

L3 TECHNOLOGIES, INC.

Form 425

January 29, 2019



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Client Id: 77 THOMSON REUTERS STREETEVENTS EDITED TRANSCRIPT HRS - Q2 2019 Harris Corp Earnings Call EVENT DATE/TIME: JANUARY 29, 2019 / 1:30PM GMT OVERVIEW: Co. reported 2Q19 non-GAAP EPS of \$1.96. Expects FY19 revenue growth to be 8.0-8.5% and EPS to be \$7.90-8.00. THOMSON REUTERS STREETEVENTS | www.streetevents.com | Contact Us ©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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Client Id: 77 JANUARY 29, 2019 / 1:30PM, HRS - Q2 2019 Harris Corp Earnings Call CORPORATE PARTICIPANTS Anurag Maheshwari Harris Corporation - VP of IR Rahul Ghai Harris Corporation - Senior VP & CFO William M. Brown Harris Corporation - Chairman, President & CEO CONFERENCE CALL PARTICIPANTS Carter Copeland Melius Research LLC - Founding Partner, President and Research Analyst of Aerospace & Defense David Egon Strauss Barclays Bank PLC, Research Division - Research Analyst Gautam J. Khanna Cowen and Company, LLC, Research Division - MD and Senior Analyst Jonathan Phaff Raviv Citigroup Inc, Research Division - VP Joshua Ward Sullivan Seaport Global Securities LLC, Research Division - Director & Senior Industrials Analyst Myles Alexander Walton UBS Investment Bank, Research Division - Research Analyst Peter John Skibitski Alembic Global Advisors - Research Analyst Robert Alan Stallard Vertical Research Partners, LLC - Partner Robert Michael Spingarn Crédit Suisse AG, Research Division - Aerospace and Defense Analyst Seth Michael Seifman JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst Sheila Karin Kahyaoglu Jefferies LLC, Research Division - Equity Analyst PRESENTATION Operator Greetings, and welcome to the Harris Corporation Second Quarter Fiscal Year 2019 Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Mr. Anurag Maheshwari, Vice President, Investor Relations. Thank you. You may begin. Anurag Maheshwari - Harris Corporation - VP of IR Thank you, Michelle. Good morning, everyone, and welcome to our second quarter fiscal 2019 earnings call. On the call with me today is Bill Brown, Chairman and Chief Executive Officer; and Rahul Ghai, Senior Vice President and Chief Financial Officer. First, a few words on forward-looking statements. Discussions today will include forward-looking statements and non-GAAP financial measures. Forward-looking statements involve assumptions, risks and uncertainties that could cause actual results to differ materially from those statements. For more information, please see the press release, the presentation and Harris SEC filings. A reconciliation of non-GAAP financial measures to comparable GAAP measures is included in the quarterly materials on the Investor Relations section of our website, which is [www.harris.com](http://www.harris.com), where a replay of this call will also be available. With that, Bill, I will turn it over to you. 2 THOMSON REUTERS STREETEVENTS | [www.streetevents.com](http://www.streetevents.com) | Contact Us ©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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Client Id: 77 JANUARY 29, 2019 / 1:30PM, HRS - Q2 2019 Harris Corp Earnings Call William M. Brown - Harris Corporation - Chairman, President & CEO

Okay. Well, thank you, Anurag, and good morning, everyone. Earlier today, we reported strong second quarter results with record non-GAAP earnings per share of \$1.96, up 19% on 9% revenue growth. Orders, revenue and operating margin were up in all segments and overall company margin expanded 150 basis points to 19.6%. These results extend our strong first quarter performance with non-GAAP earnings per share over the first half up 24% on 9% revenue growth and 24% higher free cash flow. And today, we're raising guidance for the year on revenue, margin, earnings per share and free cash flow. The highlight again this quarter was our sustained top line growth, the third consecutive quarter of high single-digit growth. Order momentum remained strong and was up 27%, resulting in a book-to-bill of 1.06 for the quarter and funded backlog up 20% over last year, all driven by our multiyear investments in innovation, strong customer positions, high win rates and a favorable budget environment. The merger with L3 is on track for a mid-calendar 2019 close and integration planning is progressing well. But let me start by providing some color on the quarter performance before closing our prepared remarks with a few comments on the merger. So turning to Slide 4 in the webcast. Communication Systems revenue was up 10% in the quarter with strong growth in all 3 businesses: Tactical Communications, Night Vision and Public Safety. In Tactical, International delivered another solid quarter, up 11%, driven by the ramp of modernization programs in Australia, standardization of Harris equipment in NATO countries in Western Europe, continued border security programs in Eastern Europe and a third technology refresh for a long-standing customer in Northern Africa. For the first half, International revenue was up 7%, driven principally by Asia Pacific, and a strong second quarter recovery in Europe. And book-to-bill was greater than 1. That, combined with a solid pipeline of \$2.5 billion, reaffirms our expectations that International will grow low to mid-single digits in fiscal '19 with sequential growth in the second half. On the DoD side, Tactical revenue was up 7% for the quarter despite a tough compare and growth across the service is shifting from readiness to modernization. We started to deliver on a \$90 million Army HMS Manpack LRIP that we booked in Q4 of last year. We remain on track to complete the delivery by this summer. For the SOCOM 2-channel handheld program, we successfully completed operational user assessment, delivered initial units and expect production to ramp through the second half of the fiscal year. For the Marine Corps, we booked a \$75 million order for MUOS software upgrades for Falcon III Manpack radios and recognized \$24 million of revenue in the quarter with the balance to ship by fiscal year-end. This award brings MUOS orders since its launch in 2016 to about \$175 million, highlighting our ability to generate additional software revenue on previously sold hardware. For the first half, DoD Tactical revenue was up 17%, driven by the ramp in modernization programs and strong Q1 readiness demand. And orders were up 45% with a book-to-bill of 1.7. Pipeline remains solid at \$1.6 billion, and with anticipated second half modernization growth, we now expect DoD revenue will be up in the low 20% range for the year versus up mid-teens at the start of the year. Overall, for Tactical, first half revenue increased 11%. Book-to-bill was 1.3 and backlog increased 34% to over \$1.1 billion. The growth in Tactical, coupled with strong revenue and order growth in Night Vision and Public Safety, gives us confidence to increase Communication Systems revenue guidance to up 10% to 11% for the year versus prior guidance of up 9% to 10%. In Electronic Systems, revenue increased 6%, the [seventh] (corrected by company after the call) consecutive quarter of revenue growth. This strong performance was driven by sustained growth in long-term platforms, F-35, F/A-18, F-16, which collectively grew double digits as we leveraged technology upgrades, ramped production and expanded our international footprint. We also saw growth on SOCOM rotary platforms as we began to modernize legacy electronic warfare systems to address new threats and requirements. Order momentum continued to be strong, growing 12%. And for the sixth straight quarter, book-to-bill was greater than 1 as we expand our electronic warfare and avionics franchises.

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Poland to upgrade the EW capabilities of their F-16 aircraft, adding to the previously announced Turkey and Morocco awards in continuing the international expansion of our F-16 EW program. With \$225 million of funding remaining on the previously announced \$400 million sole-sourced IDIQ contract and several additional international opportunities in the pipeline, we remain confident in the growth trajectory of our EW business. In addition, we've partnered with Northrop on the recently announced Next Gen Jammer Low Band program, which will significantly increase airborne electronic attack capabilities on the EA-18G growler. This win is the culmination of a multiyear strategy to invest in adding features, functionality and capability to our EW products to enable us to increase content on existing platforms and win new pursuits. In avionics, we're leveraging our open-system architecture technology and recent award on the F-35 mission processor to

win content on 2 new strategic platforms, a large UAV and a new trainer aircraft. These wins build on the F-35 success and provide significant multiyear follow-on opportunities. For the first half, Electronic Systems revenue was up 7.4% and book-to-bill was 1.2, resulting in a backlog increase of 24%. The pipeline remains robust at \$16 billion with \$3 billion in proposals outstanding. And we continue to expect revenue of this segment to be up 7% to 8% this year. And then, finally, in Space and Intelligence Systems, revenue growth accelerated to 11% in the quarter as our multiyear investments to innovate ahead of customer needs led

to high teens growth in the Classified business, which more than offset the expected headwinds on environmental programs. We continue to be successful in expanding the addressable market of our Classified business by providing end-to-end mission solutions and penetrating new adjacencies. In our small satellite franchise, we've received awards of more than \$350 million over the past 3 years to develop and produce 17 satellites with 5 different customers as we move from

Pathfinder missions to building a full constellation in space. And on a new ground-based adjacency, we have nearly tripled the program since our first win in second quarter of fiscal '17, solidifying our position with this customer. We see this momentum continuing with several new wins in the second quarter that will extend our positions on existing programs as well as create new franchises that will have significant follow-on opportunities. Last month, we were awarded a \$218 million follow-on contract from the U.S. Army for wideband SATCOM operational management system network, a 35% increase over the initial order, reflecting the customer's confidence in Harris' technology and capabilities. We also leveraged our mission knowledge and secured an \$80 million order from the Space

Enterprise Consortium to enhance space-based position, navigation and timing systems by providing additional capabilities to detect and mitigate harmful interference. Technology matured on this program is expected to transition over time to future generations of GPS satellites and various other payloads. In addition, we continue to strengthen our position on exquisite systems, receiving a \$115 million contract to provide next-generation technology for a long-standing classified franchise. And finally, earlier this month, we received a \$185 million follow-on sustainment and modernization award for counter-communication that will be a standard for the Air Force going forward. I'm also pleased to note that we had a record launch quarter in Q2, validating our leadership position in hosted payloads and small satellites. We successfully launched 3 small satellites, including Harris' first smallsat called HSAT, showcasing our ability to provide an

end-to-end solution, including ground command and control from our facilities here in Florida. 4 THOMSON REUTERS STREETEVENTS | [www.streetevents.com](http://www.streetevents.com) | Contact Us ©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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Client Id: 77 JANUARY 29, 2019 / 1:30PM, HRS - Q2 2019 Harris Corp Earnings Call Historical information for Tactical orders, revenue and backlog is included as supplemental information at the end of this presentation. Electronic Systems on Slide 8. Segment revenue was \$617 million, up 6% for the quarter. Segment operating income increased 21% to \$117 million and margin expanded 230 basis points to 19% from strong operational performance and the absence of a onetime contract adjustment in the Mission Networks business recorded in second quarter of fiscal 2018. Orders were up 12%, resulting in a book-to-bill of 1.1. In addition to strength on long-term platforms, strong growth in the weapons release business led to first half segment revenue growth of 7%. Operating income increased 13% with margin expanding to 19.2%. Segment first half book-to-bill was 1.2. In Space and Intelligence Systems on Slide 9, segment revenue was \$513 million, up a record 11%, and operating income grew 15% as margin expanded 60 basis points from higher volume and strong program execution. First half segment revenue increased 8% with continued growth in Classified programs, partially offset by a decline in environmental revenue. Operating margin remained strong at 17.8%. Moving to Slides 10 and 11 for full year guidance. As Bill mentioned, we now expect revenue to be up 8% to 8.5% versus up 6% to 8% in the prior guidance from increased strength in Tactical Communications and classified space. We are increasing EPS guidance by \$0.10 to a range of \$7.90 to \$8.

Higher volume in Communication Systems and Space and better-than-expected operational performance in Electronic Systems is expected to contribute an additional \$0.13 to EPS. This will be partially offset by an increase in interest expense of \$0.03 as floating interest rates trend higher. EPS at the midpoint will now be up 25% for the year with about 60% of the growth coming from operations and the remaining 40% from lower share count and the benefit of a lower tax rate.

Total company margin is now expected to be between 19.5% and 20%, an increase from the previous guidance of 19.3% to 19.7% from increased volume in high-margin Communication Systems segment and improvement in margin in Electronic Systems. We are increasing free cash flow guidance to a range of \$1 billion to \$1.025 billion, driven by higher earnings. Switching to segment outlook. In Communication Systems, we now expect revenue to be up 10% to 11% versus up 9% to 10% previously. Driven by strength in DoD Tactical Communications, the operating margin guidance of 29.5% to 30.5% remains unchanged. In Electronic Systems, revenue guidance remains unchanged at up 7% to 8%. Operating margin is now expected to be between 18.5% and 19.5% versus 18% to 19% previously from strong program execution. In Space and Intelligence Systems, we now expect revenue to be up 6% to 7% versus up 4% to 5% previously, driven by better-than-expected growth in Classified programs. The operating margin guidance range of 17% to 18% remains unchanged. And with that, I would like to turn it back to Bill for his closing remarks. William M. Brown - Harris Corporation - Chairman, President & CEO Okay. Thanks, Rahul. So overall, we're performing exceptionally well in all segments and across all metrics: orders, revenue, backlog, margins, earnings per share, cash. And we're on track for a record year. There's been a lot of discussion around the GFY '20 defense budget. We continue believe that the President supports increased funding to meet national security demands. And with outlays continuing to lag budget appropriations overall as well as in the budget lines that matter to Harris, we expect growth momentum to continue in the medium term in the mid- to high single-digit range. From this position of strength, we decided about 3 month ago to merge with L3 to create a leading global defense company. We're well into the regulatory process and continue to expect a mid-calendar 2019 close. 6 THOMSON REUTERS

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Client Id: 77 JANUARY 29, 2019 / 1:30PM, HRS - Q2 2019 Harris Corp Earnings Call On January 10, we received a second request for information from the Department of Justice and we continue to work cooperatively with the DOJ on its review. As part of the regulatory process, we're moving proactively to explore the possible sale of our Night Vision business. The government shutdown has affected the team handling our merger filing, but we believe we have enough slack in the schedule to absorb the near-term delay without impacting a midyear closing. We're also tracking well on international approval processes, including the European Commission, and we've held informal discussions with the U.K. authority should a filing be required in the event of a hard Brexit at the end of March. Integration planning is progressing well with about 50 dedicated leaders from Harris and L3, who are leveraging Harris' Exelis experience and skill set to develop detailed plans to achieve \$500 million of cost synergies and \$3 billion of free cash flow. Chris and I are deeply involved in the integration planning and we have weekly meetings with the teams to ensure that we capture the full value of the merger and hit the ground running on day 1 following the close. We both have spent considerable time meeting and getting to know each other's leadership team and have made good progress in developing an organizational model that's lean, mission-focused and leverages the best of both companies. All in all, we're tracking on or ahead of schedule as we execute this transformational combination. So with that, let me ask the operator to open the lines for questions. QUESTIONS AND ANSWERS Operator (Operator Instructions) Our first question comes from the line of Robert Stallard with Vertical Research Partners. Robert Alan Stallard - Vertical Research Partners, LLC - Partner Bill, first of all, I thought we'd start with CS, a very strong DoD performance, both on revenues and orders in the quarter. And I was wondering if it's your perception whether the DoD is adding incremental demand into your backlog? Or whether this is pulling forward activity that you may have expected to occur in the future? William M. Brown - Harris Corporation - Chairman, President & CEO No, I think this is just a continuation of a very, very strong ramp in the DoD business. Last year, if you remember, we increased our guidance through the year. We started off in the high teens, 20%. We ended in the mid-30s. We're seeing a similar trajectory this year, but a shift from readiness to modernization. The modernization ramp clearly has happened. We're seeing significant growth in modernization spend as we've expected and have communicated to our investors over the last couple of years. Robert Alan Stallard - Vertical Research Partners, LLC - Partner Okay. And then, secondly, on the L3 front, it looks like they had a few execution issues this quarter in their results this morning. I was wondering, as you put the 2 businesses together, whether there is a, say, process expertise that you could bring to the table and maybe improve the execution of the combined business going forward. William M. Brown - Harris Corporation - Chairman, President & CEO Well, I think you'll hear from Chris later on this afternoon on his business and his performance last year, his expectations for this year. I think overall, Chris and I have worked well together. We work well with the teams. One of the key focus areas of integration is on operational excellence and 7 THOMSON REUTERS STREETEVENTS | www.streetevents.com | Contact Us ©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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Client Id: 77 JANUARY 29, 2019 / 1:30PM, HRS - Q2 2019 Harris Corp Earnings Call seeing in fiscal '19. I mean, again, this is -- we're seeing really good growth trajectories, our pipelines look strong. They're getting replenished quickly. They're growing. Our backlog is growing. So I feel certainly better today about '19 and beyond than what we would have been feeling 6 to 12 months ago. David Egon Strauss - Barclays Bank PLC, Research Division - Research Analyst Okay.

Could you talk about how you see your short-cycle exposure? I think there's some concern in the market if the budget does kind of flatten out that you are more exposed given a higher degree of short-cycle exposure. Could you just address how much of your business you see as kind of short-cycle exposure that could turn quickly? William M. Brown - Harris Corporation - Chairman, President & CEO The short-cycle part of our business probably relates mostly to our Tactical business and principally the DoD business. But in that area, we're seeing growth in orders, backlog is way up. The budgets look very, very strong. Certainly, what we've seen over the next 4 to 5 years, they essentially have doubled their last 2 years. It's kind of, pretty substantially, there's a lot of opportunity ahead of us. We see the budgets growing in the Tactical line items by another 30%, 40% in the next 3 or 4 years. A lot of it's going to be driven by Army modernization, SOCOM modernization, but also the Marine Corps is coming in as well. So we've seen a great trajectory here. When I look at just the budgets, even if it does flatten off a little bit, as I mentioned in my prepared remarks, appropriations are running well ahead of outlays overall and in our line items as well and I think that's going to provide some nice tailwind for us. So I don't see our short-cycle business tailing off at all. In fact, if anything, in the first half, we saw it getting a bit stronger.

Operator Our next question comes from the line of Carter Copeland with Melius Research. Carter Copeland - Melius Research LLC - Founding Partner, President and Research Analyst of Aerospace & Defense Just a couple of quick ones. One, we haven't talked about it in a while, but obviously the PSPC numbers are pretty strong. Is that market finally growing a lot? Or are you taking share? I just wondered if you could clarify that a little bit for us. And then a second one for you, Bill.

Just as you continue to work through and think through integration with L3 on the transaction, how are you thinking about internal R&D spending? Is that being influenced at all by updated views on revenue synergies? Any color you can give us on how you're thinking about that in the combined entity and how it may influence your development spend and mind-set. William M. Brown - Harris Corporation - Chairman, President & CEO Thanks, Carter. Two good questions. I'd love to say that we're gaining share in public safety. I can't really say for sure. We've had 2 very good quarters. We've had a series of quarters, 4 or 5 in a row, where we've seen backlog growing; book-to-bill very, very positive. The first half revenue was up double digits, which is, in my 7 years here, has never happened. We still see very good strong order momentum, some good bookings. I think it comes back to where we've been over the last couple of years. Quality is getting a bit better. We're seeing a great reception on new products. I think Nino and the team there are doing a very good job in building our sales force, improving our channel performance. We're starting to win a bit more on utilities, a couple of big state contracts, penetrating federal a bit better. I think the market is up. It's certainly not up double digits, but the market is a bit stronger. But I think we're on a good trajectory here. Too early to claim success. We've had 2 good quarters.

We're expecting a good year. We're expecting the PSPC up to be high single digits, which I don't think I've ever thought I'd be able to say, but that's actually a great trend. I'd love to be sitting here in 6 months from now looking back on fiscal '19 and saying we had a really good year. So off to a really good start. I'm proud of what the team has done in turning that business around and growing the margins, growing the top line. But too soon to say whether it's officially turned around and a great business. So we'll see. On the piece on the IRAD. It's a very good question. We're just starting to get into that between us and L3. Collectively, we'll spend a little north of \$600 million in IRAD, maybe \$640 million, something like that, \$640 million. 10 THOMSON REUTERS STREETEVENTS |

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Client Id: 77 JANUARY 29, 2019 / 1:30PM, HRS - Q2 2019 Harris Corp Earnings Call Probably a little north of 3% of our revenue combined. And we're just now looking at what we spend, what they spend. It's still very early in its process. And we'll shape that based on where we see growth opportunities, both on an organic basis so independent of one another, but also on a combined basis. The teams have started to get together and discuss revenue synergies. There's probably more than 100 ideas that they've come up with, some very interesting ones. And over the next 6 to 12 months, I think the team will start to shape what the IRAD budget will look like in our priorities and I would imagine it will get shaped. It'll shift a bit based on revenue opportunities that we hadn't seen before between the 2 companies. So I think more to say probably in the next 6 month, but not much more I can say on that today. Rahul Ghai - Harris Corporation - Senior VP & CFO Carter, so going back to Public Safety. So one additional point I just want to add to what Bill said. The other thing that's helping us, we have the only radio that has both the legacy LMR technology and the LTE technology on a single radio and that is helping us gain some additional customers. So just the introduction of -- I'll reference the introduction of new products and that radio is helping us get some momentum in the market. Operator Our next question comes from the line of Gautam Khanna with Cowen and Company. Gautam J. Khanna - Cowen and Company, LLC, Research Division - MD and Senior Analyst A couple of questions. First, you mentioned you're exploring and potentially exiting Night Vision, at least the Harris Night Vision business. Could you, again, quantify what that expected sales level is in fiscal '19's guidance for Harris' Night Vision? William M. Brown - Harris Corporation - Chairman, President & CEO Yes, Night Vision for us this year will be in the \$150 million to \$160 million range, it's probably mid-teens margin, thereabouts. Gautam J. Khanna - Cowen and Company, LLC, Research Division - MD and Senior Analyst Okay. And just broader context, you look back at the Tactical Comms business and it wasn't just 2 years ago when the backlog -- things -- there was an air packet and what have you. Backlog is up more than 2x. I'm just curious. So you've mentioned the DoD -- the international pipeline's \$2.5 billion. Where's the DoD pipeline? And do you think there's any risk over the next couple of years that we'll see a similar air pocket, at least sort of in a order frenzy and then we're not going to see much in the way of backlog growth? What should we be tracking because it's been up, up and away for a while now and I'm just curious if we're ever going to see any erosion in backlog over the next year or 2? And what should we be prepared for? William M. Brown - Harris Corporation - Chairman, President & CEO Yes. So good question. So the pipeline is about \$1.6 billion on the DoD side. It's up about 12%, 13% year-over-year. A lot of it is coming out of modernization, so we're starting to see this long-awaited modernization trend. We're really at the front end of it. Modernization revenue for this year we think is in the \$270 million, \$275 million range. It's up substantially from last year. We see continued support, continued momentum in special operations. We're now shipping in the second half the 2-channel radio, the Army we're shipping a 2-channel radio. We're down the path with the Manpack for SOCOM. We're heading down the path on delivering on the first LRIP for Manpack. We'll see another LRIP coming at the back end of this year, probably a third one next year. OT will be next summer. The Marine Corps is now starting to position for their own modernization buy. So we're on the front end of what I still believe is a really important ramp. A couple of years ago, the budgets were about \$650 million; this year, \$950 million. According to last year's FYDP, they peak at around \$1.3 billion, \$1.4 billion so I think we've got a lot of headroom in front of us. And as I look at that and just see what's happened over the last 3 years in our business, we've grown about 2/3 in that business. There could be 11 THOMSON REUTERS STREETEVENTS | www.streetevents.com | Contact Us ©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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Client Id: 77 JANUARY 29, 2019 / 1:30PM, HRS - Q2 2019 Harris Corp Earnings Call another substantial uptick in our revenue in DoD in the next 3 years just based on what we see in the budget, the momentum in the business. Even with some expectations of a little bit more share gain in that DoD side, the business could be in the range of \$900 million to \$1 billion in 3 years. So we continue to see very good momentum and no hiccups whatsoever right now in the DoD business, Gautam. Gautam J. Khanna - Cowen and Company, LLC, Research Division - MD and Senior Analyst Okay. And just the last one for me, if you could update us on some of the milestones we should be tracking related to the merger. So in terms of when the board is going to be announced, the new 10-member board? Anything you could give us that we can track in advance of the close? William M. Brown - Harris Corporation - Chairman, President & CEO I think the next thing that we'll be talking about probably is once the S-4 is approved by the SEC and we issue a proxy, they'll be a share owners meeting. I can't tell you exactly when that's going to be. That's not the long pole in the tent, it's really getting HSR approval from the U.S. DoD. We probably won't announce anything on the new board structure until after the share owners meeting. So that'll probably be in the spring time frame. I'm not sure what other milestones or events we'll be announcing, but we still believe based on what we have seen that we'll be able to close by mid-calendar year. And again, should we see any change from that, we'll communicate with investors appropriately. Operator Our next question comes from the line Myles Walton with UBS. Myles Alexander Walton - UBS Investment

Bank, Research Division - Research Analyst I was hoping to go back to the synergy, in particular the working capital synergy coming through. It's a pretty impressive number as you achieve it. I'm just curious when you juxtapose the current environment of mid- to high single-digit growth for yourselves and mid-single-digit growth for L3 versus what was a flat organic environment. Working capital savings are going to be more difficult. I'm just curious if growth is constraining kind of your 6 to 7 days of reduction in combined company? Or if that's a baseline you think you could outperform against? William M. Brown - Harris Corporation - Chairman, President & CEO Well, I think -- look, I was hearing most of that, Myles. But look, I think the way I'll look at that opportunity is combined at the end of calendar '18, we had about 70 days of working capital. So L3 ended around 80. We were about 50 on a comparable apples-to-apples basis, so about 70. We're sitting at 50. We took 20 days out with Exelis. We're only assuming 6 or 7 days at about \$35 million per day more or less. I do think there are opportunities to go beyond that. We have -- we've assigned a consultant team, a clean team to kind of look at working capital, both Harrison and L3, look at the specific entities where we have higher-than-normal working capital as specific items, some of it's payables, lots of inventory, a lot of them unbilled. Those opportunities, certainly on the inventory side, do take time to action and to achieve. That's why we say over the course of 3 years we'll be bringing that down. But I believe that, if anything, 6- to 7-day improvement is probably on the conservative side. I think there's probably an opportunity to do a bit better than that. On top of that, we do see organic growth. And just on a normal sort of drop-through in our business and a 20% tax rate, we do see cash growth simply coming from organic growth. And the other thing we don't really talk much about is on the capital spending side where we'll reduce some of our facilities. There might be a little opportunity on capital spending. There's probably a little opportunity on cash taxes. So we've got a lot of things that I think are trending as tailwinds for us that gives us, Chris and I, a lot of confidence to be able to get to \$3 billion 3 years out. 12 THOMSON REUTERS STREETEVENTS | www.streetevents.com | Contact Us ©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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Client Id: 77 JANUARY 29, 2019 / 1:30PM, HRS - Q2 2019 Harris Corp Earnings Call Myles Alexander Walton - UBS Investment Bank, Research Division - Research Analyst And then your 40% of that cost synergy target in year 1, what do you think that is in terms of percentage for your working capital synergy in year 1? How quickly does this come off? William M. Brown - Harris Corporation - Chairman, President & CEO So on the 40%, I'm not sure I heard all the question. I mean, 40% of the \$500 million of gross synergy will happen in year 1. That's about \$200 million. That's going to basically be segment and CHQ consolidations and some indirect spend. That's really where that's going to come from. I don't think we've really guided anything in terms of working capital improvements in the first year. But I know we'll see something -- we'll see something in calendar '19, we'll see more in '20, we'll see more in '21. So I don't think it'll be -- it's probably a couple of days, I guess, we'll see this year. But I don't think we're really suggesting more than that. We're still thinking 6 to 7 days over the next 3 years. Operator Our next question comes from the line of Jon Raviv with Citi. Jonathan Phaff Raviv - Citigroup Inc, Research Division - VP Bill, on the call -- sorry, on your prepared remarks, you talked a little bit about readiness demand versus modernization, readiness being a big driver last year, now it's more modernization. Can you talk about just kind of those 2 buckets more broadly across the business, not just CS, both this year and going forward in terms of what you see in your backlog, your pipeline and what you expect out of budgets both here and abroad. William M. Brown - Harris Corporation - Chairman, President & CEO Jon, I missed the front part of your question, I'm sorry. Jonathan Phaff Raviv - Citigroup Inc, Research Division - VP I'm sorry. It was just -- as you parsed between readiness and modernization, you mentioned how there's a real shift now towards modernization. Which one would think would be a kind of stickier piece of business than readiness, which could flex up and down more rapidly. William M. Brown - Harris Corporation - Chairman, President & CEO Yes. Thank you, Jon. That's a great question. So we had a really good year last year in terms of readiness demand. Remember, there was a couple of security forces assistance brigades that we fielded, that was with the Army. We may see another one this year. We saw a lot of opportunities with the Air Force last year. We saw a little bit more this year on their TACPs as well as their base support. So readiness now is starting to shift over this year into modernization. And I think you're exactly right, there's a lot more stickiness on that. There's a discrete budget that's specific to the HMS program, to the SOCOM handheld program, to the SOCOM Manpack. In the Marine Corps, there are specific budget items. So I think there is a lot more stickiness to that. There's IDIQ vehicles, both -- all those services are buying off those IDIQ vehicles. So we feel very good about what's happening this year and really the expectation that that's going to continue into next year. There's a very clear plan that SOCOM and the Army have laid out as to how they want to buy, how they want to field based on those radios, when they want to test, the budgets they're coming off of. So all of that seems have a lot more predictability than what we saw in readiness. So to your point, I think that's exactly right. We'll see a little more stickiness and predictability on modernization. 13 THOMSON REUTERS STREETEVENTS | www.streetevents.com | Contact Us ©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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Client Id: 77 JANUARY 29, 2019 / 1:30PM, HRS - Q2 2019 Harris Corp Earnings Call Jonathan Phaff Raviv - Citigroup Inc, Research Division - VP And as the customer seems to, as always, focuses on getting more for less, or saving money in this case in light of deficits, would you be able to characterize what your customer conversations have been over the recent weeks and months as you prepare for an FY '20 budget, which is supposed to reflect some changes in how the DoD is approaching both how they do business and what they want to focus on in the 5-year plan. William M. Brown - Harris Corporation - Chairman, President & CEO Well, look, I think the conversation is not a lot different recently than it might have been a year or 2 ago, which is you're right, they do want more for less. That makes sense. Their budgets are coming up, but affordability is key. They want innovation, they want industry to step up on innovation. Spending our own money, we have done that. L3 has also done that in a significant away. There's been conversations around contract financing that's still a live wire, that's still a live switch. But these are the things that are sort of going on in the background. But at the end of the day, it's a, according to the National Defense strategy, there's a lot of opportunities to continue to invest, develop new capabilities, field capabilities, faster to the war fighter. So every conversation is around innovation, speed and field capabilities, affordability, those are incentivizing industry to perform. These are all the basic parts of our conversations with DoD, including some meetings we had last week. Operator Our next question comes from the line Seth Seifman with JPMorgan. Seth Michael Seifman - JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst Bill, I wonder if you could talk maybe a little bit more about the Space business, obviously very strong performance in the quarter. To the extent possible, maybe talk about the degree to which you have visibility on future growth. The Space has been an important area of the budget and the extent to which that's driven by small versus exquisite. And maybe the last point, the meaning of -- you pointed out the first HSAT and kind of the meaning of that and where you sort of see that platform going. William M. Brown - Harris Corporation - Chairman, President & CEO Well, look, this is -- our Classified business in Space has been very, very strong. And it's called Space in general. It's space, ground, other parts of different domains that we participate in. But the trends have been very, very good. We had a really good start. Orders are good. The pipeline is very strong in that business. We've had good success in growing our smallsat franchise. This is something that we've been investing towards for the last 4 or 5 years or longer. Certainly, the initial work we've done on hosted payloads and then some investments to get ahead of the curve on smallsat are now paying dividends. It's not just with 1 customer, it's multiple customers both in the IC as well as within DoD. So it's all good news. We launched HSAT a couple of months ago. It's performing very well. The purpose of that investment was simply to demonstrate Harris ability to drive and manage an end-to-end mission. So to be able to build the satellite itself, provide all the components, secure launch and do all the ground command-and-control and downlink all from our facilities and that has now sort of proven some credibility there. There were another 2 classified smallsats that launched at the end of last year as well that are also performing well. So again, this is a great momentum that's being built. And I see continued growth in that particular domain. It's all this drive towards more resiliency in our Space architecture. That being said, there are still investments to recapitalize on the exquisite side. We've also seen good growth on exquisite space. That's a big driver of our growth in '19 from '18. It will continue into '20 and '21. So that's also quite good. And on a ground-based adjacency, that program over the last 2 years has tripled in size. Again, it's moving from providing a component to now a full mission solution on a whole different mission. So a lot of this over the last 4 or 5 years has really from this trend that we've been working on from moving from components to subsystems to full end-to-end mission solutions. Sometimes it takes investment in IRAD. Sometimes it takes building and launching your own smallsat. But that's a direction we're moving down. It allows us to go after a much bigger piece of the overall classified budget, which, by the way, is growing as well. So this is the right direction that we're moving in and the team there, Bill Gattle and his team, have been very successful really across all of these dimensions. 14 THOMSON REUTERS STREETEVENTS | www.streetevents.com | Contact Us ©2019 Thomson Reuters. All rights reserved. Reproduction or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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Client Id: 77 JANUARY 29, 2019 / 1:30PM, HRS - Q2 2019 Harris Corp Earnings Call Seth Michael Seifman - JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst Great. And last one, I think when you were speaking earlier about Tactical, you might have mentioned an airborne award. And I'm just wondering just as an area that hasn't been a very big part of the franchise historically, are there awards or opportunities out there in airborne that you see as potentially over the longer term providing opportunities for further growth in Tactical? William M. Brown - Harris Corporation - Chairman, President & CEO Well, yes. This has been, Seth, a growth agenda. It's a growth strategy we've had for the last 3 years and we've been articulating that with investors. We have, principally in the Tactical business, been a ground radio business. And we saw 2 growth opportunities in adjacencies, one in the airborne side, airborne radios; and the other is on systems, tactical systems, communications systems. And we've been successful really across both of those dimensions. We've been winning business on airborne radios. It's on a Small Tactical Terminal. It's a component with ViaSat that's been growing very, very well. We have an opportunity to take our 2-channel handheld radio and embed it into the ARC-201, a radio we got with the Exelis acquisition as well as some capability in providing radios in the aerial tier from Exelis. We see opportunities in doing ground-to-air data links, that's been a very important growth business for us as well. So this is a good growth opportunity for us as they move and merge between the airborne tier and the ground tier and connecting the two, we think this is going continue to be sort of a growth vector for Harris in the future, certainly even more so with L3. Operator Our next question comes from the line of Josh Sullivan with Seaport Global. Joshua Ward Sullivan - Seaport Global Securities LLC, Research Division - Director & Senior Industrials Analyst Just within Space, you mentioned the classified budgets there. Clearly, top line defense budget get most of the focus. But what are some of the trends within the classified budgets that you're seeing and what kind of growth related to your programs? Just a little more granularity on that. William M. Brown - Harris Corporation - Chairman, President & CEO Yes. So the last I've seen, the -- what they called the National Intelligent Programs and Military Intelligence Program, the NIP and MIP, totaled about \$81 billion. It's up a couple of percent from last year. It's been growing over the last 3 or 4 years. Again, these budgets tend to be a little bit more resilient, more well-funded. They're generally classified. We don't get a lot of data across the individual spending line items, certainly not that we can talk in an open community. But basically, what we've seen are more funding going towards those things that we've been putting our money internally on, again, in terms of IRAD. That's towards like things like smallsats. That's an area that has been -- we've seen increasing growth in the intelligence budgets and we're getting the benefit of that. A lot more money into the broad category of Space Superiority, so how we protect the overhead architecture that we happen to have. And we've seen over the last 3 or 4 years our Space Superiority business grow. I talked a bit about some opportunity we won recently on counter-communication. So there's opportunities in that space as well. And as well as on ground adjacencies, this is capabilities to find ways of gathering information where it becomes harder to gather over time. And those are the kind of things that where the budgets are moving from a classified perspective and it's the areas that we've been focused on internally within the company over the last 4 or 5 years as well. Joshua Ward Sullivan - Seaport Global Securities LLC, Research Division - Director & Senior Industrials Analyst And then just on the smallsats topic. You had 3 launches here. I believe mentioned you had 17 orders on hand. What's the pace of launches going forward? And then maybe what does the overall pipeline look like? 15 THOMSON REUTERS STRETEVENTS | www.streetevents.com | Contact Us ©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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Yes, so we'll see probably later on this calendar year another series of launches. That's still to be determined. It's going to be based on when they get to the customer or when the customer secures a ride for those particular smallsats. They're going to be part of some other mission. So that'll be determined, but it'll happen over the next 1 to 2 years probably. And as we prove out our ability to successfully launch these satellites and for them to perform and provide really terrific capabilities, I think that's going to build credibility and I think you'll see a much better cadence here. So we're starting from tens and it'll go into hundreds. The constellation will be in the hundreds, not in the tens or twenties. So we do see over time that could be a very big opportunity for the company. Again, it starts slow. We have to prove out our ability and the customer's ability to manage these capabilities on a smaller platform. Operator Our final question comes from the

line of Pete Skibitski with Alembic Global Advisors. Peter John Skibitski - Alembic Global Advisors - Research Analyst Bill, just to follow up on that last question. It seems like all of the big contractors are getting into the smallsat arena in some fashion. Do you see you guys kind of in the lead there? Or is DoD kind of keeping a few different competitors in the running to keep its options open? I'm just curious as to how that market is kind of unfolding given -- it sounds like it's going to be pretty substantial. William M. Brown - Harris Corporation - Chairman, President & CEO Well, I think it's going to be substantial. And you're right, I

think a lot of other players are pushing into that area. It's not like launching a nanosatellite or CubeSat. There's a lot more sophisticated capabilities that are provided in what we're offering. It's not our bus. We're securing the satellites bus from another vendor. It's more -- the bus itself is more commodity-like. It's really around the capabilities that are embedded on the platform, the responsive payloads, the antennas, the capability there, how you up- and download information, how you manage it. So there's a lot more sophistication. So these are pretty technologically advanced small satellites. I think we're probably a year or 2 in the lead.

We have a few that are operating, so that gives us some credibility. But at the end of the day, the team has to continue to work hard to advance the technology, continue to drive costs down, embed more capability on to these small satellites. And that's what the team is really focused on doing, Pete. Anurag Maheshwari - Harris Corporation - VP of IR Great. Thank you. Thank you, everyone, for joining the call. If you have any additional questions, please feel free to get in touch with me. Have a great day. Operator Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your

participation, and have a wonderful day. 16 THOMSON REUTERS STREETEVENTS | www.streetevents.com | Contact Us ©2019 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of

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Forward-Looking Statements Certain of the matters discussed in this communication are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than historical facts may be forward-looking statements; words such as “may,” “will,” “should,” “likely,” “projects,” “guidance,” “expects,” “anticipates,” “intends,” “plans,” “believes,” “estimates,” and similar expressions are used to identify forward-looking statements. Such statements are made in reliance on the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Harris and L3 caution investors that these statements are subject to risks and uncertainties, many of which are difficult to predict and generally beyond Harris’ and L3’s control, that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. In addition to factors previously disclosed in Harris’ and L3’s reports filed with the U.S. Securities and Exchange Commission (the “SEC”) and those identified elsewhere in this communication, the following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance: the occurrence of any event, change or other circumstances that could give rise to the right of one or both of Harris and L3 to terminate the definitive merger agreement between Harris and L3; the outcome of any legal proceedings that may be instituted against Harris, L3, or their respective directors; the risk that the stockholder approvals of Harris or L3 may not be obtained on the expected schedule or at all; the ability to obtain regulatory approvals and satisfy other closing conditions to the merger in a timely manner or at all, including the risk that regulatory approvals required for the merger are not obtained or are obtained subject to conditions that are not anticipated; delay in closing the merger; difficulties and delays in integrating the Harris and L3 businesses or fully realizing anticipated cost savings and other benefits; business disruptions from the proposed merger that may harm Harris’ and L3’s businesses, including current plans and operations; any announcement relating to the proposed transaction could have adverse effects on the ability of Harris or L3 to retain and hire key personnel or maintain relationships with suppliers and customers, including the U.S. government and other governments, or on Harris’ or L3’s operating results and businesses generally; the risk that the announcement of the proposed transaction could have adverse effects on the market price of the common stock of either or both of Harris’ and L3’s common stock and the uncertainty as to the long-term value of the common stock of the combined company following the merger; certain restrictions during the pendency of the merger that may impact Harris’ or L3’s ability to pursue certain business opportunities or strategic transactions; the business, economic and political conditions in the markets in which Harris and L3 operate; and events beyond Harris’ and L3’s control, such as acts of terrorism. The foregoing list of risks and uncertainties that could cause actual results to differ from those described in forward-looking statements is not exhaustive. Further information relating to factors that may impact the parties’ results and forward-looking statements are disclosed in their respective filings with the SEC. These forward-looking statements speak only as of the date of this communication or as of the date they were made, and neither Harris nor L3 undertakes any obligation to update forward-looking statements. For a more detailed discussion of these factors, also see the information under the captions “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Harris’ and L3’s most recent reports on Form 10-K for the years ended June 29, 2018 and December 31, 2017, respectively, and any material updates to these factors contained in any of Harris’ and L3’s subsequent and future filings. As for the forward-looking statements that relate to future financial results and other projections, actual results will be different due to the inherent uncertainties of estimates, forecasts and projections and may be better or worse than projected and such differences could be material. Annualized, pro forma, projected and estimated numbers are used for illustrative purpose only, are not forecasts and may not reflect actual results. Given these uncertainties, persons receiving this communication should not place any reliance on these forward-looking statements.

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**Important Additional Information and Where to Find It** This communication does not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction. This communication is made in respect of the proposed merger transaction between L3 Technologies, Inc. ("L3") and Harris Corporation ("Harris" and together with L3, the "parties"), as contemplated by the Agreement and Plan of Merger, dated as of October 12, 2018 (the "merger agreement"), among L3, Harris and a wholly owned merger subsidiary of Harris. In connection with the proposed merger, Harris filed with the SEC on December 14, 2018 a registration statement on Form S-4 that includes a joint proxy statement of the parties that also constitutes a prospectus of Harris. This registration statement has not yet been declared effective. The parties will send the definitive joint proxy statement/prospectus to their respective stockholders. The parties also may file with the SEC other relevant documents regarding the proposed transaction. This communication is not a substitute for the registration statement, the joint proxy statement/prospectus or any other documents that either or both of the parties or any of their respective affiliates may file with the SEC or make available to their respective security holders. **INVESTORS AND SECURITY HOLDERS OF EACH PARTY AND ITS AFFILIATES ARE URGED TO READ CAREFULLY AND IN THEIR ENTIRETY ALL RELEVANT DOCUMENTS FILED WITH THE SEC, INCLUDING THE REGISTRATION STATEMENT AND THE JOINT PROXY STATEMENT/PROSPECTUS, AS WELL AS ANY AMENDMENTS OR SUPPLEMENTS TO THOSE DOCUMENTS, BECAUSE THEY CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION.** A copy of the registration statement and the joint proxy statement/prospectus, as well as other filings containing information about the parties, may be obtained free of charge on the SEC's website at [www.sec.gov](http://www.sec.gov), or from Harris by accessing its website at [www.harris.com](http://www.harris.com), or from L3 by accessing its website at [www.l3t.com](http://www.l3t.com). Participants in Solicitation Harris, L3 and certain of their respective directors and executive officers may be deemed to be participants in the solicitation of proxies from the parties' respective stockholders in respect of the proposed transaction. Information regarding Harris' directors and executive officers is contained in its Annual Report on Form 10-K for the fiscal year ended June 29, 2018 and its Proxy Statement on Schedule 14A, dated September 6, 2018, which are filed with the SEC. Information regarding L3's directors and executive officers is contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and its Proxy Statement on Schedule 14A, dated March 26, 2018, which are filed with the SEC. Additional information regarding the interests of those participants and other persons who may be deemed participants in the transaction is included in the preliminary joint proxy statement/prospectus and will be included in the definitive joint proxy statement/prospectus and other relevant materials to be filed with the SEC when they become available. Copies of these documents may be obtained free of charge as described in the preceding paragraph.

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