



THE VALUE OF PERFORMANCE.
NORTHROP GRUMMAN

Northrop Grumman Fourth Quarter and Full-Year 2018 Conference Call

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Forward-Looking Statements

This presentation and the information we are incorporating by reference 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 and in 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.

2019 Guidance⁽¹⁾ as of 1/31/19



Sales (\$B)	~34.0
Segment operating margin rate ⁽²⁾	Low to mid 11%
Total Net FAS/CAS pension adjustment (\$B) ⁽³⁾	~1.2
Unallocated corporate expense (\$M)	
Intangible asset amortization and PP&E step-up depreciation	~385
Other items	~250
Operating margin rate	Mid to high 10%
Interest expense (\$M)	~590
Effective tax rate	Mid 17%
Weighted average diluted shares outstanding	~170M
MTM-adjusted EPS ⁽²⁾	\$18.50 – \$19.00
Capital expenditures (\$B)	~1.2
Free cash flow (\$B) ⁽²⁾	2.6 – 3.0

(1) 2019 financial guidance reflects the company's judgment based on the information available to the company at the time of the Fourth Quarter and Full-Year 2018 earnings release. 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 2019 guidance.

(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 expected 2019 CAS pension cost of \$770 million and FAS pension benefit of \$430 million. 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. See Schedule 4 of the Fourth Quarter and Full-Year 2018 earnings release for further information.

2019 Sector Guidance Summary



Sector	Sales	Segment OM Rate
Aerospace Systems	High \$13B	Mid to High 10%
Innovation Systems	High \$5B	Mid 10%
Mission Systems	Low to Mid \$12B	~13%
Technology Services	Low \$4B	Mid to High 9%

Pension Status



	2018 Actual	2019 Assumptions
Discount rate	3.68%	4.31%
Net asset return	(3.5%)	8.0%*
	2018 Actual	2019 Estimates
Total Net FAS/CAS adjustment (\$M)	1,662	~1,200
CAS (\$M)	1,017	~770
Total Net FAS benefit (\$M)	645	~430
Mark-to-market (\$M)	(655)	N/A

* Long-term rate of return assumption

2019 – 2021 Pension Estimates (\$M)⁽¹⁾



	2019E	2020E	2021E
Total Net FAS/CAS adjustment	~1,200	~1,340	~1,600
CAS	~770	~850	~1,100
FAS service expense	~(370)	~(350)	~(330)
FAS non-service benefit	~800	~840	~830
Required Funding	~90	~220	~410

(1) Assumes a 4.31% discount rate and an 8% long-term rate of return for all years presented.

Pension Sensitivities^{*(1)}



2019 Mark-to-Market/ Net Pension Liability		Inc/(Dec) to Expense (\$M)
Discount rate	+25 bps	~(1,000)
	-25 bps	~1,000
Plan asset returns	+100 bps	~(275)
	-100 bps	~275

2020+ Non-Service FAS		Inc/(Dec) to Expense (\$M)
Discount rate	+25 bps	~35
	-25 bps	~(35)
Plan asset returns	+100 bps	~(25)
	-100 bps	~25

*From 2019 discount rate of 4.31% and assumed net pension asset returns of 8.0%
 (1) Service FAS expense is not significantly sensitive to discount rate or plan asset returns.

Intangible Asset Amortization and PP&E Step-up Depreciation Schedule



(\$ Millions)	2019	2020	2021	2022	2023
Amortization of OA Purchased Intangibles	320	255	197	190	72
Amortization of Other Purchased Intangibles	11	7	7	7	6
Step-up Property, Plant & Equipment Depreciation	55	51	50	44	43
Total	386	313	254	241	121

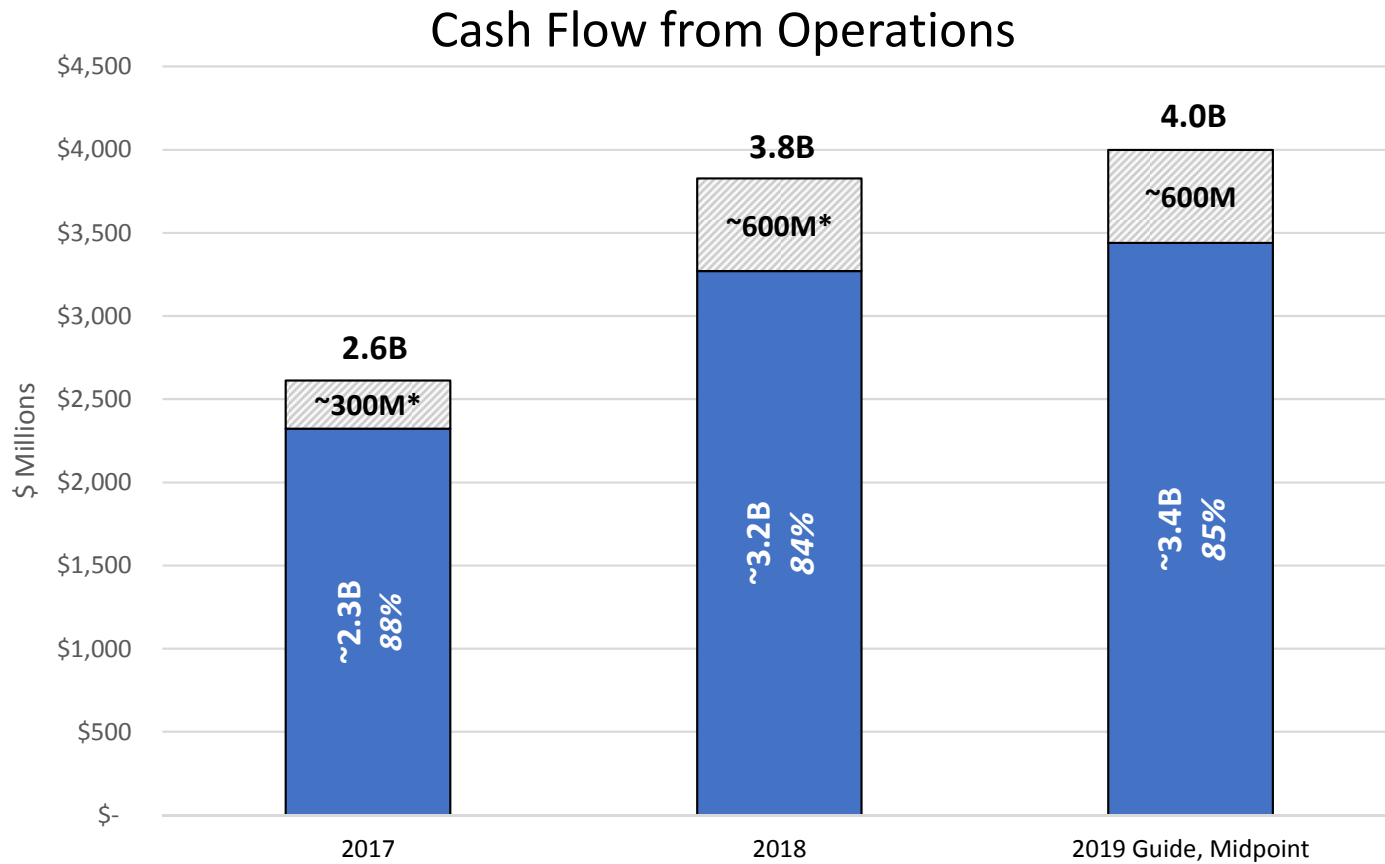
2018 to 2019E MTM-adjusted EPS⁽¹⁾ Bridge



2018 MTM Adjusted EPS⁽¹⁾	\$21.33
Segment Performance and Full Year NGIS	~1.70 - 1.90
Net Pension	~(2.00)
2018 Cost Claim Settlement	~(1.00)
Full Year PI Amortization & PP&E Step-ups	~(.70)
Tax Rate	~(.70)
2019 MTM Adjusted EPS⁽¹⁾ Guide	\$18.50 - \$19.00

(1) Non-GAAP metric. See Appendix.

Cash Performance Driven by Operations



▣ Net pension-related cash flows (CAS pension expense less funding, both tax effected)

* Includes voluntary pension contributions of \$500M in 2017 and \$280M in 2018



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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 this presentation. Other companies may define these measures differently or may utilize different non-GAAP measures.

MTM-adjusted net earnings: Net earnings excluding 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 by presenting the company's operating results before the non-operational impact of 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 MTM accounting is not considered in management's assessment of the company's operating performance or in its determination of incentive compensation awards.

MTM-adjusted diluted EPS: Diluted earnings per share excluding the per share impact of 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.

Segment operating income: Total earnings from our four segments, including allocated pension expense recognized under CAS, and excluding unallocated corporate items and FAS pension expense. This measure may be useful to investors and other users of our financial statements as a supplemental measure in evaluating the financial performance and operational trends of our sectors. This measure should not be considered in isolation or as an alternative to operating results presented in accordance with GAAP.

Segment operating margin rate: Segment operating income as defined above, divided by sales. This measure may be useful to investors and other users of our financial statements as a supplemental measure in evaluating the financial performance and operational trends of our sectors. This measure should not be considered in isolation or as an alternative 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.

Non-GAAP Reconciliations – Segment Operating Income



<i>\$ millions</i>	Twelve Months	
	2018	2017
Sales	\$ 30,095	\$ 26,004
Segment operating income	3,447	2,903
Segment operating margin rate	11.5%	11.2%
Reconciliation to operating income		
Net FAS (service)/CAS pension adjustment	\$ 613	\$ 638
Unallocated corporate expense and other	(280)	(323)
Intangible asset amortization and PP&E step-up depreciation	(220)	-
MTM-related deferred state tax benefit (expense) ¹	29	(24)
Other ²	(89)	(299)
Operating income	\$ 3,780	\$ 3,218
Operating margin rate	12.6%	12.4%

¹ Based on a 21% federal tax rate and 4.5% state tax rate for all periods presented.

² Includes deferred state tax expense of \$24 million and \$34 million, respectively, for the years ended December 31, 2018 and 2017, resulting from reversal of previously recognized amortization of net actuarial losses in connection with the change in pension accounting.

Non-GAAP Reconciliations – MTM-adjusted net earnings and earnings per share



<i>\$ millions, except per share amounts</i>	Twelve Months	
	2018	2017
Net earnings	\$ 3,229	\$ 2,869
MTM expense (benefit)	655	(536)
MTM-related deferred state tax (benefit) expense ¹	(29)	24
Federal tax (benefit) expense of items above ¹	(131)	108
After-tax MTM adjustment	495	(404)
MTM-adjusted net earnings	\$ 3,724	\$ 2,465
Diluted EPS	\$ 18.49	\$ 16.34
MTM expense (benefit) per share	3.76	(3.06)
MTM-related deferred state tax (benefit) expense per share ¹	(0.17)	0.14
Federal tax (benefit) expense of items above per share ¹	(0.75)	0.62
After-tax MTM adjustment per share	2.84	(2.30)
MTM-adjusted diluted EPS	\$ 21.33	\$ 14.04

¹ Based on a 21% federal tax rate and 4.5% state tax rate for all periods presented.

Non-GAAP Reconciliations – Cash Flow Highlights



<i>\$ millions</i>	Twelve Months	
	2018	2017
Net cash provided by operating activities	\$ 3,827	\$ 2,613
Less: capital expenditures	(1,249)	(928)
Free cash flow	\$ 2,578	\$ 1,685

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