



Leidos 1Q 2020 Earnings Conference Call

May 5, 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 our business contingency plans, the impact of COVID-19 and related actions taken to prevent its spread, a charge related to an international receivable, our ability to recover certain costs through the Coronavirus Aid, Relief and Economic Security Act, contract awards, 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 business, which could be negatively affected by our 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, including the impacts of COVID-19. 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 May 5, 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.

1Q FY 2020 Highlights

Continued Revenue Growth Acceleration

- Generated \$2.9B of revenue
- Year-over-year revenue growth of 12.1%; 8.2% organic growth⁽¹⁾
- Grew backlog to a record of \$28.3B; 1.9x book-to-bill

Healthy Cash Flow Generation

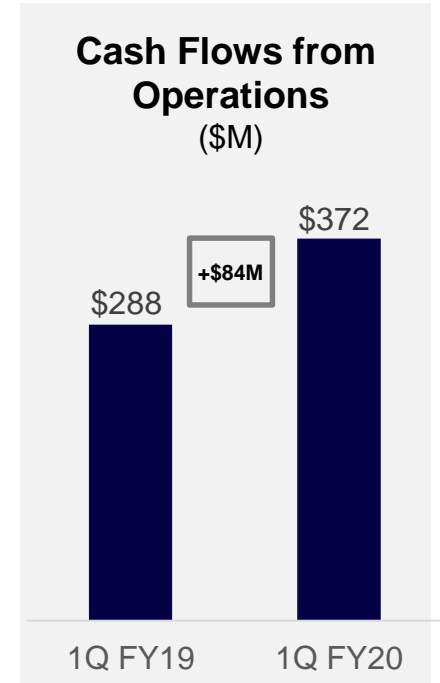
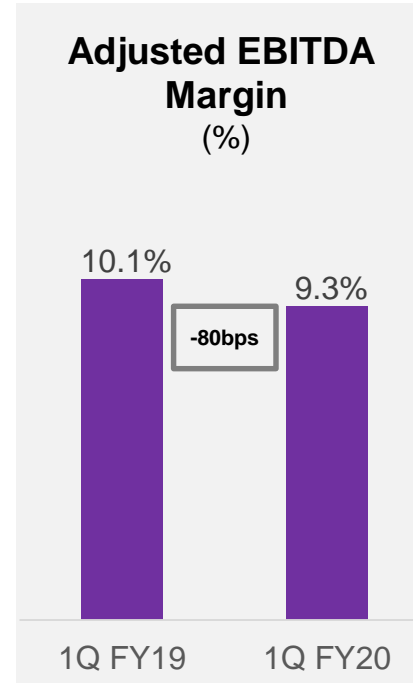
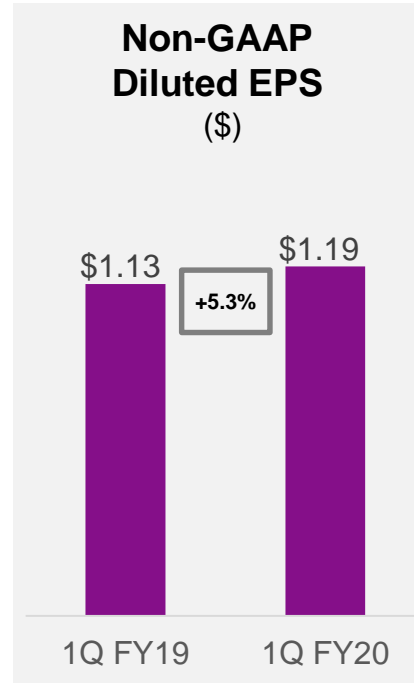
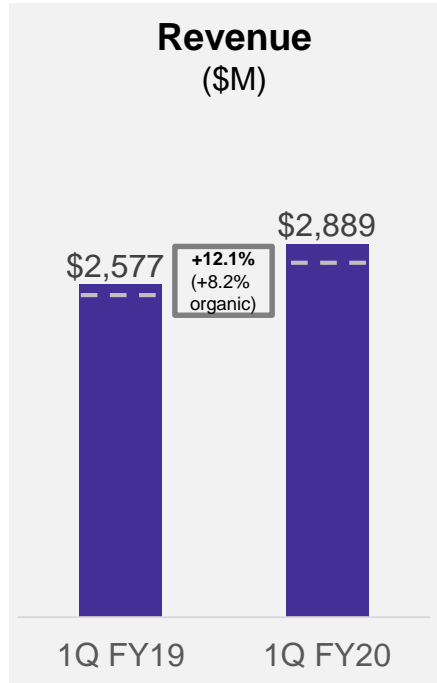
- \$372M cash flows from operations
- Continued expectation to deliver operating cash flows of >\$1B

Strong Liquidity Position

- \$1.4 billion readily available
 - \$445M cash balance
 - \$750M untapped revolving credit facility
 - \$200M of additional capacity from accounts receivable monetization program

(1) See appendix slide 15 for calculation of organic revenue growth

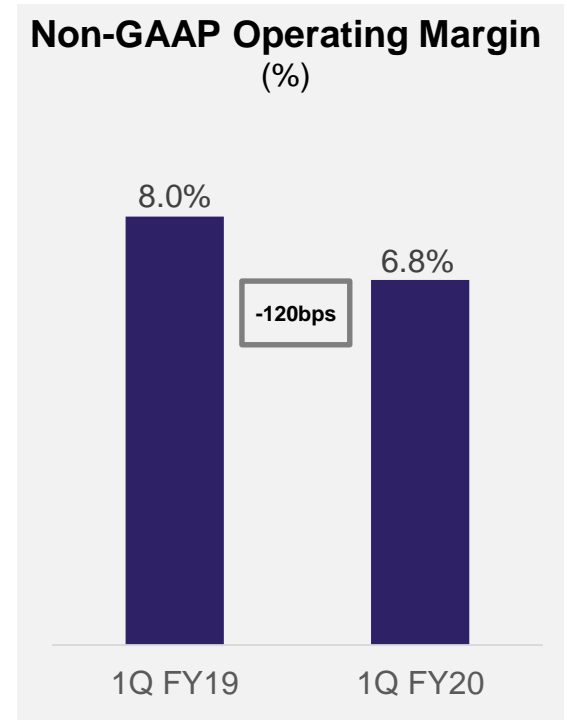
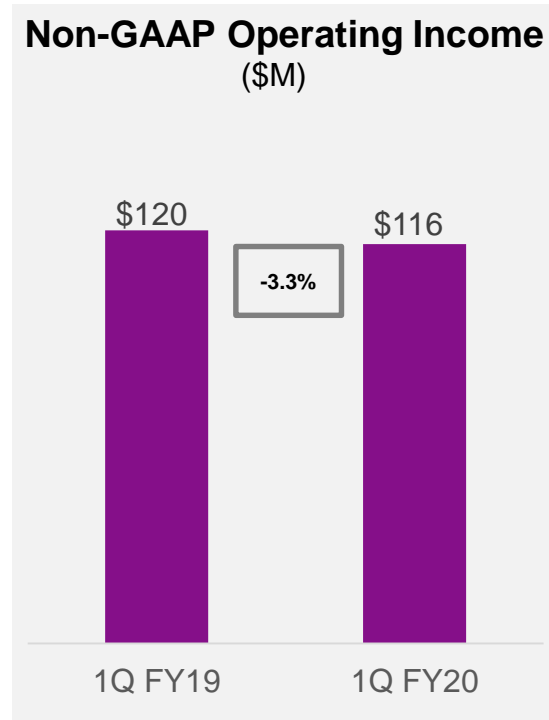
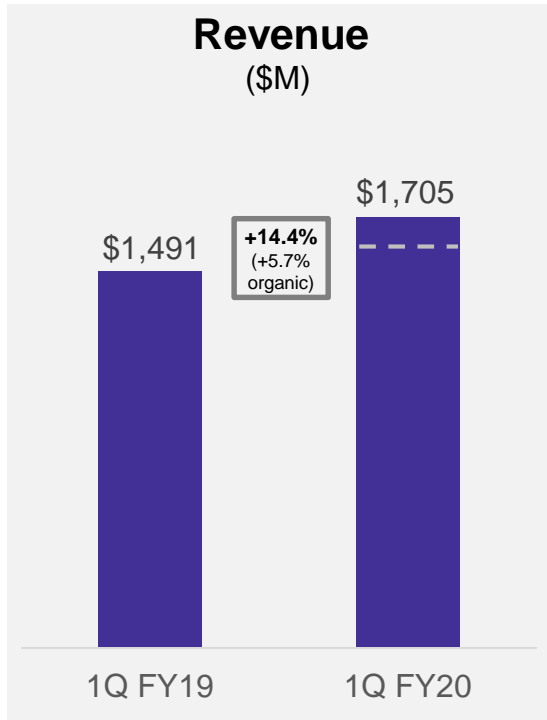
Leidos 1Q FY 20 Results



Note 1: Dotted line represents organic revenue for the quarter; see appendix for calculation of organic revenue growth

Note 2: See appendix for definition & reconciliation of Non-GAAP Financial Measures

Defense Solutions Segment

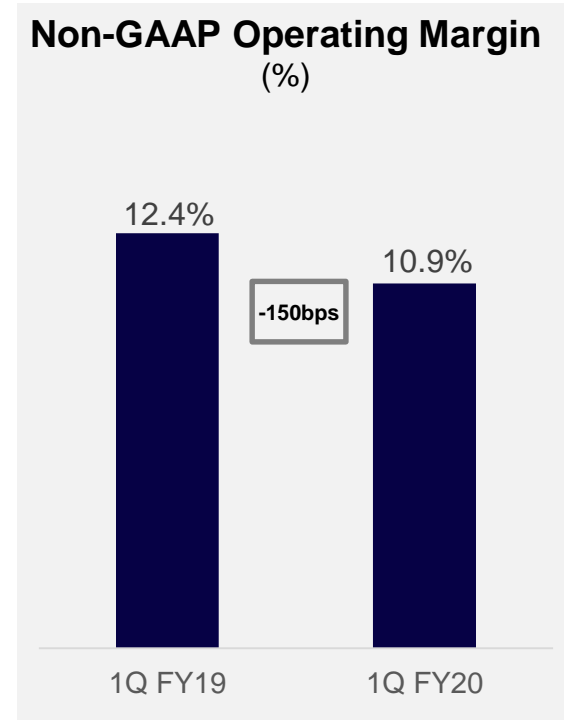
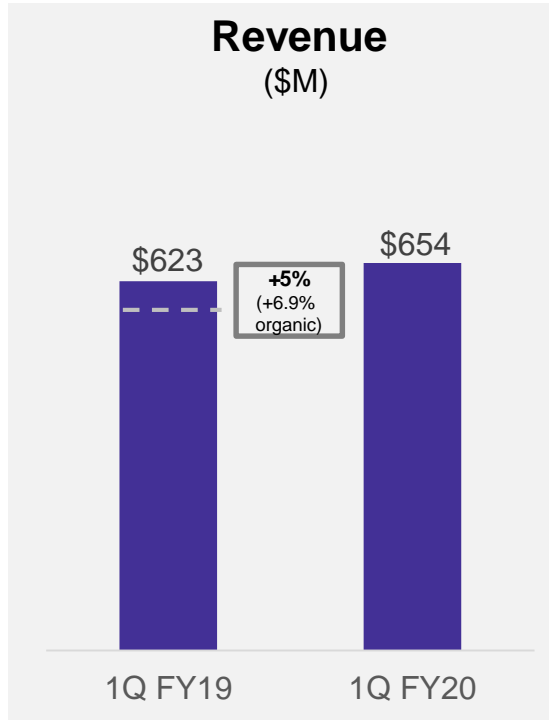


Note 1: Dotted line represents organic revenue for the quarter; see appendix for calculation of organic revenue growth

Note 2: See appendix for definition & reconciliation of Non-GAAP Financial Measures

(1) Prior year amounts have been recast for the contracts that were reassigned between the Defense Solutions and Civil reportable segments.

Civil Segment

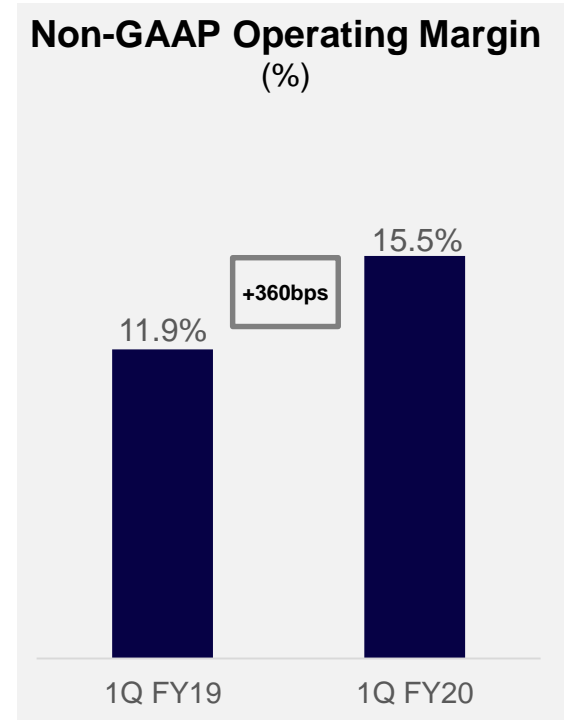


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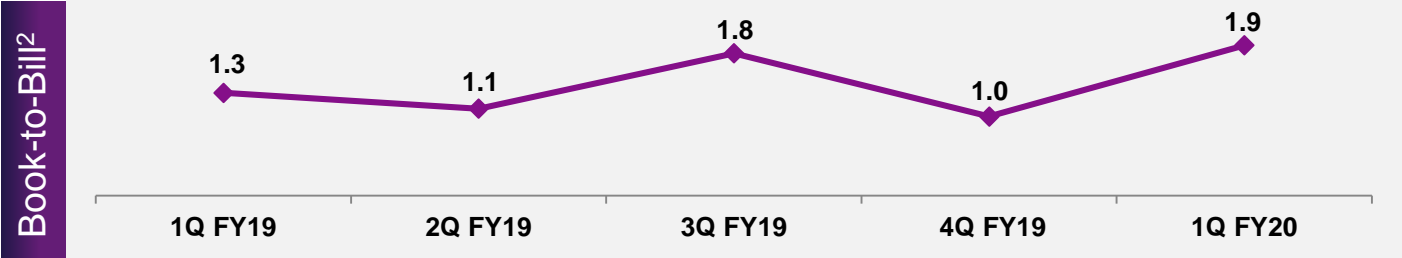
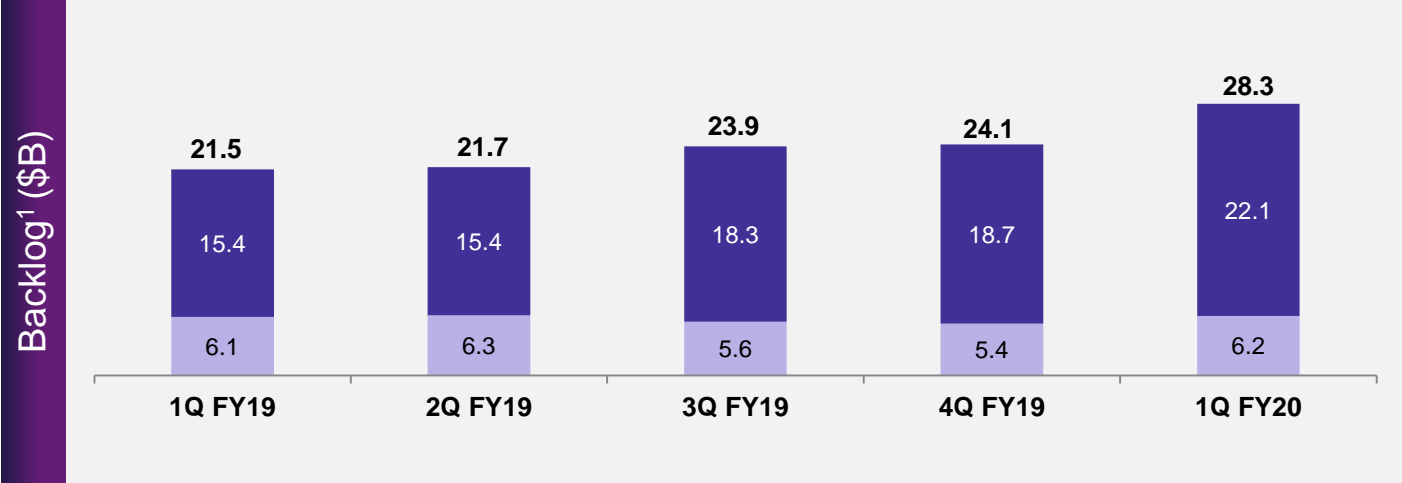
Health Segment



Note 1: Dotted line represents organic revenue for the quarter; see appendix for calculation of organic revenue growth

Note 2: 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

	Current	Prior
Revenue	\$12.5B - \$12.9B	\$12.6B - \$13.0B
Adjusted EBITDA Margin⁽¹⁾	9.8% - 10.0%	10.0% - 10.2%
Non-GAAP Diluted EPS^(1,2)	\$5.00 - \$5.30	\$5.30 - \$5.65
Operating Cash Flow	Meet or exceed \$1.0B ⁽³⁾	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 22%. 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 acquisitions of Dynetics and the L3Harris Security Detection and Automation businesses.

Acquisition of L3 Harris' Security Detection & Automation Businesses

Accretive Transaction Successfully Closed

- Transaction closed on 5/4/2020
- Cash consideration of \$1.0 billion funded through a combination of cash on hand and two-year term loan
- Immediately accretive to revenue growth, adjusted EBITDA margin, and non-GAAP diluted EPS

Guidance Assumptions

- ~\$290M revenue contribution in 2020 at mid-teens adjusted EBITDA margins
- Transaction results in incremental ~\$1 billion of 2-year debt, for a post-close net leverage ratio of 3.7x
- Incremental interest expense of \$37M from the additional debt is included in the revised EPS guidance

Deal Thesis

- Strong presence in security and automation market strengthens Leidos' positioning in high growth, high margin products
- Diversifies revenue through increased international footprint
- Growth and innovation accelerated by scale

Guidance Assumptions

Business Specific Factors

- ~\$290M of Security Detection & Automation acquisition revenue contribution in 2020 at mid-teens adjusted EBITDA margins
- ~\$370M revenue impact for COVID & market uncertainties relative to prior guidance; expect majority of this to be recovered in 2021
- Return to previously closed customer work locations beginning in the 2nd quarter
- Return to normalized revenue, margin mix, and run-rate in 4th quarter
- Severity and duration of COVID-19 outbreak do not worsen beyond current estimates
- Supplier lead times and delivery costs do not degrade from current state

Customer Driven Factors

- Overwhelming majority of Leidos business continues to be deemed essential
- Procurement schedules are not further extended or cancelled
- Approvals for telework or alternate work arrangements remain in place

Budgetary Driven Factors

- Revenue to cash conversion cycle continues without delay or interruption
- Sufficient funding to support 'ready state' employees and subcontractors remains in place under Section 3610 of the CARES Act
- Funding for existing programs and new procurements is not re-prioritized to other agencies

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.
- ▶ Loss on debt modification – Represents the write-off of debt discount and debt issuance costs related to the termination of credit agreements entered into in August 2016 as a result of the debt modification.
- ▶ Gain on sale of business - Represents the net gain on sale of businesses

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.

Organic Revenue Calculation

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
	(dollars in millions)				
Defense Solutions					
Revenues, as reported	\$ 1,491	\$ 1,560	\$ 1,594	\$ 1,655	\$ 1,705
Dynetics actual revenues (Acquired on 1/31/2020)	-	-	-	-	129
Pro-forma revenues	\$ 1,491	\$ 1,560	\$ 1,594	\$ 1,655	\$ 1,576
YoY revenue growth on reported revenues					14.4%
YoY "Organic Revenue Growth" on pro-forma revenues					5.7%
Civil					
Revenues, as reported	\$ 623	\$ 667	\$ 733	\$ 773	\$ 654
Commercial Cybersecurity Business actual revenues (Divested on 2/20/2019)	11	-	-	-	-
Pro-forma revenues	\$ 612	\$ 667	\$ 733	\$ 773	\$ 654
YoY revenue growth on reported revenues					5.0%
YoY "Organic Revenue Growth" on pro-forma revenues					6.9%
Health					
Revenues, as reported	\$ 463	\$ 501	\$ 508	\$ 526	\$ 530
IMX actual revenues (Acquired on 8/15/2019)	-	-	12	6	11
Health Staff Augmentation Business actual revenues (Divested on 9/15/2019)	25	27	21	-	-
Pro-forma revenues	\$ 438	\$ 474	\$ 475	\$ 520	\$ 519
YoY revenue growth on reported revenues					14.5%
YoY "Organic Revenue Growth" on pro-forma revenues					18.5%
Total Operations					
Revenues, as reported	\$ 2,577	\$ 2,728	\$ 2,835	\$ 2,954	\$ 2,889
Total Dynetics, Commercial Cyber, IMX & Health Staff Augmentation actual revenues	36	27	33	6	140
Pro-forma revenues	\$ 2,541	\$ 2,701	\$ 2,802	\$ 2,948	\$ 2,749
YoY revenue growth on reported revenues					12.1%
YoY "Organic Revenue Growth" on pro-forma revenues					8.2%

Non-GAAP Operating Income Reconciliation

	1QFY19	2QFY19	3QFY19	4QFY19	FY19	1QFY20
	(in millions)					
Operating income	\$ 192	\$ 210	\$ 249	\$ 261	\$ 912	\$ 192
Acquisition, integration and restructuring costs	2	1	-	2	5	12
Amortization of acquired intangibles	42	43	43	43	171	42
Amortization of equity method investment	3	2	3	3	11	-
Non-GAAP operating income	\$ 239	\$ 256	\$ 295	\$ 309	\$ 1,099	\$ 246
<i>Non-GAAP operating income margin</i>	9.3%	9.4%	10.4%	10.5%	9.9%	8.5%

Note: See definition of Non-GAAP Financial Measures on slide 14.

Reportable Segments Non-GAAP Operating Income Reconciliation

Quarter Ended April 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	\$ 95	\$ -	\$ 21	\$ -	\$ 116	
Civil	59	-	12	-	71	
Health	73	-	9	-	82	
Corporate	(35)	12	-	-	(23)	
Total	\$ 192	\$ 12	\$ 42	\$ -	\$ 246	

Quarter Ended March 29, 2019						
(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⁾	\$ 104	\$ -	\$ 16	\$ -	\$ 120	
Civil ⁽¹⁾	58	-	16	3	77	
Health	45	-	10	-	55	
Corporate	(15)	2	-	-	(13)	
Total	\$ 192	\$ 2	\$ 42	\$ 3	\$ 239	

(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

	1QFY19	2QFY19	3QFY19	4QFY19	FY19	1QFY20
	(in millions, except per share amounts)					
Non-GAAP operating income	\$ 239	\$ 256	\$ 295	\$ 309	\$ 1,099	\$ 246
Depreciation expense	15	14	16	16	61	18
Other income (expense), net	4	3	(7)	(1)	(1)	5
Amortization of internally developed intangible assets	1	-	-	1	2	1
Adjusted EBITDA	\$ 259	\$ 273	\$ 304	\$ 325	\$ 1,161	\$ 270
Depreciation expense	(15)	(14)	(16)	(16)	(61)	(18)
Interest expense, net	(38)	(33)	(28)	(32)	(131)	(46)
Income tax expense adjusted to reflect non-GAAP adjustments	(39)	(54)	(62)	(59)	(214)	(34)
Amortization of internally developed intangible assets	(1)	-	-	(1)	(2)	(1)
Non-GAAP net income	\$ 166	\$ 172	\$ 198	\$ 217	\$ 753	\$ 171
Less: net income attributable to non-controlling interest	-	2	1	-	3	-
Non-GAAP net income attributable to Leidos Holdings, Inc.	\$ 166	\$ 170	\$ 197	\$ 217	\$ 750	\$ 171
Acquisition, integration and restructuring costs	(2)	(1)	-	(2)	(5)	(12)
Amortization of acquired intangibles	(42)	(43)	(43)	(43)	(171)	(42)
Acquisition related financing costs	-	-	-	(2)	(2)	(2)
Gain (loss) on sale of business	88	(1)	-	1	88	-
Loss on debt modification	-	-	-	-	-	(19)
Amortization of equity method investment	(3)	(2)	(3)	(3)	(11)	-
Adjustment to the income tax provision to reflect non-GAAP adjustments ⁽¹⁾	(18)	13	10	13	18	19
Net income attributable to Leidos Holdings, Inc.	\$ 189	\$ 136	\$ 161	\$ 181	\$ 667	\$ 115
Non-GAAP diluted EPS attributable to Leidos Holdings, Inc.⁽²⁾	\$ 1.13	\$ 1.16	\$ 1.36	\$ 1.51	\$ 5.17	\$ 1.19
Total adjustments from non-GAAP income	0.16	(0.23)	(0.25)	(0.25)	(0.57)	(0.39)
Diluted EPS attributable to Leidos Holdings, Inc.⁽²⁾	\$ 1.29	\$ 0.93	\$ 1.11	\$ 1.26	\$ 4.60	\$ 0.80
Diluted shares (for computing non-GAAP EPS)	147	146	145	144	145	144

Note: See definition of Non-GAAP Financial Measures on slide 14

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

(2) Earnings per share are computed independently for each of the quarters presented and therefore may not sum to the total for the fiscal year.

Non-GAAP Financial Measures Reconciliation (cont'd)

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

	As reported	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Acquisition related financing costs	Loss on debt modification	Non-GAAP results
Operating income	\$ 192	\$ 12	\$ 42	\$ -	\$ -	\$ 246
Non-operating expense, net	(62)	-	-	2	19	(41)
Income before income taxes	130	12	42	2	19	205
Income tax expense ⁽¹⁾	(15)	(3)	(10)	(1)	(5)	(34)
Net income attributable to Leidos common stockholders	\$ 115	\$ 9	\$ 32	\$ 1	\$ 14	\$ 171
Diluted EPS attributable to Leidos common stockholders	\$ 0.80	\$ 0.06	\$ 0.22	\$ 0.01	\$ 0.10	\$ 1.19
Diluted shares	144	144	144	144	144	144
Income before income taxes	\$ 130	\$ 12	\$ 42	\$ 2	\$ 19	\$ 205
Depreciation expense	18	-	-	-	-	18
Amortization expense	43	-	(42)	-	-	1
Interest expense, net	48	-	-	(2)	-	46
EBITDA	\$ 239	\$ 12	\$ -	\$ -	\$ 19	\$ 270
EBITDA margin	8.3%					9.3%

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