

NORTHROP GRUMMAN

Fourth Quarter 2023 Conference Call



January 25, 2024

Kathy Warden
Chair, Chief Executive Officer
and President

Dave Keffer
Corporate Vice President
and Chief Financial Officer

Forward-Looking Statements

This presentation and the information we are incorporating by reference, and statements to be made on the earnings conference call, contain or may contain statements that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “will,” “expect,” “anticipate,” “intend,” “may,” “could,” “should,” “plan,” “project,” “forecast,” “believe,” “estimate,” “guidance,” “outlook,” “trends,” “goals” and similar expressions generally identify these forward-looking statements.

Forward-looking statements include, among other things, statements relating to our future financial condition, results of operations and/or cash flows. Forward-looking statements are based upon assumptions, expectations, plans and projections that we believe to be reasonable when made, but which may change over time. These statements are not guarantees of future performance and inherently involve a wide range of risks and uncertainties that are difficult to predict. Specific risks that could cause actual results to differ materially from those expressed or implied in these forward-looking statements include, but are not limited to, those identified and discussed more fully in the section entitled “Risk Factors” in the Form 10-K for the year ended December 31, 2023, and from time to time in our other SEC filings. These risks and uncertainties are amplified by the global macroeconomic, security and political environments, including inflationary pressures, labor and supply chain challenges, which have caused and will continue to cause significant challenges, instability and uncertainty. They include:

Industry and Economic Risks

- our dependence on the U.S. government for a substantial portion of our business
- significant delays or reductions in appropriations and/or for our programs, and U.S. government funding and program support more broadly, including as a result of a prolonged continuing resolution and/or government shutdown, and/or related to the global security environment or other global events
- significant delays or reductions in payments as a result of or related to a breach of the debt ceiling
- the use of estimates when accounting for our contracts and the effect of contract cost growth and our efforts to recover or offset such costs and/or changes in estimated contract costs and revenues, including as a result of inflationary pressures, labor shortages, supply chain challenges and/or other macroeconomic factors, and risks related to management’s judgments and assumptions in estimating and/or projecting contract revenue and performance which may be inaccurate
- continued pressures from macroeconomic trends, including on costs, schedules, performance and ability to meet expectations
- increased competition within our markets and bid protests

Legal and Regulatory Risks

- investigations, claims, disputes, enforcement actions, litigation (including criminal, civil and administrative) and/or other legal proceedings
- the improper conduct of employees, agents, subcontractors, suppliers, business partners or joint ventures in which we participate, including the impact on our reputation and our ability to do business
- changes in procurement and other laws, SEC, DoD and other rules and regulations, contract terms and practices applicable to our industry, findings by the U.S. government as to our compliance with such requirements, more aggressive enforcement of such requirements and changes in our customers’ business practices globally
- environmental matters, including climate change, unforeseen environmental costs and government and third party claims
- unanticipated changes in our tax provisions or exposure to additional tax liabilities

Business and Operational Risks

- cyber and other security threats or disruptions faced by us, our customers or our suppliers and other partners, and changes in related regulations
- our ability to attract and retain a qualified, talented and diverse workforce with the necessary security clearances to meet our performance obligations
- the performance and viability of our subcontractors and suppliers and the availability and pricing of raw materials and components, particularly with inflationary pressures, increased costs, shortages in labor and financial resources, supply chain disruptions, and extended material lead times
- impacts related to health epidemics and pandemics and similar outbreaks
- our exposure to additional risks as a result of our international business, including risks related to global security, geopolitical and economic factors, misconduct, suppliers, laws and regulations
- our ability to innovate, develop new products and technologies, progress and benefit from digital transformation and maintain technologies to meet the needs of our customers
- natural disasters
- 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
- our ability appropriately to exploit and/or protect intellectual property rights

General and Other Risk Factors

- the adequacy and availability of, and ability to obtain, insurance coverage, customer indemnifications or other liability protections
- the future investment performance of plan assets, gains or losses associated with changes in valuation of marketable securities related to our non-qualified benefit plans, 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
- changes in business conditions that could impact business investments and/or recorded goodwill or the value of other long-lived assets, and other potential future liabilities

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.

2023 Highlights

Enterprise Spotlight

- First lot of B-21 LRIP phase awarded following successful entry into flight test campaign
- Continued to develop critical air vehicle and propulsion systems hardware for Sentinel program
- GEM 63XL solid rocket boosters helped power first launch of ULA's Vulcan rocket

Financial Performance

- Achieved record backlog of over \$84 billion driven by book to bill ratio of 1.14
- Sales increased over 7% to \$39.3 billion
- Diluted EPS of \$13.53 included MTM pension expense of \$2.08 and B-21 charge of \$7.68 per share
- Adjusted free cash flow⁽¹⁾ increased 30% to \$2.1 billion
- Reaffirm our free cash flow⁽¹⁾ outlook for 2024 and 2025, with 15%+ CAGR through 2026

Capital Deployment

- Returned over \$2.6 billion to investors via dividends and share repurchases
- Increased our dividend by 8%, our 20th consecutive annual increase
- Plan at least \$2 billion in 2024 share repurchases including initiation of \$1 billion ASR in Q1



\$84.2B
2023 Backlog



\$39.3B
2023 Sales



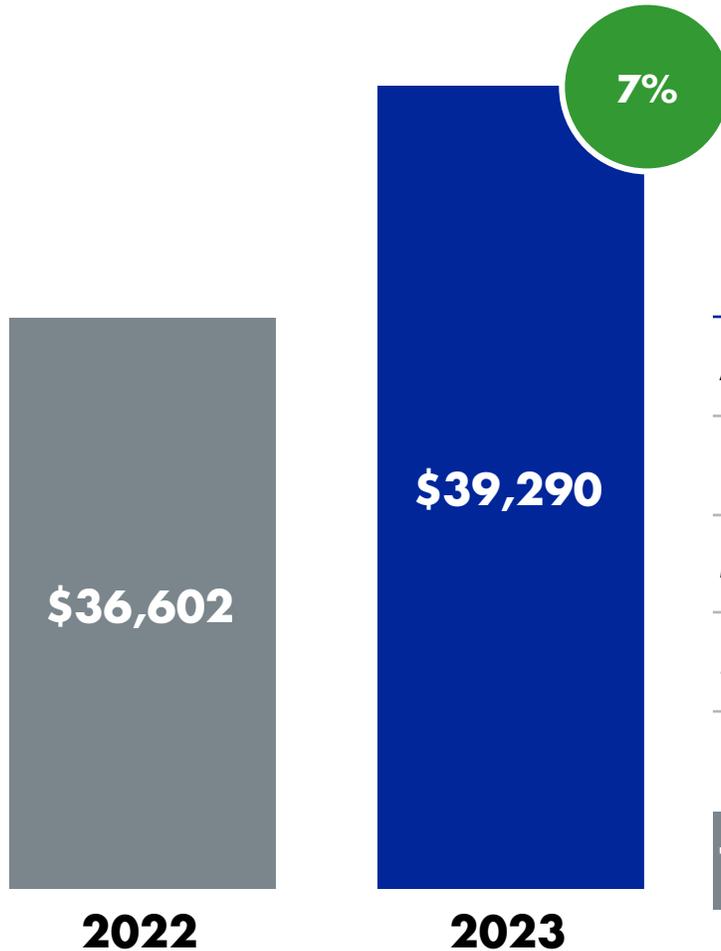
\$2.1B
2023 Adjusted Free
Cash Flow⁽¹⁾



\$2.6B
2023 Dividends &
Share Repurchases

1. Non-GAAP financial measure. See Appendix.

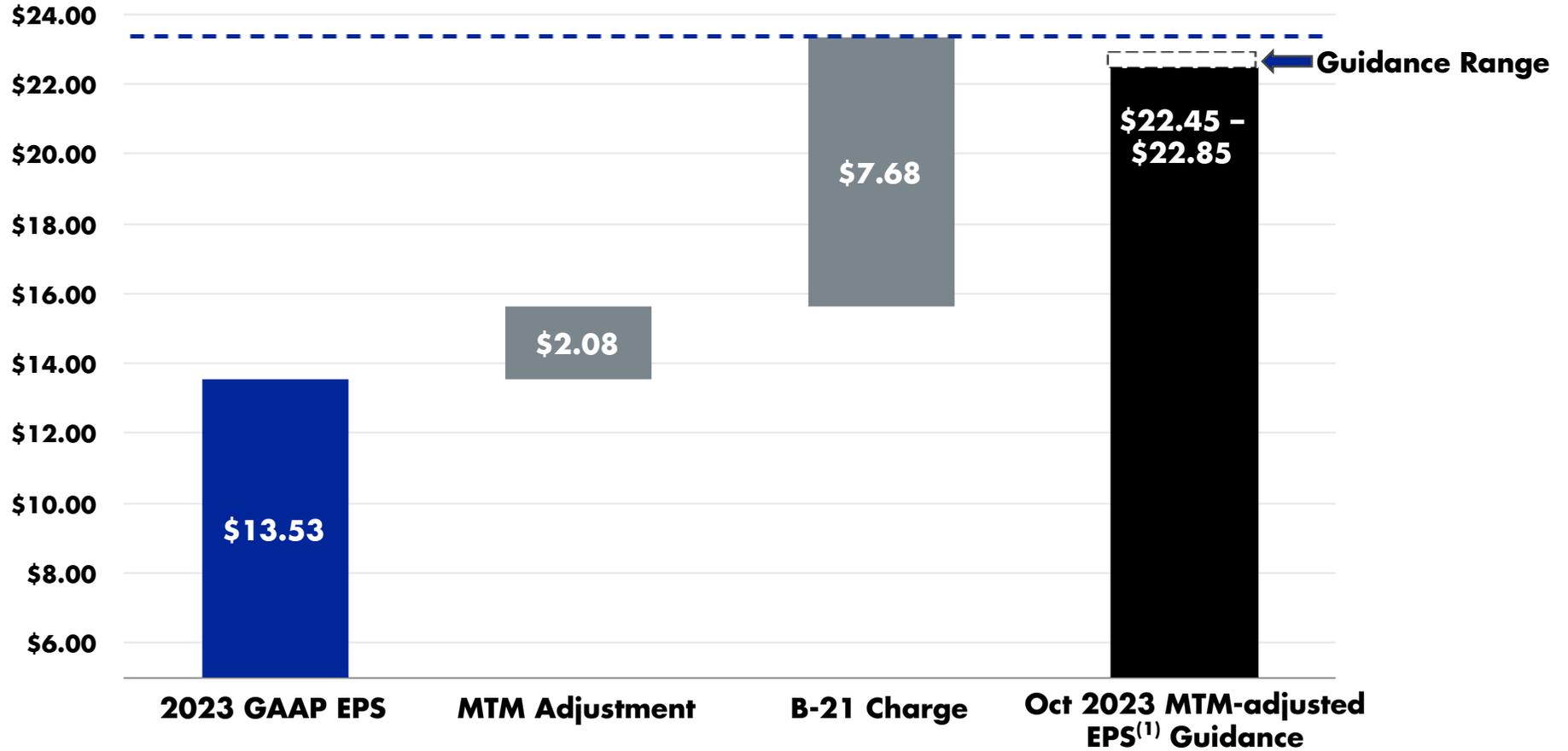
Sales



(\$M)	Three Months Ended December 31			Twelve Months Ended December 31		
	4Q22	4Q23	▲%	2022	2023	▲%
Aeronautics Systems	\$2,757	\$2,910	6%	\$10,531	\$10,786	2%
Defense Systems	1,657	1,645	(1)%	5,579	5,862	5%
Mission Systems	2,927	3,063	5%	10,396	10,895	5%
Space Systems	3,278	3,602	10%	12,275	13,946	14%
Intersegment Eliminations	(586)	(582)		(2,179)	(2,199)	
Total	\$10,033	\$10,638	6%	\$36,602	\$39,290	7%

Exceeded latest sales guidance by ~\$300 million and original 2023 sales guidance by ~\$1 billion

2023 EPS Walk



Exceeded high end of MTM-adjusted EPS⁽¹⁾ guidance range excluding B-21 charge

1. Non-GAAP financial measure. See Appendix.

2023 MTM-adjusted EPS⁽¹⁾ Bridge

2022	\$25.54
Segment Performance ⁽²⁾	0.85
Corporate Unallocated ⁽²⁾	0.77
Sale of Minority Investment ⁽³⁾	0.44
B-21 Charge	(7.68)
Net Pension ⁽⁴⁾	(4.07)
All Others	(0.24)
2023	\$15.61

Strong segment performance offset by B-21 charge and lower net pension income

1. Non-GAAP financial measure. See Appendix.

2. Segment Performance and Corporate Unallocated excludes impacts from B-21 Charge.

3. Gain on sale of Minority Investment tax effected based on actual federal rate and 5.25% blended state tax rate.

4. Net Pension tax effected on a 21% federal statutory tax rate and a 5.25% blended state tax rate.

Note - Year over year benefit from share reduction embedded in individual items, tax effected at 21%.

Pension Estimates⁽¹⁾ as of 1/25/2024

(\$M)	2023 Actual	2024E	2025E	2026E
Actual / Expected Return on Plan Assets	11.1%	←	7.5%	→
Discount Rate	5.15%	←	5.15%	→
Required Funding	~100	←	~100	→
Mark-to-Market Pension & OPB (Expense)	(422)			

(\$M)	2023 Actual	2024E	2025E	2026E
CAS Pension Expense	154	~270	~390	~240
FAS Pension Service Expense	(236)	~(240)	~(220)	~(200)
FAS / CAS Operating Adjustment	(82)	~30	~170	~40
Non-Operating FAS Pension Benefit	530	~670	~690	~710
Total Net FAS / CAS Pension Adjustment	448	~700	~860	~750

1. See Page 14 – “Financial Guidance” regarding certain of the company’s underlying assumptions, judgments and factors that can affect the company’s ability to achieve guidance or meet expectations.

Pension Sensitivities as of 1/25/2024

Mark to Market / Net Pension Liability⁽¹⁾		Inc/(Dec) to Expense (\$M)
Discount rate⁽²⁾	+25 bps	~(700)
	– 25 bps	~740
Plan asset returns	+100 bps	~(290)
	– 100 bps	~290
FAS Pension Service Expense		Inc/(Dec) to Expense (\$M)
Discount rate⁽²⁾	+25 bps	~(10)
	– 25 bps	~10
Plan asset returns	+100 bps	N/A
	– 100 bps	N/A
Non-Operating FAS Pension Benefit		Inc/(Dec) to Expense (\$M)
Discount rate⁽²⁾	+25 bps	~35
	– 25 bps	~(35)
Plan asset returns	+100 bps	~(20)
	– 100 bps	~20

1. From 2023 discount rate of 5.15% and assumed net pension returns of 7.5%.

2. Discount rate and cash balance credit rating assumptions are linked.

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

2024 Segment Guidance⁽¹⁾

	As of 1/25/2024	
	Sales (\$B)	OM Rate %
Aeronautics Systems	Low \$11	Mid 9%
Defense Systems	~\$6	Low 12%
Mission Systems	Low to Mid \$11	~15%
Space Systems	Mid to High \$14	~9%
Eliminations	~(\$2.3)	High 13%

Expect similar sales growth rates across the segments in 2024

1. See Page 14 – “Financial Guidance” regarding certain of the company’s underlying assumptions, judgments and factors that can affect the company’s ability to achieve guidance or meet expectations.

2024 Company-Level Guidance⁽¹⁾

<i>\$ in millions, except per share amounts</i>	As of 1/25/2024
Sales	\$40,800 – \$41,200
Segment operating income⁽²⁾	\$4,475 – \$4,550
Total Net FAS/CAS pension adjustment ⁽³⁾	~\$700
Unallocated corporate expense:	
Intangible asset amortization and PP&E step-up depreciation	~\$100
Other items	~\$190
Operating income	\$4,215 – \$4,290
Interest expense	~\$660
Effective tax rate %	~17%
Weighted average diluted shares outstanding	Mid 148
MTM-adjusted EPS⁽²⁾	\$24.45 – \$24.85
Capital expenditures	~\$1,800
Free cash flow⁽²⁾	\$2,250 – \$2,650

2024 Guidance calls for strong growth in Sales, EPS, and Cash Flow

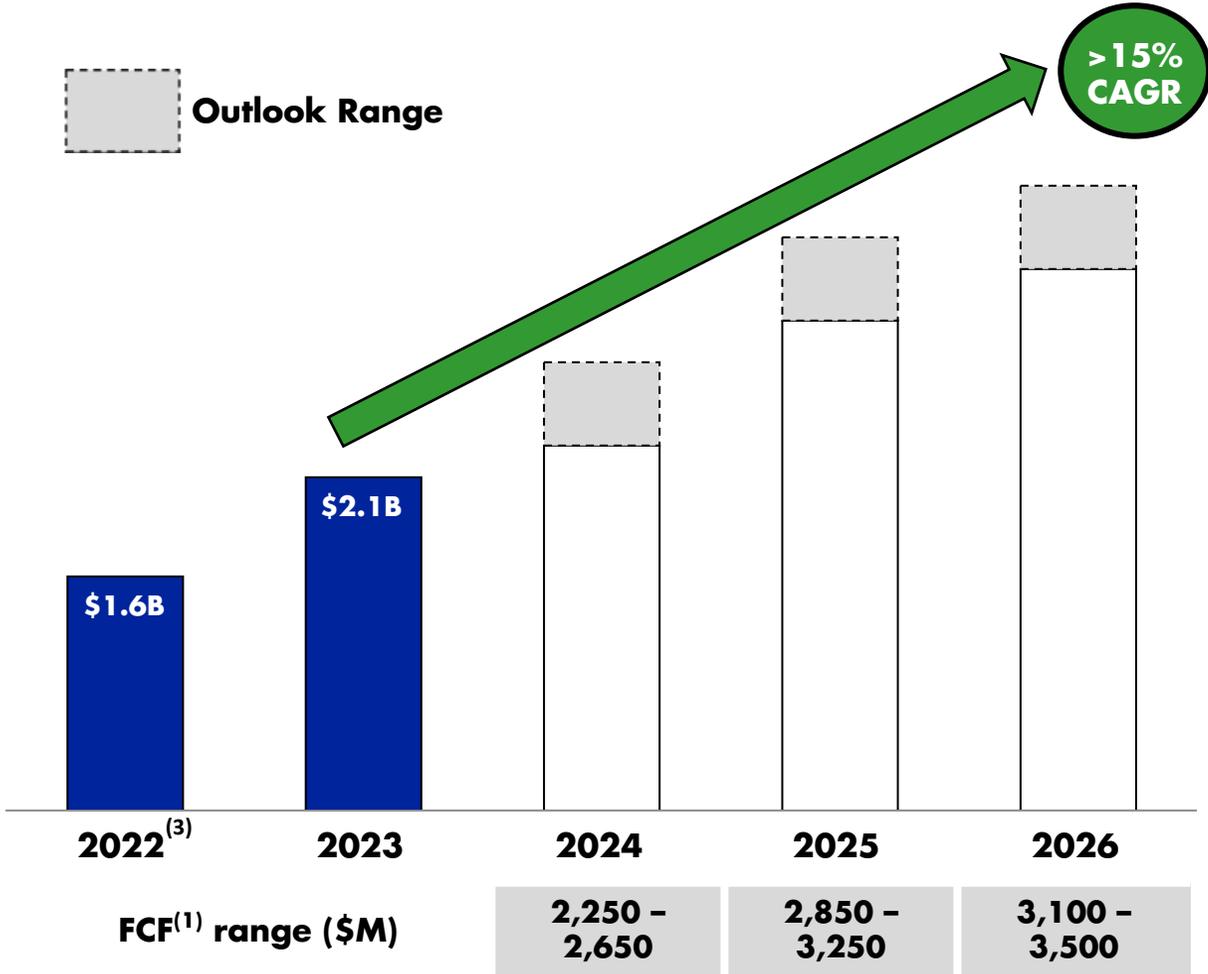
1. See Page 14 – “Financial Guidance” regarding certain of the company’s underlying assumptions, judgments and factors that can affect the company’s ability to achieve guidance or meet expectations.

2. Non-GAAP financial measure. See Appendix.

3. Total Net FAS/CAS pension adjustment is presented as a single amount and includes \$270 million of expected CAS pension expense and \$240 million of FAS pension service expense, both of which are reflected in operating income. Non-operating FAS pension benefit of \$670 million is reflected below operating income, and the total net FAS/CAS pension adjustment is \$700 million.

Note: Free cash flow outlook based on current tax law.

Free cash flow⁽¹⁾ Outlook⁽²⁾ as of 1/25/24



Free cash flow⁽¹⁾ growth driven by:

- Operational performance
- Lower cash tax payments
- Higher CAS recoveries
- Stable working capital
- Lower CapEx starting in 2025

Expect to return well over 100% of free cash flow⁽¹⁾ to shareholders in 2024

Excellent free cash flow⁽¹⁾ growth driven by strong operational performance

1. Non-GAAP financial measure. See Appendix.

2. See Page 14 – “Financial Guidance” regarding certain of the company’s underlying assumptions, judgments and factors that can affect the company’s ability to achieve guidance or meet expectations.

3. Represents adjusted free cash flow for 2022.

Note: Free cash flow outlook based on current tax law.

Key Takeaways

**Strong global
defense budget
outlook**

**Franchise programs
well aligned to
customer priorities**

**Robust long-term
cash flow outlook**

- We remain laser focused on performance as we deliver critical capabilities in partnership with our customers
- Visible path to grow margins over coming years driven by improvements in macro environment, digitally enabled efficiencies, and mix shifts to more international work & fixed price production
- Rapidly expanding cash flows allow us to continue our legacy of value creating capital deployment



Appendix

Financial Guidance

Financial guidance, as well as outlook, trends, expectations and other forward-looking statements provided by the company for 2024 and beyond, reflect the company's judgment based on the information available to the company at the time of this release. The company's financial guidance and outlook for 2024 and beyond reflect what the company currently anticipates will be the impacts on the company from, among other factors, the global macroeconomic, security, and political/budget environments, including the impacts from inflationary pressures and labor and supply chain challenges; changes in the threat environment; changes in government budget, appropriations and procurement priorities and processes; changes in the regulatory environment; and changes in support for our programs. We are not assuming, and the company's financial guidance and outlook for 2024 and beyond do not reflect any impacts on the company from, a potential extended continuing resolution, a prolonged government shutdown, or application of spending limits or other spending cuts. However, the company cannot predict how these factors will evolve or what impacts they will have, and there can be no assurance that the company's current expectations or underlying assumptions are correct. These factors can affect the company's ability to achieve guidance or meet expectations.

For additional factors that may impact the company's ability to achieve guidance or meet expectations, please see the "Forward-Looking Statements" section in our earnings release and Form 10-K.

Non-GAAP Definitions

Non-GAAP Financial Measures Disclosure: This presentation contains non-GAAP (accounting principles generally accepted in the United States of America) financial measures, as defined by SEC Regulation G and indicated by a footnote in this presentation. Definitions for the non-GAAP measures are provided below and reconciliations are provided in this presentation, except that reconciliations of forward-looking non-GAAP measures are not provided because the company is unable to provide such reconciliations without unreasonable effort due to the uncertainty and inherent difficulty of predicting the occurrence and financial impact of certain items, including, but not limited to, the impact of any mark-to-market pension adjustment. Other companies may define these measures differently or may utilize different non-GAAP measures.

MTM-adjusted net earnings: Net earnings excluding MTM benefit (expense) and related tax impacts. This measure may be useful to investors and other users of our financial statements as a supplemental measure in evaluating the company's underlying financial performance by presenting the company's operating results before the non-operational impact of pension and OPB actuarial gains and losses. This measure is also consistent with how management views the underlying performance of the business as the impact of MTM accounting is not considered in management's assessment of the company's operating performance or in its determination of incentive compensation awards.

MTM-adjusted EPS: Diluted earnings per share excluding the per share impact of MTM benefit (expense) and related tax impacts. This measure may be useful to investors and other users of our financial statements as a supplemental measure in evaluating the company's underlying financial performance by presenting the company's diluted earnings per share results before the non-operational impact of pension and OPB actuarial gains and losses.

Segment operating (loss) income and segment operating margin rate: Segment operating (loss) income and segment operating margin rate (segment operating income divided by sales) reflect the combined operating income of our four segments less the operating income associated with intersegment sales. Segment operating income includes pension expense allocated to our sectors under FAR and CAS and excludes FAS pension service expense and unallocated corporate items. These measures may be useful to investors and other users of our financial statements as supplemental measures in evaluating the financial performance and operational trends of our sectors. These measures should not be considered in isolation or as alternatives to operating results presented in accordance with GAAP.

Free cash flow: Net cash provided by or used in operating activities less capital expenditures. We use free cash flow as a key factor in our planning for, and consideration of, acquisitions, the payment of dividends and stock repurchases. 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.

Adjusted free cash flow: Net cash provided by or used in operating activities, less capital expenditures, plus proceeds from the sale of equipment to a customer (not otherwise included in net cash provided by or used in operating activities) and the after-tax impact of discretionary pension contributions, if any. Adjusted free cash flow includes proceeds from the sale of equipment to a customer as such proceeds were generated in a customer sales transaction. It also includes the after-tax impact of discretionary pension contributions for consistency and comparability of financial performance. This measure may not be defined and calculated by other companies in the same manner. We use adjusted free cash flow as a key factor in our planning for, and consideration of, acquisitions, the payment of dividends and stock repurchases. This non-GAAP measure may be useful to investors and other users of our financial statements as a supplemental measure of our cash performance, but should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes, or as an alternative to operating cash flows presented in accordance with GAAP.

Non-GAAP Reconciliations

Segment Operating Income

(\$M)	Three Months Ended December 31		Year Ended December 31	
	2022	2023	2022	2023
Total sales	\$10,033	\$10,638	\$36,602	\$39,290
Operating income	\$906	\$(393)	\$3,601	\$2,537
Operating margin rate	9.0%	(3.7)%	9.8%	6.5%
Reconciliation to segment operating income:				
FAS/CAS operating adjustment	\$48	\$20	\$200	\$82
Unallocated corporate expense (income):				
Intangible asset amortization and PP&E step-up depreciation	61	30	242	122
MTM-related deferred state tax expense (benefit)	65	(22)	65	(22)
Deferred state tax benefit from B-21 charge	—	(82)	—	(82)
Other unallocated corporate expense (income)	56	64	145	123
Unallocated corporate expense (income)	\$182	\$(10)	\$452	\$141
Segment operating income (loss)	\$1,136	\$(383)	\$4,253	\$2,760
Segment operating margin rate	11.3%	(3.6)%	11.6%	7.0%

Non-GAAP Reconciliations

MTM-adjusted Net Earnings and EPS

<i>\$ in millions, except per share amounts</i>	Three Months Ended December 31		Year Ended December 31	
	2022	2023	2022	2023
Net earnings	\$2,080	\$(535)	\$4,896	\$2,056
MTM (benefit) expense	(1,232)	422	(1,232)	422
MTM-related deferred state tax expense (benefit) ⁽¹⁾	65	(22)	65	(22)
Federal tax expense (benefit) of items above ⁽²⁾	245	(84)	245	(84)
MTM adjustment, net of tax	(922)	316	(922)	316
MTM-adjusted net earnings	\$1,158	\$(219)	\$3,974	\$2,372
Diluted EPS	\$13.46	\$(3.54)	\$31.47	\$13.53
MTM (benefit) expense per share	(7.97)	2.80	(7.92)	2.78
MTM-related deferred state tax expense (benefit) per share ⁽¹⁾	0.42	(0.15)	0.42	(0.14)
Federal tax expense (benefit) of items above per share ⁽²⁾	1.59	(0.56)	1.57	(0.56)
MTM adjustment per share, net of tax	(5.96)	2.09	(5.93)	2.08
MTM-adjusted EPS	\$7.50	\$(1.45)	\$25.54	\$15.61

1. The deferred state tax impact in each period was calculated using the company's blended state tax rate of 5.25%.

2. The federal tax impact in each period was calculated by subtracting the deferred state tax impact from MTM expense (benefit) and applying the 21% federal statutory rate.

Non-GAAP Reconciliations

Adjusted Free Cash Flow

(\$M)	Three Months Ended December 31			Year Ended December 31		
	2022	2023	▲%	2022	2023	▲%
Net cash provided by operating activities	\$2,251	\$2,430	8%	\$2,901	\$3,875	34%
Capital expenditures	(632)	(803)	27%	(1,435)	(1,775)	24%
Free cash flow	\$1,619	\$1,627	—%	\$1,466	\$2,100	43%
Proceeds from sale of equipment to a customer	55	—	NM	155	—	NM
Adjusted free cash flow	\$1,674	\$1,627	(3)%	\$1,621	\$2,100	30%

NORTHROP
GRUMMAN

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