



*Your Mission is Our Passion*

# **FY2019 Second Quarter Earnings Presentation**

**Three Months Ended March 31, 2019**

**Zach Parker, President and Chief Executive Officer**

**Kathryn JohnBull, Chief Financial Officer**

**May 8, 2019**

# Forward-looking Statements

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

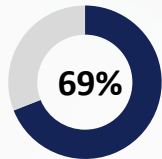
This presentation may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to future events or DLH's future financial performance. Any statements that are not statements of historical fact (including without limitation statements to the effect that the Company 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 DLH's 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 contract awards in connection with re-competes 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 our recent and any future acquisitions; and other risks described in our 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 the Company's periodic reports filed with the SEC, including our 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 The forward-looking statements contained herein are made as of the date hereof and may become outdated over time. The company does not assume any responsibility for updating forward-looking statements.

# Second Quarter (Q2) Highlights & Summary



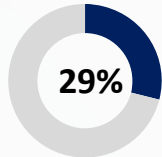
- ◀ Q2 revenue \$33.8 million versus \$34.4 million in 2018
- ◀ Gross profit \$8.1 million, up 8.4% year-over-year
- ◀ Senior debt paid off in full
- ◀ Operating cash flow \$8.5 million
- ◀ Diluted EPS \$0.10

# Market & Business Trends / Highlights



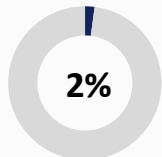
## DoD and Veterans Health

- Strong budget and growth opportunities with increasing emphasis on behavioral health and readiness
- VA moving focus towards leveraging data analytics to improve care
- DLH mail order pharmacy work continues during government solicitation period



## Human Services and Solutions

- Administration for Children & Families offers growth opportunities during second half of FY
- DLH awarded expanded contract servicing families under DHS management



## Public Health & Life Sciences

- New health challenges – involving vaccines and opioids – likely to expand HHS business within NIH and CDC
- Government continues focus to attack HIV/AIDs proliferation
- Environmental and Fish & Wildlife budget challenges remain under current administration

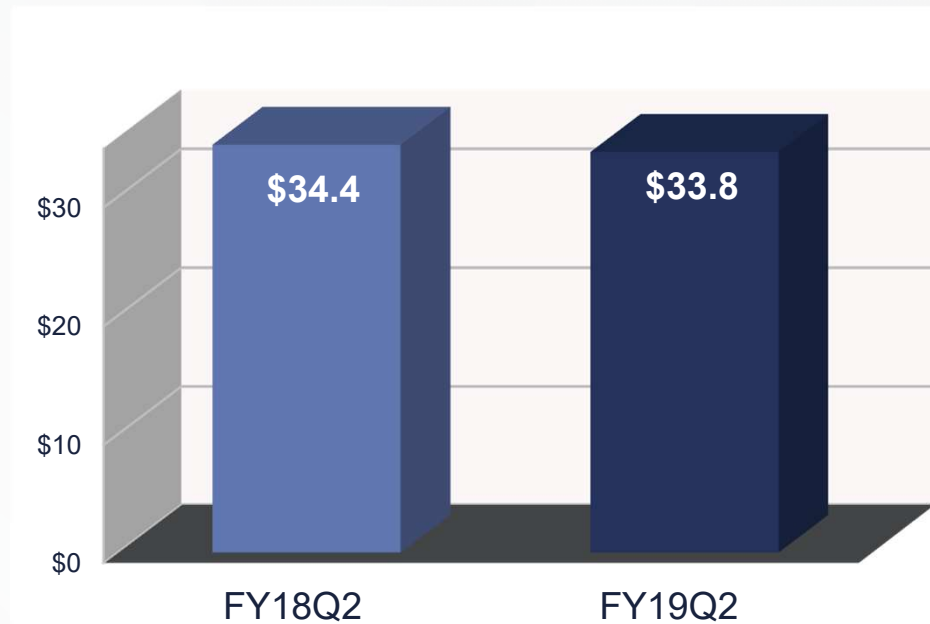


## Federal/GovCon/Market

- Core agencies funded through FY2019 and further strong support anticipated for FY2020
- DoD moves to greater use of agile methods for software development
- DoD Proposed Rule to **Restrict LPTA**; government consolidating **contracts & IDIQs**

# FY2019 Q2 Results: Revenue

\$ Millions



- *Slight revenue decline year-over-year reflects program timing*

# FY2019 Q2 Results: Gross Margin

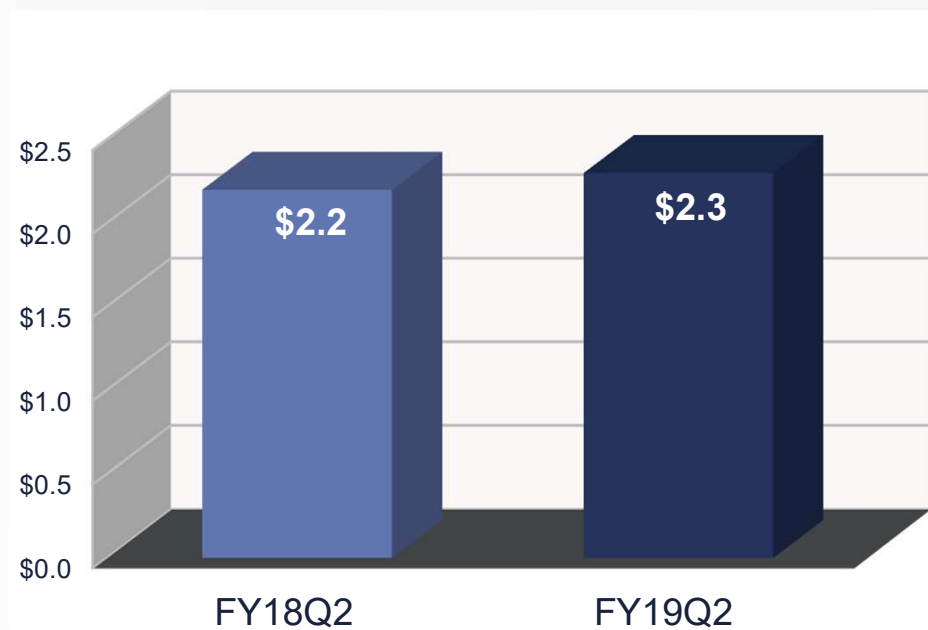
\$ Millions



- *8.4% increase in gross profit driven by higher margins – 23.9% in FY19Q2 versus 21.7% in FY18Q2*

# FY2019 Q2 Results: Operating Income

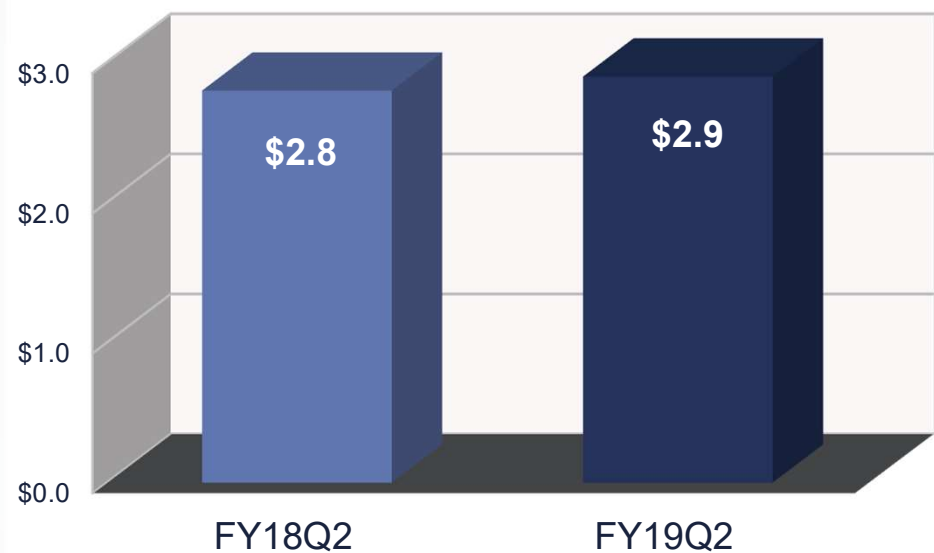
\$ Millions



- *Reflects impact of higher gross profit offset by an increase in G&A*

# FY2019 Q2 Results: EBITDA

\$ Millions



- *As a percent of revenue, EBITDA was 8.5% in FY19Q2 vs 8.0% in FY18Q2*

A reconciliation of net income to EBITDA is provided in the back of this presentation.



## Balance Sheet Trends – *Term Debt Paid Off!*

	<u>9/30/2016</u>	<u>9/30/2017</u>	<u>9/30/2018</u>	<u>3/31/2019</u>
◀ Term loan balance*	\$23.4 M	\$19.7 M	\$7.7 M	\$0 M
◀ Revolver balance**	-0-	-0-	-0-	-0-
◀ Less cash on hand	3.4	4.9	6.4	5.5
◀ Net Debt	\$20.0	\$14.8	\$1.3	N/A
◀ LTM EBITDA	\$4.5	\$8.4	\$11.0	\$12.6
◀ Net Debt/LTM EBITDA	4.44	1.76	<1	N/A

**\*\$25M originally**

**\*\*\$10M ceiling; no borrowing as of 3/31/19**

A reconciliation of LTM EBITDA is provided in the back of this presentation.

# Question and Answer Session



# Appendix: Non-GAAP Reconciliations

*This document contains non-GAAP financial information. Management uses this information in its internal analysis of results and believes this information may be informative to investors in gauging the quality of our financial performance, identifying trends in our results, and providing meaningful period-to-period comparisons. These measures should be used in conjunction with, rather than instead of, their comparable GAAP measures. A reconciliation of non-GAAP measures to the comparable GAAP measures presented in this document also is contained in the company's most recent earnings press release.*

# FY2019 Q2 EBITDA Reconciliation



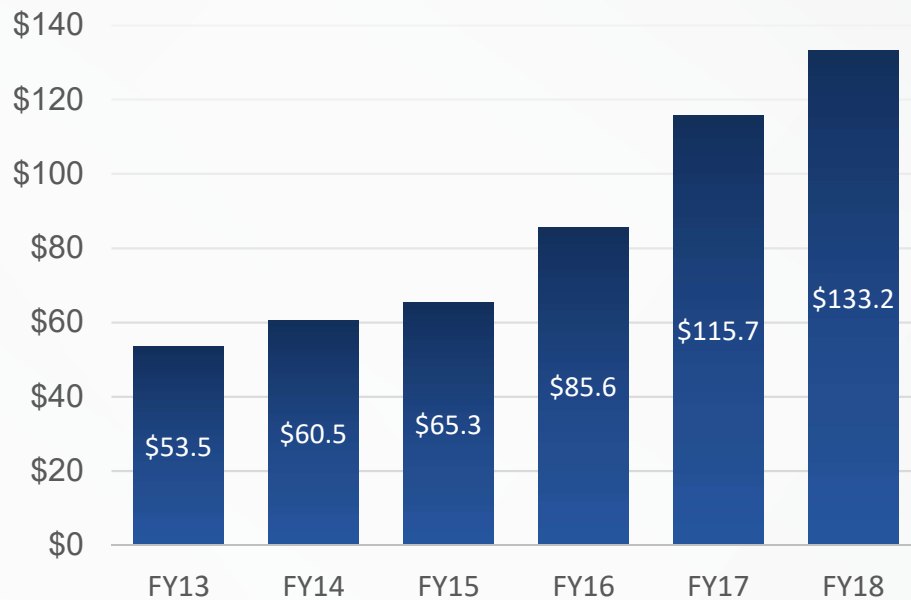
*Amounts in \$000s*

	Three Months Ended			Six Months Ended		
	March 31,			March 31,		
	2019	2018	Change	2019	2018	Change
Net income/(loss)	\$ 1,265	\$ 1,316	\$ (51)	\$ 2,955	\$ (1,535)	\$ 4,490
(i) Interest expense	544	261	283	721	539	182
(ii) Provision for taxes	517	627	(110)	1,207	4,346	(3,139)
(iii) Depreciation and amortization	560	560	—	1,123	1,066	57
<b>EBITDA</b>	<b>\$ 2,866</b>	<b>\$ 2,764</b>	<b>\$ 122</b>	<b>\$ 6,006</b>	<b>\$ 4,416</b>	<b>\$ 1,590</b>

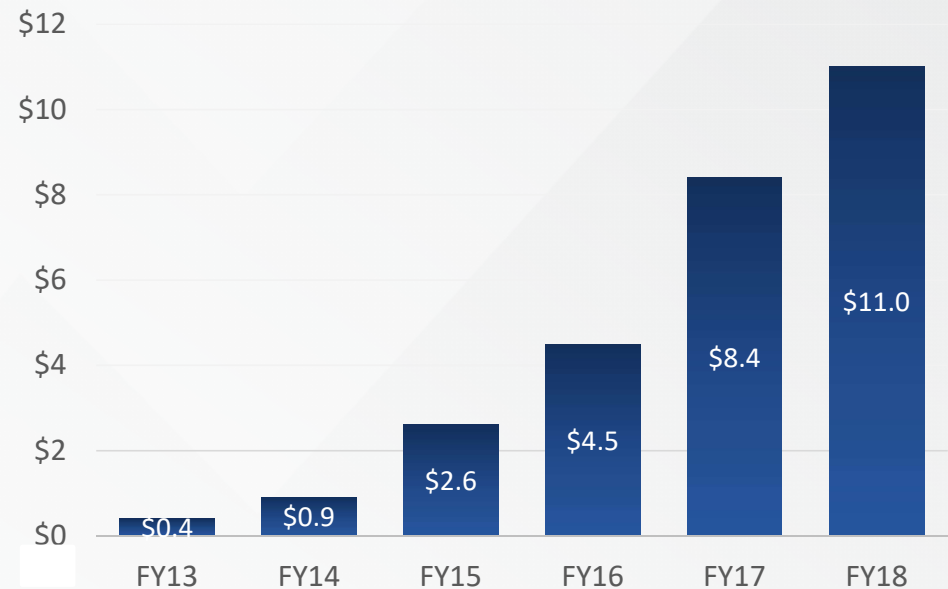
# Annual Trends



### Historical Revenue (\$ in millions)



### Historical EBITDA\* (\$ in millions)



\*A reconciliation of Net Income to EBITDA is provided at the back of this presentation.

# Trending EBITDA Reconciliation



Amounts in \$000s

Twelve Months Ended  
September 30,

	2013	2014	2015	2016	2017	2018	LTM*
Net (loss)/income	\$ (159)	\$ 5,357	\$ 8,728	\$ 3,384	\$ 3,288	\$ 1,836	\$ 6,327
(i) Interest expense/other (income)	407	4	(744)	823	1,228	1,116	1,298
(ii) (Benefit)/provision for taxes	—	(4,597)	(5,488)	(938)	2,114	5,830	2,692
(iii) Depreciation and amortization	121	106	55	1,244	1,754	2,242	2,298
<b>EBITDA</b>	<b>\$ 369</b>	<b>\$ 870</b>	<b>\$ 2,551</b>	<b>\$ 4,513</b>	<b>\$ 8,384</b>	<b>\$ 11,024</b>	<b>\$ 12,615</b>

\*Twelve Months ended March 31, 2019