



DLH Holdings Corp.
Acquisition of Social & Scientific Systems

July 2, 2019



Forward Looking Statement

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995:

This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to future events, such as DLH Holdings Corp's ("DLH's") and Social and Scientific Systems' ("SSS's") future financial performance and the performance of the combined enterprise, including estimates of future revenues, operating income, earnings, and backlog. Any statements that are not statements of historical fact (including without limitation statements to the effect that DLH or its management "believes", "expects", "anticipates", "plans", "intends" and similar expressions) should be considered forward looking statements that involve risks and uncertainties which could cause actual events or actual results to differ materially from those indicated by the forward-looking statements. Those risks and uncertainties include, but are not limited to, the following: failure to achieve the anticipated benefits of the SSS acquisition (including anticipated future financial operating performance and results); diversion of management's attention from normal daily operations of the business and the challenges of managing larger and more widespread operations resulting from the acquisition; the inability to retain SSS employees and customers; contract awards in connection with re-compete for present business and/or competition for new business; the risks and uncertainties associated with client interest in and purchases of new services; changes in client budgetary priorities; government contract procurement (such as bid protest, small business set asides, loss of work due to organizational conflicts of interest, etc.) and termination risks; the ability to successfully integrate the operations of SSS and any future acquisitions; and other risks described in DLH's SEC filings. For a discussion of such risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in DLH's periodic reports filed with the SEC, including DLH's Annual Report on Form 10-K for the fiscal year ended September 30, 2018, as well as interim quarterly filings thereafter. The forward-looking statements contained herein are made as of the date hereof. DLH does not assume any responsibility for updating forward-looking statements, except as may be required by law.

DLH Holdings Continues to Create Value

What We Are Presenting Today

DLH Holdings has acquired a privately held ESOP, *Social Scientific Systems* through a strategic acquisition that brings together two highly complementary businesses

Strengthens DLH Strategy Execution

Adds highly complex skills and capabilities in targeted agencies with added scale

Balances portfolio in the 3 market focus areas and diversifies book of business

Differentiating secure data analytics platform to enhance performance and increase organic growth

Key Financial Impacts

\$70 million purchase price funded 100% via Senior bank debt

Expected to be immediately accretive to cash flow.

Valuation Rationale

Purchase price represents a multiple of ~11x on EBITDA

Industry metrics indicate 11-13x multiples for Government Services

Strategic Rationale

Highly complementary businesses with common core capabilities for complex, nationally dispersed programs, operational synergies, and new business opportunities



Accelerates long-term strategy of both entities; Public health & life sciences capabilities with a proven secure data analytics platform to go to market



Reduces portfolio risk especially in view of Kingdomware (set-aside) impact on legacy VA revenue and profit delivery; adds > \$300M unfunded contract backlog



Government contract consolidations (and IDIQ focus), coupled with industry mergers, place greater value on scale for small, mid-tier organic competitiveness

Strengthens DLH Operating Model

Health & Logistics
Solutions Operating Unit
(Kevin Wilson)



Mission Services &
Solutions Operating Unit
(Helene Fisher)



Social & Scientific
Systems Operating Unit¹
(Kevin Beverly)



- Technology-enabled solutioning with government endorsement and certifications
- Repeatable solutions leveraging industry best practices (including ISO 9001:2015, CMMI Level 3 DevOps, Joint Commission)
- Full spectrum health continuum of care: Acquisition planning, R&D, Clinical Trials, Care Monitoring, Pharma Logistics

¹ New operating unit title is in-process

Integration Activity Underway

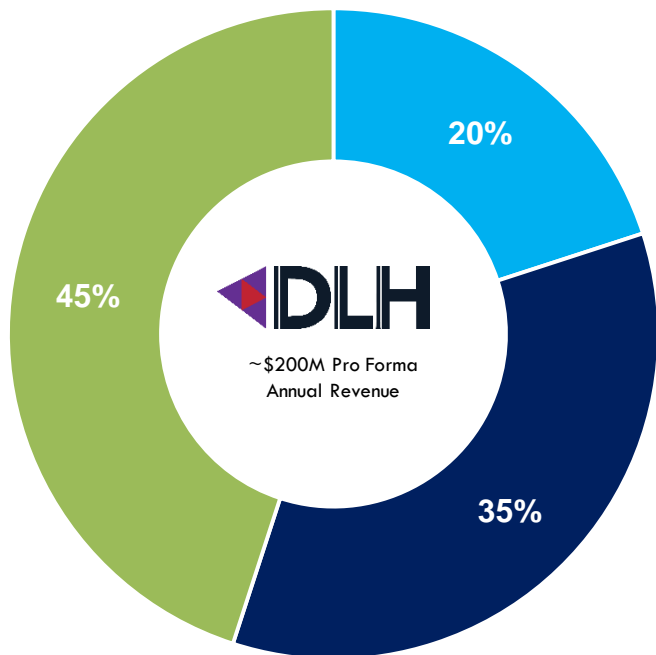
Accomplished

- ✓ Implemented Executive Leadership Team
- ✓ Designated Integration Team Leads
- ✓ Reactivated Integration Process Controls from 2016 integration experience
- ✓ Pre-close Management Synergies

In-process

- Go-to-market strategy
- ERP integration
- Benefits consolidation
- IT / Web standardization
- Facility consolidation planning

Market Portfolio Balanced via SSS Addition



DOD & Veteran Health Services Market

- **Pro Forma Annual Revenue:** ~\$90M
- **Key Capabilities:** Mail-order pharmacy ops, virtual pharmacy, behavioral health, substance abuse counseling, training, disability assessments, care coordination, case management
- **Recent Customers:** VHA, Navy, BUMED, DHA, USAMMA

Human Services & Solutions Market




- **Pro Forma Annual Revenue:** ~\$40M
- **Key Capabilities:** Large-scale program monitoring & evaluation, data collection and management, trend analyses, congressional reporting, electronic medical records migration, nutritional and social health assessments
- **Recent Customers:** ACF OHS, DHS, USAID

Public Health & Life Sciences Market

- **Pro Forma Annual Revenue:** ~\$70M
- **Key Capabilities:** Disease prevention and health promotion, clinical trials, epidemiology studies, environmental studies, public health policy data analysis, microsimulation, statistical data analysis and national reporting, website & social media campaigns, biological research and surveys, capacity-building
- **Recent Customers:** CDC, NIH, CMS, AHRQ, DOI

Portfolio Accelerates Targeted Market Growth Prospects



<u>Market Areas and Targeted Agencies</u>	<u>Strategic Focus</u>	<u>SSS Acquisition Impact</u>
<p>DoD and Veterans Health Services</p> 	<p>DHA \$303M addressable spend includes life sciences clinical research across DHA directorates and joint VA programs including longitudinal studies and medical simulation. VA increased focus on evidence-based policy decisions and data analytics.</p>	<p>SSS 40 years experience with health research, clinical trials, and longitudinal studies across various population groups coupled with legacy DLH medical systems biomedical research and development experience positions DLH well for this competitive area.</p>
<p>Human Services and Solutions</p> 	<p>Extensive opportunities for program monitoring and evaluation and statistical assessment of effectiveness are on the horizon for these agencies. Children's bureau, child welfare, and related organizations are looking for innovative technology-enabled approaches to improve capacity and accountability for various programs.</p>	<p>Direct development of systems program monitoring and capacity-building capability along with secure data analytics complements that currently performed for the Office of Head Start and offers innovative value propositions for these agencies. DLH has applicable HRSA IDIQ contracts that can be leveraged for task order opportunities.</p>
<p>Public Health and Life Sciences</p> 	<p>CDC \$616M addressable spend includes various scientific research projects and extensive survey study initiatives tied to emerging health threats. NIH continues to represent a large growth opportunity by merely increasing share within respective OPDIVs. SAMHSA research and analytics opportunities offer growth opportunities.</p>	<p>Extensive epidemiology research and longitudinal public health studies offers prime caliber qualifications to leverage at CDC to complement existing DLH disease prevention and health promotion studies, analyses, and communications projects. DLH has applicable CDC and SAMHSA IDIQ contracts to leverage.</p>

Social & Scientific Systems Overview



Clinical Research Services and Bioscience

Management and operational support for bioscience research programs and clinical trials expedite the availability of safe and effective therapeutics.



Epidemiology and Public Health Studies

Design and conduct epidemiologic studies examining associations between a range of environmental, occupational, and lifestyle exposures and their impacts.



Program Evaluation and Policy Analysis

Scientific evaluations, research, and analyses are used to develop successful policies that address pressing public health issues.



Health Data Management and Analysis

Data experts and software systems manage health data, provide real-time analytical reporting, and deliver statistical programming for research.

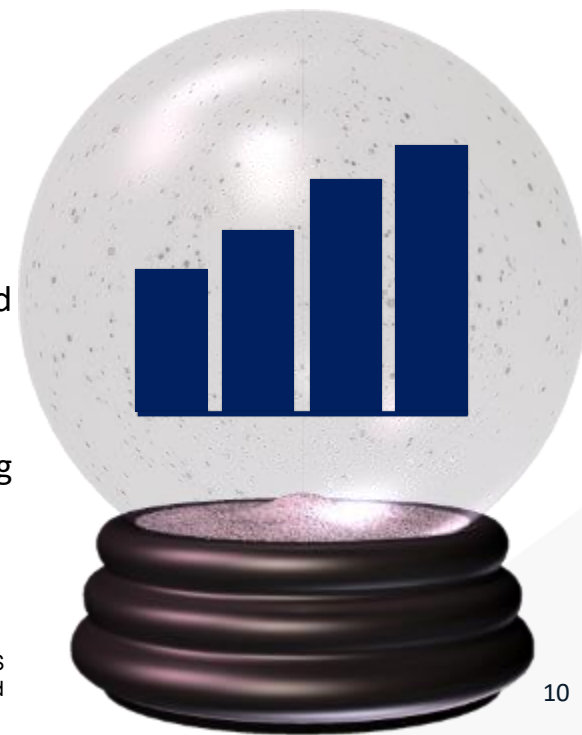


Health IT and Cloud Services

Develop IT solutions, as a cloud service provider, for our clients to manage and analyze their data in secure and efficient manner, operating at CMMI-DEV Level 3.

Proforma Considerations

- DLH uses EBITDA as a supplemental non-GAAP measure of our performance. DLH defines EBITDA as net income excluding (i) interest expense, (ii) provision for or benefit from income taxes and (iii) depreciation and amortization.
- Due to short-lived projects completed during the proforma period (six months ended 3/31/19), sustaining revenue of the enterprise is expected to be lower than in the proforma period.
- DLH estimates that SSS will contribute approximately \$65 million, on an annualized basis, to revenue of DLH going forward, with similar operating margins as during the proforma period.



The following unaudited pro forma financial information combines the historical financial information of DLH and SSS and may not be indicative of the historical results that would have been achieved had the companies been combined during the periods presented or of the future results that the combined companies will experience.

Proforma 6-month Results at 3/31/19



(\$000's, unaudited)

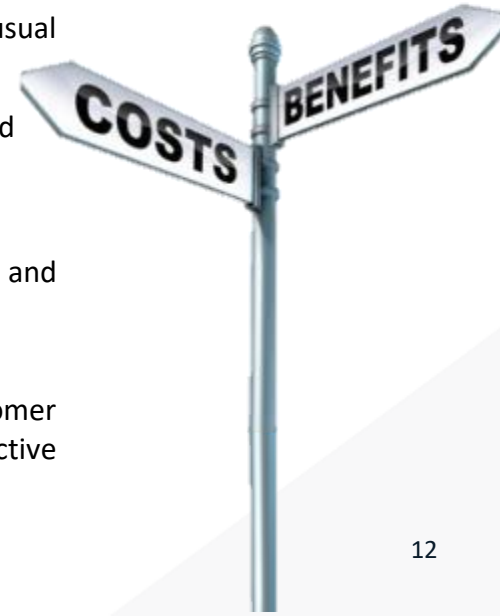
	<u>DLH</u>	<u>SSS Proforma</u>	<u>Financing & Amortization</u>	<u>Proforma Consolidated</u>
Revenue	\$67,508	\$35,665		\$103,173
Direct Expenses	51,648	23,674		75,322
Gross Profit	15,860	11,991		27,851
General and administrative expenses	9,854	8,815		18,669
Depreciation and amortization	1,123	1,312	1,465	3,900
Income from operations	4,883	1,864	(1,465)	5,282
Interest and other income (expense), net	(721)	8	(2,388)	(3,101)
Income/(loss) before income taxes	4,162	1,872	(3,853)	2,181
Provision for income taxes	1,207	543	(1,117)	632
Net income	\$2,955	\$1,329	(\$2,736)	\$1,549
Six month fully-diluted EPS	0.23	0.10	(0.21)	0.12

Reconciliation of GAAP net income to EBITDA, a non-GAAP measure:

Net income	2,955	1,329	(2,736)	1,549
(i) Interest expense (income)	721	(8)	2,388	3,101
(ii) Provision for taxes	1,207	543	(1,117)	632
(iii) Depreciation and amortization	1,123	1,312	1,465	3,900
EBITDA	6,006	3,176	0	9,182

Financial Benefits of the Acquisition

- Highly visible revenue
 - Acquired company has approximately \$346 million of total backlog, of which \$40 million is funded
 - Due to research and studies nature of SSS work, contract durations tend to be longer than usual
- Expected strong free cash flow and debt service
 - Free cash flow is further supported by tax-deductible purchase price and prior DLH tax shield
 - Capital requirements of the business are minimal
- Substantial existing contract base
 - The acquired company's contract portfolio supports 100% of its expected FY19 revenue and 95% of expected FY20 revenue
- Significant potential for combined organic growth
 - Revenue growth is driven primarily by continued execution against recurring customer requirements, cross-selling opportunities (expanding offerings into each other's respective markets), and unsaturated customer bases



New Credit Facilities

- The acquisition was fully funded with Senior Debt, provided by a new syndicated financing agreements with a bank group led by First National Bank of Pennsylvania (agent) & M&T Bank
- Term loan and cash reserves funded the transaction; revolver is available to fund future growth.

First National Bank Group	
Term Loan	\$70 million
Interest Rate	LIBOR +4.0% ⁽¹⁾
Term	5.0 years

First National Bank Group	
Revolving Line of Credit	\$25 million <i>(none drawn at close)</i>
Interest Rate	LIBOR +4.0% ⁽¹⁾
Maturity	5.0 years

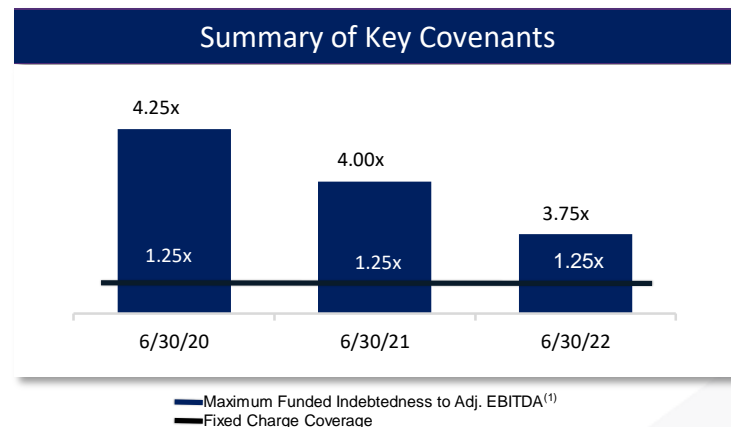
Please note that additional financing terms are discussed in detail in Form 8-K filed with SEC

(1) Interest rate spread ranges from 2.5% - 4.5%, depending on the total leverage ratio.

Key Terms of New Credit Facilities

- The \$70 million of new senior debt represents a leverage level of 3.47x proforma LTM Adjusted EBITDA⁽¹⁾ at closing
- As of 6/30/19, DLH has made a \$3.9 million voluntary prepayment of term debt

Required Amortization	
Year one ended 6/30/20	\$5.25M
Year two ended 6/30/21	\$5.25M
Year three ended 6/30/22	\$7.00M
Year four ended 6/30/23	\$7.00M
Year five ended 6/30/24	\$45.5M



(1) Adjusted EBITDA pursuant to definition provided in new senior loan agreement, which adds non-cash stock expense and transaction expense to EBITDA.



Q&A



Your Mission is our Passion

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