

COMPANY PROFILE

Leidos Holdings Inc

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COMPANY OVERVIEW

Leidos Holdings Inc (Leidos) is a science and technology company, which delivers engineering services and solutions. The company provides a wide range of commercial aviation and defense, cybersecurity, data analytics, enterprise IT, and maritime solutions. It serves various industries, including civil, aviation, advanced solutions, defense and intelligence, healthcare, energy, homeland and transportation security. It also provides critical infrastructure, smart grid, systems integration, utility planning, and commercial cybersecurity services. The company serves the US governments and its agencies, NASA, NSF, the Environmental Protection Agency, Defense Advanced Research Projects Agency, and commercial customers. Its business operations span the Americas, Europe, the Middle East, and Asia-Pacific. Leidos is headquartered in Reston, Virginia, the US.

The company reported revenues of (US Dollars) US\$10,170 million for the fiscal year ended December 2017 (FY2017), an increase of 44.4% over FY2016. In FY2017, the company's operating margin was 5.5%, compared to an operating margin of 5.9% in FY2016. In FY2017, the company recorded a net margin of 3.6%, compared to a net margin of 3.5% in FY2016.

The company reported revenues of US\$2,443 million for the first quarter ended March 2018, a decrease of 2.9% over the previous quarter.

KEY FACTS

Head Office	Leidos Holdings Inc 11951 Freedom Drive Reston Virginia Reston Virginia USA
Phone	1 571 5266000
Fax	
Web Address	www.leidos.com
Revenue / turnover (USD Mn)	10,170.0
Financial Year End	December
Employees	31,000
New York Stock Exchange Ticker	LDOS

SWOT ANALYSIS

Leidos Holdings Inc (Leidos) is a science and technology company delivering engineering services and solutions to the defense, intelligence, civil and health markets. Robust financial performance, strategic collaborations and partnerships, order backlog, and focused research and development capabilities are the company's major strengths, even as legal proceedings remain as a major area of concern. Growing demand for global cybersecurity market, alliance partners network program, growing US healthcare IT market, and new contracts are likely to offer new opportunities to the company. However, risks associated with foreign currency fluctuations, reduction in federal budget expenditure, and stringent government regulations could affect its business performance.

<p>Strength</p> <p>Financial Performance Order Backlog Strategic Collaborations and Partnerships Research and Development Capabilities</p>	<p>Weakness</p> <p>Legal Proceedings</p>
<p>Opportunity</p> <p>Global Cybersecurity Market Alliance Partner Network Growth in the US Healthcare IT Market New Contracts</p>	<p>Threat</p> <p>Risks Associated with Foreign Currency Fluctuations Stringent Regulations Reduction in Federal Budget</p>

Strength

Financial Performance

The company's total revenue increased 44.4%, from US\$7,043 million in FY2016 to US\$10,170 million in FY2017. Growth in revenue was due to acquisition of Lockheed Martin's Information Systems & Global Solutions (IS&GS) Business. Increase in revenue from operation and maintenance of different airborne programs also contributed in revenue growth. The company's operating margin stood at 5.5% for the last fiscal year and outperformed the IT Services industry operating margin average of -13.1% for the same year. The strong operating margin of the company can be attributed to an optimal pricing strategy and operational efficiency. It also showcases company's ability to create value for shareholders with positive operating cash and fulfill obligations towards the creditors. Its return on equity (ROE) stood at 10.9% for the last fiscal year, which was higher than the industry average ROE of -7.6% for the same year.

Order Backlog

Leidos has a considerable order backlog. As of December 2017, the company had total order backlog of US\$17,476 million, of which US\$5,043 million were funded and US\$ 12,433 million were unfunded

backlog. Funded backlog accounted for 28.9%, and unfunded backlog (71.1%) of total order backlog. In FY2017, the Defense Solutions segment accounted for 43.9% of the total order backlog, followed by Civil (42.3%), Health (13.8%).

Strategic Collaborations and Partnerships

Leidos is well positioned within the US defense and intelligence community. The company has established itself as the prime contractor in several high priority categories of defense and intelligence services. According to the company, Leidos is one of the largest pure-play defense and intelligence services contractors in the US. The company possesses the capacity to prime large federal services contracts that require science and engineering expertise, which positions it as a leading contractor. Over the last few years, Leidos held many important services contract positions across the US DoD, civilian intelligence communities and DHS, including a relatively high degree of single award services contracts. High degree of single award services contracts signifies the company's competence and capabilities to lead complex contracts solely. This ability to lead large-scale technologically complex engineering and integration; cyber-risk management; and intelligence, surveillance and reconnaissance (ISR) contracts differentiates Leidos from its peers and provides significant competitive advantages. It specializes in cybersecurity, data analytics, enterprise IT modernization, operations and logistics, sensors, collection and phenomenology, software development, and systems engineering services. The company also serves various customers across different sectors, such as aviation, advanced solutions, civil, commercial, defense, energy, intelligence, homeland and transportation, federal, and various international governments. In the review year, Defense market accounted for 49% of the company's revenue, followed by civil (33%), and healthcare (18%).

Research and Development Capabilities

The company's R&D concentrates on several projects in basic research, applied research, development and systems and other concept formulation studies. It leverages technical expertise to develop new capabilities in the fields of cybersecurity, data science, enterprise IT, software development, systems engineering and integration. It is also a supplier of components for NASA's cargo mission contract. It focuses on the development of biometric solutions, and integrated airport management systems. In FY2017, the company spent US\$42 million on R&D, which as a percentage of total revenue, stood at 0.4%. In July 2018, the company secured a contract worth US\$365 million from the US Department of Energy Research Support, the US to support research activities for the National Energy Technology Laboratory. Leidos closely works with NASA in delivering cargo packing and unpacking services for its International Space Station Program.

Weakness

Legal Proceedings

The company in the recent times was subject to multiple litigations. In August 2017, a case was registered against its subsidiary, Leidos Health LLC in the US Eastern District court of Virginia. The suit was filed by a former employee, who alleged about his misclassification as an independent contractor and denial of his overtime wage. The plaintiff accused that he served as a consultant in the company between

January 2013 to June 2016 and provided training to clients regarding the use of a new hospital electronic recordkeeping system. He alleged that he was not paid for overtime hours he worked for more than 40 hours per week. The company was alleged to violate the wages policy prescribed under Fair Labor Standards Act.

Opportunity

Global Cybersecurity Market

The global spending on cybersecurity systems is expected to continue essentially due to the importance of such systems in modern warfare. According in-house research, the global military cybersecurity market is projected to grow at a CAGR of 3.5% from US\$9.8 billion in 2017 to US\$13.8 billion by 2027. The cybersecurity market has four segments: network security, data security, identity and access, and cloud security. Network security is projected to account for 38.5% of the market share, followed by data security (25.6%), identity and access (19.3%) and cloud security (16.6%). North America dominates the military cybersecurity market with 62.6% market share, followed by Asia-Pacific with 14.9%. The dynamic nature of cyber threats including ransomware or malware attacks, and increasing threats of terrorist attacks are driving investment in the market. Increased expenditure on cybersecurity in major markets such as the US, and countries in Asia-Pacific and Europe is leading to substantial growth in the cybersecurity market. These countries are expected to prioritize spending on cybersecurity systems to prevent attacks on their critical defense systems and infrastructure.

Leidos offers cybersecurity services to protect transmitted data, development tools to exploit cyber intelligence, and programs to build comprehensive situational awareness on the military and intelligence networks. In December 2017, the company entered into a partnership with Claroty, a provider of operational technology (OT) network protection services. According to THE deal, the two companies will deploy passive monitoring services to its Industrial Defender Automation Systems Manager (R) (ASM) solution for industrial control systems (ICS) networks. This collaboration could integrate Claroty Platform with Leidos's cybersecurity tool to enhance customer's response against cyberthreat monitoring and detection.

Alliance Partner Network

Leidos leverages on Alliance Partner Network program to drive innovation and improve operational efficiency. In May 2018, the company launched the alliance program to effectively utilize its supplier base. This program comprises three strategic levels: corporate strategic partner, technology alliance partner and emerging technology partner. The company's corporate strategic partner is Dell, whereas technology partners include McAfee, Amazon Web Services, NetApp, Hewlett Packard Enterprise, Cisco, Juniper. By the implementation of this program, it aims to achieve robust technical capabilities and improve cooperation in various sectors. In February 2018, Leidos entered into partnership with IBM, Unisys, and Verizon to develop the US Navy's next generation enterprise networks re-compete (NGEN-R) service management, integration and transport (SMI&T) program. As part of this program, the company will support the US Navy's information technology, security, wireless, and network services.

Growth in the US Healthcare IT Market

Leidos offers solutions for biomedical research and development programs and stands to benefit from the positive outlook of the US healthcare IT market. The US healthcare IT market has been growing at a rapid pace since the past few years. According to in-house report, the US healthcare IT market is projected to grow at a CAGR of 13.2% to reach US\$14,572.5 million in 2022. The government's initiatives in the mobile health and telemedicine fields are to be the major drivers for rising US healthcare sector. In terms of revenue, remote patient monitoring devices are expected to grow at a CAGR of 17.3%, followed by medical imaging information systems (9%), patient monitoring accessories (5%), micro-electromechanical sensors (5%), neonatal monitors (4.5%), blood pressure monitors (3.2%), multiparameter patient monitoring (3%), and fetal monitors (2.9%). The total sales of healthcare IT devices are estimated to reach 226,627,513 units at the end of 2022. In terms of total volume, remote patient monitoring devices are projected to grow at a CAGR of 17.7%, followed by micro-electromechanical sensors (6.5%), patient monitoring accessories (5.6%), blood pressure monitors (4.3%), multi-parameter patient monitoring (3.9%), and fetal monitors (3.3%) by the end of 2022.

New Contracts

Leidos's recent contracts could add value to its revenue stream. In July 2018, the company secured an indefinite delivery/indefinite quantity (IDIQ) contract worth US\$28 million from Naval Medical Logistics Command to support biomedical research and development and study the impact of undersea operations on submarines. In May 2018, it secured a contract worth US\$239.5 million from the US Army Corps of Engineers (USACE) to offer information technology support services to more than 37,000 USACE customers. In January 2018, Leidos won an IDIQ contract worth US\$47 million from the Air Force Research Laboratory (AFRL). Under the terms of this contract, it will provide sensor technology related products, such as focal plane arrays, optics, spectrometers, and optical systems.

Threat

Risks Associated with Foreign Currency Fluctuations

Leidos operates in various countries and is exposed to fluctuations in foreign exchange rates. The company reports financials in the US dollar and its revenue is exposed to the volatility of the US dollar against other functional currencies such as Australian dollar, British pound, Israeli shekel, and Euro. The major elements exposed to exchange rate risks include the company's investments in overseas subsidiaries and affiliates and monetary assets and liabilities arising from business transactions in foreign currencies. In FY2017, the company registered a gain of US\$24 million from foreign currency translation adjustment compared to the loss of US\$7 million in FY2016. To minimize risks from currency fluctuations, the company could involve in foreign exchange hedging by entering into foreign exchange forward contracts. However, there could be no assurance that such hedging activities or measures would limit the impact of movements in exchange rates on the company's results of operations.

Stringent Regulations

The company is one of the major contractors for government agencies and faces stringent regulations. It provides products and services to the US government agencies including the US DoD, the US

intelligence community and the DHS. It needs to comply with various laws and regulations related to the formation, administration and performance of contracts. The US government contracts are subject to the Federal Acquisition Regulation (FAR), which sets forth policies, procedures and requirements for the acquisition of goods and services by the US government, agency-specific regulations that implement or supplement FAR. A determination of non-compliance with applicable contracting and procurement laws, regulations and standards could result in the US government imposing penalties and sanctions against the company, including withholding of payments, suspension of payments and increased government scrutiny that could delay or affect the company's ability to invoice and receive timely payment on contracts, perform contracts or compete for contracts with the US government.

Reduction in Federal Budget

Leidos primarily serves the US Government. The US Government continues to focus on discretionary spending, entitlements, tax, and other initiatives to stimulate the economy, create jobs, and reduce the deficit. The sequestration imposed by the Budget Control Act of 2011 established caps on discretionary spending through 2021, reducing federal spending by approximately US\$500 billion. However, the American Taxpayer Relief Act of 2012, the Bipartisan Budget Act of 2013, and the Bipartisan Budget Act of 2015, modified the spending limits for 2013 through 2017. A change in the levels of defense spending could restrict the company's operational performance, as it generated 84% of the revenue from the US government, including 47% from the US Department of Defense (DoD) in FY2017.

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