Okay, if I can have your attention please. We are going to move on with our next Company. We are delighted to have with us -- I was about to say L-3 Communications, but it is L3 Technologies. We have got with us Mike Strianese, Chairman and CEO; Chris Kubasik, COO; Ralph, CFO. Mike is going to start with a couple of slides and some comments. Mike.

Mike Strianese - L3 Technologies, Inc. - Chairman & CEO

Thanks, Cai, and I note that it is your 38th annual Aerospace/Defense & Industrials Conference. And I am sure that you have chaired every one of them. So congratulations on 38 great years. So, good morning, everyone. Just a handful of slides. This is the standard forward-looking statements disclaimer, which I am sure you are all familiar with.

But at a glance just to refresh your memory, L3 Technologies now is a leading aerospace and defense contractor. We are non-platform, non-platform prime as well as being a supplier. So we can straddle both those positions.

We have transitioned our strategy from that of portfolio shaping, meaning it is not -- I don't think it is ever over, it is an ongoing exercise that every Company should probably do. But what we are referring to is disciplined growth. And you have seen us complete a number of acquisitions last year. Valuations had been attractive and that were certainly areas that helped build out some of our businesses.

Some of our attribute that differentiate L3 is that we have a very broad, diverse portfolio and positions in the US defense market supporting our organic growth. We have very high earnings to cash flow conversion, one of the most efficient capital structures in investment grade credit, and a highly experienced management team.

The objectives are of course to satisfy our customers through technology, price, performance thereby growing the top line, expanding margins and maintaining our disciplined capital allocation strategy.

Some highlights of 2016: organic growth was about 2%, 5% coming from the US government DoD side which ran a bit ahead of the budget growth which is at around 4% so -- which would indicate a little bit of expansion in market share in certain areas. Our orders increased 11%, margin by 110 bps and operating income by 13%, earnings per share up 19% versus 2015. Won several strategic new business awards and re-competes, stabilized our investment grade credit ratings, renewed our revolver and refinanced and reduced debt.

We completed divestitures, notably NSS, our National Security Solutions business, the last of our services, if you will on February 1, 2016. In addition, we acquired a number of companies, ATM, Micreo, Aerosim, MacDonald Humfrey and Implant Sciences, which was in January of 2017.

In terms of the US government markets, driven of course by geopolitical conditions. Those conditions support growth in military spending. We are all expecting higher spending under the new administration. The up cycle began in 2016 where we saw some uptick in the budget. Classified budgets are expanding and growing. There is increasing attention and focus on readiness. The 2017 OCO supplemental in the spring is expected to be significant and we anticipate more sequester trimming as well as OCO relief.
The capabilities at L3 that would be favored in this environment are secure Communication Systems, ISR sensors, night vision, our naval systems, readiness support and support to the special operating forces community. The chart there shows we are about 68% DoD, 3% other government, so almost 70% US government and about 30% commercial and international which splits about 50-50 between international and commercial. That is based on our 2017 estimate.

International and commercial markets, they are impacted heavily by global economic and security conditions. Although I think we have seen a bit of a new impact and I think the articulation by the new administration of this expectation that our partners around the world pony up a little bit and support their own security has resulted in a couple of early awards this year. They were announced, you have seen them, but that seems to be becoming another factor.

The international market is very large, the addressable portion for us is pretty broad, both foreign government, direct commercial sales and the FMS program. The areas that are favored for us that we see are the ISR systems simulators, Communication Systems, night vision and sensors. Near-term that market has been a little bit softer than usual. We think the impact is probably being driven by lower oil prices and countries being a little bit more fiscally conservative on spending.

On the commercial side we see favorable long-term fundamentals for our businesses. And those areas would be the avionics systems security screening, simulation and training, RF microwave and power. In particular the airports, the security and screening in both Middle East and Asia has been growing rapidly as have commercial airline sales and our businesses tend to follow the trend.

We have invested and grown our commercial pilot training business so we can provide what I would call power by the hour. Airlines that want to send their pilots in for training are happy to do it and pay by the hour at a facility that provides a simulator and a courseware system and everything rather than the airline owning a similar and providing their own trainers.

And it is a good model for us, it does require a little bit of capital to put the facility up. We have done it right outside of Gatwick Airport. I am happy to say it is going very well; those simulators are booked virtually 24 seven. And the primary customers there are of course British Airways, Virgin Atlantic and other airlines. But it looks like it is going to be a great model. The shortage, I think the publicized number is something like 50,000 or so pilots over the next decade need to be trained. So it looks like it is going to work out well.

Growth areas and opportunities, a bunch of pictures, but just going around clockwise it is ISR; full-motion video, that is on an unmanned system; you have avionics; or the transitions to commercial jets on some ISR Systems.

On the top right is our Reality 7 simulator, which is a fully reconfigurable, high definition, full flight simulator system that a customer can reconfigure to just about any Boeing or Airbus platform they choose. You buy the basic platform and the motion table. But there is modules that you can install that will let you reconfigure it to whatever you need it to be.

On the lower left there is one of our security screening devices. We have a full spectrum of solutions for airports, everything from automated EDS, explosive detection systems, that deal with the check bag solution, to a new system that can be used at the checkpoint that uses similar technology for scanning your carry on.

So instead of having to remove liquids or opening up your computer to turn it on, it solves that problem that you really don't have to do that anymore. Unfortunately we have yet to see them heavily deployed at airports. But I think they will catch on shortly because the backups at some of these terminals have been incredible.

In the middle on the bottom row, the connectivity, having platforms being able to communicate with each other as well as our allies is incredibly important going forward. So this interoperability we play nicely into with our data links and our terminals, waveforms, and the old Internet in the Sky model, this was in the pullout from our IPO when we went public about 20 years ago. But still is one of the incredible growth areas for L3 and it is a place where we play very heavily.

And finally, our soldier systems, Warrior Systems if you will, everything from night vision to laser range finders to aiming devices and scopes and having them all networked together and everything has been an area of great interest to our customers.

So in terms of capital deployment for 2016, that kind of lists what went on. R&D is about 2.5% of sales; it was increased last year. We got a very clear message from the customer community that they needed more R&D out of industry. And given the economics going on with the budget it was hard to make those investments without a clear path forward. And I think that is lifting and more and more R&D will be able to be invested.

CapEx, that is about $195 million. We repaid $303 million of debt which will not recur this year, so we will have more capital to deploy. Dividends were $2.20, it is the 12th annual increase. It has increased every year since we instituted a dividend, $373 million in share repurchases and about $0.5 billion in acquisitions.
When there weren't acquisitions we were more heavily weighted on the share repurchases. But we do have that flexibility to swing between those two areas based on where we see the best potential for shareholder value.

So the guidance, which Ralph will be addressing, is on this chart. It is modest growth, but I know there will be a lot of questions about the impact of budget growth that may arise from the new administration and new budget. So this is before the impact of anything.

We haven't tried to take a guess at the amount or the timing of any of those increases, so there is that upside out there. I expect to see again a supplemental, an OCO or something happen this spring and then the full budget being presented.

So there is an part of moving parts here whether it is tax reform, infrastructure, healthcare and the like. And based on a few visits to the Hill, they are trying to just get their arms around all the mouths they need to feed and figure out how they are going to pay for it. So it is a bit of an exercise and I am sure we'll get there.

So in summary the up cycle really began last year in 2016 and we know that will continue and the amount and timing is kind of the question mark. We continue to offer affordable solutions and technologies that are aligned with customer priorities. We are platform agnostic. We can get our equipment on new platforms, we can get them on existing platforms for upgrading. So it works either way, whether it is recapitalization or modernizing L3 products and systems work.

We are very focused on satisfying customers, we meet with them regularly and try to identify solutions to their problems. And that results in growing sales margins and earnings. We continue to generate robust cash flow and we will continue to deploy the cash flow for disciplined growth. So whether it is repurchases or M&A, we increase the dividend every year of course, we will certainly maintain what we have been doing.

So, Cai, with that I am happy to take any questions and I think Ralph and Chris will join us.

**QUESTION AND ANSWER**

**Cai von Rumohr - Cowen and Company - Analyst**

So we are clearly in sort of a new environment, much more focus on new business potential. What are the key new business opportunities you guys have for 2017? New programs I meant basically.

**Mike Strianese - L3 Technologies, Inc. - Chairman & CEO**

There are some re-competes out there that we have to get behind us. There is the TX program that has become a problem in that it is in a state of flux with some of the teams. But we are engaged with other teammates and evaluating our alternatives for that program.

We see some migration of the larger ISR systems to business jets, that is right in our sweet spot of missionizing aircraft. And I could honestly sit here and say nobody does it better. We have been able to complete programs adding sensors and comms that really some of the biggest primes could get done.

And it is a great model, Cai, I am still very, very committed to it. We provide the best sensors in the world in terms of full-motion video. We have the most robust comm systems in terms of robust, wideband, secure, covert -- whatever is needed we can provide.

**Cai von Rumohr - Cowen and Company - Analyst**

So specifically you are on the Northrop team on JSTARS. They basically did the radar on the predecessor, they did the integration on the predecessor, it kind of looks like they might be the favorite. How big is your opportunity there?

**Mike Strianese - L3 Technologies, Inc. - Chairman & CEO**

Ralph, that is the sizing, do you want to --?
Ralph D’Ambrosio - L3 Technologies, Inc. - SVP & CFO

We think -- we expect that we would have somewhere between 10% and 15% of the program.

Chris Kubasik - L3 Technologies, Inc. - President & COO

That's with both -- we have the communications suite in addition to the aircraft mod. Ralph and I just reviewed that bid; I think we turn it in in about three weeks. And again there is a good example where we listen to our customer and try to figure out which team to get on. And they have a desire that I think it is pretty well understood to transition to business jets based on the altitude, the endurance and other things.

And that is -- as Mike mentioned, we are platform agnostic. We try to align with the OEM that best serves the customer. That is why we are on the Northrup team and -- as Ralph said, it will be 10% to 15%. We are still talking and moving subs around here and there to kind of make it more competitive. But I think that is a good range for now.

Cai von Rumohr - Cowen and Company - Analyst

So on your Q4 call you made the interesting comment, I think Mike, that Fort Rucker contract was, quote/unquote, an inappropriate contract type because you have got to update older aircraft that come in, you don't know what you are going to find. How do you deal with that -- how did you deal with that in your bid?

Mike Strianese - L3 Technologies, Inc. - Chairman & CEO

Well, [bids are summed] and submitted, but you do have the opportunity to respond with questions. And we have a number of questions outstanding that will hopefully clarify some of the questions that we have. But we don't want to be in a position, I mean we know this all too well from the past where we are underwriting the condition of the aircraft that we hadn't even looked at from a fixed price.

There is different wear and tear that comes from a training aircraft versus something we take out of combat. And you just can't give a flat price to bring each one up to spec. I'd like to have some pre-inspection or the like. You can't really come up with a price unless you price everything assuming everything is in the worst condition. We don't want to get into a business model there where it is a painful thing to live through.

So I think there needs to be some provision for above and beyond -- over and above work as they say, or something that accounts for the fact that each aircraft that comes in is not identical in terms of what its needs are. And we want to provide the best, safest product for the war fighter. These are trainers and they need to perform.

Cai von Rumohr - Cowen and Company - Analyst

Got it.

Chris Kubasik - L3 Technologies, Inc. - President & COO

I will just chime in. The DoD acquisition process is well understood and we understand it as well as everyone. It is a long process, there is iterations, you get draft RFPs, you provide comment and I think what we were really seeing was the element of surprise.

You kind of have a certain contract type, you have the feedback, you have the dialogue everybody is getting along great and then this proposal the RFP shows up and looks nothing like what you would expect. And in this case it was converting it to fixed price.

So that was the element of surprise which we didn't anticipate, nor did our competitors I assume. So we are just evaluating that. And the advantage of being the incumbent, as you clearly know, what it is going to cost, what it is going to (multiple speakers).
Right, right.

**Chris Kubasik - L3 Technologies, Inc. - President & COO**

And we will submit a compliant bid and see what happens.

**Cai von Rumohr - Cowen and Company - Analyst**

So you have also two C-12 re-competes up for bid. Are those much more straightforward?

**Ralph D’Ambrosio - L3 Technologies, Inc. - SVP & CFO**

Yes.

**Mike Strianese - L3 Technologies, Inc. - Chairman & CEO**

Yes, certainly more straightforward than the Fort Rucker.

**Cai von Rumohr - Cowen and Company - Analyst**

Got it. And then you have got SOF-GLSS, this $8 billion bid. I mean you used to have it, Lockheed has had it. They are re-competing it a little earlier than expected. There are a couple public service companies who may be coming in may have lower wrap rates. What are your advantages? Why should the customer pick you or how should we think about all of this?

**Mike Strianese - L3 Technologies, Inc. - Chairman & CEO**

Well, since I was there I would say we have done it before, it was a high level of customer satisfaction. There were a couple of bumps that happened at the end. But it did not take away from the fact that we really executed on that program very well over the 5 or 10 years that we were the incumbent.

So we know the mission. We do have the expertise on the rotary wing component of that. In fact, we had done work even under the current contractor, the subcontractor on some of the rotary wing work putting special mission equipment on, etc. And hopefully our knowledge and expertise in that area does give us a bit of an edge.

I know some of these public service companies come in and throw in low bids. But I also think that customers have experience with those types of bids. And when they do a Risk Assessment on the ability to perform I think that it is going to become apparent that without that experience you know it is a risk.

**Cai von Rumohr - Cowen and Company - Analyst**

Right. So when you look at your bid, so you have experience certainly in a lot of that. Do you have any other partners who kind of give you some strength here?

**Mike Strianese - L3 Technologies, Inc. - Chairman & CEO**

Yes. We do have a partner that gives a lot of strength there.

**Cai von Rumohr - Cowen and Company - Analyst**

Okay.
Ralph D'Ambrósio - L3 Technologies, Inc. - SVP & CFO

We are not going to disclose our partner.

Cai von Rumohr - Cowen and Company - Analyst

Okay.

Mike Strianese - L3 Technologies, Inc. - Chairman & CEO

I think the team is public and I -- but you know, it is one of the large ones.

Cai von Rumohr - Cowen and Company - Analyst

Got it. Okay.

Chris Kubasik - L3 Technologies, Inc. - President & COO

If I could just chime in, what Mike and Ralph and I talked about earlier in the year was trying to move up the food chain and focus on growing organically and inorganically. And early on in the process we were probably on four teams, 10% of this guy, 20% of that guy, 40% and we had a couple of days together and then concluded.

When we looked at our capabilities, our experience, why not go for the full $8 billion to prime seemed to be the feedback that -- as an alternative for our customers to have someone of our size prime this thing in addition to the guys you referenced to. So we are excited about it, we have a great team. I'm sure it will become public when we win, if we win, and you will see what we got.

Cai von Rumohr - Cowen and Company - Analyst

Okay, great. So these bids I guess are due to be decided, what is it, I think Soft Glass is August, the others are a little bit later. So what kind of impact could they have this year? What is in the plan and what kind of impact are we thinking about for 2018? How should we think about that?

Ralph D'Ambrósio - L3 Technologies, Inc. - SVP & CFO

So as you just said, we expect that most of the award decisions will happen sometime in the second half of this year with a new contract starting on or about January 1 of next year. So we don't see any meaningful impact to our 2017 results in terms of sales and profits. But there is a possibility some of the awards could happen sooner than we expect.

So, depending on how it goes we could have some upside there. I think on the fourth-quarter earnings call I explained that we had some conservatism in Aerospace Systems for a couple of those re-competes. So, I think we have calibrated it such that we would have upside if any of the awards happen sooner in terms of the new start dates.

Cai von Rumohr - Cowen and Company - Analyst

Got it. So are you seeing, I mean we have a new administration that is just kind of getting settled in or starting to get settled in. Are you seeing any kind of signs that things will move more quickly, less quickly, any changes in terms of the environment?
Mike Strianese - L3 Technologies, Inc. - Chairman & CEO

As I mentioned, those international orders that came in right at the beginning of the year -- the timing was a surprise. And I forget the quantity that -- it was publicized so it was the Air Tractor -- was it 15.

Cai von Rumohr - Cowen and Company - Analyst

Right, but that is all Obama, right? That wasn't really Trump or yes, no?

Mike Strianese - L3 Technologies, Inc. - Chairman & CEO

Those orders were released I think under the new administration.

Cai von Rumohr - Cowen and Company - Analyst

Okay, okay. So that brings me to my next point. So international organic was down -- expected to be down this year, it was down last year. What could allow that to turn around? And maybe in particular walk us through what -- you have the $200 million plus Australian night vision and the Air Tractor. How big could those be, when would they start?

Ralph D'Ambrosio - L3 Technologies, Inc. - SVP & CFO

Those sales were down about 10% in 2016. This year our guidance calls for about a 3% reduction in sales. So we definitely have the ability in 2017, if we capitalize on some of our upside pursuits, to probably have some modest growth internationally.

And over the next year or two there is going to be some significant opportunities that we are already pursuing, especially in Aerospace Systems, particularly on the ISR recap next gen side that should allow us to return the entire international portfolio to growth. So next couple years are important in terms of orders and new business capture.

Chris Kubasik - L3 Technologies, Inc. - President & COO

Yes, and that business, obviously a lot of it is longer term in relationship. So what we decided to do in two countries, in the UK and Australia, we have a pretty good infrastructure. But we are going to rebrand L3 UK, L3 Australia. We are going to have advisory boards because we have so many disparate entities with different names. I think we are going to be elevating ourselves relative to -- in our customer's eyes.

And then we just brought in some heavy hitters both in Canada and in the Mid-East to stand up our offices there. These gentlemen have been in those countries for decades. So we are making the investments in both the infrastructure and the people and then we have some things in the Far East that we are also going to do.

And then between Mike and I, we will be traveling as appropriate to go out and meet the customers and continue those relationships that we both have and turn it up a notch. So whether it hits this year or next year we think we have some affordable solutions, some creative ideas. ISR is kind of a big sweet spot of ours and that is something that these countries are worried and concerned about.

Cai von Rumohr - Cowen and Company - Analyst

Any specifics? I mean the Kenya thing is kind of -- that is understandable. But beyond that, kind of when you say ISR, any kind of geographies or particular issues that is driving that?

Mike Strianese - L3 Technologies, Inc. - Chairman & CEO
Well, just look at the geopolitical problems whether it is in the South China Sea or areas in the Middle East, there is certainly an appetite for maritime patrol. ISR to cover border issues and the like. And let me emphasize, those solutions that we offer are affordable solutions. These are solutions that operate, I can give some really wide estimates that could provide 80% of a mission and 20% of the price of the [launcher] platforms being offered elsewhere.

I mean you could see that with this Kenya order. I mean that Air Tractor, if you have seen that, that is a small, rack type plane. But it does the mission, it does it well and it is very affordable. And it makes that capability well within the budgets of some of these smaller countries.

Cai von Rumohr  - Cowen and Company - Analyst

And have you gotten that order yet or where is that?

Chris Kubasik  - L3 Technologies, Inc. - President & COO

It is in the approval process.

Cai von Rumohr  - Cowen and Company - Analyst

Okay, okay. I been so OCO revenues, what were -- they were about $400 million last year. Is that an (inaudible) number and where do you see them going, what is driving that?

Ralph D'Ambrosio  - L3 Technologies, Inc. - SVP & CFO

So they were $370 million in 2016 and we had been saying for a while that we expected those sales would bottom in 2016 somewhere between $350 million and $400 million, which they did. Prospectively we see that as the bottom where we are right now. A lot of what we do now in those sales is supporting special forces. So, like I said, we see that as a bottom. And depending on what happens we could have some increases there this year and in the future depending on what is done overseas in terms of contingency operations.

Cai von Rumohr  - Cowen and Company - Analyst

You talked about commercial organic I think up 4%. What is driving that?

Ralph D'Ambrosio  - L3 Technologies, Inc. - SVP & CFO

Most of the drivers are in our commercial aerospace niches. And if you recall, we have three broad niches there: one, avionics; two, pilot and aircrew training and simulation; and thirdly, airport security. So we see growth in all three of those niches next year. Those are the main drivers.

We also see some growth in our -- we supply our EO/IR, our sensors, our turrets into a variety of nongovernment markets. And we also have some growth there. So that is what is driving the growth in commercial for 2017.

Chris Kubasik  - L3 Technologies, Inc. - President & COO

I'll just add, I think it is important to note, and Mike showed it on the charts. A fair amount of our business is outside the DoD. And specifically there is two things that we have looked longer-term at these macro trends. And Ralph mentioned the airport security and detection. But our premise is there will be more people traveling, more airports, more security threats, we all go through. We changed our name and we were going to have a logo with someone raising hands over their head. But we opted not to do that.
But this acquisition, we made two acquisitions and we are taking a whole systems approach. So instead of the customers just buying a passenger scanner and a baggage scanner, this company, Mac H, is really a systems engineering company. If you go to Heathrow, I think it's Terminal 3, you kind of feel like you are going to Disney World, next thing you know you are at your gate.

So we are taking that approach. We are going to get the data network, we are not going to have individual people standing by a conveyor belt. I mean the vision on this thing is huge. And you look at the numbers (technical difficulty)

**Mike Strianese - L3 Technologies, Inc. - Chairman & CEO**

(technical difficulty) look across the field of companies I think we do pretty well both in terms of sales and margin on our equipment. And the market is not just every airport or terminal, it is every lane and every terminal and every airport. And our network systems should give the operators, in our case the FAA, the ability to see much more granular data coming out of the lanes, these backups.

It will allow them to say, hey, line three in the Delta terminal in LaGuardia is only passing 10 people an hour or something. What is wrong? Is it the equipment, is it not calibrated, the operators are trained right? It will give them the metrics, the enterprise metrics both to respond and kind of solve a lot of the problems.

**Cai von Rumohr - Cowen and Company - Analyst**

No I didn't mean just in terms of kind of adding yet another baggage check that might be similar, but do you see opportunities for other products or systems that are synergistic to what you have --?

**Mike Strianese - L3 Technologies, Inc. - Chairman & CEO**

Yes.

**Cai von Rumohr - Cowen and Company - Analyst**

But so that we could see more acquisitions in this space?

**Mike Strianese - L3 Technologies, Inc. - Chairman & CEO**

It is an area that we continue to look at and where there is additional technology that we can integrate into our suite that is always of interest.

**Chris Kubasik - L3 Technologies, Inc. - President & COO**

Yes, I think it is going to be the data piece. And I think this year the focus will be on integrating. I think I said in last month this would approach $0.5 billion of revenue by the time we get these two acquisitions. So my focus is making sure that we have the integration which is underway between our existing business, Mac H, Implant.

And Implant is the one that does the trace detection, right, where they -- I guess 2% of the people get their palms swabbed with a -- whatever that thing is. And I assume the margins on the replacement cotton swab is going to be something that will be quite profitable.

**Cai von Rumohr - Cowen and Company - Analyst**

Right (laughter).
That was the main missing piece we had.

**Cai von Rumohr - Cowen and Company - Analyst**

So your M&A pace picked up last year. Give us some color as you look at this year. What does the pipeline look at, where are you seeing more deals, what kind of average deal size, what are you sort of trying to do from 20,000 feet?

**Mike Strianese - L3 Technologies, Inc. - Chairman & CEO**

There is not a lot of books out yet this year (multiple speakers) has kind of closed up 2016. But our sweet spot has always been the $100 million to $200 million bolt-on type acquisition where we can build out one of our existing business areas. And we have had a lot of success, if you take the night vision or Warrior System, that was grown from zero to market leader. And same thing with the EO/IR systems and the like.

So getting to a critical mass, $0.5 billion to $1 billion in these areas where you can afford R&D and a good marketing program to be shared by a number of companies rather than one division that is in that spot seems to be a model that has worked very well for us in the past. And the airport security, we were just being opportunistic given where multiples were at the time. There is a metric when you add them all up, I think we paid an average of 9 times earnings where we traded 12. Did I get that right?

**Chris Kubasik - L3 Technologies, Inc. - President & COO**

Yes.

**Mike Strianese - L3 Technologies, Inc. - Chairman & CEO**

It was obviously accretive and we haven't been one to go out and do something huge and transformatiive. One was they haven't really presented themselves. And two, we have been very mindful of bet the farm type of acquisitions where I think we'd [reroute that] much more than passing on something.

So we are very experienced team on M&A. We have made it work for a long time for us. And I think it has been that model where it is businesses we know, they're things that fill well within what we have, it expands our capability, customers, technology, etc., and I would look for more of the same.

**Cai von Rumohr - Cowen and Company - Analyst**

Got it.

**Chris Kubasik - L3 Technologies, Inc. - President & COO**

And what is interesting I think after the year we had, the guys selling these companies want certainty of close. So last Friday we -- the CEO of a company and his owners came and they wanted to meet with us because they wanted to have a deal that goes quickly, make sure we have the chemistry and you ultimately talk them out of hiring a banker and running a process because we can be done in April. And let's start the process and get it done.

Or you can run a process, lose control, you might end up working for someone you don't want to. And so you get an extra 3% or 4%, at the end of the day it is not worth it. So we have proven we can close the deals, we have proven we have the balance sheet, the Board supports us. And if you have got a couple hundred million dollar company, it is easier to call us, sit down and talk about it versus dragging it out for nine months, losing control and maybe not even getting the deal done.

**Cai von Rumohr - Cowen and Company - Analyst**

Right.
Chris Kubasik

So I think that is an advantage that we have. So we get a lot of first looks.

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**Cai von Rumohr - Cowen and Company - Analyst**

So you have done a good job I think focusing on improving your margins organically. I mean an example, the [TWT] consolidation you got coming up. If we look at your business what sort of margin target should we have for each of your areas? Where do you think those margins can go?

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**Ralph D’Ambrosio - L3 Technologies, Inc. - SVP & CFO**

I will take this one. We actually have a supplemental data chart that has our 2017 segment guidance. I am going to try to -- I want to look at the chart when I talk about it because it will be easier to follow me.

So here's our segment guidance for this year by segment and this is with our new segments that will become effective on March 1 where we are taking Electronic Systems and segregating it into Sensor Systems and the new Electronic Systems. So in terms of target margins for both of those segments we have been saying for a while that the target range is 13% to 14% and that is still what it is for both of those segments.

For Aerospace Systems we said 7% to 9%, so I will say that again. And then lastly, Communication Systems, 10% to 11%. And we are in that range already. If you've noticed, we have been making good progress on expanding our margins. As Mike said, we improved them by 110 basis points in 2016. Our guidance this year calls for another 70 basis points of improvement.

And we are not finished here. We still have room to do better. And the last time we talked about this I commented that at the peak of the last DOD budget cycle, which was 2010, 2011 timeframe our consolidated margins were about 11.3%. So I think we are on a path to get back to that level at a minimum over the next several years and to hopefully exceed it. And we are doing it.

So that's -- and once we attain those market ranges -- target margin ranges that I talked about, we will talk about what else we can do. So we want to get there first and then talk about opportunity that exists after that.

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**Chris Kubasik - L3 Technologies, Inc. - President & COO**

Yes, and last year we talked about, notwithstanding, the margin, just trying to grow the segment operating income. And this year, 2016, we had an internal stretch goal getting over $1 billion, which we did. The guidance when you go through all that math will get you to $1.1 billion. We haven't given the 2018 guidance, but I would assume it would be more like the $1.2 billion range, right.

So we are trying to grow that operating income which generates the cash. Margins is one way to do it. Acquisitions is the other way to do it. And winning new business organically is the third. And we are going on all three fronts.

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**Cai von Rumohr - Cowen and Company - Analyst**

Got it. So we only have time really for one more. But, Mike, as you look at this year, what are the things that you really have to get done or really want to get done? You have got some re-competes, but maybe there are some other issues. What are the couple things that (multiple speakers)?

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**Mike Strianese - L3 Technologies, Inc. - Chairman & CEO**

The re-competes are very important, obviously, to protecting the base. And the teams that are on the recapitalization on some of these ISR platforms, whether it is JSTARS, I guess someday AWACS and River Joint will follow. River Joint is very important to us as we have been prime on that program for the last decade or so, as we want to make sure we are at least acknowledged to be the leader in integrating ISR Systems on platforms.
So platform agnostic, so we want to go from the old model of the 707, the old tanker platform to a biz jet model. We can do that. We are already doing it in other places in the world. Japanese Coast Guard, for example, has ordered some maritime surveillance type aircraft on a commercial biz jet model and we are executing there. Same thing in South Korea.

And that international market, I think one of the things that is changing, again, is the expectation coming from the United States that those countries where we are underwriting security take a more active role. And I think that has the potential to increase some sales to those countries. And especially if they're ISR platform minded.

I mean we always have the comms, we have the night vision that does well. The platform is the bigger item, much more complicated. But we are in a spot where we are making them affordable, we have the reconfigurable option where you could take a single King Air type of an airplane which sells at a pretty affordable price point for most countries.

And you can just by changing the canoe underneath you can go signals intelligence, maritime patrol, search and rescue, we have -- it's sort of like a roll on/roll off capability but is a little bit different than the way we did it. And it is at a very favorable price point.

Now it hasn't caught on like wildfire yet, but we expect as countries examine their spending and what US equipment they might want to buy, it is a lot more realistic than a couple hundred million dollars for an alternative platform. I mean this is one that we -- and we can modify it to meet any particular customer's needs as well.

And we will have a fly before you buy program where we can just take the aircraft in country. Some of these have been designed to be exports, so all the components, whether it is a synthetic aperture radar or the comms, or the (inaudible) sensors have been designed with export ability in mind. So we are ready for that turn in the market where we think it will (inaudible). And we're certainly seeing activity in certain parts of the world.

So this is what we have been hoping for. And that coupled with a refocus on rebuilding the military in terms of readiness, recapitalization or modernization of equipment. I think the portfolio is a great place to grow based on this new environment. And hopefully it will be a discussion next year that says, yes, there it is. But again, we look forward to seeing a new budget (multiple speakers).

Cai von Rumohr - Cowen and Company - Analyst

Terrific. Thank you very much. That was great.

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