Leidos Q2 FY21
Earnings Conference Call

August 3, 2021

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 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, the impact of COVID-19 and related actions taken to prevent its spread and contract awards. 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, our ability to recover costs under contracts and insurance challenges; developments in the U.S. government defense and non-defense budgets, including budget reductions, sequestration, implementation of spending limits or changes in budgetary priorities, or delays in the U.S. government budget process or approval of raising the debt ceiling; delays in the U.S. government contract procurement process or the award of contracts and delays or loss of contracts as a result of competitor protests; changes in U.S. government procurement rules, regulations and practices; 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 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 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; our ability to accurately estimate costs associated with our firm-fixed-price contracts and other contracts; resolution of legal and other disputes with our customers and others or legal or regulatory compliance issues; cybersecurity, data security or other security threats, systems failures or other disruptions of our business; our compliance with international, federal, state and local laws and regulations regarding privacy, data security, protection, storage, retention, transfer and disposal, technology protection and personal information; the damage and disruption to our business resulting from natural disasters; 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; the failure of our inspection or detection systems to detect threats; the adequacy of our insurance programs, customer indemnifications or other liability protections 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 Lockheed Martin's Information Systems & Global Solutions business; our ability to protect our intellectual property and other proprietary rights by third parties of infringement, misappropriation or other violations; our ability to prevail in litigation brought by third parties of infringement, misappropriation or other violations by us of their intellectual property rights; our ability to declare future dividends based on our earnings, financial condition, capital requirements and other factors, including compliance with applicable law and our 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; our ability to successfully integrate acquired businesses; 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 release is as of August 3, 2021. The Company 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 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.

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.

leidos

CEO Key Messages

1

Our financial results demonstrate that our strategy is working

- 16% organic growth leads the industry
- 10.4% adjusted EBITDA margins running above long-term guidance
- Scale driving differentiation and better performance

2

Business Development momentum sets the stage for further growth

- Net book-to-bill ratio of 1.1x for the quarter, 1.2x for trailing 12 months
- Bookings exclude $2.5B NASA AEGIS award that was later protested
- $49B in pending opportunities, including $35B in new awards

3

Deploying capital to build complete offerings in attractive markets

- Gibbs & Cox brings leading naval engineering capability to augment our existing expertise in undersea automation
- 1901 Group—enhancement to NASA and ATF awards and NGEN execution

4

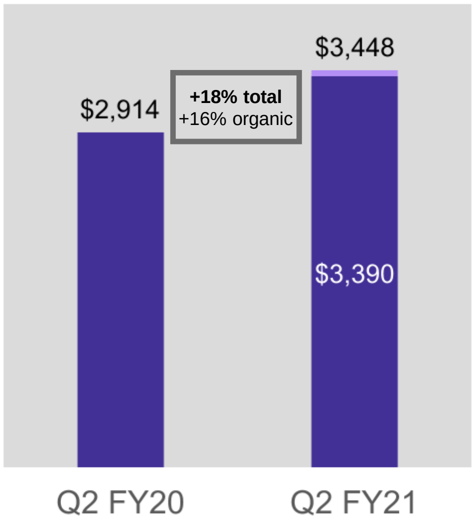
Building an engaged and effective workforce

- More than 4,500 hires—able to meet staffing demands
- Reorganizing executive team for development, growth and efficiency
- Million Dollar Move the Needle Sweepstakes—encouraging vaccinations

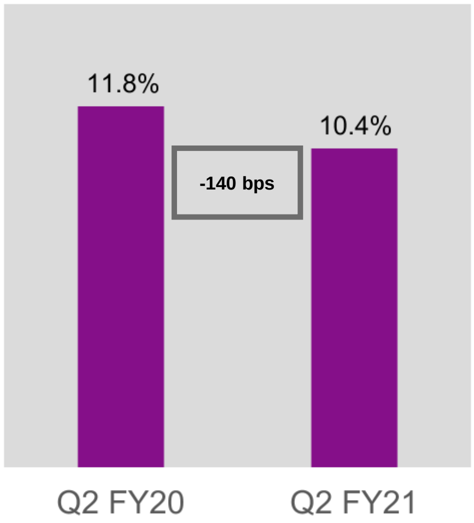
leidos

Q2 FY21 Results: Income Statement

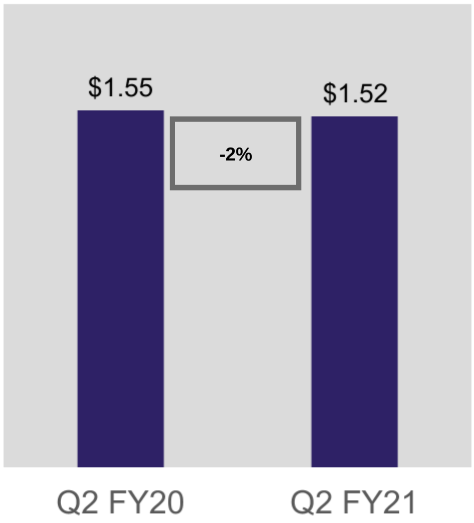
Revenues (M)



Adjusted EBITDA Margin (%)



Non-GAAP Diluted EPS ($)

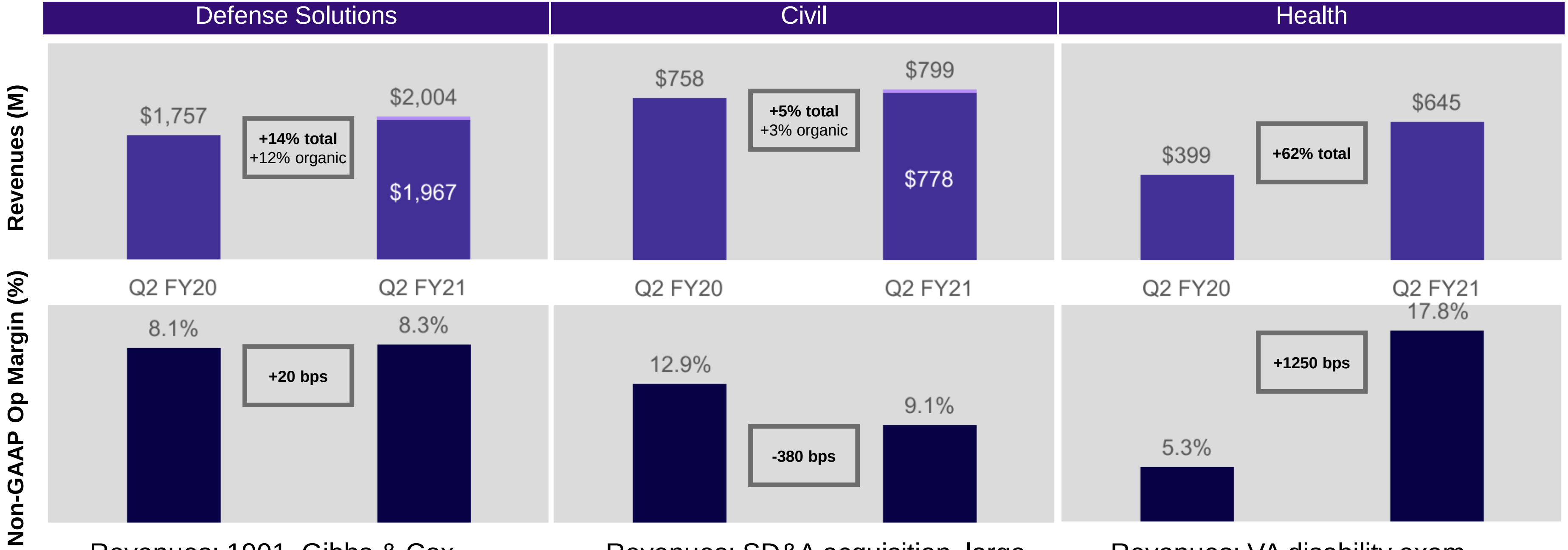


- Revenues: VA disability exams recovery and ramp of new programs (NGEN, MFLC)
- Adjusted EBITDA Margin: strong program management, better direct labor utilization
- Non-GAAP Diluted EPS: $(0.04) impact from higher tax rate vs. guided rate
- Q2 FY20 VirnetX $81M net gain: +280 bps adjusted EBITDA, +$0.44 non-GAAP diluted EPS

Note: Shaded upper portion on Q2 FY21 Revenues represents acquired revenue.

leidos

Q2 FY21 Results: Reporting Segments



- Revenues: 1901, Gibbs & Cox acquisitions; NGEN ramp; increased weapon system development
- Non-GAAP Op Margin: Stable

- Revenues: SD&A acquisition, large program growth (Hanford Integration)
- Non-GAAP Op Margin: fewer deliveries of ports/borders products and airport screening systems

- Revenues: VA disability exam recovery, DHMSM fielding, MFLC ramp
- Non-GAAP Op Margin: significantly increased revenues, better labor utilization

Note: Shaded upper portions on Q2 FY21 Revenues represent acquired revenue.

Q2 FY21 Results: Cash Flow / Balance Sheet

Cash Flow Generation	Cash generation below normal levels—funding organic growth	
	▪ Operating cash flow	$17M
	▪ Free cash flow	$(4)M
	▪ Accounts Receivable monetization facility impact	$(94)M
Capital Deployment	Following balanced long-term approach to capital deployment	
	▪ M&A (Gibbs & Cox)	$376M
	▪ Return to shareholders	$48M
	▪ CapEx & debt repayment	$48M
	6% increase to future dividends demonstrates confidence in cash flows	
Balance Sheet	Focused on maintaining and leveraging Investment Grade rating	
	▪ Strong liquidity	>$1B
	▪ Total debt	$5.1B
	▪ Net leverage ratio	3.2x

leidos

2021 Guidance

Measure	Current
Revenues (billions)	$13.7 - $14.1
Adjusted EBITDA Margin	10.5% - 10.7%
Non-GAAP Diluted EPS	$6.35 - $6.65
Cash Flows Provided by Operating Activities (millions)	at or above $875

Maintaining guidance for all metrics

- Revenues: Gibbs & Cox upside balanced with COVID concerns, international screening market / Intelligence Community delays
- Adjusted EBITDA Margin: Remains near current levels in the back half of the year
- Non-GAAP DEPS: Increased tax rate (23%-23.5% vs. 22%) outweighs Gibbs & Cox accretion
- Operating Cash Flow: Rebounds in back half of the year

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.

leidos

2021 Guidance Assumptions

COVID-Related Factors	▪ Customers may adopt new protocols associated with COVID-19 but do not revert to closed offices or work stoppages ▪ Airline travel does not fall to the levels experienced in the second half of 2020 ▪ Chip shortages do not worsen, and we are able to meet the majority of customer demands for technology products
Other Customer/Budget Driven Factors	▪ The U.S. Federal Government operates under a Continuing Resolution from October 1, 2021 through all or most of the remainder of calendar year 2021 with no shutdown ▪ Customer payment practices remain consistent with historical experience ▪ Procurement schedules are not further extended or cancelled

Appendix: Non-GAAP Reconciliations

Organic Growth

	Q2 FY21	Q2 FY20	YoY Growth
Defense Solutions			
Revenues, as reported	**$ 2,004**	$ 1,757	14 %
1901 Group (acquired January 14, 2021) and Gibbs & Cox (acquired May 7, 2021)	**37**	—	
Pro-forma revenues (Organic Growth Rate)	**$ 1,967**	$ 1,757	12 %
Civil			
Revenues, as reported	**$ 799**	$ 758	5 %
SD&A Businesses (acquired May 4, 2020)	**21**	—	
Pro-forma revenues (Organic Growth Rate)	**$ 778**	$ 758	3 %
Health			
Revenues, as reported	**$ 645**	$ 399	62 %
Total Operations			
Revenues, as reported	**$ 3,448**	$ 2,914	18 %
Total SD&A Businesses, 1901 Group and Gibbs & Cox revenues	**58**	—	
Pro-forma revenues (Organic Growth Rate)	**$ 3,390**	$ 2,914	16 %

- Acquired revenues reflect revenues in the current as reported figures for 12 months from closing
  – SD&A from 4/3/21 to 5/3/21; 1901 Group from 4/3/21 to 7/2/21; Gibbs & Cox from 5/7/21 to 7/2/21
- Organic growth rate: current quarter pro forma revenues divided by year ago as reported revenues

Non-GAAP Income Metrics Reconciliation

	Three Months Ended July 2, 2021				Three Months Ended July 3, 2020						
	As reported	Acquisition, integration and restructuring costs[1]	Amortization of acquired intangibles[2]	**Non-GAAP results**	**As reported**	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Acquisition related financing costs[3]	Loss on debt modification[4]	Asset impairment charges[5]	**Non-GAAP results**
Operating income	$ 269	$ 10	$ 55	$ 334	$ 249	$ 16	$ 51	$ —	$ —	$ 11	$ 327
Non-operating expense, net	(46)	—	—	(46)	(57)	—	—	3	12	—	(42)
Income before income taxes	223	10	55	288	192	16	51	3	12	11	285
Income tax expense[5]	(53)	(2)	(14)	(69)	(38)	(4)	(13)	(1)	(3)	(2)	(61)
Net income	170	8	41	219	154	12	38	2	9	9	224
Less: net income attributable to non-controlling interest	1	—	—	1	1	—	—	—	—	—	1
Net income attributable to Leidos common stockholders	$ 169	$ 8	$ 41	$ 218	$ 153	$ 12	$ 38	$ 2	$ 9	$ 9	$ 223
Diluted EPS attributable to Leidos common stockholders	$ 1.18	$ 0.05	$ 0.29	$ 1.52	$ 1.06	$ 0.09	$ 0.27	$ 0.01	$ 0.06	$ 0.06	$ 1.55
Diluted shares	143	143	143	143	144	144	144	144	144	144	144

Income before income taxes	$ 223	$ 10	$ 55	$ 288	$ 192	$ 16	$ 51	$ 3	$ 12	$ 11	$ 285
Depreciation expense	25	—	—	25	20	—	—	—	—	—	20
Amortization of intangibles	55	—	(55)	—	51	—	(51)	—	—	—	—
Amortization of equity method investment	—	—	—	—	—	—	—	—	—	—	—
Interest expense, net	46	—	—	46	41	—	—	(3)	—	—	38
EBITDA	$ 349	$ 10	$ —	$ 359	$ 304	$ 16	$ —	$ —	$ 12	$ 11	$ 343
EBITDA margin[6]	10.1 %			10.4 %	10.4 %						11.8 %

Notes:

1. Acquisition, integration, lease termination and severance costs related to the Company's acquisitions
2. Amortization of the fair value of the acquired intangible assets
3. Amortization of the debt financing commitments in connection with the Company's acquisitions of Dynetics and SD&A
4. Write-off of debt discount and debt issuance costs as a result of debt modifications
5. Tax impact of non-GAAP items calculated using estimated statutory tax rate
6. EBITDA divided by revenues (slide 5)

leidos

Segment Non-GAAP Income Metrics Reconciliation

	Three Months Ended July 2, 2021				
	Operating income (loss)	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	**Non-GAAP operating income (loss)**	**Non-GAAP operating margin[1]**
Defense Solutions	**$ 137**	$ —	$ 29	**$ 166**	**8.3 %**
Civil	**55**	—	18	**73**	**9.1 %**
Health	**107**	—	8	**115**	**17.8 %**
Corporate	**(30)**	10	—	**(20)**	***NM***
Total	**$ 269**	$ 10	$ 55	**$ 334**	**9.7 %**

	Three Months Ended July 3, 2020					
	Operating income	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Asset impairment charges	**Non-GAAP operating income**	**Non-GAAP operating margin[1]**
Defense Solutions	**$ 119**	$ 1	$ 23	$ —	**$ 143**	**8.1 %**
Civil	**78**	1	19	—	**98**	**12.9 %**
Health	**1**	—	9	11	**21**	**5.3 %**
Corporate	**51**	14	—	—	**65**	***NM***
Total	**$ 249**	$ 16	$ 51	$ 11	**$ 327**	**11.2 %**

Note:

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

Free Cash Flow

(in millions, except conversion ratio)	Three Months Ended **July 2, 2021**	Three Months Ended July 3, 2020
Net cash provided by operating activities	**$ 17**	$ 422
Payments for property, equipment and software	**(21)**	(46)
Free cash flow	**$ (4)**	$ 376
Net income attributable to Leidos common stockholders	**$ 169**	$ 153
Acquisition, integration and restructuring costs	**8**	12
Amortization of acquired intangibles	**41**	38
Acquisition related financing costs	**—**	2
Loss on debt modification	**—**	9
Asset impairment charges	**—**	9
Non-GAAP net income	**$ 218**	$ 223
Operating cash flow conversion ratio[1]	**10 %**	276 %
Free cash flow conversion ratio[2]	**(2)%**	169 %

Notes:
1. Net cash provided by operating activities divided by net income attributable to Leidos common stockholders
2. Free cash flow divided by non-GAAP net income

leidos