

Fourth Quarter Earnings Call

January 25, 2018

Financial Data Charts



Technologies

Forward-Looking Statements

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

Our forward-looking statements speak only as of the date of these slides or as of the date they were made, and we undertake no obligation to update forward-looking statements. For a more detailed discussion of these factors, also see the information under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our most recent report on Form 10-K for the year ended December 31, 2016 and any material updates to these factors contained in any of our future filings.

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

Select Financial Data - - Fourth Quarter

(\$ in Millions, except per share amounts)

	4Q17	4Q16	vs. 4Q16
Net Sales	\$2,574	\$2,643	-3%
Organic (Decline) Growth	-4%	2%	-600 bps
Operating Margin	10.2%	10.7%	-50 bps
Operating Income	\$263	\$282	-7%
Interest Expense and Other, Net⁽²⁾	\$37	\$41	-10%
Effective Income Tax Rate	-19.9%	22.4%	n.m.
Minority Interest Expense⁽³⁾	\$4	\$4	n.c.
Diluted Shares	79.9	78.9	1%
Diluted EPS from Continuing Operations	\$3.34	\$2.32	44%
Net Cash from Operating Activities from Continuing Operations	\$406	\$490	-17%
Free Cash Flow⁽⁴⁾	\$347	\$408	-15%

Notes: (1) The prior period results have been adjusted to present the Vertex Aerospace business as discontinued operations.

(2) Interest Expense and Other, Net is comprised of: (i) interest expense of \$43 million for 4Q17 and 4Q16, (ii) interest and other income, net of \$6 million for 4Q17 and \$4 million for 4Q16 and (iii) a debt retirement charge of \$2 million for 4Q16.

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

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

n.m. = not meaningful n.c. = no change

Segment Results - - Fourth Quarter

(\$ in Millions)

<u>Segment</u>	<u>4Q17 Net Sales</u>	<u>Sales Growth vs. 4Q16</u>	<u>Organic Growth</u>	<u>4Q17 Operating Margin</u>	<u>Margin Change vs. 4Q16 (bps)</u>
Electronic Systems	\$ 803	-7%	-9%	13.7%	+100
Aerospace Systems	727	n.m.	n.m.	8.0%	+110
Communication Systems	602	3%	3%	7.8%	-180
Sensor Systems	442	-6%	-8%	10.9%	-330
Total Segment	\$ 2,574	-3%	-4%	10.2%	-50

n.m. = not meaningful

4Q17 Diluted EPS from Continuing Operations Reconciliation

Midpoint Guidance (December 5, 2017)	<u>\$ 2.22 *</u>
Tax Reform Gain	\$ 0.99
Foreign Legal Entity Realignment Tax Benefit	0.38
Incremental Business Integration and Restructuring Expenses	(0.24)
Other, Net	(0.01)
Subtotal	<u>\$ 1.12</u>
Actual Results	<u><u>\$ 3.34</u></u>

* Based on 2017 Financial Guidance from Continuing Operations as of December 5, 2017, less results for the year-to-date 9 month, September 29, 2017. Refer to pages 63 to 66 of L3's 2017 Investor Conference (December 5, 2017) presentation on the Company's website.

Select Financial Data - - Full Year

(\$ in Millions, except per share amounts)

	2017	2016	vs. 2016
Net Sales	\$9,573	\$9,210	4%
Organic Growth	2%	1%	+100 bps
Operating Margin	10.7%	10.4%	+30 bps
Operating Income	\$1,020	\$957	7%
Interest Expense and Other, Net⁽²⁾	\$149	\$153	-3%
Effective Income Tax Rate	11.7%	21.3%	-960 bps
Minority Interest Expense⁽³⁾	\$16	\$14	14%
Diluted Shares	79.6	78.8	1%
Diluted EPS from Continuing Operations	\$9.46	\$7.86	20%
Net Cash from Operating Activities from Continuing Operations	\$986	\$1,022	-4%
Free Cash Flow⁽⁴⁾	\$863	\$834	3%

Notes: (1) The prior period results have been adjusted to present the Vertex Aerospace business as discontinued operations.

(2) Interest Expense and Other, Net is comprised of: (i) interest expense of \$169 million for 2017 and \$164 million for 2016, (ii) interest and other income, net of \$20 million for 2017 and \$18 million for 2016 and (iii) debt retirement charges of \$7 million for 2016.

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

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

n.m. = not meaningful

Segment Results - - Full Year

(\$ in Millions)

<u>Segment</u>	<u>2017 Net Sales</u>	<u>Sales Growth vs. 2016</u>	<u>Organic Growth</u>	<u>2017 Operating Margin</u>	<u>Margin Change vs. 2016 (bps)</u>
Electronic Systems	\$ 3,024	10%	5%	13.3%	+20
Aerospace Systems	2,773	-6%	-6%	7.6%	-110
Communication Systems	2,229	9%	9%	9.5%	n.c.
Sensor Systems	1,547	5%	4%	12.6%	+260
Total Segment	\$ 9,573	4%	2%	10.7%	+30

n.c. = no change

2018 Consolidated Financial Guidance

(in Millions, except per share amounts)

	Guidance (January 25, 2018)	vs. 2017	Prior Guidance (December 5, 2017)
Net Sales	\$9,850 to \$10,050	4%	\$9,850 to 10,050
Organic Growth	3%	n.c.	4%
Operating Income	\$1,100 to \$1,125	8%	\$1,100 to 1,150
Interest Expense and Other	\$141	(\$19)	\$141
Effective Tax Rate	20%	+830 bps	26.6%
Minority Interest Expense	\$17	\$1	\$15
Diluted Shares	~80	n.c.	~80
Diluted EPS	\$9.30 to \$9.50	-1%	\$8.60 to \$8.85
Free Cash Flow	\$900	4%	\$865

The current guidance for 2018 is subject to potential changes to interpretations of U.S. Tax Reform and excludes: (i) any adverse impacts from a protracted U.S. DoD FY18 budget continuing resolution, (ii) any potential goodwill impairment charges for which the information is presently unknown, (iii) potential adverse results related to litigation contingencies and (iv) other items such as gains or losses related to potential business divestitures and the impact of potential acquisitions.

- Notes: (1) Interest expense and other is comprised of: (i) interest expense of \$170 million and (ii) interest and other income, net, of \$29 million (including \$9 million of income related to employee benefit plans).
- (2) Minority interest expense represents net income from continuing operations attributable to non-controlling interests.
- (3) The revisions to our Current Guidance compared to our Prior Guidance includes (i) a decrease in the effective income tax rate driven by the enactment of U.S. Tax Reform in December 2017, and (ii) a decrease in consolidated and segment operating income and margin due to higher expected FAS pension expense, net of CAS recoveries, of \$15 million.
- (4) 2017 includes reclassification of employee benefit plan expense in accordance with ASU 2017-07, which L3 adopted effective January 1, 2018.
- (5) See Reconciliation of GAAP to Non-GAAP Measurements

n.c. = no change

2018 Segment Guidance

(in Millions)

Segment	Net Sales	Midpoint Sales vs. 2017	Segment Operating Margin	Midpoint Margin vs. 2017 (bps)
Electronic Systems	\$3,200 to \$3,300	7%	13.6% to 13.8%	+30
Aerospace Systems	\$2,625 to \$2,725	-4%	7.8% to 8.0%	+20
Communication Systems	\$2,225 to \$2,325	2%	10.9% to 11.1%	+130
Sensor Systems	\$1,700 to \$1,800	13%	11.7% to 11.9%	-80
Total Segments	\$9,850 to \$10,050	4%	\$1,100 to \$1,125	+40

Note: 2017 margins include reclassification of employee benefit plan expense in accordance with ASU 2017-07, which L3 adopted effective January 1, 2018.

Cash Flow

(\$ in Millions)

	<u>2018</u> <u>Guidance</u>	<u>2017</u> <u>Actual</u>	<u>2016</u> <u>Actual</u>
Income from continuing operations ⁽¹⁾	\$ 775	\$ 769	\$ 633
Gain on sale of property, plant and equipment	-	(31)	(5)
Depreciation & amortization	230	225	198
Deferred income taxes	35	(4)	27
401K common stock match	108	106	102
Stock-based employee compensation	62	53	49
Amortization of pension and OPEB net losses	70	59	48
Working capital/other items	(135)	(191)	(30)
Capital expenditures, net	(245)	(150)	(189)
Income taxes allocated to discontinued operations	-	27	1
Free cash flow⁽²⁾	<u>\$ 900</u>	<u>\$ 863</u>	<u>\$ 834</u>

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

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

Supplemental Cash Flow Data

(\$ in Millions)

	<u>2018 Guidance</u>	<u>2017 Actual</u>	<u>2016 Actual</u>
Cash interest payments	\$ 163	\$ 163	\$ 162
Income tax payments, net ⁽¹⁾	165	122	111
FAS pension expense	99 ^{(2) (3)}	110	97
CAS pension cost ⁽⁴⁾	121	119	111
Pension contributions	100	97	97

(1) Excludes income tax payments attributable to discontinued operations.

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

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

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

Depreciation, Amortization and Capital Expenditures

(\$ in Millions)

Segment	2017				2016			
	D&A		CapEx, Net		D&A		CapEx, Net	
	4Q17	2017	4Q17	2017	4Q16	2016	4Q16	2016
Electronic Systems	\$ 25	\$ 79	\$ 17	\$ 69	\$ 15	\$ 60	\$ 27	\$ 68
Aerospace Systems	13	51	18	48	12	46	29	52
Communication Systems	13	49	11	(10)	12	47	15	31
Sensor Systems	13	46	19	43	12	45	11	38
Consolidated	\$ 64	\$ 225	\$ 65	\$ 150	\$ 51	\$ 198	\$ 82	\$ 189

Cash Sources and Uses

(\$ in Millions)

	2018 Guidance	2017 Actual	2016 Actual
Beginning cash	\$ 662	\$ 363	\$ 207
Free cash flow from continuing operations	900	863	834
Free cash flow from discontinued operations	-	86	12
Divestitures	-	18	561
Acquisitions	-	(317)	(388)
Dividends	(255)	(236)	(220)
Share repurchases	(300)	(180)	(373)
Debt reduction	-	-	(303)
Other, net	193	65	33
Ending cash	\$ 1,200	\$ 662	\$ 363

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

Capitalization and Leverage

(\$ in Millions)

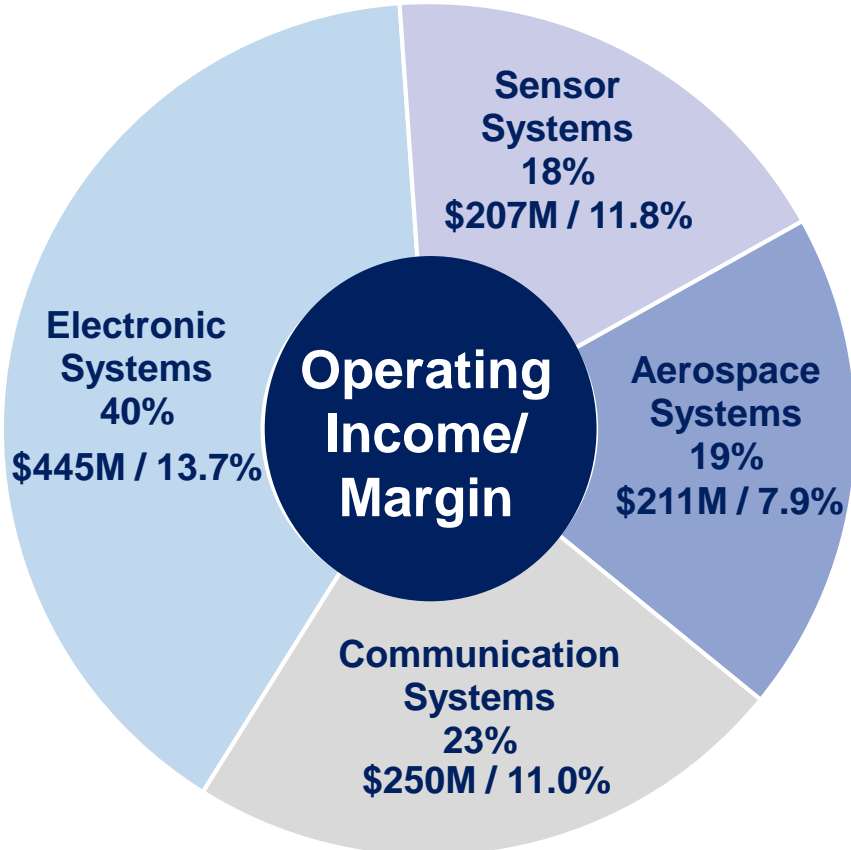
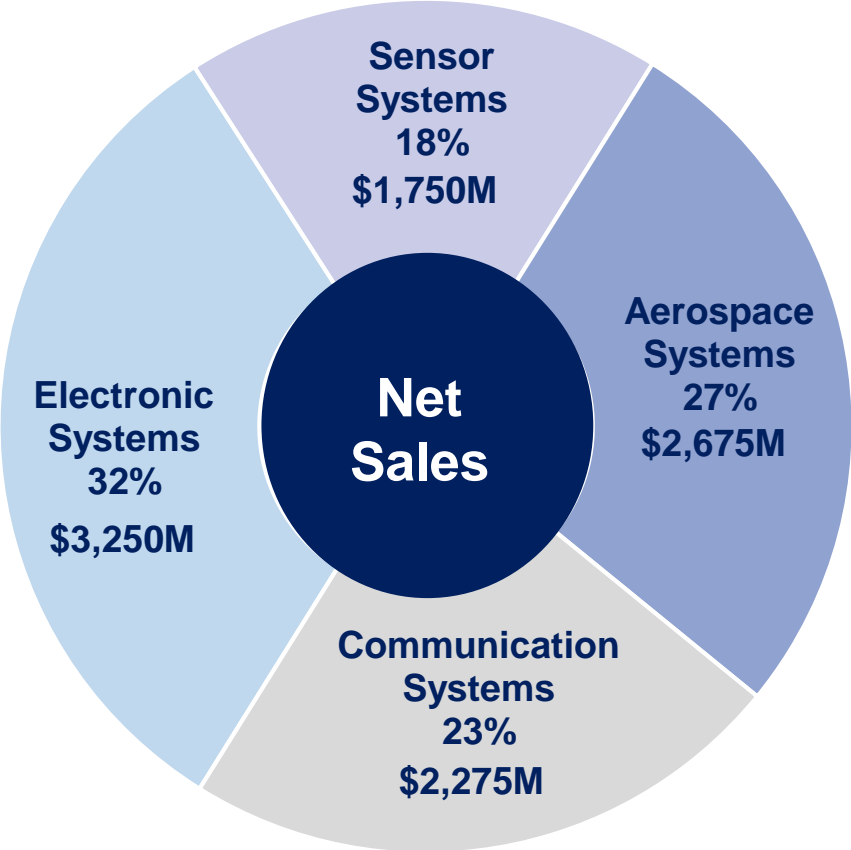
	12/31/17 Actual	12/31/16 Actual
Cash	\$662	\$363
Debt	\$3,330	\$3,325
Equity	5,162	4,624
Invested Capital	\$8,492	\$7,949
Debt/Invested Capital	39.2%	41.8%
Debt/LTM EBITDA	2.67x	2.88x
Available Revolver	\$1,000	\$1,000

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

Appendix



Segment Mix: 2018 Guidance



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



2018 Segment Guidance - Current vs. Prior

(\$ in Millions)

Segment	Current Guidance (January 25, 2018)		Prior Guidance (December 5, 2017)	
	Net Sales	Operating Margin	Net Sales	Operating Margin
Electronic Systems	\$3,200 to \$3,300	13.6% to 13.8%	\$3,200 to \$3,300	13.7% to 13.9%
Aerospace Systems	\$2,625 to \$2,725	7.8% to 8.0%	\$2,625 to \$2,725	8.0% to 8.2%
Communication Systems	\$2,225 to \$2,325	10.9% to 11.1%	\$2,225 to \$2,325	11.1% to 11.3%
Sensor Systems	\$1,700 to \$1,800	11.7% to 11.9%	\$1,700 to \$1,800	11.4% to 11.6%
Consolidated	\$9,850 to \$10,050	\$1,100 to \$1,125	\$9,850 to \$10,050	11.3%

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

(in Millions)

	<u>2018 Guidance</u>	<u>2017 Actual</u>	<u>4Q17 Actual</u>	<u>2016 Actual</u>	<u>4Q16 Actual</u>
Net cash from operating activities from continuing operations	\$ 1,145	\$ 986	\$ 406	\$ 1,022	\$ 490
Less: Capital expenditures	(250)	(224)	(73)	(210)	(88)
Add: Dispositions of property, plant and equipment	5	74	7	21	6
Income tax payments attributable to discontinued operations	-	27	7	1	-
Free cash flow from continuing operations	<u>\$ 900</u>	<u>\$ 863</u>	<u>\$ 347</u>	<u>\$ 834</u>	<u>\$ 408</u>
Net cash from operating activities from discontinued operations		\$ 117	\$ 33	\$ 19	\$ 20
Less: Capital expenditures		(4)	(1)	(6)	(1)
Income tax payments attributable to discontinued operations		(27)	(7)	(1)	-
Free cash flow from discontinued operations		<u>\$ 86</u>	<u>\$ 25</u>	<u>\$ 12</u>	<u>\$ 19</u>

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

(in Millions)

Cash Flow to EBITDA Reconciliation	2017 Actual	2016 Actual
Net cash from operating activities from continuing operations	\$ 986	\$ 1,022
Income tax payments, net of refunds	122	111
Interest payments, net of interest income	146	140
Stock-based employee compensation	(159)	(151)
Gain on sale of property, plant and equipment	31	5
Other non-cash items	(15)	(25)
Changes in operating assets and liabilities	134	53
LTM EBITDA from continuing operations	\$ 1,245	\$ 1,155
Debt	\$ 3,330	\$ 3,325
Debt/LTM EBITDA	2.67x	2.88x

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

Glossary of Acronyms

bps	Basis Points
CapEx, Net	Capital expenditures, net of disposition of property, plant and equipment
CAS	Cost Accounting Standards - U.S. Government
D&A	Depreciation and Amortization
EBITDA	Earnings Before Interest Taxes Depreciation Amortization
EDD/ETI	Electron Devices Division / Electronic Technologies, Inc.
EPS	Earnings Per Share
FAS	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
LTM	Last Twelve Months
OPEB	Other Post Employment Benefits



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