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Science Applications International Corp.

(SAIC)

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to SAIC's Fourth Quarter and Full Fiscal Year 2021 Earnings Call. 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.

Shane P. Canestra

Vice President-Investor Relations, Science Applications International Corp.

Good afternoon. My name is Shane Canestra, SAIC's Vice President of the Investor Relations. And thank you for joining our fourth quarter and full fiscal year 20201 earnings call. Joining me today to discuss our business and financial results are Nazzic Keene, SAIC's Chief Executive Officer; and Prabu Natarajan, our Chief Financial Officer.

This afternoon we issued our earnings release which can be found at investors.saic.com, where you'll also find 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 defer 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 where possible to the most comparable GAAP measures.

It is now my pleasure to introduce our CEO, Nazzic Keene.

Nazzic S. Keene

Chief Executive Officer & Director, Science Applications International Corp.

Good afternoon and thank you for joining to discuss SAIC's fourth quarter full fiscal year 2021 results and our outlook for fiscal year 2022. Our momentum increased throughout the year and SAIC continues to be very well-positioned for long-term shareholder value creation. On March 15 of last year, SAIC quickly adapted to a significantly different operating environment as a result of the pandemic. Although not without challenges, SAIC operated effectively throughout the fiscal year and continues to do so today. Our focus has always been the safety and welfare of our employees, continued high-level performance for our customers, and successfully managing the business for our shareholders. I want to thank the employees of SAIC for their dedication and flexibility both personally and professionally through an incredibly challenging time.

The end of each fiscal year allows us to look back, reflect on our achievements as well as our journey over time. As we think about what SAIC is today, I'm even more encouraged about our future. Over the past few years, we have grown our annual revenue from around $4.5 billion to more than $7 billion, concurrently expanding our adjusted EBITDA margins from the low 6% range to close to 9% today, an almost 300 basis point improvement.

Over the same period, we have more than doubled our free cash flow. We are now in the Fortune 500 and one of the top providers in the government services market, and we have even more to accomplish as we continue to push forward through focused strategy execution. Our journey continues and with a long-term eye on the business I am confident in continued progress.

I would like to highlight a few areas of strong performance in fiscal year 2021. Compared to fiscal year 2020 revenues grew by 11%, adjusted EBITDA margins improved by 50 basis points, adjusted diluted earnings per share grew by 11%, and we generated a record-high free cash flow of $524 million. Organic revenues grew by 1% in fiscal year 2021. While we can't ignore the effects of COVID, revenues grew organically by 4% excluding the approximately $250 million of foregone revenue related to the pandemic.

SAIC delivered strong profitability and cash generation that met the expectations we set at the beginning of the year. Last March we laid out a pre-COVID framework. As these were the early days of the pandemic, the effect on our business and the nation was uncertain. Our expectations at that time for fiscal 2021 was 3% to 6% organic revenue growth, adjusted EBITDA margins in the high 8% to 9% range, and free cash flow of at least $450 million.

While adjusting for the impact to the business from the pandemic, we largely met those expectations. While we continue to experience impacts from the pandemic into this fiscal year, we remain focused on business execution. We also had a very successful business development year, with a book-to-bill of 1.7 times revenue through a healthy mix of recompete and new business awards.

One of the most important business development priorities for the company was to secure our position in the AMCOM portfolio in a very competitive market. I'm incredibly proud to report that SAIC has been awarded all four of the AMCOM recompete task orders. We received two of the awards during fiscal year 2021 and two early in this quarter. Each of the four task orders contains elements of new business. And while the transition of the new work will happen over time into fiscal year 2023, we are very pleased to continue supporting these important missions.

Turning to the market environment, our customers continue to execute their missions and priorities with confidence. Though there has been a change in both administration and control of the Senate, we have not seen notable changes in customer behavior. The president will deliver his government fiscal year 2022 budget request in the next few weeks. This will show intent, the administration's priorities and desired direction. While we do not expect significant changes that would negatively impact our business, we do anticipate overall customer budgets to remain flat for the most part into next fiscal year and potentially beyond. However, within those budgets, there will be faster streams of priorities and investments. So while the budget environment might present a headwind to overall industry growth, direct alignment of our strategy to high-priority and potential growth areas could be a tailwind that will enable us to outperform the market environment. Growth will be enabled by the execution of our long-term strategy, elements of which you will hear throughout our remarks today.

As we navigated a challenging year, we remain focused on our commitment to delever following our successful acquisition and integration of Unisys Federal and we made tremendous progress. During the year, we paid down $400 million of debt, exiting the year at a net leverage ratio of 3.7 times, down from approximately 4.5 times at the time of the acquisition. While we continue to meet our commitment of achieving a net leverage of around 3 times by the end of fiscal 2022, I'm also pleased to report that we started repurchasing shares midway through the fourth quarter, deploying $19 million to repurchase approximately 200,000 shares.

Joining us today for his first earnings call as SAIC's Chief Financial Officer is Prabu Natarajan. We are very excited to have Prabu as part of the executive management team, bringing with him a track record of success as a finance executive in the aerospace, defense, and technology markets. I'd like to ask Prabu to share our results for the fourth quarter and our fiscal year 2022 outlook.

Prabu Natarajan

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

Thank you, Nazzic, and good afternoon, everyone. I'm extremely honored to have joined a best-in-class government services company and a top-notch management team. SAIC's culture is rooted in its mission focus and performance, continuous self-reflection and improvement, and execution of a thoughtful long-term strategy. I look forward to actively working with Nazzic and the senior management team to continue building and executing the strategy to deliver long-term shareholder value.

Now turning to our results. SAIC's fourth quarter fiscal year 2021 results reflect modest organic revenue growth, strong profitability and seasonally in line cash flow generation. Contract award activity in the fourth quarter translated to a book-to-bill of 0.4 for the quarter and 1.7 for the full year. Fourth quarter net bookings were driven by two large contract awards, the U.S. Corps of Engineers RITS and the AMCOM Hardware-in-the-Loop Aviation Services contract, this latter being the second in the series of four task order awards in our AMCOM recompete portfolio.

While these awards have notable award values in excess of $2 billion, I would note that these are ceiling values that may differ from amounts included in backlog. Although these contracts contain room for us to drive additional revenues, it is our backlog policy to book amounts that have reasonable line of sight and then revise based on the volume of work funded over the next several years. As Nazzic mentioned, subsequent to the end of the quarter, SAIC completed the successful capture of the remaining two of four AMCOM recompete task orders. They are noted in today's press release. We will evaluate the bookings' position on these task orders as we close out the first quarter of fiscal 2022, but it is remarkable to have run this table on this recompete series.

At the end of the fourth quarter, net of a backlog adjustment in the fourth quarter, SAIC's total contract backlog stood at approximately $21.5 billion with funded contract backlog of $3 billion. The estimated value of SAIC submitted proposals awaiting award at the end of the fourth quarter was approximately $21.5 billion, with about two-thirds relating to new business opportunities.

Let me now turn to our financial results, and I will primarily focus on SAIC's fourth quarter performance with references to full year results in specific areas. Our fourth quarter revenues of approximately $1.7 billion reflect growth of 11% as compared to the fourth quarter of last fiscal year, primarily due to revenues associated with the Unisys Federal acquisition. Excluding the impact of the acquisition, fourth quarter revenues grew year-over-year by 1%, driven by new business, primarily supporting civilian customers in the Air Force, partially offset by impacts from COVID-19. Full year 2021 revenue, excluding the Unisys Federal revenues, grew approximately 1% and included an approximately 3% headwind or about $250 million of negative impact from COVID.

Fourth quarter adjusted EBITDA was $159 million, a $25 million increase from the prior year. Adjusted EBITDA margin equated to 9.3% after adjusting for $7 million of acquisition and integration costs. Fourth quarter margin performance was strong through exceptional program performance. For the full fiscal year, adjusted EBITDA margin was 8.9%, 50 basis points above our prior fiscal year, reflecting the addition of Unisys Federal and gains from one-time resolutions of certain program matters earlier in the year, partially offset by about $25 million of negative COVID-19 impact.

Net income for the fourth quarter was $61 million and diluted earnings per share was $1.05 for the quarter, inclusive of the fourth quarter acquisition and integration costs of $7 million. Excluding these costs as well as amortization of intangibles, our adjusted diluted earnings per share was $1.67. Our full year effective tax rate was approximately 22%, lower than our previous expectation of 23%.

Turning to cash flow generation. SAIC generated a record $524 million of free cash flow for the year and exceeded our December guidance of $515 million for the year. Day sales outstanding at the end of the quarter was strong at 59 days. We deployed nearly 100% of the free cash flow we generated last year through dividends, debt repayment and, as Nazzic highlighted, share repurchases. Our board of directors has approved a quarterly dividend of $0.37 a share payable on April 30 to shareholders of record on April 16.

I would now like to turn to our forward outlook, as noted on slide 7 of the presentation slides. For fiscal year 2022, we expect the following: revenues between $7.1 billion and $7.3 billion; adjusted EBITDA margins between 8.6% and 8.8%; adjusted diluted earnings per share between $6 and $6.25; free cash flow of between $430 million and $470 million.

On slide 8, we have provided several walks from fiscal year 2021 performance to the fiscal 2022 guidance ranges provided today to further assist you in understanding our guidance. Our revenue guidance range reflects flat to 3% organic revenue growth in fiscal year 2022. We expect continued negative impact from the pandemic of $150 million to $200 million of revenue, primarily in our supply chain portfolio, so approximately a 2.5% headwind to growth in fiscal year 2022 is included in our guidance. We anticipate that the majority of this impact will be in the first half of the year and lessen in the second half, and we will continue to monitor this carefully. Consequently, our revenue growth will be more weighted towards the second half given the ramp-up on new programs and lessening COVID headwinds.

I would note that our recompete risk at about 10% this year is below our typical average as a result of having successfully retired the risk on our AMCOM portfolio. However, one notable contract that is up for recompete and should be decided in the summer timeframe is our NASA NICS contract now being called AEGIS. The remainder of annual revenues being recompeted in fiscal year 2022 are an aggregation of lower volume contracts and task orders.

With respect to our adjusted EBITDA margin rate guidance, I would remind you that FY 2021's strong adjusted EBITDA performance of 8.9% included about 20 basis points of successful, but nonrecurring resolutions of program contract matters. Our FY 2022 guidance on adjusted EBITDA margin is in line, therefore, with our FY 2021 performance.

On EBITDA dollars, we expect COVID to have approximately $10 million to $15 million of impact in fiscal 2022. With regard to free cash flow, our guidance range includes $155 million downward pressure as compared to fiscal 2021 related to the payment of half of the payroll tax deferral from last year. We expect our cash conversion to remain strong and working capital to improve in FY 2022.

Finally, as Nazzic mentioned, we reinitiated our share repurchase program in the fourth quarter of fiscal year 2021. Other items associated with our guidance such as estimated interest, depreciation and amortization, tax rate and capital expenditures can also be found on slide 7.

To conclude, I'm very excited to have joined SAIC. We will continue to create value through a few fundamental business imperatives, execution of a well-defined and focused strategy, sustainable and differentiated long-term growth in key market areas, and finally, improve profit margin and cash generation and the thoughtful and opportunistic deployment of [ph] that capital (00:16:49) for the benefit of our shareholders.

Nazzic, back to you for concluding remarks.

Nazzic S. Keene

Chief Executive Officer & Director, Science Applications International Corp.

Thanks, Prabu. While continuing to navigate challenges related to the pandemic, we also look to what a new normal will be for our industry, our company and our people. Across the government, SAIC is enhancing our customers' ability to deliver and enable the adoption of advanced technologies.

Government, as well as SAIC is driving towards faster rates of technology adoption and achievement of mission outcomes. To this end, we are shaping and pursuing a growth agenda tied to longer-term needs in government. We are expanding our IT modernization focus into broader digital transformation. We are building on our heritage in engineering by deepening our digital engineering capability so that we can help the government advance complex systems integration, saving costs and increasing mission readiness. And we're also looking at the growing and evolving missions of our customers, especially in areas like space and health where there are new agencies, missions and requirements.

We've all contemplated what our personal and professional lives look like when we get to the other side of the pandemic. While I certainly look forward to SAIC returning to a more normal environment, the pandemic has forced us to operate differently. And in some ways some of those might endure for good reason.

A more remote work environment has proven to both us and our customers that we can continue to effectively operate and deliver on our programs. SAIC is looking at the future of work including potentially lowering our facilities footprint and expanding our reach for employees that deliver services partially or entirely remotely. While our analysis is underway and the transition will take many years, we are guided by a general concept, foster and enterprise flex work culture in partnership with our customers that enhances SAIC's position as a destination employer; attracting, nurturing and retaining diverse high-performing talent regardless of location.

Wrapping up, I'd like to note a few awards that SAIC received recently that acknowledge our success in being a destination employer. SAIC was recently honored by Fortune's Most Admired Companies list and ranked sixth within the Information Technology Services category along some of the world's largest and well-known companies. This is the company's fourth recognition on Fortune's List since SAIC's inception in 2013. Additionally, for the third consecutive year, SAIC was recognized by the Human Rights Campaign Foundation and received a perfect score as one of the best places to work for LGBTQ employees.

In conclusion, we are proud of our achievements in fiscal year 2021 an unprecedented year. We enter fiscal year 2022 focused on executing our strategy to deliver high value solutions to our customers to foster a work environment that attracts and retains the best talent and to deliver long-term value creation for our shareholders.

Operator, we're now ready to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We have our first question from the line of Cai von Rumohr. Please ask your question.

Cai von Rumohr
Analyst, Cowen and Company, LLC

Q

Yes. Thank you very much. So your revenue guide looks a lot lighter than I think we would have thought given as I recall as you won all of the AMCOM recompetes. It was $900 million annualized up from $600 million and obviously you won't get all of it, but you should get some of it. And also your margins, given that you won AMCOM, being down 30 basis points at the midpoint looks lighter than we would have thought. Maybe give us some color on that if you could?

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

A

Hi Cai, Prabu, here. Thanks for the question. On revenue guide organically we flagged flat to 3% growth and we've also flagged about a 2.5% headwind for COVID. A way to think about it is 2.5% to 5.5% on an ex-COVID basis. Having said that clearly we're disappointed that we're still being impacted by COVID and we're really hopeful that the headwinds abate soon.

And so the year-over-year difference in terms of COVID impacts, let's just call it between $50 million and $100 million. You are correct. We've had large notable wins over the past year. And as we've talked about in other forums, these are long-term programs that will provide sustainable growth opportunities over several year periods.

Let's talk about AMCOM maybe a little bit so we can sort of peel this in several layers. So within AMCOM, a way to think about this is sort of a set of basic task orders. So think of that as sort of the base revenue in the [indiscernible] (00:22:14). That's what we do today. And we know what that revenue profile looks like going forward.

The second layer within AMCOM would be a set of new business opportunities, things that we'll bring into the AMCOM portfolio as a result of working with the customer there. So there's clearly some potential for revenue growth from the second layer. There's a third layer, which is a [ph] materials plug in the CE award (00:22:39). In other words, effectively, the customer has the ability to bring in materials into the AMCOM program that will allow us to generate revenue growth, but I'd caution that that [ph] materials plug (00:22:53) tends to be lower margin work.

And then finally, there's sort of a little bit of work there on top, what we'd call excess ceiling. That's sort of the difference between the total award and the sum of the first three layers. And as we work through the AMCOM portfolio, clearly, we're going to go get the first layer, a good bit of the second layer over the next couple of years, let's say. And then the way the waterfall works on the AMCOM portfolio is you really have to work through and burn off the [ph] older (00:23:23) task orders before you get into the new awards. And that's sort of how the waterfall is set out.

So I think we're optimistic that over time we will see incremental revenue from the AMCOM portfolio. But that's sort of the reason why we're not seeing that immediate impact to revenue in FY 2022 and therefore is in the guidance. And just sort of to put a ribbon on it, I think we're expecting growth within the [ph] intelligence space

(00:23:50) portfolio. Our defense business is expected to be I'd say roughly flat and our supply chain business is roughly flat if you think about it on a year-over-year basis and that's sort of a fuller context, perhaps, for the guidance for FY 2022.

Cai von Rumohr
Analyst, Cowen and Company, LLC

Q

Just one follow-up. That still looks low if we look at the midpoint, we're talking about $150 million of revenue increase and $75 million of that is from COVID. And you should get about $100, I would estimate, probably more from having Unisys for the full year. So, essentially, it looks like zero growth if we take those items out. I mean, do you expect AMCOM to be down? What are other areas that are down? Because given the very strong bookings you've had, one would have thought that there was going to be some growth?

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

A

So I agree, Cai, I think there is a year-over-year impact from Unisys. So think of that as about four to six weeks on a year-over-year basis. That's the difference from the Unisys Federal portfolio. I think we're bounded by the fact that we're living through a COVID environment and we're seeing some impacts from COVID. So maybe another data point here is if you think about that supply chain business here that continues to be a headwind. We can sort of think about this in weekly revenue terms. And so that continues to be I'd say a little bit of a headwind to growth.

And finally, I would probably also note there were probably a couple of small contracts at the end of FY 2021 that in the aggregate were not material, but they were program losses and, again, not material individually, and in the aggregate, they probably cost us about, let's call it, 100 to 150 basis points of growth, again three or four very different opportunities in different customer sets. And that probably is the headwind that you probably are trying to figure out, so that's probably the last piece there.

Cai von Rumohr
Analyst, Cowen and Company, LLC

Q

Thank you very much.

Operator: We have our next question from the line of Jon Raviv from Citi. Your line is now open.

Jon Raviv
Analyst, Citigroup Global Markets, Inc.

Q

Hey, everyone. Good afternoon. So I guess let's continue on [ph] this talk in (00:26:16) FY 2022. Prabu, can you give a similar walk on the margin from 2021 to 2022? I get there are a lot of moving pieces. But if I pull out everything that you've disclosed on an underlying basis in 2021, I don't know, I guess like just over 9%, let's say, that includes COVID.

Then if I take your guidance for 2022 and I pull out just the COVID item, it gets to something below 9%. So if Unisys is ramping year-over-year, just help me understand also supply chain being down year-on-year, which is lower margin, why is overall margin down year-on-year on a fully clean underlying basis? Sorry for the extended question, but there's a lot of – trying to figure this out.

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

A

Yeah. So thanks for the question, Jon, and maybe I'll try to hit it at a high level and then we can dive in a couple of levels if we need to. So we ended FY 2021 at a margin rate, adjusted EBITDA rate of 8.9%. And over the course of FY 2021, specifically in Q2, we've called out certain non-recurring, one-time items that if you think about it, they were effectively about a 20-basis-point tailwind to margins in FY 2021.

And obviously as we go into FY 2022, we're assuming that those tailwinds won't recur and therefore, effectively, if you then step back and look at the guidance for FY 2022 8.6% to 8.8%. At the midpoint of that guide range I'd say we're reasonably in-line with performance from FY 2021. I'd probably add a couple of other data points. I'd say Unisys Federal brought with it a good healthy mix of firm fixed price work and we're continuing to see good performance on the Unisys Federal side of the portfolio.

I would also note that AMCOM, when we won the recompetes, as we previously talked about, went from being I'd say T&M contract into a cost plus contract. For me there's a little bit of a change in the structure of that contract that's also causing a little bit of downward pressure on margin base. But I'd really step back and say 8.7% sort of on an adjusted basis for 2021 compared to the midpoint of a guide range that's sitting at 8.7%.

And finally the last comment is as we've talked about; EBITDA dollars and margin rates are incentive comp metrics for the team. We start the year with a [ph] set of (00:28:40) risks and opportunities and we expect the team to be fully incentivized to derisk the portfolio over the course of the year and harvest the opportunities over the rest of the year. So I'd say our initial guide is very consistent with our performance in FY 2021. And we've got about 10 months left in the year to go and hopefully we'll be better than what we're seeing in here today.

Jon Raviv Q
Analyst, Citigroup Global Markets, Inc.

Yeah. No, I appreciate that. Thank you. And just a quick follow-up there on a clarification. So 8.7% in 2021 and 8.7% in 2022, but you had more COVID impact in 2021 and less COVID impact in 2022. So if we clean out COVID also, [indiscernible] (00:29:22) margin are down a bit. Maybe that's the AMCOM piece. I guess zooming out big picture. Should we still think about this as a sustainably 9-plus percent margin business if we kind of try to eliminate all the noise here?

Prabu Natarajan A
Executive Vice President & Chief Financial Officer, Science Applications International Corp.

So if you think about your long-term margin rate trends for this business and I've said this in other forums before, we tend to think about this on a long-term basis and we're truly striving for a balance between investments and profitability. And so we're working on margins over time. We've proven that we have the ability to deliver margins incrementally. We've actually, as Nazzic mentioned, increased our margin rates by nearly 300 basis points over the last few years. And margin improvement is actually integrated in the way we think about our long-term planning.

So, I'd say, on a long-term basis, with a portfolio that is predominantly cost plus two, we really have to be very, very good at executing on our fixed price programs and then thoughtfully reinvest the dollars from our cost-plus programs to ensure that we're continuing to differentiate ourselves on a long-term basis. So I'd say it's a fair characterization that over time we expect this portfolio to be around 9%. And again, the mechanics of whether we get to 9% in the year or just over 9% is going to be a function of how well we execute in a particular year. But I'd say qualitatively not much has changed in the portfolio.

[indiscernible] (00:30:49)

Nazzic S. Keene
Chief Executive Officer & Director, Science Applications International Corp.

A

This is Nazzic. One thing I'll add and I know we've had this conversation as well is, if you think about the areas that – one, was just the catalysts for the Unisys Federal acquisition. But as we think about our strategy and our focus and some of the priorities in the nation, on IT modernization, digital transformation, those can lead to more fixed price at certain type contracts. And that is part of our strategy. Our long-term strategy, we look for the opportunity to influence the portfolio again over time with that mix of work. And I think that can be a catalyst as well for improving margins over time.

Jon Raviv
Analyst, Citigroup Global Markets, Inc.

Q

Thanks, Nazzic. I'll hop back in the queue.

Operator: Next is Sheila Kahyaoglu from Jefferies. Your line is now open.

Sheila Kahyaoglu
Analyst, Jefferies LLC

Q

Hey. Good afternoon guys and welcome Prabu. I guess if we could talk about the revenue [ph] range (00:31:49) a little bit more. Can you maybe talk about how you think about the new contract wins that you guys have had whether it's [ph] CAS (00:31:55) or FSG-80? I know they've been around for a while now. How big are those wins? And then you mentioned some small program roadblocks, is that a headwind for revenue overall?

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

A

So maybe I'll start with the last piece first. I would say in terms of the losses, they're probably between $100 million to $125 million, $130 million. They were all predominantly towards the latter part of Q4 FY 2021. So the compares around program losses will be unfortunately here with us for a few more quarters, so just to be able to think about that, so think of that as between a 1 and 1.5 of revenue on a year-over-year basis.

And in terms of the ramp, I'd say the most material portions of the ramp will be in our RITS program. And that ramp we're expecting to see in the second half of the year. And I'd say there's a variety of other programs, I'd say no one individual program is ramping up beyond $20 million, $30 million a year on a year-over-year basis. But again, I'd say if you step back a year later, we would expect to see a little bigger ramp on our AMCOM portfolio. So that's sort of a way to bridge between 2021 into 2022 and then 2022 into 2023.

Sheila Kahyaoglu
Analyst, Jefferies LLC

Q

Okay. And then just a follow-up on the COVID impact, are you assuming it's an issue for the entire year or is it only in the first half?

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

A

Right. So we expect COVID to be with us for most of the year. We expect most of the impact to be in the first half of the year, at least on a year-over-year basis. And one way to think about this, and I alluded to this in the previous response, Sheila, is we tend to see revenues from the supply chain business on a weekly average.

That's a good way to think about this business, between $10 million and $15 million of weekly revenue from our supply chain business. And if you did the math, it will get you to roughly $600 million for the year.

And if you then map out the revenue on the program against the V-curve with respect to COVID, what you'll find is that at the peak of COVID, which is sort of the bottom of the revenue curve, we're at about $10 million a week. At the top, we're nearly at about $15 million a week, if you think about it on a COVID-adjusted basis or pre-pandemic basis.

Where we are right now is somewhere between, I'd call it, $10.5 million and $11.5 million a quarter – a week, rather. And the plan is for that to ramp up in the second half of the year and hopefully start to dissipate [ph] nearly fully (00:34:30) towards the end of the year at Q4. So that's the math we've got, but you'll see it in the compare, at least for the first half of the year, and you'll start to see it dissipate in the second half.

Sheila Kahyaoglu
Analyst, Jefferies LLC
Q

Okay. Thank you.

Operator: We have our next question from Gavin Parsons from Goldman Sachs. Your line is now open.

Gavin Parsons
Analyst, Goldman Sachs & Co. LLC
Q

Hi. Good evening.

Prabu Natarajan
Executive Vice President & Chief Financial Officer, Science Applications International Corp.
A

Hi, Gavin.

Gavin Parsons
Analyst, Goldman Sachs & Co. LLC
Q

I wanted to ask about your revenue visibility, then, beyond fiscal 2022. I mean, I appreciate there are a lot of unknowns with COVID and with the budget. But 1.7 book-to-bill this year, 1.2 the year before, your backlog has pretty much doubled over the last three years. So I was wondering if you would take a stab at a multiyear growth outlook from here.

Nazzic S. Keene
Chief Executive Officer & Director, Science Applications International Corp.
A

Hi, Gavin. This is Nazzic. How are you?

Gavin Parsons
Analyst, Goldman Sachs & Co. LLC
Q

Good. Thanks.

Nazzic S. Keene
Chief Executive Officer & Director, Science Applications International Corp.
A

Yeah, I think – yes, a couple of things that I might want to just highlight. Again, from the conversation and my comments earlier, I did talk about the fact that the assumptions, I think, in general in the industry that the budgets are going to be relatively flat as we look forward. And I think that's how most of us were thinking about it even as far back as a year or two ago, so even pre-COVID. But with that, we do see that there's opportunities within the next couple of years and we're seeing some of that highlighted now in some of the conversations coming out of the administration. And, again, we'll get some more clarity over the course of the next few months.

And we're seeing some of that highlighted now in some of the conversations coming out of the administration. And again, we'll get some more clarity over the course of the next few months. And we're seeing some increased appetite, interest in IT modernization, certainly, the cyber emphasis on that, the working from home. We're seeing the drive to modernize being very important. We're seeing some focus on the space-related mission.

And so, the way that we think about the next few years is continued emphasis and focus on those parts of our portfolio that we believe even with a flattish budget over the next few years, these could be areas of higher growth opportunities. And so, it's our objective and the strategy that we've outlined is to drive to a growth outlook that is greater than the overarching market. And that's how we're thinking about the next few years, if that helps.

Gavin Parsons
Analyst, Goldman Sachs & Co. LLC

Q

Got it. That's helpful.

[indiscernible] (00:36:54)

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

A

And, Gavin, maybe one other comment here. So I think you are absolutely correct. We do have $21 billion in backlog at the end of the year. We had a 1.7 book-to-bill in FY 2021. We do have, with the AMCOM portfolio secured, good visibility, better visibility stepping into next year than we did stepping into this time last year. I'd say, therefore, there is certainly more visibility and then I'd offer maybe a couple of other data points. And in this business, as you know, there is always an element of recompete risk. In the prepared remarks we said, this particular year, the recompete risk is fairly nominal, at less than, I'd call it, approximately 10% of the revenue coming from recompetes. And the new business assumptions are modest this year. But when you step into FY 2023 from FY 2022, I think you're going to see a little bit of a higher level of recompete, not unusual in this business, and a little more in the way of new business that you have to go with.

What I have observed in the 90-odd days here is a remarkable win rate on recompete. So, we do our share of recompetes really, really well. But there's always a sliver that we don't ever get to. And we expect our new business to step in and actually fill the bucket here. So, the strategy is very clear. We've got the visibility from the base programs that we have in the portfolio and then we've got to keep winning our share of recompetes, which are again remarkably high for a company the size, and we also have to win our share of new business so we continue to see that progression for long-term revenue growth.

Gavin Parsons
Analyst, Goldman Sachs & Co. LLC

Q

That's helpful. I guess, what I don't understand is how from a bottoms-up standpoint with this many new wins [ph] as many upsized (00:38:42) recompete wins that there isn't more visibility to kind of a multi-year bridge. I mean, is there a possibility that based on the budgets you don't actually see the lion's share of that unfunded backlog growth, but it doesn't translate into revenue?

Nazzic S. Keene
Chief Executive Officer & Director, Science Applications International Corp.

A

This is Nazzic. I guess, it's impossible to say that risk doesn't exist because the way the government operates, the way they do keep their budgets, there's always some element of that risk. We don't believe that's a high risk as we sit here today. And as Prabu indicated where we did see some bookings and some wins that may have had some of that risk with the excess ceiling, we took that adjustment in Q4. So I wouldn't say that's a high risk, but it's always a risk in the nature of work that we do based on annual budgets in the government cycle.

Gavin Parsons
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Okay. Thank you.

Operator: Next is Seth Seifman from JPMorgan. Your line is now open.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Q

Thanks very much. Good afternoon, everyone.

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

A

Hi Seth.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Q

Hi. So, just maybe following up on that last point on the change to the backlog and valuation of the backlog that happened. Was that concentrated particularly in one or two programs? And so, can you share with one or was that on a very wide range of programs? Because absent that allowance, it looks like the book-to-bill would have actually been quite strong in the quarter and so I'm just wondering what the reassessment and what drove it at this time.

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

A

Yeah. So, thanks for the question, Seth. I think, first of all, the valuation adjustment that you referred to is consistent with the policy that we've had of recognizing into backlog what's going to realize into revenue over time. So, I'd say, the reason you're seeing that up a little more apparently this time around is the size of the awards. I'd say the vast majority of the adjustments were sort of in-year awards, so FY 2021 awards that we – if you think about it as derisking a little bit and based on the backlog policy we have.

And I'm going to get back to the AMCOM example. We don't have clear sort of line of sight into revenue on a six or seven or eight years of period of performance. I think it's our policy to require an adjustment to the backlog so the backlog does not go away, the award is still there. And to the extent we're able to bring new work into the contract, we effectively, if think of that as sort of reversing the adjustment that we booked in Q4. So, think of it that way. Nothing particularly unique to do that in a particular quarter. I think what stands out this time around is the fact that it was a large number based on the fact that we have these very material, large awards that we booked over the course of the year, and that's why you're seeing that up. So I'd say nothing unusual there, Seth.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Q

Okay. Got it. Great. Thank you. And then as a follow-up, it looks like Unisys, probably on a 12-month basis, it looks like Unisys delivered about $735 million in sales. And I just want to get level-set. I know there were some contract transitions going on there, at least one significant one. So, just to get level-set, is that a baseline from which to grow? And I assume that the Unisys piece is growing reasonably well year-on-year. Is that the right way to think about the contribution that that business is making in fiscal 2022?

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

A

Right. So I'd say the Unisys Federal business is performing in line with our acquisition model. And I think your math is about right actually. So, we did expect about $700 million of revenue on a full year basis, if you will, from Unisys Federal, and we pretty much got to that number. So I'd say, we knew where the ramps were going to be at the time that we were evaluating this particular opportunity, this particular acquisition. And so that's sort of built in the ramp. And so, I'd say, that business is performing in line.

I'd say one of the reasons we looked at the Unisys Federal business was the mix of fixed-price work that that particular business brings to the portfolio and if you think about it we closed that deal the first day the pandemic shut down the business. So I'd say there's actually early days still on Unisys Federal. The revenue plan is actually performing in line with our expectations and I might dare say that maybe a little bit of opportunity on the margin rate side given the mix of fixed-price work there [indiscernible] (00:43:44)

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Q

Okay. Cool. And then if I could [indiscernible] (00:43:49) for Nazzic. I know the supply chain work has been definitely in the crosshairs of the pandemic. But when we step back from the numbers in the model and we think about like in the real world, like, what has to start happening for that business to get sort of back on track? Is it lifting of certain restrictions? Is it scheduling and the occurrence of certain training exercises? Like, what really drives that business so that we can know that the pandemic impact is abating?

Nazzic S. Keene
Chief Executive Officer & Director, Science Applications International Corp.

A

Yeah. So I'd say a couple things to think about. As we probably did an excellent job of kind of outlining how we think about the business from a numbers perspective and revenue perspective, the things that have to happen are the rollout of vaccines and getting through the quarantine isolation phase that so much of the nation and the world are under. So, as those start to roll out then there'll be more opportunity to have exercises and the up-tempo of the military then will step up. And if that steps up, that will drive more needs and more demand for the supplies that run through the supply chain portfolio. So, it really is just a continued working through the impact that COVID has on the up-tempo of the broad nation. I guess, we can't give you lot of specifics, but that's how I would think about it. So, as Prabu indicated, as we have assumed greater impact from COVID through the first half of our year slightly decreasing over the course of the year and then hopefully as we get towards the end of the year, a more normalized operating model and up-tempo. That's how we would absolutely expect that part of the business to stay in line with that.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Q

Great. Thank you very much.

Operator: Next is Tobey Sommer from Truist Securities. Your line is now open.

Tobey Sommer
Analyst, Truist Securities, Inc.

Q

Thanks. Can you discuss the cash flow for this fiscal year and what the puts and takes are relative to COVID contribution or drag?

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

A

Yeah. So, thanks for the question. So I'd say on free cash flow, we've guided $430 million to $470 million. And at the midpoint of that guide, we're sitting at about, let's call it, $450 million. FY 2021, we ended the year at a record $525 million. And so, if you think about it, as we said, payroll deferral – both accounting for the benefit from the payroll deferral in FY 2021 as well as the giveback in FY 2022 gets you to $150 million adjusted to your $525 million. So think of that as $375 million.

And so, stepping forward, $375 million at the midpoint of the 2022 guidance gets to about $450 million. And it's a variety of different things, including some improved profitability, assumptions around improvement in working capital, we see some potential to get better there, obviously, some improvement in cash taxes as we go through. And that's sort of the bridge to get you back to the midpoint of that FY 2022 guidance. Hope that helps.

Tobey Sommer
Analyst, Truist Securities, Inc.

Q

Thanks. And so my follow-up, I was wondering if you could speak to your acquisition appetite. You did Unisys Federal. It seems like you had a relatively good experience with that. But I'm curious about your appetite as the budget kind of flattens out and you're still trying to accelerate your organic growth. Thanks.

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

A

Yeah. So, good question. I'd say – we've said this before. We want this to be balanced, our capital deployment to always be balanced in the way we think about it. We are very proud of the fact that we delever very quickly, as Nazzic said, down to let's call it a little over 3.5 times from the highs of the acquisition. And so, we've got some commitments around paying down some incremental debt this year. And then given the fact that we're in historically low interest rate times, I'd say, there's probably not a compelling reason to pay down a whole lot more debt on a voluntary basis after FY 2022, which then if you think about that in the context of the free cash flow that this company can sustainably generate, it gives you ample amount of liquidity to think about value-accretive capital deployment strategies.

And actually on M&A where we've said this also before, we're not looking to buy for the sake of scale. We like the scale we have. Having said that, we have an active process where we look at gaps in the portfolio. And if there are things that will fill the gap, that's the way we think about M&A. And so, we think of equity is a precious commodity and therefore we're going to be prudent in the use of equity to finance an acquisition in a low interest rate environment. But all I will leave you with is a fair amount of dry powder to deploy in a prudent way.

Operator, are you there?

Operator: Yes, sir. We have our next question from Joseph DeNardi from Stifel. Your line is now open.

Joseph William DeNardi Q
Analyst, Stifel, Nicolaus & Co., Inc.

Thanks. Good afternoon.

Prabu Natarajan A
Executive Vice President & Chief Financial Officer, Science Applications International Corp.

Hi, Joe.

Joseph William DeNardi Q
Analyst, Stifel, Nicolaus & Co., Inc.

Nazzic or Prabu, you talked about starting up the buyback again. Can you talk about why that's the right use of capital now given how big of a difference there is between market expectations and what you're actually seeing for growth, not you, just you obviously across the industry, but for you buying back stock because you see this softness was temporary? Can you talk about that a little bit? Thanks.

Prabu Natarajan A
Executive Vice President & Chief Financial Officer, Science Applications International Corp.

Yeah. Yeah. So, maybe just some flavor of the previous response, so we want to be balanced in the way we think about capital deployment and we do think that having a repurchase program allows you to be in the market on a consistent basis because I think that's a key [indiscernible] (00:50:24) for long-term value accretion. As we also closed out FY 2021, we were also ahead of our debt repayment schedule and so that gave us the ability to flexibly deploy a little more capital. And finally, as I mentioned, we are in a low interest rate environment, so we're carefully balancing the need to pay down some debt and opportunistically returning capital.

And so, when you put all of that together and the fact that we have inherently good confidence in the capacity of this business to generate cash, I think it does leave you with a fair number of tools in your arsenal to be able to deploy. And so, we do think about valuations in the context of a relative valuation. We think about it in the context of multiples. And I would say if there is an opportunity to acquire your shares at multiples – below trading multiples or where others may be trading at, I think it inherently offers you an ability to deploy capital when you see those dislocations in the market. So think of it that way.

Joseph William DeNardi Q
Analyst, Stifel, Nicolaus & Co., Inc.

Okay. That's helpful. And then just on the backlog, and probably I think you mentioned that it's somewhat routine, but can you remind us – I know you're new, but maybe, Nazzic, can you remind us the last time the backlog was adjusted down by 10% and did the adjustment have anything to do with your arrival, Prabu?

Prabu Natarajan A
Executive Vice President & Chief Financial Officer, Science Applications International Corp.

No, I would say – I'll answer the latter part first, no. I'd say this is entirely consistent with our backlog policy. I'd say it's the size of the awards that we received in FY 2021 that drove the adjustment. And I would say nowhere near 10% in prior years, but we've had a few hundred million dollars of backlog adjustments. It's fairly routine in the business. And so that's probably [indiscernible] (00:52:11).

Nazzic S. Keene A
Chief Executive Officer & Director, Science Applications International Corp.

Yeah. [indiscernible] (00:52:13)

Joseph William DeNardi
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. And then...

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

A

We appreciate it. We love the fact that Prabu is here, thrilled to have him as part of the team, but that was not a change in our policy in any form or fashion. It really just had to do with the size of the bookings and the awards that we received this year, having been our biggest award year since we spun out in 2013.

Joseph William DeNardi
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. And just [indiscernible] (00:52:36) next year that defense and supply chain are flat and then [ph] internal space are expected to grow. Is that your (00:52:41) framework for how the business looks in general in a flat budget? And if so, can you kind of size the space and Intel piece that you expect to grow for us?

Nazzic S. Keene
Chief Executive Officer & Director, Science Applications International Corp.

A

I think what I'll try to do is give you some color on how we think about where the opportunities could exist. Now, obviously, the budgets still have to go through their process and we're all trying to read the tea leaves as best as we can. But some areas and I'll use the area of IT modernization, digital transformation spans all of our portfolio. And so, whether it's in civil space, the defense space or in the Intel space, those are offerings that we can support our broad portfolio. I think it depends greatly as we all navigate this on where the budget ends up, where the pressures end up. But the areas that we've elected to invest in and the areas that we believe will be catalysts to our ability to grow above market in the years to come really are those areas that I've touched on, in IT modernization, the digital engineering, again, across the entire portfolio of the space domains. And so, we're investing in those areas for long-term growth, recognizing that even if there are some budget headwinds, and again, we don't know that to be the case, it's just some assumptions that many of us in the industry are making, that we believe those are areas that we'll get disproportionately invested in to drive long-term value.

Joseph William DeNardi
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you. Thank you.

Operator: Next is David Strauss from Barclays. Your line is now open.

David Strauss
Analyst, Barclays Capital, Inc.

Q

Thanks. Good afternoon.

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

A

David.

David Strauss
Analyst, Barclays Capital, Inc.

Q

[ph] Prabu, will be (00:54:32) working capital, I think you're talking about relatively flat working capital this year. But I know it's early for you. But how do you view working capital overall, net working capital levels overall for the corporation? Is there an opportunity there to unlock some cash as we go forward?

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

A

Yeah. Thanks for the question, David. I would say the short answer is yes. I think we track our working capital metrics very, very diligently. This company has done a really nice job on cash generation. Having said that, I think one of the things we're having conversations around is specifically the contract structures we have, the timing of payments, liquidation events and things that drive positive cash flow over the life of the contract.

And I would leave you with this that it's very hard to outmaneuver a bad contract. So getting into a contract such as that allows you to get paid fairly and paid well is an important consideration as we think about working capital management over time. And therefore, I think it's fair to say the team is going to be laser-focused on ensuring we continue to do better. It has an important incentive comp metric. And we always start the year in a certain place, and the teams do what they have to do over the course of the next 10 to 12 months. So I would say fundamentally an opportunity to get better on cash and cash conversion, converting EBITDA into cash, and it's an important thing for us and you'll see us [indiscernible] (00:56:00).

David Strauss
Analyst, Barclays Capital, Inc.

Q

Okay. Okay, couple of clarification questions. So is the share count for 2022 assumed relatively flat, you're going to use share repo to kind of keep that neutral? And then the step – it looks like you're calling for a decent step down in D&A. What is that associated with?

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

A

So I would say – on the share count, I'd say that's a good assumption. I'd say we're assuming roughly flat on the share count year-over-year. And we'll have to play this out over the course of the year.

On D&A, I think primarily I'd say [ph] call it the burn-up (00:56:44) of the intangibles amortization out of Unisys Federal, that's what's causing the intangible amortization number to go down to about $110 million, I believe, from about $140 million, and depreciation is going up just a little bit. We had a little more capital that's getting depreciated, so that's [indiscernible] (00:56:59) on depreciation and intangible amortization.

David Strauss
Analyst, Barclays Capital, Inc.

Q

Got it. Thanks [indiscernible] (00:57:05).

Operator: Next is Louie DiPalma from William Blair. Your line is now open.

Louie DiPalma
Analyst, William Blair & Co. LLC

Q

Nazzic, Prabu, and Shane, good evening.

Prabu Natarajan A
Executive Vice President & Chief Financial Officer, Science Applications International Corp.

Hi, Louie.

Nazzic S. Keene A
Chief Executive Officer & Director, Science Applications International Corp.

Hi.

Louie DiPalma Q
Analyst, William Blair & Co. LLC

Were most of the backlog adjustment related to the recent notable awards in the third quarter and the $2.9 billion AMCOM Express software, lifecycle award?

Prabu Natarajan A
Executive Vice President & Chief Financial Officer, Science Applications International Corp.

So I'd just say that they are primarily related to the big awards in FY 2021. So I'd say that's a good working assumption, Louie.

Louie DiPalma Q
Analyst, William Blair & Co. LLC

Okay. And did the customer for these large awards, did they communicate anything to SAIC subsequent to I guess the end of the third quarter that gives you less confidence that you'll be able to achieve ceiling of this award? Or was this just SAIC's own due diligence into a potential revenue trajectory and you're taking a more conservative assumption than you previously took?

Prabu Natarajan A
Executive Vice President & Chief Financial Officer, Science Applications International Corp.

So it's always our call on backlog adjustments. There has been no communication from the customer. And we understand how the ceiling works. And thus we tried to lay out over the course of the call here, there are multiple tiers to make. And because it's our backlog policy to only book into backlog what's realizable in revenue and you've got to have line of sight to be able to see that over. And we're not talking two years, three years performance, the average AMCOM period of performance is between five and eight years.

And so when you put all of that together, it leaves you with a little bit of a reserve if you will on your backlog, again, with the ability for the teams to go execute with their customer counterparts to ensure that we continue to deliver upside to what might be potentially reflected here. So I would not view this as conservative. I would not view this as a change. It is just how we do it and obviously magnified or amplified by the size of the awards here. Appreciate the question though.

Louie DiPalma Q
Analyst, William Blair & Co. LLC

Great. Thank you very much.

Prabu Natarajan A
Executive Vice President & Chief Financial Officer, Science Applications International Corp.

Thank you.

Operator: Next is Jon Raviv from Citi. Your line is now open.

Jon Raviv
Analyst, Citigroup Global Markets, Inc.

Q

Yeah. Thanks for the follow-up. Just going to cash for a moment, thinking about big picture cumulative between 2021 and 2022, the low-end of the guide is for $960 million. We have been talking about $1 billion. I know it's behind the guide. So, any color on difference between low-end and high-end when I think about 2021 and 2022 together? And then also if I go back long enough post-Engility, the target for FY 2022 I believe was $500 million units. This was supposed to be 10% accretive to $550 million if the guidance is what it is. I mean, is there – are we going to get through $550 million at some point here? I appreciate there's $40 million of payroll [indiscernible] (01:00:16), but just any thoughts on getting to the underlying $550 million number with an update of those old multi-year cash targets you guys used to have?

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

A

Sure. Thanks for the question, Jon. So, as you know, we had a good FY 2021 on cash. We ended the year at $525 million and our first guide at the start of last year was $450 million. So we did about $75 million better than our first guide last year. If you then took the midpoint of the current year guide, FY 2022 guide, together we get to pretty darn close to $1 billion. So I'd say on a year-over-year basis, we're I'd say roughly in line with the $1 billion that we previously communicated.

Now, I think the big drive from $500 million to whether it's $525 million or $550 million is going to come from I think two places. One, [ph] delivering top line (01:01:05) that converts into EBITDA and converting that EBITDA into cash. And obviously, the team is committed to doing that effectively. We will start to see the headwinds from the payroll deferral dissipate as we get into FY 2023 and beyond. So [indiscernible] (01:01:21) I think you'll see a little bit of that.

And we do expect to see some element of improvement in working capital. So I would say that's the target that's squarely in front of us, and all I will leave you with is the teams are incentivized to get to better cash numbers than we've outlined in the guide. But we need to work that over the course of the year. And suffice it to say, again, it's a good way directionally to think about where the free cash flow potential is for the company. But we've got some work to do, and the team is committed to doing that effectively.

Jon Raviv
Analyst, Citigroup Global Markets, Inc.

Q

Got it. And then just on CapEx, you guided $45 million to $55 million, it was a pretty hefty number. What's going on there? Is that a new run rate or something specific that you have to spend on here?

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

A

Yeah. Good question. I would say with the increase in the national security and the space market, specifically the requirements we have within some of our [indiscernible] (01:02:19) customers, you're seeing, I'd say capital [indiscernible] (01:02:22), I'd say, part of what is also reflected there is some of the ongoing cost around facility optimization. So there's a little bit of capital that goes into that.

The third component would be the infrastructure and the IT networks that we're investing in to allow people to work in a hybrid work model. That also has some near-term impacts to capital. So, if you think about it, I wouldn't think of $50 million to $60 million as a run rate of capital for this business. I expect us to trend down over the next couple of years.

And finally, the last comment would be to the extent we see program or contract requirements for [indiscernible] (01:03:00) some restricted facility requirements, you will see some pressure – I'd say upward pressure on capital, but obviously that's a conversation we're deeply engaged in with the customer, and we recognize one of the values of this particular business is its capital-light model, and to ensure that we maintain the balance in that is an appropriate way for us to work our way through it.

So I'd say temporarily elevated. We expect it to come back to something that's more normalized over the next couple of years, Jon.

Jon Raviv Q

Analyst, Citigroup Global Markets, Inc.

All Right. Thank you. And then just last clarification for me is just on the backlog revaluation. Does that have any bearing on the 1.7 times book-to-bill or should I say does have any bearing on the bookings numbers you've been reporting all year?

Prabu Natarajan A

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

Yeah. So think of the book-to-bill [indiscernible] (01:03:47) 2.0x and so the 1.7x that we reported at the end of the year. So it does have about a 0.3x impact to that book-to-bill number, so.

Jon Raviv Q

Analyst, Citigroup Global Markets, Inc.

Okay. Thanks.

Operator: No further questions at this time. I turn the call back over to Mr. Shane Canestra for closing remarks.

Shane P. Canestra

Vice President-Investor Relations, Science Applications International Corp.

As we conclude, I would like to announce that our Annual Shareholder Meeting will take place on June the 2nd. Similar to last year we will be conducting a virtual shareholder meeting whereby all shareholders will participate online. Instructions on how to participate virtually will be included with the proxy voting ballot as well as our own investor website.

Thank you very much for your participation in SAIC's fourth quarter and full fiscal year 2021 earnings call. This concludes the call and we thank you for your continued interest in SAIC.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.