

# Deutsche Bank

## 7th Annual Global Industrials and Materials Summit

June 9, 2016

**Christopher E. Kubasik**  
President and Chief Operating Officer



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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 2016 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; 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; 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 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 outcome of litigation matters; results of audits by U.S. Government agencies and of ongoing governmental investigations, including the Aerospace Systems segment; our ability to predict the level of participation in and the related costs of our voluntary return program for certain EoTech holographic weapons sight products, and our ability to change and terminate the return program at our discretion; 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, 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.



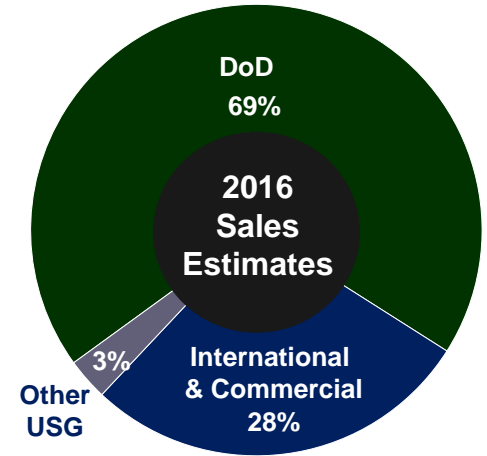
# COO Perspective: "Back to Growth"

- **Solid presence in attractive defense / aero markets**
  - **Multi-faceted - - Prime, subcontractor, merchant supplier**
  - **Attractive markets - - DoD, commercial aerospace and security & detection**
- **Sharpening growth expectations**
  - **Sales - - pruning phase supports return to growth**
  - **Prudent capital deployment - - smart M&A, R&D**
  - **Operating Income & ROIC**
  - **Culture**



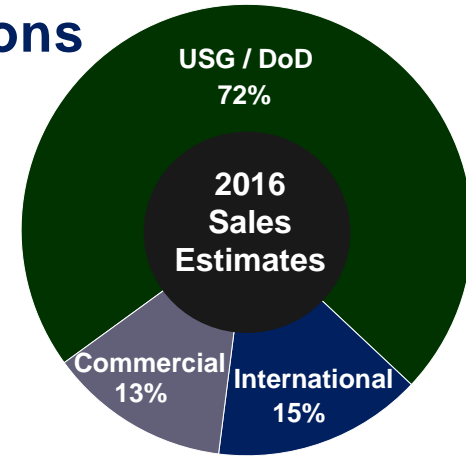
# U.S. Government Markets

- Budget improving ... geopolitical conditions increasingly challenging
- DoD budget growing FY16
  - Investment
  - Operations & Maintenance (O&M)
  - Classified budgets expanding and growing
- Key L-3 capabilities: secure communications, ISR, sensors, power systems, readiness support, simulation & training

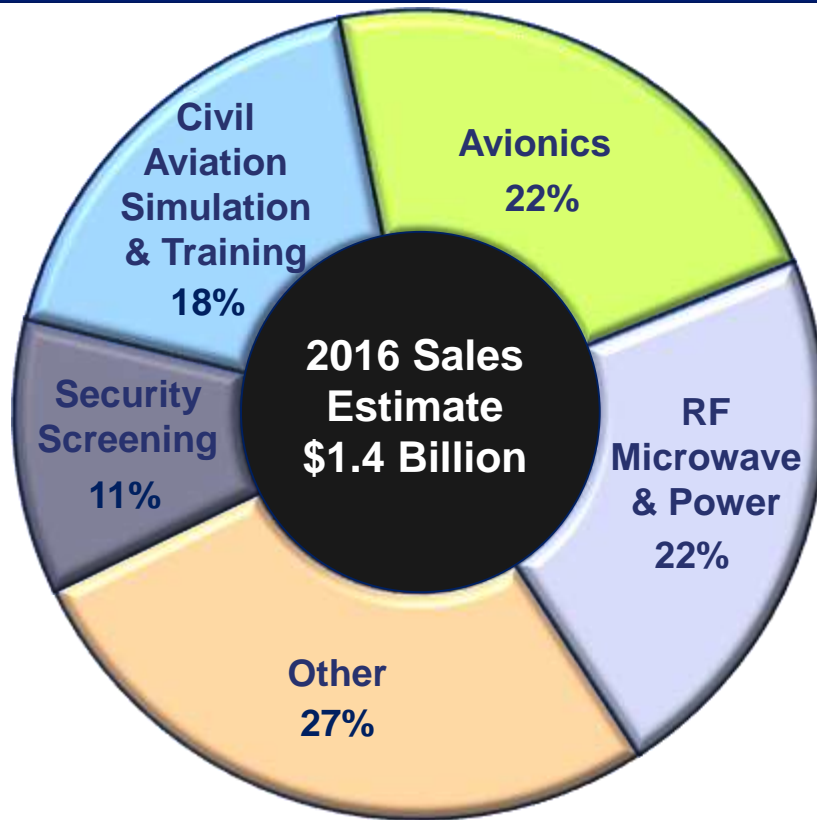


# International

- Affected by global economy and security conditions
- International - - large addressable market
  - Key L-3 offerings: ISR systems, simulators, comm equipment, night vision, sensors
  - Overall flat markets
- L-3 approach
  - Local country presence
  - Recently opened offices in Brazil and India



# Commercial Sales Mix

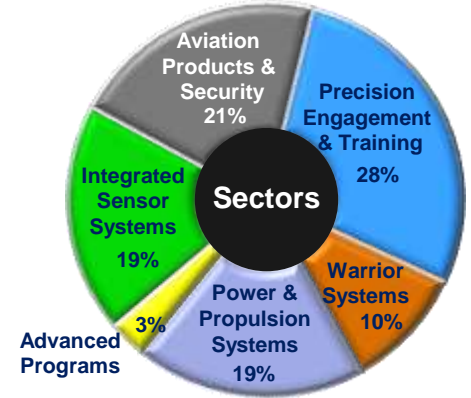


# Segments Overview



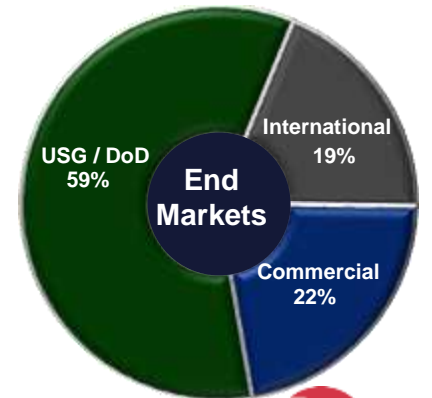
# Electronic Systems

- Diverse, discriminating products
- Strengthening positions with R&D, cost takeouts, acquisitions and divestitures
- Highest segment margin and expanding



(\$ in Millions)	1Q16 Actual	1Q16 vs. 1Q15	2016 Guidance*	2015 Actual
Net Sales	\$877	-14%	\$4,200	\$4,269
Organic Growth	-5%	+100 bps	2%	-2%
Operating Margin	10.8%	-30 bps	12.1%	11.5%
Operating Income	\$95	-16%	\$508	\$489

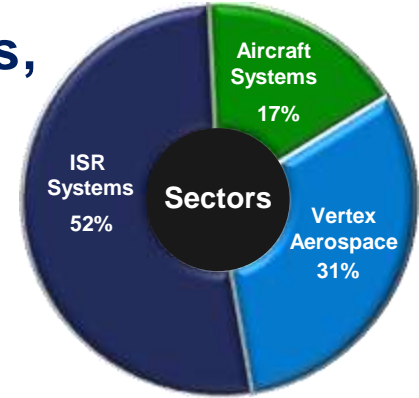
\* Reflects the Financial Guidance Midpoint (April 27, 2016).





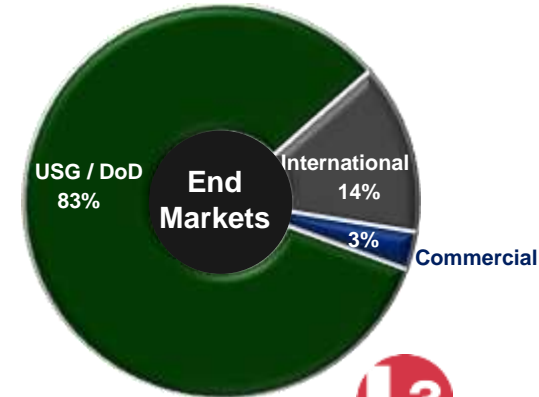
# Aerospace Systems

- Sales headwinds... drawdown, legacy programs, procurement cycles
- Investing in next gen ISR, aircraft sustainment and SLEP
- Margins beginning to improve



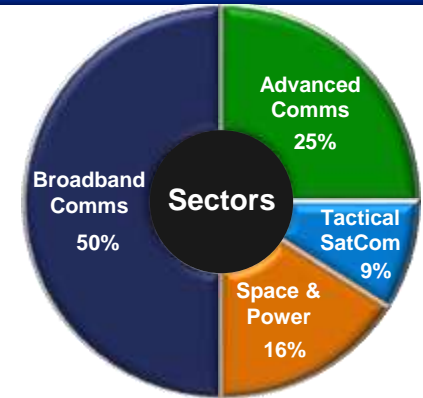
(\$ in Millions)	1Q16 Actual	1Q16 vs. 1Q15	2016 Guidance*	2015 Actual
Net Sales	\$1,005	-2%	\$3,950	\$4,156
Organic Growth	-2%	+200 bps	-5%	-4%
Operating Margin	10.5%	+470 bps	7.1%	4.9%
Operating Income	\$106	77%	\$280	\$205

\* Reflects the Financial Guidance Midpoint (April 27, 2016).



# Communication Systems

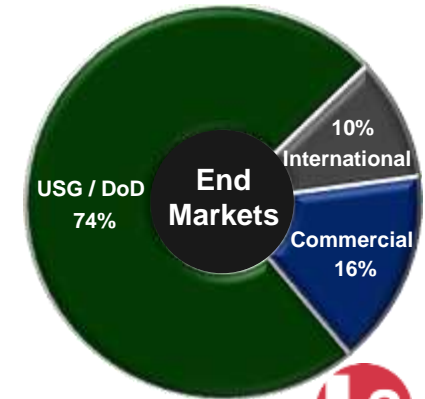
- **Solid, long-lived positions... investing in protected, A2/AD communications**
- **Manufacturing productivity and consolidation synergies improving margins**



(\$ in Millions)	1Q16 Actual	1Q16 vs. 1Q15	2016 Guidance*	2015 Actual
Net Sales	\$471	6%	\$1,900	\$2,041
Organic Growth	5%	n.m.	-8%	-2%
Operating Margin	10.8%	+270 bps	10.4%	9.6%
Operating Income	\$51	42%	\$198	\$196

\* Reflects the Financial Guidance Midpoint (April 27, 2016).

n.m. = not meaningful



# 2016 Financial Guidance

(\$ in Millions, except per share amounts)

	Guidance (April 27, 2016)	vs. 2015
Net Sales	\$9,950 to \$10,150	-4%
Organic Growth	-2.5%	-10 bps
Segment Operating Margin	9.8%	+130 bps
Segment Operating Income	\$985	11%
Diluted Shares	77.5	-5%
Diluted EPS	\$7.55 to \$7.75	11%
Free Cash Flow	\$825	-6%

Notes: (1) Diluted EPS growth is calculated based on a comparison to 2015 adjusted diluted EPS.  
 (2) See Reconciliation of GAAP to Non-GAAP Measurements and Definitions.



# Summary

- DoD budget upcycle beginning
- Investing in affordable & innovative solutions
- Generating robust cash flow
- Focused on growth, margins and capital allocation
- Unique culture and enterprise



# Questions?

**Chris Kubasik - - President & COO**

**Ralph D'Ambrosio - - Senior Vice President & CFO**

# Acronym List

<u>Acronym</u>	<u>Definition</u>
A2/AD	Anti-Access/Area Denial
BBP	Better Buying Power
bps	basis points
DoD	Department of Defense
EBITDA	Earnings Before Interest Taxes, Depreciation and Amortization
EPS	Earnings Per Share
FCF	Free Cash Flow
FMS	Foreign Military Sales
I2	Image Intensification
IG	Investment Grade
ISR	Intelligence, Surveillance and Reconnaissance
LSD	Low Single Digits
LTM	Last Twelve Months
OCO	Overseas Contingency Operations
R&D	Research & Development
RF	Radio Frequency
S&DS	Security & Detection Systems
SLEP	Service Life Extension Program
SOF	Special Operations Forces



# Supplemental Data



# 2016 Financial Guidance

(\$ in Millions, except per share amounts)

**Net Sales**

**Organic Growth**

**Segment Operating Margin**

**Segment Operating Income**

**Interest Expense and Other**

**Effective Tax Rate**

**Minority Interest Expense**

**Diluted Shares**

**Diluted EPS**

**Free Cash Flow**

USG/DoD	-2%
International	-14%
Commercial	8%

	<b>Guidance (April 27, 2016)</b>	<b>vs. 2015</b>
	<b>\$9,950 to \$10,150</b>	<b>-4%</b>
	<b>-2.5%</b>	<b>-10 bps</b>
	<b>9.8%</b>	<b>+130 bps</b>
	<b>\$985</b>	<b>11%</b>
	<b>\$162</b>	<b>6%</b>
	<b>26.7%</b>	<b>+550 bps</b>
	<b>\$11</b>	<b>(\$4)</b>
	<b>77.5</b>	<b>-5%</b>
	<b>\$7.55 to \$7.75</b>	<b>11%</b>
	<b>\$825</b>	<b>-6%</b>

- Notes:
- (1) Diluted EPS growth is calculated based on a comparison to 2015 adjusted diluted EPS.
  - (2) "Interest Expense and Other" represents "Interest expense" less "Interest and other income, net".
  - (3) "Minority Interest Expense" represents "Net income from continuing operations attributable to non-controlling interests", which is reported after related income taxes.
  - (4) See Reconciliation of GAAP to Non-GAAP Measurements and Definitions.





# 2016 Segment Guidance

(\$ in Millions)

Segment	Net Sales	Midpoint Sales vs. 2015	Organic Growth	Segment Operating Margin	Midpoint Margin vs. 2015 (bps)
Electronic Systems	\$4,150 to \$4,250	-2%	2%	12.0% to 12.2%	+60
Aerospace Systems	\$3,900 to \$4,000	-5%	-5%	7.0% to 7.2%	+220
Comm Systems	\$1,850 to \$1,950	-7%	-8%	10.3% to 10.5%	+80
<b>Total Segment</b>	<b>\$9,950 to \$10,150</b>	<b>-4%</b>	<b>-2.5%</b>	<b>9.8%</b>	<b>+130</b>

Note: Estimated net pension expense (FAS, net of CAS) for 2016 vs. 2015 is expected to decrease \$40 million, increasing estimated 2016 operating margin by 40 basis points (\$10 million or 20 bps for Electronic Systems, \$18 million or 50 bps for Aerospace Systems and \$12 million or 60 bps for Communication Systems).



# Free Cash Flow

(\$ in Millions)

	<b>2016 Guidance</b>	<b>2015 Actual</b>
Net income from continuing operations	\$ 605	\$ 297
Impairment/divestiture charges	-	415
Depreciation & amortization	213	210
Deferred income taxes	65	(66)
401K common stock match	108	110
Stock-based employee compensation (SBC)	41	46
Amortization of pension and OPEB net losses	50	67
Working capital/other items	(52)	(9)
Capital expenditures, net	(205)	(194)
<b>Free cash flow</b>	<b>\$ 825</b>	<b>\$ 876</b>

Notes: (1) The 2015 net income from continuing operations includes after tax charges of \$20 million related to business divestitures and \$264 million related to goodwill impairments.

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



# Cash Sources and Uses

(\$ in Millions)

	<u>2016 Guidance</u>	<u>2015 Actual</u>
Beginning cash	<u>\$ 207</u>	<u>\$ 442</u>
Free cash flow from continuing operations	825	876
Discontinued operations	(56)	49
Divestitures	558	318
Acquisitions	(27)	(320)
Dividends	(217)	(214)
Share repurchases	(750)	(740)
Debt repayments	(300)	(296)
Other, net	35	92
Ending cash	<u><u>\$ 275</u></u>	<u><u>\$ 207</u></u>

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



# Capitalization and Leverage

(\$ in Millions)

	12/31/16 Estimate	3/25/16 Actual	12/31/15 Actual	12/31/14 Actual
Cash	\$275	\$534	\$207	\$442
Debt	\$3,328	\$3,626	\$3,624	\$3,912
Equity	4,425	4,451	4,429	5,360
Invested Capital	\$7,753	\$8,077	\$8,053	\$9,272
<b>Debt/Invested Capital</b>	<b>42.9%</b>	<b>44.9%</b>	<b>45.0%</b>	<b>42.2%</b>
<b>Debt/LTM EBITDA</b>	<b>2.78x</b>	<b>3.18x</b>	<b>3.29x</b>	<b>3.19x</b>
<b>Available Revolver</b>	<b>\$800</b>	<b>\$1,000</b>	<b>\$1,000</b>	<b>\$1,000</b>

Notes: (1) Equity includes non-controlling interests (minority interests).

(2) Debt/EBITDA excludes discontinued operations. See Reconciliation of GAAP to Non-GAAP Measurements and Definitions.



# Reconciliation of GAAP to Non-GAAP Measurements and Definitions (1 of 4)

(\$ in Millions)

	<u>2016 Guidance</u>	<u>2015 Actual</u>
Net cash from operating activities from continuing operations	\$ 1,030	\$ 1,068
Less: Capital expenditures	(215)	(197)
Add: Dispositions of property, plant and equipment	10	3
Income tax payments attributable to discontinued operations	-	2
Free cash flow	<u>\$ 825</u>	<u>\$ 876</u>

# Reconciliation of GAAP to Non-GAAP Measurements and Definitions (2 of 4)

(\$ in Millions, except per share amounts)

	<u>2015 Actual</u>
Diluted EPS from continuing operations attributable to L-3 Holdings' common stockholders	\$ 3.44
EPS impact of loss on business divestitures <sup>(A)</sup>	0.25
EPS impact of the goodwill impairment charge <sup>(B)</sup>	3.22
Adjusted diluted EPS from Continuing Operations <sup>(C)</sup>	<u>\$ 6.91</u>

(A) Loss on business divestitures	\$ (31)	(B) Goodwill impairment charge	\$ (384)
Tax benefit	<u>11</u>	Tax benefit	<u>120</u>
After-tax impact	(20)	After-tax impact	(264)
Diluted shares outstanding	81.9	Diluted shares outstanding	81.9
Per share impact*	<u>\$ (0.25)</u>	Per share impact	<u>\$ (3.22)</u>

(C) Adjusted diluted EPS is diluted EPS attributable to L-3 Holdings' common stockholders, excluding the charges or credits relating to business divestitures and non-cash goodwill impairment charges. This amount is not calculated in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The company believes that the charges or credits relating to business divestitures and non-cash goodwill impairment charges affect the comparability of the results of operations and financial guidance for 2016 to the results of operations for 2015. However, this measure may not be defined or calculated by other companies in the same manner.

\* Amounts may not recalculate directly due to rounding.



# Reconciliation of GAAP to Non-GAAP Measurements and Definitions (3 of 4)

(\$ in Millions)

	4Q16 LTM Estimate	1Q16 LTM Actual	4Q15 LTM Actual	4Q14 LTM Actual
<b>Cash Flow to EBITDA Reconciliation</b>				
Net cash from operating activities from continuing operations	\$ 1,030	\$ 1,068	\$ 1,068	\$ 1,088
Income tax payments, net of refunds	130	126	124	120
Interest payments, net of interest income	149	143	145	138
Stock based employee compensation	(149)	(153)	(156)	(169)
Amortization of pension and post retirement benefit plans net loss	(50)	(62)	(67)	(15)
Other non-cash items	(6)	(4)	3	-
Changes in operating assets and liabilities	94	23	(17)	64
<b>LTM EBITDA from continuing operations</b>	<b>\$ 1,198</b>	<b>\$ 1,141</b>	<b>\$ 1,100</b>	<b>\$ 1,226</b>
<b>DEBT</b>	<b>\$ 3,328</b>	<b>\$ 3,626</b>	<b>\$ 3,624</b>	<b>\$ 3,912</b>
<b>DEBT/EBITDA</b>	<b>2.78x</b>	<b>3.18x</b>	<b>3.29x</b>	<b>3.19x</b>

Note: EBITDA is defined as consolidated operating income (excluding impairment losses incurred on goodwill and identifiable intangible assets and losses related to business divestiture transactions), plus consolidated 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.



# Reconciliation of GAAP to Non-GAAP Measurements and Definitions (4 of 4)

**Organic Sales Growth:** Organic sales growth is defined as the increase or decrease in sales compared to the prior year, excluding the increase or decrease in sales attributable to acquired businesses or business divestitures. Sales from acquired businesses is defined as sales from business acquisitions that are included in L-3's actual results for less than 12 months. Sales from business divestitures is defined as sales from business divestitures that are included in L-3's actual results for the 12 months prior to the divestiture.





