



# Leidos Q3 FY24 Earnings Conference Call

**OCTOBER 29, 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; 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 October 29, 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 Q3 performance — raising guidance for third time this year

- Solid organic revenue growth
- Record Q3 adjusted EBITDA margin of 14.2%; 12.9% for trailing-twelve-months
- 159% FCF conversion
- \$200M of share repurchase in the quarter
- Increasing dividend 5.3%
- Strong balance sheet deployed prudently

### HEALTH & CIVIL DRILL-DOWN

Growth and margin leader—optimizing entire portfolio  
Focus on Managed Health Service, including disability and occupational health exams

Continual investment to drive VBA MDE performance

PACT Act permanently raised eligible veteran population

Confident in performance through VBA Regions recompetes

### BUSINESS DEVELOPMENT PERFORMANCE

Net bookings of \$8.1B for 1.9x B2B

\$700M+ of new/takeaway full-spectrum cyber

\$300M CJADC2 award for Air Force

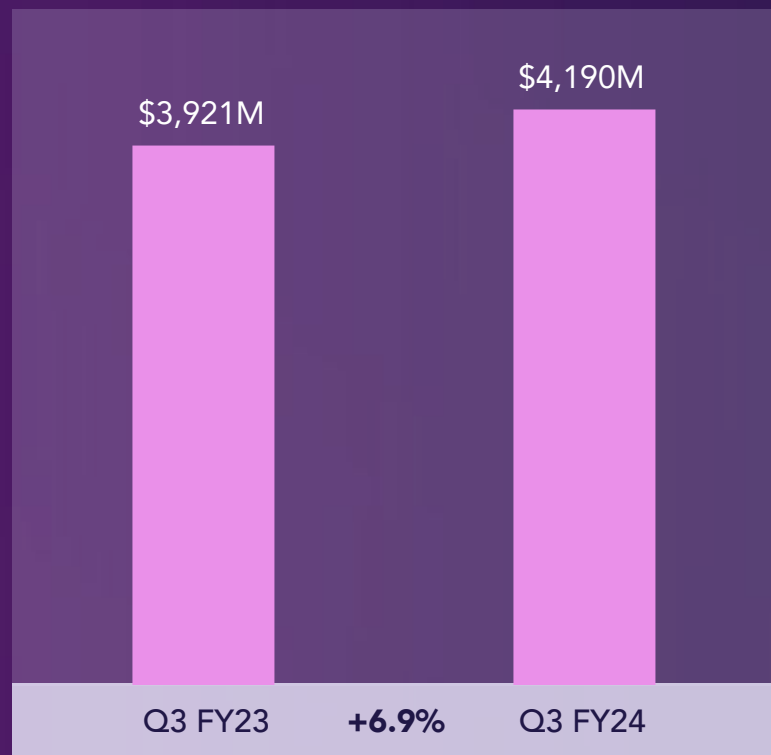
\$1.7B in Defense Systems across maturing programs

\$29B in bids awaiting adjudication—up \$3B since Q2

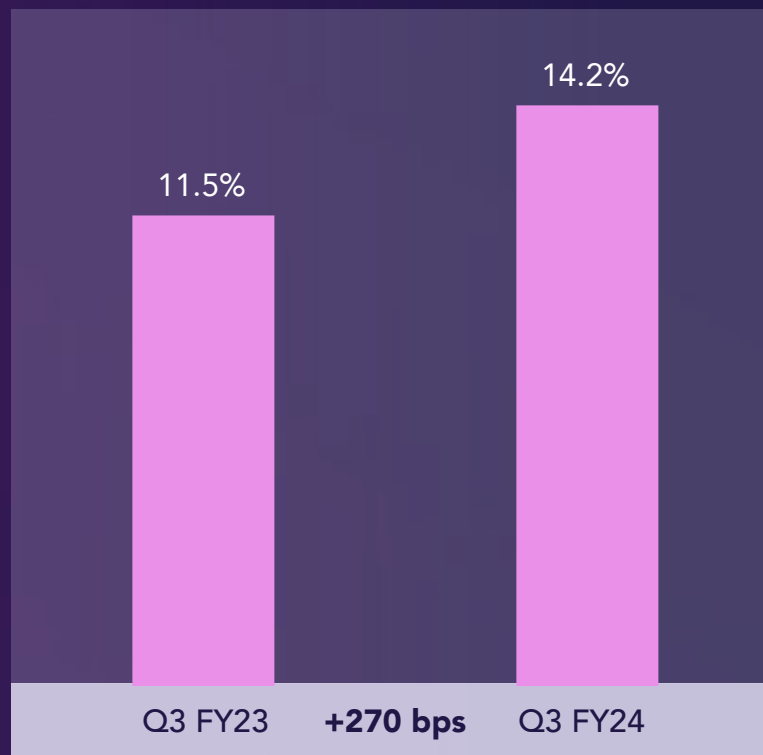
**Excited to reveal "North Star" strategy at March 2025 Investor Day**

# Q3 FY24 RESULTS: INCOME STATEMENT

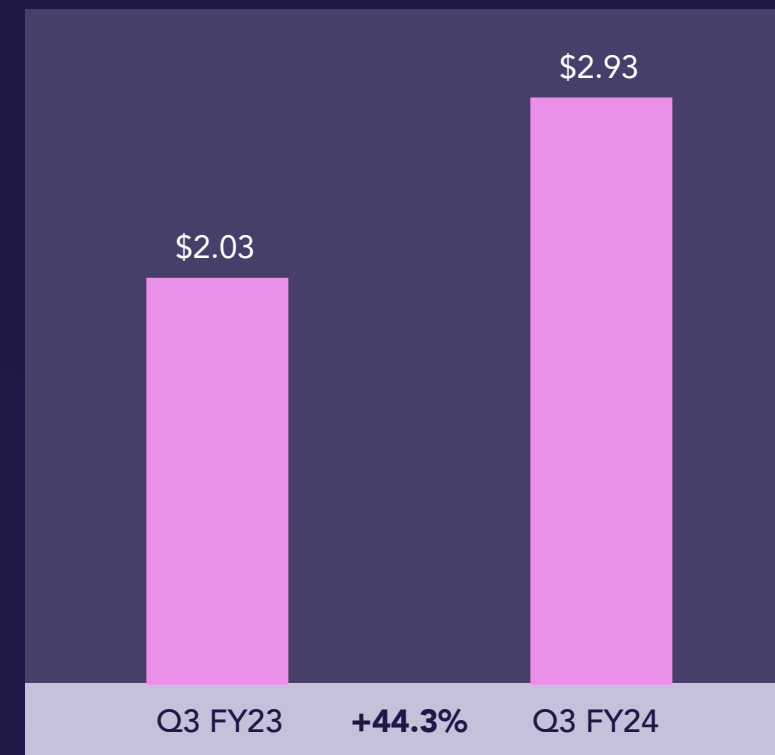
## Revenues



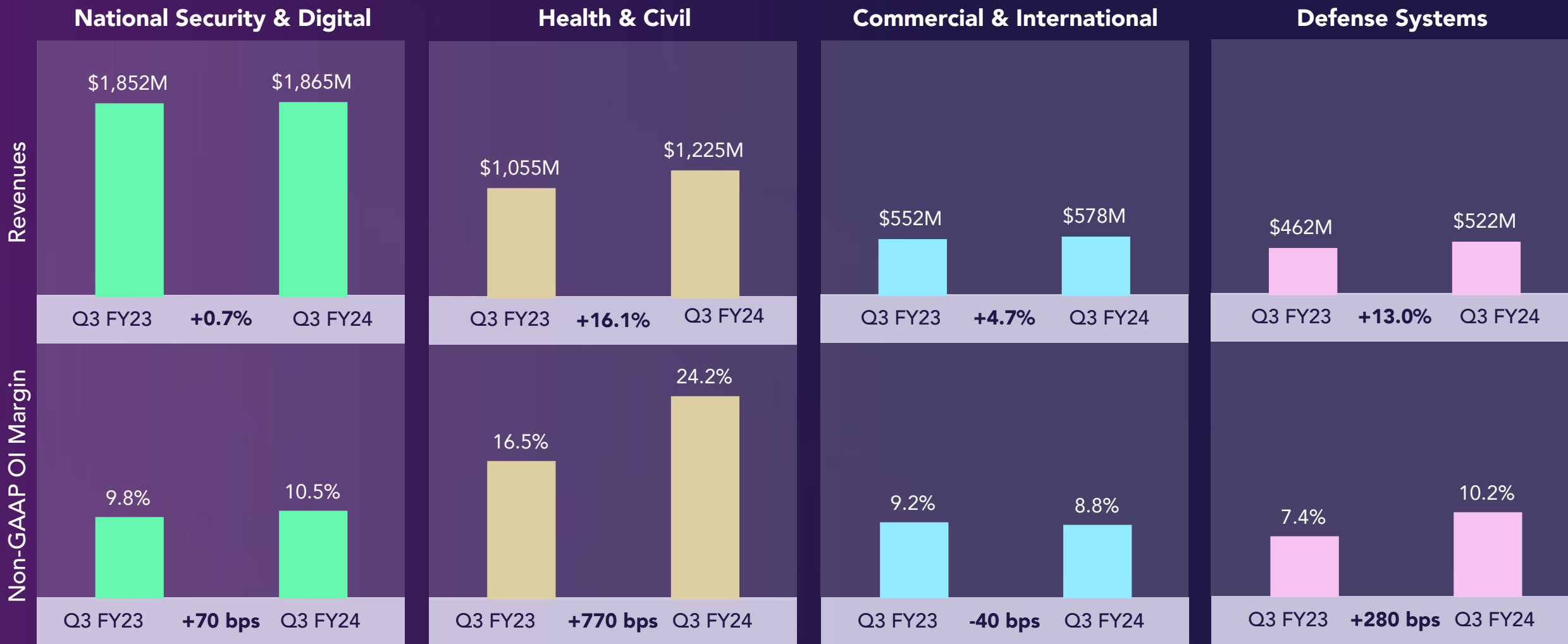
## Adjusted EBITDA Margin



## Non-GAAP Diluted EPS



# Q3 FY24 RESULTS: REPORTABLE SEGMENTS



# Q3 FY24 RESULTS: CASH FLOW / BALANCE SHEET

## Cash Flow Generation

Q3 cash flow driven by robust EBITDA and collections

- Operating cash flow **\$656M**
- Non-GAAP free cash flow **\$633M**
- DSO of 59 in-line w/ prior year and quarter

## Capital Deployment

Maintain flexibility to both strategically invest and return capital to shareholders

- Total return to shareholders **\$254M**
- CapEx & net debt repayment **\$28M**
- Net share repurchases **\$201M**

## Balance Sheet

Strong balance sheet provides significant capacity

- Strong liquidity **>\$1.5B**
- Total debt **\$4.7B**
- Leverage ratio (gross) **2.2x**
- Leverage ratio (net) **1.8x**

# 2024 GUIDANCE

MEASURE	CURRENT	PRIOR
Revenues (billions)	\$16.35 - \$16.45	\$16.10 - \$16.40
Adjusted EBITDA Margin	High-12%	Approximately 12%
Non-GAAP Diluted EPS	\$9.80 - \$10.00	\$8.60 - \$9.00
Cash Flows Provided by Operating Activities (billions)	Approximately \$1.35	Approximately \$1.30

## Key Drivers

- Strong YTD performance across all metrics
- Momentum on business development and operational execution across entire portfolio
- Clarity on VBA disability exam business

## Third Straight Quarter Raising Guidance

- Revenues: Increased \$150M at midpoint; tightened range by \$200M
- Adjusted EBITDA Margin: Significant increase from prior guidance
- Non-GAAP diluted EPS: Increased +\$1.10 at midpoint; narrowed range by \$0.20
- Operating Cash Flow: +\$50M



# APPENDIX

## Non-GAAP Reconciliations

# ORGANIC GROWTH

(in millions, except growth rates)	Q3 FY24	Q3 FY23	% Change
<b>National Security &amp; Digital</b>			
Revenues, as reported	\$ 1,865	\$ 1,852	1%
<b>Health &amp; Civil</b>			
Revenues, as reported	\$ 1,225	\$ 1,055	16%
<b>Commercial &amp; International</b>			
Revenues, as reported	\$ 578	\$ 552	5%
<b>Defense Systems</b>			
Revenues, as reported	\$ 522	\$ 462	13%
Acquisition and divestiture revenues <sup>(1)</sup>	—	3	
Organic revenues	\$ 522	\$ 459	14%
<b>Total Operations</b>			
Revenues, as reported	\$ 4,190	\$ 3,921	7%
Acquisition and divestiture revenues <sup>(1)</sup>	—	3	
Organic revenues	\$ 4,190	\$ 3,918	7%

**Note:**

1. Year ago acquisition and divestiture revenues reflect revenues from assets subsequently divested. For the three months ended September 29, 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 September 27, 2024					Three Months Ended September 29, 2023					
	As reported	Acquisition, integration and restructuring costs <sup>(1)</sup>	Amortization of acquired intangibles <sup>(2)</sup>	Asset impairment charges	Non-GAAP results	As reported	Acquisition, integration and restructuring costs <sup>(1)</sup>	Amortization of acquired intangibles <sup>(2)</sup>	Asset impairment charges	Goodwill impairment charges	Non-GAAP results
<i>(in millions, except per share amounts)</i>											
<b>Operating income (loss)</b>	\$ 516	\$ 3	\$ 37	\$ 6	\$ 562	\$ (336)	\$ 17	\$ 50	\$ 88	\$ 599	\$ 418
Non-operating expense, net	(46)	—	—	—	(46)	(52)	—	—	—	—	(52)
<b>Income (loss) before income taxes</b>	470	3	37	6	516	(388)	17	50	88	599	366
Income tax expense <sup>(3)</sup>	(108)	(1)	(9)	(2)	(120)	(8)	(4)	(12)	(31)	(28)	(83)
<b>Net income (loss)</b>	362	2	28	4	396	(396)	13	38	57	571	283
Less: Net (loss) income attributable to non-controlling interest	(2)	—	—	—	(2)	3	—	—	—	—	3
<b>Net income (loss) attributable to Leidos common stockholders</b>	\$ 364	\$ 2	\$ 28	\$ 4	\$ 398	\$ (399)	\$ 13	\$ 38	\$ 57	\$ 571	\$ 280
Diluted EPS attributable to Leidos common stockholders	\$ 2.68	\$ 0.01	\$ 0.21	\$ 0.03	\$ 2.93	\$ (2.91)	\$ 0.09	\$ 0.28	\$ 0.41	\$ 4.14	\$ 2.03
Diluted shares	136	136	136	136	136	137	138	138	138	138	138
<b>Income (loss) before income taxes</b>	470	3	37	6	516	(388)	17	50	88	599	366
Depreciation expense	34	—	—	—	34	32	—	—	—	—	32
Amortization of intangibles	37	—	(37)	—	—	50	—	(50)	—	—	—
Interest expense, net	46	—	—	—	46	53	—	—	—	—	53
<b>Adjusted EBITDA</b>	\$ 587	\$ 3	\$ —	\$ 6	\$ 596	\$ (253)	\$ 17	\$ —	\$ 88	\$ 599	\$ 451
Adjusted EBITDA margin <sup>(4)</sup>	14.0 %				14.2 %	(6.5)%					11.5 %

## 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. Adjusted EBITDA divided by revenues (slide 5).

# SEGMENT NON-GAAP OPERATING INCOME

## Three Months Ended September 27, 2024

<i>(in millions)</i>	Operating income (loss)	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Asset impairment charges	Non-GAAP operating income (loss)	Non-GAAP operating margin <sup>(1)</sup>
National Security & Digital	\$ 187	\$ —	\$ 6	\$ 2	\$ 195	10.5 %
Health & Civil	287	—	8	2	297	24.2 %
Commercial & International	41	1	7	2	51	8.8 %
Defense Systems	37	—	16	—	53	10.2 %
Corporate	(36)	2	—	—	(34)	NM
Total	\$ 516	\$ 3	\$ 37	\$ 6	\$ 562	13.4 %

## Three Months Ended September 29, 2023

<i>(in millions)</i>	Operating income (loss)	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Goodwill impairment charges	Asset impairment charges	Non-GAAP operating income (loss)	Non-GAAP operating margin <sup>(1)</sup>
National Security & Digital	\$ 170	\$ —	\$ 12	\$ —	\$ —	\$ 182	9.8 %
Health & Civil	165	—	9	—	—	174	16.5 %
Commercial & International	(646)	9	9	599	80	51	9.2 %
Defense Systems	3	3	20	—	8	34	7.4 %
Corporate	(28)	5	—	—	—	(23)	NM
Total	\$ (336)	\$ 17	\$ 50	\$ 599	\$ 88	\$ 418	10.7 %

### Notes:

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

NM - Not Meaningful

# NON-GAAP FREE CASH FLOW

<i>(in millions, except conversion ratio)</i>	Three Months Ended	
	September 27, 2024	September 29, 2023
Net cash provided by operating activities	\$ 656	\$ 795
Payments for property, equipment and software	(23)	(50)
Non-GAAP free cash flow	\$ 633	\$ 745
Net income (loss) attributable to Leidos common stockholders	\$ 364	\$ (399)
Acquisition, integration and restructuring costs <sup>(1)(2)(3)</sup>	2	13
Amortization of acquired intangibles <sup>(1)(3)</sup>	28	38
Goodwill impairment charges <sup>(2)(3)</sup>	—	571
Asset impairment charges <sup>(2)(3)</sup>	4	57
Non-GAAP net income attributable to Leidos common stockholders	\$ 398	\$ 280
Operating cash flow conversion ratio <sup>(4)</sup>	180 %	(199)%
Non-GAAP free cash flow conversion ratio <sup>(5)</sup>	159 %	266 %

## Notes:

1. After-tax expenses excluded from non-GAAP net income.
2. Asset markdowns associated with restructuring activities were recorded to "Cost of revenues" in the condensed consolidated statements of operations.
3. Non-GAAP tax rates were revised for the three months ended September 29, 2023 from using a blended rate to an individual tax rate for each non-GAAP adjustment, as this approach better reflects the allocation of the tax adjustment.
4. Net cash provided by operating activities divided by net income attributable to Leidos common stockholders.
5. Free cash flow divided by non-GAAP net income attributable to Leidos common stockholders.