

Q4 2025 Earnings Call

Company Participants

- Joe DeNardi, Senior Vice President, Investor Relations, and Treasurer
- Prabu Natarajan, Executive Vice President and Chief Financial Officer
- Toni Townes-Whitley, Chief Executive Officer

Other Participants

- Colin Canfield, Analyst, Cantor Fitzgerald
- Ellen Page, Analyst, Jefferies
- Gautam Khanna, Analyst, TD Cowen
- Gavin Parsons, Analyst, UBS
- Jason Gursky, Analyst, Citi
- Josh Korn, Analyst, Barclays
- Matt Akers, Analyst, Wells Fargo
- Rocco Barbero, Analyst, J.P. Morgan
- Tobey Sommer, Analyst, Truist

Presentation

Operator

Good day, and thank you for standby. Welcome to SAIC FY2025 Q4 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Joe DeNardi, Senior Vice President, Investor Relations, and Treasurer. Please go ahead.

Joe DeNardi {[BIO 22467920 <GO>](#)}

Good morning, and thank you for joining SAIC's Fourth Quarter Fiscal Year 2025 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 2025 that ended January 31st, 2025.

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.

It is now my pleasure to introduce our CEO, Toni Townes-Whitley.

Toni Townes-Whitley {[BIO 16690503 <GO>](#)}

Thank you, Joe, and good morning to everyone on our call. I want to start with a heartfelt thank you to my colleagues at SAIC for their focus, dedication, and empathy amidst a dynamic operating environment for the company and our customers. The strong financial results we delivered to close the year reflect our commitment to driving improved mission outcomes for our customers.

I will now provide an update on current market conditions and our perspective on the risks and opportunities from the administration's focus on accelerating the deployment of technology to drive greater efficiency across the government.

To date, the financial impact to SAIC from recent executive orders and program cancellations across the government has been nominal, and our conversations with the administration to date have been productive. However, given how dynamic the environment has been, we believe it prudent to be prepared should conditions change. Prabu will discuss in greater detail in his remarks some of the actions we have taken to date.

While our base case does not assume a meaningful change in the size of our addressable market in the coming years, we do expect changes to the procurement environment that will place a greater emphasis on mission criticality and the infusion of cutting-edge technology as well as outcome-based contracting. We view this as an acceleration -- perhaps a rapid acceleration of prior trends and one that our strategy and investments are designed to address.

On Slide 4 of our earnings presentation, we have shared several examples of programs which demonstrate our ability to build and integrate technology at the speed of the mission. I would like to call out a few of those examples today.

For Customs and Border Protection, on the TASP program, we have rolled out facial and touchless fingerprint technology to over 5,000 ICE agents fully integrated with our cloud, machine learning, and AI capabilities to rapidly identify shipments and travelers more efficiently and accurately for additional inspection.

We have redesigned the License Plate Recognition system to a flexible open architecture system which has relieved the agency from legacy vendor lock and has made 700 of these deployed systems configurable to weather conditions across more than 100 of the busiest land border crossings and US border checkpoints nationwide.

For the Space Force, on our GMASS program, we have leveraged our digital engineering and on-demand software development solutions to sustain and upgrade various radar systems in the United States and around the world at rates quicker and cheaper than the legacy providers. Our performance has contributed to GMASS ramping to full run rate revenue faster than we had originally anticipated.

In our Commercial Operating Sector, we have a menu of offerings that customers can purchase on commercial terms. Revenue from our Commercial Operating Sector has increased from less than \$1 million in fiscal year '22 to approximately \$45 million in fiscal year '25 and a goal of approximately \$100 million by fiscal year '28 with healthy margins consistent with commercial terms.

Our top-selling offering is our DevSecOps Sprints which provide a skilled team of software developers ready to deploy, rapidly fix, and leave when the project is complete, typically in two-week increments, making them cost-efficient and agile, effectively, Sprints-as-a-Service. What makes our teams uniquely positioned to deliver this value is our role as a mission integrator with

intimate and irreplaceable knowledge of customer missions, in other words, gritty tech which underpins our legacy and undergirds our future.

Lastly, we are currently assessing our cost-plus portfolio to determine, with some specificity and appropriate guardrails, how much of this work could transition to fixed-type contracting over time. As we have shared, we have performed quite well within our fixed price portfolio over the years, beginning with our acquisition of Unisys Federal in fiscal year '21. Our initial view is that a significant portion could migrate to fixed price over time assuming that the scope of work is well defined and opportunities for cost-plus carve-outs still exist. This is an opportunity for our industry and the right thing to do for our customers.

I'll now provide an update on our enterprise growth strategy and business development trends. We delivered net bookings in the fourth quarter of \$1.3 billion and \$6.6 billion in fiscal year '25 for a book-to-bill of 0.9 times. Not included in fourth quarter bookings since it was awarded subsequent to quarter close, SAIC won the \$1.8 billion System Software Lifecycle Engineering contract which is the next iteration of the Software Lifecycle Development program, one of SAIC's largest programs by revenue. I am proud of our team in Huntsville for their efforts in securing this important program and for the continuation of our long-term partnership with the Army.

As we show on Slide 5, we submitted bids totaling \$28 billion in fiscal year '25, well ahead of our initial plan of \$22 billion. Our backlog of submitted bids increased to just over \$20 billion at year-end on a trailing 12 months basis, over half of which is currently expected to award over the next two to three quarters.

Our win on SSLE and our strong backlog of submitted bids provide visibility into driving our book-to-bill to our target of 1.2 times by the first half of FY26, of course, subject to the caveat that timing may be impacted by the ongoing uncertainty facing our customers.

While there have been some recent examples of procurement timelines being extended, it has not been broad-based. In addition, it is important to remember that procurement delays, while generally a headwind to bookings, also prolong recompute schedules such that the net effect to revenue and earnings would be far less material.

I will now provide a review of our fourth quarter and full year financial results. We reported fourth quarter revenue of \$1.84 billion, an increase of 6% year-over-year, driven mainly by new program wins and on-contract growth which offset program completions.

Full year fiscal year '25 revenue of \$7.48 billion represented 3.1% organic growth which is at the high-end of the guidance we provided at the start of the year.

Fourth quarter adjusted EBITDA of \$177 million resulted in a margin of 9.6%. For the full year, adjusted EBITDA of \$710 million produced a margin of 9.5% which was 20 basis points ahead of guidance due primarily to strong program performance and lower incentive compensation expense compared to the prior year.

Adjusted diluted earnings per share was \$2.57 for the fourth quarter, and \$9.13 for the full year, benefiting from the strong operating performance and a lower effective tax rate.

We delivered free cash flow of \$236 million in the fourth quarter and \$507 million for the year, resulting in free cash flow per share of just over \$10. As Prabu will discuss, we expect to achieve our target for free cash flow per share of \$11 in fiscal year '26 and \$12 in fiscal year '27 and believe we can accomplish this in various revenue scenarios.

Again, I want to thank everyone at SAIC for the dedication they have shown to the company, one another, and our customers.

With that, I will turn the call over to Prabu.

Prabu Natarajan {BIO 17701667 <GO>}

Thank you, Toni, and good morning to everyone joining our call. I will focus my remarks today on our financial guidance for FY26 and an update on our capital deployment plans. We are guiding revenues to a range of \$7.6 billion to \$7.75 billion, representing approximately 3% organic growth at the midpoint.

As we detail on Slide 8, we expect growth to accelerate from 1% to 3% in the first half to 2% to 4% in the second half. This cadence is driven primarily by the timing of recompute headwinds which are more pronounced in the first quarter and ease through the year. Our guidance assumes a roughly 2-point headwind from recompute losses, primarily related to a NASA program that exited our business in October.

In addition, we expect a roughly \$200 million headwind related to low-margin Air Force Cloud One Compute & Store revenue which we chose to no-bid that will be spread evenly through the year. We expect these headwinds to be offset by a fairly even contribution from the continued ramp-up on previously won new business including T-Cloud, DTAMM, CBC2, and on-contract growth across a number of programs.

While our guidance assumes no material disruptions resulting from the government's ongoing efficiency initiatives, we are preparing to respond with actions aimed at producing similar EBITDA and free cash flow if we see incremental revenue pressures.

For EBITDA margin, we are guiding to a range of 9.4% to 9.6%, an increase of 10 basis points, driven by strong program performance, efficiencies from internal process improvements, and incremental scrutiny on investments, given the uncertain revenue environment.

As shown on Slide 10, we expect this trend to continue into FY27 with margins improving an additional 10 basis points to a range of 9.5% to 9.7%.

We are guiding adjusted diluted earnings per share to a range of \$9.10 to \$9.30, largely due to increased earnings and a lower share count, offset by a higher effective tax rate of 23%.

Free cash flow of \$510 million to \$530 million should translate into approximately \$11 per share and continue to have good visibility to \$12 per share in FY27.

We expect to repurchase between \$350 million to \$400 million in FY26 and FY27 while maintaining sufficient capacity for capability-focused M&A or additional share repurchases. This is unchanged from our prior framework.

We are further refining our incentive compensation plans to ensure alignment with our investors. For FY26, plans for all eligible employees will be based on enterprise-wide performance versus the prior plan which blended enterprise and business group performance. As we focus on our strategy to more efficiently allocate capital across the company and operate as One SAIC, we believe aligning behind a single scorecard will enhance that push.

Finally, as you will see in their upcoming SEC filings, several members of the executive leadership team have indicated an intent to make a discretionary purchase of SAIC shares in the near future to further align our team's interests with those of our shareholders.

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

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question is going to come from the line of Colin Canfield with Cantor Fitzgerald. Your line is open. Please go ahead.

Q - Colin Canfield {BIO 22594816 <GO>}

Just making sure we understand the \$1.8 billion recompetete. Can you talk us through how that impacts book-to-bill for the future quarter? Thanks.

A - Toni Townes-Whitley {BIO 16690503 <GO>}

Good morning, Colin. Thank you for the question. And again, let me just reiterate how pleased I am with the Q4 results and having the -- this award as well as a pending award backlog that we have shared through our results.

On SSLE on this particular win, from a trailing 12-month perspective, it would -- this win would get us close to the 1.0 trailing 12 months. You heard us report at 0.9 prior at the quarter or year-end close. So that would be the impact on the trailing 12-month.

Obviously, we see this as an important continuation of our relationship with the Army, Aviation and Missile Command. And quite frankly, not only the win but also the ongoing work that we expect on this contract, we think sets us up fairly well for this part of the business.

Q - Colin Canfield {BIO 22594816 <GO>}

Got it. And then maybe talking about the incremental submit increase, so going from '22 to '26 or '28, excuse me, can you just talk a little bit about what's in that incremental \$6 billion of submits and where do you feel that SAIC has a right to win on those incremental wins or incremental submits, excuse me?

A - Toni Townes-Whitley {BIO 16690503 <GO>}

If we're talking about the increase from '22 to '28, look, we think there's a combination of reasons for that to include the efficiency of having standardized our business development function using an enterprise operating model to drive that. And we talk about in terms of not only bid more, the quantity, but also bid better, the nature of those bids being on strategy and quite frankly marginally accretive to prior bids.

When we look at that pending plan right now, about two-thirds of that pipeline that we are waiting to have awarded and adjudicated is in the mission and enterprise IT arena. About two-thirds of that is new business, a third is recompetete. So we feel balanced in both the new business recompetete component as well as that this is the strategic area that we put in place in our 2024 growth strategy and that the majority, again, over two-thirds of our pipeline are in the strategic areas of our portfolio.

Q - Colin Canfield {BIO 22594816 <GO>}

Got it. And then just maybe...

A - Toni Townes-Whitley {BIO 16690503 <GO>}

Prabu, do you want to (multiple speakers)?

A - Prabu Natarajan {BIO 17701667 <GO>}

Hey, Colin. The only thing I would add to that would be that the margins that are implied in the submissions are also higher than current company-wide margins. So therefore, that's the other side of this that we're pleased to see that we're continuing to move core margins up in the business.

Q - Colin Canfield {BIO 22594816 <GO>}

Got it. Got it. Yeah, definitely understood that algorithm. Maybe just last one for me before I get back in the queue. Focusing on -- so if I think about this bid pipe, can you just maybe talk a little bit about the nature of the budget dollars in this bid pipe and whether it's tied more to FY25 or FY26 budget?

A - Toni Townes-Whitley {BIO 16690503 <GO>}

The nature of the budget dollars and the submit pipeline, meaning for the submissions for this year. Look, we're...

Q - Colin Canfield {BIO 22594816 <GO>}

That's right.

A - Toni Townes-Whitley {BIO 16690503 <GO>}

We've got -- as we look at this year, the way we understand the CR that's in place for the year, we believe that there's some flexibility in that CR that we have not seen in previous continuing resolutions. So when we think about the ability to have new starts, the ability to have flex across the -- particularly Department of Defense and Intel sectors, we feel strongly that our current pipeline as submitted is competitive. It can be funded in this environment and it's sufficient, quite frankly to drive to the 1.2 book-to-bill that we have been putting forward as our first half exit in book-to-bill.

So right now, we feel pretty strong about that. Obviously, we're monitoring on a daily basis. The CR information came in last week. We are staying on this on every 24-hour run here but -- and we'll update if any conditions fundamentally change, but right now, we feel fairly solid.

Q - Colin Canfield {BIO 22594816 <GO>}

Got it. Thank you.

Operator

Thank you. And one moment for our next question. Our next question is going to come from the line of Jason Gursky with Citi. Your line is open. Please go ahead.

Q - Jason Gursky {BIO 22029538 <GO>}

Hey, good morning, Toni, and everybody else. Toni, quick question for you. You emphasized -- yeah, you emphasized a bit the potential for some mix-shift ahead of you from cost-plus to firm-fixed-price. I'm just kind of curious, how that will work mechanically for you all as you've done

that analysis. Is there the potential that we see higher margins but lower revenues? That one of the things that you've kind of discovered as you've gone through that analysis.

A - Toni Townes-Whitley {[BIO 16690503](#) <GO>}

Look, we're -- thanks, first of all, for the question, Jason. We've been doing that analysis for a number of quarters, quite frankly. We have looked at opportunities to move our cost-plus contracts into more of a fixed-price environment. We see the upside as well as we understand the additional risk. What it requires for us, we probably spend more time making sure that we have the frame for what we call service level agreements, very clear agreements with the government of what success looks like measurable.

We've seen in our civilian business, which you see a good portion of fixed-price work in our civilian business that we've been able to not only compete and win that business, but also deliver it at higher margins and continue to be competitive in that space. So we feel like we have a lot that we can, if you will, transfer from that civilian business into other parts of our organization into other business groups for fixed price.

And right now, I don't know if we have the assumption that revenue would necessarily decline. I think more -- we probably see it more as a margin improvement opportunity with the appropriate execution, with the appropriate guardrails as it relates to service level agreements with the customer. Not yet a revenue impact that we see to date.

Probably any thoughts you might have there?

A - Prabu Natarajan {[BIO 17701667](#) <GO>}

Hey, Jason, the only thing I would add to that would be the transition from cost to fixed price will depend on the customer and the current contract vehicles. If we assume that invasive changes occur in the procurement environment, you're going to likely see that transition happen sooner than one might reasonably expect. On the other hand, by and large, we expect that transition to happen as things come up for renewal as we introduce more fixed price work inside of existing cost-plus work.

So I think I suspect it's going to be more gradual. And to the extent that it happens a little bit sooner, in theory, what that would imply is that you will have less cost as a contractor and higher margin percentages. And therefore, arguably perhaps an impact, but the reality is, I think we expect the transition itself to be gradual and we'll be working with our customers to facilitate that transition whenever we think that is in our best interest and the customer's best interest.

So it's an ongoing process. So stay tuned.

Q - Jason Gursky {[BIO 22029538](#) <GO>}

Right. Okay. That's helpful. I appreciate that. And then my follow-up question just has to do with risks and opportunities around what we've all been reading in the headlines at DoD, where they've got -- I think the list is something like 17 protected capability sets and then they're asking the rest of the building to go find some percentage. I think the headline number has been 8% in cut so that they can reallocate freed-up money through those efficiencies to support those core 17 or so capabilities.

So I'm just kind of curious, as you assess the portfolio and the things that you have in your pipeline and your bid submits, where the risks and opportunities are there for you, those

protected areas, where do you have exposure? And where do you think you might have some risks on the areas that are asked -- being asked to to endure cuts? Thanks.

A - Prabu Natarajan {[BIO 17701667 <GO>](#)}

Hey, Jason, thank you for the question and obviously a great one. I'll take the first crack at it and Toni just chime in here.

In terms of the protected capability sets, I think part of the message that we're communicating is that if the program is considered mission-critical, then you're likely to see programs like that continue in an environment like this. And I think that's why instead of trying to figure out is there sort of a capability set match to the existing portfolio, just selecting the right targets, continuing to invest in capabilities that we believe are broadly needed across the customer landscape is the right way to do it.

So we are focused on making sure that the programs we're bidding on and executing on are mission-critical that we could do them effectively and execute well because we all know that in a constrained budget environment or where reallocation decisions get made, that underperforming programs are likely to see the brunt of that. That is just history in this business, as you know from a -- from decades here in the industry as well.

So the reality is that's the focus right now. And while we are investing in critical areas that are relevant to the 17 or so critical mission sets, I think our fundamental focus is, are we executing and delivering mission-critical capabilities to the customer?

Toni?

A - Toni Townes-Whitley {[BIO 16690503 <GO>](#)}

And I guess I'd just summarize that back to the data point that I gave initially. Over two-thirds of our submit portfolio or pipeline for this year is in mission-critical, mission IT, and enterprise IT capabilities that are driving directly towards mission programs and/or the IT infrastructure that is supporting the mission in substantively technical ways.

And so this is where we tend to look at it in terms of the portion of our portfolio that we are bidding that is driving mission-critical outcomes and that we believe will be durable. That funding will continue to be durable and that we're well-positioned in that space.

Q - Jason Gursky {[BIO 22029538 <GO>](#)}

Great. Thanks. Appreciate it.

Operator

Thank you. And one moment for our next question. Our next question is going to come from the line of Matt Akers with Wells Fargo. Your line is open. Please go ahead.

Q - Matt Akers {[BIO 22271349 <GO>](#)}

Hey guys, good morning. Thanks for the question. I wanted to ask about...

A - Toni Townes-Whitley {[BIO 16690503 <GO>](#)}

Hey, Matt.

Q - Matt Akers {[BIO 22271349 <GO>](#)}

Hey, good morning. I wonder the pushes from the government efficiency initiative is -- we've seen a lot of layoffs of sort of the federal workforce. So just curious how you think about that. Is there a portion of your business that's maybe exposed to that as a risk in the near-term that maybe there are fewer people to support even if longer-term, potentially maybe there's an opportunity for you to pick up some of that work or just kind of how you think about that dynamic for SAIC?

A - Toni Townes-Whitley {[BIO 16690503 <GO>](#)}

Yeah. Hey, Matt, I think it's a fair question. Obviously, we're tracking all of the various initiatives coming out of DOGE and other parts of the administration that affect program by program, agency by agency. To date, we've not seen -- it's been fairly nominal. We have not seen a significant impact.

I think we are also prepared and working with our customers directly as their personnel changes or let's say, potential cuts in their workforce, how do we support them on the ground with ongoing continuity of, if you will, business operation? I think many of us see that as both risk and opportunity, as you mentioned, where we -- may be the contractor staff that may be part of the ongoing continuity of those government operations, both midterm and long-term.

So we are very close to our customers right now and providing them all the support that they need and understanding what personnel cuts mean for them and for their particular missions.

I would say there's no one unique area that we -- that has stood out as a specific. You know what our footprint is in civilian and in our civilian agencies, particularly, we are in mission-critical cabinet agencies that have not had major cuts to date, but we are obviously tracking against that.

A - Prabu Natarajan {[BIO 17701667 <GO>](#)}

Hey, Matt, the only thing I would...

Q - Matt Akers {[BIO 22271349 <GO>](#)}

Got it.

A - Prabu Natarajan {[BIO 17701667 <GO>](#)}

....add to that is, we continue to have productive discussions with our counterparts and focused on mission criticality and what agencies we're serving and to suggest that there's going to be no impact from any of this would likely be viewed as naive and the reality is there are so many mixed signals we get every day from a variety of different sources that it's hard to react to every one of them.

So just being able to zoom out a little and think about big-picture underlying trends, I think it's probably the right posture for us. So I think that's why we're back to very much focused on what we do has to be mission-critical to justify the investments we're making in the organization as well as generating good ROI. Replicability of solutions across the landscape, that is a really important part of the investment thesis we have inside the company.

And our view is if we do those two things effectively and make smart capital allocation decisions, we're going to ride this out as uncertain as these times are. So that's sort of how we think about it.

Q - Matt Akers {[BIO 22271349 <GO>](#)}

Yeah, got it. Thanks. And I guess as a follow-up. So for the 2% to 4% organic growth this year, could you talk about -- your backlog, I guess, is down year-over-year, we're operating under a CR. I guess how much of that is already in backlog or how much maybe -- do we need maybe new work to come through to get to that 2% to 4% level?

A - Prabu Natarajan {[BIO 17701667 <GO>](#)}

Great question, Matt. I would say a very high percentage of that 2% to 4%, I would say probably north of 75% right now. I would sort of round it up a little bit and say about three-fourths in backlog. We are not relying on a ton of new business revenue in the year. I think our submit plan and our book-to-bill for the year suggests that we expect to have a good year-on book-to-bill, but overall, we're not expecting a ton of incremental revenue.

I think you're exactly right to be tempered in the question, which is in a CR environment, how much of a go-get is there, and I think our operating plan for the year is very much an on-contract growth operating plan with some higher targets this year relative to even our performance last year, which I thought was a pretty good on-contract growth year.

So I think that's the name of the game for the near term and hopefully, we'll start to see some awards come here over the next couple of quarters and hopefully sets us up for the second half and into FY27. Toni?

A - Toni Townes-Whitley {[BIO 16690503 <GO>](#)}

No, I think that was -- I think Prabu rightly said that was spot-on. And again, staying close to the customers, a very solid Q4 close on program execution in every dimension, continuing that into the year. And this on-contract growth expectation has increased year-over-year.

In this environment, we obviously want to be in the right places that are being funded, that are being -- that are deemed mission-critical, and quite frankly, bringing commercial solutions and using our commercial operating segment even more is our expectation this year to introduce more, if you will, technically, state-of-the-art capability into these mission areas.

And that's probably an area that's another lever that we've been able to exercise over the last couple of years. You'll see even more of that this year.

Q - Matt Akers {[BIO 22271349 <GO>](#)}

Yeah, thanks. If I could do one more, I guess seasonality, you talked about first half being a little bit slower, are -- is there seasonality like within Q1 versus Q2, do we start out slower? And do you think kind of both quarters will still be positive growth or could we kind of get negative and then accelerate from there?

A - Prabu Natarajan {[BIO 17701667 <GO>](#)}

Yeah, fair question, Matt. I think with all of the health warnings that come with quarterly level guidance. And I think we do our best try to estimate what these trends look like. And I think we're seeing a little more in the way of recompute headwinds in Q1 relative to Q2.

And for example, C4ES, which is a recompute list that we lost in Q1 of last year will actually lap out at the end of Q1 of this year. So in theory, that would suggest that Q2 ought to be better than

Q1. But candidly with \$18 million being 1% to revenue in a quarter, the reality is that's easy to move the dial inside of a quarter and between quarters.

So with the caveat that things are going to move around a little bit, I think it's fair to say fewer headwinds in Q2 than even Q1.

A - Toni Townes-Whitley {[BIO 16690503](#) <GO>}

Yeah, right. But growth in both -- I mean the idea of H1 over H2 or H2, if you will, over H1 in terms of higher growth, we do anticipate growing throughout the year and combination of how we grow, as Prabu has mentioned, as well as we do see some movement to the right on recompetes across the government. And so we're looking at and understanding what that may mean for our year as well as we push out some recompute risk towards the end of the year.

Q - Matt Akers {[BIO 22271349](#) <GO>}

Got it. Right. Thank you.

Operator

Thank you. One moment as we move on to the next question. Our next question is going to come from the line of Gavin Parsons with UBS. Your line is open. Please go ahead.

Q - Gavin Parsons {[BIO 18748617](#) <GO>}

Hey guys, good morning.

A - Toni Townes-Whitley {[BIO 16690503](#) <GO>}

Hey, good morning, Gavin.

Q - Gavin Parsons {[BIO 18748617](#) <GO>}

It sounds like there is still a lot of uncertainty. And probably you mentioned the mix signals and appreciate you guys are being very proactive. Anything specific that gave you confidence to raise the low-end of the '26 guidance in light of that?

A - Prabu Natarajan {[BIO 17701667](#) <GO>}

I would say here is maybe how we think about this, Gavin. I think the signals are very mixed. And then we look at what do we actually know as we go into the Sprint. And as Toni, I think absolutely correctly summarized it, the impacts have been nominal.

And then we look back to say, how do we end the year and I think we forget that we grew about a little over 4% in Q3, close to 6% in Q4. And candidly, we've grown above 5%, probably 50% of the last eight quarters.

And so I think the actual organic growth thesis is intact and our teams are doing a good job scouring and figuring out how to grow this business organically absent new large recompute wins. And that OCG machine is working effectively. And that doesn't mean any of this guidance is a gimme. It just means that we are betting on ourselves a little bit to say, can we keep the momentum up and I think we're keen on delivering a solid OCG.

And if something changes due to our reputation, we'll be the first to come out and say we're seeing some headwinds, but we're not seeing those just yet.

Q - Gavin Parsons {[BIO 18748617 <GO>](#)}

Great. And I appreciate all the transparency. I mean does it feel like visibility is improving or day-by-day that things are getting increasingly less certain?

A - Toni Townes-Whitley {[BIO 16690503 <GO>](#)}

Gavin, that's a great question right there. And look, I think we -- obviously, we are tracking this on a daily basis. But we are -- I think whenever messages get compounded or reinforced, you start to feel a little bit better directionally. Obviously, having a CR in place for the year set some expectation, it does actually offset some of the volatility by acknowledging that we have a CR in place and a CR that has flexibility more than what we've seen in prior years. So that I would say is a net positive in terms of just stabilizing our environment and helping us make good decisions going forward.

I think the other -- there's education going on. And I think as we engage both with GSA and other parts of the government, we've been able to clarify the work that we do, explain where SAIC fits in this ecosystem, explain the mission criticality of our work as well as some of the technical work that we do to support at an enterprise IT level. And I think with greater explanation, you -- it will start to, if you will, bring down some of the more knee-jerk reactions that all of us have had over the last few weeks.

And so I actually feel like it's moving towards a little more stability, not to say there won't be new initiatives that are introduced, but we are seeing at least some coalescing around clarity on the CR, clarity on flexibility within the CR, clarity on who SAIC is, engaging with the new administration. And as they learn more about who we are, I think it's going to become very, very clear on the mission role we play.

Q - Gavin Parsons {[BIO 18748617 <GO>](#)}

That's great color. I appreciate it.

Operator

Thank you. One moment for the next question. Our next question comes from the line of Seth Seifman with J.P. Morgan. Your line is open. Please go ahead.

Q - Rocco Barbero {[BIO 22326231 <GO>](#)}

Good morning. This is Rocco on for Seth.

A - Toni Townes-Whitley {[BIO 16690503 <GO>](#)}

Good morning.

Q - Rocco Barbero {[BIO 22326231 <GO>](#)}

The prior goal was to increase the share of civil work. However, with this [ph]main priorities of this administration, does the strategy still make sense or will SAIC shift the focus more towards defense and intelligence work?

A - Toni Townes-Whitley {[BIO 16690503 <GO>](#)}

When you -- I'm sorry, could you repeat the first part of your question? I heard the last part, excuse me, Rocco.

Q - Rocco Barbero {BIO 22326231 <GO>}

Yeah, sorry. With the prior kind of focus being on increasing the share of civil work, but with this administration is kind of focused on cutting the civil budget and moving more towards defense, is SAIC strategy kind of shifting with that administration?

A - Toni Townes-Whitley {BIO 16690503 <GO>}

No, we haven't made a shift in strategy to date. I mean, our civilian work is just around 20% of our overall portfolio. We have done well at civilian, as you can see as a reportable segment, had a very, very solid year this last year. If you look at the footprint of where we are within civilian, we're in mission-critical spaces around five to six key cabinet agencies that are continually going to be funded, we believe, and particularly in the mission areas where we find ourselves.

So it isn't -- I'm not going to say that we are bullish. I would say, of course, we're watching the market to see if there are any fundamental changes. But right now, our strategy was a strategy that focused on a portfolio shift to enterprise and mission IT across our portfolio, which we are accomplishing as we look at our pipeline moving to two-thirds, more than two-thirds in those areas.

And as civilian was a growth sector where we are in civilian, we have been growing and we expect to continue to grow. If we see a fundamental shift, obviously, we will pause and reevaluate. But right now, we feel like given where we're positioned, we'll hold with the strategy that we put in place.

Q - Rocco Barbero {BIO 22326231 <GO>}

Right. Then building on it, how should we think about the segment growth between Civil and Defense this year and moving forward?

A - Toni Townes-Whitley {BIO 16690503 <GO>}

Relative -- you mean Civil versus our other business groups? Look, I mean, Civil had a phenomenal year this year, I think -- I'm sorry.

Q - Rocco Barbero {BIO 22326231 <GO>}

Oh yeah -- yes.

A - Toni Townes-Whitley {BIO 16690503 <GO>}

Yeah, okay, yeah. Okay, we're in agreement, great. Civil had a great year and they are part of our overall expectation to continue to grow, particularly in the on-contract growth arena. They also have a pretty significant part of our pending award pipeline as well or backlog as well.

I think that when we look at it, we do expect that the growth rates relative to the market will be higher in Defense and Intel than civilian on the growth side in terms -- not our growth rates, but the market and how spending will occur. But for civil, there's always the conversation about how we grow on contract, how we have a significant pipeline there, and how we are positioned in mission-critical areas.

So my expectation is not a fundamental mix-shift between civilian and defense in terms of our expectations of growth.

Prabu, would you add?

A - Prabu Natarajan {[BIO 17701667 <GO>](#)}

Yeah, the only thing I would add is, as you know we do not provide guidance at the segment level. And I think it's fair to say that we see good prospects for growth in both of our reportable segments. Three, the recompute headwinds and the decision to walk away from the low-margin computing store is actually in our defense business, specifically Air Force and -- Space and Air Force, respectively.

So I think if you sort of nominally adjusted for those headwinds, I would say both segments are going to grow. The reality is, I think we do have some known headwinds in Defense and Intel and that's likely going to impact the relative growth rates, which obviously will report as we cycle through the year. But as you know, we do not provide specific guidance on the segments themselves.

Q - Rocco Barbero {[BIO 22326231 <GO>](#)}

Great. Thank you.

Operator

Thank you. And one moment as we move to the next question. Our next question comes from the line of Ellen Page with Jefferies. Your line is open. Please go ahead.

Q - Ellen Page {[BIO 20331307 <GO>](#)}

Hi, guys. Thanks for the question. Maybe just on a contract basis, I think you had a favorable outcome on the FAA ATEPS protest during the quarter. How are you thinking about that contract going forward?

And more broadly with the FAA, how are you thinking about the funding support there given it's become more of a priority under the current administration?

A - Toni Townes-Whitley {[BIO 16690503 <GO>](#)}

Hey, Ellen, thanks for the question. Thanks for joining the call. Yes, you're accurate in terms of the favorable protest that extended our time on that contract and we are monitoring to see where that goes. We tend to not comment beyond what the initial government decision was. And so we're going to continue with the expectation that we will be able to continue to deliver against that very important program for FAA.

I had an opportunity to spend some time with the Secretary of Transportation last week and can see his focus, Secretary Duffy on all things related to FAA and modernization in that program is, I think, critical to that effort.

So right now, we feel like we're going to continue to deliver against that program. And until there is another contract action, we're seeing it as part of our ongoing work this year.

A - Prabu Natarajan {[BIO 17701667 <GO>](#)}

And Ellen, the only thing I would add is we do provide air traffic training -- controller training programs through our CTS program. And I think it's fair to say that we should expect to see higher volumes specifically from that program because we do see that area as a priority for the FAA beyond ATEPS.

Q - Ellen Page {[BIO 20331307 <GO>](#)}

Great. Thank you. And then on the S3I re-compete that you went after close, I think that's the first of four recent bids you had or contracts you had. How are you thinking about the rest of that program coming up for a bit in the next...

A - Prabu Natarajan {[BIO 17701667 <GO>](#)}

Yeah, I'll take -- Yeah, fair question, Ellen. I remember this is like déjà vu. I feel like Bill Murray a little bit, but -- so we do have all four of them over the next several years. There's one that's probably furthest out in -- beyond FY28. The next two are in various levels of shaping and procurement. We are obviously focused on ensuring that what we deliver is mission-critical and that we can improve our execution on a day-in, day-out basis.

So I would say -- fair to say that the procurements are generally staying on-track. So I would say over the next couple of years, you'll see at least two of those four programs come up where we can (technical difficulty)

A - Toni Townes-Whitley {[BIO 16690503 <GO>](#)}

And all of the -- Ellen, all of the indications on our program reviews are that we are executing super well against those programs now from customers at to our day-to-day requirements. And so we feel pretty solid about our execution and our opportunity to be able to -- to hold on to those programs going forward.

Q - Ellen Page {[BIO 20331307 <GO>](#)}

Great. Thank you. I'll hop back in the queue.

Operator

Thank you. One moment for our next question. Our next question is going to come from the line of Gautam Khanna with TD Cowen. Your line is open. Please go ahead.

Q - Gautam Khanna {[BIO 7312818 <GO>](#)}

Hey, good morning, guys.

A - Toni Townes-Whitley {[BIO 16690503 <GO>](#)}

Good morning.

A - Prabu Natarajan {[BIO 17701667 <GO>](#)}

Hi, Gautam.

Q - Gautam Khanna {[BIO 7312818 <GO>](#)}

I wanted to ask if you could give us some anecdotes on the ground of -- you mentioned kind of nominal impact from the administration changeover in DOGE, how does it manifest? How has it

manifested across your business, if at all?

A - Toni Townes-Whitley {[BIO 16690503 <GO>](#)}

Well, Gautam, I think we could all acknowledge that we see delays in different parts of the business, right? So I think more than do we see financial impacts at this point, fundamental financial impacts, we do see delays and delays could translate into having some kind of financial impact, delays in contract actions, delays in obviously pending awards that we're holding to that - so the awards contract actions in our current footprint of work.

And to be fair on the ground, there are new players, sometimes personnel are -- who have left the organization, we have new personnel to engage with and we have to somewhat reset some relationships and norms given the changeover in various agencies. So I think there's an environmental set of conditions. There is a delay factor.

And I think those are the two that are probably most notable and the need and I'm super-proud of our team, the entire team and my leadership team in making sure that all of the incoming leaders understand what SAIC does and the mission criticality of what we do.

A - Prabu Natarajan {[BIO 17701667 <GO>](#)}

Hey, Gautam. The only thing I would add to that would be, if we think about what seems to get some level of scrutiny, contracts that are viewed as consulting arrangements where people fly in for two-hour meetings and fly out, I think those are likely to get a little more attention is, I think the folks in the government are recognizing, that's generally not what we do. We are mission-focused with people that have hands-on keyboard, generally not a core part of our business.

I think the other thing that you'll likely see is, is there a focus on simply buying and selling at higher profits to the government. In other words, think of these as sort of your fairly typical reseller agreements that arguably one might suggest not a lot of ton of value-add for the government. So there's a little bit of focus there.

Again, I think this is why as the administration sort of taking shape here and folks are getting acclimated to the kinds of work we do and the programs we execute on, I think there's a recognition that perhaps the headlines are, I would say, a little more of a knee-jerk reaction.

I think as Toni exactly pointed out, there's a little more of an understanding of what it is we do, our role as integrators putting together very disparate pieces of data and architectures and consumption patterns inside the government in a way that is cost-effective for the government long-term, I think there is a growing recognition of that.

The uncertainty also manifests in, I would say, very conflicting emails, five of them over the course of 48 hours and just knowing not to react to that or anyone email and just saying, can we just keep our heads about us and sort of navigate the environment together with our customer who frankly also have the same level of uncertainty.

So I think it's an environment that is uncertain and I think our priority is to not overreact and make sure that we're doing the right things for the nation long-term.

Q - Gautam Khanna {[BIO 7312818 <GO>](#)}

That's very helpful color. Is it -- I don't want to put words in your mouth, but it sounds as though what you're describing is more a function of an administration change versus any sort of

intervention on any given contract to take away work or end work. You're not seeing that. Right? You're not seeing.

A - Prabu Natarajan {[BIO 17701667 <GO>](#)}

So -- yeah, unfortunately, though that probably would be putting words in my mouth. So I would just say that it's by and large folks understanding during transition and because of the change out in personnel, we're seeing a little bit of catch-up in terms of just the base level of knowledge on programs.

And I'd say the caveat on the second part of your question is, we just don't know what we don't know, and we're just watching to see how the environment plays out, so.

Q - Gautam Khanna {[BIO 7312818 <GO>](#)}

Fair enough. That's helpful. One last one for me. Obviously, this also -- this relook by DOGE and the new administration could actually be beneficial to the industry via more outsourcing. Eventually, I'm curious, also on the SBA side, have you seen any movement afoot to kind of maybe lower the threshold of small-business set-asides that kind of forces contractors like yourself to sub out a lot of work or to sub to as a -- to a prime that the small-business set aside. Any movement afoot policy-wise that could actually be beneficial to larger services firms like yourself? Thank you.

A - Toni Townes-Whitley {[BIO 16690503 <GO>](#)}

Yeah, but. Yeah, Gautam, the SBA set-aside program has already gone through a number of, if you will, reducing of the threshold for small business set-aside. I believe 5% was the last that I saw and that's still being discussed with the new administration. So we're always tracking this sort of what the threshold looks like.

I think the more profound part of your observation and question is what are the opportunities for a company like ours in this new environment? And a combination of conversion of contract type, which has always been an interest to us in certain areas where we can -- and we've sometimes inserted fixed price line items within existing cost-plus, but the idea of being able to move to more favorable contracting is we see as an opportunity.

The opportunity to support the government if personnel reductions, if you will, reductions in force, and ongoing government operational continuity are at risk that we could be a partner to support in that regard. The opportunity to use more of our commercial operating segment to -- with new technologies coming in from different parts, some from the sort of defense side and other sectors, we want to be able to use what we have been building in our portfolio to integrate some of the more state-of-the-art commercial technologies that exist and we feel like we're an integrator that's really well-positioned to do that.

So there -- of course, we don't want to be bullish about this environment from the perspective of there is no risk. There is absolutely risk and there is volatility. And yet we do see opportunity in every conversation we have balances those two and gets proactive about being able to speak with our customers about opportunities even before they fully materialize.

So I would say it's a balanced environment, still eclectic every day is a new set of conversations and a new set of emails to Prabhu's point, but it's going to be how we manage ourselves through this. And I feel very, very fortunate to have a team on the ground as well as here surrounding our

executive team, that is fairly unflappable in this kind of environment. We've been there. We know how to operate through it, so.

Q - Gautam Khanna {BIO 7312818 <GO>}

Thank you very much, Guys. Good luck.

Operator

Thank you. One moment for our next question. Our next question is going to come from the line of David Strauss with Barclays. Your line is open. Please go ahead.

Q - Josh Korn {BIO 21976043 <GO>}

Hi, good morning. Thanks for taking the question. This is Josh Korn on for David. Wanted to -- I guess follow-up on the...

A - Toni Townes-Whitley {BIO 16690503 <GO>}

Hey, Josh. Good morning.

Q - Josh Korn {BIO 21976043 <GO>}

Hi, I wanted to follow up on the last question. Last quarter, you highlighted, I think it was 11% of the business that's professional services related. Do you view any of that portion of the business at elevated risk given the current environment? Thanks.

A - Prabu Natarajan {BIO 17701667 <GO>}

Hey, Josh, maybe I'll take the first part of it. So that 11%, you're exactly right, that includes our professional services and embedded within it is actually the core part of our seed-up. And so as we think about the 11% there, our seed-up portfolio has remained relatively stable here through all of the changes. And so, not a lot of updates there. And I think you're just -- we're just prepared to respond to the procurement environment. But our seed-up portfolio, as you know, is top-notch and the team is doing a fantastic job continuing to drive real value for that customers.

A - Toni Townes-Whitley {BIO 16690503 <GO>}

And to Prabhu's point, our understanding, Josh, is from our own customers here is that our seed-up, the capability we provide is deemed as mission-critical by our customers. So we're not as concerned about that part of the portfolio given the designation that our customers have given us.

Q - Josh Korn {BIO 21976043 <GO>}

Okay, great. Thanks. And then just wanted to ask about recompetes overall. If you could give us any more specifics on where you're running relative to the target and what you're assuming for win rates next year and the year after? Thanks.

A - Prabu Natarajan {BIO 17701667 <GO>}

Yeah. I'll take maybe the first crack at this one and Toni just. So I would say they are not quite yet where we want them to be. But it is our and the team's full expectation that we will restore, recompete to the high 80% to 90% range in relatively soon time. So I would say that's the going in assumption.

Our new business win rates continue to be pretty good. And so as I've said multiple times, we think about win rates on a blended basis. And anytime you bid, let's call it, \$28 billion and your blended win rates are 30% or 40%, that should set you up for a good bookings here.

A - Toni Townes-Whitley {[BIO 16690503](#) <GO>}

And we've also indicated, as you know, Josh, in our own narrative here that our headwinds coming into this year are less than what we came into last year with and that -- those headwinds include program transitions and recompetes. So we see that the -- if you will, the trend is improving year-over-year. We're not where we need to be, but we are better than where we were and we are identifying, and we've also said the environment that we have right now may be one where there may be some movement right against some recompetes as we look forward as the government is determining what constitutes their critical portfolio going forward.

So we are focusing on program execution, heads-down, meeting all of our and exceeding all of the customer requirements because as you know the best way to win in the recompetes spaces to deliver super well and bring innovation to that delivery. So the more we track that and the more we see that in our outcomes, we feel better about our recompetes prospects going forward.

Q - Josh Korn {[BIO 21976043](#) <GO>}

Great. Thank you.

Operator

Thank you. And one moment for our next question. Our next question is going to come from the line of Tobey Sommer with Truist. Your line is open. Please go ahead.

Q - Tobey Sommer {[BIO 6296228](#) <GO>}

Thank you. I wanted to dig into the recompetes win rate and maybe a little bit of a fundamental driver there. How are the company's CPAR scores trending in particular, on your larger programs because one would think that there's probably a pretty strong connection between that and your expectation for improving win rates.

A - Toni Townes-Whitley {[BIO 16690503](#) <GO>}

Hey, Tobey, thank you for the question. We are reviewing. I think we talked about a few quarters ago that we had put in more rigor in our program review process to not only look at CPAR scores but to ask a broader set of customers for their feedback on the program, so expand the customer base as well as to ask more questions about that delivery to include and most particularly around innovation.

So those were changes we made to our process. And what I feel better about than I did a year ago is that we're asking a broader set of customers. We're asking about the innovation that's being delivered. And both of those we found as a correlation to possibly having fairly solid customer sat prior -- customer response prior but not having that full correlate with a recompetes win.

So we feel like we're doing -- we've got all the levers and inputs and those outcomes from expanding the customer base and having more innovative conversations around innovation, we think, are starting to show up, if you will, in results, positive customer feedback. And when they're not positive, we're being able to assess that and quickly intervene and introduce more from the portfolio.

So I think, CPARS is absolutely a critical metric, but I think getting beyond to a broader audience and having a broader conversation is what we see as our ray of future-proofing our position on recompetes going forward.

A - Prabu Natarajan {[BIO 17701667](#) <GO>}

Toni, that was great. Tobey, the only other thing I would add is there's almost a counterintuitive correlation between CPAR scores and recompetes win rates. And that is because customers that put us to recompetes cycles, expect real innovation to be delivered during the program. And so I think as Toni said, with the enterprise operating model, the focus there around ensuring that we are bringing day-to-day innovation is going to be really helpful.

The other thing that does show up sometimes on recompetes is how well you begin a program. And customers have long memories as they should. We do as well and making sure that we transition programs effectively, and I think with the enterprise operating model, we've stood up transition teams and most recently on our Air Force NORAD and NITES program, we did program very recently and that team has done an outstanding job relative to what the customer was getting from the prior incumbent of the program.

So I'd say those are really important things, again, heads to the ground, do the right thing and do it unfeelingly well, and hopefully, we survive the uncertainty. That's the approach.

Q - Tobey Sommer {[BIO 6296228](#) <GO>}

Thank you very much. My follow-up relates to NASA. Could we get your comments on what you're hearing from that customer? And just given the proximity that DOGE has some business relationship with that customer, curious whether this has been an area of more stability or more relative volatility relative to what you're hearing from other agencies. Thank you.

A - Toni Townes-Whitley {[BIO 16690503](#) <GO>}

Hey, Tobey, we haven't heard anything uniquely from NASA. We're not overly concerned of our positioning there. We have not had signal of greater volatility in the spaces where we are. As you know, we do a bit of enterprise IT support there at NASA. We have some parts of our pipeline. We've looked at our new business, both with pending award as well as what is moving forward that we will be bidding this year.

We've got great partnerships in place with many of the sort of tech players that are looking at NASA. And so I don't see us as handicapping that business in any unique way based on any signals we're getting at this point.

Q - Tobey Sommer {[BIO 6296228](#) <GO>}

Thank you.

Operator

Thank you. And one moment for our next question. We have a follow-up question from the line of Colin Canfield with Cantor Fitzgerald. Your line is open. Please go ahead.

Q - Colin Canfield {[BIO 22594816](#) <GO>}

Maybe clarifying the SSLE award. If you can clarify how much of that gets booked in fiscal one quarter '26?

A - Toni Townes-Whitley {BIO 16690503 <GO>}

I'm sorry, (multiple speakers)

Q - Colin Canfield {BIO 22594816 <GO>}

SSLE award.

A - Toni Townes-Whitley {BIO 16690503 <GO>}

Okay.

A - Prabu Natarajan {BIO 17701667 <GO>}

Hey, Colin, maybe I'll take a crack at this. I think maybe a little bit of a sort of the history premier yourself. So the way that this program works is the current program has to run off before the new program kicks in. And we still have a few quarters left of the current program, this was exactly what happened when we transitioned from the prior AMCOM program to S3I. So S3I into the next avatar of these programs is going to look the same.

As we sit here, obviously, we'll have our bookings decision to make in Q1 when we report. Like we do always, we look at the \$1.8 billion on the program is representing perhaps a run-rate on the current program. SSLE has grown pretty nicely over the last few years. The team has done an amazing job. And the \$1.8 billion reflects the run rate on that program right now with some room for potential improvement.

What that means for the net booking as we take some factoring on the previous version of it, I think that's probably a few hundred million, I would say, on the prior program just given that that program is ending a little bit sooner than we might have anticipated.

So that's sort of the net. The net should be comfortably over \$1 billion.

Q - Colin Canfield {BIO 22594816 <GO>}

Okay, got it. Got it. I appreciate that math. And then maybe just on the prepared remarks it looks like the margin improvement is driven a little bit of pie, more focused investing on maybe biz dev or just kind of general cost and program improvement. So maybe talk a little bit about kind of where you're focused on driving savings and how you're balancing that versus investing for growth?

And then just one kind of third part there? Is maybe talking a little bit about the algorithm for margin expansion in your backlog and whether that's more hardware-driven and systems engineering or more enterprise IT and kind of more expertise-type work? Thank you.

A - Toni Townes-Whitley {BIO 16690503 <GO>}

Yeah. Why don't I take the first part then I'll pass the algorithm question to Prabu. I'd love to pass algorithm questions to Prabu anyway.

So look, in terms of the margin side, we are looking at -- we've obviously got a very sharp out to any internal investments and making sure we have a very clear understanding from almost a ROIC mindset on what that return would be and we are circumspect around those investments. We've made investments prior year. We shared with you. We're doing less than what we did prior year.

And yet in the same context, we are also looking at, as we've talked about, the margin improvement that we have in our big pipeline. So we're incrementally improving on what we're bidding. We are driving underlying margin in our program execution, which was evidenced in Q4.

We're looking, as I said, at investments. And we're also proactively suggesting where appropriate conversion on contracts that we have currently that may drive a more accretive position moving into more fixed-price contracting. Again, I assume that to be a gradual process and to be customer-connected. That's not something we can do unilaterally.

As always, we are tight on our cost management and do a phenomenal job. I think the enterprise operating model has helped us see and understand in our program reviews, very solid cost management. This company runs with I think, a great bit of scrutiny on every dime spent and we will continue with that in terms of driving. But the underlying core fundamental health of this business is improving quarter-over-quarter. We've seen that. And that includes the margin profile of the business.

On the algorithm side, Prabu, if you (multiple speakers)

A - Prabu Natarajan {[BIO 17701667](#) <GO>}

Thanks. Thank you, Toni. I think the way we're thinking about sort of margin expansion opportunity is as we're bidding things that are more accrete with the pipeline, we are also requiring folks that are bidding on recompetes to move margin rates up. So we're seeing that impact both inside of the things that we're competing on, recompeting right now versus -- and the new business front.

Clearly, I think we have chosen to remain asset-light and we are not going to trade margin expansion for hardware intensity or balance sheet intensity. And that philosophy, I think and Toni has said it multiple times, I think we are going to remain asset-light in the way we approach it.

So we're trying to do it in the good old-fashioned way, which is how do you get 10 basis points, 20 basis points out of every single program that are going up for recompetes and squeezing a little more margin.

So focus is mission IT and enterprise IT. Our point of view is that if we are delivering real innovation to customers, customers are actually open to having discussions around fee rates and transitioning certain claims to fixed price. So I think that's really the focus, which is it will be foolish to just cut costs for the sake of cutting costs and then stifling the growth engine inside the company.

And that means every spring, we have the conversation around, are we rightsizing some things and making sure that we don't stifle the growth engine for the company is one of the most important priorities that Toni and I and the leadership team have going through the cycle because that would be the easiest thing to do and it's probably the worst thing we can do on a long-term basis.

So that's the balance we're trying to strike. We don't always get it right. I know I screw up all the time, but the reality is that's what we aspire to do.

Q - Colin Canfield {[BIO 22594816](#) <GO>}

Got it. And then maybe one last one on SAIC. There's a lot of, I think focus on kind of efficiency and thematic stuff on the call. So maybe focusing more on SAIC, but the space tap engineering

solutions, can you just maybe talk a little bit more about aspirations for the business? I think SAIC has stood up some small set integration, but it sounds like there's some opportunities to leverage the digital engineering investments on the side of the business to do not so much on hardware, but more to kind of like the back-end of hardware. So maybe talk a little bit about kind of how you view SAIC's position and kind of spacecraft design, spacecraft integration, and the like?

A - Prabu Natarajan {[BIO 17701667 <GO>](#)}

Asset-light integration. So somebody else's payload, somebody else's bus, and focused on how do we put that together in a software-enabled way that focuses then on integrating the work and focused on the data that comes out of the platform. That's how we're thinking about that part of the business. So I don't expect us to become a systems integrator at scale building hardware for space. That is not our business.

A - Toni Townes-Whitley {[BIO 16690503 <GO>](#)}

No. But leveraging digital, I think you brought out correctly. Digital engineering and a number of the -- and we highlighted these differentiators even last year in our overall investor conversation, digital engineering is a core capability that the Space and Intel Group are using to try to drive that integration going forward.

And look, we've got a few programs. You look at ground-based modernization. You look at the production satellites. All of that to Prabu's point, is not about us being a builder of -- it's an integrator across. And that's where we stay in our lane and we bring, I think, great value.

Q - Colin Canfield {[BIO 22594816 <GO>](#)}

Got it. Got it. Appreciate the color as always, and thanks for the questions.

A - Toni Townes-Whitley {[BIO 16690503 <GO>](#)}

Thank you.

Operator

Thank you. This is going to conclude today's question-and-answer session. Ladies and gentlemen, this is also going to conclude today's conference call. Thank you for participating and you may now disconnect. Everyone, have a great day.

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