

# Raytheon Company Second Quarter Earnings

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July 29, 2004

**Dial In Number**

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**Available through August 7, 2004**

## **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 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; the agreement in principle to settle the shareholder class action lawsuit pending in federal court in Massachusetts may not be approved by the court; the ultimate resolution of insurance coverage for the shareholder litigation; the effect of market conditions, particularly in relation to the general aviation, commuter and fractional aircraft markets; cost growth risks inherent with large long-term fixed price contracts; conflicts with other investors in joint ventures and less than wholly-owned businesses; and risks associated with outstanding letters of credit, surety bonds, guarantees and similar agreements related to a number of contracts and leases of our former engineering and construction business unit. 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, 2003.**

## Q2 Highlights

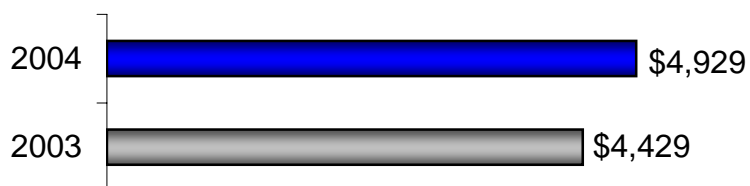
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- Strong Bookings drive Backlog to record \$32B
- Sales of \$4.9B result in 11% growth
- Earnings of \$0.35 per diluted share excluding the effect of charges related to the previously announced settlement of a class action shareholder lawsuit and from the early retirement of debt.
- Charges of \$0.51 per share for the shareholder settlement and \$0.06 per share for the early retirement of debt result in a loss of \$0.22 per share for continuing operations
- Continuing Operations Free Cash Flow for quarter of \$818M
- Net Debt at the end of Q2 at \$5.5B

## Q2 - Consolidated Results

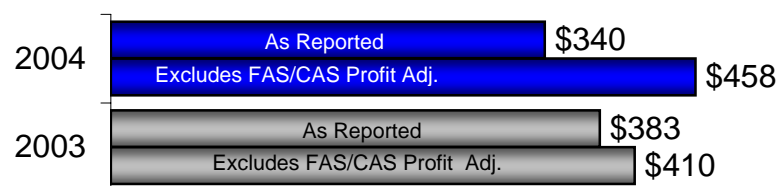
(\$ Millions)

### Net Sales



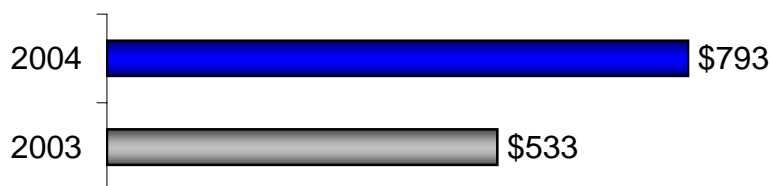
- Total company sales up 11%
- Government and Defense sales up 11%

### Operating Income



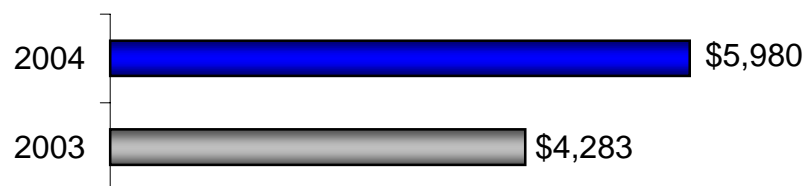
- 12% increase in op income excluding FAS/CAS pension adjustment

### Total Free Cash Flow



- Outstanding second quarter performance
- Patriot Japan advance received in quarter
- YTD Q2 cash flow \$793M higher than prior year
- The \$210M cash payment of the shareholder settlement is expected in the third quarter

### Bookings



- Largest booking was \$500M on SM-3 program
- Includes over \$600M of classified bookings

## 2004 Financial Outlook

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	<u>Prior</u>	<u>Current</u>
<b>Bookings</b>	<b>\$23.0 B</b>	<b>\$24.5 B</b>
<b>Sales</b>	<b>\$20 B+</b>	<b>\$20 B *</b>
<b>GAAP EPS from Cont. Ops</b>	<b>\$1.30 - \$1.40</b>	<b>\$0.79 - \$0.89</b>
<b>EPS excl Shareholder Settlement</b>		<b>\$1.30 - \$1.40</b>
<b>EPS Excluding FAS/CAS Adjustment and Shareholder Settlement</b>	<b>\$2.05 - \$2.15</b>	<b>\$2.05 - \$2.15</b>
<b>Continuing Ops Free Cash Flow</b>	<b>\$1 B+</b>	<b>\$1 B+</b>
<b>Total Free Cash Flow</b>	<b>\$1 B+</b>	<b>\$1 B+</b>

*\*Reflects Flight Options sales deferral of \$190M*

## 2004 Financial Outlook: By Business

	<u>Sales (\$B)</u>	<u>Op. Margin %</u>	<u>Free Cash Flow (\$M)</u>
<b>IDS</b>	3.3 - 3.4	11.8%-12.2%	325-375
<b>IIS</b>	2.2 - 2.3	9.5%-9.9%	100-150
<b>MS</b>	3.8 - 3.9	11.2%-11.6%	200-250
<b>NCS</b>	3.0 - 3.1	8.7%-9.1%	75-125
<b>SAS</b>	4.0 - 4.1	13.3%-13.7%	150-200
<b>RTSC</b>	<u>2.0 - 2.1</u>	<u>7.0%-7.4%</u>	<u>50-100</u>
<b>Total Defense</b>	\$18.6B - \$18.7B	10.7%-11.1%	\$1B - \$1.1B
<b>RAC</b>	2.2 - 2.3	30M - 35M	50-100
<b>Other</b>	0.7	(50)M	(25)-(75)
<b>Corporate/elimis</b>	<u>(1.6)</u>	<u>(200)M</u>	<u>0-50</u>
<b>Subtotal</b>	\$20B	8.8%-9.2%	\$1B+
<b>FAS/CAS Inc Adj</b>		-2.4%	
<b>Total Cont. Ops</b>	\$20B	6.4%-6.8%	\$1B+

## 2004 EPS Guidance

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<b>Prior Guidance GAAP EPS</b>	<b>\$1.30</b>	<b>-</b>	<b>\$1.40</b>
<b>Improvement at Raytheon Aircraft</b>		<b>\$0.04</b>	
<b>Shareholder Settlement</b>		<b>(\$0.51)</b>	
<b>Debt Buyback offset by reduced interest expense</b>		<b>(\$0.04)</b>	
<b>Flight Options sales deferral</b>		<b>(\$0.03)</b>	
<b>Other</b>		<b>\$0.03</b>	
<b>Current Guidance GAAP EPS</b>	<b>\$0.79</b>	<b>-</b>	<b>\$0.89</b>
<b>Current Guidance EPS Exc Shareholder Settlement</b>	<b>\$1.30</b>	<b>-</b>	<b>\$1.40</b>

## 2004 Free Cash Flow Outlook

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	<u>\$M</u>
Income from continuing operations	350-400
Depreciation	380
Amortization	70
Working Capital	200
Discontinued operations	(50)
Capital Spending	(435)
Internal use software spending	(140)
Taxes	170
FAS/CAS income adjustment	473
Other	<u>(3)</u>
Free Cash Flow	<b>\$1B+</b>

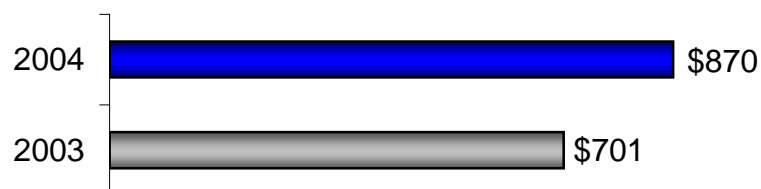


## **Segment Details**

## Q2 - Integrated Defense Systems (IDS)

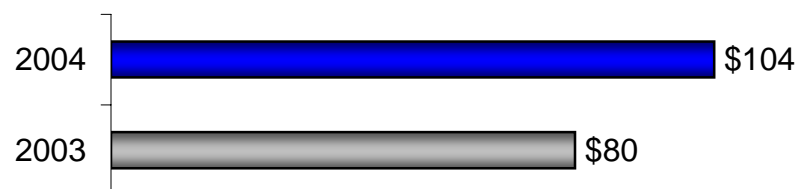
(\$ Millions)

**Net Sales**



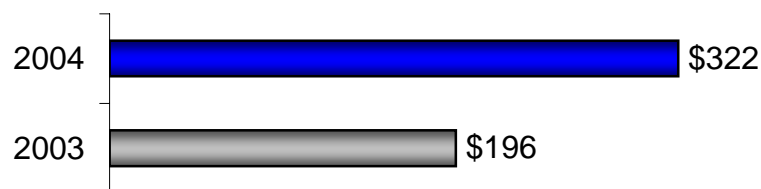
- Growth of 24% over prior year driven by DD(X), Missile Defense and Cobra Judy

**Operating Income**



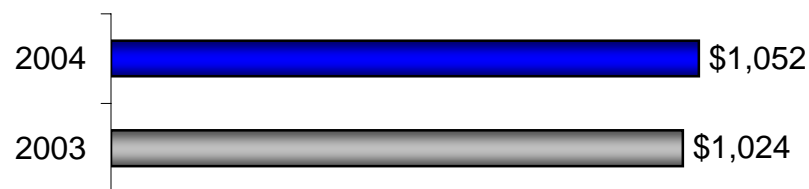
- Increased volume

**Free Cash Flow**



- Includes advance on Japan Patriot award

**Bookings**



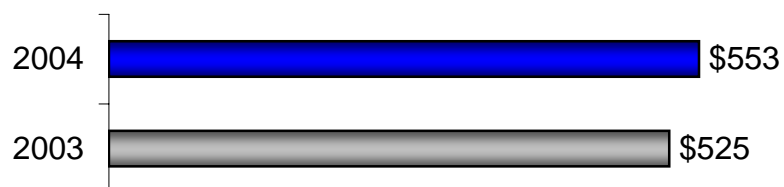
- Includes \$363M on the Japan Patriot program and \$139M on the Ballistic Missile Defense System (BMDS) Radar program
- Includes \$63M on the Torpedo Omnibus contract

**Note:** Net sales include intercompany sales

## Q2 - Intelligence & Information Systems (IIS)

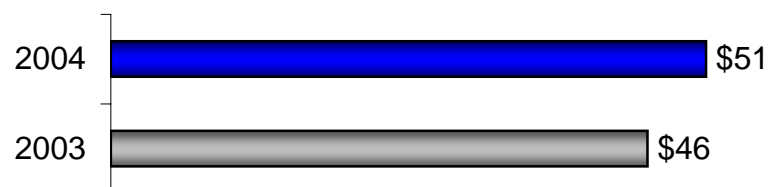
(\$ Millions)

**Net Sales**



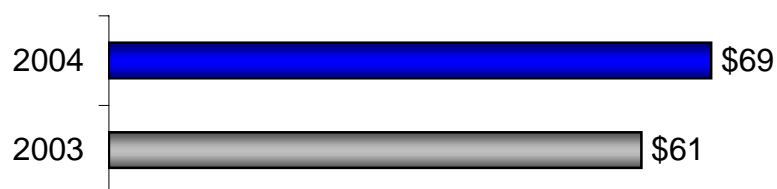
- Growth of 5% driven by classified programs, DCGS and NPOESS

**Operating Income**

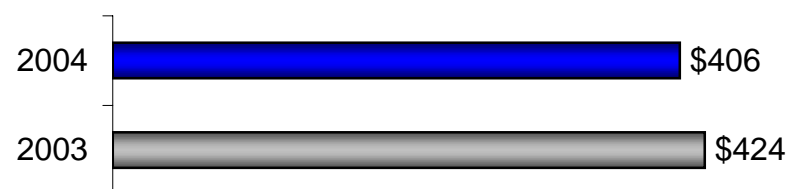


- Increased volume and productivity

**Free Cash Flow**



**Bookings**



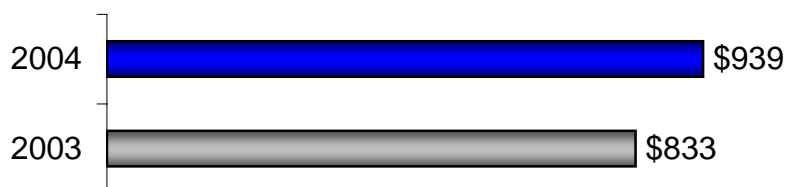
- Includes classified bookings of \$225M

**Note:** Net sales include intercompany sales

## Q2 - Missile Systems (MS)

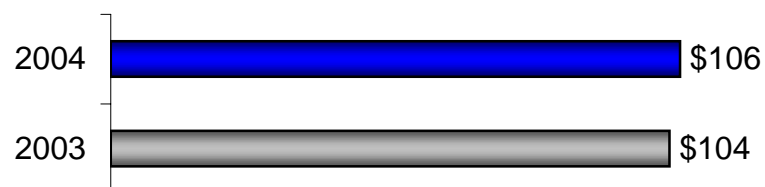
(\$ Millions)

### Net Sales



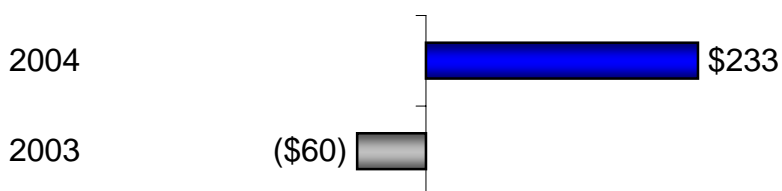
- Growth of 13% driven by Standard Missile-3 and JSOW programs

### Operating Income



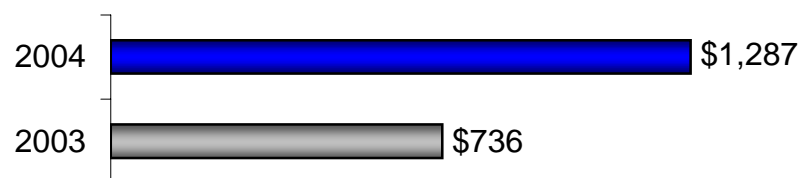
- Up \$2M driven by increased volume, partially offset with wind-down on cost recovery for prior year restructuring

### Free Cash Flow



- Includes favorable timing of performance based payments

### Bookings



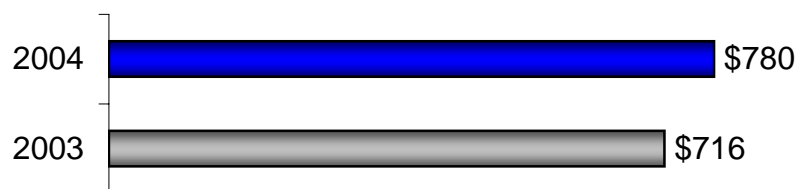
- Includes \$500M booking for the definitization of the Standard Missile-3 contract
- Includes \$269M for the production of Evolved Seasparrow Missiles (ESSM)

**Note:** Net sales include intercompany sales

## Q2 - Network Centric Systems (NCS)

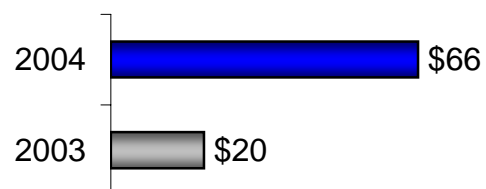
(\$ Millions)

**Net Sales**



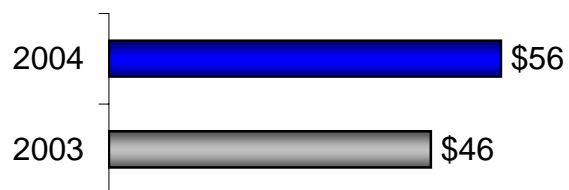
- Growth of 9% driven by TWS programs as well as increased DD(X) effort

**Operating Income**

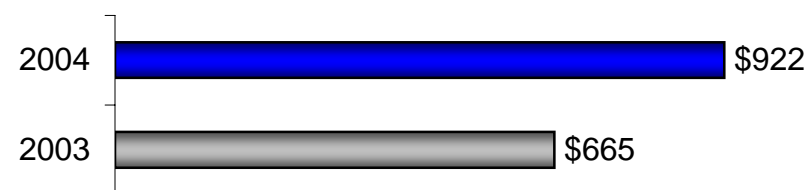


- The second quarter of 2003 included contract adjustments of \$40M on two programs

**Free Cash Flow**



**Bookings**



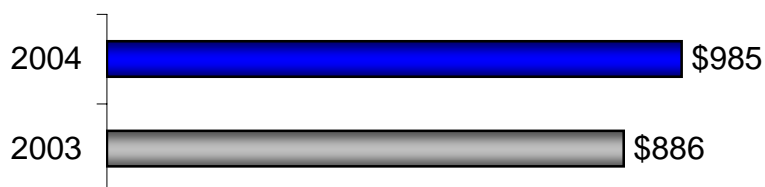
- Includes a classified booking of \$313M

**Note:** Net sales include intercompany sales

## Q2 - Space and Airborne Systems (SAS)

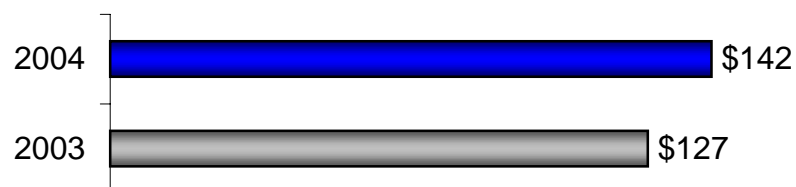
(\$ Millions)

**Net Sales**



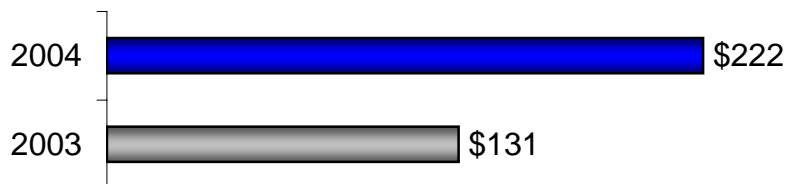
- Growth of 11% due to higher classified and international programs, including F-15 Japan and Greek ASPIS (Advanced Self Protection Integrated Suite)

**Operating Income**



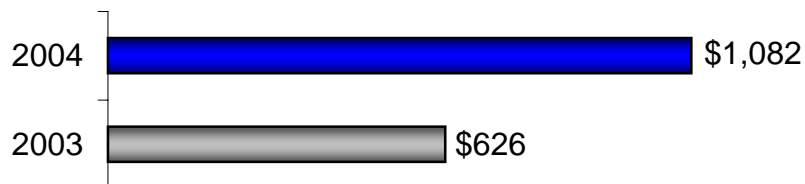
- Increased volume

**Free Cash Flow**



- Includes a performance milestone collection on an international program

**Bookings**



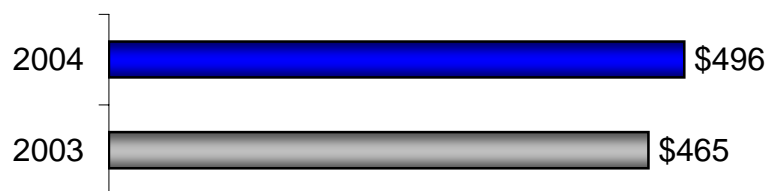
- Includes \$360M on the Multi-Platform Radar Technology Insertion program (MP-RTIP) and over \$100M of classified awards

**Note:** Net sales include intercompany sales

## Q2 - Technical Services (TS)

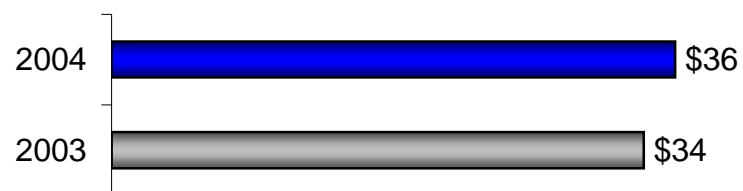
(\$ Millions)

**Net Sales**



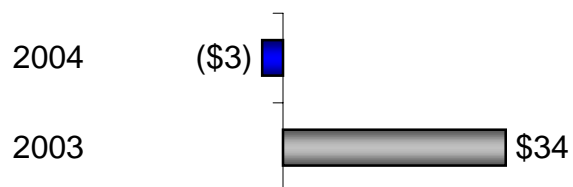
- Growth of 7% driven by Jordan IFCS program

**Operating Income**



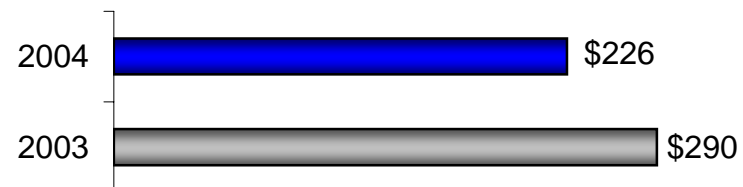
- Increased volume

**Free Cash Flow**



- Reflects a cash outflow driven by the late timing of collections, which were collected early in Q3.

**Bookings**

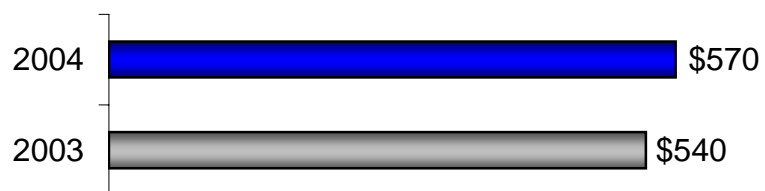


**Note:** Net sales include intercompany sales

## Q2 - Raytheon Aircraft Company (RAC)

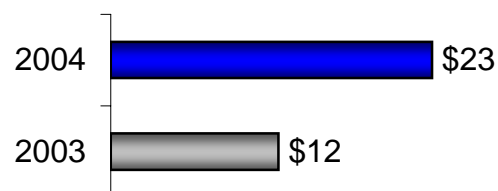
(\$ Millions)

**Net Sales**



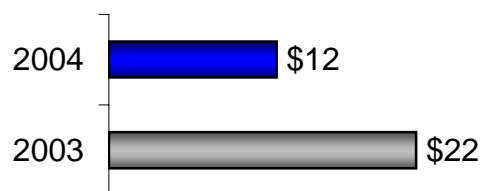
- Increased new aircraft sales combined with higher US JPATS (T-6 Trainer) program sales, partially offset by lower used aircraft sales

**Operating Income**

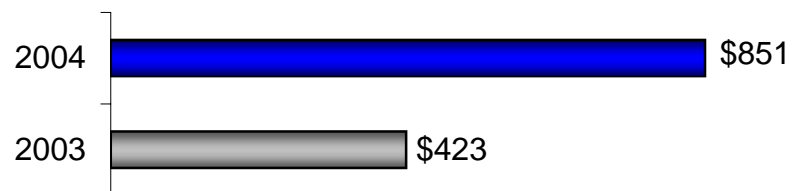


- Growth reflects continued cost and productivity benefits combined with increased volume

**Free Cash Flow**



**Bookings**



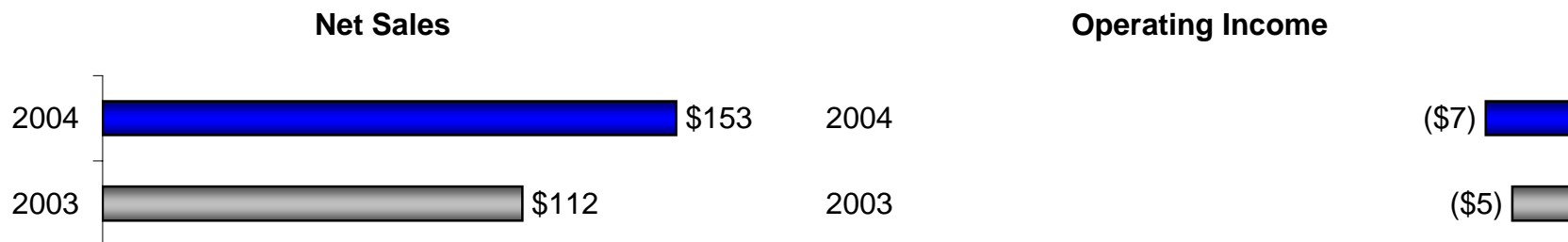
- Includes an order from NetJets for over \$300M

**Note:** Net sales exclude sales to Flight Options



## Q2 - Other

(\$ Millions)



- Increase in sales driven by the consolidation of Flight Options in June 2003

**Installments Due on Long-Term Debt and Subordinated Notes Payable**

(\$ Millions)

<u>Year</u>	<u>As of Dec 31, 2003</u>	<u>As of June 27, 2004</u>	<u>As of July 29, 2004</u>
2005	\$ 1,048	\$ 815	\$ 813
2006	1,087	704	654
2007	1,149	1,117	1,069
2008	544	517	484
2009	-	-	-
Thereafter	<u>3,504</u>	<u>3,328</u>	<u>3,298</u>
Total	\$ 7,332	\$ 6,481	\$ 6,318

## Non-GAAP Financial Measures

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The following measures are considered "non-GAAP" financial measures under SEC guidelines:

- (i) Free cash flow - Operating cash flow less capital spending and internal use software spending.
- (ii) Income from continuing operations excluding the effect of charges related to the settlement of the class action lawsuit and the early retirement of debt.
- (iii) Diluted earnings per share from continuing operations excluding the effect of charges related to the settlement of the class action lawsuit and the early retirement of debt.
- (iv) Operating Income Excluding FAS/CAS Adjustment - Operating income adjusted for the non-cash FAS/CAS pension amount.\*
- (v) Earnings per Share Excluding FAS/CAS Adjustment (Economic EPS) - GAAP EPS from continuing operations adjusted for the non-cash FAS/CAS pension amount.\*

**\* The FAS/CAS pension adjustment is the difference between SFAS No. 87 (FAS) pension expense or income and the Cost Accounting Standards (CAS) (the standards that prescribe the allocation to and recovery of pension costs on U.S. government contracts), pension expenses.**

**The Company uses these non-GAAP financial measures to facilitate management's internal comparisons to the Company's historical operating results, to competitors' operating results, and to provide greater transparency to investors of supplemental information used by management in its financial and operational decision-making. The Company uses certain of these non-GAAP financial measures to evaluate its operating performance and to determine management incentive compensation. The Company also uses non-GAAP financial measures which exclude certain charges and credits because it believes that such items are not indicative of its core operating results, are not indicative of trends, and do not provide meaningful comparisons with other reporting periods.**

# Reconciliation of Non-GAAP Financial Measures

		Three Months Ended	
		27-Jun-04	29-Jun-03
<b>(i)</b>	<b>Free cash flow</b>		
	Operating cash flow	\$ 892	\$ 640
	Less: Capital spending	(74)	(79)
	Internal use software spending	(25)	(28)
	Free cash flow	793	533
	Less: Discontinued operations	(25)	(116)
	Free cash flow from continuing operations	<u>\$ 818</u>	<u>\$ 649</u>
<b>(ii)</b>	<b>Income From Continuing Operations Excluding Charges Related to Class Action Lawsuit Settlement and Early Retirement of Debt</b>		
	GAAP income from continuing operations	\$ (94)	\$ 186
	Excluding settlement of class action lawsuit charge	(222)	-
	Excluding early retirement of debt charge	(24)	-
	Non-GAAP income from continuing operations as adjusted	<u>\$ 152</u>	<u>\$ 186</u>
<b>(iii)</b>	<b>Diluted Earnings Per Share From Continuing Operations Excluding Charges Related to Class Action Lawsuit Settlement and Early Retirement of Debt</b>		
	GAAP diluted earnings per share from continuing operations	\$ (0.22)	\$ 0.45
	Excluding settlement of class action lawsuit charge	(0.51)	-
	Excluding early retirement of debt charge	(0.06)	-
	Non-GAAP diluted earnings per share from continuing operations as adjusted	<u>\$ 0.35</u>	<u>\$ 0.45</u>
<b>(iv)</b>	<b>Operating Income Excluding FAS/CAS Adjustment</b>		
	GAAP operating income from continuing operations	\$ 340	\$ 383
	Excluding FAS/CAS Adjustment	(118)	(27)
	Non-GAAP operating income from continuing operations as adjusted	<u>\$ 458</u>	<u>\$ 410</u>
<b>(v)</b>	<b>Earnings per Share Excluding FAS/CAS Adjustment</b>		
	GAAP diluted earnings per share from continuing operations	\$ (0.22)	\$ 0.45
	Excluding FAS/CAS Adjustment	(0.17)	(0.05)
	Non-GAAP diluted earnings per share from continuing operations as adjusted (Economic EPS)	<u>\$ (0.05)</u>	<u>\$ 0.50</u>