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EDITED TRANSCRIPT

LLL - L-3 Communications Holdings Inc at Goldman Sachs
Industrials Conference

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CORPORATE PARTICIPANTS

Noah Poponak *Goldman Sachs - Analyst*

Ralph D Ambrosio *L-3 Communications - SVP and CFO*

PRESENTATION

Noah Poponak - Goldman Sachs - Analyst

Okay, good morning, everyone. I'm Noah Poponak, Aerospace & Defense Analyst on the Goldman Sachs Industrial's research team. And we're going to move right along with our next Aerospace and Defense sector presentation, which will be L-3 Communications. And with us from the Company, we have Mr. Ralph D'Ambrosio, CFO.

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Good morning, Noah.

Noah Poponak - Goldman Sachs - Analyst

Good morning. That's a nice slide to start with there.

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Well, I can't figure out how to black the screen out or move the slides. So, maybe folks in the back can take care of that for me.

Noah Poponak - Goldman Sachs - Analyst

So, Ralph, you guys made a fairly big splash recently vis-a-vis the management team and so I wondered if you could maybe just spend a minute discussing the announcement of Mr. Kubasik and why and what you think he brings and what's the ultimate end game plan here with Chris.

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Sure. So that question came up a couple of times last Thursday when we reported our third quarter earnings and Mike explained that he brought Chris on board to join the management team to essentially accelerate the changes that we're making at L-3 and I'll briefly cover those.

So I would say that we're focused on three things and they're all interrelated and there are in no particular order. Number one, we are presently focused on strengthening the portfolio of our businesses. So call it shaping, reshaping, transformation pick your verb. On the bottom line, we're trying to make the portfolio stronger such that L-3's overall competitive position is enhanced as well as our growth outlook and margin expansion profile.

And those are the second and third objectives. So we're also very interested in improving the Company's overall program or operational performance as a main driver to expanding our operating margins. And then lastly, we also want to return the Company to growing again to a growth profile which makes sense given what's happening -- the favorable things happening with the US defense budget now and then next few years.

So he is basically going to having an operational role, but also involved in the portfolio and all the things that goes with it and the key theme is that Chris is going to help L-3, Mike and I together accelerate the changes -- the positive changes that we want to bring to L-3. So it's the portfolio, margin, expansion and growth.



Noah Poponak - Goldman Sachs - Analyst

On the portfolio. So NSS there is an exploration going on there. How much more can happen? I mean the other things that would happen, are there more likely to be smaller, minor changes or could it add up to a pretty large number of things that go away or come on board through acquisition or total change.

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Well, in addition to NSS, I think it could be some more meaningful or significant changes on the scale of NSS and last week when we provided our preliminary outlook for 2016, I explained the situation that we have within the Aerospace Systems segment and how the three sectors have very divergent trend lines and logistics solutions and aircraft systems, which together comprise a little less than \$2 billion of next year's sales have their operating margins, are 2%, 3% respectively compared to 10% for the ISR systems sector within aerospace.

So, clearly 2% and 3% does not satisfy L-3's objectives for where we want our margins to be. So there is potentially something that could happen in those two areas.

Noah Poponak - Goldman Sachs - Analyst

Anything in the other segments?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

There are other things, but those are the items that are relatively small in nature, almost rounding items.

Noah Poponak - Goldman Sachs - Analyst

Okay. Those are the big ones.

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Right, that's what it seems to be the case, yes.

Noah Poponak - Goldman Sachs - Analyst

What are the margins of those two business has been over a longer period of time? Because, I wonder how much of what's going on there is possibly temporary, where you could organically fix those versus (multiple speakers).

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Last week, I explained that they both have -- we expect to be able to improve the margins in both of those business areas, but we want the Company's overall margin profile to be well north of 10% into the low-teens area and it's unlikely that those two sectors can get there. So they are very good businesses, but they probably cannot improve to those types of margins that we want for the overall Company.

Noah Poponak - Goldman Sachs - Analyst

How difficult is a sale process of -- the businesses like those with that margin profile, NSS given its margin profile and the top line headwinds that are going on there. How can you solve these things.



NOVEMBER 03, 2015 / 01:40PM GMT, LLL - L-3 Communications Holdings Inc at Goldman Sachs Industrials Conference

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Well, despite what their margins are relative to the rest of L-3, those are all good solid businesses and they may fit better elsewhere with near peers for example. So the key thing is, they are good businesses and there may be opportunity to create more value for our shareholders if they are somewhere else.

Noah Poponak - Goldman Sachs - Analyst

You mentioned what's going on with the budget, fairly open-ended, but what's your take on what transpired last week?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Well, what transpired with the bipartisan budget agreement 2.0, which is being called. That's a very encouraging positive development because it takes away the risk that stems from the CR for FY 2016 and it provides stability to the Department of Defense budgeting for the next couple of years. And I expect that after FY 2017 when we have a new administration regardless of which party it is, there will be continued improvements in the DoD budgets for FY 2018 and beyond.

Noah Poponak - Goldman Sachs - Analyst

So, that's what I was going to ask you. So those numbers looked really good, but from a rate of change perspective, the 2016 rate of change would be very good, 2017 would be kind of low single-digit, 2018 would actually then be down a little bit or kind of flattish, but it sounds like you think you could keep getting incremental new version with these types of agreements?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

So, I think if you -- two things. One, if you smooth-out what's expected to happen to the budget growth rate in FY 2016 and 2017, it looks like it's a 2% to 3% type growth rate if you include the base budget and the OCO. So, there definitely will be much greater growth in the budget, particularly in the investment accounts for FY 2016, but that doesn't all get metered out in the first year. So, I think you have to smooth it out. It looks like it's 2% to 3%.

Secondly, the additional budget of approximately \$40 billion, \$25 billion for FY 2016 and \$15 billion for FY 2017 to the base budget is a little more than half of the increase that the administration wanted or requested for the base budget. So, clearly there is a desire for more budget than what's being allotted in the BBA 2.0. So there is going to be some -- we are likely going to still be in a constrained situation and the administration and the DoD will have to make some re-programming decisions, given the overall budget situation, being less than what they requested. So, but it's definitely very positive, heading in the right direction.

Noah Poponak - Goldman Sachs - Analyst

Yes. So, you think 2016 or did I hear it correctly that you think 2016 investment will grow faster than the base.

Ralph D Ambrosio - L-3 Communications - SVP and CFO

That's what's currently anticipated.

Noah Poponak - Goldman Sachs - Analyst

Is that in the deal or that was in the request?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

I think that's in the deal for FY 2016.



Noah Poponak - Goldman Sachs - Analyst

Okay. You mentioned that taking away CR risk and it would seem like taking away CR risk, having stabilization in the budget, having a budget that's growing a little bit could be potentially very positive for shorter cycle defense. How would you characterize how much of your business is short cycle and where that immediately changes things and had you actually already seen short cycle starting to stabilize and improve even before this. Obviously, the budget deal was last week, but even before the [stand by].

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Sure. So yes, a few questions there. So one, on the short cycle nature of L-3's business. Since we don't have a lot of long lived multi-year contracts because we're not a platform OEM, by our very nature, our business turns over more rapidly. We actually price most of it or the substantial majority of it on an annual basis. So that's where our short cycle nature derives from and there definitely has been stabilization in the short-cycle side of the DoD budget.

By virtue of the budgets flattening and they've actually have been flat for the last couple of years. So, I think you're starting to see that in the sales growth rates across the industry and also within L-3. But as I said, we're still in a budget-constrained situation, given that with the administration ask for about the (inaudible) that are not getting everything they wanted. They are probably short by \$15 billion or so per year. That's something likely be made up for in the OCO line, but that remains to be seen. So, clearly the trajectory from here forward is an improving one.

Noah Poponak - Goldman Sachs - Analyst

Are there any current geopolitical events that you're seeing actually directly impact your business?.

Ralph D Ambrosio - L-3 Communications - SVP and CFO

None, I would say directly and when we talked about L-3's OCO Afghanistan type related sales for 2015. A year ago, we thought it was going to be about \$450 million in sales. That \$450 million is more like \$550 million to \$575 million in 2015. So there has s been a, roughly \$125 million improvement or roughly 1% of our sales.

Noah Poponak - Goldman Sachs - Analyst

Can you tell where that's coming from?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Well it's coming from Southeast Asia and some parts in the Middle East.

Noah Poponak - Goldman Sachs - Analyst

And what products?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

It's mostly our ISR Systems sector, in the small ISR aircraft.

Noah Poponak - Goldman Sachs - Analyst



In terms of international. How big is it now for L-3? How big is it in the planning period a few years down the road? And what are some of your bigger opportunities there?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Okay. So international sales which is foreign government sales is about \$1.8 billion in 2015. And I explained last week that the international business is less predictable, lumpier than the DoD business and that we are expecting about a 15% decline organically in those sales. So that \$1.8 billion goes to roughly \$1.5 billion or so.

But after 2016, we expect the international business to resume growing for L-3 and we expect it to be an enduring growth driver for the Company. Most of the opportunities are going to be in the ISR Systems area as well as other business areas or businesses in Electronic Systems. That's where we tend to have our biggest ticket items.

Now most of what we sell is small-ticket items. So a lot of different products, sub systems that we sell across the Company, but the biggest individual items are definitely in the ISR Systems area, whether it'd be small or large ISR aircraft mission systems, et cetera.

Noah Poponak - Goldman Sachs - Analyst

And what specifically is behind the decline?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

We have three large international contracts in aerospace systems that are nearing their completion and they're with three different foreign customers that are very important long-term customers for L-3 and we expect we will have other opportunities, other business with each of those customers. But it's not a linear situation and thus the lumpiness that I talked about couple of minutes ago.

Noah Poponak - Goldman Sachs - Analyst

Will those all be fully washed out at the end of 2016?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

No. They continue for a year or two later, but they're taking a rather large step down of about \$150 million in sales in this year to next year.

Noah Poponak - Goldman Sachs - Analyst

So there will also be a little bit of a negative headwind to the growth rate in 2017?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

On those contracts, yes, but we expect new business to more than offset that.

Noah Poponak - Goldman Sachs - Analyst

Do you think total international will grow into that?

Ralph D Ambrosio - L-3 Communications - SVP and CFO



Well, yes. And I said last week, it's contingent upon us converting and booking new business -- new orders over the next year, which we expect to do and to accomplish and we'll update everybody accordingly as the year progresses or as next year progresses.

Noah Poponak - Goldman Sachs - Analyst

So, back to the major strategic changes you are going after with one of them being growth. What are the growth opportunities? What are the bigger programs that can drive growth? What are the new products that can drive growth? Or is a lot of that the accretion to the growth rate of shedding lower growth businesses?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Well, it's both of those items. So, with respect to programs or platform, we're not tied to any single or handful of large programs to drive our growth. Our revenue base is very diversified. So, what we have is enabling --

Noah Poponak - Goldman Sachs - Analyst

That's a good thing, but it also makes it hard to envision differentiated growth?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Yes, that's correct. But we have a lot of enabling technologies and solutions in the areas of protected communications, A2/AD operations, space-based assets and protection, advanced ISR, unmanned systems. So those are areas that we see fitting in very well with the US government, the DoD priorities particularly in the classified markets.

And we talked last year how we've stepped up our R&D particularly going after the US government classified markets in 2015. That will continue in 2016 and after next year because we see very good growth opportunities in the next few years in the classified space and those budgets are also among the largest -- if you look at any platform line items, they're definitely the largest and they're also growing.

Noah Poponak - Goldman Sachs - Analyst

How much of that is space?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

For L-3?

Noah Poponak - Goldman Sachs - Analyst

No, of the overall growth in classified?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Well, if you listen to what's coming out of OSD, it's a priority area. They don't really parse it out because it's very sensitive, but it's a priority area.

Noah Poponak - Goldman Sachs - Analyst

Are you able to discuss what do you do specifically in space?



Ralph D Ambrosio - L-3 Communications - SVP and CFO

Just think about L-3's key capabilities in communications, in sensors and ISR. So that kind of explains what our value add would be?

Noah Poponak - Goldman Sachs - Analyst

What happened then? It seems like there's a bit of a sudden wake up call to protect military assets in space.

Ralph D Ambrosio - L-3 Communications - SVP and CFO

I think the nation has been encumbered in what's been going on in Iraq and Afghanistan the last decade, for good reason. But that's the asymmetrical threat. There also are symmetrical threats, near-peer threats and I think that's what driving the other part. That's what driving space and the third offset for that matter.

Noah Poponak - Goldman Sachs - Analyst

Are you able to quantify even in very rough order of magnitude, how much of your business you would categorize as space asset protection?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

I am able to, but I'd rather not.

Noah Poponak - Goldman Sachs - Analyst

Okay, what about unmanned? How big is unmanned now for [L-3]?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Unmanned, in terms of actual vehicles, it's probably about a \$100 million a year and it's been growing at a nice pace the last couple of years.

Noah Poponak - Goldman Sachs - Analyst

And what about content on other people's vehicles?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

That would be several hundred million dollars, particularly on the communication data link side, where we provide the communications on most UAVs regardless of class, in terms of size. So very strong positions in data communications across the whole UAV spectrum.

Noah Poponak - Goldman Sachs - Analyst

So you don't really have any outsized exposures to any given bird, you're pretty diversified?

Ralph D Ambrosio - L-3 Communications - SVP and CFO



NOVEMBER 03, 2015 / 01:40PM GMT, LLL - L-3 Communications Holdings Inc at Goldman Sachs Industrials Conference

Yes.

Noah Poponak - Goldman Sachs - Analyst

Okay, on the aircraft mod issue, it was nice that there was no one in charge.

Ralph D Ambrosio - L-3 Communications - SVP and CFO

You mean Head of State?

Noah Poponak - Goldman Sachs - Analyst

Yes. What's the latest there? What were you able to accomplish in the quarter to not have to take a charge and how much what left [to job there]?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

So you may recall that we inserted a new management team in the middle of April and corporate with that new management team spent the entire second quarter getting our arms around those three contracts. And the good news is, since then the revised schedules and estimates that we had for those contracts, they've been holding and we've been performing well in terms of achieving the performance milestones that have occurred and that have been scheduled to occur since then.

So, I would say that all three of those contracts are stable right now. And we're not going to deliver the aircraft, those three aircraft until next year and then in 2017. So there's still some wood to chop, as you've explain or said it, but we're definitely on top of those programs. The new management team is doing an excellent job of performing on them. So, we think those are under good control and shall remain that way. So, no more surprises in Head of State.

Noah Poponak - Goldman Sachs - Analyst

Expect no more surprises?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Correct. At least no more negative surprises. If things go well, we could have some upside opportunities when we get into 2017.

Noah Poponak - Goldman Sachs - Analyst

You mean, better on cost?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Yes. But that will be resolved when those programs near completion. So, too soon to tell right now.

Noah Poponak - Goldman Sachs - Analyst

So it seems like the turn there has changed pretty substantially versus when you reported this. When I read the second quarter transcript, it almost sounds like you're saying expect more negative surprises. There's a good chance --

Ralph D Ambrosio - L-3 Communications - SVP and CFO



We didn't (multiple speakers) that was not our intention.

Noah Poponak - Goldman Sachs - Analyst

Okay.

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Our intention was to say that we have gotten our arms around those three contracts.

Noah Poponak - Goldman Sachs - Analyst

I'm talking about two quarters ago?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Two quarter ago, we just had gotten a new management team in. They were going through the estimates. There was the possibility for changes and we definitely had those in the second quarter.

Noah Poponak - Goldman Sachs - Analyst

Why I don't see if there are any questions for Ralph in the audience? Anybody?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

You have asked all the questions again, Noah?

Noah Poponak - Goldman Sachs - Analyst

Can you give us an update on your commercial businesses, how each is trending and if those are all still the right businesses for L-3 as part of the portfolio review?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Sure. So, our commercial business is concentrated in three areas. There are others, but there are three primary areas. One is aviation products or avionics equipment. So, given the short-term and long-term trends for commercial aero, we think that's an excellent place to be now and in the future.

The second area is also related to commercial aviation, on the training and simulation side and that's where we also made an acquisition in May, when we acquired the CTC Aviation Group. So the training simulation demand looks really solid and CTC adds the aircrew pilot training element to it as well, which also looks like it has very good long-term growth prospects, especially when you consider the demographics around pilots around the world.

And then the third area is space and wireless communications. A lot of it tied to commercial satellite OEM build cycles and that's where we're going to have a decline in our sales there next year versus 2015. I said it's probably in the \$60 million to \$70 million range. This is in Communication Systems segment and that's due to -- well it looks to be like a slowdown in new sat orders, which the industry expects to recover next year.

So that looks like it's only going to be a short-term aberration in the growth in that commercial business area. So those are the three main areas in which and they are all good, enduring long-term niches in the commercial markets for us to be in.



Noah Poponak - Goldman Sachs - Analyst

Is it known why that commercial side slowdown is occurring or is it just small (multiple speaker).

Ralph D Ambrosio - L-3 Communications - SVP and CFO

I think some of it's been the EXIM Bank delays, that's been a factor. Our primary competitor in the Power Device, the TWT area, is a European company. So with the - what's happened with the Euro has definitely given them a pricing advantage which we're adjusting to and we'll definitely adjust to it. But it's definitely added to the overall situation with the order flow for 2015.

Noah Poponak - Goldman Sachs - Analyst

In simulation and training, how concerned is L-3 with what Textron is up to there?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Well, we're concerned because they're new competitor entering the market. They're entering it for the same reason that we're there. They see it as a solid, robust growth market in the future. But we're very accustomed to competing and we compete very well in most of our businesses and that we don't have the luxury of having a lot of sole sourced business anyway. So, L-3s business model is very competitive by nature and given what we offer, and where we -- the end market that we compete. So we're accustomed to competition, whether it be fierce or not. So, we'll deal with it productively, I hope.

Noah Poponak - Goldman Sachs - Analyst

Remind us where the majority of the avionics exposure is in terms of aircraft segments and the trends you're seeing there right now?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

It's almost spread equally across the three broad segments, if you will. So between large commercial air transport would be one, business regional would be two, and then general aviation.

Noah Poponak - Goldman Sachs - Analyst

What are you seeing in each?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Well, the large, commercial transport looks the most solid. There has definitely been a lot of -- there has been a slowdown in the biz-jet market, but that's not new. I think we've been experiencing that for several years. So the question is really when it turns or improves and the GA market has basically relatively stable to slow growth for us.

Noah Poponak - Goldman Sachs - Analyst

Okay, in terms of margins, maybe walk us from the 2014 actuals or the 3Q 2015 actuals to how -- the major moving pieces that get you into the low teens.

Ralph D Ambrosio - L-3 Communications - SVP and CFO



Okay, so we'll take that by segment. So if you looked at our third quarter results, I've said the operational or margin performance in Electronic Systems and Communication Systems was on track with the margin expansion profile that we've been articulating for the last year and half or so.

And when I last talked about it, we said for Electronic Systems, by the time we get to 2017, we want those margins to be in the 13% to 14% range. I said next year they're going to be in the mid-12% range. So we're definitely on our way to getting to that level. Once we get to 13% to 14%, we'll continually to try to do better, but let's get there first.

In Communication Systems, we said that by the time we get to 2017, we want those margins to be in the 10% to 11% range. And I said that for next year we expected the Comm System segment margins to be in the low-10% range. So we're definitely on track there as well.

The other two segments Aerospace Systems and NSS, like I said last week that those are not satisfying our objectives for where we want the Company margins to be and to trend to and we already talked about that today.

Noah Poponak - Goldman Sachs - Analyst

So, if the potential shedding occurs, you're kind of automatically there with the remainder? I guess, ISR systems is --

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Well, 10% and depending on where they are in their cycle on the international work which is higher profit margins, they are above 10%. So 2015, the margins are above 10% there, comfortably above the 10%, 12%, 13%. And I said, next year that margins are [about] 10% there and that's due to the lower international sales that we already talked about as well as the final step down of a \$100 million or on in the small ISR work related to Afghanistan, which has also good margin. So 10% next year and should be above 10% in 2017.

Noah Poponak - Goldman Sachs - Analyst

And what's the long-run potential sustainable margin in that business? Is 12% to 13% possible or is that abnormally high because of mix?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

I think I would suggest that unless we have a dramatic shift in the business to more international, that's abnormally high and not sustainable.

Noah Poponak - Goldman Sachs - Analyst

So that's kind of maybe an 11% to 12%-ish longer-term?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Correct.

Noah Poponak - Goldman Sachs - Analyst

So you're kind of 11% to 12%, 10% to 11% and 13% to 14%, but 13% to 14% is in your largest business?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

And in Comm systems --



NOVEMBER 03, 2015 / 01:40PM GMT, LLL - L-3 Communications Holdings Inc at Goldman Sachs Industrials Conference

Noah Poponak - Goldman Sachs - Analyst

It could be higher?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Margins should trend to above 11% if we execute in the next few years.

Noah Poponak - Goldman Sachs - Analyst

Yes.

QUESTION AND ANSWER

Unidentified Audience Member

(inaudible - microphone inaccessible)

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Well, I think initially it maybe a smaller L-3, but one that grows at a faster rate thereafter.

Unidentified Audience Member

Okay. Because the proceeds that you're going to get from all these asset dispositions is going to very much right and on 2% to 3% basis. So I assume that all your proceeds is going to be used for stock repurchase and things like that? Are we going to see a much smaller L-3 going forward? And you're going to go there and do a big acquisition, you're not going to have the cash to do it. So, I assume that somehow, you [haven't] used your stock to buy companies anyway, right. So is it going to be because of that or are you going to do a big acquisition?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

I said initially, you may see a smaller L-3, but it would be a stronger, better growing, higher profit margin L-3 and then we'll grow it from there. And good performance brings a lot of opportunities and we're looking forward to those as we step-up our performance the next several years. I don't want to speculate on whether we'll make big acquisitions or not or how we'll finance them. I do know that to the extent that we can improve our performance, it's going to improve our opportunity set and our flexibility, for that matter.

Noah Poponak - Goldman Sachs - Analyst

Any other questions? Here in the front.

Unidentified Audience Member

Alright, just wanted to follow up on that. I guess, the third quarter elaborates up slightly sequentially, I guess, about [one-tenths] of a turn and you talked about in the next quarter, you want to pay back -- in last week you said, probably \$300 million debt but when you talk to the rating agencies and I guess I just want to get your thoughts about the leverage ratio, the target and how important the investment grade ratings are to you?



Ralph D Ambrosio - L-3 Communications - SVP and CFO

Well, we've said that we want to maintain our investment grade credit ratings. Not improve them, but to maintain them. So, therefore they're important to us. Each of the rating agencies publishes and I would say explains very well how they calculate leverage. So we meet with them and we pay attention to their calculations.

Unidentified Audience Member

In terms of the target leverage ratio?

Ralph D Ambrosio - L-3 Communications - SVP and CFO

We don't have any particular target in terms of leverage. The objective is to preserve the ratings. So, as we move into what we expect to be an improving margin and improving top line, that should help the ratings. Help the leverage rather and EBITDA there.

Noah Poponak - Goldman Sachs - Analyst

Okay, I think we're out of time. So, Ralph, thanks so much for being with us. appreciate it.

Ralph D Ambrosio - L-3 Communications - SVP and CFO

Thank you. Thanks for having me.

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