MANAGEMENT'S PREPARED REMARKS

Toni Townes-Whitley, Chief Executive Officer
Prabu Natarajan, Chief Financial Officer

FOURTH QUARTER FISCAL YEAR 2024 EARNINGS CALL

MARCH 18, 2024

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

Joseph DeNardi

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 2, 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

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 FY25 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 FY25 adjusted EBITDA and free cash flow to be higher despite a roughly 20 bps incremental investment to drive profitable growth. We expect this investment to generate returns in FY26 with more meaningful impact in FY27 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, border of the future, citizen experience, all-domain warfighting, 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 for success with our customers.

On our portfolio pivot, we have 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 IF in FY25 while implementing new performance metrics to ensure we generate our targeted ROIC. This is important because we have 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, bid 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 FY25 in our business development teams to upgrade talent where appropriate. Operationally, we have implemented a new enterprise model to leverage our IF 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 have 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 customer is evident across the enterprise and provides a valuable base off which we can build. Consistent with the investments we are making in our IF 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 adopting 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 have 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 BTB. While we have 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: (1) retaining our current business by improving our recompete win rate and (2) increasing our yearly bid rate with more strategic bid selection to drive higher book-to-bill over

1.0. For our current programs, we are implementing new process and rigor in driving innovation and value progression to additional “as a service” offerings. We are 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 selections 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 to 18 months.

While Prabu will discuss our updated guidance in greater detail, our expectation for FY25 pro-forma revenue growth is approximately 2.5%. This is notably off of a higher base than previously contemplated and assumes a still 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 are off to a strong start, and I am encouraged by the enthusiasm and cohesion I see across my 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 11 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’ll now turn the call over to Prabu to discuss our financial results and improved outlook.

Prabu Natarajan

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 $1.74B, 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% and was impacted by a higher incentive compensation accrual given our strong financial performance. For the year, higher incentive compensation accruals impacted margins by approximately 30 bps with the 9.3% margin adjusting for this inline with our guidance and reflecting continued strong program performance.

Adjusted diluted EPS 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 $119M in the quarter and $486M 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 FY24 representing our third straight year of double-digit pro forma cash flow improvement.

Net bookings of $1.4B resulted in a book-to-bill of approximately 0.8x in the quarter and roughly 0.9x on a trailing twelve-month basis. Subsequent to the close of the quarter, we were awarded several new bookings, including a $444M contract with the U.S. 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 FY25 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 FY25 revenue guidance to a range of $7.35B to $7.5B, which represents pro-forma organic growth of approximately 2.5% at the midpoint. This outlook assumes a

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more typical outlay environment than we saw in FY24 and incorporates our expectation for an approximately 4%-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 FY25 as we ramp on the strength of our new business wins and see more funding clarity for our customers.

We expect FY25 adjusted EBITDA of approximately $690M at the midpoint of our guidance as increased revenue and underlying margin improvement are partially offset by an approximately 20 basis point investment, predominantly in our Innovation Factory and business development function, as Toni discussed.

FY25 adjusted EPS is expected in a range of $8.00 to $8.20 and assumes an effective tax rate of approximately 23% and further benefit from our share repurchase program. I would note that every 1% of our tax rate impacts EPS by approximately ten cents.

We are increasing guidance for FY25 free cash flow by $10M to a range of $490M to $510M with increased earnings and working capital efficiency helping to offset higher cash taxes and cash outlays related to FY24 incentive compensation. We expect to deliver approximately $10 in free cash flow per share in FY25 and approximately $11 in free cash flow per share in FY26.

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 $125M from FY23 and FY24 payments already made, and our fiscal years 2025 to 2027 free cash flow should improve by approximately $45M, $20M, and $5M, respectively. Please note that, if a Section 174 change is enacted, our FY25 effective tax rate could be higher than our guidance of approximately 23%.

In Fiscal Year 2024, we deployed $357M to repurchase 3.3M shares, reducing our weighted average share count by a bit over 4% y/y. Over the past three years, we have repurchased over 8M 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/EBITDA leverage of approximately 3.0x. As reflected on slide 11, our solid cash generation gives us options for additional value creation. For FY25 and FY26, at this time, we expect to allocate approximately $600M-$650M 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 environment 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 FY24, and I am confident that we can sustain our ability to deliver value for shareholders over the long-term.

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

