



# GENERAL DYNAMICS

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## Third-Quarter 2020 Highlights and 2020 Outlook

October 28, 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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- Businesses remain open and fully operational
- COVID-related disruptions continue, but businesses managing through challenges
- Strengthened defense supply base
- Aerospace supply chain stabilizing
- Continuing to ensure safe work environment for our employees remains a top priority

# Financial Highlights

(\$ in millions, except for EPS)	Three Months		Variance	
	3Q20	2Q20	\$	%
Revenue	\$9,431	\$9,264	\$167	2%
Operating Earnings	\$1,084	\$841	\$243	29%
Operating Margin	11.5%	9.1%	+240 bps	
Net Earnings	\$834	\$625	\$209	33%
EPS, Diluted	\$2.90	\$2.18	\$0.72	33%
Free Cash Flow *	\$903	\$622	\$281	45%

- **Defense Operating Earnings Up 18% on a 2% Increase in Revenue**
- **Generated Free Cash Flow\* of \$903M in the Quarter, 108% of Net Earnings**
- **Attractive Orders**
  - Gulfstream orders up against year-ago quarter and sequentially
  - Sequential increase in backlog for GDIT and Combat Systems
  - Continuing Resolution contained favorable anomaly for Columbia

Significant Sequential Improvement in Operating Metrics

# COVID Impact – Third Quarter 2020

<i>(\$ in millions, except for EPS)</i>	<u>Revenue</u>	<u>Operating Earnings</u>	<u>Operating Margin</u>	<u>EPS</u>
<b>Reported 3Q Results</b>	<b>\$ 9,431</b>	<b>\$ 1,084</b>	<b>11.5%</b>	<b>\$ 2.90</b>
<b>Aerospace Impact<sup>(1)</sup></b>	<b>541</b>	<b>120</b>	<b>+60bps</b>	<b>0.34</b>
<b>GDIT Impact<sup>(2)</sup></b>	<b>237</b>	<b>32</b>	<b>-</b>	<b>0.09</b>
<b>GDIT CARES Act<sup>(3)</sup></b>	<b>(149)</b>	<b>-</b>	<b>+20bps</b>	<b>-</b>
<b>All Other Volume<sup>(4)</sup></b>	<b>142</b>	<b>52</b>	<b>+30bps</b>	<b>0.15</b>
<b>Results Excluding COVID Impact</b>	<b>\$ 10,202</b>	<b>\$ 1,288</b>	<b>12.6%</b>	<b>\$ 3.48</b>

(1) Reduced production/delivery schedule; services volume reduction.

(2) Reduced access to customer sites/customer workload (≈10% of workforce).

(3) Reimbursement of cost of idle workforce with \$0 profit.

(4) Reduced volume in all other segments due to absenteeism, facility closures, customer access, etc.

**Outstanding Performance in COVID Environment**

# Aerospace

(\$ in millions)	Three Months		Variance	
	3Q20	2Q20	\$	%
Revenue	\$1,975	\$1,974	\$1	-
Operating Earnings	\$283	\$159	\$124	78%
Operating Margin	14.3%	8.1%	+620 bps	
Backlog	\$11,964	\$12,113	(\$149)	(1%)

- **Gulfstream Deliveries of 32 Aircraft, Stable Sequentially**
- **Improving Productivity Despite COVID Disruptions**
- **Broad-based Demand and Best Order Quarter of the Year**
  - More than half of orders from international customers
  - Solid demand for all models; no defaults in 3Q
- **Services Business Rose Mid-single Digits, with Strong Profit Performance**
- **G700 Flight Test at Approximately 750 Hours – Program Making Good Progress**

New Product Investment Creating a Material Advantage

# Combat Systems

(\$ in millions)	Three Months		Variance	
	3Q20	2Q20	\$	%
Revenue	\$1,801	\$1,754	\$47	3%
Operating Earnings	\$270	\$239	\$31	13%
Operating Margin	15.0%	13.6%	+140 bps	
Backlog	\$14,711	\$14,105	\$606	4%

- **Revenue of \$1.8B Up 3% Sequentially**
  - Solid contribution from European Land Systems (ELS)
  - More than half the revenue increase from North American operations
- **Sequentially, Operating Earnings Expanded 13%**
  - ELS earnings up sharply due to increased volume
  - Ordnance & Tactical Systems and Land Systems each generated improved margins
- **Significant Awards**
  - \$870M order from Spain for VCR 8X8 Dragon
  - \$250M U.S. Army IDIQ for SMET robotic vehicles

Continuing to Demonstrate Strong Positive Operating Leverage

# Information Technology

(\$ in millions)	Three Months		Variance	
	3Q20	2Q20	\$	%
Revenue	\$2,029	\$1,884	\$145	8%
Operating Earnings	\$146	\$83	\$63	76%
Operating Margin	7.2%	4.4%	+280 bps	
EBITDA *	\$249	\$197	\$52	26%
EBITDA Margin *	12.3%	10.5%	+180 bps	
Backlog	\$8,969	\$8,927	\$42	-

- **Revenue Reflecting Recovery from COVID Disruptions**
  - Constrained access to customer sites continues to impact volume
  - Revenue rose in each division and Cloud-related work drove Federal Civilian demand
- **Operating Earnings**
  - Strong improvement across portfolio, despite zero-fee cost reimbursement
- **Continued Strong Free Cash Flow; 149% of YTD Imputed Net Earnings**
- **Significant Awards Across all Lines of Business**
- **Submitted Bids Up nearly 3-fold; at its Highest Level in Over 12 Months**

Demonstrating Resilience and Creating Opportunity



# Mission Systems

(\$ in millions)	Three Months		Variance	
	3Q20	2Q20	\$	%
<b>Revenue</b>	\$1,221	\$1,181	\$40	3%
<b>Operating Earnings</b>	\$168	\$164	\$4	2%
<b>Operating Margin</b>	13.8%	13.9%	-10 bps	
<b>Backlog</b>	\$4,794	\$5,041	(\$247)	(5%)

- **Revenue Up 3% Sequentially to \$1.2B, Organic Growth of about 5%**
  - Expansion in Naval, Air and Electronic Systems
  - Strong organic growth in Ground Systems and Products
- **Operating Earnings of \$168M Up Sequentially, Good Organic Growth**
  - Improved results from Space, Intel and Cyber Systems and Ground Systems and Products
- **Orders Influenced by Timing**
  - Selected for GBSD, with contract execution expected in 4Q
  - COVID-related impacts limited some customer ordering activity
  - Expanding autonomous opportunities in underwater and surface domains

**Solid Operating Results**

# Marine Systems

(\$ in millions)	Three Months		Variance	
	3Q20	2Q20	\$	%
<b>Revenue</b>	\$2,405	\$2,471	(\$66)	(3%)
<b>Operating Earnings</b>	\$223	\$200	\$23	12%
<b>Operating Margin</b>	9.3%	8.1%	+120 bps	
<b>Backlog</b>	\$41,082	\$42,483	(\$1,401)	(3%)

- **Sequential Volume Stable; Up Year over Year and Year to Date**
  - Virginia Block V and Columbia continue to drive increase in Electric Boat (EB) revenue
- **Double-digit Growth in Operating Earnings**
  - EB grew earnings somewhat faster than revenue
  - No material impact from Bath Iron Works strike in the quarter
- **Notable Awards**
  - SSN-768 Hartford planning contract of \$115M for maintenance availability at EB
  - Maintenance availability awards totaled \$240M for NASSCO

Sustained Growth Combined with Operating Improvements

# Financial Guidance

2020 Outlook (10/28/20)		
EPS, diluted	\$11.00 – 11.10	
	Revenue (\$B)	Op Earnings (\$B) or Margin
Aerospace	≈ \$8.4 125-130 deliveries	\$1.13 ≈ 13.5%
Combat Systems	≈ \$7.3	≈ 14.3%
Information Technology	≈ \$8.1	≈ 6.3%
Mission Systems	≈ \$4.9	≈ 14.5%
Marine Systems	≈ \$9.6	≈ 8.8%
Total GD	≈ \$38.4B	≈ \$4.2B

Outlook Unchanged from Prior Quarter Forecast

# Appendix

## Non-GAAP Financial Measures

(\$ in millions)	2020		Nine Months	
	Third Quarter	Second Quarter	2020	2019
<b>Earnings before interest, taxes, depreciation and amortization:</b>				
Net earnings	\$ 834	\$ 625	\$ 2,165	\$ 2,464
Interest, net	118	132	357	350
Provision for income tax, net	144	102	388	524
Depreciation of property, plant and equipment	122	132	376	352
Amortization of intangible and finance lease right-of-use assets	90	87	267	273
Earnings before interest, taxes, depreciation and amortization *	<u>\$ 1,308</u>	<u>\$ 1,078</u>	<u>\$ 3,553</u>	<u>\$ 3,963</u>
<b>Free cash flow from operations:</b>				
Net cash provided by operating activities	\$ 1,119	\$ 843	\$ 1,296	\$ 587
Capital expenditures	(216)	(221)	(622)	(606)
Free cash flow from operations **	<u>\$ 903</u>	<u>\$ 622</u>	<u>\$ 674</u>	<u>\$ (19)</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 EBITDA by adding back interest, taxes, depreciation and amortization to net earnings. The most directly comparable GAAP measure EBITDA is net earnings.

\*\* We believe free cash flow from operations is a useful measure for investors because it portrays our ability to generate cash from our businesses for purposes such as repaying maturing debt, funding business acquisitions, repurchasing our common stock and paying dividends. We use free cash flow from operations to assess the quality of our earnings and as a key performance measure in evaluating management. The most directly comparable GAAP measure to free cash flow from operations is net cash provided by operating activities.

## Non-GAAP Financial Measures – Information Technology

(\$ in millions)	2020		Nine Months	
	Third Quarter	Second Quarter	2020	2019
<b>Earnings before interest, taxes, depreciation and amortization:</b>				
Operating earnings	\$ 146	\$ 83	\$ 379	\$ 456
Other, net	15	20	55	48
Depreciation of property, plant and equipment	16	22	60	67
Amortization of intangible and finance lease right-of-use assets	72	72	216	222
Earnings before interest, taxes, depreciation and amortization *	<u>\$ 249</u>	<u>\$ 197</u>	<u>\$ 710</u>	<u>\$ 793</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.

# **GENERAL DYNAMICS**

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