



# Leidos 1Q 2018 Earnings Conference Call

May 3, 2018



# 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, EBITDA margins (including on a non-GAAP basis), operating income, earnings, earnings per share (including on a non-GAAP basis), charges, backlog, bookings, contract values, outstanding shares and cash flows, as well as statements about future dividends, share repurchases, acquisitions and dispositions. 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 the guidance and other forward-looking statements made in this release depending on a variety of factors, including: changes to our reputation and relationships with government agencies, developments in the U.S. Government defense budget, including budget reductions; implementation of spending cuts (sequestration) or changes in budgetary priorities; delays in the U.S. Government budget process; 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 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; 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; 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](http://www.leidos.com).

All information in this release is as of May 3, 2018. 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.

# 1Q FY 2018 Highlights

## Positioned for Growth

- 1.02x Book to Bill
- Highest Q1 Book to Bill in Past Five Years

## Strong Margins

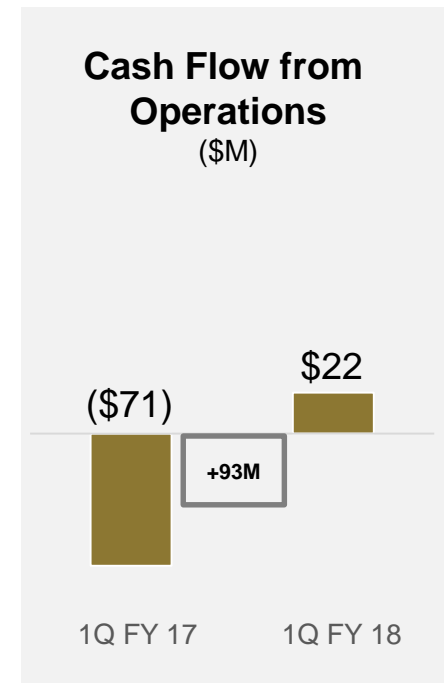
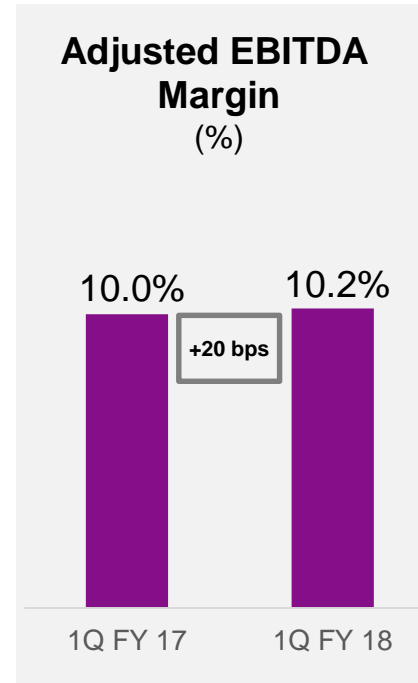
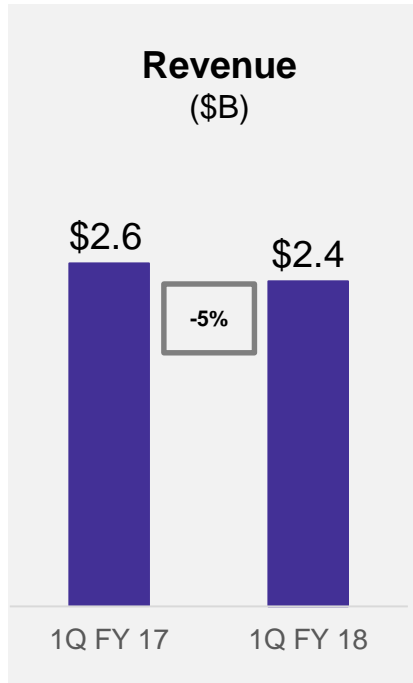
- 10.2% Adjusted EBITDA Margin
- Driven by Solid Program Execution

## Successfully Completed IS&GS Integration

- Realized Gross Cost Synergy Target of >\$400M

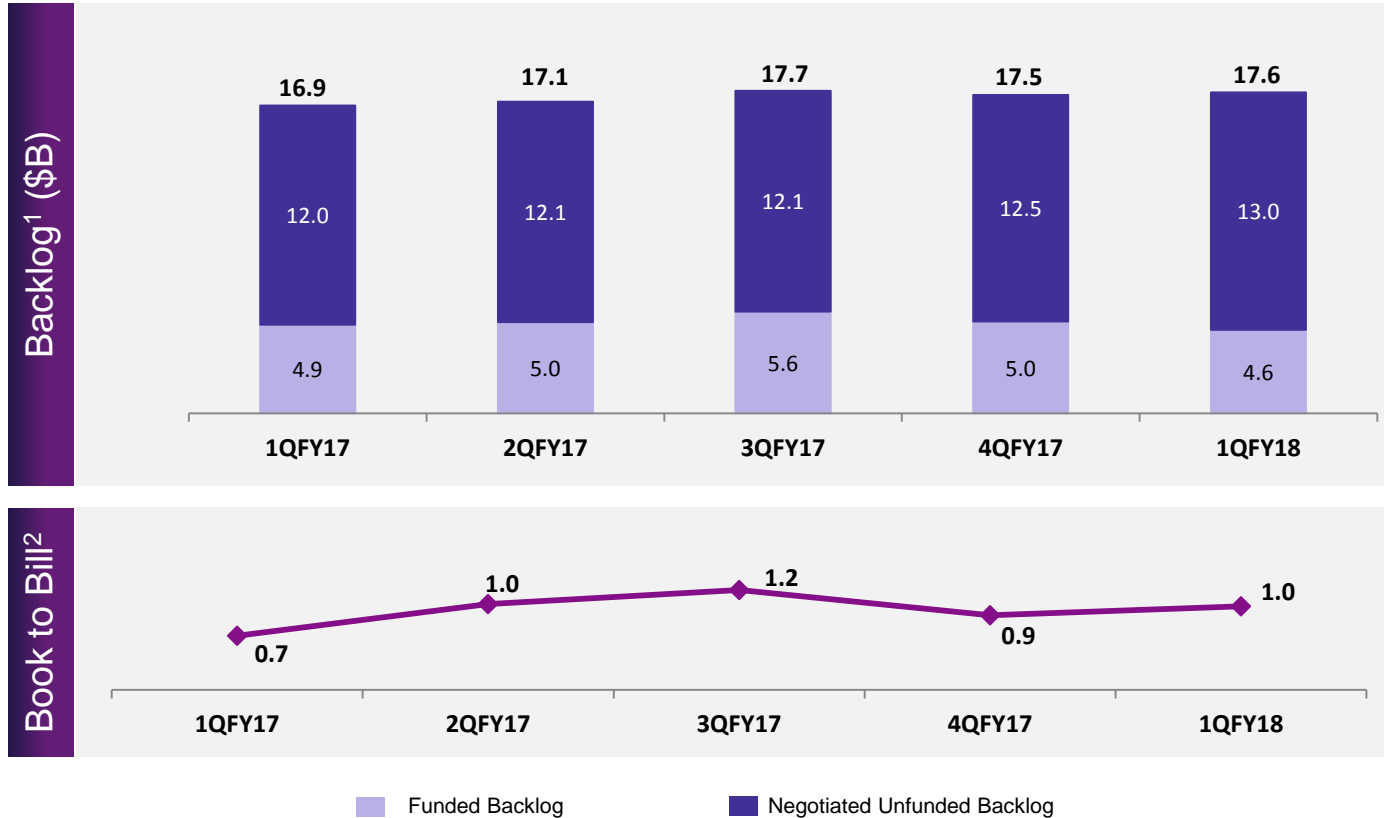
Note: See appendix for definition & reconciliation of Non-GAAP Financial Measures

# Leidos 1Q FY 18 Results



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

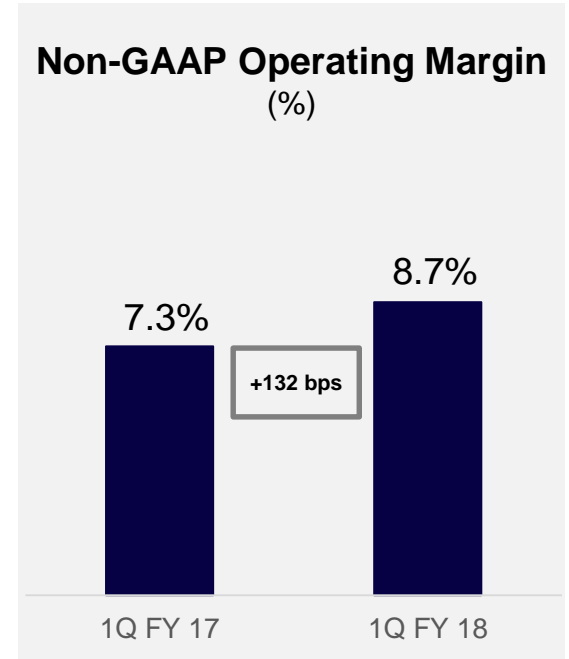
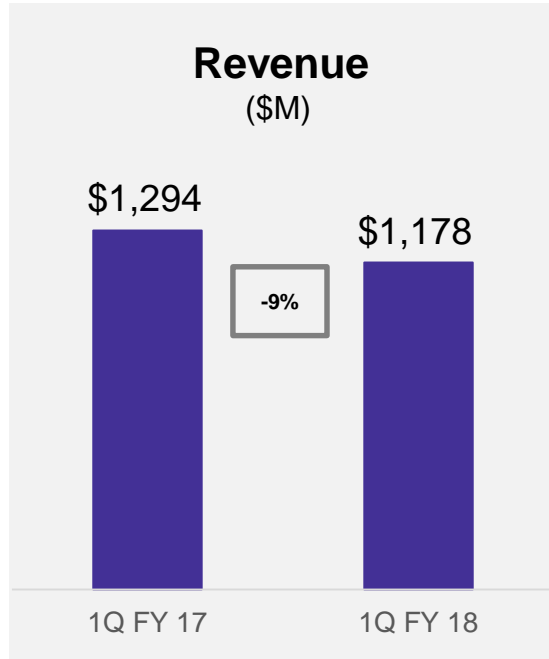
# Leidos Backlog & Book to Bill



(1) Backlog presented at exchange rate in effect at quarter end

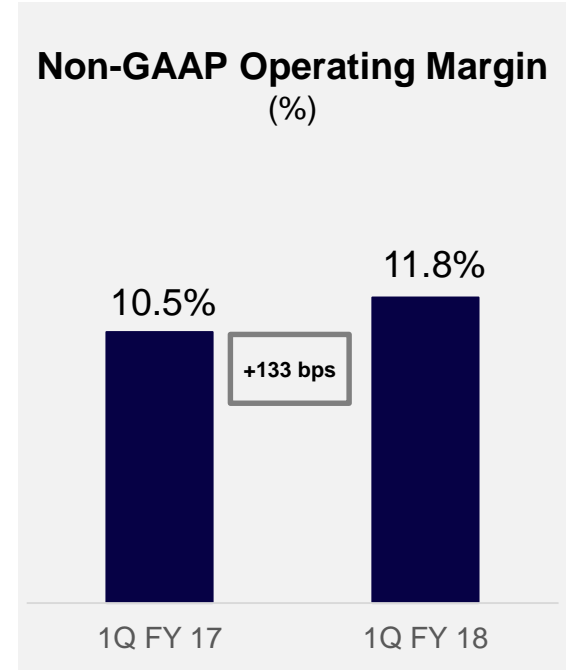
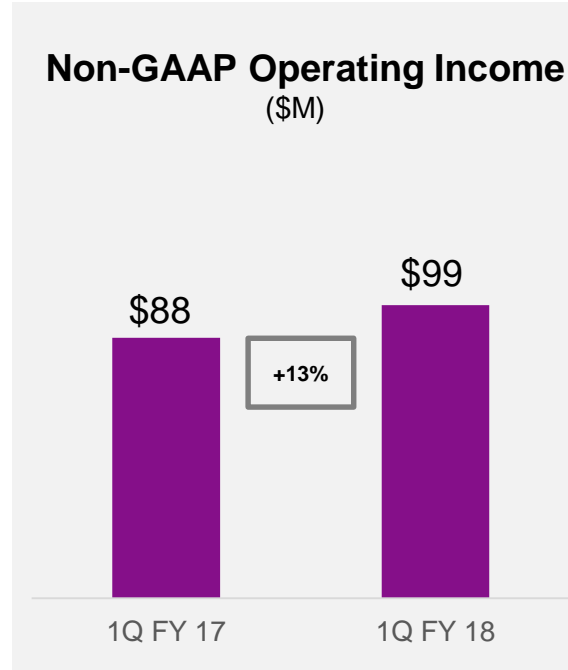
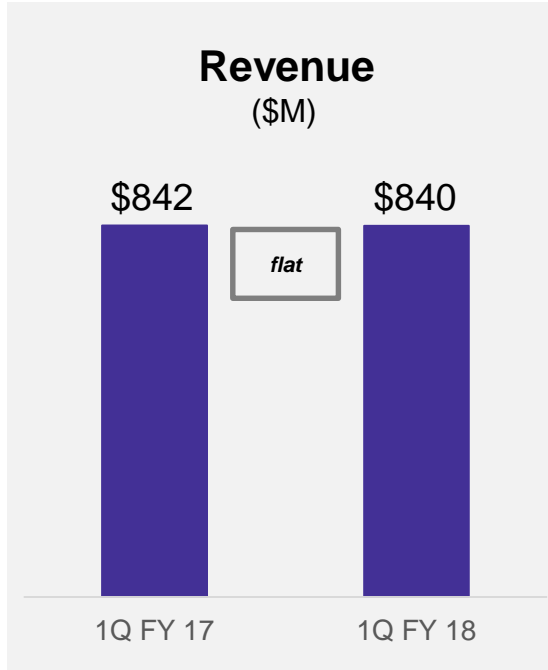
(2) Book to bill excludes the impact of currency fluctuations on backlog

# Defense Solutions Segment



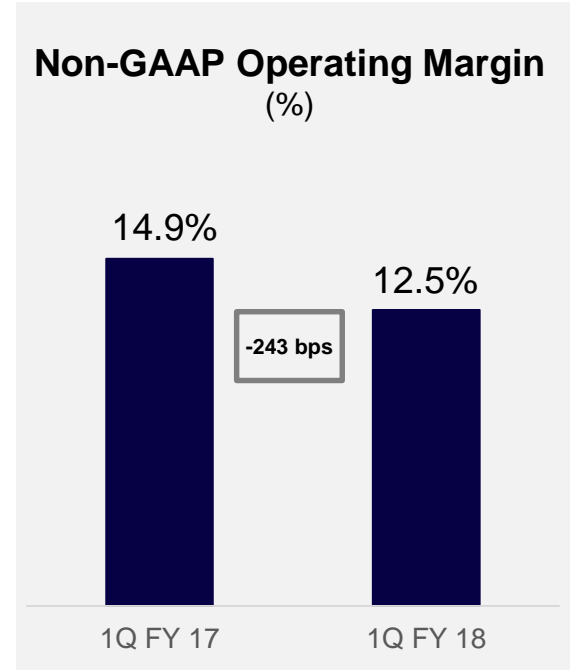
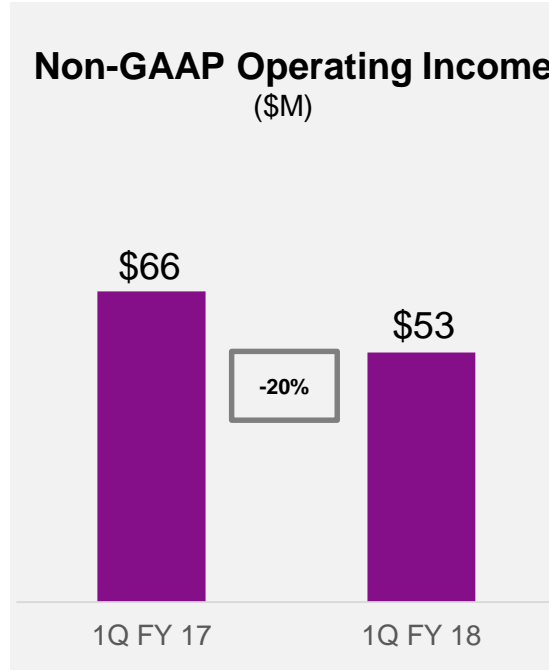
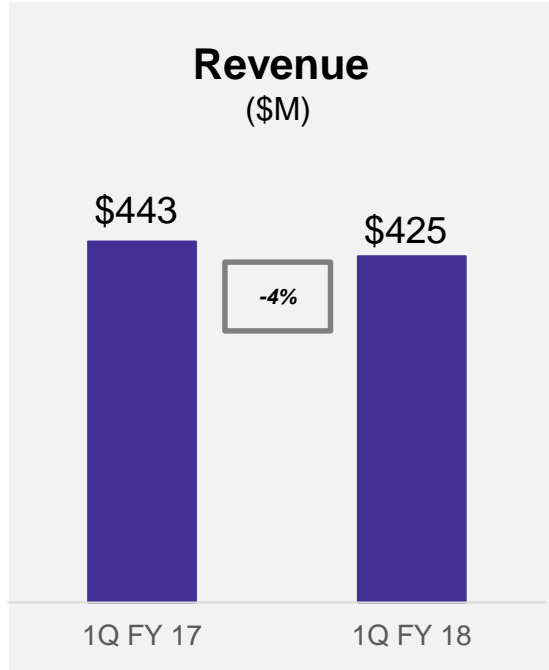
Note: See appendix for definition & reconciliation of Non-GAAP Financial Measures

# Civil Segment



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

# Health Segment



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



# 2018 Guidance

	Current	Prior
<b>Revenue</b>	Unchanged	\$10.25B to \$10.65B
<b>Adjusted EBITDA Margin<sup>(1)</sup></b>	Unchanged	10.1% to 10.4%
<b>Non-GAAP Diluted EPS<sup>(1,2)</sup></b>	Unchanged	\$4.15 to \$4.50
<b>Operating Cash Flow</b>	Unchanged	Meet or exceed \$675M <sup>(3)</sup>

(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 2018 Non-GAAP Effective Tax Rate in the range of 23% to 24%

(3) \$675M of Operating Cash Flow includes \$75M cash impact of transaction & integration costs

# Appendix

# Non-GAAP Financial Measures

This presentation includes certain non-GAAP financial measures, such as non-GAAP operating income, non-GAAP operating income margin, non-GAAP diluted earnings per share (EPS), adjusted earnings before interest, taxes, depreciation and amortization (EBITDA), and adjusted EBITDA margin.

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.

# Definition of Non-GAAP Financial Measures

Non-GAAP operating income is computed by excluding the following items from net income: (i) other (expense) income, net; (ii) interest expense; (iii) interest income; (iv) the following discrete items (referred to as non-GAAP adjustments); and (v) income tax benefit (expense) adjusted to reflect the non-GAAP adjustments.

- ▶ Acquisition and integration costs - Represents costs related to the acquisition and integration of the IS&GS business.
- ▶ Amortization of acquired intangible assets - Represents the amortization of the fair value of the acquired intangible assets.
- ▶ Restructuring expenses - Represents costs associated with lease termination and severance costs related to the Company's acquisition of the IS&GS Business and other Corporate mandated activities.
- ▶ Amortization of equity method investments - Represents the amortization of the fair value of equity method investments acquired with the IS&GS Business.
- ▶ Loss on sale of assets and businesses - Represents the gains or losses on certain sales of real estate and businesses.
- ▶ Asset impairment charges - Represents impairments of long-lived intangible and tangible assets.
- ▶ Promissory note impairment - Represents an impairment on a promissory note.

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

Non-GAAP EPS is computed by dividing net income, adjusted for the discrete items as identified above, 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; and (iv) depreciation expense.

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

# Non-GAAP Operating Income Reconciliation

	1QFY17	2QFY17	3QFY17	4QFY17	FY17	1QFY18
	(in millions)					
<b>Operating income</b>	\$ 141	\$ 166	\$ 151	\$ 101	\$ 559	\$ 159
Acquisition and integration costs	19	16	21	46	102	11
Amortization of acquired intangible assets	69	67	76	69	281	50
Restructuring expenses	13	6	6	12	37	6
Amortization of equity method investments	-	9	2	3	14	3
Asset impairment charges	-	-	-	-	-	7
<b>Non-GAAP operating income</b>	\$ 242	\$ 264	\$ 256	\$ 231	\$ 993	\$ 236
<i>Non-GAAP operating income margin</i>	9.4%	10.3%	10.2%	9.2%	9.8%	9.7%

Note: See definition of non-GAAP operating income on slide 12 in the Investor Presentation.

# Non-GAAP Financial Measures Reconciliation

	1QFY17 <sup>2</sup>	2QFY17 <sup>2</sup>	3QFY17	4QFY17	FY17	1QFY18
	(in millions, except per share amounts)					
<b>Non-GAAP operating income</b>	\$ 242	\$ 264	\$ 256	\$ 231	\$ 993	\$ 236
Depreciation expense	13	13	16	13	55	13
Other income, net	3	4	-	1	8	-
<b>Adjusted EBITDA</b>	\$ 258	\$ 281	\$ 272	\$ 245	\$ 1,056	\$ 249
Depreciation expense	(13)	(13)	(16)	(13)	(55)	(13)
Interest expense, net	(36)	(34)	(35)	(35)	(140)	(34)
Income tax expense adjusted to reflect non-GAAP adjustments	(73)	(75)	(78)	(64)	(290)	(43)
<b>Non-GAAP net income</b>	\$ 136	\$ 159	\$ 143	\$ 133	\$ 571	\$ 159
Less: net income (loss) attributable to non-controlling interest	2	-	(3)	(1)	(2)	-
<b>Non-GAAP net income attributable to Leidos Holdings, Inc.</b>	\$ 134	\$ 159	\$ 146	\$ 134	\$ 573	\$ 159
Acquisition and integration costs	(19)	(16)	(21)	(46)	(102)	(11)
Amortization of acquired intangible assets	(69)	(67)	(76)	(69)	(281)	(50)
Loss on sale of assets and businesses	-	(1)	-	-	(1)	-
Restructuring expenses	(13)	(6)	(6)	(12)	(37)	(6)
Amortization of equity method investments	-	(9)	(2)	(3)	(14)	(3)
Promissory note impairment	-	-	-	(33)	(33)	-
Asset impairment charges	-	-	-	-	-	(7)
Adjustment to the income tax provision to reflect non-GAAP adjustments <sup>1</sup>	39	38	41	143	261	20
<b>Net income attributable to Leidos Holdings, Inc.</b>	\$ 72	\$ 98	\$ 82	\$ 114	\$ 366	\$ 102
<b>Non-GAAP diluted EPS attributable to Leidos Holdings, Inc.</b>	\$ 0.88	\$ 1.04	\$ 0.95	\$ 0.87	\$ 3.72	\$ 1.03
Total adjustments from non-GAAP income	(0.41)	(0.40)	(0.42)	(0.13)	(1.34)	(0.37)
<b>Diluted EPS attributable to Leidos Holdings, Inc.</b>	\$ 0.47	\$ 0.64	\$ 0.53	\$ 0.74	\$ 2.38	\$ 0.66
Diluted shares (for computing non-GAAP EPS)	153	153	154	154	154	154

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

(2) Amortization was based on the preliminary fair value of the acquired intangibles and was subject to change once purchase accounting was finalized.

# Segment Non-GAAP Operating Income Reconciliation

	Quarter Ended March 30, 2018						
	(in millions)						
	Operating income (loss)	Acquisition and integration costs	Amortization of intangibles	Restructuring expenses	Amortization of equity method investment	Asset impairment charges	Non-GAAP operating income (loss)
Defense Solutions	\$ 85	\$ -	\$ 17	\$ -	\$ -	\$ -	\$ 102
Civil	74	-	22	-	3	-	99
Health	42	-	11	-	-	-	53
Corporate	(42)	11	-	6	-	7	(18)
<b>Total</b>	<b>\$ 159</b>	<b>\$ 11</b>	<b>\$ 50</b>	<b>\$ 6</b>	<b>\$ 3</b>	<b>\$ 7</b>	<b>\$ 236</b>

	Quarter Ended March 31, 2017				
	(in millions)				
	Operating income (loss)	Acquisition and integration costs	Amortization of intangibles <sup>1</sup>	Restructuring expenses	Non-GAAP operating income (loss)
Defense Solutions	\$ 79	\$ -	\$ 16	\$ -	\$ 95
Civil	54	-	34	-	88
Health	47	-	19	-	66
Corporate	(39)	19	-	13	(7)
<b>Total</b>	<b>\$ 141</b>	<b>\$ 19</b>	<b>\$ 69</b>	<b>\$ 13</b>	<b>\$ 242</b>

(1) Amortization was based on the preliminary fair value of the acquired intangibles and was subject to change once purchase accounting was finalized.