

# Northrop Grumman First Quarter 2021 Conference Call

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April 29, 2021



**Kathy Warden**  
Chairman, Chief Executive Officer and  
President

**Dave Keffer**  
Corporate Vice President and Chief  
Financial Officer

# Forward-Looking Statements

This presentation and the information we are incorporating by reference, and statements to be made on the earnings conference call, contain or may contain statements that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “will,” “expect,” “anticipate,” “intend,” “may,” “could,” “should,” “plan,” “project,” “forecast,” “believe,” “estimate,” “guidance,” “outlook,” “trends,” “goals” and similar expressions generally identify these forward-looking statements.

Forward-looking statements include, among other things, statements relating to our future financial condition, results of operations and/or cash flows. Forward-looking statements are based upon assumptions, expectations, plans and projections that we believe to be reasonable when made, but which may change over time. These statements are not guarantees of future performance and inherently involve a wide range of risks and uncertainties that are difficult to predict. Specific risks that could cause actual results to differ materially from those expressed or implied in these forward-looking statements include, but are not limited to, those identified and discussed more fully in the section entitled “Risk Factors” in the Form 10-K for the year ended December 31, 2020 and from time to time in our other filings with the Securities and Exchange Commission (SEC). These risks and uncertainties are amplified by the global COVID-19 pandemic, which has caused and will continue to cause significant challenges, instability and uncertainty. They include:

- the impact of the COVID-19 outbreak or future epidemics on our business, including the potential for worker absenteeism, facility closures, work slowdowns or stoppages, supply chain disruptions, additional costs and liabilities, program delays, our ability to recover costs under contracts, changing government funding and acquisition priorities and processes, changing government payment rules and practices, insurance challenges, and potential impacts on access to capital, the markets and the fair value of our assets
- our dependence on the U.S. government for a substantial portion of our business
- significant delays or reductions in appropriations for our programs, and U.S. government funding and program support more broadly
- investigations, claims, disputes, enforcement actions, litigation and/or other legal proceedings
- the use of estimates when accounting for our contracts and the effect of contract cost growth and/or changes in estimated contract revenues and costs
- our exposure to additional risks as a result of our international business, including risks related to geopolitical and economic factors, suppliers, laws and regulations
- the improper conduct of employees, agents, subcontractors, suppliers, business partners or joint ventures in which we participate and the impact on our reputation and our ability to do business
- cyber and other security threats or disruptions faced by us, our customers or our suppliers and other partners
- the performance and financial viability of our subcontractors and suppliers and the availability and pricing of raw materials and components
- changes in procurement and other laws, regulations, contract terms and practices applicable to our industry, findings by the U.S. government as to our compliance with such requirements, and changes in our customers’ business practices globally
- increased competition within our markets and bid protests
- the ability to maintain a qualified workforce with the required security clearances and requisite skills
- our ability to meet performance obligations under our contracts, including obligations that require innovative design capabilities, are technologically complex, require certain manufacturing expertise or are dependent on factors not wholly within our control
- environmental matters, including unforeseen environmental costs and government and third party claims
- natural disasters
- health epidemics, pandemics and similar outbreaks
- the adequacy and availability of our insurance coverage, customer indemnifications or other liability protections
- products and services we provide related to hazardous and high risk operations, including the production and use of such products, which subject us to various environmental, regulatory, financial, reputational and other risks
- the future investment performance of plan assets, changes in actuarial assumptions associated with our pension and other postretirement benefit plans and legislative or other regulatory actions impacting our pension and postretirement benefit obligations
- our ability appropriately to exploit and/or protect intellectual property rights
- our ability to develop new products and technologies and maintain technologies, facilities, and equipment to win new competitions and meet the needs of our customers
- unanticipated changes in our tax provisions or exposure to additional tax liabilities
- changes in business conditions that could impact business investments and/or recorded goodwill or the value of other long-lived assets

You are urged to consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of forward-looking statements. These forward-looking statements speak only as of the date this presentation is first issued or, in the case of any document incorporated by reference, the date of that document. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law. This presentation and the attachments also contain non-GAAP financial measures. A reconciliation to the nearest GAAP measure and a discussion of the company’s use of these measures are included in this presentation.

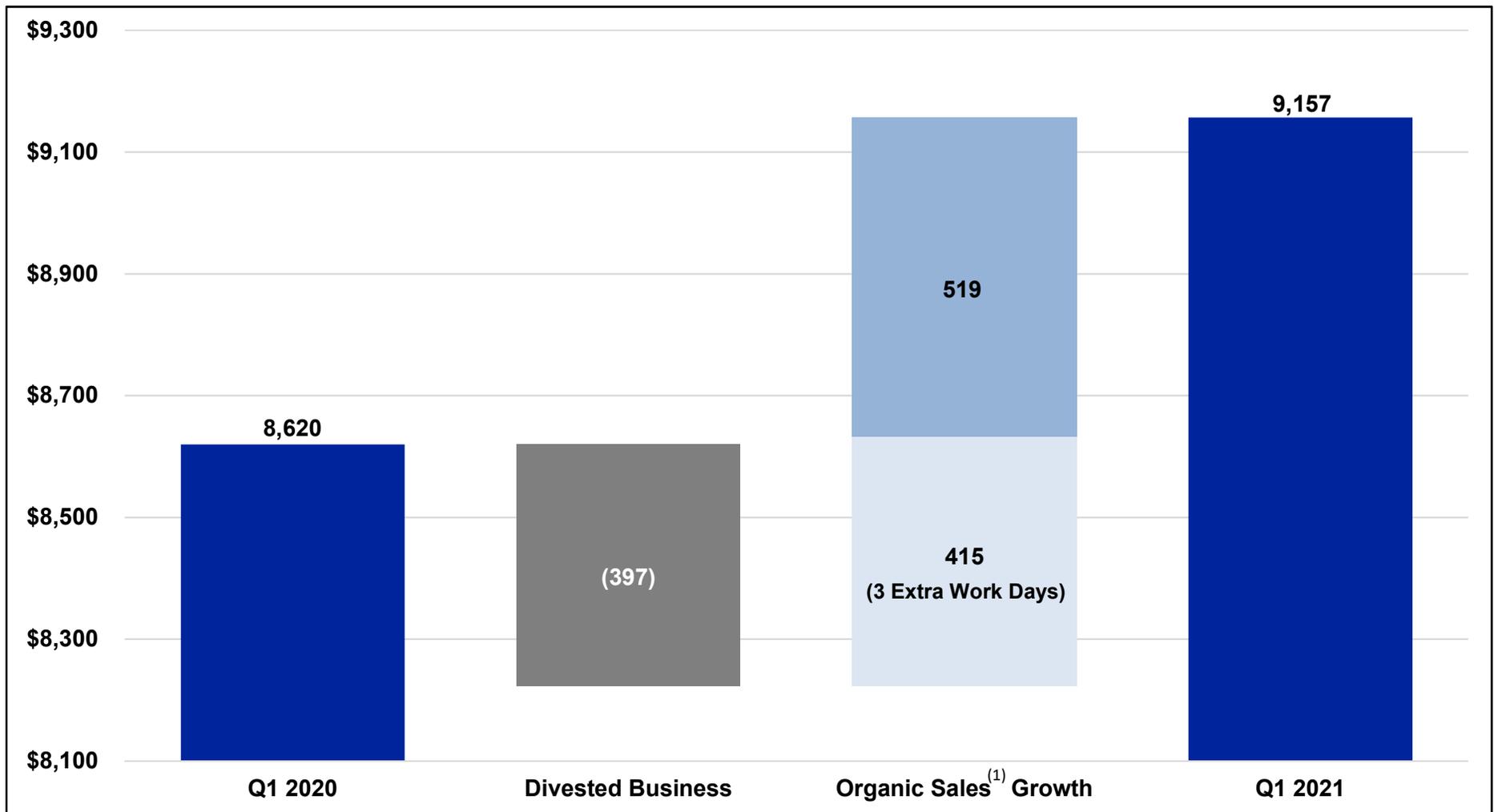
## CEO Highlights

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- Net Awards Total \$8.9 Billion
- Sales Increase 6 Percent to \$9.2 Billion
- EPS Increase to \$13.43 including \$1.1 Billion IT Services Sale Benefit
- Transaction-adjusted EPS<sup>(1)</sup> Increase 28 Percent to \$6.57
- \$2.0 Billion Accelerated Share Repurchase and \$2.2 Billion Debt Reduction
- 2021 sales guidance raised to \$35.3 to \$35.7 billion
- 2021 transaction-adjusted EPS<sup>(1)</sup> guidance raised to \$24.00 to \$24.50

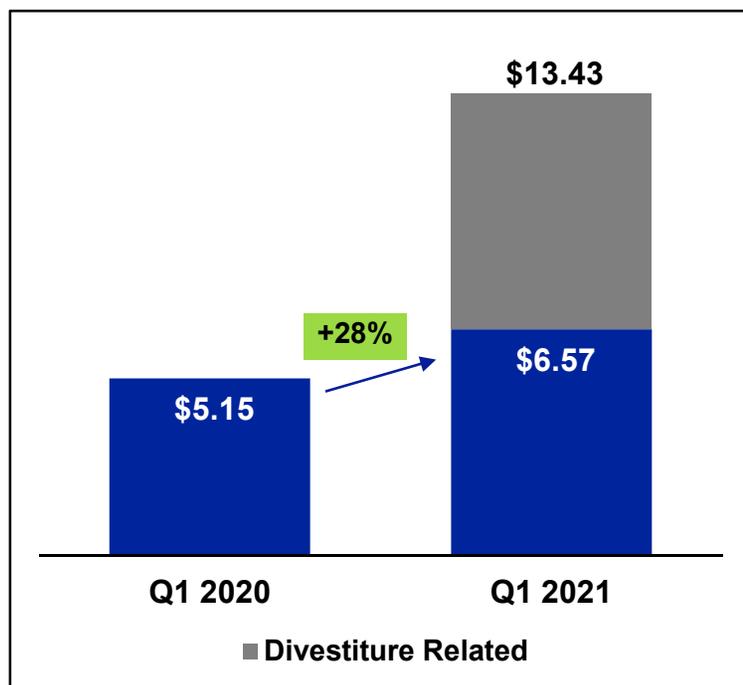
1. Non-GAAP metric. See Appendix.

## Q1 Sales Growth (\$M)



1. Non-GAAP metric. See Appendix.

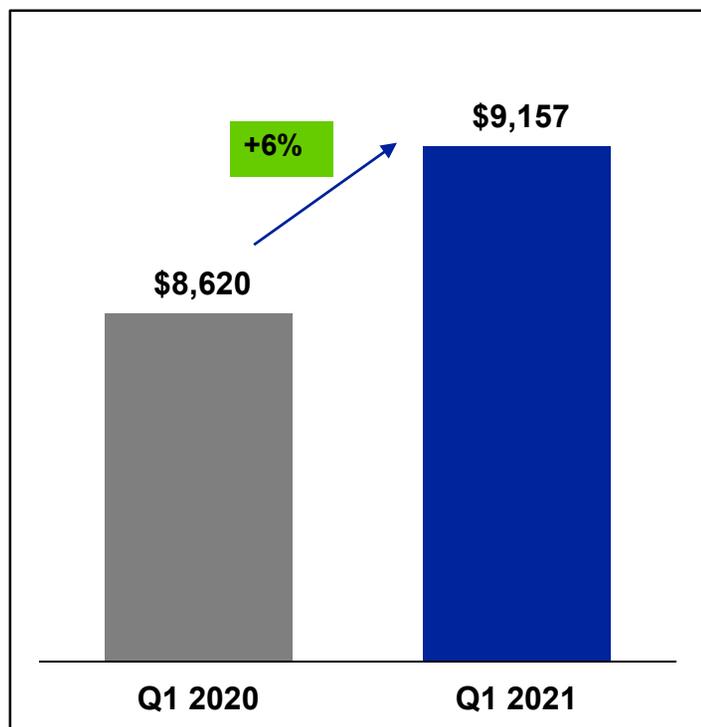
## Q1 Transaction-adjusted EPS<sup>(1)</sup> Bridge



<b>Q1 2020</b>	<b>\$5.15</b>
Segment Performance	0.75
Marketable Securities	0.41
Corporate Unallocated	0.27
Tax, Interest, and Other	(0.01)
<b>Transaction-adjusted Q1 2021</b>	<b>\$6.57</b>
Divestiture Related	6.86
<b>Q1 2021</b>	<b>\$13.43</b>

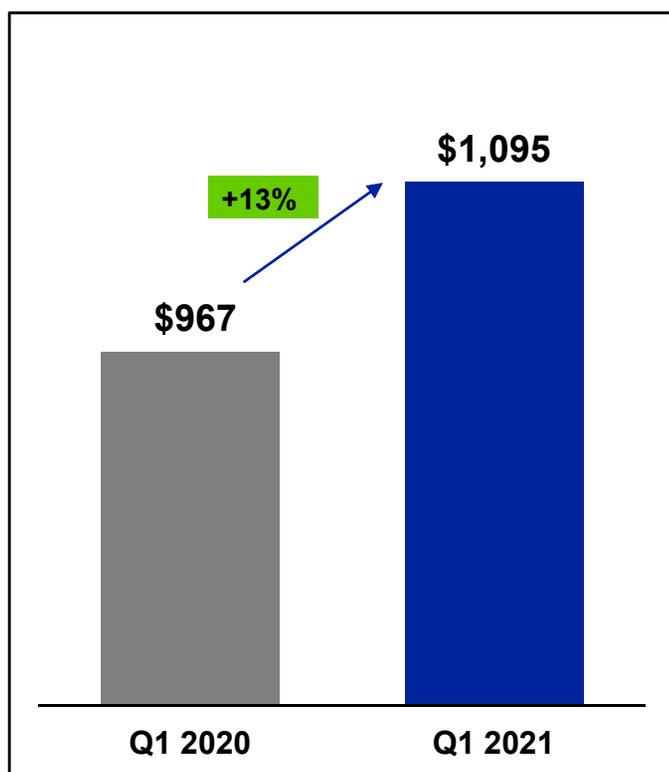
Note – Year over Year benefit from share reduction embedded in individual items, tax effected at 21%  
1. Non-GAAP metric. See Appendix.

# Sales



(\$ M)	Three Months Ended March 31		
	Q1 2020	Q1 2021	▲ %
Aeronautics Systems	\$2,843	<b>\$2,990</b>	<b>5%</b>
Defense Systems	1,881	<b>1,562</b>	<b>(17%)</b>
Mission Systems	2,347	<b>2,589</b>	<b>10%</b>
Space Systems	1,948	<b>2,521</b>	<b>29%</b>
Intersegment eliminations	(399)	<b>(505)</b>	
<b>Total Sales</b>	8,620	<b>9,157</b>	<b>6%</b>

## Segment Operating Income<sup>(1)</sup> and Margin Rate<sup>(1)</sup>



(\$ M)	Three Months Ended March 31		
	Q1 2020	Q1 2021	▲ %
Aeronautics Systems	263	<b>308</b>	<b>17%</b>
Defense Systems	198	<b>177</b>	<b>(11)%</b>
Mission Systems	353	<b>397</b>	<b>12%</b>
Space Systems	202	<b>276</b>	<b>37%</b>
Intersegment Eliminations	(49)	<b>(63)</b>	
<b>Segment Operating Income<sup>(1)</sup></b>	<b>967</b>	<b>1,095</b>	<b>13%</b>

	Three Months Ended March 31		
	Q1 2020	Q1 2021	▲
Aeronautics Systems	9.3%	<b>10.3%</b>	<b>100 bps</b>
Defense Systems	10.5%	<b>11.3%</b>	<b>80 bps</b>
Mission Systems	15.0%	<b>15.3%</b>	<b>30 bps</b>
Space Systems	10.4%	<b>10.9%</b>	<b>50 bps</b>
<b>Segment Margin Rate<sup>(1)</sup></b>	<b>11.2%</b>	<b>12.0%</b>	<b>80 bps</b>

## 2021 Sector Guidance

	As of 1/28/2021	As of 4/29/2021
<b>Aeronautics Systems</b>		
Sales \$B	Mid to High 11	<b>Mid to High 11</b>
OM Rate	Low 10%	<b>Low 10%</b>
<b>Defense Systems</b>		
Sales \$B	Mid to High 5	<b>Mid to High 5</b>
OM Rate	Low 11%	<b>Low 11%</b>
<b>Mission Systems</b>		
Sales \$B	~10	<b>~10</b>
OM Rate	~15%	<b>~15%</b>
<b>Space Systems</b>		
Sales \$B	High 9	<b>~10</b>
OM Rate	~10%	<b>~10%</b>

## 2021 Guidance

\$ in millions, except per share amounts	As of 1/28/2021	Operations	Divestiture	As of 4/29/2021
Sales	35,100 — 35,500	~200		<b>35,300 — 35,700</b>
Segment operating margin % <sup>(1)</sup>	11.5 — 11.7			<b>11.5 — 11.7</b>
Total Net FAS/CAS pension adjustment <sup>(2)</sup>	~1,520	~20		<b>~1,540</b>
Unallocated corporate expense / (income)				
Intangible asset amortization and PP&E step-up depreciation	~260			<b>~260</b>
Other items	~290	~(70)	~(1,790)	<b>~(1,570)</b>
Operating margin %	10.1 — 10.3	~0.3	~5.0	<b>15.4 — 15.6</b>
Interest expense	~560			<b>~560</b>
Effective tax rate %	~17.0		~5.0	<b>~22.0</b>
Weighted average diluted shares outstanding	~162	~(1)		<b>~161</b>
MTM-adjusted EPS <sup>(1)</sup>	23.15 — 23.65	~.85	~6.90	<b>30.90 — 31.40</b>
Adjusted free cash flow <sup>(1)</sup>	~3,000 — ~3,300		~(800)	<b>~2,200 — ~2,500</b>
Transaction-adjusted EPS <sup>(1)</sup>	23.15 — 23.65	~.85		<b>24.00 — 24.50</b>
Transaction-adjusted free cash flow <sup>(1)</sup>	~3,000 — ~3,300			<b>~3,000 — ~3,300</b>

1. Non-GAAP metric. See Appendix.

2. Total Net FAS/CAS pension adjustment is presented as a single amount consistent with our historical presentation, and includes \$485 million of expected CAS pension cost and \$1,055 million of expected FAS pension benefit. \$415 million of FAS (service-related) pension cost is reflected in operating income and \$1,470 million of FAS (non-service) pension benefit is reflected below operating income. CAS pension cost continues to be recorded in operating income.

## 2021E MTM-adjusted EPS<sup>(1)</sup> and Transaction-adjusted EPS<sup>(1)</sup> Guidance bridge

	EPS
<b>MTM-adjusted EPS<sup>(1)</sup> Guidance as of 1/28/2021</b>	<b>\$23.15 - \$23.65</b>
Segment	~0.15
Corporate Unallocated	~0.35
Pension	~0.10
Weighted Average Shares Outstanding	~0.20
Tax and Other	~0.05
<b>Transaction-adjusted EPS<sup>(1)</sup> Guidance as of 4/29/2021</b>	<b>\$24.00 - 24.50</b>
Divestiture Related	~6.90
<b>MTM-adjusted EPS<sup>(1)</sup> Guidance as of 4/29/2021</b>	<b>\$30.90 - \$31.40</b>

1. Non-GAAP metric. See Appendix.

## Summary

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- Outstanding Q1 2021 operational performance
- 2021 guidance calls for continued solid operating performance
- Executing on value-creating capital deployment plan



# Appendix

## Non-GAAP Definitions

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**Non-GAAP Financial Measures Disclosure:** This presentation contains non-GAAP (accounting principles generally accepted in the United States of America) financial measures, as defined by SEC Regulation G and indicated by a footnote in the text of this presentation. Definitions for the non-GAAP measures are provided below and reconciliations are provided in this Appendix, except that reconciliations of forward-looking non-GAAP measures are not provided because the company is unable to provide such reconciliations without unreasonable effort due to the uncertainty and inherent difficulty of predicting the occurrence and financial impact of certain items, including, but not limited to, the impact of any mark-to-market pension adjustment. Other companies may define these measures differently or may utilize different non-GAAP measures.

**MTM-adjusted diluted EPS:** Diluted earnings per share excluding the per share impact of MTM expense and related tax impacts. This measure may be useful to investors and other users of our financial statements as a supplemental measure in evaluating the company's underlying financial performance per share by presenting the company's diluted earnings per share results before the non-operational impact of pension and OPB actuarial gains and losses.

**Transaction-adjusted net earnings:** Net earnings excluding impacts related to the company's IT services divestiture, including the gain on sale of the business, associated federal and state income tax expenses, transaction costs, and the make-whole premium for early debt redemption, as well as MTM expense and related tax impacts. This measure may be useful to investors and other users of our financial statements as a supplemental measure in evaluating the company's underlying financial performance by presenting the company's operating results before the non-operational impact of divestiture activity and pension and OPB actuarial gains and losses. This measure is also consistent with how management views the underlying performance of the business as the impact of the IT services divestiture and MTM accounting is not considered in management's assessment of the company's operating performance or in its determination of incentive compensation awards. Transaction-adjusted net earnings is reconciled in the "Non-GAAP Reconciliations – Transaction-adjusted net earnings and Transaction-adjusted EPS" table within this Appendix.

**Transaction-adjusted EPS:** Diluted earnings per share excluding the per share impacts related to the company's IT services divestiture, including the gain on sale of the business, associated federal and state income tax expenses, transaction costs, and the make-whole premium for early debt redemption, as well as MTM expense and related tax impacts. This measure may be useful to investors and other users of our financial statements as a supplemental measure in evaluating the company's underlying financial performance per share by presenting the company's diluted earnings per share results before the non-operational impact of the IT services divestiture and pension and OPB actuarial gains and losses. Transaction-adjusted EPS is reconciled in the "Non-GAAP Reconciliations – Transaction-adjusted net earnings and Transaction-adjusted EPS" table within this Appendix.

**Organic sales:** Total sales excluding sales attributable to the company's IT services divestiture. This measure may be useful to investors and other users of our financial statements as a supplemental measure in evaluating the company's underlying sales growth as well as in providing an understanding of our ongoing business and future sales trends by presenting the company's sales before the impact of divestiture activity. Organic sales is reconciled in the "Non-GAAP Reconciliation - Organic Sales" table within this Appendix.

## Non-GAAP Definitions

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**Segment operating income and segment operating margin rate:** Segment operating income, as reconciled in the “Non-GAAP Reconciliations – Segment Operating Income” table within this Appendix, and segment operating margin rate (segment operating income divided by sales) reflect total earnings from our four segments, including allocated pension expense we have recognized under CAS, and excluding unallocated corporate items and FAS pension expense. These measures may be useful to investors and other users of our financial statements as supplemental measures in evaluating the financial performance and operational trends of our sectors. These measures should not be considered in isolation or as alternatives to operating results presented in accordance with GAAP.

**Adjusted free cash flow:** Net cash used in operating activities less capital expenditures, plus proceeds from the sale of equipment to a customer (not otherwise included in net cash used in operating activities) and the after-tax impact of discretionary pension contributions. Adjusted free cash flow includes proceeds from the sale of equipment to a customer as such proceeds were generated in a customer sales transaction. It also includes the after-tax impact of discretionary pension contributions for consistency and comparability of financial performance. This measure may not be defined and calculated by other companies in the same manner. We use adjusted free cash flow as a key factor in our planning for, and consideration of, acquisitions, the payment of dividends and stock repurchases. This non-GAAP measure may be useful to investors and other users of our financial statements as a supplemental measure of our cash performance, but should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes, or as an alternative to operating cash flows presented in accordance with GAAP. Adjusted free cash flow is reconciled in the “Non-GAAP Reconciliations – Transaction-adjusted Free Cash Flow” table within this Appendix.

**Transaction-adjusted free cash flow:** Net cash used in operating activities less capital expenditures, plus proceeds from the sale of equipment to a customer (not otherwise included in net cash used in operating activities), the after-tax impact of discretionary pension contributions and cash paid for federal and state taxes and transaction costs associated with the IT services divestiture. Transaction-adjusted free cash flow includes proceeds from the sale of equipment to a customer as such proceeds were generated in a customer sales transaction. It also includes the after-tax impact of discretionary pension contributions and cash paid for federal and state taxes and transaction costs associated with the IT services divestiture for consistency and comparability of financial performance. This measure may not be defined and calculated by other companies in the same manner. We use transaction-adjusted free cash flow as a key factor in our planning for, and consideration of, acquisitions, the payment of dividends and stock repurchases. This non-GAAP measure may be useful to investors and other users of our financial statements as a supplemental measure of our cash performance, but should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes, or as an alternative to operating cash flows presented in accordance with GAAP. Transaction-adjusted free cash flow is reconciled in the “Non-GAAP Reconciliations – Transaction-adjusted Free Cash Flow” within this Appendix.

## Non-GAAP Reconciliation - Organic Sales

Three Months Ended March 31							
	Q1 2020			Q1 2021			Organic sales ▲ %
	Sales	IT Services Sales	Organic Sales	Sales	IT Services Sales	Organic Sales	
Aeronautics Systems	\$ 2,843	\$ —	\$ 2,843	\$ 2,990	\$ —	\$ 2,990	5%
Defense Systems	1,881	(389)	1,492	1,562	(106)	1,456	(2)%
Mission Systems	2,347	(130)	2,217	2,589	(42)	2,547	15%
Space Systems	1,948	(44)	1,904	2,521	(16)	2,505	32%
Intersegment Eliminations	(399)	4	(395)	(505)	2	(503)	
<b>Total</b>	<b>\$ 8,620</b>	<b>\$ (559)</b>	<b>\$ 8,061</b>	<b>\$ 9,157</b>	<b>\$ (162)</b>	<b>\$ 8,995</b>	<b>12%</b>

# Non-GAAP Reconciliations – Segment Operating Income

	Three Months Ended March 31	
	Q1 2020	Q1 2021
Sales	\$8,620	<b>\$9,157</b>
Segment operating income	967	<b>1,095</b>
Segment operating margin %	11.2%	<b>12.0%</b>
FAS/CAS pension adjustment	\$105	<b>\$19</b>
Unallocated corporate income (expense):		
Gain on sale of business	—	<b>1,980</b>
IT services divestiture – unallowable state taxes and transaction costs	—	<b>(192)</b>
Intangible asset amortization and PP&E step-up depreciation	(82)	<b>(65)</b>
Other unallocated corporate expense	(56)	<b>(15)</b>
Unallocated corporate income (expense)	(138)	<b>1,708</b>
Total operating income	\$934	<b>\$2,822</b>
Operating margin rate	10.8%	<b>30.8%</b>

# Non-GAAP Reconciliations – Transaction-adjusted net earnings and Transaction-adjusted EPS

\$ in millions, except per share amounts	Three Months Ended March 31	
	Q1 2020	Q1 2021
<b>Transaction-adjusted net earnings</b>		
Net earnings	\$ 868	\$ 2,195
Gain on sale of business	—	(1,980)
State tax impact <sup>(1)</sup>	—	160
Transaction costs	—	32
Make-Whole premium	—	54
Federal tax impact of items above <sup>(2)</sup>	—	614
Ajdustments, net of tax	\$ —	\$ (1,120)
Transaction-adjusted net earnings	\$ 868	\$ 1,075
<b>Transaction-adjusted per share data</b>		
Diluted EPS	\$ 5.15	\$ 13.43
Gain on sale of business per share	—	(12.11)
State tax impact per share <sup>(1)</sup>	—	0.98
Transaction costs per share	—	0.19
Make-whole premium per share	—	0.33
Federal tax impact of line items above per share <sup>(2)</sup>	—	3.75
Adjustment, net of tax per share	\$ —	\$ (6.86)
Transaction-adjusted EPS	\$ 5.15	\$ 6.57

1. The state tax impact includes \$62 million of incremental tax expense related to \$1.2 billion of nondeductible goodwill in the divested business.

2. The federal tax impact was calculated by applying the 21 percent federal statutory rate to the adjustment items and also includes \$250 million of incremental tax expense related to \$1.2 billion of nondeductible goodwill in the divested business.

# Non-GAAP Reconciliations – Transaction-adjusted Free Cash Flow

	Three Months Ended March 31		
	Q1 2020	Q1 2021	▲ %
Net cash used in operating activities	\$ (993)	\$ (66)	(93)%
Capital expenditures	(272)	(205)	(25)%
Adjusted free cash flow	(1,265)	(271)	(79)%
IT services divestiture transaction costs	—	39	NM
Transaction-adjusted free cash flow	\$ (1,265)	\$ (232)	(82)%

**NORTHROP**  
**GRUMMAN**

The logo graphic consists of a thick horizontal line extending from the end of the word "NORTHROP" to the right, and a thick vertical line extending downwards from the end of that horizontal line, forming an L-shape.