



Q1 2019 Earnings Presentation

May 2, 2019

Mike Petters

President and Chief Executive Officer

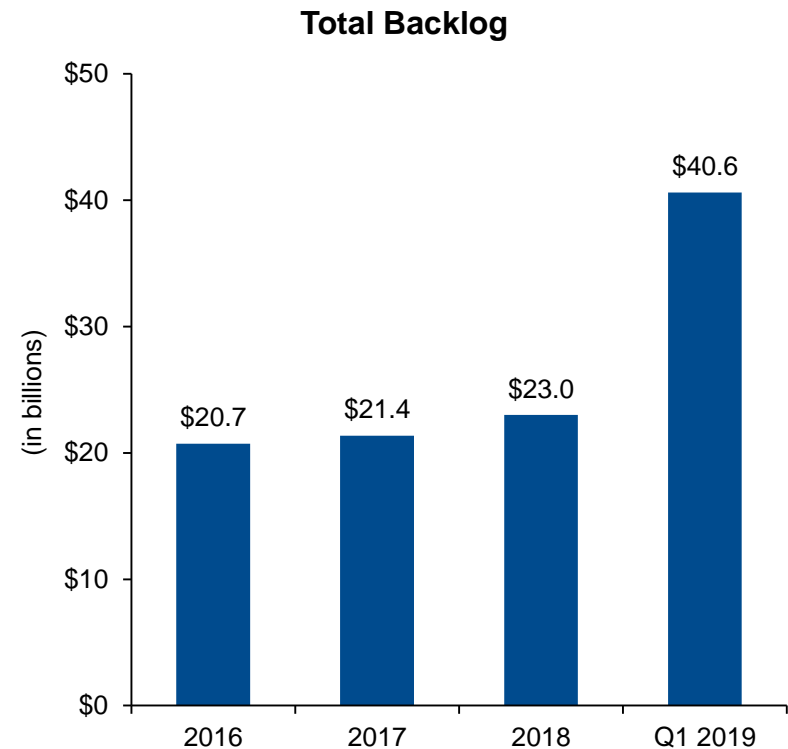
Chris Kastner

Executive Vice President, Business Management and Chief Financial Officer

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; 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.



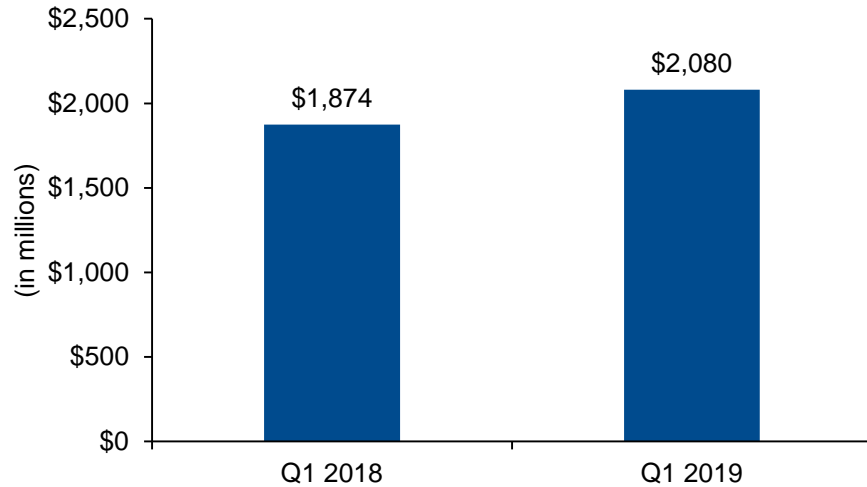
- Revenues were \$2.1 billion in the quarter
- Diluted EPS was \$2.85 in the quarter
- Total backlog at the end of the quarter was \$40.6 billion; new contract awards in the quarter totaled \$19.6 billion
- Ingalls Shipbuilding
 - Awarded \$1.5 billion detail design and construction contract for LPD 30
- Newport News Shipbuilding
 - Awarded \$15.2 billion contract for CVN 80 and CVN 81
 - Achieved 91% structural completion on *John F. Kennedy* (CVN 79)
- Technical Solutions
 - Completed acquisition of Fulcrum IT Services
 - Backlog grew to \$1.0 billion



Achieved record backlog of ~\$41 billion

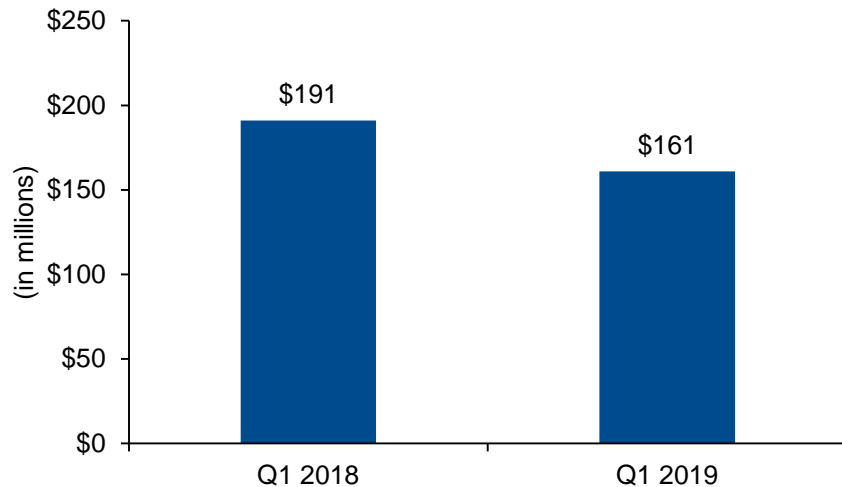


Revenues

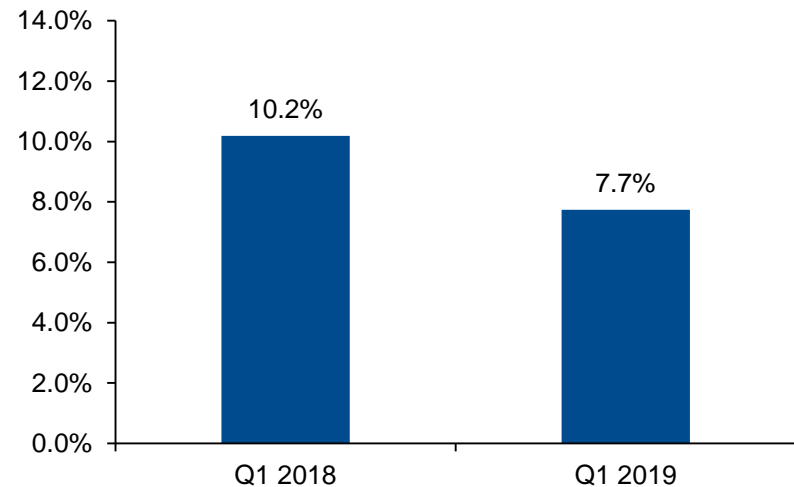


- HII's revenues up 11.0% YOY due to higher volume at Newport News and growth at Technical Solutions driven by recent acquisitions
- HII's operating income and margin declined YOY due to an unfavorable change in operating FAS/CAS adjustment and lower risk retirement at Ingalls

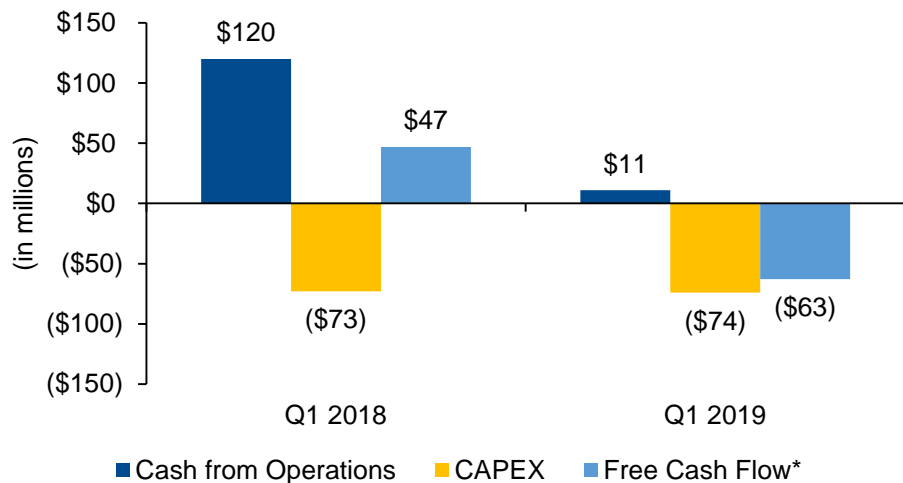
Operating Income



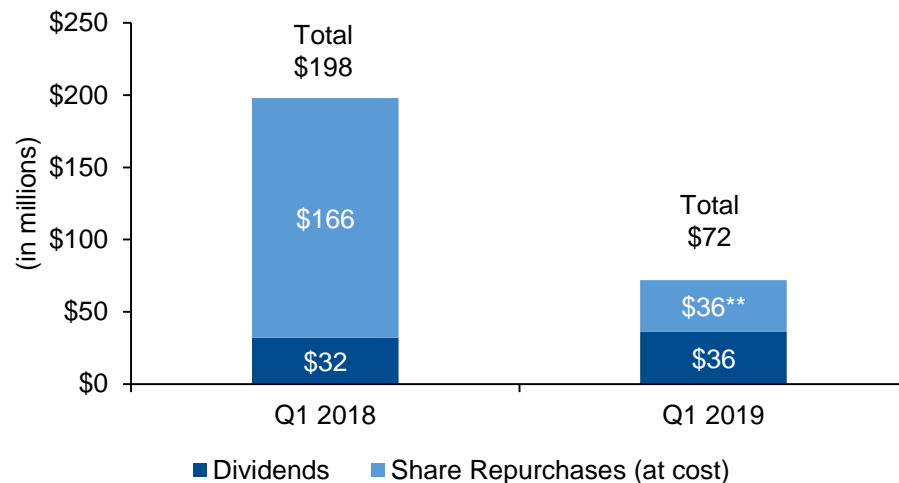
Operating Margin



Cash Flow Generation



Shareholder Distributions



- Made capital expenditures, net of related grant proceeds, of \$74 million or 3.6% of revenues in the quarter
- Made cash contributions of \$10 million to pension and postretirement benefit plans in the quarter
- Distributed \$72 million to shareholders in the quarter
 - Repurchased 184 thousand shares at a cost of \$36 million
 - Paid dividends of \$36 million

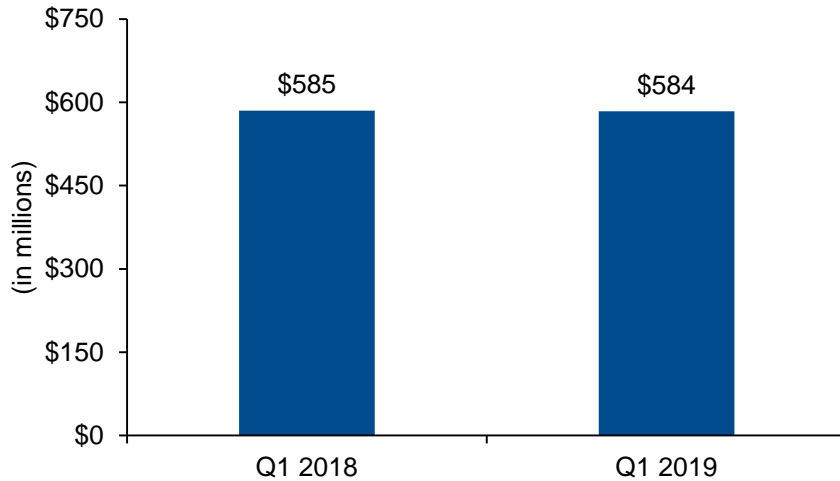
*Non-GAAP measure. See appendix for definition and reconciliation.

** \$84 million cash paid for repurchases includes \$48 million not yet settled for cash in the prior year



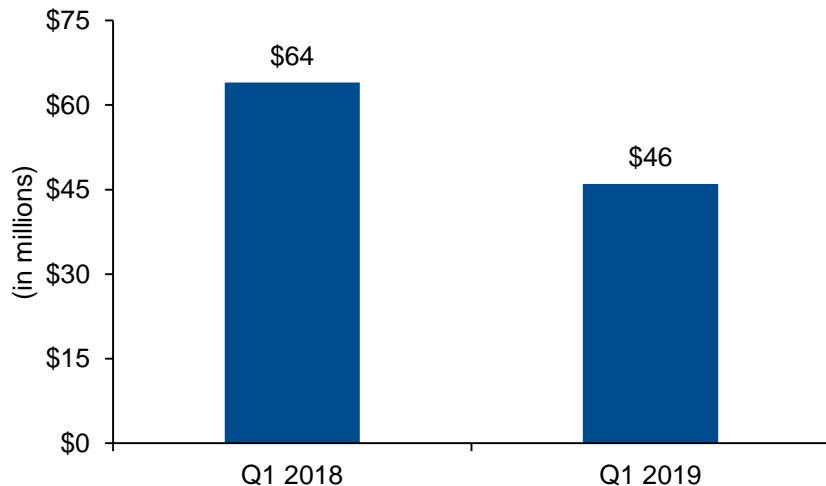
Ingalls Shipbuilding Q1 2019 Results

Revenues

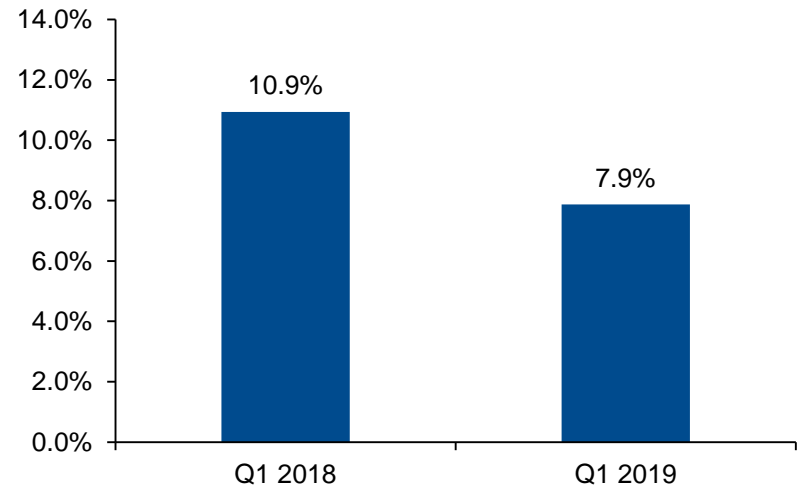


- Ingalls revenues flat YOY due to lower volumes on the DDG program, offset by higher volumes on the LPD, LHA and NSC programs
- Ingalls segment operating income and margin down YOY due to lower risk retirement on the LPD program, partially offset by one-time bonus payments in 2018 related to tax reform

Segment Operating Income*



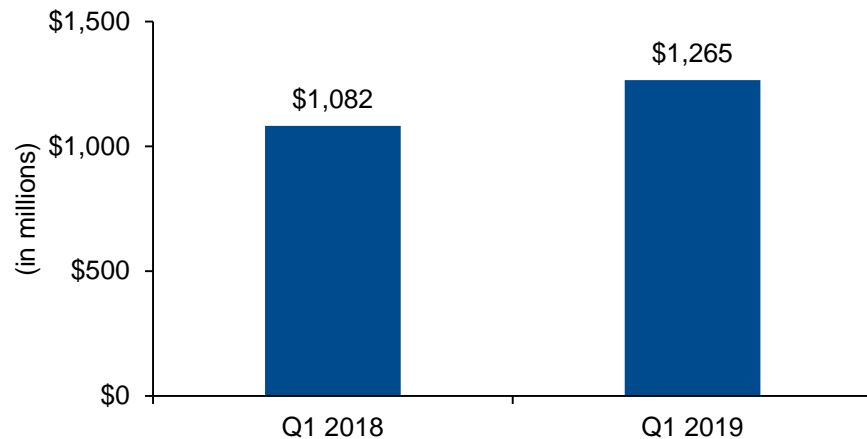
Segment Operating Margin*



*Non-GAAP measure. See appendix for definition and reconciliation.

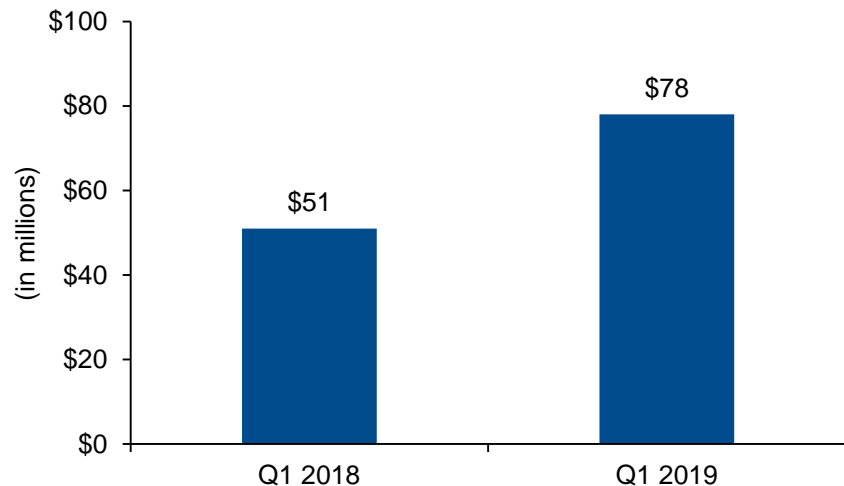
Newport News Shipbuilding Q1 2019 Results

Revenues

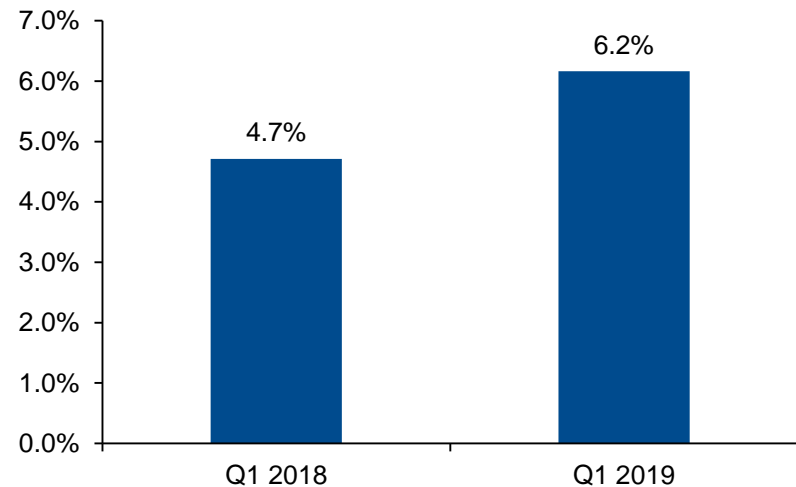


- Newport News revenues up 16.9% YOY due to higher volume in aircraft carriers, Navy nuclear support services and submarines
- Newport News segment operating income and margin up YOY due to higher volumes noted above and one-time bonus payments in 2018 related to tax reform

Segment Operating Income*



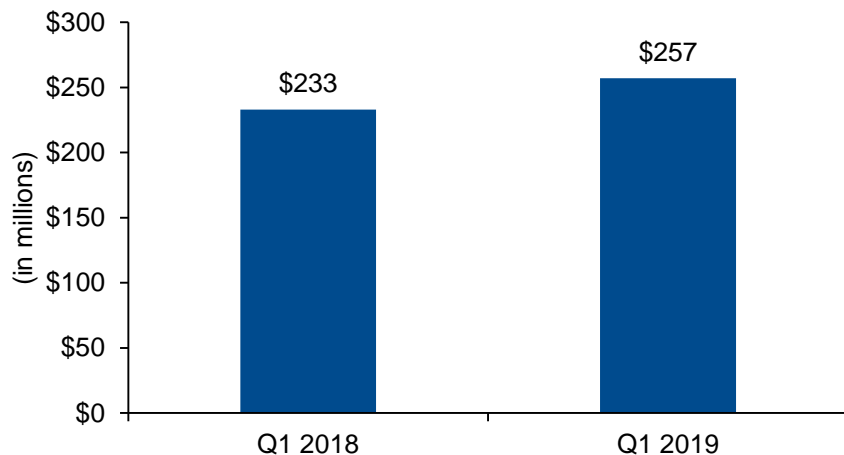
Segment Operating Margin*



*Non-GAAP measure. See appendix for definition and reconciliation.

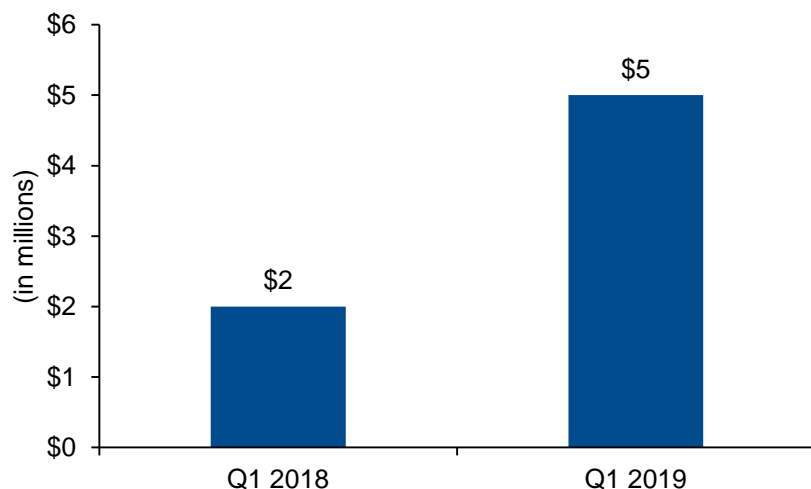


Revenues

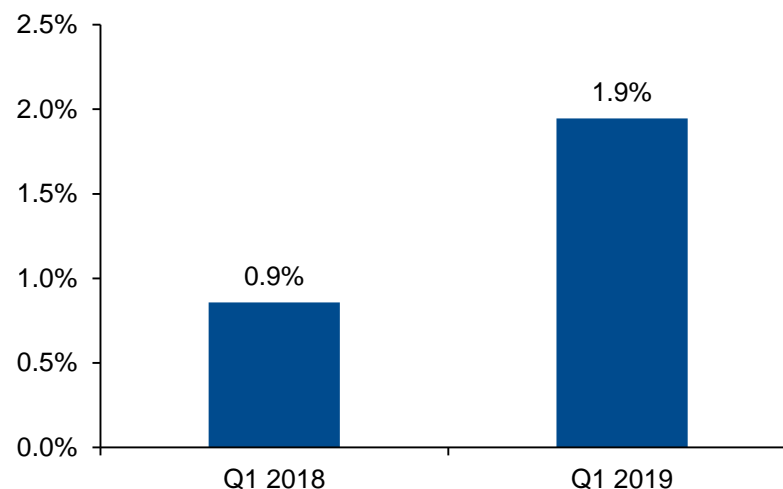


- Technical Solutions revenues up 10.3% YOY due to higher mission driven innovative solutions revenues following the acquisitions of G2 and Fulcrum, as well as higher oil and gas revenues, partially offset by lower fleet support revenues
- Technical Solutions segment operating income and margin up YOY primarily due to higher equity income from nuclear and environmental JVs and one-time bonus payments in 2018 related to tax reform

Segment Operating Income*



Segment Operating Margin*



*Non-GAAP measure. See appendix for definition and reconciliation.



Appendix



Non-GAAP Measures Definitions

We make reference to “segment operating income,” “segment operating 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 and segment 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.

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 is defined as operating income 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 as a percentage of sales and service revenues.

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

FAS/CAS Adjustment is defined as the difference between expenses for pension and other postretirement benefits determined in accordance with GAAP (FAS) and the expenses determined in accordance with U.S. Cost Accounting Standards (CAS).

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.

We present financial measures adjusted for the Operating FAS/CAS Adjustment and non-current state income taxes to reflect the company's performance based upon the pension costs and state tax expense charged to our contracts under CAS. We use these adjusted measures as internal measures of operating performance and for performance-based compensation decisions.



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

(\$ in millions)	Three Months Ended	
	March 31	
	2019	2018
Ingalls revenues	584	585
Newport News revenues	1,265	1,082
Technical Solutions revenues	257	233
Intersegment eliminations	(26)	(26)
Sales and Service Revenues	2,080	1,874
Operating Income	161	191
Operating FAS/CAS Adjustment	(34)	(72)
Non-current state income taxes	2	(2)
Segment Operating Income	129	117
<i>As a percentage of sales and service revenues</i>	6.2 %	6.2 %
Ingalls operating income	46	64
<i>As a percentage of Ingalls revenues</i>	7.9 %	10.9 %
Newport News operating income	78	51
<i>As a percentage of Newport News revenues</i>	6.2 %	4.7 %
Technical Solutions operating income	5	2
<i>As a percentage of Technical Solutions revenues</i>	1.9 %	0.9 %



Non-GAAP Reconciliation – Free Cash Flow

<i>(\$ in millions)</i>	Three Months Ended March 31	
	2019	2018
Net cash provided by operating activities	11	120
Less capital expenditures:		
Capital expenditure additions	(110)	(75)
Grant proceeds for capital expenditures	36	2
Free cash flow	<u>(63)</u>	<u>47</u>





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