# Quarterly Earnings Presentation

# Q4 | 2022

# March 28, 2023

# 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 2023, and the other statements regarding our financial outlook are expressly made as of March 28, 2023 (the date of our fourth quarter 2022 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," and "Adjusted Diluted Earnings Per Share" (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**

**2022 was a transformative year for Leonardo DRS**
- Executed several strategic actions to shape the business for long-term growth
- Acquired RADA Electronic Industries (RADA); adding radar technology to sensor portfolio and enhance positioning in force protection and integrated sensing
- Completed divestitures of non-core assets at attractive valuations: Global Enterprise Solutions (GES) (SATCOM business) and Advanced Acoustic Concepts Joint Venture

**2**

**Differentiated technology portfolio positions company for visible long-term growth**
- Successfully delivered first production unit of the main propulsion motor for Columbia Class submarine
- Record backlog growth driven by multi-boat procurement on Columbia Class valued at approximately $1 billion
- Sensor portfolio experiencing increased demand from new domains particularly space and unmanned

**3**

**Strong program execution in a dynamic operating environment**
- Delivered adjusted EBITDA growth despite battling headwinds with respect to supply chain, labor and inflation
- Aggressively managing supply chain to increase quality and predictability
- Managing costs to preserve profitability and drive future margin expansion
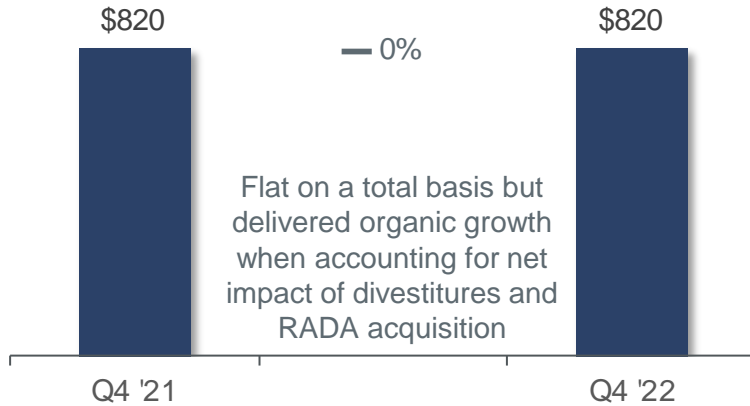
**4**

**2023 focused on execution**
- Focused on delivering accelerating organic growth through backlog conversion
- Completing integration of RADA and driving revenue synergies prior to incremental capital deployment
- Visibility into long-term growth and margin opportunity

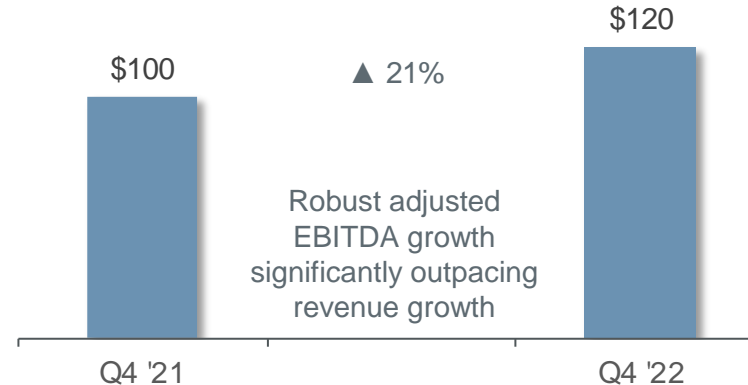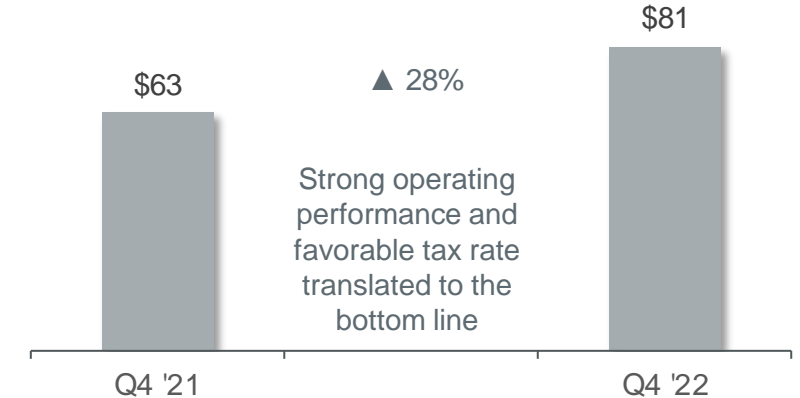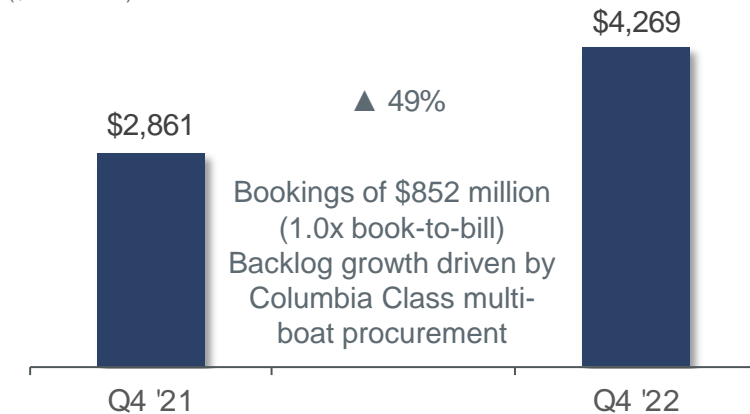# Leonardo DRS Fourth Quarter 2022 Results Summary

## Revenue

($ in Millions)

$820 — 0% $820

Q4 '21 | Q4 '22

Flat on a total basis but delivered organic growth when accounting for net impact of divestitures and RADA acquisition

## Adjusted EBITDA

($ in Millions)

$100 ▲ 21% $120

Q4 '21 | Q4 '22

Robust adjusted EBITDA growth significantly outpacing revenue growth

## Adjusted Net Earnings

($ in Millions)

$63 ▲ 28% $81

Q4 '21 | Q4 '22

Strong operating performance and favorable tax rate translated to the bottom line

## Backlog and Bookings

($ in Millions)

$2,861 ▲ 49% $4,269

Q4 '21 | Q4 '22

Bookings of $852 million (1.0x book-to-bill) Backlog growth driven by Columbia Class multi-boat procurement

## Adjusted EBITDA Margin

12.1% ▲ 260 bps 14.7%

Q4 '21 | Q4 '22

Significant margin expansion driven by strong program execution

## Adjusted Diluted EPS

$0.30 ▲ 17% $0.35

Q4 '21 | Q4 '22

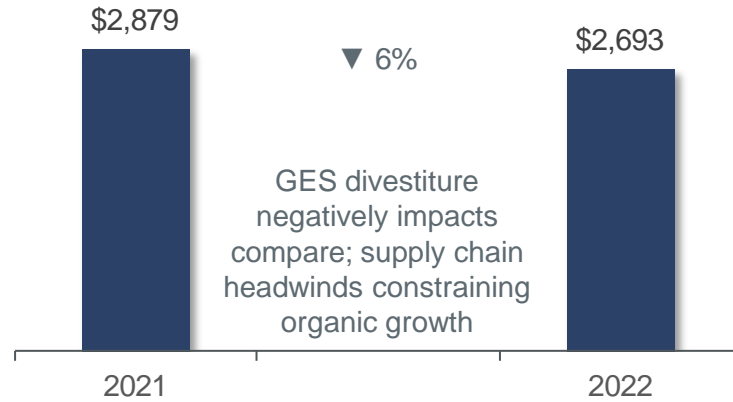Strength of adjusted net earnings visible in adjusted diluted EPS performance

Note: 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
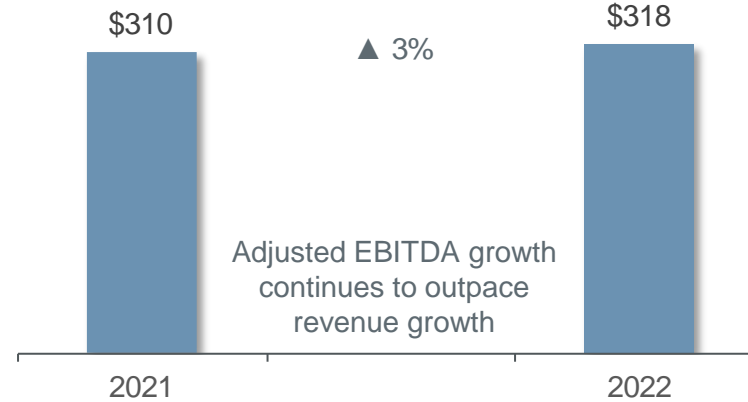
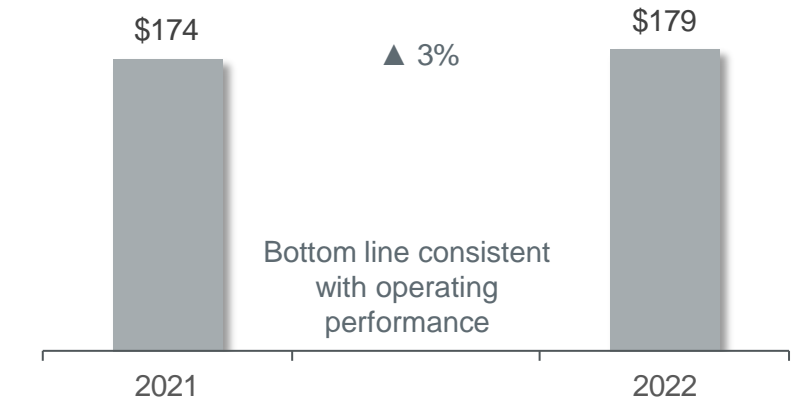# Leonardo DRS Full Year 2022 Results Summary

## Revenue
($ in Millions)

$2,879 (2021)

▼ 6%

$2,693 (2022)

GES divestiture negatively impacts compare; supply chain headwinds constraining organic growth

## Adjusted EBITDA
($ in Millions)

$310 (2021)

▲ 3%

$318 (2022)

Adjusted EBITDA growth continues to outpace revenue growth

## Adjusted Net Earnings
($ in Millions)

$174 (2021)

▲ 3%

$179 (2022)

Bottom line consistent with operating performance

## Bookings

**$3.2 billion**

1.2x Book-to-Bill

## Adjusted EBITDA Margin

10.8% (2021)

▲ 100 bps

11.8% (2022)

Significant margin expansion driven by improved program efficiencies

## Adjusted Diluted EPS

$0.83 (2021)

▲ 1%

$0.83 (2022)

Negatively impacted by increased diluted share count from all stock combination with RADA

Note: 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

# 2023 Guidance and Key Assumptions

## Well-Positioned to Achieve Solid Organic Growth in 2023

- **Growth and Margins**
  - Implied organic growth of 2.5% - 6% (reflects impact from divestiture of GES and acquisition of RADA)
  - Organic revenue growth outlook remains above peers and market
  - Margin improvement expansion driven by Columbia Class transition to production but offset by inflation and increased operating costs (focus on cost discipline to drive better margins)

- **Quarterly Cadence**
  - Fourth quarter contributes greatest percentage of annual revenue, profit and cash flow
  - Significant cash flow utilization in first quarter and generation in fourth quarter

- **Non-Recurring Items**
  - Contribution from anomalistic program one-timers in Q1 do not anniversary in 2023

- **Methodology Change for Adjusted Net Earnings and Adjusted Diluted EPS**
  - Adjustments mirror approach for Adjusted EBITDA
  - Intangible amortization now being excluded
  - Adjustments are now tax effected

(In millions, except per share amounts)

| | 2023 Guidance |
|---|---|
| **Revenue** | $2,700 - $2,800 |
| **Adjusted EBITDA** | $315 - $330 |
| *Tax Rate* | *24%* |
| *Diluted Shares Outstanding* | *263.1* |
| **Adjusted Diluted EPS** | $0.64 - $0.69 |

Note: 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 adjustments that are necessary to calculate such non-GAAP measures without unreasonable efforts. Material changes to any one of these items could have a significant effect on future GAAP results
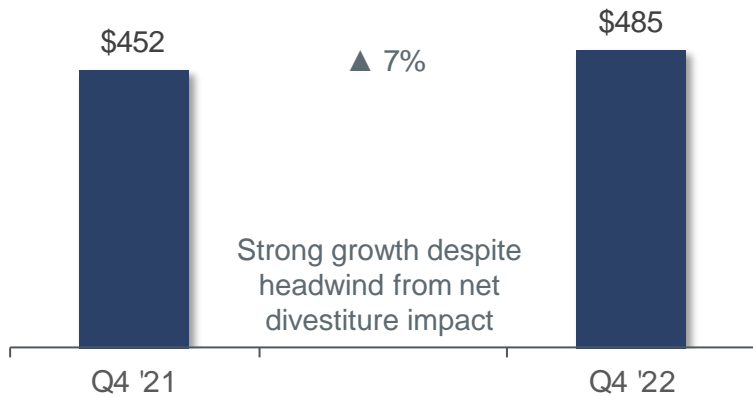
# Segment Results

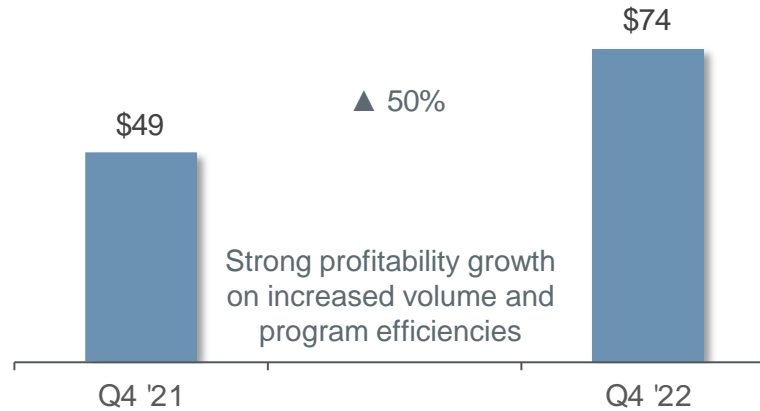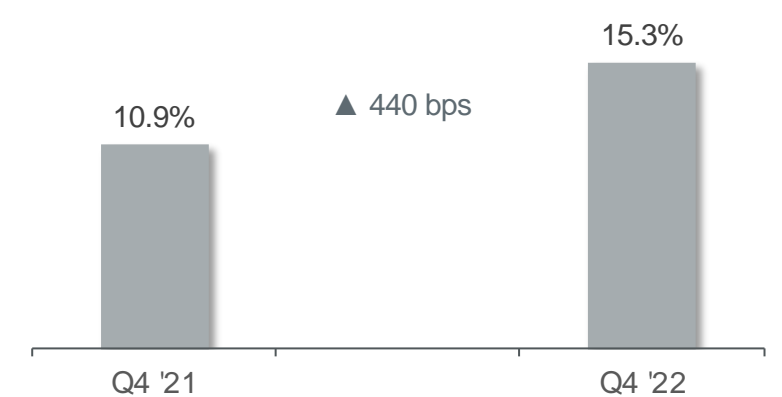# Segment Fourth Quarter 2022 Results Summary

| Revenue | Adjusted EBITDA | Adjusted EBITDA Margin |
|---|---|---|

($ in Millions)        ($ in Millions)

## Advanced Sensing & Computing (ASC)

**Revenue**

- Q4 '21: $452
- ▲ 7%
- Q4 '22: $485

Strong growth despite headwind from net divestiture impact

**Adjusted EBITDA**

- Q4 '21: $49
- ▲ 50%
- Q4 '22: $74

Strong profitability growth on increased volume and program efficiencies

**Adjusted EBITDA Margin**

- Q4 '21: 10.9%
- ▲ 440 bps
- Q4 '22: 15.3%

## Integrated Mission Systems (IMS)

**Revenue**

- Q4 '21: $375
- ▼ 7%
- Q4 '22: $349

Program timing impacting compare

**Adjusted EBITDA**

- Q4 '21: $51
- ▼ 10%
- Q4 '22: $46

Lower volumes impacting profitability

**Adjusted EBITDA Margin**

- Q4 '21: 13.6%
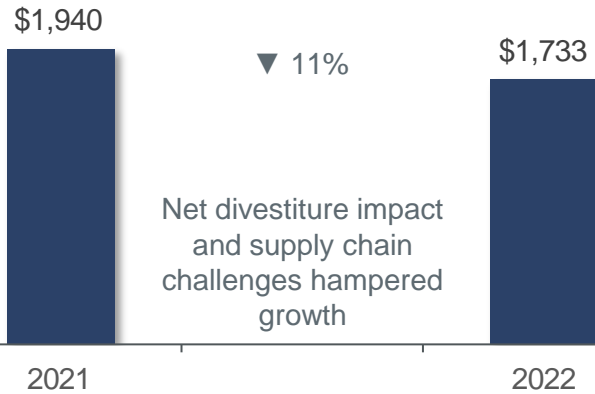- ▼ 40 bps
- Q4 '22: 13.2%

Note: 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
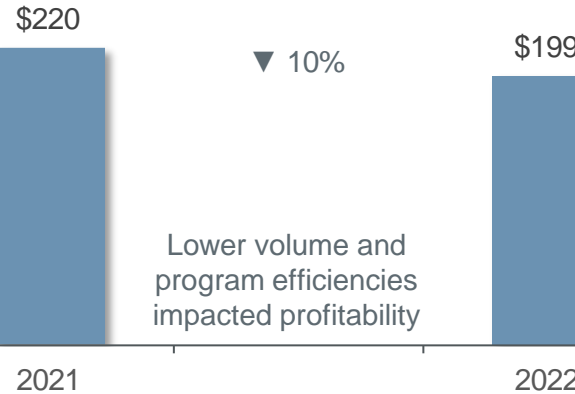
# Segment Fiscal Year 2022 Results Summary

| Revenue | Adjusted EBITDA | Adjusted EBITDA Margin |
|---|---|---|

($ in Millions)

($ in Millions)

## Advanced Sensing & Computing (ASC)



Revenue: $1,940 (2021) ▼ 11% $1,733 (2022)

Net divestiture impact and supply chain challenges hampered growth

Adjusted EBITDA: $220 (2021) ▼ 10% $199 (2022)

Lower volume and program efficiencies impacted profitability

Adjusted EBITDA Margin: 11.3% (2021) ▲ 20 bps 11.5% (2022)

## Integrated Mission Systems (IMS)



Revenue: $959 (2021) ▲ 3% $983 (2022)

Increased demand for capabilities drove growth

Adjusted EBITDA: $90 (2021) ▲ 32% $119 (2022)

Profitability better on program execution, Columbia Class contract modification and slightly higher volume

Adjusted EBITDA Margin: 9.4% (2021) ▲ 270 bps 12.1% (2022)

Note: 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

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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, other non-operating expense (which includes non-service pension expense, COVID-19 response costs 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 non-operating expense (which includes non-service pension expense, COVID-19 response costs, 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

(In millions, except per share amounts)

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Net earnings | $65 | $58 | $405 | $154 |
| Income tax provision | 13 | 15 | 120 | 46 |
| Interest expense | 7 | 8 | 34 | 35 |
| Amortization of intangibles | 3 | 2 | 10 | 9 |
| Depreciation | 14 | 12 | 55 | 49 |
| Deal related transaction costs | 17 | 1 | 43 | 5 |
| Restructuring costs | 3 | 5 | 3 | 5 |
| Other non-operating expense | 2 | (1) | 2 | 7 |
| Gain on sale of dispositions | (4) | 0 | (354) | 0 |
| **Adjusted EBITDA** | **$120** | **$100** | **$318** | **$310** |
| Adjusted EBITDA Margin | 14.7% | 12.1% | 11.8% | 10.8% |

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Net earnings | $65 | $58 | $405 | $154 |
| Amortization of intangibles | 3 | 2 | 10 | 9 |
| Deal related transaction costs | 17 | 1 | 43 | 5 |
| Restructuring costs | 3 | 5 | 3 | 5 |
| Other non-operating expense | 2 | (1) | 2 | 7 |
| Gain on sale of dispositions, net of taxes | (5) | 0 | (275) | 0 |
| Tax effect of adjustments [1] | (4) | (2) | (9) | (6) |
| **Adjusted Net Earnings** | **$81** | **$63** | **$179** | **$174** |
| | | | | |
| Diluted Weighted Average Shares Outstanding | 229.045 | 210.445 | 215.133 | 210.445 |
| | | | | |
| Diluted earnings per share | $0.28 | $0.28 | $1.88 | $0.73 |
| **Adjusted Diluted EPS** | **$0.35** | **$0.30** | **$0.83** | **$0.83** |

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