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): January 28, 2020

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 January 28, 2020, Mercury Systems, Inc. (the "Company") issued a press release and an earnings presentation regarding its financial results for the second quarter of fiscal 2020 ended December 27, 2019. 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 January 28, 2020 of Mercury Systems, Inc.
99.2	Earnings Presentation, dated January 28, 2020 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: January 28, 2020

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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INNOVATION THAT MATTERS®

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.

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, 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 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 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

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

	December 27, 2019	June 30, 2019
Assets		
Current assets:		
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(1)	49,826	—
Other non-current assets	5,834	6,534
Total assets	$ 1,512,620	$ 1,416,977
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 35,988	$ 39,030
Accrued expenses(1)	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(1)	55,257	—
Other non-current liabilities	12,620	15,119
Total liabilities	195,564	132,238
Shareholders' equity:		
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, 2019	December 31, 2018	December 27, 2019	December 31, 2018
Net revenues	$ 193,913	$ 159,089	$ 371,217	$ 303,145
Cost of revenues(1)	105,407	88,202	204,311	170,675
Gross margin	88,506	70,887	166,906	132,470
Operating expenses:				
Selling, general and administrative(1)	32,804	27,819	62,774	52,560
Research and development(1)	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
Weighted-average shares outstanding:				
Basic	54,548	47,189	54,468	47,118
Diluted	55,001	47,705	55,037	47,696
(1) Includes stock-based compensation expense, allocated as follows:				
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, 2019	December 31, 2018	December 27, 2019	December 31, 2018
Cash flows from operating activities:				
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)
Net cash provided by operating activities	32,066	25,301	56,376	45,330
Cash flows from investing activities:				
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)
Net cash used in investing activities	(11,324)	(5,831)	(117,421)	(55,831)
Cash flows from financing activities:				
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)
Net cash (used in) provided by financing activities	(375)	1,557	(14,934)	37,894
Effect of exchange rate changes on cash and cash equivalents	371	7	84	(11)
Net increase (decrease) in cash and cash equivalents	20,738	21,034	(75,895)	27,382
Cash and cash equivalents at beginning of period	161,299	72,869	257,932	66,521
Cash and cash equivalents at end of period	$ 182,037	$ 93,903	$ 182,037	$ 93,903

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, 2019	December 31, 2018	December 27, 2019	December 31, 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	$ 42,836	$ 36,983	$ 79,533	$ 68,605

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, 2019	December 31, 2018	December 27, 2019	December 31, 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[(1)]. 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[(1)]	(4,504)		(3,009)	
Adjusted income and adjusted earnings per share	$ 29,528	$ 0.54	$ 22,615	$ 0.47
Diluted weighted-average shares outstanding		55,001		47,705

(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(1)		(15,353)				(6,082)		
Adjusted income and adjusted earnings per share	$	53,918	$	0.98	$	41,112	$	0.86
Diluted weighted-average shares outstanding				55,037				47,696

(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, 2019	December 31, 2018	December 27, 2019	December 31, 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 March 27, 2020[1]		Fiscal Year Ending July 3, 2020[1]	
	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[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 March 27, 2020[1]			
	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[2]	(4,100)		(4,100)	
Adjusted income and adjusted earnings per share expectation	$ 27,700	$ 0.50	$ 29,200	$ 0.53
Diluted weighted-average shares outstanding expectation		55,100		55,100

(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[1]			
	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[2]	(23,500)		(23,700)	
Adjusted income and adjusted earnings per share expectation	$ 114,900	$ 2.09	$ 117,500	$ 2.13
Diluted weighted-average shares outstanding expectation		55,100		55,100

(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.

Second Quarter Fiscal Year 2020 Financial Results

Mark Aslett
President and CEO

Michael Ruppert
Executive Vice President and CFO

January 28, 2020, 5:00 pm ET

Conference call:
Dial (877) 303-6977 in the USA and Canada,
(760) 298-5079 in all other countries
Webcast login at www.mrcy.com/investor
Webcast replay available by 7:00 p.m. ET January 28, 2020

Forward-looking safe harbor statement

This presentation contains certain forward-looking statements, as that term is defined in the Private Securities Litigation Reform 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 "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 tha cause actual results to differ materially from those projected or anticipated. Such risks and uncertainties include, but are not limi continued funding of defense programs, the timing and amounts of such funding, general economic and business conditions, incl unforeseen weakness in the Company's markets, effects of any U.S. Federal government shutdown or extended continuing resolu effects of continued geopolitical unrest and regional conflicts, competition, changes in technology and methods of marketing, de completing engineering and manufacturing programs, changes in customer order patterns, changes in product mix, continued su in technological advances and delivering technological innovations, changes in, or in the U.S. Government's interpretation of, fed 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 re 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 requiremen changes in tax rates or tax regulations, changes to interest rate swaps or other cash flow hedging arrangements, changes to gene accepted accounting principles, difficulties in retaining key employees and customers, unanticipated costs under fixed-price servi 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 A Report on Form 10-K for the fiscal year ended June 30, 2019. The Company cautions readers not to place undue reliance upon ar forward-looking statements, which speak only as of the date made. The Company undertakes no obligation to update any forwar looking statement to 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 pro adjusted EBITDA, adjusted income, adjusted EPS, free cash flow, organic revenue and acquired revenue, which are non-GAAP fin measures. Adjusted EBITDA, adjusted income, and adjusted EPS exclude certain non-cash and other specified charges. The Comp 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-GAAP measures should not be considered in isolation or as a substitute for financia information provided in accordance with GAAP. Management believes these non-GAAP measures assist in providing a more com understanding of the Company's underlying operational results and trends, and management uses these measures along with th corresponding GAAP financial measures to manage the Company's business, to evaluate its performance compared to prior peri and the marketplace, and to establish operational goals. A reconciliation of GAAP to non-GAAP financial results discussed in this presentation is contained in the Appendix hereto.

Introduction

- Record revenue, backlog and profitability
- Positive industry environment; defense appropriations bill approved
- Business model performing extremely well
- Investing to support organic growth while delivering record results
- Raising total FY20 revenue, adjusted EBITDA and adjusted EPS guidance
- Now expect 13-14% organic revenue growth for FY20

Financial highlights

Q2 FY20 vs. Q2 FY19	LTM Q2 FY20 vs. LTM Q2 FY19
• Bookings up 21%	• Record bookings up 27%
• Record backlog up 39%	• Record backlog up 39%
• Record revenue up 22%	• Record revenue up 26%
• Organic revenue[(1)] up 12%	• Organic revenue[(1)] up 16%
• GAAP net income up 27%	• Record GAAP net income up 84%
• Record adjusted EBITDA up 16%	• Record adjusted EBITDA up 19%
• Record Op cash of $32.1M; up 27%	• Record Op cash of $108.6M; up 51%
• FCF of $20.7M; 48% adj. EBITDA	• FCF of $71.8M; 46% 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 intercom transactions). After the completion of four fiscal quarters, acquired businesses are treated as organic for current and comparable historical periods.

Pioneered next-generation defense electronics compar

- Making commercial technologies profoundly more accessible to A&D
- Transformational business model at intersection of high tech and A&D
  - Fueled by internal R&D 4-5x industry average*
  - Highly innovative trusted, secure mission-critical technologies
  - Growth capital investments 2-3x industry norms*
  - Developing sensor processing and C4I subsystems far more quickly and affordably
  - Industry-leading secure computing solutions
  - Developed and produced in trusted domestic facilities by a highly-cleared workforce
- Challenging global security environment leading to increased defense spend
- Strategy and model aligned with DoD priorities and procurement reform
- DoD now focused on accelerating and fielding innovative capabilities

* Internal R&D and capital investment expressed as a percentage of total company revenue

Favorable growth environment driving improved resu

- Sensor and effector mission systems (SEMS) revenue up 24% YoY, C4I up 22%
- Substantial growth in estimated lifetime value of top 30 programs and pursu
- Growth driven by content expansion and market penetration
- Benefiting from significant wave of sensor and C4I modernization
- Favorable trends – delayering, flight to quality, outsourcing, taking share
- Tracking 100+ active programs, top programs growing faster than total rever

Growth strategy update

- Created low-risk content expansion in capabilities and addressable markets
- Acquired capabilities drove Tier 2 subsystems provider transformation
- Expanding in core sensor and effector mission systems market
- C4I market expansion: C3I and platform/mission management
- Uniquely positioned to provide DoD trusted, secure microelectronics solutio
- Investing $15M to expand scope of existing microelectronics business
- Completed West coast RF facility buildout and consolidation
- Integration of prior acquisitions progressing well; APC integration on track

Strategy delivering above-average growth and profitabilit

- Continuing to invest across the business to support organic growth
- Using M&A to expand capabilities, access and penetrate adjacent markets
- Cost and revenue synergies contributing to strong financial performance
- Investing in trusted, secure Innovation that Matters® for aerospace and defe
- Destination employer attracting, retaining and engaging best possible talent

Business outlook and summary

Plan to continue generating shareholder value:

1. Drive 10% average organic revenue growth supplemented by strategic M&A
2. Invest in people, new technologies, facilities, manufacturing assets, business syste
3. Enhance margin, quality, on-time delivery and working capital
4. Grow revenues faster than operating expenses to improve operating leverage
5. Fully integrate acquired businesses to generate cost and revenue synergies

Expect double-digit revenue and profitability growth, strong cash flov

Q2 FY20 vs. Q2 FY19

In $ millions, except percentage and per share data	Q2 FY19	Q2 FY20[3]	Change
Bookings Book-to-Bill	$173.2 1.09	$209.6 1.08	21%
Backlog 12-Month Backlog	$522.0 389.1	$727.5 521.8	39%
Revenue Organic Revenue Growth[1]	$159.1 11%	$193.9 12%	22%
Gross Margin	44.6%	45.6%	1.0 pts
Operating Expenses Selling, General & Administrative Research & Development Amortization/Restructuring/Acquisition	$51.0 27.8 16.2 7.0	$67.7 32.8 24.7 10.2	33%
GAAP Net Income Effective Tax Rate	$12.4 26.6%	$15.7 24.6%	27%
GAAP EPS Weighted Average Diluted Shares	$0.26 47.7	$0.29 55.0	12%
Adjusted EPS[2]	$0.47	$0.54	15%
Adj. EBITDA[2] % of revenue	$37.0 23.2%	$42.8 22.1%	16%
Operating Cash Flow	$25.3	$32.1	27%
Free Cash Flow[2] % of Adjusted EBITDA	$18.2 49%	$20.7 48%	14%

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.
(2) Non-GAAP, see reconciliation table.
(3) 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 second quarter of fiscal 2020 are to the quarter ended December 27, 2019, 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.

Balance sheet

(In $ millions)[1]	As of				
	12/31/18	3/31/19	6/30/19	9/27/19	12/27
ASSETS					
Cash & cash equivalents	$93.9	$112.5	$257.9	$161.3	$182
Accounts receivable, net	168.3	170.7	176.2	177.5	193.
Inventory, net	126.4	131.7	137.1	148.5	153.
PP&E, net	53.1	55.9	60.0	65.9	72.
Goodwill and intangibles, net	696.3	724.3	768.3	847.4	839.
Other[2]	18.6	17.3	17.4	73.3	71.
TOTAL ASSETS	**$1,156.6**	**$1,212.4**	**$1,417.0**	**$1,473.9**	**$1,51**
LIABILITIES AND S/E					
AP and accrued expenses[2]	$70.7	$83.1	$86.7	$84.8	$91.
Other liabilities[2]	49.9	40.4	45.5	93.7	104.
Debt	240.0	276.5	-	-	-
Total liabilities	**360.6**	**400.0**	**132.2**	**178.5**	**195.**
Stockholders' equity	**796.1**	**812.4**	**1,284.7**	**1,295.3**	**1,317**
TOTAL LIABILITIES AND S/E	**$1,156.6**	**$1,212.4**	**$1,417.0**	**$1,473.9**	**$1,51**

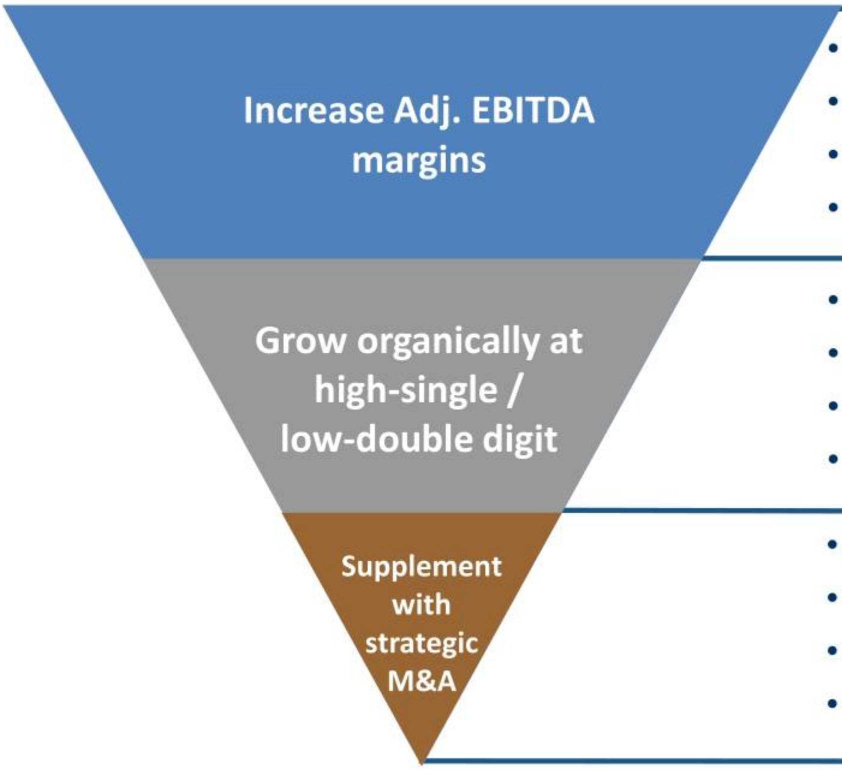
Notes:
(1) Rounded amounts used
(2) Effective July 1, 2019, the Company has adopted *ASC 842 - Leases* using the optional transition method. Prior periods were not changed. As of December 27, 2019, the Company has Right-of use assets of $49.8 million and total Lease liabilities of $62.6 million, of which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

Cash flow summary

(In $ millions)[1]	For the Fiscal Quarters Ended 12/31/18	3/31/19	6/30/19	9/27/19	12/27/
Net Income	**$12.4**	**$14.1**	**$12.8**	**$19.2**	**$15.7**
Depreciation and amortization	11.7	11.6	11.6	11.4	12.5
Termination of interest rate swap	-	-	5.4	-	-
Other non-cash items, net	4.6	6.3	5.1	6.4	7.6
Changes in Operating Assets and Liabilities					
Accounts receivable, unbilled receivables, and costs in excess of billings	(15.0)	(1.2)	(6.0)	2.2	(15.7)
Inventory	(4.9)	(4.0)	(3.3)	0.4	(5.7)
Accounts payable and accrued expenses	9.2	8.0	2.7	(6.3)	5.8
Other	7.3	(8.6)	(2.2)	(9.0)	11.8
	(3.4)	**(5.8)**	**(9.0)**	**(12.8)**	**(3.8)**
Operating Cash Flow	**25.3**	**26.2**	**26.0**	**24.3**	**32.1**
Capital expenditures	(7.1)	(7.1)	(8.8)	(9.6)	(11.3)
Free Cash Flow[2]	**$18.2**	**$19.2**	**$17.1**	**$14.7**	**$20.7**
Free Cash Flow[2] / Adjusted EBITDA[2]	***49%***	***49%***	***45%***	***40%***	***48%***
Free Cash Flow[2] / GAAP Net Income	***147%***	***136%***	***134%***	***76%***	***132%***

Notes:
(1) Rounded amounts used.
(2) Non-GAAP, see reconciliation table.

Committed to maintaining differentiated and attractive financial pr



- Operating expense leverage
- Program production mix
- Operational improvements
- Full acquisition integration

- Alignment with DoD priorities
- Increased customer outsourcing
- Program content expansion
- Increased market share

- Large pipeline of targets
- Significant financial firepower
- Revolver with attractive terms
- Identify, execute, integrate

Q3 FY20 guidance

In $ millions, except percentage and per share data	Q3 FY19[1]	Q3 FY20[2]	Change
Revenue	$174.6	$190.0 - $200.0	9% - 15%
GAAP Net Income Effective tax rate[3]	$14.1 27.5%	$15.9 - $17.4 26.0%	13% - 23%
GAAP EPS Weighted-average diluted shares outstanding	$0.29 48.0	$0.29 - $0.32 55.1	0% - 10%
Adjusted EPS[4]	$0.50	$0.50 - $0.53	0% - 6%
Adj. EBITDA[4] % of revenue	$38.8 22.2%	$42.0 - $44.0 22.1%	8% - 13%

Notes:
(1) Q3 FY19 figures are as reported in the Company's earnings release dated April 30, 2019.
(2) The guidance included herein is from the Company's earnings release dated January 28, 2020. For purposes of modeling and guidance, we have assumed no incremental restructuring, acquisition, other non-operating adjustments or non-recurring financing-related expenses.
(3) The effective tax rate in the guidance included herein excludes discrete items.
(4) Non-GAAP, see reconciliation table.
(5) 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 second quarter of fiscal 2020 are to the quarter ended December 27, 2019, 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.

FY20 annual guidance

In $ millions, except percentage and per share data	FY19[1]	FY20[2][5]	Change
Revenue	$654.7	$780.0 - $795.0	19% - 21%
GAAP Net Income Effective tax rate[3]	$46.8 21.4%	$71.7 - $74.5 19.0%	53% - 59%
GAAP EPS Weighted-average diluted shares outstanding	$0.96 48.5	$1.30 - $1.35 55.1	35% - 41%
Adjusted EPS[4]	$1.84	$2.09 - $2.13	14% - 16%
Adj. EBITDA[4] % of revenue	$145.3 22.2%	$172.5 - $176.0 22.1%	19% - 21%

Notes:
(1) FY19 figures are as reported in the Company's earnings release dated July 30, 2019.
(2) The guidance included herein is from the Company's earnings release dated January 28, 2020. For purposes of modeling and guidance, we have assumed no incremental restructuring, acquisition, other non-operating adjustments or non-recurring financing-related expenses.
(3) The effective tax rate in the guidance included herein excludes discrete items.
(4) Non-GAAP, see reconciliation table.
(5) 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 second quarter of fiscal 2020 are to the quarter ended December 27, 2019, 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.

Summary

- Strong Q2 and first half financial performance
- Revenue increased 22% YoY with 12% organic growth
- Bookings exceeded $200M for the third consecutive quarter wi
  1.08 book-to-bill yielding record backlog
- Record operating cash flow & solid free cash flow generation
- Continuing to invest in the business while delivering record resu
- FY20 guidance raise based on results and continued momentun

Appendix

Adjusted EPS reconciliation

(In thousands, except per share data)	Q2 FY19	Q2 FY20	LTM Q2 FY19	LTM Q2 FY20	Q3 FY20[2][4] Low	Q3 FY20[2][4] High	FY20[2][4] Low	FY20[2][4] High
Earnings per share[1]	**$ 0.26**	**$ 0.29**	**$ 0.71**	**$ 1.18**	**$ 0.29**	**$ 0.32**	**$ 1.30**	**$ 1**
Net Income	**$ 12,383**	**$ 15,676**	**$ 33,659**	**$ 61,836**	**$ 15,900**	**$ 17,400**	**$ 71,700**	**$ 74,5**
Amortization of intangible assets	6,939	7,992	28,660	28,805	7,800	7,800	30,600	30,6
Restructuring and other charges	23	1,101	3,278	1,782	-	-	1,700	1,7
Impairment of long-lived assets	-	-	-	-	-	-	-	
Acquisition and financing costs	762	1,882	4,513	11,941	800	800	5,700	5,7
Fair value adjustments from purchase accounting	-	600	2,019	693	600	600	1,800	1,8
Litigation and settlement expense, net	179	142	179	620	-	-	500	5
Stock-based and other non-cash compensation expense	5,338	6,639	18,059	21,955	6,700	6,700	26,400	26,4
Impact to income taxes[3]	(3,009)	(4,504)	(12,785)	(25,823)	(4,100)	(4,100)	(23,500)	(23,7
Adjusted income	**$ 22,615**	**$ 29,528**	**$ 77,582**	**$ 101,809**	**$ 27,700**	**$ 29,200**	**$ 114,900**	**$ 117,5**
Adjusted earnings per share[1]	**$ 0.47**	**$ 0.54**	**$ 1.63**	**$ 1.95**	**$ 0.50**	**$ 0.53**	**$ 2.09**	**$ 2**
Weighted-average shares outstanding:								
Basic	47,189	55,548						
Diluted	47,705	55,001			55,100	55,100	55,100	55,1

Notes:

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

(2) Rounded amounts used.

(3) 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 expens or benefit related to the add-backs.

(4) 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 presentation to the second quarter of fiscal 2020 are to the quarter ended December 27, 2019, to the third quarter of fiscal 2020 are to the quart ending March 27, 2020 and to fiscal 2020 are to the fiscal year ending July 3, 2020.

Adjusted EBITDA reconciliation

					Q3 FY20[2][3]		FY20[2][3]	
(In thousands)	Q2 FY19	Q2 FY20	LTM Q2 FY19	LTM Q2 FY20	Low	High	Low	High
Net Income	**$ 12,383**	**$ 15,676**	**$ 33,659**	**$ 61,836**	**$ 15,900**	**$ 17,400**	**$ 71,700**	**$ 74,5**
Other non-operating adjustments, net[1]	(18)	(549)	(344)	(231)	-	-	(200)	(2
Interest expense (income), net	2,125	(312)	7,048	2,360	(500)	(500)	(2,500)	(2,5
Income tax provision	4,483	5,110	16,348	8,232	5,600	6,100	16,800	17,5
Depreciation	4,769	4,555	17,932	18,261	5,100	5,100	20,000	20,0
Amortization of intangible assets	6,939	7,992	28,660	28,805	7,800	7,800	30,600	30,6
Restructuring and other charges	23	1,101	3,278	1,782	-	-	1,700	1,7
Impairment of long-lived assets	-	-	-	-	-	-	-	
Acquisition and financing costs	762	1,882	4,513	11,941	800	800	5,700	5,7
Fair value adjustments from purchase accounting	-	600	2,019	693	600	600	1,800	1,8
Litigation and settlement expense, net	179	142	179	620	-	-	500	5
Stock-based and other non-cash compensation expense	5,338	6,639	18,059	21,955	6,700	6,700	26,400	26,4
Adjusted EBITDA	**$ 36,983**	**$ 42,836**	**$ 131,351**	**$ 156,254**	**$ 42,000**	**$ 44,000**	**$ 172,500**	**$ 176,0**

Notes:

(1) As of July 1, 2018, the Company has revised its definition of adjusted EBITDA to incorporate other non-operating adjustments, net, which includes gains or losses on foreign currency remeasurement and fixed assets sales and disposals among other adjustments. Adjusted EBITDA for prior periods has been recast fo comparative purposes.

(2) Rounded amounts used.

(3) 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 presentation to the second quarter of fiscal 2020 are to the quarter ended December 27, 2019, 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.

Free cash flow reconciliation

(In thousands)	Q2 FY19	Q2 FY20	LTM Q2 FY19	LTM Q2 FY2
Cash provided by operating activities	**$ 25,301**	**$ 32,066**	**$ 71,844**	**$ 108,56**
Purchases of property and equipment	(7,075)	(11,324)	(18,316)	(36,808
Free cash flow	**$ 18,226**	**$ 20,742**	**$ 53,528**	**$ 71,75**

Organic revenue reconciliation

(In thousands)	Q2 FY19	Q2 FY20	LTM Q2 FY19	LTM Q2 FY20
Organic revenue[1]	**$ 159,089**	**$ 177,583**	**$ 563,354**	**$ 653,636**
Acquired revenue	-	16,330	8,994	69,180
Net revenues	**$ 159,089**	**$ 193,913**	**$ 572,348**	**$ 722,816**

Notes:

(1) Organic revenue represents total company revenue excluding net revenue from acquisitions for the first four full quarter 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.