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L3Harris Technologies, Inc. (LHX)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to the L3Harris Technologies' Fourth Quarter Calendar Year 2020 Earnings Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this call is being recorded.

It is now my pleasure to introduce your host, Rajeev Lalwani, Vice President, Investor Relations. Thank you. You may begin.

Rajeev Lalwani

Vice President-Investor Relations, L3Harris Technologies, Inc.

Thank you, Rob. Good morning and welcome to our fourth quarter 2020 earnings call. On the call with me today are Bill Brown, our CEO; Chris Kubasik, our COO; and Jay Malave, our CFO. First, a few words on forward-looking statements and non-GAAP measures. Forward-looking statements involve risks, assumptions, and uncertainties that could cause actual results to differ materially. For more information, please see our press release, presentation, and SEC filings.

A reconciliation of non-GAAP financial measures to comparable GAAP measures is included in the Investor Relations section of our webcast, which is I3harris.com, where a replay of this call will also be available. And to aide with year-over-year comparability following the L3Harris merger, prior-year results will be on a pro forma basis.

With that, Bill, I'll turn it over to you.

William M. Brown

Chairman & Chief Executive Officer, L3Harris Technologies, Inc.

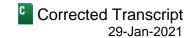
Well, thank you, Rajeev; and good morning, everyone. Earlier today, we reported fourth quarter results, and I'd like to start by thanking our employees for their continued dedication and perseverance through 2020. Despite COVID, we met customer commitments, advanced the integration, and delivered bottom-line results ahead of initial expectations, all while keeping our workforce safe. We'll continue to follow mitigation plans implemented at the onset of the pandemic and keep them in place until widespread vaccinations have occurred.

As a combined company, we're successfully executing the strategy we laid out a year and half ago to drive shareholder value. And our progress is reflected in our operating results and outlook. First, we delivered solid results in 2020, where we exceeded our initial guidance on margins, earnings per share and free cash flow, offsetting the negative impacts of the pandemic with a solid 7% growth in our core US Government business and modest growth on the international side.

Margins expanded 120 basis points to 18% from synergies and operational excellence, and drove earnings per share up 13% consistent with our double-digit growth framework. With an 8-day improvement in working capital, we also generated strong free cash flow of nearly \$2.7 billion. This, along with progress on portfolio shaping, enabled us to return \$3 billion to shareholders and deliver growth in free cash flow per share of over 10%.

Second, our guidance for the current year shows continuing momentum in the business. With the fiscal 2021 budget now set and broad programs support across key areas, we're in position to deliver mid-single digit organic

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revenue growth at the midpoint underpinned by the building blocks we previously described. Our DoD portfolio is well aligned with national security priorities. And while the overall budget is flat, we expect at least low-single digit growth driven by space, maritime, DoD modernization, and classified programs.

Revenue synergies will contribute about a point of growth, with the notable driver being the SDA Tracking Layer award as well as continued traction elsewhere, with a win rate of about two-thirds of the 40 proposals awarded to-date. On the international front, we expect about another point for mid-single digit growth plus, backed by a funded book-to-bill of above 1 in 2020 and a growing pipeline of pursuits. And then finally, in our commercial businesses, we foresee a more modest impact of full-year results as we lap COVID pressures following the first quarter.

We also expect another year of margin expansion, supported by increased synergies and continued operational excellence, net of dilution from new programs starts. We exited the year at \$270 million in net cumulative synergy savings, \$21 million ahead of our prior estimate. And with more confidence and savings from the supply chain, facility rationalization, shared services and functional efficiencies, we're now increasing our cumulative savings to \$320 million to \$350 million in 2021, up from a prior estimate of \$300 million plus and still a year ahead of schedule.

Our free cash flow guide of \$2.8 billion to \$2.9 billion demonstrates clear progress towards our \$3 billion target in 2022, with all cash used for capital returns to support double-digit earnings and free cash flow per share growth. Yesterday we announced that our board approved a new \$6 billion share repurchase authorization alongside a 20% increase in our dividend, the third raise since we closed and bringing us closer to our target of a 30% to 35% payout of free cash flow.

And then finally, we continue to position the business for long-term value creation by exiting non-core businesses and focusing our significant R&D investment on more strategic, technology-based business areas. We're now in the latter stages of several portfolio-shaping processes, and we'll look to provide updates over the coming months. Our expectation continues to be for divestitures to represent a cumulative 8% to 10% of revenue with about a third completed to-date, and all proceeds going towards repurchases.

And we'll continue to sustain R&D spending at a pure high of nearly 4% of revenue, with a focus on open architecture, multifunction, software-defined solutions across our broad C5ISR portfolio of capabilities. These technologies are essential to countering near-peer threats across all domains and our past investments with the driver behind the recent SDA Tracking Layer, HBTSS, and Next Gen Jammer wins. So overall, we're clearly making progress in building a high-performance, technology-focused operating company and positioning L3Harris as a full end-to-end mission solutions prime.

And with that, let me turn it over to you, Chris.

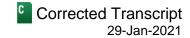
Christopher Eugene Kubasik

Vice Chairman, President & Chief Operating Officer, L3Harris Technologies, Inc.

Okay. Thanks, Bill; and good morning, everyone. Let's go to slide 5. Integrated Mission Systems' fourth quarter revenue was flat. Strong growth in our Maritime business continued as a result of several key wins during the year. We were awarded prime contracts for the medium unmanned surface vehicle program and a classified undersea acoustic systems program which, alongside an important win on the US Navy frigate program, affirms our strategy to establish ourselves as both a prime contractor and a systems integrator.



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This progress was offset by a moderate decline in Electro Optical due to program timing and in ISR due to aircraft timing. Our prior guidance assumed a December contract for ISR aircraft from an international customer that was delayed due to the customer's decision to expand the program. We are now awaiting parliamentary approval for that program.

For the full year, revenue was up 3.3% from double-digit growth in Maritime and low-single digit growth in ISR. Operating income was up 7.2% in the fourth quarter and 21% for the year. And margins expanded 100 basis points to 14.3% and 230 basis points to 15.3% for the quarter and year, respectively. Our ISR business made significant progress on its international strategy, with a contract to provide missionized ISR aircraft for the Canadian Air Force, capabilities on a maritime patrol aircraft for a customer in the Asia-Pacific region, and the introduction of podded SIGINT capability for unmanned aircraft for deployment in Europe and Asia. We have a strong pipeline, as our allies appreciate the need for situational awareness that our systems provide.

In Space and Airborne Systems, organic revenue increased 4.8% for the quarter from a ramp on the F-35, as we transition from development to production on the next-generation's mission systems in our Mission Avionics sector and growth in Space from new program wins. This growth was partially reduced by low-single digit decline in our Intel & Cyber due to program timing. For the full year, organic revenue increased 5.8% from the F-35 ramp and classified growth in Intel & Cyber. Space and Electronic Warfare were down due to in-year program transition, but recent wins positioned Space to be a key growth driver for 2021.

Operating income was up 13% in the fourth quarter and 6.8% for the year, and margins expanded 150 basis points to 19.5% for the quarter and 20 basis points to 18.8% for the year. Overall, our Space business had a transformative year, as we've been awarded contracts within the missile defense area, including the Space Development Agency's Tracking Layer and more recently here in January on the Missile Defense Agency's Hypersonic and Ballistic Tracking Space Sensor program or HBTSS, culminating multiple years of investment in innovation. On HBTSS, our team will develop a prototype satellite that will demonstrate our capability to detect and track hypersonic weapons in space.

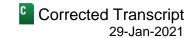
The initial launch is targeted for 2023, with an opportunity to build out a constellation thereafter. These competitive wins have potential value of over \$5 billion, uniquely positioning L3Harris to play a lead role with multiple agencies and mark the culmination of a successful multiyear repositioning strategy, establishing ourselves as a mission solutions prime with our responsive satellites and within missile defense.

Next, Communication Systems organic revenue was up 3.4% for the quarter, driven by tactical growth of 17% that included record international sales, up over 30% from the Mid East and Central Asia and continued DoD modernization. This strength was partially offset by anticipated weakness in our Public Safety business due to COVID-19, as well as a decline in Integrated Vision Systems from international program timing.

Full-year revenue was up 4.4%, driven by 13% growth in Tactical Communications, primarily from the ramp in DoD modernization programs which also benefited Integrated Vision Solutions. As anticipated, we saw solid international growth of 4% in Tactical Communications with major wins in Australia, Europe, and the Mid East. Total Communication Systems orders in Australia exceeded \$200 million, with contracts for tactical radios and wave forms supporting crypto modernization requirements and the Land 53 next-gen night vision goggle program. The 17% decline in PSPC was consistent with expectations and should ease post the first quarter.

Operating income was up 14% in the fourth quarter and 13% for the year, and margins expanded 280 basis points to 25.9% and 200 basis points to 24.4% for the quarter and year, respectively. Our Broadband business had a major strategic win with the prime contract award for the US Navy's Next Generation Jammer Low Band

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program for nearly \$500 million, highlighting our advanced technology and innovative solutions for the contested environments our customers will need to compete and operate in in the future.

The program comes with follow-on opportunities in the \$4 billion range and demonstrates our standing as a leader in spectrum superiority and electronic warfare for legacy and next-gen platforms. This multiyear pursuit validates our strategy to be a prime and provide leading-edge technical solutions to our customers. Finally, in Aviation Systems, organic revenue decreased 11% in the quarter and 3% for the year as expected due to COVID-19-related impacts in the commercial aviation business. Growth with our US Government customers remained healthy in defense avionics from a ramp on classified programs and ground vehicle systems and Mission Networks from higher FAA volume.

Operating income was down 22% in the fourth quarter and 5.4% for the year, primarily from the sale of our airport security and automation businesses, as cost actions and growth in Defense Aviation and Mission Networks mitigated our commercial headwinds. Margins were flat at 14.9% in the quarter. Full-year margins, however, expanded 100 basis points to 13.8%. Notable activity in the quarter included a \$142 million order from the US Space and Missile Systems Center to continue the development of the next-gen M-Code GPS receivers, with inception to-date awards at over \$0.5 billion.

Over the last few months, we've successfully positioned ourselves for growth, with notable awards that represent opportunities in the multibillion dollar range. These wins provide a long-term visibility and highlight the strength of our portfolio in a range of budget environments and across multiple domains. With a healthy backlog of \$22 billion that's up nearly 80% (sic) [8%] (00:14:46) for the year adjusting for divestitures and a funded book-to-bill of 1.04, we are confident in the sustainability of our growth.

As we think about 2021, we'll continue to execute on our strategic priorities that are focused on growing the top line, advancing the integration, expanding margins through flawless execution and continuous improvement, reshaping our portfolio, and maximizing cash flow to support capital returns.

With that, I'll hand it over to Jay.

Jesus Malave

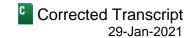
Senior Vice President & Chief Financial Officer, L3Harris Technologies, Inc.

Thank you, Chris; and good morning, everyone. I'll begin with a brief recap of our fourth quarter and 2020 results before shifting over to our 2021 outlook. Fourth quarter organic revenue was flat largely driven by the effects of the pandemic in aircraft timing, as our core US Government business was up about 4% with the international side up modestly. Margins expanded 120 basis points to 18.5%, primarily from integration benefits, operational excellence, and cost management.

Earnings per share of \$11.60 was better than we expected and grew 10% or \$0.29 as shown on slide 9. Of this growth, synergies and operations contributed \$0.47 along with a lower share count for \$0.15, which more than compensated for the headwinds from divestitures and pandemic-impacted end markets. For the full year, organic revenue was up 3%, with our core US Government business up 7% and international up a point, partially offset by the impact from our commercial businesses due to the pandemic.

Margins expanded 120 basis points to 18% and 75 basis points ahead of the midpoint of our initial guide, with integration benefits, operational excellence and cost management being the primary drivers. Earnings per share grew 13% or \$1.34 primarily from operations, synergy benefits and a 4% lower share count, enabling us to deliver on our double-digit growth target. Solid fourth quarter free cash flow of \$642 million resulted in the full year

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coming in at the upper end of our guidance range. With this cash flow, we repurchased \$2.3 billion in stock and paid \$725 million in dividends.

Okay. Now, switching over to the 2021 guidance on slide 10, starting with the top line. Organic revenue is expected to be up 3% to 5%, reflecting growth in every segment with a light first quarter as we lap pandemic-related impacts and phase in new programs. On full-year EBIT, we expect total company margins to be 18% to 18.5%, a 25 basis point improvement over the prior year at the midpoint, primarily driven by increased cost synergies, operational excellence and pension, net of mix headwinds from Space, IMS, and tactical radios. This combined with a 4% lower share count will result in 2021 EPS in the range of \$12.60 to \$13 per share, up double digits at the midpoint versus 2020.

At free cash flow, our guide implies nearly \$14 per share at the midpoint and clear traction with our growth framework. This reflects a 3-day working capital improvement to 51 days, \$375 million in capital expenditures, and no pension funding. Our guidance also reflects approximately \$2.3 billion in share repurchases, excluding divestitures as part of our recently approved buyback authorization. And following yesterday's announced dividend increase, this will be our third hike since the merger, representing a cumulative increase of about 50%, reflecting our confidence and continued cash generation. All told, we expect to return \$3.1 billion to shareholders this year before accounting for any divestiture proceeds that will be additive.

Switching over to the segments. Integrated Mission Systems revenue is expected to be up 4% to 6%, driven by ISR aircraft missionization demand and Maritime from recent wins. Segment operating margin is anticipated to 15.5% at the midpoint, as operational excellence, synergy savings and pension benefits are netted by program mix impacts. In Space and Airborne Systems, we expect organic revenue to be up 4% to 6%, driven by traction in Space and continued classified strength in Intel & Cyber. Segment operating margin of 18.5% at the midpoint is driven by mix headwinds from key growth programs that outweigh e3 productivity, pension, and integration benefits.

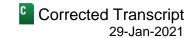
Communication Systems revenue is expected to be up 2.5% to 4.5% from continued modernization growth in DoD tactical, as well as international growth in Integrated Vision Solutions. Public Safety will have a modest headwind in the year, as COVID-related impacts lap in the first quarter of 2021 with a recovery later in the year. Segment margins are anticipated to be 24.5% at the midpoint from operational excellence and synergies, partially offset by product mix within tactical radios.

And lastly, in Aviation Systems, organic revenue is expected to be up 1% to 3%, driven by continued growth in our US Government businesses from a ramp on combat propulsion systems and classified programs, which will be moderated by a slight decrease in commercial aerospace for the year. Segment margins of 14% at the midpoint reflect improvement driven by operational excellence, cost management, and synergy savings.

Okay. Turning to the EPS slide and bridge on slide 11. Expected full-year EPS of \$12.80 at the midpoint reflects 10% growth. Of this, operations and synergies will contribute \$0.44, along with a lower share count for \$0.57; and pension and other items of \$0.26, more than offsetting the \$0.07 headwind from completed divestitures. All right, so just putting it altogether. 2020 performance demonstrating the resilience of our earnings and cash-generating power and a 2021 outlook reflecting further progress against our financial targets, with recurring double-digit earnings and free cash flow per share growth, driven by a rising top line as well as industry-leading margins and capital returns.

Okay. One last item before getting to your questions. I know there's big interest in a deeper look into our company as well as our growth drivers. So on March 10th, we'll start with a virtual business briefing focusing on two of our

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segments; Space and Airborne Systems and Integrated Mission Systems, that'll be followed by a closer look at our other businesses at a later date.

Okay. With that, operator, let's open up the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting the question-and-answer session. [Operator Instructions] Thank you. And our first question comes from the line of Sheila Kahyaoglu with Jefferies. Please proceed with your question. Standby. One moment, please. Please standby, one moment. My apologies. Sheila will continue in just a moment. Please go ahead, Sheila. Your line is open.

Sheila Kahyao	glu
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Analyst, Jefferies LLC

Thank you. Good morning, guys.

William M. Brown

Chairman & Chief Executive Officer, L3Harris Technologies, Inc.

Hi.

Sheila Kahyaoglu

Analyst, Jefferies LLC

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Bill, Chris, Jay, your EPS guide is up 10% at the midpoint on a 4% revenue increase. And you announced a fairly hefty dividend increase last night of 20%, but your total deployment is up 8% year-over-year. How do you think about growth and cap deployment from here? How does that tie into your medium-term expectations of EPS and free cash flow per share growth?

Jesus Malave

Senior Vice President & Chief Financial Officer, L3Harris Technologies, Inc.



So Sheila, we – you see, what we saw today, what we announced last night on the dividend [indiscernible] (00:23:31) as well as including our share repurchase today. This is consistent with the framework we've laid out over the past year and a half, which is returning 100% of free cash flow to shareowners. You'll see 3.1% is a little bit in excess of that in 2021. But the framework is intact and it's a framework we expect to continue moving forward.

As far as the dividend, maybe being a little bit more specific, 20% where – we've had the target, as Bill mentioned, of 30% to 35% in terms of the cash payout ratio on the dividend. And that's still our target. That's something that we'll look to accelerate or continue accelerating dividend growth over the next few years to get ourselves in that range. And so, I would expect it to be more the same going forward.

Operator: Our next question comes from the line of Carter Copeland with Melius Research. Please proceed with your question.

L3Harris Technologies, Inc. (LHX) Corrected Transcript Q4 2020 Earnings Call 29-Jan-2021 Carter Copeland Analyst, Melius Research LLC Hi. Good morning, guys. William M. Brown Chairman & Chief Executive Officer, L3Harris Technologies, Inc. [indiscernible] (00:24:27) Carter Copeland Analyst, Melius Research LLC Just a quick clarification on a comment you made, Chris, and then a question. The contract you mentioned in IMS, the airplane contracts, is there any ongoing risk there if it doesn't get parliamentary approval? I think you said that was just scope. Just trying to get my arms around that one. **Christopher Eugene Kubasik** Vice Chairman, President & Chief Operating Officer, L3Harris Technologies, Inc. Yeah. Thanks, Carter. No, the program is in the budget and it's just a process to get through the parliament. What happened was the Air Force in this country wanted to add additional scope to the program and we had planned for a December award. But due to the changes to the contract and ongoing holidays and the usual delays in that time of year, it's moved into 2021. So, we're very confident in this award and there's just a timing slip. Operator: Our next question is from the line of Robert Stallard with Vertical Research Partners. Please proceed with your question. Robert Stallard Analyst, Vertical Research Partners LLC Thanks so much. Good morning. William M. Brown Chairman & Chief Executive Officer, L3Harris Technologies, Inc. Hey. Good morning. Jesus Malave Senior Vice President & Chief Financial Officer, L3Harris Technologies, Inc. Hey, Rob. Robert Stallard Analyst, Vertical Research Partners LLC [indiscernible] (00:25:34) Bill or for Chris. You obviously talked a lot about the defense exports and your ambition to continue to grow this going forward in 2021 and beyond. But we do have a new US administration; they seemed to put a few things on hold. Do you see any implications from this freeze for your export sales this year or

Chairman & Chief Executive Officer, L3Harris Technologies, Inc.

into next year?

William M. Brown

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Well, thanks for the question. I do think that we'll see, in the Biden administration, continued support for exports to our partners or allies. I think that's been clearly signaled. We'll see kind of like what the last administration some clear support there. You may see some more scrutiny in certain regions like in the Middle East, and you saw announcement come out just a couple of days ago. Frankly, it wasn't necessarily new news. It was well signaled. It's sort of a standard practice at the start of a new administration to take a pause on some of these more contentious exports to certain countries. So, number one.

Two, we're not an arms or a weapons provider. So, I'm not sure it really affects us very much. But when we look at sales into the region in those two countries, net of backlog is less than 1% of our revenue. So it's relatively small. And then third, it's likely just a matter of timing. We think if there's any impact to us at all, it's a matter of timing and we think that'll all come out within 2021. So we think this will settle down relatively quickly.

Operator: Our next question comes from the line of Kristine Liwag with Morgan Stanley. Please proceed with your questions.

Kristine Tan Liwag

Analyst, Morgan Stanley

Hey. Good morning, guys.

William M. Brown

Chairman & Chief Executive Officer, L3Harris Technologies, Inc.

Good morning.

Kristine Tan Liwag

Analyst, Morgan Stanley

As you continue to shape your portfolio, can you provide us with an update of what you're viewing as core capabilities versus non-core, and whether or not that's changed with the election results?

William M. Brown

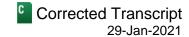
Chairman & Chief Executive Officer, L3Harris Technologies, Inc.

Well, thanks for the question. No, it's not changing. I mean, this is not really driven by who's in the current administration or what's happening in Congress. It really is driven by those businesses which we think that we can better own and drive value to owners that tend to be ones that are more technology-intensive businesses that require investment in IRAD and our 20,000-plus engineers to make them better every day to differentiate versus competitors. Those are the kinds of businesses that we want to be in, and the businesses we're looking to get out of our non-core don't necessarily fit that model.

We're making progress. We had a good start to early 2020. COVID sort of slowed us down a little bit. We saw some acceleration in Q4. And then, certainly, January has been pretty busy. It's not going to be a linear journey on divestitures, but we're patient, we're focused. We do still think it'll be 8% to 10% of our revenue. And as I and Jay and others have talked about, we'll deploy proceeds back to owners as soon as we make those announcements and we'll talk to investors as those transactions occur.

Operator: Thank you. Our next question is from the line of Gautam Khanna with Cowen. Please proceed with your questions.

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Gautam Khanna	Gau	tam	Kha	anna
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Analyst, Cowen Inc.

Hey. Thanks. Good morning, guys.

William M. Brown

Chairman & Chief Executive Officer, L3Harris Technologies, Inc.

Hey. Good morning, Gautam.

Gautam Khanna

Analyst, Cowen Inc.

So, one of the questions we frequently get from investors and I wanted you to respond to it is, despite all the revenue synergies and the progress you've shown, there's a perception that legacy Harris Comm Systems business may not fare so well in a flat to down DoD top line environment. And I wondered if you could just kind of speak to that, how you think night vision, tactical comms, et cetera, some of the shorter-cycle stuff might fare over the next couple of years. And if you can provide some metrics around some of the pipeline pursuits that you're pursuing. Thank you.

William M. Brown

Chairman & Chief Executive Officer, L3Harris Technologies, Inc.

Yeah. Sure, Gautam. Look, we're very different business today than we were seven, eight, nine years ago when a lot of the Tac Comm business was driven by repairs, resets. It really wasn't focused on a program of record, but that's very different today. So really stepping back when we think about our company as a whole, we've got total backlog at the end of last year at about 1.2 times our revenue.

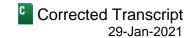
So, it's a little bit less than what we see with our peers. So we're a shorter cycle, if you will. But we're not necessarily short cycle. We've got a piece of the business and you hit some of the key ones; radios, night vision goggles, maybe a couple of other spots that have backlog less than 1 times revenue. So for those businesses in particular, most of them are on programs of records today. They're well supported. They're in the early innings of modernization. We feel very good about that. I'll take tactical radio for the minute on the DoD side.

As we know, there's 350,000 to 400,000 radios that will be upgraded, about 10% of the way through there. You can see in the budget in 2021, continued to be well supported in terms of budget authority for radio modernizations. And we're on the front end of a long modernization curve on tactical radios. The same thing is on the international side. There's more than a dozen countries on the frontend of modernization. A lot of [ph] them (00:30:52) announced couple hundred thousand radios, \$4 billion worth of pipeline. So again, we're in a frontend of modernization ramp on the international side which, as you know, tends to follow what happens in the US.

And then you mentioned night vision goggles. We are on a sole-sourced directed requirement for ENVG-B. We've delivered about 5,000 goggles to date. We're on a program of record which was announced in September, which we're one of the awardees for that, 100,000-plus night vision goggles. So we're 5% of the way through, again with very clear budget visibility. So when you look at where we're at on modernization and visibility into the budgets, we think the outlook is very, very positive for all of those "shorter cycle" businesses, Gautam.

Operator: Thank you. Our next question is from the line of Noah Poponak from Goldman Sachs. Please proceed with your questions.

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Analyst, Goldman Sachs & Co. LLC

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Hi. Good morning, everyone.

William M. Brown

Chairman & Chief Executive Officer, L3Harris Technologies, Inc.

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Hey. Good morning, Noah.

Noah Poponak

Analyst, Goldman Sachs & Co. LLC

Hey, Jay, just wanted to try to better understand the cash flow progression. In thinking through 2020, there's a few hundred million of adjusted net income growth, which I think gets all the non-cash out. The deck cites eight days of working capital, which using the numbers you guys used to quote for per day, that's a sizable increase. I think you had a deferred cash tax.

So, I'm surprised that the 2020 final free cash was only up \$200 million. Maybe you can help me square up what I'm missing there. And then if you could then just carry into 2021, helping us understand the major moving pieces in the cash flow bridge that are outside of the business guidance you've given [indiscernible] (00:32:41).

Jesus Malave

Senior Vice President & Chief Financial Officer, L3Harris Technologies, Inc.

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Thanks for the question, Noah. Sure. In 2020, at the end of 2020, we accelerated – we continue to accelerate payments to small suppliers. Total impact, most of which was small suppliers, is about \$100 million of outflow. I'd say the other piece of it was – there's just a little bit of timing issue between cash taxes. And so, there was some timing of cash that was more in 2020 that was paid versus what we had originally expected that will be a benefit in 2021. So, those are the two primary drivers of 2020.

I mean 2021, as I mentioned, we're relying on three days of working capital. We'll also get a benefit from this cash tax a little bit better than we expected. And those are really the two major drivers. And just going back to working capital, we continue to drive – while it's three days, our opportunity set is substantially bigger than that. So there's runway beyond 2020 even in – I'm sorry, even in 2021, where our projects are by our sectors, by our segments are pretty well defined particularly in inventory. And we've got a really nice, I think, roadmap to deliver 2021 and beyond going forward.

And so, I'd say the moving pieces are not much different from what we talked about in the past. Really focused on working capital to make that not a use of cash and make it either neutral or source of cash and dropping through the net income. 2021, as I mentioned, will get a little bit of a tax benefit, but really kind of set the stage for continued cash flow growth beyond 2021 as well.

Operator: Our next question comes from the line of Richard Safran with Seaport Global. Please proceed with your questions.

Richard T. Safran

Analyst, Seaport Global Securities LLC

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Thanks. Bill, Chris, Jay, Rajeev, good morning. How are you?

Q4 2020 Earnings Call



William M. Brown

Chairman & Chief Executive Officer, L3Harris Technologies, Inc.

Hey. Good morning.

Richard T. Safran

Analyst, Seaport Global Securities LLC

So, at IMS you noted strong maritime sales in 4Q. You kind of ramp and manned and unmanned classified programs. You also mentioned it, I believe, in your opening remarks about driver of 2021. So I'm interested in, if you could comment a bit more in more detail about sales and margin growth in that business in 2021, and maybe even longer term. In your answer, could you also comment on classified versus unclassified program growth?

William M. Brown Chairman & Chief Executive Officer, L3Harris Technologies, Inc.

So I'll start that and maybe Chris can jump in on that. Look Richard, the Maritime business has been a real strong performer for us in 2020. We have a good leadership there. It was lots of pieces that were well integrated together. We're not completely through all that, but we're making really good progress. 2020 was a very strong year. It was up double digits. The orders were really strong. Book-to-bill came in above 1, in fact, reasonably above 1.

We see continued growth in calendar 2021. We're calling in a mid-single digit range, but lots of good indicators of continued growth there. We just have a very solid position. We do a lot of work on power conversion, power distribution, towed arrays, mass, sonars, crypto, bunch of different things. And we've got a great position on the unmanned side as well. So, it's pretty broad based. It's across both OE and service, US, international manned and unmanned. So we like the position that we happen to have.

On the manned side, we've got good content on both Columbia and Virginia. Those programs are well supported. And Chris talked about the future frigate with, I think, in [ph] theory (00:36:09). We've got a very strong position and content on the future frigate. Those all look really good and well supported. And on the unmanned side, I think we're on the frontend of this. It's not a big part of the business today, but it's growing. We're the only prime of any unmanned maritime vessel here for the US Navy. It's the MUSV or the Medium Unmanned Surface Vessel. We're the prime on that. It's a pretty good contract we're executing on.

We've got a study on the LUSV which is the Large Unmanned Service Vessel. We're doing mine countermeasure systems. I think we talked about in the press release about a Phase 2 in Europe with a partner, where we're providing substantial content for unmanned mine countermeasure systems and then all the underwater side. We really can't talk about on the classified business, but we've got a very strong position on undersea classified, capabilities as well. So overall, a very good business, with the hope and the direction we'd likely see in the budget of more growth focused on the Navy, given where the future threats happened to be.

I don't know, Chris, if I missed anything in that.

Christopher Eugene Kubasik

Vice Chairman, President & Chief Operating Officer, L3Harris Technologies, Inc.

No. I think you got a good summary. I'll also say the future continues to be bright. I mean, we have to execute on all the programs that we just talked about. But just looking ahead to 2021, the Navy is looking at a couple programs called Spectral, SPEAR, and Spatial. And these are all integrated signal intelligence programs, sensor-

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to-shooter, those types of things. They're under an overall umbrella that the Navy refers to as Overwatch. So we kind of think of that as the Navy's equivalent of the ABMS equivalent.

So, we're excited about those opportunities. And as I said in my remarks, both as a system integrator or a prime, we're well positioned. And then, of course, internationally, we're getting a lot of interest of supporting OEMs, as they take their business abroad. So, it's been a good run and the future remains bright for maritime.

Richard T. Safran Analyst, Seaport Global Securities LLC	Q
Thank you.	
Operator : The next question is coming from the line of David Strauss with B question.	arclays. Please proceed with your
David Strauss Analyst, Barclays Capital, Inc.	Q
Thanks. Good morning, everyone.	
William M. Brown Chairman & Chief Executive Officer, L3Harris Technologies, Inc.	A
Good morning, David.	
Jesus Malave Senior Vice President & Chief Financial Officer, L3Harris Technologies, Inc.	A
Good morning.	
David Strauss Analyst, Barclays Capital, Inc.	Q
Bill and Chris Touess, when the merger was announced, the management tra	ansition I think was Bill you were

Bill and Chris, I guess, when the merger was announced, the management transition I think was, Bill, you were going to be CEO for two years and then Chris was going to take over. And I think that puts us – that plan in place happening kind of second half of this year. Is that still what we should expect or has there been any sort of change there? Thanks.

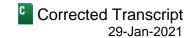
William M. Brown

Chairman & Chief Executive Officer, L3Harris Technologies, Inc.

David, thank you. No. It's exactly the plan that we're working towards. It's the end of Q2. It's got a date and a time because it's written in the merger agreement and we're working towards that. I think more broadly, not just what's in the agreement is, is the partnership that I have with Chris, and we're working with Jay. We've got a great leadership team. We're working well together. We're executing well on our strategy. We're aligned on the direction we're taking in the company.

And you'll hear and see more of that in the investor briefing we're going to have in March, where Chris will talk a little bit about thoughts on becoming a – moving more towards a mission solutions provider. As you see here, Ed and Sean talking about their businesses as well. But tracking well, performing well, and we're not expecting any sort of strategic redirection or any bump in the performance of the company.

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Christopher Eugene Kubasik

Vice Chairman, President & Chief Operating Officer, L3Harris Technologies, Inc.

And I'll just chime in. I know a lot of people ask is the strategy going to change when you change the leader, and that's not the case. So clearly, we've been working this together for over two years. It will be a smooth transition. As you know, Bill will remain the Exec Chair for an additional year. So, I don't see any big surprises coming. We've laid out pretty clearly our focus on the growth and the integration and the margin expansion and the cash flow. So, we'll be in good shape. Thank you.

Operator: The next question is from the line of Peter Arment with Baird. Please proceed with your questions.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Thanks. Yeah. Good morning, Bill, Chris, Jay. Bill or Chris, I guess, I just want to ask about the synergy targets. And performance in the quarter was really impressive. You guys beat, I think, your target for 2020 by 11% and have raised kind of the longer-term target now. Can you just describe a little bit where you're seeing these gains? Is it just across the board from your e3 efforts? Maybe just some color there that'd be helpful. Thanks.

William M. Brown

Chairman & Chief Executive Officer, L3Harris Technologies, Inc.

So, thanks for the question. No, it's different than e3. e3 is additive to the synergy target. So no, we had a really good year. The team is performing very, very well. I talked a little bit about some of the drivers of the outperformance this year and why we took up our number next year to \$320 million to \$350 million which, again, is well above what we thought we would do in three years, and we're now doing more than that in two.

So we're seeing lot more opportunities in supply chain, where we're still working through our facility rationalization. Very, very good progress. Substantial activities happening over the course of 2021. It has been very, very well and closely managed and monitored. It's going to execute very well and we're seeing good opportunities are coming through there, functional efficiency, shared services. We just keep seeing more and more opportunities to get better. That's the spirit of continuous improvement. That's really what's behind e3.

That's why we think, as we wrap up integration at the back end of 2021; and then in 2022, we really talk about it less is integration, more is just productivity and operational excellence. We're going to have a good year in 2021. Those are the things that drive it. So, team just executing very, very well.

Operator: The next question is from the line of Myles Walton with UBS. Please proceed with your questions.

Myles Walton

Analyst, UBS Securities LLC

Thanks. Good morning.

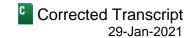
William M. Brown

Chairman & Chief Executive Officer, L3Harris Technologies, Inc.

Good morning.



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Myles Walton

Analyst, UBS Securities LLC

Two quick ones maybe. On IMS, obviously the sales didn't quite come through on the timing you expected. I'm just curious, Chris, if it's just a slip of timing why 2021's growth isn't more significant. It seems like kind of the \$200 million or \$150 million slip would jolt up that growth rate. And then, secondarily, I think the F-35 and the avionics business in particular is one of the biggest contributors of 2020 growth. What does that look like in 2021? Thanks.

Christopher Eugene Kubasik

Vice Chairman, President & Chief Operating Officer, L3Harris Technologies, Inc.

Yeah. Thanks, Myles. On IMS, I can see where you'd draw that conclusion. We're still looking 4% to 5% of the initial guidance early in the year for IMS. And it really comes down to the number of aircraft that you can conduct in the factory in any one year. So, I think of it as maybe some of that 2020 slides to 2021, the latter part of 2021 slides into 2022 if that made sense. So, we're not losing anything. It just kind of slipped out to the right.

And then on F-35 and Mission Avionics, we have multiple systems that we're providing to Lockheed, as you well know, especially on the what we're calling TR3, the Tech Refresh 3. So, we're going through a transition from development to production. We think, longer term, there's numerous opportunities for additional content that we can provide. But notwithstanding that, as the aircrafts ramp up, we get more content per plane. And even the potential for sustainment, we see this as a long-term growth driver for years to come, not to mention the international opportunities on top of that.

Operator: Thank you. Our next question is from the line of Jon Raviv with Citigroup. Please proceed with your questions.

Jonathan Raviv

Analyst, Citigroup Global Markets, Inc.

Thanks and good morning. Sort of given the divestitures and also the pandemic impact on commercial in 2020 is a bit of an easy comp into 2021. And then, with the commercial in 1Q still being like 2021 is still kind of setting a relatively easy comp as well. So, can you talk about just the opportunities for growth rate to actually potentially accelerate beyond 2021 even slightly? As you get over the commercial aero comp, these new space activities ramp up, the revenue synergies pick up. And then also, within that portfolio, what might be sort of heading in the wrong direction versus what's heading in the right direction to sort of maintain at least mid-single digit growth?

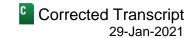
William M. Brown

Chairman & Chief Executive Officer, L3Harris Technologies, Inc.

So Jon, I think that's a good question. I think you laid out kind of the response in the question, if you will. So, you laid out some of the drivers next year. Yeah, we do see – as I made that in my remarks, DoD in US Government low-single digit. We see revenue synergies about a point. We see international mid-single digit plus some headwinds coming from commercial.

But you're exactly right. As you start to get out into 2022 from 2021, we'll see less of and maybe no commercial headwinds and maybe eventually starts to turn into a tailwind. We see international as the frontend of a build. Again, we're very underpenetrated. We have 20% of our revenues in international. I mean, Chris laid out a growth target there. We performed very well in the back half of last year. It was up low- to mid-single digits. We had a very good Q3 and we've got some good momentum coming into this year. A very big pipeline; of our \$67 billion

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total company pipeline, \$60 billion of which is in international. So we've got a lot of opportunities we're chasing on the international front.

And again, we've talked about the revenue synergies. About a point, call it, \$150 million to \$200 million net incremental in 2021 from 2020, we're still at the frontend of the build. So we have 40 proposals that had been awarded. We won two-thirds of them, but there's 70 that are submitted, so another 30 to be awarded or not. There's more that are happening in the future. So we hope to continue to build on that.

And we do hope just given the positioning of ourselves within the DoD budget, that low-single digit growth from DoD could actually grow over time, because we're in great places that are going to continue to get funded, but we're also growing as a mission solutions provider going after a larger addressable market. So, put all those pieces together, yeah, that could drive acceleration beyond 2021. But right now, we're laying out the 2021 framework and we ought to be thinking about mid-single digits beyond that.

Operator: Our next question comes from the line of Seth Seifman with JPMorgan. Please proceed with your question.

Seth M. Seifman

Analyst, JPMorgan Securities LLC

Hey. Thanks very much, and good morning, everyone.

William M. Brown

Chairman & Chief Executive Officer, L3Harris Technologies, Inc.

Good morning, Seth.

Seth M. Seifman

Analyst, JPMorgan Securities LLC

I think, Bill, you've talked in the past about getting DoD tactical to sort of \$1 billion – over \$1 billion in sales in the early 2020 timeframe and kind of got right up to that \$1 billion level in 2020. And so, I guess, is there anything more specific you can say to kind of outline the outlook there over the next couple of years?

William M. Brown

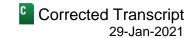
Chairman & Chief Executive Officer, L3Harris Technologies, Inc.

So Seth, good question. In fact, I remember the discussion from a few years ago about getting to \$1 billion. And frankly, it happened a little bit sooner than we had even anticipated at that point in time. So, we're just a tad under that last year. With our guidance, it will be above \$1 billion this year. We're just very well positioned across the tactical radio business, as you know. We're across all these services, across all the contract vehicles, very strong position in the Marine Corps. It was a big driver of us in 2020.

We're sole-sourced on HF radios. We're sole-sourced there on Manpack. We'll compete on the handheld this year. We're sole-sourced across SOCOM. Army, we compete versus Talos and Collins. But the fact is, I think given the momentum that we have here, we see continued share gains within those areas as well within the Army. So, I think we're well positioned. The budgets are very supportive. When you look at all tactical radio in total in 2021 over 2020, the budgets themselves are up about 25%. HMS is up 16%, 17%.

So there's very good, continued budget coverage here. We're starting the year with mid-single digit growth in DoD. We're coming off of very strong 2020 and an even stronger in 2019. So maybe – hopefully, there's some

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conservatism built into that. But there's some competitions happening this year, and we'll keep evaluating and updating investors through the year on just our progress in DoD. But frankly, the team has done a great job in positioning ourselves for success in tactical over a multiyear period.

Operator: Our next question comes from the line of Ron Epstein with Bank of America. Please proceed with your questions.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

Yeah. Hey. Good morning, guys.

William M. Brown

Chairman & Chief Executive Officer, L3Harris Technologies, Inc.

Good morning.

Ronald J. Epstein

Analyst, BofA Securities, Inc.

With the change in administration, can you talk about – I mean, every defense company tends to say, we're well positioned for the change and everyone can't possibly be, right? I mean, that's just impossible. Where do you expect to see weaknesses because of the change? Where do you expect to see strengths? And then, where are you positioned the best for the change in administration?

William M. Brown

Chairman & Chief Executive Officer, L3Harris Technologies, Inc.

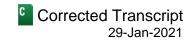
So, I'll start there. Maybe Jay and Chris can jump in. Look, I think there's going to be continued focus on the space domain, which we had spent a number of years repositioning the company to go after. Last year was a softer year; was a transition year. We had a couple of program transitions. But you see in Q4 we came back very, very strongly. We're up high-single digits. We'll be up high-single digits in 2021. We've got good wins. I mean, Chris walked through some of the key ones there.

And frankly, that's just going to be – continued to be a growth area, and you heard some of the commentary from Secretary Austin's commentary at his hearing about the focus on space in there. And it's not just [ph] across deal; there's a (00:50:14) lot of classified community investments going on in space. So I think, number one, we've got a really good position there going from components to systems and I think a proven strategy.

I think some of the things that's happening on the unmanned side are, opportunities for the future both on maritime as well as on the airborne side. We've got really strong positions in both sides. I think that's going to continue to be well funded. At the end of the day, any fight in the future, particularly against the near-peer competitors, will require networked platforms and not just simply platform improvements themselves. So how they work together, that requires resilient communications; strong, secure, non-jammable resilient communications. And that is the sweet spot of the company.

We keep talking about that. It's very, very important. And there's really no one that's better positioned to enable that JADC2 mission environment than where we happen to be. That's why we're on all of the ABMS contract vehicles. I think we just have a great position there. That's going to continue to be well supported. So, those are the areas that, I think, are going to be where we're best positioned, and I know what everyone else is talking about.

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We're sitting here with almost 4% of our revenue in IRAD. We're focusing our company. We've got a very unique situation with this merger, where we can start off with a clean sheet and get all of our segments built from the day one to collaborate together, and that's why we're seeing traction here on the revenue synergy. So you put all those pieces together, and that's why I do believe that we've got just a strong, powerful portfolio of businesses with good leadership that should outgrow our competitors into the future.

Christopher Eugene Kubasik

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Vice Chairman, President & Chief Operating Officer, L3Harris Technologies, Inc.

I'll just chime in, and some of the tradeoffs, obviously, are going to be the force structure versus modernization. And then the modernization, is it going to be new platforms or upgrading existing platforms, and then there's always the focus on strategic deterrence. So, the types of systems and the type of capabilities we have across all domain, I think, position us well. There was a question earlier about our content on F-35 as an example, but we're also well-positioned on next-generation opportunity.

So, we can support the upgrades and enhancements to existing systems. I look at what we have in EW. We have five LOAs signed with international countries for F-16 modernization as an example. We're on the Columbia class as a strategic deterrent. There's talk about the nuclear command and control aircraft recapitalization which, again, is in our sweet spot. So when you look across the spectrum, space, EW, cyber, ISR, resilient comms, whether we're a prime, a sub, new systems, old systems, I really like where we are. So, thanks for the question, Ron.

Operator: Our next question is from the line of George Shapiro with Shapiro Research. Please proceed with your question.

George D. Shapiro

Analyst, Shapiro Research LLC

Yes. Good morning.

William M. Brown

Chairman & Chief Executive Officer, L3Harris Technologies, Inc.

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Good morning, George.

George D. Shapiro

Analyst, Shapiro Research LLC

Chris, I just want a little more explanation similar to what you gave Myles on IMS and the SAS sector, because there you were a little bit short as well in terms of the expectation of 7% growth for the year. You mentioned Intel & Cyber due to program timing. If you could just give some more color on where the shortfall there was.

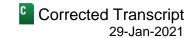
Christopher Eugene Kubasik

Vice Chairman, President & Chief Operating Officer, L3Harris Technologies, Inc.



Yeah, George. Great question. I probably should have elaborated on that. It was really the timing of awards. I mentioned HBTSS and SDA and some of the classified wins. They took a little longer to get under contract or candidly some of these were protested, and then it caused the delay. So we just saw a slip from the fourth quarter, if you will, of 2020 into early 2021. Can't get the contract, you can't get the revenue to get started. So, that was just a clear slip from 2020 to 2021 due to timing of those.

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Intel & Cyber, not too lumpy of a business, but nothing to be concerned with there. In fact, when you look at that whole business at close to \$1 billion, we're seeing growth in 2021 there as well.

Operator: Thank you. Our final question comes from Michael Ciarmoli with Truist Securities. Please proceed with your questions.

Michael Ciarmoli

Analyst, Truist Securities, Inc.

Hey. Good morning, guys. Thanks for taking the question here. Maybe just back to where Ron was going. Quick one. Can you guys – or do you think you can grow the backlog in 2021? And then just looking at that positioning, I think historically DoD revenues were about 35% tied to O&M exposure, and then you obviously got some Army exposure.

But do you think, with the administration change you're confident in this growth trajectory assuming maybe those prior two would be bill payers? Can you drive enough growth out of Navy, Air Force, and Space and maybe even kind of the commercial space to offset some of those O&M and Army headwinds if they materialize?

William M. Brown

Chairman & Chief Executive Officer, L3Harris Technologies, Inc.

Yeah. So Michael, just very quickly the – so on O&M, it's about 20% of our revenue, and it's well-supported programs. Lot of it, say, ISR aircraft that we feel very confident is going to continue. On the service mix, yeah, there is going to be kind of a tilt towards sea, air, space-centric type platforms in a near-peer competition that's hearing a lot coming out of the Navy, and I talked a lot about what's happening with the Air Force and the Space Force.

So in a flat to declining budget environment, I think there's general speculation Army will be a bill payer here for us. The Army is only about 10% of our revenue. It's smaller part of what we do even with the DoD. I think between the Navy and the Air Force, is about four times what the Army happens to be. So it's not a big part of the company. I think we're more predisposed to the Air Force who's our biggest customer. And the Navy, we spent a lot of time talking about some of the maritime opportunities here.

So, we think the shift is actually favorable to us. We think we're well positioned there, and we think we can manage through those shifts happening right now between the services. So, we like where we're at. We like the positioning of our portfolio. And by the way, in 2021 we do think we can build the backlog because we'll see a book-to-bill more than one.

So, we think that'll continue to grow into next year.

William M. Brown

Chairman & Chief Executive Officer, L3Harris Technologies, Inc.

So look, that wraps us up here today. Thank you very much. We had a strong solid year with a tough backdrop. And I want to thank again our employees for executing well on our strategic priorities, delivering value to our customers and our shareholders, but also providing a solid foundation to build on in 2021 as well as in the medium term.

Again, thank you for joining the call this morning, and we look forward to speaking with you more at our upcoming investor briefing on March 10. Thank you very much, everybody. Have a good day.



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Operator: This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.

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