SAIC EARNINGS RESULTS

MANAGEMENT'S PREPARED REMARKS

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

FIRST QUARTER FISCAL YEAR 2025 EARNINGS CALL

June 3, 2024

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

Joseph DeNardi

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

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 with 40 bps 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 $166M resulted in an adjusted EBITDA margin of 9.0% 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 $21M 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 multi-year 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 five 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 five imperatives, we will work to progressively shift our portfolio and bid into four key growth vectors: Integrated Solutions, Enterprise / 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 six 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 five national imperatives with six differentiators – the four, five, six.

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's sales cycle is such that it will likely take 12-18 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 $500M 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 mid-size 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 $8B in the first quarter. Our performance in first quarter and the progress we are seeing gives us confidence in reaching our targeted value of submissions of $22B in FY25 compared to $17B in FY24.

Of the expected $22B in submit value for the year, roughly 2/3 represents new business. Similarly, in the first quarter, we delivered net bookings of $2.6B 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 a $444 million new business award with the U.S. Space Force and a $350M recompete win with NASA.

Relative to the multi-year goal to increase bid volume to ~$30B by FY27, we see three 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

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 $1.85B, representing pro-forma organic growth of approximately 40 bps 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 $30M discrete materials sale to one customer which, as planned, did not reoccur, creating a roughly 1.5pt y/y revenue headwind.

Adjusted EBITDA was $166M in the quarter resulting in a 9.0% adjusted EBITDA margin with the y/y decline largely due to increased internal investment and 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 $21M, ahead of plan, and included a roughly $50M y/y headwind due to the sale of our supply chain business in FY24 and higher cash bonuses in the quarter.

Lastly, as you will see in our earnings release and 10-Q, beginning this quarter we will be providing revenue and profitability metrics for two 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 FY25 financial guidance for revenue, adjusted EBITDA margin, adjusted diluted EPS, 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 y/y which assumes a similar dynamic as we saw in 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 FY25 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 FY26.

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 $81M of shares in the quarter. As you will recall from our Investor Day, our plan assumed we repurchase roughly $350M to $400M 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 are 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 face 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.

