Company Name: Science Applications
Company Ticker: SAIC US
Date: 2023-04-03
Event Description: Q4 2023 Earnings Call

Market Cap: 6009.219480000001
Current PX: 110
YTD Change($): -0.06
YTD Change(%): -0.055

Bloomberg Estimates - EPS
Current Quarter: 1.874
Current Year: 7.456
Bloomberg Estimates - Sales
Current Quarter: 1981.833
Current Year: 7713.923

Q4 2023 Earnings Call

Company Participants

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

Other Participants

- Jason Gursky
- Matt Akers
- Robert Connors
- Rocco Barbara
- Cai von Rumohr
- Greg Conrad
- Tobey Sommer
- Louie DiPalma

Presentation

Operator

Good morning. My name is Rob and I will be your conference operator today. At this time, I would like to welcome everyone to the SAIC Fourth Quarter Fiscal Year 2023 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) Thank you.

Joe DeNardi, Vice President of Investor Relations and Strategic Ventures

Good morning and thank you for joining SAIC's fourth quarter fiscal year 2023 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 fourth quarter of fiscal year 2023 that ended February 3, 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 our actual results to differ materially from statements made on this call. I refer you to our SEC filings for a discussion of these risks, including the Risk Factors section of our annual report on Form 10-K and quarterly reports on Form 10-Q. In addition, the statements represent our views as of today and subsequent events may cause our views to change. We may elect to update the forward-looking statements at some point in the future, but we specifically disclaim any obligation to do so.

In addition, we will discuss non-GAAP financial 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 strong results for the fourth quarter and fiscal year 2023. I am particularly proud of the 10% revenue growth we reported in the quarter which exceeded our expectations due to an intensity and focus across the enterprise that is very encouraging to see.

As I've done in recent quarters, I want to start by highlighting two SAIC colleagues for their contribution to our inclusive culture and the advancement of values which are the foundation to our success. As you know, March was Women's History Month which we celebrate at SAIC through our Women's Employee Resource Group, led by April Huynh from our Strategic Planning team and Sandra Dorsey, a Cybersecurity Specialist here at SAIC.

The theme for this year's Women's History Month was Celebrating Women Who Tell Our Stories, which we embraced at SAIC through several enterprise-wide initiatives. In one of these, the SAIC Women's Employee Resource Group partnered with Girls, Inc of Greater Washington, D.C. for a book donation drive and collaborative panels in which students and SAIC employees shared their stories about women and efforts that inspire them to be strong, smart and bold. I want to personally thank April and Sandra for their inspiration, their leadership and their related accomplishments.

Now onto a review of our financial results and recent portfolio actions. As I mentioned, we reported revenues of $2 billion, representing year-over-year growth of 10%. After adjusting for the benefit of five additional working days in the quarter, we delivered organic growth of roughly 2% while overcoming approximately four points of headwind from previously discussed contract transitions. Our strong close to the year combined with recent business development momentum both on new business and recompetes gives me confidence that we can sustain and ultimately improve upon recent organic growth rates.

It is important to note that our book-to-bill, backlog and revenue results in fiscal year '23 do not include any contribution from two strategically significant new program wins, DCSA which was recently re-awarded and T-Cloud which remains in protest. Combined, we believe these two programs can ultimately contribute at least three points of growth for SAIC once both are fully ramped up. Given the still uncertain timing of these program starts, our fiscal year '24 revenue guidance for roughly 3% of pro-forma organic growth does not include any material contribution from either program. We look forward to being able to deliver value to both customers once these programs clear the typical post-award process.

While our margins in the fourth quarter were modestly impacted by dilutive materials-related revenue, I'm pleased with our program execution and we have solid visibility into continued margin expansion over the next few years which is reflected in our fiscal year '24 margin guidance for 50 basis points of year-over-year improvement. Contributing to this and as announced, we signed an agreement to sell our Logistics and Supply Chain business to ASRC Federal for $350 million in cash which we expect to close in the coming months.

While the business was not a significant contributor to our financials, the transaction aligns with our strategy to focus our resources and investment dollars on areas of the market where we have a strong right to win and provide the most attractive long-term returns for shareholders. The sale price represents roughly 11.5x prior year free cash flow which we believe delivers an attractive return for our shareholders. Although we face a period of somewhat heightened political and budgetary noise over the next few quarters, we are bullish that our disciplined investment decisions and strategy position us well to best meet increasing customer demand amidst a very challenging threat environment.

It is only through the dedication and commitment from our employees that we are able to deliver excellence to our customers and value to our shareholders. I want to thank all of my SAIC colleagues for your contribution to our strong performance this past year.

With that, I'll turn the call over to Prabu to discuss our financial results and improved outlook in a bit longer than usual discussion as there is much to cover.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Thank you, Nazzic and good morning everyone. We reported strong fiscal fourth quarter results with revenue of $2 billion, up 10% year-over-year or 2% when adjusting for the five extra working days, again benefiting from strong execution and a continued focus to drive on-contract growth which allowed us to overcome revenue pressure from contract transitions.

While this introduced some modest margin pressure which resulted in our fourth quarter margin of 8.7% being slightly lower than expected, we see a multi-year opportunity to materially improve margins. We reported adjusted diluted EPS of $2.04 which benefited from a lower tax rate and a roughly 4% year-over-year reduction in our diluted share count as a result of our continued return of capital to shareholders via our share repurchase program.

Our fourth quarter free cash flow of $148 million resulted in full year free cash flow of $457 million which included a roughly $90 million impact related to Section 174 cash tax payments, partially offset by related cash tax benefits of approximately $20 million. As a reminder, this additional $70 million of cash tax payments was not included in our prior guidance for free cash flow of $500 million to $520 million. Adding back the Section 174 and other related cash tax payments, we achieved free cash flow of $525 million, $5 million ahead of the top end of our prior guidance and represents growth of 12% versus fiscal year 2022.

I am particularly proud of our cash flow performance in the quarter as we were able to overcome payment delays all year with an intensity and focus to deliver on our financial commitments. In the month of January, we achieved the highest level of monthly cash collections in SAIC's history. I want to thank all of our finance and business unit leaders who contributed to this and to our treasury team who led the effort.

On business development, we had $1.3 billion of net bookings in the fourth quarter which contributed to a trailing 12 month book-to-bill of approximately 1x. Included in this was a $350 million extension on our Department of State Vanguard program which provides us with visibility on that contract through our FY'24 and partially into our FY'25. While our book-to-bill of approximately 1.0x is generally inline with our average over the prior year, our trailing three year book-to-bill is over 1.2 and we continue to be confident around our ability to generate stronger rates of organic growth for two reasons: one, our win rates on new business pursuits is strong, highlighted by the two new wins which Nazzic mentioned.

And two, our recompete win rates are returning to normalized levels in recent quarters as we annualize recompete loss headwinds in the quarters ahead, partially in our fiscal second quarter and fully in our fiscal third quarter. Although we have key recompetes to focus on in FY'24 and beyond, we are heartened by the ability of our organization to bounce back from these temporary setbacks. Importantly, the Vanguard extension and the supply chain divestiture certainly improve the near term risk profile of the company.

Prior to discussing our updated FY'24 guidance, I want to quickly summarize the financial impact from our two recent portfolio actions, the divestiture of our logistics and supply chain management business and the deconsolidation of our Forfeiture Support Associates Joint Venture. Our supply chain business consists of a portfolio of contracts which contributed roughly $645 million to revenue in FY'23, approximately $35 million to $40 million of adjusted EBITDA and $30 million of free cash flow.

The second item relates to the deconsolidation of our joint venture, Forfeiture Support Associates, which SAIC acquired as part of the Engility transaction. Effective February 4, 2023, we amended the operating agreement such that SAIC no longer controls the joint venture and accordingly we have begun accounting for the arrangement as an equity method investment. The deconsolidation will reduce our FY'24 revenue by approximately $150 million, our adjusted EBITDA by roughly $3 million and our free cash flow by approximately $6 million.

For clarity, the combined impact from these two transactions on our FY'24 financials will be a $650 million reduction in revenue and $35 million reduction in adjusted EBITDA, resulting in a roughly 30 basis points benefit to year-over-year margins. For FY'25, we expect an additional 10 basis point of margin from our logistics and supply chain management divestiture. Our updated FY'24 guidance assumes approximately one quarter of financial contribution from that business for the year. We will provide updated guidance if needed based on the actual closing date of the transaction.

I would now like to discuss our updated and improved outlook for fiscal year 2024 after adjusting for the two items just mentioned and the impact of Section 174 on cash taxes. Given the number of changes compared to our prior guidance, we have provided additional detail and disclosures in our slide presentation to assist with modeling and to clarify the underlying strong performance from the go-forward SAIC.

Our FY'24 revenue guidance for a range of $7.05 billion to $7.20 billion reflects organic growth of roughly 3% at the midpoint after adjusting for the fewer working days in FY'24, our supply chain sale and the deconsolidation of FSA. On a reported basis, we expect roughly flat revenue in our fiscal first quarter with improving growth rates into F2Q and F3Q as we annualize contract transitions and benefit from new programs ramping up. Our fiscal fourth quarter will be impacted by an estimated $150 million headwind from fewer working days which will result in flat or modest growth on a GAAP basis but strong growth rates when adjusting for the working days.

Our FY'24 margin guidance of 9.2% to 9.4% compares to our FY'23 margin of 8.8% and includes 20 basis points from margin improvement initiatives and an estimated 30 basis points benefit from our portfolio actions. As Nazzic mentioned, we continue to see a multi-year opportunity to drive organic margin improvement. Our FY'24 EPS guidance for a range of $6.80 to $7.00 compares to our FY'23 EPS of $7.55. As illustrated on Slide 12, the midpoint of our guidance reflects roughly $0.60 of operational improvement offset by the divestiture of our supply chain business and below-the-line items including a higher tax rate assumption and increased interest expense. Note that the dilution associated with our supply chain divestiture is expected to be minimal over time as we actively deploy the proceeds from the sale.

Our FY'24 free cash flow guidance of $460 million to $480 million compares to our prior guidance of $560 million and includes a $100 million impact associated with the net effect of higher Section 174 and other cash tax payments and our supply chain divestiture. This is offset by an approximately $10 million benefit to free cash flow from expected operational improvements. Note that we have provided an updated multi-year free cash flow walk on Slide 13 to reflect the effects of our supply chain sale and Section 174. We continue to see strong opportunities to increase free cash flow in the coming years despite the expected impact from higher cash taxes.

Based on our updated intention to repurchase approximately $350 million to $400 million of shares in FY'24 with a continued bias towards repurchases in FY'25 and FY'26, we have good visibility to strong free cash flow per share for our shareholders. This outlook is supported by our recently announced $1 billion share repurchase program. Even with this plan for increased repurchases, we will maintain sufficient capacity for capability-focused M&A over the next few years.

Importantly, our capital structure and debt maturity profile is in good shape with no meaningful maturities until October 2025. We intend to provide a detailed multi-year financial outlook at our Investor Day next Tuesday to include revenue, earnings, free cash flow, and capital deployment. I very much look forward to seeing all of you there.

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

Nazzic Keene, Chief Executive Officer

As Prabu mentioned and as you've seen, we will be hosting our Investor Day next week on April 11. While I won't preview any of the specific financial targets we'll provide then, I do want to quickly highlight three things that we're looking to accomplish during our time with you.

First, to provide you with an improved understanding of who we are, our key leaders and the markets and capabilities we're investing in. Second, to provide multi-year financial targets and articulate a compelling investment case for SAIC shareholders. And third, to discuss our commitment to being an asset light, technology integrator with a shareholder focused capital deployment strategy.

We're very excited about seeing all of you next week and thank you in advance for joining us. We'll now take your questions.

Questions And Answers

Operator

(Question And Answer)

Operator

(Operator Instructions) And your first question comes from the line of Jason Gursky from Citi. Your line is open.

Jason Gursky

Hey, good morning, everybody.

Nazzic Keene, Chief Executive Officer

Good morning.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Good morning.

Jason Gursky

Yes. Nazzic, one question for you, and Prabu, one for you. I'm just curious on the outlook for bookings or the year kind of what's in the pipeline and what you expect from a book-to-bill this year? And maybe some color on the cadence of that kind of whether we're front-end loaded, back-end loaded and kind of your expectations around the behavior of the customer as we head into what is likely another CR? And then Prabu for you, it looks like from the -- on the margin guidance, that you're kind of flat, up 20 basis points on a pro forma basis. I was wondering if you could just describe to us what you think will allow you to get to the top end of your range. Thanks for the time.

Nazzic Keene, Chief Executive Officer

Thanks, Jason. So let me tackle your first one in a couple of ways. So, obviously, all of us are closely watching what's happening in Washington, the budget impacts. And certainly, we expect a CR this year and could be even a bit longer than we've seen in the past that we continue to navigate that.

The good news is, we have experience, and a lot of history in navigating of CR. And we worked very closely with our customers to do exactly that. So, on-contract growth will be a key component of our sales strategy this year, as it has been in the last couple of years and we continue to see great success in being able to drive on-contract growth with our customers.

It's probably even more important this year as we help our customers ensure that they can deliver on their mission objectives in the event that there is an elongated CR. So, we're working very closely on that particular part of our booking strategy and our sales strategy.

As it relates to bookings in general, we don't tend to give guidance in that arena, but we would continue to expect strong bookings, a good mix of recompetes, as well as new business. And as Prabu mentioned in his prepared remarks, we have seen our recompete win rates get back to our more normalized, very strong position and we continue to see the opportunity to drive that.

And then on the new business side as we continue to focus on our GTA areas of opportunity and building our pipeline in that arena and booking business in those areas, we continue to see good traction there. So, we don't tend to provide guidance, but I'm comfortable going into the year with a portfolio, a pipeline that will support the growth targets that we've outlined. Prabu?

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Thanks, Nazzic. Thanks, Jason, for the question. Maybe before the margin question, book-to-bill, the bookings do not reflect DCSA 180, which was recently rewarded to us, nor does it obviously include T cloud, which is still kind of early days of the protest process.

As we pointed over the course of that FY '23, our new business win rate was trending very nicely, actually higher than our historical averages for new business. And the trend has continued to start FY '24. As Nazzic exactly pointed out, we don't offer kind of guidance on book-to-bill, but look for that number to be above 1.0 comfortably and that sort of how we're targeting kind of long-term trajectory for book-to-bill to ensure that we are consistently growing the business. So kind of big picture.

On the margin rate guidance, I think you're exactly right. I think sort of on a truly pro forma basis, we are expecting the business to grind up about 20 basis points kind of year-over-year. I think very proud of kind of what we delivered last year, and obviously the portfolio actions plus the other things that we've got in the half per year allows to get comfortable on a 50 basis point increase in the margin rate from $88 to $93 at the midpoint.

There are a couple of things that we very actively looked at, continuing focus on efficiency-related improvements. We have actively talked about our real estate footprint as a potential tailwind here as we continue to cycle out of facilities that are minimally used inside the organization. We are very actively looking at labor curves across the portfolio.

So, I'd say the short way of answering the question would be that we've got a few things that we are continuing to grind through inside the organization that gives us comfort that we will obviously, continue to move margin on a multi-year basis. And the reality is at Q1, we want to make sure we start the year appropriately placed on the risks and opportunities side and hopefully we continue to execute and improve margins as we grind through the rest of the year.

Jason Gursky

Okay. Great. Thanks.

Operator

Your next question comes from the line of Matt Akers from Wells Fargo. Your line is open.

Matt Akers

Hey, good morning, guys. Thanks for the question. I wanted to ask kind of the portfolio. After this the divestiture, the logistics business, I guess there are other pieces that maybe don't fit or I guess on the flip side there are there maybe other assets that you might need to sort of enact the GTA kind of mixed strategy that you've talked about. And maybe could M&A be part of the cash flow story going forward?

Nazzic Keene, Chief Executive Officer

Yeah, Matt, this is Nazzic. Hi. So, a couple of things on the -- is there other aspects of the portfolio that we're looking at from a divestiture. The short answer is no. We continue to run and operate a very agile strategy process inside of SAIC.

So, we're always looking at how our current portfolio supports our long-term objectives and we continue to do that on a regular basis. But as we sit here today, we don't see anything that bubbles up. As it relates to that divestiture, I wanted to highlight a couple of things. We're very proud of what that portfolio has contributed to SAIC over the many years since it was acquired in to the SAIC portfolio. But as we sat here today, and as we've been communicating with you, as we focus on the GTA part of our strategy, it became not core to our long-term strategy.

And so, we looked for the right time, at the right price, all the rights for an opportunity to divest that. And very very pleased with how the team has executed against that objective and very proud and pleased with where it's going to end up inside of ASRC Federal, where I know they'll have a great ability to drive their business, drive growth and be a great part of their long-term strategy.

So, as we sit here today, we don't see anything else that falls into that category. On the flip side of your question, do we see opportunities to acquire? We're very well positioned at SAIC. We believe we've got the scale and the capacity to deliver and execute on the strategy that we've been communicating and the strategy on which we'll provide some longer-term financial guidance next week.

But there could be opportunities for us to do some technology-based tuck-ins as we did with the Koverse acquisition. And so we continue to look at the opportunity space to accelerate our GTA strategy today. So that's where I would see potential acquisition. Again, we're very choosy, very particular, and very disciplined. But as I look forward, if there is an opportunity similar to what we did with Koverse or it accelerates a current part of our strategy, we would certainly take a hard look at that type of acquisitions.

Jason Gursky

Okay. Great. Thanks. And I guess, if I could do one more, just if you could remind us on recompetes. I know you mentioned Vanguard got extended anything else that we should watch for looking forward?

Nazzic Keene, Chief Executive Officer

Well, certainly, the Vanguard, you know is one that's top of mind. It's -- everybody in the industry knows about it and it's a significant part of our portfolio. So very pleased with our team's focus as we continue to deliver to our critical customer the Department of State there and very proud of. They're keeping an eye on the ball, even through the procurement process that is taking place.

So -- but as we look forward, there's always some elements of recompete in a portfolio and we keep a close eye on those. And we just -- we've become over the course of the last couple of years, much more disciplined, much more focused on ensuring that we're delivering the right solution to the customer at the right price to protect those recompetes that are so critical to our success. But due to competitive reasons, we prefer not to touch or talk about too many of those in a public forum.

Matt Akers

Yeah. Understood. Thank you.

Nazzic Keene, Chief Executive Officer

Thank you.

Operator

Your next question comes from the line of Robert Conner Robert Connors from Stifel. Your line is open.

Robert Connors

Hey, Prabu, Nazzic. This is Rob on for Bert. Are you guys able to hear me?

Nazzic Keene, Chief Executive Officer

Yes. Good morning.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Good morning.

Robert Connors

Okay. Great. And I was just wondering with regards to the margin expansion and I think before you guys had cited some metrics around GTA versus core. And just trying to get a sense of part of the margin expansion story going into '24, how much is driven by GTA versus core versus sort of on-contract growth?

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Sure. Hey, Rob, Prabu here. I'll take that one. So, we flagged over the last few quarters that we expect GTA margins to be about 200 basis points higher than our core margins. That was obviously before the divestiture of the supply chain business as well as the deconsolidation of the FSA joint venture.

We continue to see GTA margins trending, at least, 2% higher than the core margins, which are now actually higher than where they used to be core margins are sitting right about the high age now. And therefore, we are continuing to see that opportunity on a multi-year basis. We tend to think about what's inside of the pipeline and whether the pipeline is biased to higher levels of GTA. And the answer is that's an important metric to track inside the company the pipeline is trending towards and biasing towards higher levels of GTA on a multi-year basis.

And then we want to make sure that we are differentiated in the things that we're going after. So we're really truly focused on the quality of the things that were chasing to ensure that we are not spraying the investment dollars across the portfolio. So in a book tuned into the debt of the pipeline but also the quality of the things that we're going after. So we continue to see, I'd say, encouraged by the potential for margin expansion as we inflect the business towards higher levels of GTA over the next several years. Hopefully, that was responsive.

Robert Connors

Yeah, that was great. Thanks for that, Prabu. And then sort of as a follow-up. Recently, you guys have had some hires around the Navy and Army business units. Just sort of wondering what your guys thinking is around that? What were some of the holes or capabilities that were brought to the table by some of the recent business unit hires? Thanks.

Nazzic Keene, Chief Executive Officer

Nazzic here. Yes, thanks for noticing that. One of the critical elements in our type of business--services business is the caliber and the talent and what the people bring to the table. And so very proud of -- over the course of the last few years we've been looking across the organization to do a few things where it makes sense bringing some new talent with aligned to our priorities, aligned to the growth priorities and margin priorities and most importantly, our customer priorities. And in many cases look for the opportunity to develop the talent that we have in efforts like rotations to get additional skills in the company.

And so, as you've commented in those two portfolios, we've been able to accomplish many things exactly on those fronts. So we've got some great talent that has been able to do some rotations and build out their skill sets and become even more valuable leaders for SAIC. And we've had the opportunity to also bring in some talent from the outside that strengthen our team and make us a better company and also deliver stronger solutions to our customers. And so we take advantage of those opportunities when we can to ensure that we have the absolute best talent, the best leadership in the industry.

Robert Connors

Okay. Great. Thanks for taking my questions.

Nazzic Keene, Chief Executive Officer

Thanks.

Operator

And your next question comes from the line of Seth Seifman from JPMorgan. Your line is open.

Rocco Barbara

Hi, good morning. This is Rocco on for Seth.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Hi, there.

Nazzic Keene, Chief Executive Officer

Hi, Rocco.

Rocco Barbara

Maybe a two parter [ph] question. What sort of changes are driving the increased recompete win rate, as well as the win rate on new businesses?

Nazzic Keene, Chief Executive Officer

So this has been an area we've shared some of this over the course of last many quarters. There's probably nothing that motivates a team more than losing. We had some losses several quarters ago. You guys saw them. We felt them. And certainly, we try to take advantage of situations where we can do better.

So, I would say that, a couple of losses, really kind of accelerated some things that we were already doing. And of course, we'd love to win. This is a team that loves to win. So, across the board, we have been doing some good soul-searching on what we did well and what we didn't do so well and have corrected those areas.

We've talked about briefly on my last question, the topic of talent and we've been able to bring in some great new talent to strengthen our sales and business development teams and we have been laser-focused on on-contract growth, helping our customers deliver on their missions.

So, I think those are certainly some highlights, but I will tell you this is something that gets my attention on daily basis, Prabu's attention and the entire ELT really looking at one of those must-wins inside the company, ensuring that we're dedicating the resources to those areas of the opportunity or those areas of pipeline that we have to win.

And as Prabu mentioned on the last question that he addressed, is also being pretty focused and disciplined on what we pursue because there's so much opportunity, there's so many RPs, there's so many opportunities for us to make a difference. But to those to the extent that we can focus on our key accounts and the GTA areas and our core areas of focus, we've been a little bit more differentiated on how we focus our attention and our money.

So I would say, there's many aspects that are going into that it is it's certainly not a one-and-done. We intend to strengthen our abilities in this area to continue to drive great success in our recompete win rates, as well as our new businesses. Recognizing that we're not going to win everything, we're not going to win every recompete. But to those that are must wins for us, we aspire and we put our money where our mouth is and our talent where our mouth is to ensure that we had the best solution for the customer. Prabu, anything you want to add to that?

Prabu Natarajan, Executive Vice President and Chief Financial Officer

No, that was fantastic, Nazzic. Nothing to add.

Rocco Barbara

Right. And touching on the talent portion, how has the hiring environment changed over the last few months?

Nazzic Keene, Chief Executive Officer

A couple of comments there. So I would say on the -- turnover is obviously a part of that dynamic. We are seeing turnover return to much more closely aligned to the pre-pandemic levels. And so very, very pleased to see what was probably a heightened issue for us, as well as other companies over the course of the last couple of years, get back to what a more normalized environment. It is an area we can continue to focus on. We want to be best-in-class when it comes to turnover, as well as hiring.

On the hiring side, certainly, we -- there's some headwinds in some areas, but I would say over the last few months, it has gotten what I -- again, what I would consider more normalized. And so there's pockets of the business if you think about, looking for special security clearances that tend to take us a little bit longer as it does everybody in the industry. But in general, the hiring teams are hiring what we need to, especially as we're looking to start up some of these new programs that's top of mind for us. And we put again, tremendous focus on that, as well as trying to mitigate the turnover risk, where it makes sense as pockets of the business that are more critical than others.

So appreciate the question. It is a dynamic we're all watching especially to services business, but very pleased with how we sit today.

Rocco Barbara

Great. Thank you.

Nazzic Keene, Chief Executive Officer

Thank you.

Operator

Your next question comes from the line of Cai von Rumohr from Cowen. Your line is open.

Cai von Rumohr

Thank you very much. So, Vanguard. Hello, Prabu. Hello, Nazzic. Vanguard --

Nazzic Keene, Chief Executive Officer

Good morning.

Cai von Rumohr

You've got me extension. But where are we in the recompete? My understanding was that it was going to be split into five different sections and you could only bid on two. And then, secondly, my understanding is this has been an above-average program. Should the profitability should generally be sustained, if you win it and kind of when did the decisions come up that we should be looking for?

Nazzic Keene, Chief Executive Officer

Hi, Nazzic here. A couple of comments. Obviously, this is a very very active procurement and it's going through its cycle. As far as timing, I don't know that I could predict when it's all going to happen with such a big program going through a very different procurement cycle than obviously, they had many years ago. I think there's a lot of moving pieces.

It is true. We've broken up into multiple pieces. Obviously, SAIC will look to play a critical and important role in those aspects to procurement where we believe we can bring differentiated solutions, and -- but probably not going to comment on exactly which ones that we're going to pursue or not pursue, all the reasons that I know you appreciate.

As it relates to profitability, I think that that's something TBD. It's not uncommon for recompetes to put some profitability headwinds when you do recompete and in certainly the early days of execution. But again, we'll look to areas where we can differentiate, we can set ourselves apart, we can bring solutions to bear that best support the customer and best support our objectives as well.

So that's probably all I'm going to say on Vanguard at this point. But there again I just want to reiterate and appreciate the team that's delivering to this very critical mission. Because it's easy to get kind of get sidelined sometimes with all the recompete process that's happening, but our team is laser-focused on delivering and very proud of them.

Cai von Rumohr

Terrific. And the last one, impressive takeaway wins in T cloud and One IT. So as we look at kind of what you're bidding, do you have other significant takeaway bids in the outing? Because up until these two wins we hadn't really seen this kind of aggressive takeaway effort on your part.

Nazzic Keene, Chief Executive Officer

So, (inaudible) we appreciate you appreciate the comments, very proud of how we sit today. But as Prabu mentioned, they're both still in their post-award process but very pleased with our ability to get this far and very, very optimistic that we will clear the post-award process and have much more to share with you after that.

I will say that both of these are positioned in our GTA areas of focus. So it continues to really focus on that part of our strategy and complement and provide some proof points for that part of our strategy. And I think it's -- all I will say is I believe that team has brought forward a very competitive and compelling solution for our customers.

As it relates to other things in our pipeline, we certainly do see opportunities to continue to create a position in the market in these areas that we choose to differentiate and we look forward to sharing more of those types of wins with you in the quarters to come.

Cai von Rumohr

Thank you.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

And Cai, if I can add to that. As not Nazzic said, we've got a few other things in the pipeline on an annual basis for every one of the next three to four years that have the potential to deliver.

The more important thing that we tend to focus on is why SAIC? How can we articulate the proposition that we bring to a customer on a takeaway opportunity? We all know takeaways are hard in this business because incumbent recompete win rates are pretty high. So, therefore, the why SAIC question is a really critical part of the questions we have for the team inside our gate review process. And making sure that we are tying the investment dollars to effectively and compelling answering the question on a repeated basis.

Looking at draft RFPs, what's changed from the last time terms and conditions are these the things that we want to be bidding at, what is the potential for a particular opportunity to be a game-changer in terms of ease of that customer, that class of technology or a way to build out other parts of the pipeline. So those are all really important ingredients that we look to the teams to answer for us.

And again, at the end of the day, this is good old-fashioned habits and hygiene getting the things positioned where the technologies that we are bringing truly get differentiated from our competitors. But not just that, they also get schooled as a differentiator, to be as just good old-fashioned solid business development resulted in two big wins and hopefully a few more in the future.

Cai von Rumohr

Terrific. Thank you.

Nazzic Keene, Chief Executive Officer

Thanks, Cai.

Operator

Your next question comes from a line of Greg Conrad from Jefferies. Your line is open.

Greg Conrad

Good morning.

Nazzic Keene, Chief Executive Officer

Good morning.

Greg Conrad

Maybe just to start, I mean you called out record collection in January and just thinking about the cash flow bridge working capital and earnings are the contributor over the next several years. Can you maybe just give some color around the opportunity to see in working capital, whether it's metrics or just how to think about that going forward?

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Yeah, I appreciate the question, Greg. And let me try and take a stab at it. We've got a chart in the earnings presentation that offers a multi-review of cash flow. And I think most importantly, at about a 3x leverage for FY '24, we're sitting at let's call it around $9 of free cash flow per share.

Our previous estimate was about $10 and the difference is effectively $174 and the sale of our supply chain business and the consolidation of FSA. And so that's sort of the multi-year review. We're a very strong believer that there is potential for working capital improvement. If you just looked at the Q4 cash that this business generated, we reported a free cash flow of $150 million around numbers. That included $70 million on Section 174, plus we had a payroll deferral giveback in Q4. When you add those two elements to the free cash flow we generated in Q4, that trends to a free cash flow in Q4 of about $275 million round numbers.

So very strong cash flow generation in Q4. And as we think about working capital on a multi-year basis, look, we're not going to take the foot off the gas pedal. We see the opportunity to continue to improve DSO. We continue to see opportunities to improve DPO, inventory management, supplier terms and conditions, our terms and conditions with our customer. All of those present, I believe, solid opportunities for us to improve cash on a multi-year basis obviously, with a growing business.

Free cash flow, working capital impacts are a little more of a pressure on a growing business than when you are roughly flat, but there are enough things in the hopper here that will continue to allow us to offset the growth needs of a business and actually generate some improvement in working capital on a year-over-year basis.

So, we're pretty committed to kind of the plans we put out there and you'll see this team will really hard. And finally, just as importantly, cash flow from ops is an important incentive comp metric for this team.

And therefore, you will continue to see us running through operating cash so we can deliver better cash than most in our business. And most importantly, as Nazzic mentioned, you will also see us make good choices with the capital deployment element to this. So, we continue to be a differentiated story in that space I believe.

Greg Conrad

And then just to follow up you gave a lot of helpful commentary around GTA, bidding strategy, and just some of the opportunities out there with the caveat that there's some market volatility near-term just given what's going on in D.C. Any way to quantify maybe how the pipeline overall has moved just given some of these opportunities and bidding strategy, and how you're kind of thinking about that when you talked about book-to bill before?

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Yeah, I appreciate the question. Look, I think Nazzic and I spend a fair amount of time looking at the quality of the pipeline, but also the depth of the pipeline.

In order to consistently grow this business let's call it 3% of the midpoint, what is the quality that we want to see inside of the pipeline, and are we targeting the kinds of work that would be relevant to our future 3 to 5 years from now? To me, that's an important venn diagram that we draw inside the company to make sure that we're committed to growing this business consistently profitably over time.

And so to me that's the way we think about it. We have internal dashboards that we take a hard look at. We share those obviously as part of our governance with our board. And the reality is, we're fixated almost on improving the quality of what we bid, quality of the pipeline, and making sure that this business -- our business today is chasing the kind of work that we want to be in three or five years time.

To me that's a very important longer-term perspective of this and we're happy to do that because to us that's what brings balance between growth rates, margin expansion, and cash generation. And we're truly trying to thread the needle there between those three metrics.

Greg Conrad

Thank you.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Sure.

Operator

Your next question comes from a line of Tobey Sommer from Truist Securities. Your line is open.

Tobey Sommer

Thanks. Kind of building on some recent questions. If you reflect back in recent years on the changes in incentive comp. Have those changes produced the desired results and going forward in the new fiscal year and beyond, do you see an opportunity to refine those? And if so, how to get sort of different outputs in the future?

Nazzic Keene, Chief Executive Officer

Yeah, Tobey. Nazzic here. So, I would say the short answer is yes. So if we think about the changes we've made, which is really to balance the incentive comp structure on the three components of the business that Prabu just highlighted obviously, revenue growth, margin expansion and cash. We believe that all three of those are necessary for us to achieve our long-term strategy and to drive shareholder value creation. And when we drive shareholder value creation, we drive value for our employees, our senior leaders as well.

So we believe it's the right mix, it's the right balance. We don't want to drive revenue at the expense of profit and cash and we certainly don't want to drive profit at the expense of the other two. So I think it's very balanced. Our team understands it and it also helps drive decision-making inside the company.

And I will highlight that as you've heard from our this year's guidance and you'll hear next week, we'd look to drive improvement in all three of those dimensions across the next several years. And so, having that backdrop reminds all of us of what's important to the company, what's going to ultimately drive shareholder value. And very pleased with it's kind of a simple model if you think about it just the balance, but it does drive the right behavior of the right incentives. And we're seeing that. We're seeing that in the results that were talking about today and we're seeing it as we -- as you'll see next week when we share our future guidance.

Prabu, I know you did a lot of work to help us get to this point. So anything you want to add?

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Tobey, the only other thing I would add to Nazzic's commentary would be the underlying theme for every one of the changes we've made over the last two years is accountability and more skinnier the team, skinnier the game for the leadership team.

And so to me, that's the permeating theme and you have truly seen the team step up to the challenge and embrace having more risk inside the incentive comp system and continue to drive better performance. We've made it uncomfortable to be comfortable if that's a way to characterize it.

So I think that was likely not to change over the next couple of years. You will continue to drive internally a little more of a view that performance matters and we have to operate the business as owners of the business and what is the mindset that it takes to actually drive performance and you'll continue to see us pull the thread on it.

We're not going to comment specifically on the changes that are upcoming, we don't want to get ahead of our Board here, but certainly, you'll see that as an animating theme in the changes we're making.

Tobey Sommer

Thank you. And as a follow-up, could you discuss the Space domain and what you're seeing in opportunities, maybe rank order, civil, military in intel as attractive markets?

Nazzic Keene, Chief Executive Officer

So, space continues to be an important part of our portfolio as we sit here today, we're certainly seeing some increased focus in the military aspect of space with I think kind of a global unrest that exists. So, we continue to see opportunities there, but really not at the expense of civil or intel. In many cases, they're interwoven and learnings and the solutions that we deliver in one aspect can be replicated in the others.

So, we look at it from a balanced perspective, working obviously closely with our customers on where the budgets going to go. But very fortunate to have a position in all three of those domains. And again, we do leverage the talent, we leverage the solutions where we can to drive differentiation as the ecosystem and the RFPs in the world stage demands it.

Operator

And your next question comes from the line of Louie DiPalma from William Blair. Your line is open.

Louie DiPalma

Nazzic, Prabhu, and Joe, good morning, and happy cherry blossom season to all in the DC area.

Nazzic Keene, Chief Executive Officer

Good morning.

Prabu Natarajan, Executive Vice President and Chief Financial Officer

Good morning.

Louie DiPalma

Good morning. For Nazzic, SAIC has multiple branded solutions. You have the ASCEND cloud solution and the (inaudible) solution that is part of your Koverse data platform. Now that you just mentioned that Koverse has been an accelerant, have these branded solutions gained traction in the market? And should we expect more partnerships like, what you did with data in Q4 tangent?

Nazzic Keene, Chief Executive Officer

Yes. So I'm thrilled that you've noticed and you've recognized the brand, so that makes me happy. But the short answer is, yes. Louie, we've been very pleased with how we've been able to integrate those solutions in some new bids. And as we get a little more public at a couple of recent ones, maybe you'll hear a little bit more about that. But also being able to bring solutions to existing customers, in many cases, looking for the opportunity to strengthen the position that we haven't evolved the position that we have.

So, very pleased with that. They are differentiators for us in the market. So, if you think about clouds and we talk about the GTA area of cloud migration, cloud management, and that's an integral part of that. And TACNET obviously, is a key part of our strategy as well. So, we do have -- this is part of our strategy whether it's -- in most cases, it's partnering with best-in-class commercial technologies that exist and being able to bring the SAIC rapper to bear, being able to deploy it to domains and customers that we know. And that combination is very powerful.

As you know, we don't build a lot of our own solutions, but we can and we do, but we really rely on the integration of best-in-class technologies and that's what you're seeing here. So, thanks for recognizing and that means a little bit of our work is going well, but we'll make sure that we highlight when we can some of these key new wins in the linkage to these types of solutions.

Louie DiPalma

Thanks, Nazzic. And I have a follow-up on the takeaways questions from Cai and JP Morgan. Along with the $900 million One IT program and the $1.3 billion T Cloud, SAIC also seems to have been part of the Verizon team that won the $2.4 billion FAA FENS contract. Is this FENS contract in the same category of materiality as the former two contracts?

Nazzic Keene, Chief Executive Officer

Yes. So Louie, so great we are. We're very, very proud to be part of the Verizon team that won FENS. And as I know, you could appreciate it's going through the normal process. So, I'm not going to say the say a great deal about it until we kind of get the all-clear and it goes through the process. But I will say that we're proud of what the team brought to bear. We were able to bring some differentiation and strengthen the overall team. But we are sub. So the general subrole tends to be probably less on top line than a prime role. But we will play a critical role, an integral role in the delivery to the FAA.

Louie DiPalma

Great. Thank you, everyone. See you next week. Thanks.

Nazzic Keene, Chief Executive Officer

Thanks so much.

Operator

And there are no further questions. This concludes today's conference call. Thank you for your participation. You may now disconnect.