Company Name: Science Applications
Company Ticker: SAIC US
Date: 2024-09-05
Event Description: Q2 2025 Earnings Call

Market Cap: 6699.079473390655
Current PX: 135.27999877929688
YTD Change($): 10.69
YTD Change(%): 8.58

Bloomberg Estimates - EPS
Current Quarter: 2.2
Current Year: 8.096
Bloomberg Estimates - Sales
Current Quarter: 1943.3
Current Year: 7433

Q2 2025 Earnings Call

Company Participants

- Joseph DeNardi, Senior Vice President of Investor Relations and Treasurer
- Toni Townes Whitley, Chief Executive Officer
- Prabu Natarajan, Executive Vice President and Chief Financial Officer

Other Participants

- Matthew Akers
- Jason Gursky
- Seth Seifman
- Bert Subin
- Jack Wilson
- Cai von Rumohr
- Joshua Korn

Presentation

Operator

Good day, and thank you for standing by. Welcome to the SAIC Second Quarter Fiscal Year 2025 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions). Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Joseph DeNardi, Senior Vice President of Investor Relations, Treasurer. Please go ahead.

Joseph DeNardi, Senior Vice President of Investor Relations and Treasurer

Good morning, and thank you for joining SAIC's second quarter fiscal year 2025 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 fiscal year 2025 that ended August 2, 2024. 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, Chief Executive Officer

Thank you, Joe, and good morning to everyone on our call, which we're doing today from our offices in Huntsville.

SAIC has deep roots in the Rocket City, with over five decades of support and community involvement. We are proud to be the third-largest employer, with more than 2,600 employees calling Alabama home. We recently held our Board meeting here, and will be taking our Board members and other leaders to visit the Chamber of Commerce and an amazing high school that we support, the Alabama School of Cyber Technology and Engineering. It is vitally important for us to develop and foster STEM education in our youth to ensure our future workforce can fill critical skills needs now and into the future.

We'll also visit key customer sites, where we support some of the country's most mission-critical operations in the space and missile defense sectors. In our support of the U.S. Army and Missile Defense Agency, we strive to ensure we provide leading-edge capabilities and technology to help them solve their hardest problems and field mission-critical systems to our war fighters and military leaders. Our work includes modeling and simulation, live virtual constructive training, and digital engineering, and I'm extremely proud of this workforce and am committed to our ongoing upskilling initiatives, which will see us grow in expertise and skill to match and exceed our customer's requirements.

My remarks today will focus on a quick review of our second quarter performance, followed by an update on the execution of our enterprise growth strategy. Prabu will then discuss our updated outlook and capital deployment plans in greater detail. Overall, I'm pleased with our solid financial performance on all key metrics and the strategic progress we've made in the quarter.

We reported second-quarter organic revenue growth of 2% year-over-year as increases from new business wins and on contract growth were partially offset by an approximately 5 point headwind from contract transitions. Adjusted EBITDA of $170 million and margin of 9.4% reflect solid program performance. Due to revised bid thresholds we've put in place and a focus on improved shot selection, we continue to expect and improve margin trajectory over the next several years.

Adjusted diluted earnings per share of $2.05 benefited from an effective tax rate of approximately 19.5% and a 5% year-over-year reduction in our weighted average share count. Second quarter free cash flow of $241 million was very strong due to a continued focus on working capital efficiency and good blocking and tackling from the team. This brings first half free cash flow to $262 million representing over 50% of our full year guidance.

While we still have some revenue challenge in front of us in the second half of the year, as Prabu will describe later, I'm encouraged by the performance shown in the second quarter and the focus I see inside our company to meet our guidance for FY '25 and sustain momentum into FY '26.

I'll now provide an update on our enterprise growth strategy execution. We flattened our organization, centralized business development and implemented our enterprise operating model designed to optimize investment planning and align our pipeline with growth vectors. We continue to tune across all four pivots, portfolio, go-to-market, culture and brand. The earliest indicators of progress against our strategy will be improved business development performance, which we believe will unlock significant long-term value for shareholders. The outcome is a more differentiated, more efficient, faster growing and higher margin SAIC. Simply put, we expect that our execution of the strategy will initially translate into Bid More, Bid Better, Win More.

The first step, Bid More, is significantly increasing the total value of submissions to a level more aligned with our growth aspirations. We continue to see good progress as evidenced by the $14.5 billion of submit volume in the first half of the year compared to $17 billion for full year, fiscal year '24. And we have improved visibility into exceeding our submissions target of $22 billion for the full year.

The second step, Bid Better, is aligning our pipeline and bid processes with key strategic and financial objectives. Strategically, we will drive outsized growth in the Civilian market and within Enterprise and Mission IT, two of the four growth vectors where we see the opportunity to leverage our strength in the market to gain share. These growth vectors align with our financial objectives to shift our pipeline towards higher value programs that are more margin accretive.

The third step, Win More, is driving bookings and backlog growth and eventually revenue growth more aligned with our long-term target. We will accomplish this by increasing our volume and quality of bid submissions, returning our recompete win rate to the 90% range and sustaining our strong new business performance.

In terms of how long it will take before we start to see results, our expectation is for bookings to continue to improve with a particular inflection over the next two to three quarters with the associated revenue impact following one to two quarters later. This should translate into a book-to-bill of 1.2x by the first half of fiscal year '26 with organic revenue growth aligning with our longer-term target of 5% towards the end of fiscal year '26.

I want to thank the team at SAIC for the enthusiasm and focus they bring to the company and the execution of our strategy. Thanks to their efforts, we are well on our way towards building a stronger SAIC for the future. I look forward to sharing further updates on our progress going forward.

I'll now turn the call over to Prabu.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Thank you, Toni, and good morning to those joining our call. I will now provide a review of our business development results, updated outlook for the fiscal year and our capital deployment plans.

Net bookings of $1.2 billion resulted in a book-to-bill in the quarter of 0.6x and 1.1x on a trailing 12-month basis. We submitted approximately $6.5 billion of total contract value in the quarter, bringing the year-to-date submitted bids value to approximately $14.5 billion. We are encouraged by the momentum and increased velocity we are seeing within our business development organization and remain on track to exceed our target for $22 billion of submissions this year with further growth in FY '26 and FY '27 beyond our initial estimates. The processes and metrics we have put in place give me confidence that we will be able to improve our business development and capture outcomes over the next few years.

We returned approximately $220 million to shareholders in the quarter, including $201 million of share repurchases, reflecting a planned increase in our pace and opportunistic repurchases on top of that. We remain on track to exceed the high end of our prior target of $350 million to $400 million in repurchases for the year. We intend to achieve this while maintaining sufficient capacity for M&A.

I'll now provide an update on our outlook for the year. We are reaffirming our prior guidance for revenue, adjusted EBITDA, and free cash flow. We are increasing our guidance for adjusted diluted earnings per share by $0.10 to a range of $8.10 to $8.30 due to a lower tax rate and share count offsetting modestly higher interest expense. Our revenue guidance, which reflects pro-forma organic growth in a range of 1.5% to 3.5% continues to assume an approximately 5% headwind from recompete pressures. At the midpoint, this implies an improvement in our second half growth compared to first half results.

We expect the improvement to be driven primarily by the further ramp up in volume on previously won new business and continued momentum from on-contract growth. Consistent with what we communicated last quarter and based on our expectation for 3Q and 4Q revenue growth as provided on Slide 7, we see the midpoint to the lower end of our revenue guidance as more likely than the higher end.

We are reaffirming our prior guidance for adjusted EBITDA in a range of $680 million to $700 million and margin in a range of 9.2% to 9.4%. We are reaffirming our free cash flow guidance of $490 million to $510 million and expect to sustain the momentum we built during a very strong second quarter.

Our capital deployment strategy remains focused on maximizing long-term shareholder value. We have confidence that the strategy we are executing will produce free cash flow growth in excess of what is implied by current market valuations. Given this view and the opportunity we see to drive significant improvement from our existing business, we expect our threshold for M&A to remain high and capital deployment to remain targeted on our repurchase program. However, we retain sufficient balance sheet flexibility to add differentiated businesses to our company should an opportunity meet our risk adjusted threshold for returns.

In closing, I am proud of the team's focus on delivering value for our shareholders and on executing our strategy to drive sustainable growth going forward. The progress we are making is clear and will begin converting into stronger financial performance in the coming years.

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

Questions And Answers

Operator

(Question And Answer)

Operator

Thank you. At this time, we'll conduct a question-and-answer session. (Operator Instructions). Our first question comes from the line of Matt Akers of Wells Fargo. Your line is now open.

Matthew Akers

Yes. Hey, good morning, everybody. Thanks for taking my question. I wanted to ask about the comment about book-to-bill getting to 1.2x by the first half of '26. What gives you confidence to get there? And specifically, just curious if there are any new big kind of new work opportunities that we should watch out for?

Toni Townes Whitley, Chief Executive Officer

Hey, Matt, it's Toni. Thank you for the question. Thank you for joining us on the call. Yes, there are a couple of indicators that get us more comfortable around that kind of book-to-bill expectation. One is just the submission rate, as you've seen. We are at $14.5 billion now against last year with $17 billion full year. We fully expect to surpass our $22 billion expectation on our submissions this year and feel strong about that.

Secondly, we're also submitting -- we have a larger qualified pipeline, and we see the size of that qualified pipeline increasing quarter-over-quarter. We're sitting with about $10 billion of submitted bids at this point, pending award. And two-thirds of those being new business, the third being recompete. And so, when you look at the shape of our pipe, what we submitted, the velocity, we feel strongly that we've got all of the indicators that drive to a north of 1.0x into the 1.2x range of book-to-bill in the next 12 months.

Matthew Akers

Got it. Thanks. I think you also called out in the opening remarks, I think civilian, maybe a little bit of a focus area. I guess one of the questions I get from people is, depending on who wins in November, maybe the budget shifts, one way versus the other, defense versus non-defense. Is that a consideration and just how you think of civilian versus defense?

Toni Townes Whitley, Chief Executive Officer

Yes, no, thank you for that. Look, we get that question a lot. If you look at our portfolio, we have called out civilian as one of our four growth vectors. We find that to be not only a large addressable market for us, but also one that's fairly accretive to our portfolio. But if you look at where we're positioned in the civilian agencies, agencies like Department of Transportation, Department of Homeland Security, State Department, VA, and others, we feel like we are inoculated from any major swing post-November from a partisan perspective.

We are in agencies that have bipartisan support and have had that for many, many years, and we're positioned in those agencies both across enterprise IT and sort of mission-critical IT, which tends to be generally funded going forward. So, we feel pretty strong there. In terms of the defense and national security, look, we believe that there will be political support for defense spending, given the global environment and geopolitical challenges that the country faces.

We also happen to be, I would argue, across areas of national defense that are integrating more technology, more innovation. And that's where we're positioned. So, we feel like, in both regards, our portfolio is balanced and stable enough to be able to continue to move forward and grow independent of the partisan outcome. Look, defense spending, we think, is going to be flat. I mean, I think everyone's made that call. And so, it becomes a share game. But again, we feel like we're positioned with the right differentiators in our portfolio.

Prabu, any thoughts you might have on that as well?

Prabu Natarajan, Executive Vice President and Chief Financial Officer

The only thing I would add, Matt, to that would be that we are looking to add market share in the civilian space. I would say we are somewhat underrepresented as a percent of market share in that area. And therefore, as we look at our pipeline, it continues to inflect towards higher levels of new business, even in the civilian space. So that's why we're cautiously optimistic that there's a real opportunity to gain market share.

Matthew Akers

Very good. Thank you.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Thank you.

Operator

Thank you. (Operator Instructions). Our next question comes from the line of Jason Gursky of Citi. Your line is now open.

Jason Gursky

Yes. Good morning, everybody. Thanks for taking the question.

Toni Townes Whitley, Chief Executive Officer

Hey, Jason. Good morning.

Jason Gursky

Hey, just a quick question on the bidding activity that's going on. I'm wondering if you can just give a sense of what the contract types that you're chasing look like and kind of what the risk around execution is on all the bids that you're chasing at this point, and whether it kind of is any different than what you've kind of wrestled with in the past?

Toni Townes Whitley, Chief Executive Officer

So look, when we think about our bid, sort of our bid profile, we are tracking and increasing our bidding into our growth vectors. So, we are bidding more into civilian, we are bidding more into Enterprise and Mission IT than we have. And each of those has its own sort of characteristic in terms of with enterprise IT, the risks that go from end-to-end IT operations all the way through cloud and an enterprise level to mission-critical IT, which has its own risk portfolio. We are bidding more fixed price than we have in our backlog.

In our current contract portfolio, we're bidding more fixed price deals. And that is another area that we said was part of the pivot to move more into some fixed price engagement. And so, we are about 10 points up on the difference between what's in our backlog and what's in our bid pipeline on fixed price.

Overall, we're also bidding, as I mentioned into the growth vectors, we're also bidding in areas of differentiation. So, we are tracking the bids with the use of our factory differentiators, and we see an increase and uptick in the use of those differentiators across operational AI, digital engineering, secure cloud, as well as some of the work that we're doing with data platforms, secure data platforms.

So, when we think about the complexion of our bidding, we see ourselves bidding more strategically, bidding more margin accretively, which we've seen a higher bid margin in what's going out the door than what has been in prior years. And we see ourselves bidding in areas that leverage our differentiation.

So, in that regard, I feel like -- and obviously fixed price. So, in that regard, I feel like the future bodes well. We still have to win them. So, let's just acknowledge this is, we're bidding more, we feel better, we're bidding better, but we still have to win. We have to execute. You mentioned execution risk. We're also tightening with our enterprise operating model, our execution expectations with our program managers. And so, we are really refining and adding more metrics and more review and more monitoring and quality assurance as it relates to executing these bids, particularly our mission-critical work.

Prabu, any thoughts there?

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Toni, that was perfect. Jason, the only thing I would add is that, over the course of the last few years, as we do the debriefs on our wins and losses, we know that, on average, we tend to do just fine on cost. And we've fallen short on technical differentiation. So, part of the enterprise operating model is to get the solution architects working directly with the capture teams to ensure that we are crisply putting together a technical proposition that we can execute to.

Our history with fixed price work is actually pretty good. We've actually executed the work at good margins. So, for example, most of the civilian portfolio happens to be fixed priced in T&M work. And as you can see, we're comfortably in the double-digit EBITDA margins there on that work. So, I'd say it's a little more of -- let's not be that cost-conscious, let's actually focus on getting the right solution in place. And then, how do we start executing in a way that gives us comfort that we can actually get to these thresholds that we are anticipating the program teams to get to? So, a lot of work going around just the muscles required to execute effectively.

But I think the most important thing I would say is, we want to take good shots, and that means not being rash. We're not chasing growth for the sake of growth, as we've said on calls before. It's vitamins, not calories. Thank you, Jason.

Jason Gursky

Right. Okay. And if you don't mind, just a quick follow-up to that, to double-click a touch on the firm fixed price bids that you're chasing. The firm fixed price development hasn't been such a great story across the industry over the last number of years. I'm just kind of curious how mature the technologies are that you are leading with on some of these firm fixed price bids and how much work you think you've got ahead of you to still develop some of the solutions that you're trying to solve for?

Toni Townes Whitley, Chief Executive Officer

Jason, I think it's a fair statement. When I look at our portfolio, though, why we've made some investments, quite frankly, in the differentiation coming out of the factories that we would lead with that differentiation where we've been able to build up our capability. Prabu has said, we've got a track record of delivering fixed price with solid estimates that complete meeting the financial profile, meeting the customer expectation. We don't have sort of disastrous fixed price programs that many organizations have had to face.

We're leading with our secure multi-cloud. We're leading with our digital engineering capabilities. We're leading with our data platforms and our operational AI capabilities generally when we're introducing new solutions into this space. And quite frankly, we're ensuring that we have the right human capital answer, meaning individuals, program managers who have led fixed price engagement and tightening all of the controls around how we deliver fixed price engagement and monitor it over time. So, right now, we're not feeling overly concerned about increasing our fixed price portfolio. But of course, we've got quite a bit of attention to day-to-day execution to meet the customer expectation.

Jason Gursky

Great. Appreciate the time today.

Toni Townes Whitley, Chief Executive Officer

Thank you, Jason.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Thank you, Jason.

Operator

Thank you. (Operator Instructions). Our next question comes from the line of Seth Seifman of JP Morgan. Your line is now open.

Seth Seifman

Hey. Thanks very much, and good morning.

Toni Townes Whitley, Chief Executive Officer

Good morning.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Good morning, Seth.

Seth Seifman

I wanted to ask, you mentioned probably exceeding the goal for submitted bids this year, and it would seem you're very much on the way to doing that. I guess what led to the submitted bids in the first half being so much higher? And is there a particular reason why you see the opportunity set in the second half being so much lower? I mean, it would seem like you're probably on a pace to have submitted bids on par with what you're looking for in fiscal '27 right here in fiscal '25?

Toni Townes Whitley, Chief Executive Officer

Well, we appreciate that forecast, though. Let me first say that, why the focus on what's happened in terms of submitted bids. Part of centralizing the business development function when I first came in, Seth, was we get to a standard process and set of protocols, quite frankly, into how we bid and the acknowledgement that over the last three years our bid velocity had been dropping. And that we needed to reverse that if we were going to underpin the kind of growth that we are setting as expectations for ourselves.

And in doing that, the centralization allowed us to allocate resources much more dynamically across the full enterprise towards the bids that needed our attention, the quick determination of whether a bid was qualified, so increasing our conversion rate to from an unqualified to a qualified bid. And again, the resource allocation of our talent towards those bids. That's all improved our submission process in terms of the number of bids, and quite frankly, I would argue changing some thresholds in terms of the role of the ELT, our executive team, in reviewing our bids and many more bids that we take a look at on a weekly basis have improved the quality of those bids and setting a measure of what a good bid looked like.

When we look at the year, we are pleased with our progress. There's absolutely no question that we are on a great pace. We have bids that move out, as you know, every quarter and we have a few key bids that are right on the cusp, large bids that are on the cusp of our fiscal year. And so, those of us who've been in the industry for a while know that when you start to get to the cusp and fourth quarter bids, you start to sort of almost have to handicap that amount, that number, to make sure that you can really pull them into the fiscal year.

So, do I feel good about us exceeding '22? Absolutely. I feel good about it. Do we overstate? Did we change that? Right now, no. We're halfway through. We see it. We've got line of sight. We feel good about it. As we go into next year as well, we've got quite a bit of submitted bids that are pending and we're excited about what that might mean for fiscal year '26.

Seth Seifman

Okay. Excellent. And then, just maybe following up, taking to the next step, beyond bids to the awards and you have an outlook for book-to-bill. When you think about what's in front of us in terms of CR and most likely, and an election, and the protests that we often see around all kinds of contracts, to what degree is there still risk around your kind of book-to-bill targets for those items, or do you feel like you've kind of handicapped all of those fairly well in the book-to-bill outlook?

Toni Townes Whitley, Chief Executive Officer

Hey, Seth, I'm going to let Prabhu speak to that and I'll add any color. Go ahead.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Hey, Seth. So, look, I think as we think about where our backlog is right now and the volume of the bids that are awaiting adjudication, we've tried to calibrate our expectations around book-to-bill for the year based on many things, including the things you mentioned. So, I think that's the way we're thinking about it. Thankfully, we're sitting in a place where there's enough volume in the pipeline that, one or two things moving out of the year would not have a material outsized negative impact to our expectations for book-to-bill. As Toni, I think, correctly pointed out, I think our expectation is to get to a book-to-bill that's comfortably north of one and hopefully keep the volume up.

One of the benefits of, I was going to add, the benefit of increasing the qualified pipeline and the backlog of submitted bids is that's not a motion in perpetuity. In other words, there's a point at which you've got enough pipeline, and you've got enough in the way of submitted bids, it becomes a question of can you replicate that consistency and volume over multiple years? And candidly, one of the riches of having a rich backlog is that you get to actually improve the kinds of things you go after. So, I think there's more of a focus on the quality of what's in the backlog in the pipeline versus just increasing the absolute volume there. So.

Seth Seifman

Great. Thank you very much.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Good. Thank you.

Operator

Thank you. (Operator Instructions). Our next question comes from the line of Bert Subin of Stifel. Your line is now open.

Bert Subin

Hey, good morning, and thank you for the questions.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Hey, Bert.

Bert Subin

Maybe just to start, I guess, following up on Seth's questions there. I mean, if we look at the fiscal second quarter, coming in at 2% organic, I guess this is really like 7% organic because, Prabu, you've called out 5 points of recompete headwinds, and maybe normally in a year you would have some headwinds, so maybe it's like 6% organic, but that seems pretty good. Can you just break down maybe what the components that are driving that is for, from new awards ramping to on-contract growth to other items?

Toni Townes Whitley, Chief Executive Officer

Yes. So, as we look at Q2 and even looking forward to H2, we've got ramping of existing programs, right, that have been won earlier in the year or prior year that we see on the civilian side. We see with the T-Cloud in our Air Force business. You've seen with our AOC and our Cloud One, probably just recently seeing an extension of our Cloud One business at $262 million, I think, is recruited there.

So, we have these sort of ramps that are happening, and then we have on-contract growth occurring, particularly in our civilian and our Army businesses, some significant on-contract growth that's occurring there. It's a combination of those that not only provided the uplift on the second quarter, but it's what we anticipate to help us close the year as we've indicated.

We even have a new business win in our combatant command that is going to probably start to ramp, even towards the end of this year, that will add a little bit of relief. But what we have to be aware of is that there's still risk. There's still risk. We have that 5 points that you mentioned that we'll have throughout the full H2, that 5 point headwind that we are dealing with. We know it will ease going into fiscal year '26. But we have to, it's really an all-hands-on-deck feel that everybody is pushing for growth with their existing contracts, ramping, and obviously ramping in an environment where there's a lot still happening politically, a lot happening in Congress, and a lot happening with our customers.

So, we're trying to be thoughtful about how we think about revenue growth here, but we are still fairly positive that we can stay within the guidance that we have offered.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Thank you, Toni. And hey, Bert, the only thing I would add is DTAMM is expected to ramp a little more in the second half relative to the first half. That's a program we won earlier this year. So that program has not ramped in any material sense. T-Cloud will be a growth driver for us in the second half of this year. And of course, the program that Toni just referred to in our Air Force Combatant Command business set is also expected to ramp in the second half of this year. So, we've got some good momentum on things that are either already in backlog and we expect to grow off of or things that we are winning. We're not just focused on contract growth here. There are some good growth drivers.

Bert Subin

Thanks for that, Toni and Prabu. Just one follow-up. The 2% organic, particularly with the recompete, was positive. And then when you put it into the context of O&M outlays only being up 1% in that quarter, it looks certainly better. As we think about this current quarter, can you give sort of any early indications to what you're seeing? I know you've given the 1% to 3% viewpoint, but outlays were up 19% in July. We have potential for maybe a significant budget flush going into an election year. So, I'm just curious, from an on-contract perspective, do you think there may be more opportunity out there?

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Hey, Bert, I'll take that first part of the question here. So, in terms of outlays, I think you're exactly right. I think we are expecting outlays to be normal, as one might define normal. We do think that we started to see a little bit of a pickup in the outlays, maybe in the July timeframe. Our sort of internal view is that that typically translates to maybe higher levels of revenue growth in about three to six months.

So, as we sort of close out the year, starting next year, we will expect to see some of that outlay. And more to our benefit, obviously last year was a fantastic year for outlays and this year feels a little more normal. But there is again, that's why the focus is on making sure that we're bidding the right kinds of work and overall, we expect the environment to remain supportive, but we're not foolish about that happening anytime soon.

Toni Townes Whitley, Chief Executive Officer

Yes, and Bert, I think you heard with the Q3, if you're looking at a Q3 outlay environment that you think is slightly increasing, probably was just indicated that's not a one-for-one by timing. There's about a three-month lag. You can see that our Q4 guidance suggests a higher growth in Q4 than Q3. So, we're aware of the outlay environment. We think it's reflected in the call.

Bert Subin

Thank you.

Operator

Thank you. (Operator Instructions). Our next question comes from the line of Tobey Sommer of Truist. Your line is now open.

Jack Wilson

Yes. Hey, good morning. This is Jack Wilson on for Tobey. Can we just double-click on sort of the growth trajectories for some of those bigger contracts that were mentioned, sort of the Air Force work and the GMASS work specifically?

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Sure. I'll do that, Jack. I'll take a first stab at it. I think DTAMM was a program we won earlier this year. It's a $450 million program, roughly. The way the program works is two technical directives, so we call them TDoS in our business, and that takes a little bit of time to ramp as we, sit with the customer and sort of plan out the year with them, and so that program is expected to ramp in the second half of the year.

T-Cloud was obviously a big win for us a little over a year ago, and obviously we are well on the ramp. We said T-Cloud will get to between 1% to 1.5% of total company revenue this year with some expected growth to maybe up to 2% next year, so that one is a growth driver, and then the one in Air Force, that's a new takeaway win, and that's expected to add about, let's call it $30 million or so a year, starting hopefully in the Q3 timeframe. So, we'll certainly provide a little more color, but that's just a sample of the two or three things that we called out.

Jack Wilson

Okay. And maybe as a quick follow-up. Can you just speak to how the Space franchise compares to sort of the rest of the company as a whole in terms of growth and margins?

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Sure. So I think, as you know, we've got a good chunk of Space SEDA work at many of the restricted customers. That is a really good portfolio that is solidly, margin-producing as well as a good cash generator for us, so we like our positioning.

Having said that, I think the team there is doing a really nice job continuing to inflect that portfolio towards non-SEDA work. Obviously, DTAMM is an example of that win capability that we can take some of the expertise we have in the SEDA space and go build a market outside of SEDA, so that one was an important win. GMASS was another program we won last year that was a takeaway from one of the primes, and that is another program out there the team is executing on that is really interesting.

And then, of course, we've talked publicly about BMC3, which is a real-time software development for the SDA. So, there is a good balance, I think, we are developing between SEDA and non-SEDA. But our objective is, the SEDA business is a really high-quality business, and we're developing a non-SEDA business as we go here.

Toni Townes Whitley, Chief Executive Officer

And I would say that non-SEDA business is moving into Mission IT, and that's the important part of our portfolio shift is what we believe to be the more critical and more tech-heavy, if you will, tech-enabled mission IT within space, but will be more credible over time.

Jack Wilson

Thank you very much.

Toni Townes Whitley, Chief Executive Officer

Thank you, Jack.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Thank you, Jack.

Operator

Thank you. (Operator Instructions). Our next question comes from the line of Cai von Rumohr of TD Cowen. Your line is now open.

Cai von Rumohr

Yes. Thanks so much. So, the 1.2x book-to-bill, is that you're defining that as trailing 12-month, or in the second quarter? And then, secondly, what does that assume about your win rate?

Prabu Natarajan, Executive Vice President and Chief Financial Officer

So, Cai, the first part of the question, it is trailing 12-month, and I think in terms of what it implies for win rates is I think it assumes that our new business win rate, and we've said this publicly before, it is higher than 30%, comfortably higher. And so, I think we expect our new business win rate to be sort of where the industry is on new business, and we are expecting to get our recompetes back to what's normal for the industry. So, let's call it high 80%, approximately 90%. So that's what we're assuming.

At this point, the only known recompete headwind going into next year is NCAPS, and that's about a little over 1%. And so, I think maybe even to Bert's question earlier on the call, when we have 1% or 2% recompete headwinds, then organic growth tends to be mid-single-digits, and we demonstrated that last year with 7.5% organic growth with a headwind of 1% to 2% on recompete. So that's what we're assuming in terms of the math. Obviously, a lot that goes into what's getting bid and what we're expecting to show up before the end of the year, but that is what we've assumed, Cai.

Cai von Rumohr

And in terms of recompetes, I mean, you mentioned, I don't know whether that was Evolve. What is the status of that recompete? And also, very importantly, S1, because that's your biggest contract. What is the status of that potential recompete?

Toni Townes Whitley, Chief Executive Officer

So, Cai, I heard the first part of your question on Evolve, and may have to ask you to repeat the second part of the question. The first part of the question on Evolve, as you know, that's an ongoing procurement. We're super pleased about our current performance with that contract and with that customer set. As it continues to move right, we expect that there will not be any award activity until the beginning of next year, possibly, and even that followed by an extended protest period that would probably have any revenue impact or change late fiscal year '26, maybe early fiscal year '27.

So, as that continues to move right, we're focusing on our performance on that contract. As you know, that's a consolidation of many contracts. So, there's upside potential there. There's obviously risk on recompete there. But overall, we're very pleased with what we're hearing from the customer on our performance there, and we think we're positioned. But don't see that having a '26 impact immediately.

What was the other, Cai, you asked?

Cai von Rumohr

The second one was the Army S1 contract. I believe that's the biggest contract.

Toni Townes Whitley, Chief Executive Officer

Yes. We happen to be sitting here in Huntsville, so it's appropriate for us to comment there. So, look, the timing of that, we believe, is probably on the cusp for the end of our fiscal year. Beginning of the next fiscal year is our timing. We feel very, very solid about our performance to date. And obviously, this is the first of a series of contracts that we compete for the next 18, 24 months with this customer set. But for this, and one of the largest of the recompete, we feel very, very solid about it. But the timing, we are now sort of thinking about it in the fiscal year '26 timeframe in terms of actual reward.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

And Cai, the only thing I would add is last time on the AMCOM recompetes, as it was known about five years or so ago, we went 4 to 4. The team's doing an amazing job and great relationships here. And we're hoping to keep the streak alive.

Cai von Rumohr

And refresh my memory, is this going to be bid similar to the way AMCOM was bid in terms of separate packages or what's the structure you're looking at for this bid?

Toni Townes Whitley, Chief Executive Officer

I think we're looking at a very similar structure. We have four separate contracts. And this is the first of the four, Cai, that shows up, as I said, in the January, February timeframe is when we're expecting an award.

Operator

Thank you. (Operator Instructions). Our next question comes from the line of David Strauss of Barclays. Your line is now open.

Joshua Korn

Hi. Good morning. This is Josh Korn on for David. Thanks for taking the question.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Hi, Josh.

Joshua Korn

I just wanted to ask about the drop in civilian margins over the last two quarters, and sort of what's the trajectory is there. How variable those would be over time? Thanks.

Toni Townes Whitley, Chief Executive Officer

Yes. So, Josh, just to put it in context on civilian, the year-over-year compares, we had a major, high revenue activity that happened last year, one-time, sort of anomalous surge of revenue in one of our programs that was not repeatable this year, as well as the ramp up on some of our new programs in civilian has been, has had a lower margin start.

We fully expect this is a tailwind because the margin is coming up over time on those programs. We talk about moving into H2 with contract, on contract growth, as well as ramp up. The civilian portfolio is ramping up in the margin. Expectations on execution are higher than where we started. And so, we feel like we'll be back in the range, the appropriate range for civilian minus that one-time event of prior fiscal year.

Joshua Korn

Great. Thanks. I'll stick to one.

Toni Townes Whitley, Chief Executive Officer

Okay. Thanks, Josh.

Operator

Thank you. I'm showing no further questions at this time. Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.