

# Q2 2026 Earnings Call

## Company Participants

- Joseph DeNardi, Senior Vice President of Investor Relations and Treasurer
- Prabu Natarajan, Executive Vice President and Chief Financial Officer
- Toni Townes-Whitley, Chief Executive Officer

## Other Participants

- Colin Canfield, Cantor Fitzgerald
- David Strauss, Barclays
- Gautam Khanna, Cowen & Co
- Jonathan Siegmann, Stifel Financial Corp.
- Max Miller, UBS Securities
- Noah Poponak, Goldman Sachs
- Seth Seifman, J. P. Morgan Chase & Co.
- Tobey Sommer, Truist

## Presentation

### Operator

Good day and thank you for standing by. Welcome to the SAIC Fiscal Year 2026 Second Quarter Earnings Conference Call.

At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions). Please be advised today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Joseph DeNardi, Senior Vice President, Investor Relations and Treasurer. Please go ahead.

### Joseph DeNardi {BIO 22467920 <GO>}

Good morning and thank you for joining SAIC's second quarter fiscal year 2026 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 second quarter of fiscal year 2026 that ended August 1, 2025. 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 discussion of these risks, including the Risk Factors section of our Annual Report on Form 10-K. 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** {BIO 16690503 <GO>}

Thank you, Joe, and good morning to everyone on our call.

Overall, our results in the quarter were mixed, with revenue below our expectations, declining 2.7% year-over-year, but profit margins rebounding well from the first quarter by strong program execution. In addition, we delivered a second consecutive quarter with a book-to-bill comfortably over 1.0, driving our year-to-date book-to-bill to 1.4. Our qualified pipeline, planned submit levels, and backlog of pending awards all remain strong, and we believe the investments made and business development processes implemented in recent quarters position us well to capitalize on a rich set of opportunities.

As you can see from our revenue performance in the quarter and our updated outlook, we are seeing a more challenging environment than we had previously forecasted. There are three drivers behind this: first, slower conversion of on-contract growth opportunities into revenue; second, an increase in the impact from program disruptions; and third, delays on our new business awards.

As we highlighted on our first quarter call, our prior revenue guidance for the year of 2% to 4% growth assumed several points of contribution from a combination of on-contract growth and new business wins ramping up within a certain time frame. While recent new business, including TENCAP HOPE with the Air Force and a key program with the Navy, valued at approximately \$350 million, will contribute modestly to this year and further ramp in fiscal year '27, on-contract revenue growth has been impacted by funding uncertainty, added scrutiny related to efforts to reduce government spending, and a government workforce dealing with increased turnover. These headwinds have been more pronounced at customers working through particularly meaningful transformation or facing greater budget uncertainty.

As you will recall from our first quarter call, we indicated that delays in new business awards would require a greater contribution from on-contract revenue in order for us to meet our plan for the year. Based on trends we've seen in recent months, we now see that as unlikely to materialize, and we've updated our guidance for fiscal year '26 and fiscal year '27 accordingly. Our revised outlook for fiscal year '26 revenue assumes that current trends continue through the remainder of the year with very little contribution from additional new business or on-contract growth.

While we believe that much of the revenue headwind we are facing is temporary and will normalize over time, we are taking purposeful action to align our cost structure with the more challenging revenue environment expected over the next several quarters. As we highlighted on last year's Q3 call, our cost structure is variable and the preparation we have taken in recent quarters positions us well to respond appropriately with cost efficiency initiatives to mitigate the impact on EBITDA and free cash flow from lower revenue.

While some of these initiatives are already underway, we will discuss the specifics in greater detail on our third quarter call. The savings resulting from these initiatives give us greater confidence in our ability to continue to deliver margin improvement while investing appropriately for growth and value creation in the coming years.

Given the relative magnitude of our revision to revenue, I want to be very clear that the revised outlook assumes that impacts from on-contract growth and new business award delays continue, which we believe is a prudent assumption given the current market. As a result, we see the

updated guidance range is appropriately de-risked based on our current assessment of market conditions.

Now while the current market volatility and the impact it is having on our near-term revenue is disappointing, I'm encouraged by the signs of progress we're seeing in the execution of our strategy. When I became CEO approximately two years ago, the strategy review we completed indicated that substantial changes were needed across many facets of the business in order for SAIC to regain a position of leadership and maximize long-term value for our employees, customers, and shareholders.

We knew that the path towards regaining the leadership would not be linear. While this quarter's results, revised outlook, and recent market volatility have been challenging, and we are addressing them head-on, I will draw your attention to factors that are most relevant for our success beyond this period of revenue softness and over the long-term. Our year-to-date recompile win rate is in line with our target, and our planned recompiles over the next 12 months are fairly typical with a handful of programs in the 1% to 3% of revenue range. We expect to show continued progress over time in sustaining our recompile win rate at current levels.

Our win rate on new business is also roughly in line with our target, as we have been successful on two of the six larger pursuits adjudicated year-to-date. As I indicated earlier, our pipeline of expected awards in the coming quarters remains solid. Restoring our recompile win rates to our target range and winning our fair share of new business pursuits while increasing our submit levels is a good formula for sustainable growth over the long-term.

We are encouraged by the political support to provide solid levels of funding in areas including border security, FAA modernization, and homeland missile defense. However, we expect this administration's focus on efficiency to continue and suspect that budget timelines are likely to be dynamic in the coming quarters. We remain confident that our strategy and business model position us well to adapt and win by delivering outcomes at speed for our customers.

We are seeing increased opportunities to drive greater efficiency across our business as we leverage artificial intelligence for core operations. We expect this to materialize as an incremental tailwind to margins and savings for our customers in the coming years.

I want to conclude by thanking our employees for their dedication and focus. During our recent quarterly review of the business, I emphasized to our teams the importance of culture, leadership, and employee engagement as we continue to navigate a dynamic market and more challenging near-term revenue outlook. I am proud of how we've shown up for our customers and each other over the past several months. Our culture, anchored around our dedication to the mission of national security, positions us well to grow and create long-term value for all of our stakeholders.

I'll now turn the call over to Prabu.

**Prabu Natarajan** {[BIO 17701667 <GO>](#)}

Thank you, Toni, and good morning to those joining our call.

Second quarter revenue declined 2.7%, driven mainly by a 3% year-over-year headwind related to Cloud One compute and store revenue, not fully offset by new business volume. The variance, when compared to our first quarter growth rate and prior expectation, is primarily a lesser contribution from on-contract growth, which slowed to 3% in 2Q from 8% in 1Q, and a modest increase from the impact of program disruptions.

Second quarter adjusted EBITDA was \$185 million, resulting in an adjusted EBITDA margin of 10.5%. Results benefited from strong program execution and a favorable legal settlement, which was offset by an impact to state taxes related to the One Big Beautiful Bill Act. The underlying margin adjusting for these two items of 10.2% reflects improved profitability across our contract portfolio and represents an increase of 180 basis points quarter to quarter and 80 basis points year-over-year.

Adjusted diluted earnings per share of \$3.63 benefited from a favorable tax settlement and increased adjusted EBITDA in the quarter. Second quarter free cash flow improved meaningfully from first quarter to \$150 million though we continue to see some challenges related to the timing of invoice payments across a small set of contracts.

As Toni indicated, we are updating our guidance for FY '26 and FY '27 to reflect a more challenging revenue environment. We are lowering FY '26 revenue to a range of \$7.25 billion to \$7.325 billion, representing organic contraction of 2% to 3%. We expect organic revenue to decline by approximately 5.5% and 4% in 3Q and 4Q, respectively. Our revised FY '27 revenue guidance of 0% to 3% assumes a more subdued contribution from on-contract growth of 2% to 3%, a modest benefit from new business, and a more typical headwind from contract transitions. Note that we will annualize the headwinds related to the NASA EAST loss and the Cloud One compute and store program in our third and fourth quarters, respectively.

FY '26 adjusted EBITDA margin guidance is being lowered due to the one-time impact from Section 174 changes to our state and local taxes, which represents a 10 basis points headwind this year. We are reiterating our FY '27 adjusted EBITDA margin guidance of 9.5% to 9.7%. As Toni indicated, we will look to mitigate the impact of lower revenue with cost efficiency initiatives which increase our confidence in the year-over-year margin improvement plans we've outlined. We will update you on our Q3 and Q4 calls regarding the implementation of these plans and the potential upside to our margin targets they could drive.

We are increasing our FY '26 adjusted EPS guidance to a range of \$9.40 to \$9.60, which benefits from the tax settlement in 2Q and a revised full year effective tax rate assumption of 14%. Our revised FY '27 EPS guidance of \$9.00 to \$9.20 assumes a more normalized effective tax rate of approximately 23%.

We are increasing our FY '26 free cash flow guidance to greater than \$550 million, which reflects a reduction in cash flow due to lower expected EBITDA, offset by lower cash taxes due to Section 174, and we are assuming a similar dynamic in FY '27. We are still finalizing our planning and the relative impact on cash taxes between FY '26, FY '27, and FY '28, but expect the three years combined to see a reduction in cash taxes of approximately \$200 million. We are on track to deliver nearly \$12 in free cash flow per share in FY '26 and between \$13 and \$14 in free cash flow per share in FY '27, both higher than prior estimates.

Our capital deployment plans over the next few years remain focused on driving long-term value for shareholders with sufficient capacity to support this with both share repurchases and capability-focused M&A.

I will now turn the call over for Q&A.

## Questions And Answers

### Operator

(Question And Answer)

Thank you. (Operator Instructions). One moment for our first question. Our first question comes from Jonathan Siegmann with Stifel. Your line is open.

**Q - Jonathan Siegmann** {[BIO 15753736 <GO>](#)}

Good morning, Toni, Prabu, and Joe. Thanks for taking my question.

**A - Toni Townes-Whitley** {[BIO 16690503 <GO>](#)}

Good morning.

**Q - Jonathan Siegmann** {[BIO 15753736 <GO>](#)}

The disaggregation -- how you broke down the revenue outlook change is helpful. Specific to on-contract growth, can you comment a bit more on what type of work or customers you're seeing the greatest impacts? And does the loss of this mid-single-digit on-contract growth represent a share shift to someone else or a deferral of that potential work? Or is this a real efficiency that government is driving? Thank you.

**A - Toni Townes-Whitley** {[BIO 16690503 <GO>](#)}

Yes. Let me take both the first and second part of your question. In terms of -- as we -- so as I mentioned in the script, in some of the areas for on-contract growth where we've seen the challenge in converting that to revenue, the delays and the environmental, if you will, conditions, we've seen that in areas where there's great transformation across government, particularly in the Army, where we had the Army Transformation initiative, which was launched earlier this year, which represents a double-digit cut to the Army, and in specific areas, some areas where SAIC is supporting in programs like S3I for us in Huntsville.

In these areas, we see a slowdown, if you will, a delay in our ability to grow and present new capabilities and opportunities to our customers, timing, switch turnover in personnel, new processes, new norms, new reviews, and that is creating some of this delay. Other areas in some parts of the civilian space, where, for example, the Department of Treasury, where we have a large T-Cloud program, that too has experienced significant delays in our ability to increase our on-contract position. And then I could offer up a couple of other programs, maybe in the Space Force arena. So we're seeing it across government.

Look, is it related to a share battle with competitors versus an efficiency of the government, I would argue for the latter. The efficiency, which in many ways we have to acknowledge that the government, OMB and other parts of government GSA have been very diligent in driving government efficiency efforts, many to the benefit of the U.S. taxpayer. And so we have to applaud many of those efforts. But the day-to-day reality on the ground is that it has caused delays.

And as we navigate those delays, our ability to convert revenue from those opportunities has stalled. And hence, we have tried to show a prudent framework for how we look at the rest of the year, assuming that that environment continues. And we believe that it will normalize over time over the next few quarters, which is why we've tried to de-risk, if you will, our guidance to you at the Street, relative to assuming little to no improvement on the on-contract growth, or in a change, a fundamental change in the award of new business over the next two, three quarters. So that's what's represented in our call.

**Q - Jonathan Siegmann** {[BIO 15753736 <GO>](#)}

Thank you.

## Operator

One moment for our next question. Our next question comes from Seth Seifman with J. P. Morgan. Your line is open.

### Q - Seth Seifman {[BIO 16417112 <GO>](#)}

Hey, thanks very much and good morning. Wanted to maybe follow-up on that a little bit. Do you think -- you're talking about some changes in the customer approach here. Does that -- Toni, how do you think that should affect kind of the structure of this industry over time and the number of players and what type of returns that people can expect?

### A - Toni Townes-Whitley {[BIO 16690503 <GO>](#)}

Yes. Let me take a first swing and I'd like Prabu also to respond as well. Look, I think we have all acknowledged the volatility in the market over the last few quarters, with changes of fundamental reduction in the government personnel, and I would say, a disproportionate impact on government acquisition personnel, which is the channel to the private sector. And hence, delays and changes in process, escalations for approvals, I think that should be anticipated -- should have been anticipated. We've brought that forward and I'm sure our peers have brought that to you.

In terms of whether that resets the market in any structural way, A, I would say it would be very -- it would be too soon to tell, but, B, I would suggest to you that I think all are trying to react to this new environment and delay does not mean that we don't expect things to normalize over time. As we look into fiscal year '27, for us, which would be in the next few quarters, we are starting to see signals of, I would say, normalization. Does anyone have a crystal ball exactly when that will convert to revenue as we've seen in the past? No. But I would say things have started to settle and we are expecting that they will in fiscal year '27.

We're actually encouraged in some of the clarity we have on where the government is putting budget priorities that line up with some of the investments in areas of our capability. And we are also encouraged that we see reform of acquisition that we think will be positive for many parts of our market as well. So I don't want to suggest to you that this is a durable effect over time, but I would suggest to you that organizations like ourselves who want to be prudent and want to be conservative in our view are going to try to explain and express this environment, I'd say, for the next two to four quarters.

Prabu any other thoughts you might have?

### A - Prabu Natarajan {[BIO 17701667 <GO>](#)}

Thank you, Toni. That was perfect. Seth, on the structural question, I'd sort of break this down into two components. One is sort of players in the industry. Clearly there we are seeing new entrants in the market, non-traditionals with more commercial orientation to them, and I then would break down the other component of change being more commercial-like terms and conditions, maybe a little more expectation that contractors bear a little more risk on fixed-price programs. So I'd sort of bifurcate the structural changes potentially underlined as being in those two buckets.

Obviously, we've talked about the benefit of having more fixed price in the portfolio. Our civil business is predominantly fixed price in T&M. And obviously, we're delivering very healthy margins from that business. So I think we are almost welcoming the change to more fixed-price

orientation, more outcome-based orientation to our programs. And as far as the structural change with new entrants, I think we welcome newcomers in the industry as a mission integrator. I think we believe sincerely that the offerings from commercial vendors still will require mission integration at its core to be able to operate inside of the government environment. So we welcome the competition in the industrial base and we are looking forward to the change.

And then last footnote I would say, we're not really seeing any significant changes in the terms and conditions yet. And therefore, I would say there's probably more rhetoric than reality right now on the expectation for terms and conditions to change dramatically. So while we're watching the change and we're navigating as best as we can in an uncertain environment, our fundamental focus is growing EBITDA and growing cash for our shareholders and remaining shareholder friendly.

**Q - Seth Seifman** {[BIO 16417112 <GO>](#)}

Okay. That's very helpful. Thanks. And then maybe just to follow-up on that. I think during the -- earlier you mentioned Huntsville, and I kind of think of that as an area where due to the Army Missile Command being there, a place where we should be seeing a lot more resources flowing into given the focus on missiles and missile defense. So is that something where you see maybe some temporary -- is that more of a temporary disruption there and a place where you see opportunity over time?

**A - Toni Townes-Whitley** {[BIO 16690503 <GO>](#)}

No, I think that's fair. I think there is a mixed reaction there temporarily and what we have sort of guided to. We do have challenges on the day-to-day changes there. There's been quite a bit of transformation happening there, as you know, within the Army, but particularly within AvMC or the Missile Command. But as you've also heard, Space Force moving to Huntsville, there's a lot of opportunity moving in that direction as well. And we are very well positioned, as you know, with a significant footprint there and engagement in that community.

So we see upside. But I think, again, it's prudent for us to at least communicate to you that the environmental day-to-day experience is one that has challenged our ability to convert revenue from our existing contractual footprint and we expect that to improve over time. And obviously, we'll come back to you with any updates to guidance as we see greater improvement on our on-contract growth.

**Q - Seth Seifman** {[BIO 16417112 <GO>](#)}

All right. Okay. That's very helpful. Thank you.

**Operator**

A moment for our next question. Our next question comes from Tobey Sommer with Truist. Your line is open.

**Q - Tobey Sommer** {[BIO 6296228 <GO>](#)}

Thank you. I was wondering if you could talk about the cost efficiency measures that you cited to allow you to get year-over-year margin expansion. And maybe speak to the tension between doing something on the cost side now when the revenue -- top-line is sort of tepid as long as you think that's transitory and not sort of multi-year in nature. Thanks.

**A - Toni Townes-Whitley** {[BIO 16690503 <GO>](#)}

No, I appreciate the question and the two dimensions of the question, first, in terms of what we're doing and then the balance that should be there that is not reactive, but actually part of that we are still committed to and continuing to invest in certain parts of our value creation for the business. If I was to describe sort of broadly, and I think we said in the script that we would come back to you next quarter to give some more specifics. But at this stage, I'd like to characterize we're leveraging our enterprise operating model, which was part of our strategic input over the last two years to really build rigor in a full-scale enterprise operating model, to accelerate the adoption of AI across our core functions. That's really one of the areas that we think has the ability to have margin improvement, both what we can provide for our customers, but also, quite frankly, for our shareholders.

And that said, we have a pretty full-scale program of how that's being rolled out across the organization and we can give some more detail there. But it is important to suggest that that has been part of our strategy throughout. I believe the market -- across the market, companies are looking at this kind of capability, and whether that be agentic or generative or various forms of AI and automation, we're building that into our core infrastructure and expect that to have some results over the next few quarters. And again, to the extent that we can continue to do that, have that as a lever as we go forward, it gives us greater confidence that we can meet the expected -- EBITDA expectations of the Street if revenue continues to be compromised on the top-line.

#### **A - Prabu Natarajan** [{BIO 17701667 <GO>}](#)

Hey, Tobey, the only thing I would add to that is that we -- the actions have begun. We are sort of on our way there. The reality is, I think, we're going to take the rest of the year to calibrate against expectations for next year. The one area, and I want to be really clear about this, in the PowerPoint charts that we attached to the earnings release, we said there are two variables here. We don't really want to impact the submissions that we are committed to making for this year or next year. So I think if there's a bias, there's a bias towards ensuring that we don't decelerate on the submission volume, because we are continuing to put in good bids, we're winning our share of recompetes and new. So the focus is keep that up while we get efficiencies elsewhere in the business to be able to fund and pay for that. And the reality is that's where the focus is right now.

And we are continuing to be very specific about our expectations on recompetes for margin, our expectations for new business margins as well as execution margins. And the operating model is allowing us to spend a little more time with the program teams on generating more margin from the portfolio that we have today. And I will simply call out the civil business that is really delivering mid to high 13% margins now up nearly 100 basis points year-over-year. So we have some real opportunity, but what you're hearing from us is a lot of focus around where the attention should be spent and what we expect to get out of the portfolio we have instead of hoping for a portfolio we don't have. So the focus is running the business effectively day-to-day.

#### **Q - Tobey Sommer** [{BIO 6296228 <GO>}](#)

And I kind of wanted to ask a follow-up on a previous question with respect to industry composition consolidation portfolio shaping, not just from an SAIC perspective, but broadly, this experience with DOGE and a change in the way the market has historically operated. Do you think that management teams in the industry have had enough time with it to develop action plans for sort of composing a business and a portfolio of exposures in a way that they have a direction for the longer term? Or are we still in a wait-and-see and information gathering phase?

#### **A - Toni Townes-Whitley** [{BIO 16690503 <GO>}](#)

I think we see -- it's a very fair question. I think I would kind of find a midpoint between your two bookends there. Have we seen some information, has there been clarity on budget in terms of budget priorities, has there been indication of going commercial, commercial direct, and the type of demand signals that are being sent? I think we've seen those and we've started to collate, and I think as all companies are in this market, we've adapted to those demand signals.

Where we're encouraged, I would suggest to you is in the nature of the work we do, when we call ourselves a mission integrator, we are encouraged when the market also acknowledges that as a need across various government agencies, as we've seen with an award we mentioned last quarter with FDA or the space agency as part of looking for a mission integrator to help with the management of the satellite program. We've seen that in the recent requirements from the Department of Defense as they revised their requirements process to ask for mission engineering and mission integration as the key touch point to the private sector for new capabilities being brought. And we've seen that even in the conversations with FAA as they look to modernize what they've asked for as integration.

So in many ways, we feel like what we do and what we said we do well is showing up in demand signals across government. So that part and the prioritization of programs has become clear. To Prabu's earlier statements, there are new entrants, there is a clear signal for commercial capability, and as an integrator of commercial capability, we see that as a tailwind, not a headwind. Notwithstanding the current environment where we have some challenges in revenue conversion, we still see, I would argue, still feel bullish about the portfolio we have. To Prabu's point, being conservative in the frame of how we speak to on-contract growth and new business over the next few quarters. Prabu suggest that as we start to see new signals, we can adjust that guidance back to the Street.

#### **A - Prabu Natarajan** {[BIO 17701667](#) <GO>}

And, Tobey, the only thing I would add to that is, I think DOGE and sort of the related disruptions, in fairness, I think would be a good wake-up call for industry. And I do think that there are parts of the market where if you're focused on pure labor-based services without differentiation in sort of either enterprise IT or mission IT that is hard to differentiate, you are vulnerable for recompetes. And I think that has been our experience. And I think it would be a crisis that's wasted by industry if we don't step up and change the way we go to market, approach labor-based models, and frankly, convert more of labor-based into differentiated tech offerings for our customers. And I think that is what the new entrants are promising. Now query, can anyone new deliver at scale in the way that the traditional, I'm going to say, players deliver? I think to me, that's the challenge for industry. And we are determined to not waste this crisis.

#### **A - Toni Townes-Whitley** {[BIO 16690503](#) <GO>}

And the good news, I'll just add, as the final codicil is that we started this conversation 18 to 24 months ago. We started in the conversion of our portfolio towards mission, differentiated mission and enterprise IT. You see our venturing has increased in all things that we've been doing commercial. So not only is a crisis one thing you don't want to waste, but we want to be ahead of that in terms of not just reacting, but really driving and maybe accelerating parts of our strategy that we put in place, as I said, about 18 to 24 months ago.

#### **Q - Tobey Sommer** {[BIO 6296228](#) <GO>}

Thank you.

#### **Operator**

One moment for our next question. Our next question comes from Colin Canfield with Cantor Fitzgerald. Your line is open.

**Q - Colin Canfield** {[BIO 24396999](#) <GO>}

Hey, thank you for the question. Maybe following up with previous question, could the team maybe quantify the kind of the bridge for '27 growth, so essentially like the three buckets of on-contract growth, new program growth and efficiency headwinds, maybe if you could break that out quantitatively kind of or maybe just high level, like what are the kind of big moving pieces '26 to '27? Thank you.

**A - Prabu Natarajan** {[BIO 17701667](#) <GO>}

Yes. Hey, Colin, appreciate the question. I'll take a first crack at it here. The big-picture flat to 3% is our guide, and I'm going to try and bridge us to the midpoint of that number, about a 1.5%. I think we are generally assuming that growth will come out of backlog. So we expect to end the year with, I'm going to say, roughly between 70% and 90% in backlog that's going to convert into revenue next year. And I would say on top of that, we are assuming about, I'm going to say, 1% to 3% of on-contract growth, more in line with where we expect to be this year. In other words, our baseline assumption is that things don't get worse, that they remain stable, and obviously to the extent on-contract growth recovers next year, then obviously there's potential for us to do better inside of that range at this point on the 0% to 3%.

On new business, all we are sort of factoring right now are wins that we already have in our midst and that we expect to convert to revenue, and those are a couple of programs that Toni referenced in her script that have been slow to ramp this year, and we are hoping that those programs begin to ramp up. The only other note I would make here is that since the end of the quarter we have about another \$1 billion of wins that have not cleared protest windows. So we're sort of out there, but it's another \$1 billion potentially to our bookings in Q3. So a combination of those three things. But fundamentally a clear-eyed conservative view of, I would say, what growth looks like with no expectation that things dramatically improve on contract growth. Toni?

**A - Toni Townes-Whitley** {[BIO 16690503](#) <GO>}

Yes. The only thing I would add there are the levers that are in place. We've tested these levers and obviously we've had conversations with the Street about these levers. And I think as Prabu mentioned, we have a way to understand whether this condition, this environmental condition, is changing and when we can make any changes to update this guidance. When I look at our underlying levers for book-to-bill, obviously we feel good about where we are this year. We had mentioned 1.2 by H1.

We still see line of sight to that within this fiscal year. Our submits holding and sustaining, our win rates at target for both re-compete and new business, which was a question we had, I would say, a couple of years ago that we feel good that we turned that corner, and a pending award backlog that still hovers at the \$20 billion. I think those are the levers that are there that suggest that when we can address the delay environment, we have enough in the kitty, if you will, to start to drive within the range we've offered, as well as hopefully be able to improve upon it.

**Q - Colin Canfield** {[BIO 24396999](#) <GO>}

Got it. Thank you. And then maybe focusing on leverage, I appreciate the kind of commentary in the presentation around 3x, but you've gone above that in the past and obviously shares are off today. And like given the kind of Section 174 benefits, I think it's like a 14% free cash flow yield on

'27 [ph] free cash flow per share. So how do you think about going above 3x net debt to EBITDA to do something like an accelerated share repurchase or more repo?

**A - Prabu Natarajan** {[BIO 17701667](#) <GO>}

Yes. Hey, Colin, fair question. I mean, look, I think what we've signaled in the past is targets above 3x that we don't mind being a little bit over or a little bit under 3x. Obviously we approach our share repurchases with a grid in place, and we get to update the grid every quarter. And to the extent price reacts negatively, we have the capacity to buy more shares. So fundamentally, no change to capital deployment.

I think given the compression we've seen in our EBITDA, I think it's only fair to ensure that we don't run leverage up to a place where we are not comfortable in an uncertain environment. So I think that that's the balance. But I would say big-picture, we're on our way to buying between \$350 million and \$400 million this year and we'll probably end up retiring more shares at these prices than what we previously contemplated, but I'm cognizant of leverage.

**Q - Colin Canfield** {[BIO 24396999](#) <GO>}

Got it. And just one more. A lot of focus on efficiency on this call, but I think it's probably worth differentiating between like what I would call is one half calendar efficiencies, which is folks ripping up contracts or trying to rip up contracts and then posting it on Twitter. And then kind of second half efficiencies, which is government officials trying to kind of shape the FY '26 budget process, and that taking some kind of slowness dynamics that come with new administration. So maybe just digging into it, can you maybe differentiate how much of the efficiency dynamics you're seeing are what we would call kind of one half disruptive efficiencies, or more kind of second half FY '26, FY '27 shaping efficiencies? Thank you.

**A - Prabu Natarajan** {[BIO 17701667](#) <GO>}

Yes. I'm going to maybe take a first crack at this. I would say by and large, the disruptions have been to our current fiscal year. We, I think, are expecting that the flavor of the disruptions probably continue into the end of the year for us, in our end of our fiscal year. But I would say not yet disruptions that we believe are about FY '27. So more of a '26 flavor to it, which is why I think we are of the view at this point that the environment is stable, but we would love for it to improve. That has not actually happened. And the trades that our customers are making, frankly, are trades with respect to current government fiscal year that ends at this end of September. And our expectation is that we're going to be in a CR to start the new fiscal year. So I think that's our assumption, but it's mostly '26 focused.

**A - Toni Townes-Whitley** {[BIO 16690503](#) <GO>}

Yes. I would say I agree on the '26 and would suggest that don't see improvements, also don't see a decline. When we say stable, this is why we're holding to, again, a prudent view of '26 and carried into '27 in terms of what the stability, and quite frankly, some of the signals on the ground for efficiency. And I want to make sure when we speak to that, while it has had volatility on our day-to-day with our customers, we do see progress the government is making towards overall increases in efficiency across the various agencies, and we're partnered with the government to that outcome.

**Q - Colin Canfield** {[BIO 24396999](#) <GO>}

Got it. Thank you for the color. I appreciate the multiple questions. Thanks.

**A - Prabu Natarajan** {BIO 17701667 <GO>}

You bet.

**Operator**

One moment for our next question. Our next question comes from Gautam Khanna with Cowen. Your line is open.

**Q - Gautam Khanna** {BIO 7312818 <GO>}

Thanks. Good morning, guys.

**A - Toni Townes-Whitley** {BIO 16690503 <GO>}

Good morning.

**Q - Gautam Khanna** {BIO 7312818 <GO>}

Two questions. One, I was just curious if you could frame what your expectations are for the government fiscal year-end flush if we have one. And then secondly, if you could speak to exposure and your contingencies if we do go into a shutdown of some protracted length, call it a month or two, how would that show up and how would that impact the P&L? Thanks.

**A - Toni Townes-Whitley** {BIO 16690503 <GO>}

I'll take the first part of that on the flush environment and have Prabu speak to expectations relative to or contingencies relative to a CR environment. Look, I think we all talk about sweeps and flush at the end of a government fiscal year. I would suggest to you that it has been irregular relative to prior fiscal years, given the Reconciliation Act and all that has happened with budget reconciliation in many ways. What might have been a flush environment might portend increasing on-contract growth for various organizations have actually gone in very specific line items relative to reconciliation. And so we have not seen significant opportunity in that environment towards the end here of the government fiscal year. Relative to the CR, Prabu, you want to highlight?

**A - Prabu Natarajan** {BIO 17701667 <GO>}

Yes. Cai von, fair question. I think we have a few different precedents over the last handful of years. And I would say the longest was, if I recall, 38 or 39 days and the revenue impact that year was a little less than 1% for a full month, if you will. And I think query, if that scenario plays out, would you be able to recover that in the fiscal year? I think our assumption is we're going to have a CR at year end. And to the extent we end up with a shutdown that's lengthy, then certainly we'll have to talk about it on the December call. But CR is our base case. There was an impact to cash, but generally cash tends to recover within a couple of billing cycles. So I would not really expect a material impact to cash. So I would say marginal impact on revenues and probably little to no impact on cash if it's a traditional shutdown, if you will.

**Q - Gautam Khanna** {BIO 7312818 <GO>}

Thank you.

**Operator**

One moment for our next question. Our next question comes from Gavin Parsons with UBS. Your line is open.

**Q - Max Miller** {[BIO 24046953 <GO>](#)}

Good morning. This is Max Miller on for Gavin.

**A - Toni Townes-Whitley** {[BIO 16690503 <GO>](#)}

Good morning, Max.

**Q - Max Miller** {[BIO 24046953 <GO>](#)}

A two-part question for you, A, has there been an incremental change in the customers' attitude towards procurement over the past 90 days specifically that led you to revisit the guide? And then, B, looking forward, it's clear you expect the back half to be stable but not necessarily improve. What would it take for you to become more constructive on the outlook and that recovery and on-contract growth? It sounds like there are some signals of normalization that you're already seeing.

**A - Toni Townes-Whitley** {[BIO 16690503 <GO>](#)}

Yes. Fair questions. I think on the front end was the question about on-contract growth. Actually, remind me of the first question. I'm sorry, come back one more time on your first part of your question.

**Q - Max Miller** {[BIO 24046953 <GO>](#)}

Just if there's been an incremental change in the past 90 days specifically that led you guys to revisit the guidance.

**A - Toni Townes-Whitley** {[BIO 16690503 <GO>](#)}

Yes. I wouldn't say an incremental change over the last 90 days. I think we started in the last quarter speaking to a roughly 1% impact on program cuts and that we could track that and we're still tracking to something in that range in terms of program cuts. I think what we started to see in the environment was the effect of delay, delay in our interaction with our customers, our ability to add to our current contract footprint. So on-contract growth was the first sort of big signal for us that we were going to have revenue compression.

We also had mentioned in our first quarter earnings call that our guide and our call were going to be particularly dependent on new business landing in a specific timeframe. And we still see delays in that new business, as you can see in our pending award backlog. Third, I think we also mentioned and have seen now slow in the ramp of new business that we have won. And so we mentioned a program like TENCAP and others where we have new business wins. We assume a ramp on that and those ramps have also been slower.

So those three indicators I think are what we've seen that have adjusted our revenue guide. Would I say they all came to four in the last 90 days? No. I think some of the root probably efforts were there, root causes were there. But we started to show -- they started to show up across our various programs and so we felt it prudent to obviously address that.

I think the second part of your question was, what would it take -- what would be the indicators in the second half and/or as we look forward to adjust guide in a more constructive manner? Look, I

think it's the same, the same indicators are there, on-contract growth and the engagement that we have with our customers, our ability to convert to revenue on existing contracts will be a very significant indicator for us. And improvements in that environment, improvements on the timing and the conversion of that revenue would be an indicator and a direction up.

On new business award, getting awards actually adjudicated. We always put in some understanding of some timeline relative to protest, given our protest environment. But even with that, getting awards actually adjudicated would be, and again, assuming that win rates hold as we've seen at target level, that would portend that we would have potential upside to the guidance that we've offered, getting those awards adjudicated. And then quite frankly, the third would be being able to increase our ramp and our velocity on existing programs that are new, and we've mentioned a couple of those. Those will be the indicators that help us understand if we can, if you will, improve upon the guide that we've offered.

**Q - Max Miller** {[BIO 24046953 <GO>](#)}

Got it. That makes sense. Thank you. And then for 2027, it sounds like the base assumption is that the funding environment is mostly similar to this year. Is there any assumption that it improves later on in the year? Or is the assumption right now that it's similar for the majority of '27?

**A - Prabu Natarajan** {[BIO 17701667 <GO>](#)}

There's probably, Max, a glide path here where the latter half of '27 probably does improve if we are in a CR. I think that's just math would tell you that it has to improve. I think our baseline assumption, I don't want to get into the cadence of providing quarterly just yet for FY '27. We'll do that on the December call. But I do expect that the second half of '27 will be smoother than the first half of '27, but that is with the health warning that we don't know everything we need to know in order to provide that guidance crisply.

**Q - Max Miller** {[BIO 24046953 <GO>](#)}

Got it. Thank you very much.

**Operator**

One moment for our next question. Our next question comes from David Strauss with Barclays. Your line is open.

**Q - David Strauss** {[BIO 20485958 <GO>](#)}

Thanks. Good morning.

**A - Prabu Natarajan** {[BIO 17701667 <GO>](#)}

Hey, David.

**A - Toni Townes-Whitley** {[BIO 16690503 <GO>](#)}

Good morning, David.

**Q - David Strauss** {[BIO 20485958 <GO>](#)}

Just wanted to ask about the cautious cost efficiency measure contemplating. I wasn't clear, but I think you're saying that those are not contemplated in your updated EBITDA margin, EBITDA guidance, is that correct, that you haven't actually included those potential cost efficiencies?

## A - Prabu Natarajan {BIO 17701667 <GO>}

That is correct, David.

## Q - David Strauss {BIO 20485958 <GO>}

Okay. And then if you look at your sales relative to your large peers, I mean, certainly some of your large peers have highlighted impact from DOGE and budgets and all the things that you're saying today. But it looks like you're seeing a larger relative impact. What would you attribute that to? I mean, I know the business mix plays into this, but what would you attribute the extent of the impact you're seeing relative to your peers?

## A - Toni Townes-Whitley {BIO 16690503 <GO>}

So, look, I would really call out a couple of things. First, I think as we talk about on-contract growth, that is particularly program-based. So where we have footprint with specific customers on specific programs, and we've mentioned, I think I mentioned in the earlier script, that where we see large transformation occurring or where there's great budget uncertainty, we see a higher correlation of the on-contract growth environment being more challenged. So we can compare footprint to footprint, but I think it is more meaningful and profound to suggest that the market is experiencing some of these delays, and where we see the greater challenge is where our customers are, quite frankly, in the highest volatility.

As you talk about new business awards, I think, again, the entire market is experiencing some delays on the new business awards. We have some large awards and we see a larger -- a longer delay relative to large transformative awards. And so to the extent that that populates your pipeline, I think you're going to experience that maybe disproportionately. So I would suggest to you, program ramp, I don't think that is particularly unique for us as well on new programs. But to the extent that we are, I think, also trying to, as we have, I think, historically, give a very unvarnished position, a fairly prudent position on what we think the environmental conditions are, how long we think they will be in place, and the impact that they're having. I think that is probably how I would take away how we are communicating versus or in relation to some of our peers.

## Q - David Strauss {BIO 20485958 <GO>}

Okay. And my last question, on the recompetete side. I think you mentioned that you have a number of recompetetes kind of in the 1% to 3% range. Could you just size what your total recompetete -- the recompetete bucket is in fiscal '26 and fiscal '27? And what you've kind of assumed within that in terms of recompetete win rates that's baked into your revenue guide for both years?

## A - Prabu Natarajan {BIO 17701667 <GO>}

David, I'll take that one. In terms of -- maybe I'll start with the second part of the first, in terms of our assumptions around recompetete, we would say if you think about it, 80% to 90% would be a pretty good recompetete win rate for next year, and new business, we would say 30% to 40%. That's probably the going in assumption right now. In terms of what is specifically factored in, we traditionally don't get into the eaches on the recompetetes. So that's why we've sort of called it out as a handful of programs that are in the 1% to 3% range, which is pretty normal.

If I had to zoom out a little, I would say 10% to 15%, which is typically our run rate. I would note that our recompetete win rates have stabilized pretty significantly in the last couple of years and we are back to what is assumed to be a traditional industry standard of about 90%. And as we sit here,

the only known headwind is AFMS, which is the Air Force where we had a pre-award protest a couple of months ago. That is the only known re-compete headwind because NASA EAST lapsed out at Q3, and Cloud One where we walked away, frankly, from going after that program, that also lapsed out at about Q4. So only one known program right now that is probably worth about a 0.5% to 1% for next year, but that is really the only known headwind at this time, and Vanguard has been extended for a couple of years. So I would say it looks cleaner than it has looked in the last couple of years.

**Q - David Strauss** {[BIO 20485958](#) <GO>}

Great. Thanks very much.

**Operator**

One moment for our next question. Our next question comes from Noah Poponak with Goldman Sachs. Your line is open.

**Q - Noah Poponak** {[BIO 16071528](#) <GO>}

Hey, good morning, everyone.

**A - Toni Townes-Whitley** {[BIO 16690503](#) <GO>}

Good morning, Noah.

**Q - Noah Poponak** {[BIO 16071528](#) <GO>}

Hopefully, you can hear me okay. I have a little background music where I am. But I guess this has sort of been asked a little bit, but the biggest question for me is just duration of what is happening in your end markets and is it temporary or is it structural and multi-year or something in between? And I guess it seems like the customer is clearly wanting to go through a major reprioritization across government spending, within DoD, within FedCiv [ph], whether that is DOGE, the '26 requests, the DoD memos.

Toni, you gave an example of programs actually being reduced in size, not just delayed. Government moves slow. Other spending downturns historically can be fairly long. I guess I am a little surprised that you are still referencing this as delays in timing and change in administration. And ultimately, I guess the question is when you are providing multi-year financial outlook and maybe more importantly, how you manage the business and cost and its structural size, how are you thinking about and debating internally this being a three to five year structural shift versus three to five year quarter -- sorry, three to five quarter temporary issue?

**A - Toni Townes-Whitley** {[BIO 16690503](#) <GO>}

I think it is a fair question. Let me go back to where I started the conversation earlier on this call. The strategy that we put forward involved the shifting of our portfolio towards enterprise and mission IT. And that was prior to an administration change. The belief that we needed to move to more differentiated capability in stickier revenue and longer-term and more mission-critical environments, and quite frankly, to integrate more commercial technology and introduce more commercial technology into those mission environments. That was in place, and in many ways, that continues. There's no signal that we've seen from the current administration that would suggest that that strategy is the wrong one. In fact, if anything, we've probably had to accelerate that.

The other part of our strategy was getting our own go-to-market in place with a business development engine that is, I would argue, delivering at least on the key, getting us back to target on win rate, increasing our submission, improving the accretive nature of our recompute bids, and being able to sustain a pending award backlog. The elements of the business, both the go-to-market as well as our portfolio, I would argue there is nothing structurally that should fundamentally change, if not just accelerate. We've got what we would argue to be a temporal condition relative to how we engage with customers on on-contract growth, delays, and how we adapt to an environment that has delays and new changes and new norms.

Then Prabu spoke to the conversation of the demand signal, how are we listening to the demand signal for direct commercial pots [ph], commercial business models, as well as commercial tech being brought, how do we go into more share-as-a-service offerings or share-in-savings offerings or, again, more commercial. So we are absolutely accelerating those capabilities, fixed price and outcome-based contracting, our ability to deliver. We've had a very solid track record in fixed price and T&M contracts and our ability to deliver that. So I would argue that, in many ways, we are taking the strategy we had and accelerating it in this environment. We are making more bets on the venture side, we are partnering with non-traditional defense contractors, and we are highlighting mission integration in an open environment with investments in mission labs and the ability to do end-to-end integration with more and more commercial tech.

So the strategy itself is a multi-dimensional strategy that would suggest we've got to have, in the short-term, the ability to, if you will, bridge this current environment, which is challenging for us, and we are doing that both in terms of looking at AI adoption across and other ways that we make sure that we contain and hold our cost structure in place. As well, we are also making sure we continue to invest in the differentiation, as Prabu spoke to, in terms of IP and other capabilities and disrupting, in some ways, our own labor model, which we believe is going to be a challenge going forward in terms of a market that will look for more product-like capability.

All of that was sort of envisioned in the strategy. In many ways, we are accelerating that in this current environment. And we see in setting some targets for the future, I would argue that as we move into the second horizon of this strategy, we actually will be lined up with where supply and demand should hopefully intersect in what we've built and what the government is asking for. So I would say this is, that this environment has forced, if anything, has forced us to accelerate our strategy. And it's forced us to further clarify our efforts and create more levers, if you will, to offset in a revenue-tight environment to offset by holding to our cost structure.

## **A - Prabu Natarajan** [{BIO 17701667 <GO>}](#)

Toni, if I might add to that. Noah, the assumption on how we operate the business, I think the budget assumption would be that it's going to be a difficult budget environment. And flat to low-single-digits would be probably a reasonable assumption. It's probably not a perfect assumption. And that even within the flat to low-single-digit growth rate, there will be efforts to reprioritize where the budget dollars go. That is the baseline budget assumption.

As far as how we manage the business question, I think we have to assume that things get worse before they get better. And part of the focus that Toni's brought to the team around AI, around a better execution, is really to ensure that we are staying ahead of whatever revenue compression we see in the market. That means committed to delivering EBITDA dollar growth consistently to the Street, which is why we're holding our guide right now for next year, 9.5% to 9.7%. So our focus is assuming that the disruption continues for longer than three to five quarters, how would you manage this business, and that's the conversation we're having and those are the plans we're making.

And importantly, part of the plans will be to see where is the greatest source of compression inside of the portfolio relative to the next two to three years. And as Toni rightly said, labor-based models will be disrupted. Maybe not linearly, but in some fashion, they will be disrupted. And I think part of our effort is to essentially ensure that we can so, if you will, cannibalize our own labor base to ensure we are delivering more differentiation, hence more value, and hence more earnings and cash for our shareholders. So that's how we're thinking about operating the business and planning towards it.

**Q - Noah Poponak** {[BIO 16071528](#) <GO>}

I really appreciate the thoughtful and detailed answer there. Probably just one more. Can you break out for '26 and '27 EPS and free cash flow guidance for each of those four, what's the change in the net income versus what's the change in tax -- sorry, I should say net income from the pre-tax.

**A - Prabu Natarajan** {[BIO 17701667](#) <GO>}

Yes. So I'll give you the components of it, Noah, and Joe can certainly give you a little more detail for FY '27. I think the way we're thinking about the updated '27 guide is we are going to see a reduction in top line relative to our prior assumption, which is going to lower the EBITDA we generate from the business. And think of that as a \$30 million to \$40 million reduction to cash and then offset by Section 174, which is a \$110 million offset for next year. So the net change is an increase to free cash flow to about \$600 million, which is our current expectation for free cash flow in FY '27.

Similar dynamic for '26, where we are lowering the EBITDA dollars generated from the business, but offsetting it with, I would say, implied \$60 million of cash tax benefit from Section 174. And right now, the big change on EPS between '26 and '27 is that this year we are going to benefit from an incredibly low tax rate of about 14%, hence the \$9 change guide for this year. Next year, our current assumption is, though I will have immense confidence in our tax team, our current assumption is 23% for next year, and every point on the tax rate is worth about \$0.10. It's a dime. So a 9% change to the tax rate is worth nearly \$1 in EPS. So if we deliver the same tax rate next year as we did this year, we'd be \$1 higher on EPS. Stated differently, if this year were more like next year, we'd be \$1 lower.

**Q - Noah Poponak** {[BIO 16071528](#) <GO>}

That is super helpful. And the cash tax reversal that you get in '27, do you hold that for a while? Or does that decline over time? Or what happens to that over time?

**A - Prabu Natarajan** {[BIO 17701667](#) <GO>}

Yes. So we expect, big-picture, to get back about, let's call it \$200 million a little over \$200 million, which is the 174 taxes we paid up over the last three years. Our current expectation, as we prefaced on the call, is that we'll get about \$60 million back this year, another \$110 million back next year, and math would suggest we should get a little more back in '28, and then we'd have to come back to you, and we'll update for '28 a little bit later in the year, but I think a normal run rate for free cash flow, you should think of that as being in that \$530 million, \$540 million range for FY '28. So it's kind of more normalized.

**Q - Noah Poponak** {[BIO 16071528](#) <GO>}

Okay. I really appreciate all the details. Thank you.

## A - Prabu Natarajan {BIO 17701667 <GO>}

Sure.

### Operator

And I'm not showing any further questions at this time. And as such, this does conclude today's presentation. You may now disconnect, and have a wonderful day.

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