Company Name: Science Applications
Company Ticker: SAIC US
Date: 2023-06-05
Event Description: Q1 2024 Earnings Call

Market Cap: 5625.399001465759
Current PX: 104.19000244140625
YTD Change($): -5.87
YTD Change(%): -5.333

Bloomberg Estimates - EPS
Current Quarter: 1.584
Current Year: 6.962
Bloomberg Estimates - Sales
Current Quarter: 1665.5
Current Year: 7150.400000000001

Q1 2024 Earnings Call

Company Participants

- Joseph DeNardi, Vice President of Investor Relations
- Nazzic Keene, Chief Execuitve Officer
- Prabu Natarajan, Executive Vice President and Chief Financial Officer

Other Participants

- Tobey Sommer, Analyst
- Matt Akers, Analyst
- Bert Subin, Analyst
- Cai von Rumohr, Analyst
- Sheila Kahyaoglu, Analyst
- Jason Gursky, Analyst

Presentation

Operator

Hello, and thank you for standing by. My name is Regina, and I will be your conference operator today. At this time, I would like to welcome everyone to the SAIC's First Quarter Fiscal Year 2024 Earnings Conference Call. (Operator Instructions) After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions)

I would now like to turn the conference over to Joseph DeNardi, Vice President of Investor Relations and Strategic Ventures. Please go ahead.

Joseph DeNardi, Vice President of Investor Relations

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 results 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, Chief Execuitve Officer

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 fiscal year '24. 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 11th.

Before discussing our results in more detail, I want to continue my tradition of highlighting colleagues at SAIC for their contribution to our success. So 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 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 recognized several important days for our country and our employees. V-E Day on May 8th, Military Spouse Appreciation Day on May 12th, Armed Forces Day on May 20th, and, of course, Memorial Day on May 29th. In addition, on May 10th, 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. I want to recognize Mike Bramble, Stefanie Wall and David Robinson for their leadership on this important program.

Now, on to 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 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 fiscal year '24 through a combination of our portfolio-shaping and our organic initiatives. Our net bookings include $766 million 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 remained strong, with solid growth overall and within our GTAs specifically. At the end of our first quarter, the value of our submitted proposals was $26 billion, an increase of 10% year-over-year, while our total qualified pipeline was up approximately 8% year-over-year. 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 on 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, Executive Vice President and Chief Financial Officer

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 material sales previously planned for later in the fiscal year along with improved performance. Given some of the potential macro risks facing the industry, we're 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 earnings per share 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 FY '24 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 the 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 $7.125 billion to $7.225 billion, a $50 million increase at the midpoint from our prior guidance, which now represents approximately 4% year-over-year growth. This increase is driven primarily by two factors: roughly $35 million of outperformance from our supply chain business in 1Q, and roughly $15 million 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 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 earnings per share guidance to $7.00 to $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 $460 million to $480 million and continue to expect roughly $350 million to $400 million in share repurchases. We deployed about $70 million 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 $82 million 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're excluding these payments from our free cash flow guidance to provide investors with a clear 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 topline 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, Chief Execuitve Officer

Thank you, Prabu. As we announced on May 18th, I will be retiring from my role as CEO effective October 2nd. 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 will now turn the call over to the operator to begin Q&A.

Questions And Answers

Operator

(Operator Instructions) Our first question will come from the line of Seth Seifman with JP Morgan. Apologies. Our first question will come from the line of Tobey Sommer with Truist Securities. Please go ahead.

Tobey Sommer, Analyst

Hi. Good morning. Thank you very much for the question. Just wondering if you could talk to us about the opportunities that you're seeing develop in the space arena, something that we talk about periodically on these earnings calls. And if you could talk about them in terms of all the exposures, military, intel and the civil agency. Thanks.

Nazzic Keene, Chief Execuitve Officer

Yeah, this is Nazzic. Hi, Tobey. I'll start off, and then certainly, Prabu can add some color. I think consistent with the way we've been describing this market, we see the opportunity across the broad space domain, including DoD, obviously civilian and intel to really leverage some of the key areas of GTA. So as an example, in IT modernization and being able to drive IT modernization across the space domain in our SID[ph] strategy, being able to do systems integration and delivery in a very capital-light manner as the nation looks to expand and further strengthen the space domain. So I would say it's a key part of our strategy. We see key areas of continued opportunity, as it relates to the GTA. And then, of course, we do some work in the SETA space as well in the space domain. And that's a key part of our -- certainly our core business and allows us to have the skills and the competencies and past performance to further accelerate.

Prabu, anything you want to add?

Prabu Natarajan, Executive Vice President and Chief Financial Officer

That was great, Nazzic. Thank you for the question, Tobey. Really a big picture about a fifth of the portfolio has space exposure. And as Nazzic pointed out, that's a combination of civil space, military space and intel space. And the portfolio is pretty well-balanced across the GTA areas as well as sort of the core mission engineering side of the portfolio. There is a fair amount of SETA inside our space business. And so, there is -- that's predominantly into intel space area.

So good exposure on the space side. We flagged over the last couple of years or so some things we are taking on to the development side of our space business not impacted by the OCI that you'll typically see on the SETA side. So the team's had some success building out a portfolio that is, I would say. a little more bias towards the development side. And as Nazzic pointed out, there are a couple of new things are happening on the development side that hopefully we'll be able to update you all in future calls.

Tobey Sommer, Analyst

Thank you. For a follow-up question, I'd like to talk to you about your plans to improve returns -- ROIC. What do you see as the biggest risks to achieving that goal? And are you talking about growth or sort of change in our ROIC being industry-leading or absolute percentage industry[ph]? Thank you.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Yeah, so I'll take that one. So really a big picture. I think we recognize that in order to build ROIC over the long-term, we've got to consistently be able to grow the business profitably. And we believe we are demonstrating the capacity for this business to organically grow quarter-over-quarter. And I believe we've done that pretty well over the last couple of years, but there's more here to do and we're going to continue to do that. In addition to that, we've recognized that there is a multi-year path for margin improvement inside this portfolio. So we have provided multi-year targets on the margin side at our Investor Day, and we are firmly committed to ensuring that this portfolio continues to do well on operating margin and adjusted EBITDA.

And finally, we have been biased towards our share buyback program, which is clearly adding value here. As I think about the buybacks over the last couple of years, on a total share count basis, we've retired over 10% of our total share count, net of the equity issuances I would say in the high-single-digit area in just two short years. So we believe the combination of growing the business, improving margins and favorably deploying capital to the long-term interest of our shareholders is going to allow us to be a leading generator of ROIC over the next couple of years relative to the peer set.

And we've actually have a chart in the earnings presentation that demonstrates the progress we're going to make over the next couple of years. So to me, that's sort of how we think about ROIC. When we talk to our shareholders, they communicate to us how important this metric is for them. And this is sort of our march to it to make sure that we are profitably growing the business and creating real economic value over the long term.

Tobey Sommer, Analyst

Thank you.

Operator

Our next question will come from the line of Matt Akers with Wells Fargo. Please go ahead.

Matt Akers, Analyst

Yeah, hey. Thanks very much. Good morning. I wonder if you could just comment...

Nazzic Keene, Chief Executiive Officer

Good morning.

Matt Akers, Analyst

(Multiple Speakers) your thoughts on the debt ceiling deal and how that sort of fits with the long-term -- assumptions in your long-term guidance.

Nazzic Keene, Chief Execuitve Officer

Yeah. Thanks, Matt. So, I think as with everybody, probably in the nation and certainly in our industry, we're really, really pleased that they were able to get a bipartisan bill passed and get it passed ahead of schedule. So very, very happy to hear that. This -- we were having discussions around this. We're happy to be doing our call on the date of when it was supposed to expire. So we're pleased that that's behind us.

At a high level, we continue to see a very large addressable market, and we don't expect that to change materially as a result of this particular bill or any kind of near-term things that we're hearing about. Our position is, we're very well-diversified across defense, non-defense and intel. And so, we believe that positions us well as we go into whatever the next few months might bring and certainly well-positioned in both modernization as well as the statement. So, very pleased it got passed, very pleased it got passed in a bipartisan way. I think it showed some encouraging trends, but we don't see any short-term hiccups or challenges with it and we'll continue to monitor it just as everybody else does across the industry.

I'm going to let Prabu provide a little color as well.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Sure. Hey, Matt. Thank you for the question. We've been messaging for probably three quarters now that we expect the long-term budget prognosis to reflect sort of this grid lock and potentially defense budgets growing in that low-single-digit range. And I think this latest deal sort of memorializes that view. I think in terms of the direct impact of this particular budget deal relative to the guidance we provided on a multi-year basis, I would say it's fairly in line with what we've assumed. We have been communicating that 2% to 4% long-term revenue guide at the midpoint 3% reflects some modest element of market share capture, which is sort of reinforced by the deal that we have in place.

The reality is we're going to have to watch the specific line items inside of the budget, what supplemental bills potentially could include and potentially what it means for modernization versus legacy systems. As Nazzic said, I think we are balanced in terms of our exposure to both legacy systems as well as modernization to the extent you see dollars flowing back into legacy systems and away from modernization inside of FedCiv in particular. I think our portfolio is actually rather well-placed on that front as well.

So again, I think we'll learn a lot, we'll discover even more things I think over the next six months, and we're just going to have to see how this plays out, but I'd say, no real big change or impacts on the long-term revenue guide we provided.

Matt Akers, Analyst

Okay, great. That's helpful color. And then, I guess could you talk about how do you see book-to-bill coming out for the year? How do you see you then -- yeah, pretty steady at one times level. It sounds like the pipeline is pretty healthy. I mean, should we expect book-to-bill to come in above 1 for the year do you think?

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Yeah. So this question actually coincidentally came up on the last earnings call. Look, I think at the midpoint of that 2% to 4% revenue guide on a multi-year basis, we would expect book-to-bill over time to be comfortably over 1.0. And I think, obviously, we don't guide book-to-bill on a quarterly basis and you all recognize how lumpy it can be and how inherent practices are different across the different registrants. And therefore, I would just say comfortably over 1 is the long-term objective. And I think we're doing a nice job right now to delivering backlog that is going to help us continue to grow this business.

Matt Akers, Analyst

Okay, great. Thank you.

Operator

Your next question will come from the line of Bert Subin with Stifel. Please go ahead.

Bert Subin, Analyst

Hey, good morning.

Nazzic Keene, Chief Executitve Officer

Good morning.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Good morning, Bert.

Bert Subin, Analyst

Hi, Nazzic and Prabu. Maybe following up on Tobey's question, what are you expecting on the civil side of space just following a couple NASA contract headwinds? And then more broadly, Prabu, it sounds like your view towards FedCiv is pretty in line with what you were previously thinking. Where do you expect some of that pressure will show up in FedCiv because it looks like those budgets are going to be the ones that are experienced the most pressure when we look to next year?

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Sure, maybe I'll take the second part first, Bert. So on the FedCiv side, as I said, there's good balance between legacy systems and modernization. To the extent, we see budget dollars move away from modernization. You could see some impacts on programs that are starting to ramp potentially. And again, we do have a fair amount of legacy systems that will actually be the beneficiary of any impacts on the modernization accounts, if you will. Now the caveat to all of this is this presumes that Allswell[ph] appropriation bills will actually get passed by early January. And the reality is we all know that if that does not happen, oddly enough FedCiv is likely to see more money than they would in sort of the standard deal, if you will, that's in -- that's in place right now.

So, I think that's why I think it's important to be methodical and a little careful about how this plays out over the next six months, but we do see some impact to potential monetization if the priority becomes maintaining legacy systems. And the reality is, we are well exposed to the legacy systems as well. And therefore, we think we can manage and navigate our way through any potential shifts in funding that we see over the next six or eight months.

Nazzic Keene, Chief Executivte Officer

Yeah. I think one thing I would add to that Prabu is, I think you hit the nail on the head, there certainly could be some short-term pressures. But the requirement and the necessity for the federal government across all, kind of whether it's defense, intel, civil to modernize is absolutely critical. So, although we might see some short-term headwinds, if your scenario plays out, we still believe that modernization is key. It's required for the federal government to stay current and systems to deal with cyber pressures and all those things. So -- but I think probably we'll put it well. We can navigate either way. We can support either way, and we're well-positioned across the portfolio.

On NASA, in particular, certainly, the OMES contract is in -- going to the protest process. So I'm not going to discuss that in too much detail, but we do see continued opportunity in civil space. We see obviously the -- from a -- from an IT modernization that continued need to do that, we see the ability to pivot in some of the other GTA areas. And for us, it's just focusing on those areas in which we can bring differentiation, where we can set ourselves apart from the competition through solutions, through innovation, and, of course, we tend to see more pressure when it's labor-only and when it's price and labor combined. And so, it's really pivoting to those areas where we can bring differentiation, leverage the competency that we're saying maybe in some of the other areas of the space domain to drive pipeline and opportunity on the civil side.

Bert Subin, Analyst

Okay, great. Maybe just as a follow-up. Really strong first quarter performance. And Nazzic, you had some positive commentary there from the hiring front. It sounds like that's going well. So can you maybe just help us bridge the gap thinking about on-contract growth because I imagine that's a pretty solid tailwind, and then just putting that into the context of sort of a pretty modest revenue increase after a pretty strong first quarter?

Prabu Natarajan, Executive Vice President and Chief Financial Officer

So -- hey, Bert, I'll take that one. So, I think we signaled on the Q4 earnings call that we are seeing attrition start to flatten out. And I think we're pleased to report that, that trend has continued. So attrition is certainly trending better than where it has been over the last couple of years. Our hiring has been pretty good as well. And especially with DCSA One IT starting to ramp, we think there is potentially continued upward bias, if you will, on the labor generation side. Now, the flip side of having good labor generation is that it actually makes us a little more affordable because we have a broader labor base against which to spread our fixed costs, if you will. And therefore, that is certainly starting to come through on the margin side, which is certainly part of the reason why we delivered a 9.3% margin rate in spite of a good portion of that beat coming from our supply chain business, which we all know and we've communicated historically that is a lower-margin business for us. So I mean, I think when we talk about the mix here and the fact that labor is trending well, it bodes well for on-contract growth on a full-year basis.

But having said that, in spite of the good strong first quarter, there are three quarters left in the year and we've got to go do our share of the work and we'll keep you all posted. As I said, our commitment is to keep you calibrated on what we're seeing internally and the update you provided on the Q1 call is our first attempt to do that this year. And hopefully, we'll have some good things to report on labor and margin and hopefully growth, but we have to go see how this plays out over the nine months and we've got to go execute and we're really proud of what we've done, but one quarter does not make a year.

Nazzic Keene, Chief Executivte Officer

Yeah, a couple of things I'll just add. So on the labor side, on the people side, that has been a core part of our strategy these last few years. Obviously, COVID gave us a little bit of hiccup and we've all pivoted post-COVID to adjusting to what the new normal is, but the ability to hire, attract and retain talent is fundamental to our overarching growth strategy. And so, very pleased to see the positive momentum, but as Prabu stated, we watch it very closely and we're really as good as our last quarter. So, very pleased with what we're seeing relative to our industry peers, relative to the broader industry, but we also recognize that (Technical Difficulty).

Cai von Rumohr, Analyst

(Technical Difficulty) because it's not taken back and what kind of a ramp. And OMES, you lost that it's in protest. When is the protest date and when would it transition? And then Vanguard, maybe an update there. Thanks.

Nazzic Keene, Chief Execuitve Officer

Okay, I'll let Prabu do the -- run-through the few, and then I'll add whatever color.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Sure. Hey, Cai. I appreciate the question. So DCSA One IT has begun to ramp. And we're still in the early stages of that ramp and continuing to work with the incumbent there as we transition away from them and -- on to our labor base and it's certainly helping the labor front as well. But in terms of the run rate on DCSA One IT, we expect it to get to probably let's call it $50 million[ph] run rate for this year, this fiscal year FY '24 and at full run rate, I think this program probably generates $100 million to $120 million of revenue. And that's likely to come in next year, so a little less than 1% this year. And let's call it about 1.25% to 1.5% next year.

TCloud remains in protest. We believe just based on kind of the timelines that are out there, sometime towards the second half of June, we will see some resolution of that. And of course, there may be other steps from there, who knows, in this crazy environment. So -- but we are watching it. We think probably the second half of June is sort of the -- when the clock runs out and hopefully you get some clarity here before the end of June. So to me, that's TCloud.

OMES obviously in protest right now, and unfortunately we're unable to say a whole lot more than to say that if we are unfortunately in the position of not holding onto the contract, we are likely to see impacts from that transition beginning in our Q4. But of course, it goes without saying, Cai, that the updated revenue guidance we have provided accommodates and accounts for all possible scenarios that may happen with any one of those three contracts that I just talked about. So suffice it to say, we're comfortable with the updated guidance, but that is notionally the time frame for the OMES transition in Q4 this year.

Nazzic Keene, Chief Execuitve Officer

And then I think on Vanguard, we expect have -- nothing really material happening this year as it relates to the existing contract. The customer is going through their procurement cycle. We did, as we reported out, have an extension a few months ago. And so, it's hard to predict because it's a very complicated procurement, but you could see some things start to happen mid next year-on Vanguard, Cai.

And I just want to reiterate the comment that Prabu made, obviously, these are all big contract, we watch them all very closely, but the revenue guidance that we provided in April really took into consideration various scenarios of all of these and we remain confident in that guidance that we provided.

Cai von Rumohr, Analyst

Terrific. I had a huge question. So, I will pass from the second.

Nazzic Keene, Chief Execuitve Officer

Okay. Thanks, Cai.

Operator

Your next question will come from the line of Sheila Kahyaoglu with Jefferies. Please go ahead.

Sheila Kahyaoglu, Analyst

Thank you guys for the time, Nazzic and Prabu, and Cai for being so kind of one question. Hi guys. So, Prabu, you kind of talked about this answering a question, that wasn't really asked, but profitability up 60 basis points year-over-year in Q1 at the midpoint of your guidance, despite that lower margin supply chain business in there. So kind of can you talk to us about how much we should think about the supply chain helping margins in the next three quarters and then the indirect costs that really or lower cost that helps you get to a better profitability point this quarter?

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Yeah. I appreciate the question, Sheila. And supply chain on a full-year basis, the divestiture of that business adds about 30 basis points to margin. And obviously, that business -- the sale closed at the end of Q1. So we've got potentially three quarters of tailwind, if you will, or margin expansion potential from that business. So think somewhere between 10 basis points to 20 basis points on a current year basis. That's sort of how we presented the view at Investor Day back in April. So to me, I think what this says is that to the extent that we continue to perform well and we continue to manage our cost base effectively. It gives us some opportunities for investments in some differentiated areas that allow us to impact our objectives to continue to grow this business profitably. In other words, it's a good place to be at the end of Q1, lots of variables, including the balance that the team has to go through in terms of margin expansion in the near-term beyond what's implied in the guidance right now versus being able to reinvest some of that in the business to drive additional profitable growth down the road.

As most companies go through, we go through a series of trades when we decide which investments to prioritize and which ones are on it, I'm going to call it air-cooled[ph] regret list. And this is -- this performance allows us to sort of dust off if you will, the regret list and say are there things there that will continue to generate profitable growth organization. And that's a good position for us to be in. So, pretty comfortable with the 9.2% to 9.4%[ph]. Obviously, Q1 performance biases us to somewhere higher than that. Obviously, if you just add the supply chain element to it, but it's an enviable amount of flexibility to have so early in the year for us to think about reinvestment and continuing to drive this business beyond estimates that may be out there.

Sheila Kahyaoglu, Analyst

Sure, that's helpful. And I know you guys talked about this at Analyst Day a little bit, but just given it's such a hot topic now, can you quantify your AI exposure and maybe talk about one example how you're using it internally and how you think the DoD will take it in as the customer?

Nazzic Keene, Chief Execuitve Officer

Yes, certainly. Hi, Sheila. It's getting a lot of press these days in AI across I think every industry, including ours. So, I think a couple of points I want to make. This is an area -- this is the market that we've been investing in for several years. And certainly, the discussion from -- coming out of the federal government is -- appears to be that we're near a tipping point and the customers seem to be more interested these days in looking at driving advantage through using AI. So we feel good about our position in the market and our ability to do that.

I think it's also important to know that the way that we think about AI in addition to AI for AI sake, it's clearly embedded in so many of our solutions that we bring to market. And so, it's very hard to quantify what we do in AI, because many of our solutions have AI embedded and many of our programs have AI embedded. So it would be very difficult for me to try to measure that.

One good example I'll give you is the acquisition of Koverse that we did a couple of years ago, again just evidence that we've been thinking about this market, investing in this market for a while. And that broadened our exposure to both AI and data analytics. And we've been really pleased with the customer feedback we've received on the solution and it has already contributed to several winning -- several $100 million of wins across both the civilian space and the defense space. So very pleased with that as part of our portfolio that we've been investing in asset called Tenjin, which is an AI tool as well.

So -- and then we have an Innovation Factory that is focused on AI. And you guys got a chance to meet some of our Innovation Factory leaders in New York. And so, again, that continues to be a core part of our strategy. And we see opportunities in whether it's Counter UAS, Secure Cloud, JADC2. So again, it's hard to pull out just AI, but we see it embedded in those types of programs and solutions.

And then, last but not least, I'll just mention that just a few quarters ago, we were named a JADC2 Company to Watch. It's one of the things that I highlighted, and it was really called out because of our experience in both data analytics and AI. So, we recognize this is an important part of our industry, important part of our market and our ability to differentiate our solutions leveraging AI for our customers is something that we're very focused on. We'll continue to invest in, as our government customers get more mature in the way they acquire.

Sheila Kahyaoglu, Analyst

Great. Thank you.

Nazzic Keene, Chief Execuitve Officer

Thanks, Sheila.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Thank you, Sheila.

Operator

Your next question will come from the line of Jason Gursky with Citi. Please go ahead.

Jason Gursky, Analyst

Hey, good morning, everybody. I'm going to stick with the generative AI question. Can you hear me okay?

Prabu Natarajan, Executive Vice President and Chief Financial Officer

We here you, Jason.

Jason Gursky, Analyst

Oh, you can. Okay, great. Sorry about that.

Nazzic Keene, Chief Execuitve Officer

Yes, we can hear you.

Jason Gursky, Analyst

Yeah. Okay, great. So on generative AI, you talked a lot about the opportunities. I wanted to see if there are any threats to the current book of business and just kind of making sure we're balanced and understand what this all represents. I know this is moving very quickly. So I suspect it creates some opportunities as well as some potential threats to the business. So, I was wondering if you could kind of balance that out for us and tell us a little bit from your perspective where you think the threats might be.

Nazzic Keene, Chief Execuitve Officer

Absolutely. And I think you captured it well. There's -- with anything that's a huge change or huge infusion into the market and[ph] our federal government is considering some of these types of competencies and technologies. It's both a threat as well as an opportunity. And so, we're navigating that on both sides. Certainly, on the threat side, you could see AI have the potential of reducing headcount on certain programs and so much of -- the way that our industry measures revenue and profit is on a headcount. And so, we're certainly sensitive to that. We're aware of that. But we also -- our preference is to understand what that is and what it makes sense for us to be the disruptor and drive the performance and drive the competencies and solutions in our programs in partnership with our customers. So you're absolutely right, it is both. We want to make sure we manage it on both dimensions, but I will say it's relatively early days in the federal government's adoption. And so, I think there's a lot of maturity that can come and we intend to be a leader and driver in those areas -- where, again, where we've carved out our strategy and where we believe it could make a difference in our solutions.

Jason Gursky, Analyst

Okay, great. And you have to excuse the delay, I'm sensing that my IT setup here isn't great. So you might be getting this next question late, but probably...

Nazzic Keene, Chief Execuitve Officer

No worries.

Jason Gursky, Analyst

You had mentioned earlier in the year that you thought that there was the potential for some seasonality in bookings this year. I know you've answered quite a few questions on bookings this year. But I just wanted to have everybody kind of understand from a big picture perspective, how you are currently seeing the pipeline kind of developing from a seasonal perspective? I think earlier in the year, you suggested that we could see some softness, as everybody gets ready for a potential CR. We just had a (inaudible) deal that maybe clean some of that out, but I just want to give you an opportunity to kind of update some comments that you made earlier in the year on seasonality related to bookings.

Nazzic Keene, Chief Execuitve Officer

Got it. I appreciate the question there, Jason. Couple of things. Really a big picture, we delivered solid book-to-bill in Q1 1.1. We expect to be comfortably over 1 on a full-year basis. We've got a few larger needle moving things in the pipeline, which we expect to hear over the course of maybe the second half of this year. So it's certainly an area we continue to watch. Obviously, as Nazzic mentioned in her prepared remarks, TCloud is actually not in the bookings or the book-to-bill numbers we reported. So obviously, we're watching that space as well. So we feel pretty good about what that seasonality looks like right now. Again, I think Q3 -- Q2, Q3 probably higher than where Q4 is likely to be, if I had to put a finer point on the quarterly distribution of backlog and book-to-bill. But that's sort of how we are seeing things right now.

I think as Nazzic mentioned in her prepared remarks to the broader question around the depth of the pipeline, the value of the submitted proposals has gone up to about $26 billion. That's certainly an increase from last time we talked to the Street about it. And therefore, that's a healthy sign hopefully means some good things for book-to-bill. And then the qualified pipeline, that's -- the total qualified pipeline is also up 8% year-over-year. So, I think those two data points continue to tell us that the pipeline is deeper perhaps than a year ago. The number of qualified bids out there that we are waiting to hear from is also higher than it was. And most importantly, that the mix of GTA and core is really skewing towards 50-50 right now, which is also a pretty healthy sign.

Logically, we assume that GTAs may come in at a lower win rate, especially if new -- lower than kind of normal sort of takeaways just because it is more differentiated, especially in a market that we are trying to breakthrough. So we're taking into account all of that sort of relative factoring in order to come up with our estimates, but Q2 and Q3 should be solid than Q4. Seasonality will impact likely kind of some softness in the Q4 bookings, as we probably saw at year-end of last year.

Joseph DeNardi, Vice President of Investor Relations

Yeah, Jason. The only thing I would remind you of is, as we said before, TCloud was structured as an IDIQ. So we're not going to book the full value if and when that gets resolved in our favor. We'll book kind of as we go. So that's just one factor to consider for the year.

Jason Gursky, Analyst

Great. Thank you everybody. Appreciate it.

Joseph DeNardi, Vice President of Investor Relations

Great. Thanks, everyone.

Operator

Thank you. So we have no further questions at this time. That will conclude today's meeting. We thank you all for joining. You may now disconnect.