

# REDEFINING INGENUITY

## **Science Applications International Corporation (SAIC) FY16 Second Quarter Earnings Call September 1, 2015**

Supplemental Financial Information

# Conference Call Information

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- Date:** September 1, 2015
- Time:** 8:00 am ET
- Dial-in Information:** 1.877.297.0353 (toll-free U.S.) or  
1.719.457.1517 (international/local)  
Passcode 5618601
- Webcast Information:** <http://investors.saic.com>
- Replay Information:** 1.888.203.1112 (toll-free U.S.) or  
1.719.457.0820 (international/local)  
Passcode 5618601

\*Replay available through October 30, 2015

Certain statements in this release contain or are based on “forward-looking” information within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify forward-looking statements by words such as “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “guidance,” and similar words or phrases. Forward-looking statements in this release include, among others, estimates of future revenues, operating income, earnings, earnings per share, charges, backlog, outstanding shares and cash flows, as well as statements about future dividends, share repurchases and other capital deployment plans. These statements reflect our belief and assumptions as to future events that may not prove to be accurate. Actual performance and results may differ materially from estimates of future performance and other forward-looking statements made in this release depending on a variety of factors, including: developments in the U.S. government defense budget, including budget reductions, implementation of spending cuts (sequestration) or changes in budgetary priorities; delays in the U.S. government budget process or approval to raise the U.S. debt ceiling; delays in the U.S. government contract procurement process or the award of contracts; delays or loss of contracts as result of competitor protests; changes in U.S. government procurement rules, regulations and practices; our compliance with various U.S. government and other government procurement rules and regulations; governmental reviews, audits and investigations of our company; our ability to effectively compete and win contracts with the U.S. government and other customers; our ability to retain key employees and customers of Scitor Holdings, Inc. and its subsidiaries (collectively, Scitor) following our acquisition of Scitor in the second quarter of fiscal 2016; our ability to successfully integrate Scitor, including implementing IT and other control systems relating to Scitor’s operations; our ability to generate sufficient earnings to meet the required leverage ratio under our credit facilities following the acquisition of Scitor, which if unsuccessful would give lenders the right to, among other things, foreclose on all our assets; our ability to attract, train and retain skilled employees, including our management team, and to obtain security clearances for our employees; our ability to accurately estimate costs associated with our firm-fixed-price and other contracts; cybersecurity, data security or other security threats, systems failures or other disruptions of our business; resolution of legal and other disputes with our customers and others or legal or regulatory compliance issues; our ability to effectively deploy capital and make investments in our business; our ability to maintain relationships with prime contractors, subcontractors and joint venture partners; our ability to manage performance and other risks related to customer contracts, including complex engineering projects; the adequacy of our insurance programs designed to protect us from significant product or other liability claims; our ability to declare future dividends based on our earnings, financial condition, capital requirements and other factors, including compliance with applicable laws and contractual agreements; risks associated with our recently completed spin-off transaction from our former parent, such as protests of awards of contracts to us bid before completion of the spin-off or novation of contract vehicles to us or a failure to realize the expected benefits of the spin-off; and our ability to execute our business plan and long-term management initiatives effectively and to overcome these and other known and unknown risks that we face. The above-outlined risks apply to our current company, including the operations of Scitor. These are only some of the factors that may affect the forward-looking statements contained in this release. For further information concerning risks and uncertainties associated with our business, please refer to the filings we make from time to time with the U.S. Securities and Exchange Commission, including the “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Legal Proceedings” sections of our Annual Report on Form 10-K which may be viewed or obtained through the Investor Relations section of our web site at [www.saic.com](http://www.saic.com).

In addition, these slides should be read in conjunction with our earnings press release dated September 1, 2015 along with listening to or reading a transcript of the management comments delivered in an earnings conference call held on September 1, 2015.

All information in these slides are as of September 1, 2015. SAIC expressly disclaims any duty to update any forward-looking statement provided in this release to reflect subsequent events, actual results or changes in SAIC’s expectations. SAIC also disclaims any duty to comment upon or correct information that may be contained in reports published by investment analysts or others.

# Second Quarter Fiscal Year 2016 Results

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(\$ in millions; except per share data)	FY16 Q2 <sup>(1)</sup>	FY15 Q2 <sup>(1)</sup>	Change
<b>Revenue</b>	<b>\$1,089</b>	<b>\$939</b>	<b>16% (-0.5% internal)</b>
<b>Adjusted EBITDA \$ / % <sup>(2)</sup></b>	<b>\$82 / 7.5% <sup>(3)</sup></b>	<b>\$64 / 6.8%</b>	<b>28% / 70 bps</b>
<b>Adjusted Operating Income \$ / % <sup>(2)</sup></b>	<b>\$64 / 5.9% <sup>(3)</sup></b>	<b>\$59 / 6.3%</b>	<b>8% / (40 bps)</b>
<b>Adjusted Diluted EPS <sup>(2)</sup></b>	<b>\$0.66 <sup>(3)</sup></b>	<b>\$0.70</b>	<b>(6%)</b>
<b>Operating Cash Flow</b>	<b>\$21</b>	<b>\$65</b>	
<b>Free Cash Flow <sup>(2)</sup></b>	<b>\$16</b>	<b>\$62</b>	

(1) Results of Science Applications International Corporation and its consolidated subsidiaries for the second quarter ended July 31, 2015 and August 1, 2014; excludes revenues performed by former parent company.

(2) Adjusted operating income, adjusted EBITDA, adjusted diluted EPS and free cash flow are non-GAAP financial measures as defined and reconciled in the appendix of this presentation.

(3) Excludes \$12 million dollars of acquisition and integration costs

# YTD Fiscal Year 2016 Results

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(\$ in millions; except per share data)	FY16 YTD <sup>(1)</sup>	FY15 YTD <sup>(1)</sup>	Change
<b>Revenue</b>	<b>\$2,087</b>	<b>\$1,901</b>	<b>10% (1.5% internal)</b>
<b>Adjusted EBITDA \$ / % <sup>(2)</sup></b>	<b>\$147 / 7.0% <sup>(3)</sup></b>	<b>\$128 / 6.7%</b>	<b>15% / 30 bps</b>
<b>Adjusted Operating Income \$ / % <sup>(2)</sup></b>	<b>\$124 / 5.9% <sup>(3)</sup></b>	<b>\$118 / 6.2%</b>	<b>5% / (30 bps)</b>
<b>Adjusted Diluted EPS <sup>(2)</sup></b>	<b>\$1.39 <sup>(3)</sup></b>	<b>\$1.38</b>	<b>1%</b>
<b>Operating Cash Flow</b>	<b>\$50</b>	<b>\$99</b>	
<b>Free Cash Flow <sup>(2)</sup></b>	<b>\$44</b>	<b>\$89</b>	

(1) Results of Science Applications International Corporation and its consolidated subsidiaries for the second quarter ended July 31, 2015 and August 1, 2014; excludes revenues performed by former parent company.

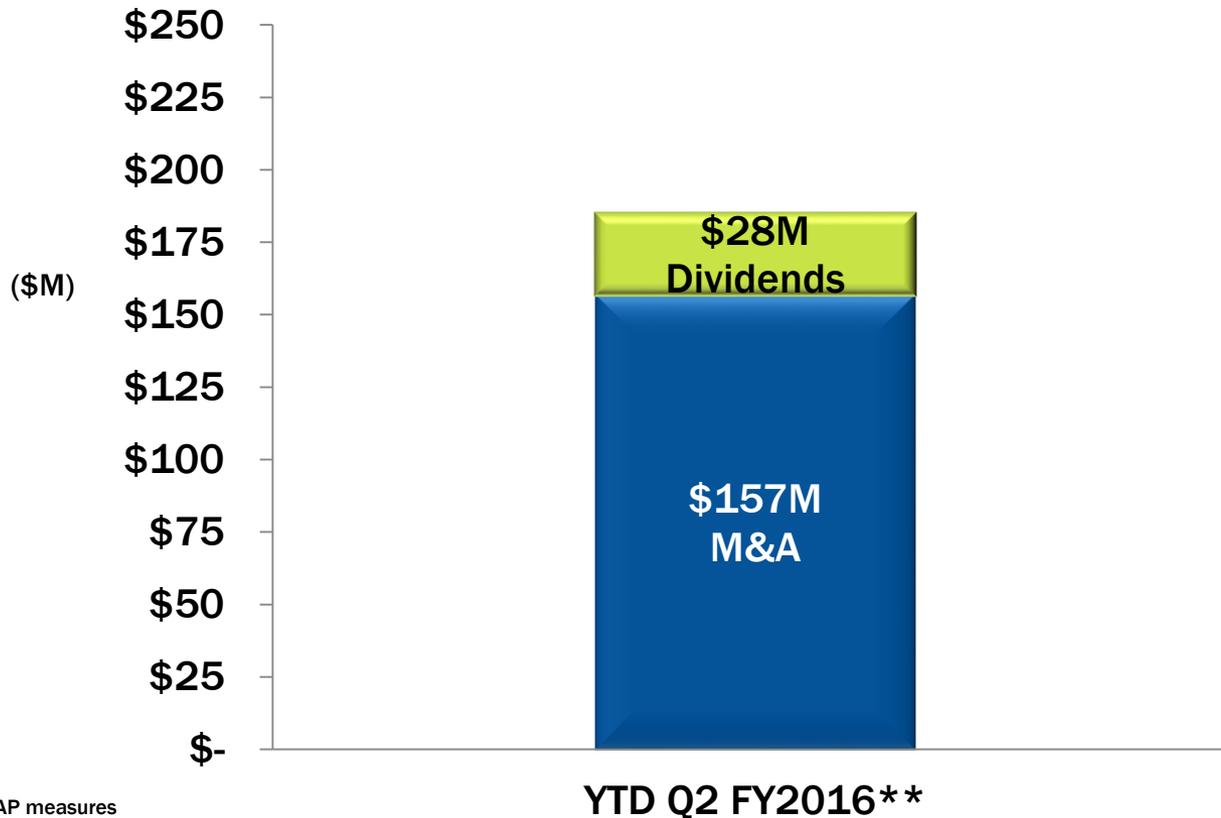
(2) Adjusted operating income, adjusted EBITDA, adjusted diluted EPS and free cash flow are non-GAAP financial measures as defined and reconciled in the appendix of this presentation.

(3) Excludes \$15 million dollars of acquisition and integration costs

# Capital Deployment

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Cash From Operations	\$50M
Less Capital Expenditures	<u>(\$6M)</u>
Free Cash Flow (FCF)*	\$44M



YTD Q2 FY2016\*\*

\*See Appendix for non-GAAP measures

\*\*Second quarter fiscal year 2016 ending July 31, 2015

# Long Term Financial Targets (on average and over time)

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**Annual Internal Revenue Growth**

**Low single-digit growth**

**Operating Margin**

**10 to 20 bps annual improvement**

**Maximize cash flow generation,  
free cash flow to exceed net income**

**Return of capital in excess of operating needs,  
absent expected higher return capital  
deployment opportunities**

**Leverage (debt to EBITDA)**

**Financial leverage appropriate for SAIC's  
investment requirements and cash  
generating characteristics**

*Our forward guidance practice is limited to these long-term targets*

# APPENDIX

# Working Days per Quarter

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	Q1	Q2	Q3	Q4	Total
FY16	64	63	64	60	251
FY15	64	63	64	60	251

# Non-GAAP Reconciliation – Internal Revenue Growth

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(\$ in millions)

	Three Months Ended July 31, 2015	Six Months Ended July 31, 2015
Prior year period's revenues, excluding revenues performed by former parent, as reported	\$ 939	\$ 1,901
Revenues of acquired businesses for the comparable prior year period	155	155
Prior year period's revenues, as adjusted	\$ 1,094	\$ 2,056
Current year revenues, excluding revenues performed by former parent, as reported	1,089	2,087
Internal revenue growth/(contraction)	\$ (5)	\$ 31
Internal revenue growth/(contraction) percentage	(0.5%)	1.5%

“Internal revenue (contraction) growth” is a non-GAAP financial measure that is reconciled in this schedule to the most directly comparable GAAP financial measures. This non-GAAP financial measure provide investors with greater visibility into revenue but is not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with SAIC's condensed and consolidated financial statements prepared in accordance with GAAP. The methods used to calculate this non-GAAP financial measure may differ from the methods used by other companies and so similarly titled non-GAAP financial measures presented by other companies may not be comparable to those provided in this schedule.

# Non-GAAP Reconciliation – Adjusted EBITDA

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(\$ in millions)	Three Months Ended	Three Months Ended	Six Months Ended	Six Months Ended
	July 31, 2015	August 1, 2014	July 31, 2015	August 1, 2014
Net Income	\$ 22	\$ 34	\$ 55	\$ 68
Interest Expense	13	4	17	9
Provision for income taxes	17	21	37	41
Depreciation and amortization	18	5	23	10
Earnings before interest, taxes, depreciation and amortization (EBITDA)	\$ 70	\$ 64	\$ 132	\$ 128
Acquisition and integration costs	12	-	15	-
Adjusted EBITDA	\$ 82	\$ 64	\$ 147	\$ 128
Adjusted EBITDA as a percentage of revenues	7.5%	6.8%	7.0%	6.7%

“Adjusted EBITDA” and “Adjusted EBITDA Margin” are non-GAAP financial measures that are reconciled in this schedule to the most directly comparable GAAP financial measures. These non-GAAP financial measures provide investors with greater visibility into operating income but is not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with SAIC's condensed and consolidated financial statements prepared in accordance with GAAP. The methods used to calculate these non-GAAP financial measures may differ from the methods used by other companies and so similarly titled non-GAAP financial measures presented by other companies may not be comparable to those provided in this schedule.

# Non-GAAP Reconciliation – Adjusted Operating Income

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(\$ in millions)	Three Months Ended	Three Months Ended	Six Months Ended	Six Months Ended
	July 31, 2015	August 1, 2014	July 31, 2015	August 1, 2014
Operating Income	\$ 52	\$ 59	\$ 109	\$ 118
Acquisition and integration costs	12	-	15	-
Adjusted Operating Income	<u>\$ 64</u>	<u>\$ 59</u>	<u>\$ 124</u>	<u>\$ 118</u>
Operating Margin	4.8%	6.3%	5.2%	6.2%
Adjusted Operating Margin	5.9%	6.3%	5.9%	6.2%

“Adjusted Operating Income” and “Adjusted Operating Margin” are non-GAAP financial measures that are reconciled in this schedule to the most directly comparable GAAP financial measures. These non-GAAP financial measures provide investors with greater visibility into operating income but is not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with SAIC's condensed and consolidated financial statements prepared in accordance with GAAP. The methods used to calculate these non-GAAP financial measures may differ from the methods used by other companies and so similarly titled non-GAAP financial measures presented by other companies may not be comparable to those provided in this schedule.

# Non-GAAP Reconciliation – Adjusted Diluted Earnings per Share

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	Three Months Ended July 31, 2015	Three Months Ended August 1, 2014	Six Months Ended July 31, 2015	Six Months Ended August 1, 2014
Diluted earnings per share	\$ 0.46	\$ 0.70	\$ 1.15	\$ 1.38
Acquisition and integration costs, net of tax benefit, divided by diluted weighted-average number of shares outstanding	0.20	-	0.24	-
Adjusted diluted earnings per share	\$ 0.66	\$ 0.70	\$ 1.39	\$ 1.38

“Adjusted diluted earnings per share” is a non-GAAP financial measure that is reconciled in this schedule to the most directly comparable GAAP financial measures. This non-GAAP financial measure provide investors with greater visibility into operating income but is not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with SAIC's condensed and consolidated financial statements prepared in accordance with GAAP. The methods used to calculate this non-GAAP financial measure may differ from the methods used by other companies and so similarly titled non-GAAP financial measures presented by other companies may not be comparable to those provided in this schedule. “Adjusted diluted earnings per share” is calculated excluding acquisition and integration costs of \$12 million and \$15 million for the three and six months ended July 31, 2015, respectively, and uses SAIC’s effective income tax rates for each period reported without the negative effect of the non-deductible acquisition costs that are included in reported “net income”.

# Non-GAAP Reconciliation – Free Cash Flow

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(\$ in millions)	Three Months Ended	Three Months Ended	Six Months Ended	Six Months Ended
	July 31, 2015	August 1, 2014	July 31, 2015	August 1, 2014
Total cash flows provided by operating activities, as reported	\$ 21	\$ 65	\$ 50	\$ 99
Expenditures for property, plant and equipment	(5)	(3)	(6)	(10)
Free cash flow	\$ 16	\$ 62	\$ 44	\$ 89

“Free cash flow” is a non-GAAP financial measure that is reconciled in this schedule to the most directly comparable GAAP financial measures. These non-GAAP financial measures provide investors with greater visibility into cash flows provided by operating activities, but is not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with SAIC's consolidated financial statements prepared in accordance with GAAP. The methods used to calculate these non-GAAP financial measures may differ from the methods used by other companies and so similarly titled non-GAAP financial measures presented by other companies may not be comparable to those provided in this schedule.