



Technologies

First Quarter Earnings Call May 1, 2018 Financial Data Charts



This presentation consists of L3 Technologies, Inc. general capabilities and administrative information that does not contain controlled technical data as defined within the International Traffic in Arms (ITAR) Part 120.10 or Export Administration Regulations (EAR) Part 734.7-11.

Forward-Looking Statements

Certain of the matters discussed in these slides, including information regarding the company's 2018 financial guidance, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than historical facts may be forward-looking statements, such as "may," "will," "should," "likely," "projects," "financial guidance," "expects," "anticipates," "intends," "plans," "believes," "estimates," and similar expressions are used to identify forward-looking statements. The company cautions investors that these statements are subject to risks and uncertainties, many of which are difficult to predict and generally beyond the company's control, that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. Some of the factors that could cause actual results to differ include, but are not limited to, the following: our dependence on the defense industry; backlog processing and program slips resulting from delayed awards and/or funding from the Department of Defense (DoD) and other major customers; the U.S. Government fiscal situation; changes in DoD budget levels and spending priorities; our reliance on contracts with a limited number of customers and the possibility of termination of government contracts by unilateral government action or for failure to perform; the extensive legal and regulatory requirements surrounding many of our contracts; our ability to retain our existing business and related contracts; our ability to successfully compete for and win new business, or, identify, acquire and integrate additional businesses; our ability to maintain and improve our operating margin; the availability of government funding and changes in customer requirements for our products and services; the outcome of litigation matters (see Notes to our annual report on Form 10-K and quarterly reports on Form 10-Q); results of audits by U.S. Government agencies and of ongoing governmental investigations; our significant amount of debt and the restrictions contained in our debt agreements and actions taken by rating agencies that could result in a downgrade of our debt; our ability to continue to recruit, retain and train our employees; actual future interest rates, volatility and other assumptions used in the determination of pension benefits and equity based compensation, as well as the market performance of benefit plan assets; our collective bargaining agreements; our ability to successfully negotiate contracts with labor unions and our ability to favorably resolve labor disputes should they arise; the business, economic and political conditions in the markets in which we operate; the risk that our commercial aviation products and services businesses are affected by a downturn in global demand for air travel or a reduction in commercial aircraft OEM (Original Equipment Manufacturer) production rates; the DoD's Better Buying Power and other efficiency initiatives; events beyond our control such as acts of terrorism; our ability to perform contracts on schedule; our international operations including currency risks and compliance with foreign laws; our extensive use of fixed-price type revenue arrangements; the rapid change of technology and high level of competition in which our businesses participate; risks relating to technology and data security; our introduction of new products into commercial markets or our investments in civil and commercial products or companies; the impact on our business of improper conduct by our employees, agents or business partners; goodwill impairments and the fair values of our assets; and ultimate resolution of contingent matters, claims and investigations relating to acquired businesses, and the impact on the final purchase price allocations.

Our forward-looking statements speak only as of the date of these slides or as of the date they were made, and we undertake no obligation to update forward-looking statements. For a more detailed discussion of these factors, also see the information under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our most recent report on Form 10-K for the year ended December 31, 2017 and any material updates to these factors contained in any of our future filings.

As for the forward-looking statements that relate to future financial results and other projections, actual results will be different due to the inherent uncertainties of estimates, forecasts and projections and may be better or worse than projected and such differences could be material. Given these uncertainties, you should not place any reliance on these forward-looking statements.

Select Financial Data - - First Quarter

(\$ in Millions, except per share amounts)

	1Q18 ⁽¹⁾	1Q17 ⁽¹⁾	vs. 1Q17
Net Sales	\$2,371	\$2,321	2%
Organic Growth	2%	10%	n.m.
Operating Margin	10.6%	10.2%	+40 bps
Operating Income	\$251	\$237	6%
Interest Expense and Other, Net⁽²⁾	\$35	\$38	-8%
Effective Income Tax Rate	11.1%	21.1%	n.m.
Minority Interest Expense⁽³⁾	\$5	\$4	25%
Diluted Shares	79.9	79.3	1%
Diluted EPS from Continuing Operations	\$2.34	\$1.93	21%
Net Cash (used in) from Operating Activities - Continuing Operations	\$(35)	\$86	n.m.
Free Cash Flow (used in) from Continuing Operations⁽⁴⁾	\$(85)	\$53	n.m.

Notes: (1) Effective January 1, 2018 the Company adopted the Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers* (commonly known as ASC 606) using the modified retrospective transition method. In accordance with the modified retrospective transition method, the 2018 first quarter is presented under ASC 606, while the 2017 first quarter is presented under ASC 605, *Revenue Recognition*, the accounting standard in effect for periods ending prior to January 1, 2018. See Adoption of ASC 606 Impact (page 15) for impact of adoption.

(2) Interest Expense and Other, Net is comprised of: (i) interest expense of \$41 million and \$42 million for 1Q18 and 1Q17, respectively, and (ii) interest and other income, net of \$6 million and \$4 million for 1Q18 and 1Q17, respectively.

(3) Minority Interest Expense represents net income from continuing operations attributable to noncontrolling interests.

(4) See Reconciliation of GAAP to Non-GAAP Measurements.

n.m. = not meaningful

Segment Results - - First Quarter

(\$ in Millions)

<u>Segment</u>	<u>1Q18 Net Sales</u>	<u>Sales Growth vs. 1Q17</u>	<u>Organic Growth</u>	<u>1Q18 Operating Margin</u>	<u>Margin Change vs. 1Q17 (bps)</u>
Electronics	\$ 785	6%	6%	13.8%	+160
Aerospace	686	-1%	-1%	8.3%	+30
Communications	493	-8%	-8%	7.5%	-30
Sensors	407	16%	13%	12.0%	-200
Total Segments	\$ 2,371	2%	2%	10.6%	+40

Note: 2017 net sales presented under ASC 605 and 2017 margins include reclassification of employee benefit plan expense in accordance with ASU 2017-07, adopted effective January 1, 2018.

2018 Consolidated Financial Guidance

(in Millions, except per share amounts)

	Guidance (May 1, 2018)	vs. 2017	Prior Guidance (January 25, 2018)
Net Sales	\$9,850 to \$10,050	4%	\$9,850 to \$10,050
Organic Growth	4%	+200 bps	3%
Operating Margin	11.2%	+40 bps	11.2%
Operating Income	\$1,100 to \$1,125	8%	\$1,100 to \$1,125
Interest Expense and Other	\$141	(\$19)	\$141
Effective Tax Rate	19%	+730 bps	20%
Minority Interest Expense	\$20	\$4	\$17
Diluted Shares	~80	n.c.	~80
Diluted EPS	\$9.40 to \$9.60	n.c.	\$9.30 to \$9.50
Free Cash Flow	\$900	4%	\$900

The current guidance for 2018 is subject to potential changes to interpretations of U.S. Tax Reform and excludes: (i) any potential goodwill impairment charges for which the information is presently unknown, (ii) potential adverse results related to litigation contingencies and (iii) other items such as gains or losses related to potential business divestitures and the impact of potential acquisitions.

- Notes: (1) Interest expense and other is comprised of: (i) interest expense of \$170 million and (ii) interest and other income, net, of \$29 million (including \$9 million of income related to employee benefit plans).
 (2) Minority interest expense represents net income from continuing operations attributable to non-controlling interests.
 (3) 2017 includes reclassification of employee benefit plan expense in accordance with ASU 2017-07, which L3 adopted effective January 1, 2018.
 (4) See Reconciliation of GAAP to Non-GAAP Measurements

n.c. = no change

2018 Segment Guidance

(in Millions)

<u>Segment</u>	<u>Net Sales</u>	<u>Midpoint Sales vs. 2017</u>	<u>Segment Operating Margin</u>	<u>Midpoint Margin vs. 2017 (bps)</u>
Electronics	\$3,200 to \$3,300	7%	13.6% to 13.8%	+30
Aerospace	\$2,625 to \$2,725	-4%	7.8% to 8.0%	+20
Communications	\$2,225 to \$2,325	2%	10.9% to 11.1%	+120
Sensors	\$1,700 to \$1,800	13%	11.7% to 11.9%	-80
Total Segments	\$9,850 to \$10,050	4%	\$1,100 to \$1,125	+40

Note: 2017 net sales presented under ASC 605 and 2017 margins include reclassification of employee benefit plan expense in accordance with ASU 2017-07, adopted effective January 1, 2018.

Cash Flow

(\$ in Millions)

	1Q18 Actual	1Q17 Actual	2018 Guidance	2017 Actual
Income from continuing operations ⁽¹⁾	\$ 192	\$ 157	\$ 785	\$ 769
Gain on sale of property, plant and equipment	-	(1)	-	(31)
Depreciation & amortization	56	52	230	225
Deferred income taxes	16	15	35	(8)
401K common stock match	32	34	108	106
Stock-based employee compensation	20	14	62	53
Working capital	(356)	(212)	(40)	(66)
Other items	5	27	(25)	(63)
Net Cash (used in) from operating activities - continuing operations	\$ (35)	\$ 86	\$ 1,155	\$ 985
Capital expenditures	(56)	(41)	(260)	(224)
Dispositions of property, plant and equipment	2	1	5	74
Income taxes allocated to discontinued operations	4	7	-	27
Free cash flow (used in) from continuing operations	\$ (85)	\$ 53	\$ 900	\$ 862

Notes: (1) Before deduction of net income attributable to noncontrolling interests.

Supplemental Cash Flow Data

(\$ in Millions)

	<u>1Q18 Actual</u>	<u>1Q17 Actual</u>	<u>2018 Guidance</u>	<u>2017 Actual</u>
Cash interest payments	\$ 37	\$ 37	\$ 163	\$ 165
Income tax payments, net⁽¹⁾	15	8	155	120
FAS pension expense	25	27	99 ^{(2) (3)}	110
CAS pension cost⁽⁴⁾	31	30	126	119
Pension contributions	3	4	100	97

(1) Excludes income tax payments attributable to discontinued operations of \$4 million in 1Q18, \$7 million for 1Q17 and \$27 million for 2017.

(2) FAS pension expense represents pension expense determined using U.S. GAAP and assumes a 2017 year-end weighted average discount rate of 3.78% (vs. 4.40% for 2016 year-end) and a 2018 weighted average pension asset return of 7.91%.

(3) Estimated 2018 Pension Expense Sensitivity: A 25 bps increase/decrease in 12/31/17 discount rate would decrease/increase 2018 pension expense by ~\$17 million and decrease/increase the 12/31/17 unfunded obligation by ~\$155 million.

(4) CAS pension cost represents estimated allowable and reimbursable pension cost under U.S. Government procurement regulations (determined using Cost Accounting Standards or CAS) on L3's U.S. Government contracts.

Depreciation, Amortization and Capital Expenditures

(\$ in Millions)

Segment	2018				2017			
	D&A		CapEx, Net		D&A		CapEx, Net	
	1Q18	2018	1Q18	2018	1Q17	2017	1Q17	2017
Electronics	\$ 19	\$ 83	\$ 30	\$122	\$ 18	\$ 79	\$ 18	\$ 69
Aerospace	12	49	7	48	11	51	6	48
Communications	13	48	10	44	12	49	9	(10)
Sensors	12	50	7	41	11	46	7	43
Consolidated	\$ 56	\$230	\$ 54	\$255	\$ 52	\$225	\$ 40	\$150

Cash Sources and Uses

(\$ in Millions)

	<u>1Q18 Actual</u>	<u>1Q17 Actual</u>	<u>2017 Actual</u>
Beginning cash	\$ 662	\$ 363	\$ 363
Free cash flow (used in) from continuing operations	(85)	53	862
Free cash flow (used in) from discontinued operations	(34)	(9)	86
Divestitures	-	16	18
Acquisitions	-	(139)	(316)
Dividends	(65)	(61)	(236)
Equity Interest Investments	(30)	-	(5)
Share repurchases	(119)	-	(180)
Other, net	45	7	70
Ending cash	<u>\$ 374</u>	<u>\$ 230</u>	<u>\$ 662</u>

Note: See Reconciliation of GAAP to Non-GAAP Measurements.

Capitalization and Leverage

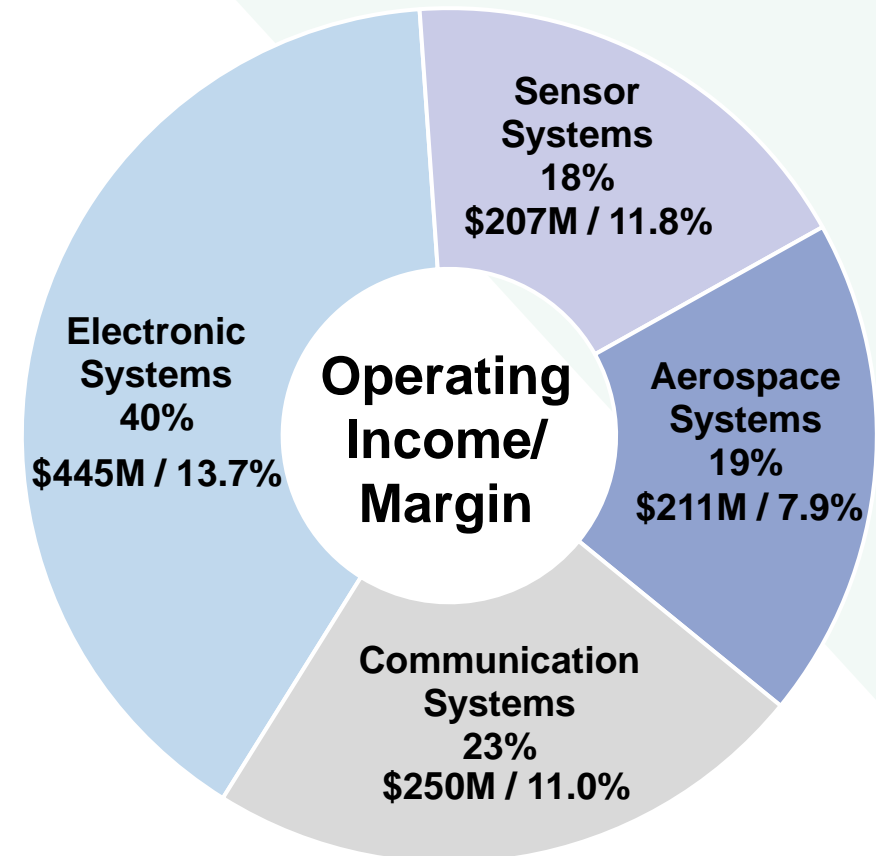
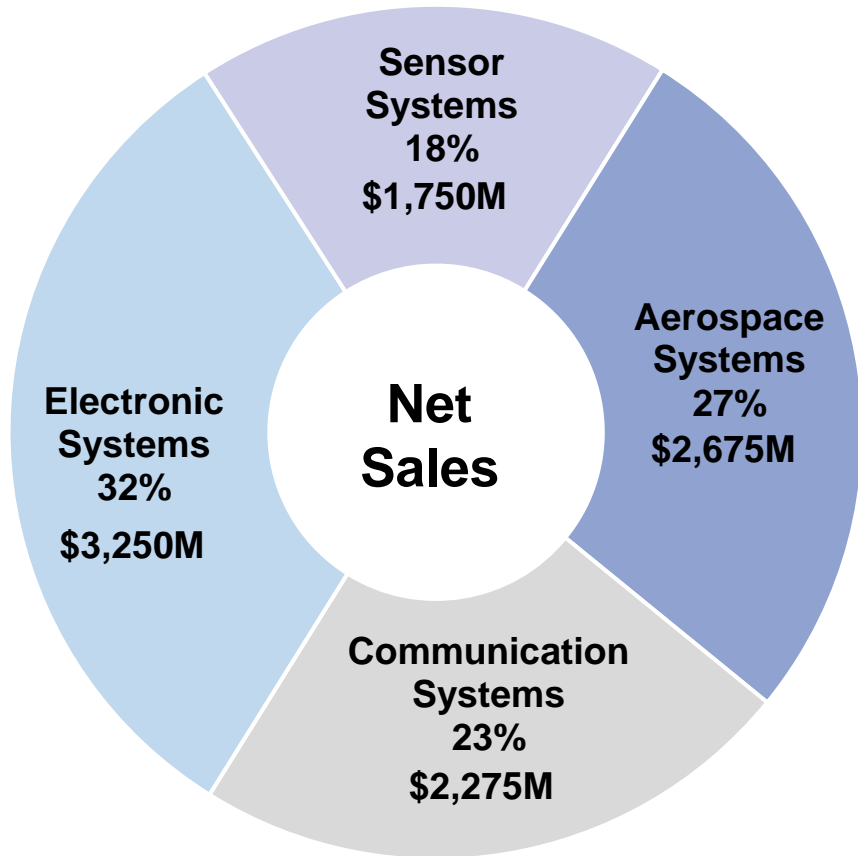
(\$ in Millions)

	3/30/18 Actual	12/31/17 Actual
Cash	\$374	\$662
Debt	\$3,331	\$3,330
Equity	5,320	5,151
Invested Capital	\$8,651	\$8,481
Debt/Invested Capital	38.5%	39.3%
Debt/LTM EBITDA	2.61x	2.65x
Available Revolver	\$1,000	\$1,000

Notes: (1) Debt/LTM EBITDA excludes discontinued operations.
 (2) See Reconciliation of GAAP to Non-GAAP Measurements.

Appendix

Segment Mix: 2018 Guidance



Note: Net sales and operating income/margin represent midpoints of the range of segment guidance.

2018 Segment Guidance - - Current vs. Prior

(\$ in Millions)

Segment	Current Guidance (May 1, 2018)		Prior Guidance (January 25, 2018)	
	Net Sales	Operating Margin	Net Sales	Operating Margin
Electronics	\$3,200 to \$3,300	13.6% to 13.8%	\$3,200 to \$3,300	13.6% to 13.8%
Aerospace	\$2,625 to \$2,725	7.8% to 8.0%	\$2,625 to \$2,725	7.8% to 8.0%
Communications	\$2,225 to \$2,325	10.9% to 11.1%	\$2,225 to \$2,325	10.9% to 11.1%
Sensors	\$1,700 to \$1,800	11.7% to 11.9%	\$1,700 to \$1,800	11.7% to 11.9%
Consolidated	\$9,850 to \$10,050	\$1,100 to \$1,125	\$9,850 to \$10,050	\$1,100 to \$1,125

Adoption of ASC 606 Impact

	First Quarter Ended March 30, 2018	
	<u>Sales</u>	<u>Operating Income</u>
Electronics	\$ 30	\$ 3
Aerospace	4	1
Communications	20	4
Sensors	22	11
Consolidated	<u>\$ 76</u>	<u>\$ 19</u>

Reconciliation of GAAP to Non-GAAP Measurements (1 of 2)

(in Millions)

	<u>1Q18</u> Actual	<u>1Q17</u> Actual	<u>2018</u> Guidance	<u>2017</u> Actual
Net cash (used in) from operating activities from continuing operations	\$ (35)	\$ 86	\$ 1,155	\$ 985
Less: Capital expenditures	(56)	(41)	(260)	(224)
Add: Dispositions of property, plant and equipment	2	1	5	74
Income tax payments attributable to discontinued operations	4	7	-	27
Free cash flow (used in) from continuing operations	<u>\$ (85)</u>	<u>\$ 53</u>	<u>\$ 900</u>	<u>\$ 862</u>
Net cash (used in) from operating activities from discontinued operations	\$ (29)	\$ (1)		\$ 117
Less: Capital expenditures	(1)	(1)		(4)
Income tax payments attributable to discontinued operations	(4)	(7)		(27)
Free cash flow (used in) from discontinued operations	<u>\$ (34)</u>	<u>\$ (9)</u>		<u>\$ 86</u>

Reconciliation of GAAP to Non-GAAP Measurements (2 of 2)

(in Millions)

Cash Flow to EBITDA Reconciliation	3/30/18 Actual	12/31/17 Actual
Net cash from operating activities from continuing operations	\$ 864	\$ 985
Income tax payments, net of refunds	127	120
Interest payments, net of interest income	144	146
Stock-based employee compensation	(163)	(159)
Gain on sale of property, plant and equipment	30	31
Other non-cash items	(5)	(9)
Changes in operating assets and liabilities	277	142
LTM EBITDA from continuing operations	<u>\$ 1,274</u>	<u>\$ 1,256</u>
Debt	\$ 3,331	\$ 3,330
Debt/LTM EBITDA	2.61x	2.65x

Note: EBITDA is defined as consolidated income from continuing operations (excluding impairment losses incurred on goodwill and identifiable intangible assets and losses related to business divestiture transactions), plus consolidated interest, taxes, depreciation and amortization. The Debt to EBITDA ratio is presented because we believe it to be a useful indicator of our debt capacity and our ability to service our debt. EBITDA is not a substitute for net cash from operating activities as determined in accordance with generally accepted accounting principles in the United States of America. EBITDA is not a complete net cash flow measure because EBITDA is a financial measure that does not include reductions for cash payments for our obligation to service our debt, fund our working capital and capital expenditures and pay our income taxes. Rather, EBITDA is one potential indicator of our ability to fund these cash requirements. We believe that the most directly comparable GAAP financial measure to EBITDA is net cash from operating activities. The table above presents a reconciliation of net cash from operating activities to EBITDA.

Glossary of Acronyms

ASC	Accounting Standards Codification
ASU	Accounting Standards Update
bps	Basis Points
CapEx, Net	Capital expenditures, net of disposition of property, plant and equipment
CAS	Cost Accounting Standards - U.S. Government
D&A	Depreciation and Amortization
DoD	Department of Defense
EBITDA	Earnings Before Interest Taxes Depreciation Amortization
EPS	Earnings Per Share
FAS	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
LTM	Last Twelve Months
OPEB	Other Post Employment Benefits

