



# 3Q 2021 Earnings Release

November 15, 2021



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This presentation also includes certain non-GAAP financial measures. These non-GAAP financial measures are in addition to, and not a substitute for or superior to, measures of financial performance prepared in accordance with GAAP. There are a number of limitations related to the use of these non-GAAP financial measures versus their nearest GAAP equivalents. For example, other companies may calculate non-GAAP financial measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison. The reader is cautioned not to place undue reliance on non-GAAP financial measures and to evaluate them only in conjunction with their nearest GAAP equivalents. Please see the appendix for reconciliations of these non-GAAP financial measures to their nearest GAAP equivalents and for the calculation of certain other financial metrics.





## 3Q 2021 PERFORMANCE SUMMARY

- Sales grew 48% to \$70.1 million; 80% sales growth adjusted for contract with U.S. Census Bureau <sup>(1)</sup>
- Gross profit increased 57% to a record \$26.1 million; expanded gross margin 229 basis points to 37.2%
- Adjusted EBITDA increased 45% to \$8.4 million
- Generated \$12.5 million of positive cash flow from operations

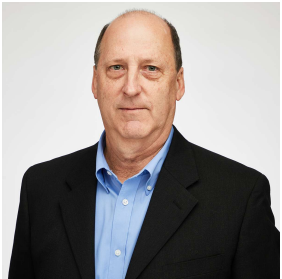
### Excellent 3Q Performance

**Notes:**

1. Includes \$1.6 million of revenue from the contract with the U.S. Census Bureau in Q3 2021 and \$9.4 million in Q3 2020. Excluding this contract, year-over-year growth is 80%.



## LEADERSHIP ANNOUNCEMENTS



### **MARK GRIFFIN**

#### **EVP, Security Solutions**

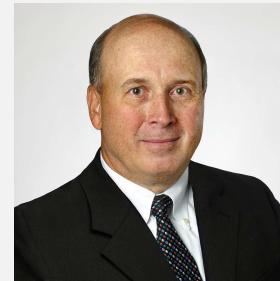
- Will oversee all operations and business development activities, including Xacta, Telos Ghost, AMHS and IDTrust360
- Has been with Telos since 1984
- Named GM of Telos ID in 2007



### **BRENDAN MALLOY**

#### **EVP, Secure Networks**

- Will oversee all operations and business development
- Has been with Telos since 1996
- Named GM of the Secure Networks business in 2012



### **ED WILLIAMS**

#### **Retiring as Chief Operating Officer**

- COO since 2003
- Joined Telos in 1993
- Will ensure a smooth transition to Mark Griffin and Brendan Malloy through January 2022

Seasoned Bench Of Operational Leaders



# BUSINESS HIGHLIGHTS

## CORE BUSINESS PERFORMANCE



- Solid quarter of **Xacta renewals** for added backlog with **existing government customers**, including NSA, FBI, SSA and others.
- **Expanded contract** on a confidential contract with a **federal healthcare program**.
- Solid **revenue growth** in the **Secure Networks** business with large and recurring programs that offer solutions to the Department of Defense.

## NOTABLE WINS AND RENEWALS



- **DMDC** exercised Telos option-year 3, through mid-September 2022 for **IDTrust360**.
- **VMware** and **Salesforce** selected Xacta in support of FedRAMP requirements.
- **UPS** announced full use of Telos for cargo security-threat assessments and background checks.
- Special customer executed option year for **Telos Ghost**.

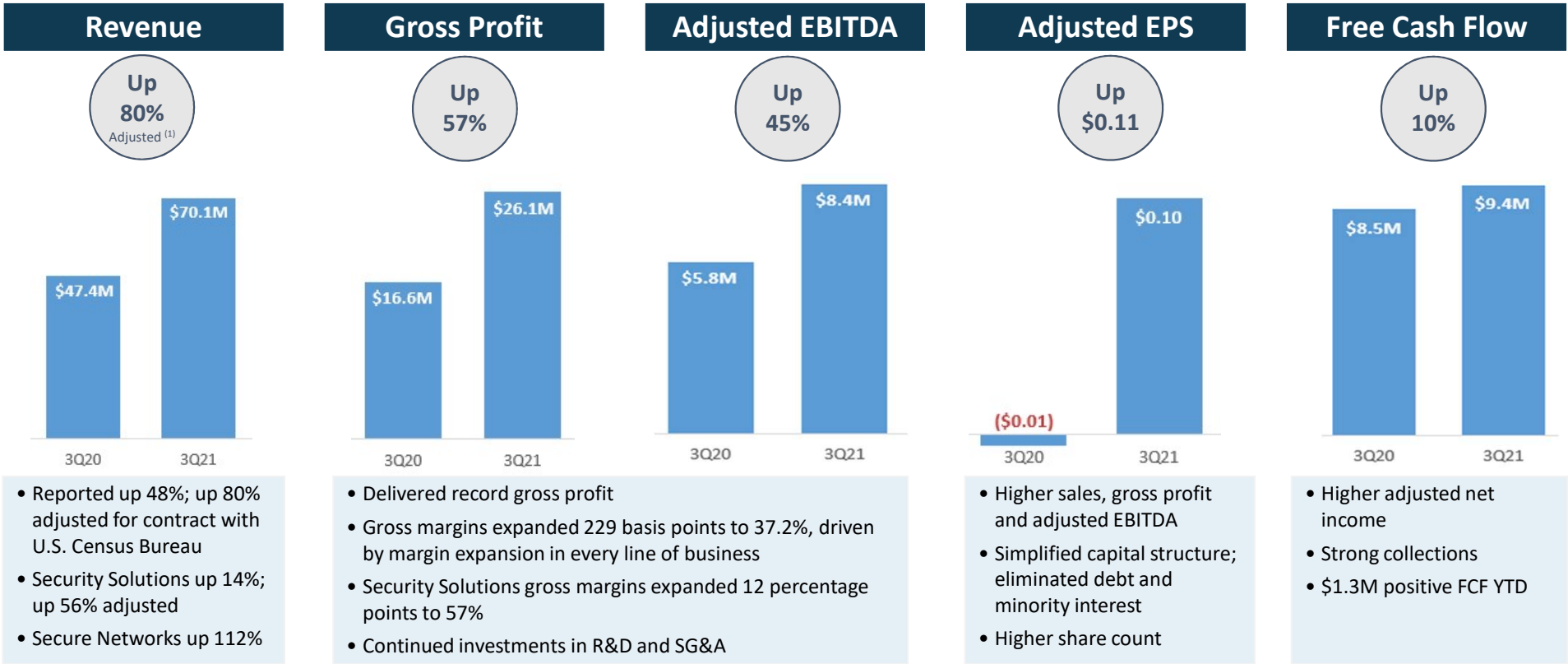
## PARTNER ENHANCEMENTS



- **Telos CyberProtect Partner Program** continued to progress. Currently have 20 partners, most of which have government and commercial practices.
- Announced **FASTTR** initiative in partnership with AWS, Splunk and stackArmor to benefit firms required to comply with complex regulations.
- Recently added **Oracle** to roster of **CSP** customers.

Solid Performance With Continued Progress Towards Future Growth

# 3Q 2021 FINANCIAL PERFORMANCE



- Reported up 48%; up 80% adjusted for contract with U.S. Census Bureau
- Security Solutions up 14%; up 56% adjusted
- Secure Networks up 112%

- Delivered record gross profit
- Gross margins expanded 229 basis points to 37.2%, driven by margin expansion in every line of business
- Security Solutions gross margins expanded 12 percentage points to 57%
- Continued investments in R&D and SG&A

- Higher sales, gross profit and adjusted EBITDA
- Simplified capital structure; eliminated debt and minority interest
- Higher share count

- Higher adjusted net income
- Strong collections
- \$1.3M positive FCF YTD

## Excellent 3Q Results Across All Financial Metrics

**Notes:**

1. Includes \$1.6 million of revenue from the contract with the U.S. Census Bureau in Q3 2021 and \$9.4 million in Q3 2020. Excluding this contract, year-over-year growth is 80%.

# 2021 GUIDANCE WALK AND 2022 PREVIEW

		2021 Guidance		
		(\$ are shown in Millions)		
		2Q Earnings Call	Updates	3Q Earnings Call
Sales	Original Guidance	283 – 295	-	283 – 295
	Less: CMS Delay <sup>(1)</sup>	(16)	-	(16)
	Less: TSA Delay <sup>(2)</sup>	(13)	(25)	(38)
	Plus: Outperformance <sup>(3)</sup>	29	(18 – 25)	11 – 4
	Updated Guidance	283 – 295	(43 – 50)	240 – 245
Year-over-Year Growth		57% to 64%		33% to 36%
Adj. EBITDA	Original Guidance	33 – 36	-	33 – 36
	Less: CMS Delay <sup>(1)</sup>	(6)	-	(6)
	Less: TSA Delay <sup>(2)</sup>	(5)	(10)	(15)
	Plus: Outperformance <sup>(3)</sup>	11	(5 – 7)	6 – 4
	Updated Guidance	33 – 36	(15 – 17)	18 – 19

2022 Preview
<b>Security Solutions:</b>
<ul style="list-style-type: none"> <li>Expected to grow in-line with 2021 growth before impact of U.S. Census Bureau contract               <ul style="list-style-type: none"> <li>Primarily driven by ramp in PreCheck</li> <li>Potential for higher commercial software sales later in the year</li> </ul> </li> </ul>
<b>Secure Networks:</b>
<ul style="list-style-type: none"> <li>Sales expected to be flat to down due to the completion of a large program</li> </ul>
<b>Key Assumptions:</b>
<ul style="list-style-type: none"> <li>PreCheck grants authority to operate in 2021; sales ramp throughout 2022</li> <li>CMS customer delay continues; no sales in 2022</li> <li>Minimal disruptions to employee recruitment / retention and subcontractor relationships from Executive Order vaccine mandate</li> <li>Supply chain normalizes</li> </ul>

## Updating Guidance To Reflect Customer Delays And Supply Chain Constraints

**Notes:**

- Reflects customer delay on the Provider Enrollment and Oversight program with the Centers for Medicare and Medicaid Services. No update since 2Q.
- Reflects customer delay on the TSA PreCheck Expansion program. Eliminated an additional \$25M sales, \$10M gross profit from 4Q forecast.
- Reflects outperformance elsewhere in the portfolio. Updates reflect subcontractor supply chain constraints in Secure Networks, customer delays in Secure Communications, and lower G&A.



## SUMMARY

- Seasoned operational leadership team in place
- Continued progress on strategic priorities
- Excellent 3Q results across all financial metrics, including record gross profit
- Updated 2021 revenue guidance reflects 37% to 48% growth for 4Q and 33% to 36% growth for the year
- Expecting another year of strong growth for Security Solutions in 2022

**Delivered Strong 3Q Performance With Continued Focus On Long Term Strategic Objectives**





# Appendix



## NON-GAAP FINANCIAL MEASURES

In addition to its results determined in accordance with GAAP, the Company believes the non-GAAP financial measures of Adjusted Sales Growth, Enterprise EBITDA, Adjusted EBITDA, Adjusted Net Income (Loss), Adjusted EPS and Free Cash Flow are useful in evaluating its operating performance. The Company believes that this non-GAAP financial information, when taken collectively with the Company's GAAP results, may be helpful to readers of its financial statements because that information provides consistency and comparability with past financial performance and assists in comparisons with other companies, some of which use similar non-GAAP financial information to supplement their GAAP results. The non-GAAP financial information is presented for supplemental informational purposes only, should not be considered a substitute for financial information presented in accordance with GAAP, and may be different from similarly-titled non-GAAP measures used by other companies. A reconciliation is provided below for each of these non-GAAP financial measures to the most directly comparable financial measure stated in accordance with GAAP.

The Company uses these non-GAAP financial measures to understand and evaluate its core operating performance and trends, to prepare and approve its annual budget, to develop short-term and long-term operating plans, and to evaluate the performance of certain management personnel when determining incentive compensation. The Company believes these non-GAAP financial measures facilitate comparison of its operating performance on a consistent basis between periods by excluding certain items that may, or could, have a disproportionate positive or negative impact on its results of operations in any particular period. When viewed in combination with the Company's results prepared in accordance with GAAP, these non-GAAP financial measures help provide a broader picture of factors and trends affecting the Company's results of operations.



## RECONCILIATIONS

Enterprise EBITDA and Adjusted EBITDA (*Unaudited, amounts in thousands*)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net loss attributable to Telos Corporation	\$ (5,387)	\$ (200)	\$ (38,894)	\$ (2,178)
Adjustments:				
Net income attributable to non-controlling interest	—	2,694	—	6,284
Non-operating (income) expense	(20)	(2)	1,001	(14)
Interest expense	195	2,013	583	6,026
(Benefit from) provision for income taxes	(41)	8	6	(136)
Depreciation and amortization	1,459	1,284	4,223	4,018
Enterprise EBITDA	(3,794)	5,797	(33,081)	14,000
Stock-based compensation expense	12,191	4	47,197	4
Adjusted EBITDA	\$ 8,397	\$ 5,801	\$ 14,116	\$ 14,004



## RECONCILIATIONS

Adjusted Net Income (Loss) and Adjusted EPS (*Unaudited*)

*Three Months Ended September 30,*

	2021		2020	
	Adjusted Net Income (Loss)	Adjusted Earnings Per Share	Adjusted Net Income (Loss)	Adjusted Earnings Per Share
	(in thousands)		(in thousands)	
Reported GAAP measure	\$ (5,387)	\$ (0.08)	\$ (200)	\$ (0.01)
Adjustments:				
Non-operating income	(20)	—	(2)	—
Stock-based compensation expense	12,191	0.18	4	—
Adjusted non-GAAP measure	\$ 6,784	\$ 0.10	\$ (198)	\$ (0.01)
Weighted-average shares of common stock outstanding	66,755		39,002	



## RECONCILIATIONS

Adjusted Net Income (Loss) and Adjusted EPS (*Unaudited*)

*Nine Months Ended September 30,*

	2021		2020	
	Adjusted Net Income (Loss)	Adjusted Earnings Per Share	Adjusted Net Income (Loss)	Adjusted Earnings Per Share
	(in thousands)		(in thousands)	
Reported GAAP measure	\$ (38,894)	\$ (0.59)	\$ (2,178)	\$ (0.06)
Adjustments:				
Non-operating expense (income)	1,001	0.01	(14)	—
Stock-based compensation expense	47,197	0.72	4	—
Adjusted non-GAAP measure	\$ 9,304	\$ 0.14	\$ (2,188)	\$ (0.06)
Weighted-average shares of common stock outstanding	65,999		38,554	



## RECONCILIATIONS

Free Cash Flow (*Unaudited*)

***Nine Months Ended September 30,***

	<b>2021</b>	<b>2020</b>
	(in thousands)	(in thousands)
Net cash flows provided by operating activities	\$ 6,668	\$ 11,957
Adjustments:		
Capital expenditure	(7,784)	(6,083)
Final distribution to Telos ID Class B member - included in cash from operating activities	2,436	—
Free cash flow	\$ 1,320	\$ 5,874