Company Name: Science Applications
Company Ticker: SAIC US
Date: 2023-09-07
Event Description: Q2 2024 Earnings Call

Market Cap: 5933.849938382996
Current PX: 110.53500366210938
YTD Change($): 0.475
YTD Change(%): 0.432

Bloomberg Estimates - EPS
Current Quarter: 1.7570000000000001
Current Year: 7.1850000000000005
Bloomberg Estimates - Sales
Current Quarter: 1768.778
Current Year: 7199.8

Q2 2024 Earnings Call

Company Participants

- Joe DeNardi, Vice President of Investor Relations and Strategic Ventures
- Nazzic Keene, Chief Executive Officer
- Prabu Natarajan, Chief Financial Officier

Other Participants

- Seth Seifman, Analyst
- Jason Gursky, Analyst
- David Strauss, Analyst
- Matt Akers, Analyst
- Bert Subin, Analyst
- Caivon Rumohr, Analyst
- Tobey Sommer, Analyst
- Louie DiPalma, 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 Fiscal Year 2024 Second Quarter Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions)

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

Joe DeNardi, Vice President of Investor Relations and Strategic Ventures

Good morning and thank you for joining SAIC's second 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 second quarter of fiscal year 2024 that ended August 4th, 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. In addition, the statements represent our views as of today and subsequent events may cause our views to change. We may elect to update the forward-looking statements at some point in the future, but we specifically disclaim any obligation to do so. In addition, we will discuss non-GAAP financial measures and other metrics, which we believe provide useful information for investors. And both our press release and supplemental financial presentation slides, include reconciliations to the most comparable GAAP measures. The non-GAAP measures should be considered in addition to and not a substitute for financial measures in accordance with GAAP.

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

Nazzic Keene, Chief Executive Officer

Thank you, Joe, and good morning to those joining our call. Earlier today, we reported another quarter of strong financial results with revenue growth of over 8% and adjusted EBITDA margins of 9.8%, an increase of 70 basis points year-over-year, both of which speak to our ability to deliver solid organic growth and improving margins going forward.

Before I discuss our financial results, I would like to once again recognize members of the SAIC team, who continue to have an outsized impact on their communities. September is Hunger Action Month at SAIC, where we look to do our part to help end hunger through our partnership with Feeding America. This campaign is one of our largest at SAIC, having raised over $350,000 in 2022 and $2.2 million over the past decade. This translates to providing 22 million meals to those in need.

Our goal is to set a new company record in 2023 with employee and SAIC matching contributions resulting in another 3.6 million meals being provided to people facing hunger in the United States. I want to personally thank, Maria Bishop, Jeff Raver, and Jennifer Love Bruce for their leadership in this important mission.

Now onto a review of our financial results and our outlook. SAIC delivered strong financial results in our second quarter, reflecting solid program execution, continued progress driving on contracts growth and the ramp-up of new business. Looking back over these past few years, I'm incredibly proud of the progress we've shown on better leveraging our talented people, building on our excellent brand, and innovating on our industry leading solutions to drive profitable organic growth.

Our updated fiscal year '24 guidance calls for SAIC's best year of organic revenue growth and highest EBITDA margin since the separation, demonstrating our ability to convert a strong pipeline of opportunities into value for shareholders and opportunities for our employees. Our strong start in fiscal year '24, positions us well to deliver on a multiyear targets we outlined at our Investor Day. Importantly, we will accomplish this while increasing margins and return on invested capital, staying true to our asset light business model, and returning substantial cash to shareholders.

Going forward, we believe that over the long term, we can sustain and improve upon the gains and relative performance we have shown, while adhering to our business model and financial strategy that is working. Portfolio actions we have taken in recent years, including the acquisition of Unisys Federal, Koverse, and Halfaker, and the divestiture of our logistics and supply chain management business will contribute to our ability to deliver sustained profitable growth in line with or better than the market.

Following Prabu's discussion on our financial results and increased guidance, I will briefly discuss my upcoming transition. Over to you, Prabu.

Prabu Natarajan, Chief Financial Officer

Thank you, Nazzic, and good morning, everyone. I am proud of the financial results we delivered in the second quarter as we continue to execute with focus and intent. I'll discuss our results in greater detail and then discuss our improved outlook for the year. We reported strong fiscal second quarter results, with revenue of $1.8 billion, an increase of 8.3%, when excluding revenue related to our logistics and supply chain management business and FSA joint venture from the prior year.

Revenue growth in the quarter was driven primarily by the ramp of new and existing programs, improved labor productivity, and favorable timing of materials sales. We had minimal contribution from our $900 million DCSA One IT program in the quarter, whose ramp is expected to begin predominantly in the second half of the year.

Adjusted EBITDA margin in the quarter was 9.8%, an increase of 70 basis points year-over-year, driven by strong program performance cost-efficiency initiatives, and the timing of certain planned strategic investments shifting to later in the year. Adjusted diluted earnings per share of $2.05 represents an increase of 17% year-over-year, driven primarily by the strong operating performance in the quarter, and a roughly 4% decline in our diluted weighted average share count.

Free cash flow, adjusted for transaction fees and other costs related to the sale of our supply chain business was $143 million in the quarter and $219 million year-to-date, as we continue to see good traction on our working capital improvement efforts.

Net bookings of $700 million resulted in a book-to-bill of 0.4 times in the quarter and 0.8 times on a trailing 12-month basis. Due primarily to the timing of expected awards, our bookings and book-to-bill are below where we had planned to be at the beginning of the year. As a reminder, our net bookings in the second quarter do not include any value from our $1.3 billion TCloud program, which cleared protest in the second quarter.

Consistent with our practice, we expect to book awards as we receive task orders under this important program. In fact, over the past three years, we've been awarded approximately $8 billion in single-award IDIQ work, of which 40% is new business. This is not reflected in our backlog beyond the task orders funded in any given year.

Given that approximately 50% of our annual revenue comes from these IDIQ contracts, are practice tends to understate bookings and backlog versus one, which recognizes the full or partial value of an IDIQ at the time of award. None of this is to take away from the fact that we need to continue to sequentially build our backlog.

As we show on Slide 10 of our earnings presentation, we continue to see a strong and growing pipeline of opportunities and expect the value of both award activity and award submissions to improve materially in the second half of the year. In fact, since the beginning of the third quarter, we won approximately $1.1 billion of work, roughly 60% of which is for new business across multiple domains.

Included within these awards are a hypersonic's advanced concepts program, the multi-vehicle fielding program in support of the Navy, and the ground based radar maintenance and sustainment service contract known as GMASS in support of the space force. These wounds need to clear the customary protest window, but I want to highlight the important role that the solutions developed within our engineering innovation factory played in these captures. Favorable customer feedback related to these programs reinforces our view that the returns we generate from our internal investments drive long-term shareholder value.

I'll now discuss our updated outlook for fiscal year 2024. Please note that we have provided additional directional guidance for our fiscal third and fourth quarters to assist with your modeling. We are increasing our revenue guidance at the midpoint by $15 million to a range of $7.2 billion to $7.25 billion, which represents pro-forma organic growth of approximately 4.5% and our highest growth rate since the separation in 2013.

We are reaffirming our revenue plans for FY25 and FY26 and are encouraged by our strong start thus far against meeting our 3-year targets. While we continue to have strong visibility into our FY25 revenue plan, the impacts from previously discussed contract transitions and assumed delays and award timing are likely to make the cadence of revenue growth weighted to the second half of fiscal year 2025.

Currently, we expect the first-half FY25 revenues to be roughly flat year-over-year, pro forma for our logistics and supply chain management divestiture, before inflecting to more meaningful growth in the second half of FY25. We have visibility into this growth given recent wins and opportunities in our pipeline. Of course, we will provide a more detailed update on our FY25 outlook during our third quarter earnings call.

As a result of strong performance year-to-date, we are increasing our adjusted EBITDA margin guidance to a range of 9.3% to 9.4%. We've provided additional detail regarding the drivers of first-half to second-half margins on Slide 11 of the presentation. While our plan for FY24 calls for low 9% margins in the second half, our performance to start the year both in terms of program execution and the impact of other margin improvement initiatives, drives increased confidence in our ability to reach our FY26 margin target of 9.5% to 9.7%.

As we've communicated, our objective is to consistently and profitably grow the company and balance near-term margin improvement against our objective to invest and drive long-term value. We are increasing FY24 adjusted EPS guidance to a range of $7.20 to $7.40, driven mainly by improved operating results and a lower planned effective tax rate.

We are maintaining our free cash flow guidance at a range of $460 million to $480 million and our performance year-to-date has put us in a good position to grow our transaction-adjusted free cash flow by approximately 10% for the third consecutive year. Finally, we continue to expect share repurchases of $350 million to $400 million this year with similar levels in FY25 and FY26.

Before turning the call over to Nazzic, I want to thank her for her leadership in recent years. Nazzic's ability to create an inclusive culture and opportunities for all our stakeholders, employees, customers, and shareholders is unmatched across the industry.

With that, I will turn the call over to Nazzic.

Nazzic Keene, Chief Executive Officer

Thank you for the kind words, Prabu. As we discussed on last quarter's earnings call, I will be stepping down as CEO and transitioning to a Special Advisor role on October 2nd. At which time, Toni Townes-Whitley, will assume the role of CEO. As I reflect on these past few years, I took a moment to look back at the commitments I made to you on my first earnings call as CEO. I outlined three key priorities then and I am proud of our team's ability to deliver on our commitments.

I discuss the immediate focus on the effective integration of Engility. SAIC effectively integrated its acquisition of Engility, quickly followed by Unisys, Koverse, and Halfaker. All these transactions contributed to a stronger portfolio for SAIC and supported or accelerated our strategy. I discussed, our immediate focus on driving profitable organic revenue growth. Our team has done exactly that in a consistent and disciplined way, providing returns to our shareholders, delivering greater value to our customers and career opportunities for our people.

And last but certainly not least, our talent strategy was paramount to accomplishing any aspect of our strategy. I feel confident that as I step down, SAIC is in a strong position with an exceptional leadership team. Across the entire enterprise, we have raised the bar and continue to win the war for talent.

I am proud of what SAIC has delivered over these last several years, but I also recognize our work is never done. I am very confident in Toni's ability to lead SAIC, she is committed to advancing on these priorities in the future through innovation and differentiation, ensuring SAIC remains a leader in our industry. We have worked closely together in recent months and we'll continue to in order to ensure a smooth transition for all our stakeholders.

I want to close by recognizing and thanking my friends and colleagues at SAIC for their contributions to our company, their communities to each other and to our nation. It has been an honor to lead a company so focused on our purpose to leverage technology to serve and protect our world. SAIC is clearly driven by mission, united by purpose, and inspired by opportunities.

We can now open the call for Q&A.

Questions And Answers

Operator

(Operator Instructions) Our first question will come from the line of Seth Seifman with JPMorgan. Please go ahead.

Seth Seifman, Analyst

Hey, thanks very much, and good morning, everyone. And Nazzic, congratulations, great job and all your work at SAIC and also it seems preparing the company for future success as well. I wanted to just ask --

Nazzic Keene, Chief Executive Officier

Appreciate that.

Seth Seifman, Analyst

I wanted to ask about the -- so the growth outlook. If we look at what you're forecasting for fiscal '25 and '26, it looks a lot like fiscal '22 and '23. And I would assume that given the changes that the company, the strong budgets we've seen, that there might be opportunity for more there. So can you tell us kind of what keeps you at that level for right now, and how you think about what we should look for and what it might take for that growth to be a little bit faster?

Prabu Natarajan, Chief Financial Officer

Hi, Seth, Prabu here, good morning, and I appreciate the question. Couple of comments here, obviously, good strong trajectory on growth to start the year. And as we've indicated in a couple of different places in the script, we are expecting that trend to look more flat as we exit the year and given the book-to-bill performance year-to-date. We are expecting some of that along with maybe difficult operating conditions on the budget to continue into the end of this fiscal year and then on to next year. But recognize that, the team has done a fantastic job delivering real growth this year and obviously, we are going to grow off of a higher base than we had projected about a quarter or so ago.

And so to me that's what gives us ultimately confidence that we can keep the trajectory of growth at 2% to 4%, recognizing we're always going to push the team harder internally than we're committed to right now. But the signs are good, but we have to go execute with the intent that we've demonstrated in the first-six months of the year.

Nazzic Keene, Chief Executive Officier

Yes, Seth. One thing I'll add is, we're -- it's early days still, so we're giving you our best view as we sit here today taking into consideration some of the budget challenges that probably we indicated and certainly take into consideration where we sit today and the performance we've had. I will tell you this team is laser focused on driving profitable organic growth and we'll always look for the opportunity to outperform, that's the way they're engineered, it's the way they're wired, but we just believe it's in our best interest, in your best interest to share what we think today, recognizing that as we get closer and as you hear from Toni and probably in the next earnings call, we'll have one more quarter of visibility and we'll continue to provide those updates.

Seth Seifman, Analyst

Great. Thank you. And maybe just a follow-up on this topic real quick. The delays you've talked about in terms of awards,, and the impact on-book to bill, and the difficult operating conditions you've described. When we were just speaking about expected growth, can you talk a little bit more about that environment there. Are these delays mostly things that are behind you or are you anticipating that, you'll see more delays ahead in terms of the timing of awards?

Prabu Natarajan, Chief Financial Officier

Sure. Hey, Seth. Prabu here, I'll take that one. I think in terms of the budget environment, we expect Q3 fiscal as well as Q4 to be tight on the hill, we've all followed the dynamics on the hill here and we expect that sort of environment to persist into the second half of our year. So hopefully, we get to resolution on some of those topics get appropriations done, and have a budget to operate with. But we are pursuing right now, cautiously proceeding into the second half of the year, recognizing things will remain tight on the legislative side.

On the backlog and the new business front, as we pointed out in the script. Since the end of the second quarter, we won approximately $1 billion -- $1.1 billion of work of which roughly 60% is actually new work for us, we will have to wait for all of that to get through the customary protest cycle here over the next quarter plus. And therefore we're just proceeding cautiously recognizing, we've got DCSA that is starting to ramp in the second half of this year, we'll have very early signs of growth from TCloud. Obviously, AOC partner is continuing to grow along with hopefully GMASS on a couple of other things that are won, but haven't cleared the protest.

So by and large, I would view those as things that are hopefully in the bag, but we won't know that for another quarter plus, and therefore, we're just proceeding cautiously, given how difficult the environment is going to be in the second half of the year, presuming that there is going to be some delay in the cadence around recognizing awards and obviously, converting awards into revenue.

Really big-picture, we are encouraged by worthy (inaudible) and it has been strong and therefore, I think the team is up for the challenge, relative to what's implied for top line growth in the second half of the year, as well as the first half of the year, but it's easy to get ahead with a PowerPoint chart much harder to actually execute in practice and that's what the team is committed to doing.

Seth Seifman, Analyst

Great, thank you very much.

Operator

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

Jason Gursky, Analyst

Yeah, Prabu, I may have missed it, I'm sorry, let me start. Nazzic congratulations and I wish you the best in retirement.

Nazzic Keene, Chief Executive Officier

Thank you, Jason.

Jason Gursky, Analyst

Yeah, that forms, sorry about that.

Nazzic Keene, Chief Executive Officier

No worries, I can hear you.

Jason Gursky, Analyst

So I may have missed it. You gave a little bit of color on revenue expectations in the first half of next year. We'll be exiting the year at a lower adjusted EBITDA margin than what we generated here in the first half. So maybe you can talk a little bit about the margin trajectory in '25 as well?

Prabu Natarajan, Chief Financial Officer

Sure. I appreciate the question, Jason. And, I think, look first-half performance was stellar and obviously sitting at 95 in the first-six months of the year gives us a really good insight into where the year is expected to be. Having said that and we've indicated that in some of the supplemental material, we are expecting some additional investments in the second half of the year, things that have shifted from H1 into H2 that is likely going to be a modest level of headwind to the operating performance of the business. And of course, there's always factors around performance that was just stellar in the first half of the year relative to what we're assuming right now for second half performance.

And this is what I'll leave you with. As you look at our incentive comp, improving margins, generating more earnings growth, is a key part of the incentive comp metric for the team. And we are going to push as hard as we need to push, recognizing that where we are right now, allows us to meaningfully think about the balance between investing in the business for additional future growth relative to delivering outsized margins that may be a little more temporal in the near-term. So we're trying to get that balance right, but recognized, where we're sitting right now is sort of near the top-end of our current updated guidance of about 94, but we obviously have our work cut out for us over the next couple of quarters, and we are committed to doing the best we can, but recognized that we are thinking about this on a multiyear journey -- as a multiyear journey.

And to the latter part of your question around margin rates for FY '25 and '26, recognized that we're off to a really strong start and it obviously puts us in a good position relative to those targets. But I wouldn't want to get ahead of the transition we have ahead of us. And our first earnings call with Toni next quarter, as well as our guidance call in March of next year and we'll get you guys appropriately calibrated on where we see margins for next year. Recognize, we've actually done a really good job and I'm just incredibly proud of the performance we've delivered and we've got work to do here for the next half year.

Jason Gursky, Analyst

Okay, great and then maybe just one quick follow-up on -- because this kind of wrapped up into bidding and book-to-bills. But just the availability of labor and the cost of that labor, what that's doing to your rates, and just kind of just what you're seeing in the general competitive environment, how you and others are reacting to what's been a few years of escalating costs and the success that you're all having it passing on those rates to the customer.

Nazzic Keene, Chief Executive Officer

Yes, Jason, let me talk a little bit about the macro-environment on labor and then Prabu you can provide some color. I think as we sit here today, it's a very different place and as we sat here a year ago. And so we're seeing some great, great progress in the labor market and our ability to hire. I think we've got a very compelling value proposition as we hire employees. Our retention rates are higher than they've been in some time. So we've seen a reduction in our turnover rates and we've certainly seen our ability to hire and increase over the course of last year.

So I feel very good about our position in our posture, we've implemented some new tools and practices and several things internally to help us advance that. On the cost side, certainly, we're seeing some minor escalation, but I would say, Prabu, you can provide some color. We're not seeing it as a significant headwind, as we continue to navigate our contract base. And certainly, we have to and will always pay at market and ensure that we can attract and retain the best talent in the industry. But I sit here in a much better and more confident place than I was probably a year ago, just looking at our results on the labor -- the broad category of labor attraction, hiring, and retention. Prabu, do you want to add some color?

Prabu Natarajan, Chief Financial Officer

That was perfect, Nazzic. Thank you. Jason, what we're assuming for merit increases is sort of in that 2% to 4% range think towards the higher end of that range for certain categories of employees that we believe have skill levels that are going to require us to pay a little more. So to me that's how we're calibrating it. As a reminder, approximately 60% of our business is cost plus. So while inflation has been a factor over the last couple of years, we've also had the mix of contracts working in our favor that has allowed us to pass on somewhat higher costs, that's not infinite math at some point, labor costs will catch-up, but we've actually managed that problem, if you will, pretty effectively over the last couple of years. We've estimated the pressure from labor related inflation as cost in the company maybe 10, 20, 30 basis points of margin over the last couple of years.

And therefore, as we look ahead with the improving labor environment, we would expect some of that to (inaudible) to the benefit of margin rates and that's where the balanced conversation comes in around investing for growth versus investing to drive additional margin rate improvement in the business, and we're laser focused on the dynamics. But recognized really big-picture, things are looking better now on the inflation front and labor front and we've got room in our rates.

And candidly, one of the things we've really focused on over the last couple of years and we're starting to see the benefit of this in the margin rates we're delivering, is we've undertaken a significant number of cost related initiatives that has really allowed us to manage our RAP rates, if you will, for overall competitiveness that includes facility costs and all of the other sort of, if you will, fixed indirect costs that we have in running the business. And therefore to the extent, we continue our efforts to manage those costs effectively and assertively, I would expect that the naturally sort of turning and Byron [ph] around labor pressure and inflation pressure is going to be a little bit of a tailwind to margins, but again recognize, we're trying to balance the equation here and stay calibrated.

Jason Gursky, Analyst

That's great, thank you very much both of you.

Nazzic Keene, Chief Executive Officer

Thanks, Jason.

Operator

Your next question will come from the line of David Strauss with Barclays. Please go ahead.

David Strauss, Analyst

Good morning, thanks and Nazzic congratulations and best wishes.

Nazzic Keene, Chief Executive Officer

Thank you very much.

David Strauss, Analyst

Could you just run through the current kind of landscape on the recompete side? How you've done year-to-date, what the rest of the year looks like and an update as well, kind of the balance of work to be recompeted over this forecast period. Thanks.

Nazzic Keene, Chief Executive Officer

Yeah, let me touch on a couple of things. So we -- as we discussed probably a year ago, we've seen some challenges in the recompete space. I think the team has done an exceptional job of focusing on that and improving the overall metric in our underpinning of the business. So I would say, I'm very confident with where we are in our recompete win rate.

Clearly, we lose some -- we're always going to lose some business and it's just the nature of the way that the government acquires and the way that competitors step into new opportunities. But I feel we're in a much better space than we were a year, year and a half ago, as we look at recompetes. We don't really go through the big significant moving pieces, as much for competitive reasons as anything else, but certainly the significant deal that everybody is aware of, as it sits on our portfolio is the Vanguard, the Department of State Vanguard deal that is being transitioned to evolve and so that is something that everybody is aware of is a significant part of our portfolio.

And we're going through that process, it will probably become clearer sometime into next year, as to how all that plays out. As a reminder, they are taking different pockets of work inside of NASA and putting it into multiple award streams. And so we're looking at -- that certainly what makes the most sense for us. But -- and we expect to win our fair share of that work. In the meantime, I just want to take a shout-out to the team that's delivering, because always -- it's always a distraction when there's a lot of procurement activity, but this team is laser focused on delivering to the mission, delivering to the department of State and ensuring that we don't miss a beat, and continue to innovate and accelerate our position supporting this customer. Prabu, do you want to add some color?

Prabu Natarajan, Chief Financial Officer

Thank you, Nazzic, that was perfect. David, here's what I would add, we're growing this business at the midpoint of our updated guide about 4.5%. And as we noted in the prepared remarks, that is the highest growth rate we posted organically since the separation. So in spite of the headwind from the recompete loss, OMS [ph] notably, which we're assuming will cycle out-of-the portfolio beginning in Q4. We are delivering approximately, let's call it mid-single-digit growth rate.

Since the last quarter, we've also won some new work, which will start to backfill the loss that we have, but the timing of the OMS project program exiting the portfolio and the timing of the new work sliding into the portfolio, is what impacts the cadence of the revenue growth, but recognize that we are laser committed to delivering consistent growth rate consistent with the 2% to 4% that we outlined at Investor Day, but recognize that OMS is probably the biggest one worth calling out for the year.

And if you really think about the performance of this business, you would expect about 1% to 2% growth rate impact on an annual basis from recompete losses that's just the nature of the business I think, and we are looking at something a little bit higher than that this year, but recognize 4.5%, 5% growth is just really solid growth and right in-line with where the peer set is, and we've got our work cut out for us for next year and that's what the team is committed doing.

David Strauss, Analyst

That was great color, thanks. And then on cash, wanted to get an update on working cap on what you see there, Prabu. Yeah, I think year-to-date has been a slight drag, kind of what's embedded for the second half of the year, and just an update kind of on the working capital tailwind that you have embedded your -- earlier to short (Technical Difficulty).

Prabu Natarajan, Chief Financial Officer

Now I appreciate the question. First-half of the year was actually really good performance, and relative to the first half of last year. And the momentum that we began to see in the business at Q4 of last year and as a reminder, we collected more than $2 billion of cash in a single quarter at Q4 of last year. So that momentum has actually continued into the first half of the year.

Historically, if you think maybe three to five years back, the cadence of collections tends to be about, let's call it 45% in H1, and 55% in H2. Last year was actually flipped. We actually had more to collect, a lot more to collect in H2 than H1. And this year is actually more normalized relative to the historical pattern here. So we actually have good visibility into getting to the midpoint of our guide range as we sit there now, but recognize that our guidance range is $20 million, which happens to be about days' worth of DSO really big-picture.

So we're dialing the forecast down to within a day of (inaudible) a full-year cash performance is going to be. But I'm really just pleased with where we are for the first half of the year. It is ahead of where we expect it to be from an internal planning perspective, but recognize we've got six more months of collections and disbursements we have to worry about.

Really big-picture on FY25 and FY26. The performance we've had in the first half of the year gives us continued comfort that we can get to the targets that we laid out at Investor Day, approximately 10 bucks of free cash flow per share in FY25 and 11 bucks in FY26, recognizing that we are addressing the headwinds from the Section 274, that's slowly starting to burn-off in the system here, but obviously, from a working capital perspective, really big-picture, I continue to see good level of opportunity.

We've dialed the process down, where we could see working capital accretion and dilution, if you will at the individual program level and we have program managers taking responsibility for working capital, that's the level of traction we wanted to see two years ago, and that's exactly what we're seeing right now. So I continue to see that and capital deployment as a multiyear opportunity as we sit here in the second half of FY24.

David Strauss, Analyst

Perfect. Thanks very much.

Nazzic Keene, Chief Executive Officer

Sure, thanks.

Operator

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

Matt Akers, Analyst

Hey, good morning, thanks for the question and Nazzic, good luck, nice working with you.

Nazzic Keene, Chief Executive Officier

Thanks, Matt.

Matt Akers, Analyst

I just wanted to follow-up on the commentary on sort of the bookings delays, you mentioned like year-to-date third little bit slower than we thought and I like some of the back-half maybe shifting to 2025 and what do you think is driving that? I guess our customers kind of more cautious given the budget environment. Is it just kind of a few large awards flip to the protest, just kind of curious what you think is kind of driving that dynamic?

Nazzic Keene, Chief Executive Officier

Yeah. I'll make a couple of comments and then I'll let Prabu provide some detail. On the book-to-bill as Prabu mentioned in his prepared remarks, it certainly was below, where we had planned for it to be. And I think, if it was where we planned, we would be having a very different call here today and things that look different. But I wanted to give you a little bit of context on that.

So book-to-bill as we all know is an indicator, but not the indicator for growth. And there's so many components that go into it probably we touched on one of them, which is how anybody books their IDIQs, single award or multi award going into book-to-bill period of performance that could have an impact as well. How much of the bookings as new business versus recompete business. So there's so many aspects that go in that just don't get captured in a metric in and of itself.

Now with that being said, obviously, we have planned for and anticipated a higher book-to-bill. As Prabu also mentioned, we've had incredible bookings for the first month of this quarter and in the world of (inaudible), if it happened last quarter again, a very different metric, a very different conversation. So I don't think there's anything that's systemic in the delays. Delays is good, bad or indifferent as a part of how this ecosystem operates.

We do our absolute best to forecast with as much diligence as we can, when things will close, when they'll clear the protest cycle, but of course, much of that is not in our hands that's in the customers' hands. So with all that being said, I don't believe there's anything systemic in our portfolio that's an issue. I don't believe there's anything that's really a big difference in the customer's buying behavior. Obviously, the headwinds around budget and CRM [ph], I'm sure way on people's minds.

But, I don't see anything that would cause, at least doesn't cause me considerable alert or concern as I look to the future, and as Prabu has mentioned, even with this book-to-bill, even with some of these delays, we've got new business coming online and we have a very strong and healthy pipeline. So that's my view of it, but I want to make sure Prabu can address some of the specifics.

Prabu Natarajan, Chief Financial Officer

Thank you, Nazzic. Let me add a couple of color here. I'm going to take us up, a one level up. As we think about where this business is positioned relative to the pipeline. We have a pipeline that's I'm going to say a circa $100 billion. And to me that's really where I start, and then I think as we think about multiyear growth objectives we've laid out 2% to 4% and certainly hopefully at the midpoint about 3%. We have to then work our way from where the pipeline is to how much of it is qualified, and then how much we are submitting as a fraction of that pipeline.

As we work our way down the funnel, I want to reassure folks listening to this that we have sufficient pipeline to go prosecute the growth objectives we've identified. We've got to get our submit volume higher, some of that is seasonal, some of that is timing and we're seeing some of that this year. And some of that is recompete losses, which do impact book-to-bill. And therefore to me as I put the macro with the micro, I think about it as overtime we have enough pipeline and therefore we get our submits up higher.

And our win rates are actually pretty competitive on the new business front we've shared over the last year and a half or so that our new business win rates are tracking a lot higher than they have been tracking historically. And, I don't need to go through the list of new programs that we won just in the last 18 months, but recognize that there is enough pipeline here and the award activity has slowed a little bit in the first half of the year, but some of that is transitory, I think, and the reality is, we feel good about where the overall portfolio sits, but we've got to get the submit volume up, and we are holding our share recompetes as Nazzic said earlier on the call, but to me that's the macro and the micro together.

Matt Akers, Analyst

Okay great, thanks, that's helpful color. And then I guess, I wanted to ask on TCloud and how fast you kind of see that program ramping up? I think that's kind of encapsulated in the guidance you've given over -- that's couple of quarters, but how fast (inaudible) sizable program?

Prabu Natarajan, Chief Financial Officer

Sure, I'll take that one. At this point, what our guidance reflects is a nominal amount of contribution from TCloud. We've received the first task order on the program and we are expecting a fraction of that to convert into sales this year. One way to think about it is probably less than one-half of 1% this year, ramping to somewhere between 1% to 1.5% of enterprise sales next year. And hopefully higher than that the year-after, but we are assuming that the ramp is going to be methodical. We've got to get through some initial design gates that we are working with our customers actively. And -- but we do expect that program to ramp at this point, there is very minimal amounts of revenue contribution assumed in the guidance for FY24.

Matt Akers, Analyst

Thank you.

Prabu Natarajan, Chief Financial Officer

Sure.

Nazzic Keene, Chief Executive Officier

Thanks.

Operator

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

Bert Subin, Analyst

Hey, good morning and Nazzic, I'll echo my congratulations and actually have my first question for you. As you reflect on the climate. Thanks. Just maybe just a high-level question, sort of thinking through your tenure. Just as you reflect in your time at SAIC, where do you think we are the evolution toward sustaining that profitable organic growth dimensioned? And what in your view has changed at the company and your time that you think sets SAIC up well to just to increase growth as we think into the future?

Nazzic Keene, Chief Executive Officier

Yeah, thanks for the question. So as I look-forward, if I look at the company today and I reflect on what I believe it looks like going forward and Toni and I are in lockstep on so much and so focused on profitable organic growth. So I do think the company is well positioned to keep this drumbeat going forward.

Now, as we all know, any given quarter you can have 8% or you could have less than 8%. But I think the Ingrained in the DNA of the company at this juncture is really focused on driving profitable organic growth and we see it across the board. Over the course of my tenure, we've done substantial work at the leadership levels of the organization, ensuring that we have leaders that have a growth mentality and growth mindset, we have done significant work in changing out our sales organization, our go-to-market organization. And certainly, the investments in the innovation areas that differentiate us.

So I'm very proud of what the team has been able to accomplish. The good news is, although I'm stepping down, the team that does the heavy lifting every day is here every day. And so that mindset, that focus, and that energy will continue and even accelerate under Toni's leadership. So I feel very confident in the company as it sits today with this as an underpinning of what gets done, what gets measured gets done, and refocused each and every day.

So I think, that's how I would answer the question around how do we sit today, what have we accomplished and how does that look-forward and hopefully that addresses the highlights to your question. Prabu, if anything?

Prabu Natarajan, Chief Financial Officier

No, no that's it.

Nazzic Keene, Chief Executive Officier

Sure. Thanks.

Bert Subin, Analyst

And maybe just a follow-up for you Prabu. You provided some great commentary on the pipeline in your view toward the macro setup for the company or just the broader business. If we're thinking through current dynamics, what success of the company having when it comes to growth within contracts, where you already have a current book of work. Just given what you noted on favorable hiring retention and outlay trends? And how much of a tailwind do you think on contract growth can be in these next couple of quarters, is that something that potentially pushes you towards the higher levels of the guidance levels you're looking at?

Prabu Natarajan, Chief Financial Officier

I appreciate the question, Bert. And we've signaled for a couple of years now for a company with between $22 billion and $23 billion of backlog. There is (inaudible) of Sealy left, that we can go deliver growth on. One of the things that we've been laser focused on over the last couple of years, is instead of chasing the shiny rabbit, let's focus on the things that have ceiling that are right in front of us, because the P-win on filling up the ceiling is far greater than the P-win on any new business or any sort of new ventures out there.

So to me, that's been the focus, it has proven to be a source of tailwind to organic growth over the last couple of years. I would characterize that tailwind as between 1% to 3% higher than our initial plan expectations for any given year. Now recognize that there is always a balance between more on contract growth offset by maybe less in the way of new business growth and therefore when you sort of work your way through the dynamics of new business competition, and your win rates are higher. And on top of that you are beginning to deliver, but better on-contract growth organically, because you have ceiling ahead of you that actually does create a pretty favorable dynamics.

Again it's our commitment that we need to go fill out the ceiling and that's what the team is laser-focused on doing. And I would say, hopefully, the teams going to continue to execute the way we've done it in the first half of the year and deliver some upside here for the full-year and hopefully next year as well. But we've got work to do and as we always remind the team internally, dialing it up in our PowerPoint chart is good, but that's just the first step of actual real execution, let's focus and intent and that's what we've done.

Nazzic Keene, Chief Executive Officer

Yes, I'm going to add a little color on that. I think that's a great question. It's one of the areas that as I look back and reflect on where we sit today and where we set even two or three years ago. The focus on on-contract growth is actually oddly enough relatively new. And so, as we looked at opportunities to strengthen our culture and to look again in grain, the on -- the drive for profitable organic growth, really ensuring that we have the people, the talent, the leadership at the program, the portfolio level that can focus on this was paramount.

And so a lot of work has been done to actually accomplish great success in the on contract growth. Again, I think it's an area we can continue to focus on, but that's an area to your earlier question, Bert, around where I've seen changes, that is absolutely an area that I believe is fundamentally different and better than it was just a few years ago.

Bert Subin, Analyst

Great, very helpful. Thanks and congratulations again, Nazzic.

Nazzic Keene, Chief Executive Officer

Thanks so much.

Operator

Your next question comes from the line of Cai von Rumohr with TD Cowen. Please go ahead.

Caivon Rumohr, Analyst

Yes, thanks so much. And Nazzic, again I'd like to join every (inaudible) job well done. Prabu not to beat a dead horse, but historically, Q3 is your biggest book-to-bill quarter. And certainly, I think on obligated O&M funds are kind of at an -- all-time high and so the outlet have been strong, so you mentioned you've got $1.1 billion of bookings. So what are we looking for book-to-bill as a range. In this quarter, you got to $1.1 billion, certainly not all of that, was -- is under still in the protest window. What should we be looking for the bookings -- book-to-bill in this quarter?

Prabu Natarajan, Chief Financial Officer

Yeah, Cai, so let me try and answer it a little bit differently. Maybe in response to earlier question, in order to support the growth aspirations of this organization as outlined at Investor Day, which as you know, 2% to 4%. We said, we want book-to-bill to be comfortably over 1.0. It's not a great indicator in a one quarter, we're off to a really good start at Q3. But I would expect that number to be 1.0 or better in Q3, but recognized that we don't always control the timing of things like protest that may be out there. And therefore, we're just going to navigate it one quarter at a time, but recognize that on average, overtime, we want book-to-bill to be comfortably over 1.0, that's the objective for the team.

Caivon Rumohr, Analyst

And then, so the pattern you've laid out for the third and fourth quarter. So the first -- the second quarter you beat consensus on revenues by $100 million. And if we look at the third quarter, actually your revenue number is higher than, I would have guessed, and then we got a very big step down in the third and I recognize you have $135 million impact from five fewer days. But help us understand, why is it so sharp? You mentioned that OMS kind of drops out. How big is the sequential drop-in OMS from the third to the fourth? I mean, I would assume with TCloud and with One IT building, that you would not have had such a severe drop-off sequentially.

Prabu Natarajan, Chief Financial Officier

Right. Thank you, Cai. I appreciate the question. And look, I think it was important for us to give you all a perspective on how we think sitting here today the second half to play out. And we've signaled approximately mid single digit growth rate in Q3 and roughly flat in Q4. Our assumption right now is that OMS will exit the portfolio at the very end of the third quarter. So to me, the obvious bridge from Q3 into Q4 is predominantly OMS driven big-picture.

The second variable is that Q4 tends to be the weakest revenue quarter in a year, just given seasonality, not just the working days component of this, but also just the productive labor hours that we typically calculate in Q4. So to me, those are probably the two variables. Again, our performance year-to-date has been very pleasing to us and the team has done a stellar job. And as we sit here today, we are starting to see that flattening trend, which is really important for us and for those that have interacted with Nazzic and with me know that we try to be as transparent as we can about next two or three quarters.

It's a little bit unusual for us to talk about forecast into the second half of this year or even into the first half of next year typically, but given the transition we thought it was just as important, if not more important to give you some additional color, as we the second -- see the second half rolling out here. So to me that's sort of the more important drivers on Q3 versus Q4, but recognize that the performance year-to-date has been stellar. And we want to make sure we keep the momentum up, because we recognize exit velocity out of this year is going to inform, how we think about H1 of next year. And hopefully, a couple of months from now when we're doing our Q3 earnings call, we'll give you an update on where things are.

Caivon Rumohr, Analyst

Okay, thank you very much.

Prabu Natarajan, Chief Financial Officier

Thank you.

Operator

Your next question will come from the line of Tobey Sommer with Truist Securities. Please go ahead.

Tobey Sommer, Analyst

Thank you. I was wondering, if you could quantify what the changes in employee retention have -- how that has impacted growth and contributed to the acceleration in organic growth? I mean, some of that of course is internal actions, but some of it also changes in the labor market broadly and how does employee retention compare to pre-COVID levels in some context around the current snapshot of figures? Thanks.

Nazzic Keene, Chief Executive Officer

Yeah, Tobey. I'll give you the macro view. So I actually don't have the specific numbers in front of me, probably we may have them memorized, I'm certainly does. But, I will tell you that as we sit here today, our ability to retain the employees which is the opposite is what's the turnover rate is certainly a couple of points better than it was at least a year ago give or take. And probably much more in line with what it was pre-COVID. And so, so certainly any impact or movement and our ability to retain people just helps retain our base, and it allows us then to focus on hiring for new roles, new talent.

And so that coupled with the ability to some of the things that I mentioned earlier in our ability to hire, retain, and attract new folks has given us really a great opportunity to -- as you mentioned to drive revenue where we can. And so, that's certainly been a component of that. To bring in some new talent in some key areas in which we're growing the business, so we can strengthen our talent base. But it really is the combination of being able to retain the labor that we have, as well as some of the great work that the hiring teams have done across the company and being able to add and attract and retain new talent.

In general, and we track this on a regular basis. Our turnover is below our industry turnover and we see that as a very positive sign. Prabu any specifics?

Prabu Natarajan, Chief Financial Officer

Thank you, Nazzic. The one thing I will probably key up is site from all of the macro factors driving improved labor conditions across the business. We are probably seeing for the first time and maybe a little over 24 months. Organic headcount increase that is comfortably better quarter-over-quarter, we've signaled for about 2 to 3 quarters now that labor conditions are improving, it is directly contributing to higher headcount inside the organization.

The other thing that the team is doing that is really bearing fruit is to the extent we have some difficult recompete challenges. We are finding ways to redeploy talent that is needed in other parts of the business. This has always been the holy grail for human capital management inside companies, and we're doing a better job of it now than we did a couple of years ago, kudos to the team. So we are holding on to critical higher end talent that we are effectively redeploying in other programs.

So instead of seeing the headcount come in and go with programs, we're actually doing a better job holding onto that headcount, so we can organically drive headcount retention for a company with that much backlog and that much ceiling. We have enough and more opportunities inside the company to redeploy talent and that's an area where we've spent some time and investment, getting better at and we're starting to see the benefit of that at inside our headcount numbers themselves.

Nazzic Keene, Chief Executive Officer

Hey, Tobey. One more thing I'll add, and you guys have heard me string these words together now for several years. But profitable organic growth creates an environment. So not only does it create opportunity, because you're growing the business, you have to hire people, but people like to be part of a growing organization. And in some of the programs we've won and probably mentioned several, but in the area of space or the area of cloud, our exciting sexy new programs and people want to be associated with a company that are winning these types of programs that are so mission-critical. So I think the -- the goodness in addition to being good for the shareholders, it's great for an organization to be a growing entity, especially in areas that are exciting and new.

Tobey Sommer, Analyst

Thank you. If I could sneak a follow-up. Outside of Vanguard, are there any sort of chunky contracts that of could prospectively be broken apart into multiple procurements over the next couple of years?

Nazzic Keene, Chief Executive Officer

Vanguard is certainly the largest one and the most visible. As you know, as Prabu has mentioned, in any given year 20% give or take of our portfolio is up for recompete. And so that's just the nature of the business, but Vanguard is one, certainly that would have and could have the biggest impact, but again we expect to win our fair share and we'll continue to deliver on that program until things change.

Prabu Natarajan, Chief Financial Officier

And one last data point here, as we signaled in the script, there is about $8 billion of IDIQs that we've won over just the last 2 to 2.5 years, that is not fully reflected in the backlog. In addition to that, we are part of multi-award IDIQ wins over the last couple of years that are probably just as big as the single award IDIQ number if not bigger. So if you think about the labor environment improving, if you think about the work being task order driven and filling out the ceiling inside of contracts, I think the conditions are right for organizations that focus on-contract growth to deliver outsized on-contract growth over the next few years, especially in the backdrop of a budget environment, that's likely to be somewhat difficult. So to me, I think as I think about the context, that's the environment we're sitting in right now. But on the whole, we're pleased with how we're doing on the labor front.

Tobey Sommer, Analyst

Thank you, good luck, Nazzic. Thank you.

Prabu Natarajan, Chief Financial Officier

Thank you.

Operator

Your next question will come from the line of Louie DiPalma with William Blair. Please go ahead.

Louie DiPalma, Analyst

Nazzic, congratulations on your tenure at SAIC, you left the company in a much better place than when you started on the culture front and you also hired Prabu, Toni, and Joe, which were three great additions to the team.

Nazzic Keene, Chief Executive Officier

Thanks, Louis.

Louie DiPalma, Analyst

And for either Nazzic or Prabu, SAIC has shown nice balance between its IT services and mission services. Can you talk about your exciting takeaway win from Northrop Grumman for the Space Force ground radar contract that Nazzic you just referenced? And I know it's still in the protest windows, you may be limited, but are there significant other space opportunities in the pipeline?

Nazzic Keene, Chief Executive Officier

Yeah, let me tackle the first part of that. So as you hit the nail on the head, It is still in the window. So we're not going to say a whole lot. What I will say is, we're very excited, we're thrilled with the win, and we expect to be able to book this hopefully in the near term. But I'm not going to say a lot more than that just because it is going through the process. But we always love to win new business and we always love to win from a formidable competitor. So that's -- it's really great to be able to talk about it.

What I will provide some color on is -- on the -- this is a great example and we talked about this periodically on the call of our space strategy. And so being able to navigate the work that we have today, being able to expand our footprint in the broader space domain with critically important mission programs as you referenced has been fundamental to our strategy and it's great to see these proof points and to your -- the latter part of your question is absolutely greater opportunity in our space related pipeline, and we look forward to being able to talk about those and announce those over the course of the next couple of years.

So it's a very important part of our strategy, it's to your first part of your question, our ability to deliver on mission engineering programs, as well as IT centric programs is critical to our overarching strategy of being a diversified player and so this is a great proof point of exactly that.

Louie DiPalma, Analyst

Good, great. And also on the mission front at the Analyst Day in New York City and previously in Huntsville, SAIC showcased its Counter UAS systems solution. Has the SAIC system continued to make progress in demonstrations with the US Army. And is there opportunity for the system to be deployed in Ukraine and other high geopolitical areas?

Nazzic Keene, Chief Executive Officier

Great question. Yeah, we're still very pleased and very proud of the Counter UAS business that we have. And I certainly can't speak specifically to Ukraine, I don't think that would be in good context. But I can tell you that we are getting great traction with not just the DoD, the Army as an example, but broader DoD customers as well as civilian customers. And they certainly see the value in this, we've been able to demonstrate in many ways and are looking to continue to advance our position and posture with this solution.

The unique nature of how we built this solution, where we take best-of-breed parts for lack of a better word and integrate it to an end-to-end solution, allowing us to tune it to the specific need of the customer, is something that has stood out and it's been very powerful as we continue to have conversation and dialog with our US government customers.

Louie DiPalma, Analyst

Thanks. That's it from me.

Nazzic Keene, Chief Executive Officer

Perfect, thank you so much.

Prabu Natarajan, Chief Financial Officer

Thanks, Louis.

Operator

And we have no further questions at this time. That will conclude today's meeting. Ladies and gentlemen, we thank you all for joining. You may now disconnect.