



# Leidos 3Q 2017 Earnings Conference Call

November 2, 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](http://www.leidos.com).

All information in this presentation is as of November 2, 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.

# 3Q FY 2017 Highlights

▶ \$0.95 Non-GAAP<sup>(1)</sup> Diluted Earnings Per Share

▶ 10.9% Adjusted EBITDA Margin

▶ \$268M Cash from Operations

▶ Gross Cost Synergies Realized to Date ~\$300M

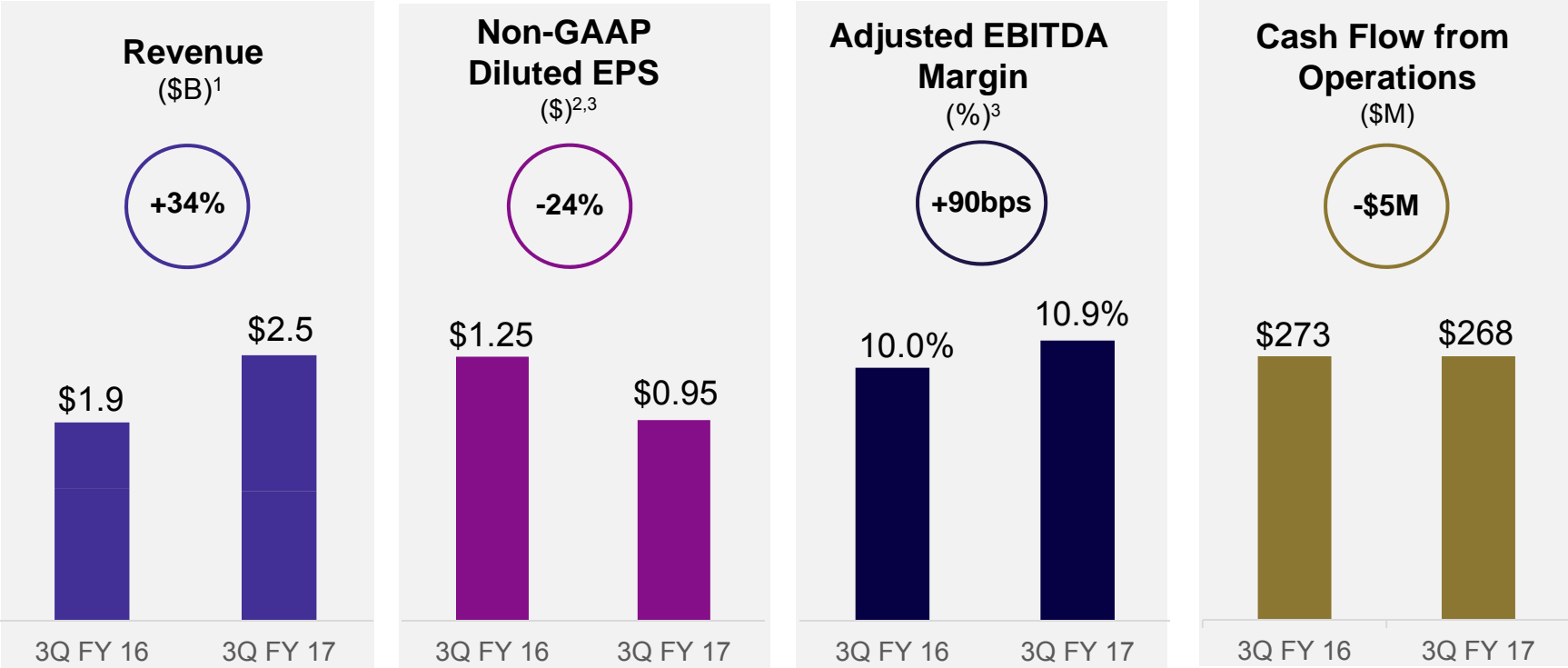
Leidos  
2018 & beyond<sup>(2)</sup>

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

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

(2) Represent Operating Metric Targets

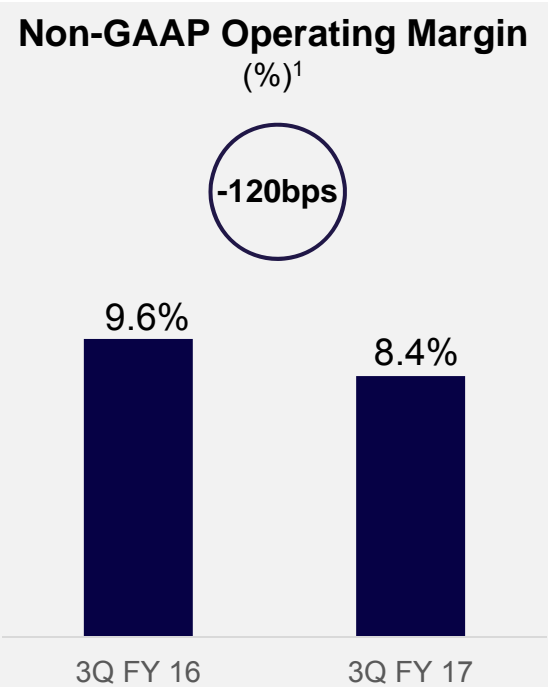
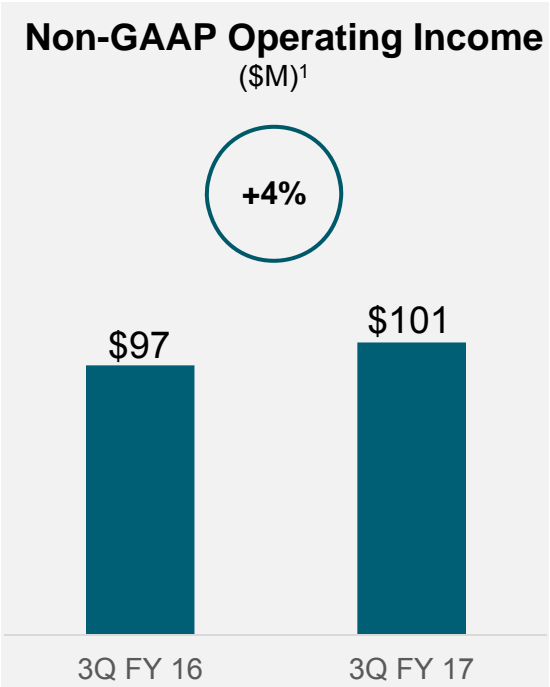
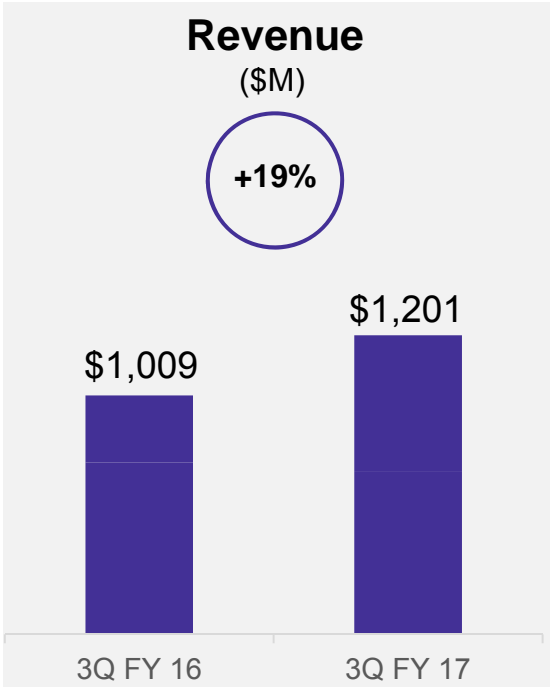
# Leidos 3Q FY 17 Results



(1) Includes revenues from IS&GS acquisition of \$0.62B in 3QFY16 and \$1.29B in 3QFY17  
 (2) 3QFY16 EPS reflects weighted avg share count of 114 million fully diluted shares outstanding and includes ~34 cent tax benefit related to the special dividend issued in the period  
 (3) See appendix for definition & reconciliation of Non-GAAP Financial Measures

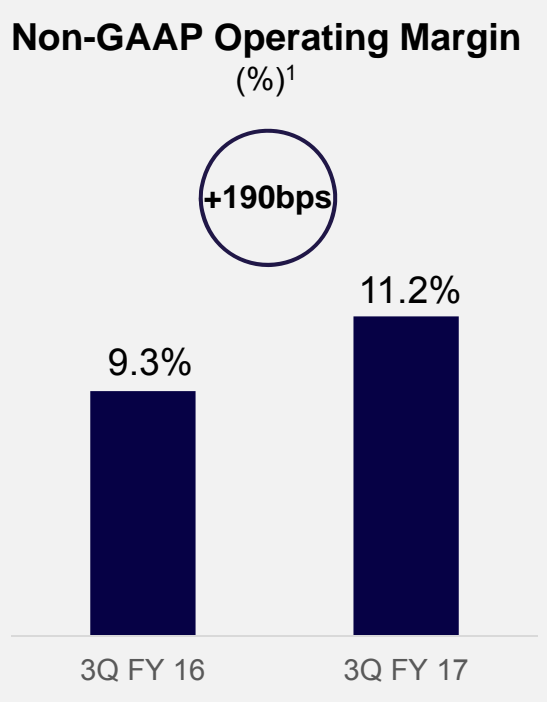
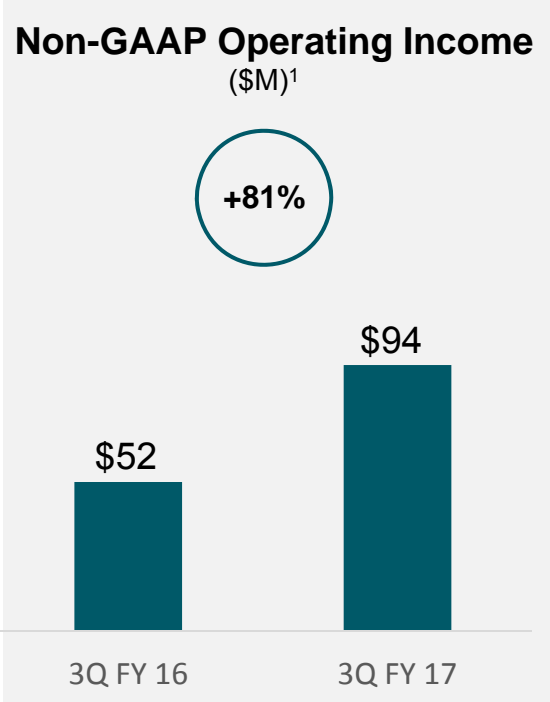


# Defense Solutions Segment



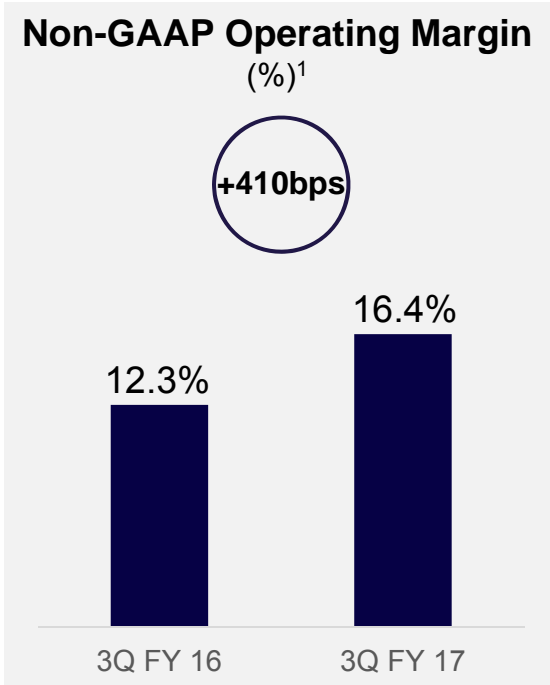
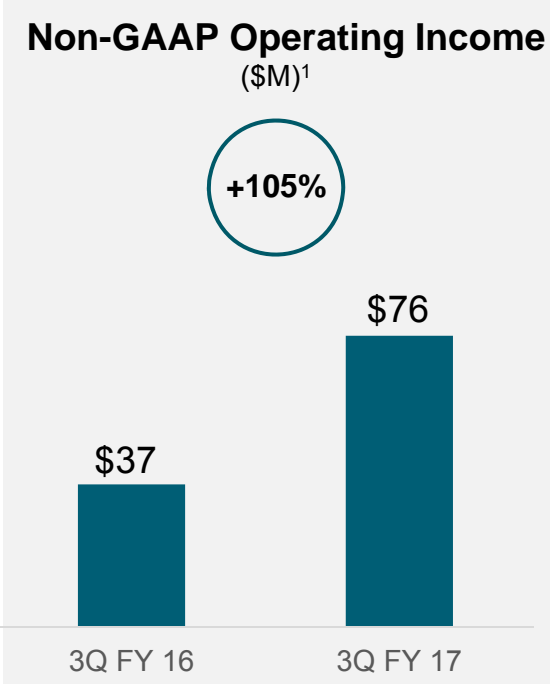
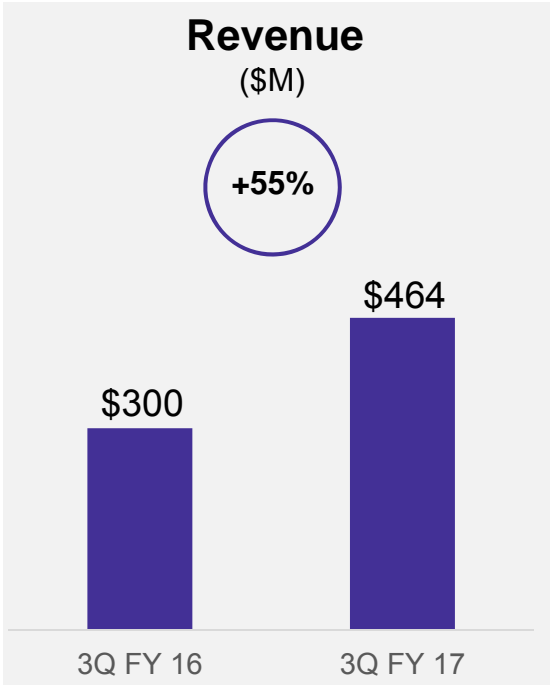
(1) See appendix for definition & reconciliation of Non-GAAP Financial Measures

# Civil Segment



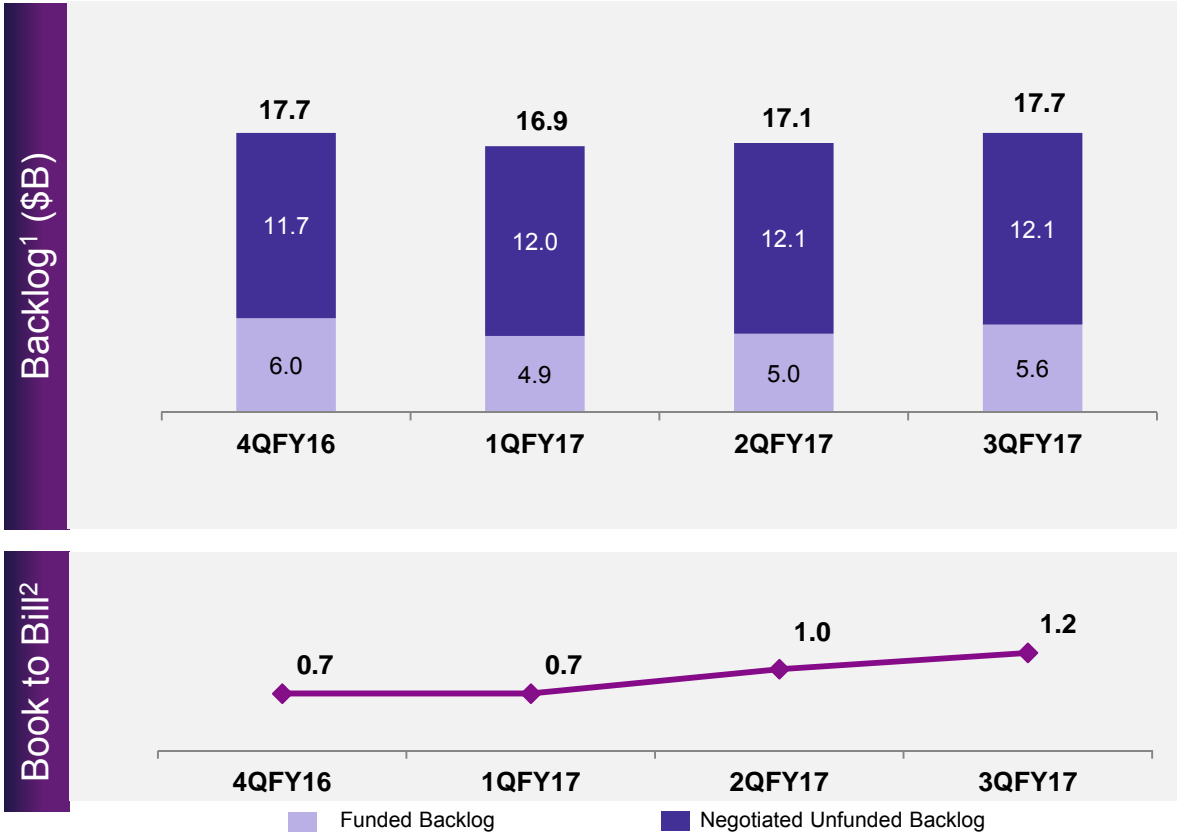
(1) See appendix for definition & reconciliation of Non-GAAP Financial Measures

# Health Segment



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

# Backlog & Book to Bill



(1) Backlog presented at exchange rate in effect at quarter end  
 (2) Book to bill excludes the impact of currency fluctuations on backlog





# 2017 Guidance Update

	Current	Prior
<b>Revenue</b>	Unchanged	\$10.1B to \$10.4B
<b>Adjusted EBITDA Margin<sup>(1)</sup></b>	10.2% to 10.4%	9.8% to 10.2%
<b>Non-GAAP Diluted EPS<sup>(1,2)</sup></b>	\$3.60 to \$3.75	\$3.45 to \$3.60
<b>Operating Cash Flow from Continuing Operations</b>	Meet or exceed \$490M <sup>(3)</sup>	Meet or exceed \$475M

(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) Embeds 2017 Non-GAAP Effective Tax Rate in the range of 34.5% to 35.0%, lower than prior expectation of 35% to 35.5%

(3) \$490M of Operating Cash Flow from Continuing Operations includes \$75M of transaction & integration costs, net of taxes

# Appendix

# Non-GAAP Financial Measures

This presentation includes certain non-GAAP financial measures, such as non-GAAP operating income, non-GAAP operating income margin, non-GAAP diluted earnings per share (EPS), adjusted earnings before interest, taxes, depreciation and amortization (EBITDA), and adjusted EBITDA margin.

These are not measures of financial performance under generally accepted accounting principles in the U.S. ("GAAP") and, accordingly, these measures should not be considered in isolation or as a substitute for the comparable GAAP measures and should be read in conjunction with the Company's consolidated financial statements prepared in accordance with GAAP.

Management believes that these non-GAAP measures provide another measure of the Company's results of operations and financial condition, including its ability to comply with financial covenants. 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 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 of fair value of the acquired intangible assets.
- ▶ Restructuring expenses - Represents costs associated with lease termination and severance costs 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 sale 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.
- ▶ Amortization of equity method investments - Represents the amortization of the fair value of equity method investments acquired with the IS&GS Business.

Non-GAAP operating margin is computed by dividing non-GAAP operating income 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

	1QFY16	2QFY16	3QFY16	4QFY16	FY16	1QFY17	2QFY17	3QFY17
	(in millions)							
<b>Operating income</b>	\$ 89	\$ 75	\$ 101	\$ 152	\$ 417	\$ 141	\$ 166	\$ 151
Acquisition and integration costs	9	15	44	22	90	19	16	21
Amortization of acquired intangible assets	1	2	27	54	84	69	67	76
Asset impairment charges	-	-	-	4	4	-	-	-
Restructuring expenses	-	1	5	8	14	13	6	6
Amortization of equity method investments	-	-	-	-	-	-	9	2
<b>Non-GAAP operating income</b>	\$ 99	\$ 93	\$ 177	\$ 240	\$ 609	\$ 242	\$ 264	\$ 256
<i>Non-GAAP operating income margin</i>	7.5%	7.2%	9.5%	9.3%	8.6%	9.4%	10.3%	10.2%

Note: See definition of non-GAAP operating income on slide 12 in the Investor Presentation.

# Non-GAAP Financial Measures Reconciliation

	1QFY16 <sup>1</sup>	2QFY16	3QFY16	4QFY16	FY16	1QFY17	2QFY17	3QFY17
	(in millions, except per share amounts)							
<b>Non-GAAP operating income</b>	\$ 99	\$ 93	\$ 177	\$ 240	\$ 609	\$ 242	\$ 264	\$ 256
Depreciation expense	7	7	10	14	38	13	13	16
Other (expense) income, net <sup>3</sup>	(2)	(5)	(1)	(10)	(18)	3	4	-
<b>Adjusted EBITDA</b>	\$ 104	\$ 95	\$ 186	\$ 244	\$ 629	\$ 258	\$ 281	\$ 272
Depreciation expense	(7)	(7)	(10)	(14)	(38)	(13)	(13)	(16)
Interest expense, net	(11)	(13)	(25)	(37)	(86)	(36)	(34)	(35)
Income tax expense adjusted to reflect non-GAAP adjustments	(29)	(25)	(7)	(77)	(138)	(73)	(75)	(78)
<b>Non-GAAP income from continuing operations</b>	\$ 57	\$ 50	\$ 144	\$ 116	\$ 367	\$ 136	\$ 159	\$ 143
Less: net income (loss) attributable to non-controlling interest	-	-	1	1	2	2	-	(3)
<b>Non-GAAP income from continuing operations attributable to Leidos Holdings, Inc.</b>	\$ 57	\$ 50	\$ 143	\$ 115	\$ 365	\$ 134	\$ 159	\$ 146
Acquisition and integration costs	(9)	(15)	(44)	(22)	(90)	(19)	(16)	(21)
Amortization of acquired intangible assets	(1)	(2)	(27)	(54)	(84)	(69)	(67)	(76)
Gain (loss) on sale of assets and businesses	2	3	-	-	5	-	(1)	-
Restructuring expenses	-	(1)	(5)	(8)	(14)	(13)	(6)	(6)
Asset impairment charges	-	-	-	(4)	(4)	-	-	-
Amortization of equity method investments	-	-	-	-	-	-	(9)	(2)
Adjustment to the income tax provision to reflect non-GAAP adjustments <sup>2</sup>	4	6	24	32	66	39	38	41
<b>Income from continuing operations attributable to Leidos Holdings, Inc.</b>	\$ 53	\$ 41	\$ 91	\$ 59	\$ 244	\$ 72	\$ 98	\$ 82
<b>Non-GAAP diluted EPS from continuing operations attributable to Leidos Holdings, Inc.</b>	\$ 0.77	\$ 0.68	\$ 1.25	\$ 0.75	\$ 3.51	\$ 0.88	\$ 1.04	\$ 0.95
Total adjustments from non-GAAP income from continuing operations	(0.05)	(0.13)	(0.45)	(0.36)	(1.16)	(0.41)	(0.40)	(0.42)
<b>Diluted EPS from continuing operations attributable to Leidos Holdings, Inc.</b>	\$ 0.72	\$ 0.55	\$ 0.80	\$ 0.39	\$ 2.35	\$ 0.47	\$ 0.64	\$ 0.53
Diluted shares (for computing non-GAAP EPS)	74	74	114	153	104	153	153	154

(1) Prior period has been recast to reflect the adoption of ASU 2016-09 *Stock Compensation*.

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

(3) Other (expense) income includes gain/loss on sale of assets and businesses.

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# Segment Non-GAAP Operating Income Reconciliation

Nine Months Ended September 30, 2017

(in millions)

	Operating income (loss)	Acquisition and integration costs	Amortization of intangibles	Restructuring expenses	Amortization of equity method investments	Non-GAAP operating income (loss)
Defense Solutions	\$ 222	\$ -	\$ 82	\$ -	\$ 2	\$ 306
Civil	170	-	98	-	9	277
Health	184	-	32	-	-	216
Corporate	(118)	56	-	25	-	(37)
<b>Total</b>	<b>\$ 458</b>	<b>\$ 56</b>	<b>\$ 212</b>	<b>\$ 25</b>	<b>\$ 11</b>	<b>\$ 762</b>

Nine Months Ended September 30, 2016

(in millions)

	Operating income (loss)	Acquisition and integration costs	Amortization of intangibles <sup>1</sup>	Restructuring expenses	Non-GAAP operating income (loss)
Defense Solutions	\$ 224	\$ -	\$ 4	\$ -	\$ 228
Civil	80	-	17	-	97
Health	62	-	9	-	71
Corporate	(101)	68	-	6	(27)
<b>Total</b>	<b>\$ 265</b>	<b>\$ 68</b>	<b>\$ 30</b>	<b>\$ 6</b>	<b>\$ 369</b>

(1) Amortization was based on the preliminary fair value of the acquired intangibles and was subject to change once purchase accounting was finalized.