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Science Applications International Corp.
(SAIC)
Q2 2021 Earnings Call
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OTHER PARTICIPANTS

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Analyst, Citigroup Global Markets, Inc.

Greg Konrad  
Analyst, Jefferies LLC

Cai von Rumohr  
Analyst, Cowen & Co. LLC

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

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Gavin Parsons  
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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to SAIC’s First (sic) [Second] 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 second quarter fiscal year 2021 earnings call. My name is Shane Canestra, Vice President of 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 our results for the quarter ended July 31, 2020. This afternoon, we issued our earnings release, which can be found at investors.saic.com, where you’ll also find supplemental financial presentation slides to be utilized in conjunction with today’s call. Both of these documents, in addition to our Form 10-Q to be filed soon, should be utilized in evaluating our results and outlook, along with the 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 S. Keene
Chief Executive Officer & Director, Science Applications International Corp.

Thank you, Shane, and good afternoon. Before discussing SAIC’s performance and forward outlook, it is my sincere hope that each of you and your loved ones are healthy and managing through the continued challenges related to the pandemic. For those SAIC employees who have been directly or indirectly impacted by COVID-19, we continue to support you and provide assistance where we can for you and your families.

Charlie and I have a lot of details to cover today, but I’m pleased to report that SAIC continues to operate from a position of strength despite a challenging macroeconomic environment. We've been operating in this environment now for six months and I'm proud to say our employees and our organization have adapted very well. While we have experienced isolated pockets of COVID-19 related impact, customer demand for our offerings remains strong as evidenced by our positive business development and financial achievements.
Let me briefly discuss our second quarter results. SAIC continues to demonstrate a resilient and stable portfolio as evidenced by our strong revenue base, improved profitability, excellent cash flow generation, and the highest bookings and book-to-bill ratio in our seven-year history. Internal revenue growth for the second quarter excluding the impact of COVID-19 was in line with our expectations at 3%, demonstrating the underlying strength of the business. SAIC exited the second quarter with the highest backlog in our company history, a proof point of our go-to-market strategy and acceleration of our business momentum. These are notable achievements considering the many COVID-related issues we are all navigating.

In June, I communicated our focused response to the pandemic in three areas: employees, customers, and shareholders. Our efforts continue in these key areas. But as it relates to our shareholders specifically, while we navigate the pandemic-related headwinds, our attention is on managing the business to meet our commitment and create shareholder value. We are focused on managing profitability, generating substantial cash, meeting our delevering commitment, and continuing our business development and growth activities to ensure the long-term success of our company.

SAIC is grateful to operate in a market that has been minimally impacted by the pandemic. We continue to play a vital role in our customers' missions across our broad customer set, but in particular those responsible for ensuring our nation's health and security. As the expiration of many parts of the CARES Act approaches, particularly Section 3610 that provides for the maintenance of ready-state labor, we are hopeful and confident that the provision will be extended allowing us to continue our vital support to our national security customers.

Looking a bit into the future, government's fiscal year 2021 is almost assured to start under a continuing resolution which will likely remain in place until after the November elections. SAIC is accustomed to operating in a CR environment and we know how to navigate potential disruptions.

I'd like to take a minute to discuss talent acquisition and retention during the pandemic. By making talent a priority and a key element of our strategy, we have maintained our ability to recruit and retain best-in-class technical talent while also benefiting from an all-time low in voluntary turnover. We have over 500 direct open positions available and we believe that SAIC provides a very attractive career opportunity in a stable market, providing customers with technological solutions of national importance.

Speaking of valuable talent let me provide a quick update on our acquisition of Unisys Federal. Unisys Federal contributed for the entire second quarter and has operated very well during the pandemic, similar to the rest of SAIC. As I have mentioned before, the integration of Unisys Federal is much less complicated than the integration of Engility, and I'm proud to say that the work of the integration team has exceeded our expectations. We are infusing their commercial style delivery model and go-to-market approach in key markets and with receptive government customers.

While we remain focused on our strategic priorities, we also periodically review the portfolio for nonstrategic areas to deemphasize or divest. During the second quarter, SAIC sold a few State Department and Department of Justice international law enforcement support contracts. These contracts were obtained through our acquisition of Engility and were not viewed as strategically important to our strategy or our future. They were also dilutive to our margin profile and not financially material to the company.

As it relates to our strategy execution, we are seeing the positive impact of past years' technology investments and acquisitions in our ability to cross-sell capabilities to new and existing customers. Most notable and exciting is the increased interest by intelligence community and defense customers in our IT modernization capabilities, especially in advanced analytics, software and app modernization, and cloud migration.
Our digital transformation capabilities, strengthened by the Unisys Federal acquisition, are also creating growth opportunities through increased customer and market access. This is an example of the realization of our strategy that continues to guide our investments and priorities and will position SAIC for sustained profitable growth.

Before turning the call over to Charlie, I want to take a moment to discuss his recently announced retirement. Charlie has decided to retire, but has graciously agreed to stay until the end of our fiscal year, allowing for a smooth transition to a new CFO and a continued successful year as we navigate the pandemic challenges. I'm very appreciative of Charlie's financial leadership over the past four years, and in particular, supporting me through my transition as CEO.

His extensive experience and financial acumen has helped SAIC grow from a $4.5 billion business to the over $7 billion company we are today. Although we will miss Charlie's passion and commitment to SAIC, we congratulate him for reaching this milestone and I ask you to join me in wishing him well and celebrating his recent decision to retire.

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

Thank you, Nazzic, for the very kind words. This has been one of the most rewarding times in my career. SAIC has a wonderful purpose statement and mission to advance the power of technology. As a former Marine, SAIC gave me the opportunity to continue supporting our great country. I'm proud to have been part of such a talented group of people pursuing a common goal. But I'm not quite done yet.

As Nazzic mentioned, I will retire at the end of the fiscal year and will focus my remaining time in two areas: first, I will look to close out another year and continue to deliver on the financial commitments we have made; second, I will help ensure the smooth transition to a new CFO. The company is operating from a position of strength and leadership, and I will do all I can to enable the future success of a new CFO.

Now, moving on to the results for the second quarter and our outlook. SAIC continues to demonstrate exceptional resiliency in a challenging market. We continue to build momentum across all aspects of our business operations, business development functions, and financial metrics. SAIC’s results for the second quarter fiscal year 2021 reflect solid revenues, strong profitability and free cash flow, and outstanding contract awards all while absorbing COVID-19-related headwinds.

Let me begin with our strong business development results. Net bookings for the second quarter were approximately $4.6 billion, translating to a quarterly book-to-bill of 2.6, the highest book-to-bill in our history. The most significant contribution to our quarterly bookings was the award of the AMCOM Software Life Cycle Development contract, with a total contract value of $2.9 billion. In addition and not contributing to our second quarter bookings, we received over $1 billion of single-award IDIQ contracts, with one of the awards being a $630 million contract to provide IT modernization to the U.S. Air Force Weather Agency.

The Technology Application Development and Sustainment, or TADS, contract was won as a result of the Unisys Federal acquisition. Not only were our contract awards strong, but our contract submittals continued to be robust as well. Even with the strong bookings in the quarter, SAIC's value of submitted proposals at the end of the second quarter was $20.6 billion, up $5 billion from the end of the first quarter. This is 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 second quarter, SAIC’s total contract backlog stood at approximately $19.4 billion, up 40% from prior-year quarter which includes funded backlog of $3.1 billion.
Let me now turn to the financial results for the quarter. Our second quarter revenues of approximately $1.8 billion reflect total revenue growth of 11% with generally flat year-over-year organic contraction of 1%. On a year-to-date basis, revenues reflect organic growth of 1%. Negatively affecting second quarter revenues were approximately $65 million of COVID-19 headwinds resulting from the same factors that impacted the first quarter: a slowdown in our supply chain business due to lower operational tempo in our military forces; reduced FAA training services; and the maintenance of ready-state labor in our national security portfolio. 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.

Second quarter adjusted EBITDA was $167 million and adjusted EBITDA margins were 9.5% as a percentage of revenues. On a year-to-date basis, adjusted EBITDA margins are 8.6%, up 20 basis points from the prior-year six-month period. As with the first quarter, COVID-19 negatively impacted adjusted EBITDA margins by about $8 million or 10 basis points. This was primarily due to uncertain profit recovery in our intelligence community business on ready-state labor costs and reduced volume in our supply chain business. We are grateful for the provisions from Section 3610 of the CARES Act in keeping our workforce ready and available.

However, offsetting the negative COVID-19 impact in the quarter were a couple of favorable onetime nonrecurring items of $17 million related to the resolution of certain legal and program contract matters. As evidenced by our strong profitability, SAIC continues to operate efficiently during these challenging times, reflecting both the resiliency of both our business model and the government services market.

Finally, and as Nazzic mentioned, during the quarter, we sold nonstrategic international law enforcement contracts obtained from the Engility acquisition which accounts for most of the acquisition and integration costs in the quarter. Net income for the second quarter was $51 million and diluted earnings per share was $0.87. Excluding the $15 million of net acquisition and integration costs as well as amortization of intangibles, our adjusted diluted earnings per share was $1.63 per share for the second quarter. The $8 million of unfavorable COVID-19 impact to profitability equated to about $0.10 per share.

The effective tax rate for the quarter was approximately 25%, in line with our continued full-year rate expectation of 23% to 25%. Second quarter free cash flow was $90 million, reflecting another quarter of strong cash generation. The second quarter contain one more payroll cycle as compared to the first quarter which is consistent with historical years. The free cash flow generation continues to reinforce our confidence in our rapid delevering profile.

Days sales outstanding at the end of the quarter were 63 days, excluding the impact of accounts receivable sale facility. We finished the quarter with cash on hand of $197 million. During the second quarter, we deployed $163 million of capital, consisting of $21 million in dividends and $17 million and $125 million of mandatory and voluntary debt repayment, respectively. Additionally and subsequent to the quarter, due to the continued strength in cash flow generation in our outlook, we made $100 million voluntary debt repayment continuing our rapid delevering plan and commitment. I should note that as announced in our press release today, our board of directors has approved a quarterly cash dividend of $0.37 a share payable on October 30 to shareholders of record on October 16.

Now, turning to our forward outlook. As noted in our press release, we're updating a portion of our previously provided guidance for full fiscal year 2021. Our updated guidance assumes continued impact from the COVID-19 pandemic at a similar pace that we have seen thus far and now through the end of fiscal year 2021. Our previous guidance assumed lessening headwinds and a return to a more normal operational tempo in the third and fourth
quarter, but we now believe the impacts of COVID-19 will persist through the end of the fiscal year. So, the increase is due to longer duration, not new or previously unidentified impact.

For fiscal year 2021 and including 10.5 months of Unisys Federal, our revenue expectations are between $7.1 billion and $7.2 billion, implying organic revenue growth between 1% and 3%. However, this revenue range now assumes a full fiscal year impact of approximately $250 million from COVID-19, up from the previous expectation of $150 million and primarily associated with reduced volume in our supply chain portfolio. We believe that this updated estimate of COVID-19 full year revenue impact fully addresses the risk to the portfolio as we see it today. This updated estimate equates to about 4 points of organic revenue growth for the year.

The revised revenue guidance accounts for the increase in pandemic-related headwinds and the foregone revenue associated with the sale of international law enforcement contracts, partially offset by improvements in the strength of the underlying portfolio. With regards to profitability, expectations for the adjusted diluted earnings per share are unchanged at between $5.80 and $6.10. This includes the negative profit impact of approximately $35 million from COVID-19, up from our previous expectation of $25 million. However, due to the year-to-date profitability, we expect to offset the increased COVID-19 impact estimate.

Turning to free cash flow, we still expect free cash flow to be equal to or greater than $500 million, also consistent with our previous expectations. We are committed to the rapid delevering plan that we initially communicated in February at the announcement of the Unisys Federal acquisition. We're confident in meeting our target net leverage ratio of 3.0 times by the end of fiscal year 2022 and have made significant progress so far. To that point, including the debt repayments through today, we're now at a net leverage ratio of just under 4.0 times and are ahead of our debt repayment plan.

Nazzic, back to you for concluding remarks.

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

Thank you, Charlie. Before taking your questions, I would like to take a moment to reaffirm SAIC’s commitment to a very important social issue: inclusion and diversity. We recently issued a Sustainability and Social Responsibility Report that details our emphasis, accomplishments, and progress in this area and much more in our environmental, social, and governance profile. The report can be found on our Investor Relations page and I encourage you to review the report to see the many good things SAIC is doing in these areas.

Along with this report, recent events have been an urgent call to action and have driven the need to have broader and more meaningful discussions about social inequality and how SAIC can make a greater impact within our company, in our communities, and across the country. We are taking this opportunity to build on what SAIC was already doing, but we also know we can and must do more. It is critically important that all SAIC employees feel welcome and have an equal opportunity to achieve their goals.

Hearing directly from our employees about their personal experiences and challenges have only strengthened our resolve and commitment to build on the progress to date and reminded us there is more work ahead. SAIC will aggressively work to ensure that we have a workforce that represents the best of our country, a broad tapestry of age, color, gender, gender identity, and ethnic backgrounds.

Operator, we are ready to take questions.
QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of Jon Raviv from Citi. Your line is open.

Jonathan Raviv
Analyst, Citigroup Global Markets, Inc.

Thank you and good afternoon. On the growth dynamic, appreciating the full year impacts that you're feeling this year, to what extent – and you had mentioned the 400 basis points of growth headwind this year, to what extent should we be able to almost recapture that growth at least in the next fiscal year, maybe not all the dollars, the dollar agreements that you've always done, but the growth rate? I mean, it feels like we should be above that 3% long-term number you've always talked about.

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

Yes. Hey, Jonathan, Yes. I would agree with that assumption that the growth rate that we would be projecting next year would be in line with our pre-COVID estimates and that we would be growing 3% or excess of 3%. If you look at the amount of business development momentum, the backlog, the book-to-bill, the contract submittals, 80% of which is new business, there's a great deal of momentum that's generating. And so, yes, the growth rate going forward out to next year I think would be, meet or exceed what we would have this year, excluding COVID.

Jonathan Raviv
Analyst, Citigroup Global Markets, Inc.

Got it. And then, on margin, I mean appreciating that the 9.5% had a net benefit from some onetimers that you outlined. But combined with the performance year-to-date, what you're seeing in the backlog, getting rid of some dilutive businesses, you're well on your way I think to the mid-8s this year. Is there room for margin to accelerate much above 9% on a more sustainable basis going forward, as you just mentioned, some of that growth momentum picking up as well?

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

Yes. Well, let me just make a couple comments on the margins and again normalize the margins from the onetime favorable impact of $17 million. That's about 100 basis points for the quarter, so the 9.5% would really translate to an 8.5%. However, on the other hand, we had $8 million of negative COVID impact. And if you add back the COVID revenue and the profit impact, you get to 10 basis points improvement there. So, a normalized margin for the quarter is about 8.6%. We expect the slightly higher margins in the second half of the year and that's consistent with our guidance in our previous communication.

We're benefiting from the Unisys Federal impact in the second half, lower costs, and we would look for that dynamic to continue as we move forward in higher margins, and next year, we are bidding – these contracts are being bid with higher solutions, more firm-fixed price contracts, all translating into higher margins. So, way too early to give any guidance for next year or any of that, but certainly the way we're going would suggest that we are going into higher margins.
Jonathan Raviv  
*Analyst, Citigroup Global Markets, Inc.*

Yes. I think Charlie, the right answer is FY 2022 is not your problem, but that's okay. Congratulations on the retirement. Thanks again, guys.

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

Yeah.

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**Operator**: Your next question comes from the line of Greg Konrad from Jefferies. Your line is open.

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Greg Konrad  
*Analyst, Jefferies LLC*

Good evening and congratulations, Charlie. Just wanted to follow up on COVID, I mean, is it isolated to supply chain, FAA and intel? Are you seeing any types of delays on some of the ramps on some of these new contracts that you've won?

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

This is an issue of duration, not depth. We laid out what was impacting us. It was supply chain, FAA, the national security, and that's what we're seeing. We're seeing this persisting to the end of the year. We thought there would be lessening headwinds from this dynamic going into the fall. That didn't happen. And the majority of this is the operational tempo around the supply chain. It just hasn't gotten back to the levels that we were expecting. The pandemic impact is just continuing to the end of the year and that's what the assumptions are.

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

Yeah. This is Nazzic. I'll just add to that. So, Charlie did an excellent job of capturing those pockets that are impacted. On the positive side, the vast majority of our employees are working, many working still remotely. So, we've worked exceptionally well in concert with our customers to ensure that the vast majority of our work continues, and in many cases, new delivery models for that work. And so, I think in general, although we are impacted and we've certainly outlined that, just important to remember that most of the company continues to operate as it had operated before, and also bringing in new technologies and new delivery models that allow us to do so.

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Greg Konrad  
*Analyst, Jefferies LLC*

And I mean that kind of ties into the next question. I mean, you mentioned submitted proposals are up $5 billion sequentially with 80% new business. I know you typically don't mention contracts that you're bidding on, but any color in terms of areas maybe where you're seeing the most opportunity?

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

I think one way to think about it is we've been sharing our focus areas and our strategy. So, if the areas that we see the opportunity drive growth in digital transformation, IP modernization, cloud migration, the space domain,
readiness in the armed forces, so there’s – it’s very consistent with the strategy that we’ve laid out and we are seeing the opportunity to drive long-term revenue growth in those areas.

Greg Konrad
Analyst, Jefferies LLC
Thank you.

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

Cai von Rumohr
Analyst, Cowen & Co. LLC
Thank you very much. So, if we – I assume we exclude the $630 million TADS award from your award given it's an IDIQ, and therefore, it looks like you've got about $1 billion of unidentified and sort of miscellaneous stuff other than the stuff you laid out. That looks like a pretty big number. Is there anything in particular that's worth citing there?

Charles Alexander Mathis
Executive Vice President & Chief Financial Officer, Science Applications International Corp.
No. It’s – I think we've laid out in the press release most of the notable awards that were contained in there and there were some $150 million, $170 million, a few of those, but nothing one big time other than the...

Cai von Rumohr
Analyst, Cowen & Co. LLC
Got it.

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

Cai von Rumohr
Analyst, Cowen & Co. LLC
And then, let's say, you mentioned the $17 million legal gain. How much were contract adjustments or EACs in the quarter...

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

Cai von Rumohr
Analyst, Cowen & Co. LLC
...and what do you expect [indiscernible] (00:28:51)?

Charles Alexander Mathis
Executive Vice President & Chief Financial Officer, Science Applications International Corp.
There was no significant EAC adjustments in the quarter. The $17 million included legal settlements and contract resolvements that were not related to EACs, but were related to us negotiating on certain contract terms, I would say, that proved to be favorable. So, it wasn't EACs. The EACs for the quarter were zero; year-to-date it's $3 million.

Cai von Rumohr  
Analyst, Cowen & Co. LLC

Got it. Okay. And then the last one, it looks like you raised the COVID estimate for sales to $100 million, the P&L impact by $10 million and that is the main area of exposure is the supply chain. Their margins are way below average, so how come it's $10 million on $100 million?

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

Yeah. So, the $10 million relates to the no fee on idle time that's been an impact for us for the first two quarters. So, that's extended till the end of the year. We thought that that would lessen in the fall, but that's where most of the profit comes from, is the extension of that no fee on idle time national security.

Cai von Rumohr  
Analyst, Cowen & Co. LLC

Great. Thank you very much.

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

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

Hey. Good evening. Charlie, the book-to-bill [indiscernible] (00:30:40) is very strong. I mean that's tended to correlate to, I don't know, north of 5% organic growth across the industry for the past couple years. So, is there anything from a recompete standpoint we should consider kind of as an offset to that in terms of why organic growth shouldn't be quite strong next year? And then, to what extent are you all seeing bridges and extensions that may defer some of that recompete risk into subsequent years? Thank you.

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

Hi, Joseph. This is Nazzic. So, a couple things, we really have, for the most part, retired the recompete risk as it relates to the rest of this year, because there's certainly small things that are still out there. But as we think about for the remainder of this year, most of that recompete was retired with – certainly with the AMCOM resolution in our favor. So, the way that I would think about it is the wins that we will continue to gain, the solid backlog, as we go into next year, we'll drive the growth as we go into next year.

We are seeing in some cases extensions, and so that's a normal course of business. In some cases, we're hearing extensions as a result of COVID. In some cases, it's the normal way of dealing with recompetes and procurements. So, we are seeing some of that, nothing significant at this juncture. But again, I think as we look forward to the rest of this year, most of the recompete risk has been retired.

Joseph William DeNardi  
Analyst, Stifel, Nicolaus & Co., Inc.
Okay. And then, as it relates to Unisys Federal, can you just talk about employee retention there, what have you been doing over the past few months? Thank you.

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

Yeah, absolutely. So, Unisys, the integration of Unisys Federal continues to go very well. In general — and I think it's relatively consistent with the rest of our industry, the turnover over rates have been relatively low in light of the impact of COVID. So, we're seeing very, very high stability in the Unisys Federal portfolio, very consistent with the same rates of turnover we would see in our overall portfolio. So, that continues to go well.

I'll give you a little color on the integration. As I mentioned, we did — we closed that acquisition and day one was in the beginning of the COVID challenges. And so, that is something that we paid close attention to and making sure that we communicate and we've integrated as successfully as we can. It is a much less complicated integration than Engility was, to think about the fact that we bought a portion of the business, not entire company. And so, the next step for us is we continue to look at harmonization benefits and that's well on track, as well as the financial system full integration and again that's well on path. So, I'm very pleased with how that integration has gone, very pleased with the integration of the employees and the solutions and the customer access, and so just wanted to give you that general update as well.

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

Thank you very much.

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

Seth M. Seifman  
Analyst, JPMorgan Securities LLC

[Indiscernible] (00:33:56) good afternoon and congratulations, Charlie. Wanted to ask first, I guess, about the COVID-19 impact and is it — I realize that you and everybody else [ph] only guide one year (00:34:12) at a time. And so, is it that you see visibility on this persisting till the end of the year and kind of letting up in terms of the pace of activity in the logistics business or is it kind of continues at this pace until the end of the year and possibly into the first quarter of next year, depending on what the virus is doing and whether there's a vaccine, and this will go away at some point, but the date is not necessarily in sight?

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

Yeah. I would say that we're looking at this to persist till the end of the year. We're looking at the impact on COVID, the revenue to be consistent in the next two quarters. Year-to-date, we had $110 million, so there's $140 million more to go. It's consistent and the opportunity is if this thing went away faster and the operational tempo turned around by the fourth quarter, then we could see improvements. But right now, we have — we don't see any further risk on the downside related to this. We've factored in everything we believe to be the case.

Seth M. Seifman  
Analyst, JPMorgan Securities LLC

Okay, great. Thanks. And then, maybe if you could talk about the future AMCOM, obviously, an important win to start off the recompetes there, but the future AMCOM award opportunities and then when you expect that?
Yeah. This is Nazzic. Happy to. So, again, we're very pleased that we're able to secure the first of these. There are several more that we are pursuing of significant size and scale. We believe the next one could be awarded as early as late-September into mid-October. And so, we look for that one. And then a few more then would come as we close out this fiscal year possibly into early next fiscal year. And so, again, we believe we're very well positioned. It does create an opportunity, not only to secure our recompete and our current revenue stream, but provide for some growth opportunities as well in that portfolio.

Seth M. Seifman
Analyst, JPMorgan Securities LLC

Great. Thank you very much.

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

You're welcome.

Operator: Your next question comes from the line of Gavin Parsons from Goldman Sachs. Your line is open.

Gavin Parsons
Analyst, Goldman Sachs & Co. LLC

Hey. Good afternoon.

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

Hi, Gavin.

Gavin Parsons
Analyst, Goldman Sachs & Co. LLC

Given the 1% to 3% total organic growth rate guidance with a 4% headwind, did you raise the 3% to 6% underlying ex-COVID organic guidance?

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

No. We haven't raised that. And the 1% to 3% – the 4%, those are rounded approximate numbers there. So, I would say that the underlying strength of our portfolio leads us to the top end of that pre-COVID estimate on the revenue growth. So, I would say we're more there than raising any pre-COVID estimates.

Gavin Parsons
Analyst, Goldman Sachs & Co. LLC

Got it. So, reiterating the 3% to 6% ex-COVID, but towards the high end?

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

Yes.
Gavin Parsons
Analyst, Goldman Sachs & Co. LLC

So, that implies something like a 6% or even 7% growth rate organic ex-COVID in the back half of the year?

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

I think we were – roughly 5% is where we're thinking excluding COVID, the impact there, again 5%, 6%. That's the higher end of that range that we gave.

Gavin Parsons
Analyst, Goldman Sachs & Co. LLC

Okay. Thanks. And then, Nazzic, just given the repositioning of the digital transformation space, intel focus, I mean what's the target business mix of those categories or those segments relative to where you are today? Thanks.

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

Are you asking just to make sure I get the question. So, as it relates to our overall portfolio, what portion of our business is in that category, IT modernization, digital transformation, was that the question?

Gavin Parsons
Analyst, Goldman Sachs & Co. LLC

Yeah, exactly. What it is today versus where you aspire that to be?

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

Yeah. I don't have the exact number. I would say, it's $1.5 billion to $2 billion, somewhere in that range, but I don't have that exact number.

Gavin Parsons
Analyst, Goldman Sachs & Co. LLC

Okay.

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

Significant portion of our portfolio today and it's a significant portion of our pipeline going forward as well.

Gavin Parsons
Analyst, Goldman Sachs & Co. LLC

Got it. And then just quickly, the $17 million gain on EBITDA, was that expected or considered in EBITDA margin guidance for the year?

Charles Alexander Mathis
Executive Vice President & Chief Financial Officer, Science Applications International Corp.
No. That was onetime, nonrecurring, that was not in the guidance. So, that helps offset the additional negative COVID impact we have in the back half of the year, the favorable program contract matters and legal settlements.

Gavin Parsons  
Analyst, Goldman Sachs & Co. LLC

Got it. So, what's the new percentage guidance for full year, please?

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

Yeah. So, we've given guidance as far as revenue and EPS and cash, and we've given I think pretty much all the factors you need to calculate that. And also, I mentioned earlier, that was a normal margin of 8.6% EBITDA in the quarter and we expected the backend to be slightly higher in the second half and I would just leave it at that for now.

Gavin Parsons  
Analyst, Goldman Sachs & Co. LLC

Got it. Thanks very much.

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

Tobey Sommer  
Analyst, Truist Securities, Inc.

Thank you. If we look at the pipeline compared to the income statement and profit profile that you're reporting currently, how much of a difference is there? In other words, maybe how much – give us a sense for how much more profitable the pipeline is than your current book. Thanks.

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

Yeah. I'd say slightly favorable, because we're always looking to increase the value-added portion of our work. And I think this new business that we're going after, Nazzic puts a lot of screening into making sure that these margins are higher and accretive. We're always looking for accretive margins and – but I don't have the exact number of what it would be.

Tobey Sommer  
Analyst, Truist Securities, Inc.

And looking at Unisys Federal and that marketplace, could you comment about what the pipeline looks like for that and [indiscernible] (00:41:54) when we may reasonably be able to look for sort of milestone contracts [indiscernible] (00:42:03-00:42:09) and I say that assuming that the TADS was a fairly well-formed bid prior to the acquisition?

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

Yeah. So, you broke up a little bit towards the end. So, I'll try to address the question, but if I didn't capture it – I didn't get the last couple sentences, but I think what you're asking is, is Unisys Federal acquisition starting to influence pipeline, if so, how and where. So, I'll address that, and if that's not it, let me know. But the answer is absolutely, yes. So, in particular, as I called out, we're seeing increased pipeline activity as it relates to IT
modernization, cloud migration, digital transformation and those areas, in our intelligence community and in our DOD pipeline.

It doesn't mean it's not in the rest of the portfolio, but those are the areas that have the most significant opportunity in this into building on what we do in the civilian space. So, we're absolutely seeing the infusion of the solutions into our pipeline development, and so we believe that to be a true benefit and advantage of that acquisition. Did I answer your question or did I miss something?

Operator: We have lost his line.

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

Oh, okay.

Operator: Your next question comes from the line of Matthew Akers from Barclays. Your line is open.

Matthew Akers  
Analyst, Barclays Capital, Inc.

Hey. Good afternoon, guys. Thanks for the question. On the guidance, this is a little bit nitpicky, but I guess the legal gain I think was $17 million and I think you increased your COVID profit impact by $10 million. Was there another negative offset that sort of made you keep the guidance the same for the full year?

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

No. I can't think of anything there. Like I said, there was underlying strength in the portfolio on the revenue side. And again, I want to emphasize the $17 million wasn't just legal settlement. There was also some favorable contract matters that were also in there as well. But no, there's – other than the underlying strength of portfolio, nothing in there that I can think of.

Matthew Akers  
Analyst, Barclays Capital, Inc.

Okay. And then, I guess just one other one. So, the Infantry Squad Vehicle award this quarter that one of your competitors took. I guess, could you just comment on that sort of portfolio business, how that could fit into your portfolio in the future vehicles or sort of product-related business, something that you plan to pursue [indiscernible] (00:44:58) in the future?

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

Yeah. This is Nazzic. We probably don't want to put too much color on any particular deal. What I can tell you is the nature of that business for us since we made the pivot 18 months or two years ago is really around the engineering. And so, that continues to be the strength of SAIC. That absolutely is part of our go-to-market strategy, bringing digital engineering and complex engineering to serve the DOD. So, that aspect of our business continues. Obviously, we were disappointed, but probably don't want to say much more on that particular deal.

Matthew Akers  
Analyst, Barclays Capital, Inc.
Got it. All right. Thanks, guys.

Operator: Your next question comes from the line of Josh Sullivan from The Benchmark Company. Your line is open.

Josh Sullivan
Analyst, The Benchmark Co. LLC

Hi. Good evening.

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

Hey, Josh.

Josh Sullivan
Analyst, The Benchmark Co. LLC

I think at your Investor Day, you put out some longer-term assumptions on defense outlays. Any updated thoughts to that outlook [ph] or bit of game theory (00:45:53) just as the November election approaches here?

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

Yeah. This is Nazzic. So, as we sit here today with some of the headwinds, certainly that COVID has created in many industries and certainly at our potential impact to the budgets going forward as well as the election, that's all something that we're all watching, we're all paying close attention to. We don't see any – there's no immediate impact to DOD budgets, no impact that we see across the board. But we also recognize that that's a potential. And so, we navigate that and we watch that very closely.

I will tell you that the nature of the work that we do, the areas that we've elected to exercise and focus on from a portfolio standpoint give us some diversification. If that headwind does create, it creates some negative challenge. And so, we feel very good about our posture going into this next cycle. We feel that the work that we do – we know the work we do is mission-critical. And again, the areas, as you know with IT modernization, the focus on space, those are areas that are doing regardless of different pressures that could happen. So, we continue to navigate it, we feel positive about it, but we recognize that there's potential there and we'll work our way through that.

Josh Sullivan
Analyst, The Benchmark Co. LLC

Got it. And then, just on the 500 open positions you mentioned. Is there a way to frame those, what the revenue opportunity might be, what number of those are in the digital transformation areas you're focused on? And then maybe what timeline we could think about some of those positions being open that are being closed?

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

Yeah. This is Nazzic. So, we are – as you would expect with over 26,000 employees, we always have open positions. And so, the way that I think about it is, we've been very, very good over the course of these last few months at leveraging the technology to onboard new talent, to recruit and onboard new talent and that continues to be a strength of ours. So, I think it's a proof point that we're still hiring, it's a proof point that we still have needs.
I don't have the categorization in front of me, but it routinely is a cross-section of the company, so it's a cross-section of engineers, technology workers, cloud engineers, and so I'm certain it's across the gamut of the type of work that we do, and for the most part, across the country. So, we think about it in that regard.

**Josh Sullivan**  
*Analyst, The Benchmark Co. LLC*

Got it. Thank you for the time.

**Operator:** And we have a follow-up question from the line of Jon Raviv from Citi. Your line is open.

**Jonathan Raviv**  
*Analyst, Citigroup Global Markets, Inc.*

Thank you very much for that. Nazzic, I was wondering if you could comment, now that you have Dee Dee on the team for three more months, can you just sort of talk a little bit about kind of maybe what you're seeing together? What kind of changes or what kind of further pivots you might make, and if there's a timeframe around any of those changes that you're making?

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

Yeah. Great question, Jon. So, we're thrilled to have her on the team. She's – I think anytime you can bring somebody on in a senior position with a diverse background and a diverse set of ideas, it just – it makes us collectively better. So, we're very pleased to have her on our team. Where she is helping us focus is continued refinement of our strategy to ensure that, as I referenced here that we're focusing on the right things that we're investing in the right areas, and in many cases, it's been a good confirmation that we are, in some cases, there might be some slight pivot. And I really mean that in the exact term, slight pivot, where we might want to emphasize something within our portfolio a little more or de-emphasize.

And so, she's led that charge for us. As we've shared with you all before, we really do look at strategy at a very agile and dynamic way. And so, she's continuing that for us. And then, she also will play a key role as we look to technology investments and solution investments as we go forward. So, that said, that's how really kind of put some color around where she's spending her early days, but again very pleased that she's on our team.

**Jonathan Raviv**  
*Analyst, Citigroup Global Markets, Inc.*

Okay. Yeah. Thank you for that. And then, just one last one for Charlie, just on the free cash flow trajectory, I understand reiterating $500 million this year excluding the AR facility. Just any thoughts on the multiyear path here, I know you have the payroll tax ups and downs so to speak [indiscernible] (00:50:33) think about $550 million as sort of a centering number over the multiyear period. Is that still fair to think about, again, if we clean out all the payroll tax stuff?

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

Absolutely. I would just say that not only reaffirming our expectation of meeting or exceeding the $500 million of free cash flow this year, but also reaffirming what we said last time, our outlook for next year meeting or exceeding the $500 million of free cash flow. That's consistent with the $1 billion we talked about. Now, if you normalize next year and think that we're paying back the – we have a repayment on the payroll tax deferral of $40
million, that's a normalized $550 million of free cash flow next year which I think is consistent what we had talked about.

Jonathan Raviv  
Analyst, Citigroup Global Markets, Inc.

Yes, pretty much so. Thank you very much.

Operator: And your next question comes from the line of Tobey Sommer from Truist. Your line is open.

Tobey Sommer  
Analyst, Truist Securities, Inc.

Thank you. Nazzic, can you speak to the company's ability to ramp contract wins from a staffing perspective and whether – to the extent that this environment has slowed it, kind of how much?

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

No. Good question, Tobey. This environment has not slowed our ability to staff at all. We've actually remained consistent in our ability to hire, to bring on talent. If it's rebadging as a result of the contract win, whatever that is, we've seen no challenges in being able to staff. And actually, in some cases, quite the opposite, we're seeing great talent come from some other industries and technical talent that are more impacted as a result of COVID. And so, for us, it's been probably more of a positive than a negative on that particular aspect of our business. So, we haven't seen any of those issues.

Tobey Sommer  
Analyst, Truist Securities, Inc.

Okay. And if I could one more and I'll be done, how would you describe the pace of contract awards in the final federal fiscal month?

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

Yeah. I think, I guess I would describe it as not real surprising. It's certainly – it was hard to predict when we went into the COVID environment how contracts were going to get let, how RFQs were going to happen, how [ph] orals (00:53:01) were going to happen. But the government has done an excellent job, for the most part, in adapting to technologies to help make this happen. So, certainly, there are some cases where something gets slipped, there are some cases where they might do a bridge, but that happens even in a normal environment. So, I don't believe there has been any significant impact on contracts, RFPs or contract awards. Again, there's pockets, but at the macro level, I've not seen it.

Tobey Sommer  
Analyst, Truist Securities, Inc.

Thank you.

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

You're welcome.
Operator: And there are no further questions at this time. Mr. Shane Canestra, I turn the call back over to you for some final closing remarks.

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

Thank you very much for your participation in SAIC’s second 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. Thank you for participating. You may now disconnect.