

# *J.P. Morgan Aviation, Transportation & Industrials Conference*

March 3, 2015

**Ralph D'Ambrosio**  
Senior Vice President  
and Chief Financial Officer



---

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 Annual Report on Form 10-K for the year ended December 31, 2014 filed on February 26, 2015 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.



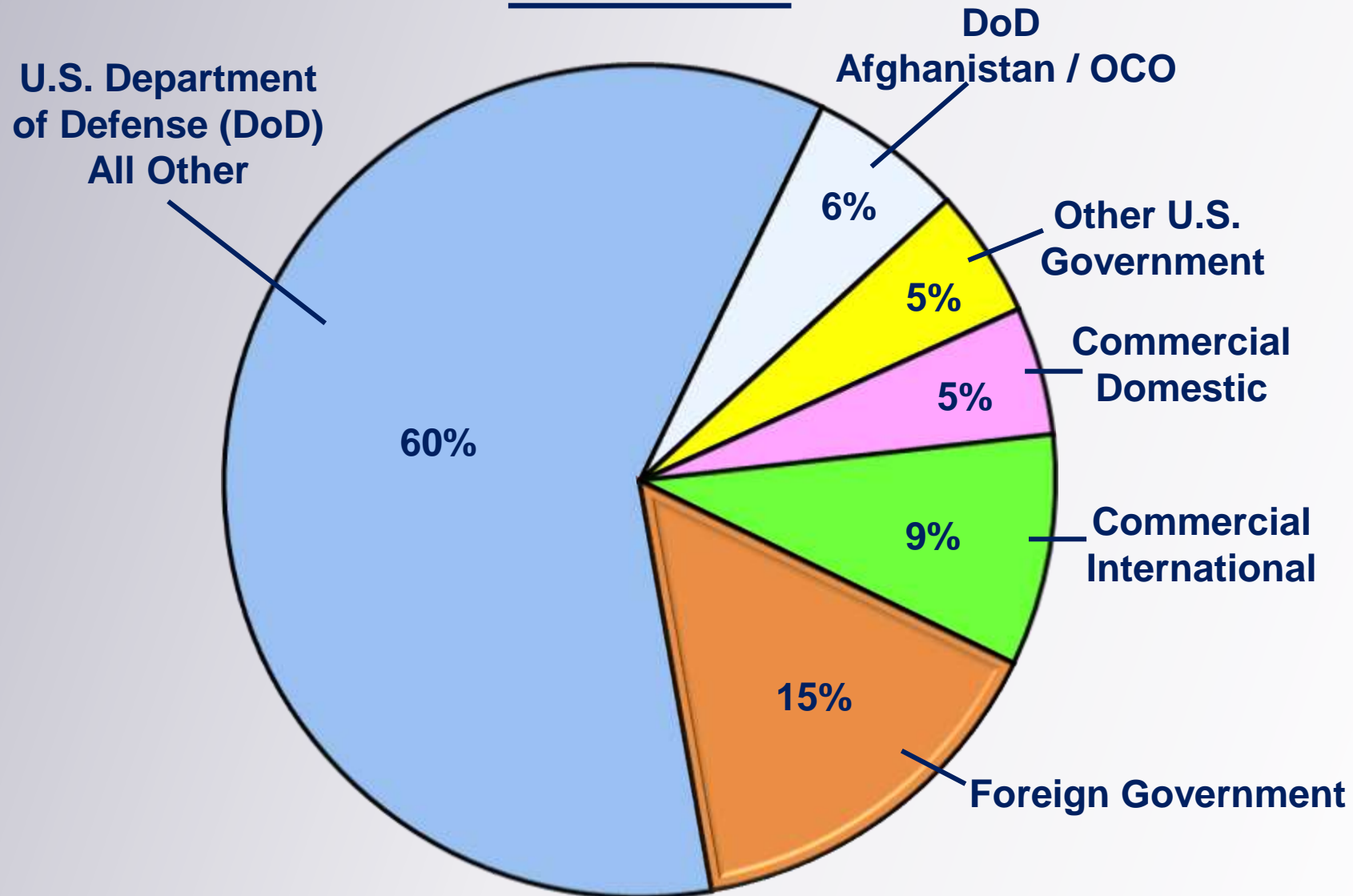
# L-3 Key Characteristics and Positioning

- **Aerospace & defense contractor**
- **Prime contractor: ISR, aircraft sustainment, simulation, night vision & image intensification, enterprise IT & cyber**
- **Supplier: electronic and communication systems**
- **Attributes:**
  - broad/diverse technologies, contracts
  - 29% international & commercial
  - flexible cost structure
  - efficient capital structure... IG credit
  - high earnings-to-cash flow conversion



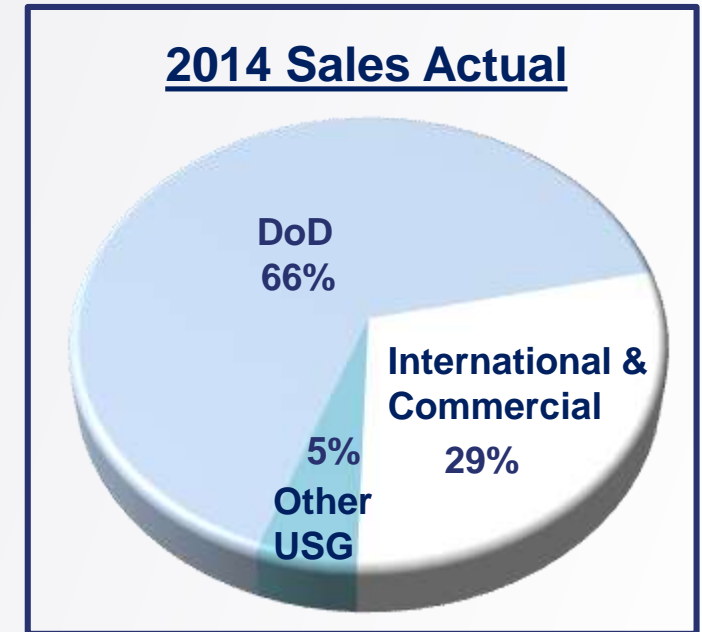
# End Customer Sales

## 2014 Actual



# U.S. Government Markets

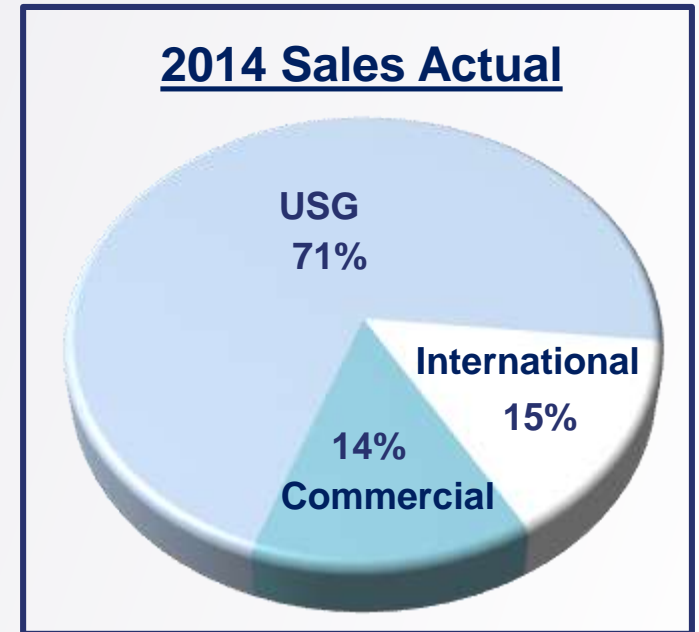
- **Geopolitical threats escalating**
- **Fiscal deficit improving**
- **Defense down-cycle began 2011**
  - **BBP and drawdowns continue**
  - **Congress reduced first 3 years of sequester cuts**
  - **Base budget grows in FY16, even with full sequester**
- **Market share opportunities... especially in USG classified**





# International & Commercial Growing

- **International - - large addressable market**
  - Increased marketing & selling efforts
  - Introducing more products for export
  
- **Commercial - - favorable fundamentals**
  - **Growing: aviation products, security screening, simulation & training and SATCOM**
  - **Declining: shipboard products**



# Segment Trends

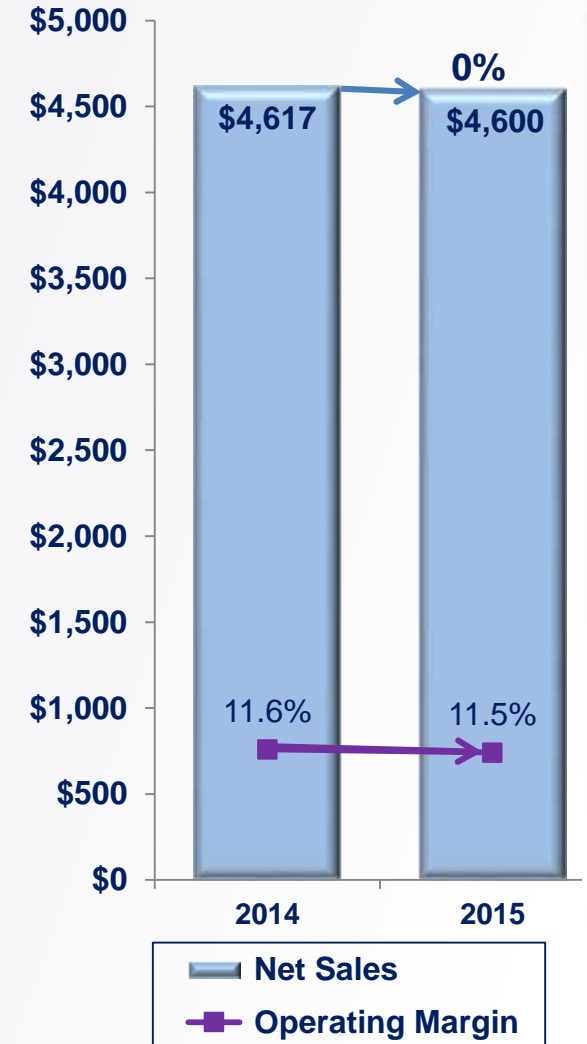


# Electronic Systems

- Diverse discriminating products
- 49% International & Commercial... growing
- Expanding market positions with R&D and M&A
- Divesting low-margin MSI business
- Highest margin



(\$ in Millions)



Note: 2015 based on segment guidance midpoint (January 29, 2015). Higher pension vs. 2014, \$13 million or -30 bps margin.



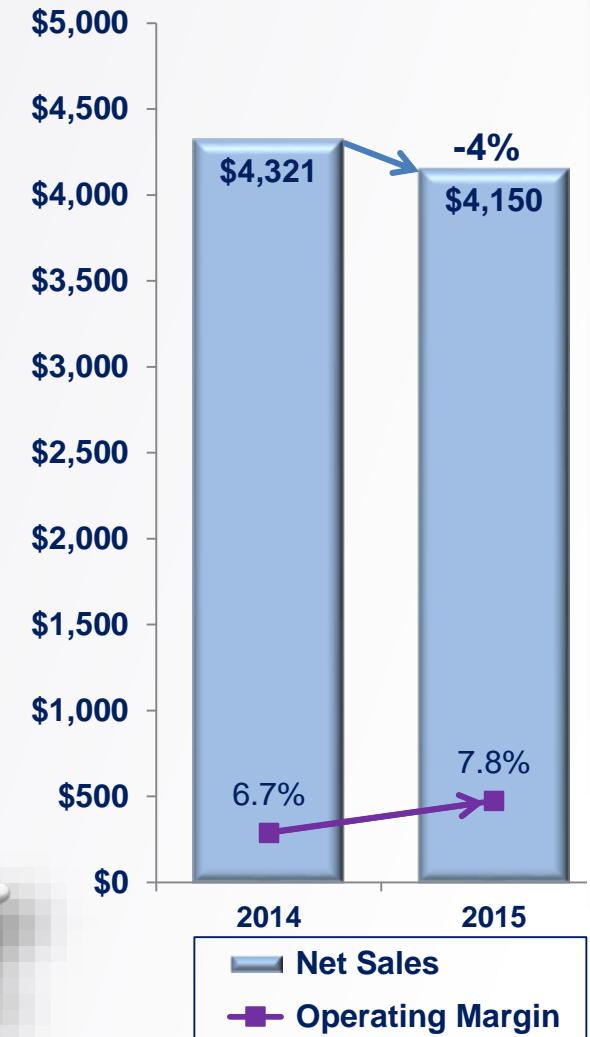


# Aerospace Systems

- Sales headwinds... drawdown, DoD budget shortfalls
- DoD requires low cost/rapid turnaround fleet upgrades
- Investing in tactical and strategic ISR systems, MMA, international C-130 and P-3 SLEPs
- Margin pressures... volume, mix, BBP



(\$ in Millions)

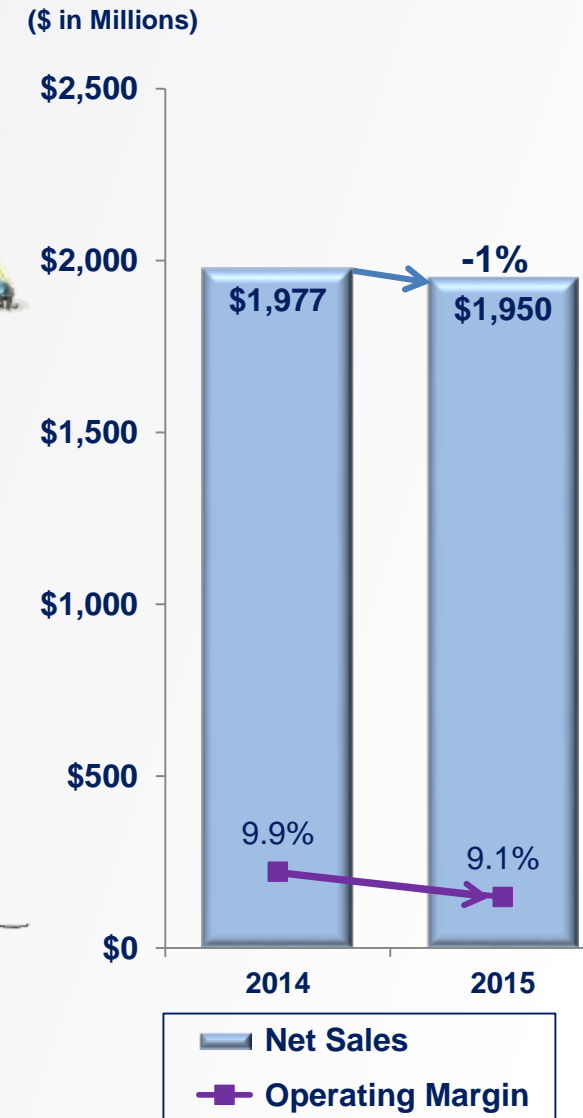
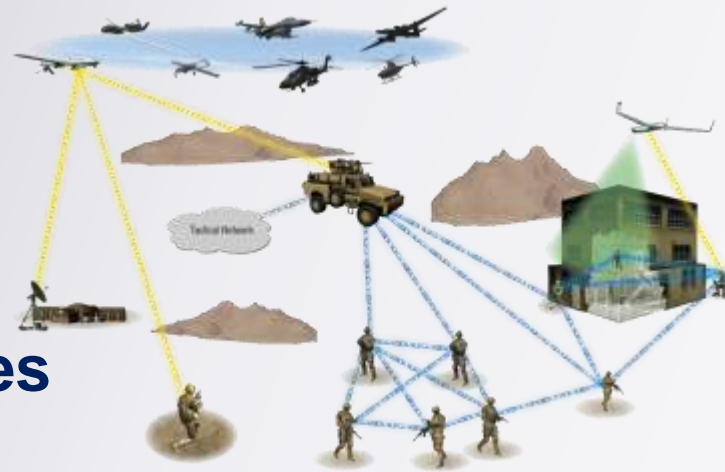


Note: 2015 based on segment guidance midpoint (January 29, 2015). Higher pension vs. 2014, \$27 million or -70 bps margin.



# Communication Systems

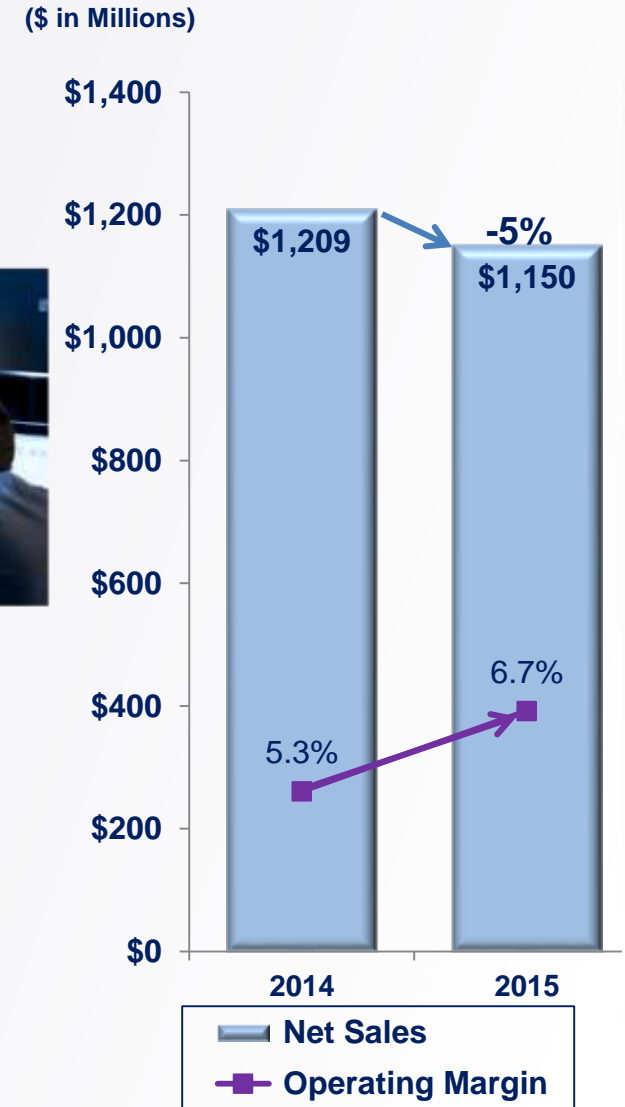
- Solid, long-term positions
- Tactical ISR and Army budget sales pressures abating
- Investing in advanced A2/AD communications
- Core margin improving... manufacturing productivity, consolidation synergies



Note: 2015 based on segment guidance midpoint (January 29, 2015). Higher pension vs. 2014, \$18 million or -90 bps margin.

# National Security Solutions

- Market pressures... BBP, IT budgets, small business set-asides
- Gaining share... won several intelligence community contracts
- Building cyber security with targeted pursuits
- Margin constraints... BBP, cost reimbursable contracts



Note: 2015 based on segment guidance midpoint (January 29, 2015). Higher pension vs. 2014, \$1 million or -10 bps margin.

# Consolidated Financial Guidance - - 2015

(\$ in Millions, except per share amounts)

	<b>Guidance (January 29, 2015)</b>	<b>Midpoint vs. 2014</b>
<b>Net Sales</b>	<b>\$11,750 to \$11,950</b>	<b>-2%</b>
<b>Operating margin</b>	<b>9.3%</b>	<b>+40 bps</b>
<b>Effective tax rate</b>	<b>32.0%</b>	<b>+520 bps</b>
<b>Diluted shares</b>	<b>82.8</b>	<b>-6%</b>
<b>Diluted EPS</b>	<b>\$7.35 to \$7.65</b>	<b>-1%</b>
<b>Free cash flow</b>	<b>\$925</b>	<b>-2%</b>

## 2015 Guidance Assumptions:

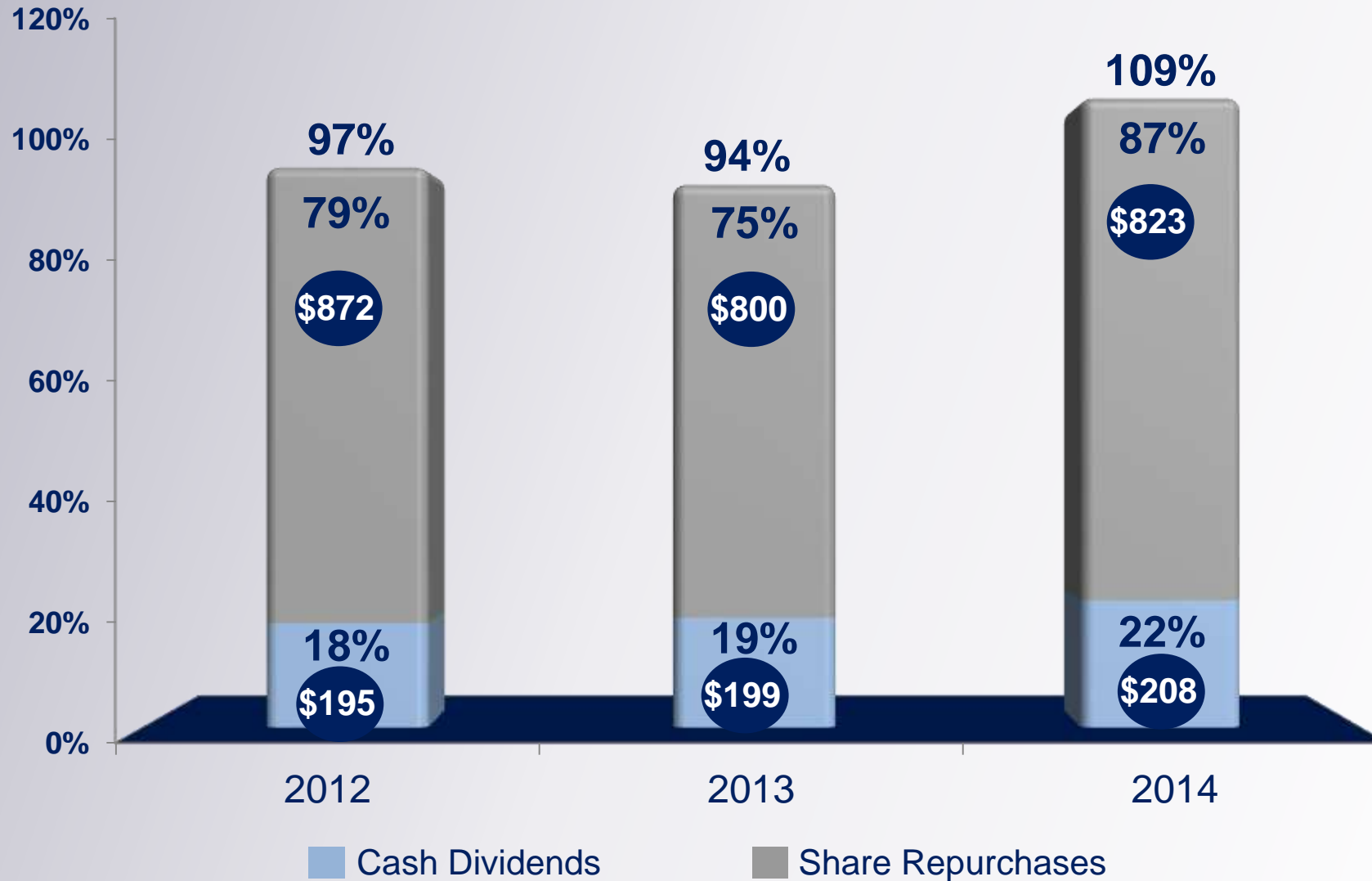
- (1) A net pension expense increase of \$59 million to \$29 million for 2015 compared to \$30 million net pension income for 2014, reducing margin by 50 bps and EPS by \$0.45.
- (2) If R&E tax credit is re-enacted for 2015. If re-enacted for 2015, effective tax rate would decline by 220 bps and increase diluted EPS by \$0.24.
- (3) Planned share repurchases of \$500 million.
- (4) Excludes any potential non-cash goodwill impairment charges for which the information is presently unknown.
- (5) Excludes potential litigation charges and additional expenses relating to the Internal Review at Aerospace Systems, which was completed in October 2014.
- (6) 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.



# Cash Returned to Shareholders

(\$ in Millions)



# Cash Sources and Uses

(\$ in Millions)

	<u>2014 Actual</u>	<u>2015 Guidance</u>
Beginning cash	\$ 500	\$ 442
Free cash flow	946	925
Acquisitions, net of divestitures	(51)	(41)
Dividends	(208)	(214)
Share repurchases	(823)	(500)
Senior notes net proceeds	988	-
CODES redemption	(935)	-
MSI cash balance reclassified to assets held for sale	(61)	-
Other, net	86	83
Ending cash	<u>\$ 442</u>	<u>\$ 695</u>

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





# Summary

- Affordable solutions/technologies aligned with customer priorities
- DoD budget inflecting in FY16
- Winning recompetitions and new business
- Growing international/commercial
- Generating robust cash flow



# Q & A

# Reconciliation of GAAP to Non-GAAP Measurements

(\$ in Millions)

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

