

LEIDOS 1Q CY15

Earnings Conference Call

May 12, 2015



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.

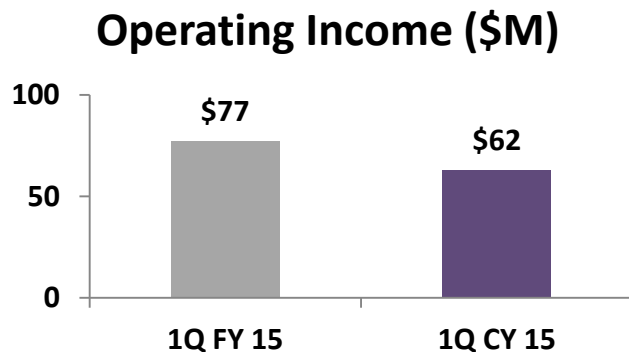
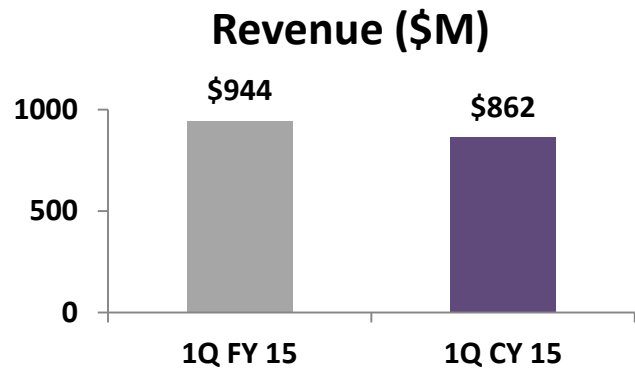
Actual performance and results may differ materially from the forward-looking statements made in these slides depending on a variety of factors, including: changes to our reputation and relationships with government agencies, developments in the U.S. Government defense budget, including budget reductions, 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; 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 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; the mix of 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; our ability to comply with our administrative agreement with the U.S. Army; 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 May 12, 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.

Executive Summary

- ▶ Q1 CY15 Highlights
 - Revenue of \$1.25B, -5% yoy
 - Non-GAAP Operating Income margins of 6.4%, -30bps yoy
 - Non-GAAP EPS of \$0.65, +10% yoy
- ▶ Ongoing internal priorities include:
 - People
 - Innovation
 - Cost
- ▶ 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

National Security Solutions – Overview



Revenue declined \$82M, or 9% yoy, driven by:

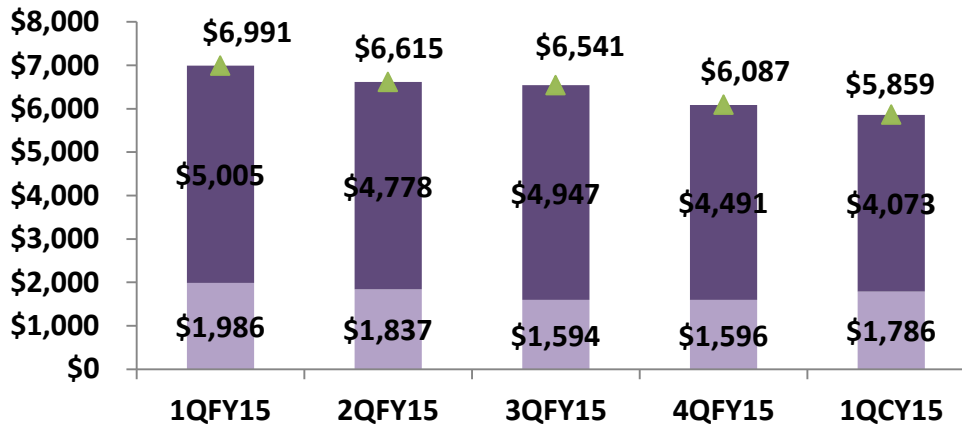
- ▶ Overseas drawdown impacting revenues from Overseas Contingency Operations (\$57M)
- ▶ Overall reductions in defense and U.S. government spending, and lower contract awards

Operating Margin:

- ▶ Operating income decrease \$15M, or 19% yoy
- ▶ Operating income margin decreased to 7.2% in Q1 CY15 from 8.2% in the prior year
- ▶ Decline yoy due to a decrease in net favorable changes in contract estimates and (previously reported) facilities exit costs

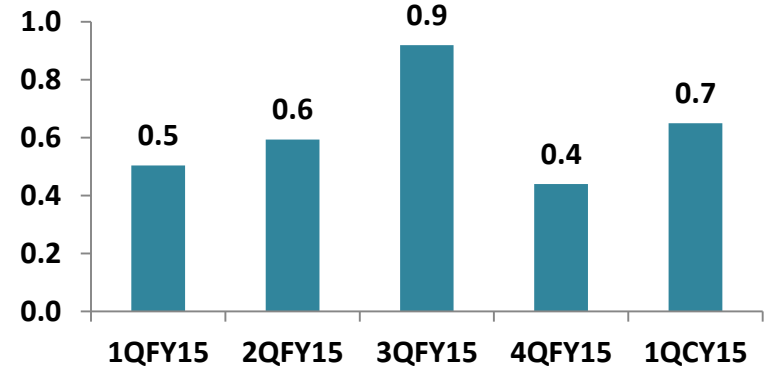
National Security Solutions – Awards & Backlog

Backlog (\$M)



■ Funded Backlog ■ Negotiated Unfunded Backlog ▲ Total Backlog

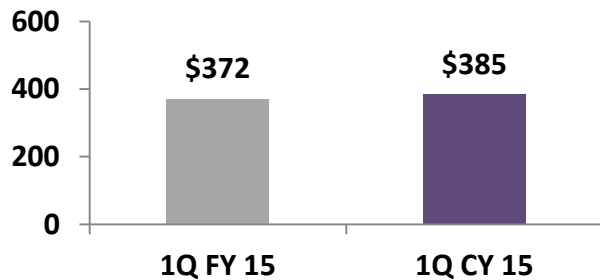
Book to Bill



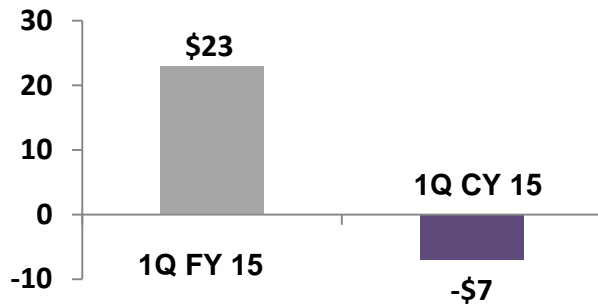
- ▶ Book to bill 0.7x for Q1 CY15
- ▶ Total bids outstanding of \$13.0B at end of Q1 CY15
- ▶ Recent notable wins
 - U.S. Army – \$7.2B Multiple Award IDIQ
 - Contracts with a value of \$364M, by U.S. national security and intel clients

Health and Engineering – Overview

Revenue (\$M)



Operating Income (\$M)



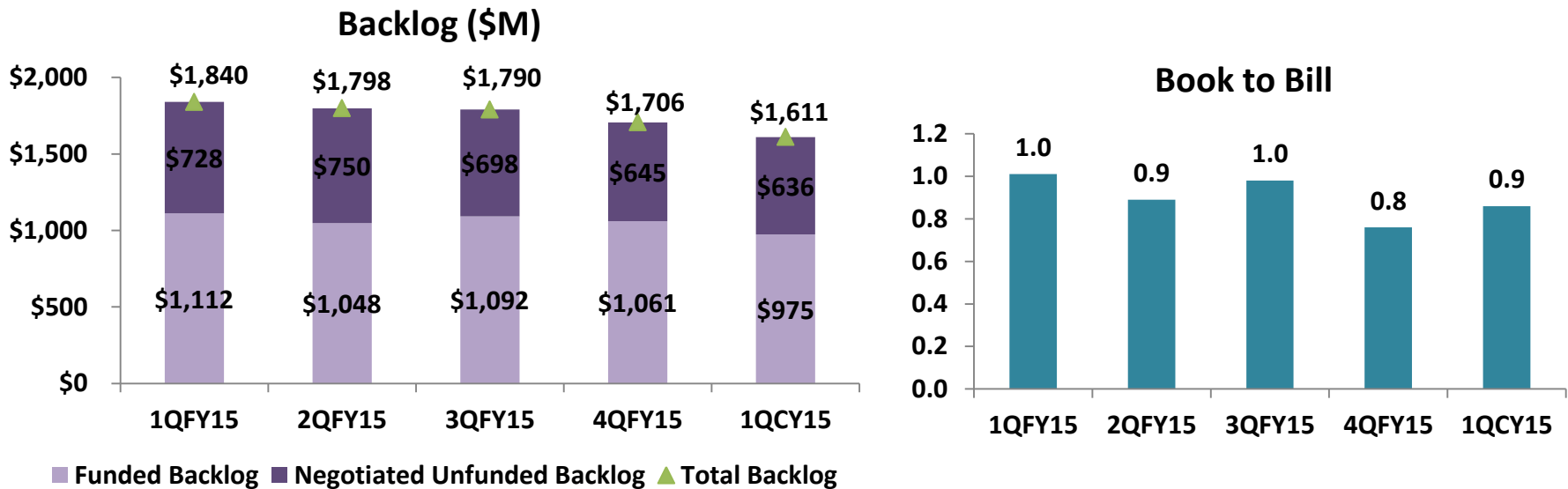
Revenue increased \$13M, or 3% yoy, due to:

- ▶ Higher sales in our engineering, and security products businesses
- ▶ Partially offset by lower sales in commercial health

Operating income decreased \$30M yoy, due to:

- ▶ January 2015 (previously reported) Plainfield intangible impairments (\$40M), offsetting increased profits in federal health and engineering
- ▶ Operating margin decreased to a loss of (1.8%) from 6.2% in the prior year

Health and Engineering – Awards & Backlog



- ▶ Book to bill 0.9x for Q1 CY15
- ▶ Total bids outstanding of \$3.2B at end of Q1 CY15
- ▶ Recent notable wins
 - National Institutes of Health - \$100M multiple-award BPA
 - Naval Facilities Engineering Command - \$50M single-award IDIQ

Leidos Calendar Year 2015 Guidance

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

* For a definition of Non-GAAP Diluted EPS please see slide 17.

Profit and Loss

	1QCY15	1QFY15	Percentage Change
	(in millions, except for per share amounts)		
Revenues	\$ 1,246	\$ 1,312	(5%)
Cost of revenues	1,093	1,141	(4%)
Selling, general and administrative expenses	73	83	(12%)
Asset impairment charges	40	-	
Restructuring expenses	2	1	
Operating income	38	87	
<i>Operating income margin</i>	3.0%	6.6%	
Interest expense, net	(14)	(20)	
Other (expense) income, net	(1)	2	
Income from continuing operations before income taxes	23	69	
Income tax expense	-	(24)	
Income from continuing operations	23	45	
Diluted EPS from continuing operations	\$ 0.31	\$ 0.57	

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
Increase / (Decrease)	(1)	0	0	1	0

¹ In March 2015, Leidos announced a change in the fiscal year end from the Friday nearest the end of January to the Friday closest to the end of December. The first quarter results are for the three months ended April 3, 2015, which includes the last month of the previous fiscal year ended January 30, 2015. Calendar Year 2015 (CY2015) refers to the period from January 3, 2015 – January 1, 2016.

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.

Historical Financials – Segment Income Statement

	1QFY15	2QFY15	3QFY15	4QFY15	FY15	1QCY15
	(in millions)					
National Security Segment						
Revenues	\$ 944	\$ 925	\$ 906	\$ 819	\$ 3,594	\$ 862
Operating income	\$ 77	\$ 78	\$ 72	\$ 59	\$ 286	\$ 62
Health & Engineering Segment						
Revenues	\$ 372	\$ 381	\$ 373	\$ 359	\$ 1,485	\$ 385
Operating income (loss)	\$ 23	\$ (482)	\$ 4	\$ (17)	\$ (472)	\$ (7)
Corporate						
Revenues	\$ (4)	\$ -	\$ (3)	\$ (9)	\$ (16)	\$ (1)
Operating loss	\$ (13)	\$ (6)	\$ (4)	\$ (5)	\$ (28)	\$ (17)
Total Continuing Operations						
Revenues	\$ 1,312	\$ 1,306	\$ 1,276	\$ 1,169	\$ 5,063	\$ 1,246
Operating income (loss)	\$ 87	\$ (410)	\$ 72	\$ 37	\$ (214)	\$ 38

Historical Financials – Income Statement

	1QFY15	2QFY15	3QFY15	4QFY15	FY15	1QCY15
	(in millions, except for per share amounts)					
Revenues	\$ 1,312	\$ 1,306	\$ 1,276	\$ 1,169	\$ 5,063	\$ 1,246
Cost of revenues	1,141	1,119	1,115	1,017	4,392	1,093
Selling, general and administrative expenses	83	87	72	73	315	73
Goodwill impairment charges	-	486	-	-	486	-
Asset impairment charges	-	24	17	40	81	40
Restructuring expenses	1	-	-	2	3	2
Operating income (loss) from continuing operations	\$ 87	\$ (410)	\$ 72	\$ 37	\$ (214)	\$ 38
Non-Operating income (expense):						
Interest expense, net	(20)	(19)	(18)	(17)	(74)	(14)
Other income (expense), net	2	(1)	-	4	5	(1)
Income (loss) from continuing operations before income taxes	69	(430)	54	24	(283)	23
Income tax (expense) benefit	(24)	(9)	(16)	2	(47)	-
Income (loss) from continuing operations	\$ 45	\$ (439)	\$ 38	\$ 26	\$ (330)	\$ 23
Diluted earnings (loss) per share from continuing operations	\$ 0.57	\$ (5.93)	\$ 0.51	\$ 0.35	\$ (4.46)	\$ 0.31
Diluted weighted average number of shares outstanding	78	74	74	75	74	75

Note 1: 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 Operating Income Reconciliation

	1QFY15	2QFY15	3QFY15	4QFY15	FY15	1QCY15
	(in millions)					
Operating income (loss) from continuing operations	\$ 87	\$ (410)	\$ 72	\$ 37	\$ (214)	\$ 38
Goodwill impairment charges	-	486	-	-	486	-
Intangible asset impairment charges	-	24	14	-	38	-
Restructuring expenses	1	-	-	2	3	2
Plainfield asset impairment charges	-	-	3	40	43	40
Non-GAAP operating income from continuing operations	\$ 88	\$ 100	\$ 89	\$ 79	\$ 356	\$ 80

Note 1: Please see description of non-GAAP Operating Income on slide 17.

Non-GAAP EPS Reconciliation

	1QFY15	2QFY15	3QFY15	4QFY15	FY15	1QCY15
	(in millions, except for per share amounts)					
GAAP income (loss) from continuing operations	\$ 45	\$ (439)	\$ 38	\$ 26	\$ (330)	\$ 23
Goodwill impairment charges	-	486	-	-	486	-
Intangible asset impairment charges	-	24	14	-	38	-
Restructuring expenses	1	-	-	2	3	2
Plainfield asset impairment charges	-	-	3	40	43	40
Total non-GAAP adjustments	\$ 1	\$ 510	\$ 17	\$ 42	\$ 570	\$ 42
Adjustment to the income tax provision to reflect non-GAAP adjustments ¹	-	(25)	(7)	(16)	(48)	(16)
Non-GAAP income from continuing operations	\$ 46	\$ 46	\$ 48	\$ 52	\$ 192	\$ 49
GAAP diluted earnings (loss) per share from continuing operations²	\$ 0.57	\$ (5.93)	\$ 0.51	\$ 0.35	\$ (4.46)	\$ 0.31
Total adjustments from non-GAAP income from continuing operations, above ²	\$ 0.02	\$ 6.54	\$ 0.14	\$ 0.34	\$ 7.02	\$ 0.34
Non-GAAP diluted earnings per share from continuing operations²	\$ 0.59	\$ 0.61	\$ 0.65	\$ 0.69	\$ 2.56	\$ 0.65
Diluted Shares (for computing Non-GAAP EPS)	78	75	74	75	75	75

¹ Calculation uses an estimated statutory 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.



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 measures, operating income and earnings per share, respectively. 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.
- ▶ **Restructuring expenses** – This adjustment represents costs for lease termination and facility consolidation associated with the Company's September 2013 spin-off of its former technical services and enterprise IT business.
- ▶ **Plainfield asset impairment charges**– This adjustment represents an 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 a long-lived tangible asset in the fourth quarter of fiscal year 2015 related to entering into a definitive agreement for the sale of Plainfield.