SAIC THIRD QUARTER FISCAL YEAR 2022 EARNINGS CALL
MANAGEMENT’S PREPARED REMARKS

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Joseph DeNardi, Investor Relations

Good morning and thank you for joining SAIC's third quarter fiscal year 2022 earnings call. My name is Joe DeNardi, Vice President of Investor Relations, and joining me today to discuss our business and financial results are Nazzic Keene, our chief executive officer, and Prabu Natarajan, our chief financial officer.

Today, we will discuss our results for the third quarter of fiscal year 2022 that ended October 29, 2021. Earlier this morning, we issued our earnings release, which can be found at investors.saic.com, where you will also find supplemental financial presentation slides to be utilized in conjunction with today’s call and a copy of management’s prepared remarks. These documents, in addition to our Form 10-Q to be filed later
today, should be utilized in evaluating our results and outlook along with information provided on today’s call.

Please note that we may make forward-looking statements on today’s call that are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from statements made on this call. I refer you to our SEC filings for a discussion of these risks, including the risk factors section of our annual report on Form 10-K and quarterly reports on Form 10-Q. In addition, the statements represent our views as of today, and subsequent events may cause our views to change. We may elect to update the forward-looking statements at some point in the future, but we specifically disclaim any obligation to do so.

In addition, we will discuss non-GAAP financial measures and other metrics, which we believe provide useful information for investors, and
both our press release and supplemental financial presentation slides include reconciliations to the most comparable GAAP measures.

It is now my pleasure to introduce our CEO, Nazzic Keene.

**Nazzic Keene, Chief Executive Officer**

Thank you, Joe.

Good morning everyone and thank you for joining us to discuss our financial results and updated outlook for our third quarter fiscal year 2022.

Before we begin, I’d like to welcome Joe DeNardi to his first earnings call with SAIC on this side of the table. We’re excited to have Joe on our team to continue building on our already strong investor relations
outreach effort as well as add expertise and leadership to our executive team.

Now, onto our Q3 results. I’m pleased to report our fourth consecutive quarter of positive organic revenue growth and another quarter of strong profitability. Due to continued, strong operating performance, adjusted EBITDA margin was 9.0% and contributes to the increase in our full year margin outlook. Our year-to-date, strong results reflect a commitment to our customer’s needs, success in creating value for our shareholders, and a dedication to the mission from our 26,000 employees during a still challenging time.

Despite recent challenges related to supply chain disruptions and a tight labor market, we remain confident in our ability to sustain organic growth into next year and increase free cash flow by approximately 10%. We
know that driving both of these metrics creates shareholder value. Prabu will provide further detail on our increased guidance for this year and initial outlook for next year in his prepared remarks.

I would like to focus my comments this morning on two new initiatives, which create value and opportunity for our employees and our shareholders. The first is what we’re calling **The Future of Work** and it is our approach to enabling flexibility for our workforce while increasing productivity and financial returns. The second is a reorganization of our internal investment effort, which has led to the creation of our **Innovation Factory Teams**, designed to better align our targets of organic investments with customer need in the areas of AI, Engineering and Digital.
Let me first start with The Future of Work. One of our top priorities continues to be ensuring that we are able to attract and cultivate the best talent while managing through pressures related to attrition and COVID. While we have more open positions than we would like, we’re taking steps to proactively address this challenge in new and industry leading ways.

In late September, we announced enhancements to our employee benefits package including the optionality of a four-day workweek, the addition of back up child and elder care, the recognition of Juneteenth as a paid holiday, and increasing paid family leave while holding employee healthcare premiums flat for the second year in a row.

Under our Future of Work initiatives, we are streamlining our facility footprint while investing assertively in a new operating paradigm. This
advances our vision to promote employee wellbeing and our ability to attract diverse talent while driving financial benefits in the form of increased competitiveness and cost savings. While this program will be implemented over a multi-year period, it is already underway, and we have line of sight into annual cost savings of at least $25 million, which we expect to re-invest back into our workforce and to drive incremental growth into the future.

We continue to monitor COVID-19 vaccine mandates and the impact they may have on our workforce and business operations over the next few months. To this point, we have not seen any noticeable impact on attrition or sourcing talent as a result of the vaccine mandate, and it is not materially impacting our financial performance. Our outlook for this year and next year assumes that this remains the case. As of last week, roughly
96% of our workforce is compliant with our vaccine policy, and we would expect that to increase modestly going forward. For those in our workforce who are not vaccinated, we believe we can accommodate or reposition a large portion of these employees such that the eventual net impact is immaterial.

Now I’d like to spend a few minutes discussing the development of our Innovation Factory Teams, or IFTs, and the initial returns we’re seeing from our investments.

A little over two years ago, we began the process of shifting our internal investments away from primarily enhancing program-specific capabilities to developing enterprise solutions directly aligned with future customer demand.
To aggressively drive this part of our strategy, this year we implemented changes to our organizational structure and incentive metrics to tighten collaboration between our Innovation Factory Teams and the growth priorities of our Sectors.

We are confident this refinement of our internal investment strategy will allow us to more efficiently and effectively invest shareholder capital. This focus and discipline will ensure our investments are well aligned with customer requirements and enhance our ability to market, sell and ultimately deliver differentiated solutions in growth areas like IT as a Service, application modernization and cloud management and systems integration.

A good example of this is the MK 48 program win announced just after the close of the quarter. The U.S. Naval Sea Systems Command awarded
SAIC a contract with a total value of up to $1.1 billion to integrate various subsystems for the MK 48 Mod 7 heavyweight torpedo.

This win is a direct reflection of SAIC’s unique understanding of the undersea domain coupled with our internal enterprise-wide investments in our digital manufacturing solution, our integrated logistics and supply chain solution and other digital engineering solutions and capabilities.

This award significantly expands our scope on this program and highlights our ability to leverage our legacy as a leading provider of high-end engineering services and move opportunistically, and profitably, into select systems integration and delivery roles.

We currently have a rich pipeline of systems integration opportunities across multiple domains and customers. To be clear, we remain prudent
and disciplined to ensure that opportunities we pursue are ones where we know the technology, we understand the mission and domain, have understanding of the legacy systems, and where we are able to contract, partner and leverage organic investments in support of our long-term profitable, growth strategy.

We’re excited about the new business pipeline in front of us and feel confident that our legacy and recent investments position us to drive profitable organic growth.

I’ll now turn the call over to Prabu to discuss our financial results and updated outlook.
Prabu Natarajan, Chief Financial Officer

Thank you Nazzic.

We are pleased with our financial performance in the third quarter. We generated 2.1% of year-over-year organic growth, which represents our fourth consecutive quarter of positive growth. Our third quarter revenues of approximately $1.9 billion reflect total growth of 4.4% as compared to the third quarter of last fiscal year due to the ramp up on new and existing contracts and the addition of Halfaker. Revenue results in the quarter were impacted by lower than planned materials sales, labor market tightness and a slower ramp in our supply chain business.

Adjusted EBITDA dollars and margins were both ahead of plan due to continued strong execution and effective cost controls. Third quarter adjusted EBITDA was $171 million, a $7 million increase from the prior
year. Adjusted EBITDA margin was 9.0% after adjusting for $12 million of acquisition and integration costs.

Diluted earnings per share was $1.22 for the quarter, inclusive of the third quarter acquisition and integration costs of $12 million. Excluding these costs, as well as amortization of intangibles, and net of a lower effective tax rate of approximately 19% in the quarter, our adjusted diluted earnings per share was $1.85, an increase of 14% compared to last year.

Third quarter free cash flow was $124 million and free cash flow YTD continues to track ahead of plan. I would note that the year-over-year decline in third quarter free cash flow is due to the timing of payroll tax payments related to the CARES Act, as underlying working capital efficiency continues to improve. In fact, adjusted for the impact of the
payroll taxes deferral, operating cash flow has grown nearly 7% and free cash flow has grown about 9% YTD.

During the third quarter, we deployed $97 million of capital, including $63 million of share repurchases, $21 million of dividends and $3 million for acquisitions. In addition, we continued to de-lever, making mandatory debt repayments and ending the quarter with a net leverage ratio of roughly 3.5x. We continued to prioritize share repurchases over voluntary debt repayment in the quarter.

Net bookings in the quarter were $1.4 billion for a book-to-bill of 0.7x and results in a trailing twelve-month book-to-bill of 1.1x. It is important to note that the MK 48 award slipped out of the third quarter and was booked subsequent to the close of the quarter. Our third quarter book-to-
bill would have been about 1.2x, with a trailing twelve month also around 1.2x if MK 48 had booked in the quarter.

Based on results to date, we are increasing guidance for revenue, EBITDA margin, EPS, and free cash flow. We are increasing revenue guidance to $7.35 billion to $7.40 billion, with a bias towards the higher end of the range. This implies roughly 1% to 2% organic growth in our fourth quarter reflecting modest, incremental pressure related to the timing of materials sales and a challenging market for attracting talent.

We are increasing our guidance for adjusted EBITDA margins by 10 basis points to 9.0% to 9.1% to reflect strong performance across the portfolio. We are increasing adjusted EPS guidance by $0.25 to a range of $6.75 to $6.95. Finally, we are increasing free cash flow guidance by $20 million at the low end to a range of $450 million to $470 million.
I would now like to provide some directional guidance for SAIC’s fiscal year 2023. We expect to generate positive organic revenue growth in FY23 and have the pipeline and business development opportunities to sustain this beyond FY23. We will be in a position to provide more detail on the key drivers and assumptions behind this on our fiscal fourth quarter call in March 2022; however, we believe this outlook, while not without risk, properly captures the opportunities in front of us while balancing the headwinds we face from certain potential contract transitions.

Further, we believe we can deliver positive organic growth in FY23 even without a full recovery in our supply chain business. For context, we expect our logistics and supply chain business to generate just over $600 million in revenue in FY22, down from well over $700 million in the
years prior to COVID. We do expect this business to improve over time and are hopeful of an inflection in the near future; however, our ability to grow the company is not dependent upon a full recovery in the supply chain business. We remain focused on improving margins in this business in the near term through additional automation and differentiated bid strategies that can add value to our overall portfolio.

We expect adjusted EBITDA margins in FY23 to be in the high 8% range in line with a normalized margin rate for our business as previously communicated. I would note that there is opportunity to improve margins over time as we continue our journey to transform the business.

Lastly, we expect to generate free cash flow growth in FY23 of approximately 10% from the mid-point of our updated FY22 cash guidance. We see opportunities to structurally improve the cash
conversion of our business over the next few years and have a roadmap of initiatives we are executing. As a result of these initiatives, we view our expected FY23 free cash flow as a base off which we can continue to grow in FY24 at a similar 10% rate. Our plan assumes we improve to become a top tier generator of free cash flow, and you’ll recall that this is an important component of our incentive compensation plans.

We do not face any meaningful headwinds related to the roll-off of cash tax assets until FY26, which we expect to be manageable. Our view on cash assumes that the section 174 R&D headwinds are addressed via the bills pending before the Congress.

Finally, I would note that our priorities from a capital deployment standpoint have not changed – position and grow our portfolio to
maximize shareholder value, return cash to our owners, and de-lever our balance sheet over time.

I’ll turn the call back to Nazzic for some closing remarks.

**Nazzic Keene, Chief Executive Officer**

Thank you, Prabu. I’m pleased with the performance of our business this year and very proud of the SAIC team as we continue to deliver, with excellence, to our customers, to our shareholders and in support of each other.

As I look to the future, I am optimistic about our ability to convert a robust set of opportunities over the next few quarters into shareholder value. The investments we have made internally, combined with our deep
technical expertise, and most importantly, our tremendously talented workforce, position us well to succeed.

Before I turn the call over to the operator for our Q&A, I would like to wish everybody a wonderful holiday season.