

# Raytheon Company First Quarter Earnings

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April 28, 2005

## **Dial In Number**

**800-265-0241 Domestic**

**617-847-8704 International**

## **Replay Number**

**888-286-8010 Domestic**

**617-801-6888 International**

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# Forward-Looking Statements

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**This presentation contains forward-looking statements and projections. The Company cautions readers that such forward-looking statements are based on assumptions that the Company believes are reasonable, but are subject to a wide range of risks, and actual results may differ materially. The Company expressly disclaims any current intention to provide updates to forward-looking statements, and the estimates and assumptions associated with them, after the date of this presentation. Important factors that could cause actual results to differ include, but are not limited to: the ability to obtain or the timing of obtaining future government awards; the availability of government funding; changes in government or customer priorities due to program reviews or revisions to strategic objectives; difficulties in developing and producing operationally advanced products and technology systems; termination of government contracts; program performance, including resolution of claims; timing of contract payments; the performance of critical subcontractors; government import and export policies and other government regulations; the ultimate resolution of contingencies and legal matters, including government investigations and a securities class action lawsuit related to the sale of our former engineering and construction business; the ultimate resolution of insurance coverage for the class action shareholder and derivative lawsuits against the Company; the effect of regulatory actions and market conditions, particularly in relation to the general aviation, commuter and fractional aircraft businesses; cost growth risks inherent with large long-term fixed price contracts; conflicts with other investors and business risks in joint ventures and less than wholly-owned businesses; and risks associated with our former engineering and construction business related to outstanding letters of credit, surety bonds, guarantees and similar agreements and the resolution of claims and litigation. Further information regarding the factors that could cause actual results to differ materially from the projected results can be found in the Company's filings with the Securities and Exchange Commission, including the Company's Annual Report on Form 10-K for the year ended December 31, 2004 and quarterly reports on Form 10-Q, copies of which may be obtained at the Company's website [www.raytheon.com](http://www.raytheon.com)."**

# Q1 2005 Highlights

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- **Strong EPS from continuing ops of \$0.43, up 79%**
- **Sales of \$4.9B, up 6%**
- **Better than expected free cash outflow from operations of \$338M**
- **Strong bookings of \$5.3B**
- **Dividend increased 10%, to \$0.22 from \$0.20 per quarter**
- **Repurchased 1.4M shares of common stock for \$53M**

# EPS from Continuing Operations Guidance Update

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Q1 2005

|                                 |                        |
|---------------------------------|------------------------|
| <b>Prior Guidance</b>           | <b>\$0.29 - \$0.34</b> |
| Improved performance and timing | \$0.11                 |
| Lower interest expense          | \$0.03                 |
| Proposed SEC Settlement (\$12M) | (\$0.03)               |
| <b>Actual Results</b>           | <b>\$0.43</b>          |

2005 Full Year

|                                      |                        |
|--------------------------------------|------------------------|
| <b>Prior Guidance</b>                | <b>\$1.80 - \$1.90</b> |
| Improved performance                 | \$0.04                 |
| Lower interest expense               | \$0.02                 |
| Proposed SEC Settlement (\$12M)      | (\$0.03)               |
| Stock option accounting (FASB delay) | \$0.02                 |
| <b>Current Guidance</b>              | <b>\$1.85 - \$1.95</b> |

# 2005 Financial Outlook Update

|   | <u>Prior</u>             | <u>Current</u>           |
|---|--------------------------|--------------------------|
| <b>Bookings</b>   | <b>\$22.5B - \$23.5B</b> | <b>\$23.2B - \$24.2B</b> |
| <b>Sales</b>  | <b>\$21.5B - \$22.0B</b> | <b>\$21.5B - \$22.0B</b> |
| <b>FAS/CAS Pension Adjustment Expense</b>                             | <b>\$463M</b>            | <b>\$463M</b>            |
| <b>Interest expense, net</b>  | <b>\$315M - \$325M</b>   | <b>\$300M - \$315M</b>   |
| <b>Diluted Shares</b>   | <b>455M</b>              | <b>455M</b>              |
| <b>EPS from Continuing Operations</b>                                 | <b>\$1.80 - \$1.90</b>   | <b>\$1.85 - \$1.95</b>   |
| <b>Continuing/Total Ops. Free Cash Flow<br/>as previously defined</b> | <b>\$1.2B - \$1.4B</b>   | <b>\$1.2B - \$1.4B</b>   |
| <b>Continuing/Total Ops. FreeCash Flow<br/>as currently defined*</b>  | <b>\$1.3B - \$1.5B</b>   | <b>\$1.3B - \$1.5B</b>   |

\* Cash flow from operations now includes the financing and collection of aircraft receivables

# 2005 Financial Outlook: By Business

|                         | <u>Sales (\$B)</u> | <u>Op. Margin %</u> | <u>Free Cash Flow (\$M)</u> |
|-------------------------|--------------------|---------------------|-----------------------------|
| <b>IDS</b>              | 3.6 - 3.8          | 12.5%-13.0% *       | 185 - 215                   |
| <b>IIS</b>              | 2.4 - 2.6          | 8.9%-9.3%           | 100 - 135                   |
| <b>MS</b>               | 3.9 - 4.1          | 10.0%-10.4%         | 165 - 195                   |
| <b>NCS</b>              | 3.1 - 3.3          | 9.9%-10.3%          | 130 - 160                   |
| <b>SAS</b>              | 4.1 - 4.3          | 13.0%-13.4% *       | 260 - 290                   |
| <b>RTSC</b>             | 1.9 - 2.1          | 7.6%-8.0%           | 50 - 80                     |
| <b>Elims</b>            | (1.6)              | (135M) - (140M)     |                             |
| <b>Subtotal G&amp;D</b> | \$18.0B - \$18.5B  | 11.2%-11.4% *       | \$1.0B - \$1.2B             |
| <b>RAC</b>              | 2.6 - 2.8          | 100M-120M *         | 20-40                       |
| <b>Other</b>            | 0.7 - 0.8          | (55M)-(65M) *       | 50                          |
| <b>Corp</b>             |                    | (48M)-(58M)         | 200-250                     |
| <b>Subtotal</b>         | \$21.5B - \$22.0B  | 9.3%-9.5% *         | \$1.3B - \$1.5B             |
| <b>FAS/CAS Inc Adj</b>  |                    | -2.1%               |                             |
| <b>Total Cont. Ops</b>  | \$21.5B - \$22.0B  | 7.2%-7.4% *         | \$1.3B - \$1.5B             |

\*Change from prior guidance.

# 2005 Financial Outlook: By Quarter

(\$ Millions except EPS)

|   | 2005 Estimate    |                  |                  |                          |
|---|------------------|------------------|------------------|--------------------------|
|   | <u>Q2</u>        | <u>Q3</u>        | <u>Q4</u>        | <u>Total</u>             |
| <b>Sales</b>                              | <b>24%</b>       | <b>25%</b>       | <b>28%</b>       | <b>\$21.5B - \$22.0B</b> |
| <b>EPS from Cont. Ops.</b>                | <b>20-25%</b>    | <b>22-27%</b>    | <b>28-31%</b>    | <b>\$1.85 - \$1.95</b>   |
| <b>Continuing Ops<br/>Free Cash Flow*</b> | <b>400 - 475</b> | <b>325 - 400</b> | <b>925 - 980</b> | <b>\$1.3B - \$1.5B</b>   |

\* Cash flow from operations includes the financing and collection of aircraft receivables

# Pension Expense (\$M)

|                                      | <u>2005F</u>        | <u>2006F</u>        |
|--------------------------------------|---------------------|---------------------|
| <b>FAS</b>                           | <b>(\$811)</b>      | <b>(\$708)</b>      |
| <b>CAS</b>                           | <b><u>(348)</u></b> | <b><u>(388)</u></b> |
| <b>Income Adjustment</b>             | <b>(463)</b>        | <b>(320)</b>        |
| <b>EPS impact of FAS/CAS pension</b> | <b>(\$0.68)</b>     | <b>(\$0.48)</b>     |
| <b>CAS recovery</b>                  | <b>348</b>          | <b>388</b>          |
| <b>Funding required</b>              | <b>(312)</b>        | <b>(443)</b>        |
| <b>Discretionary funding</b>         | <b>(200) *</b>      | <b>(200)</b>        |

\*Actual cash payment made in Q1 2005



# Government and Defense Summary

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|                       | <u>2004A</u>   | <u>2005F</u>                          |
|-----------------------|----------------|---------------------------------------|
| <b>Bookings</b>       | <b>\$21.9B</b> | <b>\$19.4B - \$20.4B<sup>**</sup></b> |
| <b>Sales*</b>         | <b>\$17.2B</b> | <b>\$18.0B - \$18.5B</b>              |
| <b>Op Margin*</b>     | <b>11.1%</b>   | <b>11.2% - 11.4%<sup>**</sup></b>     |
| <b>Free Cash Flow</b> | <b>\$1.4B</b>  | <b>\$1.0B - \$1.2B</b>                |

\*After elimination of intercompany sales

\*\* Change from prior guidance

# RAC Commercial & Special Mission Deliveries Update

| <b><u>2004<br/>Actual</u></b> |                         | <b><u>Prior<br/>Forecast</u></b> | <b><u>Current<br/>Forecast</u></b> | <b><u>Delta</u></b> |
|-------------------------------|-------------------------|----------------------------------|------------------------------------|---------------------|
| 0                             | Hawker Horizon          | 3                                | 1 *                                | -2                  |
| 49                            | Hawker 800XP            | 57                               | 57                                 | 0                   |
| 28                            | Hawker 400XP            | 57                               | 58                                 | 1                   |
| 37                            | Premier I               | 33                               | 33                                 | 0                   |
| 99                            | King Air                | 103                              | 95                                 | -8                  |
| 87                            | Pistons                 | 97                               | 95                                 | -2                  |
| <b>300</b>                    | <b>Total Commercial</b> | <b>350</b>                       | <b>339</b>                         | <b>-11</b>          |
| <b>12</b>                     | <b>Special Mission</b>  | <b>16</b>                        | <b>26</b>                          | <b>10</b>           |
| <b>312</b>                    |                         | <b>366</b>                       | <b>365</b>                         | <b>-1</b>           |

Commercial deliveries presented on basis consistent with how revenue is recognized

\* Excludes (1) Hawker Horizon which will be leased vs. previously forecasted as a sale

# Non-GAAP Financial Measures

Free cash flow is a "non-GAAP" financial measure under SEC regulations. The Company defines free cash flow as operating cash flow less capital spending and internal use software spending. Our definition may differ from similarly titled measures used by others. The Company uses free cash flow to facilitate management's internal comparisons to the Company's historical operating results and to competitors' operating results and as an element of management incentive compensation. The Company believes disclosure of free cash flow performance provides investors greater transparency with respect to information used by management in its financial and operational decision making. While this information may be useful in evaluating the Company, it should be considered supplemental to and not as a substitute for financial information prepared in accordance with generally accepted accounting principles.

## Free cash flow

|   | Three Months Ended |                 |
|---|--------------------|-----------------|
|   | 27-Mar-05          | 28-Mar-04       |
| Operating cash flow                       | \$ (277)           | \$ (106)        |
| Less: Capital spending                    | (48)               | (60)            |
| Internal use software spending            | (16)               | (25)            |
| Free cash flow                            | (341)              | (191)           |
| Plus: Discontinued operations             | 3                  | (9)             |
| Free cash flow from continuing operations | <u>\$ (338)</u>    | <u>\$ (200)</u> |

# Non-GAAP Financial Measures <sup>(1)</sup>

(\$ Millions)

**2005**

**Full year**

|  |
|--|
| Operating cash flow                          |
| Less: Capital and internal software spending |
| Free cash flow                               |
| Plus: Discontinued operations                |
| Free cash flow from continuing operations    |

| Prior Guidance   |                   | Current Guidance |                   |
|------------------|-------------------|------------------|-------------------|
| Low end of range | High end of range | Low end of range | High end of range |
| \$ 1,770         | \$ 1,930          | \$ 1,750         | \$ 1,910          |
| (500)            | (450)             | (500)            | (450)             |
| 1,270            | 1,480             | 1,250            | 1,460             |
| 25               | 20                | 65               | 60                |
| <u>\$ 1,295</u>  | <u>\$ 1,500</u>   | <u>\$ 1,315</u>  | <u>\$ 1,520</u>   |

**Free cash flow guidance as previously defined**

**2005**

**Full year**

|  |
|--|
| Operating cash flow                          |
| Less: Capital and internal software spending |
| Free cash flow                               |
| Plus: Discontinued operations                |
| Free cash flow from continuing operations    |

| Prior Guidance   |                   | Current Guidance |                   |
|------------------|-------------------|------------------|-------------------|
| Low end of range | High end of range | Low end of range | High end of range |
| \$ 1,695         | \$ 1,855          | \$ 1,675         | \$ 1,835          |
| (500)            | (450)             | (500)            | (450)             |
| 1,195            | 1,405             | 1,175            | 1,385             |
| 25               | 20                | 65               | 60                |
| <u>\$ 1,220</u>  | <u>\$ 1,425</u>   | <u>\$ 1,240</u>  | <u>\$ 1,445</u>   |

\* Cash flow from operations now includes financing and collection of aircraft receivables.

**2005**

**By Quarter**

|  |
|--|
| Operating cash flow                          |
| Less: Capital and internal software spending |
| Free cash flow                               |
| Plus: Discontinued operations                |
| Free cash flow from continuing operations    |

| Q1 2005A       | Q2 2005F         | Q3 2005F         | Q4 2005F         | TY 2005F             |
|----------------|------------------|------------------|------------------|----------------------|
| \$(277)        | \$483-545        | \$457-519        | \$1,087-1,123    | \$1,750-1,910        |
| \$(64)         | \$(135)-(120)    | \$(145)-(130)    | \$(156)-(136)    | \$(500)-(450)        |
| \$(341)        | \$348-425        | \$312-389        | \$931-987        | \$1,250-1,460        |
| \$3            | \$52-50          | \$13-11          | \$(3)-(4)        | \$65-60              |
| <u>\$(338)</u> | <u>\$400-475</u> | <u>\$325-400</u> | <u>\$928-983</u> | <u>\$1,315-1,520</u> |

(1) All numbers are indicative