Company Name: Science Applications
Company Ticker: SAIC US
Date: 2024-03-18
Event Description: Q4 2024 Earnings Call

Market Cap: 6706.697557037475
Current PX: 128.82000732421875
YTD Change($): 4.23
YTD Change(%): 3.395

Bloomberg Estimates - EPS
Current Quarter: 1.99
Current Year: 8.159
Bloomberg Estimates - Sales
Current Quarter: 1853.444
Current Year: 7376.400000000001

Q4 2024 Earnings Call

Company Participants

- Joe DeNardi, Investor Relations
- Toni Townes-Whitley, Chief Executive Officer
- Prabu Natarajan, Chief Financial Officer

Other Participants

- Seth Seifman, Analyst
- Jason Gursky, Analyst
- Greg Konrad, Analyst
- Bert Subin, Analyst
- Cai von Rumohr, Analyst
- Tobey Sommer, Analyst
- Josh Corn, Analyst

Presentation

Operator

Hello, and welcome to the SAIC Fiscal Year 2024 Q4 Earnings 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)

I will now turn the conference over to Joseph DeNardi, SAIC's Senior Vice President, Investor Relations, Treasurer. Please go ahead.

Joe DeNardi, Investor Relations

Good morning, and thank you for joining SAIC's Fourth Quarter Fiscal Year 2024 Earnings Call. My name is Joe DeNardi, Senior Vice President of Investor Relations and Treasurer. And joining me today to discuss our business and financial results are Toni Townes Whitley, our Chief Executive Officer; and Prabu Natarajan, our Chief Financial Officer.

Today we will discuss our results for the fourth quarter of fiscal year 2024 that ended February 2nd, 2024. 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.

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, Toni Townes Whitley.

Toni Townes-Whitley, Chief Executive Officer

Thank you, Joe, and good morning to everyone on our call. My prepared remarks this morning will focus on a review of our fourth quarter and full-year results and an update on the implementation of our corporate strategy. Prabu will then discuss our results and outlook in more detail before we take your questions.

I am proud of the financial performance we delivered in the quarter as our focus on providing value to customers and a favorable funding environment contributed to our strong revenue growth.

For the full year, we increased pro forma revenue by over 7%, which highlights the potential of this business to deliver market-level rates of profitable growth. While our margin rate and earnings per share were impacted primarily by higher incentive compensation accruals in the quarter, excluding this, we were able to increase EBITDA margins by 50 basis points over last year and free cash flow per share grew by 11%, indicating that our underlying execution remains very strong.

We continue to manage the business in fiscal year '25 to maximize EBITDA and free cash flow while accelerating key investments in portfolio differentiators, market-proven business development talent and upskilling initiatives to drive growth and long-term shareholder value. Relative to the framework we provided last year at our 2023 Investor Day, we now expect fiscal year '25 adjusted EBITDA and free cash flow to be higher, despite a roughly 20-basis-point incremental investment to drive profitable growth. We expect this investment to generate returns in fiscal year '26 with more meaningful impact in fiscal year '27 and beyond. Importantly, we will align incentives appropriately to drive these outcomes, which I will discuss in more detail shortly.

Now, I will provide an update on the execution of our corporate strategy since we last spoke. As I discussed on our third-quarter earnings call, the leadership team's focus is on four strategic pivots related to our solutions portfolio, our go-to-market, our culture, and our brand. The ultimate goal of these four pivots is to create a more differentiated, more efficient and more valuable SAIC in the future by becoming the premier mission systems integrator for the government market with a specific focus on five national imperatives. They are Undersea dominance, Order of the future, Citizen experience, All domains more fighting and next-generation space. All four pivots will contribute to our success in these areas and we have made strong progress against each in recent months.

On-brand, we recently hired a new Chief Communications Officer and SAIC's first Chief Marketing Officer with a focus on ensuring that SAIC's capabilities are known across our markets and our solutions are effectively packaged our success with our customers. On our portfolio pivot, we've completed the reorganization of our Innovation Factory under our new Chief Innovation Officer with a focus on scaling and systematically deploying our technical differentiators in secure multi-cloud Digital Engineering, Operational AI, Secure Data Analytics and System of Systems Integration.

To support this, we will be increasing our investment in the innovation factory in fiscal year '25, while implementing new performance metrics to ensure we generate our targeted return on invested capital. This is important because we recognized a correlation between higher win probability and year-over-year growth in accounts that leverage our Innovation Factory solutions.

Our new enterprise operating model outlines required contract delivery processes did rubrics and performance metrics at the account and business group levels to drive greater accountability and adherence to our strategy. Our expectation is that this investment will deliver increased value to our customer programs and our pipeline opportunities, resulting in sustained organic growth, increasing EBITDA and free cash flow in the coming years.

On go-to-market, our focus to this point has been both organizational and operational. Organizationally, we centralized our business development and capture functions and reported them into a Senior Vice President who directly reports to the executive leadership team. In addition, we are increasing investment in fiscal year '25 in our business development teams to upgrade talent where appropriate. Operationally, we've implemented a new enterprise model to leverage our Innovation Factory investments and further standardize our business development and delivery functions across the company. In practice, we expect the result of these efforts to be earlier and more consistent engagement with our customers along the procurement lifecycle. Allocating business development dollars disproportionately to our high-growth markets and driving accountability to ensure that pipeline identified is pipeline-qualified and bid.

On culture. I spent much of my time over the last several months meeting with senior government customers and our employees. The strength of SAIC's commitment to our customers is evident across the enterprise and provides a valuable base of which we can build. Consistent with the investments we're making in our Innovation Factory and business development functions, our pivot around culture will align with positioning SAIC to deliver profitable differentiated growth over the long-term. We will focus on adapting a one-enterprise mindset to encourage the sharing of best practices and talent and cross-functional coordination to bring the best of SAIC to our customers.

We will aspire to accelerate our growth taking ownership of outcomes, driving accountability for results and providing differentiated rewards for outsized achievement. Relative to our incentive design, we recently recommended to our Board of Directors that we increase the relative share of PSUs to RSUs in our equity compensation to encourage our senior leaders to drive our portfolio towards more sustainable and profitable growth vectors. We've additionally broadened the use of total shareholder return as a metric to ensure we are incenting results that meet or exceed the performance of our peer group.

As I started with the driving force behind these pivots is to position SAIC to maximize profitable organic growth in the future. We have continued to see a lower-than-targeted recompete win rate in recent years impacting our book-to-bill. While we've been able to offset this with good new business capture and capitalizing on our large backlog with continued on-contract growth, it's important that we improve our retention of existing work. While our efforts to standardize best practices across the enterprise will improve our overall business development and capture functions, we are specifically focused on improving two outcomes.

First, retaining our current business by improving our recompete win rate and second, increasing our yearly bid rate with more strategic bid selection to drive higher book-to-bill over one data. For our current programs, we are implementing new process and rigor in driving innovation and value progression, to additional as a service offerings. We're expanding the scope of our customer satisfaction process to gain broader and more objective feedback throughout program delivery. Our improved enterprise processes will allow us to monitor, inform and influence our bid selection to ensure our portfolio remains on-strategy and in our growth vectors.

Given the longer procurement cycle inherent in our business, we expect to realize the full impact of our efforts to impact business development results over the next 12 months to 18 months. While Prabu will discuss our updated guidance in greater detail, our expectation for fiscal year '25 pro forma revenue growth is approximately 2.5%. Now this is notably off of a higher base than previously-contemplated and it assumes still a healthy but more normalized funding environment. We expect to deliver EBITDA of approximately $690 million with free cash flow per share of approximately $10, which excludes any potential benefit from changes to Section 174 legislation.

We're off to a strong start and I'm encouraged by the enthusiasm and cohesion I see across by new leadership team. We have momentum building off three peak performance quarters the best financial results SAIC has delivered over the last decade. I look-forward to seeing many of you in New York on April 11th for our 2024 Investor Day. We plan to provide updated multi-year financial targets greater detail into our growth strategy, including a showcase of technical differentiators from our Innovation Factory.

I will now turn the call over to Prabu to discuss our financial results, and improved outlook.

Prabu Natarajan, Chief Financial Officer

Thank you, Toni, and good morning to everyone on the call. My remarks will focus on our financial results in the quarter and updated guidance. We reported strong fiscal fourth-quarter results with revenue of $1.74 billion, an increase of nearly 8% on a pro-forma basis, revenue growth in the quarter was driven by ramp-up on new and existing programs, the timing of certain materials revenue and favorable labor and funding trends which helped offset expected headwinds from program transitions.

Adjusted EBITDA margin in the quarter was 7.3%, it was impacted by higher incentive compensation accrual given our strong financial performance. For the year, higher incentive compensation accruals impacted margins by approximately 30 basis points with the 9.3% margin adjusting for this in line with our guidance and reflecting continued strong program performance. Adjusted diluted earnings per share of $1.43 was in line with expectations. Full-year adjusted diluted earnings per share of $7.88 was ahead of prior guidance when adjusting for the aforementioned incentive compensation accrual, which reduced EPS by $0.34 due to our stronger performance in the fourth quarter and a lower tax rate. Free cash flow adjusted for transaction fees and other costs related to the sale of our supply-chain business was $119 million in the quarter and $486 million for the year as we continue to see good momentum in maintaining our industry-leading rate of cash conversion. As Toni indicated, we delivered an 11% increase in free cash flow per share in FY '24, representing our third straight year of double-digit pro forma cash flow improvement.

Net bookings of $1.4 billion resulted in a book-to-bill of approximately 0.8 in the quarter and roughly 0.9 on a trailing 12-month basis. Subsequent to the close of the quarter, we were awarded several new bookings, including a $444 million contract with the US Space Force. We remain encouraged by a healthy and growing pipeline of opportunities in the coming years and expect proposal submission volume to increase by at least 25% in FY '25, consistent with the strategic focus to improve our overall process, including the quality and volume of our submissions.

Our pipeline has a healthy mix of larger needle-moving opportunities and strategic pursuits in areas such as ABMS, CJADC2 and Data Analytics and Operational AI, which will leverage our enterprise solutions. As Toni mentioned, our long-term focus is on building a more differentiated pipeline and capture a greater share of markets, which value differentiated and more profitable outcome-based work.

I'll now discuss our updated guidance for fiscal years 2025 and 2026. We are increasing our fiscal year '25 revenue guidance to a range of $7.35 billion to $7.5 billion, which represents pro-forma organic growth of approximately 2.5% at the midpoint. This outlook assumes a more typical outlay environment than we saw in FY '24 and incorporates our expectation for an approximately 4% to 5% headwind from contract transitions spread ratably over the course of the year.

Consistent with our comments on the last earnings call, we expect roughly flat to low-single-digit organic growth in the first half with higher growth rates in the second half of FY '25 as we ramp on the strength of our new business wins and see more funding clarity for our customers. We expect FY '25 adjusted EBITDA of approximately $690 million at the midpoint of our guidance, as increased revenue and underlying margin improvement are partially offset by an approximately 20 basis points investment predominantly in our Innovation Factory in business development function as Toni discussed.

FY '25 adjusted earnings per share is expected in a range of $8 to $8.20 and assumes an effective tax rate of approximately 23% and further benefits from our share repurchase program. I would note that every 1% of our tax rate impacts earnings per share by approximately $0.10.

We are increasing guidance for fiscal year '25 free cash flow by $10 million to a range of $490 million to $510 million with increased earnings and working capital efficiency, helping to offset higher cash taxes and cash outlays related to FY '24 incentive compensation. We expect to deliver approximately $10 and free cash flow per share in FY '25 and approximately $11 in free cash flow per share in FY '26.

Our outlook for free cash flow does not assume any favorable change related to Section 174 legislation. Should this occur, we would expect the recovery of approximately $125 million from FY '23 in FY '24 payments already made and our fiscal years '25 to '27 free cash flow should improve by approximately $45 million, $20 million and $5 million, respectively. Please note that if Section 174 change is enacted our FY '25 effective tax rate could be higher than our guidance of approximately 23%.

In fiscal year 2024, we deployed $357 million to repurchase $3.3 million in shares, reducing our weighted average share count by a bit over 4% year-over-year. Over the past three years, we've repurchased over 8 million shares, representing about 15% of our total outstanding shares at prices, representing a substantial discount to our intrinsic value. We accomplished this while reaching our target net debt over EBITDA, leverage of approximately 3.0.

As reflected on Slide 11, our solid cash generation gives us options for additional value creation. For fiscal years 2025 and '26 at this time. We expect to allocate approximately $600 million to $650 million in total to our repurchase program, while reducing leverage to roughly 2.5x and remain opportunistic given ongoing budgetary or market dislocations in an uncertain election year.

Our perspective on the M&A market is largely unchanged as we prioritize capability-focused acquisitions that can differentiate our portfolio and accelerate the execution of our long-term strategic roadmap. We believe our bias towards organic initiatives with a discerning eye towards M&A is the correct posture for our long-term shareholders.

Lastly, I want to thank our treasury team for their outstanding work in managing the seven-year extension of our Term Loan B, which strengthens our maturity profile and provides us with an improved rate compared to our prior term Loan B. The transaction represented the tightest seven-year loan pricing on a non-investment grade-rated facility in over two years. More importantly, it has generated additional flexibility with respect to our near-term debt maturities and has positioned us to take advantage of potentially lower interest rates in the future.

I am proud of the financial performance we delivered in FY '24 and I'm confident that we can sustain our ability to deliver value for shareholders over the long-term.

I will now turn the call over to the operator to begin Q&A.

Questions And Answers

Operator

(Operator Instructions) Your first question comes from the line of Seth Seifman with JPMorgan. Your line is open.

Seth Seifman, Analyst

Hey guys, thanks very much, and good morning. I guess a couple of questions, maybe on the investments that you're making. I guess you guys have talked a lot over time about having kind of a capital-light business model. I know this is CapEx, sorry, this is R&D or other investments that you're making. It's not -- it's not CapEx. But can you talk about kind of the investments that you're making and how we think about that as being different? Are these are investments in people that you're making in hiring people or are in developing new technologies, how do we think about what these, these investments are?

Toni Townes-Whitley, Chief Executive Officer

Yeah. Hi, Good morning Seth, it's Toni. Let me start off with that and probably will add some color. So we have three flavors of investment that we're making in the business. First, around our Innovation Factory. We've mentioned that we've got some differentiators across our enterprise, particularly around AI, our secure data, AI around, our digital engineering. The investments we're making are primarily in people, but also tools and some capabilities that we are looking to expand to ensure that those differentiators when systematically deployed across all our programs can be integrated into our customer environments. So we've been able to identify these, we're making roughly $15 million in investments in this space around the differentiators that we're going to add more color to on Investor Day to give some demos on how those are actually deployed in the customer environment.

Second, areas in our business development, obviously, we have been focused heavily on not only our ability to bid, higher-volume bidding but also high-quality strategic bid capability for our pipeline as well as our recompete our ability to retain the current business that we have. And we have challenges in both of those areas. So we are investing in upgrading talent in key areas and we're making a significant investment in business development, what we call capture and solution architecting which is all-around, ensuring that we create more value for our customers and existing programs and that we can bid in a systematic standardized way with higher talent and greater talent in certain areas. And then the third investment is around upskilling. And that's our ability to deliver our capabilities at our customer sites with individuals that have to evolve with the talent and the expectation that our customers have in terms of the solutions that we're implementing. So those are the three fundamental investments that we're making in the business and we expect over the next 12 months to 18 months that those investments will shore up our bid capability, our win rates, our recompete rate, and overall our customer satisfaction.

Prabu, anything else you'd like to add?

Prabu Natarajan, Chief Financial Officer

Yeah. Thank you, Toni. Good morning, Seth. Appreciate the question. I'm going to zoom out a little bit and it really big picture, Seth. We're investing about 20 basis points of margin that's the $15 million, Toni referred to. We have a chart in our earnings package. It shows that operationally we're poised to deliver mid-9 margins. 9.5% consistent with the guidance that we've previously provided and the $15 million Toni refers to, effectively brings the midpoint of the new guide down to about 9.3%, which is what we're communicating this morning.

I think you picked up on something else that I think is really important to emphasize. This is operating expense primarily. We are not expecting our capital-light model to change fundamentally as a result of these investments. We are committed to remaining capital-light. And I think just as important as making the investment is to ensure that we're generating an adequate return on the investment. And therefore, we are laser-focused on delivering good ROIC on the investments we are making right now.

And as Tony said, we're, you know, 18 months to 24 months out. And we -- but we are dialed into ensuring that we are delivering an appropriate return for the investments we're making. Hopefully, that was responsive.

Seth Seifman, Analyst

Yeah. I hope. Absolutely. Absolutely. And as a follow-up maybe, if you could talk a little bit, I mean, I assume the answer is yes, but if you could maybe tell us a little bit about why, I assume, increasing bid rate, I assume you feel like you can both increase the bid rate, but also the things that you want to be focused on in terms of priority areas and value-added solutions is, you know, it means the, I would think you want to be somewhat discriminating about what you bid on. And so, the idea of being discriminating and bidding in higher-value areas with also increasing the bid rate, how you kind of square that circle.

Toni Townes-Whitley, Chief Executive Officer

Do you want to start that?

Prabu Natarajan, Chief Financial Officer

Yeah, I'll take that one first, Seth. Look, I think we're taking a longer-term view of the pipeline to ensure that the pipeline reflects the priority areas we've got out there. As you probably observed, we're holding our topline multi-year guide at the 2% to 4% range, recognizing that we are not chasing calories, but we're chasing vitamins. Our incentive comp is, you know, focused on delivering more EBITDA from the business as well as generating cash out of the EBITDA we're delivering. And therefore, I think, think of this as the right kind of top-line for the business that will differentiate this portfolio and one of the benefits of having a more differentiated portfolio downstream is that you actually improve your incumbency win rates because it is less gladiatorial in that part of the market. And candidly, that's why, I think we're trying to get the equation calibrated between, you know, improving growth rates which I think is a must, but also making sure that we're delivering good value for the topline. Toni?

Toni Townes-Whitley, Chief Executive Officer

No. I think that's exactly on point where Prabu is and acknowledging that we spent some time putting the strategy together to identify specific growth vectors. So when we talk about bid rate, we want to make sure that we talk about strategic bid selection because that's also as Prabu has talked about correlated with our ability to win a recompete is also about bidding the right work the first time work that is, in fact, differentiating that we bring value from the first day of a contract that is let.

And so we are looking at and we quite frankly, historically our bid rate, our bid volume has dropped over the last couple of years. We want to return back to a higher bid volume and not do that at the expense of a win rate. So we're doing both at the same time. And that will be why the investments we're making now, we believe, will pay off over the next 12 months to 18 months.

Seth Seifman, Analyst

Great. Thank you very much.

Toni Townes-Whitley, Chief Executive Officer

Thank you, Seth.

Operator

Your next question comes from the line of Jason Gursky with Citi. Your line is open.

Jason Gursky, Analyst

Hey, good morning, everybody. Thanks for taking the question.

Toni Townes-Whitley, Chief Executive Officer

Good morning, Jason.

Jason Gursky, Analyst

Toni, I was wondering if you could just well -- and Prabu as well, I mean, if you've got some thoughts as well. Just a postmortem that you've done on the recompete losses and what has driven those losses. Have you seen a kind of a common theme? Just trying to understand that this is a pricing issue. Do we have performance issues to go? Just generally speaking from a broad-brush stroke perspective, what's the lesson learned here?

Toni Townes-Whitley, Chief Executive Officer

Yeah, look there are probably about three areas that we have. We have learned going across the various losses specifically and it's tied to our investments. We want to make sure that we differentiate on our technical proposals when we submit in our solutions and the differentiated offerings that we have. And so we know that we have gotten feedback at times that our technical volumes, our proposals have not been evaluated as positively. And so one area that we've got to make sure is that our solution differentiation is not only clear, but also well presented in the proposals and systematically part of all things that we bid across our factory.

The second area in terms of -- is making sure that our processes are standard across. And that means that how we run bidding capture has to be a systematic standardized in the DNA no-compromise approach at the enterprise level, which is why I centralized and put under one human quite frankly. And with direct reporting into the Executive Team, how we run those. With the appropriate forward metrics, not only backward-looking -- for the appropriate forward-looking performance metrics to really look at the health of our pipeline and understand.

Look, I think the last pieces as we've heard -- we've expanded our understanding of our feedback throughout a program. When we're delivering a program you think of a recompete -- you win the recompete day-one of delivering a contract and we've got to make sure our listening mechanisms are in place across multiple customer sets that we that we deliver to. This generally not one set of customers. And so, we're expanding that to make sure that we're getting the feedback throughout and that we are training our teams on the ground to add value in every aspect of the contract delivery, value then to as a service offerings, value into integrated solutions, increasing capabilities that we're adding all throughout the contract. That is how you ensure that you are not only the provider for the client business, but that you were the provider for the future business. So we've learned in those three areas and that's where we're placing some bets and having some mitigations.

Prabu any other thoughts there?

Prabu Natarajan, Chief Financial Officer

That was great, Toni. Jason here is the only thing. I would add, if you looked at our new business win rates, they are higher than we would expect them to be. And the thing that animates that higher win rate is how much more differentiated we are when we are bidding new work. And some of that is natural in an organization with a ton of excitement around new business captures. I think it's the -- how do we replicate that performance across the recompete spectrum? I think that is sort of where we have to have less of an opt-in culture around best practices.

We are making a number of changes to bit thresholds, expectations for profit, expectations for differentiation while we are executing and while we are delivering programs. And we do sincerely believe that all of those things will result in higher recompete win rates over time, but recognize that we are doing some really good things on the new business front, it's a question of replicating that across the entire portfolio of programs we have.

Jason Gursky, Analyst

Okay. Great. And then just as a follow-on, just want to make sure I understand this, you get more focus here on recompetes and having a better win rate on that, you're increasing the pipeline by 25%. And yet we're still looking at 2% to 4% growth coming out the back-end of things. It seems to me is just maybe just a general comment you can comment on, but that you know, the risk would be that 2% to 4% moves higher over time, given the kind of if you're successful in these first two things. So, first, I just want to confirm that.

And then secondly, if you are successful with this pipeline growing at 25%, and your win rates end up being as good or better than they have been historically, do you have the people in place the ability to scale? Can you grow fast? And will you be able to actually fulfill all of that demand should it come in? And maybe that's an indication that you're kind of -- you've got some underutilized people around today and we ought to see some really nice OpEx leverage that comes with it? So just kind of generally -- you win all of this, then what happens? How do you -- how do you execute on it? What happens to margins when you do? Thanks.

Prabu Natarajan, Chief Financial Officer

Great question, Jason, I'll take the first part and refer to Toni on the second one. On the first part, look, I think, the expectation is that the investments we are making will translate to better returns in the outdoors and obviously, as you probably noticed, you know, we provided FY '25 and FY '26 guides. We've held back on providing FY '27, that's obviously a topic of discussion at our Investor Day in April. But I think it seems to make sense to assume that we would expect a higher level of EBITDA growth and cash growth from the investments we're making than there is currently. The 25% common that you referred to -- that was really an improvement in the submission number as opposed to improvement in the pipeline number. Our pipeline, is as you think about, kind of a TCV here of the pipeline, we're in that circa $80 billion to $100 billion. But we are explicitly talking about submission rates improving by at least 25% in FY '25 relative to FY '24. And so to me, I just want to make sure we're clear on exactly what we're improving, but, I think it's a fair comment that you should expect our EBITDA and cash performance to improve relative to what we've got out there in the long-term. Toni?

Toni Townes-Whitley, Chief Executive Officer

Yeah. And Jason, let me take the second part of that question in terms of the Human Capital Supply meeting the demand -- increased demand as a function of prosecuting, all of this new this new pipeline in a positive way for SAIC. So really there are sort of two responses there.

First, in terms of Cowen Acquisition SAIC relative to the market. It is in a leadership position on talent acquisition days to fill in our ability, to fill open requisitions. In fact, it was underpinning some of our upwards performance in Q4 was a positive labor market and our ability to execute very well on talent acquisition and quite frankly, the lowest attrition we've had in the company over the last couple of years.

So in that regard, our ability to go get talent from the market and retain top talent. I think has been proven and we obviously have to sustain that. Secondarily, you heard my investment relative to upskilling. And that is the conversation that we have got to in each one of our business groups is engaging and upskilling initiatives even across our various functions in the corporate -- in the company to ensure that we can't just acquire all of the talent we need, we have to incubate that talent. And so we are upskilling in critical areas. Those upskilling areas generally aligned with where our differentiation is in our portfolio. So upskilling in a cloud area, upskilling in data analytics, upskilling in AI. Those are all the support, the actual enterprise differentiation that we are investing in and expect a significant return in from our portfolio.

Hopefully, that answers your question on Human Capital.

Jason Gursky, Analyst

Great. I appreciate it. Thanks everybody.

Toni Townes-Whitley, Chief Executive Officer

Sure.

Operator

Your next question comes from the line of Greg Konrad with Jefferies. Your line is open.

Greg Konrad, Analyst

Good morning. Thanks for the question.

Toni Townes-Whitley, Chief Executive Officer

Good morning, Greg.

Greg Konrad, Analyst

Maybe just to kind of follow-up on the last question. But you mentioned a 12-month to 18-month cycle, but also that, you know, an increase of at least 25% and submitted bids in fiscal year '25. Just thinking about the strategy that you laid out, I mean, how much of that is maybe market growth versus early returns on going, you know, after green space and expanding the aperture of what you bid on and then, you know, with that, how do you kind of think about that number trending forward as you execute on the strategy.

Prabu Natarajan, Chief Financial Officer

Yeah. Hey, Greg, I'll take the first part of it here. So in terms of just the aperture, you know, we see these as less about green space development. I think this is core to the pipeline we built over the last few years. I think they are maturing to a place where, I think we're actually in a place to more readily bit these things with the right solutions inside of the factories. So, I would say, less in the way of new adjacencies, more in the way of where kind of core capability investments are being made inside the company.

Toni Townes-Whitley, Chief Executive Officer

And we've already been able to confirm. We have a significant addressable market. So before we need to look through any sort of adjacency, we've got the ability to bid and we're going to lay out sort of those growth factors in our Investor Day to show what's driving the strategic bid thesis. But that's the way we are looking to drive this additional bid volume is not only as probably, will speak to this is about vitamins and calories. It's not just bidding for bid say high bid -- high strategic bid. And quite frankly processes that can monitor that we are bidding on-strategy and a routine manner.

Greg Konrad, Analyst

And then maybe just one quick follow-up. Thinking about those differentiators, you know, appreciate that when you think about those vectors how much of this is based on, you know, or how aligned is where you think you can compete better versus maybe where the market has the most -- most growth. I mean are those two areas aligned, but I think about things like AI or is it more about where you think you compete or does that about where you think the markets may be going the most?

Toni Townes-Whitley, Chief Executive Officer

Hey, Greg, that's a phenomenal question, I appreciate because it allows me to speak to how the strategy is built and how growth factors are identified or a combination of where we have footprint and capability. What we are both in terms of contracts that we may currently have but also solution capability that's meeting the need for an expressed demand of that customer set, as well as where there are parts of the market that are growing, the underpinning. And so they come together and it is a multi-factor equation for us to identify growth factors. We think about secure multi-cloud, one of our key differentiators. The fact that we have cloud, one of the largest cloud contracts and the Department of Defense, one of the largest CAP cloud contracts in the civilian market at Treasury. The fact that we are there and we have cloud capability and we have a unique offering in cloud and the brokerage and security of our cloud. That is not only an area of differentiation for us. It's also one of the fastest-growing markets across both defense and civilian in the federal government.

And so it is -- it is both that are part of the equation of how we identify a growth vector. And that's why we get pretty excited and engaged about our opportunity to take share in those areas.

Greg Konrad, Analyst

I appreciate it. Thank you.

Toni Townes-Whitley, Chief Executive Officer

Thanks, Greg.

Prabu Natarajan, Chief Financial Officer

Thank you.

Operator

Your next question comes from the line of Bert Subin with Stifel. Your line is open.

Bert Subin, Analyst

Hey, good morning, Prabu and Toni. Thank you for the question.

Prabu Natarajan, Chief Financial Officer

Good morning.

Toni Townes-Whitley, Chief Executive Officer

Good morning.

Bert Subin, Analyst

Maybe just sort of focusing on internal investment strategy, you know, if we think about the lifecycle of winning new meaningful government contracts, they can be a multiyear process from the initial solicitation point where it's actually contributing to revenue. So as I think about ramping internal investment, the payback period is probably a couple of years out. With that in mind, as we contemplate, Prabu, what seems to be a little bit of a lower buyback assumption, and a lower projected leverage ratio. Is that a function of SAIC positioning to be more acquisitive to perhaps accelerate some of that internal growth return?

Prabu Natarajan, Chief Financial Officer

Yeah. Great question, Bert. Look, I think, in terms of share repurchases, we're guiding to between 600 and 650 over the next couple of years. And I think relative to kind of a multi-year view that we provided maybe a year ago, you know the stock price has moved up considerably. And therefore you know the math ultimately just reflects that we are buying fewer shares than we had contemplated, but not materially. So to me, I think that's a really big picture on share repurchases, no real change to the strategy, but this is a really good problem to have. But the fact that the stock prices reacted as well as it has. I think just means we're buying fewer shares.

In terms of the dry powder, I think we, you know, we've always thought about this as, you know, what's the target leverage to run this business at and we've always signaled it's about 3x, and we said, there we points in time where we're just below points at time where we're just above 3x. And I think what we are right now assuming is that just given the potential for EBITDA improvement in the business. And just the cash generation capacity of the business, there is a natural deleveraging mechanism happening inside of the portfolio. And that's why the charts reflect leverage coming down to let's call it mid-2s.

Now that's simply means that there is extra capacity for us to either use the proceeds to buy more shares if we see major dislocations in the valuation of our company or continue to focus on where the tech-enabled differentiators are in the M&A market to ensure that we are appropriately bringing capability. One of the things that we're laser-focused on inside of the innovation factories that make buy decision that we don't believe for a second that we have to make the investments to create the innovation inside the company if that effectively is available at a lower cost and a different color of money externally. So to me, the real focus is acutely staying calibrated on make buy decision so that we can decide where's the best ROI is. But I think fundamentally, no real big change in the M&A strategy. Toni?

Toni Townes-Whitley, Chief Executive Officer

Correct. No. I think you nailed it there Prabu.

Bert Subin, Analyst

Again, that was great. Thanks for the color. Just a follow-up on, Toni, last quarter asked about the end-caps contract and you gave some really good color there. I think that's expected to be finalized here in coming months. I'm just curious, as we think about your guide that now goes through FY '26. You know, how are you factoring in end-caps and Vanguard and was just sort of probability-weighted at your percentage view of weigh-in? And so, if you do weigh-in end-caps and if Vanguard turning to evolve a better outcome than you anticipate those just drive the upside to the way you're looking your guide?

Prabu Natarajan, Chief Financial Officer

Yeah. Hey, Bert, I'll take that one first, and Toni, will add.

Toni Townes-Whitley, Chief Executive Officer

Yeah, sure I'll answer.

Prabu Natarajan, Chief Financial Officer

So really big-picture end-caps were waiting as folks know, we did file a pre-award protest on end-caps and waiting for feedback on that process. Clearly, you know, our guide for this year at the midpoint of 2.5% assumes. You know some disruption from end-caps, but not a significant amount of disruption. End caps is likely to be more of an FY '26 disruptor. They're not. And candidly, the way we've provided the 2% to 4% guide for FY '26 right now stays calibrated on a potential negative outcome on end cap. So we think that is by and large derisked as we head into FY '26. But the other thing, I would point, Bert, is that, you know, we are just beginning to ramp on T-cloud. That program contributed very little revenue last year and this is probably the first year of significant revenue uptick on T-cloud picking up to about 1% of total growth rates inside the company obviously GMASS, which began in the Q3 time-frame of last year will continue to ramp through the first two maybe three quarters of this fiscal year. We've got some ramp left on AOC as well as DCSA One IT and, of course, the most recent DTM win that we announced a couple days ago that will certainly start to ramp over the course of the year.

So to me, as I think about the tools and pros here, we are comfortable that the 2.5% that we're guiding to for this year reflects all of the headwinds and the tailwinds and that the 2% to 4% appropriately reflects potential outcomes in a range of outcomes I might add on Vanguard evolve, and as well as potential negative outcomes on end-caps. So that, you know, hopefully, that adds a little more color here.

Toni Townes-Whitley, Chief Executive Officer

I think that's great, Bert, I think only thing, I would add to that is, is understanding that as we are ramping on new -- we are acknowledging and derisking. Any challenges or headwinds relative to recompete losses. We also have in the strategy that we are trying to implement here and we start talking about differentiating our portfolio, the benefit for new bids, you're absolutely right on a 24-month expectation, absolutely correct. In terms of the way the government procurement cycle works. But on existing work, we have the opportunity for on-contract growth and to shore up recompetes. And so when you think about implementing the strategy and what underpins our growth expectation, it is the belief that on-contract growth we can improve upon with value-creation with our customers and that our recompete that our existing programs that will come up for recompete that we can get back to our traditional 90% win rates by adding more value and existing contract deliveries. So new business absolutely 24-month-term, but we have the opportunity, we do have levers with our current program.

Bert Subin, Analyst

Thank you.

Operator

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

Cai von Rumohr, Analyst

Yes, thanks so much for taking my question. So -- could you give us where your bids awaiting decision not because they've gone down sequentially the last two quarters? And then maybe some color on kind of what so book-to-bill or sort of the bookings environment do you see the next couple of quarters? And lastly, maybe an update on where we are with end cap and Vanguard in terms of when you expect decisions to come down.

Prabu Natarajan, Chief Financial Officer

Right. Hey, Cai. That's a multi-part. Let me make sure I get them all, and if I don't, please remind me and I'll certainly go back.

On the submission rates, I think, you know, as Toni mentioned, you know, we are submitting in the last couple of years have been lower and I think the expectation is that submit rates will be higher over the course of FY '25 and that should reflect in a higher-level of bids waiting final adjudication, if you will. So we do expect that trend to flip this year.

Really big picture on book-to-bill. As you probably observed our book-to-bill was under 1.0 last year trailing 12 month is under 1.0. We would expect book-to-bill for a business that's aspiring role in that 2% to 4% range to be above 1.0, so think of the objective for FY '25 is sort of in that 1.0 verse and 1.1 range. So that to me is the expectation for four book-to-bill for FY '25.

And then, finally, on end-caps, you know, we're going to see how this process plays out over the course of the next several quarters. But I suspect it probably will not have a significant revenue impact in FY '25, and evolve the customers in the middle of an active procurement cycle. And just given how complicated that procurement process is, we would expect minimal disruption to our FY '25 revenues. And as I responded to the previous question, I think, we've calibrated our position relative to Vanguard as an incumbent on the program. As you know, as strictly as we can as we're providing guidance here. So hopefully, I captured the three-parter.

Cai von Rumohr, Analyst

Actually there, one, what was -- what were the bids awaiting decision at year-end. And then what are the milestones, I guess I missed represented the question. What are the milestones -- when should we expect, I guess it's a multi-part decision, but when should we expect decisions to be forthcoming on Vanguard? Thank you.

Prabu Natarajan, Chief Financial Officer

Yeah. And on the first part, Cai, I mean, we typically don't call-out individual programs that are awaiting adjudication suffice (Multiple Speakers). And, you know, if we can certainly try and find the number Cai, but it's probably right in-line with where the historical numbers have been in terms of just waiting adjudication that at any point in time, we have a pretty healthy amount of awards that are, you know, pending adjudication. So we'll get you a more precise number if necessary. And in terms of the timing question, I would say, we would expect to hear on some of these in the Q1, Q2, Q3 timeframe. Q4 is not where we're expecting most of it, obviously, some of this will depend on, you know, the government funding environment, but I would say biased to the Q2, Q3 timeframe for this year.

Cai von Rumohr, Analyst

Thank you very much.

Prabu Natarajan, Chief Financial Officer

Sure.

Operator

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

Tobey Sommer, Analyst

Thank you. What's the most important financial outcome that you expect to derive from the new organizational structure with aore business units?

Prabu Natarajan, Chief Financial Officer

Tobey, let me take the first part of that. And then, Toni, please chime in. So really big picture, Tobey, I think part of what animated reorg was a desire to eliminate a layer. To simplify the work structure so that we could have direct perspective on what's going on inside of the business groups. And so to me, that was probably the most important reason. Part of what was animating that was to get closer to the customer, closer to where the rubber hits the road, if you will, and that was really the reason we announced a reorganization in Q4 of last year.

In terms of the single most important financial metric, you know, I would say, look, our incentive comp metrics are always reflecting what we want to deliver over long periods of time. And that is EBITDA dollar growth, free-cash flow and total shareholder return. So as I think about really important long-term, you know, what is the objective of driving additional organic growth, it is to drive higher EBITDA growth from the business and then converting cash out of that EBITDA and delivering TSR.

To me, I think, I have not given a single financial metric, but, I think those are really what we're hoping to do.

Toni Townes-Whitley, Chief Executive Officer

And this is Toni, let me just, Tobey, just give you an operational view for a moment. So long-term and completely consistent with what Prabu just shared. The one perspective and there were two moves on the organization that are to be collective and they're supposed to compound quite frankly to the right outcome. The centralizing of the BD function and the flattening of the organization, both of those moves are towards ensuring that we derisk ourselves on organic growth by addressing our recompete rate. Our recompete win rate that is not at our traditional 90%, becomes a drag on the business as we have spoken to before. And so the way to derisk that was to address the recompete issue in organizational ways. One, to make sure that we have a standardized process with a single point of accountability in the BD and capture function, and second, to flatten the organization so that we were closer to the customer and driving each one of those business groups as a direct those leaders are directly reporting to me and are part of this executive team to drive the value-creation that has to happen during program delivery and ensure the systematic deployment of our differentiators across that portfolio and to bring that accountability to bright light in a flatter organization with direct reporting responsibility.

The two ways to address the recompete issue are standardized bid capture capabilities and value-creation on the ground in program delivery. And those are the two that are reflected in the organizational changes that I've made.

Tobey Sommer, Analyst

Thanks. As you migrate the margins towards the industry average, it seems to me that there's kind of attention where you're bidding on work it's higher value in order to drive the margin higher and also trying to inject more value into lower-margin work to see if you can keep the same margin or even encouraged that higher. Are you having more success or less success on that higher-value stuff sort of the newer work to the company or trying to push the frontier out or on the lower-margin work that you're trying to defend or sort of inject with more value and distinction to drive the margin higher.

Prabu Natarajan, Chief Financial Officer

Great question. And maybe I will take the first run at it and then Toni. So, look, I think, you know, I don't think we have the luxury of focusing just on margin improvement out-of-the-new business and nor can we be sanguine about holding margins when we go through repeated recompete cycles. I think it's a little bit of both. I think part of what we've done on the new business front is focus on the differentiators that allow us to generate the accretive topline growth that is necessary to keep the business moving forward in areas that are relevant to the future of SAIC. So to me that's the way we're approaching it.

I think as we think about the recompete work, I think the focus there is, how do we bring innovation. Why we're on a period of performance right now in a program? How do we deliver X as a service while we are on a cost-plus program? How do we, you know, effectively deliver solutions within the confines of a fixed-price program by actively getting out labor cost and replacing with solution costs?

So, to me there's probably a couple of different ways we're going at it. The other thing we are absolutely focused on doing is looking at our thresholds for recompete win rates to make sure that we are identifying the right things we want to bid, making sure that we are adding value over the course of the period of performance. So we're actually delivering higher operating margin rates in a recompete, but think of this as more solutions focused on what we have to deliver. But it's hard to pick one or the other, I think companies have to do both. And I think we've got a different approach for both, but we are focused on doing both.

Toni Townes-Whitley, Chief Executive Officer

And I -- look I fully agree on the recompete side as Prabu spoke to very specific measures to ensure that margin is increasing on that -- the business that we retain. If you will then tie-in the investment we're making on reskilling where labor is an element for recompete that labor has to bring increased value over time, another element of why we're making some investments on the upskilling side. But I would suggest to you that our win rates might indicate that our new business, given where we are, gets above industry-standard that we are getting into the clip of being able to bid differentiated portfolio and win with new business. We're going to spend a significant amount of time and the investments that we've made, ensuring that in our existing program business that we're bringing more value on the ground in those existing contracts and bringing up the recompete side of that win rate.

Tobey Sommer, Analyst

Thank you.

Prabu Natarajan, Chief Financial Officer

Thank you.

Toni Townes-Whitley, Chief Executive Officer

Sure.

Operator

Your final question comes from the line of David Strauss with Barclays. Your line is open.

Josh Corn, Analyst

Hi, good morning. This is Josh Corn on for David. Thanks for taking the question. So I think you mentioned for sort of new verticals during the prepared remarks. I would just see the border, which I don't think it's really been emphasized before. So just wanted to ask like how you plan to differentiate in those markets going forward? Thanks.

Prabu Natarajan, Chief Financial Officer

Yeah, let me speak to them, we call them national imperatives, I believe there are five that were identified. I don't -- you don't think of them as an organizational construct, they are not, in fact, what they represent or the long-term efforts of our customer, our programmatic engagement with our customers, the imperatives for the country that the customers are working. What we are trying to do in our strategy is to ensure that when we build differentiation across our portfolio and we do good bid selection in terms of how we want to grow our business that we're driving towards outcomes in each of those imperatives.

So for example, undersea dominance is one that speaks to our naval fleet and the undersea capabilities of the US. We have contracts in that space. We are doing work in that space. We are differentiated. We want to continue to differentiate in that space and grow that type of work going forward. So they are more directional for mid and long-range investments in how we engage and how we position with those customers that are driving towards those outcomes.

Josh Corn, Analyst

Great. Thank you.

Prabu Natarajan, Chief Financial Officer

Yeah. Sure, Josh.

Operator

This will conclude the question-and-answer session, and end today's conference call. We thank you for joining. You may now disconnect your lines.