

# Northrop Grumman Fourth Quarter & 2019 Conference Call



January 30, 2020

**Kathy Warden**  
Chairman, Chief Executive Officer and  
President  
**Ken Bedingfield**  
Corporate Vice President and Chief  
Financial Officer

# Forward-Looking Statement

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, 2019 and 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 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
- 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 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.

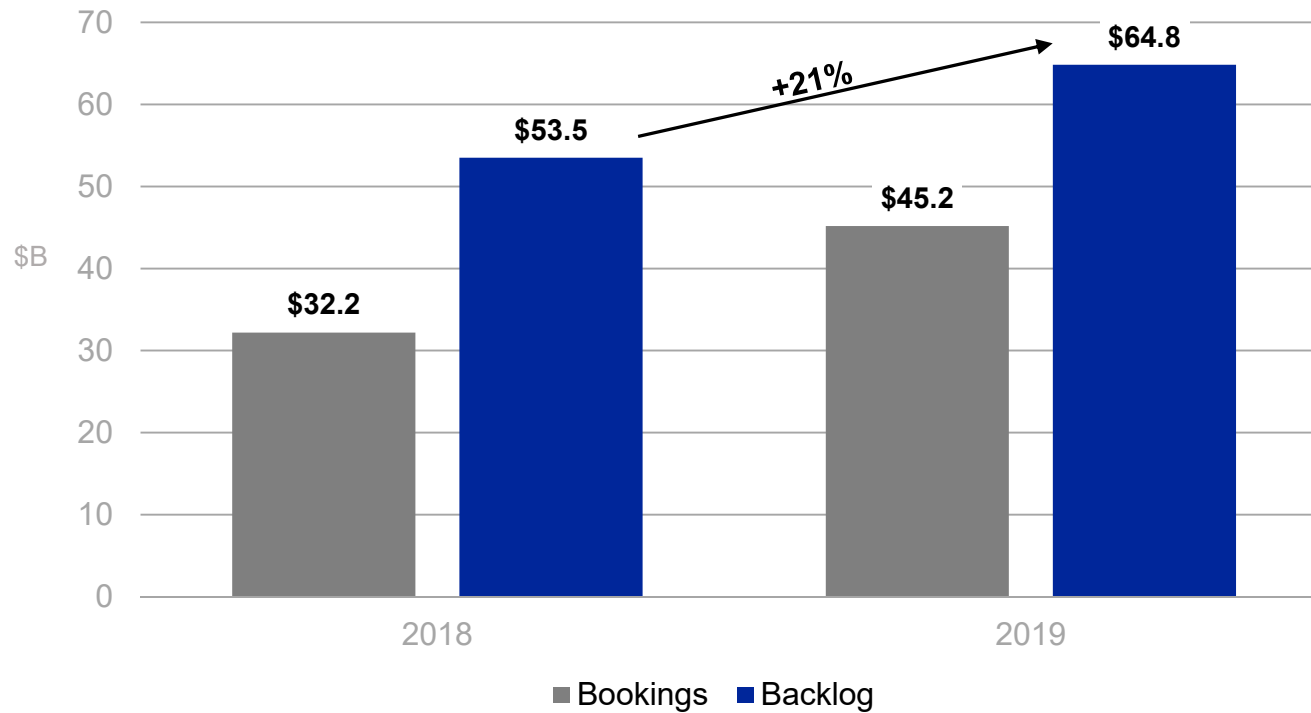
## Highlights

---

- \$45.2 billion net awards and book-to-bill ratio 1.3 times
- Total backlog increases 21% to \$64.8 billion
- Q4 revenue growth 7%; 2019 revenue growth 12%
- Free cash flow<sup>(1)</sup> \$3.0 billion in 2019
- MTM-adjusted EPS<sup>(1)</sup> of \$5.61 in Q4; \$21.21 in 2019
- 2020E sales \$35.3 – \$35.8 billion; MTM-adjusted EPS<sup>(1)</sup> \$22.75 – \$23.15 and free cash flow<sup>(1)</sup> \$3.15 – \$3.45 billion

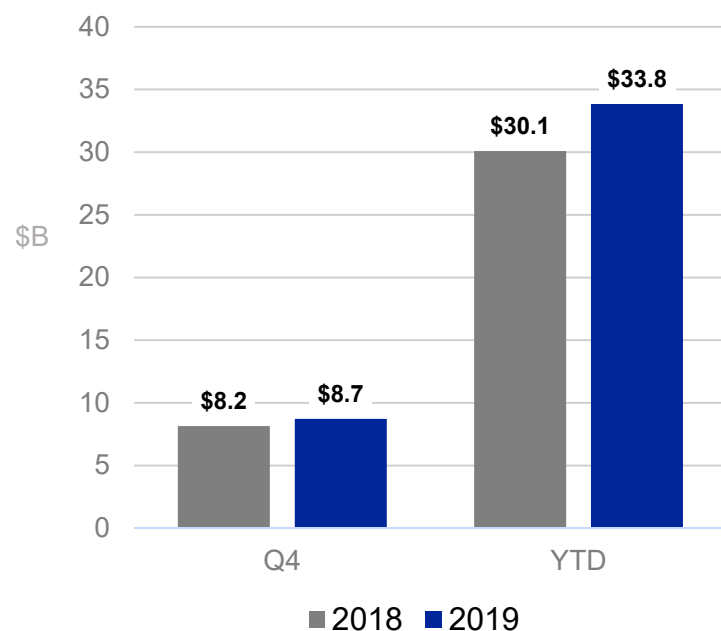
(1) Non-GAAP metric. See Appendix.

## Bookings - Backlog



1.3 times book-to-bill in 2019

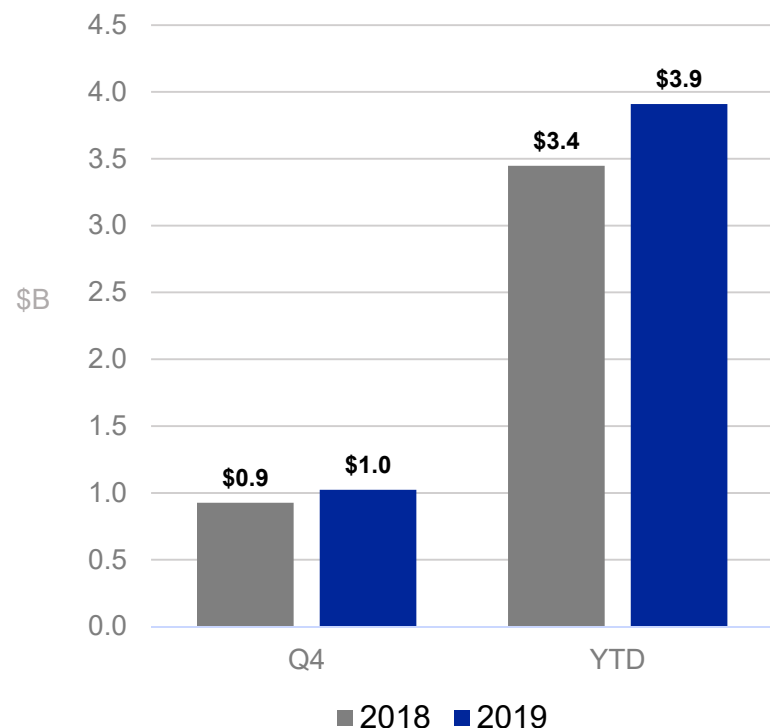
# Sales



| (\$ millions)       | Q4 2018      | Q4 2019      | Change    |
|---------------------|--------------|--------------|-----------|
| Aerospace Systems   | 3,197        | 3,518        | 10%       |
| Innovation Systems  | 1,461        | 1,599        | 9%        |
| Mission Systems     | 3,041        | 3,220        | 6%        |
| Technology Services | 1,065        | 1,022        | (4)%      |
| Intersegment Elims  | (608)        | (638)        |           |
| <b>Total Sales</b>  | <b>8,156</b> | <b>8,721</b> | <b>7%</b> |

Strong sales growth

## Segment Operating Income<sup>(1)</sup>



| (\$ millions)                           | Q4 2018 | Q4 2019 | % Change |
|---|---------|---------|----------|
| Aerospace Systems                       | 337     | 367     | 9%       |
| Innovation Systems                      | 143     | 171     | 20%      |
| Mission Systems                         | 398     | 450     | 13%      |
| Technology Services                     | 115     | 106     | (8)%     |
| Intersegment Elims                      | (66)    | (70)    |          |
| Segment Operating Income <sup>(1)</sup> | 927     | 1,024   | 10%      |

(1) Non-GAAP metric. See Appendix.

Strong Q4 2019 segment operating income<sup>(1)</sup> growth

## Q4 2019 EPS Bridge

|   |               |
|---|---------------|
| <b>Q4 2018 MTM-adjusted EPS<sup>(1)</sup></b> | <b>\$4.93</b> |
| Segment Operations                            | 0.54          |
| Net Pension                                   | (0.52)        |
| Cost Claim                                    | 0.42          |
| Tax and Other                                 | 0.24          |
| <b>Q4 2019 MTM-adjusted EPS<sup>(1)</sup></b> | <b>\$5.61</b> |

(1) Non-GAAP metric. See Appendix.

## 2019 Full Year EPS Bridge

|  |                |
|--|----------------|
| <b>2018 MTM-adjusted EPS<sup>(1)</sup></b> | <b>\$21.33</b> |
| Segment Operations                         | 2.57           |
| Net Pension                                | (1.64)         |
| Corporate Unallocated <sup>(2)</sup>       | (.86)          |
| Interest, Tax and Other                    | (.19)          |
| <b>2019 MTM-adjusted EPS<sup>(1)</sup></b> | <b>\$21.21</b> |

(1) Non-GAAP metric. See Appendix.

(2) Includes Purchased Intangible Amortization, PP&E Step-up depreciation; 2018 and 2019 cost claims impact



## 2020 Guidance\* as of 1/30/20<sup>(1)</sup>

|   |                   |
|---|-------------------|
| Sales (\$B)   | 35.3 – 35.8       |
| Segment operating margin rate <sup>(2)</sup>                | 11.3 – 11.5%      |
| Total Net FAS/CAS pension adjustment (\$B) <sup>(3)</sup>   | ~1.6              |
| Unallocated corporate expense (\$M)                         |                   |
| Intangible asset amortization and PP&E step-up depreciation | ~315              |
| Other items   | ~250              |
| Operating margin rate                                       | 10.8 – 11.0%      |
| Interest expense (\$M)                                      | ~500              |
| Effective tax rate  | ~16.5%            |
| Weighted average diluted shares outstanding                 | ~168M             |
| MTM-adjusted EPS <sup>(2)</sup>                             | \$22.75 – \$23.15 |
| Capital expenditures (\$B)                                  | ~1.35             |
| Free cash flow (\$B) <sup>(2)</sup>                         | 3.15 – 3.45       |

\* 2020 guidance contemplates Northrop Grumman is selected for the next phase of the Ground Based Strategic Deterrent program in accordance with the U.S. Air Force's current acquisition strategy.

- (1) 2020 financial guidance, as well as outlook, trends, expectations and other forward looking statements provided by the company for 2020 and beyond, reflect the company's judgment based on the information available to the company at the time of this release. The government budget, appropriations and procurement processes can impact our customers, programs and financial results. These processes, 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 \$800 million of expected CAS pension cost and \$800 million of expected FAS pension benefit. In accordance with ASU No. 2017-07, \$410 million of FAS (service-related) pension cost is reflected in operating income and \$1,210 million of FAS (non-service) pension benefit is reflected below operating income. CAS pension cost continues to be recorded in operating income.

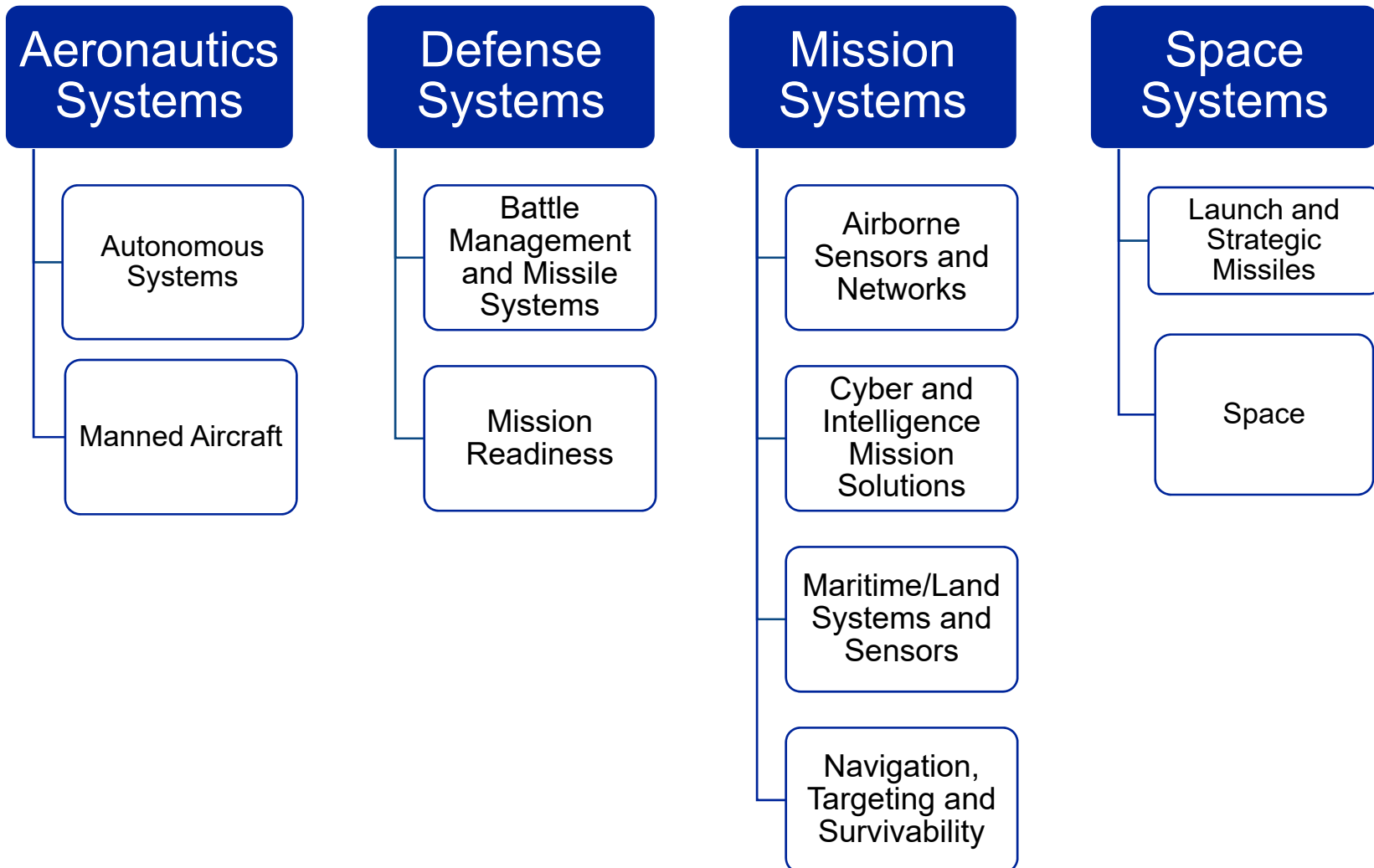
## 2019 to 2020E MTM-adjusted EPS<sup>(1)</sup> Bridge

|  |                          |
|--|--------------------------|
| <b>2019 MTM-adjusted EPS<sup>(1)</sup></b>       | <b>\$21.21</b>           |
| Segment Operations                               | ~.80                     |
| Net Pension                                      | ~1.60                    |
| Corporate Unallocated <sup>(2)</sup>             | ~(.40)                   |
| Tax  | ~(.25)                   |
| <b>2020 MTM-adjusted EPS<sup>(1)</sup> Guide</b> | <b>\$22.75 - \$23.15</b> |

(1) Non-GAAP metric. See Appendix.

(2) Includes Purchased Intangible Amortization, PP&E Step-up depreciation and 2019 cost claim

# 2020 Reporting Structure



## 2020 Sector Guidance\* as of 1/30/20<sup>(1)</sup>

| Sector              | Sales             | OM Rate        |
|---------------------|-------------------|----------------|
| Aeronautics Systems | Mid to High \$11B | Low to Mid 10% |
| Defense Systems     | Mid \$7B          | Mid 10%        |
| Mission Systems     | High \$9B         | Low 14%        |
| Space Systems       | Low \$8B          | Low to Mid 10% |

\* 2020 guidance contemplates Northrop Grumman is selected for the next phase of the Ground Based Strategic Deterrent program in accordance with the U.S. Air Force's current acquisition strategy.

(1) 2020 financial guidance, as well as outlook, trends, expectations and other forward looking statements provided by the company for 2020 and beyond, reflect the company's judgment based on the information available to the company at the time of this release. The government budget, appropriations and procurement processes can impact our customers, programs and financial results. These processes, 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.

## Pension Status

|                                    | 2019<br>Actual | 2020<br>Assumptions |
|------------------------------------|----------------|---------------------|
| Discount Rate                      | 4.31%          | 3.39%               |
| Net Asset Return                   | 19.1%          | 8.0% <sup>*</sup>   |
|                                    | 2019<br>Actual | 2020<br>Estimates   |
| Total Net FAS/CAS adjustment (\$M) | 1,265          | ~1,600              |
| CAS (\$M)                          | 832            | ~800                |
| Total Net FAS benefit (\$M)        | 433            | ~800                |
| Mark-to-market (\$M)               | (1,800)        | NA                  |

\* Long-term rate of return assumption

## 2020 – 2022 Pension Estimates <sup>(1)</sup>

|                              | 2020E  | 2021E  | 2022E  |
|------------------------------|--------|--------|--------|
| Total Net FAS/CAS adjustment | ~1,600 | ~1,750 | ~1,800 |
| CAS                          | ~800   | ~950   | ~910   |
| FAS service expense          | ~(410) | ~(390) | ~(360) |
| FAS non-service benefit      | ~1,210 | ~1,190 | ~1,250 |
| Required Funding             | ~100   | ~100   | ~750   |

(1) Assumes a 3.39% discount rate and an 8% long-term rate of return for all years presented

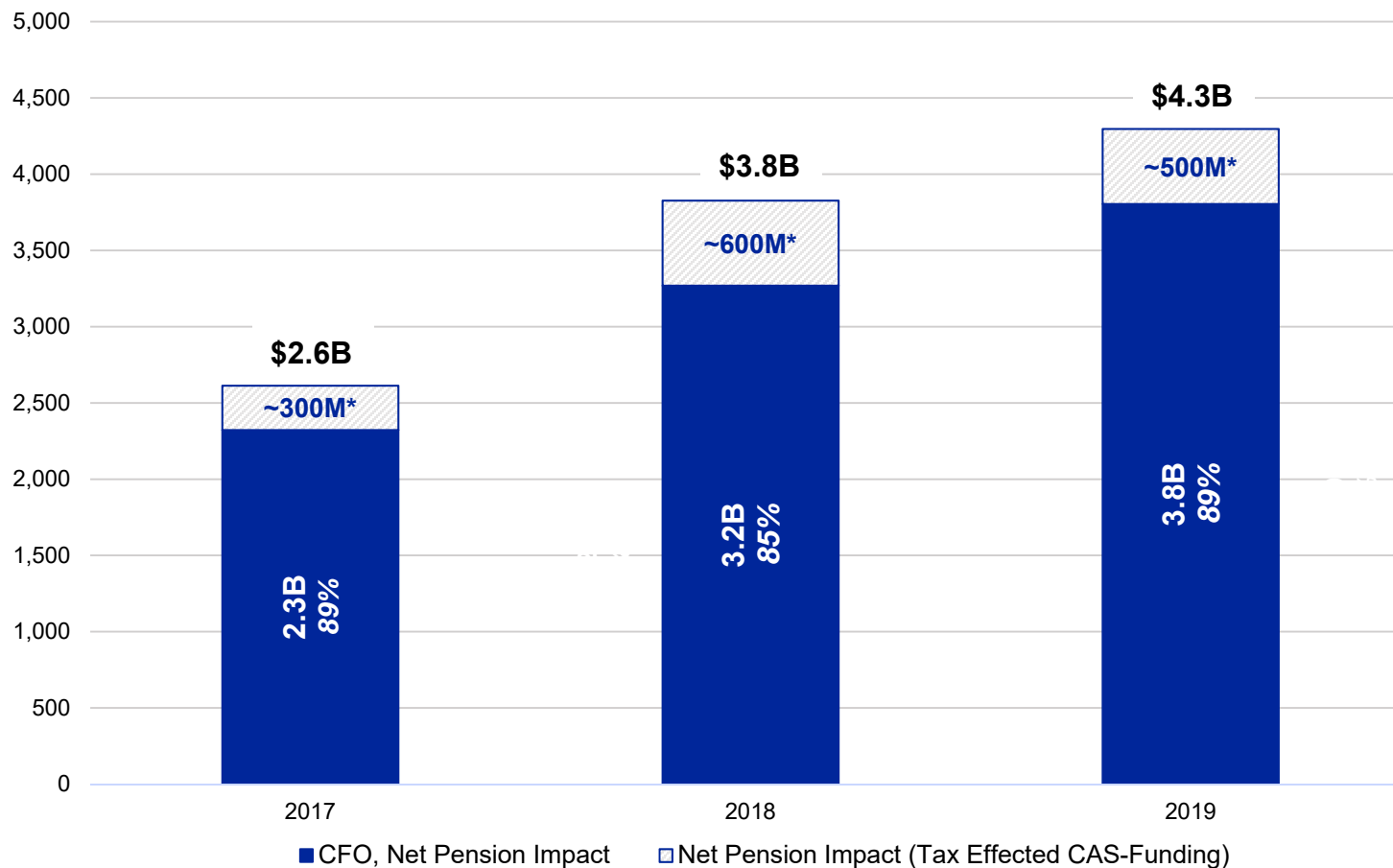
# Pension Sensitivities <sup>(1)</sup>

| Mark-to-Market/ Net Pension Liability |          | Inc/(Dec) to Expense (\$M) |
|---------------------------------------|----------|----------------------------|
| Discount rate                         | +25 bps  | ~(1,000)                   |
|                                       | -25 bps  | ~1,100                     |
| Plan asset returns                    | +100 bps | ~(300)                     |
|                                       | -100 bps | ~300                       |

| Non-Service FAS    |          | Inc/(Dec) to Expense (\$M) |
|--------------------|----------|----------------------------|
| Discount rate      | +25 bps  | ~50                        |
|                    | -25 bps  | ~(55)                      |
| Plan asset returns | +100 bps | ~(25)                      |
|                    | -100 bps | ~25                        |

(1) From 2020 discount rate of 3.39% and assumed net pension asset returns of 8.0%

## Cash Performance Driven by Operations



\* Includes pre-tax voluntary pension contributions of \$500M in 2017, \$280M in 2018, and \$120M in 2019





# 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 any potential 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

| \$ millions   | Three Months<br>Ended December 31 |          | Year Ended<br>December 31 |           |
|---|-----------------------------------|----------|---------------------------|-----------|
|   | 2019                              | 2018     | 2019                      | 2018      |
| Sales   | \$ 8,721                          | \$ 8,156 | \$ 33,841                 | \$ 30,095 |
| Segment operating income                                    | 1,024                             | 927      | 3,909                     | 3,447     |
| Segment operating margin rate                               | 11.7%                             | 11.4%    | 11.6%                     | 11.5%     |
| Reconciliation to operating income                          |                                   |          |                           |           |
| Net FAS (service)/CAS pension adjustment                    | \$ 119                            | \$ 173   | \$ 465                    | \$ 613    |
| Unallocated corporate expense:                              |                                   |          |                           |           |
| Intangible asset amortization and PP&E step-up depreciation | (98)                              | (93)     | (390)                     | (220)     |
| MTM-related deferred state tax benefit                      | 81                                | 29       | 81                        | 29        |
| Other unallocated corporate expense                         | 10                                | (93)     | (96)                      | (89)      |
| Unallocated corporate expense                               | (7)                               | (157)    | (405)                     | (280)     |
| Operating income  | \$ 1,136                          | \$ 943   | \$ 3,969                  | \$ 3,780  |
| Operating margin rate                                       | 13.0%                             | 11.6%    | 11.7%                     | 12.6%     |

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

| (\$ millions, except per share amounts)                       | Three Months Ended<br>December 31 |         | Year Ended<br>December 31 |          |
|---|-----------------------------------|---------|---------------------------|----------|
|   | 2019                              | 2018    | 2019                      | 2018     |
| <b>MTM-adjusted net earnings</b>                              |                                   |         |                           |          |
| Net earnings  | \$ (409)                          | \$ 356  | \$ 2,248                  | \$ 3,229 |
| MTM expense   | 1,800                             | 655     | 1,800                     | 655      |
| MTM-related deferred state tax benefit <sup>1</sup>           | (81)                              | (29)    | (81)                      | (29)     |
| Federal tax benefit of items above <sup>1</sup>               | (361)                             | (131)   | (361)                     | (131)    |
| After-tax MTM adjustment                                      | \$ 1,358                          | \$ 495  | \$ 1,358                  | \$ 495   |
| MTM-adjusted net earnings                                     | \$ 949                            | \$ 851  | \$ 3,606                  | \$ 3,724 |
| <b>MTM-adjusted per Share Data</b>                            |                                   |         |                           |          |
| Diluted EPS <sup>2</sup>                                      | \$ (2.43)                         | \$ 2.06 | \$ 13.22                  | \$ 18.49 |
| MTM expense per share   | 10.63                             | 3.80    | 10.59                     | 3.76     |
| MTM-related deferred state tax benefit per share <sup>1</sup> | (0.48)                            | (0.17)  | (0.48)                    | (0.17)   |
| Federal tax benefit of items above per share <sup>1</sup>     | (2.13)                            | (0.76)  | (2.12)                    | (0.75)   |
| After-tax MTM adjustment per share                            | \$ 8.02                           | \$ 2.87 | \$ 7.99                   | \$ 2.84  |
| Dilution adjustments <sup>2</sup>                             | \$ 0.02                           | \$ –    | \$ –                      | \$ –     |
| MTM-adjusted diluted EPS <sup>2</sup>                         | \$ 5.61                           | \$ 4.93 | \$ 21.21                  | \$ 21.33 |

<sup>1</sup> Based on the statutory federal tax rate and a blended state tax rate for all periods presented.

<sup>2</sup> 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. MTM-adjusted diluted EPS is calculated using weighted-average diluted shares outstanding of 169.3 million.

# Non-GAAP Reconciliations – Free Cash Flow

|  | Three Months<br>Ended December 31 |          |             | Year Ended<br>December 31 |          |             |
|--|-----------------------------------|----------|-------------|---------------------------|----------|-------------|
|  | 2019                              | 2018     | %<br>Change | 2019                      | 2018     | %<br>Change |
| \$ millions                                      |                                   |          |             |                           |          |             |
| <b>Net cash provided by operating activities</b> | \$ 2,464                          | \$ 2,377 | 4%          | \$ 4,297                  | \$ 3,827 | 12%         |
| Less: capital expenditures                       | (471)                             | (463)    | 2%          | (1,264)                   | (1,249)  | 1%          |
| <b>Free cash flow</b>                            | \$ 1,993                          | \$ 1,914 | 4%          | \$ 3,033                  | \$ 2,578 | 18%         |

**NORTHROP**  
**GRUMMAN**

The logo symbol consists of a thick horizontal line on the right side of the word "NORTHROP", a vertical line extending downwards from the right end of that horizontal line, and a shorter horizontal line at the bottom connecting the vertical line back to the right edge of the word "GRUMMAN".