CACI International

Third Quarter FY19 Conference Call

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CORPORATE PARTICIPANTS

Dan Leckburg - *Senior Vice President of Investor Relations*

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John Mengucci - *Chief Operating Officer*

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Greg Bradford - *President of CACI Limited*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the CACI International's Third Quarter Fiscal Year 2019 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 then zero and someone will help you.

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

Dan Leckburg

Thank you, Nicole, and good morning, everyone. I'm Dan Leckburg, Senior Vice President of Investor Relations for CACI, and thank you for joining us this morning.

We are providing presentation slides, so let's move to slide 2 about our written and oral disclosures and commentary. There will be statements in this call that do not address historical facts, 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 those that are anticipated. Those factors are listed at the bottom of last night's earnings release and described in the company's SEC filings. Our safe harbor statement is included on this exhibit and should be incorporated as part of any transcript of this call.

I would also like to point out that our presentation will include discussion of non-GAAP financial measures. These non-GAAP measures should not be considered in isolation or as a substitute for measures prepared in accordance with GAAP. Let's turn to slide 3, please.

To open our discussion this morning, here's Ken Asbury, President and Chief Executive Officer of CACI. Ken?

Ken Asbury

Thank you, Dan, and good morning to everyone. Thank you for joining us to discuss our fiscal year 2019 third quarter results. With me this morning are John Mengucci, our Chief Operating Officer; Tom Mutryn, our Chief Financial Officer; DeEtte Gray, President of U.S. Operations; and Greg Bradford, President of CACI Limited, who is joining us from the U.K.

So I'll turn to slide 4, please. Last night, we released our third quarter earnings for fiscal year 2019 and raised net income, earnings per share, and cash flow guidance for the full year, reflecting strong operating performance. We delivered record revenue in the quarter combined with organic growth, strong profitability, and robust cash flow. We also won $2.7 billion of contract awards, the largest quarter in our history, with almost 85% of that as business that is new to CACI.

While our awards performance has been notable for many quarters now, what's most exciting to me is the type and size of business we're winning. The team is successfully executing our strategy to pursue larger, higher-value solution business across all 12 of our markets. They are intensely focused on and investing more in every contract opportunity that we pursue, and as a result, we are bidding less contracts while winning a higher percentage of the contracts we bid. John will provide some insights into the exciting work that we have secured for our future in just a few moments.

Let's turn to slide 5, please. Looking at the macro environment, we are optimistic the government budget and spending priorities will remain well aligned to CACI's capabilities, driving our ongoing growth. Since we last spoke, the administration has submitted its 2020 budget request, which reflects unwavering commitment to Defense and National Security. We believe the broad bipartisan consensus regarding the erosion of America's technological war fighting edge and the urgent need to restore military capability and capacity, in the context of a great power competition, will be demonstrated in legislative action come September. We expect this recognition to drive investment in and appropriations for defense, intelligence and homeland security as well as modernization of systems, processes, and infrastructure across the federal landscape.

Let's turn to slide 6, please. Let's talk for just a moment about the strategic value and differentiation we gained from combining CACI with LGS and Mastodon. We’re seeing capability synergies that are providing significant benefits to our customers and will raise our collective probability of success for contract pursuits as a result of having stronger solutions and innovation processes. Over time, we'll be fully capable of delivering products and solutions where we control the entirety, the entire security of the supply chain, an area of incredible importance to our customers these days.

These capabilities are aligned with our customers' urgent national security requirements and span all war fighting domains. We are integrating unique electronic warfare, signals intelligence, cyber, and communications products. And this is just a start. We're incredibly excited about the opportunity for differentiation in this area of our business.

Turn to slide 7, please. As I look to the remainder of fiscal year 2019, I am thrilled by our performance to date and prospects looking forward. We're successfully winning business across all of our markets, and our M&A program continues to add differentiated capabilities in high value, high-growth areas of these markets. This gives us confidence in our strategy and also our ability to deliver predictable, profitable growth and value to our shareholders.

With that, I'll turn the call over to Tom for details on our financials. Tom?

Tom Mutryn
Thank you, Ken, and good morning, everyone. Please turn to slide 8. Our third quarter revenue was $1.3 billion, 12.5% greater than last year, with organic growth at 2.7%. The two acquisitions Ken mentioned are significant contributors to growth, as are a few other transactions which closed within the last 12 months.

Pretax income for the quarter was $81 million, which includes $14 million of transaction-related expenses associated with the acquisition of LGS and Mastodon.

As we discussed last year, FY '18 third quarter pretax profit of $94 million included about $22 million of one-time benefits, consisting of a $10 million special program incentive fee to release a certain reserve and strength on several programs that were one-time in nature. Normalizing for the fiscal year '18 items in this year's transaction-related costs provides a cleaner comparison and shows a healthy profit growth in fiscal year 2019. The drivers of that increased our strong perform performance, earlier than expected product sales, indirect cost management and our recent acquisitions.

Slide 9, please. Net income for the quarter was $68 million, up 5.7% on a reported basis, driven by the factors that contributed to pretax income and a lower tax rate. The primary driver of the lower tax rate was the impact of the reform legislation and a $4 million reversal of the deferred tax liability.

LGS and Mastodon contributed nicely to the quarter's results, with LGS adding $33 million of revenue and $1.3 million of net income, excluding interest and one-time expenses. Given third quarter performance and fourth quarter expectations, we are confident the combined acquisitions will exceed the $125 million revenue contribution in fiscal '19, which we guided to previously.

Please turn to slide 10. We began to raise over $113 million of operating cash flow in the third quarter, excluding $200 million from our accounts receivable purchase facility, with days sales outstanding at 66 days.

With improved DSO and increased net income guidance, we are raising our fiscal year operating cash flow expectations to at least $350 million, excluding the impact of the AR facility. We closed the third quarter with net debt to trailing 12-month EBITDA at 3.4 times.

Given our strong cash generation, we have the ability to quickly de-lever absent additional acquisitions. In April, we executed several floating to fixed interest rate swaps. With those in place, approximately 40% of our debt is fixed.

Slide 11, please. As Ken mentioned, we are raising fiscal year 2019 net income and earnings per share guidance given our overall strong performance, and we now expect net income to be between $262 million and $270 million.

When comparing the implicit fourth quarter 2019 guidance to 2018 actuals, there are several items to note. First, we've booked certain product sales in the third quarter of 2019, which were expected in the fourth quarter.

Secondly, the ASC 606 revenue recognition rule related to award fees effectively smoothed the recognition over fiscal year 2019, whereas, we had high award fees in the fourth quarter of last year. This resulted in $12 million of lower fourth quarter award fees compared to last year.

Third, we are undertaking several investments, totaling more than $10 million in the fourth quarter of 2019, including IT systems which will drive better cybersecurity and improve efficiencies, and increase business development spend given a robust set of opportunities in additional HR initiatives. We are also nearing our revenue range and now expect revenue to be between $4.9 billion and $5.025 billion.

As we have discussed over the last few quarters, the comparisons of GAAP 2019 and '18 result is impacted by the tax reform legislation passed in December of 2017. To help with the comparisons, we have again provided a table in our earnings release and slide presentation, which adjusts FY '18 assuming the tax legislation was in effect for the full year.

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

John Mengucci
Thanks, Tom. Good morning, everyone. Let's go to slide 12, please. Our operations organization delivered another great quarter across the board. Revenue growth of 12.5% was generated through new business wins, program expansion and acquisitions. We also won a record $2.7 billion of contract awards and almost 85% of that new business to CACI. This brings our trailing 12-month book-to-bill to 1.7 times.

As Ken mentioned, the type of business we're winning is exciting. To name just a few: we won an $810 million contract to develop, modernize, deliver, and sustain mobile and transportable command and control systems for customers across the federal government; a $415 million contract to build signals intelligence, electronic warfare, and cyber solutions; a task order with the U.S. Army to develop,

test their field sensors and laser products; and we won a large multi-award IDIQ, allowing us to deliver cyber and electronic warfare solutions.
These are just a few examples of large, solutions-based contracts we're winning across our addressable market, which will continue to drive margin expansion and differentiation over the long term. They're also in the areas of signals intelligence, electronic warfare and the convergence of those with cyber operations, which you've heard us highlight frequently as an area of focus for CACI as our customers invest significantly in this type of capability.

Driven by the continued strong awards, our backlog now stands at $14.9 billion, a record level, providing almost three years of revenue on a trailing basis.

Slide 13, please. Turning to our acquisitions of LGS Innovations and Mastodon Design, we couldn't be more pleased with their performance. They generated revenue and earnings in line with our expectations for the quarter, and are on track to exceed our initial guidance provided at the time of our announcement, and the cultural match is very positive.

While both companies are compelling on a stand-alone basis, the magic is in the synergy of the combination. It's exciting to see the teams already working together to combine unique technologies into differentiated solution and product offerings. In fact, leveraging advanced software and algorithms into enhanced solutions is our immediate focus. Together, we plan to deliver product-based solutions with greater capability, functionality, mission flexibility and value to our customers. And thanks to our Shared Services Center, onboarding is done, all synergies have been realized, and the integration is largely complete. After 73 acquisitions, we pride ourselves on our ability to integrate smoothly. This ensures we remain focused externally on program performance, customer satisfaction, innovation, and the pursuit of new opportunities.

Slide 14, please. Looking at the remainder of fiscal year 2019, our forward indicators are healthy. Revenue composition stands at 99% existing business, with minimal amounts of recompete and new. Our pipeline of opportunities is strong, with submitted pending award at $8.8 billion, over 60% of those for new business to CACI. We expect to submit another $16.3 billion over the next two quarters, and more than 80% of those are for new business.

In closing, I am pleased by our consistently strong operating performance, our ability to win business, the successful integration of LGS and Mastodon, and the differentiated capabilities they add and our prospects looking forward.

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

Ken Asbury
Thank you, John, and Tom. I always appreciate your comments. Let's turn to Slide 15, please. I am very excited about our third quarter results and the execution of the entire CACI team. We delivered another quarter of organic revenue growth, increased profitability and strong cash flow. Our business development performance was outstanding, with record contract awards driving record backlog. We continue to successfully execute our market-aligned strategy by investing in key areas of growth, delivering with quality and profitability, and deploying capital to accelerate growth and differentiation. I'm encouraged by our prospects, both new term and long term, as we continue to deliver value to our customers and to our shareholders.

Before we open up the call for questions, I'd like to give a special welcome to the talented employees and leadership from LGS, and welcome them to the CACI family. We closed this acquisition on March 1, and we didn't have a chance to talk about them in the last call. I visited five of their advanced laboratories, met with close to 1,000 of their employees, and I believe that this acquisition brings remarkable talent, a culture based on invention, and a strong commitment to national security. So welcome to CACI.

And now I'd like to again say how incredibly proud I am of our entire employee population. Their talent, innovation, commitment to ethics and integrity are remarkable. Our employees once again voted CACI a top workplace, most recently in Tampa Bay and in South Carolina, adding to the other top workplace recognitions we have received in numerous locations throughout the United States. Thank you to our employees for taking the time to recognize CACI as a good place to work.

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

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin the question and answer session. To ask a question, you may press star then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time we will pause momentarily to assemble our roster.

And our first question comes from Joseph Vafi of Loop Capital. Please go ahead.

Joseph Vafi
Hey guys, good morning. I wanted to circle back, I think, to some of your initial commentary on bidding larger—maybe fewer but larger deals coming in. And I was wondering if you could go a little bit further on the thought processes as why you're doing that. Is that a function of the market? Is it a function of CACI that exists today or some other factors? And then I'll have a follow-up.

Ken Asbury
Yes. Joe, this is Ken. So the roots of this whole philosophy of how we were going to drive the business started about six years ago when we went through the Budget Control Act, and we'd just come off a very successful run of growing double-digit every single year. And then we got to the inflection point of the drawdowns in Iraq or the pullout of Iraq and Afghanistan, and we realized that our business was pretty much focused on the support to those war-fighting efforts. And as those budgets began to come down, we did not have a diversified, enough of a strategy that was diversified enough to allow us to sort of weather that storm without just following the budget up and down.

As a consequence, one of the first things we did after I came onboard is we went out and bought Six3 Systems. And while for the first couple of years it was a little rocky on their professional services side, the core of that business, the digital signal processing, the cyber, all the work that was done with foreign weapon systems, intelligence gathering and analysis and having being able to have cyber effects, is a small nucleus, but that has grown very nicely over the past six years. And it put us now into a position where, with other acquisitions, the most recent being Mastodon and LGS, where we are at the sweet spot of where the U.S. government wants to be from being able to control all a multi-domain fight using the electromagnetic spectrum as one of the methodologies of doing it, not just relying on kinetic but using non-kinetic things.

And frankly, we're seeing a lot of that work develop in the marketplace. And our competitiveness, our rate structure and our skills capabilities and now a broad network of laboratories, and the fact that we're very, very committed to being—we want to do, I think, John pointed to this a few months ago, we want to see software-defined everything. Any platform upgraded by software is going to advance our war-fighting capabilities faster than waiting on the procurement cycle of some advanced weapon. So John, do you want to add anything to that?

John Mengucci
Yes. Sure. I think to Ken's point, and the fact that it's another quarter where it's been proof positive that our market-aligned strategy of bidding selectively and winning larger ones continues to be paying off. If I provide a little bit of color on what we did in the third quarter, about $2.2 billion of the $2.7 billion awards was for new. And what we did begin to see in an enhanced rate our customers buying new, new capabilities, so new wins for CACI, and new functionality and new bids for the federal government. In the third quarter, about $1 billion of our $2.2 billion of new were for new-new in the areas of signals intel, EW and its convergence with Cyber. About another $200 million fell into the new takeaway work, which we are extremely pleased with. The remainder is also new business, are enhancements to existing programs, which is also a key component of growth.

Joseph Vafi
That's great. That’s great color, thanks. And just kind of a follow-up in the new business category. The first quarter isn't necessarily the strongest seasonal quarter, [indiscernible] and you did really well. I was wondering, was that just kind of positive lumpiness relative to where your submits were in the quarter? And how do you feel about the cadence of new business signings for the rest of the government fiscal year? Thanks.

Ken Asbury
Joe, this is Ken again. So I would tell you that I think what we feel is, we've—and I mentioned it in my remarks, we've had some pretty good award quarters over the last, frankly, 10. I think we're over $1 billion for—maybe going into 11. And you know what, we have a trailing book-to-bill now of, I think, about 1.7—a 12-month training book-to-bill of 1.7 [indiscernible]. I'd like to point to the fact that we have been very, very studious in making sure that we understand all aspects of the capture process. We've upgraded our processes, the business rhythms at which we do it. We bid a smaller number of jobs, as I've mentioned before, and the reason we do that is because what we really want to see is a ratio of investing about 50% of the total investment before the RP comes out. Where we get to that number, we find ourselves having remarkable success on the winning side.

So, what does that mean? That means we spend a lot more time with the customer upfront. We may spend some of our B&P money to build demonstrations or to field demonstrations, to put some of our products in the field, where they're tested against other ones, where they can see real-time, not paper comparisons. There's a lot of that going on in this OTA quick-reaction capability world. So a lot more of our investment goes in upfront, not just writing a proposal, but frankly, describing the experience a customer will have if they select us and demonstrating that well before we deal with just meeting the L&M criteria that are in the RFP.

I believe what we've seen and what we experienced in the last few quarters is that this has become institutional now across all of our markets and in all of our business areas. There were times when we were bidding these same kind of jobs earlier on with the same capabilities, but we would write a green proposal. Since DeEtte Gray has been here, she's been on a plan to take every proposal from green to blue. And what does that mean? More time, more investment, more eyes on the target. That's what I would tell you.

So we’ll still see lumpiness in the award area in the award area. We certainly didn't see it in the third quarter. I also think that—but I think part of the third quarter was the fact that we picked the right jobs two years ago to bid. Many of them happened in the third quarter. Some have slid. There's some that we expected. Others. But we didn't see any move into the third quarter. A lot of this was—we just happened to be at the right place at the right time but having had selected the right targets. So I hope that helps.

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

Krishna Sinha
Hi. Thank you guys. Can you just elaborate a little bit more on Mastodon specifically? You know I see the slide here talking about the capabilities. But what's the who are they selling to exactly? What kind of pipeline do they have? And what's the differentiation in the growth rate for LGS and Mastodon, maybe throw Six3 in that mix, compared to the traditional sort of labor-intensive services businesses that you guys have been in? What are you seeing in the budget that would lead you to believe that these will be higher growth than maybe some of the stuff that you're already doing?

John Mengucci
Yes. Krishna, thanks. This is John, and I'll start. Well, look, the pipeline of opportunities is very healthy. It's clearly an area of our addressable market we've been talking about since the days of Six3. It's well-funded. It's a strong customer priority, and even more so today in the context of the great power competition.

What's particularly encouraging from these early, early days is the impact on probability of win through the combination of CACI and LGS and Mastodon. You know both Kevin Kelly and Mark Benoit, the CEOs of both of those companies, remain with us. They're beginning to work with others across this company, and we're finding we have both overlap and synergies as well, and overlap being a signal of—I guess, I would say extremely deep strength and synergies, which will drive more capable outcome-based solutions. We now have the ability to pull capability and solutions from each of those entities, both LGS and Mastodon, and it allows us to offer a differentiated product-based solutions with a greater capability set.

You asked about growth rates, and we're right in the middle of that now. We just finished a 60-day new company integration window, so our cost synergies are now complete. But if we look at growth rates, and we are looking at those now and we'll be more prepared to talk about those in our June guidance call. But on margins, we've already stated the combined businesses should run at about 17% of EBITDA margins because those are clearly larger than what the core CACI is running at.

And I would also add that we will see a step up in margin as we incorporate a full year of LGS and Mastodon. I think the last part of your question was around individual growth rates for both of those companies, given that Mastodon is very much a products company, and they're at their early, early stages, we're going to shy away a bit from talking about specific revenue and margins there because we're going to be very cautious that that shares too much information with some of those areas that we're looking to provide differentiated solutions in.

Ken Asbury
Krishna, this is Ken. You asked about. So, part of your question was about the demand signal, every single one of our military services are really looking to increase their ability to have multi-domain command and control and decision-making in a much more complex set of potential battlegrounds. And we believe by building product with multiple capabilities instead of depending on stovepipe systems, that we can speed the decision process for them. We can, and doing things in open source and bringing in a lot of the legacy systems such as DCGS, whoever, into the process, we can mine, almost on-the-fly, real-time signals intelligence with long-time collection repositories and put that in front of commanders who are in the field at that time, where we're not having to depend on going back to the

home house to do analysis.

We believe processors and the way we write the software these days and the way we can connect to existing repositories of really important information can provide near real-time results to the commanders in the field in any of those domains. That's the demand signal. And it is a new generation of those kind of capabilities that we believe the government is at the forefront of.

Krishna Sinha
Okay. Maybe just a follow-up to that. I mean, if I look at some of your competitors in the sort of C4ISR space or the comm space, like Harrison, L-3 and some of these guys, they have a considerable export component to their sales. And I know that's not probably something you're targeting in the near term, but is that something we can expect from these products businesses that you've acquired over the medium to long term, that there'll be an export opportunity there?

Ken Asbury
Yes. I think so. But I would tell you, we have an incredibly target-rich environment here in the U.S. And while we have a—for instance, we have a U.K. subsidiary that we use in it, and it provides us a channel to get to both NATO and, if you will, the Five Eyes customers, we have not used that to date as effectively as we would like. But in the future we do see that as being a way of having some of these things, particularly, where we're looking for common kit, there's a lot more discussion about how do we have the right—can we use the same signal collectors? Can we use the same processors? Can we have some communication devices? That's a business we haven't been in so much before. The signal's part, the cyber part, the having non-kinetic effects, I believe, we're at the forefront of, and we'll see how that matures from how we want to share some of that with our allies.

John Mengucci
Yes. And I think, Ken, I'd also add that at CACI we're not so focused on being a products company, it's more about product-based solutions. And here's what that difference means, is that we're not looking for hundreds of thousands large volume. What we're actually looking to do is provide differentiated product-based solutions, which potentially could mean less devices and far more capability. So to Ken's earlier point, software-defined devices, that we can deliver the device once and continually refresh what that device does, that's a very different product model. It's more of a product-based solution model, much more dependent on software, EEs, data, signal processing folks that are able to not focus on product development but more about product solutions.

Operator
Our next question comes from Joseph DeNardi of Stifel. Please go ahead.

Joseph DeNardi
Good morning. Ken, can you just reconcile a little bit the booking strength that you see? I think you said this quarter was a record relative to what's still kind of modest organic growth. Is there something in terms of portfolio shaping, or you're letting certain work roll off? Or is there an offset that we should be considering? Or is this kind of a coiled spring, where growth that should really start to accelerate at some point? Thank you.

Ken Asbury
Yes. Thanks, Joe. So you know it's kind of no secret, we've sort of talked about we want to get away from the lower-end commoditization work that might have defined the lower end of professional services. A few years ago, we stopped talking about direct labor and OECs because that was a way that we measured our business in the past. That's not who we are in the future. So when I look at our growth rate number, I'm actually quite pleased with it because there is a bit, there are a number of

these contracts where when we go to a recompete, if we're not able to get a reasonable profitability out of it, we're going to continue to bid a recompete job, but we'll put profit on it. If the customer doesn't value it, then we're not going to worry about it, if they're just looking for the lowest price.

And while there's been some structural things that have happened in declarations about not using LPTA for certain things, let's face it. It is still a competitive world, and in some customer sets they believe that their work could be done by any number of people. So we're trying to move up the value chain. Moving up the value chain is a slower proposition for us. It has taken us longer to be as successful as we have been in the third quarter because we're taking on people that have been holding on to some of this work for a long time. We've been getting closer and closer and closer to being that competitive, and now we'll start to see that. I do believe this is a signal of somewhat of an inflection point that we'll be able to raise that organic outlook. We're in that process right now.

But I would also caution that for every one of these things that we do, there is some other thing that's in our existing base that may be very profitable today because of a certain particular contract attribute, and then if that gets recompeted, it could come back as a lower fix. So what we're working on right now, we know for a fact that we're going to have acquired growth in '20, we're working on how much is that what is the combination of all these wins? How does that translate into the additive part of our business? What do we need to subtract from that? And that's where we'll solve in June for all of you, and let you know, that this is what our organic growth rate or our inorganic growth rate, and this is what the total growth picture for CACI looks like.

Joseph DeNardi
Yes. That's really helpful. Tom, you guys have been pretty candid in the past about businesses that you've pursued. Can you say—maybe I should just assume from your silence that that's the answer, but can you say whether you were part of the KEYW sale? Thank you.

Tom Mutryn
Yes. Joe, we don't comment on those types of questions. But thank you for the question anyway.

Operator
Our next question comes from Cai von Rumohr of Cowen.

Cai von Rumohr
Yes, thank you very much and congratulations on great results. So your numbers were terrific, but when we looked across, GVIT also had very strong book-to-bill, Leidos much stronger than we expected, and this normally isn't a particularly strong bookings quarter. Is there something on a macro basis that's happening that all of a sudden, all you guys are trying to take the cover off the ball?

Ken Asbury Cai, this is Ken. I'll start. Honestly, I think, let's look at the macro environment related to budget. I mean, we're in the second year of a two-year budget deal. I believe the acquisition organizations are far more comfortable than wrestling all the CR alligators that we've been dealing with for the last eight or nine years. But having more money, having a very cogent national defense strategy, having being very clear about the things that were important, I think, maybe getting back to the services, restoring some of the services responsibility for the things that they wanted in terms of priorities, I think all of those are a big part of this picture.

And as I look to what's happening now in terms of the budget negotiation for '20 and beyond, I'm hopeful that the public dialogue translates into what actually happens, a higher top line number for Department of Defense, some agreement with the House—between the House and them there's a bit of a difference, but it's an improvement over this year. And there's even discussion of putting together another two-year budget deal to take us past the election. And if that happens, I think we'll continue to see a market that is reflective of what you saw amongst many of my competimates in the second and third quarter of this year.

Cai von Rumohr
So given that and that the March quarter is normally not that strong, and you all did so well, should we assume that going forward that at least on the near term, the June quarter and the September quarter, which usually is a total food fight, also should be kind of stronger than they've been? Or did you have some pull forwards that why you were so spectacularly strong? Obviously, I don't expect you to be anyway near that strong, but should everything be a little better the next June and September?

Ken Asbury
Well, right now, from your spectacular comment, I have one point on the line. So I believe the trend. I feel good about the trend. I feel good about what we've already booked in our fourth quarter. We'll see how the next couple of months of that play out. I don't see any major impediments to the same behavior happening with the customer. We do have, I believe, it's $8.8 billion in evaluation right now. I would love to win at the same percentage that I've been winning, but that's a probabilistic estimate.

What I can tell you, Cai, and I can't tell you this for '20 or anything else until we get past the budget deal, I can tell you I am confident that we are making far better investment decisions around the jobs that we are going at. So my expectation is to see us having higher capture rates on the things that we are pursuing. Should that translate at the same time into very steady award activity by the customer then? Yes, I think we will continue to see, maybe not something as spectacular as this because we had some really notable big awards come here, but over time we will continue to execute at a very high level in terms of capturing business and taking market share.

Operator
Our next question comes from Sheila Kahyaoglu of Jefferies. Please go ahead.

Sheila Kahyaoglu
I know it's been asked to a degree, but great order activity, how do we think about that conversion? Are these some of the larger contracts? Are they five-year contracts? Are they longer timelines? How do you think about the organic growth cadence from here?

John Mengucci
Yes. Sheila, thanks. This is John. Look, I mean, it's clear, of our $6.8 billion of awards thus far, about $4.8 billion of that is new business. And to give a little bit of color there, those are an average period of performance of around six years. So it's exactly your question that we are doing a bottoms-up review on now. So we're looking at each one of those awards that come in late in the second, and throughout the third, we have to sit there and look at what those transition periods are. To your point, they all have very different ramp-up rates, whether they are a professional service win or a much larger solutions win, and it's part of that calculus that we're in the middle of now to be able to provide our guidance in June of '20.

What I will add is that in the intelligence systems area, intel services area, enterprise, i2, command and control and comms area, where we're seeing customers come out with a lot of solutions bid, that's where the multitude -- that's where the majority of our Q3 wins are. And I will also share that the awaiting award pull that Ken just spoke about and the $15 billion or $16 billion of what we're going to be submitting, those are in the same areas as well. So yes, a lot of our wins have been in the solution space. Those have a very different ramp-up timeline, but we would expect those to be a driver of organic growth moving to FY '20.

Sheila Kahyaoglu
Okay. And then just I guess a follow-up on that, John. In terms of—you did say a majority of your wins were related to intelligence, cyber, EW, whatever it might be. How do you think about that as a portion of your current sales and what that addressable market is? And how much has opened up since LGS and Mastodon? Thank you.

John Mengucci
Yes. Thanks. So part of our FY '20 plan starts with an assessment of our addressable market. It's clear that having both LGS and Mastodon with us does expand what that addressable market is. There'll be other markets that will potentially shrink as the government spends more money in this EW, SIGINT and cyber world. We're very happy that we were able to see that come prior to the government spending. So we are in a very good position. It is safe to say that in the markets that we serve, the intelligence systems area, the space in the cyber areas will be those three markets that we would expect to see much greater, greater growth as we get to FY '20 and beyond.

Operator
Our next question comes from Edward Caso of Wells Fargo. Please go ahead. Edward, your line is open.

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

Tobey Sommer
Just kind of a follow-up on the organic growth question. As part of your long-term outlook in strategic goals is to outgrow the industry on an organic basis, where do you peg the industry-rated growth currently? And when do you think that your organic rate of growth may exceed the industry growth rate by your targeted amount, given your strong pipeline of book-to-bill in recent months?

Ken Asbury
Yes. Tobey, this is Ken. So I want to be clear, our commitment is to grow 1% to 4% better than our addressable market growth, not the entire industry. So our market is, we've defined, we're probably somewhere between 200 and 220. We'll have a more exact number for you in June because we're doing that bottoms-up estimate looking through the budget now. We had discussed in our FY '19 guidance that we saw about a 3.5% CAGR given the budget circumstances of that we could see for the foreseeable future. In the beginning of that, it ramped up. So we were roughly in the 1.5% to 2% for this year addressable market overall growth, and we pegged it about 1% higher than that, and we're trending towards that. We may fall slightly short of it.

But I also will remind you that we've also made the commitment that I'm more interested in the quality of our growth, not just the overall growth. I want to grow 10 to 30 basis points a year, not every three years or every five years. It's 10 to 30 basis points a year because I think that's where we enter the domain of being a very mission solution-oriented contractor that won't be as affected by the vagaries of changes in budget dynamics, as we found ourselves being exposed to in the 2012, 2013 through 2015 time frame. So getting to the more enduring part of the market where you're side by side on the value proposition that each of our customers brings to our national defense is what our goal has been.

So we have accepted and we planned to have a lower growth rate as a result of that because that means exiting some businesses that are not going to be valuable or not going to support us in that aim going forward. That being said, the kinds of things that we have been winning, the kinds of companies that we have invested in to position us to win even more of that work, and just one example is the electronic warfare, SIGINT, Cyber, spectrum management, communications business, in that realm, we see that as the key to getting us to a higher growth rate in a place where the government is going to be investing a great deal of money. And at the same time, it's an opportunity to drive increasing profitability, as we successfully navigate and work on those kinds of programs.

Tobey Sommer
Thank you for that. That's helpful. With respect to the integration of the recently acquired businesses, you indicated that's essentially done. Could you comment on your acquisition pipeline right now? And remind us, if you would, the upper bound of your tolerance for leverage?

Ken Asbury
So what Tom has restricted me to say over the years is, we want to stay south of a probably 4.5 times net debt to EBITDA kind of exposure. We were at 3.4% today, which came up when we brought Mastodon and LGS. So we've got a moderate amount of dry powder now. Look, delivering organic growth and doing M&A, that's our strategy. We have been a strategic integrator for quite some time now. We've been very successful at it.

One thing I will add that John reminded me of the other day, it is since we put the Shared Services Center in place, it has made it so much easier to bring on—we brought on almost 1,300 people, and by the end of their first day they were on all of CACI's timekeeping systems. They were starting to use our purchasing systems. It was a completely different experience for us and allowed us to put those integration tasks and do them very quickly, realize the synergies from indirect cost savings and then focus immediately back on delivering the business.

So as to commenting on what we're looking at or that sort of thing, what we are—trust me, we'll be looking for other opportunities like Mastodon or like LGS or anything else that fills part of our strategic 12-market framework. And there are some things out there that are just early and frankly, on this call, I wouldn't talk about them anyway. But thank you for the question.

Operator
Once again, if you have a question, please press star then one. Our next question comes from Josh Sullivan of Seaport Global. Please go ahead.

Adam Friedman
Good morning guys. This is actually Adam Friedman on for Josh. I was just wondering, as your strategy continues to shift towards larger contracts, can you just talk about your contract mix and if you sort of see fixed price as a percentage of the whole remaining in sort of like the 30% range?

Ken Asbury
Yes. Adam, this is Ken. We're looking at a lot of levers to drive both top and bottom line. Obviously, we're looking to be in a different part of the market than we have been, let's say, 10 years ago. And we believe being that mix of, we'll never see products being a big part of our business. It'll only enable a broader penetration of our, of the solutions that we want to provide to a variety of vexing problems that our customers have. When we added the high-end Navy Systems Engineering shipbuilding business that we bought from GD earlier this year, that was largely cost-plus, so it kind of shifted things. Mastodon is a product business of all fixed price. The LGS business had a bit of fixed price, but they had a huge amount of sole-source, very high-end cost-plus work. And so what you're seeing is a mix, but it also is a mix that is still getting us towards our 10 to 30 basis point goal while delivering higher than core CACI top line growth.

So those are things that we look at. And if we have a choice, what I want our team to do, if they see a job that is an 8% job that we know we can do, and then an opportunity to do a fixed price job, and we can only invest in one of them, I want them to make the right choice between the two. We can do the fixed price job without taking on a lot of risk and it gets us a better return. That's why we have focused in the past on—I would love to have a lot more fixed price business. We're generally very, very good at that. In fact, I think the only fixed price job we lost money on was one single person, a single person fixed price job. So I like our ability to do that. John, do you want to add on?

John Mengucci
Yes. Another data point too is, once we got to the last 60 days working with LGS, what they're bringing to us is, we're not getting out of professional services business, what we are trying to do is move ourselves up that ramp. And it's clear that when you talk about delivery expertise to the federal government, LGS has absolutely found the right way of providing high-end technical talent but also asking customers to recognize that you are getting high-end technical talent. So even though it's cost-plus, it is cost-plus at extremely favorable rates. And that not only has driven their 17% EBITDA margin, it also gives them additional funds to reinvest in their solutions and their product part of their business. So we'll be looking at how they've put that in place working with Kevin Kelly and his team, and understanding how we push that kind of concept throughout the entire CACI.

Adam Friedman
Great and thanks for the color there. And just one more. You talked a little bit about the Shared Services Center. Is there any way that you can quantify the benefits generated so far? And then just also on the synergies from the acquisitions, can you just give us a little bit more color there? Thanks.

John Mengucci
Yes. I'll take a stab at that one. You know the Shared Serviced Center, we do it for a number of reasons. Kind of one was to provide high-quality service at a more cost-effective basis on kind of lower prevailing wages in Oklahoma City than in the Greater Washington, D.C. area, lower real estate expenses. What we said when we announced the Shared Services Center, that a good portion of those savings were being reinvested back into the business in terms of the overall employee experience, enhanced training for employees, changes to our 401(k) plan, changes to our benefit plans. So it wasn't cost savings for the sake of cost savings but cost savings to allow us to reposition the money to make better use of those funds kind of within the business.

The other kind of intangible benefits of the Shared Services Center are the acquisition integration, which John mentioned. What it does is, it creates a critical mass where we have a lot of transactional opportunities concentrated into one area where people singularly focus on driving efficiencies. How can we use best practice? How can we improve SLAs? How can we embrace robotic process automation to further improve processes? So the benefits are multiple.

Tom Mutryn
Yes. On the cost synergy side, Adam, we [indiscernible] a portion of the LGS and Mastodon integrations. We were looking at around $20 million worth of cost synergies. Those were achieved inside of the 60-day window. But I want to caution that those were not cost savings so that we could show that we had taken cost out. That was clearly—Kevin Kelly's team was a private equity company. They had a layer of management that would be redundant with what we have here. But the key takeaway is, we were able to take $20 million out and then immediately talk about, in the current fiscal year, how do we repurpose that $20 million doing more investments, more product technology work, more research and development work. We would expect that same trend to go forward as we go into FY '20 as well. So repurposing the indirect cost.

CONCLUSION

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

Ken Asbury
Well, thank you, Nicole, and thanks for your help today on the call. We'd like to thank everybody who logged in to the webcast for their participation as well. We know that many of you will have follow-up questions, and Tom Mutryn, George Price and Dan Leckburg are available throughout the day for calls. This concludes our call. We so appreciate your interest in CACI. Thank you, and have a very, very good day.

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