**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, DC 20549**

# FORM 8-K

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

**Date of report (Date of earliest event reported): February 2, 2021**

# Mercury Systems, Inc.

**(Exact Name of Registrant as Specified in its Charter)**

| **Massachusetts** | **000-23599** | **04-2741391** |
|---|---|---|
| **(State or Other Jurisdiction of Incorporation)** | **(Commission File Number)** | **(IRS Employer Identification No.)** |

| **50 Minuteman Road, Andover, Massachusetts** | **01810** |
|---|---|
| **(Address of Principal Executive Offices)** | **(Zip Code)** |

**Registrant's telephone number, including area code: (978) 256-1300**

**Not Applicable**
**(Former Name or Former Address, if Changed Since Last Report)**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, par value $0.01 | MRCY | Nasdaq Global Select Market |

**Item 2.02. Results of Operations and Financial Condition.**

On February 2, 2021, Mercury Systems, Inc. (the "Company") issued a press release and an earnings presentation regarding its financial results for the second quarter of fiscal 2021 ended January 1, 2021. The Company's press release and earnings presentation are attached as exhibits 99.1 and 99.2 to this Current Report on Form 8-K and incorporated by reference herein.

Information in Item 2.02 of this Current Report on Form 8-K and the exhibits 99.1 and 99.2 attached hereto shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing.

**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 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 more completely understand its past financial performance and prospects for the future. However, the presentation of these non-GAAP financial measures is not meant to be considered in isolation or as a substitute for financial information provided in accordance with GAAP. Management believes these non-GAAP financial 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.

**Item 9.01. Financial Statements and Exhibits.**

**(d) Exhibits.**

| Exhibit No. | Description |
|---|---|
| 99.1 | Press Release, dated February 2, 2021 of Mercury Systems, Inc. |
| 99.2 | Earnings Presentation, dated February 2, 2021 of Mercury Systems, Inc. |

**SIGNATURES**

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

Dated: February 2, 2021

MERCURY SYSTEMS, INC.

By: /s/ Michael D. Ruppert
Michael D. Ruppert
Executive Vice President, Chief Financial Officer,
and Treasurer

**EXHIBIT INDEX**

| Exhibit No. | Description |
|---|---|
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Exhibit 99.1

mercury Innovation That Matters®

**FOR IMMEDIATE RELEASE**

# Mercury Systems Reports Second Quarter Fiscal 2021 Results

**Second Quarter Highlights Include:**
**Revenue increased 9% over prior year with 9% organic growth**
**Bookings of $210 million yield a book-to-bill of 1.0**
**Record backlog of $945 million increased 30% over prior year**
**Completed acquisition of Physical Optics Corporation**

**ANDOVER, Mass. February 2, 2021** Mercury Systems, Inc. (NASDAQ: MRCY, www.mrcy.com), reported operating results for the second quarter of fiscal 2021, ended January 1, 2021.

**Management Comments**

"The solid financial performance in the second quarter is a testament to the continued resilience of our people and business," said Mark Aslett, Mercury's President and Chief Executive Officer. "Revenue exceeded guidance while bookings surpassed $200 million for the seventh consecutive quarter. We completed the acquisition of Physical Optics Corporation which more than doubles our global avionics business and expands our collective footprint in the platform and mission management market. Our progress also reflects Mercury's continued strategic evolution as a technology leader, evidenced by our expanded market and product capabilities, and signified by our recently unveiled brand refresh. Given the acquisition of Physical Optics Corporation, we are substantially raising our FY21 guidance," said Aslett.

**Second Quarter Fiscal 2021 Results**

Total Company second quarter fiscal 2021 revenues were $210.7 million, compared to $193.9 million in the second quarter of fiscal 2020. The second quarter fiscal 2021 results included an aggregate of approximately $0.2 million of revenue attributable to the Physical Optics Corporation acquired business.

Total Company GAAP net income for the second quarter of fiscal 2021 was $12.7 million, or $0.23 per share, compared to $15.7 million, or $0.29 per share, for the second quarter of fiscal 2020. Adjusted earnings per share ("adjusted EPS") was $0.54 per share for the second quarter of fiscal 2021, compared to $0.53 per share in the second quarter of fiscal 2020.

Second quarter fiscal 2021 adjusted EBITDA for the total Company was $45.3 million, compared to $42.8 million for the second quarter of fiscal 2020.

Cash flows from operating activities in the second quarter of fiscal 2021 were $23.9 million, compared to $32.1 million in the second quarter of fiscal 2020. Free cash flow, defined as cash flows from operating activities less capital expenditures for property and equipment, was $10.2 million for the second quarter of fiscal 2021 and $20.7 million for the second quarter of fiscal 2020.

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

**Bookings and Backlog**

Total bookings for the second quarter of fiscal 2021 were $210.1 million, yielding a book-to-bill ratio of 1.00 for the quarter.

Mercury's total backlog at January 1, 2021 was $945.3 million, a $217.8 million increase from a year ago. Of the January 1, 2021 total backlog, $598.0 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 2021. 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 2021 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 2021 are to the quarter ending April 2, 2021 and to full fiscal 2021 are to the 52-week period ending July 2, 2021.*

For the third quarter of fiscal 2021, revenues are forecasted to be in the range of $245.0 million to $255.0 million. GAAP net income for the third quarter is expected to be approximately $15.9 million to $17.8 million, or $0.29 to $0.32 per share, assuming no incremental restructuring, acquisition, other non-operating adjustments, non-recurring financing in the period, an effective tax rate, excluding discrete items, of approximately 26% and approximately 55.7 million weighted average diluted shares outstanding. Adjusted EBITDA for the third quarter of fiscal 2021 is expected to be in the range of $52.0 million to $54.5 million. Adjusted EPS is expected to be in the range of $0.59 to $0.63 per share.

For the full fiscal year 2021, we currently expect revenue of $925.0 million to $945.0 million, and GAAP net income of $69.1 million to $72.8 million, or $1.24 to $1.31 per share, assuming no incremental restructuring, acquisition, other non-operating adjustments, non-recurring financing in the period, an effective tax rate, excluding discrete items, of approximately 26% for the remainder of the year and approximately 55.5 million weighted average diluted shares outstanding. Adjusted EBITDA for the full fiscal year is expected to be approximately $201.0 million to $206.0 million, and adjusted EPS for the full fiscal year is expected to be approximately $2.35 to $2.42 per share.

**Recent Highlights**

December – Mercury announced the completion of its acquisition of Physical Optics Corporation (POC). Pursuant to the terms of the definitive agreement applicable to the acquisition, Mercury acquired POC for a purchase price of $310 million, subject to net working capital and net debt adjustments. The acquisition was funded through a combination of cash on hand and Mercury's existing revolving credit facility.

December – Mercury announced it received a $14 million order from a leading defense prime contractor for digital signal processing modules for deployment in a multi-mode tactical radar application. The infusion of this advanced processing capability delivers earlier threat warnings by equipping the airborne radar with the ability to detect stealthier threats from farther away. The order was booked in the Company's fiscal 2021 first quarter and is expected to be shipped over multiple quarters.

December – Mercury announced a new family of open architecture electromagnetic spectrum (EMS) processing subsystems, enabling customers to develop and deploy electronic warfare and signal intelligence solutions more rapidly and cost-effectively than typical custom solutions.

December – Mercury announced the MissionPak™ SLC ultra-portable secure solid-state drive (SSD) for mission-critical applications requiring reliability, security and ruggedization.

Approximately the same size as a typical commercial USB flash drive, Mercury's latest secure SSD has been precision-engineered to withstand the harshest operating environments while simultaneously protecting sensitive data from cyberattack.

November – Mercury announced it was named one of the Top Places to Work in Massachusetts in The Boston Globe's 13th annual list published online at Globe.com and featured in The Boston Globe Magazine on November 22, 2020. Top Places to Work recognizes the most admired workplaces in the state as voted by employees via an Energage survey that measures opinions about their company's direction, execution, connection, management, work, pay and benefits, and engagement. More than 80,000 employees across 285 Massachusetts companies took part in the survey. Mercury was ranked #12 in the large employer's category.

October – Mercury announced it was named to Fortune magazine's 2020 List of 100 Fastest-Growing Companies. The annual Fortune list ranks public companies with market capitalization of $250 million or more, based on revenue growth rate, EPS growth rate and three-year annualized total return. Mercury achieved a ranking of #50 on the list and was the highest-ranked aerospace and defense company included.

October – Mercury announced it received the "Medium Manufacturer of the Year" award from the Arizona Manufacturers Council (AMC) during the 2020 Arizona Manufacturing Summit and awards ceremony held virtually on Friday, Oct. 23, 2020. Mercury's Phoenix, Ariz., manufacturing facility received the award for its accomplishments in championing innovation, excellence, sustainability and leadership, and serving as a role model in the manufacturing sector.

October – Mercury announced that Chief Technology Officer Dr. William Conley was selected as a member of the Board of Advisors for Hudson Institute's Center for Defense Concepts and Technology, a leading global authority on international security issues based in Washington, D.C.

**Conference Call Information**

Mercury will host a conference call and simultaneous webcast at 5:00 p.m. ET on Tuesday, February 2, 2021, to discuss the second quarter fiscal 2021 results and review its financial and business outlook going forward.

To attend the live listen-only webcast, participants should register online at ir.mrcy.com/events-presentations. A replay of the webcast will be available two hours after the call and archived on the same web page for six months. Participants can alternately join via conference call, by pre-registering online at this link, or by dialing (888) 869-1189.

**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, Inc. (the “Company” or “Mercury”) is a leading technology company serving the aerospace and defense industry, positioned at the intersection of high-tech and defense. Headquartered in Andover, Massachusetts, the Company delivers solutions that power a broad range of aerospace and defense programs, optimized for mission success in some of the most challenging and demanding environments. The Company envisions, creates and delivers innovative technology solutions purpose-built to meet its customers’ most-pressing high-tech needs, including those specific to the defense community. To learn more, visit 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), SEC filings, press releases, public conference calls, webcasts, and social media, including Twitter (twitter.com/mrcy and twitter.com/mrcy_CEO) and LinkedIn (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 2021 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 epidemics and pandemics such as COVID, 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 industrial security and 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 July 3, 2020. 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.

# # #

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

**MERCURY SYSTEMS, INC.**
**UNAUDITED CONSOLIDATED BALANCE SHEETS**
(In thousands)

| | January 1, 2021 | July 3, 2020 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 109,113 | $ 226,838 |
| Restricted cash | 61,626 | — |
| Accounts receivable, net | 120,852 | 120,438 |
| Unbilled receivables and costs in excess of billings | 119,346 | 90,289 |
| Inventory | 218,410 | 178,093 |
| Prepaid income taxes | 700 | 2,498 |
| Prepaid expenses and other current assets | 15,686 | 16,613 |
| Total current assets | 645,733 | 634,769 |
| Property and equipment, net | 125,397 | 87,737 |
| Goodwill | 783,302 | 614,076 |
| Intangible assets, net | 310,345 | 208,748 |
| Operating lease right-of-use assets | 79,125 | 60,613 |
| Other non-current assets | 5,266 | 4,777 |
| Total assets | $ 1,949,168 | $ 1,610,720 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $ 48,175 | $ 41,877 |
| Deferred consideration | 61,626 | — |
| Accrued expenses | 26,540 | 23,794 |
| Accrued compensation | 42,065 | 41,270 |
| Deferred revenues and customer advances | 33,447 | 18,974 |
| Total current liabilities | 211,853 | 125,915 |
| Deferred income taxes | 42,770 | 13,889 |
| Income taxes payable | 4,117 | 4,117 |
| Long-term debt | 160,000 | — |
| Operating lease liabilities | 84,335 | 66,981 |
| Other non-current liabilities | 15,462 | 15,034 |
| Total liabilities | 518,537 | 225,936 |
| Shareholders' equity: | | |
| Common stock | 551 | 547 |
| Additional paid-in capital | 1,092,723 | 1,074,667 |
| Retained earnings | 340,939 | 312,455 |
| Accumulated other comprehensive loss | (3,582) | (2,885) |
| Total shareholders' equity | 1,430,631 | 1,384,784 |
| Total liabilities and shareholders' equity | $ 1,949,168 | $ 1,610,720 |

**MERCURY SYSTEMS, INC.**
**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**
(In thousands, except per share data)

| | Second Quarters Ended | | Six Months Ended | |
|---|---|---|---|---|
| | January 1, 2021 | December 27, 2019 | January 1, 2021 | December 27, 2019 |
| Net revenues | $ 210,676 | $ 193,913 | $ 416,297 | $ 371,217 |
| Cost of revenues(1) | 122,009 | 105,407 | 239,511 | 204,311 |
| Gross margin | 88,667 | 88,506 | 176,786 | 166,906 |
| Operating expenses: | | | | |
| Selling, general and administrative(1) | 31,596 | 32,804 | 64,500 | 62,774 |
| Research and development(1) | 28,128 | 24,660 | 55,545 | 46,530 |
| Amortization of intangible assets | 7,643 | 7,992 | 15,374 | 15,011 |
| Restructuring and other charges | 951 | 1,101 | 2,248 | 1,749 |
| Acquisition costs and other related expenses | 2,236 | 1,124 | 2,236 | 2,541 |
| Total operating expenses | 70,554 | 67,681 | 139,903 | 128,605 |
| Income from operations | 18,113 | 20,825 | 36,883 | 38,301 |
| Interest income | 60 | 312 | 132 | 1,499 |
| Interest expense | (73) | — | (73) | — |
| Other expense, net | (981) | (351) | (1,827) | (1,785) |
| Income before income taxes | 17,119 | 20,786 | 35,115 | 38,015 |
| Income tax provision | 4,433 | 5,110 | 6,631 | 3,092 |
| Net income | $ 12,686 | $ 15,676 | $ 28,484 | $ 34,923 |
| Basic net earnings per share | $ 0.23 | $ 0.29 | $ 0.52 | $ 0.64 |
| Diluted net earnings per share | $ 0.23 | $ 0.29 | $ 0.51 | $ 0.63 |
| Weighted-average shares outstanding: | | | | |
| Basic | 55,070 | 54,548 | 54,976 | 54,468 |
| Diluted | 55,434 | 55,001 | 55,385 | 55,037 |
| (1) Includes stock-based compensation expense, allocated as follows: | | | | |
| Cost of revenues | $ 369 | $ 200 | $ 664 | $ 341 |
| Selling, general and administrative | $ 5,619 | $ 5,384 | $ 11,295 | $ 10,027 |
| Research and development | $ 1,282 | $ 947 | $ 2,495 | $ 1,822 |

**MERCURY SYSTEMS, INC.**
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
(In thousands)

| | Second Quarters Ended | | Six Months Ended | |
|---|---|---|---|---|
| | January 1, 2021 | December 27, 2019 | January 1, 2021 | December 27, 2019 |
| Cash flows from operating activities: | | | | |
| Net income | $ 12,686 | $ 15,676 | $ 28,484 | $ 34,923 |
| Depreciation and amortization | 13,284 | 12,547 | 26,281 | 23,928 |
| Other non-cash items, net | 8,367 | 7,593 | 12,898 | 14,038 |
| Changes in operating assets and liabilities | (10,398) | (3,750) | (20,795) | (16,513) |
| Net cash provided by operating activities | 23,939 | 32,066 | 46,868 | 56,376 |
| Cash flows from investing activities: | | | | |
| Acquisition of businesses, net of cash acquired | (243,637) | — | (243,637) | (96,502) |
| Purchases of property and equipment | (13,775) | (11,324) | (24,753) | (20,919) |
| Proceeds from sale of investment | 1,538 | — | 1,538 | — |
| Net cash used in investing activities | (255,874) | (11,324) | (266,852) | (117,421) |
| Cash flows from financing activities: | | | | |
| Proceeds from employee stock plans | 3,186 | — | 3,188 | 3 |
| Borrowings under credit facilities | 160,000 | — | 160,000 | — |
| Payments for retirement of common stock | — | (375) | (66) | (14,937) |
| Net cash provided by (used in) financing activities | 163,186 | (375) | 163,122 | (14,934) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | 366 | 371 | 763 | 84 |
| Net (decrease) increase in cash, cash equivalents and restricted cash | (68,383) | 20,738 | (56,099) | (75,895) |
| Cash, cash equivalents and restricted cash at beginning of period | 239,122 | 161,299 | 226,838 | 257,932 |
| Cash, cash equivalents and restricted cash at end of period | $ 170,739 | $ 182,037 | $ 170,739 | $ 182,037 |

**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, investments 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.

*COVID related expenses*. The Company incurred costs associated with the COVID pandemic. These costs relate primarily to enhanced compensation and benefits for employees as well as incremental supplies and services to support social distancing and mitigate the spread of COVID. These costs include the Mercury Employee COVID Relief Fund, which was established to support employees experiencing financial burdens resulting from the COVID pandemic. The intent of this fund is to provide relief for employees who may otherwise be unable to pay for basic necessities, unexpected care for immediate family members, or other urgent needs that promote their health and safety during the current Coronavirus crisis. These costs also include expanded sick pay related to COVID, overtime, meals and other compensation-related expenses. Management believes these items are outside the normal operations of the Company and are not indicative of ongoing operating results.

*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 | |
|---|---|---|---|---|
| | January 1, 2021 | December 27, 2019 | January 1, 2021 | December 27, 2019 |
| Net income | $ 12,686 | $ 15,676 | $ 28,484 | $ 34,923 |
| Other non-operating adjustments, net | (3) | (549) | (185) | (248) |
| Interest expense (income), net | 13 | (312) | (59) | (1,499) |
| Income tax provision | 4,433 | 5,110 | 6,631 | 3,092 |
| Depreciation | 5,641 | 4,555 | 10,907 | 8,917 |
| Amortization of intangible assets | 7,643 | 7,992 | 15,374 | 15,011 |
| Restructuring and other charges | 951 | 1,101 | 2,248 | 1,749 |
| Impairment of long-lived assets | — | — | — | — |
| Acquisition and financing costs | 2,969 | 1,882 | 3,810 | 4,118 |
| Fair value adjustments from purchase accounting | — | 600 | — | 600 |
| Litigation and settlement expense, net | 251 | 142 | 438 | 455 |
| COVID related expenses | 3,309 | — | 5,628 | — |
| Stock-based and other non-cash compensation expense | 7,439 | 6,639 | 14,806 | 12,415 |
| Adjusted EBITDA | $ 45,332 | $ 42,836 | $ 88,082 | $ 79,533 |

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 | |
|---|---|---|---|---|
| | January 1, 2021 | December 27, 2019 | January 1, 2021 | December 27, 2019 |
| Cash provided by operating activities | $ 23,939 | $ 32,066 | $ 46,868 | $ 56,376 |
| Purchases of property and equipment | (13,775) | (11,324) | (24,753) | (20,919) |
| Free cash flow | $ 10,164 | $ 20,742 | $ 22,115 | $ 35,457 |

**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 other non-operating adjustments, 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, COVID related expenses, 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[(2)]. 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 | | | |
|---|---|---|---|---|
| | January 1, 2021 | | December 27, 2019 | |
| Net income and earnings per share | $ 12,686 | $ 0.23 | $ 15,676 | $ 0.29 |
| Other non-operating adjustments, net[(1)] | (3) | | (549) | |
| Amortization of intangible assets | 7,643 | | 7,992 | |
| Restructuring and other charges | 951 | | 1,101 | |
| Impairment of long-lived assets | — | | — | |
| Acquisition and financing costs | 2,969 | | 1,882 | |
| Fair value adjustments from purchase accounting | — | | 600 | |
| Litigation and settlement expense, net | 251 | | 142 | |
| COVID related expenses | 3,309 | | — | |
| Stock-based and other non-cash compensation expense | 7,439 | | 6,639 | |
| Impact to income taxes[(2)] | (5,275) | | (4,368) | |
| Adjusted income and adjusted earnings per share | $ 29,970 | $ 0.54 | $ 29,115 | $ 0.53 |
| Diluted weighted-average shares outstanding | | 55,434 | | 55,001 |

(1) Effective as of the third quarter of fiscal 2020, the Company has revised its definition of adjusted income and adjusted earnings per share to incorporate other non-operating adjustments, which includes gains or losses on foreign currency remeasurement, investments and fixed asset sales or disposals among other adjustments. Adjusted EPS for prior periods has been recast for comparative purposes.

(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.

| | Six Months Ended | | | |
|---|---|---|---|---|
| | January 1, 2021 | | December 27, 2019 | |
| Net income and earnings per share | $ 28,484 | $ 0.51 | $ 34,923 | $ 0.63 |
| Other non-operating adjustments, net[1] | (185) | | (248) | |
| Amortization of intangible assets | 15,374 | | 15,011 | |
| Restructuring and other charges | 2,248 | | 1,749 | |
| Impairment of long-lived assets | — | | — | |
| Acquisition and financing costs | 3,810 | | 4,118 | |
| Fair value adjustments from purchase accounting | — | | 600 | |
| Litigation and settlement expense, net | 438 | | 455 | |
| COVID related expenses | 5,628 | | — | |
| Stock-based and other non-cash compensation expense | 14,806 | | 12,415 | |
| Impact to income taxes[2] | (12,299) | | (15,293) | |
| Adjusted income and adjusted earnings per share | $ 58,304 | $ 1.05 | $ 53,730 | $ 0.98 |
| Diluted weighted-average shares outstanding | | 55,385 | | 55,037 |

(1) Effective as of the third quarter of fiscal 2020, the Company has revised its definition of adjusted income and adjusted earnings per share to incorporate other non-operating adjustments, which includes gains or losses on foreign currency remeasurement, investments and fixed asset sales or disposals among other adjustments. Adjusted EPS for prior periods has been recast for comparative purposes.

(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.

**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 | |
|---|---|---|---|---|
| | January 1, 2021 | December 27, 2019 | January 1, 2021 | December 27, 2019 |
| Organic revenue | $ 210,459 | $ 193,913 | $ 407,244 | $ 370,274 |
| Acquired revenue | 217 | — | 9,053 | 943 |
| Net revenues | $ 210,676 | $ 193,913 | $ 416,297 | $ 371,217 |

**MERCURY SYSTEMS, INC.**
**RECONCILIATION OF FORWARD-LOOKING GUIDANCE RANGE**
Quarter Ending April 2, 2021
Fiscal Year Ending July 2, 2021
(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, COVID related expenses, 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 April 2, 2021[1] | | Fiscal Year Ending July 2, 2021[1] | |
|---|---|---|---|---|
| | Range | | | |
| | Low | High | Low | High |
| GAAP expectation -- Net income | $ 15,900 | $ 17,800 | $ 69,100 | $ 72,800 |
| Adjust for: | | | | |
| Other non-operating adjustments, net | — | — | (200) | (200) |
| Interest expense, net | 600 | 600 | 1,100 | 1,100 |
| Income tax provision | 5,600 | 6,200 | 20,800 | 22,100 |
| Depreciation | 6,700 | 6,700 | 25,000 | 25,000 |
| Amortization of intangible assets | 11,100 | 11,100 | 37,300 | 37,300 |
| Restructuring and other charges | — | — | 2,200 | 2,200 |
| Impairment of long-lived assets | — | — | — | — |
| Acquisition and financing costs | 700 | 700 | 5,100 | 5,100 |
| Fair value adjustments from purchase accounting | 100 | 100 | 100 | 100 |
| Litigation and settlement expense, net | — | — | 400 | 400 |
| COVID related expenses | 3,000 | 3,000 | 8,700 | 8,700 |
| Stock-based and other non-cash compensation expense | 8,300 | 8,300 | 31,400 | 31,400 |
| Adjusted EBITDA expectation | $ 52,000 | $ 54,500 | $ 201,000 | $ 206,000 |

(1) Rounded amounts used.

**MERCURY SYSTEMS, INC.**
**RECONCILIATION OF FORWARD-LOOKING GUIDANCE RANGE**
Quarter Ending April 2, 2021
Fiscal Year Ending July 2, 2021
(In thousands, except per share data)

The Company defines adjusted income as income before other non-operating adjustments, 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, COVID related expenses 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[(2)]. 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 April 2, 2021[(1)] | | | |
|---|---|---|---|---|
| | Range | | | |
| | Low | | High | |
| GAAP expectation -- Net income and earnings per share | $ 15,900 | $ 0.29 | $ 17,800 | $ 0.32 |
| Other non-operating adjustments, net | — | | — | |
| Amortization of intangible assets | 11,100 | | 11,100 | |
| Restructuring and other charges | — | | — | |
| Impairment of long-lived assets | — | | — | |
| Acquisition and financing costs | 700 | | 700 | |
| Fair value adjustments from purchase accounting | 100 | | 100 | |
| Litigation and settlement expense (income), net | — | | — | |
| COVID related expenses | 3,000 | | 3,000 | |
| Stock-based and other non-cash compensation expense | 8,300 | | 8,300 | |
| Impact to income taxes[(2)] | (6,100) | | (6,100) | |
| Adjusted income and adjusted earnings per share expectation | $ 33,000 | $ 0.59 | $ 34,900 | $ 0.63 |
| | | | | |
| Diluted weighted-average shares outstanding expectation | | 55,700 | | 55,700 |

(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 2, 2021[1] | | | |
|---|---|---|---|---|
| | Range | | | |
| | Low | | High | |
| GAAP expectation -- Net income and earnings per share | $ 69,100 | $ 1.24 | $ 72,800 | $ 1.31 |
| Other non-operating adjustments, net | (200) | | (200) | |
| Amortization of intangible assets | 37,300 | | 37,300 | |
| Restructuring and other charges | 2,200 | | 2,200 | |
| Impairment of long-lived assets | — | | — | |
| Acquisition and financing costs | 5,100 | | 5,100 | |
| Fair value adjustments from purchase accounting | 100 | | 100 | |
| Litigation and settlement expense, net | 400 | | 400 | |
| COVID related expenses | 8,700 | | 8,700 | |
| Stock-based and other non-cash compensation expense | 31,400 | | 31,400 | |
| Impact to income taxes[2] | (23,500) | | (23,500) | |
| Adjusted income and adjusted earnings per share expectation | $ 130,600 | $ 2.35 | $ 134,300 | $ 2.42 |
| | | | | |
| Diluted weighted-average shares outstanding expectation | | 55,500 | | 55,500 |

(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.

mercury

# SECOND QUARTER FISCAL YEAR 2021 FINANCIAL RESULTS

Mark Aslett
President and CEO

Michael Ruppert
Executive Vice President and CFO

February 2, 2021, 5:00 pm ET

Webcast login at www.mrcy.com/investor
Webcast replay available by 7:00 p.m. ET February 2, 2021

# Forward-looking safe harbor statement

This presentation 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 de herein and to fiscal 2021 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 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 uncert 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 weakne Company's markets, effects of epidemics and pandemics such as COVID, effects of any U.S. federal government shutdown or extended continuing resolution, effects of continued geopolit unrest and regional conflicts, competition, changes in technology and methods of marketing, delays in completing engineering and manufacturing programs, changes in customer order pa 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 con procurement rules and regulations, market acceptance of the Company's products, shortages in components, production delays or unanticipated expenses due to performance quality issu outsourced components, inability to fully realize the expected benefits from acquisitions and restructurings, or delays in realizing such benefits, challenges in integrating acquired business achieving anticipated synergies, increases in interest rates, changes to industrial security and cyber-security regulations and requirements, changes in tax rates or tax regulations, changes interest rate swaps or other cash flow hedging arrangements, changes to generally accepted accounting principles, difficulties in retaining key employees and customers, unanticipated co 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 d 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 July 3, 2020. The Company cautions readers 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 t reflect events or circumstances after the date on which such statement is made.

Use of Non-GAAP (Generally Accepted Accounting Principles) 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 EPS, fre 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 c The Company believes these non-GAAP financial measures are useful to help investors better understand its past financial performance and prospects for the future. However, these non- 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 p a more complete understanding of the Company's underlying operational results and trends, and management uses these measures along with the corresponding GAAP financial measure 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 fin results discussed in this presentation is contained in the Appendix hereto.

## Delivered solid fiscal 2021 second quarter

- Exceeded guidance for total revenue and profitability
- Design wins of more than $300M in estimated lifetime value
- Closed POC acquisition December 30, 2020
- Outlook positive; raising FY21 revenue, net income and adj. EBITDA guidance
- Expect 16-19% FY21 revenue growth and high single-digit organic

## Strategy and technologies aligned with major industry drivers and trend

- New business conditions remain robust
- M&A activity is back; strong balance sheet; well-positioned to pursue
- Expect contracting environment to improve with signing of NDAA
- Flat to low single-digit CAGR in overall defense spending forecast unchanged
- Fiscal stimulus could crowd out defense spending, tempered by bipartisan commitm
- Expect organic revenue growth rate to remain above defense industry average

## Strategy and technologies aligned with major industry drivers and trend

- Targeting and participating in large, and faster growing market segments
- Sensor and effector mission systems and C4I modernization driving growth
- Favorable trends – outsourcing, delayering, flight to quality, trusted microelectronic
- Uniquely positioned to provide DoD trusted, secure microelectronics solutions
- Aligns with DoD's #1 defense technology priority

# Q2 and LTM FY21 results

## Q2 FY21 VS. Q2 FY20

- Bookings up slightly at $210M
- Record backlog up 30%
- Revenue up 9%
- Organic revenue[(1)] up 9%
- GAAP net income down 19%
- Adjusted EBITDA up 6%
- Op cash of $23.9M
- FCF of $10.2M; 22% of adj. EBITDA

## LTM FY21 VS. LTM FY20

- Bookings up 10%
- Record backlog up 30%
- Revenue up 16%
- Organic revenue[(1)] up 12%
- GAAP net income up 28%
- Adjusted EBITDA up 18%
- Op cash of $105.7M
- FCF of $58.6M; 32% of adj. EBITDA

Notes

(1) Organic revenue represents total company revenue excluding net revenue from acquisitions for the first four full quarters since the entities' acquisition date (which excludes any intercompany transactions). After the completi[on] of four fiscal quarters, acquired businesses are treated as organic for current and comparable historical periods.

## COVID-19 update

- Successfully managed COVID risks for past 12+ months
- Protecting health, safety and livelihoods of employees
- Adjusting safety protocols in line with evolving science and data
- Continuing to invest in weekly onsite PCR testing
- Testing key to ongoing employee safety and business continuity
- Safety protocols to continue well into CY21

 

## M&A update

- POC acquisition adds scale and strengthens platform and mission management
- Well-positioned to continue supplementing organic growth with accretive M&A
- M&A market very active; robust pipeline of future opportunities
- Perceived as great buyer due to purpose, culture, values, strategy and performance
- Pursuing deals that are strategically aligned around multiple M&A themes

## Continue to execute on strategy: strong margins, organic growth, M&A, full integration

1) Drive ~10% average organic revenue growth supplemented by strategic M&A

2) Invest in people, technologies, facilities, manufacturing assets, business systems

3) Insource more manufacturing; drive stronger operating performance

4) Grow revenues faster than operating expenses to improve operating leverage

5) Fully integrate acquired businesses to generate cost and revenue synergies

## Summary

- Clear purpose and positioning, unique business model and a highly-engaged workfo
- Targeting the right market segments and aligned with key industry trends
- COVID protocols working well; all facilities remain open and operational
- Continue to invest above industry average for future growth
- Expect 16-19% FY21 revenue growth and high single-digit organic

# Q2 FY21 vs. Q2 FY20

| In $ millions, except percentage and per share data | Q2 FY20[3] | Q2 FY21[3] | CHANGE |
|---|---|---|---|
| Bookings<br>Book-to-Bill | $209.6<br>1.08 | $210.1<br>1.00 | - |
| Backlog<br>12-Month Backlog | $727.5<br>521.8 | $945.3<br>598.0 | 30% |
| Revenue<br>Organic Revenue Growth[1] | $193.9<br>12% | $210.7<br>9% | 9% |
| Gross Margin | 45.6% | 42.1% | (3.5) pts |
| Operating Expenses<br>Selling, General & Administrative<br>Research & Development<br>Amortization/Restructuring/Acquisition | $67.7<br>32.8<br>24.7<br>10.2 | $70.6<br>31.6<br>28.1<br>10.8 | 4% |
| GAAP Net Income<br>Effective Tax Rate | $15.7<br>24.6% | $12.7<br>25.9% | (19%) |
| GAAP EPS<br>Weighted Average Diluted Shares | $0.29<br>55.0 | $0.23<br>55.4 | (21%) |
| Adjusted EPS[2] | $0.53 | $0.54 | 2% |
| Adj. EBITDA[2]<br>% of revenue | $42.8<br>22.1% | $45.3<br>21.5% | 6% |
| Operating Cash Flow | $32.1 | $23.9 | (25%) |
| Free Cash Flow[2]<br>% of Adjusted EBITDA | $20.7<br>48% | $10.2<br>22% | (51%) |

Notes
(1) Organic reven company reve revenue from the first four f the entities' ac (which exclude intercompany After the comp fiscal quarters, businesses are organic for cur comparable hi
(2) Non-GAAP, see table.
(3) Effective as of Company's fisc changed to the week period e Friday closest June. All refere presentation t quarter of fisc fiscal 2020 are ended Decemb full fiscal 2020 week period e and to the sec fiscal 2021 and are to the qua 1, 2021 and 52 ending July 2,

# Balance sheet

| (In $ millions)[1] | 12/27/19 | 3/27/20 | As of 7/3/20 | 10/2/20 | 1/1/21 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash & cash equivalents | $182.0 | $407.1 | $226.8 | $239.1 | $109.1 |
| Restricted cash | - | - | - | - | 61.6 |
| Accounts receivable, net | 193.4 | 214.0 | 210.7 | 207.8 | 240.2 |
| Inventory, net | 153.6 | 161.9 | 178.1 | 206.0 | 218.4 |
| PP&E, net | 72.7 | 78.7 | 87.7 | 94.7 | 125.4 |
| Goodwill and intangibles, net | 839.2 | 831.4 | 822.8 | 815.3 | 1,093.6 |
| Other | 71.7 | 78.5 | 84.6 | 90.2 | 100.8 |
| **TOTAL ASSETS** | **$1,512.6** | **$1,771.6** | **$1,610.7** | **$1,653.2** | **$1,949.2** |
| **LIABILITIES AND S/E** | | | | | |
| AP and accrued expenses | $91.3 | $109.6 | $107.0 | $119.7 | $116.8 |
| Deferred consideration | - | - | - | - | 61.6 |
| Other liabilities | 104.3 | 112.6 | 118.9 | 125.6 | 180.1 |
| Debt | - | 200.0 | - | - | 160.0 |
| **Total liabilities** | **195.6** | **422.2** | **225.9** | **245.3** | **518.5** |
| | | | | | |
| **Stockholders' equity** | **1,317.1** | **1,349.4** | **1,384.8** | **1,407.9** | **1,430.6** |
| **TOTAL LIABILITIES AND S/E** | **$1,512.6** | **$1,771.6** | **$1,610.7** | **$1,653.2** | **$1,949.2** |

Notes
(1) Rounded amounts

# Cash flow summary

| (In $ millions)[1] | For the Fiscal Quarters Ended 12/27/19 | 3/27/20 | 7/3/20 | 10/2/20 | 1/1/21 |
|---|---|---|---|---|---|
| **Net Income** | **$15.7** | **$23.6** | **$27.2** | **$15.8** | **$12.7** |
| Depreciation and amortization | 12.5 | 12.7 | 12.8 | 13.0 | $13.3 |
| (Gain)/Loss on investment | - | (3.8) | (2.0) | - | 0.4 |
| Other non-cash items, net | 7.6 | 8.5 | 6.8 | 4.5 | 8.0 |
| **Changes in Operating Assets and Liabilities** | | | | | |
| Accounts receivable, unbilled receivables, and costs in excess of billings | (15.7) | (20.7) | 3.2 | 3.5 | (10.3) |
| Inventory | (5.7) | (8.2) | (18.1) | (27.8) | (1.4) |
| Accounts payable and accrued expenses | 5.8 | 18.4 | (4.4) | 10.8 | (12.7) |
| Other | 11.8 | (0.4) | 3.2 | 3.1 | 14.0 |
| | **(3.8)** | **(10.9)** | **(16.1)** | **(10.4)** | **(10.4)** |
| **Operating Cash Flow** | **32.1** | **30.1** | **28.7** | **22.9** | **23.9** |
| Capital expenditures | (11.3) | (10.9) | (11.5) | (11.0) | (13.8) |
| **Free Cash Flow[2]** | **$20.7** | **$19.2** | **$17.2** | **$12.0** | **$10.2** |
| ***Free Cash Flow[2] / Adjusted EBITDA[2]*** | ***48%*** | ***41%*** | ***35%*** | ***28%*** | ***22%*** |
| ***Free Cash Flow[2] / GAAP Net Income*** | ***132%*** | ***82%*** | ***63%*** | ***76%*** | ***80%*** |

Notes
(1) Rounded amou
(2) Non-GAAP, see reconciliation

# Q3 FY21 guidance

| In $ millions, except percentage and per share data | Q3 FY20(1) | Q3 FY21(2)(5) | CHANGE |
|---|---|---|---|
| **Revenue** | $208.0 | $245.0 – $255.0 | 18% – 23% |
| **GAAP Net Income**<br>Effective tax rate(3) | $23.6<br>18.5% | $15.9 – $17.8<br>26% | (33%) – (25%) |
| **GAAP EPS**<br>Weighted-average diluted shares outstanding | $0.43<br>55.1 | $0.29 – $0.32<br>55.7 | (33%) – (26%) |
| **Adjusted EPS(4)** | $0.60 | $0.59 – $0.63 | (2%) – 5% |
| **Adj. EBITDA(4)**<br>% of revenue | $47.1<br>22.6% | $52.0 – $54.5<br>21.2% – 21.4% | 10% – 16% |

Notes
(1) Q3 FY20 figure
the Company's
dated April 28,
figures include
per share, and
share, of other
investment inc
tax benefits, re
(2) The guidance i
from the Comp
release dated F
Guidance assu
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shutdowns or
customer beha
purposes of m
guidance, we h
incremental re
acquisition, oth
adjustments or
financing.
(3) The effective t
guidance inclu
discrete items.
(4) Non-GAAP, see
(5) Effective as of
Company's fisc
to the 52-week
ending on the
last day of June
this presentati
quarter of fisca
2020 are to the
March 27, 202
period ended J
the third quart
full fiscal 2021
ending April 2,
period ending

# FY21 annual guidance

| In $ millions, except percentage and per share data | FY20(1) | FY21(2)(5) | CHANGE |
|---|---|---|---|
| **Revenue** | $796.6 | $925.0 – $945.0 | 16% – 19% |
| **GAAP Net Income**<br>Effective tax rate(3) | $85.7<br>8.8% | $69.1 – $72.8<br>26% | (19%) – (15%) |
| **GAAP EPS**<br>Weighted-average diluted shares outstanding | $1.56<br>55.1 | $1.24 – $1.31<br>55.5 | (21%) – (16%) |
| **Adjusted EPS(4)** | $2.30 | $2.35 – $2.42 | 2% – 5% |
| **Adj. EBITDA(4)**<br>% of revenue | $176.2<br>22.1% | $201.0 – $206.0<br>21.7% – 21.8% | 14% – 17% |

Notes
(1) FY20 figures ar
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August 4, 2020.
ended July 3, 2
or $0.10 per sh
$0.28 per share
operating inves
tax, and discret
respectively.
(2) The guidance i
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dated February
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(3) The effective ta
guidance inclu
discrete items.
(4) Non-GAAP, see
(5) Effective as of
the Company's
changed to the
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to the last day
references in t
the third quart
full fiscal 2020
ended March 2
week period en
to the third qu
and full fiscal 2
quarter ending
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## Summary

- Solid results for Q2 driven by strong organic growth and great execution by the team
- Announced and completed the acquisition of POC
- Well-positioned to continue to deploy capital for strategic M&A
- Executing on our long-term financial model with above-industry-average organic revenue and adjusted EBITDA margins

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# APPENDIX

# Adjusted EPS reconciliation

| (In thousands, except per share data) | Q2 FY20 | Q2 FY21 | LTM Q2 FY20 | LTM Q2 FY21 | Q3 FY21[2][6] Low | Q3 FY21[2][6] High | FY21[2][6] Low | FY21[2][6] High |
|---|---|---|---|---|---|---|---|---|
| **Earnings per share[1]** | **$ 0.29** | **$ 0.23** | **$ 1.18** | **$ 1.44** | **$ 0.29** | **$ 0.32** | **$ 1.24** | **$ 1.31** |
| **Net Income** | **$ 15,676** | **$ 12,686** | **$ 61,836** | **$ 79,273** | **$ 15,900** | **$ 17,800** | **$ 69,100** | **$ 72,800** |
| Other non-operating adjustments, net[3] | (549) | (3) | (231) | (5,573) | - | - | (200) | (200) |
| Amortization of intangible assets | 7,992 | 7,643 | 28,805 | 30,923 | 11,100 | 11,100 | 37,300 | 37,300 |
| Restructuring and other charges | 1,101 | 951 | 1,782 | 2,304 | - | - | 2,200 | 2,200 |
| Impairment of long-lived assets | - | - | - | - | - | - | - | - |
| Acquisition and financing costs | 1,882 | 2,969 | 11,941 | 5,337 | 700 | 700 | 5,100 | 5,100 |
| Fair value adjustments from purchase accounting | 600 | - | 693 | 1,201 | 100 | 100 | 100 | 100 |
| Litigation and settlement expense, net | 142 | 251 | 620 | 927 | - | - | 400 | 400 |
| COVID related expenses[4] | - | 3,309 | - | 8,221 | 3,000 | 3,000 | 8,700 | 8,700 |
| Stock-based and other non-cash compensation expense | 6,639 | 7,439 | 21,955 | 29,363 | 8,300 | 8,300 | 31,400 | 31,400 |
| Impact to income taxes[5] | (4,368) | (5,275) | (25,753) | (20,640) | (6,100) | (6,100) | (23,500) | (23,500) |
| **Adjusted income** | **$ 29,115** | **$ 29,970** | **$ 101,648** | **$ 131,336** | **$ 33,000** | **$ 34,900** | **$ 130,600** | **$ 134,300** |
| **Adjusted earnings per share[1]** | **$ 0.53** | **$ 0.54** | **$ 1.95** | **$ 2.37** | **$ 0.59** | **$ 0.63** | **$ 2.35** | **$ 2.42** |
| Weighted-average shares outstanding: | | | | | | | | |
| Basic | 54,548 | 55,070 | | | | | | |
| Diluted | 55,001 | 55,434 | | | 55,700 | 55,700 | 55,500 | 55,500 |

Notes

(1) Per share information is presented on a fully diluted basis.

(2) Rounded amounts used.

(3) Effective as of the third quarter of fiscal 2020, the Company has revised its definition of adjusted income and adjusted earnings per share to incorporate other non-operating adjustments, which includes gains or losses on foreign currency remeasurement, investments and fixed asset sales or disposals among other adjustments. Adjusted EPS for prior periods has been recast for comparative purposes.

(4) Effective as of the third quarter of fiscal 2020, the Company has added back incremental COVID related expenses.

(5) 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.

(6) 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 of June. All references in this presentation to the third quarter of fiscal 2020 and full fiscal 2020 are to the quarter ended March 27, 2020 and the 53-week period ended July 3, 2020, and to the third quarter of fiscal 2021 and full fiscal 2021 are to the quarter ending April 2, 2021 and 52-week period ending July 2, 2021.

 

# Adjusted EBITDA reconciliation

| | | | | | Q3 FY21[1][2] | | FY21[1][2] | |
|---|---|---|---|---|---|---|---|---|
| **(In thousands)** | **Q2 FY20** | **Q2 FY21** | **LTM Q2 FY20** | **LTM Q2 FY21** | **Low** | **High** | **Low** | **High** |
| **Net Income** | **$ 15,676** | **$ 12,686** | **$ 61,836** | **$ 79,273** | **$ 15,900** | **$ 17,800** | **$ 69,100** | **$ 72,800** |
| Other non-operating adjustments, net | (549) | (3) | (231) | (5,573) | - | - | (200) | (200) |
| Interest (income) expense, net | (312) | 13 | 2,360 | 295 | 600 | 600 | 1,100 | 1,100 |
| Income tax provision | 5,110 | 4,433 | 8,232 | 11,760 | 5,600 | 6,200 | 20,800 | 22,100 |
| Depreciation | 4,555 | 5,641 | 18,261 | 20,760 | 6,700 | 6,700 | 25,000 | 25,000 |
| Amortization of intangible assets | 7,992 | 7,643 | 28,805 | 30,923 | 11,100 | 11,100 | 37,300 | 37,300 |
| Restructuring and other charges | 1,101 | 951 | 1,782 | 2,304 | - | - | 2,200 | 2,200 |
| Impairment of long-lived assets | - | - | - | - | - | - | - | - |
| Acquisition and financing costs | 1,882 | 2,969 | 11,941 | 5,337 | 700 | 700 | 5,100 | 5,100 |
| Fair value adjustments from purchase accounting | 600 | - | 693 | 1,201 | 100 | 100 | 100 | 100 |
| Litigation and settlement expense, net | 142 | 251 | 620 | 927 | - | - | 400 | 400 |
| COVID related expenses[2] | - | 3,309 | - | 8,221 | 3,000 | 3,000 | 8,700 | 8,700 |
| Stock-based and other non-cash compensation expense | 6,639 | 7,439 | 21,955 | 29,363 | 8,300 | 8,300 | 31,400 | 31,400 |
| **Adjusted EBITDA** | **$ 42,836** | **$ 45,332** | **$ 156,254** | **$ 184,791** | **$ 52,000** | **$ 54,500** | **$ 201,000** | **$ 206,000** |

Notes
(1) Rounded amounts used.
(2) 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 of June. All references in this presentation to the third quarter of fiscal 2020 and full fiscal 2020 are to the quarter ended March 27, 2020 and the 53-week period ended July 3, 2020, and to the third quarter of fiscal 2021 and full fiscal 2021 are to the quarter ending April 2, 2021 and 52-week period ending July 2, 2021.
(3) Effective as of the third quarter of fiscal 2020, the Company has added back incremental COVID related expenses

## Free cash flow reconciliation

| (In thousands) | Q2 FY20 | Q2 FY21 | LTM Q2 FY20 | LTM Q2 FY21 |
|---|---|---|---|---|
| **Cash provided by operating activities** | **$ 32,066** | **$ 23,939** | **$ 108,563** | **$ 105,678** |
| Purchases of property and equipment | (11,324) | (13,775) | $ (36,808) | (47,128) |
| **Free cash flow** | **$ 20,742** | **$ 10,164** | **$ 71,755** | **$ 58,550** |

## Organic revenue reconciliation

| (In thousands) | Q2 FY20 | Q2 FY21 | LTM Q2 FY20 | LTM Q2 FY21 |
|---|---|---|---|---|
| **Organic revenue**[1] | **$ 193,913** | **$ 210,459** | **$ 717,331** | **$ 803,822** |
| Acquired revenue | - | 217 | 5,485 | 37,867 |
| **Net revenues** | **$193,913** | **$210,676** | **$ 722,816** | **$ 841,689** |

Notes

(1) Organic revenue represents total company revenue excluding net revenue from acquisitions for the first four full quarters since the entities' acquisition date (which excludes any intercompany transactions). After the completion of four fiscal quarters, acquired businesses are treated as organic for current and comparable historical periods.