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L3Harris Technologies, Inc. (LHX)

CORPORATE PARTICIPANTS

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This progress was offset by a moderate decline in Electro Optical due to program timing and in ISR due to aircraft timing. Our prior guidance assumed a December contract for ISR aircraft from an international customer that was delayed due to the customer's decision to expand the program. We are now awaiting parliamentary approval for that program.

For the full year, revenue was up 3.3% from double-digit growth in Maritime and low-single digit growth in ISR. Operating income was up 7.2% in the fourth quarter and 21% for the year. And margins expanded 100 basis points to 14.3% and 230 basis points to 15.3% for the quarter and year, respectively. Our ISR business made significant progress on its international strategy, with a contract to provide missionized ISR aircraft for the Canadian Air Force, capabilities on a maritime patrol aircraft for a customer in the Asia-Pacific region, and the introduction of podded SIGINT capability for unmanned aircraft for deployment in Europe and Asia. We have a strong pipeline, as our allies appreciate the need for situational awareness that our systems provide.

In Space and Airborne Systems, organic revenue increased 4.8% for the quarter from a ramp on the F-35, as we transition from development to production on the next-generation's mission systems in our Mission Avionics sector and growth in Space from new program wins. This growth was partially reduced by low-single digit decline in our Intel & Cyber due to program timing. For the full year, organic revenue increased 5.8% from the F-35 ramp and classified growth in Intel & Cyber. Space and Electronic Warfare were down due to in-year program transition, but recent wins positioned Space to be a key growth driver for 2021.

Operating income was up 13% in the fourth quarter and 6.8% for the year, and margins expanded 150 basis points to 19.5% for the quarter and 20 basis points to 18.8% for the year. Overall, our Space business had a transformative year, as we've been awarded contracts within the missile defense area, including the Space Development Agency's Tracking Layer and more recently here in January on the Missile Defense Agency's Hypersonic and Ballistic Tracking Space Sensor program or HBTSS, culminating multiple years of investment in innovation. On HBTSS, our team will develop a prototype satellite that will demonstrate our capability to detect and track hypersonic weapons in space.

The initial launch is targeted for 2023, with an opportunity to build out a constellation thereafter. These competitive wins have potential value of over $5 billion, uniquely positioning L3Harris to play a lead role with multiple agencies and mark the culmination of a successful multiyear repositioning strategy, establishing ourselves as a mission solutions prime with our responsive satellites and within missile defense.

Next, Communication Systems organic revenue was up 3.4% for the quarter, driven by tactical growth of 17% that included record international sales, up over 30% from the Mid East and Central Asia and continued DoD modernization. This strength was partially offset by anticipated weakness in our Public Safety business due to COVID-19, as well as a decline in Integrated Vision Systems from international program timing.

Full-year revenue was up 4.4%, driven by 13% growth in Tactical Communications, primarily from the ramp in DoD modernization programs which also benefited Integrated Vision Solutions. As anticipated, we saw solid international growth of 4% in Tactical Communications with major wins in Australia, Europe, and the Mid East. Total Communication Systems orders in Australia exceeded $200 million, with contracts for tactical radios and wave forms supporting crypto modernization requirements and the Land 53 next-gen night vision goggle program. The 17% decline in PSPC was consistent with expectations and should ease post the first quarter.

Operating income was up 14% in the fourth quarter and 13% for the year, and margins expanded 280 basis points to 25.9% and 200 basis points to 24.4% for the quarter and year, respectively. Our Broadband business had a major strategic win with the prime contract award for the US Navy's Next Generation Jammer Low Band

coming in at the upper end of our guidance range. With this cash flow, we repurchased $2.3 billion in stock and paid $725 million in dividends.

Okay. Now, switching over to the 2021 guidance on slide 10, starting with the top line. Organic revenue is expected to be up 3% to 5%, reflecting growth in every segment with a light first quarter as we lap pandemic-related impacts and phase in new programs. On full-year EBIT, we expect total company margins to be 18% to 18.5%, a 25 basis point improvement over the prior year at the midpoint, primarily driven by increased cost synergies, operational excellence and pension, net of mix headwinds from Space, IMS, and tactical radios. This combined with a 4% lower share count will result in 2021 EPS in the range of $12.60 to $13 per share, up double digits at the midpoint versus 2020.

At free cash flow, our guide implies nearly $14 per share at the midpoint and clear traction with our growth framework. This reflects a 3-day working capital improvement to 51 days, $375 million in capital expenditures, and no pension funding. Our guidance also reflects approximately $2.3 billion in share repurchases, excluding divestitures as part of our recently approved buyback authorization. And following yesterday's announced dividend increase, this will be our third hike since the merger, representing a cumulative increase of about 50%, reflecting our confidence and continued cash generation. All told, we expect to return $3.1 billion to shareholders this year before accounting for any divestiture proceeds that will be additive.

Switching over to the segments. Integrated Mission Systems revenue is expected to be up 4% to 6%, driven by ISR aircraft missionization demand and Maritime from recent wins. Segment operating margin is anticipated to 15.5% at the midpoint, as operational excellence, synergy savings and pension benefits are netted by program mix impacts. In Space and Airborne Systems, we expect organic revenue to be up 4% to 6%, driven by traction in Space and continued classified strength in Intel & Cyber. Segment operating margin of 18.5% at the midpoint is driven by mix headwinds from key growth programs that outweigh e3 productivity, pension, and integration benefits.

Communication Systems revenue is expected to be up 2.5% to 4.5% from continued modernization growth in DoD tactical, as well as international growth in Integrated Vision Solutions. Public Safety will have a modest headwind in the year, as COVID-related impacts lap in the first quarter of 2021 with a recovery later in the year. Segment margins are anticipated to be 24.5% at the midpoint from operational excellence and synergies, partially offset by product mix within tactical radios.

And lastly, in Aviation Systems, organic revenue is expected to be up 1% to 3%, driven by continued growth in our US Government businesses from a ramp on combat propulsion systems and classified programs, which will be moderated by a slight decrease in commercial aerospace for the year. Segment margins of 14% at the midpoint reflect improvement driven by operational excellence, cost management, and synergy savings.

Okay. Turning to the EPS slide and bridge on slide 11. Expected full-year EPS of $12.80 at the midpoint reflects 10% growth. Of this, operations and synergies will contribute $0.44, along with a lower share count for $0.57; and pension and other items of $0.26, more than offsetting the $0.07 headwind from completed divestitures. All right, so just putting it altogether. 2020 performance demonstrating the resilience of our earnings and cash-generating power and a 2021 outlook reflecting further progress against our financial targets, with recurring double-digit earnings and free cash flow per share growth, driven by a rising top line segments; Space and Airborne Systems and Integrated Mission Systems, that'll be followed by a closer l(on)do Sl 8(e4 TJETQ

Q

Hi. Good morning, everyone.

A

Hey. Good morning, Noah.

Q

Hey, Jay, just wanted to try to better understand the cash flow progression. In thinking through 2020, there's a few hundred million of adjusted net income growth, which I think gets all the non-[illegible] of working capital, which using the numbers you guys used to quote for per day, that's a sizable increase. I think you had a deferred cash tax.

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A

Hey. Good morning.

Q

So, at IMS you noted strong maritime sales in 4Q. You kind of ramp and manned and unmanned classified to-

We're sitting here with almost 4% of our revenue in IRAD. We're focusing our company. We've got a very unique situation with this merger, where we can start off with a clean sheet and get all of our segments built from the day one to collaborate together, and that's why we're seeing traction here on the revenue synergy. So you put all those pieces together, and that's why I do believe that we've got just a strong, powerful portfolio of businesses with good leadership that should outgrow our competitors into the future.