SAIC
EARNINGS RESULTS

MANAGEMENT'S PREPARED REMARKS

Toni Townes-Whitley, Chief Executive Officer
Prabu Natarajan, Chief Financial Officer

SECOND QUARTER FISCAL YEAR 2025 EARNINGS CALL

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Joseph DeNardi

Good morning and thank you for joining SAIC's second quarter Fiscal Year 2025 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 2025 that ended August 2, 2024. Earlier this morning, we issued our earnings release, which can be found at investors.saic.com, where you will also find supplemental financial presentation slides to be utilized in conjunction with today's call and a copy of management's prepared remarks. These documents, in addition to our Form 10-Q to be filed later today, should be utilized in evaluating our results and outlook along with information provided on today's call.

Please note that we may make forward-looking statements on today's call that are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from statements made on this call. I refer you to our SEC filings for a discussion of these risks, including the risk factors section of our annual report on form 10-K. In addition, the statements represent our views as of today and subsequent events may cause our views to change. We may elect to update the forward-looking statements at some point in the future, but we specifically disclaim any obligation to do so.

In addition, we will discuss non-GAAP financial measures and other metrics, which we believe provide useful information for investors and both our press release and supplemental financial presentation slides include reconciliations to the most comparable GAAP measures. 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

Thank you, Joe and good morning to everyone on our call which we are doing today from our offices in Huntsville. SAIC has deep roots in the Rocket City with over five decades of support and community involvement. We are proud to be the third largest employer with more than 2,600 employees calling Alabama home. We recently held our Board meeting here and will be taking our Board members and other leaders to visit the Chamber of Commerce and an amazing high school that we support - the Alabama School of Cyber Technology and Engineering. It is vitally important for us to develop and foster STEM education in our youth to ensure our future workforce can fill critical skills needs now and into the future.

We will also visit key customer sites where we support some of the country's most mission critical operations in the space and missile defense sectors. In our support of the U.S. Army and Missile Defense Agency, we strive to ensure we provide leading-edge capabilities and technology to help them solve their hardest problems and field mission-critical systems to our warfighters and military leaders. Our work includes modeling and simulation, live-virtual constructive training, and digital engineering. I am extremely proud of this workforce and am committed to our ongoing upskilling initiatives which will see us grow in expertise and skill to match and exceed our customer's requirements.

My remarks today will focus on a quick review of our second quarter performance followed by an update on the execution of our enterprise growth strategy. Prabu will then discuss our updated outlook and capital deployment plans in greater detail.

Overall, I am pleased with our solid financial performance on all key metrics and the strategic progress we made in the quarter.

We reported second quarter organic revenue growth of 2% y/y as increases from new business wins and on contract growth were partially offset by an approximately 5 pt headwind from contract transitions.

Adjusted EBITDA of $170M and margin of 9.4% reflect solid program performance. Due to revised bid thresholds we have put in place and a focus on improved shot selection, we continue to expect an improved margin trajectory over the next several years.

Adjusted diluted earnings per share of $2.05 benefited from an effective tax rate of approximately 19.5% and a 5% y/y reduction in our weighted average share count.

Second quarter free cash flow of $241M was very strong due to a continued focus on working capital efficiency and good blocking and tackling from the team. This brings first half free cash flow to $262M representing over 50% of our full year guidance.

While we still have some revenue challenge in front of us in the second half of the year, as Prabu will describe, I'm encouraged by the performance shown in 2Q and the focus I see inside our company to meet our guidance for FY25 and sustain momentum into FY26.

I'll now provide an update on our enterprise growth strategy execution. We have flattened our organization, centralized business development, and implemented our enterprise operating model designed to optimize investment planning and align our pipeline with growth vectors. We continue to tune across all four pivots: portfolio, go-to-market, culture, and brand.

The earliest indicators of progress against our strategy will be improved business development performance, which we believe will unlock significant long-term value for shareholders. The outcome is a more differentiated, more efficient, faster growing, and higher margin SAIC.

Simply put, we expect that our execution of the strategy will initially translate into Bid More, Bid Better, Win More.

The first step – Bid More – is significantly increasing the total value of submissions to a level more aligned with our growth aspirations. We continue to see good progress as evidenced by the ~$14.5B of submit volume in the first half of the year compared to $17B for full year FY24, and we have improved visibility into exceeding our submissions target of $22B for the full year.

The second step – Bid Better – is aligning our pipeline and bid processes with key strategic and financial objectives. Strategically, we will drive outsized growth in the Civilian market and within Enterprise and Mission IT, two of the four growth vectors where we see the opportunity to leverage our strength in the market to gain share. These growth vectors align with our financial objectives to shift our pipeline towards higher value programs that are more margin accretive.

The third step – Win More – is driving bookings and backlog growth and, eventually, revenue growth more aligned with our long-term target. We will accomplish this by increasing our volume and quality of bid submissions, returning our recompete win rate to the 90% range, and sustaining our strong new business performance.

In terms of how long it will take before we see start to see results, our expectation is for bookings to continue to improve with a particular inflection over the next two to three quarters with the associated revenue impact following one to two quarters later. This should translate into a book-to-bill of 1.2x by the first half of FY26 with organic revenue growth aligning with our longer-term target of 5% towards the end of FY26.

I want to thank the team at SAIC for the enthusiasm and focus they bring to the company and the execution of our strategy. Thanks to their efforts, we are well on our way towards building a stronger SAIC for the future. I look forward to sharing further updates on our progress going forward. I'll now turn the call over to Prabu.

Prabu Natarajan

Thank you, Toni and good morning to those joining our call. I will now provide a review of our business development results, updated outlook for the fiscal year and our capital deployment plans.

Net bookings of $1.2B resulted in a book-to-bill in the quarter of 0.6x and 1.1x on a trailing twelve months basis. We submitted approximately $6.5B of total contract value in the quarter bringing the year-to-date submitted bids value to approximately $14.5B. We are encouraged by the momentum and increased velocity we are seeing within our BD organization and remain on track to exceed our target for $22B of submissions this year with further growth in FY26 and FY27 beyond our initial estimates. The processes and metrics we put in place give me confidence that we will be able to improve our business development and capture outcomes over the next few years.

We returned approximately $220M to shareholders in the quarter including $201M of share repurchases reflecting a planned increase in our pace and opportunistic repurchases on top of that. We remain on track to exceed the high end of our prior target of $350M to $400M in repurchases for the year. We intend to achieve this while maintaining sufficient capacity for M&A. I'll now provide an update on our outlook for the year.

We are reaffirming our prior guidance for revenue, adjusted EBITDA, and free cash flow.

We are increasing our guidance for adjusted diluted earnings per share by $0.10 to a range of $8.10 to $8.30 due to a lower tax rate and share count offsetting modestly higher interest expense.

Our revenue guidance which reflects pro-forma organic growth in a range of 1.5% to 3.5% continues to assume an approximately 5% headwind from recompete pressures. At the midpoint, this implies an improvement in our second half growth compared to first half results. We expect the improvement to be driven primarily by the further ramp up in volume on previously won new business and continued momentum from on-contract growth. Consistent with what we communicated last quarter and based on our expectation for 3Q and 4Q revenue growth as provided on slide 7, we see the midpoint to the lower end of our revenue guidance as more likely than the higher end.

We are reaffirming our prior guidance for adjusted EBITDA in a range of $680M to $700M and margin in a range of 9.2% to 9.4%.

We are reaffirming our free cash flow guidance of $490M to $510M and expect to sustain the momentum we built during a very strong second quarter.

Our capital deployment strategy remains focused on maximizing long-term shareholder value. We have confidence that the strategy we are executing will produce free cash flow growth in excess of what is implied by current market valuations. Given this view and the opportunity we see to drive significant improvement from our existing business, we expect our threshold for M&A to remain high and capital deployment to remain targeted on our repurchase program. However, we retain sufficient balance sheet flexibility to add differentiated businesses to our company should an opportunity meet our risk adjusted threshold for returns.

In closing, I am proud of the team’s focus on delivering value for our shareholders and on executing our strategy to drive sustainable growth going forward. The progress we are making is clear and will begin converting into stronger financial performance in the coming years.

I’ll now turn the call over to begin Q&A.

