

2015 Investor Conference

Financial Review

December 8, 2015

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This presentation consists of L-3 Communications Corporation general capabilities and administrative information that does not contain controlled technical data as defined within the International Traffic in Arms (ITAR) Part 120.10 or Export Administration Regulations (EAR) Part 734.7-11.



Forward-Looking Statements

Certain of the matters discussed in these slides, including information regarding the company's 2015 financial guidance and 2016 initial guidance are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than historical facts, may be forward-looking statements, such as "may," "will," "should," "likely," "projects," "financial guidance," "expects," "anticipates," "intends," "plans," "believes," "estimates," and similar expressions are used to identify forward-looking statements. In addition, all statements regarding full year 2015 or 2016 financial results are forward looking. The company cautions investors that these statements are subject to risks and uncertainties many of which are difficult to predict and generally beyond the company's control that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. Some of the factors that could cause actual results to differ include, but are not limited to, the following: our dependence on the defense industry; backlog processing and program slips resulting from delayed awards and/or funding from the Department of Defense (DoD) and other major customers; the U.S. Government fiscal situation; changes in DoD budget levels and spending priorities; U.S. Government failure to raise the debt ceiling; our reliance on contracts with a limited number of customers and the possibility of termination of government contracts by unilateral government action or for failure to perform; the extensive legal and regulatory requirements surrounding many of our contracts; our ability to retain our existing business and related contracts; our ability to successfully compete for and win new business; or, identify, acquire and integrate additional businesses; our ability to maintain and improve our operating margin; the availability of government funding and changes in customer requirements for our products and services; our significant amount of debt and the restrictions contained in our debt agreements and actions taken by rating agencies that could result in a downgrade of our debt; our ability to continue to recruit, retain and train our employees; actual future interest rates, volatility and other assumptions used in the determination of pension benefits and equity based compensation, as well as the market performance of benefit plan assets; our collective bargaining agreements, our ability to successfully negotiate contracts with labor unions and our ability to favorably resolve labor disputes should they arise; the business, economic and political conditions in the markets in which we operate; global economic uncertainty; the DoD's Better Buying Power and other efficiency initiatives; events beyond our control such as acts of terrorism; our ability to perform contracts on schedule; our international operations; our extensive use of fixed-price type revenue arrangements; the rapid change of technology and high level of competition in which our businesses participate; risks relating to technology and data security; our introduction of new products into commercial markets or our investments in civil and commercial products or companies; the outcome of litigation matters; results of audits by U.S. Government agencies and of ongoing governmental investigations, including the internal review of the Aerospace Systems segment; the impact on our business of improper conduct by our employees, agents or business partners; goodwill impairments and the fair values of our assets; and ultimate resolution of contingent matters, claims and investigations relating to acquired businesses, and the impact on the final purchase price allocations.

Our forward-looking statements speak only as of the date of these slides or as of the date they were made, and we undertake no obligation to update forward-looking statements. For a more detailed discussion of these factors, also see the information under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our most recent report on Form 10-K for the year ended December 31, 2014, and any material updates to these factors contained in any of our future filings.

As for the forward-looking statements that relate to future financial results and other projections, actual results will be different due to the inherent uncertainties of estimates, forecasts and projections and may be better or worse than projected and such differences could be material. Given these uncertainties, you should not place any reliance on these forward-looking statements.



2016 Financial Outlook

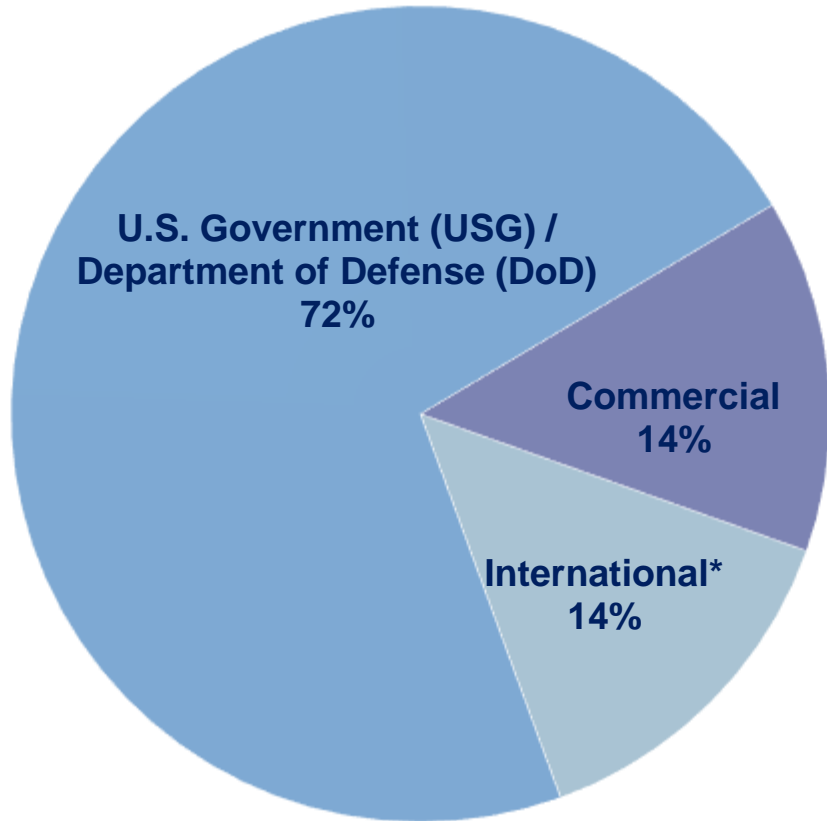
- DoD budget growing... BBA > Sequester... constraints, BBP remain
- International lumpiness... Commercial growing
- Portfolio reshaping in-process... selling NSS
- Top-line and margin trends improving
- Solid free cash flow + disciplined capital allocation



NSS Divestiture (Sale)

Buyer:	CACI International Inc
Sell Price:	\$550 Million
Date of Agreement:	December 7, 2015
Transaction Type:	Stock purchase
Expected Closing:	First Quarter 2016

Sales Mix 2016 Estimates (Excluding NSS)



DoD Armed Services

Air Force	30%
Army	17%
Navy	15%
Other	<u>7%</u>
Total	69%

* Includes U.S. Foreign Military Sales (FMS) of ~4% of sales.

Improving DoD Budgets

(\$ in Billions)

	FY12	FY13	FY14	FY15	FY16	FY17
Base	\$530	\$496	\$496	\$496	\$525	\$527
OCO	\$115	\$ 82	\$ 85	\$ 64	\$ 59	\$ 59
Total	\$645	\$578	\$581	\$560	\$584	\$586
Base vs Prior FY	0%	-6%	0%	0%	6%	0%
Total vs Prior FY	-6%	-10%	1%	-4%	4%	0%

Budget growth resuming... constraints remain

Note: FY12-15 enacted budgets. FY16-17 based on Bipartisan Budget Agreement of November 2, 2015 (BBA).

2016 Financial Guidance (Excluding NSS)

(\$ in Millions, except per share amounts)

	USG/DoD International Commercial	Initial Guidance	Midpoint vs. 2015
Net Sales	0% -15% 7%	\$9,950 to \$10,150	-3%
Organic Growth		-1.5%	+160 bps
Segment Operating Margin		9.5%	+90 bps
Segment Operating Income		\$955	7%
Interest Expense and Other		\$162	1%
Effective Tax Rate		30.0%	+570 bps
Diluted Shares		77.5	-5%
Diluted EPS		\$6.90 to \$7.10	6%
Free Cash Flow		\$810	n.c.

- Notes: (1) Operating margin assumes a net pension expense decrease of \$8 million to \$23 million for 2016 compared to 2015. The 2016 preliminary pension expense estimate assumes a weighted average discount rate of 4.45%, compared to 4.14% for 2015 and a weighted average asset return of 4% for 2015. A 25 bps increase/decrease in 12/31/15 discount rate would decrease/increase 2016 pension expense by ~\$15 million. A 1% increase/decrease in actual asset return for 2015 would decrease/increase 2016 pension expense by ~\$5 million.
- (2) Tax rate assumes no U.S. R&E tax credit. If re-enacted for 2016, the R&E tax credit would reduce the effective tax rate 230 basis points and increase 2016 diluted EPS \$0.24.
- (3) Planned share repurchases of \$750 million.
- (4) Diluted EPS growth is calculated based on a comparison to midpoint of the 2015 adjusted diluted EPS guidance range of \$6.55 to \$6.65.
- (5) See Reconciliation of GAAP to Non-GAAP Measurements and Definitions.



2016 Segment Guidance (Excluding NSS)

(\$ in Millions)

	Electronic Systems	Aerospace Systems	Communication Systems
Net Sales	\$4,150 to \$4,250	\$3,900 to \$4,000	\$1,850 to \$1,950
Sales vs. 2015	-2%	-4%	-4%
Organic Growth	2%	-4%	-4%
Operating Margin	12.2% to 12.4%	6.0% to 6.2%	10.0% to 10.2%
Margin vs. 2015 (bps)	+55	+105	+75

Notes: (1) Growth rates and margin changes based on midpoint guidance for 2015 and 2016.

(2) Re-absorption of corporate expenses allocated to NSS reduce average segment margins by ~12 bps.



Free Cash Flow (Excluding NSS)

(\$ in Millions)

	2016 Guidance	2015 Guidance
Net income	\$ 550	\$ 505
Impairment/divestiture charges	-	64
Depreciation & amortization	213	212
Deferred income taxes	40	25
401K common stock match	112	112
Stock-based compensation	49	49
Working capital/other	36	33
Capital expenditures, net	(190)	(190)
Free cash flow	<u>\$ 810</u>	<u>\$ 810</u>

Notes: (1) Impairment/divestiture charges include pre-tax charges related to the business divestitures of MSI, BSI and Tinsley Product Line of \$29 million (\$18 million after income taxes) and goodwill impairment of \$35 million (\$33 million after income taxes) relating to the NSS businesses and contracts to be retained by L-3.

(2) See Reconciliation of GAAP to Non-GAAP Measurements and Definitions.



Cash Sources and Uses

(\$ in Millions)

	2016 Estimate	2015 Estimate
Beginning cash	\$ 140	\$ 442
Free cash flow *	810	850
Divestitures	538	305
Acquisitions	-	(321)
Dividends	(216)	(214)
Share repurchases	(750)	(740)
Debt repayments	(200)	(300)
Other, net	78	118
Ending cash	<u>\$ 400</u>	<u>\$ 140</u>

Note: See Reconciliation of GAAP to Non-GAAP Measurements and Definitions.

* 2015 Estimate includes \$40 million expected to be generated by NSS. 2016 Estimate excludes NSS.



Capitalization and Leverage

(\$ in Millions)

	12/31/16 Estimate	12/31/15 Estimate	12/31/14 Actual
Cash	\$400	\$140	\$442
Debt	\$3,443	\$3,641	\$3,939
Equity	4,555	4,755	5,360
Invested Capital	\$7,998	\$8,396	\$9,299
Debt/Invested Capital	43.0%	43.4%	42.4%
Debt/EBITDA	2.96x	3.10x	3.01x
Available Revolver	\$1,000	\$1,000	\$1,000

Note: Equity includes non-controlling interests (minority interests) of \$75 million as of December 31, 2014, 2015 and 2016.

Summary

- **DoD budget resumes growth in FY16**
- **Margins expanding**
- **Solid cash flow + disciplined capital allocation**
- **Portfolio strengthening:**
 - **Increases growth and margin profiles**
 - **Improves quality and durability of EPS and cash flow**

Supplemental Financial Data



2015 Financial Guidance (Excluding NSS)

(\$ in Millions, except per share amounts)

	Consolidated Guidance	Midpoint vs. 2014
Net Sales	\$10,325 to \$10,425	-5%
Organic Growth	-3.1%	+100 bps
Segment Operating Margin	8.6%	-60 bps
Interest Expense and Other	\$160	14%
Effective Tax Rate	24.3%	-180 bps
Diluted Shares	81.9	-7%
Adjusted Diluted EPS	\$6.55 to \$6.65	-8%
Free Cash Flow	\$810	-13%

- Notes: (1) The guidance assumes the U.S. Federal Research & Experimentation (R&E) tax credit is not re-enacted. If re-enacted for 2015, the annual R&E tax credit would reduce the 2015 estimated effective tax rate by approximately 270 basis points and increase 2015 diluted EPS by approximately \$0.24.
- (2) Segment operating margin and adjusted diluted EPS exclude an after-tax non-cash goodwill impairment charge of \$33 million, or \$0.40 per diluted share related to the NSS businesses and contracts to be retained by L-3 and an aggregate after-tax loss of \$18 million, or \$0.22 per diluted share, related to business divestitures.
- (3) Planned share repurchases of \$740 million.
- (4) See Reconciliation of GAAP to Non-GAAP Measurements and Definitions.



2015 Financial Guidance

(\$ in Millions, except per share amounts)

	<u>Consolidated (October 29, 2015)</u>	<u>Remove NSS</u>	<u>Current Guidance</u>
Net Sales	\$11,400 to \$11,500	\$1,075	\$10,325 to \$10,425
Organic Growth	-3.6%	-11.5%	-3.1%
Segment Operating Margin	8.3%	4.0%	8.6%
Interest Expense and Other	\$178	\$(18)	\$160
Effective Tax Rate	25.4%	-110 bps	24.3%
Diluted Shares	81.9	n.c.	81.9
Adjusted Diluted EPS	\$6.80 to \$6.90	\$(0.25)	\$6.55 to \$6.65
Free Cash Flow	\$850	\$(40)	\$810

Notes: (1) The tax rate assumes no U.S. R&E tax credit. If re-enacted for 2015 the R&E tax credit would reduce the effective tax rate 270 basis points and increase 2015 diluted EPS \$0.24.

(2) Segment operating margin and adjusted diluted EPS exclude an after-tax non-cash goodwill impairment charge of \$33 million, or \$0.40 per diluted share related to the NSS businesses and contracts to be retained by L-3 and an aggregate after-tax loss of \$18 million, or \$0.22 per diluted share, related to business divestitures.

(3) Planned share repurchases of \$740 million.

(4) See Reconciliation of GAAP to Non-GAAP Measurements and Definitions.

2015 Segment Guidance (Excluding NSS)

(\$ in Millions)

<u>Segment</u>	<u>Sales</u>	<u>Midpoint Sales vs. 2014</u>	<u>Organic Growth</u>	<u>Segment Operating Margin</u>	<u>Midpoint Margin vs. 2014 (bps)</u>
Electronic Systems	\$4,250 to \$4,300	-8%	-2%	11.7% to 11.8%	+25
Aerospace Systems	\$4,100 to \$4,150	-5%	-5%	5.0% to 5.1%	-155
Comm Systems	\$1,950 to \$2,000	-1%	-4%	9.3% to 9.4%	-55
Total	\$10,325 to \$10,425	-5%	-3.1%	8.6%	-60

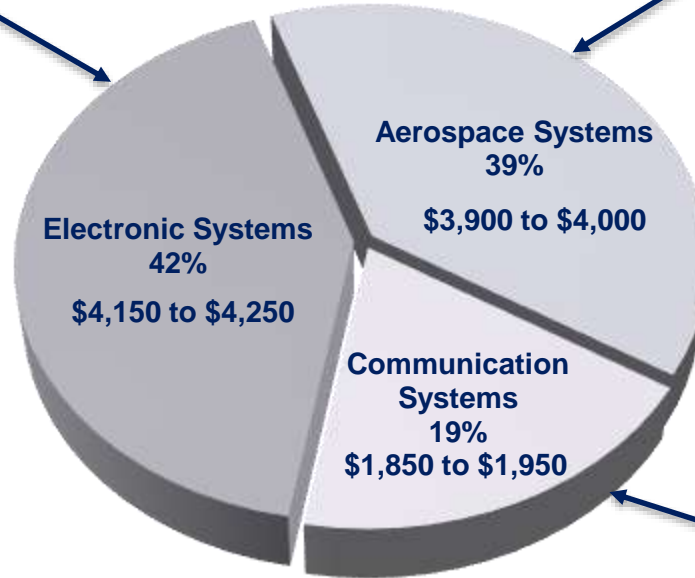
- Notes: (1) Estimated net pension expense (FAS, net of CAS) for 2015 vs. 2014 is expected to increase \$61 million, reducing estimated 2015 operating margin by 60 basis points (bps) (\$13 million or 30 bps for Electronic Systems, \$29 million or 70 bps for Aerospace Systems, and \$19 million or 100 bps for Communication Systems).
- (2) Re-absorption of Corporate expenses allocated to NSS reduce Electronic Systems and Aerospace Systems operating margins by 10 bps in 2015 and 2014, 10 bps in 2014 and 20 bps in 2015 for Communication Systems.



2016 Segments / Sectors

(\$ Net Sales in Millions)

<u>Electronic Systems</u>		
Precision Engagement & Training	\$ 1,170	28%
Aviation Products & Security	890	21%
Sensor Systems	880	21%
Power & Propulsion Systems	800	19%
Warrior Systems	460	11%



<u>Aerospace Systems</u>		
ISR Systems	\$ 2,050	52%
Logistics Solutions	1,200	30%
Aircraft Systems	700	18%

<u>Communication Systems</u>		
Broadband Communications	\$ 940	49%
Advanced Communications	450	24%
Space & Power Systems	330	18%
Tactical SatCom	180	9%

Supplemental Pension Data

(\$ in Millions)

	<u>2014</u> <u>Actual</u>	<u>2015</u> <u>Guidance</u>	<u>2016</u> <u>Guidance</u>
FAS pension expense	80	139 ⁽¹⁾	127 ^{(1) (2)}
CAS pension cost ⁽³⁾	110	108	104
Pension contributions	97	98	100

- (1) FAS pension expense represents pension expense determined using U.S. GAAP and assumes weighted average discount rates of 4.45% for 2016 and 4.14% for 2015 (vs. 5.03% for 2014), and weighted average long-term expected pension asset return of 8.13% in 2015 and 2016 (vs. 8.13% in 2014).
- (2) Estimated 2016 Pension Expense Sensitivity: A 25 bps increase/decrease in 12/31/15 discount rate would decrease/increase 2016 pension expense by ~\$15 million and decrease/increase the 12/31/15 unfunded obligation by ~\$130 million.
- (3) CAS pension cost represents estimated allowable and reimbursable pension cost under U.S. Government procurement regulations (determined using Cost Accounting Standards or CAS) on L-3's U.S. Government contracts.



Depreciation, Amortization and Capital Expenditures 2015 Estimates

(\$ in Millions)

<u>Segment</u>	<u>Depreciation / Amortization</u>	<u>Net Capital Expenditures</u>
Electronic Systems	\$110	\$102
Aerospace Systems	50	55
Communication Systems	52	33
Consolidated	<u><u>\$212</u></u>	<u><u>\$190</u></u>

Net Capital Expenditures = Capital expenditures net of dispositions of property, plant and equipment

Debt Analysis (Before Debt Repayments)

(\$ in Millions)

	<u>9/25/15 Actual</u>	<u>Type</u>	<u>Maturity Date</u>	<u>Redemption Premium</u>
<u>Senior:</u>				
Revolver	\$ -	L+150 bpts	2/3/17	n.a.
3.95% Senior Notes	500	fixed	11/15/16	T+0.50% make-whole
1.50% Senior Notes	350	fixed	5/28/17	T+0.10% make-whole
5.2% Senior Notes	1,000	fixed	10/15/19	T+0.30% make-whole
4.75% Senior Notes	800	fixed	7/15/20	T+0.25% make-whole
4.95% Senior Notes	650	fixed	2/15/21	T+0.25% make-whole
3.95% Senior Notes	650	fixed	5/28/24	T+0.20% make-whole
Unamortized Discounts	(10)			
Total	\$ 3,940			

Note: T = comparable U.S. treasury note rate.



Reconciliation of GAAP to Non-GAAP Measurements and Definitions (1 of 4)

(\$ in Millions)

	<u>2016 Guidance</u>	<u>2015 Guidance</u>	<u>2014</u>
Net cash from operating activities	\$ 1,000	\$ 1,045	\$ 1,125
Less: Capital expenditures	(195)	(200)	(183)
Add: Dispositions of property, plant and equipment	5	5	4
Free cash flow	<u>\$ 810</u>	<u>\$ 850</u>	<u>\$ 946</u>
Less: Net cash from operating activities for NSS	-	(45)	(21)
Add: Capital expenditures for NSS	-	5	8
Free cash flow, excluding NSS	<u><u>\$ 810</u></u>	<u><u>\$ 810</u></u>	<u><u>\$ 933</u></u>

Reconciliation of GAAP to Non-GAAP Measurements and Definitions (2 of 4)

(\$ in Millions, except per share amounts)

	2015 Guidance		2014
	Low End of Range	High End of Range	
Diluted EPS attributable to L-3 Holdings' common stockholders	\$ 0.93	\$ 1.03	\$ 7.56
Remove: Loss (income) relating to NSS ^(A)	5.00	5.00	(0.37)
EPS impact of loss on business divestitures ^(B)	0.05	0.05	-
EPS impact of the non-cash impairment charge related to MSI assets held for sale ^(C)	0.15	0.15	-
EPS impact of the loss on a forward contract to sell Euro proceeds from the MSI divestiture ^(D)	0.02	0.02	-
EPS impact of the goodwill impairment charge related to NSS businesses retained ^(E)	0.40	0.40	-
Adjusted diluted EPS*	\$ 6.55	\$ 6.65	\$ 7.19

* Adjusted diluted EPS is defined as diluted EPS attributable to L-3 Holdings' common stockholders, excluding the charges or credits relating to business divestitures, non-cash goodwill impairment charges and the results of NSS. These amounts are not calculated in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The company believes that the charges or credits relating to business divestitures and non-cash goodwill impairment charges affect the comparability of the financial guidance for 2015 to the results of operations for 2014. The company also believes that disclosing diluted EPS excluding the charges or credits relating to business divestitures and non-cash goodwill impairment charges will allow investors to more easily compare the 2015 financial guidance to the 2014 results. Additionally, the Company expects to sell the NSS business and had excluded the results of NSS from its 2016 Guidance. The Company believes that disclosing diluted EPS excluding the results of NSS will allow investors to more easily compare the 2016 financial guidance to the 2015 financial guidance and 2014 results. However, these measures may not be defined or calculated by other companies in the same manner.



Reconciliation of GAAP to Non-GAAP Measurements and Definitions (3 of 4)

(\$ in Millions, except per share amounts)

	2015 Guidance	2014		2015 Guidance
(A) (Loss) income relating to NSS	\$ (420)	\$ 54	(D) Loss on a forward contract to sell Euro proceeds from the MSI divestiture	\$ (4)
Tax benefit (expense)	<u>10</u>	<u>(21)</u>	Tax benefit	<u>2</u>
After-tax impact	(410)	33	After-tax impact	(2)
Diluted weighted average common shares outstanding	81.9	87.8	Diluted weighted average common shares outstanding	81.9
Per share impact	<u>\$ (5.00)</u>	<u>\$ 0.37</u>	Per share impact	<u>\$ (0.02)</u>
(B) Loss on business divestitures	\$ (8)		(E) Goodwill impairment charge related to NSS businesses retained	\$ (35)
Tax benefit	<u>4</u>		Tax benefit	<u>2</u>
After-tax impact	(4)		After-tax impact	(33)
Diluted weighted average common shares outstanding	81.9		Diluted weighted average common shares outstanding	81.9
Per share impact	<u>\$ (0.05)</u>		Per share impact	<u>\$ (0.40)</u>
(C) Non-cash impairment charge related to MSI assets held for sale	\$ (17)			
Tax benefit	<u>5</u>			
After-tax impact	(12)			
Diluted weighted average common shares outstanding	81.9			
Per share impact	<u>\$ (0.15)</u>			



Reconciliation of GAAP to Non-GAAP Measurements and Definitions (4 of 4)

Organic Sales Growth: Organic sales growth is defined as the increase or decrease in sales compared to the prior year, excluding the increase or decrease in sales attributable to acquired businesses or business divestitures. Sales from acquired businesses is defined as sales from business acquisitions that are included in L-3's actual results for less than 12 months. Sales from business divestitures is defined as sales from business divestitures that are included in L-3's actual results for the 12 months prior to the divestiture.

