

03-Dec-2020

# Science Applications International Corp.

(SAIC)

Q3 2021 Earnings Call

## CORPORATE PARTICIPANTS

### Shane P. Canestra

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

### Nazzic S. Keene

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

### Charles Alexander Mathis

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

---

## OTHER PARTICIPANTS

### Louie DiPalma

*Analyst, William Blair & Co. LLC*

### Greg Konrad

*Analyst, Jefferies LLC*

### Jonathan Raviv

*Analyst, Citigroup Global Markets, Inc.*

### Seth M. Seifman

*Analyst, JPMorgan Securities LLC*

### Tobey Sommer

*Analyst, Truist Securities, Inc.*

### Joseph William DeNardi

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

### Gavin Parsons

*Analyst, Goldman Sachs & Co. LLC*

---

## MANAGEMENT DISCUSSION SECTION

**Operator:** Good afternoon, and welcome to SAIC's Third Quarter 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, and thank you for joining SAIC's third quarter fiscal year 2021 earnings call. My name is Shane Canestra, Vice President of the Investor Relations. And joining me today to discuss our business and financial results are Nazzic Keene, SAIC's Chief Executive Officer; and Charlie Mathis, our Chief Financial Officer.

Today, we will discuss the results for the quarter ended October 30, 2020. This afternoon, we issued our earnings release which can be found that investors.saic.com, where you'll also find Supplemental Financial Presentation slide to be utilized in conjunction with today's call. Both of these documents in addition to our Form 10-Q to be filed soon will 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 filing for a discussion of these risks including the Risk Factors section of our Annual Report on Form 10-K reports on Quarterly Report on Form 10-Q.

In addition, the statements represent our views as of today and subsequent events may cause our views to change. We may elect to update the forward-looking statements at some point in the future but we specifically disclaim any obligation to do so. In addition, we will discuss non-GAAP financial measures and other metrics which we believe provide useful information for investors, and both our press release and supplemental financial presentation slides include reconciliations to the most comparable GAAP measures.

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

---

## Nazzic S. Keene

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

Thank you, Shane, and good afternoon. As reported in our press release today, SAIC's third quarter results continue to reflect SAIC's strong financial performance and the continued building of momentum through our second straight quarter of highest book-to-bill and backlog in our seven-year history. Over the past few months, we have focused on the health and welfare of our employees, assisting our customers as they rapidly transition to a more virtual environment and continuing the strong program execution that SAIC is known for.

As these efforts continue, we've also taken strategic organizational and leadership steps that are foundational to the long-term success of SAIC. We are building on our past while positioning for the future.

I am very pleased with the progress we've made. But before I discuss how we're shaping our future, let me briefly discuss our third quarter results. SAIC continues to deliver strong revenues and profitability, excellent cash flow generation, and outstanding business development results. Internal revenue growth for the third quarter excluding the impact of COVID-19 was 3%, our third consecutive quarter of organic growth. And on a year-to-date basis, again, if you exclude the temporary impact of the pandemic, organic growth was 4%.

While balancing investments for the future and providing a return for our shareholders, we delivered another strong quarter of profitability and cash generation. Our record high book-to-bill ratio and backlog was a result of the refreshed organic strategy coupled with our ability to leverage the capabilities and market access from our recent acquisitions.

As we navigate the dynamics of both the recent presidential election and the impact of the coronavirus pandemic, we continue to serve a market that while not immune to change in pressures, has proven over time to time to be very resilient. Our customers' need for technology solutions and digital transformation is growing and we continue to win and deliver on large and attractive business opportunities. SAIC's portfolio of offerings are strategically aligned with the enduring requirements of our government.

Digital transformation is a critical component of our nation's security, efficient operations and the ability of governments to provide better services for the advancement of our collective interests. It will continue to be a priority and focus of the solutions that we provide for our customers. The demand by our customers for digital transformation was a core strategic rationale for our acquisition of Unisys Federal.

Speaking of Unisys Federal, I should note that the integration continues to go very well, and I am excited about the opportunities ahead resulting from this very successful acquisition. At the beginning of our next fiscal year in February, we will complete one of the last integration milestones, the conversion of the accounting system. We have an experienced and talented team working on this transition, having recently completed the successful conversion of Engility system.

Government fiscal year 2021 continues to operate under a continuing resolution and we expect that it will be extended past its current expiration of December 11. It is a continuation of customer budget levels from last fiscal year which were robust and provided for investments by our customers. Should there be substantial change to government spending, SAIC is well-positioned to meet a wide array of government priorities.

I mentioned earlier that we're building on our legacy while positioning for our future. In that regard, we recently announced several key personnel and organizational changes designed to assure our long-term success. In September, we announced Jim Scanlon's decision to retire after 30 years of service to SAIC. Jim recently led the company's defense systems group and was instrumental in shaping SAIC's legacy. He will be missed.

With Jim's retirement however, we took the opportunity to reevaluate our organizational structure to more closely align it to our strategy and growth priorities. Effective at the beginning of our fourth quarter, SAIC is transitioning to two operating sectors, Defense & Civilian led by Sector President Bob Genter and National Security & Space led by Sector President Michael LaRouche.

Additionally, we are realigning our horizontal market-driven organization led by Dee Dee Helfenstein to align with our customers' most pressing current and future needs, including digital transformation, IT modernization, digital engineering, and artificial intelligence. This streamlined organization will better enable our strategic imperative of driving profitable organic growth as we focus on effectively selling and efficiently delivering digital transformation solutions to the US government.

Our nation is facing evolving and more complex national security, space, defense, and civilian needs, and SAIC is now exceptionally well-positioned to support these critical missions.

Charlie, if you would now please discuss our third quarter results and financial outlook for the rest of the year.

---

## Charles Alexander Mathis

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

Thank you, Nazzic. SAIC delivered another quarter of strong performance across a variety of business development and financial measures while continuing to build momentum for the next fiscal year and beyond. SAIC's results for the third quarter fiscal year 2021 reflect solid revenues, strong profitability, and free cash flow, and another outstanding quarter of contract awards resulting from effective strategy execution and investments in customer priority areas.

Let me start with our strong business development results. Net bookings for the third quarter were approximately \$5 billion, translating to a quarterly book-to-bill of 2.7 times, setting another historically high book-to-bill after setting an all-time high last quarter of 2.6 times. The most significant contributions to our quarterly bookings are noted in our press release today. But I would also note that significant amount of new business awards are the proof of our building business development momentum.

While producing exceptional bookings in the quarter, contract submittals continue to increase as well, setting another record for an all-time high in SAIC's value of submitted proposals. At the end of the third quarter, the value of submitted proposals was \$22.1 billion, up \$1.5 billion from the end of the second quarter. Also for the second consecutive quarter, we have the highest amount of submitted proposals in our history and approximately 80% of the value of submitted proposals is for new business opportunities. At the end of the third quarter, SAIC's total contract backlog stood at approximately \$22.6 billion, up 16% from the second quarter and 55% from a year ago.

Let me now turn to financial results for the quarter. Our third quarter revenues of approximately \$1.8 billion reflect total revenue growth of 12% with generally flat year-over-year organic contraction of 1%. On a year-to-date basis, revenues reflect organic growth of 1%. Negatively affecting third quarter revenues were approximately \$60 million of program-related COVID-19 headwinds, resulting from the same factors that impacted the first two quarters. Excluding the COVID-19 headwinds, organic revenues grew by 3% in the quarter and 4% year-to-date in line with our expectations for the year prior to the onset of the pandemic.

Third quarter adjusted EBITDA was \$164 million and adjusted EBITDA margins were 9% as a percent of revenues. For the quarter, COVID-19 negatively impacted adjusted EBITDA margins by about \$9 million. On a year-to-date basis, adjusted EBITDA margins are 8.8%, up 50 basis points from the prior year nine-month period.

Net Income for the third quarter was \$60 million and diluted earnings per share was \$1.02. Excluding \$5 million in net acquisition and integration cost, restructuring cost, as well as amortization of intangibles, our adjusted diluted earnings per share was \$1.62 per share for the third quarter. The effective tax rate for the quarter was approximately 22%, and we now believe that our full year expected tax rate to be approximately 23%. Third quarter free cash flow was \$222 million, an outstanding quarter of strong cash generation. On a year-to-date basis, we have generated \$470 million of free cash flow.

Days sales outstanding at the end of the quarter was 61 days, excluding the impact of accounts receivable sale facility. During the third quarter, we deployed \$239 million of capital consisting of \$21 million in dividends, and \$18 million and \$200 million of mandatory and voluntary debt payment, respectively.

We ended the quarter with net leverage ratio of approximately 3.8 times, ahead of our previously communicated rapid delevering profile. I should note that as announced in our press release today, our board of directors has approved quarterly cash dividend \$0.37 a share payable on January 29 to shareholders of record on January 15.

Now, turning to our forward outlook. As noted in our press release, we are updating certain elements of our previously provided guidance for the full fiscal year 2021. For fiscal year 2021, our revenue is expected to be between \$7.1 billion and \$7.15 billion, implying organic revenue growth of between 1% and 2%. This continues to assume a full fiscal year program impact of approximately \$250 million from COVID-19 which, if excluded, would equate to about 9% of organic revenue growth this year.

With regards to profitability, we have narrowed the expected range and raised the midpoint of adjusted diluted earnings per share based on year-to-date performance now expect between \$5.95 and \$6.05. This includes an unchanged negative profit impact of approximately \$35 million to adjusted EBITDA from COVID-19.

Turning to free cash flow, given our tremendous cash generation year-to-date and continued confidence, we now expect free cash flow to be equal to or greater than \$515 million, an increase of \$15 million from our previous expectation. As previously announced, I'm retiring at the end of the fiscal year and this is my last earnings call for the company. As part of an exceptional team, I am proud of what we have accomplished here together but even more excited about what the future holds for SAIC and its highly talented people. SAIC has a bright future with wonderfully focused leadership. I could not be happier at the direction of the company and more thankful for the opportunity over the last four years.

Nazzic, back to you for concluding remarks.

---

**Nazzic S. Keene**

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

Thank you, Charlie. I want to take just a moment to thank Charlie for his leadership over these past four years. Charlie, you've helped transition SAIC from a \$4.5 billion company when you started to the over \$7 billion company it is today. Your steady hand in leadership, your focus on our shareholders, and your partnership and guidance to me have been a true value to SAIC. We wish you all the best in retirement.

Now, focusing on our future. We recently announced the appointment of Prabu Natarajan as Charlie's successor as Chief Financial Officer effective January 4. We are extremely excited to have Prabu joining the leadership team given his impressive track record of success as a Finance Executive in the aerospace, defense, and technology markets, as well as his proven ability to successfully execute on growth strategy. He will bring tremendous value to our team as we execute our long-term growth strategy, advance our positions in key markets, and provide value creation for our shareholders.

Operator, we're now ready to take questions.

---

## QUESTION AND ANSWER SECTION

**Operator:** Certainly. [Operator Instructions] Your first question comes from the line of Louie DiPalma with William Blair. Your line is open.

---

**Louie DiPalma**

*Analyst, William Blair & Co. LLC*

Q

Nazzic, Charlie and Shane, good afternoon.

---

**Nazzic S. Keene**

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

A

Hello.

---

**Louie DiPalma**

*Analyst, William Blair & Co. LLC*

Q

Nazzic, your team has been on fire in terms of capturing four of the largest contracts in the government IT services industry. The bookings for your eight peers were down by an average of 21% while yours were up by 127%. In addition to the bookings that you mentioned in your prepared remarks, we learned that the Army in November chose SAIC for the hotly contested \$1.3 billion Revolutionary Information Technology Services contract. You didn't mention this RITS award in your prepared remarks. So I have a two-part question. First, are there any details that you are allowed to share for the Army RITS contract? And secondly, investors wanted to know how these strong bookings translate into like next year's growth outlook. I think on the last call, you provided some commentary about fiscal 2022. So, just if you have any updated thoughts on the unofficial 2020 outlook that would be great. Thanks.

---

**Nazzic S. Keene**

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

A

Perfect. Thanks, Louie. So I'll comment on RITS. Thanks for the question. We remain optimistic but it's still an open procurement at this time. And so I'm not going to provide any more color or commentary at this particular juncture, but certainly remain optimistic.

On the – thanks for the – I haven't done the math on the – on what's happening in the competitive environment. Certainly, we track ours very closely but we're very, very proud of the business results that we've seen, the business development and it certainly provides a great foundation to go into next year with. And so we're optimistic about next year for lots of reasons. Certainly, the business development is part of that. We're not going to provide the guidance as we think about next year until the March call. This is a cycle in which we do our annual planning and we make some of the strategic decisions on investments. And we're taking that up in a strong fashion as we've shared some of the organizational design and strategy updates with you. So we'll give you more color on next year in March. But certainly, the momentum that we're seeing in our ability to protect our recompute, as well as win new business gives us optimism going into next year.

---

**Louie DiPalma***Analyst, William Blair & Co. LLC*

Q

Thanks, Nazzic. Congratulations, Charlie.

---

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

A

Thank you.

---

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

A

Thanks.

---

**Operator:** Your next question comes from the line of Sheila Kahyaoglu with Jefferies. Your line is open.

---

**Greg Konrad***Analyst, Jefferies LLC*

Q

Hey. Good morning – sorry, good afternoon. It's actually Greg on for Sheila. I just wanted to follow up on your comments about deleveraging. You mentioned you were kind of ahead of the [ph] 3.0 (18:46) target that you set for next year. I mean, how much more debt do you have to pay down? And then how are you thinking about capital deployment post deleveraging?

---

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

A

Thanks. Good question there. So this year, we've laid out a plan at the beginning of the year to \$75 million of mandatory debt repayment and \$325 million of voluntary payments. We made \$50 million of the mandatory payments through Q3 and we paid all of the voluntary debt, \$325 million already. So we're ahead of schedule from that standpoint. The company will certainly have capacity for other capital deployment activities next year in addition to paying down debt. And if cash flow continues to be strong as it has been, this could happen sooner than previously expected.

---

**Greg Konrad***Analyst, Jefferies LLC*

Q

And then just one kind of house....

---

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

A

I'm sorry?

**Greg Konrad**

*Analyst, Jefferies LLC*

Q

I'm sorry. Just one quick housekeeping, I mean if we look at the guidance, you've talked about \$250 million impact for COVID for the year. I think you're at \$160 million. Is there something that steps up in Q4 or is that just a little bit of conservatism?

**Charles Alexander Mathis**

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

A

Yes. It's a little bit of being cautious due to the resurgence of the cases of COVID that we've been seeing.

**Greg Konrad**

*Analyst, Jefferies LLC*

Q

Thank you.

**Charles Alexander Mathis**

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

A

Thank you.

**Operator:** Your next question comes from the line of Jon Raviv with Citi. Your line is open.

**Jonathan Raviv**

*Analyst, Citigroup Global Markets, Inc.*

Q

Hey. Thanks, everyone, and good evening. Just following up on that question. Just looking at the full-year sales guidance, I mean it implies a pretty big organic step-up in 4Q. You also have COVID conservatism baked in there. So I'm trying to understand so like what takes you from negative organic growth to pretty good positive organic growth in 4Q?

**Charles Alexander Mathis**

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

A

Well, you are right that that is the expectation that Q4 will have strong growth in there organically. And as you see, the momentum has been building. And I would just say that we had some challenges as far as the revenue goes. A few of the new business programs that we won early – earlier in the year have not ramped up as fast as we expected. There's a tremendous ongoing effort to transition and ramp up these programs. But the environment with COVID has been challenging. So, we're not able to get to the higher end of that revenue forecast that we are hoping to because of this slow ramp-up. But Q4 does look to be strong, that sets up with all these bookings, historical bookings we have – it sets up next year to – it will be quite robust.

**Jonathan Raviv**

*Analyst, Citigroup Global Markets, Inc.*

Q

Thanks for the FY [indiscernible] (21:58). And as a quick follow-up, it wouldn't be Charlie's last call without me asking about some cash cadence into the year-end but especially about the multiyear cash flow goals that you've talked about which I'm sure you'll be speaking to Prabu about as well. So any -- just sort of any updated thoughts on how things are trending in FY 2022 and towards the really sustainable \$550 million. Thank you.



**Charles Alexander Mathis**

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

A

Thanks, Jonathan. Well, I can say we're very pleased with the cash generation to-date, \$470 million, only \$30 million shy of the full year target of \$500 million I talked about earlier. I would say that as far as the expectations of \$1 billion over the two years, as of now, that expectation has not changed. So we would still be there.

**Jonathan Raviv**

*Analyst, Citigroup Global Markets, Inc.*

Q

Thanks, Charlie, and congratulations.

**Charles Alexander Mathis**

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

A

Thanks, Jon.

**Operator:** Your next question comes from the line of Seth Seifman with JPMorgan. Your line is open.

**Seth M. Seifman**

*Analyst, JPMorgan Securities LLC*

Q

Thanks very much and good afternoon. Really impressive growth in the backlog over the past two quarters especially. I guess as you look into the backlog and you think about what's in there and what it means in the future in terms of the mix of some of the things that you tell us in terms of the customer mix and in terms of the contract-type mix and in terms of the EBITDA – adjusted EBITDA margin that [ph] was (23:35) embedded in there. What can you tell us about those things based on what -- the book of business that's growing over the past six months?

**Nazzic S. Keene**

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

A

Hi, Seth. This is Nazzic. I'll try to provide a little bit of color. The specifics as to how it all shapes up especially for next year or next fiscal year, we'll provide more about it in the March timeframe. But as we think about where we've been winning business, where we've been holding business, it's really consistent with the strategy that we've outlined over the course of the last couple of years. So, our business development growth, our bookings have been fueled by our focused strategy and diversification around our portfolio, as well as what we do across both engineering and IT. It has been fueled by the acquisitions that we've done the last couple of years and really strengthening our portfolio and our solutions. And so we're very pleased with the momentum that we're seeing. And it is just very consistent with our focus in our core markets and our core areas driving our solutions. And I have to say just incredible talent that sits in SAIC as well.

**Seth M. Seifman**

*Analyst, JPMorgan Securities LLC*

Q

Great. Great. And then kind of consistent with the margin goals that you guys have laid out in the past?

**Nazzic S. Keene**

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

A

I guess, again, we're not going to provide that guidance till we get to the March timeframe. But there's – it's a consistent portfolio is probably the best way to think about it.

**Seth M. Seifman**

*Analyst, JPMorgan Securities LLC*

Q

Okay. Okay. Great. And then just as a quick follow-up for, I guess, maybe for everyone across all sectors as we look at maybe not until the second or toward the middle of the year where we see widespread vaccine distribution. Should we think about maybe your April quarter being another quarter where there's some impact from the virus and then start to move on from there over the course of fiscal 2022?

**Charles Alexander Mathis**

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

A

Yeah. So that's a good question. So we think it's a bit premature for us to certainly quantify any type of impact of COVID for next fiscal year. I think that's what you're asking.

**Seth M. Seifman**

*Analyst, JPMorgan Securities LLC*

Q

Yeah.

**Charles Alexander Mathis**

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

A

Given the large number of cases recently, it's not too much of a stretch to say that we do see it going into next year. We don't know how soon or how long it will last, but we would go into next year [ph] we believe (26:23) and we're continuing to watch it closely.

**Seth M. Seifman**

*Analyst, JPMorgan Securities LLC*

Q

Great. Okay. Thanks very much.

**Nazzic S. Keene**

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

A

Thank you.

**Operator:** Your next question comes from the line of Cai von Rumohr with Cowen. Your line is open.

Q

Hi, everyone. This is [ph] Dan (26:42) on for Cai. Thanks for the question. Would you mind updating us on the expected timing for some of your bigger upcoming recompetes, particularly what's left of AMCOM and [indiscernible] (26:56)?

**Nazzic S. Keene**

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

A

Sure. This is Nazzic. So on AMCOM, as you know, we won the first one out of the chute with that we recompetes and very pleased about that. And there's three significant ones remaining. And we believe that the first one of those three will be awarded in the December-ish timeframe. So hopefully, over the course of next few weeks, and then the remaining two, the large ones, will be in the January into March, April timeframe that's what we understand to be the case now. So those are certainly a big chunk of our recompetes portfolio for next year.

[indiscernible] (27:39), this summer of 2021, so we've got several months there. And the other big one is the recompute of the [indiscernible] (27:46) and our supply chain portfolio. Those really are the most significant recompetes as we go into 2021. Fiscal year 2021 will also be a lighter recompute year for us. So, every year has a little bit different profile. This is a more normative year, this fiscal year that we're in. Next year will be a little bit lighter. So that also bodes well for being able to invest in driving growth in the outyears as well.

Does that answer your question?

Q

Yeah. It's really helpful. Just on that topic, would you be able to give some color on booking prospects for the fourth quarter, and then maybe into the next few quarters, obviously, it's been so strong. Is there a point where it slows down? Like are you guys capturing more than you expected to earlier on?

**Nazzic S. Keene**

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

A

Well, I think – I guess the way that I'd talk about it is that bookings are lumpy. We all know that. And so that's just the nature of the business. Although we are, as Charlie indicated, with the number of proposals we've been submitting and the momentum that we have, we're still confident about being able to see strong bookings at least for the next couple of quarters.

Q

Okay. Thanks, again.

**Operator:** Your next question comes from the line of Tobey Sommer with Truist Securities. Your line is open.

**Tobey Sommer**

*Analyst, Truist Securities, Inc.*

Q

Thanks. With respect to the COVID impact, at this point with the sort of an outlook for the virus to extend into next year, what are your updated thoughts on the interpreting and looking at these -- the small impact and whether it's demand destruction or demand deferral at this point and how that might or might not be recouped at some point in the future? Thank you.

**Charles Alexander Mathis**

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

A

Thanks, Tobey. So, I can – I'll just reemphasize the areas that impact us, continue to be a supply chain business, and that's due to the reduced operational tempo. Whenever that gets back that will turnaround, reduced training for FAA and then the ready-state labor and the intel community. Those are the three areas that are having the majority of the impact on us. And the supply chain is the area that has the biggest revenue impact on us and it's all related to the reduced operational tempo. As soon as that starts to turn around, it will get back to a more normalized kind of run rate, but we think that would certainly probably be a quarter or so into this next year.

**Tobey Sommer***Analyst, Truist Securities, Inc.*

Q

So if we look at your new contract wins, could you talk about your ability to ramp those and the extent to which that ramp looks different in a pandemic scenario. Just important for us even though you're not guiding for next year, we're going to have to model it. So any kind of comments you could give us about the ramping of those would be helpful.

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

A

Yeah. This is Nazzic. I think I can do share is in general some things that we're seeing. We are seeing in some cases a little bit slower ramp, a little slower transition and greatly due to COVID, being able to have people where they need to be when they need to be there to help facilitate the transition. So we are seeing in some cases that take a little bit longer. We saw that some this year. I expect we'll see that going into next year. It's hard to quantify and every contract is a little bit different but I do think that is an anomaly that we're seeing more as a result of COVID in some of these new wins to facilitate the transition timeframe. And so I would just think about it from that as an overarching reality of what we're dealing with.

**Tobey Sommer***Analyst, Truist Securities, Inc.*

Q

Thanks. Last question for me, Nazzic. Could you give us an update on what your kind of interesting areas are for acquisitions for the firm in terms of any kind of holes or new capabilities that you'd like to add?

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

A

Yeah, absolutely. So just as Charlie talked about capital deployment, we're laser-focused on paying down the debt and it feels – just feel really great about what we've been able to accomplish this year going into next year, of course. But with that being said, we continue to have a seat at the table when there's activity in our industry and we want to make sure that we pay attention. But it's probably consistent with what you've heard me talk about before. So there's a couple of areas in our portfolio, public sector health is an example where there's a tremendous opportunity in the federal government. It's not an area we have a big footprint but we also believe it's an area that will be sustained driving growth over the course of the next several years. And so that would be an example of a market in which if there was the right acquisition at the right time at the right price and all those rights come together, it could be interesting for us.

The other would be in some technology areas like AI, would be another example of an area where we just – the good news is we do. We've got great skills and competencies and a footprint there. But to the extent that we could strengthen that in today's market or tomorrow's market, that could be interesting as well. So those are a couple of examples for you, but we are focused on paying down our debt and ensuring that we have that flexibility in the quarters to come.

**Tobey Sommer***Analyst, Truist Securities, Inc.*

Q

Thank you.

**Operator:** Your next question comes from the line of Joseph DeNardi with Stifel. Your line is open.

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

Q

Thanks. Good evening. Once again, I'm going to try to ask the organic growth question a little bit differently. Some of your peers who have been able to put up a 2 times book-to-bill have converted that into a kind of double-digit organic growth. Is there anything about kind of the nature of your bookings, whether it be longer duration or more of it is skewed towards recompute that we should consider in terms of why your 2 times book-to-bill should not eventually convert into double-digit organic growth.

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

A

Well, I guess a couple of comments. One as whether investor or competitor, the bookings and the book-to-bill are a leading indicator of growth to come. So, we feel very confident and optimistic about our bookings. We're very pleased with the areas in which we've been able to again protect our work as well as some takeaways or new work. And we believe that that is a strong indicator for the next several quarters or foreseeable a couple of years.

So I certainly agree with your analysis that it's an indicator, it's a leading indicator and it does suggest growth. What I can't do at this time and we'll give you more color in March is giving indication of what that is. Every contract is a different duration, every contract has different ramps and so and that's the work that we're doing today so that we can provide for you all in March you know what that looks like for next year.

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

Q

Okay. And just two quick follow-ups. Could you just maybe clarify what drove the production and revenue guidance albeit modest? And then if you back into kind of what the revenue contribution was from Unisys the past couple of quarters, it looks to be flat to down a little bit. It has been growing nicely. So can you just talk about what's driving that and maybe overall, how that business is performing thus far? Thank you.

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

A

So let me just re-emphasize about the revenue guidance there. So again, a few of the new business programs that we won earlier in the year that we expect it to ramp up fast, that didn't happen. And it was – again, you can maybe attribute it to COVID. We haven't attributed to COVID but there was a tremendous ongoing effort to transition and ramp up these programs, some of these we won in the first quarter, second quarter but the environment for COVID proved to be challenging. And we just didn't get it ramped up fast enough for the revenue to hit this year.

As far as Unisys Federal goes, Unisys Federal has had an outstanding year as far as new wins, as far as meeting the deal pieces when we purchased the company and the expectations of growth there with their capabilities over the long term. So I feel pretty good about where Unisys Federal is and the outlook and the contribution that they will make in the future.

**Shane P. Canestra***Vice President-Investor Relations, Science Applications International Corp.*

A

Hey, Joe. This is Shane. And if I could add just one thing just to tag on to what Charlie said, Unisys Federal, prior to us purchasing them, had lost a contract, a fairly sizeable contract, I think it was called BEMS or something of that nature. So we knew that this year's profile in the second and third quarters would be more modest than the fourth quarter because of the anniversary. out of that box. So that was a known [ph] at the (37:51) acquisition. So

to your comments about kind of being flattish, if you will, we're not going to report the actuals. But I would just say that the profile that we knew about was more about the back half of the year at the anniversary out of that contract.

**Joseph William DeNardi**

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

Q

Very helpful. Thank you.

**Operator:** [Operator Instructions] Your next question comes from the line of Gavin Parsons with Goldman Sachs. Your line is open.

**Gavin Parsons**

*Analyst, Goldman Sachs & Co. LLC*

Q

Hey, good evening.

**Nazzic S. Keene**

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

A

Gavin.

**Gavin Parsons**

*Analyst, Goldman Sachs & Co. LLC*

Q

Hey. So the pipeline is growing even with your record bookings so clearly your addressable market is expanding and then what you're bidding on is expanding. And I know you don't disclose your actual win rates but I was wondering if you could comment on if you're winning at a higher rate as well as increasing that pipeline. And if there's a single or a handful of most important factors you think are driving wins. Thanks.

**Nazzic S. Keene**

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

A

Yeah. Great question. I would say, again, every quarter is different and bookings are lumpy, but this year we have accomplished both. So, we've been able to bid more ahead of supporters obviously and our win rates are up as we sit here today. So we've always had exceptionally strong win rates in our recent peats, and so that's held it down which is just foundational. But our new business win rates have gone up as well and I would attribute that to a couple things. Certainly, I touched on the strength and the value of the recent acquisitions giving us a pretty strong past performance, strong solution and great talent and market and customer access. And so that's had a great impact on us.

I think our focused strategy, so we've been very transparent of the areas that are important to us, the areas we're focusing and really being able to differentiate and bring compelling solutions to bear for our customers. So, I think it's a little bit of several things that have driven us and been able to drive some success in bookings and new wins, and it's our intention to kind of keep that momentum and really stay focused, stay focused on our strategy, be able to continue to deliver an excellent fashion SAIC always does which is just an underpinning to be able to win new business with the customer and then bring compelling solutions to bear.

**Gavin Parsons**

*Analyst, Goldman Sachs & Co. LLC*

Q

Great. Yes. And then on the – if we can [indiscernible] (40:28), I think you've said it's about 25%. So I just wanted to ask on visibility as the backlog has grown pretty quickly. What is the duration of your backlog relative to your current revenue base and should we expect that recompute rate to decline over the next few years?

**Nazzic S. Keene**

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

A

Yes. So, just for clarification, for our fiscal 2022 which will be our next fiscal year, we've got about 15% of our revenues that are up to recompute. So it is a little lighter year than normal. And so, that's – I just wanted to get on the table. I'm sorry. What was the second part of the question?

**Gavin Parsons**

*Analyst, Goldman Sachs & Co. LLC*

Q

Sorry. Apologies for that. Next one is certainly in, [indiscernible] (41:08) I was just asking your equipment backlog would reduce your recompute rate going forward, but it sounds like it might have already done that.

**Nazzic S. Keene**

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

A

Yeah. Certainly, we had some significant ones this year and when we close out our recomputes and are successful in our recomputes in AMCOM, [indiscernible] (41:25) that will retire most of our recompute risk for next year.

**Gavin Parsons**

*Analyst, Goldman Sachs & Co. LLC*

Q

Great. And then just one last question on the [indiscernible] (41:34) I think the \$250 million win guidance relative to \$160 million year-to-date, so does that imply you would expect a larger COVID headwind in 4Q than you had this quarter or last quarter?

**Charles Alexander Mathis**

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

A

So let me just clarify that a little bit. So again, we have been cautious here about the revenue impact in Q4. Also, when we went back and looked at the quarterly impacts, I think the first quarter was probably like what we stated. We've been running kind of consistently in that \$60 million, \$65 million impact per quarter when you average it and so it's slightly ahead of that in Q4, but part of that is going back to Q1 when we announced it. And there's probably \$15 million that was really attributed to Q1, didn't change the overall amount. Shane can certainly go over the detail with you as far as that goes, but it's pretty consistent that \$60 million to \$65 million range.

**Gavin Parsons**

*Analyst, Goldman Sachs & Co. LLC*

Q

Got it. Okay. Thanks and congrats on a nice quarter.

**Nazzic S. Keene**

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

A

Thanks.

**Charles Alexander Mathis**

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

A

Thanks.

**Operator:** Your next question comes from the line of Jon Raviv with Citi. Your line is open.

**Jonathan Raviv**

*Analyst, Citigroup Global Markets, Inc.*

Q

Hey, thanks for letting me get back on the call here. Nazzic, you pivoted a question and maybe we can [indiscernible] (43:11) on the call as well but just sort of your perspective on bringing him in, I know you've talked a little bit about in your prepared remarks. When I think about him coming from Northrop Grumman, Northrop Grumman is more of a product kind of firm. You guys have historically sort of not been interested and has really said that you're not interested in products while some of your peers are. He ran M&A over there to a certain extent. You guys have been episodic. So anyway, just sort of like any I'd say evolution in the way you're thinking about some of those things given his particular background with a large defense prime.

**Nazzic S. Keene**

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

A

No. And I look forward to meet again. As we thought about Prabu, he certainly captured his incumbency and where he's coming from. But he's got a very broad background in services, in technology, in commercial as well as defense and aerospace. So it really is a diversification of his background that is compelling for us. And I'm very confident that he will add tremendous value to SAIC. It does not suggest a change in our strategy in any form or fashion.

**Jonathan Raviv**

*Analyst, Citigroup Global Markets, Inc.*

Q

Okay. Thank you very much.

**Nazzic S. Keene**

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

A

Sure.

**Operator:** There are no further questions at this time. I will turn the call back over to Mr. Canestra.

**Shane P. Canestra**

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

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

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



**Disclaimer**

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2020 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.