in our commercial training solutions business. We expanded our business base with Japan's All Nippon Airways and EVA Air in Taiwan. And we already have new fourth-quarter awards from both Asian and North American customers. Overall this is a terrific growing business area for L-3. We also have received two official award notices from the Canadian Air Transport Security Authority to supply 10 additional explosive detection systems. The TSA has ordered additional ProVision 2 systems for airports throughout the US. With this latest award we now have an installed base of 1,800 ProVision systems at over 300 airports worldwide, making it the industry-leading solution for safe and efficient advanced personnel screening. Additionally, we are providing the Istanbul airport with checked baggage screening systems following a competitive process.

Finally, in our international business, one of our key wins is the UK Joint Common Remote Viewing Terminal, or JCRVT. Under this direct commercial contract with the MOD, we will deliver our rover tranceivers, which will enable the exchange of ISR information, including full-motion video across the battle space via wideband IP network. There's potential upside for this program, as the system has applications on multiple platforms. In a major contract win, we also won a $200 million award from an international customer to deliver night vision equipment, including night vision goggles, weapon-mounted laser range finders and specialized aiming lights. We also won a contract for a third missionized aircraft from the Japanese Coast Guard. The contents of this contract includes training and spares through mid-2019. And in Q3 we received multiple orders for our Wescam MX-10V and 15D-EOIR systems for international military customers. We also introduced the smaller and lighter MX-8. There are over 3,600MX systems operating from more than 136 different platforms across more than 75 countries.

So in summary, we'll continue to evaluate strategic opportunities in what we believe is a healthy demand environment, while maintaining our discipline and our commitment to operational excellence and program performance. As you'd expect, Ralph and I have been spending a lot of time together on M&A and cost containment. So with that, I'll turn it over to Ralph

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Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

Thank you, Chris. I'll discuss some details about the third-quarter results and then review the update to our 2016 guidance as well as our primary outlook for 2017.

Our third-quarter results were generally in line with what we expected, including the lower operating margin and diluted earnings per share versus the 2015 third quarter. Orders improved, catching up a large portion of the award delays that we experienced in the second quarter.

Diluted earnings per share, or EPS, was $1.88, decreasing 7% compared to adjusted diluted EPS of $2.03 for the 2015 third quarter. EPS was impacted by two items, which together added $0.11 to earnings. First, we had a tax benefit of $0.22 from resolution of certain tax contingencies. And second, we entered into a agreement in principle to settle the holographic weapon sights class action litigation and recorded a $14 million pretax charge for it, which lowered EPS by $0.11.

Third-quarter consolidated net sales were $2.5 billion, and declined 2.5% organically. US government sales, which are mostly to the Department of Defense, totaled $1.9 billion and grew organically by 5%. International and commercial declined 19% to $626 million. And that was due to the sales headwinds that we've been anticipating for this year versus 2015, which we previously talked about. However, our overall sales growth profile continues to improve, evidenced by our $100 million increase to estimated 2016 sales, which I'll cover in a few moments.

At the segment level, third-quarter sales were about $50 million lower than we anticipated in Electronic Systems. And that was mostly due to some timing items and deliveries slipping into the fourth quarter. Consolidated operating margin was 8.6% for the third quarter. And excluding the holographic weapons sight charge, consolidated margin would have been 9.1%, Electronic Systems margin would have been 13.4%. Aerospace system's margin was 5.5%, about 50 basis points lower than we expected, because of higher pass-through volume and lower incentive fees at the Vertex Aerospace sector. In the Communications System segment, margin was 7.9%, and about 150 basis points, or $7 million less than we expected due to higher design and manufacturing costs for new products in the space & power systems sector.

Moving onto our 2016 guidance update, we increased EPS at the midpoint by $0.15 to $7.90. This increase is primarily driven by lower taxes and higher sales. We increased consolidated sales guidance by $100 million to $10.3 billion. And that calculates to about flat organic sales growth for all of 2016. We expect our US government sales to now grow almost 3% organically versus 2015. And our updated sales guidance projects commercial to decline 1% and international sales to decline 12%. At the segment level we increased Aerospace Systems sales by $75 million and Communication System sales by $25 million, both due to increases in estimated US Department of Defense sales.

We lowered consolidated operating margin by 20 basis points to 9.6%, primarily for the holographic weapons sights charge. Electronics Systems 2016 margin was slightly lowered for that charge, and excluding it, margin would have increased there by 30 basis points. We reduced Communication Systems margin by 35 basis points, again for that $7 million for the higher new product costs that we incurred during the third quarter.

We still expect our free cash flow to be about $825 million for this year. And regarding our 2016 capital allocation, as you know, we deliberately slowed our share repurchases because we are shifting some cash deployment to acquisitions. We repurchased $50 million of our stock during third quarter and $325 million through September. That leaves up to another $340 million or so for share repurchases in the fourth quarter after paying about $80 million for the Micreo and Aerosim acquisitions. However, as Chris talked about, we could have additional acquisition investments in the fourth quarter.

And that would further reduce share repurchases. And the last point for our full-year 2016 guidance update is that we still expect our book-to-bill ratio to be at least 1.0.

Next, scrolling to our preliminary outlook for 2017. We expect consolidated sales to grow in the 1% to 2% range, which is $10.450 billion at the midpoint. And this is after increasing our 2016 sales estimate by $100 million. The estimated sales growth is about the same organically. We expect our US government and commercial sales to each grow about 2%. And our international sales to decline about 1%. At the segment level we expect organic sales growth in 2017 to be in the 3% to 4% range for Electronic Systems and 4% to 5% for Communication Systems. These are partially offset by a decline of 1% to 2% for the Aerospace Systems segment. The 2017 estimated sales for Aerospace Systems includes between $120 million to $150 million for the KC-10 logistics contract. We expect to start performing our full scope of work on that job in April 2017.

We presently expect 10% consolidated operating margin for next year. And this assumes a pension expense increase of about $29 million versus 2016, which lowers the 2017 margin by 30 basis points. Our preliminary segment margins for 2017 are consistent with the margin targets that I talked about on the second-quarter earnings conference call. We see 2017 margins at 12.8% for Electronic Systems, 6.8% for Aerospace Systems, and 10.3% for Communications Systems. Excluding the higher pension expense for next year, 2017 margins would be 13% for Electronic Systems, 7.1% for Aerospace Systems, and 10.7% for Communication Systems, and consolidated operating income would grow about 8%.

Next year's tax rate is going to be higher than this year's. We estimate it at 27.5% compared to 23.5% for 2016. We expect that we'll generate about $850 million of free cash flow next year. And our preliminary outlook uses an estimated diluted shares outstanding of 76.5 million, which assumes share repurchases of about 600 million, but that's only a placeholder. To the extent that we make more acquisitions, we would have lower share purchases and higher diluted shares for next year.

Finally, in the middle of the ranges of our 2017 preliminary outlook, that calculates to diluted earnings per share of about $8.25. And that is after the headwinds for pension expense and income taxes.

So to conclude my financial review, the Company continues to make progress. We're increasing margins, operating income, an EPS. And our sales are set to return to organic growth in 2017. Thank you. And we'll now begin the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

The first question comes from Robert Spingarn with Credit Suisse.

Robert Spingarn - *Credit Suisse - Analyst*

Hi. Good morning, everybody.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

Good morning, Rob.

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

Hi.

Robert Spingarn - *Credit Suisse - Analyst*

Mike, and Chris. Hi, Ralph. You talked about 1% to 2% organic sales growth next year. I guess everybody else is a bit higher, and you know that. It looks like Aerospace Systems and international is the reason. And you went through a lot of contracts. But I was wondering if you could summarize at a high level, how do you jumpstart Aerospace Systems so it doesn't weigh you down like that, and you can get up into this, call it 3% to 5% that we're now seeing across the industry?

Chris Kubasik - *L-3 Communications Holdings, Inc. - President & COO*

Hey, Rob. This is Chris. Let me take a first shot at that. The ISR business and our Aerospace is a long-cycle business. When you look at the book-to-bill the last couple years, clearly it's been below 1.0. We've made some strategic hires down there in the strategy and the BD arena. And I think we're already seeing some benefits from that. And there's clearly going to need a jumpstart. There's a gap here in 2016 and 2017 as we decline. But when I look at what we've done and talked about a fair amount with the F/A-18 depot maintenance program, that has some longer-term potential, over 200 aircraft in the near term. We're going to be competing for the P-8 depot maintenance contracts. And we've already won KC-10 and picked up some new Navy C-12 work. So I think we're going to be opening the aperture and then going after some programs that we may not had traditionally. I'm spending a lot of time in Texas with the team, and we're going to go after some new business. We have a couple of new products that we'll be rolling out, and they have some international opportunities, probably more in the Africa and Mideast region. So I think that's quite exciting. So those are my thoughts.

Robert Spingarn - *Credit Suisse - Analyst*

Just as a follow-up. Maybe at a higher level, does this invite you to perhaps play or target more prime roles as you try to grow the business here? You've long been somewhat platform agnostic. But is this an opportunity, the next few years, would you like to be more of a prime in any of the segment?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

Rob, that's the direction it's going, even with some of the new work that we've brought in house, whether it's the FA-18 or the KC-10 work on the tankers. All of that work is as a prime. And we have tough comparisons because we completed the UK AirSeeker program, which again, we were a prime on two AirSeeker platforms for the UK, and also the Australia C-27J program where we, again, we were prime. So the trend is to work as a prime as much as we can in that space.

However, there are opportunities on some of the bigger recap programs where, just by necessity, there will be teaming. But we'll work extra hard to make sure we're on the winning teams. But we still believe that that is a very strong business in terms of being a national asset in missionizing aircraft. We have a excellent track record with our government customers and our international customers are delivering systems that work out of the box and bring extraordinarily good and unprecedented capabilities to our customers. So the value of our systems is there. The thing is that these are long cycle. They're big, expensive platforms. And they just don't have that predictable every year sales cycle. And I can't -- it's hard to gauge how much oil, I don't want to point to that as being -- but how much of that is causing a slip in the sales cycle in certain countries that are dependent on oil prices. So I'm sure there's an effect, I just can't tell you how much of an effect at this point. It's hard to really gauge. But it's not neutral, it's a negative.

Robert Spingarn - *Credit Suisse - Analyst*

And then just to close the loop, Mike, is there any opportunity for you -- normally we talk a lot about Air Force and Army for you guys. But there's going to be a lot of growth at Navy, particularly submarines. You're already there. But is there an opportunity for more? That could be a real big growth area.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

We already have pretty good content on Virginia Class and some of the other upgrade programs. And we are continually striving to get more. We're investing some of our R&D in the future in areas such as autonomy and robotics, which are showing up in maritime systems in terms of autonomous ships as well as undersea vehicles, what are called UUVs. In any event, we have enabling capability, whether it's in the sensor area or the Comms area. And we'd like to be than more than a payload provider. So we do need the vehicle itself, and whether we develop it, partner, or acquire it, we're going to -- we will get there. And there's plenty of opportunity there. You're right. That is a growth area, and we are laser focused on it.

Robert Spingarn - *Credit Suisse - Analyst*

Okay. Thank you, guys.

Operator

The next question comes from Seth Seifman with JPMorgan.

Seth Seifman - *JPMorgan - Analyst*

Thanks very much, and good morning everyone. Just wanted to ask about Electronic Systems. Given the decent growth you're forecasting there, 3% to 4%, I might have thought that the margin could have gotten a little bit further into your target range. Is there something about the mix that's changing next year that's holding you back in Electronic Systems?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

Hi, Seth. There's nothing unusual about the sales mix there next year. So if you recall when we talked about the targets for Electronics Systems, we've been saying 13% to 14%. And I explained that we were starting at the 13% range for 2017 with the intent to try to do better as the year progresses. So that's how we're thinking about it, Seth. So there's definitely some opportunity to do better in the margins at Electronics Systems next year, just like we've been doing all year long in 2016 if you take away the charges related to the weapon sights that we've had to deal with.

Seth Seifman - *JPMorgan - Analyst*

Right.

Chris Kubasik - *L-3 Communications Holdings, Inc. - President & COO*

Seth, as you know, on some of these new programs that start out developmentally, they tend to have the lower margins. And sometimes they're cost reimbursable. And then as we get into high rate production and then start exporting internationally, you see the growth of the margin. So, again, the top-line growth is from some new products and some new opportunities, and the margins, as Ralph said, will evolve over time.

Seth Seifman - *JPMorgan - Analyst*

Okay. And then anything to call -- I know there's a small, the typical qualification under the guidance, adverse results from litigation, contingencies, et cetera. Are we all done with EOTech? Is there anything lingering there, or anything else you call out at this time?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

We're going to be cautious on any of those questions because it's not quite over because we're waiting on Court approval as is customary in these types of settlements. Although we have certainly have every reason to believe it will be approved. Part of it is that our voluntary return program, whereby we've agreed to exchange or give refunds for two customers that had purchased products that they were not satisfied with, will be ongoing for another period of time, not forever, less than a quarter, I would say, a little bit more than a quarter. But we think, using our best estimates and the work of experts that we've engaged, that we're fully provided for it. There's a risk that we may not by an amount. But we feel fairly confident that this will be the conclusion of the holographic weapons sight saga. And we're quite satisfied with the resolution, although we're not happy with the performance that got us there. We think that this should kind of close this up now for the future.

Seth Seifman - *JPMorgan - Analyst*

Thank you very much.

Chris Kubasik - *L-3 Communications Holdings, Inc. - President & COO*

The business itself has been maintaining its momentum and we'll be rolling out new and improved products just in time for the holiday season. We're going to be seeing, and expect some uptick, not just on the weapons sights but some of the other products they're developing. In fact, a couple of us are going up there, I think it's next week, and they're going to get the update. But the team has held in there over the last 12 months. And I think we're going to see some growth now that this is behind us.

Seth Seifman - *JPMorgan - Analyst*

Very good. Thank you.

Operator

The next question comes from Cai von Rumohr with Cohen and Company.

Cai von Rumohr - *Cowen and Company - Analyst*

Yes, thank you very much. So of your margins there in the third quarter were less than many of us expected. And yet there's less dilution, less loss in the full year. Was there any slippage of sales or profits from the third to the fourth quarter, mix related things?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

Well, at Aerospace Systems we had expected that the margins would be about 6% for both the third and fourth quarters, and we are a little lower than that in the third quarter. So there was some impact there on the mix. I talked about the additional pass-through volume, which is basically sales with 1% or less type margins. So that affected it. And then those new product costs in the space & power sector, that was something we were not expecting in the third quarter. And so that also had a minor impact.

Cai von Rumohr - *Cowen and Company - Analyst*

Got it. And how large were those costs? And are you -- I mean, is that problem definitely solved, or still kind of a work in process?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

I would put it in the solved category. There's a couple of contracts where we're making deliveries. And we're constantly introducing new products, particularly in the Electronics and Communications segments. And sometimes the manufacturing costs end up being higher than we estimate in some cases, and this is an example of it. I don't view it as a major anomaly or issue to be concerned about.

Cai von Rumohr - *Cowen and Company - Analyst*

Got it. And then you had mentioned, I guess, your guide for next year's organic growth. How much do you expect from the -- in terms of sales and EBIT contribution from the acquisitions you've made?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

Sure. So we only include acquisitions in our guidance to the extent that they've been completed. So next year includes contributions from both Micreo and Aerosim. And together those two acquisitions will have sales of about $80 million in 2017. This year the sales from those two are going to be about $15 million in the fourth quarter, which is basically a rounding item which is why we did not adjust the Electronics System segment sales. And so that incremental $65 million of sales next year is largely offset by a couple of small divestures that we're currently working on in the Electronics Systems, where we'll probably lose $50 million of sales next year versus this year on those. And that's why I said the growth rates are about the same organically as they are in total.

Back to those two acquisitions. The margins next year on both of those are going to be almost 10% before purchasing accounting items and about 8% after purchase accounting adjustments and expenses. And in terms of what we paid for those, the purchase price was an aggregate of almost $82 million. And that works out to about a 7 times multiple on 2017 EBITDA and a little under 9 times 2016 EBITDA. So we think those are both good values for the Company in terms of acquisitions.

Cai von Rumohr - *Cowen and Company - Analyst*

And just the last one. The small divestitures, $50 million, what profit contribution, if any, did they have?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

The profit of contribution from those is about $3 million or $4 million in operating income.

Cai von Rumohr - *Cowen and Company - Analyst*

Terrific. Thank you very much.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

Thank you, Cai.

Operator

The next question comes from Noah Poponak with Goldman Sachs.

Noah Poponak - *Goldman Sachs - Analyst*

Hey, good morning everyone.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

Good morning, Noah.

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

Hello.

Noah Poponak - *Goldman Sachs - Analyst*

So Ralph, I heard you in your prepared remarks say that the 2017 segment margin targets here are consistent with what you said prior. And technically that's true, but they're sort of all kind of right at the low end of what you said previously. And I guess if one was looking at that and the, I guess, sort of more mixed margins in the quarter, one could be left just thinking more about the margin improvement trajectory compared to coming into today. But it sounds like you're saying in your answer to Seth that there's really no change in the path or how much improvement you've seen thus far versus plan or mix or anything like that. And that you're just leaving some conservatism in there similar to this year. I know that's sort of a statement, but just want to make sure that's true and just check in on whether or not anything has changed, because it did kind of read like something had changed?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

Okay. Well, I have to correct you on a couple things because -- .

Noah Poponak - *Goldman Sachs - Analyst*

go for it.

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

Nothing really changed. And what I had said was that in terms of the margin target ranges for our 2017, when I last talked about it, I explained that Electronic Systems and Aerospace Systems would be at the low end, which they are, and Comm Systems would be at the high end, which it is, so.

Noah Poponak - *Goldman Sachs - Analyst*

Okay.

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

And we still think we have opportunity to do better with our margins in all three segments. We have the most work to do, obviously, in Aerospace systems where we said the margin range is high single digits, which is 7% to 9%. And how we get to that higher end in that segment is by increasing our international business mix, which carries margins above that range, considerably above that range. And by continuing to make the improvements at Vertex Aerospace Systems -- I mean, Vertex Aerospace and aircraft systems. And we're making improvements in terms of the margins there year over year. So I think we're still on the path that we've been talking about, in terms of margin improvements and margin progression, Noah.

Chris Kubasik - *L-3 Communications Holdings, Inc. - President & COO*

I'll just chime in. I echo what Ralph said. And a lot of these things we're looking at, and we'll take a hard look in 2017. When it goes to cost savings, sometimes has a little upfront costs. So I talked about the aviation products consolidation. As you would expect, it usually takes a little bit of money to implement some of these changes. But we're looking at where it makes sense. Maybe some more common systems and common processes, and you have to spend a little money upfront, which may hit 2017 to get the long-term benefits. And Mike has talked a lot about our international growth. And we're taking a hard look at that, and there's a couple countries that we might set up an additional office or two and hire people. So we're going to do the right things for the long term growth of this business. And we're comfortable with what we've previously committed to.

Noah Poponak - *Goldman Sachs - Analyst*

Okay. Terrific. Also wanted to follow up on the 1% to 2% organic for next year. I recognize you have the international. a few things still declining there. But the projection for US government up 2% is just a little light of what I would have thought given what we've seen the budget do and what some others in the industry have projected. Are there any program-specific headwinds to call out in that that are in 2017 but not beyond 2017, or is there upside opportunity to that?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

Okay. So with respect to our outlook for the DoD business, we've been talking about low digit single growth. So 2% is in that range. We started 2016 estimating that our DoD sales would decline 1%. Now they're almost going to grow about 3%.

Noah Poponak - *Goldman Sachs - Analyst*

Right.

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

We expect to see that type of improvement in a growing budget environment, or upcycle environment which we're in. So we're starting at 2% growth for our DoD business for 2017. And the growth is above that level in the Electronics Systems and Comm Systems, a little less than that in Aerospace because we still have some drag from a couple legacy programs ending, like the P-3 work that we do for the US Navy. And we're seeing some declines on the UH-1Y and CH-47 work that we do in terms of cabin assemblies. Those will end in terms of negative comparisons once we get beyond 2017.

Noah Poponak - *Goldman Sachs - Analyst*

Okay. And then just lastly, sort of tangential to that, but then also given what's been happening in the international piece is the 2017 growth rate back-end loaded just because you don't annualize the negative compares until you're halfway through the year or so? Just want to make sure we're not level-loading if we shouldn't be?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

No. The 1% to 2% organic growth, that's what it averages out across the four quarters.

Noah Poponak - *Goldman Sachs - Analyst*

Right. But I'm just saying, you've got these international (multiple speakers).

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

Situation where the organic growth starts out negative and then turns more positive next year on a quarterly basis.

Noah Poponak - *Goldman Sachs - Analyst*

You're not?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

We're not.

Noah Poponak - *Goldman Sachs - Analyst*

Okay.

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

Right now I expect that we'd have some modest organic growth in the first quarter of 2017.

Noah Poponak - *Goldman Sachs - Analyst*

Okay.

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

For example.

Noah Poponak - *Goldman Sachs - Analyst*

All right. All right. I'll leave it there. Thanks very much.

Operator

The next question comes from Richard Safran with Buckingham Research.

Richard Safran - *Buckingham Research - Analyst*

Hi. Good morning, everybody.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

Good morning, Rich.

Richard Safran - *Buckingham Research - Analyst*

First on the head of state program, I heard your comments at the start of the call. Could you just tell me in general how execution is going on the program relative to expectations? How many airplanes are left to be delivered? And finally, just wanted to know, because I know things have been doing very well on the program so far, if you're just seeing any incremental risk on the program?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

Rich, the first aircraft, as I mentioned, was delivered just a couple of weeks ago. And the total of those programs were three aircraft. The second two are in production and are expected to deliver next year during 2017. And given some of the pain we went through at the beginning of the first aircraft which was last year, really, there were a lot of lessons learned. And some of the areas were baked into our planning and our thought process, and did not recur. So that in and of itself gives us a good leg up on getting these programs off to a solid start.

However, each one is unique, as unique as a snowflake, if you will. And it's not without any risk. But we feel quite confident that given the performance in the latter part of the first aircraft with the lessons learned and how they've been applied, that we think we're in pretty good shape to get these programs executed along our plan and deliver them on schedule. We're working very closely with our customers to identify and respond to issues as quickly as they can be identified. So you can appreciate that we have a lot of eyes on these programs, making sure that they do execute as planned. So I don't know if I can give you any more color. But that's kind of where we are. We are very, very focused on that execution and making sure that these aircraft deliver as scheduled.

Chris Kubasik - *L-3 Communications Holdings, Inc. - President & COO*

This is Chris. Mike asked me to go down last week and I was down there for a few days with the team doing the review. And we were -- I was quite pleased with the progress on the aircraft and the estimate to complete. Mike said earlier, and what we're seeing is the technology is advancing so quickly that it's not unusual for customers to want to upgrade and/or change, whether it's an in-flight entertainment system or some other technology. So that's just a collaborative process and we work with them closely. And we make change orders as needed. And sometimes it adds a little bit of time. But as of now, we're on track and financially we're happy with the reserves that were set up a couple years back. And most importantly the customer that has their airplane is very happy with it.

Richard Safran - *Buckingham Research - Analyst*

Okay. Thanks for that. And just very quickly, and if you said this and I missed it, I apologize. You were expecting about $200 million to $300 million potentially for acquisitions this year. Did you give out a number of what you might do next year? if not, could you tell me? I mean, do you think it would be less than what you did this year?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

Rich, I'll answer and I'm sure Ralph can chime in as well. But we generally do not forecast out-year acquisition spends. It's very -- acquisitions, as you know, are very opportunistic. They're there when they're there, and when they're not there, we buy back stock. So it would be hard to give any forecast at all. Ralph, do you want to give your thought there?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

So we said that we might shift about $200 million to $300 million to acquisitions this year. So we spent $80 million on Micreo and Aerosim. Chris talked about Implant Sciences. That would be another $120 million. So that would take us to $200 million. And we still have other deals that we're looking at. So we could easily be at or above $300 million for this year. And I expect that we would have a similar deal flow at a minimum for acquisitions in next year based upon what we're looking at.

Richard Safran - *Buckingham Research - Analyst*

That's helpful. Thanks very much.

Chris Kubasik - *L-3 Communications Holdings, Inc. - President & COO*

The only thing I'll throw in is what I think is unique about L-3 is a fair amount of these things are coming to us on a sole-source basis, or the founders or CEOs, know how we integrate these companies and how we have a good balance between the autonomy and being part of a $10 billion Company. So we're not getting involved in these long, drawn out auctions and that process. So I think it's kind of nice to have these opportunities to work with the -- either the founder or the existing owners and come up with a win/win situation. And Ralph gave you some numbers that I think are accretive to us, even though they're small. But it gives you a sense of what we're thinking and how we're going after these.

Richard Safran - *Buckingham Research - Analyst*

Thanks a lot. I really appreciate it.

Operator

The next question comes from Carter Copeland with Barclays.

Carter Copeland - *Barclays Capital - Analyst*

Hey. Good morning, gentlemen.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

Good morning, Carter.

Carter Copeland - *Barclays Capital - Analyst*

Couple of questions. One, the comment you made about fueling organic growth by focusing on improving past performance, I wondered if you might give us a little color on that. Are you finding that you lost awards because of past performance evaluations? And then the second question is, Ralph, I just wondered if you could tell us what's baked into the outlook for the Electronics Systems because there's clearly been some weakness in general aviation in some of those markets. And I know some of your margin expansion there was predicated on growth in that business. So I wondered if you could just provide us some color on what you're planning on for next year there? Thanks, guys.

Chris Kubasik - *L-3 Communications Holdings, Inc. - President & COO*

Thanks. I'll take the past performance, since I said it. It's Chris. And we're meeting with the team about our organic growth strategy. And as Ralph said, kind of 3% to 5% for two of our segments, which is kind of in line. We've been talking a lot to the team about how we're going to try to grow organically. And all we were saying is one of the best ways to grow is to execute flawlessly on your existing programs, because our customers are putting more and more weight on past performance in the evaluation criteria, especially on the best value bids, which we're seeing more of. So it was really the way we think about it internally, is for the existing work if we continue to get good C-PAR scores it improves our probability on recompete. And then, of course, the follow-on business with existing customers is another way to grow. Before handing it to Ralph, the other thing we've talked a lot about is what the DoD is doing with these rapid and strategic capability offices. So we're in there on a regular basis, making sure that we have a seat at the table. And the big focus is on the third offset and the A2AD threat. And that's where we're aligning our IRAD so that we can get additional growth opportunities. Ralph, you want to continue?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

So with respect to the organic growth sales growth outlook next year in Electronic Systems. Within the aviation and security -- or aviation products & security sector, which where we do all of our commercial avionics and airport security screening work, we presently expect that we're going to have organic growth of about 4% or 5%, which happens to be consistent with the overall segment. But we're still seeing some decent growth in those business areas, Carter.

Carter Copeland - *Barclays Capital - Analyst*

Okay. But it's not an outsized mix shift up, given the margin profile of that business? It's growing in line with the segment?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

Correct.

Carter Copeland - *Barclays Capital - Analyst*

Okay. All right. Thanks. I'll let somebody else ask. Thanks, gents.

Operator

The next question is from Myles Walton with Deutsche Bank.

Myles Walton - *Deutsche Bank - Analyst*

Thanks. Good morning, still. So on the implied cash flow for repurchase in the fourth quarter, the $340 million, is that contemplating the Implant Sciences acquisition closing? Or if that closes then that comes down proportionally to the $120 million you were going to pay for Implant?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

It's the latter, Myles. If it closes, we would lower that amount by $120 million or so.

Myles Walton - *Deutsche Bank - Analyst*

Okay. You've now got Chris in play for establishing guidance. And I think, Chris, you started this time last year. And I'm just curious if the process at all has changed with you in the room and you in the C-suite of how you look at guidance, how you establish guidance, and if there's any changes? The 2017 numbers didn't look that off to me, given the revenue raises you had through the course of 2016. 2017 looks pretty reasonable, the margins look pretty reasonable. But I'm just curious, Chris, if there's anything from a planning perspective that you may have contributed, or if everything was the same as it was last year and every other year?

Chris Kubasik - *L-3 Communications Holdings, Inc. - President & COO*

Okay. Well, I can't comment on the first 19 years. But I think Mike and Ralph will say having me in the room makes it different than the past, but hopefully in a good way. It's definitely a team approach. We have a pretty good process that we go through. And I've just been inserted into that process. As you know, I've been out to a lot of the facilities, and maybe have some more hands-on knowledge of certain programs and strategies that I'm working with the group. But we have our normal timing, our normal process. I think Ralph does a great job with his finance team identifying the risks and ops. A lot of estimates in this industry and in this process. And we give balanced guidance. And it's just an extra set of eyes. So we're all comfortable with this. And maybe Mike or Ralph can comment since they've been around, but it is working well.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

Just quickly, I'd say we've had some new additions here during the year at corporate, whether it's Heidi Wood that's joined us and Ann Davidson, General Counsel. Steve had retired earlier this year. And it brings a fresh look and some different perspective to things that we've been doing for a long time. And it's been very positive for the Company. So we look forward to more contributions from everyone on the team. And I'd like to say that 2019 -- 2016 has been a strong year compared to the -- some of the issues of the past year or two, and we expect 2017 to also be on the right track. And we certainly feel like the Company is on the right trajectory, whether it's our execution or the M&A program. Where we would like more emphasis? We'd like to put much more emphasis on the business development area, in particular, the international business development. And even more in particular in the aerospace area. So we're all focused on it very much. And it's an area that we're committed to improve going forward.

Myles Walton - *Deutsche Bank - Analyst*

Thank you.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

(Multiple speakers) with great people. And we'll do better.

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

I'll just add that I think part of your question was if we made any changes to the -- our guidance methodology.

Myles Walton - *Deutsche Bank - Analyst*

Yes, more broadly.

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

And I would say we're doing it the way we've done it every year. So the posture of the guidance is the same as we've used last year and the years before that. But we're not baking in more conservatism, if that's your question.

Myles Walton - *Deutsche Bank - Analyst*

Okay. No. That answers the question. Thanks, Ralph.

Operator

The next question comes from George Shapiro with Shapiro Research.

Ed Keller - *Shapiro Research - Analyst*

Hi, Mike, Chris and Ralph. This is Ed in for George.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

Hi, ed.

Ed Keller - *Shapiro Research - Analyst*

Just a quick question. On the 2017 guide, I was wondering if you could shed light on the purchase -- repurchase and outstanding shares assumption. I would think you get just a little bit more out of the $600 million. Is it timing or is it couching a little bit on acquisitions?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

So the $600 million placeholder that we're using for next year's share repurchases has us buying the shares pro rata consistently across the four quarters. And there's some assumptions in there about what the stock price will do, which is increase, which is what we're here for. So that's what's in there in terms of share repurchases, Ed.

Ed Keller - *Shapiro Research - Analyst*

Okay. So should we think about dilution as continuing on this downward path that it's been on for several years now, or should it level off?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

You mean the reduction in diluted shares year over year?

Ed Keller - *Shapiro Research - Analyst*

No, just a little bit of dilution as you get year to year. For instance, maybe 4 or 5 years ago it was 4 million shares or so. Last year it was maybe 2.5 million. So it's been coming down each year. But should we think of that as continuing or flattening off?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

Our stock price is much higher now than it was several years ago. And the annual share purchases amounts are less than what they used to be in the past. So there's going to be less reduction in the year-over-year diluted share count on the income statement.

Ed Keller - *Shapiro Research - Analyst*

Okay. Switching gears, then. On the tax assumption for 2017, the 27.5%. Is there anything unusual in that, or is that a good number for the long term?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

Okay. So the 27.5% for next year. So clearly there's nothing in there for resolution of tax contingencies, which typically relate to completing annual federal income tax audits. We had two that closed out in the third quarter of this year. We're not anticipating any next year. And typically you wouldn't have more than one year completing each calendar year. And then we're also assuming a smaller benefit for the excess deductions that come from stock-based compensation expense, which this year are reducing the tax rate by 200 basis points. We're only assuming about 70 basis points for that in 2017. And that could change. But that's -- so there's some conservatism in tax rate. But I don't expect that we'd be at 23.5% again for 2017 as we are now in 2016.

Ed Keller - *Shapiro Research - Analyst*

Okay. And then one last one. On this year, net interest for the Q4, is there any reason why that won't be in line with Q3?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

The -- when you look at our interest expense guidance for this year and next year, there's some small hedge in it, maybe a couple of million dollars this year and next year. And that's because we have some debt that matures in the middle of November, $200 million, and then another $350 million that will mature next May. Between now and next May we will be refinancing that $550 million into new senior notes, probably 10-year notes, and there will be some debt retirement charges that happen with that. And that's what we factored into the guidance around interest expense, Ed.

Ed Keller - *Shapiro Research - Analyst*

Okay. Great. Thank you very much.

Operator

The final question comes from Howard Rubel from Jefferies.

Howard Rubel - *Jefferies LLC - Analyst*

Thank you very much. So you've gone through a number of the business units, Chris, and you've kind of come to some conclusions about how some things fit together. If you were to aggregate the amount of, I'll call it either overhead savings or operational efficiency that you've been able to identify or capture, how much do you think that is, either as a percentage of revenues or in dollar amount?

Chris Kubasik - *L-3 Communications Holdings, Inc. - President & COO*

Yes. For 2016, about a year ago we talked about our guidance containing significant savings to the tune of $150 million in our forward pricing rights with the government. And as you know, some of that obviously goes to the bottom line, some goes back to the customer. So that was the challenge that we worked on as a team to make sure we achieved that. So I would say we're on track. We might be a little above that, which is why you see a slight uptick in the margins. But it's that type of magnitude that was there. And part of the focus now in the coming year, it's going to be on the top-line growth and the organic growth.

And we keep talking about moving up to market a little bit. We actually had an undisclosed international customer who, for the first time on an ISR platform bought a full suite of communications gear, including some of the ground elements. So we've gone from maybe just selling boxes to an entire suite of communications. This is what we're talking more and more about, how we team internally and move up the food chain. So there's been some evidence of that. That will be a major focus for 2017. But I don't know if that helps, Howard.

Howard Rubel - *Jefferies LLC - Analyst*

A little bit. I was trying to get like a net number that we could kind of either benchmark or track, rather than just the gross number. Because I get you got to give some of it back for the normal process.

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

Howard, hi. It's Ralph. In terms of numbers to track, you could basically follow it in our guidance updates at the operating income line, which falls to the bottom line pre-taxes. And our guidance or outlook for next year compared to the 2016 guidance update calls for about $50 million of pretax operating income increases. And that's after the almost $30 million that we have in there for higher pension expense. So about $80 million of improvement that falls to the bottom line pre-taxes, after you factor out pension.

Howard Rubel - *Jefferies LLC - Analyst*

That's -- .

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

That's not really a controllable cost, given the expense assumptions.

Howard Rubel - *Jefferies LLC - Analyst*

No, it's what you're controlling. And that's sort of what we're getting at. And that's very helpful. Just two small items. One is, if we look at the opportunities in Aerospace, a little puts and takes in the ISR business. How do you think about the aggregate or the bidding funnel that's available to you there?

Chris Kubasik - *L-3 Communications Holdings, Inc. - President & COO*

I think we've got a pretty aggressive opportunities, especially in the international front on ISR. There's some big US Air Force ones that are pretty well publicized where we're a teammate with some of the OEMs. There's still decisions being made whether these platforms are migrating to business jets or staying on the more traditional aircraft. In those situations I think we're aligned with who we think has the highest probability of winning. But internationally we're seeing more and more opportunities, especially with the advent of some of the technologies that we have. So we have a couple of pages of opportunities. We just need to go and get some of these decisions made and win the work.

Howard Rubel - *Jefferies LLC - Analyst*

Okay. Thank you very much, gentlemen.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

Okay. Thank you, Howard. I just have a few concluding remarks. First of all, as we look beyond this year into 2017 we see rising demand from our core capabilities from global customers and many opportunities across our lines of business. Our competitive position and market leadership are the culmination of a dual focus on cost control and strategic investments in cutting-edge technologies to meet our customers' needs. Across all of our segments we're growing the business and driving margin expansion through increased efficiencies and other operational improvements. Overall, solid balance sheet, discipline capital deployment, and our strategic approach to M&A ensure that we'll continue pursuing opportunities to increase our customer base and maximize shareholder value. I'm confident that we're on the right track to finish the year on a strong note.

We look forward to highlighting more of our business initiatives and providing a detailed financial outlook and other business updates at our annual Investor Conference to be held on December 6 here in New York City. it'll also be webcast. And you'll hear more about it in the coming weeks, but we look forward to seeing all of you and having a robust Q&A session, like we always do, as well as the presentations. So with that, thanks for joining us this morning. And hopefully we'll see you in the beginning of December. Thanks.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.