



Leidos Q3 FY23 Earnings Conference Call

OCTOBER 31, 2023

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 our 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; rising 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.

All information in this release is as of October 31, 2023. 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

Strong Q3

- Revenues up 9% YoY
- Adjusted EBITDA margin of 11.5%
- Non-GAAP diluted earnings per share up 28% YoY
- Operating cash flow of \$795 million

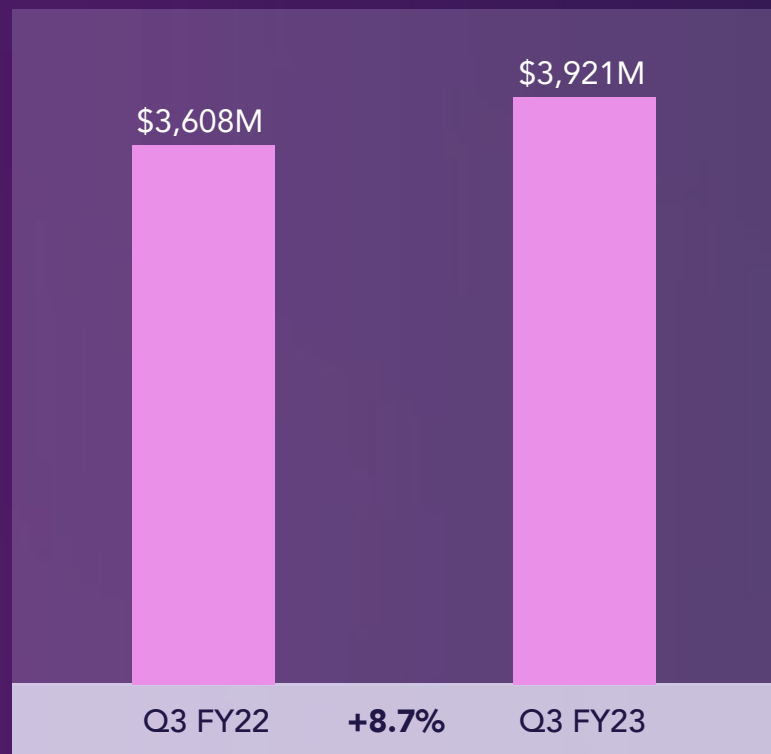
Raising 2023 Guidance for all Metrics

Substantial Progress on Performance Improvement Initiatives

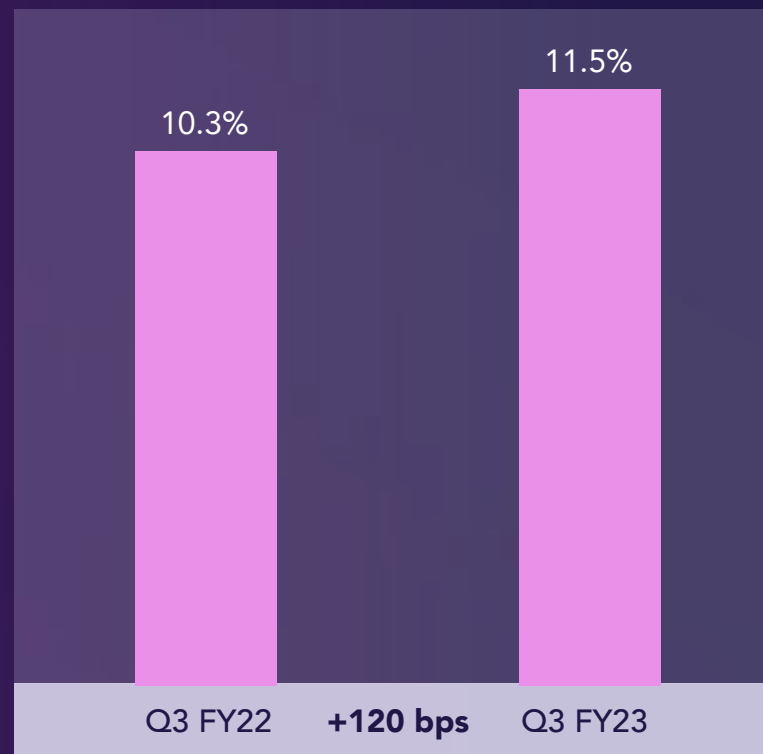
CULTURE OF ACCOUNTABILITY	ACQUISITION PERFORMANCE	BUSINESS DEVELOPMENT	STRATEGIC SHARPENING
Promises made, promises kept	Drive predictability, raise performance floor	Record bookings and backlog	Simplified, focused organization structure
"Quarter-by-quarter" disciplined drumbeat	Discontinue unprofitable, risky business	Quality wins support growth and margin	Reallocating BD resources
Candid conversations; decisive actions	SES \$688M non-cash charge; better growth outlook	Cyber/AI differentiators drive success	Disciplined shareholder returns—increase dividend

Q3 FY23 RESULTS: INCOME STATEMENT

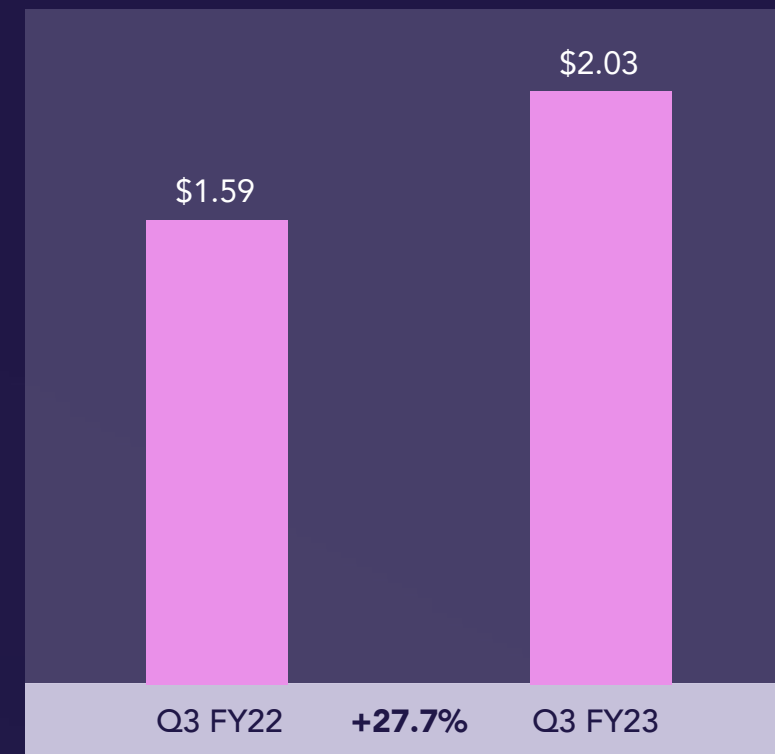
Revenues



Adjusted EBITDA Margin

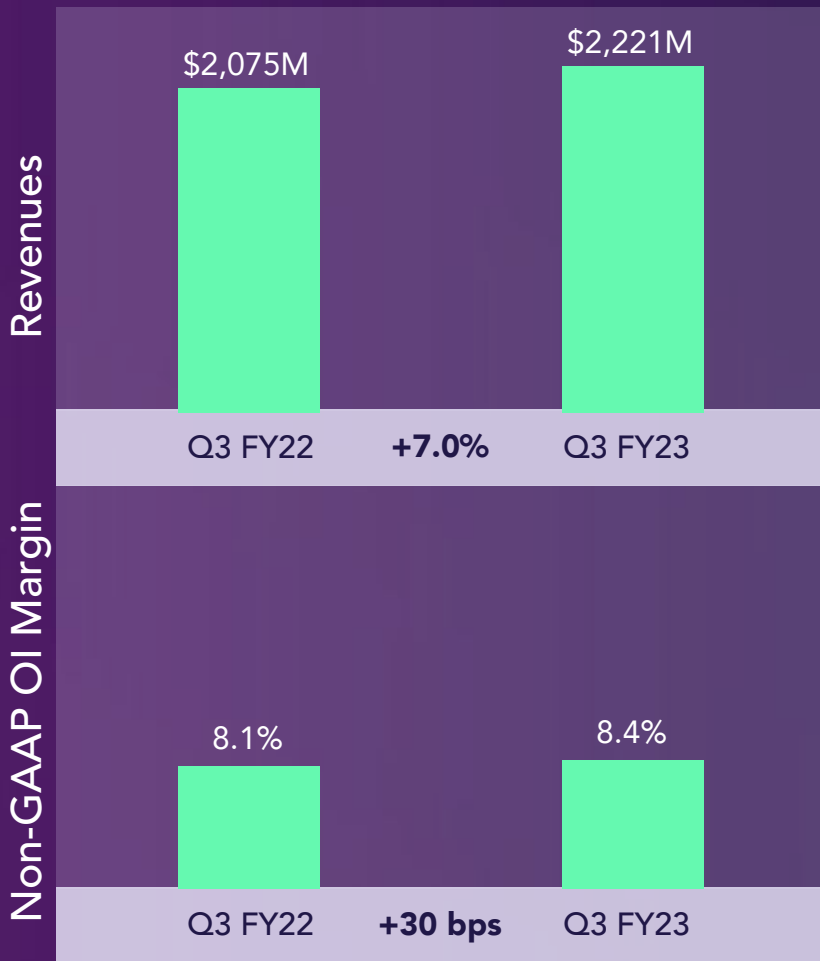


Non-GAAP Diluted EPS

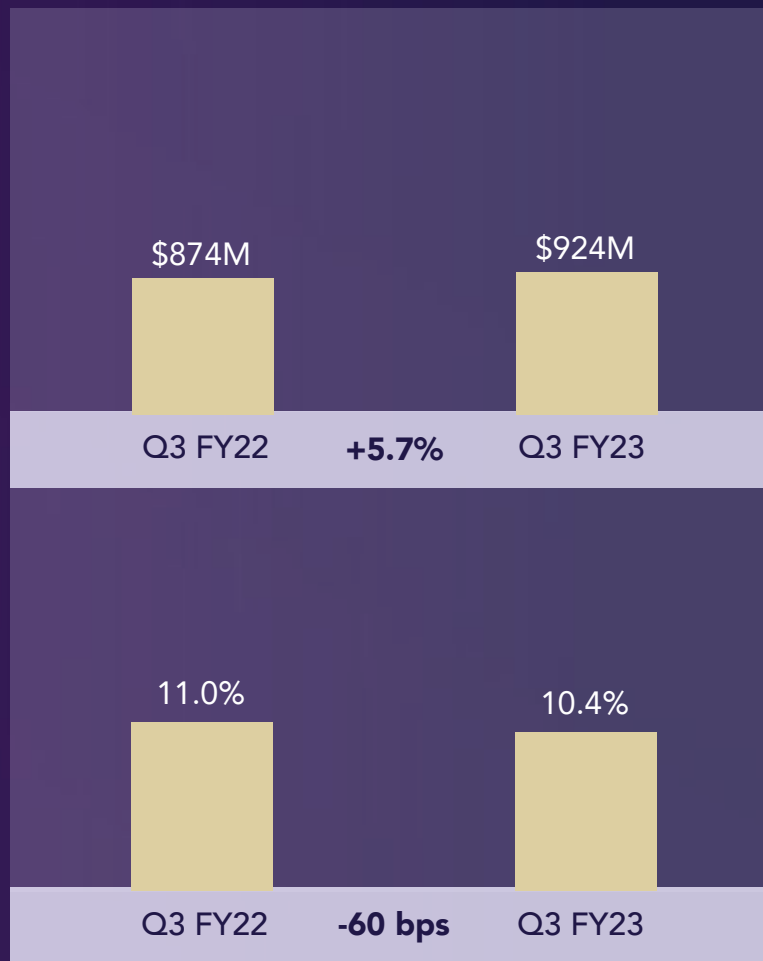


Q3 FY23 RESULTS: REPORTABLE SEGMENTS

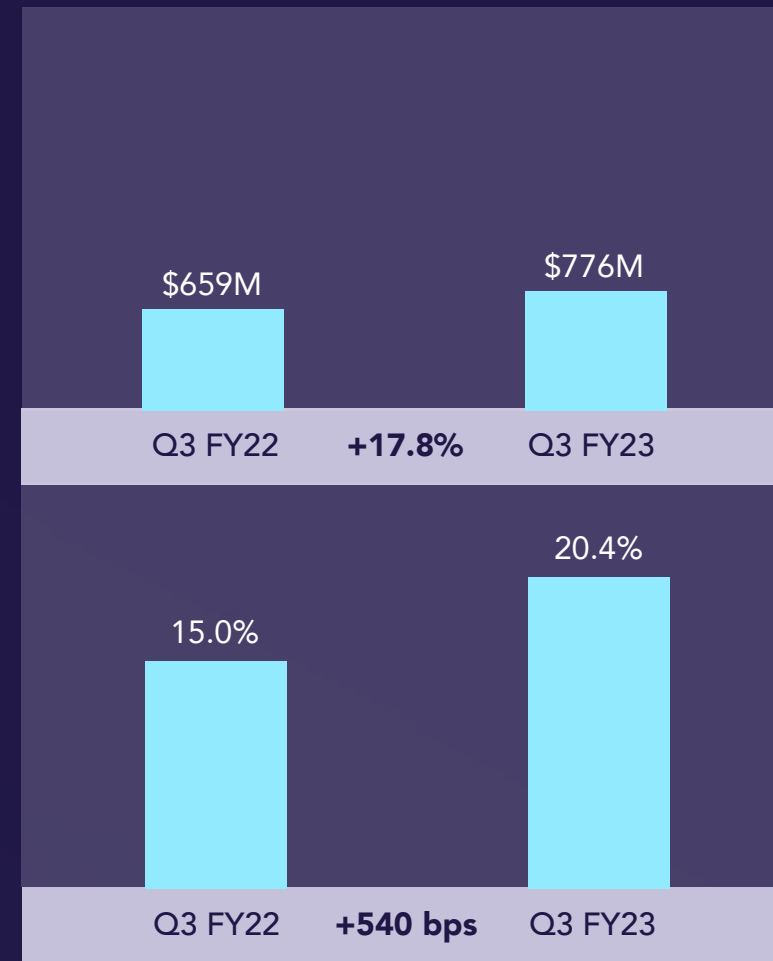
Defense Solutions



Civil



Health



Q3 FY23 RESULTS: CASH FLOW / BALANCE SHEET

Cash Flow Generation

Cash flow generation due to working capital management and strong collections aided by Government FYE

- Operating cash flow **\$795M**
- Non-GAAP free cash flow **\$745M**
- DSO of 57 days, 2-day improvement sequentially

Capital Deployment

Following balanced long-term approach to capital deployment

- Total return to shareholders **\$51M**
- CapEx & net debt repayment **\$255M**
- Increased dividend by 6% to \$0.38

Balance Sheet

Below target leverage ratio (3.0x gross)

- Strong liquidity **>\$1.5B**
- Total debt **\$4.7B**
- Leverage ratio (net) **2.4x**
- Leverage ratio (gross) **2.9x**

2023 GUIDANCE

MEASURE	CURRENT	PRIOR
Revenues (billions)	\$15.1 - \$15.3	\$14.9 - \$15.2
Adjusted EBITDA Margin	10.5% - 10.7%	10.1% - 10.5%
Non-GAAP Diluted EPS	\$6.80 - \$7.10	\$6.40 - \$6.80
Cash Flows Provided by Operating Activities (millions)	at or above \$850	at or above \$700

Raise Guidance on all Metrics

- Revenues: +\$150M at midpoint
- Adjusted EBITDA margin: +30 basis points at midpoint
- Non-GAAP diluted EPS: +\$0.35 at midpoint
- Operating Cash Flow: +\$150M at threshold

Key Assumptions

- Upper ends of guidance for revenues and non-GAAP diluted EPS assume no government shutdown; lower ends assume 45-day shut-down
- Impact of shut-down on cash flow is harder to predict; guidance assumes a modest disruption in cash flows from a government shut-down

APPENDIX

Non-GAAP Reconciliations

ORGANIC GROWTH

(in millions, except growth rates)	Q3 FY23	Q3 FY22	% Change
Defense Solutions			
Revenues, as reported	\$ 2,221	\$ 2,075	7%
Acquisition revenues ⁽¹⁾	28	—	
Organic revenues	\$ 2,193	\$ 2,075	6%
Civil			
Revenues, as reported	\$ 924	\$ 874	6%
Health			
Revenues, as reported	\$ 776	\$ 659	18%
Total Operations			
Revenues, as reported	\$ 3,921	\$ 3,608	9%
Acquisition revenues ⁽¹⁾	28	—	
Organic revenues	\$ 3,893	\$ 3,608	8%

Note:

1. Current period acquisition revenues reflect revenues for 12 months from closing of an acquisition

NON-GAAP INCOME METRICS

	Three Months Ended September 29, 2023						Three Months Ended September 30, 2022				
	As reported	Acquisition, integration and restructuring costs ⁽¹⁾	Amortization of acquired intangibles ⁽²⁾	Asset impairment charges	Goodwill impairment charges	Non-GAAP results	As reported	Acquisition, integration and restructuring costs ⁽¹⁾	Amortization of acquired intangibles ⁽²⁾	Derivative loss	Non-GAAP results
<i>(in millions, except per share amounts)</i>											
Operating (loss) income	\$ (336)	\$ 17	\$ 50	\$ 88	\$ 599	\$ 418	\$ 281	\$ 4	\$ 57	\$ —	\$ 342
Non-operating expense, net	(52)	—	—	—	—	(52)	(60)	—	—	16	(44)
(Loss) income before income taxes	(388)	17	50	88	599	366	221	4	57	16	298
Income tax expense ⁽³⁾	(8)	(1)	9	(11)	(72)	(83)	(57)	(1)	(15)	(4)	(77)
Net (loss) income	(396)	16	59	77	527	283	164	3	42	12	221
Less: net income attributable to non-controlling interest	3	—	—	—	—	3	2	—	—	—	2
Less: net income attributable to non-controlling interest	\$ (399)	\$ 16	\$ 59	\$ 77	\$ 527	\$ 280	\$ 162	\$ 3	\$ 42	\$ 12	\$ 219
Diluted EPS attributable to Leidos common stockholders	\$ (2.91)	\$ 0.12	\$ 0.43	\$ 0.56	\$ 3.82	\$ 2.03	\$ 1.17	\$ 0.02	\$ 0.31	\$ 0.09	\$ 1.59
Diluted shares	137	138	138	138	138	138	138	138	138	138	138
(Loss) income before income taxes	(388)	17	50	88	599	366	221	4	57	16	298
Depreciation expense	32	—	—	—	—	32	24	—	—	—	24
Amortization of intangibles	50	—	(50)	—	—	—	57	—	(57)	—	—
Interest expense, net	53	—	—	—	—	53	50	—	—	—	50
EBITDA	\$ (253)	\$ 17	\$ —	\$ 88	\$ 599	\$ 451	\$ 352	\$ 4	\$ —	\$ 16	\$ 372
EBITDA margin ⁽⁴⁾	(6.5)%					11.5%	9.8%				10.3%

Notes:

1. Acquisition, integration, and restructuring costs - represents acquisition, integration, lease termination, severance costs, 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. EBITDA divided by revenues (slide 5)

SEGMENT NON-GAAP OPERATING INCOME

Three Months Ended September 29, 2023

(in millions)	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 ⁽¹⁾
Defense Solutions	\$ 147	\$ 3	\$ 29	\$ —	\$ 8	\$ 187	8.4 %
Civil	(607)	9	15	599	80	96	10.4 %
Health	152	—	6	—	—	158	20.4 %
Corporate	(28)	5	—	—	—	(23)	NM
Total	\$ (336)	\$ 17	\$ 50	\$ 599	\$ 88	\$ 418	10.7 %

Three Months Ended September 30, 2022

(in millions)	Operating income (loss)	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Non-GAAP operating income (loss)	Non-GAAP operating margin ⁽¹⁾
Defense Solutions	\$ 137	\$ —	\$ 32	\$ 169	8.1 %
Civil	79	—	17	96	11.0 %
Health	91	—	8	99	15.0 %
Corporate	(26)	4	—	(22)	NM
Total	\$ 281	\$ 4	\$ 57	\$ 342	9.5 %

Notes:

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

NM - Not Meaningful

NON-GAAP FREE CASH FLOW

	Three Months Ended	
	September 29, 2023	September 30, 2022
<i>(in millions, except conversion ratio)</i>		
Net cash provided by operating activities ⁽¹⁾	\$ 795	\$ 729
Payments for property, equipment and software	(50)	(27)
Non-GAAP free cash flow	\$ 745	\$ 702
Net (loss) income attributable to Leidos common stockholders	\$ (399)	\$ 162
Acquisition, integration and restructuring costs ⁽²⁾⁽³⁾	16	3
Amortization of acquired intangibles ⁽²⁾	59	42
Goodwill impairment charges	527	—
Asset impairment charges	77	—
Derivative loss ⁽²⁾	—	12
Non-GAAP net income attributable to Leidos common stockholders	\$ 280	\$ 219
Operating cash flow conversion ratio ⁽³⁾	(199)%	450 %
Non-GAAP free cash flow conversion ratio ⁽⁴⁾	266 %	321 %

Notes:

1. Prior year financial information has been reclassified to reflect the effect of foreign exchange rate changes on cash, cash equivalents and restricted cash in net cash provided by operating activities
2. After-tax expenses excluded from non-GAAP net income
3. Net cash provided by operating activities divided by net income attributable to Leidos common stockholders
4. Free cash flow divided by non-GAAP net income attributable to Leidos common stockholders