Northrop Grumman Fourth Quarter 2020 Conference Call

January 28, 2021

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Chairman, Chief Executive Officer and President

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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.

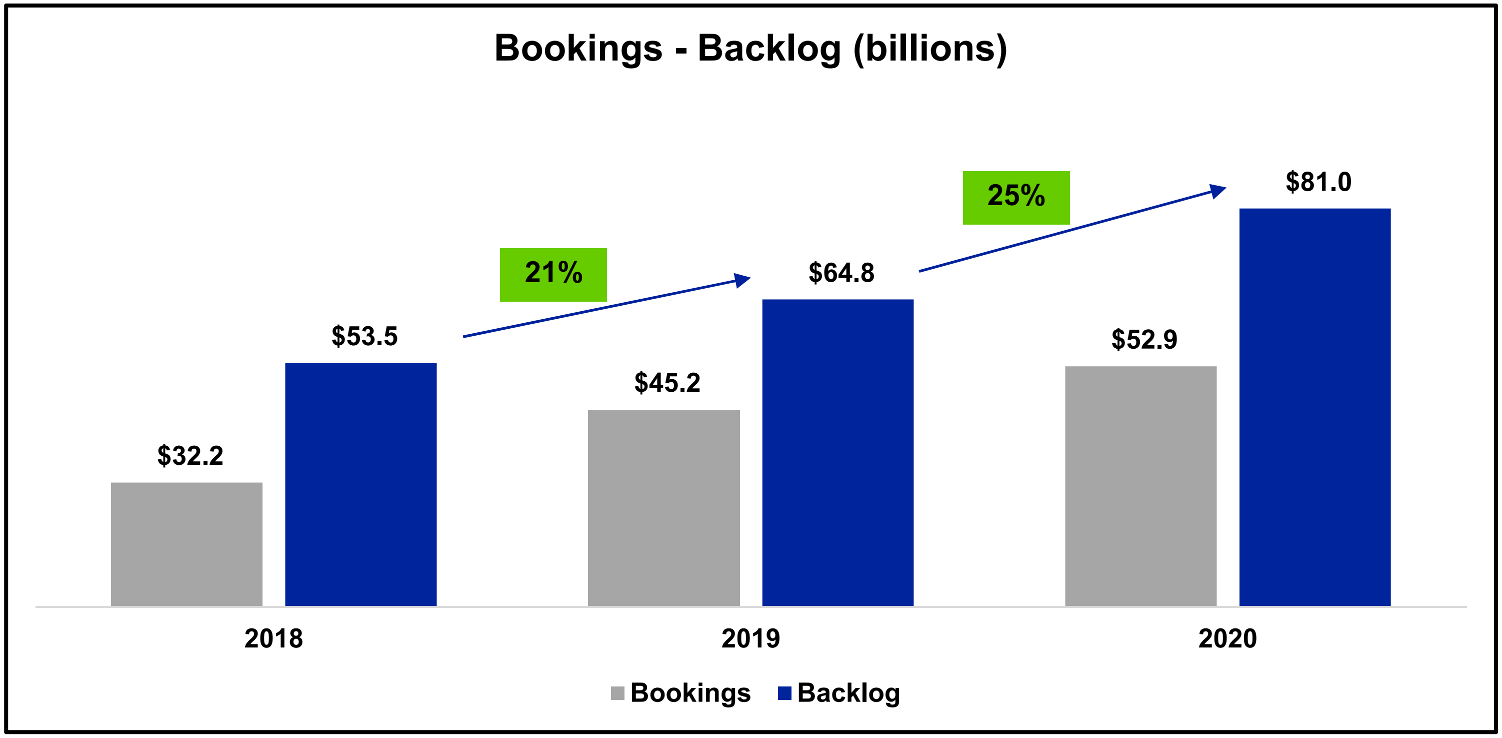
This presentation and the attachments also contain non-GAAP financial measures. A reconciliation to the nearest GAAP measure and a discussion of the company’s use of these measures are included in this presentation.

2020 Highlights and 2021 Guidance

- Net Awards \$52.9B; Backlog of \$81.0B; Book to Bill 1.4X
- Sales increase 9% to \$36.8B
- Operating Margin Rate 11.0%; Segment Operating Margin Rate[1] 11.4%
- EPS increase to \$19.03; MTM-adjusted EPS[1] increase to \$23.65
- Cash from Operations \$4.3B, after \$750 Million Discretionary Pension Contribution
- Adjusted Free Cash Flow[1] \$3.7B
- Board authorizes \$3.0 billion additional share repurchases; total outstanding authorization increases to \$5.8 billion
- 2021 Sales of \$35.1 to \$35.5 billion, MTM-adjusted EPS[1] of \$23.15 to \$23.65 and Adjusted Free Cash Flow[1] of \$3.0 to \$3.3 billion

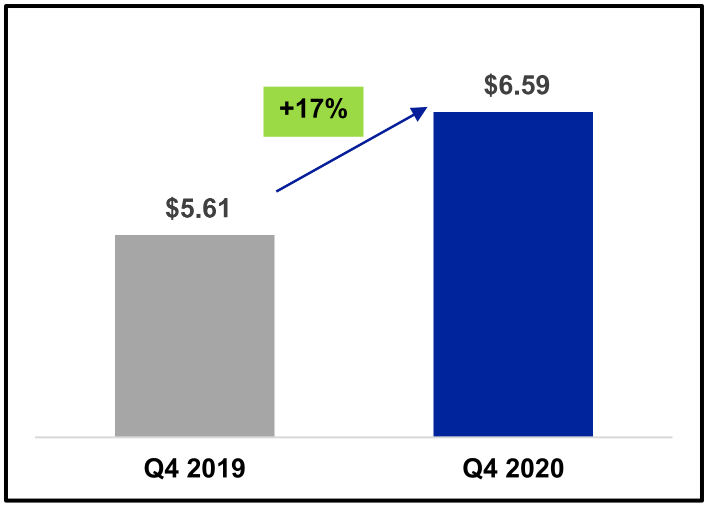
1. *Non-GAAP metric. See Appendix.*

Bookings – Backlog



1.4 times book-to-bill in 2020

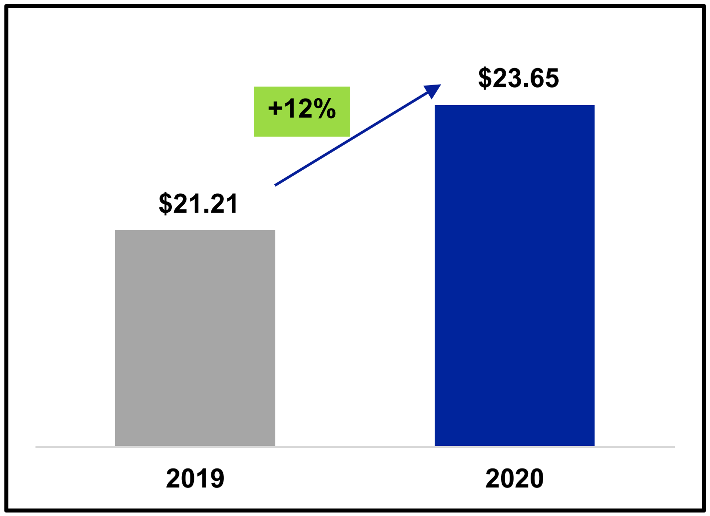
Q4 2019 to 2020 MTM-adjusted EPS[1] Bridge



MTM-adjusted EPS	
Q4 2019	$5.61
Segment Performance	0.42
Net Pension	0.35
Tax, Interest, and Other	0.21
Q4 2020	$6.59

1. Non-GAAP metric. See appendix.
Note - Bridge items using 21% tax rate

2019 to 2020 MTM-adjusted EPS[1] Bridge

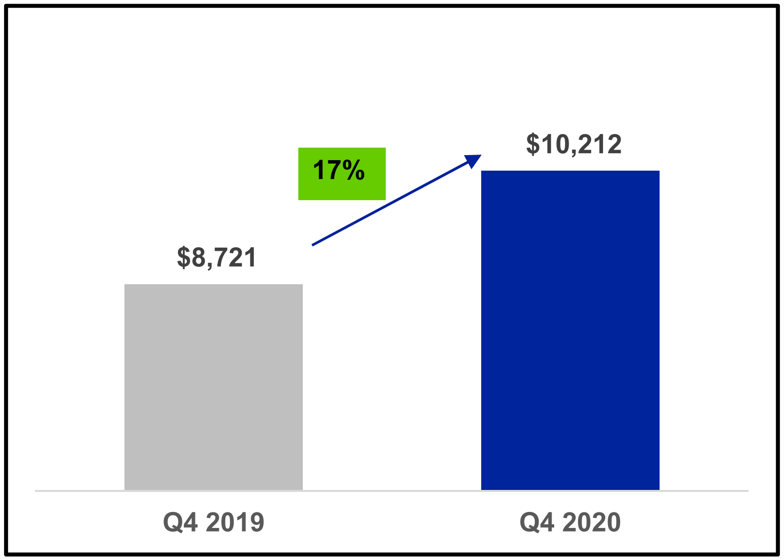


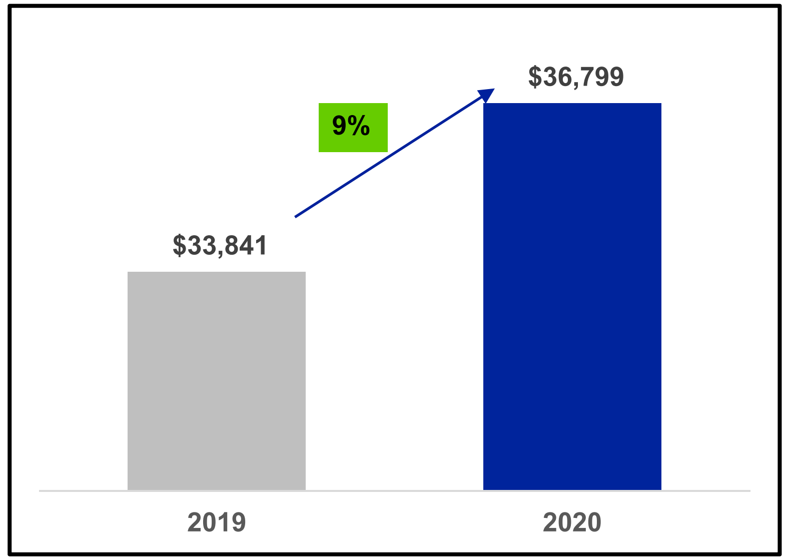
MTM-adjusted EPS	
2019	$21.21
Segment Performance	0.98
Net Pension	1.63
Net Interest	(0.35)
Tax, Share Count, and Other	0.18
2020	$23.65

1. *Non-GAAP metric. See appendix.*

Note - Bridge items using 21% tax rate

Sales





	Three Months Ended December 31			Year Ended December 31		
($M)	Q4 2019	Q4 2020	▲%	2019	2020	▲%
Aeronautics Systems	$ 2,807	**$ 3,487**	**24%**	$ 11,116	**$ 12,169**	**9%**
Defense Systems	1,880	**1,917**	**2%**	7,495	**7,543**	**1%**
Mission Systems	2,486	**2,736**	**10%**	9,410	**10,080**	**7%**
Space Systems	1,951	**2,550**	**31%**	7,425	**8,744**	**18%**
Intersegment eliminations	(403)	**(478)**		(1,605)	**(1,737)**	
Total Sales	8,721	**10,212**	**17%**	33,841	**36,799**	**9%**

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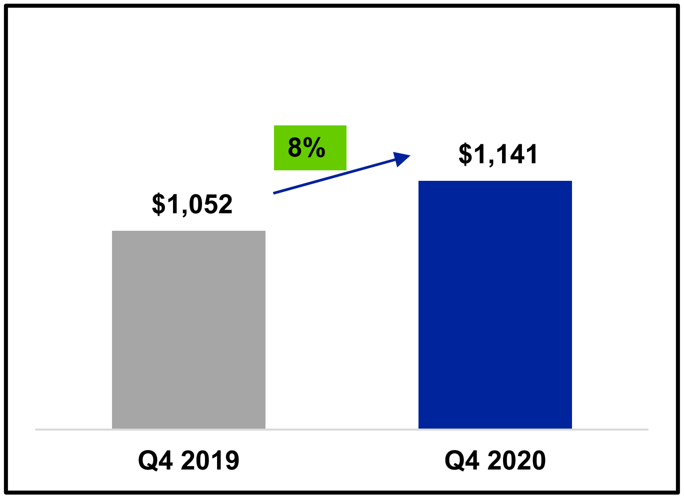
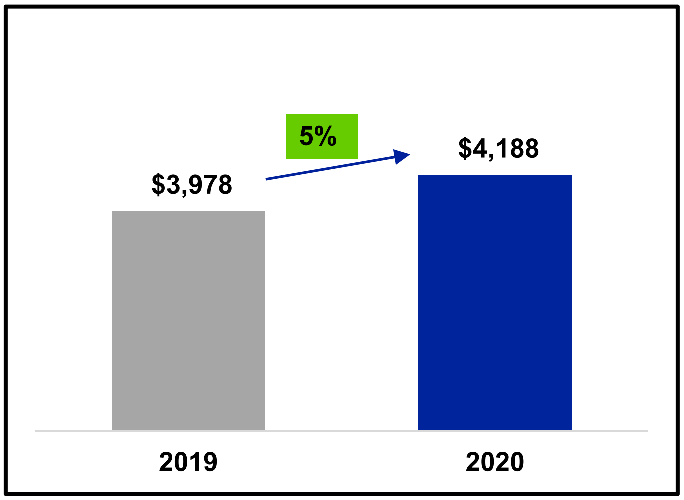
Segment Operating Income(1)



($M)	Three Months Ended December 31 Q4 2019	Q4 2020	▲%	Year Ended December 31 2019	2020	▲%
Aeronautics Systems	309	**339**	**10%**	1,188	**1,206**	**2%**
Defense Systems	176	**214**	**22%**	793	**846**	**7%**
Mission Systems	396	**389**	**(2)%**	1,408	**1,459**	**4%**
Space Systems	220	**258**	**17%**	794	**893**	**12%**
Intersegment Eliminations	(49)	**(59)**		(205)	**(216)**	
Segment Operating Income(1)	1,052	**1,141**	**8%**	3,978	**4,188**	**5%**



	Three Months Ended December 31 Q4 2019	Q4 2020	▲%	Year Ended December 31 2019	2020	▲%
Aeronautics Systems	11.0 %	**9.7 %**	**(130) bps**	10.7 %	**9.9 %**	**(80) bps**
Defense Systems	9.4 %	**11.2 %**	**180 bps**	10.6 %	**11.2 %**	**60 bps**
Mission Systems	15.9 %	**14.2 %**	**(170) bps**	15.0 %	**14.5 %**	**(50) bps**
Space Systems	11.3 %	**10.1 %**	**(120) bps**	10.7 %	**10.2 %**	**(50) bps**
Segment Operating Income(1)	12.1 %	**11.2 %**	**(90) bps**	11.8 %	**11.4 %**	**(40) bps**

1. Non-GAAP metric. See Appendix.

Pension Status

	2020	2021
Discount Rate	3.39%	2.68%
Net Asset Return	16.2%	7.5%*
($M)	**2020**	**2021E**
Total Net FAS/CAS adjustment	1,616	~1,520
CAS	827	~465
Total Net FAS benefit	789	~1,055
Mark-to-Market	(1,034)	—

**Long-term rate of return assumption - changing from 8% to 7.5%*

2021 – 2023 Pension Estimates ($M)

1/28/2021[1]	2021E	2022E	2023E
Total Net FAS/CAS adjustment	~1,520	~1,340	~1,550
CAS	~465	~240	~340
FAS service expense	~(415)	~(400)	~(380)
FAS non-service benefit	~1,470	~1,500	~1,590
Required Funding	~100	~100	~100

1. *Assumes a 2.68% discount rate and 7.5% long-term rate of return for all years presented.*

Pension Sensitivities

Mark to Market / Net Pension Liability[1]		Inc/(Dec) to Expense ($M)
Discount rate	+25 bps	~(1,150)
	-25 bps	~1,400
Plan asset returns	+100 bps	~(335)
	-100 bps	~335

Non - Service FAS[2]		Inc/(Dec) to Expense ($M)
Discount rate	+25 bps	~65
	-25 bps	~(65)
Plan asset returns	+100 bps	~(25)
	-100 bps	~25

1. *From 2021 discount rate of 2.68% and assumed net pension returns of 7.5%*
2. *FAS service costs not impacted by asset returns*

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

IT Services Divestiture

- Expected to close very soon
- Net proceeds ~$2.5B; total proceeds $3.4B
- Net proceeds plus existing cash:
  - > $3B in share buyback in 2021, subject to market conditions
  - Retire $700M debt, March 2021 maturity
  - Early retire $1.5B debt, October 2022 maturity, subject to timing considerations
- Guidance assumes impact of IT Services divestiture, ***excluding*** gain on sale (estimated ~$1 billion, net of taxes) and transaction costs and make-whole provisions (estimated at ~$100M)

2021 Sector Guidance

	As of 1/28/2021
Aeronautics Systems	
Sales $B	**Mid to High 11**
OM Rate	**Low 10%**
Defense Systems	
Sales $B	**Mid to High 5**
OM Rate	**Low 11%**
Mission Systems	
Sales $B	**~10**
OM Rate	**~15%**
Space Systems	
Sales $B	**High 9**
OM Rate	**~10%**

2021 Guidance

$ in millions, except per share amounts	As of 1/28/2021		
Sales	35,100	—	35,500
Segment operating margin %[1][2]	11.5	—	11.7
Total Net FAS/CAS pension adjustment[3]		~1,520	
Unallocated corporate expense			
Intangible asset amortization and PP&E step-up depreciation		~260	
Other items		~290	
Operating margin %	10.1	—	10.3
Interest expense		~560	
Effective tax rate %		~17.0%	
Weighted average diluted shares outstanding		~162	
MTM-adjusted EPS[1]	23.15	—	23.65
Operating cash	~4,200	—	~4,500
Adjusted free cash flow[1]	~3,000	—	~3,300

1. Non-GAAP metric. See Appendix.

2. Effective April 1, 2020, certain unallowable costs previously included in segment operating results are now reported in Unallocated corporate expense within operating income.

3. Total Net FAS/CAS pension adjustment is presented as a single amount consistent with our historical presentation, and includes $465 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.

2021 Sales Bridge

Sales	
2020	$36.8
Divested Operations	~(2.3)
Equipment Sale	~(0.4)
CAS Pension	~(0.3)
Segment Operations	~1.5
2021 Guidance	$35.1 - $35.5

2020 to 2021E MTM-adjusted EPS[1] Bridge

MTM-adjusted EPS	
2020	$23.65
Segment Operations	~0.70
Net Pension	~(0.45)
Tax	~(0.35)
Divested Operations and Share Count	~(0.30)
Interest and Other	~0.15
2021 Guidance	$23.15 - $23.65

1. Non-GAAP metric. See Appendix.
Note - Bridge items using 21% tax rate

Summary

- Outstanding Q4 and 2020 operational performance
- 2021 guidance calls for solid organic sales growth
- 2021 guidance calls for margin rate expansion (IT Services divestiture and operational efficiencies)
- IT services divestiture improves portfolio alignment with National Defense Strategy, increases focus on technology and innovation
- Cash on hand and divestiture proceeds enable value-enhancing capital deployment
- Pension pre-funding and debt retirement strengthen the balance sheet and future cash flows

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 Regulation G and indicated by a footnote in the text of the release. Definitions for the non-GAAP measures are provided below and reconciliations are provided in the body of the 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.

MTM-adjusted net earnings: Net earnings excluding 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 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 net earnings is reconciled in the "Non-GAAP reconciliations – MTM-adjusted net earnings and MTM-adjusted diluted EPS" table within this presentation.

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. MTM-adjusted diluted EPS is reconciled in the "Non-GAAP reconciliations – MTM-adjusted net earnings and MTM-adjusted diluted EPS" table within this presentation.

Segment operating income and segment operating margin rate: Segment operating income, as reconciled in the "Non-GAAP Reconciliations – Segment Operating Income" table within the body of this presentation 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 provided by operating activities, less capital expenditures, plus proceeds from sale of equipment to a customer (not otherwise included in net cash provided by 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 share 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 – Adjusted Free Cash Flow" table within this presentation.

Non-GAAP Reconciliations – Adjusted Free Cash Flow

	Three Months Ended December 31			Year Ended December 31		
	Q4 2019	Q4 2020	▲%	2019	2020	▲%
Net cash provided by operating activities	$ 2,464	**$ 1,602**	**(35)%**	$ 4,297	**$ 4,305**	**—%**
Capital expenditures	(471)	**(592)**	**26%**	(1,264)	**(1,420)**	**12%**
Proceeds from sale of equipment to a customer	—	**205**	**NM**	—	**205**	**NM**
After-tax discretionary pension contributions	95	**593**	**524%**	95	**593**	**524%**
Adjusted free cash flow	$ 2,088	**$ 1,808**	**(13)%**	$ 3,128	**$ 3,683**	**18%**

Non-GAAP Reconciliations – Segment Operating Income

	Three Months Ended December 31		Year Ended December 31	
	Q4 2019	**Q4 2020**	**2019**	**2020**
Sales	$8,721	**$10,212**	$33,841	**$36,799**
Segment operating income	1,052	**1,141**	3,978	**4,188**
Segment operating margin %	12.1%	**11.2%**	11.8%	**11.4%**
Reconciliation to operating income				
Net FAS (Service)/CAS pension adjustment	$119	**$102**	$465	**$418**
Unallocated corporate expense:				
Intangible asset amortization and PP&E step-up depreciation	(98)	**(82)**	(390)	**(322)**
MTM-related deferred state tax benefit	81	**54**	81	**54**
Other unallocated corporate expense	(18)	**(63)**	(165)	**(273)**
Unallocated corporate expense	(35)	**(91)**	(474)	**(541)**
Total operating income	$1,136	**$1,152**	$3,969	**$4,065**
Operating margin rate	13.0%	**11.3%**	11.7%	**11.0%**

Non-GAAP Reconciliations – MTM-adjusted net earnings and MTM-adjusted diluted EPS

$ in millions, except per share amounts	Three Months Ended December 31		Year Ended December 31	
	Q4 2019	Q4 2020	2019	2020
MTM-adjusted net earnings				
Net earnings (loss)	$ (409)	**$ 330**	$ 2,248	**$ 3,189**
MTM expense	1,800	**1,034**	1,800	**1,034**
MTM-related deferred state tax benefit[1]	(81)	**(54)**	(81)	**(54)**
Federal tax benefit of items above[2]	(361)	**(206)**	(361)	**(206)**
MTM expense, net of tax	$ 1,358	**$ 774**	$ 1,358	**$ 774**
MTM-adjusted net earnings	$ 949	**$ 1,104**	$ 3,606	**$ 3,963**
MTM-adjusted per share data				
Diluted EPS[3]	$ (2.43)	**$ 1.97**	$ 13.22	**$ 19.03**
MTM expense per share	10.63	**6.18**	10.59	**6.17**
MTM-related deferred state tax benefit per share[1]	(0.48)	**(0.33)**	(0.48)	**(0.32)**
Federal tax benefit of items above per share[2]	(2.13)	**(1.23)**	(2.12)	**(1.23)**
MTM expense, net of tax, per share	$ 8.02	**$ 4.62**	$ 7.99	**$ 4.62**
Dilution adjustment[3]	$ 0.02	**$ —**	$ —	**$ —**
MTM-adjusted diluted EPS[3]	$ 5.61	**$ 6.59**	$ 21.21	**$ 23.65**

1. *MTM expense is expected to be deductible on our future state tax returns. The deferred state benefit was calculated using the company's blended state tax rate of 5.25 percent in 2020 and 4.50 percent in 2019 and included in Unallocated corporate expense within operating income.*
2. *MTM expense is expected to be deductible on our future federal tax returns. The federal tax benefit in each period was calculated by subtracting the deferred state tax benefit from MTM expense and applying the 21 percent federal statutory rate..*
3. *Fourth quarter 2019 diluted EPS excludes the dilutive effect of awards granted to employees under stock-based compensation plans as such awards would be antidilutive. 2019 MTM-adjusted diluted EPS is calculated using weighted-average diluted shares outstanding of 169.3 million.*

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