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Science Applications International Corporation (SAIC) FY16 Fourth Quarter and Year End Earnings Call March 29, 2016

Supplemental Financial Information

Conference Call Information

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- Date:** March 29, 2016
- Time:** 8:00 am ET
- Dial-in Information:** 1.888.397.5350 (toll-free U.S.) or
1.719.325.2440 (international/local)
Passcode 9754471
- Webcast Information:** <http://investors.saic.com>
- Replay Information:** 1.888.203.1112 (toll-free U.S.) or
1.719.457.0820 (international/local)
Passcode 9754471

*Replay available through May 28, 2016

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 a 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 website at www.saic.com.

In addition, these slides should be read in conjunction with our earnings press release dated March 29, 2016 along with listening to or reading a transcript of the management comments delivered in an earnings conference call held on March 29, 2016.

All information in these slides are as of March 29, 2016. 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.

Fourth Quarter Fiscal Year 2016 Results

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(\$ in millions; except per share data)	FY16 Q4 ⁽¹⁾	FY15 Q4 ⁽¹⁾	Change
Revenue ⁽¹⁾	\$1,068	\$941	13% Total Growth -1.1% Internal Growth
Adjusted EBITDA \$ / % ⁽²⁾	\$80 / 7.5% ⁽³⁾	\$64 / 6.8%	25% / 70 bps
Adjusted Operating Income \$ / % ⁽²⁾	\$64 / 6.0% ⁽³⁾	\$59 / 6.3%	8% / (30 bps)
Adjusted Diluted EPS ⁽²⁾	\$0.74 ⁽³⁾	\$0.75	(1%)
Operating Cash Flow	\$108	\$96	
Free Cash Flow ⁽²⁾	\$99	\$89	

(1) Results of Science Applications International Corporation and its consolidated subsidiaries for the fourth quarter ended January 29, 2016 and January 30, 2015; 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 \$10 million dollars of acquisition and integration costs

Fiscal Year 2016 Results

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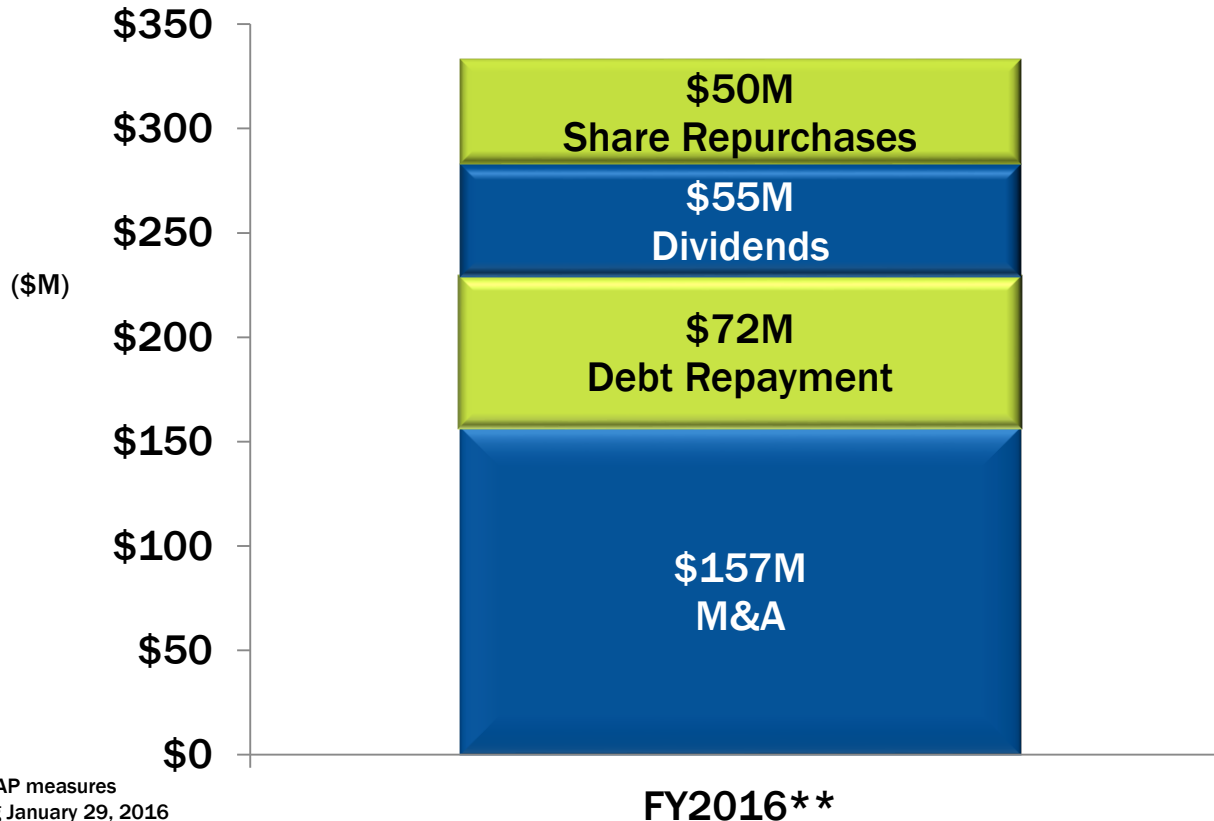
(\$ in millions; except per share data)	FY16 ⁽¹⁾	FY15 ⁽¹⁾	Change
Revenue ⁽¹⁾	\$4,284	\$3,835	12% Total Growth -0.1% Internal Growth
Adjusted EBITDA \$ / % ⁽²⁾	\$309 / 7.2% ⁽³⁾	\$260 / 6.8%	19% / 40 bps
Adjusted Operating Income \$ / % ⁽²⁾	\$253 / 5.9% ⁽³⁾	\$240 / 6.3%	5% / (40 bps)
Adjusted Diluted EPS ⁽²⁾	\$2.85 ⁽³⁾	\$2.91	(2%)
Operating Cash Flow	\$226	\$277	
Free Cash Flow ⁽²⁾	\$206	\$255	

(1) Results of Science Applications International Corporation and its consolidated subsidiaries for the fourth quarter ended January 29, 2016 and January 30, 2015; 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 \$26 million dollars of acquisition and integration costs

Cash From Operations	\$226M
Less Capital Expenditures	(\$20M)
Free Cash Flow (FCF)*	\$206M



162% of Free Cash Flow Deployed in FY16



*See Appendix for non-GAAP measures
**Fiscal year 2016 ending January 29, 2016

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
FY17	69 [*]	63	64	60	256
FY16	64	63	64	60	251
FY15	64	63	64	60	251

* FY17 contains an extra week (53 weeks) and will be reflected in the first quarter

Non-GAAP Reconciliation – Internal Revenue Growth

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(\$ in millions)

	Three Months Ended January 29, 2016	Twelve Months Ended January 29, 2016
Prior year period's revenues, excluding revenues performed by former parent, as reported	\$ 941	\$ 3,835
Revenues of acquired businesses for the comparable prior year period	139	452
Prior year period's revenues, as adjusted	\$ 1,080	\$ 4,287
Current year revenues, excluding revenues performed by former parent, as reported	1,068	4,284
Internal revenue growth/(contraction)	\$ (12)	\$ (3)
Internal revenue growth/(contraction) percentage	(1.1%)	(0.1%)

“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 provides 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	Twelve Months Ended	Twelve Months Ended
	January 29, 2016	January 30, 2015	January 29, 2016	January 30, 2015
Net Income	\$ 28	\$ 36	\$ 117	\$ 141
Interest Expense	13	4	44	17
Provision for income taxes	13	19	66	82
Depreciation and amortization	19	5	59	20
Earnings before interest, taxes, depreciation and amortization (EBITDA)	\$ 73	\$ 64	\$ 286	\$ 260
Acquisition and integration costs	10	-	26	-
Depreciation included in acquisition and integration costs	(3)	-	(3)	-
Adjusted EBITDA	\$ 80	\$ 64	\$ 309	\$ 260
Adjusted EBITDA as a percentage of revenues	7.5%	6.8%	7.2%	6.8%

“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 provides 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 January 29, 2016	Three Months Ended January 30, 2015	Twelve Months Ended January 29, 2016	Twelve Months Ended January 30, 2015
Operating Income	\$ 54	\$ 59	\$ 227	\$ 240
Acquisition and integration costs	10	-	26	-
Adjusted Operating Income	<u>\$ 64</u>	<u>\$ 59</u>	<u>\$ 253</u>	<u>\$ 240</u>
Operating Margin	5.1%	6.3%	5.3%	6.3%
Adjusted Operating Margin	6.0%	6.3%	5.9%	6.3%

“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 January 29, 2016	Three Months Ended January 30, 2015	Twelve Months Ended January 29, 2016	Twelve Months Ended January 30, 2015
Diluted earnings per share	\$ 0.60	\$ 0.75	\$ 2.47	\$ 2.91
Acquisition and integration costs, net of tax benefit, divided by diluted weighted-average number of shares outstanding	0.14	-	0.38	-
Adjusted diluted earnings per share	<u>\$ 0.74</u>	<u>\$ 0.75</u>	<u>\$ 2.85</u>	<u>\$ 2.91</u>

“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 provides 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 \$10 million and \$26 million for the three and twelve months ended January 29, 2016, 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	Twelve Months Ended	Twelve Months Ended
	January 29, 2016	January 30, 2015	January 29, 2016	January 30, 2015
Total cash flows provided by operating activities, as reported	\$ 108	\$ 96	\$ 226	\$ 277
Expenditures for property, plant and equipment	(9)	(7)	(20)	(22)
Free cash flow	\$ 99	\$ 89	\$ 206	\$ 255

“Free cash flow” 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 provides 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 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.