Q3 2026 Earnings Call

Company Participants

- Jim Reagan, Interim Chief Executive Officer
- Joseph DeNardi, Senior Vice President of Investor Relations and Treasurer
- Prabu Natarajan, Executive Vice President and Chief Financial Officer

Other Participants

- Colin Canfield, Analyst, Cantor Fitzgerald
- Gautam Khanna, Analyst, TD Cowen
- Jonathan Siegmann, Analyst, Stifel
- Seth Seifman, Analyst, J.P. Morgan
- Sheila Kahyaoglu, Analyst, Jefferies
- Tobey Sommer, Analyst, Truist

Presentation

Operator

Good day, and thank you for standing by. Welcome to the SAIC Fiscal Year 2026 Q3 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, we'll open up for questions. (Operator Instructions). Please be advised that today's conference is being recorded.

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

Joseph DeNardi {BIO 22467920 <GO>}

Good morning, and thank you for joining SAIC's third quarter fiscal year 2026 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 Jim Reagan, our Interim Chief Executive Officer; and Prabu Natarajan, our Chief Financial Officer.

Today, we will discuss our results for the third quarter of fiscal year 2026 that ended October 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 and our quarterly reports on Form 10-Q. We may elect to update the forward-looking statements at some point in the future, but we specifically disclaim any obligation to do so.

In addition, we will discuss non-GAAP financial measures and other metrics, which we believe provide useful information for investors, and both our press release and supplemental financial presentation slides include reconciliations to the most comparable GAAP measures. The non-GAAP measures should be considered in addition to, and not a substitute for, financial measures in accordance with GAAP.

It is now my pleasure to introduce our Interim CEO, Jim Reagan.

Jim Reagan {BIO 15658827 <GO>}

Thank you, Joe, and thank you to everyone joining for our call. Before I begin, I want to take a moment to welcome SilverEdge to SAIC. Having personally spent time with leaders at SilverEdge, I am excited about the value we can create by combining their differentiated technology and commercial go-to-market approach with the breadth of SAIC.

Building upon their success at bringing sought-after AI capabilities to life for the intelligence community, I expect strong continued growth as we deploy their incredibly talented people and solutions across the broader SAIC portfolio. This acquisition represents a good example of our ability to invest in differentiated IP capable of solving customer problems.

I will begin with a brief review of our third quarter results and updated outlook, but we'll leave the more detailed walk-through to Prabu. I will then discuss my top priorities as Interim CEO and the compelling potential to create value for our shareholders while investing to better serve our customers and create opportunities for our employees.

Third quarter revenue of $1.87 billion declined 5.6% year-over-year and included a roughly 1 point headwind related to the government shutdown. Adjusting for this impact, revenue results were modestly ahead of our prior guidance as we've seen encouraging signs of stability across the market in recent months.

Adjusted EBITDA of $185 million for a margin of 9.9% was driven by strong program execution. As I highlighted in the earnings release and as I will discuss in more detail, I see meaningful opportunities to further improve margins in the coming years while increasing internal investments to drive profitable growth.

Adjusted diluted EPS was $2.58, reflecting our strong margin performance and a favorable tax rate in the quarter. Third quarter free cash flow of $135 million was strong despite being impacted by the government shutdown, which resulted in certain collections moving into our fourth fiscal quarter.

Overall, the financial results we reported in the quarter were ahead of our prior guidance, but I firmly believe that we can deliver stronger revenue performance over the long term.

Since being appointed Interim CEO by our Board on October 23rd, my top priority has been to drive increased focus across the company and take decisive action that will position SAIC for long-term shareholder value creation.

My prior industry experience and time on the Board have allowed me to hit the ground running, and I believe the actions we are taking will produce demonstrable results in the coming quarters. Let me provide greater detail and examples around what we're doing and how we're measuring impact.

SAIC's legacy of innovation and commitment to US national security is undeniable and represents an incredibly valuable asset for the company. However, in recent years, we have struggled to convert this into revenue and EBITDA growth in line with the market due primarily to below-average business development and capture performance. The changes we have implemented over the past 24 months across business development are steps in the right direction and have contributed to our improved book-to-bill year-to-date.

We're 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. And third, prioritizing yield and bid quality across our business development function.

We have discussed in the past that SAIC spends several hundred million dollars annually on indirect functions, including shared services, finance, human resources, marketing, communications, and others. We're implementing efficiencies across this category of spending, including our recent organizational restructuring, and will redeploy savings to fuel growth and improve profitability.

We have identified over $100 million in annual spend that we are actively working to reinvest into higher ROI areas across our business and increase margins. This should result in a more efficient SAIC with increased investment directly driving growth and margins approaching 10% in the near-term with additional potential upside in FY27 as we drive further efficiency across the business.

In addition, I see opportunities to re-focus our attention on nearer-term execution and the aspects of our performance which we control. While there is value in aligning to a long-term corporate strategy, this needs to be balanced with a keen focus on executing to and delivering on our near-term commitments.

My impression during my first several weeks as Interim CEO is that our leaders want and will embrace this shift in priorities. I am challenging leaders across SAIC to focus on execution, make an impact on the business, and deliver results, and I am confident in their ability to step up.

Lastly, we have shared with you our focus on increasing business development throughput and have shown strong progress against this, having increased submit volumes from $17 billion in FY24 to $28 billion in FY25. While I believe this is an appropriate level for a business our size, we must now focus our shift from targeting throughput to prioritizing quality and alignment with the markets where we have the strongest right to win. This will drive improved decision-making, more efficient resource allocation, and a stronger SAIC in the long run.

As I look at some of the larger business development pursuits that have not gone our way in recent years and the lessons learned, there is substantial value to be created from turning up the focus and attention on the core fundamentals of this business

Before turning the call over to Prabu, I want to take a moment to thank Toni Townes-Whitley, David Ray, Josh Jackson, and Lauren Knausenberger for their contributions and service to SAIC. The recent changes we made were necessary to position the company for longer-term success, but required difficult decisions impacting some very high-quality individuals.

I also want to acknowledge the tremendous honor it is to lead SAIC, a company with a deep legacy of supporting our country. I look forward to serving in this interim capacity, working with the leadership team to implement the priorities I just outlined, and assisting the Board in its search for a permanent CEO.

We have begun that process, which is being led by a search committee comprised of Board members working in conjunction with a leading external search firm. Our ideal candidate will be someone who shares this company's commitment to serving our nation and our customers and has a proven track record of operating excellence and value creation.

I can speak for our Board in saying that we see significant opportunity to drive value for our shareholders, greater opportunities for our employees, and improved outcomes for our customers, our nation, and its allies.

With that, I'll now turn the call over to Prabu.

Prabu Natarajan {BIO 17701667 <GO>}

Thank you, Jim, and good morning to those joining our call. I will discuss our business development results in the quarter, followed by a review of our updated outlook, including some additional detail regarding the margin improvement efforts that Jim discussed.

As you can see on Slide 4, we delivered 3Q net bookings of $2.2 billion, resulting in a book-to-bill in the quarter and on a trailing 12-month basis of 1.2x. Our 3Q awards included a five-year recompete with the Air Force, with a total contract value of $1.4 billion, and on the new business side, a five-year $413 million contract with the US Army for its Open Source Intelligence Enterprise or OSINT program.

In the third quarter, we submitted proposals with a total contract value of approximately $3 billion, bringing our year-to-date submissions to approximately $21 billion. While the government shutdown has slowed our pace of proposal submissions, we expect this to normalize in the near-term and continue to target submitting bids totaling over $30 billion in FY27. The incremental investments we expect to fund out of our cost efficiency efforts will go towards strengthening our solutions and overall bid quality.

I'll now turn to our updated outlook for FY26 and FY27. We are increasing our FY26 total revenue guidance to reflect the acquisition of SilverEdge and reaffirming our organic revenue growth guidance despite the roughly 1 point impact to 3Q revenues from the government shutdown.

Our guidance continues to assume a roughly 4 point contraction in organic revenue growth in the fourth quarter. We are increasing our guidance for FY26 adjusted EBITDA margin by 10 basis points due primarily to our strong program performance year-to-date.

We are increasing our FY26 adjusted diluted EPS guidance by $0.40, largely due to the increased earnings and a lower tax rate as we now assume a roughly 10% effective tax rate for the year. We are maintaining our FY26 free cash flow guidance of greater than $550 million.

For FY27, we are increasing our revenue guidance by approximately 1 point to include the acquisition of SilverEdge and are reaffirming our organic revenue growth guidance of 0% to 3%. This outlook reflects an assumed contribution from recent new business wins, including TENCAP HOPE and OSINT, partially offset by known recompete headwinds of approximately 1% to 2%.

As we've discussed, we are in the recomplete phase for one of our largest programs, which represents just over 3% of annual revenue with an expected award in the next few months. A favorable outcome on this would position us well in the 0% to 3% range, while a loss would likely make the lower end of the range more likely based on what we know today.

We are increasing FY27 margin guidance by 20 basis points at the midpoint to a range of 9.7% to 9.9%. The key drivers behind this are the acquisition of SilverEdge, which adds roughly 10 basis points, and the initial 10 basis points impact from cost actions taken to date.

Our bias for adjusted EBITDA margins in FY27 and beyond remains to the upside as we see meaningful opportunities to drive efficiency and improve performance, which are not reflected in our updated guidance. As we return to revenue growth in the coming quarters, we anticipate that the efficiency efforts being implemented now will strengthen our ability to increase EBITDA faster than revenue.

We are increasing our FY27 adjusted EPS guidance by $0.50, reflecting the addition of SilverEdge, increased operating margins, and a lower share count. We are maintaining our guidance for FY27 free cash flow of greater than $600 million or approximately $13.50 per share.

As a reminder, FY26 and FY27 free cash flow benefits from changes related to Section 174 under the One Big Beautiful Bill Act, which results in minimal cash taxes this year and next.

Given our strong free cash flow, clear visibility into margin improvement, and a return to revenue growth, we see returning cash to shareholders via our repurchase program as a compelling investment, and now expect to repurchase approximately $500 million in each of FY26 and FY27. This $1 billion of total share repurchases represents approximately 25% of our market value.

As Jim indicated, we see opportunities to create significant value for shareholders and are acting decisively to execute on our plans. While we appreciate the market's wariness with some of the uncertainty facing our end market, our FY26 revenue performance and our leadership transition, we have conviction in our ability to further improve execution, deliver sustained profitable growth, and create long-term shareholder value.

Realizing the potential of SAIC requires focus and a commitment to delivering on what we say. I am confident that we can accomplish this and demonstrate clear progress against this in the coming quarters.

I will now turn the call over for Q&A.

Questions And Answers

Operator

Thank you. (Operator Instructions). Our first question will come from the line of Gautam Khanna from TD Cowen. Your line is open.

Q - Gautam Khanna {BIO 7312818 <GO>}

Yeah, thank you. I wanted to ask if you could maybe describe what you're seeing in the procurement environment more broadly right now, post the shutdown, and with respect to our incoming RFPs, pace of adjudication, and the like?

A - Jim Reagan {BIO 15658827 <GO>}

Sure. Hey, good morning, Gautam. Thank you for the question. In big picture, as we alluded to the point on -- in the earnings script, I think we did see a slowdown in submit activity and a slowdown in the RFPs coming through the door as a result of the shutdown. We do expect that to normalize, I would say, over the course of the fourth quarter, recognizing that Q4 tends to be the softest book-to-bill quarter for the industry in general.

So I would say it's getting back to normal. I don't think fundamentally, if you normalize for the shutdown, it hasn't materially changed from where it was in the Q2 timeframe, where award decisions are taking a little bit longer, but the RFP activity has stayed more or less on pace.

Q - Gautam Khanna {BIO 7312818 <GO>}

Got you. And I also wanted to ask if there was any residual impact from DOGE. I know it's been a while since we've talked about that, but DOGE and just the pricing environment broadly?

A - Jim Reagan {BIO 15658827 <GO>}

Yeah. On the DOGE environment, I would say, no material changes to what we've disclosed before. We said about 1% of full-year revenues for this year. So that really has not changed. As we also alluded to, the broader DOGE effort, I would say, has morphed into sort of more mini DOGE reviews inside of the different agencies and the departments based on their funding situation. But that's a -- frankly, a feeling that we're used to navigating historically speaking. So I would say it has remained fairly stable, I would say.

And -- so I would say not a lot in terms of pricing pressure. Our margins were very healthy in Q3. We really have not seen a ton of pricing pressure either via the RFPs that are coming out. We're seeing a little more fixed price in some areas, but I would not call that a trend broadly. But really have not seen a ton of pricing pressure at this point.

Q - Gautam Khanna {BIO 7312818 <GO>}

Thank you.

A - Jim Reagan {BIO 15658827 <GO>}

Sure.

Operator

Thank you. One moment for our next question. Our next question comes from the line of Sheila Kahyaoglu from Jefferies. Your line is open.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Good morning, guys, and thank you for the time and congratulations, Jim. And maybe just on SilverEdge, as it becomes embedded into the portfolio, how do we think about the opportunity of SilverEdge and integration within SAIC?

A - Jim Reagan {BIO 15658827 <GO>}

Yeah. Thanks for the question, Sheila. It's good to hear from you. I would tell you, after being here for nine or 10 weeks, I am wildly enthusiastic about what SilverEdge is going to be able to do not just as a standalone part of our business, but as we integrate it into the portfolio, what it can do to accelerate the differentiation of a lot of the bids that we have, not just within our intelligence community customers, but more broadly across the whole portfolio.

We expect that SilverEdge will be accretive next year, both on a -- it will push our margins up a bit, but also be accretive on EPS and provide -- I think that the broader portfolio of opportunities within our company will give great opportunity, not just for us to win more and deliver better solutions, but also great opportunities for the employees of SilverEdge that are now part of the family.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Great. Thank you so much. And maybe if I could just ask on the civil growth or the civil decline in the quarter, that segment appears to be down 7% year-on-year. Can you just provide more detail on those programs? Was it a few specific programs or are you seeing across the board? And how do you think about the trajectory over the next few quarters?

A - Prabu Natarajan {BIO 17701667 <GO>}

Hi, Sheila, Prabu here. Thank you for the question. I would say big picture, within every quarter, I think you're going to have a little bit of seasonality that creates a little bit of lumpiness. If you zoomed out a little and looked at the nine months, for the first nine months of the year, our civil business has been roughly flat, and margins are up pretty materially.

I would say there are no single program-related drivers in the civil business. I'd say the nine-month story is probably a better reflection of where that portfolio is rather than the three months, because the three-month story is always, I think, harder to explain given changes in compute and store volume, et cetera. So, I would just say think of the nine months as a better reflection.

We are in agencies that are seeing some incremental funding, whether that's CBP, DHS or frankly, the FAA. And I'm really proud of what the team is doing on margins. We said a couple of years ago that the mid 12% is probably the trough for this business and that we would expect to get the business back to the 14% range, and they are driving hard towards it. They were having to make some hard decisions, but they are doing all the right things we want them to do to get this portfolio back growing again next year, but also getting margins back up to about 14%.

Q - Sheila Kahyaoglu {BIO 17240338 <GO>}

Great. Thank you.

Operator

Thank you. One moment for our next question. Our next question comes from the line of Jonathan Siegmann from Stifel. Your line is open.

Q - Jonathan Siegmann {BIO 15753736 <GO>}

Good morning. Thanks for taking my question. Hoping you could share thoughts on the Department of War's announced reforms and talk about some of the available options the team has to pivot the business to be better aligned with those aspirations?

And then to follow on to that, just I would love to hear from you, Jim, just given how dynamic the environment is, what drove the decision to change direction of the company now, given all the moving pieces? And nice to engage with you again. Thank you.

A - Jim Reagan {BIO 15658827 <GO>}

Jon, thanks for the question. First, in terms of how the Department of War has been making some announced changes and how it's going to do procurement. We are ready to help the Department of War implement the changes that it needs to make. We welcome the opportunity to see greater speed in the procurement process, which is really their objective to put the department more on a faster war footing to keep us ready for all adversaries.

The use of different contracting vehicles, for example, OTAs, that's something that we have been doing for some time, and we're ready to expand the use of those kinds of alternative or innovative contracting vehicles that will provide greater speed of not just the procurement process, but greater speed of implementing solutions.

One of the things that's interesting that we've been hearing is in the interest of speed, 80%, 90% adherence to requirement instead of 100% is becoming acceptable. Now, how they're going to implement that, there is a lot of guidance that still needs to be issued, but we're planning on spending a lot of time with our customers to help them implement this in a way that achieves their objectives of speed and efficiency.

You also asked about the dynamic environment. We are ready, and I would say that the acquisition of SilverEdge is just one proof point of the things that we're doing to be ready for increased AI content in solutions that our customers are looking for, and we're always looking for ways to continue innovation in our business. The spend -- our spend on innovation is going to be more clearly mapped to opportunities in the pipeline and what the customers are telling us they're looking for.

And then the third thing I think you asked about was why change now? I think that the focus of this business and the marching orders that I've received from our Board is to double down our focus on execution, not just execution in how we deliver solutions and our program results to customers, but also in listing more carefully to customers so that when we submit a proposal, our likelihood of winning is higher, and that our ability to accelerate growth into the next couple of years will be kind of a proof point coming out of that focus.

Q - Jonathan Siegmann {BIO 15753736 <GO>}

Thank you for the comments.

Operator

Thank you.

A - Jim Reagan {BIO 15658827 <GO>}

Thank you, Jon.

Operator

One moment for our next question. Our next question will come from the line of Seth Seifman from J.P. Morgan. Your line is open.

Q - Seth Seifman {BIO 16417112 <GO>}

Hey, thanks very much, and good morning, everyone. I wonder, Jim, or Prabu, you mentioned the $100 million of savings that you were looking at. How should we think about how much of that gets diverted toward investment and new bids on work that should be -- drive growth and be accretive to margin, how much of it should flow-through to the bottom line, and how much of that contributed to the increase in the EBITDA expectation for next year?

A - Jim Reagan {BIO 15658827 <GO>}

It's a great question, Seth, and thanks for asking it. The way I would -- I'll just kind of take the question you've asked, the last part of it first. The guidance that we have in for next year reflects the work that we've already done to exit the current fiscal year at a lower-cost run rate. It does not -- next year's number doesn't include more work that we think we need to do and are undertaking at the beginning of the calendar year. We're launching a new program in January that will continue the work that we've been doing around the consolidation of our business groups and taking out lot of the overhead in connection with that.

So the amount of reinvestment out of the $100 million number that we're talking about will be what doesn't go to improving margins. So, it -- I would call-it there will be a substantial amount of that $100 million that will go to resources that we need to add to the business around account management, more business development leadership, as well as some improvement that we want to fund in the actual process of developing winning proposals.

I hope that answers your question.

Q - Seth Seifman {BIO 16417112 <GO>}

Yeah, absolutely. That's helpful. And as a follow-up, I think you talked about business development and execution as areas of improvement. I guess when you look at the portfolio, and you think about the core competencies of SAIC and the things that really can drive value in the business and the core of what's there, what do you see that you like?

A - Jim Reagan {BIO 15658827 <GO>}

You know what I see that I like is a lot of very deep understanding of what the customers' pain points are in delivering mission. Science is part of our name, and we are a company of strong scientists, strong application development, and application integration capability, and people that understand mission.

The passion for what we do runs deep in the 57-year history of our company, and it's something that I'm very proud of. So I think -- and I've already had some conversations with customers who acknowledge our ability to help them be successful. I think that what we can do better is, as I've said, get a more intense focus on marrying the investments that we make in innovation, the investments that we make in R&D, to the opportunities that our customers are putting in front of us that we're going to be bidding on in the next 24 months.

So we're going to improve that as well as doing a little bit better job of listening to our customers tell us not what they need today on programs that we're executing, but really what are they going to look to us to do tomorrow that's different from what we're doing today. Everything we're capable of doing, but in listening to that, I need them to see our listening showing up in the proposals that we submit.

Q - Seth Seifman {BIO 16417112 <GO>}

Excellent. Great. Thanks very much.

Operator

Thank you. One moment for our next question. Our next question will come from the line of Tobey Sommer from Truist. Your line is open.

Q - Tobey Sommer {BIO 6296228 <GO>}

Thank you. I'm curious if you and the Board expect the pressure on federal civil spending to largely conclude in 2025, or do you consider this a longer-term headwind that you are planning for?

A - Jim Reagan {BIO 15658827 <GO>}

I think that there is probably going to be continued pressure on civilian agency budgets. That's just a fact of life that we see going forward as the federal budget priorities do put greater emphasis on improving readiness, and that will show up in bigger budgets for the DoD.

That said, as Prabu had mentioned a little bit earlier, we believe that we're kind of in the fast currents of the civilian agencies, the places we're at, or the faster -- where the faster currents of civilian agency spend are, things like CBP and FAA are the two good examples that Prabu had mentioned earlier. So I feel really good about where we're placed within the civilian agency space. But -- and I'm also very pleased at how we're executing there in terms of delivery of -- delivery of results for customers that are reflective of expanding margins.

Q - Tobey Sommer {BIO 6296228 <GO>}

Thank you. And given that response, how do you feel about and think about portfolio shaping to increase the probability of being able to achieve your organic growth and margin objectives?

A - Jim Reagan {BIO 15658827 <GO>}

There's always opportunities to shape portfolio, and we've done that in a couple of cases in the last three or four years. And I'm never going to say never. I wouldn't say that there is a target or that you can expect to hear us announcing a portfolio shaping move in the next couple of quarters, but we're always looking at opportunities to do that.

A - Prabu Natarajan {BIO 17701667 <GO>}

And Tobey, the only thing I would add to that is that to the extent that we are reviewing the portfolio and looking at areas of the portfolio that are unable to be transformed. In other words, where they tend to be predominantly lower-end services-oriented, I think that you will see us actively think about that conversation because I think the capacity to transform is just as important to make sure the portfolio stays fresh.

Q - Tobey Sommer {BIO 6296228 <GO>}

Last question, if I could sneak in a third one in. Given the turbulence in the end-markets and budget in this year and potentially going forward in civil. Would you like to toggle the leverage down a bit over time? Or are you going to stick with this leverage target because I think the group is down a bit over the last year and a half or so?

A - Jim Reagan {BIO 15658827 <GO>}

Yeah, fair question, Tobey. I mean, look, we actively talk about the leverage both inside the company as well as with our Board. 3.0 is sort of a leverage area that we are roughly comfortable with. We try to stress-test our assumptions on EBITDA and cash flow. To ensure that we can deliver and stay at that 3.0.

We routinely talk about whether deleveraging is an appropriate thing to do in the environment. I think I would say, given the M&A market, where I would say by and large, it still has tended to be a seller's market. It is very hard, I think to justify acquiring businesses at 12, 13, 14 times when we're being traded at 8, 9, 10 times. So I think you'll see us stay disciplined on that front. But frankly, I think we tend to be astute in the way we manage our capital.

Share repurchases are always market conditions permitting. And where we tend to see, I'm going to say a higher return on the buybacks, we will see us deploy capital that way. But where we think that the incremental return from that buyback is perhaps lower than maybe just levering down, you'll see us make that trade. The reality is we have to be nimble and agile. There is no formula to buybacks other than we are trying to generate as much value as we can for our shareholders. And fundamentally, we have incredible visibility into the cash flow. So that's what gives us confidence on the current capital allocation policy.

Q - Tobey Sommer {BIO 6296228 <GO>}

Thank you.

Operator

Thank you. One moment for our next question. Our next question comes from the line of Colin Canfield from Cantor. Your line is open.

Q - Colin Canfield {BIO 24396999 <GO>}

Thank you for the question. Going back to maybe the portfolio shaping conversation, can you just maybe talk about how you think about either pairing or adding pieces in terms of the magnitude of portfolio shaping? And then maybe, kind of, if you want to talk about kind of some of the larger private assets and that realm, how you think about maybe adding to larger defense and intelligence capabilities versus going after the more -- some of the more civil exposure?

And then just kind of within that construct, if you can maybe talk about kind of how you think about defense budget growth, not so much the outlays, right, the outlays are baked-in, but the defense budget growth over the kind of multi-year period versus the civil budget growth and how you kind of like weigh that risk-reward through the upcoming midterms? Thank you.

A - Jim Reagan {BIO 15658827 <GO>}

Yeah, there's a lot to unpack in that question, Colin. I think the way I would start with is in your question about portfolio shaping. I think that our appetite for portfolio shaping in terms of magnitude it's going to be more focused on -- it could -- anything that we do is going to be more focused on what opportunities got unlocked because we're refocusing the business in other areas. And -- or maybe taking out an area of the business that causes conflict in our ability to grow in other parts. It's hard for me to put a dollar figure on that at this point.

And I'll ask Prabu to also pile on with any thoughts that he's got. But just in terms of where the defense budget is going, I think that the stated objectives and the ways that the current Department of War is -- has articulated what it needs to be ready for, for the next three or four years, is really going to put some upward pressure on the DoD -- our DoW budget.

If you think about the budget, as a percentage of GDP, it really -- even at the targets that have been announced, it really isn't too far out of line with what you've seen in the last 100 years. So it might feel like it's a big increase. But in terms of the needs that the department has today to increase readiness for, where it sees the potential conflicts going over the next five, I think that there is going to be plenty of opportunity for us and our industry to be growing their businesses as a result.

A - Prabu Natarajan {BIO 17701667 <GO>}

Thank you, Jim. That was perfect. On the first part of the question, Colin, on PE-owned assets, I mean, look, I think we have to demonstrate that we can organically grow this business. As Jim said, the focus is tuck-ins that can help us accelerate our growth rate. At this point, our cup runneth over in terms of M&A. And so I think we're just going to be astute in terms of what we're focused on there, and we are not looking at scale-based M&A at this point.

On the DoD budget, the only thing I would add is base budget flat to slightly up, and then we're going to need some reconciliation money to get closer to that $1 trillion, and how frequently that happens over this year and the next year is going to drive, I think, the health of the defense budgets. I think to Jim's earlier comment, I think the -- which currents you are part of, whether that's FedServ or DoD, is going to be a really important consideration, and we appreciate the fact that the Department of War has given priority areas out there, whether they are tech areas or mission areas. And we're just ensuring that the portfolio is as well aligned to those areas as we can possibly be over the next couple of years. But that's our prognosis.

Our guidance for next year assumes that things don't change dramatically to the upside or the downside. Things are going to be stable, more stable than they have been this year.

Q - Colin Canfield {BIO 24396999 <GO>}

Got it. And then in terms of the civil budget growth, how do you kind of think about FY27's comparison to, call-it, FY19, right? Where it was initial kind of deficit hawk focus taking a backseat to defense hawks and then in order to get kind of key policy objectives done, the defense hawks working with kind of across the aisle to drive dollar-for-dollar deals of discretionary defense and non-defense spending. So maybe just kind of a little bit on how you think about the multi-year civil budget growth outlook and how that's shaping where you're kind of approaching the savings plan? Thank you.

A - Prabu Natarajan {BIO 17701667 <GO>}

Yeah, appreciate the question, and it's a complex one to be sure, and I'm going to leave some folks that are way better qualified to answer it. I think our baseline assumption is that civil budgets will continue to be pressured, and your level of pressure is going to be dependent on what baseline you use to compare. If you compared it to the '19 baseline versus the '24, '25 baseline, you may get to a slightly different place. But our assumption is nothing changes in the near-term, that civil budgets will be pressured, recognizing that there is real need for modernization within the civilian agencies. But I think in this environment, we just don't see a ton of opportunity for real budget growth. And whether the one-for-one happens, that's going to be a function of things that are way out of our control, and we're just going to monitor it and see where it goes.

But our assumption for next year is, budgets will remain pressured. We are telling our teams internally that assume things will remain hard for the next 12 months to 18 months on the budget front and how can you consistently deliver good performance and on-contract growth to me, it's going to be very much a blocking and tackling exercise, because there are elements of this conversation that are beyond our ability to control and the message coming into this call was focus on what we can control as an enterprise.

Q - Colin Canfield {BIO 24396999 <GO>}

Got it. Thank you for the color and welcome back, Jim.

A - Jim Reagan {BIO 15658827 <GO>}

Thank you very much, Colin.

Operator

Thank you. And with that, this concludes the question-and-answer session. Thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everyone, have a great day.
