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

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**FORM 8-K**

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**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 29, 2019

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**Mercury Systems, Inc.**  
(Exact Name of Registrant as Specified in Charter)

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**Massachusetts**  
(State or Other Jurisdiction  
of Incorporation)

**000-23599**  
(Commission File Number)

**04-2741391**  
(IRS Employer  
Identification No.)

**50 Minuteman Road, Andover, Massachusetts**  
(Address of Principal Executive Offices)

**01810**  
(Zip Code)

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

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

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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 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

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.

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

On January 29, 2019, Mercury Systems, Inc. (the “Company”) issued a press release and an earnings presentation regarding its financial results for the second quarter of fiscal 2019 ended December 31, 2018. 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 7.01. Regulation FD Disclosure**

In the Company’s press release and earnings presentation issued on January 29, 2019 regarding its financial results, the Company announced that it has acquired GECO Avionics, LLC (“GECO”). Based in Mesa, AZ, GECO has over twenty years of experience designing and manufacturing affordable safety-critical avionics and mission computing solutions. The press release and earnings presentation are furnished as Exhibits 99.1 and 99.2 hereto. The information provided in Item 7.01 of this Current Report on Form 8-K and in the attached Exhibits 99.1 and 99.2 shall not be deemed “filed” for purposes of Section 18 of 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, except as shall be expressly set forth by specific reference in such a filing.

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

**(d) Exhibits.**

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release, dated January 29, 2019, of Mercury Systems, Inc.
99.2	Earnings Presentation, dated January 29, 2019, 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 29, 2019

MERCURY SYSTEMS, INC.

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

EXHIBIT INDEX

**Exhibit No.**

**Description**

[99.1](#)

[Press Release, dated January 29, 2019, of Mercury Systems, Inc.](#)

[99.2](#)

[Earnings Presentation, dated January 29, 2019, of Mercury Systems, Inc.](#)



INNOVATION THAT MATTERS®

## News Release

### **Mercury Systems Reports Second Quarter Fiscal 2019 Results; Announces Acquisition of Avionics and Mission Computing Business**

#### ***Second Quarter Highlights Include:***

***Record revenue increases 35% over prior year with 11% organic increase  
Revenue, net income, adjusted EBITDA, EPS and adjusted EPS exceed guidance  
Strong operating cash flow of \$25 million and free cash flow of \$18 million***

**ANDOVER, Mass. January 29, 2019** Mercury Systems, Inc. (NASDAQ: MRCY, [www.mrcy.com](http://www.mrcy.com)), reported operating results for the second quarter of fiscal 2019, ended December 31, 2018.

#### **Management Comments**

“The business performed extremely well in the second quarter of fiscal year 2019,” said Mark Aslett, Mercury’s President and Chief Executive Officer. “We delivered record revenue and continued strong bookings growth which led to a record ending total backlog. We exceeded our guidance for revenue and profitability in addition to delivering strong cash flow. We continued to execute well on our strategy growing organic revenues by 11% year over year as well as completing our fifth strategic acquisition in the C4I market over the past two fiscal years. Given our very strong performance in the first half of fiscal 2019, our record backlog and current business outlook we are raising our full year guidance,” concluded Aslett.

#### **Second Quarter Fiscal 2019 Results**

Total Company second quarter fiscal 2019 revenues were \$159.1 million, compared to \$117.9 million in the second quarter of fiscal 2018. The second quarter fiscal 2019 results included an aggregate of approximately \$28.8 million of revenue attributable to the Themis Computer and Germane Systems acquired businesses.

Total Company GAAP net income for the second quarter of fiscal 2019 was \$12.4 million, or \$0.26 per share, compared to \$9.1 million, or \$0.19 per share, for the second quarter of fiscal 2018. Adjusted earnings per share (“adjusted EPS”) was \$0.47 per share for the second quarter of fiscal 2019, compared to \$0.28 per share in the second quarter of fiscal 2018.

Second quarter fiscal 2019 adjusted EBITDA for the total Company was \$37.0 million, compared to \$26.6 million for the second quarter of fiscal 2018.

Cash flows from operating activities in the second quarter of fiscal 2019 were a net inflow of \$25.3 million, compared to a net inflow of \$8.8 million in the second quarter of fiscal 2018. Free cash flow, defined as cash flows from operating activities less capital expenditures, was a net inflow of \$18.2 million in the second quarter of fiscal 2019, compared to a net inflow of \$4.8 million in the second quarter of fiscal 2018.

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

### **Bookings and Backlog**

Total bookings for the second quarter of fiscal 2019 were \$173.2 million, yielding a book-to-bill ratio of 1.09 for the quarter.

Mercury’s total backlog at December 31, 2018 was \$522.0 million, a \$145.6 million increase from a year ago. Of the December 31, 2018 total backlog, \$389.1 million represents orders expected to be shipped within the next 12 months.

### **Acquisition of GECO Avionics, LLC**

On January 29th, 2019, the Company also announced the acquisition of GECO Avionics, LLC (“GECO”). Based in Mesa, AZ, GECO has over twenty years of experience designing and manufacturing affordable safety-critical avionics and mission computing solutions. GECO’s DO-254 certified hardware solutions include mission processors, airborne displays, video processing and aviation networking. GECO also specializes in DO-178 avionics software design up to DAL-A, the highest level of design assurance for flight management, aircraft condition monitoring, display and electronic flight instrumentation applications. GECO’s technologies are deployed on numerous military platforms such as the AH-64 Apache attack helicopter and the KC-46A Pegasus widebody multirole tanker, among others.

Mercury acquired GECO for an all cash purchase price of \$36.5 million, subject to net working capital and net debt adjustments. The acquisition and associated transaction expenses were funded through Mercury's existing revolving credit facility.

"The acquisition of GECO complements our acquisitions of Creative Electronic Systems ("CES"), based in Geneva, Switzerland, and Richland Technologies ("RTL"), based in Duluth, GA," said Mark Aslett, Mercury's President and Chief Executive Officer. "Combined, these three acquisitions significantly expand our footprint in mission computing and platform management. The safety-critical capabilities these companies provide, along with our high-performance sensor processing solutions and embedded security features will enable us to deliver a compelling combination of electronics offerings that are in high demand from our customers. These new capabilities continue to expand Mercury's addressable market in the C4I market segment. We are the only high tech commercial company we know of that has brought all of these capabilities together," Aslett concluded.

### **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 2019. 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 2019 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.*

For the third quarter of fiscal 2019, inclusive of the acquisition of GECO, revenues are forecasted to be in the range of \$162.7 million to \$167.7 million. GAAP net income for the third quarter is expected to be approximately \$10.8 million to \$12.3 million, or \$0.23 to \$0.26 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 27%, excluding discrete items, and approximately 47.9 million weighted average diluted shares outstanding. Adjusted EBITDA for the third quarter of fiscal 2019 is expected to be in the range of \$34.8 million to \$36.8 million. Adjusted EPS is expected to be in the range of \$0.43 to \$0.46 per share.

For the full fiscal year 2019, we currently expect revenue of \$631.0 million to \$646.0 million, and GAAP net income of \$42.6 million to \$46.1 million, or \$0.89 to \$0.96 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 27%, excluding discrete items, and approximately 47.8 million weighted average diluted shares outstanding. Adjusted EBITDA for the full fiscal year is expected to be approximately \$138.6 million to \$143.5 million, and adjusted EPS for the full fiscal year is expected to be approximately \$1.72 to \$1.80 per share.

### **Recent Highlights**

December - Mercury announced the availability of 100 Gigabits per second (Gbps) board-to-board data transmission rates enabling next-generation PCIe® Gen-4, 100 Gbps Ethernet and InfiniBand™ high-speed switch fabrics to run faster within OpenVPX™ embedded computing subsystems. This new milestone in embedded computing technology more than doubles previous OpenVPX switch fabric bandwidths and is made possible through Mercury's robust modeling and design for performance capabilities with existing backplane and module technologies.

December - Mercury announced it received a \$2.9 million follow-on order from a leading electronics manufacturer for state-of-the-art GPS Selective Availability Anti-Spoofing Modules (SAASM) devices for an undisclosed application. The order was booked in the Company's fiscal 2019 second quarter and is expected to be shipped over the next several quarters.

December - Mercury announced RES Trust, its newest EnterpriseSeries™ rackmount server product line. Featuring U.S.-designed and manufactured motherboards, multiple security feature sets, and versatile configuration options, RES Trust servers maintain affordability while delivering trusted performance and reliability.

December - Mercury announced that Mark Aslett, President and Chief Executive Officer, was elected to a three-year term on the Executive Committee of the Aerospace Industries Association (AIA) beginning in 2019. In this role, he will work with other Committee members to act as a visionary for the organization, ensure adherence to its mission, vision and code of ethics, while developing and expanding programs and services for the membership.

November - Mercury announced it received a \$2.1 million order from a leading global distributor of electronic components for SWaP-optimized memory devices featuring BuiltSECURE™ technology for a European defense application. The order was booked in the Company's fiscal 2019 first quarter and is expected to be shipped over the next several quarters.



November - Mercury announced that Barry R. Nearhos, a retired partner at PricewaterhouseCoopers (“PwC”), was elected to the Board of Directors and appointed to the Audit Committee of the Board of Directors. With this election, the Board will consist of nine members, eight of which are independent directors.

November - Mercury announced it received a \$6.7 million follow-on order from a leading defense prime contractor for custom-engineered, high-performance subsystems with integrated radio frequency (RF) and digital microelectronics for a naval electronic warfare (EW) application. The order was booked in the Company’s fiscal 2019 first quarter and is expected to be shipped over the next several quarters.

November - Mercury announced it was awarded a multi-year contract from a leading aircraft manufacturer for advanced, safety-certifiable mission computers. The mission computers will execute command and control (C2) functions for various airborne missions and platforms, and will be certified to DAL-A, the highest level of flight safety. Safety certification will include multicore and multiprocessor mission computer configurations.

November - Mercury announced that six of its products were recognized by the judges of the annual Military & Aerospace Electronics Innovators Awards program. The winning products and award levels were: TRRUST-Stor® VPX Radiation-Tolerant Solid-State Drive (Platinum), EnsembleSeries™ LDS3517 3U AI OpenVPX blade with BuiltSECURE technology (Gold), BuiltSAFE™ GS Software Multi-core Graphics Renderer (Gold), BuiltSECURE System-in-Package Secure Processor (Silver), EnterpriseSeries™ RESmini XR6 Rugged Enterprise-class Server (Silver), and Mercury Systems Themis HDversa Computing Platform (Silver).

October - Mercury announced the start of customer engagements for the first BuiltSECURE 16GB high density double data rate fourth-generation synchronous dynamic random-access memory (DDR4 SDRAM) in a rugged, ultra-compact 16mm x 23mm ball grid array (BGA) package. The Company’s new product was designed using a new packaging technology that doubles the number of the devices embedded in a single package without compromising performance or reliability.

October - Mercury announced it received follow-on orders of \$3.7 million from a leading defense prime contractor for BuiltSECURE high density secure memory devices integrated into the command, control, and intelligence (C2I) system of an advanced airborne platform. The orders were booked in the Company's fiscal 2019 first quarter and are expected to be shipped over the next several quarters.

October - Mercury announced it added more than 50 models to its EnterpriseSeries rackmount server product line, extending its leadership as one of the largest, most capable rugged rackmount server providers. Built from the ground up for mission critical applications where industry-leading performance, reliability, and SWaP are imperatives, Mercury's servers are deployed in a variety of critical defense, industrial, and commercial applications.

October - Mercury announced the EnsembleSeries CLK3002 clock generation and distribution module, the latest addition to their expanding portfolio of 3U OpenVPX™ products. Designed to support next-generation electronic warfare (EW) applications, the clock solution complements Mercury's existing portfolio of low-latency, digital transceiver products.

#### **Conference Call Information**

Mercury will host a conference call and simultaneous webcast on Tuesday, January 29, 2019, at 5:00 p.m. ET to discuss the second quarter fiscal 2019 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](http://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.

**Mercury Systems - Innovation That Matters®**

Mercury Systems (NASDAQ:MRCY) is a leading commercial provider of secure sensor and safety-critical processing subsystems. Optimized for customer and mission success, Mercury's solutions power a wide variety of critical defense and intelligence programs. Headquartered in Andover, Mass., Mercury is pioneering a next-generation defense electronics business model specifically designed to meet the industry's current and emerging technology needs. To learn more, visit [www.mrcy.com](http://www.mrcy.com).

50 Minuteman Road, Andover, Massachusetts 01810 U.S.A. • +1 978.256.1300 • [www.mrcy.com](http://www.mrcy.com) • twitter: @MRCY

**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 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, 2018. 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, Ensemble Series, EnterpriseSeries, BuiltSAFE and BuiltSECURE are trademarks and Innovation that Matters is a registered trademark of Mercury Systems, Inc. Other product and company names mentioned may be trademarks and/or registered trademarks of their respective holders.

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

	December 31, 2018	June 30, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 93,903	\$ 66,521
Accounts receivable, net	123,117	104,040
Unbilled receivables and costs in excess of billings	45,194	39,774
Inventory	126,402	108,585
Prepaid income taxes	766	3,761
Prepaid expenses and other current assets	9,923	9,062
Total current assets	399,305	331,743
Property and equipment, net	53,130	50,980
Goodwill	519,660	497,442
Intangible assets, net	176,671	177,904
Other non-current assets	7,873	6,411
Total assets	\$ 1,156,639	\$ 1,064,480
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 30,750	\$ 21,323
Accrued expenses	16,875	16,386
Accrued compensation	23,064	21,375
Deferred revenues and customer advances	22,491	12,596
Total current liabilities	93,180	71,680
Deferred income taxes	12,202	13,635
Income taxes payable	2,880	998
Long-term debt	240,000	195,000
Other non-current liabilities	12,301	11,276
Total liabilities	360,563	292,589
Shareholders' equity:		
Common stock	472	469
Additional paid-in capital	594,670	590,163
Retained earnings	199,830	179,968
Accumulated other comprehensive income	1,104	1,291
Total shareholders' equity	796,076	771,891
Total liabilities and shareholders' equity	\$ 1,156,639	\$ 1,064,480

**MERCURY SYSTEMS, INC.**  
**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Net revenues	\$ 159,089	\$ 117,912	\$ 303,145	\$ 223,981
Cost of revenues (1)	88,202	63,752	170,675	119,147
Gross margin	70,887	54,160	132,470	104,834
Operating expenses:				
Selling, general and administrative (1)	27,819	21,222	52,560	41,790
Research and development (1)	16,192	15,187	31,140	28,929
Amortization of intangible assets	6,939	5,827	14,120	11,464
Restructuring and other charges	23	313	527	408
Acquisition costs and other related expenses	53	723	452	984
Total operating expenses	51,026	43,272	98,799	83,575
Income from operations	19,861	10,888	33,671	21,259
Interest income	71	3	137	22
Interest expense	(2,196)	(107)	(4,455)	(110)
Other expense, net	(870)	(316)	(1,879)	(1,131)
Income before income taxes	16,866	10,468	27,474	20,040
Tax provision (benefit)	4,483	1,335	7,612	(7,046)
Net income	\$ 12,383	\$ 9,133	\$ 19,862	\$ 27,086
Basic net earnings per share:	\$ 0.26	\$ 0.20	\$ 0.42	\$ 0.58
Diluted net earnings per share:	\$ 0.26	\$ 0.19	\$ 0.42	\$ 0.57
Weighted-average shares outstanding:				
Basic	47,189	46,752	47,118	46,701
Diluted	47,705	47,447	47,696	47,538

(1) Includes stock-based compensation expense, allocated as follows:

Cost of revenues	\$ 159	\$ 47	\$ 411	\$ 195
Selling, general and administrative	\$ 4,542	\$ 4,270	\$ 8,426	\$ 8,246
Research and development	\$ 583	\$ 510	\$ 1,126	\$ 1,007

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

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
<b>Cash flows from operating activities:</b>				
Net income	\$ 12,383	\$ 9,133	\$ 19,862	\$ 27,086
Depreciation and amortization	11,708	9,602	23,254	18,939
Other non-cash items, net	4,644	4,652	10,164	5,462
Changes in operating assets and liabilities	(3,434)	(14,608)	(7,950)	(34,680)
<b>Net cash provided by operating activities</b>	<b>25,301</b>	<b>8,779</b>	<b>45,330</b>	<b>16,807</b>
<b>Cash flows from investing activities:</b>				
Acquisition of businesses, net of cash acquired	1,244	201	(45,029)	(5,798)
Purchases of property and equipment	(7,075)	(3,964)	(10,802)	(7,592)
Other investing activities	—	—	—	(375)
<b>Net cash used in investing activities</b>	<b>(5,831)</b>	<b>(3,763)</b>	<b>(55,831)</b>	<b>(13,765)</b>
<b>Cash flows from financing activities:</b>				
Proceeds from employee stock plans	1,677	2,049	1,677	2,049
Payments under credit facilities	—	(15,000)	—	(15,000)
Borrowings under credit facilities	—	15,000	45,000	15,000
Payments of deferred financing and offering costs	—	—	(1,851)	—
Payments for retirement of common stock	(120)	(1,361)	(6,932)	(14,909)
<b>Net cash provided by (used in) financing activities</b>	<b>1,557</b>	<b>688</b>	<b>37,894</b>	<b>(12,860)</b>
Effect of exchange rate changes on cash and cash equivalents	7	257	(11)	216
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>21,034</b>	<b>5,961</b>	<b>27,382</b>	<b>(9,602)</b>
Cash and cash equivalents at beginning of period	72,869	26,074	66,521	41,637
<b>Cash and cash equivalents at end of period</b>	<b>\$ 93,903</b>	<b>\$ 32,035</b>	<b>\$ 93,903</b>	<b>\$ 32,035</b>

**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.

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Net income	\$ 12,383	\$ 9,133	\$ 19,862	\$ 27,086
Other non-operating adjustments, net (1)	(18)	(326)	347	(104)
Interest expense, net	2,125	104	4,318	88
Income taxes	4,483	1,335	7,612	(7,046)
Depreciation	4,769	3,775	9,134	7,475
Amortization of intangible assets	6,939	5,827	14,120	11,464
Restructuring and other charges	23	313	527	408
Impairment of long-lived assets	—	—	—	—
Acquisition and financing costs	762	1,366	1,805	2,220
Fair value adjustments from purchase accounting	—	84	620	593
Litigation and settlement expense (income), net	179	—	179	—
Stock-based and other non-cash compensation expense	5,338	4,941	10,081	9,637
Adjusted EBITDA	\$ 36,983	\$ 26,552	\$ 68,605	\$ 51,821

(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 for comparative purposes.

Free cash flow, a non-GAAP measure for reporting cash flow, is defined as cash provided by operating activities less capital expenditures 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.

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Cash flows from operations	\$ 25,301	\$ 8,779	\$ 45,330	\$ 16,807
Capital expenditures	(7,075)	(3,964)	(10,802)	(7,592)
Free cash flow	\$ 18,226	\$ 4,815	\$ 34,528	\$ 9,215

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**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 table reconciles the most directly comparable GAAP financial measures to the non-GAAP financial measures.

	Three Months Ended							
	December 31,							
	2018		2017					
Net income and earnings per share	\$	12,383	\$	0.26	\$	9,133	\$	0.19
Amortization of intangible assets		6,939				5,827		
Restructuring and other charges		23				313		
Impairment of long-lived assets		—				—		
Acquisition and financing costs		762				1,366		
Fair value adjustments from purchase accounting		—				84		
Litigation and settlement expense (income), net		179				—		
Stock-based and other non-cash compensation expense		5,338				4,941		
Impact to income taxes (1)		(3,009)				(8,615)		
Adjusted income and adjusted earnings per share	\$	22,615	\$	0.47	\$	13,049	\$	0.28
Diluted weighted-average shares outstanding:				47,705				47,447

(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.

	Six Months Ended			
	December 31,			
	2018		2017	
Net income and earnings per share	\$ 19,862	\$ 0.42	\$ 27,086	\$ 0.57
Amortization of intangible assets	14,120		11,464	
Restructuring and other charges	527		408	
Impairment of long-lived assets	—		—	
Acquisition and financing costs	1,805		2,220	
Fair value adjustments from purchase accounting	620		593	
Litigation and settlement expense (income), net	179		—	
Stock-based and other non-cash compensation expense	10,081		9,637	
Impact to income taxes (1)	(6,082)		(20,566)	
Adjusted income and adjusted earnings per share	<u>\$ 41,112</u>	<u>\$ 0.86</u>	<u>\$ 30,842</u>	<u>\$ 0.65</u>
Diluted weighted-average shares outstanding:		<u>47,696</u>		<u>47,538</u>

(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.

**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.

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Organic Revenue	\$ 130,326	\$ 117,912	\$ 243,127	\$ 223,981
Acquired Revenue	28,763	—	60,018	—
Net revenues	\$ 159,089	\$ 117,912	\$ 303,145	\$ 223,981

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**MERCURY SYSTEMS, INC.****RECONCILIATION OF FORWARD-LOOKING GUIDANCE RANGE**

Quarter Ending March 31, 2019

Year Ending June 30, 2019

(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 adjusted EBITDA financial measure to its most directly comparable GAAP measures.

	Three Months Ending		Twelve Months Ending	
	March 31, 2019		June 30, 2019	
	Range		Range	
	Low	High	Low	High
GAAP expectation -- Net income	\$ 10,800	\$ 12,300	\$ 42,600	\$ 46,100
Adjust for:				
Other non-operating adjustments, net	—	—	400	400
Interest expense (income), net	2,500	2,500	9,300	9,300
Income taxes	4,000	4,500	15,700	17,100
Depreciation	5,100	5,100	18,800	18,800
Amortization of intangible assets	7,000	7,000	27,500	27,500
Restructuring and other charges	—	—	500	500
Impairment of long-lived assets	—	—	—	—
Acquisition and financing costs	700	700	3,200	3,200
Fair value adjustments from purchase accounting	—	—	600	600
Litigation and settlement expense (income), net	—	—	200	200
Stock-based and other non-cash compensation expense	4,700	4,700	19,800	19,800
Adjusted EBITDA expectation	\$ 34,800	\$ 36,800	\$ 138,600	\$ 143,500

**MERCURY SYSTEMS, INC.****RECONCILIATION OF FORWARD-LOOKING GUIDANCE RANGE**

Quarter Ending March 31, 2019

Year Ending June 30, 2019

(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 (1). Adjusted EPS expresses adjusted income on a per share basis using weighted average diluted shares outstanding.

The following table reconciles the most directly comparable GAAP financial measures to the non-GAAP financial measures.

	Three Months Ending March 31, 2019			
	Range			
	Low		High	
GAAP expectation -- Net income and earnings per share	\$ 10,800	\$ 0.23	\$ 12,300	\$ 0.26
Amortization of intangible assets	7,000		7,000	
Restructuring and other charges	—		—	
Impairment of long-lived assets	—		—	
Acquisition and financing costs	700		700	
Fair value adjustments from purchase accounting	—		—	
Litigation and settlement expense (income), net	—		—	
Stock-based and other non-cash compensation expense	4,700		4,700	
Impact to income taxes (1)	(2,600)		(2,600)	
Adjusted income and adjusted earnings per share expectation	\$ 20,600	\$ 0.43	\$ 22,100	\$ 0.46
Diluted weighted-average shares outstanding expectation:		47,900		47,900



## Twelve Months Ending June 30, 2019

	Range							
	Low		High					
GAAP expectation -- Net income and earnings per share	\$	42,600	\$	0.89	\$	46,100	\$	0.96
Amortization of intangible assets		27,500				27,500		
Restructuring and other charges		500				500		
Impairment of long-lived assets		—				—		
Acquisition and financing costs		3,200				3,200		
Fair value adjustments from purchase accounting		600				600		
Litigation and settlement expense (income), net		200				200		
Stock-based and other non-cash compensation expense		19,800				19,800		
Impact to income taxes (1)		(12,000)				(12,000)		
Adjusted income and adjusted earnings per share expectation	\$	82,400	\$	1.72	\$	85,900	\$	1.80
Diluted weighted-average shares outstanding expectation:				47,800				47,800

(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.



## 2nd Quarter Fiscal Year 2019 Financial Results & GECO Avionics, LLC Acquisition Overview

**Mark Aslett**  
President and CEO

**Michael Ruppert**  
Executive Vice President and CFO

January 29, 2019, 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](http://www.mrcy.com/investor)

Webcast replay available by 7:00 p.m. ET January 29, 2019



# 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, 2018. 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, 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 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.

# Financial highlights

## Q2 FY19 vs. Q2 FY18

- Bookings up 29%
- Record revenue up 35%
- Organic revenue<sup>(1)</sup> up 11%
- GAAP net income up 36%
- Adjusted EBITDA up 39%
- Record backlog up 39%
- Operating cash flow up 188%
- Free cash flow up 279%

## LTM Q2 FY19 vs. LTM Q2 FY18

- Bookings up 40%
- Revenue up 28%
- Organic revenue<sup>(1)</sup> up 9%
- GAAP net income down 22%<sup>(2)</sup>
- Adjusted EBITDA up 26%
- Backlog up 39%
- Operating cash flow up 40%
- Free cash flow up 116%

(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) LTM Q2 FY18 net income includes discrete tax benefits associated with the revaluation of excess tax benefits associated with the Tax Act as well as net operating loss carry-forwards of the Carve-Out Business acquired from Microsemi Corporation.

## Executing well on our strategy to become a leading...

- In a period of significant new design win activity and new program starts
- Well-aligned with DoD budget priorities and need for modernization
- Sensor and effector mission systems (SEMS) revenue up 5% YoY, C4I up 249%
- Capitalizing on favorable industry trends – increased outsourcing, flight to quality, supply chain delayering, continuing to take market share
- Investing in R&D, trusted domestic manufacturing, cybersecurity

... provider of secure and safety-critical processing subsystems

## Q2 FY19 strategic achievements

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- Significant IRAD investment in secure hardware and software technologies
- Received 6 product awards in Mil-Aero Electronics Innovators Awards Program
- Completed trusted digital SMT manufacturing facility buildout
- Substantially complete on manufacturing insourcing plan
- Beginning optimization of internal manufacturing operations
- Consolidation of West Coast RF manufacturing facilities progressing
- Themis and Germane integration on track, businesses performing well
- Launched first U.S. designed/manufactured secure rack server

## Business outlook remains strong

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- Defense spending accelerating in GFY19
- Expect 9% - 10% FY19 organic revenue growth, up 2 - 3 pts from FY18
- Supplementing organic growth with M&A and strong opportunity pipeline
- Deployed ~\$655M+ for 8 acquisitions over last 3 years
- Acquisitions expanding addressable market, broadening offerings
- Cost and revenue synergies contributing to strong financial performance
- Will continue to acquire and grow within target C4I and SEMS markets

# Acquisition of GECO Avionics, LLC

- Two C4I M&A themes: Secure rackmount servers and avionics processing
- GECO leading designer and manufacturer of safety-critical avionics subsystems
- \$36.5M purchase price<sup>(1)</sup>; funded with existing revolver
  - ~10.5x purchase multiple of LTM adj. EBITDA net of expected tax benefits<sup>(2)</sup>
- Expands Mercury's C4I presence on franchise programs such as KC-46 & AH-64
- Combined with prior CES and Richland acquisitions, scales avionics platform
- Creates one of the largest teams focused on safety-critical avionics in defense

Well-positioned to capitalize on growth opportunities in C4I

Notes:

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

(2) Acquisition of GECO Avionics, LLC, a limited liability company, is treated as an asset purchase for tax purposes, resulting in \$4.7M in net present value of tax benefits.



## Summary

- On track for continued strong performance in FY19
- Business expected to grow faster than industry overall
- Realizing manufacturing and M&A integration synergies
- Expect double-digit revenue and adj. EBITDA growth, strong cash flow
- Expect to achieve high-end of adj. EBITDA target over time by:
  - Increasing revenue organically and through M&A
  - Manufacturing operating efficiencies improving margins and working capital
  - Keeping organic operating expense growth rate below revenue growth rate
  - Fully integrating acquired businesses to generate cost and revenue synergies
- Continue to grow and expand in strategically aligned core markets

Anticipating continued strong performance in Q3 FY19

## Q2 FY19 vs. Q2 FY18

<i>In \$ millions, except percentage and per share data</i>	Q2 FY18	Q2 FY19	Change
<b>Bookings</b>	\$134.2	\$173.2	29%
Book-to-Bill	1.14	1.09	
<b>Backlog</b>	\$376.4	\$522.0	39%
12-Month Backlog	310.4	389.1	
<b>Revenue</b>	\$117.9	\$159.1	35%
Organic Revenue Growth <sup>(1)</sup>	12%	11%	
<b>Gross Margin</b>	45.9%	44.6%	(1.3 pts)
<b>Operating Expenses</b>	\$43.3	\$51.0	18%
Selling, General & Administrative	21.2	27.8	
Research & Development	15.2	16.2	
Amortization/Restructuring/Acquisition	6.9	7.0	
<b>GAAP Net Income</b>	\$9.1	\$12.4	36%
Effective Tax Rate	12.8%	26.6%	
<b>GAAP EPS</b>	\$0.19	\$0.26	37%
Weighted Average Diluted Shares	47.4	47.7	
<b>Adjusted EPS<sup>(2)</sup></b>	\$0.28	\$0.47	68%
<b>Adj. EBITDA<sup>(2)</sup></b>	\$26.6	\$37.0	39%
% of revenue	22.5%	23.2%	
<b>Operating Cash Flow</b>	\$8.8	\$25.3	188%
<b>Free Cash Flow<sup>(2)</sup></b>	\$4.8	\$18.2	279%

**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) <sup>(1)</sup>	As of				
	12/31/17	3/31/18	6/30/18	9/30/18	12/31/18
<b>ASSETS</b>					
Cash & cash equivalents	\$32.0	\$44.2	\$66.5	\$72.9	\$93.9
Accounts receivable, net	123.0	141.6	143.8	153.9	168.3
Inventory, net	105.9	117.1	108.6	121.2	126.4
PP&E, net	51.6	51.3	51.0	50.8	53.1
Goodwill and intangibles, net	505.5	685.7	675.3	704.2	696.3
Other	17.8	17.0	19.3	24.0	18.6
<b>TOTAL ASSETS</b>	<b>\$835.8</b>	<b>\$1,056.9</b>	<b>\$1,064.5</b>	<b>\$1,127.0</b>	<b>\$1,156.6</b>
<b>LIABILITIES AND S/E</b>					
AP and accrued expenses	\$65.8	\$69.8	\$59.1	\$61.2	\$70.7
Other liabilities	20.8	36.3	38.5	49.2	49.9
Debt <sup>(2)</sup>	0.0	195.0	195.0	240.0	240.0
<b>Total liabilities</b>	<b>86.6</b>	<b>301.1</b>	<b>292.6</b>	<b>350.4</b>	<b>360.6</b>
<b>Stockholders' equity</b>	<b>749.2</b>	<b>755.8</b>	<b>771.9</b>	<b>776.6</b>	<b>796.1</b>
<b>TOTAL LIABILITIES AND S/E</b>	<b>\$835.8</b>	<b>\$1,056.9</b>	<b>\$1,064.5</b>	<b>\$1,127.0</b>	<b>\$1,156.6</b>

Notes:

(1) Rounded amounts used.

(2) On January 29, 2019 (in Q3 FY19), Mercury acquired GEICO Avionics, LLC, and borrowed \$36.5 million on its existing revolving credit facility to fund the acquisition.

## Cash flow summary

(In \$ millions) <sup>(1)</sup>	As of				
	12/31/17	3/31/18	6/30/18	9/30/18	12/31/18
<b>Net Income</b>	<b>\$9.1</b>	<b>\$3.7</b>	<b>\$10.1</b>	<b>\$7.5</b>	<b>\$12.4</b>
Depreciation and amortization	9.6	11.4	12.0	11.5	11.7
Other non-cash items, net	4.7	3.3	5.1	5.5	4.6
<b>Change in Working Capital</b>					
Accounts receivable, unbilled receivables, and costs in excess of billings	(1.4)	(10.6)	(2.9)	(5.9)	(15.0)
Inventory	(11.3)	(2.5)	8.7	(4.6)	(4.9)
Accounts payable and accrued expenses	(1.2)	(8.7)	(8.2)	(2.0)	9.2
Other	(0.7)	4.2	0.8	8.0	7.3
<b>Changes in Operating Assets and Liabilities</b>	<b>(14.6)</b>	<b>(17.5)</b>	<b>(1.6)</b>	<b>(4.5)</b>	<b>(3.4)</b>
<b>Operating Cash Flow</b>	<b>8.8</b>	<b>0.9</b>	<b>25.6</b>	<b>20.0</b>	<b>25.3</b>
Capital expenditures	(4.0)	(3.5)	(4.0)	(3.7)	(7.1)
<b>Free Cash Flow<sup>(2)</sup></b>	<b>\$4.8</b>	<b>\$(2.6)</b>	<b>\$21.6</b>	<b>\$16.3</b>	<b>\$18.2</b>
<i>Free Cash Flow<sup>(2)</sup> / Adjusted EBITDA<sup>(2)</sup></i>	<i>18%</i>	<i>n.a.</i>	<i>57%</i>	<i>52%</i>	<i>49%</i>
<i>Free Cash Flow<sup>(2)</sup> / GAAP Net Income</i>	<i>53%</i>	<i>n.a.</i>	<i>214%</i>	<i>218%</i>	<i>147%</i>

**Notes:**

(1) Rounded amounts used.

(2) Non-GAAP, see reconciliation table.

## Q3 FY19 guidance

<i>In \$ millions, except percentage and per share data</i>	Q3 FY18 <sup>(1)</sup>	Q3 FY19 <sup>(2)</sup>	Change
Revenue	\$116.3	\$162.7 - \$167.7	40% - 44%
Gross Margin	45.4%	43.6% - 44.1%	(1.8) - (1.3) pts
Operating Expenses	\$45.9	\$52.8 - \$53.8	15% - 17%
GAAP Net Income Effective tax rate <sup>(3)</sup>	\$3.7 37%	\$10.8 - \$12.3 27%	192% - 232%
GAAP EPS Weighted-average diluted shares outstanding	\$0.08 47.5	\$0.23 - \$0.26 47.9	188% - 225%
Adjusted EPS <sup>(4)</sup>	\$0.30	\$0.43 - \$0.46	43% - 53%
Adj. EBITDA <sup>(4)</sup> % of revenue	\$25.1 21.6%	\$34.8 - \$36.8 21.4% - 21.9%	39% - 47%

**Notes:**

(1) Q3 FY18 figures are as reported in the Company's earnings release dated April 24, 2018.

(2) The guidance included herein is from the Company's earnings release dated January 29, 2019 and reflects the acquisition of GECO Avionics, LLC. 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.

## FY19 annual guidance

<i>In \$ millions, except percentage and per share data</i>	<b>FY18<sup>(1)</sup></b>	<b>FY19<sup>(2)</sup></b>	<b>Change</b>
<b>Revenue</b>	\$493.2	\$631.0 - \$646.0	28% - 31%
<b>Gross Margin</b>	45.8%	43.4% - 43.9%	(2.4) - (1.9) pts
<b>Operating Expenses</b>	\$178.9	\$203.0 - \$207.6	13% - 16%
<b>GAAP Net Income</b> Effective tax rate <sup>(3)</sup>	\$40.9 4%	\$42.6 - \$46.1 27%	4% - 13%
<b>GAAP EPS</b> Weighted-average diluted shares outstanding	\$0.86 47.5	\$0.89 - \$0.96 47.8	3% - 12%
<b>Adjusted EPS<sup>(4)</sup></b>	\$1.42	\$1.72 - \$1.80	21% - 27%
<b>Adj. EBITDA<sup>(4)</sup></b> % of revenue	\$114.6 23.2%	\$138.6 - \$143.5 22.0% - 22.2%	21% - 25%

**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 January 29, 2019 and reflects the acquisition of GECO Avionics, LLC. 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.

## Summary

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- Strong Q2 results with 1.09 book-to-bill and record backlog
- Record revenue increases 35% YoY; 11% organic revenue growth
- GAAP net income and adjusted EBITDA exceeded guidance
- Significant YoY growth in operating and free cash flow
- Completed acquisition of GECO Avionics, 8<sup>th</sup> acquisition in 3 years
- Expect strong Q3 & FY19 performance; raising full year guidance



# Appendix



# Adjusted EPS reconciliation

(In thousands, except per share data)	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	FY18	Q1 FY19	Q2 FY19	Q3 FY19		FY19	
													Low	High	Low	High
<b>Earnings per share<sup>(1)</sup></b>	<b>\$ 0.10</b>	<b>\$ 0.13</b>	<b>\$ 0.16</b>	<b>\$ 0.19</b>	<b>\$ 0.58</b>	<b>\$ 0.38</b>	<b>\$ 0.19</b>	<b>\$ 0.08</b>	<b>\$ 0.21</b>	<b>\$ 0.86</b>	<b>\$ 0.16</b>	<b>\$ 0.26</b>	<b>\$ 0.23</b>	<b>\$ 0.26</b>	<b>\$ 0.89</b>	<b>\$ 0.96</b>
<b>Net Income</b>	<b>\$3,819</b>	<b>\$ 5,204</b>	<b>\$ 7,048</b>	<b>\$ 8,804</b>	<b>\$24,875</b>	<b>\$17,953</b>	<b>\$ 9,133</b>	<b>\$ 3,696</b>	<b>\$10,101</b>	<b>\$40,883</b>	<b>\$ 7,479</b>	<b>\$12,383</b>	<b>\$10,800</b>	<b>\$12,300</b>	<b>\$42,600</b>	<b>\$46,100</b>
Amortization of intangible assets	4,602	4,888	4,732	5,458	19,680	5,637	5,827	7,104	7,436	26,004	7,181	6,939	7,000	7,000	27,500	27,500
Restructuring and other charges	297	69	459	1,127	1,952	95	313	1,384	1,367	3,159	504	23	-	-	500	500
Impairment of long-lived assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition and financing costs	553	1,114	569	153	2,389	854	1,366	1,909	799	4,928	1,043	762	700	700	3,200	3,200
Fair value adjustments from purchase accounting	2,077	870	270	462	3,679	509	84	539	860	1,992	620	-	-	-	600	600
Litigation and settlement expense (income), net	-	100	-	17	117	-	-	-	-	-	-	179	-	-	200	200
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	4,743	5,338	4,700	4,700	19,800	19,800
Impact to income taxes	(6,085)	(4,441)	(3,576)	(4,500)	(18,602)	(11,951)	(8,615)	(4,082)	(2,621)	(27,269)	(3,073)	(3,009)	(2,600)	(2,600)	(12,000)	(12,000)
<b>Adjusted income</b>	<b>\$8,895</b>	<b>\$11,897</b>	<b>\$13,217</b>	<b>\$15,422</b>	<b>\$49,431</b>	<b>\$17,793</b>	<b>\$13,049</b>	<b>\$14,219</b>	<b>\$22,251</b>	<b>\$67,312</b>	<b>\$18,497</b>	<b>\$22,615</b>	<b>\$20,600</b>	<b>\$22,100</b>	<b>\$82,400</b>	<b>\$85,900</b>
<b>Adjusted earnings per share<sup>(1)</sup></b>	<b>\$ 0.22</b>	<b>\$ 0.30</b>	<b>\$ 0.29</b>	<b>\$ 0.32</b>	<b>\$ 1.15</b>	<b>\$ 0.37</b>	<b>\$ 0.28</b>	<b>\$ 0.30</b>	<b>\$ 0.47</b>	<b>\$ 1.42</b>	<b>\$ 0.39</b>	<b>\$ 0.47</b>	<b>\$ 0.43</b>	<b>\$ 0.46</b>	<b>\$ 1.72</b>	<b>\$ 1.80</b>
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	47,048	47,189				
Diluted	39,865	39,985	44,814	47,472	43,018	47,489	47,447	47,532	47,521	47,471	47,697	47,705	47,900	47,900	47,800	47,800

**Notes:**

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

# Adjusted EBITDA reconciliation

(In thousands)	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	FY18	Q1 FY19	Q2 FY19	Q3 FY19		FY19	
													Low	High	Low	High
<b>Net income</b>	<b>\$ 3,819</b>	<b>\$ 5,204</b>	<b>\$ 7,048</b>	<b>\$ 8,804</b>	<b>\$24,875</b>	<b>\$17,953</b>	<b>\$ 9,133</b>	<b>\$ 3,696</b>	<b>\$10,101</b>	<b>\$ 40,883</b>	<b>\$ 7,479</b>	<b>\$12,383</b>	<b>\$10,800</b>	<b>\$12,300</b>	<b>\$ 42,600</b>	<b>\$ 46,100</b>
Other non-operating adjustments, net <sup>(1)</sup>	(732)	(129)	(378)	(107)	(1,346)	222	(326)	(694)	3	(795)	365	(18)	-	-	400	400
Interest expense, net	1,782	1,888	1,756	1,680	7,106	(16)	104	999	1,731	2,818	2,193	2,125	2,500	2,500	9,300	9,300
Income Taxes	(1,259)	1,779	3,170	2,503	6,193	(8,381)	1,335	2,209	6,527	1,690	3,129	4,483	4,000	4,500	15,700	17,100
Depreciation	2,718	2,966	3,233	3,672	12,589	3,700	3,775	4,277	4,521	16,273	4,365	4,769	5,100	5,100	18,800	18,800
Amortization of intangible assets	4,602	4,888	4,732	5,458	19,680	5,637	5,827	7,104	7,436	26,004	7,181	6,939	7,000	7,000	27,500	27,500
Restructuring and other charges	297	69	459	1,127	1,952	95	313	1,384	1,367	3,159	504	23	-	-	500	500
Impairment of long-lived assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition and financing costs	553	1,114	569	153	2,389	854	1,366	1,909	799	4,928	1,043	762	700	700	3,200	3,200
Fair value adjustments from purchase accounting	2,077	870	270	462	3,679	509	84	539	860	1,992	620	-	-	-	600	600
Litigation and settlement expense (income), net	-	100	-	17	117	-	-	-	-	-	-	179	-	-	200	200
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	4,743	5,338	4,700	4,700	19,800	19,800
<b>Adjusted EBITDA</b>	<b>\$ 17,489</b>	<b>\$ 22,842</b>	<b>\$ 24,574</b>	<b>\$ 27,670</b>	<b>\$92,575</b>	<b>\$ 25,269</b>	<b>\$ 26,552</b>	<b>\$ 25,092</b>	<b>\$ 37,654</b>	<b>\$ 114,567</b>	<b>\$ 31,622</b>	<b>\$ 36,983</b>	<b>\$ 34,800</b>	<b>\$ 36,800</b>	<b>\$ 138,600</b>	<b>\$ 143,500</b>

**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 for comparative purposes.

## Free cash flow reconciliation

(In thousands)	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	FY18	Q1 FY19	Q2 FY19
Cash flows from operations	\$10,283	\$14,238	\$ 24,889	\$ 9,736	\$59,146	\$ 8,028	\$ 8,779	\$ 873	\$ 25,641	\$43,321	\$ 20,029	\$ 25,301
Capital expenditures	(6,050)	(7,703)	(13,036)	(6,055)	(32,844)	(3,628)	(3,964)	(3,475)	(4,039)	(15,106)	(3,727)	(7,075)
Free cash flow	\$ 4,233	\$ 6,535	\$11,853	\$ 3,681	\$26,302	\$ 4,400	\$ 4,815	\$(2,602)	\$21,602	\$28,215	\$16,302	\$18,226

## Organic revenue reconciliation

(In thousands)	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	FY18	Q1 FY19	Q2 FY19
Organic Revenue	\$ 63,339	\$ 68,072	\$ 75,080	\$ 71,208	\$277,699	\$ 93,498	\$ 104,957	\$ 100,625	\$ 134,358	\$433,438	\$ 112,801	\$ 130,326
Acquired Revenue <sup>(1)</sup>	24,310	29,942	32,237	44,400	130,889	12,571	12,955	15,711	18,509	59,746	31,255	28,763
<b>Net Revenue</b>	<b>\$87,649</b>	<b>\$98,014</b>	<b>\$107,317</b>	<b>\$115,608</b>	<b>\$408,588</b>	<b>\$106,069</b>	<b>\$117,912</b>	<b>\$116,336</b>	<b>\$152,867</b>	<b>\$493,184</b>	<b>\$144,056</b>	<b>\$159,089</b>

Notes:

(1) Acquired revenue for all preceding periods presented has not been recast for comparative purposes.

