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# EDITED TRANSCRIPT

LLL - L-3 Communications Holdings Inc at Deutsche Bank  
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## CORPORATE PARTICIPANTS

**Michael Strianese** *L-3 Communications Holdings Inc. - Chairman, President & CEO*

**Ralph D'Ambrosio** *L-3 Communications Holdings Inc. - SVP & CFO*

## CONFERENCE CALL PARTICIPANTS

**Myles Walton** *Deutsche Bank - Analyst*

## PRESENTATION

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**Myles Walton - Deutsche Bank - Analyst**

So, Myles Walton, aerospace defense analyst here at Deutsche Bank. Our next session, we are pleased to have with us from L-3 Communications the CEO, President and Chairman, Michael Strianese, as well as Ralph D'Ambrosio, the Senior VP and CFO. Mike has actually been with the Company since its start as well -- I think you have been since the start as well.

Mike Strianese -- a few months after -- yes, Mike Strianese came on, he was their first VP of Finance and Controller, went on to assume the CFO role and then eventually the CEO, Chairman and President role. So, thanks, Mike. I think he has got some opening slides and then we will have Q&A discussion after that.

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**Michael Strianese - L-3 Communications Holdings Inc. - Chairman, President & CEO**

Great, thanks, Myles. Just a handful of charts just to refresh everybody on L-3, who we are, what we do and then we are happy to take your questions. So here is our get out of jail free card, which I won't leave up long enough to read. And some of L-3's characteristics. Maybe it would be easier if I read it from the screen up here.

We are a little bit unique in the space in that we're both a prime and a supplier, so it gives us several market channels to go to and a lot of our business can be sole sourced as well. Some of the major attributes would be we have a very broad, diverse portfolio of products, technologies, contracts, customers and geographic dispersion. So, keeps the business fresh and gives us a lot of exposure to different and growing markets.

We've been working on increasing our international and commercial mix because of: one, the drawdown in the DOD budget; and two, it's a growing space that offers better margins and has balanced out the portfolio.

You can see on the pie chart we are about 65% DOD and the other 35% is commercial, international and other. And just a few years ago that was about an 85/15 mix. So it has move significantly over the last several years.

We employ an efficient capital structure, we are an investment grade credit and we have a high earnings to cash flow conversion, above the averages in the industry.

In terms of our strategies: one, we are working on focusing on the defense electronics market, sharpening that focus where we have durable discriminators in leading market positions and emphasizing less the more commodity priced services.

In terms of strengthening our market positions, we work on innovative and affordable solutions for our customers, something that is being demanded by the marketplace in view of the budgets. We focus our R&D and our contract performance, again, on customer requirements.

We develop excellent customer relationships and we have been expanding our concept of more work on payloads, less platforms, more content for L-3, more focus on the US classified market which has been growing steadily.

Portfolio shaping to strengthen L-3, an example of that was last week we announced the closing of the MSI divestiture as well as an acquisition of CTC, a training company in the UK. And we expect to continue on that trajectory for the rest of the year; we are not finished.



The goal, of course, is always to grow our earnings per share, expand margins and generate robust free cash flow. It gives us a lot of options in terms of driving value in how we employ that cash, whether it is increasing our dividend, our share repurchase program, or adding to the portfolio for M&A.

We have built some very, very strong businesses over the years like our training and simulation business, like our warrior solutions, which is a bunch of night vision companies we had put together over the years. That is defining that market in terms of the technology and what is being used to own the night, as we like to say.

As well as our electro optical infrared business, where we were on just about every airborne platform, manned and unmanned, not only with our cameras but with the data links as well. So we certainly have defined those markets in terms of the technology that is in use today and the performance parameters.

So what we are seeing is an end to the shrink that started in fiscal 2010 of the DOD budget. It is expected to grow next year and hopefully beyond. Some of the drivers are the geopolitical events that we have seen; the budget is directed toward the threat environment, as we believe it should be.

There are initiatives known as better buying power, whose goal is to let the customer, the DOD, stretch their dollars as far as they can and we've been supportive of their initiatives in terms of efficiencies and trying to drive efficiencies into our business as well, being able to deliver more at a better price.

The Afghan drawdown has also had an impact on the business since we have been supplying a lot of equipment and logistic support, etc., in-theatre. And this constraint imposed on our customer just by the overall fiscal environment known as sequestration where a big multi-year cut has been put in the DOD budget.

However, their focus has been less ambitious, less exquisite solutions like the Project Liberty that you might remember, using a COTS aircraft with state-of-the-art sensors to answer a need for more ISR rather than building an expensive all ISR platform.

Quick reaction capabilities has been paramount, particularly in the special forces area. It is a place where we excel at L-3 because we're able to move quickly and respond to our customers. They look for more COTS-based solutions, again that Project Liberty is a great example of that. The COTS part was the King Air, the platform was COTS, the special equipment were the cameras, the data links, the sensor systems.

So it is a bit of an inversion of what you might think about whereas you would think a platform might be the special, it is not, it was the sensors and the [comms] gear. And the result of that is an affordably priced system that performs very, very well. Well, there is more of that to come.

International and commercial markets are growing, international presents a large growing market for us. We have been increasing over marketing and selling efforts and it has been paying dividends to us.

The Project Liberty has been renamed SPYDR and certified for export and we have been seeing increased sales internationally, particularly in the Middle East. That is a platform that is really a tremendous driver of ISR capability and it has gotten a lot of interest.

We continue to introduce more products for export. You might have noticed just a few weeks ago the State Department had a release that they have qualified more night vision products for export. A lot of that I would like to credit some of our people in our Washington operations that have been working on that problem.

And it is very important to keep that capability in the US that we can keep our plants running that develop -- that produce rather the night vision tubes. And with the decreased volumes in the US an export market is needed to keep that business healthy.

ISR systems continues to grow, including simulators for training, aircraft modifications, comm systems, night vision equipment and sensors. On the commercial side there's very favorable fundamentals in particular in the aviation where we supply state-of-the-art leading avionics systems, security screening in airports in simulation and training as well as satellite communication systems, it is all in the commercial space.

And the big decliner there had been the commercial shipbuilding area where we had a business known as Marine Systems International, or MSI, that was just divested, we closed last week on that. That market, due to a variety of reasons, including the price of oil, has been contracting and there's been a lot of competition coming out of Asia.

Where our view was it is not a place we wanted to further invest and they were not the competitive discriminators that would allow us to price where we needed to price. So we exited. And that is an example of portfolio shaping that we put into play.

As I mentioned, we have a very strong cash generation and we have consistently been delivering over the past three years and that includes the 2015 forecast or estimate. Well over 90% of our free cash flow in the form of share repurchases as well as our dividend.



The dividend to our program has seen an increase every year since its inception; that is one of our priorities, to continue that as well as share repurchases and we are getting back to a little more M&A. But we will still be devoting a good portion of the cash flow to the dividend as well as the share repurchases.

Last week we also announced closing on an acquisition known as CTC Aviation Group, which is a leader in large commercial transport training, including pilot training and crew resourcing.

And as you might recall, a you years ago we bought a training simulation company, they make large simulators for commercial transport in the UK known as Link UK. And in response to a demand from our marketplace where we have noticed our customers have been requesting buying training not so much to simulators, they would rather be paying by the hour for pilot training, We're reconfiguring this business to address that market.

It is a very strong growth area because the demand for trained pilots is increasing. If you look at the aircraft deliveries in places like the Middle East and Asia they are up every year. And the demographics here in the US and in Europe are an increasing number of retiring pilots. So there is a strong demand for pilot training. And this puts us in the number one or two position globally in terms of a training company for pilots.

State-of-the-art solutions. I visited there just two weeks ago and had the pleasure of flying the A320 simulator. Nothing short of spectacular. You wouldn't know you weren't flying. I had a couple pilots along to evaluate it and they were equally impressed. And we are running a small model of a training school right there outside of Gatwick airport and it is doing very, very well.

So the margins are just about double what our electronic system segment earns. So very encouraged and excited by what this business can do for us and we would like to do more of this type of building out on our capabilities.

The price was about \$220 million and the estimated sales contribution will be about \$86 million -- or their sales will be \$86 million in 2015 and \$95 million in 2016. But it will drive additional growth internationally and commercially for us.

Finally, this is on the website, but I thought it would be a good idea to put it up. Just to remind you, this is our 2015 guidance. I'll leave it up for a minute for you to read or I'm sure you have it on the website, I don't want to read every number on it.

But in summary, we are seeing some inflection in the DOD budget starting in 2016. We will continue to develop affordable solutions and technologies that align well with our customers' priorities. We see a growing international commercial market that we continue to reposition to address.

We are laser focused on expanding the margins at L-3. We are deriving that the Company, putting it in measurements with some of our groups. We are asking our group presidents to not only look at adding and subtracting business units, but also, if you look at the composition of the business, it is really a portfolio of contracts.

And I think an exercise in looking at that mix and seeing where it could be adjusted, avoiding some of the lower margin work and focusing on higher margin work will translate to additional operating income and a growing earnings per share story for us.

We will continue to generate a very robust cash flow. There is no reason why our conversion shouldn't continue as it has been very strong. And we are very focused on reshaping our portfolio through the future that will strengthen L-3 and give us more operating income and higher margins and really a high-quality portfolio that is more balanced towards our electronic systems, what we do very, very well, and a little less emphasis or a lot less emphasis on more of the commodity priced services.

So, that is how we see the future. We are excited the Company remains strong. And we remain leaders in the spaces that we are addressing. So, with that, Myles, I think it's off to you.

#### QUESTION AND ANSWER

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**Myles Walton - Deutsche Bank - Analyst**

Great, thanks, Mike, that was a great overview. Maybe I will kick it off with that last comment you made -- you want to be directing the portfolio more towards your higher-margin electronic services business and less towards your commoditized -- excuse me, your higher-margin electronic systems business, less towards your commoditized services business.



Is that through more active moves with the portfolio? Or is that through more just a passive lacking emphasis and priority to those businesses which might be getting commoditized and emphasizing maybe M&A like you did with CTC towards the electronic systems business?

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**Michael Strianese - L-3 Communications Holdings Inc. - Chairman, President & CEO**

Right. Well, Myles, this has got to be an active exercise at this point. Like last week there were two announcements, one was the closing of the sale of MSI and the other was the acquisition of CTC, those were both obviously very active, hands on portfolio shaping actions.

So we are focused on, again, strengthening the portfolio both from a product synergy area, acquiring companies that fit well with what we know and what we do well and we will build out those businesses.

A good example of that is what we have done in training, what we have done in warrior systems where we have become the Company that defines what night vision will be about, what the product is going to be, what the technologies will be.

And same thing with the electro optical systems, we are on just about every airborne manned and unmanned platform over the last several years there has been an L-3 system. And the data links, the communication systems that back hauls that data to the intel center and to the war fighter has been an L-3 data link. And the terminals, the rover systems that the soldiers use, that is in L-3 system.

And we developed and defined up market and we're going to continue to do that kind of development in the electronics area and those are the areas we are looking to add to.

On the other hand, some of the services that came on over the last 10 years with a couple of acquisitions do not have the same growth dynamics that we are seeing in electronics. And we are interested in growing the Company and growing our margins and those are the kinds of moves we are thinking about.

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**Myles Walton - Deutsche Bank - Analyst**

Okay. And it has been brought up -- obviously NSS, where it was -- you had spun half of that in Engility and retained NSS. And it continues to -- not really grow, not to the potential certainly that you would have liked to, and it does seem to be getting competitively pressured on the margins as well. What is kind of the gating function to positioning that for different alternatives?

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**Michael Strianese - L-3 Communications Holdings Inc. - Chairman, President & CEO**

Well, the margin -- the markets that we had hoped to see more growth in has obviously been the cyberspace where a lot of number -- big numbers had been publicized being devoted to cyber, but really you didn't see the contracts come out over the last few years.

And they have been focusing now on international work and they have a couple of contracts pending that haven't been signed yet, which, when they are signed, will be at much higher margins. But a combination of factors -- one being low barrier to entry, and two being just the nature of the re-competes -- have been becoming more frequent.

So even your incumbency and good performance doesn't ensure you can keep the business. And the way the re-competes work is you lose your whole workforce. So even having a great assembled workforce of great network people with the right clearances doesn't give you an advantage anymore. Because if you lose they get re-badged to the winners. You lose your workforce that you have worked and trained and everything.

So it is not the kind of dynamics that we are finding particularly rewarding or exciting for the future. And again, the growth dynamics aren't there, I think the federal IT budget is also under pressure, so the so-called, as we say butts in seats part of the business has not been one that is going to be particularly growing as we look out.

And it may be better in someone else's hands that is in that business where they'll get some synergies from size. It is a place where we have been reluctant to invest further because of these dynamics. So it might fit better with somebody that is in that business for the long haul and will have more scale.

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**Myles Walton - Deutsche Bank - Analyst**



Do you anticipate that there is going to be appetite -- or is there already appetite on those other players?

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**Michael Strianese - L-3 Communications Holdings Inc. - Chairman, President & CEO**

Yes, there is one property that is in the market right now, it has been publicized. And the feedback we are getting is that it is a robust process. There is a lot of strategies that are looking at it, as well as I guess nonstrategic, would say it correctly. But again, we are focused on the portfolio shaping and margin expansion aspects of where this will get us and we are committed to that -- to getting into that process as well.

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**Myles Walton - Deutsche Bank - Analyst**

Electronic systems and the margins that you have there today; obviously CTC or acquisitions like that are going to be additive to the margin expansion potential. But it does seem like that has been talked about and anticipated as an area of pretty good opportunity, maybe a few hundred basis points. Can you lay out the pathway to get to achieve that margin expansion?

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**Michael Strianese - L-3 Communications Holdings Inc. - Chairman, President & CEO**

Sure, I will take the first part and then Ralph will take the second part. We have been focusing on consolidating, bringing back office operations together, reducing footprint where we can consolidate manufacturing and the like -- some of the low hanging fruit, if you will, to expand margins. We are well on the way down that path.

I mentioned portfolio shaping within the group, meaning where there are lower performing contracts or elements of the business, say there is a particular line business that is not quite as good as others, I have asked our group presidents to go out and reposition the actual business unit to perform better at the margin level and we are incentivizing that type of activity through our measurement plans.

So we think that we will increase our margins absent additional volume. However, we do see additional volume coming. So Ralph will address what some more volume will due to that business.

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**Ralph D'Ambrosio - L-3 Communications Holdings Inc. - SVP & CFO**

So the last time we talked about margin expansion and where our opportunities reside in the Company among the segments, we said that we see Electronic Systems as being a driver of better margin in the future. And we said that by the time we get to 2017 we would like to see the margins in the 13% to 14% range.

Our margins were in the mid-13% range in 2011, so we don't see no reason why we can't get back to those levels. This year our margin guidance is 11.8% at the midpoint. If you pro forma it to remove MSI from 2015's guidance and the results for five months the margins are 12.2%.

So we are on that path and we would expect to see -- we would expect to have at least 50 basis points of improvement in those margins in the next several years and on a per year basis.

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**Myles Walton - Deutsche Bank - Analyst**

Okay. And is the anticipation that from an M&A perspective, ES would also be kind of the center of mass products are being acquired as opposed to service-based assets being acquired?

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**Michael Strianese - L-3 Communications Holdings Inc. - Chairman, President & CEO**

Yes. I mean that is where we are seeing most of the companies that fit with what we are looking for. That is not going to be in services, I can guarantee that. But it would be in each of the -- we have a number of -- about a dozen businesses within electronic systems, everything from night vision to airport security and a bunch in between. And those are the natural places where these tuck-in type acquisitions work the best.



I mean, it is not in the ISR area, it is kind of a one-of-a-kind asset almost. But it is in the electronics area. And I mean the good news there is that the properties that we are seeing have all been not only accretive -- would be accretive at the sales level at the earnings per share level, but also at the margin level. Which is very encouraging that we can build out our margin story, which is a goal, by acquiring the right companies in that space. It will help us toward that end goal.

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**Myles Walton - Deutsche Bank - Analyst**

You mentioned the NSS international contracts, which I think are predicated in the guidance to get the margin expansion as well as the volume, that they are not in hand yet. What is the sticking function? Is it just that they are international and I should always assume that there is a sticking function of some sort?

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**Michael Strianese - L-3 Communications Holdings Inc. - Chairman, President & CEO**

Yes, as you know, international contracts have a much longer incubation period than they do in the US, although there is delays in the US too. But it's just a longer sales cycle and I don't know how many trips back and forth I have made so far and there will be another round coming soon.

But eventually you get there, it is just it is very hard to -- it never happens in the quarter you would like it to happen, I can always guarantee that. It has always been a slip function there. But I think they will get there and --.

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**Myles Walton - Deutsche Bank - Analyst**

Okay.

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**Ralph D'Ambrosio - L-3 Communications Holdings Inc. - SVP & CFO**

And I would say we are very close to signing those contracts.

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**Myles Walton - Deutsche Bank - Analyst**

Okay.

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**Ralph D'Ambrosio - L-3 Communications Holdings Inc. - SVP & CFO**

So we should have that done over the next month or two.

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**Myles Walton - Deutsche Bank - Analyst**

Okay. And then the one contract I think you did sign should help your --.

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**Ralph D'Ambrosio - L-3 Communications Holdings Inc. - SVP & CFO**

That was -- I think you are referring to the -- that is a contract for SATCOM terminals in our Communication Systems segment. And we booked that contract, it's about \$80 million contract value and on the first-quarter earnings call it was one of the reasons or one of the ways we talked about how we get to our full-year guidance for margin and for sales in Communication Systems.

And we expect that we are going to convert most of that \$80 million to sales in the second half of this year. So that is going to be a driver of margin improvement in Comm Systems sequentially because those are very high margin products.

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**Myles Walton - Deutsche Bank - Analyst**



Okay, good. Any questions from the audience? If there are, raise your hand. Yes.

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**Unidentified Audience Member**

From a cash flow perspective you guys expect to buy back \$800 million worth of shares, and announced an acquisition of \$220 million last week and possibly do more acquisitions. So what sort of a cash balance do you expect to end the year?

And from a rating agency perspective, could you guys like slow the pace of buy back next year to pay back debt? Or do you think you can offset or maintain [IG] ratings like other actions?

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**Ralph D'Ambrosio - L-3 Communications Holdings Inc. - SVP & CFO**

So, we updated -- when we updated our guidance at the end of April we also updated where we expected to end the year with our balance sheet in terms of the cash balance.

And what we explained -- and this information is on the website if you are interested in looking at it -- is that after repurchasing \$800 million of our stock this year and paying our dividend that we expect to end the year with about \$750 million of cash on the balance sheet. And that obviously was before the acquisition of CTC that we did last week, so that is \$220 million of that \$750 million.

And then with respect to the investment-grade credit ratings and the agency -- rating agencies that you mentioned, as Mike said, we are committed to maintaining our investment-grade ratings and that means that we probably will do some debt repayment before the end of this year. And I would put that in the \$300 million range, which we have room to do in our cash balance.

And then once we get to next year we expect that we will be growing our operating income, that is going to improve the leverage metrics somewhat. And if it doesn't get it to where we need to be we have some debt that matures at the end of next year in November, so we will see what happens. But if we needed to we could also repay all of it or a portion of it.

But the key point is that we believe that using debt in our capital structure is very efficient, it clearly enhances returns to our shareholders. And we are coming out of a down cycle so we expect that we are going to be growing our operating income the next several years.

And that will allow us to, even if we repay some debt down, I said we would, in the near future, borrow again as our earnings and EBITDA improves and stay within our investment grade credit rating. So we think we have a lot of flexibility with respect to the balance sheet given our high cash generation characteristics in the Company.

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**Myles Walton - Deutsche Bank - Analyst**

Isn't there also a benefit that you should see from interest rate rising on your pension plan, working against that investment grade calculation without doing anything?

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**Ralph D'Ambrosio - L-3 Communications Holdings Inc. - SVP & CFO**

Yes. And that is one of the -- I am glad you brought that up because I skipped over it. But one of the items that adversely impacted our leverage metrics at the end of 2014 was the unexpected drop in interest rates last year, which, according to some rating agencies, increased our debt by about \$600 million.

And our unfunded pension application, which is highly correlated to change in interest rates and right now every 25 basis points is worth about \$130 million of unfunded pension obligation. So if rates do move higher and while they are expected by most experts -- hasn't happened yet, but if it does it is clearly going to make a significant reduction in the unfunded pension obligation.





And the other thing with the pension obligations is that over time -- given that we froze the pension plans to new hires in 2007, over time the pension obligations are going to decline and the declining pension is also going to be a source of earnings growth and cash flow improvement because we will be doing less contributions into the pension trust.

So it is not a question of if, it is a question of when, and concerning what happens in the interest rate markets, etc. So it is going to be a source of earnings and cash flow improvement going forward.

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**Myles Walton - Deutsche Bank - Analyst**

Okay. Mike, can you talk about the level of O&M exposure you have? And O&M tends to be a little bit shorter cycle. And I wish for nothing to flare up, but things do. And should a reengagement or a higher level of off tempo US forces start to occur in the Middle East, is that something that would affect you relatively quickly?

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**Michael Strianese - L-3 Communications Holdings Inc. - Chairman, President & CEO**

The answer is, yes, just by the nature of the products that we supply generally geared towards the war fighter, a lot of it is special forces. But the night vision equipment, the communications gear, SATCOM equipment that would go with a rapid deployment.

The ISR equipment, whether it is a full-blown airborne system or elements of a system that will go on another prime's platform, all of those are usually in very high demand just in the threat environment.

I mean Africa -- the new AFRICOM (inaudible) is a good example where we have already been supplying a whole myriad of equipment there from complete aircraft systems down to just a radio or night vision equipment. So the answer is yes. The mix, Ralph, do you want to address the mix issue?

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**Ralph D'Ambrosio - L-3 Communications Holdings Inc. - SVP & CFO**

Our DOD business this year is about 60% funded from the O&M accounts with the other 40% from investment, mostly procurement with some RDT&E.

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**Myles Walton - Deutsche Bank - Analyst**

Okay. The other one is on mix as your portfolio sits today. So it is 30% non-US government, 70% US government and you had mentioned obviously previously it was much larger US government centric. Where do you think that is three, five years from now? Do we continue to move away from US government via growth in the other entities at a quicker pace?

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**Michael Strianese - L-3 Communications Holdings Inc. - Chairman, President & CEO**

Well, the non-US government side is split pretty evenly between commercial and international. And while we have no end goal there because we value and focus on our DOD customer, this has been a sign of the times that we've had that transition. I think in the next three to five years this will stabilize the mix around the 65/35, in fact it may even tilt a little more back to the DOD side.

We would like to see some work growth there. But I think it is a good practice for us to have as broad a base of customers as we can develop so that we are not so dependent on the one budget area, the DOD budget. And again, I have said our goal of expanding margins is very key to our strategy going forward. It is much easier to do in the international commercial space, those markets bring better margins.

So again, I think that will -- the shift towards the international commercial will slow down as the DOD starts growing again. And I don't think it is going to swing all the way back to the 85/15 it used to be, but it will land somewhere in between. But I would like to land in a place where origins are better, we just get better performance out of the portfolio, which is really what we're looking for.

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**Myles Walton - Deutsche Bank - Analyst**

The other one, you had talked in the comments about CTC, I think you alluded to more to come or continue the trajectory for the rest of the year. Maybe you can qualify the pipeline of M&A as it sits today. I wasn't necessarily anticipating CTC, but it is a good almost simultaneous departure from MSI for CTC that is kind of a trade I will take any day.

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**Michael Strianese - L-3 Communications Holdings Inc. - Chairman, President & CEO**

Yes, and we looked at it the same way, exactly. And I am happy that they almost matched up, it looked like a trade the way they got announced. It wasn't like we'd look and said it was designed that way but it is the way they fell.

And it is not that we had abandoned the M&A as a strategy, it was just that the types of businesses we like to buy weren't really there and the ones that were there were not at the prices we would be willing to pay.

So I mean, we did not abandon the discipline of not overpaying. And we understand earning economic returns is important. So over the periods of the downturn we still were able to find the Link UK business, but it is a perfect example of buying a Company that has dual use technology, it could be used on the military side of the business but it could also address commercial and international markets.

So -- and our Pentagon customers like that too, they love dual use technologies because it keeps their prices low as well. So that is more with this training business it could be used. Of course it is geared towards the large airlines, large commercial transport market.

Could it pivot to address a need at the DOD or any internationally military customer? You bet. It is flexible enough that we could do that with it and we would love that all day.

And in terms of the pipeline, we are seeing more companies in the Electronic Systems space that are complementary to those businesses that we have developed that will add a capability -- I don't want to go too deep into it, it will tip our hand and the price will go up tomorrow and I don't want to do that.

But that really look like they would be very good fits and things that we know and things that we wanted to add. And we have the alternative if we can't buy it we can make it, we can invest in R&D, it is just going to take longer and where we see a need now.

And you have to understand, with some of the products, take the infrared -- the infrared electro-optical systems. We have a huge installed base of these throughout many platforms. And if there was something that made it operate better, provided more analysis, things like that, we have a ready market for it. So it gives us a high degree of confidence it would be successful.

An example is with CTC. I said that we had been in that business when we bought the Thales -- the Link UK business. There was a schoolhouse in Thailand that was providing training by the hour and we put our own system in outside of Gatwick addressing customers in the UK. It has been operating very, very well. So we were happy with that.

So the types of things again, size wise they are similar. I said \$100 million to \$200 million on the last call and that seems to be where they are falling. The prices are more in a space where we are comfortable paying where we can generate returns. And very pleased to see that the margins are above our target, certainly above what we are earning and will average us up which is what we'd like to do.

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**Myles Walton - Deutsche Bank - Analyst**

Okay. Well, I think we'll stop there. Slightly over, but worth it. Thanks so much.

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**Michael Strianese - L-3 Communications Holdings Inc. - Chairman, President & CEO**

Thank you. Thank you, Myles.

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**Ralph D'Ambrosio - L-3 Communications Holdings Inc. - SVP & CFO**



Thanks, Myles.

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