

# Second Quarter FY 2017 Earnings Conference Call

November 9, 2016



# Forward-Looking Statements

All statements made on this call that do not directly and exclusively relate to historical facts constitute “forward-looking statements” within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

These statements represent CSRA’s intentions, plans, expectations and beliefs, including statements about network and asset protection and improving mission-critical functions.

The forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside the control of CSRA. These factors could cause actual results to differ materially from such forward-looking statements.

For a written description of these factors, see the sections titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in CSRA's Annual Report on Form 10-K for the Fiscal Year Ended April 1, 2016 and any updating information in subsequent SEC filings.

CSRA disclaims any intention or obligation to update these forward-looking statements whether as a result of subsequent event or otherwise, except as required by law.

# Use of Non-GAAP Measures

On this call we will discuss some non-GAAP financial measures and other metrics, which we believe provide useful information for investors and securities analysts.

Pro forma results (FY16 only) assume that the separation and merger had occurred at the beginning of FY16. Adjusted results (FY16 and FY17) exclude costs directly associated with the separation and merger transactions and the ongoing integration process, pension mark-to-market adjustments, and intangibles amortization associated with SRA contract backlog.

We believe the pro forma and adjusted results provide useful insight into CSRA operational performance and provide an important baseline for comparison. By presenting the pro forma and adjusted results, we enable investors and securities analysts to assess our performance on the same basis as management.

When analyzing CSRA's performance, investors and securities analysts should evaluate each adjustment in our reconciliation and use pro forma and adjusted measures in addition to, and not as an alternative to, GAAP measures.

# CEO Key Messages

## Strong quarterly results

- Revenue, adjusted EBITDA and EPS up sequentially and above consensus
- Excellent execution across all programs enabled EBITDA margin of 18.1%

1

### Strategy and operating model

- Focus on mission, next gen thinking with key partners
- Rapid integration with lean cost structure
- Portfolio in line with new administration priorities

2

### Business development momentum

- Book-to-bill of 1.9x (1.3x TTM); 2.5x with protested awards
- 63% new business with strong win rates
- Success across all customer sets and capabilities

3

### Talent management

- Record new hires; demonstrated ability to recruit talent
- Rapidly scaling ITC for competitive advantage

# Select Results for 2017 Q2: Income Statement

Metric	Q2 FY17	
	Value	YoY Growth
Revenue (MM)	\$ 1,263	(4)%
Adjusted EBITDA (MM)	\$ 229	(3)%
Adjusted EBITDA Margin	18.1%	20 bps
Adjusted EPS	\$ 0.56	6%

*Note: YoY Growth rates are computed from pro forma figures, as shown in the appendix.*

## REVENUE

- Sequentially up 1%
  - Pull forward of deliveries from Q3, Q4
- YoY down 4%—similar trends
  - Similar trends from prior quarters
- Contract mix improving
  - 46% fixed price
  - 20% T&M
  - 34% cost plus

## INCOME

- Excellent earnings performance
  - Contract performance, merger synergies
- Adjusted EBITDA driven by record margin
  - Sequentially up 5%, YoY down 3%
- Adjusted EPS
  - Sequentially up 10%, YoY up 6 percent
- Improvements in amortization and interest
- Includes \$24M of pension income

# Select Results for 2017 Q2: Balance Sheet and Cash Flow Statement

## Cash flow

- ① \$55M of operating cash flow, driven by timing and one-time payments
  - DSO of 57 days; lower level of early payments this Q2
  - Higher than normal Cap Ex for projects
  - FCF of \$8 million—should expand in subsequent quarters

## Capital to share- holders

- \$8M in share repurchases in the quarter; \$5M more in early October
- \$337M remains on current share repurchase authorization
- Payout of \$16M in dividends from 10-cent per share quarterly program

## Balance sheet

- ① \$68M of cash, \$2.6B of term debt, \$148M of capital leases
- ① Deployed \$50M to pay down debt in Q2—net debt/EBITDA of 2.9
- ① Strategic flexibility from steady cash flows and \$700M of undrawn revolver capacity

# Fiscal Year 2017 Guidance

<b>Metric</b>	<b>Fiscal Year 2017</b>
Revenue (MM)	\$5,000 - \$5,200
Adjusted EBITDA (MM)	\$870 - \$905
Adjusted Diluted Earnings per Share	\$1.91 - \$2.04
Free Cash Flow (MM)	\$300 - \$350

*Note: The company elects to provide ranges for certain metrics not in accordance with GAAP because it cannot make reliable estimates of key elements, including pension mark-to-market adjustments and integration expenses.*

- No change to guidance
- Visibility into lower part of FY17 revenue range
  - Consistent with H1 run rate; taken care of most of \$150M "go-get"
  - Effect of robust wins limited by protest (LMS) and ramp-up (OPM)
  - Strong momentum into Q4 and FY18
- Sustained high margins point to EPS in upper half of range
- Revenue, EPS, and EBITDA likely lower in Q3 before returning to growth

# Appendix



# Appendix–Revenue Crosswalk

## CSRA INC. PRO FORMA REVENUE (unaudited)

(Dollars in millions)	Three Months Ended	
	September 30, 2016	October 2, 2015
Revenue <sup>(a)</sup>	\$ 1,263	\$ 969
Historical SRA revenue <sup>(b)</sup>	—	351
Separation and merger effect <sup>(c)</sup>	—	—
Pro forma adjusted revenue	\$ 1,263	\$ 1,320

*Notes:*

- (a) For the three and six months ended October 2, 2015, GAAP results reflect the operations of CSRA LLC.
- (b) Revenue prior to the November 30, 2015 merger from the most closely corresponding reporting period, which is July 1, 2015 to September 30, 2015, in the case of the three months ended October 2, 2015 and April 1, 2015 to September 30, 2015, in the case of the six months ended October 2, 2015.
- (c) Adjustment for inter-company revenue prior to the November 30, 2015 merger.

# Appendix–Adjusted EPS Crosswalk

## CSRA INC. PRO FORMA ADJUSTED DILUTED EARNINGS PER SHARE (unaudited)

(Dollars in millions except per share amounts)	Three Months Ended	
	September 30, 2016	October 2, 2015
Income before income taxes <sup>(a)</sup>	\$ 124	\$ 88
Historical SRA loss from continuing operations before taxes <sup>(b)</sup>	—	(7)
Separation and merger costs <sup>(c)</sup>	8	69
One-time integration costs	—	—
Amortization of funded backlog associated with SRA acquisition <sup>(d)</sup>	16	—
Pro forma adjusted income before income taxes	149	150
Pro forma adjusted income tax expense <sup>(e)</sup>	53	59
Pro forma adjusted net income	96	92
Less: Noncontrolling interest	4	5
Pro forma adjusted net income attributable to CSRA common stockholders	\$ 92	\$ 87
Pro forma adjusted diluted earnings per common share <sup>(f)</sup>	\$ 0.56	\$ 0.53

*Notes: Pro forma adjusted net income attributable to CSRA common stockholders may not equal the sum of the component figures due to rounding.*

- (a) For the three and six months ended October 2, 2015, GAAP results reflect the operations of CSRA LLC. The six-month GAAP results include a pre-tax gain of \$17 million on the sale of Welkin, which increased pro forma adjusted net income to shareholders by \$10 million and pro forma adjusted diluted EPS by \$0.06.
- (b) Income prior to the November 30, 2015 merger from the most closely corresponding reporting period, which is July 1, 2015 to September 30, 2015, in the case of the three months ended October 2, 2015 and April 1, 2015 to September 30, 2015, in the case of the six months ended October 2, 2015.
- (c) Inter-company income prior to the November 30, 2015 merger plus costs directly associated with the separation and merger transactions, before tax effect.
- (d) Total value of \$65 million amortized over one year is included in GAAP Income before income taxes.
- (e) For the three and six months ended September 30, 2016, the GAAP effective tax rate is applied; for the prior period, the long-term effective tax rate of 39 percent is applied.
- (f) Diluted share count set at share count as of November 30, 2015 for the three and six months ended October 2, 2015.

# Appendix–Adjusted EBITDA Crosswalk

## CSRA INC. PRO FORMA ADJUSTED EBITDA (unaudited)<sup>(a)</sup>

(Dollars in millions)	Three Months Ended	
	September 30, 2016	October 2, 2015
Net income <sup>(b)</sup>	\$ 80	\$ 53
Historical SRA loss from continuing operations before taxes <sup>(c)</sup>	—	(4)
Separation, merger and integration costs <sup>(d)</sup>	25	61
Interest expense, net	29	30
Tax expense on income	44	40
Depreciation and amortization	47	51
Amortization of contract-related intangibles	—	2
Stock-based compensation	4	7
Restructuring costs	—	1
Pension and post-retirement actuarial losses (gains), settlement losses, and amortization of other comprehensive income	—	(5)
Pro Forma Adjusted EBITDA	\$ 229	\$ 236

*Notes:*

- (a) The reconciliation to Pro Forma Adjusted EBITDA differs across periods. For example, Net income for the three and six months ended October 2, 2015, incorporate amounts furnished in the Form 8-K dated December 24, 2015, derived on the basis described therein; Net income for the three and six months ended September 30, 2016, is derived from the same basis of accounting used to prepare GAAP financial information for that period.
- (b) For the three and six months ended October 2, 2015, GAAP results reflect the operations of CSRA LLC.
- (c) SRA income prior to November 30, 2015 merger from the most closely corresponding reporting period, which is July 1, 2015 to September 30, 2015, in the case of the three months ended October 2, 2015 and April 1, 2015 to September 30, 2015, in the case of the six months ended October 2, 2015.
- (d) Inter-company income prior to the November 30, 2015 merger, costs directly associated with the separation and merger transactions incurred by CSGov and SRA before the merger and CSRA after the merger, intangibles amortization expense associated with SRA's funded contract backlog, and one-time integration costs.
- (e) Pre-tax gain on the sale of Welkin in April 2015.
- (f) Pre-tax income from the assets acquired by SRA in April 2015 earned before the acquisition.

# Appendix–Free Cash Flow Crosswalk

## CSRA INC. FREE CASH FLOW (unaudited)

(Amounts in millions)	Three Months Ended	
	September 30, 2016	October 2, 2015
Net cash provided by operating activities	\$ 55	119
Net cash (used in) provided by investing activities	(48)	(32)
Sale of accounts receivable <sup>(a)</sup>	—	4
Payments on capital leases and other long-term assets financing	(10)	(5)
Separation-related payments	11	32
Free cash flow	\$ 8	\$ 118

*Notes:*

- (a) Impact of net proceeds arising from the initial sale of billed and/or unbilled receivables under the Master Accounts Receivable Purchase Agreement.

**CSRA** 