CACI INTERNATIONAL INC
Moderator: Ken Asbury
October 29, 2015
8:30 a.m. ET

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the CACI International First Quarter FY16 Conference Call. Today's call is being recorded. At this time, all lines are in listen-only mode. Later, we will announce the opportunity for questions, and instructions will be given at that time. [Operator Instructions] 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 the analysts.

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

INTRODUCTION AND SAFEHARBOR STATEMENT

David Dragics: Thanks, Chelsea. 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. As is our practice, we are providing presentation slides so let's move to slide number 2.

Let's talk about our written and oral disclosures and commentary. There will 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 earnings release and are described in the company's Securities and Exchange Commission filings. Our safeharbor statement is included on this exhibit and should be incorporated as part of any transcript of this call.

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

Let's turn to slide number 3 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 FY16 first quarter results. With me this morning are John Mengucci, CACI's Chief Operating Officer, and President of US Operations, Tom Mutryn, our Chief Financial Officer and Greg Bradford, Chief Executive of CACI Limited who is joining us from the UK. Please turn to slide 4.

Our performance this quarter indicates that we are on track to achieve organic revenue and net income growth in Fiscal Year 2016. We remain confident in our strategy to win business, deliver operational excellence and deploy our capital for growth opportunities. We are reiterating our full year fiscal 2016 guidance. We won over $1.9 billion in contract awards this quarter securing key new solutions business and a large amount of recompete business that reflects positively on our continued delivery of value to our customers. Our cash flow in the quarter was strong and we built our backlog to a record level. We had modest gains in revenue driven by growth on existing contracts and the new business we won in Fiscal Year 2015. Our net income was higher than expected largely due to favorable timing and our team delivering outstanding performance on several existing contracts. Tom and John will discuss these financial and operational highlights in their remarks.

Please turn to slide 5. Looking at the market, we saw a normal award activity in the first quarter under the existing budget. Since then several new developments are contributing to increasing market stability. First as you know, a continuing resolution has funded the government through December 11th. Second, a new bipartisan budget agreement that would raise budget caps for both defense and non-defense spending in 2016 and 2017 government fiscal years has passed the House and is going to be considered by the Senate in the next few days. We view this legislation as a positive development for our customer's ability to plan and increased stability for our industry. In addition, once it is passed, the recently vetoed National Defense Authorization Act would then be adjusted and passed by Congress and sent to the President for his signature. Third and final, the administration has decided to alter the pace of the Afghanistan draw down. Now, we haven't assessed the impact of all of these recent developments on our business. As these events play out, we will continue to work closely with our customers to understand their requirements, budgets and procurement schedules and the overall impact on our Fiscal 2016 plan.

Let's turn to slide 6, please. We're coming up on the second anniversary of our acquiring Six3 Systems. I've mentioned before that we've been looking to take advantage of the many opportunities arising from that acquisition and today we have one that I can actually talk about. Earlier this month, we entered into a co-operative research and development agreement with a federal agency to test a system we developed that detects, identifies, and tracks recreational drones.

We are very proud to be part of this research initiative, which responds to escalating challenges from inadvertent or intentional misuse of recreational drones around airports. Our participation is also an excellent example of how our long-term thinking will drive our future success.

We developed our drone detection identification and tracking system as a direct result of the highly specialized capability in cyber and digital signals processing we gained from the acquisition of Six3. And that overall positioned CACI in areas of increasing importance to our customers and to our nation. John will provide more color on our UAS solution and a few of the other program wins in his remarks.

Overall, I am quite pleased with how we have started the year. Our first quarter results are consistent with our plan to grow organically in FY16. We are confident in our position, in our strategy and in our ability to deliver long-term value to our shareholders.

With that, I'm going to turn the call over to Tom for his comments on our financials. So, Tom?

FINANCIAL OVERVIEW

Tom Mutryn: Yes, thank you, Ken and good morning everyone. Let's go to slide number 7.

Our first quarter of earnings per share and net income were strong with net income 8.6 percent ahead of last year. These results were driven by solid performance on a number of programs and lower amortization expense. Earnings were also ahead of our plan and our initial expectations. The favorable variance was largely due to timing on certain programs, product sales and of award fees resulting in recognition of earnings earlier in the year than planned.

Revenue in the quarter was up slowly over last year's first quarter. Our direct labor increased just under 5 percent while our other indirect costs declined 4 percent.

Indirect costs and selling expenses were around two percent above last year, driven by the growth in fringe benefit expense tied to our direct labor increase, which is classified as an indirect expense.

Slide eight, please. DSO, or day sales outstanding, was 58 days, an improvement of two days from the June quarter.

Operating cash flow in the quarter was $78 million, and trailing 12-month free cash flow is $171 million. And our annualized free cash flow yield is 8.2 percent per share at an $85 share price.

Debt at the end of September was just under $1 billion and our net debt to trailing 12 month EBITDA leverage ratio is now just under 3.2 times.

Turn to slide number nine please. We are off to a solid start for FY15 and are reiterating our FY16 guidance with revenue between $3.3 billion and $3.5 billion and net income between $130 million and $140 million. We also continue to expect operating cash flow to be greater than $200 million.

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

OPERATIONS OVERVIEW

John Mengucci: Thanks, Tom and good morning, everyone. Let's turn to slide 10, please.

Our first quarter results show we're off to a good start to Fiscal Year 2016. I'm pleased with our continued performance and especially our ability to deliver organic revenue and net income growth this quarter. Performance enhancements on some of our fixed priced programs, product deliveries and better award fees were key elements of our FY16 fiscal year plan. As Tom mentioned in his comments, we saw shifts in the quarterly timing of some of these items but for the fiscal year, they are as planned.

We're executing well on the record wins from FY15 and I am proud of our team's ability to expedite delivery of program requirements and program financial commitments. We continue to win new and recompete business while growing our existing contract base. Our recompete success demonstrates the value our customer place on the work we currently perform.

Examples of many these recompetes and new business wins are:

- Continuing work performed for the naval air warfare center in support of advanced communication systems for America's special operations forces.
- Continuing a new work performed for military health customer to fuse and analyze critical data through the use of cloud based big data, visual analytics and advanced algorithms which enhanced the quality of treatment.
- Continuing and expanded work to enhance broadcast station reliability, cost efficiency, emission success for FEMA's national public warning system, the nationwide alert and warning system that issues emergency information to all the Americans in the event of a national crisis.

- And new business for CACI providing technical and engineering expertise to the army's research, development and engineering command in the development of better night vision and infrared capabilities.

Slide 11, please. As Ken mentioned earlier, we entered into a research and development agreement with a federal agency regarding unmanned aircraft systems. In addition to detecting, identifying and tracking commercial drones, our system has a unique capability to identify their ground-based operators in order to help protect national air space from inadvertent or unlawful misuse of drones within a 5 mile radius of airports.

The government launched this research program in May, 2015 to help integrate commercial drones into the US national air space. Our system will help ensure a safe, shared air space while supporting responsible UAS operations. We are extremely excited to participate in this effort to protect airports and other environments under temporary flight bans such as the California wild fires that ravaged the West Coast this past fire season. Beyond this R&D initiative our proprietary technology has wide applicability outside of the airports and the protection of infrastructure or events. For example, anywhere drones could pose a potential risk to people or assets.

Slide 12 please. As I look to the rest of our fiscal year, I'm confident in our team's ability to deliver within guidance and return to organic growth. Our annual revenue expectation now consists of 90 percent existing business, 8 percent recompete and 2 percent new business. Our existing contract revenue is 74 percent funded, very similar to prior years. This position is a result of a new and recompete business we won in Q1 and work added to existing contracts. The majority of these add-on's are additional scope being incorporated into our recent solution wins, reflecting the value we provide and the importance of the missions these contracts support.

Slide 13 please. Our pipeline remains healthy. We are currently awaiting decisions on nearly $12 billion of submitted bids, about 40 percent of which are for new business to CACI. We plan to submit another $11 billion over the next six months, 75 percent of which are for new business. This pipeline attests to our organization's focus on critical missions in each of our market areas.

We do still have two protests of FY15 awards totaling $375 million that we are awaiting resolution. As we said previously, we expect favorable determinations and plan to start executing by our third quarter.

All in all, it's great to return to deliver revenue and net income growth in the first quarter. The team is performing well and gives me confidence in our ability to meet our plan and deliver organic growth this fiscal year.

With that, I'll turn the call back over to Ken.

CEO CLOSING COMMENTS

Ken Asbury: Thank you very much for your comments, John and Tom. Appreciate it. Let's turn to slide 14 please.

Our first quarter results demonstrate that we're off to a strong start and on track to achieve the organic revenue and net income growth that we planned for this fiscal year. I want to thank all of our employees for their hard work, innovation and great character that delivered all of this value to our customers and underpinned this first quarter performance. Thank you all for that.

Going forward, CACI will continue to support critical national missions, helping our defense, intelligence and federal civilian customers counter emerging threats and respond to evolving requirements in new and innovative ways. We're focused on our long-term strategy and remain confident that by executing on that strategy we will deliver long-term shareholder value. Thank you very much and now I would like to open the call up to your questions. So, Chelsea?

Operator: Thank you. Ladies and gentlemen, if you have a question at this time, please press star and then the number one key on your touchtone telephone. If your question has been answered or you wish to remove yourself from the queue, please press the pound key. We ask that you please limit your question to one question and one follow-up question today. And as a reminder, we're only taking questions from the analysts. One moment for questions.

And our first question comes from Steve Cahall, with the Royal Bank of Canada. Your line is now open.

QUESTION ON AWARD FEES IN THE FIRST QUARTERS OF FY16 AND FY15

Steve Cahall: Thank you, good morning.

Ken Asbury: Good morning, Steve.

Steve Cahall: The first question on the award fees. I was wondering, it would be great if you could break them out but if you're not willing to do that, would you give a sense of what the margin did on a like-for-like award fee basis versus the quarter last year?

Tom Mutryn: Yes, Steve, this is Tom. As we mentioned, there were a few things which contributed to the strong quarter versus our expectations. One was award fees, probably the smaller of the three items. There was one reasonably sized award fee which was due in the second quarter that came in earlier than expected. We had some product sales in a number of programs that performed better than expected. In some instances, we had some investment activity planned in the first quarter that was shifted to the second and third quarter. In other instances, we accelerated some work, some changes to contracts, fixed price plans, which we executed earlier than anticipated. So those three contributed to the greater than anticipated results and the greater than expected margin in the quarter of a 7.8 percent operating margin. I don't have, on a year-over-year basis, what the like contribution would be.

That being said, for the full year we are maintaining our guidance. Those three items were largely timing within the year. And we're still maintaining our operating margin guidance for the full year.

QUESTION ON WHAT COULD CAUSE CACI'S FY16 RESULTS TO BE IN THE UPPER RANGE OF THE FY16 ANNUAL GUIDANCE

Steve Cahall: OK. And then if we think about the guidance for the year, there's a pretty sizable range in terms of your revenue growth and your earnings. So what are the kind of puts and takes that we could see throughout the year that would bring you in at the higher end versus the lower end of those?

Ken Asbury: Yes, Steve, this is Ken. Probably the biggest determinant of that is going to be the pace of government awards. The award activity was pretty reasonable in the first quarter—I mean sort of typical for government year end. We certainly booked what we were looking for during that period of time.

It's in the second, third and fourth quarters, if we saw a pickup in pace of awards. A couple things could be driving that. One, if this budget agreement does provide the stability and confidence we all believe it does, that could speed up the pace. But that is probably the single largest determinant right now.

I think, certainly speaking for ourselves and throughout the industry, everybody is doing a good job of writing good proposals these days. It's the speed at which the government wants to award them that I think dictates where we may end up at the end of the year.

Tom Mutryn: And I will add that, in terms of the net income guidance range, that's susceptible to various accounting reserves, DCAA-related reserves, award-fee timing, tax rates, interest expense and the like. And so, often times, one or two sizable items has a disproportionate impact on our net income.

Operator: Thank you. And our next question comes from Edward Caso with Wells Fargo. Your line is now open.

QUESTIONS ON HOW MUCH OF THE NEW WORK WON IS TAKEAWAY BUSINESS AND ON PRICING TRENDS ON THE NEW WORK

Tyler Scott: Good morning. This is actually Tyler Scott on for Ed. Thanks for taking my questions. Obviously, some pretty good bookings and a seasonally strong quarter. I believe about 50 percent were for new work. Could you just talk about how much of that new work is new new work versus kind of takeaways and then maybe some of the pricing trends you're seeing on new work versus the take away work?

Tom Mutryn: Tyler, a clarification. In our press release we said that over half of the awards were for recompete business. The other two categories are growth on existing work as well as new awards. Our new awards in the quadrant were approximately 20 percent. I'll throw the rest of the answer over to Ken or to John.

Ken Asbury: The other characterization of that work, I would say, is that of the new work that we did win, a lot of it would be existing contracts that we were successful in convincing the customer that we would have a better value proposition than the incumbents.

John Mengucci: Tyler, this is John. You also asked about how the pricing environment works. You know, we're not seeing anything materially different at this point as we have from previous quarters. It still remains very competitive out there. Critical solutions mission work, frankly, still commands a premium over things that are more commoditized in nature.

On the LPTA front, you know, [it] still seems to be being used but maybe one change there is it's being used more for commoditized professional services work rather than as broadly as it was used initially. So it seems as though the government's changing how they're using LPTA. I think Better Buying Power 3.0 is a step better than where we were at Better Buying Power 1 and 2. And we are seeing best value acquisitions across both our solutions and our services markets.

Operator: Thank you. And our next question comes from Cai Von Rumohr, with Cowen and Company. Your line is now open.

QUESTION ON THE OPERATING MARGINS ON THE NEW BUSINESS WON IN THE FIRST QUARTER RELATIVE TO THE CORPORATE OPERATING MARGIN

Ken Asbury: Good morning, Cai.

Cai von Rumohr: Thank you very much. I've joined from another call but if it hasn't been asked, of the 20 percent of the awards that are new work, do the margins on that business, where are they in line with the corporate average?

John Mengucci: Cai, this is John. As in past quarters, the 20 percent new, you know, [is] very comparable to what we're looking for, just slightly north of the 7.5 [percent] range if we're talking operating margins. There wasn't anything that stood out on a high end or on a low end.

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

QUESTION ON OPERATING MARGIN COMPARISONS OVER THE NEXT SEVERAL QUARTERS

Kwan Kim: Hi. This is Kwan Kim in for Tobey. Are there any [margin] comparisons that we should keep in mind from recent quarters as we look out over the next several quarters? Thank you.

Ken Asbury: Kwan, I'm not sure I caught the beginning of your question. What kind of comparisons are you looking for?

Kwan Kim: Changes in margins.

Ken Asbury: Got you. Fair enough. As I think we've talked in the past—this is Ken by the way—we talked about how we're going to drive higher solutions content and fixed price content into our business when those opportunities present themselves. And we believe that's what's going to drive higher margins into our business over time. Where we can come up with unique solutions to solve particular problems, I believe that's going to command higher margin and that's going to draw more of our attention as we see those.

The discussion that I brought up, and that John gave a little bit more color on with regard to drone activity, the detection of that—we think that's one of those problems where we may have a unique opportunity to do a large scale solution over time. And that would have better margins than some of the other bids that we've been doing more, traditionally.

Operator: Thank you. And our next question comes from Josh Seide, with The Maxim Group. Your line is now open.

QUESTION ON WHY NEW BUSINESS AWARDS IN THE SEPTEMBER 2016 QUARTER WERE LOWER THAN THE PREVIOUS TWO SEPTEMBER QUARTERS

Josh Seide: Your bookings for new business were a little low compared to the last two September quarters. Is that a function of lower win rates or otherwise. What other factors might help explain that?

Ken Asbury: Yes, fair enough. This is Ken. Look, we've been working on shot selection now for quite some time and, you know, to us it is a game of the quality of the things that we're pursuing, not of the absolute quantity. If you look at—and I appreciate you bringing it up because it's actually going to be part of what we thought about—we've had very good bookings the last three years in this quarter. So as we look forward, I'm not going to play a game where I'm looking at three, five times, you know, kind of book-to-bill ratios. I'm looking for being able to get the right kind of solutions work at the right time into our business. So we're very pleased with where we are and I'll ask John if he wants to add couple things to that.

John Mengucci: Yes, sure. As we've noted numerous, numerous times, awards are extremely lumpy. We do our best to try to predict award levels on a quarterly basis but it's just not prudent. What I can tell you, though, is based on our Q1 award results, 75 percent of our new business revenue was solved with both new new and on contract mods, and about 50 percent of our recompete revenue awards are in backlog now as well.

So in addition, [we have a] very healthy pipeline. Pending awards are $12 billion. Almost $11 billion we plan to submit in the next six months. We know how to win, which was witnessed by our FY15 record wins. This coupled with an appropriately time-factored plan really gives us plenty of confidence for us to achieve our Fiscal Year 2016 guidance.

Operator: Thank you. And I'm not showing any further questions at this time. I would like to turn the call back to Mr. Dave Dragics, Senior Vice President of Investor Relations for CACI International.

David Dragics: this is Dave Dragics, we've been informed that the conference call provider's having problems with an issue on their bridges, and I know that a number of you have had difficulty dialing in. So we'll give it – I guess we can give it some time for other people to get through, but everyone seems to be having a problem dialing in with the – through the current provider. So if you could just stand by, we'll check and see if we can get some of you through.

Operator: Ladies and gentlemen, please stand by. Your conference call will resume momentarily. Once again, thank you for your patience and please stand by.

[Ends Abruptly]

CONTINUATION OF THE FIRST QUARTER EARNINGS CONFERENCE CALL

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Continuation of CACI International First Quarter Fiscal Year 16 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. If you should need any assistance during the call, please press * 0 and someone will help you. A special reminder to our media guests who are listening in: Please remember that during the question and answer portion of the call, we are only taking questions from the analysts.

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

SAFEHARBOR STATEMENT

David Dragics: Thanks, Eric, and good afternoon, 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 this afternoon, given the short notice as a result of the technical problems with the provider of this morning's call. We certainly do apologize for the inconvenience.

This morning, we provided presentation slides which are available on our website, www.caci.com. So, referring to slide number 2, our safeharbor statement regarding our written and oral disclosures and commentary. There will 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 and factors that could cause our actual results to differ materially from those we anticipate are listed at the bottom of last evening's earnings release and are described in the company's securities and exchange commission filings. And our safeharbor 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 Q&A session today will 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.

With that, to continue our discussion from this morning, here's Ken Asbury, President and Chief Executive Officer of CACI International. Ken?

CEO SUMMARY OF FIRST QUARTER

Ken Asbury: Well thank you, Dave, and good afternoon, everyone. Thank you for joining us again today to continue our discussion from this morning. With me, again, are John Mengucci, CACI's Chief Operating Officer and President of US Operations, and Tom Mutryn, our Chief Financial Officer.

Just to recap our comments from this morning, our performance this quarter indicates that we are on track to achieve organic revenue and net income growth in Fiscal Year '16. We remain confident in our strategy to win business, deliver operational excellence, and deploy our capital for growth opportunities, and we are reiterating our full year '16 guidance. We won over $1.9 billion in contract awards, securing key solutions, new business, and a large amount of recompete business that reflects positively on our continued delivery of value to our customers. Our cash flow in the quarter was strong, and we built our backlog to a record level. We had modest gains in revenue driven by growth on existing contracts and on the new business we won in FY15. Our net income was higher than expected due largely to favorable timing, and our team delivering outstanding performance on several existing contracts. We're very excited to enter into a cooperative research and development agreement with a federal agency to test the system that we developed that identifies, detects, and tracks recreational drones. We'll have more on that in the Q&A. So with that, let's open up the call for any questions. Eric, we're ready now.

[Operator Instructions]

Operator: And our first question comes from Bill Loomis [of Stifel Nicolaus]. Bill, please go ahead.

QUESTION ON THE TIMING OF PENDING AND SUBMITTED AWARDS DURING FY16

Bill Loomis: Hi, thank you. Just on the leading indicators on the $12 billion that you actually have pending. You said 40 percent for new business, and then on the $11 billion over the next 6 months, 75 percent for new business. So it looks like you've got a lot more recompetes coming up in the near term—or at least what's submitted. And you said eight percent of the guidance depends on recompetes wins. Can you just talk about that a little more—the timing of them? Is it likely we see them pushed out like we have in past periods? Or have those already been pushed out and we probably are going to see the award near term?

John Mengucci: Yes, Bill. This is John. So your facts and figures are spot on. We have solution and have been award about half of our recompete revenue for FY16 plan. Clearly, every year we do have an effect of bridges [bridge contracts], and we would expect that to be no different than it has been in past years. So we've got about a little under half of our recompete revenue still out there that we have to bid on, and another portion of that that will be decided upon over the next six months. So, all and all, as we mentioned in the past, the awards are very, very lumpy. What's also another positive—we have a very healthy pipeline, as you mentioned, of pending awards of $12 billion, $11 billion that we plan to submit in the next six months. So that, coupled with an appropriately time-factored plan, still gives us plenty of confidence to meet our FY16 plan.

QUESTION ON THE AMOUNT OF RECOMPETE WORK THAT WILL BE PURSUED

Bill Loomis: Is there any chance you can give us some of the like the bigger recompetes, or at least how big they are as a percent of revenue or any more detail on that?

John Mengucci: Yes. Bill, if I were to look at our largest single contract in our entire portfolio it's less than 10%. For the recompetes that we have left, there's really no large standout. Our win rates in the past on our recompetes are always north of 90 [percent]. We would love to have it be 100, but nothing of a material value that remains for the next three quarters.

Bill Loomis: Okay, thank you.

John Mengucci: You bet.

Operator: And our next question comes from John Raviv [of Citi Research]. John, please go ahead.

John Raviv: Good afternoon, guys. Thanks for holding this. First question, do you guys make conference call equipment because I think there might be some market share opportunities?

Ken Asbury: We're actually looking into that as soon as we're done with this call.

QUESTIONS ON WHICH MARKET AREAS ARE DRIVING ORGANIC REVENUE GROWTH AND ON THE CHANGE OF FY16 GUIDANCE ASSUMPTIONS FOR DIRECT LABOR AND OTHER DIRECT COSTS

John Raviv: Yes, yes. That's why I took a couple hours off here. My real first question, thanks for humoring me, is on organic sales drivers. Which markets—end markets—outperforming others? And also, I noticed in your guidance that you kind of changed the ODC and direct labor mix. What's driving that, and wouldn't there be an impact on margin from that change in mix?

Tom Mutryn: John, this is Tom. I'll take the latter part about the ODC/DL mix, and I think John or Ken can talk about where the growth is in the marketplace. So we have had a reduction in our direct labor versus our plan for a variety of reasons. Some awards that we thought we'd win we were unsuccessful on. So that reduced it.

And a couple large protests that we had from 2015 were delayed longer than we anticipated. We initially anticipated favorable resolution closer to the first quarter. Now we're expecting resolution in the third quarter. That has been offset by some ODC growth.

Direct costs are generally about the same. And I will note that on more solution-based, fixed priced work, the distinction between direct labor and ODCs are less important because it's really the costs associated within the associated revenue. So, despite the fact that the DL is down a bit, we are maintaining our guidance during the forecast period.

John Mengucci: John, this is John. As for—I think the other part of the question was around markets and spread of what our current awards were. You know it's the same message as always. We had great performance across all of our markets. If I were to look at the recompete business, a lot of the recompete business came in our C4ISR market, in our Command and Control area, and in our Enterprise IT area. So that's at least through the first quarter, where we saw some of the greatest recompete awards. But again, we've got three quarters left. We've got half of that in our backlog now; so still remain very confident moving forward.

QUESTION ON THE EXPECTED PACE OF SALES GOING FROM FY16 TO FY17

John Raviv: Okay, and then not to get ahead of myself, but sales cadence. I hate to ask this, but sales cadence into FY17—do you expect to post greater growth in FY17 than in FY16? Or that would depend on where you finish this year in that zero to six range?

Ken Asbury: Yes, John. We're very comfortable talking about first quarter right now. You're kind of accelerating it a little bit. But let me tell you this. In our opening comments this morning, there are a few things around what's going on in the market that would have us believe that we're going to see additional stability. If the Bipartisan Budget Act does get approved—and it seems likely that it's on that [path]—we're going to see two years worth of planning stability for our customers, which you know after the last few, after the last nine months, they could really use,. And I think that will show up in terms of increased opportunity for all of industry.

Second of all, the cadence that we have right now with regard to new business, we secured over 50 percent in the first three months of our recompetes for FY16. That means later, as John indicated, later on down on the road, we're going to see much more attention being paid to either new start-ups or to takeaway contract opportunities.

So take that, I believe the market is going to be a little bit more agreeable and less uncertain going forward. And I would hope by the time we get to second quarter, we'll know exactly what we're going to do in FY17.

Operator: And our next question comes from Cai von Rumohr [of Cowen and Co.]. Cai?

QUESTIONS ON BIDS TO BE SUBMITTED AND ON WHAT THE TREND WILL BE FOR INDIRECT COSTS AND SELLING EXPENSES DURING FY16

Cai von Rumohr: Yes, thank you so much, guys. So your bids due to submit looks like it's kind of down from where it's been. And yet the revenue growth feels like it's sort of where it's been, maybe, a little bit better. So what does that imply for your indirect and selling expenses? Could they moderate as a percent of sales? And how should we look for them to move over the year?

Tom Mutryn: So Cai, this is Tom. For bids to be submitted, I have some history here. In 2014, we were around $8.5 to $9 billion. Those numbers increased [to] mid-$15--$14 -$15 billion. Now it's down to $11 billion. All in all, directionally, we're moving in the right direction. Those are lumpy, oftentimes. I think the good news is there is a robust pipeline. So that does not give us pause. And with the pending and to be submitted [bids], that really supports growth expectations. I think you're fine as far as that is concerned.

The second part of your question related to?

Cai von Rumohr: Well, it was really related to the expense side. You know—the SG&A. Were those numbers—are those going to moderate as a percent of sales?

Tom Mutryn: Yes, the intent certainly is. As we grow, it's easier to control the indirect expense that's a percentage of the enterprise. If an entity is contracting, that's a more challenging problem. But our goal is certainly to have an efficient organization, both to help our bottom line and to help us have competitive rates. You know that being said, we're a people-based business. Salary increases are normative and necessary to attract and retain people. We have benefit plans which are competitive benefit plans that have met up with inflation.

So those factors are at play, but at the same time we're working to drive the efficiencies—looking at our processes—investing in some automated systems and like to ensure that we have good, competitive indirect expense.

I will make one final note—the way we account for our indirect expenses. We include fringe expense associated with direct labor. So, oftentimes, we'll see an increase of our indirect expense, excluding that from fringe on direct labor, oftentimes. And this year, we expect our indirect expense to be flat. But with it, it will grow. But that's good expense, because it's supporting our customer base.

QUESTION ON THE TWO AWARDS STILL UNDER PROTEST

Cai von Rumohr: Great. Could you just give us a little more color? You mentioned those two protests--$375 million—you know, roughly each of them. What's the revenue run rate on each if they really get resolved? When might they resolve? And why have they continued to be with us? And why aren't they done as of now—because they've been around a while?

John Mengucci: Cai, this is John. I actually could not agree more with your last statement. However, both of those protests are currently in the corrective action phase. But I'll try to give you a little bit more.

One of those we just finished submitting additional information requested by the government, and we would expect a decision to be made relatively soon. On the second one, we provided additional information, and we're probably one more turn worth of data that they'll be requesting. The two remaining protests account for about $20 million of our FY16 revenue. We are very confident still that we will be successful on these awards. They will begin to contribute in third quarter.

And also of note, but to a much lesser extent in first quarter, we only had one small protest, but the value of that was very immaterial when compared to the full year revenue base. So hopefully that provides some additional color for you.

Operator: And our next question comes from Mark Jordan [of Noble Financial]. Mark, please go ahead.

QUESTION ON THE SHAPE OF THE REMAINDER OF FY16, GIVEN THE STRONG FIRST QUARTER

Mark Jordan: Thank you. You had obvious upside in the first quarter that you implied that was pulled in from latter part of the year. So you first led us--or gave guidance for Fiscal '16—you called for weaker first and second quarter and then have a strong build in the second half, as some of the new awards started to really ramp the second half of the year. If we're looking at the same model that had upside in the first quarter, what quarters should we take that upside out of? And what's your view, kind of, sequentially in terms of performance?

Tom Mutryn: Yes, Mark, and thank you. So we did have some upside versus our original expectations for the quarter by the three items that we articulated previously. Generally, that timing came from the second and third quarters in advance and into the first quarter. So that's essentially how the numbers are moving around.

QUESTION ON WHAT CAUSED EVENTS TO BE PULLED FORWARD AND THE EFFECT ON FUNDING OF CONTRACTS IN FY16

Mark Jordan: Okay. Also related to that, since you saw that pull in [ph], obviously it was customer driven, was that in essence a desire to spend available cash by the end of the governmental fiscal year, and since they did pull that in, would that imply incremental funds might be available in fiscal 16 on your contracts?

Tom Mutryn: Yes. I think some of it is not necessarily driven by year-end governmental funding. The product sales were episodic. We had the products available. And a couple of willing customers decide the award fees. I don't think there's anything with regards to year-end funding associated with the award fee. In the various programs we mentioned, where in some cases the government has some deliverables they wanted earlier. So I don't think the government funding, the end of the government fiscal year was driving it. But each of those has their own story associated with it.

Operator: Our next question comes from Brian Ruttenbur [of BB&T Capital Markets]. Brian, please go ahead.

QUESTION ON CACI'S HIRING PLANS GIVEN THE BACKLOG AND PIPELINE OF BIDS

Brian Ruttenbur: A couple quick questions as a follow up. So this has been hit on around the edges but are your plans to hire new personnel because of your strong backlog and pipeline? And when do you expect the hiring to start?

Ken Asbury: Yes, Brian, this is Ken. Well, we did start it. It started well into last year, and I think it'll continue into the foreseeable future as we win business. Some of the business that we won this year was recompete. In fact, a little bit higher level than the year before. And some of those contracts have grown through consolidation or just additional contract requirements. So we find ourselves needing to add people. Of course, there's always ongoing attrition in our industry as people make decisions to do other things. So we're hiring now, and we'll continue to hire into the foreseeable future.

Brian Ruttenbur: Okay. So you're hiring now, you're getting attrition. Are you net adding people to your current levels? Full time people?

Ken Asbury: Yes. I think based on the modest growth, I think I would have to say, yes, we are adding people, but I'd like to add more. It's sourcing them, finding them, and some specific cases where we have highly classified contracts. They are, you know, we're still looking for golden unicorns and things of that nature to put onto particular contracts. And so that's a little bit slower than some of our other business. But I think the hiring activity is doing just fine.

Tom Mutryn: And our direct labor expense, which is highly correlated, was up 5% on a year-over-year basis.

Ken Asbury: Yes, thank you, Tom.

Operator: And once again, If you have a question, please press * then 1 on your touchtone phone. And our next question comes from Jairam Nathan [of Sidoti and Co.]. Jairam, please go ahead.

QUESTION ON THE ANTICIPATED REVENUE FROM THE TWO PROTESTES AWARDS AND WHETHER IT WILL CONSIDERED NEW TO CACI

Jairam Nathan: Hi, thanks for taking my question. One clarification, did $375 million in protests, where is that? In which bracket is that? Do you put that in the slide 12?

John Mengucci: Let's see. This is John. If your question was is it considered new or—both are in the new side. So that $375 million, two separate awards, all considered new.

Jairam Nathan: Okay, so it is a two percent new business. Is that what you mean because that seems a little high?

John Mengucci: I'm sorry. Can you repeat?

Jairam Nathan: Is that in the two percent new business bucket that you have? Is that where it is?

John Mengucci: Yes, because if you look at how we talk about 90 percent is the existing and 8% is recompete, and 2% is new, that's the resulting revenue from it. So what you want to pull out of the $375 [million] is the $20 million worth of FY16 revenue. And that is part of our two percent [new business] which remains.

QUESTION ON THE UAS SYSTEM BEING DEVELOPED FOR A FEDERAL AGENCY

Jairam Nathan: Okay, great, thanks. And the UAS R and D—has it started or can you give us some timing? I don't know if you talked about it before.

Ken Asbury: Hi, Jairam, this is Ken. It has started. We're in the initial phases of picking sites, and sort of building the operating concept line. I imagine that over the course of the next six months we will complete the initial R&D phase somewhere in that neighborhood. John, is there anymore that you want to add to that?

John Mengucci: Yes, sure. I mean it's probably worth spending a couple minutes talking about this. It's certainly a relevant solution at this point in time. The rate of drone incursions in the terminal approach area is actually increasing at an alarming rate. And I'm certain that everyone out there on the call has been reading about those in the press. Our partnership with the federal government is to pilot our proprietary solution to locate, as Ken mentioned, not only the drone but the position of the operator in order for law enforcement and airport operations folks to quickly address that situation. Now, we do have a slice of revenue built into our FY16 plan. Based on the success of the pilot, we believe that we will see this grow over time.

What's important to realize, as Ken mentioned, around this timeline is the timeline of the financial potential solution needs to stay in step with the government policies on protection for these commercial drones. So we have a long list of requests from critical infrastructure providers for our system. So it's clear we have a strong demand signal. But the federal government still needs to sort out, for example, what is or isn't legal for a power plant operator to do to protect the airspace around that power plant? So again, the demand signal is high. That demand signal is going to continue for a long time, given the longstanding nature of this threat. And that, coupled with our unique early mover position, will drive growth over time. And we'll be absolutely certain to provide more updates as the opportunities develop.

QUESTION ON THE MIX OF REVENUE BETWEEN DEFENSE AND FEDERAL CIVILIAN GOING FORWARD

Jairam Nathan: Thanks, and just one more. Based on the $12 billion of proposals outstanding and similar type you'll be bidding on, over the next two or three years, does it change the mix between DoD and civilian? Or do you think it kind of remains the same?

John Mengucci: It's very representative of the current mix of business. Just as that number changes—the percentage which is Fed/civil or DOD changes—but for right now, as we stand closing up the first quarter it's very, very representative of what our first quarter revenue looks like.

Operator: And our next question comes from Edward Caso [of Wells Fargo]. Edward, please go ahead.

QUESTION CACI'S CAPITAL DEPLOYMENT PRIORITY AND THE BALANCE OF ORGANIC VERSUS ACQUIRED REVENUE GOING FORWARD

Tyler Scott: Hi, guys. It's actually Tyler Scott on again for Ed. It wouldn't be right if we didn't squeeze in a capital deployment question. Is there any change there? Maybe just some comments on what the M&A pipeline is looking like and how you guys are balancing organic versus inorganic growth moving forward?

Ken Asbury: Yes, Tyler. This is Ken. Nothing changed on our capital deployment plan. Our primary goal is to invest our capital to grow ourselves organically and then through acquisition when we find the right kind of companies. You know we've done—we believe our M&A investments are synonymous with that goal of how we grow the business and position ourselves in the market.

There's a lot of things happening in the marketplace today, none of them are exactly very clear, and our M&A pipeline is, I would say, active, but nothing out there that we're ready to talk about—or that we've even refined enough to decide whether it's an interest or not. So not much is going to change, I think, on that front. Although I will say that the marketplace itself—there are a lot of properties, some big, some small, some interesting, some less so.

QUESTION ON CACI'S EXPOSURE TO OVERSEAS CONTINGENCY OPERATIONS FUNDING AND WHETHER THERE IS UPSIDE TO CACI

Tyler Scott: Absolutely. Alright, great. Thanks for that. Maybe if I could just sneak one more in. I know this morning you mentioned the President's decision to kind of keep more troops on the ground in Afghanistan for longer. Could you quantify what your OCO exposure is there and maybe any other color you can provide on what the upside could be to you guys from that decision?

John Mengucci: Sure, Tyler. This is John. Yes, our FY16 plan—revenue—and we don't actually call it OCO. It's our Southwest Asia based revenue—was $140 million in the plan. It still remains that throughout the first quarter.

To provide a little more color, what we're not seeing is any additional scope or any material purchases driven by the sustained troop levels. There still is a possibility of that, if any at all, but it's just too early.

One example where it would not have an impact to us is that we typically provide ISR support for protection of a base or an operating position. So, whether those locations have 100 troops or 200 troops in them, it won't immediately directly impact the level of the goods and services that we provide. For right now, I would keep $140 million in your models.

Tyler Scott: Great. Thank you, guys, very much.

John Mengucci: You bet. You're welcome.

Operator: And we have no further questions at this time, and I would like to turn the call back over to Ken Asbury.

CEO CLOSING REMARKS

Ken Asbury: Well, thank you, Eric, and thank you for your help today. We appreciate that.

We'd like to thank everybody who dialed in a second time for your participation and your interest in CACI. Again, we apologize for the technical difficulties we experienced with the call this morning. We realize that your time is valuable, but the time that you spend with us, I hope we made it rewarding for you. We know that many of you will have follow-up questions. Tom Mutryn, Dave Dragics, and Jeff Christensen are available for calls later today. So this concludes our call, and thank you again for your interest in CACI. Have a very good day.

Operator: Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.

END