



4th Quarter and Full Fiscal Year 2018 Financial Results & Germane Systems Acquisition Overview

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Conference call:

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Webcast login at www.mrcy.com/investor

Webcast replay available by 7:00 p.m. ET July 31, 2018



Forward-looking safe harbor statement

This presentation contains certain forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995, including those relating to the acquisition described herein and to fiscal 2019 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 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, 2017. 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.

Use of Non-GAAP (Generally Accepted Accounting Principles) Financial Measures

In addition to reporting financial results in accordance with generally accepted accounting principles, or GAAP, the Company provides adjusted EBITDA, adjusted income, adjusted EPS, and free cash flow, 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 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 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 presentation is contained in the Appendix hereto.



Strong financial performance

Q4 FY18 YoY Results

- Record bookings up 30%
- Record revenue up 32%
- Organic revenue⁽¹⁾ up 16%
- GAAP net income up 15%
- Record adj. EBITDA up 36%
- Record backlog up 25%
- Improved working capital
- H2 free cash flow up 106% vs. H1

Full FY18 YoY Results

- Record bookings up 27%
- Record revenue up 21%
- Organic revenue⁽¹⁾ up 7%
- Record GAAP net income up 64%
- Record adj. EBITDA up 23%
- Record backlog up 25%

(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.



Q4 and fiscal 2018 strategic achievements

- Integration of prior acquisitions progressing well
- Recently acquired businesses performance strong
- Added important new capabilities at the USMO
- Insourcing ramp continued; delivering substantial savings
- New business capture demonstrates benefits of trusted manufacturing
- Penetrated C4I market organically and via RTL, Themis acquisitions
- Announcing acquisition of Germane Systems



Acquisition of Germane Systems

Combination with Themis presents compelling value creation opportunity

- Leading provider of rugged servers for C2I applications
- Will integrate Germane with recently acquired Themis Computer
- Complementary market focus; strategic program portfolio
- Creates \$100M+ C2I rugged server business in less than 6 months
- \$45M purchase price⁽¹⁾; funded with existing revolver
 - Germane 10x gross purchase multiple of LTM adj. EBITDA
 - Germane 4x purchase multiple net of expected tax benefits⁽²⁾ and cost savings⁽³⁾
- Themis and Germane combined ~9x net purchase price multiple
- Germane accretive to fiscal 2019 adj. EPS
 - Slightly dilutive to fiscal 2019 gross margin and adj. EBITDA margin
- Platform expected to achieve mid-point of target adj. EBITDA margin in FY20

Notes:

(1) Subject to net working capital and net debt adjustments.

(2) Acquisition of Germane Systems, a limited liability company, is treated as an asset purchase for tax purposes, resulting in \$7M in net present value of tax benefits.

(3) Acquisition of Germane Systems is expected to yield \$5M in run rate cost synergies.



Business outlook remains strong

- Defense budget has increased; expected continued growth 3%+
- Capitalizing on favorable industry trends – increased outsourcing, flight to quality, supply chain delayering
- Grow core C4I, Sensor and Effector Mission Systems markets
- High-tech business model working extremely well
- Organic and M&A-driven growth outlook strong
- FY19 organic revenue growth expected to increase to 8% - 9%



Summary

- Continue to grow and expand in strategically aligned core markets
- Grow business organically, high single-digit / low double-digit rate
- Supplementing high level of organic growth with strategic M&A
- Expect to achieve high-end of adj. EBITDA target over time by:
 - Increased revenue organically and through M&A
 - Insourced manufacturing and operating efficiencies improving margins
 - Lower organic operating expense growth than revenue growth
 - Fully integrating acquired businesses to generate synergies

Continuing to successfully execute model – no fundamental change



Q4 FY18 vs. Q4 FY17

<i>In \$ millions, except percentage and per share data</i>	Q4 FY17	Q4 FY18	Change
Bookings Book-to-Bill	\$132.3 1.14	\$171.7 1.12	30%
Backlog 12-Month Backlog	\$357.0 \$290.8	\$447.1 \$328.5	25%
Revenue Organic Revenue Growth ⁽¹⁾	\$115.6 4%	\$152.9 16%	32%
Gross Margin	46.6%	44.7%	(1.9 pt)
Operating Expenses Selling, General & Administrative Research & Development Amortization/Restructuring/Acquisition	\$40.9 20.4 13.9 6.6	\$49.4 25.4 14.9 9.1	21%
GAAP Income	\$8.8	\$10.1	15%
GAAP EPS Weighted Average Diluted Shares	\$0.19 47.5	\$0.21 47.5	11%
Adjusted EPS⁽²⁾	\$0.32	\$0.47	47%
Adj. EBITDA⁽²⁾ % of revenue	\$27.8 24.0%	\$37.7 24.6%	36%
Free Cash Flow⁽²⁾	\$3.7	\$21.6	487%

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.



FY18 vs. FY17

<i>In \$ millions, except percentage and per share data</i>	FY17	FY18	Change
Bookings Book-to-Bill	\$443.8 1.09	\$563.5 1.14	27%
Backlog 12-Month Backlog	\$357.0 \$290.8	\$447.1 \$328.5	25%
Revenue Organic Revenue Growth ⁽¹⁾	\$408.6 10%	\$493.2 7%	21%
Gross Margin	46.9%	45.8%	(1.1 pt)
Operating Expenses Selling, General & Administrative Research & Development Amortization/Restructuring/Acquisition	\$154.1 76.5 54.1 23.6	\$178.9 88.4 58.8 31.7	16%
GAAP Income	\$24.9	\$40.9	64%
GAAP EPS Weighted Average Diluted Shares	\$0.58 43.0	\$0.86 47.5	48%
Adjusted EPS⁽²⁾	\$1.15	\$1.42	23%
Adj. EBITDA⁽²⁾ % of revenue	\$93.9 23.0%	\$115.4 23.4%	23%
Free Cash Flow⁽²⁾	\$26.3	\$28.2	7%

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.



Balance Sheet

(In \$ millions) ⁽¹⁾	As of 6/30/17	As of			
		9/30/17	12/31/17	3/31/18	6/30/18
<u>ASSETS</u>					
Cash & cash equivalents	41.6	26.1	32.0	44.2	66.5
Accounts receivable, net	113.7	121.4	123.0	141.6	143.8
Inventory, net	81.1	93.3	105.9	117.1	108.6
PP&E, net	51.6	51.6	51.6	51.3	51.0
Goodwill and intangibles, net	509.9	510.7	505.5	685.7	675.3
Other	17.8	19.5	17.8	17.0	19.3
TOTAL ASSETS	815.7	822.6	835.8	1,056.9	1,064.5
<u>LIABILITIES AND S/E</u>					
AP and accrued expenses	66.5	69.5	65.8	69.8	59.1
Other liabilities	23.8	18.8	20.8	36.3	38.5
Debt ⁽²⁾	0.0	0.0	0.0	195.0	195.0
Total liabilities	90.3	88.3	86.6	301.1	292.6
Stockholders' equity	725.4	734.3	749.2	755.8	771.9
TOTAL LIABILITIES AND S/E	815.7	822.6	835.8	1,056.9	1,064.5

Notes:

(1) Rounded amounts used.

(2) On July 31, 2018 (in Q1 FY19), Mercury acquired Germane Systems, LC, and borrowed \$45 million on its existing revolving credit facility to fund the acquisition.



Cash Flow summary

(In \$ millions) ⁽¹⁾	FY17	FY18				FY18
		Q1	Q2	Q3	Q4	Total
Net Income	24.9	18.0	9.1	3.7	10.1	40.9
Depreciation and amortization	32.3	9.3	9.6	11.4	12.0	42.3
Other non-cash items, net	8.7	0.8	4.7	3.3	5.1	14.0
<u>Change in Working Capital</u>						
Accounts receivable, unbilled receivables, and costs in excess of billings	(14.1)	(7.8)	(1.4)	(10.6)	(2.9)	(22.8)
Inventory	(9.3)	(11.1)	(11.3)	(2.5)	8.7	(16.2)
Accounts payable and accrued expenses	3.5	12.8	(1.2)	(8.7)	(8.2)	(5.3)
Other	13.2	(14.0)	(0.7)	4.2	0.8	(9.5)
Changes in Operating Assets and Liabilities	(6.7)	(20.1)	(14.6)	(17.5)	(1.6)	(53.8)
Operating Cash Flow	59.1	8.0	8.8	0.9	25.6	43.3
Capital expenditures	(32.8)	(3.6)	(4.0)	(3.5)	(4.0)	(15.1)
Free Cash Flow⁽²⁾	26.3	4.4	4.8	(2.6)	21.6	28.2
<i>Free Cash Flow⁽²⁾ / Adjusted EBITDA⁽²⁾</i>	<i>28%</i>	<i>18%</i>	<i>18%</i>	<i>n.a.</i>	<i>57%</i>	<i>24%</i>
<i>Free Cash Flow⁽²⁾ / GAAP Net Income</i>	<i>106%</i>	<i>24%</i>	<i>53%</i>	<i>n.a.</i>	<i>214%</i>	<i>69%</i>

Notes:

(1) Rounded amounts used.

(2) Non-GAAP, see reconciliation table.



FY19 annual guidance

<i>In \$ millions, except percentage and per share data</i>	FY18⁽¹⁾	FY19⁽²⁾	Change
Revenue	\$493.2	\$602 - \$624	22% - 27%
Gross Margin	45.8%	43.7% - 44.4%	(2.1) - (1.4)pts
Operating Expenses	\$178.9	\$202.2 - \$204.3	13% - 14%
GAAP Income Effective tax rate ⁽³⁾	\$40.9 4%	\$36.1 - \$44.5 27%	(12%) - 9%
GAAP EPS Weighted-average diluted shares outstanding	\$0.86 47.5	\$0.75 - \$0.93 47.9	(13%) - 8%
Adjusted EPS⁽⁴⁾	\$1.42	\$1.58 - \$1.76	11% - 24%
Adj. EBITDA⁽⁴⁾ % of revenue	\$115.4 23.4%	\$130.5 - \$142.0 21.7% - 22.8%	13% - 23%

Notes:

(1) FY18 figures are as reported in the Company's earnings release dated July 31, 2018.

(2) The guidance included herein is from the Company's earnings release dated July 31, 2018. For purposes of modeling and guidance, we have assumed no restructuring, acquisition 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.



Estimated impact of Germane Systems

	FY19 ⁽¹⁾ Guidance	Germane Est. Contribution	Mercury w/o Germane
Revenue (\$M)	602 - 624	43	559 - 581
Gross Margin (%)	43.7% - 44.4%	23%	45.3% - 46.0%
Adjusted EBITDA (\$M)	130.5 - 142.0	5	125.5 - 137.0
Adjusted EBITDA Margin (%)	21.7% - 22.8%	12%	22.5% - 23.6%

Synergies bring margins in line with target model

Notes:

(1) The guidance included herein is from the Company's earnings release dated July 31, 2018. For purposes of modeling and guidance, we have assumed no restructuring, acquisition or non-recurring financing-related expenses. Run-rate synergies expected by Q3 FY20.



Q1 FY19 guidance

<i>In \$ millions, except percentage and per share data</i>	Q1 FY18⁽¹⁾	Q1 FY19⁽²⁾	Change
Revenue	\$106.1	\$135 - \$141	27% - 33%
Gross Margin	47.8%	43.1% - 43.6%	(4.7) - (4.2) pts
Operating Expenses	\$40.3	\$48.9 - \$49.3	21% - 22%
GAAP Income Effective tax rate ⁽³⁾	\$18.0 (88%)	\$4.9 - \$7.0 27%	(73%) - (61%)
GAAP EPS Weighted-average diluted shares outstanding	\$0.38 47.5	\$0.10 - \$0.15 47.8	(74%) - (61%)
Adjusted EPS⁽⁴⁾	\$0.37	\$0.32 - \$0.36	(14%) - (3%)
Adj. EBITDA⁽⁴⁾ % of revenue	\$25.0 23.6%	\$27.0 - \$30.0 20.0% - 21.2%	8% - 20%

Notes:

(1) Q1 FY18 figures are as reported in the Company's earnings release dated October 24, 2017.

(2) The guidance included herein is from the Company's earnings release dated July 31, 2018. For purposes of modeling and guidance, we have assumed no restructuring, acquisition 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.



Summary

- Strong Q4 results with record backlog, bookings, revenue, adjusted EBITDA, operating and free cash flow
- FY18 results continue to show:
 - 7% organic growth, 21% total growth and 23.4% adjusted EBITDA margins
- Insourcing investments driving strategic and financial benefits
- Additional customer-funded R&D and new programs pressure gross margins but indicate longer-term growth
- Well-positioned entering FY19 with record backlog and large pipeline of design wins
- FY19 guidance shows continuation of strong performance





Appendix

Adjusted EPS reconciliation

(000's)	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	FY18	Q1FY19		FY2019	
											Low	High	Low	High
Diluted net earnings (loss) per share ⁽¹⁾	\$ 0.10	\$ 0.13	\$ 0.16	\$ 0.19	\$ 0.58	\$ 0.38	\$ 0.19	\$ 0.08	\$ 0.21	\$ 0.86	\$ 0.10	\$ 0.15	\$ 0.75	\$ 0.93
Income (loss) from continuing operations	\$ 3,819	\$ 5,204	\$ 7,048	\$ 8,804	\$ 24,875	\$ 17,953	\$ 9,133	\$ 3,696	\$ 10,101	\$ 40,883	\$ 4,900	\$ 7,000	\$ 36,100	\$ 44,500
Amortization of intangible assets	4,602	4,888	4,732	5,458	19,680	5,637	5,827	7,104	7,436	26,004	7,200	7,200	26,900	26,900
Restructuring and other charges	297	69	459	1,127	1,952	95	313	1,384	1,367	3,159	-	-	-	-
Impairment of long-lived assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition and financing costs	553	1,114	569	153	2,389	854	1,366	1,909	799	4,928	500	500	2,100	2,100
Fair value adjustments from purchase accounting	2,077	870	270	462	3,679	509	84	539	860	1,992	800	800	1,600	1,600
Litigation and settlement expenses	-	100	-	17	117	-	-	-	-	-	-	-	-	-
Stock-based and other non-cash compensation expense	3,632	4,093	3,715	3,901	15,341	4,696	4,941	3,669	4,309	17,615	5,000	5,000	21,000	21,000
Impact to income taxes	(6,085)	(4,441)	(3,576)	(4,500)	(18,602)	(11,951)	(8,615)	(4,082)	(2,621)	(27,269)	(3,200)	(3,200)	(12,000)	(12,000)
Adjusted income from continuing operations	\$ 8,895	\$ 11,897	\$ 13,217	\$ 15,422	\$ 49,431	\$ 17,793	\$ 13,049	\$ 14,219	\$ 22,251	\$ 67,312	\$ 15,200	\$ 17,300	\$ 75,700	\$ 84,100
Diluted adjusted net earnings per share ⁽¹⁾	\$ 0.22	\$ 0.30	\$ 0.29	\$ 0.32	\$ 1.15	\$ 0.37	\$ 0.28	\$ 0.30	\$ 0.47	\$ 1.42	\$ 0.32	\$ 0.36	\$ 1.58	\$ 1.76
Weighted-average shares outstanding:														
Basic	38,865	39,151	43,773	46,211	41,986	46,504	46,752	46,844	46,873	46,719				
Diluted	39,865	39,985	44,814	47,472	43,018	47,489	47,447	47,532	47,521	47,471	47,800	47,800	47,900	47,900

Notes:

(1) Numbers shown are in cents.



Adjusted EBITDA reconciliation

(000'S)	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	FY18	Q1FY19		FY2019	
											Low	High	Low	High
Income (loss) from continuing operations	\$ 3,819	\$ 5,204	\$ 7,048	\$ 8,804	\$ 24,875	\$ 17,953	\$ 9,133	\$ 3,696	\$ 10,101	\$ 40,883	\$ 4,900	\$ 7,000	\$ 36,100	\$ 44,500
Interest expense (income), net	1,782	1,888	1,756	1,680	7,106	(16)	104	999	1,731	2,818	2,100	2,100	9,500	9,500
Tax provision (benefit)	(1,259)	1,779	3,170	2,503	6,193	(8,381)	1,335	2,209	6,527	1,690	1,800	2,600	13,300	16,400
Depreciation	2,718	2,966	3,233	3,672	12,589	3,700	3,775	4,277	4,521	16,273	4,700	4,800	20,000	20,000
Amortization of intangible assets	4,602	4,888	4,732	5,458	19,680	5,637	5,827	7,104	7,436	26,004	7,200	7,200	26,900	26,900
Restructuring and other charges	297	69	459	1,127	1,952	95	313	1,384	1,367	3,159	-	-	-	-
Impairment of long-lived assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition and financing costs	553	1,114	569	153	2,389	854	1,366	1,909	799	4,928	500	500	2,100	2,100
Fair value adjustments from purchase accounting	2,077	870	270	462	3,679	509	84	539	860	1,992	800	800	1,600	1,600
Litigation and settlement expenses	-	100	-	17	117	-	-	-	-	-	-	-	-	-
Stock-based and other non-cash compensation expense	3,632	4,093	3,715	3,901	15,341	4,696	4,941	3,669	4,309	17,615	5,000	5,000	21,000	21,000
Adjusted EBITDA	\$ 18,221	\$ 22,971	\$ 24,952	\$ 27,777	\$ 93,921	\$ 25,047	\$ 26,878	\$ 25,786	\$ 37,651	\$ 115,362	\$ 27,000	\$ 30,000	\$ 130,500	\$ 142,000



Free cash flow reconciliation

(000's)	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	FY18
Cash flows from operations	\$ 10,283	\$ 14,238	\$ 24,889	\$ 9,736	\$ 59,146	\$ 8,028	\$ 8,779	\$ 873	\$ 25,641	\$ 43,321
Capital expenditures	(6,050)	(7,703)	(13,036)	(6,055)	\$ (32,844)	(3,628)	(3,964)	(3,475)	(4,039)	\$ (15,106)
Free cash flow	\$ 4,233	\$ 6,535	\$ 11,853	\$ 3,681	\$ 26,302	\$ 4,400	\$ 4,815	\$ (2,602)	\$ 21,602	\$ 28,215

