

LEIDOS 2Q CY15

Earnings Conference Call

August 5, 2015



Forward-Looking Statements

Certain statements in this presentation 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 presentation include, among others,: estimates of future revenues, operating income, earnings, earnings per share, charges, backlog, outstanding shares and cash flows, growth and profitability as well as statements about future regular or special dividends, stock share repurchases and other anticipated acquisitions. uses of capital. These statements reflect our belief and assumptions as to future events that may not prove to be accurate.

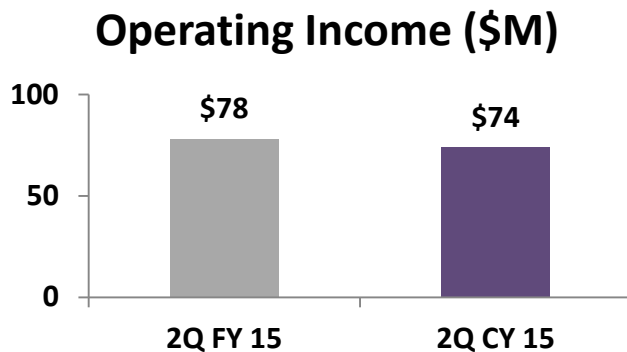
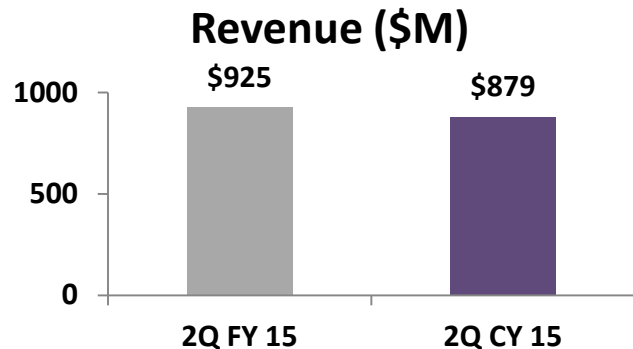
Actual performance and results may differ materially from the guidance and other forward-looking statements made in these slides depending on a variety of factors, including: changes to our reputation and relationships with government agencies, developments in the U.S. Government defense budget, including 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 for 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 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; 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; 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; 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, 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 web site at www.leidos.com.

All information in this presentation is as of August 5, 2015. The Company expressly disclaims any duty to update the guidance or any other 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

- ▶ Q2 CY15 Highlights
 - Revenue of \$1.26B, -4% yoy
 - Non-GAAP Operating Income margins of 7.4%, -30bps yoy
 - Non-GAAP EPS of \$0.73, +20% 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 \$46M, or 5% yoy, driven by:

- ▶ Overseas drawdown impacting revenues from Overseas Contingency Operations (\$51M)

Operating Income:

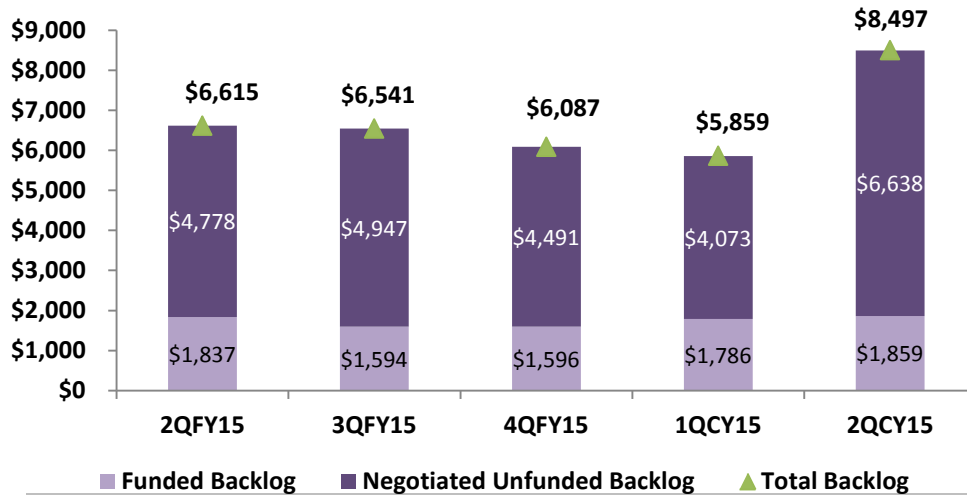
- ▶ Operating income decreased \$4M, or 5% yoy in-line with revenue declines

Operating Margin:

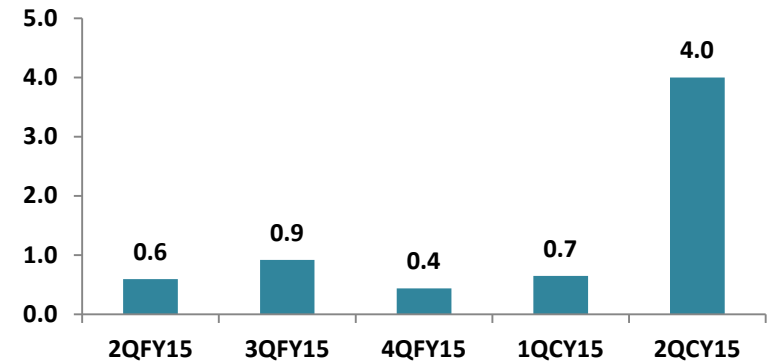
- ▶ Operating income margin held steady from the prior year at 8.4%

National Security Solutions – Awards & Backlog

Backlog (\$M)



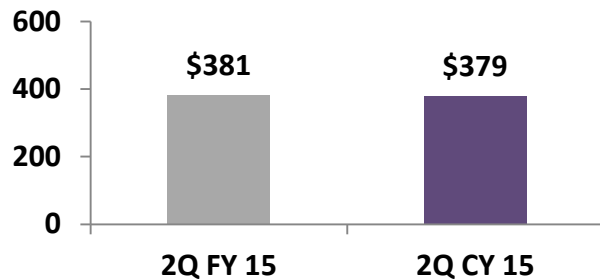
Book to Bill



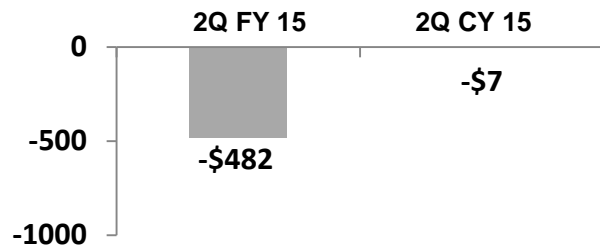
- ▶ Book to bill 4.0x for Q2 CY15
- ▶ Total bids outstanding of \$10.2B at end of Q2 CY15
- ▶ Recent notable wins
 - U.K. Ministry of Defense –Single Award Contract valued at ~\$2.8B
 - U.S. Army – \$49M Multiple Award IDIQ
 - U.S. Navy – \$49M Single Award IDIQ
 - Contracts with a value of \$365M, by U.S. national security and intel clients

Health and Engineering – Overview

Revenue (\$M)



Operating Income (\$M)



Revenue decreased \$2M, or 1% yoy, due to:

- ▶ Growth in engineering, offset by lower volumes in commercial health and timing of security product shipments.

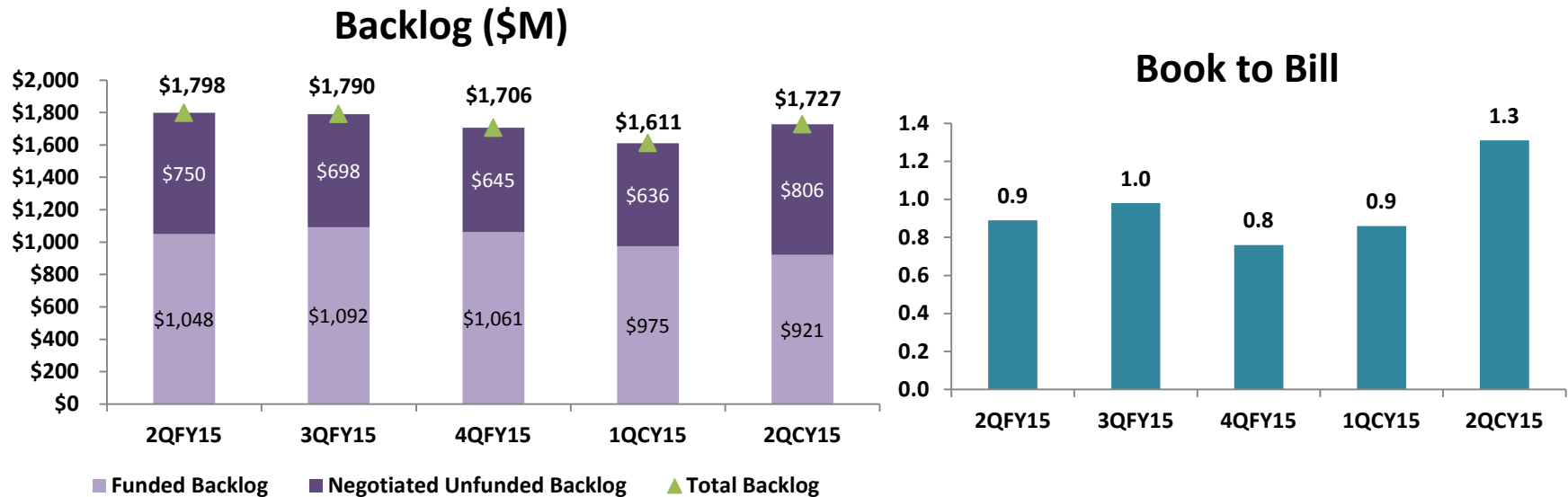
Operating income increased \$475M yoy, due to:

- ▶ Prior year period included \$510M goodwill and intangible impairment charges.
- ▶ Lower volume of security product shipments;

Operating margin of -1.8% includes:

- ▶ Approximately \$5M of Plainfield operating losses;
- ▶ \$29 million asset impairment charge related to the sale of Plainfield.

Health and Engineering – Awards & Backlog



- ▶ Book to bill 1.3x for Q2 CY15
- ▶ Total bids outstanding of \$2.9B at end of Q2 CY15
- ▶ Recent notable wins
 - Department of Defense (DoD) Defense Healthcare Management System Modernization (DHMSM) – \$4.3B single award IDIQ
 - US AID Malaria Vaccine – \$24M single award contract

Leidos Calendar Year 2015 Guidance

	Current	Prior
Revenue	\$4.8B to \$5.0B	\$4.6B to \$5.0B
Non-GAAP Diluted EPS*	\$2.40 to \$2.60	\$2.20 to \$2.45
Cash Flow from Continuing Operations	At or above \$250M	At or above \$200M

* For a definition of Non-GAAP Diluted EPS please see slide 19.

Profit and Loss

	2QCY15	2QFY15	Percentage Change
	(in millions, except for per share amounts)		
Revenues	\$ 1,257	\$ 1,306	(4%)
Cost of revenues	1,113	1,119	(1%)
Selling, general and administrative expenses	51	87	(41%)
Goodwill impairment charges	-	486	
Asset impairment charges	29	24	
Operating income (loss)	64	(410)	
<i>Operating income margin (deficit)</i>	5.1%	(31.4%)	
Interest expense, net	(14)	(19)	
Other income (expense), net	2	(1)	
Income (loss) from continuing operations before income taxes	52	(430)	
Income tax expense	(15)	(9)	
Income (loss) from continuing operations	37	(439)	
Diluted EPS from continuing operations	\$ 0.50	\$ (5.93)	

Profit and Loss – Non-GAAP

	2QCY15	2QFY15	Percentage Change
	(in millions, except for per share amounts)		
Revenues	\$ 1,257	\$ 1,306	(4%)
Cost of revenues	1,113	1,119	(1%)
Selling, general and administrative expenses	51	87	(41%)
Non-GAAP Operating income¹	93	100	
<i>Non-GAAP operating income margin</i>	<i>7.4%</i>	<i>7.7%</i>	
Interest expense, net	(14)	(19)	
Other income (expense), net	2	(1)	
Non-GAAP income from continuing operations before income taxes	81	80	
Non-GAAP income tax expense	(27)	(34)	
Non-GAAP income from continuing operations	54	46	
Non-GAAP diluted EPS from continuing operations	\$ 0.73	\$ 0.61	

¹ Non-GAAP operating income excludes asset impairment charges of \$29 million and \$510 million for 2Q CY15 and 2Q FY15, respectively. See slides 17 and 18 for the reconciliation of non-GAAP operating income and EPS to GAAP operating income and EPS.

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

Note 1: In March 2015, Leidos announced a change in its 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 (CY15) 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	2QCY15
	(in millions)						
National Security Segment							
Revenues	\$ 944	\$ 925	\$ 906	\$ 819	\$ 3,594	\$ 862	\$ 879
Operating income	\$ 77	\$ 78	\$ 72	\$ 59	\$ 286	\$ 62	\$ 74
Health & Engineering Segment							
Revenues	\$ 372	\$ 381	\$ 373	\$ 359	\$ 1,485	\$ 385	\$ 379
Operating income (loss)	\$ 23	\$ (482)	\$ 4	\$ (17)	\$ (472)	\$ (7)	\$ (7)
Corporate							
Revenues	\$ (4)	\$ -	\$ (3)	\$ (9)	\$ (16)	\$ (1)	\$ (1)
Operating loss	\$ (13)	\$ (6)	\$ (4)	\$ (5)	\$ (28)	\$ (17)	\$ (3)
Total Continuing Operations							
Revenues	\$ 1,312	\$ 1,306	\$ 1,276	\$ 1,169	\$ 5,063	\$ 1,246	\$ 1,257
Operating income (loss)	\$ 87	\$ (410)	\$ 72	\$ 37	\$ (214)	\$ 38	\$ 64

Historical Financials – Income Statement

	1QFY15	2QFY15	3QFY15	4QFY15	FY15	1QCY15	2QCY15
	(in millions, except for per share amounts)						
Revenues	\$ 1,312	\$ 1,306	\$ 1,276	\$ 1,169	\$ 5,063	\$ 1,246	\$ 1,257
Cost of revenues	1,141	1,119	1,115	1,017	4,392	1,093	1,113
Selling, general and administrative expenses	83	87	72	73	315	73	51
Goodwill impairment charges	-	486	-	-	486	-	-
Asset impairment charges	-	24	17	40	81	40	29
Restructuring expenses	1	-	-	2	3	2	-
Operating income (loss) from continuing operations	\$ 87	\$ (410)	\$ 72	\$ 37	\$ (214)	\$ 38	\$ 64
Non-Operating income (expense):							
Interest expense, net	(20)	(19)	(18)	(17)	(74)	(14)	(14)
Other income (expense), net	2	(1)	-	4	5	(1)	2
Income (loss) from continuing operations before income taxes	69	(430)	54	24	(283)	23	52
Income tax (expense) benefit	(24)	(9)	(16)	2	(47)	-	(15)
Income (loss) from continuing operations	\$ 45	\$ (439)	\$ 38	\$ 26	\$ (330)	\$ 23	\$ 37
Diluted earnings (loss) per share from continuing operations	\$ 0.57	\$ (5.93)	\$ 0.51	\$ 0.35	\$ (4.46)	\$ 0.31	\$ 0.50
Diluted weighted average number of shares outstanding	78	74	74	75	74	75	74

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.

Historical Financials – Non-GAAP Income Statement

	1QFY15	2QFY15	3QFY15	4QFY15	FY15	1QCY15	2QCY15
	(in millions, except for per share amounts)						
Revenues	\$ 1,312	\$ 1,306	\$ 1,276	\$ 1,169	\$ 5,063	\$ 1,246	\$ 1,257
Cost of revenues	1,141	1,119	1,115	1,017	4,392	1,093	1,113
Selling, general and administrative expenses	83	87	72	73	315	73	51
Non-GAAP operating income from continuing operations¹	\$ 88	\$ 100	\$ 89	\$ 79	\$ 356	\$ 80	\$ 93
Non-Operating income (expense):							
Interest expense, net	(20)	(19)	(18)	(17)	(74)	(14)	(14)
Other income (expense), net	2	(1)	-	4	5	(1)	2
Non-GAAP income from continuing operations before income taxes	70	80	71	66	287	65	81
Non-GAAP income tax expense	(24)	(34)	(23)	(14)	(95)	(16)	(27)
Non-GAAP income from continuing operations	\$ 46	\$ 46	\$ 48	\$ 52	\$ 192	\$ 49	\$ 54
Non-GAAP diluted earnings per share from continuing operations	\$ 0.59	\$ 0.61	\$ 0.65	\$ 0.69	\$ 2.56	\$ 0.65	\$ 0.73
Non-GAAP diluted weighted average number of shares outstanding	78	75	74	75	75	75	74

¹ Non-GAAP operating income excludes asset impairment charges and restructuring expenses. See slides 17 and 18 for the reconciliation of non-GAAP operating income and EPS to GAAP operating income and EPS.

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	2QCY15
	(in millions)						
Operating income (loss) from continuing operations	\$ 87	\$ (410)	\$ 72	\$ 37	\$ (214)	\$ 38	\$ 64
Asset impairment charges	-	510	17	40	567	40	29
Restructuring expenses	1	-	-	2	3	2	-
Non-GAAP operating income from continuing operations	\$ 88	\$ 100	\$ 89	\$ 79	\$ 356	\$ 80	\$ 93

Note 1: Please see description of non-GAAP operating income on slide 19.

Non-GAAP EPS Reconciliation

	1QFY15	2QFY15	3QFY15	4QFY15	FY15	1QCY15	2QCY15
	(in millions, except for per share amounts)						
GAAP income (loss) from continuing operations	\$ 45	\$ (439)	\$ 38	\$ 26	\$ (330)	\$ 23	\$ 37
Asset impairment charges	-	510	17	40	567	40	29
Restructuring expenses	1	-	-	2	3	2	-
Total non-GAAP adjustments	\$ 1	\$ 510	\$ 17	\$ 42	\$ 570	\$ 42	\$ 29
Adjustment to the income tax provision to reflect non-GAAP adjustments ¹	-	(25)	(7)	(16)	(48)	(16)	(12)
Non-GAAP income from continuing operations	\$ 46	\$ 46	\$ 48	\$ 52	\$ 192	\$ 49	\$ 54
GAAP diluted earnings (loss) per share from continuing operations²	\$ 0.57	\$ (5.93)	\$ 0.51	\$ 0.35	\$ (4.46)	\$ 0.31	\$ 0.50
Total adjustments from non-GAAP income from continuing operations, above ²	\$ 0.02	\$ 6.54	\$ 0.14	\$ 0.34	\$ 7.02	\$ 0.34	\$ 0.23
Non-GAAP diluted earnings per share from continuing operations²	\$ 0.59	\$ 0.61	\$ 0.65	\$ 0.69	\$ 2.56	\$ 0.65	\$ 0.73
Diluted Shares (for computing Non-GAAP EPS)	78	75	74	75	75	75	74

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 19.



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 (loss) and earnings (loss) per share, respectively. Non-GAAP operating income and non-GAAP diluted earnings per share are adjusted for the following discrete items:

- ▶ **Asset impairment charges** – This adjustment represents impairments of goodwill and long-lived intangible and tangible assets.
- ▶ **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.