SAIC EARNINGS RESULTS

MANAGEMENT'S PREPARED REMARKS

Nazzic Keene, Chief Executive Officer
Prabu Natarajan, Chief Financial Officer

THIRD QUARTER FISCAL YEAR 2023 EARNINGS CALL

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Joseph DeNardi

Good morning and thank you for joining SAIC's third 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 third quarter of Fiscal Year 2023 that ended October 28, 2022. Earlier this morning, we issued our earnings release, which can be found at investors.saic.com, where you will also find supplemental financial presentation slides to be utilized in conjunction with today’s call and a copy of management’s prepared remarks. These documents, in addition to our Form 10-Q to be filed later today, should be utilized in evaluating our results and outlook along with information provided on today's call.

Please note that we may make forward-looking statements on today's call that are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from statements made on this call. I refer you to our SEC filings for a discussion of these risks, including the risk factors section of our annual report on form 10-K and quarterly reports on form 10-Q. In addition, the statements represent our views as of today and subsequent events may cause our views to change. We may elect to update the forward-looking statements at some point in the future, but we specifically disclaim any obligation to do so.

In addition, we will discuss non-GAAP financial 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

Thank you, Joe and welcome to those joining us today.

This morning, we reported solid third quarter results which reflect revenue ahead of plan and strong business development activity – both of which contributed to the improved outlook for fiscal year 2023 and further builds momentum as we enter fiscal year 2024.

Before we review the quarter however, I would like to continue a practice we began last quarter. I want to recognize a member of the SAIC team whose accomplishments reflect the values of our organization and contribute directly towards executing our strategy to drive long-term value for shareholders.

In October, SAIC was recognized by Frost and Sullivan as a JADC2 Company to Watch and is one of only three companies named as being a provider of both Services and Products in support of the JADC2 effort, and the only company in IT services. Katie Sheldon Hammler, our leader in Industry Analyst Relations, continues to ensure that our unique offerings are well understood by the market. She played an important role in our recognition by Frost and Sullivan, a resource relied upon by many of our customers.

The recognition highlights the unique role SAIC can play as a trusted integrator and builds upon other successes in recent years in executing on our JADC2 campaign which is summarized on slide 6 of the presentation. Two recent accomplishments serve as solid platforms for further JADC2-related growth. The first being one of two IT solutions providers named to the five member ABMS Digital Infrastructure Consortium and the second, a key $100 million JADC2-related award won in September.

With this momentum, we are very proud of our leadership position in the JADC2 mission area as this is critical to our national security and an integral part of our growth and GTA strategy.

Now, onto a review of our third quarter financial results. We reported revenues of $1.9 billion, approximately 1% growth as compared to the prior year. We were able to overcome pressures from contract losses with new business wins and a continued focus on driving on-contract-growth. Our revenue performance year-to-date contributes to our ability to increase guidance for this year, as outlined on slide 12 of the earnings presentation.

I'm pleased with our program execution year-to-date which contributed to the solid margin performance in the quarter. We remain on track to meet our full year margin guidance of 8.9% and expect to see modest margin improvement in FY24 with further progress in FY25 and beyond.

Our focus remains centered on driving long-term value for our shareholders which we believe can be best accomplished by positioning the business to deliver sustained organic growth, improving margins, and deploying capital based on the highest ROIC.

Given the importance we place on capital allocation as a strategic priority, I'd like to spend a few minutes reviewing our approach to capital deployment.

Our first priority for cash flow is to invest internally to support future growth. Over the past 24 months, we have continued to refine our process to ensure that our internal investment dollars are allocated to markets and strategies that will produce the best long-term return for our shareholders. We see evidence of this priority in our pipeline, as represented on slide 11, which continues to expand, with disproportionate growth in our GTA area of focus.

With the excess free cash flow generated, we will then deploy capital in ways that maximize long-term ROIC amongst various options including our share repurchase program, dividend, debt reduction, and M&A.

Over the last few years, our capital deployment has skewed more towards M&A with roughly 2/3 of capital going towards acquisitions with the remainder returned through dividends and share repurchases.

Based on the current market conditions and competitive landscape, we expect capital deployment to be focused more towards returning capital to shareholders while opportunistically leveraging M&A to add capabilities, solutions or technologies where and when we can accelerate our growth strategy.

Our April 2021 acquisition of Koverse is a good example of this as the capabilities acquired have produced true differentiation in our solution and served as a key contributor in winning over $300 million in total contract value since we closed the transaction. Our current pipeline includes over $6.5 billion of contract value where we expect Koverse to serve as a key differentiator in our AI solution.

As I said in our earnings release, aligning capital allocation with long-term shareholder value creation is our focus. Our results year to date and outlook for the next year reflect our commitment to this strategy.

As I close out my remarks, and reflecting upon the season - I would like to take a moment to extend my sincere appreciation to our SAIC family. Your contributions - as demonstrated every day with your dedication to our nation and customers' missions, your engagement in the communities in which you live and work and your support to each other is never taken for granted. I thank you all for what you do for SAIC.

And to all of you that continue to take an interest in SAIC and participating in our call today, I wish you a very happy and healthy holiday season.

I'll now turn the call over to Prabu to discuss our financial results and increased guidance.

Prabu Natarajan

Thank you, Nazzic and good morning everyone.

I am once again proud of the financial results we delivered for our shareholders in the third quarter. Our team's focus on on-contract growth and new business wins resulted in 1% organic revenue growth. Our results to date contribute to our increased revenue guidance for FY23 and to our confidence in being able to deliver organic growth, improve margins, and drive 10% free cash flow growth in FY24 despite an over $100 million revenue headwind from fewer working days next year. I'll discuss our outlook in more detail shortly.

For the third quarter, we reported sales of $1.91 billion, representing organic growth of 1% with results ahead of our plan largely due to stronger on contract revenue performance which enabled us to overcome a roughly 3 point headwind from recompete losses.

Third quarter adjusted EBITDA of $170 million resulted in an adjusted EBITDA margin of 8.9%.

Adjusted diluted earnings per share in the quarter of $1.90 represents growth of 3% y/y.

We reported free cash flow in the quarter of $122 million and returned approximately $81 million of this to shareholders via share repurchases and dividends.

We delivered third quarter awards of $2 billion, 72% of which represented new business, resulting in a book-to-bill of 1.1x in the quarter and on a trailing twelve month basis. On a year to date basis, roughly 1/3 of our total bookings are in our GTA area of focus. Note that third quarter awards do not include the roughly $900 million DCSA One IT program which we were previously awarded as this remains with the customer following a competitor's protest.

We are particularly encouraged by our business development success in the quarter and highlight the diversity of awards that contributed to the $2 billion total with the largest award representing roughly $240 million in our classified space business. We believe this reflects our ability to drive strong awards and growth without a reliance on large orders.

Our pipeline of submitted proposals remains healthy at over $20 billion on a trailing twelve month basis. Based on expected submissions over the next few quarters, we expect this to increase in FY24, a good indication of growth we're seeing in our addressable end markets.

On slide 13, we provide our initial outlook for Fiscal Year 2024. We expect to deliver revenue growth of approximately 1.5% at the midpoint despite pressure in the first quarter from contract transitions and an at least $100 million headwind in our fiscal fourth quarter from five fewer working days compared to this year. This should translate into the second and third quarters providing the strongest growth rates for the year. Adjusting for the working days headwind, we are encouraged by the 3%

to 3.5% growth expected from the business and is a trend we believe can be sustained beyond FY24.

We remain confident in our ability to return recompete win rates to historical norms and are encouraged by the financial performance this should contribute when paired with our recent success in new business capture.

We expect to see modest margin improvement to approximately 9% in FY24 as benefits from mix and other initiatives are partially offset by reinvestment into the business. We continue to see opportunities to further narrow the margin differential between SAIC and peers and expect to show additional progress again in FY25 and beyond.

We are expecting FY24 free cash flow of approximately $560 million driven by earnings growth, a continued focus on working capital efficiency, and a $50 million year over year benefit from having made our final payroll tax deferral payment in FY23. These tailwinds are expected to be modestly offset by higher cash taxes based on our current planning.

As Nazzic indicated, we are focused on ensuring that the free cash flow we generate is deployed effectively. We currently expect to allocate the majority of our deployable cash to our share repurchase program in FY24 but can adjust this based on changes in the interest rate environ and broader market conditions.

Our view that the repurchase program represents the best ROI for our excess free cash flow is informed by three factors: (1) the confidence we have in our ability to deliver earnings and free cash flow in excess of market expectations over the next several years, (2) our belief that stronger financial performance vs. our peer group will drive improved relative valuation, and (3) recent transactions which indicate still-robust demand from the private markets for businesses with our end-market exposure and cash flow durability.

As you can see on slide 13 of our earnings presentation, the strength of our expected free cash flow in FY24 should allow us to return significant capital to shareholders. While we maintain the flexibility to adapt this based on interest rate trends and market conditions, our current expectation is to sustain our dividend, use a minimum of $125 million to pay down debt with the remainder going towards our share repurchase program. This scenario will result in net leverage declining to just under

3x by the end of FY24 and allow us to have returned approximately $1 billion of capital through dividends and share repurchases to shareholders between FY22 and FY24.

Beyond FY24, we have good visibility into continuing to increase free cash flow despite manageable cash tax headwinds expected in FY25 and FY26. On slide 14, we provide an illustrative view of our free cash flow potential over the next few years which assumes roughly 2.5% revenue growth and 10 basis points of annual margin expansion. To be clear, this is not intended to be guidance but rather show our ability to offset the roughly $30 million in total cash tax pressure between FY24 and FY26 with fairly modest core earnings growth. As shown on slide 15, our cash tax assets beyond FY26 remain fairly stable through the mid-2030s.

Before turning the call over to the operator to begin Q&A, I want to echo Nazzic's sentiment and extend my thanks to my colleagues at SAIC for their dedication to our customers and our shareholders. I wish all of you happy holidays.

