Q4 2022 Earnings Call

Company Participants

- Joseph DeNardi, Vice President, Investor Relations
- Nazzic S. Keene, Chief Executive Officer
- Prabu Natarajan, Chief Financial Officer

Other Participants

- Bert Subin
- Cai von Rumohr
- Colin Canfield
- Gavin Parsons
- Matt Akers
- Seth Seifman
- Sheila Kahyaoglu
- Tobey Sommer

Presentation

Operator

Ladies and gentlemen, thank you for standing by. My name is Brent and I will be your conference operator today. At this time, I would like to welcome everyone to the SAIC Fiscal Year 2022 Fourth Quarter and Year-End Earnings call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions)

Thank you. It's now my pleasure to turn today's call over to Mr.Joseph DeNardi, Vice President of Investor Relations. Sir, please go ahead.

Joseph DeNardi {BIO 22467920 <GO>}

Good morning and thank you for joining SAIC's fourth 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 fourth quarter of fiscal year 2022 that ended January 28, 2022. 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-K 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 factor 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 S. Keene {BIO 18292745 <GO>}

Thank you,, Joe and good morning to everyone joining our call. Before we discuss our strong financial results and outlook for fiscal year 2023, I would like to recognize what continues to be an inspiring level of performance from our employees who showcase the very best of SAIC values to our customers and their communities every day. This performance and dedication is evident in our financial results in fiscal year 2022 with margins exceeding our expectations due to strong execution in both sectors.

It is evident in the improvement we see in our customer satisfaction scores which speaks to the value we provide and enables a strong on contract growth we delivered in fiscal year '22. It is evident in the support our employees provide to their communities with nearly 30,000 volunteer hours and $5.5 million of combined employee and company charitable contributions made over the last two years. And it is evident in the numerous awards recognizing the strength of our culture including being named by Forbes as a top employer for veterans in 2021. It is my privilege to lead such a dedicated group of employees focused on using technology and expertise to serve our government and protect the ideals of our country.

Now on to a discussion of our fourth quarter results and fiscal year '23 outlook. We delivered full-year revenues of $7.39 billion and adjusted EBITDA margin of 9.3% and $467 million of free cash flow. This represents a 2.5% increase in organic sales, a 40 basis point year-over-year improvement in margin and a 10% increase in free cash flow when adjusting the prior year for non-recurring benefits.

We delivered on the financial commitments we made and we will continue this going forward. We returned $297 million of excess capital to our shareholders through our dividend and share repurchase program. Our capital deployment plan for fiscal year '23 provide the opportunity for us to increase capital return to shareholders by approximately 10% and to retire an additional 4% of shares outstanding. To be clear, our highest priority is on investing in our business and positioning our portfolio to drive sustained profitable growth and we have the confidence in our plan to do just this.

Given that confidence, we believe our share repurchase plan offers an attractive return on capital. For fiscal year 2023, we are providing initial guidance for revenue of $7.35 billion to $7.55 billion representing roughly 1% total growth at the midpoint. Our fiscal year '23 adjusted EBITDA margin guidance of approximately 8.9% assumes continued strong execution. We expect to generate free cash flow in the range of $500 million to $530 million representing over 10% growth at the midpoint compared to our fiscal year '22 cash performance.

Before turning the call over to Prabu to discuss our financial results and outlook in more detail, I would like to reflect on areas of our financial performance where we have excelled and areas where I expect performance to improve. As I mentioned earlier, our ability to persevere and remain focused on delivering value to our customers and shareholders has been impressive. We demonstrated strong program performance in fiscal year '22 accounting for roughly 20 basis points of the improvement in margin relative to our initial guidance.

Our cash performance continues to be strong with line of sight into double-digit growth in fiscal years '23 and '24. In fiscal year '22 we established goals to achieve parity between the representation of women and people of color within our leadership and non-leadership roles within five years. We've made good progress towards our goals with women now representing 27% of our leadership and people of color representing 22%. Both of these categories grew as compared to the prior year. While there are areas of our business that are clearly performing well I want to acknowledge those where I am focused on driving further improvement.

The primary means we have to increase long-term shareholder value is to deliver sustained and profitable organic growth. Fiscal year '22 represented an improvement in our growth rate relative to prior years and we expect to continue this trend in the years to come. While we recognize that our initial expectations for fiscal year '23 are somewhat lower than our prior plan due to budget uncertainties and contract transitions we remain confident in our ability to drive long-term profitable growth.

To reinforce this, I want to provide some insight that we typically do not disclose. In order for our executive officers to earn target payout on the revenue component of our incentive compensation plan, we have to deliver fiscal year '23 revenue at the top end of our revenue guidance. In addition, beginning with the fiscal year '23 grant, we are modifying our long-term incentive compensation program for the executive leadership. We have substantially increased the relative importance of total shareholder return such that one-third of the payout going forward will be tied to TSR.

This reflects, our commitment to holding ourselves to a higher standard while increasing our skin in the game, it is a challenge we believe is appropriate and one we embrace. I am impressed by the energy and commitment to drive continuous improvement across the company. However, like most things our progress has not been perfectly linear and contract transitions due in part to recompete losses represent a headwind to growth in fiscal year '23. Our pipeline however, remains very strong with roughly $21 billion of submitted value and ample opportunities to drive stronger growth in the future. More importantly the quality of our pipeline is improving. As we outlined on our third quarter call, our innovation factories together with our sectors are developing solutions and capabilities that will improve our ability to win accretive new business aligned with our strategy.

This focus allows us to shape our portfolio organically by approaching our pipeline development and pursuit decisions in a disciplined manner with an emphasis on markets of strength including engineering and IT services. Finally, we expect to generate free cash flow in fiscal year '23 equivalent to roughly 10% of our market value. We will continue to take a disciplined approach to capital deployment to maximize long-term shareholder value. I will now turn the call over to Prabu.

Prabu Natarajan {BIO 17701667 <GO>}

Thank you, Nazzic and good morning everyone. I will quickly summarize our fourth quarter and fiscal year 2022 financial performance and then discuss our outlook for fiscal year 2023 as well as some additional disclosures we are providing in our supplementary slides designed to improve transparency into our business. I am pleased with the overall performance of the business in the fourth quarter. We've reported revenues of $1.78 billion for the quarter and $7.39 billion for the year in line with our most recent guidance. For the quarter, this represented roughly 4% of total growth and 1.4% organic growth and for the year, approximately 5% total growth and 2.5% organic growth.

Our fourth quarter adjusted EBITDA margin of 8.2% was better than our plan reflecting good program execution, partially offset by the impact of higher investment spend consistent with our prior guidance, our full year adjusted EBITDA margin of 9.3% was 60 basis points above the midpoint of our initial guidance for the year and 40 basis points higher on a year-over-year basis, due to strong performance and the benefit of certain non-recurring items.

We've reported adjusted earnings per share of $1.50 for the quarter and $7.27 for the year with stronger performance driven by program execution and a favorable tax rate. Our full-year free cash flow of $467 million, represent a roughly 10% increase year-over-year and as Nazzic mentioned, we have good line of sight into continuing this growth in fiscal year 2023 and fiscal year 2024. Consistent with the commentary from our Q3 earnings call in December we've assumed that the implementation of the Section-174 R&D amortization provision will be deferred.

Lastly, net bookings in the quarter were $2.2 billion resulting in a book to bill ratio of approximately 1.2 times for the quarter and 1.3 times for the year. Our backlog duration now stands at nearly 4.5 years which we indicate on Slide 12 of our presentation. We are providing initial fiscal year 2023 guidance for revenue of $7.35 billion to $7.55 billion, adjusted EBITDA margins of approximately 8.9%, adjusted EPS of $6.80 to $7.10 and free cash flow of $500 million to $530 million. Our revenue guidance reflects a few different factors, which I would like to make sure are well understood.

Our outlook assumes about 3 to 4 points of headwind from contract transitions and one-offs, 2 points of total tailwind from our acquisition of Halfaker and the extra fourth quarter working dates and 1 to 3.5 points of tailwind from on contract growth in new business. We've summarized these factors on Slide 10 of our presentation. We believe this revenue range properly captures the opportunities to grow from new business and the known contract transition headwinds we face against a somewhat uncertain and fluid backdrop given the slower pace of outlays to start the year and the residual impacts of the continuing resolution. Our revenue guidance is roughly 1 to 2 points below what we had contemplated on our previous earnings call with modest incremental pressure from contract transitions and a more conservative view regarding the pace of customer activity over the next several months.

As Nazzic mentioned, our pipeline remains strong both in terms of the magnitude of the opportunity and the quality of the work while we were unsuccessful on one of the larger new business pursuits I referenced on our third quarter call I remained confident that the investments we are making will allow us to win more than our fair share going forward. Additionally, I would like to remind you that our pipeline contains some significant opportunities over the course of fiscal year 2023 across our engineering and IT service domains. In terms of revenue cadence throughout the year but this time we expect low single digit total revenue growth in the first and fourth quarters and low single digit declines in the second and third quarters, our margin guidance of approximately 8.9% represents comparable year-over-year performance, when accounting for certain one-time gains in fiscal year 2022, which we estimate added roughly 40 basis points to full-year margins.

This is consistent with the fiscal year 2023 margin expectations, we communicated on our Q3 earnings call. For additional clarity, we've provided a walk from fiscal year 2021 actual margins to our guidance for fiscal year 2023 on Slide 11 of the presentation. While our fiscal year 2023 margin guidance represents comparable performance versus fiscal year 2022, we continue to see opportunities for steady improvement over time and have initiatives in place to continue to drive our performance.

We expect adjusted diluted earnings per share in a range of $6.80 to $7.10, which assumes an effective tax rate of approximately 24%. Finally, our guidance for fiscal year 2023 free cash flow of $500 million to $530 million represents an over 10% increase at the midpoint versus fiscal year 2022. This is slightly higher than the expectations we communicated on our Q3 call in December. After debt payments of approximately $180 million and approximately $85 million for our dividend, we expect to have between $200 million and $250 million to deploy with a bias towards which repurchases depending on market conditions.

We expect net leverage of 3.0 to 3.3 by the end of the current year. We've assumed between 4 and 6 federal reserve rate increases in our guidance and believe our interest expense for fiscal year 2023 is calibrated appropriately. Additionally as Nazzic mentioned, we expect a 7% decline in our diluted share count by year-end fiscal year 2023 compared to fiscal year 2021 when combined with an at least 10% improvement in our free cash flow, we expect to increase free cash flow per share to well over $9 per share this year.

We remain focused on ensuring that the excess capital we generate is deployed to support the highest long term returns with incentive metrics in place to ensure that we are aligned around improving our performance against plan and against our peer set. As Nazzic indicated we will be making changes to our incentive compensation program in fiscal year 2023, which we believe, will further improve alignment between in our team and our shareholders.

Beginning with the fiscal year 2023 grant total shareholder return, we'll become a standalone metric for the SAIC executive leadership team versus serving as a modifier previously and had the effect of increasing the weighting for TSR by 10% to 15%. In addition, for the SAIC executive leadership team, the long-term incentive equity payout will shift more towards performance based units and away from time vesting units with incentive curves requiring continued improvement in performance on a year-over-year basis. We believe these changes combined with those we made in fiscal year 2022 will result in further aligning our team's performance and value for our shareholders. Our focus to begin fiscal year 2023 is on positioning our company and our portfolio for long-term sustainable growth investing in markets aligned with increasing demand and our competitive strengths and ensuring our capital deployment strategy drives long-term shareholder value.

I will now turn the call back over to Nazzic.

Nazzic S. Keene {BIO 18292745 <GO>}

Thank you, Prabu. Before taking your questions, I'd like to take a moment to acknowledge the tragedy unfolding in Ukraine, an heart-breaking humanitarian crisis due to Russia's ongoing invasion and aggression. Having spent my early years in Libya, and then watching from afar the human toll on many Libyans including family members from decades of autocratic rule, I am forever appreciative of the democratic ideals the Ukrainians are fighting to protect. I know this sense of appreciation is shared broadly by the SAIC family.

Two weeks ago, we announced a partnership with the American Red Cross to support humanitarian relief efforts for the people of Ukraine. To date, SAIC has raised over $125,000 through employee contributions and a company match. This is yet another testament to the quality of our people and our purpose and culture at SAIC, where we are driven to serve and protect our world. We stand with Ukraine, our customers and our employees.

I will now turn the call over to the operator to begin Q&A.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) Your first question comes from the line of Bert Subin with Stifel. Your line is open.

Q - Bert Subin {BIO 22037891 <GO>}

Great. Thanks for the question. Good morning.

A - Nazzic S. Keene {BIO 18292745 <GO>}

Good morning.

Q - Bert Subin {BIO 22037891 <GO>}

Just to start, have you noted a material uptick in demand following appropriations? And is that affecting how you're thinking about the revenue growth cadence for the fiscal year, which, if I heard it correctly, was low-single-digit decreases in 1Q and 4Q, of low-single-digit increases in 2Q and 3Q?

And then just a follow-up to that is that you noted in the commentary that you're expecting organic growth to be solid, is that -- is this affecting that?

A - Nazzic S. Keene {BIO 18292745 <GO>}

Hi. This is Nazzic. Let me tackle part of this, and Prabu and I will tag team on trying to address your questions. We have seen the slower pace of customer activity as we've started this government fiscal year '22. We've seen it both in terms of award timings and outlays.

So it's a little difficult at this particular time to see what impact the slower outlays have had as we think about our business. But the slowness in some of the O&M outlays, certainly, we can infer, has had some delay to our kickoff in this fiscal year as well. So we're starting to see some award timing move to the right. And so we do believe that will have an impact.

Now, to your question, we do expect this dynamic to improve in '22 now that there has been more budget certainty for the year. And so we're assuming an improvement in the second half of the year, as Prabu indicated, as we think about our guidance. So I'm going to let Prabu do a little bit of discussion on the back half of '22 then.

A - Prabu Natarajan {BIO 17701667 <GO>}

Thanks for the question. And I think in terms of the TR and the pace of outlays, it is clear from the data that the first five months of the GFY '22 fiscal year in terms of outlays has been slower -- statistically significantly slower than maybe the last 20 years or so (inaudible). And so I think as we think about it, that pace is going to pick up in the second half of the year, which is implied in the guidance we've got out there. And to the second part of your question, I think the way we're seeing the revenue cadence for the year play out is we're going to see some disruptions from contract conditions as we flagged a couple of times over.

We're going to start to see that in the second and the third quarter. And I think we've got a fair amount of on-contract growth and new business built into what's out there in terms of GFY or FY '23 guidance. And so you'll start to see some of that start to come through in the bookings and in the revenue cadence for the year. So that's sort of the revenue cadence piece of it.

Q - Bert Subin {BIO 22037891 <GO>}

Great. Thanks, Prabu and Nazzic. Just one follow-up question for me, maybe higher level. How are you thinking about client exposure? Historically, you have a tilt toward the Army, it seems like Navy and Air Force is where a lot of that growth is going to be at least in terms of DoD. I know you put out the tailcone contract that you highlighted. Do you think you're sort of shifting appropriately to the Navy, Air Force? And then in terms of customer, do you think the FedCiv opportunity is greater? Or do you think it's maybe Air Force? Thank you.

A - Nazzic S. Keene {BIO 18292745 <GO>}

Yes, so one of the things that we are very proud of SAIC is we have a very diversified portfolio. So we've got a very strong presence across the DoD, the civilian part of the government as well as the intelligence community. So we feel very confident in our ability to pivot, if necessary, based on national priorities in any of those dimensions and have a very strong position to your direct question with both the Air Force as well as the Navy, and obviously, the Army.

So I think very comfortable there and have a great ability to deliver engineering services, deliver IT services across all of those customer bases. So I feel very confident in our ability to -- if needed, to adjust and to pivot. And we do go to market by account and by customers, so our relationships are very sound and very solid, and we also have good insight working directly with the customer on where their priorities and their mission priorities exist.

Q - Bert Subin {BIO 22037891 <GO>}

Thank you, Nazzic.

A - Nazzic S. Keene {BIO 18292745 <GO>}

Welcome.

Operator

Your next question is from the line of Matt Akers with Wells Fargo. Your line is open.

Q - Matt Akers {BIO 22271349 <GO>}

Hey, thanks. Good morning, everybody. I wonder if you could comment on some of the contract losses and exactly what you think sort of drove that? I think like looking at the protest for agents looks like your competitor was (inaudible) prices. Has it been mostly pricing? Or any sort of lessons you've taken away from those that you can apply a sort of win more going forward?

A - Nazzic S. Keene {BIO 18292745 <GO>}

Yes, Matt, let me provide a little bit of color. So obviously, the -- as we communicated, the largest headwind as it relates to contract transition is the (inaudible) loss. And certainly, we've done that walk for you as it relates into this coming in fiscal year. We have a very rigorous win-loss analysis that we perform on a very consistent basis, not only looking at the losses, but also looking at the wins. And I can tell you there is not a common theme in these few losses. And the feedback that we've received from the customers in the debriefs also support that.

We are very confident that we have the scale, the talent, and the solutions required to be very competitive in a very competitive market. And we do continue to invest in all these areas to further differentiate ourselves and continue to improve our ability to win. So I think the -- to directly answer your question, there isn't a theme. We do not believe that we are in any area, you referenced price, that we have a weakness or a challenge that we have to overcome.

Unfortunately, sometimes, we all lose contracts. We certainly win more than our fair share as well, but we don't see a theme. We don't see anything that's contributing to our ability to be incredibly successful in both protecting our recent piece and winning new business in the future.

Q - Matt Akers {BIO 22271349 <GO>}

Got it. Thanks. And I guess if you could remind us just in terms of recompetes you have coming up in '23. Are there any big ones we should watch for?

A - Prabu Natarajan {BIO 17701667 <GO>}

Let me take that one. I would say, it's primarily in the PVMRO portfolio. Those would not impact revenue in FY '23, but we're going through the recompete cycle here, of course. And obviously, there's Vanguard on top of that and those are probably the big (inaudible) for the year. And as you know, in Vanguard, that's a complex procurement. And we're executing well on the program and supporting the customer as they lay out their aspirations for that recompete cycle.

A - Nazzic S. Keene {BIO 18292745 <GO>}

Maybe the other thing that I would add is it's a pretty normative year for us in recompetes, so they're -- it tends to range in the 15% to 20% range, and it's a pretty normative year.

Q - Matt Akers {BIO 22271349 <GO>}

Got it. All right, thank you.

Operator

Your next question is from the line of Cai von Rumohr with Cowen. Your line is open.

Q - Cai von Rumohr {BIO 1504358 <GO>}

Thank you very much. So I guess, Prabu, to help us understand the fourth quarter profitability a bit better, on your release talks of the favorable impact of settlement of prior year indirect rates and a negative compare year-over-year in EACs. Could you quantify both of those items for us, please?

A - Prabu Natarajan {BIO 17701667 <GO>}

So on the EAC stuff, Cai, I think as you see in the 10-K that will get filed at the end of the day, it's about $4 million in terms of net EAC Q4 -- over Q4 FY '21. So probably not a material driver. With respect to the other indirect rate question, we typically true up rates at the end of the year. It is not unexpected for us to have some degree of either favorability or unfavorability on rates at the end of the year.

So this is fairly routine. In terms of just the overall margins (inaudible) for Q4, we flagged sort of what was implied in the guidance that we had out there was sort of a mid- to high-7% range, and we did a little bit better than our expectations, primarily driven by some of these rate settlements, which offers some upside for the year. So we sort of calibrated, I think, our expectations around execution for the year. I think as we step into FY '23, we provided an initial guide of about 8.9%, which is sort of our way of thinking about comparable year-over-year performance. So I'd say, nothing unusual in any of the Q4 items, and certainly compensated, I'd say, at least partially, if not mostly, within the guidance that was implied for Q4 on margin.

Q - Cai von Rumohr {BIO 1504358 <GO>}

Terrific. And then obviously, we have the Ukraine conflict on us now. And I would assume that's going to have some impact on all defense business. As you see things today, Nazzic, Prabu, what sort of impact do you think it might have on your business? And are you seeing any preliminary signs of any change in terms of your outlook as a result of the Ukraine conflict?

A - Nazzic S. Keene {BIO 18292745 <GO>}

Yes, thanks, Cai. Good morning. Well, first and foremost, as you heard, we're incredibly focused on supporting our country and enabling execution of the mission and employees as they continue to do an excellent job of rising (inaudible). And I know that we're all saddened by what we see over there.

We've not seen any changes to-date in our business or really any impact to revenues that I would classify as material. Within certain business areas, we are seeing some changing demand signals related to increased focus on Ukraine, but it's really in certain pockets of the portfolio. So we just remain focused on supporting our country and our customers, and if they require additional resources from us, we will absolutely and always be there and that's what we're focused on at this point. But it's too early to answer the broader question as it relates to the long-term impact. Prabu, do you want to add some color?

A - Prabu Natarajan {BIO 17701667 <GO>}

And Cai, specifically with respect to guidance, I think it's safe to say, we are not assuming any incremental upside from that situation in our guidance.

Q - Cai von Rumohr {BIO 1504358 <GO>}

Okay, great. Thank you very much.

Operator

Your next question is from the line of Colin Canfield with Barclays. Your line is open.

Q - Colin Canfield

Hey, good morning, Nazzic, Prabu. For the FY '23 guide, can you just talk about what you guys are assuming in terms of logistics recovery?

A - Prabu Natarajan {BIO 17701667 <GO>}

So in terms of the recovery on the logistics side, as we've signaled on the December call, we are not assuming that there is a material improvement in the performance of that business. And I'd say that continues to be our posture as we head into FY '23 to the extent that there is an inflection towards maybe higher spend for readiness than currently assumed in the guidance, it is fair to say that we may see some upside from that business. But on a relative basis, on a year-over-year basis, I'd say, we are thinking that business modestly improves, but not materially so.

Q - Colin Canfield

Got it. And then if we think about the FY '24 free cash flow comments of 10%, can you just discuss some of the moving pieces, split between sales growth, margin improvement, and working capital improvements, as well as kind of the capital intensity that you're contemplating within your pipeline?

A - Prabu Natarajan {BIO 17701667 <GO>}

Sure. I would say, we are comfortable with what we said on the December call, which is we see about a 10% increase in our ability to generate free cash flow FY '23 stepping into FY '24. So pretty comfortable that that's a good way to think about the cash generation capacity of this business. Two, we've also said our focus here is to consistently grow the business, improve margin rates over time, and I've always said for about nine months to now, that there's opportunity on the working capital side.

So, I think -- as I think about where the incremental benefit comes from, we think it's a combination of working capital improvement with all of the initiatives we have underway on the DSO side, on the DPO side, on the subcontract side that will provide some tailwind to cash going into '24. And in addition to that, it is our (inaudible) hope, and what we aspire to, which is to generate consistent top line growth and improve margin share. So we do see multiple ways to get to that 10% target for FY '24, if that makes sense.

Q - Colin Canfield

Got it, got it. And then one last one on strategy, going back to kind of Matt's question on price. Can you just discuss sort of scale of contracts that you're competing for in IT services? I know (inaudible) isn't really the right comp for you guys, but if we think about the final bidders there versus SAIC, do you view that you have the scale to kind of go after some of the larger IT modernization contracts? Or is there a better way to think about your strategy in that business?

A - Nazzic S. Keene {BIO 18292745 <GO>}

No, great question. So I would say with confidence, we absolutely have the scale to go after most of the enterprise -- the large enterprise IT modernization contracts. And we've got sufficient past performance in this area. And we have the capabilities that -- including the capabilities of SAIC brought to bear, and we layered in the Unisys Federal capabilities several -- year-and-a-half ago, two years ago, I guess, at this point, time flies, and a continued performance across, again, all aspects of the government. So I feel very confident in our ability to be a leader in the IT modernization arena for the U.S. government.

Q - Colin Canfield

Thanks a lot. Thank you.

A - Nazzic S. Keene {BIO 18292745 <GO>}

Thank you.

A - Prabu Natarajan {BIO 17701667 <GO>}

Thank you.

Operator

Your next question is from Gavin Parsons with Goldman Sachs. Your line is open.

Q - Gavin Parsons {BIO 18748617 <GO>}

Hey, good morning.

A - Nazzic S. Keene {BIO 18292745 <GO>}

Good morning, Gavin.

A - Prabu Natarajan {BIO 17701667 <GO>}

Good morning, Gavin.

Q - Gavin Parsons {BIO 18748617 <GO>}

I appreciate there's a lot of budget uncertainty still and a lot of unknowns. But a few of your peers have longer-term growth outlooks. So I was wondering if you'd be willing to share any thoughts for SAIC on kind of what the medium-term growth rate or end market -- addressable market growth rate looks like for you?

A - Nazzic S. Keene {BIO 18292745 <GO>}

So as we've been discussing, we're not in a position to share multi-year targets at this juncture. We are laser focused on continuing to position our portfolio to truly maximize the long-term shareholder value. And we have a strategy that we've shared over the course of the last many calls to support that. We continue to make investments in those areas of the portfolio that will produce and can produce higher rates of growth over time.

And so really looking at a portfolio view of our business. We know there's interest to hearing more from us on longer-term targets, we're not prepared to do so on this call. But it is something that Prabu and I talk about quite a bit and we look for the opportunity to do that in the future. And I think the last thing I would draw your attention to is, hopefully, the insights that we provided around the changes, pretty substantial changes to our incentive compensation, demonstrate our commitment to delivering sustained profitable growth. The leadership will continue to benefit when the shareholders benefit, and creating that linkage, we believe, is a very powerful tool.

A - Prabu Natarajan {BIO 17701667 <GO>}

And Gavin, the one thing I would add to that is one of the more important changes we made to our incentive comp metrics was to make it not just plan focused, but make it sort of peer (inaudible). So we recognize what our peers communicate regularly in terms of their growth rate aspirations. And I think suffice it to say that we are challenging the teams internally to be at or above those targets.

But recognize every year comes with its own sets of challenges and its own sets of risks and opportunities. It is our job to go execute on a year-over-year basis. And so this call isn't probably the perfect venue for a long-term guidance conversation, we will certainly look forward to having that conversation with the Street sometime over the course of the year.

Q - Gavin Parsons {BIO 18748617 <GO>}

That makes sense. That's helpful. Quick clarification on the buybacks, reducing the share count by 7%, I think the deck says it to be 8% to 10%. Is that an upside scenario? And what are your thoughts on allocating more towards buybacks relative to M&A? Thanks.

A - Prabu Natarajan {BIO 17701667 <GO>}

Thank you for the question. I'd say the deck refers specifically to the total share count, and the 7% is effectively net of the equity issuances that we have here, so they're entirely consistent within each other. I would say, look, as we sort of start out the year and we think about capital allocation, we always said we want to allocate it in ways that are accretive to shareholder value.

We believe the market does not have conviction that we can consistently grow this business at a rate to justify repurchases, and we think, therefore, it's implied in the discount that we see in the stock price that we see as a dislocation in the market for our equity. And we've, therefore, purposefully chosen to invest a little more capital in buybacks because we believe that it's a good way for us to return value to our shareholders.

So as long as the dislocation is there, we are going to remain aggressive on the share repurchase front, and that's sort of implied in the guide. And as we start out the year, we do typically the market repurchases and we've got a grade in place. And not surprisingly, we buy more at lower prices and we buy less at higher prices. And so we just have to see how the year plays out. But recognizing 7% is a reachable target for us in terms of reduction in share count by the end of FY '23.

Q - Gavin Parsons {BIO 18748617 <GO>}

Thank you, both.

A - Nazzic S. Keene {BIO 18292745 <GO>}

Thank you.

Operator

Your next question is from the line of Sheila Kahyaoglu with Jefferies. Your line is open.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Hey, guys. Good morning, and thank you for the time. So two questions. I guess to start off, my favorite topic is the revenue bridge. And on Slide 10, you talk about new business and on-contract growth as 1% to 3.5% growth. Just thinking about the budget that came out, the President's budget, it's an initial step and it's already at 3.5%. So I guess, what end markets are you basing that off of? And how do you come up with that 1% to 3.5% new business growth forecast?

A - Prabu Natarajan {BIO 17701667 <GO>}

Hi, Sheila, I'll take that one first. So in terms of the bridge that we provided from FY '22 into '23, broken out between new business and on-contract growth, I would say, let's start with the backlog we have in the books, which is $24 billion (inaudible). It rose about 10% last year. And as we think about where the greatest set of near-term opportunities come, that is from things that are already sitting in the backlog.

There is an intense amount of focus for the teams to go generate incremental growth beyond what's reflected and implied in the guidance we had out there. So we are comfortable that that will provide a good source of consistent year-over-year revenue growth. On the new business front, it's probably a tale of two halves in this particular fiscal year. The first half was really slow given the slower pace of outlays. We do expect that pace to pick up.

It is also our expectation that as we start the next fiscal year for the government, GFY '23, we're likely to start in the CR again. So as we said in our prepared remarks, I think what's changed a little bit from the December conversation we had with you all is that our view of the awards activity has become a little more conservative just given what we've seen in the market over the last six months. So as we think about it, the portfolio -- we'll always work on the portfolio, but we are aligned with where the spending is going to be. But I think we tend to decompose the spending into the sub accounts and then within the customer accounts as we see those spending patterns. And as we think about primarily O&M, that tends to be like a flat to plus three in this environment and that's effectively what's captured in that to extent.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Okay. And based on that, I'm going to switch around my second question. So I guess, where do you think -- I think your portfolio has been fairly defensive in terms of your pipeline strategy when we think about AMCOM and the Army portfolio overall, like just depends of keeping your business and the recompete turnover. And I guess when you say you're working on the pipeline and quality of it, where are you being most offensive with your pipeline in terms of going after new wins by customer or by end market?

A - Nazzic S. Keene {BIO 18292745 <GO>}

Yes, Sheila, this is Nazzic. So let me provide a little bit of color as well. So we referenced in the prepared remarks that we have $21 billion bid of proposals waiting award. And Prabu gave great color on -- certainly, we watch the pace of that award, and we continue to navigate that. About half of that, give or take, is new business. And so a considerable amount of both protect, obviously, that the defensive posture as well as the offensive posture is being able to go to secure new business.

So I just wanted to give you a couple of metrics around that. As we think about what areas of the portfolio that are driving the growth, it is consistent with what we've been talking about in the past and a couple of questions ago as well. Certainly, the IT modernization, the cloud migration across all aspects of the federal government, we see considerable opportunity for growth.

In our space-related market, we see opportunities as well, and that's an area that we've been focused on. And then certainly, in all aspects of the portfolio, there are pockets that we see greater growth and there are some pockets of the portfolio that we do not. And so we have become much more disciplined over the course of the last couple of years in ensuring that we're investing in those areas where we believe and we're confident that we can drive profitable organic growth, while I wouldn't say diminishing other aspects of the portfolio, but certainly disproportionately investing those that will drive the growth.

And so those are the aspects of how we think about it. We do have confidence, and we're seeing certainly in the new business submits as well as some of the wins on some of those proof points. Prabu, I'll let you provide some more color.

A - Prabu Natarajan {BIO 17701667 <GO>}

Thank you, Nazzic. That was great. I think one other comment, Sheila, as Nazzic said, just over half of it is new business. And as I sort of step back and think about this business over kind of a 10-year period, so we went through a recompete cycle on mix. We're going through recompete on PVMRO. We're going to actively compete on Vanguard. And so -- and we just went through recompete cycle on our AMCOM SGI portfolio. So as I step back and think about the next couple of years, I'm gratified to see that super cycle for SAIC franchise program recompetes behind us.

And what is ahead of us is a set of opportunities in the pipeline where it gives us an opportunity to takeaway business from others. So to me, this is an important inflection we're going through in the portfolio, but I think it actually is one that positions us to be more successful, taking away market share because we are going through a super cycle for our large franchise programs right now.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Okay, thank you.

A - Nazzic S. Keene {BIO 18292745 <GO>}

Thank you.

Operator

Your next question is from the line of Seth Seifman with JP Morgan. Your line is open.

Q - Seth Seifman {BIO 16417112 <GO>}

Hey, thanks very much, and good morning.

A - Nazzic S. Keene {BIO 18292745 <GO>}

Good morning.

Q - Seth Seifman {BIO 16417112 <GO>}

Just a couple of questions about revenue assumptions as we head later into the year, maybe and into '24. I guess, first of all, does the guidance for '23 assume a continuing resolution in your, I guess, fiscal fourth quarter and that -- or I guess, from September 30 on?

A - Prabu Natarajan {BIO 17701667 <GO>}

Yes, it does.

Q - Seth Seifman {BIO 16417112 <GO>}

Okay, great. Okay. And then when we look at the elevated number of working days, it looks like in this year, do we think about that as a headwind to growth as we head to fiscal '24?

A - Prabu Natarajan {BIO 17701667 <GO>}

So, in -- technically -- so this happened last time in 2017. I would say in terms of the few extra working days, it would represent a modest headwind to FY '24.

Q - Seth Seifman {BIO 16417112 <GO>}

Okay, thanks. Yes, I think everybody hit on the big picture stuff. So I'll leave it there. Thank you.

A - Nazzic S. Keene {BIO 18292745 <GO>}

Thank you.

Operator

Your next question is from the line of Tobey Sommer with Truist Securities. Your line is open.

Q - Tobey Sommer {BIO 6296228 <GO>}

Thank you. With respect to the focus on TSR and share repurchase, how would you describe the effect of that on the company's posture in the acquisition market and appetite over the next year or more if this is how the focus of incentive comp will remain?

A - Prabu Natarajan {BIO 17701667 <GO>}

So thank you for the question, Tobey. As I think we've said a couple of times, our focus remains on organically investing in the business. And the bias towards repurchases on capital allocation is simply with respect to the excess capital that we generate every year, and this becomes a viable way for us to allocate sort of excess capital towards buybacks given where the equity is currently trading at. So to me, I think it's really important to recognize that that is the primary focus for the management team.

With respect to whether that diminishes or has an impact to our capacity for M&A, I would say the following. I'd say if we find good M&A deals that are accretive, tuck-ins, things like Halfaker that have the capacity to get us in the markets that we don't have exposure to or generate good returns, and I'm thinking good earnings as well as the cash, then we will have incremental capacity to go raise the debt we need to do raise. Our levers that we are organically targeting is between 3 and 3.25, give or take, this year, and therefore, we believe we have capacity for M&A. And obviously, large M&A may be out of the question for the near-term, but that's a function of what's out there specifically. But in terms of just the M&A appetite, I don't think it is particularly diminished by our desire to repurchase shares (inaudible).

Q - Tobey Sommer {BIO 6296228 <GO>}

A question for you about the following fiscal year federal budget. You said you assumed a CR in your final fiscal quarter. Historically, when you look back at periods where there's been sort of active military engagements, wars, NATO on sort of a higher op [ph] tempo. Does the federal government tend to be a little bit more responsive and get budgets done, maybe not perfectly timely fashion, but better than the six-month CR we recently had?

A - Nazzic S. Keene {BIO 18292745 <GO>}

I think there's certainly an argument that would suggest that in times of -- that you referenced when there's a need to do something, there tends to be less partisanship when it comes to being able to get a budget through in support of the national priorities. But I wouldn't want to predict what could or should happen. But I can tell you that one would assume there'd be less partisanship and so maybe a better appetite for getting some things through. Prabu, if you want to comment.

A - Prabu Natarajan {BIO 17701667 <GO>}

Maybe the other data point would be that as we're seeing outlays pickup starting right now, I would say, it's picking up because our customers were perhaps operating with an assumption that the CR would go on a little bit longer. Therefore, there is a little more money to be spent in the next six months before we potentially hit CR again. As you know, since we put predominately benefit from O&M money, there's about a one-year tail to the O&M money. So some of that incremental funding that they may have for GFY '22 will continue to offer a support for what's implied in the Q4 guidance, which is we expect to (inaudible) revenue growth in Q4.

Q - Tobey Sommer {BIO 6296228 <GO>}

Thank you.

Operator

There are no further questions at this time. I will now turn the call back over to Mr.DeNardi.

A - Joseph DeNardi {BIO 22467920 <GO>}

Great, thank you, Brent, and thank you everyone for joining us today. We look forward to speaking with you all again in June. Have a nice day.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's conference call. You may now disconnect.