SAIC EARNINGS RESULTS

MANAGEMENT’S PREPARED REMARKS

Nazzic Keene, Chief Executive Officer
Prabu Natarajan, Chief Financial Officer

FIRST QUARTER FISCAL YEAR 2024 EARNINGS CALL

JUNE 5, 2023

INVESTOR CONTACT
JOSEPH DENARDI
joseph.w.denardi@saic.com

Joseph DeNardi

Good morning and thank you for joining SAIC's first quarter Fiscal Year 2024 earnings call. My name is Joe DeNardi, Vice President of Investor Relations and Strategic Ventures, and joining me today to discuss our business and financial results are Nazzic Keene, our Chief Executive Officer, and Prabu Natarajan, our Chief Financial Officer.

Today we will discuss our results for the first quarter of Fiscal Year 2024 that ended May 5, 2023. 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 and quarterly reports on form 10-Q. In addition, the statements represent our views as of today and subsequent events may cause our views to change. We may elect to update the forward-looking statements at some point in the future, but we specifically disclaim any obligation to do so.

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

Nazzic Keene

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

Earlier today, we reported strong results for the first quarter and increased our guidance for revenue and EPS for FY24. Our performance represents a strong start to the year, and we remain on track to deliver on the financial targets we provided to you at our Investor Day on April 11.

Before discussing our results in more detail, I want to continue my tradition of highlighting colleagues at SAIC for their contribution to our success – though, this quarter, there will be a slight twist which I'll get to shortly.

As many of you know, May is Military Appreciation Month which is an especially meaningful time for SAIC given how foundational military personnel and their families are to our culture and our values. Over 30% of SAIC's employees are military service members and veterans and our Military and Veterans Employee Resource Group is SAIC's largest ERG. During the month of May, we recognize several important days for our country and our employees: V-E Day on May 8, Military Spouse Appreciation Day on May 12, Armed Forces Day on May 20, and, of course, Memorial Day on May 29.

In addition, on May 10, SAIC gifted its 14th home through its partnership with Building Homes for Heroes. For over 10 years, SAIC and Building Homes for Heroes have partnered to provide homes to deserving veterans and raised over $600,000 in the process. Here's where the twist comes in: we've included links in these prepared remarks and our earnings presentation slides where you can donate to support this outstanding cause and help fund future homes for our veterans.

Please click here to learn more about Building Homes for Heroes and to donate.

I want to recognize Mike Bramble, Stefanie Wall, and David Robinson for their leadership on this important program.

Now, onto a review of our financial results and outlook. As I mentioned, our performance in the first quarter positions us well to meet our goals for the year and is a solid first step towards achieving the long-term financial targets we provided in April.

Our revenue of $2 billion represented pro-forma growth of 3.5%. I remain encouraged by the performance we've delivered and expect revenue growth rates to further improve in both our second and third quarters.

We delivered strong operating performance as reflected by our 9.3% adjusted EBITDA margin in the quarter. We remain on track to deliver at least 50 basis points of margin improvement in FY24 through a combination of our portfolio shaping and our organic initiatives.

Our net bookings include $766M from the DCSA One IT program which was re-awarded to us in the quarter and on which we have begun to ramp up; however, our bookings do not include any contribution from the T-Cloud contract which remains in the protest process.

Looking ahead, our pipeline and backlog of submitted proposals remain strong with solid growth overall and within our GTAs, specifically. At the end of our first quarter, the value of our submitted proposals was $26B, an increase of 10% y/y while our total qualified pipeline was up approximately 8% y/y. Importantly, our pipeline continues to skew favorably towards the higher margin areas of our portfolio with approximately 50% of the contract award portion of our qualified pipeline aligning with our GTAs.

Before turning the call over to Prabu, I want to highlight some encouraging trends we have seen of late in both talent retention and acquisition. While we attribute some of this to an industry-wide improvement in labor metrics, we believe SAIC is performing well against the industry benchmark for turnover and we are tracking ahead of our plan year-to-date on new hires and headcount. Obviously, there are a number of factors contributing to this including some of the employee well-being initiatives we've discussed previously. I also believe that the leadership SAIC has shown in fostering a culture based upon diversity, equity, and inclusion is a factor. It will continue to be a top priority for the company as we believe it best-serves all of our stakeholders.

I will now turn the call over to Prabu to discuss our results and improved outlook in greater detail.

Prabu Natarajan

Thank you, Nazzic and good morning everyone.

We reported strong fiscal first quarter results with revenue of $2.03 billion, up 3.5% year over year pro-forma or roughly 2% when excluding supply chain sales. Revenue in the quarter benefited from the timing of certain materials sales previously planned for later in the fiscal year along with improved performance. Given some of the potential macro risks facing the industry, we are encouraged by the strong start to the year.

The company's first quarter adjusted EBITDA margin of 9.3% was also strong, benefiting from solid execution and the impact of ongoing margin improvement initiatives.

Adjusted diluted EPS of $2.14 benefited from the stronger operating performance in the quarter and a lower effective tax rate.

First quarter free cash flow was $76 million, ahead of our plan as the momentum we demonstrated at the end of fiscal year 2023 on cash collections has continued into fiscal year 2024. As we highlight in our earnings presentation, quarterly free cash flow in FY24 will be impacted by the timing of payroll cycles with one additional payroll cycle in our first quarter representing a roughly $100 million headwind. We expect this to reverse in our second quarter, be a headwind again in our third quarter, and then reverse to a tailwind in our fourth quarter.

I’ll now discuss our updated outlook for fiscal year 2024.

We now expect revenues in a range of $7.125B to $7.225B, a $50M increase at the midpoint from our prior guidance, which now represents approximately 4% y/y growth. This increase is driven primarily by two factors: (1) roughly $35M of outperformance from our supply chain business in 1Q and (2) roughly $15M from net improvements elsewhere. In terms of the expected quarterly cadence of growth through the year, we continue to see low to mid single digit growth rate in every remaining quarter of our fiscal year after adjusting 4Q for the five fewer working days this year. We have provided additional detail in our slides to assist with modeling.

We are maintaining our adjusted EBITDA margin guidance of 9.2% to 9.4% though, as I mentioned, I am encouraged by our strong start to the year and continue to see a multi-year path to further margin improvement.

We are increasing our adjusted diluted EPS guidance to $7.00 – $7.20 as a result of the improved operating performance and the expectation for lower interest expense going forward.

We are maintaining our free cash flow guidance of $460M to $480M and continue to expect roughly $350M to $400M in share repurchases. We deployed about $70M of cash to repurchase our shares in Q1 and have picked up the pace here in the second quarter. Note that our free cash flow guidance excludes roughly $82M of cash taxes, transaction fees, and other costs we expect to pay related to our supply chain sale. While we expect to recognize the bulk of these costs in our 3Q and 4Q cash flow from operations, we are excluding these payments from our free cash flow guidance to provide investors with a clearer understanding of the business's underlying cash flow performance. In addition, we expect to record a gain as a result of the transaction in 2Q which we will exclude from our adjusted results.

As Nazzic mentioned, results in the first quarter position us well to deliver upon the multi-year financial targets we provided at our investor day. This outlook will result in solid top line growth, adjusted EBITDA margins greater than 9.5%, and free cash flow per share of approximately $11 by Fiscal Year 2026.

We intend to accomplish this while remaining true to our asset-light business model which we believe will result in SAIC driving an industry-leading improvement in ROIC over the next few years. While we recognize that driving sustained profitable growth and increasing

 |

margins is a key priority, we believe that doing so while also being disciplined stewards of capital is in the best interest of our long-term shareholders.

As a leadership team and as a company, we remain focused on maximizing long-term shareholder value.

With that, I'll now turn the call back over to Nazzic.

Nazzic Keene

Thank you, Prabu. As we announced on May 18th, I will be retiring from my role as CEO effective October 2. The Board has appointed Toni Townes-Whitley to serve as SAIC's next CEO, and I couldn't be more supportive of their decision. Identifying the very best candidate and putting in place a smooth and orderly transition have been key priorities for the SAIC Board, and we are confident that we have achieved both.

The plan we announced allows for an eight month transition to ensure this is a successful process for Toni, our employees, our customers, and our shareholders. I can say with confidence that the SAIC leadership team and I are incredibly excited to welcome Toni to the team and to further accelerate our strategy under her leadership.

As I still have one more call with you all in September, let’s leave our goodbyes until then. With that, I’ll now turn the call over to the operator to begin Q&A.

