



# GENERAL DYNAMICS

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## First-Quarter 2020 Highlights and Revised 2020 Outlook

April 29, 2020

# Forward-Looking Statements

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This presentation contains information about the company's expectations of future performance, including future financial or operating performance. This information constitutes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, as amended, and is identified by words such as "forecast" or "outlook". Forward-looking statements are based on management's current expectations, estimates, projections and assumptions. **These statements are not guarantees of future performance and involve risks and uncertainties, which are difficult to predict.** Therefore, actual future results and trends may differ materially from what is forecast in forward-looking statements due to a variety of factors. Additional information regarding these factors is contained in the company's filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K. All forward-looking statements speak only as of the date they were made. General Dynamics does not undertake any obligation to update or publicly release any revisions to any forward-looking statements to reflect events, circumstances or changes in expectations after the date of this presentation.

# COVID-19 Update

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- As a designated national critical infrastructure company, all U.S. facilities are required to be open and are fully operating.
- COVID-19-related travel restrictions delayed some Gulfstream deliveries.
- Defense businesses experienced some supply chain delays.
- Accelerating \$300 million to suppliers from increased Department of Defense cash payments
- Ensuring a safe work environment for our workforce has been and remains a priority:
  - 38% teleworking
  - At our manufacturing and assembly sites, following CDC guidelines and where possible practicing social distancing, increasing shift work to reduce worker density and increased screening
- Supporting healthcare workers and first responders
  - Funding
  - PPE

# Financial Highlights

(\$ in millions, except EPS)	Three Months			
	1Q20	1Q19	Variance	% Change
Revenue	\$8,749	\$9,261	(\$512)	(5.5%)
Operating Earnings	\$941	\$1,014	(\$73)	(7.2%)
Operating Margin	10.8%	10.9%	-10 bps	-
Net Earnings	\$706	\$745	(\$39)	(5.2%)
EPS, diluted	\$2.43	\$2.56	(\$0.13)	(5.1%)

- **Revenue decline driven almost exclusively by delay of Gulfstream deliveries**
  - Travel restrictions delayed 11 net aircraft deliveries
  - Delivery delays reduced Aerospace revenue by ~ \$600M
- **Combat Systems and Marine Systems delivered mid-to-high single-digit revenue growth**
- **Operating Metrics**
  - Defense Segments expanded margins
  - EBITDA\* margin steady at 13.3% vs.13.4%
- **Backlog of \$85.7B enables good operating line of sight**
  - GDIT book-to-bill of 1.2x; trailing twelve months of 1.1x

Delivering Attractive Returns

# Aerospace

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- **Revenue down 24.5% to \$1.7B related to COVID-19 travel restrictions**
  - 13 completed aircraft deliveries delayed
  - 2 aircraft pulled forward from second quarter schedule
- **Operating Margin down 40 basis points to 14.2%, consistent with Q1 outlook**
  - Lower G&A, including R&D, somewhat mitigated the adverse impact of fewer deliveries
  - Further actions under way to match overhead with volume
- **Working with suppliers to limit supply chain disruptions**
- **Significant actions to reduce costs**
- **Some slowdown in service work due to travel restrictions**

Gulfstream Performing as a Good Cyclical

# Defense Businesses

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- **Revenue up slightly to \$7.1B**
  - Despite late-quarter headwinds
- **Operating Earnings up ~ 2.2% to \$705M**
- **Operating Margin up 20 bps to 10%**
- **Adjusting to the new environment**
  - Creating innovative solutions to serve customers
  - Developing cost saving plans

Staying Focused on Delivering Results

# Combat Systems

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- **Revenue of \$1.7B up 4.4%**
  - Driven by Abrams, Stryker and munitions programs, offset by COVID-19 work disruptions at European Land Systems (ELS)
  - US Government sales up 12%
- **Operating Earnings of \$223M up 8.3%**
  - Operating margin up 50 bps to 13.1%, consistent with Q1 expectations
  - COVID-19 impact at ELS offset in part by solid performance from Land Systems
- **Orders of \$1.5B were up 25%**
  - Abrams tanks
  - Stryker
  - 6x6 Eagle Ambulance Vehicles for Germany
- **FY21 President's Budget provides incremental volume**
  - \$1.5B for Abrams tanks
  - \$1.1B for Stryker upgrades
  - \$573M for SHORAD Stryker variant

**Solid Backlog Enables Strong Operating Performance**

# Information Technology

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- **Revenue of \$2B, down 8.3%**
  - Ramp up of new programs, sunset of legacy
  - 3Q 2019 exit from two non-core lines of business
  - Late in the quarter COVID-19 impacts
- **Operating Margin rose 30 basis points to 7.5%**
  - Solid core performance
  - EBITDA\* margin rose 90 basis points to 13.3%
- **Total Estimated Contract Value of \$28.1B, up 12.5%**
  - Backlog of \$9.5B, up 13.7%
  - Book-to-bill of 1.2x; trailing twelve months of 1.1x
  - Defense and FedCiv enjoyed strong order flows
- **Notable Wins**
  - NOAA Climate Super Computing up to \$505M
  - Multiple State Department awards
  - Classified awards of \$150M
  - \$500M in U.S. Army awards

**Robust Backlog and Pipeline to Translate into Accretive Growth**



# Mission Systems

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- **Revenue down 3.6% to \$1.1B**
  - Results impacted by demand disruptions for various short-cycle products
  - Solid growth in Naval, Air and Electronic Systems
  - Volume stable for Space, Intelligence, and Cyber Systems
- **Operating Margin expanded 50 basis points to 13.3%**
  - Flat earnings of \$148M driven by program performance and overhead reductions
- **Notable Orders**
  - IDIQ contract for up to \$885M in U.S. Army training
  - CHS-5 orders of \$65M
  - AMDR engineering/manufacturing of \$45M

Program Quality Drives Continued Strong Performance

# Marine Systems

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- **Revenue rose 9.1% to \$2.2B**
  - Virginia-class Block V, Columbia and repair work drove higher volume
  - Each business unit delivered higher year-over-year revenue
  - Reduced shipyard staffing late in the quarter had a minor volume impact
- **Operating Earnings grew by 2.2%, to \$184M**
  - Q1 2020 margins declined 50 bps from Q1 2019 on lower earnings at BIW as a result of absenteeism and lower margin at NASSCO as a result of mix
- **Sequential margin increased 40 bps**
- **Funded backlog increased \$6.1B, a 30% sequential increase**
- **Anticipate Columbia construction contract award to support Fall construction start**

Squarely Focused on Mission, Schedule and Performance

# Pro Forma – for Delay of Gulfstream Deliveries

(\$ in millions, except EPS)	Three Months Pro Forma ex-COVID-19 Impact *			
	1Q20	1Q19	Variance	% Change
<b>Revenue</b>	\$9,360	\$9,261	\$99	1.1%
<b>Operating Earnings</b>	\$1,048	\$1,014	\$34	3.4%
<b>Operating Margin</b>	11.2%	10.9%	+30 bps	-
<b>Net Earnings</b>	\$795	\$745	\$50	6.7%
<b>EPS, diluted</b>	\$2.74	\$2.56	\$0.18	7.0%

- 1Q20 results have been adjusted to reflect delay in delivery of net 11 Gulfstream aircraft due to travel restrictions imposed on customers.
- Delays fully attributable to imposition of quarantine and travel restrictions with processes underway to facilitate delivery in a expeditious manner.
- We believe calculating this non-GAAP impact of the delay in delivery of completed Gulfstream aircraft provides investors with an additional understanding of the company's operating performance.

**Pro Forma Exceeds Q1 2020 Guidance**

# Financial Guidance

	Initial 2020 Guidance (1/29/20)		Revised 2020 Outlook (4/29/20)	
<b>EPS, diluted</b>	<b>\$12.55 – 12.60</b>		<b>\$11.30 – 11.40</b>	
	Revenue (\$B)	Operating Margin	Revenue (\$B)	Operating Earnings (\$B)
Aerospace	≈ \$10.0 ≈150 deliveries	15.7 – 15.8%	≈ \$8.5 125-130 deliveries	≈ \$1.15
Combat Systems	≈ \$7.3	≈ 14.3%	Unchanged	
Information Technology	\$8.4 – 8.5	≈ 7.6%	Unchanged	
Mission Systems	\$5.0 – 5.1	≈ 14.1%	Unchanged	
Marine Systems	≈ \$9.8	≈ 8.6%	Unchanged	

# Appendix

## Non-GAAP Financial Measures – General Dynamics

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<i>(in millions)</i>	First Quarter	
	2020	2019
<b>Earnings before interest, taxes, depreciation and amortization:</b>		
Net earnings	\$ 706	\$ 745
Interest, net	107	117
Provision for income tax, net	142	170
Depreciation of property, plant and equipment	122	114
Amortization of intangible and finance lease right-of-use assets	90	91
Earnings before interest, taxes, depreciation and amortization*	<u>\$ 1,167</u>	<u>\$ 1,237</u>

- \* We believe earnings before interest, taxes, depreciation and amortization (EBITDA) is a useful measure for investors because it provides another measure of our profitability and our ability to service our debt. We calculate EBITDA by adding back interest, taxes, depreciation and amortization to net earnings. The most directly comparable GAAP measure to EBITDA is net earnings.

## Non-GAAP Financial Measures – Information Technology

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<i>(in millions)</i>	First Quarter	
	2020	2019
<b>Earnings before interest, taxes, depreciation and amortization:</b>		
Operating earnings	\$ 150	\$ 156
Other, net	20	20
Depreciation of property, plant and equipment	22	20
Amortization of intangible and finance lease right-of-use assets	72	74
Earnings before interest, taxes, depreciation and amortization*	<u>\$ 264</u>	<u>\$ 270</u>

- \* We believe the Information Technology segment's earnings before interest, taxes, depreciation and amortization (EBITDA) is a useful measure for investors because it provides another measure of the segment's operating performance. We calculate the Information Technology segment's EBITDA by adding other income, depreciation and amortization to operating earnings. The most directly comparable GAAP measure to the Information Technology segment's EBITDA is operating earnings.

## Non-GAAP Financial Measures – COVID-Related Impact

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<i>(\$ in millions, except EPS)</i>	<b>First Quarter 2020</b>		
	First Quarter 2020 As Reported	Effect of COVID-19 on Completed Aircraft Deliveries *	First Quarter 2020 Pro Forma
Revenue	\$ 8,749	\$ 611	\$ 9,360
Operating earnings	\$ 941	\$ 107	\$ 1,048
Operating margin	10.8%	40 bps	11.2%
Net earnings	\$ 706	\$ 89	\$ 795
EPS, diluted	\$ 2.43	\$ 0.31	\$ 2.74

\* We believe calculating this non-GAAP impact of the delay in delivery of completed Gulfstream aircraft provides investors with an additional understanding of the company's operating performance.



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