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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Third Quarter 2017 Huntington Ingalls Industries Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to introduce Vice President of Investor Relations, Mr. Dwayne Blake. Please go ahead.

Dwayne B. Blake - *Huntington Ingalls Industries, Inc. - Corporate VP of IR*

Thanks, Andrew. Good morning, and welcome to the Huntington Ingalls Industries Third Quarter 2017 Earnings Conference Call. With us today are Mike Petters, President and Chief Executive Officer; and Chris Kastner, Executive Vice President, Business Management and Chief Financial Officer.

As a reminder, statements made in today's call that are not historical facts are considered forward-looking statements and are made pursuant to the safe harbor provisions of federal securities law. Actual results may differ. Please refer to our SEC filings for a description of some of the factors that may cause actual results to vary materially from anticipated results.

Also in their remarks today, Mike and Chris will refer to certain non-GAAP measures, including certain segment and adjusted financial measures. Reconciliations of these metrics to the comparable GAAP measures are included in the appendix of our earnings presentation that is posted on our website. We plan to address the posted presentation slides during the call to supplement our comments. Please access our website at huntingtoningalls.com and click on the Investor Relations link to view the presentation as well as our earnings release.

With that, I'll turn the call over to our President and CEO, Mike Petters. Mike?

C. Michael Petters - *Huntington Ingalls Industries, Inc. - CEO, President & Director*

Thanks, Dwayne. Good morning, everyone, and thanks for joining us on today's call. Today, we reported solid third quarter results that once again met our expectations. These results are a function of the unwavering commitment to safety, quality, cost and schedule by our team of nearly 37,000 employees. So let me share some highlights from the quarter starting on Slide 3 of the presentation.

Sales of $1.86 billion were up 10.7% from last year and diluted EPS was $3.27 for the quarter. Operating cash was $96 million for the quarter and we received approximately $3 billion in new contract awards, including a $2.8 billion contract for the Refueling and Complex Overhaul of CVN 73 USS George Washington. As a result, backlog was approximately $23 billion at the end of the quarter, of which $14 billion is funded.

Yesterday, we announced that our Board of Directors approved a 20% increase in our quarterly dividend from $0.60 per share to $0.72 per share. We also increased our share repurchase program from the most recent authority of $1.2 billion to $2.2 billion and extended the term from October 2019 to October 2022. These decisions allow us to continue executing our path to 2020 commitment to return substantially all of our free cash flow to shareholders.

Regarding activities in Washington, we are pleased with the progress being made by the Defense Committees in Congress on the fiscal year 2018 budget and remain encouraged by the support for our shipbuilding programs in various bills. While we currently find ourselves operating under a continuing resolution, we remain optimistic that Congress will return to regular order and complete the Defense authorization and appropriations process in the months ahead. However, as I have said numerous times before, the Budget Control Act continues to cause a great degree of uncertainty for the entire shipbuilding industrial base because Congress has yet to determine how the Columbia class submarines will be funded without impacting other critically important shipbuilding priorities.

As the administration builds the fiscal year 2019 budget, we continue to advocate for multi-ship procurement strategies, program accelerations and economic order quantity purchase of material for Ford-class aircraft carriers, LXR-class amphibious ships, Arleigh Burke-class destroyers and Virginia-class submarines. These actions would allow us to capture the inherent efficiencies and significant cost savings achieved by leveraging high production lines and multi-ship material purchases.

Now I'll provide a few points of interest on our business segments. Ingalls had a very busy quarter as they completed acceptance trials and delivered LPD 27 Portland to the Navy in mid-September. The team also completed acceptance trials on DDG-114 Ralph Johnson, and is on track to deliver the ship to the Navy by the end of the year. In addition, Ingalls launched DDG 119 Delbert D. Black, christened LHA 7 Tripoli and was selected to repair damage to DDG 62 USS Fitzgerald.

At Newport News, the team continues to work through their transition period on the aircraft carrier and submarine programs. CVN-79 Kennedy is approximately 60% structurally complete and 35% complete over all. Construction is progressing very well as the team focuses on unit outfitting and assembly in the dry dock. In addition, the team achieved a significant milestone with the first cut of steel for CVN 80 Enterprise. This is the third Ford-class aircraft carrier and it has the distinction of being the ninth U.S. Navy vessel to bear that great name.

On the Submarine program, SSN 789 Indiana, the 8th Virginia-class boat to be delivered by Newport News, is expected to be complete early next year while activity ramps up on the Block IV boats.

And turning to Technical Solutions. The team continues to execute very well. They are capturing key contracts and effectively working through the integration of 7 separate businesses into 4 business units.

So in closing, our programs continue to perform well, our financial results are solid and our cash deployment strategy remains on track. We are maintaining our focus on safety, quality, cost and schedule, and we remain committed to a culture that produces affordable high-quality products and services for our customers, which in turn creates long-term sustainable value for our shareholders and stability for our employees.

So that concludes my remarks and I will now turn the call over to Chris Kastner for some remarks on the financials. Chris?

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

Thanks, Mike, and good morning. Today, I will review our third quarter consolidated and segment results as well as provide you with a few updates for the end of the year.

Starting with our consolidated results on Slide 4 of the presentation. Revenues in the quarter of $1.86 billion increased 10.7% over third quarter 2016, primarily due to increased volume at Newport News and the acquisition of Camber, which contributed approximately $74 million. Operating income for the quarter of $237 million increased $62 million or 35% from third quarter 2016, and operating margin of 12.7% increased 232 basis points. These increases were primarily driven by the resolution of outstanding contract changes on CVN 65 and 72 at Newport News, the reversal of a portion of an account receivable allowance at Technical Solutions, strong performance at Ingalls and a higher FAS/CAS adjustment.

Turning to Slide 5 of the presentation. Cash from operations was $96 million in the quarter and free cash flow was $5 million. Capital expenditures in the quarter were $91 million compared to $60 million in the third quarter of 2016. Year-to-date, capital expenditures were 4.2% of revenues and we expect capital expenditures for the year to be approximately 5% of revenues. Additionally, during the quarter, we made $203 million of discretionary contributions to our qualified pension plans, completing our contributions for fiscal year 2017 of $294 million.

We also repurchased approximately 178,000 shares in the quarter at a cost of $37 million, and paid dividends of $0.60 per share of $27 million bringing our quarter-end cash balance to $499 million.

As Mike mentioned, our board increased our quarterly dividend 20% to $0.72 per share and expanded our share repurchase authority by $1 billion, demonstrating our continued commitment to returning substantially all free cash flow to shareholders through fiscal year 2020.

Turning to segment results on Slide 6 of the presentation. Ingalls revenues in the quarter of $593 million increased 2.8% from the same period last year driven by higher volumes on the LPD and LHA programs partially offset by lower volume on the NSC program. Ingalls segment operating income of $74 million and margin of 12.5% in the quarter were up $8 million and 104 basis points year-over-year, respectively, primarily due to higher risk retirement on the LPD program, partially offset by lower risk retirement on the NSC program.

Moving to Slide 7 of the presentation. Newport News revenues of $1 billion in the quarter increased 7.7% from the same period last year driven by higher volumes on aircraft carriers and submarines. Newport News operating income was $96 million in the quarter with operating margin of 9.1%. Operating income was up $28 million and operating margin up 216 basis points year-over-year, primarily due to the resolution of outstanding contract changes on CVN 65 and 72, partially offset by lower risk retirement on the DCS Block III.

Now to Technical Solutions on Slide 8 of the presentation. Revenues of $241 million in the quarter increased 56% from the same period last year, primarily due to the acquisition of Camber and higher volumes in fleet support. Technical Solutions' operating income of $22 million increased $16 million year-over-year and operating margin was 9.1% compared to 3.9% in Q3 2016. These increases were primarily due to the reversal of $13 million and accounts receivable allowance related to the Westinghouse bankruptcy filing.

Now for an update on some other items for 2016 -- 2017. We expect the FAS/CAS adjustment of approximately $190 million, interest expense of $70 million, noncurrent state income tax expense in the $5 million to $10 million range and our effective income tax rate to be 30% to 32%.

Also I'd like to give you an update on a couple of items we've been tracking. First, in late September, the IRS released final regulations and other guidance on the new mortality tables that will impact our defined-benefit plans and will become effective in 2018. We are currently evaluating the impact of these updates on our expected future contributions and we'll provide the results during our fourth quarter call.

Second, Moody's and Fitch recently joined S&P in rating HII investment grade. With that upgrade, we continue to analyze potential refinance opportunities.

That concludes my remarks. I'll turn the call back over to Dwayne for Q&A.

Dwayne B. Blake - *Huntington Ingalls Industries, Inc. - Corporate VP of IR*

Thanks, Chris. (Operator Instructions)

Andrew, I'll turn it over to you to manage the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Doug Harned with Bernstein.

Douglas Stuart Harned - *Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst*

You're now at a place for investment where your CapEx has gone to that 4% to 5% of revenue levels. And that's what you've previously forecast. But when you look forward, can you talk about what you see the future capital investments being for? And how long should we expect these levels to continue?

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

Well, the 4% to 4.5% and now the 5% we forecast for the end of the year that's all part of our $1.5 billion capital commitment that we made from 2016 to 2020. And I continue to indicate that we should be back at around 2.5% of sales in 2021. That being said, if there are additional capital or opportunities for potential future programs where we need to make capital investments, that's definitely something we would evaluate.

C. Michael Petters - *Huntington Ingalls Industries, Inc. - CEO, President & Director*

And Doug, I'll just add that the capital plan that we have supports the 300-ship Navy. If we actually see sustainable opportunity to expand the Navy and we need to go and invest in that, we obviously would do that, in addition to what we've already programmed.

Douglas Stuart Harned - *Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst*

And on that, can you give us a sense obviously, you're talking with a lot of people in the Navy and on the Hill. When you look at the discussions today, there seems to be pretty broad support for growing the size of the Navy. But obviously, we've got some real challenges getting a budget through in Congress. Can you give us a sense on how your discussions have gone and the timing at which you see the prospects for taking basically your work up in scale? I'm not saying that very well. But when you talk about these investments, how do you see these different scenarios potentially unfolding for Huntington Ingalls?

C. Michael Petters - *Huntington Ingalls Industries, Inc. - CEO, President & Director*

Yes. Well, I think that's kind of the big question everywhere, right? I think the environment for general support and recognition that the Navy needs to be larger, that's pretty well understood in just about every corner. And that's, frankly, in my career, that's a bit unusual and it's a good place to be, it's a good place to start from. The question of how you get the budget process through continues to be challenging, and I think the Budget Control Act sitting on top of that as the law of the land means that -- I mean, the biggest problem with the Budget Control Act in my view has been because what we've done is we've had this 2-year kind of muddling through every couple of years to figure out how we're going to get the next budget out. But with the Budget Control Act still out there, the Pentagon is not able to make any kind of strategic discussions and decisions about programs that would be longer and more sustainable, so it becomes a bit -- since they can't make those decisions, it becomes hard for us to program our investment to support those things. We took a step forward and got out in front of the Pentagon with our big capital investment that we began back in 2015. And that has served us very well because as long as we're executing really well, the Pentagon is able to have and the Navy in particular is able to have a discussion about, okay, this is going great, what else can we do. But we're kind of still in the not sure what's going to come up next month. What I would remind you is there's always 3 or 4 tracks here to follow. We kind of look at this in a very binary way and say, it's all or nothing in the current budget cycle debate. But the reality is, the current budget cycle is going on, on the Hill and between the Hill and the executive branch. In the meantime, the executive branch's actually creating the budget for next year and they're beginning the process for the budget the year after. And so -- and that is where the Budget Control Act causes problems because it's hard to predict what the budget for 2020 is going to be if you aren't sure whether the BCA is in place or not. Our view is that there's going to be some muddling through on all of this and that we'll find a way to get through it, but it won't be a strategic way, it's going to be program by program, ship by ship, activity by activity. And as a result, we engage, basically, at the program level kind of as I said earlier, to talk about how is the smartest way to buy the programs that we have. Doing a multi-ship procurement on aircraft carriers is the smartest way to buy aircraft carriers. Doing a -- accelerating the LXR program and connecting it to the LPD program production line is the smartest way to buy amphibs. So we're having those discussions and because we are executing well, there's a lot of reception to those discussions. But the proof will be in how the budgets turn out. And at the end, I would say, as I've said before, we can always invest a lot faster than the government can appropriate the funding. So we'll be well positioned to invest ahead of the need from an appropriation standpoint.

Operator

And our next question comes from the line of Carter Copeland with Melius Research.

Carter Copeland

Just wanted to -- a couple of questions. One on Technical Solutions. If you strip out the Westinghouse reversal and the contribution from Camber, it looks like you were on an operating profit basis about flat there. And I wondered if that was weighed down in any way by any expenses associated with the integration and sort of restructuring there? Just trying to get a sense of the underlying performance.

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

No, not significantly. We still think of that business as starting out low single-digit driven by UPI being at about a breakeven at the current market and then the investments we're making at SN3. So no significant or material integration or restructuring efforts.

Carter Copeland

Okay. And then another one on Ingalls. Just wondered if you can give us some insight in terms of the underlying kind of profitability transition there. It sort of seems like your risk registers maybe had the most amount of upside and opportunity on NSC for a significant period of time. And it seems increasingly like that's more LPD or DDG given where those programs are today. Is that right? Do you think of it that way in terms of absolute opportunity if you perform well, that, that's how that's shifting? Or is that just me dreaming that up?

C. Michael Petters - *Huntington Ingalls Industries, Inc. - CEO, President & Director*

I mean, that's -- I guess, that's a way to look at it. I'm not sure we look at it quite that way. What we're seeing at this point is we're kind of moving towards the back end of the NSC program, which is usually very -- that's an indication of a very mature program and we're doing very well there. LPD program, frankly, we're doing very well there, but we're on the back end of that, dependent upon what happens with LXR. We're heading into a new round of competition on the Destroyer program. We're heading into a new round of -- or a new competition on a frigate program. The LHA 7 is building off the lessons learned from LHA 6, going okay. And we've got 8 coming behind that. So we kind of look at each of those programs in terms of the relative maturity of that program to its overall class, right? So for instance, we're in the submarine program at Newport News. When you're on the back end of one of the block buys, your risk register -- your opportunity register should look pretty good. When you're on the front-end of one of the block buys, there's a lot of risk in that. And that's kind of the way we look at every one of our programs. And so, yes, if you're coming to the end of the program like we are with NSC, you start to move back the other way for the new program. LPD, we're not really sure what happens there because of the connection to LXR.

Operator

And our next question comes from the line of Sam Pearlstein with Wells Fargo.

Samuel Joel Pearlstein - *Wells Fargo Securities, LLC, Research Division - MD, Co-Head of Equity Research & Senior Analyst*

Mike, if I can just follow-up on the comment you just made about the frigate program. Can you just talk a little bit about what that opportunity looks like? And how do you approach that differently just given some of the challenges with prior (technical difficulty) programs that's within Ingalls? And just kind of can the Navy actually afford to go ahead with this program, just how do think about it?

C. Michael Petters - *Huntington Ingalls Industries, Inc. - CEO, President & Director*

Yes. Well, a lot of questions in there. First of all, it is one of those programs that is probably in the area, in the bubble of what happens to BCA, Budget Control Act. Probably, this is one of those programs that the pace of this program is probably affected by how that gets resolved from a budget standpoint. Look, I think that the thing that we've seen the Navy do over the last several years is they've recognized that going off to a clean sheet whiteboard and starting with the beginning of what do we want to have in this ship and what are all the -- creating the wish list and then trying to jam 10 pounds of requirements in a 5-pound sack of budget. I think they figured out that, that's not exactly the way to do business. And one of the early requirements on this frigate is that you have to have a parent design. The parent design is a really interesting thing because that means you're not going to a whiteboard with a wish list of requirements. You're starting out with stuff that's already been proven. That's really that great connection between LPD and LXR is the decision the Navy made several years ago that the LXR's going to have the LPD haul. That's what makes the Destroyer program work, that's what makes the Virginia-class program work. And I think where the Navy is on the frigate is a great place for them to start, to say, look, we're not going to start with a blank sheet of paper. You guys come to us with a parent design that we can then see if we can make it meet the requirements that we have for that kind of ship. That's pretty exciting for us. We know how to do that, it's right in our lane of how do we create more capability and more investment and accelerate the production of those ships. Our view is that time to the fleet is the biggest issue out there and in any program at this point. And so that's kind of the way we're prosecuting it.

Samuel Joel Pearlstein - *Wells Fargo Securities, LLC, Research Division - MD, Co-Head of Equity Research & Senior Analyst*

And then can you cite that resolution with the Newport News, Chris, just kind of the terms of the contract changes on Enterprise and Lincoln?

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

Sure. There's approximately $25 million. And those were simply recognition of growth work on those ships, which happens from time to time when you deal with RCOH activity. So there was not a significant claim activity or litigation, it was just recognition of growth work within the price.

Operator

And our next question comes from the line of Joseph DeNardi with Stifel.

Joseph William DeNardi - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP*

Mike, sorry to maybe parse out your commentary a little bit too much. But you cited kind of strong margin, strong performance in Ingalls. You didn't mention that about Newport. And I guess, if I backout the $25 million there looks like margins were under 7%. So you can you just talk about performance at that yard and just kind of what you're seeing there?

C. Michael Petters - *Huntington Ingalls Industries, Inc. - CEO, President & Director*

Yes. So at Newport News, we're executing very well across all of our programs. We are in that -- if you go back into the history of this, the delay of the carrier because of sequestration, kind of put Newport News in a place where they're sitting there today with a whole bunch of new programs. We're on the first half of the CVN-79, we're at the beginning of Block IV, we're at the beginning of an RCOH, and we're kind of even ahead of the beginning of Columbia class. And so in our kind of simple operating model is that at the beginning of all these programs, the risk registers are really, really high. And so we're very, very conservative. So that as I said many, many times, when you're operating outside, the business ought to operate between 9% and 10% if it's healthy. If you're executing and you're below 9%, it means you probably have a majority of new programs. If you are executing and you are above 10%, it probably means you have a majority of very mature programs. Well, what you're seeing in our shipbuilding business right now is exactly that. We have a lot of new programs at Newport News, we have a lot of mature programs at Ingalls, both yards are executing exceptionally well. The Navy is working closely with us, we're solving problems for them everyday. So the partnership is a strong as I've ever seen in my career. And I'm excited about that, but we've got to work through and it's going to be a grind for a couple of years. We've got to work through the beginning of these programs because they're all long-term programs. I am excited about the team at Newport News and the things that they are doing. And it's transformative for that business, it's 130 years old. 50 years from now, people are going to look back at the team at Newport News right now and say, those guys changed the business and drove the business forward in a way that set them up for the next 100 years. And that's an exciting thing to be part of.

Joseph William DeNardi - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP*

Okay. Chris, just on the CapEx guidance for the year. I guess, it would imply, depends on what your revenue estimate for fourth quarter is. But it would imply maybe a CapEx in fourth quarter of above 5% of sales. So I'm just wondering kind of the run rate into next year, should we think about next year's CapEx being above that 4.5% to 5.5% and then kind of coming down in '19 to get to the average through 2020?

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

Yes. So I'll talk about 2018 capital on the year-end call. But you're reasonably correct that next year will be a strong year relative to capital and then it will start to taper off.

Operator

Your next question comes from the line of Jason Gursky with Citi.

Jonathan Phaff Raviv - *Citigroup Inc, Research Division - VP*

It's actually Jon Raviv on for Jason. Just a quick clarification. Could you quantify that the TS benefit? How much of the 1Q reserve did you reverse out?

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

Sure. That's $13 million. So when you think about the $29 million we took in the first quarter, the remainder is about $9 million.

Jonathan Phaff Raviv - *Citigroup Inc, Research Division - VP*

Okay. And any visibility to getting that out?

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

No, that will be part of the bankruptcy claim. That could take a year, 18 months or potentially not at all depending on where it's resolved or when it's resolved.

Jonathan Phaff Raviv - *Citigroup Inc, Research Division - VP*

Got it. And then just a quick follow-up on the TS business, you mentioned integration's going pretty well. When do you expect to have that, those 4 units kind of firing on all cylinders? And then at that point, what's in the pipeline, what are some of the big opportunities we should be looking out for, that you guys are going after? How much of it is re-compete? How much of it is new work? And how do you see organic growth kind of shaping up with that integrated TS business?

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

Well, that's a lot of questions. We expect the TS business to be firing on all cylinders right now. Actually this week, we had a big integration milestone where we [all got] on the same or the majority of those businesses got on the same IT backbone. Some of the large opportunities you can look forward to are some large DOE opportunities, it's the LANL cleanup contract that is pending that we're looking to hear about. It's the Savanna River re-compete that's out there and then potentially the Seattle re-compete as well, and the name escapes me, the Hanford re-compete as well. So we expect them to be hitting on all cylinders right now. Again I expect that low single-digit revenue growth. I have previously said that we expect it to be $1 billion business this year. We expect that to be closer to $900 million now driven by the SCANA termination, some delays in SN3 awards and then the Camber sales. So it's closer to the $900 million, but we think we're in pretty good place to leap off for 2018. I don't know if I hit all your questions there.

Operator

And our next question comes from the line of Gautam Khanna with Cowen and Company.

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD and Senior Analyst*

Couple of questions. First, I was wondering if you could talk about the CVN-79 and how it's coming down the cost curve. Obviously, we discussed this last quarter after the June GAO report. But I wanted to get a sense for your conviction level on hitting those labor rates that you're hoping to hit. Any sort of metrics you could share with us?

C. Michael Petters - *Huntington Ingalls Industries, Inc. - CEO, President & Director*

Yes. What I would say is that when we came off of 78, we took -- we captured a lot of lessons learned like you do from a lead ship. And we made substantial investment in new approaches based on the lessons that we learned to drive man hours out of the program. At this point, where we are, as I think I pointed out that the ship is over halfway erected and it's about 35% complete. The investments that we made are paying off. As we go and we track through the -- we expected to get this much savings out of this kind of investment, whether it's a new facility or a new practice or a new process, we're seeing that. We're seeing that. Now we're a long ways to go. And we are on the front-end of the assembly and test piece of the business. And so there's still lots of attention has to be paid every single day to make sure that we capture it. But I'm very pleased with the progress we've made so far. When we made the investments, said where do you expect to be when you're 1/3 of the way through the ship, we were expecting to be where we are. And that's a pretty good thing for us. And we're pleased with that, we've got a lot of work to do ahead of us.

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD and Senior Analyst*

And to that point, were there any net favorable adjustments on CVN-79 in the period?

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

Nothing material enough to mention, no.

C. Michael Petters - *Huntington Ingalls Industries, Inc. - CEO, President & Director*

Really, the way we do our risk register the next big event on 79 isn't for a couple of years.

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

Right.

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD and Senior Analyst*

Okay. And then what were the net favorable adjustments at Ingalls in the quarter?

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

So total adjustments we had 78 positive, 22 negative. So a net of 56 and 60% of that was Ingalls.

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD and Senior Analyst*

Okay. And could you remind me of what the big risk retirement opportunities are in Q4, and maybe at a high level in 2018?

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

Okay. So for the end of the year, it's obviously, late in the year. But the last remaining delivery this year is DDG-114. So there's opportunity there. I will say that LP 27, while delivered in Q3, the entire analysis of the work to go on that ship will not -- is not complete yet and we'll complete that in Q4. So there's some opportunity on LPD 27. And then when you think about deliveries, I won't go into sub milestones. Next year, we have, on the first half of the year, Indiana and NSC-7. And then second half DDG 117 and LHA 7.

Operator

And our next question comes from the line of Pete Skibitski with Drexel Hamilton.

Peter John Skibitski - *Drexel Hamilton, LLC, Research Division - Senior Equity Research Analyst*

Mike, I wanted to ask you about comp line expectations with regard to your prior expectations of flattish top line through 2020. Just in light of and maybe this is simplistic, but in light of some of the incremental ship repair orders that have come in. And I think you mentioned the Fitzgerald, but I thought I also saw the Boise, and they both seem like very, very large repair orders. And I get the sense that maybe there's even more out there. So I'm just wondering if these incremental orders change your view of your top line particularly in '18 or '19 where maybe you have better visibility. Could you actually maybe see some growth there because of these incremental orders? Or is that just too much within the margin of error?

C. Michael Petters - *Huntington Ingalls Industries, Inc. - CEO, President & Director*

Yes, it's a good question. The way that I think about our shipbuilding business, you guys who have been with me for a while, I tend to think of it as being flat because it's been historically flat. These repair jobs are, they're not in the SG&A account, they're typically funded in the O&M accounts. And so and they tend to be not sustainable. I mean, they're hit or miss, there's one here, there's one there. And we do believe that there may be some opportunity for more sustainable repair, but that hasn't sorted itself out yet. And all of that, I think, won't sort itself out until you get the budget piece sorted out. If you look across our business, Pete, it's not hard to figure out that if you actually move to a budget profile and plan that says we're going to a 350-ship Navy, then there's opportunity for growth in shipbuilding over the next 5 to 10 years. But I'm just going to say, until I see the budget piece get worked out on that, I'm probably not going to move off of my projection.

Peter John Skibitski - *Drexel Hamilton, LLC, Research Division - Senior Equity Research Analyst*

Okay, okay. Fair enough. And just a quick follow-up. Just, Chris, your comments on Camber. I wanted to ask about that because I was looking at your sort of year-to-date revenues, I think $239 million at Camber. I think when you bought it, you said it was about call it a $365 million firm. So I don't know if 4Q is expected to be really strong or if maybe you pruned some lower margin revenue or lost something? Or can you just maybe give some more color on Camber?

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

Yes, sure. We're really pleased with the team there and the organization and the re-compete rate, win rate has been very, very good. What we need to continue to focus on is the new business and the new business pipeline, new business win rate. Team is very focused on it and we think we've got a lot of good opportunities that are filling the pipeline, which should set us up well for 2018.

Operator

(Operator Instructions) Our next question comes from the line of George Shapiro with Shapiro Research.

George D. Shapiro - *Shapiro Research - CEO and Managing Partner*

Mike, just want to follow a bit on Newport News. So if I assume the $25 million also was part of sales, even if I take it out, you still had 7% growth at Newport. So what slows down? Or what was abnormally strong this quarter? Because I would look at 7% as somewhat above flattish.

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

George, I'll take that one, this is Chris. It's really across the Block IV starting to kick in and CVN-79 being in full production and then CVN-73 being introduced. So it's across the portfolio at Newport News. We have some sales growth there in the quarter.

C. Michael Petters - *Huntington Ingalls Industries, Inc. - CEO, President & Director*

And, George, I would add that when we say flat, what we're talking about is a flat shipbuilding budget account for our shipbuilding businesses. So you may see some growth in one part of our business with some challenges in other parts of our business. And then I would add that what you see in one particular quarter is probably not indicative of a 5-year trend.

George D. Shapiro - *Shapiro Research - CEO and Managing Partner*

Okay. And then one follow-up for Chris. Will we see operating cash flow in Q4 better than the Q4 of '16?

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

Well, I've spoken previously about $150 million of headwinds I have in cash, or we have in cash this year compared to last year. That being said, we're working very hard to offset it. But I still see that, that sort of headwind. And Q4 historically is a strong quarter for us. We expect it to be the same. So I think the best way to kind of think about cash now is $150 million of headwind, but we're working very hard to offset it.

Operator

And our next question comes from the line of Rob Spingarn with Credit Suisse.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

I jumped over from another call. So hopefully, I don't ask anything that's been asked. But I wanted to go over couple of small things that I hope were not discussed. But before that on the back of Gautam's question on Newport News and profitability on 79, can that yard be a 9% yard between now and when you float off that ship, 79, in 2020? Or is this a 78 -- 7% to 8% margin that business during that period because of 79?

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

Well, I think Mike has represented it is the way to think about is total shipbuilding is 9% to 10%, I know you may be frustrated with that answer. But we're going to have quarters within each business that is greater than 9% or less than 9%, greater than 10% or less than 10% on a quarter-to-quarter basis. So it will move around a little bit. But the best way to think about it is 9% to 10% on a long-term basis.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

Well, Chris, the way I think about that is simply that, yes, if you're at 9% to 10% and Ingalls can hang around and maybe this is another one of my questions, may we will get another LPD. Do we get a plus up in '18? And Mike, that's a question for you and get an LPD 30 perhaps, does Ingalls continue at an 11%, 12% type of rate offset by Newport News at 7% plus because CVN-79 is a fixed-price ship as we know and you're booking conservatively in the beginning and therefore you've blend out the 9%?

C. Michael Petters - *Huntington Ingalls Industries, Inc. - CEO, President & Director*

So how many ifs do you want to put in there?

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

Actually the only if is the LPD 30.

C. Michael Petters - *Huntington Ingalls Industries, Inc. - CEO, President & Director*

Well, yes. So you've got -- you certainly have CVN-79's big milestone will be when it launches. But between now and then, you'll be finishing Block III, you'll be finishing or mostly finishing an RCOH and getting ready to start the next one. And so I believe Newport News can proceed better but the macro trend at Newport News is if they're on the front-end of the bunch of new programs across all their product line. Ingalls is, on the other hand, they're in the mature phase. They're in the mature phase of several programs, but just about every one of their programs has got a little bit of a question mark about what's the connection to the next one. Where is the NSC program going to go? How is the LPD program going to connect, you talk to that with the LPD 30, how does that feel into it, how's the timing of that fit? How is the timing of LXR start? I mean, if LXR is or LPD Flight II or however we designate it is at the same rhythm of the LPD program, then maybe you have a mature program for a while. If on the other hand there's a delay and there's a transition and it becomes something at a little bit different rhythm than because of the budget process, then it may start more conservatively and that put pressure on that. So I think our point is that we're executing really well across our business, the results that you see are the results that you would see from a business that is executing really well. And as we go forward, we will take advantage of those opportunities to grab those opportunities for step ups along the way. That's how we run the business. And trying to predict more than that in the climate is probably a little bit beyond my ability.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

Okay. And if I can just ask you a couple more small things. Going back to the LPD 30, so I was going to ask you if you think there's a decent chance of that or do we bridge to LXR from 29, it sounds from what you said before that's still a big unknown. But is there a little bit more bias one way or the other?

C. Michael Petters - *Huntington Ingalls Industries, Inc. - CEO, President & Director*

My personal view is, I think LPD 30 ought to be the first of the next class. And it ought come in the time sequence that LPD 30 would come. That's what I would -- that's what we advocate for, that's how we are talking about the smart way to move that program forward. There's a lot of chefs in that kitchen, so we'll see how that turns out. But that's the way we see it and that would be the best way for it to move forward for the country, for the Navy and for ourselves.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

Okay. And then, just earlier I think I was looking at the transcript you were talking about the benefit of multi-years. And I'm wondering if you have any feel for when we might see a multiyear competition for 2018, 2022, DDG 51s. And as a second part of the DDG question, are you concerned at all about the challenges or performance challenges of moving to Flight III? Or do you think those ships can be as profitable?

C. Michael Petters - *Huntington Ingalls Industries, Inc. - CEO, President & Director*

Yes. The thing about the competition is that every time you have a competition, it kind of resets your risk register and it ultimately resets your view on the return on the program. We felt that it was really important, first of all, for the Navy to get Flight III in their hands as quick as possible so they can start operating it and seeing what they can do with it. Secondly, we would have a chance to get -- build it and get it under our belt so that we could understand where the risks in that program were. And so we went and we did -- we made an arrangement with the Navy to begin a Flight III ship in the last multi-year. We think that sets us up pretty well for the next block of ships that are coming and that will help the Navy get the ships they need when they need to get them. It's pretty early in that and so we'll see how that plays out. But that's our view of it. We don't see anything that jumps out of us as being unobtainium from the standpoint of how the heck are we going to build that. So this is what the Destroyer program has been doing for decades. They have been doing -- they do serial production of their ships and they do block upgrades. This is just the next block upgrade.

Operator

And our next question comes from the line of Joseph DeNardi with Stifel.

Joseph William DeNardi - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP*

Mike, just to clarify what you said on CVN-79 in terms of the risk retirement schedule, the next opportunities in a couple of years. Just so I understand, like that would be the next opportunity to recognize a favorable adjustment, but if there's cost growth on the program you would recognize it earlier than that? Or would you wait...

C. Michael Petters - *Huntington Ingalls Industries, Inc. - CEO, President & Director*

No. If we see cost growth on the program, we don't wait. The problem with waiting is you start hoping that it'll get better. In my experience, it typically doesn't. And if you wait, it starts to build up and then next thing you know you're breaking your legs because you have a big number instead of a small number. So we actually prosecute those things as quick as we can and recognize those as quick as we can to head them off. And the 79 team right now is doing a very good job of that.

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

And, Joe, this is Chris. We evaluate those EACs every quarter.

Joseph William DeNardi - *Stifel, Nicolaus & Company, Incorporated, Research Division - VP*

Okay. And then, Mike, just maybe a higher level question. You guys have obviously, done a really impressive job with margins, kind of since the spin and the stock price and the amount of value you've returned to shareholders reflects that. But when you look at the situation at Newport now with 79 and Virginia-class, is that maybe the most challenging set up from a margin standpoint or a risk standpoint that you faced since the spin? Or is this just kind of normal course of business for you?

C. Michael Petters - *Huntington Ingalls Industries, Inc. - CEO, President & Director*

Well, I mean, I think the challenge at Newport News is a good challenge to have because there's clearly a demand for that work to be done, and there's opportunity for that team there to go and prosecute the demand and improve the performance of the business. But I'm going to take you back to the beginning of the spin. I mean, when we spun this business out of Northrop Grumman, we had 5 ships underperforming at Ingalls, and we had 5 contracts that we needed to get that we did not have. That environment in the first couple of years where -- that environment was significantly more of a challenge to us than where we are with Newport News. I mean, at Newport News, we know what we got to go do there. At Ingalls back in those days, we were working through the last 2 ships at Avondale, we were trying to figure out how do we get the LPD program on a single production schedule and try to get it into serial production from a production line that actually existed in 2 different shipyards. We were trying to get the Coast Guard to move to a rhythm on National Security Cutters. We were actually doing a lead ship LHA 6 was a new ship design. I don't think where we are today compares to that at all. And so, I'm excited about what we can do at Newport News. I think we have a great opportunity there over the next couple of years to really set that business up for the next several decades. That's a pretty cool place to be. My team at Ingalls fought through that fight in the first couple of years after we spun out. And frankly, they have become exceptional at harvesting the mature programs that they, in fact, created by going to serial production of these programs. So I wouldn't say it's the most challenging now. I would go back to the beginning.

Operator

And our next question comes from the line of Rob Spingarn with Credit Suisse.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

On the IPPD contract for Columbia, this $5 billion contract that went to GD for early design work. And I don't know if you covered this earlier, but is there any -- can we infer from that any participation for Newport News for you? And is there a way to quantify that?

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

Of course. And we expect an award, a formal award difinitization of that in Q4. We don't -- I haven't published a quantification of that as of yet, but we will participate.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

And when will that work start to ramp?

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

I mean, it's basically, the ramp-up has already begun on Columbia. And this just continues over the next couple of years. This is all the work that has to be done ahead of the first ship. [Down] in 2021 if you want to try to lay it in there.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

Just trying to figure out if it's a significant piece of business, obviously the program is very significant but from a revenue perspective and you've talked about the top line quite a bit on today's call. But is this something we're going to notice?

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

It becomes more significant as you move through the next couple of years towards 2021 for sure.

C. Michael Petters - *Huntington Ingalls Industries, Inc. - CEO, President & Director*

And I would just would add, this work is actually at least as important as the first piece of ship building that we do and the fabrication because this is where we're actually getting the design sorted out. We're figuring out how we're going to build it, all of those things. And a lot of decisions that are being made right now will drive the effectiveness and efficiency of the construction. So it's a very important contract, it's a very important step forward by the program. It's very important that, that program continue to be funded in this phase. And Rob, I think you and I have talked about sometimes there's a view, well it's just design work, maybe it's fungible we can move it around. You really shouldn't be moving this money around politically from a budget standpoint. This is critical that this stay on track.

Operator

And our next question comes from the line of Gautam Khanna with Cowen and Company.

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD and Senior Analyst*

First of all, I just want to make sure I have this right. Tax rate for the year implies a pretty steep step up in Q4, is that correct?

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

Not really, it's 30% to 32%. So I think we're (inaudible) the day around 29%. So not a significant step up, no.

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD and Senior Analyst*

Okay. Still 31%. All right. I just also want to be clear. In terms of fiscal '19 budget request, what are the main things that are big opportunities for you guys? What is it that you're looking for? Is it the LXR getting pulled forward? Or is it the stuff you talked about in the script? Just curious what is sort of the bull case that we should be hoping for in terms of programmatic moves?

C. Michael Petters - *Huntington Ingalls Industries, Inc. - CEO, President & Director*

Yes. I think at the very first in line is a decision to move out on a multi-ship procurement for aircraft carriers. There's a lot of discussion about that, there's a lot of work being done on it. It's an influence in the discussion around the FY '18 budget at this point. But to actually do that, you actually have to start moving towards creating the contract to do it. You got to start creating the arrangements with the supply chain to get it done. And so that's really kind of the first thing in line that I think needs to be done. Frankly, it's going -- if we don't get something in the '18 authorization and appropriation, it starts to cut into the amount of savings you could get from the 2-ship procurement. Behind that, I think it's the LXR. I think getting the amphibs in sequence and getting them moved forward, those are -- that's a great opportunity for the Navy to get ships to the fleet faster and more affordably. And I really think that, that is the next thing in line. And from there, I think we head down the normal course of business. Block V is coming, the next multi-year on Destroyers are coming and the rest of the business starts to fall into place. But those are the 2 big things, is the amphib and the carrier.

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD and Senior Analyst*

And on the DDG multi-year buy, is that still expected sometime in June of next year something like that?

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

Yes. I think that's on schedule.

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD and Senior Analyst*

Okay. And VCS block buy, when should we expect that?

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

A lot of work in '18 but it's probably a '19 program.

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD and Senior Analyst*

And, of course, the debate there is 3 or 2, right? That still has to get sorted. And then lastly, icebreakers, what's -- what are you expecting if anything on movement there?

C. Michael Petters - *Huntington Ingalls Industries, Inc. - CEO, President & Director*

Well, we're engaged in that program and watching it as it moves forward. And we expect to respond and engage in -- I think we built the last one. So we are staying very close to the Coast Guard on that.

Christopher D. Kastner - *Huntington Ingalls Industries, Inc. - Executive VP of Business Management & CFO*

And that's probably 2019, Gautam.

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD and Senior Analyst*

In terms of the budget should we be looking out for anything specific on icebreaker on the '19 request?

C. Michael Petters - *Huntington Ingalls Industries, Inc. - CEO, President & Director*

Well it's scheduled to be awarded in '19, there needs to be funds.

Operator

And I'm showing no further questions at this time. So with that, I'd like to turn the call back over to CEO, Mr. Mike Petters for closing remarks.

C. Michael Petters - *Huntington Ingalls Industries, Inc. - CEO, President & Director*

Well, thanks to everybody for joining with us today. As you can tell from our results and our discussion, we're executing, we continue to execute well, our financial results are very solid. We remain committed to our cash deployment strategy. Our teams are focusing on safety, quality, cost and schedule, and we appreciate your interest in our business and we look forward to seeing you wherever we might bump into each other.

Thank you, all, very much.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a wonderful day.
