Initiating Coverage:

Leidos Holdings, Inc. ($LDOS)

A Quiet Powerhouse in Defense Technology and Federal Services

Key Takeaway: While Leidos is known for consistently winning government contracts across all industries, they are currently operating in a distinct bubble that could enable it to reach the pinnacle of defense, health, and energy. Over the last decade, Leidos has made numerous strategic acquisitions to establish itself as a key player in many major industries, which helps to create diverse revenue streams. Most notably, through another major acquisition, Leidos is making strides to break into the Generative AI and machine learning spheres to bolster product implementation and utilize it throughout operations. This could mean big things for Leidos, which has often struggled to maintain a consistent operating margin.

Trusted Mission AI: Currently, one of Leidos' biggest questions they are trying to answer is how to implement AI into their products that deal with sensitive or discrete information. With Trusted Mission AI, Leidos is on track to find that solution and has already made great strides. Leidos' AI project lives by the motto that Technology + Methodology = Trust, and their new framework allows for the gradual implementation of AI as it learns how the clients operate and as trust is gained in the system. The system is also self-regulating, as the models are designed to detect errors and retrain themselves quickly. The intersection of human and AI allows for decisions to be modeled and made more efficiently and effectively.

AlphaMosaic: AlphaMosaic is Leidos' advanced military strategy AI platform. Even though the concept has existed for years, new generative AI and machine learning developments in machine learning have made the program almost battle-ready, with it reaching the field-testing stage. While most do not trust AI with split-second, life-or-death decisions, Leidos has worked to develop a system with many AI agents that are designed to mirror the thought process and decision-making of the most elite armed forces groups internationally. AlphaMosaic not only makes rational decisions but is trained to think like a pilot in a specific situation. While its primary application is for use in jets, AlphaMosaic offers a wide range of strategic applications for naval operations and submersible warfare. The menu of options that AlphaMosaic provides will lead to a new generation of warfare and mission evaluation.

AWS Status: Leidos recently passed vetting and achieved AWS status. Which means Leidos is now eligible to assist in information sharing around the globe. This new status highlights the power of Leidos and makes it look more favorable for many new and existing government contracts and mission plans. Leidos has recently been a part of AUKUS, specifically pillar 2. AUKUS is the US, UK, and Australia's joint task force against China in the Pacific region. Leidos put itself in a position to be integral for bolstering communications between these three nations. Increased communication at a higher speed and increased security are essential to preventing or winning a conflict in today's age. With Leidos' massive cybersecurity network, it has positioned itself well to pave the way in secure communications across the globe.

Valuation: We initiate coverage with a $210 Price Target.

Stock Rating:	Overweight
Price Target:	$210.00

Price:	$190.35
Potential Upside/Downside:	10.%
Ticker:	$LDOS

1 Year History
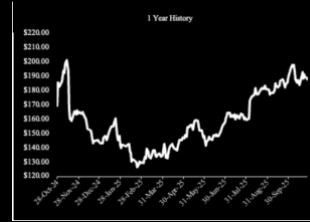
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Company Overview

Company Description: Leidos Holdings, Inc. (LDOS) is a leading government contractor and technology solutions firm that specializes in defense, cybersecurity, civil applications, energy systems, and healthcare. Leidos serves as a government contractor and in the public sector, but the majority of Leidos' revenue comes from multi-year government contracts. Leidos has expanded its products into AI and machine learning for applications in both defense and healthcare, on top of existing technologies.

Defense Solutions: The bulk of Leidos' revenue comes from the defense solutions sector, which is consists of both physical systems and cyber systems, comprising both security and offense. In the physical systems category, Leidos specializes in air and missile defense systems, but is also tasked with helping to develop hypersonic strike systems and directed energy weapons. In the cybersecurity sector, Leidos specializes in critical infrastructure security, utilizing AI to have a faster reaction time to threats than the average person would. They also specialize in cyber offensive technology. Leidos acquired Kudu Dynamics earlier in 2025, which gives Leidos critical infrastructure to build an AI cyber offensive model. Leidos' offensive and defensive systems strategically position them for a wide variety of contracts in our evolving age.

Civil and Healthcare: The other main portion of Leidos' revenue is from their Civil security systems and their healthcare services. In the Civil security sector, Leidos is well known for providing the technology behind airport baggage scanners. They were able to win this contract after buying Lockheed Martin's IS&GS division in 2016. They have made many major overhauls to the point where you no longer need to remove devices from your bags. They have also made a large-scale evolution of this technology to create a vehicle scanning system to increase overall security. In the healthcare division, Leidos doesn't offer traditional healthcare products, but does offer public health surveillance systems and screenings through subsidiaries, as well as cyber options to help protect patient health records.

Industry Overview

Impact of Artificial Intelligence: One of the dominant defense industry trends currently is the race to safely and securely utilize generative AI and machine learning in defense systems. AI products in this sector are the key to developing autonomous system regulation and will help unlock successful, entirely unmanned vehicle systems. AI developments will also help impact and streamline the rate of decision-making and detection of threats, granting the user a decisive advantage. AI will also mitigate risks to human personnel, helping to preserve valuable human capital and knowledge for other mission-critical elements.

Rise in Defense Budgets: The defense industry has seen immense growth due to heightened geopolitical conflicts, specifically between Russia and Ukraine, plus Middle Eastern conflicts involving Israel and Qatar. The threat of conflicts has led the United States and many NATO members to dedicate higher budgets to defense. The United States' budget is now just shy of one trillion dollars. Signaling to the industry that there is a very high reward for innovation. Next, NATO member countries' defense budgets saw almost a 22% increase across the board. This is huge for many US-based defense corporations because it allows for a wider variety of contracts to be accessible and benefits those companies with diverse products.

Government Overhaul: In addition to increased budgets, Governments are starting to reshape procurement processes due to decreases in product development time, as well as reviewing projects that are running behind schedule or over budget. With the rise of autonomous projects, procurement speed must increase, and as we all know, bureaucracy is a slow grinding wheel. Specifically in the US, there are now DoD task forces that are tasked with "expediting acquisitions" with a new preference system that will help to increase competition.

Peer Comparisons

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
BAH	$10,184	$16,180	12.8x	$11,962	$1,581
SAIC	$42,046	$7,030	11.0x	$7,460	$691
LHX	$55,339	$54,210	33.0x	$21,370	$3,783
CACI	$12,517	$11,370	25.0x	$8,627	$959
LDOS	$24,140	$29,520	18.0x	$16,662	$1,843

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
BAH	10.2x	54.3%	13.2%	11.8%	12.4%
SAIC	10.2x	12.0%	9.3%	7.4%	4.0%
LHX	14.3x	25.7%	17.7%	11.8%	9.8%
CACI	11.9x	8.9%	11.1%	8.9%	17.2%
LDOS	16.0x	16.8%	11.1%	11.0%	7.9%

	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate
High	16.02x	54.3%	17.7%	11.8%	17.2%
75th Percentile	14.33x	25.7%	13.2%	11.8%	12.4%
Average	12.52x	23.5%	12.5%	10.2%	10.3%
Median	11.85x	16.8%	11.1%	11.0%	9.8%
25th Percentile	10.23x	12.0%	11.1%	8.9%	7.9%
Low	10.17x	8.9%	9.3%	7.4%	4.0%

Leidos Holdings, Inc Relative Valuation

|		
Implied Enterprise Value (25th Percentile)	$	18,861
Implied Enterprise Value (Median)	$	21,844
Implied Enterprise Value (75th Percentile)	$	26,410
Implied Share Price (25th Percentile)		117.9628536
Implied Share Price (Median)	$	141.21
Implied Share Price (75th Percentile)	$	176.80

Investment Theses

AI: America's Most Important Battleground: Leidos has leveraged all forms of AI in many different systems, both for clients and to streamline office work. What sets Leidos apart today is the accelerated pace of production and deeper integration of its AI frameworks across its range of contracts. Through its Trusted Mission AI initiative, Leidos is working to embed AI into mission planning, cybersecurity, logistics, and software development. This allows the firm to reduce manual analytic work and to decrease product delivery timelines, thus increasing operational efficiency. The revolutionary use of AI will begin to shift operations due to this structural advantage. Leidos is using AI to improve supply chain resilience and reduce overhead compared to its competition, which will allow it to lower input costs and increase its operating margin. Lastly, the scalability of their models allows for exponential topline growth. This is expected because, due to the self-training nature of the models Leidos provides, it will be able to use these models in everyday activities that could lower R&D costs for future products, also boosting EBIT, and ultimately boosting future profits and Free Cash Flows.

Backlog Strength and Recompete Advantage: Leidos is currently holding a very powerful position in the market that many others cannot see from the surface level. Leidos is currently maintaining a multi-year contracts with funded backlog, in excess of $8B USD, that is tied to defense, intelligence, and national security programs. These programs require high-security clearance personnel and intricate system integration. These specific types of contracts have a very low re-compete turnover rate due to continuity issues, security risks, and often high contract transition costs to the government. A re-compete is the act of the issuer opening the contract up to new bids and timelines to competitors. This embeds Leidos in future contract cycles due to being embedded in mission workflow and previously being privy to high-level government information. This creates, for lack of better words, recurring revenue even though the contracts are time-bound, which is something the investor does not often consider.

Price Target & Valuation

Our analysis gives ($LDOS) a price target of $210 and an overweight rating.

Football Field Valuation Range

Price: $187.81   Price Target: $210.00

Rest of Street Targets	$164.00 — $210.00
Comparables	$120.21 — $157.55
Discounted Cash Flow Model	$165.44 — $246.09
52-Week Trading Range	$123.62 — $202.90

$100.00 $200.00 $300.00
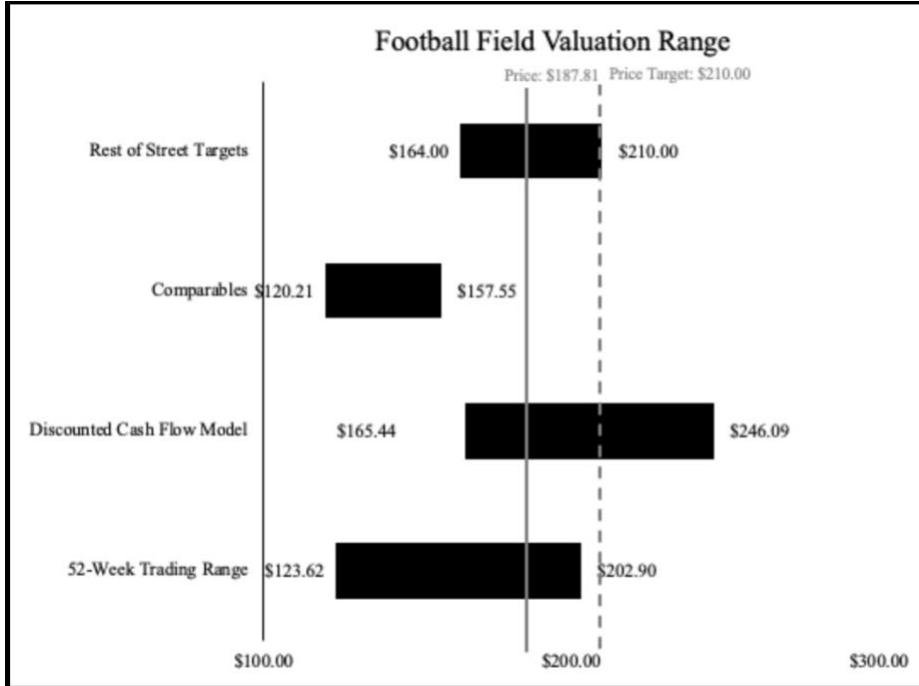
Potential Downsides to Our Rating

Dependence on U.S. Government Contract: The vast majority of Leidos' revenue comes from federal agencies, specifically the Department of Defense and other government agencies. Therefore, Leidos is very dependent on stable government spending, and with the current government shutdown, many future contracts are being postponed. This will then open the company to budget concerns during the time of the shutdown.

Margin Pressure from Competition and Labor: Government services and defense contracts are very competitive and very cost-sensitive. Contractors work on a fixed budget when providing these services, so profitability can often be limited. Now, there is more pressure on these profit margins than ever due to increased labor costs and subcontracting costs. As Leidos continues to grow and pursue larger government contracts, it could see margins erode even further.

Technological Expansion Risks: As Leidos continues to expand in the AI, cybersecurity, and digital modernization spheres, it becomes open to integration challenges and technology execution risks. If any of their new software or programs fail, company growth could falter, and damage could be done to their reputation in the defense contracting sphere.

Our Price Target: $210.00
Our PT is based on the effectiveness and the success of Leidos' development of military grade AI models to advance warfare, as well as an increase in new contracts in diversified industries. Defense spending is at an all-time high, especially on cybersecurity, and this translates well to Leidos' core business model. This is also based on an assumption of this year's revenue outpacing last year's growth.

Our Upside Case: $245.00
Our upside case is based on the assumption that Leidos will see extraordinary revenue growth based on the successful development of many different defense contracts, pertaining to AUKUS, and new civilian and healthcare products, driving an influx of higher-level contracts as Leidos continues to bolster its image in the defense industry.

Our Downside Case: $164.00
Our downside case is based on what would happen if some of the programs fail, specifically their AI weapons system model that is near the end of development, and thus incur higher costs with lower revenue, and dampen or eradicate profit margins. Especially with new government evaluation metrics for efficiency in product development, success is crucial. If Leidos' product development is damaged, this will correlate to a shortage of contracts because they will be seen as disreputable in the eyes of the government.

DCF Case Values

	Downside	Base	Upside
Value	165.44	210.39	246.09

Current Price: 165.44
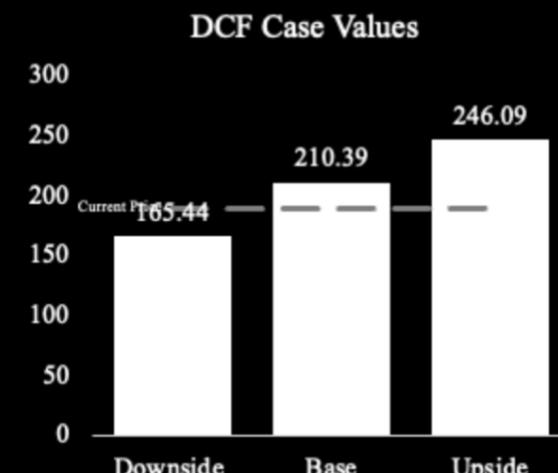
Projections

Income Statement ($mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	16,662	17,100	18,275	19,530	20,873	7.8%
EBITDA	2,117	2,570	1,827	2,002	2,192	1.2%
EBIT	1,827	2,300	1,462	1,562	1,670	-3.0%
NOPAT	1,150	1,360	1,281	816	2,215	24.4%

Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	12.7%	15.0%	10.0%	10.3%	10.5%	11.7%
EBIT Margin	11.0%	13.5%	8.0%	8.0%	8.0%	9.7%
Revenue Growth	7.9%	2.6%	6.9%	6.9%	6.9%	6.2%
EBIT Growth	194.2%	25.9%	-36.4%	6.9%	6.9%	39.5%

Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	9.5x	9.3x	20.6x	19.3x	18.0x	15.3x
EV/Sales	1.7x	1.6x	1.5x	1.4x	1.3x	1.5x
EV/EBITDA	13.1x	10.8x	15.2x	13.9x	12.7x	13.2x
FCF Yield	10.6%	10.8%	4.9%	5.2%	5.5%	7.4%

About $LDOS

Leidos Holdings, Inc. ($LDOS), founded in 1969 as Science Applications International Corporation, and later splitting into two unaffiliated entities in 2013, operates as a jack of all trades, providing services in national defense and security, cybersecurity and communication, AI technology, and energy applications for clients internationally. Leidos primarily operated in national defense through airport security systems, but in the last few years has made a major pivot into the AI sphere and defense technology. (Insert a sentence about their business segments, where they are, and what makes them unique). Leidos' main goal is to integrate cutting-edge technology, science, and engineering to create solutions while striving for innovation.

Disclosures & Ratings

Appendix

DCF Analysis ($mm)

	FY2020 12/31/20	FY2021 12/31/21	FY2022 12/31/22	FY2023 12/31/23	FY2024 12/31/24	FY2025 12/31/2025	FY2026 12/31/26	FY2027 12/31/27	FY2028 12/30/28	FY2029 12/30/29	FY2030 12/31/30
Stub						0.82	1.82	2.82	3.82	4.82	5.82
Discount Period						0.09	0.68	1.68	2.68	3.68	4.68
Revenue	12,297	13,737	14,396	15,438	16,662	17,100	18,275	19,530	20,873	22,307	23,841
Revenue Growth	*0%*	*12%*	*5%*	*7%*	*8%*	*3%*	*7%*	*7%*	*7%*	*7%*	*7%*
Defense & Security	7,378	7,967	7,198	9,108	10,997	9,747	10,429	11,159	11,940	12,776	13,671
Health & Civil	4,919	5,770	3,887	4,168	4,999	5,130	5,489	5,873	6,284	6,724	7,195
Other	0	0	3,311	2,161	666	2,223	2,356	2,498	2,648	2,806	2,975
EBIT	998	1,152	1,088	621	1,827	2,300	1,462	1,562	1,670	1,785	1,907
EBIT Margin	*8%*	*8%*	*8%*	*4%*	*11%*	*13%*	*8%*	*8%*	*8%*	*8%*	*8%*
Tax Expense	(152)	(208)	(193)	(195)	(388)	460	292	312	334	357	381
Effective Tax Rate	*-15%*	*-18%*	*-18%*	*-31%*	*-21%*	*20%*	*20%*	*20%*	*20%*	*20%*	*20%*
NOPAT	1,150.00	1,360.00	1,281.00	816.00	2,215.00	1,840.00	1,169.59	1,249.95	1,335.85	1,427.66	1,525.80
D&A	282	325	333	331	290	270	365	439	522	613	715
Capex	183	104	129	207	149	110	183	244	313	390	477
Changes in NWC	303	(91)	32	(57)	(191)	(600)	183	195	209	223	238
UFCF	946	1,672	1,453	997	2,547	2,600	1,170	1,250	1,336	1,428	1,526
PV of FCF						2,584	1,115	1,110	1,106	1,101	1,096

Weighted Average Cost of Capital ($mm)

Market Risk Premium	6.00%
Beta	0.70
Risk Free Rate	4.39%
Cost of Equity	**6.32%**
Weighted Average Cost of Debt	4.80%
Tax Rate	20.00%
Cost of Debt	**1.01%**
Total Equity	$24,096
Total Debt	$3,727
Equity/Total Capitalization	73.60%
Debt/Total Capitalization	26.40%
WACC	**7.33%**

Terminal Value — Perpetuity Growth Method

2034 FCF	$1,526
Growth	3.20%
Terminal Value	$36,947
PV of Terminal Value	$26,543
PV of Projection Period	$8,112
PV of Terminal Value	$26,543
Implied TEV	**$34,655**
(-) Debt	$4,670
(+) Cash	$943
Implied Equity Value	$30,928
Basic Shares Outstanding	128
Implied Share Price	**$241.06**
Upside/Downside	28.36%
Implied Exit BF EV/EBITDA	18.2x

Terminal Value — Exit Multiple Method

2034 EBITDA	$2,622
EV/EBITDA Exit Multiple	12.0x
Terminal Value	$31,470
PV of Terminal Value	$22,608
PV of Projection Period	$8,112
PV of Terminal Value	$22,608
Implied TEV	**$30,720**
(-) Debt	$4,670
(+) Cash	$943
Implied Equity Value	$26,993
Diluted Shares Outstanding	128
Implied Share Price	**$210.39**
Upside/Downside	12.0%
Implied PGR	0.5%

Blended Share Price

Perpetutity Growth Method	0%
Exit Multiple Method	100%
Blended Share Price	**$210.39**
Upside/Downside	12.02%