



SAIC, Inc.
FY14 First Quarter Earnings Call
June 3, 2013
Supplemental Financial Information

NATIONAL SECURITY • ENERGY & ENVIRONMENT • HEALTH • CYBERSECURITY



Forward-Looking Statements

Certain statements in these slides contain or are based on “forward-looking” information within the meaning of the Private Securities Litigation Reform Act of 1995. These statements reflect our belief and assumptions as to future events that may not prove to be accurate. Actual performance and results may differ materially from the guidance and other forward-looking statements made in these slides depending on a variety of factors, including: developments in the U.S. Government defense budget, including budget reductions, implementation of spending cuts (sequestration) or changes in budgetary priorities; delays in the U.S. Government budget process or approval to raise the U.S. debt ceiling; delays in the U.S. Government contract procurement process or the award of contracts; delays or loss of contracts as result of competitor protests; changes in U.S. Government procurement rules, regulations and practices; our compliance with various U.S. Government and other government procurement rules and regulations; governmental reviews, audits and investigations of our company; our ability to effectively compete and win contracts with the U.S. Government and other customers; our ability to attract, train and retain skilled employees, including our management team, and to obtain security clearances for our employees; our ability to accurately estimate costs associated with our firm-fixed-price and other contracts; our ability to comply with certain agreements entered into in connection with the CityTime matter; cybersecurity, data security or other security threats, systems failures or other disruptions of our business; resolution of legal and other disputes with our customers and others or legal or regulatory compliance issues; our ability to effectively acquire businesses and make investments; our ability to maintain relationships with prime contractors, subcontractors and joint venture partners; our ability to manage performance and other risks related to customer contracts, including complex engineering or design build projects; the failure of our inspection or detection systems to detect threats; the adequacy of our insurance programs designed to protect us from significant product or other liability claims; our ability to manage risks associated with our international business; our ability to declare future dividends based on our earnings, financial condition, capital requirements and other factors, including compliance with applicable laws and agreements of the Company; risks associated with the proposed spin-off of our technical, engineering and enterprise information technology services business, such as disruption to business operations, unanticipated expenses, significant transaction costs and/or liabilities, the timing of the spin-off or a failure to complete the proposed spin-off or realize the expected benefits of the proposed spin-off; and our ability to execute our business plan and long-term management initiatives effectively and to overcome these and other known and unknown risks that we face. These are only some of the factors that may affect the forward-looking statements contained in these slides. For further information concerning risks and uncertainties associated with our business, please refer to the filings we make from time to time with the U.S. Securities and Exchange Commission.

In addition, these slides should be read in conjunction with the Company’s earnings press release dated June 3, 2013, along with listening to or reading a transcript of the comments of Company management delivered in an earnings conference call held on June 3, 2013.

All information in these slides is as of June 3, 2013. The Company expressly disclaims any duty to update any forward-looking statement provided in these slides to reflect subsequent events, actual results or changes in the Company’s expectations.

First Quarter Fiscal Year 2014 - Summary

- **Understanding the Numbers**

- Revenues of \$2.71B – ramp down of 2 contracts reduced revenue by >\$100M
- Operating Income of \$142M includes \$33M of separation transaction costs and other items described on slide 6
- Operating Cash Flow of (\$111M) impacted by discontinuance of government accelerated payment initiative

- **Reaffirming Guidance for FY14**

- **Proactively Managing the Business in Challenging Environment**

- Cost structure modifications underway
- Capital deployment focused on maximizing shareholder value
- Separation into two independent, publicly traded companies proceeding as planned

First Quarter Fiscal Year 2014 – Consolidated Results

(\$ in millions, except for per share amounts)	FY14 Q1 ⁽¹⁾	FY13 Q1 ⁽¹⁾	Change
Revenue	\$2,707	\$2,764	(2%) [(4%) internal] ⁽²⁾
Operating Income	\$142	\$208	(32%)
Operating Income %	5.2%	7.5%	(230 bps)
Effective Tax Rate	36.2%	36.1%	(10 bps)
Diluted EPS	\$.23	\$.35	(34%)
Operating Cash Flow	(\$111)	(\$361)	
Free Cash Flow ⁽³⁾	(\$130)	(\$369)	

(1) Results of SAIC, Inc. and its consolidated subsidiaries for the first quarter ended May 3, 2013 and April 30, 2012.

(2) Internal revenue growth is a non-GAAP financial measure as defined and reconciled in the appendix of this presentation.

(3) Free cash flow is a non-GAAP financial measure as defined and reconciled in the appendix of this presentation.

First Quarter Fiscal Year 2014 – Internal Revenue Growth

Internal revenue growth ⁽¹⁾	(4%)
Growth attributed to 2 additional business days	(3%)
Contraction due to DGS/MRAP JLI contract reductions	4%
Internal revenue growth excluding additional business days and DGS/MRAP JLI contract reductions	(3%)

(1) Compares internal revenue from Q1 FY14 ended May 3, 2013 with Q1 FY13 ended April 30, 2012. Internal revenue growth is a non-GAAP financial measure as defined and reconciled in the appendix to this presentation.

First Quarter Fiscal Year 2014 – Operating Income

(\$ in millions)

Operating Income, as reported	\$142
Separation transaction costs	\$33
<u>Other items</u>	
Infrastructure set-up costs	\$7
Provision for legal and regulatory matters	5
Intangible asset impairments	4
Net gain on sale of Property, Plant & Equipment	(7)
Other items - Total	\$9

First Quarter Fiscal Year 2014 – Segment Results

(\$ in millions)	FY14 Q1 Revenue	FY13 Q1 Revenue	Total Growth	Internal Growth ⁽¹⁾
Health & Engineering	\$521	\$416	25%	9%
National Security Solutions	1,080	1,185	(9%)	(9%)
Technical Services & Information Technology	1,107	1,163	(5%)	(5%)
Corporate & Other	(1)	-		
Total	\$2,707	\$2,764	(2%)	(4%)

(1) Compares internal revenue from Q1 FY14 ended May 3, 2013 with Q1 FY13 ended April 30, 2012. Internal revenue growth is a non-GAAP financial measure as defined and reconciled in the appendix to this presentation.

First Quarter Fiscal Year 2014 – Segment Results (cont'd)

(\$ in millions)	FY14 Q1 Operating Income	FY14 Q1 Operating Margin	FY13 Q1 Operating Income	FY13 Q1 Operating Margin	Margin Change
Health & Engineering	\$41	7.9%	\$35	8.4%	(50 bps)
National Security Solutions	76	7.0%	95	8.0%	(100 bps)
Technical Services & Information Technology	71	6.4%	85	7.3%	(90 bps)
Corporate & Other ⁽¹⁾	(46)		(7)		
Total	\$142	5.2%	\$208	7.5%	(230 bps)

(1) Includes expenses incurred in connection with the planned separation transaction, costs to establish infrastructure for the two future companies and provisions for legal matters.

Fiscal Year 2014 Consolidated Guidance

(\$ in millions)	FY14 Guidance ⁽¹⁾	FY13 Actual
Revenue	\$10.0B to \$10.7B	\$11.2B
Diluted EPS	\$1.16 to \$1.33	\$1.54
Cash Flow from Cont. Ops	at or above \$450M	\$345M

(1) Fiscal year 2014 guidance is based on SAIC, Inc. operating for the full fiscal year as one company, yet includes substantial costs to prepare for the previously announced separation transaction. If the separation occurs during fiscal year 2014 as is currently contemplated, it is expected that guidance policies will be provided for each of the two separate companies at the time of the separation. Fiscal year 2014 guidance is based upon the approved U.S. Government fiscal year 2013 defense budget and an assumed flat spending level thereafter consistent with the Budget Control Act of 2011. In addition, fiscal year 2014 guidance excludes the impact of potential future acquisitions and other non-ordinary course items.

Appendix

Debt Balances and Maturity

(\$ in millions)	Balance (as of 5/3/13)	Type	Maturity
Credit Facility	\$-	L+200 bps	3/2017
4.45% senior notes	449	fixed	12/2020
7.13% senior notes	248	fixed	7/2032
5.50% senior notes	296	fixed	7/2033
5.95% senior notes	300	fixed	12/2040
Capital leases and other	5	fixed	various through 2017
Total	\$1,298		

Working Days per Quarter

	Q1	Q2	Q3	Q4	Total
FY14	65	63	64	60	252
FY13	63	64	65	61	253
Increase/(Decrease)	2	(1)	(1)	(1)	(1)

Non-GAAP Reconciliation – Internal Revenue Growth (Contraction)

These slides refer to internal revenue growth (contraction) percentage, which is a non-GAAP financial measure that is reconciled to the most directly comparable GAAP financial measure. The company calculates internal revenue growth (contraction) percentage by comparing reported revenue for the current year period to the revenue for the prior year period adjusted to include the actual revenue of acquired businesses for the comparable prior year period before acquisition. This calculation has the effect of adding revenue for the acquired businesses for the comparable prior year period to the company's prior year period reported revenue.

SAIC, Inc. uses internal revenue growth (contraction) percentage as an indicator of how successful it is at growing its base business and how successful it is at growing the revenues of the businesses that it acquires. The integration of acquired businesses allows current management to leverage business development capabilities, drive internal resource collaboration, utilize access to markets and qualifications, and refine strategies to realize synergies, which benefits both acquired and existing businesses. As a result, the performance of the combined enterprise post-acquisition is an important measurement. In addition, as a means of rewarding the successful integration and growth of acquired businesses, and not acquisitions themselves, incentive compensation for senior management is based, in part, on achievement of revenue targets linked to internal revenue growth.

The limitation of this non-GAAP financial measure as compared to the most directly comparable GAAP financial measure is that internal revenue growth (contraction) percentage is one of two components of the total revenue growth (contraction) percentage, which is the most directly comparable GAAP financial measure. The company addresses this limitation by presenting the total revenue growth percentage next to or near disclosures of internal revenue growth (contraction) percentage. This financial measure is not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with SAIC, Inc.'s consolidated financial statements prepared in accordance with GAAP. The method that the company uses to calculate internal revenue growth (contraction) percentage is not necessarily comparable to similarly titled financial measures presented by other companies.

(\$ in millions)

Health and Engineering:

Prior year period's revenues, as reported	\$ 416
Revenues of acquired businesses for the comparable prior year period	63
Prior year period's revenues, as adjusted	<u>\$ 479</u>
Current year period's revenues, as reported	521
Internal revenue growth	<u>\$ 42</u>
Internal revenue growth percentage	<u>9%</u>

National Security Solutions:

Prior year period's revenues, as reported	\$ 1,185
Revenues of acquired businesses for the comparable prior year period	-
Prior year period's revenues, as adjusted	<u>\$ 1,185</u>
Current year period's revenues, as reported	1,080
Internal revenue contraction	<u>\$ (105)</u>
Internal revenue contraction percentage	<u>9%</u>

Technical Services and Information Technology:

Prior year period's revenues, as reported	\$ 1,163
Revenues of acquired businesses for the comparable prior year period	-
Prior year period's revenues, as adjusted	<u>\$ 1,163</u>
Current year period's revenues, as reported	1,107
Internal revenue contraction	<u>\$ (56)</u>
Internal revenue contraction percentage	<u>5%</u>

Total*:

Prior year period's revenues, as reported	\$ 2,764
Revenues of acquired businesses for the comparable prior year period	63
Prior year period's revenues, as adjusted	<u>\$ 2,827</u>
Current year period's revenues, as reported	2,707
Internal revenue contraction	<u>\$ (120)</u>
Internal revenue contraction percentage	<u>4%</u>

* Total revenues include amounts related to Corporate and Other and intersegment eliminations.

Three Months
Ended
May 3, 2013

Non-GAAP Reconciliation – Free Cash Flow

These slides refer to free cash flow, which is a non-GAAP financial measure that is reconciled to the most directly comparable GAAP financial measure, cash flows used in operating activities. The company believes that reporting free cash flow provides investors with greater visibility into how effectively it generates cash. The company calculates free cash flow by subtracting expenditures for property, plant and equipment from total cash flows used in operating activities.

The limitation of this non-GAAP financial measure as compared to the most directly comparable GAAP financial measure is that free cash flow does not represent total cash flows. The company addresses this limitation by presenting free cash flow near disclosures of cash flows used in operating activities. This financial measure is not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with SAIC, Inc.'s consolidated financial statements prepared in accordance with GAAP. The method that the company uses to calculate free cash flow is not necessarily comparable to similarly titled financial measures presented by other companies.

(\$ in millions)

Total cash flows used in operating activities, as reported
Expenditures for property, plant and equipment
Free cash flow

	Three Months Ended May 3, 2013	Three Months Ended April 30, 2012
\$	(111)	\$ (361)
	(19)	(8)
\$	<u>(130)</u>	<u>\$ (369)</u>