

Leidos Holdings, Inc. (LDOS)

\$94.56 (As of 04/21/20)

Price Target (6-12 Months): **\$100.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/22/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: A

Momentum: D

Summary

Leidos Holdings has outperformed its industry in the past year. Increased contract wins from the Pentagon and other U.S. allies owing to its cost-effective defense solutions have been acting as a key catalyst for this defense major. In fact, these contract wins tend to bolster its backlog, thereby boosting its revenue growth prospects. Leidos Holdings' strong balance sheet and a steady cash flow position offer it substantial financial flexibility. However, the outcome of any ongoing or future audits remains unpredictable, and if future adjustments exceed the company's estimates, the company's profitability may be adversely affected. In the United States, Leidos Holdings faces intense competition for its broad portfolio of products and services.

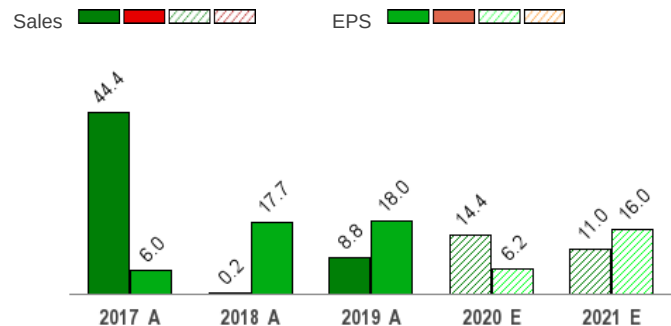
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$125.84 - \$64.85
20 Day Average Volume (sh)	1,274,723
Market Cap	\$13.4 B
YTD Price Change	-3.4%
Beta	1.26
Dividend / Div Yld	\$1.36 / 1.4%
Industry	Aerospace - Defense
Zacks Industry Rank	Bottom 39% (155 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.9%
Last Sales Surprise	4.4%
EPS F1 Est- 4 week change	-2.2%
Expected Report Date	05/05/2020
Earnings ESP	-7.3%
P/E TTM	18.3
P/E F1	17.2
PEG F1	2.3
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					14,087 E
2020	2,884 E	3,071 E	3,264 E	3,458 E	12,691 E
2019	2,577 A	2,728 A	2,835 A	2,954 A	11,094 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$6.37 E
2020	\$1.24 E	\$1.29 E	\$1.41 E	\$1.50 E	\$5.49 E
2019	\$1.13 A	\$1.16 A	\$1.36 A	\$1.51 A	\$5.17 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/21/2020. The reports text is as of 04/22/2020.

Overview

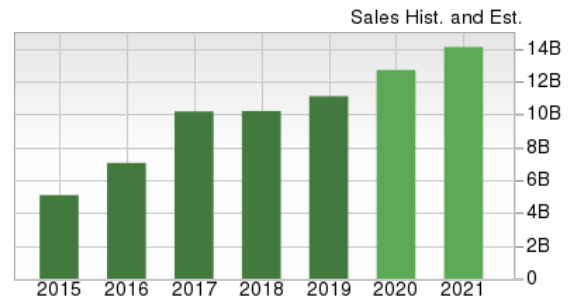
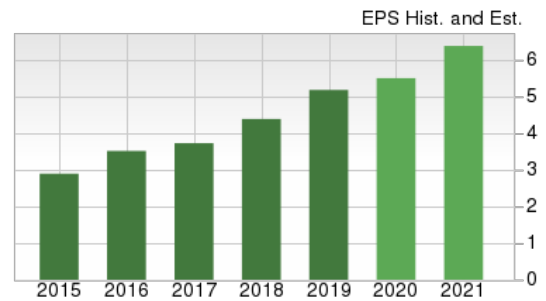
Founded in 1969, Delaware-based Leidos Holdings, Inc. is a global science and technology leader that serves the defense, intelligence, civil and health markets. Its core capabilities include providing solutions in the fields of cybersecurity; data analytics; enterprise IT modernization; operations and logistics; sensors, collection and phenomenology; software development; and systems engineering. Outside the United State, the company's international customers include foreign governments and their agencies, primarily located in the United Kingdom, the Middle East and Australia.

Leidos Holdings currently operates through three business segments namely — Defense Solutions, Civil and Health.

Defense Solutions: This business segment offers surveillance and reconnaissance, integrated systems solutions and global services for the U.S. Intelligence Community, military commands as well as other government and commercial customers. It provides multi-spectral, airborne, ground and maritime ISR collection as well as processing systems, advanced sensor design, command and control solutions, and training systems. In 2019, this division generated sales of \$5,367 million, contributing 48.4% to total business sales.

Civil: This segment provides aviation solutions, security products, enterprise IT services, federal environment and infrastructure solutions as well as logistics. While aviation solutions provide systems integration for Air Navigation Service Providers, including the FAA and airport operators, security products include Vehicle and Cargo Inspection System, explosive detection systems as well as radiation detection systems. The unit realized sales of \$3,729 million in 2019, accounting for 33.6% of total business sales.

Health: This unit offers affordable solutions to federal and commercial customers, which are responsible for the health and well-being of people worldwide comprising service members and veterans. Its primary capabilities include providing complex systems integration, managed health services, enterprise IT transformation and life sciences. Sales at this division totaled \$1,998 million in 2019, representing 18% of the entire business sales.



Reasons To Buy:

- ▲ Increased contract wins for its cost-effective defense solutions from the Pentagon as well as other U.S. allies have been serving as a primary growth driver for Leidos Holdings. In fact, these contract wins tend to bolster the company's backlog. At the end of 2019, Leidos Holdings' total backlog stood at \$24.1 billion compared with \$20.8 billion at 2018-end. Such solid backlog trends indicate impressive revenue growth prospects for the company in quarters ahead.
- ▲ With the current U.S. administration being in favor of increased defense spending, macroeconomic environment in the nation has been boosting the company's growth prospects. In this regard, it is imperative to mention that the fiscal 2020 defense budget reflects a 5% improvement in spending levels from the fiscal 2019's budget. Such increased spending levels are expected to drive order growth for defense players like Leidos Holdings. This has also made the company's investors optimistic about its growth trajectory. Evidently, in a year's time, shares of the company have increased 42.2% against the industry's 28.7% decline.
- ▲ Leidos Holdings' strong balance sheet and a steady cash flow position offer it substantial financial flexibility. This, in turn, enables it to reward its shareholders with impressive dividend payouts and share repurchases. Notably, the company exited 2019 with \$668 million in cash and equivalents on hand compared with \$327 million as of Dec 28, 2018. It ended the year with cash flow from operating activities worth \$992 million, up from \$768 million at the end of 2018. Such solid cash flow reserve should allow Leidos Holdings to make future dividend hike, which, in turn, would attract investors.

Favorable Budgetary revisions, solid cash flow growth and solid contract inflows should keep Leidos' momentum alive

Reasons To Sell:

- ▼ A comparative analysis of Leidos Holdings historical EV/SALES ratio reflects a relatively gloomy picture that might be a cause for investors' concern. Evidently, the stock has a forward 12-month EV/SALES ratio of 1.44 which remained above the industry's EV/SALES ratio of 1.37. This might be concerning for this stock's investors as higher EV/SALES value indicates that the company is more leveraged when compared to its whole industry.
- ▼ In the United States, Leidos Holdings faces intense competition for its broad portfolio of products and services. In particular, the company competes with well-recognized companies, financial resources and a larger technical staff. This, in turn, puts Leidos Holdings in a competitively disadvantageous position. Moreover, in recent times, some mega mergers and acquisition deals have been inked in the aerospace-defense space. Such consolidations tend to boost the power of newly build defense majors, threatening the profit generation capability of other players in the market like Leidos.
- ▼ As of Jan 3, 2020, indirect cost audits by the Defense Contract Audit Agency remain open for 2013 and subsequent years. Now, Leidos Holdings cannot predict the outcome of any ongoing or future audits. Management fears that if the future adjustments exceed the Company's estimates, its profitability may be adversely affected.

Fierce competition, unfavorable valuation and audit related expenses pose threat to this stock's growth

Last Earnings Report

Leidos Holdings Q4 Earnings Beat, Revenues Rise Y/Y

Leidos Holdings fourth-quarter 2019 adjusted earnings of \$1.51 per share surpassed the Zacks Consensus Estimate of \$1.35 by 11.9%. The bottom line also increased 37.3% from \$1.10 a year ago.

Moreover, the company's GAAP earnings of \$1.26 per share increased from \$1.25 in the year-ago quarter. This upside can be attributed to solid revenues and operating income.

For 2019, the company reported adjusted earnings of \$5.17 per share that surpassed the Zacks Consensus Estimate of \$5 by 3.4%. The bottom line increased 18% from \$4.38 a year ago.

Quarter Ending **12/2019**

Report Date	Feb 18, 2020
Sales Surprise	4.37%
EPS Surprise	11.85%
Quarterly EPS	1.51
Annual EPS (TTM)	5.16

Total Revenues

Leidos Holdings generated total revenues of \$2,954 million in the quarter, which exceeded the Zacks Consensus Estimate of \$2,830 million by 4.4%. The top line also improved 11.6% year over year, backed by growth across all segments.

For 2019, the company generated total revenues of \$11.09 billion, which exceeded the Zacks Consensus Estimate of \$10.97 billion by 1.1%. The full-year top line also improved 8.8% from the prior year.

Backlog

At the end of 2019, the company's total backlog was \$24.1 billion compared with \$20.8 billion as of Dec 28, 2018. Of this, \$5.4 billion was funded.

Operational Statistics

Total cost of revenues in the fourth quarter increased 10.9% to \$2,527 million. Operating income totaled \$261 million, compared with \$188 million in the year-ago period. The upside was driven by a decrease in selling, general and administrative expenses along with a decline in integration and restructuring costs.

As a result, operating margin expanded to 8.8% from 7.1% in the year-ago quarter.

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Interest expenses were \$34 million, which came in line with the prior-year quarter figure.

Segmental Performance

Defense Solutions: Net revenues at this segment increased 10.7% to \$1,400 million from \$1,265 million in the prior-year quarter. This improvement can be primarily attributed to new awards and a net increase in program volumes.

Also, the segment's operating income improved 55% to \$124 million from the year-ago quarter's income of \$80 million. Operating margin expanded 260 basis points (bps) to 8.9%.

Health: The segment recorded revenues of \$526 million in the fourth quarter, up 5.8% year over year. The uptick was primarily driven by a net increase in program volumes, new awards and acquisition of IMX Medical Management Services.

Operating income increased 7.4% to \$73 million, while operating margin expanded 40 bps to 13.9%.

Civil: Revenues at this segment amounted to \$1,028 million, up 16.2% year over year. New awards and a net increase in program volumes led to the upside.

While operating income improved 54% to \$97 million, operating margin contracted 230 bps to 9.4%.

Financials

Cash and cash equivalents as of Jan 3, 2020 were \$668 million compared with \$327 million as of Dec 28, 2018. Net cash provided by operating activities at the end of 2019 amounted to \$992 million compared with \$768 million a year ago.

Guidance

Leidos Holdings issued its guidance for 2020. The company currently expects adjusted earnings in the range of \$5.30-\$5.65. The Zacks Consensus Estimate for 2020 earnings is pegged at \$5.45, below the mid-point of the company's projected range.

Moreover, the company expects 2020 revenues of \$12.6-\$13.0 billion. The Zacks Consensus Estimate for revenues stands at \$11.68 billion, lower than the company's guided range.

Management expects adjusted EBITDA margin of 10-10.2%, while cash flow from operating activities is expected to be or above \$1billion.

Recent News

On **April 7, 2020**, Leidos was awarded a new task order by the Internal Revenue Service (IRS) to enhance, upgrade, and maintain the agency's e-Services and Integrated Customer Communications Environment (ICCE) platforms. The single award, hybrid firm-fixed price and cost-plus-fixed-fee contract has a six-month base period of performance and four one-year option years with a total value of approximately \$69 million, if all options are exercised.

On **Feb 6, 2020**, Leidos has been awarded a prime contract by the Naval Information Warfare Systems Command (NAVWAR), formerly known as the Space and Naval Warfare Systems Command (SPAWAR), to provide global network services under the Next Generation Enterprise Network Re-compete (NGEN-R) Service Management, Integration, & Transport (SMIT) contract. The single award, indefinite delivery/indefinite quantity, firm-fixed-price and cost-plus-fixed-fee contract has a five-year base period of performance followed by three one-year option periods, and an approximate value of \$7.7 billion. Work will be performed on a global scale, headquartered out of the Washington D.C. metropolitan area.

Valuation

Leidos Holdings' shares are down 3.5% in the year-to-date period although up 42.2 over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 25.6% and 34.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 28.7% and 33.9%, respectively.

The S&P 500 index is down 12.5% in the year-to-date period and up down 4.2% in the past year.

The stock is currently trading at 16.1X forward 12-month earnings, which compares to 17.9X for the Zacks sub-industry, 18.3X for the Zacks sector and 19.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.4X and as low as 10.7X, with a 5-year median of 15.9X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$100 price target reflects 17X earnings value.

The table below shows summary valuation data for LDOS

Valuation Multiples - LDOS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.07	17.92	18.33	19.23
	5-Year High	22.35	22.54	20.94	19.34
	5-Year Low	10.67	14.52	14.17	15.19
	5-Year Median	15.92	17.18	16.97	17.45
P/S F12M	Current	1.03	1.21	1.08	3.14
	5-Year High	1.48	1.64	1.49	3.44
	5-Year Low	0.32	0.95	0.92	2.54
	5-Year Median	0.82	1.26	1.17	3.01
EV/EBITDA TTM	Current	12.98	13.58	10.29	10.31
	5-Year High	24.85	19.53	14.99	12.87
	5-Year Low	4.23	8.12	7.39	8.28
	5-Year Median	11.52	11.67	10.42	10.78

As of 04/21/2020

Industry Analysis Zacks Industry Rank: Bottom 39% (155 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Air Industries Group (AIRI)	Neutral	2
Bae Systems PLC (BAESY)	Neutral	3
Curtiss-Wright Corporation (CW)	Neutral	3
Heico Corporation (HEI)	Neutral	3
L3Harris Technologies Inc (LHX)	Neutral	3
Lockheed Martin Corporation (LMT)	Neutral	2
Teledyne Technologies Incorporated (TDY)	Neutral	4
Transdigm Group Incorporated (TDG)	Underperform	5

Industry Comparison Industry: Aerospace - Defense				Industry Peers		
	LDOS	X Industry	S&P 500	AIRI	CW	LHX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	C	-	-	B	B	F
Market Cap	13.41 B	7.51 B	18.60 B	35.72 M	3.87 B	40.73 B
# of Analysts	8	5	14	1	4	8
Dividend Yield	1.44%	0.87%	2.28%	0.00%	0.75%	1.81%
Value Score	C	-	-	C	B	D
Cash/Price	0.05	0.07	0.05	0.03	0.09	0.02
EV/EBITDA	12.86	8.61	11.41	8.44	8.27	105.79
PEG Ratio	2.30	1.61	2.13	NA	NA	NA
Price/Book (P/B)	3.92	2.65	2.52	3.42	2.19	1.81
Price/Cash Flow (P/CF)	13.45	8.99	10.05	25.23	9.36	19.55
P/E (F1)	17.22	14.53	17.41	23.40	13.32	16.87
Price/Sales (P/S)	1.21	0.84	1.98	0.65	1.56	3.17
Earnings Yield	5.81%	5.93%	5.58%	4.27%	7.50%	5.93%
Debt/Equity	0.95	0.71	0.71	0.75	0.51	0.31
Cash Flow (\$/share)	7.03	2.73	7.01	0.05	9.72	9.61
Growth Score	A	-	-	B	B	F
Hist. EPS Growth (3-5 yrs)	14.53%	13.39%	10.92%	NA	18.69%	12.63%
Proj. EPS Growth (F1/F0)	6.24%	9.89%	-4.01%	225.00%	-6.02%	10.41%
Curr. Cash Flow Growth	6.19%	6.19%	5.93%	-136.97%	7.60%	23.01%
Hist. Cash Flow Growth (3-5 yrs)	6.45%	6.62%	8.55%	-22.72%	7.51%	7.97%
Current Ratio	1.21	1.20	1.24	1.17	2.05	1.49
Debt/Capital	48.76%	42.81%	42.91%	42.81%	33.79%	23.74%
Net Margin	6.01%	6.01%	11.57%	-5.01%	12.36%	10.37%
Return on Equity	22.51%	16.94%	16.74%	-24.82%	18.63%	17.71%
Sales/Assets	1.18	0.84	0.54	1.06	0.71	0.66
Proj. Sales Growth (F1/F0)	14.40%	0.32%	-0.39%	13.61%	0.04%	53.52%
Momentum Score	D	-	-	D	F	D
Daily Price Chg	-4.10%	-4.08%	-2.84%	-4.10%	-4.23%	-3.62%
1 Week Price Chg	4.00%	1.09%	0.42%	13.55%	-3.49%	6.66%
4 Week Price Chg	20.52%	11.69%	10.78%	44.44%	7.79%	15.86%
12 Week Price Chg	-7.58%	-30.52%	-22.58%	-27.78%	-38.76%	-15.85%
52 Week Price Chg	42.17%	-31.94%	-16.41%	8.33%	-20.62%	12.09%
20 Day Average Volume	1,274,723	1,155,121	2,973,334	75,621	291,244	1,612,342
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-4.87%	-3.68%
(F1) EPS Est 4 week change	-2.19%	-1.75%	-6.75%	NA	-9.17%	-4.17%
(F1) EPS Est 12 week change	0.78%	-5.37%	-11.09%	0.00%	-10.66%	-2.34%
(Q1) EPS Est Mthly Chg	-5.52%	-1.19%	-9.83%	NA	-12.81%	-1.21%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	A
Momentum Score	D
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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