NORTHROP GRUMMAN
Third Quarter 2023 Conference Call

October 26, 2023

Kathy Warden
Chair, 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, 2022, 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 macroeconomic, health, security and political environments, including inflationary pressures, labor and supply chain challenges and COVID-19, which have caused and will continue to cause significant challenges, instability and uncertainty. They include:

Industry and Economic Risks

- our dependence on the U.S. government for a substantial portion of our business
- significant delays or reductions in appropriations and/or for our programs, and U.S. government funding and program support more broadly, including as a result of a prolonged continuing resolution and/or government shutdown, and/or related to hostilities and other global events
- significant delays or reductions in payments as a result of or related to a breach of the debt ceiling
- the use of estimates when accounting for our contracts and the effect of contract cost growth and our efforts to recover or offset such costs and/or changes in estimated contract costs and revenues, including as a result of inflationary pressures, labor shortages, supply chain challenges and/or other macroeconomic factors, and risks related to management’s judgments and assumptions in estimating and/or projecting contract revenue and performance which may be inaccurate
- continued pressures from macroeconomic trends, including on costs, schedules, performance and ability to meet expectations
- increased competition within our markets and bid protests

Legal and Regulatory Risks

- investigations, claims, disputes, enforcement actions, litigation (including criminal, civil and administrative) and/or other legal proceedings
- the improper conduct of employees, agents, subcontractors, suppliers, business partners or joint ventures in which we participate, including the impact on our reputation and our ability to do business
- changes in procurement and other laws, SEC, DoD and other rules and regulations, contract terms and practices applicable to our industry, findings by the U.S. government as to our compliance with such requirements, more aggressive enforcement of such requirements and changes in our customers’ business practices globally
- environmental matters, including unforeseen environmental costs and government and third party claims
- unanticipated changes in our tax provisions or exposure to additional tax liabilities

Business and Operational Risks

- impacts related to health epidemics and pandemics, including COVID-19
- cyber and other security threats or disruptions faced by us, our customers or our suppliers and other partners, and changes in related regulations
- our ability to attract and retain a qualified, talented and diverse workforce with the necessary security clearances to meet our performance obligations
- the performance and viability of our subcontractors and suppliers and the availability and pricing of raw materials and components, particularly with inflationary pressures, increased costs, shortages in labor and financial resources, supply chain disruptions, and extended material lead times
- environmental, social and governance matters, including especially climate change, their impacts on our company, our operations and our stakeholders (employees, suppliers, customers, shareholders and regulators), and changes in laws, regulations and priorities related to these issues
- our exposure to additional risks as a result of our international business, including risks related to global security, geopolitical and economic factors, misconduct, suppliers, laws and regulations
- 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
- natural disasters
- 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
- our ability appropriately to exploit and/or protect intellectual property rights
- our ability to develop new products and technologies, progress digital transformation, and maintain technologies, facilities, and equipment to win new competitions and meet the needs of our customers

General and Other Risk Factors

- the adequacy and availability of, and ability to obtain, insurance coverage, customer indemnifications or other liability protections
- the future investment performance of plan assets, gains or losses associated with changes in valuation of marketable securities related to our non-qualified benefit plans, 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
- changes in business conditions that could impact business investments and/or recorded goodwill or the value of other long-lived assets, and other potential future liabilities

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 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 Highlights

NORTHROP GRUMMAN

Enterprise Spotlight

- Strong growth and performance continues across all business segments
- Solid rocket motor production ramp progressing well in support of growing demand for launch, strategic and tactical missile capacity
- Selected by Air Force to develop the Stand-in Attack Weapon (SiAW), based on offering that builds on capabilities and experience in our AARGM product line

Q3 Financial Performance

- Continued strong demand led to book-to-bill ratio of 1.53 and record backlog of $84 billion
- Sales increased 9% to $9.8 billion
- Operating income increased 20%; segment operating income[(1)] increased 8%
- Adjusted free cash flow[(1)] of $0.9 billion; YTD total over $0.5 billion higher than same period of 2022

Capital Deployment

- Repaid ~$1 billion in long term debt that matured in August
- Invested over $0.6 billion in R&D and capital expenditures
- Returned over $0.5 billion to investors via dividends and share repurchases
- Continue to expect ~$1.5 billion in share repurchases this year

$84B
Q3 Backlog

$9.8B
Q3 Sales

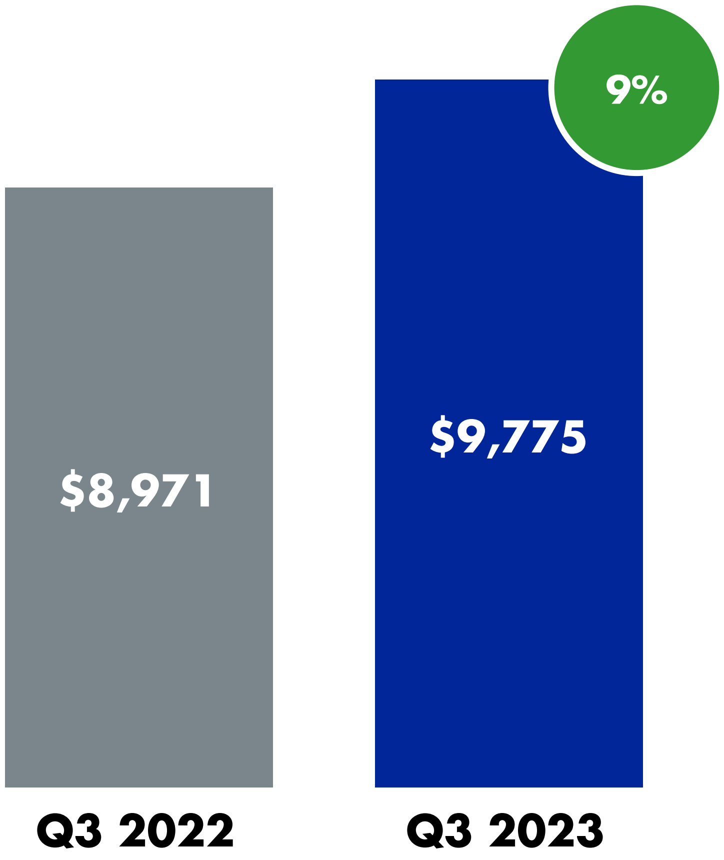
$6.18
Q3 Diluted EPS

$0.9B
Q3 Adjusted Free Cash Flow[(1)]

1. Non-GAAP financial measure. See Appendix.

Q3 Sales

NORTHROP GRUMMAN

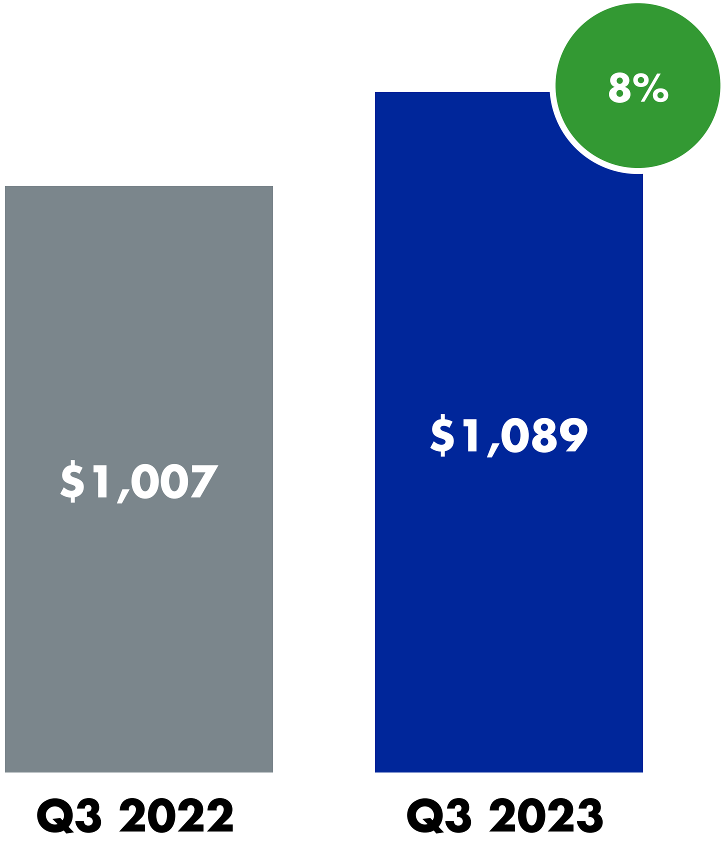


($M)	Three Months Ended September 30		
	2022	2023	▲%
Aeronautics Systems	$2,537	**$2,766**	**9%**
Defense Systems	1,345	**1,421**	**6%**
Mission Systems	2,456	**2,628**	**7%**
Space Systems	3,163	**3,506**	**11%**
Intersegment Eliminations	(530)	**(546)**	
Total	$8,971	**$9,775**	**9%**

Q3 sales growth reflects continued strong demand for our capabilities

Q3 Segment Operating Income[1]

NORTHROP GRUMMAN



($M)	Three Months Ended September 30 2022	2023	▲%
Aeronautics Systems	$262	**$283**	8%
Defense Systems	158	**182**	15%
Mission Systems	368	**386**	5%
Space Systems	290	**312**	8%
Intersegment Eliminations	(71)	**(74)**	
Total	$1,007	**$1,089**	8%

Laser focused on program performance and segment margin expansion

1. Non-GAAP financial measure. See Appendix.

Q3 Diluted EPS Bridge

Q3 2022	**$5.89**
Segment Performance	0.55
Sale of Minority Investment[1]	0.44
Net Pension[2]	(1.00)
Corporate Unallocated and Other	0.30
Q3 2023	**$6.18**

EPS increase of 5% driven by growth in segment volumes and sale of minority investment

1. Gain on sale of Minority Investment tax effected based on actual federal rate and 5.25% blended state tax rate.
2. Net Pension tax effected on a 21% federal statutory tax rate and a 5.25% blended state tax rate. See slide 14 for additional details.

Note - Year over year benefit from share reduction embedded in individual items, tax effected at 21%.

2023 Segment Guidance[1]

NORTHROP GRUMMAN

	As of 7/27/2023		As of 10/26/2023	
	Sales ($B)	OM Rate %	Sales ($B)	OM Rate %
Aeronautics Systems	Mid $10	~10%	**Mid to High $10**	~10%
Defense Systems	Mid to High $5	~12%	Mid to High $5	~12%
Mission Systems	High $10	Low 15%	High $10	**~15%**
Space Systems	High $13	~9%	**~$14**	~9%
Eliminations	~($2.2)	Mid 13%	~($2.2)	Mid 13%

Increasing sales guidance at AS and SP; all four segments projecting growth in 2023

1. See Page 12 – "Financial Guidance" regarding certain of the company's underlying assumptions, judgments and factors that can affect the company's ability to achieve guidance or meet expectations.

2023 Company-Level Guidance[1]

$ in millions, except per share amounts	As of 7/27/2023	As of 10/26/2023
Sales	$38,400 – $38,800	**~$39,000**
Segment operating income[2]	$4,300 – $4,400	$4,300 – $4,400
Total Net FAS/CAS pension adjustment[3]	~$450	~$450
Unallocated corporate expense:		
Intangible asset amortization and PP&E step-up depreciation	~$120	~$120
Other items	~$150	~$150
Operating income	$3,950 – $4,050	$3,950 – $4,050
Interest expense	~$550	~$550
Effective tax rate %	~17%	~17%
Weighted average diluted shares outstanding	Mid 152	Mid 152
MTM-adjusted EPS[2]	$22.45 – $22.85	$22.45 – $22.85
Capital expenditures	$1,650 – $1,700	$1,650 – $1,700
Adjusted free cash flow[2]	$1,850 – $2,150	$1,850 – $2,150

Sales growth now ~6.5% given demand strength

1. See Page 12 – "Financial Guidance" regarding certain of the company's underlying assumptions, judgments and factors that can affect the company's ability to achieve guidance or meet expectations.
2. Non-GAAP financial measure. See Appendix.
3. Total Net FAS/CAS pension adjustment is presented as a single amount consistent with our historical presentation, and includes $160 million of expected CAS pension expense and $240 million of FAS pension service expense, both of which are reflected in operating income. Non-operating FAS pension benefit of $530 million is reflected below operating income, and the total net FAS/CAS pension adjustment is $450 million.

2024 Net Pension Income Sensitivities ($M)

NORTHROP GRUMMAN

Asset Returns

Discount Rate Change[5]

FAS[2][3]	0%	1.5%	3.0%	4.5%	6.0%	7.5%
-25 bps	190	225	255	285	315	345
0 bps	165	195	230	260	290	**320**
+25 bps	135	170	200	230	260	290
+50 bps	110	**145**	175	205	235	265
+75 bps	90	120	150	180	215	245

CAS[4]	0%	1.5%	3.0%	4.5%	6.0%	7.5%
	365	**345**	325	310	300	**285**

Estimates[1] as of 9/30/23

Estimates[1] as of 1/26/23 inclusive of Demographic Update[6]

Pension trends indicate lower 2024 FAS income, higher CAS reimbursement than previously projected

1. See Page 12 – "Financial Guidance" regarding certain of the company's underlying assumptions, judgments and factors that can affect the company's ability to achieve guidance or meet expectations.
2. Net FAS Pension Income – Includes FAS Pension Service Expense (that is a component of operating earnings) and Non-Operating FAS Pension Benefit, assumes holding all other pension assumptions constant.
3. FAS Estimates as of 9/30/23 of $145 million highlighted above include FAS Pension Service Expense of $210 million, and $355 million of Non-Operating FAS Pension Income.
4. CAS costs not directly impacted in the short term by changes in the discount rate, assumes holding all other pension assumptions constant.
5. Change in discount rate compared to our Original Guidance provided on 1/26/23 of 5.54%. Discount rate and cash balance credit rating assumptions are partially linked.
6. CAS pension estimate for 2024 as of 1/26/23 increased from $260M to $285M due to demographic update.

2024 Outlook as of 10/26/23[1]

NORTHROP GRUMMAN

Reaffirm free cash flow[2] range of $2.25 to $2.65 billion

- Represents >20% growth from midpoint of 2023 guidance
- Continue to expect rapid free cash flow[2] expansion over next 5 years

Expect sales and segment operating income[2] growth between 4 and 5%

- Balanced outlook with sales growth in all four segments
- Continue to expect margin rate expansion over coming years

Capex projected to be stable % of sales in 2024 before declining in 2025 and beyond

Long-term value creation strategy continues to support significant free cash flow[2] growth

1. See Page 12 – “Financial Guidance” regarding certain of the company’s underlying assumptions, judgments and factors that can affect the company’s ability to achieve guidance or meet expectations.
2. Non-GAAP financial measure. See Appendix.

Appendix

NORTHROP GRUMMAN

Financial Guidance

Financial guidance, as well as outlook, trends, expectations and other forward looking statements provided by the company for 2023 and beyond, reflect the company's judgment based on the information available to the company at the time of this release. The company's financial guidance and outlook for 2023 and beyond reflect what the company currently anticipates will be the impacts on the company from, among other factors, the global macroeconomic, health, security, and political/ budget environments, including the impacts from inflationary pressures and labor and supply chain challenges; COVID-19; hostilities and changes in the threat environment; changes in government budget, appropriations and procurement priorities and processes; changes in the regulatory environment; and changes in support for our programs. We are not assuming, and the company's financial guidance and outlook for 2023 and beyond do not reflect any impacts on the company from, a potential extended continuing resolution, a prolonged government shutdown, or application of spending limits or sequestration. However, the company cannot predict how these factors will evolve or what impacts they will have, and there can be no assurance that the company's current expectations or underlying assumptions are correct. These factors can affect the company's ability to achieve guidance or meet expectations.

For additional factors that may impact the company's ability to achieve guidance or meet expectations, please see the "Forward-Looking Statements" section in our earnings release and Form 10-Q.

Non-GAAP Definitions

NORTHROP GRUMMAN

<u>Non-GAAP Financial Measures Disclosure:</u> 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 this presentation. Definitions for the non-GAAP measures are provided below and reconciliations are provided in this presentation, 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.

<u>MTM-adjusted EPS:</u> Diluted earnings per share excluding the per share impact of MTM benefit (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.

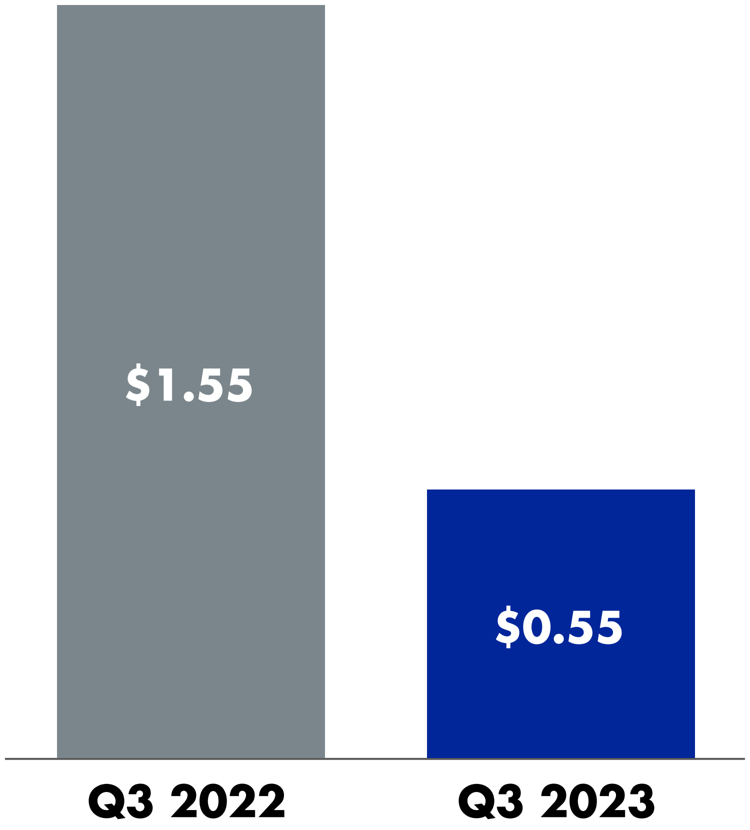
<u>Segment operating income and segment operating margin rate:</u> Segment operating income, as reconciled in the "Non-GAAP Reconciliations – Segment Operating Income" table within this Appendix and segment operating margin rate (segment operating income divided by sales) reflect the combined operating income of our four segments less the operating income associated with intersegment sales. Segment operating income includes pension expense allocated to our sectors under FAR and CAS and excludes FAS pension service expense and unallocated corporate items. 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.

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

<u>Adjusted free cash flow:</u> Net cash provided by or used in operating activities, less capital expenditures, plus proceeds from the sale of equipment to a customer (not otherwise included in net cash provided by or 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.

FAS/CAS Pension Adjustment Impact per Share

NORTHROP GRUMMAN



$ in millions, except per share amounts	Three Months Ended September 30	
	2022	2023
FAS/CAS operating adjustment	$(55)	**$(20)**
Non-operating FAS pension benefit	376	**132**
Total net FAS/CAS pension adjustment	321	**112**
Tax effect[1]	(81)	**(28)**
After-tax impact	$240	**$84**
Weighted-average diluted shares outstanding, in millions	155.3	**151.7**
Per share impact	$1.55	**$0.55**

Lower net FAS/CAS pension income reducing earnings per share

1. Based on a 21% federal statutory tax rate and a 5.25% blended state tax rate.

Non-GAAP Reconciliations
Segment Operating Income

($M)	Three Months Ended September 30 2022	Three Months Ended September 30 2023	Nine Months Ended September 30 2022	Nine Months Ended September 30 2023
Total sales	$8,971	**$9,775**	$26,569	**$28,652**
Operating income	$844	**$1,016**	$2,695	**$2,930**
Operating margin rate	9.4%	**10.4%**	10.1%	**10.2%**
Reconciliation to segment operating income:				
FAS/CAS operating adjustment	$55	**$20**	$152	**$62**
Unallocated corporate expense (income):				
Intangible asset amortization and PP&E step-up depreciation	60	**31**	181	**92**
Other unallocated corporate expense (income)	48	**22**	89	**59**
Unallocated corporate expense	$108	**$53**	$270	**$151**
Segment operating income	$1,007	**$1,089**	$3,117	**$3,143**
Segment operating margin rate	11.2%	**11.1%**	11.7%	**11.0%**

Non-GAAP Reconciliations
Adjusted Free Cash Flow

NORTHROP GRUMMAN

	Three Months Ended September 30			Nine Months Ended September 30		
($M)	**2022**	**2023**	**▲%**	**2022**	**2023**	**▲%**
Net cash provided by operating activities	$1,335	**$1,228**	**(8)%**	$650	**$1,445**	**122%**
Capital expenditures	(296)	**(359)**	**21%**	(803)	**(972)**	**21%**
Proceeds from sale of equipment to a customer	100	**—**	**NM**	100	**—**	**NM**
Adjusted free cash flow	$1,139	**$869**	**(24)%**	$(53)	**$473**	**NM**

NORTHROP GRUMMAN