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
February 4, 2016
8:30 AM ET

Operator: Welcome to the CACI International Second Quarter Fiscal Year 2016 Earnings Conference Call. My name is Ellen and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session. Please note that this conference is being recorded. I will now turn the call over to David Dragics. Mr. Dragics, you may begin.

INTRODUCTION AND SAFEHARBOR STATEMENT

David Dragics: Thanks, Ellen, and good morning, ladies and gentlemen. I am Dave Dragics, Senior Vice President of Investor Relations for CACI International and we are very pleased that you are able to participate with us today. And as is our practice, we are providing presentation slides. So let's move to slide number two and it's about written and oral disclosures and commentary.

There will be statements in this call that do not address historical fact and as such constitute forward-looking statements under current law. These statements reflect our views as of today and are subject to important factors that could cause our actual results to differ materially from anticipated results. Now, factors that could cause our actual results to differ materially from those we anticipate are listed at the bottom of last evening's earnings release and are described in the company's Securities and Exchange Commission Filings. And our 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.

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

CEO OVERVIEW

Ken Asbury: Well, thank you, Dave, and good morning to everyone. Thanks for joining us to discuss CACI International's FY 2016 second quarter results. 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 United Kingdom.

Slide four please. I am very pleased with our performance this quarter, delivering organic revenue and net income growth for the second straight quarter this fiscal year. Our cash flow and backlog for the quarter were also quite strong. Tom and John will discuss our financial and operational highlights in their remarks upcoming.

On Monday, February 1, we closed on the acquisition of L-3 National Security Solutions, the largest acquisition we've ever made at CACI at approximately $1 billion in annual revenue. The expertise and capabilities of the combined organization are going to ensure that we will be on the cutting edge of next generation IT technology for our customers' critical missions in Enterprise IT, Intelligence Services and other key markets. NSS also broadens and deepens CACI's customer base particularly in the Intelligence Community. Moreover, the acquisition significantly enhances our Enterprise and Mission IT credentials and past performance enabling us to pursue larger contracts with new and existing customers at a very key time in our history when the federal government is making significant investments in advance systems and technologies to deal with a broad array of global security issues. The acquisition of NSS is also a compelling financial investment for CACI as we expect the acquisition to be accretive for FY 2016 and materially accretive in FY 2017. We have updated our FY 2016 guidance to reflect the expected contribution to revenue and net income from NSS and we'll have more details on that upcoming.

Side five please. Turning to the market environment, passage of the Consolidated Appropriations Act is a welcome change from the continuing resolutions the government operated under during most of our second quarter. Coupled with the Bipartisan Budget Act, which also raised the discretionary spending limits for the government's next fiscal year, this legislation provides a more stable platform for our customers to plan and obligate funds up until late 2017 as they respond to ongoing and emerging global threats. We expect this legislation to have a favorable impact not only on the contracts we hold today but also on those that may be awarded throughout fiscal year 2016 and into FY 2017. We are confident in our ability to win business in this environment and to deliver operational excellence in all the markets that we serve.

Slide six please. I couldn't be more delighted with the progress we are making as evidenced by our performance in the first half of this year. Our team has worked very hard to return to organic revenue and net income growth and that gives me confidence in our ability to meet our updated guidance for FY 2016 and well into the future. The acquisition of NSS positively changes our competitive position, adding the qualifications and resources that will strengthen our pursuit of next generation IT technology contracts. We are confident in our outlook, in our strategy, and in our ability to deliver long-term value to our shareholders.

Now, here's Tom to discuss the financial performance for the quarter. Tom?

FINANCIAL OVERVIEW

Tom Mutryn: Thanks, Ken, and good morning, everyone. Slide seven, please.

Our second quarter results were driven by solid performance on a number of programs, contributions from business awarded within the last year and lower amortization expense. Revenue in the quarter was 1.8% higher than last year with most of the increase due to organic growth. Year-to-date revenue was up 1.4%.

Our second-quarter gross profit increased 5.4% while our gross profit margin rose to 34.1% from 33% last year. Indirect costs and selling expenses increased as a result of $4 million of pre-tax, acquisition-related expense incurred in the second quarter as well as a number of other compensation and benefit-related expenses.

Slide eight please. We generated $56 million of operating cash flow in the quarter. Trailing 12 months free cash flow is $247 million. Our annualized free cash flow yield is about 12% per share at an $82 a share price.

DSO or days sales outstanding were 60 days, a slight increase from 58 days in the September quarter due to normal fluctuations of receipts.

The tax rate for the quarter was lower than normal due to the reinstatement of the work opportunity and tax credit in December in the favorable resolution of a UK tax matter for which we had a reserve.

Debt at the end of December was just under $1 billion. With the closing of the NSS purchase on Monday, our debt now stands at approximately $1.5 billion and our pro forma net debt to trailing 12 month EBITDA leverage ratio is now around 4 times. We funded the acquisition with a new incremental $300 million Term A loan and with increased borrowing under our existing revolving credit facility. Our borrowing rate currently is at LIBOR plus 200 basis points and we have interest rate swaps in place for $600 million with the average swap rate of 1.75%.

Let's go to slide nine. Turning to our annual guidance, with the acquisition of NSS, we expect our revenue for FY 2016 to range between $3.7 billion and $3.9 billion with NSS adding about $400 million to $450 million of revenue. We also expect our net income will range between $133 million and $143 million. This range includes about $9 million to $10 million of after-tax, acquisition-related one-time expenses for the full year.

NSS is expected to contribute to $10 million to $15 million of net income during the February to June period before $6 million to $7 million of after-tax, acquisition-related expenses we expect to incur during the second half. These expenses consist of various bank, legal, consulting, severance and other items. Since some of these acquisition expenses are not deductible for tax purposes, we expect our tax rate in the third quarter to be between 40% and 41%.

Incremental interest rate associated with the acquisition is expected to be around $8 million, including higher borrowing costs on our base level of debt due to higher leverage.

We expect an increase in intangible amortization of $5 million for the five-month period in addition to $3 million of depreciation coming from NSS.

With the acquisition and strong year-to-date performance, we now expect our cash flow from operations this fiscal year to be in excess of $225 million.

Last, we will be filing an 8-K/A within 75 days of the February 1 close, which will contain certain interim and full year NSS financial statements, as well as pro forma financial information for the combined entity.

With that, I will turn the call over to John.

OPERATIONS OVERVIEW

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

Let me start by saying how pleased I am with the organization's delivery of another quarter of organic revenue and net income growth. We continue to win new business and book contract funding orders. We improved our risk profile, leaving a very modest amount of re-compete and new business still to close this fiscal year. Our pipeline of quality opportunities remains strong. The integration of NSS is on track and we already achieved the expected $30 million of annual synergies. Please note that the operating metrics I'll provide this morning do not yet have the contribution of NSS. Those will be included at the end of our third quarter.

Turning to awards for the second quarter, we won $671 million with over 40% of that new business to CACI. About 30% of our awards were growth of existing contracts, reflecting the value and quality we continue to provide our customers.

The team booked contract funding orders for the quarter of $541 million, which results in a book-to-bill of funding over revenue of 0.65x, a very healthy metric for our December quarter. Overall, our total backlog now sits at $10.4 billion, an increase of 6.2% over the same quarter last year.

To provide a quick update on the status of our protested wins, we still have two awards totaling approximately $375 million of award value under adjudication. One of these awards was, in fact, re-awarded to CACI in our second quarter, but was quickly protested once again. We remain confident that the government will ultimately award this work to CACI. Given the timing and expected ramp starts, we are planning on minimal revenue in our fiscal year 2016 from these awards.

Slide 11 please. Revenue for legacy CACI's Fiscal Year 2016 now consists of 95% existing business, 4% re-compete, and 1% new. In addition, our existing business is about 90% funded. This is a very comfortable position with half of our fiscal year now complete.

Slide 12 please. Our pipeline of pending awards and upcoming bids remains very healthy. We have $12.4 billion of submitted bids with about 50% of those for new business to CACI. In addition, we plan to submit another $13.3 billion in the next two quarters with over 60% of that for new business to CACI. As I mentioned earlier, the NSS pipeline is not yet incorporated into these impressive metrics.

Slide 13 please. Turning to NSS, integration is well underway. As of Monday, this business has been incorporated into our market-aligned U.S. Operations business. The combined entities will benefit from enhanced offerings, capabilities, talent, past performance, and cost structure to successfully address our market areas, with NSS contributing significantly to our Enterprise IT, Cyber and Intelligence Services markets. And we've already realized the synergies necessary to bring NSS margins in line with CACI, excluding transaction expenses, during this fiscal year, ahead of our July 1 goal.

Slide 14 please. Finally, I'd like to provide an update on SkyTracker, our proprietary precision system that detects, identifies, tracks, and mitigates unmanned aerial vehicles. The cooperative research and development agreement with the federal agency that was announced in October is now in the testing phase at a domestic airport. SkyTracker is also being deployed to a number of other government agencies in both domestic and international locations, and there is increasing demand for this system across the federal government. We are very excited about this innovative application of our proven, highly sophisticated cyber and digital signals expertise to address the threat posed by the misuse of drones and SkyTracker's market potential.

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

CEO CLOSING COMMENTS

Ken Asbury: Well, John and Tom, thank you very much for your comments this morning. Let's all turn to page – excuse me, to slide 15 please.

As we enter the second half of the year, I'm quite confident in our plan and in our team's ability to perform against it. We had organic revenue and net income growth for the quarter and for the first half, a little ahead of what our schedule was, and it was coupled with strong cash flow and backlog growth. We have improved our business development capability and capacity to continue to drive organic growth and our acquisition of National Security Solutions opens opportunities to deepen our delivery of innovative IT solutions and services to new and existing customers. Similarly, the successful launch and deployment of SkyTracker, our proven solution to address the growing threat from unmanned aerial systems, creates opportunities for new markets while meeting a critical national security requirement. Looking into the future, we see a more stable budget environment and an array of complicated national security issues to support and solve. I like how we are positioned to meet our growth objectives over the next few years.

Before we turn the call over to your questions, I would like to say thank you to the employees of CACI, which now includes the almost 4,000 new National Security Solutions team members. It is your dedication, innovation, and commitment to winning new business and delivering operational excellence that ensures we will continue to deliver long-term value to our customers and our shareholders. Thanks to all of you.

With that, we will open the call up to questions. Ellen, I will turn the call over to you.

Operator: Thank you. Our first question is from Edward Caso with Wells Fargo.

QUESTION ON WHAT CACI IS DOING DIFFERENTLY FROM ITS COMPETITORS

Ed Caso: Hi. Good morning. Congratulations here. I am looking at the quarter. I see great revenue, great margins, awards, cash flow; the pipeline of submittals and weightings is all there. But some of your competitors have reported sort of more mixed information lately. It's a completely different signal from CACI. What are you guys doing that's different?

Ken Asbury: Yeah. Ed, this is Ken. We started three years ago on this strategy of really focusing on new business where we saw the enduring parts of the marketplace. That continues to pay off for us. We ramped up the kind of opportunities that we are going for. We've shifted more towards solutions whenever they present themselves. And, frankly, I think the steady application of that strategy over the course of the last three years is beginning to show itself. The only thing that's keeping us held back right now is the pace of government contract awards. That continues to be the thing that is the governor on additional growth for us.

And I also love the fact that we've now bought a company like NSS. It's a great company. We got it at a very good price. We got a terrific team of people that are going to augment the strategy we put in place three years ago for CACI. And I would also add that this is probably the best time we could have ever added such scale and capability and be focused on information technology associated with the Intelligence Community. A lot of money flowing into that part of the market and there is a lot of a need to update – significantly update – the way we've been handling classified information for many years. So it's sort of like – if you play pool – it's sort of a three bank shot on the 8 ball. So I like where we stand and I'm looking forward to having these kinds of calls more often.

QUESTION ON WHAT STEPS CACI IS TAKING TO IMPROVE THE PERFORMANCE OF NSS

Ed Caso: The NSS numbers that came out of L-3 were declining notably here of late and obviously lower margin. What are you going to do there? I mean, obviously, this can – obvious cost opportunity, but what can you do to sort of turn it and actually make it positive? I mean, I know the logos match up and the offerings help and so forth but you guys are breaking positive and they are still trending down. How do you turn the corner for them?

Ken Asbury: Yeah, Ed. So comparing to what you heard publicly from L-3 to what we actually bought is a little bit apples to oranges. There were some things there that they were looking at that we did not come over with it. So we got the core of their government services business. And like a lot of other of us in the pure government IT business, we've all kind of declined over the course of the last couple of years, except for a few of us in about the last six months.

So, if I look at the key things of NSS, it’s their strategic position in the marketplace. They do have some great skills and capabilities. We, with the synergies John talked about and he is going to talk about a little bit more in just a moment, we were able to get their rates down almost immediately because we did not wait to realize those synergies. Those synergies—excuse me, those rates will have an impact on current, any valuation business that hasn't gone before a final pricing review. So that’s the first opportunity to begin to turn it around.

As we look at our combined pipelines then, there will be some opportunity to improve the probability of when we were doing some joint things. So I may have taken all of John's answer there, but a lot of the things that were dragging on L-3 historically – and I don't want to focus on that too much going forward – did not come over as part of the deal. Their core IT and intelligence service business did and those are two pieces of the market right now that more money is flowing into.

Operator: And our next question is from Bill Loomis with Stifel.

QUESTION ON PARTICULAR PROGRAMS COMING TO CACI THROUGH THE NSS ACQUISITION

Bill Loomis: Hi. Thank you. Good quarter, gentlemen.

Ken Asbury: Thank you, Bill.

Bill Loomis: Staying on NSS, so when you did your call back in December about the company, you never got into some of the more specific programs the company has. I know there's been some concern as I think Ed alluded to that, it wasn't as high end and as good a business. But is there any, maybe some of the top contracts or programs, that you can drill down more specifically at NSS so we see that it's of similar ilk to CACI's type of business?

Ken Asbury: Bill, some of them are going to be program names that are not going to have any relevance. But I will tell you in the Intelligence market IT framework, they have two very large, maybe three, very large significant contracts that deal with the I-CITE revolution or evolution that's going on inside of the Intelligence Community, where they are going to a completely different way of collecting, processing, disseminating information throughout the entirety of the Intelligence Community.

One of those contracts was won a few years ago. It was successfully re-competed last year. It has a five-year run on it and it's a very large, almost nine figure a year contract. Another one of them was recently won and it's in the last year and it's also going to be – it's at the nexus of it.

Without talking about – I really don't want to get into the specific names of them because they probably wouldn't mean anything at that point. When you think about that scale and where they are at this point and the fact that they are at the very nexus of where we're changing from the old way of doing information technology to the new way of it, that's what was a compelling strategic interest. You add to that the Intelligence Services capability that they bring which extends ours into different customer communities and on different contacts – that was also very attractive.

QUESTION ON WHAT STEPS CACI WILL TAKE TO CONTINUE TO IMPROVE NSS MARGINS

Bill Loomis: Okay. And then just on margins of NSS in terms of improving them. You talked about your rate structure reductions and we got the $30 million cost savings, but looking out, say fiscal 2017 or 2018, how do you see that business improving in margins and specifically how do you get there? Are there just other efficiencies going on like employee utilization or other types of things that will benefit margins because obviously you mentioned a couple pretty high-end, I would think, type programs with decent margins?

John Mengucci: Yeah, Bill this is John. I'll start there. As you mentioned and as we did state, we did expect about 3% synergy, which was going to be about $30 million by July 1. We also said that we would get there by some reduced corporate flow-down from the parent program performance and operational efficiencies. And I'm sort of going to give a personal view and then a business view.

What we did was the hard work right up front, which was a direct impact to some of our folks. Clearly acquisitions of this size do have redundancies and we made the difficult decision to make the difficult calls early on. From a business view, that allows us to drive those synergies forward well ahead of our July 1st goal.

Sources were as expected, but now we do expect NSS will perform with margins similar to us far ahead of our goal, as Tom mentioned, during the February through June period.

We're also pleased that between signing and closing we were able to take a look at exactly the synergies that we could pull out soon, and make certain that we didn't break anything either on the NSS side or on the CACI side. What that does for us is it allows the NSS business to absolutely benefit from increased competitiveness while they are part of us.

We've already noted many of these different synergies, but it does provide a benefit to the current NSS customer base. So as you look at growth and margins moving forward, we're able to deliver on the same high-quality services much more efficiently, and also most importantly, the fact that we're going to have an opportunity to update pricing on any final bid submissions with this new set of much more competitive rates is an absolute home run for us.

Tom Mutryn: Okay. And I'll add one other thing, Bill. If I've looked – in the 2017, 2018, 2019, into next several years, we're taking the NSS businesses and moving it into our operating tempo business structure, market-aligned focus.

Our goals are to look at more solution work and fixed-price work where we can deliver outcomes as opposed to individual performing services, and we believe there's opportunities to take that operating philosophy and operating tempo and overlay it into NSS; and so that will provide value over the next several years.

Operator: The next question is from Robert Stallard with Royal Bank of Canada.

QUESTIONS ON FUTURE M&A OPPORTUNITIES AND WHETHER THERE ARE STRATEGIC OPPORTUNITIES THAT COULD EVOLVE IN THE FEDERAL IT MARKETSPACE

Rob Stallard: Thanks very much. Good morning.

Ken Asbury: Hi, Rob. Good morning.

Rob Stallard: Ken, a couple of strategic questions. First of all, what do you intend to do next? Having done NSS, do you think there are still M&A opportunities out for you looking down the line? And then secondly, clearly a lot going on in fed IT at the moment. Do you think there are any strategic opportunities or threats that are evolving from all these combinations? Thank you

Ken Asbury: Yeah Rob. So, look, there's always going to be M&A opportunities. And I think we've been very clear that that's our number one priority from a capital deployment point of view. At the moment, having done NSS and having about $1.5 billion of borrowing right now and being leveraged at 4 times or roughly 4 times, I think we're going to concentrate on making sure that we get the most out of the NSS acquisition. But we're going to continue to be active in the marketplace as we see the ability in our market-focused strategy to add capability or new customers or further continue to try to find ways to distinguish ourselves in this market with various sectors of the customer community. So I think the answer to your first question is, yes.

Do we see another big one in our immediate future? No, I don't think so. We have a very, very rigid, if you will, way of going about this. We're disciplined in the way we go about prosecuting, if you will, one of these acquisitions. It's got to have capabilities that fill one or more of our market areas. It's got to broaden or deepen our customer relationships. It's got to be highly strategic. We don't want to buy revenue. And it's got to be a great cultural fit for us; and that's what we found in NSS. Finally, the financial case has just got to be compelling. It's got to be something that's not going to have our shareholders question the coherency of our thinking. So, NSS fit all of those bills and we're quite pleased with it.

As to what is happening in government IT, I'll tell you my view. We've seen some very clever things happen. When the CIA decided to go to Amazon Web Services and we have to pick up the pieces from all the things that Snowden talked to the rest of the world about what we did, it set off a big round of investment and a big round of new thinking inside of the entire Intelligence Community about how they were going to collect, process, share and store information. And we're just at the very beginning of that state, and it's going to involve things like virtualization and big data analytics and a lot more cloud offerings where it's going to take companies like us, that really understand the inner workings of the Intelligence Committee working with the government, to try to bring in many of these commercial providers.

Secretary Carter has been very clear about the need to bring in newer, innovative technology. Again, that is another compelling reason why NSS was so strategically important to us. They already have a footprint there. We have a footprint there. Together we've got two big feet now in this marketplace. So, John, you want to add a little bit to that?

John Mengucci: Yeah, I guess, also Rob in the Enterprise IT area, there's that nine-level stack, and it starts off at the lower end at the desktop services kind of model all the way up to managed services. And you heard us talk about during signing and you would have heard some of those comments in our prepared remarks.

What NSS brings us is large-scale past performance on large scale federal government managed services contracts. That's something that we did not organically have. We had a very good reputation over the last 54 years of moving up the Enterprise IT stack. NSS really allows us to get involved, as Ken mentioned, in those nine digits, yearly revenue Enterprise IT jobs with a strong list of past performance credentials, and we believe that in the federal IT space that's where customers go to get more cost efficient. They move more stuff to fixed unit price, and more of their traditional desktop IT into higher end managed services.

Rob Stallard: That's great. Thank you very much.

QUESTIONS ON HOW THE BACKGROUND INVESTIGATION WORK IS RECORDED AND REFLECTED IN CACI'S BACKLOG

Operator: The next question is from Mark Jordan with Noble Financial.

Mark Jordan: Good morning, gentlemen. Like to – something you didn't talk about today but in the OPM business, could you talk about how that is booked and reflected in backlog? Are you just taking into backlog as tasks assigned or are there a sort of an annualized figure in there? And could you size, kind of, the run rate of that business now?

Tom Mutryn: I'll start. You know, the OPM business is a fixed unit price business where we get a variety of cases on an ongoing basis and they flow in. And when you get those individual cases, they flow into our backlog so there's no huge backlog number. It's a real-time updating it as we get cases assigned to OPM

John Mengucci: Okay. And Mark part of your other question, I guess. I might go one step back. There's been a lot of news out there regarding the OPM recently and the result of the President's Task Force. This National Background Investigation Bureau was set up and is still going to reside within OPM. Our customer is going to remain the same. What OPM is going to gain in that is support from the Defense Department, especially around network security and cyber defense of the background clearance database.

As for long-term, we don't see any change coming to us in the level of support that we provide to the federal government. As Tom mentioned, we are very pleased with our current level of performance. The OPM revenue and profitability have been at a steady state since quarter four of FY 2015. We expect that to have continued and to continue out further.

We don't talk about specific financials as we are bound by our contractual relationship to not share that level of single program data. But still a very high priority for this customer, and compared to this quarter last year a very well position to continue to provide growth on this very important program

QUESTION ON THE INTEREST RATE AND EXPENSE FOLLOWING THE NSS ACQUISITION

Mark Jordan: Thank you. Follow up, Tom, on interest expense. What would be the normalized fully loaded quarterly interest rate, or interest cost run rate for quarter four and subsequent to the NSS acquisition?

Tom Mutryn: Give me 30 seconds here. Probably around $12 million to $13 million that range.

Mark Jordan: Thank you.

QUESTION ON ATTAINING THE STATED ACCRETION FOR THE NSS TRANSACTION

Operator: The next question is from Jon Raviv with Citi

Jon Raviv: Hi. Good morning everyone. Now that you have closed on the deal, can you talk a little bit more about your expectations of at least 10% accretion FY 2017? Just seems that the numbers you've given for this year and kind of the direction that we're going in suggests something a bit higher than that. What would drive you to the high and low end of that expected accretion FY 2017? The synergies? Is it winning certain deals? Growing certain contracts?

Tom Mutryn: Yeah. Thank you. I will talk about that. When we provided that initial guidance it was – we did our due diligence and we understood the business relatively well. So we put out a number there which we believe we were able to realize. It's a commitment that we are making to our investors, and we want to live up to our commitment. Now that we have some more insight into the business – the acquisition closed on Monday – we're starting to work on the details of melding the organizations together. There may be some upside to that going forward.

We're very excited about the organization. We realized the initial synergy, the cost synergies immediately, as John mentioned to you. And now the fun stuff, or the interesting stuff, begins. How do we fully exploit the value of this very valuable asset, bring it in to CACI, operating rhythms, operating tempos, augmenting their business development capabilities with our business development capabilities and the like. And so we expect very good things for the organization going forward. I'm reluctant to be very specific about what happens in FY 2017. As we fold them into the organization to develop our FY 2017 operating plan, perhaps we can provide more insight.

QUESTION ON WHAT INDICATIONS TO LOOK FOR IN THE GOVERNMENT MARKETSPACE REGARDING FUTURE INVESTMENT

Jon Raviv: Okay. Thanks. And then a higher level question for Ken or John. On those, you talked a lot about the big investment that the federal government is making. We are understanding like why they are doing it, but are there any particular signpost we should be looking out for, any particular programs that are out or coming out? Or is it a collection – like one of those very large numbers going to start to be talked about a bit more.

Ken Asbury: Well, John, this is Ken. Probably the biggest one that we would be looking at is the ones that are the follow-on to – that are now called Greenway, where those are desktop outsourcing and a lot of national and international network support. And there's a series of those contracts coming out. It's a very large opportunity and – we're very well-positioned already. L-3 adds some additional capability. The NSS business adds additional capability to us.

Beyond that, there's number of classified programs that I'm not going to name. They also have, probably not as large as a Greenway, but also have an attractive – we will be looking at those over the course of I would say the next 24 months.

John Mengucci: Jon, and I guess in the Intel Services area, just by their name, people immediately associate it to the intelligence agencies. Where we see some mild post-growth programs out there, now that we have the combined power of CACI plus NSS, is in the federal civilian sector. There are going to be numerous federal civilian customers that are looking to grow their intell analyst capabilities. You can think of DHS. You can think about Customs and Border [Protection]. Think about the FBI and the like. There will be, over the next couple of years, some – to use your term – some mild post programs out there that we're very excited about, putting in extremely competitive bids for.

Ken Asbury: Jon, one final thought related to what John just said. The world is still probably an increasingly dangerous place, and we see the spread of several of our adversaries moving from what we were focused on, as having conflict in Iraq or in Syria, now spreading into Libya, into Africa. The problems are becoming more complex. And we're starting to see some adjustments being made by the administration. We believe that will lead to, I think, the position that we have now on the Intelligence Services business is going to grow over time. It has not been material to-date but that's an expectation as – if you listen to Secretary Carter, once again this week, to talk about his budget, he wants to double the amount of money that we spend on going after ISIS and he wants to increase what we do on cyber. Those are all areas that are in our sweet spot right at the moment.

QUESTION ON WHETHER SKYTRACKER IS FULLY FUNDED AND THE POTENTIAL SIZE OF THE MARKET FOR THIS PRODUCT

Operator: The next question is from Brian Kinstlinger with Maxim Group.

Josh Seide: Hi. This is Josh Seide in for Brian. Is SkyTracker fully funded by the government, and when do you expect to recognize your first sale of this product? Can you also size the opportunity and pipeline and what the margin profile of the solution might be? Thanks.

Ken Asbury: Yeah, Josh. This is Ken. So, we did have a plan for SkyTracker this year. It's met all those goals. We're investing in SkyTracker as well as it rests upon work that we have done for a number of years with the federal government, and there we have a good understanding between the two of us.

What we are working on today – we are investing in the testing, in real operational environments, as John mentioned earlier. We picked airport for one, a couple of other locations for a couple of others that I won't disclose here.

As to the potential, it's a new technology. It is getting very good reviews where it is being tested in real operational environments. We now have to see how that ramps up in terms of the ordering requirements. There is, as John mentioned, a tremendous amount of interest across most of the government right now for a variety of those applications. But I don't think it's something that's going to have – it's had a nice impact this year, not a material one. But I think looking into 2017 and 2018, we'll start to see customers begin to buy this, potentially in bulk. We'll see a slow but steady ramp-up in sales.

Josh Seide: Thanks.

QUESTION ON WHETHER CACI IS SEEING MORE PROTEST ACTIVITY AND ANY REPURCUSSIONS FROM IT

Operator: The next question is from Tobey Sommer with SunTrust.

Kwan Kim: Good morning. This is Kwan Kim on for Toby. Regarding federal contract protests, are you seeing a lot of frivolous protest activity and any negative repercussions from protesting too much?

Ken Asbury: Yeah, Kwan, I wish there were negative repercussions from protesting too much but, frankly, that's the law and people have a shot at doing that. I think we've seen, as things got tougher over the last three years in being a more competitive environment, I think protests became – they were on the increase. I believe there is a GAO report out to that effect, of a fairly recent vintage, that you might be able to look at.

What I will tell you, though, is I don't see that protests have had a significant rise in just because you – there may have been a rise in protest, but that doesn't mean that the government has been doing a bad job. There's a very low probability of winning or turning over a protest unless you find something really egregious. We've seen a number of things where, procedurally, the government hasn't followed the exact thing they said that they were going to do in terms of an RFP. And so there's often a reevaluation that comes into it. But, more often than not, the original winner keeps that.

Kwan Kim: Okay. Thank you.

Ken Asbury: You're welcome.

QUESTION ON STEPS CACI IS TAKING TO CHANGE THE REVENUE TREND OF THE NSS ACQUISITION

Operator: The next question from Amit Singh with Jefferies.

Amit Singh: Hi, guys. Thank you for taking my question. Great job on the quarter. You guys talked about the cost synergies, and it seems like most of that is already in place. So, it's a great job there. I just want to talk about more on the top line for NSS. I believe your updated guidance is talking about NSS revenue is largely flattish for fiscal 2016. Previously, even though you guys bought, seems like the core of NSS, but overall that business was declining in revenues pre-acquisition. So if you could talk about what are you guys doing that is going to very quickly change that trajectory from a declining revenue to a stablish revenue this year?

Ken Asbury: Amit, let me start, and then I think John will have something to add to this. If we look at the business that we received, we got the core of our government business in both Intelligence Services and IT. There were a number of things that over the last couple of years, as they had pressure inside of their organization to grow, they looked at different parts of both commercial and looking at some international business. That's the part that I think that they may have – they probably had difficulty in closing because it was new. I have to applaud them because they were looking at new sources of revenue, and to a certain degree they were there. We did not get that part of the business. We got the core government business. So, when I look at their business – and we have brought them in flattish at about a $1 billion level on an annualized basis.

If you look at their trailing 12 months for that business, it's a little over that, about $1.03 billion or something like that. So bringing them in the way we did, we're confident. We looked at their plan. We looked at enough of their plans, by the way, four days into it since this is the fourth day we've actually owned the property. And what we see is a very reasonable expectation that they will have flattish growth. Is there upside potential? Yes, if they win the right combination of jobs, like anything else.

What we're more excited about is what John is going to talk about next is: what happens now that they are out of a product house and into a focused government IT services company

John Mengucci: Yes. The way we looked at this, even prior to the signing of this arrangement – we're market aligned and we looked at three of our markets Cyber, Intel Services and the Enterprise IT market. And we really looked out there and sort of looked at all of the different properties out there – which ones could actually make – fill the gaps the quickest for us. What's really important about NSS to us is; it's not a bolt on. It's actually depth and breadth in our wheelhouse.

Make no mistake, we know who we are. We know that for 54 years exactly what we have provided in solutions and the services world to the federal government. We know exactly the type of work that they perform and they compete for. What we're looking forward to and what you can expect in these markets is that there's a lot of mission-oriented, high-value solution work that we can collectively go after.

As Ken mentioned, this business is core to what we do. It's no longer part of a solution. It's no longer just a solution and services arm. They actually are now part of a business that is very complementary, market-aligned. They, with the talented folks that are in this business, will allow us to grow in those three markets much more rapidly than we would have without them. So all in all very, very pleased not only about the near-term piece which is what we look for in these types of strategic combinations but over the longer term, our combined capabilities of past performance will absolutely do something greater than what each of us could have done on our own.

QUESTION ON RISKS ASSOCIATED WITH THE NSS ACQUISITION GOING FORWARD

Amit Singh: Great, perfect. And just a follow-on. When you guys did your last big acquisition, Six3, and, granted the market was much worse back then, it seemed like, and then initially what you guys are expecting for revenue, the actual number sort of came slightly below that. So as you're looking at your turnaround plan for this business, or growth plan for this business, are there any specific risks to this that you're thinking about?

Ken Asbury: Yeah, Amit, this is Ken. The biggest risk in – I probably sound like a broken record – is the pace of awards. If there are things that are put in place that slowdown the pace of awards that is – the business is planned presently different than we were. When we planned FY 2016, we put a lot of delay in for the pace of awards, and then we also factored in on some of the larger jobs protest delays. And I think that was wise on our part because we weren't – as you can tell from the first two quarters we've been able to generate, it's modest. It's not where we'd liked to be but it's directionally in the correct – it is the correct trend. We're showing organic growth.

In their business, we don't have the exact feel for how they did their planning and whether they factored things the same way. So, John, you want to add something to that?

John Mengucci: Yeah. You know some of those of common measures that you hear about, our CACI core business. Operationally, their plan through June looks very much like our plan through June. About 98% of their business is existing revenue and about 2% of their remaining pro forma fiscal year ending June 30 revenue is in re-compete. They actually won a large number of re-competes prior to our December announcements. So that did operationally and tactically – back to your question on risk – it actually did eliminate a good portion of their current five-month period risk. And they also have high re-compete win rates similar to the 90% range that we enjoy. So hopefully on an operational level that gave you some signpost metrics for you.

Operator: And we have no further questions at this time. So I'll now turn the call back over to Ken Asbury for closing remarks.

CEO CLOSING REMARKS

Ken Asbury: Well, thank you, Ellen, and thanks for your help today on the call. We would like to thank everybody who dialed in or logged in on the webcast for their participation as well. We greatly appreciate your interest in CACI. It's pretty exciting time to be here.

We know that many of you will have follow-up questions and Tom Mutryn, Dave Dragics and Dan Leckburg are available for calls later today and this morning. So this concludes our call. Thank you and have a very good day

Operator: Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for participating.

END

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