

Leidos - How Much Integration Is Enough?

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Decision scope: Post-close operating model for ENTRUST Solutions Group

Case convention: This is a hypothetical classroom strategy exercise, not a reconstruction of an undisclosed Leidos decision. The acquisition is closed; no post-cutoff results or realized synergies are asserted. Use only information available by August 4, 2026.

The decision

On March 27, 2026, Leidos completed its \$2.4 billion cash acquisition of ENTRUST Solutions Group (Entrust), a provider of infrastructure design, grid modernization and program-management services primarily to electric, gas and pipeline utilities. Leidos said the acquisition added more than 3,100 professionals and effectively doubled its energy-infrastructure presence. That is management's description of the transaction's scale and intended strategic fit. It does not establish that combined operations, customers or earnings have produced synergies. [1, 2]

Assume Leidos's strategy team must recommend how to organize the next phase of integration. Should Entrust be integrated broadly into Leidos's systems, leadership and cross-pillar business-development model? Should Leidos preserve more Entrust autonomy around utility customers and engineering delivery? Or should it integrate selected controls and capabilities in stages, while protecting the routines and relationships that could be disrupted?

The 10-Q said Entrust was included in Leidos's Homeland reportable segment and that the company was still integrating Entrust into its system of internal control over financial reporting. It did not describe the wider operating model, specific integration targets, retention results or cross-selling performance. The assignment is hypothetical; the filing does not disclose a pending internal vote on integration. [1]

Your recommendation should specify what to integrate, what to protect, and what evidence should determine whether Leidos expands, adapts or pauses its approach.

A new capability inside a mission business

Leidos serves government and commercial customers across defense, health, cyber, digital, energy and infrastructure markets. In its Q2 FY2026 filing, it described five growth pillars: defense technology, energy infrastructure, cyber, mission and digital solutions, and managed health services. Entrust's utility engineering and grid capabilities aligned with the energy-infrastructure pillar while being reported within Homeland. The company's presentation described strong demand across defense, energy, air traffic management, cyber and intelligence; these are management descriptions of growth drivers. [1, 3]

The acquisition offers a possible bridge between Leidos's existing government-focused systems, cyber and program-management expertise and Entrust's utility customers and engineering capabilities. A common platform could make it easier to bring multiple Leidos capabilities to utility projects, coordinate large proposals, share talent and apply company-wide controls. But these are potential mechanisms. Public disclosures do not show that utility customers want bundled offers, that Leidos has won cross-sold work, or that combining processes will improve project delivery.

Entrust also brings specialized engineering teams and existing customer relationships. Those capabilities may depend on technical expertise, local utility knowledge, established practices and continuity of service. A broad integration could create access to Leidos resources but disrupt roles, customer contact or execution routines. Greater autonomy could protect those capabilities but leave potential coordination and scale benefits unrealized.

What the first quarter after closing shows

In the quarter ended July 3, 2026, Leidos reported \$4.558 billion in company-wide revenue, up 7% year over year as reported and 4% organically. The Homeland reportable segment reported \$1.018 billion in revenue, up 32% from \$771 million in the prior-year quarter. Leidos attributed that segment increase to higher volume, program wins, \$141 million recognized from Entrust, a \$14 million favorable foreign-exchange impact, partially offset by completed contracts. The \$141 million is Entrust revenue included in Homeland; it is not the amount of Homeland's total increase, a synergy figure or Entrust's operating income. The company did not report Entrust's standalone margin. [1]

Leidos reported \$4.9 billion in net bookings for Q2 and a total backlog of \$48.7 billion at July 3, of which \$10.2 billion was funded. It said Entrust had \$371 million of backlog at the March 27 acquisition date, which was included in Homeland. Company-wide backlog is not Entrust's backlog, and neither backlog amount is a guarantee of funded work or future revenue. Leidos's definition includes negotiated contracts and certain task orders only to the extent management believes execution and funding are probable; its filing also describes exclusions and risks. [1]

The acquisition had financial consequences as well as growth potential. At July 3, Leidos reported \$6.0 billion of debt and \$748 million of cash. Q2 GAAP net income was \$356 million, compared with \$393 million in the prior-year quarter; GAAP net income margin was 7.8%, down from 9.2%. Adjusted EBITDA margin, a non-GAAP measure, was 13.8% versus 15.2%. The company cited prior-year one-time gains and current acquisition, joint-venture and NorthStar restructuring costs among the factors affecting the comparison. Q2 acquisition, integration and restructuring costs were reported at the company level, not separately for Entrust. [1, 3]

Exhibit 1. Selected evidence at August 4, 2026

Measure	Reported figure	Scope and caveat
Entrust purchase price	\$2.4 billion cash	Closed March 27; subject to customary adjustments
Entrust Q2 revenue recognized	\$141 million	Included in Homeland; not a standalone margin or synergy measure
Homeland Q2 revenue	\$1.018 billion	Up 32% year over year; includes several drivers, not only Entrust
Entrust backlog at close	\$371 million	Included in Homeland; not all funded or assured revenue
Leidos company-wide total backlog	\$48.7 billion	\$10.2 billion funded at July 3; not Entrust-specific
Leidos cash / debt at July 3	\$748 million / \$6.0 billion	Company-wide balance-sheet figures
Q2 GAAP / adjusted EBITDA margin	7.8% / 13.8%	Adjusted EBITDA margin is non-GAAP

Sources: Leidos Q2 FY2026 Form 10-Q and August 4 results release. Periods and scope differ as identified. Do not add or substitute the measures. [1, 3]

A government contractor adds utility engineering

Leidos's FY2025 Form 10-K reported that 87% of annual revenue came from U.S. government contracts, including work as a prime or subcontractor. In the Q2 filing, Leidos reported about 83% of Q2 revenue and 85% of first-half revenue from U.S. government contracts; comparable prior-year figures were 87%. These mixes vary by period. They do not establish how much of the change came from Entrust, and the company did not publish Entrust's stand-alone customer mix. [1, 4]

Entrust may give Leidos a larger base in utility infrastructure and exposure to customer priorities such as grid modernization and power reliability. Greater utility exposure could diversify demand, but the public data do not establish the size, stability or profitability of that effect. Utility customers may also value an engineering provider's specialization and long-standing relationships. Whether they want a broader Leidos offering is an open question.

Leidos's Q2 filing reported that the preliminary purchase accounting included \$1.652 billion of goodwill and \$664 million in acquired intangible assets, including customer relationships and backlog. The filing said the valuation remained preliminary as of July 3. These are accounting estimates, not measures of realized strategic value. [1]

Integration and autonomy are both hypotheses

Research on acquisitions suggests that transferring knowledge may depend on what the acquirer can recognize and use, and on the people who carry specialized expertise. A study of European acquired inventors found positive associations between acquirers' prior knowledge connections and acquired inventors' post-acquisition patent productivity. It studied patenting inventors in manufacturing firms, not utility engineering services, Leidos customers or project returns. It provides a question to test-what knowledge channels and organizational connections matter?-not a result that predicts Leidos's integration outcome. [5]

At least three interpretations remain plausible:

- **Integrate broadly:** Leidos could connect utility engineering with cyber, digital, mission software, program management and enterprise customer access; standardize controls and increase coordination. The risk is that the changes disrupt customer continuity or expert teams before Leidos demonstrates customer demand for combined services.
- **Preserve more autonomy:** Entrust could retain more operating decision rights, customer-facing identity and technical routines while using Leidos for selected shared services. This may protect specialist capabilities and delivery continuity, but could limit scale, coordination, access to shared systems and cross-business opportunities.
- **Integrate selectively in stages:** Leidos could unify controls, security, financial reporting and selected recruiting or business-development links while preserving utility delivery practices until customer and workforce evidence justifies further change. Staging can protect options, but can also add complexity, delay benefits or make accountability unclear.

The academic evidence does not establish which model is best here. Leidos has not publicly reported an Entrust integration plan, employee-retention measures, utility customer response, cross-sold contracts or workstream-level synergy results.

Decision assignment

Recommend an operating model for the next phase of Entrust integration. Address:

1. Which controls, systems or capabilities should become common across Leidos and Entrust, and which utility engineering routines, customer relationships or decision rights should remain close to the acquired business?
2. What would Leidos need to learn about employee retention, customer continuity, project delivery, cross-selling and the ability to use Entrust capabilities before broadening integration?
3. Which metrics and decision gates should determine whether Leidos expands, changes or pauses the approach?
4. How should the team respond if a growth metric improves while delivery quality, customer retention or key technical staff deteriorate?
5. What is the strongest objection to your recommendation, and what evidence would change your view?

You may specify an initial review horizon, thresholds, pilot scope or integration budget only as explicit classroom assumptions. Do not treat the \$141 million of Entrust revenue as synergy, equate it with Homeland's \$247 million year-over-year revenue increase, or use Leidos's company-wide backlog as Entrust backlog. No strategy is shown to be the correct choice by the

available evidence.

Sources and conventions

[1] Leidos Holdings, Inc., *Q2 FY2026 Form 10-Q*, quarter ended July 3, 2026, filed August 4, 2026, SEC accession 0001336920-26-000246; especially Note 3, pp. 13-14; Note 10, p. 20; MD&A, pp. 24-28; Item 4, p. 31.

[2] Leidos, “*Leidos Completes \$2.4 Billion Acquisition of ENTRUST*”, March 30, 2026; Exhibit 99.1 to Form 8-K, accession 0001336920-26-000138.

[3] Leidos, “*Leidos Delivers Strong Second Quarter and Enhances Full-Year Guidance*”, August 4, 2026; Exhibit 99.1 to Form 8-K, accession 0001336920-26-000243. Non-GAAP measures are company-defined and should be considered with, not instead of, GAAP figures.

[4] Leidos Holdings, Inc., *FY2025 Form 10-K*, fiscal year ended January 2, 2026, filed February 18, 2026; customer mix and risk factors.

[5] Katrin Hussinger, “*Absorptive Capacity and Post-Acquisition Inventor Productivity*,” *The Journal of Technology Transfer* 37 (2012): 490-507. Full-text article and transfer limits are documented in the research source register.

All company statements are as of the cutoff and attributed where they express management interpretation or expectations. The integration choices and assignment are hypothetical. No later performance is included. This is a strategic case, not a financial case or Excel exercise.