



Leidos 4Q 2019 Earnings Conference Call

February 18, 2020



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 18, 2020. 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 2019 Highlights

Continued Revenue Growth Acceleration

- Record revenue of \$2.95B for 4Q; \$11.1B for FY 2019
- Year-over-year 4Q revenue growth of 11.6%; 14.0% organic growth⁽¹⁾
- Adjusted EBITDA margins of 11.0% for 4Q; 10.5% for FY 2019
- Record backlog of \$24.1B; 1.3x TTM book-to-bill

Generating Strong Cash Flow

- \$992M cash flow from operations in FY 2019
- 116%⁽²⁾ free cash flow conversion of adjusted net income in FY 2019

Balanced Capital Deployment

- \$951M deployed year to date:

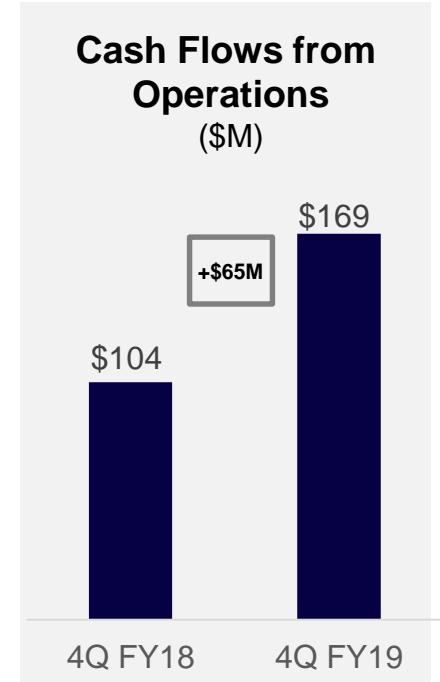
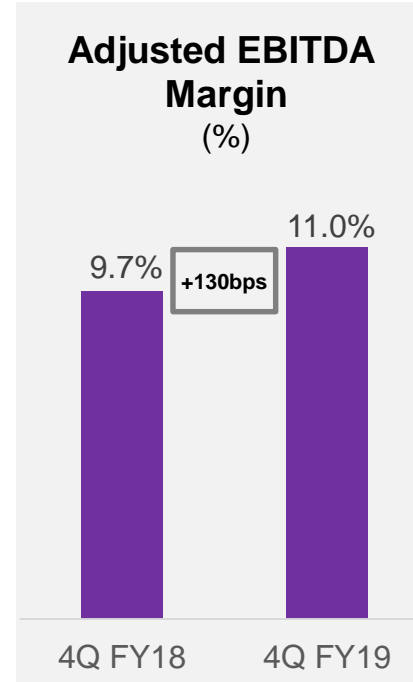
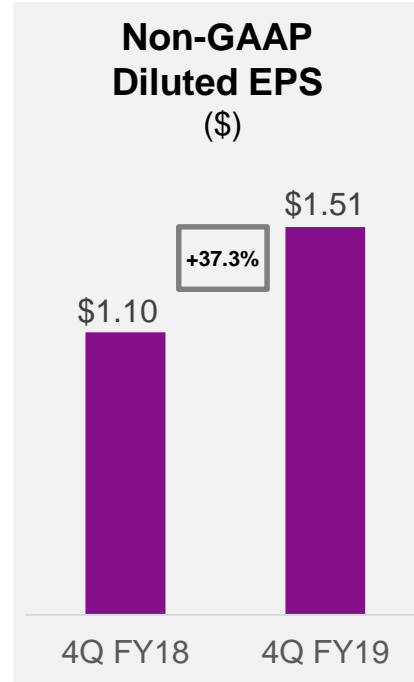
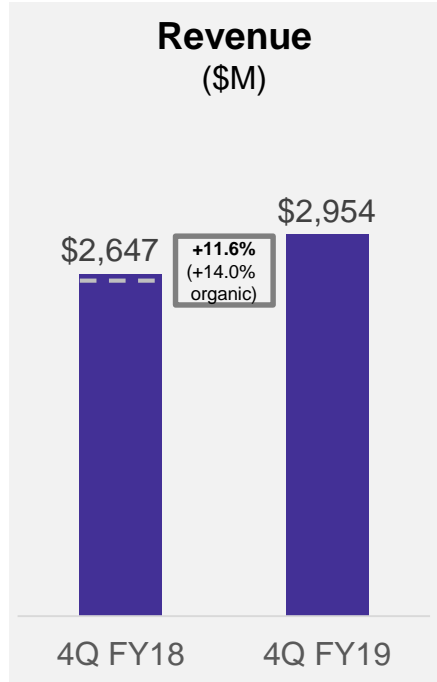
Share Repurchase	M&A	Dividends	CapEx	Debt Payments
48%	10%	21%	13%	8%

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

(1) See appendix slide 13 for calculation of organic revenue growth

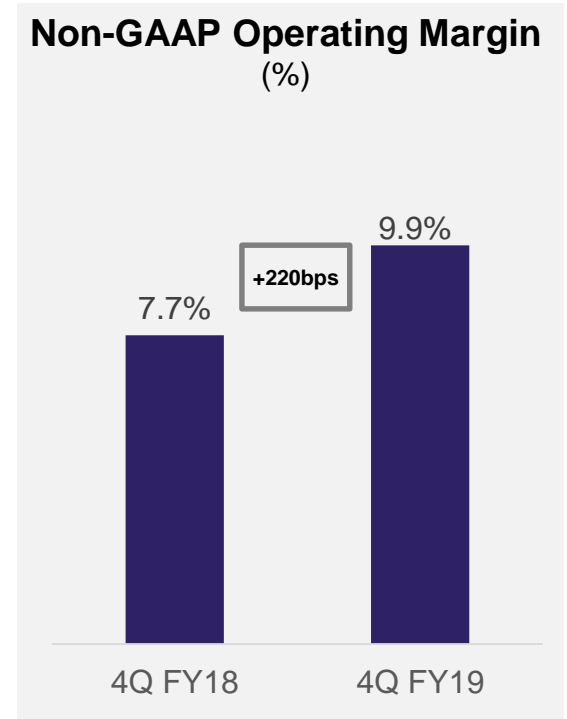
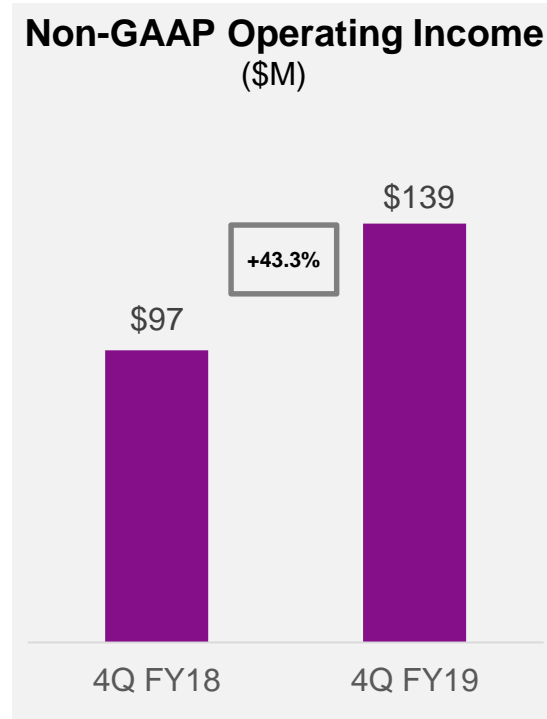
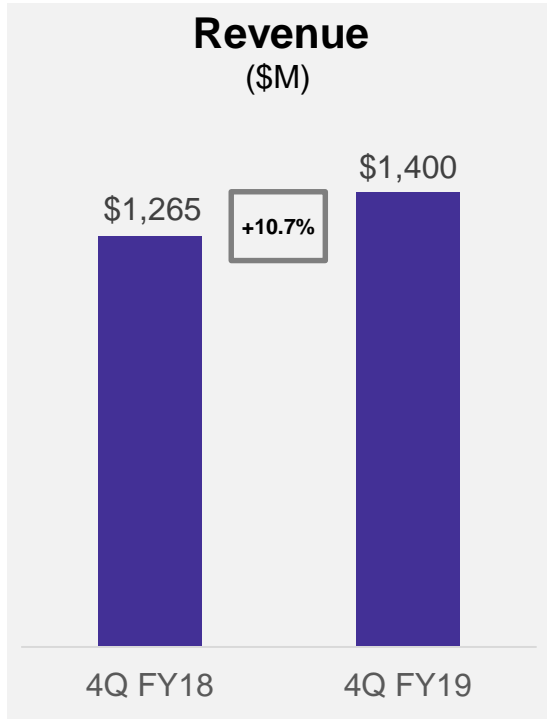
(2) 116% reflects FY 2019: [Cash Flow from Operations (\$992M) – Capex (\$121M)] / Non-GAAP Net Income (\$753M)

Leidos 4Q FY 19 Results



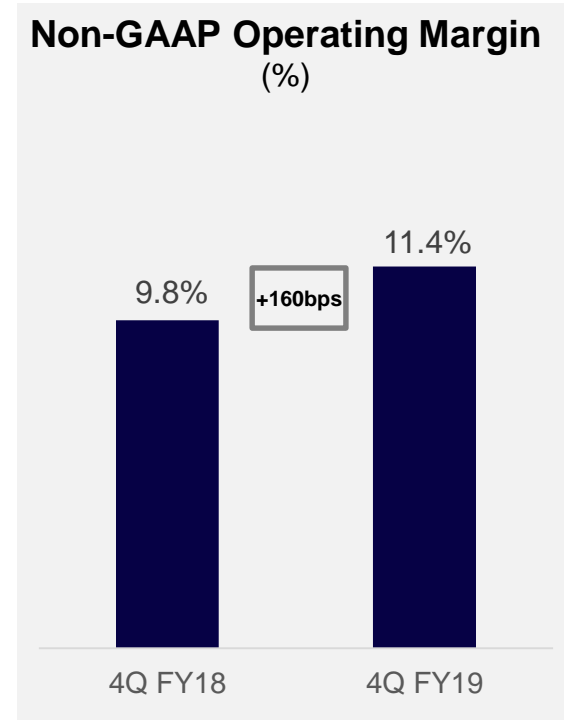
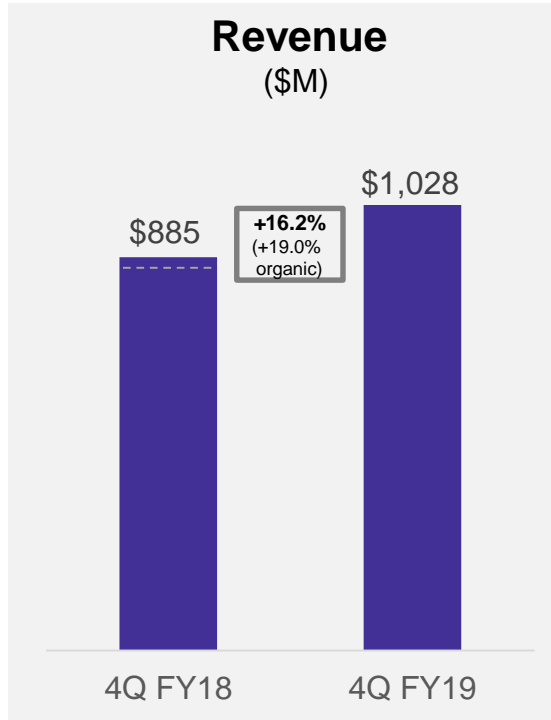
Note: See appendix for definition & reconciliation of Non-GAAP Financial Measures

Defense Solutions Segment



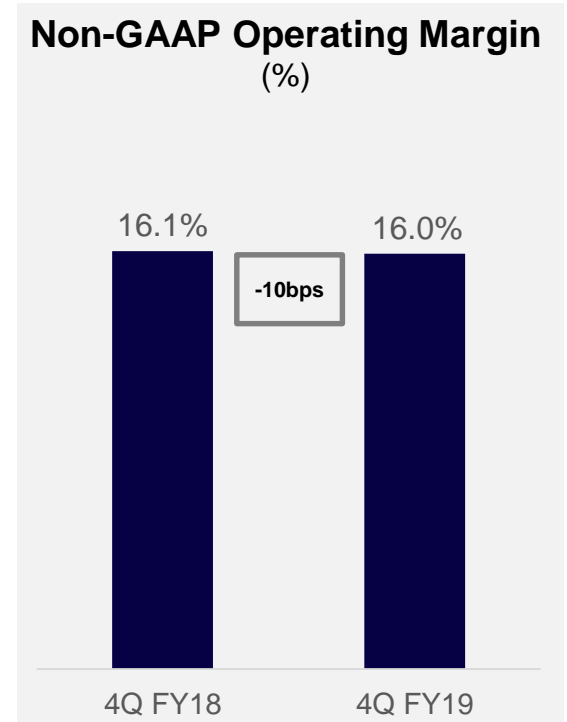
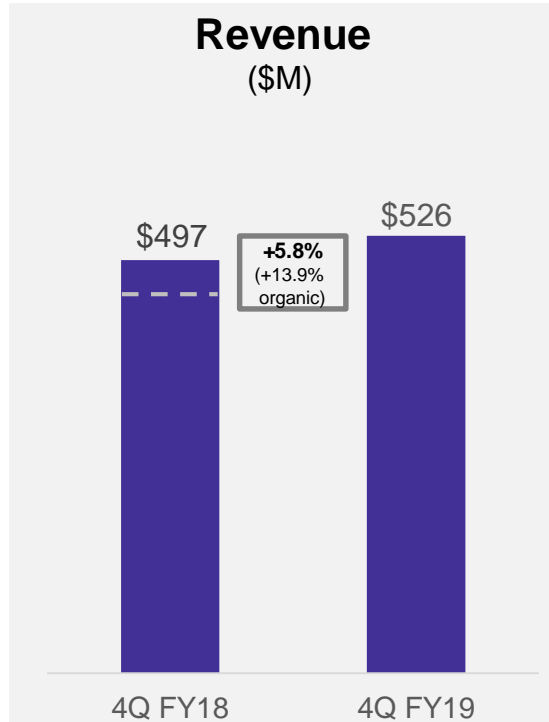
Note: See appendix for definition & reconciliation of Non-GAAP Financial Measures

Civil Segment



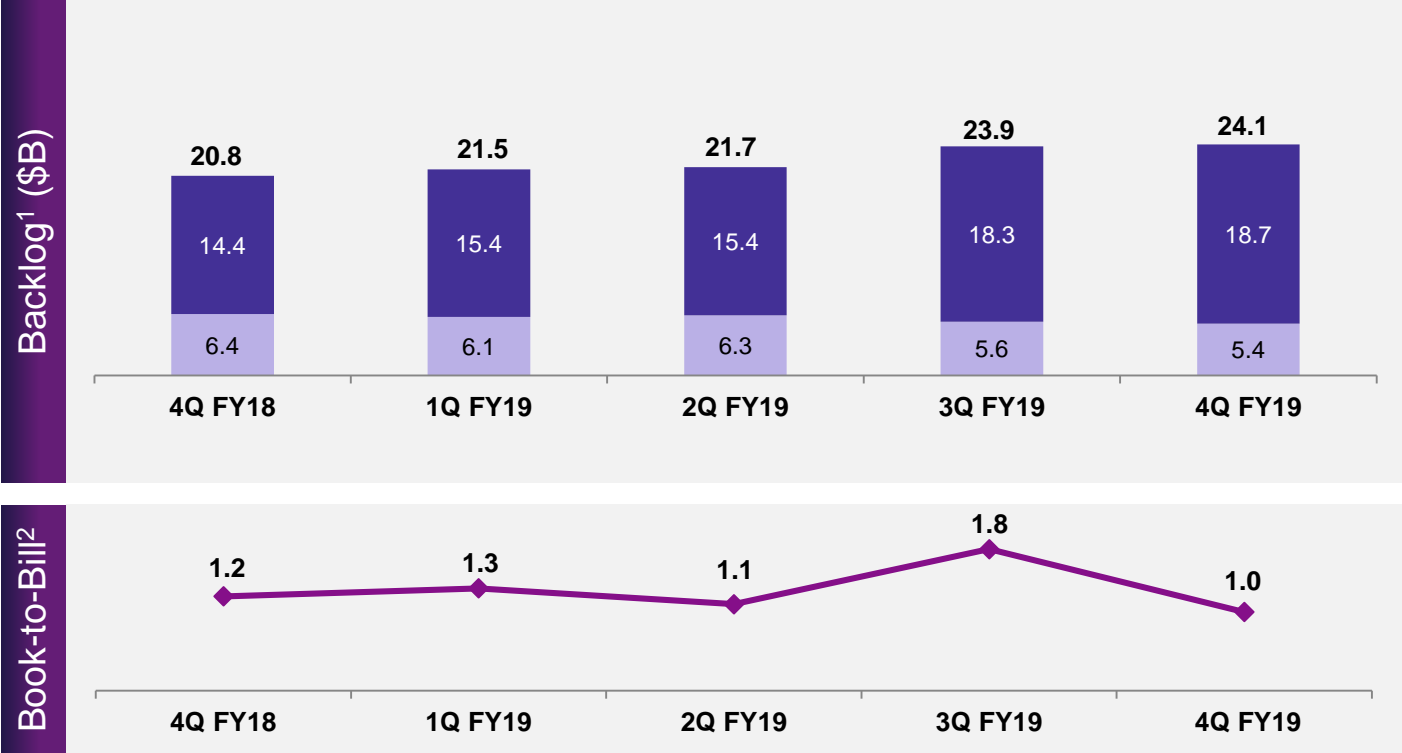
Note: See appendix for definition & reconciliation of Non-GAAP Financial Measures

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

2020 Guidance

Revenue	\$12.6B - \$13.0B
Adjusted EBITDA Margin⁽¹⁾	10.0% - 10.2%
Non-GAAP Diluted EPS^(1,2)	\$5.30 - \$5.65
Operating Cash Flow	Meet or exceed \$1.0B⁽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 2020 Non-GAAP Effective Tax Rate of 23%. See appendix for definition & reconciliation of Non-GAAP Financial Measures
- (3) Operating Cash Flow includes the impact of \$40M of transaction/integration costs associated with the acquisition of Dynetics

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), adjusted EBITDA margin 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.

Leidos does not provide a reconciliation of forward-looking adjusted EBITDA margins (non-GAAP) 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 (non-GAAP) and non-GAAP diluted EPS.

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; (ii) income tax expense, and (iii) 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 investment - Represents the amortization of the fair value of the acquired equity method investment.
- ▶ Acquisition related financing costs - Represents the amortization of the debt financing commitments in connection with the Company's entry into a purchase agreement with Dynetics, Inc.
- ▶ 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 diluted 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.

Organic Revenue Calculation

Pro-Forma Financial Information – Segment Results

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
	(dollars in millions)							
Defense Solutions								
Revenues, as reported	\$ 1,189	\$ 1,262	\$ 1,250	\$ 1,265	\$ 1,267	\$ 1,346	\$ 1,354	\$ 1,400
Civil								
Revenues, as reported	\$ 829	\$ 816	\$ 881	\$ 885	\$ 847	\$ 881	\$ 973	\$ 1,028
Commercial Cybersecurity Business (Divested on 2/20/2019)	19	22	23	21	11	-	-	-
Pro-forma revenues	\$ 810	\$ 794	\$ 858	\$ 864	\$ 836	\$ 881	\$ 973	\$ 1,028
YoY revenue growth on reported revenues					2.2%	8.0%	10.4%	16.2%
YoY "Organic Revenue Growth" on pro-forma revenues					3.2%	11.0%	13.4%	19.0%
Health								
Revenues, as reported	\$ 425	\$ 451	\$ 444	\$ 497	\$ 463	\$ 501	\$ 508	\$ 526
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	\$ 526
YoY revenue growth on reported revenues					8.9%	11.1%	14.4%	5.8%
YoY "Organic Revenue Growth" on pro-forma revenues					12.0%	15.6%	20.5%	13.9%
Total Operations								
Revenues, as reported	\$ 2,443	\$ 2,529	\$ 2,575	\$ 2,647	\$ 2,577	\$ 2,728	\$ 2,835	\$ 2,954
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	\$ 2,954
YoY revenue growth on reported revenues					5.5%	7.9%	10.1%	11.6%
YoY "Organic Revenue Growth" on pro-forma revenues					6.3%	9.5%	12.0%	14.0%

Non-GAAP Operating Income Reconciliation

	1QFY18	2QFY18	3QFY18	4QFY18	FY18	1QFY19	2QFY19	3QFY19	4QFY19	FY19
	(in millions)									
Operating income	\$ 159	\$ 199	\$ 203	\$ 188	\$ 749	\$ 192	\$ 210	\$ 249	\$ 261	\$ 912
Acquisition, integration and restructuring costs	17	8	7	5	37	2	1	-	2	5
Amortization of acquired intangibles	50	51	50	50	201	42	43	43	43	171
Amortization of equity method investment	3	2	2	3	10	3	2	3	3	11
Asset impairment charges	7	-	-	-	7	-	-	-	-	-
Non-GAAP operating income	\$ 236	\$ 260	\$ 262	\$ 246	\$ 1,004	\$ 239	\$ 256	\$ 295	\$ 309	\$ 1,099
<i>Non-GAAP operating income margin</i>	9.7%	10.3%	10.2%	9.3%	9.8%	9.3%	9.4%	10.4%	10.5%	9.9%

Note: See definition of Non-GAAP Financial Measures on slide 12.

Reportable Segments Non-GAAP Operating Income Reconciliation

Quarter Ended January 3, 2020						
(in millions)						
	Operating income (loss)	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Amortization of equity method investment	Non-GAAP operating income (loss)	
Defense Solutions	\$ 124	\$ -	\$ 15	\$ -	\$ -	\$ 139
Civil	97	-	17	3		117
Health	73	-	11	-		84
Corporate	(33)	2	-	-		(31)
Total	\$ 261	\$ 2	\$ 43	\$ 3	\$	\$ 309

Quarter Ended December 28, 2018						
(in millions)						
	Operating income (loss)	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Amortization of equity method investment	Non-GAAP operating income (loss)	
Defense Solutions ⁽¹⁾	\$ 80	\$ -	\$ 17	\$ -	\$ -	\$ 97
Civil ⁽¹⁾	63	-	21	3		87
Health	68	-	12	-		80
Corporate	(23)	5	-	-		(18)
Total	\$ 188	\$ 5	\$ 50	\$ 3	\$	\$ 246

(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	4QFY19	FY19
	(in millions, except per share amounts)									
Non-GAAP operating income	\$ 236	\$ 260	\$ 262	\$ 246	\$ 1,004	\$ 239	\$ 256	\$ 295	\$ 309	\$ 1,099
Depreciation expense	13	15	14	14	56	15	14	16	16	61
Other income (expense), net	-	1	2	(4)	(1)	4	3	(7)	(1)	(1)
Amortization of internally developed intangible assets	-	-	-	-	-	1	-	-	1	2
Adjusted EBITDA	\$ 249	\$ 276	\$ 278	\$ 256	\$ 1,059	\$ 259	\$ 273	\$ 304	\$ 325	\$ 1,161
Depreciation expense	(13)	(15)	(14)	(14)	(56)	(15)	(14)	(16)	(16)	(61)
Interest expense, net	(34)	(35)	(35)	(34)	(138)	(38)	(33)	(28)	(32)	(131)
Income tax expense adjusted to reflect non-GAAP adjustments	(43)	(53)	(55)	(43)	(194)	(39)	(54)	(62)	(59)	(214)
Amortization of internally developed intangible assets	-	-	-	-	-	(1)	-	-	(1)	(2)
Non-GAAP net income	\$ 159	\$ 173	\$ 174	\$ 165	\$ 671	\$ 166	\$ 172	\$ 198	\$ 217	\$ 753
Less: net income attributable to non-controlling interest	-	1	-	-	1	-	2	1	-	3
Non-GAAP net income attributable to Leidos Holdings, Inc.	\$ 159	\$ 172	\$ 174	\$ 165	\$ 670	\$ 166	\$ 170	\$ 197	\$ 217	\$ 750
Acquisition, integration and restructuring costs	(17)	(8)	(7)	(5)	(37)	(2)	(1)	-	(2)	(5)
Amortization of acquired intangibles	(50)	(51)	(50)	(50)	(201)	(42)	(43)	(43)	(43)	(171)
Acquisition related financing costs	-	-	-	-	-	-	-	-	(2)	(2)
Gain (loss) on sale of business	-	-	-	-	-	88	(1)	-	1	88
Amortization of equity method investment	(3)	(2)	(2)	(3)	(10)	(3)	(2)	(3)	(3)	(11)
Asset impairment charges	(7)	-	-	-	(7)	-	-	-	-	-
Adjustment to the income tax provision to reflect non-GAAP adjustments ⁽¹⁾	20	33	32	81	166	(18)	13	10	13	18
Net income attributable to Leidos Holdings, Inc.	\$ 102	\$ 144	\$ 147	\$ 188	\$ 581	\$ 189	\$ 136	\$ 161	\$ 181	\$ 667
Non-GAAP diluted EPS attributable to Leidos Holdings, Inc.	\$ 1.03	\$ 1.12	\$ 1.14	\$ 1.10	\$ 4.38	\$ 1.13	\$ 1.16	\$ 1.36	\$ 1.51	\$ 5.17
Total adjustments from non-GAAP income	(0.37)	(0.18)	(0.18)	0.15	(0.58)	0.16	(0.23)	(0.25)	(0.25)	(0.57)
Diluted EPS attributable to Leidos Holdings, Inc.	\$ 0.66	\$ 0.94	\$ 0.96	\$ 1.25	\$ 3.80	\$ 1.29	\$ 0.93	\$ 1.11	\$ 1.26	\$ 4.60
Diluted shares (for computing non-GAAP EPS)	154	154	153	150	153	147	146	145	144	145

Note: See definition of Non-GAAP Financial Measures on slide 12

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

Non-GAAP Financial Measures Reconciliation (cont'd)

Quarter Ended January 3, 2020
(in millions, except per share amounts)

	As reported	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Amortization of equity method investment	Acquisition related financing costs	Gain on sale of business	Other tax adjustments	Non-GAAP results
Operating income	\$ 261	\$ 2	\$ 43	\$ 3	\$ -	\$ -	\$ -	\$ 309
Non-operating expense, net	(34)	-	-	-	2	(1)	-	(33)
Income before income taxes	227	2	43	3	2	(1)	-	276
Income tax expense ⁽¹⁾	(46)	-	(11)	(1)	-	-	(1)	(59)
Net income	181	2	32	2	2	(1)	(1)	217
Less: net income attributable to non-controlling interest	-	-	-	-	-	-	-	-
Net income attributable to Leidos common stockholders	\$ 181	\$ 2	\$ 32	\$ 2	\$ 2	\$ (1)	\$ (1)	\$ 217
Diluted EPS attributable to Leidos common stockholders	\$ 1.26	\$ 0.01	\$ 0.22	\$ 0.01	\$ 0.01	\$ -	\$ -	\$ 1.51
Diluted shares	144	144	144	144	144	144	144	144
Income before income taxes	\$ 227	\$ 2	\$ 43	\$ 3	\$ 2	\$ (1)	\$ -	\$ 276
Depreciation expense	16	-	-	-	-	-	-	16
Amortization expense	47	-	(43)	(3)	-	-	-	1
Interest expense, net	34	-	-	-	(2)	-	-	32
EBITDA	\$ 324	\$ 2	\$ -	\$ -	\$ -	\$ (1)	\$ -	\$ 325
EBITDA margin	11.0%							11.0%

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