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PRESENTATION

Eileen Drake - *Aerojet Rocketdyne Holdings, Inc. - CEO*

Good morning. Well, it's pretty loud, I think everybody can hear me. You'll notice with my accent, I grew up in New England and New York, so I never have a hard time projecting and people hearing me. Sometimes it's hard understanding me with my funny New England accent.

So I'm Eileen Drake, the CEO of Aerojet Rocketdyne and I want to welcome you to our very first investor meeting and factory tour. I hope everybody has the opportunity to also go out on the factory with us. You know, the factory speaks for itself and it always excites people when you walk out of our facility and actually get to see the products that we talk about all the time. So I'd like to introduce just a couple of people, important people that are in the room with me today.

I think most people know Warren Lichtenstein. He is our Executive Chairman of Aerojet Rocketdyne, my boss. Paul Lundstrom, you probably have heard about him and you'll hear a lot more about him, our new CFO that joined Aerojet Rocketdyne from United Technologies in November of 2016, so a couple of months on the job and you'll hear from him after me.

A couple of people from my team, John Schumacher, if you can raise your hand, John runs our Washington D.C. office and as you can imagine right now with the new administration, he's a pretty, crazy busy guy. Jim Simpson joined us from Boeing. Jim is my Head of Business Development and Strategy here at Aerojet Rocketdyne, joined the company about a year and a half ago, and Mark Tucker who is my Chief Operating Officer, been with the company shortly after the integration with Pratt & Whitney Rocketdyne and when I became CEO in 2015, Mark became COO, so a great addition to the team. I think everybody knows Brendan. Brendan is our new Head of Investor Relations. He filled the spot when Paul came on board. John Schneider, if you're lucky enough to be on his portion of the tour, he used to run the site, just recently was promoted to Head of Quality for all of Aerojet Rocketdyne. And Kelly, Kelly Anderson is in our finance group. She works out of our Sacramento group, a core to our team and a big help in putting today's presentation together and also the integral as we go forward in our outreach with our investors.

So a little bit about today, I have to just flash this for the lawyers that work for me. And this is our Safe Harbor statement and, you know, kind of goes unsaid. Today's agenda, we're going to spend about an hour in this room unless you all want more than an hour. I'm going to go through a presentation of the business, specifically around space and defense. Paul will follow me with some information on the finance slides. We'll have the Q&A session and then we'll do a factory tour. I hope you can all join us for the factory tour that will be about one hour, also a nice time to meet

with the management team and to ask questions as well. And then we'll circle back in this room for a casual lunch and we'll also be able to interact with some Q&A as well, and then our goal is to wrap up by one o'clock.

So if we start with Aerojet Rocketdyne at a glance, here is Aerojet Rocketdyne. I think everybody knows our financials for 2016, $1.76 billion of revenue. A number that we're pretty proud of is our backlog, $4.5 billion with 38% of that expected to be filled within one year. You'll see as I go through this presentation as well as the factory tour a very big diversified portfolio balance between space and defense, strongly aligned with our customer priorities on the DOD, even the NASA side and we also have as you know significant real estate holdings.

Last year I restructured the company from six business units to two around space and defense. So you can see here, our space sector if you will, is space and launch systems as well as in-space which is predominantly our Redmond, Washington operations and I'll walk through that. Defense is around missile defense and that's what you hear about in the press a lot lately as well as our tactical systems, and I'll walk through the factories that support that. And then in the bottom left, you can see advanced programs, and we have that on both the space and the defense side.

The defense side, our advanced organization is called the Rocket Shop and that's where we do all of our work related to hypersonic, supersonics and some of our very technical, sometimes top secret programs that we work on. And then we also have the advanced programs on the space side that work on all the new emerging things like green propellants and things like that. And also the real estate piece that Paul will talk a bit more about.

So who are we? If you think about our business, and I'll show you a slide in a minute and it's very eye opening. When you look at the history of Aerojet Rocketdyne going back to 1915 with General Tire & Rubber and through the years, but really the start of the current business as you know us today started in 1945 with the acquisition of Aerojet Engineering, and then the engines that we went on to produce in the 1950s really formed the company that you know today, Aerojet Rocketdyne, specifically with the development of the Redstone engine that was for, at that time, the large ballistic missiles. And large ballistic missiles are the precursor of the modern day Space Launch Systems as we know today.

And the engines that we went on to produce in the 1950s were ushered in the space age and the ultimate race to the moon, and the first engine as probably you've all seen in the museums and we have one out here in the parking lot that we're very proud of, the F1 engine. The F1 engine had 1.8 million pounds of thrust and that's what propelled the Saturn and the astronauts out of the earth's gravitational pull so we could later go on to land on the moon in the 1960s.

And the other engines that we went on to produce with RS-25, the Space Shuttle main engine at the time, the RL10 upper stage that we do in West Palm Beach, those engines, although they're a big part of our heritage, are also a part of our current portfolio and although the engine cycles are predominantly the same as they were then, the performance has been drastically improved, and I'll talk a lot about that as we go through the presentation today. And that was really through the use of additive manufacturing or 3D printing as well as some of the modern materials that we developed right here at Aerojet Rocketdyne.

You can see I highlighted just a couple of the defense systems, the THAAD, the Terminal High Altitude Area Defense and the Standard Missile, very core to the Department of Defense's core portfolio, and it really makes Aerojet Rocketdyne a critical national asset. And as I mentioned and I'll talk more about, we support the strategic priorities of both NASA and the Department of Defense.

This shows, I know it's a bit of an eye chart, it's in your deck, 100 years of acquisition and divestiture, that's really core to what we've done throughout the 100-year legacy of Aerojet Rocketdyne starting in 1915 with the formation of General Tire & Rubber. You can see the section in the middle, at one point, we were even in the media business where we went and acquired RKO from Howard Hughes. We've gotten out of that business obviously throughout the years.

Some of the key points on that, on the bottom of the chart I'd like to point out, specifically in 1945 as I mentioned, the acquisition of Aerojet Engineering and then later on in 1983, when the company was restructured into GenCorp. So if we start with that as a timetable, you can see the very rich history of the heritage Aerojet time. Beginning in 2002 when Aerojet acquired from General Dynamics the space systems which is now known as the in-space business in Redmond and I'll talk a bit more about that, we then went on in 2003 to acquire Atlantic Research Corporation and that's our Gainesville site, engineering site in Virginia as well as our Camden, Arkansas site where we do the solids.

Pratt & Whitney's chemical systems which includes the THAAD, 2004. The biggest one for us in our modern history in 2013 were the acquisition of Pratt & Whitney Rocketdyne from United Technologies. You can see the boost in the net sales in 2013 when Aerojet and Rocketdyne came together. In 2015 we decided to rename the company from GenCorp to Aerojet Rocketdyne to really emphasize our primary focus on space and defense. And we didn't stop there.

You probably heard about the acquisition that we recently did in 2016 where we acquired Coleman from L3. Although this was a small acquisition, it was a pretty strategic acquisition, and what they do at Coleman is they're a prime in the medium ballistic missile target business which makes us now a prime working directly with Missile Defense Agency as well as gives us a lot of systems integration work when it comes to the solids business, and we think this will be key as we go on to work on the Ground Based Strategic Deterrent program which is really the next biggest program out there in the defense world.

So obviously we have a rich history. You know, we're used to acquisition and divestitures and redefining who we are as a company, and this is really core to our strategy going forward as well.

So if we talk about investing in today's Aerojet Rocketdyne and why I'm so excited to work here at the company, these are the themes that I want to talk a bit about during my section--brand new management team. You'll see and I'll walk through some of the key members of my staff. Although it's a pretty new management team, wealth of experience in the industry and you'll see that. Solid industry foundation and technical leadership, we have a broad range of products, I mean everything from the very smallest thrusters that we produce in Redmond that put out 2/10ths of a pound of thrust that use -- are used to control and finely control the satellites in space to the 680,000 pound thrust of the RS-68 which is used on the Delta and that's used for our most secure national missions that we have on the Delta with ULA.

Significant operational improvements to drive new and existing programs, I want to talk about Competitive Improvement Program as well as Aerojet Rocketdyne business operating system. And undoubtedly this team is focused on revenue and profitable growth to enhance our shareholder value, which is what you all are interested in today.

So I'm going to spend a couple of minutes on this chart because I think it's really important. So I've been here now two years in this job. June 1st was my two-year anniversary. Joining the team from United Technologies where I was the president of the auxiliary power unit business and small turbo jet business. Before that, I was at UTC for about 11 years. Before that job, running the APU business, I had jobs both on aerospace and the commercial sector both in operations, quality, supply chain, started out at Pratt & Whitney where I was a vice president of quality and then later on went to run all of operations for the six business units for UTC.

Before that, I spent about eight years at Ford Motor Company. I think that's where I became a factory rat. My factory was actually chosen to be the first factory where we launched the Ford production system, so it's where I started my background in quality, lean and continuous improvement and then I went on to run the fuel systems division for Ford before I went to UTC.

And before that, something I'm most proud of, I spent about 8.5 years in the U.S. Army. I was a helicopter C-12 pilot and I had the fun job of running Davison Airfield right outside of the Pentagon.

So some of my core members, Arjun Kampani who is situated right next to me on this chart, he's my brand new General Counsel, sits in the El Segundo office with me, great addition to the team, just celebrated one year with Aerojet Rocketdyne. He's got 19 years of experience in the business. He recently came from General Dynamics where he was a general counsel, a top M&A general counsel. He's done over 30 divestitures and acquisitions in his timeframe, so great addition.

Mo Khan, my newest member, just joined the team a couple of months ago, but not new in the industry. He's an Air Force Academy grad, spent 21 years in the Air Force as an Air Force officer and most recently served as Vice President of International Initiatives for both the commercial and the military sector for space for Orbital ATK, one of my colleagues, competitors and customers.

Next, sitting next to him is, on the chart, is Paul Lundstrom and Paul is our new CFO. I'm extremely excited that Paul is a part of the team, joined the team in November of 2016. I mentioned he came from the United Technologies as well. He's had financial roles in both the aerospace businesses,

like Hamilton Sundstrand as well as CFO positions in the commercial sectors like Carrier. But what attracted me most to Paul and one I was so excited that he joined the Aerojet Rocketdyne team is his last assignment was the Vice President for Investor Relations for all of the UTC. So obviously he's a huge aid to me in my goal to increase our outreach with our investors and our shareholders. And you'll hear from him after me.

John Schumacher who is in the room today, John has got over 35 years of experience in the business, a Naval Academy grad. We won't hold that against him, spent some time as a Navy officer, spent many years at NASA where he was the chief of staff for the administrator in the early 2000s, spent some time at Airbus, and now he has the very tough job of running the Washington DC office and it's his job to stay very close to not only the administration, but to NASA's key goals and objectives.

Jim Simpson who is sitting next to him, we were lucky to get him from Boeing. He spent 35 years with Boeing as Vice President of Business Development and Strategy for Space and Network Systems. Huge addition to the team, joined the company about three months after I became CEO and he's head of our strategy and business development here, very entrenched in the community and very well respected amongst our primes.

Jerry Tarnacki, our new addition to the team just this year, he's not in the room with us today, became my Senior VP of space. As I mentioned we reorganized into space and defense. Jerry is not new to Aerojet Rocketdyne. He joined the company almost a year ago as my Vice President of Quality and then I just recently promoted him to head of space. Thirty years in the business, he's an Air Force guy, got out of the military as a Lieutenant Colonel, spent time at General Electric in aircraft engines and most recently head of aftermarket and MRO at UTC, a $5 billion piece of their business, so very strong when it comes to P&L management, systems operations programs and quality.

And last but not the least, my partner in crime, Mark Tucker who is the COO. Mark joined Aerojet Rocketdyne shortly after we acquired Pratt & Whitney Rocketdyne from UTC. It was his job to develop and to launch our Competitive Improvement Program and I'll talk more about that. When I became the CEO, Mark became the COO, great experience, 30 years with Northrop Grumman. He was a vice president for special programs on the aerospace sector group, lots of experience in the upfront program development to include key programs for Northrop Grumman, like the F-35 and the Air Force tanker program, so great addition to the team.

So you can see, this is a new, energized team, but by no sense is a team without the industry experience both on the space and the defense piece that we need to significantly improve and grow Aerojet Rocketdyne. So not only did we work at redefining the management team, we also looked at the structure of the company, and as I mentioned we restructured from six business units to space and defense, and we did that for a couple of reasons.

One, I wanted to get closer to the customer with two sector leads. Two, we eliminated some of the spans and layers, redundancy, bureaucracy and cost in the business which has really be a lot more nimble. We restructured some of the executive organization and it's really let us focus a lot more now on our key objectives. And then we also looked at the headquarters underneath that, so you get the management team, you get the structure of the company. Recently we announced we're moving or starting our defense headquarters in Hunstville, Alabama. So I mentioned Mo was brought on as senior VP of defense who will live and work in Hunstville and help us as we open up our manufacturing center of excellence there for additive manufacturing, composites and some of the work on our AR1 engine.

In the middle you can see El Segundo, California. We opened up a very small corporate headquarters there for Aerojet Rocketdyne Holdings, Inc. And that's predominantly the people that you can see on the top of that chart as well as myself work in that headquarters, so a small corporate headquarters with the exception of Mo who is in Huntsville and John who is in Washington DC. And then on the right, that's where we are today, Canoga Park. This is now our center for our space piece of the business.

So a strong leadership team, tons of industry experience, and this is what excites me about the potential of Aerojet Rocketdyne.

You can see our primary operation sites, so this doesn't include some of our engineering sites and the D.C. office. This is where we do manufacturing. There're 11 sites around the United States. Bottom left is Canoga Park where we are today, and you'll get a nice factory tour and see what we do inside the site. Above that you can see Sacramento, California, that's right now where we do the large solids, the Atlas business for ULA. I'll talk a minute about Sacramento in a minute. Above that is our Redmond site in Washington where we do all the in-space work, Orange, Virginia where we do a lot of the solids and we also do some hypersonic testing. ARDE, that's in New Jersey where we do the tank work, Jonesborough, that's in

Tennessee, that's where we have some of our specialty metals. Huntsville, Alabama, I mentioned that, that's our new defense headquarters. Coleman, I mentioned our small acquisition that's in Orlando, that's where we do the medium ballistic missile targets. Along the bottom, Camden, Arkansas, our solids work, big, big factory, Stennis Space, that's where we do all the assembly and test of our engines to include the RS-25 and the RS-68. West Palm Beach, that's a legacy and Pratt & Whitney Rocketdyne site, that's where we do the upper stage RL10.

You know, a lot of people when they think about aerospace and defense and you think about the development piece of it, you think about the engineering piece of it, you see a lot of the press out there today with a lot of new people coming into this space, this is something that I think sometimes people underestimate, and it's such an important critical factor to why we've been so successful and why we have 100% mission success with our customer ULA and also on our defense side, is the strong capability we have in production. And I think as you walk out in the factory today, you will undoubtedly agree that we have centers of excellence, we have a strong production capability. And another layer above all these is our supply chain, so very much aligned to the suppliers that we have and we treat our suppliers just like we treat a factory, because if we have a broken supplier, it's another link and our process, but a very strong operations site across the U.S.

Continuous improvement, and as I mentioned with the new leaders in Aerojet Rocketdyne, as they all came on board, we made sure that each one of them had a strong background and process improvement, continuous improvement in order to drive the continuous improvement agenda that I wanted to drive. So we launched quickly after Mark joined the company the Competitive Improvement Program that you see up at the top of the chart. And when it was first launched in 2015, it was launched to save $145 million across all of the business on a run rate beginning in 2019, and it really had three legs of the stool at the time in '15. It was to make sure that we looked at our factory utilization and at that time, we said we're going to take a million square feet out of Sacramento and move some of the products that we had in Sacramento to Camden, Arkansas and to Orange, Virginia. It was to look at program efficiency, how do we run our programs and do it more affordable and on time, and the third one was overhead reductions, and a lot of that is what I talked about with the corporate restructure and some of the realignments of the business sectors.

Earlier this year, we announced space two of CIP which is to save $85 million a year on a run rate. So when you put the two together, it's $235 million of cost reduction. The second phase of CIP's goal is to move the military programs work from Sacramento to Huntsville, Alabama with the defense headquarters. It's to move the space work out of Sacramento to here to Canoga Park, and it's to open up a center -- manufacturing center of excellence in Huntsville for composites, for additive manufacturing which you'll see out on the factory floor today as well as to do some of the work on our new AR1 engine with the subcomponent and sub-assembly work.

On the left, you'll see Aerojet Rocketdyne Business Operating System, that's an operating system we launched last year. I saw this as a critical component to really leveraging the synergies of Aerojet and Rocketdyne. It's not unlike the operating systems that you'll see with the Ford production system, the Toyota operating system, the Honeywell operating system. It's process focused. It's focused on the customer. It's data driven. It has to do with things like statistical process control, standard work, value stream mapping, the tools we use throughout our factories, and I'm really excited to say that the 11 sites I just talked about are all on this operating system with the same metrics, the same scorecard and the same focus that's taken out cost out of the business.

And last but not the least, on the right I talk about values. And you might say, what the heck does values have to do with continuous improvement? And, you know, you can put a lot of these processes in place, but unless you have the fundamentals for how you want your employees to come to work every day, I think it would be a missing piece.

So we re-launched what we call the Rocket values. And it's hard to read but along the outside are the shared values, the values that we all have to exemplify that gives us the right to be in this very tough business and that's safety, health and environment, without a doubt, you can imagine what we do especially around some of the energetics and propellants, we have an awesome safety record and we're actually benchmarked by many companies on our perfect, knock on wood, safety record.

Ethics and compliance, obviously anything that we have to do has to be ethical and with the highest compliance, quality and last but not the least customer focus. Everything we do has to be focused on the customer. The inside is our individual values that we all have to exemplify. And I tweaked this a little bit when I put them out last year, accountability, adaptability, that's the one I added which I felt was important to make sure that we focus on not just the old way of doing business, but the new way of doing business. Teamwork, we have to work together, excellence and obviously integrity.

So this is a powerful network of continuous improvement coupled with the values that this leadership team is absolutely committed to, and it's what's given us the opportunity to really take some cost and drive process improvement and also capitalize on the synergies between Aerojet and Rocketdyne.

So this shows us a little bit more on slide 12. I'll get now into space and defense, and as I mentioned we're a leader in both aerospace and defense sector, balanced portfolio. If we look at the space piece on the bottom left, I highlight the launch piece. We produce the RS-68 booster engine for the Delta, we have the upper stage RL10 on both the Atlas and Delta for ULA and we do the solids work as well for the Atlas for ULA.

One of our newest developments that you probably read a lot about, I hope you read a lot about in the press is the AR1 engine, Aerojet Rocketdyne 1. And this is the new engine that we're developing. It's our engine and our answer to ending the reliance on the Russian RD-180 engine for our national security missions. You probably saw where the administration and Congress made a mandate that by the end of 2019 we will get off our reliance on the Russians for national security missions with the RD-180 engine.

So we've been producing this engine now or developing this engine now for the last couple of years. We just passed a critical milestone in May with our critical design review, CDR, and that's a critical milestone, and it was actually graded and participated with 80 industry experts to include SMC, the Air Force and our customer with ULA, so we're very excited about that.

And the upper graph, you can see the human space exploration. We're excited that we were down-selected and selected on both the booster engine, the RS-25 and the upper state RL10 for NASA's Space Launch System SLS mission which is huge to Aerojet Rocketdyne. I'll talk a little bit more about that. On the upper right-hand corner, the upper stage RL10 at West Palm Beach and then in the middle is really our -- what we call our in-space business which is predominantly in Redmond Washington.

Out of this business piece, we produce the lithium-ion batteries that power the international space station. How cool is that. We just signed a contract with NASA for solar electric propulsion for the transfer stages of cargo, to assist lunar and planetary exploration. Also in in-space we produce propulsion elements for Lockheed Martin's Orion spacecraft, for Boeing's commercial crew transport capsule as well as the Sierra Nevada cargo transient stages, so huge array of what we do. We also produce in Redmond both the chemical and the electric thrusters for both commercial and military satellites.

If we turn to defense in a minute, you know, that's really where we have our solid propulsion stages and I mentioned the THAAD, terminal altitude area defense to Standard Missiles, the PAC-3 Patriot and we also do the divert attitude control which you'll hear a lot about and you'll see the one in the factory today for the THAAD. We do it for the THAAD, for the Patriot as well as a ground based interceptor for ground based military defense.

In the center, it's something that is huge for us. It's something we can't talk a lot about, is hypersonics. This is a huge area for us especially when you start to see the hypersonics capability and threat out of Russia and China. We're partnering with all the primes on this and this an area that we're very proud of. We're a leader in this area, but it's also one of those that's either confidential or top secret where we can't talk about the elements of it, but a huge piece of our portfolio.

Strongly aligned on both the DOD and NASA and you can read on this chart what their missions are, and as I mentioned, you know, we're very closely aligned on what their goals are and that's a big part of what John's job is in Washington, D.C. to not only make sure that we're aligned with what the customers want, but internally, we're funding those technologies to support those priorities.

This is meant to be a transition slide now that goes into the space piece and I'll talk about space and defense, but I want to pause on this slide because I love this slide. This slide shows that Aerojet Rocketdyne has enabled the U.S. to visit every single planet in the solar system and beyond, and we're also very proud that we're the company that has propelled every single astronaut off of U.S. soil in the history of the space program. And nobody else can say that and I thought I would be remiss if I just used it as a transition slide and didn't tell you really how impactful and meaningful this slide is.

So I'll spend a few minutes on off-space piece, hands down, we're the largest domestic portfolio of space propulsion and power systems out there and you can see the array of the product we have. Very proud that the U.S. manned space launches are going to resume in 2019 and that's with

NASA Space Launch System that I'll talk more about in a detailed slide. And NASA's new Space Launch System and the Orion programs are really going to restart U.S. deep space exploration and someday take us to Mars, which is expected in the 2030s.

So if you look a little bit about the space sector, you know, you hear a lot about reusability and expendability a lot. Aerojet Rocketdyne has been in the business of reusability for a long time. I mentioned the space shuttle main engine, the RS-25 which was used in the Space Shuttle days, it was designed and produced to be reused and those engines operated up to 19 times. You know, we're very proud of the RS-25 and our Space Shuttle main engine. We've repurposed it and I'll talk more about what we did to that engine for the Space Launch System, but in the day, that engine was designed to operate in unbelievable atmospheric and environment conditions.

It operated at 6,000 degrees Fahrenheit combustion temperature, while burning cryogenic propellants at negative 400 degrees Fahrenheit and this is while it was putting out a half a million pounds of thrust, unbelievable engine. And now we've taken that engine, 40% of it is now with additive manufacturing. We've reduced the cost and now it's going to be used with NASA on the Space Launch System which is pretty cool.

I mentioned we enabled more than 1,600 recorded space launched space probes to every planet in the solar system. I'm pretty psyched that we're actually going to participate in the new program that was just announced last week to go and explore the sun. Cornerstone to U.S. space since inception, we're very proud of our 100% mission success. This business, they don't call it rocket science for anything. It's a tough industry. We take it very seriously and we are very, very proud of our 100% mission success for manned and DOD launches.

We powered every one of United Launch Alliance's 119 launches and our portfolio is built on franchise programs where many of them were sole sourced. You could see the bottom right corner where some of our heritage engines are also used for our current day programs. We're also partnering with a lot of the primes on new programs. This is just one small example, and it's Boeing commercial crew CST-100 Starliner Program where we actually provide the propulsion for the service module capsule that you can see here. And this program is all about bringing humans to the International Space Station.

This is a slide that just shows what we have for Space Launch Systems as I mentioned, SLS. We signed a contract with NASA, it was over $1.6 billion. It's a very important program and it's one program that is on John's main priority list as well as mine to make sure that it's funded with the administration. I'm happy to say it's fully funded for '17 and it's also in the President's budget for 2018.

We have fully discrete engines and motors on the SLS. You can see the RS-25 that I mentioned on the bottom. Every SLS will get four RS-25s. We love when we can do four of anything. We also have four upper stage RL10's on it and you can see the discrete engines and motors we have to include the Jettison Motor for the Orion space capsule. So this is a huge program to Aerojet Rocketdyne and we're very proud that we were selected and sole sourced on these products, specifically on the two core products, the booster engine and the upper stage.

So now, I'd like to move quickly to the defense piece of the business. I think everybody knows with all of the geopolitical instability, the medium and long-range proliferation that you hear around the world as well as the administration, the president's goal to modernize the military, this is why we're extremely bullish and excited about this area of the business.

I highlighted just a couple of the products sitting in our portfolio, but I'd like to talk about the THAAD for a second. So the THAAD as I mentioned, the Terminal High Altitude Area Defense, you probably saw last week a very high profile important mission and test for Missile Defense Agency where it's the first time in U.S. history that we actually intercepted an intercontinental ballistic missile target and it was highly publicized. And typically the missile defense doesn't publicize a lot of these tests, and I think the reason why they did it so to let the world know what we're doing out there. But the reason why we're so excited about that test is we were an integral part of it.

We provide the DAC or the Divert Attitude Control that actually manages the altitude and the velocity of the EKV, the exoatmospheric kill vehicle. We're not going to give a quiz by the way after this with all the acronyms. And the EKV is what it actually hits the target. So we'd like to say and MDA even say, without Aerojet Rocketdyne that test would not have been successful. So we're very, very proud of that, we're proud to be on platforms that we have with the military.

I love this chart because it shows -- and it's actually a simple chart although it looks pretty complex and I'm on the chart that's supporting missile defense across the phases. So this chart shows a trajectory of a ballistic missile from ascent or boost as we call it to mid cross as it's gliding, to terminal as it's actually hitting the target. And what I highlighted at along the bottom throughout those spaces are the aerospace products that we have at Aerojet Rocketdyne.

So you can see through ascent and mid-course we have the Standard Missiles as well as the ground based defense units, and then you could see along mid course and terminal we have the Hawk, we have the Patriot, we have the THAAD and you can see that we have the Divert Attitude Control, the DACS. You're actually going to see that the THAAD DAC out here on the factory floor today. So huge, huge portfolio when it comes to missile defense and they rely on us for our products.

I talked a minute before about hypersonics and supersonics, which you can see on slide 21, you know, this is really the revolutionary very long-term defense products. We've all heard a lot about it in the press. At Aerojet Rocketdyne we would like to say we provide the tip to tail solutions from the air inlet all the way to the exhaust nozzle

We're not going to give you the primes on this, there's a lot of work that we do not only in our rocket shop as I mentioned on advanced work, but we also do work on our West Palm Beach hypersonics group as well as with our Virginia site. So this is core to Aerojet Rocketdyne. It's an important piece of our portfolio, a lot of this stuff is you know, classified and top secret, but I'd like to tell you that we really have some patented areas in here, specifically in the fuel cooled hydrogen technology that's coupled with additive manufacturing that gives us a discriminator over any of the competition.

So if I turn a minute before I let Paul come up and he will talk about the financials, so how are we positioned for growth? You've heard about our very well balanced portfolio. In the upper corners of slide 23, I picked a legacy program and a franchise program on both the THAAD and obviously the RS-25. You see that we have advanced technology base aligned with our critical needs at both NASA and the Department of Defense, strong and growing backlog which is huge for us and it's very diverse, it's balanced, and you saw our proven manufacturing capability and expertise along our 11 sites in the U.S., that has positioned us nice for some of the new programs coming down the pike.

GBSD or Ground Based Strategic Deterrent is huge, it's the next biggest program coming out there, we are partnered with the primes. The acquisition of Coleman actually helps us in this area because it gives us the systems integration piece when it comes to the solids. There's a couple of components involved in GBSD that are in our portfolio that we would be bidding on, and that's the post-boost vehicle and then three stages of solids. And when you read the public numbers that are out there, over the 30 years of this program, we estimate that the components that I just talked about could generate between $3 billion and $8 billion of revenue. So GBSD is critical, it's important. We're focused on it and we believe we have the right technologies to be very, very competitive.

I mentioned hypersonics and supersonics, you know, we've been investing in this area for decades and I'm glad we did. It's an area that is very long-term and a lot of people give up on the funding because it is long term. We've partnered with the primes. We had very successful capabilities and now the hypersonics and supersonics are at the top of the agenda for the administration, and we hope that a program of record comes out very soon. We're very, very excited about this area.

And then I chose another area that is pretty new to us, the XS-1 and I'm excited about this. The XS-1 as you probably read is a program between Boeing and DARPA. It's an experimental space aircraft where they'll launch satellites into low earth orbit, and our mighty RS-25 was just chosen as the main propulsion will also be used for reusability, so we're excited about that.

So I know that was fast and hopefully you got a good glimpse at our capabilities both on the space and defense piece. You saw some of our technologies and our factory capabilities, couple that with our awesome new management leadership team that is focused on growth, focused on continuous improvement. It really puts us in a nice position as we move forward and really go after some of these key programs.

So with that, I'm going to turn it now over to Paul who is going to walk through some financial slides and then we'll open it up for some Q&A.

Paul Lundstrom - *Aerojet Rocketdyne Holdings, Inc. - CFO*

Okay, thank you. Can I get a clicker? Okay, so we already welcomed you a few minutes ago, but I have to say too, it's really nice to see all of you here today. I'm glad that we could fill the room, very nice to see so many familiar faces. I worked with a lot of you gentlemen at UTC, so very nice to see all of you. Again, my name is Paul Lundstrom. I'm the new CFO here at Aerojet Rocketdyne and very happy to be here.

I'm going to walk through a few slides on the financials. We're going to start with revenue, we're going to talk a little bit about our real estate holdings, talk about profit and cash. First, on the top line, as you know, just shy of $1.8 billion in revenue last year, up about 3% sort of apples to apples. If you strip out the land sale gain we had in 2015, we're up about 6% organically. That growth continued and then some in the first quarter.

First quarter sales were up about 14%, nice growth, largely driven by growth in development programs particularly on the NASA side, strong, strong growth. One thing to sort of consider as you look ahead, you know, development margins are typically a little bit thinner than what you would see in a fully learned out run rate production program. So you might want to think about mix as you look ahead, but again solid topline performance in the first quarter and we look to see more of that as we move through the rest of the year.

Fourteen percent is a bit sporty, I wouldn't just run that out and say that's your 2017 estimate. I'll try and bound it for you a little bit. You know, we acquired Coleman in February of this year, we're going to have Q2, 3 and 4 dropping in. You saw on our press release, that's a $35 million to $40 million a year business. So we get a couple of points to lift from Coleman on the top line and I would say continued solid organic growth from the balance of the portfolio, but I wouldn't expect to see 14% growth.

Backlog, very healthy as I already mentioned, hit an all-time record last year of 4.5 billion. I feel very good about that. First quarter backlog was solid as well. If you look year on year, first quarter of 2016 versus the first quarter of this year, backlog was up about 8%, so nice to see that healthy backlog. As you know that could sort of be a little bit bouncy as large program wins tend to be in the hundreds of millions, not the 20s of millions, so I would expect that to balance a little bit, but strong, strong position as we ended last year and we feel good about where we are right now.

A couple of comments on just sort of the annuity nature of some of our programs. What I love about this business is you run a program today, it can potentially run for decades. Top of the page, good example would be the Standard Missile program, that was launched in the late 1950s. That program continues today. We will likely see growth from that program into the future, so great, great programs, spanning many, many decades.

A lot of legacy programs here, Standard Missile, Tomahawk, GMLRS. THAAD is in the news a lot lately. You saw the battery installed in South Korea. You saw this recent administration deal with the Kingdom of Saudi Arabia. That was a $110 billion deal. There would be a piece of THAAD in that I suspect so we expect growth from some of these legacy programs, not just solid continuous annuity type base.

On the space side, another interesting thing about the program nature of these businesses, they have the potential to spawn derivative applications. Eileen mentioned the SSME, the Space Shuttle Main Engine, which is the RS-25, that led to the Space Launch System. Big program, you saw the 1.2 billion dollar award at the end of 2015.

That program is growing right now. It grew in the first quarter, we expect that to grow over the next few years. Solid, solid program. And interestingly, another derivative application, you saw the XS-1 announcement. This was a DARPA announcement a couple of weeks ago. DARPA's partnering with Boeing and Aerojet Rocketdyne to create this space launch vehicle that would essentially -- the goal of the program would be 10 launches in 10 days using reusable technology. So, again, it goes all the way back to the Space Shuttle program that was launched in the late 1970s, first flight early 1980s, is taking us well into 2020 and beyond. So I love that.

The key for us is to continue to stay competitive and keep the quality standards high so we can win the next generation work. So next page, for those on the webcast, I'm on page 26. I just mentioned the XS-1. You see that towards the bottom. We have a proprietary program in the works that could last decades. I can't tell you much more about it, unfortunately, but ground-based strategic deterrent, Eileen mentioned that one as well. That could potentially be a 45-year program, massive potential value to us so excited about that. Again, not quite quantifiable yet, but we look for good things to come and we look for ways to continue to grow that base of, again, it's annuity type programs.

It's weird to put a cost slide in the middle of a revenue section but let me tell you the logic why I'm on slide 27. We launched the Competitive Improvement Program in 2015. Goal of the program was taking $145 million of cost out of the system. It's making ourselves as affordable as possible. We launched the second wave here about a month and a half ago. Goal there, taking about $85 million out of the system.

Between those two, $230 million of run rate savings by the time we get out to 2021 or so. We call it Competitive Improvement Program just for that. This isn't all going to be margin drop, but the intent is, stay competitive, continue to win new work. Create program wins that will fuel this annuity-base, but very important program. You'll hear us talk about that more as we progress through that program.

On slide 28 you'll see our growth enablers. Couple of comments, sort of organically and then inorganically. On the organic side, we feel really good about where we are. This is a -- it's a pro-defense administration right now. Over the next five years, we expect well over $400 billion in defense growth, defense spending growth.

We're certainly going to get our fair share of that or at least that's what we would expect, so we feel really good about the positioning of the defense programs. On the space side, we're well-funded there as well so expect to continue to add to the base. On the M&A side, you saw we did the Coleman deal a couple of months. I love the financials on the Coleman deal, $15 million purchase price, $35 - 40 million in annual revenue.

Good deal purely on its financial merits. Strategically, we get a lot of questions, how do you guys think about M&A? When I think about M&A, Coleman type deals. Coleman, very much in the core. It gives us a lot of strategic benefit. It gives us a lot of strategic benefit. It gives us a prime relationship with the Missile Defense Agency, MDA, for medium-range ballistic missile targets.

It's a space that we didn't play in before but very much core to our existing technology. Love that prime relationship, because as MDA thinks about what they're going to do next, we have a seat at the table. It allows us to position ourselves strategically to meet their needs. I also like the technology and intellect that that brings for the strategic missile mission.

So understanding that ballistic missile and all that you need to do as a target helps us with GBSD as we bid that program going forward. So love the standalone deal, I also love the strategic merits of that deal. So that's kind of how we're thinking about M&A. If you look at the next few years, our goal would be mid-single digit organically with likely upside from M&A.

I get a lot of questions about the real estate portfolio which you can see on slide 29. As you know, we have two segments. We have the aerospace and defense segment which is the bulk and share of our business. Then we have Easton. Easton's job is to monetize the significant amount of excess acreage that we have in the Sacramento region.

Right now, we have at least 6,000 acres of available land. Land is a scarce commodity, particularly around Sacramento. One would think there's a fair amount of value there. Get the question all the time. How much is it worth? I don't know. But to sort of wrap some theoretical math around it, you look at the transaction we did back in 2015, you saw $41 million flow through the P&L. We had some deferred gain as well. Total transaction value was about $57 million.

That was $57 million for 700 acres. So rough math, I get $80,000 an acre. If we have 6,000 acres of excess and I could sell it for $80,000 today, not sure I could, I get $480 million in value. If you can find somebody willing to write a check for 480, we'll take that call any day of the week.

The reality is, it's a little bit difficult to get -- it's really difficult to get deals that big done, but we're working on it. I think what people don't completely understand is, it's not necessarily ready-to-go. We've got 3900 acres which are entitled, but it's not all set up with infrastructure. So you got a pipe water in, you got to pipe sewage out. I mean there's a fair amount infrastructure investment required to get that immediately monetizeable. So we would need to be working with somebody to either share that cost, have them incur that cost, maybe we'll be incur that cost.

There's a lot of complexities, but point is this, we know there is significant value there. We're looking at it, we're working at it, but we're going to be patient and we're to be judicious and we're going to do the right thing for the shareholders. We want to get as much out of it as we can. Jumped a slide.

A couple comments on earnings. Diluted EPS, very important metric for us. We're highlight focused on growing EPS. It's bounced around over the last few years. You see the two-buck-plus EPS back in 2013. A lot of that frankly was a tax valuation allowance, you strip that out, it doesn't look quite so robust.

You've seen us work off interest costs associated with the Rocketdyne acquisition over the last couple of years. We did have a fairly sizable legal settlement in 2015 that we had to book, but we're up in 2016. We expect more good things to come. EPS, really important. Driving operating profit growth. Also very important, the metric that is important to us internally is adjusted EBITDAP.

I know you guys do all sorts of modeling on EBITDA, the P is pension. We also pull out non-reimbursable pension expense. When I say reimbursable I mean through the government rates because that pension expense does tend to move around a lot and we want keep people focused on core operating improvement.

On margins, I'll just tell you. We've had some margin expansion for adjusted EBITDAP over the last few years. Less than a point. I'll tell you. You do the benchmarking. We've paraded it all out. No matter how you slice it whether it's pure GAAP op profit or EBITDA or EBITDAP, I'll fully acknowledge that we're at the lower end of the spectrum.

I think there's opportunity there. That's one of the right reasons that I'm here and I see opportunity in Aerojet Rocketdyne. Not going to give you a specific margin target today, but I'll just tell you. You do the benchmarking. I know we're on the low side. It's something that the team is going to continue to focus on.

Cash. Business has the potential to throw off a fair amount of cash. My frustration in the aerospace and defense business is that it can be a little bit lumpy. You have some really big programs. THAAD is 13% of sales. You got Standard Missile, that's 12% of sales. Twenty-five percent of the business is driven by two programs. Two big programs. And what you can see from quarter to quarter or from year to year is, milestone payments can be big. They can move you round so that can sort of make cash lumpy but if you take a longer-term view, there's no reason why we can't generate cash flow, free cash flow significantly and above net income. You look at what we did last year, $18 million of net income, 111 of free cash flow. Just sort of the major reconciling items that take you from one to the other.

Retirement benefit expense. You look at our GAAP pension expense versus actual pension funding contributions, fairly large gap there. To be fully transparent, that loss on debt repurchased, we had a loss for the refinancing. The cash piece went to the financing side of the cash flow statement, so I'm not going to take credit for that as a helpful reconciling item between net income and free cash flow.

That will apply to working capital. Strong working capital performance as we close out the year. I would love to see this business run at negative working capital. I've seen it done elsewhere. We will focus very hard. We're continuing to focus very hard on working capital. We did at the end of last year. We'll do it through this year. I'm not going to give you a forecast on that, but my view over the longer term is we will absolutely target free cash flow generation in excess of net income.

Couple of comments on the balance sheet debt and liquidity. You've seen de-lever over the last couple years. Leverage ratios are much improved. About 2X improvement, sort of de-risking the balance sheet a bit. On the liquidity side, plenty of liquidity. You saw us end last year with a little over 400 million in cash, little less than that here at the end of the first quarter.

We have plenty of room available in the revolver. Right now, the revolver per the facility is about 350 million. We have 45 million or so that's set aside for letters of credit, but that leaves us with $300 million plus sort of available -- they'll deploy as needed. One thing I think maybe a little bit unnoticed. Last year, we did this big refinancing. We took 7% debt out. We replaced it with a variable rate plus LIBOR, the variable rate is between 175 and 250 BPS.

Right now, we're about 225 plus LIBOR, so much cheaper money. That saves us about $20 million a year. Even if you net against that some incremental interest costs associated with the convert that we did in December, still a fairly sizable year-on-year run rate benefit to interest so that was good to see. And, again, plenty of capacity for capital deployment.

Couple of wrap-up comments. As Eileen said, brand new senior leadership team. I work elbow-to-elbow with these guys every day. Highly, highly committed to making this place better. I think Eileen and the board have done a really nice job pulling together a really good group of execs. Very solid industry foundation. We have production capability unlike many others. We have great technological leadership. We've got a long, long lineage of great -- it's rocket science at the end of the day. Very diverse, well-balanced portfolio, and I would add, portfolio that we believe is position to grow. We're spending a lot of time and energy on operational improvements. Eileen mentioned ARBOS, Aerojet Rocketdyne Business Operating System.

The focus there is productivity improvements, efficiency, taking waste out of the system both on the factory and on the business side. So expect more to come there. We're going to drive that. And we're very focused on sales and profit growth. Very important to driving shareholder value. We're highly committed to that. And we're looking forward to more good things to come.

QUESTIONS AND ANSWERS

Editor

So with that, you know, we said an hour. We have plenty of time for Q&A. That was an hour for our -- sort of our prepared remarks. Happy to take questions. This is being webcast, so if you could do me a favor and wait on the microphone, we'll make sure that all the stuff gets broadcast. So with that, Eileen, maybe you and I take some questions.

Eileen Drake - *Aerojet Rocketdyne Holdings, Inc. - CEO*

You also have the opportunity out on the factory tour and lunch, so if it's not something you could ask today in this venue it's not the first time.

Ian Zaffino - *Oppenheimer - Analyst*

Thank you very much. It's Ian Zaffino from Oppenheimer. I think you guys gave a very good projection about your growth going forward, but can you maybe give us some of puts and takes there? I know you have a contract with ULA expiring or rolling off. There's some that you might win. How do you sort of think about the puts and takes as you look at that mid-single digit growth rate.

Paul Lundstrom - *Aerojet Rocketdyne Holdings, Inc. - CFO*

Let me start with that.

(Multiple Speakers)

Ian Zaffino - *Oppenheimer - Analyst*

-- on top of that because I know some of this stuff rolling off --

(Multiple Speakers)

Paul Lundstrom - *Aerojet Rocketdyne Holdings, Inc. - CFO*

Yes, sure, sure. So, as you know, and -- funny, we show that annuity slide and you have a lot of these programs that -- they're a good solid in the base and they'll be in the base for a long, long time. You're right. The one program that is rolling off, that we will have to back fill with other things, you didn't mention it by name but I will, it's the Atlas program.

So as one major put and then we'll talk about the takes. But the put would be if you go from 2017 to 2018 and then from 2018 to 2019, we will see sequential declines from the Atlas program. That went to Orbital. They'll be running that 2019 and beyond. So that will be some revenue headwind, but if you look on other parts of the business, you got SLS which is -- that's the RS-25 engine, the Space Launch System. That program is going really well and it's growing. That's a potential backfill. You look at the defense side of the business, I look to THAAD, I look to Standard Missile as potential great growers. There is some other proprietary stuff that we can't really get into too much more but yes, those are some high level puts and takes if that helps.

So just wait for the mic, if you don't mind.

Ian Zaffino - *Oppenheimer - Analyst*

So does that then mean you're going to see acceleration of revenues in 2020 when all this rolls off? And then also maybe talk about the margin profile today.

Paul Lundstrom - *Aerojet Rocketdyne Holdings, Inc. - CFO*

Sure. So we won't have that drag from Atlas beyond that '18 to '19, I guess, gap. So it certainly looks better once Atlas, the headwind from Atlas goes away. In terms of margins, I sort of mentioned mix now. We have development work mixing up. Development margins tend to be lower than a fully learned out production program. And so I would say maybe a bit of adverse mix in the short to medium term.

But, again, not to give a crisp target on margins, but you do the benchmarking and we're light. Now, there are reasons why we're light. We have a couple point drag from pension. We have significant pension liabilities and not everybody has that same burden. Our plan is underfunded. That creates GAAP pension expense. But even if you strip out pension of a couple of points, we still think there's opportunity on the margin side, and we're going to focus on it. But some of this is program mix. Some of this takes time, but it's absolutely something that's important to Eileen and --

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Eileen Drake - *Aerojet Rocketdyne Holdings, Inc. - CEO*

Yes. I would just add. With the AJ60 which is the Atlas, which is solids with ULA and that went to OATK, I would say that's the big program that's declining, but I would say, I think that the adds are even greater. And when you think of SLS at $1.6 billion, when you think about the use of the RS-25 also with Boeing's new program, when you think about this administration, they're very pro-space and they're pro-defense.

And as I mentioned, you look back years ago when President Obama came in and he pushed the reset button on the Constellation program. I mean you've always got to worry about big NASA programs. Well, it's funded this year. It's funded next year which is huge to us. And then we also see where they want to modernize the military and that means building up the stockpiles.

And that's a lot of the portfolio that we produce. Obviously, we can't bring numbers into our annual operating plan unless we get the contracts for it, but I would say all the -- as we read the tea leaves out there both space and defense, it's good for Aerojet Rocketdyne.

James Foung - *Gabelli - Analyst*

Yes, this is James Foung, Gabelli. Maybe you could just follow up on the Atlas Five, so you see that dropping off. Are you just referring to the booster engine that you lost in Orbital ATK or as well as the selection on the RD-180 that's coming up?

Eileen Drake - *Aerojet Rocketdyne Holdings, Inc. - CEO*

I can take that. So what we actually lost was AJ60 solids. We didn't do the booster. The booster is a Russian RD-180 engine. So with the solids going to Orbital ATK, I mentioned that the administration mandated by 2019, we get off the reliance on the Russian RD-180 engine for the booster engine for the Atlas.

So we're developing the AR1. We're in competition with Blue Origin's BE4. ULA has said that they would down-select between the two. This down-select continues to slip. It was original the middle of last year to the end of last year, to the middle of this, now it's not on the calendar for this year. So we just passed a very critical design review on that. We continue the work on the AR1.

The significant pieces that we talked about last year is we find a public/private partnership with the Air Force to design the AR1. And that shows the confidence the Air Force has in Aerojet Rocketdyne and the AR1. So we're pretty proud of that collaboration with the Air Force.

James Foung - *Gabelli - Analyst*

So if you were to lose the down-select by ULA for the RD-180 replacement, how much of a revenue loss could that potentially be?

Eileen Drake - *Aerojet Rocketdyne Holdings, Inc. - CEO*

So it's not a revenue loss because we've never had that engine. That would be incremental, so that would be incremental to our annual operating plan.

Paul Lundstrom - *Aerojet Rocketdyne Holdings, Inc. - CFO*

And if I can just make one comment, too. It's interesting. Probably not so much for this group. I think you guys get it, but I would say the mainstream media does not. AR1, great potential program but we look at it purely as upside. This is not a make or break Aerojet Rocketdyne. I mean, I would love to have it. It'd be tons of volume for many, many years but this is not a make or break. And it gets so much press that I think there's a pretty significant misconception that, "Oh my gosh, if AR1 doesn't go our way, we're in big trouble." That's absolutely not true.

James Foung - *Gabelli - Analyst*

I just have one last quick question. Between your space and defense business, what percent of sales to each segment? Is there a margin difference between those two?

Paul Lundstrom - *Aerojet Rocketdyne Holdings, Inc. - CFO*

So we haven't really disclosed. I'll say right now that they're sort of balanced. It's the same government customer frankly, so over the long-term, margins aren't significantly different, space or defense. That's how I'd answer that.

Eileen Drake - *Aerojet Rocketdyne Holdings, Inc. - CEO*

Yes, sir.

(Multiple Speakers)

Paul Lundstrom - *Aerojet Rocketdyne Holdings, Inc. - CFO*

Oh, sorry.

George Godfrey - *CL King - Analyst*

Thank you. George Godfrey, CL King.

(Multiple Speakers)

Paul Lundstrom - *Aerojet Rocketdyne Holdings, Inc. - CFO*

Go ahead.

George Godfrey - *CL King - Analyst*

I understand the AR1 is all upside there. I'd like to just dig on that a little bit. Over the last three years, how many RD-180 engines have we used from Russia that the AR1 would take the place of that?

(Multiple Speakers)

Paul Lundstrom - *Aerojet Rocketdyne Holdings, Inc. - CFO*

Roughly we use about 10 RD-180s per year --

Eileen Drake - *Aerojet Rocketdyne Holdings, Inc. - CEO*

Microphone.

George Godfrey - *CL King - Analyst*

Ten a year is what we're saying? And would the AR1 be the replacement engine just for the RD-180 or could it be an application that could take the place of even more engines so that upside is even greater than just the RD-180?

Eileen Drake - *Aerojet Rocketdyne Holdings, Inc. - CEO*

That's a great question. The question was, can the AR1 be used for other applications. Absolutely. This engine is world-class. I think it can be used in almost any launch vehicle out there, predominantly it was developed to replace the RD-180 engine with ULA whether it goes on the Atlas or their new launch vehicle that they might come out with called the Vulcan, but absolutely it can be used in other applications.

Rob Medway - *Royal Capital - Analyst*

Hi. Rob Medway from Royal Capital. I have a question regarding capital allocation. Your net debt is pretty low, 1.6. You have a lot of liquidity and you did a large convertible offering last year in December, which was a good time for interest rates but not sure why you did the offering from a capital perspective.

And I was curious if you could talk about stock buybacks, dividends, M&A, how you think about capital allocation, because this is, in many ways, a coming out party for you and I don't think you've talked about that at all in the last hour.

Paul Lundstrom - *Aerojet Rocketdyne Holdings, Inc. - CFO*

Sure.

Eileen Drake - *Aerojet Rocketdyne Holdings, Inc. - CEO*

Start and I'll add.

Paul Lundstrom - *Aerojet Rocketdyne Holdings, Inc. - CFO*

Okay. So first, all options are available. And we get the question from time to time. Stock buyback, yes or no? It's an option. We've got to be cautious to telegraph exactly what our intentions were with the convert. I know there's some sensitivity around that but, you know, particularly on the M&A side. We've got to be really buttoned up in terms of what we talk about. Our view is that there's opportunities out there. We would like to grow our base, but we've got to be really cautious to sort of lead you down a path on M&A because it's not a -- over the long term, it's not in your best interest for us to sort of talk prices up or anything like that.

I'll say all options are on the table and I encourage you to be patient. Shareholder value creation is absolutely important to us. The board's highly motivated. We're highly motivated, but it's -- wait.

Mike Ciarmoli - *Suntrust - Analyst*

Thanks. Mike Ciarmoli, Suntrust.

Paul Lundstrom - *Aerojet Rocketdyne Holdings, Inc. - CFO*

Hey, Mike.

Mike Ciarmoli - *Suntrust - Analyst*

Just to maybe go back on the sort of mid single digit growth. I guess what the ULA loss, you know, net against that you pick up the L-3 Coleman, I guess it was give or take a hundred million. I mean, should we expect revenue growth in the near term or will we see any year-on-year decline? To me, it would seem like you've got enough programs in the backlog, enough visibility where even in the short term you can grow. Will it just be more muted?

Paul Lundstrom - *Aerojet Rocketdyne Holdings, Inc. - CFO*

Want me to get that one? So you had Coleman in there. So Coleman is certainly a boost this year. I mentioned Q1 robust growth. Mike, are you talking a few years out? Or are you talking '17?

Mike Ciarmoli - *Suntrust - Analyst*

Yes, '18 and '19 when you start to feel more of those pressures.

Paul Lundstrom - *Aerojet Rocketdyne Holdings, Inc. - CFO*

Yes, sure. Well, we feel pressure from Atlas or the AJ-60. That will be '17 to '18 and, again, '18 to '19 as I mentioned. I think there's things that we can do to backfill that. Our long-term goal, mid-single digit organically. Does the path sort of bounce around a little bit to get there? Yes, that's possible.

These programs are -- they're large and they can swing from quarter-to-quarter, year-to-year. I'll say it like this. As we get more confident in what's going to happen in 2018, you'll probably see some of that stuff come out a little bit more, but at this point, I'm going to sort of keep quite the next year or two. You know the major puts and takes.

Greg Konrad - *Jefferies - Analyst*

Greg Konrad from Jefferies. There's been certain customers who've asked for lower price. You've seen that's been part of the transition to additive manufacturing. Is there an offset to some of those programs where prices have come down in terms of volume or what is your customer saying for helping them cut cost in the supply chain?

Eileen Drake - *Aerojet Rocketdyne Holdings, Inc. - CEO*

Yes. So obviously all of our customers want lowest prices. When we launched the Competitive Improvement Program and a lot of that, you know, you saw where we move the THAAD out of Sacrament when we moved the Standard Missile and now we're going to be also moving some other pieces when it comes to the manufacturing pieces for CIP 2.

They all love the fact that we're doing CIP. The other side of that is they get nervous that we're moving their product. They say, okay, you can move the product if it's going to make it more affordable but don't screw it up because you have a pretty good record of mission success and reliability.

They also know that these programs take time. I will say that some our major primes are starting to see some improvement when it comes to the rates, and that has a lot to do with the focus on affordability and CIP. But it really comes into play in the run rate in 2019. This is really the first phases of the CIP phase one and two.

Paul Lundstrom - *Aerojet Rocketdyne Holdings, Inc. - CFO*

Howard?

Howard Rubel - *Jefferies - Analyst*

Hi. Howard Rubel with Jefferies. Two questions. First, if we read the DARPA press release, the XS-1 appears to be relatively mature to be able to do all of this by 2019. So could you elaborate a bit on the maturity of it and then some of the market applications, the size of the vehicle and sort of the market potential? And then I have a hypersonic question to follow up.

Eileen Drake - *Aerojet Rocketdyne Holdings, Inc. - CEO*

Sure. So on the Boeing side on the XS-1, that's the experimental spacecraft that I talked about and its goal is to launch satellites at low Earth orbit. And the numbers that they've put out where -- is around five million dollars so it's more affordable, they think it will be revolutionary. Obviously, Boeing has been working on this for a while.

DARPA and Boeing came out just recently with a joint press release. We were recently selected on the RS-25, which will be used for reusability, and that's a big piece of how they can keep the cost down. As far as the size of the launch vehicle. Jim, you know the size of it?

Jim Simpson - *Aerojet Rocketdyne Holdings, Inc. - SVP, Strategy and Business Development*

So the capability of it is roughly about 450 kilograms to low earth orbit.

Paul Lundstrom - *Aerojet Rocketdyne Holdings, Inc. - CFO*

Sorry, can you just pause for 10 seconds there?

Jim Simpson - *Aerojet Rocketdyne Holdings, Inc. - SVP, Strategy and Business Development*

Sure. The current vehicle that they're developing for DARPA is roughly about 450 kilograms to lower orbit. The capability of the XS-1 is derived from the X-37B and so there's some maturity associated with that. In addition to that, obviously the RS-25 is the Space Shuttle main engine, so we have a long pedigree for that. So even though it's a very difficult 42-month program, a lot of maturity is in the XS-1.

Paul Lundstrom - *Aerojet Rocketdyne Holdings, Inc. - CFO*

Thanks, Jim.

(Multiple Speakers)

Howard Rubel - *Jefferies - Analyst*

Excuse me. Thank you. I mean if you do all this, it's remarkable and revolutionary and it could have a fairly disruptive effect on the whole launch vehicle market.

Eileen Drake - *Aerojet Rocketdyne Holdings, Inc. - CEO*

Absolutely. And that was the purpose and why the DARPA said hey, there needs to be another alternative solution out there and here it is.

Howard Rubel - *Jefferies - Analyst*

And then on hypersonics, just two things. You've said you're working with all the primes. And so should we take Lockheed's comments yesterday with respect to the SR-72 as being one of your near term opportunities? And then could you just talk a little bit about why you're so confident that hypersonics are going to be so important?

Eileen Drake - *Aerojet Rocketdyne Holdings, Inc. - CEO*

So I'm confident that hypersonics are going to be important, wherever I go when I talk to the Secretary of the Air Force, or I talk to anybody in D.C., they say, okay, that's great, Eileen, but let's save 10 minutes of this meeting to talk hypersonics and also to talk about cyber security around protecting your hypersonics capability.

So I think you've seen the recent very visible threats by both Russia and China and their hypersonics capability. I think the US has clearly said that we have been aggressive enough in this field and they want to get more aggressive. Aerojet Rocketdyne specifically, the legacy Rocketdyne as a part of Pratt & Whitney has been investing in this for years.

I can say because Lockheed Martin said it in the article that came out yesterday that this plane does utilize Aerojet Rocketdyne's propulsion. We've been working with them for years and I think that's about all I can say publicly on that.

Paul Lundstrom - *Aerojet Rocketdyne Holdings, Inc. - CFO*

Okay. Maybe two more and then we'll take a walk.

Eric DeLamarter - *Half Moon Capital - Analyst*

[Eric DeLamarter] from Half Moon Capital. Electric development, it sounds like that it was a bit of a cost overrun in the last couple quarters, hit the earnings. Is there any quantification you could give around that or where it stands and how we should think of it going forward?

Paul Lundstrom - *Aerojet Rocketdyne Holdings, Inc. - CFO*

So you saw -- you want me to? You saw in our filings last quarter that we did have some overruns. Let me tell you a little bit about the business. It's our in-space propulsion business up in Redmond. You just take a step back, ignore some of the programmatic challenges that we had, fantastic business.

It's this in-space propulsion technology and Eileen could talk, wax on for hours on this, much more than me but great, great technology with great customer acceptance. The concept is you're moving stuff around up in space. The benefit of the systems are significant weight reductions with a great amount of thrust. And so customers love it.

And we view it as a business that could grow and make good money. The challenge is, you go back several years, we had some fixed price contracts that we didn't completely have our arms around and we've had some program overruns. Rather not quantify it frankly for some competitive reasons, but it was a headwind for us.

When we talk about margins for the business and how could we do better, that would be one example. Program execution, we're really good but we're not perfect and this is one program where we slipped up a little bit and you saw that in our disclosures.

Eileen Drake - *Aerojet Rocketdyne Holdings, Inc. - CEO*

I would just maybe add a piece so that -- maybe make you feel good about it because your last piece was you feel like you're over it and that's what my boss asks me every single day.

So when we talk about rocket science, the solar electric propulsion, the electric propulsion, we're the world's leader because it's tough stuff. We are hands-on the world's leader, the customer loves the product. We have customers on both the DOD side and a new commercial customer on this. They want more of it.

I would say that the program that Paul mentioned on, you know, we've been producing this product for about 10 years. There was a lull in it and now we recently are producing and again with two contracts, some of the suppliers changed. We went back and we redesigned some of the components. I mentioned Mark's strong background in ops and programs, and my new Head of Engineering, Scott Ward, that we brought on from ULA about a year ago.

We really looked at this and said, "How can we improve some of the technology on it? How can we improve the manufacturability?" We changed out some of the suppliers. I think it was the right thing to do. The customer is happy with the product and I feel like we're out of the woods on it.

Paul Lundstrom - *Aerojet Rocketdyne Holdings, Inc. - CFO*

Maybe one more.

Eileen Drake - *Aerojet Rocketdyne Holdings, Inc. - CEO*

Whoever you pick, Kelly.

George Godfrey - *CL King - Analyst*

Thank you. Just one follow up question. On slide 17 when you show the SLS and the exciting long-term space projects, you highlighted, by my count, about 30 pieces of AJRD equipment in green. As that slide shows, how much revenue do you record from a single instance of something like that, those 30 pieces?

Paul Lundstrom - *Aerojet Rocketdyne Holdings, Inc. - CFO*

George, we haven't really got out in traffic on specific program by program, full value per system. And frankly, I'd rather not, but SLS is significant. You'll see that in our disclosures. We talk about top programs. Last year THAAD was 13%. I would expect to see SLS in some of our disclosures looking ahead because it is a significant program for us. Okay. So we are all set with the webcast and --

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