



# **Q4 2015 Earnings Presentation**

February 18, 2016

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Statements in this presentation, other than statements of historical fact, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those expressed in these statements. Factors that may cause such differences include: changes in government and customer priorities and requirements (including government budgetary constraints, shifts in defense spending, and changes in customer short-range and long-range plans); our ability to obtain new contracts, estimate our future contract costs and perform our contracts effectively; changes in procurement processes and government regulations and our ability to comply with such requirements; our ability to deliver our products and services at an affordable life cycle cost and compete within our markets; natural disasters; adverse economic conditions in the United States and globally; changes in key estimates and assumptions regarding our pension and retiree health care costs; security threats, including cyber security threats, and related disruptions; and other risk factors discussed in our filings with the U.S. Securities and Exchange Commission. There may be other risks and uncertainties that we are unable to predict at this time or that we currently do not expect to have a material adverse effect on our business, and we undertake no obligation to update any forward-looking statements. You should not place undue reliance on any forward-looking statements that we may make. This presentation also contains non-GAAP financial measures and includes a GAAP reconciliation of these financial measures. Non-GAAP financial measures should not be construed as being more important than comparable GAAP measures.

# Highlights from Q4 and FY 2015



- Revenues were \$1.9 billion for the quarter and \$7.0 billion for the year
- Diluted EPS was \$1.06 for the quarter and \$8.36 for the year
- Adjusted Diluted EPS\* was \$1.95 for the quarter and \$7.33 for the year
- Strong segment operating performance:
  - Ingalls operating margin\*\* was 10.2% for the quarter and 11.0% for the year
  - Newport News operating margin\*\* was 9.3% for the quarter and 9.0% for the year
- Delivered *Virginia*-class submarine SSN-785 *John Warner* and NSC-5 *James*
- \$7.6 billion of new contract awards in FY 2015 bringing total backlog at the end of the year to \$22.0 billion

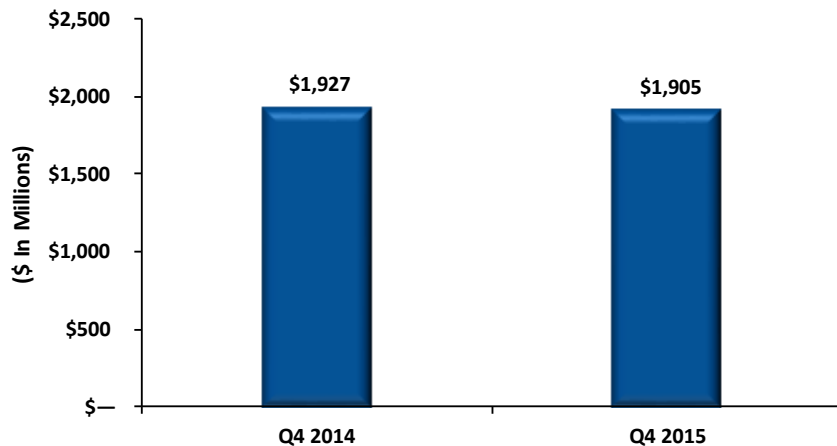
\* Non-GAAP metric that excludes the after-tax effects of the insurance litigation settlement, the goodwill impairment charges, the intangible asset impairment charge, the loss on early extinguishment of debt and the FAS/CAS Adjustment in 2015 and the after-tax effects of the goodwill impairment charge, the loss on early extinguishment of debt and the FAS/CAS Adjustment in 2014. See appendix for reconciliation.

\*\* Non-GAAP metrics that exclude non-segment factors affecting operating income. See appendix for reconciliation.

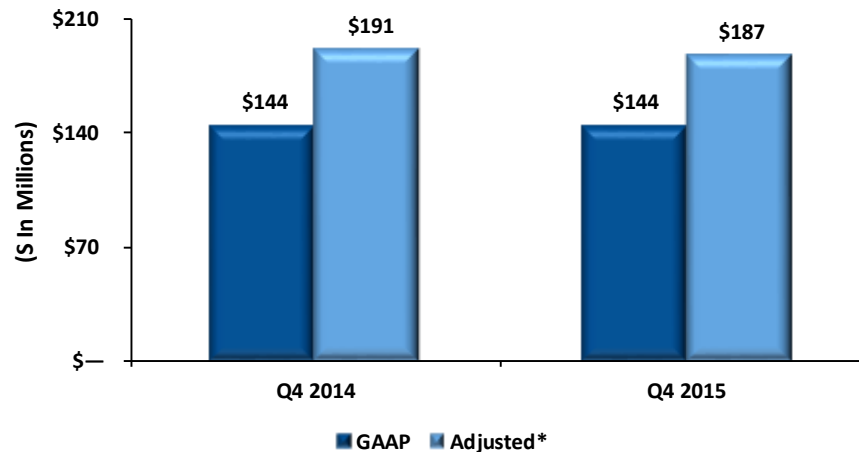
# Q4 2015 Consolidated Results



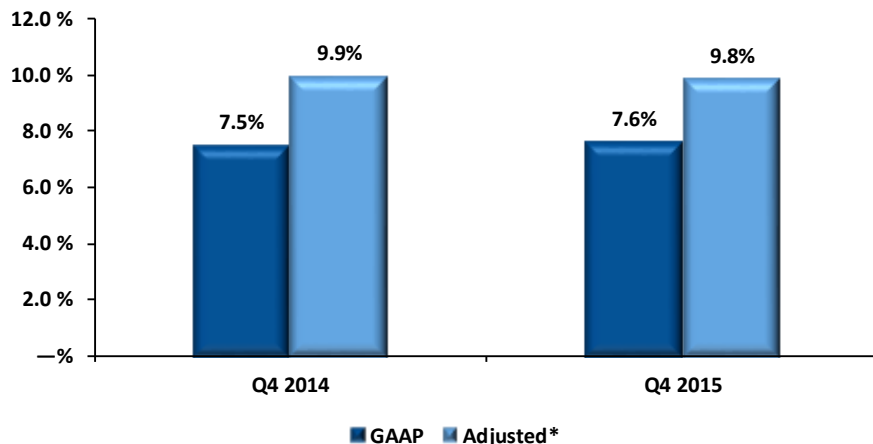
### Consolidated Revenues



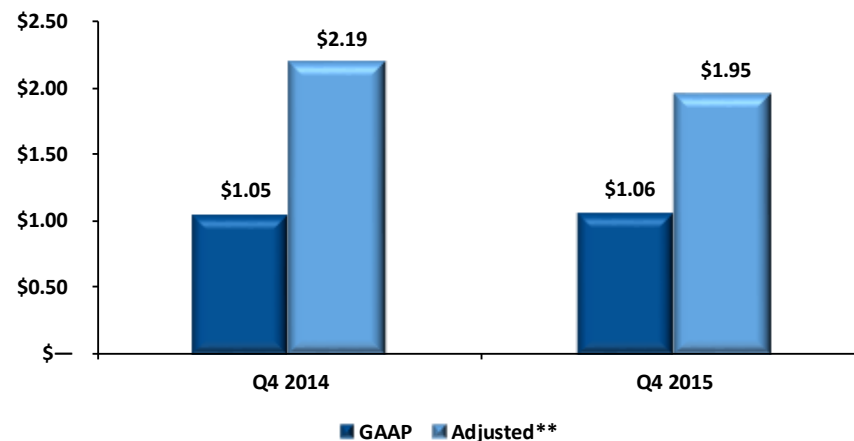
### Operating Income



### Operating Margin



### Diluted EPS

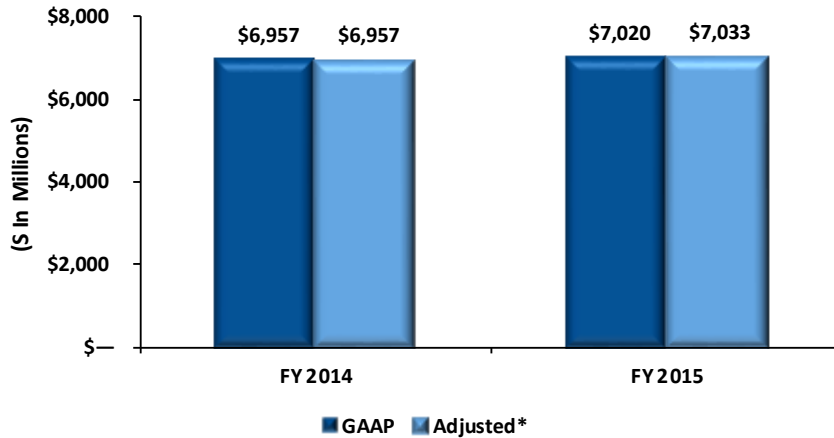


4 \* Non-GAAP metrics that exclude the impacts of the non-cash goodwill impairment charge and the non-cash intangible asset impairment charge. See appendix for reconciliation.  
 \*\* Non-GAAP metric that excludes the after-tax effects of the goodwill impairment charge, the intangible asset impairment charge, the loss on early extinguishment of debt and the FAS/CAS Adjustment. See appendix for reconciliation.

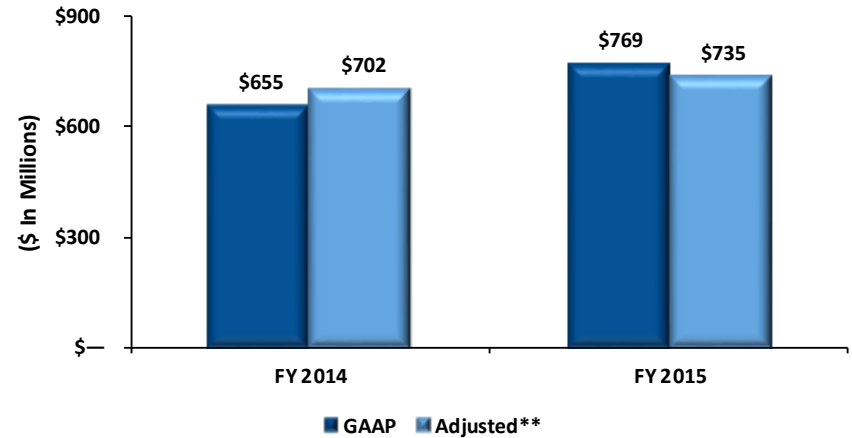
# FY 2015 Consolidated Results



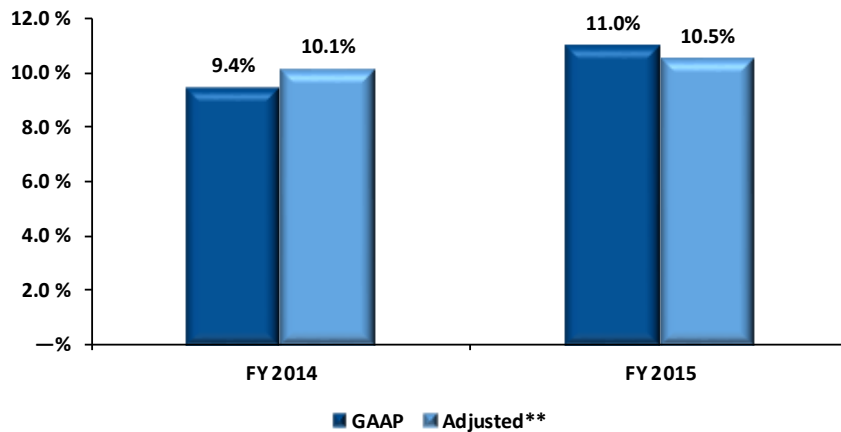
### Consolidated Revenues



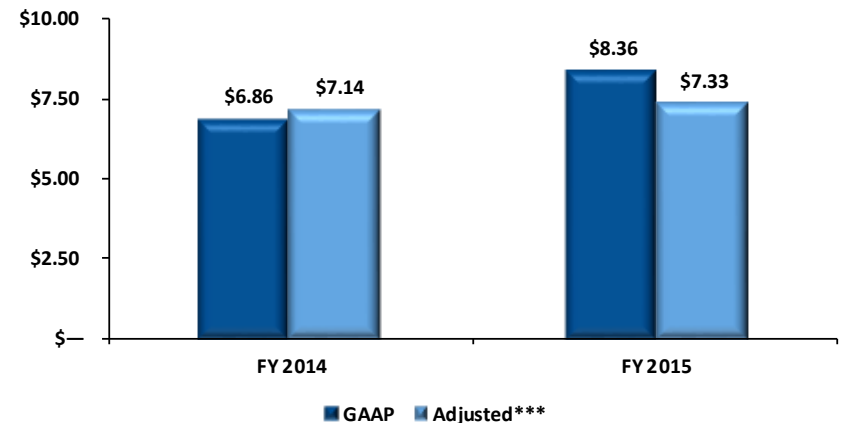
### Operating Income



### Operating Margin



### Diluted EPS



\* Non-GAAP metric that excludes the impact of the insurance litigation settlement in 2015. See appendix for reconciliation.

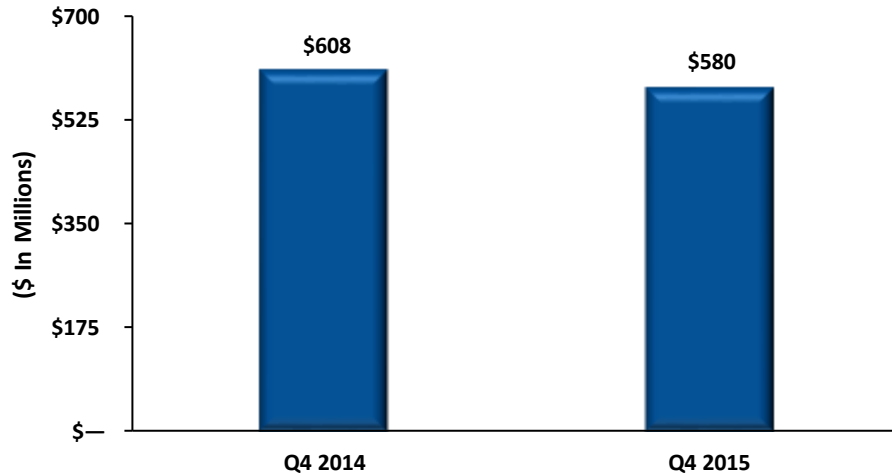
\*\* Non-GAAP metrics that exclude the impacts of the insurance litigation settlement and the non-cash goodwill and intangible asset impairment charges in 2015 and the non-cash goodwill impairment charge in 2014. See appendix for reconciliation.

\*\*\* Non-GAAP metric that excludes the after-tax effects of the insurance litigation settlement, the non-cash goodwill and intangible asset impairment charges, the loss on early extinguishment of debt and the FAS/CAS Adjustment in 2015 and the after-tax effects of the non-cash goodwill impairment charge, the loss on early extinguishment of debt and the FAS/CAS Adjustment in 2014. See appendix for reconciliation.

# Ingalls Shipbuilding – Q4 2015 Results

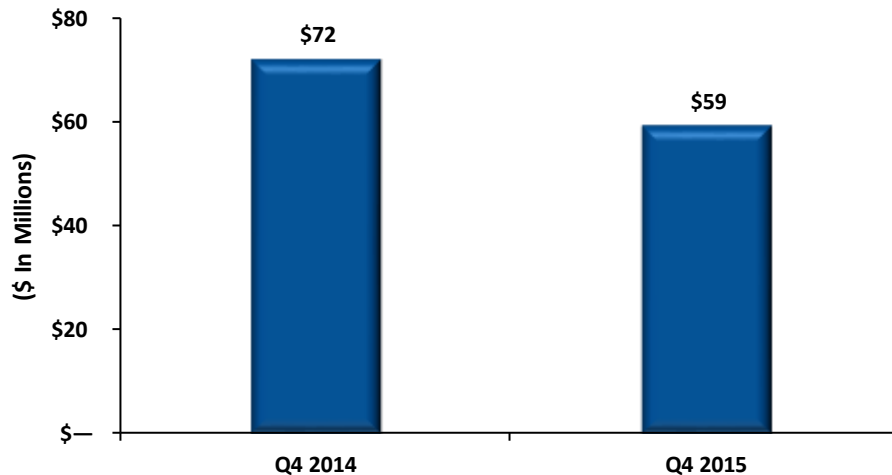


### Revenues

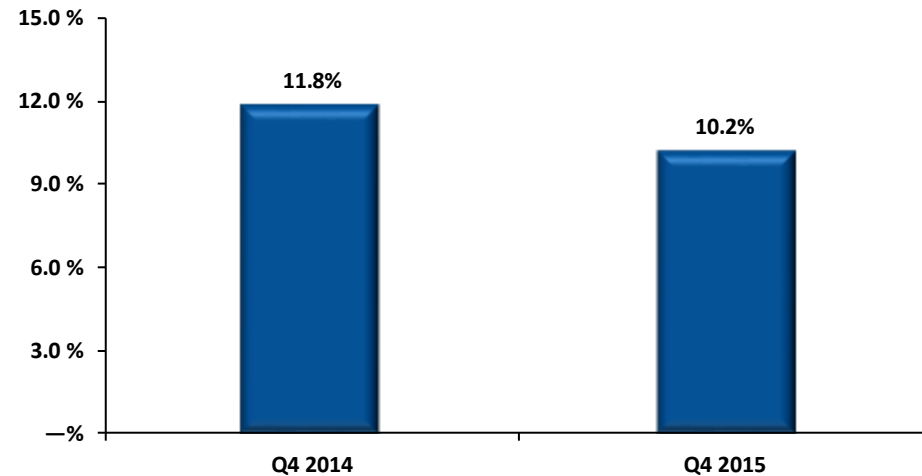


- Ingalls Q4 revenues declined YoY on deliveries of NSC-4 and NSC-5 and lower volumes on LPD 26.
- Q4 operating income and margin were down YoY due to lower risk retirement on the LPD program.

### Operating Income



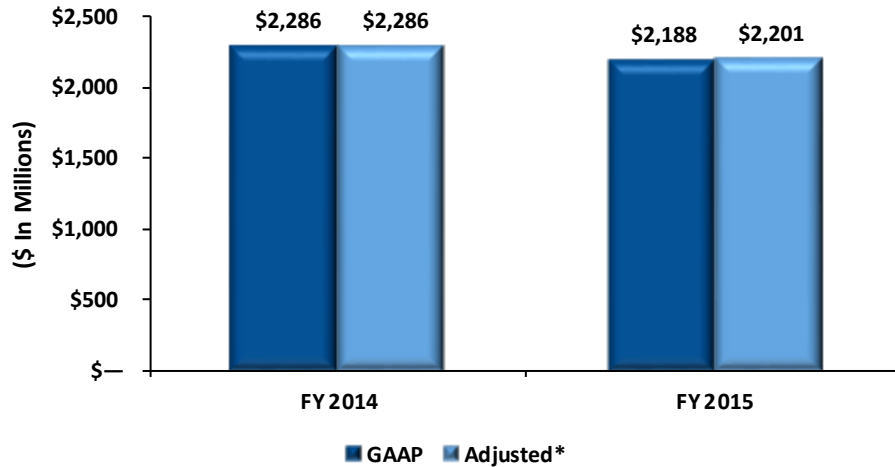
### Operating Margin



# Ingalls Shipbuilding – FY 2015 Results

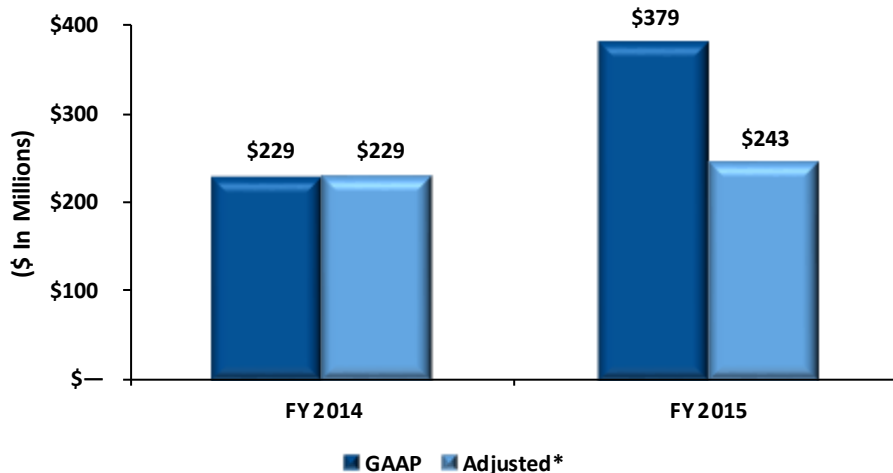


## Revenues

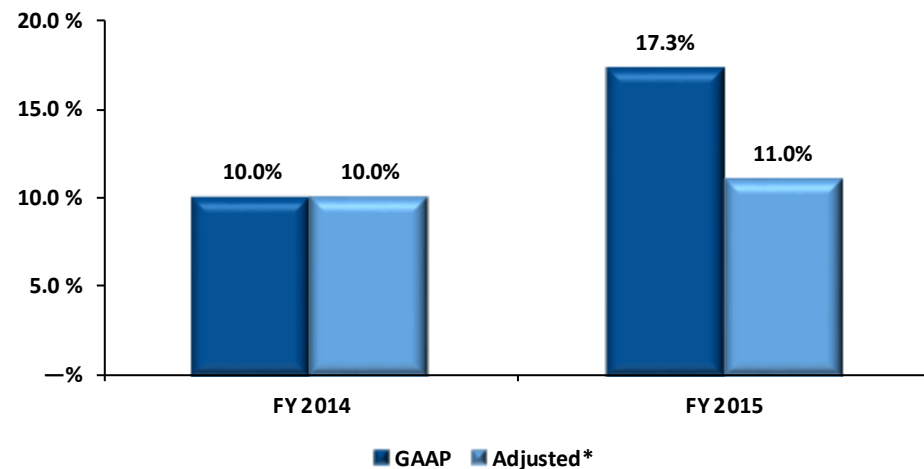


- Ingalls 2015 revenues declined YoY due to lower volumes on amphibious assault ships and the NSC program.
- Ingalls 2015 operating income and margin increased due to higher performance on both the LHA-6 *America*-class and the NSC programs as well as the favorable resolution of outstanding contract changes.

## Operating Income



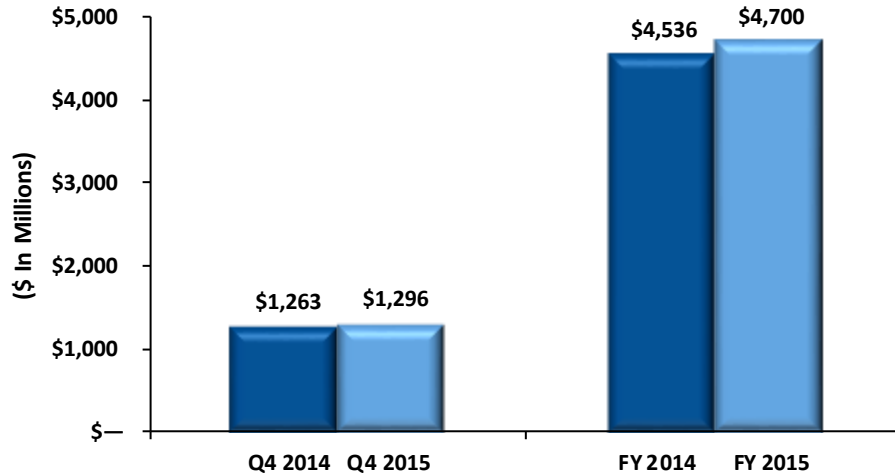
## Operating Margin



# Newport News Shipbuilding – Q4 and FY 2015 Results

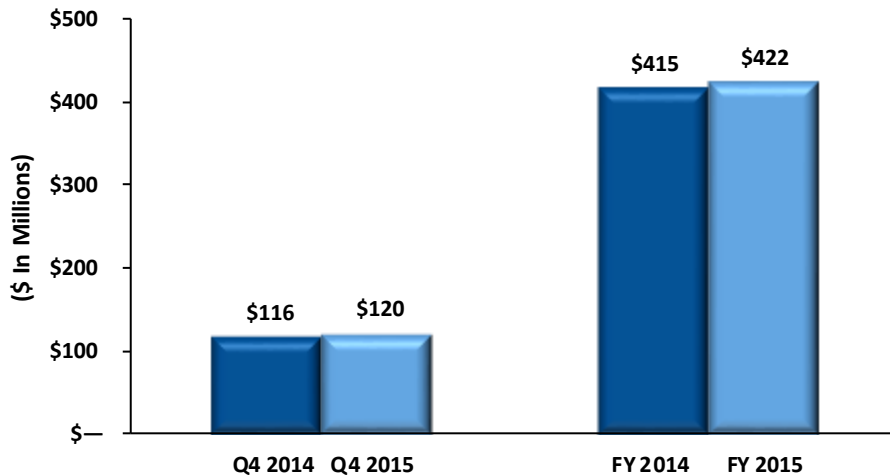


### Revenues

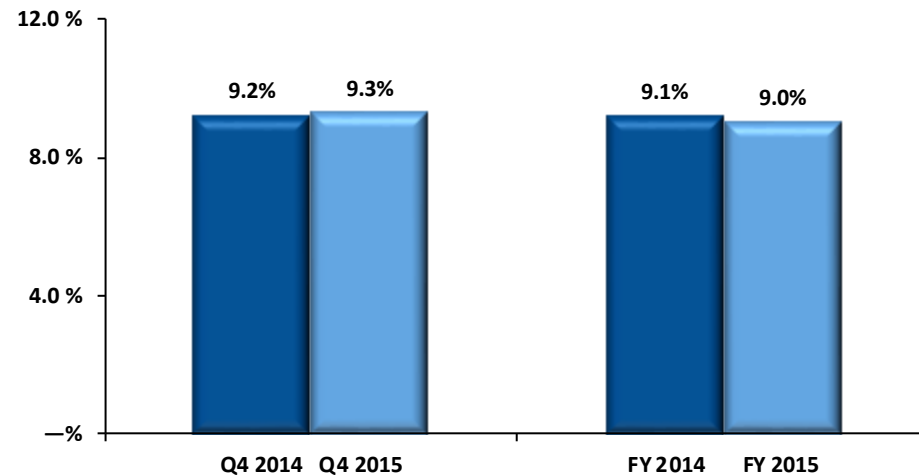


- Newport News revenues and operating income increased for the quarter and year on higher volumes on the VCS program and in Fleet Support services.
- Operating margin for the quarter and full year was similar to fourth quarter and full year 2014.

### Operating Income



### Operating Margin

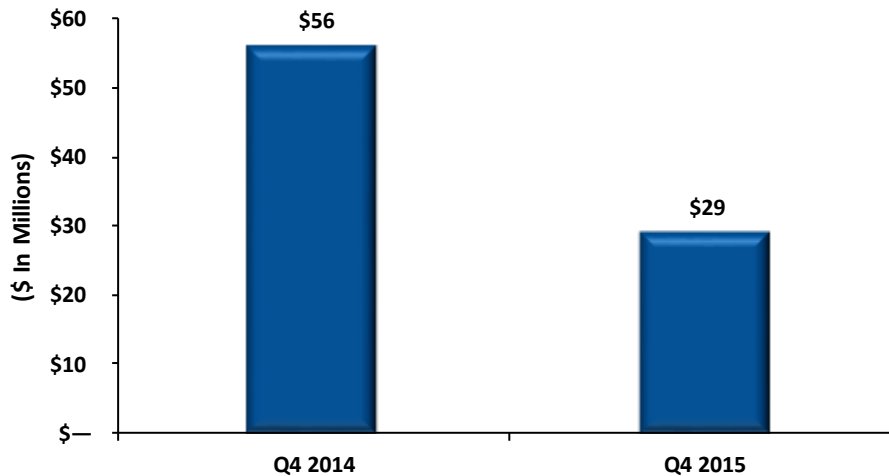




# Other Segment – Q4 2015 Results

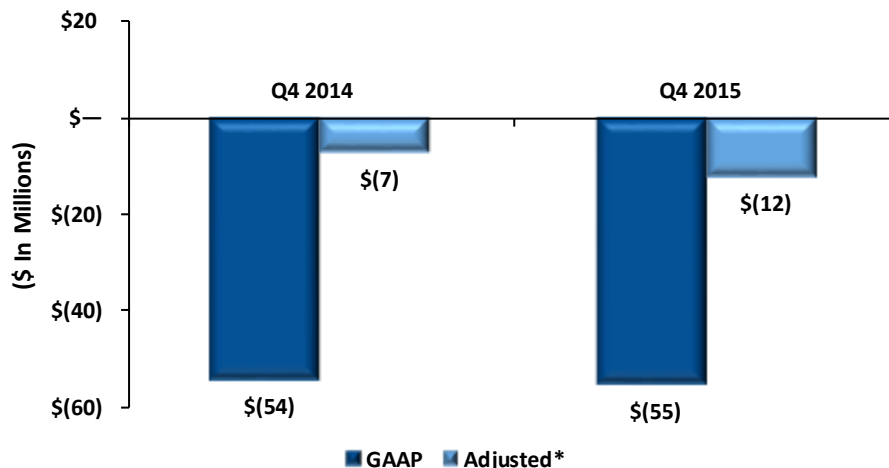


## Revenues



- Other Segment Q4 revenue declined YoY on lower volumes in oil and gas services.
- Operating losses increased YoY due to lower volumes in oil and gas services and restructuring costs. Approximately half of the adjusted operating loss in the quarter was due to restructuring.

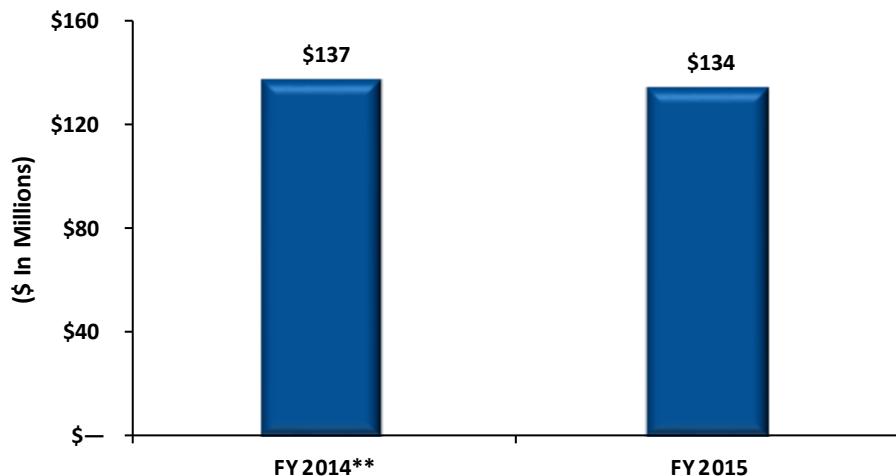
## Operating Loss



# Other – FY 2015 Results

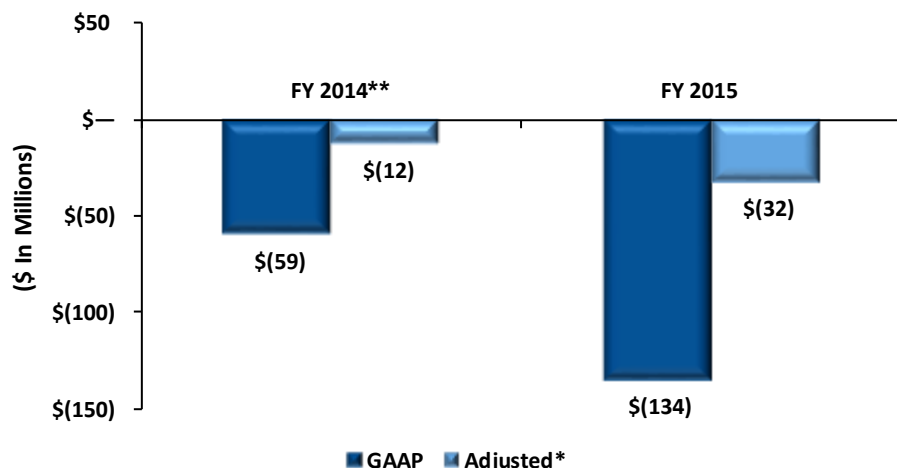


## Revenues



- Other Segment 2015 revenue declined YoY on lower volumes in oil and gas services.
- Operating losses increased YoY due to lower volumes in oil and gas services and restructuring costs. Approximately one-third of the adjusted operating loss in year was due to restructuring.

## Operating Loss



\* Non-GAAP metric that excludes the impacts of the non-cash intangible asset impairment charge in 2015 and the non-cash goodwill impairment charges in 2015 and 2014. See appendix for reconciliation.

\*\* HII acquired UPI on May 30, 2014. Revenues and operating loss represent the 7 months of ownership in 2014.

# 2016 Expectations



Revenues	Relatively flat to 2015
Segment Operating Margin in Shipbuilding	9+%
Deferred State Income Tax	\$10 - \$15 Million Expense
Interest Expense	~\$75 Million
Effective Tax Rate	33.5% - 34.5% Range
Capital Expenditures	3.5% - 4.5% of Revenues



(\$ in millions)	2016	2015
Pension Discount Rate	4.73%	4.34%
Expected Long-Term Return on Assets	7.50%	7.50%
CAS Recovery in excess of cash contribution <sup>1,2</sup>	\$88	\$136
Net FAS/CAS Adjustment <sup>1</sup>	\$137	\$104
CAS <sup>1</sup>	\$298	\$272
FAS <sup>1</sup>	(\$161)	(\$168)

<sup>1</sup> Includes pension & other postretirement benefits. Projected and subject to change during 2016.

<sup>2</sup> 2016 cash contribution of \$210 million includes \$173 million of discretionary pension contributions and \$37 million of post retirement benefits contribution.



# Appendix

# Reconciliations



We make reference to “segment operating income,” “segment operating margin,” “adjusted sales and service revenues,” “adjusted segment operating income,” “adjusted segment operating margin,” “adjusted total operating income,” “adjusted operating margin,” “adjusted net earnings,” “adjusted diluted earnings per share,” and “free cash flow.”

**Segment operating income** is defined as total operating income before the FAS/CAS Adjustment and deferred state income taxes.

**Segment operating margin** is defined as segment operating income as a percentage of sales and service revenues.

**Adjusted sales and service revenues** is defined as sales and service revenues adjusted for the impact of the insurance litigation settlement in the second quarter of 2015.

**Adjusted segment operating income** is defined as segment operating income adjusted for the impacts of the insurance litigation settlement in 2015, the non-cash intangible asset impairment charge in 2015 and the non-cash goodwill impairment charges in 2015 and 2014.

**Adjusted segment operating margin** is defined as adjusted segment operating income as a percentage of adjusted sales and service revenues.

**Adjusted total operating income** is defined as total operating income adjusted for the impacts of the insurance litigation settlement in, the non-cash intangible asset impairment charge in 2015 and the non-cash goodwill impairment charges in 2015 and 2014.

**Adjusted operating margin** is defined as adjusted total operating income as a percentage of adjusted sales and service revenues.

**Adjusted net earnings** is defined as net earnings adjusted for the tax effected impact of the insurance litigation settlement in 2015, the tax effected impact of the non-cash intangible asset impairment charge in 2015, the tax effected impact of the non-cash goodwill impairment charges in 2015 and 2014, the tax effected impact of the loss on early extinguishment of debt in 2015 and 2014 and the tax effected FAS/CAS Adjustment.

**Adjusted diluted earnings per share** is defined as adjusted net earnings divided by the weighted-average diluted common shares outstanding.

**Free cash flow** is defined as net cash provided by (used in) operating activities less capital expenditures.

# Reconciliations Cont'd



We internally manage our operations by reference to "segment operating income" and "segment operating margin," which are not recognized measures under GAAP. When analyzing our operating performance, investors should use segment operating income and segment operating margin in addition to, and not as alternatives for, total operating income and total operating margin or any other performance measure presented in accordance with GAAP. They are metrics that we use to evaluate our core operating performance. We believe that segment operating income and segment operating margin reflect an additional way of viewing aspects of our operations that, when viewed with our GAAP results, provides a more complete understanding of factors and trends affecting our business. We believe these measures are used by investors and are a useful indicator to measure our performance. Because not all companies use identical calculations, our presentation of segment operating income and segment operating margin may not be comparable to similarly titled measures of other companies.

Adjusted sales and service revenues, adjusted total operating income, adjusted operating margin, adjusted segment operating income, adjusted segment operating margin, adjusted net earnings and adjusted diluted earnings per share are not measures recognized under GAAP. They should be considered supplemental to and not a substitute for financial information prepared in accordance with GAAP. We believe these metrics are useful to investors because they normalize our operating performance by excluding non-recurring items or items that do not reflect our core operating performance. They may not be comparable to similarly titled measures of other companies.

Free cash flow is not a measure recognized under GAAP. Free cash flow has limitations as an analytical tool and should not be considered in isolation from, or as a substitute for, analysis of our results as reported under GAAP. We believe free cash flow is an important measure for our investors because it provides them insight into our current and period-to-period performance and our ability to generate cash from continuing operations. We also use free cash flow as a key operating metric in assessing the performance of our business and as a key performance measure in evaluating management performance and determining incentive compensation. Free cash flow may not be comparable to similarly titled measures of other companies.

# Reconciliation – Segment Operating Income and Segment Operating Margin



(\$ in millions)	Three Months Ended		Year Ended	
	December 31		December 31	
	2015	2014	2015	2014
<b>Sales and Service Revenues</b>				
Ingalls revenues	\$ 580	\$ 608	\$ 2,188	\$ 2,286
Newport News revenues	1,296	1,263	4,700	4,536
Other revenues	29	56	134	137
Intersegment eliminations	—	—	(2)	(2)
<b>Total Sales and Service Revenues</b>	<b>1,905</b>	<b>1,927</b>	<b>7,020</b>	<b>6,957</b>
<b>Segment Operating Income</b>				
Ingalls	59	72	379	229
<i>As a percentage of Ingalls revenues</i>	10.2 %	11.8 %	17.3 %	10.0 %
Newport News	120	116	422	415
<i>As a percentage of Newport News revenues</i>	9.3 %	9.2 %	9.0 %	9.1 %
Other	(55)	(54)	(134)	(59)
<i>As a percentage of Other revenues</i>	(189.7)%	(96.4)%	(100.0)%	(43.1)%
<b>Total Segment Operating Income</b>	<b>124</b>	<b>134</b>	<b>667</b>	<b>585</b>
<i>As a percentage of revenues</i>	6.5 %	7.0 %	9.5 %	8.4 %
Non-segment factors affecting operating income:				
FAS/CAS Adjustment	22	8	104	72
Deferred state income taxes	(2)	2	(2)	(2)
<b>Total Operating Income</b>	<b>144</b>	<b>144</b>	<b>769</b>	<b>655</b>
Interest expense	(64)	(66)	(137)	(149)
Other, net	—	1	—	1
Federal income taxes	(30)	(27)	(228)	(169)
<b>Net Earnings</b>	<b>\$ 50</b>	<b>\$ 52</b>	<b>\$ 404</b>	<b>\$ 338</b>



# Reconciliation – Adjusted Sales and Services Revenues



<i>(\$ in millions)</i>	Three Months Ended		Year Ended	
	December 31		December 31	
	2015	2014	2015	2014
<b>Adjusted Sales and Service Revenues</b>				
Ingalls revenues	\$ 580	\$ 608	\$ 2,188	\$ 2,286
Adjustment for insurance litigation settlement	—	—	13	—
Adjusted Ingalls revenues	580	608	2,201	2,286
Newport News revenues	1,296	1,263	4,700	4,536
Other revenues	29	56	134	137
Intersegment eliminations	—	—	(2)	(2)
<b>Adjusted Sales and Service Revenues</b>	<b>\$ 1,905</b>	<b>\$ 1,927</b>	<b>\$ 7,033</b>	<b>\$ 6,957</b>

# Reconciliation – Adjusted Segment Operating Income & Adjusted Segment Operating Margin



(\$ in millions)	Three Months Ended		Year Ended	
	December 31		December 31	
	2015	2014	2015	2014
<b>Adjusted Segment Operating Income</b>				
Total operating income	\$ 144	\$ 144	\$ 769	\$ 655
As a percentage of revenues	7.6 %	7.5 %	11.0 %	9.4 %
Non-segment factors affecting operating income:				
FAS/CAS Adjustment	(22)	(8)	(104)	(72)
Deferred state income taxes	2	(2)	2	2
<b>Unadjusted Segment Operating Income</b>	\$ 124	\$ 134	\$ 667	\$ 585
As a percentage of revenues	6.5 %	7.0 %	9.5 %	8.4 %
Non-recurring items affecting operating income:				
Ingalls operating income	\$ 59	\$ 72	\$ 379	\$ 229
Adjustment for insurance litigation settlement	—	—	(136)	—
Adjusted Ingalls operating income	59	72	243	229
As a percentage of adjusted Ingalls revenues	10.2 %	11.8 %	11.0 %	10.0 %
Newport News operating income	120	116	422	415
As a percentage of Newport News revenues	9.3 %	9.2 %	9.0 %	9.1 %
Other operating income	(55)	(54)	(134)	(59)
Adjustment for impairment of goodwill	16	47	75	47
Adjustment for impairment of intangible assets	27	—	27	—
Adjusted Other operating income	(12)	(7)	(32)	(12)
As a percentage of Other revenues	(41.4)%	(12.5)%	(23.9)%	(8.8)%
<b>Adjusted Segment Operating Income</b>	\$ 167	\$ 181	\$ 633	\$ 632

# Reconciliation – Adjusted Total Operating Income & Adjusted Total Operating Margin



	Three Months Ended		Year Ended	
	December 31		December 31	
<i>(\$ in millions)</i>	2015	2014	2015	2014
Total operating income	\$ 144	\$ 144	\$ 769	\$ 655
<i>As a percentage of revenues</i>	7.6 %	7.5 %	11.0 %	9.4 %
Adjustment for insurance litigation settlement	—	—	(136)	—
Adjustment for impairment of goodwill	16	47	75	47
Adjustment for impairment of intangible assets	27	—	27	—
<b>Adjusted Total Operating Income</b>	<b>\$ 187</b>	<b>\$ 191</b>	<b>\$ 735</b>	<b>\$ 702</b>
<i>As a percentage of adjusted revenues</i>	9.8 %	9.9 %	10.5 %	10.1 %

# Reconciliation – Adjusted Net Earnings and Adjusted Diluted EPS



<i>(\$ in millions)</i>	Three Months Ended		Year Ended	
	December 31		December 31	
	2015	2014	2015	2014
<b>Adjusted Net Earnings</b>				
Net Earnings	\$ 50	\$ 52	\$ 404	\$ 338
Adjustment for insurance litigation settlement <sup>1</sup>	—	—	(88)	—
Adjustment for impairment of goodwill <sup>2</sup>	12	37	59	37
Adjustment for impairment of intangible assets <sup>1</sup>	18	—	18	—
Adjustment for loss on early extinguishment of debt <sup>1</sup>	26	24	29	24
Adjustment for FAS/CAS Adjustment <sup>1</sup>	(14)	(5)	(68)	(47)
<b>Adjusted Net Earnings</b>	<b>\$ 92</b>	<b>\$ 108</b>	<b>\$ 354</b>	<b>\$ 352</b>
Weighted-Average Diluted Shares Outstanding	47.3	49.3	48.3	49.3
<b>Adjusted Diluted EPS</b>				
Diluted earnings per share	\$ 1.06	\$ 1.05	\$ 8.36	\$ 6.86
After-tax insurance litigation settlement per share	—	—	(1.82)	—
After-tax impairment of goodwill per share	0.25	0.75	1.22	0.75
After-tax impairment of intangible assets per share	0.38	—	0.37	—
After-tax loss on early extinguishment of debt per share	0.55	0.49	0.60	0.49
After-tax FAS/CAS Adjustment per share	(0.29)	(0.10)	(1.40)	(0.96)
<b>Adjusted Diluted EPS</b>	<b>\$ 1.95</b>	<b>\$ 2.19</b>	<b>\$ 7.33</b>	<b>\$ 7.14</b>

<sup>1</sup> Tax effected at 35% federal statutory tax rate.

<sup>2</sup> The goodwill impairment charges created \$4 million, \$16 million and \$10 million Federal tax benefit for Q4 2015, 2015 and 2014, respectively.

# Reconciliation – Free Cash Flow



	Three Months Ended		Year Ended	
	December 31		December 31	
<i>\$ in millions</i>	2015	2014	2015	2014
Net cash provided by (used in) operating activities	\$ 411	\$ 402	\$ 828	\$ 716
Less:				
Capital expenditures	(102)	(74)	(188)	(165)
<b>Free cash flow</b>	<b>\$ 309</b>	<b>\$ 328</b>	<b>\$ 640</b>	<b>\$ 551</b>