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

FOURTH QUARTER FISCAL YEAR 2022 EARNINGS CALL

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INVESTOR CONTACT
JOSEPH DENARDI
joseph.w.denardi@saic.com

Joseph DeNardi

Good morning and thank you for joining SAIC's fourth quarter Fiscal Year 2022 earnings call. My name is Joe DeNardi, Vice President of Investor Relations, 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 2022 that ended January 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-K 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.

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

Nazzic Keene

Thank you Joe, and good morning to everyone joining our call.

Before we discuss our strong financial results and outlook for Fiscal Year 2023, I would like to recognize what continues to be an inspiring level of performance from our employees who showcase the very best of SAIC values to our customers and their communities every day.

This performance and dedication is evident in our financial results in Fiscal Year 2022 with margins exceeding our expectations due to strong execution in both sectors.

It is evident in the improvement we see in our customer satisfaction scores which speaks to the value we provide and enables the strong on contract growth we delivered in Fiscal Year 2022.

It is evident in the support our employees provide to their communities with nearly 30,000 volunteer hours and $5.5

million of combined employee and company charitable contributions made over the last two years.

And, it is evident in the numerous awards recognizing the strength of our culture including being named by Forbes as a top employer for Veterans in 2021.

It is my privilege to lead such a dedicated group of employees, focused on using technology and expertise to serve our government and protect the ideals of our country.

Now, onto a discussion of our fourth quarter results and Fiscal Year 2023 outlook.

We delivered full year revenues of $7.39 billion, an adjusted EBITDA margin of 9.3%, and $467 million of free cash flow. This represents a 2.5% increase in organic sales, a 40 basis point year-over-year improvement in margin, and a 10% increase in free cash flow - when adjusting the prior year for non-recurring benefits. We delivered on the financial commitments we made, and we will continue this going forward.

We returned $297 million of excess capital to our shareholders through our dividend and share repurchase program. Our capital deployment plans for Fiscal Year 2023 provide the opportunity for us to increase capital returned to shareholders by approximately 10% and to retire an additional 4% of shares outstanding.

To be clear, our highest priority is on investing in our business and positioning our portfolio to drive sustained, profitable growth, and we have the confidence in our plan to do just this. Given that confidence, we believe our share repurchase plan offers an attractive return on capital.

For Fiscal Year 2023, we are providing initial guidance for revenue of $7.35 billion to $7.55 billion, representing roughly 1% total growth at the mid-point. Our Fiscal Year 2023 adjusted EBITDA margin guidance of approximately 8.9% assumes continued strong execution. We expect to generate free cash flow in the range of $500 million to $530 million representing over 10% growth at the mid-point, compared to our Fiscal Year 2022 cash performance.

Before turning the call over to Prabu to discuss our financial results and outlook in more detail, I would like to reflect on areas of our financial performance where we have excelled and areas where I expect performance to improve.

As I mentioned earlier, our ability to persevere and remain focused on delivering value to our customers and shareholders has been impressive. We demonstrated strong program performance in Fiscal Year 2022 accounting for roughly 20 basis points of the improvement in margin relative to our initial guidance.

Our cash performance continues to be strong with line of sight into double-digit growth in Fiscal Years 2023 and 2024.

In Fiscal Year 2022, we established goals to achieve parity between the representation of women and people of color within our leadership and non-leadership roles within five years. We made good progress towards our goals with women now representing 27% of our leadership and people of color representing 22% - both of these categories grew as compared to the prior year.

While there are areas of our business that are clearly performing well, I want to acknowledge those where I am focused on driving further improvement.

The primary means we have to increase long-term shareholder value is to deliver sustained and profitable organic growth. Fiscal Year 2022 represented an improvement in our growth rate relative to prior years, and we expect to continue this trend in the years to come. While we recognize that our initial expectations for Fiscal Year 2023 are somewhat lower than our prior plan due to budget uncertainties and contract transitions, we remain confident in our ability to drive long-term profitable growth.

To reinforce this, I want to provide some insight that we typically do not disclose. In order for our executive officers to earn target payout on the revenue component of our incentive compensation plan, we have to deliver Fiscal Year 2023 revenue at the top end of our revenue guidance. In addition, beginning with the Fiscal Year 2023 grant, we are modifying our long-term incentive compensation program for the executive leadership. We have substantially increased the relative importance of Total Shareholder Return such that 1/3 of the payout, going forward, will be tied to TSR. This reflects our commitment to holding ourselves to a higher standard while increasing our ‘skin in the game’ – it is a challenge we believe is appropriate and one we embrace.

I am impressed by the energy and commitment to drive continuous improvement across the company. However, like most things, our progress has not been perfectly linear and contract transitions - due in part to recompete losses - represent a headwind to growth in Fiscal Year 2023.

Our pipeline, however, remains very strong - with roughly $21 billion of submitted value and ample opportunities to drive stronger growth in the future. More importantly, the quality of our pipeline is improving.

As we outlined on our third quarter call, our innovation factories, together with our sectors, are developing solutions and capabilities that will improve our ability to win accretive new business, aligned with our strategy.

This focus allows us to shape our portfolio organically by approaching our pipeline development and pursuit decisions in a disciplined manner with an emphasis on markets of strength, including engineering and IT services.

Finally, we expect to generate free cash flow in Fiscal Year 2023 equivalent to roughly 10% of our market value. We will continue to take a disciplined approach to capital deployment to maximize long-term shareholder value.

I will now turn the call over to Prabu.

Prabu Natarajan

Thank you, Nazzic and good morning everyone.

I will quickly summarize our fourth quarter and Fiscal Year 2022 financial performance and then discuss our outlook for Fiscal Year 2023 as well as some additional disclosures we are providing in our supplementary slides designed to improve transparency into our business.

I am pleased with the overall performance of the business in the fourth quarter. We reported revenues of $1.78 billion for the quarter and $7.39 billion for the year, in line with our most recent guidance. For the quarter, this represented roughly 4%

of total growth and 1.4% organic growth and, for the year, approximately 5% total growth and 2.5% organic growth.

Our fourth quarter adjusted EBITDA margin of 8.2% was better than our plan reflecting good program execution, partially offset by the impact of higher investment spend, consistent with our prior guidance. Our full year adjusted EBITDA margin of 9.3% was 60 basis points above the mid-point of our initial guidance for the year and 40 basis points higher on a year-over-year basis due to strong performance and the benefit of certain non-recurring items.

We reported adjusted EPS of $1.50 for the quarter and $7.27 for the year with stronger performance driven by program execution and a favorable tax rate.

Our full-year free cash flow of $467 million represents a roughly 10% increase year-over-year and, as Nazzic mentioned, we have good line of sight into continuing this growth in Fiscal Year 2023 and Fiscal Year 2024. Consistent with the commentary from our Q3 earnings call in December, we have assumed that the implementation of the Section 174 R&D amortization provision will be deferred.

Lastly, net bookings in the quarter were $2.2 billion, resulting in a book-to-bill ratio of approximately 1.2 times for the quarter and 1.3 times for the year. Our backlog duration now stands at nearly 4.5 years which we indicate on slide 12 of our presentation.

We are providing initial Fiscal Year 2023 guidance for revenue of $7.35 billion to $7.55 billion, adjusted EBITDA margins of approximately 8.9%, adjusted EPS of $6.80 to $7.10, and free cash flow of $500 million to $530 million.

Our revenue guidance reflects a few different factors which I would like to make sure are well understood: (1) our outlook assumes about 3 to 4 points of headwind from contract transitions and runoffs, (2) 2 points of total tailwind from our acquisition of Halfaker and the extra fourth quarter working days and (3) 1 to 3.5 points of tailwind from on contract growth and new business. We have summarized these factors on slide 10 of our presentation.

We believe this revenue range properly captures the opportunities to grow from new business and the known contract transition headwinds we face against a somewhat uncertain and fluid backdrop given the slower pace of outlays to start the year and the residual impacts of the Continuing Resolution.

Our revenue guidance is roughly 1 to 2 points below what we had contemplated on our previous earnings call with modest incremental pressure from contract transitions and a more conservative view regarding the pace of customer activity over the next several months.

As Nazzic mentioned, our pipeline remains strong both in terms of the magnitude of the opportunity and the quality of the work. While we were unsuccessful on one of the larger new business pursuits I referenced on our third quarter call, I remain confident that the investments we are making will allow us to win more than our fair share going forward. Additionally, I would like to remind you that our pipeline contains some significant opportunities over the course of Fiscal Year 2023 across our Engineering and IT service domains.

In terms of revenue cadence throughout the year, at this time, we expect low single digit total revenue growth in the first and fourth quarters and low single digit declines in the second and third quarters.

Our margin guidance of approximately 8.9% represents comparable year-over-year performance when accounting for certain one-time gains in Fiscal Year 2022 which we estimate added roughly 40 basis points to full-year margins. This is consistent with the Fiscal Year 2023 margin expectations we communicated on our Q3 earnings call. For additional clarity, we have provided a walk from Fiscal Year 2021 actual margins to our guidance for Fiscal Year 2023 on slide 11 of the presentation. While our Fiscal Year 2023 margin guidance represents comparable performance versus Fiscal Year 2022, we continue to see opportunities for steady improvement over time and have initiatives in place to continue to drive our performance.

We expect adjusted diluted earnings per share in a range of $6.80 to $7.10, which assumes an effective tax rate of ~24%.

Finally, our guidance for Fiscal Year 2023 free cash flow of $500 million to $530 million represents an over 10% increase at the mid-point vs. Fiscal Year 2022. This is slightly higher than the expectations we communicated on our Q3 call in December. After debt payments of approximately $180 million and approximately $85 million for our dividend, we expect to have between $200 million and $250 million to deploy with a bias towards repurchases, depending on market conditions. We expect net leverage of 3.0x to 3.3x by the end of the current year.

We have assumed between four and six Federal Reserve rate increases in our guidance and believe our interest expense for Fiscal Year 2023 is calibrated appropriately.

Additionally, as Nazzic mentioned, we expect a 7% decline in our diluted share count by year-end Fiscal Year 2023 compared to Fiscal Year 2021. When combined with an at least 10% improvement in our free cash flow, we expect to increase free cash flow per share to well over $9.00 per share this year.

We remain focused on ensuring that the excess capital we generate is deployed to support the highest long-term returns with incentive metrics in place to ensure that we are aligned around improving our performance against Plan and against our peer set.

As Nazzic indicated, we will be making changes to our incentive compensation program in Fiscal Year 2023, which we believe will further improve alignment between our team and our shareholders. Beginning with the Fiscal Year 2023 grant, Total Shareholder Return will become a standalone metric for the SAIC executive leadership team, versus serving as a modifier previously, and have the effect of increasing the weighting for TSR by 10%-15%. In addition, for the SAIC executive leadership team, the long-term incentive equity payout will shift more towards performance-based units and away from time-vesting units with incentive curves requiring continued improvement in performance on a year over year basis. We believe these changes, combined with those we made in Fiscal Year 2022, will result in further aligning our team's performance and value for our shareholders.

Our focus to begin Fiscal Year 2023 is on positioning our company and our portfolio for long-term sustainable growth, investing in markets aligned with increasing demand and our competitive strengths, and ensuring our capital deployment strategy drives long-term shareholder value.

I will now turn the call back over to Nazzic.

Nazzic Keene

Thank you, Prabu. Before taking your questions, I would like to take a moment to acknowledge the tragedy unfolding in Ukraine and the heartbreaking humanitarian crisis due to Russia's ongoing invasion and aggression.

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Having spent my early years in Libya and then watching – from afar – the human toll on many Libyans including family members from decades of autocratic rule, I am forever appreciative of the democratic ideals the Ukrainians are fighting to protect.

I know this sense of appreciation is shared broadly by the SAIC family.

Two weeks ago, we announced a partnership with the American Red Cross to support humanitarian relief efforts for the people of Ukraine. To date, SAIC has raised over $125,000 through employee contributions and a company match. This is yet another testament to the quality of our people and our purpose and culture at SAIC where we are driven to serve and protect our world. We Stand With Ukraine, our customers, and our employees.

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