

# **Q2 FY2019 earnings presentation**

November 14, 2018



## **Cautionary note regarding forward-looking statements**

All statements in this press release that do not directly and exclusively relate to historical facts constitute “forward-looking statements.” These statements represent current intentions, expectations, beliefs or projections, and no assurance can be given that the results described in such statements will be achieved. These statements are subject to numerous assumptions, risks, uncertainties and other factors that could cause actual results to differ materially from those described in such statements. Please refer to the “Cautionary Statement Regarding Forward-Looking Statements” and “Risk Factors” sections of Perspecta’s Annual Report on Form 10-K for the year ended March 31, 2018, as may be updated or supplemented in our Quarterly Reports on Form 10-Q and our other filings with the Securities and Exchange Commission, which discuss these and other factors that could adversely affect our results. Readers are cautioned not to place undue reliance on such statements which speak only as of the date they are made. We do not undertake any obligation to update or release any revisions to any forward-looking statement or to report any events or circumstances after the date of this presentation or to reflect the occurrence of unanticipated events except as required by law.

# Non-GAAP reconciliations

To aid investors and analysts with year-over-year comparability for the combined businesses of USPS, Vencore and KeyPoint, Perspecta is including certain pro forma financial information that combines the stand-alone USPS, Vencore and KeyPoint financial information as if the mergers had taken place on April 1, 2017. Also, Perspecta is including adjusted results that exclude costs directly associated with the spin-off and mergers and the ongoing integration process.

The tables in the Appendix of this presentation provide all appropriate reconciliations from pro forma and adjusted results to the most directly comparable GAAP measure. For additional information, please refer to the press release issued on November 14, 2018, entitled Perspecta Announces Financial Results for Second Quarter of Fiscal Year 2019, available on the Investor Relations portions of the Perspecta web site.

Perspecta management believes that these non-GAAP financial measures provide useful additional information to investors regarding Perspecta's results of operations as they provide another measure of the Company's profitability and ability to service its debt and are considered important to financial analysts covering Perspecta's industry.

Perspecta's non-GAAP measures may be calculated differently than similarly named measures reported by other companies. In addition, using non-GAAP measures may have limited value as they exclude certain items that may have a material impact on reported financial results and cash flows. When analyzing Perspecta's performance, it is important to evaluate each adjustment in the reconciliation tables and use adjusted measures in addition to, and not as an alternative to, GAAP measures.

# CEO key messages

## Strong quarter across all metrics

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### Financial performance is on track

- Revenue up 1% year-over-year and up 3% sequentially on a pro forma basis
- Industry-leading adjusted EBITDA margins of 16.5%
- Adjusted EBITDA up 9%, adjusted diluted EPS up 2% YoY on a pro forma basis
- Adjusted free cash flow of \$105M, or 142% of adjusted net income
- Upwardly revising fiscal year 2019 guidance for all of our metrics

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### Integration proceeding well

- Aided by deal rationale and pre-merger planning
- Installing unified incentive and benefit programs that support workforce development, competitive position, and shareholder interests
- Cost synergies on-track; rationalizing real estate portfolio and working systems migrations

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### NGEN recompetes progressing as expected

- Two sole source extensions extend current run rate through May 2020: no disruption to program execution
- RFPs for end-user hardware and services components are out
- Excited about the recompetes and our ability to innovate for Navy and Marine Corps customers

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### Revenue synergies are beginning to manifest

- Book-to-bill of 2.3x, including \$643M of new business
- Robust pipeline—\$68B of qualified opportunities over three years, including \$8B of proposals already submitted and awaiting decision
- Key Perspecta Labs cyber and network security wins at DARPA offer opportunities to drive innovation across entire portfolio

# Select results for Q2 2019

## Income statement

Measure	Q2 FY19	Q2 FY18 (Pro Forma)	Growth
Revenue (millions)	\$1,068	\$1,055	1%
Adjusted EBITDA (millions)	\$177	162	9%
Adjusted EBITDA Margin	16.5%	15.4%	110 bps
Adjusted Diluted EPS	\$0.45	\$0.44	2%

### Revenue

- Defense and Intel increased 8%—Intelligence Community and background investigations
- Civilian and Health Care decreased 10%—end of large engineering support contract for the Kennedy Space Center
- Pulled forward \$13M from early completion of large, classified, fixed priced contract

### Earnings

- Strong earnings performance
- Industry-leading adjusted EBITDA margin in middle of forecast range
- Contract portfolio heavily weighted to fixed price
- Adjusted EBITDA and diluted EPS up sequentially excluding Q1 divestiture gain
- On track to deliver cost synergies and operational efficiencies

# Select results for Q2 2019

## Balance sheet and cash flow statement

### Cash flow performance

- Adjusted Free Cash Flow \$105M
- Cap Ex, including Capital Leases \$46M
- Cap Ex as a % of Revenue 4%

### Capital deployment

- Debt Repayment \$50M
- Cash Dividends \$8M
- Share Repurchases (\$377M authorization remaining) \$23M\*  
923K Shares

### Capital structure

- Liquidity (\$126M cash, \$600M available revolver) \$726M
- Debt, including Capital Leases \$2.8B
- Net Debt-to-Total Capitalization 53%

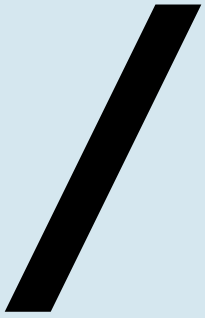
\* Includes \$2M recorded as an accrued liability for shares purchased but not yet settled in cash as of September 30, 2018.

## Fiscal year 2019 guidance

Measure	Current FY19 guidance	Prior FY19 guidance
Pro Forma Revenue (millions)	\$4,200 - \$4,250	\$4,150 - \$4,250
Pro Forma Adjusted EBITDA Margin	16.5% - 17.0%	16.0% - 17.0%
Pro Forma Adjusted Diluted EPS	\$1.85 - \$1.95	\$1.80 - \$1.95
Pro Forma Adjusted Free Cash Flow Conversion	95%+	90%+

- Increasing guidance across all metrics
- Guidance supported by:
  - \$10B backlog
  - \$8 billion of pending awards, including \$6B in new business bids
  - \$643M of new business won in the second quarter
- Expecting revenue to remain consistent with Q2 levels across both segments with relatively constant adjusted EBITDA margin

Note: All forward-looking non-GAAP measures exclude estimates for amortization of intangible assets; stock-based compensation expenses; restructuring, separation, transaction, and integration-related costs; mark-to-market changes associated with pension and other post-retirement benefit plans; and other non-recurring items. Perspecta is unable to provide a reconciliation of non-GAAP guidance measures to corresponding GAAP measures on a forward-looking basis without unreasonable effort due to the overall high variability and low visibility of most of the excluded items. Material changes to any one of these items could have a significant effect on future GAAP results.



# Appendix





# Non-GAAP reconciliation: Pro Forma Revenue

Second quarter of fiscal year 2018

## PERSPECTA INC. PRO FORMA REVENUE (Unaudited)

(in millions)	September 30, 2017
Revenue <sup>(a)</sup>	\$ 706
Historical Vencore revenue <sup>(b) (c)</sup>	349
Pro forma revenue	\$ 1,055

*Notes:*

- (a) For the three months ended September 30, 2017, GAAP results reflect the operations of USPS.
- (b) Revenue prior to the May 31, 2018 mergers is from the most closely corresponding reporting period, which is July 1, 2017 to September 30, 2017, for the three months ended September 30, 2017.
- (c) In this and all subsequent tables, financial data for "Vencore" includes the combined results of Vencore Holding Corp. and KGS Holding Corp.

# Non-GAAP reconciliation: Adjusted EBITDA / Diluted EPS

Second quarter of fiscal year 2019

PERSPECTA INC.  
UNAUDITED ADJUSTED EBITDA, ADJUSTED NET INCOME AND ADJUSTED DILUTED EPS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018

(in millions)	Perspecta for the Three Months Ended September 30, 2018	Effect of Spin-Off	Effect of Mergers	Adjusted
Net income	\$ 24	\$ —	\$ 4	\$ 28
Income tax expense	12	—	1	13
Interest expense	37	—	—	37
Depreciation and amortization	74	—	—	74
<b>EBITDA</b>	<b>147</b>	<b>—</b>	<b>5</b>	<b>152</b>
Restructuring	2	—	(2)	—
Separation and integration costs	21	—	—	21
Stock-based compensation	1	—	—	1
Separation related cost	3	—	—	3
<b>Adjusted EBITDA</b>	<b>\$ 174</b>	<b>\$ —</b>	<b>\$ 3</b>	<b>177</b>
Depreciation and amortization				(74)
Amortization of acquired intangibles				36
Interest expense				(37)
<b>Earnings before taxes</b>				<b>102</b>
Income tax expense <sup>(a)</sup>				28
Adjusted net income				\$ 74
<b>Adjusted diluted EPS <sup>(b)</sup></b>				<b>\$ 0.45</b>

Notes:

- (a) Represents income tax expense utilizing an adjusted effective tax rate of approximately 27% that adjusts for non-GAAP measures including: transaction costs, integration costs, and tax addbacks for non-deductible prior-merger goodwill amortization.
- (b) Represents adjusted net income divided by the weighted-average common shares on a diluted basis of 165.79 million.

# Non-GAAP reconciliation: Pro Forma Adjusted EBITDA / Diluted EPS

## Second quarter of fiscal year 2018

### PERSPECTA INC.

#### UNAUDITED PRO FORMA ADJUSTED EBITDA, ADJUSTED NET INCOME AND ADJUSTED DILUTED EPS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2017

(in millions)	Historical USPS for the Three Months Ended September 30, 2017	Effect of Spin-Off	Historical Vencore for the Three Months Ended September 30, 2017	Effect of Mergers	Pro Forma
Net income (loss)	\$ 40	\$ (9)	\$ 5	\$ (9)	\$ 27
Income tax expense (benefit)	26	(3)	3	(3)	23
Interest expense	5	13	21	(4)	35
Depreciation and amortization	33	—	8	16	57
<b>EBITDA</b>	<b>104</b>	<b>1</b>	<b>37</b>	<b>—</b>	<b>142</b>
Restructuring	4	—	—	1	5
Separation and integration costs	6	(1)	—	1	6
Pension and OPEB actuarial and settlement losses	—	—	(3)	3	—
Stock-based compensation	—	—	1	(1)	—
NBIB adjustment	—	—	9	—	9
<b>Adjusted EBITDA</b>	<b>\$ 114</b>	<b>\$ —</b>	<b>\$ 44</b>	<b>\$ 4</b>	<b>162</b>
Depreciation and amortization					(57)
Amortization of acquired intangibles					40
Interest expense (a)					(35)
<b>Earnings before taxes</b>					<b>110</b>
Income tax expense (b)					37
Adjusted net income					\$ 73
<b>Adjusted diluted EPS (c)</b>					<b>\$ 0.44</b>

#### Notes:

- (a) Pro Forma interest expense is derived based on the average of the applicable one-month LIBOR rates for the three month period ended June 30, 2018 to enhance comparability to the period during which the debt was established.
- (b) Represents the income tax impact of the adjustments to net income using an estimated effective tax rate of approximately 34%.
- (c) Represents adjusted net income divided by the weighted-average common shares on a diluted basis of 165.70 million.

# Non-GAAP reconciliation: Adjusted EBITDA Margin

## PERSPECTA INC.

### ADJUSTED EBITDA MARGIN AND PRO FORMA ADJUSTED EBITDA MARGIN (Unaudited)

(in millions except for margin)	Three Months Ended	
	September 30, 2018	September 30, 2017 <sup>(a)</sup>
Adjusted EBITDA	177	162
Revenue	1,068	1,055
Adjusted EBITDA margin	16.5%	15.4%

*Notes:*

(a) Amounts for the three months ended September 30, 2017 are pro forma.

# Non-GAAP reconciliation: Adjusted Free Cash Flow

Second quarter of fiscal year 2019

**PERSPECTA INC.**  
**ADJUSTED FREE CASH FLOW (Unaudited)**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018**

<b>(in millions)</b>	<b>Perspecta for the three months ended September 30, 2018</b>
Net cash provided by operating activities	76
Net cash used in investing activities	(9)
Acquisitions net of cash acquired, and other <sup>(a)</sup>	4
Payments on lease liability <sup>(b)</sup>	(41)
Payments on restructuring, transaction and integration-related costs	75
<b>Adjusted free cash flow</b>	<b>105</b>

*Notes:*

- (a) Consists of \$4 million of outsourcing contract costs.
- (b) Represents payments on capital leases.

# Non-GAAP reconciliation: Pro Forma Adjusted Free Cash Flow

## Second quarter of fiscal year 2018

**PERSPECTA INC.**  
**PRO FORMA ADJUSTED FREE CASH FLOW (Unaudited)**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2017**

(in millions)	Perspecta for the three months ended September 30, 2017	Historical Vencore for the three months ended September 30, 2017	Pro Forma for the three months ended September 30, 2017
Net cash provided by operating activities	\$ 150	\$ 13	\$ 163
Net cash used in investing activities	(8)	(4)	(12)
Acquisitions net of cash acquired, and other <sup>(a)</sup>	3	2	5
Payments on lease liability <sup>(b)</sup>	(37)	—	(37)
Payments on restructuring, transaction and integration-related costs	4	—	4
Initial sale of qualifying receivables <sup>(c)</sup>	(121)	—	(121)
<b>Adjusted free cash flow</b>	<b>\$ (9)</b>	<b>\$ 11</b>	<b>\$ 2</b>

*Notes:*

(a) Consists of \$3 million of outsourcing contract costs.

(b) Represents payments on capital leases.

(c) Represents the impact arising from the initial sale of accounts receivables under the Master Accounts Receivable Purchase Agreement during the quarter ended September 30, 2017.

# Non-GAAP reconciliation: Segment Operating Profit

**PERSPECTA INC.**  
**RECONCILIATION OF REPORTABLE SEGMENT PROFIT TO INCOME BEFORE TAXES (Unaudited)**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**

(in millions)	Three Months Ended	
	September 30, 2018	September 30, 2017
Total profit for reportable segments	\$ 92	\$ 80
Less:		
Stock-based compensation	1	(1)
Restructuring costs	—	4
Separation and integration-related costs	21	6
Interest expense	37	5
Other income, net	(3)	—
Income before taxes	\$ 36	\$ 66

# Non-GAAP reconciliation: Adjusted Segment Operating Profit

## Second quarter of fiscal year 2019

**PERSPECTA INC.**  
**ADJUSTED SEGMENT OPERATING PROFIT (Unaudited)**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018**

(in millions)	Perspecta for the three months ended September 30, 2018	Adjustments for the three months ended September 30, 2018 <sup>(a)</sup>	Adjusted for the three months ended September 30, 2018
<b>Revenue</b>			
Defense and Intelligence	\$ 702	\$ —	\$ 702
Civilian and Health Care	366	—	366
	<u>\$ 1,068</u>	<u>\$ —</u>	<u>\$ 1,068</u>
<b>Segment operating profit</b>			
Defense and Intelligence	\$ 71	\$ 21	\$ 92
Civilian and Health Care	21	26	47
	<u>\$ 92</u>	<u>\$ 47</u>	<u>\$ 139</u>

*Notes:*

- (a) Represents adjustments for amortization of acquired intangibles and separation-related, integration and other costs, which are included in the segment results of operations.



# Non-GAAP reconciliation: Pro Forma Segment Operating Results

Second quarter of fiscal year 2018

**PERSPECTA INC.**  
**PRO FORMA REVENUE AND ADJUSTED SEGMENT OPERATING PROFIT (Unaudited)**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2017**

(in millions)	Historical USPS for the three months ended September 30, 2017	Historical Vencore and Adjustments for the three months ended September 30, 2017 <sup>(a)</sup>	Pro Forma Adjusted for the three months ended September 30, 2017
<b>Revenue</b>			
Defense and Intelligence	\$ 357	\$ 292	\$ 649
Civilian and Health Care	349	57	406
	<u>\$ 706</u>	<u>\$ 349</u>	<u>\$ 1,055</u>
<b>Segment operating profit</b>			
Defense and Intelligence	\$ 27	\$ 50	\$ 77
Civilian and Health Care	53	15	68
	<u>\$ 80</u>	<u>\$ 65</u>	<u>\$ 145</u>

*Notes:*

- (a) Includes adjustments for amortization of acquired intangibles and separation-related, integration and other costs, which are in the segment results of operations.