LEIDOS 2Q 2016

Earnings Conference Call

July 28, 2016

leidos

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, operating income, earnings, earnings per share, charges, backlog, outstanding shares and cash flows, as well as statements about future dividends, stock repurchases, and other 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 this release 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; factors relating to the satisfaction of the conditions to the proposed transaction with Lockheed Martin, including regulatory approvals and the required approvals of our stockholders; our and Lockheed Martin's ability to meet expectations regarding the timing, completion and accounting and tax treatments of the transaction with Lockheed Martin; the possibility that we may be unable to achieve expected synergies and operating efficiencies in connection with the transaction with Lockheed Martin within the expected time-frames or at all; the integration of the Information Systems & Global Solutions business being acquired from Lockheed Martin being more difficult, time-consuming or costly than expected; the effect of any changes resulting from the proposed transaction in customer, supplier and other business relationships; general market perception of the proposed transaction with Lockheed Martin; exposure to lawsuits and contingencies associated with Lockheed Martin’s Information Systems & Global Solutions business; 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 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 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 prospectus included in the registration statement on Form S-4 filed by the Company on July 11, 2016 (which was declared effective by the SEC on July 11, 2016), our definitive proxy statement for the Company’s annual meeting of stockholders filed on July 7, 2016, and the “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Legal Proceedings” sections of our latest Transition 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 presentation is as of July 28, 2016. The Company expressly disclaims any duty to update the guidance or any other 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

- Q2 2016 Highlights
  - Revenue of $1.3B, +2.5% year over year
  - Adjusted EBITDA* margins of 7.4%
  - Non-GAAP EPS* of $0.68
  - Cash Flow from Operations: +$72M

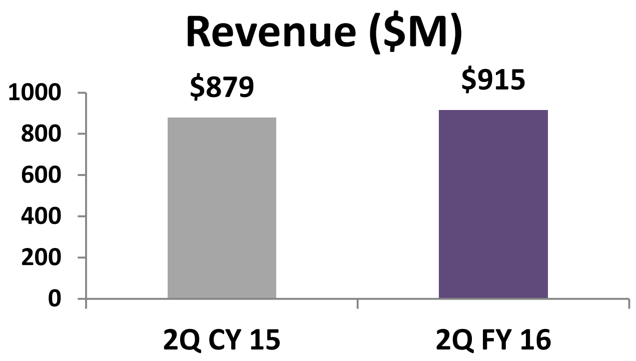
- Proposed Transaction Update
  - All regulatory approvals obtained
  - Form S-4 declared effective on July 11, 2016
  - Transaction Close expected in Q3 2016

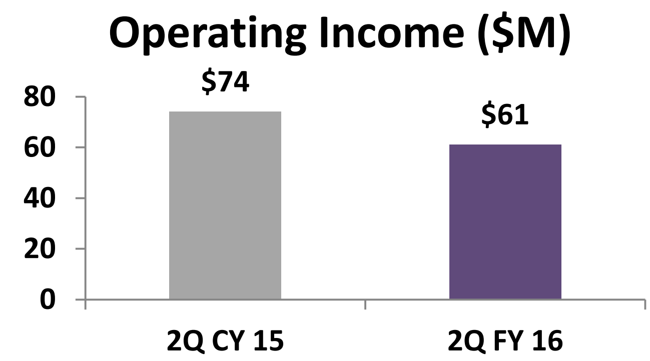
- Ongoing internal priorities include:
  - People
  - Capabilities
  - Cost Structure

* See slides 17 and 18 for non-GAAP Measures Reconciliation and Definitions.

leidos

National Security Solutions – Overview





Revenue increased $36M, or 4% yoy, driven by:

- Increase in revenues associated with the UK Ministry of Defense program

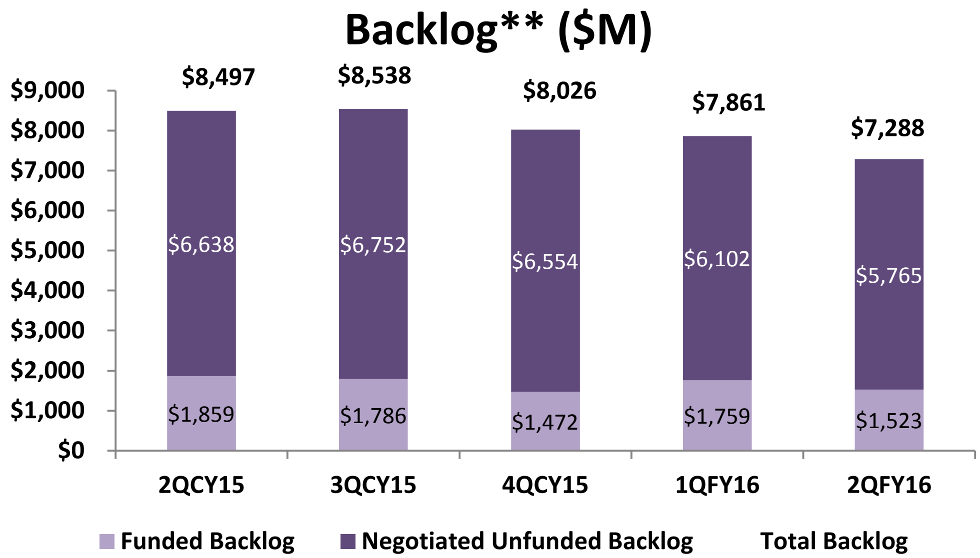
Operating Income:

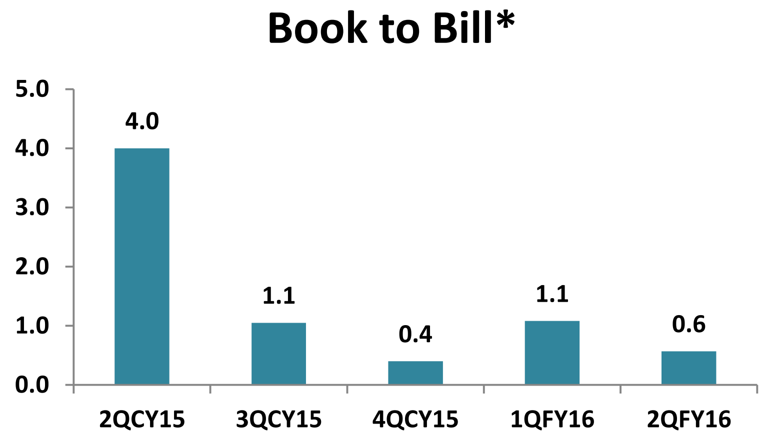
- Operating income decreased $13M, or 18% yoy due to lower program fees and contract mix in the current period

Operating Margin:

- Operating income margin of 6.7% decreased from the prior year by 170bps

National Security Solutions – Awards & Backlog

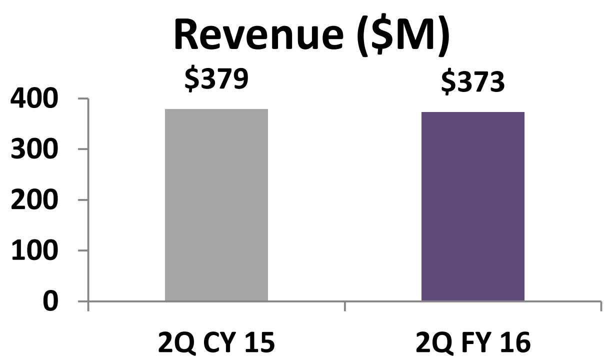


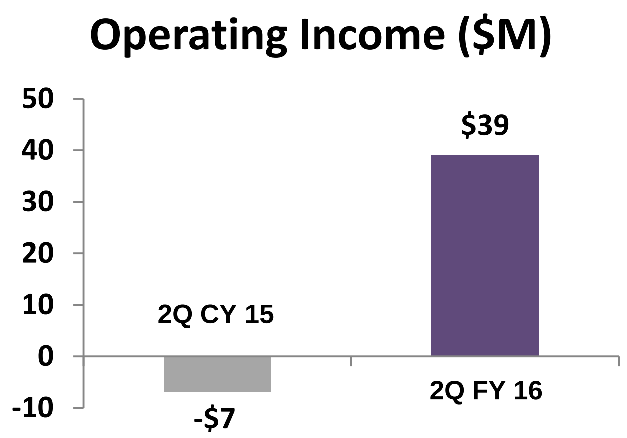


- 0.6x book-to-bill* for 2Q FY 16
- Total bids outstanding of $10.7B at end of 2Q FY 16
- Recent notable wins
  - U.S. Army – $250M multiple award IDIQ
  - Contracts with a value of $343M, by U.S. national security and intelligence clients

* Book to bill presented on a constant currency basis.
**Backlog reflects currency adjustments.

Health and Infrastructure – Overview





Revenue decreased $6M, or 2% yoy, due to:

- Growth in Federal Health business driven by ramp of Defense Health program
- Offset by a lower level of revenues from the Heavy construction engineering business which was divested during the quarter.

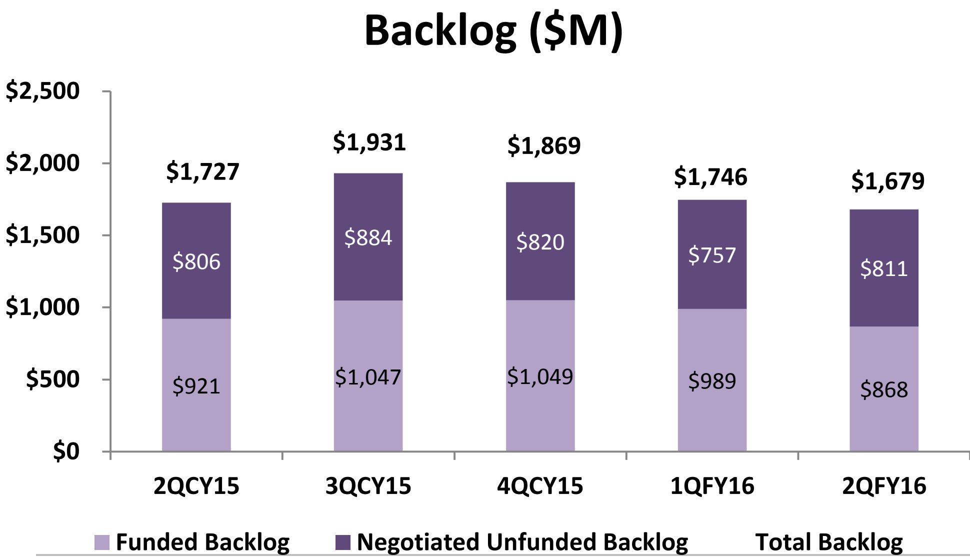
Operating income increased $46M yoy, primarily due to:

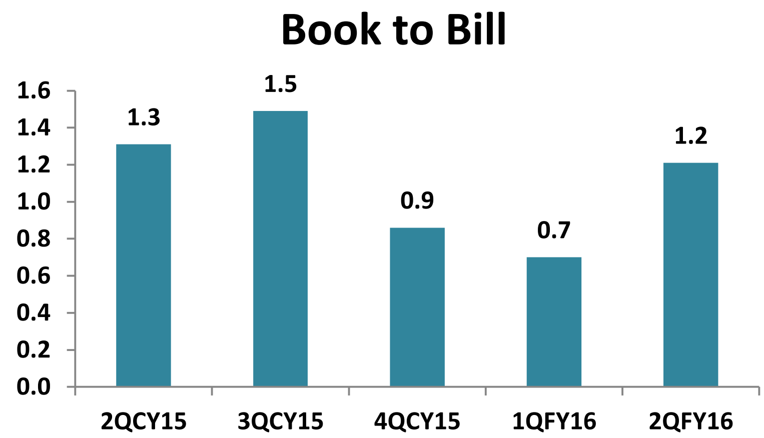
- Improved profitability in the core business
- Prior year period includes a $29 million non-cash asset impairment charge and operating losses related to the Plainfield plant

Operating margin:

- Operating margin of 10.5% grew significantly compared to -1.8% in the prior year period

Health and Infrastructure – Awards & Backlog





- 1.2x book-to-bill for 2Q FY 16
- Total bids outstanding of $2.2B at end of 2Q FY 16
- Recent notable wins
  - VA T4 NextGen - $22B multiple-award IDIQ
  - Hawaii Public Utilities Commission - $85M single-award prime contract

Leidos Fiscal Year 2016 Guidance

	Current	Prior
Revenue	$5.1B to $5.2B	$5.1B to $5.3B
Non-GAAP Diluted EPS*	$2.85 to $3.05	$2.75 to $2.95
Cash Flow from Continuing Operations	Unchanged	At or above $275M

Fiscal year 2016 guidance excludes the impact of the potential transaction with Lockheed Martin, including the impact of any acquisition related costs incurred prior to closing, and any other future acquisitions, divestitures, or other non-ordinary course items.

* See slides 17 and 18 for non-GAAP Measures Reconciliation and Definitions.

leidos

Profit and Loss – GAAP

	2QFY16	2QCY15	Percentage Change
			(in millions, except for per share amounts)
Revenues	**$ 1,288**	**$ 1,257**	***2.5%***
Cost of revenues	1,141	1,113	
Selling, general and administrative expenses	56	51	
Acquisition and integration costs	15	-	
Asset impairment charges	-	29	
Restructuring expenses	1	-	
Operating income	**75**	**64**	***17.2%***
Operating income margin	*5.8%*	*5.1%*	
Interest expense, net	(13)	(14)	
Other (expense) income, net	(2)	2	
Income from continuing operations before income taxes	60	52	
Income tax expense	(19)	(15)	
Income from continuing operations	**41**	**37**	
Diluted EPS from continuing operations	**$ 0.55**	**$ 0.50**	

Profit and Loss – Non-GAAP

	2QFY16	2QCY15[1]	Percentage Change
	(in millions, except for per share amounts)		
Revenues	**$ 1,288**	**$ 1,257**	***2.5%***
Cost of revenues	1,141	1,113	
Selling, general and administrative expenses[2]	54	48	
Non-GAAP operating income from continuing operations[2,3]	**93**	**96**	***-3.1%***
Non-GAAP operating income margin	*7.2%*	*7.6%*	
Interest expense, net	(13)	(14)	
Other (expense) income, net[4]	(5)	2	
Non-GAAP income from continuing operations before income taxes	75	84	
Income tax expense[5]	(25)	(27)	
Non-GAAP income from continuing operations	**50**	**57**	
Non-GAAP diluted EPS from continuing operations	**$ 0.68**	**$ 0.77**	

Note 1: Prior period has been recast to reflect amortization of acquired intangible assets as a non-GAAP adjustment.
Note 2: Selling, general and administrative expenses excludes amortization of acquired intangible assets of $2 million and $3 million for 2QFY16 and 2QCY15, respectively.
Note 3: Non-GAAP operating income from continuing operations excludes the discrete items described in Note 2 and additionally excludes acquisition and integration costs of $15 million and $1 million of restructuring expenses for 2QFY16, and asset impairment charges of $29 million for 2QCY15. See slides 16 and 17 for the non-GAAP financial measures reconciliation.
Note 4: Other (expense) income, net excludes gain on the sale of a business of $3 million for 2QFY16. See slides 16 and 17 for the non-GAAP financial measures reconciliation.
Note 5: Income tax expense is adjusted by $6 million and $12 million for 2QFY16 and 2QCY15, respectively, to reflect the non-GAAP adjustments.

leidos

Appendices

Historical Financial Information
Non-GAAP Financial Measures and Related Reconciliations

Non-GAAP Reconciliations

This presentation includes certain non-GAAP financial measures, such as non-GAAP operating income, non-GAAP operating income margin, non-GAAP income from continuing operations, non-GAAP diluted earnings per share (EPS) and adjusted earnings before interest, taxes, depreciation and amortization (EBITDA). 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 to the most directly comparable financial measures calculated and presented in accordance with GAAP is included in this presentation and can be found 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. 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.

Historical Financial Information — Segment Results

	1QCY15	2QCY15	3QCY15	4QCY15	CY15	1QFY16	2QFY16
				(in millions)			
National Security Solutions							
Revenues	$ 862	$ 879	$ 878	$ 848	**$ 3,467**	$ 898	$ 915
Operating income	$ 62	$ 74	$ 78	$ 65	**$ 279**	$ 72	$ 61
Health and Infrastructure Sector							
Revenues	$ 385	$ 379	$ 418	$ 432	**$ 1,614**	$ 414	$ 373
Operating (loss) income	$ (7)	$ (7)	$ 13	$ 46	**$ 45**	$ 36	$ 39
Corporate and Other							
Revenues	$ (1)	$ (1)	$ 6	$ 1	**$ 5**	$ -	$ -
Operating (loss) income	$ (17)	$ (3)	$ 3	$ (9)	**$ (26)**	$ (19)	$ (25)
Total Continuing Operations							
Revenues	$ 1,246	$ 1,257	$ 1,302	$ 1,281	**$ 5,086**	$ 1,312	$ 1,288
Operating income	$ 38	$ 64	$ 94	$ 102	**$ 298**	$ 89	$ 75

leidos

Historical Financial Information – Income Statement

	1QCY15	2QCY15	3QCY15	4QCY15	CY15	1QFY16[1]	2QFY16
	(in millions, except for per share amounts)						
Revenues	**$ 1,246**	**$ 1,257**	**$ 1,302**	**$ 1,281**	**$ 5,086**	**$ 1,312**	**$ 1,288**
Cost of revenues	1,093	1,113	1,138	1,124	**4,468**	1,154	1,141
Selling, general and administrative expenses[2]	73	51	65	52	**241**	60	56
Acquisition and integration costs	-	-	-	-	**-**	9	15
Asset impairment charges	40	29	4	-	**73**	-	-
Restructuring expenses	2	-	1	3	**6**	-	1
Operating income from continuing operations	**$ 38**	**$ 64**	**$ 94**	**$ 102**	**$ 298**	**$ 89**	**$ 75**
Non-operating income (expense):							
Interest expense, net	(14)	(14)	(14)	(12)	**(54)**	(11)	(13)
Other (expense) income, net	(1)	2	-	83	**84**	-	(2)
Income from continuing operations before income taxes	23	52	80	173	**328**	78	60
Income tax expense	-	(15)	(31)	(46)	**(92)**	(25)	(19)
Income from continuing operations	**$ 23**	**$ 37**	**$ 49**	**$ 127**	**$ 236**	**$ 53**	**$ 41**
Diluted earnings per share from continuing operations[3]	**$ 0.31**	**$ 0.50**	**$ 0.67**	**$ 1.72**	**$ 3.19**	**$ 0.72**	**$ 0.55**
Diluted weighted average number of shares outstanding	**75**	**74**	**73**	**74**	**74**	**74**	**74**

Note 1: Prior period has been recast to reflect the adoption of ASU 2016-09 *Stock Compensation.*
Note 2: Selling, general and administrative expenses includes bad debt expense of $9 million for calendar year 2015.
Note 3: Earnings per share are computed independently for each of the quarters presented and therefore may not sum to the total for the fiscal year.

leidos

Historical Non-GAAP Income Statement

	1QCY15[1]	2QCY15[1]	3QCY15[1]	4QCY15[1]	CY15[1]	1QFY16[2]	2QFY16
	(in millions, except for per share amounts)						
Revenues	**$ 1,246**	**$ 1,257**	**$ 1,302**	**$ 1,281**	**$ 5,086**	**$ 1,312**	**$ 1,288**
Cost of revenues	1,093	1,113	1,138	1,124	**4,468**	1,154	1,141
Selling, general and administrative expenses[3]	71	48	63	50	**232**	59	54
Non-GAAP operating income from continuing operations[3,4]	**$ 82**	**$ 96**	**$ 101**	**$ 107**	**$ 386**	**$ 99**	**$ 93**
Interest expense, net	(14)	(14)	(14)	(12)	**(54)**	(11)	(13)
Other (expense) income, net[5]	(1)	2	-	1	**2**	(2)	(5)
Non-GAAP income from continuing operations before income taxes	67	84	87	96	**334**	86	75
Income tax expense[6]	(17)	(27)	(34)	(37)	**(115)**	(29)	(25)
Non-GAAP income from continuing operations	**$ 50**	**$ 57**	**$ 53**	**$ 59**	**$ 219**	**$ 57**	**$ 50**
Non-GAAP diluted earnings per share from continuing operations[7]	**$ 0.67**	**$ 0.77**	**$ 0.73**	**$ 0.80**	**$ 2.96**	**$ 0.77**	**$ 0.68**
Diluted weighted average number of shares outstanding	**75**	**74**	**73**	**74**	**74**	**74**	**74**

Note 1: Prior period has been recast to reflect amortization of acquired intangible assets as a non-GAAP adjustment.
Note 2: Prior period has been recast to reflect the adoption of ASU 2016-09 *Stock Compensation.*
Note 3: Selling, general and administrative expenses excludes amortization of acquired intangible assets. See slides 16 and 17 for the non-GAAP financial measures reconciliation by quarter.
Note 4: Non-GAAP operating income from continuing operations excludes the discrete items described in Note 3 and additionally excludes acquisition and integration costs, asset impairment charges and restructuring expenses. See slides 16 and 17 for the non-GAAP financial measures reconciliation by quarter.
Note 5: Other (expense) income, net excludes a gain on a real estate sale. See slides 16 and 17 for the non-GAAP financial measures reconciliation by quarter.
Note 6: Income tax expense is adjusted to reflect the non-GAAP adjustments. See slides 16 and 17 for the non-GAAP financial measures reconciliation by quarter.
Note 7: Earnings per share are computed independently for each of the quarters presented and therefore may not sum to the total for the fiscal year.

leidos

Non-GAAP Operating Income Reconciliation

	1QCY15[1]	2QCY15[1]	3QCY15[1]	4QCY15[1]	CY15[1]	1QFY16	2QFY16
				(in millions)			
GAAP operating income from continuing operations	**$ 38**	**$ 64**	**$ 94**	**$ 102**	**$ 298**	**$ 89**	**$ 75**
Acquisition and integration costs	-	-	-	-	**-**	9	15
Amortization of acquired intangible assets	2	3	2	2	**9**	1	2
Asset impairment charges	40	29	4	-	**73**	-	-
Restructuring expenses	2	-	1	3	**6**	-	1
Non-GAAP operating income from continuing operations	**$ 82**	**$ 96**	**$ 101**	**$ 107**	**$ 386**	**$ 99**	**$ 93**
Non-GAAP operating income margin	*6.6%*	*7.6%*	*7.8%*	*8.4%*	***7.6%***	*7.5%*	*7.2%*

Note 1: Prior period has been recast to reflect amortization of acquired intangible assets as a non-GAAP adjustment.
Note 2: Please see definition of non-GAAP operating income from continuing operations on slide 18.

leidos

Non-GAAP Financial Measures Reconciliation

	1QCY15[1]	2QCY15[1]	3QCY15[1]	4QCY15[1]	CY15[1]	1QFY16[2]	2QFY16
	(in millions, except for per share amounts)						
Non-GAAP operating income from continuing operations	**$ 82**	**$ 96**	**$ 101**	**$ 107**	**$ 386**	**$ 99**	**$ 93**
Depreciation expense	10	9	9	7	**35**	7	7
Other (expense) income, net	(1)	2	-	1	**2**	(2)	(5)
Adjusted EBITDA	**$ 91**	**$ 107**	**$ 110**	**$ 115**	**$ 423**	**$ 104**	**$ 95**
Depreciation expense	(10)	(9)	(9)	(7)	**(35)**	(7)	(7)
Interest expense, net	(14)	(14)	(14)	(12)	**(54)**	(11)	(13)
Income tax expense adjusted to reflect non-GAAP adjustments	(17)	(27)	(34)	(37)	**(115)**	(29)	(25)
Non-GAAP income from continuing operations	**$ 50**	**$ 57**	**$ 53**	**$ 59**	**$ 219**	**$ 57**	**$ 50**
Acquisition and integration costs	-	-	-	-	**-**	(9)	(15)
Amortization of acquired intangible assets	(2)	(3)	(2)	(2)	**(9)**	(1)	(2)
Gain on sale of a business	-	-	-	-	**-**	-	3
Restructuring expenses	(2)	-	(1)	(3)	**(6)**	-	(1)
Gain on a real estate sale	-	-	-	82	**82**	2	-
Asset impairment charges	(40)	(29)	(4)	-	**(73)**	-	-
Adjustment to the income tax provision to reflect non-GAAP adjustments[3]	17	12	3	(9)	**23**	4	6
GAAP income from continuing operations	**$ 23**	**$ 37**	**$ 49**	**$ 127**	**$ 236**	**$ 53**	**$ 41**
Non-GAAP diluted EPS from continuing operations	**$ 0.67**	**$ 0.77**	**$ 0.73**	**$ 0.80**	**$ 2.96**	**$ 0.77**	**$ 0.68**
Total adjustments from non-GAAP income from continuing operations	(0.36)	(0.27)	(0.06)	0.92	**0.23**	(0.05)	(0.13)
GAAP diluted EPS from continuing operations	**$ 0.31**	**$ 0.50**	**$ 0.67**	**$ 1.72**	**$ 3.19**	**$ 0.72**	**$ 0.55**
Diluted shares (for computing non-GAAP EPS)	75	74	73	74	**74**	74	74

Note 1: Prior period has been recast to reflect amortization of acquired intangible assets as a non-GAAP adjustment.
Note 2: Prior period has been recast to reflect the adoption of ASU 2016-09 *Stock Compensation.*
Note 3: Calculation uses an estimated statutory tax rate on non-GAAP tax deductible adjustments.

Definitions of Non-GAAP Financial Measures

Non-GAAP operating income is computed by excluding the following items from income (loss) from continuing operations: (i) other income (expense), net; (ii) interest expense; (iii) interest income; (iv) income tax (expense) benefit adjusted to reflect non-GAAP adjustments; and (v) the following discrete items:

- Acquisition and integration costs – Represents costs related to the Lockheed Martin transaction and integration of the acquired business.
- Amortization of acquired intangible assets – Represents the amortization expense associated with intangible assets.
- Gains and losses on disposal of assets and businesses - Represents the gains or losses on certain sales of real estate and businesses.
- Asset impairment charges – Represents impairments of long-lived intangible and tangible assets.
- Restructuring expenses – Represents costs associated with lease termination and facility consolidation, including costs related to the Company’ September 2013 spin-off of its former technical services and enterprise IT business.

Adjusted EBITDA is computed by excluding the following items from income (loss) from continuing operations: (i) discrete items as identified above; (ii) interest expense; (iii) interest income; (iv) depreciation expense; and (v) income tax (expense) benefit, adjusted to reflect the non-GAAP adjustments.

Non-GAAP income from continuing operations is computed by excluding the discrete items as identified above from income (loss) from continuing operations and adjusting income tax (expense) benefit for the effect of such exclusions.

leidos