



Leidos 4Q 2016 Earnings Conference Call

February 23, 2017



Forward-Looking Statements

Certain statements in this presentation contain or are based on “forward-looking” information within the meaning of the Private Securities Litigation Reform Act of 1995. Actual performance and results may differ materially from the guidance and other forward-looking statements made in this presentation depending on a variety of factors, including: changes to our reputation and relationships with government agencies, developments in the U.S. Government defense budget, including budget reductions, implementation of spending cuts (sequestration) or changes in budgetary priorities; delays in the U.S. Government budget process; 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 ability to attract, train and retain skilled employees, including our management team, and to obtain security clearances for our employees; factors relating to the transaction with Lockheed Martin, including, tax treatment, the possibility that we may be unable to achieve expected synergies and operating efficiencies within the expected time-frames or at all, the integration of the acquired Information Systems & Global Solutions business being more difficult, time-consuming or costly than expected, the effect of any changes resulting from the transaction in customer, supplier and other business relationships, general market perception of the transaction and exposure to lawsuits and contingencies associated with the Information Systems & Global Solutions business; 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; 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; 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 presentation. 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 presentation is as of February 23, 2017. The Company expressly disclaims any duty to update the guidance or any other forward-looking statement provided in this presentation 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.

FY 2016 Highlights

Improving Financials	<ul style="list-style-type: none">▶ Revenue growth – organic⁽¹⁾ and total▶ Margin expansion
Improved Portfolio	<ul style="list-style-type: none">▶ IS&GS acquisition▶ Heavy Construction divestiture
Strongly positioned for future	<ul style="list-style-type: none">▶ 1.0 book to bill▶ Cost synergy results on-plan▶ Joint bids at lower rates already submitted
Strong cash flow	<ul style="list-style-type: none">▶ \$417M free cash flow⁽³⁾▶ \$275M accelerated repayment of acquisition debt▶ \$1.1B return to shareholders via dividends

The new Leidos 2018 & beyond⁽²⁾

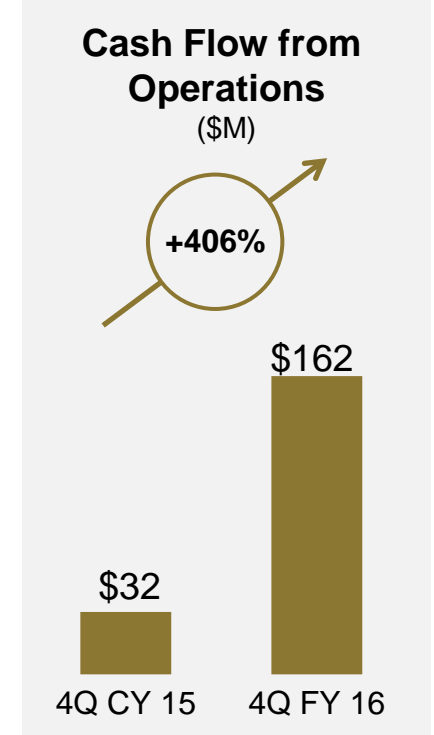
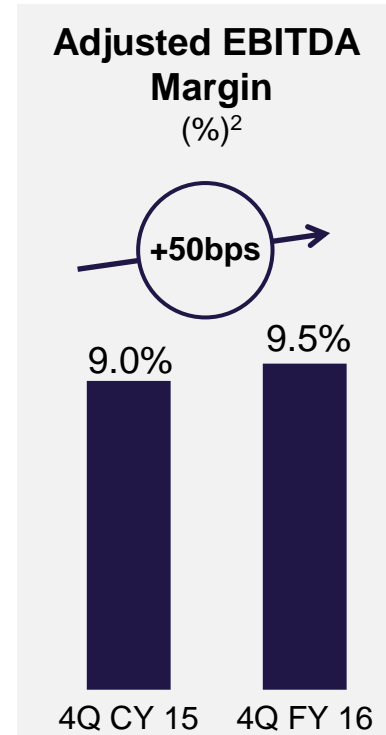
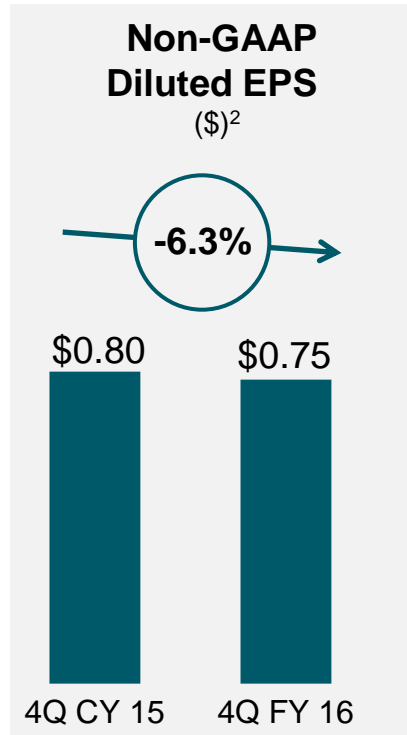
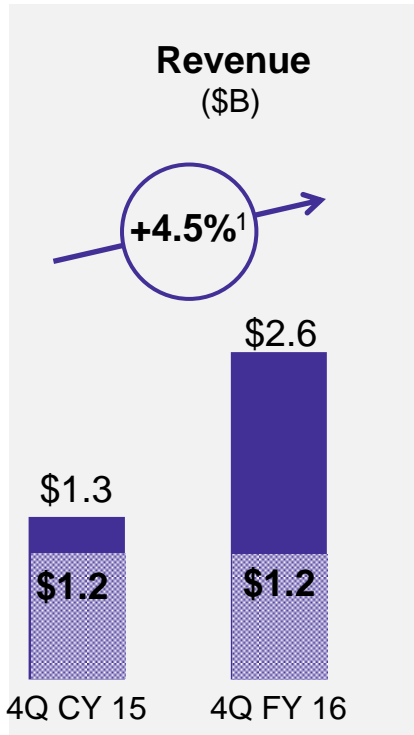
3% revenue growth
10%+ Adjusted EBITDA margin
100%+ cash efficiency

(1) Organic growth rate excludes impact of acquisitions & divestitures

(2) Represent Operating Metric Targets

(3) Free Cash Flow = cash flow from operations (\$446M) minus capital expenditures (\$29M)

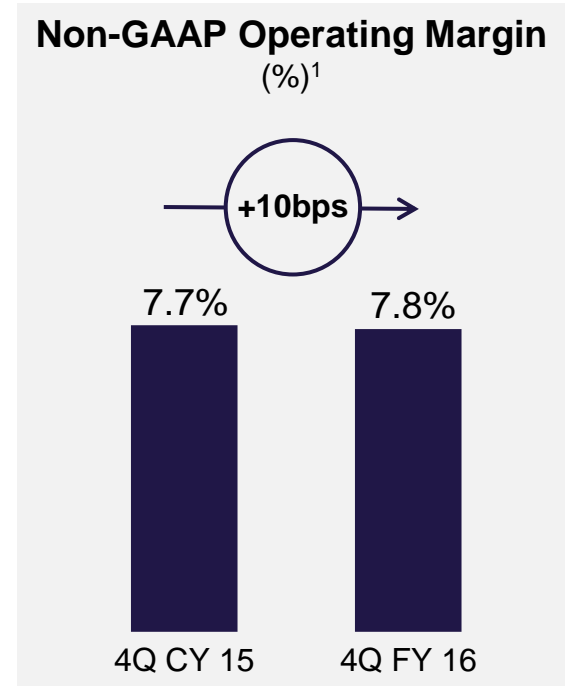
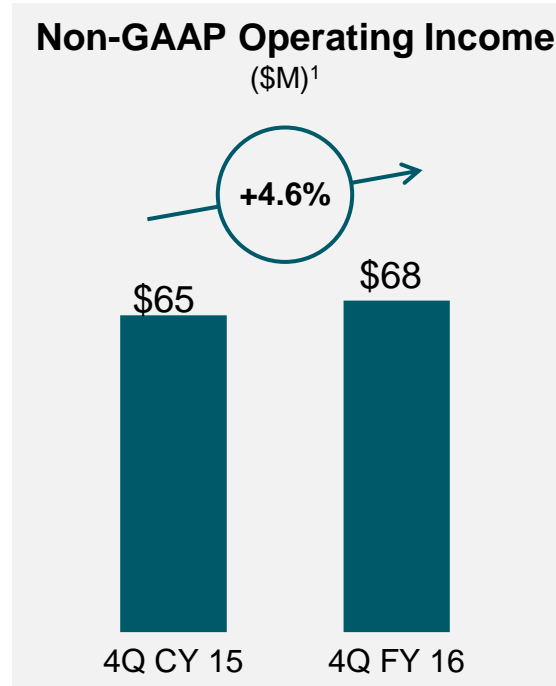
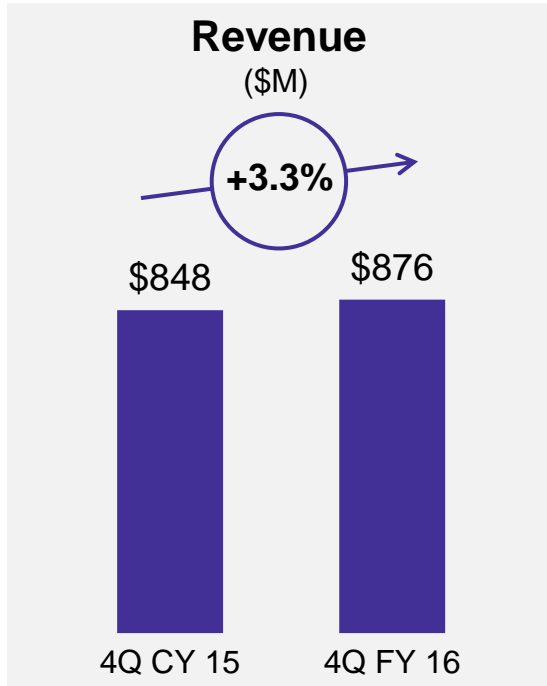
Leidos 4Q FY 16 Results



Adjusted revenue of \$1.171B in 4QCY15 and \$1.224B in 4QFY16 represent organic revenue comparisons, which exclude Heavy Construction Engineering revenues in 4QCY15 and ISGS revenues in 4QFY16

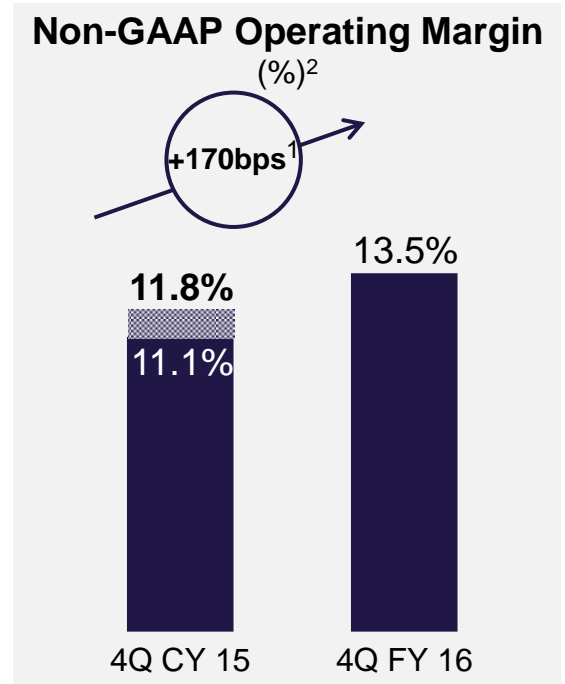
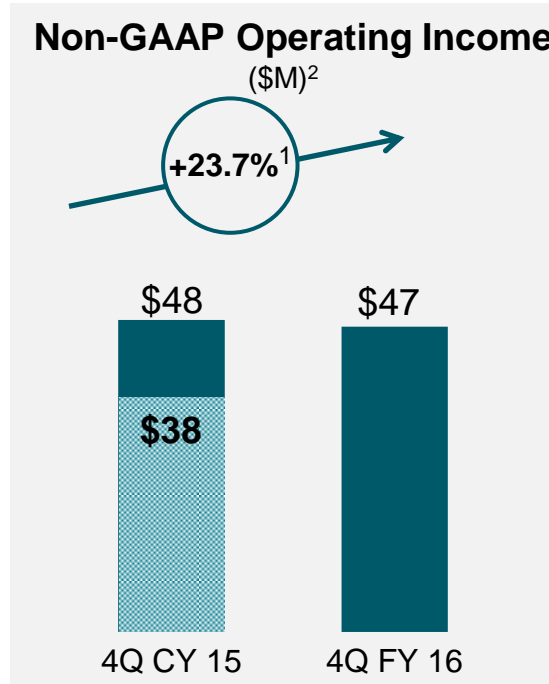
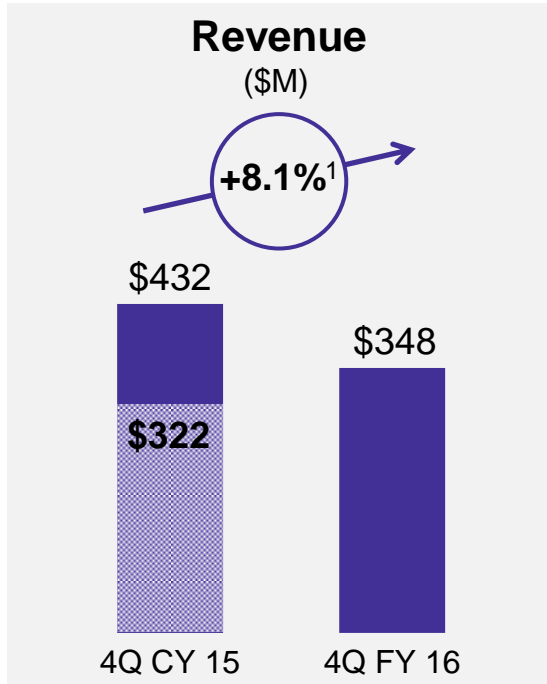
- (1) Organic growth rate excludes impact of acquisitions & divestitures
- (2) See appendix for definition & reconciliation of Non-GAAP Financial Measures

National Security Sector (NSS)



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

Health & Infrastructure Sector (HIS)



Adjusted revenue of \$322M excludes 4Q CY 15 revenues from Heavy Construction Engineering business – which was divested in 2Q FY 16

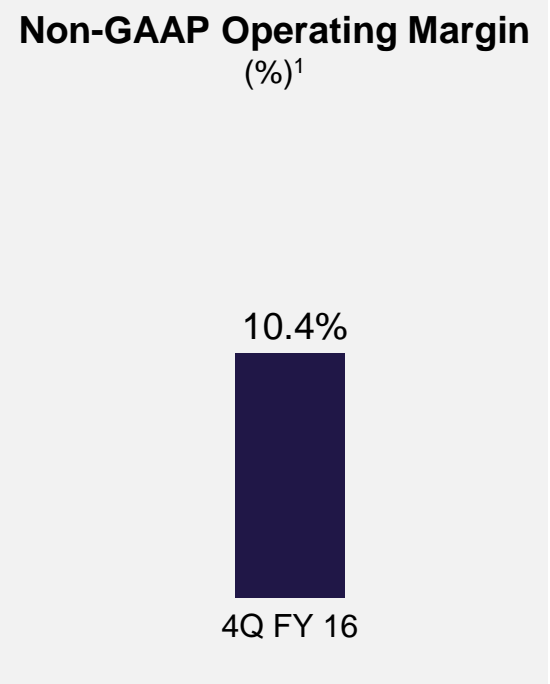
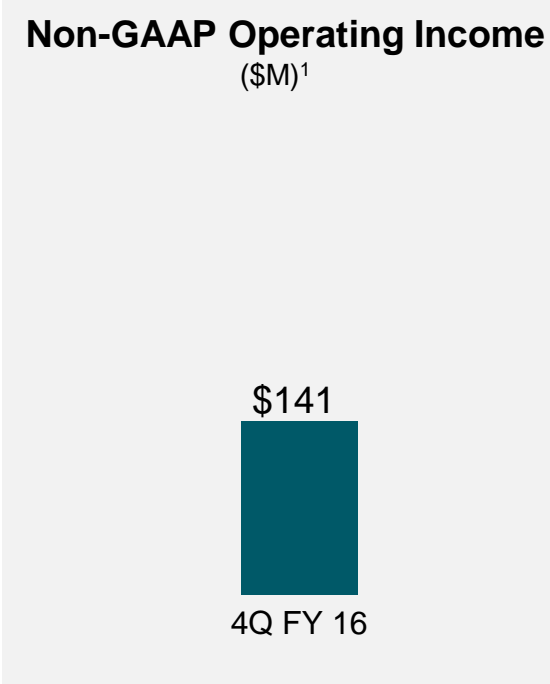
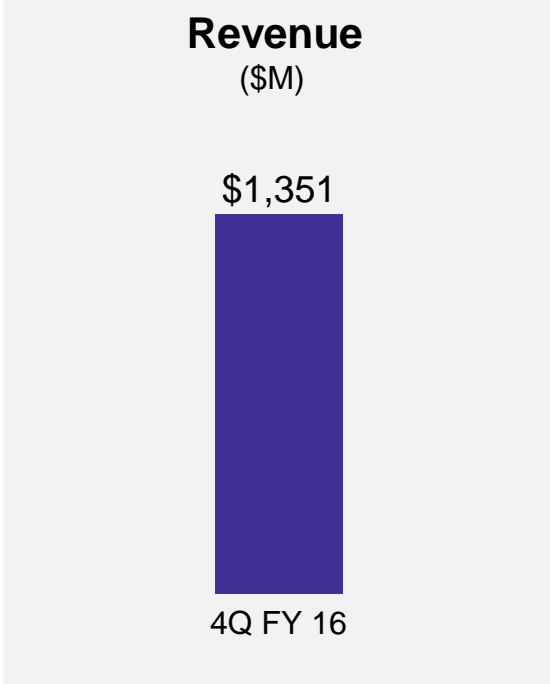
Adjusted Non-GAAP Operating Income of \$38M excludes 4Q CY 15 operating income from Heavy Construction Engineering business – which was divested in 2Q FY 16

11.8% represents 4Q CY 15 excludes revenues & operating income from Heavy Construction Engineering business – which was divested in 2Q FY 16

(1) Organic growth excludes impact of Heavy Construction Engineering divestiture

(2) See appendix for definition & reconciliation of Non-GAAP Financial Measures

Information Systems & Global Solutions (IS&GS) Sector

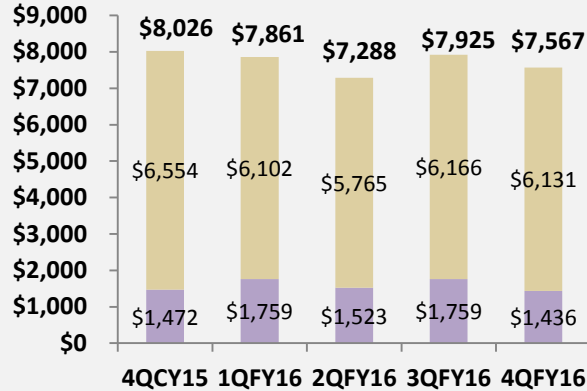


(1) See appendix for definition & reconciliation of Non-GAAP Financial Measures

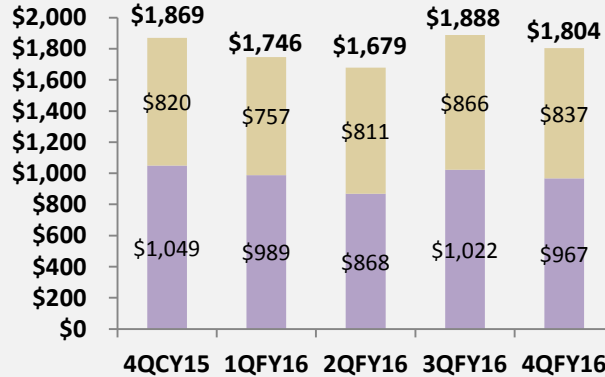
Awards & Backlog

NSS

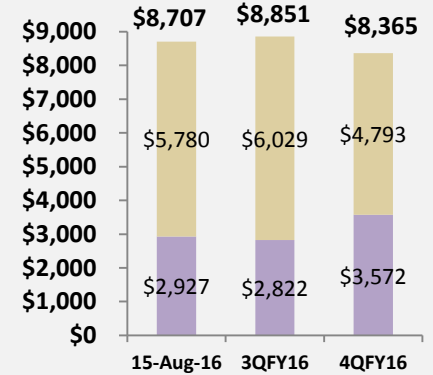
Backlog* (\$M)



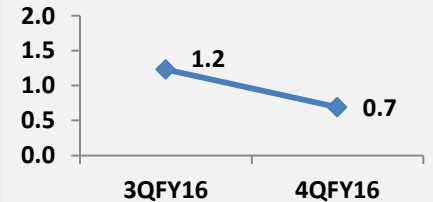
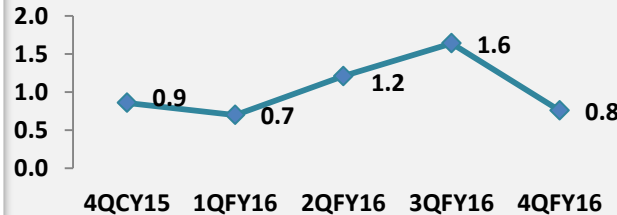
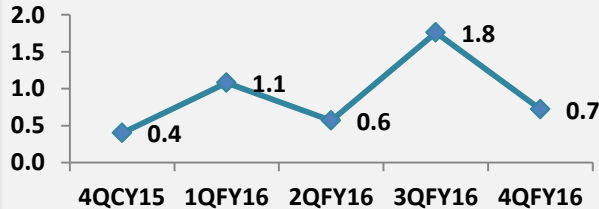
HIS



IS&GS



Book to Bill**



Funded Backlog

Negotiated Unfunded Backlog

* Backlog presented at exchange rate in effect at quarter end

**Book to bill presented on a constant currency basis



2017 Guidance Update

	Current	Prior
Revenue	\$10.0B to \$10.4B	\$9.8B to \$10.2B
Adjusted EBITDA Margin⁽¹⁾	9.5% to 10.0%	9.0% to 10.0%
Non-GAAP Diluted EPS⁽¹⁾	\$3.05 to \$3.35	\$2.90 to \$3.20
<i>Effective Tax Rate</i>	~37%	~37%
Operating Cash Flow from Continuing Operations	Unchanged	Meet or exceed \$475M ⁽²⁾

(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) \$475M of Operating Cash Flow from Continuing Operations includes \$75M of transaction & integration costs, net of taxes

Appendix

Weighted Average Share Count Impact

	1QFY16 ¹	2QFY16	3QFY16	4QFY16
	(in millions, except for per share amounts)			
Quarter-to-Date GAAP Income from continuing operations attributable to Leidos Holdings, Inc.	\$ 53	\$ 41	\$ 91	\$ 59
Quarter-to-Date - Diluted weighted average number of shares outstanding	74	74	114	153
Quarter-to-Date GAAP Diluted EPS from continuing operations attributable to Leidos Holdings, Inc.	\$ 0.72	\$ 0.55	\$ 0.80	\$ 0.39
Year-to-Date Cumulative GAAP Income from continuing operations attributable to Leidos Holdings, Inc.	\$ 53	\$ 94	\$ 185	\$ 244
Year-to-Date - Diluted weighted average number of shares outstanding	74	74	87	104
Year-to-Date GAAP Diluted EPS	\$ 0.72	\$ 1.27	\$ 2.13	\$ 2.35
Quarter-to-Date Non-GAAP Income from continuing operations attributable to Leidos Holdings, Inc.	\$ 57	\$ 50	\$ 143	\$ 115
Quarter-to-Date - Diluted weighted average number of shares outstanding	74	74	114	153
Quarter-to-Date Non-GAAP Diluted EPS from continuing operations attributable to Leidos Holdings, Inc.	\$ 0.77	\$ 0.68	\$ 1.25	\$ 0.75
Year-to-Date Cumulative Non-GAAP Income from continuing operations attributable to Leidos Holdings, Inc.	\$ 57	\$ 107	\$ 250	\$ 365
Year-to-Date - Diluted weighted average number of shares outstanding	74	74	87	104
Year-to-Date Non-GAAP Diluted EPS from continuing operations attributable to Leidos Holdings, Inc.	\$ 0.77	\$ 1.45	\$ 2.87	\$ 3.51

Note 1: Prior periods have been recast to reflect the adoption of ASU 2016-09 *Stock Compensation*.

Note 2: See slides 13 and 15 for definition & reconciliation of Non-GAAP Financial Measures in the Investor Presentation.

Non-GAAP Reconciliations

This presentation includes certain non-GAAP financial measures, such as non-GAAP operating income, non-GAAP operating income margin, non-GAAP income from continuing operations, non-GAAP diluted earnings per share (EPS), adjusted earnings before interest, taxes, depreciation and amortization (EBITDA), adjusted EBITDA margin, and free cash flow. These non-GAAP financial measures are not meant to be considered in isolation or as a substitute for results prepared in accordance with generally accepted accounting principles in the United States (GAAP). A reconciliation of non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP is included in this presentation and can be found on our website at www.leidos.com. Leidos management believes that these non-GAAP financial measures provide useful information to investors regarding the Company's financial condition and results of operations as they provide another measure of the Company's profitability. 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 income (loss) from continuing operations: (i) other (expense) income, net; (ii) interest expense; (iii) interest income; (iv) income tax expense adjusted to reflect non-GAAP adjustments; and (v) the following discrete items:

- ▶ Acquisition and integration costs - Represents costs related to the acquisition and integration of the IS&GS business.
- ▶ Amortization of acquired intangible assets - Represents the amortization expense associated with acquired intangible assets.
- ▶ Restructuring expenses - Represents costs associated with lease termination, severance, and costs related to the Company's acquisition of IS&GS and the September 2013 spin-off of its former technical services.
- ▶ Gains and losses on disposal of assets and businesses - Represents the gains or losses on certain sales of real estate and businesses.
- ▶ Asset impairment charges - Represents impairments of long-lived intangible and tangible assets.

Non-GAAP income from continuing operations is computed by excluding the discrete items as identified above from income from continuing operations and adjusting income tax expense for the effect of such exclusions.

Non-GAAP operating margin from continuing operations is computed by adding back the discrete items as identified above from GAAP operating income from continuing operations and dividing by GAAP revenue.

Adjusted EBITDA is computed by excluding the following items from income from continuing operations, 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.

Non-GAAP Operating Income Reconciliation

	1QCY15 ¹	2QCY15 ¹	3QCY15 ¹	4QCY15 ¹	CY15 ¹	1QFY16	2QFY16	3QFY16	4QFY16	FY16
	(in millions)									
GAAP operating income from continuing operations	\$ 38	\$ 64	\$ 94	\$ 102	\$ 298	\$ 89	\$ 75	\$ 101	\$ 152	\$ 417
Acquisition and integration costs	-	-	-	-	-	9	15	44	22	90
Amortization of acquired intangible assets	2	3	2	2	9	1	2	27	54	84
Asset impairment charges	40	29	4	-	73	-	-	-	4	4
Restructuring expenses	2	-	1	3	6	-	1	5	8	14
Non-GAAP operating income from continuing operations	\$ 82	\$ 96	\$ 101	\$ 107	\$ 386	\$ 99	\$ 93	\$ 177	\$ 240	\$ 609
<i>Non-GAAP operating income margin</i>	6.6%	7.6%	7.8%	8.4%	7.6%	7.5%	7.2%	9.5%	9.3%	8.6%

Note 1: Prior periods have been recast to reflect amortization of acquired intangible assets as a non-GAAP adjustment.

Note 2: See definition of non-GAAP operating income from continuing operations on slide 13 in the Investor Presentation.

Non-GAAP Financial Measures Reconciliation

	1QCY15 ¹	2QCY15 ¹	3QCY15 ¹	4QCY15 ¹	CY15 ¹	1QFY16 ²	2QFY16	3QFY16	4QFY16	FY16
	(in millions, except for per share amounts)									
Non-GAAP operating income from continuing operations	\$ 82	\$ 96	\$ 101	\$ 107	\$ 386	\$ 99	\$ 93	\$ 177	\$ 240	\$ 609
Depreciation expense	10	9	9	7	35	7	7	10	14	38
Other (expense) income, net	(1)	2	-	1	2	(2)	(5)	(1)	(10)	(18)
Adjusted EBITDA	\$ 91	\$ 107	\$ 110	\$ 115	\$ 423	\$ 104	\$ 95	\$ 186	\$ 244	\$ 629
Depreciation expense	(10)	(9)	(9)	(7)	(35)	(7)	(7)	(10)	(14)	(38)
Interest expense, net	(14)	(14)	(14)	(12)	(54)	(11)	(13)	(25)	(37)	(86)
Income tax expense adjusted to reflect non-GAAP adjustments	(17)	(27)	(34)	(37)	(115)	(29)	(25)	(7)	(77)	(138)
Non-GAAP income from continuing operations³	\$ 50	\$ 57	\$ 53	\$ 59	\$ 219	\$ 57	\$ 50	\$ 144	\$ 116	\$ 367
Non-GAAP income from continuing operations attributable to Leidos Holdings, Inc.	\$ 50	\$ 57	\$ 53	\$ 59	\$ 219	\$ 57	\$ 50	\$ 143	\$ 115	\$ 365
Acquisition and integration costs	-	-	-	-	-	(9)	(15)	(44)	(22)	(90)
Amortization of acquired intangible assets	(2)	(3)	(2)	(2)	(9)	(1)	(2)	(27)	(54)	(84)
Gain on sale of a business	-	-	-	-	-	-	3	-	-	3
Restructuring expenses	(2)	-	(1)	(3)	(6)	-	(1)	(5)	(8)	(14)
Gain on a real estate sale	-	-	-	82	82	2	-	-	-	2
Asset impairment charges	(40)	(29)	(4)	-	(73)	-	-	-	(4)	(4)
Adjustment to the income tax provision to reflect non-GAAP adjustments ⁴	17	12	3	(9)	23	4	6	24	32	66
GAAP income from continuing operations attributable to Leidos Holdings, Inc.	\$ 23	\$ 37	\$ 49	\$ 127	\$ 236	\$ 53	\$ 41	\$ 91	\$ 59	\$ 244
Non-GAAP diluted EPS from continuing operations attributable to Leidos Holdings, Inc.	\$ 0.67	\$ 0.77	\$ 0.73	\$ 0.80	\$ 2.96	\$ 0.77	\$ 0.68	\$ 1.25	\$ 0.75	\$ 3.51
Total adjustments from non-GAAP income from continuing operations	(0.36)	(0.27)	(0.06)	0.92	0.23	(0.05)	(0.13)	(0.45)	(0.36)	(1.16)
GAAP diluted EPS from continuing operations attributable to Leidos Holdings, Inc.	\$ 0.31	\$ 0.50	\$ 0.67	\$ 1.72	\$ 3.19	\$ 0.72	\$ 0.55	\$ 0.80	\$ 0.39	\$ 2.35
Diluted shares (for computing non-GAAP EPS)	75	74	73	74	74	74	74	114	153	104

Note 1: Prior periods have been recast to reflect amortization of acquired intangible assets as a non-GAAP adjustment.

Note 2: Q1 FY16 has been recast to reflect the adoption of ASU 2016-09 *Stock Compensation*.

Note 3: Non-GAAP income from continuing operations includes \$1 million of income related to a non-controlling interest for Q3 and Q4 FY16 and \$2 million for FY16.

Note 4: Calculation uses an estimated statutory tax rate on non-GAAP tax deductible adjustments.

Segment Non-GAAP Operating Income Reconciliation

Quarter Ended December 30, 2016

(in millions)

	Operating income (loss)	Acquisition and integration costs	Amortization of intangibles	Restructuring expenses	Asset impairment charges	Non-GAAP Operating income (loss)
NSS	\$ 68	\$ -	\$ -	\$ -	\$ -	\$ 68
HIS	46	-	1	-	-	47
IS&GS	88	-	53	-	-	141
Corp	(50)	22	-	8	4	(16)
Total	\$ 152	\$ 22	\$ 54	\$ 8	\$ 4	\$ 240

Quarter Ended January 1, 2016

(in millions)

	Operating income (loss)	Amortization of intangibles	Restructuring expenses	Non-GAAP Operating income (loss)
NSS	\$ 65	\$ -	\$ -	\$ 65
HIS	46	2	-	48
Corp	(9)	-	3	(6)
Total	\$ 102	\$ 2	\$ 3	\$ 107

Twelve Months Ended December 30, 2016

(in millions)

	Operating income (loss)	Acquisition and integration costs	Amortization of intangibles	Restructuring expenses	Asset impairment charges	Non-GAAP Operating income (loss)
NSS	\$ 292	\$ -	\$ -	\$ -	\$ -	\$ 292
HIS	162	-	5	-	-	167
IS&GS	114	-	79	-	-	193
Corp	(151)	90	-	14	4	(43)
Total	\$ 417	\$ 90	\$ 84	\$ 14	\$ 4	\$ 609

Twelve Months Ended January 1, 2016

(in millions)

	Operating income (loss)	Impairment charges	Amortization of intangibles	Restructuring expenses	Non-GAAP Operating income (loss)
NSS	\$ 279	\$ -	\$ -	\$ -	\$ 279
HIS	45	73	9	-	127
Corp	(26)	-	-	6	(20)
Total	\$ 298	\$ 73	\$ 9	\$ 6	\$ 386

Note 1: Prior periods have been recast to reflect amortization of acquired intangible assets as a non-GAAP adjustment.