

Science Applications International Corporation (SAIC)

Fiscal Year 2020 Third Quarter Earnings Call

Supplemental Financial Information
December 5, 2019

Conference Call information

Date: December 5, 2019

Time: 5:00 pm ET

Webcast Information: <http://investors.saic.com>
(webcast participation only, no “dial in” access)

Forward-Looking Statements

Certain statements in this presentation are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “may,” “will,” “should,” “expects,” “intends,” “projects,” “plans,” “believes,” “estimates,” “targets,” “anticipates,” and similar expressions identify forward-looking statements in this presentation. Such statements include, but are not limited to, statements about future financial and operating results, plans, objectives, expectations and intentions, and other statements that are not historical facts. These statements are subject to numerous assumptions, risks, and uncertainties, and other factors, many of which are outside the control of SAIC. These factors could cause actual results to differ materially from such forward-looking statements. Risks, uncertainties and assumptions that could cause SAIC’s actual results to differ materially from those discussed in the forward-looking statements include, but are not limited to, those described in the “Risk Factors” section of SAIC’s most recent Form 10-K filed with the Securities and Exchange Commission (“SEC”) and updated in any subsequent Quarterly Reports on Form 10-Q and other filings with the SEC. The reports referenced above are available on SAIC’s website at www.saic.com or on the SEC’s website at www.sec.gov. No assurance can be given that the results of events described in forward-looking statements will be achieved and actual results may differ materially from these statements. SAIC disclaims any obligation to update any forward-looking statements provided in this presentation to reflect subsequent events, actual results, or changes in SAIC’s expectations.

In addition, these slides should be read in conjunction with our earnings press release dated December 5, 2019 along with listening to or reading a transcript of the management comments delivered in an earnings conference call held on December 5, 2019.

All information in these slides are as of December 5, 2019. SAIC expressly disclaims any duty to update any forward-looking statement provided in this release to reflect subsequent events, actual results or changes in SAIC’s expectations. SAIC also disclaims any duty to comment upon or correct information that may be contained in reports published by investment analysts or others.

Today's Presenters



Nazzic S. Keene
Chief Executive Officer



Charles A. Mathis
Chief Financial Officer

FY20 Q3 Highlights

Continued Progress of Engility Integration
Accelerating Profitable Revenue Growth
Focused on Winning the War for Talent

Total Revenue Growth of 38%
1% Internal Revenue Growth After Adjusting for Dis-Synergies
Adjusted EBITDA Margin* of 8.3%

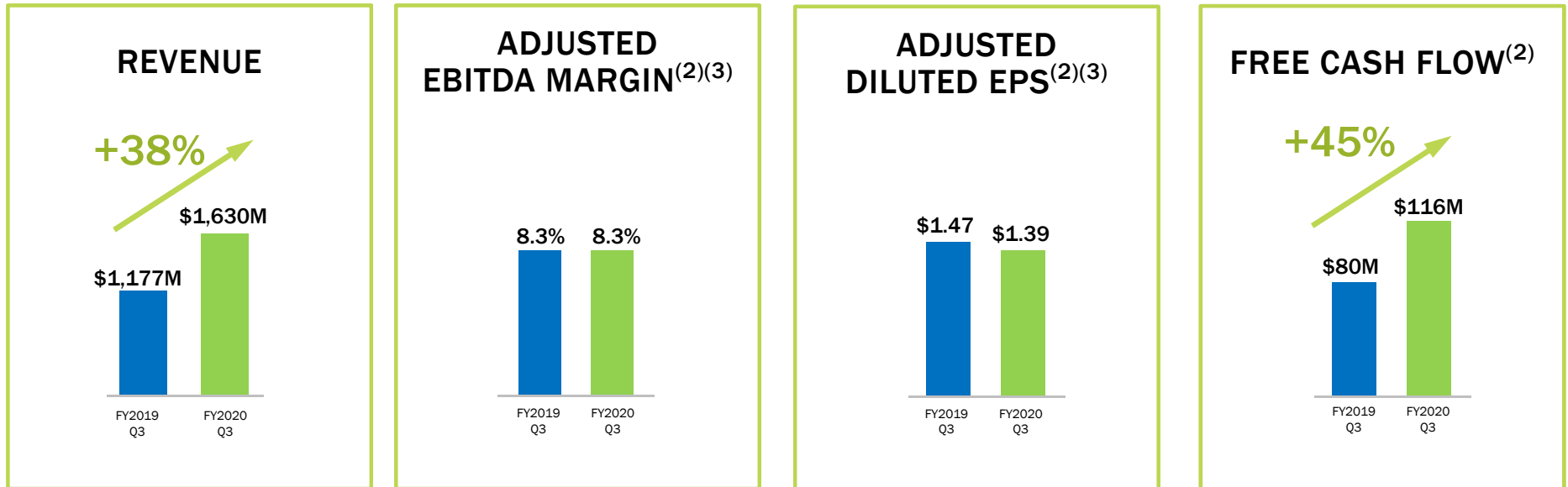
Strong Free Cash Flow* Generation of \$116M
\$375M YTD; ~90% of FY20 Target

Q3 Book to Bill of 1.4

Consistent Performance, Positioned to Accelerate Growth

*Adjusted EBITDA, adjusted diluted earnings per share and free cash flow are non-GAAP financial measures as defined and reconciled in the appendix of this presentation.

SAIC Third Quarter FY20 Results (1)



(1) Results of Science Applications International Corporation and its consolidated subsidiaries for the third quarter ended November 1, 2019 and November 2, 2018.

(2) Adjusted EBITDA, adjusted diluted earnings per share and free cash flow are non-GAAP financial measures as defined and reconciled in the appendix of this presentation.

(3) Excludes \$9 million dollars and \$14 million dollars in FY20 Q3 and FY19 Q3, respectively, of acquisition and integration costs, net of recovery of acquisition and integration costs and depreciation.

FY20 Financial Outlook

GOAL – ACHIEVE MARKET LEADING TOTAL SHAREHOLDER RETURNS (TSR)

LONG-TERM FINANCIAL OBJECTIVES (On average and over time)	FISCAL YEAR 2020 OUTLOOK
Annual Internal Revenue Growth	Second half revenues consistent with first half revenues of \$3.2B
Adjusted EBITDA Margin ⁽¹⁾	Adjusted EBITDA margin of 8.1% to 8.4%; likely at mid to upper-end of range (excluding acquisition and integration costs)
Free Cash Flow ⁽²⁾ (Increase with profitability)	Meet or exceed \$425M of free cash flow
Financial Leverage (Optimal leverage of 2.5x – 3.0x)	Net debt to adjusted EBITDA leverage of ~3.2x by year end with mandatory debt payments only

- (1) EBITDA is a performance measure that is calculated by taking net income and excluding interest provision for income taxes, depreciation, and amortization. Adjusted EBITDA is a performance measure that excludes acquisition and integration costs, net of recovery of acquisition and integration costs, that SAIC does not consider indicative of its ongoing performance.
- (2) Free Cash Flow is a performance measure that is calculated by taking cash flows provided by operating activities less expenditures for property, plant, and equipment. We believe that free cash flow provides management and investors with useful information in assessing trends in our cash flows and in comparing them to other peer companies, many of whom present a similar non-GAAP liquidity measure. This measure should not be considered as a measure of residual cash flow available for discretionary purposes.

Appendix

Working Days Per Quarter

	Q1	Q2	Q3	Q4	Total
FY21	64	63	63	60	250
FY20	64	63	63	60	250
FY19	64	63	63	60	250
FY18	64	63	64	59	250
FY17	69*	63	64	59	255

* FY17 contained an extra week (53 weeks) in the first quarter



Pay Periods Paid

	Q1	Q2	Q3	Q4	Total
FY21	6	7	6	7	26
FY20	6	7	6.5*	7	26
FY19	6	7	6	7	26
FY18	6	7	6	7	26
FY17	7	7	6	7	27

*During the third quarter of fiscal year 2020 and as a result of a systems conversion due to the Engility acquisition, legacy Engility employees were paid a one week payroll cycle in order to synchronize their payroll cycle with SAIC payroll cycles.



Non-GAAP Reconciliation – EBITDA and Adjusted EBITDA

	Three Months Ended		Nine Months Ended	
	November 1, 2019	November 2, 2018	November 1, 2019	November 2, 2018
	(in millions)			
Net income	\$ 56	\$ 48	\$ 169	\$ 146
Interest expense	22	16	69	38
Interest income	(1)	(1)	(3)	(2)
Provision for income taxes	17	10	48	31
Depreciation and amortization	32	11	98	31
EBITDA⁽¹⁾	126	84	381	244
<i>EBITDA as a percentage of revenues</i>	<i>7.7%</i>	<i>7.1%</i>	<i>7.9%</i>	<i>7.0%</i>
Acquisition and integration costs	12	14	30	14
Depreciation included in acquisition and integration costs	(1)	—	(1)	—
Recovery of acquisition and integration costs	(2)	—	(6)	—
Adjusted EBITDA⁽¹⁾	\$ 135	\$ 98	\$ 404	\$ 258
<i>Adjusted EBITDA as a percentage of revenues</i>	<i>8.3%</i>	<i>8.3%</i>	<i>8.3%</i>	<i>7.4%</i>

(1) “EBITDA” and “Adjusted EBITDA” are non-GAAP financial measures that are reconciled in this schedule to the most directly comparable GAAP financial measures. These non-GAAP financial measures help investors better understand profitability trends of our business from period to period and provide useful information on how successfully we operate in our markets but are not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with SAIC’s condensed and consolidated financial statements prepared in accordance with GAAP. The methods used to calculate these non-GAAP financial measures may differ from the methods used by other companies and so similarly titled non-GAAP financial measures presented by other companies may not be comparable to those provided in this schedule.

Non-GAAP Reconciliation – Adjusted Diluted Earnings per Share

	Three Months Ended		Nine Months Ended	
	November 1, 2019	November 2, 2018	November 1, 2019	November 2, 2018
Diluted earnings per share	\$ 0.94	\$ 1.11	\$ 2.82	\$ 3.37
Acquisition and integration costs, divided by diluted 'weighted-average number of shares outstanding' (WASO)	0.17	0.32	0.41	0.32
Tax effect of acquisition and integration costs, divided by diluted WASO	(0.04)	(0.06)	(0.09)	(0.06)
Net effect of acquisition and integration costs, divided by diluted WASO	0.13	0.26	0.32	0.26
Amortization of intangible assets, divided by diluted WASO	0.42	0.12	1.23	0.35
Tax effect of amortization of intangible assets, divided by diluted WASO	(0.10)	(0.02)	(0.27)	(0.06)
Net effect of amortization of intangible assets, divided by diluted WASO	0.32	0.10	0.96	0.29
Adjusted diluted earnings per share⁽¹⁾	\$ 1.39	\$ 1.47	\$ 4.10	\$ 3.92

(1) "Adjusted diluted earnings per share" is a non-GAAP financial measure that is reconciled in this schedule to the most directly comparable GAAP financial measures. This non-GAAP financial measure provides investors with greater visibility into operating income but is not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with SAIC's condensed and consolidated financial statements prepared in accordance with GAAP. The methods used to calculate this non-GAAP financial measure may differ from the methods used by other companies and so similarly titled non-GAAP financial measures presented by other companies may not be comparable to those provided in this schedule

Non-GAAP Reconciliation – Free Cash Flow

	Three Months Ended		Nine Months Ended	
	November 1, 2019	November 2, 2018	November 1, 2019	November 2, 2018
	(in millions)			
Net cash provided by operating activities	\$ 116	\$ 86	\$ 389	\$ 162
Expenditures for property, plant, and equipment	—	(6)	(14)	(24)
Free cash flow⁽¹⁾	\$ 116	\$ 80	\$ 375	\$ 138

(1) “Free cash flow” is a non-GAAP financial measure that is reconciled in this schedule to the most directly comparable GAAP financial measures. This non-GAAP financial measure provides investors with greater visibility into cash flows provided by operating activities, but is not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with SAIC’s consolidated financial statements prepared in accordance with GAAP. The methods used to calculate this non-GAAP financial measure may differ from the methods used by other companies and so similarly titled non-GAAP financial measures presented by other companies may not be comparable to those provided in this schedule.