



Leidos 4Q 2018 Earnings Conference Call

February 19, 2019



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 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 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: 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 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 February 19, 2019. 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.

4Q & FY 2018 Highlights

Driving Growth

- Revenue growth: 5.2% year-over-year; highest level in 2 years
- 4Q'18 book-to-bill of 1.2x; 2018 book-to-bill of 1.3x
- Record annual net bookings of \$13.7B
- Record backlog position of \$20.8B

Generating Strong Cash Flow

- 4Q'18 cash flows from operations: \$104M
- 2018 cash flows from operations: \$768M
- 104% conversion of 2018 non-GAAP net income to free cash*

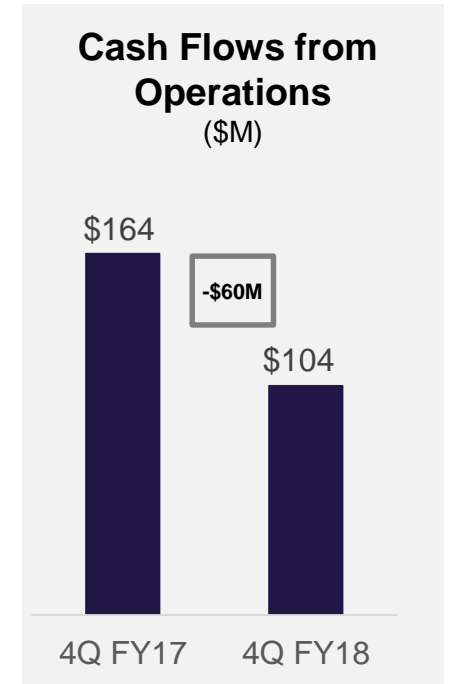
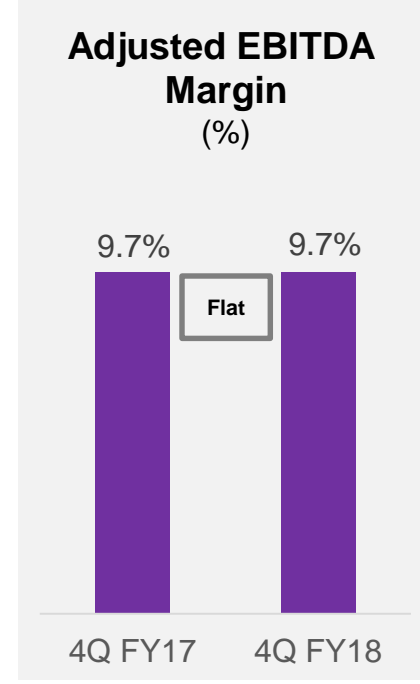
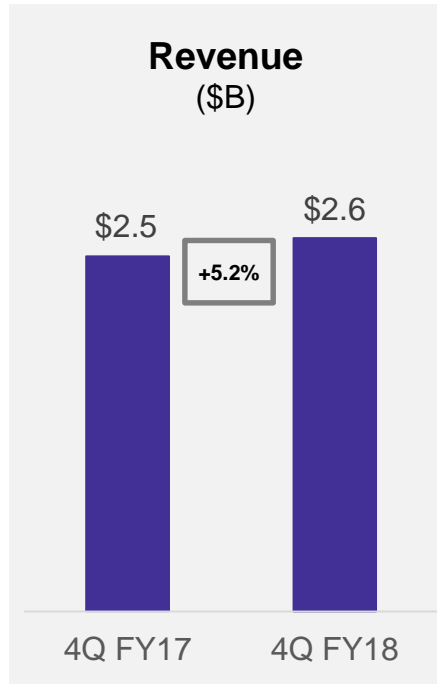
Balanced Capital Deployment

- 88% of 2018 Free Cash Flow returned to shareholders
 - \$417M share repurchase
 - \$198M quarterly dividends
- \$59M debt repayment

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

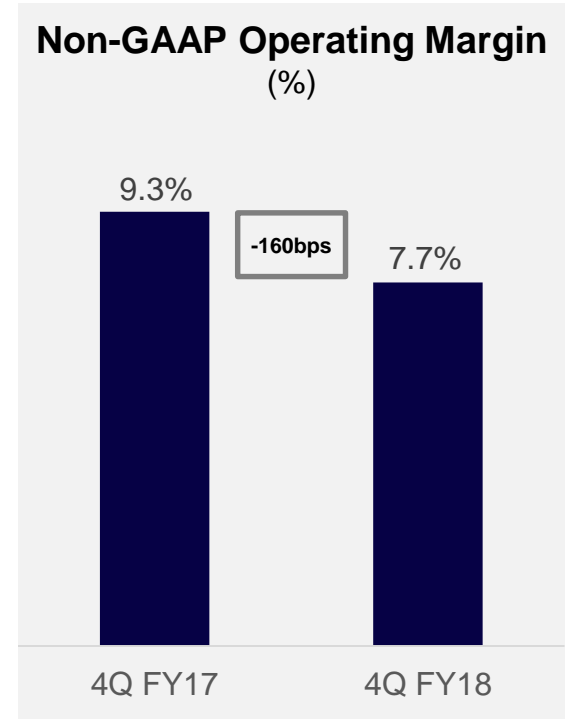
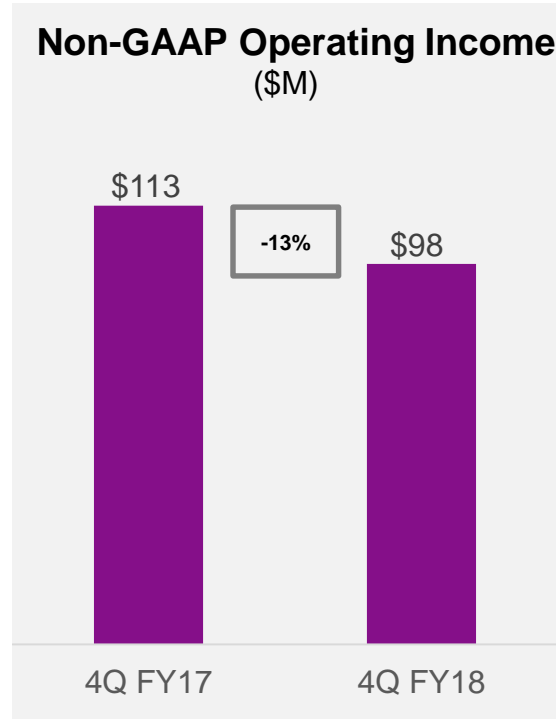
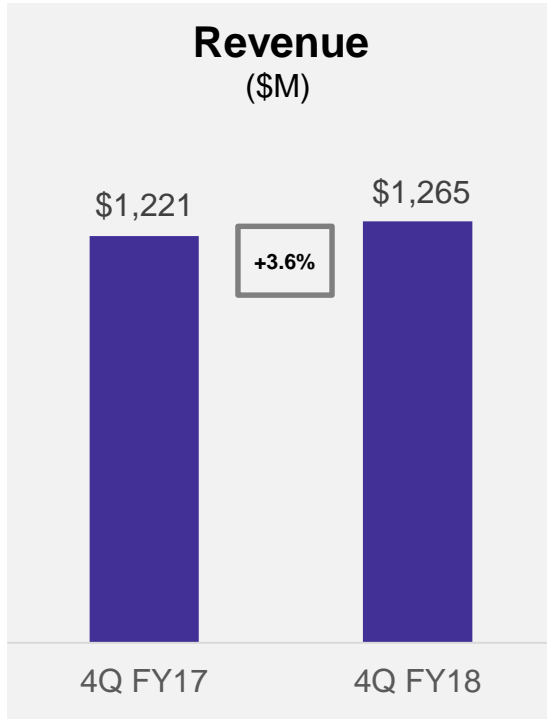
* 104% reflects Full Year 2018 (Cash Flow from Operations (\$768M) – Capex (\$73M))/ Non-GAAP Net Income (\$670M)

Leidos 4Q FY 18 Results



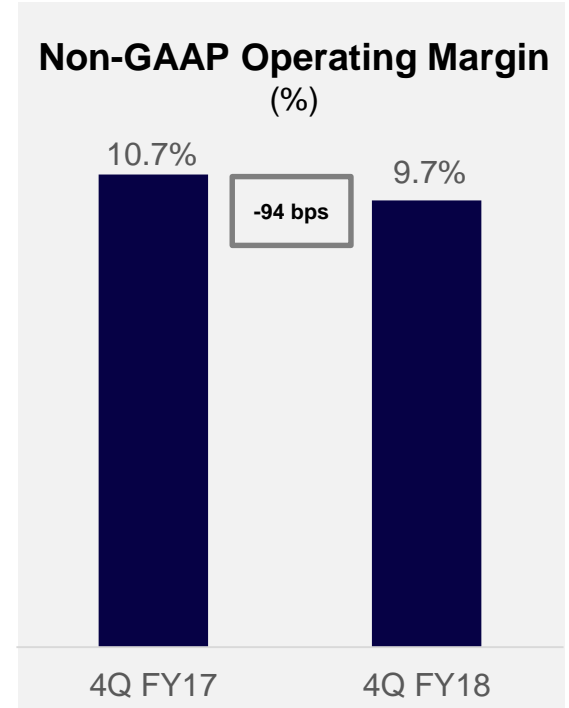
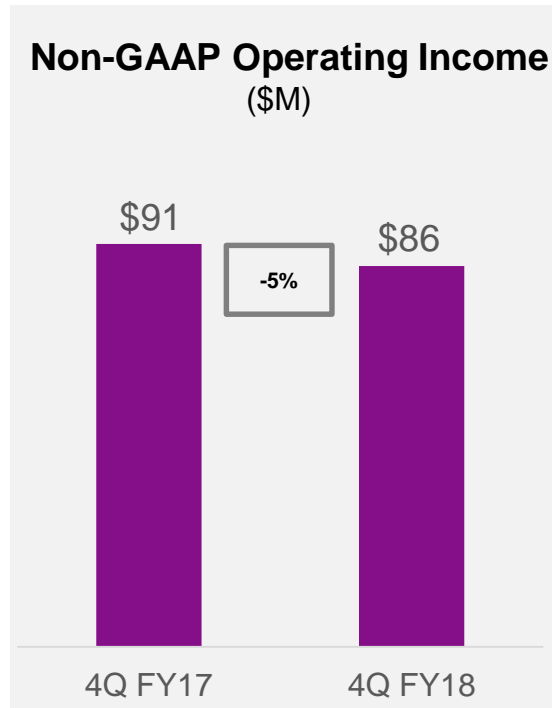
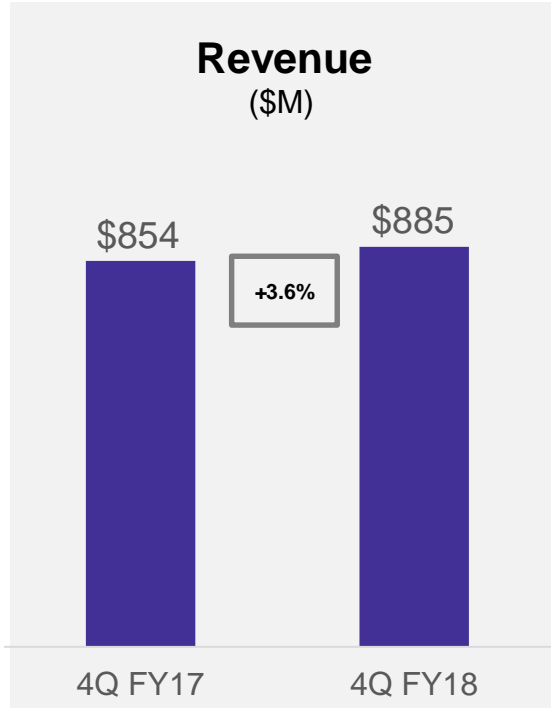
Note: See appendix for definition & reconciliation of Non-GAAP Financial Measures

Defense Solutions Segment



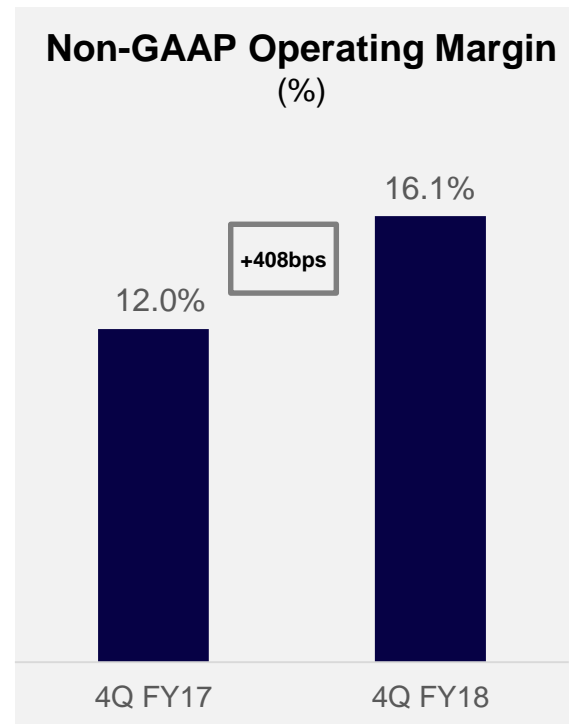
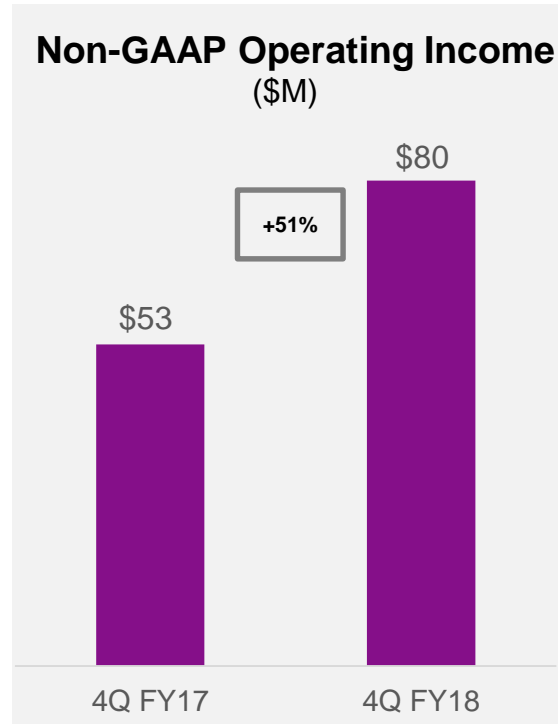
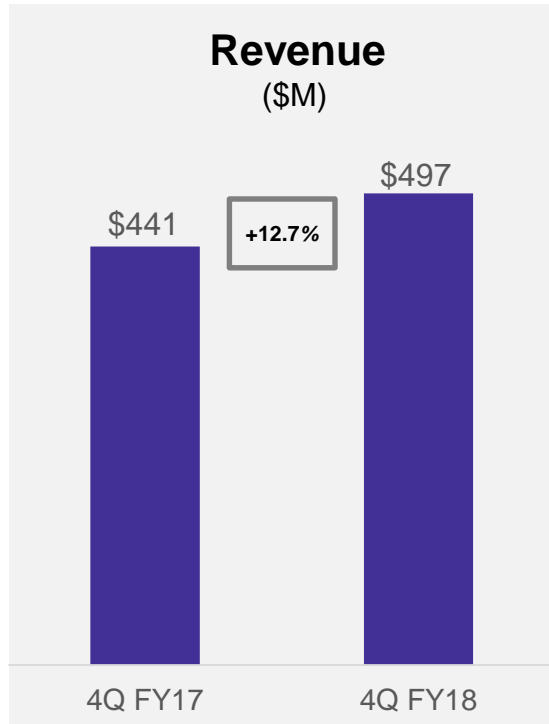
Note: See appendix for definition & reconciliation of Non-GAAP Financial Measures

Civil Segment



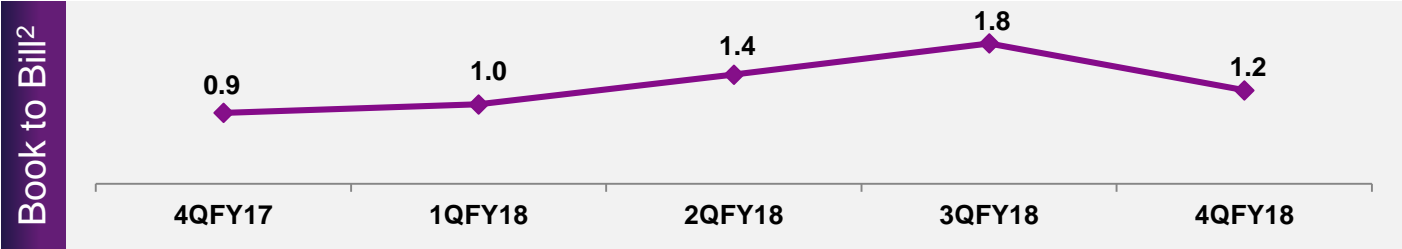
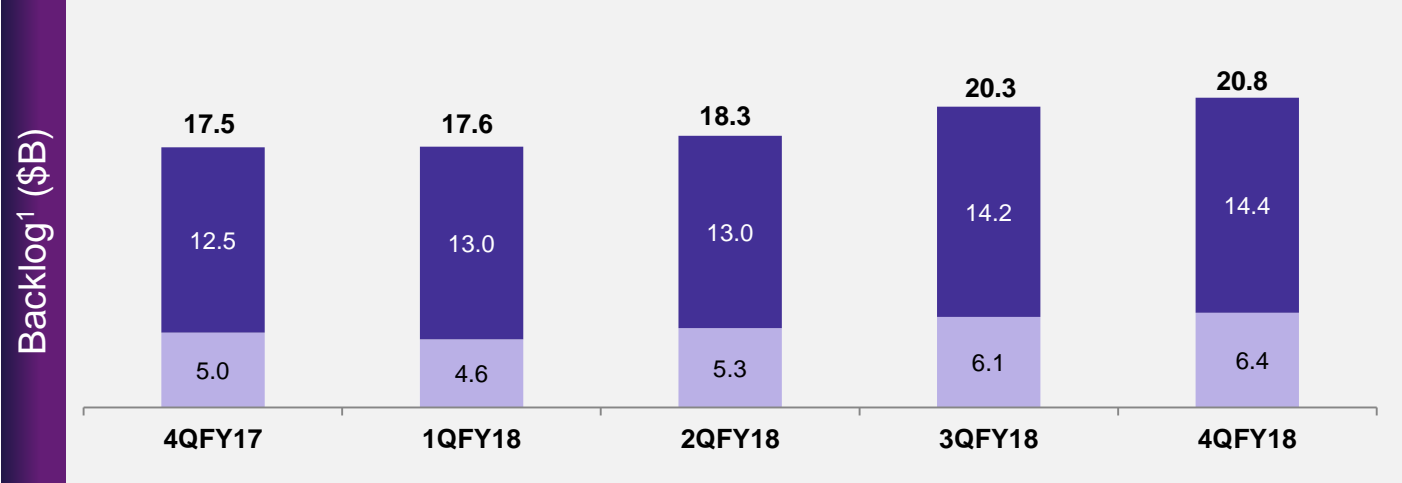
Note: See appendix for definition & reconciliation of Non-GAAP Financial Measures

Health Segment



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

Backlog & Book-to-Bill



Funded Backlog
 Negotiated Unfunded Backlog

(1) Backlog presented at exchange rate in effect at quarter end
 (2) Book to bill excludes the impact of currency fluctuations on backlog

2019 Guidance

Revenue	\$10.5B - \$10.9B
Adjusted EBITDA Margin⁽¹⁾	9.9% - 10.1%
Non-GAAP Diluted EPS^(1,2)	\$4.25 - \$4.60
Operating Cash Flow	Meet or exceed \$725M⁽³⁾

- (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 in the range of 23% to 24%. See appendix for definition & reconciliation of Non-GAAP Financial Measures.
- (3) Operating Cash Flow includes \$5M impact of net transaction & integration costs related to the IS&GS acquisition.

Net Cash Inflow from Real Estate Consolidation

Cash Flow Classification	Proceeds/ (Investment)	Property	Action	Period Impacted	CapEx
Inflow: Financing	+\$14M	San Diego Campus Point	Building sale	Q4 '18	✘
Inflow: Investing	+\$65M	San Diego Campus Point	Building sale	Q1 '19	✘
Inflow: Investing	+\$31M	Gaithersburg, MD - I	Building sale	Q1 '19	✘
Inflow: Investing	+\$25M	McLean, VA	Collection on Promissory Note from prior building sale	Q4 '19	✘
Total Cash Inflows:	+\$135M				
Outflow: Investing	(\$42M)	Reston New Headquarters	Leasehold improvements	FY2019	✓
Outflow: Investing	(\$19M)	Gaithersburg, MD - II	Leasehold improvements	FY2019	✓
Total Cash Outflows:	(\$61M)				
Net Cash Inflows:	+\$74M				

Above actions will transform facilities footprint to 94% leased from 83% leased
 *Campus Point net proceeds of \$79 million paid in two installments

Appendix



Non-GAAP Financial Measures

This presentation includes certain non-GAAP financial measures, such as 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), free cash flow, 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) non-operating expense, net; and (ii) the following discrete items and the related tax impacts:

- ▶ Acquisition, integration and restructuring costs - Represents acquisition, 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 investments - Represents the amortization of the fair value of acquired equity method investments.
- ▶ Loss on sale of assets - Represents the losses on certain real estate sales.
- ▶ Asset impairment charges - Represents impairments of long-lived tangible assets.
- ▶ Promissory note impairment - Represents an impairment of a promissory note.
- ▶ Tax adjustments on assets held for sale - Represents certain tax benefits related to the Company's commercial cybersecurity business held for sale.
- ▶ Other tax adjustments - Primarily represents the tax impact of the promissory note impairment, taxable conversion of a subsidiary, real estate sales and revised cumulative impact of the federal government enacted Tax Cuts and Jobs Act.

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; and (iv) depreciation expense.

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.

Non-GAAP Operating Income Reconciliation

	1QFY17	2QFY17	3QFY17	4QFY17	FY17	1QFY18	2QFY18	3QFY18	4QFY18	FY18
	(in millions)									
Operating income	\$ 141	\$ 166	\$ 151	\$ 101	\$ 559	\$ 159	\$ 199	\$ 203	\$ 188	\$ 749
Acquisition, integration and restructuring	32	22	27	58	139	17	8	7	5	37
Amortization of acquired intangible assets	69	67	76	69	281	50	51	50	50	201
Amortization of equity method investments	-	9	2	3	14	3	2	2	3	10
Asset impairment charges	-	-	-	-	-	7	-	-	-	7
Non-GAAP operating income	\$ 242	\$ 264	\$ 256	\$ 231	\$ 993	\$ 236	\$ 260	\$ 262	\$ 246	\$ 1,004
<i>Non-GAAP operating income margin</i>	9.4%	10.3%	10.2%	9.2%	9.8%	9.7%	10.3%	10.2%	9.3%	9.8%

Note: See definition of Non-GAAP Financial Measures on slide 13.

Reportable Segments Non-GAAP Operating Income Reconciliation

Quarter Ended December 28, 2018

	(in millions)				
	Operating income (loss)	Acquisition, integration and restructuring costs	Amortization of intangibles	Amortization of equity method investment	Non-GAAP operating income (loss)
Defense Solutions	\$ 81	\$ -	\$ 17	\$ -	\$ 98
Civil	62	-	21	3	86
Health	68	-	12	-	80
Corporate	(23)	5	-	-	(18)
Total	\$ 188	\$ 5	\$ 50	\$ 3	\$ 246

Quarter Ended December 29, 2017

	(in millions)				
	Operating income (loss)	Acquisition, integration and restructuring costs	Amortization of intangibles	Amortization of equity method investments	Non-GAAP operating income (loss)
Defense Solutions	\$ 85	\$ -	\$ 27	\$ 1	\$ 113
Civil	56	-	33	2	91
Health	44	-	9	-	53
Corporate	(84)	58	-	-	(26)
Total	\$ 101	\$ 58	\$ 69	\$ 3	\$ 231

Non-GAAP Financial Measures Reconciliation

	1QFY17 ²	2QFY17 ²	3QFY17	4QFY17	FY17	1QFY18	2QFY18	3QFY18	4QFY18	FY18
	(in millions, except per share amounts)									
Non-GAAP operating income	\$ 242	\$ 264	\$ 256	\$ 231	\$ 993	\$ 236	\$ 260	\$ 262	\$ 246	\$ 1,004
Depreciation expense	13	13	16	13	55	13	15	14	14	56
Other income (expense), net	3	4	-	1	8	-	1	2	(4)	(1)
Adjusted EBITDA	\$ 258	\$ 281	\$ 272	\$ 245	\$ 1,056	\$ 249	\$ 276	\$ 278	\$ 256	\$ 1,059
Depreciation expense	(13)	(13)	(16)	(13)	(55)	(13)	(15)	(14)	(14)	(56)
Interest expense, net	(36)	(34)	(35)	(35)	(140)	(34)	(35)	(35)	(34)	(138)
Income tax expense adjusted to reflect non-GAAP adjustments	(73)	(75)	(78)	(64)	(290)	(43)	(53)	(55)	(43)	(194)
Non-GAAP net income	\$ 136	\$ 159	\$ 143	\$ 133	\$ 571	\$ 159	\$ 173	\$ 174	\$ 165	\$ 671
Less: net income (loss) attributable to non-controlling interest	2	-	(3)	(1)	(2)	-	1	-	-	1
Non-GAAP net income attributable to Leidos Holdings, Inc.	\$ 134	\$ 159	\$ 146	\$ 134	\$ 573	\$ 159	\$ 172	\$ 174	\$ 165	\$ 670
Acquisition, integration and restructuring costs	(32)	(22)	(27)	(58)	(139)	(17)	(8)	(7)	(5)	(37)
Amortization of acquired intangible assets	(69)	(67)	(76)	(69)	(281)	(50)	(51)	(50)	(50)	(201)
Loss on sale of assets	-	(1)	-	-	(1)	-	-	-	-	-
Amortization of equity method investments	-	(9)	(2)	(3)	(14)	(3)	(2)	(2)	(3)	(10)
Promissory note impairment	-	-	-	(33)	(33)	-	-	-	-	-
Asset impairment charges	-	-	-	-	-	(7)	-	-	-	(7)
Adjustment to the income tax provision to reflect non-GAAP adjustments ¹	39	38	41	143	261	20	33	32	81	166
Net income attributable to Leidos Holdings, Inc.	\$ 72	\$ 98	\$ 82	\$ 114	\$ 366	\$ 102	\$ 144	\$ 147	\$ 188	\$ 581
Non-GAAP diluted EPS attributable to Leidos Holdings, Inc.	\$ 0.88	\$ 1.04	\$ 0.95	\$ 0.87	\$ 3.72	\$ 1.03	\$ 1.12	\$ 1.14	\$ 1.10	\$ 4.38
Total adjustments from non-GAAP income	(0.41)	(0.40)	(0.42)	(0.13)	(1.34)	(0.37)	(0.18)	(0.18)	0.15	(0.58)
Diluted EPS attributable to Leidos Holdings, Inc.	\$ 0.47	\$ 0.64	\$ 0.53	\$ 0.74	\$ 2.38	\$ 0.66	\$ 0.94	\$ 0.96	\$ 1.25	\$ 3.80
Diluted shares (for computing non-GAAP EPS)	153	153	154	154	154	154	154	153	150	153

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

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

Non-GAAP Financial Measures Reconciliation (cont'd)

Quarter Ended December 28, 2018

(in millions, except per share amounts)

	As reported	Acquisition, integration and restructuring costs	Amortization of intangibles	Amortization of equity method investment	Tax adjustments on assets held for sale	Other tax adjustments	Non-GAAP results
Operating income	\$ 188	\$ 5	\$ 50	\$ 3	\$ -	\$ -	\$ 246
Non-operating expense, net	(38)	-	-	-	-	-	(38)
Income before income taxes	150	5	50	3	-	-	208
Income tax benefit (expense) ¹	38	(1)	(12)	(1)	1	(68)	(43)
Net income	188	4	38	2	1	(68)	165
Less: net income attributable to non-controlling interest	-	-	-	-	-	-	-
Net income attributable to Leidos common stockholders	\$ 188	\$ 4	\$ 38	\$ 2	\$ 1	\$ (68)	\$ 165
Diluted EPS attributable to Leidos common stockholders	\$ 1.25	\$ 0.03	\$ 0.25	\$ 0.01	\$ 0.01	\$ (0.45)	\$ 1.10
Diluted shares	150	150	150	150	150	150	150
Income before income taxes	\$ 150	\$ 5	\$ 50	\$ 3	\$ -	\$ -	\$ 208
Depreciation expense	14	-	-	-	-	-	14
Amortization expense	53	-	(50)	(3)	-	-	-
Interest expense, net	34	-	-	-	-	-	34
EBITDA	\$ 251	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ 256
EBITDA margin	9.5%						9.7%

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