



THE VALUE OF PERFORMANCE.
NORTHROP GRUMMAN

Northrop Grumman Third Quarter 2019 Conference Call

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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, 2018 and from time to time in our other filings with the Securities and Exchange Commission (SEC). They include:

- 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 more broadly
- investigations, claims, disputes, enforcement actions and/or litigation
- 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, 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, our ability to do business, and our financial position, results of operations and/or cash flows
- 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, chemicals and components
- changes in procurement and other laws, regulations and practices applicable to our industry, findings by the U.S. government as to our compliance with such laws and regulations, and changes in our customers’ business practices globally
- increased competition within our markets and bid protests
- the ability to maintain a qualified workforce
- our ability to meet performance obligations under our contracts, including obligations that 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
- 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, postretirement and health and welfare plans
- our ability successfully to integrate the Orbital ATK business and realize fully the anticipated benefits of the acquisition, without adverse consequences
- our ability to exploit 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
- changes in business conditions that could impact business investments and/or recorded goodwill or the value of other long-lived assets
- unanticipated changes in our tax provisions or exposure to additional tax liabilities, including qualification of the Alliant Techsystems Inc. spin-off of Vista Outdoor Inc. as a tax-free transaction

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 of this presentation 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 also contains 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.

Q3 2019 Highlights



- \$10.1 billion net awards, book-to-bill ratio of 1.2
- Total backlog increases to \$65.0 billion
- 5% revenue growth
- Higher sales at all four sectors
- \$1.1 billion cash from operations; \$882 million free cash flow⁽¹⁾
- 2019 MTM-adjusted EPS⁽¹⁾ guidance increased to \$20.10 - \$20.35
- 2019 free cash flow guidance updated to \$2.7 - \$3.0 billion

⁽¹⁾ Non-GAAP metric. See Appendix.

Q3 2019 EPS Bridge

Quarter-to-Quarter



| | |
|---------------|--------|
| 2018 Q3 EPS | \$7.11 |
| Cost claim | (1.01) |
| Pension | (0.47) |
| Tax and other | (0.14) |
| 2019 Q3 EPS | \$5.49 |

Bridge items using 21% tax rate – see Schedule 5 of Q3 2019 earnings release dated 10/24/19

2019 Guidance⁽¹⁾ as of 10/24/19



| | |
|---|-------------------|
| Sales (\$B) | ~34.0 |
| Segment operating margin rate ⁽²⁾ | ~11.5% |
| Total Net FAS/CAS pension adjustment (\$B) ⁽³⁾ | ~1.26 |
| Unallocated corporate expense (\$M) | |
| Intangible asset amortization and PP&E step-up depreciation | ~385 |
| Other items | ~225 |
| Operating margin rate | ~11% |
| Interest expense (\$M) | ~530 |
| Effective tax rate | Low 16% |
| Weighted average diluted shares outstanding | ~170M |
| MTM-adjusted EPS ⁽²⁾ | \$20.10 – \$20.35 |
| Capital expenditures (\$B) | ~1.2 |
| Free cash flow (\$B) ⁽²⁾ | 2.7 – 3.0 |

(1) 2019 financial guidance, as well as outlook, trends, expectations and other indicia of forward looking statements provided by the company for 2020, reflect the company's judgment based on the information available to the company at the time of this presentation. The government budget and appropriations processes can impact our customers, programs and financial results. Government budgets and appropriations, including the timing of appropriations and the occurrence of an extended continuing resolution and/or prolonged government shutdown, as well as a breach of the debt ceiling, can impact the company's ability to achieve guidance or meet expectations.

(2) Non-GAAP metric. See Appendix.

(3) Total Net FAS/CAS pension adjustment is presented as a single amount consistent with our historical presentation, and includes \$830 million of expected CAS pension cost and \$430 million of expected FAS pension benefit. In accordance with ASU No. 2017-07, \$370 million of FAS (service-related) pension cost is reflected in operating income and \$800 million of FAS (non-service) pension benefit is reflected below operating income. CAS pension cost continues to be recorded in operating income.

2019 Sector Guidance Summary



| Sector | Sales (\$B) | OM Rate |
|---------------------|---------------|-----------------|
| Aerospace Systems | High 13 | Mid to high 10% |
| Innovation Systems | ~6 | High 10% |
| Mission Systems | Low to mid 12 | Low 13% |
| Technology Services | Low 4 | High 10% |

2019 MTM-adjusted EPS⁽¹⁾ – Guidance Update

Full Year Bridge



| | |
|------------------------------|-------------------|
| 2019 Guidance as of 7/24/19 | \$19.30 - \$19.55 |
| Pension | ~.30 |
| Interest Expense | ~.15 |
| Tax and other income | ~.35 |
| 2019 Guidance as of 10/24/19 | \$20.10 - \$20.35 |

⁽¹⁾ Non-GAAP metric. See Appendix.

2019 – 2021 Pension Estimates (\$M)

Comparison between 1/31/19 and 10/24/19



| 1/31/2019 ⁽¹⁾ | 2019E | 2020E | 2021E |
|------------------------------|--------|--------|--------|
| Total Net FAS/CAS adjustment | ~1200 | ~1340 | ~1600 |
| CAS | ~770 | ~850 | ~1100 |
| FAS service expense | ~(370) | ~(350) | ~(330) |
| FAS non-service benefit | ~800 | ~840 | ~830 |
| Required Funding | ~90 | ~220 | ~410 |

| 10/24/19 | 2019E ⁽¹⁾ | 2020E ⁽²⁾ | 2021E ⁽²⁾ |
|------------------------------|----------------------|----------------------|----------------------|
| Total Net FAS/CAS adjustment | ~1,260 | ~1,480 | ~1,680 |
| CAS | ~830 | ~800 | ~1,000 |
| FAS service expense | ~(370) | ~(400) | ~(380) |
| FAS non-service benefit | ~800 | ~1,080 | ~1,060 |
| Required Funding | ~100 | ~230 | ~300 |

(1) Before mark-to-market adjustment and assumes 4.31% discount rate and 8% return on assets

(2) Assumes a 3.31% discount rate, a 12% return on 2019 assets, and 8% long-term rate of return on assets thereafter.

Pension Sensitivities



| Mark-to-Market/ Net Pension Liability ⁽¹⁾ | | Inc/(Dec) to Expense (\$M) |
|--|----------|----------------------------|
| Discount rate | +25 bps | ~(1,000) |
| | -25 bps | ~1,000 |
| Plan asset returns | +100 bps | ~(270) |
| | -100 bps | ~270 |

| Non-Service FAS ⁽²⁾ | | Inc/(Dec) to Expense (\$M) |
|--------------------------------|----------|----------------------------|
| Discount rate | +25 bps | ~35 |
| | -25 bps | ~(35) |
| Plan asset returns | +100 bps | ~(20) |
| | -100 bps | ~20 |

(1) Relative to a 2019 discount rate of 4.31% and assumed net pension returns of 8.0%

(2) FAS service costs not impacted by asset returns

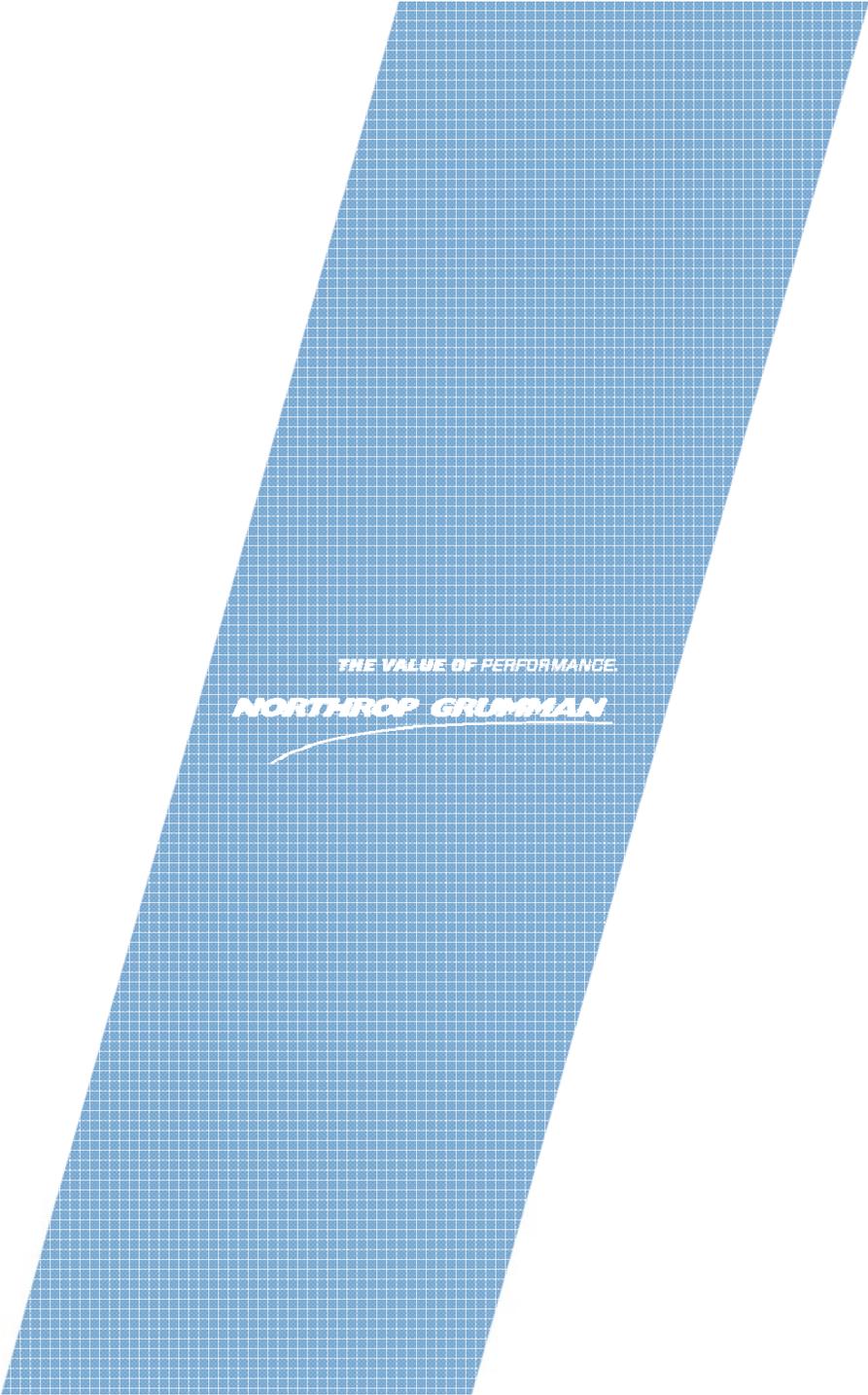
Note: CAS costs not directly impacted in the short term by changes in discount rate

2020 Outlook

As of 10/24/19



-
- Mid single-digit sales growth
 - Segment OM% consistent with 2019
 - Strong and growing free cash flow



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Appendix

Non-GAAP Definitions



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 (Securities and Exchange Commission) Regulation G and indicated by a footnote in the presentation. Definitions for the non-GAAP measures are provided below and reconciliations are provided in the presentation. Other companies may define these measures differently or may utilize different non-GAAP measures.

Segment operating income and segment operating margin rate: Segment operating income and segment operating margin rate (segment operating income divided by sales) reflect total earnings from our four segments including allocated pension expense 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.

Free cash flow: Net cash provided by operating activities less capital expenditures. We use free cash flow as a key factor in our planning for, and consideration of, acquisitions, stock repurchases and the payment of dividends. This 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.

MTM-adjusted diluted EPS: Diluted earnings per share excluding the per share impact of any potential mark-to-market ("MTM") (expense) benefit 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.

Non-GAAP Reconciliations – Free Cash Flow



| | Three Months | | | Nine Months | | |
|---|--------------|--------|----------|-------------|----------|----------|
| | 2019 | 2018 | % Change | 2019 | 2018 | % Change |
| \$ millions | | | | | | |
| Net cash provided by operating activities | \$ 1,139 | \$ 812 | 40% | \$ 1,833 | \$ 1,450 | 26% |
| Less: capital expenditures | (257) | (282) | (9%) | (793) | (786) | 1% |
| Free cash flow | \$ 882 | \$ 530 | 66% | \$ 1,040 | \$ 664 | 57% |

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