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EARNINGS RESULTS

MANAGEMENT'S PREPARED REMARKS

Nazzic Keene, Chief Executive Officer
Prabu Natarajan, Chief Financial Officer

FIRST QUARTER FISCAL YEAR 2023 EARNINGS CALL

JUNE 6, 2022

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Joseph DeNardi

Good morning and thank you for joining SAIC's first quarter Fiscal Year 2023 earnings call. My name is Joe DeNardi, Vice President of Investor Relations and Strategic Ventures, 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 first quarter of Fiscal Year 2023 that ended April 29, 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-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

Thank you Joe, and good morning to everyone joining our call.

I am proud of the financial results we delivered in our first quarter representing our sixth consecutive quarter of positive organic growth, positioning us well to deliver on our full year plan. After my remarks, Prabu will discuss results for the quarter in greater detail and provide our updated outlook.

I would like to spend a moment discussing the results of some recent work we initiated internally to ensure all of our stakeholders – our employees, our customers, our partners and our shareholders – better know who SAIC is, why we do what we do, and the values that drive us.

For over fifty years, SAIC has worked hand-in-hand as a trusted partner of the U.S. government, advancing our country's most critical, "no fail" missions. We foster a culture where inclusion leads to innovation, because we know the best outcomes come from diversity of thought across our 26,000 employees. Our legacy and leadership in Enterprise IT and Systems Engineering and Integration coupled with our proven ability to provide solutions with speed-to-value are competitive advantages that we leverage to drive profitable growth.

The progress we have made on further strengthening our culture and our continued focus on the mission have directly contributed to the improving financial results we have delivered over the past several quarters.

In the first quarter, we reported revenues of approximately $2 billion, representing total growth of approximately 6% and organic growth of 4%, both of which were ahead of plan. First quarter adjusted EBITDA margin of 8.7% was consistent with our expectation for steady improvement through the year. Our first quarter results, combined with recent business development success, give us greater confidence in our increased revenue guidance.

I am pleased with the performance we delivered and believe it speaks to the progress we are making. I continue to see significant opportunity to increase the company's earnings organically as we further sharpen our strategic focus over the coming years.

I would like to now provide a brief overview of how our business and portfolio strategy is evolving.

While we continue to go-to-market and manage the business around our two customer-facing operating sectors, I want to highlight our key capability offerings that span those sectors which we define as our Growth & Technology Accelerants – "GTA" – and our Core, as shown on slides 6 and 7 of our earnings presentation.

Key capabilities within our GTA focus area include Secure Cloud, Enterprise IT, and Systems Integration & Delivery. In Fiscal Year 2022, GTA accounted for roughly 27% of our total revenue and a greater share of our operating profit. We believe the investments we've made to develop differentiated, market leading solutions and recent M&A activity position us well to capture more than our fair share of a growing pipeline. Our leadership within these domains is reflected in recent rankings from Gartner which place SAIC's IT Services market share at #1, by revenue, for the United States government vertical for both Infrastructure Implementation and Managed Services and Application Managed Services.

We expect to increase our GTA revenue to over 35% of the portfolio within the next three years reflecting strong growth from this area of our business at accretive margins.

Our Core includes Engineering Services, IT & Technical Services, and Logistics & Supply Chain. Total revenue in Fiscal Year 2022 across these capabilities represented roughly 73% of SAIC's revenues. As we transform our portfolio towards a greater share of GTA over the next few years, we intend to grow Core as well.

Our strategic focus going forward will remain centered on creating the most rewarding and differentiated experience for our employees, investing in markets with growing demand where

SAIC has enduring competitive advantages, and allocating capital to drive improving financial returns for our shareholders.

While SAIC's legacy and technical leadership has been in providing engineering expertise to help solve our customers' toughest challenges, we see more opportunities going forward to use these skill sets better to capture additional value as a technology integrator. We believe this has the potential to unlock improved opportunities for growth over the long-term. Recent program awards which give us confidence in this strategy include a key win in Classified Space and our expanding role as integrator on the MK 48 program. These are great examples of evolving a program from principally talent and expertise oriented to delivering a mission specific solution fueled by our talented teams.

We are confident in our strategy execution and in our ability to create long-term value for all SAIC stakeholders.

I'll now turn the call over to Prabu for a discussion of our financial results and our outlook.

Prabu Natarajan

Thank you, Nazzic and good morning everyone.

I will quickly summarize our first quarter results and then discuss our updated outlook for Fiscal Year 2023.

We delivered strong performance in the quarter with revenues ahead of our plan at roughly $2 billion, representing total growth of 6%, of which 4% was organic. Revenue performance in the quarter benefited from solid on contract growth and the timing of materials sales previously planned for later in the year.

We delivered an adjusted EBITDA margin of 8.7%, primarily impacted by the timing of indirect expenses, and remain on track to meet our full year guidance of 8.9% with good visibility into expected margin improvement through the rest of the year.

We reported adjusted EPS of $1.88, which benefited from the more favorable revenue performance in the quarter.

I am pleased with our business development results in the quarter with net bookings of $2 billion. Our trailing twelve month book-to-bill is roughly 1.0, and we expect this to improve over the next few quarters based on recent competitive, new business wins still in protest, representing over $1 billion in total contract value and squarely aligned with our GTA areas of focus. We continue to see a growing pipeline, as evidenced by a 15% increase in the value of submitted proposals to roughly $24 billion at quarter-end.

Importantly, the mix within our pipeline continues to change with new business now representing roughly 70% of the value of submitted proposals, both materially higher sequentially, and at this time last year. We also see good progress in driving a greater share of our pipeline within markets that align with our longer-term growth objectives as represented by a greater share of opportunities within GTA, as Nazzic discussed. This is an enterprise metric and will be a priority for the team.

Based on results for the quarter and our updated outlook for the year, we are increasing our revenue guidance by 1% at the bottom end to a range of $7.43 billion to $7.55 billion. Our guidance continues to assume low single digit declines in 2Q and 3Q due to certain contract transitions before inflecting to low single digit growth in 4Q largely due to the benefit of additional working days. Our focus is driving on contract growth, to profitably grow the company, and we are confident in our ability to do so.

We are maintaining our full year margin guidance of approximately 8.9% and expect improvement in the second half of the year led by a more favorable mix and the timing of certain new investments.

We are increasing our EPS guidance by $0.10 to a range of $6.90 to $7.20 which continues to assume an effective tax rate of approximately 24%.

Finally, our guidance for Fiscal Year 2023 free cash flow of $500 million to $530 million is unchanged and I would remind you that it represents an over 10% increase at the mid-point versus Fiscal Year 2022 and assumes that the section 174 amortization provision is deferred. Based on expected working capital trends and final payments related to the Halfaker acquisition which both impacted first quarter results, we expect to generate 40% of our full year free cash flow in the first half of the year and 60% in the second half.

Our capital deployment priorities are unchanged, and we remain committed to a prudent deleveraging of the balance sheet with a bias towards deploying excess free cash flow towards our share repurchase program.

At this time, we do not expect to adjust our capital deployment plans as a result of the uncertainty related to Section 174 legislation and plan to repurchase between $200 million to $250 million of shares for the year after having repurchased approximately $100 million fiscal year to date.

As we noted in our earnings press release, the Board of Directors authorized a new share repurchase program for an incremental 8.0 million shares, representing approximately 16% of our shares outstanding which we intend to utilize over the next three years, market conditions permitting. We believe this authorization also reflects our ongoing commitment to effectively allocate capital and the confidence we have in executing our plan to drive sustainable, profitable growth and the energy we are investing to structurally improve our cash conversion.

I'm proud of the results we delivered in the quarter and believe our strategic focus on investing in GTA while sustaining our core business strengths position us well to maintain our forward momentum.

I'll now turn the call back over to the operator to begin Q&A.

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