CACI INTERNATIONAL INC.
Moderator: Ken Asbury
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8:30 a.m. ET

Operator: Welcome to the CACI International fourth quarter fiscal-year 2015 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. If you should need any assistance during the call, please press star then zero, 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 this call, we are only taking questions from the analysts.

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

INTRODUCTION AND SAFEHARBOR STATEMENT

David Dragics: Thanks, Candice, and good morning, ladies and gentlemen. I'm Dave Dragics, Senior Vice President of Investor Relations of CACI International. 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 two. This is 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 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 also 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'd 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 three. To open up our discussion this morning, here is Ken Asbury, President and Chief Executive Officer of CACI International. Ken?

CEO OVERVIEW

Ken Asbury: Mark thank you, Dave, and good morning, everyone. Thank you for joining us. We're looking forward to the dialogue.

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, Chief Executive of CACI Limited, who is joining us from the UK.

Let's turn to slide four, please. Yesterday evening, we released the results of our fourth quarter and full Fiscal Year 2015. The quarter ended as we expected, bringing a successful fiscal year to a close. We won a record level of contract awards, increased cash flow, and built our backlog to our highest level in company history. We achieved these results despite the impact of contract award delays and protests. Our FY15 accomplishments and the foundation we have built give me confidence in reiterating our FY16 guidance.

Let's turn to slide five now, please. Throughout FY15 we focused on gaining a better understanding of our customers' priorities and requirements. We made significant strategic changes to how we pursue business in our market. We sharpened our focus by aligning more closely to our market areas. And throughout the year we demonstrated our ability to win new business and retain our current business by driving excellence, innovation, and value into each one of our programs. These changes and achievements have helped us capture a larger market share and build momentum for our return to organic revenue and net income growth in FY16.

We believe there is still plenty of room for us to grow in our addressable market. Let me highlight several examples of the highly relevant and innovative work that will contribute to our future growth. Let's turn to slide 6 please.

Federal agencies face near-constant threats to their data and IT infrastructures from both internal and external sources. CACI's solutions and people improve cyber resilience and keep valuable data secure. At one federal agency, our cyber defense systems ingest, correlate, and analyze 80 billion events a day to detect and mitigate possible cyber-attacks. Only the largest networks -- those with tens of thousands of nodes -- see that many events in a single day.

Cyber events are not limited to desktop computers or servers. Increasingly, electronic warfare is conducted against platforms like cellphones, cars, or even planes and major weapons systems. CACI addresses this by combining traditional cyber security expertise with unique digital signals intelligence capability to defend and attack new and legacy platforms.

The number of sensors generating data that our DoD and intelligence customers have to process and analyze to keep up with the emerging threats grows larger every single day. To help these customers, CACI developed and fielded the Fusion Analytics Development Effort, or FADE, a multi-intelligence fusion analytics platform that delivers unparalleled performance in preparing and analyzing large volumes of data. Additionally, the FADE platform helps customers in counterterrorism and other strategic and tactical missions analyze and visualize data from all sorts of intelligent sources. Since FADE's deployment last year, 15 US agencies and over 11,000 users have adopted FADE into their analytic tool suites.

We also support national objectives to modernize the healthcare system by electronically managing health information and transforming the delivery of patient care. One of our healthcare solutions uses a combination of social media, open source data, and satellite imagery to track and analyze outbreaks of pandemics like Ebola, the epidemic that happened in Western Africa last year. These predictive analytic tools allowed authorities to focus on where the disease was likely to spread, and allowed them to position resources to appropriately contain the outbreak. These are but a few examples of the sophisticated solutions that CACI is providing in support of our customers' most difficult commissions.

Switching topics, from a budget perspective, both the President and Congress have proposed budgets above the Budget Control Act limits for the government 2016 fiscal year. This allows us to be cautiously optimistic about how the government will procure solutions and services during that period.

Slide seven, please. Going forward, we are confident that we will continue to capture market share by winning new business, delivering operational excellence to each of our customers, and deploying capital for long-term growth. Focusing and successfully executing these three strategy elements is vital to delivering long-term shareholder value.

Now, here is Tom to discuss the financials. Tom?

FINANCIAL OVERVIEW

Tom Mutryn: Yes, thank you, Ken, and good morning, everyone. Let's go to slide number 8.

Our fourth quarter net income was well ahead of last year and consistent with our expectations. The year-over-year increase was driven by higher award fees, increases in existing work, particularly the OPM contract, and the ramp-up on new work we won in FY15.

For the full year, net income was $126.2 million, below last year's net income. As we discussed on prior calls, our second quarter was negatively impacted due to the ramp-up in startup investments of the OPM contract. Adjusting for this and the associated increased OPM profitability in the back half of the year, net income for FY15 is roughly equal to that of the prior year.

Slide nine, please. We continue to focus our efforts on cash flow and ended the year generating $223 million of operating cash flow with an annualized free cash flow yield per share of 10.3 percent at an $82 share price. Another way to assess our ability to generate cash returns is to calculate earnings per share excluding non-cash charges. We record two large non-cash items in our operating expense: depreciation and intangible amortization, and stock compensation expense. We exclude these and other non-cash items as we report our diluted adjusted earnings per share, which was $7.23 a share, $2.06, or 40 percent, higher than our GAAP earnings per share.

Slide 10, please. Revenue was down from last year's fourth quarter as a result of the continuing decline in lower-margin subcontractor labor and other material purchases. This was due to some contracts reaching their normal end-of-life, budgetary pressures, and less Southwest Asia activity. As has been the case throughout our FY15, we continue to grow our direct labor base, a key driver of profitability.

Indirect costs and selling expenses in the quarter were slightly above last year as a result of higher fringe benefit expense associated with the growth in our direct labor. These expenses, which grow as our direct labor base grows, are included in indirect cost and selling expense. Adjusting for these, indirect expense for both the quarter and the year are approximately 3 percent lower than last year. This reflects our focus on ensuring we have the right support structure to allow us to be cost competitive and to drive bottom-line results.

With just over $1 billion of net debt, our net debt to trailing 12-month EBITDA leverage ratio is 3.4 times.

Slide 11. We are reiterating our FY16 guidance that we issued at the end of June. As we indicated on our June call, our first-quarter net income is expected to be below that of last year. As the new business won in FY15 builds up and we begin to perform the new business which we plan to win in FY16, we are expecting favorable year-over-year earnings comparisons in the second, third, and fourth quarter.

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

OPERATIONS OVERVIEW

John Mengucci: Thanks, Tom. Let's go to slide 12, please.

Our Q4 results bring a successful FY15 to a close. I'd like to highlight two key accomplishments in FY15 which contributed directly to our performance and position CACI well entering FY16. First, we made critical investments in our business development organization, refining our shot selection, and focusing on larger, more solution-centric pipeline opportunities. [Second], we also aligned the organization to our market areas, providing single investment points in delivery and capability.

These changes continued to drive strong contract awards of $777 million in the quarter, 11 percent higher than the same period last year. And we won a record level of awards in FY15, almost $5.8 billion, an increase of 46 percent from a year ago. These awards position us nicely to deliver on our financial plan in FY16.

Let me provide a quick update on our previously protested awards. We await resolution of two remaining protests with a combined award value of $375 million. It is our belief CACI will again be successful as the government works toward a final decision.

We also received $871 million in contract funding orders in the quarter. This brought our funded backlog to $2 billion. Total backlog was $9.6 billion, a 35 percent increase from just a year ago.

Let's go to slide 13, please. Our fiscal-year revenue guidance now consists of 79 percent existing business, 15 percent recompete revenue, and 6 percent new business revenue. This means we are currently executing on nearly 94 percent of our plan revenue for the current year. In addition, as a result of the contract funding orders we received in the quarter, 53 percent of the existing business revenue was already funded, an increase from 45 percent at the time of our June call.

Slide 14, please. As we head into FY16, our opportunity pipeline remains very strong. Pending contract awards now total $12 billion, with about 50 percent of that new business to CACI, and we plan to submit another $13.7 billion in bids over the next six months. About 60 percent of those bids will be for new business. This pipeline reflects our business development focus across all of our market areas.

All in all, I'm pleased with our full-year results and our position as we enter FY16. We will remain focused on the things that served us well in FY15: winning new business and delivering mission-critical solutions and services to our customers.

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

CEO CLOSING REMARKS

Ken Asbury: Well, thank you very much, John and Tom. Let's turn to slide 15, please.

Over the past couple of years, we've made fundamental strategic and operational changes to our business that has improved our competitiveness and allowed us to win a record $5.8 billion in awards for FY15, increased our total backlog to almost $10 billion, and positioned us to return to organic revenue and earnings growth in the current year.

The fact that we are in a position to grow again is credit to the hard work, innovation, and tremendous character of our more than 16,000 professionals who work tirelessly in support of our customers' missions. They are the ultimate reason for Company's success, and I couldn't be more proud of all that they have accomplished, so thank you all.

I'd like to now turn the call over to your questions. So, Candice, let's open up the line.

Operator: Thank you. Ladies and gentlemen on the phone lines, if you would like to ask a question at this time, please press star followed by 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. Also, in order to allow everyone the opportunity to ask questions today, we ask that you please limit yourself to one question and one follow-up.

And our first question comes from Ed Caso of Wells Fargo. Your line is now open.

QUESTION ON THE TYPE OF WORK CACI IS PURSUING AND TAKING AWAY FROM OTHERS AND CHANGES TO THE SALES MODEL

Ed Caso: Good morning, everyone. I guess my question is around the type of work that you're now pursuing. I notice that your funded backlog as a percent of total is shrinking; so I assume the contracts you are pursuing are getting longer and larger. Are they takeaway? Is any of it like new-new work? And the takeaway work: who are you taking it from and how have you changed your sales model to go after that work? Thanks.

Ken Asbury: Yes, this is Ken. As we looked at the marketplace, as it was going to post Budget Control Act and post, frankly, war, or in the process of drawing down from multiple wars, we saw that there were going to be enduring aspects in each of the different market areas that we wanted to target. We commonly call -- and John will talk about this later on – but we're looking for a more solutions part of the business where we're actually trying to give a customer a different kind of set of processes that they work with – analyze data in a particular way – but moving more towards giving them different capabilities and outcomes in the work that they do on behalf of their missions or whatever they support in the government.

If you look at the cross-section of wins that we had in FY15, we weren't focused on any particular area because we won across all of our market areas. You might have seen a bit more growth in the federal civilian area because there were some great opportunities there to do programs like IPPS-Army, where we're doing the pay and personnel processing system for the Army; or we're doing additional work to do shared services on -- as part of the government model to increase the shared services for doing financial management and, frankly, going into human capital. So over the long run we think those are going to be the enduring parts.

And things such as the support that we did for a war, they are temporal. They happened over a long period of time. We were obviously always going to be positioned to do it. But the long-term business of the government is going to be our target now as we go into a period of relative peace. So I hope that helps you.

QUESTION ON THE IMPACT ON CACI'S BUSINESS OF RECENT CYBER SECURITY LAPSES

Ed Caso: Great. My other question is on a lot of chatter on cyber security. You brought it up. You've got the OPM contract, which is -- OPM is sort of the poster child for letting less friendly people into our databases. How has that impacted your business? Has it created more business? Has it slowed down decision-making? Just flesh it out a little bit more. Thank you.

Ken Asbury: Yes, this is Ken. I'm going to have John talk a little bit about OPM in just a second, but let me talk in general about cyber. Obviously -- some have put this as the single largest threat to the country – depends on what your perspective is – and we've seen a lot of high-profile cases there.

We are seeing the government fund this in an increasing way. I think the President has allocated some $5 billion additional money in the FY16 outlook to go and support a number of those things. So we expect that market to continue to rise. And our position in that is going to be somewhat twofold. On one side, as a government IT services provider, we need to have very, very top-level cyber security expertise to help our customers in their day-to-day work. On the other side, the Six3 dimension brings us a more sophisticated platform level of cyber, both from a protection as well as an offensive capability. Both of those markets are equally important to the federal government right now, and how those play out over time will be interesting.

I'm going to turn it over to John to talk a little bit more about OPM.

John Mengucci: Yes, sure. Thanks, Ken. So as many of you know, we're prohibited from discussing many of the details on the OPM program but we're extremely pleased with the performance that we have achieved thus far. Our revenue and our profitability were at a steady-state as we completed Q4 of FY15, and we believe that that's going to continue through FY16.

Now, Ed, you mentioned the security breach as well as the federal government's e-QIP system being down. It was actually -- impacted new requests for background investigations, and not the background investigations that were already in process. So during the time that that system was off-line, we continued to perform casework on the cases that we had in process, albeit at a reduced level. It's our expectation, based on what we can see now, that that level will increase back to the steady-state level by the time we're back together again at the close of Q1 FY16.

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

QUESTION ON WHEN NEW BUSINESS WON IN FY15 BEGINS TO CONTRIBUTE TO MARGIN GROWTH

Ken Asbury: Good morning, Jon.

Jon Raviv: Hey, good morning. Thanks for taking the question. I'm just following up -- or actually just asking a question really about margins. You talk about higher direct labor, more solutions; right now we're seeing some higher fringe offset direct labor. And then margins also seemed to come up slightly short of your FY15 guidance of flat.

At what point do these new wins and higher DL base contribute to margin growth? We saw some this quarter; but should that continue through FY16, notwithstanding the cadence that Tom laid out for the year?

Ken Asbury: Yes, Jon; this is Ken. We believe, over time, that higher solutions content and increasing our fixed-price content will drive our margins higher over a protracted period. We are trying to shift to a higher solution mix in those areas of the market where we see the customers continuing to buy that way. But let's be clear that when we get into solutions development it's not a linear margin curve.

The way these programs start up is, once you win, you sit down with the customer and you build a more executable plan than an RFP generally allows you to do in the competitive phase of buying. So you have a smaller ramp up at the beginning. Once you decide on what all the expectations are, then you start ramping up your engineering staff, your software staff, and that sort of thing in whatever period of time. That's where we would see the increased margin coming.

Keep in mind there are also a lifecycle to all these developments. So we've got to keep winning solutions work to keep moving that curve to the right because once we are finished with the development it tends to drop off again in terms of the volume.

So I think you will see that, but over a period of time. The work that we won in 2015 is in that very early phase in many of these, where we're sitting down with customers and making sure that we understand exactly what it is that needs to be built. Once that happens, once we are through that phase, we'll start to see margins grow.

Jon Raviv: Just how long is that phase? I mean, are we talking -- like how long is the average duration of these deals you're winning now?

Ken Asbury: I mean it's really going to vary. Some of these are very complex, and some could take a couple years of just good engineering, maybe 18 months. Some of them are in their second phase. So it's pretty well known what expectations they have. So it would be a little shorter when you start with a new team.

QUESTIONS ON THE AVERAGE DURATION OF WORK IN THE BACKLOG AND HOW LONG IT TAKES FOR BACKLOG TO CONVERT TO REVENUE

Jon Raviv: Then just a quick follow-up on that. You talked about the two protests worth $375 million; a record high backlog. Almost related – how has the average duration of what's in your backlog changed along with these business development changes that you've made? And what does that say about how quickly your large backlog translates to top line?

John Mengucci: Yes, Jon; this is John. The mix of new business – traditionally our professional services work is somewhere around a three- to five-year scale. Some of the solutions work is going to be pushing five years and even greater. That's that long-term, value-add, sticky type of work, which has a very different layout, as Ken just mentioned, relating back to margins.

If we were to look at the record backlog today, a greater percentage of that is in the solutions area. So we would expect that backlog to remain higher over a much longer period of time than maybe our backlog would have been extended two to three years back.

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

QUESTION ON THE INCREASE IN BIDS PENDING BETWEEN THE THIRD AND FOURTH FISCAL QUARTERS

Bill Loomis: Hi, thank you. Good morning, everybody.

Ken Asbury: Good morning, Bill.

Bill Loomis: Now, just to be clear, is the $12 billion figure of bids out, that's the same figure as the $8.3 billion last quarter, right?

John Mengucci: Yes, Bill.

Bill Loomis: You won a lot in the quarter, and then you had a huge sequential jump. What changed there?

John Mengucci: When we talk about pending contract awards and then plan to submit another, those numbers change daily, right? As the things that were pending today that were awarded come out of that pool, things that we were planning to submit over the next six months then push into that pending area. We're at a pending of around $12 billion now, about half of that being new business. And we've got another $13.7 billion over the next six months. So day to day those numbers move. And as the customers award, that comes out of both the way we submit it as well as pending.

Bill Loomis: OK. But I mean just looking at that specific number, just five quarters ago it was $7 billion; and it's never been over $10 billion. So it seems to me this is a pretty significant change in opportunities. Is there just a couple very, very large bids that are in that number you seeing, or are you seeing -- is it quite a few? It just seems odd to see such a big jump and breakout of what you've done in the past significantly still.

Ken Asbury: Hey, Bill; this is Ken. I think what you're seeing is as we've adjusted to -- we set a strategy that said we were going to go after a smaller number of contracts but they were going to be larger. You are seeing that play out, as our teams adjust to that pattern of behavior. It's also representative of how the customers are buying or how they are bundling. There are a few big

ID/IQ recompetes in there, where they're combining such as the S3 and R2CSR competition. So those make up that -- those are in that number, too.

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

QUESTION ON THE MARGINS IN THE FY16 GUIDANCE

Steve Cahall: Yes, thank you. Maybe just a first question—kind of a reiteration of some of the discussion around margins. When we think about the recompetes and new business, I was wondering what's baked into the guidance in terms of margin for the year. I guess my assumption here is that some of that business could come under incremental pressure as things remain tough out there. So are we factoring in that those revenues come in with margin pressure or how do we think about that phasing?

John Mengucci: Steve, this is John. Let me try to answer that by maybe coming up one level. We've done a lot of discussions around professional services, and services and solutions, and then tying that in to what portion of our business is solution. And then that actually runs in nicely to operating margin.

If we were to picture something -- a simple graph: on the Y-axis is professional services, where the unit of time we deliver is ours. In services we're delivering to a service-level arrangement—maybe that's a unit of output and then solution. On the X-axis, we go everywhere from -- every acquisition type, from cost-reimbursable to cost-plus, fixed unit price, all the way through firm fixed price. With higher risk comes higher margin and higher reward. So it's really a journey moving from what I would say the lower left quadrant, where is professional services delivering hours under a cost-plus arrangement to larger scale systems and solutions being delivered under a firm fixed-price arrangement.

If we were to look at our market strategies, that really shapes our capabilities in the customer set. It allows us to shape our pipeline. It ties into what Ken has been driving over the last 24 months, which is shot selection. It allows us to more efficiently drive bid and proposal expenditures that also drive higher capture rates. So when we look at the mix of our business, duration of it and margins, it is a journey towards a longer-term view of moving towards more service and solution work that can be awarded and won in a fixed unit price or a firm fixed-price model. And, oh, by the way, stuff at the professional service to delivering hours at the cost-plus levels would be in -- selected at an LPTA level, we want to go after more RFPs that are actually decided based on value, which is where we are heading over the long-term.

So it's really a mix of our business and how the government acquires it and the markets that we're focused on. All in all, over the long-term, folks, that's going to drive us to higher operating margin and longer period of performance programs. So I hope that captured the majority of your question there, Steve.

QUESTION ON THE PROGRESS IN TRANSFORMING CACI'S BUSINESS DEVELOPMENT ORGANIZATION

Steve Cahall: Yes, that's helpful color. Then maybe as we think about that journey, Ken, clearly early on you did a lot of reshaping of the business development organization. The sense is that that's now starting to come through on the bookings side. So where are we on the organizational side of that journey? Is the BD setup now largely how you would like to see it? Or is there still a fair amount of work to be done to get that organization the way you want to do it? I think you mentioned this a little bit in the slide.

John Mengucci: Yes, great, Steve. So, business development and the entire organizations are all organized around our markets. So both the line organization as well as the BD organization — very much aligned around markets.

If we were to look at margins and growth, we're looking across each of those markets. I would tell you that, on the recompete side, we have price pressure factored into our FY16 plan. I think we've walked through that in the past, Steve, where we assume some level of top-line and bottom-line erosion as we are looking at recompete work, especially as it pertains to the professional services work procured under an LPTA. And our new work is appropriately planned for the type of project, whether it's a professional service, a service, or a solution, and then how the customer is buying.

To the extent that we can shape awards -- and that's where we're moving to now -- the extent that we can shape larger solutions job and work with our government clients to want to procure that under a firm fixed-price arrangement, we'd rather see development work go more fixed-price than cost-plus. That allows us to really shine. We've got 52 years of operational excellence, delivering what customers need. We'd like to pick up a slightly greater margin while we're doing that work for them.

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

Ken Asbury: Good morning, Cai.

QUESTION ON THE STATUS OF THE TWO REMAINING PROTESTED AWARDS CACI HAS RECEIVED

Cai von Rumohr: Yes. Thank you very much. First question is on your protested award, those $375 million. I believe you mentioned them on the guidance call. When do the protests periods end? And are those two awards included in backlog and included, although on a factored basis, in your guidance for the year?

Ken Asbury: Yes, Cai; this is Ken. Those two protests, I think we have them planned to show up in about the -- late in the second quarter, into early third quarter, just depending on schedule. When we put the plan together, we thought the government would take a little bit longer period of time.

What we have actually found is the government has initiated a limited corrective action on each one of them. And we have already -- we're already in that process, and they are reevaluating them. So if they showed up a little earlier, that it be great. But right now our plan is reflective of late second-, early third-quarter revenue and net income coming from this.

John Mengucci: Yes, Cai; this is John. They're both in our FY16 plan, as Ken mentioned, at a slightly reduced level, just trying to factor out timing issues.

QUESTION ON THE SHAPE OF THE FY16 REVENUE TREND LINE

Cai von Rumohr: Great. Then, in your guidance you seem to imply that revenues would be down organically in the first two quarters. Then, even to get to the midpoint of your range or the lower point, you really have to have a pretty sharp step-up in the second half. I know that the Afghan and of the CONUS work were down, but maybe give us a little bit more color on why we have as much of a downward pressure in the first two quarters, and then what appears to be a pretty sharp ramp up in the second half. Thank you.

John Mengucci: Thanks, Cai.

Tom Mutryn: Yes, so Cai, let me take a stab at that. We are implying in terms of top-line revenue down in your first and second quarter but not materially so. In the second quarter, they move one percent-ish type of range. So for us to get to organic revenue for the full year, yes, we do need some organic revenue in the back half to overcome that. But it's in the high-single-digit level. It's not beyond that.

Given the ramp-up of FY15 wins, which are occurring as we speak, and as they continue to mature in the second quarter, and the new business wins in FY16, we think that is doable when we look out -- when we look at those particular programs on a quarterly basis.

Ken Asbury: And, Cai, this is Ken, if I may add on. If you look at the way we discussed planning 2016, it's based on what we learned in FY15. We added delays to the award cycle of most of the major procurements. What we did not do, effectively, was accommodate the protests of a lot of those.

So our 2016 plan is much more reflective of protest delays in the latter half. Should any of those not happen, should those awards come earlier, should the awards not be protested that we believe that we should be able to win, everything moves to the left and we see an improvement. And that's one of the features of the plan, but that's what we did not plan in 2015, or plan it as effectively as the marketplace decided they were going to impact it.

John Mengucci: Lessons learned.

Ken Asbury: Exactly.

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

Ken Asbury: Good morning, Tobey.

QUESTION ON CHANGES IN INCENTIVE COMPENSATION AS A RESULT OF RECENT CHANGES MADE BY MANAGEMENT

Tobey Sommer: Good morning. I had a question for you about both executive incentive compensation and incentive compensation below that.

Given the change in the path and the journey that you're on, and the transitory effects that can happen during that on the P&L, are there any plan changes to either incentive or line -- executive or line incentive compensation for Fiscal 2016? And what are the metrics that are driving incentive compensation for both cohorts? Thanks.

Ken Asbury: Yes, Tobey; this is Ken. Our compensation is aligned with what we believe is our shareholders' best interest. It's three components to it: base salary, annual cash bonus plan, and long-term stock plan. The key metrics are -- and it varies depending on where we are, and this will all be in our proxy later this year -- but they're net income, earnings per share, return on invested capital, revenue, and new business awards.

And it depends on where you are. If you're a business group manager, we're not as concerned about you having earnings per share or ROIC. You're going to have net income and revenue and new business awards. For instance, myself, I have a variety of metrics. But really it works this way: 33 percent of mine is earnings per share; 33 percent of mine on a cash bonus basis is net income; and 33 percent are new business awards.

So what we're trying to do is make sure that we are managing the business from a capital deployment strategy as well as a growth component. We have been emphasizing net income as we went through; but now that we're in a period of time where we believe we're going to be able to grow organically again, we want to, frankly, put our foot down on the accelerator on that and make sure that the whole organization is aligned around growing and producing—growing at the top and bottom line.

Tom Mutryn: And I'll add to that. As is typical of many companies, the top executives have a stock holding requirement. Those are outlined in our proxy. So myself and other leaders of the organization have a significant amount of their economic wealth tied up in CACI's stock, which is a very much forcing us or incentivizing us to focus on ways to generate long-term shareholder value. So the -- I want to make sure that we're cognizant of that stock-based compensation element, which is somewhat substantial. Then in addition, the annual incentive targets are based on targets that we believe that the Compensation Committee believes are highly influential in stock price.

QUESTION ON KEY DIFFERENCES BETWEEN FY15 AND FY16 IN METRICS FOR INCENTIVE COMPENSATION

Tobey Sommer: Thank you for the color. Just to make sure I understand it, what would be the key difference in emphasis of those metrics, Ken, that you outlined this fiscal year versus last year?

Ken Asbury: Yes, Tobey, I would say it's going to be -- it is getting the organization more aligned around the new business awards. And that, now that we've attained – we've reached the level of operating competency at that level – we want to make sure that the entire organization is going to sustain that. So new business awards, and as that applies to the growth of the business, top and bottom line, are going to be a change for at least my executive -- all my executives, and then down into the line organization as well.

Operator: Thank you. And our next question comes from Mark Jordan of Noble Financial. Your line is now open.

QUESTION ON THE INTEREST RATE ASSUMPTION IN THE FY16 GUIDANCE

Mark Jordan: Good morning, gentlemen. A question, first, on the interest rate assumption at the back of the package. It shows an interest rate expense expected in 2016 of $38 million. If you annualize the fourth quarter, you're at a $34.4 million run rate. I was wondering what interest rate assumption you have baked in to get to this 38 percent and when do you expect it to start to rise?

Tom Mutryn: Yes, Mark; this is Tom Mutryn. When we forecast our interest expense, looking at our outstanding debt levels, which should be coming down as we generate cash, and so that should be positive, reducing interest expense. On the other hand, half of our debt is floating-rate debt; and we need to make certain assumptions with regards the interest environment.

When we put our plans together, we generally assumed that LIBOR is going to increase 25 - 30 basis points per quarter as we go throughout the year. So that adds to our interest expense. We also have some floating to fixed swaps for approximately $100 million. That became effective on July 1, and so that will also add to our interest expense.

QUESTION ON THE FUSION ANALYTICS DEVELOPMENT EFFORT (FADE) PLATFORM

Mark Jordan: OK. Second question, you've mentioned that the FADE platform has been widely deployed. Is that a technology that pulls incremental business for you? Or is that a completed program?

Ken Asbury: Yes, great -- nice question. FADE is obviously a software package. It works at -- let me just say there's a high-side version of it, and we just came out with an uncleared, or an open, version of it that can be used by other customers. It is typically when you bring FADE into your analytics suite, you also bring some of our people. So it is a way of getting into new customers and into new circumstances that where they already have another analytics suite or another set of tools. And we're now able to get into those environments as a result of, if you will, the introduction of this tool.

The feature of this tool is it can work at any level of security. It has the appropriate ways to connect into all the different classified networks and pull all sorts of different data. And they do it in the billions of data points in a very fast period of time. So it's a -- the people that are using it -- I think it was last year one of our major customers stood up in front of an industry conference and said it may have been one of the more significant achievements in the last couple years in terms of data analytics.

Operator: Thank you. And our next question comes from Jason Kupferberg of Jefferies. Your line is now open

Jason Kupferberg: Hey, thanks, guys.

Ken Asbury: Good morning, Jason.

Jason Kupferberg: Good morning. How are you?

Ken Asbury: Doing well. Thank you.

QUESTION ON WHETHER CACI'S ADDRESSABLE MARKET HAS TROUGHED

Jason Kupferberg: I just want to take a step back from a lot of the comments that you guys have made about how the end markets are developing right now, because it sounds like things are bottoming out and maybe getting a little bit better. I know it's been a tough few years. But you talk about the FY16 budget proposal being a little bit ahead of minimums, and you talk about, it sounds like pricing isn't necessarily getting worse. Is this a fair assessment? Because meanwhile your contract award activity and funded orders seem to be trending pretty well. So when you think about sales cycles on new awards, and you think about the cycle of converting awards to actual funding, and you think about rates of protests, etc. – all the headwinds that have been pretty dramatic for a period of time – does it feel like we're coming out of this slowly but surely?

Ken Asbury: Yes. There's about 16 questions in there, Jason, so let me see if I can do them all. Look, we use the term "cautiously optimistic." Part of that is around the discussion of the budget. If you look at the different budget requests, they are up. DoD is up not inconsiderably.

Some elements of -- for instance, in 2012 and 2013 we saw significant decreases in, if you will, intelligence budgets, the MIP and the NIP. We're seeing those come back in proposed double-digit fashion. So those are the kind of budgets that we like to see. The rest of it is – generally speaking DoD is up 2 percent to 4 percent, depending on where you want to be. And if that's sustainable, if that's going to be additional money in the environment above what we thought we were facing into at the end of Ryan-Murray and a reimplementation of the Budget Control Act, I think that's good news for the entire industry.

For us, I like the fact that there is more money there. We're winning; we're winning at a pretty good rate of awards. We think there's ability to improve upon that.

It depends on where you look inside the market. Our work over the last couple years on really understanding where the money is flowing into different sections of -- for instance, the logistics and material readiness market, or in the intel services market -- is beginning to pay off by focus. We can go and position customers with not only the right kind of solutions, but we can get them to think about how their experiences could be different in using some of the tools that we have in place.

All in all, I would say it's easier now, because I think customers have a -- there's a demand signal of needing to do more than what the last couple years had put in place. So that being said, there is still -- we do not have agreement between the Administration and Congress on how to spend the additional money that both have put in place. History tells us that when the President wants more money in the budget, he generally gets more -- he or she gets more money. So that's what I think a lot of folks in industry are feeling, at least from listening to some of the other calls.

Pricing pressures? I know you added that. I think we're seeing a little bit of a movement and away from LPTA. That was in vogue when we first got into reducing budgets pretty severely as a result of BCA kicking in. We are seeing more -- we still see LPTA, but those are generally more for commodity things. And I think as John may have mentioned in his remarks earlier, where we see a customer that's going to use LPTA and only do it on the basis of price, the markets big enough that we can make a different choice. And we can pick customers that are doing more value-oriented things.

So I hope I hit a number of the answers to your inquiry.

QUESTIONS ON THE M&A PIPELINE AND GOVERNMENT FISCAL YEAR-END SPENDING

Jason Kupferberg: Yes. No, that was really helpful. Then can you just say a word about M&A pipeline and expectations for any sort of government fiscal year-end budget flush? Thanks.

Ken Asbury: Yes, fair enough. Let me deal with flush. We've been meeting a lot with customers, and we find them pretty comfortable inside of their budget space right at the moment. So we know that there's been a bit of reprogramming – $5 billion to $7 billion within DoD – so that might be a little bit of a change from what we would have looked into.

But we expect to see the normal seasonal increase. As we look at different customer sets here, they spend 40 percent to upwards of 60 percent of their annual discretionary budget during this period of time. The fact that we have probably 20 percent more pending awards in this part of the cycle -- I don't want to predict how it's going to turn out, but we don't see a major impediment to the government spending the way they would traditionally do at this period of time in the year. And frankly, I like our position going into that. I think your earlier comment -- what was the first question?

Tom Mutryn: M&A pipeline.

Ken Asbury: Oh, M&A pipeline. There's a lot of M&A -- there's always a lot of M&A opportunities, probably more so right now. There are some very large ones there. I'm not going to comment on anything specific. But some of them that are in the market are interesting and some are just not.

As we've always stated, we're pretty disciplined in how we try to use our capital, and there's a series of rigorous thresholds we've got to go through. We're going to continue to explore them. We are going to look for companies that have a higher solutions content or add new capabilities in those enduring parts of the market and, frankly, get us into new customer sets and some new channels. Most importantly, though, is we've got to make sure that they are going to produce long-term shareholder value.

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

QUESTION ON HOW MANAGEMENT VIEWS THE CHANGING COMPETITIVE ENVIRONMENT

Jon Raviv: Thanks so much for taking the follow-up. How do you guys see the competitive environment changing, such as your former colleagues over at Lockheed? How did their approach to the market change as a standalone versus a part of a large primer? Because I suspect that some of these larger primes have not run their services businesses well as maybe they could have.

Ken Asbury: Yes, Jon, that's hard to -- it's probably not appropriate for us to comment on things like that.

Here's what I'll tell you, what I think about the market in general. If we're heading towards a consolidation, I love it. There is a lot of fantastic government IT and solution work yet to come. We're at the very beginnings of another revolution in how the federal government is going to incorporate IT. Things like mobility and cloud and big data analytics and all those are going to have impacts on how we service citizens and how we protect our borders and how we allow immigrants to come in place, and -- because it's going to be a much more cost-efficient place.

I think there is a huge, huge place for companies like us that are really interested long-term to be those mission partners to the new technology companies that are bringing this stuff into market on a global economic scale that we just couldn't touch, trying to repeat it ourselves. So for us it's going to be about how we focus on individual customers or individual parts of the market, making sure our capabilities to understand their missions are aligned, and looking for those areas where you can price it well and where you can get a decent return. So as this -- as we consolidate, the other part is the long-term strategy is if there is consolidation, there will be less competition. They'll be more capable. It will keep us on our toes a bit more.

Jon Raviv: Great, thanks. Then just -- go ahead, sorry.

Ken Asbury: No, go right ahead.

QUESTION ON WHY CACI'S FEDERAL CIVIL REVENUE IS PERFORMING BETTER THAN ITS DOD REVENUE

Jon Raviv: Oh, thanks, guys. Sorry about that. Just how do we think about DoD versus fed-civ next year? Why is fed-civ outperforming such? And are these new FY15 deals that are ramping more DoD or fed-civ heavy?

John Mengucci: Jon, this is John. Year by year, quarter by quarter, that mix changes. What is certain is what you see in our FY16 plan is a decline on the DoD side. And that's really driven by the Afghanistan-related reduction.

What you see in the growth aside on the fed-civil, beyond OPM, were some outstanding FY15 wins. One was a DHS desk job, a managed services job that was a takeaway win. And that's an additional $20 million to $30 million in our FY16 plan. And a program to manage FDIC bank closures has also added to our fed-civ area. So a couple of services wins, couple of solutions wins, but predominantly in FY16 DOD down because of Afghanistan. We'll have just as many solutions-based wins on the DOD side as we will on the fed-civ and on the intell side as well.

Operator: Thank you.

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

QUESTION ON THE OPM CONTRACT PERFORMANCE IN THE FOURTH QUARTER OF FY15

Bill Loomis: Hi, just a couple quick ones on OPM. How exactly did that impact financials? Obviously you've said it ran slower. I assume you still had all the people, so costs were higher to, but does that have a material negative impact on the June quarter?

Tom Mutryn: Bill, I would say not a material impact on it. We had to slow down some of our work. OPM is 1,000 investigators out there across the nation working on a very different set of cases.

So when that spigot slows down slightly, we have to adjust our staffing levels. So if you were to look at the June/July -- I'm sorry, the July/August/September quarter, you'll see something lower in July and then coming back up as the quarter closes, based on what we are aware of now.

QUESTION ON THE INTEREST RATE ASSUMPTION FOR THE FIRST QUARTER OF FY16

Bill Loomis: OK. Then also on the interest expense, you've mentioned you're expecting 20 to 30 basis point LIBOR increase per quarter, but, in fact, since you gave guidance only a month or so ago, the yield curve has come down significantly. So I assume that at least for the September quarter, unless we have a dramatic change in the next month, that interest expense is not going up on a run rate basis in the September quarter. Is that right?

Tom Mutryn: Yes, yes, yes. Sure enough. Absolutely.

Bill Loomis: OK. So there's no scheduled step-up or anything; it's purely related to market trends?

Tom Mutryn: That is correct. As we put our plan together, I need to forecast interest expense. And candidly, I have zero ability to forecast interest expense. What I will do, what we typically do, is build in some modest increase in LIBOR during the year. The pundits suggest some point in time interest rates will rise, and at some point in time they will. I have no clue as to when, and we think that's a reasonable planning assumption for us.

QUESTION ON WAR-RELATED REVENUE IN THE FY16 GUIDANCE

Bill Loomis: OK, and just one, the last one. What is your war-related business you have in Fiscal 2016? What's in the guidance?

John Mengucci: Yes, Bill, FY16, $140 million total.

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

QUESTIONS ON THE CONTENT OF THE M&A PIPELINE AND ON CACI'S CAPITAL ALLOCATION STRATEGY AFTER THE DEBT IS REDUCED

Krishna Sinha: Hi, guys. This is actually Krishna on for Steve. Thanks for taking the follow-up here. I know you already answered a little bit about what you're seeing in the M&A pipeline, but can you just give us a little bit more color about what types of assets you're seeing now on the market and what the valuations are looking like? And then just for you specifically, what are your plans after debt reduction with what your capital allocation strategy is going to be going forward? Thanks.

Ken Asbury: Yes, Krishna; this is Ken. Our number-one priority for growth in this business is always going to be organic growth, and now we've gotten back to that. Our primary use of cash in our capital deployment strategy has been traditionally to focus on M&A, because we think that positions us with new customers and new capabilities; and we'll continue to focus that way.

As to what we're seeing in the market, well, obviously there's big, there's small, there's intermediate. There are a number of things that have come on the market. I think some of the expectations in terms of price may not be bearing out. I'm not going to be specific but some of the properties that have been out there we would not have -- we think the expectations were a little high.

It's hard to tell with some of the things that have been spinning, they are spinning out of a company, what they ultimately will do. Their plans are not really definitive, whether they would do a piece or a whole or that. So we remain interested in looking at it. And some of them, by the way, just wouldn't fit with our business. We've maintained that we're not interested in just buying services or buying revenue. We really want to buy something that takes us to a different part of the market and expands on our addressable market. So without getting into any specifics, I hope that gives you some color on what's happening in the market.

Krishna Sinha: That's great guys. Thanks.

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

QUESTION ON THE AWARD FEES RECEIVED IN THE JUNE QUARTER

Jairam Nathan: Hi. Good morning. Thanks for taking my question. Just -- I wanted to get some idea on the sequential news story as well. So if I look at it on a sequential basis, your DOD revenue was up March to June. Was all of that award fees? And is award fees -- is that 100 percent margin?

Tom Mutryn: Yes, the award fees are 100 percent margin. There is no cost associated with it. We are recognizing the cost of operating the program as we go along. The award fees in the fourth quarter were approximately $10 million in total. Predominantly a good portion of those are DOD business, and so that will explain a little bit about the revenue trends but certainly not the entire revenue trend line that you reference.

QUESTION ON AT WHAT LEVERAGE LEVEL CACI WOULD AGGRESSIVELY PURSUE ACQUISITIONS

Jairam Nathan: OK. Just on the – is there a leverage level which -- where you would like to be before you go aggressively behind acquisitions? Or is that is not a consideration right now?

Tom Mutryn: Yes, yes, thanks. Certainly leverage is a consideration. There is a maximum amount of leverage that we as a company and that our board with would feel comfortable with. It's hard for me to see us going over kind of 4.5 times. Given the right acquisition I can see us being 4 to 4.5 range, somewhere in there in terms of total leverage.

All in all, I think, philosophically, debt capital is less expensive than equity capital, and having a capital structure which has a reasonable amount of debt makes sense. In particular, when we're acquisitive, and, in particular, when we have a very low interest rate environment, which we do today, if interest expense was materially higher, we may rethink that at a particular level.

In terms of -- perhaps in answer to your question on a broader basis, as we look to acquire companies, historically we use debt. But there's no reason that we could not simultaneously use equity, given the right type of acquisition. Clearly equity capital is more expensive than debt capital. We would seriously consider it and make sure we have the right financial perspective on that.

At the end of the day, the key question is: will an acquisition add to a higher share price for CACI? Will it add to shareholder value? That is the ultimate lens that we use when we evaluate acquisitions and cash deployment.

Operator: Thank you. And as a reminder, ladies and gentlemen, if you would like to ask a question at this time, please press star followed by the number one key. And our next question comes from the line of Cai von Rumohr of Cowen and Company. Your line is now open.

QUESTION ON WHETHER CACI IS INTERESTED IN BEING A CONSOLIDATOR AND WHAT THE COMPANY WOULD BUY

Cai von Rumohr: Yes, thank you, gentlemen. Just one follow-up. You alluded to the fact that Lockheed, L3, others, are putting properties on the market and that we may be going into a consolidation phase. How interested are you guys in being a consolidator? And given that, John, you came from Lockheed Martin, are there pieces in there of interest to you, so that you might go on a preemptive basis and try to buy them out? Both of these companies, Lockheed and L3, appear to have an open mind in terms of whether they sell it piecemeal or whether they sell it -- whether they spin the operation out. Thanks so much.

Ken Asbury: Hey, Cai; this is Ken. Obviously, we're not going to -- what we're seeing now is something that's almost been predicted by every investment banker we've talked about or talked to for the last couple of years. So I'm not going to comment on any specifics.

I think I alluded in my question -- or excuse me, in my answer a couple moments ago that there may be some interesting pieces. I don't know how some of the bigger companies are thinking about what they would do once they get through the spins. All we know to date is that they are interested in spinning, and most of that is just from what we see in the press. I'm interested in: how would any of that fit into the long-term strategy of our business? If strategic consolidation will do something for CACI and our place in the marketplace, then I think that's -- then we would obviously be interested in looking.

We're more interested now in -- because there's just not a lot of clarity – as to what capabilities really come with any of those, the properties that you mentioned or any others that are in the marketplace right now. So I would tell you, we're interested but we don't know how to be -- how to get to a closure point in any of those yet, because we would need to learn a lot more about them.

Cai von Rumohr: Thank you very much.

Ken Asbury: You bet.

Operator: Thank you. I'm showing no further questions at this time. I'd like to turn the conference back over to Mr. Asbury for closing remarks.

Ken Asbury: Well, thanks, Candice, and thanks for your help today on the call. We would like to thank everyone who dialed in or logged onto the webcast for their participation as well. We know that many of you will have follow-up questions; and Tom Mutryn, Dave Dragics, and Jeff Christensen are available for calls later this morning and today. Thank you for your interest in CACI. So this concludes our call. Thank you and have a very, very good day.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect.

END

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