



# Leidos 1Q 2021 Earnings Conference Call

May 4, 2021



# 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 and contract awards. 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: the impact of COVID-19 or future epidemics on our business, including the potential for facility closures, re-evaluation of U.S. government spending levels and priorities, delay of new contract awards, our ability to recover costs under contracts and insurance challenges; developments in the U.S. government defense and non-defense budgets, including budget reductions, sequestration, implementation of spending limits or changes in budgetary priorities, or delays in the U.S. government budget process or approval of raising the debt ceiling; 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 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; 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 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; 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; our ability to manage risks associated with our international business; exposure to lawsuits and contingencies associated with Lockheed Martin's Information Systems & Global Solutions business; 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 or other violations by us of their intellectual property rights; our ability to declare 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. This release also contains statements about the proposed acquisition of Gibbs & Cox, Inc. that are based on assumptions currently believed to be valid but involve significant risks and uncertainties, many of which are beyond our control, which could cause our actual results to differ materially from these forward-looking statements with respect to the transaction, including risks relating to anticipated tax treatment, ability to retain key personnel, the dependency of the transaction on market conditions and the impact of a change in market conditions on the value to be received in the transaction, unforeseen liabilities, future capital expenditures, uncertainty as to the expected financial condition and economic performance of the company following the closing, including future revenues, expenses, earnings, indebtedness, losses, prospects, business strategies for the management, expansion and growth of the company following the closing, our ability to integrate the businesses successfully and to achieve anticipated synergies, and the risk that disruptions from the transaction will harm our business. 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 May 4, 2021. 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 2021 Highlights

## Continued Revenue Growth

- Generated revenue of \$3.3B
- Delivered year-over-year revenue growth of 14.7%; 8.9% organic growth<sup>(1)</sup>
- Grew backlog to a record of \$32.6B; 1.2x book-to-bill & 1.3x TTM book-to-bill

## Strong Bottom Line Growth

- Achieved adjusted EBITDA margins of 11.7%
- Delivered year-over-year non-GAAP diluted EPS of \$1.73; growth of 45%

## Healthy Cash Flow Generation

- Generated cash flows from operations<sup>(2)</sup> of \$239M
- Delivered 86%<sup>(3)</sup> FCF conversion of adj. net income; 124%<sup>(4)</sup> on a 3-year basis

## Disciplined Cash Deployment

- Deployed \$430M year to date:
  - ~50% M&A
  - ~25% Open market share repurchase
  - ~25% Other (dividends, debt repayment, capex)

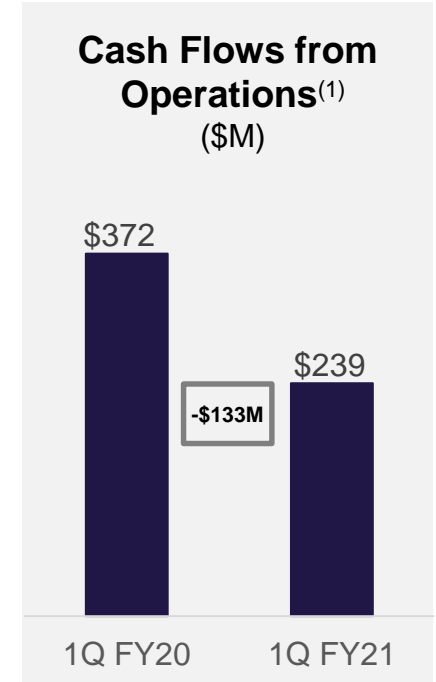
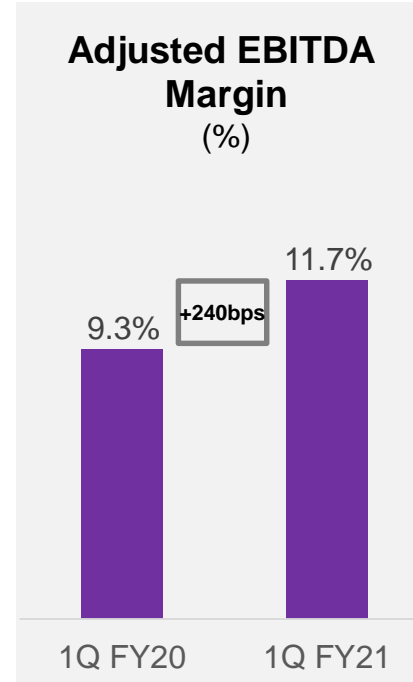
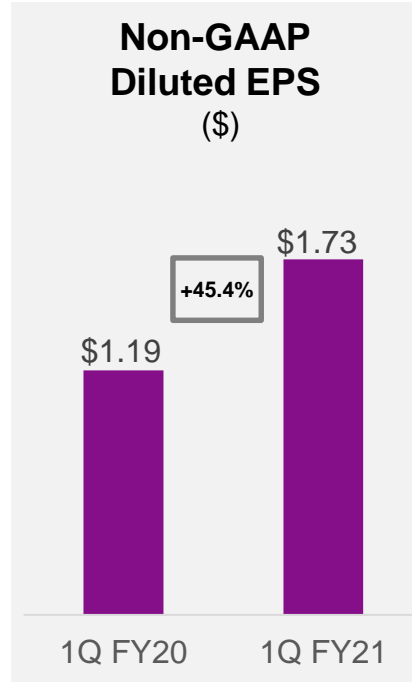
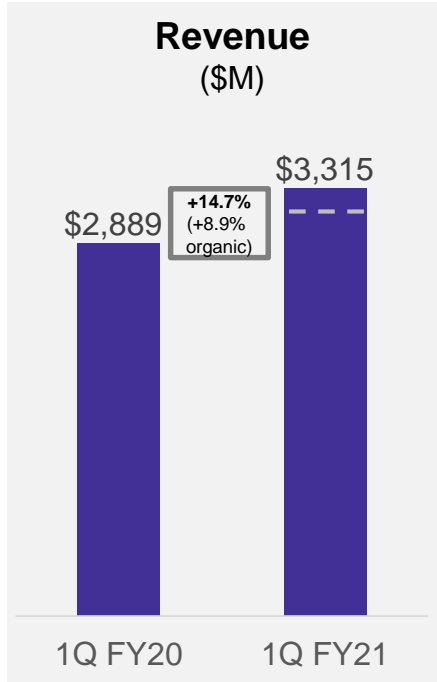
(1) See appendix slide 14 for calculation of organic revenue growth.

(2) 1Q FY21 cash flows from operations reflects \$94M contribution from account receivables monetization facility.

(3) 86% reflects 1Q FY21: [Cash Flow from Operations (\$239M) – Capex (\$26M)] / Non-GAAP Net Income (\$249M)

(4) 124% reflects 2Q FY18 – 1Q FY21: [Cash Flow from Operations (\$3,311M) – Capex (\$388M)] / Non-GAAP Net Income (\$2,350M)

# Leidos 1Q FY 21 Results

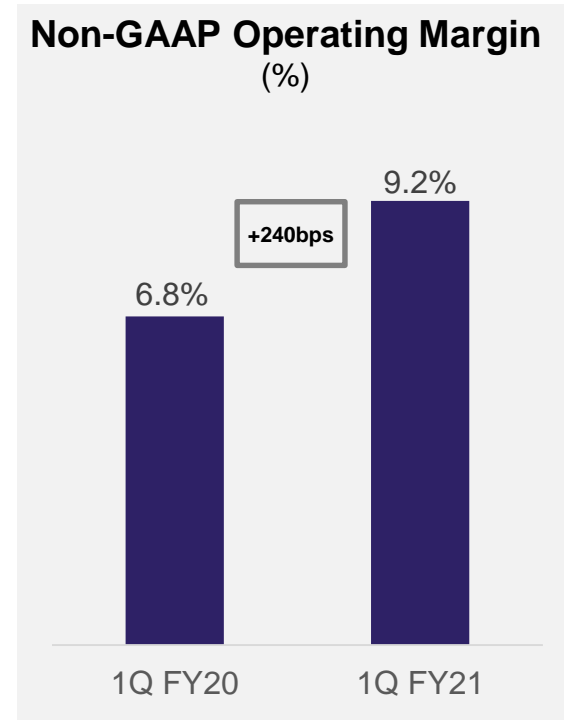
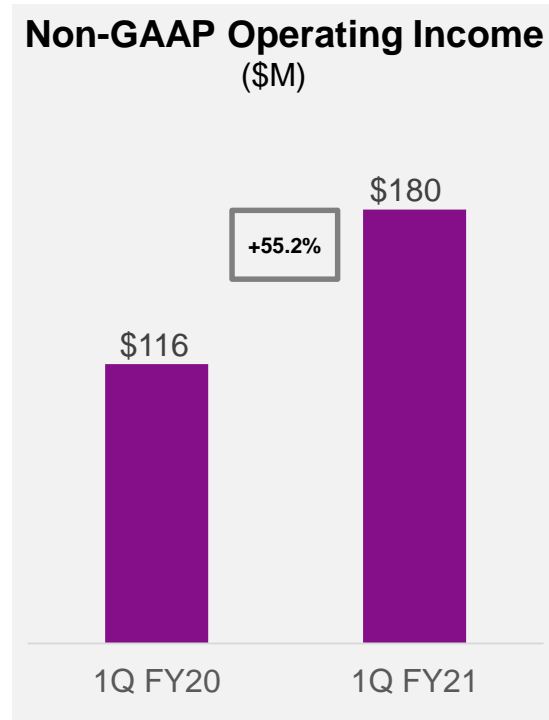
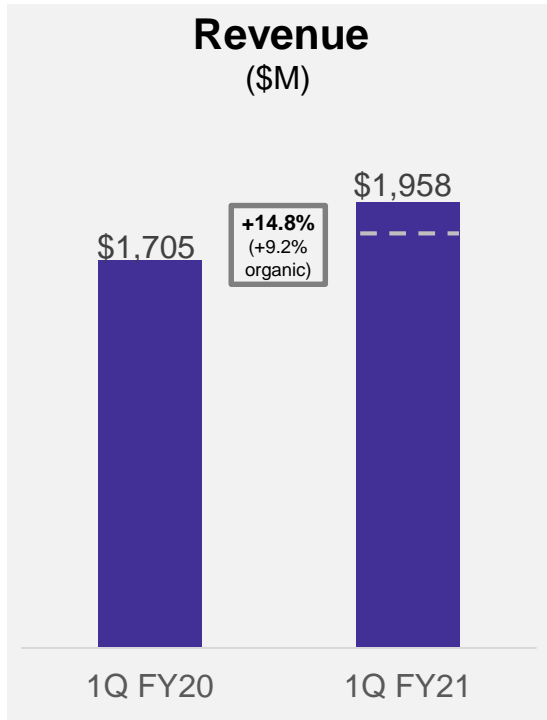


Note 1: Dotted line represents organic revenue for the quarter; see appendix for calculation of organic revenue growth

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

(1) Contribution from account receivables monetization facility was \$197M in 1Q FY20 and \$94M in 1Q FY21.

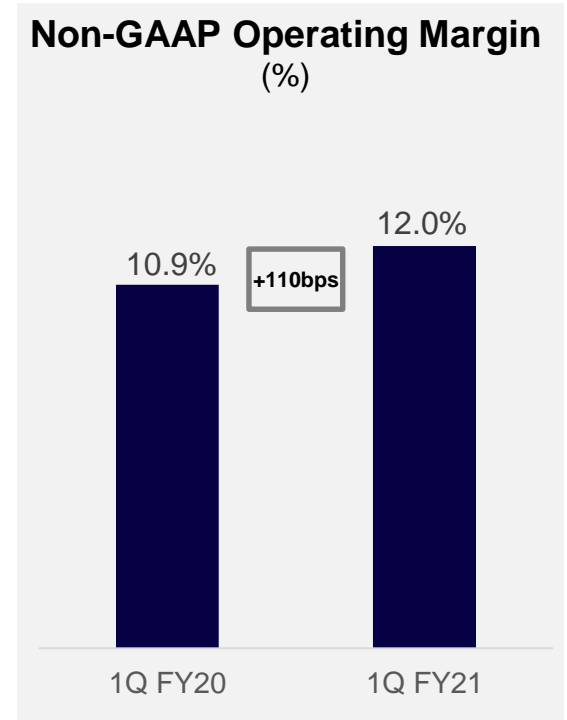
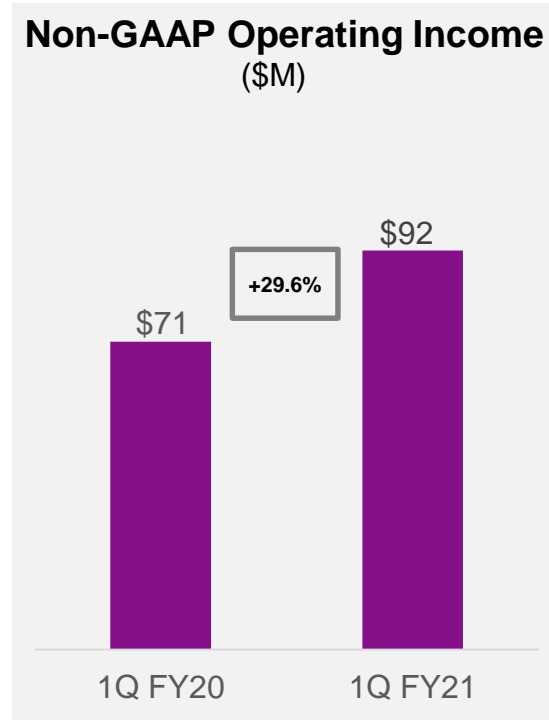
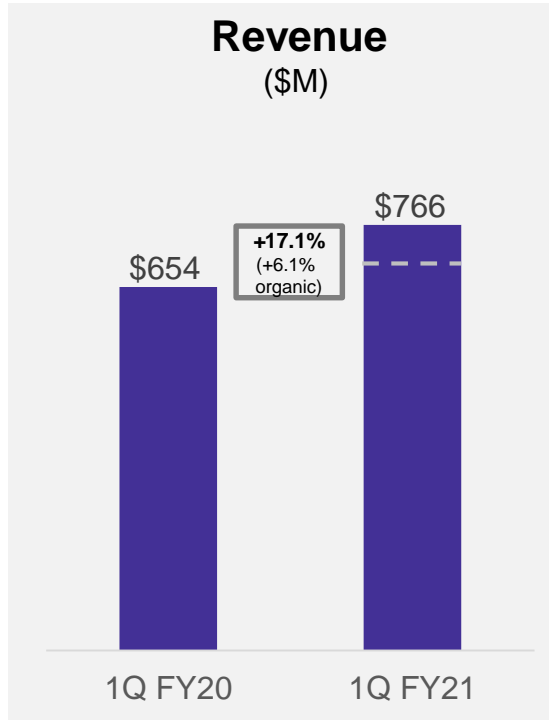
# Defense Solutions Segment



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

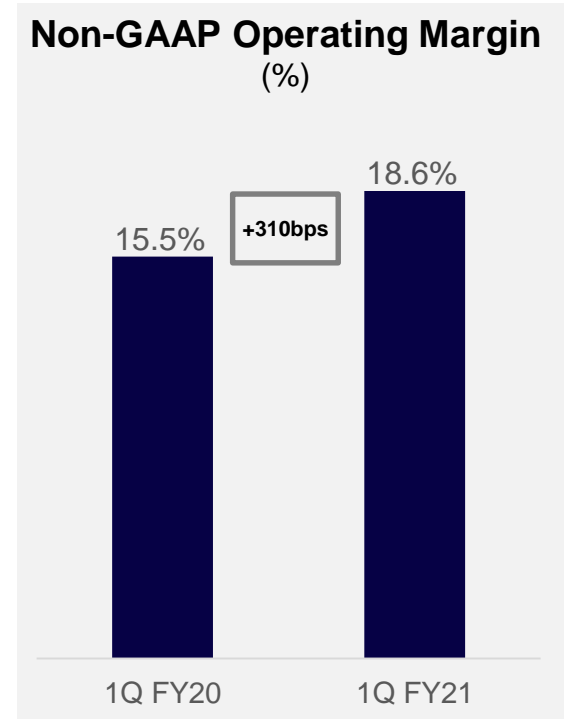
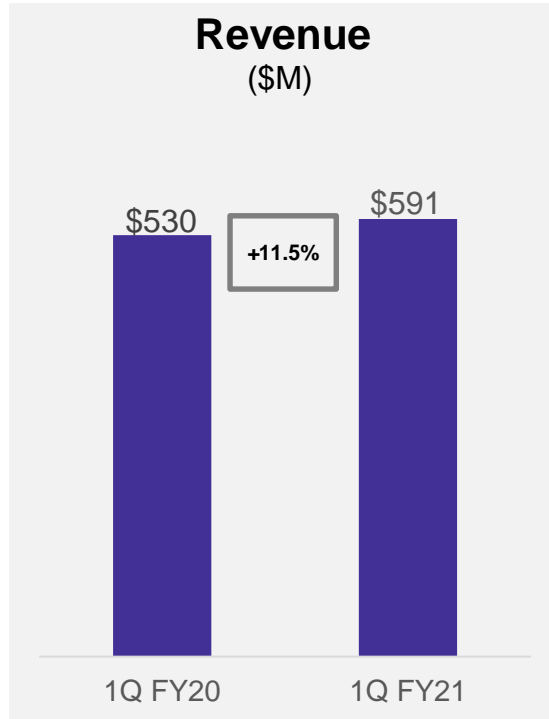
# Civil Segment



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

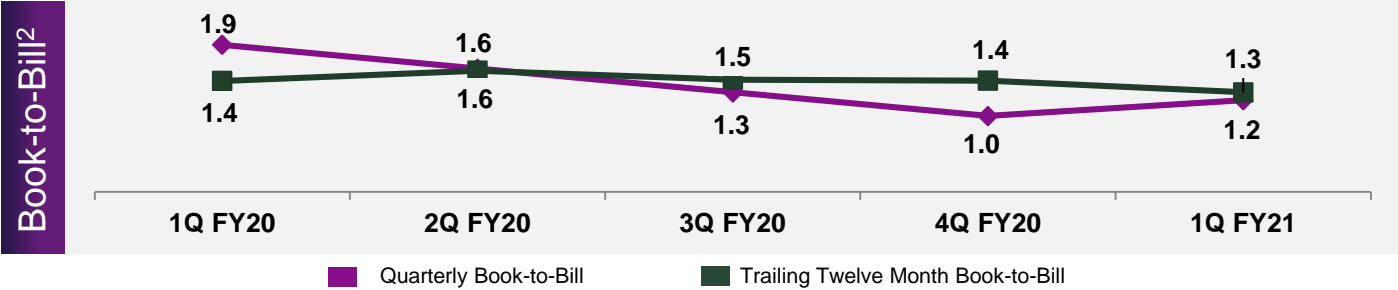
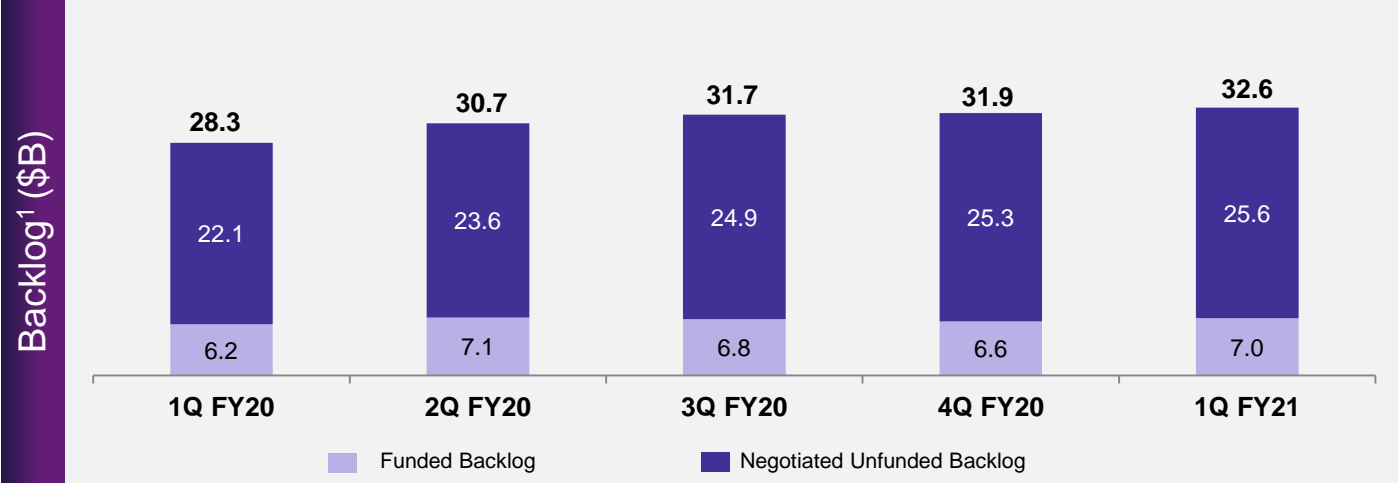
# Health Segment



Note 1: All revenue growth is organic 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



(1) Backlog presented at exchange rate in effect at quarter end.  
 (2) Book-to-bill excludes the impact of currency fluctuations on backlog and does not include acquired backlog.



# 2021 Guidance

	Current	Prior
<b>Revenue</b>	\$13.7B - \$14.1B	\$13.7B - \$14.1B
<b>Adjusted EBITDA Margin<sup>(1)</sup></b>	10.5% - 10.7%	10.3% - 10.5%
<b>Non-GAAP Diluted EPS<sup>(1)(2)</sup></b>	\$6.35 - \$6.65	\$6.15 - \$6.45
<b>Operating Cash Flow<sup>(3)(4)</sup></b>	Meet or exceed \$875M	Meet or exceed \$850M

Note: 2021 guidance does not include the announced acquisition of Gibbs & Cox.

- (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 2021 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 \$35M of transaction/integration costs associated with the acquisitions of Dynetics, the L3Harris Security Detection and Automation businesses and 1901 Group.
- (4) Operating cash flow assumes no full year contribution from the existing account receivables monetization facility.

# Guidance Assumptions

## Business Specific Factors

- Severity and duration of COVID-19 outbreak do not worsen beyond our current estimates
- Return to additional closed customer work locations at the end of the 2nd quarter
- 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
- Approvals for telework or alternate work arrangements remain in place
- Procurement schedules are not further extended or cancelled

## Budgetary Driven Factors

- Revenue to cash conversion cycle continues without delay or interruption
- Sufficient policy and funding to support 'ready state' employees and subcontractors remains in place under Section 3610 of the CARES Act
- CARES Act Section 3610 ends September 30<sup>th</sup>
- 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.
- ▶ Acquisition related financing costs – Represents the amortization of the debt financing commitments in connection with the Company's acquisitions of Dynetics and the SD&A Businesses.
- ▶ Loss on debt modification – Represents the write-off of debt discount and debt issuance costs as a result of debt modifications.

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 excludes revenue of acquired and divested businesses and assets until 12 months from the date of closing has passed.

# Organic Revenue Calculation

	1QFY20	2QFY20	3QFY20	4QFY20	FY20	1QFY21
	(in millions)					
<b>Defense Solutions</b>						
Revenues, as reported	\$ 1,705	\$ 1,757	\$ 1,951	\$ 1,928	\$ 7,341	\$ 1,958
Dynetics revenues (Acquired on 1/31/2020) <sup>(1)</sup>	-	206	302	300	808	83
1901 Group (Acquired on 1/14/2021)	-	-	-	-	-	13
Pro-forma revenues	\$ 1,705	\$ 1,551	\$ 1,649	\$ 1,628	\$ 6,533	\$ 1,862
YoY revenue growth on reported revenues						14.8%
YoY "Organic Revenue Growth" on pro-forma revenues						9.2%
<b>Civil</b>						
Revenues, as reported	\$ 654	\$ 758	\$ 771	\$ 811	\$ 2,994	\$ 766
SD&A revenues (Acquired on 5/4/2020)	-	80	74	89	243	72
Pro-forma revenues	\$ 654	\$ 678	\$ 697	\$ 722	\$ 2,751	\$ 694
YoY revenue growth on reported revenues						17.1%
YoY "Organic Revenue Growth" on pro-forma revenues						6.1%
<b>Health<sup>(2)</sup></b>						
Revenues, as reported	\$ 530	\$ 399	\$ 520	\$ 513	\$ 1,962	\$ 591
YoY revenue growth on reported revenues						11.5%
<b>Total Operations</b>						
Revenues, as reported	\$ 2,889	\$ 2,914	\$ 3,242	\$ 3,252	\$ 12,297	\$ 3,315
Total Dynetics, 1901 Group & SDA revenues <sup>(1)</sup>	-	286	376	389	1,051	168
Pro-forma revenues	\$ 2,889	\$ 2,628	\$ 2,866	\$ 2,863	\$ 11,246	\$ 3,147
YoY revenue growth on reported revenues						14.7%
YoY "Organic Revenue Growth" on pro-forma revenues						8.9%

Note: See definition of organic revenue calculation on slide 13.

- (1) Dynetics revenues for 1QFY20 of \$129M was presented in the 4QFY20 Supplementary Financials. Dynetics was owned by Leidos for the full quarter of Q1FY21 and therefore, Q1FY20 revenues are removed to calculate pro-forma revenues. The acquisition contributed incremental revenues of \$83M in 1QFY21 which reflects an additional month of revenues as compared to the prior year quarter.
- (2) IMX revenues presented in the 4QFY20 Supplementary Financials was removed for the current presentation. IMX was acquired on 8/15/2019 and now has comparable revenues for FY21 as compared to FY20.

# Non-GAAP Operating Income Reconciliation

	1QFY20	2QFY20	3QFY20	4QFY20	FY20	1QFY21
	(dollars in millions)					
<b>Operating income</b>	<b>\$ 192</b>	<b>\$ 249</b>	<b>\$ 258</b>	<b>\$ 299</b>	<b>\$ 998</b>	<b>\$ 308</b>
Acquisition, integration and restructuring costs	12	16	5	6	39	5
Amortization of acquired intangibles	42	51	59	43	195	54
Asset impairment charges	-	11	-	1	12	-
Amortization of equity method investment	-	-	2	-	2	-
<b>Non-GAAP operating income</b>	<b>\$ 246</b>	<b>\$ 327</b>	<b>\$ 324</b>	<b>\$ 349</b>	<b>\$ 1,246</b>	<b>\$ 367</b>
<i>Non-GAAP operating income margin</i>	8.5%	11.2%	10.0%	10.7%	10.1%	11.1%

Note: See definition of Non-GAAP Financial Measures on slide 13.

# Reportable Segments Non-GAAP Operating Income Reconciliation

Quarter Ended April 2, 2021

	(in millions)			
	Operating income (loss)	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Non-GAAP operating income (loss)
Defense Solutions	\$ 152	\$ -	\$ 28	\$ 180
Civil	74	-	18	92
Health	102	-	8	110
Corporate	(20)	5	-	(15)
Total	\$ 308	\$ 5	\$ 54	\$ 367

Quarter Ended April 3, 2020

	(in millions)			
	Operating income (loss)	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	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



# Non-GAAP Financial Measures Reconciliation

	1QFY20	2QFY20	3QFY20	4QFY20	FY20	1QFY21
	(in millions, except per share amounts)					
<b>Non-GAAP operating income</b>	\$ 246	\$ 327	\$ 324	\$ 349	\$ 1,246	\$ 367
Depreciation expense	18	20	22	24	84	22
Other income (expense), net	5	(4)	-	(8)	(7)	(1)
Amortization of internally developed intangible assets	1	-	1	1	3	1
<b>Adjusted EBITDA</b>	\$ 270	\$ 343	\$ 347	\$ 366	\$ 1,326	\$ 389
Depreciation expense	(18)	(20)	(22)	(24)	(84)	(22)
Interest expense, net	(46)	(38)	(44)	(46)	(174)	(45)
Income tax expense adjusted to reflect non-GAAP adjustments	(34)	(61)	(68)	(61)	(224)	(72)
Amortization of internally developed intangible assets	(1)	-	(1)	(1)	(3)	(1)
<b>Non-GAAP net income</b>	\$ 171	\$ 224	\$ 212	\$ 234	\$ 841	\$ 249
Less: net income attributable to non-controlling interest	-	1	-	-	1	-
<b>Non-GAAP net income attributable to Leidos Holdings, Inc.</b>	\$ 171	\$ 223	\$ 212	\$ 234	\$ 840	\$ 249
Acquisition, integration and restructuring costs	(12)	(16)	(5)	(6)	(39)	(5)
Amortization of acquired intangibles	(42)	(51)	(59)	(43)	(195)	(54)
Acquisition related financing costs	(2)	(3)	-	-	(5)	-
Loss on debt modification	(19)	(12)	-	-	(31)	-
Asset impairment charges	-	(11)	-	(1)	(12)	-
Amortization of equity method investment	-	-	(2)	-	(2)	-
Adjustment to the income tax provision to reflect non-GAAP adjustments <sup>(1)</sup>	19	23	17	13	72	15
<b>Net income attributable to Leidos Holdings, Inc.</b>	\$ 115	\$ 153	\$ 163	\$ 197	\$ 628	\$ 205
<b>Non-GAAP diluted EPS attributable to Leidos Holdings, Inc.<sup>(2)</sup></b>	\$ 1.19	\$ 1.55	\$ 1.47	\$ 1.63	\$ 5.83	\$ 1.73
Total adjustments from non-GAAP income	(0.39)	(0.49)	(0.34)	(0.26)	(1.47)	(0.31)
<b>Diluted EPS attributable to Leidos Holdings, Inc.</b>	\$ 0.80	\$ 1.06	\$ 1.13	\$ 1.37	\$ 4.36	\$ 1.42
Diluted shares (for computing non-GAAP EPS)	144	144	144	144	144	144

Note: See definition of Non-GAAP Financial Measures on slide 13

(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 2, 2021

(in millions, except per share amounts)

	As reported	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Non-GAAP results
Operating income	\$ 308	\$ 5	\$ 54	\$ 367
Non-operating expense, net	(46)	-	-	(46)
Income before income taxes	262	5	54	321
Income tax expense <sup>(1)</sup>	(57)	(1)	(14)	(72)
Net income attributable to Leidos common stockholders	\$ 205	\$ 4	\$ 40	\$ 249
Diluted EPS attributable to Leidos common stockholders	\$ 1.42	\$ 0.03	\$ 0.28	\$ 1.73
Diluted shares	144	144	144	144
Income before income taxes	\$ 262	\$ 5	\$ 54	\$ 321
Depreciation expense	22	-	-	22
Amortization of intangibles	55	-	(54)	1
Interest expense, net	45	-	-	45
EBITDA	\$ 384	\$ 5	\$ -	\$ 389
EBITDA margin	11.6%			11.7%

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