MANAGEMENT'S PREPARED REMARKS

Second Quarter Fiscal Year 2027 Earnings Call

Jim Reagan, Chief Executive Officer
Prabu Natarajan, Chief Financial Officer

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SAIC

Jon Raviv

Good morning and thank you for joining SAIC's second quarter Fiscal Year 2027 earnings call. My name is Jon Raviv, Vice President of Investor Relations, and joining me today to discuss our business and financial results are Jim Reagan, our CEO, and Prabu Natarajan, our CFO and Executive Vice President of Enterprise Operations.

Today we will discuss our results for the quarter ended July 31, 2026. 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. In addition, we will discuss non-GAAP financial measures and other metrics, which we believe provide useful information for investors. These non-GAAP measures should be considered in addition to, and not a substitute for, financial measures in accordance with GAAP. A more fulsome explanation of these measures can also be found in our SEC filings.

It is now my pleasure to turn the call over to our CEO, Jim Reagan.

Jim Reagan

Thank you Jon, and good morning to everyone joining our call. I want to start by saying how proud I am of this team; our results this quarter are a testament to our employees' relentless commitment to our customers' most critical missions.

Let's turn to slide 3 for our key messages.

We built on our momentum this quarter, with performance once again ahead of our expectations. These results reflect our teams' focus on driving program performance and operational efficiency, resulting in organic growth, double-digit margins and robust free cash flow.

While award activity reflected some unevenness in the procurement environment, we remain encouraged by the strength of our qualified pipeline, our submission plan, and the performance of our business development team. We continue to see healthy customer engagement and believe we are well positioned to convert those opportunities into growth as we align with our customers' clear demand signals for more capability and capacity. We also believe our base is more secure with a recompete win rate of over 90% this quarter, creating an easier path to on-contract growth, and building momentum to capture the benefits of new business, where our win rates are well within our target range. These results reflect our more disciplined bidding approach as we focus on fewer, mission-oriented pursuits. It also underscores our commitment to execution excellence and the trust our customers place in us.

Several wins over the last few months highlight our role in supporting critical national security missions. We booked over $1.6b of intel space awards in the first half of this fiscal year, well ahead of our recent trends. This high-value engineering work demonstrates our domain expertise and long-standing commitment to the space superiority market. We also secured a recompete win to support hardware-software integration and interoperability to help the Army deploy new technologies onto the battlefield. And after the quarter closed, we won a significant recompete of a critical border security program. Combined with last quarter's successful DHS recompete, this latest win extends our long-standing role in delivering innovation with an integrated software-hardware solution to secure our country's borders.

These wins share a common thread across our intelligence, defense, and civilian markets. Each requires integrating advanced technology with deep domain expertise to deliver mission-critical outcomes. This is what SAIC does best. This is who we are.

And we continue to build on this identity with investments supporting enhanced capacity, capability, and speed. For instance, our investments in quantum solutions bridge the gap between critical technologies and practical mission applications. It’s still early in the journey, but like AI, we expect quantum to create new mission challenges we’re prepared to address as we help our customers sense, decide, and act across their domains.

Turning to operations, as we previously mentioned, we are transforming our enterprise to build a stronger, more agile company that supports growth-oriented investments and sustained margin improvement. Project ORBIT, or “Optimizing Resources for a Better Impact Tomorrow,” is moving into its implementation phase. I'm encouraged by our employees’ dedication and enthusiasm for driving a foundational shift so we can clear what I call “the gunk” out of our systems and processes.

Let me give you a sense of what structural change looks like in practice. In procurement, a new acquisition system can bring more rigor to how we buy — analyzing our spend, consolidating suppliers, and managing demand so we buy smarter, not just spend less. In our recruiting function, a new onboarding system is designed to shrink the time between recruiting a candidate and putting them on a contract, protecting revenue and serving our customers faster. And in mission delivery, agentic AI tools can scale capacity without adding headcount — whether it's training air traffic controllers or generating actionable intelligence.

With ORBIT, we expect to book some quick wins at the start to fuel the investment for bigger changes, with momentum building over the three-year time horizon. The most transformative ideas will take the most time, such as fundamentally rethinking our procurement process. AI will play a role as we responsibly deploy relevant tools to achieve specific outcomes, rather than just directing people to consume more tokens.

We are excited to do this while our customers are making fundamental changes to increase capacity, drive speed, and more effectively shepherd taxpayer dollars. We look forward to partnering with them on these efforts as we both lean forward to transform our organizations.

I want to update you on another piece of our transformation efforts: the portfolio and strategy review we announced last quarter. We have spent the last few months identifying the intersection of our strongest right to win and our greatest growth potential. I do not expect a sharp turn in who SAIC is, or what it does. But I do expect to emerge with a sharper sense of where we want to go. And I want to emphasize - we are already doing a lot of things well, so this review is as much about doubling down and investing to grow those critical mission areas…as it is about pursuing new ones. This includes M&A as we evaluate portfolio opportunities that are key to implementing our strategy. We will act on those opportunities as they arise, and we expect to share more on our December earnings call.

I appreciate that we are asking a lot of our employees. And I am proud that the team has embraced these new efforts, while maintaining strong operational performance.

As a result of our improved performance and outlook for the year, we are raising our FY27 guidance for revenue, EBITDA and EPS. As I've repeatedly said, FY27 is a year of commitment as we set targets that we're confident we can achieve. And we look forward to making FY28 a year of implementation as the ORBIT and strategy projects roll out.

We see significant opportunities to create value for all of our stakeholders and continue the mission of supporting our customers and our country.

With that, I'll turn the call over to Prabu.

Prabu Natarajan

Thank you, Jim, and good morning to everyone joining our call. I'll review our second quarter results, updated guidance, and share more detail on the financial impact of Project ORBIT.

Turning to our results on slide 4.

We reported second quarter revenue of $1.9B, representing organic growth of approximately 5%. The quarter benefited from solid growth across our markets and our teams' focus on converting backlog into revenue across our existing contracts in an improving outlay environment.

We reported adjusted EBITDA of $193M in the quarter and margins of 10.3% reflecting strong program execution and continued benefit from our cost efficiency efforts. This result is up modestly year over year excluding the prior year's favorable legal settlement.

Adjusted diluted EPS of $3.01 is down year over year due to a favorable settlement in the prior period, offset by lower share count.

Free cash flow was $131M in the quarter, another strong result as we maintain peer-leading cash conversion.

Net leverage fell to 3.0x this quarter as we continue to naturally de-lever as EBITDA improves.

Going forward, we have flexibility to de-lever incrementally or actively shape the portfolio to support the strategy.

Please turn to slide 5 to review our forward indicators.

We are responding to clear customer signals for the services we deliver. But we have seen some large opportunities slip to the right as procurement offices try to do more with less while implementing new guidelines, including fixed-price directives. This resulted in a quarterly book-to-bill of 0.6x, or 0.8x on a trailing twelve-month basis. We would have been closer to 1.0x if not for a delay in a large recompete award we booked two days after the quarter closed.

Slower RFPs and awards also drove contract extensions and increased ceiling utilization as we offered execution pathways for our customers, which is reflected in our year-to-date organic growth. But combined with a slower submission and award environment, this suggests we could finish the year closer to 1.0 on a book-to-bill basis.

Our pipeline is in place, and the business development team is prepared to substantially increase submissions in the coming months. We are confident that applying our strong win rates against higher submissions should generate higher book-to-bill. In the meantime, you can expect our team to continue delivering capability to our customers as our funded backlog continues to grow.

Please turn to slide 6.

This quarter's organic growth of 5% was driven by broad-based strength and unplanned material purchases worth approximately 1% that we don't expect will repeat. On-contract growth, or OCG, of 9% was well ahead of our plan. This maintains the momentum from 1Q, suggesting an improving outlay environment translating into revenue growth.

As previously discussed, roughly half of this year's OCG plan comes from a handful of programs we won in FY25 and FY26 that ramped slowly last year. These programs generated $350M last year and we are planning for $500M this year. We are on track with approximately $240M in the first half of this year.

Please turn to slide 7.

We are increasing our revenue, margin, and EPS guidance to reflect our strong year-to-date performance.

We are raising our revenue guidance by 2% to a midpoint of $7.25B, reflecting organic contraction of 2% to flat. The implied second half contraction reflects the RITS contract rolling off, creating an approximately 350 bps headwind in the second half.

We are also raising our adjusted EBITDA guidance by 4% at the midpoint, implying margins of 10.3% to 10.5%, or 20 bps above our previous guidance. This increase is primarily due to strong first half performance.

We expect margins to step down in the second half to the high 9% range as we make targeted investments in several high-priority areas where customer demand and strategic relevance are accelerating.

Our investments include capex, where we have spent approximately $25M in the first half to support growth opportunities. We still expect free cash flow of at least $600M or $14 per share this year.

As Jim said: this is a year of commitment. Commitment to being transparent with our performance and expectations. And a commitment to setting targets within our control that we expect to achieve.

Please turn to slide 8.

We are pleased to be heading into the implementation phase of Project ORBIT – our disciplined, data-driven approach to support growth and margin improvement.

As you can see on the left, these efforts span 6 themes. On the right, you can see how these themes map against timeline and customer partnership. The bubble size represents the 3-year dollar value opportunity.

We are running our project implementation just as we would run a program for our customers. We have staffed a strong team, set clear goals, and are focused on delivering an outcome.

"Buy Smarter" is the largest and longest-term opportunity, as it takes time to restructure how we buy across the enterprise. The "Automation" theme requires more customer partnership as it impacts how we deliver programs. And other efforts like "Simplify Processes" and "Work Smarter" are more within our control and are areas where we can move faster. As Jim said, we are excited to partner with our customers at a time when we are both hungry for change.

Please turn to slide 9 to discuss what this means for the financial model.

Late last year, we discussed approximately $100M in cost reductions. Those were hard choices, made quickly, and they are delivering benefits.

ORBIT is different. It is more fundamental. This means harder, more sustained work over a longer time frame to generate more structural change. At this point, we expect approximately $150M in annual run-rate savings by the end of the three-year implementation period. This opportunity is spread across the business, including our direct programs and our indirect spending. We expect approximately 2/3 of the savings – or $100M – to go back into the business, investing in new efforts, expanding our capacity to address demand on our current contracts, or making us more competitive. The rest should support our margin expansion story.

As a result, we consider mid-10s to be a reasonable margin target for next year. And we see a path to approximately 11% margin in FY30 as the benefits from Project ORBIT fully materialize.

Our margin story does not depend on any single initiative. ORBIT is a key driver, but it is one of several levers, including continued discipline in raising our bid thresholds, focused business development, and shaping and pursuing more outcome-oriented work. All of these dynamics support the business remaining solidly double-digit on an annual basis going forward.

In closing, I am grateful for the team's focus on executing these changes while running the business. There is more work to do, and I am confident that our efforts will continue to translate into value for our stakeholders in the coming quarters.

With that, I'll turn the call over for Q&A.