

Fourth Quarter Earnings Call January 29, 2015

Financial Data Charts



This presentation consists of L-3 Communications Corporation 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 2015 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," "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 funding of the Department of Defense (DoD) budget; U.S. Government failure to raise the debt ceiling; 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; our significant amount of debt and the restrictions contained in our debt agreements; 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; global economic uncertainty; 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; 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 outcome of litigation matters; results of audits by U.S. Government agencies and of on-going governmental investigations, including the internal review; the impact on our business of improper conduct by our employees, agents or business partners; ultimate resolution of contingent matters, claims and investigations relating to acquired businesses, and the impact on the final purchase price allocations; and the fair values of our assets.

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 amendment to our Annual Report on Form 10-K/A for the year ended December 31, 2013 filed on October 10, 2014 and in the quarterly report on Form 10-Q for the quarterly period ended September 26, 2014 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.



Fourth Quarter Results



Select Financial Data - Fourth Quarter

(\$ in Millions, except per share amounts, 2013 as revised)

	<u>4Q14</u>	<u>4Q13</u>	<u>vs. 4Q13</u>
Sales	\$3,208	\$3,234	-1%
Operating Margin	9.4%	9.5%	-10 bps
Operating Income	\$303	\$306	-1%
Interest Expense	\$49	\$46	7%
Interest and Other Income, Net	\$4	\$6	-33%
Tax Rate	19.8%	29.3%	-950 bps
Diluted Shares	86.0	90.5	-5%
Diluted Earnings Per Share (EPS)	\$2.36	\$2.04	16%
Net Cash from Operating Activities	\$520	\$646	-20%
Free Cash Flow	\$452	\$586	-23%

Notes:

- (1) The 4Q14 tax rate is lower than 4Q13 primarily due to tax benefits of \$22 million related to the retroactive reinstatement in December 2014 of the U.S. Federal research and experimentation (R&E) tax credit.
- (2) The 4Q14 diluted EPS included a charge of \$18 million, or \$0.17 per diluted share, related to a product specifications matter.
- (3) See Reconciliation of GAAP to Non-GAAP Measurements.



Segment Results - Fourth Quarter

(\$ in Millions)

<u>Segment</u>	<u>4Q14 Sales</u>	<u>Sales Growth vs. 4Q13</u>	<u>4Q14 Operating Margin</u>	<u>Margin Change 4Q13 (bps)</u>
Electronic Systems	\$ 1,331	6%	11.6%	n.c.
Aerospace Systems	1,152	1%	8.0%	+10
Communication Systems	461	-14%	10.6%	+90
NSS	264	-15%	3.0%	-310
Consolidated	\$ 3,208	-1%	9.4%	-10

Note: The charge of \$18 million related to a product specifications matter reduced Electronic Systems margin by 130 bps and Consolidated margin by 60 bps.

n.c. = no change



Full Year Results



Select Financial Data - Full Year

(\$ in Millions, except per share amounts, 2013 as revised)

	2014	2013	vs. 2013
Sales	\$12,124	\$12,622	-4%
Operating Margin	8.9%	9.6%	-70 bps
Operating Income	\$1,085	\$1,212	-10%
Interest Expense	\$178	\$177	1%
Interest and Other Income, Net	\$18	\$20	-10%
Tax Rate	26.8%	28.0%	-120 bps
Diluted Shares	87.8	91.1	-4%
Diluted EPS	\$7.56	\$8.24	-8%
Net Cash from Operating Activities	\$1,125	\$1,263	-11%
Free Cash Flow	\$946	\$1,066	-11%

Notes:

- (1) The 2014 diluted EPS included outside accounting and legal advisory costs of \$25 million, or \$0.18 per diluted share, incurred in connection with Aerospace Systems internal review (Internal Review).
- (2) The 2014 diluted EPS included a charge of \$18 million, or \$0.17 per diluted share related to a product specifications matter.
- (3) The 2014 tax rate is lower than 2013 primarily due to a lower effective tax rate on foreign earnings.
- (4) See Reconciliation of GAAP to Non-GAAP Measurements.



Segment Results - Full Year

(\$ in Millions)

Segment	2014 Sales	Sales Growth vs. 2013	2014 Operating Margin	Margin Change vs. 2013 (bps)
Electronic Systems	\$ 4,617	0%	11.6%	n.c.
Aerospace Systems	4,321	-5%	6.7%	-270
Communication Systems	1,977	-9%	9.9%	+220
NSS	1,209	-7%	5.3%	-130
Consolidated	\$12,124	-4%	8.9%	-70

Notes:

- (1) Internal Review expense of \$25 million reduced Aerospace Systems segment margin by 60 bps and Consolidated margin by 20 bps.
- (2) The charge of \$18 million related to a product specifications matter reduced Electronic Systems margin by 40 bps and Consolidated margin by 20 bps.

n.c. = no change



2015 Financial Guidance



2015 Consolidated Financial Guidance

(\$ in Millions, except per share amounts)

	Guidance (January 29, 2015)	Midpoint vs. 2014
Sales	\$11,750 to \$11,950	-2%
Operating margin	9.3%	+40 bps
Interest expense and other income	\$175	9%
Effective tax rate	32.0%	+520 bps
Diluted shares	82.8	-6%
Diluted EPS	\$7.35 to \$7.65	-1%
Free cash flow	\$925	-2%

2015 Guidance Assumptions:

- (1) Sales of \$55 million from the acquisition of MITEQ on January 21, 2015.
- (2) A net pension expense increase of \$59 million to \$29 million for 2015 compared to \$30 million net pension income for 2014. This estimated increase in net pension expense will reduce 2015 operating margin by approximately 50 bps and diluted EPS by \$0.45. The increase in pension expense is due to: (i) \$50 million related to an 89 basis point decline in the estimated weighted average discount rate to 4.14% from 5.03% at December 31, 2013 and (ii) \$12 million due to the reduction of 2015 recoverable pension costs under Government Cost Accounting Standards as a result of the passage of the Highway and Transportation Funding Act of 2014, partially offset by a decrease of \$3 million primarily due to other changes in assumptions.
- (3) The R&E tax credit that expired on December 31, 2014 is not re-enacted for 2015. If re-enacted for 2015, the annual R&E tax credit would reduce the effective tax rate by 220 bps and increase diluted EPS by \$0.24.
- (4) Share repurchases of \$500 million.
- (5) Excludes any potential non-cash goodwill impairment charges for which the information is presently unknown.
- (6) Excludes potential litigation charges and additional expenses relating to the Internal Review at Aerospace Systems, which was completed in October 2014.
- (7) Excludes the impact of the divestiture of L-3 MSI, which is expected to close in the second quarter of 2015.

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



2015 Segment Guidance

(\$ in Millions)

Segment	Sales	Midpoint Sales vs. 2014	Operating Margin	Midpoint Margin vs. 2014 (bps)	Pension Margin Impact* (bps)
Electronic Systems	\$4,550 to \$4,650	0%	11.4% to 11.6%	-10	-30
Aerospace Systems	\$4,100 to \$4,200	-4%	7.7% to 7.9%	+110	-70
Comm Systems	\$1,900 to \$2,000	-1%	9.0% to 9.2%	-80	-90
NSS	\$1,100 to \$1,200	-5%	6.6% to 6.8%	+140	-10
L-3 Consolidated	\$11,750 to \$11,950	-2%	9.3%	+40	-50

* Represents the decrease to 2015 operating margin due to higher estimated pension expense (FAS, net of CAS) of \$59 million (\$13 million for Electronic Systems, \$27 million for Aerospace Systems, \$18 million for Communication Systems, and \$1 million for NSS).



Cash Flow Data



Cash Flow

(\$ in Millions)

	2015	2014	2013
	<u>Guidance</u>	<u>Actual</u>	<u>Actual</u>
Net Income	\$ 630	\$ 677	\$ 760
Depreciation & amortization	224	225	214
Deferred income taxes	55	148	42
401K common stock match	125	130	114
Stock-based employee compensation	57	51	59
Amortization of pension and OPEB net losses	66	15	83
Working capital/other items	(37)	(121)	(9)
Capital expenditures, net	(195)	(179)	(197)
Free cash flow	<u>\$ 925</u>	<u>\$ 946</u>	<u>\$ 1,066</u>



Supplemental Cash Flow Data

(\$ in Millions)

	<u>2015 Guidance</u>	<u>2014 Actual</u>	<u>2013 Actual</u>
Cash interest payments	\$ 180	\$ 176	\$ 171
Income tax payments, net	240	137	226
FAS pension expense	138 ⁽¹⁾	80	181
CAS pension cost ^{(2) (3)}	109	110	117
Pension contributions	132	97	105

(1) FAS pension expense represents pension expense determined using U.S. GAAP and assumes a 2015 weighted average discount rate of 4.14% (vs. 5.03% for 2014) and a 2015 weighted average pension asset return of 8.13%.

(2) Estimated 2015 Pension Expense Sensitivity: A 25 bps increase/decrease in 12/31/14 discount rate would decrease/increase 2015 pension expense by ~\$15M and decrease/increase the 12/31/14 unfunded obligation by ~\$132M.

(3) CAS pension cost represents estimated allowable and reimbursable pension cost under U.S. Government procurement regulations (determined using Cost Accounting Standards or CAS) on L-3's U.S. Government contracts.



Depreciation, Amortization and Capital Expenditures

(\$ in Millions)

Segment	2014				2013			
	D&A		CapEx, Net		D&A		CapEx, Net	
	4Q14	2014	4Q14	2014	4Q13	2013	4Q13	2013
Electronic Systems	\$ 34	\$123	\$ 23	\$ 79	\$ 30	\$117	\$ 20	\$ 75
Aerospace Systems	10	40	28	61	10	38	26	58
Communication Systems	13	51	13	30	13	48	11	57
NSS	3	11	4	9	3	11	3	7
Consolidated	\$ 60	\$225	\$ 68	\$179	\$ 56	\$214	\$ 60	\$197

D&A = Depreciation and Amortization

CapEx, Net = Capital expenditures net of dispositions of property, plant and equipment



Cash Sources and Uses, and Capitalization and Leverage



Cash Sources and Uses

(\$ in Millions)

	2015 Guidance	2014 Actual	2013 Actual
Beginning cash	\$ 442	\$ 500	\$ 349
Free cash flow	925	946	1,066
Acquisitions, net of divestitures	(41)	(51)	(58)
Dividends	(214)	(208)	(199)
Share repurchases	(500)	(823)	(800)
Senior notes net proceeds	-	988	-
CODES redemption	-	(935)	-
Change in Cash Balance included in Assets Held for Sale	-	(61)	-
Other, net	83	86	142
Ending cash	<u>\$ 695</u>	<u>\$ 442</u>	<u>\$ 500</u>

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



Capitalization and Leverage

(\$ in Millions)

	12/31/14 Actual	12/31/13 Actual
Cash	\$442	\$500
Debt	\$3,939	\$3,630
Equity	5,361	6,056
Invested Capital	\$9,300	\$9,686
Debt/Invested Capital	42.4%	37.5%
Bank Leverage Ratio	2.48x	2.15x
Available Revolver	\$1,000	\$1,000

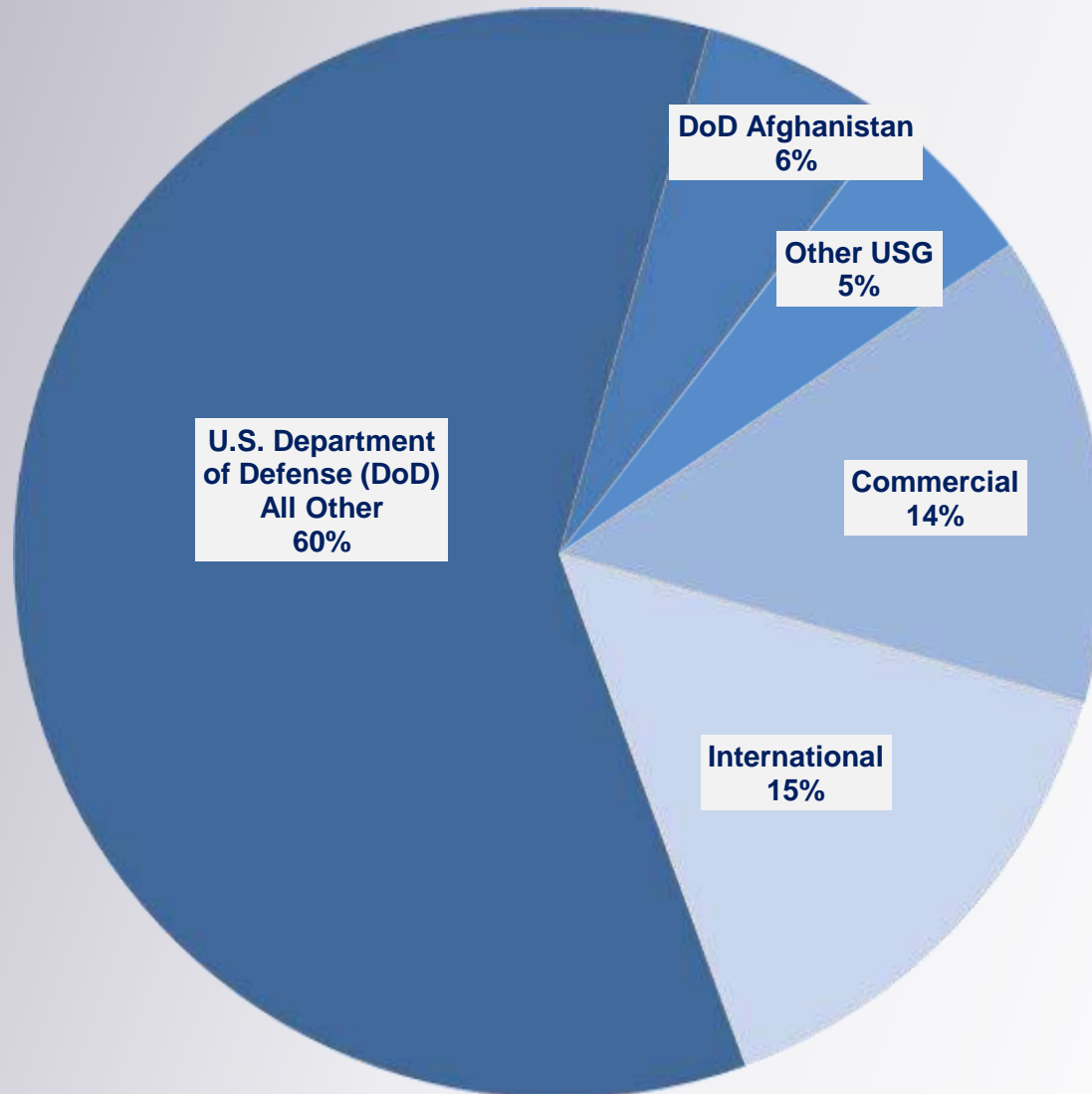
Note: Equity includes non-controlling interests (minority interests) of \$75M as of December 31, 2014 and December 31, 2013.



Appendix

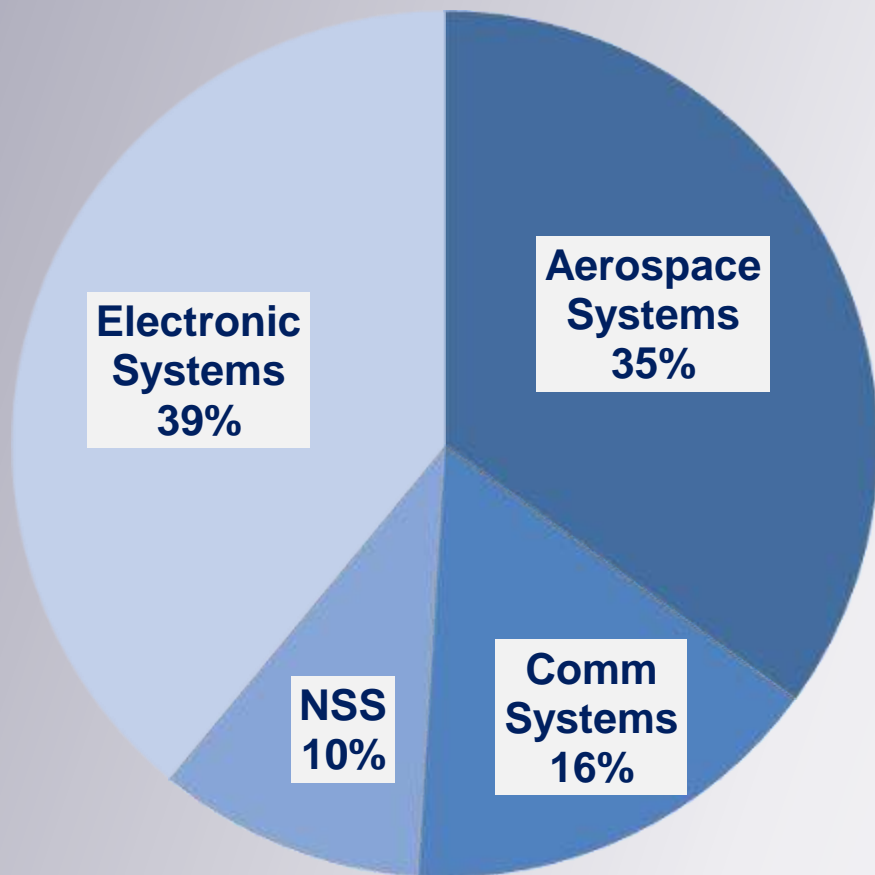


2014 Actual End Customer Sales Mix Trends

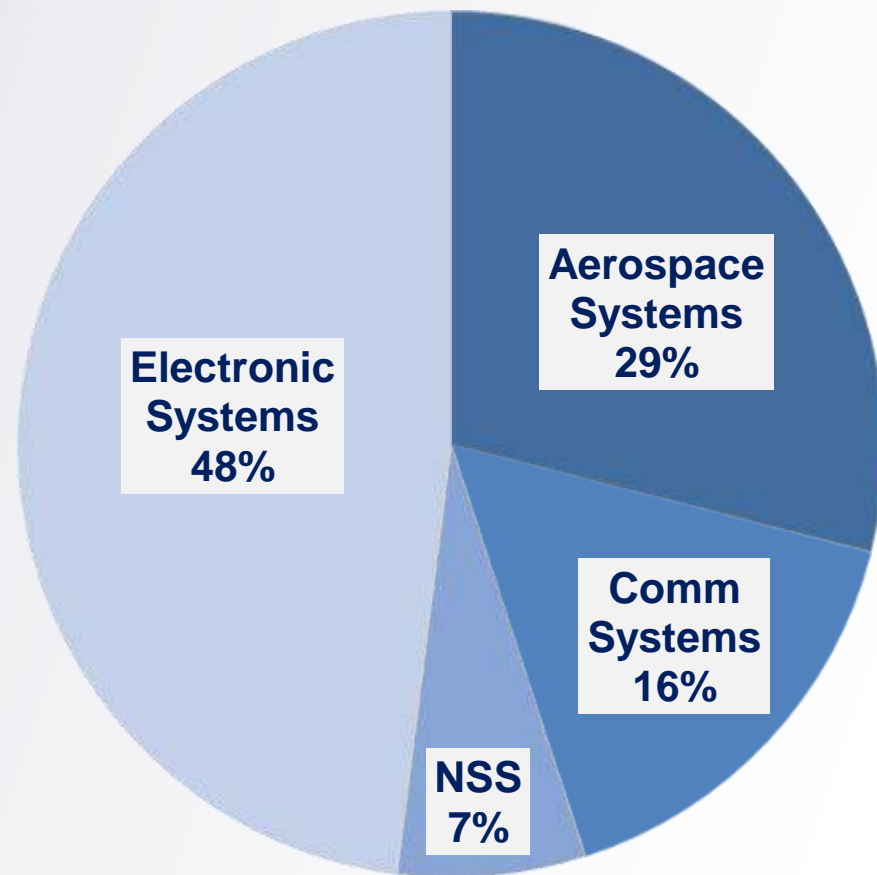


Segment Mix: 2015 Guidance Midpoints

Sales



Operating Income



Reconciliation of GAAP to Non-GAAP Measurements

(\$ in Millions)

	<u>2015 Guidance</u>	<u>2014 Actual</u>	<u>4Q14 Actual</u>	<u>2013 Actual</u>	<u>4Q13 Actual</u>
Net cash from operating activities	\$ 1,120	\$1,125	\$ 520	\$1,263	\$ 646
Less: Capital expenditures	(200)	(183)	(68)	(209)	(62)
Add: Dispositions of property, plant and equipment	5	4	-	12	2
Free cash flow	<u>\$ 925</u>	<u>\$ 946</u>	<u>\$ 452</u>	<u>\$1,066</u>	<u>\$ 586</u>



