CACI INTERNATIONAL INC
Fourth Quarter FY18 Conference Call

PRESENTATION

Operator
Ladies and gentlemen, thank you for standing by. Welcome to the CACI International Q4 and Year End FY18 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 star zero and someone will help you.

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, Allison, 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.

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. 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 also described in the company's Securities and Exchange Commission filings. And our Safeharbor statement is included on this exhibit and should be incorporated as part of any transcript of this call.

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 substitute for performance measures prepared in accordance with GAAP.

Let's turn to Slide 3, and now, here's our President and CEO, Ken Asbury. Ken.

CEO OVERVIEW

Ken Asbury
Well, thank you, Dave, and good morning to everyone. Thank you for joining us to discuss our Fiscal Year 2018 fourth quarter and full year results.

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

Before we jump into the meat of our call, I want to pass along or share some news about two remarkable CACI professionals who have made us all incredibly proud. They are Tony Dunne and Ray Seabolt, who earlier this week had the honor of being awarded the Secretary of Defense's Medal for Valor for their heroic actions in supporting US Military operations. For those of you not aware of this medal, the Medal of Valor is the highest civilian award given by the Department of Defense. And there have been just 17 recipients since the medals were instituted as a result of actions on 9/11/2001. John Mengucci, DeEtte Gray and I had the honor of attending the medal ceremonies at the Pentagon Hall of Heroes on Tuesday. And I can personally tell you, it was a stirring reminder of the bravery of our military men and women, and the outstanding professionals who work with them, shoulder to shoulder. We could not be prouder of Tony and Ray and their dedication to America's most critical national security measures.

Please turn to Slide 5. Now, I'm going to turn to our earnings, last night we released our fourth quarter and full year earnings for Fiscal 2018. We delivered record revenue, operating income, net income, and cash from operations for the year. We won more than $1.5 billion in contract awards during the fourth quarter, totaling $5.2 billion for the fiscal year.

And very late last evening, we closed on our acquisition of General Dynamics' Navy systems engineering business. Therefore, we are also raising revenue and net income guidance for Fiscal Year 2019. Tom and I have a few more details on this acquisition throughout the call.

During the fiscal year, we also expanded EBITDA margin well beyond our 10-to-30 basis point commitment. While there were a few one-time items that contributed to this, this was primarily driven by the type of contracts we are winning and performing, and the efficiency at which our operating teams are delivering. We saw significant contributions from an array of firm fixed-price contracts, confirming our strategy to pursue more solution work with higher fixed-price contract.

Let's turn to Slide 6, please. While we are expanding margin, we're also investing in other important areas of our business, such as people, research and development, partnerships, and of course M&A to accelerate growth:

- On the people side, we are enhancing our benefits, such as an increased 401(K) match and workforce flexibility, to attract and retain the type of talent that makes our business so successful.
- And with regard to R&D efforts, those would include investments in machine learning, artificial intelligence, robotic process automation, digital signal processing solutions, and innovative technologies within the electromagnetic spectrum.
- Partnerships are also an important aspect of our business. And we are investing in long-term, meaningful relationships with key commercial, and other technology providers, to

ensure we can offer our government customers the best solution tailored to their needs.

Let's turn to Slide 7, please. And lastly, M&A remains a priority for our capital deployment. We are pursuing quality companies and contracts that fill capability gaps in our addressable market, add customers, and then provide appropriate and very solid financial returns.

During Fiscal Year 2018, we purchased two companies under our UK subsidiary that provide geographic information systems software, information technology consulting, and software engineering. Domestically, we added a very high-end cyber company, providing classified solutions to the Intelligence Community. And we also purchased an enterprise IT contract that added past performance and is an avenue into an important new customer for future opportunities.

And as I mentioned earlier, late yesterday evening we closed on our acquisition of the Navy systems engineering business of General Dynamics. This transaction met every element of our M&A strategy. It filled capability gaps. It added new customers. The cultural match is fantastic. And the financials are very attractive.

This organization is the premier platform engineering and lifecycle support provider to nearly all Navy ship building programs. It gives CACI a leading role in the long-term operations and revitalization of the nation's naval fleet. This is a multi-decade effort, and vital to our national interest. And we're adding almost 1,000 talented new people to the CACI family. I'd like to welcome these new employees today to CACI, and I look forward to your continued performance and our combined success.

Let's go to Slide 8, please. Overall, I'm very encouraged by our prospects. We saw strong award flow during the June quarter, and we expect to see continued strong awards during the September quarter. The government's current priorities reflect a long-term commitment to investing in war fighting, intelligence, and homeland security capabilities, as well as modernized systems and infrastructure. These are all very much in line with CACI's capabilities and positions us well across our 12 markets.

Congress has also made a lot of progress passing several government Fiscal Year '19 appropriations bill. And just this week they've also passed the $717 billion National Defense Authorization Act for the Department of Defense. We're hearing a lot of positive things about progress on other appropriation bills as well. This bodes for a very good start to FY19.

With that, I'm going to turn the call over to Tom. Tom…

FINANCIAL OVERVIEW

Tom Mutryn
Yes, thank you, Ken. Good morning, everyone. Please turn to Slide 9.

Our fourth quarter revenue was $1.2 billion, 2.9% greater than last year, with 2.1% organic growth. Full year revenue was $4.5 billion, up 2.6%, with 2.1% organic growth. Net income for the quarter was $51.8 million, up 17%, driven primarily by lower tax rates.

Pre-tax income was up 3.9%, with strong program performance partially offset by indirect costs. Excluding fringe on direct labor, higher bonus expense, and shared services implementation costs, indirect costs were down around 1% to 2% versus last year. Full year net income was up 84% from last year. Adjusting for the impact of tax reform, net income would've been $198 million, 21% greater than last year. These results were driven by strong program performance, several nonrecurring positive third quarter items, continued focus on indirect efficiencies, and were partially offset by costs associated with the Shared Services Center implementation and acquisition pursuits.

Full year EBITDA margin closed at 9.2%, up 70 basis points over last year. Adjusting for $12 million of net one-time profit benefits during the year, which we spoke about during our third quarter call, EBITDA margin would've been 9.0%, or 50 basis points above last year. Firm fixed-price contract performance and indirect cost controls were the major driver of the margin expansion.

Please turn to Slide 10. We generated $325 million of operating cash flow for the full year, with DSO at about 60 days. Operating cash flow was up 16% compared to last year and was more than 160% of net income after adjusting for the impact of tax reform.

As Ken mentioned, we closed on several strategic acquisitions since the start of Fiscal Year 2018, deploying around $160 million of capital, including our $84 million purchase of the Navy systems engineering business. At the same time, we reduced our debt by $169 million. Our net debt to trailing 12-month EBITDA is at 2.4 times as of June 30th.

We adopted ASC 606, the new revenue recognition accounting standard, on July 1st. The most significant change for us is the treatment of award fees. Instead of recognizing them when they are realized, we will recognize a proportional amount during the periods of performance. In addition to reporting our results under the new standard, this year we will disclose how much each financial statement line item was affected by the new standard.

Slide 11, please. The comparison of FY19 to FY18 is complicated by tax reform legislation, since the effective date occurred in the middle of our Fiscal Year 2018. Assuming we had tax reform for the full year, we estimate our net income would've been $232 million. This estimate assumes the new tax rate was in place for all of Fiscal Year 2018 and adjusts out the revaluation of our deferred tax liability and the tax on cumulative foreign earnings. We are providing a table with our earnings release with the associated numbers to help with apples-to-apples comparison to FY19.

Slide 12, please. FY19 guidance, which we issued on June, had 3% organic revenue growth at the midpoint, with EBITDA margin expansion. We are increasing that guidance to incorporate the acquisition of the Navy systems engineering business. With the partial year contribution, we expect it will add around $150 million of revenue and $4 million of net income. We now expect revenue of between $4.7 billion and $4.9 billion, or 7.5% growth at the midpoint of the guidance. We expect net income of between $234 million and $240 million. We are also increasing our operating cash flow expectations to be at least $330 million to account for the acquisition.

Slide 13, please. Additional details associated with this acquisition are as follows:

- The incremental EBITDA margins are expected to be in line with the base CACI business. We are bringing the business over with very little additional overhead or G&A expenses.
- We expect around $1.5 million of one-time transaction-related expenses.

- Incremental depreciation and amortization will be around $3 million. We're letting you know we are still finalizing the intangible amortization value.
- And we expect to incur about $3 million of additional interest.

With that, here's John to provide operational highlights.

OPERATIONS OVERVIEW

John Mengucci
Thanks, Tom. Let's go to Slide 14, please.

I'm very pleased with our team's ability to deliver organic revenue growth, margin expansion, and strong contract awards in the fourth quarter in full Fiscal Year 2018. Revenue growth was driven by both new business wins, and plus-ups to existing programs. Margin expansion is a result of the type of work we're winning, with heavier solutions content under firm fixed-price contract arrangements. It is also reflective of our team's ability to deliver efficiently and CACI's culture of operational excellence.

Turning to contract awards, we won more than $1.5 billion during the quarter, with about 70% of that new business to CACI. For the full year, we won over $5.2 billion, with approximately 50% of that for new business. Our total backlog now stands at $11.3 billion, well over two years of revenue at our current run rate.

Two notable awards during the fourth quarter were:

- The DHS Continuous Diagnostic and Mitigation, or CDM contract, with a ceiling value of $407 million, to architect, engineer, and integrate advanced cyber solutions, security tools, and processes across the department. This is a great win, with significant potential to expand the initial award into additional areas, such as security operations center, tool consolidation, enterprise mobile solutions, and cloud-based configurable resource management.

- We also won a contract, with a ceiling value of $122 million, to develop advanced electronic communications systems for the Naval Air Warfare Center. On this contract, we are providing rapid design, development, and deployment of interoperable communications technologies for CONUS and OCONUS emergency response.

In addition to strong contract awards, I'd like to highlight three other notable accomplishments that differentiates CACI within our enterprise IT and business systems markets:

- First, CACI was named a premier consulting partner in the Amazon Web Services Partner Network.
- Second, we invested in the expansion of our Agile Solution Factory to accommodate existing and new customers taking advantage of the benefits of Agile software development.
- And third, CACI earned an additional ISO 20,000 certification, which confirms our IT service management adheres to international best practices. The combination of these achievements adds important discriminators as we pursue new business in these key markets.

Slide 15, please. As you've noted in the past, we continue to invest in high-end capabilities to differentiate CACI's offerings. Our suite of SkyTracker products, which now includes fixed, mobile, and wearable variants, are deployed both OCONUS and domestically. We are particularly encouraged by recent changes in legislation and regulations that will help even more federal government customers deploy this solution to protect critical infrastructure.

One example is a $49 million award we announced this month with the US Navy. Under this contract we are deploying counter unmanned aerial systems to high priority and sensitive domestic sites to protect assets vital to national security. And in the electronic warfare space, we are developing advanced EW techniques in response for the need to counter enemy communications and radars. These techniques are revolutionary in that they provide war fighters the ability to jam adversarial systems without being detected.

And our Space Operations and Resiliency team is making significant progress in the field of Space Battle Management. They've developed modern web-based solutions for space situation awareness, automated tasking of space assets, and course of action decision making.

In July, the Dr. J.P. London Shared Services Center officially opened. The center is optimizing the delivery of company wide support services as we evolve for continued growth. Investments will be completed during the first half of Fiscal 2019, and savings generated by the center are already being invested back into our people and our advanced technical capabilities.

Slide 16, please. Turning to Fiscal Year 2019, our forward indicators remain healthy. Revenue composition stands at 81% existing business, 12% recompete, and 7% new business. And our pipeline of opportunities is strong, with submitted bids pending award at $8.2 billion, with about 60% of those for new business to CACI. We expect to submit another $13.1 billion over the next two quarters, again with approximately 60% of those for new business.

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

CEO CLOSING REMARKS

Ken Asbury
Thank you, John and Tom, appreciate your comments this morning. Let's all turn to Slide 17, please.

In closing, I'm encouraged by our prospects, both near and long-term. We're investing in growth and employees while expanding our margins nicely. Our business development engine continues to win, with a focus on solution and fixed-price contracts. Our operations organization is delivering with quality and profitability. We generate significant levels of cash, and are deploying that capital to accelerate growth through M&A. Bottom line is: Our strategy is working, and we remain focused on driving long-term shareholder value.

I'd like to also say how incredibly proud I am of our employees. It is their talent, innovation, and commitment to our customers' missions that drives our success. In 2018, CACI was ranked by *Fortune* magazine as a World's Most Admired Company for the seventh time, and fifth worldwide in the IT services industry. This is a direct result of the high-caliber talent we enjoy at CACI. And I thank each and every one of you for what you do.

Now, before I open the call for questions, I want to highlight a significant milestone, and express our company's appreciation for many years of service and contribution. Dave Dragics, our Senior Vice President of Investor Relations, plans to retire this coming October. This is after 20 years of dedicated service to CACI. Dave joined the company in 1998, when we had less than $500 million worth of revenue and the stock traded at $8. Twenty years later, we're generating north of $4.5 billion of revenue, and trade at approximately $180.

During that time, Dave guided the investment community through changes in our company, the market, technologies, government buying behavior, and countless others, with unwavering transparency and clarity. Dave, you have taught me a great deal over the last several years, and I know you had a significant impact on many others.

Dave's contributions are not only to CACI. He has been active in the National Investor Relations Institute, or NIRI, where he serves in leadership roles, and frequently presents on topics, such as proxy access, disclosure, corporate governance, and financial analysis. Dave also represents CACI, and other issuers on the Listed Company Advisory Board, or LCAB, at the New York Stock Exchange. With both NIRI and the NYSE, Dave has participated in advocacy efforts in front of the Securities and Exchange Commission and Congress.

David, you are a true professional, and represent both CACI and the investor relations profession with character, competence, and leadership. Thank you from all of us for everything you have done.

Now, with that, Allison, let's open the call up for some questions.

QUESTIONS AND ANSWERS

Operator
Q&A instructions.

Our first question today will come from Jon Raviv at Citi. Please go ahead.

QUESTION ON CACI'S M&A STRATEGY AND THE SIZE OF TARGET ACQUISITIONS

Jon Raviv
Good morning, everyone, and I echo Ken's words. Thank you very much, Dave.

On M&A, I know you bought a couple small things last year and you just closed on the GD business. How are you thinking about the smaller tuck-ins versus much larger properties? It seems like this GD deal is more in keeping with your historical behavior. But I know you're also open to larger things as well. Is there an equal appetite for both, that is smaller things? And also, larger things?

Ken Asbury
Yes, Jon, this is Ken. We've evolved our M&A program to where we're looking at the market through the lens of the 12 markets that we support. And whenever we find something that adds to capability—that puts us in a new customer space—then that's going to be something that we execute on, whether it's a small cyber company, or if it's buying a contract in a place that we know where the customer's going to be doing some really neat, modernization activities, and we're not represented there at this point in time.

But I will tell you, it spans the gamut. There was a time and a place, I think, we probably waited to see what was for sale. That is no longer our premise. Each one of our market strategies has a set of gaps, or identified gaps, and we regularly approach small, medium, and large companies, in some cases, about how to do it.

If we go back to the CSRA deal, CSRA was very interesting to us because it accelerated our notion about where we want to be in solutions. They had some of the most creative business models that have ever been done in government IT contracting. And we wanted to get our hands on it because we felt that this was a really good time to be able to do it. But I will note that while we took a shot at it, we were also quite disciplined to withdraw at the point when it just no longer financially made sense, despite the fact that the strategy was compelling.

I think you'll see, if you look at the history of all of the ones that we've made in very recent past—and maybe throughout the history of the company—everything's added. It's been accretive to the kinds of things that we're doing. There's no rhyme or reason on a daily basis, other than the discipline that we bring to looking at each one of our market strategies and seeing how we can improve that. Hopefully that helps.

QUESTION ON WHETHER THERE ARE STILL LARGE M&A TARGETS AVAILABLE

Jon Raviv
Yes, that's helpful. And then the follow-up on the topic. I guess, plainly, is there another CSRA out there, so to speak, since you talked about needing to identify gaps, and the fact you pursued that capability suggests that there's a gap you still would like to fill?

Ken Asbury
Yes, so, I mean, each company is going to be different. Let me just give you the case of the opportunity that we just acquired last night. What we saw here was a parallel to our Army systems engineering business that we've had for many years. And we've done a variety of things for communications, night vision, sensor systems, long range SIGINT capabilities, and the like. When we saw that GD was going to sell this portion of what they acquired with CSRA, we saw an absolute parallel, at a time when we're pouring a lot of money, or the government will be pouring a lot of money into shipbuilding and modernization of platforms. We see that as a time when our SIGINIT systems, our counter UAS systems, our electronic warfare systems, our data visualization, our situational awareness platforms—now we have another customer that we can introduce to those in a much easier fashion, because we're sitting side by side with them as, you know, where the Navy isn't responsible for all their— They are the systems integrators for ships, and all the systems that go on it. And we're going to provide the engineering talent. Now we're that much closer to them.

And if history is any predictor of the future—and I think in certain cases it is—we're now enjoying a much different relationship with the Army, with regard to CACI solutions, not just CACI pass-through contracting that we're doing with them. And that's where we saw the opportunity here.

As to what's into the future, we're going to be an acquisitive company, with organic growth being our first priority. Acquiring companies is our second, particularly from a capital deployment point of view. Whether there's another CSRA out there, we probably wouldn't comment until we told you that we did it or didn't do it. But just know that we will remain an acquisitive, strategic integrator.

Operator
The next question will come from Joe DeNardi of Stifel. Please go ahead.

QUESTION ON THE CURRENT AWARDS AND PROTEST ENVIRONMENT

Jon Ladewig
Hi, guys, this is Jon Ladewig for Joe. Again, congrats, Dave, on a wonderful career, and I hope you enjoy your time back home in Annapolis.

First question I have for everyone here is, we're halfway through the government's fourth quarter. Can you kind of share with us what the procurement environment looks like? And has the pace improved or protests declined?

John Mengucci
Yes, Jon, this is John. As everyone knows, we've been on about a four-year strategy of pursuing larger programs over time, have more of those be solutions, under FFP contractual arrangements. And on that front, we continue to make progress. The flow of awards continues to support, I believe, our tenth consecutive quarter of greater than a billion [dollars] worth of orders. If we were to look at where the government spending is, it more than supports the awards plan that we have.

We believe we have the right plan going forward to support our FY19 revenue growth plan. What's of importance to us is, if you look at the list of recompetes we have coming into FY19, those recompetes contain only 6% solutions. So that's another indicator of the advantage of solutions work being part of an ever-increasing part of our portfolio, because we're able to spend less B&P funds on recompetes, and more on new business.

You mentioned something about bridges. In any given year, about 10% to 15% of our current year revenue is recompeted. And last quarter, we again saw about half of our recompetes bridged. So, we're going to come out of FY18 with about 35% of our recompetes being bridged, and I think, regardless of the new budgetary environment we have, I think we're going to see that behavior continue.

But what's also important to note is that that activity does not impact revenue or earnings. But it will impact the level of backlog and awards, as we book only the incremental duration of that bridge, not a full re-compete win value. So, if we looked at the bridges of FY18, we had about $1.3 billion of recompete work bridged. And our really 90% win rate on our recompetes—that $5.2 billion number of awards would be somewhere north of $6 [billion].

QUESTION ON CACI'S PROGRESS TOWARDS INCREASING SOLUTIONS-CONTENT WORK

Jon Ladewig
Okay. You guys have talked a lot about your movement to solutions-type work. Should we be concerned at all about the company's flash fixed-price work as a percent of sales?

John Mengucci
Short answer is no. But let's talk about that for a little bit. Our performance does indicate more solutions and better FFP performance. So, I think on the bottom line what you're seeing—the results of our long-term strategy, frankly, and the type of work that we're out there chasing—that's

not only growing topline, but it's also allowing us to grow bottom line as well.

So, on a percentage of revenue measures, I wouldn't focus on a quarter-to-quarter fluctuation. It's not a reliable measure of bottom line growth. It's really more of a measure of the mix of programs that actually generate a revenue within that quarter. What is important, though, is that we've had a 30 basis point increase in firm fixed-price revenue in FY18 over FY17.

But again, it's the individual performance, Jon, on each of our firm-fixed price or fixed-unit price programs. It's really making our difference. In both '17 and '18, our level our level of operation excellence has been outstanding.

Ken Asbury
Yes, Jon, this is Ken. I would tell you that over-- As we look into the future, we want to see the percentage of firm-fixed price, or fixed unit price kind of work, increase to probably—I think at some point in time we should be targeting something like 50% of the content of our business, maybe even higher.

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

QUESTION ON WHAT STAGE THE MARGIN EXPANSION IS IN

Krishna Sinha
Hi, thanks, guys. I just think, Ken, you should come up with a Jack London Medal of Valor and give that to Colonel Dragics over there.

Ken Asbury
Well done, Krishna.

Krishna Sinha
So, just a question on margins. If I look at your peer group, and I look at your operating history, it seems like you're coming up against, maybe, the top end of what your portfolio can generate in terms of margins—if I'm just looking at the service piece. Obviously, it's a different kind of ballgame with the solutions piece on top of that. But I'm just trying to gauge, maybe, where you think you are in terms of innings, and where you can see the margin growing from here. Obviously, you've got the 10 to 30 bps target out there. You've well exceeded that over the last two years.

So, do you think that the margin acceleration will come in towards the lower end in the intermediate term of that 10-to-30 bps range? Or do you still see a lot of opportunity to increase it 30 or 40 or 50 bps in the intermediate term?

Ken Asbury
Yes, Krishna, I think our kind of business is evolving into one that should be in the low- to mid-teens as a business, as a portfolio. It takes a while to shift it to that point. That's why we put the goals in place of how we want to grow top and bottom line simultaneous. So, it has the sort of psychological effect, internally, of going after certain quality of business. But I do believe that we're—I think we're doing pretty well.

As to how it's going to shape out for '19-- Look, all the budget things are very good. We have a lot of tailwinds to this business. We'll see what '20 brings us because we don't have a really clear picture. But what I will tell you historically—about when we get past the bottom of the curve and we start to ascend, and the country makes a decision that we have to reinvest in capabilities and national defense and homeland defense—that's usually a five- to seven-year cycle.

So, during that period of time, there's two things happening. There's this notion that we have got to fix the readiness issues that have happened as a result of fighting a particular kind of war. And then we have to make investments in technologies and capabilities and processing that allow us to gain ground, if you will, on certain adversaries from a technical capability. And both things are happening at the same time.

For a business like us that's positioned with the aspirations of being a good service provider at the high end—such as the business that we just bought from GD—or to providing very eloquent solutions for, and very fast solutions for an array of very, frankly, data processing and decision-making products, I really like where we sit.

So, with that as a commercial in the background, there's nothing that will stop, in the near term, us getting to the middle teens. There's just not. I mean, we can see some "Crazy Ivan" thing happen to the budget. But I don't think it's likely, given all the indicators we see at the moment.

QUESTION ON WHAT TYPE OF SOLUTIONS WORK CACI IS GOING TO DO

Krishna Sinha
And you've had a lot of success with your solutions work to date. Can you kind of give us an indication of what you're doing? You had SkyTracker. That seemed to be a success. What's the incremental solutions functions you're going to try and develop going forward? And what's the kind of market opportunity there, in the intermediate term and the margin profile for that?

John Mengucci
Yes, Krishna, this is John. I guess following up on your earlier question first. We're all watching the percentage of our business that is firm fixed-price, and also the awards booked in our firm fixed-price.

But there's two other areas that, for many years to come, should support this 10-to-30 basis point growth. One is that we are working with customers to convert more cost-plus programs to firm fixed-price. So at least gives us the opportunity to expand margins. Secondly, it's the level of performance. So, if we're out there bidding firm fixed-price jobs at, let's say, hypothetically, 20% margin, through the lifecycle of that program we may be at a booking rate of 10% to 12% to 14%, until we're able to burn that risk down. And then, at the end of the program, we're able to drop more to margin as we have mitigated all of our risks. So, it's not only the percentage of business that is firm fixed-price—percentage of our revenue that has been done firm fixed-price—but it's our performance levels.

And so, some of my earlier remarks—FY17 and FY18—the operational excellence of this company has been outstanding. And we count on not slowing that down and to continue to perform, because that's the key on fixed unit price and firm fixed-price jobs.

So now you asked about solutions, and I'll focus into three areas. You mentioned one with our SkyTracker products. Yes, we've had great success there. Given this administration's involvement and some recent legislation changes, that really supports the high-tech, noninterference solutions that only CACI provides. We'd like to believe that that, plus the US Navy's $49 million contract to us to expand protection of some of their sensitive bases—on top of the fact that we just announced that we've added, not only a fixed variant, but a mobile and a wearable variant—does widen the aperture of potential customers and potential new missions for us to go service.

In the area of space customers looking for protected and resilient ground stations, whether that's our Intel customer or our Air Force customer—so we are working on outstanding leading-edge tools that will provide our customers better situational awareness. On the EW front, of which SkyTracker is one solution point, we're really working with the Army and some future Navy programs, single detection and identification of a lot of these RF and EW threats to folks on the battlefield are out there facing today.

And I'd be remiss if I left off and didn't talk about machine learning and AI. Look, we've had investments there for well over a decade. We have been applying those in the Intel world to very, very difficult problems. Where our growth there is, Krishna, is for us to take all those algorithms and start processing data in our other 11 markets to make certain that we're able to turn data into knowledge. That gives our customers faster timelines in the decision-making area, and also opens up to new RFPs and more sole-sourced work, again, which we would push to do firm fixed-price.

Operator
The next question will come from Joseph Vafi of Loop Capital. Please go ahead.

QUESTION ON WHETHER ASC 606 WILL AFFECT MARGINS GOING FORWARD

Joseph Vafi
Hi, guys, good morning. And, Dave, truly, great, great run, congratulations.

Maybe one for Tom. Does the adoption of new accounting standards change materially anything going on margin progression, do you think, in Fiscal '19? And then, I'll follow-up.

Tom Mutryn
No, it doesn't. The ASC 606 will require us to recognize award fees during the time period in which the work is performed as opposed to doing it episodically, which we do today. Today we have some lumpiness. It turns out, historically, our second and fourth quarter have higher award fees, and so historically we've had higher margins. But for the full year, the numbers should be unaffected by the award fees. Bottom line, the total amount of award fees flowing through our P&L for the full year, for both FY18 and '19, is somewhat comparable, with a slight increase in FY19 due to some growth in programs.

QUESTION ON FUNDING OF EXISTING AWARDS VERSUS NEW AWARDS

Joseph Vafi
Okay, great. And then, maybe one for John. On the new awards in the quarter—I know that the majority of the awards this quarter were new. Maybe it would be helpful to get a little color on—is that brand new program starts? Is it extra funding on existing vehicles now that maybe perhaps the funding environment's a little bit better? Or were there some actual takeaways out there, as well in that mix, and is that takeaway number moving around? Thanks a lot.

John Mengucci
Yes, sure, Joe. I would say, if we looked at things that were on-contract growth and then new business, which includes takeaways, I would say it's somewhere in the 50/50 range.

If I were to look at the markets, we've growth in all 12 of our markets, both in FY19 revenue, as well as our expected awards. Our FY19 growth plan is going to be centered on our Intelligence Services, Intelligence Systems, Business Systems, and Enterprise IT from a revenue standpoint. And our FY19 awards are going to be built on those four markets.

One example of a "new" new is the DHS CDM job. That's the program that I spoke about during my prepared remarks--$407 million, protecting the entire department and all of their sister agencies from some pretty severe cyber threats. That is an example of a "new" new that was a new government requirement. But overall, a supportive win rate to our FY19 revenue plan. And again, we got a lot of FY18 awards that are driving growth in IT as well.

The other area is, as we win new business, a lot of very select partnerships we've been able to put in place as well. We always talk about AWS. But we're going to see some new jobs out there, Joe, that deal with continuity of operations and secure communications, whether it's on the battlefield, or whether it's here domestically. So, working with partners such as Blackberry and Samsung, how do we address that unclassified but secure secret communications issue that the government faces today. So, we would expect some new awards in that arena as well.

Operator
Our next question will come from Edward Caso of Wells Fargo. Please go ahead.

QUESTION ON WIN RATES—WHAT THEY HAVE BEEN AND MIGHT BE WHEN PURSUING LARGER CONTRACTS

Edward Caso
Good morning, I'll pass along my congrats to Dave in hopes that he's got time to work on his golf game here.

I'm curious about win rates and where they've been? Where do you think they're heading? What's implied in guidance, particularly in the context of this going for bigger contracts? Thanks.

Ken Asbury
Yes, this is Ken. I think we're very steady on recompete rates in the low 90s. On win rates, over the last several years, for new or takeaway kind of work, I would say we're in the 30s-to-50 range.

Over the last several years, as we go after—and I think we've discussed this in a couple earlier calls—as we go after things that are bigger and more complex, we have to be that much sharper. And we're sharpening our skills all the time. We're very selective on the things that we're bidding. We could drive win rates to a different level but then it might take us out of being able to drive margin and topline at the same time. I'm really interested in our team looking at a lower topline growth rate but making sure that we're doing the quality kinds of things that are getting us into enduring contracts.

Five years ago, we would go after a lot of pass-through kind of things, and a lot of the—there is still some of that in our work. But I think, as time goes on—as we get better at everything that we write is blue, instead of green and blue—then I think you'll see the win rates go up. But right now, they're doing what we want.

This year, as John mentioned as well, we probably, in terms of work that we still have—existing work—we're probably closer to $6 billion in overall awards, just simply because of the bridging that we've seen. With all the extra money coming in to the last two mid-years, part of the thing that we've seen is contracting officers putting more money on existing contracts, because they don't have the time to put new procurements out.

So, all in all we're very pleased. We're pleased with the direction and the growth at top and bottom line. And I think, over time, you'll see us get—our win rates will get up. I think, on an annual basis on new stuff, we should be winning in the 35%-to-40% range.

QUESTION ON WHETHER A CONTINUING RESOLUTION IS ASSUMED IN CACI'S GUIDANCE AND ITS POTENTIAL IMPACT ON GUIDANCE

Edward Caso
Great, thank you. And my other question is—is on the continuing resolution, though Congress is making progress, I believe most assume we're going to start the year under CR. Is that what's embedded in your guidance? And at what point does the length of the CR impact your guidance?

Ken Asbury
Thank you for the question. We haven't put any CR—we still put protest delays and that sort of thing in our rollup. But, given the Bipartisan Budget Act, which was sort of a two-year deal, and the early appropriations, I think this is the first time the NDAA, in the last 40 years, has been signed this early in a cycle. I know that there's some discussions going on about closing things down, and that sort of thing, but I see a remarkable amount of activity in a bipartisan way on behalf of Congress, right at the moment, to get these budgets put into place.

I'm less concerned about a CR. There may be one of the appropriation bills that doesn't make it—where you may see some sort of partial CR activity. But that's not baked into our calculations.

Operator
The next question will come from Robert Spingarn of Credit Suisse. Please go ahead.

QUESTIONS ON WHETHER INCREASED CONTRACT WINS FROM THE DoD IS A SHIFT IN STRATEGY AND THE GROWTH POTENTIAL CACI'S NAVY BUSINESS

Audrey Preston
Hi, this is Audrey Preston on for Rob. And I just want to join everyone else in congratulating Dave on the next step and on a fantastic career.

We've been noticing a contract mix towards the DoD, even before the acquisition announced today. And so, should we be thinking of this more as a tactical or a strategic shift?

And then, following up on that—you also announced a number of contracts with the Navy, again before the acquisition. And so, this should broaden out your naval exposure pretty significantly. Do you have any idea of what the potential size of the opportunity with the Navy could end up being? Something maybe on par with, say, the Army, as you mentioned earlier?

John Mengucci

Yes, sure, this is John.

I guess on your first question, I think each quarter we put out tables that show how much work is done in DoD, in civil, and the like. As we mentioned in the past, we're not managing the business by those numbers. Those numbers are a result of the business that we're out there capturing. The fact that we're in 12 markets, where we can deliver solutions and capabilities across the expanse of the federal government, how those happen to lay in is how they happen to lay in on any given quarter set of awards. There is not one customer that's more profitable than others. There's not one customer that's easier to sell to than others. That's part of the magic of being market aligned—is that if we're going to deliver enterprise IT solutions, we're going to invest once and deliver multiple times, which is what also helps us drive bottom line growth.

I think the second part of your question was, with this current acquisition, where does that drive us in the Navy as it relates to some of our Army-centric business. Long before we were a strong Army business, we did work on some high-end professional services work, and also took some subcontract positions, mostly so we could get an understanding of how that customer works—what's that customer mission set—so that we could leave the professional services to understand the customer's missions and needs, then follow that up with, as we've grown more and more solutions, with solutions work.

I think what you'll see going forward is, with the acquisition of the navy systems engineering business that Ken spoke about earlier—that is our next step within the Navy for us to understand PEO ships and ship building. But more importantly, how does that open us up to systems and solutions that we build that help those ships deliver all of their mission capability?

So, I would look at this growth on the Navy side as the first step. And as Ken said, it's a multiyear plan that, over time, we'll understand why some of those naval missions are better, and that will allow us to make more internal investments, so we're able to then move to solutions in a firm fixed-price realm to be able to grow top end and bottom line, with the Navy, and as well as other potential new customers.

Operator
The next question will come from Josh Sullivan of Seaport Global. Please go ahead.

QUESTIONS ON WHETHER THERE WAS "OVERLAP" BETWEEN THE SHARED SERVICES CENTER AND THE ACQUISITION AND WHETHER THE SHARED SERVICES CENTER IS IMPACTING CACI'S ACQUISITION STRATEGY

Josh Sullivan
Hi, good morning, and thank you, Dave, you're certainly going to be missed here.

Excuse me if I missed this, but with regard to the GD acquisition this morning, what is the overlap with the new Shared Services Center? Was that a material driver of the interest? And is the Shared Services Center assisting or changing the M&A strategy in any way?

Tom Mutryn
Yes, Josh, this is Tom, I'm going to start out. We undertook the Shared Services Center for a number of reasons. And one of the reasons was, if we do acquisitions we should be able to relatively easily integrate those businesses into CACI. A variety of the transaction-related processes can easily be scalable at the Shared Services Center. As John mentioned, we opened

in July. Things are going quite well so far.

And, one of the attractions of our GD acquisition is we're able to bring the revenue and direct costs over to the business, with bringing very little of the General Dynamic's indirect expense, or overhead, over to the business. We could absorb that relatively easily at CACI with the transaction piece going to the Shared Services Center. And hence, we're able to generate EBITDA margins with the acquired business approximately in line with CACI's base business.

QUESTION WHETHER THE IMPACT OF THE ENHANCED EMPLOYEE RETENTION PROGRAMS CAN BE QUANTIFIED

Josh Sullivan
Okay, got it. And then just the enhanced employee retention programs you mentioned. Is there any way to quantify the impact you expect? Have you seen an uptick in employment or retention? And then, is there any risk you see to maybe continue to raise these programs outside of what's encompassed in the guidance for '19?

Ken Asbury
Yes, Josh, this is Ken. We've just rolled them out, but let's look at the macro. So, we're not seeing a great deal of results yet—other than we're getting the goodwill from our employee population that says, "Wow, you guys listened to us when we did the Employee Preferences Survey," and the feedback around that is very strong.

The feedback that we want to see is that it adds 500 more people a month to hiring, and we don't lose anybody on a monthly basis, or some percentage of that. It's all about attraction and retention. There's a lot of things that were non-economic around how we wanted the employee experience to change at CACI, because it's a reflection on what people are looking for in companies these days.

With regard to—I think the second part of your question, if I got it, was, do we see other things that we could be doing here. We saved a lot of money going to the Shared Services Center. And most of that poured back into two different areas: one, investing in our people, and [two] we've upped some of our technology programs that John has talked about. In fact, we've done some of that rather significantly, because we see that as a near-term benefit from a solutions point of view.

But I think there are other benefits that we need to go investigate how they fit. And what we're able to do is we're able to do this now and keep our rate structure at or slightly below what it has been year-over-year. For us, this is—thus far, it's new. To be frank, we're so happy with it, because we haven't seen that many issues in terms of starting it up, that we think it was absolutely the right choice to do. But it needs some time before I think we can begin to tell you that it's had a measurable impact on our retention, or a measurable impact on our ability to attract.

Operator
The next question will come from Brian Ruttenbur of Drexel Hamilton. Please go ahead.

QUESTION ON CACI'S GUIDANCE FOR LONG-TERM ORGANIC GROWTH AND THE TREND DURING FY19

Brian Ruttenbur
Great, thank you very much. So, two sets of questions. First of all, on guidance, could you just go over your internal long-term growth? I think you had mentioned 3% and 10-to-30 basis points long-term,

Along with that, if there's any kind of guidance that you give on a quarterly basis this year—is it going to be weighted to the second half of the year, more so than the first? Any kind of quarterly guidance that you can give us directionally? And long-term guidance? And I have a follow-up.

Tom Mutryn
Yes, Brian, this is Tom. We provided initial guidance in June, guiding to revenue and net income. And we provided some additional details on interest and depreciation and amortization, and a couple other key variables, which allows people to build their models associated with it. We have not given quarterly guidance, and we do not plan to. But I will make the comment that, historically, we had won the award fees, with the second and the fourth quarter being higher award fee periods—higher margins than the first and third quarters. That will no longer exist as we recognize award fees proportionally. So that would be the only guidance we would give with regards to quarterly numbers.

QUESTIONS ON THE LONG-TERM FINANCIAL GOALS AND THE LEVEL OF RECOMPETE WORK IN FY19

Brian Ruttenbur
Okay. And then, in terms of your long-term guidance—the 3% and 10-to-30 basis points. I know it's been talked about some, but that's still very much in place. And then, also, my second part of the question was going to be about recompetes. Is this a normal year, roughly 15% of your business up for re-competes, despite you mentioning all the bridges?

Ken Asbury
Yes, Josh, this is Ken. With regard to the 3%, we actually see that accelerating, not in FY19. Our plan for '19 is in the 3-to-3.4 [%], somewhere like that, organic. We see additional growth coming from some of the inorganic activities, including the one today that Tom described. And I think the overall growth rate for '19, in our adjusted guidance, at the midpoint is closer to 7% to 7.5% [This reference is to the EBITDA margin].

From an organic point of view, we don't see a change as a result of the acquisition. We may update that as the year goes on, depending on what we see in award activity. But our best judgment right now is that's a really solid number.

We do see growth in our addressable market into the next year, maybe of an additional point. So, the future may be different than three. But for right now, in FY19, we're going to keep it there.

And the second part of your question was around recompetes. I think we're at, what, 14% this year. I would say that on a five-year basis—I'm sorry, 12%—that's probably a low number. We should be in the 15%, 20%, if you think about most contracts being on five-year centers. So, we'll lean more heavily into new business in FY19, while we try to secure that 12% of existing business.

Operator
The next question will come from Cai von Rumohr of Cowen. Please go ahead.

QUESTIONS ON GOVERNMENT CUSTOMER YEAR-END SPENDING AND ON CACI'S TAKEAWAY STRATEGY

Cai von Rumohr
Yes, let me join the chorus saying how much we'll miss David; he's been terrific.

So, we're in a pretty strong business environment. Can you comment on two things? First, which customers have to commit their funding by the end of September? And which can kind of roll it over? Because I know that I think DoD is going to have some ability to kind of roll over this huge FY18 budget—and others are in a different situation.

And secondly, you talked about your strategy of kind of going after large takeaways. Maybe give us what some color you can. Is that increasing? What sort of things are you looking at? Obviously, you're not going to tell us which takeaways you're targeting. But is it—some of the characteristics of the types of things you're going after. Thanks so much.

Ken Asbury
Hi, Cai, this is Ken. With regard to customers that are rolling over, I know DoD has asked for some more flexibility. And I think that's been granted. I haven't heard about other customers. I don't know that anything has changed there. So, I would think the real answer to your question is we'll see some more flexibility at the Department of Defense level, and maybe some different kind of contracting activity associated with other customers that are not under that congressional, if you will, waiver for how they're counting their money.

We do—and I think we've said this a number of times—while we don't have any ability to quantify it—again, coming later in the year, for the rest of government Fiscal Year '18, we'll probably see a lot more on-contract growth, and the movement of money into places where there's a broad scope of work, because that's what I think helps the acquisition community be able to deal with it. '19 should be somewhat smoother from a government fiscal year point of view, so with that.

Now, with regard to your question about things that we're looking at. I would put our future—if you will, the elephant-hunting part of our business—in two categories. There are some that are going to be—where we're observing, or we've had communication, from a positioning point of view—where a customer's not satisfied with an existing provider. And so, that's the traditional recompete market, which is the largest piece, I would say, of the government services or government IT and services market, where there are existing requirements that have gone on for some number of years, and being selective about what we pursue, where we could add value, where we believe we could add value and change a customer's experience, in terms of what they need. That's one piece of the market. I would say that's the bigger piece right now.

The other part of what we're looking at from, again, going after big targets, wouldn't really be about takeaways at all. It may be about next generation technology. That could apply to information technology. It could apply to communications. It could apply to counter UAS. It could be the way SIGINT is collected and processed and used. It is about data visualization, data analytics.

There are opportunities out there where people are rethinking their decision loops because of what they pretend the speed of war to be now. And, those are the things that really have us excited because I think we're on par with the traditional providers from there. We may be even ahead of some of those traditional providers, who would really do everything they could to keep their current capabilities in place, when, in fact, we may be able to leapfrog them.

So, again, the traditional market is the larger piece—the recompete market, finding somebody that is not performing as well as they could be. And the other part of it is, there's a great new world that we're entering in, where there's a lot of capabilities that people are looking at a broad variety of ways of being able to bring them on board more quickly. And I think that's an area that we have our eye on. And, we have a series of contracts through a couple of our markets that we are pursuing there.

Cai von Rumohr
Thank you very much.

Operator
Once again, if you would like to ask a question, please press star, then one. Showing no further questions, this will conclude our question-and-answer session.

I'd like to turn the conference back over to Mr. Ken Asbury for any closing remarks.

CEO CLOSING COMMENTS

Ken Asbury
Well, Allison, thank you very much, I appreciate your help a lot today. We'd like to thank everybody who logged on to the webcast for their participation as well. We know that many of you will have follow-up questions. Tom and Dave Dragics and Dan Leckburg are available for calls this afternoon.

And I do want to extend my appreciation to all of you who said great things about Dave. I'm going to miss him as a mentor, but we'll figure out a way to keep him around for a little bit.

So, this concludes our call. I want to thank all of you. Thank you for your interest in CACI. Have a very good day.

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

END