Q1 2023 Earnings Call

Company Participants

- Joe DeNardi, Vice President of Investor Relations and Strategic Ventures
- Nazzic S. Keene, Chief Executive Officer, Director
- Prabu Natarajan, Chief Financial Officer, Executive Vice President

Other Participants

- Bert Subin, Analyst
- Cai von Rumohr, Analyst
- Gavin Parsons, Analyst
- Louie DiPalma, Analyst
- Matt Akers, Analyst
- Sheila Kahyaoglu, Analyst
- Tobey Sommer, Analyst

Presentation

Operator

Good morning, my name is Rob and I will be your conference operator today. At this time, I would like to welcome everyone to the SAIC First Quarter Fiscal Year 2023 Earnings Conference Call. (Operator Instructions).

Joe DeNardi {BIO 22467920 <GO>}

Good morning, and thank you for joining SAIC's first quarter fiscal year 2023 earnings call. My name is Joe DeNardi, Vice President of Investor Relations and Strategic Ventures, and joining me today to discuss our business and financial results are Nazzic Keene, our Chief Executive Officer; and Prabu Natarajan, our Chief Financial Officer. Today, we will discuss our results for the first quarter of fiscal year 2023 that ended April 29, 2022. Earlier this morning, we issued our earnings release which can be found at investors.saic.com, where you'll also find the supplemental financial presentation slides to be utilized in conjunction with today's call and a copy of management's prepared remarks. These documents in addition to our Form 10-Q to be filed later today should be utilized in evaluating our results and outlook along with information provided on today's call.

Please note that we may make forward-looking statements on today's call that are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from statements made on this call. I refer you to our SEC filings for a discussion of these risks, including the Risk Factors section of our Annual Report on Form

10-K and quarterly reports on Form 10-Q. In addition, the statements represent our views as of today and subsequent events may cause our views to change. We may elect to update the forward-looking statements at some point in the future, but we specifically disclaim any obligation to do so.

In addition, we will discuss non-GAAP financial measures and other metrics which we believe provide useful information for investors and both our press release and supplemental financial presentation slides include reconciliations to the most comparable GAAP measures.

It is now my pleasure to introduce our CEO, Nazzic Keene.

Nazzic S. Keene {BIO 18292745 <GO>}

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

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

For over fifty years, SAIC has worked hand-in-hand as a trusted partner of the U.S. government, advancing our country's most critical no fail missions. We foster a culture where inclusion leads to innovation because we know the best outcomes come from diversity of thought across our 26,000 employees. Our legacy and leadership in Enterprise IT and Systems Engineering and Integration coupled with our proven ability to provide solutions with speed-to-value are competitive advantages that we leverage to drive profitable growth. The progress we have made on further strengthening our culture and our continued focus on the mission have directly contributed to the improving financial results we have delivered over the past several quarters.

In the first quarter, we reported revenues of approximately $2 billion, representing total growth of approximately 6% and organic growth of 4%, both of which were ahead of plan. First quarter adjusted EBITDA margin of 8.7% was consistent with our expectation for steady improvement through the year. Our first quarter results, combined with recent business development success, give us greater confidence in our increased revenue guidance. I am pleased with the performance we delivered and believe it speaks to the progress we are making. I continue to see significant opportunity to increase the company's earnings organically as we further sharpen our strategic focus over the coming years.

I would like to now provide a brief overview of how our business and portfolio strategy is evolving. While we continue to go-to-market and manage the business around our two customer-facing operating sectors, I want to highlight our key capability offerings that span those sectors which we define as our Growth & Technology Accelerants, GTA, and our Core as shown on Slides 6 and 7 of our earnings presentation.

Key capabilities within our GTA focus area include Secure Cloud, Enterprise IT and Systems Integration & Delivery. In fiscal year '22, GTA accounted for roughly 27% of our total revenue and a greater share of our operating profit. We believe the investments we've made to develop differentiated, market leading solutions and recent M&A activity position us well to capture more than our fair share of a growing pipeline. Our leadership within these domains is reflected in recent rankings from Gartner which place SAIC's IT Services market share at number 1 by revenue for the United States government vertical for both Infrastructure Implementation and Managed Services and Application Managed Services. We expect to increase our GTA revenue to over 35% of the portfolio within the next three years reflecting strong growth from this area of our business at accretive margins.

Our Core includes Engineering Services, IT & Technical Services and Logistics & Supply Chain. Total revenue in fiscal year 2022 across these capabilities represented roughly 73% of SAIC's revenues. As we transform our portfolio towards a greater share of GTA over the next few years, we intend to grow Core as well. Our strategic focus going forward will remain centered on creating the most rewarding and differentiated experience for our employees, investing in markets with growing demand where SAIC has enduring competitive advantages and allocating capital to drive improving financial returns for our shareholders.

While SAIC's legacy and technical leadership has been in providing engineering expertise to help solve our customers' toughest challenges, we see more opportunities going forward to use these skill sets better to capture additional value as a technology integrator. We believe this has the potential to unlock improved opportunities for growth over the long-term.

Recent program awards which give us confidence in this strategy include a key win in Classified Space and our expanding role as integrator on the MK 48 program. These are great examples of evolving a program from principally talent and expertise oriented to delivering a mission specific solution fueled by our talented teams. We are confident in our strategy execution and in our ability to create long-term value for all SAIC stakeholders.

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

Prabu Natarajan {BIO 17701667 <GO>}

Thank you, Nazzic, and good morning, everyone. I will quickly summarize our first quarter results and then discuss our updated outlook for fiscal year 2023. We delivered strong performance in the quarter with revenues ahead of our plan at roughly $2 billion, representing total growth of 6%, of which 4% was organic. Revenue performance in the quarter benefited from solid on-contract growth and the timing of materials sales previously planned for later in the year. We delivered an adjusted EBITDA margin of 8.7%, primarily impacted by the timing of indirect expenses and remain on track to meet our full year guidance of 8.9% with good visibility into expected margin improvement through the rest of the year.

We reported adjusted EPS of $1.88, which benefited from the more favorable revenue performance in the quarter. I am pleased with our business development results in the quarter with net bookings of $2 billion. Our trailing 12-month book-to-bill is roughly 1.0 and we expect this to improve over the next few quarters based on recent competitive new business wins still in protest, representing over $1 billion in total contract value and squarely aligned with our GTA areas of focus. We continue to see a growing pipeline as evidenced by a 15% increase in the value of submitted proposals to roughly $24 billion at quarter-end. Importantly, the mix within our pipeline continues to change with new business now representing roughly 70% of the value of submitted proposals, both materially higher sequentially and at this time last year. We also see good progress in driving a greater share of our pipeline within markets that align with our longer-term growth objectives as represented by a greater share of opportunities within GTA, as Nazzic discussed. This is an enterprise metric and will be a priority for the team.

Based on results for the quarter and our updated outlook for the year, we are increasing our revenue guidance by 1% at the bottom end to a range of $7.43 billion to $7.55 billion. Our guidance continues to assume low-single digit declines in 2Q and 3Q due to certain contract transitions before inflecting to low-single digit growth in 4Q largely due to the benefit of additional working days. Our focus is driving on contract growth to profitably grow the company, and we are confident in our ability to do so. We are maintaining our full year margin guidance of approximately 8.9% and expect improvement in the second half of the year led by a more favorable mix and the timing of certain new investments.

We are increasing our EPS guidance by $0.10 to a range of $6.90 to $7.20, which continues to assume an effective tax rate of approximately 24%. Finally, our guidance for fiscal year 2023 free cash flow of $500 million to $530 million is unchanged, and I would remind you that it represents an over 10% increase at the mid-point versus fiscal year 2022 and assumes that the section 174 amortization provision is deferred. Based on expected working capital trends and final payments related to the Halfaker acquisition which both impacted first quarter results, we expect to generate 40% of our full year free cash flow in the first half of the year and 60% in the second half.

Our capital deployment priorities are unchanged, and we remain committed to a prudent deleveraging of the balance sheet with a bias towards deploying excess free cash flow towards our share repurchase program. At this time, we do not expect to adjust our capital deployment plans as a result of the uncertainty related to Section 174 legislation and plan to repurchase between $200 million to $250 million of shares for the year after having repurchased approximately $100 million fiscal year-to-date.

As we noted in our earnings press release, the Board of Directors authorized a new share repurchase program for an incremental 8.0 million shares representing approximately 16% of our shares outstanding, which we intend to utilize over the next three years, market conditions permitting. We believe this authorization also reflects our ongoing commitment to effectively allocate capital and the confidence we have in executing our plan to drive sustainable profitable growth and the energy we are investing to structurally improve our cash conversion. I'm proud of the results we delivered in the quarter and believe our strategic focus on investing in GTA while sustaining our core business strengths position us well to maintain our forward momentum.

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

Questions And Answers

Operator

(Operator Instructions). Your first question comes from the line of Sheila Kahyaoglu from Jefferies. Your line is open.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Hi, good morning Nazzic, Prabu and Joe. Thank you so much. So when we think about the guidance, it implies organic growth down 1% for the remainder of the year versus 4% organic for Q1. The loss of, not that you did I think a few points and then probably I think you cited in working days that are some of the -- remainder of the slowdown. So can you just talk about I guess guidance what your expectations are for on-contract growth, what the real core organic business is growing? And then you also mentioned GTA sales Nazzic and your number one position by revenues on infrastructure implementation and managed services, how big is this business and what are contracts that we might be familiar with in these areas?

A - Nazzic S. Keene {BIO 18292745 <GO>}

Great Sheila, thanks. Good to hear your voice. Just a couple of comments as we think about the quarter and the guidance, and I'll let Prabu provide some color. But I want to take the opportunity first and foremost to tell you and the team and extend it to our 26,000 employees how proud we are of the performance that we did have in the quarter. As you referenced on-contract growth was certainly a key component of that and we have tremendous opportunity to continue to drive that throughout the year.

The performance in Q1 did allow us to modestly increase the guidance, and Prabu will give you some color on that in a couple of key areas and so we're very, very pleased with how we sit today and how the year is shaping up giving us greater confidence in our ability to execute the growth over the course of the year. Prabu do you want to fill a little color on the guidance and I'll circle back on the GTA then.

A - Prabu Natarajan {BIO 17701667 <GO>}

Good morning, Sheila. So with respect to the quarter itself, good strong revenue performance to start the year. I think I would think about outperformance in Q1, roughly half timing [ph] and half what I call true performance goodness in the quarter. So we certainly had good momentum in the quarter delivering better growth than we expected internally.

Second data point, we've reflected in the prepared remarks that we expect as a result of the contract conditions to have modest contraction in Q2 and Q3 and then reflecting back to low-single digit growth in Q4 of this year, I would say some of that is going to be depending on timing of our new business pursuits. Obviously, the extra working days in the fourth quarter will certainly help organic revenues in Q4 and the reality is we've got about $1 billion of new business wins that are sitting right now in protest that is not reflected in backlog.

To the extent we have good success in keeping those awards and pulling the revenues associated with those earlier in the year, you'll start to see some modest improvement to the outlook for Q2 and Q3 probably more likely Q3 than Q2. But to me, that's what I think fundamentally drives where we end up in terms of the quarterly cadence for revenue itself. So to me, I'd say a good start to the year, nine months left in the year and I think I'm really especially pleased with the dedication, the intensity with which we executed in Q1 and hopefully we have a chance to continue that execution intensity over the remainder of the year.

A - Nazzic S. Keene {BIO 18292745 <GO>}

Thanks Prabu, and Sheila let me touch on your couple of questions on GTA, and if I don't get them right just re-ask me, but I wanted to give a little bit of color. So on the slide that's in the slide deck, you can see where we've shaded in blue, the kind of proportion of the revenue that we achieved today at each of those areas just to give you a sense for which ones are greater which ones are less, and we don't have specific numbers to report to you on those at this juncture, but that should give you some color as to what areas we have more revenue and what areas we have less.

As it relates to a couple of examples, so if you think about the secure cloud environment, cloud one is a program you're probably aware of, where we support the airports providing the one-stop shop for all the cloud migration activities. So that would be a great example in that area. And then in the systems integration and delivery, a program you're probably familiar with Mark 48 Torpedo, where we provide the manufacturing assembly the test of delivery for the Torpedo program to support the Navy, so those are a couple of recent examples that hopefully you're aware of that give you some color on the type of work and the relationships we have with the customers in those areas. Does that help?

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Yeah, sure. Thank you so much.

A - Nazzic S. Keene {BIO 18292745 <GO>}

Perfect. Thank you.

Operator

Your next question comes from the line of Gavin Parsons from Goldman Sachs. Your line is open.

Q - Gavin Parsons {BIO 18748617 <GO>}

Hey, good morning.

A - Prabu Natarajan {BIO 17701667 <GO>}

Good morning, Gavin.

Q - Gavin Parsons {BIO 18748617 <GO>}

Maybe just following up on that question for a moment and probably you mentioned 50% of the growth in the quarters kind of core business performance and how repeatable is that through the rest of the year versus the pull forward where it looks like you reiterated the second, third and fourth quarter growth rate. So is there some upside on that front and is there any change in your assumptions for AEGIS contribution for the year?

A - Prabu Natarajan {BIO 17701667 <GO>}

So, I will take the second part of the question first. No change in our estimate for the MSA's program. That program is behind us at this point, so I'd say just headwinds associated with AEGIS for the next, I'd say, four months or so. And in terms of kind of what's implied in the guidance, Gavin, I'll probably reiterate some of the earlier comments which is we have some new business out there in protest about a $1 billion to $1.1 billion and to the extent we get turned on those contracts a little sooner than what's implied in the modest contraction for Q2 and Q3, we'll start to see some revenue pickups from those newer programs and obviously one is much bigger than the other, and as is our typical practice, we don't comment on things that are in protest and we're just going to wait this out and see where we end up. But there is potential here for some modest improvement over the course of the year, I will always caution us into thinking about this is a ramp on labor-based programs that does take some time to ramp up. There's always some materials earlier in the program, so we'll have to get sort of an initial program review done to ensure that we have the amount of materials on the program sized appropriately so there are some puts and takes here over the course of the year that will discover as we go through the quarters here. But I'd say, we're well positioned and it's really going to be important to keep those wins that are in protest right now and hopefully we have a chance to do a little bit better than what's implied in the guidance right now.

Q - Gavin Parsons {BIO 18748617 <GO>}

Great, that's helpful. And then maybe just asking about the pipeline, one thing that struck me is that backlog has grown quite a lot and you still have a record pipeline. So can you talk about how much of that is may be end market growth versus you expanding the addressable market you can pursue versus deciding to pursue more work and how should we think about the timing of conversion of the pipeline to backlog to revenue as you go forward?

A - Prabu Natarajan {BIO 17701667 <GO>}

Yeah, I'm glad you asked the question, Gavin. I think for us, Nazzic and I especially, it's really important to think about the pipeline over a really long period, and it has been this company's focus for several years now to ensure that we have the right quality in the pipeline to that we have enough length in the periods of performance so we actually have tangible visibility into the growth of the backlog and obviously the funding levels associated with the pipeline. So I'd say fundamentally, I would attribute the increase in the size of the pipeline to real goodness from our BD teams, our sector presidents that are driving growth within the business. So that's what's driving fundamentally most of the increase in the pipeline.

There is always an element of budget associated with seeing the end markets broaden out a little bit, but I'd say, it's probably less of a driver at this point, we all see the budget talk out on the hill. We're not quite seeing the impact of that implied in the pipeline, I would say, at this point it's just solid execution ensuring that we are bidding the right kinds of things and ensuring that we actually have accretive returns from a shareholder perspective to ensure we deliver value consistently. And I'd say, the last thing I'd put down (inaudible), the NASA, Aegis loss was a big part of the portfolio and we lost 2% of our topline. Nazzic and I are just very proud of how resilient the teams have been to bounce back and grow the pipeline consistently so we can continue to grow the company on a top line basis, so that's what I assume.

Q - Gavin Parsons {BIO 18748617 <GO>}

Thank you.

Operator

Your next question comes from the line of Matt Akers from Wells Fargo. Your line is open.

Q - Matt Akers {BIO 22271349 <GO>}

Hi, good morning guys. Thanks for the question. I wanted to follow up on the GTA mix shift and I guess how much of that do you think is organic versus maybe inorganic pieces that you may need to add. And then also is there any way to think of how different the margins are between those two parts of the business and also how capital intense those two pieces could be?

A - Nazzic S. Keene {BIO 18292745 <GO>}

Yeah, let me tackle some of that and then have Prabu provide some color as well. So as we talk about the GTA, couple of things just to highlight, although we're referring to it for the first time in the acronym on this call. This is big part of the strategy that we've been in development of over the last couple of years, and so we continue to refine the way we talk about it, we want to be more certainly be transparent with you all as you all know what we're focused on and how we see that maturing over the course of the next couple of years.

So but it has been the journey that we've been on, if you think back to the last couple of acquisitions you've referenced organic and I'm going to circle back, it was to complement that part of the strategy. The numbers that we're sharing with you, the aspirations, the goal to get to a greater percentage of our portfolio in the GTA is predominantly organic, as Prabu provided a little bit of commentary on the pipeline as we look at our pipeline, as we pursue and put our investment dollars to capturing new business, we want to make sure that we are focused in those key areas not at the expense of core, but disproportionately grow that part of the portfolio greater than the core part of the portfolio so that we can in fact differentiate ourselves in the market, be more competitive in areas where we have solutions, we have capabilities. And to your last question, also look for the opportunity to drive more accretive margins in the portfolio.

So wanted to provide that little bit of color and I'll Prabu speak specifically about some of the details around that.

A - Prabu Natarajan {BIO 17701667 <GO>}

Thank you, Nazzic. Matt, thank you for the question. As Nazzic said, this is our view of the organic expansion capability of the business. And in terms of the margin rates, we tend to think about this business as being roughly 200 to 300 basis points higher margin in the core part of the business. so you can do the math and effectively get to low-double digit EBITDA margins within this kind of work recognizing if we have greater success and what's implied in the PowerPoint chart, we end up driving margins a little bit higher, but this becomes a source of margin expansion for the company, although it is not a only source for margin expansion. And then I think you actually touched on something just as important, we don't do view the increase of GTA as the share of the pipeline and the revenue as requiring a change in the capital-light business model. We tend to see this as predominantly still very capital-light business, we are watching our capital investment in the business to ensure that we remain a good value proposition for our shareholders, so I would say that we are not seeing a fundamental change in the capital deployment strategy as it relates to investments ahead of some of these production program. So I'd say fundamentally no significant change there is how I characterize.

Q - Gavin Parsons {BIO 18748617 <GO>}

Okay, great, that's helpful. Thank you. And then I guess I may have missed this, but can you quantify how big the cash payment for half-acre was, there's been an impact cash in the quarter?

A - Prabu Natarajan {BIO 17701667 <GO>}

Yeah, so there were two predominantly change in control related payments, one was half-acre and it was actually a modest payment on the core steel from earlier last year. Together, I would call it about $25 million to $30 million. And if you again did the math to bridge to last year's free cash flow, the remainder was primarily working capital change including higher bonus payments in Q1 of this year compared to Q1 of last year, I always tend to think of this as good news for our employees. So as I sort of normalize for those two things, we end up with free cash flow that in that circa $160 million to $170 million normalized basis with my core will share on normalized, but that's how we think about it.

Q - Matt Akers {BIO 22271349 <GO>}

Great, that's helpful. Thank you.

Operator

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

Q - Bert Subin {BIO 22037891 <GO>}

Hey, good morning.

A - Prabu Natarajan {BIO 17701667 <GO>}

Good morning.

Q - Bert Subin {BIO 22037891 <GO>}

Prabu, SAIC's leverage is toward the higher end of the industry, can you just walk us through how you think about your leverage in relation to how aggressive you can be on this buyback program?

A - Prabu Natarajan {BIO 17701667 <GO>}

Yeah, so our leverage is sitting somewhere around 3.25 right now. Our expectation, which we communicated fairly consistently now is that we would want to be in that circa 3.0 and we've even set at points in time we may be a little bit lower and points in time we may be a little bit higher.

As it relates to the capital deployment and buyback question, it seems sort of how we think about it, we are deploying free cash flow in ways that maximize shareholder value and we mentioned fairly consistently now that our bias is towards our share repurchase program, that's not based on blind phase that the stock is cheap, that's really based on our view that the valuation in general underline tends to reflect skepticism on our ability to grow the business consistently.

And as Nazzic and I have pointed out, we have confidence we can consistently grow this business so we view the returns on our repurchase program as offering an attractive return on capital. So as I think about it, we also think about capital deployment in the context of the excess cash we generate on annual basis and therefore as we think about roughly 8 million shares of incremental authorization and what's implied in terms of share count out there at roughly 8 million shares. So that's about three years and out of the chart in the supplemental data that showed the history of repurchases at SAIC and I'd say this one's a little bit larger than the prior ones, but not out of tune with where we've been historically on capital deployment. So we think there's capacity here in the organic cash generation of the business for us to be able do fund the repurchase out of excess capital and we believe do this in a leverage neutral way.

Q - Bert Subin {BIO 22037891 <GO>}

That's very helpful, Prabu. Thank you. Just a follow-up to some of your comments earlier on thinking about the puts and takes of the business, I mean one of the larger would seem outstanding items is just the Vanguard contract, which I believe is one of your largest contracts and it's supposed to be recompeted into a multi-award contract is going to be call it evolve. Is that still the case and is that going to have any impact on FY23 organic growth or is that something that's further down the road?

A - Prabu Natarajan {BIO 17701667 <GO>}

Sure. So we're watching, it is a recompete that were in the middle of, we tend not to comment a great deal on those recompetes, I think we've seen some programs slide to the right, we're watching the space here just like everybody else and watching your timeline here. It could have an impact on revenues in FY23 to the extent that the procurement process remains on track. But again I think it's anybody's guess as to whether that happens or not this year and candidly if it pushes out of FY23, it becomes a consideration for FY24 revenue, so we're just watching it just like everybody else. It is a complex procurement and where they're executing the mission and the team during the fantastic job right now.

Q - Bert Subin {BIO 22037891 <GO>}

Just a quick clarification question on earlier answer, you said GTA is 200 to 300 bps above, is that above your average margins for the 8.9%-ish or is that above the core segment? Thank you for the color.

A - Prabu Natarajan {BIO 17701667 <GO>}

It is above the core and think of the core as low to mid-8%, so it's about 200 to 300 bps higher than that.

Q - Bert Subin {BIO 22037891 <GO>}

Thanks Prabu.

Operator

Your next question comes from the line of Cai von Rumohr from Cowen. Your line is open.

Q - Cai von Rumohr {BIO 1504358 <GO>}

Yes, thank you very much. So the December quarter was basically very weak for the entire sector and the budget got passed middle of March and with COVID lifting, I think there was a thought that bookings momentum would pick up, could you give us some color on the momentum you saw throughout the quarter and as you going into this quarter, are we seeing a pickup in terms of your booking momentum?

A - Nazzic S. Keene {BIO 18292745 <GO>}

Cai it's Nazzic, let me touch on a little bit of that and then Prabu can diversely color as well. I think we saw Q1 is fairly normative, we didn't see anything that was significantly out of the ordinary. Certainly, that the budget process has helped, I think with uncertainties but outlays have been slower and I think you've probably heard that throughout the industry. So but we do see a positive environment and we continue to operate in that environment, I would characterize Q1 is fairly normative as Prabu mentioned, we do have over $1 billion of new business in protest. And so if you partner that with the rest of Q1, I would say, it was a relatively strong quarter as it relates to bookings and obviously those will clear through the process next quarter or so, but I would just characterize it as fairly normative and we don't see anything swinging one way or the other going forward. Obviously, as the government continues to execute on their budget as we get towards the year-end, we keep a close eye on to things that certainly could bubble up, but I would just characterize things really normal for us.

A - Prabu Natarajan {BIO 17701667 <GO>}

Thank you, Nazzic. And Cai thanks for the question. I'd say broadly supportive budget environment, as Nazzic said, we are not seeing that translate necessarily into higher outlays on a month-to-month basis. In fact looking at the data for the last six months of the government fiscal year, I cannot think of a year where the outlay piece has been slower in the last 20 years candidly, except maybe 2003. So to me the data implies a slowness in the outlay, recognizing we've got a few months left here in the year and we are likely to see some pressure buildup in the system for higher outlays or we're just going to have to sit back and watch it. But as of at least April, we're not quite seeing it in the data, but I think Nazzic's exactly right, it's been a fairly typical normal quarter, and we do take a fair amount of time looking at what's in the pipeline and not just to PWIN [ph] but also the P-GO [ph] and likely pressure on timing and I think one of the reasons we're remaining a little bit cautious, but the revenue guide for the year is that we are continuing to see some slowness in the way that the awards are going to be coming out of the system and therefore we're just mindful of that and converting that backlog into revenue as it seems a little bit harder in a tough labor market.

So Nazzic, have you got something?

A - Nazzic S. Keene {BIO 18292745 <GO>}

Cai, I also want to touch on something and I think we touched on it earlier but to just reinforce, in addition to what I would sort of normal bookings that happened over the course of business, we are very focused on driving on-contract growth. And as you've seen with our numbers and we reported, we have tremendous ceiling in which to execute. And so in addition to what I'll call the normal blocking and tackling of winning new business, booking new business clearly protest periods, our team is doing exceptionally good job and executing on-contract growth retiring some ceiling and certainly seeing some of that in our revenue performance.

Q - Cai von Rumohr {BIO 1504358 <GO>}

Very helpful. Thank you, and I have one follow on Vanguard. You mentioned that it's complex I know that there are various pieces, but it's also an expanded recompete. So could you give us some color like best case if you -- when it's bigger and what are the pieces that we should be watching for, I mean I assume they're not all equal size, but what are the ones that are the bigger ones and roughly when would you expect decisions on them?

A - Nazzic S. Keene {BIO 18292745 <GO>}

Cai, I'm going to try to answer that as best I can, but fairly certainly you're not going to love my answer, because I can't give you a lot of color, it is a very active open procurement, we are very fortunate to be one of the incumbents as they do reposition this portfolio. You're right, the absolute value of all the solicitations that will come out is greater in nature, some of them, I'm certain will be small business set aside, some of them will be workstreams that aren't in our long-term strategy and some are absolutely those that we believe we have a very strong position permission to win and we will absolutely win our fair share.

But with all that being said, I really can't quantify it for you, they're still in the process of putting together their solicitation strategy. So there's a lot of unknowns. So at this juncture, I really can't give you an answer, I can tell you that we will pursue aggressively those parts of the business where we believe we can differentiate where we can win and we can deliver excellence to our customers. But there probably are going to be some pockets that aren't part of our strategy or maybe just even be set aside for a small business portfolio. So that's the best I can tell you at this point.

Q - Cai von Rumohr {BIO 1504358 <GO>}

Thank you very much.

Operator

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

Q - Tobey Sommer {BIO 6296228 <GO>}

Hi, good morning. I'd like to get your thoughts and update on the workforce turnover rate, any new initiatives, how is the business trending year-over-year, sequentially how you want to frame it? And then does the GTA (Technical Difficulty) aspect and filter your (Technical Difficulty) describe that if you could?

A - Nazzic S. Keene {BIO 18292745 <GO>}

Tobey, I lost the last sentence of your question, if you could just -- talking about GTA.

Q - Tobey Sommer {BIO 6296228 <GO>}

Sure. If you could describe the implications of -- I mean you're sort of hiring target employee?

A - Nazzic S. Keene {BIO 18292745 <GO>}

Okay. So as it relates to labor market certainly, the labor market is tight, there is no question. And certainly if we compare our turnover rates to the height of COVID, we're seeing increased turnover as well as is, I think just about everybody in our industry and all technology industries. So with that being said, we've been remained very successful in our ability to hire great talent into the company, and we have done some things but I think there's a slide in the deck as we think about the value that we -- the value creation for our employees, we are very focused on ensuring that we put together a competitive benefits package, we are reinforcing the flexible work model that became one of the positives that came out of the COVID situation for our employee base and our customers are doing the same.

So we continue to make sure that we are messaging to our employees and we are investing in creating an environment in the workplace where employees choose to stay at SAIC every day, and that is certainly part of our strategy, our people strategy is absolutely underpinning of our corporate strategy. So I would just say that we're seeing turnover greater than we would like, the consistent with industry and our ability to hire I think is absolutely outstanding. So I don't -- it's something we pay attention to but it's not something that I think causes undue risk to the organization, probably actually the opposite.

As it relates to the type of people that we look for as we focus on GTA, in some cases, it's very similar skill sets, the way in which we deliver the work can be slightly different, the mechanisms, the contract mechanism delivering solutions, sometimes over just labor services can be slightly different, but in many cases the type of people, the engineer, the software engineer, the cloud engineers are oftentimes the same people. And so we've got some internal training that we're doing to make sure our workforce is ready as we expand as part of our portfolio and then we also look to hire individuals as well that help complement that. So I don't view it as a radical shift in the type of people, the type of labor and it will just continue to build on the great workforce that we have today.

Q - Tobey Sommer {BIO 6296228 <GO>}

Thank you. Just another question on the workforce. Do you have any sense for whether we're still in like the most competitive environment with the biggest wage pressure in labor mobility or are there any signs that you would observe, let's say, where we have crested and we're either sort of stable sequentially or maybe even seeing some of those pressures recede?

A - Nazzic S. Keene {BIO 18292745 <GO>}

I'll give you an opinion, as I talked to colleagues of the industry and even other technology industries, I think the common view that we may have already crested that we're seeing some of the less acute labor challenges across all of United States of technology. Certainly, you're hearing some of the major commercial technology players message they're doing less hiring and I think that could be good for companies like us that need to do some hiring. So I think it's too early to tell, we watch this every month, we watch this statistics, but I think just based on some conversations, one could have an opinion that maybe we've seen the crest and it's getting better, but again that's not the opinion, we don't have the data at this juncture to support that.

Q - Cai von Rumohr {BIO 1504358 <GO>}

Thank you very much.

A - Nazzic S. Keene {BIO 18292745 <GO>}

Thank you.

Operator

Your next question comes from the line of Louie DiPalma from William Blair. Your line is open.

Q - Louie DiPalma {BIO 20073018 <GO>}

Nazzic, Prabu and Joe. Good morning.

A - Nazzic S. Keene {BIO 18292745 <GO>}

Good morning.

Q - Louie DiPalma {BIO 20073018 <GO>}

Nazzic when SAIC acquired Engility one of the key drivers was to increase your exposure to the space Force and the National Reconnaissance organization, it seems that the elevated geopolitical conflicts have resulted in a sharp increase in demand for geospatial/earth observation services and you're a key provider of those services. So I was wondering is space one of your focus areas for the GTA category that you outlined because it seems very strategic for you and a growing area? Thanks.

A - Nazzic S. Keene {BIO 18292745 <GO>}

Yeah Louie, great observation and I will -- the simple answer is absolutely yes. So space is a critical part of our strategy, our growth strategy. And I think one of the reasons it's not called out in its own boxes it spans many of these. So the work that we do is secure cloud or an enterprise IT or systems integration also support many, many space missions. And so I would say absolutely we've seen good growth in our space based portfolio we see continued opportunity in our space portfolio, really spanning all of those areas of the growth pillar.

Q - Louie DiPalma {BIO 20073018 <GO>}

Thanks Nazzic, that's helpful. And one for Prabu, if you achieve the 65-35 split for GTA versus core in your fiscal 2025 as you've targeted, what is the implication on your current 8.9% margin?

A - Prabu Natarajan {BIO 17701667 <GO>}

Short version of that would be tens of basis points of improvement to our margin rate. So think of that as comfortably over 90%. And of course our aspirations are always higher than what's on a PowerPoint chart. So hopefully, we have a chance to do a little bit around that. But I'd say tens of percent of improvement in margin rate. And again as we flag, it's one of many avenues left for us in margin across the company and this happens to be a really attractive one to grow the company and grow margins at the same time.

Q - Louie DiPalma {BIO 20073018 <GO>}

Awesome. That's it from me. Thanks.

A - Nazzic S. Keene {BIO 18292745 <GO>}

Thank you.

Operator

And there are no further questions at this time, I turn the call back over to Joe DeNardi for some final closing remarks.

A - Joe DeNardi {BIO 22467920 <GO>}

Great. Thank you, Rob, and thank you to everyone for joining us today. We look forward to speaking with you next quarter.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.