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

October 30, 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, synergies status for 2020, flawless execution, margin expansion, operational excellence, growing revenue, well aligned portfolio and investment in innovation, maximizing cash flow, shareholder friendly capital deployment, potential share repurchase amounts and timing, confidence in free cash flow targets and growth thereafter, working capital stability, reshaping the portfolio, high margin and high growth businesses and future sale transactions; program, contract and order opportunities and awards and the value or 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**

- 3Q net cost synergies of \$50M...on track to deliver \$185M for 2020 and exit the year with \$250M net cumulative savings
- Plan to achieve at least \$300M net (\$500M gross) in 2021...1 year ahead of schedule

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

- 60 bps of adjusted EBIT margin<sup>1</sup> expansion in 3Q to 17.9%
- Raised full-year margin guidance by 25 bps to ~17.75%
- Continued focus on margin expansion...e3 and synergies

## **Grow revenue...well aligned portfolio and investment in innovation**

- Mid-single-digit revenue growth in 3Q with similar levels over medium term... in-demand portfolio, revenue synergies and international expansion
- Multi-billion dollar pipeline of revenue synergies...down-selected on 25 of 37 proposals and over \$300M awarded to-date

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

- \$726M adjusted FCF<sup>1</sup> in 3Q with \$1.3B in capital returned to shareholders... repurchases of ~\$2.2B in 2020, up from ~\$1.7B
- Working capital stable after strong 1H...7-day improvement year-to-date
- Confident in \$3B FCF target for 2022 with growth thereafter

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

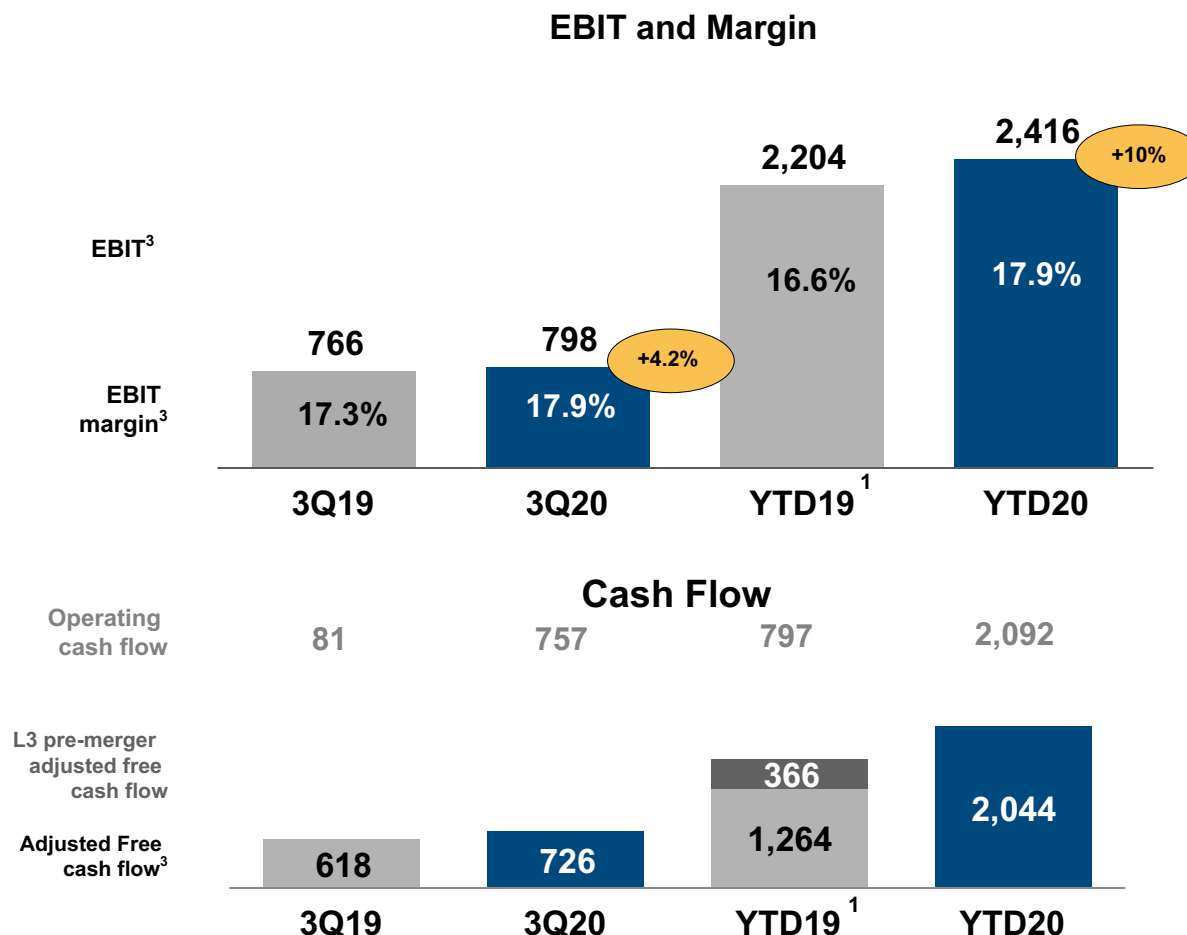
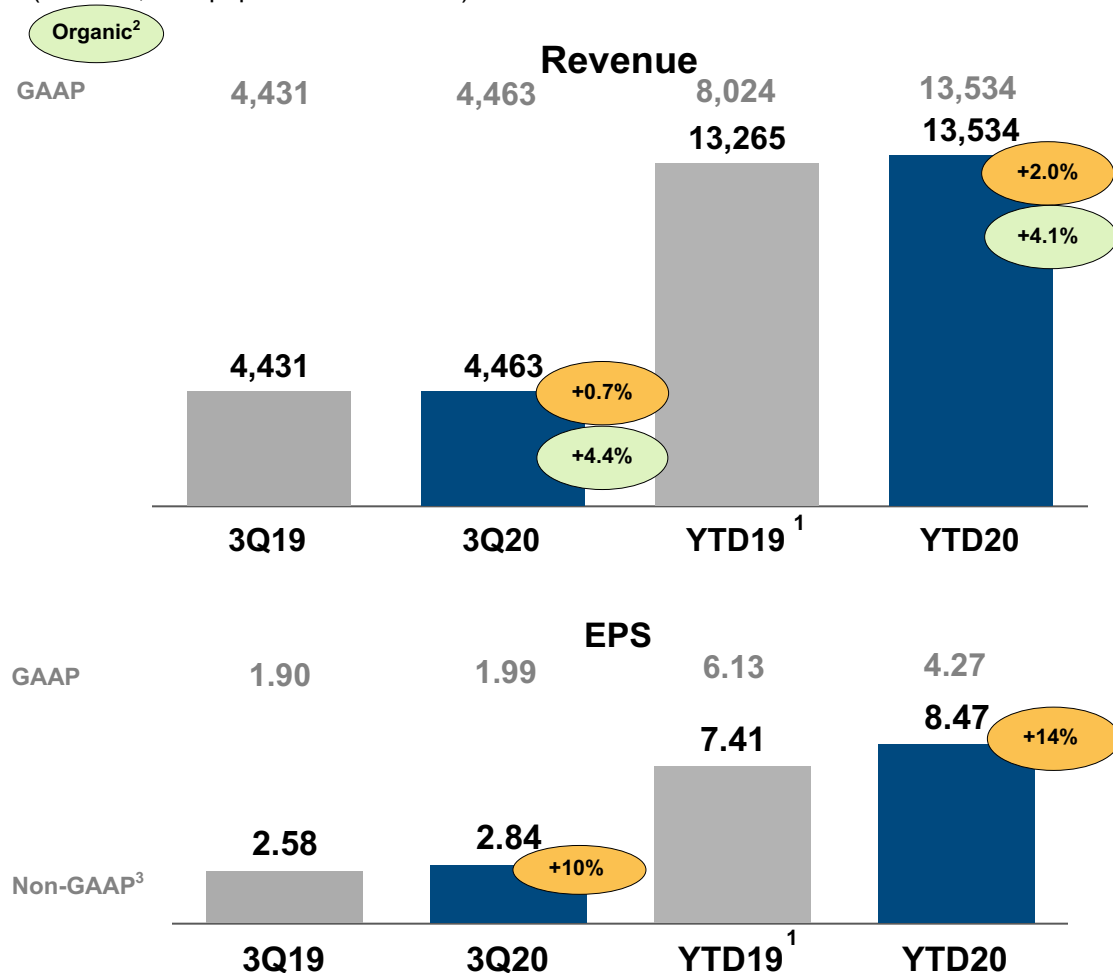
- Year-to-date transactions totaling more than \$1 billion
- Estimating 8-10% of revenue to be divested with ~1/3 complete
- More progress expected in the coming quarters

<sup>1</sup>Adjusted EBIT, adjusted EBIT margin, non-GAAP EPS and adjusted free cash flow (FCF) are non-GAAP financial measures; refer to non-GAAP financial measure reconciliations in other quarterly earnings materials and the L3Harris investor relations website.

# Solid 3Q20 financials



(\$ million, except per share amounts)



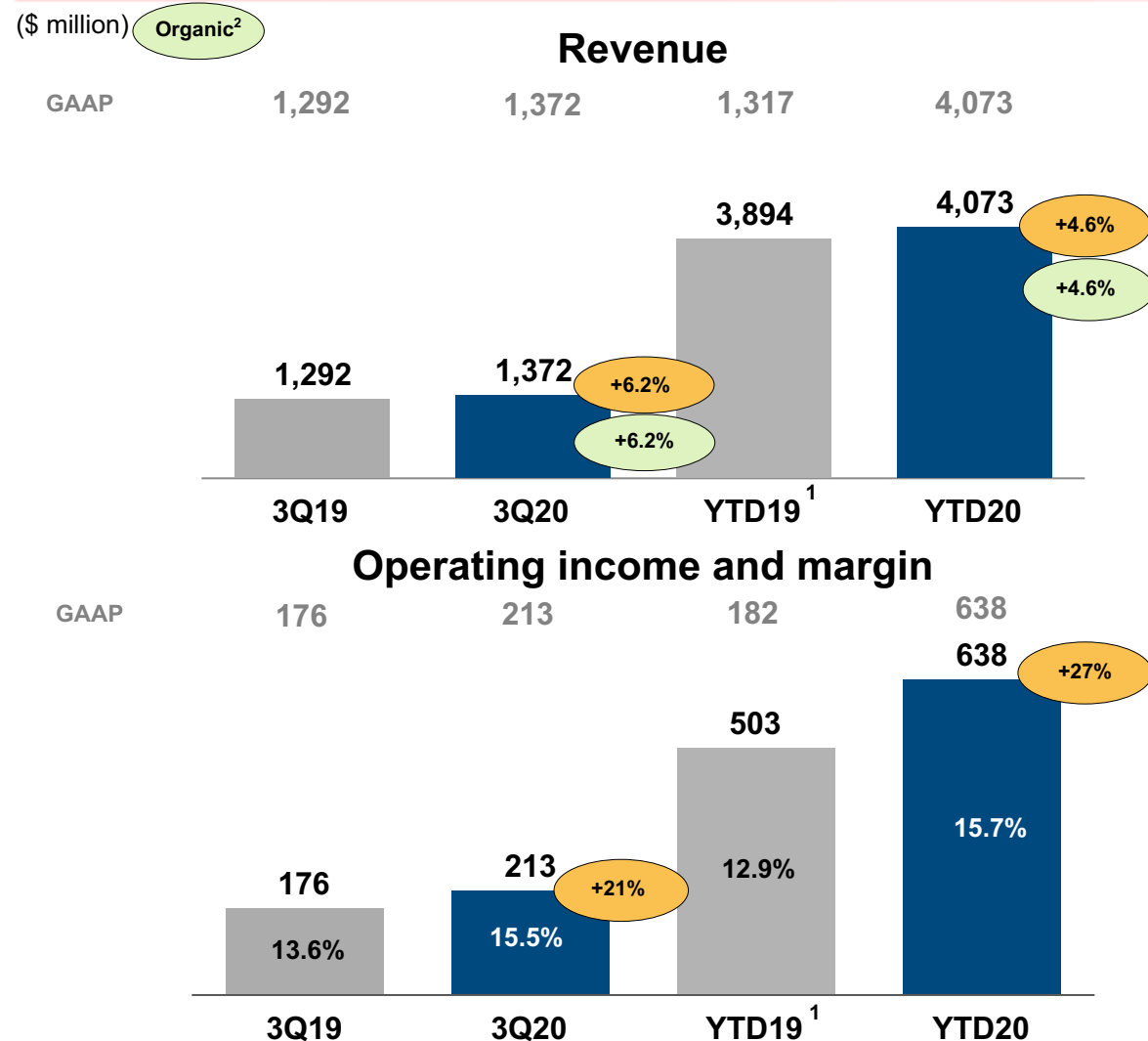
<sup>1</sup>Represents pro forma or adjusted pro forma results, combining actual GAAP result for 3Q19 with corresponding results for 1Q19 and 2Q19 in pro forma condensed combined income statement information (prepared in a manner consistent with Article 11 of Regulation S-X) included in L3Harris' Current Report on Form 8-K filed on May 4, 2020; with "adjusted" referring to such result as adjusted for certain item(s) indicated in non-GAAP financial measure reconciliations in other quarterly earnings materials and L3Harris investor relations website.

<sup>2</sup>Organic revenue growth excludes revenue attributable to each divested business for the portion of the prior-year period equivalent to the portion of the current-year period 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>3</sup>Adjusted EBIT, adjusted EBIT margin, non-GAAP EPS and adjusted free cash flow (FCF) are non-GAAP financial measures; refer to non-GAAP financial measure reconciliations in other quarterly earnings materials and the L3Harris investor relations website.



# Integrated Mission Systems



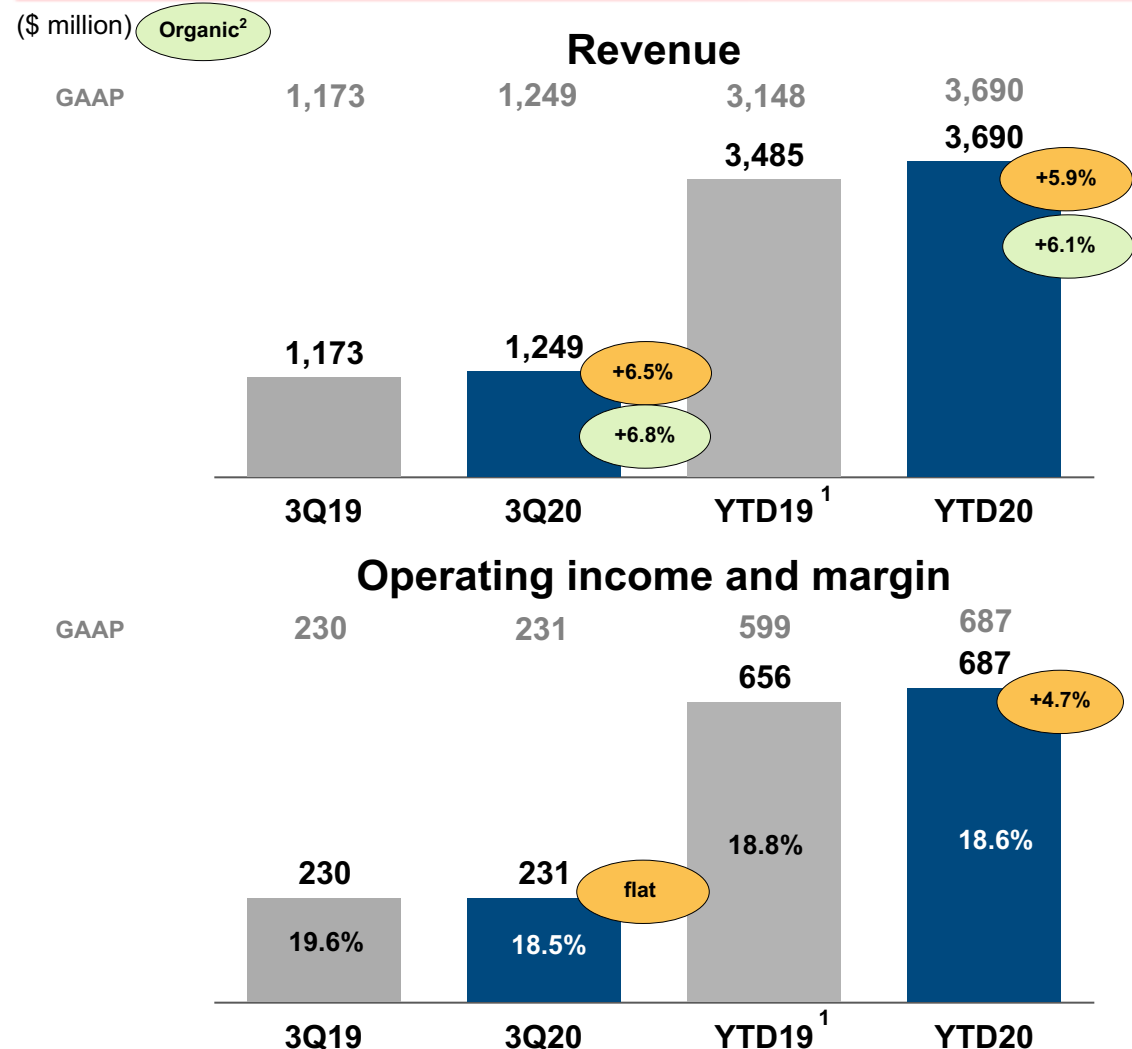
## 3Q20

- Revenue up 6.2%
  - Growth in Maritime from a ramp on manned and classified platforms and in ISR on aircraft missionization demand
  - Modest decline in Electro Optical due to program timing
- Operating income increased 21%
- Margin expanded 190 bps to 15.5%
  - Operational excellence and integration benefits, partially offset by higher investments
- Funded B:B 1.08 for 3Q and 1.22 year-to-date

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# Space & Airborne Systems



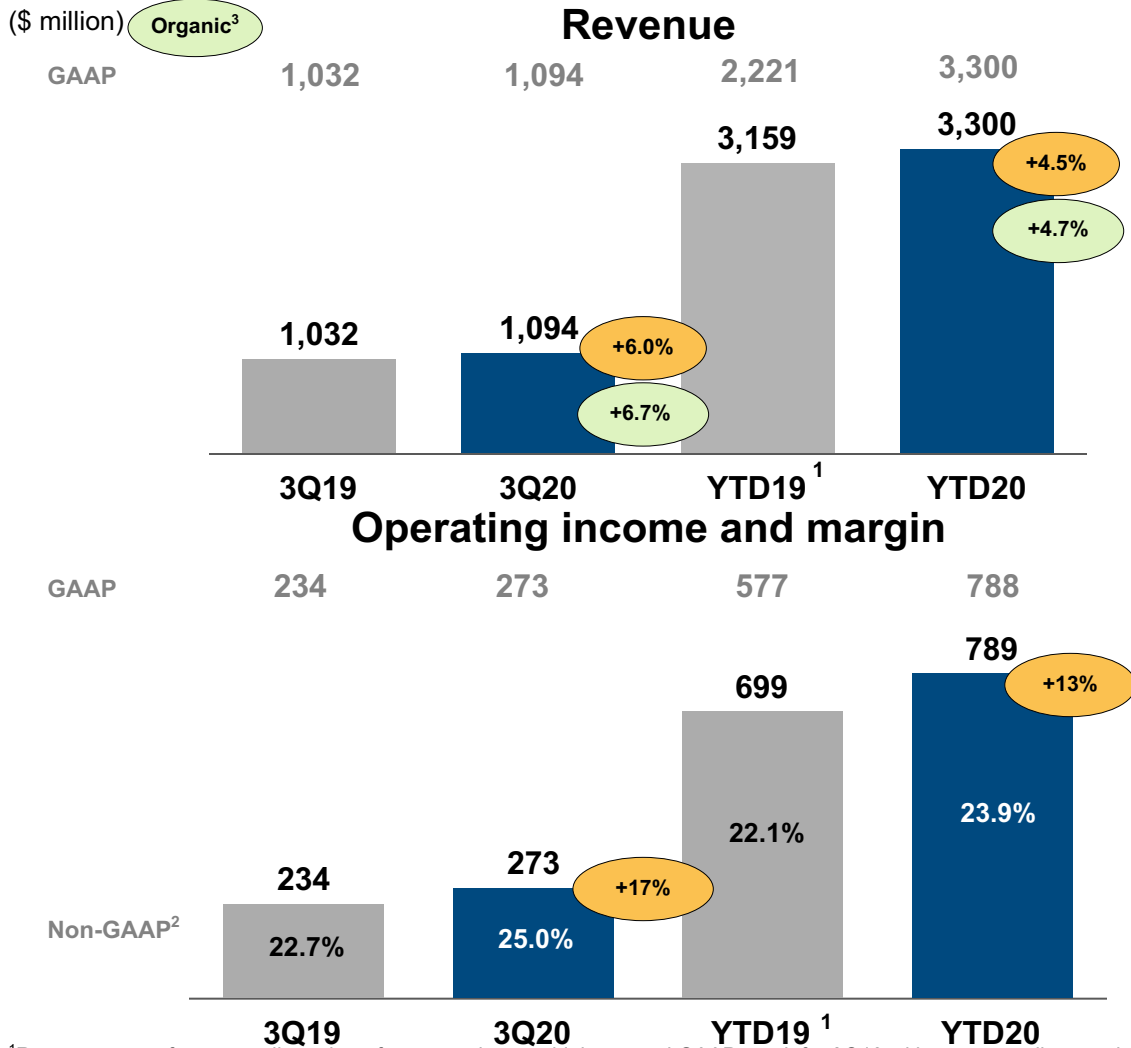
## 3Q20

- Revenue up 6.5% and up 6.8% on an organic<sup>2</sup> basis
  - F-35 growth in Mission Avionics and classified growth in Intel & Cyber
  - Partially offset by program timing in Space and Electronic Warfare
- Operating income flat
- Margin contracted 110 bps to 18.5%
  - Integration benefits and operational excellence more than offset by program mix
- Funded B:B 1.04 for 3Q and 1.05 year-to-date

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# Communication Systems



## 3Q20

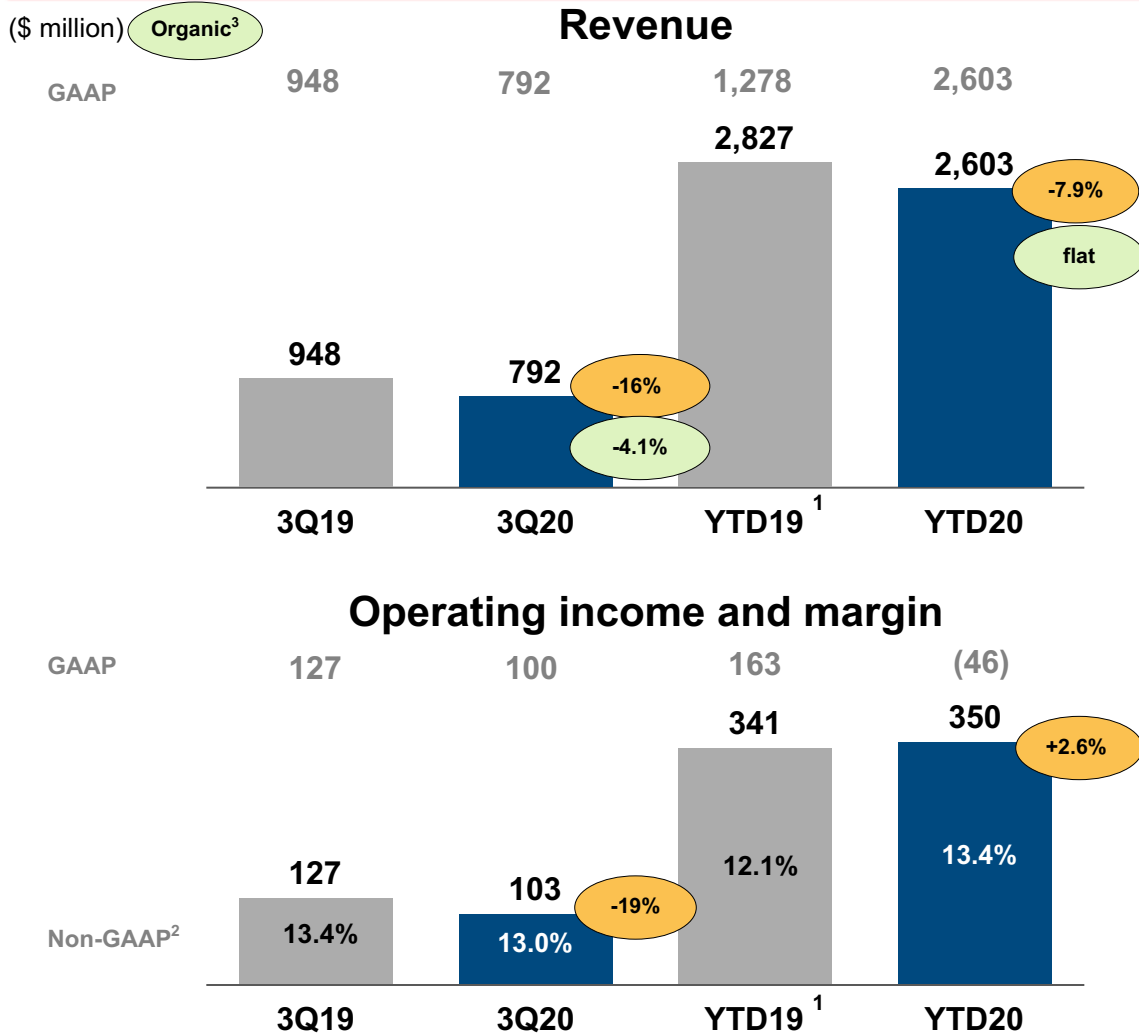
- Revenue up 6.0% and up 6.7% on an organic<sup>3</sup> basis
  - Growth in Tactical Communications and Integrated Vision Systems (IVS)
    - International Tactical demand from the Middle East, Europe and Asia Pacific
    - DoD Tactical and IVS from modernization demand
  - Partially offset by expected lower demand in Public Safety due to COVID-19
- Operating income increased 17%
- Margin expanded 230 bps to 25.0%
  - Operational excellence, integration benefits and cost management
- Funded B:B 0.99 for 3Q and 0.94 year-to-date

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<sup>2</sup>Non-GAAP YTD20 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.

<sup>3</sup>Organic revenue growth excludes revenue attributable to each divested business for the portion of the prior-year period equivalent to the portion of the current-year period 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.

# Aviation Systems



## 3Q20

- Revenue down 16% and down 4.1% on an organic<sup>3</sup> basis
  - Commercial aviation performance in-line with expectations
  - Growth in Defense Aviation Products and Mission Networks
- Non-GAAP<sup>2</sup> operating income down 19% and down 8.8% on an organic<sup>3</sup> basis
- Non-GAAP<sup>2</sup> margin contracted 40 bps to 13.0%
  - Integration benefits, operational efficiencies and cost management more than offset by COVID-19 headwinds
- Funded B:B 0.94 for 3Q and 1.08 year-to-date

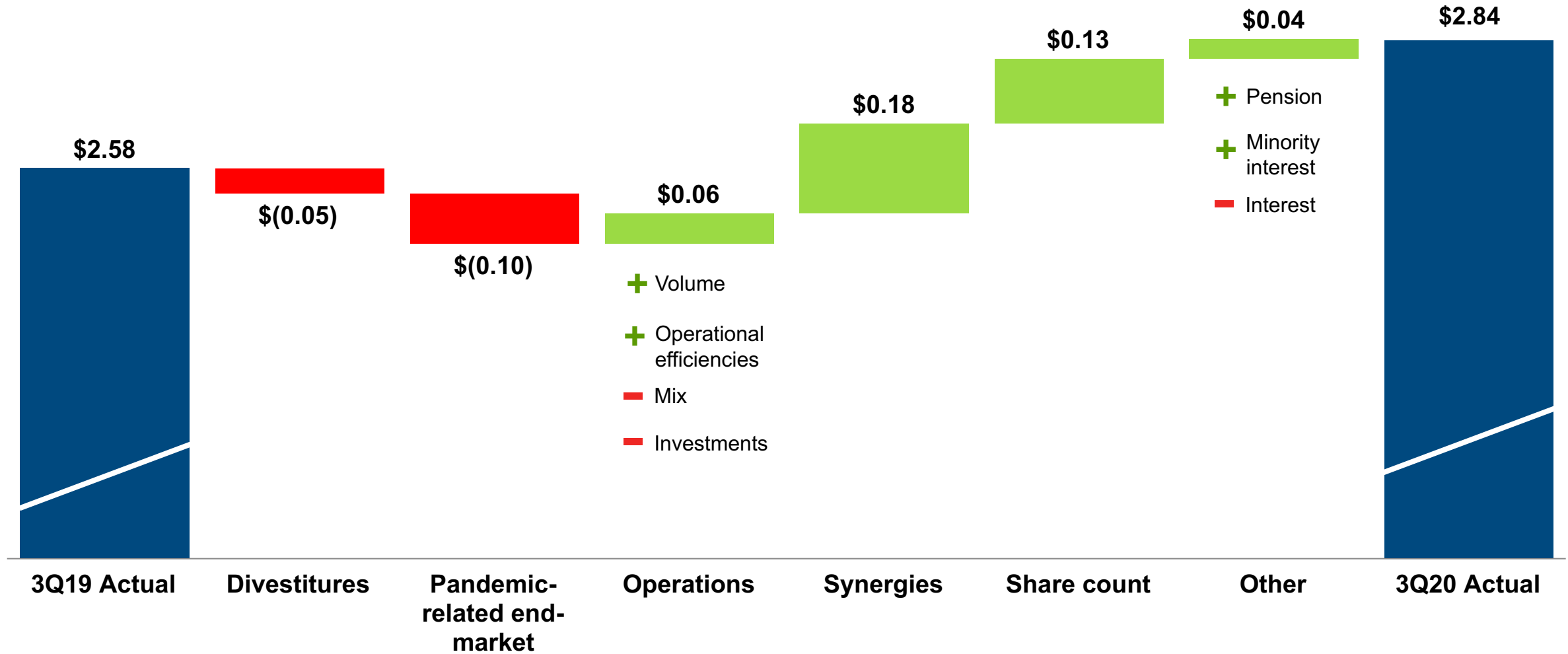
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<sup>2</sup>Non-GAAP 3Q20 and YTD20 operating income and margin excludes COVID-19-related charges and adjustments; refer to non-GAAP financial measure reconciliations in other quarterly earnings materials and the L3Harris investor relations website.

<sup>3</sup>Organic revenue growth and operating income decline exclude amounts attributable to each divested business for the portion of the prior-year period equivalent to the portion of the current-year period 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.



# Non-GAAP 3Q20 EPS<sup>1</sup> bridge



<sup>1</sup>Adjusted EBIT, adjusted EBIT margin, non-GAAP EPS and adjusted free cash flow (FCF) are non-GAAP financial measures; refer to non-GAAP financial measure reconciliations in other quarterly earnings materials and the L3Harris investor relations website.

# 2020 full-year guidance



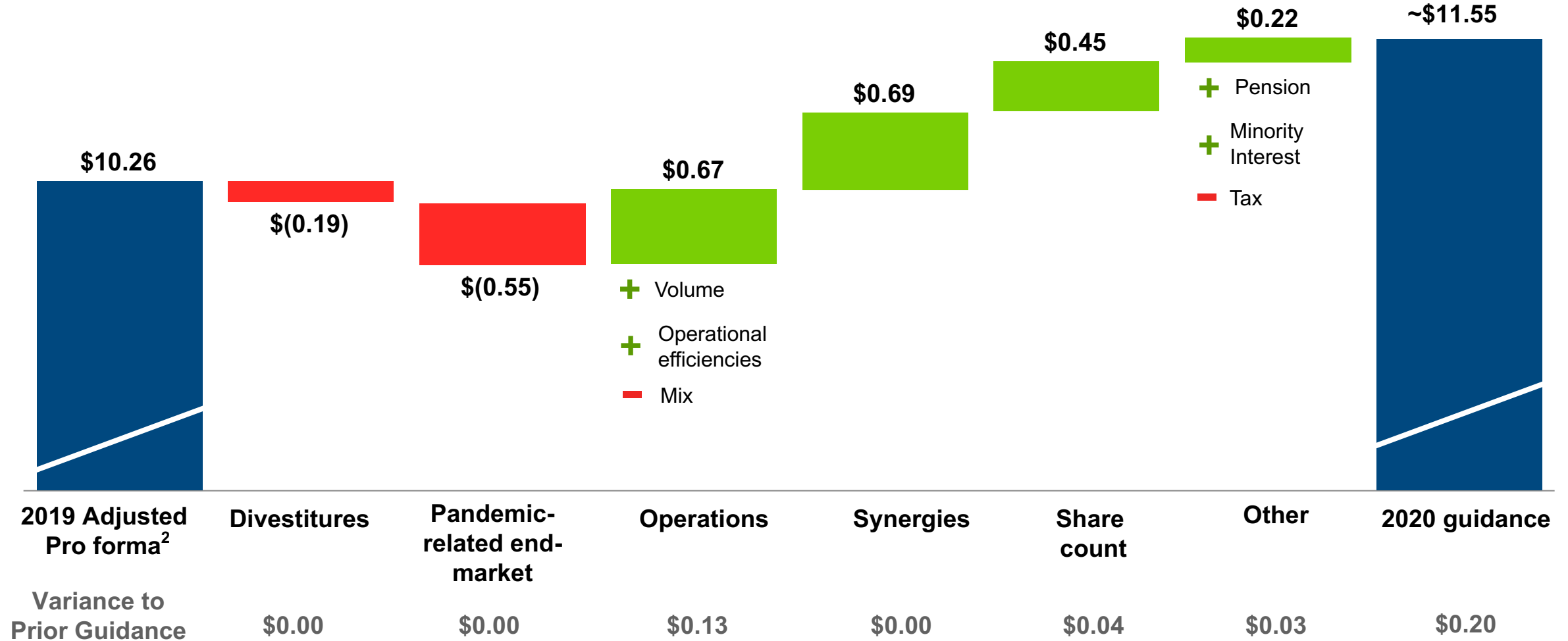
Total L3Harris	
<b>Organic revenue<sup>1</sup></b> <hr/> <b>up ~4.0%</b> (vs. up 3.0 - 5.0%)	<b>Margin<sup>2</sup></b> <hr/> <b>~17.75%</b> (vs. 17.50%+)
<b>EPS<sup>2</sup></b> <hr/> <b>~\$11.55</b> (vs. \$11.15 - \$11.55)	<b>FCF<sup>2</sup></b> <hr/> <b>\$2.65 - \$2.70B</b> (vs. \$2.6 - \$2.7B)

By Segment		
	Organic revenue <sup>1</sup>	Margin <sup>2</sup>
IMS	<b>up ~6.0%</b> (vs. up 5.5 - 7.0%)	<b>~15.00%</b> (vs. 13.50%+)
SAS	<b>up ~7.0%</b> (vs. up 6.0 - 7.5%)	<b>~18.75%</b>
CS	<b>up ~4.0%</b> (vs. up 3.5 - 5.0%)	<b>~24.00%</b> (vs. ~23.75%)
AS	<b>down ~3.0%</b> (vs. down 1.0 - 5.0%)	<b>~13.25%</b>

<sup>1</sup>Compared with pro forma revenue for 2019, combining actual GAAP revenue for 2H19 with revenue for 1Q19 and 2Q19 in 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 on May 4, 2020, and then excluding revenue attributable to each divested business for the portion of 2019 equivalent to the portion of 2020 following date business was divested; refer to non-GAAP financial measure reconciliations in other quarterly earnings materials and L3Harris investor relations website.

<sup>2</sup>Adjusted EBIT, adjusted EBIT margin, non-GAAP EPS and adjusted free cash flow (FCF) are non-GAAP financial measures; 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>Adjusted EBIT, adjusted EBIT margin, non-GAAP EPS and adjusted free cash flow (FCF) are non-GAAP financial measures; refer to non-GAAP financial measure reconciliations in other quarterly earnings materials and the L3Harris investor relations website.

<sup>2</sup>Represents actual GAAP EPS for 2H19 combined with EPS for 1Q19 and 2Q19 in 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 on May 4, 2020, and then adjusted for certain item(s) indicated in non-GAAP financial measure reconciliations in other quarterly earnings materials and L3Harris investor relations website.

# Appendix

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# Other financial information



(\$ million except noted)

	<u>3Q19</u>	<u>3Q20</u>	<u>CY20 Guide</u>
Cost synergies (net)	\$15	\$50	~\$185
Net interest expense	\$58	\$62	~\$255
Integration expenses <sup>1</sup>	\$35	\$27	~\$145 (prior ~\$158)
Effective tax rate (non-GAAP)	17.1%	17.0%	~17%
Noncontrolling interests, net of income taxes <sup>2</sup>	\$6	\$—	~\$7 (prior ~\$10)
Average diluted shares outstanding (million shares)	225.4	215.1	~216 (prior ~217)
Net capital expenditures	\$84	\$86	~\$350 (prior ~\$370)

<sup>1</sup>CY20 guidance for integration expense includes approximately \$5M of restructuring charges recorded in the second quarter.

<sup>2</sup>Excludes the noncontrolling interest portion of goodwill impairment charges and amortization of acquisition-related intangibles; refer to non-GAAP financial measure reconciliations in other quarterly earnings materials and the L3Harris investor relations website.



# Supplemental L3Harris tactical communications history



(\$ million)

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20
<b>Orders</b>	<b>289</b>	<b>488</b>	<b>371</b>	<b>486</b>	<b>450</b>	<b>458</b>	<b>515</b>
<b>Sales</b>	<b>407</b>	<b>435</b>	<b>401</b>	<b>435</b>	<b>454</b>	<b>477</b>	<b>460</b>
DoD	189	195	193	227	270	279	209
International	218	240	208	208	184	198	251
<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>	<b>1,132</b>

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