MANAGEMENT'S PREPARED REMARKS

Second Quarter Fiscal Year 2026 Earnings Call

Toni Townes-Whitley, Chief Executive Officer
Prabu Natarajan, Chief Financial Officer

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Joseph DeNardi

Good morning and thank you for joining SAIC's second quarter Fiscal Year 2026 earnings call. My name is Joe DeNardi, Senior Vice President of Investor Relations and Treasurer, and joining me today to discuss our business and financial results are Toni Townes-Whitley, our Chief Executive Officer, and Prabu Natarajan, our Chief Financial Officer.

Today we will discuss our results for the second quarter of Fiscal Year 2026 that ended August 1, 2025. 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. 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. The non- GAAP measures should be considered in addition to, and not a substitute for, financial measures in accordance with GAAP.

It is now my pleasure to introduce our CEO, Toni Townes-Whitley.

Toni Townes-Whitley

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

Overall, our results in the quarter were mixed with revenue below our expectations, declining 2.7% y/y but profit margins rebounding well from 1Q driven by strong program execution. In addition, we delivered a second consecutive quarter with a book-to-bill comfortably over 1.0x driving our year-to-date book-to-bill to 1.4x. Our qualified pipeline, planned submit levels, and backlog of pending awards all remain strong, and we believe the investments made and business development processes implemented in recent quarters position us well to capitalize on a rich set of opportunities.

As you can see from our revenue performance in the quarter and our updated outlook, we are seeing a more challenging environment than we had previously forecasted. There are three drivers behind this: (1) slower conversion of on-contract growth opportunities into revenue, (2) an increase in the impact from program disruptions and, (3) delays on our new business awards.

As we highlighted on our Q1 call, our prior revenue guidance for the year of 2% to 4% growth assumed several points of contribution from a combination of on-contract growth and new business wins ramping up within a certain timeframe. While recent new business including TENCAP HOPE with the Air Force and a key program with the Navy valued at approximately $350M will contribute modestly to this year and further ramp in FY27, on-contract revenue growth has been impacted by funding uncertainty, added scrutiny related to efforts to reduce government spending, and a government workforce dealing with increased turnover. These headwinds have been more pronounced at customers working through particularly meaningful transformation or facing greater budget uncertainty.

As you will recall from our Q1 call, we indicated that delays in new business awards would require a greater contribution from on-contract revenue in order for us to meet our plan for the year. Based on trends we have seen in recent months, we now see that as unlikely to materialize, and we have updated our guidance for FY26 and FY27 accordingly. Our revised outlook for FY26 revenue assumes that current trends continue through the remainder of the year with very little contribution from additional new business or on-contract growth.

While we believe that much of the revenue headwind we are facing is temporary and will normalize over time, we are taking purposeful action to align our cost structure with the more challenging revenue environment expected over the next several quarters. As we highlighted on last year's Q3 call, our cost structure is variable and the preparation we have taken in recent quarters positions us well to respond appropriately with cost efficiency initiatives to mitigate the impact on EBITDA and free cash flow from lower revenue. While some of these initiatives are already underway, we will discuss the specifics in greater detail on our Q3 call. The savings resulting from these initiatives give us greater confidence in our ability to continue to deliver margin improvement while investing appropriately for growth and value creation in the coming years.

Given the relative magnitude of our revision to revenue, I want to be very clear that the revised outlook assumes that impacts from on-contract growth and new business award delays continue, which we believe is a prudent assumption given the current market. As a result, we see the updated guidance range as appropriately de-risked, based on our current assessment of market conditions.

While the current market volatility and the impact it is having on our nearer-term revenue is disappointing, I am encouraged by the signs of progress we are seeing in the execution of our strategy. When I became CEO approximately two years ago, the strategy review we completed indicated that substantial changes were needed across many facets of the business in order for SAIC to regain a position of leadership and maximize long-term value for our employees, customers, and shareholders. We knew that the path towards regaining the leadership would not be linear. While this quarter's results, revised outlook, and recent market volatility have been challenging and we are addressing them head-on, I will draw your attention to factors that are most relevant for our success beyond this period of revenue softness and over the long-term.

Our year-to-date recompete win rate is in line with our target, and our planned recompetes over the next 12 months are fairly typical with a handful of programs in the 1% to 3% of revenue range. We expect to show continued progress over time in sustaining our recompete win rate at current levels.

Our win rate on new business is also roughly in line with our target as we have been successful on two of the six larger pursuits adjudicated year-to-date. As I indicated earlier, our pipeline of expected awards in the coming quarters remains solid. Restoring our recompete win rates to our target range and winning our fair share of new business pursuits while increasing our submit levels is a good formula for sustainable growth over the long-term.

We are encouraged by the political support to provide solid levels of funding in areas including border security, FAA modernization and homeland missile defense. However, we expect this administration's focus on efficiency to continue and suspect that budget timelines are likely to be dynamic in the coming quarters. We remain confident that our strategy and business model position us well to adapt and win by delivering outcomes at speed for our customers.

We are seeing increased opportunities to drive greater efficiency across our business as we leverage artificial intelligence for core operations. We expect this to materialize as an incremental tailwind to margins and savings for our customers in the coming years.

I want to conclude by thanking our employees for their dedication and focus. During our recent quarterly review of the business, I emphasized to our teams the importance of culture, leadership and employee engagement as we continue to navigate a dynamic market and more challenging near-term revenue outlook. I am proud of how we have shown up for our customers and each other over the past several months. Our culture, anchored around our dedication to the mission of national security, positions us well to grow and create long-term value for all of our stakeholders.

I'll now turn the call over to Prabu.

Prabu Natarajan

Thank you Toni, and good morning to those joining our call.

Second quarter revenue declined 2.7% driven mainly by a 3% y/y headwind related to Cloud 1 Compute & Store revenue not fully offset by new business volume. The variance when compared to our first quarter growth rate and our prior expectation is primarily a lesser contribution from on-contract growth which slowed to 3% in 2Q from 8% in 1Q and a modest increase from the impact of program disruptions.

Second quarter adjusted EBITDA was $185M resulting in an adjusted EBITDA margin of 10.5%. Results benefited from strong program execution and a favorable legal settlement which was offset by an impact to state taxes related to the One Big Beautiful Bill Act. The underlying margin adjusting for these two items of 10.2% reflects improved profitability across our contract portfolio and represents an increase of 180bps q/q and 80 bps y/y.

Adjusted diluted earnings per share of $3.63 benefited from a favorable tax settlement and increased adjusted EBITDA in the quarter.

Second quarter free cash flow improved meaningfully from first quarter to $150M though we continue to see some challenges related to the timing of invoice payments across a small set of contracts.

As Toni indicated, we are updating our guidance for FY26 and FY27 to reflect a more challenging revenue environment.

We are lowering FY26 revenue to a range of $7.250B to $7.325B representing organic contraction of 2% to 3%. We expect organic revenue to decline by approximately 5.5% and 4% in 3Q and 4Q, respectively. Our revised FY27 revenue guidance of 0% to 3% assumes a more subdued contribution from OCG of 2%-3%, a modest benefit from new business, and a more typical headwind from contract transitions. Note that we will annualize the headwinds related to the NASA EAST loss and the Cloud One Compute and Store program in our third and fourth quarters, respectively.

FY26 adjusted EBITDA margin guidance is being lowered due to the one-time impact from Section 174 changes to our state & local taxes which represents a 10bps headwind this year. We are reiterating our FY27 adjusted EBITDA margin guidance of 9.5% to 9.7%. As Toni indicated, we will look to mitigate the impact of lower revenue with cost efficiency initiatives which increase our confidence in the year over year margin improvement plans we have outlined. We will update you on our Q3 and Q4 calls regarding the implementation of these plans and the potential upside to our margin targets they could drive.

We are increasing our FY26 adjusted EPS guidance to a range of $9.40 to $9.60 which benefits from the tax settlement in 2Q and a revised full year effective tax rate assumption of 14%. Our revised FY27 EPS guidance of $9.00 to $9.20 assumes a more normalized effective tax rate of approximately 23%.

We are increasing our FY26 free cash flow guidance to greater than $550M which reflects a reduction in cash flow due to lower expected EBITDA offset by lower cash taxes due to Section 174, and we are assuming a similar dynamic in FY27. We are still finalizing our planning and the relative impact on cash taxes between FY26, FY27, and FY28 but expect the three years combined to see a reduction in cash taxes of approximately $200M. We are on track to deliver nearly $12 in free cash flow per share in FY26 and between $13 and $14 in free cash flow per share in FY27, both higher than prior estimates.

Our capital deployment plans over the next few years remain focused on driving long-term value for shareholders with sufficient capacity to support this with both share repurchases and capability-focused M&A.

I'll now turn the call over for Q&A.

