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
Third Quarter FY17 Earnings Conference Call

PRESENTATION

Operator
Ladies and gentlemen, thank you for standing by. Welcome to the CACI International Third Quarter Fiscal Year 2017 Earnings 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 the star key followed by zero and someone will help you. A special reminder to our media guests who are listening in, please remember that during the question-and-answer portion of this call, we are only taking questions from the analysts.

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

INTRODUCTION AND SAFEHARBOR STATEMENT

Dave Dragics
Thanks, Nicole. 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 2.

Let's look at 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.

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

I'd also like to point out that our presentation today will include discussion of non-GAAP financial measures and 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 3. 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 FY '17 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 please turn to slide 4 in the deck. Last evening, we issued results for our Fiscal Year 2017 third quarter. Record revenue and contract awards highlighted this quarter. Net income and operating cash were also quite strong. We also raised our full year guidance, reflecting higher demands for our solutions and services throughout the year. I want to thank our employees for yet another quarter of strong performance. It's your dedication, commitment, talent and ethics that drive our results.

During the quarter we won a record $1.4 billion in contract awards. This is our fifth consecutive quarter of awards totaling over $1 billion. We continue to win larger contracts with a focus on high priority solutions that address the government's most pressing requirements, and the results continued to confirm our market-base strategy. Over the last four quarters, our awards totaled $6.5 billion, a trailing 12-month book to bill of 1.5 times over that time period.

We also continue to generate significant cash, pay down debt and increase our capacity for future strategic acquisitions. CACI remains focused on the long term, invested internally in cutting edge capabilities, in people, strategic business development and the infrastructure to support organic and acquire growth.

Let's turn to slide 5 now. A one-week continuing resolution was passed last week which extended the FY '17 deadline until Friday, May 5th. Since then Congress came to an agreement on an omnibus spending package for FY '17 that will fund the government at new FY '17 levels until the end of this fiscal year. The House passed the omnibus yesterday and the Senate is expected to advance it before the deadline tomorrow. That is very good news. A more stable budget environment is quite beneficial to our customers and we expect that the normal seasonal flow of awards and funding in September will be particularly strong this year.

Now looking ahead at government Fiscal '18, we are optimistic. The stated administration priorities for increased defense and national security spending, border protection, space resiliency and evolving and persistent cyber requirements align very well with CACI's position in the marketplace. Our market focused strategy is driving the development and the pursuit of mission-oriented solutions, and actually puts us in an ideal position as our nation invests in these critical areas. In addition, we believe we have very little exposure to agencies that may be potential bill payers for these stated funding priorities.

While we look forward to potential additional spending in key areas, we remain confident in the health of our existing core market and in CACI's ability to deliver on our stated longer term goals of 1% to 4% organic top line growth above our addressable market and margin expansion of 10 to 30 basis points annually.

With that, I'm going to turn the call over to Tom, so he can give you the financial highlights of the quarter.

FINANCIAL OVERVIEW

Tom Mutryn
Yes. Thank you, Ken, and good morning. Let's turn to slide 6.

Our revenue at $1.086 billion was up 11.2% year over year, driven mainly by $88 million in NSS revenue. Organic revenue for the quarter was up 1.8%.

Operating income of $67.3 million was up 5.6%, driven by profits from NSS and strong program performance. Two items in the quarter negatively impacted operating earnings. The first is $4.7 million in long-term incentive compensation plan, or LTIP expense. This expense was triggered by our increased top and bottom line expectations, and was not previously assumed in our guidance. The LTIP is designed to incent long-term growth and profitability above levels of other incentive plans with metrics set at very challenging levels over multi-year periods. These accruals relate to performance under the 2016 plan for Fiscal Year 2017.

The second item is one which we mentioned in the December quarter earnings call, $3.1 million expense associated with rightsizing certain facilities, with the most notable one being a facility we inherited with the NSS acquisition. These actions result in over $10 million of lower rent expense over the next several years. These two onetime items resulted in around 70 basis point reduction to our reported operating margin for the quarter.

Slide 7 please. Net income for the quarter was $40.4 million with earnings per share at $1.61 up 16.9%. Net income benefited from the same factors that drove operating income in addition to a $3.9 million research and development tax credit. With our focus on higher-end technological solutions much of it emanating from the Six 3 acquisition, we have an increasing amount of fixed price customization and development work, which meets the R&D criteria and is eligible for the credits. During the quarter we finalized work on the tax credits for both 2016 and 2017 and recorded a benefit.

Going forward, assuming no change in tax laws, we expect to realize R&D credits in the $2 million annual range. These items, the LTIP, and facility termination expense, and the R&D tax credits resulted in an approximate $900,000 reduction to net income, or around $0.04 per share.

Slide 8 please. We generated $81 million of positive operating cash flow in the quarter, more than 200% of our net income. We now expect to generate at least $260 million of operating cash flow for the fiscal year. Net debt at the end of March was around $1.2 billion and our net debt to trailing 12-month adjusted EBITDA leverage ratio is now at 3.3 times.

Slide 9 please. As Ken mentioned strong demand, operating performance and awards have resulted in our increased guidance. The midpoint of our guidance is now implied growth of 15% for revenue and 12% for net income for the full year.

With that, here's John.

OPERATIONS OVERVIEW

John Mengucci
Thanks, Tom. Let's go to slide 10 please. With three quarters of the fiscal year now behind us, our financial, operational and business development performance puts us in a good position to finish FY '17 strong and focused on delivering our long-term revenue margin goals beginning in FY '18. During the third quarter awards, funding, and backlog were all robust and our pipeline continues to look healthy with a focus on larger more enduring solutions business.

To provide some detail around contract awards, we won $1.4 billion of business in the quarter, about 40% of that was for new business to CACI. This was a record amount of awards for our fiscal third quarter and was achieved while the government was operating under a continuing resolution.

As Ken mentioned, this is now five consecutive quarters with awards above $1 billion and our trailing 12-month book to bill ratio is 1.5 times revenue. Funding was also strong in the quarter, coming in at $1.1 billion, and backlog now stands at $11.8 billion, which implies almost three years of revenue on a trailing 12-month basis.

Slide 11 please. We're in a very comfortable position to support the increase in our guidance now with 99% of our annual revenue expected to come from existing contracts and only 1% depending on re-compete awards.

Turning to our pipeline. We have $14.1 billion in submitted bids awaiting award, with about 90% of those for new business to CACI. Over the next two quarters, we expect to submit another $10.1 billion of bids with about 75% of that for new business to CACI.

At our last Investor Day we noted several market areas in which we see high demand, specifically business systems, enterprise IT, intelligence services, intelligence systems and support, and cyber. And while we see opportunities across all of our markets, these in particular will drive growth and margin expansion.

All in all, I'm very happy with our performance and position in the market. We remain focused on operational excellence, delivering with high quality and customer satisfaction, and our business development results continue to be industry leading. In short, our market-aligned strategy is working.

Lastly to echo Ken, none of this is possible without the agility, innovation, technical expertise and customer commitment of our employees. I thank you all for that.

With that, let's turn the call back over to Ken.

CEO CLOSING COMMENTS

Ken Asbury
Well, thank you, John and Tom, I always appreciate your comments. Let's turn to slide 12 please in the deck.

Before we open the call up to questions, I'd like to reiterate how pleased I am with the performance of our team this fiscal year. We are seeing the results of having the relevant solutions, capabilities and contract vehicles to meet the current and emerging needs of our customers. The renewed commitment to enhancing America's national security and intelligence posture, coupled with our performance in FY '17 gives me a great deal of confidence in our goal of returning to consistent organic growth next year.

With that, Nicole, let's open the call up to questions.

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin the question-and-answer session. In the interest of equal access to all participants, please limit yourself to one question and one follow-up. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two.

Our first question comes from Jon Raviv of Citi. Please go ahead.

QUESTION ON WHAT'S CAUSING CACI'S SALES TO INCREASE AND THE MIX OF THOSE SALES

Ken Asbury
Good morning, Jon.

Jon Raviv
Good morning, thanks for taking the question. Could you just address where the sales upside is coming from in your guidance and maybe what the mix is of that? Just noticing that DL in the quarterly has underperformed ODCs and didn't get as much of a bump on EPS or net income for the year as I would have thought.

Ken Asbury
Yes, Jon, this is Ken. I think what we've seen here in '17—we planned '17, we sort of planned a different profile that didn't take into [consideration] some of the ops tempo increases that we've seen. So what you're basically seeing—and I think DL in the quarter was up 4% to 5% and ODCs were up in the low 20s.

That's really a function of a couple things. One, a couple contracts that we brought on—that we won last year that were major consolidations—the initial stages of those are to bring in existing contracts under a single contract umbrella. And we had a big team to be able to do that. So our initial contribution of participation in that program is rather small, hence a larger expansion of DL. The second is, we've seen—excuse me, a larger amount of ODCs in the initial stages. And John is going to talk a little bit later about how that changes over time.

The second thing I would point you to is we sort of—when we were putting this plan together back in early '17 or mid '17, we anticipated that we would see—we knew we were coming to the end of one administration but the likely successor to that administration would have very similar national security policies. And, as a consequence, our planning was that we would not see as much support activity in different parts of the world.

Well, the first surprise was in the waning months of President Obama's administration, we saw a surge in support to go after ISIS in a variety of places around the world. And that's what was reflected in our first and second quarter increase in ODCs. As time went on, we then got to November and a completely different administration with a completely different national security, or more aggressive national security posture, and ops tempo has come into play, and that's what you're seeing being reflected in the higher amount of ODCs.

QUESTION ON WHAT THE BASE SHOULD BE FOR MARGINS FOR FY18

Jon Raviv
And then, with that in mind, and given sort of where the year is headed, can you give us a sense for the base off of which you expect to grow margin in FY '18? I heard you reiterate the 10 to 30 basis points. But where do you see this year finishing up given the—I guess—the mix issue?

Tom Mutryn
So Jon, this is Tom. Let me just talk a little about FY '17 margin and then Ken can transition. As I mentioned we had two items impacting operating margin in the quarter: the facility restructuring cost and the LTIP. And the LTIP was a third quarter accrual and an additional $1.7 million fourth quarter charge, given the way we account for these compensation plans. The impact is around 70 basis points for the third quarter, and around 20 basis points for the full year. So adjusting for this, margin is relatively close from the initial guidance despite those higher of ODCs.

Ken Asbury
Yes, Jon, let me add to that. We started the year with an expectation—'17—with an expectation of about 7.1 percent. And, as Tom just explained, if you take into account the one timers we're approximately flat. We're reasonably consistent with that.

But what's more encouraging to me is that we've been delivering on those targets, minus the one timers, in a world where there's a lot more increased material purchases driven by ops tempo. I'm going to have John talk about what some of those factors are to give you a little bit more insight in just a moment.

As we look forward, we're confident in our ability to expand our margins 10 to 30 basis points on average. But it's a little too early for us to be talking about take-off points. We're still in the midst of planning. We have to finish off '17. Each quarter so far as we've looked at our forecast, we've done slightly better. And so I want a chance for the team to be able to do that before I start putting a line in the sand with regard to where we're going to kick off.

And the other thing I would point out to everybody on the call is I think we're a different business. We have a different business profile in order to deal with ops tempo increases. In the past when a customer wanted to increase the ops tempo with regard to anything, our biggest ability to respond that way was through our IDIQ contracts, which generally were material and sub-contracting pass-through kind of activities.

Since the balance of our business now includes a lot more solutions, we are seeing a call for higher solutions content, as well as ODCs, which should help us manage margin better going forward. I'm going to ask John to give us give us an insight into that. It gives you some more detail into that premise.

John Mengucci

Yes, Jon, I guess also germane to the questions around take off points. We're, at this time, in the middle of our FY '18 planning. So we're working through the typical items like contract mix and re-compete revenue and margins and staffing plans and levels and DL and ODC mix, and new contract phasing and the administration priorities and the like. So basically nothing different than the items we always consider when we're building the following year's plans.

But I thought it might be helpful to share a few specific examples of some of the items in this list as it pertains to FY '18. I think Ken covered one, and the first would be this new administration's priorities. We've experienced firsthand, since about January, around the strategic shift of resources as it pertains to ISIS and cyber and terrorism and the Pacific pivot and the like. Against those items we have seen, as Tom and Ken have already mentioned, some increase related to ops tempo in several areas of the world. And that's clearly driven increased demand from material buys related to those different activities.

As we said in the past, we're very proud to support our customers as they engage in critical national security defense missions. And those ODCs do support our top line growth. And frankly, those relationships grow even deeper, and that drives our ability to deliver even other opportunities as we move forward.

A second item would be on contract phasing. And we could talk about CAMMO or about JIDO. First with regard to JIDO, a great example of a larger and enduring contract, about $900 million worth to surge opportunity on top of the numbers that we earlier released. Now as all of you on the call know, we don't discuss individual programs in detail, but as I mentioned during last quarter's call it's not a straight line ramp up to full burn type of program. So I cautioned you all not to divide the 900 by 5 on top line. I also would tell you that that implies margins to be harbingers to be based on the work performed. What we have learned since January is, as Ken mentioned, that the contract consolidation portion of this contract will be heavier upfront—think the first 18 to 20, 24 months with a blended new surge requirements laid on top of that base work, which will cause lumpiness in top and as well as bottom line.

A final example frankly is the role of electronic warfare and the flights listed earlier. And to what extent SkyTracker and other CACI products are going to have in those flights. So we're taking a look at what the '18 mix of those different products are. I can tell you we're very pleased with the level of orders we've received for that product and other variants thus far. And we are assessing what role that's going to have in our FY '18 plan.

So it suffices to say we've been working through the same items we work through every year at this time. What we are happy about—and Ken mentioned this as well—the business we have been winning and the pipelines we've been growing support our long-term business goals as he's already outlined in his set-forward for the company.

Operator
Our next question comes from Mark Jordan of Noble Capital Markets. Please go ahead.

QUESTIONS ON THE CONTENT OF THE CURRENT PIPELINE OF OPPORTUNITIES AND WHAT IS DRIVING THE NEXT SIX MONTHS OF EXPECTED SUBMISSIONS

Ben Klieve
Good morning, thank you. This is actually Ben Klieve in for Mark this morning. Just a couple of quick questions regarding your pipeline figures that you reported on slide 11 here. Wondering if

you can kind of break down the pipeline a bit by contract size, expected timing of awards and level of competition and especially note if there's any kind of major bids that are really driving these numbers.

And then specifically with the $10.1 billion expected over the next two quarters, it seems like a significant number, so we're kind of curious what's really driving the wave of near-term opportunities in your pipeline.

Ken Asbury
This is Ken. Let me start. And so in the pending category is this one single large contract, and the number of, I would say, a significantly large contract. And then the rest of it is made up of other large contracts. So our strategy for the last four years has been to bid less, to bid more, to bid them larger, I should say, and to bid jobs that are of more complexity, which is consistent with our ability to deliver them.

So, where we have a chance to deliver or to bid for more firm fixed price work, we want to take that because we're actually very good at delivering on firm fixed price work. And what you'll see, and what you have seen over the last two to three years, is a steady increase in the size and complexity of the contracts that we've been bidding. The contracts that we're looking at in the future again reflect that theme, although maybe without the single large potential award that is reflected in the pending category.

John Mengucci
Ben, this is John. I'd also add that you asked a question about that $10.1 billion. About 75% of those are going to be for new business. And since those are jobs that we're about to submit, it's been our practice not to share too much on an individual area. But I can tell you that the market areas—the Business Systems, Enterprise IT, Intelligence Services, and Intel Systems and Support—are actually very heavily weighted in that $10.1 billion that we expect to submit by June.

Ben Klieve
Very good. Thank you, guys.

Ken Asbury
Thanks.

Operator
Our next question comes from Krishna Sinha of Vertical Research Partners. Please go ahead.

QUESTION ON THE FACTORS BEHIND CAPITAL EXPENDITURES IN THE CURRENT FISCAL YEAR

Krishna Sinha
Hi, guys. Thanks for taking my questions. On cash flow—kind of a quick two-part question—it looks like your capex is trending at maybe double the rate it was last year, something like 1% of sales. What's driving that? I don't know if you guys had talked about that earlier but I'm just curious.

Tom Mutryn
Yes. So when we guided for the year, we guided to around $30 million in capex versus prior run rates of around $15 million as you pointed out. The increase is driven by facility expenses. We've

been doing a lot of work reducing and optimizing our facility footprint. We exited relatively a large facility and, as a result, made some modifications to existing facilities to restructure the work environment, and so that has been driving it. Now $35 million is our capex to date, higher than we originally planned. And that was driven by some additional facility expense.

We won CAMMO. John mentioned that to us; we needed to do some facilities there. We had some adverse weather down in Fayetteville, North Carolina that required us—investments, redo some facilities there. Some internal ERP systems, those are generating those one time capex. Going forward, as we get into '18, I suspect we'll get to a more normalized level, but we'll provide more information in June.

QUESTION ON THE CURRENT LEVEL OF DAYS SALES OUTSTANDING AND WHAT THE NORMALIZED RUN RATE FOR THEM MIGHT BE

Krishna Sinha
Okay. And then your DSOs were about in the high 50s this quarter. How sustainable is that going forward? And what's the kind of normalized underlying run rate for that?

Tom Mutryn
Yes, so we're very happy with the DSOs. We've got team support. We perform good programs; we invoice quickly. We get approvals of the invoices; we send off the bills. We have a good relationship with the contracting or the payment agencies, so that's positive. The DSOs fluctuate as we know. Some of it is in our control; some of it's not in our control. I'm comfortable with what we're doing in our control.

Oftentimes we see issues with regards to paying agencies, staffing levels, holidays, and the like. I would suggest a 60-day DSO, the low 60s is normative. You will strive to get below that but I'm sure if we'll be able to deliver on that on every quarter, given certain things which are not in our control.

Operator
Our next question comes from Cai von Rumohr of Cowen and Company. Please go ahead.

QUESTION ON WHY CACI DID NOT EXPERIENCE DELAYS IN CONTRACT AWARDS SIMILAR TO SOME COMPETITORS

Cai von Rumohr
Yes, thank you very much. So some of your competitors have mentioned that they saw delays in contract awards because of the slow filling of billets at DoD, and that, on some programs, basically the funding was curtailed because of the CR, and yet the revenues continued so book to bills were artificially depressed. That doesn't seem to be the case with you. But did you see any of those trends in your business?

Ken Asbury
Cai, this is Ken. No, I don't believe we have seen the same sort of trends. We have certainly seen some variability in smaller programs where funding ends or there's some question about it. And that has had, on a very minor scale, some impact.

I will tell you probably the single largest impact that we have seen is the clearance processing activity through the adjudication by the government. We need, I think as an industry, this is—

frankly for the country, it is a problem. We sit today with somewhere between 800 and 900 positions that we could fill that are waiting at various stages, either for initial clearance processing or just crossover. And we're doing a variety of things both as a company and as an industry group to try to work with our customers to be able to deal with that.

But as you know, we had a record quarter for awards this quarter. I can't say that we saw that kind of slowness. I don't know if that's reflective of where we sit in the market versus others but clearly I like the trends that I see towards our business base now and into the near future.

QUESTION ON WHAT TO LOOK FOR ON CONTRACT PHASING FOR THE CAMMO CONTRACT

Cai von Rumohr
Thank you. And then, John, you mentioned contract phasing, and you gave some specifics on JIDO. But you mentioned CAMMO. What should we look for in terms of contract phasing on CAMMO?

John Mengucci
Yes, Cai. Thanks. So we've got about eight months under our belt on CAMMO now. So that was a program coming to FY '17. We had to plan that contract phasing in as well.   I would tell you we're probably 85% to 90% fully staffed there. So unlike what you saw in FY '17, FY '18 you should start to see a full year impact—both top and bottom line from our efforts on CAMMO. So really nice start-up and a very happy customer.

Operator
Our next question comes from Brian Kinstlinger of Maxim. Please go ahead.

QUESTIONS THE TREND OF CONTRACT TYPES IN THE COMPANY'S PIPELINE AND WHETHER PERIODS OF PERFORMANCE MIGHT BE LENGTHENED

Josh
Hi, this is actually Josh in for Brian. Thanks for taking the questions. Can you just maybe provide some color on any emerging trends in the mix of contract types in the company's pipeline? Then similarly do you expect any trend suggesting maybe lengthening of contract terms overall given the more favorable budgetary environment? Thanks.

John Mengucci
Yes, Josh. This is John. I guess on the first—on the last question—actually, Josh, can I have you repeat the back part of that question?

Josh
Yes, sure. I was just wondering I guess if given a more favorable budgetary environment if you expect to see maybe contract terms extending overall maybe to a more closer to the three to five-year average that we saw prior to the Budgetary Control Act of 2011.

John Mengucci
Yes, great. Thanks, Josh. Yes, so what we've experienced, and I would say over the last maybe 10 to 12 months, is we are starting to see terms in our services and our solutions world start to expand. When LPTA came out and better buying power, 1.0 came out, there was an absolute drive to shorten the terms of the professional services contracts because that allowed the

government to continue to drive down prices. I think what the government has gotten themselves into is a more balanced norm of how to buy a professional service.

So we have seen, and we believe over the longer term, some normal factoring coming back. So today we're somewhere average across professional services, about 28 to 36 months. We would expect that to at least get up to three to three to four years.

Josh
Great. And then maybe just a quick comment on the mix of contract types emerging in the company's pipeline and any trajectory you're starting to see there. Thanks.

John Mengucci
So as we've mentioned, we have been looking to move the company over time to more solutions-base work versus professional services work. And, as we talked about in the past, it is a knob and not a switch. So it's a very slow-turn dial that, over time as our capabilities grow on the solution side, we would like to see the balance of our top and bottom line driven by that.

As for specific numbers, if I looked at the $14.1 billion of pending awards, as well as the $10.1 billion, it does trend more towards solutions than professional services. And I'd also say that with the acquisition of L-3 NSS the amount of managed services work and our Enterprise IT work has gone up, and that was one of the critical factors of that acquisition.

Operator
Our next question comes from Tobey Sommer of SunTrust. Please go ahead.

QUESTION ON WHETHER THERE HAS BEEN ANY CHANGE TO CACI'S SMALL BUSINESS STRATEGY AND WHETHER THE GOVERNMENT MAY CHANGE REQUIREMENTS FOR THE USE OF SMALL BUSINESSES

Kwan Kim
Hi. This is Kwan Kim on for Toby. Thanks for taking the question. As you provide more solutions work and with the trend of moving away from LPTA contract, have there been any changes to the way small businesses fit into your strategy and do you think we could see a shift in the small business requirements in the near future? Thank you.

Ken Asbury
Yes, great question. I think small business are a huge part of the defense and intelligence industry, and we certainly saw that come into increased prominence in the last administration. I don't see that really shifting any. I think it is important that we figure out the proper ways to team.

We have seen some cases where there were contracts that were put in place that were switched to small business that were probably not fair in terms of asking them to be able to do things but in terms of overall capability and complexity. But there are a number of what we depend on our small business partners, particularly in some of the very, very advanced technologies, to help us think through things. There's working small but working smart is something we want to take full advantage of.

But I don't see a recidivism, or I mean a going back in terms of what the government's going to want to do. In fact, I see opportunities to I won't say do more, but maybe contract with small businesses in different ways that are more reflective of their ability to perform the business.

Kwan Kim
That's helpful. Thank you very much.

Ken Asbury
You're welcome.

Operator
Our next question comes from Brian Ruttenbur of Drexel Hamilton. Please go ahead.

QUESTION WHAT CACI IS DOING TO GAIN MARKET SHARE, GIVEN THE STRENGTH OF THE AMOUNT OF AWARDS

Brian Ruttenbur
Yes, thank you very much. It appears that you guys are gaining market share with your strong bookings. I wanted get your all's opinion on where the market is going and what you're doing differently, if in fact you are gaining market share. It just appears that way versus your peers so if you can address that and then I have a follow-up question.

Ken Asbury
Sure. Well what we've been doing is focusing on the same thing. We felt that it was really important to emphasize the talent and expand our talent in our business development. We were going to have to grow our way out of the contracting market once sequestration hit.

We did that in a couple ways. We acquired some companies that put us into completely new markets and allowed us then to continue to expand in places that we felt were going to be incredibly relevant as time went on, and become less dependent on just conflict-related activities. So trying to find the more enduring pieces of the market that were always going to be valuable.

When we went to the market strategies that really took us to a different level. Instead of organizing by customer, we were able to concentrate our talent, our tools, all of our emphasis and then be able to pick and choose between the increasingly larger contract base that we saw in each one of those areas. And in some cases, that's worked very well, and, in other cases where the market has receded, we've been able to maintain. In other words, there are some areas where Logistics and Material Readiness about five years ago was probably the single largest market in the federal government. That's come back a great deal since Iraq and Afghanistan, and Iraq's gone away largely and Afghanistan has been reduced. It allowed us then to apply resources to the areas that we thought were the hotter pieces of the market like Enterprise IT, Business Systems, Cyber, and Intelligence Solutions.

So, honestly there's no secret sauce. It was just being religious and disciplined about how we talked about going and doing it. We added some new folks to it. We added some new incentive programs, like LTIP, to get people out of their comfort zone and allow them to take on and to think that there were bigger goals to be achieved. And this year, in this quarter, actually we saw a little bit of that come to fore. We'll see if it keeps going but it certainly contributed this year.

QUESTIONS ON CACI'S LONG-TERM TOPLINE GROWTH TRAJECTORY AND THE TREND FOR CAPITAL EXPENDITURES

Brian Ruttenbur

Okay. And then as a follow-up, I'm just trying to drill down and try to figure out your long-term growth trajectory and figure out where '18 is going. I know you're not going to make specific comments but maybe you can talk a little bit about your long-term growth. Is it going to be 3%? 5%? What are you seeing out there? And then capex for '18—I know it was inflated in '17—but is it going revert to the norm in '18—maybe $15 million to $20 million?

Tom Mutryn
Yes, let me take this question. It will revert to the norm in probably closer to around $20 million. We're still putting our plans together. We're a bigger organization than we were a few years ago when we were around $15 million a year. I would think that should be good for planning purposes at this point in time. But as we finalize our plan we'll have some insights as to what facility work that we need to, internal ERP, IT and the like, so $20 million.

Ken Asbury
So cycling back—this is Ken again—to the beginning of your question. Our stated goal—and we're not wavering from that—is we're going to grow 1% to 4% top line better than our addressable market. Last year when we discussed our guidance in June, we had just completed an addressable market study that showed that over the next five years, based on looking at budgets we—it was the first time in quite some time that we saw a five-year plan that had modest growth in it. And that growth was basically one—beginning at about 1% in '18 to 1.4%, as you went higher on a compound annual growth rate.

So, think of our goals as anywhere from 2% to 5 % topline. And the 10 to 30 basis points are our best guess at driving our business towards both enduring and more profitable things. We are not bidding pass-through contracts anymore. It's just not in our lexicon.

What we are bidding is we do have a portfolio of those that have been going on for quite some time. And, as reflected in this year in the first three quarters, our customers have called on those to support their efforts around the world. But, going forward, that's going to be less of how we invest. And we'll invest more in higher solution and higher margin businesses.

Operator
Our next question comes from Ed Caso of Wells Fargo. Please go ahead.

QUESTION ON THE IMPORTANCE OF NEW BUSINESS IN CACI'S LONG-TERM OUTLOOK

Edward Caso
Great. Thanks. Congrats on the quarter. I'm trying to get a sense for how important new business, new business is to your long-term outlook. As we're hearing that decision making still is uncertain and you're still seeing extensions as clients—I know we've got '17 budget done, but the battle for '18 could be quite sizable here. So could you give us a sense of how important your quoted long-term outlook is to new business wins? Thanks.

Ken Asbury
Great question. So let me start this way. I would, in the macro view, believe that '18 starts in some series of CRs. Now the antidote to that is we have a '17 now with full appropriations through the year end with additional money for intelligence, defense, homeland security, and the like.

So our pending business, which is about $14 billion, is going to play out against a fully funded, in fact, increased funded budget. As we look into '18, it becomes a little bit less certain but I'm pretty confident in the way we've been winning lately, particularly on new business. And I think our pending business is somewhere in the neighborhood of 90 % new, or awaiting award. That's a good news story for, let's just say, the next two years. We've also demonstrated that even in a CR—I think this year we've been in the second longest CR in history—and we've still been able to knock down very, very strong awards, quarter after quarter.

Now that could change at any point in time because it's an inflection point. But I believe we've built up enough capacity, and we have enough of a set of pending contracts, that that's going to help us get through both this year and into the beginning part of next year.

John, do you want to add something to that?

John Mengucci
Yes, also I guess, from your comment around new-new and then some of these takeaway variants—I think on takeaway variants, the way we've been looking at this the last couple of years—which drove the L-3 acquisition—was in our Enterprise IT market as the customer goes from more of what I would call desktop services to managed services. I mean, that requires a balance sheet investment of sort upfront. But it also does pave the way for stronger returns as those seven to ten-year programs play out.

I would tell you on the new-new, Ed, what's exciting for us—and something we're watching very carefully and looking at shaping as well—is in our in our Intel Systems and Support market is the whole concept around this re-focused electronic warfare area. We're seeing the Army and the Navy ramping up, not only the requirements, but their predicted spend. And we really believe the companies that come with a proven solution will be well-poised.

As you know we talked about SkyTracker in the past. As we come out of FY '17, we're looking at mid- double-digit million dollars' worth of awards with that product. And that is one that, coupled with some of the cyber capabilities we have, is where EW is going. And this is a company that's been focused well over a decade on where EW goes, and helping customers shape what those potential solutions are. So that's one area, Ed, of new-new that we've got our focus on.

QUESTION ON THE CURRENT PRICING ENVIRONMENT

Edward Caso
My other question is on pricing. Other firms talk about things getting stuck in the waiting decision category that have much older pricing involved. Are you over the hump yet? Are we are we getting to a point now where your average pricing might start to lift a little bit and take some of the pressure off of margins? Thanks.

Ken Asbury
Ed, this is Ken. I think the simple—the discipline that we're bringing into how we get to pick or choose what we're going to invest B&P in is reflective of that already. We're not going to pursue the things that you got to fight it out on the basis of more of 25th percentile labor category bids, and no benefits or very, very limited benefits. There's not a good future to that in this and there is enough work in various parts of our different markets that is more reflective of the customer recognizing the value proposition, of the seniority of people, of the tenure of people, and the qualifications of individuals and the tools that they bring to them. And that's what being a lot more—that's with bidding less and pursuing more, or hoping to get more out. That's where our strategy is taking us. Sorry, I got a little tongue tied there.

Operator
Our next question comes from Josh Sullivan of Seaport Global. Please go ahead.

QUESTION ON THE HIRING ENVIRONMENT GIVEN THE UNCERTAINTY SURROUNDING THE FEDERAL BUDGET

Josh Sullivan
Hi, good morning.

Ken Asbury
Good morning.

Josh Sullivan
Could just talk a little bit about the recruiting market dynamics? And, obviously your backlogs and bidding activity are impressive here. What does the talent market look like, just given the uncertainty around budgets? Are potential hires more likely to come over to a larger operator like CACI or are people staying put just given the uncertainty?

Ken Asbury
Yes. So I think the macros that we're seeing is that we are seeing a need in certain marketplaces for highly cleared talent in the software development area, Intel analysis, Intel solution business, and in certain geographic locations there's not enough of them. So there is a bit of a food fight over how you attract them.

The other deal that we're experiencing is a decline in the Baby Boomer generation and an increase in the millennial and Gen X component of our workforce. And we are, I think everybody in the industry and I know that we're working on it in particular, is making ourselves and making national security and the kind of things that we do very attractive.

And so we just completed the largest employee engagement survey in the history of our company. And it's given us some really cool data about how we should think about making our benefits more attractive; how we talk about the kind of work that we do to increase the probability that we're going to be successful.

I would reiterate back, and then we'll flip it over to John, because he can give you some more detail. Probably the single largest issue we have is the clearance process. We have a lot of people that would love to come to work on the kind of mission critical work that CACI has and I dare say every one of our peers in the marketplace. But the clearance process and the adjudication process through the federal government is a bottleneck right now that needs to be solved.

John Mengucci
Yes, Josh, I would just add to Ken's comments, something quickly, which is we've actually seen that this fight for personnel is no different than shaping and the fight to win awards. It's really listening to what our customers are saying and where they're headed. As we look at within CACI, as Ken mentioned, we did just complete an employee engagement survey. It's all about differentiation, right.

I mean part of that survey they actually told us that we're working on the right things to retain and attract talent. But they also shared some areas for us to consider. They love the high tech nature and the missions that we support out there. So we have shared examples of our work. As an example we work with the Virginia Tech's Hume Center to help develop tomorrow's security warriors.

So it is true that the labor market is tight. We just believe we're doing the right number of things to retain and attract folks. So, once we can get through the clearance process issues, we like to think that we are doing our best to differentiate CACI from other folks within our government services space.

Josh Sullivan
Okay. Thank you.

Operator
Our next question comes from Joseph Vafi of Loop Capital. Please go ahead.

QUESTION ON WHETHER CACI IS BIDDING FOR SMALLER CONTRACTS

Joseph Vafi
Hi, guys, just one quick one. Ken, I know you're bidding larger and larger deals. Are there any smaller deals that you're not bidding now? And why wouldn't you be bidding those moving forward? Thanks.

Ken Asbury
Joe, thanks for the question. When we look at the marketplace we get to be a little bit more discriminating than just chasing every job that anybody wants to put out. And there are certain—there really are very large pockets in the marketplace of customers that are interested in a different kind of relationship. With the LPTA market, the LPTA environment was really sort of driven by having to do short-term savings of money. And frankly, you can get that out of professional services a lot easier than anything else.

But what we did, it had two problems. It drove us to do unnatural acts in terms of bidding in some cases. And some companies actually aligned themselves to the lower end of the market. We chose not to do that even though we did bid, in certain cases, places where we couldn't always provide the people. And we paid a price for that.

On the other hand in buying—almost 4.5 years ago, 3.5 years ago—NSS, we're in pieces of the market now where the customers are really looking for longevity. They're looking for mission critical change to happen. I won't tell you that they're lavishing money on anything, but it is a better place.

So if I have a choice between bidding a 100-person contract that has--where price is the most important criteria, not capability—then I'll probably pass on that, unless it is something that leads to something strategic in the long run. But bidding jobs of 5 people or 20 people and less is hard. When you're approaching $4.5 billion in sales it's hard to manage those things. And while when we were a billion dollar company those made up a good portion of it, we want to see that lessen as time goes on and do more contracts with 500 people.

QUESTION ON THE DIRECTION OF CACI'S BUSINESS MODEL GOING FORWARD

Joseph Vafi
That's great. That's helpful. And then if you keep bidding larger and larger pieces of business, I think maybe—tell me if I'm wrong—it probably will be perhaps more significant product pass-through components to those very, very large pieces of business. Does CACI's model somewhat change away from just being services-led to more of a hybrid product services model over time as perhaps you win more and more of these larger and larger contracts? Thanks.

Ken Asbury
Yes, Joe, I think you nailed it and you said it very nicely. Our ambition has been to get away from the ops tempo driving how well the company does and get to a place—there's a part in the government where the things that they depend on, whether it be IT systems, whether it's cyber or whether it is consistent intelligence analysis, but it is not pass-through contracting. That's sort of subject to whatever potentially conflict or humanitarian activity that needs to go on. We want to be in the more enduring places of the marketplace.

Some companies have chosen to be in healthcare. Some have chosen to be elsewhere. Ours is going to be in the core decision analysis pieces of the Department of Defense and the Intelligence Community as our principal place to look for the endurance.

I would also add to that, wherever the government needs to be more efficient in how they do their hiring and doing their financial management and doing their supply chain management—all those, I think, are also enduring pieces—enduring, and pieces that are going to be modernized over a long period of time. So thank you for stating our strategy out loud.

Operator
Our next question is a follow-up question from Krishna Sinha of Vertical Research Partners. Please go ahead.

QUESTION ON ANY FACTORS AFFECTING THE PRICING OF BIDS BY CACI IN ORDER TO WIN

Krishna Sinha
Hi. Thanks for taking the follow up. I guess it's just a follow-up of a question that somebody else asked earlier. Given you talked a little bit about your margin targets going forward, the mix of your pipeline seems to be turning more towards solutions, which is positive for margin. But, I guess, given your very, very strong win rate on new awards, is there any threat that there is an offset in terms of the price that you have to bid to win or to beat everybody else in these competitions? Is that an offsetting force to your margin profile is going forward? Or do you find that you're able to win on favorable terms to CACI, and again that's just more supportive of your ability to drive 30 or 40 bps of margin going forward?

Tom Mutryn
So this is Tom, let me start out. The price we bid is a function of our costs level. And, for us to be successful bidding, we need to make sure we have lower rates than our competitors, and that has been a focus of ours pretty consistently. So that should give us a competitive advantage as we drive our rate structure. Operating efficiently, we spoke about our facility reduction, focusing on operational excellence within the indirect infrastructure. I think that allows us to be successful in our bids by pricing effectively and taking advantage of our cost structure.

John Mengucci
I guess I'll also add that, as a heritage professional services company, we always had this look of it's DL or ODCs. I think where you've heard us moved the last four years has been moving ourselves to a more profitable mix of both, which are actually very representative of firm fixed price solutions work versus purely time and material professional services work. So it is a mix.

And, as I stated earlier, every year at this time we're looking at no less than 10 to 12 different knobs and dials of how do we put this collective mix of business we have to give us the best representative chances of hitting what our long-term goals are And I would also stress long term.

Operator
Again, if you have a question, please press star then one. Our next question is a follow-up from Cai von Rumohr of Cowen and Company. Please go ahead.

QUESTION ON FACTORS THAT COULD AFFECT MARGIN IMPROVEMENT IN FY18

Cai von Rumohr
Yes, thank you very much. So, one for Tom. So you'd mentioned the margin pressure this year from the leasehold buyout, the $3 million in the third quarter, and then the $6-plus million for the year for the LTIP. As you think about a 10 to 30 bps of margin upside next year, what are your assumptions about those two factors and what they'll do? Because at one point you mentioned that the leasehold buyout will actually benefit next year. Should we expect an LTIP impact next year? And how do they figure into your margin thinking for next year?

Tom Mutryn
As Ken mentioned earlier, we're still in the process of formulating the '18 plans. And we have stated long-term goals. How that operationalizes into '17 versus '18, it needs to be finalized as we complete our FY '17 planning and our FY '18 planning as well.

When we speak about the margin goals, though, every quarter we're going to have some good guys and bad guys. There's fluctuations. We'll have some accruals; we'll release some reserves; we'll have some one time positive and negative benefits. But in the sphere in which we're operating is underlying the noise of those fluctuations, given the fact that we're bidding higher end, solution-oriented, fixed price business that will drive a signal of higher margins going forward. So I will leave it at that.

Cai von Rumohr
Thank you.

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

CONCLUSION

Ken Asbury
Well thank you, Nicole, and thanks for your help today on the call. We would like to extend our thanks to everyone who dialed in or logged in to our webcast for their participation as well. We know that many of you will have follow-up questions through the day. And Tom Mutryn, Dave Dragics and Dan are available for calls later this morning and throughout the day.

So this concludes our call. Thank you. Have a very good day and we appreciate your long-term interest in CACI. Thank you.

Operator
The conference has concluded. Thank you for attending today's presentation. You may now disconnect.

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.