

BUY: Leidos Holdings Inc (NYSE: LDOS)

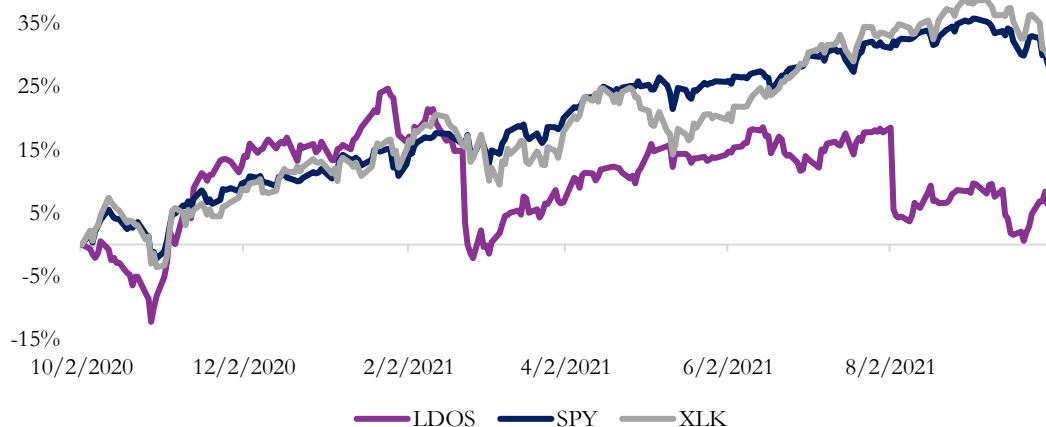
Industrials Sector Fall 2021

Executive Summary

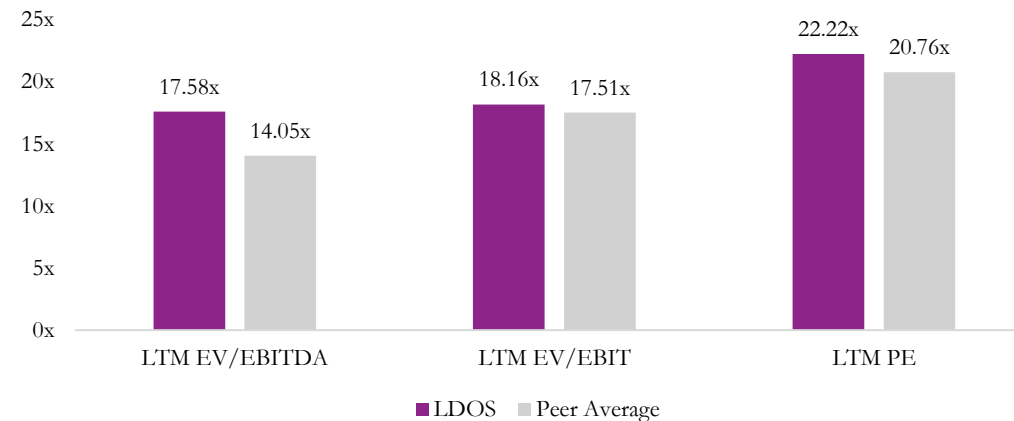
Catalysts

- Counter Cyber Terrorism Efforts
- Adoption of Medical Modernization
- Green Energy

Stock Performance



Relative Valuation



Key Statistics

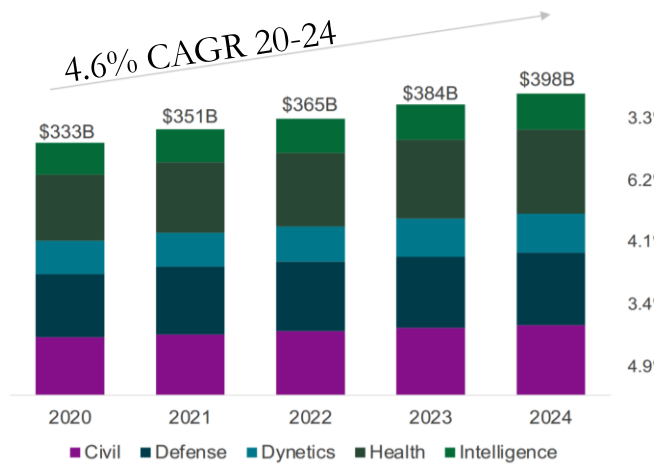
\$13.72B Market Cap	2020FY Revenue: \$12.3B
52 Week H/L: \$113.75 / \$79.15	P/E Ratio: 22.01x
Beta: 0.76	WACC: 6.81%
CEO: Roger Krone	HQ: Reston, Virginia

Industry Overview

Defensive Services Industry

- Department of Defense IT budget request for FY22 calls for 6% growth to \$51B
- US Government and Military rely on Defensive Service Companies for Cyber Security, Info Tech, and Software Programs to protect their digital footprints
- Industry reliance on data protection, mission specific systems, and integrated software

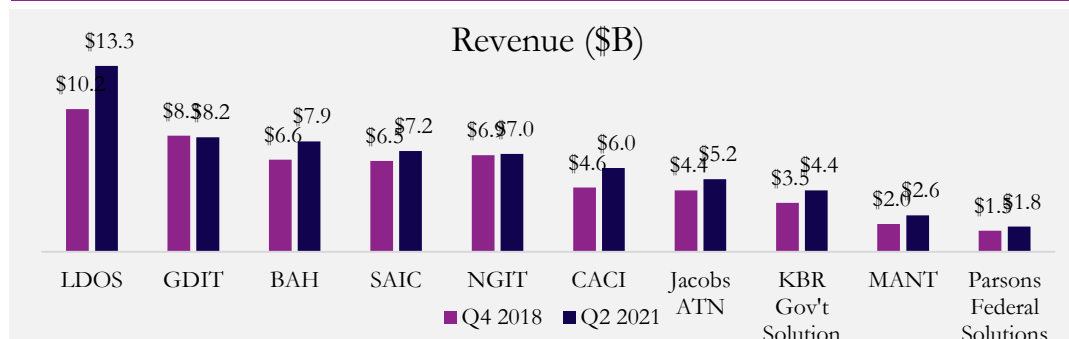
Investment into Cybersecurity



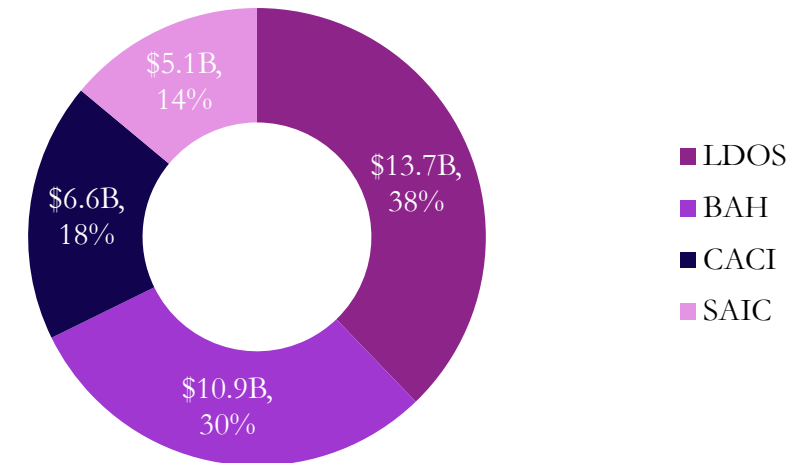
Focus on Cyber and AI:

- Microsoft**
\$20B over 5 years for advanced security solutions
- Google**
\$10B over 5 years to expand zero-trust programs

Competitive Landscape



Market Share



Company Overview

Operating Segments

- 1) **Defense** – cybersecurity, intelligence, and technology systems for the US intelligence community and military
- 2) **Civil** – infrastructure modernization, systems, and security for government agencies and commercial markets
- 3) **Health** – information technology, health services, and life sciences research for hospitals and US Federal Health

Recent Acquisitions

Dyentics: Jan 31, 2020

\$1.65 Billion
Intelligence, missiles, aviation, cyber, and space

L3Harris: May 4, 2020

\$1 Billion
Security business focused on airport security

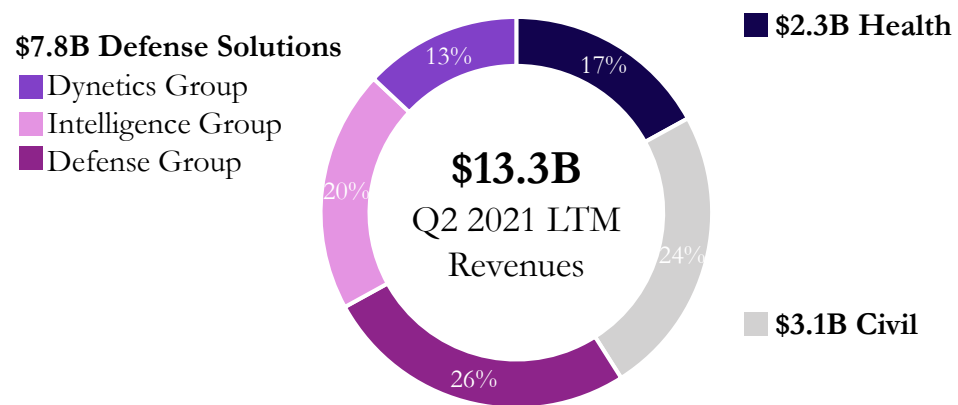
1901 Group: Jan 14, 2021

\$215 Million
Cloud and digital modernization IT services

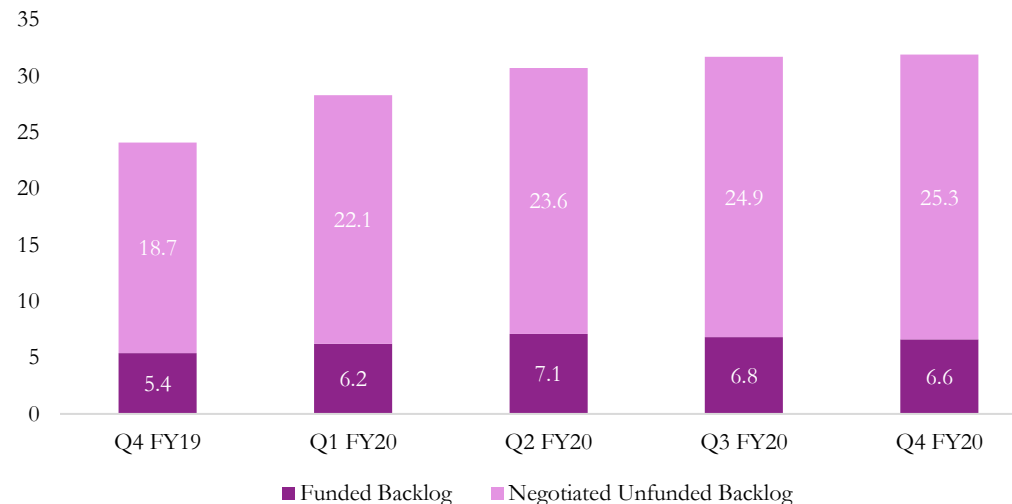
Gibbs & Cox: May 7, 2021

\$380 Million
Naval architecture and ship designs

Revenue Breakdown



Backlog (Future Contracts)

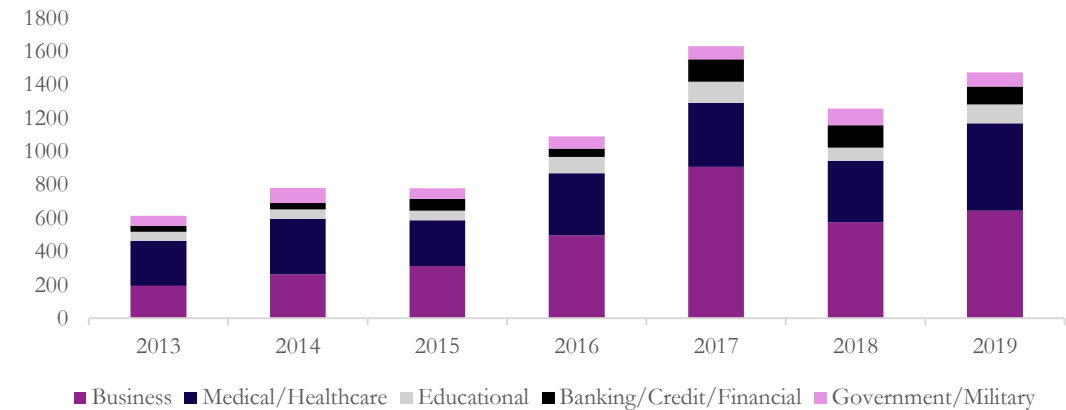


Counter Cyber Terrorism Efforts

Biden Cybersecurity Executive Order

- Response to over 1,000 known data breaches affecting over 150 million people in the US in 2020
- Raised security requirements for any software sold to the federal government, with a focus on supply chain attacks
- Created a new cybersecurity safety board to meet on the occurrence of cyber events and breaches

Number of Data Security Breaches by Industry



Leidos' Integration of Zero Trust Architecture

Data-centric security model that uses continuous verification, preventing outsiders from exploring the whole network

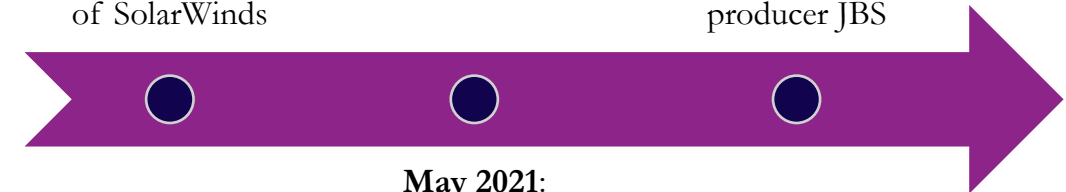
New architecture designed to reduce damage caused by attacks by improving defenses against advanced cyber threats

By 2022, 80% of new business applications will be accessed through Zero Trust Network Access

Notable Recent Cyber Security Breaches

Early 2020: series of Federal Data Breaches following the hack of SolarWinds

June 2021: US meat supply is threatened after cyber attackers hack major beef producer JBS



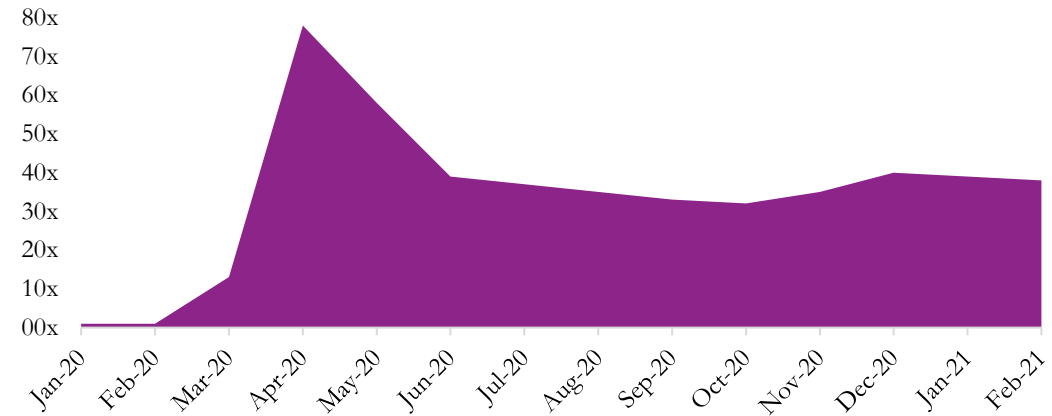
May 2021: hackers shut down Colonial Pipeline during ransom wire incident

Adoption of Medical Modernization

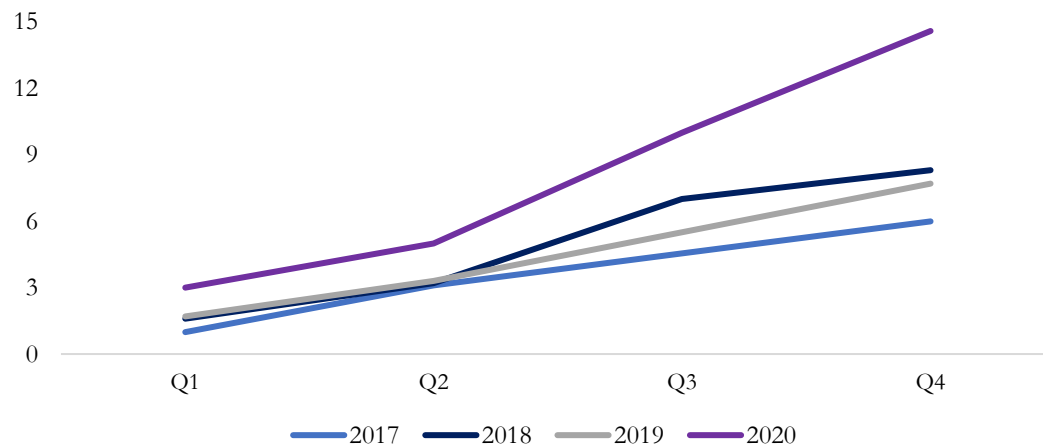
Transition to Online Medicine

- Projected \$250 billion of US healthcare shifted to virtual care by McKinsey
- 20% of all emergency room visits can be replaced by virtual urgent care
- 24% of healthcare office visits can be delivered virtually

Telehealth Claims Volumes



Venture Funding for Digital Health Care (\$B)



Leidos Digital Modernization Offerings

Advanced Analytics

Predictive analytics such as claims predictions for doctor and nurse staffing purposes

Data Services

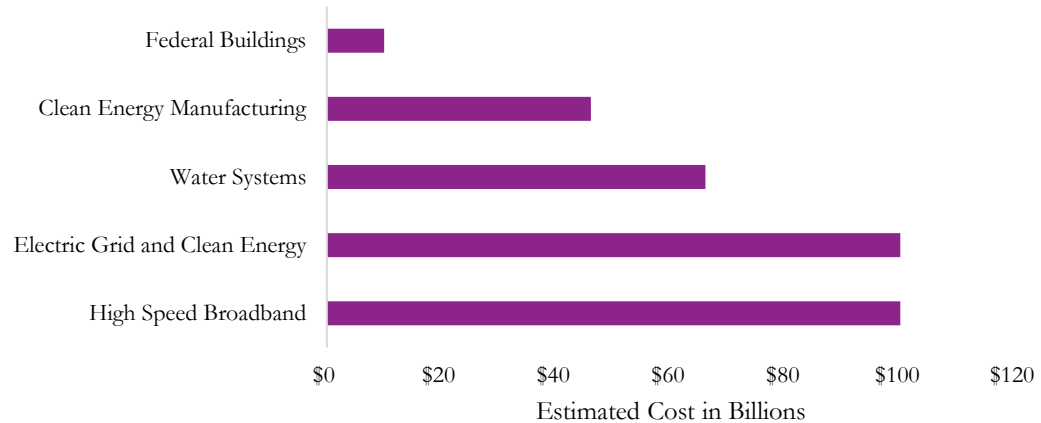
Implementation of electronic medical record keeping, data organization, and cloud storage

Digital Services

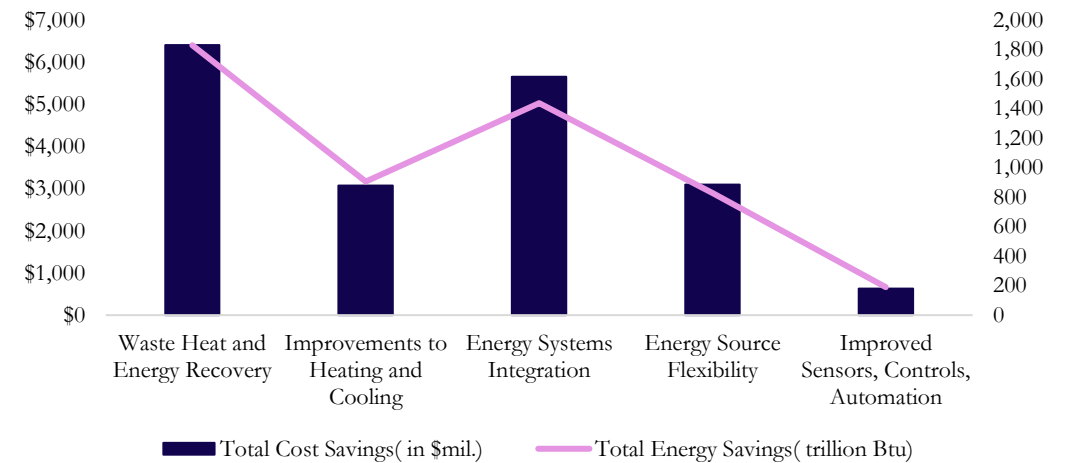
Patient data sharing, electronic claims processing, and virtual care offerings

Green Energy

Biden's Infrastructure Bill



Cost and Energy Savings of Green Energy



Leidos Energy and Environmental Programs

Site Management

Has managed government multifaceted facilities with nuclear research, environmental cleanup, and operations and logistics

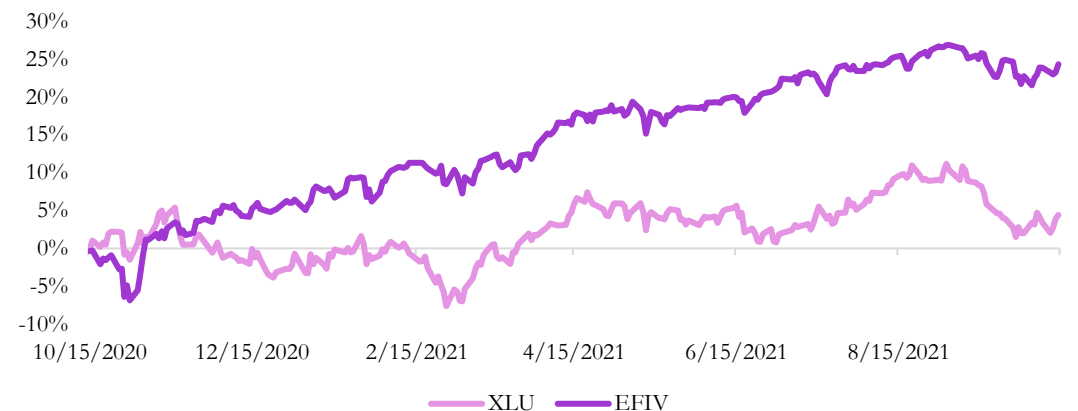
Manufacturing Systems

Offers expertise in systems integration and sensors and controllers that limit unnecessary energy consumption

Sustainability Group

Integrates potential climate impacts into companies' strategic planning such as climate modeling and greenhouse gas emission reduction

Clean Energy vs. XLU

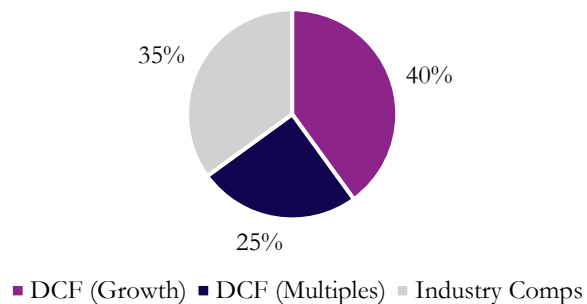


Valuation

Sensitivity Analysis

		Multiples Method Sensitivity				
		WACC				
		5.82%	6.32%	6.82%	7.32%	7.82%
EV/EBITDA	14x	\$ 135.47	\$ 132.67	\$ 129.94	\$ 127.28	\$ 124.69
	13x	\$ 125.94	\$ 123.34	\$ 120.80	\$ 118.34	\$ 115.93
	12x	\$ 116.41	\$ 114.01	\$ 111.67	\$ 109.39	\$ 107.17
	11x	\$ 106.88	\$ 104.68	\$ 102.54	\$ 100.45	\$ 98.41
	10x	\$ 97.35	\$ 95.35	\$ 93.40	\$ 91.51	\$ 89.65

Weighting and Assumptions

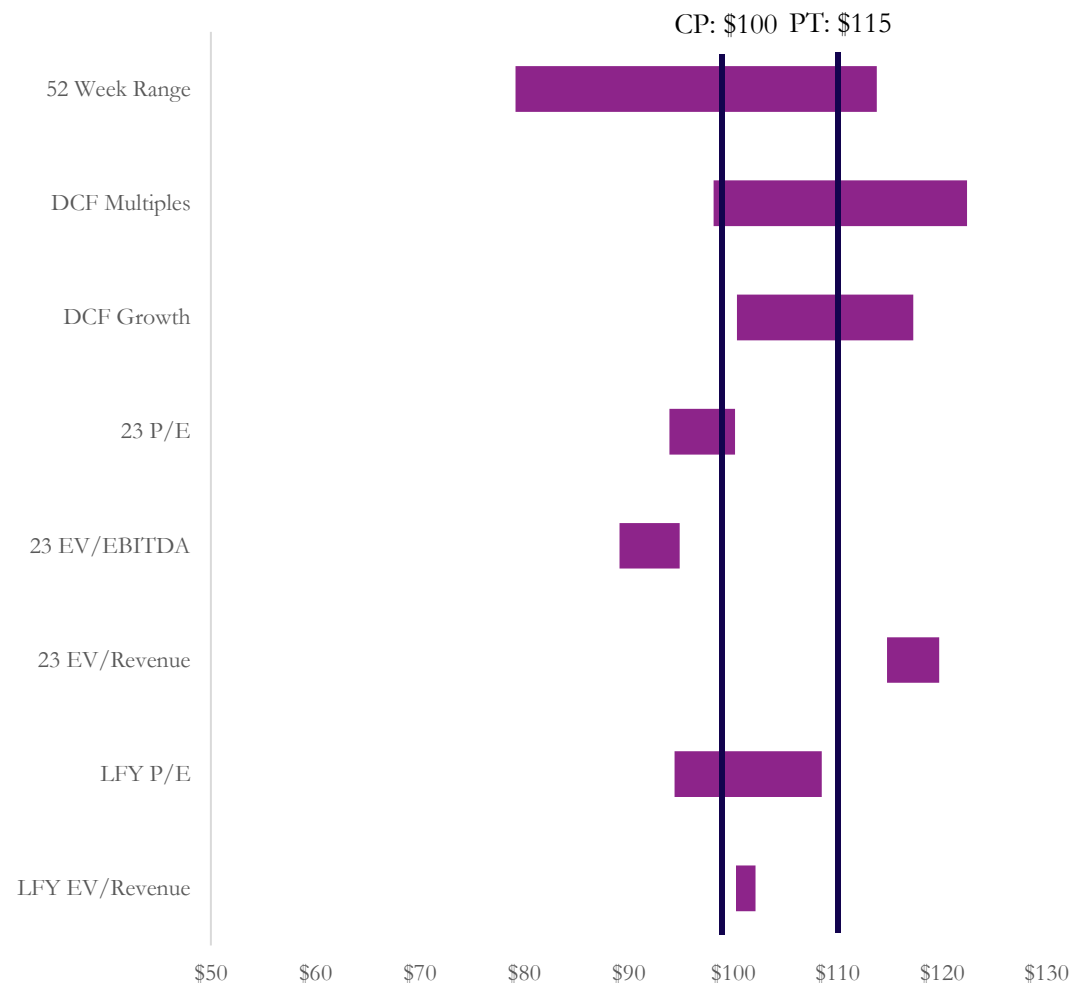


WACC: 6.82%
EV/EBITDA: 12x
Terminal Growth: 2%

Analyst Ratings

Goldman Sachs	BUY, \$118 PT
JP Morgan	BUY, \$118 PT
Jefferies	BUY, \$120 PT
Barclays	BUY, \$115 PT

Football Field



Investment Risks

Cybersecurity, data security, or other security threats or system failures

Strong prevalence of Leidos technology and risk management operations

Ability to win significant and high priced government contracts

Track record of high-quality performance on previous contracts

Bear Case

- Software development costs run higher than anticipated
- Failure to procure large current contract bids
- Failure to integrate recent M&A business additions

Base Case

- Continued government reliance due to prevalent cyber security concerns
- Expected transition into mass accepted telehealth
- Successful integration of recent M&A transactions

Bull Case

- Faster than anticipated integration of telehealth due to COVID resurgence
- Larger than expected revenues from newly acquired Dynetic's business

BUY: LDOS

PT: \$115

15% Upside

Thank You
Questions?

Appendix A: Income Statement

Leidos Holdings, Inc. Income Statement (USD in Millions)	FY2018	FY2019	FY2020	2021E	2022E	2023E	2024E	2025E	2026E
Revenues	10,194	11,094	12,297	13,397	14,721	16,181	17,790	19,562	21,513
<i>% Growth</i>		8.83%	10.84%	8.94%	9.88%	9.92%	9.95%	9.96%	9.97%
Cost of revenues	8,690	9,546	10,560	11,484	12,619	13,871	15,250	16,769	18,441
<i>% of Sales</i>	85.25%	86.05%	85.87%	85.72%	85.72%	85.72%	85.72%	85.72%	85.72%
Gross Margin	1,504	1,548	1,737	1,913	2,102	2,310	2,540	2,793	3,071
Operating expenses:									
Selling, general and administrative expenses	729	689	770	876	963	1,058	1,164	1,280	1,407
<i>% of sales</i>	7.15%	6.21%	6.26%	6.54%	6.54%	6.54%	6.54%	6.54%	6.54%
Bad debt expense and recoveries	0	(40)	(68)						
Acquisition, integration and restructuring costs	37	5	39	27	27	27	27	27	27
Asset impairment charges	7	0	12						
Equity earnings of non-consolidated subsidiaries	(18)	(18)	(14)	(14)	(14)	(14)	(14)	(14)	(14)
Operating income	749	912	998	1,023	1,126	1,239	1,363	1,500	1,651
Non-operating expenses:									
Interest expense, net	(138)	(133)	(179)	(184)	(190)	(196)	(201)	(208)	(214)
Other (expense) income, net	(1)	87	(38)						
Income before income taxes	610	866	781	839	936	1,043	1,162	1,293	1,438
Income tax expense	(28)	(196)	(152)	(176)	(197)	(219)	(244)	(271)	(302)
<i>Effective tax rate</i>	5%	23%	19%	21%	21%	21%	21%	21%	21%
Net income	582	670	629	663	739	824	918	1,021	1,136
Less: net income attributable to non-controlling interest	1	3	1						
Net income attributable to Leidos common stockholders	581	667	628						
Earnings per share:									
Basic (\$ per share)	\$ 3.85	\$ 4.66	\$ 4.42	\$ 4.68	\$ 5.22	\$ 5.82	\$ 6.48	\$ 7.21	\$ 8.02
Diluted (\$ per share)	\$ 3.80	\$ 4.60	\$ 4.36						

Appendix B: Cash Flow Statement

Leidos Holdings, Inc. Cash Flow Statement (USD in Millions)	FY2018	FY2019	FY2020
Cash flows from operations:			
Net income	\$ 581	\$ 667	\$ 628
Gain on sale of businesses	-	(88)	-
Depreciation and amortization	257	234	282
Stock-based compensation	44	52	62
Loss on debt extinguishment	1	-	36
Asset impairment charges	7	-	12
Deferred income taxes	(49)	18	(4)
Bad debt expense	-	12	13
Other	17	3	1
Change in assets and liabilities, net of effects of acquisitions and dispositions:			
Receivables	(58)	116	(127)
Other current assets and other long-term assets	(17)	41	104
Accounts payable and accrued liabilities and other long-term liabilities	(14)	(71)	151
Accrued payroll and employee benefits	(12)	(29)	161
Income taxes receivable/payable	10	34	14
Net cash provided by operating activities	767	989	1,333
Cash flows from investing activities:			
Acquisitions of businesses, net of cash acquired	(81)	(94)	(2,655)
Payments for property, equipment and software	(73)	(121)	(183)
Proceeds from disposition of businesses	-	178	-
Net proceeds from sale of assets	-	96	12
Collections on promissory notes	40	5	5
Other	-	1	6
Net cash (used in) provided by investing activities	(114)	65	(2,815)
Cash flows from financing activities:			
Proceeds from debt issuance	-	-	7,225
Payments of long-term debt	(59)	(80)	(5,456)
Payments for debt issuance and modification costs	(8)	-	(51)
Dividend payments	(198)	(198)	(196)
Repurchases of stock and other	(438)	(458)	(105)
Proceeds from issuances of stock	14	27	35
Payment of tax indemnification liability	(23)	-	-
Proceeds from real estate financing transaction	14	-	-
Other	(9)	-	(1)
Net cash provided by (used in) financing activities	(707)	(709)	1,451
Net (decrease) increase in cash, cash equivalents and restricted cash	\$ (54)	\$ 345	\$ (31)
Cash, cash equivalents and restricted cash at beginning of year	422	369	717
Cash, cash equivalents and restricted cash at end of year	\$ 369	\$ 717	\$ 687

Appendix C: Balance Sheet

Leidos Holdings, Inc.			
Balance Sheet (USD in Millions)			
	FY2018	FY2019	FY2020
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 327	\$ 668	\$ 524
Receivables, net	1,877	1,734	2,137
Inventory, net	-	72	276
Other current assets	543	338	402
Assets held for sale	92	-	-
Total current assets	2,839	2,812	3,339
Property, plant and equipment, net	237	287	604
Intangible assets, net	652	530	1,216
Goodwill	4,860	4,912	6,313
Operating lease right-of-use assets, net	-	400	581
Other assets	182	426	458
Total assets	8,770	9,367	12,511
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities	1,491	1,837	2,175
Accrued payroll and employee benefits	473	435	632
Long-term debt, current portion	72	61	100
Liabilities held for sale	23	-	-
Total current liabilities	2,059	2,333	2,907
Long-term debt, net of current portion	3,052	2,925	4,644
Operating lease liabilities	-	326	564
Deferred tax liabilities	170	184	234
Other long-term liabilities	178	182	291
Total Liabilities	5,459	5,950	8,640
Stockholders' equity:			
Additional paid-in capital	2,966	2,587	2,580
Retained earnings	372	896	1,328
Accumulated other comprehensive loss	(30)	(70)	(46)
Non-controlling interest	3	4	9
Total equity	3,311	3,417	3,871
Total liabilities and stockholders' equity	\$8,770	\$9,367	\$12,511

Appendix D: CFS & BS Cash Flow Adjustments

Cash Flow Adjustments	FY2018	FY2019	FY2020	2021E	2022E	2023E	2024E	2025E	2026E
Capital Expenditures	73	121	183	167	184	202	222	245	269
Revenue	10,194	11,094	12,297	13,397	14,721	16,181	17,790	19,562	21,513
<i>% of sales</i>	<i>0.72%</i>	<i>1.09%</i>	<i>1.49%</i>	<i>1.25%</i>	<i>1.25%</i>	<i>1.25%</i>	<i>1.25%</i>	<i>1.25%</i>	<i>1.25%</i>
Depreciation and Amortization	257	234	282	176	191	206	220	240	264
<i>% of Capital Expenditures</i>	<i>352.05%</i>	<i>193.39%</i>	<i>154.10%</i>	<i>105.00%</i>	<i>104.00%</i>	<i>102.00%</i>	<i>99.00%</i>	<i>98.00%</i>	<i>98.00%</i>
Cash Flow Adjustments	FY2018	FY2019	FY2020	2021E	2022E	2023E	2024E	2025E	2026E
Current Assets									
Accounts Receivable Days	67.2	57.0	63.4	62.6	62.6	62.6	62.6	62.6	62.6
Accounts Receivable	1,877	1,734	2,137	2,296	2,525	2,775	3,051	3,355	3,690
Inventory Days	0.0	2.8	9.5	7	7.5	8	8	8.5	8
Inventory	-	72	276	220	259	304	334	391	404
Other Assets as a % of Revenue	5.33%	3.05%	3.27%	3.88%	3.88%	3.88%	3.88%	3.88%	3.88%
Other Assets	543	338	402	520	571	628	690	759	835
Total Current Assets	2,420	2,144	2,815	3,036	3,355	3,707	4,076	4,505	4,929
Current Liabilities									
Accounts Payable Days	62.6	70.2	75.2	69.3	69.3	69.3	69.3	69.3	69.3
Accounts Payable	1,491	1,837	2,175	2,182	2,396	2,634	2,895	3,184	3,501
Accrued Expenses % of Revenue	4.64%	3.92%	5.14%	4.57%	4.57%	4.57%	4.57%	4.57%	4.57%
Accrued Expenses	473	435	632	612	672	739	812	893	982
Total Current Liabilities	1,964	2,272	2,807	2,794	3,068	3,372	3,708	4,077	4,484
NWC	456	(128)	8	243	287	335	368	428	445
Change in NWC		(584)	136	235	44	47	33	60	17

Appendix E: Revenue Build

Leidos Holdings, Inc. Revenue Build (USD in Millions)	FY2018	FY2019	FY2020	2021E	2022E	2023E	2024E	2025E	2026E
Defense Solutions									
<i>DoD and US Intelligence Community</i>	4,427	4,767	5,407	5,731	6,058	6,386	6,715	7,043	7,370
<i>% Growth</i>		8%	13%	6%	6%	5%	5%	5%	5%
<i>Other Government Agencies</i>	494	685	995	1,025	1,053	1,078	1,102	1,123	1,143
<i>% Growth</i>		39%	45%	3%	3%	2%	2%	2%	2%
<i>Commercial and non-US Customers</i>	857	847	937	1,143	1,382	1,656	1,969	2,322	2,717
<i>% Growth</i>		-1%	11%	22%	21%	20%	19%	18%	17%
Total	5,778	6,299	7,339	7,899	8,493	9,121	9,785	10,488	11,230
<i>% Growth</i>		9.02%	16.51%	7.64%	7.51%	7.39%	7.29%	7.18%	7.08%
Civil									
<i>DoD and US Intelligence Community</i>	60	67	59	59	59	59	59	59	59
<i>% Growth</i>		12%	-12%	0%	0%	0%	0%	0%	0%
<i>Other Government Agencies</i>	2,071	2,291	2,418	2,575	2,734	2,894	3,055	3,216	3,378
<i>% Growth</i>		11%	6%	6%	6%	6%	6%	5%	5%
<i>Commercial and non-US Customers</i>	468	345	426	446	467	489	510	533	555
<i>% Growth</i>		-26%	23%	5%	5%	5%	4%	4%	4%
Total	2,599	2,703	2,903	3,080	3,260	3,441	3,624	3,808	3,992
<i>% Growth</i>		4.00%	7.40%	6.11%	5.83%	5.56%	5.31%	5.07%	4.83%
Health									
<i>DoD and US Intelligence Community</i>	386	491	519	664	832	1,020	1,229	1,454	1,695
<i>% Growth</i>		27%	6%	28%	25%	23%	20%	18%	17%
<i>Other Government Agencies</i>	1,276	1,332	1,329	1,648	2,034	2,498	3,053	3,715	4,501
<i>% Growth</i>		4%	0%	24%	23%	23%	22%	22%	21%
<i>Commercial and non-US Customers</i>	155	151	107	105	103	101	99	97	95
<i>% Growth</i>		-3%	-29%	-2%	-2%	-2%	-2%	-2%	-2%
Total	1,817	1,974	1,955	2,417	2,968	3,619	4,381	5,267	6,291
<i>% Growth</i>		8.64%	-0.96%	23.64%	22.79%	21.92%	21.06%	20.23%	19.45%
Total Revenue	10,194	10,976	12,197	13,397	14,721	16,181	17,790	19,562	21,513
<i>% Change</i>		7.67%	11.12%	9.84%	9.88%	9.92%	9.95%	9.96%	9.97%

Appendix F: Free Cash Flow Projections

Leidos Holdings, Inc.									
Projections (USD in Millions)	FY2018	FY2019	FY2020	2021E	2022E	2023E	2024E	2025E	2026E
EBIT	749	912	998	1,023	1,126	1,239	1,363	1,500	1,651
Tax rate	5%	23%	19%	21%	21%	21%	21%	21%	21%
D&A	257	234	282	176	191	206	220	240	264
CapEx	73	121	183	167	184	202	222	245	269
Change in NWC	0	(584)	136	235	44	47	33	60	17
FCFF	899	1,403	767	582	852	935	1,041	1,121	1,282

Appendix G: DCF

Leidos Holdings, Inc.								
Discounted Cash Flow Analysis								
	FY2018	FY2019	FY2020	2021E	2022E	2023E	2024E	2025E
Revenue	10,194	11,094	12,297	13,397	14,721	16,181	17,790	19,562
<i>Revenue Growth</i>		8.83%	10.84%	8.94%	9.88%	9.92%	9.95%	9.96%
EBIT	749	912	998	1,023	1,126	1,239	1,363	1,500
<i>EBIT Margin</i>	7.35%	8.22%	8.12%	7.64%	7.65%	7.66%	7.66%	7.67%
NOPAT	715	706	804	808	889	979	1,077	1,185
<i>Tax Rate</i>	5%	23%	19%	21%	21%	21%	21%	21%
Plus: D&A	257	234	282	176	191	206	220	240
Less: CapEx	73	121	183	167	184	202	222	245
Less: Change in NWC	0	(584)	136	235	44	47	33	60
FCFF	899	1,403	767	582	852	935	1,041	1,121
Discount Factor (years)				0.5	1.5	2.5	3.5	4.5
PV of Cash Flows				563	852	935	1,041	1,121

Gordon Growth Method	
Terminal CF	1,121
WACC	6.81%
Terminal Growth Rate	2.00%
Terminal Value	23,772
PV of Terminal Value	17,674
Enterprise Value	22,187
Less: Debt	4,744
Plus: Cash	524
Equity Value	17,967
Diluted Shares Outstanding	141.57
Price Per Share	\$ 126.91
<i>% Upside</i>	30.43%

Multiples Method	
EV/EBITDA	12.00
Terminal Value	20,880
PV of Terminal Value	15,524
Enterprise Value	20,037
Less: Debt	4,744
Plus: Cash	524
Equity Value	15,817
Diluted Shares Outstanding	141.57
Price Per Share	\$ 111.72
<i>% Upside</i>	14.82%

Appendix H: Comparable Companies

Leidos Holdings, Inc. Comparable Companies Analysis							
Company	Ticker	Share Price	Shares Outs.	Market Cap (B)	Cash	Total Debt	EV
Leidos Holdings, Inc.	LDOS	\$ 97.30	141.57	\$ 13,774.76	524.00	4,744.00	17,994.76
Booz Allen Hamilton Holding Corporation	BAH	\$ 80.19	135.41	\$ 10,858.33	990.96	2,356.60	12,223.97
CACI International	CACI	\$ 276.27	24.99	\$ 6,904.54	88.03	1,735.84	8,552.35
Science Applications International	SAIC	\$ 88.17	58.70	\$ 5,175.58	171.00	2,515.00	7,519.58
CDW Corporation	CDW	\$ 173.61	144.80	\$ 25,138.73	1,410.20	3,927.20	27,655.73
Maximus, Inc.	MMS	\$ 83.72	63.32	\$ 5,301.32	71.74	28.90	5,258.48

	Share Price	EV	Revenue	EBITDA	EBIT	EPS	EV/Revenue	EV/EBITDA	EV/EBIT	P/E	Revenue	EBITDA	EBIT	EPS	EV/Revenue	EV/EBITDA	EV/EBIT	P/E
Min	\$ 80.19	5,258.48	3,461.54	352.81	288.28	3.39	1.07x	10.29x	15.85x	14.92x	4,261.33	574.00	471.33	4.66	1.21x	10.72x	11.16x	12.35x
Q1	\$ 83.72	7,519.58	6,044.14	664.81	390.00	3.60	1.41x	12.86x	16.12x	17.40x	6,602.11	701.67	524.81	5.19	1.23x	11.18x	14.20x	15.41x
Median	\$ 88.17	8,552.35	7,056.00	731.00	539.45	4.40	1.50x	14.58x	17.22x	21.36x	7,705.00	734.09	602.11	7.14	1.26x	11.65x	14.33x	16.13x
Q3	\$ 173.61	12,223.97	7,858.94	838.69	754.37	5.45	1.52x	14.90x	18.50x	24.54x	9,072.40	956.19	842.90	9.35	1.31x	12.22x	14.50x	17.21x
Max	\$ 276.27	27,655.73	18,467.50	1,604.80	1,179.20	18.52	1.56x	17.23x	19.28x	24.70x	22,901.75	1,874.39	1,677.20	17.93	1.35x	12.78x	16.49x	18.57x
Mean	\$ 140.39	12,242.02	8,577.62	838.42	630.26	7.07	1.41x	13.97x	17.39x	20.58x	10,108.52	968.07	823.67	8.85	1.27x	11.72x	14.14x	15.93x

Appendix I: ESG

Environmental

2030 Sustainability Goals:

- Reduce GHG emissions by 25%
- Reduce waste by 50% in Leidos factories
- Increase renewable energy to 25% of total electricity use

Ranked by Engineering News-Record among the Top 10 federal environmental firms.

In 2010, Leidos pledged to reduce GHG emissions by 25% by 2020. Since then, they have already reduced GHG emissions by more than 50%.

Social

2030 Social Goals:

- Increase representation of women and ethnically diverse employees by 10%
- Award 16% of supplier contracts to diverse suppliers
- Hire 15,000 veterans and military spouses

More than 20% of Leidos workforce are veterans.

Attained best in class rankings on the Bloomberg Gender-Equality Index Including: Number of Women on Board of Directors, Diversity and Inclusion, family care, and more.

Governance

2030 Governance Goals

- Increase investment by 60% in initiatives aimed at enhancing employee health and well-being

Recognized as one of the World's Most Ethical Companies by the Ethisphere Institute.

Appendix J: Dynetics Acquisition

Dynetics Acquisition

Acquired Dynetics for \$1.65B in Q12020. The transaction values Dynetics at 12.6x forward EBITDA. Dynetics brings exposure to higher-growth end markets, including hypersonics, electronic warfare, avionics, and unmanned vehicles. Trailing 3 year revenue CAGR at >20%.

Appendix K: Key Healthcare Programs

DoD Healthcare Management System Modernization

- Leidos was hired to replace legacy DoD healthcare systems with a single, common record for more than 9.6 million service members and their families and more than 205,000 healthcare professionals.
- \$4.3B total contract value
- 10 year period of performance
- 57,000+ active users
- 800 US Military Treatment Facilities
- 16 States

Military and Family Life Counseling

- Leidos was hired to provide confidential face-to-face, non-medical counseling, consultation and outreach services to service members and their families.
- \$2B+ total contract value
- 7 year period of performance
- 880+ counselors
- 140 US military installations
- 15 states and eastern Asia, the Pacific Islands and the Middle East