



Fourth Quarter 2018 Conference Call

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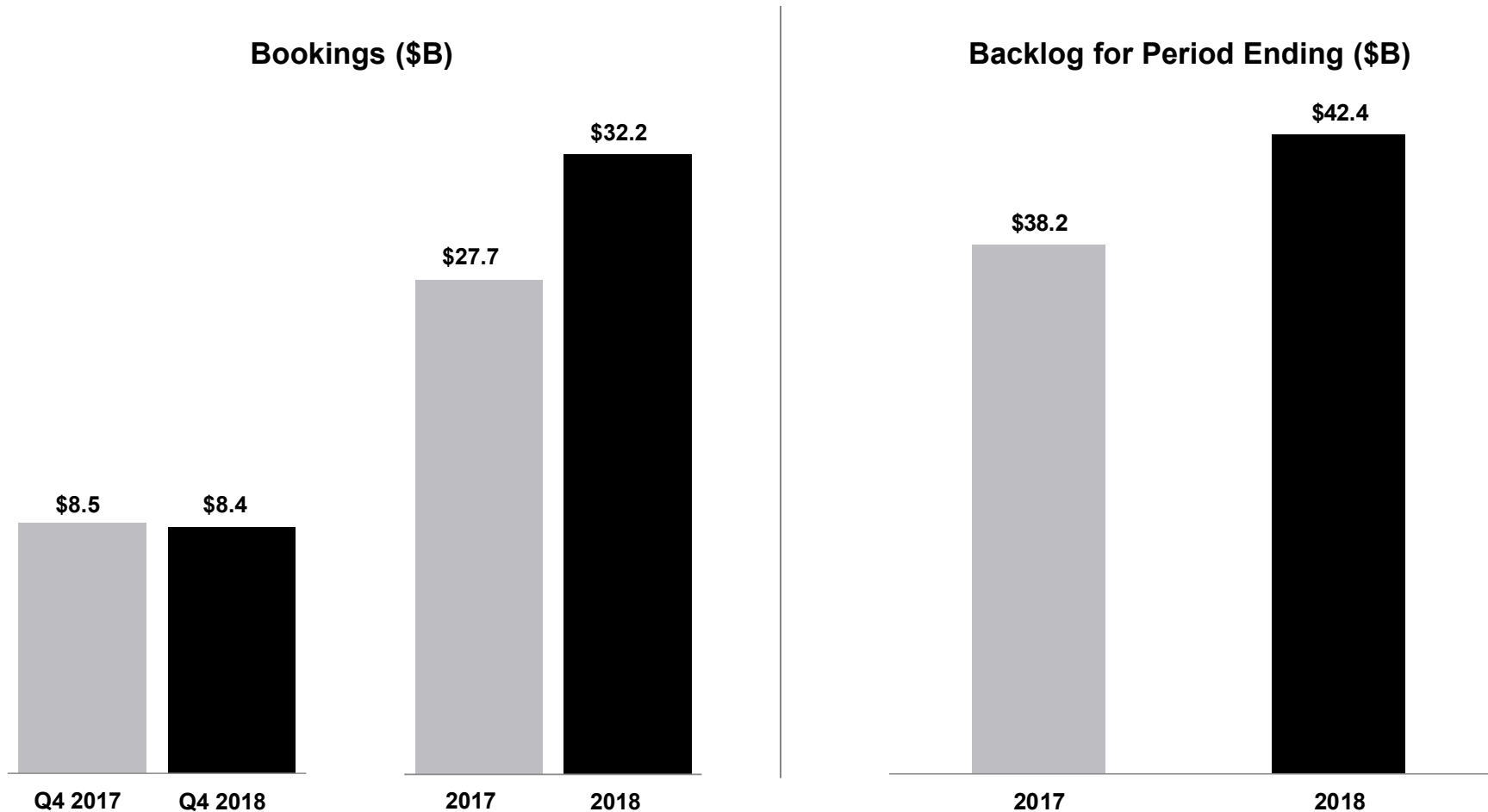
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Fourth Quarter and Full-Year 2018 Highlights

- Strong bookings of \$8.4 billion in the quarter and \$32.2 billion for the year; book-to-bill ratio of 1.15 for the quarter and 1.19 for the year
- Fourth quarter net sales of \$7.4 billion, up 8.5 percent; full-year net sales of \$27.1 billion, up 6.7 percent for the year
- Fourth quarter EPS from continuing operations of \$2.93, up 117 percent; full-year EPS from continuing operations of \$10.15, up 46 percent for the year
- Strong operating cash flow from continuing operations of \$2.4 billion in the quarter and a record \$3.4 billion for the year

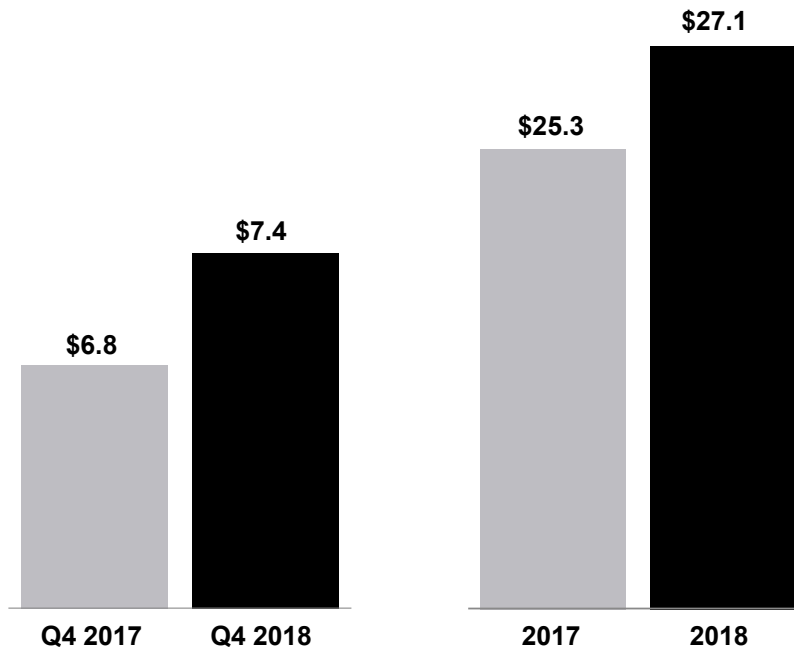
Total Company Bookings and Backlog



Book-to-bill ratio of 1.15 in Q4 and 1.19 for the full-year; record bookings of \$32.2B and record backlog of \$42.4B

Total Company Net Sales

Net Sales (\$B)



Fourth Quarter Net Sales (\$M)

	Q4 2017	Q4 2018	% Change
IDS	\$1,553	\$1,684	8%
IIS	1,572	1,711	9%
MS	2,185	2,317	6%
SAS	1,670	1,880	13%
Forcepoint™	156	172	10%
Eliminations	(346)	(404)	NM
Total Business Segment	\$6,790	\$7,360	8.4%
Deferred Revenue Adjustment	(\$7)	-	NM
Total	\$6,783	\$7,360	8.5%

Full-Year Net Sales (\$M)

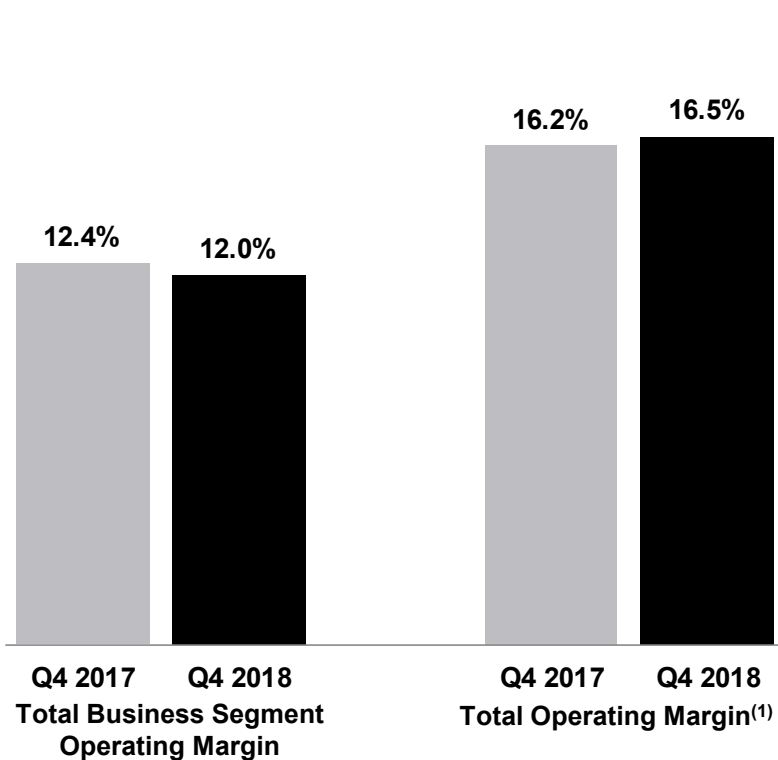
	2017	2018	% Change
IDS	\$5,804	\$6,180	6%
IIS	6,177	6,722	9%
MS	7,787	8,298	7%
SAS	6,430	6,748	5%
Forcepoint	608	634	4%
Eliminations	(1,423)	(1,514)	NM
Total Business Segment	\$25,383	\$27,068	6.6%
Deferred Revenue Adjustment	(\$35)	(\$10)	NM
Total	\$25,348	\$27,058	6.7%

NM = Not Meaningful

Strong full-year sales growth in 2018

Total Company Operating Margins – Q4

Operating Margins



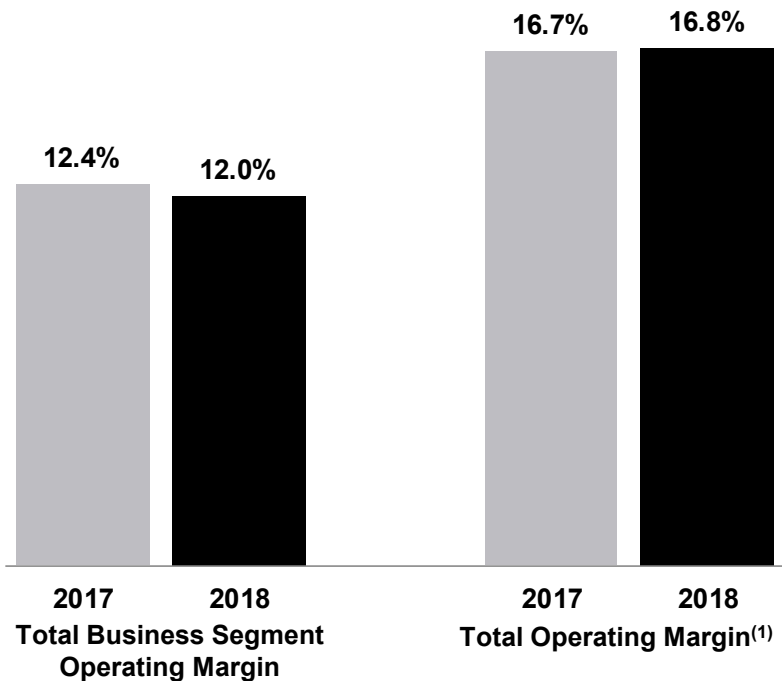
	Q4 2017	Q4 2018	Change
IDS	15.9%	14.7%	(120) bps
IIS	7.4%	8.4%	100 bps
MS	12.7%	11.8%	(90) bps
SAS	14.5%	13.9%	(60) bps
Forcepoint	(5.1)%	1.2%	NM
Eliminations	(\$35M)	(\$44M)	(\$9M)
Total Business Segment Operating Margin	12.4%	12.0%	(40) bps
Deferred Revenue Adjustment	(\$7M)	-	\$7M
Amortization of Acquired Intangibles	(\$30M)	(\$29M)	\$1M
FAS/CAS Operating Adjustment ⁽¹⁾	\$325M	\$356M	\$31M
Corporate	(\$29M)	\$3M	\$32M
Total Operating Margin⁽¹⁾	16.2%	16.5%	30 bps

NM = Not Meaningful

(1) As previously reported, in the first quarter 2018 the company adopted the new retirement benefit standard, Accounting Standards Update 2017-07. As a result, all components of FAS pension and postretirement benefit expense, other than service costs, were reclassified from operating income to non-operating income, with no impact to net income. All 2017 financial results have been recast to reflect this change.

Total Company Operating Margins – Full-Year

Operating Margins

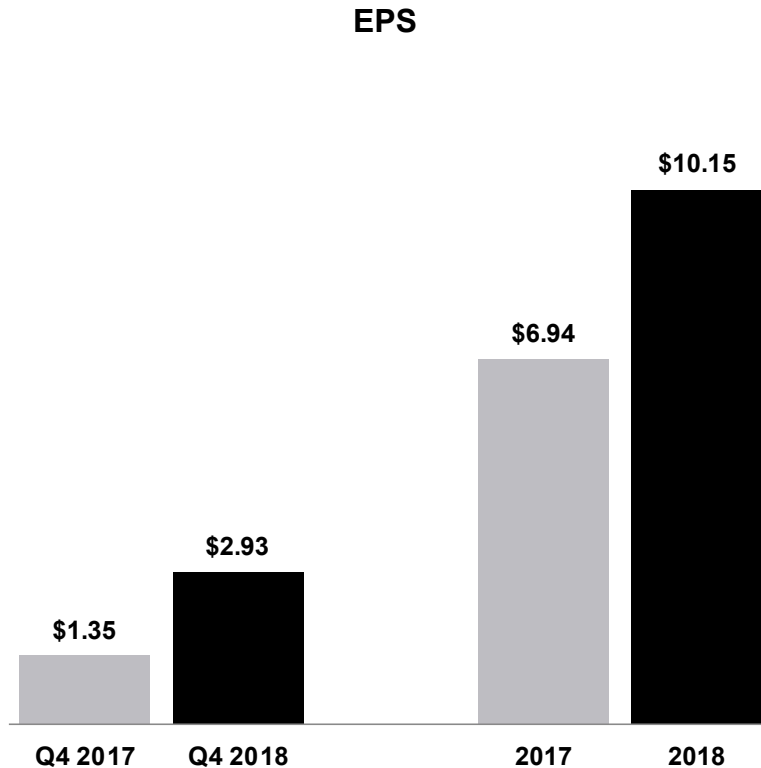


	2017	2018	Change
IDS	16.1%	16.6%	50 bps
IIS	7.4%	8.0%	60 bps
MS	13.0%	11.7%	(130) bps
SAS	13.4%	13.1%	(30) bps
Forcepoint	5.4%	0.8%	NM
Eliminations	(\$148M)	(\$170M)	(\$22M)
Total Business Segment Operating Margin	12.4%	12.0%	(40) bps
Deferred Revenue Adjustment	(\$35M)	(\$10M)	\$25M
Amortization of Acquired Intangibles	(\$125M)	(\$116M)	\$9M
FAS/CAS Operating Adjustment⁽¹⁾	\$1,303M	\$1,428M	\$125M
Corporate	(\$59M)	(\$17M)	\$42M
Total Operating Margin⁽¹⁾	16.7%	16.8%	10 bps

NM = Not Meaningful

(1) As previously reported, in the first quarter 2018 the company adopted the new retirement benefit standard, Accounting Standards Update 2017-07. As a result, all components of FAS pension and postretirement benefit expense, other than service costs, were reclassified from operating income to non-operating income, with no impact to net income. All 2017 financial results have been recast to reflect this change.

Earnings Per Share from Continuing Operations



EPS (\$)	Fourth Quarter	Full-Year
EPS from Continuing Operations 2017	\$1.35	\$6.94
Operations	0.18	0.39
Reduced share count	0.05	0.15
FAS/CAS operating adjustment	0.08	0.33
Retirement benefits non-service expense, non-operating ⁽¹⁾	(0.02)	(0.89)
2017 tax reform	0.59	0.59
2018 tax impact primarily related to tax reform	0.62	2.07
Tax impact from discretionary pension plan contributions ⁽²⁾	0.09	0.42
2017 early retirement of debt	-	0.09
Other items, net	(0.01)	0.06
EPS from Continuing Operations 2018	\$2.93	\$10.15

(1) Includes an unfavorable impact of \$0.79 to full-year 2018 EPS related to the pension plan annuity transaction in the third quarter 2018.

(2) Tax-related impact for the 2017 and 2018 discretionary pension plan contributions were an unfavorable \$0.09 in the fourth quarter 2017 and a favorable \$0.33 in the second quarter 2018, respectively.

Strong operational performance

2019 Financial Outlook

	2018 Actuals	2019 Outlook
Net Sales (\$B)	27.1	28.6 - 29.1
Deferred Revenue Adjustment (\$M)	(10)	(2)
Amortization of Acquired Intangibles (\$M)	(116)	(114)
FAS/CAS Operating Adjustment (\$M)	1,428	1,463
Retirement Benefit Non-service Expense, non-operating (\$M)	(1,230)	(726)
Interest Expense, Net (\$M)	(153)	(153) - (158)
Diluted Shares (M)	287	279 - 281
Effective Tax Rate	8.4%	17.0 - 17.5%
EPS from Continuing Operations	\$10.15	\$11.40 - \$11.60
Operating Cash Flow from Cont. Ops. (\$B)	3.4	3.9 - 4.1

2019 Financial Outlook: By Business

	2018 Actuals		2019 Outlook	
	Net Sales (\$B)	Operating Margins (%)	Net Sales (\$B)	Operating Margins (%)
IDS	6.2	16.6%	6.6 - 6.8	16.0 - 16.2%
IIS	6.7	8.0%	6.7 - 6.9	7.8 - 8.0%
MS	8.3	11.7%	8.9 - 9.1	12.1 - 12.3%
SAS	6.7	13.1%	7.0 - 7.2	12.9 - 13.1%
Forcepoint	0.6	0.8%	~\$700M	3.0 - 5.0%
Eliminations	(1.5)	(\$170M)	(1.4) - (1.5)	(\$160M) - (\$165M)
Total business segment	27.1	12.0%	28.6 - 29.1	12.1 - 12.3%
Deferred Revenue Adjustment	(\$10M)	(\$10M)	(\$2M)	(\$2M)
Amortization of Acquired Intangibles	-	(\$116M)	-	(\$114M)
FAS/CAS Operating Adjustment	-	\$1,428M	-	\$1,463M
Corporate	-	(\$17M)	-	(\$65M) - (\$75M)
Total	27.1	16.8%	28.6 - 29.1	16.5 - 16.7%

Amounts may not add due to rounding.

2019 Financial Outlook

	Outlook	
	Q1 2019	2019
Sales (\$M)	6,450 - 6,575	28,600 - 29,100
EPS from Continuing Operations	\$2.37 - \$2.42	\$11.40 - \$11.60
Operating Cash Flow from Continuing Operations (\$M)	(750) - (550)	3,900 - 4,100

Operating Cash Flow Outlook

(\$B)	2018		2019	2020
Prior Guidance*	2.6 – 3.0	Prior Guidance*	3.8 – 4.0	N/A
Operations/Working Capital Improvements	0.6	Operations/Working Capital Improvements	0.3	N/A
		Cash Taxes	(0.2)	N/A
Actual	3.4	Current Guidance	3.9 – 4.1	~4.6

N/A = Not Applicable

* As of Oct 25, 2018

Strong operating cash flow outlook

Pension Impact

(\$M)	Current Projections*					
	2018 Actual	2019	2020	2021	2022	2023
<u>P&L Impact</u>						
Service Cost	(\$509)	(\$424)	(\$396)	(\$365)	(\$333)	(\$306)
CAS Recovery	\$1,937	\$1,887	\$1,921	\$1,974	\$2,013	\$1,803
FAS/CAS Operating Adjustment	\$1,428	\$1,463	\$1,525	\$1,609	\$1,680	\$1,497
Retirement Benefits Non-service Expense, non-operating	(\$1,230)	(\$726)	(\$704)	(\$722)	(\$552)	(\$380)
Total	\$198	\$737	\$821	\$887	\$1,128	\$1,117
<u>Gross Funding Before CAS Recovery</u>						
Gross Funding Required**	(\$911)	(\$386)	(\$546)	(\$1,182)	(\$1,186)	(\$1,041)
Discretionary Contribution	(\$1,250)	\$0	\$0	\$0	\$0	\$0
Total Contribution	(\$2,161)	(\$386)	(\$546)	(\$1,182)	(\$1,186)	(\$1,041)

* Current projections include pension and PRB for 2019 – 2023 and are strictly based on an average FAS discount rate of 4.3% for all years and an actual return on assets of -4% for the year ending December 31, 2018, an assumed return on assets of 7.5% for all other years and no changes to any other actuarial assumptions or regulatory requirements. CAS recovery and funding requirements are based on the discount rates under the Bipartisan Budget Act of 2015, which are approximately 5.5% for 2019, 5.3% for 2020, 5.0% for 2021, 4.6% for 2022, and 4.5% for 2023.

Actual results will vary for 2019 – 2023 based upon discount rate, asset returns, long-term return on asset (ROA) assumption, changes in actuarial assumptions, demographic and regulatory requirements applicable for each year. A 25 basis point increase from our current average U.S. Plan discount rate of 4.3% would increase the FAS/CAS Operating Adjustment in 2020 by \$15M and decrease Retirement Benefits Non-service Expense by \$55M. A 25 basis point decrease from our current average U.S. Plan discount rate of 4.3% would decrease the FAS/CAS Operating Adjustment in 2020 by \$15M and increase Retirement Benefits Non-service Expense by \$55M.

** We made a \$1.25B discretionary pension contribution in third quarter 2018 and have elected to apply approximately \$1B to partially offset gross funding required in 2019 and 2020, roughly split evenly between the two years.

Appendix

Acquisition Accounting Adjustments Outlook⁽¹⁾

(\$M)	2019	2020	2021
Deferred Revenue Adjustment	\$2	\$0	\$0
Amortization of Acquired Intangibles ⁽²⁾	\$114	\$87	\$66
Total Acquisition Accounting Adjustments	\$116	\$87	\$66

(1) Deferred revenue adjustment and amortization of acquired intangibles represent the unfavorable impact of the acquisition accounting adjustments to record acquired deferred revenue at fair value and the amortization of acquired intangible assets, respectively, for all business segments.

(2) Amortization of acquired intangible assets is based on the pattern in which economic benefits of intangible assets are being utilized.

Workdays in Fiscal Reporting Calendar

	Q1	Q2	Q3	Q4
2019	63	64	63	59
2018	64	64	63	58
Increase / (decrease)	(1)	0	0	1

	Q1	Q2	Q3	Q4
2018	64	64	63	58
2017	64	64	62	58
Increase / (decrease)	0	0	1	0