MANAGEMENT'S PREPARED REMARKS

Fourth Quarter Fiscal Year 2026 Earnings Call

Jim Reagan, Chief Executive Officer
Prabu Natarajan, Chief Financial Officer

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Jon Raviv

Good morning and thank you for joining SAIC's fourth quarter Fiscal Year 2026 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.

Today we will discuss our results for the quarter ended January 30. 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 Reagan.

Jim Reagan

Thank you, Jon, and thanks to everyone for joining our call.

I am happy to be here as CEO and am grateful to the board, to our team, and to all our stakeholders for the faith they have put in me to continue the critical work of sharpening our focus, strengthening our execution, and driving better results.

After a thorough search for a permanent CEO by a leading national executive search firm, the board concluded that, among other things, maintaining continuity in leadership, along with deep industry knowledge, was essential to SAIC's long-term success. After careful consideration, they selected me for the role. And honestly, when I stepped in as interim CEO in October, I didn't expect to enjoy the role as much as I have. One of the most rewarding aspects has been working alongside an outstanding team, supporting critical customer missions, and creating value for our stakeholders. This includes my partnership with our CFO, Prabu Natarajan, whose leadership has been invaluable. So while accepting the permanent role was not my original intention, I'm humbled and honored to have this opportunity.

Since joining the board in 2023, my appreciation for SAIC's past achievements, current strengths, and future potential grew even deeper. With a career focused on operational excellence and value creation across this industry, I am excited to continue building on our strong foundation to deliver meaningful results to all of our stakeholders.

FY27 is a year of commitment. We are committed to our strategy to align and focus the portfolio. We are committed to improving our internal processes and external results. And, as always, we are committed to serving our customers' most important missions, including elevated operational tempo around the globe. The tragic reality of war underscores the importance of mission expertise and customer intimacy that companies like SAIC have cultivated over many years. It also demands that our industry continue to invest and innovate to deliver capabilities and capacity. This is what we've done for decades, and this is what we will continue to do.

SAIC's legacy of innovation and commitment to high-value customer priorities are valuable assets. At times, we may have struggled to convert these assets into consistent performance. But we are making discrete changes across the company to improve our results.

I want to focus briefly on business development, where we recently hired a seasoned Chief Growth Officer to the leadership team to prioritize BD and drive higher win rates for recompetes and new business. This involves being selective as we approach cost-plus, less differentiated work. And it means leaning into the pursuit of opportunities where we have a greater right to win and higher rates of customer retention.

This is addition by subtraction: being selective in some areas frees up resources to pursue others. This means that we're going to be more focused with our bidding in FY27 and we're now aiming for $25 to $28B of submissions where we expect to support our dual goals of growing the topline and improving margin.

The team is also performing well on our existing book of business, removing indirect costs and achieving higher growth in higher-margin programs. This supports double-digit margins going forward.

As I said last quarter, we are committed to building on this progress in three ways:

First: sharpening our focus on execution to increase capacity for investment in the business

Second: more efficiently deploying our financial resources to drive growth

Third: prioritizing yield and bid quality across our business development function

Which, taken together, enables us to inject speed and innovation into our core capabilities to drive better growth and continued margin expansion.

Turning to results, as we discussed in our pre-announcement last month, fourth quarter revenue was below our initial expectations largely due to procurement delays and customer disruptions as the environment continues to be uneven. However, I am encouraged by our margin performance despite this top-line choppiness, with FY26 margin of 9.7%. And we see improvement ahead as we guide to 10% adjusted EBITDA margin at the midpoint for FY27 - the first time the company is guiding to double-digit margin on a full-year basis.

Cash flow continues to be exceptional thanks to efforts across the organization. And despite revenue finishing about 5% below our initial guidance from last year, our free cash flow exceeded our guidance by 10%. This demonstrates strong execution, as well as the resilience of our business model.

We expect another year of organic contraction in FY27 largely due to recent recompete losses in the large enterprise IT market. While we are encouraged to hear senior leaders emphasize fixed-price outcome-oriented contracting, we have yet to see these laudable goals translate into reality evenly across our customers as some continue to use acquisition approaches where it's hard to differentiate.

Instead, we are focused on opportunities where clients establish clear outcomes that enable SAIC to deliver innovation and measurable value throughout the life of the program. Across our Civilian Enterprise IT portfolio, these principles have driven stronger performance and elevated win rates. Our successful work with Treasury, Commerce, Transportation, and the State of Texas demonstrates our cost-effective strategy for modernizing and supporting vital networks. By continually evaluating new technologies and delivering enhancements, we sustain long-term partnerships - like the State Department's Vanguard program which we've supported for 15 years. Looking ahead, we are collaborating with clients to pilot and implement AI-powered agents to stabilize and secure critical networks. The speed of these innovations is essential for helping our customers address the evolving threat landscape and meet affordability objectives.

While this large enterprise IT market has weighed on our results, it's a shrinking piece of the pie – from 17% of company revenues in FY25, to an expected 10% in FY27. And we have good visibility into most of this remaining portfolio. It includes the T-Cloud takeaway which has 4 years of performance remaining. And it includes the Vanguard program, which is performing exceptionally well. These are both fixed-price or T&M enterprise IT contracts – the kind of work where we can differentiate and have the greater right to win.

In the meantime, we continue to be 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.

For instance, our GMASS program sustains and upgrades radars critical to homeland defense. Our DHS work delivers integrated hardware and software solutions to help secure the border. Our JRE data link router provides real-time battlespace awareness. Our recent COBRA and TENCAP-HOPE awards support multi-domain warfighting by enabling rapid technology insertion, integration, and innovation. And our munitions programs enhance combat capability and capacity.

These are all customer priorities for securing the present and winning the future.

We are also investing in areas with the highest and clearest demand signals, whether it is expanding production capacity on key programs or investment for greater innovation and differentiation. We are currently engaging with customers at the highest levels to increase our throughput across multiple efforts.

And our continued focus on executing against the $100M in cost reduction targets is expected to provide us operational and financial flexibility to continue to invest in areas with the greatest return potential while continuing to improve our margins.

Our recently announced enterprise transformation initiative is the first time the company has done a bottoms-up review of its processes and procedures since the split in 2013. We have some of our best people committed to this project, which should result in a more efficient SAIC with increased investment capacity to support innovation, growth, and margins.

We're also encouraged that we will be making this journey in a supportive budget environment marked by large appropriations already in place, with expectations for further budget growth ahead.

I can speak for our Board in saying that 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. And with that, I'll turn the call over to Prabu.

Prabu Natarajan

Thank you, Jim, and good morning to those joining our call.

My comments today will focus on a review of our fourth quarter and full year results, our outlook for FY27, and the meaningful opportunities we see to create value for shareholders.

Turning to slide 4, our fourth quarter results were consistent with the update we provided on February 11. We reported fourth quarter revenue of $1.75B representing an organic contraction of approximately 6% due primarily to a $60M y/y reduction of low margin revenue from the Cloud One program we no-bid, and a $45M headwind related to a non-recurring software license sale in the prior year fourth quarter. Full-year revenue of $7.26B declined approximately 3% organically primarily due to our decision to no-bid low-margin Cloud One revenue which was an approximately $200M headwind for the year.

We reported adjusted EBITDA of $181M in the quarter resulting in a margin of 10.3% which reflects strong program execution and recently enacted cost efficiency efforts. This performance contributed to full-year margin of 9.7%, which is roughly 20bps ahead of the guidance we provided last quarter. We continue to see meaningful opportunities to improve margins in the near future, while also investing to drive innovation and growth.

Adjusted diluted EPS was $2.62 in the quarter and $10.75 for the year and benefited from stronger margins and a favorable tax rate which offset lower revenues.

Free cash flow was $336M in the quarter and resulted in full year free cash flow of $577M, a robust result as we remain focused on maintaining our peer-best cash conversion and deploying that capital to maximize long-term value for all stakeholders.

Turning to slide 6, I want to put the fiscal year 2026 results in context. It was a year of multiple disruptions including internal leadership changes, budget headwinds and significant customer workforce impacts. While we saw topline pressure, we are proud of the team's resilience and hard work to achieve robust margins and cash flow. Our reported EBITDA at year-end was 2% below our initial guidance last year; and free cash flow was better than our initial guidance. We see similar dynamics compared to the initial FY26 targets we shared about three years ago. As Jim said, these results demonstrate the resilience of our business model and the enduring nature of our mission work, although we know we have work to do to improve growth.

Turning to slide 7, we are reaffirming the guidance for Fiscal Year 2027 we provided on February 11. As we indicated at that time, we expect total revenue in the range of $7B to $7.2B, representing organic contraction of 2% to 4%. The y/y decline is driven mainly by recompete losses which we have previously discussed. Collectively, we expect these programs to represent a headwind of approximately $400M in FY27. We expect to partially offset this headwind with the continued ramp up of new business wins from FY25 and FY26.

Our guidance for adjusted EBITDA in a range of $705M to $715M reflects margins between 9.9% to 10.1%, representing a y/y increase at the midpoint of approximately 30 bps. And we are executing our cost-efficiency efforts, which we believe can drive upside to our margin outlook. We have also begun a multi-year enterprise transformation journey to unlock significant value and eliminate burdensome and outdated business processes to create a more agile organization focused on innovation, speed, and growth. We will provide an update on our Q2 call relative to progress on this initiative.

Our adjusted diluted earnings per share guidance of $9.50 to $9.70 is unchanged from our previous FY27 guidance last quarter, with the lower top-line offset by a decline in our share count.

We are maintaining our guidance for free cash flow of at least $600M which will translate into over $14 of free cash flow per share. As we have previously highlighted, our FY27 guidance reflects approximately $70M in non-recurring cash tax benefits from recent legislation. Even without this benefit in FY28, we expect to generate at least $530M in FCF, or approximately $13 FCF per share.

As Jim indicated, we recognize the significant value creation potential that exists based on our ability to deliver more sustained revenue growth in the future. As a result, I want to discuss some of the key risks and opportunities moving forward.

As I mentioned, our guide for an organic revenue decline assumes that our recompete losses are only partially offset by the continued ramp on previously won work. There are several large wins ramping at a slower rate than we expected, likely due to budget uncertainty and the lingering effects of a more resource-constrained customer procurement function. Total revenue from these programs was $350M in FY26 and we're assuming $500M in FY27 based on reasonable assumptions. This compares to a potential run-rate in excess of $800M based on contract value and period of performance. While there is potential downside should some of this ramp not materialize, we believe that, on balance, the upside scenario is more likely over the next 12-18 months based on customer demand and supportive budgets. This could be a meaningful tailwind.

In addition, our strong pipeline and alignment with customer priorities - which we expect to be well funded in a trillion dollar-plus defense budget – are strong indicators of future growth. As we have previously said, outside of our cost-plus Enterprise IT work, our win rates on both recompetes and new business are in line with - or higher than - industry standards.

Turning to slide 8, our pipeline and submission goals are more focused on these higher-return efforts, reflecting initial results of our renewed BD discipline. While submission levels are lower than our previous target, we view them as sufficient to achieve our goals. And we expect trailing book-to-bill to improve over the course of the year as we play more offense than defense this year on our captures.

We recognize that an increasingly favorable budget backdrop is only relevant if we can improve enterprise-wide performance, focus on the markets where we have the strongest right to win, and deliver for our customers. The leadership that Jim has provided in these areas and his emphasis on focus and accountability across the company has had tangible results over the past several months. I am confident that our efforts will continue to translate into significant value creation for our shareholders in the coming years.

With that, I'll turn the call over for Q&A.

SAIC.