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# Science Applications International Corp.

(SAIC)

Q1 2020 Earnings Call

## CORPORATE PARTICIPANTS

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**Anthony J. Moraco**

*Chief Executive Officer & Director, Science Applications International Corp.*

**Nazzic S. Keene**

*Chief Executive Officer-Elect, Science Applications International Corp.*

**Charles Alexander Mathis**

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## OTHER PARTICIPANTS

**Gavin Parsons**

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**Matthew Sharpe**

*Analyst, Morgan Stanley & Co. LLC*

**Greg Konrad**

*Analyst, Jefferies LLC*

**Edward S. Caso**

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**Jonathan Raviv**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day and welcome to the SAIC Fiscal Year 2020 First Quarter Earnings Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Shane Canestra, SAIC's Vice President of Investor Relations. Please go ahead, sir.

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**Shane P. Canestra**

*Vice President, Investor Relations, Science Applications International Corp.*

Good morning. My name is Shane Canestra, SAIC's Vice President of Investor Relations, and thank you for joining our first quarter fiscal year 2020 earnings call. Joining me today to discuss our business and financial results are Tony Moraco, SAIC's Chief Executive Officer; Nazzic Keene, SAIC's Chief Executive Officer-Elect; Charlie Mathis, our Chief Financial Officer; and other members of our management team.

This morning, we issued our earnings release which can be found at [investors.saic.com](http://investors.saic.com) where you'll also find the supplemental financial presentation slides to be utilized in conjunction with today's call. Both of these documents, in addition to our Form 10-Q to be filed soon, 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.

It is now my pleasure to introduce our CEO, Tony Moraco.

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## Anthony J. Moraco

*Chief Executive Officer & Director, Science Applications International Corp.*

Thank you, Shane, and good morning. SAIC had a good start to fiscal year 2020, the strong first quarter under Nazzic's leadership, keeping our attention on operational performance while we continue to successfully integrate the Engility acquisition. As you'll hear from Nazzic and Charlie, our first quarter results reflect increased strength in the portfolio, outstanding free cash flow generation, a strategy that is aligned to a favorable market.

Nazzic and I have continued to work closely on a smooth CEO transition, providing stability, continuity of leadership, and continued focus on our strategic priorities. As I continue to transition my responsibilities, I wish to thank the countless people that have contributed to the success of SAIC. Thank you for your dedication and hard work that has made SAIC into the great company it is today.

Over to SAIC's CEO-elect, Nazzic Keene.

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## Nazzic S. Keene

*Chief Executive Officer-Elect, Science Applications International Corp.*

Thank you, Tony. I want to thank you for your leadership, friendship, and trust over our years together. I echo your thoughts on the transition of CEO responsibilities, and I'm excited to be leading SAIC continuing a proud legacy of shareholder value creation. In my previous role of COO, I helped to define SAIC's business strategy and anticipate the core elements of that strategy to remain intact.

When I look at that strategy through a new lens, priorities may be adjusted in a few areas to accelerate sustained profitable revenue growth given our newly acquired capabilities, talent, and customer access. However, the goals of our strategy remain unchanged, to be the federal government's premier technology integrator, lead the markets we choose to serve, and make a meaningful difference for all our stakeholders.

SAIC's first quarter performance of fiscal year 2020 reflects continued strong operational performance while making investments to accelerate sustained profitable growth. First quarter delivered revenues of \$1.6 billion, ahead of our expectations and equating to 37% total revenue growth from the prior year quarter.

Strong adjusted EBITDA margins were 8.3% for the first quarter, up 180 basis points from last year. We have great confidence in the cash generation profile of the company and the first quarter cash flow performance demonstrates the basis of our confidence. Charlie will further discuss the financial results in a few minutes.

SAIC continues to operate in a favorable market environment in government fiscal year 2019. Our customers are operating with appropriated budgets and continue their investment decisions with confidence. In this favorable

market environment, coupled with the additional capabilities and customers that Engility brings, I am confident that SAIC is positioned well to accelerate revenue growth.

As you know, the sales cycle in our market is fairly long, but we are making business development investments now that will provide for sustained profitable growth over the long term. There is a common concern that business development activities could slow down after a significant acquisition. I can tell you with confidence that is not the case with our acquisition of Engility. Momentum is building and our pipeline of qualified pursuits is expanding.

With four months between announcement and close, we took the opportunity to plan for the combined company business development activity and began to execute on day one. We have kept pace with business development activities and I am seeing early acceleration of our pipeline as we take advantage of our new capabilities and customer access.

Contract award activity in the first quarter was \$1.9 billion including about \$300 million of single-award IDIQ vehicles. Net bookings for the quarter was approximately \$1.4 billion, translating to a quarterly book-to-bill of 0.9. On a pro forma basis, SAIC's trailing 12-month book-to-bill is 1.1. Approximately 70% of the first quarter awards were for new business opportunities.

During the quarter, SAIC was awarded contracts and task orders valued at approximately \$300 million by U.S. national security, space and intelligence customers. Additionally, SAIC was awarded a recompetes contract valued at \$292 million from NASA to continue providing a variety of engineering and quality assurance services. Also in the recompetes category was a \$58 million contract award from the U.S. Air Force to enhance airman combat survivability by enabling U.S. forces to counter optical hazards and threats.

Also awarded during the quarter, but not immediately contributing to bookings, was a new business opportunity of a \$535 million multiple-award IDIQ vehicle to support the Defense Threat Reduction Agency. As one of only five awardees, SAIC will look to generate new business revenues by providing IT services across DTRA.

At the end of the first quarter, SAIC's total contract backlog stood at approximately \$13.6 billion with funded backlog of approximately \$3 billion, up 8% from the fourth quarter. The estimated value of SAIC's submitted proposals awaiting award is \$13 billion, consistent with the end of the fourth quarter. I should note that, of this amount, approximately 70% of submitted proposals are for new business, an indicator of a favorable market environment and the potential for SAIC to accelerate growth.

As I mentioned earlier, momentum is building particularly in the area of business development. During the first quarter, SAIC submitted contract proposals valued at \$3.7 billion and we expect to submit approximately \$6 billion in the second quarter. Both of these quarterly submittal values contain a predominant amount of new business opportunities.

Before turning the call over to Charlie, I'd like to give you an update on the integration of the Engility acquisition. Six months in, the acquisition has gone very well, and the strategic and financial tenets of the acquisition are intact. During our March call, we reported that we had successfully achieved 85% of the year one net cost synergies. I am pleased to report that we have now achieved 100% of the year one net cost synergies of \$38 million realizing the benefits earlier in the year and contributing to our higher margins in the first quarter.

Looking to year two, we continue to have confidence in another \$38 million of net cost synergies with a significant amount of these coming from our next major milestone, the integration of several enterprise systems later this year. Executing the successful integration of Engility and the associated net cost synergies is forefront of mind for

me and the leadership team. I am pleased with the progress to-date and I'm excited by the opportunities ahead of us.

Charlie, over to you for our financial results.

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## Charles Alexander Mathis

*Chief Financial Officer & Executive Vice President, Science Applications International Corp.*

Thank you, Nazzic. Our first quarter revenues of approximately \$1.6 billion reflect total revenue growth of 37%, primarily due to revenues associated with the Engility acquisition. And as expected for the first quarter, after excluding the impact of the Engility acquisition, revenues contracted year-over-year by 2.8%. The prior year quarter included increased materials related to Puerto Rican Humanitarian Relief and the current quarter was impacted by expected revenue dissynergies from the Engility acquisition. As a reminder, we expect and have previously communicated an approximate \$100 million of revenue dissynergies for the full fiscal year. This is due to the elimination of prime sub duplicate revenue, lower revenue on costs plus contracts due to cost synergy achievement and other factors. As Nazzic mentioned, revenue for the quarter was higher than expected.

First quarter adjusted EBITDA was \$134 million, a \$58 million increase from the prior year. Adjusted EBITDA after excluding \$8 million of integration-related cost equated to a very strong 8.3% as a percentage of revenues. First quarter margin performance was due to strong program performance, the favorable effect of net cost synergies and the blending of Engility's higher margin portfolio.

Net income for the first quarter was \$55 million and diluted earnings per share was \$0.92 inclusive of the \$8 million of integration cost I just mentioned. Excluding integration cost as well as amortization of intangibles, our adjusted diluted earnings per share was \$1.36 for the first quarter, an increase of 11% from the first quarter of last year. The effective tax rate for the quarter was approximately 20%, at the lower end of our previously communicated expected full-year rate of 20% to 25%.

First quarter operating cash flow and free cash flow were \$178 million and \$169 million respectively. I should note that the first quarter free cash flow generation is doubled the generation from the first quarter of last year. This includes the recovery of about \$25 million from delayed customer payments due to the partial government shutdown in our fourth quarter.

Collections were generally strong and we experienced no delays in the quarter from the Engility acquisition. Days sales outstanding at the end of the quarter were 58.5 days.

The first quarter ended with a cash balance of \$151 million. During the first quarter, we deployed \$70 million of capital consisting of \$44 million to repurchase 591,000 shares, \$23 million in dividends and \$3 million of mandatory debt repayment. Our pace of share repurchases increased during the quarter after our late March board meeting, at which time the board increased the share repurchase authorization. As noted in our release today, our board of directors has approved our next quarterly dividend of \$0.37 per share and will be payable to shareholders on July 26.

Turning to the balance sheet, net debt at the end of the first quarter was approximately \$1.9 billion and our leverage ratio remains consistent with our previously communicated plans. The acquisition of Engility has significantly improved the financial profile of the company with notable increases in EBITDA dollars, profitability margins, earnings per share growth and cash flow generation, which provides greater resources and capabilities to invest in growth while allowing for meaningful capital return to shareholders.

Now, turning to our forward outlook. Our outlook for the full fiscal year 2020 is unchanged from our January Investor Day and as reaffirmed on our March call. Our free cash flow target remains at \$425 million for the fiscal year. With our strong first quarter performance, we feel confident we can meet or exceed this goal for the year, although fluctuations occur from quarter to quarter. As a reminder, our second quarter is typically our lowest quarter of cash flow generation. We now expect our full year tax rate to be 22% to 24% with a cash tax rate unchanged at 13% to 15%, benefited by the tax assets acquired from Engility.

And finally, I too want to think Tony for his support over the years. The company is in a strong financial position and I wish you all the best in retirement.

Nazzic, back to you for concluding comments.

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## Nazzic S. Keene

*Chief Executive Officer-Elect, Science Applications International Corp.*

Yesterday, we conducted our Annual Meeting of Stockholders. I am pleased to report that all the proposals put forth to include board appointments and advisory vote on executive compensation and ratifying the appointment of Ernst & Young as our independent auditors were passed. I'm very excited to be leading a stronger SAIC as we continue to build momentum in the marketplace. The combination of our expanded market presence, increased capabilities, greater access to a skilled, talented workforce, and a strengthened financial profile all provide a great opportunity for sustained profitable growth.

Since the announcement of the CEO transition, I've had the opportunity to meet many current or prospective shareholders and listened intently. I will have many priorities on which to focus, but shareholder value creation will always be top of mind and will be a driving factor in decision-making.

Operator, we are now ready to take questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] We will now take our first question from Gavin Parsons of Goldman Sachs. Please go ahead. Your line is open.

Gavin Parsons

*Analyst, Goldman Sachs & Co. LLC*

Q

Hey. Good morning, everyone.

Nazzic S. Keene

*Chief Executive Officer-Elect, Science Applications International Corp.*

A

Good morning.

Gavin Parsons

*Analyst, Goldman Sachs & Co. LLC*

Q

Hey. I wanted to ask if you're submitting bids with the entire entity including Engility and if you could give us an example of a bid that you've submitted that you think might have a higher probability of winning.

Nazzic S. Keene

*Chief Executive Officer-Elect, Science Applications International Corp.*

A

Yes. Good morning. This is Nazzic. So, yes, we fully integrated the organization, the capture team, the business development team, the operational team. So we are absolutely submitting bids with the combination of SAIC and Engility across the entire portfolio in all of our markets. I'm not going to give a specific example, but I can tell you that some areas in which there is a significant revenue synergy opportunity. So, in the area of space, as an example, we're seeing increased focus certainly from our federal customer in the space domain and during the space mission. We've got a very, very strong capability in portfolio across whether it's civilian, DoD or the intel arena and the missions of space. And so, those would be the types of areas that we could see early opportunity to combine our capabilities, combine our customer access and drive pipeline opportunities.

Gavin Parsons

*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. And then on the multi-year or the 3% growth CAGR target, a number of your peers are higher than that. So if you had to guess, where would you think that your lower is your number more conservative? Do you think the budget has to slow over the next few years? Just on the 3%, why do you think that might be lower than some of your peers?

Charles Alexander Mathis

*Chief Financial Officer & Executive Vice President, Science Applications International Corp.*

A

Well, hey, Gavin. This is Charlie. Just a reminder that we do have the headwind from the revenue dissynergies that's about \$100 million that is factored in that we're having to overcome and we put the guidance out back at Investor Day and we think that's a realistic guidance at this point. We'll continue to update as we go forward. But as Nazzic said, there's a tremendous amount of momentum in the pipeline.

Gavin Parsons

*Analyst, Goldman Sachs & Co. LLC*

Okay. Thank you.

Q

Nazzic S. Keene

*Chief Executive Officer-Elect, Science Applications International Corp.*

Thank you.

A

**Operator:** We will now move on to our next question from Matt Sharpe of Morgan Stanley. Please go ahead. Your line is open.

Matthew Sharpe

*Analyst, Morgan Stanley & Co. LLC*

Good morning and thanks for taking my question. I was just hoping that you could provide some additional color on how you're thinking about capital deployment from here. I know we saw a fairly healthy step-up in the dividend earlier this year. Are you guys still considering M&A despite the Engility integration? What are your priorities obviously given where share prices are and the fact that you guys accelerated repurchases? Is that something we should consider as sort of top of the list or just maybe you could give us a framework for your thoughts?

Q

Charles Alexander Mathis

*Chief Financial Officer & Executive Vice President, Science Applications International Corp.*

Yes. So – this is Charlie. So – let me address that. So we did increase the dividend last quarter about 20%. The board did authorize an increase in our share repurchase authorization and I think that you see that the pace of activity for the share repurchase has increased and we will continue to evaluate. We're expected to generate \$425 million of free cash flow. In that we have dividend payments of about \$90 million, we have mandatory debt payments around \$24 million, we have a lot of optionality. And an absence of a strategic M&A which would be at a smaller scale, we look to return [ph] cash and capital (00:19:16) to shareholders.

A

Nazzic S. Keene

*Chief Executive Officer-Elect, Science Applications International Corp.*

[indiscernible] (00:19:18) it's Nazzic.

A

Matthew Sharpe

*Analyst, Morgan Stanley & Co. LLC*

Great. Thank you.

Q

Nazzic S. Keene

*Chief Executive Officer-Elect, Science Applications International Corp.*

So if we think about M&A just to reinforce, it's not our strategy and has not been our strategy to do frequent acquisitions. But we continue to monitor the industry, monitor the market and to the extent that something compelling comes along that helps support the strategy that we've already established, we leave the aperture over to take a look at those assets. But, again, doing acquisitions on a frequent basis is not part of our core strategy.

A



Matthew Sharpe

*Analyst, Morgan Stanley & Co. LLC*

Q

Got it. Thank you. And then just as a secondary question, I was hoping you might be able to comment a little further on the broader environment. Obviously, I think consensus is baking in [ph] a CR (00:20:01) for a period of time later this year. Are you seeing customers tighten their belts or is demand holding up, are there particular areas of strength?

Nazzic S. Keene

*Chief Executive Officer-Elect, Science Applications International Corp.*

A

Yeah. So, I think in general, we're saying business as usual for the most part. We're not seeing a lot of variations one way or the other and the government navigates the next steps on the budget environment, the areas of strength. Certainly we're encouraged because they're consistent with our strategy. So if you think about the focus on the space missions across the portfolio, certainly intel readiness and the DoD and key areas in the civilian market. Certainly, IT modernization across the portfolio, as the government looks to modernize the infrastructure to want to keep pace with technology but also to drive out costs over the future years is certainly an area that's getting some attention and we're well positioned. So we're optimistic that the budget will go through the normal process and come out in a strong position. But at this point, the government is just business as usual.

Matthew Sharpe

*Analyst, Morgan Stanley & Co. LLC*

Q

Great. Thank you.

**Operator:** We will now move on to our next question from Greg Konrad of Jefferies. Please go ahead. Your line is open.

Greg Konrad

*Analyst, Jefferies LLC*

Q

Good morning. I think last quarter you talked about profitability and margins kind of being back half weighted. You mentioned that you had pulled forward some of the synergies, but were there any other one-time unusual items in the quarter or kind of contingency baked into the back half of the year when we think about margin progression?

Charles Alexander Mathis

*Chief Financial Officer & Executive Vice President, Science Applications International Corp.*

A

Yeah. So let me address that. So there was nothing really unusual. It was really strong program performance. There was about \$8 million of EAC adjustments – upward adjustments on EAC and some other things in the portfolio that were favorable. We continue to have confidence in our full year adjusted EBITDA margins that we gave at Investor Day and reaffirmed in March and again today, ranged at 8.1% to 8.4%. We previously communicated that second half margins will be strong in the first half. We continue to believe that to be true despite the strong first quarter performance, although the variability between the second half and the first half is probably a bit tighter than previously thought.

Greg Konrad

*Analyst, Jefferies LLC*

Q

Thank you. And then just a quick follow-up. You mentioned some recompute wins in the quarter. You started the year at kind of 13% recompute for the full year. Can you just give us an update on that number?

Nazzic S. Keene

*Chief Executive Officer-Elect, Science Applications International Corp.*

A

Yes. So, that's a good point. We did start the year in a relatively low recompute cycle that continues to hold. I don't have the exact number in front of me. Certainly, we can get that, but if you think about, we were a quarter in. So I would estimate us to be at 10% or less at this point of the year. We're seeing a couple of things happen. We are seeing some extensions which de-risk the year in a positive way, so that's positive for us. So again, we don't see this as being a very volatile year as it relates to recompute and we see good line of sight to the revenue ranges that Charlie gave forth at the Investor Day.

Charles Alexander Mathis

*Chief Financial Officer & Executive Vice President, Science Applications International Corp.*

A

And I would just add on that. As a reminder, the largest recompute we have is the FSA contract. That's about \$120 million per year. We thought that that would have been decided by now, but that's been pushed out to the August timeframe. So, that number will then come down after that decision is made.

Greg Konrad

*Analyst, Jefferies LLC*

Q

Thank you.

**Operator:** We will now move on to our next question from Edward Caso of Wells Fargo. Please go ahead. Your line is open.

Edward S. Caso

*Analyst, Wells Fargo Securities LLC*

Q

Hi, good morning. Congrats on the number here. Can you help us adjust the organic growth number if you take out the \$100 million or so for the run-off items because of the Engility integration as well as the loss of the amphibious contract a year ago.

Charles Alexander Mathis

*Chief Financial Officer & Executive Vice President, Science Applications International Corp.*

A

So, are you looking for the adjusted growth number for the full year?

Edward S. Caso

*Analyst, Wells Fargo Securities LLC*

Q

I'm just trying to get a sense in the quarter what's your structural organic growth rate is.

Charles Alexander Mathis

*Chief Financial Officer & Executive Vice President, Science Applications International Corp.*

A

Yes. So, again the biggest headwind that we had in the quarter was from the Puerto Rico Humanitarian Relief effort. And also there were [ph] AD (00:24:56) programs last year that we don't have this year, but we kind of look at that as normal programs that we overcome and continue to have to overcome. And then the revenue dissynergy number, \$100 million, is somewhat evenly spread over the four quarters. So we're looking at maybe 1.5% contraction if you exclude the revenue dissynergy number there. But as a reminder, the expectation would be the first quarter would be the only quarter where there would be contraction and again mainly related to the large orders from Puerto Rico a year ago.

Edward S. Caso

*Analyst, Wells Fargo Securities LLC*

Q

Okay. The company is running sort of book-to-bill a little bit below what the peers are. Any particular reason for that or is there efforts to sort of ramp up your new business capabilities? Thanks.

Nazzic S. Keene

*Chief Executive Officer-Elect, Science Applications International Corp.*

A

Yeah. This is Nazzic. So, certainly, everybody does a little bit differently. So we try to give a little more visibility on the actual numbers to provide that insight. The key areas I would focus on is – it's a relatively low recompute year for us and so that's going to have some impact. And in fact, we're really trying to focus on the new business, and so with 70% of the bookings being in the new business category, that's a positive impact for visibility on future growth opportunities. And so, as we go through the year, we'll try to provide that visibility because book-to-bill is certainly an indicator, but not the only indicator for momentum in the business development arena.

Charles Alexander Mathis

*Chief Financial Officer & Executive Vice President, Science Applications International Corp.*

A

And maybe let me just add on to that. The single-award IDIQ is a factor. It's more of a factor this year – in the past 12 months than it has been for the last three to four years. Roughly \$3.5 billion over the last 12 months are not in our bookings. So if you just take a conservative factor of 70%, 80% of those awards over the 12-month – trailing 12 month, we probably get like a 1.5, 1.6 book-to-bill. So you should just take that into consideration. So we feel comfortable with our guidance given our roughly 3% compound annual growth rate over the next three years. So we're not overly concerned with the book-to-bill number that's reported there.

Edward S. Caso

*Analyst, Wells Fargo Securities LLC*

Q

Great. Thank you.

**Operator:** We will now move on to our next question from Jon Raviv of Citi. Please go ahead. Your line is open.

Jonathan Raviv

*Analyst, Citigroup Global Markets, Inc.*

Q

Great. Thanks, guys. On the growth question, Charlie, can you just talk a little bit more about how you expect to shape the organic growth to [indiscernible] (00:27:49) through year-end, just some of the more specific headwinds and tailwinds as the year progresses, the synergies [indiscernible] (00:27:55) business, et cetera, et cetera? Thank you.

Charles Alexander Mathis

*Chief Financial Officer & Executive Vice President, Science Applications International Corp.*

A

Yeah. So as far as the growth goes, again like I said, the first quarter is the quarter that we're looking for the most headwinds to go, but we certainly look for it to be stronger in the second half of the year versus the first half as we continue to accelerate on the revenue growth.

Nazzic S. Keene

*Chief Executive Officer-Elect, Science Applications International Corp.*

A

Yeah. So let me try to address that as well. So, on the tailwind side, we're seeing some good momentum in our pipeline development as we touched on. And so, as we look to the submittals – especially the submittals of new business opportunities bringing forward the best of SAIC and the best of Engility, we are seeing some good momentum there in the form of submits, in the form of awards of new business. And so, that will inform the growth as we look forward into next few quarters. That help, Jon?

Jonathan Raviv

*Analyst, Citigroup Global Markets, Inc.*

Q

Yes. Yeah, and I appreciate that. [ph] And sort of (00:29:01) a follow-up, Nazzic, from your new seat, where do you see SAIC with value chain right now and how do you anticipate moving within that chain? I mean any sort of thoughts on the role of the integrator and how that role is changing going forward?

Nazzic S. Keene

*Chief Executive Officer-Elect, Science Applications International Corp.*

A

Yes. I think we're exceptionally well positioned in the markets that we serve as the government looks to, whether it's in IT modernization or digital engineering or some of the core areas, our ability to bring the best of industry to bear, to bring innovative solutions and integrate them in support of our customer is certainly, we believe, a very good part of the government strategy and we're exceptionally well positioned to serve that. So I do believe that with – and certainly with the integration of Engility into our portfolio that gives us greater access to the intel community, greater access to the space mission, allow us to continue to expand that strategy, expand our mission into a broader market. So I believe we're very well positioned for the next several years as we continue to support our federal customers.

Jonathan Raviv

*Analyst, Citigroup Global Markets, Inc.*

Q

Thank you.

**Operator:** We will now move on to our next question from Tobey Sommer of SunTrust. Please go ahead. Your line is open.

Q

Good morning. This is [ph] Joseph (00:30:25) on the line for Tobey today. As a follow-up to prior questions on space contracts, I just want to talk a little bit about Space Command announced towards the end of last year. Do you primarily see this as a longer term opportunity or are you starting to see any contracts or opportunities develop from this in the short term? Thank you.

Nazzic S. Keene

*Chief Executive Officer-Elect, Science Applications International Corp.*

A

Yes. So, across the portfolio, again whether it's in the NASA part of space, the Space Command, the investments being made, whether it's DoD or intel, we are seeing an increased demand to support the space mission. And so we are seeing early indication with that. We are seeing some money start to flow that direction. I think we mentioned the award of the EDIS contract, again under protest. But that's a proof point, and once that's resolved in our favor, it would allow us to continue to accelerate growth in supporting the space mission.

Q

Thank you.

**Operator:** We'll now move on to our next question from Cai von Rumohr Cowen & Company. Please go ahead. Your line is open.

Cai von Rumohr

*Analyst, Cowen & Company, LLC*

Q

Yes. Thank you very much and good start to the year. And congratulations Nazzic and Tony, good work.

Anthony J. Moraco

*Chief Executive Officer & Director, Science Applications International Corp.*

A

Thanks, Cai.

Cai von Rumohr

*Analyst, Cowen & Company, LLC*

Q

Could you walk us through what's the difference between the \$1.9 billion and the \$1.4 billion in terms of the gross and net bookings? And then maybe update us, I guess – I think you had a \$650 million Air Force win toward the end of the fourth quarter that was new business that was protested, maybe update us on that.

Charles Alexander Mathis

*Chief Financial Officer & Executive Vice President, Science Applications International Corp.*

A

Hey, Cai. This is Charlie. I'll take the first part of that. So the \$1.9 billion that included the \$300 million of single-award IDIQs which is not in our bookings number. And then in the quarter, we also had about \$200 million of debookings contract fall off there, which is a little bit higher than normal for the period, but those are the main drivers there to get to the \$1.4 billion.

Nazzic S. Keene

*Chief Executive Officer-Elect, Science Applications International Corp.*

A

And then on the EDIS, Cai, it is in the protest stage right now. We expect resolution over the course of the next 10 days or so. We're nearing the 100-day mark, so again we believe it will be resolved in our favor. But never done until it's done, but we feel very positive about that.

Cai von Rumohr

*Analyst, Cowen & Company, LLC*

Q

Okay. And then if you kind of look at your peers and they are all on a March quarter, so presumably felt some impact from the government shutdown. Everyone's bookings looked better than expected. And in fact, I think one CEO mentioned, well, we've had two years of strong budgets. Are you also seeing – if you would look at your bookings environment today versus two months ago or so, is the bookings environment better? And if so, what are the differences?

Nazzic S. Keene

*Chief Executive Officer-Elect, Science Applications International Corp.*

A

So we did see some slowdown due to the government shutdown as we went early in the year, and a couple of specific opportunities actually got pushed to the right, whether it's like three or six months. So the contract shop could catch up. And so we did see some impact with the shutdown. As you mentioned, the peers did as well. As we look into this quarter and in the quarters to follow, we believe that there'll be some catch-up there and those should kind of work their way through the system. So, again, we've kind of outlined the book-to-bill. We've outlined our approach. We tried to get more visibility in the bookings. The strong quarter is related to new business opportunities. And so we feel confident that we're in a good position as we go against early in our year, but a good position as we continue to work through the year.

Cai von Rumohr

*Analyst, Cowen & Company, LLC*

Q

Thank you very much.

**Operator:** We will now move on to our next question from Joe DeNardi of Stifel Financial. Please go ahead. Your line is open.

Jonathan G. Ladewig

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Hey, this is Jon Ladewig on for Joe. I guess the first question we have is looking at the proposals awaiting awards, about \$13 billion. Approximately how much of that is a work that SAIC couldn't have bid as a separate company and required Engility's capabilities to kind of pursue that work?

Nazzic S. Keene

*Chief Executive Officer-Elect, Science Applications International Corp.*

A

So, for the most part, because we are only a quarter into the acquisition, the majority of those are going to be opportunities that either company had submitted or was in the final stages of proposal and submission. So I don't know exactly what that number is, but I would expect that at this stage of the integration and the acquisition, it's a relatively low amount. Going forward, of course, we expect to see certainly more opportunities that are a result of the two companies coming together.

Jonathan G. Ladewig

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Excellent. If I could just follow up, when you're looking at these awards and the business you're pursuing, on average, how many customers are you competing against – or excuse me, how many competitors are you competing against? Is it in the like three or four or is it higher? Just what's the right way to think about that?

Nazzic S. Keene

*Chief Executive Officer-Elect, Science Applications International Corp.*

A

The competition does vary based on the type of work and based on the customer. But in general, and this is very general, I would assume that most of the deals that we pursue we're competing with three to five competitors. And again, I'm considering general averages. Certainly, we are well positioned to pursue deals in excess of \$100 million. We have been for the last several years. But those types of deals are increasing in our portfolio as a result of the integration and the acquisition. And so, as you get larger and larger deals, you have less competition in the overall competitive landscape.

Jonathan G. Ladewig

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

All right. And lastly, if you don't mind, your labor numbers have been flat at about 23,000 the past two quarters which is understandable. I'm just kind of curious, could you give us some color on the current labor environment that SAIC is facing in the government service space.

Nazzic S. Keene

*Chief Executive Officer-Elect, Science Applications International Corp.*

A

Certainly. So the labor market is a competitive market. It does vary by geography. And so, in some geographies, you got certainly greater demand. Others, we've got certainly more opportunities. But in general, we fare very well. SAIC as a company is highly regarded, as you know. People aspire to work for us. We do very interesting and complicated mission-focused work. And so we attract a workforce that is very energized by that.

We're also looking for ways to continue to provide services to our customers in different ways and in different geographies to help mitigate some of the challenges that do come in certain areas. And so we leverage some of our remote centers to support our customers. Our customers appreciate that. Many times, it's lower cost, but certainly there is great access to labor across the nation [indiscernible] (00:37:46) goal to tap into the broad landscape of talented folks to support our customers.

And so we look at this as certainly a challenge but also an opportunity to drive our value proposition to our employees, ensuring that we run and create an environment where our employees choose to work each and every day and we attract the best of the best. And that really is part of a core element of our strategy. We're a people-centric business, and we deliver very complicated and interesting work and the people really do appreciate the opportunity to serve our customers in a very mission-focused way. So, really, it's top of mind and it is a challenge, but it's one that we [indiscernible] (00:38:30) with every day.

Jonathan G. Ladewig

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

All right. Thank you.

**Operator:** [Operator Instructions] We will now move on to our next question from Josh Sullivan of Seaport Global. Please go ahead. Your line is open.

Josh Sullivan

*Analyst, Seaport Global Securities LLC*

Q

Hey. Good morning. Nice start to the year here. Just on the Engility synergies, regarding the integration of the enterprise system there, any long poles in the tent there or how do those milestones stack up here?

Nazzic S. Keene

*Chief Executive Officer-Elect, Science Applications International Corp.*

A

Yeah. So we're well on track with the synergy commitments that we've made. The next major milestones for us is the systems integration as you touched on that will take place as we go into our third quarter. And we're well on track with that, and we've very detailed project plan, great team executing against that. So, that certainly is one next step. We are also doing some facilities consolidation and driving synergies with facility decisions. Those will take place over this year and in the next year, and so that's a major driver as well. But at this point, we've got – we've closed this year's gap on the synergies recognizing all those things that have to take place. And we're well

on track to being able to have absolute confidence in closing next year. So we're well positioned on the synergies and don't expect any surprises there.

Josh Sullivan

*Analyst, Seaport Global Securities LLC*

Q

Okay. Thank you.

**Operator:** [Operator Instructions] We will now move on to our next question from Gavin Parsons of Goldman Sachs. Please go ahead. Your line is open.

Gavin Parsons

*Analyst, Goldman Sachs & Co. LLC*

Q

Hey. Thanks for taking the follow-up. Is there any way to look at what core Engility bookings were in the quarter?

Nazzic S. Keene

*Chief Executive Officer-Elect, Science Applications International Corp.*

A

No. We've fully integrated the company at this point from an operational standpoint, from a business development standpoint. We've integrated teams pursuing customers and so we're not breaking it out in that manner.

Gavin Parsons

*Analyst, Goldman Sachs & Co. LLC*

Q

Got it. And then Nazzic, I think a moment ago, you mentioned the larger competitions and maybe less peers able to bid less competition, but obviously there's been a lot of upsizing in just the size of the peers bidding on those. So maybe if you could just give us an update on the competitive environment on whether or not the larger nature of some of these peers is making it more price competitive.

Nazzic S. Keene

*Chief Executive Officer-Elect, Science Applications International Corp.*

A

Well, certainly, price has always been an aspect. I think the good news for all of us in this industry is that the price is a factor, but the government is certainly looking to best value for the most part and looking for companies that could help them achieve their mission. So although it is competitive, in general the prices – the wrap rates across the industry especially for those of us in the top tier are pretty close. So there's not a lot of differentiation on wrap rates. It really comes to who can provide the best solution at the best value, which of course price is part of that. And so, I know it's probably not exactly the answer you're looking for. But I would say, we at SAIC have a strong strategy. We've got very purposeful investments in our portfolio, in the customers that we choose to support and the solutions we choose to bring to market, and we look to differentiate in a price competitive manner in those key areas.

Gavin Parsons

*Analyst, Goldman Sachs & Co. LLC*

Q

That's helpful. Thank you.

Nazzic S. Keene

*Chief Executive Officer-Elect, Science Applications International Corp.*

A

We also continue to have strong win rates across – certainly in our recompetes, but also we have good proof points in business that we choose to pursue and our ability to win more than our fair share.



Gavin Parsons

*Analyst, Goldman Sachs & Co. LLC*

Q

Thanks.

**Operator:** We will now take our next question from Jon Raviv of Citi. Please go ahead. Your line is open.

Jonathan Raviv

*Analyst, Citigroup Global Markets, Inc.*

Q

Hey. Thanks for taking the follow-up. Just a question on margin actually. I mean again compared to some peers, we know a lot of your peers are heading into the high-single-digit, even low-double-digit range, 10% seems to be kind of a [indiscernible] (00:42:52) sometimes. You guys are in the 8s. Can you talk about your mix of business and kind of what holds you back from reaching those higher levels now and perhaps what the opportunity is over the long term? Thank you.

Charles Alexander Mathis

*Chief Financial Officer & Executive Vice President, Science Applications International Corp.*

A

Hey, Jonathan, this is Charlie. So we're actually pretty pleased with the margin performance, certainly in the quarter a 180 basis points improvement from we were at last year. The longer term guidance we've given is in three years to get to 9% and that is a combination of the higher Engility margin portfolio and the cost synergies that we're taking. And also just a reminder that our supply chain business that we have also dilutes our margins versus peers probably 40 basis points, so just keep that in track. So, yeah, we're feeling good about the increase in the margins and continue to move forward on that and look for increasing margins performance as we continue.

Jonathan Raviv

*Analyst, Citigroup Global Markets, Inc.*

Q

Thank you.

**Operator:** It appears there are no further questions at this time. I'd like to turn the conference back to Shane Canestra to [indiscernible] (00:44:09)

Shane P. Canestra

*Vice President, Investor Relations, Science Applications International Corp.*

Thank you very much for your participation in SAIC's first quarter fiscal year 2020 earnings call. This concludes the call and we thank you for your continued interest in SAIC.

**Operator:** Ladies and gentlemen, this concludes today's conference call. Thanks for your participation. You may now disconnect.

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