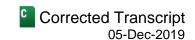


05-Dec-2019

Science Applications International Corp.

(SAIC) Q3 2020 Earnings Call





CORPORATE PARTICIPANTS

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Nazzic S. Keene

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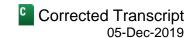
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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the SAIC Fiscal Year 2020 Q3 Earnings Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Shane Canestra, SAIC's Vice President of Investor Relations. Please go ahead, sir.

Shane P. Canestra

Vice President-Investor Relations, Science Applications International Corp.

Good afternoon and thank you for joining SAIC's third quarter fiscal year 2020 earnings call. My name is Shane Canestra, Vice President of Investor Relations, and joining me today to discuss our business and financial results are Nazzic Keene, SAIC's Chief Executive Officer; and Charlie Mathis, our Chief Financial Officer.

This afternoon, we issued our earnings release, which can be found at investors.saic.com, where you'll also find supplemental financial presentation slides to be utilized in conjunction with today's call. Both of these documents, in addition to our Form 10-Q to be filed soon, 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.

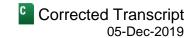
Nazzic S. Keene

Chief Executive Officer & Director, Science Applications International Corp.

Thank you, Shane, and good afternoon. SAIC's third quarter results reflect strong program performance and customer confidence and our ability to deliver solutions that advance their most critical mission priorities. We are pleased to report solid results while we look towards a future with a refresh strategy that takes advantage of our expanded portfolio, positioning us for sustained profitable growth.

In our September call, I communicated three areas of my immediate focus, and they are unchanged – the successful integration of Engility, accelerating profitable revenue growth and winning the war for talent. All three are integral parts of our refresh strategy and we made progress on these imperatives during the quarter.

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As we near the one-year anniversary of the Engility acquisition, I am very pleased with the progress and success of our integration efforts and the exciting opportunities that our stronger business presents. We accelerated and achieved all of the year one net cost synergies of \$38 million earlier this year and we are well on our way to achieve the year two target. We expect to achieve 85% of the full net cost synergy target of \$75 million by the end of this fiscal year, well in advance of our initial plan.

Employee fringe benefit harmonization and the successful conversion of our financial system as well as several other back office systems have been completed. Facility consolidation is the last significant cost synergy milestone to be achieved. I would like to emphasize that our integration efforts and cost synergy achievement are being completed ahead of schedule and our combined workforce is focused on a single mission – serving our customers under the SAIC banner.

SAIC is leveraging our increased capacity, capabilities and customer access resulted in greater pipeline development, stronger recompete bids and new contract wins. During the quarter, SAIC was awarded a task order for \$85 million from the US Navy's Naval Surface Warfare Center. That is a great example of revenue synergy as a result of the combined company.

Through the acquisition of Engility, SAIC obtained the DOD'S IAC-MAC IDIQ vehicle that provided contract access to new customers. This vehicle combined with legacy SAIC technical capabilities allowed us to jointly compete for and win this task order. This is just one proof point of our successful expansion of growth opportunities as we go to market together, leveraging each company's capabilities and customer access as one team.

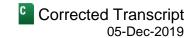
With program operations and the business development organizations fully integrated, SAIC's enhanced pipeline reflects our expanded addressable market and contract opportunities, enabling the acceleration of profitable revenue growth. Our value of submitted proposals increased to \$16 billion, up \$2.7 billion from the second quarter. While our contract proposal activity increased, we also continued to invest in innovative and differentiating capabilities to drive growth.

We have recently garnered accolades from Washington Technology's Industry Innovation Awards for one of our solutions, SAIC's Internet of Battlefield Things. This innovative, state-of-the-art solution integrates a variety of commercial technologies, including sensors, mobile broadband and networking, cloud and high performance computing and power management. An expeditionary command center could now fit into a vehicle, giving our military forces an anywhere platform, arming them with real-time information and informing situational awareness, targeting and other battlefield actions.

With investments in differentiating technologies and an expanding business pipeline, I continue to have confidence in accelerated revenue growth next fiscal year and beyond. As a people-centric business, winning award for talent is vital and has our attention at all levels. A top priority will always be to attract and retain the best talent by fostering a purpose-driven, inclusive and flexible working environment while encouraging our employees to make a difference outside the workplace through citizenship and community programs.

Our employee benefit programs reflect our emphasis on flexibility. We are investing in programs that provide options in how our employees manage their work schedules and leave time. We are proud that SAIC was recently named as a top five company in 2020 for flexible jobs based on a study of over 52,000 companies. This recognition reinforces our commitment to provide remote and flexible work options to improve the well-being of our employees and their families while providing world-class talent in support of our customers.

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We also know that today's employees want to work for an organization that reaches outside their walls to give back and positively impact their communities. Throughout the month of September, SAIC raised over \$200,000 in employee and corporate contributions in support of Feeding America's Hunger Action Month, providing over 2 million meals to America's hungry. SAIC desires to have a tangible and positive impact on targeted communities, populations and the environment.

To that end, we have a focus in four areas to achieve this goal – military and veterans, STEM education, community well-being and environment and sustainability. Our employees are dedicated to our nation and our communities, as SAIC was recently named by the Washington Business Journal as one of the largest corporate philanthropists as measured by volunteer hours. SAIC's culture of exceptional service both in and outside the office make it a rewarding place professionally and personally.

Now turning to the market environment. Our customers continue to operate and make their investment decisions despite a continuing resolution. While a CR is not ideal, government fiscal year 2019 budgets were strong and operating at those levels allows most customers to continue executing their important missions.

As I conclude, I would like to follow up on the strategy review that I highlighted in our September call. The successful integration of the Engility acquisition and market dynamics uniquely positions SAIC for opportunities that leverage our scale, expansive portfolio and strong customer relationships to accelerate profitable revenue growth. We will prioritize the most compelling opportunities by focusing on a few market-driven areas that include space systems and mission engineering that takes advantage of SAIC's leadership in this market and the continued focus in ensuring our nation's dominance and resilience in space, mission engineering and integration across DOD systems modernization communities to ensure our nation has the most advanced solutions to stay ahead of our adversaries and modernizing and managing our nation's critical IT and enterprise infrastructure to gain efficiencies, improve cybersecurity, enable increased analytics and improve the citizen experience.

Going forward, these areas will be the catalyst for growth at SAIC. This is not to say that we will forsake other areas of contract opportunity, but these areas will draw increased focus and investment in order to drive profitable revenue growth over the long term. While M&A always seems to draw increased attention and speculation, SAIC will continue to take a disciplined approach in this area to fill gaps in our portfolio, accelerate penetration of an underserved customer or gain differentiated capabilities we do not have today. SAIC will always approach M&A as one of the many tools in our toolbox that we use to deliver shareholder value creation.

As part of our strategy refresh, our goal was to disproportionately invest in technologies, talent and infrastructure that will enable long-term growth in these strategic areas while preserving predictable growth from our core markets. We also know our market is dynamic and our customers need a partner that can be agile, so we will continue to measure our strategy against milestones and adjust as needed.

I'd like to ask Charlie to share our business development and financial results before we take your questions.

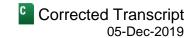
Charles Alexander Mathis

Executive Vice President & Chief Financial Officer, Science Applications International Corp.

Thank you, Nazzic. SAIC has delivered results that reflect consistency in the business while gaining momentum in contract awards and business development activities that will drive future revenue growth and create value for our shareholders.

First, let me cover our business development results. Net bookings for the third quarter were approximately \$2.2 billion, translating to a quarterly book-to-bill of 1.4. As a testament to our diversified portfolio, net bookings were

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strong across all of our business segments as well as being very balanced between winning new work on new awards, growing existing contract value through own contract growth and retaining our recompetes.

On a pro forma basis, SAIC's trailing 12-month book-to-bill is 1.1. Included in this quarter's booking were a total of \$582 million in contracts to support space and intelligence community customers. These contracts serve customers in the intelligence community and classified space domain that rely on SAIC for highly specialized expertise and technology integration, engineering, IT modernization and mission operations.

Notable in these awards was a previously announced National Geospatial-Intelligence Agency award for the Innovative GEOINT Application Program (sic) [Innovative GEOINT Application Provider Program]. Other notable awards in the quarter included the US Army award at over \$41 million to modernize its IT infrastructure by migrating enterprise applications to a cloud environment. Approximately 24% of the total year-to-date gross contract awards of \$6 billion has been for new business. And as Nazzic mentioned, we have \$16 billion of submittals awaiting award with 75% being for new business opportunities.

I would also like to point out that over \$2 billion of new business contract value has been awarded to SAIC through our third quarter and has been protested by competitors. The favorable resolution of these new business awards before fiscal year-end, which is expected based on normal timing for protest resolution, would significantly increase our contract award bookings and book-to-bill for the fourth quarter. We are also awaiting decision on our largest recompete this year, the Department of Justice asset forfeiture contract, which was slowed by a pre-award protest. At the end of the third quarter, SAIC's total contract backlog stood at approximately \$14.5 billion with funded backlog up 11% from the second quarter.

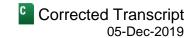
Let me now turn to financial results for the quarter. Third quarter performance on revenue, margins and adjusted earnings per share were in line with the first two quarters of the year, consistent with our previous communication. Our third quarter revenues of approximately \$1.6 billion reflects total revenue growth of 38%, which were due to revenues associated with the Engility acquisition. Organic revenue contracted 1.5% year-over-year, although after adjusting for about \$30 million of revenue dis-synergies in the quarter, organic revenues grew approximately 1% compared to the prior-year quarter.

As a reminder, we have previously communicated an approximate \$120 million of revenue dis-synergies for the full fiscal year equally impacting revenue throughout the year due to elimination of prime sub relationships, lower volume on cost plus contracts due to cost synergy achievement and other factors. This approximate 2% headwind to growth will not exist in our next fiscal year.

Third quarter adjusted EBITDA margins were 8.3% as a percentage of revenues, consistent with the previous two quarters of the year, reflecting continued strong program performance and the favorable effect of accelerating our net cost synergies. Year-to-date adjusted EBITDA margins have increased 90 basis points over last year due to the blending of the Engility portfolio, strong program performance and the net cost synergies achieved. Third quarter adjusted EBITDA was \$135 million, a \$37 million increase from the prior year. Adjusted EBITDA excludes \$9 million of net integration-related costs in the quarter.

Net income for the third quarter was \$55 million and diluted earnings per share was \$0.94. Excluding the \$9 million of net integration cost as well as amortization of intangibles, our adjusted diluted earnings per share was \$1.39 for the third quarter.

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The effective tax rate for the quarter was approximately 24%, consistent with our previously communicated and reaffirmed today expected full year rate of 22% to 24%. Our expected cash tax rate is also unchanged to 13% to 15%, benefited by the tax assets acquired from Engility.

Third quarter free cash flow was \$116 million, an increase from the second quarter and attributed mostly to a lower partial payroll cycle and reduced capital expenditures. On a year-to-date basis, free cash flow has increased \$237 million over the first three quarters of last year. We have achieved approximately 88% of our full-year target to-date. Day sales outstanding at the end of the quarter were 62 days.

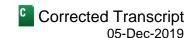
We finished the quarter with cash on hand of \$162 million. Since the acquisition of Engility, our net debt to adjusted EBITDA leverage has decreased from 3.7x to 3.4x and we remain on track to be below 3 times by the end of our next fiscal year, reflecting our deleveraging commitments at the time of the acquisition.

During the third quarter, we deployed \$24 million of capital, consisting of \$21 million in dividends and \$3 million of mandatory debt repayment. We did not repurchase any shares in the third quarter directly or in the open market as the direct repurchase in the second quarter was an acceleration of activities plan later in the year. Additionally, we repaid \$100 million that was placed on our revolving credit facility in the second quarter to facilitate the execution of share repurchase from one of our private equity shareholders. I should note that our board of directors will meet in mid-December and will consider capital deployment opportunities going forward, including our next quarterly dividend that is typically payable to shareholders in January.

Now turning to our forward outlook. Our expectations for the second half of the year are unchanged from our previous communication. We continue to expect second half revenues to be consistent with our first half revenues of approximately \$3.2 billion. As a reminder, our fourth quarter typically is a lower revenue volume quarter due to holidays and associated employee vacation time. We continue to expect full year adjusted EBITDA margins to increase about 80 basis points from the prior-year standalone SAIC adjusted EBITDA margin of 7.5%, which is at the middle to upper end of our previously communicated range of 8.1% to 8.4%.

Additionally, we expect to meet or exceed \$425 million of free cash flow this year with the fourth quarter being impacted by an additional payroll cycle as compared to the third quarter. And finally, as I mentioned earlier in my remarks, we expect bookings to be stronger in the fourth quarter due to the factors I discussed, which will favorably impact our fiscal year 2021 growth projections.

Operator, we are now ready to take questions.



QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We'll go first to Jon Raviv with Citi.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Hey, good afternoon, everyone. Charlie, you just mentioned stronger bookings in 4Q good for FY 2021 growth. Can we just think about some of the moving pieces into fourth quarter and into FY 2021? The reiterated \$3.2 billion this year implies low-single-digits organic growth in Q4. Can you sort of speak to that? And then I think, Nazzic, you also mentioned increased confidence in the acceleration of 2021. If you lose 200 basis points of dissynergies that would suggest potentially 4% to 5% in 2021? How should we frame the acceleration of growth here after it's been a couple of tough quarters here? Thank you.

Charles Alexander Mathis

Executive Vice President & Chief Financial Officer, Science Applications International Corp.

Yeah. Hey, Jonathan, thanks for the question. And let me give a little color just around the forward guidance because I think that's the essence of the question that you're asking about going forward or that's what we're anticipating the questions will be. But we're right now going through the annual planning cycle and we will communicate our expectations for fiscal 2021 in the March timeframe as we historically have done so. But as I said in the remarks, the year-to-date bookings and the expected contract awards in Q4 give us great confidence in revenue growth going into next year and beyond. And we also expect to achieve 85% of the net cost synergies by the end of the year and realize the benefits over the course of the year. And I would add that we are focused on organic revenue growth and want to make sure we have the right balance of investments, especially in the strategic growth areas that Nazzic mentioned and that's what we're going through in the planning cycle right now. I hope that addressed your question.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Yeah, sure. And then on the margin synergies, you talked about accelerated synergies. Just what is some the flow between those synergies being accelerated versus the investments. I mean, is this something of a – anything of a change from when you first set the 9% target or is that 9% target still very much achievable and perhaps even doable sooner if the – as you mentioned, the benefits have been accelerated? Thank you.

Charles Alexander Mathis

Executive Vice President & Chief Financial Officer, Science Applications International Corp.

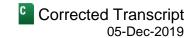
Yeah. So, first of all, going back to where we are to-date, we're up 90 basis points over last year. A blending of the Engility portfolio and the cost synergies was achieved so far. By the end of the year, we're anticipating 85% that will reflect margin increase next year. But as I said, we're going through the planning cycle now and we'll be able to communicate more detail about the next year's full year outlook in the March timeframe.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Okay. Thank you. I'll hop back in the queue.

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Operator: And we'll go next to Matt Akers with Barclays.

Matt Akers

Analyst, Barclays Capital, Inc.

Q

Yeah. Hi. Thanks for the question. I wanted to ask about the sort of customer demand you saw in the quarter. Last quarter, you talked a little bit about delays at a couple of customers around the CR. Is that something you're still seeing or is that loosened up a little bit?

Nazzic S. Keene

Chief Executive Officer & Director, Science Applications International Corp.



This is Nazzic. Thanks for the question. So, certainly, we are operating under CR. And there's a couple of specific cases where the customer cannot expand the work based on the CR situation, but it's very minor. We don't see a significant impact to the portfolio and we'll continue to navigate it. We have navigated CRs many times in the past, have a good ability to do that. And so, we don't see it as a significant risk, but there are a couple clients where it does provide a little bit of a headwind and we'll just continue to work through that as we go forward.

Matt Akers

Analyst, Barclays Capital, Inc.



Okay. Got it. And then, I guess, you talked about the asset forfeiture contract, are there any other big sort of recompete contracts coming up, which you keep an eye on, that could be a risk?

Nazzic S. Keene

Chief Executive Officer & Director, Science Applications International Corp.



Yeah. The two that I'd highlight is certainly the asset forfeiture, as you noted, and that has gotten pushed out and we'll continue to work through that with an award hopefully in the next couple of months. But we continue to work and work under a bridge contract and good position there. The other one that I think is worthy of mentioning is the AMCOM portfolio of works that we do for the Army. And it is not a single task order or a single contract, it's bundled around several. But over the course of the next 12 to 18 months, that portfolio will go through a recompete cycle and so we'll continue to navigate that.

The positive news from our standpoint is that as they continue to refine their acquisition strategy, the opportunity actually exists for SAIC to expand its footprint and its work with this particular customer, but recognizing that we have to do a recompete on our work as well. So, that's the most significant one going into next year. But again, it has probably pretty limited impact to next year's financials because it will go through the cycle and we expect most of that work to be recompeted over the next 12 to 18 months.

Matt Akers

Analyst, Barclays Capital, Inc.



Okay. Got it. And I guess, maybe last one, just what's the right level of CapEx to think about going forward? It's obviously come down a little bit this year.

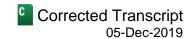
Charles Alexander Mathis

Executive Vice President & Chief Financial Officer, Science Applications International Corp.



Yes. This is Charlie. So we're still looking at \$8 million to \$10 million of CapEx per quarter. But this quarter, there was minimal CapEx, some of that had to do with the timing of our systems conversion. And I would also say that our new CIO is taking a different approach as far as what goes to the cloud, there will be more that goes to the

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cloud, and so there could be lower CapEx going forward, not dramatically lower, but I would say in that \$8 million to \$10 million range per quarter kind of a normal CapEx.

Matt Akers

Analyst, Barclays Capital, Inc.

Got it. All right. Thank you.

Operator: And we'll go next to Seth Seifman with JPMorgan.

Seth M. Seifman

Analyst, JPMorgan Securities LLC

Thanks very much and good afternoon. I wanted to ask – maybe follow up a little bit on Jon's question and we think a little bit about some of this investment that you're talking about, what specifically might it be. Is this going to show up as kind of internal R&D expense or might it be future CapEx? How is this going to show up in the financials going forward? What specifically is it?

Charles Alexander Mathis

Executive Vice President & Chief Financial Officer, Science Applications International Corp.

Well, as I mentioned, we're going through the annual planning cycle right now, but I just want to be clear with one thing that the total cost synergies that we had talked about, the \$75 million, we're on track to achieve that. And anything that we would look at as far as making investments in certain areas where we think there is potential for stronger revenue growth, strategic areas, some those that Nazzic talked about, we'll go through that process and evaluate it going into next year and we'll look to make the right decision for our shareholders that we have the right balance as far as margins go and revenue growth.

Nazzic S. Keene

Chief Executive Officer & Director, Science Applications International Corp.

This is Nazzic. The other thing I will add is certainly we talked about investing to drive growth. In many cases, it's really purposing our dollars in a very focused and strategic way. So, in some cases, it's just making sure that we're focused on the right acquisitions, the right business development efforts, the right solution development. And so, as Charlie referenced, we'll certainly look at the opportunity. We'll always weigh what we think is the right investment profile for us as a company. But also in addition to that analysis, we also want to ensure that we're investing the dollars that we spend today in the absolute right areas consistent with our strategy to drive profitable growth.

Seth M. Seifman

Analyst, JPMorgan Securities LLC

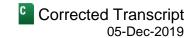
All right. No, okay, thanks and that's helpful. I guess, just to kind of looking to get a sense of is it that you might need a facility at some point, is it that you might have to invest in developing a certain type of software application or technology, what type of investments you're talking about.

Nazzic S. Keene

Chief Executive Officer & Director, Science Applications International Corp.

Yeah. So, again, as Charlie mentioned, we have not buttoned up every aspect of that investment profile as we go into next year. But for the most part, as I talk about investments, it's really investing in the talent and investing in the people and the – I'll use the word infrastructure, but not in the sense of a facility to be able to pursue and

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capture a business that is consistent with our strategy. So I would think about it in buckets of money like B&P and pre-B&P and investments to drive growth for the most part. We're a services business, so we would not – never say never, but our strategy doesn't call for investment in facility or for infrastructure along those lines. Does that help?

Seth M. Seifman

Analyst, JPMorgan Securities LLC

Great. Yeah, absolutely. That's what I thought. Thanks. And then just to put kind of a fine point on it, by fiscal 2022, we're still looking for 9% adjusted EBITDA margin?

Charles Alexander Mathis

Executive Vice President & Chief Financial Officer, Science Applications International Corp.

Nothing has changed different from what we communicated previously. As far as the three-year outlook, we've got great confidence in the value proposition that we set forth back and made the Engility acquisition. So, nothing has changed from that. And certainly, the \$500 million of free cash flow that we stated there would be intact. Any type of investments we would look for return to come back to enhance this value proposition that we laid out earlier.

Seth M. Seifman

Analyst, JPMorgan Securities LLC

Great. Thank you very much.

Operator: We'll go next to Edward Caso with Wells Fargo.

Edward S. Caso

Analyst, Wells Fargo Securities LLC

Hi. Good evening. Just so I'm really clear on, over the three years, I think you're roughly \$425 million, \$480 million and then roughly \$500 million in free cash flow outlook. Is that right? One. And then is there – help us again on what the expectation is for shareholder return and differentiate that between M&A. So, I mean, if you do M&A, does that take away from repurchase?

Charles Alexander Mathis

Executive Vice President & Chief Financial Officer, Science Applications International Corp.

Yeah. So let me just go back and say that in general, on average and over time, you're correct with the endpoint as far as the free cash flow goes. And I wouldn't say that it's \$480 million next year. We'll give you a better indication of what our free cash flow outlook is in the March quarter. I can say that we always look to manage the cash flow effectively. The achievement of the \$425 million of free cash flow was a tremendous accomplishment of our commitment that we made a year ago and we're still focused on this going forward, but I don't want to commit to any numbers right now. Things do change after a year and we'll give you a better sense in the March timeframe.

Edward S. Caso

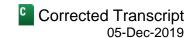
Analyst, Wells Fargo Securities LLC

And help us understand the return.

Charles Alexander Mathis

Executive Vice President & Chief Financial Officer, Science Applications International Corp.

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Yes. And so, as far as the capital deployment, returning cash to our shareholders is always our priority, absent M&A opportunities. So that's been the consistent theme for the last five, six years and that's consistent going

forward, so that has not changed. Edward S. Caso Analyst, Wells Fargo Securities LLC Okay. And then the other question, significant amount of items in protest. Can you remind us the big pieces, I guess, including the one – I assume the one that tripped up your guidance last quarter is in that number? Nazzic S. Keene Chief Executive Officer & Director, Science Applications International Corp. Yes. So, we do have a couple billion dollars of awards in protest. The significant ones are the CPE or Cloud 1 contract. We expect that just going through the normal protest cycle to clear that cycle as we get towards the end of this calendar year. So, that's a significant one. EDIS is one that was - has been in various states of protest since early - very early this calendar year, so that's another significant one. And then we've seen a couple of them that – one of the ones that was pre-award protest is the one we just talked about earlier with the DOJ and that has come out of the pre-award protest and going through its cycle, as we discussed earlier. Edward S. Caso Analyst, Wells Fargo Securities LLC So, none of the ones that are in protest have happened favorably yet? You're just sort of hopeful that they'll fall your way this quarter? Nazzic S. Keene Chief Executive Officer & Director, Science Applications International Corp. That's exactly right. Based on the model...

Edward S. Caso Analyst, Wells Fargo Securities LLC

Okay. Thank you.

Nazzic S. Keene Chief Executive Officer & Director, Science Applications International Corp.

Based on the standard timing that we would expect.

Edward S. Caso Analyst, Wells Fargo Securities LLC

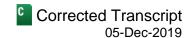
Great. Thank you.

Nazzic S. Keene Chief Executive Officer & Director, Science Applications International Corp.

You're welcome.

Operator: And we'll go next to Sheila Kahyaoglu with Jefferies.

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Sheila Kahyaoglu

Analyst, Jefferies LLC

Q

Hi. Good afternoon, everyone, and thank you. Nazzic, you talked about or Charlie you might have said it – you talked about the pipeline being \$16 billion, up 25% quarter-over-quarter. Can you talk about maybe your win rate in the current quarter and what drove that big increase? Is it scattered across big programs or smaller ones? And then I have a follow-up related to that.

Nazzic S. Keene

Chief Executive Officer & Director, Science Applications International Corp.

Д

Okay. So let me try to tackle your question. So, yes, we continue to see great pipeline activity. We see it across the board. And as we did reference, we continue to see a lot of the pipeline being populated with new business opportunities and the ability to drive growth for new business. And so, this was, to refresh your memory, a relatively low recompete for us. So, we've had the opportunity to invest in pipeline and submits that will drive growth in the out-years.

As far as the win rates, we don't tend to talk specifically about those. What I can tell you is, we always feel very confident about our recompete win rates and believe that we are certainly industry leading in that regard. And then when it comes to new business, we have a very competitive win rate on our new business. And then certainly, one of the aspects of growth is on-contract growth. So, where we look for the opportunity working with the customer, working with a contract vehicle to be able to expand our footprint and expand our presence to be able to deliver greater solutions to an existing customer, we continue to see good momentum in on-contract growth as well.

Sheila Kahyaoglu

Analyst, Jefferies LLC



Okay. And then just to clear it up a little bit, do you mind reminding us in terms of the current fiscal year, what impact the CR had, what impact protest had? And then there was a slight shift with payroll, I'm not sure if that impacted revenues at all. And then how do we expect that to transition into fiscal 2021 and the organic growth outlook, how much of the revenues get pushed out?

Charles Alexander Mathis

Executive Vice President & Chief Financial Officer, Science Applications International Corp.

Α

Hey Sheila, this is Charlie. Let me just – as far as on the CR goes, my comments last quarter proved to be true on those very, very few customers and they continue to be cautious. We're operating CR until December 20. We don't see any further impact this year due to the CR. If this CR moves out longer and it's a much longer process then it's possible we could see an impact to revenue, but it's too early to tell. As far as the protests, I think we covered most of those and we do look for those to be resolved in the quarter. That's why we expect our book-to-bill to be greater than any other book-to-bill in the quarter. And we are gaining momentum as far as that goes from 0.9 to 1.2, 1.4s and we expect fourth quarter book-to-bill to be even stronger than that. So I think that translates into what we think is high level of confidence of revenue growth going into next year.

Sheila Kahyaoglu

Analyst, Jefferies LLC



Okay. Thank you.

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Nazzic S. Keene

Chief Executive Officer & Director, Science Applications International Corp.

Thanks a lot.

Charles Alexander Mathis

Executive Vice President & Chief Financial Officer, Science Applications International Corp.

I'm sorry. There was a question on payroll and that has no impact on the revenue or the cash flow for the year. It's merely syncing up the SAIC and the Engility payroll cycles so that we're all on the same payroll now. So, the overall quarter-to-quarter cash flow impact is a bit pronounced that the differences are because it was somewhat blended between SAIC and Engility and now we're all synced up. So that's why we have somewhat more of an impact in Q4 than the previous quarters.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Okay. Thank you very much.

Operator: And we'll go next to Cai von Rumohr with Cowen and Company.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Yes. Thank you very much and nice job. So, obviously, you got a lot of bookings coming in from the protests, but sometimes protests take a longer to clear than one expects. If none of those protests clears, the \$2 billion, what kind of a book to bill – can you still do 1.0?

Nazzic S. Keene

Chief Executive Officer & Director, Science Applications International Corp.

Yeah. Cai, this is Nazzic. So, you're absolutely right. We have most protests go through a pretty standard cycle, but you're absolutely right, somewhere elongated and we certainly are seeing that the EDIS is a great example of that. So what we're trying to do is give you some insight based on our best guess of what may happen, but certainly we can't be 100% certain as the customer makes the ultimate decision. So, with that being said, we have a very strong pipeline, as we referenced. We have very high submits, as we referenced. And so to the extent that those decisions stay on track and stay in the quarter, I do believe that we should demonstrate a strong bookings quarter. But you're absolutely right, when it comes to bookings, the customer makes those decisions and so we'll continue to navigate and watch that. But in addition to those in protests, we also have other pretty significant pipeline opportunities that could close in the quarter.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Got it. And then you referenced \$75 million run rate, 85% by year-end, that's a \$16 million run rate, you did \$10 million of synergies in the third. Should we look for like \$14 million, \$15 million, something like that? I mean, that's sort of what seem to be the trend line to get us to the \$16 million?

Charles Alexander Mathis

Executive Vice President & Chief Financial Officer, Science Applications International Corp.

Sorry, Cai, I'm trying to follow you here on the numbers. I think...

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Cai von Rumohr

Analyst, Cowen and Company, LLC

Well, you mentioned \$75 million is your kind of synergy target and that you expected to be at 85% of your target by year-end. 85% is \$64 million. And if we do a quarterly run rate of that is \$16 million. And yet you did \$10 million of synergies in the third quarter. So, the question is, does that mean we should guess you do something like \$14 million of synergies in the fourth quarter to get you to that run rate?

Charles Alexander Mathis

Executive Vice President & Chief Financial Officer, Science Applications International Corp.

Let's see. If that is the calculation that you're coming up with, Cai, I would say that I would agree with you. We will get to the 85% of the \$75 million by the end of the year. I don't quite track you to getting to that exact number there. But assuming you're correct there then that would be the case and we're on track to do that. The remaining part – the remaining 15% of the net cost synergies would be achieved over the fiscal year 2021 and then that full benefit would be realized in the next year. So they're in particularly relating to the facilities, as Nazzic talked about. So there is some of that that carries over into next year until you get the full benefit of that.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Got it. And last one. So you mentioned AMCOM as an opportunity. If I recall correctly, you've got like \$650 million in AMCOM business. So I assume you got a lot to kind of defend against. So, can you give us a little color in terms of how is this going to be chopped up, how much business is available so that we get some understanding as to how this is an opportunity for you?

Nazzic S. Keene

Chief Executive Officer & Director, Science Applications International Corp.

Yeah. So, Cai, this is Nazzic. So you're right. We do about \$600-million-ish a year right now under various task orders with AMCOM. And the customer is still working through their acquisition strategy. But what we know to be true is they are going to be acquiring through multiple acquisitions much greater than that run rate because they're going to put together some other scopes of work and acquire in a bit different manner. And so the way that we're looking at it is, is first and foremost we're going to protect the work that we have today, but we also have the opportunity to expand our footprint because of their acquisition strategy over the course of the next 12 to 18 months.

Cai von Rumohr

Analyst, Cowen and Company, LLC

Got it.

Nazzic S. Keene

Chief Executive Officer & Director, Science Applications International Corp.

Did that answer your question or did I miss something?

Cai von Rumohr

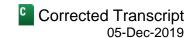
Analyst, Cowen and Company, LLC

No, no, no, that's definitely very helpful. So, basically there's more available. What are some of the bigger chunks?

Science Applications International Corp. (SAIC) Corrected Transcript Q3 2020 Earnings Call 05-Dec-2019 Nazzic S. Keene Chief Executive Officer & Director, Science Applications International Corp. That's exactly right. Cai von Rumohr Analyst, Cowen and Company, LLC Okay. Nazzic S. Keene Chief Executive Officer & Director, Science Applications International Corp. Yes. That's exactly right. Cai von Rumohr Analyst, Cowen and Company, LLC Okay. Great. Thank you very much. **Operator:** We'll go next to Joseph DeNardi with Stifel. Joseph William DeNardi Analyst, Stifel, Nicolaus & Co., Inc. Yeah. Good evening. Charlie, sorry to beat this to death, but if the protests are resolved favorably, if the asset forfeiture contract comes through, how much of that in total would you guys reflect in bookings and backlog just given your treatment of that? Thank you. Nazzic S. Keene Chief Executive Officer & Director, Science Applications International Corp. I believe the asset forfeiture is a single award IDIQ and so just to refresh your memory, we don't take that as a full booking. It's just the way that we do it and so we would only book as it relates to a calculation in the book-to-bill ratio whatever task order would happen to come with it. And it depends on how much they want to put under task order, but it's about \$100 million a year - \$100 million to \$140 million a year, but the customer could acquire it in a couple of different ways based on whatever task order structure they want to set up. Does it help? Joseph William DeNardi Analyst, Stifel, Nicolaus & Co., Inc. And then in terms of what's in protest, would the whole \$2 billion come in? Charles Alexander Mathis Executive Vice President & Chief Financial Officer, Science Applications International Corp.

Yeah. So let me clarify as well, Joe, so because there is a difference between the contract awards and the single award IDIQs, the contract awards is the Cloud One, the cloud computing environment, that's a \$728 million, that's a contract award. The EDIS is a single award IDIQ. FSA [indiscernible] (00:44:07) single award IDIQ of which we get some of the task orders and there was one other one, which was a supply chain at DLA FSG 80, it was \$950 million, close to \$1 billion over seven years. A competitor protested this and [indiscernible] (00:44:25) themselves as handling the protest resolution. We expect a resolution in the next few weeks, but that one is also a single award IDIQ. The task order of that would get booked as well. Does that help? I kind of clarified some of that.

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Joseph William DeNardi

Analyst, Stifel, Nicolaus & Co., Inc.

Yeah, a little bit. Charlie, you also mentioned something to the effect of – if the CR continues for any longer, I think it could have an impact on the revenue outlook. Were you referring to this year or more kind of next year? Maybe just clarify what you meant by that. Thank you.

Charles Alexander Mathis

Executive Vice President & Chief Financial Officer, Science Applications International Corp.

Yeah. That would be next year. We don't see any impact this year and it's really – if it's longer, I mean, much longer, that's a full year CR, something like that, may impact the revenue, but it's too early to tell right now how that's going to work out.

Joseph William DeNardi

Analyst, Stifel, Nicolaus & Co., Inc.

Okay. And then Nazzic, just kind of high level, when you look at your organic growth even adjusting for some of the dis-synergies compared to maybe where the market is or some of your peers are, could you just may be provide your perspective on the bridge between where you are and where they are, is it kind of end-market differences, is it win rates? And maybe when you think you can get to a level like that? I mean, it sounds like the strategic review that you guys have ongoing is a part of that, but maybe just your perspective on that. Thank you.

Nazzic S. Keene

Chief Executive Officer & Director, Science Applications International Corp.

No, absolutely. You're absolutely right. The strategic review is not just a part of it. It is absolutely our intent to step back, take a look at the opportunities that are in the industry to ensure that we are very, very well aligned to the areas that we can drive growth for the enterprise. And so certainly I'm not going to speak to our competitors and their strategy. But at this point, I feel very good about the choices we are making, the investments in people and talent and pipeline development and customer access that we're making. And it is for that absolute purpose that you just mentioned and that is to drive profitable revenue growth as we look forward in the months and years to come. And so that's our intent. That's absolutely one of the top three priorities that I mentioned earlier. And the strategy refresh and the implementation of that strategy and the focus on the areas that I mentioned will drive the growth in the out-years.

Joseph William DeNardi

Analyst, Stifel, Nicolaus & Co., Inc.

Thank you.

Operator: We'll go next to Tobey Sommer with SunTrust.

Jasper Bibb

Analyst, SunTrust Robinson Humphrey

Thanks. This is Jasper Bibb on for Tobey. I wanted to ask if you could provide any additional color on the Air Force CCE takeaway that was protested in the late September and could you size out the award relative to previous cloud contracts?

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Nazzic S. Keene Chief Executive Officer & Director, Science Applications International Corp.	A
Yeah. That's one we touched on earlier, so it is still under protest and we look for it, if it goes its normal cycle, to come out of protest as we get towards the end of this calendar year and that's really all I can say about the opportunity.	
Jasper Bibb Analyst, SunTrust Robinson Humphrey	Q
Okay. No worries. So just wondering	
[indiscernible] (00:47:46)	
Charles Alexander Mathis Executive Vice President & Chief Financial Officer, Science Applications International Corp.	A
The size of it was roughly \$700 million contract.	
Jasper Bibb Analyst, SunTrust Robinson Humphrey	Q
Okay. Do you have any way to think about the timeline? It did seem like a pre-	etty strong win for the company.
Nazzic S. Keene Chief Executive Officer & Director, Science Applications International Corp.	A
Is it a strong what for the company?	
Jasper Bibb Analyst, SunTrust Robinson Humphrey	Q
Strong win.	
Nazzic S. Keene Chief Executive Officer & Director, Science Applications International Corp.	A
Yeah, we feel very confident.	
Jasper Bibb Analyst, SunTrust Robinson Humphrey	Q
Okay. Great. So I was wondering kind of how you're thinking – just wondering ahead.	g how you're thinking about – go
Nazzic S. Keene Chief Executive Officer & Director, Science Applications International Corp.	A
No, you go ahead, please.	
Jasper Bibb Analyst, SunTrust Robinson Humphrey	Q

Yeah. I was just kind of wondering how you're thinking about additional M&A activity at this point. Do you see the company waiting until Engility is fully integrated before you're throwing your hat back in the ring?

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Nazzic S. Keene

Chief Executive Officer & Director, Science Applications International Corp.

Well, at this point, as Charlie mentioned and I referenced as well, we feel very good about the success of the Engility acquisition to-date. And for almost all of the major milestones that we put in place about a year ago as we were going into the acquisition, we have either met or exceeded our expectations along the integration path. So, we have good confidence in the Engility acquisition, the integration has gone well, the cost synergies we touched on. But with that being said, we recognize there's still some work to do and we touched on the real estate consolidation that will take place and provide the additional cost synergies next year. And then on the revenue synergy side, we are seeing good momentum as we touched on with regard to the pipeline development, with regard to some of the key wins and we'll continue to certainly put priority and navigate that.

Now with that being said, we do want to keep the options open. We are very selective in our approach to M&A, we always have been. And we do not look to be a serial high volume acquirer, of doing many transactions. But if there was a transaction that brought capabilities or market access or customer access that would support our strategy and support our priority of organic profitable revenue growth, we certainly would look at that. And so I think that's the best way to frame it is that we believe we're in a good position, we've got a good balance sheet and we want to make sure that we capitalize on the market opportunities ahead of us, but certainly continuing to work the Engility acquisition is top of mind.

Jasper Bibb

Analyst, SunTrust Robinson Humphrey

Okay. That's helpful. Just last question from me. I believe you have a press release last week that announced almost \$600 million in space and intelligence contract wins. Could you kind of highlight how the capabilities acquired in the Engility deal have been leveraging your recent bid and proposal activity?

Nazzic S. Keene

Chief Executive Officer & Director, Science Applications International Corp.

Yeah. So certainly in that portfolio of wins, the themes were around space, and the acquisition of Engility has strengthened the SAIC portfolio serving our space customers. And so we've got a great position in the space missions across both the civilian, the intel community and the DOD. And so that combination of what Engility brought to the table, what SAIC had already in place has really strengthened our position in space. And so I would say that was certainly one thing. And then the broader intel community, the acquisition of Engility gave us great access to broader customers in the intelligence community and we continue to see excellent pipeline development and submits and now beginning to see the wins that come with that in that particular area as well. And I think those are really the two themes of that bundle of announcements.

Jasper Bibb

Analyst, SunTrust Robinson Humphrey

All right. Thanks for the color.

Nazzic S. Keene

Chief Executive Officer & Director, Science Applications International Corp.

You're welcome.

Operator: We'll go next to Gavin Parsons with Goldman Sachs.

Science Applications International Corp. (SAIC) Corrected Transcript Q3 2020 Earnings Call 05-Dec-2019 Gavin Parsons Analyst, Goldman Sachs & Co. LLC Hey, thanks. Good afternoon, everyone. Nazzic S. Keene Chief Executive Officer & Director, Science Applications International Corp. Good afternoon. **Gavin Parsons** Analyst, Goldman Sachs & Co. LLC

Maybe just following up on kind of exactly that – a year post-Engility. Some of your peers have done large scale M&A, saw it disrupt their bookings. [ph] Obviously, you spent (00:51:49) a lot of time talking about how you did pre-integration work to make sure that wouldn't happen. Book-to-bill has been a little soft, but it's depending on the math, add back these protests, book-to-bill has actually been pretty strong this year. So, I guess, the question is, has the Engility acquisition disrupted bookings at all or is that kind of on track with where you thought it would be before closing Engility bookings-wise?

Nazzic S. Keene Chief Executive Officer & Director, Science Applications International Corp.

No, great question. So I think the short answer it has not disrupted bookings at all that we – as you mentioned, we did the early work to ensure that we had a very cohesive go-to-market strategy the day that we closed, that we had a very cohesive set of teams focused on the customers in the pipeline development. And so we've seen the

fruits of that over the course of the last couple quarters really come to be. And so with the increase in submits, the increase in our pipeline and certainly a strong bookings quarter this quarter and the opportunity to have a strong one next quarter, we believe that we are seeing the momentum that came from the integration and the acquisition of Engility and we'll continue to do so. **Gavin Parsons**

Got it. So, those revenue synergies, there's still momentum going forward that haven't been captured in bookings but are in the pipeline that you spoke about?

Nazzic S. Keene Chief Executive Officer & Director, Science Applications International Corp.

That's exactly right, yeah.

Analyst, Goldman Sachs & Co. LLC

Gavin Parsons Analyst, Goldman Sachs & Co. LLC

Got it. Thanks. And then just what's the total percentage of revenue that's up for recompete next year?

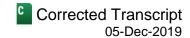
Nazzic S. Keene

Chief Executive Officer & Director, Science Applications International Corp.

This is a normal, kind of the normative range, 20% to 25%.

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Gavin Parsons Analyst, Goldman Sachs & Co. LLC	Q
Okay. Thank you.	
Nazzic S. Keene Chief Executive Officer & Director, Science Applications International Corp.	A
This is a low year. Next year we see it to be more standard.	
Gavin Parsons Analyst, Goldman Sachs & Co. LLC	Q
Okay. Thank you.	
Nazzic S. Keene Chief Executive Officer & Director, Science Applications International Corp.	A
You're welcome.	
Operator: We'll go next to Jon Raviv with Citi.	
Jon Raviv Analyst, Citigroup Global Markets, Inc.	Q
Hey, thanks for the follow-up. Just clarify the expectations for fourth quarter orgathe acquired sales are going to look like for Engility? I think, in fourth quarter last added sales, so should the run rate for Engility's contribution in fiscal fourth quarmillion.	year, you maybe had some
Charles Alexander Mathis Executive Vice President & Chief Financial Officer, Science Applications International Corp.	A
Hi. You're breaking up there a little bit, Jonathan. I think you're asking about the	revenue work and
Jon Raviv Analyst, Citigroup Global Markets, Inc.	Q
What's Engility's contribution going to be in fourth quarter? So the \$1.6 billion of organic growth year-over-year, Correct?	sales you do, that should be
Charles Alexander Mathis Executive Vice President & Chief Financial Officer, Science Applications International Corp.	A
We don't break out any longer the Engility portfolio versus the SAIC, so I couldn' back and give you an update on our guidance for the full year and that the secon first half. If you look at the first three quarters of the year, they were all right in the revenue goes and that translated into about a 1.5% revenue contraction. If you to synergies, you get to about a 1% revenue growth and fourth quarter should be faquarters.	nd half is going to be similar to the at \$1.6 billion range as far as ake out the revenue dis-
Jon Raviv Analyst, Citigroup Global Markets, Inc.	Q

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From a total sales number perspective or from an organic growth perspective similarly – you used that world similarly?

Charles Alexander Mathis

Executive Vice President & Chief Financial Officer, Science Applications International Corp.

Yeah, so total sales organic and just keep in mind that fourth quarter is traditionally lowest revenue quarter due to, as I stated in my remarks, due to holidays and vacation time [ph] in this sort of time of year (00:55:34) holidays and vacation time.

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

As well as in terms of dollars because [indiscernible] (00:55:41) \$1.6 million through each of the four quarters?

Charles Alexander Mathis

Executive Vice President & Chief Financial Officer, Science Applications International Corp.

Yeah. I'd say in terms of dollars.

Jon Raviv
Analyst, Citigroup Global Markets, Inc.

Okay. AMCOM, just a perspective, I know AMCOM went through a recent fee process a few years ago. Can you compare that process to this process? Was that more of a replace and recompete or is now there's more opportunity to open up the aperture and capture some more work just in terms of I feel like back then because they're more of a risk where now you're talking about it being perhaps an opportunity?

Nazzic S. Keene

Chief Executive Officer & Director, Science Applications International Corp.

Yes. I'm going to try to answer your question, but ask me again if I don't get it. You are breaking up this a bit. But yes, the recompete three, four years ago, give or take was what I would call more normative recompete, recompeting our work in a – they took a different acquisition strategy as far as how they did it from an acquisition cycle. But in general, it was recompeting our work and not a lot of additional type work in that particular cycle. What we're saying now to your point is the opportunity over the course of the next 12 to 18 months, so it's going to be spread over the next year, year-and-a-half and what we understand to be the case is they're going to do several acquisitions where it does provide the opportunity for us to expand our footprint depending on our bid strategy. Did I capture your question?

Jon Raviv

Analyst, Citigroup Global Markets, Inc.

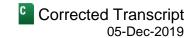
Yeah. And I appreciate that. And just very last for me, appreciate the follow-up here. Just on the low CapEx that you guys posted, I mean it is below peers, how do you think about that from a strategic perspective?

Charles Alexander Mathis

Executive Vice President & Chief Financial Officer, Science Applications International Corp.

Well, it was an anomaly, the minimal CapEx spending in the quarter, so keep that in mind. We do expect to return to a more normal level in Q4 and beyond. But again, as I mentioned, strategically we're looking to do more in the cloud on the IT CapEx side than we have done in the past and that should lower the CapEx spending in the future.

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Jon Raviv

Analyst, Citigroup Global Markets, Inc.

Okay. Thank you.

Operator: And at this time, I'll hand the call back over to Shane Canestra for any additional or closing remarks.

Shane P. Canestra

Vice President-Investor Relations, Science Applications International Corp.

Thank you, Vicki. Thank you very much for your participation in SAIC's third quarter fiscal year 2020 earnings call. This concludes the call and we thank you for your continued interest in SAIC.

Operator: That does conclude today's conference. We thank you for your participation.

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