

# Citi

# 2019 Global Industrials Conference

February 21, 2019

Jim Reagan  
Executive Vice President, Chief Financial Officer  
Leidos



# 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](http://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.



# KEY MESSAGES

## Diverse Portfolio at Scale

- ▶ Leveraged to multiple markets & geographies
- ▶ Broad portfolio of technical core competencies
- ▶ Countercyclical nature of defense & civil budgets increases revenue resiliency

## Growing Revenue Stream

- ▶ >20% Backlog growth in the last 2 years
- ▶ Increasing win rates driven by scale benefits, including cost structure, technical capabilities, and large portfolio of strong program performance
- ▶ Large pipeline expected to drive growth - \$28B of submits outstanding\*

## Long-Term Cash Flow Growth & Balanced Capital Deployment

- ▶ Balance Sheet Optimization
- ▶ Long term goal of 100% net income conversion to free cash flow
- ▶ Excess cash deployed in a balanced manner to:
  - ▶ Drive growth – organically and through M&A
  - ▶ Maintain quarterly dividend
  - ▶ Return capital to shareholders through share repurchase

\* \$28B of submits outstanding, as of 12/28/2018



# Mission

Leidos makes the world **safer, healthier, and more efficient** through **information technology, engineering, and science.**



# Vision

Become the global leader in the integration and application of **information technology, engineering, and science** to solve our customers' most demanding challenges.

We will deliver **innovative solutions** through the efforts of our **diverse and talented people** who are dedicated to our **customers' success.** We will empower our teams, contribute to our communities, and operate sustainably.



# Values

**Integrity**

**Innovation**

**Agility**

**Collaboration**

**Commitment**

# THE LEIDOS TEAM



**Bottom Row**  
from Left to Right

**Jim Cantor**  
Chief Technology Officer

**Jerry Howe**  
General Counsel

**Paul Engola**  
Chief Human Resources Officer &  
Head of Business Partnerships

**Roger Krone**  
Chairman and Chief Executive Officer

**Jim Reagan**  
Chief Financial Officer



**Top Row**  
from Left to Right

**Kamal Dua**  
Chief Audit Executive

**Steven Hull**  
Chief Information Officer

**Vicki Schmanske**  
President, Intelligence Group

**Jon Scholl**  
President, Health Group

**Gerry Fasano**  
President, Defense Group

**Angie Heise**  
President, Civil Group

**Roy Stevens**  
Chief of Business Development & Strategy

**Michele Brown**  
Chief Ethics & Compliance Officer



**22%**  
MILITARY  
VETERANS



(of cleared employees)

**67%**  
TOP SECRET  
AND ABOVE

**39%**  
SECRET



**6,400**  
MASTER'S  
DEGREES

**750**  
PhDs



**13K**  
CLEARED  
EMPLOYEES

**32K**  
EMPLOYEES  
WORLDWIDE

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# ACROSS THE GLOBE

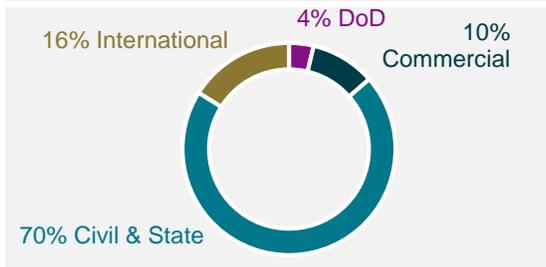


# DIVERSIFIED REVENUES

Leveraged to Multiple Markets & Geographies



## CIVIL - \$3.4B

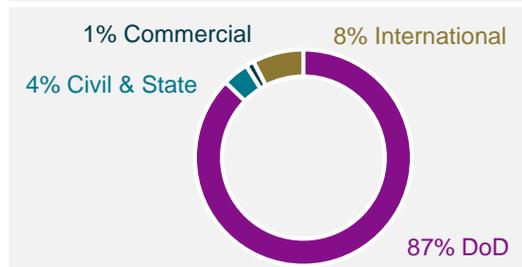


### Key Customers

- Federal Aviation Administration
- National Aeronautics and Space Administration
- Department of Energy
- Department of Homeland Security
- United Kingdom MoD



## DEFENSE - \$4.9B

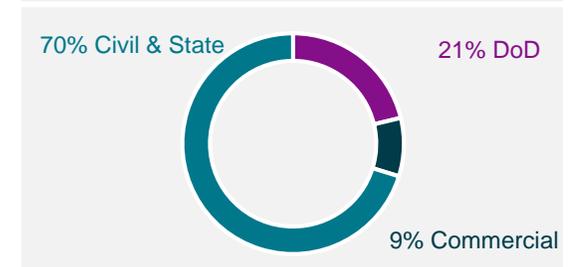


### Key Customers

- AFRL
- DARPA
- NAVY
- Army
- Air Force
- Intelligence Community
- Australia MoD



## HEALTH \$1.8B



### Key Customers

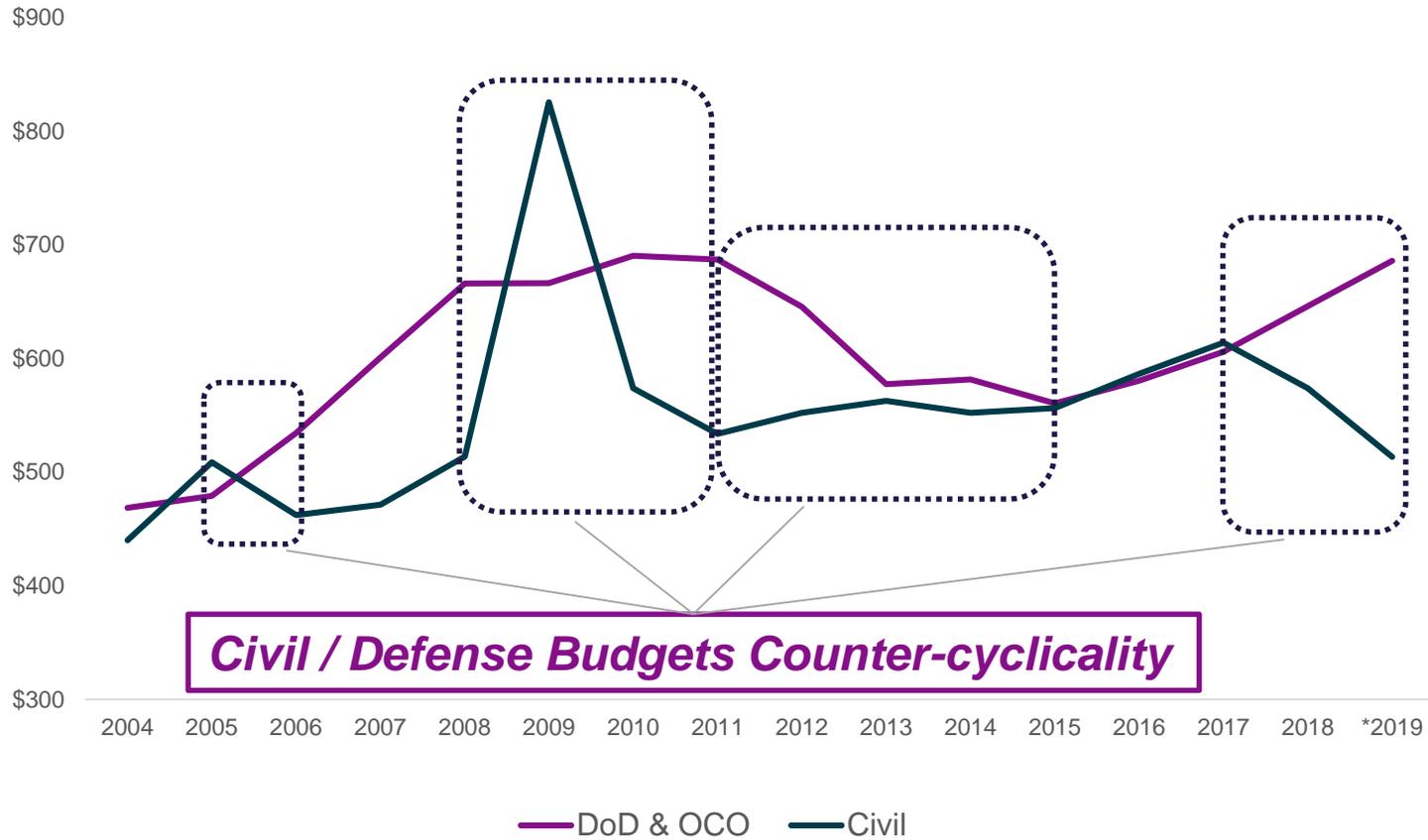
- Navy
- Social Security Administration
- Veterans Affairs
- Defense Health Agency
- Centers for Medicare & Medicaid
- National Institute of Health
- Center for Disease Control
- Food and Drug Administration



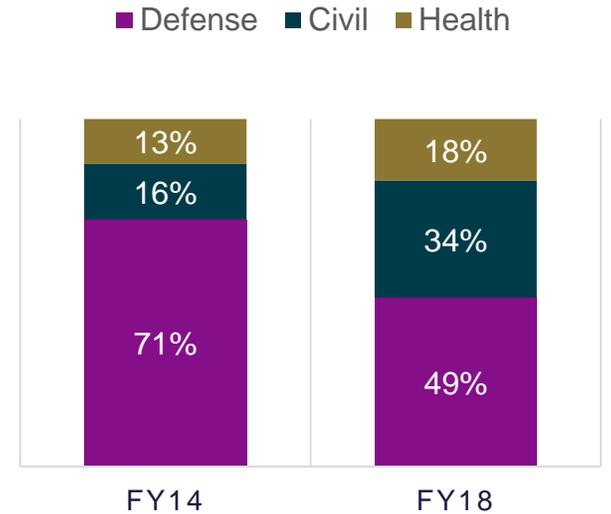
Note: Reflects FY2018 Revenues

# DEFENSE & CIVIL EXPOSURE PROVIDES COUNTER-CYCLICAL BENEFITS

DISCRETIONARY BUDGET AUTHORITY  
(\$ BILLION)



LEIDOS HISTORICAL  
REVENUE MIX



Source: Office of Budget Management  
\*Represents Discretionary Budget Authority Estimates



# TECHNICAL CORE COMPETENCIES



## Enterprise IT Modernization

SLA and mission enablement at lowest credible cost

## Cyber Operations

Advanced Cyber resilience at Scale

## Operations & Logistics

Transformational logistics

## Mission Software Systems

Advanced multi-domain systems

## Integrated Systems

Mission-effective integrated HW & SW systems

## Sensors, Collections, & Phenomenology

Disruptive sensor-based systems using detailed physical modeling

## Mission Support

Mission solutions via depth, breadth at competitive costs

**Secure Development and Operations**

**Data Science and Engineering**

**System Engineering and Integration**

# KEY MESSAGES (growing)

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# WIN DRIVERS – TOP 10 AWARDS

Segment	Customer	Value (M) <sup>1</sup>	Key Drivers
Civil	NASA	\$2,900 <sup>2</sup>	Technical Solution & Price
Defense Solutions	CLASSIFIED	\$1,100	Technical Solution
Health	SSA	\$600 <sup>3</sup>	Cost Competitive, Past Performance & Technical Solution
Defense Solutions	AIR FORCE	\$600 <sup>2</sup>	Price
Health	DHA	\$600 <sup>2</sup>	Technical Solution
Health	VA	\$600	Past Performance, Technical Solution & Price
Health	VA	\$500	Cost Competitive, Innovation/Solution & Past Performance
Civil	DOE	\$400	Key Personnel & Past Performance
Defense Solutions	CLASSIFIED	\$400	Management, Past Performance & Technical Solution
Defense Solutions	CLASSIFIED	\$300	Past Performance & Technical Solution

*Above list reflects top 10 awards on a trailing twelve month basis from February 16, 2018 – February 15, 2019*

*(1) Value rounded to nearest \$100M*

*(2) Single Award IDIQ ceiling value*

*(3) Reflects value of all awarded task orders*



# INCREASING BACKLOG & BOOK-TO-BILL

Backlog growth of 23% in 2 years



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

# 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)

# 2019 GUIDANCE

<b>Revenue</b>	\$10.50B - \$10.90B
<b>Adjusted EBITDA Margin<sup>(1)</sup></b>	9.9% - 10.1%
<b>Non-GAAP Diluted EPS<sup>(1,2)</sup></b>	\$4.25 - \$4.60
<b>Operating Cash Flow</b>	Meet or exceed \$725M <sup>(3)</sup>

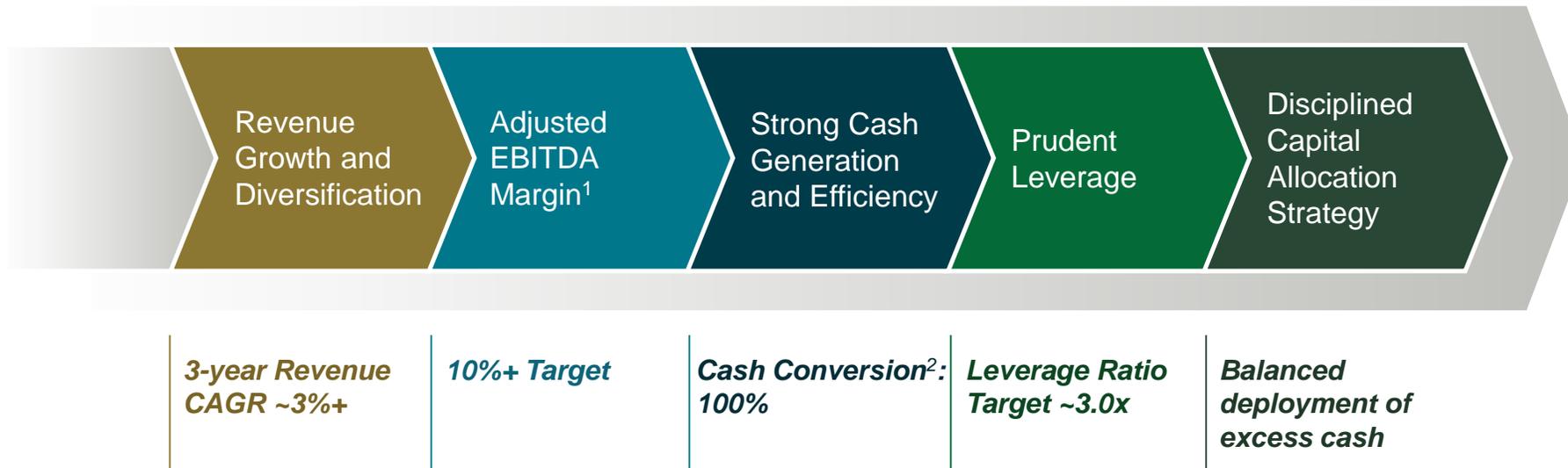
(1) A quantitative reconciliation of adjusted EBITDA margin and non-GAAP diluted EPS forward-looking guidance to the most directly comparable measure calculated in accordance with GAAP is not available because these non-GAAP measures are intended to exclude items that are either unforeseeable, abnormal, or the timing and amount of which is difficult to predict.

(2) Assumes 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.



# LONG-TERM TARGETS



(1) See appendix for definition of Non-GAAP Financial Measures

(2) Cash Conversion defined as (Free Cash Flow excluding acquisition/integration/restructuring costs) / Net Income

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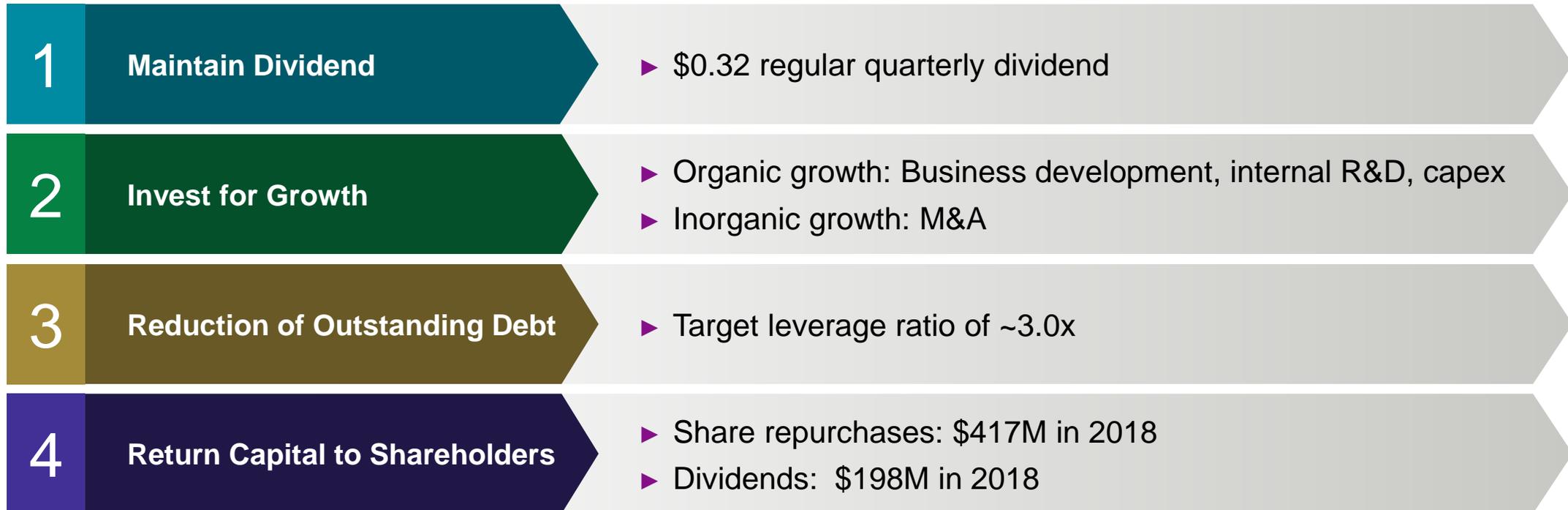
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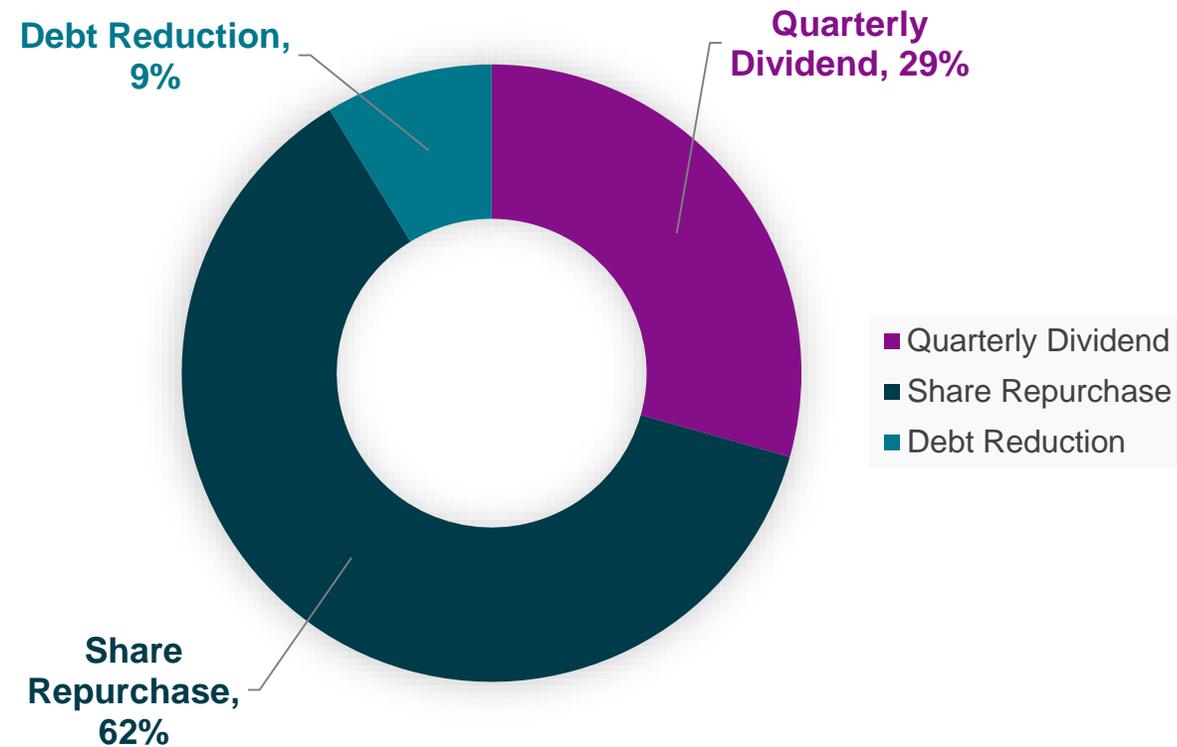
# DISCIPLINED CAPITAL DEPLOYMENT PHILOSOPHY

Committed to Returning Excess Cash



# Balanced Capital Deployment

## 2018 Capital Deployment



*\*Graphic depicts capital deployment after internal growth investments*

Thank You



# 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.

