The information contained in this transcript, by its nature, reflects facts known to the company and its management at the time of the earnings release and conference call. All information contained in this transcript, including references to other press releases or public filings, should be read in the context of the latest available information in the company's releases or filings.

CACI INTERNATIONAL INC
Moderator: Ken Asbury
December 8, 2015
11:00 a.m. ET

Operator: Ladies and gentlemen, thank you for standing by and welcome to the CACI International 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. (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.

I will now like to turn the call over to Dan Leckburg. You may begin.

INTRODUCTION AND SAFEHARBOR STATEMENT

Dan Leckburg: Thank you, Paulette, and good morning, ladies and gentlemen. I'm Dan Leckburg, 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.

Now 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. Factors that could cause our actual results to differ materially from those we anticipate are listed at the bottom of this morning's release and are described in the company's Securities and Exchange Commission filings. Our Safe Harbor 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. Please turn to slide number 3.

To open our discussion this morning, here's Ken Asbury, President and Chief Executive Officer of CACI International. Ken?

CEO OVERVIEW

Ken Asbury: Well, thank you, Dan. Good morning to everyone. Thank you for joining us on the call.

With me are Tom Mutryn, our Chief Financial Officer, and John Mengucci, our Chief Operating Officer and President of US Operations. Let's turn to slide 4 please.

Earlier today, we announced our intent to acquire L-3's National Security business for $550 million in cash. We expect to close the acquisition in our fiscal third quarter, subject to regulatory approval and customary closing conditions. Turn to slide 5 please.

This is an exciting acquisition for CACI. National Security Solutions, or NSS, carries a high strategic value to CACI from its strong Enterprise IT capabilities, large mission IT programs, world-class talent, and outstanding past performance. We believe the combined capabilities significantly enhance our position in the government information solutions and services market strengthening our ability to compete and win for next generation IT programs across the federal marketplace.

While the larger IT programs and skills NSS had were the initial attraction for us, I should also note that this acquisition also strengthens our capabilities in intelligence analysis, big data analytics, cyber, modeling simulation, and training. Go to slide 6 now.

NSS brings to CACI a significant set of long-term intelligence and national security customer relationships. These relationships will improve our competitiveness, enabling us to pursue higher value solutions and services opportunities across DOD, intelligence, and federal civilian customer base. There is considerable U.S. Government investment being made right now to build faster, more secure information processing, analysis, and distribution infrastructure to protect our country. NSS positions CACI to do much more of this work in the future. We are confident we will achieve near-term margin improvements through a combination of program and cost efficiencies bringing NSS margins in the line with CACI's by the beginning of our Fiscal Year 2017, and the combined companies are expected to maintain CACI's near-term goal of low, single-digit growth.

This is a terrific acquisition for CACI, for our shareholders, and for the NSS organization. It is consistent with our growth strategy, adding new capabilities, customers, and talent while providing positive returns on our capital. I'm looking forward to meeting the highly skilled and exceptionally talented NSS employees, welcoming them to CACI, and charting a course full of opportunity and success for our combined companies.

Now, here's Tom to provide you financial details on this transaction. Tom?

FINANCIALOVERVIEW

Tom Mutryn: Thank you, Ken, and welcome everyone. Let's go to slide 7 please.

We are excited about this acquisition, and we are confident it will meaningfully increase shareholder value in both the near and long term.

The $550 million purchase price will be financed through a combination of our existing, unused revolver and additional borrowing under an expanded Term A or new Term B loan. On a trailing, 12-month adjusted EBITDA basis, recognizing the tax benefits, the transaction multiple is approximately 7.9 times. Excluding transaction expenses, we expect the acquisition to be immediately accretive, and to be at least 10 percent accretive on both a GAAP and adjusted earnings-per-share basis in Fiscal Year '17. The tax benefit associated with the acquisition has a present value of about $11 million. Slide 8 please.

On a pro forma basis, our trailing 12-month adjusted EBITDA to net-debt leverage is expected to be 4.2 times at the closing of this transaction. This is a manageable level consistent with our capital structure philosophy. The acquisition is expected to be cash positive immediately allowing us to de-lever to around 3 times within 18 months of closing. Let me note, there are certain parts of the NSS business which will remain with L-3, or CACI will likely divest due to some OCI issues.

In addition to the compelling strategic value, the acquisition is appealing financially with material accretion, strong cash flows, and positive net-present value.

With regards to our expectations for our Fiscal Year ’16, we expect to issue revised guidance incorporating the impact of this transaction, including more specific information on intangible amortization, interest expense, and the like following the closing.

With that, here is John to discuss the operational aspects of the acquisition. John?

OPERATIONS OVERVIEW

John Mengucci: Thanks, Tom. Let me echo both you and Ken that this is an exciting acquisition for CACI. Let’s turn to slide 9 please.

I’d like to provide additional insights into the NSS business and our plans, post-close. This is another strategic acquisition to fill very specific capability gaps in three of our market areas, especially the Enterprise IT market. NSS has a number of very large, multi-year, highly complex EIT programs that provide invaluable past performance qualifications to compete for large scale, managed services solutions. An example is the work they do providing classified and unclassified network services to approximately 30,000 deployed warfighters supporting 8,000 network devices and 25,000 work stations. Again, a large scale delivery and excellent past performance credentials that expands our Enterprise IT market position.

In addition, NSS brings the IT capabilities in global network design, cloud security architectures, system integration, agile engineering, and mission IT. Their cyber capabilities will enhance our IT offerings around high performance computing, dynamic network protection, advanced forensics, and mobile security. In our Intelligence Services market, NSS adds depth and breadth to an intelligence information collection, data fusion and analysis, situational awareness, and operations support.

Culturally, the NSS organization is an excellent match. We share a strong commitment to integrity, ethics, and quality in all we do. Like CACI, the NSS team prides themselves on supporting customer missions and delivering consistent quality, resulting in sustained customer satisfaction—all of which has driven a very high re-compete win rate over the years.

As it stands today, NSS margins are below the expectations we have for CACI. To address this, we have a plan to drive total synergies up 3% through program performance, operational efficiencies, and reduced corporate costs attributable to the business, and we fully expect this will bring NSS margins in line with the current CACI profile going into our fiscal year 2017. Fundamentally, the NSS business is a great mix of solutions and services that would drive healthy margins.

Upon close, we plan to integrate NSS into our market-aligned US Operations organization. This structure has served us very well, positioning us to win more business, deliver operational excellence, and investment capabilities and talent needed to address the trends and demands of each individual market.

In closing, I’m very excited about the prospects of this acquisition and the strategic contribution NSS will provide. It fills very specific capability and past performance gaps. The organization is a great, cultural fit with exceptionally talented and committed individuals. We have a specific plan to bring margins in line with CACI, and as Tom mentioned, the pricing is very attractive.

With that, I’d like to turn the call back over to Ken.

CEO CLOSING COMMENTS

Ken Asbury: Well, thank you, John, Tom, for providing those insights. Let's turn to slide 10 please.

For over 50 years, CACI International has been committed to providing essential solutions and services to our customers and value to our shareholders. The acquisition of NSS reinforces these commitments and keeps CACI on a growth trajectory.

The NSS strategic value and capability set it brings to CACI is exciting. Our combined companies will be able to pursue larger, higher value solution and service programs. NSS also has extraordinary talent, past performance, and strong customer relationships we spoke of earlier. The cultural fit is natural with a focus on integrity, mission, innovation, and customer satisfaction. Combined with a very strong, financial case, this acquisition makes a lot of sense for CACI, the employees of NSS, and our shareholders.

Once again, I look forward to welcoming the employees of NSS to CACI. We will both benefit from the combined capabilities of our companies and enjoy continued success.

With that, Paulette, let's open the call up for questions.

Operator: Thank you. We will now begin the question and answer session. (Operator instructions.)

Our first question comes from Tobey Summer from SunTrust. Please go ahead.

QUESTION ON CURRENT ENVIRONMENT IN THE INTELLIGENCE COMMUNITY AND HOW IT WILL IMPACT CACI FOLLOWING THE ACQUISITION OF NSS

Ken Asbury: Good morning, Tobey.

Kwan Kim: Good morning. This is Kwan Kim on for Tobey. Could you tell us what you are seeing in the intelligence space regarding the budget developments, and how customers in the space are reacting? And how do you see the level of optimism affecting CACI following the acquisition?

Ken Asbury: So let me start this way. Let me take this a little bit high. We are seeing more funding flow into the various Intelligence Community accounts. Much of that is being invested in new infrastructure to make things easier, faster to process, to make things more secure, and frankly to distribute product where it needs to be in the operating space of the Intelligence Community. Frankly, that part of the market is quite attractive.

And if you listen to—one of the Director of National Intelligence's principle aims is to put a single infrastructure in place to pass classified information among various agencies. And NSS, without getting into a lot of detail, has some very key parts of that infrastructure already and the opportunity to do more.

I think the second part of your questions was the general—what is our general outlook in the market? Well, you know, we like the idea that there is going to be a bipartisan budget act. We like the fact that the president signed it. We want to get all of the appropriations in place. And I know that part of it is still in the "to do" column but likely to happen sometime this week or in short order.

QUESTION WHETHER CACI IS OPEN TO ADDITIONAL ACQUISITION OPPORTUNITIES IN THE FUTURE

Kwan Kim: Okay. And hearing talks of other potential consolidations take place in the sector, are you open to additional acquisition opportunities in the future?

Ken Asbury: Well, this is our principal part of our capital deployment plan. And so the general answer is yes. The speculative answer is: I'm not going to speculate on anything else right now. We've pursued the potential for NSS for several years now, starting well before they even thought about how they wanted to do things. So it's a business that we thought was strategically very important to us and to have become a piece of CACI. I couldn't be more pleased that soon it will be part of us.

Operator: And our next question comes from Jason Kupferberg from Jefferies. Please go ahead.

QUESTIONS ON EXPECTED GROWTH OF CORE CACI HOW MANAGEMENT WILL BE ABLE TO GROW THE NSS BUSINESS

Ken Asbury: Good morning, Jason.

Amit Singh: Hi. This is Amit Singh for Jason. Just quickly on your base business, ex-NSS—are you still expecting that to be in the low, single-digit positive growth in Fiscal '16? And second, as you're looking on Fiscal '17 and looking at both of your current business and NSS business, so what gives you confidence that you'll be able to grow the NSS business? Because if I understand it, over the last few years that part of the business within L-3 has seen year-over-year revenue decline. So, if you could talk about what you can do differently to turn the trajectory of that NSS business over there, and this year will be your base business growth expectation?

Ken Asbury: Okay. Yes, I'm happy to. First of all, I think there's a phenomenon I believe that we're seeing in the marketplace today that pure play companies in our space—many of our peer companies—are showing the ability to have overcome the budget difficulties of the past few years and are showing some modest top- and bottom-line growth. We believe by bringing NSS into that and reducing their overall costs, making their rates more competitive, they've got a terrific pipeline. They've got wonderful talent. They're very similar in a lot of respects except their scale in certain parts of our market areas is really, really nice, and that we believe we'll see some instantaneous change. It's not about changing people or anything else. What they're going to get is a significant improvement in rates just by making the move that we talked about and some of the synergies that we'll see out of the business.

I believe your first question, Amit, if I recall, had to do with how are we seeing the rest of this year. We're still confident that we will finish the year in low, single-digit topline and probably mid-single digit bottom line.

QUESTION ON THE IMPACT OF THE NSS ACQUISITION ON CACI'S OPERATING MARGIN

Amit Singh: Perfect. And just on the synergy target, you said beginning next year, beginning Fiscal '17, you'll start seeing NSS margins in line with your margin. But this year, even if you closed sort of NSS in the third quarter, how should we think about your sort of operating margins? I know previously you've talked about like slightly greater than 7.5%. Now, should we expect that to come down from that level just because of NSS' generally lower margin?

Tom Mutryn: Yes, Amit. This is Tom Mutryn. I'll take a stab at that. So the guidance for the base CACI business is unchanged. We, as a matter of course, will provide any updates as appropriate when we release our second quarter results, post the second quarter. In terms of the impact of this entity on our FY16, again, we'll be more specific. Besides the base NSS business which we'll be bringing over, there will be a series of transaction-related expenses which will have an impact—actually is having an impact on our second quarter as well as more materially in our third quarter.

We'll be more specific with regards to its numbers when we talk to you, next, after our second quarter earnings.

Operator: And our next question comes from Steven Cahall from Royal Bank of Canada. Please go ahead.

QUESTION ON WHAT CACI MANAGEMENT MUST DO TO ACHIEVE POSITIVE REVENUE GROWTH FOR NSS

Steven Cahill: Thanks for taking my question this morning. Maybe the first one to follow up on the last question—on the revenue outlook for NSS. Ken, I think you used the word sort of instantaneous in terms of the ability to change the revenue trajectory. So I'm wondering maybe how much of that revenue you already can see, or is in the book, for NSS? And how much of that in order to see that growth inflection do you need to go out and win under the new combined entity? And part of what I'm thinking here is: I do seem to recall when you bought Six3, there was pretty high expectations on revenue that took a little bit longer to come through. You certainly paid a lower multiple here. So I'm just trying to understand what the risk profile is to getting that revenue back to positive comps?

Ken Asbury: Yes, Steve, thanks for the question. My comment about instantaneous was instantaneous change to their rate infrastructure once we close. We'll see some of their corporate flow downs go away almost immediately. Then some of the closing actions in how we integrate the business into CACI is going to contribute some other. So I wouldn't translate that directly to revenue growth. I would translate it to an improvement—first of all—an improvement in margin; second of all, improvement in their overall competitiveness, allowing their current, future business that they're pursuing to be pursued at a more competitive rate structure.

As far as we see—a lot of when we looked at their new business pipeline—we didn't see a lot of overlap. We saw a lot of things where the combination probably puts us in a good position to increase the profitability of win. So if I gave the impression that it was instantaneous revenue, it's not quite that. But it is margin, and I believe the improved competitiveness is going to turn into revenue over a shorter period of time.

John Mengucci: Ken, I might also add to that the combined pipeline—at least in the Enterprise IT market, given some of our earlier comments. The fact that they have a large list of past performance credentials on larger jobs, that's going to expand our combined pipeline sooner during this acquisition process than where we would have gotten to without this asset.

QUESTION ON WHERE MANAGEMENT EXPECTS TO ACHIEVE COST SYNERGIES

Steven Cahill: Okay. So it sounds like a pretty immediate change in wrap rate, if I understand it correctly. So maybe just a follow-up on the margin side of things, that 3% number sounds pretty impressive, so can you give us some more detail on some of the projects that you think will provide that 3% of cost synergy? And should we expect to see that at the gross margin level, or are these mostly going to be at the consolidation, sort of overhead, SG&A type level? Thank you.

Tom Mutryn: Yes, thanks. This is Tom. I'll start it off, and John may want to comment upon it. You know, as John mentioned in his remarks, there's a series of items which will help drive the margin improvement. One is reduced corporate flow down, which will no longer be necessary. So that's helpful. Program performance on a number of different programs—we're still at the initial stages of getting into the specifics—but that will drive higher gross margin performance, which in turn flows down the income statement.

In a series of cost efficiencies throughout the enterprise, there's some duplicative activities—NSS as a company, CACI as a company—some better buying powers through purchased services. Facilities we'll take a hard look at. And in facilities, we expect to see some savings associated with that. That may take a little bit more time as you know. Leases are oftentimes longer term leases. IT systems is another area where we'll take a look at. Those are the general buckets of those synergies.

John Mengucci: Yes. I might also add, Steve, and I'll talk to you a little bit more time on the program performance side. On the gross margin side, the fact that we're going to stay in our market aligned organization moving forward quest post-close—we've seen that that aligned organization for the core CACI work has really driven gross margin improvements, because we're putting like-markets and like-capabilities and like-cost structure against each of our markets.

And I'd also add, to the earlier question around rates—clearly, with each rate or cost efficiency improvement that will naturally drive better bottom line margins on our firm fixed price work. And today, I believe the NSS group is around 60% cost plus and about 40% firm fixed price as well as time and materials. So we should see some bottom-line contribution from those synergies as well.

Operator: Our next question comes from Brian Kinstlinger from the Maxim Group. Please go ahead.

QUESTION ON HOW CACI MANAGEMENT IS GOING TO MANAGE THE DELAY IN NSS AWARDS PREVIOUSLY NOTED BY L-3

Brian Kinstlinger: Hi, great, thanks. In the L-3 filing, it highlights the biggest component in the operating margin decline for NSS for a 120 basis points worth, being lower sales, but higher expenses that was caused by delayed contracts international and commercial. I guess it sounds to me like we're recruiting ahead of awards coming to NSS. So I'm curious where those awards stood for the company now. And, sort of, do you expect to recoup that 120 bps as part of your improving margins? And if you don't get awarded those contracts, are the people going to remain with the company?

Ken Asbury: Yes, Brian, this is Ken. Let me start. What you may have seen in their filings is different as we talked about in the opening remarks. Some of the business has been retained, and some of the foreign business that was discussed in some of their earlier discussions with the Street, that's staying with the parent and did not come with us. So our base of business is much smaller when it comes to looking at—I think international and state and local is in the 5% kind of range. So that's an apples-to-Tuesday kind of comparison for the moment. When we come out with revised guidance around our second quarter, we'll clarify all that for you. But we've got some more digging to do to make sure that we understand it as completely. But there are some programs that the parent is going to retain as part of this, and that's the top line, if you will.

QUESTION ON NSS OVERSEAS CONTINGENCY OPERATIONS REVENUE EXPOSURE AND WHAT THE TREND HAS BEEN AND WILL BE

Brian Kinstlinger: Okay, my follow-up. Are you acquiring any OCO-related programs, and if you are, can you give us a trajectory of maybe last year '15 and what you expect in '16 in the declines?

John Mengucci: Yes, Brian, this is John. From what we've been able to ascertain, the OCO work is about in the $20 million annual revenue range. So it's not very material compared to what the current core CACI business supports today.

Brian Kinstlinger: Great, thank you.

John Mengucci: You bet.

Operator: And our next question comes from Jon Raviv from CACI [Citi]. Please go ahead.

QUESTION ON NSS EXPOSURE TO LARGE CONTRACTS AND THEIR POTENTIAL IMPACT ON CACI'S GROWTH RATES

Jon Ravi: I'm sorry. Jon Ravi from Citi. I don't think I changed jobs just yet.

Ken Ashbury: Hi, Jon. Welcome, welcome, welcome to CACI.

Jon Ravi: Thank you so much. Jon with Citi here. Just a question on sales visibility. Are there some specific large contracts that we should be tracking at NSS or planned re-competes? And on that sales question, is it fair to think about this as accreting to your growth rate, or really just adding to sales, and I think you mentioned just staying at that low single-digit number?

John Mengucci: Jon, let me take the first part of that. If we looked across their portfolio, clearly what was very attractive to us were larger, more mission-focused managed services types of jobs with both DoD and their Intell customer sets. So if I were to look at some of their larger programs, a couple of their programs drive about 10% of their revenue, which is higher than some of the single programs core CACI has today—but very attractive to us because that's the type of programs we want to go after in the Enterprise IT space. When we normalize their revenue with us, there won't be any program in our portfolio responsible for more than 3% of total revenue.

On their competitiveness, they've already won a large number of re-competes. They enjoy and work extremely hard on operational excellence; that their re-compete rate is also north of 90% thus far. And they just came off of quite a torrid couple of quarters on winning the majority of their re-compete work. So I'm happy to say that we both share a similar passion around winning re-compete work. I think on the second question, John, I wasn't quite sure what you were asking.

QUESTION ON WHETHER THE NSS ACQUISITION IS ADDING GROWTH OR JUST MORE SCALE TO CACI

Jon Ravi: The nature of the question is this acquisition accreting to your growth rates, and can you realize higher growth rate than you otherwise would have with NSS in the portfolio? Or is this really just a scale play where you're adding sales, and you'll bring it back up to margins, and we'll go from there?

Ken Asbury: Yes, Jon. This is Ken. Let me take a shot at that. If you look at this over the long term—I mean I've talked to Steve's question before about how we should see a bump in competitiveness almost immediately as we begin to implement the synergy or enact the synergy part. So coming out of the gate, everything that they have in front of them that they're going to be bidding, they'll have an opportunity to put in at lower rates. We should see some increased at probability of win.

Taking the long term, when you look at the investments that are going on in—as our government—as the community in general of the federal government is looking at adopting new things like managed services, cloud, and all of that, the credentials, the amazing market credentials that NSS brings to us is going to put us in a very good position.

The second effect of that is previously CACI probably had a top-level limit in terms of the size of program that we were comfortable in pursuing. NSS's scale with the kind of skills in Enterprise IT, managed services, Next-Gen IT, really puts us at a level where there's no program that we would not be in a position to pursue should we decide to do it. So it's a combination of all those things that I think that are going to, over a longer term, generate, improve our revenue position.

QUESTION ON NSS FREE CASH FLOW CONTRIBUTION TO CACI

John Ravi: Thanks for that. And this is a follow-up on free cash-flow contribution. L-3 guidance suggests NSS is doing about $40 million this year. Is that the way you're thinking about the business this year as well, and should we be able to grow that next year, given the margin improvement? Or is there some kind of one-time items flowing through?

Tom Mutryn: Yes. As I mentioned, as we just talk more fulsomely about the acquisition after closing, we'll be able to address those issues and update our guidance for FY16 to incorporate that acquisition. But that type of zip code of free cash flow seems reasonable at this point in time.

Operator: And our next question comes from Brian Ruttenbur from BB&T. Please go ahead.

QUESTION ON WHETHER THERE WOULD BE ANY PLANNED DIVESTITURES OR ANY NET OPERATING LOSS CARRY-FORWARDS WITH THE NSS ACQUISITION

Brian Ruttenbur: Yes, thank you very much. A couple questions. Just as a follow-up—planned divestures and any NOLs that you're getting in the transaction? I don't know if that's been addressed already, but I didn't hear about the NOLs specifically.

Tom Mutryn: Yes, this is Tom. There's no NOLs. I did mention an $11 million present value tax benefit for amortizing what is their prior acquisitions, which we pick up through our NOLs. I did mention that if I look at the NSS base business, there are certain programs that L-3 parent can retain, which was very aligned to some of their current activity. So that it's staying with the L-3 entity. And there is at least one contract where we believe it will result in some OCI issues. We'll have to work with the customer. But if necessary, we may need to divest that. And so the revenue that we will be reporting ultimately is going to be down from what NSS has reported publicly.

QUESTION ON THE TIMEFRAME FOR THE REPORTED AMOUNT OF NSS REVENUE COMING TO CACI

Brian Ruttenbur: Okay. So the guidance you gave was roughly a billion dollars. Was that a '16 number or a '17 number?

Tom Mutryn: The number we gave we showed trailing 12-month $1.032 billion, trailing NSS business. Our press release, we talked about this being approximately a billion dollars' worth of revenue. So a combination of some puts and takes. We will be generally within line there.

QUESTION ON THE POTENTIAL FY2017 ACCRETION OF NSS

Brian Ruttenbur: Okay. And do you give anything about 2017 when you talk about it being accretive on what kind of revenue base?

Tom Mutryn: Yes, again, we'll be talking more specifically about that as we—in that case, probably when we talk about our FY17 guidance. But it is comfortably 10% accretive, both on a GAAP and diluted adjusted earnings per share basis.

Operator: Our next question comes from Edward Caso from Wells Fargo. Please go ahead.

QUESTION ON THE NSS BACKLOG AND PIPELINE OF OPPORTUNITIES BEING ACQUIRED

Edward Caso: Hi. Thanks for taking my questions. Did you talk at all about backlog and how the pipeline is, and what the backlog may add to your existing base?

John Mengucci: Yes, Ed. From our activities looking at them over the last few months, a very similar pipeline to what we show, ratio wise. A very, very solid backlog as well. We like the fact that, as Ken mentioned, they have larger programs in their pipeline. And for the work they had to re-compete on, they've done a really, really strong job. I mean what we'll do when we get closer to closing is try to portray that business the way we would report on our core CACI business. And we'll start talking about existing contracts, re-competes, and dollars in billions of bids awaiting award and also submitted. So unfortunately, at this time, we don't have all that. But by the time we get to closing, we'll be able to provide more information on that one.

QUESTION ON THE IMPACT OF POTENTIALLY HIGHER INTEREST RATES ON THE FORECASTED ACCRETION FOR NSS

Edward Caso: Thanks. Tom, assuming all of your new debt here is variable rate, how sensitive is that 10% accretion in F17 to an uplift in rates from here?

Tom Mutryn: Yes, good question. So post-transaction, we'll have approximately $1.5 billion of total debt. About $600 million of our debt is currently fixed using some interest rate swaps. So we will have $900 million of floating rate debt, assuming that we execute on our Term B, which is highly likely. It's, so everything else being equal, have a 1% increase in interest rates on $900 million. You all can calculate what that would be worth to us. The question that we will be addressing as we move forward is, given that debt structure would it make sense for us to enter into some additional interest rate swaps. So that will be something that we will be evaluating over the next few months.

Operator: Our next question comes from William Loomis from Stifel. Please go ahead.

QUESTION ON THE CHALLENGES WITH NSS GIVEN THE PRICE PAID FOR IT

William Loomis: Hi, thank you. Looks like a good acquisition, Ken, a little too good if you hit your margin goals next year. It's like a 6.5 times EBITDA or lower. So what are the challenges in the business that gave you such a good price here? Because you mentioned there's a couple big contracts. But it sounds like there's no major re-competes coming up in the next year. So what are the challenges?

Ken Asbury: So I think the challenges are—Bill, first, I think that is a really good question. The challenges, I think, are coming out of—and I think we're going to see more of this over the next couple of years—the market's sort of settled to a certain place where there's a competitive set of rates. And those of us that have been sort of free of any manufacturing or product environment, where there's a lot of flow downs, we have an easier time of adjusting to those rates than others.

So I think the immediate benefit going to the NSS is going to be some improved rates and allowing them to compete a bit better. I don't know what their track record has been on wins and losses. John got into re-competes a whole lot during the due diligence, and they were superb in that. But that's always sort of a combination of relationship as well as economics. We'll be interested.

The challenge, I think, is with new rates How do we get their new business, or take-away business, positioned in such a way that that's going to be a meaningful contribution to growth as it has been in the traditional CACI business over the last couple of years.

QUESTIONS ON LARGE CONTRACTS TO BE RECOMPETED AND THE TIMING OF THE CLOSING ON THE ACQUISITION

William Loomis: And so, just to be clear, on large contracts—those two contracts that make up 10%, I think that's what John mentioned, none of those are up for re-compete in the next year? And then also, when you said close in the fiscal third quarter, is that going to be early in January? Are we talking late in the quarter? Any better timing?

Tom Mutryn: Yes. I'll mention closing. We expect closing to be at the end of January, early February.

John Mengucci: Bill, this is John. The NSS folks have won one re-compete, and they have one remaining. I'm not quite sure on the timing of that one, Bill.

Operator: (Operator instructions.) And our next question comes from Brian Kinstlinger from Maxim Group. Please go ahead.

Brian Kinstlinger: Sorry, I hit star two, get me on there. Thanks, guys.

Operator: We're showing no further questions. I will now turn the call back to Ken Asbury for closing comments.

CEO CLOSING REMARKS

Ken Asbury: Well, thanks, Paulette, and thanks for all your help today on the call.

We would like to thank everybody who dialed in or logged into the webcast for their participation as well. We know that many of you will have some follow-up questions, and Tom Mutryn and Dave Dragics and Dan Leckburg will be available for calls later this morning and this afternoon. So this concludes our call, thank you, all. Have a very good day and appreciate, as always, your interest in CACI International. Goodbye.

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

END