



# Baird 2019 Global Industrial Conference

November 5, 2019

Kelly Hernandez, SVP of Investor Relations



# Forward-Looking Statements

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Certain statements in this presentation 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 presentation include, among others, estimates of 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 future dividends, share repurchases, capital expenditures, debt repayments, acquisitions, dispositions, addressable markets 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 presentation depending on a variety of factors, including, but not limited to: changes to our reputation and relationships with government agencies, developments in the U.S. government defense budget, including budget reductions, implementation of spending limits (sequestration) or changes in budgetary priorities; 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; 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 other market factors out of our control; our compliance with various U.S. government and other government procurement rules and regulations; governmental reviews, audits and investigations of our Company; our ability to effectively compete for and win contracts with the U.S. government and other customers; our reliance on information technology spending by hospitals/healthcare organizations; our reliance on infrastructure investments by industrial and natural resources organizations; energy efficiency and alternative energy sourcing investments; investments by the U.S. government and commercial organizations in environmental impact and remediation projects; 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; 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; 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; 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; exposure to lawsuits and contingencies associated with the IS&GS Business; our ability to declare future dividends based on our earnings, financial condition, capital requirements and other factors, including compliance with applicable laws and contractual agreements; our ability to grow our commercial health and infrastructure businesses, which could be negatively affected by budgetary constraints faced by hospitals and by developers of energy and infrastructure projects; 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 presentation. 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](http://www.leidos.com).

All information in this presentation is as of November 5, 2019. The Company expressly disclaims any duty to update the guidance or any other forward-looking statement provided in this presentation to reflect subsequent events, actual results or changes in the Company's expectations. The Company also disclaims any duty to comment upon or correct information that may be contained in reports published by investment analysts or others.

# Mission

Leidos makes the world **safer, healthier, and more efficient** through **information technology, engineering, and science.**

# Vision

Become the global leader in the integration and application of **information technology, engineering, and science** to solve our customers' most demanding challenges.

We will deliver **innovative solutions** through the efforts of our **diverse and talented people** who are dedicated to our **customers' success**. We will empower our teams, contribute to our communities, and operate sustainably.

# Values

**Integrity**

**Innovation**

**Agility**

**Collaboration**

**Commitment**

# The Leidos Team



FROM LEFT TO RIGHT

**Stephen Hull**  
Chief Information Officer

**Vicki Schmanske**  
President, Intelligence Group

**Jim Cantor**  
Chief of Program Excellence  
& Strategic Partnerships

**Jerry Howe**  
General Counsel

**Paul Engola**  
Chief Human Resources Officer &  
Head of Business Partnerships

**Kamal Dua**  
Chief Audit Executive

**Gerry Fasano**  
President, Defense Group

**Jon Scholl**  
President, Health Group

**Roy Stevens**  
Chief of Business  
Development & Strategy

**Michele Brown**  
Chief Ethics  
& Compliance Officer

**Roger Krone**  
Chairman &  
Chief Executive Officer

**Jim Carlini**  
Chief Technology Officer

**Jim Reagan**  
Chief Financial Officer

**Jim Moos**  
Acting President, Civil Group  
(not pictured)



**33K**  
Employees Worldwide



**13K**  
Cleared  
Employees



**67%**  
Top Secret & Above  
(of cleared employees)



**22%**  
Military Veterans



**7K**  
Master's Degrees



**1K**  
PhD's

# Leidos Investment Thesis



## Revenue & EBITDA Growth

Drive market **share gains** and **revenue growth** by meeting customers' emerging needs, while **maintaining margins at or above 10%**.



## Diverse & Resilient Business

Cultivate a portfolio which offers **resiliency across the cycles** through presence in **diverse, yet complementary end-markets**.



## Strong Cash Generation

Operate an **asset-light business** with a high **Return on Invested Capital** while investing to **improve competitive position**.



## Disciplined Capital Deployment

Balance capital deployment to **drive sustained value** for **all stakeholders** (shareholders, employees, and customers), leveraging **inorganic investments to accelerate the strategy**.

# Diversified Revenues

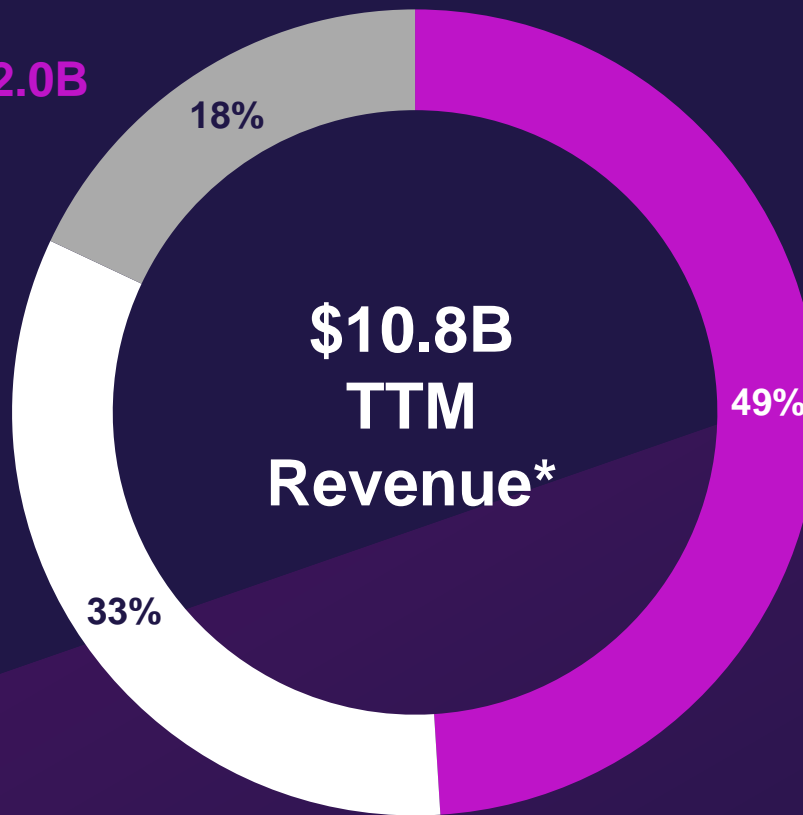
LEVERAGED TO MULTIPLE MARKETS & GEOGRAPHIES



HEALTH **\$2.0B**



CIVIL **\$3.6B**



DEFENSE SOLUTIONS **\$5.2B**



\*Reflects trailing twelve months of revenue as of September 27, 2019.

# Leidos Technical Core Competencies (TCCs)



Digital  
Modernization



Cyber  
Operations



Operations  
& Logistics



Mission Software  
Systems



Integrated  
Systems

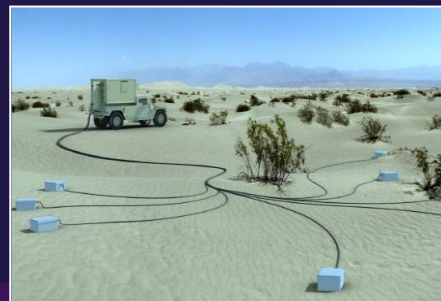


Sensors,  
Collections &  
Phenomenology



Mission  
Support

LInC



# Leidos' Scale Creates Competitive Advantages

TTM Revenue (\$B)



Scale Drives Differentiation  
Across 4 Key Vectors



Technical  
Differentiation



Customer  
Relationship



Key  
Personnel



Past  
Performance

Note: Revenue shown on a trailing twelve months basis reflecting periods reported as of 11/4/2019. SAIC shown on a pro-forma basis

# Foundations for Success

## SCALE DRIVES DIFFERENTIATION ACROSS 4 KEY VECTORS



### Technical Differentiation

Scale allows greater investment in differentiation & repeatable solutions

7 core competencies leveraged across the organization

Leidos Innovation Center (LInC) incubates advanced technologies

Strategic supplier alliances and university partnerships augment internal capabilities



### Customer Relationship

Scale drives broadest set of relationships in the industry

Commitment to customer mission strengthens partnerships

Deep mission understanding provides foundation for differentiation



### Key Personnel

Scale allows greater career mobility and investments in our people, aiding recruitment and retention

Dedicated technical career track increases retention of key technical staff

50-year legacy of commitment to our customers' missions allows for unparalleled level of industry experts on staff



### Past Performance

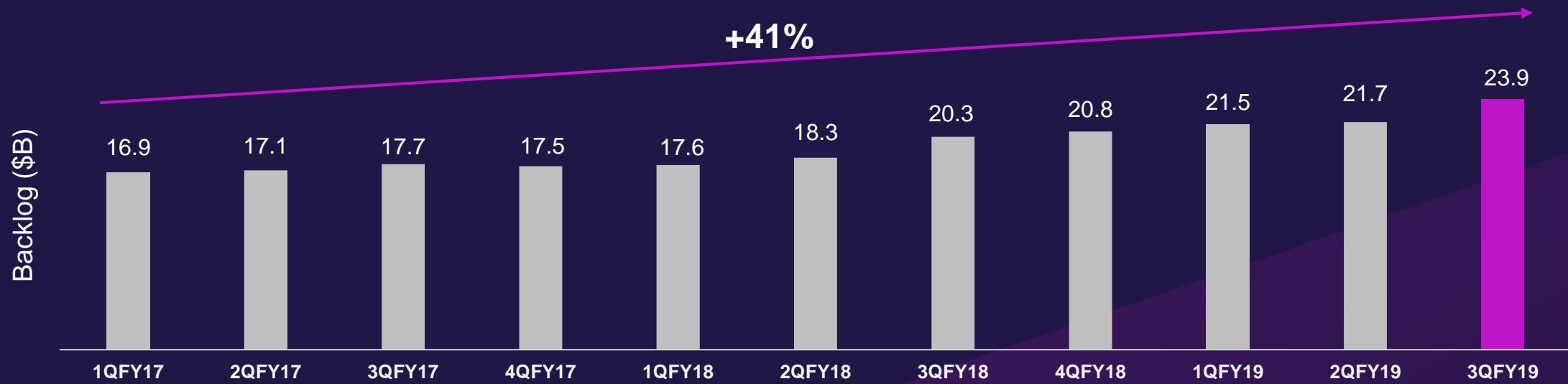
Scale enables industry's broadest set of past performance credentials

Diversity of revenue stream allows for unique combination of demonstrated performance

Commitment to program excellence & executive-level focus on customer success drives strong reputation and award fees

# Increasing Backlog

BACKLOG GROWTH OF 48% IN 2+ YEARS

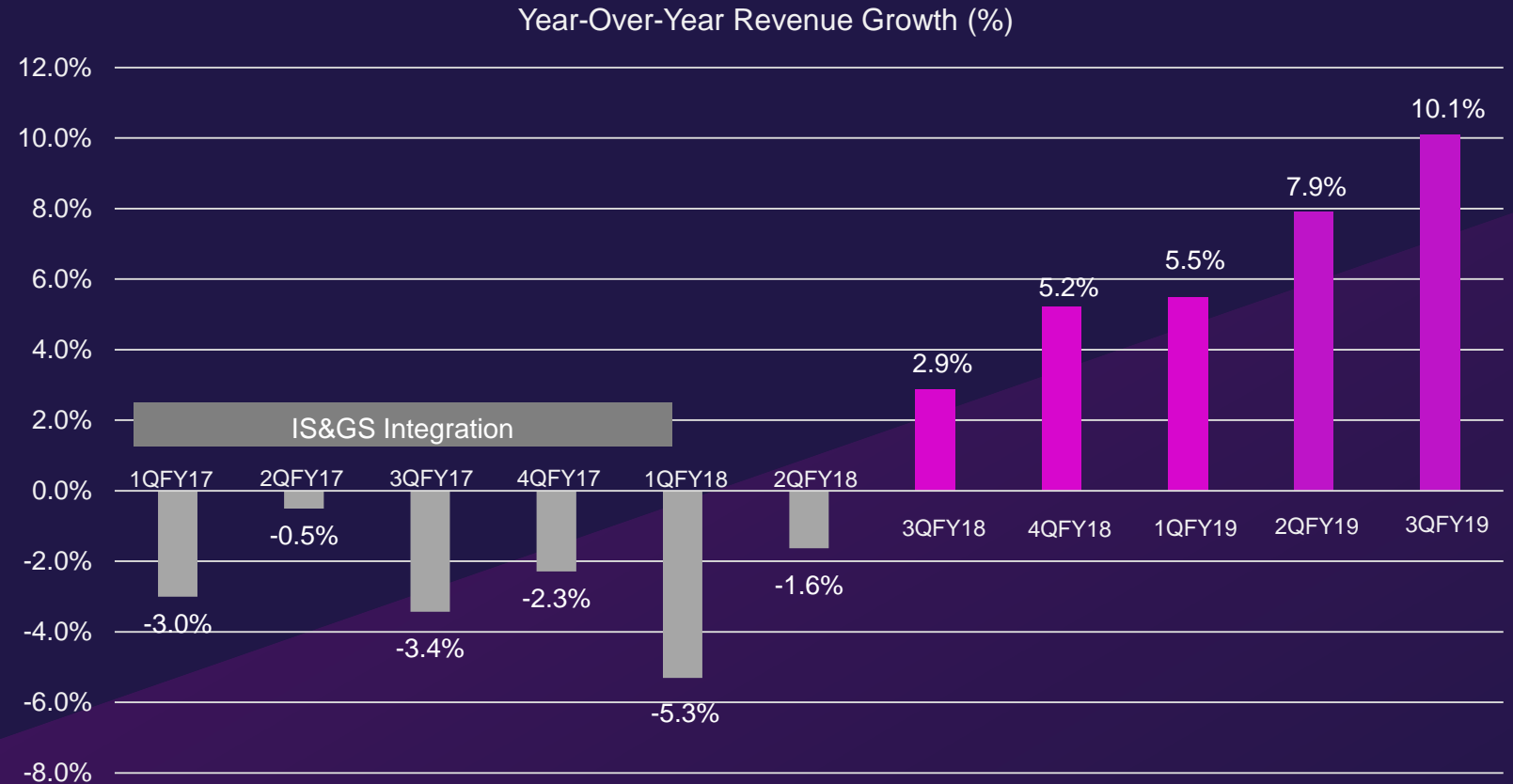


Note: Backlog presented at exchange rate in effect at quarter end.

# Revenues: Inflected to Growth and Accelerating

## Growth Drivers:

- Leveraging scale to capture new business
- Competitive and flexible cost structure
- Clear technical discriminators
- Delivering solutions to our customers' challenges

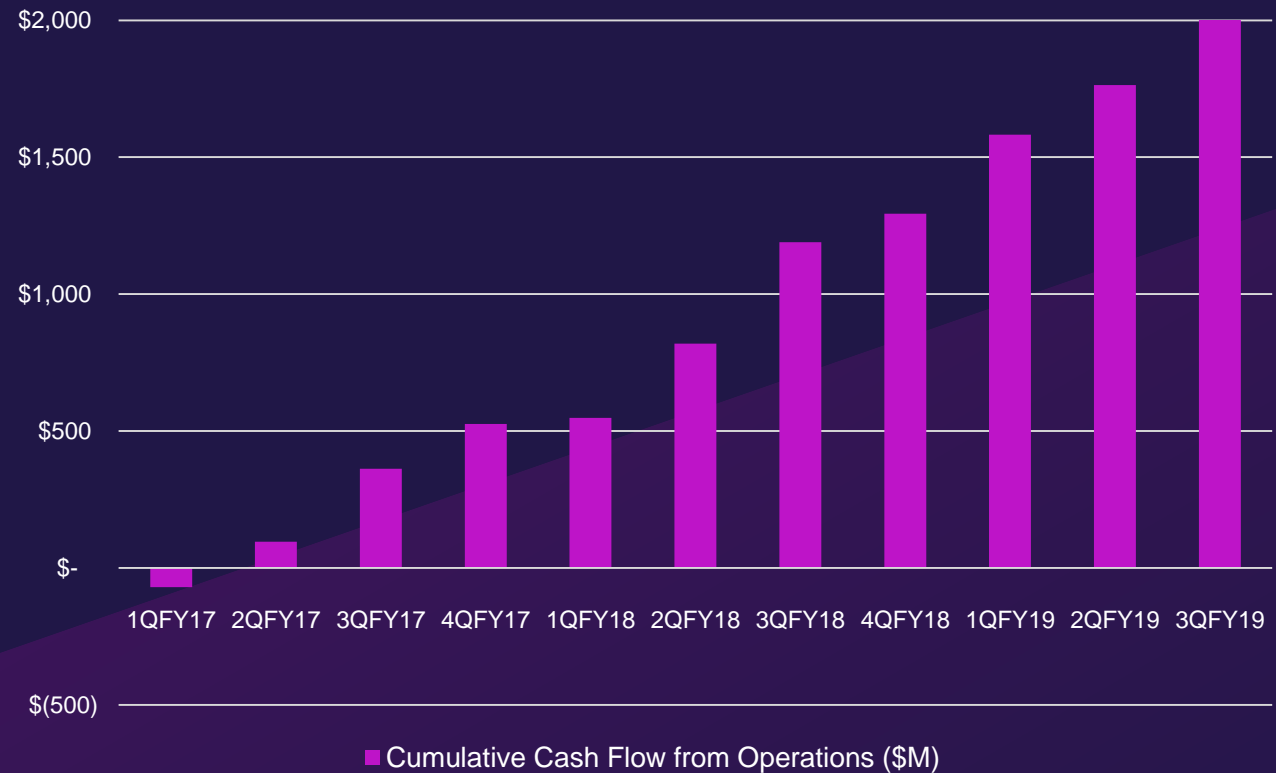


Note: 1QFY17-3QFY17 shown on a pro-forma basis.

# Driving Significant Cash from Operations

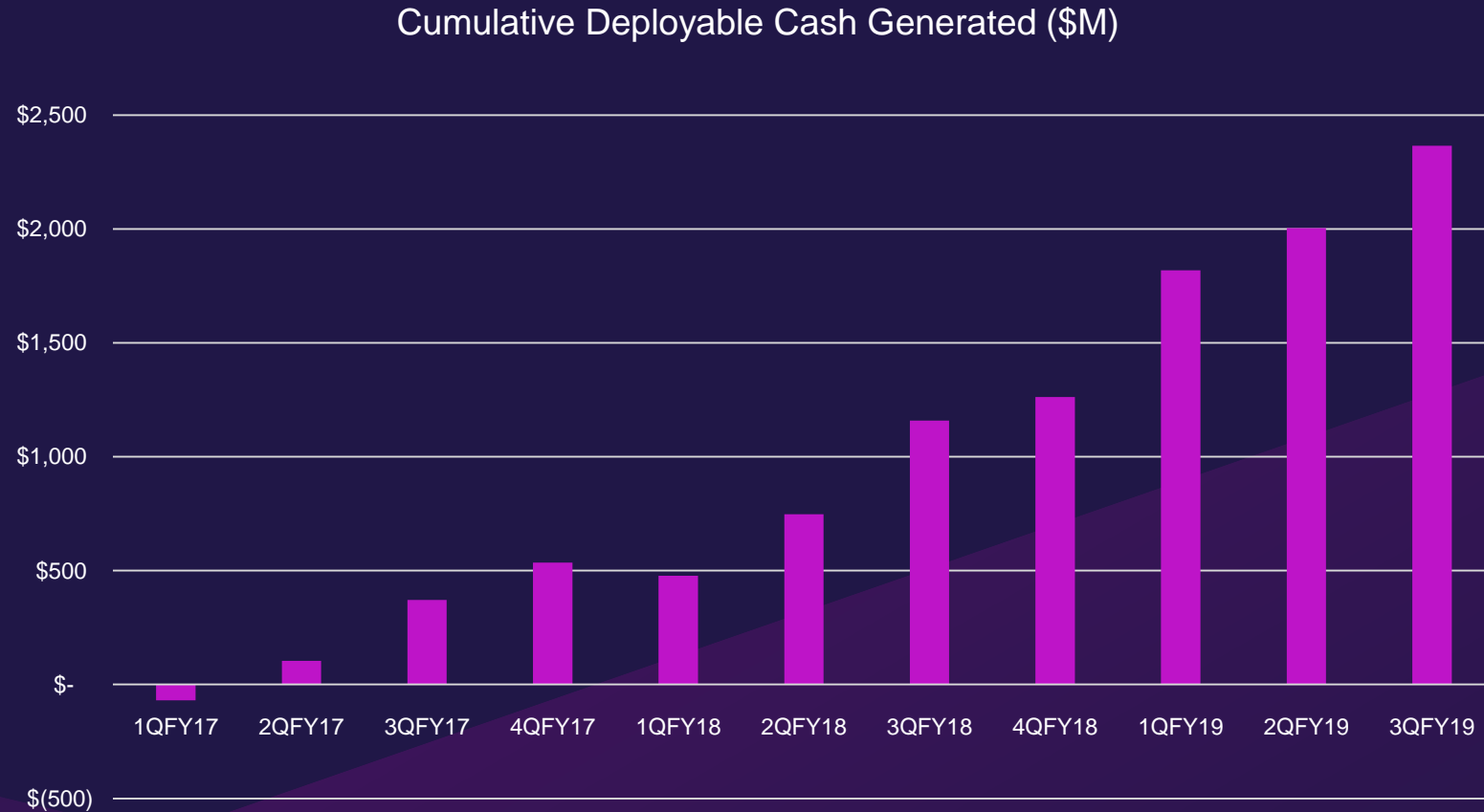
Over \$2.1 billion in operating cash flow generated since 2017 driven by:

- Increased profitability
- Commitment to lean balance sheet
- Accelerating revenue growth
- Accretive capital investments to drive accelerated growth



# Strategy Has Generated Significant Deployable Cash

\$2.4 BILLION IN DEPLOYABLE CASH GENERATED SINCE 2017

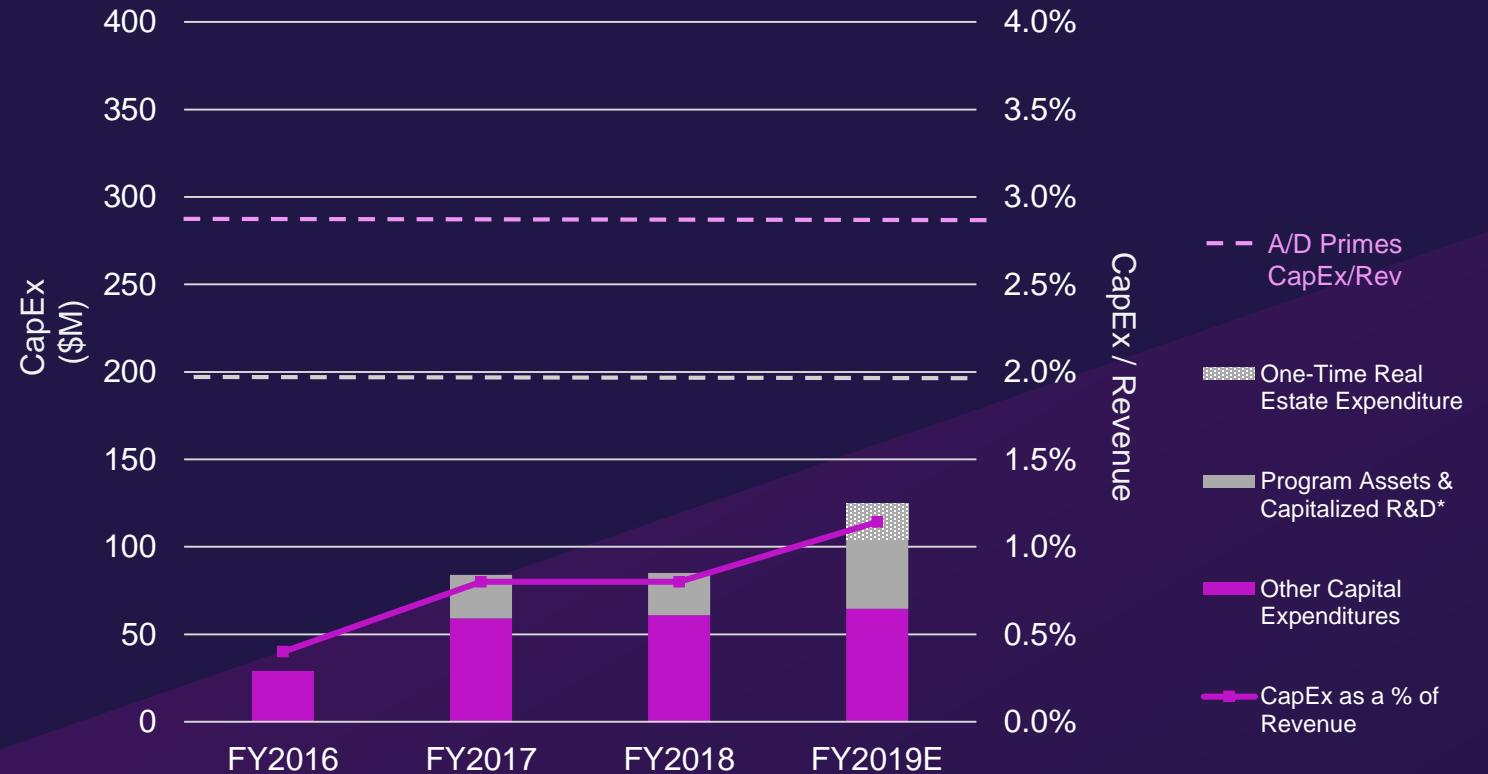


Note: See appendix for definitions of Non-GAAP financial measures.

# Capital-Light Business Model

Capital investments will be used as a competitive advantage to deliver:

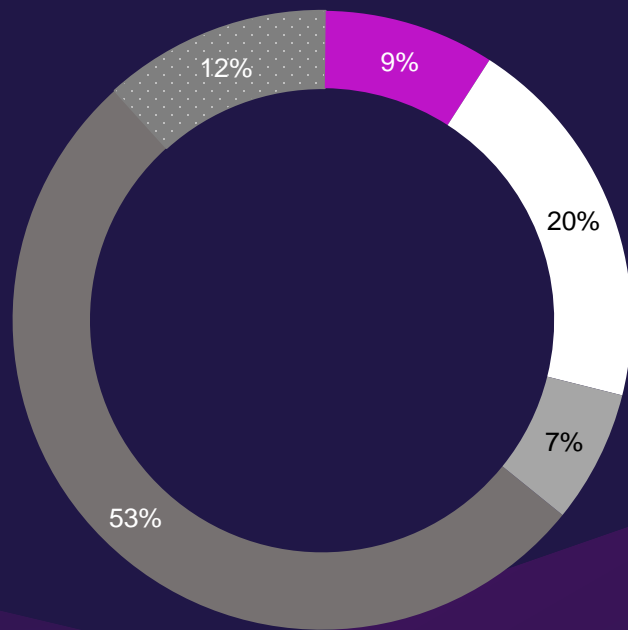
- Margin accretive revenues, or
- Increased program switching costs, or
- Discriminating technical capabilities, or
- Optimized real-estate footprint



# Disciplined Capital Deployment Philosophy

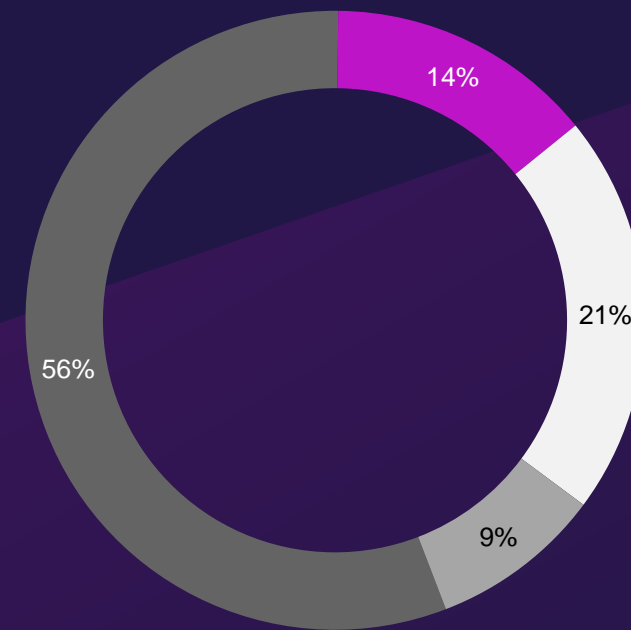
## YTD 2019 Capital Deployment

■ Share Repurchase ■ M&A ■ CapEx ■ Quarterly Dividend ■ Debt



## Target Capital Deployment

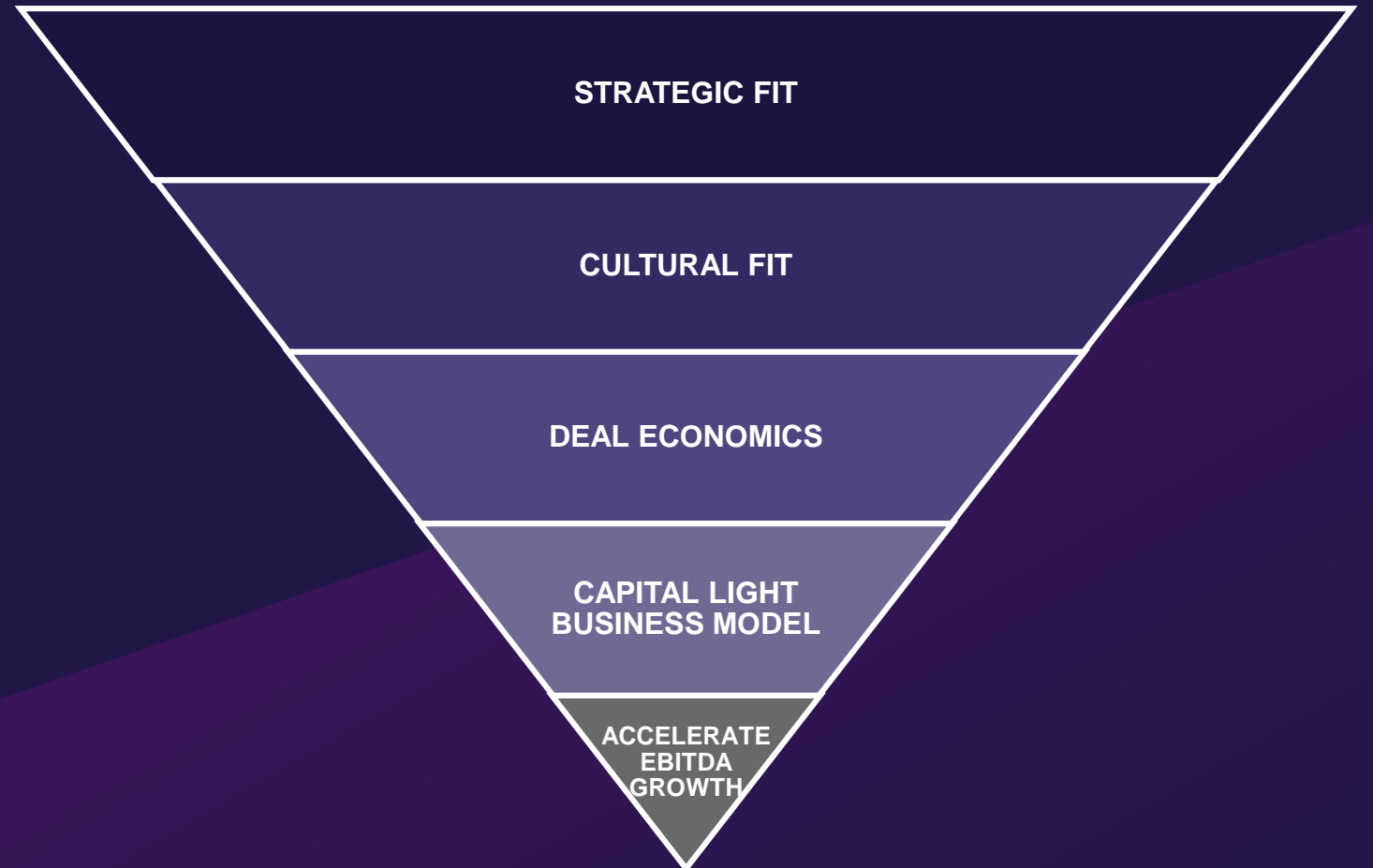
■ M&A/Share Repurchase ■ CapEx ■ Quarterly Dividend ■ Debt



Note: Graphic depicts capital deployment after internal growth investments; Target Deployment excludes impact of potential M&A transactions and reflects 2019-2021 estimates

# Pursuing M&A with a Disciplined Set of Priorities & Filters

- Balanced scale & access to capital markets will be used to accelerate growth
- Disciplined process to filter M&A opportunities to those that will enable the most shareholder value



# 3Q FY 2019 Highlights

## Continued Revenue Growth Acceleration

- Generated record revenue of \$2.84 billion
- Year-over-year revenue growth of 10.1%; 12.0% organic growth<sup>(1)</sup>
- Adjusted EBITDA margins of 10.7%
- Grew backlog to a record \$23.9 billion; 1.8x book-to-bill

## Generating Strong Cash Flow

- \$349M cash flow from operations
- 166%<sup>(2)</sup> free cash flow conversion of adjusted net income

## Balanced Capital Deployment

- \$760M deployed year to date:

Share Repurchase	M&A	Dividends <sup>(3)</sup>	CapEx	Debt Payments
53%	12%	20%	9%	7%

Note: See appendix for definition & reconciliation of Non-GAAP Financial Measures

(1) See appendix slide 24 for calculation of organic revenue growth.

(2) 166% reflects Q3 2019: [Cash Flow from Operations (\$349M) – Capex (\$21M)] / Non-GAAP Net Income (\$197M)

(3) 20% includes \$48 million payment towards September 30, 2019 dividend.

# 2019 Guidance

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<b>Revenue</b>	<b>\$10.9B - \$11.0B</b>
<b>Adjusted EBITDA Margin<sup>(1)</sup></b>	<b>10.2% - 10.4%</b>
<b>Non-GAAP Diluted EPS<sup>(1,2)</sup></b>	<b>\$4.90 - \$5.10</b>
<b>Operating Cash Flow</b>	<b>Meet or exceed \$875M</b>

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(1) 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, abnormal, or the timing and amount of which is difficult to predict.

(2) Assumes 2019 Non-GAAP Effective Tax Rate of 23%. See appendix for definition & reconciliation of Non-GAAP Financial Measures.

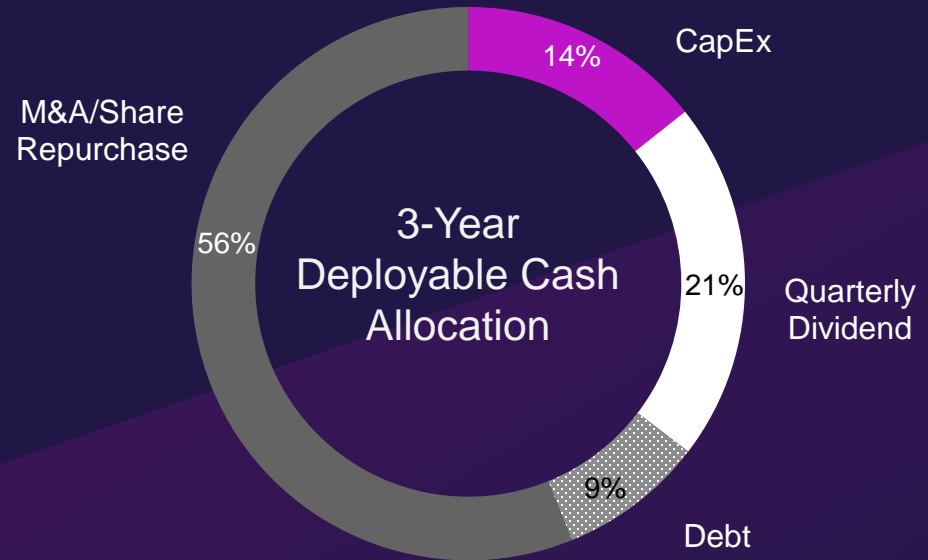
# 2019 – 2021 Financial Targets

Organic Revenue Growth: 5% CAGR

Cash Flow Conversion:<sup>(1)</sup> >100%

Adjusted EBITDA Margins:<sup>(2)</sup> 10.0%+

## \$2.7B DEPLOYABLE CASH



Note: Target Deployment excludes impact of potential M&A transactions and reflects 2019 – 2021 estimates.

(1) Reflects: (Cash Flow from Operations – CapEx)/Non-GAAP Net Income.

(2) A quantitative reconciliation of adjusted EBITDA margin 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, abnormal, or the timing and amount of which is difficult to predict.

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Appendix



# Non-GAAP Financial Measures

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This presentation includes certain non-GAAP financial measures, such as non-GAAP operating income, non-GAAP operating margin, adjusted earnings before interest, taxes, depreciation and amortization (EBITDA), adjusted EBITDA margin, deployable cash and free cash flow.

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 the Company's 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. The Company's computation of its non-GAAP measures may not be comparable to similarly titled measures reported by other companies, thus limiting their use for comparability.

# Non-GAAP Financial Measures

**Non-GAAP operating income is computed by excluding the following items from net income: (i) non-operating expense, net; (ii) income tax expense, and (iii) the following discrete items:**

- ▶ Integration and restructuring costs - Represents integration, lease termination and severance costs related to the Company's acquisitions.
- ▶ Amortization of acquired intangible assets - Represents the amortization of the fair value of the acquired intangible assets.
- ▶ Amortization of equity method investment - Represents the amortization of the fair value of the acquired equity method investment.
- ▶ Gain on sale of business - Represents the net gain on sale of businesses.
- ▶ Asset impairment charges - Represents impairments of long-lived tangible assets.
- ▶ Other tax adjustments - Represents discrete tax items.

Non-GAAP operating margin is computed by dividing non-GAAP operating income by revenue.

Non-GAAP effective tax rate is computed by using the effective GAAP tax rate plus the tax impact of the non-GAAP items calculated using an estimated statutory tax rate.

Non-GAAP EPS is computed by dividing net income, adjusted for the discrete items as identified above and the related tax impacts, by the diluted weighted average number of common shares outstanding.

Adjusted EBITDA is computed by excluding the following items from income before income taxes: (i) discrete items as identified above; (ii) interest expense; (iii) interest income; (iv) depreciation expense; and (v) amortization of intangibles.

Adjusted EBITDA margin is computed by dividing adjusted EBITDA by revenue.

Free cash flow is computed by subtracting capital expenditures from cash flows from operations.

Deployable cash is computed by adding operating cash flows and investing cash flows adjusted for CapEx and business acquisitions.

# Organic Revenue Calculation

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
	(dollars in millions)						
<b>Defense Solutions</b>							
Revenues, as reported	\$ 1,189	\$ 1,262	\$ 1,250	\$ 1,265	\$ 1,267	\$ 1,346	\$ 1,354
<b>Civil</b>							
Revenues, as reported	\$ 829	\$ 816	\$ 881	\$ 885	\$ 847	\$ 881	\$ 973
Commercial Cybersecurity Business (Divested on 2/20/2019)	19	22	23	21	11	-	-
Pro-forma revenues	\$ 810	\$ 794	\$ 858	\$ 864	\$ 836	\$ 881	\$ 973
YoY revenue growth on reported revenues					2.2%	8.0%	10.4%
YoY "Organic Revenue Growth" on pro-forma revenues					3.2%	11.0%	13.4%
<b>Health</b>							
Revenues, as reported	\$ 425	\$ 451	\$ 444	\$ 497	\$ 463	\$ 501	\$ 508
Health Staff Augmentation Business (Divested on 9/15/2019)	34	41	40	35	25	27	21
Pro-forma revenues	\$ 391	\$ 410	\$ 404	\$ 462	\$ 438	\$ 474	\$ 487
YoY revenue growth on reported revenues					8.9%	11.1%	14.4%
YoY "Organic Revenue Growth" on pro-forma revenues					12.0%	15.6%	20.5%
<b>Total Operations</b>							
Revenues, as reported	\$ 2,443	\$ 2,529	\$ 2,575	\$ 2,647	\$ 2,577	\$ 2,728	\$ 2,835
Total Commercial Cyber and Health Staff Augmentation revenues	53	63	63	56	36	27	21
Pro-forma revenues	\$ 2,390	\$ 2,466	\$ 2,512	\$ 2,591	\$ 2,541	\$ 2,701	\$ 2,814
YoY revenue growth on reported revenues					5.5%	7.9%	10.1%
YoY "Organic Revenue Growth" on pro-forma revenues					6.3%	9.5%	12.0%



# Reportable Segments Non-GAAP Operating Income Reconciliation

Quarter Ended September 27, 2019

	(in millions)				
	Operating income (loss)	Integration and restructuring costs	Amortization of acquired intangibles	Amortization of equity method investment	Non-GAAP operating income (loss)
Defense Solutions	\$ 93	\$ -	\$ 15	\$ -	\$ 108
Civil	57	-	16	3	76
Health	63	-	12	-	75
Corporate	36	-	-	-	36
<b>Total</b>	<b>\$ 249</b>	<b>\$ -</b>	<b>\$ 43</b>	<b>\$ 3</b>	<b>\$ 295</b>

Quarter Ended September 28, 2018

	(in millions)				
	Operating income (loss)	Integration and restructuring costs	Amortization of acquired intangibles	Amortization of equity method investment	Non-GAAP operating income (loss)
Defense Solutions <sup>1</sup>	\$ 89	\$ -	\$ 17	\$ -	\$ 106
Civil <sup>1</sup>	92	-	22	2	116
Health	52	-	11	-	63
Corporate	(30)	7	-	-	(23)
<b>Total</b>	<b>\$ 203</b>	<b>\$ 7</b>	<b>\$ 50</b>	<b>\$ 2</b>	<b>\$ 262</b>

(1) Prior year amounts have been recast for the contracts that were reassigned between the Defense Solutions and Civil reportable segments.



# Non-GAAP Financial Measures Reconciliation

	1QFY18	2QFY18	3QFY18	4QFY18	FY18	1QFY19	2QFY19	3QFY19
	(in millions, except per share amounts)							
<b>Non-GAAP operating income</b>	\$ 236	\$ 260	\$ 262	\$ 246	\$ 1,004	\$ 239	\$ 256	\$ 295
Depreciation expense	13	15	14	14	56	15	14	16
Other income (expense), net	-	1	2	(4)	(1)	4	3	(7)
Amortization of internally developed intangible assets	-	-	-	-	-	1	-	-
<b>Adjusted EBITDA</b>	\$ 249	\$ 276	\$ 278	\$ 256	\$ 1,059	\$ 259	\$ 273	\$ 304
Depreciation expense	(13)	(15)	(14)	(14)	(56)	(15)	(14)	(16)
Interest expense, net	(34)	(35)	(35)	(34)	(138)	(38)	(33)	(28)
Income tax expense adjusted to reflect non-GAAP adjustments	(43)	(53)	(55)	(43)	(194)	(39)	(54)	(62)
Amortization of internally developed intangible assets	-	-	-	-	-	(1)	-	-
<b>Non-GAAP net income</b>	\$ 159	\$ 173	\$ 174	\$ 165	\$ 671	\$ 166	\$ 172	\$ 198
Less: net income attributable to non-controlling interest	-	1	-	-	1	-	2	1
<b>Non-GAAP net income attributable to Leidos Holdings, Inc.</b>	\$ 159	\$ 172	\$ 174	\$ 165	\$ 670	\$ 166	\$ 170	\$ 197
Integration and restructuring costs	(17)	(8)	(7)	(5)	(37)	(2)	(1)	-
Amortization of acquired intangibles	(50)	(51)	(50)	(50)	(201)	(42)	(43)	(43)
Gain (loss) on sale of business	-	-	-	-	-	88	(1)	-
Amortization of equity method investment	(3)	(2)	(2)	(3)	(10)	(3)	(2)	(3)
Asset impairment charges	(7)	-	-	-	(7)	-	-	-
Adjustment to the income tax provision to reflect non-GAAP adjustments <sup>1</sup>	20	33	32	81	166	(18)	13	10
<b>Net income attributable to Leidos Holdings, Inc.</b>	\$ 102	\$ 144	\$ 147	\$ 188	\$ 581	\$ 189	\$ 136	\$ 161
<b>Non-GAAP diluted EPS attributable to Leidos Holdings, Inc.</b>	\$ 1.03	\$ 1.12	\$ 1.14	\$ 1.10	\$ 4.38	\$ 1.13	\$ 1.16	\$ 1.36
Total adjustments from non-GAAP income	(0.37)	(0.18)	(0.18)	0.15	(0.58)	0.16	(0.23)	(0.25)
<b>Diluted EPS attributable to Leidos Holdings, Inc.</b>	\$ 0.66	\$ 0.94	\$ 0.96	\$ 1.25	\$ 3.80	\$ 1.29	\$ 0.93	\$ 1.11
Diluted shares (for computing non-GAAP EPS)	154	154	153	150	153	147	146	145

Note: See definition of Non-GAAP Financial Measures on slide 23

(1) Calculation uses an estimated statutory tax rate on non-GAAP adjustments.



# Non-GAAP Financial Measures Reconciliation (cont'd)

Quarter Ended September 27, 2019

(in millions, except per share amounts)

	As reported	Amortization of acquired intangibles	Amortization of equity method investment	Other tax adjustments	Non-GAAP results
Operating income	\$ 249	\$ 43	\$ 3	\$ -	\$ 295
Non-operating expense, net	(35)	-	-	-	(35)
Income before income taxes	214	43	3	-	260
Income tax (expense) benefit <sup>1</sup>	(52)	(10)	(1)	1	(62)
Net income	162	33	2	1	198
Less: net income attributable to non-controlling interest	1	-	-	-	1
Net income attributable to Leidos common stockholders	\$ 161	\$ 33	\$ 2	\$ 1	\$ 197
Diluted EPS attributable to Leidos common stockholders	\$ 1.11	\$ 0.23	\$ 0.01	\$ 0.01	\$ 1.36
Diluted shares	145	145	145	145	145
Income before income taxes	\$ 214	\$ 43	\$ 3	\$ -	\$ 260
Depreciation expense	16	-	-	-	16
Amortization of intangibles	43	(43)	-	-	-
Amortization of equity method investment	3	-	(3)	-	-
Interest expense, net	28	-	-	-	28
EBITDA	\$ 304	\$ -	\$ -	\$ -	\$ 304
EBITDA margin	10.7%				10.7%

(1) Calculation uses an estimated statutory tax rate on non-GAAP adjustments.



# Deployable Cash Reconciliation

*in Millions*

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	Deployable Cash
<b>Operating Cash Flows</b>	(71)	166	267	164	22	271	371	104	288	186	349	
<b>Investing Cash Flows</b>	(5)	(9)	(19)	(38)	(96)	(13)	15	(20)	237	(16)	(102)	
+Capex	7	16	19	39	15	13	25	20	30	16	21	
+Acquisitions											94	
<b>Adjusted Investing Cash Flows</b>	2	7	-	1	(81)	-	40	-	267	-	13	
<b>Deployable Cash Flows</b>	(69)	173	267	165	(59)	271	411	104	555	186	362	2,366