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SAIC.OQ - Q1 2027 Science Applications International Corp Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to SAIC's fiscal first quarter 2027 earnings call. (Operator Instructions) Please be advised that today's conference is being recorded. I'd now like to hand the conference over to Jon Raviv, Vice President of Investor Relations. Please go ahead.

Jon Raviv - *Science Applications International Corp - Vice President, Investor Relations*

Good morning, and thank you for joining SAIC's first quarter fiscal year 2027 earnings call. My name is Jon Raviv, Vice President of Investor Relations. And joining me today to discuss our business and financial results are Jim Reagan, our Chief Executive Officer; and Prabu Natarajan, our Chief Financial Officer and EVP of Enterprise Operations. Today, we will discuss our results for the quarter ended May 1, 2026.

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. In addition, we will discuss non-GAAP financial measures and other metrics, which we believe provide useful information for investors. These non-GAAP measures should be considered in addition to and not a substitute for financial measures in accordance with GAAP. A more fulsome explanation of these measures can also be found in our SEC filings.

It is now my pleasure to turn the call over to our CEO, Jim Regan.

James Reagan - *Science Applications International Corp - Chief Executive Officer, Director*

Thank you, John, and good morning to everyone joining our call. I'm pleased to say that the year is off to a good start. I want to recognize our 23,000 employees whose relentless commitment to execution excellence made these results possible sustaining strong margins and industry-leading cash flow reflects the team's discipline and focus in a dynamic environment. This is operational excellence in action with our strong underlying results, highlighting our potential to deliver double-digit margins on a sustainable basis.

Since I accepted the permanent CEO job earlier this year, my focus has broadened beyond execution to include spending time with all of our stakeholders, our shareholders, customers and employees. My shareholder meetings made it clear that we have work to do to regain trust by proving that we can grow organically on a sustained basis. This quarter's result is a step in the right direction, but I know this is a multi-quarter journey.

My customer meetings focused on the value that we continue to bring to enable a wide variety of missions that are increasing in their complexity and velocity. It is also clear that our industry has to invest to keep pace in a fast-moving environment. Our flexible business model is well suited to these tasks, and we are excited to deliver on these commitments.

And my employee meetings highlighted the distinct privilege I have to lead an exceptional group of people working to solve the nation's most critical challenges. I'm grateful to our team for their patience and determination and taking on new roles responsibilities and mindsets to address enduring customer demand and to create value for all of our stakeholders. So please turn to slide 3 for our key messages.

First, we are built on a strong foundation and operate with an enduring purpose. We deliver critical capabilities to our customers to help them address their most complex challenges. And we do this by developing solutions that enable speed, capacity and decision-making dominance.

For decades, we have evolved with our customers as we anticipate their needs and operate at the speed of mission. This evolution requires us to continuously evaluate and refine the portfolio. Now there is some natural portfolio realignment this year as we digest recompete losses, primarily in the large enterprise IT market. We're also actively controlling our future as we build a premier portfolio of integrated mission-critical capabilities more aligned to budget priorities and more insulated against the commoditization that we have seen in certain parts of the market.

We have initiated a portfolio review and look forward to sharing more information on our December earnings call. You should expect to see a more agile SAIC built for the future underpinned by our mission depth and capability.

And as we have shared previously, we initiated a pipeline review to refine our bidding strategy to more closely align with our differentiators and where we enjoy a higher probability of winning. Our qualified pipeline sits at about USD85 billion and is more focused with enterprise IT now comprising a smaller share compared to last quarter. This reflects our selectivity in this part of the market.

We're also pursuing opportunities earlier and more deliberately leaning into key areas where we know we can deliver better and faster. This includes our mission and Engineering businesses, which comprise a greater share of our pipeline and are outgrowing the rest of the portfolio due to recent wins and ongoing investments. These dynamics support further organic portfolio realignment. And we continue to evaluate potential additions and subtractions to the portfolio to accelerate growth, enhance margins and further develop high-value areas where we're able to bring our investments to bear.

As I said last quarter, I'm excited by what made SAIC great to begin with, delivering innovative science, technology and engineering solutions in support of the security of the United States and its allies. And there's a lot going on in the world demanding our support. Elevated operational tempo is driving faster decision-making in a variety of hardware and software platforms where we currently play a role. We continue to engage with customers to enhance capability and capacity.

And we continue to leverage new tools that help us deliver more effectively and efficiently. In recent years, we have helped defense, intelligence and civilian agencies establish data and knowledge standards, develop multimodal AI and build secured data layers that underpin some of the nation's most sensitive missions. Today, we're applying AI to modernize legacy code, generate operational tasking orders, enhanced human machine teaming strengthen data fusion and hardened cyber defenses.

The opportunity ahead isn't about delivering an AI product. It's about how quickly we can integrate and operationalize these capabilities in real-world missions. I appreciate that we can only say so much about the opportunities, and in some cases, the risks that accompany rapid technological shifts. But at the end of the day, it comes down to our ability to put up continued performance as AI adoption increases, I look forward to delivering those results. And that brings me to top line improvement.

Appropriations are starting to flow from last year's legislation, albeit unevenly and we expect another large appropriation for FY27. While our growth does not depend on a USD1 trillion-plus defense budget, it certainly helps. RFPs and submissions are still slowed by environmental factors, although we are on track for awards. Recompete win rates are stabilizing as we expect them to return to the 90% range, and new business win rates continued to perform well above 30% and I'm encouraged by the modest organic growth that we saw this quarter despite our recompete headwinds from last year.

We also continue to build on our margin and cash momentum. Fiscal first quarter margin was a company record, driven by strong program execution. While we could see this margin level offset through year-end by key investments to support growth, these results demonstrate what we're capable of and support our full year guidance. And we saw another good quarter for cash, reflecting our strong execution.

Maintaining this momentum relies partly on the enterprise transformation process we announced in February. Project Orbit will increase our agility and create more capacity for investments to support growth and margin expansion over time. We have sourced over 3,500 ideas from across the company, which our dedicated team is now analyzing and prioritizing for execution. We'll have more information on these efforts on our next earnings call in September.

Taken together, these results and our continued efforts reflect our focus on execution, controlling what we can control and rebuilding our growth momentum. We have raised our guidance to account for some of this quarter's upside, although we are mindful of remaining investments, recompete roll-offs and uncertainties that could impact the remaining quarters. And as I've said before, FY27 is a year of commitment. We're setting targets that we are confident that we can achieve.

In closing, we see significant opportunity to drive value for our shareholders, create greater opportunities for our employees and most importantly, continue the mission of supporting our customers and our country. Before turning the call over, I do want to address this morning's announcement that Srini Attili is leaving SAIC as we make a leadership change in our civilian business group to support our positive momentum. We thank Srini for his contributions, and we wish him well.

Our CFO and EVP of Enterprise Operations, Prabu Natarajan, will serve as Interim Head of the Civilian Business while we identify a permanent replacement. Prabu's experience running complex businesses and driving execution excellence makes him well suited for this expanded role. He has my and the Board's full confidence. Our civilian business delivers industry-leading capabilities to critical clients and is a strong performer in our portfolio. We are strongly committed to our efforts in this market and focused on keeping the momentum going.

And with that, I'll turn the call over to Prabu.

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

Thank you, Jim. I appreciate the opportunity to support the civilian segment during this transition period while continuing my other responsibilities. There are strong teams in place in our civilian segment, in finance and in enterprise operations. I'm grateful for their dedication to the mission and to SAIC, and I'm confident in our ability to continue delivering for all stakeholders.

As our Q1 performance reflects, the Civil segment is operating from a position of strength, delivering leading technology solutions supporting a variety of critical missions. This includes our enterprise IT capabilities where we operate largely under outcome-based contracts that are creating value for SAIC and for our customers. I'm excited about our opportunities in this business and for continued margin strength.

One key opportunity is the Vanguard recompete, which we have been closely engaged in for years. As we previously shared, Vanguard supports the Department of State's global IT infrastructure and generates roughly USD250 million of annual sales at above average margins. The new program, EVOLVE is a multi-award contract vehicle with a USD10 billion ceiling over seven years.

It is bigger and broader than Vanguard as it consolidates work beyond our current scope. We look forward to competing on the task orders as we incrementally derisk this recompete over the course of the next several quarters. We have delivered excellence for 15 years, and we look forward to many more with EVOLVE supporting this highly critical mission and customer. Now let's get into the results. Turning to alide 4.

We reported first quarter revenue of USD1.9 billion, representing organic growth of 50 basis points better than expected due to timing of materials and the risk extension. We are encouraged by this result as we see the growth environment improving, although it's still uneven. As a result, we remain cautious around the unknown unknowns that could still impact the year as they did in FY26.

We reported robust adjusted EBITDA of USD222 million in the quarter. Adjusted EBITDA margin reflects strong program execution; some benefit from our ongoing cost efficiency efforts and a USD12 million gain associated with the IPO of a venture investment.

Our venture strategy is to back early-stage innovators that accelerate our long-term growth. Although we have divested our ownership position, we continue the commercial relationship with the company in line with our objective of bringing enhanced capability to the government market. The sale added 60 basis points to our EBITDA margin in the quarter and approximately USD0.20 to EPS. Adjusted diluted earnings per share was USD3.23 in the quarter, benefiting from better margins and a lower share count.

Free cash flow was USD118 million in the quarter, a strong result as we remain focused on maintaining our peer best cash conversion and deploying the capital to maximize long-term value for all stakeholders. Net leverage is within our target range, down to 3.1x this quarter. We expect to continue to naturally delever as EBITDA improves in the years ahead. Please turn to slide 5 to review our forward indicators.

As Jim mentioned, our pipeline is now more focused on our differentiators. And while customer disruptions continue to pressure submissions, as was the case in FY26, the environment is now improving, and our BD teams are on target for the year as we plan to accelerate submissions. We are encouraged to see submits and awards recovering even with a smaller pipeline, highlighting the benefits of our enhanced focus.

Net bookings of USD2.1 billion reflected a mix of new and recompete including an important USD200 million recompete win in our DHS business, where we integrate our software expertise with purpose-built hardware to support safer and more efficient ports of entry. This resulted in a quarterly book-to-bill of 1.1x or 1.0x on a trailing 12-month basis. We are encouraged by the momentum we're already seeing in the current quarter, and we expect to achieve our annual targets. Please turn to slide 6.

This quarter's organic growth of 0.5% was better than expected. While we acknowledge that our comps get easier as the year progresses, we are maintaining our sales guidance as we continue to take a measured approach to the year, appreciating that there were timing benefits this quarter and that there are still uncertainties in a dynamic environment. A key driver of our sales trajectory this year is the unsuccessful rich recompete, which we expected would be a USD200 million headwind in FY27 as it rolled off in F 2Q.

However, our protest was only recently adjudicated, so Ritz will likely now roll off in F 3Q. Partially offsetting our recompete headwinds this year is on contract growth or OCG which we expect will remain at 2% to 3% in FY27. This is in line with what we saw in FY26 and is below the 6% to 8% we saw in FY24 and FY25.

We are encouraged by the improved OCG we saw in F 1Q, although some of this was timing. Roughly half of this year's planned OCG comes from a handful of programs we won over the last two years that ramped slower than expected last year. As I said last quarter, those programs generated USD350 million last year, and we are planning for USD500 million this year. We're on track as these programs are currently running at an annualized rate of about USD400 million through F 1Q.

And as we continue to position the company for long-term growth, we are making targeted investments in several high-priority mission areas where customer demand and strategic relevance continue to accelerate. This includes advancing next-generation command and control capabilities to enable faster, data-driven, multi-domain decision-making, modernizing legacy radar capabilities to support evolving needs and expanding our work with loitering munitions and other autonomous systems by establishing domestic production lines to broaden the industrial base capacity. We continue to take a disciplined approach to these efforts focused on where we can earn the most appropriate returns. Please turn to slide 7.

We are maintaining our sales guidance since it is still early in the year. We also want to account for recompete headwinds and environmental uncertainties. However, we expect to finish at or slightly above the midpoint of our sales guidance due to the Ritz extension. We will revisit our sales guidance on our next call, but we are well positioned to meet our sales commitments.

We are increasing our EBITDA guidance to account for the venture investment gain and other performance items that benefited F 1Q which adds 20 basis points to the full year margin guidance, which we now see at 10.1% to 10.3%. As previously mentioned, we continue to see meaningful opportunities to improve margins in the future while also investing in growth.

We also see upside on tax rate as a few outstanding issues resolved in our favor. As a result, our adjusted EPS guidance increases by approximately 4% to a range of USD9.90 to USD10.10. Our free cash flow outlook of greater than USD600 million is unchanged, even as we plan to invest in discrete opportunities in support of growth. We continue to see at least USD14 free cash flow per share this year and at least USD13 of free cash flow per share next year in FY28 as historical tax assets roll off. We know that an increasingly favorable budget backdrop is only relevant if we can improve enterprise-wide performance.

We are off to a good start, but there's more work to do. I'm confident that our efforts will continue to translate into significant value creation for our stakeholders in the coming years. With that, I'll turn the call over for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) John Godyn, Citi.

John Godyn - *Citi Infrastructure Investments LLC - Analyst*

Great quarter. I'd love to just revisit and dig into the organic growth outlook a little bit. You had mentioned that there were some timing benefits in the fiscal first quarter, some business rolling off later in the year, but you were encouraged by the momentum you're already seeing. Just that chart, that great chart on slide 6 with the positive organic growth on the toughest comp of the quarter, it just makes it hard to bridge to negative 2% to negative 4% for the full year.

There might be conservatism. It's been a choppy backdrop. So I don't think anybody would hold that against you guys. But I was hoping we could just kind of dialogue about the shape of the year, how you see it and whether there's upside to that guide, it seems maybe a little bit obvious that there may be.

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

John, Prabu here, and thanks for the question. Big picture, obviously, we're pleased with the way Q1 turned out. And we also recognize that Q1 had by far the tougher comps relative to last year, where we at where we actually grew the business about 3%. So I think really big picture as you began to allude to it, John. I think we are being, I would say, cautious given what we saw last year and just the volatility we saw between the quarters.

I'd say I would not probably quarrel with the math that a minus 2% to minus 4% becomes harder to comprehend given the solid start we had to the year. I think we're just firmly got our conservative hat on right now on the revenue guide, recognizing that there's nine months left in the year, and there was enough choppiness last year that, if anything, we've learned the lessons from the last couple of years and recognize that we're in a relatively solid place on guidance. And as we said in the script, we'll revisit guidance on the organic growth side on the second quarter call.

John, we also added in the script, as you might have noticed, the view that we expect sort of revenue to be sort of closer to the midpoint, maybe a little bit ahead of the midpoint on the guide. So we are nudging it up, you would say, qualitatively inside of the current guide, but recognize there's probably some tailwinds here.

And Q1 really benefited from strong on-contract growth at 5%. And last year's Q1, just to be clear, it was about 8%, and then we saw OCG tail off over the course of the year last year. And our view is given we don't have full insight into what might happen over the next two or three quarters, let's take it slow and revisit the guide in Q2, but would not quarrel with the math that 4% contraction certainly looks like an outlier at this point.

John Godyn - *Citi Infrastructure Investments LLC - Analyst*

Got it. Okay. That's super helpful color. Appreciate it. And Jim, in your prepared remarks, you had mentioned portfolio review possibility of additions and subtractions to the portfolio. I'm sort of asking the question at a very high level. But I'd love it if you could just kind of elaborate on the thoughts there.

James Reagan - *Science Applications International Corp - Chief Executive Officer, Director*

Sure. Well, thanks for your question. When I took the job back in October, I was really focused as an interim CEO on just the tactics, thinking that strategy could be left for the person that came in to be permanent, and that person is now me. So for the past couple of months, we've been really focused on strategy.

And part of that is going to mean that we're going to look at the opportunities where we can meet customer needs that the customers are coming to us for speed. They're coming at us for agility, both of which we are well suited to deliver on. But we've signaled already that we're probably not going to continue investing quite as heavily in the more commoditized enterprise IT areas. That's just one example.

And we're going through the entire portfolio and a refresh of our strategy to look at the areas where customer needs probably don't show up in the fast current anymore. And we're going to try to make sure that the emphasis that we put on where we're investing is going to be -- whether it's internal and organic growth, what we're looking at investing in our bid pipeline, but also as we think about what M&A looks like, for the next 12 to 18 months, making sure that we're aligned with the speed that the customers are looking for areas where we can round out our capabilities as well as customer penetration for the coming investment cycle. Hopefully, it helps, John.

Operator

Jonathan Siegmann, Stifel.

Jonathan Siegmann - *Stifel Nicolaus & Company Inc - Equity Analyst*

Maybe just to talk a little bit about appropriation starting to flow and on-contract growth improving. Can you talk a little bit about where you're seeing specifically the areas where that improvement is occurring? And are there areas where it's not that we should know?

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

John, I appreciate the question, Prabu here. So let me maybe paint the color here inside of the defense market. I would say, really big picture. I think we are starting to see appropriations flow inside of our Navy business. I think they continue to see that tailwind from appropriation. So -- and as you all know, we have a Navy business that's over USD1 billion and continues to grow nicely for us.

I think we're actually starting to see within pockets of the Army, some of that increased appropriations, I think we're especially think about next-gen command control programs, think loitering munitions on the Navy side, I think more a increment 4 on the Army side. So we are seeing a handful of different areas where we're seeing that money start to flow through recognizing we've not seen much, if any, of the Big Beautiful Bill reconciliation yet. So there's certainly certain upside there.

Space and Intel, I would say we're seeing a little more in the way of appropriations money coming on the I would say, digital range modernization program. We are seeing some of the benefit come through our GMASS radar sustainment program where we are continuing to see some really top-notch performance on our sustainment work on the legacy parks and UW radar. So we are seeing some real value creation there for the customers. And so we are seeing a couple of different pockets.

I think part of the reason, and I recognize this is probably a little bit of a derivative of the first question we got is, since we're starting to see some of that benefit, we are cautiously optimistic that we will continue to see that flow. And one of the key goal posts that we're looking for is by, let's call it, mid-summer this year where are the agencies and the departments relative to the full year monies that they need to spend. And we think I'm cautiously optimistic that there's probably more to come in the second half of the year. So I think the caution is we're in an election year heading towards some uncertainty there, and we just want to be appropriately thoughtful and prudent in the way we're thinking about it. But broad-based I'm going to say, movement on the appropriations bond. And the reality is we're just taking it one month at a time right now. And hopefully, we continue to see the trend sustain.

Jim, would you add anything to that?

James Reagan - *Science Applications International Corp - Chief Executive Officer, Director*

No, I think you've covered it well.

Jonathan Siegmann - *Stifel Nicolaus & Company Inc - Equity Analyst*

And maybe just on capital allocation. So USD188 million in share repurchases, large relative to the last year's quarterly run rate. Just wondering if uses of cash is under the scope of the portfolio review.

James Reagan - *Science Applications International Corp - Chief Executive Officer, Director*

Well, I think that the buybacks we did were I think, timely and prudent. And in the lack -- in the absence of other things to invest in the best place that we thought we could invest in it ourselves. That said, we're actively looking at some opportunities in the market that are aligned to our strategy and opportunities to round out capabilities where we see customer demand but also opportunities to move into customer areas that an acquisition would accelerate our strategy versus trying to do it organically.

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

Thank you, Jim. John, the one thing I would add to that is our view that we want to be generally very disciplined about our cap deployment has not really changed. We are focused on the internal investments we're making. And the reality is, I think the investments we're making in key partnerships and the tuck-in M&A that Jim referred to. And not to mention kind of the opportunities we see within certain of the domains that we're operating in.

I think there's probably plenty of opportunity for us to continue to invest in the business. And our buyback program has always been opportunistic. And when we saw the kind of dislocation to the stock price, I think it's really our fiduciary do to do the right thing for our shareholders, which we did. And we've not changed our full year buyback plan of, let's call it, roughly USD400 million. So you will see some change in the buyback volume in the second half of the year, especially if the stock continues to trade up the way it has today. So again, very opportunistic. And I would say we are continuing to actively invest inside the company around digital infrastructure and obviously, the AI-related investments we're making inside of the company.

And then the last comment I would make is relative to project orbit that Jim referred to in the earnings script. Part of the thesis behind Project Orbit is to free up investment capacity. We recognize that running EBITDA margins at over 10%, it's hard to -- I'm going to say, invest at scale out of profit. So we are creating investment capacity inside the company so we can actually improve the capabilities we can bring to the war fighter. And I think that's probably the ultimate driving force behind Project Orbit.

As we said on the call, we'll provide you all a more detailed update on the second quarter call. But think of that as a way that is going to allow us to invest more in the business in a way that no amount of CapEx or profit ever could. And we're managing about USD7 billion of costs across the enterprise. And even if we can get a small sliver of that to go back into reinvestment for customers, I think that's probably the most bullish signal we can send because we are not waiting for funding to be available or creating the resources to be able to fund the business.

Operator

Matt Akers, BNP.

Matthew Akers - *Exane Bnp Paribas - Research Analyst*

I want to kind of follow up on the portfolio questions hardware and how big that could become as a share of SAIC kind of hasn't been a big focus, but I heard you guys talk about command and control and radars, loitering munitions, so just how big do you think you can get? And is that more of a organic growth opportunity or something you could invest in to maybe partner with somebody else?

James Reagan - *Science Applications International Corp - Chief Executive Officer, Director*

Sure. Thanks for the question, Matt. We have always had a very disciplined capital-light approach to how we deploy, including investments in the kinds of things that you just mentioned. And we do great work in places like Crane, Indiana, where we support the production of the Mark Torpedo, the loading ammunitions work that we do in Charleston and in other places and that's going to continue to be -- that kind of work is going to continue to be part of what we deliver to customers and deliver on their needs.

Now that said, I don't think that you should be looking for us to make huge large-scale investments in building new large plants, but we are certainly ready and we actually have proposals in front of customers to upscale the production rates on the kinds of things that I just mentioned, and we're prepared to invest more to meet those customer demands. So I think that what you're really going to see is a lot more in rapid prototyping upscaling the kind of work that we're doing and meeting the customer needs for a much elevated operational tempo given the conflicts that are currently ongoing.

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

Thank you, Jim. Matt, if I can add to that. I think we do a fair amount of work touching hardware I think, as Jim correctly pointed out, upgrading at that intersection of hardware and software is where historically the engineering strength that this company has been. And so you should expect to see us do that I think the segway into that kind of work comes typically out of some of the sustainment work we're doing.

So for example, radars, we called out because we won the GMASS radar sustainment program and our engineering teams have really have delivered some phenomenal performance out of those legacy radars with software. So our capacity to understand hardware architecture along with, I'm going to say, software-defined hardware and given all the software shops we bring and given the infusion of AI into the software, we're actually moving a little more quickly and it has given us a real opportunity to differentiate ourselves.

The Mark 48 heavyweight Torpedo, the work that we do there for the navy, it began as a small sustainment contract and has grown into a large production contract. So we're going to be really disciplined about where we want to touch hardware, but I think of this as a way for us to begin in services or sustainment and move upmarket or up the vertical stack, if you will, on hardware. But as Jim said, don't expect us to become a hardware prime I think we know our sweet spot and we know what we're good at, and we have to stay disciplined.

Matthew Akers - *Exane Bnp Paribas - Research Analyst*

And then if I could ask on the margins, I guess, Q1 EBITDA margin, even if I back out the USD12 million gain on sale were quite strong. So just curious how you're thinking about that? And could that maybe persist for the rest of the year?

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

Matt, I appreciate the question. Look, I think as you pointed out, the sale of the venture investment, margins were, I'm going to say, comfortably mid- to upper 10%. And what's implied in the guide is probably mid- to upper 9%. The teams have done a fabulous job so far, just putting their heads down and executing. Our objectives have not changed, as I would point out our incentive comp metric does reward outsized EBITDA margin rate performance. That was one of the changes we made this year. So I think the incentives are aligned for the teams to continue to drive.

But again, I would say just recognizing we're still early in the year, we want the teams to have the elbow room to go execute and do the right things. And the reality is when we set aggressive targets early in the year and the teams are chasing; you end up taking on some bad business. This start has allowed us to be very measured about the kinds of work we want to do over the course of the year. and into next year. But I would not argue with the math that we should do better than perhaps what's implied in the guide, but we have to go deliver. And every day, every week here brings a level of uncertainty that we hadn't seen before. So we just have to be measured and give the teams the room to go operate because obviously, they are the ones delivering frontline performance, and we want to make sure they have the room to operate.

Operator

Seth Seifman, JPMorgan.

Seth Seifman - *JPMorgan Chase & Co - Analyst*

Just maybe to follow up -- just a little bit more granularity about the margin. The benefit from the sale of the venture investment, assuming that that was in the corporate section. And we saw, I guess, some particularly strong results in each of the segments. Is there anything you'd highlight that was particularly unique about the operational performance in either of the segments this quarter? I think this is the highest Civil margin that we've seen that we have data for.

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

I appreciate the question, Seth. And I'm able to start with the Civil part of this. Really big picture, we saw broad-based outperformance across the portfolio. That's including our Defense Intel business as well as our Civil business.

Maybe I'll start with the Civil commentary first, maybe perhaps a little selfishly, but a couple of years ago, this business was operating at about 12%, 12.5%. And what we said at the time was expect that mid-12% to be the trough for that business that we would expect this business to operate consistently at 15% or so. And here we are at 15% in the second quarter. And I think the team continues to exceedingly well perform. As you know, the vast majority of the T&M and fixed price work in the portfolio sits in our Civil business, and the team has done a fabulous job, I think, really executing and we're really hoping to execute to that continued margin momentum.

On Defense and Intel, I would just say, over the last, I would say, three, four, maybe even fuve years, we have consistently moved the bar on margin rate performance inside the business. We constantly revisit thresholds that we want the businesses to bid at. We are always looking at the pipeline to say, is the work accretive or dilutive to the enterprise. And every year in the last three to five years, we've actually moved the required thresholds for work even on cost-plus programs. In other words, we were expecting, and we've talked about this in the past on prior calls around just bidding to more profitable elements of the portfolio and we're starting to see some of that benefit come through.

Again, I don't want to get too pollyannish on a single quarter's performance. The reality is we have to sustain this momentum. And if we do end up performing better than what's implied in our guide, as Jim said, and as I've said, there are opportunities for real investment in the business that we can now have the, I'm going to say, luxury of investing more in the business and hopefully secure some important, not just recompetes, but also new work that's out there.

So again, this is the benefit of giving yourselves the operational levers to be able to outperform. And we've not really had that the last couple of years or so. And what I personally love about this quarter is that we've got some more levers this year that we didn't have the last couple of years. So all good, but we have worked to do that, and I'm never going to get ahead of where the reported results are.

Seth Seifman - *JPMorgan Chase & Co - Analyst*

And then maybe as a follow-up, Jim, I think there's a perception that there are some competitive headwinds emerging for services across the industry that the administration is a bit ambivalent about the role of services for the government. Can you talk a little bit about the types of -- the feedback that you've been getting from customers kind of where you see opportunities now. And also maybe to the extent that we do see strong budget growth in '27, is there -- does that kind of bring the industry and SAIC along with it? Is there a world where there's really robust growth in appropriations in '27 and the company does not participate in that?

James Reagan - *Science Applications International Corp - Chief Executive Officer, Director*

Well, I think as I said during the prepared remarks, the direction that the budget is going and whether you believe USD1 trillion, USD1.25 trillion or kind of USD1.5 trillion, any of those scenarios give us opportunity for growth. And then -- and where we see the opportunities where the government is clearly not endivalent about the role of a company like SAIC. It's in the areas where it's not just radar sustainment but radar modernization. There's plenty of opportunity, for example, there we've talked about areas of munitions, the Mark 48 torpedo program, as an example, loading munitions that we mentioned on the -- in the prepared remarks as well. just by way of giving you some ideas.

And then also our intimate knowledge with how the customer operates give us the opportunities we are executing on now are around data fusion data integration, battle space management, the acceleration of decision-making in areas of -- I would say about space execution are a few of the examples where I don't think that the government is showing us any signs of ambivalence. I think the areas where we want to scale back a bit, and we've talked about it on the last call, and we were reiterating it here is anything that's commoditized on the IT side, where customer loyalties are more focused on price than they are execution and capabilities is where we're probably going to spend a little bit less emphasis on them. You want to...

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

Just one thing to add there, Jim, that was really good. I think, Seth, this business has always seen, I'd say, good competition. And we would say the administration's call for companies to put more skin in the game is probably exactly the right thing to do. There are plenty of opportunities for us to invest in the did, and we are doing that.

Technology and to some extent, AI can be deflationary. So what we have to do is, as we've done over multiple decades is ensure that we can do more with less using technology to drive outperformance. I think part of why we've always said the move to outcome-based contracts is a good thing for the sector is because we have demonstrated the capacity to deliver strong margins in an outcome-oriented environment. So I think all of those things on the macro side are good.

I think the other thing that Jim was alluding to is just as important. I think we want to be at the intersection where the systems are converging. And legacy distinctions between Title 10, Title 50, Title 18, they're all starting to merge. And to be operating in the data layer where the data is not owned by individual companies, but it's fully democratized, so we can bring the best of the tools that are available to get the most out of the architectures in place as well as the data that's being generated. So there's a unique role for companies like SAIC to operate sort of at this hybrid, I'm going to say, hardware, software intersection, I'm going to say, a platform data intersection that's really unique and somewhat exciting. And I think that's where our focus is.

And ultimately, we run these systems for the government. We believe the government owns the data to these systems and delivering the best value for these programs. It remains our topmost priority.

Operator

Sheila Kahyaoglu, Jefferies.

Sheila Kahyaoglu - *Jefferies LLC - Analyst*

I was feeling lucky, six questions and no one asked about Civil margins crushing it, but Seth killed it. So Prabu, I appreciate how you talked about a few years ago, they were at trough levels at 12%, and now they're up 15%. Maybe if you could give a little bit more detail. I know you're great at costs and controlling everything. How are you thinking about that in terms of Civil and these margins? What customers are driving it? Maybe if you could talk about the specific contracts.

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

Sheila, I appreciate the question. And look really big picture. I would say the Civil portfolio has had, I'd say, broad-based improvement on the margin front over the last few years. And I really want to acknowledge the hard work that the team has done to put us in this position. I would say, because that portfolio is almost 100% fixed price and T&M work, the reality is they have more levers that our Defense and Intel business simply does not have given their preponderance of cost-plus work. So I'd probably start there at the biggest level.

The Civil business, DOJ was hard in the industry, but the Civil business has actually held their own the last couple of years on top line. And they have not seen the contraction we saw in the rest of the market. but it is not what I would call a growth supportive environment right now. Now we are hopeful that, that changes. And our message to the teams internally is at this point, you could go chase USD1 of revenue where the win or the (inaudible), if you will, is not very high or you can put your energy to work at delivering a margin of USD1 of EBITDA. And the teams have actually done a really nice job. And it's that focus that we want to continue to drive inside the business and position ourselves for when that growth starts to inflect in the portfolio.

The work we do at Department of State, the work that we do at DHS patents, Department of Commerce interior, they all tend to be good contracts that are delivering good sized EBITDA growth for us, and that's what the team is focused on and not chasing top line. And the message internally has also been that to the extent top line starts to inflect up and we are delivering more growth out of the Civil business then let that growth drive margins down. And that's an okay trade to make over time because you're ultimately growing EBITDA dollars there. So that's how we've approached it. Again, it's come together really well this quarter, but I don't want to get too far ahead of what the rest of the year brings.

Sheila Kahyaoglu - *Jefferies LLC - Analyst*

Okay. No, that's super helpful. And then if I could ask maybe one more big picture one. As you thought about setting your fiscal '27 guidance, you talked about the low-margin enterprise IT work kind of removing that from your -- kind of from your pipeline and submits and then your revenue. How do we think about it impacting those three as we think about it progressing through the quarters this year? How do we think about that impact? Do we think about it impacting your pipeline and submits it all as well?

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

Big picture, Sheila. I think our pipelines come down, I would say, from this time last year by about 25%. The vast majority of that contraction has been in our enterprise IT portfolio. And I want to be really crisp about how we save this.

I think we're not saying that that market is not an important market for us. I think we simply want to say that we're going to be very calibrated and selective on the opportunities we chase inside of that market. And our Civil business is predominantly enterprise IT work. So we know how to do that work well. But chasing enterprise IT work in the more commoditized parts of the market where it's cost plus and not outcome-oriented is not the right band diagram that we are trying to strike here. So that's where the focus is. As we cycle through the remainder of the year, I think our expectation would be that enterprise IT will always be an important part of it. but probably not the predominant driver of the quality of the portfolio in this company.

James Reagan - *Science Applications International Corp - Chief Executive Officer, Director*

Exactly. And just to reiterate, the enterprise IT work done for our civilian customers because the contract formats are more outcome-based and they give us opportunity to drive better results for our customers, lower cost for our customers, but also higher margins for us. And that would be a great model if we could have it everywhere, but we can't, at least not in the short run. And so we're going to be, again, emphasizing the parts of the enterprise IT market, where we have an opportunity to perform well get rewarded by our customers and see higher recompete win rates, quite honestly, where in some parts of it because it's so commoditized, that gets really hard.

Operator

Tobey Sommer, Truist Securities.

Tobey Sommer - *Truist Securities - Analyst*

I was hoping if you could comment on what you're hearing and seeing from your NASA customer amid some news of potential in-sourcing. And then over the medium term for Civil, do you anticipate significant Department of War spending increases as pressuring the civil side, given that we're already in a relatively stretched fiscal condition?

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

Tobey, let me maybe take a first crack at this. I think really big picture, I would say, civil funding right now is at a crop I would say, if we had to bet, we would say it's probably not going to materially deteriorate from here. I think we're going to see some modest changes here and there, but not a -- our view at least is that it's going to have a material reduction at the funding levels for the civil agencies. So the question on does DOW funding pressure.

So well, I mean, look, I think that's always a trade that gets made sometimes. But I do think that these critical systems, this critical infrastructure has to be maintained, has to be robust and especially with the threats posed by AI to have the right architectures in place and the right sort of, I'm going to say, cyber hygiene, they're all critical to the national security. So I think it would be our expectation that funding remains relatively flat. At some point, it will inflect up when the threat actors recognize where the vulnerabilities are and we have to work to counteract that. But big picture, that's our view on where the budgets are right now.

James Reagan - *Science Applications International Corp - Chief Executive Officer, Director*

And again, I think we're fortunate to be placed in the civilian market, we're well placed with the things that have enduring need. We have great positions in Homeland Security with customs and border protection, providing critical infrastructure for supporting the mission of people that are keeping the bad guys out of the border.

We also have great positions in work that we do with the FAA. And just -- for example, Department of Treasury. So these are the kinds of areas as Prabu said, have enduring need. And probably, we're fortunate that we're not in the places that are going to see the lion's share of any kind of budgetary pressure on civilian agencies.

Tobey Sommer - *Truist Securities - Analyst*

And then as a follow-up, I'd love to ask a question on the great margin performance in Civil, do you think that that kind of profitability is sustainable over time?

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

Tobey, I appreciate the question. Look, I think is 11.6% sustainable for this business where it sits today? No. Could we consistently be at the -- and we've said that our expectation is that over time, we will drive this business to mid- to upper 10s bordering 11%. That is where we want to take this portfolio.

A couple of years ago, three years ago to be precise, we were mid- to upper 8%. And that kind of organic change takes time, and it does not. And if you took the time to get this right, it will not require you to do irrational things starving the business development and (inaudible). So we're trying to do it the right way. But I do think that this portfolio, there's no reason.

If I look at the fee we earn on the labor component of our business, that would imply that our margins should get to mid- to upper 10s, but it's going to be a multiyear journey. And we want to balance that against investments we are making in the business.

And Tobey, I realized I didn't answer the first question on NASA. I think reality is we have a very little of the NASA business that's left for better or for worse. And so obviously, could that happen in other agencies? Sure. I think it's a possibility, but we're going to have to navigate it and take it agency by agency. And again, historically, the government's not been effective in sourcing critical capabilities and -- but that's a pendulum that swings back and forth. So we're going to have to see where that plays out in certain agencies and obviously, we're committed to doing the right thing for our government, and we'll work with our customers to figure out the right solution for them and for us.

Operator

(Operator Instructions) Gautam Khanna, TD Cowen.

LSEG DATA & ANALYTICS

Gautam Khanna - *Cowen and Company LLC - Analyst*

I was wondering if you could characterize the bookings environment since the quarter end, so in the last month. And also if you could help us quantify the sequential headwind on IT in the third quarter relative to the second and in the fourth quarter relative to the third.

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

Gautam, maybe I'll try to take the first part of the question and -- on the -- if you think about the bookings environment, I mean, I would say there's a good amount of proposal activity going on right now. So I would say there's probably increased up tempo, and I just have to go down to the fourth floor of our building, and our teams are incredibly busy working on proposals. So we do expect a very healthy level of submissions both in the second quarter and the third quarter this year before perhaps starting to tail off, which is a typical pattern we see just given the seasonality of this business. So that feels like it's the right tempo for us to get to our submissions number of USD25 billion to USD28 billion for the full year. So that's sort of how we are seeing it.

In terms of the decisions, we are I think for the larger awards, we're seeing maybe those take a little bit longer as those awards go through multiple levels of review inside of the government. But they are starting to break through in the system, and we are hoping to see that volume stabilize in terms of decisions, which is why we feel good about the 1.1 book-to-bill in the first quarter and we do expect to complete the year comfortably over 1.0, I would say, on net book-to-bill.

I think on the (inaudible) impact and the seasonality impact I would say we start to see some impacts from the rich recompete tailing off, starting, I would say, Q3 maybe towards the end of Q2 into Q3. And think of the headwind as sort of being in the circa 3% range for organic growth in each of Q3 and Q4. So think of it as roughly level loaded in the second half of the year at about 3% and we contracted about 6% in the second half of this year. So think of Ritz as being approximately half of that, so we should apples-to-apples contract about 3. And then given on contract growth performance, ramp on new, those become the, I would say, the inputs to determine what organic growth looks like in the second half of the year. Hope that helps.

Operator

Max Miller, UBS.

Max Miller - *UBS - Analyst*

This is Max Miller on for (inaudible). I was hoping to get a little bit more information about the new state department of all vehicle. Obviously, a lot of competitors across a few different buckets there, but also more than just Vanguard rolled off into that contract. I was hoping you could talk about how much of the increased scope is addressable relative to the previous run rate. Maybe you want to assume the guidance and, I guess, timing around when you expect task orders to start rolling through on that vehicle.

Prabu Natarajan - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

Max, Prabu here. I appreciate the question. On Vanguard, the run rate is about USD250 million a year, and we said above average margins right now on that program. If you took the total value of the ceiling of that EVOLVE program, that's about USD10 billion over seven years, that would imply if the funding is there, that the run rate on the new EVOLVE program is over USD1 billion a year, SafeNet.

And I think for us, there are 5 work streams and evolve. We have bid and won a seat at the table on 4 of the 5 work streams. We did not bid 1 of the 5 because of certain organization conflict interest issues. And so we have been selected, and you've seen some of our peers talk about it. I think we are very much in the same boat as them. with the capacity to bid and win new work.

To be clear, as the Interim Head of the Civil business, I would say my expectation and that of my leadership team is we would love to hold on to the work we have on Vanguard in terms of volume, but there's a real opportunity for us to improve on that capacity. But again, we will take this one task order at a time.

And there is some upside as well as some downside on that program. And the way we've calibrated our guidance is it's probably unlikely to have any material impacts to guidance this year. It's more of a next year, which is why in the script, we said we'd like to derisk Vanguard evolve over the course of the next several quarters. So that's our approach to it.

Again, there's some downside. There's also some upside. We just have to see how all of this plays out, but it does open up some areas that we are not currently in, and hopefully, they represent some side. But right now, I think pets down and keeping as much of the work we have is our number one priority.

Operator

That concludes today's question-and-answer session. This concludes today's conference call. Thank you for participating. You may now disconnect.
