Leidos Holdings, Inc. (LDOS)

Updated February 12th, 2025, by Kody Kester

Key Metrics

Current Price:	$137	**5 Year CAGR Estimate:**	12.2%	**Market Cap:**	$17.9B
Fair Value Price:	$159	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	03/14/25
% Fair Value:	86%	**5 Year Valuation Multiple Estimate:**	3.1%	**Dividend Payment Date:**	03/28/25
Dividend Yield:	1.2%	**5 Year Price Target**	$234	**Years Of Dividend Growth:**	6
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

Founded in 1969, Leidos Holdings, Inc. provides services and solutions to clients in the defense, intelligence, civil, and health markets in the U.S. and around the world. In 2016, the company merged with Lockheed Martin's Information Systems & Global Solutions segment to form one of the leading IT service providers to the U.S. government. Approximately 87% of LDOS' $16.7 billion in total revenue in the fiscal year 2024 ended January 3rd, 2025, was derived from the U.S. government. The remaining 13% came from commercial and non-U.S. customers.

The company is organized into the following four operating segments:

1. National Security & Digital: This segment offers technology-enabled services and mission software capabilities. These are used by defense and intelligence customers in the cyber, logistics, and security operations areas.
2. Health & Civil: The segment provides services and solutions to federal and commercial customers in public health, care coordination, and life and environmental sciences. These include health information management services, managed health services, and life sciences research and development.
3. Commercial & International: The segment offers technologically advanced services, solutions, and products to commercial and international customers. Offerings include IT modernization, software solutions, mission support and logistics, and surveillance and reconnaissance technologies and services.
4. Defense Systems: This segment develops and produces advanced space, aerial, surface, and sub-surface manned and unmanned defense systems for various U.S. agencies. Solutions provided include systems engineering, integration and testing, software development, and intelligence analysis.

On February 11th, LDOS released its fourth-quarter earnings report for the period ended January 3rd. The company's total revenue climbed 9.7% higher over the year-ago period to $4.37 billion in the quarter. That was driven by strength in all four of its operating segments during the quarter. More specifically, the Health & Civil and Commercial & International segments generated double-digit revenue growth for the quarter. LDOS' non-GAAP diluted EPS jumped 19.1% year-over-year to $2.37 during the quarter. That topped the analyst consensus by $0.10 for the period. This was made possible by an approximately 40 basis point expansion in the non-GAAP net profit margin to 7.3% in the quarter.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$2.89	$3.51	$3.72	$4.38	$5.17	$5.83	$6.62	$6.60	$7.30	$10.21	***$10.60***	***$15.57***
DPS	$1.28	$1.28	$1.28	$1.28	$1.32	$1.36	$1.40	$1.44	$1.46	$1.54	***$1.60***	***$2.04***
Shares[1]	72.0	150.0	151.0	146.0	141.0	142.3	140.0	137.0	135.8	131.2	***131.2***	***121.0***

Since 2015, LDOS' non-GAAP diluted EPS has compounded at a low double-digit rate annually. We continue to believe that 8% annual non-GAAP diluted EPS growth is a realistic assumption moving forward. The book-to-bill ratio was 1.4x in FY 2024 and the backlog reached $43.6 billion to close out the year. That should support mid-single-digit revenue growth over the medium term. Incremental margin expansion and share repurchases are the other levers that can be pulled to achieve this growth.

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[1] Share count is in millions.

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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Avg. P/E	19.5	14.6	17.4	12.0	19.2	18.0	13.4	15.9	14.8	14.3	***12.9***	***15.0***
Avg. Yld.	2.3%	2.5%	2.0%	2.4%	1.3%	1.3%	1.6%	1.4%	1.3%	1.1%	***1.2%***	***0.9%***

LDOS' P/E ratio has varied from as little as low as the low double-digits into the high teens in the last 10 years. That equates to an average P/E ratio of nearly 16. Overall, we think a multiple of around 15 represents fair value. This is because expanding margins could largely make up for the larger earnings base and lower growth rate. Compared to the current P/E ratio of 12.9, this implies shares are trading at a moderate discount to fair value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	44%	36%	34%	29%	26%	23%	21%	22%	20%	15%	***15%***	***13%***

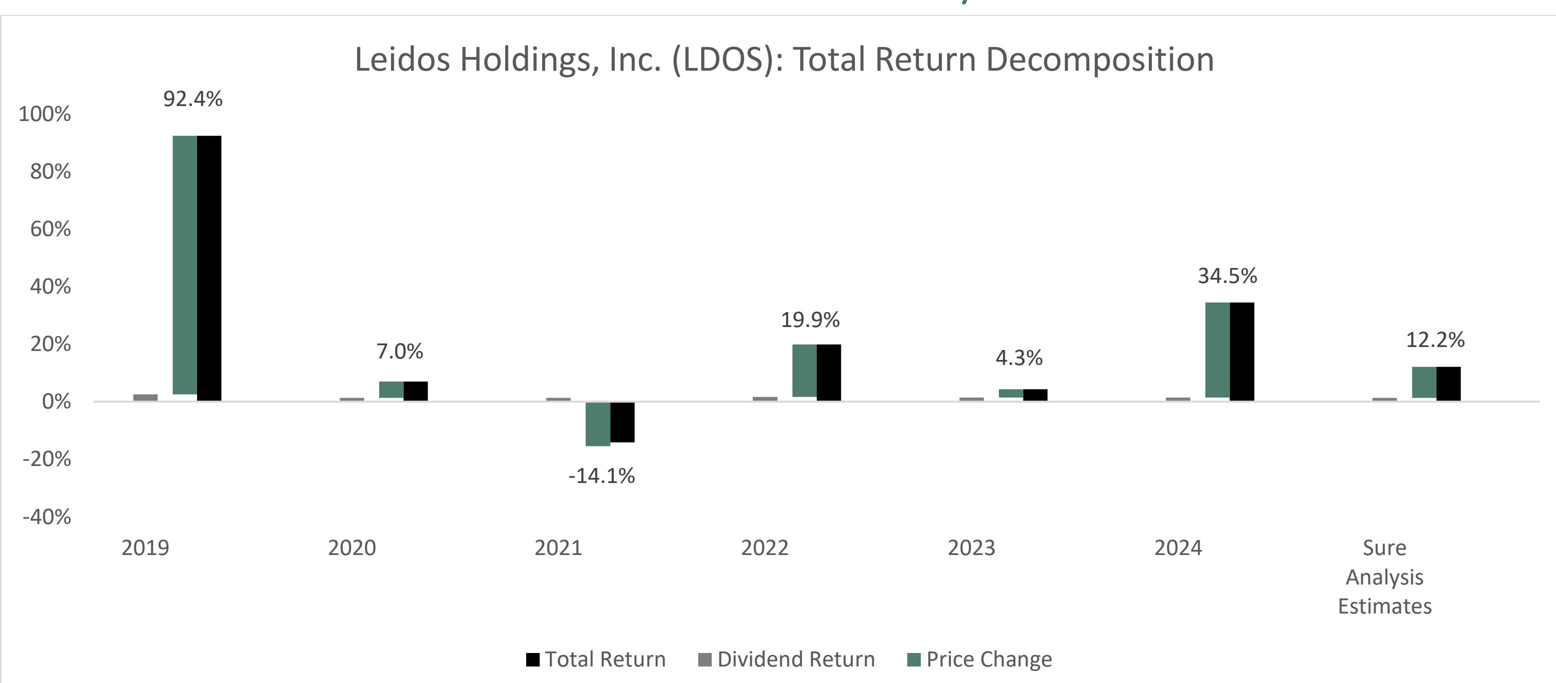
LDOS' competitive advantage lies in its long-standing relationships with customers and its top-tier talent. The company's ability to deliver for its customers has allowed non-GAAP diluted EPS to consistently rise in recent years.

LDOS is also financially healthy. This is supported by an interest coverage ratio that was 9.5x in FY 2024. That provides a buffer for the company to endure a temporary downturn in its earnings and still be able to service its debt. This earns LDOS an investment-grade, BBB credit rating from S&P on a stable outlook. Additionally, LDOS' dividend payout ratio is very low, providing strong security. The company's dividend payout ratio is set to be in the mid-teens in 2025. These elements at least partially offset LDOS' reliance on the U.S. government for most of its revenue and earnings.

Final Thoughts & Recommendation

LDOS' 1.2% dividend yield, 8.0% annual non-GAAP diluted EPS growth prospects, and 3.1% annual valuation multiple upside could generate 12.2% annual total returns over the next five years. That's sufficient for us to reiterate our buy rating.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	5,063	4,712	7,043	10,170	10,194	11,094	12,297	13,737	14,396	15,438
Gross Profit	671	566	940	1,432	1,504	1,548	1,737	2,014	2,084	2,244
Gross Margin	13.3%	12.0%	13.3%	14.1%	14.8%	14.0%	14.1%	14.7%	14.5%	14.5%
SG&A Exp.	310	201	422	737	729	689	770	851	951	942
D&A Exp.	62	41	122	336	257	234	282	325	333	331
Operating Profit	361	365	518	695	775	859	967	1,163	1,133	1,302
Operating Margin	7.1%	7.7%	7.4%	6.8%	7.6%	7.7%	7.9%	8.5%	7.9%	8.4%
Net Profit	(323)	242	244	366	581	667	628	753	685	199
Net Margin	-6.4%	5.1%	3.5%	3.6%	5.7%	6.0%	5.1%	5.5%	4.8%	1.3%
Free Cash Flow	367	355	420	445	695	871	1,151	929	863	958
Income Tax	47	112	72	29	28	196	152	208	193	195

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,281	3,370	9,132	8,990	8,770	9,367	12,511	13,261	13,071	12,695
Cash & Equivalents	443	656	376	390	327	668	524	727	516	777
Accounts Receivable	655	715	847	771	1,067	1,023	1,270	1,194	1,368	1,416
Inventories	70	70	67			72	276	274	287	310
Goodwill & Int. Ass.	1,244	1,232	6,211	5,830	5,512	5,442	7,529	7,921	7,648	6,779
Total Liabilities	2,283	2,302	5,985	5,607	5,459	5,950	8,640	8,917	8,718	8,437
Accounts Payable	244	306	591	557	547	592	731	692	733	736
Long-Term Debt	1,166	1,081	3,287	3,111	3,124	2,986	4,744	5,076	4,920	4,682
Shareholder's Equity	998	1,068	3,135	3,370	3,308	3,413	3,862	4,291	4,299	4,201
D/E Ratio	1.17	1.01	1.05	0.92	0.94	0.87	1.23	1.18	1.14	1.11

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-8.7%	7.3%	3.9%	4.0%	6.5%	7.4%	5.7%	5.8%	5.2%	1.5%
Return on Equity	-24.9%	23.4%	11.6%	11.2%	17.4%	19.8%	17.2%	18.3%	15.8%	4.6%
ROIC	-12.7%	11.2%	5.7%	5.7%	9.0%	10.4%	8.4%	8.4%	7.3%	2.2%
Shares Out.	74.0	72.0	150.0	151.0	146.0	141.0	142.3	140.0	137.0	135.8
Revenue/Share	68.42	63.68	67.72	66.04	66.63	76.51	85.40	96.06	104.32	111.87
FCF/Share	4.96	4.80	4.04	2.89	4.54	6.01	7.99	6.50	6.25	6.94

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.