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PRESENTATION

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

We're going to get started with our final aerospace and defense presentation of the day, which is going to be from L3 Technologies. With us from the company is Ralph D'Ambrosio, the CFO. Ralph's going to go through a few slides, and then we'll move into Q&A. I've got questions, but absolutely feel free to jump in if you have any out in the audience. And Ralph, thanks so much for being with us.

Ralph G. D'Ambrosio - *L3 Technologies, Inc. - Senior VP & CFO*

Thank you, Noah, and good afternoon, everyone. I have a few charts to give you a quick overview on L3 Technologies, and then we'll get into Q&A.

So we'll begin with the fact that we're an aerospace and defense contractor, and we have both prime contractor and supplier positions across our businesses. In fact, about 2/3 of our sales are made directly to our end customers, and the remaining 1/3, we supply a variety of electronics and communications equipment. This year, we expect to do just under \$11 billion of sales, and we're growing all of our profit metrics.

Some of the key attributes about L3 are that while we're predominantly a U.S. military contractor, with a little more than 70% of our sales to the U.S. government, within those sales, we have a very broad, diverse portfolio of contracts such that we don't have any significant concentrations either in our sales or our profits. And to give you a couple of statistics here, our top 10 contracts comprise about 20% of our sales; our top 40 contracts, about 35%; and thereafter, the percentages drop off very dramatically. So very broad, diverse portfolio of contracts.

L3 has historically generated very high earnings to cash flow conversion. It's been one of our hallmarks. This year, we're converting about 120% of our net income to free cash flow, and I expect that it's going to continue for the next several years.

We think we have a very efficient capital structure and that we utilize debt to enhance returns to our shareholders. We're an investment-grade credit at the lowest tier of investment-grade ratings, and we expect -- and one of our objectives is to preserve those ratings. And we have a very experienced management team, which is new in many ways. Nowadays, you all know that Chris Kubasik is going to become our third CEO on January 1. He joined the company about 2 years ago as COO. We also have 2 new presidents in 2 of our 4 reportable segments. We also have a new general counsel and a new SVP of strategy. So definitely a refreshed, reenergized management team. And we're all focused on growing the company, improving its competitive and economic position and making investments to accelerate that growth as well as our profitability. And our objectives continue to be to satisfy our customers. It all starts with satisfying and delighting our customers. And while we do that, we want to grow the top line and the bottom line to generate returns for our shareholders. And we're very careful about our capital allocation, and it's become very targeted in the last year or so and that we're shifting the -- our capital allocation more towards acquisitions to further the growth of the company.

I have a few points on 2017. We're growing our sales in 2 of our 3 end markets, the U.S. government and the commercial end market. What's driving the growth in those 2 markets is mostly UAV communications, tactical communication terminals, munition fuzes, flight simulation equipment, both for commercial and military customers, EO/IR sensors and night vision equipment.

We've been having challenges in one of our 4 segments, Aerospace Systems, where we lost a couple of significant recompetitions this year, and we've also experienced several new business delays, particularly on the international side. And in the third quarter, which we announced a couple of weeks ago or 3 weeks ago now, we explained that we're going to divest the Vertex Aerospace maintenance and logistics support business within



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Aerospace. That's part of repositioning the Aerospace Systems segment for enhanced growth and profitability in the future. We also undertook some restructuring actions to downsize the workforce as well as combining 2 of the sectors in that segment during the third quarter.

As I had commented earlier, we're growing all of our profit metrics. That's before a goodwill impairment charge that we took in the third quarter related to losing one of those recompletions, and the company continues to generate robust free cash flow and we're deploying that cash flow to grow the company on a disciplined basis. And after paying our dividends, we are favoring acquisitions over share repurchases.

A couple of comments on our major end markets. The U.S. government market is growing. Most of our business there is to the U.S. Department of Defense. We believe we're at the beginning of an upcycle that began in 2016. The budget grew 4% in 2016. It's growing 4% again in 2017. And based upon the administration's request for FY '18, it's expected to grow 5%.

So we think we have several years of solid growth ahead of us in our primary end market. And despite the legislative uncertainty -- uncertainties that are being dealt with in Washington, we expect that we're going to continue to have higher and growing defense budgets for the next several years.

Within the other 2 end markets, which is international and commercial, international meaning foreign government and foreign military sales. We think those markets are both very attractive. They're affected by global economic and security conditions, which we think support growth in those 2 end markets.

And on the international side, we've had some challenges or difficulties in the last couple of years with some large programs, mostly in ISR Systems, declining. And that's caused declines in that end market. But we see that beginning to turn around in 2018, and we see -- also see a very large addressable market on the international side, where we can continue to sell more and more of our products and solutions to customers in those markets.

And on the commercial market or end market, most of what we do is tied to commercial aerospace and aviation in one form or another, whether it be avionics equipment, airport security equipment and aircrew pilot training and simulation equipment. And we think we -- that we're going to see continued growth there near term and in the long term.

When we reported our third quarter results, we gave a preview on 2018. It's summarized on this page, which I'm going to skip over. I'm sure Noah will have some questions on it. And we're going to provide more details in about 3 weeks from now when we have our annual Investor Day on December 5 in New York City.

So finally, I'll summarize, we believe that we have -- that all of our end markets are attractive, starting with the U.S. government and the DoD market. Our solutions and offerings are aligned with our customer priorities. And we believe our solutions are affordable. We're growing our sales and profit metrics, generating robust cash flow, allocating it to grow the company. And we're also undertaking new and increased growth investments as well as restructuring and consolidation actions to further enhance the company's economic and competitive position and to accelerate our growth and profitability in the near future. Thank you.

QUESTIONS AND ANSWERS

Noah Poponak - Goldman Sachs Group Inc., Research Division - Equity Analyst

Great. So first thing I wanted to ask, big picture with -- you alluded to the management change that's taking place in the business. When the new calendar year rolls over and Chris is -- becomes the CEO, does that give him more ability to more aggressively go after costs, more aggressively change the bidding proposal strategy? So does investor communication strategy change? Do things incrementally change? Or is it more a kind of business as usual since he's already been the COO?



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Ralph G. D'Ambrosio - *L3 Technologies, Inc. - Senior VP & CFO*

I think that Chris will implement incremental changes, and he'll have more to say about that at the Investor Day in a few weeks. That said, you should expect what Chris has been doing and talking about since he joined L3, and some of those items include, one, shifting the capital allocation to a more growth orientation, in other words, favoring acquisitions instead of share repurchases. So that will continue, and we'll probably try to do more of that. Chris has also been very focused on increasing the efficiency and the productivity of the entire enterprise, and you see that in the restructuring and consolidation actions that we're taking and will continue to take in the next couple of years. We'll also, under his leadership, move into a more shared service environment to increase the efficiency of the company. So expect more of that. And then the last thing I'll touch upon is Chris has continued the focus that Mike has had with respect to increasing the collaboration of the different business units within L3. I talked about how diverse our portfolio is. And one of the efforts that Chris has been focusing on and bringing to the next level, if you will, is doing more to harness the power of the different L3 business units to enable L3 to pursue larger, more bundled opportunities such that we can attain larger content positions on new platforms as well as move up the value chain away from just supplying products and more toward subsystems and systems. So I think you're going to see continued focus and attention in those 3 areas that I talked about for sure.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Are those -- that last one of being able to go after larger, more bundled opportunities instead of the dispersed businesses, each kind of bidding into one, is that something we'll be able to see you bidding on in 2018 or winning in 2018? Or does that take a longer time?

Ralph G. D'Ambrosio - *L3 Technologies, Inc. - Senior VP & CFO*

Yes -- so, we've already have begun bidding efforts like those. And there will be more in 2018. And on the third quarter earnings call, Chris talked about some of the incremental growth investments that we're doing. A lot of them are centered in the Sensors segment, and he talked about 4 or 5 areas, including undersea, the F-35, space and the classified markets. So we're already doing more collaborative, value chain climbing activity, if you will, in those areas, and there will be more of it in 2018. And we'll talk about some of those initiatives at the Investor Day, put some more details around those broad areas I just talked about.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Okay. Okay. You pointed to top line organic revenue growth next year of 4% to 5% ex Vertex. You just had a slide that actually bracketed everything ex Aerospace being 5% to 7%. So it's pretty robust, I think, compared to the budget and compared to the peer set. Can you talk about what the biggest drivers of that 5% to 7% are?

Ralph G. D'Ambrosio - *L3 Technologies, Inc. - Senior VP & CFO*

Sure. So -- and I'll add that we're already seeing that robust growth in 2017. So those 3 segments per our last guidance update, where we didn't make any changes to our sales outlook, they're each growing organically by 6%, 2017 versus 2016. And we see that continuing next year. There is some minor growth from acquisitions in that 5% to 7%, but it's less than 1%, probably 0.5% within that range. So it's predominantly organic growth. And we see continued growth in the U.S. military or Department of Defense market. I talked about some of those areas in my opening comments that are driving the growth this year. Some of those areas will continue to drive growth next year. For example, in sensors or Sensor Systems, we're not only continuing to sell more EO/IR equipment and night vision equipment, including overseas, but we are making investments in next-gen optics as well as EO/IR tracking systems, and that's driving growth. We're also making Electronic Systems incremental investments in the munitions area, which should drive some significant growth a few years out from now. Some of it's classified, so we can't get into a lot of details, but we see really good opportunities. And in Communications Systems segment, we have a very broad exposure on most of the platforms that are out there, legacy and new platforms, so we see that driving growth in Communication Systems as well. Those are very broad, diverse growth drivers in those segments.



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Noah Poponak - Goldman Sachs Group Inc., Research Division - Equity Analyst

No, I know you don't -- you probably don't want to talk too much about beyond '18. But -- and there's limited visibility the further out you go. But if I think about the top-down drivers of beyond '18 versus '18, I think outlays will be growing at a faster rate in, call it, '19 and '20 versus '18. Your effort to go after the larger programs will probably be flowing through more in '19 and '20 versus '18. The investments that are diluting the margins a little bit in '18 are probably not paying off until '19 and '20 versus '18. You're talking about doubling your Homeland Security business. You are on a lot of the big programs that are out there in the industry. But why should I not expect your rate of organic revenue growth to accelerate beyond '18 compared to what it's going to be in '18? And that's -- I'm talking ex Vertex.

Ralph G. D'Ambrosio - L3 Technologies, Inc. - Senior VP & CFO

So the short answer is that it should accelerate, and that's what we're managing and investing to do. Certainly, the DoD budget's going to support that continued good growth, and you summarized all the growth investments that we're making. Aerospace, we talked about that continuing to be a challenge. So we see 2018 being a transition year for Aerospace, where we'll be repositioning it. I talked about the divestiture of Vertex, the restructuring activity that we did in the third quarter, and we've also been upgrading our BD strategy talent, if you will, within that segment. So that should lead to better growth after 2018 in that segment, and so, we certainly expect that our organic growth rate will accelerate after 2018.

Noah Poponak - Goldman Sachs Group Inc., Research Division - Equity Analyst

Okay. That's great. What's left in aerospace once Vertex is out of aerospace?

Ralph G. D'Ambrosio - L3 Technologies, Inc. - Senior VP & CFO

So most of what's there is the combined sector restructuring that we did in the third quarter. We combined the ISR Systems sector and the Aircraft Systems sector, which, together, comprise 2/3 of that segment. And we renamed it Mission Integration, which is really the heritage of the Aerospace business, most of it in -- based out of Greenville, Texas. So that's the lion's share of what we -- of what remains in Aerospace, and it's ISR Systems, missionizing aircraft as well as sustaining aircraft. There's also a very small \$150 million to \$200 million annual sales operation in Canada that does sustainment work for Canadian fleets, the CF-18 as well as their head-of-state aircraft. So most of what remains is really the ISR Systems legacy business within Aerospace, and that's a strong business. It's had some challenges with some large declining international contracts. We see those international contracts and that work beginning to grow in 2018, and we also have some good pursuits ahead of us next year and thereafter. So the growth rate should be improving in Aerospace Systems, especially after we subtract Vertex.

Noah Poponak - Goldman Sachs Group Inc., Research Division - Equity Analyst

No, with that understood, it's not growing in 2018. And I think you guys have said, when you take Vertex out of Aerospace, the margin won't change, which means the remainder has a similar margin to Vertex. Did you give any consideration to trying to divest all of Aerospace and just leave those 3 fast-growing, high-margin segments?

Ralph G. D'Ambrosio - L3 Technologies, Inc. - Senior VP & CFO

We did not. We did not. So the remaining parts of Aerospace, those are core businesses for L3. So obviously, and Chris talked about this, we're not happy with its performance on the top line and the margins. So that needs to change. That needs to improve.

Noah Poponak - Goldman Sachs Group Inc., Research Division - Equity Analyst

And so it's correct that Aerospace ex-Vertex is flat in 2018? Is that right?



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Ralph G. D'Ambrosio - *L3 Technologies, Inc. - Senior VP & CFO*

Correct. Now there are opportunities for it to grow, including several international pursuits, but to be very candid about it, we've had several international pursuits in the last several years and a lot of those have delayed, slipped into the next year or not happened at all. So we have a lot less of that in that outlook for 2018. So we prefer to introduce those into the outlook when they happen. I think that's a more prudent way to go about it given the recent experience in the last couple of years.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

And so when we talk about acceleration in organic revenue growth beyond '18, is it correct to think that would be true of the 3 bracketed segments there and then also separately true of Aerospace Systems?

Ralph G. D'Ambrosio - *L3 Technologies, Inc. - Senior VP & CFO*

Yes.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Okay. So -- and the margin not changing while taking Vertex out, is that influenced by the overhead absorption impact?

Ralph G. D'Ambrosio - *L3 Technologies, Inc. - Senior VP & CFO*

It's predominantly -- there's a couple of items. So one is the Vertex, that is 1/3 of the Aerospace Systems segment. So it absorbs a lot of the overhead expenses in that segment as well as a meaningful portion of the corporate overhead. So those costs need to be reallocated elsewhere. So certainly, we're going to try to cut some of those, but it's unrealistic to assume that we can cut all those costs that are presently being absorbed by Vertex. That's the first item. The second item is that the business mix within the remaining part of Aerospace is transitioning from mature production-type work to new, emerging development-type work. So for example, the Compass Call recap or the ECX example, that's new development-type program, initially, the development work that we're doing there is on a cost-reimbursable basis, so it carries lower margins. Additionally, we are procuring green aircraft and then modifying them. There's very little margin on procurement of aircraft. There's no value add there. So -- and as we move beyond the development of those new aircraft into a more production phase a couple years from now, the margins will begin to improve in Aerospace. So we'll have that tailwind, we hope, when it comes to margins as well as an improving growth outlook.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Right. And then presumably, also better operations of the business?

Ralph G. D'Ambrosio - *L3 Technologies, Inc. - Senior VP & CFO*

Yes.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Okay. And then what's in the '18 preliminary outlook for the consolidated commercial and international pieces of the business in terms of the growth rate?



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Ralph G. D'Ambrosio - *L3 Technologies, Inc. - Senior VP & CFO*

Combined, low- to mid-single-digit growth.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

And is either one substantially different than that?

Ralph G. D'Ambrosio - *L3 Technologies, Inc. - Senior VP & CFO*

They're about the same right now. And if we have success in some of the international opportunities, that would certainly accelerate -- increase the international growth rate.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

What are these international items that keep sliding? Is it ISR platform programs?

Ralph G. D'Ambrosio - *L3 Technologies, Inc. - Senior VP & CFO*

Much of it is ISR platforms, Middle Eastern-type customers.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

And is there something specific that's holding those up? Or is it just the classics?

Ralph G. D'Ambrosio - *L3 Technologies, Inc. - Senior VP & CFO*

Well, there's a good amount of turmoil in one of those countries, which has definitely caused some delays. If that resolves itself, hopefully, we see more award activity.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Great. Okay. I have more questions off of the top line, but why don't I pause and see if there are any questions from anyone in the audience for Ralph. Yes, in the back.

Unidentified Analyst

Ralph, talk about -- you talked about the new focus on M&A, and you also talked about the low BBB credit rating. So why is IG important? So I guess, why do we think it's a efficient -- it's more efficient?

Ralph G. D'Ambrosio - *L3 Technologies, Inc. - Senior VP & CFO*

We believe maintaining or preserving the investment-grade ratings are important because having those ratings gives us faster and more access to debt capital, number one. Number two, if you compare us to any of our peers, especially any peer that we'd like to compare ourselves to, we have more or similar leverage than any of our peers. So we don't view that -- we don't see the need to introduce even more leverage into our



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financing mix or equation. And in some areas, some of the pursuits that we go after with the U.S. government and some foreign governments, the credit ratings and the overall financial health and well-being of the company which includes leverage is an important factor. So for those reasons, we're going to continue to maintain our investment-grade credit ratings.

Noah Poponak - Goldman Sachs Group Inc., Research Division - Equity Analyst

Other questions for Ralph in the audience? Okay. Ralph, can you give us a sense of where you think your segment margins can go on a longer-term basis beyond where they're going to end in 2017?

Ralph G. D'Ambrosio - L3 Technologies, Inc. - Senior VP & CFO

Sure. And we talked about this a few weeks ago on the earnings call. So within -- so for Electronic Systems and Sensor Systems, the current margin target range is 13% to 14%. We're in that range in both of those segments during 2017. We'll be a little higher in Electronic Systems next year. The incremental growth investments of about \$30 million that we're making in Sensors is going to push us into the 11% to 12% range at least for 2018 in Sensor Systems. But we think we'll get back to that range quickly, and then once we're comfortably in that range, we'll talk about what else it is that we can do. And given the restructuring and consolidation actions that we're undertaking now, next year and in 2019, that's going to yield savings, that some of it's going to fall to operating margins for certain. So we should be able to do better than 13% to 14% in both of those segments a few years away from where we are today. In Communication Systems, our present target range is 10% to 11%. That's going to 11% to 12% for next year, and that segment has more cost-reimbursable work than the other segments, and that's a factor in the margins there. So we think, for the time being, 11% to 12% in Communication Systems segment is where the margins are going to be. And then Aerospace, where the present range is 7% to 9%, we're actually even below that per our last guidance update for 2017. We explained that until we start to see the top line improving in a meaningful way, the margins are going to continue to be on the lower end of that range. So...

Noah Poponak - Goldman Sachs Group Inc., Research Division - Equity Analyst

When does that top line improve in a meaningful way?

Ralph G. D'Ambrosio - L3 Technologies, Inc. - Senior VP & CFO

Well, we're patient, but we're not very patient. So by 2019, I would say, it needs to start improving in a meaningful way.

Noah Poponak - Goldman Sachs Group Inc., Research Division - Equity Analyst

So if I'm in 2020, and I know that's far away, I know there's a lot of moving pieces, but given everything you just said, if I'm in 2020 with a 12% or even a little higher total consolidated segment margin, I'm at least in the scenario now.

Ralph G. D'Ambrosio - L3 Technologies, Inc. - Senior VP & CFO

I think that's realistic. That's certainly one of our objectives.

Noah Poponak - Goldman Sachs Group Inc., Research Division - Equity Analyst

Great. What happens to pension beyond 2017?



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Ralph G. D'Ambrosio - *L3 Technologies, Inc. - Senior VP & CFO*

So contained within this outlook that we gave for 2018, there's about a \$36 million reduction in pretax pension expense. And thereafter, we should continue to see incremental declines in net pension expense, somewhere of \$10 million to \$20 million per year. And that's due to the fact that we froze the pension plans a decade ago to new hires. Less than 20% of our workforce today have defined benefit pension plans, and a lot of those employees will be retiring over the next decade. So we should see a natural continued decline in the pension expense for those reasons. And that assumes that there are no aberrations in the capital markets, whether it be interest rates and asset returns.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Is that baked in the directional segment margins that you just discussed? Or would it be incremental? Or would it be kind of lost in the noise anyway for the time being?

Ralph G. D'Ambrosio - *L3 Technologies, Inc. - Senior VP & CFO*

It's mostly incremental, but it's not a significant driver in and of itself given what I just talked about in terms of numbers.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Yes. How long can you maintain free cash at 125% of net income?

Ralph G. D'Ambrosio - *L3 Technologies, Inc. - Senior VP & CFO*

Well, I said 120%. And I said that we can maintain that for the foreseeable future.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

How do you define foreseeable future?

Ralph G. D'Ambrosio - *L3 Technologies, Inc. - Senior VP & CFO*

I think most people define foreseeable as 3 years or so, 3, 4 years.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

What are the major pieces of that differential versus P&L net income?

Ralph G. D'Ambrosio - *L3 Technologies, Inc. - Senior VP & CFO*

So there are a few items. One, the business is not very capital-intensive. So we invest about 2% of our sales in CapEx each year. We really don't see that changing, at least not increasing in a dramatic fashion. Number two, our acquisitions create noncash expenses in the form of amortization expenses for intangible assets that we acquire. So that is a source of the higher cash flow conversion because those are noncash expenses. We're also able to structure many of our acquisitions with tax shields, which reduce our tax payments and increase the returns on those investments. That also drives higher free cash flow conversion. We don't have any onerous working capital requirements. Certainly, we have better financing terms within our U.S. government business compared to the international and commercial markets. But generally speaking, very good terms of trade across our businesses. And then like other companies, we have stock-based compensation expense, which we're very transparent about.



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And those are also noncash. As you know, we also match the 401(k) in common stock. Not all companies do, and that further enhances the free cash flow conversion.

Noah Poponak - Goldman Sachs Group Inc., Research Division - Equity Analyst

Over the past few years, while the free cash conversion has been very strong, if I'm looking at the numbers correctly, a change in working capital has been a negative. Is there an opportunity to move that to be a positive contributor? And would that be upside to the 120%?

Ralph G. D'Ambrosio - L3 Technologies, Inc. - Senior VP & CFO

So there is investment in working capital to support growth, organic growth in the business. So we're going to continue to make those types of investments. That said, we do see opportunities to reduce our days sales held and days sales outstanding metrics to get more efficient with that working capital. So we should see some improvements, incremental improvements beginning in 2018 on the working capital side.

Noah Poponak - Goldman Sachs Group Inc., Research Division - Equity Analyst

Meaning less negative or can it actually flip to a source of capital?

Ralph G. D'Ambrosio - L3 Technologies, Inc. - Senior VP & CFO

I would say less negative for now. We'll certainly try to make it positive. I don't want to commit to it though. We like to have some flexibility in terms of going after certain pursuits. Sometimes, we have to invest in working capital.

Noah Poponak - Goldman Sachs Group Inc., Research Division - Equity Analyst

Yes. That makes sense. And then in terms of deployment, you guys have consistently bought back stock over time. You talked about a little bit of a pivot year towards inorganic growth. Maybe just elaborate on why that pivot. Is it just sort of where you are in the budget? Is it opportunities that the new management team sees? And how robust or not is the acquisition pipeline right now?

Ralph G. D'Ambrosio - L3 Technologies, Inc. - Senior VP & CFO

So a growing U.S. defense budget certainly increases our appetite for acquisitions. It's more difficult to make good acquisitions when you're in a down market because mistakes become amplified, whereas you have the inverse in an upmarket. So that's the first reason. Secondly, we generally want to increase the growth rate or accelerate the growth of the company, and in some instances, we want to attain certain capabilities or certain technologies and we can do that faster through select acquisitions instead of undertaking the organic investments. So that's a second factor. And then this sounds cliché, but it's more fun when you're growing than when you're not growing. So certainly, there are benefits across the entire company and the workforce when the company's growing and when you're all moving upward. So there's also some of that. But that said, we're going to continue to be very disciplined in our M&A investments. And for now, most of what we're doing, we expect that we can fund that out of our free cash flow or from our free cash flow.

Noah Poponak - Goldman Sachs Group Inc., Research Division - Equity Analyst

Yes, should we anticipate that anything you're acquiring is itself growing faster organically than the legacy L3 is growing organically?

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Ralph G. D'Ambrosio - *L3 Technologies, Inc. - Senior VP & CFO*

Yes, yes. Many of our acquisitions either are presently growing at a faster rate or we believe have high confidence potential to grow at a faster rate. So that said, the investments have been modest. So you don't see any meaningful impact yet.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Right. We just have about a minute left, if there are any other questions. Yes, right here.

Unidentified Analyst

You talk a lot about your M&A strategy. In the past, you have had outlined a sweet spot for about \$30 million to \$300 million. Has that changed? And if you could maybe also talk about your M&A strategy to diversify away from what you're currently doing? Or is it really just capitalizing on synergies that you could extract from your current capabilities?

Ralph G. D'Ambrosio - *L3 Technologies, Inc. - Senior VP & CFO*

So we continue to prefer the smaller-type acquisitions that you talked about, let's say, even the \$50 million to \$200 million range. The reason for that is we can acquire usually at that -- those targets that we can acquire are privately owned companies, which, in many cases, not only enables us to structure deals more tax-efficiently, and I talked about that in my free cash flow comments. Additionally, we're usually able to do a better job, obtain more information in due diligence when you're buying a private company as opposed to a public company. And then the investments are smaller. While \$50 million to \$200 million are meaningful investments, those are not make-or-break company type investments, where if you make a mistake, it could be very costly. So those also tend to be less riskier given their size. So those are the reasons. In terms of what we're trying to do with the acquisitions, and if you look at what we've done over the last 10 years with most of our M&A, it has been characterized by building our existing core businesses, expanding them, strengthening them in capability. Examples of that include EO/IR, night vision equipment, simulation and training, aviation security. So that's the -- those are the M&A-type investments that we're most interested in. That said, we've talked about -- Chris has talked about as well as Mike has talked about trying to get into niche platform areas for the M&A activity, and we're doing that in the undersea space, undersea area as an example. So for most of it, it is geared toward building our existing businesses and making them stronger competitively and economically.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Well, with that, we have run out of time. So Ralph, thanks so much for being with us.

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