Raytheon

*Customer Success Is Our Mission*


# Fourth Quarter 2015 Conference Call

## January 28, 2016

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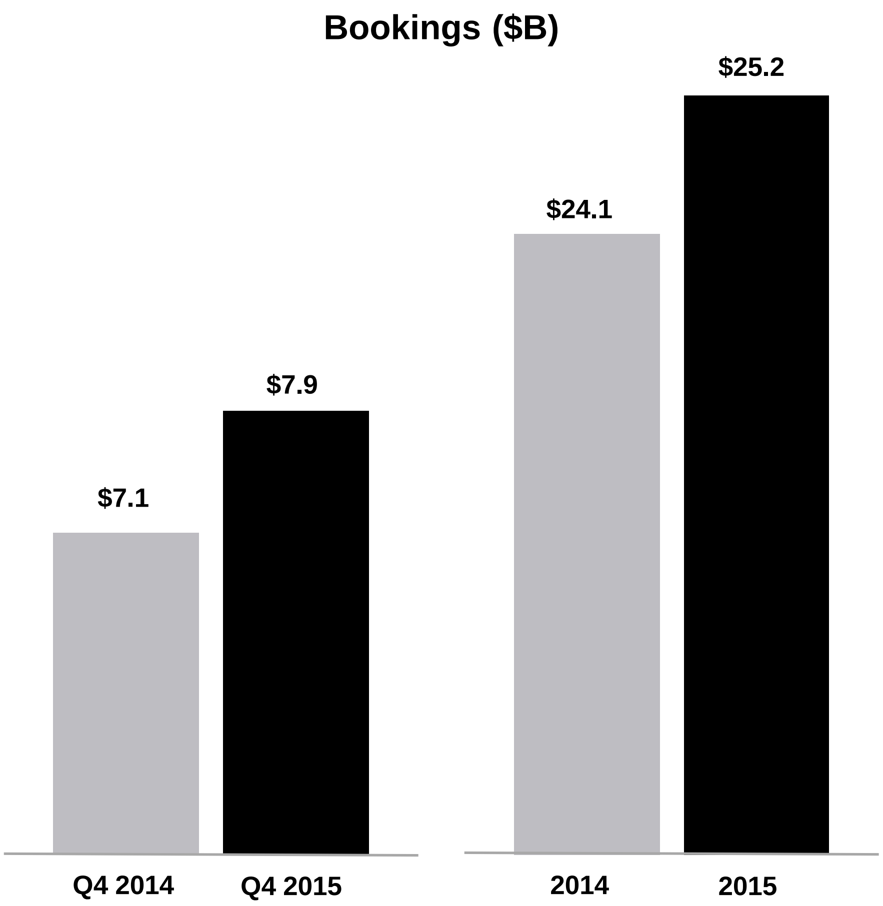
# Forward-Looking Statements

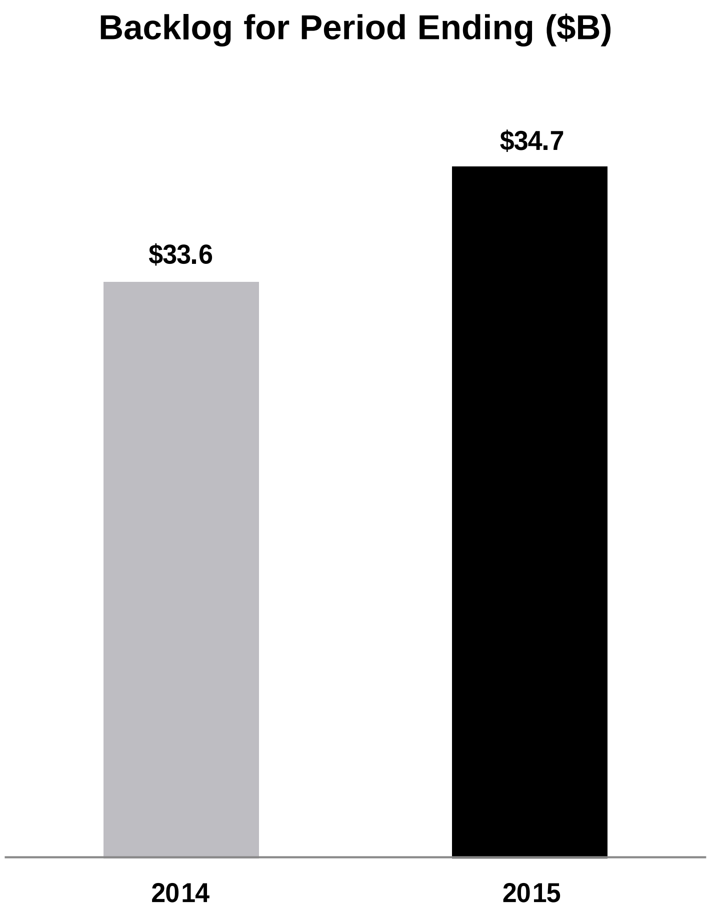
**This presentation contains forward-looking statements, including information regarding the Company's financial outlook, future plans, objectives, business prospects and anticipated financial performance. These forward-looking statements are not statements of historical facts and represent only the Company's current expectations regarding such matters. These statements inherently involve a wide range of known and unknown risks and uncertainties. The Company's actual actions and results could differ materially from what is expressed or implied by these statements. Specific factors that could cause such a difference include, but are not limited to: the Company's dependence on the U.S. Government for a significant portion of its business and the risks associated with U.S. Government sales, including changes or shifts in defense spending due to budgetary constraints, spending cuts resulting from sequestration, a government shutdown, or otherwise, uncertain funding of programs, potential termination of contracts, and difficulties in contract performance; the resolution of program terminations; the ability to procure new contracts; the risks of conducting business in foreign countries; the unpredictability of timing of international bookings; the ability to comply with extensive governmental regulation and obtain approvals, including export and import requirements such as the International Traffic in Arms Regulations and the Export Administration Regulations, anti-bribery and anti-corruption requirements including the Foreign Corrupt Practices Act, industrial cooperation agreement obligations, and procurement and other regulations; changes in government procurement practices; the impact of competition; the ability to develop products and technologies; the impact of potential security and cyber threats, and other disruptions; the ability to recruit and retain qualified personnel; the risk that actual pension returns, discount rates or other actuarial assumptions are significantly different than the Company's assumptions; the risk of cost overruns, particularly for the Company's fixed-price contracts; dependence on component availability, subcontractor and partner performance and key suppliers; risks of a negative government audit; the use of accounting estimates in the Company's financial statements; risks associated with acquisitions, dispositions, joint ventures and other business arrangements; risks of an impairment of goodwill or other intangible assets; the outcome of contingencies and litigation matters, including government investigations; the impact of financial markets and global economic conditions; the risk of environmental liabilities; and other factors as may be detailed from time to time in the Company's public announcements and Securities and Exchange Commission filings. The Company undertakes no obligation to make any revisions to the forward-looking statements contained in this release and the attachments or to update them to reflect events or circumstances occurring after the date of this release, including any acquisitions, dispositions or other business arrangements that may be announced or closed after such date. This presentation may contain non-GAAP financial measures. In such event, a GAAP reconciliation and a discussion of the Company's use of these measures are included in the attachments to the press release.**

# Fourth Quarter and Full-Year 2015 Highlights

- Strong bookings of $7.9 billion in the quarter and $25.2 billion for the year; book-to-bill ratio of 1.09 for the year
- Fourth quarter net sales of $6.3 billion, up 3 percent; full-year net sales of $23.2 billion, up 2 percent
- Fourth quarter EPS from continuing operations of $1.85; full-year EPS from continuing operations of $6.75
- Solid operating cash flow from continuing operations of $813 million in the quarter and $2.3 billion for the year after a $200 million pretax discretionary pension plan contribution in the fourth quarter

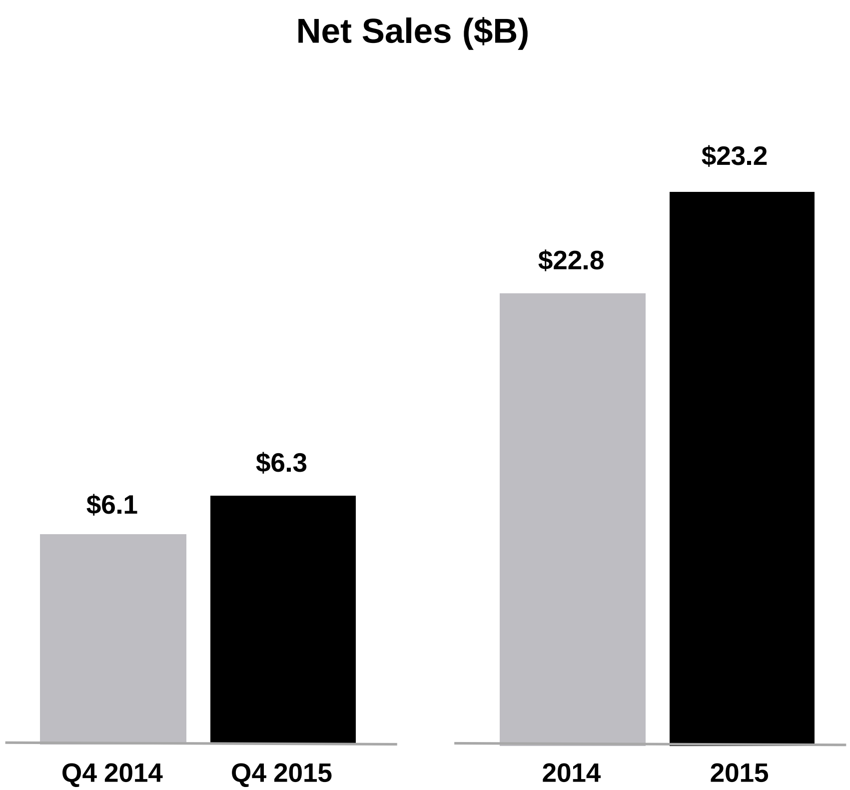
# Total Company Bookings and Backlog




**Book-to-bill ratio of 1.24 in Q4 2015 and 1.09 for full-year 2015**

# Total Company Net Sales(1)




**Fourth Quarter Net Sales ($M)**

| | Q4 2014 | Q4 2015 | % Change |
|---|---|---|---|
| IDS | $1,627 | $1,711 | 5% |
| IIS | 1,517 | 1,427 | -6% |
| MS | 1,719 | 1,879 | 9% |
| SAS | 1,660 | 1,576 | -5% |
| Forcepoint™(FP) (2) | 23 | 133 | NM |
| Eliminations | (403) | (374) | NM |
| **Total Business Segment** | **$6,143** | **$6,352** | **3%** |
| **FP Deferred Revenue Adjustment(3)** | **-** | **($24)** | **NM** |
| **Total** | **$6,143** | **$6,328** | **3%** |

**Full-Year Net Sales ($M)**

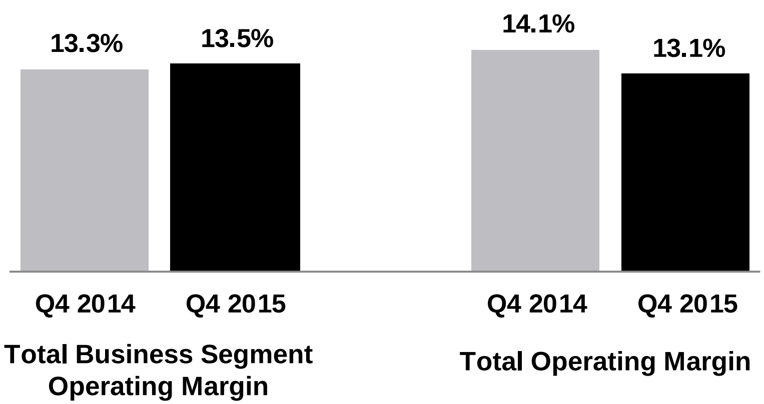
| | 2014 | 2015 | % Change |
|---|---|---|---|
| IDS | $6,085 | $6,375 | 5% |
| IIS | 5,889 | 5,733 | -3% |
| MS | 6,309 | 6,556 | 4% |
| SAS | 6,072 | 5,796 | -5% |
| FP | 104 | 328 | NM |
| Eliminations | (1,633) | (1,480) | NM |
| **Total Business Segment** | **$22,826** | **$23,308** | **2%** |
| **FP Deferred Revenue Adjustment(3)** | **-** | **($61)** | **NM** |
| **Total** | **$22,826** | **$23,247** | **2%** |

*NM = Not Meaningful*

*(1) Results above do not reflect changes to segment reporting effective January 1, 2016 described in greater detail on pages 9 and 10.*
*(2) Forcepoint™(FP), formerly known as Raytheon|Websense.*
*(3) FP deferred revenue adjustment represents the unfavorable impact of the acquisition accounting adjustments to record acquired deferred revenue at fair value related to FP, including historical Raytheon Cyber Products acquisitions.*

**Q4 2015 sales up 3 percent; full-year 2015 up 2 percent**

# Total Company Operating Margins – Q4(1)



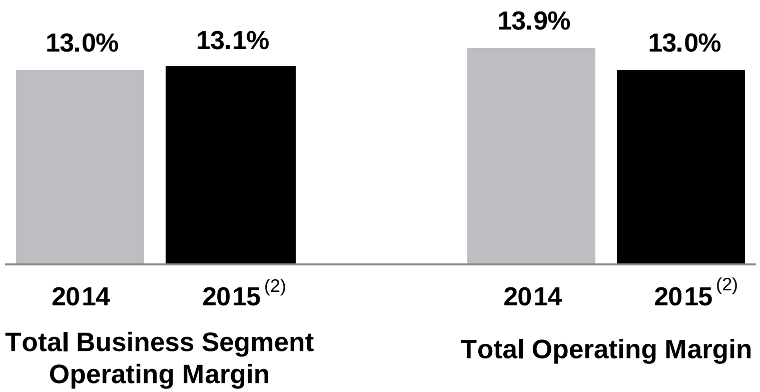

| | Q4 2014 | Q4 2015 | Change |
|---|---|---|---|
| **IDS** | 18.4% | 17.2% | (120) bps |
| **IIS** | 8.6% | 6.9% | (170) bps |
| **MS** | 12.3% | 13.7% | 140 bps |
| **SAS** | 13.1% | 14.7% | 160 bps |
| **FP** | -4.3% | 8.3% | NM |
| **Eliminations** | ($41M) | ($34M) | $7M |
| **Total Business Segment Operating Margin** | **13.3%** | **13.5%** | 20 bps |
| **FP Deferred Revenue Adjustment(2)** | - | ($24M) | ($24M) |
| **FP Amortization of Acquired Intangibles(2)** | ($2M) | ($24M) | ($22M) |
| **FAS/CAS Adjustment** | $70M | $44M | ($26M) |
| **Corporate** | ($16M) | ($28M) | ($12M) |
| **Total Operating Margin** | **14.1%** | **13.1%** | (100) bps |

*NM = Not Meaningful*

*(1) Results above do not reflect changes to segment reporting effective January 1, 2016 described in greater detail on pages 9 and 10.*

*(2) FP deferred revenue adjustment and FP amortization of acquired intangibles represent the unfavorable impact of the acquisition accounting adjustments to record acquired deferred revenue at fair value and the amortization of acquired intangible assets, respectively, related to FP, including historical Raytheon Cyber Products acquisitions.*

# Total Company Operating Margins – Full-year[(1)]




| | 2014 | 2015 | Change |
|---|---|---|---|
| **IDS** | 16.0% | 14.4% | (160) bps |
| **IIS[(2)]** | 8.4% | 10.4% | 200 bps |
| **MS** | 12.7% | 13.2% | 50 bps |
| **SAS** | 13.9% | 13.7% | (20) bps |
| **FP** | 10.6% | 9.1% | (150) bps |
| **Eliminations** | ($166M) | ($159M) | $7M |
| **Total Business Segment Operating Margin** | **13.0%** | **13.1%** | 10 bps |
| **FP Deferred Revenue Adjustment[(3)]** | - | ($61M) | ($61M) |
| **FP Amortization of Acquired Intangibles[(3)]** | ($6M) | ($58M) | ($52M) |
| **FAS/CAS Adjustment** | $286M | $185M | ($101M) |
| **Corporate[(4)]** | ($61M) | ($101M) | ($40M) |
| **Total Operating Margin** | **13.9%** | **13.0%** | (90) bps |

*(1) Results above do not reflect changes to segment reporting effective January 1, 2016 described in greater detail on pages 9 and 10.*

*(2) 2015 operating margin includes the favorable $181 million impact of the first quarter 2015 eBorders settlement.*

*(3) FP deferred revenue adjustment and FP amortization of acquired intangibles represent the unfavorable impact of the acquisition accounting adjustments to record acquired deferred revenue at fair value and the amortization of acquired intangible assets, respectively, related to FP, including historical Raytheon Cyber Products acquisitions.*

*(4) Full-year 2015 includes the unfavorable $26 million impact of Websense acquisition related costs.*

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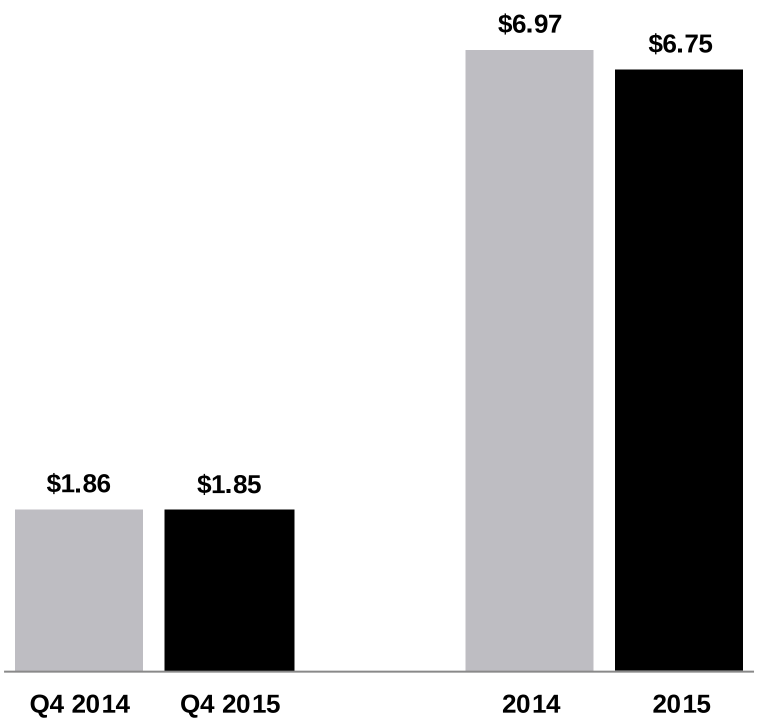
# Earnings Per Share from Continuing Operations[1]

**EPS**




| EPS ($) | Fourth Quarter | Full-Year |
|---|---|---|
| **EPS from Continuing Operations 2014** | **$1.86** | **$6.97** |
| Operations | 0.08 | (0.22) |
| Reduced share count | 0.04 | 0.14 |
| FAS/CAS Adjustment | (0.05) | (0.21) |
| FP Deferred Revenue Adjustment[2] | (0.04) | (0.10) |
| FP Amortization of Acquired Intangibles[2] | (0.04) | (0.09) |
| FP Acquisition Related Costs[3] | - | (0.05) |
| eBorders settlement in 2015 | 0.02 | 0.47 |
| Tax settlement in 2015 | - | 0.29 |
| Tax benefit from cash repatriation in 2014 | - | (0.26) |
| Other items, net | (0.02) | (0.19) |
| **EPS from Continuing Operations 2015** | **$1.85** | **$6.75** |

*(1) Results above do not reflect changes to segment reporting effective January 1, 2016 described in greater detail on page 9.*

*(2) FP deferred revenue adjustment and FP amortization of acquired intangibles represent the unfavorable impact of the acquisition accounting adjustments to record acquired deferred revenue at fair value and the amortization of acquired intangible assets, respectively, related to FP, including historical Raytheon Cyber Products acquisitions.*

*(3) FP acquisition related costs represent costs associated with the combination of Websense and Raytheon Cyber Products.*

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# 2016 Financial Outlook

| | 2015 Actual | 2016 Outlook |
|---|---|---|
| **Net Sales ($B)** | **23.2** | **24.0 - 24.5** |
| **Deferred Revenue Adjustment ($M)[1]** | **(61)** | **(67)** |
| **Amortization of Acquired Intangibles ($M)[1]** | **(107)** | **(121)** |
| **FAS/CAS Adjustment ($M)** | **185** | **428** |
| **Interest Expense, Net ($M)** | **(222)** | **(220) - (230)** |
| **Diluted Shares (M)** | **305** | **296 - 298** |
| **Effective Tax Rate** | **26.3%** | **~30.0%** |
| **EPS from Continuing Operations** | **$6.75** | **$6.80 - $7.00** |
| **Operating Cash Flow from Cont. Ops. ($B)** | **2.3** | **2.7 - 3.0** |

*(1) Effective January 1, 2016, the Company reclassified the acquisition accounting adjustments, with respect to the IDS, IIS, MS and SAS business segments, to record acquired deferred revenue at fair value and amortization of acquired intangibles such that they will no longer be reported within the business segment results and will instead be reported in separate deferred revenue adjustment and amortization of acquired intangibles lines. Prior to January 1, 2016, the deferred revenue adjustment and amortization of acquired intangibles lines referred only to acquisition adjustments associated with FP. Deferred revenue adjustment and amortization of acquired intangibles in the table above have been recast to reflect this change. Under the prior method, 2015 deferred revenue adjustment and amortization of acquired intangibles were ($61M) and ($58M), respectively for FP. Additionally, the outlook above includes the initial estimated impact of the Stonesoft & Sidewinder acquisitions, which closed on January 13, 2016.*

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# 2016 Financial Outlook: By Business(1)

| | 2015 Actuals - As Reported | | 2015 Actuals - Pro Forma | | 2016 Outlook | |
|---|---|---|---|---|---|---|
| | Net Sales ($B) | Operating Margins (%) | Net Sales ($B) | Operating Margins (%) | Net Sales ($B) | Operating Margins (%) |
| **IDS** | 6.4 | 14.4% | 5.8 | 14.8% | 5.8 - 6.0 | 15.9 - 16.1% |
| **IIS** | 5.7 | 10.4% (2) | 6.1 | 10.6% (2) | 6.1 - 6.3 | 7.4 - 7.6% |
| **MS** | 6.6 | 13.2% | 6.6 | 13.2% | 6.9 - 7.1 | 13.0 - 13.2% |
| **SAS** | 5.8 | 13.7% | 5.8 | 14.3% | 5.8 - 6.0 | 12.9 - 13.1% |
| **FP** | 0.3 | 9.1% | 0.3 | 9.1% | 0.6 | 11.5 - 12.5% |
| **Eliminations** | (1.5) | (159M) | (1.3) | (140M) | (1.3) - (1.4) | ($145M) - ($150M) |
| **Total business segment** | **23.3** | **13.1%** | **23.3** | **13.3%** | **24.1 - 24.6** | **12.4 - 12.6%** |
| **Deferred Revenue Adjustment(3)** | (0.1) | (61M) | (0.1) | (61M) | (0.1) | (67M) |
| **Amortization of Acquired Intangibles(3)** | - | (58M) | - | (107M) | - | (121M) |
| **FAS/CAS Adjustment** | - | 185M | - | 185M | - | 428M |
| **Corporate** | - | (101M) | - | (101M) | - | ($100M) - ($105M) |
| **Total** | **23.2** | **13.0%** | **23.2** | **13.0%** | **24.0 - 24.5** | **13.0 - 13.2%** |

(1) *Effective January 1, 2016, the Company reorganized the IDS and IIS business segments to move certain air traffic systems, border and critical infrastructure protection and highway tolling programs from IDS into IIS. The 2015 actuals – pro forma and 2016 outlook above reflect this change and the reclassified acquisition accounting adjustments discussed on page 9. See Attachment G to the press release for supplemental information.*

(2) *Includes the favorable $181 million adjustment to operating income for the first quarter 2015 eBorders settlement.*

(3) *Deferred revenue adjustment and amortization of acquired intangibles represent the unfavorable impact of the acquisition accounting adjustments to record acquired deferred revenue at fair value and the amortization of acquired intangible assets, respectively, for FP only for 2015 actuals – as reported, and for all business segments for 2015 actuals – pro forma and 2016 outlook. Additionally, the outlook above includes the initial estimated impact of the Stonesoft & Sidewinder acquisitions, which closed on January 13, 2016. Amounts included for the acquisition are preliminary and are subject to change based on the finalization of valuations and reviews.*

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# 2016 Financial Outlook: By Quarter

| | 2016 Estimates | | | | |
|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Total |
| **Sales ($M)** | **5,375 - 5,500** | **5,775 - 5,900** | **6,015 - 6,140** | **6,835 - 6,960** | **$24.0 - $24.5B** |
| **EPS** | **$1.26 - $1.31** | **$1.50 - $1.55** | **$1.95 - $2.00** | **$2.09 - $2.14** | **$6.80 - $7.00** |
| **Operating Cash Flow from Cont. Ops. ($M)** | **(100) - (0)** | **500 - 600** | **900 - 1,000** | **1,300 - 1,400** | **$2.7B - $3.0B** |

# Pension Impact

| $ Millions | | Current Projections* | | |
|---|---|---|---|---|
| **P&L Impact** | **2015 Actual** | **2016** | **2017** | **2018** |
| **FAS** | **($1,198)** | **($1,070)** | **($1,129)** | **($1,094)** |
| **CAS** | **($1,383)** | **($1,498)** | **($1,672)** | **($1,693)** |
| **FAS/CAS Adjustment** | **$185** | **$428** | **$543** | **$599** |
| **Cash Impact** | | | | |
| **Gross Funding Required** | **($361)** | **($165)** | **($933)** | **($1,040)** |
| **Discretionary Contribution** | **($200)** | **$0** | **$0** | **$0** |
| **Total Contribution** | **($561)** | **($165)** | **($933)** | **($1,040)** |

* Current projections for 2016 – 2018 are strictly based on an average FAS discount rate of 4.5% for all years and an actual return on assets of +0% for the year ending December 31, 2015, an assumed return on assets of 8.0% for all other years and no changes to any other actuarial assumptions or regulatory requirements. CAS recovery and funding requirements are based on the discount rates under the Bipartisan Budget Act of 2015, which are approximately 6.0% for 2016, 5.8% for 2017 and 5.6% for 2018.

Actual results will vary for 2016 – 2018 based upon actual returns, changes in actuarial assumptions, market conditions in effect at the time and other census data and regulatory requirements applicable for each year. Projections include pension and PRB.

A 25 basis point change from our current average U.S. Plan discount rate of 4.5% would impact the FAS/CAS Adjustment in 2017 by $70M-$80M.

Actual 2017 results are also dependent on factors other than discount rate as of 12/31/2016, including but not limited to, 2016 asset returns, demographic experience and the long-term return on asset (ROA) assumption.

# Acquisition Accounting Adjustments Outlook(1)

| ($M) | 2016 | 2017 | 2018 |
|---|---|---|---|
| Deferred Revenue Adjustment | $67 | $29 | $7 |
| Amortization of Acquired Intangibles(2) | $121 | $127 | $117 |
| Total Acquisition Accounting Adjustments | $188 | $156 | $124 |

*(1) Effective January 1, 2016, the Company reclassified, with respect to the IDS, IIS, MS and SAS business segments, certain acquisition accounting adjustments such that they will no longer be reported within our business segment results and will instead be reported in separate deferred revenue adjustment and amortization of intangibles lines. Deferred revenue adjustment and amortization of acquired intangibles represent the unfavorable impact of the acquisition accounting adjustments to record acquired deferred revenue at fair value and the amortization of acquired intangible assets, respectively. Additionally, the outlook above includes the initial estimated impact of the Stonesoft & Sidewinder acquisitions, which closed on January 13, 2016. Amounts included for these acquisitions are preliminary and are subject to change based on the finalization of valuations and reviews.*

*(2) Amortization of acquired intangible assets is based on the pattern in which economic benefits of intangible assets are being utilized.*

# Appendix

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# Workdays in Fiscal Reporting Calendar

| | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|
| 2016 | 65 | 64 | 63 | 57 |
| 2015 | 61 | 64 | 63 | 61 |
| Increase / (decrease) | 4 | 0 | 0 | (4) |

| | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|
| 2015 | 61 | 64 | 63 | 61 |
| 2014 | 62 | 64 | 63 | 60 |
| Increase / (decrease) | (1) | 0 | 0 | 1 |