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SAIC.OQ - Q2 2027 Science Applications International Corp Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the SAIC Fiscal Year 2027 Q2 Earnings Conference Call. (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, Jon Raviv, Vice President of Investor Relations. Please go ahead.

Jon Raviv - *Science Applications International Corp - Vice President, Investor Relations*

Good morning, and thank you for joining SAIC's Second Quarter Fiscal Year 2027 Earnings Call. My name is Jon Raviv, Vice President of Investor Relations. And joining me today to discuss our business and the financial results are Jim Reagan, our Chief Executive Officer; and Prabu Natarajan, our Chief Financial Officer and Executive Vice President of Enterprise Operations.

Today, we will discuss our results of the quarter ended July 31, 2026. Please note that we may make forward-looking statements on today's call that are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from statements made on this call. I refer you to our SEC filings for a discussion of these risks.

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

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

James Reagan - *Science Applications International Corp - Chief Executive Officer, Director*

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

So let's take a look at slide 3, for our key messages. We built on our momentum this quarter with performance once again ahead of our expectations. These results reflect our team's focus on driving program performance and operational efficiency, resulting in organic growth, double-digit margins and robust free cash flow. While award activity reflected some unevenness in the procurement environment, we remain encouraged by the strength of our qualified pipeline, our submission plan and the performance of our business development team.

We continue to see healthy customer engagement, and we believe that we're well positioned to convert those opportunities into growth as we align with our customers' clear demand signals for more capability and capacity.

We also believe our base is more secure with a recompete win rate of over 90% this quarter, creating an easier path to on-contract growth and building momentum to capture the benefits of new business where our win rates are well within our target range. These results reflect our more disciplined bidding approach as we focus on fewer mission-oriented pursuits. It also underscores our commitment to execution excellence and the trust our customers place in us.

Several wins over the last few months highlight our role in supporting critical national security missions. We booked over $1.6 billion of Intel space awards in the first half of this fiscal year, well ahead of our recent trends. This high-value engineering work demonstrates our domain expertise and long-standing commitment to the space superiority market.

We also secured a recompete win to support hardware-software integration and interoperability to help the Army deploy new technologies onto the battlefield. And after the quarter closed, we won a significant recompete of a critical border security program. Combined with last quarter's successful DHS recompete, this latest win extends our long-standing role in delivering innovation with an integrated software-hardware solution to secure our country's borders.

These wins share a common thread across our intelligence, defense, and civilian markets.. Each requires integrating advanced technology with deep domain expertise to deliver mission-critical outcomes. This is what SAIC does best. This is who we are. And we continue to build on this identity with investments supporting enhanced capability, capacity, and speed.

For instance, our investments in quantum solutions bridge the gap between critical technologies and practical mission applications. It's still early in the journey, but like AI, we expect quantum to create new mission challenges we're prepared to address as we help our customers sense, decide, and act across their domains.

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

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

With ORBIT, we expect to book some quick wins at the start to fuel the investment for bigger changes with momentum building over the three-year time horizon. The most transformative ideas will take the most time, such as fundamentally rethinking our procurement process.

AI will play a role as we responsibly deploy relevant tools to achieve specific outcomes, rather than just directing people to consume more tokens. We're excited to do this while our customers are making fundamental changes to increase capacity, drive speed, and more effectively shepherd taxpayer dollars. We look forward to partnering with them on these efforts as we both lean forward to transform our organizations.

I want to update you on another piece of our transformation efforts, the portfolio and strategy review we announced last quarter. We have spent the last few months identifying the intersection of our strongest right to win and our greatest growth potential. I do not expect a sharp turn in who SAIC is, or what it does. But I do expect to emerge with a sharper sense of where we want to go. And I want to emphasize we are already doing a lot of things well.

So this review is as much about doubling down and investing to grow those critical mission areas as it is about pursuing new ones. This includes M&A as we evaluate portfolio opportunities that are key to implementing our strategy. We will act on those opportunities as they arise, and we expect to share more on our December earnings call.

I appreciate that we're asking a lot of our employees, and I'm proud that the team has embraced these new efforts, while maintaining strong operational performance. As a result of our improved performance and outlook for the year, we are raising our FY27 guidance for revenue, EBITDA and EPS. As I've repeatedly said, FY27 is a year of commitment as we set targets that we're confident we can achieve.

And we look forward to making FY28 a year of implementation as the ORBIT and strategy projects roll out. We see significant opportunities to create value for all of our stakeholders and continue the mission of supporting our customers and our country.

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

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

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

Turning to our results on slide 4. We reported second quarter revenue of $1.9 billion, representing organic growth of approximately 5%. The quarter benefited from solid growth across our markets and our team's focus on converting backlog into revenue across our existing contracts in an improving outlay environment.

We reported adjusted EBITDA of $193 million in the quarter and margins of 10.3%, reflecting strong program execution and continued benefit from our cost efficiency efforts. This result is up modestly year-over-year, excluding the prior year's favorable legal settlement. Adjusted diluted earnings per share of $3.01 is down year-over-year due to a favorable settlement in the prior period, offset by lower share count.

Free cash flow was $131 million in the quarter, another strong result as we maintain peer-leading cash conversion. Net leverage fell to 3.0 times this quarter as we continue to naturally de-lever as EBITDA improves. Going forward, we have flexibility to de-lever incrementally or actively shape the portfolio to support the strategy.

Please turn to slide 5, to review our forward indicators. We are responding to clear customer signals for the services we deliver. But we've seen some large opportunities slip to the right as procurement offices try to do more with less while implementing new guidelines including fixed price directives. This resulted in a quarterly book-to-bill of 0.6 times, or 0.8 times on a trailing 12-month basis. We would have been closer to 1.0x, if not for a delay in a large recompete award we booked two days after the quarter closed.

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

We are confident that applying our strong win rates against higher submissions should generate higher book-to-bill. In the meantime, you can expect our team to continue delivering capability to our customers as our funded backlog continues to grow.

Please turn to slide 6. This quarter's organic growth of 5% was driven by broad-based strength and unplanned material purchases worth approximately 1% that we don't expect will repeat. On-contract growth, or OCG of 9% was well ahead of our plan.

This maintains the momentum from 1Q, suggesting an improving outlay environment translating into revenue growth. As previously discussed, roughly half of this year's OCG comes from a handful of programs we won in FY25 and FY26 that ramped slowly last year. These programs generated $350 million last year, and we are planning for $500 million this year. We are on track with approximately $240 million in the first half of this year.

Please turn to slide 7. We are increasing our revenue, margin and EPS guidance to reflect our strong year-to-date performance. We are raising our revenue guidance by 2% to a midpoint of $7.25 billion, reflecting organic contraction of 2% to flat. The implied second half contraction reflects the RITS contract rolling off, creating an approximately 350 basis point headwind in the second half. We are also raising our adjusted EBITDA guidance by 4% at the midpoint implying margins of 10.3% to 10.5%, or 20 basis points above our previous guidance. This increase is primarily due to strong first half performance.

We expect margins to step down in the second half to the high 9% range as we make targeted investments in several high-priority areas where customer demand and strategic relevance are accelerating. Our investments include CapEx, where we have spent approximately $25 million in the first half to support growth opportunities. We still expect free cash flow of at least $600 million or $14 per share this year.

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

Please turn to slide 8. We are pleased to be heading into the implementation phase of Project ORBIT, our disciplined, data-driven approach to support growth and margin improvement. As you can see on the left, these efforts span six themes.

On the right, you can see how these teams map against time line and customer partnership. The bubble size represents the three-year dollar value opportunity. We are running our project implementation just as we would run a program for our customers. We have staffed a strong team, set clear goals and are focused on delivering an outcome.

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

Please turn to slide 9, to discuss what this means for the financial model. Late last year, we discussed approximately $100 million in cost reductions. Those were hard choices, made quickly, and they are delivering benefits. ORBIT is different. It is more fundamental. This means harder, more sustained work over a longer time frame to generate more structural change. At this point, we expect approximately $150 million in annual run rate savings by the end of the three-year implementation period.

This opportunity is spread across the business, including our direct programs and our indirect spending. We expect approximately two third of the savings or $100 million to go back into business, investing in new efforts, expanding our capacity to address demand on our current contracts, or making us more competitive. The rest should support our margin expansion story.

As a result, we consider mid-10s to be a reasonable margin target for next year, and we see a path to approximately 11% margin in FY30 as the benefits from Project ORBIT fully materialize. Our margin story does not depend on any single initiative. ORBIT is a key driver, but it is one of several levers, including continued discipline raising our bid thresholds, focused business development, and shaping and pursuing more outcome-oriented work. All of these dynamics support the business remaining solidly double digit on an annual basis going forward.

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jonathan Siegmann, Stifel.

Jonathan Siegmann - *Stifel Nicolaus & Company Inc - Analyst*

Congratulations on strong results. Really happy to see the organic growth. Maybe just on the on-contract growth portion of it, on-contract growth portion of it, well ahead of plans. Can you talk about what the company is assuming for the second half?

And then maybe a sense of disaggregating where the upside came from? Is this really the market getting better? Or is this some of the actions the team is taking to more efficiently pursue those opportunities?

James Reagan - *Science Applications International Corp - Chief Executive Officer, Director*

Jonathan, this is Jim. Thanks for your question. In terms of the strength that we've been seeing in on-contract growth, I'd say it's roughly double what we were seeing this time last year. And what we're seeing is that kind of a broad-based ability for the customers to move money faster on to contracts. And that isn't limited to any particular customer or part of the government.

And the velocity that we see there is expected to continue through the balance of the year, which is the basis upon which we've altered our guidance for the year. In addition to that, we're seeing broad-brushed success in executing and having a focus on executing programs that's enabled us to push our margin expectation a bit higher.

That -- and that's not only strong execution on programs, but it's also a result of the successful execution of some cost reduction programs from late last year that Prabu had mentioned during the script. So I think that -- I hope that answers your question. But if you have a follow-up, feel free to tee it up.

Jonathan Siegmann - *Stifel Nicolaus & Company Inc - Analyst*

Maybe just if I understand the prepared remarks, $300 million is in the plan for on-contract growth and you've already hit $250 million with Q1, Q2. Is that the right math to do, Prabu?

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

John, I appreciate the question. First of all, a big shout out to the team that puts us in a place where we can sit here and talk about OCG being at 9%, which is obviously a far track from where we were at Q2 of last year. Jim was right on. I think the growth we saw was broad-based. And our assumption for the second half of the year is that we will see OCG at about a 5% clip.

Obviously, we were expecting 2% to 3% for the remainder of the year at Q1. And if obviously, Q3 or Q4 happens to be better than the 5% we are modeling right now, then obviously, we're going to see some upside pressure to the revenue guide itself.

I think the other data point I'd throw out there is last year's book-to-bill was 1.1. And I think sometimes we lose sight of the booking strength that we've had, excluding the single award IDIQ, we were sitting at 1.1 at year-end of last year. We all know that the outlay environment has been gradually improving over the course of the year, that there's probably a three- to four-month lag from outlays converting into revenue. We saw some of that benefit come through.

And importantly, over the last couple of years, Jonathan, we've had about $2 billion to $2.5 billion of single-award IDIQ wins that are not nearly fully reflected in the backlog. I'd say roughly 20%, 25% has been reflected in the backlog. So part of how we book keep, if you will, for the single award IDIQs is we book the task orders that expect to convert into revenue, and that usually happens within 12 months.

So you're not going to see it come through the backlog, but you will definitely see it come through OCG. So that's sort of the confluence of things that caused OCG to be higher in the second quarter.

And then finally, on the $300 million, I think that was our -- what we said was when we set the plan and offered guidance early on that there were a handful of programs that we expect will run rate to about $0.5 billion this year. And at the first half of this year, we were sitting at roughly the 50% mark. So those programs are continuing to provide the momentum we expected to.

Again, these are wins from last year and the year before that candidly had not converted into revenues, but they were in backlog, at least some of them. So I think you're seeing a combination of those factors come through. But again, big picture, about a 5% assumption for the second half of the year, and let's see how Q3 plays out.

Operator

Sheila Kahyaoglu, Jefferies.

Sheila Kahyaoglu - *Jefferies LLC - Analyst*

Great quarter. Kudos to both of you. Jim and Prabu, I know ORBIT is a new initiative. So maybe some time on that and Prabu, I feel like you've been focusing on cost for so long. So what kind of drove the origination of Project ORBIT and how you think about the $150 million of savings this quarter -- sorry, as you think about that $150 million of savings in terms of buckets of efficiency and in a labor-oriented business, how do you really drive that?

James Reagan - *Science Applications International Corp - Chief Executive Officer, Director*

Sheila, thanks for the question. And I think you can tell from how we've talked about ORBIT, it is an area of significant focus for us. When I arrived into my current role back in October and spent a lot of time with the team, both here in headquarters, but more importantly, out in the field, I heard repeated stories of things that people were identifying as opportunities to make the business run smoother.

And what I -- what really came -- became apparent to me pretty quickly was that since the split, we had been focusing a lot on organization, what our capabilities were, how to grow the business, but not enough on how to operate the business.

And so the opportunity that I saw were greater opportunities for organizational efficiency as well as putting some tools and processes in place to make the business run easier. And so -- and people hear me talk about gunk, which is kind of my own term, but it really is -- there are things that from a business process do slow us down and aren't consistent with how we need to be operating in an environment where our customer is driving us to move faster, make decisions faster and implement programs faster for them. So that's really what the genesis of it was.

And what's different about this than other cost reduction programs that you might have heard about or even that I've worked in is that this is not just taking targets and pushing them down and it's much more fundamental. And it is actually going out to the people that do the work and asking them to help us identify the opportunities to make things run better.

And so it's everything from a resume-to-retire process. It's how we buy and it's not just identifying a need and driving the process all the way through to writing a check to pay for it. It is a substance of how we determine who we're buying from, how we're going to source, how we're going to write a contract and it runs through every significant business process.

Now you asked about how we're feeling about the $150 million annualized run rate savings. That's what we've laid eyes on today. And when Prabu and I -- given our background and history, we're going to put a number out that we're very comfortable in meeting. But I would say that over time, we're going to continue to be looking for more opportunity, and we're going to continue to update you as to how those numbers would change.

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

Jim, right on. And maybe to start where Jim left off, I think our internal aspirations are higher, Sheila. I think, two, in a predominantly labor-oriented business, to answer your question, we would say that you should expect to see a little bit of top line compression, but ORBIT is as much about revenue maximization as it is about finding ways to structurally lower our cost. And we did take out $100 million last year.

I'm going to compare that to a little bit of a sugar high because you can sort of with a blunt instrument, take some cost out of the organization.

What I'm excited about vis-a-vis ORBIT is that this is very structural. And I think at a time where customers need more innovation, if you're in a predominantly cost-oriented business, we have to show the ability to actively manage our total cost portfolio and that's exactly what ORBIT is about. I think to Jim's comment, we effectively crowdsourced about 3,500 ideas from across the company, ideas for improvement, ideas from -- all the way from cost savings to revenue maximization.

And we had a dedicated team internally made up that worked with a handful of external Sherpas that actually helped us navigate the process of sort of streamlining the ideas, bucketizing them allocating some return criteria so that we can evaluate which opportunities need to be prioritized in the waterfall of opportunities that we have in front of us.

And candidly, I think part of getting more efficient is investing a little more in the internal infrastructure, I'm going to say, where for better or for worse, and I'm probably as guilty as anybody else here, that we have to starve certain portions of the infrastructure just to be able to support a business that was simply not growing.

So I think part of how you should interpret ORBIT is a sign that we are, I'd say, more excited about the business ahead of us, and we are just getting ready because we all know growing is, I think, harder to execute than contracting. So I think there's a bunch of holistic reasons why we're doing ORBIT. And as I said, I'm going to end where I started, which is there is greater aspiration than is reflected right now in the $150 million of annual run rate savings.

Sheila Kahyaoglu - *Jefferies LLC - Analyst*

Super helpful. And maybe just a little bit more short term as a follow-up. How do we think about the second half margins given they're slated to go down about 100 bps with the implied guidance?

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

Yes. No, fair question, Sheila. I think what we said in the script is that high 9s is how we see the second half of the year. The reality is we're sitting at 11% in the first half of the year and core performance of this business if I look at excluding the corporate allocations of indirect costs and the incentive comp allocations that we allocate to our segments, the core business out of our three -- I'd say, three business groups I would say, has been very strong at kind of the low to mid-10% range.

And I think part of the guide reflects some planned investments we make in the second half of the year. but it also assumes that the business groups are going to be closer to 10% than mid-10s to the extent the business groups, and we're putting the incentive where it needs to be.

If the core performance out of the BGs continues to be in the mid-10s, we're likely to see a little bit of upside pressure to second half margins. But we're going to take it one quarter at a time and hopefully keep the pressure on the team and not have them get too distracted about next year just yet.

Operator

John Godyn, Citi.

John Godyn - *Citi Infrastructure Investments LLC - Analyst*

I wanted to follow up a little bit more on ORBIT. You have this -- you have a great couple of slides here, slide 8 and 9, which have interesting detail on ORBIT. Obviously, Slide 8 doesn't have all the numbers and everything. And slide 9 doesn't really have tremendous granularity on FY '28 and '29 margins as we go on this journey.

So my question is just maybe spending an additional minute on the shape over the next few years. Is this a situation where the margin improvement is linear? Does it have a different kind of contour to it? Do we step back and then it's kind of back-end loaded? I'm just trying to put these visualizations together and just make sure I'm not too far off in interpreting what you're saying.

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

John, I appreciate the question. And a full credit to Jon Raviv for dreaming up Chart eight here and getting us into a place where it's easy to see, visualize how we're thinking about the ORBIT process over the next couple of years. To directly answer your question, I think we put the 11% there because we always sort of want to know where we're driving to.

And I think it's really important to communicate to all our stakeholders that this is sort of how we see the business evolving over a couple of years. Some of the trajectory in terms of going from, let's call it, mid-10s next year to 11%.

Ideally, we would say we would want to get 20 to 30 bps higher in FY29 and then get to 11% in FY30. The reality is we know life is not linear. And to the extent that we win more work, especially on the new business front that pressures near-term margins that's an okay trade, recognizing 10.5% for next year is probably the right base off of which to work.

So I'd love to say ideally linear. The reality is there will be some movement between, I'd say, within 10, 20 bps of 10.7%, 10.8% over the next couple of years. The other way to think about this, John, would be to say that to the extent we make good progress on ORBIT, we would love to be here a year from now and say, we could see these windows moving a year to the left, that will be sort of the ideal scenario from a nonlinearity perspective. So hopefully, that's helpful. But we'll obviously keep you all updated as we navigate over. Jim, would you add anything to that?

James Reagan - *Science Applications International Corp - Chief Executive Officer, Director*

Yes. Yes. I just -- the one thing I would add to this is that if you think about the ORBIT processes being a way that we can be disruptive to ourselves in a way that you might expect a company to go look after -- or go after cost opportunities when there's an acquisition involved.

Well, that's kind of what we're going through right now. And we're being extremely critical of and how we -- we're being very critical how we look at our own opportunities to enhance margins, reduce cost, increase efficiency and most importantly, make the business operate better.

And really, that's the real focal point and the cost and the opportunities for streamlining drop right out of that. So we're pretty excited about it, and you can tell by the amount of time that we've spent talking about it. But the most important thing is that this gives us an opportunity to invest in growing the business. And that's what's really exciting. So thanks again for your question.

John Godyn - *Citi Infrastructure Investments LLC - Analyst*

That's great. And if I could ask one follow-up. Jim, you also made clear the importance of revenue and accelerating revenue growth. You guys have that slide 5, where you show all the leading indicators. They're -- they're not pointing in the right direction yet for the last few quarters, and there are some reasons for that. But my question is kind of piggybacking on the shape of ORBIT, when do we see these charts kind of move in the right direction? When do we see the shape of this kind of change trajectory in your mind's eye?

James Reagan - *Science Applications International Corp - Chief Executive Officer, Director*

Yes. I mean, our objective is to get on a clear path to stronger growth next year. So we will have the impact of some recompete losses from last year completely flushing through the year-to-year comparisons. And when we take a look at what's happening in our proposal shop and our business development function, our recompete win rates are back to where we would like them to be, which is north of 90%.

New business win rates are at where we would expect them to be, which is at or above 30%. And right now, what we need to do is to just make sure our customers are continuing to move RFPs through the cycle at the pace that meets their own needs.

Last thing that I would say is that when we really tear-apart where our book-to-bill opportunity is, when you have large recompetes getting moved to the right and contracts extended, that doesn't do much for your book-to-bill, but it certainly does a lot to derisk how you're thinking about revenue growth in the future.

And so once the customers get those recompetes back on schedule or at least on an amended schedule, where there will be some opportunities for us to have some very large bookings to get book-to-bill back over 1.0 times, then I think that you'll be looking at numbers that you'd expect us to be over the long haul.

Operator

Seth Seifman, JPMorgan.

Seth Seifman - *JPMorgan Chase & Co - Analyst*

Very nice results. I wanted to start off asking about the contracting type. And I think you mentioned the move to fixed price contracting, and we also had the executive order as a reason why awards have been slipping out. So maybe a little bit more color on how long that process takes. But I thought it was also interesting, you didn't really mention it as a driver of the margin expansion that you expect.

And I know we're all kind of wondering how to think a little bit about how much can really happen on this fixed price evolution and when that's going to happen. Should we be thinking that in a couple of years, instead of the current portion of fixed price sales is going to be 500 basis points higher as a percentage of the mix or 10 points higher?

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

Yes. Seth, it's Prabu here. I'll try to take that question. On the contracting mix question. I would say our FFP right now is about 15% to 18% of our sales. It moves around a little bit inside of that frame. And sometimes, we tend to think about, so what is the mix and the shape of the pipeline look like? And the pipeline is actually inflecting to about one third that I'm going to call fixed price.

And so I think that's actually a pretty material change in the pipeline. Now that presumes things stay on track, and awards get announced on time and then we can convert revenue from the awards.

But there is a slower underlying shift in the shape of that pipe that suggests that if we win our share of that new work, then we should start to see a little more upside pressure to margin because our Civil business group is where we have, I would say, almost all of our fixed price exposure right now.

And our EBITDA margins in our Civil business are running north of 15%. So I think that becomes a good proxy to say, if we take on the right kinds of fixed price work and we execute as well as we're executing right now in our Civil business, that, that should be an incremental lever for margin expansion downstream.

Seth Seifman - *JPMorgan Chase & Co - Analyst*

Okay. Okay. That's helpful. And are you seeing that fixed-price work emerge more in the defense and intel portion of the business as well?

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

I would say the civil customers have been traditionally, I would say, more comfortable with fixed price and outcome-oriented contracts I think our defense and intel customers are slower moving in that direction. But candidly, we are seeing more in the way of, I'm going to say, fixed price CLINs, contract line requirements, inside of cost-plus programs.

And so we're starting to see that shift and candidly, some of the newer executive directives will certainly, I think, help accelerate that move. So I would say it is slowly evolving but clearly not at the pace at which we have seen our civil customers move at.

And I think this is sort of the longer-term conversation. One is the more important muscle movements inside the company because I really think we can talk about all the things that are outside of our control, and then we can fix it on the things that are inside of our control.

And if you think about what we want to see, even inside of our cost-plus programs inside the company today, we want to see more outcomes. We want to see more metrics because that's the way you build a muscle so that when the customers are ready to actually make that shift at scale, our teams actually ready to make that shift very quickly.

So we are training our PMs on fixed price contracting or contract teams are going through some, I'm going to say, sort of hands-on training. We are training folks on commercial delivery models, our SilverEdge acquisition from last year is another way to move that muscle inside the company, the ability to quickly pivot from cost plus to I'm going to say, initial prototyping, rapid prototyping, low rate production to full rate production, that's a journey and we are putting in the work right now to ensure that we are ready for that transition when that transition happens.

But again, hopefully, upside to margins downstream as long as we're thoughtful in the kinds of programs we take on but it's going to be a longer-term change rather than a near-term fix, I think.

Operator

Gautam Khanna, TD Cowen.

Gautam Khanna - *Cowen and Company LLC - Analyst*

I was just -- on a follow-up to the last question on the fixed price pipeline. Is that just a pivot by choice where you guys are actually pursuing more of that business? Is it representative of more civil work? I'm just curious what that? Or if it's just a broader market shift that you're already seeing in the pipeline?

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

Gautam, thanks for the question. Look, big picture, I think we are seeing a broader change in the pipeline in the market. But I don't want to over-rotate to that. I think there's always some idiosyncrasies inside everyone's pipeline that causes that number to be higher or lower.

The reality is we are seeing it in somewhat of a broad-based action, both within kind of defense and intel as well as civilian. At any point in time, I think we're going to have a change in the mix of civil versus DNI, both pipeline as well as backlog. So we're seeing a little bit of that happen as well. So it can be a little noisy at times.

But big picture, I do think that regardless of who's in charge of Congress or who's in the White House, the move to more outcome-oriented fixed price is real. And I would say, instead of maybe trying to measure progress every quarter, we may have to zoom out a little and say on a year-over-year basis, are we seeing some changes. And the reality is, I think we are seeing some changes, but they're gradual in some places.

Gautam Khanna - *Cowen and Company LLC - Analyst*

Okay. And just as a follow-up. Earlier, you made a reference to portfolio and M&A. And I'm just curious, what is I don't know if there's any big reveal that you're planning, but I just was curious, like what is -- what is still pending that needs to be conveyed to the Street about how the portfolio might reshape over time?

James Reagan - *Science Applications International Corp - Chief Executive Officer, Director*

Yes, Gautam, this is Jim. I'll take that. I think that what we've said before, and I'll just reiterate it is through the summer, we've been going through a pretty deep look at what our strategy change might be. And we've been doing what I would now think as being more than a refresh, but I don't think you should expect us to make a huge 180-degree turn either.

The things that we're looking at are areas where we can make some more investment that are not too far from our core and spend some more money and some of that will be investment that comes out of ORBIT. Some of this will be investment that's made possible simply by how customers want us to go to contract with them.

But I think what I would ask you to do is to sit tight and wait for, what I would say is a broader discussion about strategy and what our portfolio direction might be looking like that we're going to hold off until our December call.

Operator

Tobey Sommer, Truist.

Unidentified Participant

This is Tyler Barish on for Tobey. You mentioned the recompete win rate was over 90%. Can you maybe give us an expectation for where you expect that figure to go going forward?

James Reagan - *Science Applications International Corp - Chief Executive Officer, Director*

Yes. This is Jim and Prabu might want to pile on with any other observations. But right now, I -- what I have said is that the standard for how we're defining success is for it to be at or above 90%. We've spent a lot of time in how we've organized our proposal activity and the discipline around how we rebid work to expect 90% or better. And that is in concert with the work that we're doing to decide how we're going to pursue new work as well.

And we've gone through a pretty extensive pipeline review to make sure that we're spending time and money on things that we have the right to win and we're not chasing butterflies. And so with that, we are expecting to be at or above a 30% win rate on new work.

And that's the right place for -- that tells us we're spending our money in the right place and looking to grow our business in the right places where customers will reward us by paying us for the good work that we do and keeping this onward when we perform well.

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

Jim, thank you for that. Tyler, the only thing I would add to that is the last five years, we've grown 3%, 2%, 7.5%, 3% and negative 3%. And almost every one of those years we've had recompete headwinds of between 5% to 8%, sometimes higher of annual revenues. That's because our recompete win rates were materially below 90%.

To the extent that we get our recompete win rates, I think per Jim's expectation and our expectation at or above 90%, that would suggest that there is a floor and you start to grow off the floor. And the trick is our new business win rates have been higher than 30% in the past.

And if we can get that combination working were news at least at 30%, then you have a flywheel that is going to suggest some upside to revenue growth in the future. But this is a math exercise that I'm responding to right now. But the reality is, the teams have to go execute to it every quarter, and that's where our focus is right now.

Operator

Matt Akers, BNP Paribas.

Unidentified Participant

It's Luke Leone on for Matt. Could you just talk about the overall contracting environment what you're seeing there in the prepared remarks you had mentioned slower RFPs and awards but then mentioned an improving outlay environment?

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

Yes. I appreciate the question. And so look, I think the outlay environment has been improving. And as I mentioned earlier on this call, there's typically a lag between outlays and revenue growth, and we're starting to see some of the, I would say, the preceding months outlay translate into revenue growth right now. Having said that, the reality is the RFP process is still moving in fits and starts.

We are seeing some awards go through, but we're not seeing the, I'm going to say, the regularity and a process that is working seamlessly because the government, our customers are trying to do more with less because they are still, I would say, somewhat impacted by the big changes from those last year on the personnel side.

So we are starting to -- we are seeing some of that come through in kind of the fits and starts that we're seeing on the awards front itself.

And candidly, this is one of the reasons our submit volume is down to about $24 billion now for the year, down from about $25 billion to $28 billion. Next year, we think submit volume is going to be in that circa $25 billion to $28 billion, but it still feels early. To the extent things move right, if you're the incumbent on a program, you continue to see organic revenue growth opportunities, but your book-to-bill is impacted in the near term when those things happen to shift to the right.

So again, we're seeing some of that move in that direction. It's hard to really get our arms around when this gets better. We are right now assuming that nothing gets better materially in any sense for the remainder of this year, and hopefully next year feels a little bit better than this year does.

Unidentified Participant

Okay. Got it. And then as we go into the next government year, are you guys assuming a CR and just like any thoughts around that plays out?

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

We are assuming -- yes, our base case is that we will start the year with a CR. Look, I think what Jim and I have said on prior calls is that we do not need a $1 trillion budget to grow this business. I think we're focused on what's in our control, and there are plenty of opportunities inside of the current budget and but we do and expect to be in a CR to start the fiscal year.

And obviously, to the extent budgets are healthier than the $850 billion or $900 billion regardless of how you break it up between base and supplemental and reconciliation there's going to be some upside pressure hopefully to outlays and downstream revenues. But right now, we're not banking on that.

Operator

Thank you. I'm showing no further questions at this time. This concludes today's conference call. Thank you for participating. You may now disconnect.
