Science Applications International Corporation
NasdaqGS:SAIC
Earnings Call
Monday, June 3, 2024 3:00 PM GMT

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Presentation

Operator

Thank you for standing by. My name is Krista, and I'll be your conference operator today. At this time, I would like to welcome everyone to the SAIC First Quarter Fiscal Year 2025 Earnings Conference Call. [Operator Instructions] thank you. I will now like to turn the conference over to Joe DeNardi, Senior Vice President of Investor Relations and Treasurer. Joe, you may begin your conference.

Joseph William DeNardi
Senior VP of Investor Relations & Treasurer

Good morning, and thank you for joining SAIC’s First 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 first quarter of fiscal year 2025 that ended May 3, 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
CEO & Director

Thank you, Joe, and good morning to everyone on our call. I'll start with a quick review of our first quarter results and then provide an update on our strategic priorities. Prabu will then discuss our financial results and outlook in greater detail. We reported solid financial results in the quarter, 40 basis points of pro-forma organic growth due to the ramp up on new and existing programs, offset by a roughly 5-point headwind from previously discussed recompete losses. First quarter adjusted EBITDA of $166 million resulted in an adjusted EBITDA margin of 9%, which reflects the impact of increased investment in the business. We expect the timing of certain program performance milestones in the second half of the year to improve margins. Transaction-adjusted free cash flow of $21 million was ahead of plan as we continue to see good momentum on working capital efforts.

I'll now provide an update on our strategic priorities. I want to again thank many of you for joining us at our April Investor Day, where we outlined SAIC's multiyear growth strategy. As we discussed then, SAIC's expertise in integrating emerging technology positions the company to deliver profitable growth by serving our customers across 5 national imperatives: All-Domain Warfighting, Next-Generation Space, Citizen Experience, Border of the Future and Undersea Dominance. These imperatives represent drivers of long-term and enduring customer demand. In order to increase value to our customers' missions and grow
more profitably across the 5 imperatives, we will work to progressively shift our portfolio and bid into 4 key growth vectors: Integrated Solutions, Enterprise and Mission IT, Civilian and Mission Advisory.

And finally, to enhance our competitive positioning in the market and the value that we deliver to customers, we will prioritize investment in 6 portfolio differentiators: Secure Multi-Cloud, Digital Engineering, Operational AI, Secure Data Analytics, System of Systems Integration and On-demand Solution Delivery. Four growth vectors across 5 national imperatives with 6 differentiators, the 4, 5, 6.

The implementation of our enterprise operating model, which is optimizing program execution and building a best-in-class business development organization, continues to progress on schedule. While our business sales cycle is such that it will likely take 12 to 18 months for our strategy to more fully impact our BD results, we are seeing encouraging year-to-date progress with indicators, including bid selection, bid thresholds and submit volume.

Bid selection assesses the degree to which our pipeline leverages innovation factory capabilities to drive differentiation and aligns with our national imperatives, growth vectors and optimal mix of deal size. Our win rate on programs with a TCV under $500 million have been quite strong in recent years. We are focused on ensuring that our pipeline reflects a proper mix of deals in this TCV zone with larger pursuits like our DCSA One IT and Department of Treasury T-Cloud program, providing measurable upside to our growth prospects.

At present, our utilization of enterprise differentiators skews more heavily across our pipeline towards the higher TCV pursuits with less impact on midsize-to-smaller deals. Given the correlation we see between IF involvement and win rate, our strategy will increase IF utilization over time. Bid thresholds ensure that our pricing and profitability properly reflect the value and capability we're bringing to a program. Prabu will discuss and share metrics on the improvement we have seen in recent quarters. Submit volume measures our ability to convert pipeline into submitted proposals and effectively reallocate internal investments as customer procurement schedules inevitably shift over time.

We submitted proposals with a total value of over $8 billion in the first quarter. Our performance in first quarter and the progress we're seeing gives us confidence in reaching our targeted value of submissions of $22 billion in fiscal year ’25 compared to $17 billion in fiscal year ’24. Of the expected $22 billion in submit value for the year, roughly 2/3 represents new business. Similarly, in the first quarter, we delivered net bookings of $2.6 billion for a book-to-bill of 1.4x, with roughly 60% of the awards representing new business. Our Space & Intelligence business Group was a significant contributor to the strong bookings with $444 million new business award with the U.S. Space Force and $350 million recompete win with NASA.

Relative to the multiyear goal to increase bid volume to $30 billion by fiscal year ’27, we see 3 primary drivers behind this: greater organizational accountability to convert pipeline identified into pipeline bid, adopting enterprise-wide processes to drive standardization and increased efficiency and investment in BD resources and talent upgrades to drive greater quality and throughput.

Importantly, we intend to drive higher bid volume while also improving shot selection and margin thresholds. In other words, we expect an improvement in the overall quality of our pipeline and submissions as we increase volume. Before turning the call over to Prabu to discuss our financial results and outlook in detail, I want to thank the SAIC team for their contributions in the quarter and for their partnership in implementing our strategy.

I recognize the heavy lift that many of our functions and business groups have endured in recent quarters and appreciate their dedication to our customers and shareholders. I am proud of the performance we delivered in the quarter and encouraged by the indicators of progress we are seeing. Clearly, we have some revenue and margin headwinds to overcome this year. We have taken ownership of this challenge, and our business groups understand what is expected of them. We recognize that we must balance an intense focus on near-term execution with a commitment to our long-term plan. I believe this long-term plan will be a significant driver of value creation for our employees, and shareholders. Prabu, over to you.

Prabu Natarajan
Executive VP & CFO

Thank you, Toni, and good morning to everyone joining the call. I will discuss our first quarter financial results in greater detail and provide an update on our outlook for the remainder of the year. We reported revenue of $1.85 billion, representing a pro-forma organic growth of approximately 40 basis points as increased new business revenue and on-contract growth was largely offset by previously disclosed program transitions.

In addition, it is worth noting that prior year first quarter revenue benefited from a roughly $30 million discrete material sales to one customer which, as planned, did not reoccur, creating a roughly 1.5% year-over-year revenue headwind. Adjusted EBITDA was $166 million in the quarter, resulting in a 9% adjusted EBITDA margin with the year-over-year decline, largely due to increased internal investment in the timing of program performance milestones being weighted to the second half of the year. Adjusted diluted EPS of $1.92 benefited from a tax rate of approximately 18.5% and a roughly 5% decline in our weighted average share count.

Transaction adjusted free cash flow was $21 million, ahead of plan and included a roughly $50 million year-over-year headwind due to the sale of our supply chain business in FY ’24 and higher cash bonuses in the quarter. Lastly, as you’ll see in our earnings release and 10-Q, beginning this quarter, we will be providing revenue and profitability metrics for 2 segments: Defense & Intelligence and Civilian. We have provided historical results for both segments in our earnings release and presentation slides to assist with your modeling. While we are reiterating our FY ’25 financial guidance for revenue, adjusted EBITDA margin, adjusted diluted earnings per share and free cash flow, I’d like to provide some additional color around quarterly expectations and capital deployment plans.

We now expect second quarter revenue to be roughly flat year-over-year, which assumes a similar dynamic as we saw in the first quarter with a roughly 5% to 6% headwind from recompete losses, offset by higher revenue from new business and continued strong on-contract growth. Second half FY ’25 revenue is expected to increase in the mid-single-digit range with stronger growth in our fourth quarter as recompete headwinds ease. For the full year, our guidance for 2% to 3% growth includes an expected headwind of approximately 5% from recompete losses, which we expect to ease to a more normalized 2% in our fourth quarter and into FY ’26.

Overall, first quarter revenue was generally in line with our plan, though expectations for second quarter revenue have softened somewhat. We attribute this in part to the timing of certain materials revenue and to a recent normalization in government outlay trends. Our team understands the push we face this year to overcome recompete headwinds and more difficult year-over-year comparisons to deliver on our 2% to 4% growth guidance. We have specific initiatives in place to drive on-contract revenue growth on programs with remaining ceiling value of which we have many, and we are proactively engaged with customers ahead of a potentially active end of year spending cycle. It is a challenge that is not without risk, but one that we are focused on accomplishing.

We expect margins to follow a similar profile with lower margins in the first half of the year with improvement in the second half driven primarily by the timing of program performance milestones and the timing of investments. We repurchased $81 million of shares in the quarter. As you will recall from our Investor Day, our plan assumed we repurchase roughly $350 million to $400 million of shares this year. We now intend to target the higher end of that range while maintaining sufficient capacity for capability-focused M&A. Faith in our capital deployment strategy is driven by confidence that we can consistently and profitably grow this business over the long term.

As Toni discussed, we’re focused on shifting our pipeline and portfolio over time to align with areas of the market, which value differentiation. We are seeing a favorable shift in the margin profile implied within our backlog and pipeline, reflecting more stringent bid thresholds we have put in place and expect this mix improvement to continue as our pipeline and strategy more closely align over time.

In closing, our focus remains on the implementation of our strategy to drive long-term profitable growth for SAIC while notching up the intensity on our execution to best mitigate the revenue challenge we faced this year. We are confident that our strategy will strengthen SAIC’s competitiveness in the market.
and drive more consistent, predictable growth in the long term. While our near-term results may not always reflect the full impact of the strategy and our execution, we intend to remain rigorous in our capital deployment strategy and have the capacity and discipline to increase our investment in the company via our share repurchase program.

I'll now turn the call over to the operator for Q&A.
Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Cai von Rumohr with TD Cowen.

Cai von Rumohr
TD Cowen, Research Division

Yes, impressive bookings, guys. Could you give us some update in terms of the Vanguard recompete and any kind of recompete, we're still looking at over the second half and maybe the timing because I know the Vanguard is split into several pieces.

Prabu Natarajan
Executive VP & CFO

Sure. Prabu here. So I'll take the first part of that. On Vanguard, I would say we're in process right now. Our expectations for the timing of the award as well as potential revenue impacts have really not changed. We've seen minimal impact this year from any recompete on Vanguard. And that's probably the single largest one for the year. That's probably worth calling out. There's an outside chance that we may get an RFP on one of our Army S3I programs, but it's hard to say right now at this point, that may be Q4 of this year or Q1 of next year. So those are probably the 2 largest ones worth calling out.

Toni Townes-Whitley
CEO & Director

And Cai, so if you look at the recompete -- I'm sorry, Cai, go ahead.

Cai von Rumohr
TD Cowen, Research Division

I was just going to say, could you give us some sense of the timing of when you might expect a decision on Vanguard and S3I?

Prabu Natarajan
Executive VP & CFO

Safe to assume probably the -- starting the second half of this year, I would say, probably biased towards the end of the fiscal year. So that's probably our best estimate right now, Cai.

Toni Townes-Whitley
CEO & Director

And that would be true for both, correct? I mean really for S3I as well. We won't have a clear sense to end of the fiscal year, Cai.

Cai von Rumohr
TD Cowen, Research Division

Got it. And then the last one, Prabu, you mentioned that the margin in your backlog is stronger than the margin you're booking. Can you give us any kind of -- that's the first time I think you have mentioned that. Are we talking 10, 20 bps or we talking 40, 50 bps? Can you give any kind of quantification or color on the [increment]?

Prabu Natarajan
Executive VP & CFO

Yes. Good catch, Cai. We did mention that, and it is the first time we're providing a little more by way of qualitative information on the margin implied in the backlog and the pipeline. We've put some, as we said
in the script, stringent bid thresholds and we are seeing some positive impacts from it on bids that are going out the door, but also the bids we’re winning currently, where margin rates are inflecting higher.

And I would say, generally higher than the numbers you indicated in your question is probably all we can say. And we are seeing that across all of the contract types we have, our cost plus for customers that are willing to pay for the differentiation, we are seeing our cost-plus programs inflect higher as well as our fixed price and T&M work. It’s not to say that we are not strategic in our shot selection as well as our bid selection on specific programs, but the reality is we are seeing higher levels of margin uptick coming through our pipeline as well as our backlog, and this is going to be a multiyear journey for us. And hopefully, this is the start of a new and an improved trend.

**Operator**

Your next question comes from the line of Jason Gursky with Citi.

**Jason Michael Gursky**  
*Citigroup Inc., Research Division*

Prabu, I just wanted to make sure I heard you right in the prepared remarks about M&A and capabilities. Maybe you could just kind of talk us through what the M&A strategy is at this point and what you might have been referring to there?

**Prabu Natarajan**  
*Executive VP & CFO*

Jason, thanks for the question, and I’ll certainly let Toni Townes chime in here as well. But really, big picture, not a lot of change in our M&A posture. I think for a couple of years now, we’ve signaled our preference for technology-based kind of tuck-ins and capability-based tuck-ins, and we’re seeing a reasonable pipeline of things out there, but I don’t believe it’s all that exciting right now. It still tends to be kind of very seller oriented market. And so we’re just being very disciplined about what we’re looking at.

I think given the strategy refresh we’ve got going and our pipeline is starting to reflect the strategy, the reality is our tuck-ins now become acutely more sensible in terms of pivoting to where the strategy is pivoting us. And that’s how we’re simply thinking about it, not really scale-based M&A. Toni?

**Toni Townes-Whitley**  
*CEO & Director*

And Jason, I guess I would just highlight, we’ve recently hired a head of Corp Development. She’s in, and we are tightening our processes, obviously, in terms of reviewing the market, assessing against the strategy that includes not only the hardening of our current enterprise differentiation, think about the fact that we’ve identified where we believe our technology differentiation is hardening that capability, but also looking as part of our strategy into the advisory consultancy in our civilian business, which are also growth targets in terms of where there would be tuck-in capability there.

So we’ve expanded our aperture a bit. We’ve gotten very tight on our process. And as Prabu has indicated, the market hasn’t been flushed with that many relevant opportunities to date, but we are diligent in our process and looking forward.

**Jason Michael Gursky**  
*Citigroup Inc., Research Division*

Okay. Great. And then if I might, just a follow-up question. Talk a little bit about what you’re seeing for the company on the opportunity side in Europe. That’s a continent that seems like it’s going to have a prolonged up cycle here in spending. And just kind of curious if you see any opportunities over there that could potentially be additive to your expected growth rates here over the next few years.

**Prabu Natarajan**  
*Executive VP & CFO*
Jason, I'll take the first part of that. See, big picture, I'd say, our opportunity set is very closely aligned to where the customer priorities remain. And that means if they see more up-tempo in that part of the world, we are likely to follow them there. I'd say specifically, as we think about what will create real differentiation in that market, I think we very much follow the strategy and the pipeline to say, are there interesting tuck-in opportunities internationally, just as we are looking at those domestically to say, are there specific capabilities that will be more differentiated in that particular theater. So I'd say, by and large, kind of sticking to our knitting at this point in terms of opportunities there.

Toni Townes-Whitley
CEO & Director

I think, yes, primary statement that Prabu made, they're customer-driven; secondary statement capabilities enabled, right? And so if we're -- those 2 will trump a geographic location initially in our thesis. And look, we're having the conversations, right? We're having the conversations internally to look at our strategy that's part of having a multiyear strategy is our ability to refresh and to consider all of the opportunities that come with that strategy.

So we're obviously looking, heads up and out. But to Prabu's point, versus just taking a geography and determining if it is a good place for us to do business, we're much more disciplined around where our customers are and where our capabilities need to be.
value chain. And we still have -- I think we still have a significant growth opportunity in those spaces as well.

So I think Prabu's first statement, we plan all 5 business groups have to grow, and we expect all of them to grow. I think that's the major takeaway. Civilian, we will be putting quite a bit of focus on making sure we get a larger part of that addressable market over the next 3 years.

Operator

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

Sheila Karin Kahyaoglu
Jefferies LLC, Research Division

Maybe my first question, just continuing on the segment discussion. If we could just maybe focusing on the shorter term with the Defense value proposition and Defense and Intelligence margins, they contracted year-over-year, which, I guess, part of it was attributed to the divestiture. But how do we think about the profitability profile longer term here of the 2 segments? You kind of touched on it, Toni, a little bit earlier, but should we expect a wider divergence?

Prabu Natarajan
Executive VP & CFO

Sheila, Prabu here. I'll take the first crack at this one. Big picture, margins came down in Defense and Intel relative to Q1 of last year. Part of that is the timing of EACs, which are more second half focused. I think the additional investments we're making across the business as we've explained through our year-end earnings call as well as our Investor Day. So that's partly what's driving margins down in Defense and Intel relative to, I'd say, Q1 of last year.

I think big picture, as we just mentioned, I think we have a higher mix of cost-plus work in our Defense and Intel business, but we do expect our EBITDA margins as well as our EBIT margins to go up in that business. And as I mentioned in the prepared remarks, we have a fair amount of work in our pipeline that is cost-plus work, and we are seeing margin rates pick up there. In terms of the relative spread, the reality is the civilian business does have, as I said, T&M and fixed price work. And their EBITDA margins and EBIT margins are roughly, I'd say, low double digits. Our expectations that we'll continue to grind up the margins in our Civilian business as we continue to expand our presence in that particular market. So I would expect both segments, reportable segments to improve margins over the long term. And the reality is it's probably a little bit easier to do that in Civilian just given the mix there in the near term.

Toni Townes-Whitley
CEO & Director

I think the only thing I would add to that, Sheila, would be the investment thesis was a return relative to inserting more differentiation, both in terms of our current programs as well as our bid cycles. So as we move into more differentiated space, the expectation is that, that plus contract mix is what's going to drive the more accretive revenue as well as introducing advisory capability, which has a different profile, as you know, in terms of its accretive nature. So it's really those 3 aspects that are going to drive the growth and on top and bottom over the next few years.

Sheila Karin Kahyaoglu
Jefferies LLC, Research Division

Sure. No, the advisory capability definitely seems really [indiscernible]. Maybe on the organic growth, just talking about more of the quarterly cadence comments probably you talked about in your prepared remarks, just basically flat in the first quarter and then ramping to mid-single digits and rather Q4 weighted. Can you talk about the drivers of that growth outside of the timing of recompete losses? And what are the biggest programs that ramp?

Prabu Natarajan
Executive VP & CFO
Sure. We'll do that, Sheila. Relative to organic growth, I think we're signaling kind of flattish first half, ramping up to mid-single-digit growth in the second half of the year. I think part of the change in the expectations, as we mentioned in the script, is that some of the material sales that we expected will occur in Q2 may shift. I will underline the word may shift into Q3. But obviously, working as much as we can to pull things to the left here as we cycle into the second half.

In terms of the growth drivers between H1 and H2, our DTAMM win, which we called out on our year-end call that is expected to ramp over the course of the year, I'd say, biased to the second half of the year as the team continues to fill out the task orders on that program. And then the T-Cloud program, we are building good momentum on the program, but we're still relatively early days there, and we [indiscernible] T-Cloud is likely to be over 1% of revenue growth this year relative to last year. So we're going to see some more growth from T-Cloud coming through. GMASS, which we won at Q3 of last year is continuing to ramp up. And we are likely to see some progress there. And there's a more recent win, over $200 million in Air Force that we will likely talk about over the next several weeks that is also likely to generate some growth on the new business front.

And then separate from that, Sheila, we've had about 5% of recompete losses is our estimate for the year. The reality is we are also expecting on-contract growth to be about 3% to 5% incremental to last year. So if you put all of that together between the recompete losses and the increase to our on-contract growth through them as well as new business wins, that's what ultimately gives us comfort that we'll be in that 2% to 3%, although, albeit, a little more back-end loaded this year relative to our initial estimates.

Operator

Your next question comes from the line of Seth Seifman with JPMorgan.

Seth Michael Seifman
JPMorgan Chase & Co, Research Division

I wanted to ask, I think probably you made some comments in the script about a normalizing environment for government outlays as a reason for some of the slowness that you're expecting in the second quarter. And I wonder if you could talk a little bit more about how the environment might be changing, what's driving it, why that doesn't alarm you a little bit more about the second half? Yes, if you can address that. Yes.

Prabu Natarajan
Executive VP & CFO

Yes. I'll do that, Seth. And Toni, if I miss anything, please add in here. Seth, as we sort of began our fiscal year here, we began to see some softening in O&M outlay. I think you all saw the data that came out of the DoD. Now we saw that weakness for maybe 2 or 3 months, and then it began to change again. The last time we saw the O&M outlay data. So I think what we're really signaling is a softness that we saw in the outlay data to start the fiscal year. And I think part of the caution heading into the second quarter is that we would like to sit back and see if the April trend is a 1-month blip in the radar or actually a reversion to what we saw last year.

And just as a reminder, outlays remained incredibly strong through the course of last fiscal year and caused us as well as many in the industry to continue to beat consensus numbers very handsomely. And we've been signaling for a couple of months now that when the outlay environment returns to something that is more normalized, we are likely to see some impacts on the revenue profile. So the reason it doesn't alarm me is we do have a budget in place for GFY '24, and therefore, we do expect O&M outlays to pick up again sometime this year, but the reality is we are being cautious because the last time we saw outlays pick up, we didn't always see revenue come through right away, but we saw a little bit of a lag about a 3- to 6-month lag.

So I think we're just being cautious about it. And as I've said, we'd like to stay calibrated with our investors around what we're seeing in the market. So we're not alarmed because we don't think it's a long-term trend. But we are certainly cautious given that it may have some temporary impacts to our revenue profile, and that's simply all we're signaling in the script, Seth.
Okay. Okay. Great. And then maybe just to follow up on that point. You also mentioned potentially an active end-of-year spending cycle. And so despite maybe some of this unevenness in the outlays, it sounds like maybe you are looking for a fair amount of award activity as we exit the year. And I'm wondering the extent to which that has tempered at all by potential continuing resolution through the last part of your fiscal year and the election.

Toni Townes-Whitley
CEO & Director

Seth, let me just jump into that particular part of the question. We have worked with our government relations team to get a pretty clear signal on what will be an end of fiscal year sort of spending cycle, and that happens, as you know, every fiscal year, we do see -- and we've obviously done the research down to our customer set, we do see where agencies across the various government sectors are going to be active at the close of the fiscal year, in fact, in advance of what may be either concerns, trepidation and/or not having clear signal for the next continuing resolution. So we've got a plan in place and a fairly robust playbook to make sure that we are part of sort of sweeping in the end of the fiscal year across every one of our business groups. In fact, we targeted it down to specific program level. So that's partially an offset when Prabu talks about H2, the Q3 component of H2 for us, we are looking to see some lift in that regard.

Operator

Your next question comes from the line of Bert Subin with Stifel.

Bert William Subin
Stifel, Nicolaus & Company, Incorporated, Research Division

Maybe just following up to Seth question there. It sounds like you're somewhat cautious on the spending environment, but we're now in a position with appropriations having taken place supplemental spending builds in the past and that should drive incremental improvement from the first quarter. Assuming that does happen, how do you go about pushing for more on-contract growth, maybe above the 3% to 5% level you mentioned and just broader new task order wins to help provide some padding and what's likely to be a more uncertain FY '25 setup where you're still going to be awaiting some of those larger awards.

Toni Townes-Whitley
CEO & Director

Bert, thank you, good question. Look, as Prabu mentioned, we've got specific programs that we're looking to ramp and you mentioned a number of them, even programs that we've had even for over a year here at DCSA One IT, AOC Falconer and others. But fundamentally, we have a playbook around on-contract growth that we are working across each one of our business groups. That actually gives, if you will, a template around different types of contracts, how we grow off of those contracts, whether it be fixed-price, T&M, cost plus, how we introduce differentiation.

We're starting to measure the differentiation in our current programs. And we know about 1/4 of our programs right now, our larger programs that we deliver have differentiation from our factory. We are looking to drive that systematically beyond the quarter to the majority of our programs that we are delivering as many as possible. So we're starting to measure where, if you will, our enterprise tech and other forms of differentiation occur on existing contracts. And how do we introduce that differentiation as part of our on-contract growth.

And then Prabu mentioned even in terms of understanding where our customers are putting their focus in terms of growing their programs for their various missions. So we have a pretty tight playbook that we're working. We've just instituted for the rest of the fiscal year that we'll be driving this on-contract growth with the goal of starting as soon as possible, as you heard Prabu say move left, we all understand that on-contract growth has to start right now to have the annualized impact that we need.

Prabu Natarajan
And Bert, the only thing I would add to that response would be that we are not relying on a lot of new business wins in the second half of the year to make the 2% to 3% guide we have out there. I think our focus acutely remains on contract growth. And to the extent we can upsize the 3% to 5%, it’s likely to help us bolster what we deliver as underlying performance. We also have $24 billion in backlog. And so there are many, many large contracts we have with ample amounts of sealing and the team is laser-focused on delivering additional volume through these large ceiling programs.

Bert William Subin  
*Stifel, Nicolaus & Company, Incorporated, Research Division*

Got it. Maybe as a follow-up, when we think about the other side of things, which is the recompete area, you noted sort of 5 points of headwinds this year. NASA seems to be the partner at least where a lot of those recompete losses showed up, first with AEGIS and then [Oms] and now potentially NASA East. I guess my question is sort of 2-part. One, is there a chance you still maintain some work under NASA East? Or is that assumed in the protest -- in the recompete headwinds? And then two, how do you get confident that you sort of changed your go-forward strategy with NASA such that those pursuits start quite the other way?

Prabu Natarajan  
*Executive VP & CFO*

Bert, I appreciate the question. We did win a NASA recompete, our SMAEC program that we booked in Q1 of this year, roughly $350 million that went into bookings. So I think it certainly counts. On the NCAPS program, I think right now, our expectation is that we are unlikely to see major revenue disruptions from NCAPS this fiscal year. But we are being very careful in the way we are thinking about NCAPS’ impact to next year’s revenue, and that is fully reflected in the 2% to 4% guide we've got out there. And the mission suitability is the one area where we've -- the team spent a lot of time on evaluating our submissions relative to the evaluation itself on mission suitability, but we’re laser-focused and hopefully SMAEC represents a little bit of a turn in terms of our ability to fix that particular part of the portfolio.

Toni Townes-Whitley  
*CEO & Director*

I'm right in line with Prabu there in terms of mission suitability as well as the differentiation within our factory that actually resonates well within the NASA customer set. So I think we've done a number of deep dives and loss -- if you will, loss reviews to understand where we did not meet the challenge, both in terms of the solutions proposed as well as, quite frankly, our execution on the ground. Both of those were contributors to our positioning -- our poor positioning with NASA on the recompete side. We are improving in both areas, as Prabu mentioned, with the recent recompete win substantive enough to mention on the call here, over $300 million, but also, quite frankly, the differentiators being driven into the programmatic delivery on our current contract. So NASA is still an opportunity. I think we’re still evaluating where we play, and we've got a couple of major opportunities there for bid purposes over the next 2 to 3 quarters.

Operator

Your next question comes from the line of David Strauss with Barclays.

David Egon Strauss  
*Barclays Bank PLC, Research Division*

Just wanted to go back to this first half versus second half growth dynamic. You’re talking about mid-single digit second half of the year growth. Is it really all going to just come through in the fourth quarter? I mean your comp in Q3 is still really tough here. Comp in Q4, I think on workdays is relatively easy. Is that basically the setup, the minimal growth [indiscernible] kind of a hockey stick in Q4?

Prabu Natarajan  
*Executive VP & CFO*
Yes. So David, I think you're picking up on something. We are signaling roughly flattish H1 and mid-single-digit growth. Yes, I think you're exactly right. The comps do get hard in the second half of the year, which is partly why we're being cautious heading into this particular print. I think the on-contract growth regime that we have in place right now is going to take some time to gain traction here over the rest of the fiscal year. Obviously, the teams are getting pushed to pull revenue in.

So hopefully, my expectation would be -- my hope certainly would be that we start to pull revenue left starting Q2 beyond what we have in our forecast right now, and that improves in Q3 so that it becomes less of a hockey stick in Q4. That's what the game plan looks like for the operational execution side of this, but the reality is we don't always control the cadence of that procurement volume or moving revenue to the left. And so I think we're just being careful in the way we're calibrating the H1 versus H2. But we don't want this to be a go get in Q4 because we all know that that's going to be very, very hard to do.

David Egon Strauss
Barclays Bank PLC, Research Division

Okay. Got it. And then on cash flow, what is kind of the cadence on cash flow look like the rest of the year? When does this -- the receivable benefit that you had in Q1 reverses out?

Prabu Natarajan
Executive VP & CFO

Yes. So a fair question, David. I think in terms of Q1 itself, we delivered $20 million, $22 million of free cash flow. If you normalized it for the higher incentive comp accrual as well as the sale of the supply chain business, we'd be right on top of where we were last year. So roughly $70 million to $75 million of free cash flow. Our typical rhythm for free cash flow tends to be weighted in the second half. This year is no different than our typical H1 versus H2 dynamic on free cash flow, where I get comfortable on the full year is that our collections were actually incredibly strong from, I'd say, Q2 of last year all the way through Q1 of this year.

So I would expect that trend to continue to help us. But in terms of the rhythm itself, the cadence itself, I'd say H1, H2 cash flow tends to be more H2 focused, and that's not likely to change. Our cash flow is also impacted by our pay periods. And so there's typically one additional pay period every other quarter. And so that actually impacts our cash flow timing as well. But again, no real surprise expected for the year. I think we're right on track in terms of collections. It's just the timing of some of these onetime items, including our cash bonuses at Q1 here. Hopefully, that was responsive.

Operator

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

Jack Wilson
Truist Securities, Inc., Research Division

This is Jack Wilson on for Tobey. Sort of continuing on sort of the cadence trend. Can you speak to sort of any changes in sort of the historical seasonality you could expect to see in '26 and '27, given sort of the ramp time line of some key contracts?

Prabu Natarajan
Executive VP & CFO

So let me -- Jack, let me try and take the first half and if it's not responsive, do let us know, we're happy to clarify. Kind of big picture, as we said, we are expecting the headwinds from our recompete losses to, I'd say, similar down to about the 2% rhythm at the end of the year at Q4 specifically, that's the assumption we have going into FY '26. Last year, FY '24 was a more normal recompete loss year cycle for us. We're about 2% and we delivered about 7.5% growth in last year. So I would say if recompetes are back to that 2% to 3% rhythm, which is expected to be at Q4 and if that trend continues into next year, we would expect this business to grow our current guidance 2% to 4%.
But again, it depends on, frankly, conversion of outlays into revenue heading into next year. But we also have a robust pipeline out there. As we mentioned in the prepared remarks, we submitted about $8 billion of volume in Q1. We submitted $17 billion in all of last year combined. So we are certainly on pace to getting to about $22 billion. And I would say the vast majority of that, at least 2/3 of that is inflecting to new business. So I think part of the expectation is that while new business is not something we're relying on for this year, we are expecting new business wins to continue to ramp and provide some support for our organic growth rate thesis here as we head into '26 and '27.

Jack Wilson
Truist Securities, Inc., Research Division

That's helpful. And then maybe as a quick follow-up. Is it possible to quantify sort of in what percentage of the bids you're submitting you're using AI as a differentiator?

Prabu Natarajan
Executive VP & CFO

That's a good question. I don't know that we are using AI as a differentiator for the bids that are going out the door, we are certainly using the tools inside our business development organization as we're reviewing the proposals that are coming into the door here. There is a handful of bids that are more AI oriented -- operational AI oriented in the pipeline, and we're likely to talk about it when something comes up.

Toni Townes-Whitley
CEO & Director

Yes. Yes, I would just say if you think about AI both in terms of how we use it to bid and then what is actually in the solution set, an operational AI that we talk about differentiating on, which is AI that we say operational is fairly unique and that it is sort of a lightweight AI. It's got form factor considerations. It's air-gapped for certain environments -- for classified environments. That is usually combined with some of our secure data capability on our platform and our Koverse data platform. And those bids, we are measuring our ability to insert those. And we are pleased to see that, that capability is in our largest bids. It is -- we're finding in the majority of our bids that are our top largest revenue bids that we are, in fact, leveraging those kinds of capabilities. What we have to do, again, to be balanced just to make sure that we are systematically driving that capability into all of our bids. And so we're measuring both aspects, revenue and account.

Operator

Our final question today comes from Cai von Rumohr with TD Cowen.

Cai von Rumohr
TD Cowen, Research Division

This has been partially answered, but you had $79 million MARPA benefit in the quarter. So if I back that out, it looks like the DSOs went from 45 to 50. So you have a relatively high hill decline. Do you expect the MARPA to be $0 for the year, that $79 million to reverse out? Or are we going to -- is that going to be part of the way we get to our cash flow target?

Prabu Natarajan
Executive VP & CFO

Cai, I appreciate the question. Our guidance for free cash flow, and by definition, operating cash flow excludes our borrowings from our MARPA facility. So we're actually normalizing for that, and we're not including it in our operating cash metrics. I think in terms of the DSO question, it's very hard to measure DSO on a quarterly basis. What we tend to look at is sort of our average daily collections volume.

And if I look at the trend in our average daily collections, it's remained very, very strong over the course of the last 6 or 9 months, and it remained very, very strong at Q1. So yes, DSO went up a little bit. The reality is that we are pretty comfortable with our rhythm on collections and no concerns around the full year, but MARPA is not in our adjusted operating cash or free cash flow metric.
Operator
Ladies and gentlemen, that does conclude our question-and-answer session. And with that, that does conclude today’s conference call. Thank you for your participation, and you may now disconnect.