



DEFENSE & VETERANS HEALTH SOLUTIONS



HUMAN SERVICES AND SOLUTIONS



PUBLIC HEALTH AND LIFE SCIENCES



# FY2021 Third Quarter Earnings Presentation: Three Months Ended 6.30.2021

**ZACH PARKER | PRESIDENT & CEO**

**KATHRYN JOHNBULL | CFO**

**AUGUST 5, 2021**



Your Mission Is Our Passion

# 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 refer to expectations, projections or other characterizations of future events or circumstances or 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. Forward-looking statements reflect our belief and assumptions as to future events that may not prove to be accurate. Our actual results may differ materially from such forward-looking statements made in this presentation due to a variety of factors, including: the outbreak of the novel coronavirus ("COVID-19"), including the measures to reduce its spread, and its impact on the economy and demand for our services, which are uncertain, cannot be predicted, and may precipitate or exacerbate other risks and uncertainties; the failure to achieve the anticipated benefits of any 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 employees and customers; contract awards in connection with re-compete for present business and/or competition for new business; compliance with bank financial and other covenants; changes in client budgetary priorities; government contract procurement (such as bid and award protests, 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 most recent acquisition 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, 2020, as well as subsequent reports filed thereafter. The forward-looking statements contained herein are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry and business. Such forward-looking statements 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, except as may be required by law.

# Fiscal 2021 Third Quarter Highlights

**Revenue rose 19.6% to \$61.6 million**

**Operating margin hits 8.0%**

**Earnings of \$2.9 million, or \$0.21 per share**

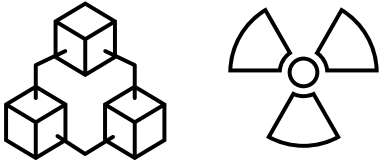
**\$9.3 million of operating cash flow in Q3**

*“Our well developed set of technology-enabled capabilities and access to key federal health markets are delivering strong results for FY21 and encouraging prospects for the future.”*

*- Zach Parker, CEO*

# A Strategy for Success

## Diversification & Mission-Criticality



Strategy execution has yielded a **presence in each key Federal health/human services market:**



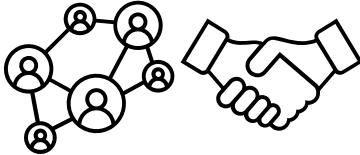
Defense & Veteran Health

Human Services & Solutions

Public Health & Life Sciences

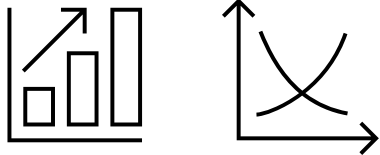
Anchor programs provide long-term revenue visibility in each market segment.

## Top Talent with Best Practices



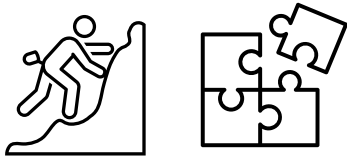
**Premier executive team** with diverse leadership experiences gained from a range of industry leaders

## Revenue & EBITDA Growth



Achieved by **organic and acquisitive growth** on more complex and differentiated programs, leveraging our operating structure which is well-suited to manage \$500M+ in revenue.

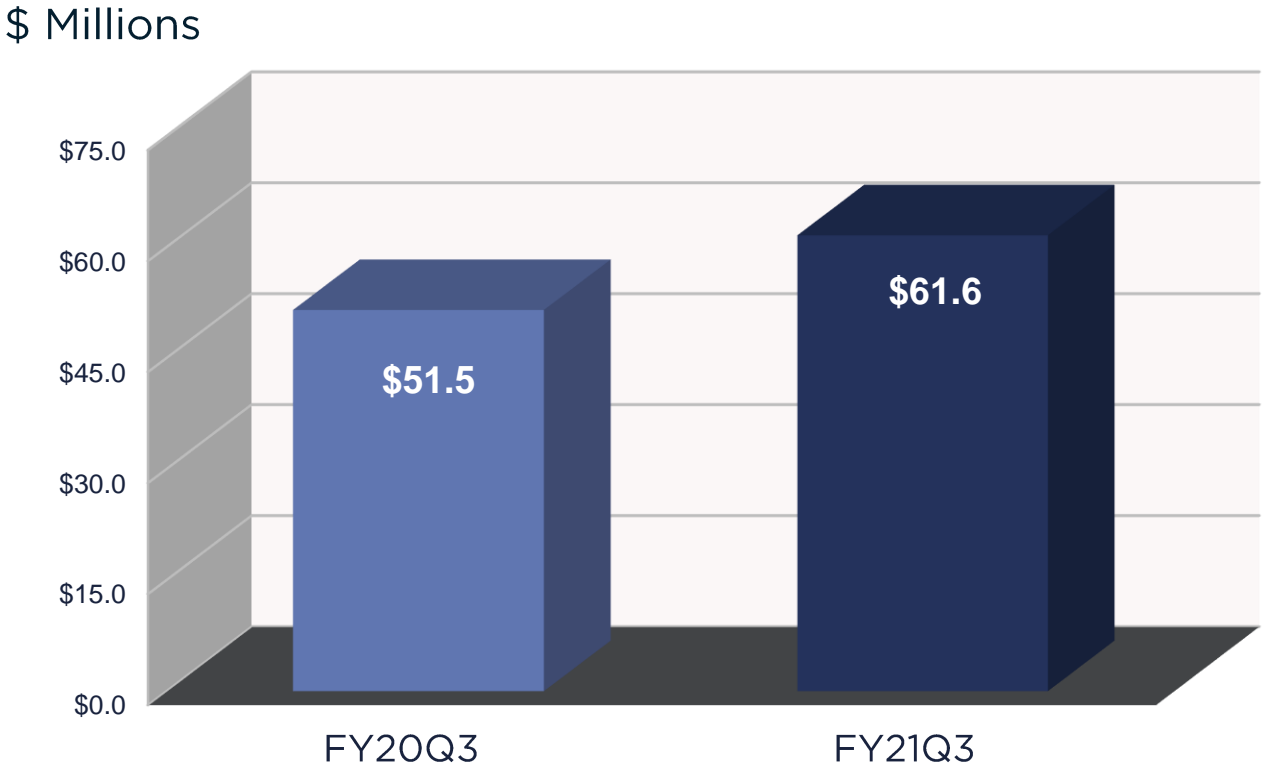
## Strategic Capital Deployment



**Robust YoY growth** accomplished largely via senior debt financing, with minimal (<10%) equity dilution

# Q3 Financials

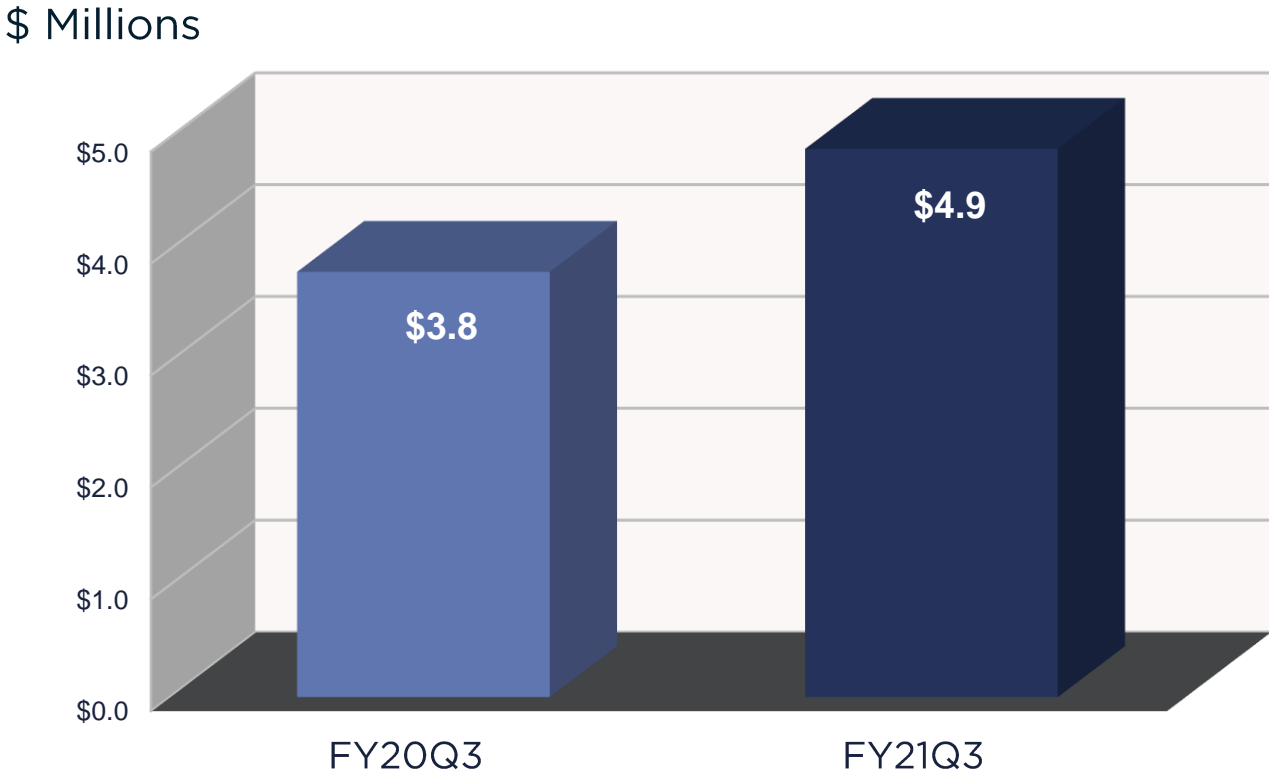
# FY2021 Q3 Results: **Revenue**



*FY21 Q3 reflects the impact from the acquisition of IBA (\$7.3 million) and organic growth across other existing contracts*



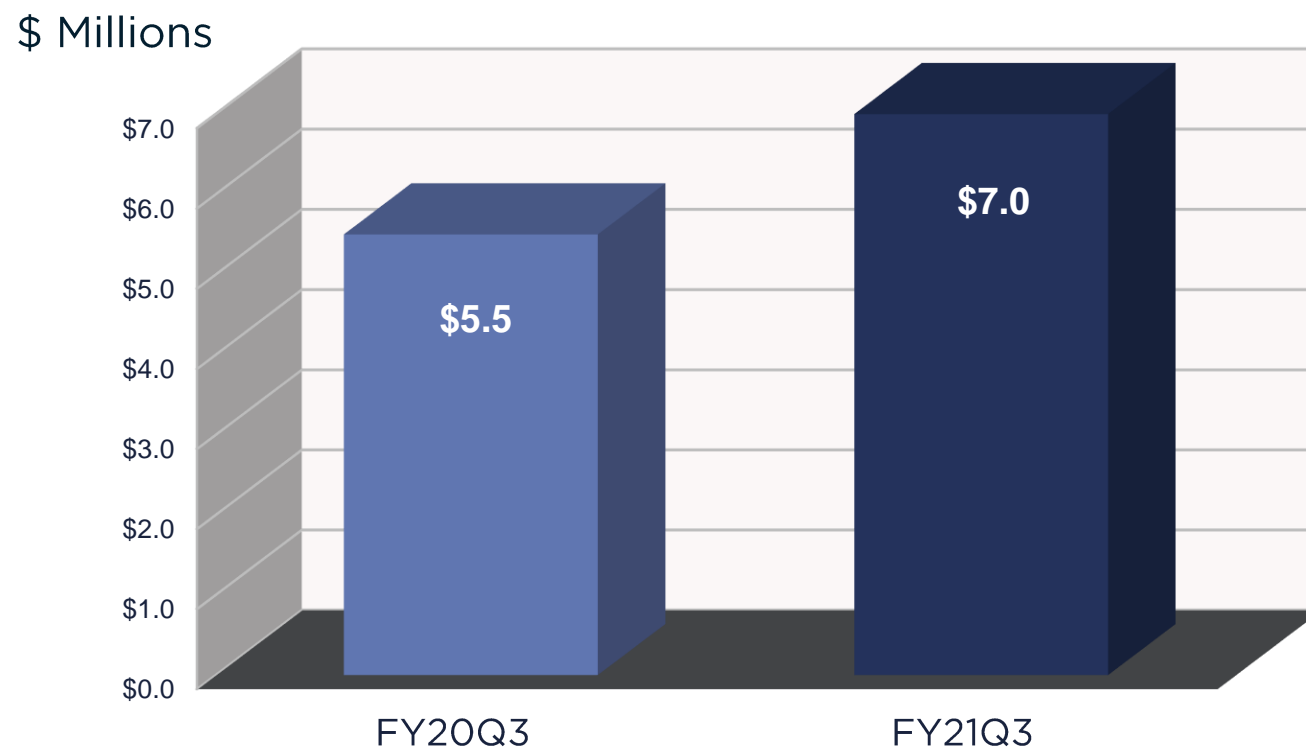
# FY2021 Q3 Results: **Operating Income**



*Operating income for FY21 Q3 reflects improved program mix and lower G&A expenses on increased sales*



# FY2021 Q3 Results: **EBITDA**



*EBITDA for FY21 Q3 reflects higher revenue and improved operating leverage*

A reconciliation of net income to EBITDA and EBITDA as a percentage of revenue is provided in the back of this presentation.



# Debt Position and Outlook

	<u>S3</u> <u>Acquisition</u>		<u>IBA</u> <u>Acquisition</u>	
(amount in thousands)	06/07/19	09/30/19	9/30/20	6/30/21
<b>Debt</b>				
Term debt (legacy)	\$ 70,000	\$ 56,000	\$ 37,000	\$ 53,800
Term debt (IBA)	-	-	33,000	-
Revolving debt	-	-	-	-
<b>Total debt</b>	<b>70,000</b>	<b>56,000</b>	<b>70,000</b>	<b>53,800</b>
<b>Cash on hand</b>	<b>(1,900)</b>	<b>(1,790)</b>	<b>(1,357)</b>	<b>(739)</b>
<b>Net debt</b>	<b>\$ 68,100</b>	<b>\$ 54,210</b>	<b>\$ 68,643</b>	<b>\$ 53,061</b>
<b>Total Leverage Ratio</b>	<b>3.47</b>	<b>2.67</b>	<b>2.80</b>	<b>2.05</b>

Strong operating cash flow anticipated for remainder of fiscal 2021, leading to a projected year-end debt balance below \$50 million.

Net Debt is a non-GAAP metric used by investors and lenders and management believes it provides relevant and useful information to investors and other users of our financial data. Net Debt is calculated by subtracting cash and cash equivalents from the sum of current and long-term debt. A reconciliation of the Total Leverage Ratio is included in the back of this presentation.

# Q&A



# Appendix

## Non-GAAP Reconciliations

---

This document contains non-GAAP financial information including EBITDA and EBITDA as a percentage of revenue. 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 is presented in this document. The Company defines EBITDA as net income excluding interest expense, provision for or benefit from income taxes, and depreciation and amortization; EBITDA as a percent of revenue is EBITDA divided by revenue. Definitions of the other non-GAAP measures we use in the presentation are contained in the Company's most recent earnings press release, which is available on the investor relations section of our web site at [www.dlhcorp.com](http://www.dlhcorp.com).

## Debt Covenant

---

We are also including Total Leverage Ratio in this presentation. Total Leverage Ratio is used for the purpose of testing the Maximum Total Leverage Ratio covenant in our Amended and Restated Credit Agreement dated September 30, 2020 (the "Credit Agreement"), which provides for a maximum total leverage ratio of 3.75 to 1.00 for all periods from closing date to September 30, 2021. Management considers the Total Leverage Ratio to be an important indicator of the Company's ability to incur additional debt, its ability to service existing debt and the extent of our compliance with the leverage covenant in the Credit Agreement. We believe that analysts and investors use this metric to assess the Company's ability to service existing debt and our liquidity, generally. The reconciliation of the Total Leverage Ratio is presented in the appendix to this presentation. As used in this presentation, Total Leverage Ratio, which is not calculated in accordance with GAAP, is defined as total debt as of the respective date(s) presented herein, divided by Consolidated EBITDA for the period(s) then ended. Total Leverage Ratio and Consolidated EBITDA are calculated in accordance with the Credit Agreement.

# FY2021 Q3 EBITDA Reconciliation

(Amounts in Thousands)	Three Months Ended			Nine Months Ended		
	June 30,			June 30,		
	2021	2020	Change	2021	2020	Change
Net income	\$ 2,880	\$ 2,124	\$ 756	\$ 7,261	\$ 5,752	\$ 1,509
(i) Interest expense, net	893	813	80	2,977	2,659	318
(ii) Provision for taxes	1,166	863	303	2,956	2,352	604
(iii) Depreciation and amortization	2,014	1,721	293	6,105	5,340	765
<b>EBITDA</b>	<b>\$ 6,953</b>	<b>\$ 5,521</b>	<b>\$ 1,432</b>	<b>\$ 19,299</b>	<b>\$ 16,103</b>	<b>\$ 3,196</b>
Net income as a % of revenue	4.7 %	3.7 %	1.0 %	4.0 %	3.6%	0.4%
EBITDA as a % of revenue	11.3 %	10.7 %	0.6 %	10.7 %	10.2%	0.5%
Revenue	\$ 61,555	\$ 51,459	\$ 10,096	\$ 180,913	\$ 158,495	\$ 22,418

# Reconciliation of Leverage Ratio

(amount in thousands)	<u>S3</u> <u>Acquisition</u>		<u>IBA</u> <u>Acquisition</u>	
	06/07/19	09/30/19	9/30/20	6/30/21
<b>Term Loan</b>	\$ 70,000	\$ 56,000	\$ 70,000	\$ 53,800
<b>Revolving Credit Loan</b>	-	-	-	-
<b>Letters of Credit</b>	-	1,745	1,990	2,095
<b>Total Funded Debt</b>	\$ 70,000	\$ 57,745	\$ 71,990	\$ 55,895
<b>Consolidated EBITDA</b>	\$ 20,162	\$ 21,664	\$ 25,678	\$ 27,268
<b>Total Leverage Ratio</b>	<b>3.47</b>	<b>2.67</b>	<b>2.80</b>	<b>2.05</b>

Consolidated EBITDA and Total Funded Debt are calculated as per the Company's Credit Agreement.



Your Mission Is Our Passion