

Northrop Grumman First Quarter 2020 Conference Call



April 29, 2020

Kathy Warden
Chairman, Chief Executive Officer and
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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, the section entitled “Risk Factors” in the Form 10-Q for the quarter ended March, 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, program delays, our ability to recover costs under contracts, changing government funding and acquisition priorities and processes, changing government payment rules and practices, 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, including the global COVID-19 pandemic
- 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 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.

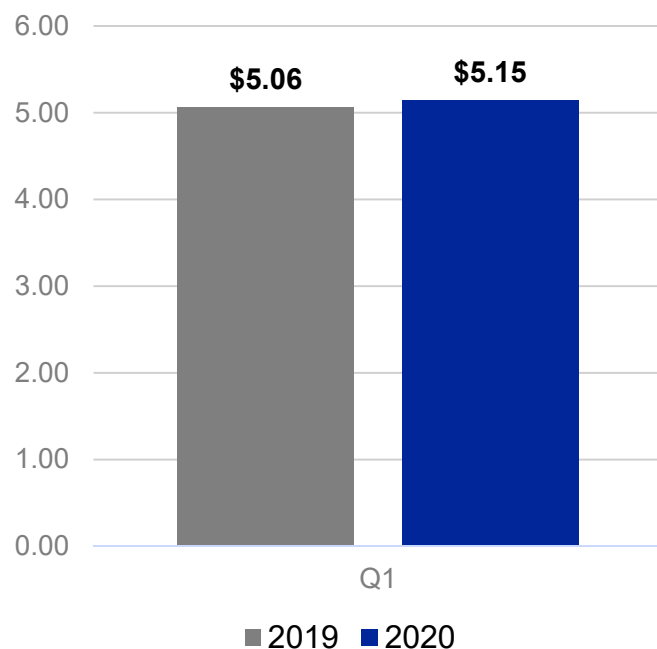
Q1 2020 Highlights

- Sales +5% to \$8.6 billion
- 11.1% Segment OM%⁽¹⁾
- \$7.9 billion net awards
- Strong \$64.2 billion total backlog
- COVID-19 impacts:
 - Not material to Q1 segment results
 - Negative market returns impacted EPS
- Sales and MTM-adjusted EPS⁽¹⁾ guidance updated for Q1 financial impact and expected COVID-19-related impacts going forward
- Segment OM%⁽¹⁾ and Free Cash Flow⁽¹⁾ guidance maintained

(1) Non-GAAP metric. See Appendix.

Solid Q1 operating results

Q1 2020 EPS Bridge

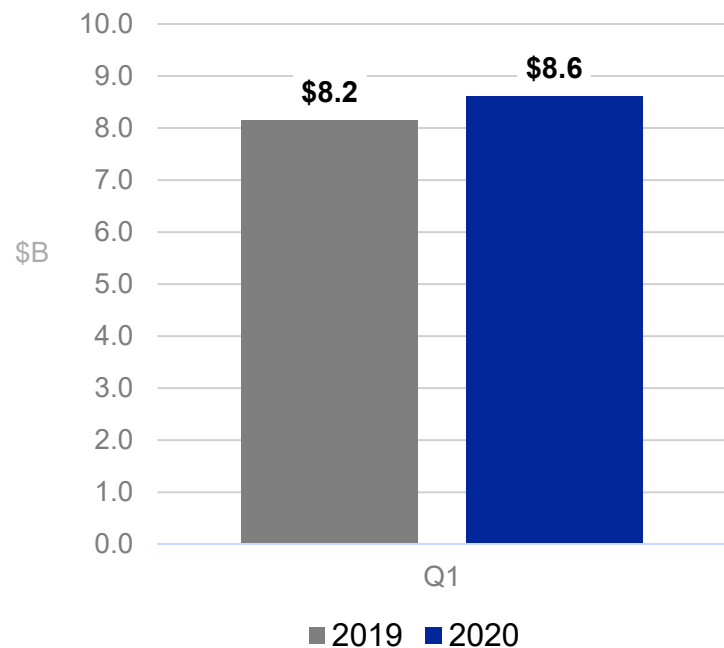


| | |
|---|--------|
| Q1 2019 EPS | \$5.06 |
| Net Pension | 0.48 |
| Marketable Securities Loss ⁽¹⁾ | (0.48) |
| Tax and Other | 0.09 |
| Q1 2020 EPS | \$5.15 |

(1) Includes negative returns on marketable securities related to non-qualified benefit plans and other non-operating assets.

Bridge items using 21% tax rate

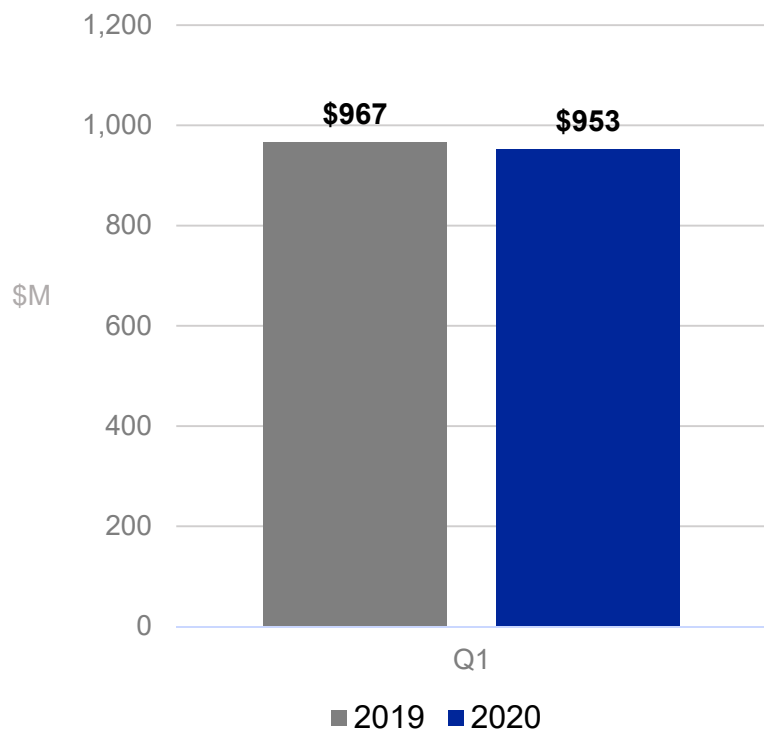
Sales



| (\$ millions) | Q1 2019 | Q1 2020 | Change |
|---------------------|--------------|--------------|-----------|
| Aeronautics Systems | 2,818 | 2,843 | 1% |
| Defense Systems | 1,768 | 1,881 | 6% |
| Mission Systems | 2,210 | 2,347 | 6% |
| Space Systems | 1,801 | 1,948 | 8% |
| Intersegment Elims | (408) | (399) | |
| Total Sales | 8,189 | 8,620 | 5% |

Strong sales growth

Segment Operating Income⁽¹⁾



| (\$ millions) | Q1 2019 | Q1 2020 | % Change |
|---|---------|---------|----------|
| Aeronautics Systems | 308 | 259 | (16%) |
| Defense Systems | 202 | 196 | (3%) |
| Mission Systems | 319 | 348 | 9% |
| Space Systems | 188 | 199 | 6% |
| Intersegment Elims | (50) | (49) | |
| Segment Operating Income ⁽¹⁾ | 967 | 953 | (1%) |

(1) Non-GAAP metric. See Appendix.

Segment operating income⁽¹⁾ guidance maintained

2020 Sector Guidance* as of 4/29/20⁽¹⁾

| Sector | Sales | OM Rate |
|---------------------|-----------|----------------|
| Aeronautics Systems | Low \$11B | ~10% |
| Defense Systems | Mid \$7B | Mid 10% |
| Mission Systems | High \$9B | Low to Mid 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 company is updating its 2020 financial guidance in light of both the impacts we have experienced to date from the global COVID-19 pandemic (as discussed in the company's Form 10-Q), and what we currently anticipate, based on what we understand today, to be the impacts on the company for the remainder of the year. The company's updated financial guidance assumes generally that the most significant adverse impacts from the pandemic on the company's business, financial position, results of operations or cash flows will occur in the second quarter of 2020. However, we cannot predict how the pandemic will evolve or what impact it will continue to have, and there can be no assurance that the company's underlying assumptions are correct. As discussed more fully in our Form 10-Q and among other factors, disruptions to the company's operations (or those of its customers or supply chain), additional costs, disruptions in the market, and impacts on programs or payments relating to the global COVID-19 pandemic, today and as it may evolve, can be expected to affect the company's ability to achieve guidance or meet expectations. In addition, 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.

2020 Guidance* as of 4/29/20⁽¹⁾

| | |
|---|-------------------|
| Sales (\$B) | 35.0 – 35.4 |
| Segment operating margin rate ⁽²⁾ | 11.3 – 11.5% |
| Total Net FAS/CAS pension adjustment (\$B) ⁽³⁾ | ~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) | ~590 |
| Effective tax rate | ~16.5% |
| Weighted average diluted shares outstanding | ~168M |
| MTM-adjusted EPS ⁽²⁾ | \$21.80 – \$22.20 |
| Capital expenditures (\$B) | ~1.35 |
| Free cash flow (\$B) ⁽²⁾ | 3.15 – 3.45 |

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(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. \$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.

COVID-19 related assumptions

- Closely monitoring and taking actions to mitigate evolving COVID-19 related impacts
- Updated guidance reflects the following assumptions:
 - Increased costs of COVID-19 related impacts to be offset by other cost reductions
 - Supply chain and labor impacts greatest in Q2 2020, expected to impact revenue and segment margin rate in the quarter
 - Operational pace recovers in 2H 2020
 - U.S. Government and primes continue timely payment
 - Marketable securities experience no further losses

2020E MTM-adjusted EPS⁽¹⁾ Bridge

| | |
|--|--------------------------|
| 2020 EPS Guidance as of 1/30/2020⁽¹⁾ | \$22.75 - \$23.15 |
| Segment Operations | ~(.35) |
| Interest Expense, net | ~(.30) |
| Marketable Securities Loss ⁽²⁾ | ~(.30) |
| 2020 EPS Guidance as of 4/29/2020⁽¹⁾ | \$21.80 - \$22.20 |

(1) Non-GAAP metric. See Appendix.

(2) Includes negative returns on marketable securities related to non-qualified benefit plans and other non-operating assets.



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 Ended March 31 | |
|--|--------------------------------|----------|
| | 2020 | 2019 |
| Sales | \$ 8,620 | \$ 8,189 |
| Segment operating income | 953 | 967 |
| Segment operating margin rate | 11.1% | 11.8% |
| Reconciliation to operating income | | |
| Net FAS (service)/CAS pension adjustment | \$ 105 | \$ 108 |
| Unallocated corporate expense: | | |
| Intangible asset amortization and PP&E step-up depreciation | (82) | (96) |
| Other unallocated corporate expense | (42) | (43) |
| Unallocated corporate expense | (124) | (139) |
| Operating income | \$ 934 | \$ 936 |
| Operating margin rate | 10.8% | 11.4% |

NORTHROP
GRUMMAN

The logo graphic consists of a thick horizontal line extending from the end of the word "NORTHROP" to the right, and a thick vertical line extending downwards from the end of the word "GRUMMAN" to the right, meeting at a right-angle corner.