



# Leidos Q2 FY24 Earnings Conference Call

**JULY 30, 2024**

# 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, strategy 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 renewal of existing contracts upon recompetition, including within our health managed services business, business contingency plans, government budgets and the ongoing Continuing Resolution, uncertainties in tax due to new tax legislation or other regulatory developments, 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: developments in the U.S. government defense and non-defense budgets, including budget reductions, sequestration, implementation of spending limits or changes in budgetary priorities, delays in the U.S. government budget process or a government shutdown, or the U.S. government's failure to raise the debt ceiling, which increases the possibility of a default by the U.S. government on its debt obligations, related credit-rating downgrades, or an economic recession; uncertainties in tax due to new tax legislation or other regulatory developments; rising inflationary pressures and fluctuations in interest rates; 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 ability to respond rapidly to emerging technology trends, including the use of artificial intelligence; 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; the effects of health epidemics, pandemics and similar outbreaks may have on our business, financial position, results of operations and/or cash flows; 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, including cost increases due to inflation, 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, system 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 and the effects of climate change; 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, including cybersecurity attacks; our ability to manage risks associated with our international business; our ability to comply with the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act of 2010 and similar worldwide anti-corruption and anti-bribery laws and regulations; our ability to protect our

intellectual property and other proprietary rights by third parties of infringement, misappropriation or other violations by us of their intellectual property rights; 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 or increase 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](http://www.leidos.com).

All information in this release is as of July 30, 2024. 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, non-GAAP free cash flow and non-GAAP free cash conversion.

These are not measures of financial performance under generally accepted accounting principles in the U.S. 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

## Impressive Q2 and H1 performance — raising guidance for second time this year

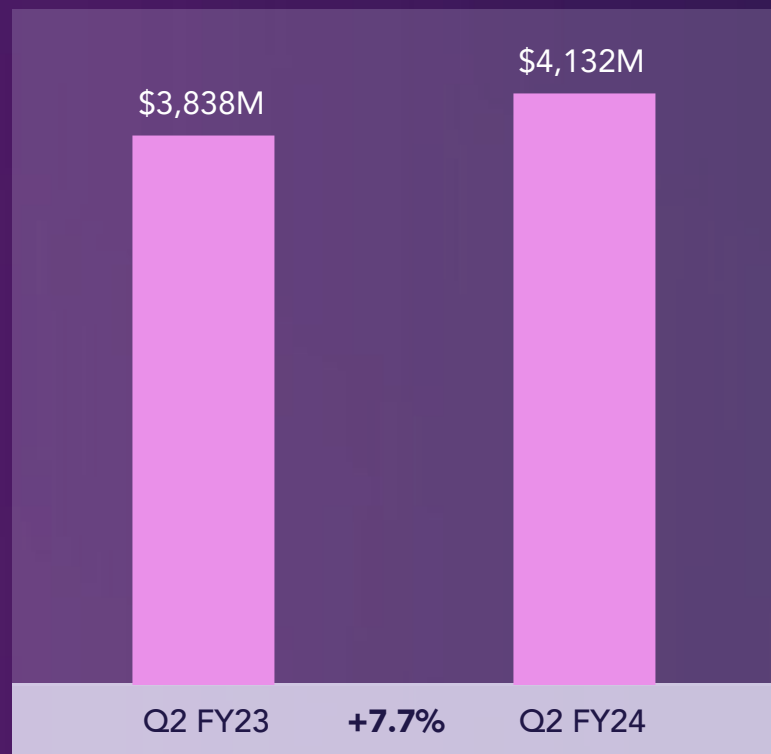
- Strong organic revenue growth
- Record Q2 adjusted EBITDA margin of 13.5%
- Converting earnings into cash
- Industry-leading profitable growth
- YTD Non-GAAP diluted EPS up 50% YoY
- Half-way through \$500M share repo commitment

## Significant progress on focus areas to drive best-in-class performance:

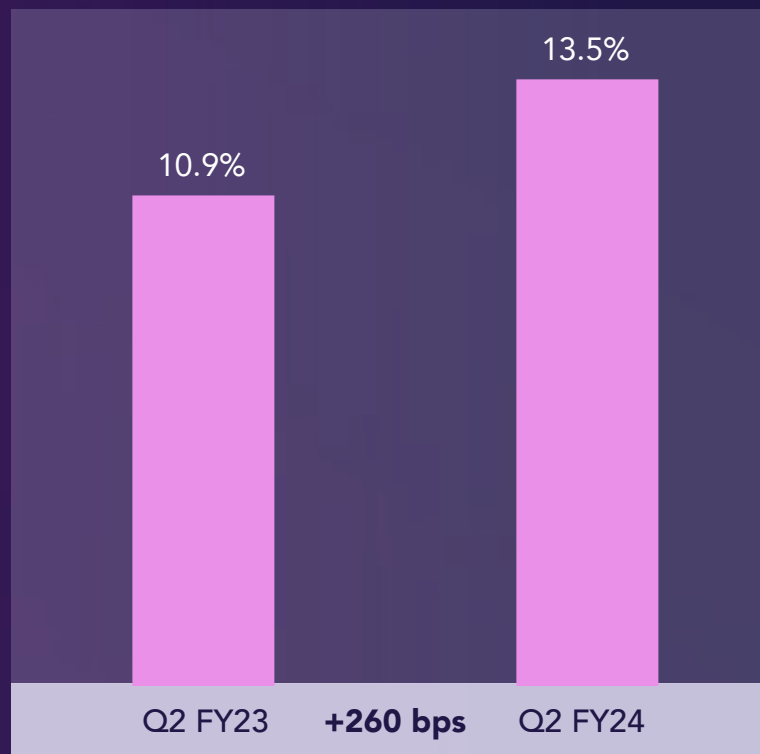
<b>PROMISES MADE, PROMISES KEPT</b>	<b>STRATEGIC FOCUS ON "GOLDEN BOLTS"</b>	<b>IMPROVING ACQUISITION PERFORMANCE</b>	<b>ENHANCING BUSINESS DEVELOPMENT</b>
Dedication to operational improvement	Innovation is a cornerstone of Leidos heritage	Positive trajectory in Dynetics for all three focus programs	Strengthening customer-centric framework
Emphasis on profitable growth and robust cash flow	Trusted Mission AI driving productive disruption	SES ahead of plan on revenue and earnings	Revitalizing Account Managers and Capture Teams
Capacity to deploy capital prudently	Proactive investments in Zero Trust and Quantum	Success bolstered by capability-based organization	Higher quality pursuits with greater technical depth

# Q2 FY24 RESULTS: INCOME STATEMENT

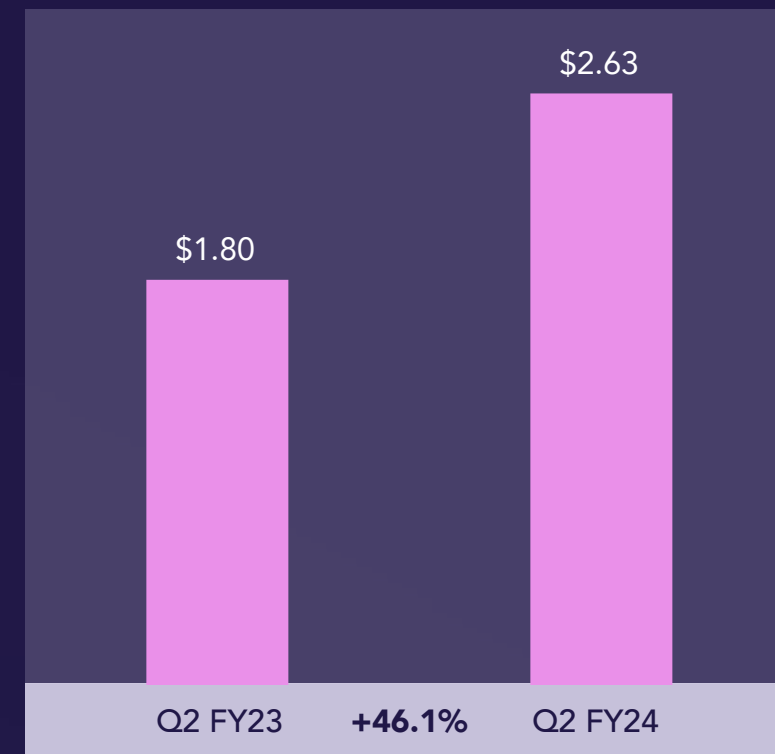
## Revenues



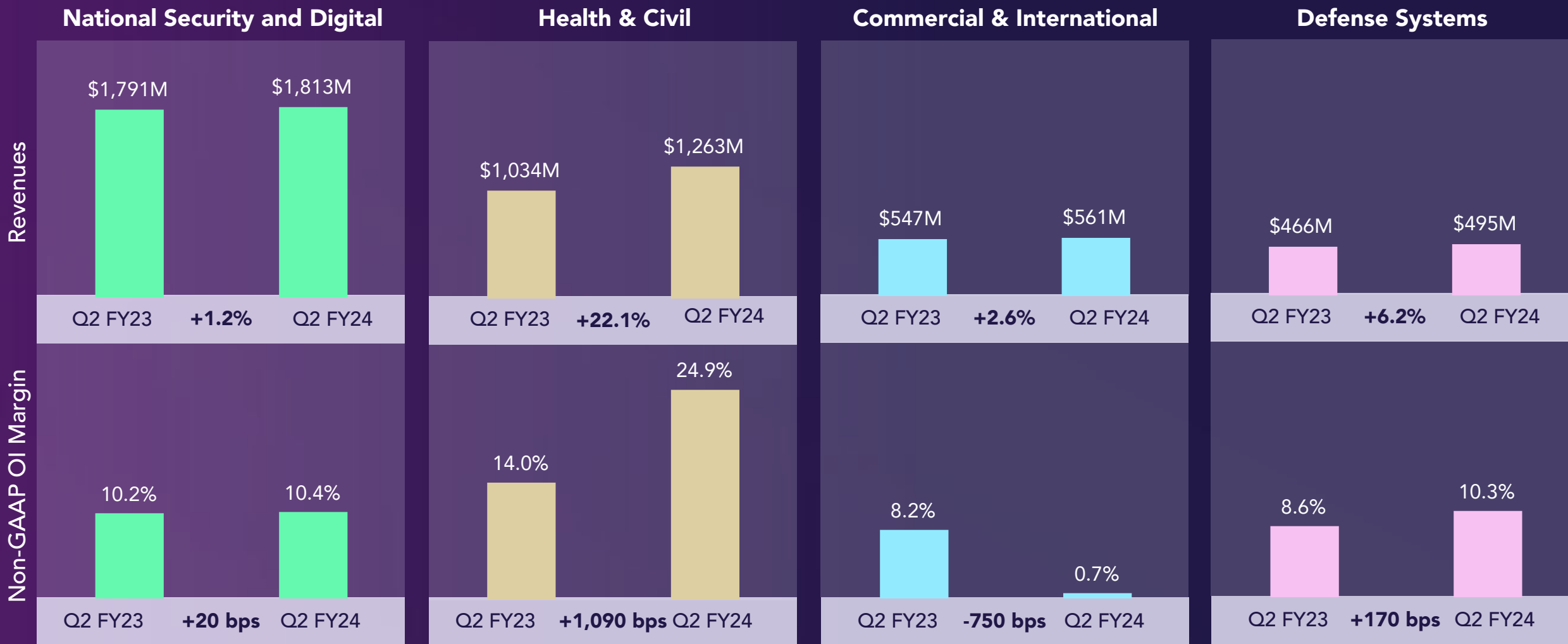
## Adjusted EBITDA Margin



## Non-GAAP Diluted EPS



# Q2 FY24 RESULTS: REPORTABLE SEGMENTS



# Q2 FY24 RESULTS: CASH FLOW / BALANCE SHEET

## Cash Flow Generation

Q2 cash flow driven by strong EBITDA and record collections

- Operating cash flow **\$374M**
- Non-GAAP free cash flow **\$351M**
- DSO of 58—1-day (YoY) and 4-day (sequential) improvement

## Capital Deployment

Flexibility to invest and return capital to shareholders

- Total return to shareholders **\$165M**
- CapEx & net debt repayment **\$28M**
- Net share repurchases **\$101M**

## Balance Sheet

Strong balance sheet provides significant capacity

- Strong liquidity **>\$1.5B**
- Total debt **\$4.7B**
- Leverage ratio (net) **2.0x**
- Leverage ratio (gross) **2.4x**

# 2024 GUIDANCE

MEASURE	CURRENT	PRIOR
Revenues (billions)	\$16.1 - \$16.4	\$16.0 - \$16.4
Adjusted EBITDA Margin	Approximately 12%	Mid-to-High 11%
Non-GAAP Diluted EPS	\$8.60 - \$9.00	\$8.40 - \$8.80
Cash Flows Provided by Operating Activities (billions)	Approximately \$1.3	Approximately \$1.3

## Second Straight Quarter Raising Guidance

- Revenues: Raising prior floor \$100M
- Adjusted EBITDA Margin: Exceeding high end of prior range
- Non-GAAP diluted EPS: Raising top and bottom of prior range \$0.20
- Operating Cash Flow: No change

## Key Drivers

- Strong first half performance
- Positive outlook on business development and operational execution across entire portfolio
- Moderation in VBA disability exam business from temporary funding constraints and recompet uncertainties



# APPENDIX

## Non-GAAP Reconciliations

# ORGANIC GROWTH

(in millions, except growth rates)	Q2 FY24	Q2 FY23	% Change
<b>National Security and Digital</b>			
Revenues, as reported	\$ 1,813	\$ 1,791	1%
<b>Health &amp; Civil</b>			
Revenues, as reported	\$ 1,263	\$ 1,034	22%
<b>Commercial &amp; International</b>			
Revenues, as reported	\$ 561	\$ 547	3%
<b>Defense Systems</b>			
Revenues, as reported	\$ 495	\$ 466	6%
Acquisition and divestiture revenues <sup>(1)</sup>	—	2	
Organic revenues	\$ 495	\$ 464	7%
<b>Total Operations</b>			
Revenues, as reported	\$ 4,132	\$ 3,838	8%
Acquisition and divestiture revenues <sup>(1)</sup>	—	2	
Organic revenues	\$ 4,132	\$ 3,836	8%

**Note:**

1. Year ago acquisition and divestiture revenues reflect revenues from assets subsequently divested. For the three months ended June 30, 2023, Defense Systems segment acquisition and divestiture revenues include the divestiture of an immaterial asset that was completed on October 20, 2023.

# NON-GAAP INCOME METRICS

	Three Months Ended June 28, 2024					Three Months Ended June 30, 2023			
	As reported	Acquisition, integration and restructuring costs <sup>(1)</sup>	Amortization of acquired intangibles <sup>(2)</sup>	Gain on sale of intangible assets	Non-GAAP results	As reported	Acquisition, integration and restructuring costs <sup>(1)</sup>	Amortization of acquired intangibles <sup>(2)</sup>	Non-GAAP results
<i>(in millions, except per share amounts)</i>									
<b>Operating income</b>	\$ 475	\$ 13	\$ 36	\$ —	\$ 524	\$ 331	\$ 6	\$ 51	\$ 388
Non-operating expense, net	(49)	—	—	(2)	(51)	(57)	—	—	(57)
<b>Income before income taxes</b>	<b>426</b>	13	36	(2)	<b>473</b>	274	6	51	331
Income tax expense <sup>(3)</sup>	(102)	(3)	(8)	—	(113)	(64)	(2)	(13)	(79)
<b>Net income</b>	<b>324</b>	10	28	(2)	<b>360</b>	210	4	38	252
Less: Net income attributable to non-controlling interest	2	—	—	—	2	3	—	—	3
<b>Net income attributable to Leidos common stockholders</b>	<b>\$ 322</b>	\$ 10	\$ 28	\$ (2)	<b>\$ 358</b>	\$ 207	\$ 4	\$ 38	\$ 249
Diluted EPS attributable to Leidos common stockholders	\$ 2.37	\$ 0.07	\$ 0.21	\$ (0.01)	\$ 2.63	\$ 1.50	\$ 0.03	\$ 0.28	\$ 1.80
Diluted shares	136	136	136	136	136	138	138	138	138
<b>Income before income taxes</b>	<b>426</b>	13	36	(2)	<b>473</b>	274	6	51	331
Depreciation expense	35	—	—	—	35	33	—	—	33
Amortization of intangibles	36	—	(36)	—	—	51	—	(51)	—
Interest expense, net	51	—	—	—	51	56	—	—	56
<b>Adjusted EBITDA</b>	<b>\$ 548</b>	\$ 13	\$ —	\$ (2)	<b>\$ 559</b>	\$ 414	\$ 6	\$ —	\$ 420
EBITDA margin <sup>(4)</sup>	13.3 %				13.5 %	10.8 %			10.9 %

## Notes:

1. Acquisition, integration, lease termination, severance and retention costs and asset markdowns related to acquisitions and restructuring activities
2. Amortization of the fair value of the acquired intangible assets
3. Tax impact of non-GAAP items calculated using estimated statutory tax rate
4. EBITDA divided by revenues (slide 5)

# SEGMENT NON-GAAP OPERATING INCOME

## Three Months Ended June 28, 2024

<i>(in millions)</i>	Operating income (loss)	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Non-GAAP operating income (loss)	Non-GAAP operating margin <sup>(1)</sup>
National Security and Digital	\$ 183	\$ —	\$ 5	\$ 188	10.4 %
Health & Civil	307	—	7	314	24.9 %
Commercial & International	(11)	8	7	4	0.7 %
Defense Systems	34	—	17	51	10.3 %
Corporate	(38)	5	—	(33)	NM
Total	\$ 475	\$ 13	\$ 36	\$ 524	12.7 %

## Three Months Ended June 30, 2023

<i>(in millions)</i>	Operating income (loss)	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Non-GAAP operating income (loss)	Non-GAAP operating margin <sup>(1)</sup>
National Security and Digital	\$ 172	\$ —	\$ 11	\$ 183	10.2 %
Health & Civil	134	—	11	145	14.0 %
Commercial & International	34	1	10	45	8.2 %
Defense Systems	21	—	19	40	8.6 %
Corporate	(30)	5	—	(25)	NM
Total	\$ 331	\$ 6	\$ 51	\$ 388	10.1 %

### Notes:

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

NM - Not Meaningful

# NON-GAAP FREE CASH FLOW

	Three Months Ended	
	June 28, 2024	June 30, 2023
<i>(in millions, except conversion ratio)</i>		
Net cash provided by operating activities	\$ 374	\$ 164
Payments for property, equipment and software	(23)	(40)
Non-GAAP free cash flow	\$ 351	\$ 124
Net income attributable to Leidos common stockholders	\$ 322	\$ 207
Acquisition, integration and restructuring costs <sup>(1)</sup>	10	4
Amortization of acquired intangibles <sup>(1)</sup>	28	38
Gain on sale of intangible assets	(2)	—
Non-GAAP net income attributable to Leidos common stockholders	\$ 358	\$ 249
Operating cash flow conversion ratio <sup>(2)</sup>	116 %	79 %
Non-GAAP free cash flow conversion ratio <sup>(3)</sup>	98 %	50 %

**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