



# Quarterly Earnings Presentation

Q4 | 2023

February 27, 2024

# Disclaimers

## Forward-Looking Statements

In this presentation, 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 presentation 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,” “guidance,” “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 presentation 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.

These statements are subject to numerous assumptions, risks, and uncertainties, many of which are outside of our control, and include the risks and uncertainties that are identified in the Risk Factors section in our latest Annual Report on Form 10-K, and in other periodic and current reports we file with the SEC. While the forward-looking statements herein reflect our current expectations, no assurance can be given that the results or events described in such statements will be achieved, and our actual results may differ materially from the results we anticipate. Our guidance for fiscal year 2024, and the other statements regarding our financial outlook are expressly made as of February 27, 2024 (the date of our fourth quarter 2023 earnings press release and conference call). We undertake no obligation to revise or update any of these forward-looking statements (whether as a result of new information, subsequent events or circumstances, changes in expectations or otherwise) that may arise after the date of this presentation.

## Non-GAAP Financial Measures

In addition to the results reported in accordance with U.S. GAAP included throughout this presentation, the company has provided information regarding “Adjusted EBITDA,” “Adjusted EBITDA Margin,” “Adjusted Net Earnings,” “Adjusted Diluted Earnings Per Share” and “Free Cash Flow” (each, a non-GAAP financial measure).

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 in the appendix, 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 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, 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 on page 10 and should not rely on any single financial measure to evaluate our business.



# Key Messages

1

## **DRS team continues to build a solid execution track record by delivering strong fourth quarter and full year financial results**

- Generated robust organic revenue growth of 7% and total growth of 5%
- Solid execution resulted in achievement of adjusted EBITDA and adjusted diluted EPS commitments
- Delivered healthy free cash flow with conversion of 0.8x of adjusted net earnings, representing a 115% growth from 2022

2

## **Growing and increasingly sophisticated threats are prompting domestic and international customers to modernize capabilities**

- Consistent demand for our differentiated technologies and expansion opportunities in near-adjacencies reflected in strong 2023 book-to-bill of 1.2x and significant backlog growth over 80%
- Year end revenue composition reflects long-standing strategic focus to drive a growing, resilient and diverse business that is well-aligned to customer priorities

3

## **Long-term demand signals are shaping our investments for future growth**

- Increased company funded research and development by over 40% year-over-year to approximately 3% of revenue for 2023
- Initiating on a three-year, approximately \$120 million net capital investment to build a state-of-the-art naval propulsion manufacturing and test facility near Charleston, South Carolina
- Balance sheet remains attractively positioned to support value enhancing capital deployment

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## **Maintaining strategic focus on execution and investing for growth**

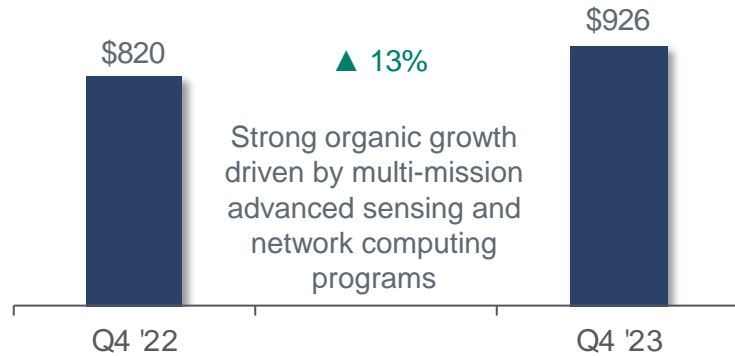
- Record backlog of nearly \$8 billion provides significant visibility into long-term growth
- Well positioned to maintain solid mid-single digit (4% to 7%) organic revenue growth in 2024
- Projecting sizeable (100 to 140 bps) adjusted EBITDA margin expansion based on transition of development programs to production



# Q4 2023 Leonardo DRS Results Summary

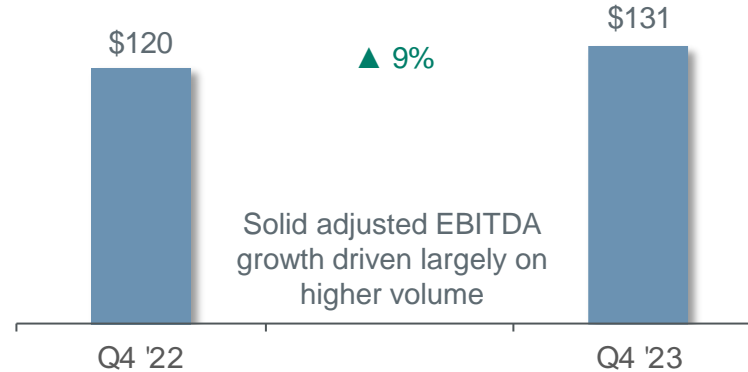
## Revenue

(Dollars in millions)



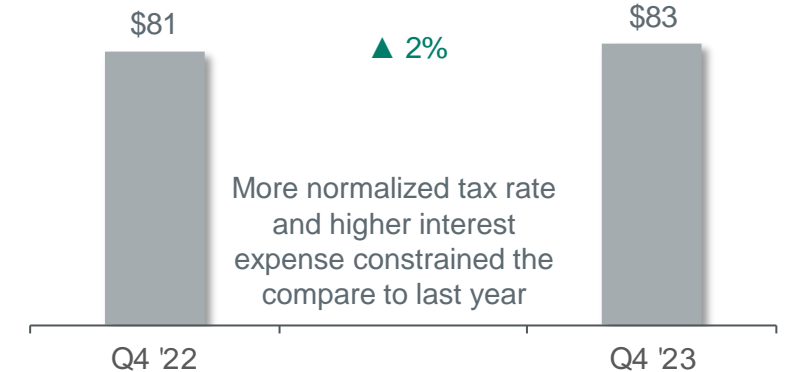
## Adjusted EBITDA \*

(Dollars in millions)



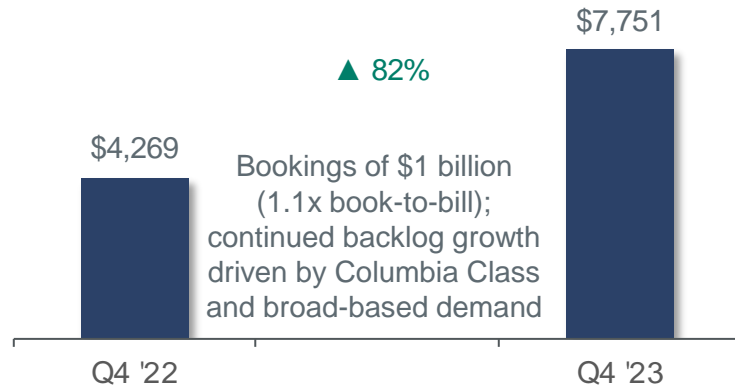
## Adjusted Net Earnings \*

(Dollars in millions)

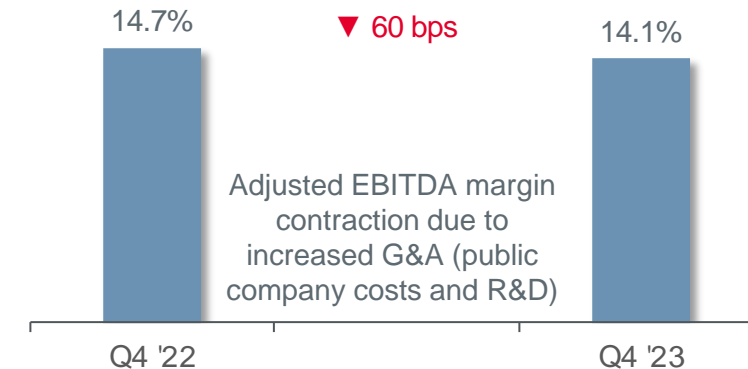


## Total Backlog

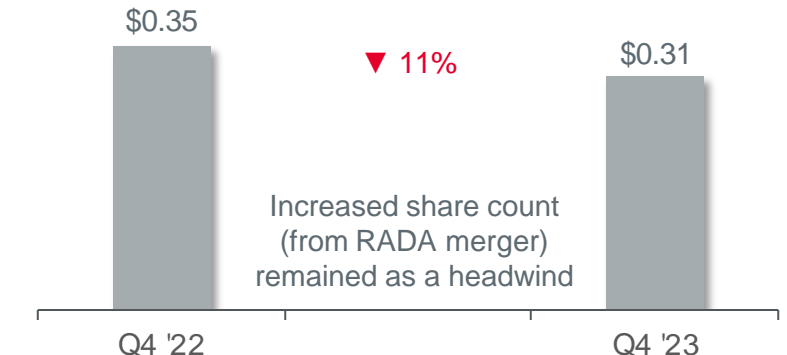
(Dollars in millions)



## Adjusted EBITDA Margin \*



## Adjusted Diluted EPS \*

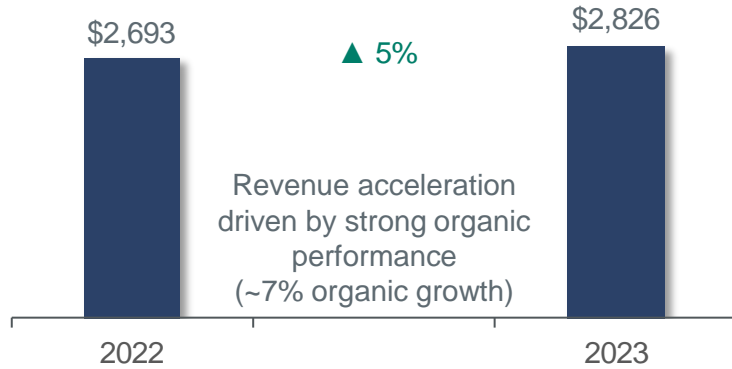


\* See slide 10 "Non-GAAP Financial Measures" for definitions and reconciliations of the non-GAAP financial measures to the most comparable financial measures calculated and presented in accordance with GAAP

# Full Year 2023 Leonardo DRS Results Summary

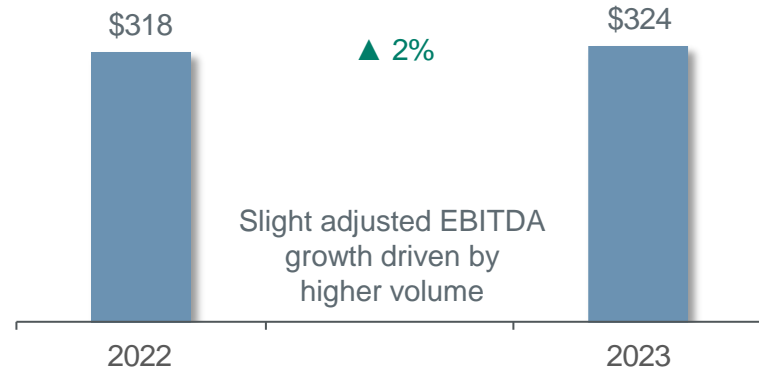
## Revenue

(Dollars in millions)



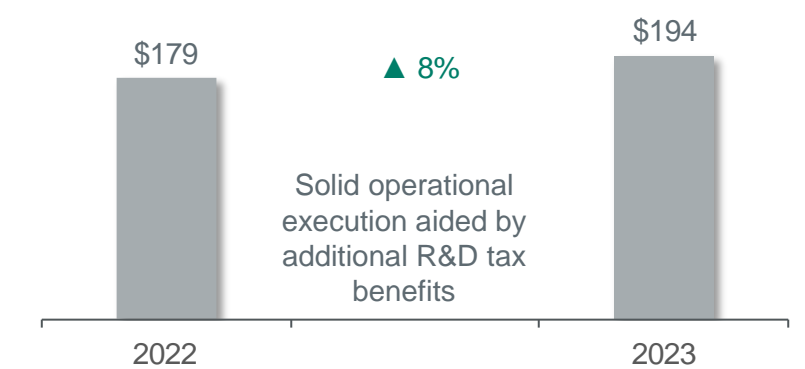
## Adjusted EBITDA \*

(Dollars in millions)



## Adjusted Net Earnings \*

(Dollars in millions)



## Bookings and Total Backlog

### 2023 Bookings

**\$3.5B**

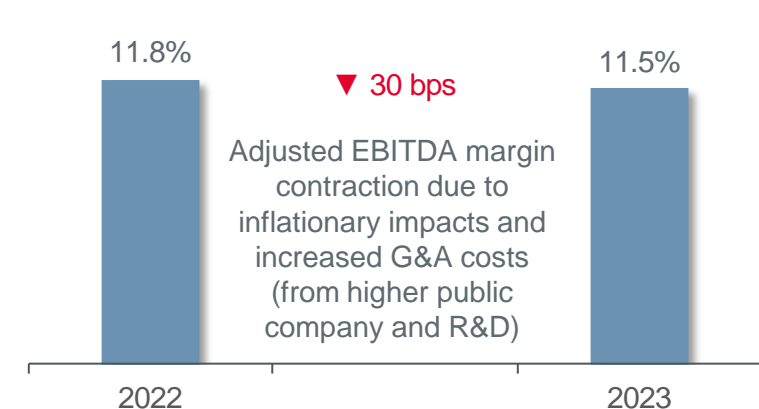
1.2x Book-to-Bill

### Backlog

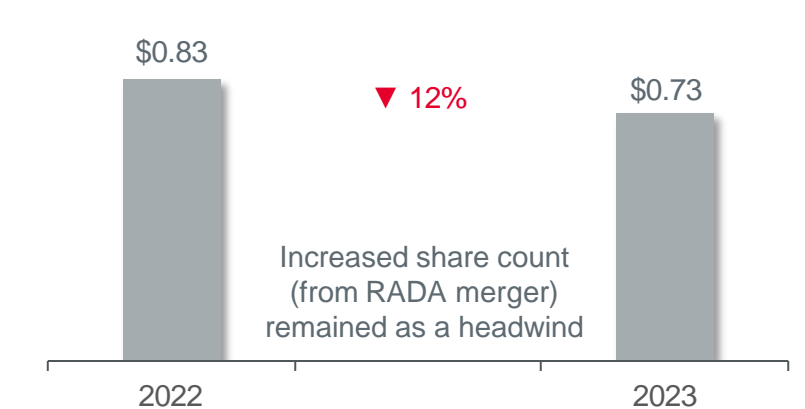
**\$7.8B**

▲ 82%

## Adjusted EBITDA Margin \*



## Adjusted Diluted EPS \*



\* See slide 10 "Non-GAAP Financial Measures" for definitions and reconciliations of the non-GAAP financial measures to the most comparable financial measures calculated and presented in accordance with GAAP

# Initiating Solid 2024 Guidance

## Well Positioned to Maintain Organic Growth and Expand Adjusted EBITDA Margin

**Revenue**  
Revenue output subject to the pace of material receipts and progress of labor inputs as well as the timing and level of customer orders

**Adjusted EBITDA**  
Projected margin improvement largely driven by the transition of development programs to production (Columbia Class and others)

**Adjusted Diluted EPS**  
Anticipating adjusted diluted EPS growth in 2024 despite a normalized tax rate of 22.5% and modest diluted share count increase

**Other Modeling Items**  
Targeting free cash flow of adjusted net earnings target conversion of approximately 80% for 2024. 2024 quarterly cadence expected to remain comparable to prior years for revenue, profit and free cash flow

(In millions, except per share amounts)

	2024 Guidance	2023 Actuals	% Δ from 2023
<b>Revenue</b>	\$2,925 - \$3,025	\$2,826	4% - 7%
<b>Adjusted EBITDA *</b>	\$365 - \$390	\$324	13% - 20%
<i>Tax Rate</i>	22.5%	12.5%	
<i>Diluted Shares Outstanding</i>	268.0	264.2	
<i>Depreciation % of Revenue</i>	2.4%	2.2%	
<b>Adjusted Diluted EPS *</b>	\$0.74 - \$0.82	\$0.73	1% - 12%



\* The company does not provide a reconciliation of forward-looking adjusted EBITDA and adjusted diluted EPS, due to inherent difficulty in forecasting and quantifying the non-GAAP exclusions that are necessary for such reconciliation without unreasonable effort. Material changes to any one of these items could have significant effect on future GAAP results





## **Segment Results**

# Q4 2023 Segment Results Summary

## Revenue

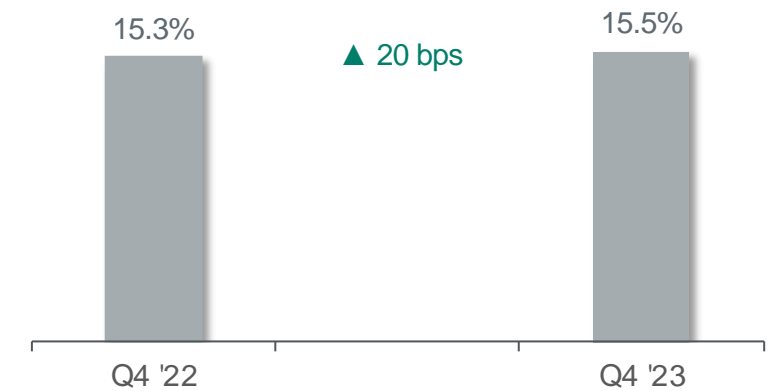
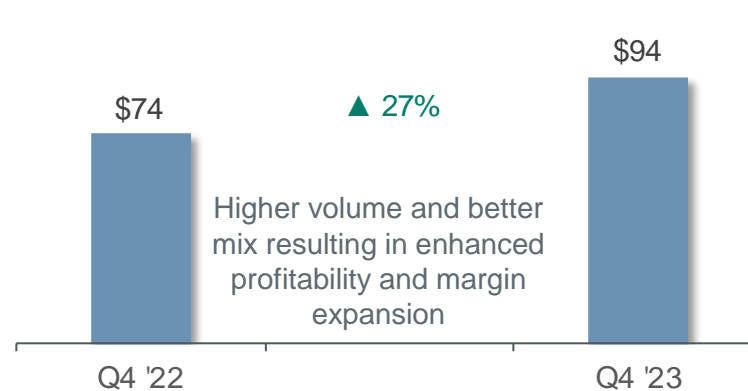
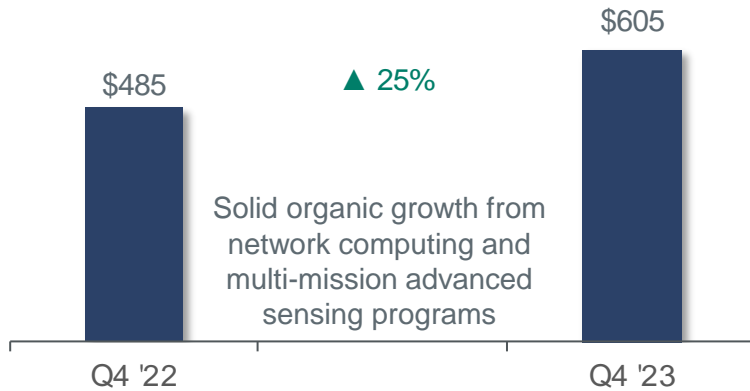
(Dollars in millions)

## Adjusted EBITDA \*

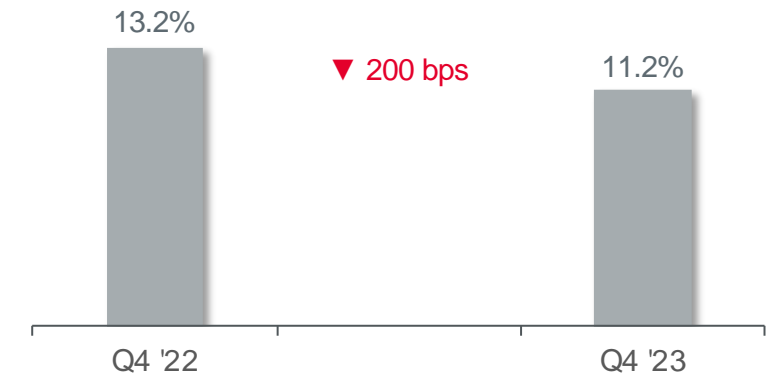
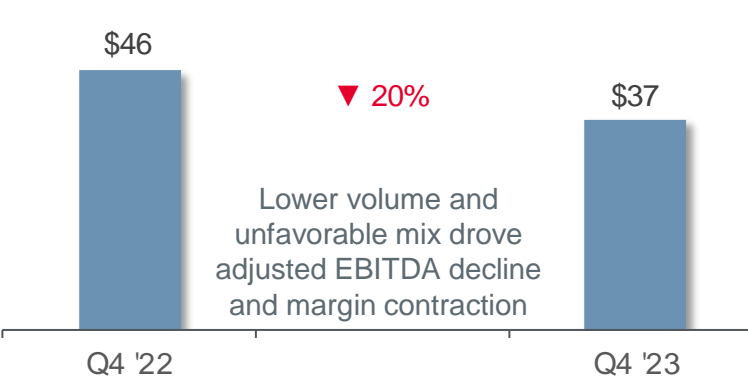
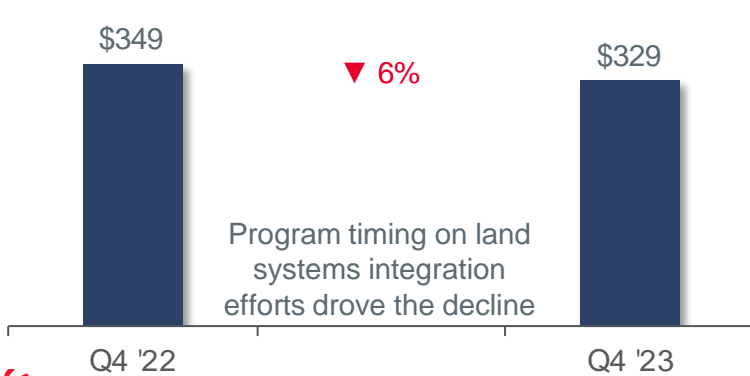
(Dollars in millions)

## Adjusted EBITDA Margin \*

### Advanced Sensing and Computing (ASC)



### Integrated Mission Systems (IMS)



\* See slide 10 "Non-GAAP Financial Measures" for definitions and reconciliations of the non-GAAP financial measures to the most comparable financial measures calculated and presented in accordance with GAAP



# Full Year 2023 Segment Results Summary

## Revenue

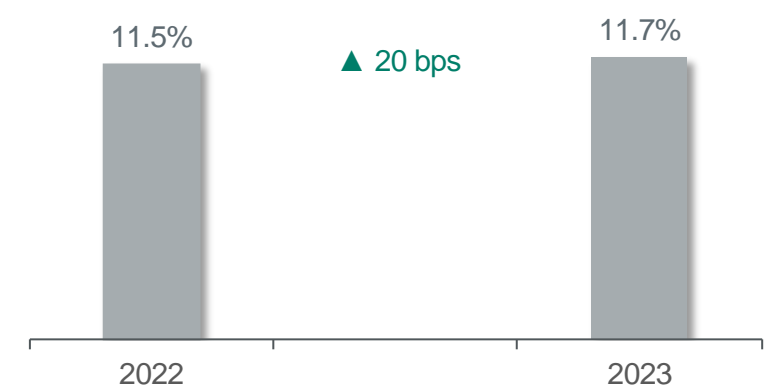
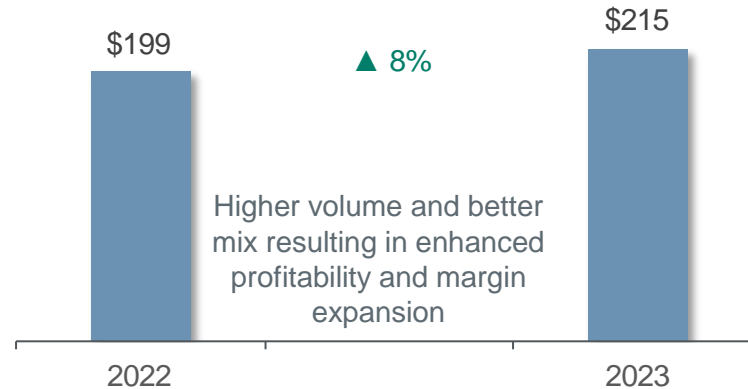
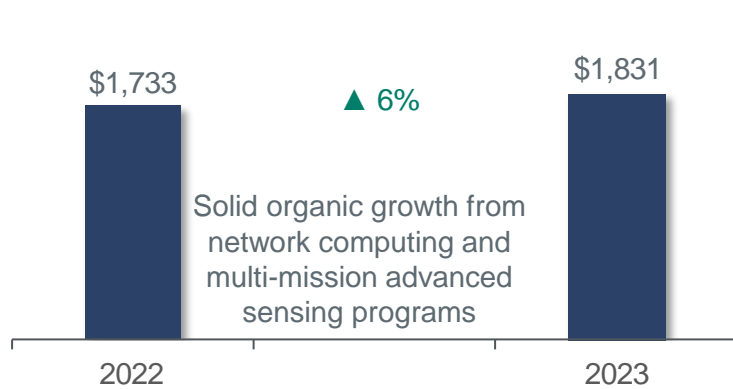
(Dollars in millions)

## Adjusted EBITDA \*

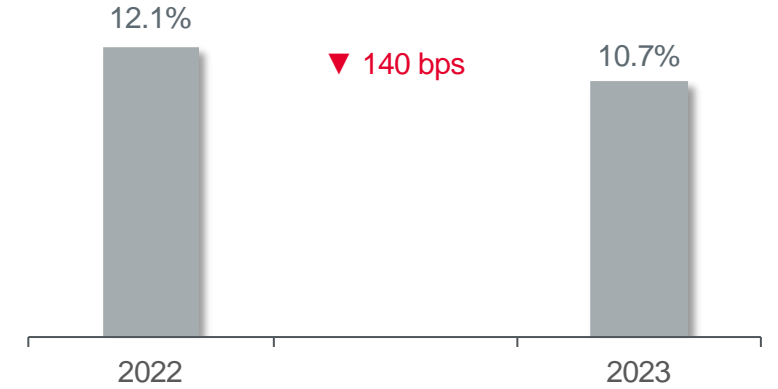
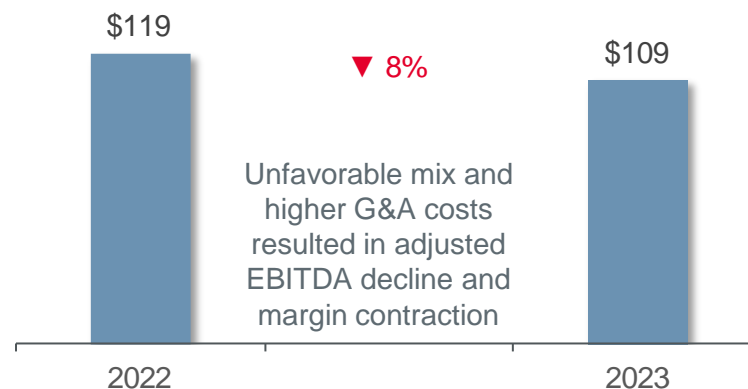
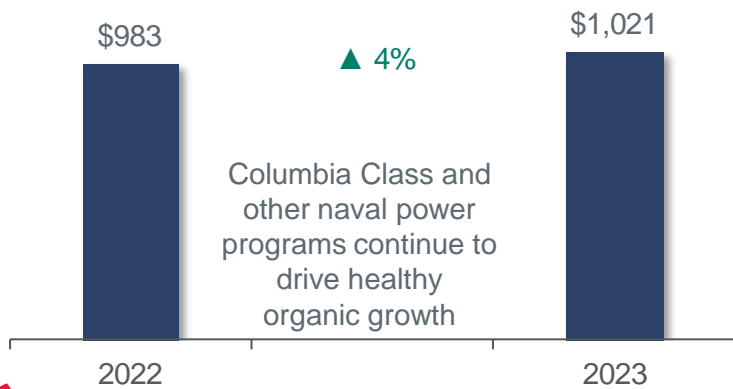
(Dollars in millions)

## Adjusted EBITDA Margin \*

### Advanced Sensing and Computing (ASC)



### Integrated Mission Systems (IMS)



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# Non-GAAP Financial Measures

## Definitions and Reconciliations

In addition to the results reported in accordance with U.S. GAAP included throughout this presentation, the company has provided information regarding “Adjusted EBITDA,” “Adjusted EBITDA Margin,” “Adjusted Net Earnings” and “Adjusted Diluted Earnings Per Share” (each, a non-GAAP financial measure).

**Adjusted EBITDA** and **Adjusted EBITDA Margin** are defined as net earnings before income taxes, interest expense, amortization of acquired intangible assets, depreciation, deal related transaction costs, restructuring costs and other one-time non-operational events (which include non-service pension expense, legal liability accrual reversals and foreign exchange impacts) and gain on sale of dispositions, then in the case of adjusted EBITDA margin dividing adjusted EBITDA by revenues.

**Adjusted Net Earnings** and **Adjusted Diluted EPS** are defined as net earnings excluding amortization of acquired intangible assets, deal related transaction costs, restructuring costs, other one-time non-operational events (which include non-service pension expense, legal liability accrual reversals and foreign exchange impacts), gain on sale of dispositions (net of taxes) and the related tax impact from net earnings, then in the case of adjusted diluted EPS dividing adjusted net earnings by the diluted weighted average shares outstanding.

**Free Cash Flow** is defined as the sum of the cash flows provided by (used in) operating activities, transaction-related expenditures (net of tax), tax payments on disposals, capital expenditures, proceeds from sale of assets and dividends from investments.

(Dollars in millions)


	Three Months Ended		Twelve Months Ended	
	December 31,		December 31,	
	2023	2022	2023	2022
Net earnings	\$74	\$65	\$168	\$405
Income tax provision	21	13	24	120
Interest expense	9	7	36	34
Amortization of intangibles	6	3	22	10
Depreciation	16	14	63	55
Deal related transaction costs	3	17	7	43
Restructuring costs	1	3	11	3
Other one-time non-operational events	1	2	(7)	2
Gain on sale of dispositions	0	(4)	0	(354)
<b>Adjusted EBITDA</b>	<b>\$131</b>	<b>\$120</b>	<b>\$324</b>	<b>\$318</b>
Adjusted EBITDA Margin	14.1%	14.7%	11.5%	11.8%

(In millions, except per share amounts)

	Three Months Ended		Twelve Months Ended	
	December 31,		December 31,	
	2023	2022	2023	2022
Net earnings	\$74	\$65	\$168	\$405
Amortization of intangibles	6	3	22	10
Deal related transaction costs	3	17	7	43
Restructuring costs	1	3	11	3
Other one-time non-operational events	1	2	(7)	2
Gain on sale of dispositions, net of taxes	0	(5)	0	(275)
Tax effect of adjustments <sup>(1)</sup>	(2)	(4)	(7)	(9)
<b>Adjusted Net Earnings</b>	<b>\$83</b>	<b>\$81</b>	<b>\$194</b>	<b>\$179</b>
Diluted weighted average common shares	265.700	229.045	264.175	215.133
Diluted earnings per share	\$0.28	\$0.28	\$0.64	\$1.88
<b>Adjusted Diluted EPS</b>	<b>\$0.31</b>	<b>\$0.35</b>	<b>\$0.73</b>	<b>\$0.83</b>

(Dollars in millions)

	Three Months Ended		Twelve Months Ended	
	December 31,		December 31,	
	2023	2022	2023	2022
Net cash provided by operating activities	\$515	\$279	\$205	\$33
Transaction related expenditures, net of tax	(4)	6	13	25
Tax payment on disposals	0	78	0	78
Capital expenditures	(18)	(30)	(60)	(65)
Proceeds from sales of assets	1	0	1	0
Dividends from investments	0	3	0	3
<b>Free Cash Flow</b>	<b>\$494</b>	<b>\$336</b>	<b>\$159</b>	<b>\$74</b>

 (1) Calculation uses an estimated statutory tax rate on non-GAAP adjustments