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SAIC.OQ - Q4 2026 Science Applications International Corp Earnings Call

EVENT DATE/TIME: MARCH 16, 2026 / 2:00PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to SAIC's fourth-quarter fiscal year 2026 earnings call. (Operator Instructions)

Please be advised that today's conference is being recorded. I'd now like to hand the conference over to Jon Raviv, Vice President of Investor Relations. Please go ahead.

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

Good morning, and thank you for joining SAIC's fourth-quarter Fiscal Year 2026 Earnings Call. My name is John Raviv, Vice President of Investor Relations, and joining me today to discuss our business and financial results are Jim Regan, our Chief Executive Officer; and Prabu Natarajan, our Chief Financial Officer.

Today, we will discuss our results for the quarter that 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 Regan.

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

Thank you, John, and thanks to everyone for joining our call. I'm happy to be here as CEO, and I'm grateful to our Board, to our team and to all of our stakeholders for the faith that they've 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 and 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'm 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're 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 billion to \$28 billion of submissions, where we expect to support our dual goals of growing the top line 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. And 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; and 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'm encouraged by our margin performance despite this top line choppiness with FY26 margin of 9.7%, and you 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 fishing 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 recompetes losses in the large enterprise IT market.

While we're 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're 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 four years of performance remaining and 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 about 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 war fighting 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 \$100 million in cost reduction targets is expected to provide us with 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 - *Science Applications International Corp - Chief Financial Officer, Executive Vice President*

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 \$1.75 billion, representing an organic contraction of approximately 6% due primarily to a \$60 million year-over-year reduction of low-margin revenue from the Cloud One program with no-bid, and a \$45 million headwind related to a nonrecurring software license sale in the prior

year fourth quarter. Full year revenue of \$7.26 billion declined approximately 3% organically, primarily due to our decision to no-bid low-margin Cloud One revenue, which was an approximately \$200 million headwind for the year.

We reported adjusted EBITDA of \$181 million 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 20 basis points 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 earnings per share 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 \$336 million in the quarter and resulted in full year free cash flow of \$577 million, a robust result as we remain focused on maintaining our peer best cash conversion and deploying the 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 top line 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 a range of \$7 billion to \$7.2 billion, representing organic contraction of 2% to 4%. The year-over-year decline is driven mainly by recompute losses which we have previously discussed.

Collectively, we expect these programs to represent a headwind of approximately \$400 million 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 \$705 million to \$715 million reflects margins between 9.9% to 10.1%, representing a year-over-year increase at the midpoint of approximately 30 basis points, and we are executing our cost efficiency efforts, which we believe can drive upside to our margin outlook.

We've also begun a multiyear 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 \$600 million, which will translate into over \$14 of free cash flow per share. As we have previously highlighted, our FY27 guidance reflects approximately \$70 million in nonrecurring cash tax benefits from recent legislation. Even without this benefit, in FY28, we expect to generate at least \$530 million in free cash flow or approximately \$13 of free cash flow 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 recompute 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 \$350 million in FY26, and we are assuming \$500 million in FY27 based on reasonable assumptions. This compares to a potential run rate in excess of \$800 million 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 to 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 \$1 trillion plus defense budget are strong indicators of future growth. As we 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'm 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.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) John Godyn, Citi.

Jeremy Jason - Citi - Analyst

This is Jeremy Jason on John Godyn's team. I just want to kind of hit things off by saying, Jim, congrats on new role. I just want to ask now that you've moved from the interim role to the permanent one what is the single most significant sort of portfolio pivot you believe is required to align the company with the next roughly 10 years of government budget priorities? And more importantly, like what's the message you want to say to the investor base or trying to bridge that gap between your experience and the specific issues like recompetes have hampered growth in recent years?

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

Well, thanks for your kind words, Jason. I think that first of all, the moment that I stepped from being an interim to being the permanent person in charge, it was pretty amazing how my perspective changed from managing the day-to-day and being focused on getting our business development function back in gear, which is still a focus of mine, but adding to that the need to reassess our strategy, which is a process that we normally undertake during the summertime, and I'm actively engaged in right now.

I think it might be premature for me to announce any strategic pivots other than a couple of notes that are probably worth providing for you. First of all, the first thing that I think that we needed to do, and I think of it as a bit of a pivot is to get focused on those areas where we have the right to win and those areas where customer retention is the reward for innovation and strong performance.

And the thing that we've been seeing over the last year has been the things that are more commoditized where you're not only finding it more difficult to differentiate and keep customers, but it's also more difficult to get paid for the hard work that we do on some of the more vanilla enterprise IT things. I think that we want to continue doing to the extent we've got it, but also to deemphasize it as kind of a strategic imperative. So that, I think, is the first epiphany that it didn't take very long for me and probably to wrap our heads around.

I think that the next thing is to start moving into some pretty hard focus on realizing the benefits of the business model we acquired with Silveredge is one thing. We think that the things that we've acquired from them on the intellectual property side as well as some of the capabilities that we have to serve our intelligence customers with AI enablement in classified networks is something that we think is extensible beyond the customers that they brought with them and we're working to leverage that. We'll probably have more to talk about in terms of any further strategic pivots as we work through the strategy process through the season.

Operator

John Siegmann, Stifel.

Sebastian Rivera - *Stifel Nicolaus & Company Inc - Analyst*

Good morning. This is actually Sebastian Rivera for John Siegmann. Congrats to Jim as well on the full-time position now. I guess would love to kind of hear your thoughts regarding the FY27 guidance, roughly \$35 million of CapEx here. It doesn't suggest too much change relative to last year, and I believe that FY26 number was about \$4 million lower than the year prior. And I guess, I would have thought the change environment today kind of creates incremental opportunities to invest but would love to kind of get your thoughts there.

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

Sure. And appreciate the question, Sebastian. With what we have today in hand, we think that the CapEx is adequate to meet the current demand signals that we have on programs that require production capacity that largely exists in a number of our locations for the programs where we actually make things. But I think that in Prabu's remarks, you mentioned that we have a flexible business model. And we're in active discussions with customers about what they might see as the need to ramp up production on certain programs.

And to the extent that we get the demand signals, which by the way, I've talked to senior leadership at the Department of War, they understand very clearly that industry when they receive demand signals, they could pivot, we are no exception. To the extent that we get demand from customers to ramp up productions of certain weapons capabilities, we're prepared to increase the plant capacity, increase space, spend money on tooling to meet those demands.

The revenue and the take rate on those is not reflected in the guide today. But to the extent that there's any reason to update it in the future, we'll certainly let you know. So I think that the short answer to your question, Sebastian, is we have a business model and we're prepared to flex it, and we're prepared to spend more money on additional capacity to the extent that our customer comes to us and ask for it.

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

Sebastian, Prabu here. Thank you for the question. I think the only thing that I would add to Jim's response is that we are investing where we see clear demand signals. And we are engaging with customers at the highest levels on some of these opportunities. I would also think of the \$100 million in cost reductions as freeing up capacity for investment that may not show up in CapEx necessarily, but it does provide us some ammunition to be able to invest in some differentiation as we go to market in a handful of areas.

Finally, I would also say that investment takes many forms. We actively think of the investments that we make to include the time we spend with customers, helping understand needs, shaping solutions to fit the needs and then actually actively investing in a business development and capture function that allows us to be more differentiated when we offer, I think, real solutions.

We are also investing, Silveredge is a classic example of investing a couple of hundred million off our balance sheet to be able to fund to bring some real new capabilities into the organization. And I think finally, but certainly not the least important of which is we're actively

building capabilities, whether that's mission labs or our mission data platform or our classified networks. There are areas that show up beyond CapEx line that we are investing in.

And finally, I would say I foot stomp the fact that we are investing in some really key talent and Jim talked about the Chief Growth Officer we brought to the company. but we are investing in some real talent inside the organization, refreshing our old structure. And so our investment has taken multiple forms, but we are very comfortable that we are investing in line with the signals that we are getting, and we are frankly not waiting for contracts to start the investment, we are trying to get ahead of where the needs are going to be so that we can be ready for when those things show up in a pipeline somewhere. Thanks for the question.

Operator

Gavin Parsons, UBS.

Gavin Parsons - UBS AG - Analyst

Thank you. Good morning. Jim, I mean you've been sharpening the BD process for a few months now. I know that's ongoing. How does that take you to build momentum and actually start converting that to revenue and how much opportunity is there on a shorter-term basis to drive maybe some OCG growth?

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

It's a great question, Gavin. I think that there's kind of two elements to that answer. The first one is to say that, as you know, the sales cycle in this business, converting a proposal into revenue can take a painfully long period of time, in some cases, not at all. I think that to the extent that our team is able to move the needle on win rates on work that is already in production in the proposal shop and build some more innovation, perhaps an even more disciplined around how the finished product comes out that can move the needle on win rates within six months.

I think it's probably worth noting that while we were disappointed by the outcome on a couple of these large recompetes during the year, our win rates on new work in the year -- in the most recent quarters has been in line with our expectation and industry averages. So I think that we're really pleased with that. And with less exposure in FY27 to the large recompetes like we had some significant exposure last year, I feel really good about our ability to achieve the kind of book-to-bill that we need to get us back on a growth trajectory after we lapped out the impact of these recompute losses that we've recently experienced.

I think that the last comment that I would have and Prabu might want to amplify on this as well is that one of the things that I think that we're doing really well already is ensuring that the spend and investment on capture and winning work is focused on the \$28 billion or so of opportunities that we have the greatest opportunity to win, to differentiate to drive margin improvement in the business in addition to whatever margin improvement we're going to be seeing out of the business initiatives that we've been outlining.

This year, we've called an addition by subtraction earlier. And what that really means is that focusing on the things that will drive higher win rates and higher opportunities to retain customers for longer.

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

Thank you, Jim. Gavin, I appreciate the question. Maybe a couple of data points on the guide itself. We are right now assuming about a 2% to 3% OCG in our current baseline guide for fiscal '27. That is consistent with our 2% to 3% last year, which was the lowest of the five years that I've been here in the company. So while we're not expecting things to get better, we don't expect things to get worse either on OCG.

And therefore, on balance, I would say, biased to the upside to the extent that the enacted budget translates into tangible procurement action over the course of the next three quarters or so.

I think, as Jim said, I would foot-stomp the fact that our win rates on non-enterprise IT work. Some of the work we do on the engineering side as well as the mission IT side, our win rates on new have approached 50% or more at various points over the last couple of years. So our win rates really demonstrate, I think, that we have the right to win in these areas. And I think just as importantly, our recompetes win rates on non-commoditized enterprise IT is sort of in that 85% to 90% range. So good win rates outside of the commoditized enterprise IT work.

And again, while it doesn't [help lose] through these recompetes, the reality is, I think there is very little of that left in the portfolio at this point, as we said in the prepared remarks, about 10% left of revenues from large, I would say, cost-plus EIT work. And so I do think that on balance, we're probably at the other side of this slope here. And given that we have about 5% of recompetes headwinds with the \$400 million or so that we disclosed, the reality is the absence of this headwind going into next year is going to be a tailwind in and of itself.

So again, I think we feel good about where the positioning is. None of these matters, none of what I say matters unless we execute well, and this is the message internally as well as externally, but we've got to keep every recompetes that comes our way and we have to keep up the win rates on you, and that's where the focus is for the team.

Operator

Sheila Kahyaoglu, Jefferies

Sheila Kahyaoglu - Jefferies LLC - Analyst

Good morning, guys. Thank you. Congrats, Jim and to Joe as well. Maybe two questions, if I could start. The first question would be just on the what do you think on the enterprise IT work? And I know you probably did a good job of this at the conference, like what changed? Was it an SAIC decision? Does the competitive landscape change? And then as we think about the \$25 billion pipeline, how do we think about SAIC getting on the offensive?

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

I will start, and I think probably might amplify on my enterprise IT answers. I think that what we've seen is increasingly, customers there's a handful of our customers that are buying based on what I might say is kind of more of a cookie-cutter recipe for what they're looking for where it's heavily embedded with network management network uptime, help desk support things that are harder to differentiate than in the things that blend more of a mission focused in with the IT side.

Think about on the -- maybe on the more to mission IT, it's probably supporting networks, to support the war fighter networks to blend multiple areas of information and synthesize it into a pane of glass for people that do mission planning. Those are the things that we think that we can continue to excel at or earn our share on recompetes and of new work. So I think that when we stepped back and took a hard look at different flavors of enterprise IT work, that gave us some greater visibility into the kind of things that we would continue to pursue, continue to win and the things that we're probably going to deemphasize in our pipeline going forward.

Prabu, do you have anything to add?

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

Yeah, Sheila, a couple of things I'd probably want to add. I think the recognition that being selective on sort of, I would say, cost plus enterprise IT was sort of a conclusion we came to over the course of the last several months. I think if you look at the track record of where

our largest recompile challenges have been and it doesn't take a bunch of research to get to NASA Aegis, parts of Cloud One, USCENTCOM, [Army Ritz]. I think the common thread line running through all of these is that it is very hard to differentiate on predominantly cost plus work where it is very hard to separate yourself from the competition.

And sometimes, the magic is in how one writes a proposal more than what the delivery on the ground looks like. So I think it's just a recognition that we've come to. We also had perhaps more of that enterprise IT work in our pipeline five years ago than we do today. So that's been a gradual evolution. Our decision to consciously no-bid \$200 million of compute and store as part of Cloud One.

Candidly, we contracted 3%. All of that 3% was related to one decision to no-bid, that Cloud One contract. That was a recognition that we communicated externally that that is not the kind of work we want to be doing long term as we think about focusing the resources of the company into meaningful areas that will truly restore, I would say, and reestablish the legacy of this company. So I think it's an evolution of what we've come to in terms of our own portfolio.

Broadly speaking, I'd say if you looked at competitors and where win rates are for enterprise IT versus non-enterprise IT work, you will see some of the same, I'm going to say, volatility in recompile win rates within our competitors. I think the reality was we had more of it than perhaps others, but you should expect to see some of the same volatility.

And then finally, on the pipeline question, the one thing I would add to the comment that we're playing more offense than defense, is the fact that our pipeline is inflecting to higher levels of non-EIT work, mission work and engineering work and more of our opportunities on our submits this year and next year are more towards the takeaway side than the recompile side. Our largest single recompile coming up is our Vanguard Department of State program that we are feeling really good about.

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

We've done it for 15 years.

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

We've done it for 15 years. And candidly, I think that's our sentiment underlying their narrative that we get to play a little bit more offense this year than we've had the luxury over the last couple of years.

Operator

Gautam Khanna, TD Cowen.

Gautam Khanna - *Cowen and Company LLC - Analyst*

Good morning. Congratulations, Jim and John and Joe. I wanted to just ask on within the midpoint of the guidance, maybe if there's any parameter you could tell us on how much you have to quite go get? You told us about on-contract growth. But based on the backlog you have today, how do you get -- what do you still need to bid in turn, if you will, in the year? And then if you could just remind us of when the year-over-year headwinds of \$400 million of repeat losses abates, when's the last quarter that that becomes the headwind moves of the numbers? Thank you.

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

Gautam, Prabu here. Thanks for the question. I'll take that one. In terms of the negative to the negative [4%] of contraction. As I said earlier, we are assuming nominal amounts of OCG, 2% to 3% of OCG and not a ton in the way of new business go get. And so, I think very much

focused on what's within our control this year and not a lot of assumptions built in around what we need to win in order to actually in order to get to the guide that we have out there.

So I think there's always going to be a mix of some recompetes and new that is in the mix in the business. Our backlog is sufficient with our trailing 12-month book to bill of 1.1. I think the backlog exists for us to get to the guide without a lot of heroics this year. But that is how we wanted to position the conversation coming into this fiscal year compared to perhaps last year where we had a little more in the way of go-gets. And of course, we had a tremendous amount of disruption from DOGE and other procurement disruptions over the course of the year. So I think it's very much a guide that we have control over that the team is fully committed to and does not take a ton of heroics for us to get to over the course of the year. But candidly, that means we just have to put our head down and execute every single quarter.

In terms of the headwinds on a quarterly basis, I think I would say it's fair to assume that the headwinds are going to persist with us for the first -- for all four quarters of the year. I think that's probably the most sensible way to think about it. Naturally, there will be some, I'm going to say, some changes over the course of the quarter as we lapped on some programs and lap into some other programs, but the reality is you should assume that there's about four quarters of headwinds and that Q1 of next year is probably going to be the cleanest quarter on a compare basis.

Operator

Colin Canfield, Cantor Fitzgerald.

Colin Canfield - *Cantor Fitzgerald LP - Analyst*

Thank you for taking the question. Maybe focusing on [FAR] 3.0. If you could talk a little bit about federal acquisition regulation and essentially what you're hearing in terms of kind of the next set of objectives look like, what that means for SAIC and any sort of kind of timing around outcomes? Thank you.

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

Sure. I had a chance to be with a senior department (inaudible) official about that just this past privy along with some other CEOs in a small forum. And I think that, first of all, there's tremendous urgency that we haven't seen in decades around procurement reform in general, including updates and upgrades to the far. There's a lot that I think we can expect to see stripped down and stripped out. And some new provisions put in there are going to be really aimed at improving speed and throughput from the defense industrial base.

I think that with that said, there is going to be some spotty implementation. And there is a large acquisition community that needs to be retrained, needs to be upskilled, reskilled. But in the meantime, when the need exists, I think that our customer in the building is going to be relying on things like OTAs and other innovative contracting vehicles, including the use of commercial pricing and commercial contracting mechanisms to get what they need done faster.

That said, we do have a commercial operating segment that's available, and we're actively using it to bid some of these things that the customer is needing. We have made some changes in our own procurement and contracting organization to be ready to meet the requirement for speed. And we have an internal initiative aimed at not just handling it from the procurement side, but also how we bid differently. And that's one thing that our new Chief Growth Officer is actively engaged at so that we can meet the customer demand when they bring it to us.

Colin Canfield - *Cantor Fitzgerald LP - Analyst*

Got it. And then maybe as you think about kind of your feature as a hardware integrator. Can you just perhaps talk about kind of your relationship set, and your opportunity set across the branches? We've seen obviously a lot of capital start to flow into [BC] developed products but not as much focus on kind of the integration of all of the capabilities, right?

Is this the leading players, but you still have a lot of stuff that's kind of Series B, Series C that fundamentally will need something like SAIC's kind of acquisition pipeline or the (inaudible) around national security and the cleared folks. So can you just maybe talk about kind of within that context so far, how you think about SAIC's ability to go and integrate a lot of these kind of earlier-stage products? Thank you.

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

Colin, Prabu here. I'll take that one. I think you're hitting on something that is incredibly important that the strength of the total defense industrial base is going to be relevant and necessary to deliver what the Warfighter needs. And so, I think there are folks like SAIC that are in the ecosystem that have, for decades, brought evolving capabilities to the Warfighter because we have an acute understanding of how the mission works. And I don't think that that demand signal is going to look any softer in the next five years. So we are actively partnering with venture companies.

We have a venture program that we are very proud of that we actively bring capabilities, integrate them in the number of hardware, software integration centers we have across the country, whether that's Huntsville, or Charleston in South Carolina or in Crane, Indiana, where we do a tremendous amount of hardware and software integration, and we are just getting better at that kind of work and there is a decent chunk of it in our pipeline. And so I do think that we have the sort of mission set, if you will, where our expertise and our mission and our domain understanding is going to be critical as we graduate more of these smaller companies into the larger ecosystem. So we're looking forward to partnering with them.

And as you know, this is how this business, this industry has evolved over the last, I would say, 50, 60 years, and I don't expect the next 20 or 30 to look any different. I think to be fair, some of the new entrants have put, I think, rightfully so, pressure on the incumbents to deliver faster, better capability and at cheaper prices. And I think that competition is a good thing. So we are looking forward to it. And we are doing a really nice job integrating some really good capability into the ecosystem.

Operator

Tobey Sommer, Truist.

Tobey Sommer - *Suntrust Robinson Humphrey Capital Markets - Equity Analyst*

Thanks. You mentioned the evaluation that you have ongoing is the first I think bottoms-up evaluation processes and so forth since the split. But the company has been trying to address these issues for a number of years. So maybe the process is different this time, but the pursuit is an ongoing one. How do you manage the culture and the morale when we're -- you're sort of reexamining something that's been kind of a focal point? And do you envision any changes in compensation as being helpful in achieving your end?

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

Tobey, I appreciate that question. I think at least once or twice every week, I get an e-mail from one of our 23,000 employees applauding what we're doing and giving me some real-life examples of things that we could do differently to help them get their jobs done easier. Sometimes they're seemingly mundane but still important. Some of them are things that I wouldn't have been made aware of had not someone sent me an e-mail directly. And I look at that, I read it, I send it to the team in the program office that's running this.

So I would say that the employees are saying finally, we're doing some things to get some of the gunk out of the system. It's a -- gunk is a technical term for me on this, and we're definitely working hard in getting this program to get things working better, faster, more efficient, not just for our internal teams, but it also will translate into gains for our customers as we're able to be a bit more nimble. So I would say that there's tremendous receptivity to this.

And I think that it's going to allow us to make decisions faster, get stuff done faster, but also take a lot of the cost that's going to fall out of that and reinvest it into the things that we've been talking about in terms of growth. I think that we have the capability with that to add more account management teams, people who are walking the halls of the building to bring new ideas to customers and increase the daily communication about what we need to do to help them be more successful. And with that, I think it's probably one of the most important things that we're going to get done this year.

Operator

Noah Poponak, Goldman Sachs.

Noah Poponak - *Goldman Sachs Group Inc - Analyst*

Good morning, everyone. Is it possible to give us the details of recompetes of size that you have in your fiscal '27 and fiscal '28, just kind of cover the next two years, which programs, when and how big are they for you now in revenue?

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

Noah, Prabu here. I'll take the first stab at this. I think -- if I think about significant programs, as you know, 10% to 20% of the business comes up for recompetes every year. So if I think about the largest recompetes out there, Department of State Vanguard, is the single largest program that is going through a recompetes cycle in fiscal '27, okay?

And that program, as we know, the scope of the program has increased. We're on year 15 of that program, and we've been qualified to bid and compete for work on 4 of the 5 work streams. The 1 work stream that we chose not to bid because it would have created OCI for us for the other 4 work streams. So that is the single largest recompetes that we have.

Beyond that, we always have programs that are in the, I'm going to say, 75 to 150 range, let's call it, 1% or 2% a year. We always have 1 or 2 of those every year. But in reality, we're also bidding a multiple of that in the form of takeaway opportunities in the pipeline. So I tend to not think of those actively as sort of significant recompetes risks.

I think the reality is the way we're approaching this, Noah, is keep as much of the work share on Vanguard as possible, hopefully, even eke out a little gain there. But our baseline assumption right now for this year is that we've accommodated all kinds of contingencies into the minus 2% to minus 4%, but Vanguard is probably the only one that's worth calling out right now.

Noah Poponak - *Goldman Sachs Group Inc - Analyst*

When will you be recompeting that? And can you size it for us, approximately annual revenue for you?

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

Yes. So we will be going through a recompetes cycle on Vanguard. Again, it's going to go by work stream to work stream. There are 4 work streams that will get recompeted over the course of this year. We are the incumbent. We will be competing for all 4. We've been qualified

to compete and we are in the down selected category. And so it's unlikely to materialize on -- in terms of impact to revenue any time, I would say, safely in the first half of this year.

If anything, we may have some nominal impacts in the second half, but I'd say nominal. So more of the impacts, if we were to be in an unfortunate position of not keeping most of that work, most of that impact, maybe, felt next year and not this year. So that's how I would probably preface it.

Noah Poponak - *Goldman Sachs Group Inc - Analyst*

Okay. And then would it be possible to talk about how the funding environment has evolved year-to-date? I know that's a short-term question, maybe it gets into splitting hairs. But just given the -- as you described, the funding of obligated dollars has been slow and choppy and uneven. In January, it sounded like some in the industry saw that getting better I'm just curious if that improved through the quarter, it got worse through the quarter? Is it better or worse today or the same versus how the year ended?

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

I'm going to say the health warning here is that whatever I say now is probably going to be OBE probably at the end of the week. But there is what we've seen, I think it is true that January for outlays was better than the preceding 3 months for sure. I think on outlays, as you know, there's probably about a 3-month lag between outlays and revenue performance. So a good January month on outlays means that April, May should look healthier than it would have looked otherwise.

I think the more important milestone that we're tracking to is a milestone in the second quarter of our fiscal year, sort of the June, July, August time frame. Certainly, by June or July, if you look at where the agencies are relative to their -- relative comparing outlays to the appropriations or the budget amounts, I think that will tell us if we're going to see a year-end flush in terms of money that needs to be spent before the end of the government fiscal year. So that's probably the clearest goalpost that we would say is out there.

But in reality, we do think that the appropriations have to get spent. Therefore, the money will have to come. I think for us, it's very much a question of timing and how quickly is the spigot going to open up. And this is where the sort of the constraints on the government procurement functions have been difficult to size and estimate. But hopefully, things get better here in the -- certainly in the second half from the summer time through the end of the fiscal year, Noah, then perhaps immediate change in the first quarter of this fiscal year for us.

Operator

I'm showing no further questions in queue at this time. This concludes today's conference call. Thank you for participating. You may now disconnect.

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