

*News Release***Mercury Systems Reports Second Quarter Fiscal 2020 Results***Second Quarter Highlights Include:*

*Record revenue increased 22% over prior year with 12% organic growth  
Net income, adjusted EBITDA, EPS and adjusted EPS exceeded guidance  
Bookings exceeded \$200 million for the third consecutive quarter  
Record backlog increased 39% over prior year*

**ANDOVER, Mass. January 28, 2020** Mercury Systems, Inc. (NASDAQ: MRCY, www.mrcy.com), reported operating results for the second quarter of fiscal 2020, ended December 27, 2019.

**Management Comments**

“The business performed extremely well in the second quarter of fiscal year 2020 evidencing the strength of our strategy and ability to execute,” said Mark Aslett, Mercury’s President and Chief Executive Officer. “We achieved record levels of revenue, profitability and operating cash flow. Bookings of \$210 million yielded a book-to-bill of 1.08 producing another record backlog. Based on our strong performance in the first half of the fiscal year as well as the continued momentum in the business and overall industry, we are once again raising our guidance for the full fiscal year,” said Aslett.

**Second Quarter Fiscal 2020 Results**

Total Company second quarter fiscal 2020 revenues were \$193.9 million, compared to \$159.1 million in the second quarter of fiscal 2019. The second quarter fiscal 2020 results included an aggregate of approximately \$16.3 million of revenue attributable to the GECO Avionics, The Athena Group, Syntonic Microwave and American Panel Corporation acquired businesses.

Total Company GAAP net income for the second quarter of fiscal 2020 was \$15.7 million, or \$0.29 per share, compared to \$12.4 million, or \$0.26 per share, for the second quarter of fiscal 2019. Adjusted earnings per share (“adjusted EPS”) was \$0.54 per share for the second quarter of fiscal 2020, compared to \$0.47 per share in the second quarter of fiscal 2019.

Second quarter fiscal 2020 adjusted EBITDA for the total Company was \$42.8 million, compared to \$37.0 million for the second quarter of fiscal 2019.

Cash flows from operating activities in the second quarter of fiscal 2020 were \$32.1 million, compared to \$25.3 million in the second quarter of fiscal 2019. Free cash flow, defined as cash flows from operating activities less capital expenditures for property and equipment, was \$20.7 million in the second quarter of fiscal 2020, compared to \$18.2 million in the second quarter of fiscal 2019.

All per share information is presented on a fully diluted basis.

### **Bookings and Backlog**

Total bookings for the second quarter of fiscal 2020 were \$209.6 million, yielding a book-to-bill ratio of 1.08 for the quarter.

Mercury's total backlog at December 27, 2019 was \$727.5 million, a \$205.5 million increase from a year ago. Of the December 27, 2019 total backlog, \$521.8 million represents orders expected to be shipped within the next 12 months.

### **Business Outlook**

*This section presents our current expectations and estimates, given current visibility, on our business outlook for the current fiscal quarter and fiscal year 2020. It is possible that actual performance will differ materially from the estimates given, either on the upside or on the downside. Investors should consider all of the risks with respect to these estimates, including those listed in the Safe Harbor Statement below and in the Second Quarter Fiscal 2020 Earnings Presentation and in our periodic filings with the U.S. Securities and Exchange Commission, and make themselves aware of how these risks may impact our actual performance. Effective as of July 1, 2019, the Company's fiscal year has changed to the 52-week or 53-week period ending on the Friday closest to the last day in June. All references in this press release to the third quarter of fiscal 2020 are to the quarter ending March 27, 2020 and to fiscal 2020 are to the fiscal year ending July 3, 2020.*

For the third quarter of fiscal 2020, revenues are forecasted to be in the range of \$190.0 million to \$200.0 million. GAAP net income for the third quarter is expected to be approximately \$15.9 million to \$17.4 million, or \$0.29 to \$0.32 per share, assuming no incremental restructuring, acquisition, other non-operating adjustments or non-recurring financing related expenses in the period, an effective tax rate, excluding discrete items, of approximately 26% and approximately 55.1 million weighted average diluted shares outstanding. Adjusted EBITDA for the third quarter of fiscal 2020 is expected to be in the range of \$42.0 million to \$44.0 million. Adjusted EPS is expected to be in the range of \$0.50 to \$0.53 per share.

For the full fiscal year 2020, we currently expect revenue of \$780.0 million to \$795.0 million, and GAAP net income of \$71.7 million to \$74.5 million, or \$1.30 to \$1.35 per share, assuming no incremental restructuring, acquisition, other non-operating adjustments or non-recurring financing related expenses in the period, an effective tax rate of approximately 26% for the remainder of the year, excluding discrete items, and approximately 55.1 million weighted average diluted shares outstanding. Adjusted EBITDA for the full fiscal year is expected to be approximately \$172.5 million to \$176.0 million, and adjusted EPS for the full fiscal year is expected to be approximately \$2.09 to \$2.13 per share.

### **Recent Highlights**

December – Mercury announced that four of its products were recognized by the judges of the annual Military & Aerospace Electronics Innovators Awards program. The judging panel consisted of a panel of senior third-party expert professionals.

November – Mercury announced that its high-performance signal processing and RF solutions were selected by Raytheon for its advanced Lower Tier Air and Missile Defense Sensor (“LTAMDS”) program, the Army’s next-generation missile defense radar. LTAMDS is a new radar that will ultimately replace the U.S. Army’s current Patriot radars, and will operate on the Army’s Integrated Air and Missile Defense network.

November – Mercury announced the EnterpriseSeries™ RES AI rugged rackmount server line, bringing High Performance Computing (“HPC”) capabilities to aerospace, defense and other mission-critical applications at the edge. Mercury’s rugged HPC servers leverage the latest data center processing and co-processing technologies to accelerate the most demanding workloads.

October – Mercury announced the new DCM6112 digitization transceiver, optimized to provide the best balance of low-latency and wide bandwidth for critical electronic warfare (“EW”) applications. Using the latest commercial semiconductor technology, Mercury’s new transceiver enables rapid deployment of directionally-accurate EW systems needed to counter the latest electromagnetic threats.

October – Mercury announced a \$15 million capital investment to expand its trusted custom microelectronics business, bringing cutting-edge commercial silicon technology to the Department of Defense (“DoD”). The technology is applicable to all defense platforms and programs and offers fast, affordable and secure and trusted chip-scale open system architecture (“OSA”) devices to accelerate future modernization efforts.

## **Conference Call Information**

Mercury will host a conference call and simultaneous webcast on Tuesday, January 28, 2020, at 5:00 p.m. ET to discuss the second quarter fiscal 2020 results and review its financial and business outlook going forward.

To join the conference call, dial (877) 303-6977 in the USA and Canada, or (760) 298-5079 in all other countries. Please call five to ten minutes prior to the scheduled start time. The live audio webcast as well as the Company's earnings presentation that will be discussed on the call can be accessed from the 'Events and Presentations' page of Mercury's website at [www.mrcy.com/investor](http://www.mrcy.com/investor).

A replay of the webcast will be available two hours after the call and archived on the same web page for six months.

## **Use of Non-GAAP Financial Measures**

In addition to reporting financial results in accordance with generally accepted accounting principles, or GAAP, the Company provides adjusted EBITDA, adjusted income, adjusted earnings per share (“adjusted EPS”), free cash flow, organic revenue and acquired revenue, which are non-GAAP financial measures. Adjusted EBITDA, adjusted income, and adjusted EPS exclude certain non-cash and other specified charges. The Company believes these non-GAAP financial measures are useful to help investors understand its past financial performance and prospects for the future. However, these non-GAAP measures should not be considered in isolation or as a substitute for financial information provided in accordance with GAAP. Management believes these non-GAAP measures assist in providing a more complete understanding of the Company’s underlying operational results and trends, and management uses these measures along with the corresponding GAAP financial measures to manage the Company’s business, to evaluate its performance compared to prior periods and the marketplace, and to establish operational goals. A reconciliation of GAAP to non-GAAP financial results discussed in this press release is contained in the attached exhibits.

## **About Mercury Systems – Innovation That Matters®**

Mercury Systems is the leader in making trusted, secure mission-critical technologies profoundly more accessible to the aerospace and defense industries. Optimized for customer and mission success, our innovative solutions power more than 300 critical aerospace and defense programs. Headquartered in Andover, Mass., and with manufacturing and design facilities around the world, Mercury specializes in engineering, adapting and manufacturing new solutions purpose-built to meet

the industry's current and emerging high-tech needs. Our employees are committed to Innovation that Matters®. To learn more, visit [www.mrcy.com](http://www.mrcy.com), or follow us on [Twitter](#).

Investors and others should note that we announce material financial information using our website ([www.mrcy.com](http://www.mrcy.com)), SEC filings, press releases, public conference calls, webcasts, and social media, including Twitter ([twitter.com/mrcy](https://twitter.com/mrcy)) and LinkedIn ([www.linkedin.com/company/mercury-systems](http://www.linkedin.com/company/mercury-systems)). Therefore, we encourage investors and others interested in Mercury to review the information we post on the social media and other communication channels listed on our website.

## Forward-Looking Safe Harbor Statement

This press release contains certain forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995, including those relating to the acquisitions described herein and to fiscal 2020 business performance and beyond and the Company's plans for growth and improvement in profitability and cash flow. You can identify these statements by the use of the words "may," "will," "could," "should," "would," "plans," "expects," "anticipates," "continue," "estimate," "project," "intend," "likely," "forecast," "probable," "potential," and similar expressions. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. Such risks and uncertainties include, but are not limited to, continued funding of defense programs, the timing and amounts of such funding, general economic and business conditions, including unforeseen weakness in the Company's markets, effects of any U.S. Federal government shutdown or extended continuing resolution, effects of continued geopolitical unrest and regional conflicts, competition, changes in technology and methods of marketing, delays in completing engineering and manufacturing programs, changes in customer order patterns, changes in product mix, continued success in technological advances and delivering technological innovations, changes in, or in the U.S. Government's interpretation of, federal export control or procurement rules and regulations, market acceptance of the Company's products, shortages in components, production delays or unanticipated expenses due to performance quality issues with outsourced components, inability to fully realize the expected benefits from acquisitions and restructurings, or delays in realizing such benefits, challenges in integrating acquired businesses and achieving anticipated synergies, increases in interest rates, changes to cyber-security regulations and requirements, changes in tax rates or tax regulations, changes to interest rate swaps or other cash flow hedging arrangements, changes to generally accepted accounting principles, difficulties in retaining key employees and customers, unanticipated costs under fixed-price service and system integration engagements, and various other factors beyond our control. These risks and uncertainties also include such additional risk factors as are discussed in the Company's filings with the U.S. Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended June 30, 2019. The Company cautions readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made.

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Contact:

Michael D. Ruppert, CFO  
Mercury Systems, Inc.  
978-967-1990

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**MERCURY SYSTEMS, INC.****UNAUDITED CONSOLIDATED BALANCE SHEETS**

(In thousands)

|  | December 27,<br>2019 | June 30,<br>2019 |
|--|----------------------|------------------|
| <b>Assets</b>  |                      |                  |
| <b>Current assets:</b>                               |                      |                  |
| Cash and cash equivalents                            | \$ 182,037           | \$ 257,932       |
| Accounts receivable, net                             | 132,072              | 118,832          |
| Unbilled receivables and costs in excess of billings | 61,302               | 57,387           |
| Inventory  | 153,642              | 137,112          |
| Prepaid income taxes                                 | 5,454                | 90               |
| Prepaid expenses and other current assets            | 10,602               | 10,819           |
| Total current assets                                 | 545,109              | 582,172          |
| Property and equipment, net                          | 72,696               | 60,001           |
| Goodwill   | 614,648              | 562,146          |
| Intangible assets, net                               | 224,507              | 206,124          |
| Operating lease right-of-use assets <sup>(1)</sup>   | 49,826               | —                |
| Other non-current assets                             | 5,834                | 6,534            |
| Total assets   | \$ 1,512,620         | \$ 1,416,977     |
| <b>Liabilities and Shareholders' Equity</b>          |                      |                  |
| <b>Current liabilities:</b>                          |                      |                  |
| Accounts payable                                     | \$ 35,988            | \$ 39,030        |
| Accrued expenses <sup>(1)</sup>                      | 23,906               | 18,897           |
| Accrued compensation                                 | 31,372               | 28,814           |
| Deferred revenues and customer advances              | 16,618               | 11,291           |
| Total current liabilities                            | 107,884              | 98,032           |
| Deferred income taxes                                | 18,406               | 17,814           |
| Income taxes payable                                 | 1,397                | 1,273            |
| Operating lease liabilities <sup>(1)</sup>           | 55,257               | —                |
| Other non-current liabilities                        | 12,620               | 15,119           |
| Total liabilities                                    | 195,564              | 132,238          |
| <b>Shareholders' equity:</b>                         |                      |                  |
| Common stock   | 545                  | 542              |
| Additional paid-in capital                           | 1,056,238            | 1,058,745        |
| Retained earnings                                    | 261,666              | 226,743          |
| Accumulated other comprehensive loss                 | (1,393)              | (1,291)          |
| Total shareholders' equity                           | 1,317,056            | 1,284,739        |
| Total liabilities and shareholders' equity           | \$ 1,512,620         | \$ 1,416,977     |

(1) Effective July 1, 2019, the Company has adopted ASC 842 - *Leases* using the optional transition method. Prior periods were not changed. As of December 27, 2019, the Company has Right-of-use assets of \$49.8 million and total Lease liabilities of \$62.6 million, of which \$7.3 million is included in Accrued expenses.

**MERCURY SYSTEMS, INC.****UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

|   | Second Quarters Ended |                      | Six Months Ended     |                      |
|---|-----------------------|----------------------|----------------------|----------------------|
|   | December 27,<br>2019  | December 31,<br>2018 | December 27,<br>2019 | December 31,<br>2018 |
| Net revenues  | \$ 193,913            | \$ 159,089           | \$ 371,217           | \$ 303,145           |
| Cost of revenues <sup>(1)</sup>   | 105,407               | 88,202               | 204,311              | 170,675              |
| Gross margin  | 88,506                | 70,887               | 166,906              | 132,470              |
| <b>Operating expenses:</b>  |                       |                      |                      |                      |
| Selling, general and administrative <sup>(1)</sup>                          | 32,804                | 27,819               | 62,774               | 52,560               |
| Research and development <sup>(1)</sup>                                     | 24,660                | 16,192               | 46,530               | 31,140               |
| Amortization of intangible assets   | 7,992                 | 6,939                | 15,011               | 14,120               |
| Restructuring and other charges   | 1,101                 | 23                   | 1,749                | 527                  |
| Acquisition costs and other related expenses                                | 1,124                 | 53                   | 2,541                | 452                  |
| Total operating expenses  | 67,681                | 51,026               | 128,605              | 98,799               |
| Income from operations  | 20,825                | 19,861               | 38,301               | 33,671               |
| Interest income   | 312                   | 71                   | 1,499                | 137                  |
| Interest expense  | —                     | (2,196)              | —                    | (4,455)              |
| Other expense, net  | (351)                 | (870)                | (1,785)              | (1,879)              |
| Income before income taxes  | 20,786                | 16,866               | 38,015               | 27,474               |
| Tax provision   | 5,110                 | 4,483                | 3,092                | 7,612                |
| Net income  | \$ 15,676             | \$ 12,383            | \$ 34,923            | \$ 19,862            |
| Basic net earnings per share  | \$ 0.29               | \$ 0.26              | \$ 0.64              | \$ 0.42              |
| Diluted net earnings per share  | \$ 0.29               | \$ 0.26              | \$ 0.63              | \$ 0.42              |
| <b>Weighted-average shares outstanding:</b>                                 |                       |                      |                      |                      |
| Basic   | 54,548                | 47,189               | 54,468               | 47,118               |
| Diluted   | 55,001                | 47,705               | 55,037               | 47,696               |
| <b>(1) Includes stock-based compensation expense, allocated as follows:</b> |                       |                      |                      |                      |
| Cost of revenues  | \$ 200                | \$ 159               | \$ 341               | \$ 411               |
| Selling, general and administrative   | \$ 5,384              | \$ 4,542             | \$ 10,027            | \$ 8,426             |
| Research and development  | \$ 947                | \$ 583               | \$ 1,822             | \$ 1,126             |



**MERCURY SYSTEMS, INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

|  | Second Quarters Ended |                      | Six Months Ended     |                      |
|--|-----------------------|----------------------|----------------------|----------------------|
|  | December 27,<br>2019  | December 31,<br>2018 | December 27,<br>2019 | December 31,<br>2018 |
| <b>Cash flows from operating activities:</b>                 |                       |                      |                      |                      |
| Net income   | \$ 15,676             | \$ 12,383            | \$ 34,923            | \$ 19,862            |
| Depreciation and amortization                                | 12,547                | 11,708               | 23,928               | 23,254               |
| Other non-cash items, net                                    | 7,593                 | 4,644                | 14,038               | 10,164               |
| Changes in operating assets and liabilities                  | (3,750)               | (3,434)              | (16,513)             | (7,950)              |
| <b>Net cash provided by operating activities</b>             | <b>32,066</b>         | <b>25,301</b>        | <b>56,376</b>        | <b>45,330</b>        |
| <b>Cash flows from investing activities:</b>                 |                       |                      |                      |                      |
| Acquisition of businesses, net of cash acquired              | —                     | 1,244                | (96,502)             | (45,029)             |
| Purchases of property and equipment                          | (11,324)              | (7,075)              | (20,919)             | (10,802)             |
| <b>Net cash used in investing activities</b>                 | <b>(11,324)</b>       | <b>(5,831)</b>       | <b>(117,421)</b>     | <b>(55,831)</b>      |
| <b>Cash flows from financing activities:</b>                 |                       |                      |                      |                      |
| Proceeds from employee stock plans                           | —                     | 1,677                | 3                    | 1,677                |
| Borrowings under credit facilities                           | —                     | —                    | —                    | 45,000               |
| Payments of deferred financing and offering costs            | —                     | —                    | —                    | (1,851)              |
| Payments for retirement of common stock                      | (375)                 | (120)                | (14,937)             | (6,932)              |
| <b>Net cash (used in) provided by financing activities</b>   | <b>(375)</b>          | <b>1,557</b>         | <b>(14,934)</b>      | <b>37,894</b>        |
| Effect of exchange rate changes on cash and cash equivalents | 371                   | 7                    | 84                   | (11)                 |
| <b>Net increase (decrease) in cash and cash equivalents</b>  | <b>20,738</b>         | <b>21,034</b>        | <b>(75,895)</b>      | <b>27,382</b>        |
| Cash and cash equivalents at beginning of period             | 161,299               | 72,869               | 257,932              | 66,521               |
| <b>Cash and cash equivalents at end of period</b>            | <b>\$ 182,037</b>     | <b>\$ 93,903</b>     | <b>\$ 182,037</b>    | <b>\$ 93,903</b>     |

**UNAUDITED SUPPLEMENTAL INFORMATION RECONCILIATION OF GAAP TO NON-GAAP MEASURES**

(In thousands)

Adjusted EBITDA, a non-GAAP measure for reporting financial performance, excludes the impact of certain items and, therefore, has not been calculated in accordance with GAAP. Management believes that exclusion of these items assists in providing a more complete understanding of the Company's underlying results and trends, and management uses these measures along with the corresponding GAAP financial measures to manage the Company's business, to evaluate its performance compared to prior periods and the marketplace, and to establish operational goals. The adjustments to calculate this non-GAAP financial measure, and the basis for such adjustments, are outlined below:

*Other non-operating adjustments.* The Company records other non-operating adjustments such as gains or losses on foreign currency remeasurement and fixed asset sales or disposals among other adjustments. These adjustments may vary from period to period without any direct correlation to underlying operating performance.

*Interest income and expense.* The Company receives interest income on investments and incurs interest expense on loans, capital leases and other financing arrangements. These amounts may vary from period to period due to changes in cash and debt balances and interest rates driven by general market conditions or other circumstances outside of the normal course of Mercury's operations.

*Income taxes.* The Company's GAAP tax expense can fluctuate materially from period to period due to tax adjustments that are not directly related to underlying operating performance or to the current period of operations.

*Depreciation.* The Company incurs depreciation expense related to capital assets purchased to support the ongoing operations of the business. These assets are recorded at cost or fair value and are depreciated using the straight-line method over the useful life of the asset. Purchases of such assets may vary significantly from period to period and without any direct correlation to underlying operating performance.

*Amortization of intangible assets.* The Company incurs amortization of intangibles related to various acquisitions it has made and license agreements. These intangible assets are valued at the time of acquisition, are amortized over a period of several years after acquisition and generally cannot be changed or influenced by management after acquisition.

*Restructuring and other charges.* The Company incurs restructuring and other charges in connection with management's decisions to undertake certain actions to realign operating expenses through workforce reductions and the closure of certain Company facilities, businesses and product lines. The Company's adjustments reflected in restructuring and other charges are typically related to acquisitions and organizational redesign programs initiated as part of discrete post-acquisition integration activities. Management believes these items are non-routine and may not be indicative of ongoing operating results.

*Impairment of long-lived assets.* The Company incurs impairment charges of long-lived assets based on events that may or may not be within the control of management. Management believes these items are outside the normal operations of the Company's business and are not indicative of ongoing operating results.

*Acquisition and financing costs.* The Company incurs transaction costs related to acquisition and potential acquisition opportunities, such as legal, accounting, and other third party advisory fees. Although we may incur such third-party costs and other related charges and adjustments, it is not indicative that any transaction will be consummated. Additionally, the Company incurs unused revolver and bank fees associated with maintaining its credit facility. The Company also incurs non-cash financing expenses associated with obtaining its credit facility. Management believes these items are outside the normal operations of the Company's business and are not indicative of ongoing operating results.

*Fair value adjustments from purchase accounting.* As a result of applying purchase accounting rules to acquired assets and liabilities, certain fair value adjustments are recorded in the opening balance sheet of acquired companies. These adjustments are then reflected in the Company's income statements in periods subsequent to the acquisition. In addition, the impact of any changes to originally recorded contingent consideration amounts are reflected in the income statements in the period of the change. Management believes these items are outside the normal operations of the Company and are not indicative of ongoing operating results.

*Litigation and settlement income and expense.* The Company periodically receives income and incurs expenses related to pending claims and litigation and associated legal fees and potential case settlements and/or judgments. Although we may incur such costs and other related charges and adjustments, it is not indicative of any particular outcome until the matter is fully resolved. Management believes these items are outside the normal operations of the Company's business and are not indicative of ongoing operating results. The Company periodically receives warranty claims from customers and makes warranty claims towards its vendors and supply chain. Management believes the expenses and gains associated with these recurring warranty items are within the normal operations and operating cycle of the Company's business. Therefore, management deems no adjustments are necessary unless under extraordinary circumstances.

*Stock-based and other non-cash compensation expense.* The Company incurs expense related to stock-based compensation included in its GAAP presentation of cost of revenues, selling, general and administrative expense and research and development expense. The Company also incurs non-cash based compensation in the form of pension related expenses. Although stock-based and other non-cash compensation is an expense of the Company and viewed as a form of compensation, these expenses vary in amount from period to period, and are affected by market forces that are difficult to predict and are not within the control of management, such as the market price and volatility of the Company's shares, risk-free interest rates and the expected term and forfeiture rates of the awards, as well as pension actuarial assumptions. Management believes that exclusion of these expenses allows comparisons of operating results to those of other companies, both public, private or foreign, that disclose non-GAAP financial measures that exclude stock-based compensation and other non-cash compensation.

Mercury uses adjusted EBITDA as an important indicator of the operating performance of its business. Management excludes the above-described items from its internal forecasts and models when establishing internal operating budgets, supplementing the financial results and forecasts reported to the Company's board of directors, determining the portion of bonus compensation for executive officers and other key employees based on operating performance, evaluating short-term and long-term operating trends in the Company's operations, and allocating resources to various initiatives and operational requirements. The Company believes that adjusted EBITDA permits a comparative assessment of its operating performance, relative to its performance based on its GAAP results, while isolating the effects of charges that may vary from period to period without any correlation to underlying operating performance. The Company believes that these non-GAAP financial adjustments are useful to investors because they allow investors to evaluate the effectiveness of the methodology and information used by management in its financial and operational decision-making. The Company believes that trends in its adjusted EBITDA are valuable indicators of its operating performance.

Adjusted EBITDA is a non-GAAP financial measure and should not be considered in isolation or as a substitute for financial information provided in accordance with GAAP. This non-GAAP financial measure may not be computed in the same manner as similarly titled measures used by other companies. The Company expects to continue to incur expenses similar to the adjusted EBITDA financial adjustments described above, and investors should not infer from the Company's presentation of this non-GAAP financial measure that these costs are unusual, infrequent or non-recurring.

The following table reconciles the most directly comparable GAAP financial measure to the non-GAAP financial measure.

|   | Second Quarters Ended |                      | Six Months Ended     |                      |
|---|-----------------------|----------------------|----------------------|----------------------|
|   | December 27,<br>2019  | December 31,<br>2018 | December 27,<br>2019 | December 31,<br>2018 |
| Net income  | \$ 15,676             | \$ 12,383            | \$ 34,923            | \$ 19,862            |
| Other non-operating adjustments, net                | (549)                 | (18)                 | (248)                | 347                  |
| Interest (income) expense, net                      | (312)                 | 2,125                | (1,499)              | 4,318                |
| Income tax provision                                | 5,110                 | 4,483                | 3,092                | 7,612                |
| Depreciation  | 4,555                 | 4,769                | 8,917                | 9,134                |
| Amortization of intangible assets                   | 7,992                 | 6,939                | 15,011               | 14,120               |
| Restructuring and other charges                     | 1,101                 | 23                   | 1,749                | 527                  |
| Impairment of long-lived assets                     | —                     | —                    | —                    | —                    |
| Acquisition and financing costs                     | 1,882                 | 762                  | 4,118                | 1,805                |
| Fair value adjustments from purchase accounting     | 600                   | —                    | 600                  | 620                  |
| Litigation and settlement expense, net              | 142                   | 179                  | 455                  | 179                  |
| Stock-based and other non-cash compensation expense | 6,639                 | 5,338                | 12,415               | 10,081               |
| Adjusted EBITDA                                     | <u>\$ 42,836</u>      | <u>\$ 36,983</u>     | <u>\$ 79,533</u>     | <u>\$ 68,605</u>     |

Free cash flow, a non-GAAP measure for reporting cash flow, is defined as cash provided by operating activities less capital expenditures for property and equipment, which includes capitalized software development costs, and, therefore, has not been calculated in accordance with GAAP. Management believes free cash flow provides investors with an important perspective on cash available for investment and acquisitions after making capital investments required to support ongoing business operations and long-term value creation. The Company believes that trends in its free cash flow are valuable indicators of its operating performance and liquidity.

Free cash flow is a non-GAAP financial measure and should not be considered in isolation or as a substitute for financial information provided in accordance with GAAP. This non-GAAP financial measure may not be computed in the same manner as similarly titled measures used by other companies. The Company expects to continue to incur expenditures similar to the free cash flow financial adjustment described above, and investors should not infer from the Company's presentation of this non-GAAP financial measure that these expenditures reflect all of the Company's obligations which require cash.

The following table reconciles the most directly comparable GAAP financial measure to the non-GAAP financial measure.

|                                       | Second Quarters Ended |                      | Six Months Ended     |                      |
|---------------------------------------|-----------------------|----------------------|----------------------|----------------------|
|                                       | December 27,<br>2019  | December 31,<br>2018 | December 27,<br>2019 | December 31,<br>2018 |
| Cash provided by operating activities | \$ 32,066             | \$ 25,301            | \$ 56,376            | \$ 45,330            |
| Purchases of property and equipment   | (11,324)              | (7,075)              | (20,919)             | (10,802)             |
| Free cash flow                        | \$ 20,742             | \$ 18,226            | \$ 35,457            | \$ 34,528            |

**UNAUDITED SUPPLEMENTAL INFORMATION RECONCILIATION OF GAAP TO NON-GAAP MEASURES**

(In thousands, except per share data)

Adjusted income and adjusted earnings per share (“adjusted EPS”) are non-GAAP measures for reporting financial performance, exclude the impact of certain items and, therefore, have not been calculated in accordance with GAAP. Management believes that exclusion of these items assists in providing a more complete understanding of the Company’s underlying results and trends and allows for comparability with our peer company index and industry. These non-GAAP financial measures may not be computed in the same manner as similarly titled measures used by other companies. The Company uses these measures along with the corresponding GAAP financial measures to manage the Company’s business and to evaluate its performance compared to prior periods and the marketplace. The Company defines adjusted income as income before amortization of intangible assets, restructuring and other charges, impairment of long-lived assets, acquisition and financing costs, fair value adjustments from purchase accounting, litigation and settlement income and expense, and stock-based and other non-cash compensation expense. The impact to income taxes includes the impact to the effective tax rate, current tax provision and deferred tax provision<sup>(1)</sup>. Adjusted EPS expresses adjusted income on a per share basis using weighted average diluted shares outstanding.

The following tables reconcile the most directly comparable GAAP financial measures to the non-GAAP financial measures.

|   | Second Quarters Ended |                |                   |                |
|---|-----------------------|----------------|-------------------|----------------|
|   | December 27, 2019     |                | December 31, 2018 |                |
| Net income and earnings per share                   | \$ 15,676             | \$ 0.29        | \$ 12,383         | \$ 0.26        |
| Amortization of intangible assets                   | 7,992                 |                | 6,939             |                |
| Restructuring and other charges                     | 1,101                 |                | 23                |                |
| Impairment of long-lived assets                     | —                     |                | —                 |                |
| Acquisition and financing costs                     | 1,882                 |                | 762               |                |
| Fair value adjustments from purchase accounting     | 600                   |                | —                 |                |
| Litigation and settlement expense, net              | 142                   |                | 179               |                |
| Stock-based and other non-cash compensation expense | 6,639                 |                | 5,338             |                |
| Impact to income taxes <sup>(1)</sup>               | (4,504)               |                | (3,009)           |                |
| Adjusted income and adjusted earnings per share     | <u>\$ 29,528</u>      | <u>\$ 0.54</u> | <u>\$ 22,615</u>  | <u>\$ 0.47</u> |
| Diluted weighted-average shares outstanding         |                       | <u>55,001</u>  |                   | <u>47,705</u>  |

(1) Impact to income taxes is calculated by recasting income before income taxes to include the add-backs involved in determining adjusted income and recalculating the income tax provision using this adjusted income from operations before income taxes. The recalculation also adjusts for any discrete tax expense or benefit related to the add-backs.

|   | Six Months Ended  |                |                   |                |
|---|-------------------|----------------|-------------------|----------------|
|   | December 27, 2019 |                | December 31, 2018 |                |
| Net income and earnings per share                   | \$ 34,923         | \$ 0.63        | \$ 19,862         | \$ 0.42        |
| Amortization of intangible assets                   | 15,011            |                | 14,120            |                |
| Restructuring and other charges                     | 1,749             |                | 527               |                |
| Impairment of long-lived assets                     | —                 |                | —                 |                |
| Acquisition and financing costs                     | 4,118             |                | 1,805             |                |
| Fair value adjustments from purchase accounting     | 600               |                | 620               |                |
| Litigation and settlement expense, net              | 455               |                | 179               |                |
| Stock-based and other non-cash compensation expense | 12,415            |                | 10,081            |                |
| Impact to income taxes <sup>(1)</sup>               | (15,353)          |                | (6,082)           |                |
| Adjusted income and adjusted earnings per share     | <u>\$ 53,918</u>  | <u>\$ 0.98</u> | <u>\$ 41,112</u>  | <u>\$ 0.86</u> |
| Diluted weighted-average shares outstanding         |                   | <u>55,037</u>  |                   | <u>47,696</u>  |

(1) Impact to income taxes is calculated by recasting income before income taxes to include the add-backs involved in determining adjusted income and recalculating the income tax provision using this adjusted income from operations before income taxes. The recalculation also adjusts for any discrete tax expense or benefit related to the add-backs.

**UNAUDITED SUPPLEMENTAL INFORMATION RECONCILIATION OF GAAP TO NON-GAAP MEASURES**

(In thousands)

Organic revenue and acquired revenue are non-GAAP measures for reporting financial performance of its business. Management believes this information provides investors with insight as to the Company's ongoing business performance. Organic revenue represents total company revenue excluding net revenue from acquired companies for the first four full quarters since the entities' acquisition date (which excludes intercompany transactions). Acquired revenue represents revenue from acquired companies for the first four full quarters since the entities' acquisition date (which excludes intercompany transactions). After the completion of four full fiscal quarters, acquired revenue is treated as organic for current and comparable historical periods.

The following table reconciles the most directly comparable GAAP financial measure to the non-GAAP financial measure.

|                  | Second Quarters Ended |                      | Six Months Ended     |                      |
|------------------|-----------------------|----------------------|----------------------|----------------------|
|                  | December 27,<br>2019  | December 31,<br>2018 | December 27,<br>2019 | December 31,<br>2018 |
| Organic revenue  | \$ 177,583            | \$ 159,089           | \$ 335,637           | \$ 294,151           |
| Acquired revenue | 16,330                | —                    | 35,580               | 8,994                |
| Net revenues     | \$ 193,913            | \$ 159,089           | \$ 371,217           | \$ 303,145           |



**MERCURY SYSTEMS, INC.****RECONCILIATION OF FORWARD-LOOKING GUIDANCE RANGE**

Quarter Ending March 27, 2020

Fiscal Year Ending July 3, 2020

(In thousands)

The Company defines adjusted EBITDA as income before other non-operating adjustments, interest income and expense, income taxes, depreciation, amortization of intangible assets, restructuring and other charges, impairment of long-lived assets, acquisition and financing costs, fair value adjustments from purchase accounting, litigation and settlement income and expense, and stock-based and other non-cash compensation expense.

The following table reconciles the most directly comparable GAAP financial measures to the non-GAAP financial measures.

|   | Third Quarter Ending<br>March 27, 2020 <sup>(1)</sup> |           | Fiscal Year Ending<br>July 3, 2020 <sup>(1)</sup> |            |
|---|---|-----------|---|------------|
|   | Range   |           |   |            |
|   | Low   | High      | Low   | High       |
| GAAP expectation -- Net income                      | \$ 15,900   | \$ 17,400 | \$ 71,700   | \$ 74,500  |
| Adjust for:   |   |           |   |            |
| Other non-operating adjustments, net                | —   | —         | (200)   | (200)      |
| Interest income, net                                | (500)   | (500)     | (2,500)   | (2,500)    |
| Income tax provision                                | 5,600   | 6,100     | 16,800  | 17,500     |
| Depreciation  | 5,100   | 5,100     | 20,000  | 20,000     |
| Amortization of intangible assets                   | 7,800   | 7,800     | 30,600  | 30,600     |
| Restructuring and other charges                     | —   | —         | 1,700   | 1,700      |
| Impairment of long-lived assets                     | —   | —         | —   | —          |
| Acquisition and financing costs                     | 800   | 800       | 5,700   | 5,700      |
| Fair value adjustments from purchase accounting     | 600   | 600       | 1,800   | 1,800      |
| Litigation and settlement expense, net              | —   | —         | 500   | 500        |
| Stock-based and other non-cash compensation expense | 6,700   | 6,700     | 26,400  | 26,400     |
| Adjusted EBITDA expectation                         | \$ 42,000   | \$ 44,000 | \$ 172,500  | \$ 176,000 |

(1) Rounded amounts used.

**MERCURY SYSTEMS, INC.****RECONCILIATION OF FORWARD-LOOKING GUIDANCE RANGE**

Quarter Ending March 27, 2020

Fiscal Year Ending July 3, 2020

(In thousands, except per share data)

The Company defines adjusted income as income before amortization of intangible assets, restructuring and other charges, impairment of long-lived assets, acquisition and financing costs, fair value adjustments from purchase accounting, litigation and settlement income and expense, and stock-based and other non-cash compensation expense. The impact to income taxes includes the impact to the effective tax rate, current tax provision and deferred tax provision<sup>(2)</sup>. Adjusted EPS expresses adjusted income on a per share basis using weighted average diluted shares outstanding.

The following tables reconcile the most directly comparable GAAP financial measures to the non-GAAP financial measures.

|   | Third Quarter Ending March 27, 2020 <sup>(1)</sup> |                |                  |                |
|---|--|----------------|------------------|----------------|
|   | Range  |                |                  |                |
|   | Low  |                | High             |                |
| GAAP expectation -- Net income and earnings per share       | \$ 15,900  | \$ 0.29        | \$ 17,400        | \$ 0.32        |
| Amortization of intangible assets                           | 7,800  |                | 7,800            |                |
| Restructuring and other charges                             | —  |                | —                |                |
| Impairment of long-lived assets                             | —  |                | —                |                |
| Acquisition and financing costs                             | 800  |                | 800              |                |
| Fair value adjustments from purchase accounting             | 600  |                | 600              |                |
| Litigation and settlement expense (income), net             | —  |                | —                |                |
| Stock-based and other non-cash compensation expense         | 6,700  |                | 6,700            |                |
| Impact to income taxes <sup>(2)</sup>                       | (4,100)  |                | (4,100)          |                |
| Adjusted income and adjusted earnings per share expectation | <u>\$ 27,700</u>                                   | <u>\$ 0.50</u> | <u>\$ 29,200</u> | <u>\$ 0.53</u> |
| Diluted weighted-average shares outstanding expectation     |  | <u>55,100</u>  |                  | <u>55,100</u>  |

(1) Rounded amounts used.

(2) Impact to income taxes is calculated by recasting income before income taxes to include the add-backs involved in determining adjusted income and recalculating the income tax provision using this adjusted income from operations before income taxes. The recalculation also adjusts for any discrete tax expense or benefit related to the add-backs.

|   | Fiscal Year Ending July 3, 2020 <sup>(1)</sup> |                |                   |                |
|---|--|----------------|-------------------|----------------|
|   | Range  |                |                   |                |
|   | Low  |                | High              |                |
| GAAP expectation -- Net income and earnings per share       | \$ 71,700                                      | \$ 1.30        | \$ 74,500         | \$ 1.35        |
| Amortization of intangible assets                           | 30,600   |                | 30,600            |                |
| Restructuring and other charges                             | 1,700  |                | 1,700             |                |
| Impairment of long-lived assets                             | —  |                | —                 |                |
| Acquisition and financing costs                             | 5,700  |                | 5,700             |                |
| Fair value adjustments from purchase accounting             | 1,800  |                | 1,800             |                |
| Litigation and settlement expense, net                      | 500  |                | 500               |                |
| Stock-based and other non-cash compensation expense         | 26,400   |                | 26,400            |                |
| Impact to income taxes <sup>(2)</sup>                       | (23,500)                                       |                | (23,700)          |                |
| Adjusted income and adjusted earnings per share expectation | <u>\$ 114,900</u>                              | <u>\$ 2.09</u> | <u>\$ 117,500</u> | <u>\$ 2.13</u> |
| Diluted weighted-average shares outstanding expectation     |  | <u>55,100</u>  |                   | <u>55,100</u>  |

(1) Rounded amounts used.

(2) Impact to income taxes is calculated by recasting income before income taxes to include the add-backs involved in determining adjusted income and recalculating the income tax provision using this adjusted income from operations before income taxes. The recalculation also adjusts for any discrete tax expense or benefit related to the add-backs.