

Q1 2026 Earnings Call

Company Participants

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

Other Participants

- Colin Canfield, Analyst, Cantor Fitzgerald
- Gautam Khanna, Analyst, Cowen.
- Gavin Parsons, Analyst, UBS
- Jason Gursky, Analyst, Citi
- Noah Poponak, Analyst, Goldman Sachs.
- Sheila Kahyaoglu, Analyst, Jefferies.
- Tobey Sommer, Analyst, Truist Financial

Presentation

Operator

Good day and thank you for standing by. Welcome to the SAIC Fiscal Year 2026 Quarter One 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 that 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 first 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 first quarter of fiscal year 2026 that ended May 2, 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 a 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.

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. I will focus my remarks on an update of our current operating environment followed by a review of our business development and financial results in the quarter.

As I did last quarter, I want to start by thanking our employees for their dedication to our mission and their support of our customers. While the operating environment has stabilized in recent months and recent budget developments provide improved clarity around future spending, we continue to see higher rates of turnover among our customers contributing to procurement delays and award timelines moving to the right. The year-to-date net impact to our financial results from the government's efficiency initiatives remain nominal with an estimated annualized revenue impact of less than 1%. We expect conditions to remain very fluid over the next few months as budget negotiations play out and agencies continue to implement the strategic priorities of this administration.

Our initial assessment of the President's government fiscal year '26 budget request is that the overall funding levels and strategic priorities create both opportunities and potential challenges but, on balance, are supportive of our growth strategy. We were encouraged to see a solid request for defense spending with a proposed increase of 13% including reconciliation and political support to provide additional funding in excess of that requested. As the administration prioritizes spending with a focus on readiness, we do expect certain branches of the DoD to see stronger budget support than others with a particular emphasis on the Navy, Air Force, and Space Force. While the Army may face a more challenging budget outlook, we believe the balance we have across the Department of Defense with roughly comparable levels of revenue from these four branches positions us well to navigate these uncertain times.

The mission criticality of our work is evidenced by the durability of our portfolio throughout DOGE-related scrutiny in recent months and our ability to support many of the Department of Defense's 17 top priorities as detailed by Secretary Hegseth. We have key programs and demonstrated technical leadership in a number of these, most notably, Southwest Border Activities, Homeland Missile Defense, Virginia-class Submarines, Priority Critical Cybersecurity, Core Readiness, and Combatant Command support agency funding. The strategy we began implementing roughly eighteen months ago to pivot our portfolio to mission and enterprise IT aligns with the priorities of the new administration and the acceleration of technology adoption to increase lethality and efficiency. The Space Development Agency's recent decision to include a mission integrator role for Tranche 3 after having not done so for Tranches 1 and 2 highlights the importance of integration to achieving complex outcomes on schedule. SAIC was awarded this new cost-plus program role in Q1 as part of a \$55 million contract where we will leverage our proven expertise in mission integration and digital engineering to drive program success at speed.

Regarding non-defense budgets, the areas of focus for SAIC at our five largest civilian agency customers were well-supported, including over \$1 billion of additional budget for the Department of Transportation to fund improvements at the FAA. Over \$40 billion to the Department of Homeland Security focused in part on procuring advanced border security technology. Stable funding for our Department of State IT operations as evidenced by the recent two-year extension awarded for our Vanguard program, specific support for technology improvements to drive greater efficiency at the Department of Treasury and over \$1 billion for the Department of Veterans Affairs to accelerate the modernization of health records and simplification of legacy IT systems.

As a reminder, annual revenue from these top five agencies represents over 70% of total revenue for our Civilian segment. I will now provide a review of our first quarter business development and financial results.

We delivered net bookings of \$2.4 billion for a book-to-bill of 1.3, which included securing a key re-compete -- the five-year System Software Lifecycle Engineering contract for the Army and an

eight-year IT services program for the Pension Benefit Guaranty Corporation. In addition, subsequent to quarter close, we have received awards with a total contract value exceeding \$2 billion including a two-year extension on our Department of State Vanguard program and a large new business win with the Air Force. While certain of the quarter-to-date awards remain in the protest window and may not be reflected in second-quarter bookings as a result, we are pleased with the progress we are seeing in our business development efforts.

In the first quarter, we submitted proposals with a total contract value of \$7 billion, and we are seeing continued strong momentum in submit volume in the second quarter and expect to reach approximately \$28 billion to \$30 billion for the full year.

Our backlog of pending awards remains steady at approximately \$20 billion and provides us with good line of sight into continued improvement in bookings as we target 1.2 trailing 12-month book-to-bill in the coming quarters. While our pipeline and backlog of submissions continues to support reaching this target by the second quarter, it is reasonable to assume that procurement delays could lead to this moving to the right by one to two quarters. We do not expect these potential award delays to materially impact our revenue performance in fiscal year '26 or fiscal year '27 assuming the broader operating environment remains stable.

I will now review our first quarter financial results.

We reported revenue of \$1.877 billion representing growth of approximately 2% due to the continued ramp on new and existing programs including T-Cloud, IMDC2, and GMASS which offset lower revenue from contract completions and transitions. Adjusted EBITDA in the first quarter was \$157 million, resulting in an adjusted EBITDA margin of 8.4%. Margin performance was impacted by the typical seasonality of investments including our healthy submit volumes and higher cost on a fixed price program in our space business. Subsequent to quarter close, we received favorable option period extensions on this program and moved into the sustainment phase of this program which we expect will contribute to improved financial performance going forward. Adjusted diluted earnings per share of \$1.92 was flat year-over-year as a lower share count offset a higher tax rate and lower adjusted EBITDA in the quarter.

Free cash flow was negative \$44 million and was impacted by the timing of receivables on two programs which resulted in approximately \$75 million shifting out of the first quarter. Shortly after quarter close, we caught up on one of those two programs, are making progress on the second, and do not expect this to impact full-year guidance. The delays experienced are not related to program performance but rather to new personnel and processes in place at certain customers as we navigate these uncertain times with them.

Overall, we are off to a solid start in fiscal year '26 with palpable enthusiasm for the momentum we are building across the company. We expect to make further demonstrable progress against our strategy to position SAIC for sustained, profitable growth in the coming quarters and look forward to sharing our results with you.

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. My remarks today will focus on our outlook for FY26 and an update on our capital deployment plans.

Our guidance for revenue in a range of \$7.6 billion to \$7.75 billion represents organic growth of approximately 2.5% at the midpoint. We continue to expect growth of 1% to 3% in the first half of

the year and 2% to 4% in the second half with the improving growth driven by new business ramping up and a more modest headwind from contract transitions in the fourth quarter. Should the ramp on new business move to the right as a result of the macro environment, more of our growth in FY26 will need to come from on contract growth. This outlook is consistent with our prior framework.

We are reiterating our guidance for adjusted EBITDA and adjusted EBITDA margin. First-quarter margins were impacted by the timing of investments that we typically see, higher bid and proposal costs related to procurement delays, and an unfavorable profit adjustment on a fixed price program in our space business.

As Toni mentioned, subsequent to quarter close, we received an award exercising option periods for this fixed price program as it transitions into the sustainment phase over the coming weeks which along with the execution initiatives we have implemented should help improve margins going forward.

While we have some work to do to offset the first quarter headwind from these items, we remain focused on executing and delivering on our full-year margin guidance of 9.4% to 9.6%. As we have signaled before, our flexible cost structure permits us to calibrate our spend, in line with the macro environment. We are reiterating our full-year adjusted diluted earnings per share guidance of \$9.10 to \$9.30 which assumes an effective tax rate of 23% and a weighted average share count of approximately 47 million.

Our free cash flow guidance of \$510 million to \$530 million equates to approximately \$11 per share of free cash flow. Despite 1Q free cash flow being impacted by slower collections on two programs, we expect trends to improve in 2Q. As a reminder, consistent with FY25, the timing of free cash flow in FY26 will be impacted by one additional payroll cycle in our first and third quarters which results in approximately \$125 million of cash outflow in each quarter.

With regard to capital deployment, we repurchased approximately \$125 million of shares in the first quarter. We continue to target annual repurchases in a range of \$350 million to \$400 million with additional capacity of \$150 million to \$200 million for either capability-focused, tuck-in M&A or incremental share repurchase. We remain well ahead of our 3-year capital deployment commitment on repurchases and have ample capacity for capability-based tuck-ins.

With that, I will turn the call over to the operator to begin Q&A.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from the line of Gavin Parsons from UBS.

Q - Gavin Parsons {[BIO 18748617](#) <GO>}

Hey, thanks, guys. Good morning.

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

Good morning--

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

Good morning, Gavin.

Q - Gavin Parsons {[BIO 18748617](#) <GO>}

You mentioned the operating environment has stabilized, but still seems to be a lot of new directives coming out of, say, the DoD in particular. So just hoping you could just give us an update on what you're hearing from the customer and some of the budget priorities? Thanks.

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

Yeah, thank you for the question, Gavin. So as we talk to the operating environment, I would say the things that have stabilized, as you know, we came through the last few months with a focus from GSA and an audit relative to the DOGE effort and that we believe has settled out.

We were able to respond to GSA, identify the programs in the mission-critical role that we've been playing and, quite frankly, have had very few conversations since submitting all of our information and I think we got to the right place of understanding the role that SAIC is playing. At the agency level, we do have a significant turnover of personnel occurring in the agencies, particularly acquisition personnel, which has been more demonstrable, I think, than maybe initially understood in terms of how many acquisition personnel are part of the turnover process.

We've had some new processes at the agencies relative to funding and how they engage and move forward in basic contracting processes as well as you've seen, obviously some executive orders from Department of Defense, Secretary Hegseth relative to ongoing focus on lethality and mission criticality of the work and how they're looking to move forward with commercial technology, which again we would argue aligns with the strategic pivot we've been doing on our portfolio towards more enterprise, mission solutions and how we deliver those. I would say we're still obviously assessing all of the most recent executive orders that are out. But on par, we believe that it aligns more with our strategy going forward and we're focusing on how we bring those solutions faster and faster to the agency customers.

Q - Gavin Parsons {[BIO 18748617](#) <GO>}

Thanks. Have you seen the procurement environment get more competitive as maybe the bid process has become more disruptive?

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

I think it's a fair question on competitiveness. As you know, we've been amping up our submissions and being very selective in terms of being on strategy with the bids that we've been making. And as we become more and more focused on mission, enterprise IT, I fully expect a more competitive environment, not just as a function of the new administration, but of the type of work that we are actually bidding.

That said, with the higher rate of submissions and we look at our historical win rates, even if -- which have tended to be on the new business side, higher than the industry average. But even accounting for any slip in those back towards an industry average, we feel confident that we have a submission pipe -- pending award pipeline and win rate applied to drive the growth that we've been -- we've been communicating to the Street and the guidance that we've offered.

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

Hey, Gavin, the only thing I would add to that would be we are not seeing sort of LPTA-type trends. The procurements still seem to be best value and that's where the focus is. So some price pressure, which is typical to see, but not back to kind of the 2012, 2013 circa.

Q - Gavin Parsons {[BIO 18748617 <GO>](#)}

Okay. Thank you, Toni and Prabu.

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

Thank you.

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

Thank you.

Operator

One moment for our next question. Our next question comes from the line of Gautam Khanna from Cowen.

Q - Gautam Khanna {[BIO 7312818 <GO>](#)}

I was on mute there, guys. I appreciate the comments this morning. I was curious if you could just remind us of what the known headwinds are, now that Vanguard has got an extension, as we look out over the next 12 months to 24 months from contracts that are either being broken up as you recompute them or things that, just the known headwinds from losses already incurred. If you could just frame that.

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

Nice to hear from you this morning. Yeah, no worries. Let me start and I think Prabhu will round out. As it relates to headwinds on the recompute side, our view really hasn't changed since last quarter. We've got, as you know, our NASA program loss from last that -- from last year that will -- that will round out in third quarter of this year, that's sort of our only known recompute headwind of any meaningful size. We also, as you know, made the conscious decision to no bid our lower-margin Cloud 1 program and the headwind there is reflected in our Q1 results. We've got some increased modestly in second quarter and then we'll stabilize throughout the rest of the year and look at an annualized sort of \$200 million of run rate there, but that was a conscious decision to go more strategically in our cloud services area.

Outside of that, we don't see any known -- there's no known recompute risk. As you -- as you know, we had -- we filed a pre-award protest on one, a program that was announced recently and so we're not in a position to comment on that particular program. However, that program, we did get a six-month extension interestingly and we don't see that having an impact on our FY26 financials.

So when I look at those three areas, I don't see any impacts uniquely from what we have already communicated to the Street. Prabu, any thought?

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

That was right on, Toni. Gautam, NCAPS, which is a loss [ph] of the NASA losses lapsed out at the end of our Q3 and should be less of a headwind heading into Q4 of this year. That's really the only known one aside from the Athens pre-award protest, which is unlikely to really impact this year's revenues.

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

Yeah. We did mention in the -- in the -- I'm sorry, real quick, in the earnings statement, I just wanted to highlight that we did mention and we want to be cognizant of -- with some of the DoD conversations that have happened as well as the Army transformation initiative that was launched that we do see across our DoD sector that there will be places of priority and deprioritization that we are tracking very directly.

So in terms of a headwind, I think our Army business, we've been looking at the impact there, but we are also very well positioned within our Air Force Combatant Command, Navy and Space and Intel businesses to offset any challenges there.

Q - Gautam Khanna {[BIO 7312818](#) <GO>}

That's helpful. Thank you. And just on the cost overrun that you guys described in the prepared remarks, could you -- could you frame the nature of that and how -- you mentioned the work has been extended, but how comfortable are you on kind of recovering from the level at which you had the negative EAC.

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

Yeah. So I think -- again, I'll start, I'm sure Prabu has some comments here as well. Look, this is a program, a fixed price program, a development -- tech development program with space development agency where it is fairly unique across our portfolio, the nature and the complexity of the work we're doing here and we have seen some costs initially driven by our -- some challenges on the tech development phase of the program. However, we do feel good about the progress we've made on the technical side and the feedback we've had from the customer relative to that progress. We've got an EAC that's captured all the additional costs required to get us into the sustainment phase over the next few months.

And as Prabhu and I both mentioned in our remarks, option period extensions that we've received most recently give us some relief in terms of other hardware delays and things we've seen that have been outside of our control of the program that those will be addressed. So going forward, as we look at Q1, I would say it was more anomalous versus indicative of a concern with that program.

We are doing work, quite frankly, we're very excited about for SDA and there's some additional profitable opportunities with that work. So we feel like we've right -- rightsizing the ship. Obviously we're tracking it very, very closely in a very detailed way, but we feel like we turned the corner. Prabu, anything else to add?

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

That was perfect, Toni. Gautam, this is somewhat unique of a program for us as we're sort of building the ecosystem of applications that can be deployed on orbit. And I think, as Toni said, we've got a good handle on the baseline and we do expect to get into sustainment in the coming weeks, so the active core development part of it is coming to an end and it's getting a lot of time from the management team, as you can imagine, and we're doing everything we can to get into the sustainment phase. We do expect to get healthier on the program and we do believe the EAC adequately captures the remaining risk over the next couple of months on the program as we're in the development phase.

Q - Gautam Khanna {[BIO 7312818](#) <GO>}

Thanks, guys.

Operator

Thank you.

A - Prabu Natarajan {BIO 17701667 <GO>}

Thank you.

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

Thank you.

Operator

One moment for our next question. Our next question comes from the line of Jason Gursky from Citi.

Q - Jason Gursky {BIO 22029538 <GO>}

Hey, good morning, everybody. Toni, you mentioned--

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

Good morning.

Q - Jason Gursky {BIO 22029538 <GO>}

Yeah, good morning. You mentioned both Civil and Army during your prepared remarks. You've got five business leaders there, Air Force, focused on the Army, Space, Navy and the Civilian business. Can you just maybe kind of do a walk around the world here and talk about the atmospheric in each one of those end markets, so to speak, maybe you mentioned the fiscal '26 budget showing some support in some areas, you mentioned the civilian, it's got 70% of your programs you feel like you've got good support for, but maybe just go through each one of those end markets there and talk about the risks and opportunities for each.

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

Sure. Thank you, Jason, for the question. So let's start with our Civilian business. As you know, we report that separately. We've been focusing on really over -- even over the last year as we said, the Civilian business was a critical one for us. We want to see further growth in that business and we have seen quite frankly growth in that business. We expect margin improvement in that business as well. And part of that's because of the footprint that we have, where we're located, the agencies we're located and where the funding we see going towards the agencies and the work that we are currently doing. So if we look at work in the CBP arena within Department of Homeland Security, if we look at the role that Treasury is playing and the work that we do in supporting the cloud infrastructure for that -- for that agency, that department as well as obviously IRS within that department.

As we look at State Department and the role they're playing and the consolidation of other functions within State Department, we see that as a grandizing the IT backbone there within State Department, we look at Department of Transportation and FAA and the clear investments that are being made in air traffic controller training as well as the FAA infrastructure. If you just take a look at where we are positioned best, they are also the areas where the administration is looking to invest, looking to bring more commercial technology, and I believe we are well positioned

there. Hence why we feel? Obviously, I won't go to the word bullish at this point, but I would suggest that we do believe we are not in the midst of significant tailwinds in our -- headwinds in our Civilian business and we see opportunity there.

If you go to the DoD front, we have four business groups that are on different parts of the national security intelligence infrastructure. I mentioned Army, the Army transformation initiative with significant cuts and shifts that are being made out of the RDT&E and other types of line item within the Army. We are positioned well with our recent win that we announced with S3I to do -- continue our support for Huntsville and the work that's being done out of the aviation missile command there, but we are also positioned in other areas around albeit improving ground and other types of work in our C2 arena.

And that is our fastest growing opportunity within the Army is in our command and control capabilities, what we call our C2 and that arena is one that we see will be funded and continue to be funded and dollars are being reallocated in that position. If we look across our Air Force and Combatant Commands, again a very -- has been a fast-growing part of our business.

We are very well positioned in all mission-critical work there. If we look at the Indo-Pacific and the work that we do for INDOPACOM, the joint fires network, the cloud-based C2 work, we feel very well positioned there in the current programs that we have as well as in a pipeline that is significant, a forward-looking pipeline on the Air Force side.

Space and Intel. A significant pipeline we built around our Intel business as well as you've heard some of the ramp that we mentioned in terms of growth on GMASS and other programs within our space and we mentioned obviously a recent win on integration within SDA. This is a fast-growing area for us in the space, particularly space defense, so we feel strongly there. And then our Navy business, which obviously has -- is a range of work that we do across programs like Mark 48, our torpedo afterbody/tailcone support all the way to the work that we do in C2 and command and control in San Diego. All of those, we see areas where the Navy were understanding the signals, a little less clear exactly where the major investments will be, but as the Navy takes on more commercial and cloud-based, we can leverage from the cloud-based work we've done in Air Force and Civilian into the Navy. So we feel pretty solid there and their results have been -- have shown us that we can demonstrably grow there without structural challenges and in fact, improve margins.

So when I look across the business, left to right, I feel like we've got enough diversity in the portfolio to offset risk as well as we've got opportunity in the portfolio to support the guidance we've offered to the Street.

Q - Jason Gursky {BIO 22029538 <GO>}

Okay. Great. And maybe just one quick follow-up and probably maybe you can opine here as well, given your experience with awards and budget flushes and all that kind of good stuff. Is there anything unique about fiscal '25 given the full-year CR. I know we haven't necessarily done this before, but does this make it more challenging for timely awards?

Does it set us up for more awards to happen in the third calendar quarter? Just kind of curious what kind of restraints and opportunities there are around this full-year CR and what it means for bookings this year because you alluded to on-contract growth needing to be there for you if awards slip to the right. So I'm just kind of curious how this is all going to play out this year from your perspective.

A - Prabu Natarajan {BIO 17701667 <GO>}

Hey, Jason, thank you for the question. I'll go first and then Toni will add some additional color here as we go. Big picture, we've really not seen a slowdown in the actual solicitation of proposals. So the environment continues to be pretty robust, I would say, and we are expecting to have a good submit quarter in Q2. We are seeing some delays, especially around the larger awards, let's call it circa \$1 billion plus that is going through some extra scrutiny inside of the various agencies to ensure that the programs and the contracts are delivering real value to the US taxpayers.

So we're seeing a little bit of that, but it's more anecdotal than not and it's hard to really pick a trend and say, therefore, we are expecting to see that sort of play out over the rest of the year. In reality, I think we did see a slew of things happen right after we finished Q1 and we noted in excess of \$2 billion of contracts, about half of which was actually new business for us.

So we're cautiously optimistic that maybe the gates are starting to open up a little in terms of the actual announcements. As we said in the prepared remarks, I think for the near-term, instead of relying on new business to generate the ramp needed to get to the -- to the -- comfortably get to the guide, the reality is the team is focused on on-contract growth in the near-term and Q1 was actually a really solid quarter for on-contract growth. So I would say, starting with maybe the premise of the question around the CR, I think this CR feels a little bit different than prior CRs and maybe a little more flexibility at the customer level as they navigate a very uncertain environment on their end.

But the reality is, I think we are cautiously optimistic that if we stay focused on generating good on-contract growth for the next quarter or two, there is enough in the way of new stuff out there that even if things get delayed by a quarter or so, we don't really expect it to have a significant impact for the year. Toni?

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

No, I think you're spot on, Prabu. And I think we are trying to assess all the variables. The CR is one. I think Prabhu mentioned the flexibility, in that CR is something we haven't seen previously. So it feels a little bit different. You offset that with personnel turnover and other changes that may create more of the impact than maybe the CR itself and we're working through those, but we haven't seen any single trend that would be so dominant that it would affect or color, if you will, the way we look at the year we've seen actual -- I think it's interesting to look at our first quarter submits and the second quarter, we think will be just as robust.

It's an interesting environment where we are able to submit proposals and we are getting awards that are occurring. The question will be, what does the year rely on? It's a combination of, as it's always been, on-contract growth. If we had seen a slowdown there, we would be concerned and -- but we have not. We've seen that hold as well as we've got \$19.8 billion in pending awards that we expect to adjudicate over the next few quarters here and be able to hold to the expectations we set of a trailing 12-month 1.2 book-to-bill this year.

Q - Jason Gursky {[BIO 22029538](#) <GO>}

Okay, great. Thanks. I'll pass the line.

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

Sure, Jason.

Operator

Thank you. One moment for our next question. Our next question comes from the line of Sheila Kahyaoglu from Jefferies.

Q - Sheila Kahyaoglu {[BIO 17240338](#) <GO>}

Good morning, guys, and thank you. So, Toni, you just talked about this a little bit that you're feeling more confident with the pipeline and the conversion. But the trailing 12-month book-to-bill is 0.8. So how do you think about that relative to your guidance and the exit rate for the year implied at a mid-single-digit growth rate? How do you get there in terms of the recompetes and the new book of business that you might have?

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

Hey, good morning, Sheila. Thank you for the question. Hey, look, from a compare -- look, we had a tough compare Q1 to Q1 for the trailing 12-month, we had a significant Q1 in the prior year. So in quarter book-to-bill, I was pleased. Obviously, we would have liked to pull a couple of the deals that came right after the quarter closed.

If we had a weak difference in timing, I think we'd be having a different conversation right now in terms of the likelihood of our trailing 12-month getting to 1.2 by the end of H1, which is, I think the premise of your question. Given what's occurred since the quarter close, what we see in our -- in our sites for Q2 and Q3, we still feel fairly confident that we are able to get to that trailing 12-month this year.

And obviously, that's assuming that the award environment continues and what we've seen and there's nothing drastically affecting that over the next few months and quarters, so from that perspective, and then I think the second part of your question, Sheila, was correlated to what's the book-to-bill needed relative to holding our guide for the entire year from a revenue perspective. And obviously, that's a combination of the on-contract growth that Prabu just mentioned, ramp up on key programs. We mentioned some awards that have come in. We'll see what the protest environment looks like relative to those awards and whether those ramp-ups or transitions can begin even earlier than anticipated, which again helps to underpin the revenue call for the year.

We're not coming off our guidance because we do have line of sight to how we can grow to the expected level and obviously a combination of new business that we expect to land in the next couple of quarters as well as our current path on on-contract growth. The last part of that would be to make sure that we -- we don't have any self-inflicted wounds on the recompute side and as I've already said earlier, I think in response to an earlier question, in terms of what we've seen to date, we feel still fairly confident that we are starting to address the recompute issue and it will not create the headwind for us this year.

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

Hey, Sheila, the only thing I would add to that is that in order to get to the 1.2 trailing 12-month, we need somewhere between \$3.5 billion and \$4 billion of net bookings in Q2. And since the end of the quarter, we've generated bookings of over \$2 billion. So I'm going to say we're about halfway there to what we need to do for the remaining two months of the quarter.

And we -- as we signaled in the script, if things do slip, we expect the slip to impact maybe a quarter or two when we get to 1.2, but the reality is we feel good about getting to that 1.2, which should get us to a place where we can support the 4% to 5% revenue growth rate guide that we've offered for FY27. So cautiously optimistic, but there are a few things that are outside of our

control right now and we're watching the environment. Our new business win rate is pretty good, has remained pretty healthy through the first quarter of this year and I think we just have to make sure that we are executing to what we've committed to.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Super helpful color. And maybe if I could ask one more on margins. Margins of 8.4% in the quarter, it implies a ramp of 100 basis points to meet the full-year guidance. So maybe two things on the margins. One, Civil was better in the quarter. How does that trail off in the second half? And then can you quantify the impact from that space fixed price program?

And is there a milestone needed to ensure that it's sort of net neutral to earnings?

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

Can you start--

A - Prabu Natarajan {BIO 17701667 <GO>}

Yeah, sure.

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

...on Civil. I may hit the Space program. Go ahead. We're going to tag team [ph]. Go ahead.

A - Prabu Natarajan {BIO 17701667 <GO>}

Sure. Hey, Sheila. On big picture, Civil actually saw a little bit of margin expansion in Q1 relative to Q1 of last year and we expected that trend to continue over the course of the year. In addition to that, the team has done, I think an admirable job of getting fuller control of our cost baseline.

As you know, the vast majority of our T&M and fixed price work is in our Civil business. So the team is doing a pretty good job and we expect to continue to see the ramp there. I think Q1 EBITDA margins were up 30 bps to 40 bps compared to Q1 of last year and the business grew 7% or 8% in Q1. So they've done what one would have thought would be a harder combination of things to accomplish, which is top-line growth as well as margin expansion. I think on the Space side, I would say it's about a \$3 million to \$5 million impact from that single program. And in addition to that, we had cost overruns relative to the very active proposal activity that we had in Q1.

So we view the second -- the latter of that to be more timing. And so I think between the two of them, we probably had about a 50 basis point to 60 basis point impact to the quarter, which would normalize back to about the 9%, which coincidentally happened to be the 9% that we started last year's Q1 as well.

So apples-to-apples, I think we see a bridge back to 9% at Q1 normalized for this and on the Space business, as we said, we are expecting to get into the sustainment phase of this program. In the coming weeks, we do have the option periods extended and therefore, we do expect to get healthy on the program starting in Q2, but definitely over the course of the year. I think that was it--

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Great. Thank you.

A - Prabu Natarajan {BIO 17701667 <GO>}

Yeah.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Yeah, that was it. Thank you.

A - Prabu Natarajan {BIO 17701667 <GO>}

Thanks, Sheila.

Operator

Thank you. One moment for our next question. Our next question comes from the line of Tobey Sommer from Truist.

Q - Tobey Sommer {BIO 6296228 <GO>}

Thank you. I wanted to ask for your early perspective on an element of the DevSec memo that was out recently. And how do you think about the risk to yourselves in the industry that federal customers increasingly may contract directly from a service provider whereby a prime contractor is not an integrator or a consultant in quotes?

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

Hey, Tobey, good to hear from you. Yeah, fair question. Obviously, we are all trying to assess the most recent communications that are coming out of DoD. Look, I think initially, the conversation there was relative to management consulting and -- and we have gone through a pretty extensive audit and conversation with the DOGE infrastructure as well as many agency leaders and I personally engaged with customers understanding what the work of SAIC is and that it is in fact not management consulting as it was defined.

Similarly, as you hear words on integration and sort of the middle person or middleman role, the reseller role, there are very few areas in our portfolio where we play that type of role. In fact, we are a direct provider of solutions and capabilities and what we'll call hands-on keyboard kind of capability and our customers are very much aware of that and we have reconfirmed that through our most recent months in our -- through our GSA audit and are reconfirming that now with the customer set.

So I think -- look, things will shake out. I'm sure there's a lot of language that's being parsed. Right now the role we play and even some of the recent awards that we've announced and some we will announce, I think, indicates not only the mission criticality of our work, but how we deliver that work in more and more commercial models. We have software-as-a-service kinds of capabilities. We can sell our capabilities right off of marketplaces that exist and our customers understand the commercial nature of what we do and, quite frankly, I think will qualify us in the -- in the group that is being perceived as the approach that DoD is trying to take going forward. So of course, we're not (inaudible). We're keeping our ears open and obviously trying to make sure we understand any signals coming from the Department of Defense, but at this point, we don't see significant risk as a result of recent communication.

Q - Tobey Sommer {BIO 6296228 <GO>}

Thanks for that answer. One follow-up for me. And sort of how has your -- the development of DOGE and now the budget process and priorities with the skinny budget, what's going on in Congress. How has that informed how you think about future new business capture in your bidding proposal activity? Does that -- has that led to sort of a refinement as you look out 12 months, 24 months, 36 months to -- to change at all the posture of what you've been looking at?

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

That's a great question, Tobey, and I appreciate it at many levels. I would suggest you going back to the strategy we put in place, just over 18 months ago, that strategy prior to this administration was pivoting our portfolio towards more enterprise and mission IT solutions that are delivered in a number of commercial models directly to our customer set. In many ways, we've been looking to refine that and expedite our ability to further package and offer that capability again within the constructs and the confines, if you will, of where we feel differentiation occurs, particularly in our digital engineering capability, our data platforms, our operational AI and in our secure cloud. We've been able to do that with Sprints and if you will, what we call, DevSecOps but different forms of Sprints that we've been able to sell commercially directly off marketplaces where not only DoD, but customer sets have appreciated the speed with which we've been able to do mission-critical work.

So if you think about the strategy as a Horizon 1, we said for the next, in fact, for the first three years, which now we're halfway through, we are probably speeding up our efforts in the path that we were already on rather than selecting a new path. We were already moving in the commercializing of our IT capability, embedding of that across our sustainment contracts and other types of work that we do for DoD, Intel and Civilian customers.

I think the other areas we're looking to refine, we are -- we are heavy into, as you know, we've been expanding our venture program, so bringing in new technologies through ventures as well as partnering very strategically with new players, existing players. As we've always said, we've been able to embed technology very quickly and we've got great examples for that. So I would argue that the strategy that was in place was directionally correct, slightly independent of political headwinds or tailwinds that we are in fact aligned, particularly in areas of lethality, areas that the administration has shown for DoD on mission-critical work. We've not only survived, but I think we've come through an audit of our work with GSA that has exemplified the mission criticality of it.

And I think we're right now expediting our efforts to get to more and more commercial solutions over the next year or so. So in many ways, we feel -- we feel like we're on the right path, we just have to go faster.

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

Thank you very much.

Operator

Thank you. One moment for our next question. Our next question comes from the line of Colin Canfield from Cantor Fitzgerald.

Q - Colin Canfield {[BIO 22594816](#) <GO>}

Hey, thank you for the question. Maybe following up on Sheila and a little bit of what (inaudible) questioning on, but can you just level set us on how we should think about Defense and Civil's

margin trajectory versus the multi-year targets? I think Toni, you said Civil margins get better from here. And it sounds like 1Q should be trough in Defense, but just maybe understanding essentially kind of what are the big moving pieces within the segment level margins versus your targets? Thank you.

A - Prabu Natarajan {BIO 17701667 <GO>}

Let me take first one.

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

Okay. Thank you.

A - Prabu Natarajan {BIO 17701667 <GO>}

Hey, Colin. I'll take that one first here. On the Civil side, I think as we said, we do expect margins to improve from here on out, given the number of things we have going on inside of the business and candidly their performance in Q1 is consistent with the commentary we've shared for a couple of quarters now that we do expect margins to pick up.

On the Defense and Intel side, I think we tend to think about this in the context of our bid thresholds and we have different thresholds here for cost plus, T&M and fixed price work inside of the Defense and Intel business and we are continuing to see bid volumes increase with higher than bid thresholds. And obviously, we're putting a lot of energy into execution cases here to ensure that the teams are continuing to execute at levels higher than the bid thresholds. And obviously, the vast majority of the work there is cost plus work inside of the Defense and Intel business. So we are banking on the team's performance to demonstrate that on execution, we can actually continue to improve margins.

The other thing that parts of our Defense business has been able to do is actually look at their recompile win rates relative to the margins that they're bidding on those recompetes. And they've actually, with a lot of discipline, continued to move margin rates higher up, let's call it, 10 bps, 20 bps, 30 bps every single time a program comes up for recompile, which is almost counterintuitive. You would think of margin rates coming under some pressure with recompetes, but the team has actually been able to do the opposite of that. When you then compare Civil margins improving from a trough, Defense continuing to bid higher over longer periods of time and then Toni mentioned the, sort of the commercial factory offerings that we are continuing to offer to our customers. Last year was a really good year for the commercial operating segment for us. And as we said on the last earnings call, we expect the commercial sales from our business at, I'm going to say, commercial margins to go all the way to about \$100 million of top line in FY28 from about \$35 million. So when you put the three factors together, that actually does create the portfolio to grind up 10 bps to 20 bps annually.

Now, of course, as we win more work, if there is a pressure on margin rates, that's a First World problem we'd love to have because we do believe that we're going to end up generating more EBITDA dollars here, but I think that's the -- that's the path to grinding up margins over time.

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

And Colin, the only thing I would add to that would be because I think Prabu got it left to right, correct there. One of the -- in the correlation of what creates margin risk for this organization, not only bidding correctly and bidding within thresholds will increase our margin, but executing correctly, if you will, within the stated sort of stand -- standardized templates will ensure that we

don't erode margin. And one of the areas that we're focusing on because we have so much more bid activity, we expect to win our fair share is making sure the transition of large programs goes exceedingly well because when you start to look at margin pressure, it generally starts with a poor transition is -- doesn't -- doesn't bode well for the future of the program.

And so we are putting not only our factory capabilities are some of our deeply technically trained individuals in our factory, but across our organization with a very significant focus on solid -- solid transitions of every major program that we win, so that the first six months are indicative of a very solid margin path for the program going forward. So that's a risk mitigator that we've added to our sites here and I think the executive team is all-in in monitoring that transition activity as well.

Q - Colin Canfield {[BIO 22594816](#) <GO>}

Got it. Got it. Thank you. And then maybe focusing on, we've had a lot of, I think noise in one half around government efficiency that for all the handwriting [ph], it's not fairly nominal, right? And like if you think of like FY25 stuff (inaudible) for the government and like '26 request being pretty far off what, both Head of Armed Services and Head of Appropriations are saying.

So maybe talk us through the commentary that you said at the start around the multi-year growth expectations and then maybe kind of thinking through like how does -- like what is the best outcome for SAIC to the extent that like we still get a \$1 trillion Defense, but perhaps the mix is -- there's different outcomes.

So maybe walk us through kind of your high-level expectations of the different outcomes of mix within the different scenarios and what I think the team would consider to be the best outcome for SAIC?

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

So let me just make sure I'm clear on the question. If the question is relative to the mix of our portfolio meeting across Intel, Defense and Civilian, over the next couple of years, I would suggest to you that our -- as we laid out in our strategy, we fully expected not only to pivot our portfolio towards mission, enterprise solutions but we were looking to grow our Civilian business and grow it disproportionately and we see that effect already in place. So that business right now is about 20% to 22% of our current revenue and our expectation that that may inch up to something like 25% of our revenue over the next few years, I think is still intact. Obviously, operating environment notwithstanding that business continues to click along. And again, I think that's based on our footprint.

If you look across our DoD business, I would suggest there may be some shifts. We mentioned some of the pressures on the Army business. We've mentioned some of the opportunities across our Space business and Air Force business. But again, I think we're lined up to take advantage of the current budget environment even through a CR this year. We've said it's a flexible CR. They've identified priorities. We've looked against the 17 defense priorities coming out of DoD. And as you saw in the earnings statement, we're lined up against more than half of those directly with the work that we do. So we feel pretty solid there. And then I think there's a very real opportunity for us to improve our positioning on the Intel side as we have a larger Intel pipeline than we've had for many, many years, and we've got some great opportunities going forward in the Intel space.

So when I look at the mix right now, I don't see a structural reason why we can't grow in the guidance that we've offered for the next couple of fiscal years even given the budget environment that we find. Obviously, anything draconian that would occur, we would have to go

back and reassess. But based on what we see line of sight, I think we've got enough budget in the right direction and we're positioned well enough to capture that to underpin our call.

A - Prabu Natarajan {BIO 17701667 <GO>}

Hey, Colin, the only thing I would add tactically is that if we have to grow, let's call it 5% next year, I think we do need to get book-to-bill to 1.2 that will support the growth rates we've got out there. I think we are assuming that Defense budgets are not going to be healthy relative to the preceding five years. In other words, that we will continue to see some pressure on budgets. Think of that as sort of flat to 3% growth, but we do think that not having some headwinds that we've had over the last few years is going to offer a little bit of tailwind for us and our new business win rates are actually pretty good and they've remained pretty good over the last three years or four years. And therefore, that combination should get us to that 4%, 5% growth rate. So we don't need a sort of a high-growth Defense budget for us to be able to grow the company 4% or 5%. We think the things we're doing should help us grow to that level even in the budget environment we expect to see a little bit more constraint than maybe the last five years.

Q - Colin Canfield {BIO 22594816 <GO>}

Got it. Thank you for the color.

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

Thank you.

Operator

Thank you. One moment for our next question. Our next question comes from the line of Noah Poponak from Goldman Sachs.

Q - Noah Poponak {BIO 16071528 <GO>}

Hey, good morning, everyone. I was hoping to go back to the margin--

A - Prabu Natarajan {BIO 17701667 <GO>}

Good morning, Noah.

Q - Noah Poponak {BIO 16071528 <GO>}

Hey, thanks so much for the question. I was just hoping to go back to the margin discussion, Toni, where you were just describing contract terms and execution within them. And I guess there's a decent amount of discussion in the industry about the customer wanting to shift to more outcomes-based and perhaps that including fixed price, but other things.

And I guess there's more opportunity in that as those contract types can be higher margin, but I guess that also shifts risks to the contractor and current mix is what it is for a reason. So how do you see the opportunity there versus it potentially being pushed in places where it's maybe too aggressive or inappropriate and it can impact margins negatively?

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

Yeah. Thanks for the question, Noah. Look, I think there's been a lot of conversation about conversion to outcome-based as well as within that outcome base the definition or scope of fixed price. And we've been proactively looking across our portfolio with our customers into

where the best opportunities on both existing contracts that may be coming up for some form of renewal as well as bidding with looking at the opportunity to shift to a fixed price.

That wholesale conversion, we haven't seen yet in any significant meaningful way where entire contracts are coming out or existing contracts are being converted to fixed price. We do see, obviously, what we will call, contract line items or scope, some scope of contracts being -- fixed price being introduced and that's been historically a pattern that may increase in this new environment of putting elements. And there are some contracts that are better positioned for fixed price. A lot of our work in our enterprise IT, our IT infrastructure, we think is very, very prone to fixed price environment. Does that introduce more risk to the cut to the contractor? Absolutely. However, if you look at where we've done fixed price, most of that work sits in our Civilian business, and we've been able to hold very solid margins within that business where we have a mix of T&M, time and material and fixed price.

So we do have a track record of being able to deliver in a fixed-price environment. We also have been really showing up internally our standard delivery framework so that we are delivering our execution in a standard repeatable way, highly monitored, particularly in fixed price and focus on making sure we bring in personnel that have fixed price backgrounds and experience.

So in that regard, while there's been quite a bit of talk relative to that, we haven't seen meaningful new bids that have come in in a fixed price conversion or changes, but we are prepared for that and again, proactively leaning in with our customers. The assumption there, we see that as a tailwind opportunity for the company as it relates to profitability, we take on more risk, but we have the opportunity to drive a greater margin out of those programs. We have that track record. We acknowledge that that may -- that the government will expect most likely some discounts on the top line for that. But as we take a greater share of that market, we think we can offset any top-line risk with some improved margin and profitability.

But again, to date, other than direct conversations we are having on some unique programs with customers, we have not seen the procurement engine totally shift in that direction, at least not yet. Prabu, any other comments?

A - Prabu Natarajan {BIO 17701667 <GO>}

That was perfect, Toni.

Q - Noah Poponak {BIO 16071528 <GO>}

Okay. I really appreciate all that. And probably just the notion of if the new business is sliding slightly to the right, you would need more on-contract growth. Can you -- is it possible to put numbers around that? I mean, how much more on-contract growth can you get versus what you're already assuming? Or anything you can put around that in terms of the growth rate or dollars of revenue?

A - Prabu Natarajan {BIO 17701667 <GO>}

Yeah. So maybe a little bit of a premier [ph] back. A few years ago, our on-contract growth numbers were, I'm going to say low-single-digits. That number was the highest it's been last year, where we clicked up to about 5% or 6% of full-year revenue in on-contract growth and that's data we've shared with folks externally. I think Q1 was right in line with that level of on-contract growth, if not even a little bit higher than that. And I think to the extent that we can continue to deliver on-contract growth upwards of mid-single-digits, we're going to need less and less of new business to get to the -- get to the -- I'm going to say approximately 2.5% midpoint of our guide for this

year. So that's how we're seeing it. And again, because the CR has given a little more flexibility this time around, we are seeing that as a second viable path. And of course, to the extent that some of the new business wins start to ramp sooner, then that probably is the difference between whether we get to the low to mid point of the guide range or mid to high point of the guide range. To me, those are the variables.

Q - Noah Poponak {BIO 16071528 <GO>}

Okay. Thank you.

Operator

Thank you. This concludes today's presentation. Thank you for participating. You may now disconnect.

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