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
Second Quarter Earnings Conference Call

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the CACI International Second Quarter Fiscal Year 2017 Conference Call. Today's call is being recorded. At this time, all lines are in a listen-only mode. Later we will announce the opportunity for questions, and instructions will be given at that time. If you should need any assistance during this call, please press *0 and someone will help you. A special reminder to our media guests who are listening in, please remember that during the question-and-answer portion of this call, we are only taking questions from the analysts.

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

INTRODUCTION AND SAFEHARBOR STATEMENT

Dave Dragics: Thanks, Zilda. And good morning, ladies and gentlemen. I'm Dave Dragics, Senior Vice President of Investor Relations of CACI International, and we're very pleased [indiscernible] us today. And as is our practice, we are providing presentation slides, so let's move to slide number two.

Now, about our written and oral disclosures and commentary, there will be statements in this call that do not address historical fact and, as such, constitute forward-looking statements under current law. These statements reflect our views as of today and are subject to important factors that could cause our actual results to differ materially from anticipated results.

Factors that could cause our actual results to differ materially from those we anticipate are listed at the bottom of last evening's earnings release and are also described in the company's Securities and Exchange Commission filings. And our Safe Harbor statement is included on this exhibit and should be incorporated as part of any transcript of this call.

I'd also like to point out that our presentation today will include some 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.

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

CEO OVERVIEW

Ken Asbury: Well, thank you, Dave, and good morning, everyone. Thanks for joining us to discuss CACI International's FY17 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 UK.

Let's turn to slide four please in the deck. Last evening, we issued results for Fiscal Year 2017 second quarter and also raised guidance for the full year. Strong first-half performance and very healthy contract awards give us the confidence in our new guidance, and in our return to organic growth as we exit this fiscal year. We continue to successfully execute our market-based strategy with the right blend of solutions, capabilities, and talent to address the current and emerging needs of our federal government customers.

During the quarter, we won $1.6 billion worth of contracts awards, with the majority of that being new business to CACI. We are winning larger, more enduring contracts in addition to a number of key IDIQs, which will allow us to capture future task orders and respond to demand signals in critical market areas. Over the last four quarters, our awards now total $6.3 billion. We've made great strides in our business development capabilities and outcomes over the last several years.

CACI's commitment to operational excellence continues to enhance performance as we deliver with profitability, quality, and high customer satisfaction. We retained a significant amount of business this quarter, and added key industry credentials and certifications to continually distinguish ourselves within the market as our remarkable employees bring innovation, thought leadership, and commitment to our customers each and every day.

Our second-quarter was also a strong one for cash generation. We continue to use that to pay down debt and increasing our capacity for strategic acquisitions. At the same time, we are achieving our margin goals while we continue to invest in cutting-edge capabilities, business development, and the infrastructure needed to support future organic and acquired growth.

Let's turn to slide five, please. Before I turn the call over to Tom I'd like to talk briefly about some current market dynamics. We start with the US government, which remains under a continuing resolution until the end of April, 2017. It is our hope that the new Congress enacts the 2017 federal budget fully and expeditiously, and returns to a regular order of budgeting in government Fiscal Year 2018.

Second, several of the incoming administration's initiatives resonate well with CACI core competencies and capabilities:

- An increase in national security spending will no doubt be favorable to CACI and our industry at large.
- New border protection initiatives would require extensive monitoring and surveillance, in line with solutions we develop and deploy today.
- Space has become an increasingly contested domain and a key to America's future. This aligns well with our new pursuits and capabilities that 6/3 [ph.] and the recent award of the U.S. Air Force CAMMO contract affords us.
- Cyber will continue to grow and this is another highly relevant and favorable area for CACI.
- And last, but not least, regulatory and corporate tax relief would be of benefit toward the entirety of our industry.

Let's turn to slide six in the deck. While these indicators generally bode well for our entire industry, it's going to take some time for us to be able to feel their impacts. In the meantime, we remain focused on and highly confident in the health of our current underlying market and in CACI's ability to deliver on our stated longer-term goals:

- 1% to 4% organic topline growth above our addressable market, and
- Margin expansion of 10 to 30 basis points annually starting in FY18.

With that I'm going to turn the call over to Tom to discuss the financial results of the quarter. Tom?

FINANCIAL OVERVIEW

Tom Mutryn: Yes. Thank you, Ken, and good morning, everyone. Let's turn to slide number seven, please.

Our second quarter results continued the strong performance we reported in the first quarter, reflecting the contribution of the NSS acquisition and solid program performance. Our revenue, at $1.06 billion, was up 27% year-over-year, driven by the $260 million revenue contribution of NSS.

Operating income was up $25 million, or 45%, driven by the profits from the NSS acquisition. And last year we incurred $4 million of acquisition-related expenses in the second quarter, making the year-over-year comparisons easier.

We continue to drive efficiencies in the organization which helped drive margin and profit. Indirect and selling expense increased 19% with indirect labor expense up only 13%, both much less than the 27% increase in revenue.

Net income was $42.4 million with earnings per share at $1.69, up 38%. Diluted adjusted earnings per share, which excludes certain non-cash expenses, were $2.30, 36% higher than GAAP earnings per share.

Slide eight, please. We generated $78 million of operating cash flow in the quarter, or 183% of our net income. We now expect to generate at least $250 million of operating cash flow this fiscal year.

With the strong cash flow, we continue to reduce our debt. Net debt at the end of December was slightly less than $1.3 billion and our net debt trailing-12-month pro forma adjusted EBITDA leverage ratio is now about 3.4 times. Our average interest rate in the quarter was 3.2% with about two-thirds of our debt fixed.

Slide nine, please. As Ken mentioned, our strong operating performance and awards have resulted in our increased guidance. We now expect our Fiscal '17 revenue to be between $4.15 billion and $4.3 billion, and our net income to be between $155 million and $162 million, with our current net income forecast near the midpoint. Third quarter earnings are expected to be below that in the second quarter due mostly to the timing of award fees and a one-time expense associated with an NSS-related facility payment. These two items resulted in a $10 million sequential decline in pretax profits.

With that, here is John to provide additional operational highlights. John?

OPERATIONS OVERVIEW

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

First, I'd like to say how proud I am that the organization delivered its fourth consecutive quarter of awards above $1 billion. This is a result of the laser focus on our market strategies and the efforts we undertook to address emerging market requirements over the past several years.

In addition, we continue to realize the benefits of our commitment to operational excellence as we deliver complex programs with profitability and high customer satisfaction. And with the one-year anniversary of the NSS acquisition just a day behind us, we are demonstrating the value our M&A program provides, not only financially but also capabilities and past performance that enhance combined ability to win new business. Lastly, given our first half performance, year-to-date awards, and healthy pipelines, I too am confident in our ability to deliver on our updated guidance and organic growth expectations as we exit the fiscal year.

Slide 11 please. To provide additional details, let me start with contract awards in the quarter. We booked $1.6 billion with 85% of that for new business. This includes the $876 million, single award Joint Improvised-Threat Defeat Organization, or JIDO, contract to provide deployable analytical operations, integrated intelligence, and training services. As a reminder, we felt it prudent not to book the almost $900 million of remaining potential JIDO value as it is associated with surge work that may or may not be exercised depending on global requirements. However, this does represent the potential for CACI to sell additional solutions and services to JIDO over the contract period under this single-award IDIQ contract.

On a trailing-12-month basis our awards to revenue ratio now stands at 1.5 times, which is very encouraging. We also booked $752 million of contract funding, and our total backlog now stands at $11.6 billion.

Turning to operational excellence, we continue to demonstrate our commitment to quality and process rigor with the addition of enterprise-wide certification for the International Organization for Standardization, ISO, 27001. This credential confirms our adherence to information security policies and industry best practices, and further confirms to our customers our vigilance in cyber security.

CACI was also selected for the Amazon Web Services public sector program. This builds upon our work providing our customers with comprehensive, rapid, and agile cloud solutions and services, and enhances our presence across all of our markets. With the combination and integration of NSS and CACI, we enhance our position, offerings, pipeline, and past performance in valuable market areas such as Enterprise IT, Intelligence Services, and Cyber. These are areas of opportunity where we can apply disruptive solutions in support of our customers' missions.

The combination is also expanding our overall addressable market into new areas like Space. The Air Force Consolidated Satellite Control Network, or CAMMO, award stands out in particular. This greatly enhanced our position in the evolving Space arena, a fast-growing national security priority. In short, our combined successes demonstrate the reason we deploy our capital for growth.

Slide 12 please. Looking forward, I'm confident in our ability to deliver on our increased guidance and long-term financial goals. As of today, 96% of our annual revenue will come from existing contacts, about 4% will be driven by re-compete wins, and less than 1% depends on new business awards. This is a very comfortable position at this time in our fiscal year.

Turning to our pipeline, we have $14.9 billion in submitted bids awaiting award, with almost 90% of those for new business to CACI. And over the next two quarters, we expect to submit another $9.4 billion of bids, with about 55% of that for new business to CACI. All-in-all, I'm very happy with our performance and position as we look to deliver organic growth and achieve our long-term revenue and margin expansion goals.

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

CEO CLOSING COMMENTS

Ken Asbury: Well, thank you, John and thank you, Tom, appreciate your comments this morning. Let's all turn to slide 13, please, in the deck.

Over the past several years, our industry has faced some significant headwinds. We, CACI, recognize the changing environment and the new buying behavior, and we responded by reshaping our business to address areas of our market we believe would be fundamental national priorities. This kind of change required us to be agile. We had to have insight into emerging trends. We made strategic acquisitions to position us for those new areas that gave us technical capability. We brought in new partnerships and development of a variety of innovation solutions.

As the long-term budget outlook improves, we expect increasing demand for cost-effective, high-end, mission-driven solutions. CACI is well positioned to support our customer's missions in support of their enduring needs in the most critical challenges that our nation faces.

None of this could have been possible without the dedication, the innovation, and the integrity of our almost 20,000 employees. And I thank all of them for our collective success.

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

Operator: **[**Question and answer instructions.] Our first question comes from Edward Caso with Wells Fargo. Please go ahead.

QUESTION ON HOW CACI MIGHT BENEFIT FROM REGULATORY REFORM FROM THE CURRENT ADMINISTRATION

Edward Caso: Yeah. Hi, good morning, congrats on putting together some string of good quarters here. My question is around a regulation or regulatory reform or less pressure on compliance. Can you give us some concrete examples where CACI would benefit from actions of the current administration? Thank you.

Ken Asbury: Ed, a little too early to tell on a number of those things but let me take you down a couple things that we found ourselves needing to respond to. A lot of pressure on discussions around regulations around sustainability had been developing, and we were developing strategies for which to deal with that. And what does that mean to us? Whenever we have that kind of requirement levied on the business above for reporting, we have to add staff and we have to add tools that allow us to collect that information, process, and report it on an ongoing basis.

Sustainability happens to be something that we're working on, but we felt that it was going to—we were going to spend more and more time on it.

It is too early to tell what a lot of these things may impact. We were seeing a lot of information around how you would report differences in labor categories and that sort of thing inside of our workforce. Pretty standard stuff for us, but the way we were—so we'll have to take a wait-and-see attitude as to what some of those regulation reliefs may get us, and we'll report on that as we see them. John, did you want to add something?

John Mengucci: Yeah. I would also add—if you think about our SkyTracker product—I think we've mentioned during prior calls that we've got a lot of federal government agencies out there that are still having to work through the different regulations and who has authority and to what extent different entities can act on the unmanned threat. We're looking at how this new administration looks to better protect what we would call domestic critical infrastructure. And the different reviews and the various provisions of law, with some regulatory changes there, we could see a potential market expansion for our unique offer to provide protection against unwanted and unmanned drones.

Edward Caso: Thank you.

Operator: The next question comes from Jonathan Raviv with Citi. Please go ahead.

QUESTION ON THE INTERPLAY OF MARGIN GROWTH AND SALES GROWTH GOING FORWARD

Jonathan Raviv: Hi, good morning, guys.

Ken Asbury: Good morning.

Jonathan Raviv: Can you guys talk about the interplay of margin growth and sales growth? For example, your goal is to outgrow the markets by 100 to 400 basis points and grow margin by 10 to 30 basis points annually. Can you hit the high-end of both those ranges simultaneously? Or is it more likely that we see higher sales growth by the expense in lower margin expansion?

Ken Asbury: Yeah. So, that's a great—let me talk about the operating margins first. What we're driving to in the goals that we've established for ourselves is [that] we put a lot of emphasis on moving the business away from the lower end of the services market towards things that are more solution oriented. We believe there is a higher intrinsic value associated with providing those kinds of outcomes to customers, and we believe over time that's going to drive margin growth. That gives us the goal of 10 to 30 basis points on an annual basis starting next year.

We started to see a little bit of that. You'll also see that over time, as John just mentioned in his answer to the regulatory question, if we are able to expand our product offering, particularly using SkyTracker as an example—a little bit faster—that's also going to contribute more margin to the business as time goes on—again in that solution product category.

From looking at how we plan to generate revenue in the future, it is a mix. It will be a mix. The government buys—about 50% of everything they buy these days—on IDIQ or MAI kind of contracts. So, we have to keep a strong basis in that task-order business. But given a choice between doing a 100-person labor contract or $100 million solutions contract that likely has a 15-year or 20-year life cycle, then we're going to increasingly pick that on the other side.

But why we feel confident in being able to do that, I think you're starting to see the results of all the effort, the talent, the modifications that we made to our business development process, and how we've positioned CACI to be more effective and going after larger, more complex, more enduring contracts.

QUESTION ON THE BASE LINE FOR THE ANNUAL MARGIN EXPANSION BEGINNING IN CACI'S FY18

Jonathan Raviv: Got it. And then, what's the basis for the targeted 10 to 30 basis points of annual margin expansion in FY18? In other words, I think you guys are doing 8.8% in the first half thus far. Is that a fair assumption for rest of the year to grow off of starting in FY18?

Tom Mutryn: Yes, that's about right. The first half of the year EBITDA margins were around 8.5%. For the full year, they'll be within that range as well. And so, that seems to be a reasonable basis for that expansion that Ken mentioned.

Operator: The next question comes from Cai von Rumohr with Cowen and Company. Please go ahead.

QUESTIONS ON HOW THE GUIDANCE WAS REVISED AND AWARDS UNDER PROTEST IN CACI'S BACKLOG

Lucy Guo: Good morning. This is Lucy Guo on for CAI. Why don't you…

Ken Asbury: Good morning.

Lucy Guo: Wanted to ask—just on adjusting your guidance—EPS Guidance. It was raised by $0.14 at mid-point. You had very good performance this quarter, and you beat by more than $0.20. Can you just talk about your thoughts there? And are there any awards that could be protested or in the process of being protested that's in your award backlog?

Ken Asbury: Yes Lucy. This is Ken. We have no protests. Every protest that we have faced has been adjudicated in our favor. So, there's nothing in our future or in our outlook that needs adjudication.

Let me talk about the forecast going forward and what our guidance is. I continue to have high expectations for FY17, confirmed by our prior first-half performance. We have won a number of significant contracts, focused on solutions and fixed price. They've been larger than we typically have seen and that is something that we want to make sure that is a continuing part of our repertoire in the future. And I think as John mentioned, if you look at the next, we have about close to $15 billion worth of contracts in evaluation right now, which I think is probably our all-time high for contracts under evaluation.

Our market strategy is going to continue to be focused on where our customers have emerging demands and what their problems are—in other words mission-critical type of things. We're not going to spend as much time looking at the lower end, or lower margin, services, which frankly is subject to a lot of small business pressure these days and, frankly. a heightened level of competition. So, we've been upping our game to make sure that we're competing with less people on more complex things. And that's what's going to drive the future of our business.

Now, as I mentioned our pipeline is strong. We continue to attract talent and we still have a goal going into '18 of growing 1% to 4% organically better than the growth of our addressable market. And if I look at what the second half looks like, we have very little new business to win, a few re-competes, but I would also remind everybody that we are continuing in a CR under a new administration where it is not clear how that budget reconciliation is going to happen.

And so, every single month we do an extremely detailed forecast. And we look at our risks and opportunities. And based on where we sit right now, we believe we have given you our best judgment as to how we will finish FY17. What are the factors that could have an impact on that? It's always, right now, about awards. The further we get into the end of the year, the less likely we're going to convert awards to revenue. It's just simply because of timing; so, it has less of an impact. That will have an impact on FY18. So, with a few re-competes remaining with a little bit of new business, we believe we're really right where we need to be for the second half of FY17.

Operator: The next question comes from Mark Jordan with Noble Financial. Please go ahead.

QUESTION ON FACTORS BEHIND THE SECOND QUARTER PERFORMANCE AND FORECASTED SECOND HALF FY17 PERFORMANCE

Mark Jordan: Thank you very much. Good morning. Question relative to the second quarter earnings level, absolute level and the balance of the year. As an exceptional quarter, if you annualize it, it's 676. If you look at your guidance, the implication would be the average quarter—the third quarter and fourth quarters would be below the earnings level of the third to come into the earnings range picture forecasting.

I guess there is a two-point question. One, were there any specific factors that really abnormally favored the second quarter performance? And then secondly, are there any factors that you're looking for in the second half that would be of a higher than normal expenses, say startup costs on larger contracts or things of that sort?

Tom Mutryn: Yes, Mark, this is Tom. I'll remind—you and other listeners—that our award fees are somewhat discrete and choppy. And our award fees are driven by when the contract was first awarded. The award fees are typically given on the 6-month or 12-month anniversaries of the contact. And just due to some kind of randomness, we have high award fees in both the second and the fourth quarter of the year.

To give you some more specifics, in the first quarter our award fees were approximately $5 million. In the second quarter, they were approximately $16 million—so a significant increase. In the third quarter, it will drop down to around $7 - $8 million. So, we're going to see that seasonal decline. So, that is the singular large event associated with some of the quarter-over-quarter comparisons.

The other factor I want to mention, which is not as large, but in the third quarter we're planning to take approximately a $3 million charge associated with a facility consolidation. We inherited one facility from NSS and we have the ability to contract the footprint in that facility. It'll cost us approximately $2.5 million to $3 million in the third quarter due to some acceleration of leasehold improvement and a termination fee that we need to pay. It'll save us $13 million over the next five years. And so, this is another example of some of the synergies we've been realizing from the NSS acquisition.

Operator: The next question comes from Amit Singh with Jefferies. Please go ahead.

QUESTIONS ON ORGANIC REVENUE GROWTH IN THE SECOND QUARTER AND FOR FY17

Amit Singh: Hi, guys. Thank you for taking my question. If you could start off by providing the organic revenue growth in second quarter. And as you are looking at the guidance increase for the full year, I know before this quarter, you guys were expecting around a negative 5% organic growth for the year, and NSS was, I think, incrementally supposed to provide around $600 million of revenues. So, the guidance increase, is that more of an upside from the NSS side or the core business side?

Tom Mutryn: Yes, so let me start out. In the second quarter, organic revenue was down around 4.7%. We initially guided for organic revenue for the full year down approximately 5%. Right now, at the midpoint of the guidance, organic revenue is down around 3.5%.

And we initially guided to NSS at around $600 million for acquisitions. We're a little bit north of that at this point in time. NSS is performing well, but the majority of the incremental revenue that we added to the guidance was organic.

QUESTION ON WHAT GIVES MANAGEMENT CONFIDENCE IN HAVING HIGHER ORGANIC REVENUE GROWTH IN FY18

Amit Singh: All right, great. And then quickly on organic growth beyond Fiscal ’17. So, if I look at your book-to-bill on funded orders, the first half this year is pretty similar to first-half last year; little variations. So, if you're expecting organic growth to be down around 3.5%, what gives you confidence that the similar level of book-to-bill, you’re going to be able to sort of drive organic growth at a much higher rate next year?

Ken Asbury: Yes, Amit, this is Ken. So, you know, if you look at the way we laid out this year, we started with basically taking out some of the older business and some of our lower value re-competes where customers were, frankly, only valuing it for how low you could bid. And that was not going to be a sustainable business model for us. So, that’s what contributed to the guide to the negative organic issue.

What we're bidding now is not that kind of work. And the bids that are coming in are, I would say, average or, in some cases, above average because they are fixed price or they’re more highly complex development or product businesses. That’s where we expect to see, at least at the bottom line, the 10 to 30 basis points improvement as we go forward.

The other thing I would add is while the performance is—if you look at second quarter, we had an extraordinarily good quarter for winning new-new business. And the outlook for that new-new business is also very strong for the next, I would say, 9 months to 12 months. We’ll see what 2018, after 18 looks like. So, honestly, we’ve got rid of some of the things that were hurting our business at the bottom line while we were continuing to win business. And now that’s the baseline, I think everything is growth from now on.

Operator: The next question comes from Joseph Vafi with Loop Capital. Please go ahead.

QUESTION ON WHETHER THERE ARE OTHER CONTRACTS THAT WILL COMPETE AGAINST THE JIDO CONTRACT

Joseph Vafi: Hi, guys, great performance here in Fiscal Q2. I was wondering if we could talk a little bit about the JIDO contract, which I know that you mentioned that full amount wasn’t put in due to because it’s based more on surge. I was wondering if there’s any competing vehicles out there versus JIDO that may compete for maybe some of that surge revenue if it indeed it ever occurred?

John Mengucci: Yeah, Joe, thanks. This is John. I guess, first off, we’re extremely happy with this award. It is a great example of the larger enduring contracts that we’re out there pursuing in this market and also the result of working this capital for a very long period of time. And I would also want to add that one of our main differentiators in this competition was the specialized capabilities and past performance that was brought by our Wexford acquisition, which was done several years back.

Although we don't discuss the individual programs in detail, this is a very sensitive program. What I can tell you is that we planned on contribution from JIDO in our initial FY17 guidance and our expectations are really not changed materially. There is a consolidation of a number of pieces of business which will roll into this contract at different times over the next couple of years. So, as you're looking to model this, I would not expect a straight line ramp up to a full burn. Rather it’s going to have a sort of lumpy ramp up over the first 18 to 24 months.

Our estimate for remainder of FY17 is really based on customer requirements that we know of. But, as you mentioned, Joe, there's about $900 million of a surge CLIN. And that represents additional solution and services volume based on our customer needs. And that is solely to CACI as this was a single award IDIQ contract. So, we are solely in the position to generate revenue on the initial award as well as this additional $900 million surge CLIN.

Ken Asbury: Hey, Joe, this is Ken. Let me add to that. This was a concerted effort on the part of this customer to reduce the variety of contracts and go to a central management of a lot of the capabilities that they were doing. So, while there may be some other contracts out there, this has been a consolidation of a number of efforts.

If we perform the way we traditionally performed and all of our partners do as well, then I would say that this customer is going to depend on this vehicle, if results matter. And this is an area in particular where results matter. So, we we'll be focused on that. But I'm not as worried as I am on other IDIQs that there are different vehicles that could be brought to this customer. This has been their strategy for quite some time.

QUESTION ON THE DIRECT COSTS ASSOCIATED WITH THE JIDO CONTRACT

Joseph Vafi: That's helpful. And then just one follow-up. Is there anything we should be thinking about in terms of mix of direct labor, ODC is on the ramp of JIDO over time? Thank you.

John Mengucci: Yes, Joe this is John. I would say, initially no. I mean, this IDIQ is going have a good mix of solutions work as well as some level of professional services work. And from a margin standpoint, this is going to fall in line with pretty much what our current operating margins support today.

Operator: The next question comes from Brian Ruttenbur with Drexel Hamilton. Please go ahead.

QUESTIONS ON THE DEBT LEVEL TO START MAKING ACQUISITIONS AND AREAS OF INTEREST

Brian Ruttenbur: Yes, thank you very much. So, I just want to talk about future acquisitions—plans for cash. I know you're going to be paying down debt. Where is the magic number where you're going to start executing on additional acquisitions? And are there some big acquisitions out there that you can still execute on?

Ken Asbury: Yes, Brian this is Ken. So, we're an acquisitive company. We've done 67 transactions. We believe that that is—besides organic growth, that is one of the principal ways that we choose to position our business, and it's served us reasonably well over the years.

With that being said, we don't have a magic number. What we do have is we look at the magic of the companies that are out there that could add new customers, new capabilities, new places to be in the marketplace. And as we've transitioned over the past three to four years to a market-based strategy where we're looking at things not so much through our customers' lens. But we're looking forwards, for instance, in the Cyber market or in the Business Solutions market.

We've done a great deal of detailed gap and capability analysis of where we are versus where we would need to be to be able to serve certain parts of the customer. That, inasmuch as anything else, is going to feed how we go to market from an acquisition point of view—trying to buy new skills and new capabilities.

As far as size, size is not the determining factor for us. It is really more [of] is it a strategic fit?

Does it make financial sense to us? And does it allow us to add strength into end markets that we think are particularly attractive?

And what we have done recently, we're starting to see—and I spoke about in my remarks—the emergence of Space. Space has become a place where the US government is going to invest a lot. And Six-3 brought us a lot of Space-related capabilities. We're starting to see those begin to foster now—as well as the NSS acquisition—with a lot of their modernization through sustainment capability and the CAMMO contract that they had bid and we had won. So just one example of how we're beginning to think about acquisitions in the future.

Brian Ruttenbur: Thank you.

Operator: The next question comes from Tobey Sommer with SunTrust. Please go ahead.

QUESTION ON WHAT'S DRIVING CACI TOWARDS A HIGHER SOLUTIONS CONTENT IN ITS BUSINESS

Tobey Sommer: Thank you. In thinking about your transition towards a larger proportion of business coming from solutions, how should we think about whether your customers are driving that in the way they are looking to procure services versus sort of CACI's proactive shift in the business? Thank you.

Ken Asbury: Tobey, Ken. That's a great question. Here's the way I would frame that. We work inside of an addressable market that has a great number of opportunities. Some customers are going to be at the higher end of wanting solutions. And it is industry's choice about where they choose to put their strategy; put their talent; put their energy into resourcing; pursuing something that is at the high end or at the lower end. Frankly it's a matter of effort.

When we look at we're a $4.2 billion, $4.3 billion company now in an addressable market that's probably closing back in on a couple of hundred billion dollars. It is really about shot selection. Where do we want to go? Where do we want to position? And how do we make sure that every single person in the company is aligned to being able to do that?

You don't do it overnight. It's like trying to park an aircraft carrier. You've got to do it slowly but surely. As a consequence, that's why we've said in terms of margin improvement—we believe that's the key to our market improvement.

And you do see customer pull in this area. Let me give you some examples. Increasingly, we see customers in the IT domain wanting to go to buying solutions as a service. Buying managed services as opposed to going out and owning their own infrastructure; owning their own applications architecture. When you can go out—when somebody else is probably doing that in a more effective basis—those are the kinds of jobs we want to find ourselves in. In fact, of the $14.5 billion we have in front of us, several billion dollars are for jobs just like that. And the margin potential for those, over jobs that are cost plus award fee or cost plus fixed fee, is frankly why we get the confidence that we are going to see a margin lift.

Taking this strategy over time and as we examine this market, we don't see it shifting in this new administration. I would tell you that we would probably see a shift. There's already been a discussion at least of maybe bringing back A-76, a kind of contracting which allowed some competition between government and industry to see where the best value could come. That would also be interesting to everybody in the industrial base.

So, I hope that gives you some insight into—it's a push. It's a push on our part, but it is also a pull on the part of a number of customers.

QUESTION ON DESIRED BUSINESS MIX OF FUTURE ACQUISITIONS

Tobey Sommer: Thank you. That's helpful. And then, as you look at future acquisitions, should we expect a greater proportion of solutions revenue and firm fixed price contracts in those prospective properties? Thanks.

Ken Asbury: I think the way we look at acquisitions is, yes, we would look to see if that would be a favorable thing. But it wouldn't be the sole determinant. It wouldn't be the only reason we did it.

We are finding that culture makes such a difference. But what we're looking for is overall capability. There are still places where we're going to be a services company. And if somebody brings us a new customer or a really refined services capability, then we're going to look at that appropriately. And then we'll put it through the filter of the great financials, great cultural fit.

I can't say any more about what a wonderful acquisition NSS has been to us just in the level of talent, the scale that they brought to us, and the many gaps that they helped us fulfill. And already we've seen their commitment to coming to us was that they had some big jobs that they had in their pipeline. Well, they won most of them. And now, we're able to look at even bigger and bigger things because of the level of talent, the level of leadership, the level of technical delivery people. All that was really a cool—that was the kind of acquisition that we'd love to go find again.

Some of their work was solutions. Some of it was products. But a great deal of it was service, and it was actually bought with a higher level of cost plus. In fact, I think there is—if you look at our gross margin for this quarter, it comes down a little bit. It's really because of the nature of the way their business was set up with a higher percentage of cost plus. That being said, that gets adjusted over time as these contracts morph into more managed service or fixed unit price.

Operator: The next question comes from Brian Kinstlinger with Maxim. Please go ahead.

QUESTIONS ON THE MARGIN PROFILE OF THE JIDO AWARD AND WHETHER THERE ARE OTHER AWARDS AWAITING ADJUDICATION THAT ARE LIKE JIDO

Brian Kinstlinger: Great, thanks. First, I'm looking at the JIDO award. I'm trying to understand the margin profile. Is it fixed price, cost plus, or T&M? And $15 million in proposals awaiting adjudication—how many awards like JIDO are in the $1 billion total contract value bucket?

John Mengucci: Brian, this is John. I guess, specifically to the JIDO awards, once we get this thing fully ramped—and as I mentioned to Joe's question—over the first couple years, once we get to that run rate, this is going to be margins very similar to the operating margin that we have today. There's going to be some portions where task orders are going to be lower and some that are going to be higher, based on solutions; whether some of that is pass-through and alike.

As for the bids awaiting award, Ken, you want to say a couple of things on that.

Ken Asbury: Yeah. Brian, there is several large ones in the $1 billion plus category that are in the awaiting award now. There's probably half a dozen that are also in the $250 million to $750 million range, and over the next six months we should see those adjudicated.

QUESTION ON WHETHER THE FACILITIES CONSOLIDATION CHARGE IN THE THIRD QUARTER WAS IN CACI'S GUIDANCE

Brian Kinstlinger: Great. Then, finally, $3 million charge for the NSS facilities, is that already contemplating your previous guidance or did that offset your stronger fundamentals that you're expecting in your guidance?

Tom Mutryn: Yeah. Good question. It was not contemplated in our previous guidance.

Operator: The next question comes from Jonathan Raviv for a follow-up with Citi. Please go ahead.

QUESTION ON THE IMPACT OF THE GOVERNMENT'S SMALL BUSINESS POLICIES ON CACI'S BUSINESS

Jonathan Raviv: Hey, thanks for the follow-up. Ken, John, I wonder if you could provide some color on the government small business policies—how they evolved over the years. How do they impact your strategy and profitability? And where do you think these policies are going?

Ken Asbury: Yes, Jon. Good question. Let me start and then I'll let John show you what's going on at the sort –down at the tactical level of this. We have seen over the course of the last probably four, five years, an increase in the desire on the part of the government to do more contracting with small businesses. And frankly, we need that kind of an ecosystem inside of the company. Where we see it most is on our professional services business, where it is really around hiring the right kind of talent. And we've seen a lot of pressure on that over the years.

I think our strategy has been taking that into effect by moving more towards a solution base where we're delivering outcomes and less hours. It will happen slowly but it will happen surely as we've discussed in the kind of bids that we've been making.

So, what do I expect to happen going into the future? It's really uncertain. We did see the President, I believe on Tuesday of this week, have a meeting with small business leaders. But I believe they were small business, not just necessarily out of the government contracting arena. Those were small businesses throughout the United States, and with the major push bringing back a lot of jobs. I would not be surprised that there is not a lot of emphasis on all businesses to be able to do that.

So, John, do you want to talk about what we have seen in tactical?

John Mengucci: Yeah, sure. I guess from an operational standpoint, Jon, a little bit of background. A few years back we had the overhang of sequestration and budget pressures. It was then that we recognized the move of professional services work—that some of that was going toward LPTA and to different breakouts of small business, right? Small business either as the prime and small-business set-asides, or higher small business sub-contracting levels that were being levied on us.

Some of this work, frankly, has a very low barrier on entry. If you think about it, it does not make a lot of sense. The government is striving to meet small business goals, and some of this type of work is more about resumes and staffing rather than a core technical capability.

What we saw was very limited small business requirements when it comes to, as Ken mentioned, these mission-centric, enduring solutions type work as well as some professional services work awarded on best value versus being awarded based on LPTA. So, this is one of the main reasons we reshaped and refocused our business a few years back towards higher-end solutions, where small business partners are offering real niche capabilities and technologies that we can leverage.

So, small business to us brings great value to some of our work, and we partner consistently to provide best solutions to our customers. But frankly, in areas where customers want lowest cost and lowest price, which only stands to provide increased revenue but also put a real harm on margins, we just don't see that type of work being an enduring source of business for a company like us.

Operator: Our next question comes from Robert Spingarn with Credit Suisse. Please go ahead.

QUESTION ON HOW CACI WILL AVOID MARGIN PRESSURE FROM THE USE OF SMALL BUSINESSES

Robert Spingarn: Good morning. I just jumped on and heard the end of that last answer and that's what I wanted to ask about. So, this might be little repetitive. But on the small-business set-asides, clearly one of your competitors had unexpectedly lower margin and I suspect being driven to some extent by pass-through revenue. And I think you just said you're not going to do so much of that so the question is: will CACI avoid the margin pressure that comes from an increased emphasis on small business set-asides?

Ken Asbury: Hi, Rob. This is Ken. So, avoid the margin pressure. I actually think we are going towards—I think our strategy fundamentally set this up to go towards the margin improvement. As we look to increase the fixed price content of our business in a marketplace that is increasingly going that way, it is easier for government—it takes less work for the government to administer fixed-price contracts once the baselines are really understood as opposed to constantly having to solicit input to do award fees or incentive fees and do all of that.

Where we find those opportunities, we're certainly going to take them because we do have the delivery mechanisms. John spoke quite nicely about the investments that we've been making in delivery certifications, whether it be supply chain, security, to a lot of the ISO and CMMI level command media that we put in place to focus our delivery.

So, I believe our strategy puts us in a position where, increasingly, we will be going towards a higher margin profile. I know that there are other components of this business where, depending on the mix of your business, you can deliver low double-digit margins on this identical kind of work. That's the goal that we would have over a longer period of time.

It doesn't happen—it's not going to happen overnight because the market doesn't present itself to you that way. And you don't want to take on 10 tons of complexity in a short period of time. You want to do it in a measured way to make sure that you deliver exactly what customers are doing. But what you described is—I mean, our strategy is fundamentally to get to the higher ground from a margin and a mission contribution standpoint.

QUESTION ON WHETHER CACI WILL MOVE AWAY FROM BIDDING CONTRACTS WITH SMALL BUSINESS SET-ASIDE CONTENT

Robert Spingarn: But does that mean, Ken, that you target less or fewer contracts with set-aside business? Do you do need to do that in order to maintain margins?

Ken Asbury: Rob, in general, yes. I don't know what the percentage is and I don't—I think the percentages really are dependent on how we—in any quarter that we're looking, the market is going to present itself, the opportunities present themselves differently. For instance, a couple quarters ago, we had a high number of re-competes but not so much new business, because we were focused there. This quarter it was mostly new business that we were targeting and our awards were reflective of that.

So, on an ongoing basis, if we have a choice between a solutions bid or a services bid or a labor hour bid, we're going to more favor the solutions bid. But that's going to really depend on how well we're positioned to go and pursue that. That takes a lot more work, a lot more investment to be able to prosecute and win those kinds of jobs.

QUESTION ON WHAT THE MARGIN TREND FOR CACI WILL BE

Robert Spingarn: Ken, I think this is an important discussion because right now what we're hearing from investors is there's a relative level of comfort that the top line is growing. And under this new administration there will be more funding for all of you. But there's been some question over whether the how profitable that business is going to be and whether margins can trend up with that increased revenue, or are we going more toward an LPTA environment with set-asides et cetera, a lot of pass-through profits, pass-through revenues, so that there's an offset from lower margins.

And when we look at some of the peer results that seems to be the case, although in your case your margins are up here in this latest quarter. But on the other hand, in the last half of the year I think they go back down a little bit. So, I just want understand what the trend is going to be for CACI.

Ken Asbury: Yes, Rob, I mean, what we have said is over the next few years, based on what we see in the addressable market and where we are, we will see 1% to 4% topline above our addressable market.

And let me be definitive about that. We did a five-year analysis of the budget independently last year. And when we did our investor meeting last year, we saw compound annual growth in the federal budget before this election of approximately 1% to 1.4%, depending on which year it was over a five-year period.

That's the first time we have seen that sort of positive indication in the addressable market that we support, which is—think about it as government IT. And it's a big—it's fairly—it's more than that. But that's what we saw.

Our goal is to grow 1% to 4% above that. At the bottom line, we are going to make our choices about what we did invest in to bid and win only where we can increase the bottom line as well 10 to 30 basis points.

So, we think those are attainable goals. We believe we're already on track to be able to do that once we sort of exit some of the pass-through work that has been so important to our customers and important to CACI, but not important to the future of the country right now. Because that's the biggest fundamental change we have seen in the buying behavior of our customers.

Operator: This concludes our question-and-answer session. I would like to turn the call back over to Ken Asbury for any closing remarks.

Ken Asbury: Well, thank you, Zilda. I appreciate it. Thanks for your help on the call today.

We would like to thank everyone who dialed in or logged on to the webcast for their participation as well. 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.

So, this concludes our call. We thank you very much for your interest in CACI International. Have a very good day.

END

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.