

# Jefferies 12th Annual Industrials Conference New York, NY

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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

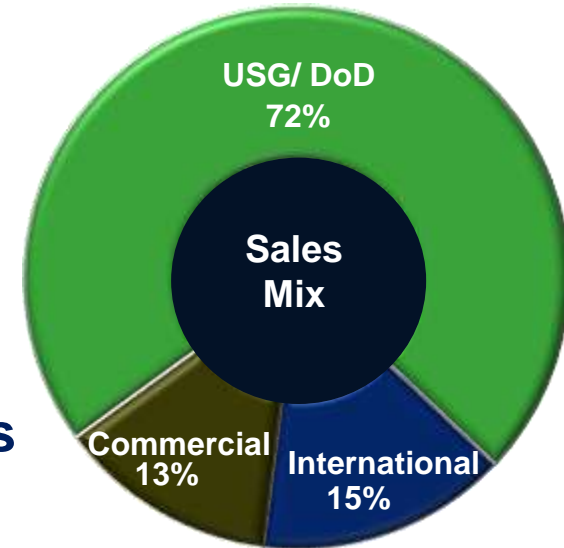
Certain of the matters discussed in these slides, including information regarding the company's 2016 financial guidance are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than historical facts, may be forward-looking statements, 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 (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, 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 voluntary 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 annual report on Form 10-K for the year ended December 31, 2015, and our most recent quarterly report on Form 10-Q for the period ended June 24, 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.

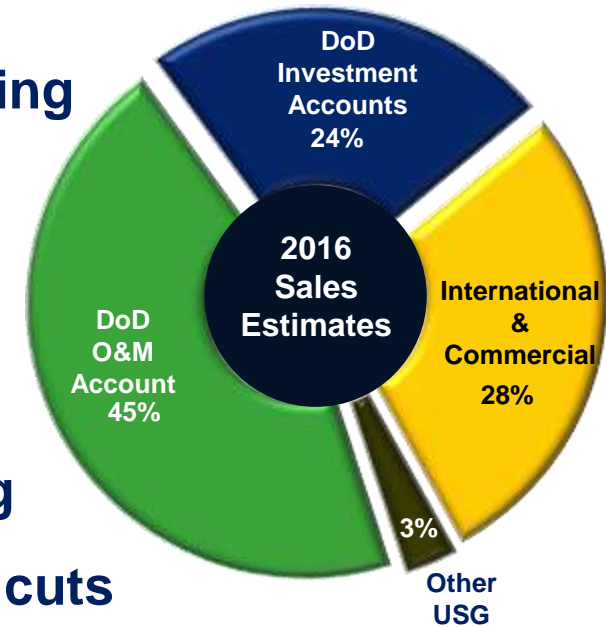
# L-3 Key Characteristics

- **Aerospace & defense company**
- **Prime: ISR systems, aircraft sustainment, simulation & training, NVI<sup>2</sup>, S&DS**
- **Supplier: electronic and communication systems**
- **Attributes:**
  - diverse technologies, contracts
  - efficient capital structure... IG credit
  - high earnings-to-cash flow conversion
- **Objectives: satisfy customers... growth + margin expansion + disciplined capital allocation**



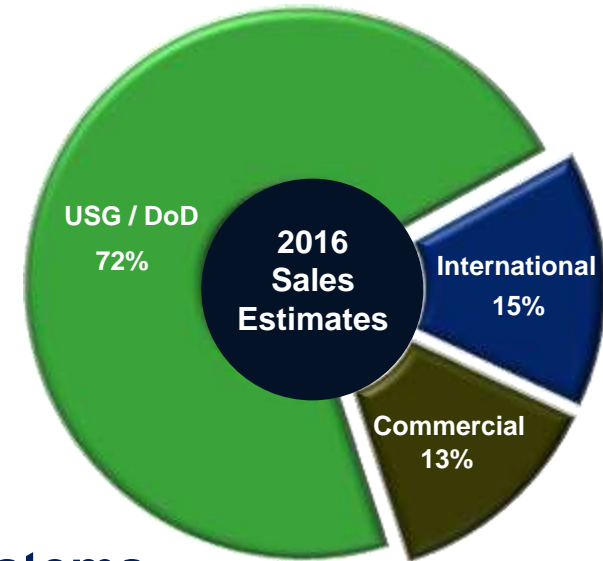
# U.S. Government Markets

- **Geopolitical conditions support military spending**
- **DoD budgets beginning to grow in FY16**
  - drawdowns ending, BBP continues
  - classified budgets expanding and increasing
  - Congress reduced first 5 years of sequester cuts
  - constraints remain... anticipate LSD growth with OCO relief
- **Select L-3 capabilities: protected communications, ISR, sensors, power systems, NVI<sup>2</sup>, readiness support, SOF**

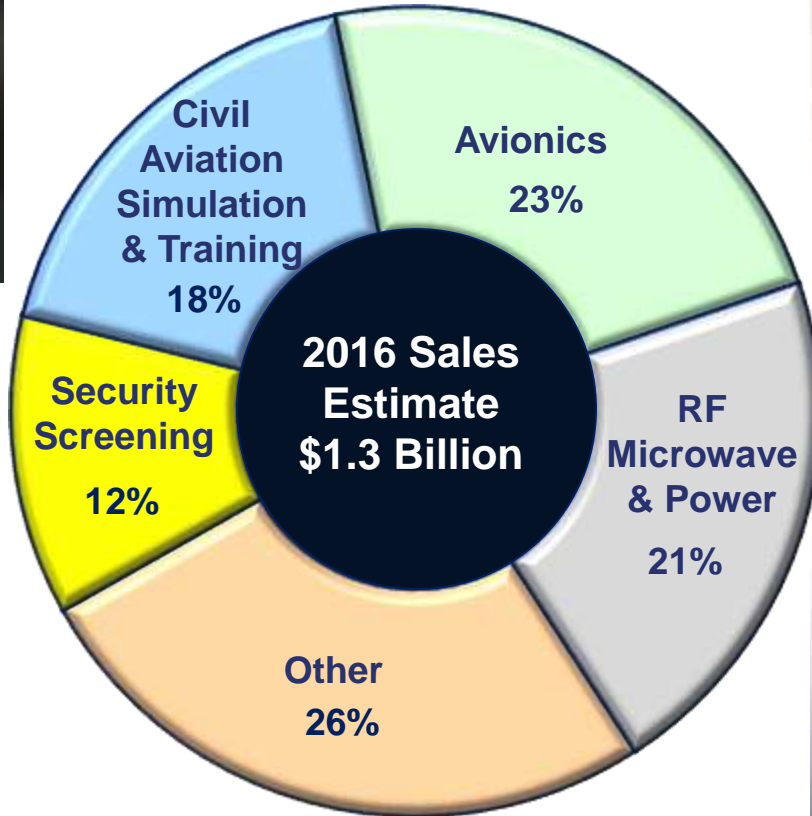


# International & Commercial

- **Markets affected by global economic and security conditions**
- **International - - large addressable market**
  - foreign governments and FMS
  - ISR systems, simulators, communication systems, night vision, sensors
  - near-term softness
- **Commercial - - favorable long-term fundamentals**
  - avionics, security screening, aviation training & simulation, RF microwave & power

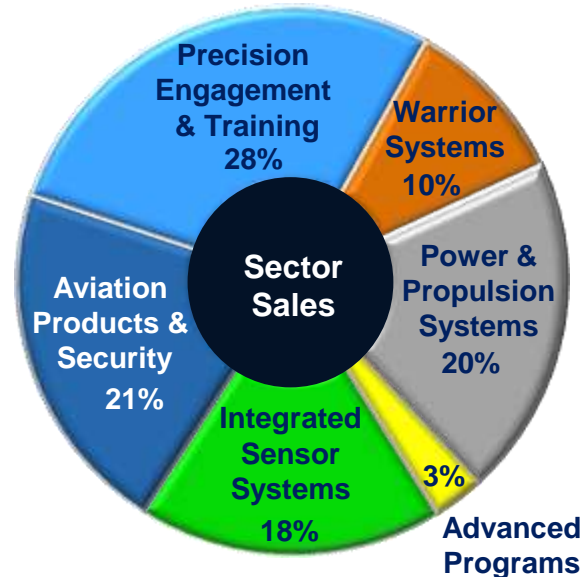


# Commercial Sales Mix

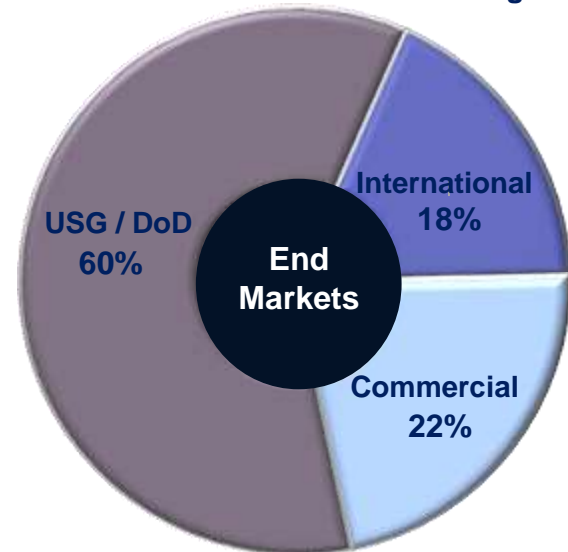


# Electronic Systems Segment

- Diverse, discriminating products
- Strengthening positions with R&D, acquisitions and divestitures
- Reducing costs... supply chain, combining back offices, IT and facilities



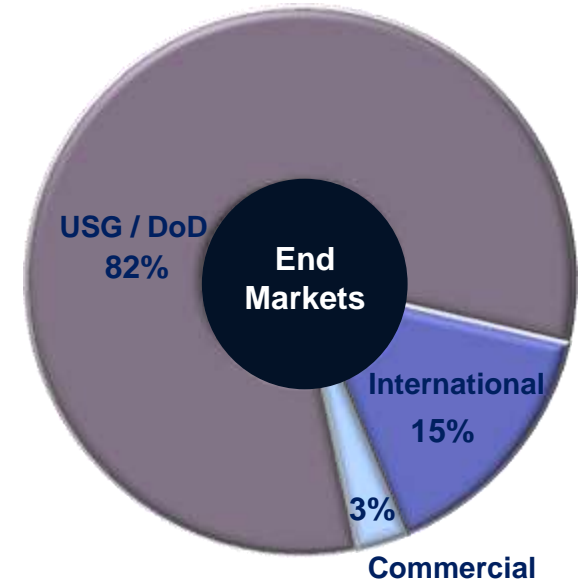
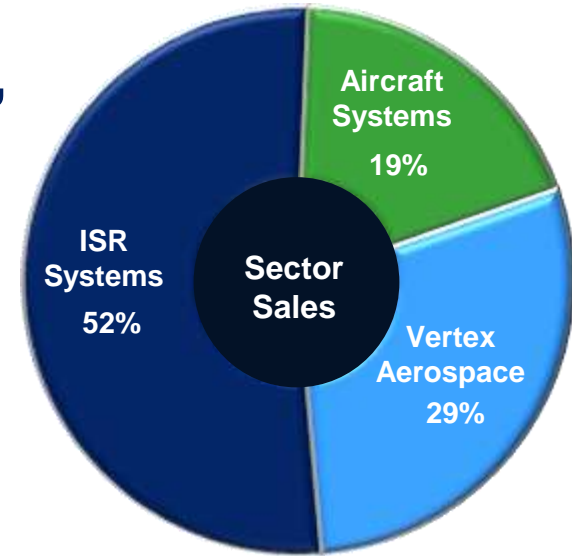
(\$ in Millions)	1H16 Actual	1H16 vs. 1H15	2016 Guidance*	2015 Actual
Net Sales	\$1,898	-8%	\$4,150	\$4,269
Organic Growth	0%	+330 bps	1%	-2%
Operating Margin	11.6%	+40 bps	12.1%	11.5%
Operating Income	\$220	-5%	\$502	\$489



\* Based on the Financial Guidance Midpoint (July 28, 2016).

# Aerospace Systems Segment

- Sales headwinds... Afghanistan drawdown, legacy programs, procurement cycles
- Investing in ISR recapitalization, MMA, aircraft depot maintenance and SLEP
- Margin beginning to improve



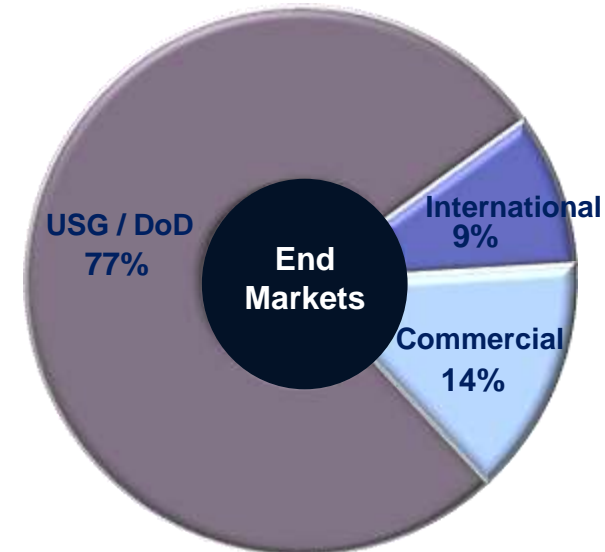
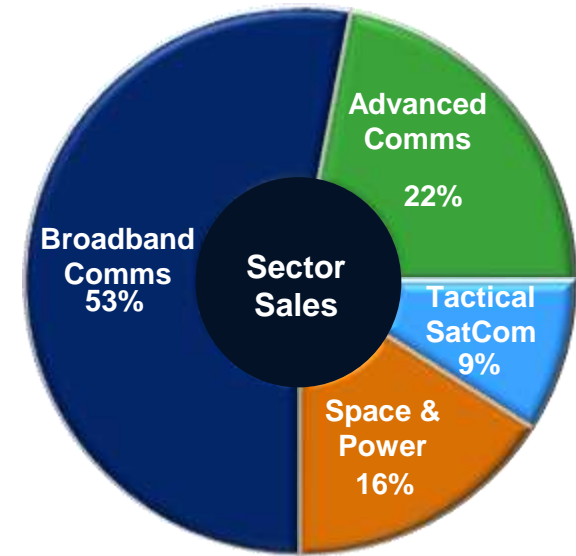
(\$ in Millions)	1H16 Actual	1H16 vs. 1H15	2016 Guidance*	2015 Actual
Net Sales	\$2,153	7%	\$4,100	\$4,156
Organic Growth	7%	+1180 bps	-1%	-4%
Operating Margin	8.2%	+610 bps	7.1%	4.9%
Operating Income	\$176	319%	\$291	\$205

\* Based on the Financial Guidance Midpoint (July 28, 2016).



# Communication Systems Segment

- **Solid, long-lived positions... investing in protected, secure communications**
- **DoD sales stabilizing... International & Commercial near-term pressures**
- **Manufacturing productivity and consolidation synergies improving margin**



(\$ in Millions)	1H16 Actual	1H16 vs. 1H15	2016 Guidance*	2015 Actual
Net Sales	\$966	2%	\$1,950	\$2,041
Organic Growth	1%	+1250 bps	-5%	-2%
Operating Margin	10.7%	+150 bps	10.4%	9.6%
Operating Income	\$103	18%	\$203	\$196

\* Based on the Financial Guidance Midpoint (July 28, 2016).

# 2016 Consolidated Financial Guidance

(\$ in Millions, except per share amounts)

	<u>2016 Guidance (July 28, 2016)</u>	<u>vs. 2015</u>
<b>Net Sales</b>	<b>\$10,150 to \$10,250</b>	<b>-3%</b>
<b>Organic Growth</b>	<b>-1.2%</b>	<b>+120 bps</b>
<b>Segment Operating Margin</b>	<b>9.8%</b>	<b>+130 bps</b>
<b>Segment Operating Income</b>	<b>\$1,000</b>	<b>12%</b>
<b>Diluted Shares</b>	<b>78.2</b>	<b>-5%</b>
<b>Diluted EPS</b>	<b>\$7.65 to \$7.85</b>	<b>12%</b>
<b>Free Cash Flow</b>	<b>\$825</b>	<b>-6%</b>

- Notes: (1) Diluted EPS growth is calculated based on a comparison to 2015 adjusted diluted EPS.  
 (2) The current guidance for 2016 excludes: (i) any potential non-cash goodwill impairment charges for which the information is presently unknown, (ii) potential adverse results related to litigation contingencies and (iii) other items such as gains or losses related to potential business divestitures and the impact of potential acquisitions.  
 (3) 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 (organic + acquisitions), margins and capital allocation



# Questions?

# Supplemental Data

# 2016 Consolidated Financial Guidance

(\$ in Millions, except per share amounts)

USG/DoD	+1%
International	-13%
Commercial	+3%

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

	2016 Guidance (July 28, 2016)	2015 Actual	Midpoint vs. 2015	Prior Guidance (April 27, 2016)
Net Sales	\$10,150 to \$10,250	\$10,466	-3%	\$9,950 to \$10,150
Organic Growth	-1.2%	-2.4%	+120 bps	-2.5%
Segment Operating Margin	9.8%	8.5%	+130 bps	9.8%
Segment Operating Income	\$1,000	\$890	12%	\$985
Interest Expense and Other	\$157	\$153	3%	\$162
Effective Tax Rate	26.4%	21.2%	+520 bps	26.7%
Minority Interest Expense	\$13	\$15	(\$2)	\$11
Diluted Shares	78.2	81.9	-5%	77.5
Diluted EPS	\$7.65 to \$7.85	\$6.91	12%	\$7.55 to \$7.75
Free Cash Flow	\$825	\$876	-6%	\$825

Notes: (1) Diluted EPS growth is calculated based on a comparison to 2015 adjusted diluted EPS.

(2) Interest Expense and Other is comprised of: (i) interest expense of \$168 million, (ii) interest and other income, net, and (iii) a debt retirement charge of \$5 million.

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

(4) The current guidance for 2016 excludes: (i) any potential non-cash goodwill impairment charges for which the information is presently unknown, (ii) potential adverse results related to litigation contingencies and (iii) other items such as gains or losses related to potential business divestitures and the impact of potential acquisitions.

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

# 2016 Segment Guidance

(\$ in Millions)

<u>Segment</u>	<u>Net Sales</u>	<u>Midpoint Sales vs. 2015</u>	<u>Segment Operating Margin</u>	<u>Midpoint Margin vs. 2015 (bps)</u>
Electronic Systems	\$4,100 to \$4,200	-3%	12.0% to 12.2%	+60
Aerospace Systems	\$4,050 to \$4,150	-1%	7.0% to 7.2%	+220
Comm Systems	\$1,900 to \$2,000	-4%	10.3% to 10.5%	+80
<b>Total Segments</b>	<b>\$10,150 to \$10,250</b>	<b>-3%</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 bps (\$10 million or 20 bps for Electronic Systems, \$18 million or 40 bps for Aerospace Systems and \$12 million or 60 bps for Communication Systems).

# Free Cash Flow

(\$ in Millions)

	1H16 Actual	2016 Estimate	2015 Actual
Net income from continuing operations	\$ 318	\$ 620	\$ 297
Impairment/divestiture charges	-	-	415
Depreciation & amortization	102	213	210
Deferred income taxes	29	65	(66)
401K common stock match	58	108	110
Stock-based employee compensation	19	45	46
Amortization of pension and OPEB net losses	25	50	67
Working capital/other items	(182)	(71)	(9)
Capital expenditures, net	(64)	(205)	(194)
<b>Free cash flow</b>	<b>\$ 305</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.



# Supplemental Cash Flow Data

(\$ in Millions)

	1H16 Actual	2016 Estimate	2015 Actual
Cash interest payments	\$ 83	\$ 162	\$ 182
Income tax payments, net <sup>(1)</sup>	47	125	122
FAS pension expense	48	96 <sup>(2)(3)</sup>	139
CAS pension cost <sup>(4)</sup>	54	104	108
Pension contributions	20	100	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 2015 year-end weighted average discount rate of 4.66% (vs. 4.14% for 2014 year-end) and a 2016 weighted average pension asset return of 7.92%.

(3) Pension Assumption Sensitivity: A 25 bps increase/decrease in the 12/31/15 discount rate would have decreased/increased 2016 pension expense by ~\$13 million and decreased/increased the 12/31/15 unfunded obligation by ~\$120 million. A 100 bps increase/decrease in the 2015 actual asset return would have decreased/increased 2016 pension expense by ~\$5 million and decreased/increased the 12/31/15 unfunded obligation by ~\$26 million.

(4) CAS pension cost represents estimated allowable and reimbursable pension cost under U.S. Government procurement regulations on L-3's U.S. Government contracts.

# Cash Sources and Uses

(\$ in Millions)

	1H16 Actual	2016 Estimate	2015 Actual
Beginning cash	\$ 207	\$ 207	\$ 442
Free cash flow from continuing operations	305	825	876
Discontinued operations	(56)	(56)	49
Divestitures	575	556	318
Acquisitions	(27)	(27)	(320)
Dividends	(112)	(218)	(214)
Share repurchases	(276)	(750)	(740)
Debt repayments	(298)	(298)	(296)
Other, net	34	71	92
Ending cash	<u>\$ 352</u>	<u>\$ 310</u>	<u>\$ 207</u>

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

# Capitalization and Leverage

(\$ in Millions)

	12/31/16 Estimate	6/24/16 Actual	12/31/15 Actual	12/31/14 Actual
Cash	\$310	\$352	\$207	\$442
Debt	\$3,328	\$3,329	\$3,624	\$3,912
Equity	4,465	4,559	4,429	5,360
Invested Capital	\$7,793	\$7,888	\$8,053	\$9,272
Debt/Invested Capital	42.7%	42.2%	45.0%	42.2%
Debt/EBITDA	2.74x	2.69x	3.29x	3.19x
Available Revolver	\$800	\$1,000	\$1,000	\$1,000

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

(2) Debt/EBITDA excludes discontinued operations.

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

# Acronym List

<b>Acronym</b>	<b>Definition</b>	<b>Acronym</b>	<b>Definition</b>
<b>BBP</b>	<b>Better Buying Power</b>	<b>IT</b>	<b>Information Technology</b>
<b>bps</b>	<b>basis points</b>	<b>LSD</b>	<b>Low Single Digits</b>
<b>CAS</b>	<b>Cost Accounting Standard</b>	<b>MMA</b>	<b>Multi-Mission Aircraft</b>
<b>DoD</b>	<b>Department of Defense</b>	<b>NVI<sup>2</sup></b>	<b>Night Vision Image Intensification</b>
<b>EBITDA</b>	<b>Earnings Before Interest, Taxes, Depreciation and Amortization</b>	<b>O&amp;M</b>	<b>Operations and Maintenance</b>
<b>EPS</b>	<b>Earnings Per Share</b>	<b>OCO</b>	<b>Overseas Contingency Operations</b>
<b>FAS</b>	<b>Financial Accounting Standard</b>	<b>OPEB</b>	<b>Other Post Employment Benefits</b>
<b>FMS</b>	<b>Foreign Military Sales</b>	<b>R&amp;D</b>	<b>Research &amp; Development</b>
<b>FY</b>	<b>Fiscal Year</b>	<b>RF</b>	<b>Radio Frequency</b>
<b>GAAP</b>	<b>Accounting Principles Generally Accepted in the United States</b>	<b>S&amp;DS</b>	<b>Security &amp; Detection Systems</b>
<b>IG</b>	<b>Investment Grade</b>	<b>SLEP</b>	<b>Service Life Extension Program</b>
<b>ISR</b>	<b>Intelligence, Surveillance and Reconnaissance</b>	<b>SOF</b>	<b>Special Operations Forces</b>
		<b>USG</b>	<b>U.S. Government</b>

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

(\$ in Millions)

	1H16 <u>Actual</u>	2016 <u>Guidance</u>	2015 <u>Actual</u>
Net cash from operating activities from continuing operations	\$ 369	\$ 1,030	\$ 1,068
Less: Capital expenditures	(75)	(216)	(197)
Add: Dispositions of property, plant and equipment	11	11	3
Income tax payments attributable to discontinued operations	-	-	2
Free cash flow	<u>\$ 305</u>	<u>\$ 825</u>	<u>\$ 876</u>

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

(\$ in Millions except per share amounts)

	2015 Actual
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 charges <sup>(B)</sup>	3.22
Adjusted diluted EPS from continuing operations <sup>(C)</sup>	<u>\$ 6.91</u>
Net income from continuing operations attributable to L-3	\$ 282
Loss on business divestitures <sup>(A)</sup>	20
Goodwill impairment charges <sup>(B)</sup>	264
Adjusted net income from continuing operations attributable to L-3 <sup>(C)</sup>	<u>\$ 566</u>
<u><sup>(A)</sup> Loss on business divestitures</u>	<u>\$ (31)</u>
Tax benefit	11
After-tax impact	(20)
Diluted weighted average common shares outstanding	81.9
Per share impact <sup>(D)</sup>	<u>\$ (0.25)</u>
<u><sup>(B)</sup> Goodwill impairment charges</u>	<u>\$ (384)</u>
Tax benefit	120
After-tax impact	(264)
Diluted weighted average common shares outstanding	81.9
Per share impact	<u>\$ (3.22)</u>

<sup>(C)</sup> 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. Adjusted net income attributable to L-3 is net income attributable to L-3, excluding the charges or credits relating to business divestitures and non-cash goodwill impairment charges. These amounts are not calculated in accordance with 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 for 2015 to the results of operations and financial guidance for 2016. The company also believes that disclosing net income and diluted EPS excluding the charges or credits relating to business divestitures and non-cash goodwill impairment charges will allow investors to more easily compare the 2016 results and financial guidance to the 2015 results. However, these measures may not be defined or calculated by other companies in the same manner.

<sup>(D)</sup> Amounts do not calculate directly due to rounding.

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

(\$ in Millions)

Cash Flow to EBITDA Reconciliation	4Q16 LTM	2Q16 LTM	4Q15 LTM	4Q14 LTM
Net cash from operating activities from continuing operations	\$ 1,030	\$ 1,128	\$ 1,068	\$ 1,088
Income tax payments, net of refunds	125	110	124	120
Interest payments, net of interest income	146	148	145	138
Stock based employee compensation	(153)	(153)	(156)	(169)
Amortization of pension and post retirement benefit plans net loss	(50)	(59)	(67)	(15)
Other non-cash items	(7)	(12)	3	-
Changes in operating assets and liabilities	122	75	(17)	64
LTM EBITDA from continuing operations	\$ 1,213	\$ 1,237	\$ 1,100	\$ 1,226
DEBT	\$ 3,328	\$ 3,329	\$ 3,624	\$ 3,912
DEBT/EBITDA	2.74x	2.69x	3.29x	3.19x

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 GAAP. 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 from continuing operations to EBITDA from continuing operations.

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

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**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.



