

Leidos 3Q FY14 Earnings Conference Call

December 10, 2013



Forward-Looking Statements

Certain statements in this presentation contain or are based on "forward-looking" information within the meaning of the Private Litigation Reform Act of 1995. In some cases, you can identify forward-looking statements by words such as "expects," "intends," "plans," "anticipates," "believes," "estimates" and similar words or phrases. Forward-looking statements in this presentation include, among others: estimates of future revenues, operating income, cash flow, growth and profitability as well as statements about future regular or special dividends, stock repurchases and other anticipated uses of capital. 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 forward-looking statements made in these slides depending on a variety of factors, including: 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 or approval to raise the U.S. debt ceiling; delays in the U.S. Government contract procurement process or the award of contracts; delays or loss of contracts as 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 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 and other contracts; our ability to comply with certain agreements entered into in connection with the CityTime matter; 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 or design build projects; our ability to profitably operate and recover our investment in the Plainfield Renewable Energy Project, 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; risks associated with the recently completed spin-off of our technical, engineering and enterprise information technology services business, such as disruption to business operations, or a failure to realize the expected benefits of the spin-off; 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 these slides. 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.

All information in this presentation is as of December 10, 2013. The Company expressly disclaims any duty to update the forward-looking statement provided in this presentation 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.

Executive Summary

- 3Q FY14 impacted by a range of challenges:
 - Increasing impact of sequestration
 - Unanticipated Government shutdown
 - Intelligence budgets starting to be impacted
 - Softer Commercial Health market conditions
 - Bad debts in our energy business
- Cash receipts adversely impacted by government shutdown, name change, and IT systems downtime during separation
- Despite the headwinds, we remain committed to delivering shareholder value. Today we announced a 20 million share repurchase authorization, equivalent to approximately \$830M at the current share price
- Strong new business win performance encouraging, although not translating as quickly into revenue growth

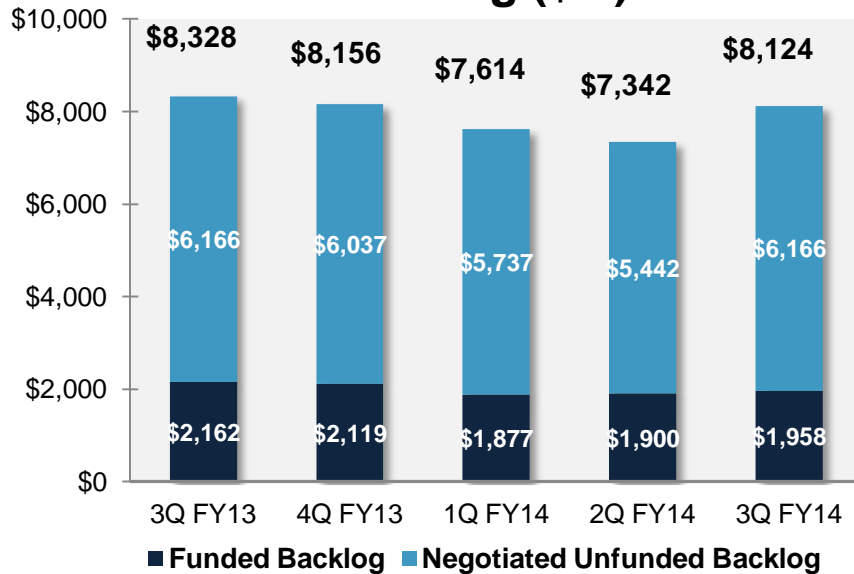
Operational Overview

Despite the challenges – executing on our strategic plan:

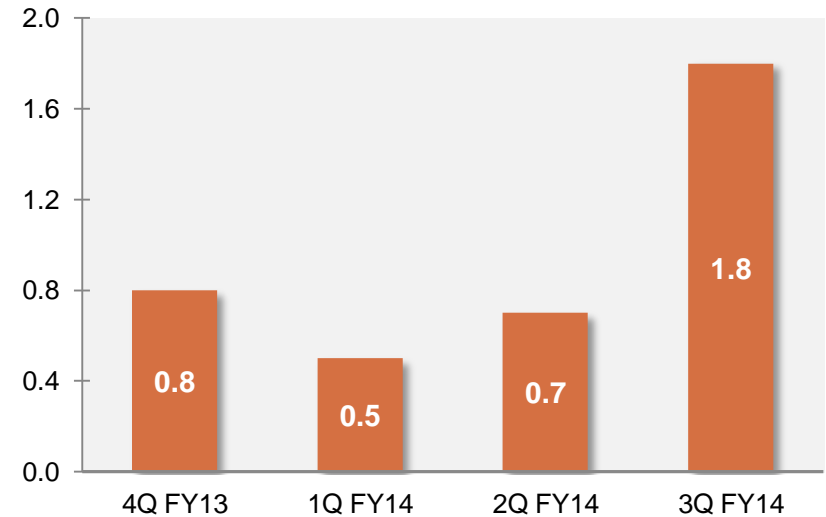
1. Focused on the core – quality contracts
2. Portfolio shaping
3. Economic profit growth
4. Continuous cost improvement
5. Returning capital to shareholders

National Security Solutions – Awards & Backlog

Backlog (\$M)



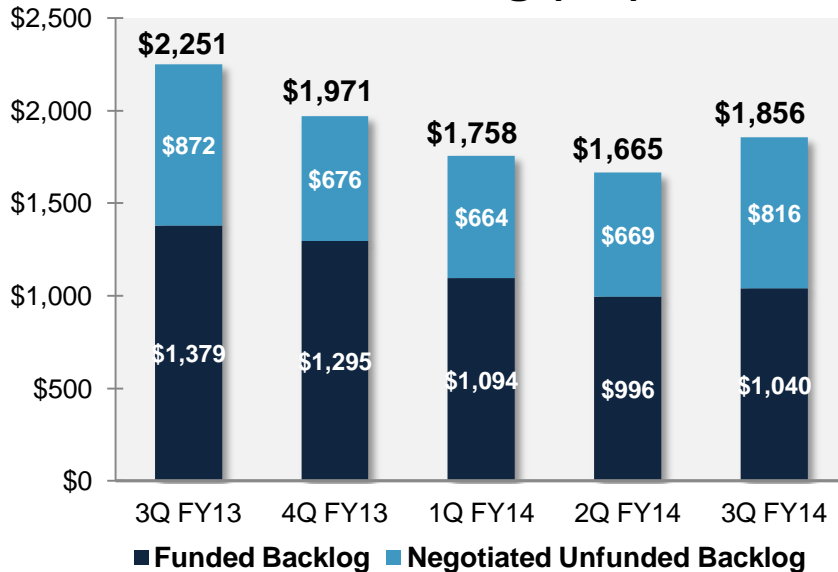
Book to Bill



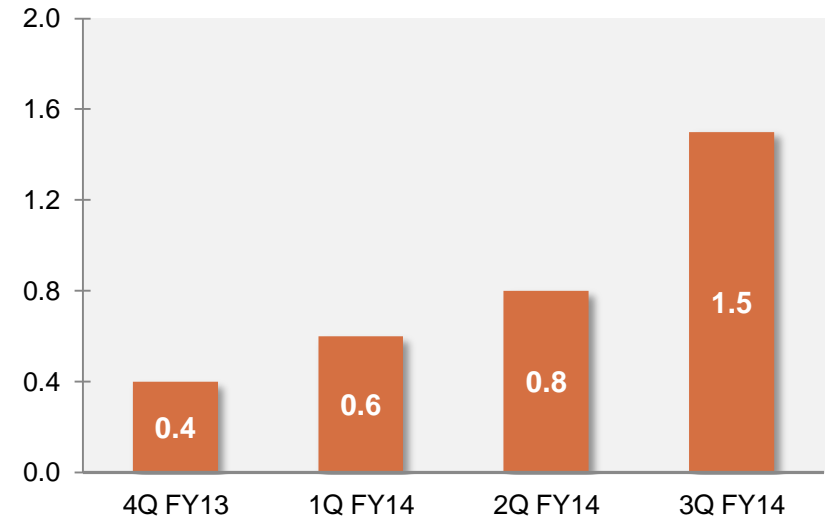
- **Book to bill 1.8x, an increase from 0.7x in 2QFY14. Key wins:**
 - \$467M PDS II – Classified Cyber Intelligence
 - \$443M TSA ILS – Integrated Logistics
 - \$195M Buckeye – Airborne ISR
 - \$157M USSOCOM SITEC – SOCOM IT support

Health and Engineering – Awards & Backlog

Backlog (\$M)



Book to Bill



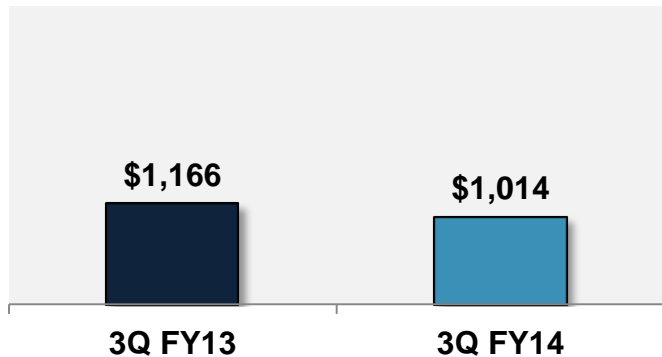
- **Book to bill 1.5x, an increase from 0.8x in 2QFY14. Key wins:**
 - \$178M MHS-CONUS Nurse Advice Line (Federal Health)
 - \$118M LSB Industries Ammonia Plant Relocation (Commercial Engineering)
 - \$50M US Army COE, Huntsville Center Energy Division Design/Build (Federal Engineering)
 - \$50M Corrosion Policy and Oversight Office Support (Federal Engineering)

Profit and Loss

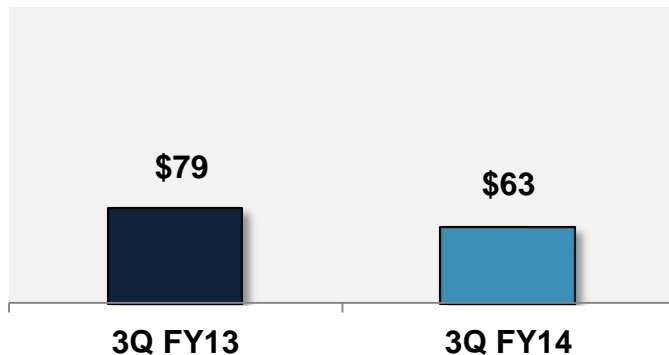
<i>\$ in millions, except for EPS</i>					
	3Q FY14		3Q FY13		% chg.
Revenues	\$	1,420	\$	1,673	-15%
Cost of revenues		1,224		1,434	-15%
Selling, general and administrative expenses		116		139	-17%
Bad debt expense		43		-	
Intangible asset impairment losses		19		-	
Separation transaction and restructuring expense		25		-	
Operating (loss) income		(7)		100	-107%
<i>As a % of sales</i>		<i>-0.5%</i>		<i>6.0%</i>	
Net interest		(16)		(19)	
Other income, net		2		2	
(Loss) income from continuing operations before income taxes		(21)		83	-125%
Income tax benefit (expense)		12		(28)	
(Loss) income from continuing operations		(9)		55	-116%
Income from discontinued operations before income taxes		21		94	-78%
Income tax expense		(15)		(37)	-59%
Income from discontinued operations		6		57	
Net (loss) income	\$	(3)	\$	112	-103%
Diluted EPS	\$	(0.11)	\$	0.66	

National Security Solutions – Financial Overview

Revenue (\$M)



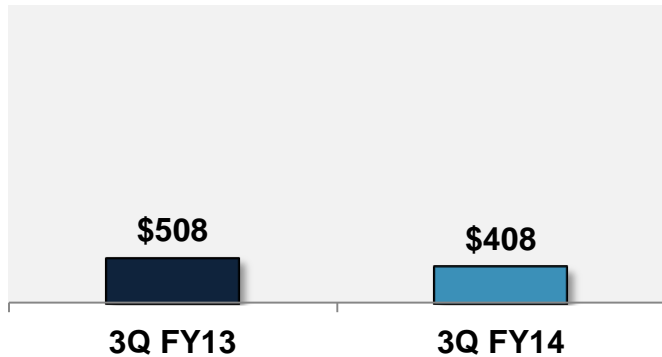
Operating Income (\$M)



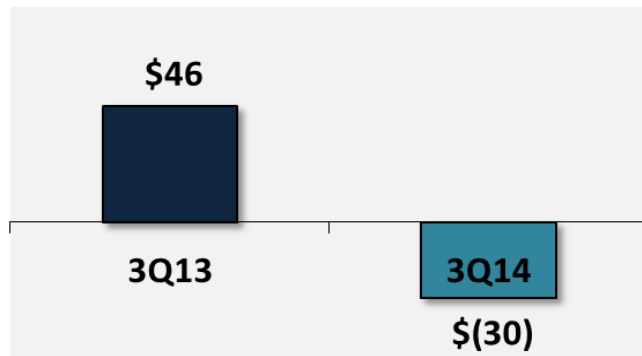
- **Revenue decline of \$152M, or 13%, driven by:**
 - Overseas drawdowns, JLI (\$74M), and the completion of several intelligence contracts (\$41M)
 - Funding reductions
 - Intelligence customers starting to see cuts
 - Partially offset by program wins
- **Op Income decline \$16M driven by**
 - Lower revenues
 - Government shutdown/timing impacts

Health and Engineering – Financial Overview

Revenue (\$M)



Operating Income (\$M)



- **Revenue decline of \$100M, or 20%, driven by:**
 - Sequestration – continued impact on Hospital IT budgets
 - Uncertainty caused by regulatory changes
 - Ramp down on energy and construction projects
 - Timing of TSA product deliveries
- **Op loss of \$30M driven by:**
 - Bad debt expense of \$43 million related primarily to Plainfield and Gradient
 - Write-down of Commercial Health intangible of \$19M
 - Reduced Commercial Health volume

Leidos Fiscal Year 2014 Guidance

(\$ in millions)	Updated FY14 Guidance (Dec 3)	Previous FY14 Guidance (Sept 11)	FY13 Pro Forma
Revenue	\$5.65B to \$5.8B	\$5.85B to \$6.1B	\$6.5B
EPS	\$0.85 to \$1.10	\$1.80 to \$2.04	\$3.64
Cash Flow from Cont. Ops	At or above \$150M	At or above \$325M	

Appendix

Working Days per Quarter

	Q1	Q2	Q3	Q4	Year Total
FY14	65	63	64	60	252
FY13	63	64	65	61	253
Increase / (Decrease)	2	(1)	(1)	(1)	(1)

Non-GAAP Operating Income Reconciliation

Non-GAAP Adjusted Net Income Financial Measures
(unaudited)

	Three Months Ended		Nine Months Ended	
	November 1, 2013	October 31, 2012	November 1, 2013	October 31, 2012
<i>Amounts in millions</i>				
GAAP Operating Income to Leidos Holding Inc.	-\$7	\$100	\$69	\$314
<u>Adjustments</u>				
Separation Transaction & Restructuring Expenses	25	0	58	0
Significant Bad Debt Expense for Plainfield Plant	33	0	33	0
Significant EAC Adjustments	0	6	37	6
Intangible Asset Impairments Losses	19	0	51	0
Provision for legal and regulatory matters	5	0	20	1
Adjusted Non-GAAP Operating Income	\$75	\$106	\$268	\$321

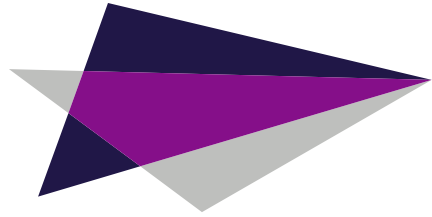
*See explanations on slide 14 for additional information

Non-GAAP Reconciliations (Continued)

Adjusted Non-GAAP Operating Income is a non-GAAP financial measure that is reconciled to the most directly comparable GAAP financial measure, Operating Income. Adjusted Non-GAAP Operating Income adjusts Operating Income for the following discrete events:

- ▶ Separation Transaction and Restructuring Expenses - This adjustment represents costs for strategic advisory services, legal and accounting services, lease termination and facility consolidation and severance costs associated with our recent spin-off and headquarter relocation.
- ▶ Significant Bad Debt Expense for Plainfield Plant - This adjustment represents the write-down taken as part of cancelling our outstanding accounts receivable in exchange for the assets of the Plainfield Plant. (Significant items > \$15M in aggregate)
- ▶ Significant EAC Adjustments – This adjustment represents write-downs for two discrete contracts during the periods presented that were unusual in nature and in amount. (Significant items > \$15M in aggregate)
- ▶ Intangible Asset Impairment Losses – This adjustment represents impairments of long-lived assets due to changes in actual performance against performance projected when the long lived assets were acquired.
- ▶ Provision for Legal and Regulatory Matters – This adjustment represents settlements or reserves for discrete regulatory and legal matters.

The company uses non-GAAP financial measure to provide investors with visibility to how the company performed without these discrete events.



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