Thank you for everyone for coming today. I'm Greg Konrad, Vice President of Aerospace and Defense Equity Research. I'm very excited to have Paul Lundstrom, CFO of Aerojet here today. And just before we begin, the safe harbor is available online for anyone who wants to check that out. And with that we will begin. Thanks, Paul. I guess just to start; it's been quite a week. You don't have an earnings call, stocks up I think over 20% since you reported last week. What should investors take away from that report?

<<Paul R. Lundstrom, Vice President and Chief Financial Officer>>

Yes, so it was a good quarter just kind of working from the top of the P&L and down, top-line was solid 2% growth in the quarter, 4% on consistent accounting. One thing that people have to remember is that for aerospace and defense companies there was a big accounting change effective 1/1/2018 moving from ASC 605 to ASC 606. So on constant accounting, sales up 4% in the quarter that was good. I would say importantly on the top-line backlog was solid. Revenue expected to come from backlog within the next twelve months that's an important leading indicator that we've put in all of our filings has been coming up over the last couple of quarters.

We exited 2017 with about $1.7 billion. The way you think about that Greg is with $1.7 billion revenue expected to come from backlog in next twelve months. You can – typically a little bit more, a little bit less what were the pattern we've seen over the last several years is we typically do a little bit more because you have booking ship work with incremental funding as you move through a year, but 2017 $1.7 billion, Q1 $1.8 billion, Q2 $1.9 billion, so seeing that steady growth and backlog expected to revenue in the next year is a very encouraging sign.

Just moving down the P&L. Profit was solid, adjusted EBITDAP was up 9% in the quarter, that's good. Margins were solid particularly in the quarter. If you look at the first half, EBITDAP margin is 12.8%, flat with last year, sort of leaves room for maybe a little bit of upside in the second half. What we've talked about in terms of margins go back to the Investor Day we had a year ago was we expect that over the next few years, we could probably get a couple hundred basis points of margin expansion. You saw that margin expansion going from 2016 to 2017. I'm optimistic that maybe we get a little bit of margin expansion here in 2018 and going forward.

Cash flow very, very solid in the quarter, free cash flow was about $112 million, cash flow of net income way above that. That's a metric that we target internally. Cash flow in excess of net income and it was nice to see that strong cash in the second quarter. So,
overall, financially really good from top-line to backlog to profit to cash, we were pretty pleased with the quarter.

<<Greg Konrad, Analyst, Jefferies LLC>>

Thank you. And I mean sometimes the accounting side of things can be confusing. I mean on the defense side it's a little bit different than other accounting. I mean there was a short report a couple weeks ago. Any confusions caused by that or reactions to that?

<<Paul R. Lundstrom, Vice President and Chief Financial Officer>>

Yes, so there was a short thesis out there that that kind of poked on the accounting. I think it was a little misleading if you look at aerospace and defense – all aerospace and defense companies are subject to the same accounting rules. And like I said a few minutes ago, effective 1/1/2018 there was a revenue recognition standard change, basically moving from ASC 605 to ASC 606, the way the accounting for that works particularly for aerospace and defense companies.

We recognize revenue now on a cost to cost basis. So what that means is long-term contracts, a company like ours, typically two to three year contracts, as we incur cost, we recognize revenue and we recognize revenue at the margin rates that we assume will realize over the life of the contract. No different than how we've done it in years past except that more of our total sales volume is on that new standard. In the past, some of our contracts were recognized revenue on a unit-of-delivery basis. Now almost everything is on a cost to cost basis. So it just means that estimates are more important.

What the short report talked about was aggressive accounting and I'll just point to this Greg and I know you're familiar with it. But one of the things that we disclose every quarter is changes in our contract estimates or re-estimates and we have a pattern of conservatism. If you look back the year and a half prior to Q1 of this year, we had favorable changes to contract re-estimates quarter after quarter after quarter, a little bit of headwind in the first quarter of this year with largely coming from our commercial crew program that's something that we had talked about before.

It's a program that was moving from development to quality and you had some headwinds there. But nice to see in Q2, again this year, positive contract re-estimates. It just shows a pattern of conservative accounting not aggressive and I think the short had the opposite thesis on that. I guess maybe one last comment on shorts. You can't fudge cash and cash flow was very, very strong. And that will my counter point to that.

<<Greg Konrad, Analyst, Jefferies LLC>>

That's helpful. And then I mean EAC is another thing that's unique on the defense contracting side. Obviously, you had a really good quarter in terms of EACs and you know other than Q1 it's typically has been a benefit. I mean is there a way to think about those adjustments in terms of what's passed looking, but there's also an element of
bringing down your cost going forward. How should we look at those in terms of the benefit going forward? I mean given that you're going to the CIP program. You've talked a lot about additive manufacturing and just how we should view those?

<<Paul R. Lundstrom, Vice President and Chief Financial Officer>>

So cost to cost accounting and just to give you an example for how it works. So let's say you have a $100 million contract and for that $100 million contract when you start that contract day one, your estimates are complete is $90 million of cost for $100 million contract that would be a 10% profit rate. As you work through that contract, your cost estimate is going to change. You might do a little bit better. You might do a little bit worse. Your overhead rate structure might be a little bit better and might be a little bit worse. There are lots of inputs in the cost, sometimes you do better, sometimes you don't.

As you move through that contract, the accounting rules require you to constantly reevaluate the estimate at completion. And so if your expected profit rate goes from 10% to 20%, you need to do an inception to date correction because what it means is in the past you've been – you've been under recognizing, you've been recognizing not enough profit. So you have to do an inception to date catch up when you change your estimate. And then for that contract going forward, you will then book at the higher margin rate. So the way I think about EACs, and I know you've got a lot of questions on this Greg.

You see good news coming from contract re-estimates in the quarter and we disclose that. You need to think about it as two things. One is it's in an inception to date correction to take your profit booking rate up, but it also means for those contracts you had upward revisions on. Your go forward margin rates are going to be a little bit higher as well. So it's yes. Sometimes it's a little bit of the past, catching up in good news, but it's always – it's also a good sign for the future because it means that you've had to take your expected profit rates up.

<<Greg Konrad, Analyst, Jefferies LLC>>

And I mean just one thing, it looks like – I think you listed four or five programs. I mean those are all ongoing. So…

<<Paul R. Lundstrom, Vice President and Chief Financial Officer>>

Exactly…

<<Greg Konrad, Analyst, Jefferies LLC>>

Versus the contract close…

<<Paul R. Lundstrom, Vice President and Chief Financial Officer>>
Exactly, we talked about that being better. We talked about RS-68, RL10, RS-25, those were all better in the quarter and that means you're going to be better on a go forward basis as well.

<<Greg Konrad, Analyst, Jefferies LLC>>

Thanks. And I mean it's been a little while since we've talked about the real estate and that's been out there since I can remember. I mean any update in terms of monetizing some of the real estate on the balance sheet?

<<Paul R. Lundstrom, Vice President and Chief Financial Officer>>

Sure, so first and foremost, we're an aerospace and defense company and we sort of have this real estate segment by accident and it comes from – you look back fifty years ago, aerospace and defense company testing big rocket engines in Sacramento. Land was inexpensive. And so the company had acquired over the years, a lot of buffer lands. And so you're doing big loud engine tests. You want sort of a wide buffer. One in case an accident happens and two just for the noise abatement.

So over time as technologies improved, as testing standards – a whole host of reasons, not as much presence in the Sacramento area, we now have a significant amount of excess real estate in the Sacramento area, 5,600 acres or thereabouts. And if you look at the majority of that, I would say two thirds or more of that is already entitled and ready to sell. We’re working on and toddling the rest, but the goal would be to offload that. It's a property that that we just don't need.

It's difficult to do. It takes time. One, you have to consider the absorption rates of real estate. What would be the absorption rate of a developer putting in a whole bunch of homes, I mean my long-term view is bullish in that. You're probably going to have people continuing to move east from the Bay Area. Housing is extremely expensive in the Bay Area. Sacramento is a much more cost effective housing solution if you will. And so I think we'll be able to sell it over time, but it does take time. So I would just encourage people to be patient.

We look at all different options. We’ve looked at contributing into the pension plan. We've looked at joint ventures. We've looked at just selling it out right to developers. We've looked at can you sell it to a REIT. We're looking at anything and everything, but at the end of day it comes out of the economics and we want to maximize the value for our shareholders and to do that it’s going to take a little bit of time.

<<Greg Konrad, Analyst, Jefferies LLC>>

And them I'm always trying to figure out what you're doing with your cash. You're close to zero in net debt. You did some debt back in 2016. You've heard just call them in last year, but I think you're over $500 million and close to zero in net debt. How should we think about capital deployment going forward?
Yes, so, I would encourage everyone to just be patience. It is a pretty significant amount of cash sitting on the balance sheet for a company of our size. We've been very active in M&A at least looking, but no – it hasn't been anything that we've been able to execute on, but for Coleman a year ago, that's just a standby or two on Coleman, that's been a fantastic acquisition. We didn't have to pay nearly as much as what we had originally expected we would. It's turned out to be a great business. That's a case study and good M&A. It wasn't necessarily core to L3. There was a business that they want to sell it was perfectly core to us and a really, really good fit. And I would say that that acquisition has surpassed our original expectations.

I mean is there a pipeline, I mean obviously not to get into specifics, but is there a pipeline of similar companies out there?

Yes, I would say not all look just like Coleman. That's sort of an unusual transaction. It was $15 million deal for $40 million of revenue and you don't see a whole lot of those out there. But, yes, we're actively working in the pipeline.

And this is – I think I asked the same question last year, but I mean a lot of the things that your business has been doing for the last 50, 60 years, SpaceX, Blue Origin enter the market. I mean I guess how has the market changed with some of these upstart competitors? And then the second part of that question, is there eventually going to be change on the defense side? Or is this likely focused on just the commercial space market?

You know based on everything that I've seen it's more focused on space. The new entrants that you talked about Blue Origin SpaceX definitely have put pressure on the existing rocket businesses. But we've responded and that's why we launched the competitive improvement program a couple of years ago. That is going very, very well by the way. And just for background we – March of 2015, I think it was re-launched. The first wave of something we're calling the competitive improvement program.

Our goal is to downsize some of the operations, reduce the footprint. We launched a second wave of that restructuring program a year ago, last spring, it was April of 2017, same concept, reducing footprint, moving to lower cost areas, just trying to better optimize our factory footprint just a progress update on that. We're about 60% of the way
through that program. I think we’re expecting to be done by sometime 2021 or so. So we're three years into a five year program, going very, very well.

For me you know coming into the company and just for me looking at the restructuring program overall, one of the watch items for me is successful product transitions, particularly some of the bigger more important programs that we're moving from facility to facility, a couple examples. We successfully moved the standard missile program. At the end of 2017 and have been shipping product from the new facility in orange. That's a big huge green checkmark.

THAAD booster Motors, we successfully – this is actually a couple weeks ago, I think, successfully shipped our first booster motors out of Camden, Arkansas and that's a big win as well between standard missile and THAAD. First half of this year that's probably 25% of our overall volume. So a couple of really important programs that for me bit of a watch item, little bit of risk. Does this stuff move successfully? And it has. So that's a great news.

Go back to your original question on pressure from the outside though. That's why we do restructuring programs like that, continue to focus on cost. At the end of the day it's all about affordability for the end customer. And if you can manage your cost structure, and you can have high quality products and low risk of program execution, you're going to win. And I think that's what has kept people out of defense.

Verbally to K Northrop Grumman, strong competitor, Aerojet Rocketdyne on same thing, very strong competitor. It's probably a little difficult to break in if you are low cost and you know how to run programs.

<<Greg Konrad, Analyst, Jefferies LLC>>

I mean just to kind of follow-up on that, there's one program transitioning away from ULA, but even though our RL10 will continue with ULA, same thing with OA’s, or I guess, Northrop's potential. Large launch vehicle, I mean, how do we think about that in terms of CIP? And you talked about bringing down cost, but you also have retained good business on the Space Launch side. I mean how does that all play in with each other?

<<Paul R. Lundstrom, Vice President and Chief Financial Officer>>

Yes, so the program you're referencing just runs background. RL10 is an upper-stage cryogenic engine. It's a engine that's been in the portfolio since the late 1950s. So been continually cost reduced and modernized. But that has been a workhorse engine for literally decades now. Program you mentioned we were selected by ULA for the Vulcan, for the next-generation launch vehicle. We’ll have that upper stage. About the same time we were selected by what's now Northrop Grumman for their OmegA rocket. That's their next-generation launch vehicle. Same thing we won the upper stage. We won it because we were a low cost solution, low risk solution and its high technology, high thrusts, great workhorse engine.
So its work in the competitive improvement program, there's a little bit of additive manufacturing in there as well that helps to keep costs low and in fact reduce them in some cases as well. So it's all of those things working together.

<<Greg Konrad, Analyst, Jefferies LLC>>

Now just talking about some of the revenue items. I mean you started by talking about the next 12-month back log, I think, it started the year 17, now 19. I mean what was some of the same, or some of the main driver’s kind of moving into that outlook? I mean is it missile defense? What are some of the programs that you're seeing month-to-month?

<<Paul R. Lundstrom, Vice President and Chief Financial Officer>>

Yes, good question. Rewind a year and we were looking at top line growth that was pretty robust. And I think the popular view was it must be coming from missile defense. There's so much air time on CNN and everywhere else. It looks like you've saw a THAAD battery every other day. But the growth in 2017 actually came from the space side of the business. People thought it was going to come from missile defense. There's a little bit of a lag, news. If President's budget request, to appropriated dollars, to actual funding, there's a bit of a lag. And so, last year it was growth in space not so much in missile defense and in fact some programs in missile defense were actually off.

Now you look at what we're seeing here in 2018, it's very much missile defense. You look at the – you specifically asked about the growth in that backlog expected the revenue going from $1.7 billion to $1.9 billion is driven by THAAD, it’s driven by Patriot. There's a little bit of space launch system in there as well, but those are the two of the bigger drivers. And if you look at the first half volume and I expect some of the stuff to continue.

Standard Missile, I think, Standard Missile in the quarter was up almost 2x, THAAD was up 12%. So solid growth for missile defense right now. And that's the big driver Greg.

<<Greg Konrad, Analyst, Jefferies LLC>>

You talked about media and stuff and one of the favorite topics is hypersonics. And obviously that’s a big opportunity. But the press relative to the funding today is, highly awful a little bit. I mean how do you think about that market opportunity? I know there's probably some stuffs you can talk about, but how should we think about the hypersonic opportunity?

<<Paul R. Lundstrom, Vice President and Chief Financial Officer>>

Yes so first of all you're right, there are classified programs that we can’t talk about. Cannot talk about. But first and foremost, it is a DoD priority. You look at Griffin, Mike Griffin, who's the Head of Research and Development for DoD. It is his number one
priority. And the reason for that is that it seems like both Russia and China are way ahead of the U.S. Military in terms of hypersonics development. And that is a concern, it's a strategic defense concern.

My personal view on hypersonics is that as the technology becomes ready, it's a significant growth lever down the road because at the end of the day the technology is so much faster, it's almost impossible to defend. You think about it, it's not a little bit faster, it's massively faster. It's a stuff travelling at that multiples of Mach for existing technology today which is significant.

At the end of the day, if you put a friend against foe, if your foe has hypersonics and you don't, you're not going to win.

<Greg Konrad, Analyst, Jefferies LLC>

Makes sense. Another program that you probably not going to talk much but GVST, I mean, there has been some stuff written in Congress about the industrial base. And obviously those are two main players on the large solid rocket engine. I mean how do you kind of view that opportunity?

<<Paul R. Lundstrom, Vice President and Chief Financial Officer>>

So maybe just jump into the top and then that's the prime. So that the two primes that are competing are right now are Northrop Grumman and Boeing. We're partnering with both for the next-generation propulsion systems for that program. Very big program for them I've heard numbers as high as $60 billion over the course of several decades. That's big. The propulsion is nearly as big as that.

I've heard somewhere $5 billion to $6 billion over time. I would expect us to get our fair share of that system. Can't get into many details with you Greg, but I would certainly expect us to get a piece of GBSD. And that is incremental to the businesses that we have today. That's not a program that we're currently revenue-ing.

<Greg Konrad, Analyst, Jefferies LLC>

Alright. And just on that topic, I mean, hypersonics, GBSD are kind of things that probably aren't that meaningful today, but offer substantial opportunity. I mean, anything else we should be thinking about in terms of those lines that isn't really contributing a lot today but is kind of out there is kind of the next-gen technology?

<<Paul R. Lundstrom, Vice President and Chief Financial Officer>>

So hypersonics and GBSD they will by far be the largest. With hypersonics offense you wonder a little bit about hypersonics defense. And so that's something that down the road we're probably going to have to think about. On the space side, our electric propulsion business has very high technology and that's something that just a little bit about the
technology, low weight, high thrust to weight ratios. And were essentially only game in town on that one. I don't think it's a huge driver in terms of total revenue dollars. But certainly a good technology. But I think you hit it on the head I mean this GBSD and hypersonics will be big.

<<Greg Konrad, Analyst, Jefferies LLC>>

And then just to go back to missile defense. I mean if we look at some of the commentary from earnings calls and we're starting to maybe see some of the fiscal year 2018 funds come through. And I think there's always some confusion thinking that that money comes through right away. But the primes are starting to see it. I mean what's the typical lag when they get their contract, when it starts filtering down to you and have you started seeing the benefit from maybe some of the 2018 funds?

<<Paul R. Lundstrom, Vice President and Chief Financial Officer>>

Sure so by the way 2019 looks good too. Looking at the NDAA, the National Defense Authorization Act early 2019 looks quite solid as well. But to answer your question take a program like THAAD for instance, you got a President's budget request. That's when he hits the news. You've got the final appropriated dollars, okay. That's an interesting line in the sand, but it's not necessarily a PO. That appropriated dollars and works its way to the prime. I mean they have discussions, they negotiate several months can go by. The prime then turns us on with the sub we make the booster motors with THAAD, we make the Kill Vehicle at the tip.

It could literally be two years before we revenue that program. So 2018 could potentially be 2020.

<<Greg Konrad, Analyst, Jefferies LLC>>

So, I mean, I guess the point there is that there's the benefit of 2018 and 2019 looking good is really a multi-year probably through early next decade or more in terms of visibility?

<<Paul R. Lundstrom, Vice President and Chief Financial Officer>>

Yes.

<<Greg Konrad, Analyst, Jefferies LLC>>

And then I don't think you guys call out programs too often, but I think on the tactical ammunition side it's probably a decent chunk of business. And just looking through the filing you probably saw some benefit there. I mean kind of the outlook for tactical ammunition and maybe possible size of it or general size of it?

<<Paul R. Lundstrom, Vice President and Chief Financial Officer>>
Yes, so we haven't disclosed the size specifically. I mean it's certainly a significant portion of the business. You look at the tactical rockets like GMLRS that's been well-funded, that was well-funded in 2018. You look at the early indication on 2019, that looks to be well-funded there as well. I've heard a lot of talk about restocking or more appropriately sizing inventories for tactical ammunitions. That would be good news for us.

We've been exercised on scenario planning, as well. And so it's encouraging to look at some of the volumes they've been asking, primes have been asking us to model. But until you actually have the PO it’s just intellectual gymnastics.

<<Greg Konrad, Analyst, Jefferies LLC>>

I guess I'll skip forward, which is the CapEx question. It seems like there is a lot of business at least coming through. I mean how do you think about kind of CapEx going forward?

<<Paul Lundstrom, Chief Financial Officer>>

So CapEx was a little lite of what I expected in 2017. As we have been working on the restructuring program, the competitive improvement program that I mentioned before, some of that is facilitating in areas where we're moving to. And that I expected a little more at the end of 2017 than what we saw. Some of that will trickle into 2018. So probably slightly elevated levels of CapEx in 2018 and maybe in 2019 because of the competitive improvement program. But if you think about the business on a run rate basis 2% of sales is probably a pretty good line in the sand.

<<Greg Konrad, Analyst, Jefferies LLC>>

And then the RS-25, you talked about that as kind of being a big driver in 2017. I mean how should we think about the next milestones in that program? Is it first flight, is it cadence of flights? And maybe thoughts around transition from the development more of the production?

<<Paul Lundstrom, Chief Financial Officer>>

So engine and engine test is what we continue to work. I don't have a whole lot of details. NASA specifically what milestones they have for the overarching program. Maybe just commenting on what we're working on, we continue to progress with the development engines. I think we're complete with that. Now It’s just getting lines ready to reopening production lines for a program that after shuttle had essentially been shuttered. And we're working that right now.

I'm pretty upbeat about SLS going forward frankly. That's a big piece of business for us. NASA is very well funded right now. And there are specific carve outs for the space
launch system. So I'm upbeat that that's a stable – at a minimum it's a stable business over the next couple years it has the potential to do more.

<<Greg Konrad, Analyst, Jefferies LLC>>

I mean I guess just while we're talking about space CST-100 kind of thoughts around that program?

<<Paul Lundstrom, Chief Financial Officer>>

Yes Commercial Crew. So SpaceX and Boeing are both working on programs simultaneously here for the Commercial Crew. We had a little bit of a blip in the first quarter of this year on Commercial Crew, we had some overruns on that program. We disclosed that that was the reason we had some negative contract re-estimates in the first quarter. Good to see that didn't repeat as we move into the Q2. Certainly not of that magnitude. But there's been some stuff in the press about some challenges in the duration side.

I'm going to let Boeing take the lead on all the media for that. But it's a big, complicated program. And when you integrate systems, you can have some challenges and we're partnering with them. And continue to work through those challenges. But overall we'll be successful.

<<Greg Konrad, Analyst, Jefferies LLC>>

Thanks Paul.

<<Paul Lundstrom, Chief Financial Officer>>

Okay, very good. Thanks.