

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): November 3, 2020

Mercury Systems, Inc.

(Exact Name of Registrant as Specified in its Charter)

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)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01	MRCY	Nasdaq Global Select Market

Item 2.02. Results of Operations and Financial Condition.

On November 3, 2020, Mercury Systems, Inc. (the "Company") issued a press release and an earnings presentation regarding its financial results for the first quarter of fiscal 2021 ended October 2, 2020. The Company's press release and earnings presentation are attached as exhibits 99.1 and 99.2 to this Current Report on Form 8-K and incorporated by reference herein.

Information in Item 2.02 of this Current Report on Form 8-K and the exhibits 99.1 and 99.2 attached hereto shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing.

USE OF NON-GAAP FINANCIAL MEASURES

In addition to reporting financial results in accordance with generally accepted accounting principles, or GAAP, the Company provides adjusted EBITDA, adjusted income, adjusted EPS, free cash flow, organic revenue and acquired revenue, which are non-GAAP financial measures. Adjusted EBITDA, adjusted income, and adjusted EPS exclude certain non-cash and other specified charges. The Company believes these non-GAAP financial measures are useful to help investors more completely understand its past financial performance and prospects for the future. However, the presentation of these non-GAAP financial measures is not meant to be considered in isolation or as a substitute for financial information provided in accordance with GAAP. Management believes these non-GAAP financial measures assist in providing a more complete understanding of the Company's underlying operational results and trends, and management uses these measures along with the corresponding GAAP financial measures to manage the Company's business, to evaluate its performance compared to prior periods and the marketplace, and to establish operational goals.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release, dated November 3, 2020 of Mercury Systems, Inc.
99.2	Earnings Presentation, dated November 3, 2020 of Mercury Systems, Inc.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 3, 2020

MERCURY SYSTEMS, INC.

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

EXHIBIT INDEX

Exhibit No.

Description

99.1	Press Release, dated November 3, 2020, of Mercury Systems, Inc.
99.2	Earnings Presentation, dated November 3, 2020, of Mercury Systems, Inc.

News Release**Mercury Systems Reports First Quarter Fiscal 2021 Results***First Quarter Highlights Include:*

*Revenue increased 16% over prior year with 12% organic growth
Revenue, net income, adjusted EBITDA, EPS and adjusted EPS exceed guidance
Backlog of \$826 million increased 16% over prior year*

ANDOVER, Mass. November 3, 2020 Mercury Systems, Inc. (NASDAQ: MRCY, www.mrcy.com), reported operating results for the first quarter of fiscal 2021, ended October 2, 2020.

Management Comments

“The financial performance of the business in the first quarter reflects a strong start to our fiscal year,” said Mark Aslett, Mercury’s President and Chief Executive Officer. “We exceeded our guidance for revenues, net income, adjusted EBITDA, EPS and adjusted EPS. During the quarter, we continued to invest in precautionary COVID measures, including rapid, on-site testing. Protecting the health and safety of our employees while delivering on our commitments to our customers and shareholders remains our top priority. Our outlook for the year remains positive given our strategy and technology is aligned with major industry drivers and trends and our balance sheet remains strong,” said Aslett.

First Quarter Fiscal 2021 Results

Total Company first quarter fiscal 2021 revenues were \$205.6 million, compared to \$177.3 million in the first quarter of fiscal 2020. The first quarter fiscal 2021 results included an aggregate of approximately \$8.8 million of revenue attributable to the American Panel Corporation acquired business.

Total Company GAAP net income for the first quarter of fiscal 2021 was \$15.8 million, or \$0.29 per share, compared to \$19.2 million, or \$0.35 per share, for the first quarter of fiscal 2020.

Adjusted earnings per share (“adjusted EPS”) was \$0.51 per share for the first quarter of fiscal 2021, compared to \$0.45 per share in the first quarter of fiscal 2020.

First quarter fiscal 2021 adjusted EBITDA for the total Company was \$42.8 million, compared to \$36.7 million for the first quarter of fiscal 2020.

Cash flows from operating activities in the first quarter of fiscal 2021 were \$22.9 million, compared to \$24.3 million in the first quarter of fiscal 2020. Free cash flow, defined as cash flows from operating activities less capital expenditures for property and equipment, was \$12.0 million for the first quarter of fiscal 2021 and \$14.7 million for the first quarter of fiscal 2020.

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

Bookings and Backlog

Total bookings for the first quarter of fiscal 2021 were \$200.7 million, yielding a book-to-bill ratio of 0.98 for the quarter.

Mercury’s total backlog at October 2, 2020 was \$826.1 million, a \$114.3 million increase from a year ago. Of the October 2, 2020 total backlog, \$516.1 million represents orders expected to be shipped within the next 12 months.

Business Outlook

This section presents our current expectations and estimates, given current visibility, on our business outlook for the current fiscal quarter and fiscal year 2021. 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 First Quarter Fiscal 2021 Earnings Presentation and in our periodic filings with the U.S. Securities and Exchange Commission, and make themselves aware of how these risks may impact our actual performance. Effective as of July 1, 2019, the Company’s fiscal year has changed to the 52-week or 53-week period ending on the Friday closest to the last day in June. All references in this press release to the second quarter of fiscal 2021 are to the quarter ending January 1, 2021 and to full fiscal 2021 are to the 52-week period ending July 2, 2021.

For the second quarter of fiscal 2021, revenues are forecasted to be in the range of \$200.0 million to \$210.0 million. GAAP net income for the second quarter is expected to be approximately \$11.9 million to \$13.4 million, or \$0.21 to \$0.24 per share, assuming no incremental restructuring, acquisition, other non-operating adjustments, non-recurring financing in the period, an effective tax rate, excluding discrete items, of approximately 26% and approximately 55.5 million weighted average diluted shares outstanding. Adjusted EBITDA for the second quarter of fiscal

2021 is expected to be in the range of \$42.0 million to \$44.0 million. Adjusted EPS is expected to be in the range of \$0.48 to \$0.51 per share.

For the full fiscal year 2021, we currently expect revenue of \$865.0 million to \$885.0 million, and GAAP net income of \$67.9 million to \$72.3 million, or \$1.22 to \$1.30 per share, assuming no incremental restructuring, acquisition, other non-operating adjustments, non-recurring financing in the period, an effective tax rate, excluding discrete items, of approximately 26% for the remainder of the year and approximately 55.5 million weighted average diluted shares outstanding. Adjusted EBITDA for the full fiscal year is expected to be approximately \$190.0 million to \$196.0 million, and adjusted EPS for the full fiscal year is expected to be approximately \$2.20 to \$2.28 per share.

Recent Highlights

September – Mercury announced the TAC-3290 family of adaptive microwave tuners that deliver multi-mission operation to a wide range of applications such as signal intelligence and radio frequency testing.

September – Mercury announced that CEO Mark Aslett had been awarded the top honor in Glassdoor's "25 Highest Rated CEOs During COVID-19" report published in September. The report features CEOs in tech, health care, finance and several other industries who have demonstrated exceptional strength despite the challenges involved in navigating the pandemic, including remote work and other unexpected changes.

September – Mercury announced the new HDC-U.2 High Density Compute and HDS8R storage blades, uniquely combining both storage and compute capabilities into single-blade Enterprise & Datacenter SSD Form Factors so customers can minimize their overall computing footprint without sacrificing storage capacity or computing speed.

September – Mercury announced the RFS1080, the first commercially available offering in their trusted system-in-package ("SiP") product family. By delivering the latest commercially developed integrated circuits at chip scale, Mercury's SiP devices revolutionize edge processing applications by maximizing performance in a trusted, highly customizable architecture.

August – Mercury announced the receipt of a new U.S. patent covering various methods to protect controller area network-based systems from malicious cyberattacks. This new patent adds to Mercury's intellectual property portfolio of more than 80 issued patents.

August – Mercury announced that its Andover facility received the 2020 James S. Cogswell Outstanding Industrial Security Achievement Award from the U.S. Defense Counterintelligence and Security Agency. Mercury’s Hudson, New Hampshire; West Lafayette, Indiana; and Phoenix, Arizona, facilities have previously received Cogswell awards.

July – Mercury announced it received \$11.7 million in orders against its previously announced \$152 million 5 year sole-source basic ordering agreement to deliver advanced Digital RF Memory jammers to the U.S. Navy. The orders were received in the fourth quarter of the Company’s fiscal 2020 year and are expected to be delivered over the next several quarters.

Conference Call Information

Mercury will host a conference call and simultaneous webcast on Tuesday, November 3, 2020, at 5:00 p.m. ET to discuss the first quarter fiscal 2021 results and review its financial and business outlook going forward.

The live audio webcast as well as the Company’s earnings presentation can be accessed from the ‘Events and Presentations’ page of Mercury’s IR website at mrcy.com/investor. Please log into the webcast 15 minutes prior to the scheduled start time.

To join the conference call by phone, dial (877) 303-6977 in the USA and Canada, or (760) 298-5079 in all other countries. Please dial in 15 minutes prior to the scheduled start time.

A replay of the webcast will be available two hours after the call and archived for six months on the ‘Events and Presentations’.

Use of Non-GAAP Financial Measures

In addition to reporting financial results in accordance with generally accepted accounting principles, or GAAP, the Company provides adjusted EBITDA, adjusted income, adjusted earnings per share (“adjusted EPS”), free cash flow, organic revenue and acquired revenue, which are non-GAAP financial measures. Adjusted EBITDA, adjusted income, and adjusted EPS exclude certain non-cash and other specified charges. The Company believes these non-GAAP financial measures are useful to help investors understand its past financial performance and prospects for the future. However, these non-GAAP measures should not be considered in isolation or as a substitute for financial information provided in accordance with GAAP. Management believes these non-GAAP measures assist in providing a more complete understanding of the Company’s underlying operational results and trends, and management uses these measures along with the corresponding GAAP financial

measures to manage the Company's business, to evaluate its performance compared to prior periods and the marketplace, and to establish operational goals. A reconciliation of GAAP to non-GAAP financial results discussed in this press release is contained in the attached exhibits.

About Mercury Systems – Innovation That Matters®

Mercury Systems, Inc. (the "Company" or "Mercury") is a leading technology company serving the aerospace and defense industry, positioned at the intersection of high-tech and defense. Headquartered in Andover, Massachusetts, the Company delivers solutions that power a broad range of aerospace and defense programs, optimized for mission success in some of the most challenging and demanding environments. The Company envisions, creates and delivers innovative technology solutions purpose-built to meet its customers' most-pressing high-tech needs, including those specific to the defense community. To learn more, visit www.mrcy.com, or follow us on [Twitter](https://twitter.com/MRCY).

Investors and others should note that we announce material financial information using our website (www.mrcy.com), SEC filings, press releases, public conference calls, webcasts, and social media, including Twitter (twitter.com/mrcy and twitter.com/mrcy_CEO) and LinkedIn (www.linkedin.com/company/mercury-systems). Therefore, we encourage investors and others interested in Mercury to review the information we post on the social media and other communication channels listed on our website.

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Forward-Looking Safe Harbor Statement

This press release contains certain forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995, including those relating to the acquisitions described herein and to fiscal 2021 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 epidemics and pandemics such as COVID, 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 industrial security and cyber-security regulations and requirements, changes in tax rates or tax regulations, changes to interest rate swaps or other cash flow hedging arrangements, changes to generally accepted accounting principles, difficulties in retaining key employees and customers, unanticipated costs under fixed-price service and system integration engagements, and various other factors beyond our control. These risks and uncertainties also include such additional risk factors as are discussed in the Company's filings with the U.S. Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended July 3, 2020. 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

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

	October 2, 2020	July 3, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 239,122	\$ 226,838
Accounts receivable, net	99,069	120,438
Unbilled receivables and costs in excess of billings	108,754	90,289
Inventory	206,044	178,093
Prepaid income taxes	4,760	2,498
Prepaid expenses and other current assets	18,956	16,613
Total current assets	<u>676,705</u>	<u>634,769</u>
Property and equipment, net	94,744	87,737
Goodwill	614,422	614,076
Intangible assets, net	200,830	208,748
Operating lease right-of-use assets	61,980	60,613
Other non-current assets	4,501	4,777
Total assets	<u>\$ 1,653,182</u>	<u>\$ 1,610,720</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 63,057	\$ 41,877
Accrued expenses	25,123	23,794
Accrued compensation	31,536	41,270
Deferred revenues and customer advances	26,890	18,974
Total current liabilities	<u>146,606</u>	<u>125,915</u>
Deferred income taxes	11,009	13,889
Income taxes payable	4,117	4,117
Operating lease liabilities	68,274	66,981
Other non-current liabilities	15,284	15,034
Total liabilities	<u>245,290</u>	<u>225,936</u>
Shareholders' equity:		
Common stock	550	547
Additional paid-in capital	1,082,044	1,074,667
Retained earnings	328,253	312,455
Accumulated other comprehensive loss	(2,955)	(2,885)
Total shareholders' equity	<u>1,407,892</u>	<u>1,384,784</u>
Total liabilities and shareholders' equity	<u>\$ 1,653,182</u>	<u>\$ 1,610,720</u>

MERCURY SYSTEMS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	First Quarters Ended	
	October 2, 2020	September 27, 2019
Net revenues	\$ 205,621	\$ 177,304
Cost of revenues ⁽¹⁾	117,502	98,904
Gross margin	88,119	78,400
Operating expenses:		
Selling, general and administrative ⁽¹⁾	32,904	29,970
Research and development ⁽¹⁾	27,417	21,870
Amortization of intangible assets	7,731	7,019
Restructuring and other charges	1,297	648
Acquisition costs and other related expenses	—	1,417
Total operating expenses	69,349	60,924
Income from operations	18,770	17,476
Interest income	72	1,187
Other expense, net	(846)	(1,434)
Income before income taxes	17,996	17,229
Tax provision (benefit)	2,198	(2,018)
Net income	\$ 15,798	\$ 19,247
Basic net earnings per share	\$ 0.29	\$ 0.35
Diluted net earnings per share	\$ 0.29	\$ 0.35
Weighted-average shares outstanding:		
Basic	54,883	54,388
Diluted	55,339	55,078
(1) Includes stock-based compensation expense, allocated as follows:		
Cost of revenues	\$ 295	\$ 141
Selling, general and administrative	\$ 5,676	\$ 4,643
Research and development	\$ 1,213	\$ 875

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

	First Quarters Ended	
	October 2, 2020	September 27, 2019
Cash flows from operating activities:		
Net income	\$ 15,798	\$ 19,247
Depreciation and amortization	12,997	11,381
Other non-cash items, net	4,531	6,445
Changes in operating assets and liabilities	(10,397)	(12,763)
Net cash provided by operating activities	22,929	24,310
Cash flows from investing activities:		
Purchases of property and equipment	(10,978)	(9,595)
Acquisition of businesses, net of cash acquired	—	(96,502)
Net cash used in investing activities	(10,978)	(106,097)
Cash flows from financing activities:		
Proceeds from employee stock plans	2	3
Payments for retirement of common stock	(66)	(14,562)
Net cash used in financing activities	(64)	(14,559)
Effect of exchange rate changes on cash and cash equivalents	397	(287)
Net increase (decrease) in cash and cash equivalents	12,284	(96,633)
Cash and cash equivalents at beginning of period	226,838	257,932
Cash and cash equivalents at end of period	\$ 239,122	\$ 161,299

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, investments 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.

COVID related expenses. The Company incurred costs associated with the COVID pandemic. These costs relate primarily to enhanced compensation and benefits for employees as well as incremental supplies and services to support social distancing and mitigate the spread of COVID. These costs include the Mercury Employee COVID Relief Fund, which was established to support employees experiencing financial burdens resulting from the COVID pandemic. The intent of this fund is to provide relief for employees who may otherwise be unable to pay for basic necessities, unexpected care for immediate family members, or other urgent needs that promote their health and safety during the current Coronavirus crisis. These costs also include expanded sick pay related to COVID, overtime, meals and other compensation-related expenses. Management believes these items are outside the normal operations of the Company and are not indicative of ongoing operating results.

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.

	First Quarters Ended			
		October 2, 2020		September 27, 2019
Net income	\$	15,798	\$	19,247
Other non-operating adjustments, net		(182)		301
Interest income, net		(72)		(1,187)
Income tax provision (benefit)		2,198		(2,018)
Depreciation		5,266		4,362
Amortization of intangible assets		7,731		7,019
Restructuring and other charges		1,297		648
Impairment of long-lived assets		—		—
Acquisition and financing costs		841		2,236
Fair value adjustments from purchase accounting		—		—
Litigation and settlement expense, net		187		313
COVID related expenses		2,319		—
Stock-based and other non-cash compensation expense		7,367		5,776
Adjusted EBITDA	\$	42,750	\$	36,697

Free cash flow, a non-GAAP measure for reporting cash flow, is defined as cash provided by operating activities less capital expenditures for property and equipment, which includes capitalized software development costs, and, therefore, has not been calculated in accordance with GAAP. Management believes free cash flow provides investors with an important perspective on cash available for investment and acquisitions after making capital investments required to support ongoing business operations and long-term value creation. The Company believes that trends in its free cash flow are valuable indicators of its operating performance and liquidity.

Free cash flow is a non-GAAP financial measure and should not be considered in isolation or as a substitute for financial information provided in accordance with GAAP. This non-GAAP financial measure may not be computed in the same manner as similarly titled measures used by other companies. The Company expects to continue to incur expenditures similar to the free cash flow financial adjustment described above, and investors should not infer from the Company's presentation of this non-GAAP financial measure that these expenditures reflect all of the Company's obligations which require cash.

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

	First Quarters Ended	
	October 2, 2020	September 27, 2019
Cash provided by operating activities	\$ 22,929	\$ 24,310
Purchases of property and equipment	(10,978)	(9,595)
Free cash flow	\$ 11,951	\$ 14,715

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 other non-operating adjustments, 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, COVID related expenses, and stock-based and other non-cash compensation expense. The impact to income taxes includes the impact to the effective tax rate, current tax provision and deferred tax provision⁽²⁾. Adjusted EPS expresses adjusted income on a per share basis using weighted average diluted shares outstanding.

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

	First Quarters Ended			
	October 2, 2020		September 27, 2019	
Net income and earnings per share	\$ 15,798	\$ 0.29	\$ 19,247	\$ 0.35
Other non-operating adjustments, net ⁽¹⁾	(182)		301	
Amortization of intangible assets	7,731		7,019	
Restructuring and other charges	1,297		648	
Impairment of long-lived assets	—		—	
Acquisition and financing costs	841		2,236	
Fair value adjustments from purchase accounting	—		—	
Litigation and settlement expense, net	187		313	
COVID related expenses	2,319		—	
Stock-based and other non-cash compensation expense	7,367		5,776	
Impact to income taxes ⁽²⁾	(7,024)		(10,925)	
Adjusted income and adjusted earnings per share	<u>\$ 28,334</u>	<u>\$ 0.51</u>	<u>\$ 24,615</u>	<u>\$ 0.45</u>
Diluted weighted-average shares outstanding		<u>55,339</u>		<u>55,078</u>

(1) Effective as of the third quarter of fiscal 2020, the Company has revised its definition of adjusted income and adjusted earnings per share to incorporate other non-operating adjustments, which includes gains or losses on foreign currency remeasurement, investments and fixed asset sales or disposals among other adjustments. Adjusted EPS for prior periods has been recast for comparative purposes.

(2) Impact to income taxes is calculated by recasting income before income taxes to include the add-backs involved in determining adjusted income and recalculating the income tax provision using this adjusted income from operations before income taxes. The recalculation also adjusts for any discrete tax expense or benefit related to the add-backs.

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.

	First Quarters Ended	
	October 2, 2020	September 27, 2019
Organic revenue	\$ 196,785	\$ 176,361
Acquired revenue	8,836	943
Net revenues	\$ 205,621	\$ 177,304

MERCURY SYSTEMS, INC.
RECONCILIATION OF FORWARD-LOOKING GUIDANCE RANGE
Quarter Ending January 1, 2021
Fiscal Year Ending July 2, 2021
(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, COVID related expenses, and stock-based and other non-cash compensation expense.

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

	Second Quarter Ending January 1, 2021 ⁽¹⁾		Fiscal Year Ending July 2, 2021 ⁽¹⁾	
	Range			
	Low	High	Low	High
GAAP expectation -- Net income	\$ 11,900	\$ 13,400	\$ 67,900	\$ 72,300
Adjust for:				
Other non-operating adjustments, net	—	—	(200)	(200)
Interest (income) expense, net	(100)	(100)	(300)	(300)
Income tax provision	4,200	4,700	23,800	25,400
Depreciation	6,000	6,000	25,600	25,600
Amortization of intangible assets	7,600	7,600	30,400	30,400
Restructuring and other charges	—	—	1,300	1,300
Impairment of long-lived assets	—	—	—	—
Acquisition and financing costs	700	700	3,100	3,100
Fair value adjustments from purchase accounting	—	—	—	—
Litigation and settlement expense, net	—	—	200	200
COVID related expenses	3,100	3,100	5,400	5,400
Stock-based and other non-cash compensation expense	8,600	8,600	32,800	32,800
Adjusted EBITDA expectation	\$ 42,000	\$ 44,000	\$ 190,000	\$ 196,000

(1) Rounded amounts used.

MERCURY SYSTEMS, INC.
RECONCILIATION OF FORWARD-LOOKING GUIDANCE RANGE
Quarter Ending January 1, 2021
Fiscal Year Ending July 2, 2021
(In thousands, except per share data)

The Company defines adjusted income as income before other non-operating adjustments, 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, COVID related expenses and stock-based and other non-cash compensation expense. The impact to income taxes includes the impact to the effective tax rate, current tax provision and deferred tax provision⁽²⁾. Adjusted EPS expresses adjusted income on a per share basis using weighted average diluted shares outstanding.

The following tables reconcile the most directly comparable GAAP financial measures to the non-GAAP financial measures.

	Second Quarter Ending January 1, 2021 ⁽¹⁾							
	Range							
	Low		High					
GAAP expectation -- Net income and earnings per share	\$	11,900	\$	0.21	\$	13,400	\$	0.24
Other non-operating adjustments, net		—		—		—		—
Amortization of intangible assets		7,600		7,600		7,600		7,600
Restructuring and other charges		—		—		—		—
Impairment of long-lived assets		—		—		—		—
Acquisition and financing costs		700		700		700		700
Fair value adjustments from purchase accounting		—		—		—		—
Litigation and settlement expense (income), net		—		—		—		—
COVID related expenses		3,100		3,100		3,100		3,100
Stock-based and other non-cash compensation expense		8,600		8,600		8,600		8,600
Impact to income taxes ⁽²⁾		(5,200)		(5,200)		(5,200)		(5,200)
Adjusted income and adjusted earnings per share expectation	\$	26,700	\$	0.48	\$	28,200	\$	0.51
Diluted weighted-average shares outstanding expectation				55,500				55,500

(1) Rounded amounts used.

(2) Impact to income taxes is calculated by recasting income before income taxes to include the add-backs involved in determining adjusted income and recalculating the income tax provision using this adjusted income from operations before income taxes. The recalculation also adjusts for any discrete tax expense or benefit related to the add-backs.

	Fiscal Year Ending July 2, 2021 ⁽¹⁾							
	Range							
	Low		High					
GAAP expectation -- Net income and earnings per share	\$	67,900	\$	1.22	\$	72,300	\$	1.30
Other non-operating adjustments, net		(200)				(200)		
Amortization of intangible assets		30,400				30,400		
Restructuring and other charges		1,300				1,300		
Impairment of long-lived assets		—				—		
Acquisition and financing costs		3,100				3,100		
Fair value adjustments from purchase accounting		—				—		
Litigation and settlement expense, net		200				200		
COVID related expenses		5,400				5,400		
Stock-based and other non-cash compensation expense		32,800				32,800		
Impact to income taxes ⁽²⁾		(19,000)				(19,000)		
Adjusted income and adjusted earnings per share expectation	\$	121,900	\$	2.20	\$	126,300	\$	2.28
Diluted weighted-average shares outstanding expectation				55,500				55,500

(1) Rounded amounts used.

(2) Impact to income taxes is calculated by recasting income before income taxes to include the add-backs involved in determining adjusted income and recalculating the income tax provision using this adjusted income from operations before income taxes. The recalculation also adjusts for any discrete tax expense or benefit related to the add-backs.



1ST QUARTER FISCAL YEAR 2021 FINANCIAL RESULTS

Mark Aslett
President and CEO

Michael Ruppert
Executive Vice President and CFO

November 3, 2020, 5:00 pm ET

Conference call:

Dial (877) 303-6977 in the U.S. and Canada,
(760) 298-5079 in all other countries

Webcast login at www.mrcy.com/investor

Webcast replay available by 7:00 p.m. ET November 3, 2020



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 acquisitions de herein and to fiscal 2021 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 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 uncert 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 Company's markets, effects of epidemics and pandemics such as COVID, effects of any U.S. federal government shutdown or extended continuing resolution, effects of continued geopolit unrest and regional conflicts, competition, changes in technology and methods of marketing, delays in completing engineering and manufacturing programs, changes in customer order pa 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 con procurement rules and regulations, market acceptance of the Company's products, shortages in components, production delays or unanticipated expenses due to performance quality issu outsourced components, inability to fully realize the expected benefits from acquisitions and restructurings, or delays in realizing such benefits, challenges in integrating acquired business achieving anticipated synergies, increases in interest rates, changes to industrial security and cyber-security regulations and requirements, changes in tax rates or tax regulations, changes interest rate swaps or other cash flow hedging arrangements, changes to generally accepted accounting principles, difficulties in retaining key employees and customers, unanticipated co: 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 d 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 July 3, 2020. The Company cautions readers i 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 t 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 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 cl 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-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 pr a more complete understanding of the Company's underlying operational results and trends, and management uses these measures along with the corresponding GAAP financial measure 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 fin results discussed in this presentation is contained in the Appendix hereto.

Double-digit revenue growth and strong results on the bottom line

- Exceeded guidance for revenue, net income, adjusted EBITDA, EPS and adjusted EPS
- Design wins of more than \$300M in estimated lifetime value
- Outlook positive; raising FY21 revenue guidance
- Business model performing well
- Strategy and technology aligned with major industry drivers and trends
- M&A activity has picked up; strong balance sheet; well-positioned to pursue

Q1 and LTM FY21 results

Q1 FY21 VS. Q1 FY20

- Bookings down 7%
- Backlog up 16%
- Revenue up 16%
- Organic revenue⁽¹⁾ up 12%
- GAAP net income down 18%
- Adjusted EBITDA up 16%
- Op cash of \$22.9M
- FCF of \$12.0M; 28% of adj. EBITDA

LTM FY21 VS. LTM FY20

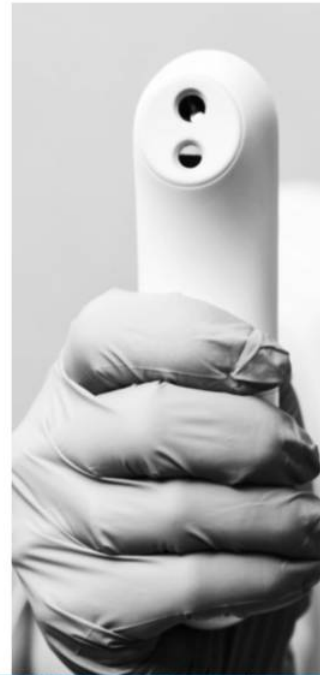
- Bookings up 15%
- Backlog up 16%
- Revenue up 20%
- Organic revenue⁽¹⁾ up 13%
- GAAP net income up 41%
- Adjusted EBITDA up 21%
- Op cash of \$113.8M
- FCF of \$69.1M; 38% of adj. EBITDA

Notes

(1) Organic revenue represents total company revenue excluding net revenue from acquisitions for the first four full quarters since the entities' acquisition date (which excludes any intercompany transactions). After the completion of four fiscal quarters, acquired businesses are treated as organic for current and comparable historical periods.

COVID-19 update

- Successfully managed COVID risks for past 8+ months
- Protecting health, safety and livelihoods of employees
- Adjusting safety protocols in line with evolving science and data
- Significant investment in weekly onsite PCR testing; now at 7 sites
- Testing key to ongoing employee safety and business continuity
- Continuing to deliver on customer and shareholder commitments
- Earned defense industry's highest employee Glassdoor ratings



Industry outlook

- Delivered strong organic revenue growth
- Near record level of backlog, robust opportunity pipeline and high activity level
- Sensor and effector mission systems and C4I modernization driving growth
- Uniquely positioned to provide DoD trusted, secure microelectronics solutions
- Risk of extended continuing budget resolution in GFY21 could cause delays
- Fiscal stimulus could crowd out defense spending, tempered by bipartisan commitment
- Platform modernization, speed and affordability focus should benefit Mercury

Business outlook

- Targeting and participating in large, growing and well-funded markets
- Seeing significant increase in M&A activity; robust pipeline
- Perceived as great buyer due to purpose, culture, values, strategy and performance
- Pursuing deals that are strategically aligned around multiple M&A themes
- Continue to execute on strategy: strong margins, organic growth, M&A, full integrati

Summary – Plan to continue generating shareholder value

- Drive ~10% average organic revenue growth supplemented by strategic M&A
- Invest in people, technologies, facilities, manufacturing assets, business systems
- Insource more manufacturing; drive stronger operating performance
- Grow revenues faster than operating expenses to improve operating leverage
- Fully integrate acquired businesses to generate cost and revenue synergies

Q1 FY21 vs. Q1 FY20

In \$ millions, except percentage and per share data	Q1 FY20 ⁽³⁾⁽⁴⁾	Q1 FY21 ⁽³⁾⁽⁵⁾	CHANGE
Bookings	\$215.7	\$200.7	(7%)
Book-to-Bill	1.22	0.98	
Backlog	\$711.8	\$826.1	16%
12-Month Backlog	499.2	516.1	
Revenue	\$177.3	\$205.6	16%
Organic Revenue Growth ⁽¹⁾	17%	12%	
Gross Margin	44.2%	42.9%	(1.3) pts
Operating Expenses	\$60.9	\$69.3	
Selling, General & Administrative	30.0	32.9	
Research & Development	21.9	27.4	14%
Amortization/Restructuring/Acquisition	9.1	9.0	
GAAP Net Income	\$19.2	\$15.8	(18%)
Effective Tax Rate	(12%)	12%	
GAAP EPS	\$0.35	\$0.29	(17%)
Weighted Average Diluted Shares	55.1	55.3	
Adjusted EPS ⁽²⁾	\$0.45	\$0.51	13%
Adj. EBITDA ⁽²⁾	\$36.7	\$42.8	16%
% of revenue	20.7%	20.8%	
Operating Cash Flow	\$24.3	\$22.9	(6%)
Free Cash Flow ⁽²⁾	\$14.7	\$12.0	(19%)
% of Adjusted EBITDA	40%	28%	

Notes

- (1) Organic revenue is revenue from the first four months of the fiscal year (which excludes intercompany revenue). After the completion of the fiscal quarter, businesses are organic for comparison to the comparable historical period.
- (2) Non-GAAP, see table.
- (3) Effective as of Company's first changed to the week period in Friday closest to June. All references to the presentation of fiscal 2020 data are to the quarter ended September 27, fiscal 2020 are period ended June 30, 2021. To the first quarter and full fiscal 2021 quarter ended and 52-week period ended June 30, 2021.
- (4) The first quarter included \$6.6M share, of discontinued operations.
- (5) The first quarter includes \$2.5M per share, of discontinued operations.

Balance sheet

(In \$ millions) ⁽¹⁾	As of				
	9/27/19	12/27/19	3/27/20	7/3/20	10/2/20
ASSETS					
Cash & cash equivalents	\$161.3	\$182.0	\$407.1	\$226.8	\$239.1
Accounts receivable, net	177.5	193.4	214.0	210.7	207.8
Inventory, net	148.5	153.6	161.9	178.1	206.0
PP&E, net	65.9	72.7	78.7	87.7	94.7
Goodwill and intangibles, net	847.4	839.2	831.4	822.8	815.3
Other	73.3	71.7	78.5	84.6	90.2
TOTAL ASSETS	\$1,473.9	\$1,512.6	\$1,771.6	\$1,610.7	\$1,653.2
LIABILITIES AND S/E					
AP and accrued expenses	\$84.8	\$91.3	\$109.6	\$107.0	\$119.7
Other liabilities	93.7	104.3	112.6	118.9	125.6
Debt	-	-	200.0	-	-
Total liabilities	178.5	195.6	422.2	225.9	245.3
Stockholders' equity	1,295.3	1,317.1	1,349.4	1,384.8	1,407.9
TOTAL LIABILITIES AND S/E	\$1,473.9	\$1,512.6	\$1,771.6	\$1,610.7	\$1,653.2

Notes
(1) Rounded amount

Cash flow summary

(In \$ millions) ⁽¹⁾	For the Fiscal Quarters Ended				
	9/27/19	12/27/19	3/27/20	7/3/20	10/2/20
Net Income	\$19.2	\$15.7	\$23.6	\$27.2	\$15.8
Depreciation and amortization	11.4	12.5	12.7	12.8	13.0
Gain on investment	-	-	(3.8)	(2.0)	-
Other non-cash items, net	6.4	7.6	8.5	6.8	4.5
Changes in Operating Assets and Liabilities					
Accounts receivable, unbilled receivables, and costs in excess of billings	2.2	(15.7)	(20.7)	3.2	3.5
Inventory	0.4	(5.7)	(8.2)	(18.1)	(27.8)
Accounts payable and accrued expenses	(6.3)	5.8	18.4	(4.4)	10.8
Other	(9.0)	11.8	(0.4)	3.2	3.1
	(12.8)	(3.8)	(10.9)	(16.1)	(10.4)
Operating Cash Flow	24.3	32.1	30.1	28.7	22.9
Capital expenditures	(9.6)	(11.3)	(10.9)	(11.5)	(11.0)
Free Cash Flow⁽²⁾	\$14.7	\$20.7	\$19.2	\$17.2	\$12.0
<i>Free Cash Flow⁽²⁾ / Adjusted EBITDA⁽²⁾</i>	<i>40%</i>	<i>48%</i>	<i>41%</i>	<i>35%</i>	<i>28%</i>
<i>Free Cash Flow⁽²⁾ / GAAP Net Income</i>	<i>76%</i>	<i>132%</i>	<i>82%</i>	<i>63%</i>	<i>76%</i>

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

Q2 FY21 guidance

In \$ millions, except percentage and per share data	Q2 FY20 ⁽¹⁾	Q2 FY21 ⁽²⁾⁽⁵⁾	CHANGE
Revenue	\$193.9	\$200.0 – \$210.0	3% – 8%
GAAP Net Income	\$15.7	\$11.9 – \$13.4	(24%) – (15%)
Effective tax rate ⁽³⁾	24.6%	26%	
GAAP EPS	\$0.29	\$0.21 – \$0.24	(28%) – (17%)
Weighted-average diluted shares outstanding	55.0	55.5	
Adjusted EPS⁽⁴⁾	\$0.53	\$0.48 – \$0.51	(9%) – (4%)
Adj. EBITDA⁽⁴⁾	\$42.8	\$42.0 – \$44.0	(2%) – 3%
% of revenue	22.1%	21.0%	

Notes:
(1) Q2 FY20 figures are the Company's actual results for the quarter ended June 30, 2020, as reported in the Company's earnings release dated July 1, 2020.
(2) The guidance is based on the Company's current expectations and is subject to change. The guidance is based on the Company's current expectations and is subject to change. The guidance is based on the Company's current expectations and is subject to change.
(3) The effective tax rate is based on the Company's current expectations and is subject to change. The effective tax rate is based on the Company's current expectations and is subject to change.
(4) Non-GAAP, see the Company's earnings release dated July 1, 2020, for more information.

Summary

- Strong financial performance in Q1 and solid start to the fiscal year
- Revenue, net income, adjusted EBITDA, EPS and adjusted EPS exceed guidance
- Investments in inventory and precautionary COVID testing to mitigate potential impact
- Well positioned with a flexible capital structure to continue to deploy capital toward strategic M&A
- Executing on our long-term financial model with above industry average organic revenue and adjusted EBITDA margins



APPENDIX

Adjusted EPS reconciliation

(In thousands, except per share data)	Q1 FY20	Q1 FY21	LTM Q1 FY20	LTM Q1 FY21	Q2 FY21 ⁽²⁾⁽⁵⁾		FY21 ⁽²⁾⁽⁵⁾	
					Low	High	Low	High
Earnings per share⁽¹⁾	\$ 0.35	\$ 0.29	\$ 1.15	\$ 1.50	\$ 0.21	\$ 0.24	\$ 1.22	\$ 1.30
Net Income	\$ 19,247	\$ 15,798	\$ 58,543	\$ 82,263	\$ 11,900	\$ 13,400	\$ 67,900	\$ 72,300
Other non-operating adjustments, net ⁽³⁾	301	(182)	300	(6,119)	-	-	(200)	(200)
Amortization of intangible assets	7,019	7,731	27,752	31,272	7,600	7,600	30,400	30,400
Restructuring and other charges	648	1,297	704	2,454	-	-	1,300	1,300
Impairment of long-lived assets	-	-	-	-	-	-	-	-
Acquisition and financing costs	2,236	841	10,821	4,250	700	700	3,100	3,100
Fair value adjustments from purchase accounting	-	-	93	1,801	-	-	-	-
Litigation and settlement expense, net	313	187	657	818	-	-	200	200
COVID related expenses	-	2,319	-	4,912	3,100	3,100	5,400	5,400
Stock-based and other non-cash compensation expense	5,776	7,367	20,654	28,563	8,600	8,600	32,800	32,800
Impact to income taxes ⁽⁴⁾	(10,925)	(7,024)	(24,390)	(19,733)	(5,200)	(5,200)	(19,000)	(19,000)
Adjusted income	\$ 24,615	\$ 28,334	\$ 95,134	\$ 130,481	\$ 26,700	\$ 28,200	\$ 121,900	\$ 126,300
Adjusted earnings per share⁽¹⁾	\$ 0.45	\$ 0.51	\$ 1.89	\$ 2.36	\$ 0.48	\$ 0.51	\$ 2.20	\$ 2.28
Weighted-average shares outstanding:								
Basic	54,388	54,883						
Diluted	55,078	55,339			55,500	55,500	55,500	55,500

Notes

- (1) Per share information is presented on a fully diluted basis.
- (2) Rounded amounts used.
- (3) Effective as of the third quarter of fiscal 2020, the Company has revised its definition of adjusted income and adjusted earnings per share to incorporate other non-operating adjustments, which includes gains or losses on foreign currency remeasurement, investments and fixed asset sales or disposals among other adjustments. Adjusted EPS for prior periods has been recast for comparative purposes.
- (4) Impact to income taxes is calculated by recasting income before income taxes to include the add-backs involved in determining adjusted income and recalculating the income tax provision using this adjusted income from operations before income taxes. The recalculation also adjusts for any discrete tax expense or benefit related to the add-backs.
- (5) Effective as of July 1, 2019, the Company's fiscal year has changed to the 52-week or 53-week period ending on the Friday closest to the last day of June. All references in this presentation to the second quarter of fiscal 2020 and full fiscal 2020 are to the quarter ended December 27, 2020 and the 53-week period ended July 3, 2020, and to the second quarter of fiscal 2021 and full fiscal 2021 are to the quarter ending January 1, 2021 and 52-week period ending July 2, 2021.

Adjusted EBITDA reconciliation

(In thousands)	Q1 FY20	Q1 FY21	LTM Q1 FY20	LTM Q1 FY21	Q2 FY21 ⁽¹⁾⁽²⁾		FY21 ⁽¹⁾⁽²⁾	
					Low	High	Low	High
Net Income	\$ 19,247	\$ 15,798	\$ 58,543	\$ 82,263	\$ 11,900	\$ 13,400	\$ 67,900	\$ 72,300
Other non-operating adjustments, net	301	(182)	300	(6,119)	-	-	(200)	(200)
Interest (income) expense, net	(1,187)	(72)	4,797	(30)	(100)	(100)	(300)	(300)
Income tax (benefit) provision	(2,018)	2,198	7,605	12,437	4,200	4,700	23,800	25,400
Depreciation	4,362	5,266	18,475	19,674	6,000	6,000	25,600	25,600
Amortization of intangible assets	7,019	7,731	27,752	31,272	7,600	7,600	30,400	30,400
Restructuring and other charges	648	1,297	704	2,454	-	-	1,300	1,300
Impairment of long-lived assets	-	-	-	-	-	-	-	-
Acquisition and financing costs	2,236	841	10,821	4,250	700	700	3,100	3,100
Fair value adjustments from purchase accounting	-	-	93	1,801	-	-	-	-
Litigation and settlement expense, net	313	187	657	818	-	-	200	200
COVID related expenses	-	2,319	-	4,912	3,100	3,100	5,400	5,400
Stock-based and other non-cash compensation expense	5,776	7,367	20,654	28,563	8,600	8,600	32,800	32,800
Adjusted EBITDA	\$ 36,697	\$ 42,750	\$ 150,401	\$ 182,295	\$ 42,000	\$ 44,000	\$ 190,000	\$ 196,000

Notes

- (1) Rounded amounts used.
(2) Effective as of July 1, 2019, the Company's fiscal year has changed to the 52-week or 53-week period ending on the Friday closest to the last day of June. All references in this presentation to the second quarter of fiscal 2020 and full fiscal 2020 are to the quarter ended December 27, 2020 and the 53-week period ended July 3, 2020, and to the second quarter of fiscal 2021 and full fiscal 2021 are to the quarter ending January 1, 2021 and 52-week period ending July 2, 2021.

Free cash flow reconciliation

(In thousands)	Q1 FY20	Q1 FY21	LTM Q1 FY20	LTM Q1 FY21
Cash provided by operating activities	\$ 24,310	\$ 22,929	\$ 101,798	\$ 113,805
Purchases of property and equipment	(9,595)	(10,978)	(32,559)	(44,677)
Free cash flow	\$ 14,715	\$ 11,951	\$ 69,239	\$ 69,128

Organic revenue reconciliation

(In thousands)	Q1 FY20	Q1 FY21	LTM Q1 FY20	LTM Q1 FY21
Organic revenue ⁽¹⁾	\$ 176,361	\$ 196,785	\$ 682,508	\$ 771,304
Acquired revenue	943	8,836	5,484	53,623
Net revenues	\$ 177,304	\$ 205,621	\$ 687,992	\$ 824,927

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.

