

Leidos Holdings

Stronger than expected revenues and margins lead to beat; strong 2024 outlook

Maintain Rating: BUY | PO: 125.00 USD | Price: 114.56 USD

Top and bottom line beats

Leidos (LDOS) reported 4Q23 adj. EPS of \$1.99, above BofAe of \$1.64 and STe of \$1.75. The beat was primarily driven by stronger than expected sales and margins across all segments. Growth in Defense Solutions (up 7% Y/Y) was primarily driven by work in digital modernization and hypersonics, as well as increased task order volume on the Sentinel program. Growth in Civil (up 2% Y/Y) was driven by increased FAA infrastructure spend while Health performance (up 17% Y/Y) was driven by higher levels of medical examinations. Adj. EBITDA margins of 11.4% beat BofAe of 10.5%. The company reported net bookings of \$2.8bn in the quarter, resulting in a quarterly book-to-bill of 0.7x (1.1x on a trailing-twelve-month basis).

Stronger than expected 2024 outlook

Management's provided 2024 outlook came in stronger than our expectations. Management expects 2024 adj. EPS of \$7.50-\$7.90 vs. BofAe of \$7.05 vs. STe: \$7.59. Management expects revenues of \$15.7-16.1bn vs. BofAe of \$15.8bn and STe of \$15.9bn. Adj. EBITDA margins are expected to be in the mid-to-high 10% range, vs. BofAe 10.3% and STe 10.5%. We maintain our Buy rating.

Exhibit 1: Quick-take of results vs. expectations

LDOS reported a top and bottom line beat

Quick-take of results vs. Expectations:

Adj. EPS	4Q23: \$1.99 vs. BofAe: \$1.64 vs. BBG: \$1.75 vs. 4Q22: \$1.83 (4Q23 up 9.1% Y/Y)
Revenue	4Q23: \$3,980mn vs. BofAe: \$3,781mn vs. BBG: \$3,813mn vs. 4Q22: \$3,697mn (4Q23 up 7.7% Y/Y)
Adjusted Operating Margin	4Q23: 10.6% vs. BofAe: 9.6% vs. 4Q22: 9.8%
Adj. EBITDA Margins	4Q23: 11.4% vs. BofAe: 10.5% vs. 4Q22: 10.7%
Revenue by segment	Defense Solutions: 4Q23: \$2,212mn vs. BofAe: \$2,188mn vs. 4Q22: \$2,068mn Civil: 4Q23: \$961mn vs. BofAe: \$917mn vs. 4Q22: \$938mn Health: 4Q23: \$807mn vs. BofAe: \$676mn vs. 4Q22: \$691mn
FCF	4Q23 Actual: \$226mn vs. BofAe: \$-76mn vs. BBG: \$-11mn vs. 4Q22: \$52mn (increased 334.6% Y/Y)
Book to bill	4Q23: 0.7x vs. 3Q23: 2.0x vs. 4Q22: 1.0x
Backlog	4Q23: \$36,962 vs. 3Q23: \$38,043 vs. 4Q22: \$35,782 (4Q23 up 3.3% Y/Y)
Adj. EPS outlook	FY24: \$7.50-\$7.90 vs. BofAe \$7.05 vs. BBG: \$7.59
Revenue Outlook	8bn vs. BBG: \$16.0bn

Source: BofA Global Research, Bloomberg, company filings

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Stock Data

Price	114.56 USD
Price Objective	125.00 USD
Date Established	2-Nov-2023
Investment Opinion	B-1-7
52-Week Range	76.58 USD - 115.40 USD
Mrkt Val (mn) / Shares Out (mn)	15,753 USD / 137.5
Free Float	98.9%
Average Daily Value (mn)	73.46 USD
BofA Ticker / Exchange	LDOS / NYS
Bloomberg / Reuters	LDOS US / LDOS.N
ROE (2023E)	22.0%
Net Dbt to Eqty (Dec-2022A)	101.2%
ESGMeter™	High

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Timestamp: 13 February 2024 07:10AM EST

Price objective basis & risk

Leidos Holdings (LDOS)

Our PO of \$125 is based on a 0.9x relative EV/EBITDA multiple to the defense primes on 2024 estimates. This equals a 13x EV/EBITDA multiple. We believe LDOS should trade at a slight discount to the defense primes as strong US National Security demand for innovative technologies and solutions and solid free cash flow generation are offset by a lumpy award environment, supply chain pressures in the near term, pressure on pricing from competitive dynamics, mounting concerns over labor inflation, and headline risk from political control impacting defense spending (relatively harder for short-term cycle companies).

Downside risks to our PO are: cuts to the US Government budget vs. anticipated, increased competition from non-traditional players, problems integrating M&A, hiring the right personnel, containing its costs, estimating costs and executing on fixed price contracts, sustaining reputational risk and future awards.

Upside risks to our PO are: a better than anticipated federal budget allocated to innovative technologies and modernization, inexpensive and well integrated M&A activity, unexpected capital return to shareholders in the form of dividends or share buybacks, market share gains, better than expected margin expansion.

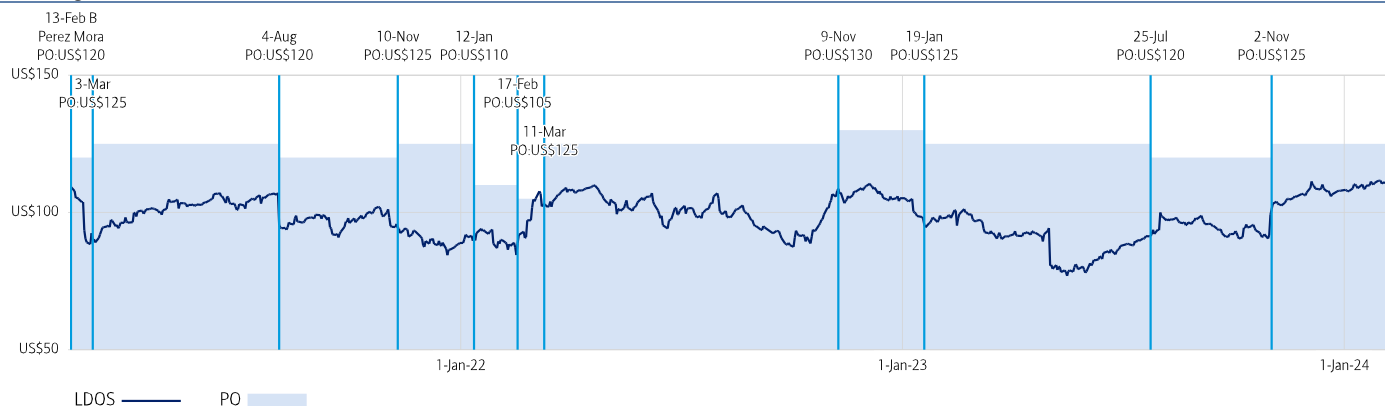
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Leidos Holdings (LDOS) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Aerospace/Defense Electronics Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	31	62.00%	Buy	23	74.19%
Hold	11	22.00%	Hold	9	81.82%
Sell	8	16.00%	Sell	6	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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