



# Leidos 4Q 2017 Earnings Conference Call

February 22, 2018



# 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, EBITDA margins (including on a non-GAAP basis), operating income, earnings, earnings per share (including on a non-GAAP basis), charges, backlog, bookings, contract values, outstanding shares and cash flows, 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 the guidance and other forward-looking statements made in this release 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; 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 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 22, 2018. 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.

# FY 2017 Highlights

## Strong Operational Execution

- ▶ 10.4% Adjusted EBITDA Margin, 145bps improvement yoy
- ▶ Non-GAAP Diluted Earnings per Share: \$3.72
- ▶ >\$350M cost synergy realization

## Positioned for Growth

- ▶ Lean cost structure & innovative technical capabilities
- ▶ \$17.5 billion backlog
- ▶ \$24 billion in submitted proposals outstanding

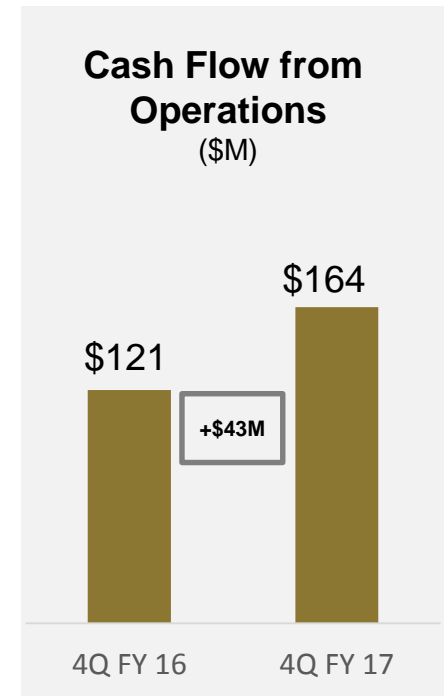
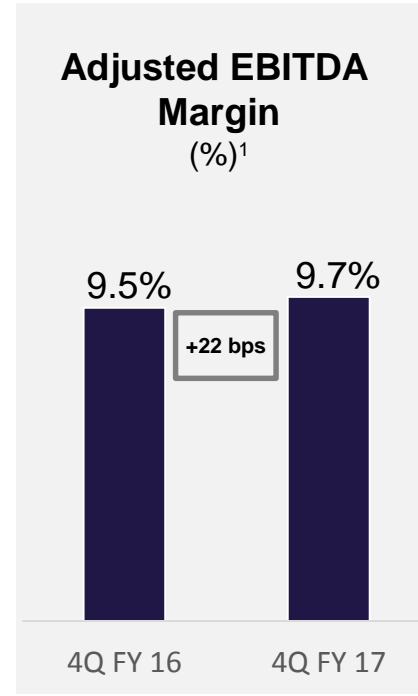
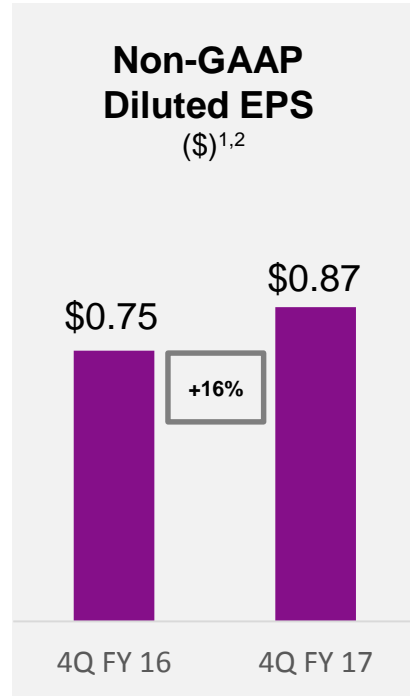
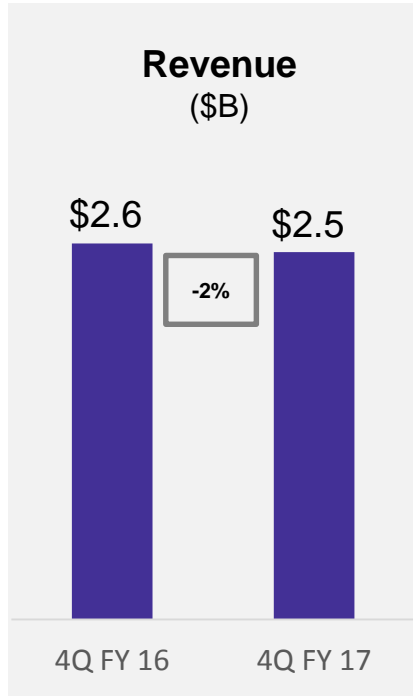
## Balanced Capital Deployment

- ▶ \$526M of Cash Flow from Operations
- ▶ \$81M of Capex; \$445M Free Cash Flow<sup>(1)</sup>
- ▶ Balanced Deployment:
  - ▶ ~50% debt reduction
  - ▶ ~50% return to shareholders

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

(1) Free Cash Flow = Cash from Operations (\$526M) minus Capex (\$81M)

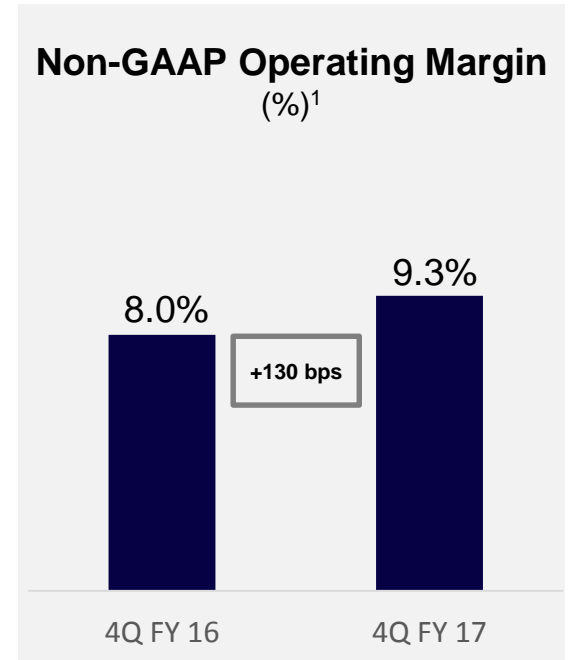
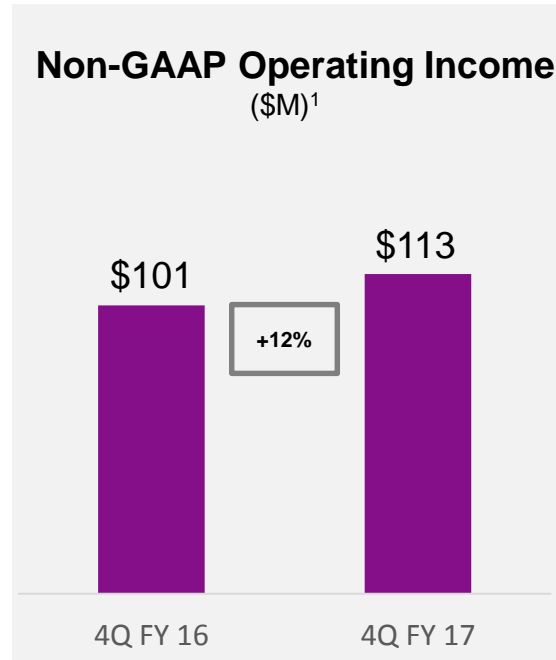
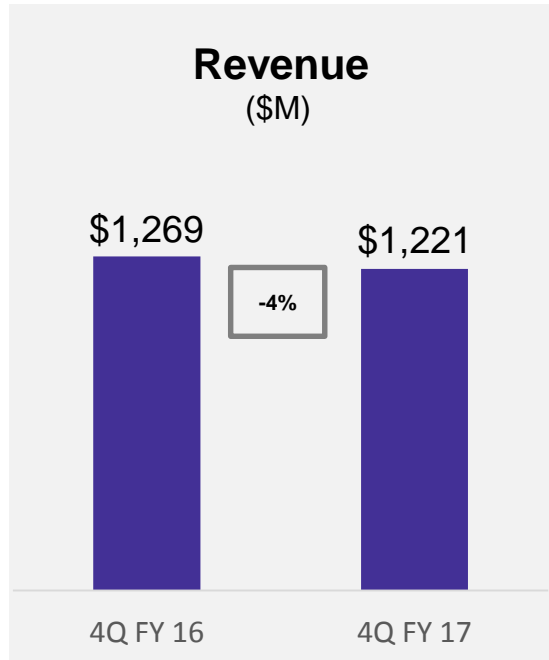
# Leidos 4Q FY 17 Results



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

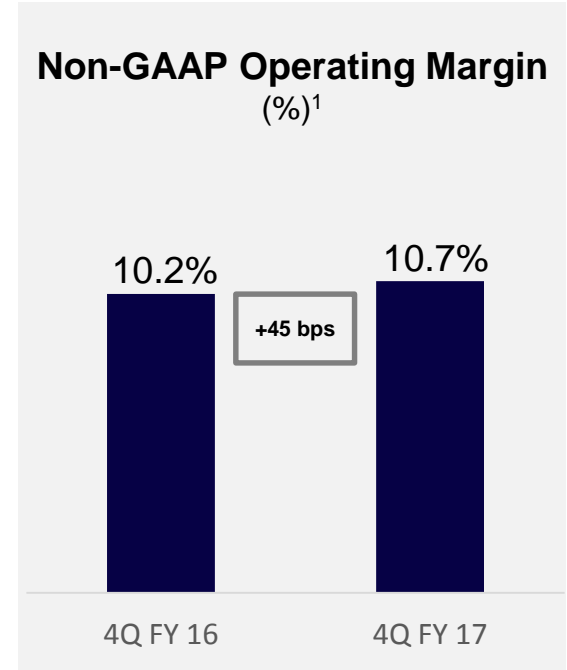
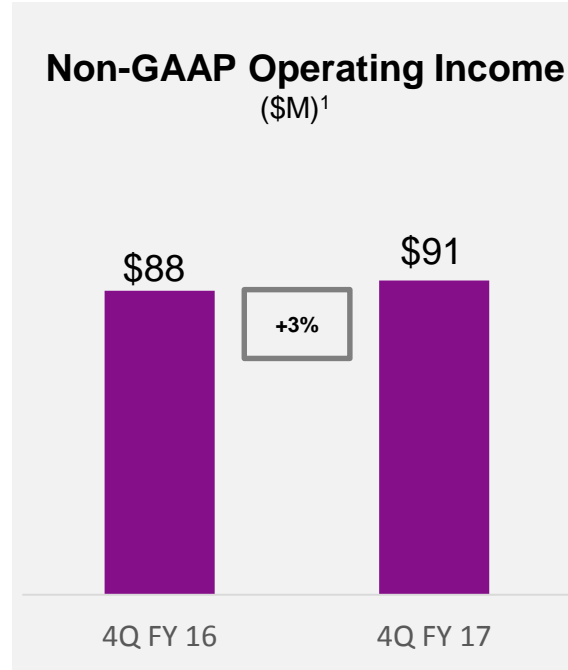
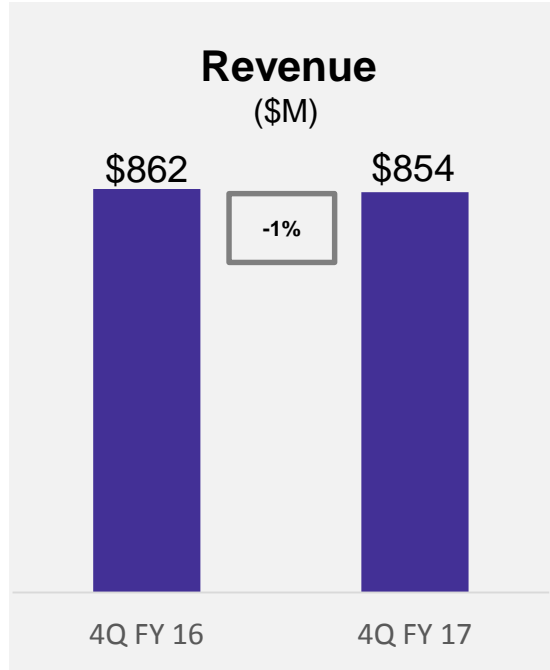
(2) "Tax Act" legislation enabled benefit of \$0.75 cents excluded from 4Q FY17 Non-GAAP Diluted EPS

# Defense Solutions Segment



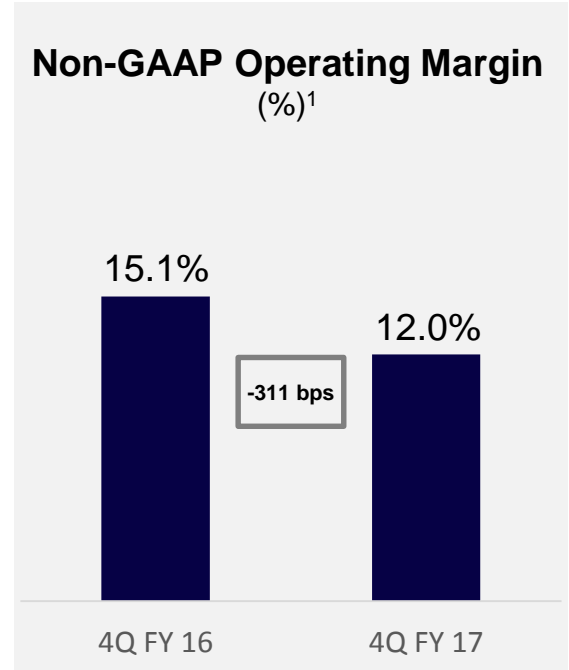
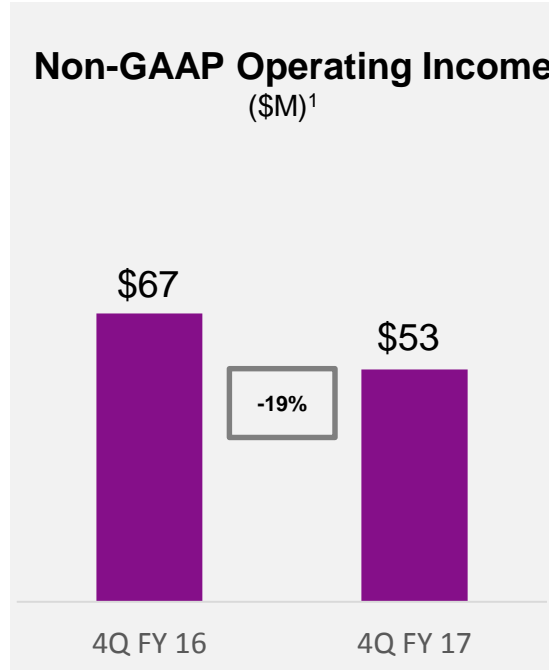
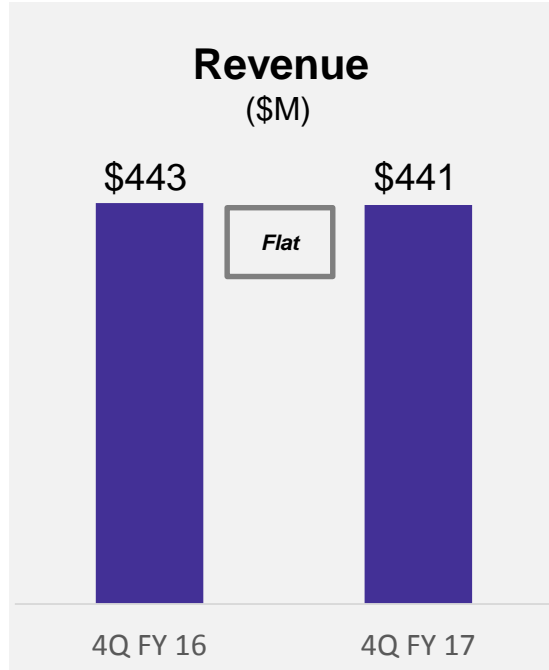
(1) See appendix for definition & reconciliation of Non-GAAP Financial Measures

# Civil Segment



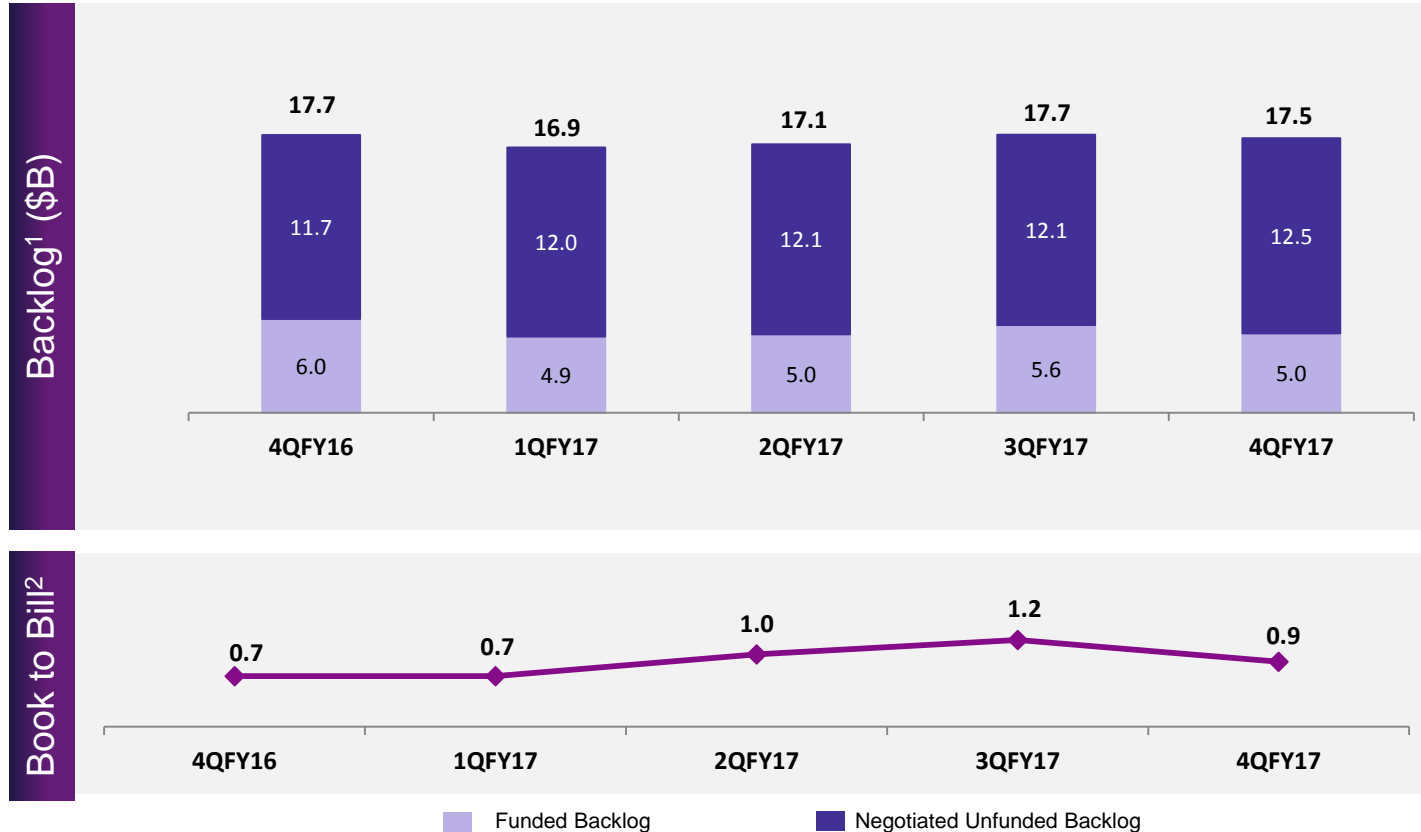
(1) See appendix for definition & reconciliation of Non-GAAP Financial Measures

# Health Segment



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

# Backlog & Book to Bill



(1) Backlog presented at exchange rate in effect at quarter end  
(2) Book to bill excludes the impact of currency fluctuations on backlog



# 2018 Guidance

Current	
<b>Revenue</b>	\$10.25B to \$10.65B
<b>Adjusted EBITDA Margin<sup>(1)</sup></b>	10.1% to 10.4%
<b>Non-GAAP Diluted EPS<sup>(1,2)</sup></b>	\$4.15 to \$4.50
<b>Operating Cash Flow</b>	Meet or exceed \$675M <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) Embeds 2018 Non-GAAP Effective Tax Rate in the range of 23% to 24%
- (3) \$675M of Operating Cash Flow includes \$75M cash impact of transaction & integration costs

# Appendix

# Non-GAAP Financial Measures

This presentation includes certain non-GAAP financial measures, such as non-GAAP operating income, non-GAAP operating income margin, non-GAAP diluted earnings per share (EPS), adjusted earnings before interest, taxes, depreciation and amortization (EBITDA), and adjusted EBITDA margin.

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.

# Definition of Non-GAAP Financial Measures

Non-GAAP operating income is computed by excluding the following items from net income: (i) other (expense) income, net; (ii) interest expense; (iii) interest income; (iv) the following discrete items (referred to as non-GAAP adjustments); and (v) income tax benefit (expense) adjusted to reflect the non-GAAP adjustments.

- ▶ 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 of the fair value of the acquired intangible assets.
- ▶ Restructuring expenses - Represents costs associated with lease termination and severance costs related to the Company's acquisition of the IS&GS Business and other Corporate mandated activities.
- ▶ Amortization of equity method investments - Represents the amortization of the fair value of equity method investments acquired with the IS&GS Business.
- ▶ Tax purchase accounting adjustments - Represents the tax purchase accounting adjustments related to the IS&GS acquisition.
- ▶ Gains and losses on sale 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.
- ▶ Promissory note impairment - Represents an impairment on a promissory note.
- ▶ Impact of Tax Act - Represents the cumulative impact from the federal government enacted Tax Act.

Non-GAAP operating margin is computed by dividing non-GAAP operating income by revenue.

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.

# Non-GAAP Operating Income Reconciliation

	1QFY16	2QFY16	3QFY16	4QFY16	FY16	1QFY17	2QFY17	3QFY17	4QFY17	FY17
	(in millions)									
<b>Operating income</b>	\$ 89	\$ 75	\$ 101	\$ 152	\$ 417	\$ 141	\$ 166	\$ 151	\$ 101	\$ 559
Acquisition and integration costs	9	15	44	22	90	19	16	21	46	102
Amortization of acquired intangible assets	1	2	27	54	84	69	67	76	69	281
Asset impairment charges	-	-	-	4	4	-	-	-	-	-
Restructuring expenses	-	1	5	8	14	13	6	6	12	37
Amortization of equity method investments	-	-	-	-	-	-	9	2	3	14
<b>Non-GAAP operating income</b>	\$ 99	\$ 93	\$ 177	\$ 240	\$ 609	\$ 242	\$ 264	\$ 256	\$ 231	\$ 993
<i>Non-GAAP operating income margin</i>	7.5%	7.2%	9.5%	9.3%	8.6%	9.4%	10.3%	10.2%	9.2%	9.8%

Note: See definition of non-GAAP operating income on slide 12.

# Non-GAAP Financial Measures Reconciliation

	1QFY16 <sup>1</sup>	2QFY16	3QFY16	4QFY16	FY16	1QFY17	2QFY17	3QFY17	4QFY17	FY17
	(in millions, except per share amounts)									
<b>Non-GAAP operating income</b>	\$ 99	\$ 93	\$ 177	\$ 240	\$ 609	\$ 242	\$ 264	\$ 256	\$ 231	\$ 993
Depreciation expense	7	7	10	14	38	13	13	16	13	55
Other (expense) income, net	(2)	(5)	(1)	(10)	(18)	3	4	-	1	8
<b>Adjusted EBITDA</b>	\$ 104	\$ 95	\$ 186	\$ 244	\$ 629	\$ 258	\$ 281	\$ 272	\$ 245	\$ 1,056
Depreciation expense	(7)	(7)	(10)	(14)	(38)	(13)	(13)	(16)	(13)	(55)
Interest expense, net	(11)	(13)	(25)	(37)	(86)	(36)	(34)	(35)	(35)	(140)
Income tax (expense) benefit adjusted to reflect non-GAAP adjustments	(29)	(25)	(7)	(77)	(138)	(73)	(75)	(78)	(64)	(290)
<b>Non-GAAP net income</b>	\$ 57	\$ 50	\$ 144	\$ 116	\$ 367	\$ 136	\$ 159	\$ 143	\$ 133	\$ 571
Less: net income (loss) attributable to non-controlling interest	-	-	1	1	2	2	-	(3)	(1)	(2)
<b>Non-GAAP net income attributable to Leidos Holdings, Inc.</b>	\$ 57	\$ 50	\$ 143	\$ 115	\$ 365	\$ 134	\$ 159	\$ 146	\$ 134	\$ 573
Acquisition and integration costs	(9)	(15)	(44)	(22)	(90)	(19)	(16)	(21)	(46)	(102)
Amortization of acquired intangible assets	(1)	(2)	(27)	(54)	(84)	(69)	(67)	(76)	(69)	(281)
Gain (loss) on sale of assets and businesses	2	3	-	-	5	-	(1)	-	-	(1)
Restructuring expenses	-	(1)	(5)	(8)	(14)	(13)	(6)	(6)	(12)	(37)
Asset impairment charges	-	-	-	(4)	(4)	-	-	-	-	-
Amortization of equity method investments	-	-	-	-	-	-	(9)	(2)	(3)	(14)
Promissory note impairment	-	-	-	-	-	-	-	-	(33)	(33)
Adjustment to the income tax provision to reflect non-GAAP adjustments <sup>2</sup>	4	6	24	32	66	39	38	41	143	261
<b>Net income attributable to Leidos Holdings, Inc.</b>	\$ 53	\$ 41	\$ 91	\$ 59	\$ 244	\$ 72	\$ 98	\$ 82	\$ 114	\$ 366
<b>Non-GAAP diluted EPS attributable to Leidos Holdings, Inc.</b>	\$ 0.77	\$ 0.68	\$ 1.25	\$ 0.75	\$ 3.51	\$ 0.88	\$ 1.04	\$ 0.95	\$ 0.87	\$ 3.72
Total adjustments from non-GAAP income	(0.05)	(0.13)	(0.45)	(0.36)	(1.16)	(0.41)	(0.40)	(0.42)	(0.13)	(1.34)
<b>Diluted EPS attributable to Leidos Holdings, Inc.</b>	\$ 0.72	\$ 0.55	\$ 0.80	\$ 0.39	\$ 2.35	\$ 0.47	\$ 0.64	\$ 0.53	\$ 0.74	\$ 2.38
Diluted shares (for computing non-GAAP EPS)	74	74	114	153	104	153	153	154	154	154

(1) Prior period has been recast to reflect the adoption of ASU 2016-09 *Stock Compensation*.

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

# Segment Non-GAAP Operating Income Reconciliation

Twelve Months Ended December 29, 2017

	(in millions)					
	Operating income (loss)	Acquisition and integration costs	Amortization of intangibles	Restructuring expenses	Amortization of equity method investments	Non-GAAP operating income (loss)
Defense Solutions	\$ 307	\$ -	\$ 108	\$ -	\$ 3	\$ 418
Civil	226	-	132	-	11	369
Health	228	-	41	-	-	269
Corporate	(202)	102	-	37	-	(63)
Total	\$ 559	\$ 102	\$ 281	\$ 37	\$ 14	\$ 993

Twelve Months Ended December 30, 2016

	(in millions)					
	Operating income (loss)	Acquisition and integration costs	Amortization of intangibles <sup>1</sup>	Restructuring expenses	Asset impairment charges	Non-GAAP operating income (loss)
Defense Solutions	\$ 312	\$ -	\$ 17	\$ -	\$ -	\$ 329
Civil	146	-	39	-	-	185
Health	110	-	28	-	-	138
Corporate	(151)	90	-	14	4	(43)
Total	\$ 417	\$ 90	\$ 84	\$ 14	\$ 4	\$ 609

(1) Amortization was based on the preliminary fair value of the acquired intangibles and was subject to change once purchase accounting was finalized.