



Leidos 1Q 2017 Earnings Conference Call

May 4, 2017



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 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 “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 website at www.leidos.com.

All information in this presentation is as of May 4, 2017. 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.

1Q FY 2017 Highlights

▶ Highest level of Adjusted EBITDA Margin since 2013 split

▶ Return to growth in IS&GS business

▶ Strong program performance

▶ Cost synergy plan on track

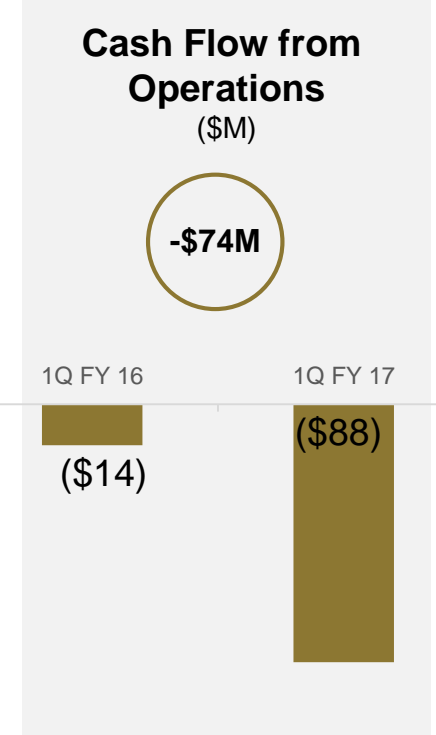
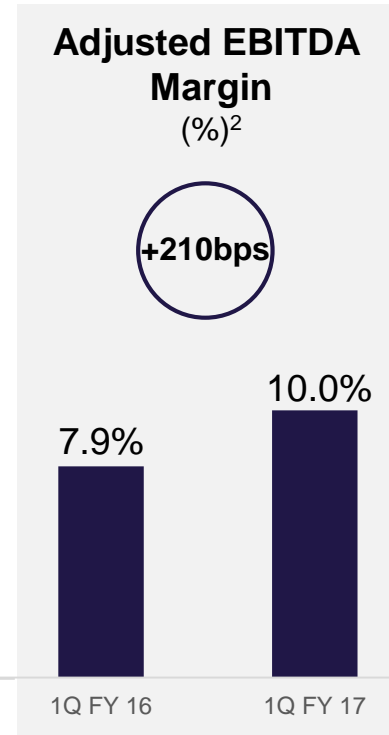
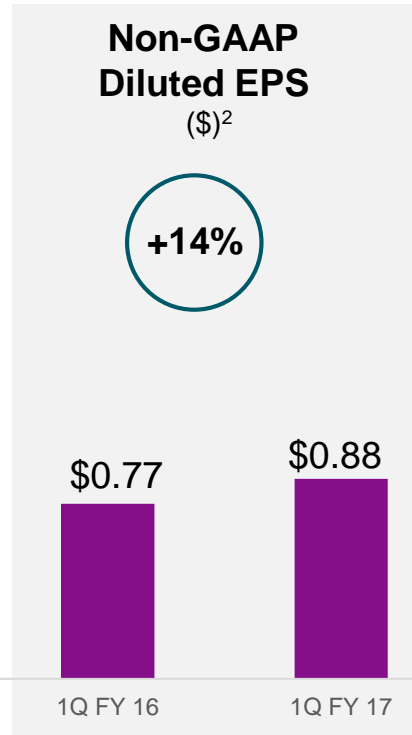
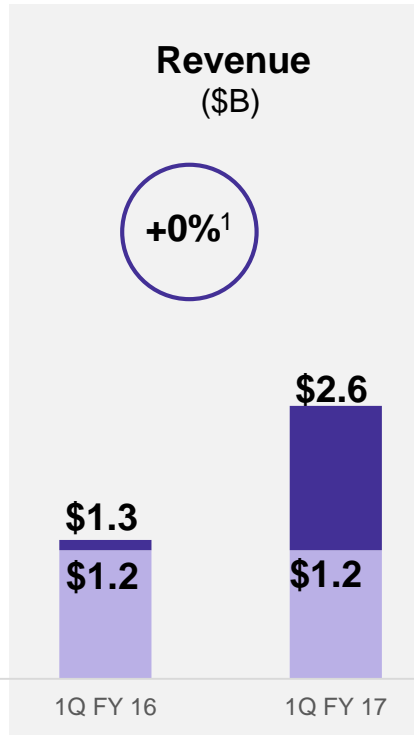
▶ Integration activities proceeding on schedule

The new Leidos
2018 & beyond⁽¹⁾

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

(1) Represent Operating Metric Targets

Leidos 1Q FY 17 Results



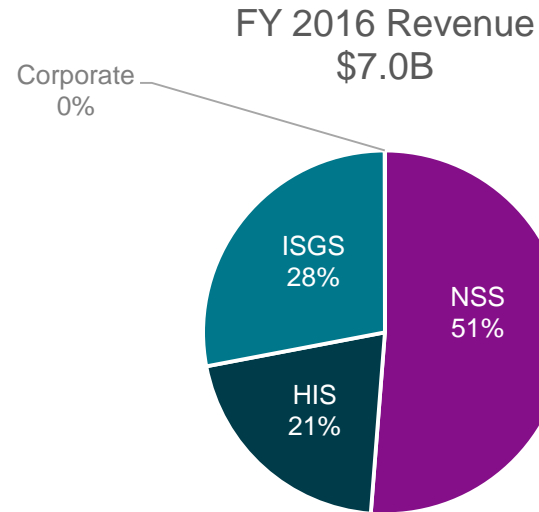
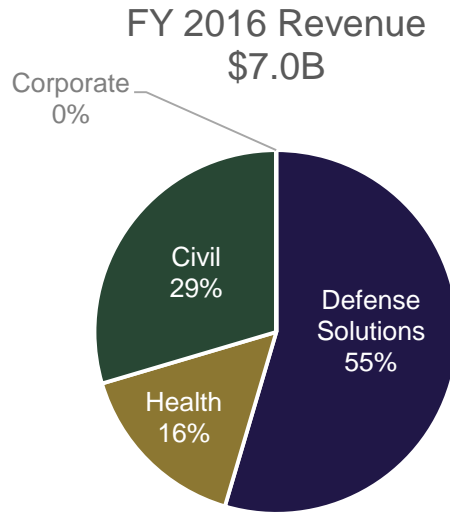
Adjusted revenue of \$1.23B in 1QFY16 and \$1.23B in 1QFY17 represent organic revenue comparisons, which are presented on a constant currency basis, and exclude Heavy Construction Engineering revenues in 1QFY16 and IS&GS revenues in 1QFY17.

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

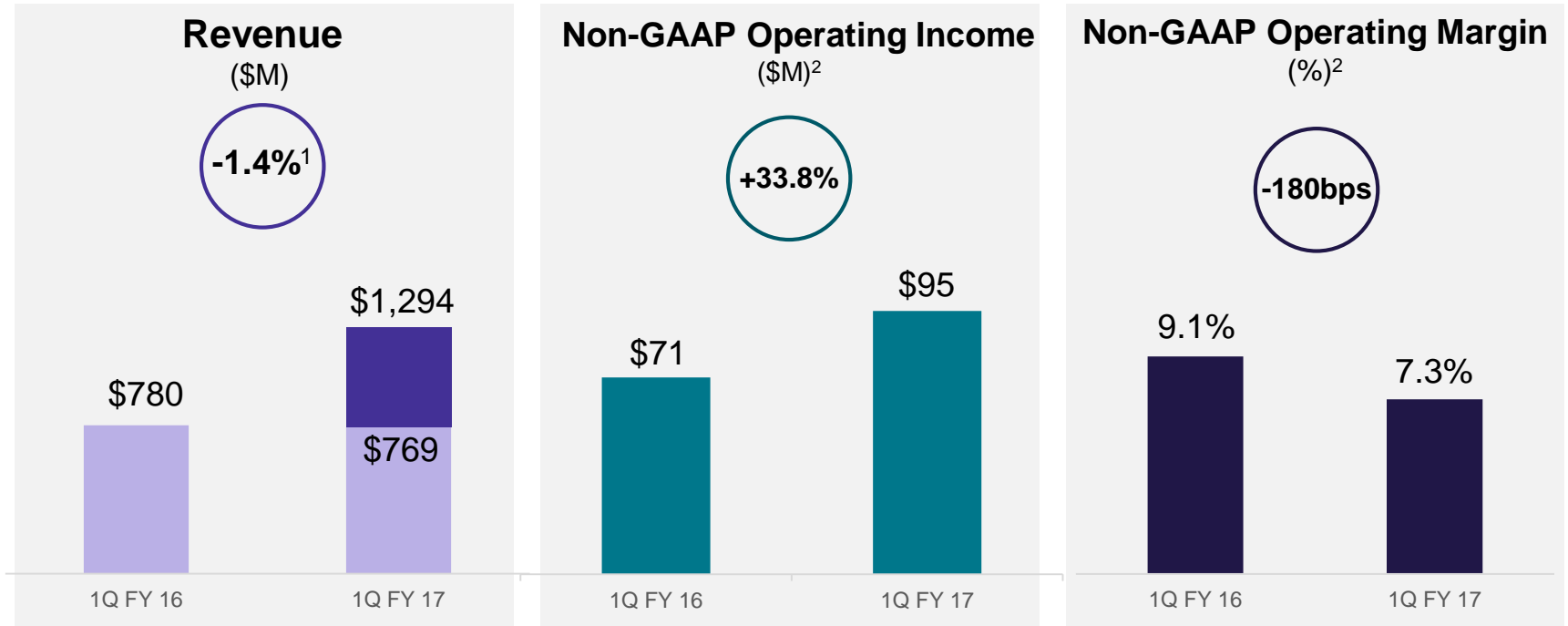
New Reportable Segments

Current

Prior



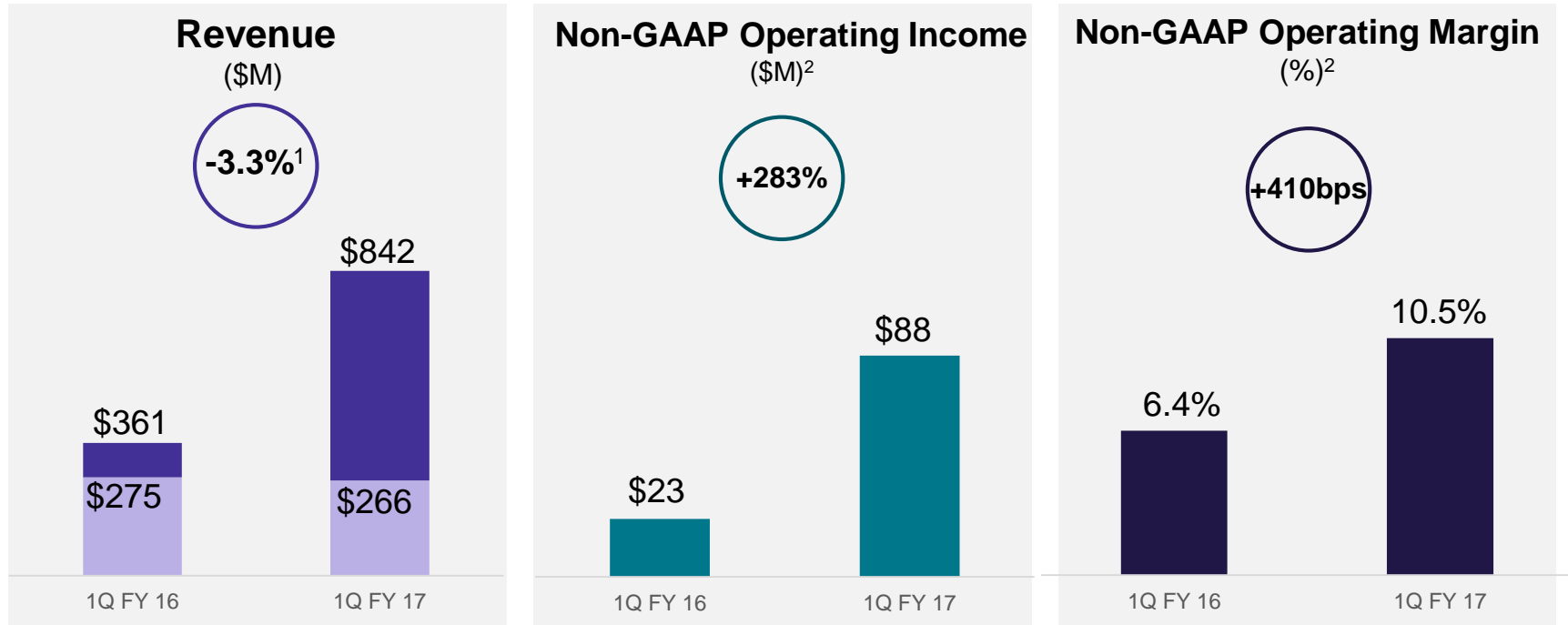
Defense Solutions Segment



Adjusted revenue of \$769M in 1QFY17 excludes contributions from IS&GS acquisition.

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

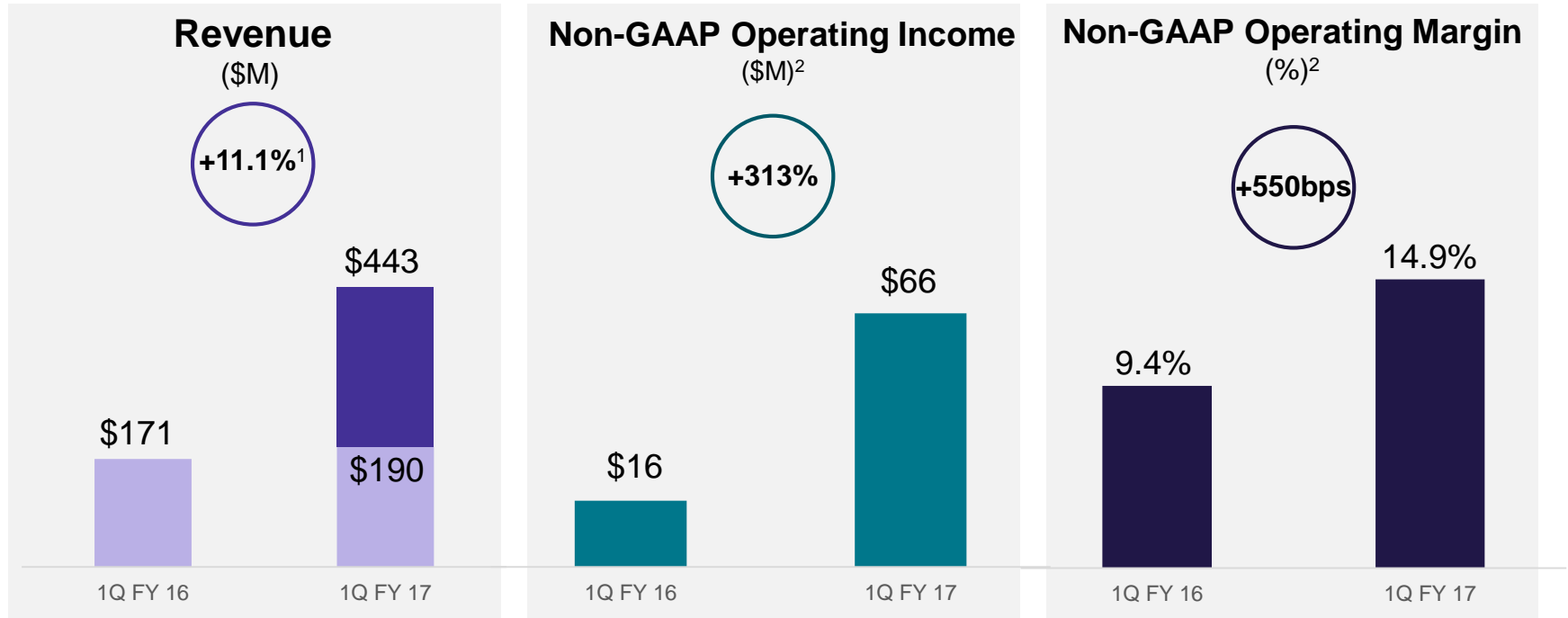
Civil Segment



Adjusted revenue of \$275M in 1QFY16 and \$266M in 1QFY17 represent organic revenue comparisons, which are presented on a constant currency basis, and exclude Heavy Construction Engineering revenues in 1QFY16 and IS&GS revenues in 1QFY17.

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

Health Segment



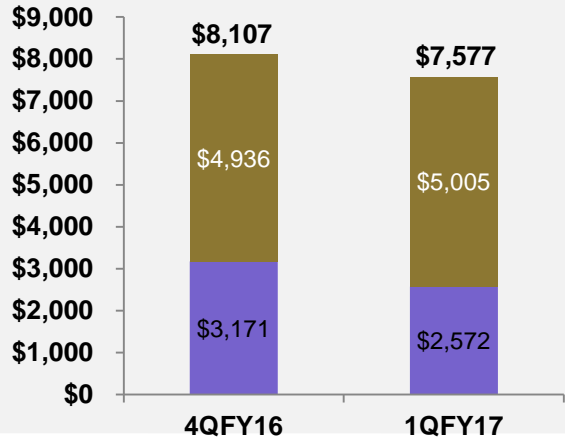
Adjusted revenue of \$190M in 1QFY17 excludes contributions from IS&GS acquisition.

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

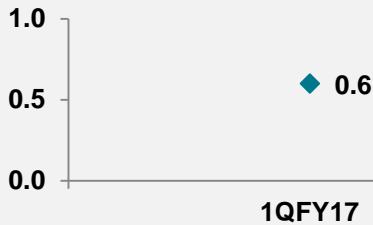
Awards & Backlog

Defense Solutions

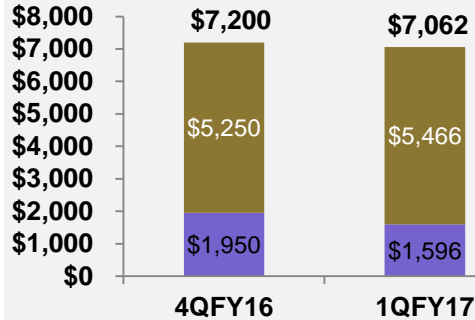
Backlog* (\$M)



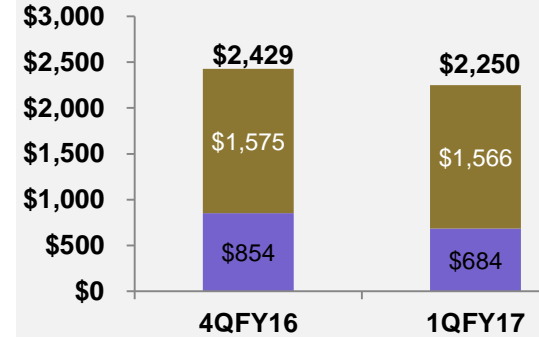
Book to Bill**



Civil



Health



Funded Backlog

* Backlog presented at exchange rate in effect at quarter end

Negotiated Unfunded Backlog

**Book to bill presented on a constant currency basis

2017 Guidance Unchanged

	Current	Prior
Revenue	Unchanged	\$10.0B to \$10.4B
Adjusted EBITDA Margin⁽¹⁾	Unchanged	9.5% to 10.0%
Non-GAAP Diluted EPS⁽¹⁾	Unchanged	\$3.05 to \$3.35
<i>Effective Tax Rate</i>	Unchanged	~37%
Operating Cash Flow from Continuing Operations	Unchanged	Meet or exceed \$475M ⁽²⁾

(1) 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.

(2) \$475M of Operating Cash Flow from Continuing Operations includes \$75M of transaction & integration costs, net of taxes

Appendix

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), 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 (expense) income, net; (ii) interest expense; (iii) interest income; (iv) income tax expense adjusted to reflect non-GAAP adjustments; and (v) the following discrete items:

- ▶ Acquisition and integration costs - Represents costs related to the acquisition and integration of the IS&GS Business.
- ▶ Amortization of acquired intangible assets - Represents the amortization expense associated with acquired intangible assets.
- ▶ Restructuring expenses - Represents costs associated with lease termination and severance related to the Company's acquisition of the IS&GS Business and the September 2013 spin-off of its former technical services.
- ▶ 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.

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

Non-GAAP operating margin from continuing operations is computed by dividing non-GAAP operating income from continuing operations by revenue.

Adjusted EBITDA is computed by excluding the following items from income from continuing operations, before income taxes: (i) discrete items as identified above; (ii) interest expense; (iii) interest income; and (iv) depreciation expense.

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

Non-GAAP Operating Income Reconciliation

	1QCY15 ¹	2QCY15 ¹	3QCY15 ¹	4QCY15 ¹	CY15 ¹	1QFY16	2QFY16	3QFY16	4QFY16	FY16	1QFY17
	(in millions)										
GAAP operating income from continuing operations	\$ 38	\$ 64	\$ 94	\$ 102	\$ 298	\$ 89	\$ 75	\$ 101	\$ 152	\$ 417	\$ 141
Acquisition and integration costs	-	-	-	-	-	9	15	44	22	90	19
Amortization of acquired intangible assets	2	3	2	2	9	1	2	27	54	84	69
Asset impairment charges	40	29	4	-	73	-	-	-	4	4	-
Restructuring expenses	2	-	1	3	6	-	1	5	8	14	13
Non-GAAP operating income from continuing operations	\$ 82	\$ 96	\$ 101	\$ 107	\$ 386	\$ 99	\$ 93	\$ 177	\$ 240	\$ 609	\$ 242
<i>Non-GAAP operating income margin</i>	6.6%	7.6%	7.8%	8.4%	7.6%	7.5%	7.2%	9.5%	9.3%	8.6%	9.4%

(1) Prior periods have been recast to reflect amortization of acquired intangible assets as a non-GAAP adjustment. See slides 12 and 13 for definition & reconciliation of Non-GAAP Financial Measures in the Investor Presentation.

Non-GAAP Financial Measures Reconciliation

	1QCY15 ¹	2QCY15 ¹	3QCY15 ¹	4QCY15 ¹	CY15 ¹	1QFY16 ²	2QFY16	3QFY16	4QFY16	FY16	1QFY17
	(in millions, except for per share amounts)										
Non-GAAP operating income from continuing operations	\$ 82	\$ 96	\$ 101	\$ 107	\$ 386	\$ 99	\$ 93	\$ 177	\$ 240	\$ 609	\$ 242
Depreciation expense	10	9	9	7	35	7	7	10	14	38	13
Other (expense) income, net	(1)	2	-	1	2	(2)	(5)	(1)	(10)	(18)	3
Adjusted EBITDA	\$ 91	\$ 107	\$ 110	\$ 115	\$ 423	\$ 104	\$ 95	\$ 186	\$ 244	\$ 629	\$ 258
Depreciation expense	(10)	(9)	(9)	(7)	(35)	(7)	(7)	(10)	(14)	(38)	(13)
Interest expense, net	(14)	(14)	(14)	(12)	(54)	(11)	(13)	(25)	(37)	(86)	(36)
Income tax expense adjusted to reflect non-GAAP adjustments	(17)	(27)	(34)	(37)	(115)	(29)	(25)	(7)	(77)	(138)	(73)
Non-GAAP income from continuing operations³	\$ 50	\$ 57	\$ 53	\$ 59	\$ 219	\$ 57	\$ 50	\$ 144	\$ 116	\$ 367	\$ 136
Non-GAAP income from continuing operations attributable to Leidos Holdings, Inc.	\$ 50	\$ 57	\$ 53	\$ 59	\$ 219	\$ 57	\$ 50	\$ 143	\$ 115	\$ 365	\$ 134
Acquisition and integration costs	-	-	-	-	-	(9)	(15)	(44)	(22)	(90)	(19)
Amortization of acquired intangible assets	(2)	(3)	(2)	(2)	(9)	(1)	(2)	(27)	(54)	(84)	(69)
Gain on sale of a business	-	-	-	-	-	-	3	-	-	3	-
Restructuring expenses	(2)	-	(1)	(3)	(6)	-	(1)	(5)	(8)	(14)	(13)
Gain on a real estate sale	-	-	-	82	82	2	-	-	-	2	-
Asset impairment charges	(40)	(29)	(4)	-	(73)	-	-	-	(4)	(4)	-
Adjustment to the income tax provision to reflect non-GAAP adjustments ⁴	17	12	3	(9)	23	4	6	24	32	66	39
GAAP income from continuing operations attributable to Leidos Holdings, Inc.	\$ 23	\$ 37	\$ 49	\$ 127	\$ 236	\$ 53	\$ 41	\$ 91	\$ 59	\$ 244	\$ 72
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	\$ 0.75	\$ 3.51	\$ 0.88
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)	(0.36)	(1.16)	(0.41)
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	\$ 0.39	\$ 2.35	\$ 0.47
Diluted shares (for computing non-GAAP EPS)	75	74	73	74	74	74	74	114	153	104	153

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

(2) Q1 FY16 has been recast to reflect the adoption of ASU 2016-09 *Stock Compensation*.

(3) Non-GAAP income from continuing operations includes \$1 million of income related to a non-controlling interest for Q3 and Q4 FY16 and \$2 million for FY16 and Q1 of FY17.

(4) Calculation uses an estimated statutory tax rate on non-GAAP tax deductible adjustments.

See slides 12 and 13 for definition & reconciliation of Non-GAAP Financial Measures in the Investor Presentation.

Segment Non-GAAP Operating Income Reconciliation

	Quarter Ended March 31, 2017				
	(in millions)				
	Operating income (loss)	Acquisition and integration costs	Amortization of intangibles	Restructuring expenses	Non-GAAP operating income (loss)
Defense Solutions	\$ 79	\$ -	\$ 16	\$ -	\$ 95
Civil	54	-	34	-	88
Health	47	-	19	-	66
Corporate	(39)	19	-	13	(7)
Total	\$ 141	\$ 19	\$ 69	\$ 13	\$ 242

	Quarter Ended April 1, 2016				
	(in millions)				
	Operating income (loss)	Acquisition and integration costs	Amortization of intangibles	Restructuring expenses	Non-GAAP operating income (loss)
Defense Solutions	\$ 71	\$ -	\$ -	\$ -	\$ 71
Civil	22	-	1	-	23
Health	16	-	-	-	16
Corporate	(20)	9	-	-	(11)
Total	\$ 89	\$ 9	\$ 1	\$ -	\$ 99

* Purchase accounting for the IS&GS Business is preliminary and the related amortization of intangibles is subject to change. See slides 12 and 13 for definition & reconciliation of Non-GAAP Financial Measures in the Investor Presentation.