CACI INTERNATIONAL INC
Moderator: Ken Asbury
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Operator: Ladies and gentlemen, thank you for standing by. Welcome to the CACI International Fiscal Year 2016 Guidance Conference Call. Today's call is being recorded. At this time all lines are in a listen-only mode. Later we will announce the opportunity for questions, and instructions will be given at that time. A special reminder to our media guests who are listening in, please remember that during the question-and- answer portion of this call, we are only taking questions from analysts.

At this time, I would like to turn the conference over to Dave Dragics, Senior Vice President, Investor Relations for CACI International. Please go ahead, sir.

INTRODUCTION AND SAFEHARBOR STATEMENT

Dave Dragics: Thanks, Nicole and good morning, everyone. I'm Dave Dragics, Senior Vice President of Investor Relations of CACI International. And we're very pleased that you're able to participate with us today. And as is our practice, we are providing presentation slides. So let's move to slide number two.

Now, let's turn to our written and oral disclosures and commentary. There'll be statements in this call that do not address historical fact and as such constitute forward-looking statements under current law. These statements reflect our views as of today and are subject to important factors that could cause our actual results to differ materially from anticipated results. Factors that could cause our actual results to differ materially from those we anticipate are listed at the bottom of last evening's release and are described in the company's Securities and Exchange Commission filings. And our Safe Harbor statement is included on this exhibit and should be incorporated as part of any transcript of this call.

I'd also like to point out that our presentation today may include discussion of non-GAAP financial measures. And these non-GAAP measures should not be considered in isolation or as a substitute for performance measures prepared in accordance with GAAP.

So, let's turn to slide number three, and to open up our discussion this morning here's Ken Asbury, President and Chief Executive Officer of CACI International. Ken?

CEO OVERVIEW

Ken Asbury: Thank you, Dave; and good morning, everyone. Thank you for joining us to discuss CACI International's Fiscal Year 2016 guidance. With me this morning are John Mengucci, our Chief Operating Officer and President of U.S. Operations; Tom Mutryn, our Chief Financial Officer; and Greg Bradford, President of CACI Limited, who is joining us from the UK.

Last night, we released our guidance for FY 2016 and reiterated our guidance for FY 2015. This morning, we will provide more information about our 2016 plan. John will provide details on our planning process and the assumptions that we used when he gives an operations overview. And Tom will discuss the financial outlook after that.

Let's please turn to slide four. Our plan for FY 2016 is based on a rigorous bottom-up review as well as a detailed assessment of our addressable market. This review and our underlying assumptions for FY 2016 were further refined by the lessons we have learned over the last two years about our customers' buying behavior. Our plan for 2016 balances the new business awards success we have had with the timing of contract awards, protests, pricing pressures and program start delays that have characterized the market during the past couple of years. John and Tom will have a lot more specific details in their section about those items.

Our customer's requirements are continually shaped by a complex set of international and domestic priorities. Both the President's 2016 budget request and the implementing bill is now moving through Congress seem to account for these realities through a significant increase in all discretionary defense and domestic portfolios. While it is too early to predict just how the budget negotiations between Congress and the administration will turn out over the ensuing months, we are confident that our customers will continue to require the affordable solutions and services that we provide.

Slide five, please. Over the past several years, we have made strategic changes to our business that position us for solid performance and a return to organic revenue and net income growth. We realigned and appropriately sized our organization to develop internal synergies, sharpen our competitive edge and increase our operational efficiency. We transformed our business development processes. We are pursuing larger bids and increasing our focus on solutions, where we could compete on ideas and outcomes that align with our customer's priorities, while delivering the best possible value and support of their missions. All of these actions have contributed to our record awards in FY 2015 and positioned us for the long-term.

Going forward, I have every confidence in the FY 2016 plan, our strategy, and in our tangibility to deliver the growth we expect.

Now, let's turn the call over to John for some insight into operations. John?

OPERATIONS OVERVIEW

John Mengucci: Thanks, Ken; and welcome to everyone on today's call. Our FY 2015 performance in a difficult market environment and our FY 2016 plan demonstrate that we are successfully executing our three-part strategy. This morning, I'll provide an overview of operations, recapping some of our FY 2015 accomplishments before moving on to FY 2016 expectations.

Slide six, please. At the beginning of FY 2015, we realigned operations around 10 market areas. We now have dedicated delivery and business development teams focused on each market. The results are a cost structure in line with the market where necessary investments can be made and the execution of the strategy specific to that market.

The recent win to develop and implement the Integrated Personnel & Pay System for the U.S. Army is a great example of these changes at work. Under this award, CACI will integrate the largest HR system of its kind, creating the authoritative source of personnel and pay information for more than 1 million soldiers by consolidating over 40 disparate systems. This award was a direct result of the successful execution of our business systems market strategy, which included leveraging capabilities, added to our acquisitions of both Advanced Programs Group in 2011 and Delta Solutions in 2012, coupled with a cost structure crafted specifically for that market to effectively capture this work. This is just one example demonstrating how our market aligned structure and enhanced business development organization won a record amount of contract awards in FY 2015, positioning us well as we enter FY 2016.

Slide seven, please. Turning to FY 2016, our guidance is a result of a detailed bottoms-up planning process that incorporates multiple planning considerations. All of our existing and expected contracts are planned at the individual project level. We time-shifted expected new contract awards by 90 days on average; similar to what we experienced in FY 2015. We also added approximately 100 days to opportunities we believe are likely protest candidates, reflecting the GAO adjudication timeline and our experiences of FY 2015.

As we built our FY 2016 plan, we assessed a number of factors, some of those being as follows:

- program lifecycle impacts, including projects to either end or enter an operations and maintenance phase during the year;
- reduced demand for procured material by the U.S. government which drives a continued reduction of low value material and subcontractor costs;
- additional reductions to our work in Afghanistan;
- and we will continue not to pursue specific re-competes for professional services work that is procured base solely on lowest price.

The impact of those factors is a revenue reduction in FY 2016 of approximately $450 million.

Let's go to slide eight. Offsetting these headwinds of $450 million is momentum from our record contract awards in FY 2015 and our continued competitiveness in winning new business in FY 2016. This adds a combined $520 million of revenue, resulting in expected organic revenue and net income growth for FY 2016, $290 million generated from new business CACI won in FY 2015 and $230 million comes from new business contract awards expected in FY 2016.

Let's go to slide nine, please. Let me take a minute to explain the FY 2016 revenue generated by FY 2015 new business contract awards. As we discussed in our recent calls, late awards and protests delayed revenue generation from our record new business contract awards in FY 2015. In fact, we expect to close FY 2015 with about $190 million of revenue generated by these wins. Those same contract awards would generate about $480 million of revenue in FY 2016 given a full year of execution. This provides the $290 million of FY 2016 revenue growth I mentioned earlier. In short, we are now seeing the revenue contribution from our FY 2015 new business awards.

I mentioned protest impacts; let me update you on our remaining items. We still await adjudication of two protests with a combined award value of $375 million. We expect resolution of these protests to be complete and support re-awards to CACI by the third quarter of FY 2016.

Slide 10, please. As we have previously provided on our guidance calls, our planned revenue consists of 78% existing, 15% re-compete and 7% new business. And our existing business is already about 45% funded, similar to this time last year. Lastly, our Afghanistan related revenue is expected to be $140 million in FY 2016.

Looking ahead, our prospects are positive. We currently have over $12 billion in pending awards with about 50% for new business and we plan to submit another $15 billion in bids over the next six months. Again, half of those bids will be for new business to CACI.

I'm confident in CACI's ability to deliver top and bottom line organic growth in FY16. This is a direct result of our focus on what we control, maintaining a competitive cost structure and delivering operational excellence to our customers. The combination of this focus will deliver long-term shareholder value as CACI becomes the high-end solution and service provider of choice to our federal government.

With that, let me turn the call over to Tom.

FINANCIAL OVERVIEW

Tom Mutryn: Thank you, John, and good morning, everyone. Please turn to slide 11.

As we indicated in yesterday's release, we are reiterating our Fiscal Year 2015 guidance.

Slide 12; our revenue guidance for FY 2016 is $3.3 billion to $3.5 billion and our net income guidance range is $130 million to $140 million. We are expecting operating cash flow to be greater than $200 million.

The key factors and assumptions associated with the guidance are outlined in our press release and depicted on presentation slide 13.

Based on the midpoints of the guidance, we are expecting modest revenue and net income growth in FY 2016. Revenue should be just slight – be down just slightly in the first half and positive thereafter. We are forecasting continued declines in other direct costs throughout the year with the large reductions in the first half. Our higher direct labor with greater increases in the back half is expected to offset the lower ODCs, resulting in organic growth in the back half. Said another way, the timing of our FY 2016 new business, which John discussed, is expected to positively impact our second half.

Slide 14, please. In terms of the shape of the earnings profile for the year, first quarter net income is expected to be below last year in the $25 million range. As the new business won in FY 2015 ramps up and as we begin realizing our FY 2016 new business, we are expecting favorable earnings comparisons in the second, third, and fourth quarters.

Factors driving the lower first quarter expected results compared to last year, which offset the positive OPM benefits, include:

- lower award fees in first quarter 2016 compared to last year due to differences in timing;
- an earnings pickup last year from the close-out of two fixed price contracts; and
- lower profitability on follow-on contracts related to certain FY 2015 re-compete wins. In some cases, we moved from fixed price to lower margin cost plus contracts. The lower profitability will be offset in subsequent quarters as we generate revenue and profit from our Fiscal Year 2015 actual and Fiscal Year 2016 planned new business.

With that, let me turn the call over to Ken.

CEO CLOSING REMARKS

Ken Asbury: Thank you, Tom and John. Let's turn to slide 15, please.

Looking ahead, we continue to see and pursue significant opportunities in our addressable market. Our defense, intelligence, and federal civilian customers' critical missions require the innovative, high-end solutions and services that CACI provides. The changes we have made over the last several years have laid a solid foundation for CACI's future. We are confident that by continuing to execute on our strategy we will deliver long-term success.

All of our accomplishments reflect the commitment, integrity and good character of CACI's 16,700 employees. Every day, they support our customers to the best of their exceptional abilities. Their dedication to our customers' missions and to delivering excellent performance at all times is critical to our success and to the growth of our company. I thank them very much for their continuing achievements and I'm extremely proud of all that they have accomplished. I'm also proud that our employees recognize CACI as one of the Washington Post Top Workplaces for 2015. Thank you.

With that, let's see what questions you all might have. So, Nicole?

Operator: Our first question comes from the line of Jon Raviv of Citi. Your line is now open.

QUESTION ON HOW THE FY16 PLAN IS DIFFERENT FROM PREVIOUS YEARS

Ken Asbury: Good morning, Jon.

Jon Raviv: Good morning, guys. Good morning. Thanks for taking the question. Ken, just sort of follow-up on the comment you made that you're very confident in this FY 2016 plan, how is this plan different from years previous in which you've had to make adjustments mid-year to the extent that you never may perhaps built in those time shifts or those protest contingencies that John outlined?

Ken Asbury: Jon, thanks for the question. Look, we're three years into probably a major inflection point in the federal marketplace and we've learned a little bit year after year. The things that I think are the major factors going forward in this plan are: we've demonstrated to ourselves, per John's conversation, that we're able to go out and win business in this tougher market, and we're able to do it and still maintain and even have put ourselves on a path to grow our margins over time by how we choose the business that we're going to pursue.

Second, I think the last couple of years have been instructive in that the first year of the Budget Control Act was sort of chaotic for everybody. Customers couldn't decide what their priorities were going to be. That settled down a bit since Ryan-Murray. And frankly, the conversation that is going on now is, people are tired of it on the government side. We probably under spent on the domestic as well as the military side. And it appears that there are at least voices that want to come together and do something like a Ryan-Murray II, which all speaks to stability.

So with the things that we can control, a more stable marketplace and, frankly, some pretty strong lessons that we learned from 2015 about, yes, we can win. But those wins will not show up on the schedule that you would like. We've taken 2016 and really laid all of that learning into that.

QUESTION ON WHAT THE DRIVERS ARE FOR MARGIN GROWTH IN FY16

Jon Raviv: Understood, thanks. And then a follow-up I suppose on – you mentioned margins. What are the drivers behind what looks like 30-plus basis points of margin growth embedded in guidance? It seemed that D and A and the OPM inefficiency roll-off comprises the vast majority of that growth. So, why would the underlying be flat if the sales growth we're seeing is in this more solution-oriented type work? I guess a related question would be what is fair margin for this – for a high-end solution provider in your view?

Ken Asbury: Let me start at the beginning. I talked a moment ago about the inflection point. So what's really going on in the macro is we are beginning to lose situational short-term revenue and profit associated with the pass-through, war-related activities that we experienced through the middle 2000s up until approximately 2012, when major policy decisions were made about what we are going to do in different parts of the world. What we're gaining now and what we're targeting as a business is more enduring revenue and profit that will come from the solutions. John gave a couple of examples about the Integrated Personnel and Pay System for the Army and a couple of other software development jobs that we have, but that's the major change that we are putting into our business. I'm going to let John give you a little bit more detail on that.

John Mengucci: The way we're looking at margins, a little different tomorrow than we currently look at them today. There is a distinction when you look at drivers to margin in the short-term versus the sustainable long-term. The way we're looking at that, Jon, is in the short-term, it's true that higher direct labor against lower ODCs will deliver higher margins as returns on our pure material buys is far less than those on labor. As Ken mentioned, as we shift the business of more of a solution mix and to more a firm fixed price contracts, the stand-alone element of DL and ODCs will become less of an indicator of future margins. Solution content in the future is going to contain both direct labor and ODCs, and those are wrapped with a similar margin. So the mix of both becomes over time less important.

Our slightly higher operating margin of greater than 7.5% in FY 2016 is a result of both direct labor growth, ODC decline, as well as the slight increase in solution mix that comes with the higher margins. But as we win more solutions work and more of that solutions work is acquired under fixed price arrangements, pricing pressures aside, our margin should continue to show growth over the long-term.

So I hope that provides additional color based on how we see margins today and how we're going to look at that in the future.

Operator: Thank you. And our next question comes from the line of Jairam Nathan of Sidoti. Your line is now open.

QUESTION ON WHETHER MANAGEMENT IS EXPECTING GROWTH IN NEW AWARDS IN FY16 OR FASTER CONVERSION OF AWARDS TO REVENUE

Jairam Nathan: Hi, thanks for taking my question.

Ken Asbury: Good morning, Jairam.

Jairam Nathan: Hi, good morning. Thanks for taking my question. So a kind of following up on the earlier questions, you have $230 million in contribution from Fiscal 2016 awards. And if I go back to your Fiscal 2015, in the first half of Fiscal 2015 you won about $1.9 billion in new awards and you translated $190 million of it, so about 10% rate. So for Fiscal 2016, does that imply you are expecting a higher – a growth in the new awards or do you expect a faster translation into revenue?

John Mengucci: This is John. So yes, if we look at FY 2016—over the last three to four to five years, traditionally, our new business awards translate to new business revenue, about 20% per year assuming that those awards are over an average of a five-year period. Due to the delay in awards and the protests that we faced at FY 2015, that translation rate was around 10%. What you're seeing, if we were to combine 2015 and 2016, is that we are seeing about the $500 million of revenue, FY 2015 awards that we were looking for, although being a couple of quarters to the right. In FY 2016, we're actually keeping that same exact rate. So in the 10% to 12% conversion rate is what we're looking at and that's what drives 7% of our FY 2016 revenue to be based on new business versus the 15% that was based on new business in FY2015.

QUESTION ON EXPECTATIONS FOR THE SIX3 BUSINESS IN FY16

Jairam Nathan: Thanks. And as a follow-up, I just wanted to kind of understand what your expectations are from the Six3 business for Fiscal 2016?

Ken Asbury: Sorry, Jairam, we didn't hear the question.

John Mengucci: Could you repeat?

Jairam Nathan: Yeah, I just wanted to understand what – internally, what the expectations are from the Six3 business?

Tom Mutryn: The Six3 acquisition?

Jairam Nathan: Yes.

Tom Mutryn: At this point in time, we have integrated or combined Six3 operations into CACI – into our business group operational structure. And it's such that we do not track that number. And it's not that we're not interested in sharing with you, it's that we just have not calculated that particular number. I think it's suffice to say—Ken, if you want to elaborate on Six3, the core capabilities at Six3--digital signal processing, signals intelligence—is alive and robust in a lot of opportunities.

Ken Asbury: Jairam, it's hard to separate it out now as you look at the entire business. But I will tell you there are two significant classified opportunities that will happen in the second half of this year that are competitive. But they are limited competitive based on the skills and capability. And those are two jobs that, frankly, we thought we would see at the end of 2015 – one of them at the end of 2015—and we've been positioning those fairly well. So I'm reasonably optimistic about our chances against those two jobs and they are nine-figure opportunities.

Operator: Thank you. And our next question comes from the line of Tobey Sommer of SunTrust. Your line is now open.

QUESTION ON OPERATIONAL AND FINANCIAL RISKS OF PURSUING MORE SOLUTIONS BUSINESS

Tobey Sommer: Thanks. I think you did a good job outlining the positive aspects of a greater emphasis in mix of solutions work. I was wondering if you could outline the kind of operational and financial risks with pursuing more solutions business.

John Mengucci: Tobey, this is John. I don't know if I'll touch on operational risk, but clearly, we're talking about the differences between a large focus on professional services versus a little heavier focus on the solutions piece. Part of that came up when I was talking through margins. What else we see is what we saw in FY 2015, right? Is that the award of those larger solutions base, which is new work for us but its takeaway work from someone else, when you're going after business that's $150 million, $200 million, $250 million contract award, that makes timing a little more difficult in this market environment. So I guess, on the downside, and I'm going to stress a small downside, the near-term ability to estimate when that's going to come in, the risk of having to plan that comes up.

The long-term benefit of that is much, I guess, what I would say much stickier, closer to mission, sequestration, budget proof development work, which is sustainable over three to five year period. That's different. However, professional services, you can bid that work based on rates in seven to 10 days; it gets awarded quickly; you can badge-flip employees; and you can start to see revenue sooner rather than later. On the margin side, the margin curve, very linear with professional services, is a slightly different curve.

So over time, we've been talking about this move to solution, less of a switch more of dialing a knob, which is trying to get the mix of our business more towards solutions, so that in the next three to five year period, a heavier percentage of our annual revenue is based on that, which makes the required new business wins slightly less to continue to show organic growth.

Ken Asbury: Tobey, this is Ken. I think I sense part of your question may be, too, – it could've been how are we addressing the risk associated with doing more performance-based work. And simultaneous with our moving in that direction towards solutions, we've been investing in PM tools, PM training, updating our earned value capability, and our overall notion of operational excellence. So we talk about our three-part strategy, we believe that the delivery in these more complex jobs is also important. So you're seeing not just an emphasis in business development but a very strong emphasis on the program delivery side as well.

QUESTION ON HOW MUCH OF THE FY16 REVENUE REDUCTION IS FROM NOT BIDDING ON LOW MARGIN WORK

Tobey Sommer: Thank you. My follow-up question has to do with the low priced work that you're, I guess, foregoing and that comprise part of the $455 million revenue reduction? How much of that revenue reduction relates to that and what gives you confidence that wherever you're drawing the line this year related to low margin work doesn't get redrawn by your customers next year? Thanks.

John Mengucci: Great question. This is John. I don't want to focus on it being low price. What we've seen – we actually moved to taking a look at moving away from some of these bids as I talked about as early as FY 2015. What we find is, professional services were small in scale, then go small business or is selected purely on the lowest price. That's – when we look at shot selection and where we're going to invest in our future, that's not a good overall investment for us.

Does it mean we're walking away from customers? Absolutely not. What it means is in areas where customers have made a unilateral decision to go small business or go price-only, that's not when looking at all of our potential options, that's not going to come up as number one or number two on our list. So it's very selective. It's pursuit by pursuit.

If I were to look at the $450 million, Tobey, it's probably – it's less than 5% or 10% of that absolute total. So this isn't a complete – again, throwing a switch versus turning a knob. This is a slight knob turn, saying as we've proven we can win larger solution-based business, that's better long-term. Where we have to make a trade-off we're going to select that over the price-only professional services work.

Ken Asbury: And, Tobey, at the higher end of that discussion is, we've seen policy changes at DoD now that reflect on LPTA and trying to limit its use to those areas that are true commodity kinds of business. So we think that our having a large addressable market and having a choice about what we pursue, which is what John was referring to, and coupled with the policy changes we see from, frankly, probably some pretty bad results of using LPTA in the wrong places, kind of protect us from that. But even – nonetheless, it is not a material part of the changes that we are making.

Operator: Thank you. And our next question comes from line of Robert Spingarn of Credit Suisse. Your line is now open.

QUESTION ON WHAT'S CAUSING LOWER PROFITABILITY FOLLOW-ON WORK AND CACI'S FOCUS ON HIGHER MARGIN WORK

Rob Spingarn: Just in the context, Ken, of all – of everything you said—maybe something that Tom said earlier, I think it was slide 13, where you have some lower profitability follow-ons coming in. If you can talk about what's driving that and essentially reconcile this with the idea of diminishing LPTA and focusing on higher margin work, et cetera?

Ken Asbury: Rob, it's [Ken] – so, I hope I can do an adequate job. Let me start this way. So in certain customer cases, we had legacy contracts where they were bought. And what Tom referred to directly was a very nice legacy contract that was bought on a fixed unit price basis. And over time, we were able to optimize our delivery to it. So our gross margin on it was really quite nice.

When they re-competed the contract, the customer had a philosophy change not about how we were doing it or that, they – on how they were going to deliver to their customers. And because they had more variability, it was less risky to them to go to a cost-plus kind of construct. Now, we still have a high-single digit margin on that contract and we were successful in the re-compete, but it really had to do with just an absolute change about the way that they were going to buy support and deliver support to their rest – ultimate customer.

Rob Spingarn: So, it's a fairly unique situation?

Ken Asbury: Yes, in that case, it was unique because we had optimized that contract over, I think, six years or something?

John Mengucci: Six years.

Ken Asbury: And our folks really did a great job of delivery. So, needless to say, we tried to get them to keep it – keep the risk on our side, because we were doing well. But it really – their business was better served by having a cost-plus contract going forward.

Rob Spingarn: Okay.

Ken Asbury: So the good news is we won. The bad news is we're in a different circumstance now under a different kind of contract.

QUESTION ON WHETHER THERE IS ANY SIZABLE OPPORTUNITY THAT, IF LOST, COULD CAUSE CACI BE BELOW THE LOW END OF THE FY16 REVENUE GUIDANCE RANGE

Rob Spingarn: Okay. And then I had one on the revenue side. Within the guidance, is there any sizeable, let's call it a swing contract, but any sizeable swing contract decision perhaps like the classified you talked about in the second half, or anything where if the outcome is worse than what you've embedded or expected you would come in below the low-end of your revenue or earnings range. I'm thinking about things like the EAC contracts and so on that we've seen pop up in other places?

John Mengucci: We don't have any outliers, Robert. This is John. It's a typical lay down for us in the size of our re- competes. I think in past years, we had an EVA job and then we would have MEGA, which were large state change re-competes. We don't see anything there. Our win rate for re-competes continues to be north of 90 [percent]. Ken, if you want to talk about what would drive us to the low-end of the range, I think for the rest of the question.

Ken Asbury: The way we've laid out this plan, I think, is the low-end of the range would come is if they put more delays in it or we've tried to factor – we've tried to factor as best we learned from 2015, the contracts that we thought were going to be protested. We didn't add enough time in 2015 – excuse me – in 2016. We added more time to those contracts that we think could be protested because they represent somebody else's business that we're trying to take away. But I think that – I don't see any single major contract that would – there's some large ID/IQ over the course of the next six months as the RS3 and – RS3 is the convergence of R23G and S3. We've been on both. We've done well on both. But that's a big ID/IQ. I believe that we'll be successful there once that happens. But I don't see another single contract that would derail us.

Operator: Thank you. And our next question comes from the line of Brian Kinstlinger of Maxim Group. Your line is now open.

QUESTION ON THE TWO CURRENT OUTSTANDING PROTESTED AWARDS

Brian Kinstlinger: So, the first question I had I think if I heard it right, you had two protests outstanding for $375 million with a resolution in the third quarter expected Fiscal 2016. If I heard that right, I'm curious why it's taking so long, that will be more than a year, and maybe you can highlight those two large awards and maybe some more specifics on where they are.

John Mengucci: Brian, this is John. Yes, $375 million, two awards. And when we talked about FY 2016, sort of, an average of 100 days, right? So, when these two jobs are examples of GAO taking the full 100 days and putting their decision out there, in each of these cases, Brian, what the customer is struggling through, or has yet to come out clearly on, is what corrective actions they are going to take.

The IPPS-Army job is probably the best example. That went a full term and then the corrective action was to issue some ENs, a couple of evaluation notices, to us to provide some additional clarity and then the army took a period of time to re-evaluate everyone's proposals, and there is no time limit on that. So that happened on IPPS- Army.

If you look at IPPS-Army, that job was submitted in 2014. It was decided upon second quarter 2015. We're just starting that work now. So those two jobs are in that same type of situation today. Probably the most important part of that, Brian, it's about $20 million to $25 million of revenue that begins small in the third quarter and starts to ramp up in the fourth quarter. So not a large revenue driver; however, we're still waiting to understand what that corrective action is going to be.

QUESTIONS ON HOW MUCH REVENUE IS SHIFTING TO COST PLUS CONTRACTS AND HOW THE PACE OF AWARDS IN THE JUNE QUARTER

Brian Kinstlinger: Okay. Thanks. And then a follow-up I've got. First of all, I'm curious if you mentioned how much revenue you expect is shifting through cost-plus from 2015 to 2016. And then, if I missed it, did you talk about how the June quarter awards are shaping up or how you expect the seasonally strong September quarter to play out?

Ken Asbury: Brian, this is Ken. June quarter is shaping up as just sort of a normal year. We haven't seen anything—we've been waiting on a few – we've seen a few results, but I think that looks fine from our perspective. It's in line with our plan. We've got a couple more days and we anticipate a few more things coming in before that. But, I don't see any real major – anything major. It's more of a typical quarter than first or second quarter was this year.

John Mengucci: Brian, on your other question, I looked at fixed price versus cost-plus in FY 2015—that looks like it will be something around 50% cost-plus and 30% fixed price. The FY 2016 revenue today—it looks more like 45% cost-plus and 35% fixed price. So a somewhat material move more towards fixed price work, which is roughly representative, Brian. I believe our solutions content went from 40% to 44% between 2015 and 2016, if that helps.

Operator: Thank you. And our next question comes from the line of Cai von Rumohr of Cowen & Company. Your line is now open.

QUESTION ON WHETHER MANAGEMENT ASSUMED THE GOVERNMENT WILL BE OPERATING UNDER A CONTINUING RESOLUTION IN FY16

Cai von Rumohr: Yes, good morning, guys and thank you for all the granularity in your guidance. That's very helpful. A big picture question; have you assumed a CR in your plan? And if so, how is it embedded in the plan?

Ken Asbury: Great question. So the plan is based on what we see in the procurement pipeline and the schedules associated with it. So it is very detailed at that level. We've sort of operated, I think, four years out of six years recently in a CR kind of environment. And I don't know how that's going to shape out now.

Right now, as I said earlier, Cai, there is a bit of optimism when you talk to folks about where the budget is going to end up. When they get to that agreement—could be unusual. But, we have not specifically done any tailoring to reflect the CR. We've done a lot of things with timing and with mostly factoring timing of when a procurement will be let and awarded and things of that nature.

It's sort of hard to lay the CR on top of it. As you know one of the things that we do look for—there are not a lot of new contracts in our plans that would be new capability or that sort of thing. We tend to be in a re-competition oriented market, where there are existing capabilities that customers have the continuing needs for.

QUESTION ON WHAT FACTORS ARE PREVENTING MARGINS FROM INCREASING MORE THAN WHAT MANAGEMENT HAS GUIDED TO

Cai von Rumohr: Thank you. And the second, the follow on. As I recall, OPM startup expenses were pretty sizable in the first-half. I can't remember exactly, but like $20 million. And then you mentioned the pretty dramatic mix shift from professional services to solution, the dramatic mix shift from ODCs to direct labor, all mix shifts and items that should be quite powerful in terms of improving your margins. And yet you’re really only forecasting, it looks like, 30 bps to 40 bps in margin improvement. Maybe tell us about other – about the headwinds. And do you characterize your guide of 7.5% plus as conservative and, hopefully, a lowball or are there other things we should consider? Does it look like there are either other negatives or your number might be low?

Tom Mutryn: Cai, this is Tom. I'll take a first crack at that, and maybe Ken and John would like to elaborate. Your observations are spot on. There is some positive movement in terms of margin going into 2015, 2016 rather: OPM you mentioned, greater solution content, fixed price content, ODC/DL mix.

Unfortunately, the reality is there is a variety of offsets and we've been seeing some pricing pressure. We spoke about some of the re-competes that we won in FY 2015. We're going to be executing on those in FY 2016. And those are, in some cases, no longer highly profitable fixed price work but lower margin, cost plus work. And it is somewhat endemic, broadly speaking, about the government's focus on cost and budgetary pressures. We're responding; our competition is responding. In order for us to be successful in winning some of our work, we need to sharpen our pencils in many cases. And so that's an overall theme, which is the negative theme offsetting those positive aspects that you mentioned.

Operator: Thank you. Our next question comes from the line of Steven Cahall of Royal Bank of Canada. Your line is now open.

QUESTION ON HOW MUCH OF INDIRECT COSTS AND SELLING EXPENSES ARE FRINGE BENEFITS IN FY16 AND FY15 AND THE FORWARD TREND

Steve Cahall: Good morning. Maybe a first question, just maybe to follow-on Cai's regarding margin. I think I saw on the release there was a mention of the impact of fringe benefits. And it looks to me like the indirect cost selling expenses is going to up on the year, higher than it's been in a while. So I was wondering if you can just give a sense of how much fringe benefit is in there in 2016, and also what it was in 2015 to give us a sense as maybe how that is in there. And then, also as we think even a little bit further forward, does fringe benefit eventually tail off because of the way the personnel move around?

Tom Mutryn: Okay. Let me try to take that up. The way we classify our numbers, our fringe expense, which is vacation, 401(k) match, FICA tax and the like, shows up in our indirect expense, not in our direct costs. For a typical employee, the fringe expense is approximately 30% of salary, is a good rule of thumb. We provide information on their direct labor expense, fringe around $1 billion, I think, last year, so fringe in total would be around $300 million.

As I said, we include our fringe in our indirect expense, which includes fringe on our direct labor. And the reason why the indirect expense is up is because direct labor is growing. It's volume related. It's not higher fringe benefits for an employee, but we simply have more employees, which is a good thing. And so this is an expense we like incurring because it demonstrate that we're growing the business.

Excluding that, our indirect costs are flat, kind of which is a kind of testament to a variety of things that we're doing as a company. There is wage inflation. We're planning to give our employees pay increases consistent with the market. There is benefit inflation, medical cost inflation. And facilities typically increase, based on annual escalations and various lease agreements.

And we're offsetting that by focusing on efficiencies through the organization—how can we do more with less? Continuous improvement, various processes. And this says two things: number one is ensure that we're competitive from a rate perspective. We can win business because we have competitive rates. And it also adds to the bottom line. And so, very proud of the efforts in those particular areas.

QUESTION ON HOW MUCH DEBT WILL BE PAID DOWN IN FY16

Steve Cahall: Right. And then, maybe a second question on cash. Do you have an expectation for how much debt you might pay down next year?

Tom Mutryn: **G**ood question. We're around, I believe, $1.1 billion of debt; our operating cash at least $200 million. In the absence of acquisitions, we will use 100% to pay down debt. So, I would imagine our debt is coming down.

We have a lot of flexibility in our credit agreement. We have a term loan, which is harder to pay down, but a good portion of the debt is revolver debt. And so, I would expect that outstanding balance would come down in the absence of acquisitions. We continue to look for opportunities. And as those arise, we will put that cash to work to make long-term investments in the business.

Operator: Thank you. Our next question comes from the line of Jon Raviv of Citi. Your line is now open.

QUESTION ON WHETHER MANAGEMENT HAS A LONG-TERM OPERATING MARGIN OBJECTIVE

Jon Raviv: Thanks so much for letting me on the follow-up. Just following up on the margin question. Within the business, is there some sort of long-term target that we should think of: 7.5%, 8%? Is there some sort of fair margin that you guys think about?

Ken Asbury: This is Ken, Jon. The business has changed. In a previous life doing the same kind of thing, we were in low-single digit to high – excuse me, high-single digit to low-double digit, in terms of operating margin. With the competitive pressures of the market now, there are going to be those circumstances where we'll find the right kind of program that will be optimally managed, and we'll produce more margin than some of the rest. So it's going to be a mix going forward.

I think as John indicated a few moments ago, as we switch our mix more to fixed price – and particularly fixed price solutions over in the long-term — we should have expectations to get into higher single digits over the next three to four to five years.

QUESTION ON THE EXPECTATIONS FOR DAYS SALES OUTSTANDING IN FY16

Jon Raviv: Okay. Great. And then a very quick follow-up: DSO expectations for next year driving the $200 million – the cash guidance? Thank you.

Tom Mutryn: So, if I look at our operating cash flow, one can build it off looking at net income and adding non-cash expense—depreciation, stock comp, deferred taxes and the like. And implicit in our guidance is that working capital is not too different than where it was this past year—the amount of working capital we need to run the business. The two components are our payables and our receivables. Again, implicit is DSO will be very similar to where they are this year – last quarter DSO was 61 days.

The caveat is that DSO fluctuates, and our second quarter DSO was 67 days due to some unpredictability of our payments in the government payment offices. But somewhat flattish DSO compared to where we are today.

Operator: Thank you. And our question comes from the line of Tobey Sommer of SunTrust. Your line is now open.

QUESTION ON THE TWO CLASSIFED CYBER OPPORTUNITIES MENTIONED EARLIER IN THE CONFERENCE CALL

Tobey Sommer: Thank you. Just had a follow-up question on the two significant cyber opportunities. Could you clarify if those are in the second half of the Fiscal 2016 or Calendar 2015? And do you expect them to be widely bid or a narrow set of competitors due to, perhaps, the scale and the requirements? Thanks.

Ken Asbury: Tobey, this is Ken. They are – in fact, I think one RFP, or a draft RFP is out now – or due to be out. So they will be awarded in the second half of our FY 2016. That's one of them. The other one, I believe, is going through a different kind of down-selection process—started with a fairly broad group. And it has been through a series of steps, gone down to, I think, three. We're one of three or maybe four left, and there are several more stages also scheduled to be awarded in either at the end of second quarter or the beginning of third quarter. The first one has a very, very limited set of competitors. The second one had a broader set, but is being down-selected on the basis of technical capability.

Tobey Sommer: Thank you very much for the color.

Ken Asbury: You're welcome, Tobey. Thank you.

Operator: Thank you. And our next question comes from line of Bill Loomis of Stifel. Your line is now open.

QUESTION ON THE DEPRECIATION AND AMORTIZATION AND INTEREST EXPENSE FOR FY16

John Ladewig: Hello, gentlemen. This is John Ladewig for Bill. I just have a quick question about – actually more specifically, if you guys could give us some color on your depreciation and amortization expenses as well as the interest expense for next year? It seems a little bit higher and I just want to get a little bit more information about your expectations.

Tom Mutryn: For depreciation and amortization expense, we expect it to come down versus FY 2015, primarily due to lower intangible amortization associated with periods – acquisitions. The profile of the intangible amortization expense is non-linear and greater intangible amortization earlier on in the period. As older acquisitions mature, we see less amortization expense.

In terms of interest expense, we have a couple of things going on. One is, we expect to pay down our debt, so we have lower debt balances. That's offset by two things. One is approximately half of our debt is floating at this point in time. And that floating kind of rate debt is tied to LIBOR. We're expecting modest increases in LIBOR kind of during FY 2016, hard to forecast interest expense, but we put a little increase in the plan, which we felt was appropriate.

In addition, half the debt is fixed. We used swaps to fix some of those debts. And the swaps, some of those kicked in on January of this year and one is kicking in July 1 of FY 2015. And so, we'll get a full year impact of the higher interest expense as we lock in longer-term rates. Instead of paying LIBOR, we're paying one-sixth—2% on the swaps, consistent with the swap curves when we enter those arrangements.

QUESTION ON CONTRACTS WITH LOWER MARGINS AFFECTING THE FIRST QUARTER OF FY16

John Ladewig: I appreciate it. Then just one follow-up. I'm just curious about the, getting some color on couple of the big wins that had low margins impacting that first quarter of 2016.

John Mengucci: John, this is John. We don't typically single-out individual programs and margins. What I can tell you is that over the large expanse of re-compete revenue that we had, if you think about 15% of $3.3 billion, about $400 million to $500 million of our business is re-compete during any specific year. At a macro level, we always have seen both top line and bottom line re-compete pressures; more when it goes pure price to LPTA, less when it is decided on by best value.

Operator: Thank you. And I'm showing no further questions at this time. I'd like to hand the call back over to Ken Asbury for any closing remarks.

CEO CLOSING COMMENTS

Ken Asbury: Nicole, thank you very much for your assistance. And thank you to everyone who dialed in or logged on to the webcast for their participation and interest. We know that many of you will have further questions, and Tom Mutryn and Dave Dragics and Jeff Christensen will be available for calls throughout the day. Thank you for your interest in CACI, and have a good day.

Operator: Ladies and gentlemen, thank you for participating in today's conference. That does conclude today's program. Have a great day, everyone.

END

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