CACI INTERNATIONAL INC
Moderator: Ken Asbury
April 28, 2016
8:30 AM ET

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the CACI International Third Quarter FY16 Conference Call. Today's call is being recorded. At this time, all lines are in a listen-only mode. Later, we will announce the opportunity for questions and instructions will be given at that time. (Operator instructions.) A special reminder to our media guests who are listening in. Please remember that during the question and answer portion of this call, we are only taking questions from the analysts.

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

INTRODUCTION AND SAFEHARBOR STATEMENT

Dave Dragics: Thanks, Richard, and good morning, ladies and gentlemen. I'm Dave Dragics, Senior Vice President of Investor Relations of CACI International, and we're very pleased that you're able to participate with us today. And as is our practice, we are providing presentation slides so let's move to slide number 2.

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

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

Let's turn to slide 3 and open up our discussion this morning. Here's Ken Asbury, President and Chief Executive Officer of CACI International. Ken?

CEO OVERVIEW

Ken Asbury: Well, thank you, Dave, and good morning, everyone. Thank you for joining us to discuss CACI International's FY16 third quarter results.

With me this morning are John Mengucci, our Chief Operating Officer and President of US Operations; Tom Mutryn, our Chief Financial Officer; and Greg Bradford, Chief Executive of CACI Limited who is joining us from the UK.

Let's turn to slide 4, please. I'm pleased with our performance this quarter. Our revenue and net income were both higher, year-over-year, due to strong contract execution by our team and the performance of our National Security Solutions acquisition during the quarter. Cash flow, contract awards, and contract funding orders were all quite strong as well. We are narrowing our revenue and net income guidance for the year to reflect the clarity we now have as we approach the end of the year. Tom will discuss the financial results in greater detail in just a few moments.

At the beginning of February, we closed on our acquisition of NSS. This acquisition, the largest in our history, is performing brilliantly. We bought a great company at a great price, and we continue to see NSS bringing strong financial and strategic value to our business through substantial, high level past performance credentials and deeper, broader relationships with key customers. NSS's integration into CACI is also proceeding well as John will discuss momentarily. The success of this acquisition is an excellent example of why we see M&A as a vital part of our corporate growth strategy.

Let's turn to slide 5, please. Looking at the market environment, we experienced a slow pace of contract awards and delays during the middle five months, the October to February time period, of our FY16. If we focus for a moment on DoD operations and maintenance spending, which is one of our primary sources of revenue, the FY16 O&M spending in January and February of '16 was almost 15% lower as compared to the prior year. That being said, let me share a couple of observations that may indicate the spending situation is improving. First, there was a notable increase in both total and O&M spending in March of FY16, and secondly, our own third quarter awards increased significantly year-over-year. We believe these are positive leading indicators for the market environment as a whole.

I'd also like to highlight a couple of key accomplishments for this quarter. I'll start with the $180 million contract we won to support Geospatial Intelligence for the U.S. Special Operations Command (SOCOM). SOCOM is a very important customer to us and it's been terrific to put this contract in the win column. We were also pleased to have revalidated and expanded our CMMI Maturity Level 3 Systems and Software Engineering Evaluation across all of our US Operations. Delivering operational excellence is a key part of our growth strategy and a vital element of CACI's culture. It is fantastic to have earned this credential for our commitment to the highest standards of quality in all of our value delivery systems.

And finally, we entered into an exciting partnership with Virginia Tech to support its Hume Center Cyber and Physical System Security Program with a focus on unmanned aerial systems. This positioned CACI to help develop the cyber security employees of the future through internships, research collaboration and curriculum support.

Again, I am pleased with our team's performance this quarter in an environment that remains highly dynamic and competitive. Our results were in line with our expectations and indicate that our strategic deployment of capital for M&A continues to make a substantial contribution to our performance. We are confident in our market-focused strategy and we will continue to deliver long-term value for our customers and our shareholders.

Now, I'll turn it over to Tom to discuss our financials. Tom?

FINANCIAL OVERVIEW

Tom Mutryn: Alright. Thanks, Ken, and good morning, everyone. Let's turn to slide 6, please.

Our third quarter results reflect the NSS acquisition which closed on February 1st. During the two-month period, NSS generated $172 million in revenue and $5.6 million in net income. The net income includes $1.7 million of intangible amortization and $3.2 million of before-tax acquisition expenses consisting largely of severance.

NSS margins are in line with CACI's as we have realized a number of synergies. In addition, we incurred another $5.7 million of before-tax, acquisition-related expenses and about $3 million of additional interest expense, both of which are not reflected in the NSS numbers.

Legacy CACI performance for the quarter and year-to-date were driven by solid performance on a number of programs and contributions from business awarded within the last year. Legacy CACI net income, excluding all acquisition and additional interest expenses, would have been up to close to $34 million in the third quarter, up materially from last year.

Indirect cost and selling expenses increased due to the additional NSS indirect expense as well as the various acquisition expenses realized in the quarter. Legacy CACI indirect expenses are up modestly from last year, reflective of our ongoing efforts to operate efficiently.

Slide 7, please. We generated $54 million of operating cash flow in the quarter. Trailing 12 months free cash flow was $204 million. Our annualized free cash flow yield is 7.6% per share at $109 share price. DSOs, or day sales outstanding, were 64 days, a modest increase from the prior quarter due to normal fluctuations of receipts and some higher receivables from NSS.

The tax rate for the quarter was lower than normal due primarily to certain prior year state tax credits we were able to realize in the period. We previously expected these credits in the fourth quarter. In addition, we have some favorable tax benefits associated with our deferred compensation plan.

Debt at the end of March is $1.5 billion. Our net-debt to trailing 12 months pro forma adjusted EBITDA leverage ratio is now at about 3.9 times. Our borrowing rate currently is at LIBOR plus 200 basis points, and we now have interest rate swaps in place for $900 million with maturities as far out as January 2022, and with swap rate between 1.25% and 2.1%.

Let's go to slide number 8, please. Turning to our annual guidance, we expect our revenue to range between $3.7 billion and $3.8 billion. We expect that our net income will range between $133 million and $140 million. This includes about $9 million of after-tax acquisition-related one-time expenses. With the acquisition and the strong year-to-date performance, we expect our cash flow from operations to be in excess of $225 million.

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

OPERATIONS OVERVIEW

John Mengucci: Thanks, Tom, and good morning. Let's go to slide 9, please.

I'll start by saying I'm quite pleased with the performance of US Operations in our third quarter, both legacy CACI and the newly integrated NSS. In particular, we booked a significant amount of contract awards and record funding, reflecting the value our customers place on CACI's solutions and services.

We are hopeful the pace of awards we saw at the end of our third quarter is a sign government spending under the FY16 appropriations act is beginning to flow at expected levels. With two months remaining in our fiscal year, our risk profile is a comfortable 99% of our expected revenue and is now on contract with no expected new business and very little recompete revenue still yet to win. Our pipeline of quality opportunities remains strong and was further bolstered by the addition of NSS.

Let's turn to slide 10 to provide some additional color on NSS. I'm thrilled at what our combined organization accomplished in just two short months. The team is well integrated culturally and operationally. It runs on a common set of systems and processes, no small feat from an acquisition of this size. We are already enjoying improved competitive positions driven by enhanced capabilities, delivery methodologies, past performance qualifications, and a competitive cost structure. NSS is performing well and meeting its financial, synergy, and margin targets. I'd like to thank both the CACI and the NSS teams for their success in creating an even stronger combined CACI. I'll note that the operating metrics I'll provide this morning now include the comp contributions from NSS.

Slide 11, please. Turning to contract awards, we won $1.2 billion; a 75% increase over our third quarter last year. About 25% of those awards were for new business to CACI, and about 40% of our contract awards were modifications to existing contracts. This is something I'm particularly proud to note—our ability to grow existing contracts reflects the quality and value solutions and services we provide to our customers. Overall, our awards-to-revenue ratio was a very healthy 1.2 times for the quarter.

Looking at funding orders, CACI booked $1.3 billion in the third quarter. This is an increase of 37% over the same quarter last year and results in a funding to revenue ratio of 1.3 times.

Our backlog now stands at a record $12.9 billion, an increase of almost 34% over the third quarter last year. All in all, CACI continues to win business, build its backlog and maintain a very well-funded position.

Slide 12, please. Looking to the future, our pipeline of pending awards and upcoming bids is also very healthy. We have $12.3 billion of submitted bids with about 75% of those for new business to CACI. In addition, we plan to submit another $15.6 billion in the next two quarters with 75% of that for new business to CACI.

All in all, the integration process, progress and financial performance of NSS is exceeding our expectations and we are very happy with our combined awards this quarter, our record backlog and our prospects for the future.

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

CEO CLOSING COMMENTS

Ken Asbury: Well, thank you very much for your comments, Tom and John.

Let's all turn to slide 13, please. If I look at our performance year-to-date, I see many reasons to be pleased with how our team has done and I would like to thank the CACI employees for their ingenuity, their innovation, and their commitment to our customers' most critical missions. It is because of them that CACI was named to *Fortune* Magazine's Most Admired Companies list for the third consecutive year. Our being named to this prestigious list is a reflection of the innovative, entrepreneurial spirit of our people and a testament to our company-wide culture of excellence and good character. Thank you, all, for your hard work and dedication to our company, to our customers and to our shareholders.

Before I turn the call over to your questions, I'd like to note that we are very excited to be hosting an Investor Day at the end of June in New York City. We'd like to invite you to join us for strategy and operations presentations from our leadership team as well as demonstrations of some of CACI's most exciting and compelling solutions, such as SkyTracker. We'll share some more details on our Investor Day in the very near future.

So thank you very much and I'd like to open up the call to your questions. Richard, I'm turning it over to you.

Operator: Thank you. We will now begin the question and answer session. (Operator instructions.) And our first question on the line comes from Bill Loomis from Stifel. Please go ahead.

QUESTIONS ON ACQUISITION-RELATED EXPENSES INCLUDED IN THE GUIDANCE

Ken Asbury: Good morning, Bill.

Bill Loomis: Good morning. Just on the guidance for the year on EPS. So the guidance includes the impact of the $13.5 million pre-tax acquisition charges, correct?

Tom Mutryn: That is correct. Yes. In the script, I said $9 million of after-tax. That is correct. Yes.

Bill Loomis: And what is in the fourth quarter, if any, that's also in the full-year guidance in implied charges?

Tom Mutryn: The fourth quarter is less than $500,000. It's pretty de minimis.

QUESTIONS ON INTANGIBLE AMORTIZATION EXPENSE

Bill Loomis: Okay. Good. And then on the acquisition-related intangibles, what were they for the quarter and what's the full run rate for the June quarter, also?

Tom Mutryn: Yes. So we had $1.7 million for the two-month period and so it's pretty annualized from there. So for the five month—probably $1 million a month, a little less than $1 million a month.

Bill Loomis: I meant for the whole company so not just with NSS but also the old Six3 and the other intangible acquisition.

Tom Mutryn: Yes. The intangibles are—for the fourth quarter, it's approximately $11 million.

QUESTION ON NSS CONTRIBUTION TO BIDS OUTSTANDING

Bill Loomis: Okay. Great. And then, finally in terms of the bids outstanding, or to be submitted, the jump to $15 billion and the $1.2 billion in the quarter. How much of that was NSS contributions?

John Mengucci: Yes. Bill, this is John. It was about a third of that total amount. And I'd also like to share that the other benefit of NSS providing additional new business for us is the fact that, in the short time we've already been operating as one unit, we've already utilized their past performance work. They've also been able to utilize their new rates as well. So when we look at where we are today, we would expect that the percentage of the new business that that new entity brings to CACI to continue to grow quarter-over-quarter.

Bill Loomis: Okay. Great. Thank you.

Operator: Thank you. Our next question on the line comes from Edward Caso from Wells Fargo. Please go ahead.

QUESTION ON WHY EARLY INDICATORS POINTED OUT BY MANAGEMENT ARE NOT VISIBLE IN THE INCOME STATEMENT

Edward Caso: Hi. Good morning.

Ken Asbury: Good morning, Ed.

Edward Caso: So the award activity is terrific. NSS is going great. So my question is you had negative organic growth in the quarter. You trimmed the high end of your revenue guide. And in the bullet point on NSS, when you listed financial performing well, you didn't say revenue. So why is the sort of early indicators very strong but we're not seeing it in the P&L numbers?

Ken Asbury: Yes. Ed, this is Ken. Narrowing our revenue range is—all that's driven primarily by the delay in spending. If we remove NSS, core CACI would be at the lower end of our revenue guidance for the full-year. Now, as I mentioned in my remarks, we saw a lot of delays in spending, late appropriations act and the O&M, but overall we're pretty pleased with how this performed.

If you step this back to the strategy that we've been—we've been going after much larger targets and I think what we're beginning to see is a change in award schedule. I'll give you one example. We had an award come in this week that was scheduled to come in in January and it was a fairly substantial one. It'll show up in our fourth quarter but it was scheduled to come in in January. Had we received it then, we probably would be having a different conversation about revenue generation for the rest of the year. So I think these big jobs are going to do that.

Now, we do continue to win business, and I appreciate the fact that we're noticing but the awards for third quarter came in very late. I noted that the O&M spending, which is one kind of sign of government spending activity but very important to us, was down in January and February. Certainly we surely saw that reflected in a lower amount of awards. We got to third quarter and now the beginning of fourth quarter, we're starting to see a much more healthier flow of that award activity.

The other note—while I'm not happy, if you will, about showing this delay or the negative revenue guidance, I am very pleased that we're going to show net income growth organically for the full-year, and that's a really good measure. When I start to look at cash and net income, we think those are really great measures. We'll catch up, the timing will catch up to us because I believe we positioned ourselves to do the right thing.

John, I think you've got some comments about profitability at the program level that you should share with Ed.

John Mengucci: Yes. Sure. Thanks, Ken. And I guess to provide some additional clarity, and maybe it's more of an operational perspective on both our narrowed revenue guidance as well as maybe a couple of insights on our organic revenue growth. As Ken mentioned, delayed awards, the later than expected protest resolutions did put pressure on the new business revenue that we were expecting as well as expanded growth on our recompete programs. What we're starting to see, Ed, is some of our recompete programs are actually looking like hybrid new business. Customers are taking work we have, customers and a few other people have, and it becomes a recompete of our work plus somebody else's new work. Some of those recompete programs we were looking for additional revenue from, and the award of those, were delayed. So positive news, we get to operate on the current scope of work; negative news, we don't get that additional bump.

Now, those are offset to some extent by the stronger than expected on-contract growth. We are now starting to see customers with more budget clarity up-scoping some of our larger contracts, sort of the behavior that we used to enjoy maybe three to four years prior. As Ken mentioned, program performance on those and other contracts drove increased profitability, leading to net income growth of about 10%, quarter-over-quarter. So while it's true we're operating at the lower end of our revenue guidance, one, we're still within our original guidance range, and two, we continue to deliver net income as expected.

If I were to change gears and just spend an extra minute around organic revenue growth, we set out in FY16 to return to organic revenue growth and we see where we are today, frankly, as a tremendous achievement. If I were to look back seven quarters, when our trailing 12-month organic revenue growth number was around negative 13.8%, we're very pleased that we're somewhere in the 1.5% range at the end of third quarter, and I think we'll most likely end the overall year at around the same level. So although we're not at our point estimate or returning to our organic growth, we all believe that it's a trend in the right direction by any measure. So thanks.

Edward Caso: Thank you.

Operator: Thank you. (Operator instructions.) Our next question comes from John Raviv from Citi. Please go ahead.

QUESTION ON FACTORS CAUSING THE MID-POINT OF DILUTED EPS IN THE ANNUAL GUIDANCE TO DECREASE

Ken Asbury: Good morning, John.

Jon Raviv: Good morning, guys. Just on the reference to net income being a bit higher. It looks like you got some from the guidance, at least got some benefit on tax rate. Can you talk about what the other moving pieces are there, such that the EPS midpoint actually moves down?

Tom Mutryn: Yes, sir, Jon, this is Tom. There's really nothing that I would like to highlight. Basically, the business is performing in the normal course of events. There's no singular one time activities that I would like to note in the quarter besides the tax rates, which I already articulated. So we have a revenue and net income guidance range, and the upper end of both of those were adjusted, not necessarily on a one for one basis but both are point estimates, are within those guidance ranges.

QUESTION ON WHAT THE FULL-YEAR RUN RATE ON DILUTED EPS MIGHT BE WITH THE ADDITION OF THE NSS ACQUSITION

Jon Raviv: Okay. And then the full-year EPS guidance range implies about $1.50 for fiscal fourth quarter. You suggest that the NSS acquisition costs are pretty much behind us. So is it fair to think about that as a fair full-year run rate? Or is that more of a floor—is that $1.50 more of a floor, since NSS accretion should only pickup and you said that it's exceeding their expectations?

Tom Mutryn: Yes. So I would caution taking any one quarter and multiplying it by four. Our business, although it's somewhat stable, there is some fluctuations due to award fees and, oftentimes, we have to book reserves or you've got to release reserves associated with various legal matters or government contracting auditing matters and the like. But certainly, from an expense perspective, the one-time expenses associated with the acquisition are largely behind us. I think the fourth quarter will be relatively clean as far as expenses are concerned. And as we develop our FY17 plans, we'll be providing some insight into those at the end of June as is normally done.

Jon Raviv: I'll stick with two [questions] and hop back in queue. Thanks.

Ken Asbury: Thank you.

Operator: Thank you. Our next question comes from Krishna Sinha, from Royal Bank of Canada. Please go ahead.

QUESTION ON THE CONVERSION OF AWARDS TO REVENUE

Ken Asbury: Good morning, Krishna.

Krishna Sinha: Hi, guys. So just a quick one. Can you just tell me sort of—your trailing 12-month book-to-bill is fairly strong, even excluding whatever awards you were getting from NSS. Can you kind of layout how quickly book-to-bill flows through to the revenue?

Ken Asbury: Yes, Krishna. I think that's pretty variable. I mean, on programs that are predominantly labor-oriented where we're providing professional services and they need 50 of this and 100 of that, I think that happens pretty quickly, particularly in this environment where it is very heavily recompetition-oriented. If we take something away, we generally hire the majority of those people and we see that converts more quickly.

On programs that are more solutions-oriented, we'll see a slower ramp-up in terms of revenue recognition. There's a delay in terms of getting all the engineering and the early parts of setting expectations of what the program is really going to be in reality after it comes out of the acquisition phase. And we'll see a slower ramp to that. That's one of the things John was referring to a little bit earlier. We've seen a very healthy increase on non-contract growth on a couple of key development programs this year that may have started with a little bit of contribution in FY15 but now we're ramping up staff because we're through the PDR stages of it and now we're starting to generate really nice revenue and profitability.

Tom Mutryn: Yes. The other comment I'll make is yes, the book-to-bill, my calculations are around 1.3 times so healthy trailing 12-month kind of book-to-bill so we're happy with that. A lot has to do with the nature of awards. If it's a one-year award, we're going to realize that revenue relatively quickly because it's a one-year award. If it's a five-year award, the most we're going to recognize is 20% in the first year. So with the nature of the type of work we're bidding—some work we're bidding are ten-year periods of performance—and so that is another dynamic to looking at how that book-to-bill gets translated into near-term revenue.

QUESTION ON WHAT CACI IS NOW ABLE TO BID FOR AS A RESULT OF THE ACQUISITION OF NSS

Krishna Sinha: Okay. And then, on NSS, you've talked about some new capabilities or anything you can point to at NSS that allows you to bid on contracts. But is there any situation where you—now that you have NSS—you can bid on things using combined CACI and NSS capabilities that you were not able to do before? Sort of like one plus one equals three?

John Mengucci: Yes, sure, this is John. As I alluded to earlier, in the short three months that we've been operating as a single company, there's a couple of now real-life examples that we have come together to really show the absolute power of having NSS as part of CACI. In our enterprise IT area, we had—heritage CACI had some ongoing bids that are now part of the $15 billion of awards that we're waiting on the decision on. During the bid process, we were able to bring in some additional enterprise IT capabilities, as well as and almost as important, talented folks to help us do the final write and the final proposal solutioning and the final submittal of those proposals that we had open. So the way we see that, with those additional capabilities and that talent on two enterprise IT bids, we believe we were able to deliver a much stronger bid and much stronger past performance, which is what you've heard us mention—a very key strategic part of this NSS acquisition.

On the opposite end, we also talked about during our last call, around getting 3% synergies, or about $30 million, by July 1st. We did that through reduced corporate flow downs, program performance and other operational efficiencies. The reason why it's so important for us to realize that we're at that point earlier rather than going into FY17, is we were able to form new rates for NSS, which has allowed them already to re-price some of the large bids that they had already submitted that were at the phase of getting our best and final offer.

So two real life examples, one in the Enterprise IT area, one in the Intelligence Services area that we believe has already shown the overall strategic and financial value of this NSS acquisition to us.

Krishna Sinha: That's great. Thank you, guys.

Ken Asbury: You bet.

John Mengucci: Thanks.

Operator: Thank you. Our next question on the line comes from Amit Singh from Jefferies. Please go ahead.

QUESTION ON WHETHER CACI IS ABLE TO FIND THE QUALIFIED PEOPLE TO STAFF BUSINESS THAT HAS BEEN WON

Ken Asbury: Good morning, Amit.

Amit Singh: Hi. Good morning. Thank you for taking my question. So as the end market is improving and you guys are starting to see strong bookings, I wanted to get a little bit of your sense on the supply side when it comes to employees. Are you able to find the right talent to deploy on all these projects that you're winning? Because the general sense in the industry is there might be strong competition if you hire employees then the rate inflation might go higher than average. I just wanted to get your sense over that.

Ken Asbury: Yes, Amit. Great question. Over the last 15, 20 years of this business, if you look at—there's always a period of time when there is a sort of a rarer breed of employee that you need to bring on board, and that's where we're going to see the competition. Today, it would be in the realm of cybersecurity and the like. And I think the pressures are a couple fold.

One is just the amount of money that's flowing into this. This problem is exigent. It's something that we've had some pretty bad experiences throughout the government. There's a lot of interest in solving this problem, and the supply is probably below the demand curve right at the moment. So those folks are in high demand and certainly from us and probably all of our competitors. We're stealing them back and forth from each other, and making them all wealthier with each one of those iterations.

On the other hand, we're doing an awful lot to begin to grow our own. There is a piece of this industry right now that we need to be very circumspect about and we've talked to the government at length. And that is we need to make sure that we are leading the defense industry or the intelligence industry in a way that we don't drive everybody over to the commercial industry because cyber is pretty ubiquitous and both the skill sets are the same, very similar for a lot of the different high-end software developers that we're going after.

So I think many of the companies, such as ourselves, are trying to do things to attract and retain folks in our industry. And I think being named to *Fortune* Magazine's Most Admired Companies, and last year we had the privilege of being one of the *Washington Post's* employee-selected Top Places to Work—those are all things that we're trying to have as part of—well, we just want to be more attractive than the other guy, so those are the things that we're doing.

But in general, there are certain areas where the supply is there but it's not changed really dramatically other than sort of the flavor of the kind of skillsets that we need. And as always, we'll figure out a way to either grow them ourselves or put ourselves in a position that we're going to be more attractive than somebody else.

QUESTIONS ON WHETHER THE SUPPLY OF LABOR COULD LEAD TO MARGIN PRESSURE AND THE LEVEL OF PROTEST ACTIVITY

Amit Singh: Great. And just a follow-up. Could that lead to maybe some margin pressures going forward? And a different question related to the end market. As the end market is improving, are you seeing the protest activity going down as well?

Ken Asbury: This is Ken again, Amit. Let me answer the last one. Protest activity has definitely come down a bit from what we saw in the first couple quarters of FY15. That being said, I think if you look at the industry, at least in how it is reflected on us, if you look at the industry, I think there is an indicator that it's up overall but we haven't experienced it in the same manner. I think John referred to earlier, we finally got the two that were worth $375 million to us that were first and second quarter FY15. They were finally adjudicated in our favor this year, later than what we planned, but they're now in-house. So that's the good news. We may have some smaller things that are running around but not a whole lot.

In terms of the margin pressure associated in—what we are seeing in certain customer sets is jobs that we bid a couple years ago, where it was hyper-competitive and LPTA was prevalent, we're seeing customers sit down now and say, "Okay, let's be honest about what it's going to take to get talent into this business." We've been successful in a couple places in being able to adjust rate structures in a way that allows us to bring people on board more readily.

So in general, we've seen sort of a swing back from LPTA, but let's be really clear, this market has reset itself from a cost point of view just as a result of the Budget Control Act. It's going to remain competitive but I think it's going to become more rational as time goes on, and we're starting to see those signs now.

John Mengucci: Yes. It's John. I might also add as an example. We're in the midst of two recompetes right now, and both of these are those where I would call those hybrid ones where we have current work that was awarded under best value and other work was awarded LPTA to someone else. We're seeing the customer move the LPTA work into a recompete for our work but it's going best value. So two different things, right? Best value versus LPTA.

But as Ken mentioned, what the customer is willing to pay for that, the market has reset itself. So although we are seeing some things go from best value to LPTA now back to best value, the market has reset not only on people's salaries but on what the value of the government is assigning to that. So we'd like more best value than LPTA. We've just gotten ourselves ahead of potentially others understanding that best value does not mean a return to higher prices.

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

QUESTION ON WHETHER AWARD DELAYS WERE SPECIFIC TO A PROCUREMENT OR BROAD-BASED

Ken Asbury: Good morning, Brian.

Josh Seide: Hi. This is Josh Seide in for Brian. Thanks for taking the question. We haven't heard much regarding award delays from others in the peer group lately. So I'm curious if the delays in awards you highlighted were specific to a few large procurements or do you think delays were broad-based?

Ken Asbury: Well, I think they're funding–based and I think they had to do with kind of the onset of the—or the appropriations act was signed just after Christmas and it took several months. And the example we used a little bit earlier was just looking at O&M as a surrogate for how the government was spending year-over-year. That was down 15% in January and February and overall about 2% for the year. We saw it spike up again in March, increased by about a 9% plus-up in March. We're too early to look at April but I am sure that there could be some variability in what end markets we're looking at.

I mentioned earlier that we are looking at much larger opportunities in our space and I think there's a lot more care and feeding that goes on in the part of the government to try to avoid protest. We had one recently—I referred to earlier the one that we thought we would get in January that we just won earlier this week. That was a very sizeable program and had an impact on revenue generation.

We have another that we expected, that John talked about a bit earlier—even larger than that. That was a hybrid program where it was combining our recompetition with other things. That has been—shortly after February, or our February call, we found out from the customer they're delaying the award for a year. Now, the good news is, is we get to keep our recompete but we don't get—and we may get some additional funding on it but it's not going to replace our ability to have won that program. So I think there probably is some variability but we've been concentrating on the higher end of the solutions market lately, on some of these bigger jobs, and that may be where that variability lies.

Josh Seide: Great. Thank you.

Operator: Thank you. Our next question comes from Cai von Ruhmor from Cowen & Company. Please go ahead.

QUESTION ON WHETHER THE CONVERSION OF AWARDS TO REVENUE WILL RESULT IN LOW SINGLE-DIGIT ORGANIC REVENUE GROWTH IN CACI'S FY17

Ken Asbury: Good morning, Cai.

Lucy Guo: Good morning. It's Lucy Guo on for Cai. He's on another call. Hi. Just follow-up on the questions about bookings translating into revenues. Just to be clear, do you think your low single digit type organic growth has potential to ramp-up in the next fiscal year, '17, directionally speaking? Is that what you are looking at?

Ken Asbury: Lucy, obviously we're still going through FY17, or building our plan for that, which is our normal practice. With that being said, let's talk in general about how some of these things—it's going to be variable, depending on the nature of the program. But if you look at the environment going forward, we are behind the appropriations act and that's signed, and that's put more money in play—about $80 billion of it in the next year or so. It happened later than we would like, and we've already referred to that. But that's in place for going into '17.

Secondly, and with kind of a two-year bandwidth, as John referred to earlier, we're seeing customers being comfortable in putting more money into important critical missions today. And we didn't see that the last couple of years. That notion of on-contract risk. So that feels better. That feels like a more normal practice, or from a competent customer, about where their budget is going to be.

If we look at the potential for CR—and I think that the CR would at least be set at FY16 levels. And there is a higher amount of funding associated with that. So once again, the environment is a little bit better.

Now, I don't want to get in front of our planning process because there's puts and takes and all of that sort of stuff, but in general it feels like we're reaching a more normal state, even though it took longer to the get the appropriations act of 2016.

QUESTION ON WHETHER ANY REVENUE SYNERGIES RESULTING FROM THE NSS ACQUISITION ARE BEING FACTORED INTO FY17 PLANNING

Lucy Guo: As just a rule of thumb, would you be factoring in any of the potential revenue synergies in your outlook for next year?

Ken Asbury: Yes. That's a great question, and I'm looking at John right now and I'm not getting an answer from him. But I would think yes. We should be able to start to look at—they may be towards the end of the year. I mean, some of these things that we're working on are now in the 12 to 18-month gestation period for how we're pursuing them. And we just came together a couple months ago with NSS. So there are several that we're collaborating on that we think make us stronger.

John, do you want to give any more color on that?

John Mengucci: Yes. Definitely during FY17, we will begin to see some of these opportunities that, because one plus one equals something greater than two, we should be able to go after an additional pipeline worth of business. I'll sort of tamper that by, as we are moving to larger, longer-term solutions-based jobs, those are the types of programs that take a 12 to 18-month shaping, getting with new customers, showing them our combined capabilities and the like. So we are quite to the left of where we would be looking at these and doing our FY17 plan. But, if the current indicators of how we've been able to help each other on the current tactical bids we have in front of us today is any leading indicator, I like where we're at right now and I like where the short and long-term future are.

Operator: Thank you. Our next question on the line comes from Tobey Sommer from SunTrust. Please go ahead.

QUESTION ON WHAT ADDITIONAL COST SAVINGS ARE REMAINING TO BE REALIZED FROM THE NSS ACQUISITION

Ken Asbury: Good morning, Tobey.

Ray Long: Hi. This is Ray Long filling in for Tobey. Good morning. Just a quick follow-up on that last question, I guess just on the cost side. You guys have already done a lot of the leg-work in integrating the business. What's left to be done and any color on the progress of those initiatives and the timing?

John Mengucci: Yes. Ray, this is John. Yes, we have gotten through some of the initial synergies that we were looking to target as we got into FY17. But beyond that, we're going to continue to look at longer-term synergies—things like facilities, things like common infrastructure that we just haven't seen enough of yet. We signed this deal toward the end of Calendar Year '16. We closed on it February 1st. So things like those areas, just general operating expenses that we can buy cheaper together via supplies and the like.

We've done that with some of our larger acquisitions. Traditionally, those will take months to a couple of years for us to, one, recognize and then actually operationalize those. Most of our processes have come together but, in the short couple of months how NSS runs some of their programs and how we run some of ours, you always pick up lessons learned. We would hope that getting those experientials across the entire business would help us perform better both on our managed service programs as well as our larger solutions-based. So a terrific start but there's always things that we can continue to look at. So thank you for the question.

Ray Long: Okay. Great.

Operator: Thank you. We have a follow-up question from Jon Raviv from Citi. Please go ahead.

QUESTION ON WHETHER CACI MANAGEMENT INTENDS TO REFINE THE LEVEL OF ACCRETION EXPECTED FROM THE NSS ACQUISITION

Jon Raviv: Thanks very much for taking the follow-up. In your prepared remarks you talked about NSS pacing ahead of your expectations. Do you care at this point to offer any color on potential upside to what you've said is above 10% accretion in FY17? Any refinement to that number and expectations heading into next year?

Tom Mutryn: Yes. So this is Tom. For the first two months, very strong performance. And if one took their two-month number and did the arithmetic and annualized it for the five-month period, you'll see that it is north of 10% accretive. We're happy with the performance of the organization and it's performing at or above our expectations. So as we build our FY17 plan, we'll provide more color there. But I think that gives you a flavor of where our heads are at.

Ken Asbury: Yes, Jon, this is Ken. They're meeting their revenue and profit expectations. Their quarter three performance was quite encouraging for having—going through the change. You expect some things to get dropped on the cutting room floor and it didn't. They're extremely, extremely professional. As John mentioned earlier as well, the synergies are done. The integration is going well. They're a lot like us so they're really wasn't a lot of translation that needed to happen. There's a few things about the variability in the program style and all that but that's around the margins. The core of that business is very much like us. And they're winning business, and that's really cool. And I think we've put them in a position now with a little bit lower rate structure on some of these very key jobs that their final price reviews are much more competitive than what they would have been had they stayed where they were. Overall, it's just a great acquisition and we still like what we paid for it.

QUESTION ON HOW CACI'S UK BUSINESS BENEFITS BY BEING PART OF CACI

Jon Raviv: Got it. And then a quick follow-up as long as I have maybe a quick minute here. A question for Greg. Ken just talked about how NSS is a great fit and Six3 as well has been a great fit. I'm wondering, how does your UK business benefit by being part of CACI?

Greg Bradford: Thanks for the question, John. We've been in the UK for 30 years now and we trade quite heavily on our US reputation and size and whatever. I don't know if you know much about the UK business, but we're a diverse business—about 40% of our work is government, 60% commercial, and our run rate is about $150 million a year, and we've got 900 people.

In terms of moving closer to our US Operations, this past quarter we acquired a company called Purple Secure Systems. It's our kind of stepping stone into the defense and Intel world, which we've not played in to date. A small company, about 80 people, $10 million in revenue, excellent reputation, growing 20% to 25% a year, and they seem to have significant business opportunities.

The challenge being, as it is in the states and Ken talked about it earlier, is to recruit qualified people and to get them cleared. We're confident that we can grow that business on our own but we're especially excited to try to leverage our US Intel, cyber skills, and knowledge and technologies to accelerate the growth of this business. So over time that business will grow and will move us closer to our core work in the US. Hopefully, that gives you a little bit of sense of UK.

Operator: Thank you. You have a follow-up question from Cai von Ruhmor from Cowen & Company. Please go ahead.

QUESTION ON WHETHER THERE WILL BE CHANGE IN CONTRACT MIX AND OPERATING MARGIN FOR THE NSS BUSINESS AFTER BEING FULLY INTEGRATED

Lucy Guo: Hi. It's Lucy again, so I wanted to follow-up on the question of once NSS is combined with CACI, where do you see any meaningful mix shift in terms of contract type or direct labor versus indirect going into next year? And maybe tie that into a discussion of kind of the margin run rate you see going forward. Where are NSS margins today and how do you see that change going forward?

Tom Mutryn: Yes. So Lucy, let me take a crack at it. The NSS business is comparable to ours in terms of ODC, DL content, prime sub type of mix. If anything they're a little bit heavier on the civilian side than the Department of Defense side and that is driven by the fact that one intelligence agency is classified as a civilian agency versus a DoD agency. So as we combined and assessed, we don't see any appreciable shifts to the type of business that they have. Prior to the acquisition, NSS margin was quite a bit lower than ours—200 to 300 basis points lower than ours. We stated when we did the acquisition that we could take certain actions to bring their margins in line with ours and, lo and behold, those have been reflected in our third quarter results. So success there, and I think that's where we're thinking about NSS.

Operator: Thank you. Our next question on the line comes from Edward Caso from Wells Fargo. Please go ahead.

QUESTION ON THE ORGANIC GROWTH RATE AND DIRECT LABOR AND ODC ASSUMPTION IN CACI'S FY16 GUIDANCE

Edward Caso: Hi. Tom, can you just remind us in the FY16 guidance what the growth rate assumptions are for organic growth and then the split between direct labor and other? Thanks.

Tom Mutryn: Yes. So for the FY16, at this point in time we'd expect, given the three quarters performance and the fourth quarter performance, to have slightly negative organic growth for the full-year, I think John's referenced 1%, 1.5% on a negative organic growth through the full year. Our direct labor will be somewhat flattish, up slightly versus last year, somewhat reflective of where we are for the first three months of the year, which have been included in our press release. And for direct labor, excuse me, ODCs—a decline in ODCs, approximately 5% in legacy CACI.

Edward Caso: Great. And finally, I just wanted to thank Jon [Raviv] for asking the question of Greg. I always wondered if he was actually out there on the line.

Greg Bradford: I'm here, alive and well.

Operator: Thank you. (Operator instructions.) And at this time I see we have no further questions in queue, I'd like to turn the call over to you, presenters, for closing remarks.

CEO CLOSING COMMENTS

Ken Asbury: Well, thank you, Richard, and thanks for your help today on the call. We would like to thank everybody who dialed in or logged on to the webcast for their participation as well. We know that many of you may have follow-up questions and Tom Mutryn, Dave Dragics and Daniel Leckburg are available for calls later today. So this concludes our call. Thank you so much for your interest in CACI. We look forward to seeing you at our Investor Day at the end of June and have a good day. Thank you.

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

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