



Leidos 3Q 2020 Earnings Conference Call

November 2, 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, 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: the impacts of COVID-19 on our business, financial condition, results of operations and cash flows; 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. 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 November 2, 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.

3Q FY 2020 Highlights

Continued Revenue Growth

- Generated record revenue of \$3.2B
- Delivered year-over-year revenue growth of 14.4%; 1.7% organic growth⁽¹⁾
- Grew backlog to a record of \$31.7B; 1.3x book-to-bill

Operating Margin Improvement

- Achieved adjusted EBITDA margins of 10.7%
- Mitigated COVID-19 profit impact by driving program performance, workplace re-openings and indirect cost reductions

Healthy Cash Flow Generation

- Generated record cash flows from operations of \$592M
- Delivered 265%⁽²⁾ free cash flow conversion of adjusted net income

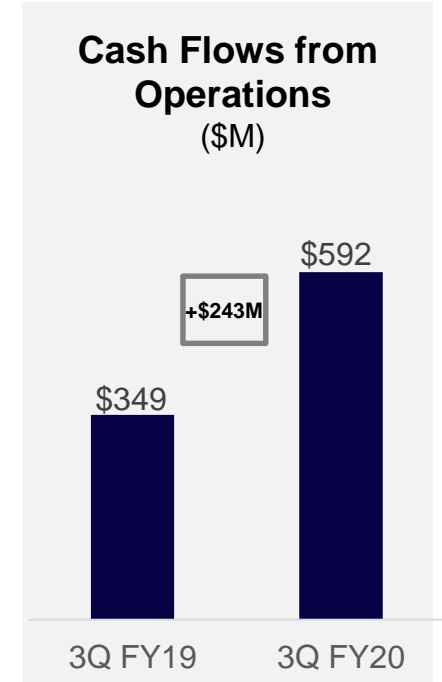
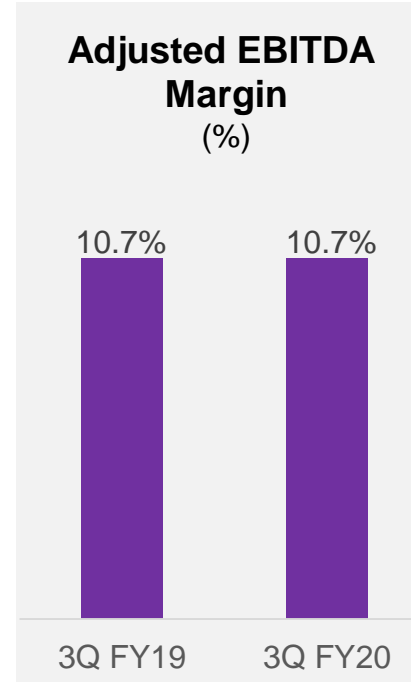
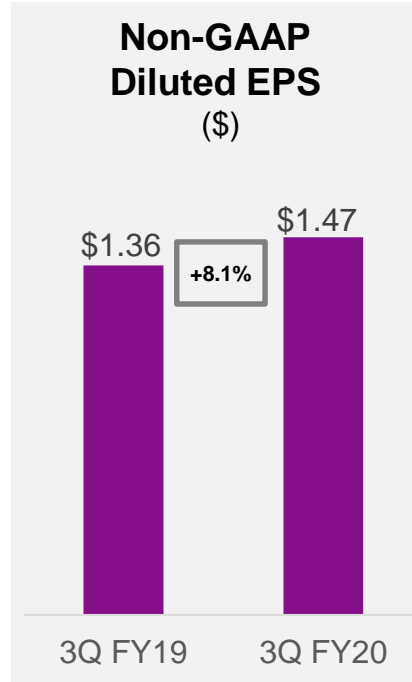
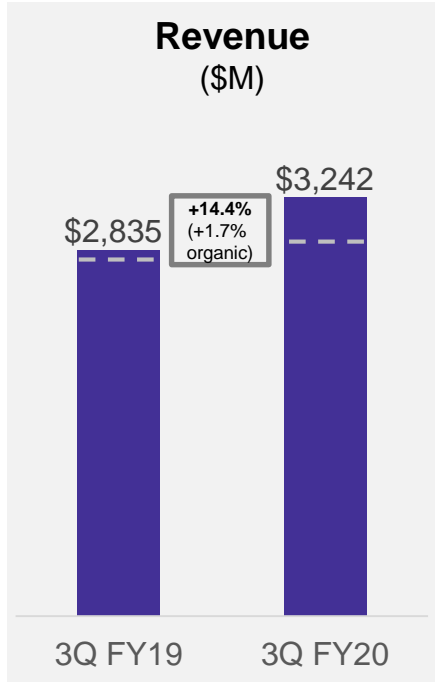
Disciplined Cash Deployment

- Deployed \$1,377M year to date:
 - ~25% M&A
 - ~50% Debt Repayments
 - ~25% Dividends, Capex & Other

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

(2) 265% reflects 3Q FY20: [Cash Flow from Operations (\$592M) – Capex (\$30M)] / Non-GAAP Net Income (\$212M)

Leidos 3Q FY 20 Results

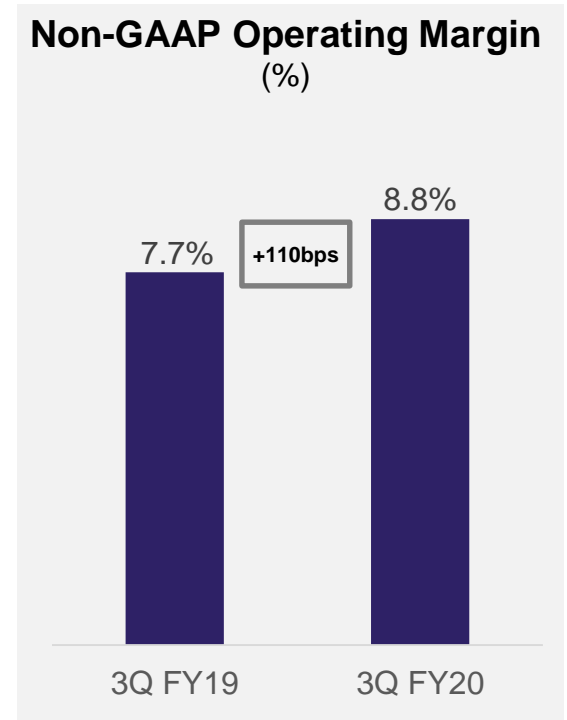
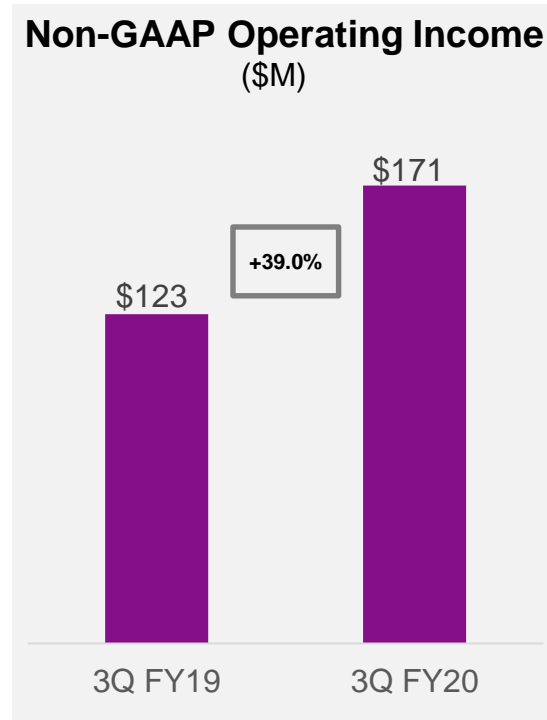
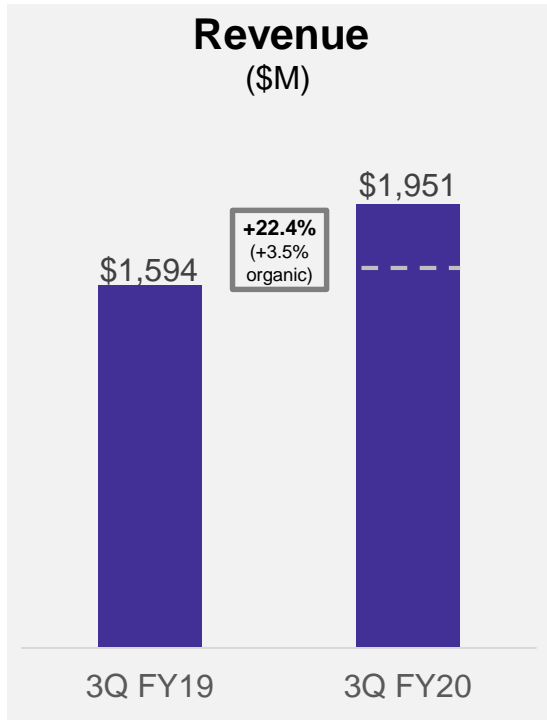


Note 1: Dotted line represents organic revenue for the quarter; see appendix for calculation of organic revenue growth

Note 2: 3Q FY20 Cash Flows from Operations of \$592M includes \$7M contribution from the Accounts Receivable monetization program

Note 3: See appendix for definition & reconciliation of Non-GAAP Financial Measures

Defense Solutions Segment

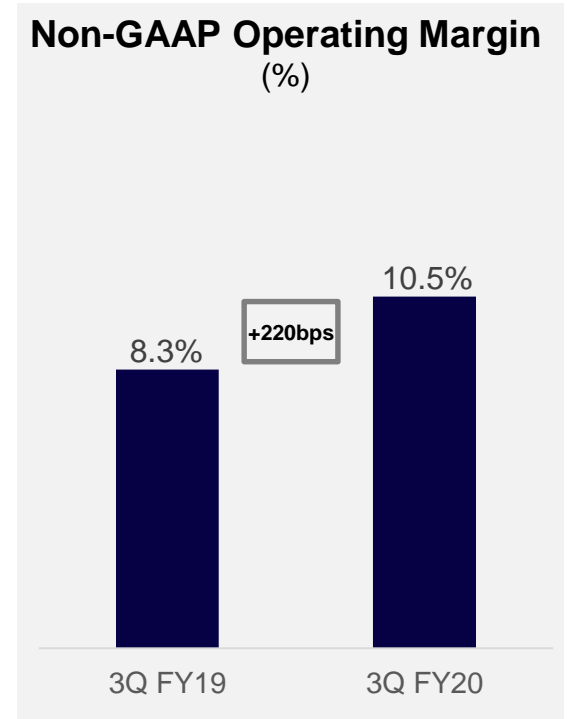
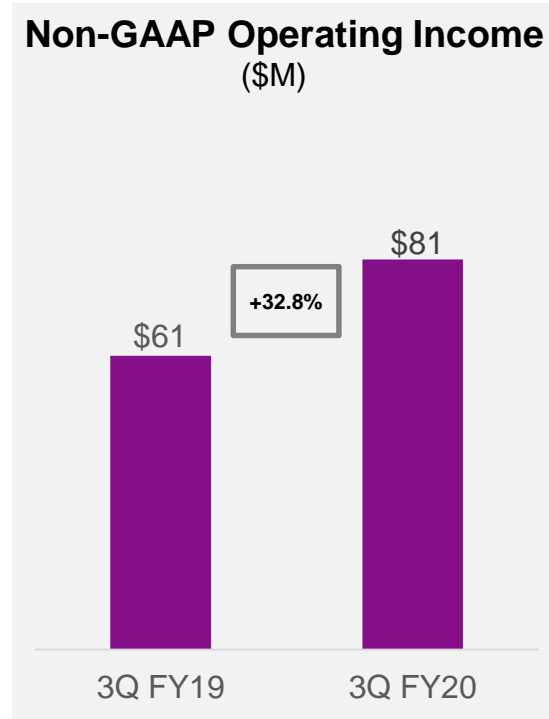
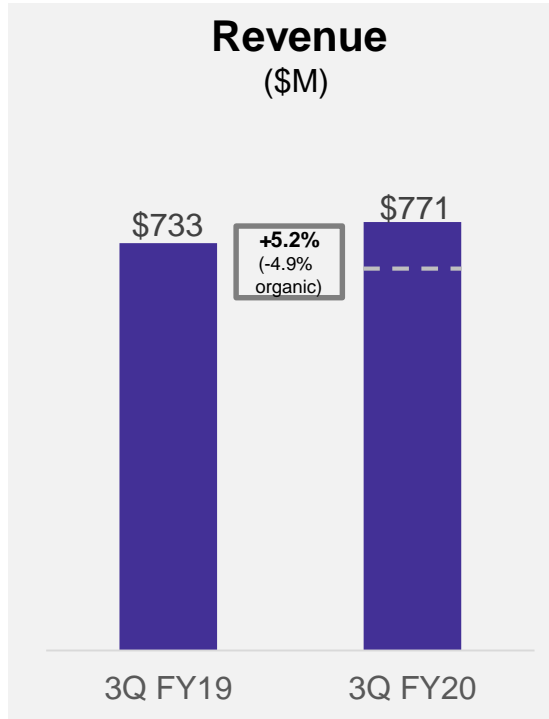


Note 1: Dotted line represents organic revenue for the quarter; see appendix for calculation of organic revenue growth

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

Note 3: Prior year amounts have been recast for the contracts that were reassigned between the Defense Solutions and Civil reportable segments

Civil Segment

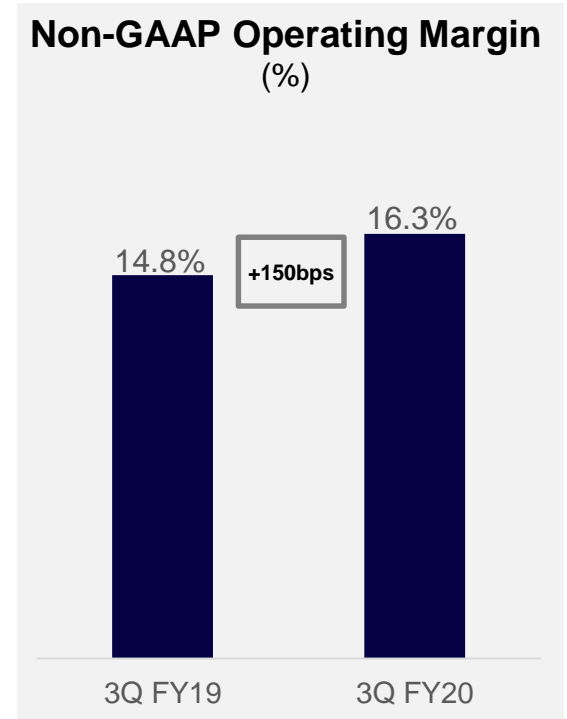
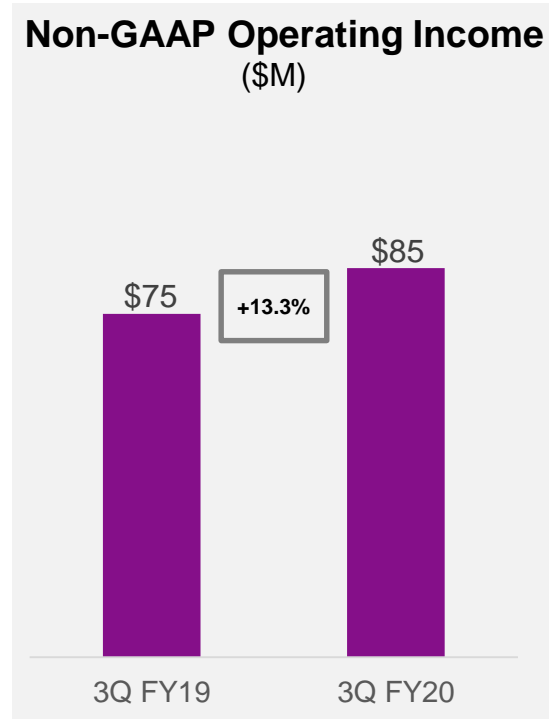
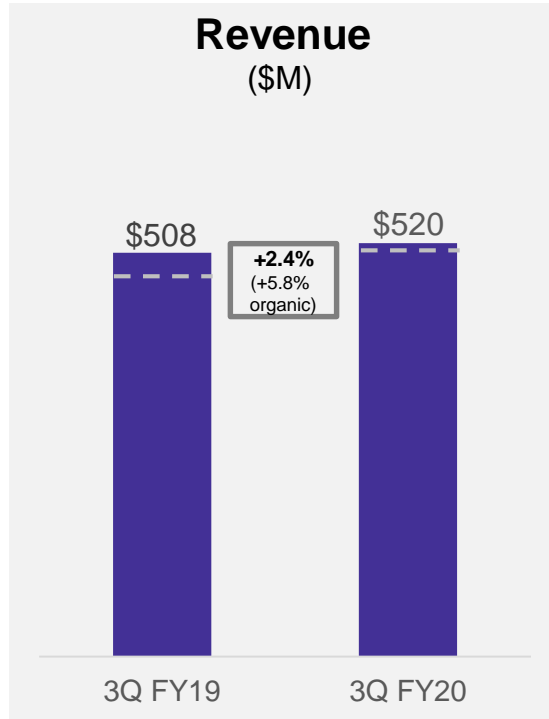


Note 1: Dotted line represents organic revenue for the quarter; see appendix for calculation of organic revenue growth

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

Note 3: Prior year amounts have been recast for the contracts that were reassigned between the Defense Solutions and Civil reportable segments

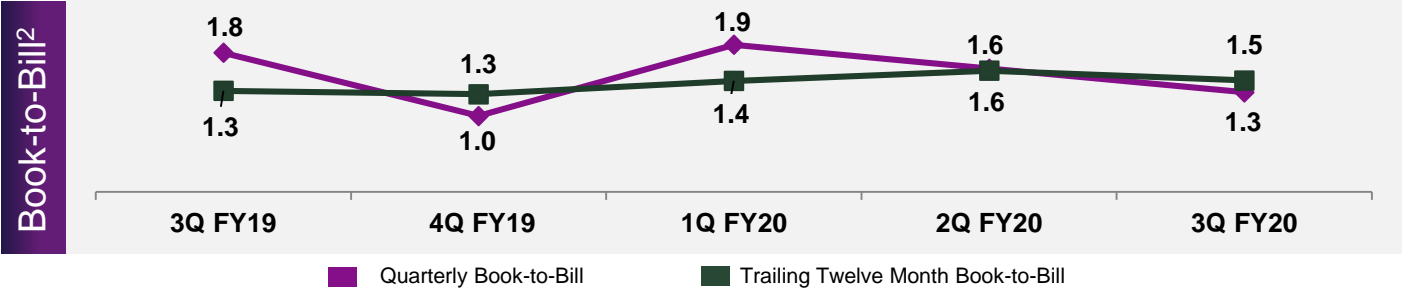
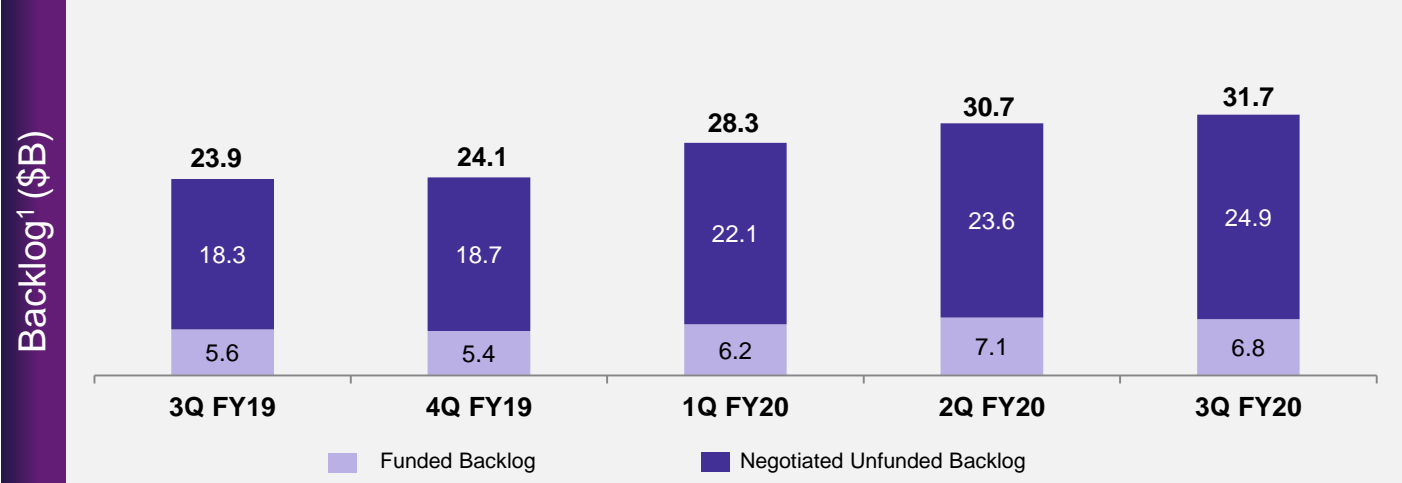
Health Segment



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



(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

2020 Guidance

	Current	Prior
Revenue	\$12.3B - \$12.5B	\$12.2B - \$12.6B
Adjusted EBITDA Margin⁽¹⁾	10.6% - 10.8%	10.0% - 10.2%
Non-GAAP Diluted EPS⁽¹⁾⁽²⁾	\$5.65 - \$5.85	\$5.25 - \$5.55
Operating Cash Flow⁽³⁾	Meet or exceed \$1.2B ⁽⁴⁾	Meet or exceed \$1.2B ⁽⁵⁾

- (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 between 21% - 22%. See appendix for definition & reconciliation of Non-GAAP Financial Measures.
- (3) Operating Cash Flow includes the impact of \$47M of transaction/integration costs associated with the acquisitions of Dynetics and the L3Harris Security Detection and Automation businesses.
- (4) Assumes existing Accounts Receivables monetization program is not used in 4Q FY20.
- (5) Operating Cash Flow reflects \$300M contribution from the existing Accounts Receivable monetization program

Guidance Assumptions

Business Specific Factors

- Return to additional closed customer work locations at the start of the 4th quarter
- Return to normalized revenue, margin mix, and run-rate by the start of the 4th quarter
- Severity and duration of COVID-19 outbreak do not worsen beyond our 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 policy and funding to support 'ready state' employees and subcontractors remains in place under Section 3610 of the CARES Act
- Continuing resolution and CARES Act Section 3610 is extended beyond December 11th
- 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 acquisitions of Dynetics and the SD&A Businesses.
- ▶ 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.
- ▶ Asset impairment charges – Represents impairments of long-lived tangible assets.
- ▶ Gain on sale of business – Represents the net gain on sale of businesses.
- ▶ Other tax adjustments – Represents discrete tax items.

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	2QFY20	3QFY20
	(dollars in millions)						
Defense Solutions							
Revenues, as reported	\$ 1,491	\$ 1,560	\$ 1,594	\$ 1,655	\$ 1,705	\$ 1,757	\$ 1,951
Dynetics actual revenues (Acquired on 1/31/2020)	-	-	-	-	129	206	302
Pro-forma revenues	\$ 1,491	\$ 1,560	\$ 1,594	\$ 1,655	\$ 1,576	\$ 1,551	\$ 1,649
YoY revenue growth on reported revenues					14.4%	12.6%	22.4%
YoY "Organic Revenue Growth" on pro-forma revenues					5.7%	-0.6%	3.5%
Civil							
Revenues, as reported	\$ 623	\$ 667	\$ 733	\$ 773	\$ 654	\$ 758	\$ 771
SD&A actual revenues (Acquired on 5/4/2020)	-	-	-	-	-	80	74
Commercial Cybersecurity Business actual revenues (Divested on 2/20/2019)	11	-	-	-	-	-	-
Pro-forma revenues	\$ 612	\$ 667	\$ 733	\$ 773	\$ 654	\$ 678	\$ 697
YoY revenue growth on reported revenues					5.0%	13.6%	5.2%
YoY "Organic Revenue Growth" on pro-forma revenues					6.9%	1.6%	-4.9%
Health							
Revenues, as reported	\$ 463	\$ 501	\$ 508	\$ 526	\$ 530	\$ 399	\$ 520
IMX actual revenues (Acquired on 8/15/2019)	-	-	6	12	11	7	11
Health Staff Augmentation Business actual revenues (Divested on 9/15/2019)	25	27	21	-	-	-	-
Pro-forma revenues	\$ 438	\$ 474	\$ 481	\$ 514	\$ 519	\$ 392	\$ 509
YoY revenue growth on reported revenues					14.5%	-20.4%	2.4%
YoY "Organic Revenue Growth" on pro-forma revenues					18.5%	-17.3%	5.8%
Total Operations							
Revenues, as reported	\$ 2,577	\$ 2,728	\$ 2,835	\$ 2,954	\$ 2,889	\$ 2,914	\$ 3,242
Total SD&A, Dynetics, Commercial Cyber, IMX & Health Staff Augmentation actual revenues	36	27	27	12	140	293	387
Pro-forma revenues	\$ 2,541	\$ 2,701	\$ 2,808	\$ 2,942	\$ 2,749	\$ 2,621	\$ 2,855
YoY revenue growth on reported revenues					12.1%	6.8%	14.4%
YoY "Organic Revenue Growth" on pro-forma revenues					8.2%	-3.0%	1.7%

Non-GAAP Operating Income Reconciliation

	1QFY19	2QFY19	3QFY19	4QFY19	FY19	1QFY20	2QFY20	3QFY20
	(in millions)							
Operating income	\$ 192	\$ 210	\$ 249	\$ 261	\$ 912	\$ 192	\$ 249	\$ 258
Acquisition, integration and restructuring costs	2	1	-	2	5	12	16	5
Amortization of acquired intangibles	42	43	43	43	171	42	51	59
Asset impairment charges	-	-	-	-	-	-	11	-
Amortization of equity method investment	3	2	3	3	11	-	-	2
Non-GAAP operating income	\$ 239	\$ 256	\$ 295	\$ 309	\$ 1,099	\$ 246	\$ 327	\$ 324
<i>Non-GAAP operating income margin</i>	9.3%	9.4%	10.4%	10.5%	9.9%	8.5%	11.2%	10.0%

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

Reportable Segments Non-GAAP Operating Income Reconciliation

Quarter Ended October 2, 2020						
(in millions)						
	Operating income	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Amortization of equity method investment	Non-GAAP operating income	
Defense Solutions	\$ 145	\$ 2	\$ 24	\$ -	\$ 171	
Civil	54	-	25	2	81	
Health	75	-	10	-	85	
Corporate	(16)	3	-	-	(13)	
Total	\$ 258	\$ 5	\$ 59	\$ 2	\$ 324	

Quarter Ended September 27, 2019						
(in millions)						
	Operating income	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Amortization of equity method investment	Non-GAAP operating income	
Defense Solutions ⁽¹⁾	\$ 107	\$ -	\$ 16	\$ -	\$ 123	
Civil ⁽¹⁾	43	-	15	3	61	
Health	63	-	12	-	75	
Corporate	36	-	-	-	36	
Total	\$ 249	\$ -	\$ 43	\$ 3	\$ 295	

(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	2QFY20	3QFY20
	(in millions, except per share amounts)							
Non-GAAP operating income	\$ 239	\$ 256	\$ 295	\$ 309	\$ 1,099	\$ 246	\$ 327	\$ 324
Depreciation expense	15	14	16	16	61	18	20	22
Other income (expense), net	4	3	(7)	(1)	(1)	5	(4)	-
Amortization of internally developed intangible assets	1	-	-	1	2	1	-	1
Adjusted EBITDA	\$ 259	\$ 273	\$ 304	\$ 325	\$ 1,161	\$ 270	\$ 343	\$ 347
Depreciation expense	(15)	(14)	(16)	(16)	(61)	(18)	(20)	(22)
Interest expense, net	(38)	(33)	(28)	(32)	(131)	(46)	(38)	(44)
Income tax expense adjusted to reflect non-GAAP adjustments	(39)	(54)	(62)	(59)	(214)	(34)	(61)	(68)
Amortization of internally developed intangible assets	(1)	-	-	(1)	(2)	(1)	-	(1)
Non-GAAP net income	\$ 166	\$ 172	\$ 198	\$ 217	\$ 753	\$ 171	\$ 224	\$ 212
Less: net income attributable to non-controlling interest	-	2	1	-	3	-	1	-
Non-GAAP net income attributable to Leidos Holdings, Inc.	\$ 166	\$ 170	\$ 197	\$ 217	\$ 750	\$ 171	\$ 223	\$ 212
Acquisition, integration and restructuring costs	(2)	(1)	-	(2)	(5)	(12)	(16)	(5)
Amortization of acquired intangibles	(42)	(43)	(43)	(43)	(171)	(42)	(51)	(59)
Acquisition related financing costs	-	-	-	(2)	(2)	(2)	(3)	-
Gain (loss) on sale of business	88	(1)	-	1	88	-	-	-
Loss on debt modification	-	-	-	-	-	(19)	(12)	-
Asset Impairment charges	-	-	-	-	-	-	(11)	-
Amortization of equity method investment	(3)	(2)	(3)	(3)	(11)	-	-	(2)
Adjustment to the income tax provision to reflect non-GAAP adjustments ⁽¹⁾	(18)	13	10	13	18	19	23	17
Net income attributable to Leidos Holdings, Inc.	\$ 189	\$ 136	\$ 161	\$ 181	\$ 667	\$ 115	\$ 153	\$ 163
Non-GAAP diluted EPS attributable to Leidos Holdings, Inc.⁽²⁾	\$ 1.13	\$ 1.16	\$ 1.36	\$ 1.51	\$ 5.17	\$ 1.19	\$ 1.55	\$ 1.47
Total adjustments from non-GAAP income	0.16	(0.23)	(0.25)	(0.25)	(0.57)	(0.39)	(0.49)	(0.34)
Diluted EPS attributable to Leidos Holdings, Inc.⁽²⁾	\$ 1.29	\$ 0.93	\$ 1.11	\$ 1.26	\$ 4.60	\$ 0.80	\$ 1.06	\$ 1.13
Diluted shares (for computing non-GAAP EPS)	147	146	145	144	145	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 October 2, 2020
(in millions, except per share amounts)

	As reported	Acquisition, integration and restructuring costs	Amortization of acquired intangibles	Amortization of equity method investment	Non-GAAP results
Operating income	\$ 258	\$ 5	\$ 59	\$ 2	\$ 324
Non-operating expense, net	(44)	-	-	-	(44)
Income before income taxes	214	5	59	2	280
Income tax expense ⁽¹⁾	(51)	(1)	(15)	(1)	(68)
Net income	163	4	44	1	212
Less: net income attributable to non-controlling interest	-	-	-	-	-
Net income attributable to Leidos common stockholders	\$ 163	\$ 4	\$ 44	\$ 1	\$ 212
Diluted EPS attributable to Leidos common stockholders	\$ 1.13	\$ 0.03	\$ 0.30	\$ 0.01	\$ 1.47
Diluted shares	144	144	144	144	144
Income before income taxes	\$ 214	\$ 5	\$ 59	\$ 2	\$ 280
Depreciation expense	22	-	-	-	22
Amortization expense	60	-	(59)	-	1
Amortization of equity method investment	2	-	-	(2)	-
Interest expense, net	44	-	-	-	44
EBITDA	\$ 342	\$ 5	\$ -	\$ -	\$ 347
EBITDA margin	10.5%				10.7%

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