

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2023

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 333-253583

**Leonardo DRS, Inc.**

(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or Other Jurisdiction  
of Incorporation or Organization)

13-2632319  
(I.R.S. Employer  
Identification Number)

2345 Crystal Drive  
Suite 1000  
Arlington, Virginia 22202  
(703) 416-8000

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common stock, \$0.01 par value	DRS	Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and an emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of May 1, 2023, there were 261 million shares of the registrant's common stock, par value of \$0.01 per share, outstanding.

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### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION

In this quarterly report on Form 10-Q (the “Quarterly Report”), when using the terms the “Company”, “DRS”, “we”, “us” and “our,” unless otherwise indicated or the context otherwise requires, we are referring to Leonardo DRS, Inc. This Quarterly Report contains forward-looking statements and cautionary statements within the meaning of the Private Securities Litigation Reform Act of 1995. Some of the forward-looking statements can be identified by the use of forward-looking terms such as “believes,” “expects,” “may,” “will,” “shall,” “should,” “would,” “could,” “seeks,” “aims,” “strives,” “targets,” “projects,” “intends,” “plans,” “estimates,” “anticipates” or other comparable terms. Forward-looking statements include, without limitation, all matters that are not historical facts. They appear in a number of places throughout this Quarterly Report and include, without limitation, statements regarding our intentions, beliefs, assumptions or current expectations concerning, among other things, financial goals, financial position, results of operations, cash flows, prospects, strategies or expectations, and the impact of prevailing economic conditions.

Forward-looking statements are subject to known and unknown risks and uncertainties, many of which may be beyond our control. We caution you that forward-looking statements are not guarantees of future performance or outcomes and that actual performance and outcomes may differ materially from those made in or suggested by the forward-looking statements contained in this Quarterly Report. In addition, even if future performance and outcomes are consistent with the forward-looking statements contained in this Quarterly Report, those results or developments may not be indicative of results or developments in subsequent periods. New factors emerge from time to time that may cause our business not to develop as we expect, and it is not possible for us to predict all of them. Factors that could cause actual results and outcomes to differ from those reflected in forward-looking statements include, without limitation:

- Disruptions or deteriorations in our relationship with the relevant agencies of the U.S. government, as well as any failure to pass routine audits or otherwise comply with governmental requirements including those related to security clearance or procurement rules, including the False Claims Act;
- Significant delays or reductions in appropriations for our programs and changes in U.S. government priorities and spending levels more broadly;
- Any failure to comply with the proxy agreement with the U.S. Department of Defense (the “DoD”);
- Failure to properly contain a global pandemic in a timely manner could materially affect how we and our business partners operate;
- The effect of inflation on our supply chain and/or our labor costs;
- Our mix of fixed-price, cost-plus and time-and-material type contracts and any resulting impact on our cash flows due to cost overruns;
- Failure to properly comply with various covenants of the agreements governing our debt could negatively impact our business;
- Our dependence on U.S. government contracts, which often are only partially funded and are subject to immediate termination, some of which are classified, and the concentration of our customer base in the U.S. defense industry;
- Our use of estimates in pricing and accounting for many of our programs that are inherently uncertain and which may not prove to be accurate;
- Our ability to realize the full value of our backlog;
- Our ability to predict future capital needs or to obtain additional financing if we need it;
- Our ability to respond to the rapid technological changes in the markets in which we compete;
- The effect of global and regional economic downturns and rising interest rates;
- Our ability to meet the requirements of being a public company;
- Our ability to maintain an effective system of internal control over financial reporting;
- Our inability to appropriately manage our inventory;
- Our inability to fully realize the value of our total estimated contract value or bookings;
- Our ability to compete efficiently, including due to U.S. government organizational conflict of interest rules which may limit new contract opportunities or require us to wind down existing contracts;
- Our relationships with other industry participants, including any contractual disputes or the inability of our key suppliers to timely deliver our components, parts or services;
- Preferences for set-asides for minority-owned, small and small disadvantaged businesses could impact our ability to be a prime contractor;
- Any failure to meet our contractual obligations including due to potential impacts to our business from supply chain risks, such as longer lead times and shortages of electronics and other components;
- Any security breach, including any cyber-attack, cyber intrusion, insider threat, or other significant disruption of our IT networks and related systems as well as any act of terrorism or other threat to our physical security and personnel;

- Our ability to fully exploit or obtain patents or other intellectual property protections necessary to secure our proprietary technology, including our ability to avoid infringing upon the intellectual property of third parties or prevent third parties from infringing upon our own intellectual property;
- The conduct of our employees, agents, affiliates, subcontractors, suppliers, business partners or joint ventures in which we participate which may impact our reputation and ability to do business;
- Our compliance with environmental laws and regulations, and any environmental liabilities that may affect our reputation or financial position;
- The outcome of litigation, arbitration, investigations, claims, disputes, enforcement actions and other legal proceedings in which we are involved;
- Various geopolitical and economic factors, laws and regulations including the Foreign Corrupt Practices Act, the Export Control Act, the International Traffic in Arms Regulations, the Export Administration Regulations, and those that we are exposed to as a result of our international business;
- Our ability to obtain export licenses necessary to conduct certain operations abroad, including any attempts by Congress to prevent proposed sales to certain foreign governments;
- Our ability to attract and retain technical and other key personnel;
- The occurrence of prolonged work stoppages;
- The unavailability or inadequacy of our insurance coverage, customer indemnifications or other liability protections to cover all of our significant risks or to pay for material losses we incur;
- Future changes in U.S. tax laws and regulations or interpretations thereof;
- Certain limitations on our ability to use our net operating losses to offset future taxable income;
- Termination of our leases or our inability to renew our leases on acceptable terms;
- Changes in estimates used in accounting for our pension plans, including in respect of the funding status thereof;
- Changes in future business or other market conditions that could cause business investments and/or recorded goodwill or other long-term assets to become impaired;
- Adverse consequences from any acquisitions such as operating difficulties, dilution and other harmful consequences or any modification, delay or prevention of any future acquisition or investment activity by the Committee on Foreign Investment in the United States;
- Natural disasters or other significant disruptions; or
- Any conflict of interest that may arise because Leonardo US Holding, LLC (“US Holding”), our majority stockholder, or Leonardo S.p.A., our ultimate majority stockholder, may have interests that are different from, or conflict with, those of our other stockholders, including as a result of any ongoing business relationships Leonardo S.p.A. may have with us, and their significant ownership in us may discourage change of control transactions (our amended and restated certificate of incorporation provides that we waive any interest or expectancy in corporate opportunities presented to Leonardo S.p.A.); or
- Our obligations to provide certain services to Leonardo S.p.A., which may divert human and financial resources from our business.

You should read this Quarterly Report completely and with the understanding that actual future results may be materially different from expectations. All forward-looking statements made in this Quarterly Report are qualified by these cautionary statements. These forward-looking statements are made only as of the date of this filing, and we

do not undertake any obligation, other than as may be required by law, to update or revise any forward-looking or cautionary statements to reflect changes in assumptions, the occurrence of events, unanticipated or otherwise, and changes in future operating results over time or otherwise.

Other risks, uncertainties and factors, including those discussed under “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the year end December 31, 2022, filed with the SEC on March 28, 2023, could cause our actual results to differ materially from those projected in any forward-looking statements we make. Readers should read carefully the discussion of these factors to better understand the risks and uncertainties inherent in our business and underlying any forward-looking statements.

**PART I. FINANCIAL INFORMATION**

**ITEM 1. UNAUDITED FINANCIAL STATEMENTS**

**Consolidated Statements of Earnings (Unaudited)**

(Dollars in millions, except per share amounts)	Three Months Ended March 31,	
	2023	2022
<b>Revenues:</b>		
Products	\$ 520	\$ 541
Services	49	71
Total revenues	569	612
<b>Cost of revenues:</b>		
Products	(403)	(422)
Services	(35)	(56)
Total cost of revenues	(438)	(478)
<b>Gross profit</b>	131	134
General and administrative expenses	(100)	(76)
Amortization of intangibles	(6)	(2)
Other operating expenses, net	—	—
<b>Operating earnings</b>	25	56
Interest expense	(8)	(8)
Other, net	(1)	—
<b>Earnings before taxes</b>	16	48
Income tax provision	4	12
<b>Net earnings</b>	\$ 12	\$ 36
<b>Net earnings per share from common stock:</b>		
Basic earnings per share:	\$ 0.05	\$ 0.17
Diluted earnings per share:	\$ 0.05	\$ 0.17

See accompanying Notes to Consolidated Financial Statements.

LEONARDO DRS, INC.

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in millions)	Three Months Ended March 31,	
	2023	2022
<b>Net earnings</b>	\$ 12	\$ 36
<b>Other comprehensive income (loss):</b>		
Foreign currency translation gain, net of income taxes	—	1
Gain from pension settlements	—	3
Net unrecognized gain (loss) on postretirement obligations, net of income taxes	—	2
<b>Other comprehensive income (loss), net of income tax</b>	—	6
<b>Total comprehensive income</b>	<b>\$ 12</b>	<b>\$ 42</b>

See accompanying Notes to Consolidated Financial Statements.

LEONARDO DRS, INC.

Consolidated Balance Sheets

(Dollars in millions, except per share amounts)	(Unaudited)	
	March 31, 2023	December 31, 2022
<b>ASSETS</b>		
<i>Current assets:</i>		
Cash and cash equivalents	\$ 174	\$ 306
Accounts receivable, net	158	166
Contract assets	968	872
Inventories	364	319
Prepaid expenses	19	20
Other current assets	29	24
<b>Total current assets</b>	<b>1,712</b>	<b>1,707</b>
<i>Noncurrent assets:</i>		
Property plant and equipment, net	402	404
Intangible assets, net	167	172
Goodwill	1,236	1,236
Deferred tax assets	72	66
Other noncurrent assets	92	92
<b>Total noncurrent assets</b>	<b>1,969</b>	<b>1,970</b>
<b>Total assets</b>	<b>\$ 3,681</b>	<b>\$ 3,677</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<i>Current liabilities:</i>		
Short-term borrowings and current portion of long-term debt	\$ 250	\$ 29
Accounts payable	258	457
Contract liabilities	247	233
Other current liabilities	264	323
<b>Total current liabilities</b>	<b>1,019</b>	<b>1,042</b>
<i>Noncurrent liabilities:</i>		
Long-term debt	360	365
Pension and other postretirement benefit plan liabilities	42	45
Deferred tax liabilities	6	—
Other noncurrent liabilities	111	98
<b>Total noncurrent liabilities</b>	<b>\$ 519</b>	<b>\$ 508</b>
Commitments and contingencies (Note 14)		
<i>Shareholders' equity</i>		
Preferred stock, \$0.01 par value: 10,000,000 shares authorized; none issued	\$ —	\$ —
Common stock, \$0.01 par value: 350,000,000 shares authorized; 260,553,101 issued	3	3
Additional paid-in capital	5,151	5,147
Accumulated deficit	(2,962)	(2,974)
Accumulated other comprehensive loss	(49)	(49)
<b>Total shareholders' equity</b>	<b>2,143</b>	<b>2,127</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 3,681</b>	<b>\$ 3,677</b>

See accompanying Notes to Consolidated Financial Statements.



LEONARDO DRS, INC.

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in millions)	Three Months Ended March 31,	
	2023	2022
<b>Operating activities</b>		
Net earnings	\$ 12	\$ 36
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	22	15
Deferred income taxes	—	11
Other	4	—
Changes in assets and liabilities:		
Accounts receivable	8	13
Contract assets	(96)	(80)
Inventories	(45)	(30)
Prepaid expenses	1	(1)
Other current assets	(5)	(3)
Other noncurrent assets	5	21
Defined benefit obligations	(3)	1
Other current liabilities	(59)	(14)
Other noncurrent liabilities	7	(21)
Accounts payable	(199)	(215)
Contract liabilities	14	12
Net cash used in operating activities	\$ (334)	\$ (255)
<b>Investing activities</b>		
Capital expenditures	(15)	(13)
Proceeds from sales of assets	1	—
Net cash used in investing activities	\$ (14)	\$ (13)
<b>Financing activities</b>		
Net (decrease) increase in third party borrowings (maturities of 90 days or less)	6	(9)
Repayment of third party debt	(128)	—
Borrowings of third party debt	340	—
Repayment of related party debt	—	(135)
Borrowings from related parties	—	285
Proceeds from stock issuance	1	—
Cash outlay to reacquire equity instruments	(1)	—
Other	(2)	—
Net cash provided by financing activities	\$ 216	\$ 141
Effect of exchange rate changes on cash and cash equivalents	—	—
Net decrease in cash and cash equivalents	\$ (132)	\$ (127)
Cash and cash equivalents at beginning of year	306	240
Cash and cash equivalents at end of period	\$ 174	\$ 113

See accompanying Notes to Consolidated Financial Statements.

LEONARDO DRS, INC.

Consolidated Statements of Shareholder's Equity (Unaudited)

(Dollars in millions, except per share amounts)

	Common stock	Additional paid- in capital	Accumulated other comprehensive loss	Accumulated deficit	Total
<b>Balance as of December 31, 2021</b>	\$ 1	\$ 4,633	\$ (58)	\$ (2,983)	\$ 1,593
Total comprehensive income	—	—	6	36	42
<b>Balance as of March 31, 2022</b>	\$ 1	\$ 4,633	\$ (52)	\$ (2,947)	\$ 1,635
<b>Balance as of December 31, 2022</b>					
<b>Balance as of December 31, 2022</b>	\$ 3	\$ 5,147	\$ (49)	\$ (2,974)	\$ 2,127
Total comprehensive income	—	—	—	12	12
Stock compensation expense	\$ —	\$ 4	\$ —	\$ —	\$ 4
<b>Balance as of March 31, 2023</b>	\$ 3	\$ 5,151	\$ (49)	\$ (2,962)	\$ 2,143

See accompanying Notes to Consolidated Financial Statements.

## LEONARDO DRS, INC.

### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

#### Note 1. Summary of Significant Accounting Policies

##### A. Organization

Leonardo DRS, Inc., together with its wholly owned subsidiaries (hereinafter, “DRS,” “the Company,” “us,” “our,” or “we”) is a supplier of defense electronics products, systems and military support services. The Company is controlled by Leonardo S.p.A (hereinafter, “Leonardo S.p.A.”), an Italian multi-national aerospace, defense and security company headquartered in Rome, Italy, through its ultimate sole ownership of Leonardo US Holding. US Holding is the majority stockholder of the Company.

DRS is a provider of defense products and technologies that are used across land, air, sea, space and cyber domains. Our diverse array of defense systems and solutions are offered to all branches of the U.S. military, major aerospace and defense prime contractors, government intelligence agencies, international military customers and industrial markets for deployment on a wide range of military platforms. We focus our capabilities in areas of critical importance to the U.S. military, such as advanced sensing, network computing, force protection and electrical power and propulsion.

These capabilities directly align with our two reportable segments: Advanced Sensing and Computing and Integrated Mission Systems. The U.S. DoD is our largest customer and accounts for approximately 80% and 85% of our total revenues as an end-user for the periods ended March 31, 2023 and March 31, 2022, respectively. Specific international and commercial market opportunities exist within these segments and make up approximately 20% and 15% of our total revenues for the periods ended March 31, 2023 and March 31, 2022, respectively. Our two reportable segments reflect the way performance is assessed and resources are allocated by our Chief Executive Officer, who is our chief operating decision maker (“CODM”).

##### *Advanced Sensing and Computing (“ASC”)*

The Advanced Sensing and Computing (“ASC”) segment designs, develops and manufactures sensing and network computing technology that enables real-time situational awareness required for enhanced operational decision making and execution by our customers.

Our leading sensing capabilities span applications including missions requiring advanced detection, precision targeting and surveillance sensing, long range electro-optic/infrared (“EO/IR”), signals intelligence (“SIGINT”) and other intelligence systems, electronic warfare (“EW”), ground vehicle sensing, next generation active electronically scanned array (“AESA”) tactical radars, dismounted soldier sensing and space sensing. Across our offering, we are focused on advancing sensor distance, precision, clarity, definition, spectral depth and effectiveness. Furthermore, we seek to leverage our multi-decade experience to optimize size, weight, power and cost tailored to our customers’ specific mission requirements.

Our sensing capabilities are complemented by our rugged, trusted and cyber resilient network computing products. Our network computing offering is utilized across a broad range of mission applications including platform computing on ground and shipboard (both surface ship and submarine) for advanced battle management, combat systems, radar, command and control (“C2”), tactical networks, tactical computing and communications. Our network computing products support the DoD’s need for greater situational understanding at the tactical edge and permits data to be rapidly transmitted securely from command centers to forward-positioned defense assets.

##### *Integrated Mission Systems (“IMS”)*

Our Integrated Mission Systems (“IMS”) segment designs, develops, manufactures and integrates power conversion, control and distribution systems, ship propulsion systems, motors and variable frequency drives, force protection systems, transportation and logistics systems for the U.S. and allied defense customers.

## LEONARDO DRS, INC.

### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Our naval power and propulsion systems are providing next-generation power capabilities for the future fleet. DRS is currently a leading provider of next-generation electrical propulsion systems for the U.S. Navy. We provide power conversion, control, distribution and propulsion systems for the Navy's top priority shipbuilding programs, including the Columbia Class ballistic missile submarine, the first modern U.S. electric drive submarine. We believe DRS is well positioned to meet the needs of an increasingly electrified fleet with our high-efficiency, power dense permanent magnet motors, energy storage systems and associated efficient, rugged and compact power conversion, electrical actuation systems, and advanced cooling technologies. DRS has a long history of providing a number of other critical products to the U.S. Navy with a significant installed base on submarines, aircraft carriers and other surface ships including motor controllers, instrumentation and control equipment, electrical actuation systems, and thermal management systems for electronics and ship stores refrigeration.

Our technologies and systems help protect U.S. forces and assets against increasingly sophisticated and proliferating threats. DRS is an integrator of systems in ground vehicles for short-range air defense, counter-UAS ("C-UAS"), and vehicle survivability and protection. This integrator role includes utilizing radars, EW equipment, reconnaissance and surveillance systems, modular combat vehicle turrets, and stabilized sensor suites, and kinetic countermeasures for short-range air defense. Our force protection systems, including solutions for counter-unmanned aerial systems (C-UAS), short-range air defense systems and active protection systems used to defend ground combat vehicles help protect personnel and defense assets from these growing threats.

#### *Other*

The Company separately presents the unallocable costs associated with corporate functions and certain non-operating subsidiaries of the Company as Corporate & Eliminations.

See *Note 16: Segment Information* for further information regarding our business segments.

#### **B. Basis of presentation**

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include the accounts of DRS, its wholly owned subsidiaries and its controlling interests and contain all adjustments, which are of a normal and recurring nature, considered necessary by management to present fairly the financial position, results of operations and cash flows for the periods presented. Interests in ventures that are controlled by the Company, or for which the Company is otherwise deemed to be the primary beneficiary, are consolidated. For joint ventures in which the Company does not have a controlling interest, but exerts significant influence, the Company applies the equity method of accounting. All intercompany transactions and balances have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to current year presentation.

**Interim Financial Statements.** The unaudited Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). These rules and regulations permit some of the information and footnote disclosures included in financial statements prepared in accordance with U.S. GAAP to be condensed or omitted.

These unaudited Consolidated Financial Statements should be read in conjunction with our audited Consolidated Financial Statements as of and for the year ended December 31, 2022 included in our Annual Report on Form 10-K for the year end December 31, 2022, filed with the SEC on March 28, 2023.

#### **C. New Accounting Pronouncements**

##### *Disclosure of Supplier Finance Program Obligations*

In September 2022, the FASB issued ASU 2022-04, *Liabilities – Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations*, which is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The adoption of this standard did not have a material impact on our financial statements.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**Note 2. Business Acquisitions and Dispositions***Acquisitions*

On June 21, 2022, the Company, entered into an Agreement and Plan of Merger (the “Merger Agreement”) with RADA Electronic Industries, Ltd (“RADA”), a leading Israel-based provider of small-form tactical radar, for an all-stock merger, with RADA surviving as a wholly owned subsidiary of the Company. The Company acquired RADA as part of the Company’s goal to become a market leader in advanced sensing and force protection.

The acquisition of RADA has been accounted for using the acquisition method of accounting in accordance with ASC 805, *Business Combinations*, with the Company as the accounting acquirer, which requires the assets acquired and liabilities assumed be recognized at their acquisition date fair value. The acquisition was completed on November 28, 2022, when each issued and outstanding ordinary share of RADA was converted and exchanged for one share of common stock of the Company.

The total purchase consideration for RADA was \$511 million and is comprised of the Company’s shares of common stock issued in exchange for all issued and outstanding ordinary shares of RADA, as well \$20 million of replacement stock compensation awards’ fair value attributable to pre-combination services.

The preliminary fair value estimates of the net assets acquired and liabilities assumed are based upon preliminary calculations and valuations, and those estimates and assumptions are subject to change as the Company obtains additional information during the measurement period (up to one year from the acquisition date). The Company has not yet finalized the determination of fair values allocated to the acquired assets and liabilities, including but not limited to the valuation of contract related assets and liabilities and related tax impacts of the opening balance sheet adjustments. The excess of the total consideration over the tangible assets, identifiable intangible assets, and assumed liabilities is recorded as goodwill. Identifiable intangibles assets of \$131 million consist of \$90 million of technology related assets while the remaining \$41 million consists of customer and contractual relationships. The goodwill of \$284 million arising from the acquisition is primarily attributable to the growth opportunities related to the RADA business. None of the goodwill resulting from the acquisition is deductible for tax purposes. All of the goodwill recognized related to the RADA acquisition was assigned to the ASC segment.

*Dispositions*

On March 21, 2022, the Company entered into a definitive agreement to sell its Global Enterprise Solutions (“GES”) business to SES Government Solutions, Inc., a wholly-owned subsidiary of SES S.A., for \$450 million subject to certain working capital adjustments. The transaction was completed on August 1, 2022 and resulted in cash proceeds of \$427 million after net working capital adjustments.

In February 2022, the Company’s Board of Directors approved the strategic initiative to divest the Company’s interest in Advanced Acoustic Concepts (“AAC”). On April 19, 2022, we entered into a definitive sales agreement to divest our share of our equity investment in AAC for \$56 million to Thales Defense & Security, Inc., the minority partner in AAC. The transaction was completed on July 8, 2022 and resulted in proceeds of \$56 million.

**Note 3. Revenue from Contracts with Customers**

The Company recognizes revenue for each separately identifiable performance obligation in a contract representing an obligation to transfer a distinct good or service to a customer. In most cases, goods and services provided under the Company’s contracts are accounted for as single performance obligations due to the complex and integrated nature of our products and services. These contracts generally require significant integration of a group of goods and/or services to deliver a combined output. In some contracts, the Company provides multiple distinct goods or services to a customer. In those cases, the Company accounts for the distinct contract deliverables as separate performance obligations and allocates the transaction price to each performance obligation based on its relative standalone selling price, which is generally estimated using cost plus a reasonable margin. We classify

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

revenues as products or services on our Consolidated Statements of Earnings based on the predominant attributes of the performance obligations. While the Company provides warranties on certain contracts, we typically do not provide for services beyond standard assurances and therefore do not consider warranties to be separate performance obligations. Typically we enter into three types of contracts: fixed-price contracts, cost-plus contracts and time and material (“T&M”) contracts (cost-plus contracts and T&M contracts are aggregated below as flexibly priced contracts). The majority of our total revenues are derived from fixed-price contracts; refer to the revenue disaggregation disclosures that follow.

For fixed-price contracts, customers agree to pay a fixed amount, negotiated in advanced for a specified scope of work.

For cost-plus contracts, typically we are reimbursed for allowable or otherwise defined total costs (defined as cost of revenues plus allowable general and administrative expenses) incurred, plus a fee. The contracts may also include incentives for various performance criteria, including quality, timeliness and cost-effectiveness. In addition, costs are generally subject to review by clients and regulatory audit agencies, and such reviews could result in costs being disputed as non-reimbursable under the terms of the contract.

T&M contracts provide for reimbursement of labor hours expended at a contractual fixed labor rate per hour, plus the actual costs of material and other direct non-labor costs. The fixed labor rates on T&M contracts include amounts for the cost of direct labor, indirect contract costs and profit.

Revenue from contracts with customers is recognized when the performance obligations are satisfied through the transfer of control over the good or service to the customer, which may occur either over time or at a point in time.

Revenues for the majority of our contracts are measured using the over time, percentage of completion cost-to-cost method of accounting to calculate percentage of completion. We believe this is an appropriate measure of progress toward satisfaction of performance obligations as this measure most accurately depicts the progress of our work and transfer of control to our customers. Due to the long-term nature of many of our contracts, developing the estimated total cost at completion and total transaction price often requires judgment. Factors that must be considered in estimating the cost of the work to be completed include the nature and complexity of the work to be performed, subcontractor performance and the risk and impact of delayed performance.

After establishing the estimated total cost at completion, we follow a standard Estimate at Completion (“EAC”) process in which we review the progress and performance on our ongoing contracts on a routine basis. Adjustments to original estimates for a contract’s revenue, estimated costs at completion and estimated profit or loss often are required as work progresses under a contract, as experience is gained and as more information is obtained, even though the scope of work required under the contract may not change and are also required if contract modifications occur. When adjustments in estimated total costs at completion or in estimated total transaction price are determined, the related impact on revenue and operating income are recognized using the cumulative catch-up method, which recognizes in the current period the cumulative effect of such adjustments for all prior periods. Any anticipated losses on these contracts are fully recognized in the period in which the losses become evident.

EAC adjustments had the following impacts to revenue for the periods presented:

	Three Months Ended March 31,	
	2023	2022
<i>(Dollars in millions)</i>		
Revenue	\$ (9)	\$ (1)
Total % of Revenue	2 %	— %

The impacts noted above are attributed primarily to changes in our firm-fixed-price development type programs. As changes happen in the design required to achieve contractual specifications, those changes often result in the programs’ estimate and related profitability.

Conversely, if the requirements for the recognition of contracts over time are not met, revenue is recognized at a point in time when control transfers to the customer, which is generally upon transfer of title. In such cases, the

**LEONARDO DRS, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

production that is in progress and costs that will be recognized at a future point in time are reported within “inventories”.

Costs to obtain a contract are incremental direct costs incurred to obtain a contract with a customer, including sales commissions and dealer fees, and are capitalized if material. Costs to fulfill a contract include costs directly related to a contract or specific anticipated contract (e.g., certain design costs) that generate or enhance our ability to satisfy our performance obligations under these contracts. These costs are capitalized to the extent they are expected to be recovered from the associated contract.

*Contract Assets and Liabilities*

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (contract assets), and customer advances and deposits (contract liabilities) on the Consolidated Balance Sheet. Amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals (e.g., biweekly or monthly) or upon achievement of contractual milestones. Generally, billing occurs subsequent to revenue recognition, resulting in contract assets. However, we sometimes receive advances or deposits from our customers before revenue is recognized, resulting in contract liabilities.

*(Dollars in millions)*

	March 31, 2023	December 31, 2022
Contract assets	\$ 968	\$ 872
Contract liabilities	247	233
<b>Net contract assets</b>	<b>\$ 721</b>	<b>\$ 639</b>

Revenue recognized in the periods ending March 31, 2023 and March 31, 2022, that was included in the contract liability balance at the beginning of each period was \$84 million and \$74 million, respectively.

Contract assets related to amounts withheld by customers until contract completion are not considered a significant financing component of our contracts because the intent is to protect the customers from our failure to satisfactorily complete our performance obligations. Payments received from customers in advance of revenue recognition (contract liabilities) are not considered a significant financing component of our contracts because they are utilized to pay for contract costs within a one-year period or are requested by us to ensure the customers meet their payment obligations.

*Value of Remaining Performance Obligations*

The value of remaining performance obligations, which we also refer to as total backlog, includes the following components:

- **Funded** - Funded backlog represents the revenue value of orders for services under existing contracts for which funding is appropriated or otherwise authorized less revenue previously recognized on these contracts.
- **Unfunded** - Unfunded backlog represents the revenue value of firm orders for products and services under existing contracts for which funding has not yet been appropriated less funding previously recognized on these contracts.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following table summarizes the value of our total backlog as of March 31, 2023, incorporating both funded and unfunded components:

<b>Backlog:</b>	<b>March 31, 2023</b>	
<i>(Dollars in millions)</i>		
Funded	\$	2,947
Unfunded	\$	1,325
<b>Total Backlog</b>	<b>\$</b>	<b>4,272</b>

We expect to recognize approximately 39% of our March 31, 2023 backlog as revenue over the next nine months, with the remainder to be recognized thereafter.

*Disaggregation of Revenue*

ASC: ASC revenue is primarily derived from U.S. government development and production contracts and is generally recognized using the over time, percentage of completion cost-to-cost method of accounting. We disaggregate ASC revenue by geographical region, customer relationship and contract type. We believe these categories best depict how the nature, amount, timing and uncertainty of ASC revenue and cash flows are affected by economic factors:

<i>(Dollars in millions)</i>	<b>Three Months Ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Revenue by Geographical Region</b>		
United States	\$ 330	\$ 372
International	50	22
Intersegment Sales	11	2
<b>Total</b>	<b>\$ 391</b>	<b>\$ 396</b>
<b>Revenue by Customer Relationship</b>		
Prime contractor	\$ 162	\$ 232
Subcontractor	218	162
Intersegment Sales	11	2
<b>Total</b>	<b>\$ 391</b>	<b>\$ 396</b>
<b>Revenue by Contract Type</b>		
Firm Fixed Price	\$ 324	\$ 342
Flexibly Priced <sup>(1)</sup>	56	52
Intersegment Sales	11	2
<b>Total</b>	<b>\$ 391</b>	<b>\$ 396</b>

(1) Includes revenue derived from time-and-materials contracts.

IMS: IMS revenue is primarily derived from U.S. government development and production contracts and is generally recognized over time using the over time, percentage of completion cost-to-cost method of accounting. We disaggregate IMS revenue by geographical region, customer relationship and contract type. We believe these



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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

categories best depict how the nature, amount, timing and uncertainty of IMS revenue and cash flows are affected by economic factors:

(Dollars in millions)	Three Months Ended March 31,	
	2023	2022
<b>Revenue by Geographical Region</b>		
United States	\$ 186	\$ 212
International	3	6
Intersegment Sales	—	—
<b>Total</b>	<b>\$ 189</b>	<b>\$ 218</b>
<b>Revenue by Customer Relationship</b>		
Prime contractor	\$ 46	\$ 33
Subcontractor	143	185
Intersegment Sales	—	—
<b>Total</b>	<b>\$ 189</b>	<b>\$ 218</b>
<b>Revenue by Contract Type</b>		
Firm Fixed Price	\$ 155	\$ 193
Flexibly Priced <sup>(1)</sup>	34	25
Intersegment Sales	—	—
<b>Total</b>	<b>\$ 189</b>	<b>\$ 218</b>

(1) Includes revenue derived from time-and-materials contracts.

**Note 4. Accounts Receivable**

Accounts receivable represent amounts billed and currently due from customers. Payment is typically received from our customers either at periodic intervals (e.g., biweekly, or monthly) or upon achievement of contractual milestones.

Accounts receivable consist of the following:

(Dollars in millions)	March 31, 2023	December 31, 2022
Accounts receivable	\$ 159	\$ 168
Less allowance for credit losses	(1)	(2)
<b>Accounts receivable, net</b>	<b>\$ 158</b>	<b>\$ 166</b>

The Company maintains certain agreements with financial institutions to sell certain trade receivables. Receivables are derecognized in their entirety when sold, and the Company's continuing involvement in the sold receivables is limited to their servicing, for which the Company receives a fee commensurate with the service provided. Pursuant to the servicing agreements, the Company collected approximately \$15 million and \$10 million at March 31, 2023 and December 31, 2022, respectively, of these sold receivables that had not yet been remitted to the financial institutions. These unremitted amounts collected on behalf of the financial institutions are included within short-term borrowings and current portion of long-term debt in the Consolidated Balance Sheet.

**Note 5. Sale of Receivables**

The Company is party to factoring facilities with various financial institutions with an aggregate capacity of \$325 million. The receivables sold under the factoring facilities are without recourse for any customer credit risk and result in a true sale. Receivables are derecognized in their entirety when sold, and the Company's continuing involvement is limited to their servicing, for which the Company receives a fee commensurate with the service provided and therefore no servicing asset or liability related to these receivables was recognized for any period

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

presented. The fair value of the sold receivables approximated their book value due to their short-term nature. Proceeds from the sold receivables are reflected in operating cash flows on the statement of cash flows.

During the periods ended March 31, 2023 and March 31, 2022, the Company incurred immaterial purchase discount fees which are presented in other general and administrative expenditures, net on the consolidated statements of earnings.

<i>(Dollars in millions)</i>	Three months ended March 31,	
	2023	2022
Beginning balance	\$ 243	\$ 215
Sales of receivables	30	44
Cash returned to purchaser	192	164
Outstanding balance sold to purchasers <sup>(1)</sup>	81	95
Cash collected, not remitted to purchaser <sup>(2)</sup>	15	9
<b>Remaining sold receivables</b>	<b>\$ (66)</b>	<b>\$ (86)</b>

(1) For the period ended March 31, 2023, the Company recorded a net decrease to cash flows from operating activities of \$162 million and for the period ended March 31, 2022 a decrease to cash flow from operating activities of \$120 million.

(2) Represents cash collected on behalf of purchasers and not yet remitted.

**Note 6. Inventories**

Inventories consists of the following:

<i>(Dollars in millions)</i>	March 31, 2023	December 31, 2022
Raw materials	\$ 80	\$ 83
Work in progress	272	224
Finished goods	12	12
<b>Total</b>	<b>\$ 364</b>	<b>\$ 319</b>

**Note 7. Property, Plant and Equipment**

Property, plant and equipment by major asset class consists of the following:

<i>(Dollars in millions)</i>	March 31, 2023	December 31, 2022
Land, buildings and improvements	\$ 333	\$ 321
Plant and machinery	192	190
Equipment and other	329	335
Total property, plant and equipment, at cost	854	846
Less accumulated depreciation	(452)	(442)
<b>Total property, plant and equipment, net</b>	<b>\$ 402</b>	<b>\$ 404</b>

Depreciation expense related to property, plant and equipment was \$16 million and \$13 million for the periods ended March 31, 2023 and March 31, 2022, respectively.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**Note 8. Other Liabilities**

A summary of significant other liabilities by balance sheet caption follows:

<i>(Dollars in millions)</i>	March 31, 2023	December 31, 2022
Salaries, wages and accrued bonuses	\$ 53	\$ 63
Fringe benefits	63	76
Litigation	10	10
Restructuring costs	4	4
Provision for contract losses	51	54
Operating lease liabilities	27	25
Taxes Payable	10	31
Other <sup>(1)</sup>	46	60
<b>Total other current liabilities</b>	<b>\$ 264</b>	<b>\$ 323</b>
Operating lease liabilities	\$ 68	\$ 68
Taxes Payable	23	21
Other	20	9
<b>Total other noncurrent liabilities</b>	<b>\$ 111</b>	<b>\$ 98</b>

(1) Consists primarily of environmental remediation reserves and warranty reserves. See Note 14: Commitments and Contingencies for more information regarding the warranty provision.

**Note 9. Intangible Assets**

Other intangible assets mainly refer to the fair value of existing customer contractual relationships attributable to the acquired business and patents which are being amortized over their respective lives. The fair value of intangible assets typically is determined, as of the date of acquisition, based on estimates and judgments regarding expectations for the estimated future after-tax earnings and cash flows (including cash flows for working capital) arising from backlog and follow-on sales to the customer over their estimated lives, including the probability of expected future contract renewals and sales, less a contributory assets charge, all of which is discounted to present value.

The following disclosure presents certain information regarding the Company's intangible assets as of March 31, 2023 and December 31, 2022. All intangible assets are being amortized over their estimated useful lives, as indicated below, with no estimated residual values.

<i>(Dollars in millions)</i>	March 31, 2023			December 31, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Acquired Intangible Assets	\$ 1,087	\$ (923)	\$ 164	\$ 1,087	\$ (918)	\$ 169
Patents and licenses	9	(6)	3	9	(6)	3
<b>Total intangible assets</b>	<b>\$ 1,096</b>	<b>\$ (929)</b>	<b>\$ 167</b>	<b>\$ 1,096</b>	<b>\$ (924)</b>	<b>\$ 172</b>

Amortization expense related to intangible assets was \$6 million for the periods ended March 31, 2023 and \$2 million for the three months ended March 31, 2022.

Customer relationships are amortized on a straight-line basis over their estimated useful lives of 10 to 15 years. Patents and licenses are amortized on a straight-line basis over their estimated useful lives of 5 to 10 years.

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**Note 10. Income Taxes**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2023 and December 31, 2022 is as follows:

<i>(Dollars in millions)</i>	March 31, 2023	December 31, 2022
Deferred tax assets	\$ 208	\$ 208
Less valuation allowance	17	17
Deferred tax assets	191	191
Deferred tax liabilities	125	125
<b>Net deferred tax asset</b>	<b>\$ 66</b>	<b>\$ 66</b>

Our deferred tax balance associated with our retirement benefit plans includes a deferred tax asset of \$8 million and \$8 million as March 31, 2023 and December 31, 2022 respectively, that are recorded in accumulated other comprehensive earnings to recognize the funded status of our retirement plans. See *Note 12: Pension and Other Postretirement Benefits* for additional details.

**Note 11. Debt**

The Company's debt consists of the following:

<i>(Dollars in millions)</i>	March 31, 2023	December 31, 2022
Term loan A	\$ 222	\$ 225
Outstanding revolver	215	—
Finance lease and other	160	161
Short-term borrowings	15	10
<b>Total debt principal</b>	<b>612</b>	<b>396</b>
Less unamortized debt issuance costs and discounts	(2)	(2)
<b>Total debt, net</b>	<b>610</b>	<b>394</b>
Less short-term borrowings and current portion of long-term debt	(250)	(29)
<b>Total long-term debt</b>	<b>\$ 360</b>	<b>\$ 365</b>

**Term Loans**

In November 2022, the Company entered into a senior unsecured credit agreement with Bank of America in the amount of \$500 million (the "2022 Credit Agreement") with a maturity of November 29, 2027. The 2022 Credit Agreement provides for a term loan of \$225 million bearing interest at a variable rate generally based on the Secured Overnight Financing Rate, ("SOFR"), plus a spread ranging from 1.48% to 2.10% depending on the leverage ratio, as defined in the 2022 Credit Agreement, or an alternative variable rate based on the higher of the Bank of America prime rate, the federal funds rate, or a rate generally based on SOFR, in each case subject to additional basis point spread as defined in the 2022 Credit Agreement, ("2022 Term Loan A"). Interest is payable quarterly in arrears. The outstanding balance of the 2022 Term Loan A at March 31, 2023 was \$222 million. The fair value of Term Loan A at March 31, 2023 was approximately \$222 million, however the Company has the ability to prepay the outstanding principal balance without penalty.

**Credit Facilities**

The 2022 Credit Agreement provides for a revolving credit facility available for working capital needs of the Company, ("the 2022 Revolving Credit Facility"). As of March 31, 2023 and December 31, 2022, the 2022 Revolving Credit Facility had a limit of \$275 million. Loans under the 2022 Revolving Credit Facility bear interest at a variable rate generally based on the SOFR, plus a spread ranging from 1.48% to 2.10% depending on the

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

leverage ratio, as defined in the 2022 Credit Agreement, or an alternative variable rate based on the higher of the Bank of America prime rate, the federal funds rate, or a rate generally based on SOFR, in each case subject to additional basis point spread as defined in the 2022 Credit Agreement. The Company also pays a commitment fee ranging between 0.20% and 0.35% depending on the Company's leverage ratio applied to the unused balance of the 2022 Revolving Credit Facility. The outstanding balance as of March 31, 2023 was \$215 million and there was no outstanding balance on the 2022 Revolving Credit Facility as of December 31, 2022. The weighted average interest rate on the 2022 Revolving Credit Facility as of March 31, 2023 was 5.06%.

The Company also maintains uncommitted working capital credit facilities with certain financial institutions in an aggregate of \$65 million at March 31, 2023 and December 31, 2022, respectively (the "Financial Institution Credit Facilities"). The Financial Institution Credit Facilities are guaranteed by Leonardo S.p.A. The primary purpose of the Financial Institution Credit Facilities is to support standby letter of credit issuances on contracts with customers and the Financial Institution Credit Facilities also included a revolving facility with a maximum borrowing limit of \$15 million, which bore interest at LIBOR plus 0.5%. The revolving facility was eliminated from the Financial Institution Credit Facilities as of March 31, 2023. As of December 31, 2022, there was no balance outstanding on the revolving facility of the Financial Institution Credit Facilities. The Company had letters of credit outstanding of approximately \$41 million and \$36 million as of March 31, 2023 and December 31, 2022, which reduces the available capacity of the Financial Institution Credit Facilities by an equal amount.

**Short-term Borrowings**

As of March 31, 2023 and December 31, 2022, the Company recognized \$15 million and \$10 million, respectively, collected on behalf of the buyers of our trade receivables pursuant to our factoring arrangements as short-term borrowings and current portion of long-term debt in the Consolidated Balance Sheet, which approximates its fair value. *Refer to Note 4: Accounts Receivable and Note 5: Sale of Receivables for more information.*

**Note 12. Pension and Other Postretirement Benefits****Retirement Plan Summary Information**

The Company maintains multiple pension plans, both contributory and non-contributory, covering employees at certain locations. Eligibility requirements for participation in the plans vary, and benefits generally are based on the participant's compensation and years of service, as defined in the respective plan. The Company's funding policy generally is to contribute in accordance with cost accounting standards that affect government contractors, subject to the Tax Code and regulations thereunder. For all periods presented, the Company made no discretionary pension contributions. Plan assets are invested primarily in equities, bonds (both corporate and U.S. government), U.S. government-sponsored entity instruments, cash and cash equivalents and real estate.

The Company also provides postretirement medical benefits for certain retired employees and dependents at certain locations. Participants are eligible for these benefits when they retire from active service and meet the eligibility requirements for the Company's postretirement benefit plans. The Company's contractual arrangements with the U.S. government provide for the recovery of contributions to a Voluntary Employees' Beneficiary Association trust and, for non-funded plans, recovery of claims on a pay-as-you-go basis, subject to the Tax Code and regulations thereunder, with the retiree generally paying a portion of the costs through contributions, deductibles and coinsurance provisions.

The Company also maintains certain non-contributory and unfunded supplemental retirement plans. Eligibility for participation in the supplemental retirement plans is limited, and benefits generally are based on the participant's compensation and/or years of service.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following tables provide certain information regarding the Company's pension, postretirement and supplemental retirement plans as of for the three months ended March 31,:

<i>(Dollars in millions)</i>	Defined Benefit Pension Plans		Postretirement Benefit Plan		Supplemental Retirement Plans	
	March 31, 2023	March 31, 2022	March 31, 2023	March 31, 2022	March 31, 2023	March 31, 2022
Service cost	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Interest cost	2	2	—	—	—	—
Less Expected return on plan assets	(1)	(2)	—	—	—	—
Amortization of net actuarial loss (gain)	—	—	—	—	—	—
Amortization of prior service cost	—	—	—	—	—	—
Settlement expense (income)	—	1	—	—	—	—
<b>Net periodic benefit cost</b>	<b>\$ 1</b>	<b>\$ 1</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

The expected long-term return on plan assets assumption represents the average rate that the Company expects to earn over the long-term on the assets of the Company's benefit plans, including those from dividends, interest income and capital appreciation. The assumption has been determined based on expectations regarding future rates of return for the plans' investment portfolio, with consideration given to the allocation of investments by asset class and historical rates of return for each individual asset class.

Pension related expenses are reflected in the Total costs of revenues and General and administrative expenses on the Consolidated Statement of Earnings (unaudited).

A one percentage increase or decrease in healthcare trend rates in the table above would have an insignificant impact to our service and interest cost and the postretirement medical obligations.

**Note 13. Earnings Per Share**

<i>(Dollars in millions, except per share amounts; shares in millions)</i>	March 31,	
	2023	2022
Net earnings attributable to common shareholders	\$ 12	\$ 36
Basic weighted average number of shares outstanding	260	210
Impact of dilutive share-based awards	2	—
Diluted weighted average number of shares outstanding	262	210
Earnings per share attributable to common shareholders - basic	\$ 0.05	\$ 0.17
Earnings per share attributable to common shareholders - diluted	\$ 0.05	\$ 0.17

For the period ended March 31, 2023, potential dilutive common shares primarily consisted of employee stock options, restricted stock units (“RSUs”) and performance restricted stock units (“PRSUs”), however, the amount of dilutive securities included in the diluted weighted average number of shares outstanding was immaterial. For the period ended March 31, 2022, the basic and diluted weighted average number of shares outstanding were equal as there were no dilutive securities.

The computation of diluted earnings per share (“EPS”) excludes the effect of the potential exercise of stock awards when the average market price of the common stock is lower than the exercise price of the stock awards during the period because the effect would be anti-dilutive. In addition, the computation of diluted EPS excludes

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

stock awards whose issuance is contingent upon the satisfaction of certain performance vesting conditions. During the period ended March 31, 2023, there were \$1.4 million stock awards excluded from the computation. During the period ended March 31, 2022 there were no anti-dilutive securities.

**Note 14. Commitments and Contingencies****Commitments**

The Company's commitments are primarily related to our lease agreements, purchase obligations, and credit agreements.

**Contingencies**

From time to time we are subject to certain legal proceedings and claims in the ordinary course of business. These matters are subject to many uncertainties and it is possible that some of these matters ultimately could be decided, resolved or settled in a manner adverse to us. Although the precise amount of liability that may result from these matters is not ascertainable, the Company believes that any amounts exceeding the Company's recorded accruals should not materially adversely affect the Company's financial condition or liquidity. It is possible, however, that the ultimate resolution of those matters could result in a material adverse effect on the Company's results of operations and/or cash flows from operating activities for a particular reporting period. We establish reserves for specific legal matters when we determine that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable.

Some environmental laws, such as the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (also known as "CERCLA" or the "Superfund law") and similar state statutes, can impose liability upon former owners or operators for the entire cost of investigating and remediating contaminated sites regardless of the lawfulness of the original activities that led to the contamination. In July 2000, an entity which later became a subsidiary of the Company received a Section 104(e) Request for Information ("RFI") from the National Park Service ("NPS"), pursuant to CERCLA, regarding the presence of radioactive material at a site within a national park, which site was operated by an alleged predecessor to our subsidiary over 50 years ago. Following the subsidiary's response to the RFI, the NPS directed it and another alleged former operator to perform an Engineering Evaluation and Cost Analysis ("EE/CA") of a portion of the site. The Company's subsidiary made a good faith offer to conduct an alternative EE/CA work plan, but the NPS rejected this offer and opted to perform the EE/CA itself. The NPS previously posted its intention to open a formal public comment period regarding the EE/CA at the end of 2019. To the Company's knowledge, the EE/CA has not been released and a public comment period has yet to be opened.

Following completion of the EE/CA, the NPS may seek reimbursement for its investigative and remedial efforts to date, or direct one or more of the potentially responsible parties to perform any remediation that may be required by CERCLA or may enter an alternative dispute resolution proceeding to attempt to resolve each party's share. In addition, the NPS may seek to recover damages for loss of use of certain natural resources. The Company believes that it has legitimate defenses to its subsidiary's potential liability and that there are other potentially responsible parties for the environmental conditions at the site, including the U.S. government as owner, operator and arranger at the site. The potential liability associated with this matter could change substantially due to such factors as additional information on the nature or extent of contamination, methods of remediation that might be recommended or required, changes in the apportionment of costs among the responsible parties, whether the NPS seeks to recover additional damages, whether the NPS's plans to investigate additional areas to identify a need for further remedial action for which the Company may be identified as a potentially responsible party and other actions by governmental agencies or private parties.

The Company has recorded its best estimate of damages and its share of remediation costs related to the site to reflect what we and our advisors reasonably believe we would be liable for based on the current information and circumstances of the claim, exclusive of other potential liabilities that may be asserted in the future.

In the performance of our contracts we routinely request contract modifications that require additional funding from the customer. Most often, these requests are due to customer-directed changes in the scope of work. While we

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

are entitled to recovery of these costs under our contracts, the administrative process with our customer may be protracted. Based on the circumstances, we periodically file requests for equitable adjustment (“REAs”) that are sometimes converted into claims. In some cases, these requests are disputed by our customer. We believe our outstanding modifications, REAs and other claims will be resolved without material impact to our results of operations, financial condition or cash flows.

As a government contractor, with customers including the U.S. government as well as various state and local government entities, the Company may be subject to audits, investigations and claims with respect to its contract performance, pricing, costs, cost allocations and procurement practices. Additionally, amounts billed under such contracts, including direct and indirect costs, are subject to potential adjustments before final settlement.

Management believes that adequate provisions for such potential audits, investigations, claims and contract adjustments, if any, have been made in the financial statements.

**Product Warranties**

Product warranty costs generally are accrued in proportion to product revenue realized in conjunction with our over-time revenue recognition policy. Product warranty expense is recognized based on the term of the product warranty, generally one year to three years, and the related estimated costs, considering historical claims expense. Accrued warranty costs are reduced as these costs are incurred and as the warranty period expires, and otherwise may be modified as specific product performance issues are identified and resolved. The following is a summary of changes in the product warranty balances during the period ended March 31, 2023:

*(Dollars in millions)*

<b>Balance at December 31, 2022</b>	<b>\$</b>	<b>18</b>
Additional provision		8
Reversal and utilization		(3)
<b>Balance at Balance at March 31, 2023</b>		<b>23</b>

**Note 15. Related Party Transactions**

The Company has related-party sales with the ultimate majority stockholder and its other affiliates that occur in the regular course of business. Related-party sales for these transactions are included in revenues and were \$6 million and \$1 million for the periods ended March 31, 2023 and March 31, 2022, respectively. The Company has related-party purchases with the ultimate majority stockholder and its other affiliates that occur in the regular course of business. Related-party purchases for these transactions are included in cost of revenues and were \$0 million and \$0 million for the periods ended March 31, 2023 and March 31, 2022, respectively. The receivables related to these transactions with the ultimate majority stockholder and its other affiliates of \$10 million and \$14 million, respectively, and payables of \$1 million and \$1 million, respectively, are included in accounts receivable and accounts payable in our Consolidated Balance Sheet as of March 31, 2023 and December 31, 2022. In addition, there was a related-party balance in contract assets of \$4 million and \$5 million at March 31, 2023 and December 31, 2022, respectively.

**Note 16. Segment Information**

Operating segments represent components of an enterprise for which separate financial information is available that is regularly reviewed by the CODM in determining how to allocate resources and assess performance. Our Chief Executive Officer is our CODM and he uses a variety of measures to assess the performance of the Company as a whole, depending on the nature of the activity. Beginning in the first quarter of 2022, the Company’s operating and reportable segments were revised into two reportable segments, ASC and IMS, to align our market strategy and capital allocation decision making with our operating structure. Prior year information was revised to reflect the new segment structure. All other operations, which consists primarily of DRS corporate headquarters and certain non-operating subsidiaries of the Company, are grouped in Corporate & Eliminations.



LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We primarily use Adjusted EBITDA, a non-GAAP financial measure, to manage the Company and allocate resources. Adjusted EBITDA of our business segments includes our net earnings before income taxes, amortization of acquired intangible assets, depreciation, restructuring costs, interest, transaction costs related to an anticipated offering of securities, acquisition and divestiture related expenses, foreign exchange, the coronavirus pandemic (“COVID-19”) response costs, non-service pension expenditures and other one-time non-operational events. Adjusted EBITDA is used to facilitate a comparison of the ordinary, ongoing and customary course of our operations on a consistent basis from period to period and provide an additional understanding of factors and trends affecting our business segments. This measure assists the CODM in assessing segment operating performance consistently over time without the impact of our capital structure, asset base and items outside the control of the management team and expenses that do not relate to our core operations.

Certain information related to our segments for the periods ended March 31, 2023 and March 31, 2022 is presented in the following tables. Consistent accounting policies have been applied by all segments within the Company, within all reporting periods. A description of our reportable segments as of March 31, 2023 and March 31, 2022 has been included in *Note 1: Summary of Significant Accounting Policies*. Intersegment sales are generally transferred at cost to the buying segment, and the sourcing segment does not recognize a profit. Such intercompany operating income is eliminated in consolidation, so that the Company’s total revenues and operating earnings reflect only those transactions with external customers.

Total revenues and intersegment revenues by segment for the periods ended March 31, 2023 and, March 31, 2022 consists of the following:

<i>(Dollars in millions)</i>	Three Months Ended March 31,	
	2023	2022
ASC	\$ 391	\$ 396
IMS	189	218
Corporate & Eliminations	(11)	(2)
<b>Total revenue</b>	<b>\$ 569</b>	<b>\$ 612</b>

<i>(Dollars in millions)</i>	2023	2022
ASC	\$ 11	\$ 2
IMS	—	—
<b>Total intersegment revenue</b>	<b>\$ 11</b>	<b>\$ 2</b>

LEONARDO DRS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Reconciliation of reportable segment Adjusted EBITDA to Net Earnings (loss) consists of the following:

<i>(Dollars in millions)</i>	<u>March 31, 2023</u>	<u>March 31, 2022</u>
<b>Adjusted EBITDA</b>		
ASC	\$ 37	\$ 32
IMS	12	41
Corporate & Eliminations	—	—
<b>Total Adjusted EBITDA</b>	<u>49</u>	<u>73</u>
Amortization of intangibles	(6)	(2)
Depreciation	(16)	(13)
Interest expense	(8)	(8)
Deal related transaction costs	(2)	(2)
Other one-time non-operational events	(1)	—
Income tax (provision) benefit	(4)	(12)
<b>Net earnings</b>	<u>\$ 12</u>	<u>\$ 36</u>

## ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read this discussion together with our consolidated financial statements and related notes thereto included elsewhere in this Quarterly Report.*

*This discussion and other parts of this Quarterly Report include forward-looking statements such as those relating to our plans, objectives, expectations and beliefs, which involve risks, uncertainties and assumptions. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties discussed under “Special Note Regarding Forward-Looking Statements and Information” in this Quarterly Report and under “Risk Factors” in our annual report on Form 10-K, filed with the SEC on March 28, 2023. Actual results may differ materially from those contained in any forward-looking statements.*

### **Business Overview and Considerations**

#### ***General***

DRS is an innovative and agile provider of advanced defense technology to U.S. national security customers and allies around the world. We specialize in the design, development and manufacture of advanced sensing, network computing, force protection, as well as electric power and propulsion. The strength of our market positioning in these technology areas have created a foundational and diverse base of programs across the Department of Defense (“DoD”). We believe these technologies will not only support our customers in today’s mission but will also underpin their strategy to migrate towards more autonomous, dynamic, interconnected, and multi-domain capabilities needed to defend against evolving and emerging threats. We view more advanced capabilities in sensing, computing, self-protection and power as necessary to enable these strategic priorities.

Our overall strategy includes being a balanced and diversified company, less vulnerable to any one budgetary platform or service decision with a specific focus on establishing strong technical and market positions in areas of priority for the Department of Defense (“DoD”). The DoD is our largest customer and for the three months ended March 31, 2023, accounted for approximately 80% of our business as an end-user, with revenues principally derived directly or indirectly from contracts with the U.S. Army and U.S. Navy, which represented 32% and 34%, respectively, of our total revenues, which is consistent with historic trends.

Our operations and reporting are structured into the following two technology driven segments based on the capabilities and solutions offered to our customers:

#### *Advanced Sensing and Computing*

Our Advanced Sensing and Computing (“ASC”) segment designs, develops and manufactures sensing and network computing technology that enables real-time situational awareness required for enhanced operational decision making and execution by our customers.

Our sensing capabilities span numerous applications, including missions requiring advanced detection, precision targeting and surveillance sensing, long range electro-optic/infrared (“EO/IR”), signals intelligence (“SIGINT”) and other intelligence systems, electronic warfare (“EW”), ground vehicle sensing, next generation active electronically scanned array (“AESA”) tactical radars, dismounted soldier sensing and space sensing. Across our offerings, we are focused on advancing sensor distance and enhancing the precision, clarity, definition, spectral depth and effectiveness of our sensors. We also seek to leverage the knowledge and expertise built through our decades of experience to optimize size, weight, power and cost for our customers’ specific mission requirements.

Our sensing capabilities are complemented by our rugged, trusted and cyber resilient network computing products. Our network computing offerings are utilized across a broad range of mission applications including platform computing on ground and shipboard (both surface ship and submarine) for advanced battle management, combat systems, radar, command and control (“C2”), tactical networks, tactical computing and communications. These products help support the DoD’s need for greater situational understanding at the tactical edge by rapidly transmitting data securely between command centers and forward-positioned defense assets and personnel.

### *Integrated Mission Systems*

Our Integrated Mission Systems (“IMS”) segment designs, develops, manufactures and integrates power conversion, control and distribution systems, ship propulsion systems, motors and variable frequency drives, force protection systems, and transportation and logistics systems for the U.S. military and allied defense customers.

DRS is currently a leading provider of next-generation electrical propulsion systems for the U.S. Navy. We provide power conversion, control, distribution and propulsion systems for the Navy’s top priority shipbuilding programs, including the Columbia Class ballistic missile submarine, the first modern U.S. electric drive submarine.

We believe DRS is well positioned to meet the needs of an increasingly electrified fleet with our high-efficiency, power dense permanent magnet motors, energy storage systems and associated efficient, rugged and compact power conversion, electrical actuation systems, and advanced cooling technologies.

DRS has a long history of providing a number of other critical products to the U.S. Navy with a significant installed base on submarines, aircraft carriers and other surface ships including motor controllers, instrumentation and control equipment, electrical actuation systems, and thermal management systems for electronics and ship stores refrigeration.

DRS is also an integrator of complex systems in ground vehicles for short-range air defense, counter-unmanned aerial systems (“C-UAS”), and vehicle survivability and protection. Our short-range air defense systems integrate EW equipment, reconnaissance and surveillance systems, modular combat vehicle turrets, and stabilized sensor suites, as well as kinetic countermeasures to protect against evolving threats. Our force protection systems, including solutions for C-UAS and active protection systems on army vehicles help protect personnel and defense assets from enemy combatants.

### *Focus on Customer and Execution*

DRS and its employees focus on our end-customers – the men and women of the armed forces in the U.S. and its allies. We seek to provide high-quality equipment and services to support their mission success. We strive for excellence in everything we do, in every job in our Company, in order to satisfy our customers’ needs embedded in our contractual commitments. We seek to ensure that we learn from every lesson experienced in our Company and insist that these lessons affect all elements of our businesses. This approach permeates through the Company with a focus on continuous improvement at every level.

Part of this learning has resulted in institutionalizing our continuous improvement process through our Operational Excellence initiative called “Always Performing For Excellence,” or “APEX,” program, which is transforming this year from Operational Excellence to Business Excellence. The APEX program’s goal is to strive for continuous improvement through unification of all of our business practices, tools and metrics, ongoing employee training and innovation. We believe that excellence is not a destination, but by constantly challenging ourselves to be better, we will improve, and ultimately approach excellence. We challenge ourselves to exceed our customers’ expectations and we partner with them to work to ensure that our execution meets their needs.

Continuous improvement, through the APEX program also allows us to improve our efficiency, which contributes to increased margins, helps us to remain competitive and allows us to make strategic investments, all while maintaining our focus on customer satisfaction. In these elements, our goals are aligned with those of our customers. We are humbled by the dedication and sacrifice that our ultimate customers have made to serve and we work to perform for them with excellence in everything we do.

### *Global Events and Business Impacts*

#### **COVID-19**

The coronavirus pandemic caused certain disruptions to our business, including various adverse supply chain impacts which are anticipated to continue through 2023.

#### **Ukraine Invasion**

In February 2022 Russia escalated its war with Ukraine by invading and occupying parts of that country. Since that time, western powers, including the U.S., have pledged support with humanitarian and military aid. Some of that military aid pledged by the U.S. will result in increased efforts to replace equipment and consumables. We have received orders from the U.S. and allies to both provide equipment in support of this effort, and to replace equipment pledged. We expect that these orders will continue until that support is no longer needed and the equipment pledged is replaced.

### ***Business Environment***

Revenues derived directly, as a prime contractor, or indirectly, as a subcontractor, from contracts with the U.S. government represented 80% of our consolidated revenue for the three months ended March 31, 2023 and 85% for the three months ended March 31, 2022. Our U.S. government sales are highly concentrated within our DoD customers, which made up the overwhelming majority of our U.S. government revenue. Of these sales directly to the U.S. government the Army and Navy are our largest customers. For the three months ended March 31, 2023 and 2022, U.S. government sales with the U.S. Army represented 32% and 33% of our total sales respectively while sales to the U.S. Navy represented 34% and 36% of our total revenues over the same periods.

The DoD budget is the largest defense budget in the world.

The U.S. President's fiscal year 2024 budget request included \$842 billion for national defense programs, which marks continued growth from prior years. The most recent National Defense Strategy and annual defense budget request continue to prioritize a strategic focus on China as the pacing threat, countering other near peer adversaries, investing in the nuclear triad, and funding operations in Ukraine. We believe that the level and growth of the defense budget as well as strategic priorities requiring more advanced and sophisticated defense technology capabilities create a favorable market environment for DRS.

### ***Operating Performance Assessment and Reporting***

For the majority of our contracts, revenues are recognized using the over time, percentage of completion cost-to-cost method of accounting, with revenue recognized based on the ratio of cumulative costs incurred to date to estimated total contract costs at completion. For contracts accounted for in this way, our reported revenues may contain amounts which we have not billed to customers if we have incurred costs, and recognized related profits, in excess of billed progress or performance-based payments.

Under U.S. GAAP, contract costs, including allowable general and administrative expenses on certain government contracts, are charged to work-in-progress inventory and are written off to costs and expenses as revenues are recognized. The Federal Acquisition Regulations ("FAR") and the defense supplement ("DFARS"), incorporated by reference in U.S. government contracts, provide that internal research and development costs are allowable general and administrative expenses. Unallowable costs, pursuant to the FAR, are excluded from costs accumulated on U.S. government contracts.

Our defense contracts and subcontracts that require the submission of cost or pricing data are subject to audit, various profit and cost controls, and standard provisions for termination at the convenience of the customer. The Defense Contract Audit Agency ("DCAA") performs these audits on behalf of the U.S. government. The DCAA has the right to perform audits on our incurred costs on cost-type or price redeterminable-type contracts on a yearly basis. Approval of an incurred cost submission can take from one to three years from the date of the submission of the contract cost.

U.S. government contracts are, by their terms, subject to termination by the U.S. government for either convenience or default by the contractor. Fixed-price contracts provide for payment upon termination for items delivered to and accepted by the U.S. government and, if the termination is for convenience, for payment of fair compensation of work performed plus the costs of settling and paying claims by terminated subcontractors, other settlement expenses and a reasonable profit on the costs incurred. Cost-plus contracts provide that, upon termination, the contractor is entitled to reimbursement of its allowable costs and, if the termination is for convenience, a total fee proportionate to the percentage of the work completed under the contract. If a contract termination is for default, however, the contractor is paid an amount agreed upon for completed and partially completed products and services

accepted by the U.S. government. In these circumstances, the U.S. government is not liable for excess costs incurred by us in procuring undelivered items from another source.

In addition to the right of the U.S. government to terminate U.S. government contracts, such contracts are conditioned upon the continuing availability of Congressional appropriations. Congress usually appropriates funds for a given program on a September 30 fiscal year basis, even though contract performance may take many years. Consequently, at the outset of a major program, the contract is typically only partially funded, and additional funds normally are committed to the contract by the procuring agency only as appropriations are made by Congress for future fiscal years.

## **Components of Operations**

### ***Revenue***

Revenue consists primarily of product related revenue, generating 91%, of our total revenues for the three months ended March 31, 2023. Our remaining revenue is generated from service-related contracts. Additionally, 84% of our revenue is derived from firm-fixed priced contracts for the three months ended March 31, 2023. This is consistent for both contract types when compared to product sales of 88% and firm-fixed sales of 87% for the three months ended March 31, 2022.

Under flexibly priced contracts, we are reimbursed for allowable or otherwise defined total costs (defined as cost of revenues plus allowable general and administrative expenses) incurred, plus a fee. The contracts may also include incentives for various performance criteria, including quality, timeliness, cost-effectiveness or other factors. For the three months ended March 31, 2023, flexible priced contracts represented 16% of our total revenues.

Please refer to *Note 3: Revenue from Contracts with Customers* in the Notes to our Consolidated Financial Statements.

### ***Cost of Revenues***

Cost of revenues includes materials, labor and overhead costs incurred in the manufacturing, design, and provision of products and services sold in the period as well as warranty costs. Material costs include raw materials, purchased components and sub-assemblies and outside processing and inbound freight. Labor and overhead costs consist of direct and indirect manufacturing costs, including wages and fringe benefits, operating supplies, depreciation and amortization, occupancy costs, and purchasing, receiving, inspection costs and inbound freight costs.

### ***General and Administrative Expenses***

General and administrative expenses include general and administrative expenses not included within cost of revenues such as salaries, wages and fringe benefits, facility costs and other costs related to these indirect functions. Additionally, general and administrative expenses include internal research and development costs as well as expenditures related to bid and proposal efforts. We expect general and administrative expenses will be impacted by the costs associated with being a publicly-traded company.

## **Results from Operations**

The following discussion of operating results is intended to help the reader understand the results of operations and financial condition of the Company, for the three months ended March 31, 2023, as compared to three months ended March 31, 2022. Given the nature of our business, we believe revenue and earnings from operations are most relevant to an understanding of our performance at a business and segment level. Our operating cycle is lengthy and involves various types of production contracts and varying delivery schedules. Accordingly, operating results in a particular year may not be indicative of future operating results.

<i>(Dollars in millions, except per share amounts)</i>	Three Months Ended		March 31, 2023 vs. March 31, 2022	
	March 31, 2023	March 31, 2022	\$	%
Total revenues	\$ 569	\$ 612	\$ (43)	(7.0)%
Total cost of revenues	(438)	(478)	40	(8.4)%
Gross profit	\$ 131	\$ 134	(3)	(2.2)%
Gross margin	23.0 %	21.9 %	1.1 %	5.1 %
General and administrative expenses	(100)	(76)	(24)	31.6 %
Amortization of intangibles	(6)	(2)	(4)	200.0 %
Other operating expenses, net	—	—	—	NM
Operating earnings	\$ 25	\$ 56	(31)	(55.4)%
Interest expense	(8)	(8)	—	— %
Other, net	(1)	—	(1)	NM
Earnings before taxes	\$ 16	\$ 48	(32)	(66.7)%
Income tax provision	4	12	(8)	(66.7)%
Net earnings	\$ 12	\$ 36	(24)	(66.7)%
Basic EPS <sup>(1)</sup>	\$ 0.05	\$ 0.17	\$ (0.12)	73.1 %
Diluted EPS <sup>(1)</sup>	\$ 0.05	\$ 0.17	\$ (0.12)	73.1 %
Backlog	\$ 4,272	2,995	1,277	42.6 %
Bookings	749	747	2	0.3 %

NM- percentage change not meaningful

(1) Gives effect to a 1,450,000-for-1 forward stock split on our common stock effected on February 25, 2021 and a 1.451345331-for-1 forward stock split on our common stock effected November 23, 2022.

### Revenue

Our revenue generation of \$569 million represents a decrease of \$43 million or 7% as compared to the three months ended March 31, 2022. The revenue decrease is primarily attributed to the difference in revenue contribution realized from our now disposed Global Enterprise Solutions (GES) operating unit as compared to the revenue generated from RADA, the “net divestiture impact” within our ASC segment as well as the favorable financial impact realized from the 2nd ship-set contract modification on the Columbia program realized in prior year Q1 (\$25 million) at our IMS segment.

### Cost of Revenues

Cost of revenue decreased by \$40 million or 8% from \$478 million to \$438 million primarily due to the reduction of revenue noted above coupled with reduced cost of revenues attributed to favorable program mix and performance within our ASC segment including the higher profit generation of the RADA merger. This reduction at the ASC segment was offset by the positive financial contribution realized on the Columbia contract modification realized in Q1 2022.

### Gross Profit

Gross profit decreased by \$3 million, or 2% to \$131 million for the three months ended March 31, 2023 as compared to \$134 million for the three months ended March 31, 2022, resulting from the revenue and cost of revenue trends noted above.

### ***General and Administrative Expenses***

General and administrative expenses increased by \$24 million or 32% for the three months ending March 31, 2023 as compared to the three months ended March 31, 2022. The increase in G&A is attributed to increased investment in independent research and development expenditures, the RADA commercial business model and increased public operating costs.

### ***Amortization of Intangibles***

Amortization of intangibles of \$6 million for three months ending March 31, 2023 increased \$4 million from the three months ending March 31, 2022 of \$2 million attributed to the increased amortization generated from the RADA acquired intangible assets.

### ***Operating Earnings***

Operating earnings decreased by \$31 million or 55% to \$25 million for three months ended March 31, 2023 from \$56 million for three months ended March 31, 2022. The decrease was driven by a combination of improved program performance and positive gross profit contribution of the RADA offset by the increased G&A costs as noted above as well as the prior year positive impact generated from our submarine program with the US Navy.

### ***Interest Expense***

Interest expense remained relatively consistent realizing an expense of \$8 million for three months ended March 31, 2023 and March 31, 2022, respectively.

### ***Other, Net***

Other, net decreased by \$1 million for the three month ended March 31, 2023 to \$(1) million from \$0 million for the three months ended March 31, 2022.

### ***Earnings Before Taxes***

Earnings before taxes decreased by \$32 million to \$16 million for three months ended March 31, 2023 from \$48 million for three months ended March 31, 2022. This was primarily due to decrease in operating earnings of \$31 million, and other costs of \$1 million.

### ***Income Tax Provision***

Income tax provision decreased to \$4 million or by 67% for three months ended March 31, 2023, when compared to \$12 million for the three months ended March 31, 2022. This was primarily attributable to decreased Earnings Before Taxes in the three months ended March 31, 2023.

### ***Net Earnings***

Net earnings decreased by \$24 million to \$12 million for the three months ended March 31, 2023 when compared to the three months ended March 31, 2022. This was driven by decrease in earnings before taxes of \$32 million offset by the Income Tax provision decreasing \$8 million as noted above.

### ***Backlog***

*Backlog* - We define Backlog to include the following components:

- (1) Funded - Funded backlog represents the revenue value of orders for services under existing contracts for which funding is appropriated or otherwise authorized less revenue previously recognized on these contracts.



- (2) Unfunded - Unfunded backlog represents the revenue value of firm orders for products and services under existing contracts for which funding has not yet been appropriated less funding previously recognized on these contracts.

Backlog increased by \$1,277 million to \$4,272 million from \$2,995 million for three months ended March 31, 2023, from three months ended March 31, 2022. The backlog increase was driven primarily by the receipt of a multi-boat contract to support the electric propulsion efforts on the Columbia Class submarine program with the U.S. Navy resulting in an additional \$996 million of unfunded backlog.

### **Bookings**

*Bookings* - We define bookings as the total value of contract awards received from the U.S. government for which it has appropriated funds and legally obligated such funds to the Company through a contract or purchase order, plus the value of contract awards and orders received from customers other than the U.S. government.

Bookings results for three months ended March 31, 2023 were in line with the prior year, increasing slightly to \$749 million as compared to \$747 million for the three month ended March 31, 2022.

## **Key Non-GAAP Operating Measures**

### **Overview**

We measure our business using both key financial and operating data including key performance indicators (“KPIs”) and non-GAAP financial measures. In addition to the operational analysis detailed above, we also use the following non-GAAP metrics to manage our business, monitor results of operations and ensure proper allocation of capital: (i) Adjusted EBITDA, (ii) Adjusted EBITDA Margin, (iii) Adjusted Diluted Earnings Per Share (“EPS”) and (iv) Free Cash Flow. We believe that these financial performance metrics represent the primary drivers of value enhancement, balancing both short and long-term indicators of increased shareholder value. These are the metrics we use to measure our results and evaluate our business and related contract performance.

*(Dollars in millions, except per share amounts)*

	March 31, 2023	March 31, 2022
Adjusted EBITDA <sup>(1)</sup>	\$ 49	\$ 73
Adjusted EBITDA Margin <sup>(1)</sup>	8.6%	11.9%
Adjusted Diluted EPS <sup>(1)(2)</sup>	\$ 0.07	\$ 0.19
Free Cash Flow <sup>(1)</sup>	\$ (346)	\$ (266)

(1) Note on non-GAAP financial measures: Throughout the discussion of our results of operations we use non-GAAP financial measures including Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted EPS and Free Cash Flow, as measures of our overall performance. Definitions and reconciliations of these measures to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP are included below.

(2) Gives effect to a 1,450,000-for-1 forward stock split on our common stock effected on February 25, 2021 and a 1.451345331-for-1 forward stock split on our common stock effected November 23, 2022.

### **Non-GAAP Financial Measures**

We believe the non-GAAP financial measures presented in this document will help investors understand our financial condition and operating results and assess our future prospects. We believe these non-GAAP financial measures, each of which is discussed in greater detail below, are important supplemental measures because they exclude unusual or non-recurring items as well as non-cash items that are unrelated to or may not be indicative of our ongoing operating results. Further, when read in conjunction with our U.S. GAAP results, these non-GAAP financial measures provide a baseline for analyzing trends in our underlying businesses and can be used by management as a tool to help make financial, operational and planning decisions. Finally, these measures are often

used by analysts and other interested parties to evaluate companies in our industry by providing more comparable measures that are less affected by factors such as capital structure.

We recognize that these non-GAAP financial measures have limitations, including that they may be calculated differently by other companies or may be used under different circumstances or for different purposes, thereby affecting their comparability from company to company. In order to compensate for these and the other limitations discussed below, management does not consider these measures in isolation from or as alternatives to the comparable financial measures determined in accordance with U.S. GAAP. Readers should review the reconciliations below and should not rely on any single financial measure to evaluate our business.

We define these non-GAAP financial measures as:

**Adjusted EBITDA and Adjusted EBITDA Margin**

We define Adjusted EBITDA as our net earnings before income taxes, amortization of acquired intangible assets, depreciation, restructuring costs, interest, deal related transaction costs, other non-operating expenses such as foreign exchange, COVID-19 response costs, non-service pension expenditures and other one-time non-operational events as well as gains (losses) on business disposals. Adjusted EBITDA Margin is calculated by dividing Adjusted EBITDA by revenue. Adjusted EBITDA and Adjusted EBITDA Margin are not measures calculated in accordance with U.S. GAAP, and they should not be considered an alternative to any financial measures that were calculated under U.S. GAAP. Adjusted EBITDA and Adjusted EBITDA Margin are used to facilitate a comparison of the ordinary, ongoing and customary course of our operations on a consistent basis from period to period and provide an additional understanding of factors and trends affecting our business. Adjusted EBITDA and Adjusted EBITDA Margin are driven by changes in volume, performance, contract mix and general and administrative expenses and investment levels. Performance, as used in this definition, refers to changes in profitability and is primarily based on adjustments to estimates at completion on individual contracts. These adjustments result from increases or decreases to the estimated value of the contract, the estimated costs to complete the contract, or both. These measures therefore assist management and our board and may be useful to investors in comparing our operating performance consistently over time as they remove the impact of our capital structure, asset base and items outside the control of the management team and expenses that do not relate to our core operations. Adjusted EBITDA and Adjusted EBITDA Margin may not be comparable to similarly titled non-GAAP measures used by other companies as other companies may have calculated the measures differently. The reconciliation of Adjusted EBITDA to net earnings is provided below:

*Consolidated Entity Adjusted EBITDA Reconciliation:*

	Three Months Ended March 31,	
	2023	2022
<i>(Dollars in millions)</i>		
Net earnings	\$ 12	\$ 36
Income tax provision (benefit)	4	12
Amortization of intangibles	6	2
Depreciation	16	13
Restructuring costs	—	—
Interest expense	8	8
Deal related transaction costs	2	2
Other one-time non-operational events	1	—
Adjusted EBITDA	<u>\$ 49</u>	<u>\$ 73</u>
Adjusted EBITDA Margin	8.6 %	11.9%

### **Adjusted EBITDA**

Adjusted EBITDA decreased by \$24 million or 33% to \$49 million from \$73 million for the three months ended March 31, 2023 as compared to three months March 31, 2022. This is primarily attributed to a non-recurring increase in profitability on the Columbia Class program experienced in the three months ended March 31, 2022

### **Adjusted EBITDA Margin**

Adjusted EBITDA Margin decreased from 11.9% for the three months ended March 31, 2022 to 8.6% for the three months ended March 31, 2023. This was primarily due to the non-recurring profitability on the Columbia Class program mentioned above.

### **Adjusted Diluted EPS**

**Adjusted Diluted EPS** – We calculate Adjusted Diluted EPS by excluding deal related transaction costs, acquisition and divestiture related expenses and COVID-19 response costs from our net earnings (loss) to arrive at Adjusted Diluted EPS. We believe that Adjusted Diluted EPS allows investors to effectively compare our core performance from period to period by excluding items that are not indicative of, or are unrelated to, results from our ongoing business. Adjusted Diluted EPS has limitations as an analytical tool and does not represent and should not be considered an alternative to basic or diluted EPS as determined in accordance with U.S. GAAP. The reconciliation of Adjusted Diluted EPS to U.S. GAAP EPS is shown below:

#### **Consolidated Entity Reconciliation of Adjusted Diluted EPS:**

<i>(Dollars in millions, except per share amounts)</i>	<b>Three Months Ended March 31,</b>			
	<b>2023</b>		<b>2022</b>	
Net earnings	\$	12	\$	36
Deal related transaction costs		2		2
Amortization of intangibles	\$	6	\$	2
Restructuring costs	\$	—	\$	—
Other non-operating expense	\$	1	\$	—
Tax effect of adjustments		(2)		(1)
Adjusted net earnings	\$	19	\$	39
Diluted EPS <sup>(1)</sup>	\$	0.05	\$	0.17
Adjusted diluted EPS <sup>(1)</sup>	\$	0.07	\$	0.19

(1) Gives effect to a 1,450,000-for-1 forward stock split on our common stock effected on February 25, 2021 and a 1.451345331-for-1 forward stock split on our common stock effected November 23, 2022.

### **Adjusted Diluted EPS**

For the three months ended March 31, 2023 there were 260,553,101 shares of common stock outstanding, an increase of 50,108,028 shares from the March 31, 2022 shares outstanding of 210,445,073. The increased share count is attributed to shares issued to consummate the RADA merger of 49,788,960 and equity vesting of 319,068. Diluted shares as of March 31, 2023 of 2 million were attributable to equity grants and unexercised stock options. There were no outstanding equity grants at March 31, 2022. Adjusted diluted EPS of \$0.07 represents a decrease of \$0.12 from \$0.19 for the three months ended March 31, 2022, which is attributed to the increase in shares outstanding and the net earnings decrease described above.

### **Free Cash Flow**

**Free Cash Flow** – We define free cash flow as the sum of the cash flows provided by operating activities and the cash flows provided by (used in) investing activities pertaining to capital expenditures and proceeds generated from the sale of capital assets.

We believe that free cash flow provides management and investors with an important measure of our ability to generate cash on a normalized basis. Free cash flow also provides insight into our flexibility to allocate capital and pursue opportunities that may enhance stockholder value. We believe that while expenditures and dispositions of property plant and equipment will fluctuate period to period, we seek to ensure that we have adequate capital on hand to maintain ongoing operations and enable growth of the business. Additionally, free cash flow is of limited usefulness, in that it does not represent residual cash flows available for discretionary expenditures, due to the fact the measures do not deduct the payments required for debt service and other contractual obligations or payments. The reconciliation between free cash flow and net cash provided by operating activities (the most comparable U.S. GAAP measure) is shown below:

*Consolidated Entity Reconciliation of Free Cash Flow:*

<i>(Dollars in millions)</i>	<b>Three Months Ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Net cash used in operating activities	\$ (334)	\$ (255)
Transaction related expenditures, net of tax	2	2
Capital expenditures	(15)	(13)
Proceeds from sales of assets	1	—
Free cash flow	<u>\$ (346)</u>	<u>\$ (266)</u>

**Free Cash Flow**

Free cash flow usage increased by \$80 million to \$(346) million for three months ended March 31, 2023 from \$(266) million for the three months ended March 31, 2022. This was primarily due to cash used to fund working capital for the three months ended March 31, 2023 when compared to three months ended March 31, 2022 driven by a reduction in accounts payable during the period, offset in part by customer advances received.

**Factors Impacting Our Performance**

***U.S. Government Spending and Federal Budget Uncertainty***

Changes in the volume and relative mix of U.S. government spending as well as areas of spending growth could impact our business and results of operations. In particular, our results can be affected by shifts in strategies and priorities on homeland security, intelligence, defense-related programs, infrastructure and urbanization and continued increased spending on technology and innovation, including cybersecurity, artificial intelligence, connected communities and physical infrastructure (for example, the potential impact for the Russia / Ukraine conflict). Cost-cutting and efficiency initiatives, current and future budget restrictions, spending cuts and other efforts to reduce government spending and shifts in overall priorities could cause our government customers to reduce or delay funding or invest appropriated funds on a less consistent basis or not at all, and demand for our solutions or services could diminish. Furthermore, any disruption in the functioning of government agencies, including as a result of government closures and shutdowns, could have a negative impact on our operations and cause us to lose revenue or incur additional costs due to, among other things, our inability to maintain access and schedules for government testing or deploy our staff to customer locations or facilities as a result of such disruptions.

There is also uncertainty around the timing, extent, nature and effect of Congressional and other U.S. government actions to address budgetary constraints, caps on the discretionary budget for defense and non-defense departments and agencies, and the ability of Congress to determine how to allocate the available budget authority and pass appropriations bills to fund both U.S. government departments and agencies that are, and those that are not, subject to the caps. Additionally, budget deficits and the growing U.S. national debt, may increase pressure on the U.S. government to reduce federal spending across all federal agencies, with uncertainty about the size and timing of those reductions. Furthermore, delays in the completion of future U.S. government budgets could in the future delay

procurement of the federal government services we provide. A reduction in the amount of, or reductions, delays, or cancellations of funding for, services that we are contracted to provide to the U.S. government as a result of any of these impacts or related initiatives, legislation or otherwise could have a material adverse effect on our business and results of operations. See Part I, Item 1A, “Risk Factors—Risks Related to Our Business—Significant delays or reductions in appropriations for our programs and changes in U.S. government priorities and spending levels more broadly may negatively impact our business and could have a material adverse impact on our business, financial condition and results of operations” Please see also Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Business Overview and Considerations—Business Environment” in our Annual Report for the year ended December 31, 2023, filed with the SEC on March 28, 2023 for further details on U.S. government spending’s impact on our business.

### ***Operational Performance on Contracts***

The Company recognizes revenue for each separately identifiable performance obligation in a contract representing an obligation to transfer a distinct good or service to a customer. In most cases, goods and services provided under the Company’s contracts are accounted for as single performance obligations due to the complex and integrated nature of our products and services. These contracts generally require significant integration of a group of goods and/or services to deliver a combined output. In some contracts, the Company provides multiple distinct goods or services to a customer. In those cases, the Company accounts for the distinct contract deliverables as separate performance obligations and allocates the transaction price to each performance obligation based on its relative standalone selling price, which is generally estimated using cost plus a reasonable margin. We classify revenues as products or services on our Consolidated Statements of Earnings based on the predominant attributes of the performance obligations. While the Company provides warranties on certain contracts, we typically do not provide for services beyond standard assurances and therefore do not consider warranties to be separate performance obligations. Typically, we enter into three types of contracts: fixed-price contracts, cost-plus contracts and T&M contracts (cost-plus contracts and T&M contracts are aggregated below as flexibly priced contracts). The majority of our total revenues are derived from fixed-price contracts; refer to the revenue disaggregation disclosures that follow.

For fixed-price contracts, customers agree to pay a fixed amount, negotiated in advanced for a specified scope of work.

For cost-plus contracts typically we are reimbursed for allowable or otherwise defined total costs (defined as cost of revenues plus allowable general and administrative expenses) incurred, plus a fee. The contracts may also include incentives for various performance criteria, including quality, timeliness and cost-effectiveness. In addition, costs are generally subject to review by clients and regulatory audit agencies, and such reviews could result in costs being disputed as non-reimbursable under the terms of the contract.

T&M contracts provide for reimbursement of labor hours expended at a contractual fixed labor rate per hour, plus the actual costs of material and other direct non-labor costs. The fixed labor rates on T&M contracts include amounts for the cost of direct labor, indirect contract costs and profit.

Revenue from contracts with customers is recognized when the performance obligations are satisfied through the transfer of control over the good or service to the customer, which may occur either over time or at a point in time.

Revenues for the majority of our contracts are measured using the over time, percentage of completion cost-to-cost method of accounting to calculate percentage of completion. We believe this is an appropriate measure of progress toward satisfaction of performance obligations as this measure most accurately depicts the progress of our work and transfer of control to our customers. Due to the long-term nature of many of our contracts, developing the estimated total cost at completion and total transaction price often requires judgment. Factors that must be considered in estimating the cost of the work to be completed include the nature and complexity of the work to be performed, subcontractor performance and the risk and impact of delayed performance.

After establishing the estimated total cost at completion, we follow a standard Estimate at Completion (“EAC”) process in which we review the progress and performance on our ongoing contracts. The following represents the impact that changes in our estimates, particularly those regarding our fixed-price development programs, have had on our revenues for the quarter ended March 31, 2023 and 2022 respectively

*Impact of Change in Estimates on our Revenue Results*

<i>(Dollars in millions)</i>	Three Months Ended March 31,	
	2023	2022
Revenue	\$ (9)	\$ (1)
Total % of Revenue	2 %	— %

Additionally, the timing of our cash flows is impacted by the timing of achievement of billable milestones on contracts. Historically, this has resulted and could continue to result in fluctuations in working capital levels and quarterly free cash flow results. As a result of such quarterly fluctuations in free cash flow results, we believe that quarter-to-quarter comparisons of our results of operations may not necessarily be meaningful and should not be relied upon as indicators of future performance.

**Regulations**

Increased audit, review, investigation and general scrutiny by U.S. government agencies of performance under government contracts and compliance with the terms of those contracts and applicable laws could affect our operating results. Negative publicity and increased scrutiny of government contractors in general, including us, relating to government expenditures for contractor services and incidents involving the mishandling of sensitive or classified information as well as the increasingly complex requirements of the DoD and the U.S. intelligence community, including those related to cybersecurity, could impact our ability to perform in the markets we serve.

**International & Commercial Sales**

International revenue, including foreign military sales, foreign military financing, and direct commercial sales, accounted for approximately 20% of our revenue for the three months ended March 31, 2023 which is consistent with prior year trends. Since our focus is primarily with the DoD and our investments are focused as such, we anticipate that international sales will continue to account for a similar percentage of revenue in the future. We remain subject to the spending levels, pace and priorities of the U.S. government as well as international governments and commercial customers, and to general economic conditions that could adversely affect us, our customers and our suppliers.

Additionally, some international sales may expose us to foreign exchange fluctuations and changing dynamics of foreign competitiveness based on variations in the value of the U.S. dollar relative to other currencies. The impact of those fluctuations is reflected throughout our Consolidated Financial Statements, but in the aggregate, did not have a material impact on our results of operations for three months ended March 31, 2023.

**Acquisitions**

We consider the acquisition of businesses and investments that we believe will expand or complement our current portfolio and allow access to new customers or technologies. We also may explore the divestiture of businesses that no longer meet our needs or strategy or that could perform better outside of our organization.

On November 28, 2022, the Company announced the successful completion of the all-stock merger between Leonardo DRS and RADA Electronic Industries Ltd. (“RADA”), a leading Israel-based provider of small-form tactical radar, to become a combined public company. As previously disclosed, RADA shareholders retained approximately 19% ownership in the combined Company with Leonardo DRS’s parent company, Leonardo S.p.A., (MIL: LDO), owning the remaining 81%. Immediately following the closing, the Company began trading on the Nasdaq Stock Exchange and the Tel Aviv Stock Exchange under the ticker “DRS”.

The acquisition of RADA has been accounted for using the acquisition method of accounting in accordance with ASC 805, *Business Combinations*, with the Company as the accounting acquirer, which requires the assets acquired and liabilities assumed be recognized at their acquisition date fair value. The acquisition was completed on November 28, 2022, when each issued and outstanding ordinary share of RADA was converted and exchanged for one share of common stock of the Company.

The total purchase consideration for RADA was \$511 million and is comprised of Company's shares issued in exchange for all issued and outstanding common shares of RADA, as well as the portion of replacement stock compensation awards' fair value attributable to pre-combination services. See *Note 2: Business Acquisitions and Dispositions* for additional information regarding the transaction.

### **Dispositions**

On March 21, 2022, the Company entered into a definitive agreement to sell its Global Enterprise Solutions ("GES") business to SES Government Solutions, Inc., a wholly-owned subsidiary of SES S.A., for \$450 million subject to certain working capital adjustments. The transaction was completed on August 1, 2022 and resulted in cash proceeds of \$427 million after net working capital adjustments. The transaction netted an aggregate pretax gain net of transaction costs of \$309 million (\$239 million after tax) of which \$323 million, was included in Other Operating income (expense) net partially reduced by aggregate transaction costs of \$14 million included in Selling, General & Administrative costs and tax expenses of \$70 million. GES, which was part of the ASC segment, provides commercial satellite communications to the U.S. Government and delivers satellite communications and security solutions to customers worldwide.

The Company recorded operating income for the GES business of \$13 million and \$29 million for the year ended December 31, 2022 and for the period ended December 31, 2021, respectively.

On April 19, 2022, we entered into a definitive sales agreement to divest our share of our equity investment in Advanced Acoustic Concepts LLC ("AAC") for \$56 million to Thales Defense & Security, Inc., the minority partner in AAC. The transaction was completed on July 8, 2022 and resulted in proceeds of \$56 million. The transaction netted an aggregate pretax gain of \$31 million (\$22 million net of taxes). The aggregate gain of \$31 million is included in Other Operating income (expense) net offset by tax expense of \$9 million.

The proceeds generated from the GES and AAC divestitures resulted in a \$396 million dividend to US Holding, at that time, our sole stockholder. The \$396 million represents the proceeds generated net of our costs to sell and estimated tax obligations. The dividend was issued on August 5, 2022.

### **Review of Operating Segments**

The following is a discussion of operating results for each of our operating segments. We have elected to use Revenue, Adjusted EBITDA, Adjusted EBITDA Margin, and Bookings to provide detailed information on our

segment performance. Additional information regarding our segments can be found in *Note 16: Segment Information* within the unaudited Consolidated Financial Statements.

<i>(Dollars in millions)</i>	Three Months Ended March 31,			March 31, 2023 vs. March 31, 2022	
	2023	2022		Variance	
<b>Revenue:</b>					
ASC	\$ 391	\$ 396	\$	(5)	(1.3)%
IMS	189	218		(29)	(13.3)%
Corporate & Eliminations	(11)	(2)		(9)	450.0 %
Total revenue	\$ 569	\$ 612	\$	(43)	(7.0)%
<b>Adjusted EBITDA:</b>					
ASC	\$ 37	\$ 32	\$	5	15.6 %
IMS	12	41		(29)	(70.7)%
Corporate & Eliminations	—	—		—	— %
Total Adjusted EBITDA	\$ 49	\$ 73	\$	(24)	(32.9)%
<b>Adjusted EBITDA Margin:</b>					
ASC	9.5 %	8.1 %		1.4 %	17.1 %
IMS	6.3 %	18.8 %		(12.5)%	(66.2)%
<b>Bookings:</b>					
ASC	\$ 404	\$ 388	\$	16	4.1 %
IMS	345	359		(14)	(3.9)%
Total bookings	\$ 749	\$ 747	\$	2	0.3 %

## ASC

### Revenue:

The ASC segment reported revenue of \$391 million for the three months ended March 31, 2023, decreasing by 1% or \$5 million from the three months ended March 31, 2022. This decrease is attributed to the net divestiture impact, in which our disposed assets (GES) provided a higher revenue contribution than the acquired RADA asset for the quarter.

### Adjusted EBITDA and Adjusted EBITDA Margin:

ASC's Adjusted EBITDA increased by \$5 million or 16%, from \$32 million for three months ended March 31, 2022 to \$37 million for three months ended March 31, 2023. The increase in Adjusted EBITDA drove an increase in Adjusted EBITDA Margin from 8% for the three months ended March 31, 2022 to 9% for three months ended March 31, 2023. The increase in Adjusted EBITDA and Adjusted EBITDA Margin is primarily due to improved program performance within our naval and airborne sensing programs, offset in part by increased G&A expenditures largely attributed to increased internal research and development efforts within the segment.

### Bookings:

The ASC segment contributed \$404 million in new bookings for three months ended March 31, 2023. Bookings were up 4% or \$16 million as compared to the three months ended March 31, 2022. The increase in bookings is highlighted by increased demand for our Force Protection programs (\$56 million) highlighted by our infrared



counter measure programs and our Airborne Sensing programs (\$37 million) offset by award timing in our Network Computing programs (\$15million), and the net divestiture impact of (\$27 million),

## IMS

### Revenue:

IMS segment revenue decreased by \$29 million or 13% to \$189 million for the three months ended March 31, 2023 from \$218 million for the three months ended March 31, 2022. This decrease was primarily attributed to the favorable financial impact realized from the 2nd ship-set contract modification on the Columbia program realized in prior year Q1 (\$25 million).

### Adjusted EBITDA and Adjusted EBITDA Margin:

IMS's Adjusted EBITDA decreased by \$29 million or 71% to \$12 million for three months ended March 31, 2023 from \$41 million for the three months ended March 31, 2022. This was primarily due to the favorable financial impact realized from the 2nd ship-set contract modification on the Columbia program realized in prior year Q1 (\$25 million).

### Bookings:

Bookings decreased by \$14 million or 4% for the three months ended March 31, 2023 to \$345 million from \$359 million for the three months ended March 31, 2022. This was primarily due to bookings for our force protection products including the definitization of 124 mission equipment package (MEP) contract to provide short range air defense for the U.S. Army realized in prior year Q1 (\$177 million), thought balanced with continued funding progress on our Electronic Power & Propulsion out pacing the three months ended March 31, 2022 \$156 million.

## Liquidity and Capital Resources

We endeavor to ensure the most efficient conversion of operating income into cash for deployment in our business and to maximize stockholder value through cash deployment activities. In addition to our cash position, we use various financial measures to assist in capital deployment decision-making, including cash provided by operating activities and free cash flow, a non-GAAP measure described in more detail below. We believe that the combination of our existing cash, access to credit facilities as described in *Note 11: Debt* and future cash that we expect to generate from our operations will be sufficient to meet our short and long-term liquidity needs. There can be no assurance, however, that our business will continue to generate cash flow at current levels or that anticipated operational improvements will be achieved. We may also pursue acquisitions or other strategic priorities that will require additional liquidity beyond the liquidity we generate through our operations. Our cash balance as of March 31, 2023, was \$174 million compared to \$306 million as of December 31, 2022.

The following table summarizes our cash flows for the periods presented:

(Dollars in millions)	Three Months Ended March 31,	
	2023	2022
Net cash used in operating activities	\$ (334)	\$ (255)
Net cash provided by investing activities	(14)	(13)
Net cash provided by financing activities	216	141
Effect of exchange rate changes on cash and cash equivalents	—	—
Net increase (decrease) in cash and cash equivalents	\$ (132)	\$ (127)
Free cash flow <sup>(1)</sup>	\$ (346)	\$ (266)

(1) Free cash flow is a Non-GAAP measure. The reasons we use this Non-GAAP financial measure and its reconciliation to the most directly comparable U.S. GAAP financial measure is provided above under “—Key Financial and Operating Measures—Non-GAAP Financial Measures.”

### ***Operating Activities***

Cash usage related to the operating activities increased by \$80 million from \$(255) million for the three months ended March 31, 2022 to \$(334) million for the three months ended March 31, 2023. This was primarily due to cash used to fund working capital for the three months ended March 31, 2023 when compared to three months ended March 31, 2022 driven by incremental tax payments associated with the R&D capitalization requirements of section 174 coupled with incremental investments in inventory and contract assets to combat supply chain lead-times.

### ***Investing Activities***

Net cash provided by investing activities remained consistent for the three months ended March 31, 2023 and the three months ended March 31, 2022 as capital expenditures remained consistent.

### ***Financing Activities***

Net cash provided by financing activities increased by \$75 million for the three months ended March 31, 2023 versus March 31, 2022. The increase was primarily related to an increase in borrowings on the revolver to fund the working capital noted above.

### ***Free Cash Flow***

Free cash flow usage increased by \$80 million to \$(346) million for three months ended March 31, 2023 from \$(266) million for the three months ended March 31, 2022. This was primarily due to cash used in operating activities noted above for the three months ended March 31, 2023 when compared to the three months ended March 31, 2022.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK**

### ***Equity Risk***

We currently have limited risk related to fluctuations in marketable securities. Outside of pension assets which are disclosed in *Note 12: Pension and Other Postretirement Benefits* to the Consolidated Financial Statements, the only investments the Company holds are overnight money market accounts. Fluctuations are unlikely and would have limited impact on the financial statements of the Company.

### ***Interest Rate Risk***

We are exposed to interest rate risk on variable-rate borrowings under our \$225 million Term Loan A and our revolving credit facilities under which we had an outstanding balance of \$222 million and \$215 million respectively as of March 31, 2023. A 0.5% increase or decrease in our weighted average interest rate on our variable debt outstanding as of March 31, 2023 would result in an increase or decrease in our annual interest expense of approximately \$2 million. The carrying values of the Company's borrowings under the 2022 Credit Facility approximate their fair values at March 31, 2023. For additional information please refer to *Note 11: Debt*.

### ***Foreign Currency Risk***

In certain circumstances, we may be exposed to foreign currency risk. However, as the overwhelming majority of our revenue is derived from U.S. sources directly as a prime contractor or indirectly as a subcontractor for the U.S. government as end-customer, we have limited foreign currency exposure. Currently, our exposure is primarily with the Canadian dollar and limited to receivables owed of \$50 million as of March 31, 2023. A 10% fluctuation in exchange rates would not have a material impact on our financial statements. We do not enter into or issue derivative instruments for trading purposes.

### ***Inflation Risk***

We have generally been able to anticipate increases in costs when pricing our contracts. Bids for longer-term firm fixed-price contracts typically include assumptions for labor and other cost escalations in amounts that historically have been sufficient to cover cost increases over the period of performance. We have seen impacts due

to inflation on isolated programs. These have largely been offset with our internal continuous improvement savings initiatives.

#### **Item 4. Controls and Procedures**

##### ***Evaluation of Disclosure Controls and Procedures***

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the quarterly period ended March 31, 2023, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on this evaluation, our principal executive officer and principal financial officer has concluded that during the period covered by this report, our disclosure controls and procedures were effective.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

##### ***Changes in Internal Control over Financial Reporting***

There was no change in our internal control over financial reporting that occurred during the quarterly period ended March 31, 2023 covered by this Quarterly Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. Legal Proceedings**

For information relating to legal proceedings, see Note 14 to the unaudited Consolidated Financial Statements in Part 1, Item 1.

**ITEM 1A. Risk Factors**

As of the date of this Quarterly Report, there have been no material changes to the risk factors discussed under “Risk Factors” in Part 1, Item 1A of our Annual Report on Form 10-K for the year end December 31, 2022, filed with the SEC on March 28, 2023.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**ITEM 3. Defaults Upon Senior Securities**

None.

**ITEM 4. Mine Safety Disclosures**

Not Applicable

**ITEM 5. Other Information**

None.

## ITEM 6. Exhibits

Exhibit Number	Exhibit Description
31.1	<a href="#">Certification by principal executive officer</a> pursuant to Rule 13A-14(a) or 15D-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	<a href="#">Certification by principal financial officer</a> pursuant to Rule 13A-14(a) or 15D-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	<a href="#">Certification by principal executive officer</a> pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	<a href="#">Certification by principal financial officer</a> pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document – the instance document does not appear on the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 4, 2023

**LEONARDO DRS, INC.**

By: /s/ William J. Lynn III  
Name: William J. Lynn III  
Title: Chief Executive Officer



**Certification of Principal Executive Officer  
Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as  
Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, William J. Lynn III, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 of Leonardo DRS, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designated such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2023

/s/ William J. Lynn III

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William J. Lynn III  
Chief Executive Officer  
(Principal Executive Officer)

**Certification of Principal Financial Officer Pursuant to Exchange Act Rule  
13a-14(a)/15d-14(a) as  
Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Michael D. Dippold, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 of Leonardo DRS, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designated such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2023

/s/ Michael D. Dippold

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Michael D. Dippold  
Chief Financial Officer  
(Principal Financial Officer)

**Certification of Principal Executive Officer  
Pursuant to 18 U.S.C. Section 1350 as  
Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Leonardo DRS, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2023, as filed with the Securities and Exchange Commission (the "Report"), the undersigned, as the Chief Executive Officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report, which this statement accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 4, 2023

/s/ William J. Lynn III

William J. Lynn III  
Chief Executive Officer  
(Principal Executive Officer)

This written statement accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934.

**Certification of Principal Financial Officer Pursuant to 18 U.S.C.  
Section 1350 as  
Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Leonardo DRS, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2023, as filed with the Securities and Exchange Commission (the "Report"), the undersigned, as the Chief Financial Officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report, which this statement accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 4, 2023

/s/ Michael D. Dippold

Michael D. Dippold  
Chief Financial Officer  
(Principal Financial Officer)

This written statement accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934.