perspecta

# Q2 FY20 earnings presentation

November 13, 2019

© 2019 Perspecta

# Cautionary note regarding forward-looking statements

All statements and assumptions in this presentation that do not directly and exclusively relate to historical facts could be deemed “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, 2019, 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 13, 2019, entitled Perspecta Announces Financial Results for Second Quarter of Fiscal Year 2020 and Raises Its Full-Year Guidance, available on the Investor Relations portion 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

1

Strong operational performance
- Exceeded consensus estimates on all of our key financial metrics
- Revenue up 6% sequentially and up 10% year-over-year
- Adjusted EBITDA up 11% and adjusted diluted EPS up 20% year-over-year
- Adjusted free cash flow generation above plan at 118% of adjusted net income

2

Excellent business development results
- Book-to-bill of 2.0x; TTM book-to-bill ratio of 1.4x
- Key bookings: NGA, DIA, NGEN extension; federal civilian momentum
- Qualified pipeline of $75B, including $24B awaiting decision

3

Knight Point integration virtually complete
- Rich legacy of innovation, patented IP, delivery of managed services programs
- Fully integrated into business from an operations perspective
- Revenue synergies: GSA COMET, DHS SSS; relevant to >$20B pipeline

4

Healthy business portfolio—more than NGEN
- Strong positioning at multiple customers
- Success factors: mission focus, emphasis on growth areas, innovation engine
- Perspecta Labs is a key differentiator, especially around cyber, analytics and artificial intelligence

5

Building a company we can be proud of
- In year two, focus turns from “integrate" to “modulate"
- Focus on details: monetize balance sheet, harmonize systems, open enrollment
- Social responsibility: fighting heart disease and supporting veterans

# Select results for Q2 FY20

## Income statement

| Measure | Q2 FY20 | Q2 FY19 | Growth |
|---|---|---|---|
| Revenue (millions) | $1,172 | $1,068 | 10% |
| Adjusted EBITDA (millions) | $197 | $177 | 11% |
| Adjusted EBITDA margin | 16.8% | 16.5% | 30 bps |
| Adjusted diluted EPS | $0.54 | $0.45 | 20% |

### Revenue

- Record revenue and highest YoY growth rate—two months of Knight Point
- Defense and intel increased 11%—ramp of recent wins, increased NGEN demand
- Civilian and health care increased 8%—$60 million transition services and sale of IT assets on NASA

### Earnings

- Strong earnings performance
  - SG&A efficiency
  - High award fees
  - Contract portfolio heavily weighted to fixed price
- Excluding one-time NASA revenue, adjusted EBITDA in target range
- Depreciation returned to normal run rate at $40 million

# Select results for Q2 FY20

## Balance sheet and cash flow statement

| | | |
|---|---|---|
| **Cash flow performance** | • Adjusted free cash flow | $104M |
| | • CapEx, including finance leases | $45M |
| | • CapEx as a percentage of revenue | 4% |
| **Capital deployment** | • Debt repayment | $23M |
| | • Cash dividends | $10M |
| | • Share repurchases ($308M authorization remaining) | $17M |
| | • Acquisitions | $265M |
| **Capital structure** | • Liquidity ($122M cash, $575M available revolver) | $697M |
| | • Debt, including finance lease obligations | $2.8B |
| | • Net debt-to-total capitalization | 54% |

# Fiscal year 2020 guidance

| Measure | Current FY20 guidance | Prior FY20 guidance |
|---|---|---|
| Revenue (millions) | $4,425 - $4,500 | $4,400 - $4,500 |
| Adjusted EBITDA margin | 17.0% - 18.0 | 17.0% - 18.0% |
| Adjusted diluted EPS | $2.10 - $2.18 | $2.08 - $2.18 |
| Adjusted free cash flow conversion | $105%+ | 95%+ |

- Raising bottom end of guidance for revenue and adjusted diluted EPS
- Revenue step down in Q3
  - $65M from NASA asset sale and two months of NASA execution, partially offset by another month of Knight Point
  - normal December quarter seasonality (fewer effective working days)
- Increasing adjusted free cash flow conversion guidance

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: Adjusted EBITDA, net income and diluted EPS

## Second quarters of fiscal year 2020 and fiscal year 2019

| (in millions) | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 |
|---|---|---|
| **Net income** | **$ 29** | **$ 24** |
| Income tax expense | 8 | 12 |
| Interest expense, net | 36 | 37 |
| Depreciation and amortization | 90 | 74 |
| **EBITDA** | **163** | **147** |
| Effects of Spin-Off and Mergers | — | 5 |
| Restructuring costs | 2 | — |
| Separation, transaction and integration-related costs | 20 | 21 |
| Stock-based compensation | 10 | 1 |
| Separation related cost | 2 | 3 |
| **Adjusted EBITDA** | **197** | **177** |
| ***Adjusted EBITDA margin [(a)]*** | ***16.8%*** | ***16.5%*** |
| Depreciation and amortization | (90) | (74) |
| Amortization of acquired intangibles | 50 | 36 |
| Interest expense, net | (36) | (37) |
| **Adjusted earnings before taxes** | **121** | **102** |
| Income tax expense [(b)] | 33 | 28 |
| **Adjusted net income** | **$ 88** | **$ 74** |
| **Adjusted diluted EPS [(c)]** | **$ 0.54** | **$ 0.45** |

*Notes:*

(a) Adjusted EBITDA margin is calculated as the ratio of adjusted EBITDA to revenue for both quarters ended September 30, 2019 and 2018.

(b) Represents income tax expense utilizing an adjusted effective tax rate that adjusts for non-GAAP measures including: transaction costs, integration costs, and tax add backs for non-deductible prior-merger goodwill amortization. Adjusted effective tax rates are 27% for both quarters ended September 30, 2019 and 2018.

(c) Represents adjusted net income divided by the weighted average common shares on a diluted basis of 162.90 million and 165.79 million for the quarters ended September 30, 2019 and 2018, respectively.

# Non-GAAP reconciliation: Adjusted free cash flow

## Second quarters of fiscal year 2020 and fiscal year 2019

| (in millions) | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 |
|---|---|---|
| Net cash provided by operating activities | $ 135 | $ 76 |
| Purchases of property, equipment and software | (3) | (5) |
| Payments on finance lease obligations | (42) | (41) |
| Payments on restructuring, separation, transaction and integration-related costs | 14 | 75 |
| Adjusted free cash flow | $ 104 | $ 105 |

# Reconciliation of reportable segment profit to the Statements of Operations

## Second quarters of fiscal year 2020 and fiscal year 2019

| | Three Months Ended | |
|---|---|---|
| (in millions) | September 30, 2019 | September 30, 2018 |
| Total segment profit | $ 153 | $ 128 |
| Not allocated to segments: | | |
| Stock-based compensation | 10 | (1) |
| Amortization of acquired intangible assets | (50) | (36) |
| Restructuring costs | (2) | — |
| Separation, transaction and integration-related costs | (20) | (21) |
| Interest expense, net | (36) | (37) |
| Other unallocated, net | 2 | 3 |
| Income before taxes | $ 37 | $ 36 |

# Segment revenue and non-GAAP reconciliation of adjusted segment profit

## Second quarters of fiscal year 2020 and fiscal year 2019

| | Three Months Ended | | | |
|---|---|---|---|---|
| (in millions) | September 30, 2019 | | September 30, 2018 | |
| Revenue | | | | |
| Defense and Intelligence | $ | 777 | $ | 702 |
| Civilian and Health Care | | 395 | | 366 |
| **Total revenue** | $ | 1,172 | $ | 1,068 |
| | | | | |
| Segment profit | | | | |
| Defense and Intelligence | $ | 113 | $ | 87 |
| Non-GAAP adjustments for the period [(a)] | | 3 | | 5 |
| Adjusted segment profit | $ | 116 | $ | 92 |
| | | | | |
| Civilian and Health Care | $ | 40 | $ | 41 |
| Non-GAAP adjustments for the period [(a)] | | 1 | | 6 |
| Adjusted segment profit | $ | 41 | $ | 47 |
| | | | | |
| **Total segment profit** | **$** | **153** | **$** | **128** |
| **Total adjusted segment profit** | **$** | **157** | **$** | **139** |

*Notes:*

(a) Includes adjustments for certain separation-related and other costs, which are included in the segment results of operations.

# Thank you

perspecta™