LEIDOS 4Q FY15

Earnings Conference Call

March 25, 2015

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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, earnings per share, 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: 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; 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 timely complete the divestiture of 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 our 2013 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; 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 March 25, 2015. The Company expressly disclaims any duty to update the forward-looking statements 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.

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Executive Summary

- Fiscal Year 15 Highlights
  - Revenue in upper end of guided range
  - Non-GAAP EPS exceeded the guided range
  - Robust cash flow from operations
  - Increased non-GAAP earnings per share year-over-year
- Ongoing internal priorities include:
  - Business development
  - Cost reductions
  - Portfolio shaping
- Capital deployment philosophy unchanged:
  - Paying regular quarterly dividend is top priority
  - Additional deployment options include:
    - Investing in future growth
    - Managing financial leverage
    - Capital return to shareholders

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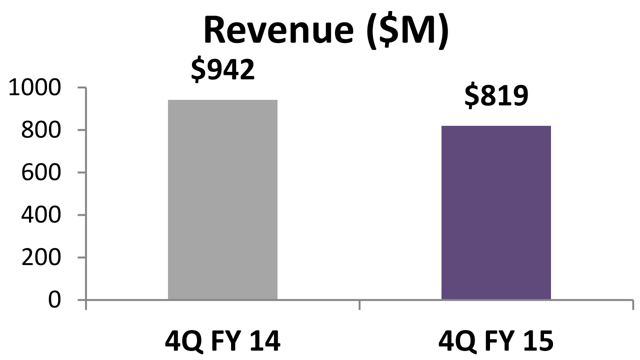
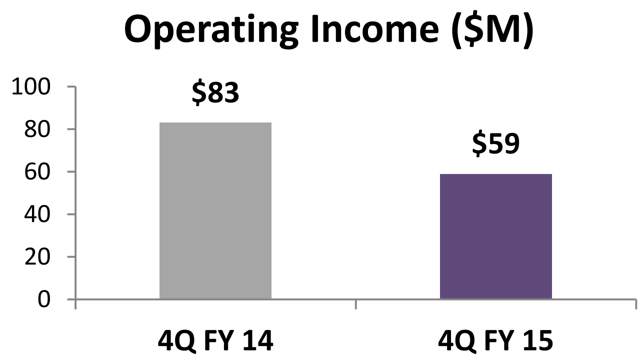
National Security Solutions – Overview





Revenue declined $123M, or 13% yoy, driven by:

- Overseas drawdown (~$80M), including reduction in airborne programs
- Overall reductions in defense and U.S. government spending resulting from sequestration and budget cuts, and lower contract awards

Operating Margin:

- Operating income decrease $24M, or 29% yoy
- Operating income margin decreased to 7.2% in 4Q15 from 8.8% in the prior year
- Decline yoy due to a decrease in net favorable changes in contract estimates and facilities exit costs

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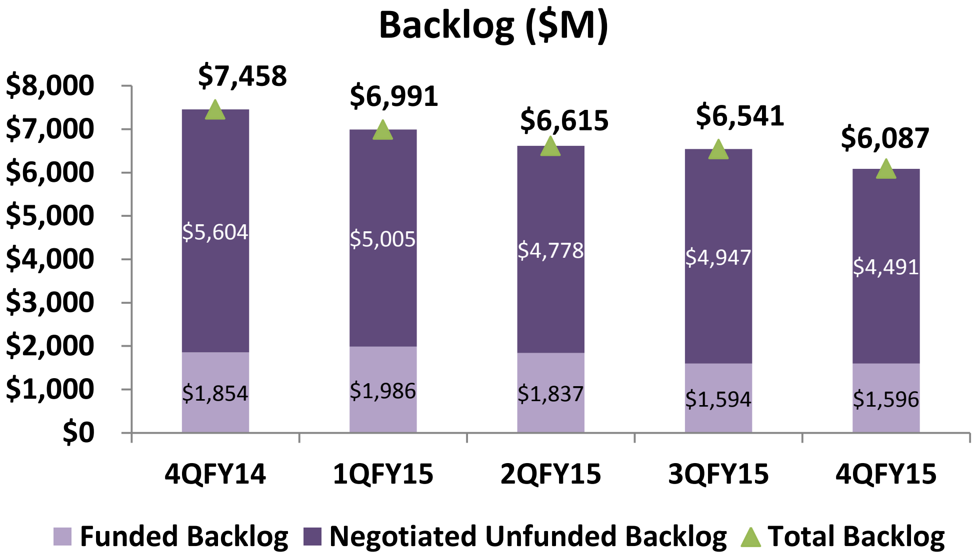
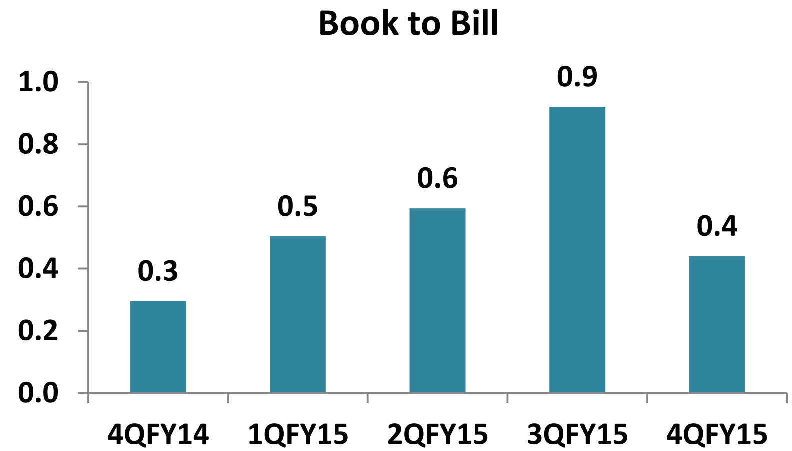
National Security Solutions – Awards & Backlog





- Book to bill 0.4x for 4Q15
- Total bids outstanding of $13.4B at end of 4Q15
- Notable wins during the quarter
  - Contracts with a value of $237M, by U.S. national security and intel clients
  - North Atlantic Treaty Organization – $77M Contract Award
  - U.S. Army – $46M Single Award Task Order

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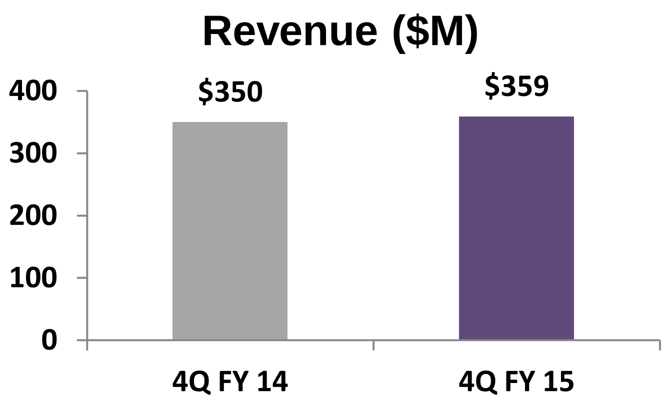
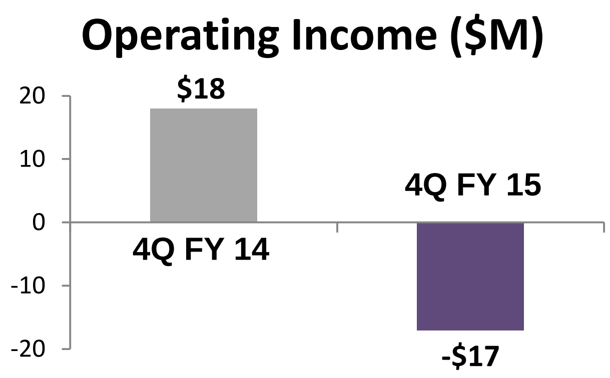
Health and Engineering – Overview





Revenue increased $9M, or 3% yoy, due to:

- Increased sales in the engineering business from new design-build and energy efficiency programs
- New awards and program ramps in our federal health business
- Partially offset by lower sales in commercial health

Operating income decreased $35M yoy, due to:

- Plainfield intangible impairments ($40M), offsetting increased profits in federal health and engineering
- Operating margin decreased to a loss of (4.7%) from 5.1% in the prior year

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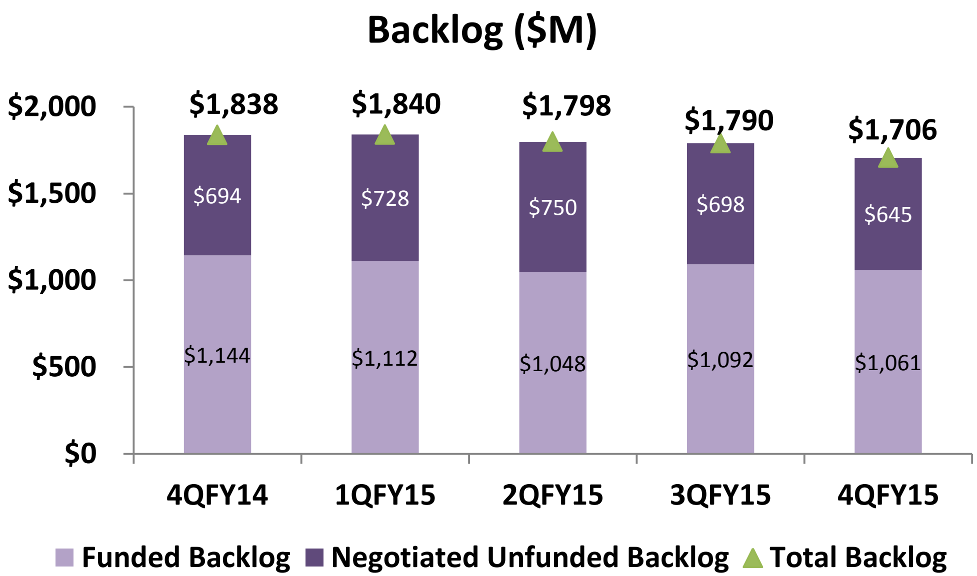
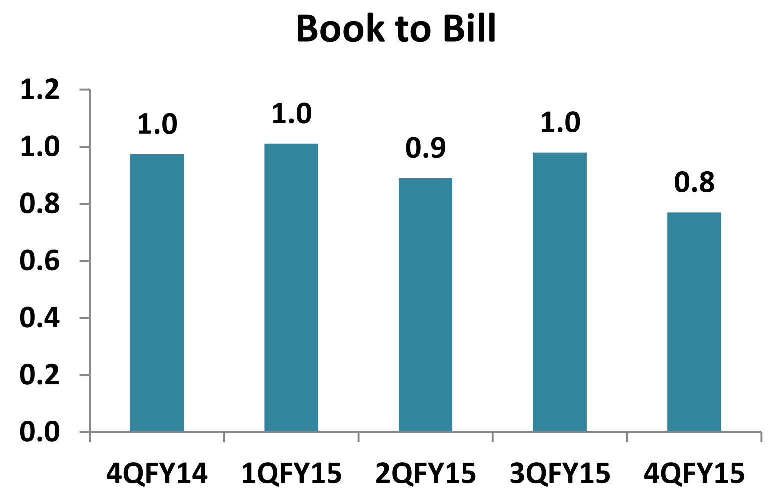
Health and Engineering – Awards & Backlog





- Book to bill 0.8x for 4Q15
- Total bids outstanding of $3.0B at end of 4Q15
- Notable wins during the quarter
  - Trinity Health – single award prime contract
  - International Customer – Security Products Maintenance Service Renewal

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Leidos Calendar Year 2015 Guidance

	CY15 Guidance
Revenue	$4.6B to $5.0B
Non-GAAP Diluted EPS*	$2.20 to $2.45
Cash Flow from Continuing Operations	At or above $200M

[1] Leidos announced on 3/25/2015 that its Board of Directors has approved a proposal to modify the Company's fiscal year end to the Friday closest to the end of December, versus historical fiscal year end on the Friday closest to the end of January. This method will be used prospectively for Calendar year 2015 – as such CY2015 will cover the period from January 3, 2015 – January 1, 2016. Supplementary information available on http://ir.leidos.com.

[2] For a definition of Non-GAAP Diluted EPS please see slide 17.

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Profit and Loss

	4Q15	4Q14	% chg.
	(in millions, except for per share amounts)		
Revenues	$1,169	$1,291	*(9%)*
Cost of revenues	1,017	1,107	*(8%)*
Selling, general and administrative expenses	71	97	*(27%)*
Bad debt expense	2	(1)	
Asset impairment charges	40	-	
Separation transaction and restructuring expenses	2	7	
Operating income	37	81	
Operating income margin	*3.2%*	*6.3%*	
Net interest expense	(17)	(23)	
Other income (expense), net	4	(11)	
Income from continuing operations before income taxes	24	47	
Income tax benefit	2	-	
Income from continuing operations	**26**	**47**	
Diluted EPS from continuing operations	**$ 0.35**	**$ 0.56**	

Note 1: Prior periods have been recast to reflect discontinued operations.

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Appendix A

Working Days per Quarter
Non-GAAP Financial Information

Working Days per Quarter

	Q1	Q2	Q3	Q4	Year Total
CY15	63	63	64	61	251
FY15	64	63	64	60	251
(Decrease) / Increase	(1)	0	0	1	0

[1] Leidos announced on 3/25/2015 that its Board of Directors has approved a proposal to modify the Company's fiscal year end to the Friday closest to the end of December, versus historical fiscal year end on the Friday closest to the end of January. This method will be used prospectively for Calendar year 2015 – as such CY2015 will cover the period from January 3, 2015 – January 1, 2016.

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Non-GAAP Reconciliations

This presentation includes certain non-GAAP financial measures, such as operating income, operating margin, and earnings per share. These non-GAAP financial measures are not meant to be considered in isolation or as a substitute for results prepared in accordance with generally accepted accounting principles in the United States (GAAP). A reconciliation of non-GAAP financial measures included in this presentation to the most directly comparable financial measure calculated and presented in accordance with GAAP accompanies this presentation and is on our website at www.Leidos.com. Leidos management believes that these non-GAAP financial measures provide useful information to investors regarding the Company's financial condition and results of operations as they provide another measure of the Company's profitability, and are considered important measures by financial analysts covering Leidos and its peers.

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Historical Financials ─ Segment Income Statement

	1Q14	2Q14	3Q14	4Q14	FY14	1Q15	2Q15	3Q15	4Q15	FY15
					(in millions)					
National Security Segment										
Revenue	$ 1,077	$ 1,019	$ 1,011	$ 942	**$ 4,049**	$ 944	$ 925	$ 906	$ 819	**$ 3,594**
Operating income	$ 71	$ 72	$ 66	$ 83	**$ 292**	$ 77	$ 78	$ 72	$ 59	**$ 286**
Health & Engineering Segment										
Revenue	$ 517	$ 445	$ 406	$ 350	**$ 1,718**	$ 372	$ 381	$ 373	$ 359	**$ 1,485**
Operating income (loss)	$ 35	$ (3)	$ (30)	$ 18	**$ 20**	$ 23	$ (482)	$ 4	$ (17)	**$ (472)**
Corporate										
Revenue	$ -	$ (6)	$ (2)	$ (1)	**$ (9)**	$ (4)	$ -	$ (3)	$ (9)	**$ (16)**
Operating loss	$ (29)	$ (59)	$ (41)	$ (20)	**$ (149)**	$ (13)	$ (6)	$ (4)	$ (5)	**$ (28)**
Elimination										
Revenue	$ (1)	$ (1)	$ (1)	$ -	**$ (3)**	$ -	$ -	$ -	$ -	**$ -**
Total Continuing Operations										
Revenue	$ 1,593	$ 1,457	$ 1,414	$ 1,291	**$ 5,755**	$ 1,312	$ 1,306	$ 1,276	$ 1,169	**$ 5,063**
Operating income (loss)	$ 77	$ 10	$ (5)	$ 81	**$ 163**	$ 87	$ (410)	$ 72	$ 37	**$ (214)**

Note 1: Prior periods have been recast to reflect discontinued operations.

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Historical Financials – Income Statement

	1Q14	2Q14	3Q14	4Q14	FY14	1Q15	2Q15	3Q15	4Q15	FY15
	(in millions, except for per share amounts)									
Revenue	**$ 1,593**	**$ 1,457**	**$ 1,414**	**$ 1,291**	**$ 5,755**	**$ 1,312**	**$ 1,306**	**$ 1,276**	**$ 1,169**	**$ 5,063**
Cost of revenue	1,373	1,293	1,219	1,107	**4,992**	1,141	1,119	1,115	1,017	**4,392**
Selling, general and administrative expenses	125	105	113	97	**440**	84	82	73	71	**310**
Bad debt expense	2	-	43	(1)	**44**	(1)	5	(1)	2	**5**
Goodwill impairment charges	-	-	-	-	**-**	-	486	-	-	**486**
Asset impairment charges	2	30	19	-	**51**	-	24	17	40	**81**
Separation transaction and restructuring expenses	14	19	25	7	**65**	1	-	-	2	**3**
Operating income (loss) from continuing operations	**$ 77**	**$ 10**	**$ (5)**	**$ 81**	**$ 163**	**$ 87**	**$ (410)**	**$ 72**	**$ 37**	**$ (214)**
Non-Operating income (expense):										
Interest income	4	6	5	-	**15**	-	1	-	-	**1**
Interest expense	(20)	(18)	(21)	(23)	**(82)**	(20)	(20)	(18)	(17)	**(75)**
Other income (expense), net	1	-	2	(11)	**(8)**	2	(1)	-	4	**5**
Income (loss) from continuing operations before income taxes	62	(2)	(19)	47	**88**	69	(430)	54	24	**(283)**
Income tax (expense) benefit	(21)	6	11	-	**(4)**	(24)	(9)	(16)	2	**(47)**
Income (loss) from continuing operations	**$ 41**	**$ 4**	**$ (8)**	**$ 47**	**$ 84**	**$ 45**	**$ (439)**	**$ 38**	**$ 26**	**$ (330)**
Diluted earnings (loss) per share from continuing operations	**$ 0.44**	**$ 0.05**	**$ (0.10)**	**$ 0.56**	**$ 0.98**	**$ 0.58**	**$ (5.93)**	**$ 0.51**	**$ 0.35**	**$ (4.46)**
Diluted weighted average number of shares outstanding	**84**	**84**	**84**	**84**	**83**	**78**	**74**	**74**	**75**	**74**

Note 1: Prior periods have been recast to reflect discontinued operations.
Note 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.

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Non-GAAP Operating Income Reconciliation

	1Q14	2Q14	3Q14	4Q14	FY14	1Q15	2Q15	3Q15	4Q15	FY15
	(in millions)									
Operating income (loss) from continuing operations	**$ 77**	**$ 10**	**$ (5)**	**$ 81**	**$ 163**	**$ 87**	**$ (410)**	**$ 72**	**$ 37**	**$ (214)**
Goodwill impairment charges	-	-	-	-	**-**	-	486	-	-	**486**
Intangible asset impairment charges	2	30	19	-	**51**	-	24	14	-	**38**
Separation transaction and restructuring expenses	14	19	25	7	**65**	1	-	-	2	**3**
Impact of Plainfield	3	14	32	-	**49**	-	-	3	40	**43**
Non-GAAP operating income from continuing operations	**$ 96**	**$ 73**	**$ 71**	**$ 88**	**$ 328**	**$ 88**	**$ 100**	**$ 89**	**$ 79**	**$ 356**

Note 1: Please see description of non-GAAP Operating Income on slide 17.
Note 2: Prior periods have been recast to reflect discontinued operations.

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Non-GAAP EPS Reconciliation

	1Q14	2Q14	3Q14	4Q14	FY14	1Q15	2Q15	3Q15	4Q15	FY15
	(in millions, except for per share amounts)									
GAAP income (loss) from continuing operations	**$ 41**	**$ 4**	**$ (8)**	**$ 47**	**$ 84**	**$ 45**	**$ (439)**	**$ 38**	**$ 26**	**$ (330)**
Goodwill impairment charges	-	-	-	-	**-**	-	486	-	-	**486**
Intangible asset impairment charges	2	30	19	-	**51**	-	24	14	-	**38**
Separation transaction and restructuring expenses	14	19	25	7	**65**	1	-	-	2	**3**
Impact of Plainfield	3	14	32	12	**61**	-	-	3	40	**43**
Total non-GAAP adjustments	**$ 19**	**$ 63**	**$ 76**	**$ 19**	**$ 177**	**$ 1**	**$ 510**	**$ 17**	**$ 42**	**$ 570**
Adjustment to the income tax provision to reflect non-GAAP adjustments [1]	(7)	(22)	(26)	(7)	**(62)**	-	(25)	(7)	(16)	**(48)**
Non-GAAP income from continuing operations	**$ 53**	**$ 45**	**$ 42**	**$ 59**	**$ 199**	**$ 46**	**$ 46**	**$ 48**	**$ 52**	**$ 192**
GAAP diluted earnings (loss) per share from continuing operations [2]	**$ 0.44**	**$ 0.05**	**$(0.10)**	**$ 0.56**	**$ 0.98**	**$ 0.58**	**$ (5.93)**	**$ 0.51**	**$ 0.35**	**$ (4.46)**
Total adjustments from non-GAAP income from continuing operations, above [2]	$ 0.14	$ 0.48	$ 0.59	$ 0.14	$ 1.38	$ 0.01	$ 6.54	$ 0.14	$ 0.34	$ 7.02
Non-GAAP diluted earnings per share from continuing operations [2]	**$ 0.58**	**$ 0.53**	**$ 0.49**	**$ 0.70**	**$ 2.36**	**$ 0.59**	**$ 0.61**	**$ 0.65**	**$ 0.69**	**$ 2.56**
Diluted Shares (for computing Non-GAAP EPS)	**84**	**85**	**86**	**84**	**83**	**78**	**75**	**74**	**75**	**75**

[1] Calculation uses an estimated tax rate on non-GAAP tax deductible 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.

Note 1: Please see description of non-GAAP EPS on slide 17.
Note 2: Prior periods have been recast to reflect discontinued operations.

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Non-GAAP Reconciliations

Non-GAAP operating income and non-GAAP diluted earnings per share are non-GAAP financial measures that are reconciled to the most directly comparable GAAP financial measure, operating income. Non-GAAP operating income and non-GAAP diluted earnings per share are adjusted for the following discrete items:

- Goodwill and intangible asset impairment charges – This adjustment represents impairments of goodwill and long-lived intangible assets due to changes in actual performance against performance projected when the goodwill and long-lived intangible assets were acquired.
- 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 the Company's September 2013 spin-off of it's former technical services and enterprise IT business.
- Impact of Plainfield – This adjustment represents the write-down taken as part of cancelling accounts receivable in exchange for the asset of the Plainfield plant and estimate-at-completion adjustments related to the Plainfield construction project prior to the Company's acquisition of the Plainfield plant in October 2013. Subsequent to October 2013, this adjustment represents Plainfield refinancing charges incurred in the fourth quarter of fiscal year 2014, impairment of an intangible asset in the third quarter of fiscal year 2015 attributed to changes in the fuel supply strategy, and an impairment of long-lived tangible asset in the fourth quarter of fiscal year 2015 related to entering into a definitive agreement for the sale of Plainfield.

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