SAIC EARNINGS RESULTS

MANAGEMENT'S PREPARED REMARKS

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

THIRD QUARTER FISCAL YEAR 2024 EARNINGS CALL

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INVESTOR CONTACT
JOSEPH DENARDI
joseph.w.denardi@saic.com

Joseph DeNardi

Good morning and thank you for joining SAIC's third quarter Fiscal Year 2024 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 Toni Townes-Whitley, our Chief Executive Officer, and Prabu Natarajan, our Chief Financial Officer.

Today we will discuss our results for the third quarter of Fiscal Year 2024 that ended August 4, 2023. 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. 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. 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.

I want to start by thanking my colleagues at SAIC for the warm welcome I have received over the past several months and for their level of engagement and enthusiasm towards creating the very best future we can for SAIC. In particular, I want to express my appreciation to Nazzic. The strength of our culture, our commitment to inclusivity, and the focus on our customers' missions are true differentiators for our company and they exist, in large part, because of Nazzic's efforts in recent years. And, as I have already discussed with many of you, SAIC's progress during her tenure has set the table for this leadership team to do exceptional things for our employees, customers, and shareholders.

I have spent much of my time since becoming CEO listening and learning and then forming and testing certain hypotheses to solidify a growth strategy for the company going forward. While this process will continue, I want to share some early observations related to four strategic pivots our leadership team has focused on; specifically: our solutions portfolio, our go-to-market, our culture, and our brand.

Since my announcement as CEO, I've come to understand the value of SAIC's brand. Over the past five months I've received congratulatory phone calls from senior government, military and business leaders as well as SAIC alumni. Many characterized SAIC as a "national asset" and informed me of the company's deep legacy of tackling complex, large scale national security challenges. As the threats and opportunities for our country have evolved over the decades, and will continue to, we at SAIC must ensure that our customers appreciate the breadth of our capabilities so that we can capitalize on the value of our brand.

On culture, we will operationalize an enterprise-first mindset while driving a stronger sense of entrepreneurial execution. While we are still finalizing how best to implement our plan, I would expect it to include additional changes to the design and execution of our incentive compensation model to further a culture of accountability and align our objectives with shareholder value.

On innovation and solutions, I believe the capital-light business model we have committed to is the right one. However, this increases the importance to SAIC of differentiating itself in the market with the best solutions – solving for where our customers are today and where they will be in the future. We must ensure that our portfolio is mission-relevant, scalable, differentiated and aligned with our strategy to drive sustainable organic growth in our key markets. This view drove the decision to hire Lauren Knausenberger as SAIC's first Chief Innovation Officer where Lauren will be responsible for operating our Innovation Factories, managing our technology roadmap, and ensuring that the investments we make maximize differentiation and long-term value. Lauren joins SAIC from the United States Air Force where she served as the Department's CIO – this role combined with prior commercial and private equity experience makes Lauren a true triple-threat, and I am thrilled to have her on our team. In my first months as CEO, I have been impressed by the degree to which our innovation factories differentiate SAIC in the market as evidenced by specific customer feedback on competitive procurements in recent years. I am confident that under Lauren's leadership, SAIC can further develop our portfolio of solutions and increase pull-through of these differentiators across our business lines.

On go-to-market, I see opportunities across the lifespan of business development and capture from early stage shaping, through leveraging of our factory differentiators, to premium proposal submission, and impactful customer program execution. In order to prioritize the quality and pace at which we execute these opportunities, we will be establishing a new enterprise business development function responsible for standardizing and optimizing our go-to-market strategy across our sectors. This function will be centralized and report into our new EVP of Enterprise Operations, Tim Turitto, who previously led the creation of the Microsoft Federal entity and their business development and capture organization. Tim will be responsible for instituting enterprise guardrails to drive greater rigor in our sales and delivery processes in conjunction with our sector leaders. Given the audience, I will provide my initial perspective on what all of this means for our financial strategy and performance in the coming years.

I believe the framework that was provided at our April Investor Day is appropriate and one that I support; however, as Prabu has mentioned previously, our internal aspiration is to do better.

We, as a leadership team, are aligned with the goal to establish a new normal for SAIC's sustainable organic growth rate above the 2% to 4% framework we provided in April while delivering increased earnings and free cash flow. We will share more detail as to how and when we get there at our 2024 Investor Day, but it will be a multi-horizon approach with an initial focus on enterprise-wide mechanisms and processes to drive improved business development and capture execution as well as an increased focus on quantifying, targeting, and prosecuting on-contract growth.

Finally, on my view of M&A: it is my belief that in order to be an effective acquirer and create true long-term shareholder value, a company must have a proven track record of maximizing organic growth from its own portfolio. As we demonstrate success against this goal going forward, our capital deployment philosophy remains open to additional M&A, and with a healthy skepticism towards larger transactions and a focus on shoring up our solutions portfolio with new technology, as well as maximizing long-term returns.

I am incredibly excited to be a part of the SAIC leadership team and I take great pride in the opportunity to lead such a storied company.

I now turn the call over to Prabu to discuss our financial results and updated outlook.

Prabu Natarajan

Thank you and welcome, Toni and good morning to everyone on the call. Let me start by saying how excited we all are to have you leading the team. Your vision for SAIC, your experience and strong leadership skills will no doubt contribute to a stronger SAIC for all our stakeholders.

Now, onto a review of our performance and increased guidance.

We reported strong fiscal third quarter results with revenue of $1.90B, an increase of nearly 11% when excluding FSA and supply chain revenue from the prior year. Revenue growth in the quarter was driven primarily by the ramp up of work on new and existing programs, improved labor productivity, and favorable timing of materials sales. I am very proud of the focus our team has shown in recent quarters to deliver value to our customers and exceed the commitments made to our investors.

Adjusted EBITDA margin in the quarter was 9.4%, an increase of 50 bps year-over-year driven by strong program performance, the impact of our previously discussed portfolio actions, and cost efficiency initiatives.

Adjusted diluted EPS of $2.27 represents an increase of 19% year-over-year driven primarily by the strong operating performance in the quarter, a lower tax rate, and a roughly 4% decline in our diluted weighted average share count.

Free cash flow, adjusted for transaction fees and other costs related to the sale of our supply chain business was $148M in the quarter and $367M year-to-date as we continue to see good traction on our working capital improvement efforts.

Net bookings of $2.5B resulted in a book-to-bill of 1.3x in the quarter and roughly 1.0x on a trailing twelve-month basis.

I'll now discuss our updated guidance for fiscal year 2024 and increased financial targets for fiscal years 2025 and 2026.

We are increasing our FY24 revenue guidance at the midpoint by roughly 2% to a range of $7.325B to $7.35B which represents pro-forma organic growth of approximately 6.0%. This increase reflects our stronger operating performance in fiscal third quarter and captures pressures related to previously discussed contract transitions and the potential for a short-lived, but disruptive, government funding environment.

We are also increasing our FY25 and FY26 targets for revenue to reflect favorable recent momentum while factoring in some degree of risk that budgetary disruptions and our year-to-date outperformance in FY24 may create more challenging year-over-year comparisons in FY25.

We are maintaining our adjusted EBITDA margin guidance for FY24 in a range of 9.3% to 9.4%. However, if our stronger than expected financial performance continues through the remainder of the year, we could see higher incentive compensation accruals in our fiscal fourth quarter which may result in full year margins at or slightly below the low end of our guidance range. As I have discussed with many of you, aligning our incentive compensation structure with increasing shareholder value has been an important part of our strategy to drive change. Adjusting for these potential costs, we expect our full year EBITDA margin to be within our guidance range for the year.

Rewarding strong performance with increasing pay is an important part of our philosophy, and I believe our results year-to-date reflect this. Rest assured that our Board and executive leadership team is focused on raising the bar going forward so that incentive compensation plays an important role in the evolution of our strategy which Toni discussed. Notwithstanding this potential for Q4 margin pressure, we continue to expect margins in the mid 9% range in FY25.

We are increasing FY24 adjusted EPS guidance to a range of $7.70 to $7.90 driven mainly by improved operating results, lower interest expense, and a lower planned effective tax rate. We are maintaining our free cash flow guidance of $460M to $480M and the strength of our earnings growth and the robustness of cash collections provides us with increased confidence in our path to at least $11 per share in FY26. Importantly, as we communicated, our plan to increase free cash flow per share by approximately 10% annually for the next three years assumes that the company's cash taxes, excluding section 174 payments, increase from approximately $0 in FY23 to approximately $100M in FY26. Notwithstanding this planned increase in cash taxes, we continue to expect double digit free cash flow per share growth in the coming years driven by strong earnings growth, continued rigor in managing working capital, and prudent capital deployment focused on our share repurchase program and M&A posture informed by capability-based tuck-ins.

We are encouraged by the strong financial results we have delivered in recent quarters. Our updated FY26 targets for revenue and adjusted EBITDA are already 2% higher and adjusted EPS 5% higher than the original targets provided at Investor Day eight months ago and position us well to create additional value for our shareholders.

With that, I'll now turn the call back over to Toni.

Toni Townes-Whitley

Thank you, Prabu. Before we begin Q&A, I want to re-emphasize how excited I am to be leading SAIC – a company whose combination of mission knowledge, domain expertise and legacy of problem-solving is a remarkable national asset. As I mentioned, the table has been set and my focus going forward will be accelerating our growth through strategic pivots in four areas: our solutions portfolio, go-to-market, culture, and brand. Each pivot has the potential to create significant value for our shareholders, customers, and employees. Collectively, if well executed, these pivots will position SAIC as a market leader in every dimension. Consistent with our focus on a culture of transparency and accountability, I look forward to sharing updates on key milestones as we progress in the coming quarters and years.

