



Leidos Q4 FY21 Earnings Conference Call

February 15, 2022



Forward-Looking Statements

Certain statements in this release contain or are based on "forward-looking" information within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify forward-looking statements by words such as "expects," "intends," "plans," "anticipates," "believes," "estimates," "guidance" and similar words or phrases. Forward-looking statements in this release include, among others, estimates of our future growth and financial and operating performance, including future revenues, adjusted EBITDA margins, diluted EPS (including on a non-GAAP basis) and cash flows provided by operating activities, as well as statements about our business contingency plans, government budgets and the ongoing Continuing Resolution, uncertainties in tax due to new tax legislation or other regulatory developments, the impact of COVID-19 and related actions taken to prevent its spread, our contract awards, strategy, planned investments, sustainability goals and our future dividends, share repurchases, capital expenditures, debt repayments, acquisitions, dispositions and cash flow conversion. These statements reflect our belief and assumptions as to future events that may not prove to be accurate.

Actual performance and results may differ materially from those results anticipated by our guidance and other forward-looking statements made in this release depending on a variety of factors, including, but not limited to: the impact of COVID-19 or future epidemics on our business, including the potential for facility closures, re-evaluation of U.S. government spending levels and priorities, delay of new contract awards, supply chain impacts, airline travel levels, our ability to recover costs under contracts, insurance challenges and uncertainty regarding the availability and efficacy of vaccinations and laws and regulations with respect to vaccinations; changes to our reputation and relationships with government agencies, developments in the U.S. government defense budget, including budget reductions, implementation of spending limits or changes in budgetary priorities; rates of inflation; delays in the U.S. government budget process or approval of raises to the debt ceiling; delays in the U.S. government contract procurement process or the award of contracts or our ability to win contracts; delays or loss of contracts as a result of competitor protests; changes in U.S. government procurement rules, regulations and practices; changes in interest rates and inflation, and other market factors out of our control, including general economic and political conditions; our compliance with various U.S. government and other government procurement rules and regulations; governmental reviews, audits and investigations of Leidos; our reliance on information technology spending by hospitals/healthcare organizations, infrastructure investments by industrial and natural resources organizations and other customer investments related to our business; our ability to attract, train and retain skilled employees, including our management team, and to obtain security clearances for our employees; the mix of our contracts and our ability to accurately estimate costs associated with our firm-fixed-price and other contracts as well as our ability to realize as revenues the full amount of our backlog; cybersecurity, data security or other security threats, systems failures or other disruptions of our business; resolution of legal and other disputes with our customers and others or legal or regulatory compliance issues; our ability to effectively acquire businesses and make investments and any related contingencies or liabilities to which we may become subject; our ability to maintain relationships with prime contractors, subcontractors and joint venture partners; our ability to manage performance and other risks related to customer contracts, including complex engineering projects; our ability to obtain necessary components and materials to perform our contracts, including semiconductors and related equipment, on reasonable terms or at all; the failure of our inspection or detection systems to detect threats; the adequacy of our insurance programs designed to protect us from significant product or other liability claims; our ability to manage risks associated with our international business; our ability to declare future dividends or repurchase our stock based on our earnings, financial condition, capital requirements and other factors, including compliance with applicable laws and contractual agreements; and our ability to execute our business plan and long-term management initiatives effectively and to overcome these and other known and unknown risks that we face. These are only some of the factors that may affect the forward-looking statements contained in this release. For further information concerning risks and uncertainties associated with our business, please refer to the filings we make from time to time with the U.S. Securities and Exchange Commission ("SEC"), including the "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Legal Proceedings" sections of our latest Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, all of which may be viewed or obtained through the Investor Relations section of our website at www.leidos.com.

All information in this presentation is as of February 15, 2022. Leidos expressly disclaims any duty to update the guidance or any other forward-looking statement provided in this release to reflect subsequent events, actual results or changes in Leidos' expectations. Leidos also disclaims any duty to comment upon or correct information that may be contained in reports published by investment analysts or others.

Non-GAAP Financial Measures

This presentation includes certain non-GAAP financial measures, such as organic growth, non-GAAP operating income, non-GAAP operating margin, non-GAAP effective tax rate, non-GAAP diluted earnings per share (EPS), adjusted earnings before interest, taxes, depreciation and amortization (EBITDA), adjusted EBITDA margin, free cash flow and free cash conversion.

These are not measures of financial performance under generally accepted accounting principles in the U.S. ("GAAP") and, accordingly, these measures should not be considered in isolation or as a substitute for the comparable GAAP measures and should be read in conjunction with the Company's consolidated financial statements prepared in accordance with GAAP.

Management believes that these non-GAAP measures provide another measure of Leidos' results of operations and financial condition, including its ability to comply with financial covenants. These non-GAAP measures are frequently used by financial analysts covering Leidos and its peers. Leidos' computation of its non-GAAP measures may not be comparable to similarly titled measures reported by other companies, thus limiting their use for comparability.

Leidos does not provide a reconciliation of forward-looking adjusted EBITDA margins or non-GAAP diluted EPS to GAAP net income, due to the inherent difficulty in forecasting and quantifying certain amounts that are necessary for such reconciliation. Because certain deductions for non-GAAP exclusions used to calculate projected net income may vary significantly based on actual events, Leidos is not able to forecast on a GAAP basis with reasonable certainty all deductions needed in order to provide a GAAP calculation of projected net income at this time. The amounts of these deductions may be material and, therefore, could result in projected GAAP net income and diluted EPS being materially less than projected adjusted EBITDA margins and non-GAAP diluted EPS.

A reconciliation between all non-GAAP measures used in this presentation to the most directly comparable GAAP measure is contained in the appendix.

CEO Key Messages

1

Strong financial performance

- Revenues up 7% for the quarter and up 12% for the year
- 2021 adjusted EBITDA margin of 11.0%; 14% increase in non-GAAP EPS
- Cash generation well ahead of expectations

2

Balanced capital allocation to create shareholder value

- Strategic investment in HawkEye 360; small divestiture for better focus
- New 20 million share repurchase authorization
- Expect to be more aggressive on buybacks in 2022

3

Business development accomplishments

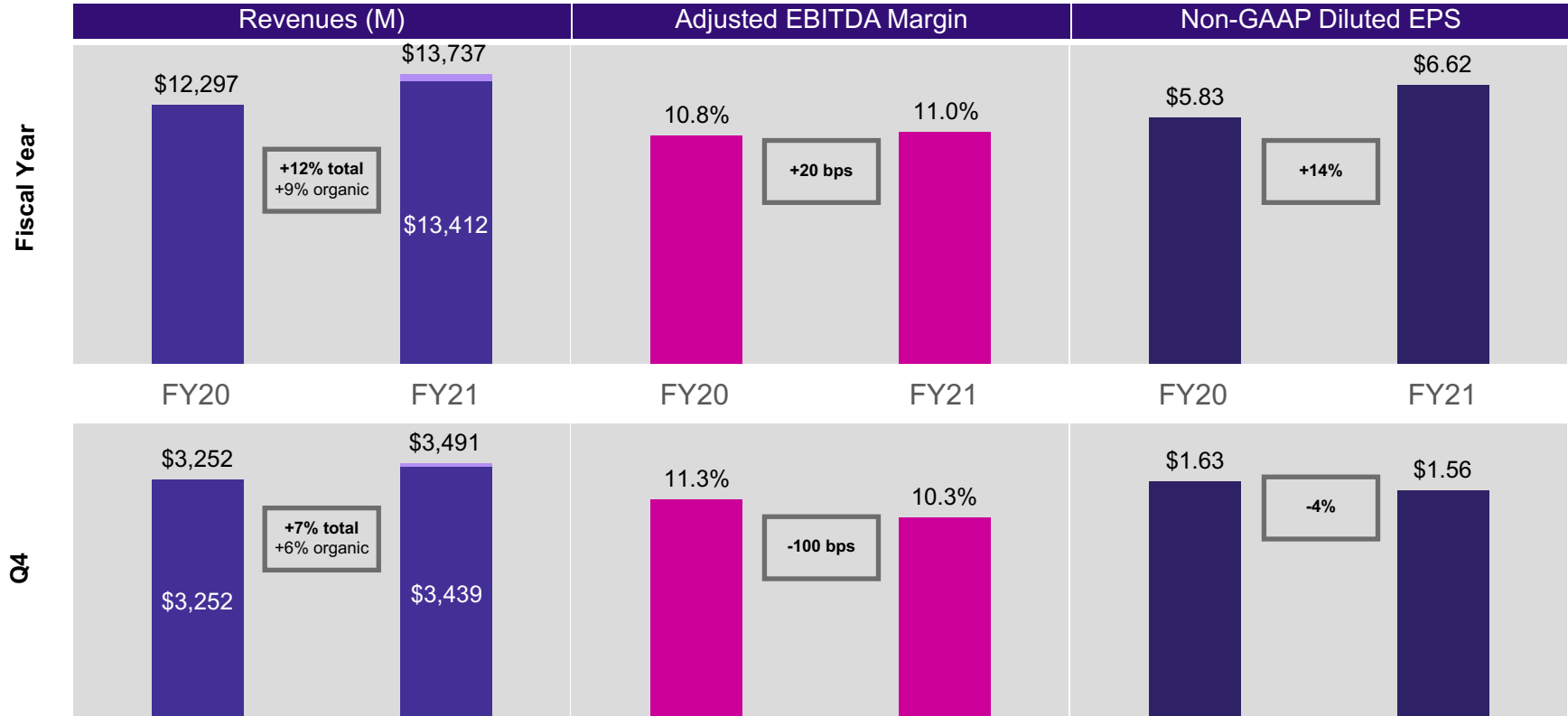
- Net book-to-bill ratio of 0.9x in seasonally weak quarter
- Backlog of \$34.5 billion, roughly 2.5x 2022 revenues
- Important awards in all segments with growing presence in hypersonics

4

People drive success for Leidos and our customers

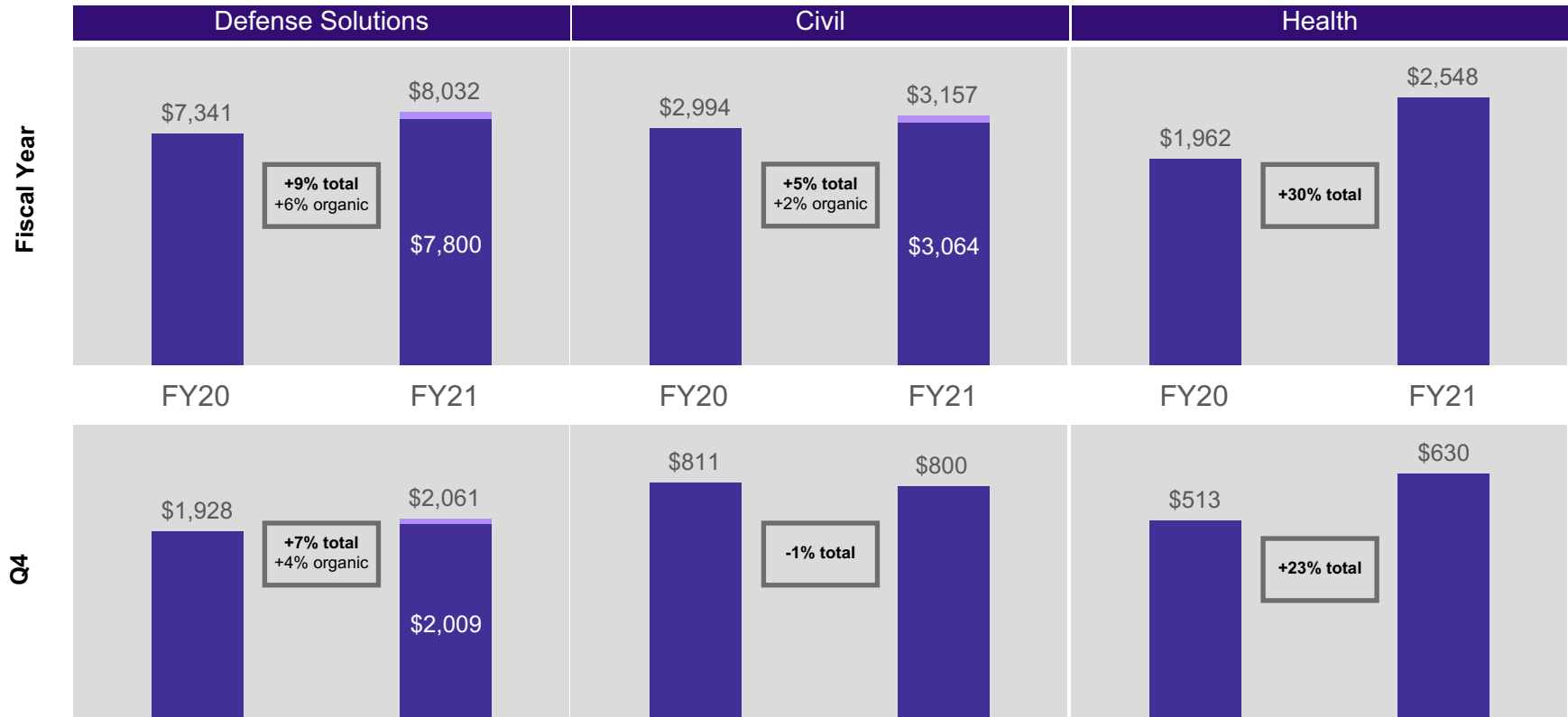
- Headcount relatively flat for the quarter but up 11% in 2021
- Tremendous contributions despite COVID challenges
- Culture of inclusion and integrity; new disclosure on diversity metrics

FY21 and Q4 Results: Income Statement



Note: Shaded upper portion on FY21 Revenues represents acquired revenue.

FY21 and Q4 Results: Segment Revenues (\$M)



Note: Shaded upper portions on FY21 Revenues represent acquired revenue.

FY21 and Q4 Results: Segment Non-GAAP Margin



FY21 and Q4 Results: Cash Flow/Balance Sheet

Cash Flow Generation	Exceptional cash generation—strong operational focus	<u>Q4</u>	<u>FY21</u>
	▪ Operating cash flow	\$210M	\$1,031M
	▪ Free cash flow	\$177M	\$927M
	▪ Cash tax repayment from 2020 CARES Act	—	\$(62)M
Capital Deployment	Following balanced long-term capital deployment approach	<u>Q4</u>	<u>FY21</u>
	▪ Share repurchases	\$4M	\$270M
	▪ Total return to shareholders	\$54M	\$469M
	▪ CapEx & debt repayment	\$59M	\$210M
Balance Sheet	Focused on maintaining and leveraging Investment Grade rating		
	▪ Strong liquidity		>\$1B
	▪ Total debt		\$5.1B
	▪ Leverage ratio (net)		2.9x
	▪ Leverage ratio (gross)		3.4x

2022 Guidance

Measure	FY22 Guidance
Revenues (billions)	\$13.9 - \$14.3
Adjusted EBITDA Margin	10.3% - 10.5%
Non-GAAP Diluted EPS	\$6.10 - \$6.50
Cash Flows Provided by Operating Activities (billions)	at or above \$1.0*

* The guidance for cash flows provided by operating activities assumes that the provision from the Tax Cuts and Jobs Act of 2017 that requires companies to capitalize and amortize research and development costs over five years will be deferred, modified or repealed. Leidos currently estimates that if not the provision would result in a reduction of cash flows provided by operating activities of approximately \$150 million for fiscal year 2022.

Note: A quantitative reconciliation of adjusted EBITDA margin and non-GAAP diluted EPS forward-looking guidance to the most directly comparable measure calculated in accordance with GAAP is not available because these non-GAAP measures are intended to exclude items that are either unforeseeable or abnormal and the timing and amount of which is difficult to predict.

2022 Guidance Assumptions

COVID-Related Factors

- Customers may adopt new protocols associated with COVID-19 but do not revert to closed offices or work stoppages
- No major changes in workforce participation due to vaccine mandates
- Supply chain shortages do not worsen, and we are able to meet the majority of customer demands for technology products

Other Customer/ Budget Driven Factors

- Appropriations bills are enacted to fund all of government by March 31, 2022 with no shutdown
- Customer payment practices remain consistent with historical experience
- Procurement schedules are not extended beyond our present forecast
- Protested awards delays are not excessive in relation to current experience
- The provision that requires companies to capitalize and amortize R&D costs over five years is deferred, modified or repealed



Appendix: Non-GAAP Reconciliations

Organic Growth

<i>(in millions, except growth rates)</i>	Q4 FY21	Q4 FY20	Percent Change	FY21	FY20	Percent Change
Defense Solutions						
Revenues, as reported	\$ 2,061	\$ 1,928	7 %	\$ 8,032	\$ 7,341	9 %
FY21 acquisition revenues ⁽¹⁾	52	—		232	—	
Pro-forma revenues (Organic Growth Rate)	\$ 2,009	\$ 1,928	4 %	\$ 7,800	\$ 7,341	6 %
Civil						
Revenues, as reported	\$ 800	\$ 811	(1)%	\$ 3,157	\$ 2,994	5 %
FY21 acquisition revenues ⁽¹⁾	—	\$ —		93	\$ —	
Pro-forma revenues (Organic Growth Rate)	\$ 800	\$ 811	(1.4)%	\$ 3,064	\$ 2,994	2 %
Health						
Revenues, as reported	\$ 630	\$ 513	23 %	\$ 2,548	\$ 1,962	30 %
Total Operations						
Revenues, as reported	\$ 3,491	\$ 3,252	7 %	\$ 13,737	\$ 12,297	12 %
Total FY21 acquisition revenues ⁽¹⁾	52	—		325	—	
Pro-forma revenues (Organic Growth Rate)	\$ 3,439	\$ 3,252	6 %	\$ 13,412	\$ 12,297	9 %

Notes:

1. FY21 acquisition revenues reflect revenues in the current as reported figures for 12 months from closing of each acquisition
Organic growth rate: current period pro forma revenues divided by year ago as reported revenues

Non-GAAP Income Metrics Reconciliation (Quarter)

Three Months Ended December 31, 2021

<i>(in millions, except per share amounts)</i>	As reported	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Asset impairment charges	Loss on sale of business	Non-GAAP results
Operating income	\$ 270	\$ 6	\$ 55	\$ 1	\$ —	\$ 332
Non-operating expense, net	(48)	—	—	—	3	(45)
Income before income taxes	222	6	55	1	3	287
Income tax expense ⁽¹⁾	(52)	(2)	(16)	(1)	(1)	(71)
Net income	176	4	41	1	2	224
Less: net income attributable to non-controlling interest	2	—	—	—	—	2
Net income attributable to Leidos common stockholders	<u>\$ 174</u>	<u>\$ 4</u>	<u>\$ 41</u>	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ 222</u>
Diluted EPS attributable to Leidos common stockholders	\$ 1.23	\$ 0.03	\$ 0.29	\$ 0.01	\$ 0.01	\$ 1.56
Diluted shares	142	142	142	142	142	142
Net income	\$ 176	\$ 4	\$ 41	\$ 1	\$ 2	\$ 224
Income tax expense ⁽¹⁾	46	2	14	—	1	63
Income before income taxes	222	6	55	1	3	287
Depreciation expense	26	—	—	—	—	26
Amortization of intangibles	55	—	(55)	—	—	—
Interest expense, net	46	—	—	—	—	46
EBITDA	\$ 349	\$ 6	\$ —	\$ 1	\$ 3	\$ 359
EBITDA margin ⁽²⁾	10.0 %					10.3 %

Three Months Ended January 1, 2021

<i>(in millions, except per share amounts)</i>	As reported	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Asset impairment charges	Non-GAAP results
Operating income	\$ 299	\$ 6	\$ 43	\$ 1	\$ 349
Non-operating expense, net	(54)	—	—	—	(54)
Income before income taxes	245	6	43	1	295
Income tax expense ⁽¹⁾	(48)	(2)	(11)	—	(61)
Net income	197	4	32	1	234
Less: net income attributable to non-controlling interest	—	—	—	—	—
Net income attributable to Leidos common stockholders	<u>\$ 197</u>	<u>\$ 4</u>	<u>\$ 32</u>	<u>\$ 1</u>	<u>\$ 234</u>
Diluted EPS attributable to Leidos common stockholders	\$ 1.37	\$ 0.03	\$ 0.22	\$ 0.01	\$ 1.63
Diluted shares	144	144	144	144	144
Net income	\$ 197	\$ 4	\$ 32	\$ 1	\$ 234
Income tax expense ⁽¹⁾	48	2	11	—	61
Income before income taxes	245	6	43	1	295
Depreciation expense	24	—	—	—	24
Amortization of intangibles	44	—	(43)	—	1
Interest expense, net	46	—	—	—	46
EBITDA	\$ 359	\$ 6	\$ —	\$ 1	\$ 366
EBITDA margin ⁽²⁾	11.0 %				11.3 %

Notes:

1. Tax impact of non-GAAP items calculated using estimated statutory tax rate
2. EBITDA divided by revenues (slide 5)

Non-GAAP Income Metrics Reconciliation (FY)

Year Ended December 31, 2021

(in millions, except per share amounts)	As reported	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Asset impairment charges	Loss on sale of business	Non-GAAP results
Operating income	\$ 1,152	\$ 27	\$ 226	\$ 4	\$ —	\$ 1,409
Non-operating expense, net	(185)	—	—	—	3	(182)
Income before income taxes	967	27	226	4	3	1,227
Income tax expense ⁽¹⁾	(208)	(7)	(58)	(1)	(1)	(275)
Net income	759	20	168	3	2	952
Less: net income attributable to non-controlling interest	6	—	—	—	—	6
Net income attributable to Leidos common stockholders	\$ 753	\$ 20	\$ 168	\$ 3	\$ 2	\$ 946
Diluted EPS attributable to Leidos common stockholders	\$ 5.27	\$ 0.14	\$ 1.17	\$ 0.02	\$ 0.01	\$ 6.62
Diluted shares	143	143	143	143	143	143
Net income	\$ 759	\$ 20	\$ 168	\$ 3	\$ 2	\$ 952
Income tax expense ⁽¹⁾	208	7	58	1	1	275
Income before income taxes	967	27	226	4	3	1,227
Depreciation expense	97	—	—	—	—	97
Amortization of intangibles	228	—	(226)	—	—	2
Amortization of equity method investment	—	—	—	—	—	—
Interest expense, net	184	—	—	—	—	184
EBITDA	\$ 1,476	\$ 27	\$ —	\$ 4	\$ 3	\$ 1,510
EBITDA margin ⁽²⁾	10.7 %					11.0 %

Year Ended January 1, 2021

As reported	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Amortization of equity method investment	Acquisition related financing costs	Loss on debt modification	Asset impairment charges	Non-GAAP results
\$ 998	\$ 39	\$ 195	\$ 2	\$ —	\$ —	\$ 12	\$ 1,246
(217)	—	—	—	5	31	—	(181)
781	39	195	2	5	31	12	1,065
(152)	(10)	(49)	(1)	(1)	(8)	(3)	(224)
629	29	146	1	4	23	9	841
1	—	—	—	—	—	—	1
\$ 628	\$ 29	\$ 146	\$ 1	\$ 4	\$ 23	\$ 9	\$ 840
\$ 4.36	\$ 0.20	\$ 1.01	\$ 0.01	\$ 0.03	\$ 0.16	\$ 0.06	\$ 5.83
144	144	144	144	144	144	144	144
\$ 629	\$ 29	\$ 146	\$ 1	\$ 4	\$ 23	\$ 9	\$ 841
152	10	49	1	1	8	3	224
781	39	195	2	5	31	12	1,065
84	—	—	—	—	—	—	84
198	—	(195)	—	—	—	—	3
2	—	—	(2)	—	—	—	—
179	—	—	—	(5)	—	—	174
\$ 1,244	\$ 39	\$ —	\$ —	\$ —	\$ 31	\$ 12	\$ 1,326
10.1 %							10.8 %

Notes:

1. Tax impact of non-GAAP items calculated using estimated statutory tax rate
2. EBITDA divided by revenues (slide 5)

Segment Non-GAAP OI Reconciliation (Quarter)

Three Months Ended December 31, 2021

<i>(in millions)</i>	Operating income (loss)	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Asset impairment charges	Non-GAAP operating income (loss)	Non-GAAP operating margin⁽¹⁾
Defense Solutions	\$ 140	\$ —	\$ 28	\$ —	\$ 168	8.2 %
Civil	61	—	19	—	80	10.0 %
Health	103	—	8	1	112	17.8 %
Corporate	(34)	6	—	—	(28)	NM
Total	\$ 270	\$ 6	\$ 55	\$ 1	\$ 332	9.5 %

Three Months Ended January 1, 2021

<i>(in millions)</i>	Operating income (loss)	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Asset impairment charges	Non-GAAP operating income (loss)	Non-GAAP operating margin⁽¹⁾
Defense Solutions	\$ 147	\$ 1	\$ 24	\$ —	\$ 172	8.9 %
Civil	89	—	10	1	100	12.3 %
Health	86	—	9	—	95	18.5 %
Corporate	(23)	5	—	—	(18)	NM
Total	\$ 299	\$ 6	\$ 43	\$ 1	\$ 349	10.7 %

Notes:

1. Non-GAAP operating income divided by revenues (slide 5 and 6)

NM - Not Meaningful

Segment Non-GAAP OI Reconciliation (FY)

Year Ended December 31, 2021

<i>(in millions)</i>	Operating income (loss)	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Asset impairment charges	Non-GAAP operating income (loss)	Non-GAAP operating margin ⁽¹⁾
Defense Solutions	\$ 569	\$ —	\$ 121	\$ —	\$ 690	8.6 %
Civil	248	—	73	—	321	10.2 %
Health	442	—	32	4	478	18.8 %
Corporate	(107)	27	—	—	(80)	NM
Total	\$ 1,152	\$ 27	\$ 226	\$ 4	\$ 1,409	10.3 %

Year Ended January 1, 2021

<i>(in millions)</i>	Operating income (loss)	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Amortization of equity method investment	Asset impairment charges	Non-GAAP operating income (loss)	Non-GAAP operating margin ⁽¹⁾
Defense Solutions	\$ 506	\$ 4	\$ 92	\$ —	\$ —	\$ 602	8.2 %
Civil	280	1	66	2	1	350	11.7 %
Health	235	—	37	—	11	283	14.4 %
Corporate	(23)	34	—	—	—	11	NM
Total	\$ 998	\$ 39	\$ 195	\$ 2	\$ 12	\$ 1,246	10.1 %

Notes:

1. Non-GAAP operating income divided by revenues (slides 5 and 6)

NM - Not Meaningful

Free Cash Flow

	Three Months Ended		Year Ended	
	December 31, 2021	January 1, 2021	December 31, 2021	January 1, 2021
<i>(in millions, except conversion ratio)</i>				
Net cash provided by (used in) operating activities	\$ 210	\$ (52)	\$ 1,031	\$ 1,334
Payments for property, equipment and software	(33)	(63)	(104)	(183)
Free cash flow	\$ 177	\$ (115)	\$ 927	\$ 1,151
Net income attributable to Leidos common stockholders	\$ 174	\$ 197	\$ 753	\$ 628
Acquisition, integration and restructuring costs ⁽¹⁾	4	4	20	29
Amortization of acquired intangibles ⁽¹⁾	41	32	168	146
Amortization of equity method investment ⁽¹⁾	—	—	—	1
Acquisition related financing costs ⁽¹⁾	—	—	—	4
Loss on debt modification ⁽¹⁾	—	—	—	23
Asset impairment charges ⁽¹⁾	1	1	3	9
Non-GAAP net income attributable to Leidos common stockholders	\$ 222	\$ 234	\$ 946	\$ 840
Operating cash flow conversion ratio ⁽²⁾	121 %	(26)%	137 %	212 %
Free cash flow conversion ratio ⁽³⁾	80 %	(49)%	98 %	137 %

Notes:

1. After-tax expenses excluded from non-GAAP net income
2. Net cash provided by operating activities divided by net income attributable to Leidos common stockholders
3. Free cash flow divided by non-GAAP net income attributable to Leidos common stockholders

Three-Year Organic Growth Reconciliation

	Year Ended		Compound Annual Growth Rate
	December 31, 2021	December 28, 2018	
Revenues, as reported	\$ 13,737	\$ 10,194	10 %
Divested revenues	—	235	
Pro-forma revenues, post divestitures	\$ 13,737	\$ 9,959	
Acquired revenues 12 months since closing date	325	—	
Acquired revenues after 12 months since closing date	1,224	—	
Organic revenues, post divestitures excluding acquired revenues	\$ 12,188	\$ 9,959	7 %

Three-Year EBITDA/Cash Metrics Reconciliation

	Year Ended		
	December 31, 2021	January 1, 2021	January 2, 2020
Revenues, as reported	\$ 13,737	\$ 12,297	\$ 11,094
Net income, as reported	\$ 759	\$ 629	\$ 670
Less: net income attributable to non-controlling interest	6	1	3
Net income attributable to Leidos stockholders	\$ 753	\$ 628	667
Acquisition, integration and restructuring costs	20	29	4
Amortization of acquired intangibles	168	146	128
Amortization of equity method investments	—	1	8
Acquisition related financing costs	—	4	2
Loss on debt modification	—	23	—
Asset impairment charges	3	9	—
Loss on sale of business	—	—	(66)
Tax adjustments on assets held for sale	2	—	—
Other tax adjustments	—	—	7
Non-GAAP net income attributable to Leidos stockholders	\$ 946	\$ 840	\$ 750
Income tax expense adjusted to reflect non-GAAP adjustments	275	224	214
Depreciation expense	97	84	61
Amortization of internally developed intangible assets	2	3	2
Interest expense, net	184	174	131
Adjusted EBITDA	\$ 1,504	\$ 1,325	\$ 1,158
Adjusted EBITDA margin	10.9 %	10.8 %	10.4 %
Operating cash flow, as reported	\$ 1,031	\$ 1,334	\$ 992
Payments for property, equipment and software	(104)	(183)	(121)
Free cash flow	\$ 927	\$ 1,151	\$ 871
Operating cash flow conversion ratio	137 %	212 %	149 %
Free cash flow conversion ratio	98 %	137 %	116 %