



Leidos 3Q 2016 Earnings Conference Call

November 3, 2016



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. Actual performance and results may differ materially from the guidance and other forward-looking statements made in this presentation 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 transaction with Lockheed Martin, including, tax treatment, the possibility that we may be unable to achieve expected synergies and operating efficiencies within the expected time-frames or at all, the integration of the acquired Information Systems & Global Solutions business being more difficult, time-consuming or costly than expected, the effect of any changes resulting from the transaction in customer, supplier and other business relationships, general market perception of the transaction and exposure to lawsuits and contingencies associated with the 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 presentation. 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 November 3, 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.

3Q FY 2016 Highlights

Improving Financials

- ▶ Organic & inorganic revenue growth
- ▶ Margin expansion
- ▶ Raising guidance range

Successful Transaction Close

- ▶ 77M shares successfully issued
- ▶ Integration milestones on-track
- ▶ Cost & revenue synergies on-track

Strongly positioned for future

- ▶ 1.6 book to bill
- ▶ Rate reductions already in effect
- ▶ Joint bids already being submitted

Strong cash flow

- ▶ \$213M free cash flow**
- ▶ \$100M early debt retirement
- ▶ Ongoing 32c/share quarterly dividend

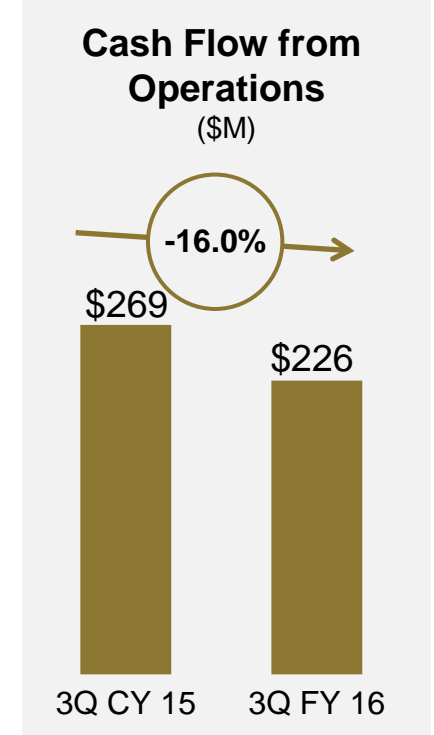
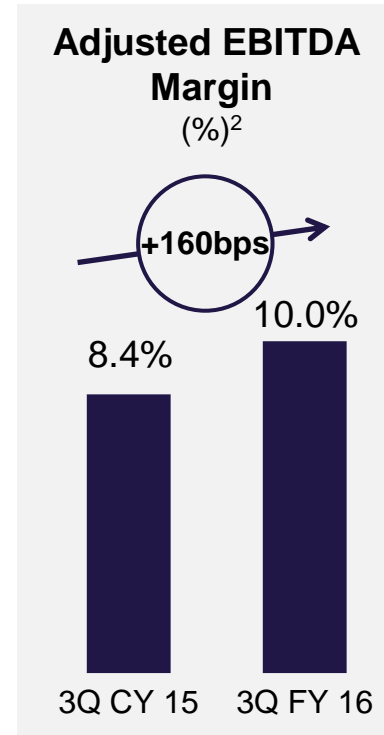
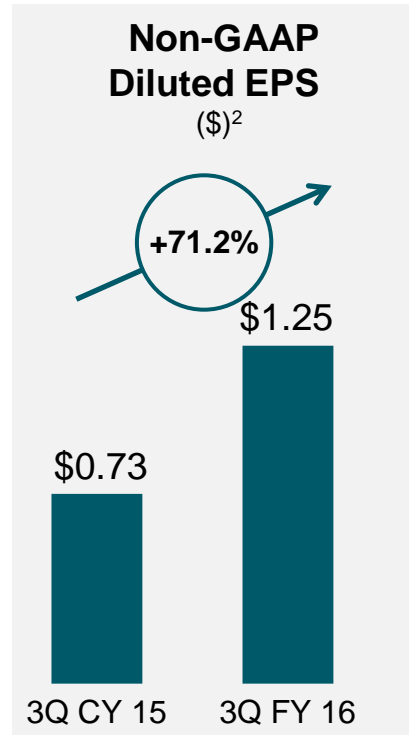
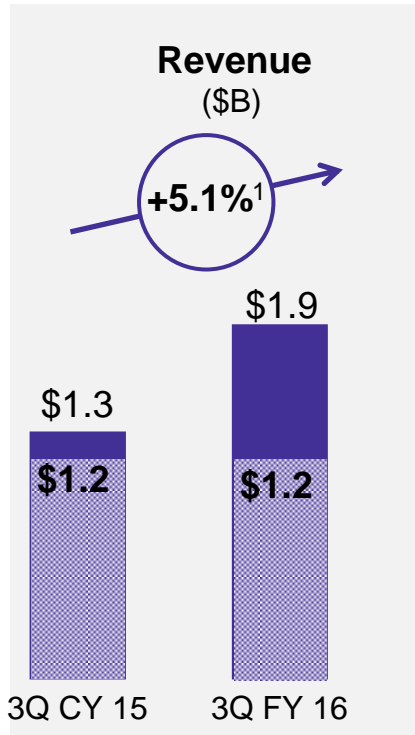
The new Leidos 2018 & beyond*

3% revenue growth
10%+ Adjusted EBITDA margin
100%+ cash efficiency

• Represent Operating Metric Targets

** Free Cash Flow = cash flow from operations (\$226M) minus capital expenditures (\$13M)

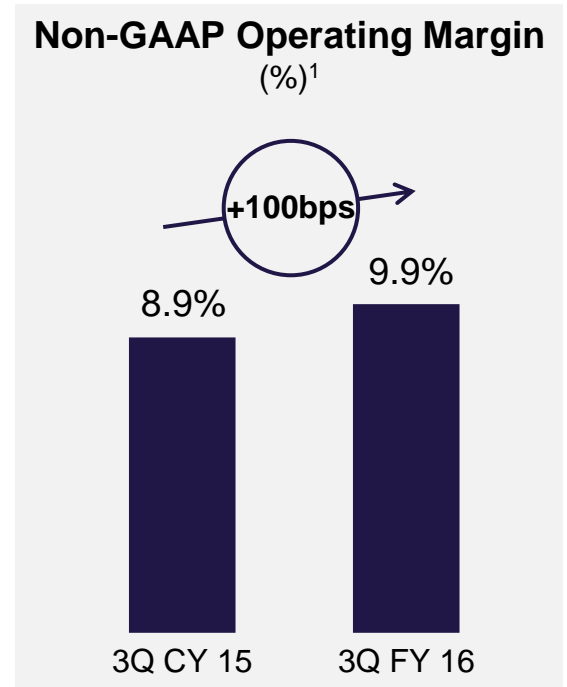
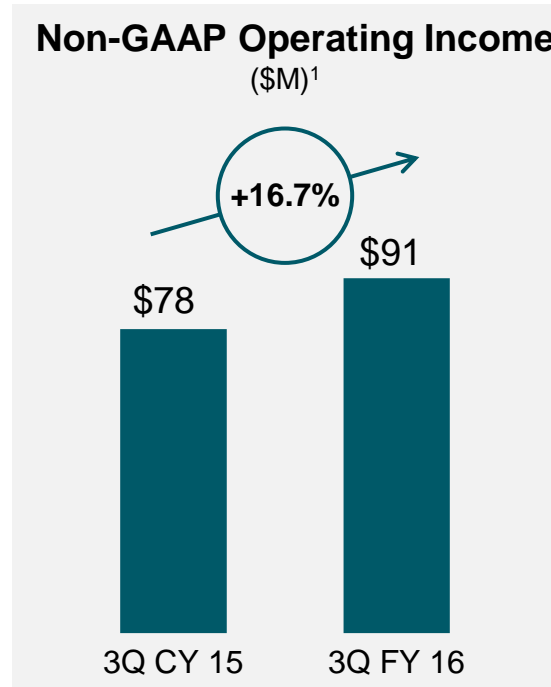
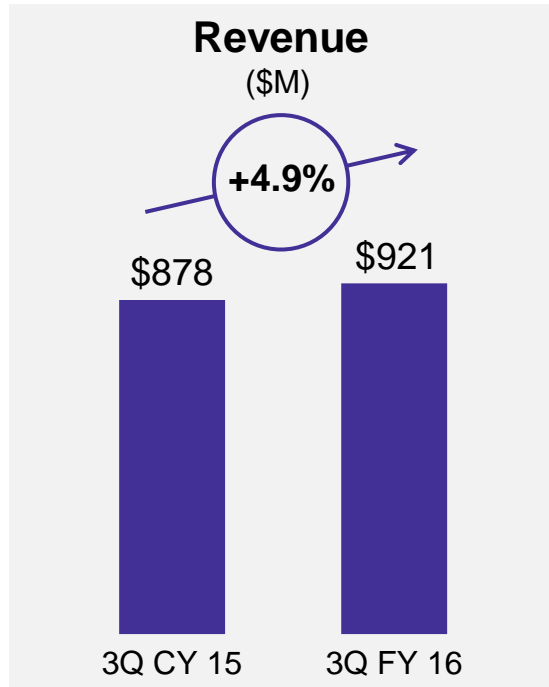
Leidos 3Q FY 16 Results



Adjusted revenue of \$1.19B in 3QCY15 and \$1.25B in 3QFY16 represent organic revenue comparisons, which exclude Heavy Construction Engineering revenues in 3QCY15 and ISGS revenues in 3QFY16

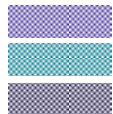
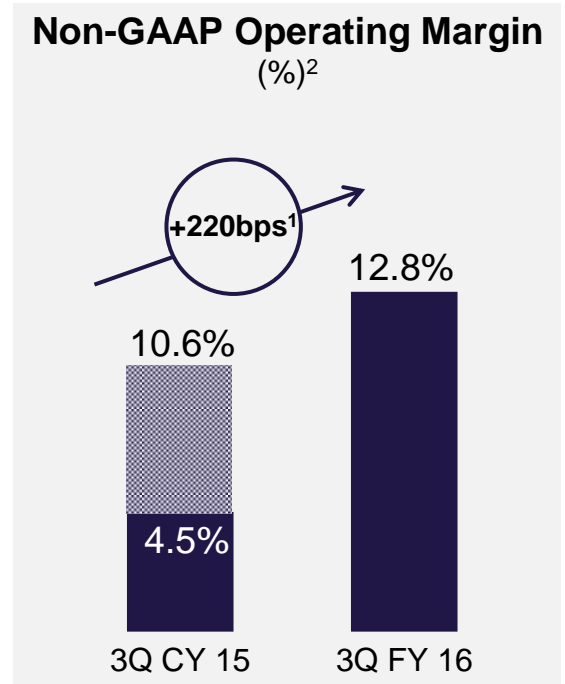
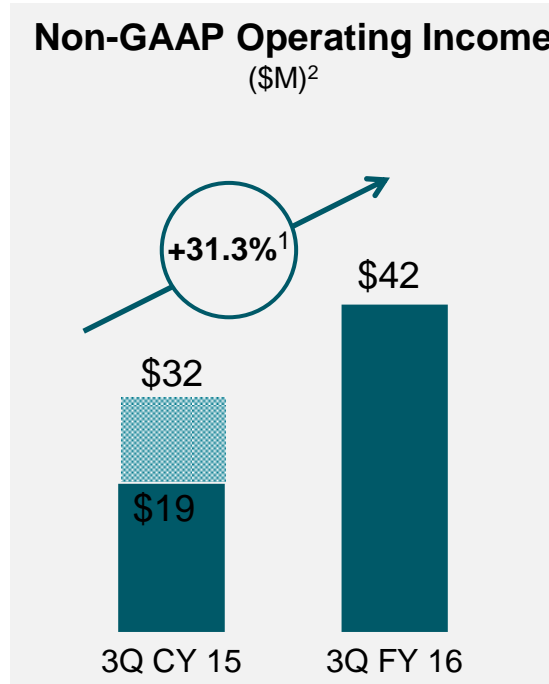
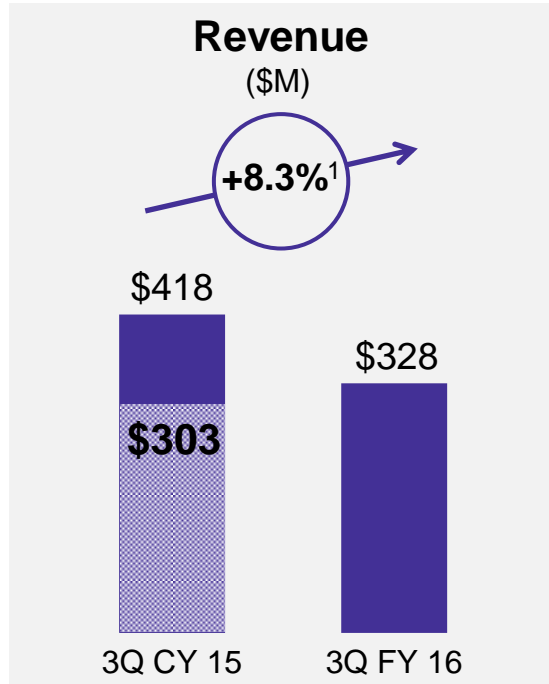
- (1) Organic growth rate excludes impact of acquisitions & divestitures
- (2) See appendix for definition & reconciliation of Non-GAAP Financial Measures

National Security Sector (NSS)



(1) See appendix for definition & reconciliation of Non-GAAP Financial Measures

Health & Infrastructure Sector (HIS)



Adjusted revenue of \$303M represents 3Q CY 15 excluding revenues from Heavy Construction Engineering business – which was divested in 2Q FY 16

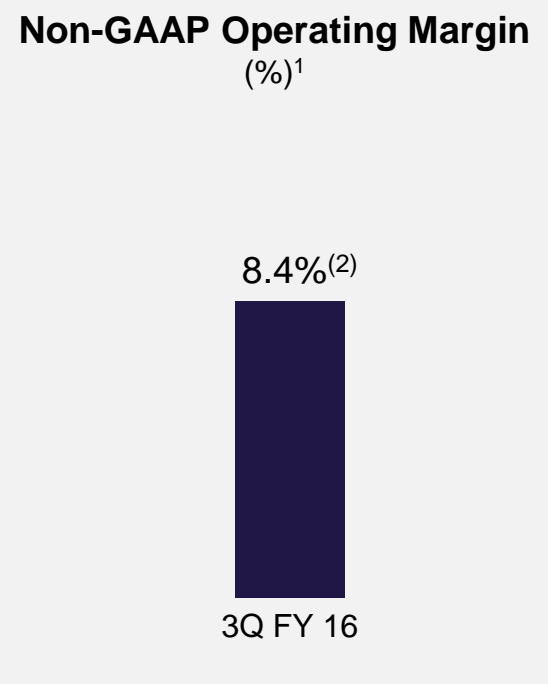
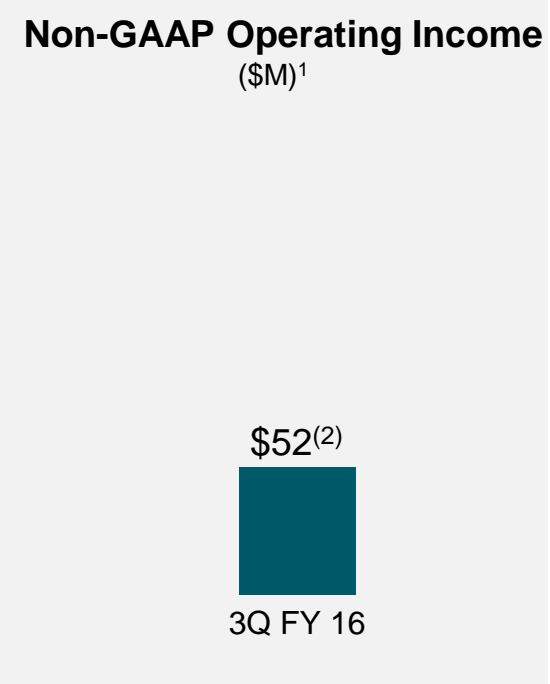
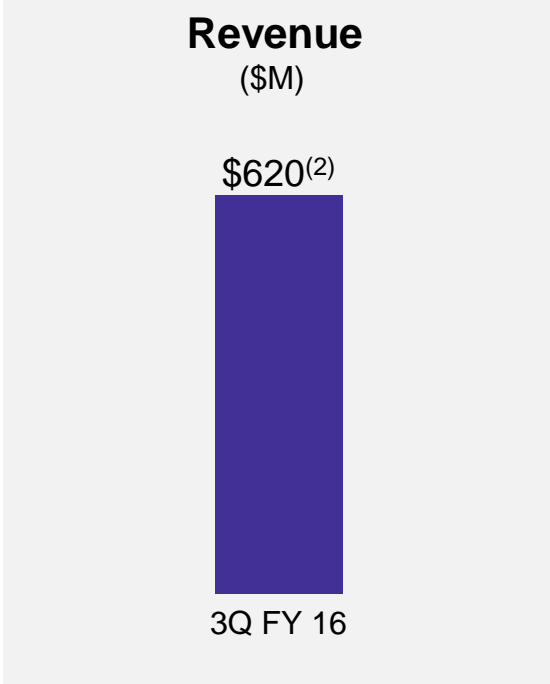
Adjusted Non-GAAP Operating Income of \$32M represents 3Q CY 15 excluding losses from Heavy Construction Engineering business – which was divested in 2Q FY 16

10.6% represents 3Q CY 15 excluding revenues & losses from Heavy Construction Engineering business – which was divested in 2Q FY 16

(1) Organic growth excludes impact of Heavy Construction Engineering divestiture

(2) See appendix for definition & reconciliation of Non-GAAP Financial Measures

Information Systems & Global Solutions (IS&GS) Sector

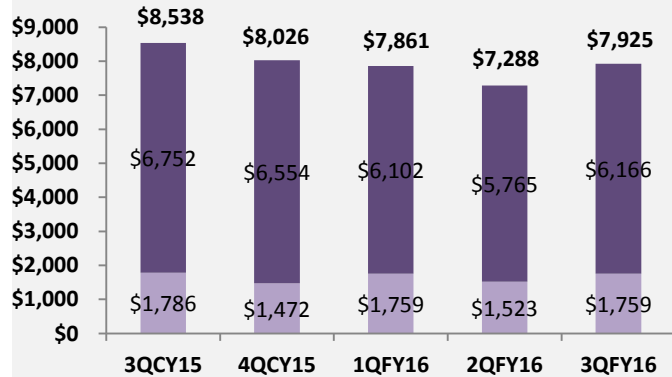


(1) See appendix for definition & reconciliation of Non-GAAP Financial Measures
(2) Source: Actual results for 8/16/2016–9/30/2016

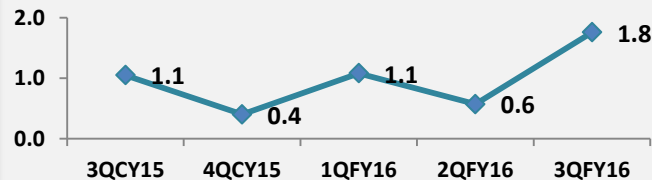
Awards & Backlog

NSS

Backlog** (\$M)

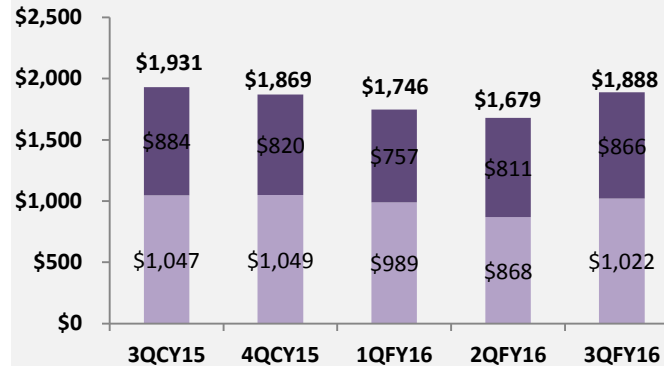


Book to Bill*

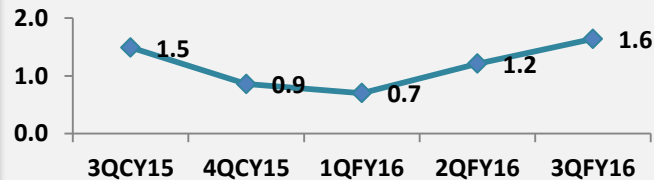


HIS

Backlog (\$M)

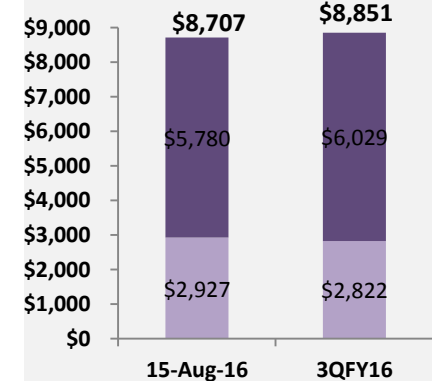


Book to Bill

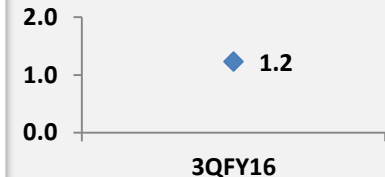


IS&GS

Backlog (\$M)



Book to Bill



Legend: Funded Backlog (light purple), Negotiated Unfunded Backlog (dark purple)

* Book to bill presented on a constant currency basis

**Backlog presented at exchange rate in effect at quarter end

2016 Guidance Update:

INCLUDES IS&GS RESULTS POST 8/16/2016 TRANSACTION CLOSE

	Current	Prior
Revenue	\$7.0B to \$7.1B	\$6.8B to \$7.0B
Adjusted EBITDA Margin	Unchanged	8.5% to 9.0%
Non-GAAP Diluted EPS	\$3.50 to \$3.60 ⁽¹⁾	\$3.15 to \$3.35 ⁽²⁾
<i>Effective Tax Rate</i>	~26%	~28%
Operating Cash Flow from Continuing Operations	Unchanged	Meet or exceed \$275M ⁽³⁾

A quantitative reconciliation of adjusted EBITDA margin and non-GAAP diluted EPS forward-looking guidance to the most directly comparable measure calculated in accordance with GAAP is not available because these non-GAAP measures are intended to exclude items that are either unforeseeable, abnormal, or the timing and amount of which is difficult to predict.

- (1) Non-GAAP Diluted EPS range of \$3.50 to \$3.65 includes ~37 cent tax benefit related to the special dividend.
- (2) Non-GAAP Diluted EPS range of \$3.15 to \$3.35 includes ~30 cent tax benefit related to the special dividend.
- (3) \$275M of Operating Cash Flow from Continuing Operations includes \$80M of transaction & integration costs, net of taxes

Appendix

Weighted Average Share Count Impact

	1QFY16 ¹	2QFY16	3QFY16	4QFY16 ²	2016 Guidance ²
	(in millions, except for per share amounts)				
GAAP Income from continuing operations attributable to Leidos Holdings, Inc.	\$ 53	\$ 41	\$ 91	-	
Quarter-to-Date - Diluted weighted average number of shares outstanding	74	74	114	152	
Quarter-to-Date GAAP Diluted EPS from continuing operations attributable to Leidos Holdings, Inc.	\$ 0.72	\$ 0.55	\$ 0.80	-	
Year-to-Date Cumulative GAAP Income from continuing operations attributable to Leidos Holdings, Inc.	\$ 53	\$ 94	\$ 185	-	
Year-to-Date - Diluted weighted average number of shares outstanding	74	74	87	103	
Year-to-Date GAAP Diluted EPS	\$ 0.72	\$ 1.27	\$ 2.13	-	
Non-GAAP Income from continuing operations attributable to Leidos Holdings, Inc.	\$ 57	\$ 50	\$ 143	-	
Quarter-to-Date - Diluted weighted average number of shares outstanding	74	74	114	152	
Quarter-to-Date Non-GAAP Diluted EPS from continuing operations attributable to Leidos Holdings, Inc.	\$ 0.77	\$ 0.68	\$ 1.25	-	
Year-to-Date Cumulative Non-GAAP Income from continuing operations attributable to Leidos Holdings, Inc.	\$ 57	\$ 107	\$ 250	-	
Year-to-Date - Diluted weighted average number of shares outstanding	74	74	87	103	
Year to Date Non-GAAP Diluted EPS from continuing operations attributable to Leidos Holdings, Inc.	\$ 0.77	\$ 1.45	\$ 2.87	-	\$3.50 - \$3.60

Note 1: Prior periods have been recast to reflect the adoption of ASU 2016-09 *Stock Compensation*.

Note 2: 4QFY16 and 2016 Guidance metrics reflect management estimates and actual results may vary.

Note 3: See appendix for definition & reconciliation of Non-GAAP Financial Measures.

Supplementary IS&GS Historical Financials

	1QCY15	2QCY15	3QCY15	4QCY15	CY15	1QFY16	2QFY16	7/1/2016- 8/15/2016
Information Systems & Global Solutions	(in millions)							
Normalized Revenues	\$ 1,382	\$ 1,405	\$ 1,401	\$ 1,414	\$ 5,604	\$ 1,348	\$ 1,296	\$ 724
Normalized Non-GAAP Operating income	134	120	134	127	515	116	127	62
Normalized Non-GAAP Operating income margin	9.7%	8.5%	9.5%	9.0%	9.2%	8.6%	9.8%	8.6%

Note 1: See slide 18 for the non-GAAP financial measures reconciliation by quarter.

Note 2: This historical information has been provided to enable comparisons to prior year periods for modeling and analysis purposes.

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), adjusted EBITDA margin, and free cash flow. 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.

Definition 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's September 2013 spin-off of its former technical services and enterprise IT business.
- ▶ Plainfield – Represents write-downs taken as part of cancelling outstanding accounts receivable in exchange for the assets of the Plainfield Plant, and estimate-at-completion adjustments related to the Plainfield project.

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.

Adjusted EBITDA margin is computed by dividing adjusted EBITDA by revenue.

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.

Non-GAAP operating margin from continuing operations is computed by adding back the discrete items as identified above from GAAP operating income from continuing operations and dividing by GAAP revenue.

Non-GAAP Operating Income Reconciliation

	1QCY15 ¹	2QCY15 ¹	3QCY15 ¹	4QCY15 ¹	CY15 ¹	1QFY16	2QFY16	3QFY16	
	(in millions)								
GAAP operating income from continuing operations	\$ 38	\$ 64	\$ 94	\$ 102	\$ 298	\$ 89	\$ 75	\$ 101	
Acquisition and integration costs	-	-	-	-	-	9	15	44	
Amortization of acquired intangible assets	2	3	2	2	9	1	2	27	
Asset impairment charges	40	29	4	-	73	-	-	-	
Restructuring expenses	2	-	1	3	6	-	1	5	
Non-GAAP operating income from continuing operations	\$ 82	\$ 96	\$ 101	\$ 107	\$ 386	\$ 99	\$ 93	\$ 177	
<i>Non-GAAP operating income margin</i>	<i>6.6%</i>	<i>7.6%</i>	<i>7.8%</i>	<i>8.4%</i>	<i>7.6%</i>	<i>7.5%</i>	<i>7.2%</i>	<i>9.5%</i>	

Note 1: Prior periods have 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 14.

Non-GAAP Financial Measures Reconciliation

	1QCY15 ¹	2QCY15 ¹	3QCY15 ¹	4QCY15 ¹	CY15 ¹	1QFY16 ²	2QFY16	3QFY16
	(in millions, except for per share amounts)							
Non-GAAP operating income from continuing operations	\$ 82	\$ 96	\$ 101	\$ 107	\$ 386	\$ 99	\$ 93	\$ 177
Depreciation expense	10	9	9	7	35	7	7	10
Other (expense) income, net	(1)	2	-	1	2	(2)	(5)	(1)
Adjusted EBITDA	\$ 91	\$ 107	\$ 110	\$ 115	\$ 423	\$ 104	\$ 95	\$ 186
Depreciation expense	(10)	(9)	(9)	(7)	(35)	(7)	(7)	(10)
Interest expense, net	(14)	(14)	(14)	(12)	(54)	(11)	(13)	(25)
Income tax expense adjusted to reflect non-GAAP adjustments	(17)	(27)	(34)	(37)	(115)	(29)	(25)	(7)
Non-GAAP income from continuing operations³	\$ 50	\$ 57	\$ 53	\$ 59	\$ 219	\$ 57	\$ 50	\$ 144
Non-GAAP income from continuing operations attributable to Leidos Holdings, Inc.	\$ 50	\$ 57	\$ 53	\$ 59	\$ 219	\$ 57	\$ 50	\$ 143
Acquisition and integration costs	-	-	-	-	-	(9)	(15)	(44)
Amortization of acquired intangible assets	(2)	(3)	(2)	(2)	(9)	(1)	(2)	(27)
Gain on sale of a business	-	-	-	-	-	-	3	-
Restructuring expenses	(2)	-	(1)	(3)	(6)	-	(1)	(5)
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 ⁴	17	12	3	(9)	23	4	6	24
GAAP income from continuing operations attributable to Leidos Holdings, Inc.	\$ 23	\$ 37	\$ 49	\$ 127	\$ 236	\$ 53	\$ 41	\$ 91
Non-GAAP diluted EPS from continuing operations attributable to Leidos Holdings, Inc.	\$ 0.67	\$ 0.77	\$ 0.73	\$ 0.80	\$ 2.96	\$ 0.77	\$ 0.68	\$ 1.25
Total adjustments from non-GAAP income from continuing operations	(0.36)	(0.27)	(0.06)	0.92	0.23	(0.05)	(0.13)	(0.45)
GAAP diluted EPS from continuing operations attributable to Leidos Holdings, Inc.	\$ 0.31	\$ 0.50	\$ 0.67	\$ 1.72	\$ 3.19	\$ 0.72	\$ 0.55	\$ 0.80
Diluted shares (for computing non-GAAP EPS)	75	74	73	74	74	74	74	114

Note 1: Prior periods have been recast to reflect amortization of acquired intangible assets as a non-GAAP adjustment.

Note 2: Prior periods have been recast to reflect the adoption of ASU 2016-09 *Stock Compensation*.

Note 3: Non-GAAP income from continuing operations includes \$1 million of income related to a non-controlling interest for Q3 FY16.

Note 4: Calculation uses an estimated statutory tax rate on non-GAAP tax deductible adjustments.

Segment Non-GAAP Operating Income Reconciliation

Quarter Ended September 30, 2016

(in millions)

	Operating income (loss)	Acquisition and integration costs	Amortization of intangibles	Restructuring expenses	Non-GAAP Operating income (loss)
NSS	\$ 91	\$ -	\$ -	\$ -	\$ 91
HIS	41	-	1	-	42
IS&GS	26	-	26	-	52
Corp	(57)	44	-	5	(8)
Total	\$ 101	\$ 44	\$ 27	\$ 5	\$ 177

Nine Months Ended September 30, 2016

(in millions)

	Operating income (loss)	Acquisition and integration costs	Amortization of intangibles	Restructuring expenses	Non-GAAP Operating income (loss)
NSS	\$ 224	\$ -	\$ -	\$ -	\$ 224
HIS	116	-	4	-	120
IS&GS	26	-	26	-	52
Corp	(101)	68	-	6	(27)
Total	\$ 265	\$ 68	\$ 30	\$ 6	\$ 369

Quarter Ended October 2, 2015¹

(in millions)

	Operating income	Impairment charges	Amortization of intangibles	Restructuring expenses	Non-GAAP Operating income
NSS	\$ 78	\$ -	\$ -	\$ -	\$ 78
HIS	13	4	2	-	19
Corp	3	-	-	1	4
Total	\$ 94	\$ 4	\$ 2	\$ 1	\$ 101

Nine Months Ended October 2, 2015¹

(in millions)

	Operating income (loss)	Impairment charges	Amortization of intangibles	Restructuring expenses	Non-GAAP Operating income (loss)
NSS	\$ 214	\$ -	\$ -	\$ -	\$ 214
HIS	(1)	73	7	-	79
Corp	(17)	-	-	3	(14)
Total	\$ 196	\$ 73	\$ 7	\$ 3	\$ 279

Note 1: Prior periods have been recast to reflect amortization of acquired intangible assets as a non-GAAP adjustment.

Non-GAAP Financial Measures Reconciliation

	1QCY15	2QCY15	3QCY15	4QCY15	CY15	1QFY16	2QFY16	7/1/16 - 8/15/16
	(in millions)							
IS&GS GAAP Revenue	\$ 1,382	\$ 1,405	\$ 1,401	\$ 1,394	\$ 5,584	\$ 1,325	\$ 1,336	\$ 739
Reserve Release	-	-	-	20	20	-	-	-
International Contract Loss Charge	-	-	-	-	-	23	-	-
Pre-Sale Contract Closeouts	-	-	-	-	-	-	(40)	(15)
IS&GS Normalized Revenue	\$ 1,382	\$ 1,405	\$ 1,401	\$ 1,414	\$ 5,604	\$ 1,348	\$ 1,296	\$ 724

	1QCY15	2QCY15	3QCY15	4QCY15	CY15	1QFY16	2QFY16	7/1/16 - 8/15/16
	(in millions)							
IS&GS GAAP Operating Income	\$ 128	\$ 107	\$ 101	\$ 138	\$ 475	\$ 65	\$ 158	\$ 72
Reserve Release	(9)	-	-	(20)	(29)	-	-	-
International Contract Loss Charge	-	-	-	-	-	23	-	-
Pre-Sale Contract Closeouts	-	-	-	-	-	-	(40)	(15)
Restructuring expenses	-	-	20	-	20	19	-	-
Amortization of acquired intangible assets	14	13	13	10	49	9	9	5
IS&GS Normalized Non-GAAP Operating Income	\$ 134	\$ 120	\$ 134	\$ 127	\$ 515	\$ 116	\$ 127	\$ 62
<i>Normalized Operating Income Margin</i>	9.7%	8.5%	9.5%	9.0%	9.2%	8.6%	9.8%	8.6%