

# Q4 2020 Earnings Presentation

February 11, 2021

**Mike Petters**

President and Chief Executive Officer

**Chris Kastner**

Executive Vice President and  
Chief Financial Officer

# Forward-Looking Statements

Statements in this presentation, other than statements of historical fact, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those expressed in these statements. Factors that may cause such differences include: changes in government and customer priorities and requirements (including government budgetary constraints, shifts in defense spending, and changes in customer short-range and long-range plans); our ability to estimate our future contract costs and perform our contracts effectively; changes in procurement processes and government regulations and our ability to comply with such requirements; our ability to deliver our products and services at an affordable life cycle cost and compete within our markets; natural and environmental disasters and political instability; our ability to execute our strategic plan, including with respect to share repurchases, dividends, capital expenditures, and strategic acquisitions; adverse economic conditions in the United States and globally; health epidemics, pandemics and similar outbreaks, including the COVID-19 pandemic; changes in key estimates and assumptions regarding our pension and retiree health care costs; security threats, including cyber security threats, and related disruptions; and other risk factors discussed in our filings with the U.S. Securities and Exchange Commission. There may be other risks and uncertainties that we are unable to predict at this time or that we currently do not expect to have a material adverse effect on our business, and we undertake no obligation to update any forward-looking statements. You should not place undue reliance on any forward-looking statements that we may make. This presentation also contains non-GAAP financial measures and includes a GAAP reconciliation of these financial measures. Non-GAAP financial measures should not be construed as being more important than comparable GAAP measures.

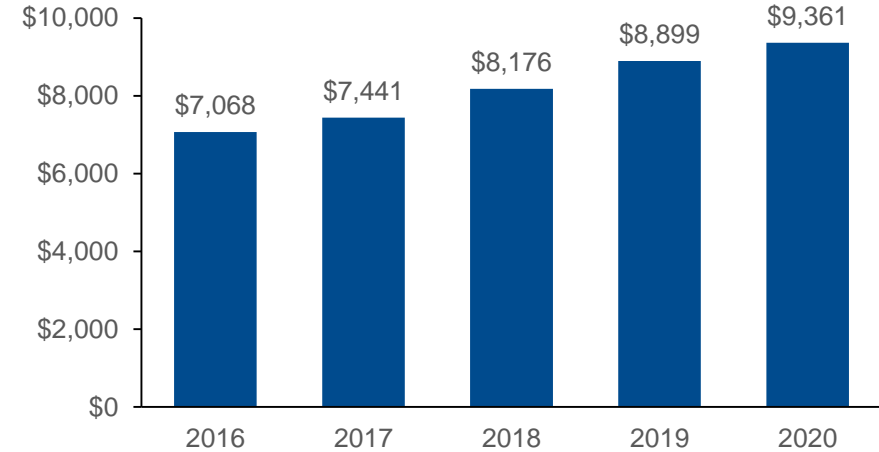


# HII Q4 & FY 2020 Highlights

- Revenues were ~\$2.8 billion in the quarter; ~\$9.4 billion in 2020
- Diluted EPS was \$6.15 in the quarter; \$17.14 in 2020
- Cash from operations was \$1.1 billion and free cash flow<sup>1</sup> was \$757 million in 2020
- Total backlog at the end of 2020 was \$46.0 billion
  
- Ingalls Shipbuilding
  - Delivered *Legend*-class National Security Cutter *Stone* (NSC 9)
  
- Newport News Shipbuilding
  - Awarded a \$2.2 billion construction contract for six module sections for each of the first two *Columbia*-class submarines
  - Authenticated the keel of *Virginia*-class submarine *Massachusetts* (SSN 798)
  - *John F. Kennedy* (CVN 79) is approximately 78% complete
  - RCOH of USS *George Washington* (CVN 73) is approximately 85% complete
  
- Technical Solutions
  - Acquired the autonomy business of Spatial Integrated Systems Inc., further expanding HII's unmanned systems capabilities with a highly skilled team and proven unmanned surface vessel solutions
  - Delivered new REMUS 100 Unmanned Underwater Vehicles to the German Navy

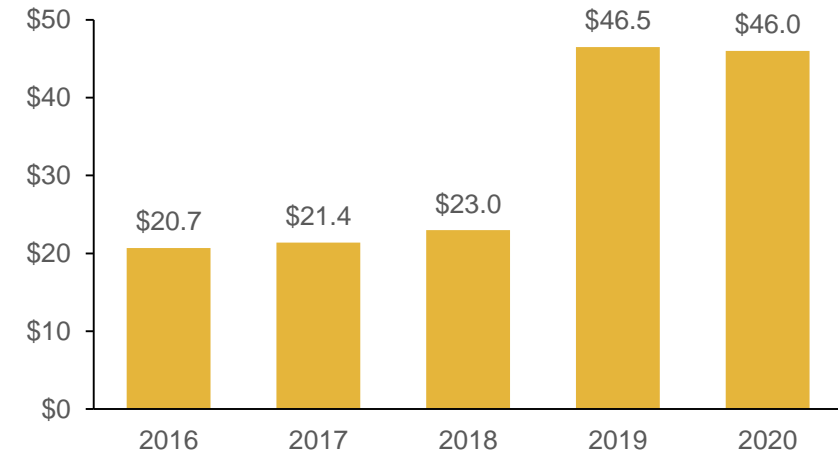
## Consolidated Revenue

(\$M)



## Backlog

(\$B)



Entering 2021 with strong operating momentum



HARD STUFF DONE RIGHT

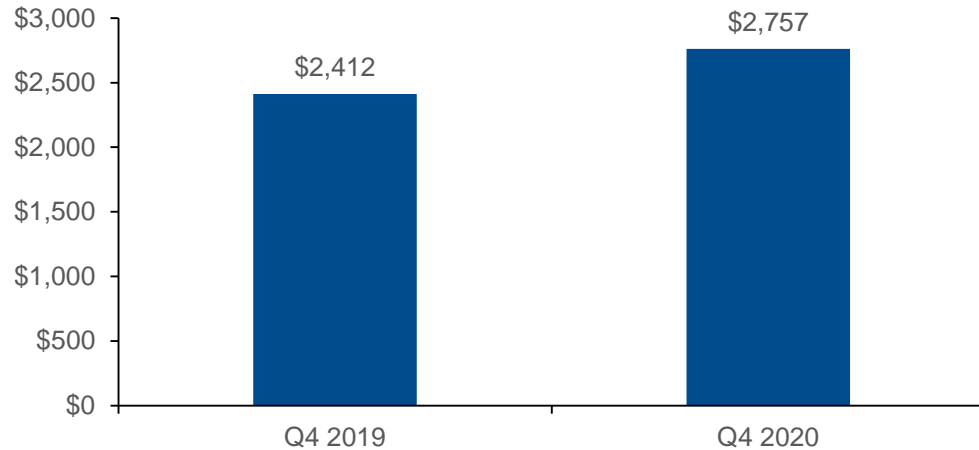
<sup>1</sup>Non-GAAP measure. See appendix for definition and reconciliation.



# HII Q4 2020 Consolidated Results

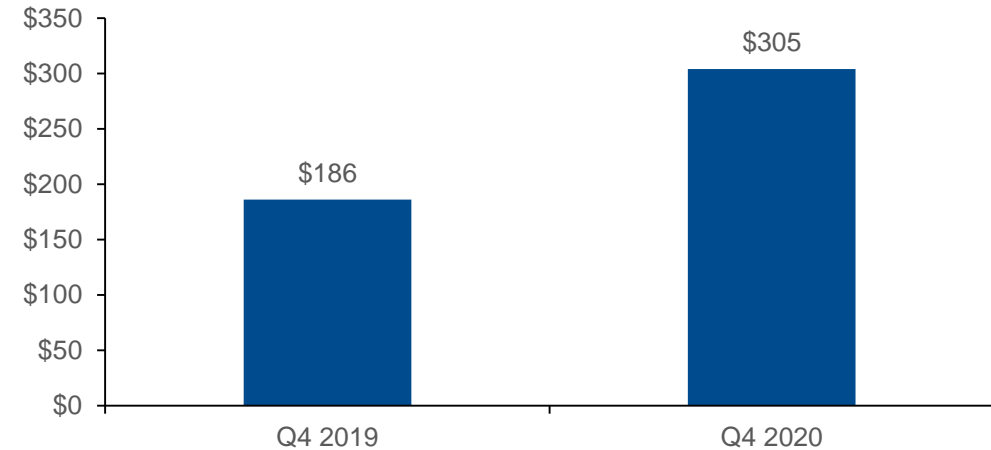
## Consolidated Revenues

(\$M)

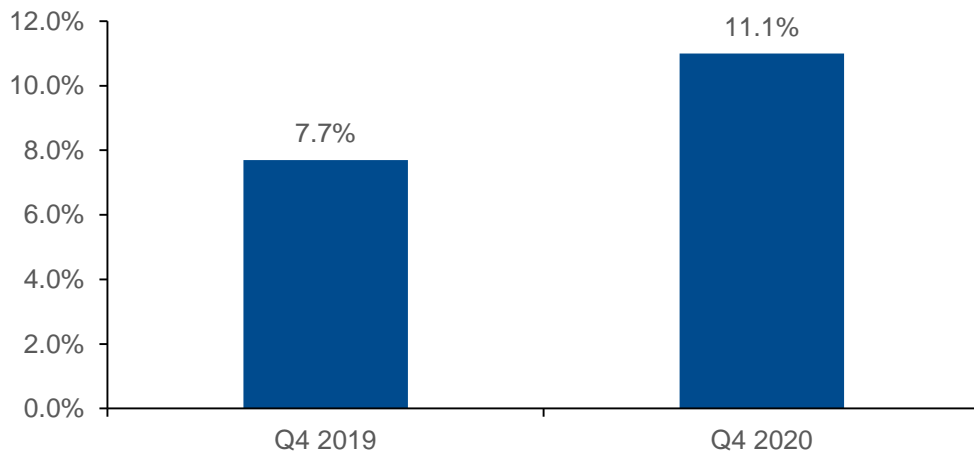


## Operating Income

(\$M)



## Operating Margin



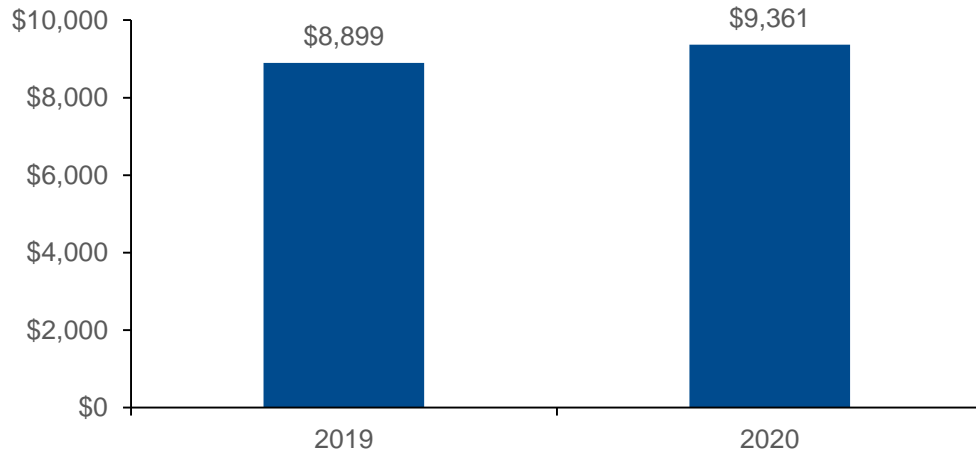
- Revenues improved YoY due primarily to growth at Newport News Shipbuilding
- Operating income improved YoY due to higher risk retirement at Ingalls, improved performance in Technical Solutions and a more favorable operating FAS/CAS adjustment



# HII FY 2020 Consolidated Results

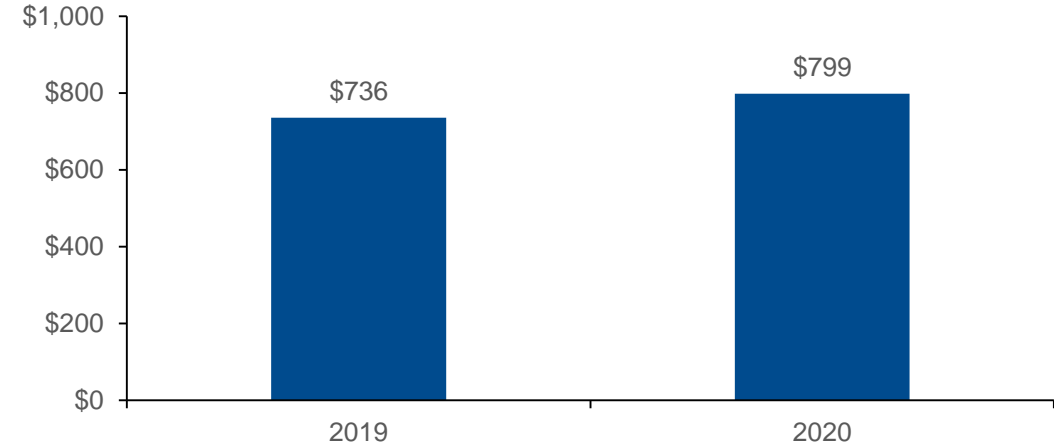
## Consolidated Revenues

(\$M)

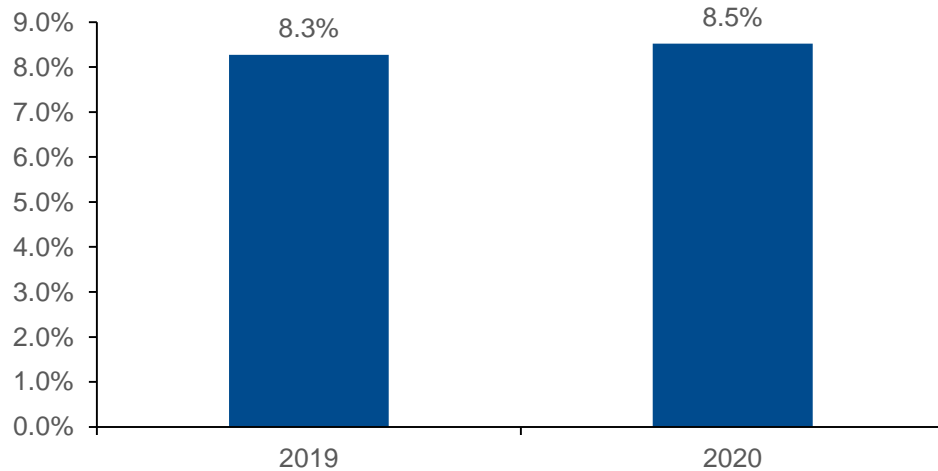


## Operating Income

(\$M)



## Operating Margin



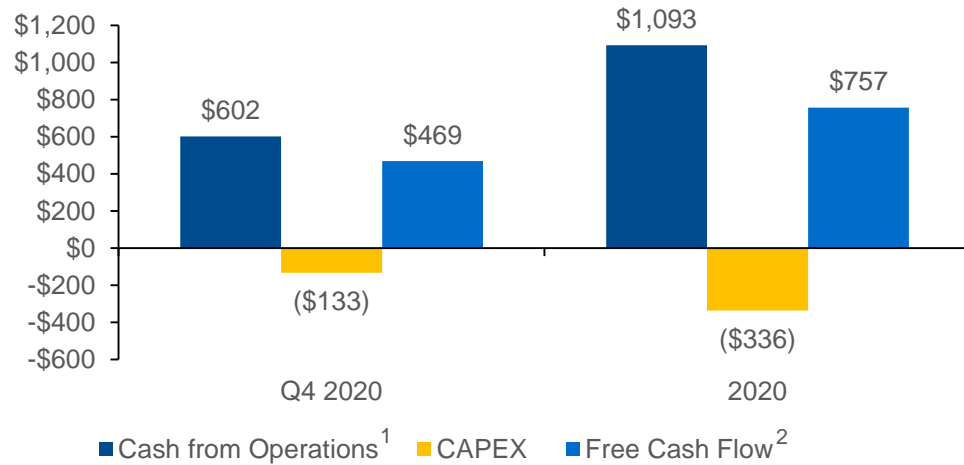
- Revenues improved YoY due to growth at all divisions, particularly Newport News Shipbuilding, which had growth in aircraft carrier, submarine and fleet support
- Operating income improved YoY due to a more favorable operating FAS/CAS adjustment, partially offset by lower segment operating income



# Capital Deployment

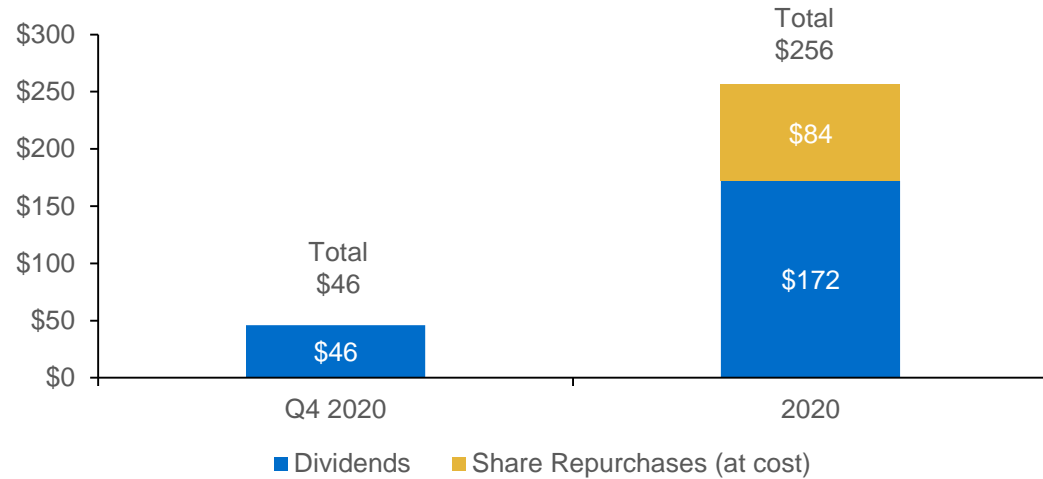
## Cash Flow Generation

(\$M)



## Shareholder Distributions

(\$M)



- Cash balance of \$512 million and liquidity of \$2.2 billion at year-end 2020
- Capital expenditures were 3.6% of revenues in 2020
- Cash contributions to pension and other postretirement benefit plans were \$246 million in 2020
  - \$205 million were discretionary contributions to our qualified pension plans
- Distributed \$256 million to shareholders in 2020 via dividends and share repurchases
- No shares repurchased during Q4 2020; reinitiated share repurchases in Q1 2021

<sup>1</sup>2020 operating cash flow reflects the receipt of approximately \$160 million of net accelerated progress payments due to the U.S. Government's increase in the progress payment rate from 80 percent to 90 percent and the deferral of approximately \$130 million for the employer portion of payroll taxes to 2021 and 2022 pursuant to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The corporation used the accelerated progress payments from the U.S. Government plus cash on hand to accelerate payments to its suppliers, including payments to its small business partners ahead of their terms totaling approximately \$420 million in 2020.

<sup>2</sup>Non-GAAP measure. See appendix for definition and reconciliation.



# 2021-2025 Pension Outlook Table<sup>1</sup>

(\$ in millions)	2020 (Actual)	2021	2022	2023	2024	2025
Pension Discount Rate	3.39%	2.80% Change from prior est. (13)bps	2.80% Change from prior est. (59)bps	2.80% Change from prior est. (59)bps	2.80% Change from prior est. (59)bps	2.80% Change from prior est. N/A
Expected Long-Term Return on Assets	7.25%	7.25% N/A	7.25% N/A	7.25% N/A	7.25% N/A	7.25% N/A
CAS Recoveries over/(under) Cash Contributions <sup>2,3</sup>	\$191	(\$55) (\$1)	\$2 (\$23)	\$30 (\$11)	\$18 \$6	(\$27) N/A
FAS Benefit (Expense) <sup>2</sup>	(\$70)	(\$28) \$83	(\$12) \$37	\$18 \$39	\$44 \$37	\$72 N/A
CAS Expense <sup>2</sup>	\$437	\$46 (\$1)	\$46 (\$14)	\$77 (\$39)	\$99 (\$28)	\$53 N/A
FAS/CAS Adjustment <sup>2</sup>	\$367	\$18 \$82	\$34 \$23	\$95 \$0	\$143 \$9	\$125 N/A
Operating FAS/CAS Adjustment <sup>2</sup>	\$248	(\$163) (\$5)	(\$162) (\$40)	(\$125) (\$65)	(\$99) (\$56)	(\$139) N/A
Non-Operating Retirement Income <sup>2</sup>	\$119	\$181 \$87	\$196 \$63	\$220 \$65	\$242 \$65	\$264 N/A
Pension and Post-retirement Benefits Cash Contributions <sup>3</sup>	\$246	\$101 N/A	\$44 \$9	\$47 (\$28)	\$81 (\$34)	\$80 N/A

<sup>1</sup> Projected and subject to change.

<sup>2</sup> Includes pension and other postretirement benefits.

<sup>3</sup> 2020 cash contributions of \$246 million include \$213 million of discretionary pension contributions (\$205 million qualified; \$8 million non-qualified) and \$33 million of other post retirement benefits contributions.

2021 projected cash contributions of \$101 million include \$68 million of discretionary pension contributions (\$60 million qualified; \$8 million non-qualified) and \$33 million of other post retirement benefits contributions.



# Financial Outlook

## Operating Margin

- Q1 2021 Technical Solutions Operating Margin below the low-end of annual guidance range; consistent with normal quarterly pacing

## Free Cash Flow<sup>2</sup>

- Continue to project ~\$3B of FCF FY20-24
- FY21 impacted by net pension cash headwind and reversal of FY20 COVID related benefits, including progress payment acceleration and payroll tax deferral

## COVID-19

- No assumption for COVID-19 recovery

## 2021 Outlook<sup>1</sup>

	2021 Outlook
Shipbuilding Revenue <sup>2</sup>	\$8.2B - \$8.4B
Shipbuilding Operating Margin <sup>2</sup>	7.0% - 8.0%
Technical Solutions Revenue <sup>3</sup>	~\$1.0B
Technical Solutions Segment Operating Margin <sup>2,3</sup>	3.0% - 5.0%
Technical Solutions EBITDA Margin <sup>2,3</sup>	7.0% - 9.0%
Operating FAS/CAS Adjustment	(\$163M)
Non-current State Income Tax Expense	~(\$5M)
Interest Expense	(\$72M)
Non-operating Retirement Benefit	\$181M
Effective Tax Rate	~22%
Depreciation & Amortization	~\$260M
Capital Expenditures	~3.5% of Sales
Free Cash Flow <sup>2</sup>	\$150M - \$250M

<sup>1</sup> The financial outlook, expectations and other forward looking statements provided by the company for 2021 and beyond, reflect the company's judgment based on the information available at the time of this release. The COVID-19 global pandemic has had wide ranging effects on the global health environment and disrupted the global and U.S. economies and financial markets, including impacts to our employees, customers, suppliers, and communities. The pandemic is also impacting our operations, and the full impacts of COVID-19 on our fiscal year 2021 financial results and beyond are uncertain. We believe that the most significant elements of uncertainty are the intensity and duration of the impact on our employees' ability to work effectively, disruption in our supply chain, disruption of the U.S. Government's and our other customers' abilities to perform their obligations, and impact on pension assets and other investment performance. We have incurred and expect to continue incurring costs related to our COVID-19 response, including paid leave, quarantining employees and recurring facility cleaning. While our shipyards and other facilities remain open and productive, we experienced temporary decreases in workforce attendance, which impacted our operations due to delay and disruption from the lack of availability of critical skills and out-of-sequence work. As of December 31, 2020, workforce attendance has returned to standard rates. For further information on the potential impact of COVID-19 to the company, see "Risk Factors" in our 2020 Form 10-K.

<sup>2</sup> Non-GAAP measure. See appendix for definition.

<sup>3</sup> Includes results for the month of January 2021 for Universal Pegasus International and San Diego Shipyard.



# FY20-24 Cumulative Free Cash Flow<sup>1</sup> of ~\$3B

- Consistent top-line growth, combined with margin expansion in both Shipbuilding and Technical Solutions
  - Long-term ~3% Shipbuilding revenue CAGR
  - FY22 shipbuilding operating margin expected in the low 8% range with steady improvement in subsequent years as Newport News programs mature
  - Technical Solutions revenue CAGR of 4-5%, EBITDA margins expand to 8-10% by FY24
- Capital expenditures decline to ~3.5% of sales in FY21; ~2.5% of sales in FY22 and beyond
- Insignificant net pension cash flow impact in FY22-24<sup>2</sup>
- Continued strong working capital management driven by ship deliveries starting in FY22

<sup>1</sup>Non-GAAP measure. See appendix for definition and reconciliation.

<sup>2</sup>See "CAS Recoveries over/(under) Cash Contributions" on slide 7

# Upcoming Program Milestones<sup>1</sup>

- 2021

- Ingalls

- Complete sea trials DDG 121 (*Frank E. Petersen Jr.*)
- Launch DDG 125 (*Jack H. Lucas*)
- Complete sea trials LPD 28 (*Fort Lauderdale*)

- Newport News

- Pier-side system testing on CVN 73 (*USS George Washington*)
- Re-deliver SSN 725 (*Helena*)
- Deliver SSN 794 (*Montana*)
- Float off SSN 796 (*New Jersey*)
- Ship final module of SSN 797 (*Iowa*)

- 2022

- Ingalls

- Deliver DDG 121 (*Frank E. Petersen Jr.*)
- Complete sea trials and deliver DDG 123 (*Lenah H. Sutcliffe Higbee*)
- Complete sea trials DDG 125 (*Jack H. Lucas*)
- Deliver LPD 28 (*Fort Lauderdale*)
- Launch LPD 29 (*Richard M. McCool Jr.*)

- Newport News

- Re-deliver CVN 73 (*USS George Washington*)
- Deliver SSN 796 (*New Jersey*)

<sup>1</sup>All milestones based upon current expectations and subject to change based upon future events.  
List is alphabetical by program designation.

# Appendix

# Non-GAAP Measures Definitions

We make reference to “segment operating income,” “segment operating margin,” “shipbuilding revenue,” “shipbuilding operating margin,” “Technical Solutions EBITDA margin,” and “free cash flow.”

We internally manage our operations by reference to segment operating income and segment operating margin, which are not recognized measures under GAAP. When analyzing our operating performance, investors should use segment operating income and segment operating margin in addition to, and not as alternatives for, operating income and operating margin or any other performance measure presented in accordance with GAAP. They are measures that we use to evaluate our core operating performance. We believe that segment operating income, segment operating margin and shipbuilding operating margin reflect an additional way of viewing aspects of our operations that, when viewed with our GAAP results, provide a more complete understanding of factors and trends affecting our business. We believe these measures are used by investors and are a useful indicator to measure our performance. Because not all companies use identical calculations, our presentation of segment operating income and segment operating margin may not be comparable to similarly titled measures of other companies.

Shipbuilding revenue, shipbuilding operating margin and Technical Solutions EBITDA margin are not measures recognized under GAAP. They should be considered supplemental to and not a substitute for financial information prepared in accordance with GAAP. They may not be comparable to similarly titled measures of other companies.

Free cash flow is not a measure recognized under GAAP. Free cash flow has limitations as an analytical tool and should not be considered in isolation from, or as a substitute for, analysis of our results as reported under GAAP. We believe free cash flow is an important measure for our investors because it provides them insight into our current and period-to-period performance and our ability to generate cash from continuing operations. We also use free cash flow as a key operating metric in assessing the performance of our business and as a key performance measure in evaluating management performance and determining incentive compensation. Free cash flow may not be comparable to similarly titled measures of other companies.



# Non-GAAP Measures Definitions Cont'd

**Segment operating income (loss)** is defined as operating income (loss) for the relevant segment(s) before the Operating FAS/CAS Adjustment and non-current state income taxes.

**Segment operating margin** is defined as segment operating income (loss) as a percentage of sales and service revenues.

**Shipbuilding revenue** is defined as the combined sales and service revenues from our Newport News Shipbuilding segment and Ingalls Shipbuilding segment.

**Shipbuilding operating margin** is defined as the combined segment operating income of our Newport News Shipbuilding segment and Ingalls Shipbuilding segment as a percentage of shipbuilding revenue.

**Technical Solutions EBITDA margin** is defined as Technical Solutions segment operating income before interest expense, income taxes, depreciation, and amortization as a percentage of Technical Solutions revenues.

**Free cash flow** is defined as net cash provided by (used in) operating activities less capital expenditures net of related grant proceeds.

**Operating FAS/CAS Adjustment** is defined as the difference between the service cost component of our pension and other postretirement expense determined in accordance with GAAP (FAS) and our pension and other postretirement expense under U.S. Cost Accounting Standards (CAS).

**Non-current state income taxes** are defined as deferred state income taxes, which reflect the change in deferred state tax assets and liabilities and the tax expense or benefit associated with changes in state uncertain tax positions in the relevant period. These amounts are recorded within operating income. Current period state income tax expense is charged to contract costs and included in cost of sales and service revenues in segment operating income.





# Non-GAAP Reconciliations – Segment Operating Income & Segment Operating Margin

(\$ in millions)	Three Months Ended		Year Ended	
	December 31		December 31	
	2020	2019	2020	2019
Ingalls revenues	752	702	2,678	2,555
Newport News revenues	1,750	1,399	5,571	5,231
Technical Solutions revenues	311	350	1,268	1,237
Intersegment eliminations	(56)	(39)	(156)	(124)
Sales and Service Revenues	2,757	2,412	9,361	8,899
Operating Income	305	186	799	736
Operating FAS/CAS Adjustment	(62)	(30)	(248)	(124)
Non-current state income taxes	(1)	17	4	19
Segment Operating Income	242	173	555	631
<i>As a percentage of sales and service revenues</i>	8.8 %	7.2 %	5.9 %	7.1 %
Ingalls segment operating income	96	59	281	235
<i>As a percentage of Ingalls revenues</i>	12.8 %	8.4 %	10.5 %	9.2 %
Newport News segment operating income	128	137	233	410
<i>As a percentage of Newport News revenues</i>	7.3 %	9.8 %	4.2 %	7.8 %
Technical Solutions segment operating income	18	(23)	41	(14)
<i>As a percentage of Technical Solutions revenues</i>	5.8 %	(6.6)%	3.2 %	(1.1)%



# Non-GAAP Reconciliations – Shipbuilding Revenues & Operating Margin

(\$ in millions)	Three Months Ended		Year Ended	
	December 31		December 31	
	2020	2019	2020	2019
Sales and service revenues	2,757	2,412	9,361	8,899
Technical Solutions	(311)	(350)	(1,268)	(1,237)
Intersegment eliminations	56	39	156	124
Shipbuilding Revenues	2,502	2,101	8,249	7,786
Operating Income	305	186	799	736
Operating FAS/CAS Adjustment	(62)	(30)	(248)	(124)
Non-current state income taxes	(1)	17	4	19
Segment Operating Income	242	173	555	631
Technical Solutions	(18)	23	(41)	14
Shipbuilding Operating Income	224	196	514	645
<i>As a percentage of Shipbuilding revenues</i>	9.0 %	9.3 %	6.2 %	8.3 %



## Non-GAAP Reconciliations – Free Cash Flow

<i>(\$ in millions)</i>	Three Months Ended December 31		Year Ended December 31	
	2020	2019	2020	2019
Net cash provided by operating activities	602	566	1,093	896
Less capital expenditures:				
Capital expenditure additions	(133)	(181)	(353)	(530)
Grant proceeds for capital expenditures	-	23	17	94
Free cash flow	469	408	757	460



