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## **CACI INTERNATIONAL INC**

### **Third Quarter FY20 Conference Call**

#### **PRESENTATION**

##### **Operator**

Ladies and gentlemen, thank you for standing by. Welcome to the CACI International Third Quarter Fiscal Year 2020 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 call over to Dan Leckburg, Senior Vice President of Investor Relations for CACI International. Please go ahead.

#### **INTRODUCTION AND SAFEHARBOR STATEMENT**

##### **Dan Leckburg**

Well, thank you, Andrea, and good morning, everyone. I'm Dan Leckburg, Senior Vice President of Investor Relations for CACI. Thank you for joining us this morning. We are providing presentation slides, so let's move to slide number 2.

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. Those factors are listed at the bottom of last night's press release and are 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 should not be considered in isolation or as a substitute for performance measures prepared in accordance to GAAP.

Let's turn to slide 3 please. To open our discussion this morning, here is John Mengucci, President and Chief Executive Officer of CACI International. John?

#### **CEO OVERVIEW**

##### **John S. Mengucci**

Thanks, Dan, and good morning, everyone. Thank you for joining us to discuss our Fiscal Year 2020 third quarter results. With me this morning are: Tom Mutryn, our Chief Financial Officer, and Greg Bradford, President of CACI Limited, who is joining us from the U.K.

First and foremost, I hope you and your families are healthy and safe during these unprecedented times. Our hearts go out to everyone impacted by the COVID-19 pandemic. Know that our team at CACI is doing all we can to ensure the health and safety of our employees, to continue our unwavering commitment to our customers, to continue to operate the company in a fiscally responsible manner, and to support the communities in which we work and live.

The format of our call this morning will be a little different than prior quarters. I'm going to spend the bulk of my time on our responses to COVID-19 after a brief overview of our third quarter results. After that, Tom will provide additional insights into our third quarter results, and importantly, specific COVID-19 impacts in the third quarter and our expectations for our fiscal fourth quarter and full year.

Slide 4, please. I am very pleased with our third quarter performance and results for Fiscal 2020. CACI delivered total revenue growth of 16 percent, with about 10 percent of that organic, and our profitability, cash flow, and contract awards were all robust. These results were very much in line with our expectations for the quarter and keep us on track to deliver a great Fiscal Year 2020. Given the timing of the COVID challenges in the latter part of March, we saw minimal financial impact in our third quarter.

Slide 5, please. As I noted, CACI is doing all we can to proactively address risks associated with COVID-19 for all of our stakeholders, employees, customers, shareholders, and our communities.

For our employees, our focus is on ensuring their continued health and safety and the health of their families at home. Our people are a national asset, delivering some of the most advanced technology and expertise to some of the most important customers in the world. Today, approximately 70 percent of our workforce is working from home. The rest of our employees are largely working from a CACI or government facility. For those in a CACI facility, we are adhering to the CDC recommendations for social distancing and the use of masks and gloves, where appropriate. We have also implemented hands cleaning procedures for normal business environments and specialized procedures for our laboratories. Thus far, we have had very few employees infected by COVID-19, and all are recovering well or have already recovered.

For our customers, we remain as committed as ever to support their national security requirements. We are flexible, dedicated, and agile as we deal with COVID challenges together. Like CACI, many of our customers have moved to working remotely, and for customers requiring classified, secure facilities, many have moved to shift schedules to allow critical national security work to continue while reducing personnel concentrations. We also recently converted 30,000 square feet of previously unclassified office space to a temporary SCIF, or classified environment. With authorization and coordination between two government agencies, we connected two classified networks through a methodology that had never been done before. This allows 330 employees to provide mission-essential support to a national security program while still adhering to CDC social distancing guidelines. This temporary SCIF was up in nine days, a testament to our employees' and our customers' capabilities, commitment, and agility.

And some of our work is directly contributing to the COVID-19 national response. On one program, we helped send equipment to the Puget Sound area of Washington State for a 250-bed Army hospital. We have also prepared ventilators and other medical equipment for FEMA to ship to hard-hit areas of the country, including New York and New Jersey. And several of our medical

communications teams have deployed to set up communications and logistics systems in places like New York City, Seattle, and New Orleans. Needless to say, we remain committed to our customers' missions and fighting COVID-19 however we can.

CACI has always supported heroes on the front lines, and now we are doing so with heroes on a new front line: our nation's nurses and doctors and the communities in which we live and work battling COVID-19. Our *CACI Cares* program launched an initiative to support hospitals across the country and those who are dealing with economic challenges that limit their ability to put food on the table. In a number of communities in which we operate, we are sending 6,200 meals directly to hospitals and providing financial support to food banks, which will provide more than 280,000 meals for those in need. Our communities need this, and it's just the right thing to do.

For our shareholders, we continue to ensure CACI's balance sheet remains strong. Our customers are predictable payers, providing consistent and reliable cash flow. We hold long-term contracts providing high levels of visibility. Our leverage levels are appropriate. We have ample access to additional liquidity through our current credit facility. We are still investing in future growth, paying down debt, and ensuring CACI remains positioned to deliver on our commitments, outgrowing our adjustable market and expanding margins. Our business strategy is enduring, standing the test of time, and our prospects remain bright.

Slide 6, please. Resiliency is a foundational characteristic of our business. The national security and modernization priorities of our customers are enduring, well-funded, and procured under long-term contracts. In fact, over the last six weeks, since the government implemented remote operations, we have submitted nearly \$2.5 billion of proposals. In several of those bids, the government customer replaced the traditional in-person proposal presentations with online virtual presentations in order to avoid procurement delays for those critical national priorities which CACI serves. The bottom line is demand for our expertise and technology remains, and our customers continue to procure and award.

We also continue to actively recruit and hire. Our talent acquisition process already included virtual interviews, so we are seamlessly adding talent to deliver on our consistently growing backlog.

The U.S. federal government has also put several protections in place to ensure our continued support during this time of disruption, including the CARES Act, passed on March 27<sup>th</sup>, and several department and agency level memos that have since been issued implementing those protections. The CARES Act provides the mechanism for our customers to reimburse CACI for a workforce that is ready and available but may not be able to work or have reduced hours due to maintaining social distancing guidelines under COVID-19. While these provisions allow us to continue supporting our customers, we are still working through details at the individual program level on invoicing guidelines and return-to-workplace details and plans. Tom will provide additional details on this shortly.

Given these unprecedented times. I'm extremely proud of all of the generally good things being done across our business and our own ongoing performance. We are keeping our employees safe, we continue to deliver critical expertise and technology to our customers, we are supporting our communities across the nation, and we remain in a position of strength to continue delivering long-term growth, margin expansion, and shareholder value.

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

## FINANCIAL OVERVIEW

### Tom Mutryn

Thank you, John, and good morning, everyone. First, I would like to echo John's sentiments around COVID-19. To everyone on our call or listening to the webcast, I hope you and your families are healthy and safe. And I, too, am incredibly proud of the employees and our company's collective response to the pandemic.

Please turn to Slide 7. Our third quarter revenue was \$1.5 billion, 16 percent greater than last year, with 9.9 percent organic growth. Notice that the LGS and Mastodon acquisitions anniversaried during this quarter. Organic growth accelerated from last quarter as we execute on our increasing backlog and grow existing programs.

The effects of COVID-19, including access limitation for CACI employees and subcontractors at secure facilities, negatively impacted third quarter revenue by approximately \$10 million. Net income for the quarter was \$80.6 billion, up 18 percent from a year ago, driven by the higher revenue in operating profit.

We did book a \$5 million benefit from a prior year's R&D tax credit, partially due to a successfully concluded audit, which led to a lower tax rate for this quarter. COVID-19 factors negatively impacted operating profit by \$6 million and net income by around \$4.5 million.

Slide 8 please. As John discussed, over many years, CACI has implemented a robust business model, and we are very comfortable with our strong financial position. As you can see on Slide 8, we have an established track record of generating strong cash flow with relatively modest capital expenditures. In the third quarter, we generated \$125 million of operating cash flow, excluding our accounts receivable facility, up 10 percent from a year ago. Our strong and dependable cash flow was driven by the stability and strength of our U.S. federal government customer and by our efficient billing and collection processes--day sales outstanding with 57 days, excluding our AR facility, down 3 days from last year and 9 days from a year ago.

CACI has a healthy balance sheet with significant liquidity available, appropriate debt levels--and supported by the robust cash flow I just discussed. We ended the third quarter with net debt to trailing 12-month adjusted EBITDA at 2.8 times. This is about three-quarters of a turn lower than last year after we funded the LGS and Mastodon acquisitions, demonstrating our ability to quickly de-lever after making acquisitions.

We have readily available access to significant liquidity, with \$835 million of unused capacity on our revolving credit facility as of the end of the quarter. The credit facility has four more years of remaining life and contains the normal provisions. The two financial covenants are 4.5 times leverage ratio and a 3.0 times interest coverage, both of which we are well inside of. In short, our strong cash flow supports continued de-leveraging in investment, and we have ample debt capacity to weather unforeseen events in order to take additional strategic acquisitions as they present themselves.

Slide 9, please. Despite the uncertainty created by COVID-19, our environment remains attractive.

- CACI has a stable and diverse base of government clients, focused on our nation's important national security priorities.
- All agencies are fully funded for the current government fiscal year, and spending is expected to remain healthy in the next government fiscal year.
- We perform a vast majority of our enterprise admission work under long-term contracts.
- And the government recognizes the importance of the contractor community and has taken steps, including passage of the CARES Act, to support our industry as we navigate the current challenges.

Bottom line, our business is quite resilient, and our forward indicators remain healthy. As John mentioned, we had solid contract awards in the third quarter of \$1.4 billion, which translates to a trailing 12-month book-to-bill of 2.1 times. Our total backlog of \$20 billion grew 34 percent, year-over-year. It represents almost three and a half years of revenue.

Our pipeline metrics continue to be healthy. Submitted bids pending awards are \$8 billion, with over 70 percent of that for new business at CACI. And we expect to submit another \$17.4 billion worth of bids during the June and September quarters, with over 70 percent of that for new business to CACI.

Slide 10, please. Turning to our outlook, we are pleased to reiterate the guidance we provided last quarter. Given what we know today, we are highly confident we will be within our guidance ranges, and reasonably certain we will be at or close to the midpoints.

Our underlying business remains robust and growing, and our guidance includes known COVID-19 impacts. The two most significant are:

- First, many customers are providing direction to exclude fee and profit on the reimbursable labor building rates under the CARES Act for employees ready and available but unable to work due to COVID-19.
- Second, we expect that timing of some product sales will be delayed to our next fiscal year. Our production capabilities remain intact, but some customers will likely be unable to perform testing or simply accept delivery.

For the full year, we estimate the revenue impact of COVID-19 to be around \$65 million and the net income impact to be around \$15 million. Approximately one-third of the COVID net income impact is timing related and is expected to be recovered in future periods. The remaining impacts are unique to the pandemic response and as such are not expected to have any long-term impact on our business.

With all this, we now estimate full-year adjusted EBITDA margins to be around 10 percent. Our FY 2020 guidance now assumes an effective tax rate of approximately 20 percent, down from our previous expectation of 22 percent, driven primarily by higher R&D tax credits from prior years.

Turning to cash flow, while we will benefit from the CARES Act provisions related to the deferral of the employer portion of payroll tax, there is complexity related to invoicing under Section 3010 of the CARES Act as well as potential COVID-19 related impacts to government approval of invoices and disbursement of funds. If we do see any invoicing or payment delays, tax collections may be impacted temporarily but ultimately collected as complexities are resolved. Given all this, we are pleased to be able to maintain our operating cash flow guidance of at least \$430 million.

All in all, we delivered a great third quarter with strong organic revenue growth and profitability, and we are pleased to be able to reiterate our full-year guidance. Our business is fundamentally strong, and if it were not for COVID-19, we likely would have finished the year at or above the high end of our current net income guidance range.

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

## **CEO CLOSING COMMENTS**

### **John S. Mengucci**

Thank you, Tom. Let's go to Slide 11 please.

These are no doubt unprecedented times. Our thoughts and best wishes go out to everyone affected by COVID-19. We all know someone who has been impacted by this virus. The nation has seen significant job losses and economic impact. During these times, more than ever, I'm incredibly grateful to be leading CACI. We are a strong and resilient company, fiscally relatively unimpacted by this pandemic, putting us in a position to continue supporting our customers' critical missions, continuing to grow, and continuing to support our affected communities. As we continue to navigate this time under COVID-19, you have my commitment CACI will continue providing transparency and valuable insights.

And Tom and I are humbled to be serving alongside the most talented leadership team in our industry. You all have met many of them. Day in and day out, they are leading this business with courage, providing care and safety for our employees, and making the right long-term decisions in the best interest of our company, customers, and nation. I thank you all for that.

And our 23,000 employees, you demonstrate bravery and commitment each and every day in support of our customers. Your resolve during these challenging times is truly inspiring. As always, I thank all of you for the incredible expertise and technology you deliver each and every day. Know we are here for you should you need anything.

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

## **QUESTION-AND-ANSWER SESSION**

### **Operator**

We will now begin the question-and-answer session (Operator instructions). And our first question comes from Robert Springarn of Credit Suisse. Please go ahead.

### **QUESTION ON CACI'S ABILITY TO RECOVER COVID-19-RELATED COSTS**

#### **Scott Deuschle**

Hi, it's Scott for Rob. Tom, just a technical question. The COVID-19 costs that you weren't able to recover in the current quarter—are you able to invoice those out in coming quarters and get those reimbursed such that there might be a benefit in the future? Or since you kind of billed them out this quarter, are they just lost and not recoverable?

**Tom Mutryn**

Yes, so for the third quarter, some of the costs prior to March 27<sup>th</sup> could be recovered through an REA, request for equitable adjustment, process. The costs after March 27 will be recovered in the normal course of billing activities.

**John S. Mengucci**

Yes, Scott, I'd also add that if we look at the full amount of expertise and technology delivered, around 10 percent of our hours are actually--will be considered CARES Act recoverable hours. The rest of the company, and the rest of our billing hours, are fully invoiced with fees, profits, and the like. So, I hate to say, immaterial number of hours but 10 percent of our hours are actually covered by the CARES Act. The rest of this business is running business as usual.

**QUESTION ON VISIBILITY OF ANY TRENDS TO LEVERAGE THE INTERNET AND THE CLOUD IN PARTICULAR**

**Scott Deuschle**

Got it. That's helpful. Thank you.

And, John, just as a follow-up, outside of the government, there's this kind of big decision about how COVID-19 will accelerate different secular trends, particularly trends to leverage the Internet, the Cloud in particular. Just wondering, can you talk a bit about that as it relates to your customer, and particularly as it relates to the Enterprise IT space? Are there any kind of silver linings there, long-term, where there's greater digital adoption, so you see some maybe accelerated funding in that part of your business? Thank you.

**John S. Mengucci**

Yes, Scott. Thanks. So, yeah, there are going to be what we believe are a fair amount and number of site-to-site secular kind of growth areas for us. What I've been talking to our team on is we hear so much about the impact of COVID-19. And it is a tremendous impact across this nation. But with our business hats on, with every impact comes opportunity. And when the time is right, we'll be moving to the opportunity side of this.

Based on the estimates that I've seen, there's about \$330 billion of government Fiscal Year 2020 funding that is contractor-addressable in the \$2 trillion CARES Act. Now, that funding is above the original budget request and really does have the potential to address systems and infrastructure, some of those that you mentioned, Scott.

As we look at those funds and we look at how we can change, mostly how we interact and how we deliver the outcomes that our customers are asking CACI to deliver, we're going to play to our strengths. As you all know, we've been investing in areas like secure mobility, electronic warfare, counter UAS, enterprise IT, and others. The post-COVID landscape is going to put even more emphasis on areas where we're already market leaders.

And so, I think we're really aligned--very much aligned--to secular growth areas. We see even more opportunity to gain market share in the medium term. And I'll give you just a couple of examples, because they've already risen to the level of us beginning to shape and also look at ways that we can better enhance how we interact with each other--us meaning customers and those of us who are supporting them.

We've seen an enhanced user take-up rate, an increase in briefings to our Steel Box solution. What that does, it allows agencies to encrypt their voice and text communication and share files in a secure environment. The addition to that is while teleworking, we're deployed and responded to COVID-related activities. So, you think about secure mobility and more of us being out of the office, how do we continue to deliver at the rates we delivered prior to COVID-19, post-COVID-19?

We've also been looking at how do we do something, which is distributed classified development, in an unclassified manner. We've had great pilots with our--with a couple of intelligence agencies. They went very, very well prior to COVID-19.

I talked about us standing up a 330-person SCIF in nine days. That's the kind of thinking that I think we're going to see be much more discussed and customers much more open to figure out: number one, protect national security assets and the way we go about protecting this nation but, number two, we need to find ways to do it in a manner that is not so building square foot-centric, as they are today. I think those opportunities right now are very much limitless the way we see it today. So, Scott, thanks for the question.

**Scott**

That's very helpful. Thank you, John.

**John S. Mengucci**

Yes.

**Operator**

Our next question comes from Matt Akers of Barclays. Please go ahead.

#### **QUESTION ON THE CURRENT M&A ENVIRONMENT**

**Matt Akers**

Hi, good morning, guys. Thanks for the question.

**John S. Mengucci**

Sure.

**Matt Akers**

I was wondering if you could comment, John, on the M&A market. How active are you there at this point? How do you balance sort of maintaining liquidity at this time versus doing deals? And also, are any sellers kind of capitulating in terms of prices they're asking for? Or is it too early for that right now?

**John S. Mengucci**

Yes, Matt. Thanks. Look--first of all, thank you for that question. Our M&A program, as you all know, is very strategically driven. Where we need to fill gaps, enhance our capabilities and/or improve or create new customer access points, if there's a fit, we're going to look at the financial model and then the business to be a good fit with our culture. None of that is changing. Our process remains the same.



The gaps that we decide to fill through acquisitions, those are always there. We're in the middle of--as you all know--our FY 2021 planning. We're looking at all the different markets that CACI has strengths in. We're looking for some of those weakness areas we can fill the gaps. The difference to the process is we'll also be looking, over the long term, to make investments where post-COVID-19 technologies may make better sense or get a better ear from our customers.

It's a bit too early to discuss that today, but I can tell you, leading this company and the rest of our business leaders, it is clearly at top of mind. In the near term, we're more operationally focused as are companies we might be looking at. So, for us, M&A has taken a temporary hiatus as a result. And when I say the word hiatus, 60 to 90 days at really doing financial modeling and the like.

Our company is going to look slightly different coming out of this. Other potential companies will as well. But don't take that to mean we're not looking at potential acquisitions and pursuing relationships. We still have the phone. We still have live webcasting. We're able to meet and go out there and still continue to touch companies that we were already out there touching prior to COVID-19. That allows us to better understand how they're coping with it, how resilient are they, and the like.

I think you mentioned on the liquidity side. I mean, I'll let Tom talk a little bit about that. But we've done an awful lot. You know that our priority, first, is to invest for growth and, secondly, pay down debt. So, Tom?

**Thomas A. Mutryn**

Yes, yes, so going into this, we had a credit facility with a large number of major U.S. and international banks. We believe fundamentally, as stewards of the company, to make sure that we had access to liquidity in the event of a black swan type of event. And certainly, the COVID-19 and the subsequent shutdown qualifies as that type of very--three or four standard deviation event. And the good news is we have the liquidity to survive that.

Early on, we did an assessment to see whether we had adequate liquidity and spoke to our banks to see whether we wanted to increase it, and made the decision that we were happy with where we are and feel that we can certainly weather the storm.

So, significant liquidity, that has always been first and foremost in my mind to protect the long-term viability of CACI. And if we did additional acquisitions, we would do that--borrowing additional money while at the same time ensuring that we do have that reserve capacity.

**QUESTION ON THE PERFORMANCE STATUS OF LGS AND MASTODON**

**Matt Akers**

Great. Thanks. That's really helpful. And I guess just one other one: LGS and Mastodon. Could you just update us on how that--those companies are progressing? I think you had sort of planned for a little bit of a ramp-up kind of in the back half of this year. I think you alluded in the prepared remarks to maybe some product sales to be delayed a little bit--just any color you could give us there.

**John S. Mengucci**

Yes, sure, Matt. So, across the company, we have product deliveries and product development going on. Specifically to LGS and Mastodon, we're through our first year. Both teams have done an outstanding job. I'm extremely proud of both Kevin Kelly and Mark Benoit in their leadership of bringing their companies into CACI. It's very, very seamless today. We'll always have little bumps and bruises, but for the most part, very, very happy.

As it pertains to some of the product deliveries, some of the products that we deliver across the company, you may say a more material amount from both LGS and Mastodon—they're very specialized products. And as Tom mentioned during his prepared remarks, some of those need to go, even on a test bench or go into a test situation, prior to approval. So, it's just not a simple box, pack, and ship, and we take revenue at our dock. They have to be tested. They're very specific types of equipment in the sigint realm, cyber realm, and the like.

So, we'll see a slight perturbation of that, as Tom mentioned. A lot of these products are already built. Some are going through production now. They will all be delivered. Timing--probably later in the fourth quarter and into our first quarter.

**Matt Akers**

Great. Thanks a lot.

**John S. Mengucci**

Thank you.

**Operator**

Our next question comes from Gavin Parsons of Goldman Sachs. Please go ahead.

**QUESTION ON POTENTIAL LONG-TERM IMPACT OF COVID-19 ON MARGINS**

**Gavin Parsons**

Hi, thanks. Good morning.

**John S. Mengucci**

Good morning, Gavin.

**Gavin Parsons**

Appreciate all the color on the immediate COVID-19 impact. But if we think about the-- longer term, is there any possibility that two years from now, we look at margins, and there's a hit because you missed some performance milestones or something was delayed, and you weren't able to book profit recognition. I appreciate it's still early on in the process, but any thoughts on whether or not this might have a lasting impact on margin recognition?

**John S. Mengucci**

Yes, Gavin, thanks. Look--yeah, I'm actually trying to get myself to look out 12 months from now. Let me give you a little more fulsome answer. And I promise that I will hit margins.

Short answer to that is no. I mean, we'll submit the appropriate REAs where we have scheduled delays due to COVID. Customers are allowing for that, clearly. So, we'll--we will submit scheduled REAs. When those are approved, we'll come up with cost REAs as well.

And every program is going to have a little different story based on customer and government funding. At the end of the day, what I've been telling folks is COVID is a period of time. It's not the beginning of something completely new that is ever-existent from a businessperson's mindset. So, we will come back, although a different normalcy will be out there. That different normalcy is how we work, where we work, how we get work done.

You would have thought that we just invented teleworking. But there's a lot of folks out there who, in the March time frame--even folks in my own company--I was asking about some facility space, "Is it possible for us to work--no." I didn't even get my question out. So, now I think we've all recognized just how much we can do with the technology that we have.

As you look at margins, going forward, we have been firmly committed to growing better than the addressable market and ever-increasing bottom-line margins. I think Tom stated correctly during his prepared remarks--had it not been for COVID, Tom and I and the rest of the company would have been delivering to the high side, if not beyond, where we were on the net income which parlays into margin. So, no, I don't see any long-term impacts here.

#### **QUESTION ON THE TRADE-OFF BETWEEN INVESTING IN IR&D OR BID AND PROPOSAL ACTIVITY**

##### **Gavin Parsons**

That's helpful, appreciate it.

And then, maybe, just as far as that growth and margin balance or trade-off, if you will--going forward, if you have some product deliveries that hit next year, maybe that's a tailwind to the margins. I know it's too early to talk about specifics next year. But, I mean, your long-term target, right, is 10 to 30 basis points a year. If you head towards the high end of that, if some of those product sales come through, I mean is that something that you would instead kind of invest towards IR&D or bid and proposal activity to try to put a lever on growth? How do you think about that trade-off?

##### **John S. Mengucci**

Yes, thanks. So, my answer while we're in COVID would be just like it would be if not. We are working on our FY 2021 plan--probably still too early to tell. With COVID, it's actually really too early to tell. We're really waiting for customer directions to sort of settle out; let us understand what their new normal is. We have a lot of invoices we have to submit. We need to still work through with fee, without fee. Today, we're making the assumption, FY '20 guidance, that those CARES Act hours will not have fee. But there's going to be bill number 4 and 5 and 6 coming up here.

As it pertains to how our business looks at this going forward, we are always going to make investments in areas that are squarely in front of where our government customer is providing funding. And our shift to more Mission Technology areas, and our investments there, will not cease. We will invest in areas that will drive growth.

Secure mobility will be something you'll hear us talk more and more about. We did release in the February time frame a Steel Box, which is more of a SaaS kind of service. But we're already

getting additional requirements there. How do we not handle just unclassified work, can we go to classified work versus Secret? Clearly, that's going to get our attention.

Where we invest is going to have to support both top and bottom-line growth. But, overall, we've got 1,100, 1,200 different programs out there for very able and willing sector presidents that are putting their FY 2021 plans in place. Haven't found one that isn't looking for additional investment. And we'll try to fit that in.

Tom, any other color?

**Thomas A. Mutryn**

Yes. So, Gavin, you tried to--should we focus on margin expansion or growth? And for us, it's not an or, it's an and. We believe we can do both. Clearly, we need to invest, which will drive growth. The framework which we have, looking at our business enterprise and technology, providing expertise and providing that mission support, provides that framework for us to grow across those various quadrants, if you will, of our business and doing simultaneously expanding margin and growing revenue is something that we feel very doable, and it's in our DNA.

**Gavin Parsons**

Still comfortable on the 10 to 30 bps here?

**Thomas A. Mutryn**

Yes, sir.

**Gavin Parsons**

Great. Thank you very much.

**John S. Mengucci**

Yes. Thanks, Gavin.

**Operator**

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

#### **QUESTION ON THE COMPANY'S ABILITY TO RAMP UP ON RECENT LARGER AWARDS**

**Jasper Bibb**

Hi, good morning. This is Jasper Bibb on for Tobey. I was hoping you could update us on the company's experience ramping some recent larger awards in this environment.

**John S. Mengucci**

Yes. Josh, thanks. Yeah, we have continued our recruitment and our hiring of folks. One of the larger contracts that I think we referenced last quarter was the BEAGLE contract, which is with the Customs and Border--\$1.3 billion multiyear award. We are slated to have a full transition of that contract in May. That means that all of our deliverables are in line, how we're going to execute that program, and we have the program fully staffed. And we are absolutely 100 percent on track. We have folks starting each and every day. Some are coming to our facility. Some are going to a government facility. Some are out there teleworking. We're bringing them up-to-speed and the like. So, on that program and on others, we continue to ramp those programs up.

Will we see some that are going to be a little longer ramp-up than others? Absolutely so. And if that drives some early REAs, we'll be sure to submit those. But overall, I'm very, very pleased with our talent acquisition team and our line folks making certain that we are up--that we are ramping up per our schedules.

**QUESTION ON MANAGEMENT'S VIEW OF FUTURE FEDERAL SPENDING, GIVEN THE HIGHER DEFICIT DUE TO STIMULUS MEASURES**

**Jasper Bibb**

Thanks. And then while it's early, I wanted to ask how you anticipate future federal spending priorities may be evolving at this point, given the large stimulus measures and associated deficit implications of those.

**John S. Mengucci**

Yes, Josh. I sort of look at spending and where the government is going to go in four different areas. I think--I touched a little bit on an earlier question around sort of COVID-19 CARES Act and additional stimulus spending, whether it's DHS, the Army National Guard--where we've been delivering a lot of field hospitals, or things in the critical response interoperable command and control kind of work that we lead in. We're already seeing some increased funding there. And I think I gave you some color on that.

If I look at government Fiscal Year 2020, we--our fiscal year is coming up into our last quarter. Agencies are fully funded through government Fiscal Year 2020. The CARES Act is going to add incremental funding. So, I don't expect any impacts to any of our existing programs.

If I were to look at Fiscal Year 2021, I sort of looked at closing off this year, 2020, as sort of putting some sugar in your tea. And I look at FY 2021, now you've put a couple drops of milk in there--gets a little bit more cloudy. But what we do know--last budget deal established discretionary funding caps for defense and non-defense spending. So, I believe those are going to remain large and very healthy markets for us.

National security priorities, I think are as important as ever. And if we had more time, we could probably talk about some of those threats we have been watching. And somehow how those folks have become actually more prevalent bad actors as this nation has been going through COVID. So, I see no lack of funding or lack of priorities in the national security space.

I've been working with our legislative affairs folks, government Fiscal Year 2021 appropriations. They did--they are pass the regular order; or we will start with a CR? I think that's still too early to tell. But suffice it to say, for many of you who have been in this marketplace for many a year, we have a lot of experience in operating under a CR environment.

Congress has a lot on their plate with COVID-19, but bipartisan support for the security of this nation has never wavered, whether it was 9/11; whether it was the financial crisis; whether it was what we suffer through today with COVID. Beyond that, Josh, longer term and higher deficits impact and how the health care spending--I don't have that clear of a crystal ball.

But I'll tell you, it's probably early to say what kind of large level--or high-level macro-level changes are going to be out there. But I can tell you that we will position this company--first of all, we are in the sweet spot of spending today, and we didn't reposition the company, and we got lucky once.

It's actually based on a large--very much involved strategic plan. And should we have to do that again, we will continue to do that. We're a very agile and very adaptable company, and we would expect CACI to be right in the forefront of where the customer spends if it's two or three years out.

**Jasper Bibb**

Thanks for taking the question.

**John S. Mengucci**

Yes, thanks, Josh.

**Operator**

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

### **QUESTION ON THE FACTORS AFFECTING OPERATING CASH FLOW**

**Edward Caso**

Good morning. Thank you. I was hoping Tom could spend a little more time talking about puts and takes on the cash flow side. How much of it is a shift to the right? What could possibly be lost? The timing around REAs? How long that may take? And then what--how big the REA nut is? Thank you.

**Thomas A. Mutryn**

Good. I can add a few things there.

Generally speaking, we're very comfortable with our operating cash flow. The government is obligated to pay their bills. They pay their bills. At this point in time, the government payment offices, government approval processes, are intact.

I just got some numbers with regard to cash collections for the month of April. Today is the last day of April. Very much in line with our expectations: \$440 million, which is where we would expect it to be. And so, money continues to come in.

In terms of some of the COVID-related impacts, some of those impacts, as I discussed, were timing-related, shift of product sales. And so, when we recognize the revenue when we deliver the products, you will get the associated cash flow. Some of it is permanently lost—our expectation right now in terms of lost fee on reimbursable hours. And so, that decrements profit, decrements cash flow. That's all within the guidance ranges that we have, and we are reiterating those particular guidance ranges.

REAs, you typically take a while either to prepare and submit to the government and have them adjudicate it. So that is a slower process. But I would say that's probably a minority of the impacts that we're talking about, so that is not a large concern.

And the last item I mentioned was the deferral of certain employer payroll taxes. And we were able to defer those as virtually every U.S. company, per the CARES Act. And that will provide a cash flow benefit to us between now and the end of the calendar year.

**John S. Mengucci**

Ed, let me add one other thing to that, too. We're just trying to provide as much insight as we can. When we think about hours that we'll invoice now, basically if you can envision folks in an operations center, just like when the government closes down, and we have weather delays. That time is difficult to make up because the time has already gone by. It's not as though we put 600 people in an operations center, we can support those networks better. So, that kind of work will be invoiced now.

There's some of our work that has been under minimal, what I'll call COVID hours. Picture we have 45 people in a lab. They can all work 35 hours a week, but they can't work 40 because we're doing shifts and trying to implement social distancing. That's five percent of their hours that could most likely be made up to go ahead and get scheduled delays back.

So, for every program we had, there's a different REA costs and REA schedule area. I would tell you the majority of our programs are in the cost-plus arena. And on the REA front, I'd be looking at probably 15 to 20 percent of our programs will have the ability to submit REAs to then get incremental costs.

**QUESTION ON AN UPDATE ON CACI'S UK OPERATION, CACI LIMITED**

**Edward Caso**

And my other question is, since we have Greg Bradford on the phone here, if he could give us a sense on what's happening in the United Kingdom, given their shelter-in-place rules and so forth, and how it is impacting that business. Thanks.

**John S. Mengucci**

Yes, sure. Greg, can you come on and address that?

**Gregory R. Bradford**

I'd be happy to, Ed. Maybe to put it in context, how has the U.K. government reacted to coronavirus? And then, what is our business over here, and how it has been impacted, which is the question you've asked.

The U.K. has been locked down, and that's the term they use, since about mid-March, which is about the same time most of the U.S. did it. All business has been ordered to work from home if they can. So that's pretty much all business. Only essential stores are open: grocery stores, pharmacies, gas stations. Not even home improvement or garden nurseries are allowed to open. And people are told to stay at home and only come out once a day for no more than one hour for exercise or, in my case, to walk the dog.

As a result of all this, we have closed all nine of our U.K. offices and our one office in Amsterdam and Holland. And virtually 100 percent of our employees, around 1,000 people, are now working remotely from home. So, that's kind of the state of play here.

**Edward Caso**

Thanks.

**Gregory R. Bradford**

In terms of our U.K. business...

**John S. Mengucci**

Go ahead, Greg.

**Gregory R. Bradford**

Sorry. In terms of our U.K. business, it's a very diverse business by design. It's a mixture of government, commercial, proprietary data, and software products and services. And we have that--we originally developed this strategy to give us protection because you can have one sector down and one up at the same time, so if we have--if we're multidisciplined, that gives us greater safety. And that certainly seems to be coming into play now.

About 40 percent of our U.K. business is in government, and 60 percent is commercial. Our government business is holding up extremely well, particularly our defense and national security business, which are mission-critical industries.

Half of our commercial business is also holding up very well because we work with industries like grocery chains, financial services, utilities. And they're largely un-impacted by coronavirus. But about half our commercial business, or 30 percent of all of the company, is involved in sectors--retail, shopping centers, leisure, which includes pubs and restaurants. And as we all well know, those businesses are effectively out of business today and for the immediate future.

So, our Quarter Three performance was excellent and well above planned. We experienced minimal impact from coronavirus. Our Quarter 4 performance will be impacted because of the challenges I've just outlined on the commercial side. However, that said, we've had a great year so far, and we still expect to achieve our full FY 2020 plan. And we're now sitting down and working hard on our plans for FY 2021. So, that's probably a--.

**John S. Mengucci**

Greg, thank you very much, appreciate it.

**Gregory R. Bradford**

Yes.

**Edward Caso**

Thank you.

**Operator**

Our next question comes from Seth Seifman of JP Morgan. Please go ahead.

#### **QUESTION ON THE GROWTH OF REVENUE**

**Ben Arnstein**

Hey, good morning. This is actually Ben on for Seth.

**John S. Mengucci**

Morning, Ben.



**Ben Arnstein**

I was hoping if you could touch on the top line momentum we've seen. Things have really accelerated the last couple of quarters--and kind of how we should kind of think about this moving forward.

**John S. Mengucci**

Yes. Thanks, Ben. Yeah, we are extremely proud by the growth and by our--the FY 2019 plan we put in last June. We expected, when we started this year, to double our level of organic growth to around 5.4 percent, if I remember those numbers right, Ben. We're currently north of seven and believe, should things stay on the path that Tom shared, we will stay in that general seven to eight percent growth rate.

Given our book-to-bill ratios, given the backlog that we have, given the success of being able to staff so far through this COVID environment, we would expect to continue to drive growth rates at greater than the addressable markets that we're out there serving. We're going through a lot of that information now to look at what those growth rates are, and then sort of set where our marker is for the organic portion as well as our overall growth. But given our backlog and given how the business has continually ramped up, quarter-over-quarter, we believe we are nicely positioned, as we go into FY 2021.

**QUESTION ON MAJOR RECOMPETES EXPECTED IN FY 2021**

**Ben Arnstein**

Great. Thanks. And then, can you maybe touch on any big recompetes to watch in FY 2021, or some meaningful competitions for new work that we should be--that should be on our radar?

**John S. Mengucci**

Yes. Thanks, Ben. We traditionally have a recompute rate around the 15 percent range. We're not looking to give too many details on FY 2021, but that one fact, that's a good play number, at least for now. We'll come out with more specifics as we get closer to the fiscal year.

Thanks, Ben.

**Operator**

Our next question comes from Louie DiPalma of William Blair. Please go ahead.

**QUESTION ON HOW CACI IS POSITIONED TO POSSIBLY WIN A POSITION ON A LARGE C2E OPPORTUNITY**

**Louie DiPalma**

John, Tom, and Dan, good morning.

**John S. Mengucci**

Good morning.

**Thomas A. Mutryn**

Good morning.

**Louie DiPalma**

John, you referenced secure mobility/cloud to protect national security assets and targeting opportunities when the timing is right, post-COVID-19. Related to this topic, on your first quarter earnings call, you revealed that CACI has moved more applications to the Amazon C2S Intelligence Community Cloud than the next five service providers combined. There have been reports of a successor version to that contract, called C2E, in the works that's potentially worth \$10 billion. Given your dominant market share for C2S and your recent momentum in winning large contracts, do you think that you would be one of the favorites to win the systems integrator component of that future contract?

**John S. Mengucci**

Yes, Louie. Thanks.

So, the way we look at things like what AWS provides and what Microsoft Azure plans, and some of these system integrator contracts, that's not the level where we operate. We look at those as being a service to us and great partners of us and others in our industry as we move customers' applications to a cloud-based solution. It is still true that we move more intelligence apps to the cloud than the next five companies combined. That statement is still true. It's not one of those facts that I go out there and continue to check, but I can tell you that that is still true.

But my comments related to COVID and the like were really around how do we do the business of supporting our national security needs in the Intelligence space, potentially in a slightly different manner. Today, there is classified work being done in SCIFs, and there's unclassified work being done. There's unclassified work being done in customer's facilities that could just as easily be done in one of our facilities or actually done with people teleworking as well.

But to be able to support that on a larger scale--we've done it in the past--you need to have networks. You need to have what we would call secure mobility. If I'm in my home and I connect to my local network, I have to then connect to my corporate network that then connects to the government's network. That's a lot of gaps, and we have to make absolutely certain that we are protecting--a lot of solutions out there allow us to do that. Clearly, we've implemented a bunch of them in the last six weeks.

So, how do we take what we're using today as a temporary network kind of topology, and how do we make that more permanent, so that when we come back around to the next--as Tom likes to say--black swan event, where we can't be socially near each other--how do we continue the mission of delivering government services and protecting this nation?

So, it's not so much about where we see a specific contract going. All my comments are more around the much broader use of how we're working today, and how do we make that a more repeatable portion of how we work tomorrow.

**Louie DiPalma**

Sounds good. Thanks, John.

**John S. Mengucci**

Yes. Thanks, Louie.

**Operator**

Our next question comes from Josh Sullivan of the Benchmark Company. Please go ahead.

**QUESTION ON THE CURRENT HIRING ENVIRONMENT TO STAFF RECENT LARGE WINS**

**Josh Sullivan**

Good morning.

**John S. Mengucci**

Good morning, Josh.

**Josh Sullivan**

Just a question on the hiring environment. Do you have better access? Are you seeing better access to maybe some of those technology personnel who have migrated to the commercial technology world? You mentioned you've got some nice backlog wins here over the last year. Does the current environment help you staff some of those--some of those contracts that you otherwise might not have had access to?

**John S. Mengucci**

Yes. Thanks, Josh. I would say without COVID-19, in general we have been drawing more technology folks from the commercial side--a couple of reasons there. One, pre-COVID--we do an employee survey every other year to understand how we're doing. Tom and I and other senior leaders can have an idea where we are. But reality only comes from surveying 23,000 employees and allowing them to tell you exactly where we are and what we need to do better. We've talked about that many, many times on these calls.

What we do is we score ourselves against the high-tech work forces and corporations out there. So, are we putting the right benefits, the right working environment, the right kind of challenging work in place that would draw folks who traditionally believe they had to go to the commercial high-tech side to be able to have that experience? So, on that regard, we are making progress, albeit slow. It's tough to turn some of these ships. We've had great responses there.

If we look to COVID, this is an area where, frankly, because of the foresight of our federal government and all--and leaders at all levels, for them to pick up on the fact that we hold the majority of the classified and Top Secret base of employees in this nation--that to have those folks become people who are claiming unemployment--take that person's ability away to continue to do cleared work. So, is there in the near term, close term, better job security perhaps in the national security realm? Yes. Is that a sustainable reason for somebody to switch? No.

But, at the end of the day, we are winning more and more Mission and Enterprise Technology jobs. And those are the type of jobs that your software engineers and your digital signal processor engineers and all are looking to be a part of.

I'd also add, we're going to bring in just short of 250 interns in the middle of all this. That's the largest incoming intern class that we've had. And the percentage of college hires that we have coming into the company has risen as well. So, that would also portend to the fact that we are doing the "and." We're still providing expertise but adding a large technology component to some of our major wins is drawing a very different type of potential employee to us.

**QUESTION ON WHETHER INCUMBENTS ON RECOMPETES ARE BEING GIVEN  
INCREASED PREFERENCE BY THE GOVERNMENT**

**Josh Sullivan**

I appreciate that. And then, just one on the recompete conversation. Are you seeing any increased preference for the incumbent contractor, just given some of the reduced resources or time that customers evaluate contracts? Is there any--do you think there will be any preference for the incumbent?

**John S. Mengucci**

Yes. I mean, on all those awards that I'm recompeting, I'm hopeful of it, and all those jobs that we're going to have to work--I'm hoping that that doesn't work right?

But, no, seriously speaking, we may see some short-term extensions for contracts that all of the companies hold, just to minimize the amount of churn and the like. But for the most part, be it not for COVID--and when we come out of COVID, it's going to be business as usual. So from where I sit, I don't see that changing greatly. Tom?

**Thomas A. Mutryn**

Yes, the other fact is the government is required to follow the Federal Acquisition Regulations which provide, say, impartial determination of how contracts are awarded. And there's nothing to suggest that the government will deviate from their mandate to have that impartial contract determination.

**Josh Sullivan**

Got it. Appreciate it so much.

**Thomas A. Mutryn**

Thanks so much.

**John S. Mengucci**

Yes, you bet. Thank you.

**Operator**

Our next question comes from Greg Konrad of Jefferies. Please go ahead.

**QUESTION ON OPPORTUNITIES BEING SEEN ON A TASK ORDER INVOLVING CACI'S  
AGILE SOLUTION FACTORY**

**Greg Konrad**

Hi. Good morning. Just wanted to follow up a little bit on the last question. I think in November you got a task order that kind of involved CACI's Agile Solution Factory. What type of opportunities are you seeing with that? How big is the opportunity? And maybe how you expect that to grow?

**John S. Mengucci**

Yes. Thank you. Thanks a lot, Greg. Yeah.

So, the Agile Solution Factory is a relatively large investment we made four or five years back. It's located in Ashburn. We built that out following a U.S. Army National Guard award. And that set us up well to win this program, which is known as BEAGLE in the Customs and Border area. Roughly a five or six-year \$1.3 billion--that's a couple hundred million dollars a year when we get to full run rate. The ability to grow that is more growing the concept and having somewhere to perform that work than it is anything else. And let me take a minute to explain that.

If you think about putting the word factory against software and calling it Agile, picture a production facility building cars. There's a well-established way how you can build cars. Well, we believe there was a well-established way to do Agile software development versus waterfall-type development. And the difference there is customers can get seven or eight releases per year. Think about your iPhone operating system downloads versus one each year or one every X number of months.

We have the processes, the procedures. We teach the majority of the NDU classes coming in the National Defense University classes. We looked at a benchmark for a lot of that teaching and a lot of that training. So, it's a repeatable factory. So then the question that we're looking at now is, if that's running well, and we have the BEAGLE program and the Army National Guard program running, what other work can we go out and talk to our customers about and say, "Instead of doing a traditional software development RFP, tell us what applications you need built, and we'll run them through our factory."

So, to us, it opens up a whole new era of how do we help the United States government move more towards Agile because requirements are continually changing. And that allows them a more cost-effective way. It allows us to better staff and, tied to the earlier question, attract more software engineering and systems engineering talent to CACI. So it's a win for us. It's a win for our customers as well.

#### **QUESTION ON MARGINS IN THE FOURTH QUARTER AND THE BASELINE FOR FY2021**

##### **Greg Konrad**

Thank you. And then just to follow up on margins. I mean you kind of pointed to 10 percent EBITDA for the year. But it still looks like you exit the year at a higher rate despite some of the slips in program deliveries. What's happening in Q4? And then just how should we think about a baseline for Fiscal Year 2021 when we think about 10 to 30 basis points of margin expansion?

##### **Thomas A. Mutryn**

Yes. So, in terms of margins, we'll continue to focus on improving those, as John said. It's a bit premature to talk specifically about FY 2021 as we're in the midst of the planning process. And some of the COVID-19 activities certainly have impacted our expected fourth quarter EBITDA margin. But that being said, we expect it to be north of ten percent. If you just do the arithmetic, that would suggest where we are trying to get to the full year set of numbers. So a lot of positive momentum.

That margin expansion is driven by a whole host of factors: focusing on the right types of programs; getting high award fees; self-performing direct labor versus subcontractors performing direct labor; controlling indirect costs; introducing stickier higher margin, get a product--get into our mix, Mission Technology products, and the like. And so, we're comfortable with those margin trends that we've been discussing.

**Greg Konrad**

Thank you.

**Operator**

Our next question comes from Mariana Perez Mora of Bank of America. Please go ahead.

**QUESTION ON WHETHER THE CONTENT OF REQUESTS FOR PROPOSALS CACI IS  
SEEING ARE COVID-RELATED OR FOR IT SERVICES**

**Mariana Perez Mora**

Good morning.

**Thomas A. Mutryn**

Good morning.

**John S. Mengucci**

Morning.

**Mariana Perez Mora**

So, a lot of coronavirus details--thank you very much. And my question is, you mentioned the customer efforts to maintain an active RFP and work environment. Can you please discuss if the RFPs you are seeing lately, and ultimately the ones you are interested to explore, are related to COVID-19's expected contracts? Or they show an incremental demand for IT services?

**John S. Mengucci**

Mariana, thank you. So, let me start with where we see contract awards and RFPs today. Government is still running. We're seeing award decisions. We are seeing RFPs coming out. Several bids, as I mentioned during my prepared remarks, are going to include virtual presentations as we and our customers adjust to this new operating environment.

We're very pleased with our award performance. I've always said that awards are lumpy. So, our trailing 12-month book-to-bill, still very strong at 2.1 times. And I'd also share that at this point, even early in our fourth quarter, we are very much on track to exceed what we did in the third quarter. And I'm very happy with where we'll finish this overall year.

As for where we're seeing RFPs, it is very much balanced between Expertise RFPs and Mission RFPs. There has been no change in that. What you'll see change in our fundamentals, as we go forward, is clearly as we built up the right capabilities on the Mission side and some of our Technology offerings, we'll be able to address more Technology RFPs than we would have in the past.

I don't have any current breakout and the like. We do try to provide that information as we win new business. But, in our new business area, really looking at a mix of Expertise RFPs, and Technology RFPs. And that blend of both of those we are very focused on will allow us to continue to grow top and bottom line.

**QUESTION ON WHETHER THERE IS A PARTICULAR TECHNOLOGY CACI IS FOCUSING ITS BIDS ON**

**Mariana Perez Mora**

And is there any particular technology that you are focused on or particularly levered up on the submitted bids you have currently?

**John S. Mengucci**

Yes. I mean, I don't have that level of detail. I can tell you, in general anything to do in the electronic warfare, cyber, counter UAS, secure mobility, or anything that allows customers and folks out in the field to detect signals, and geolocate those and understand how do they prosecute their missions in and around those enemy signals, is really where our longer term focus is. And those are [the] kind of RFPs that we have been responding to and have been quite successful in over the last 18 to 24 months.

**QUESTION ON THE CURRENT COMPETITIVE BIDDING ENVIRONMENT**

**Mariana Perez Mora**

And the last one is from the competitive environment. Can you discuss like current competitive environment, post-coronavirus, and also the appetite from the nontraditional defense IT services provider to get improvement?

**John S. Mengucci**

Yes, under this period of time--under COVID, I haven't seen any changes whatsoever to how we respond to RFPs in those folks that are either entering or exiting this market.

**Thomas A. Mutryn**

I agree with--very much of a status quo environment. The competitive environment, like most industries, is robust. A lot of well-respected providers in this space. And there is a certain amount of work that we're going after. We're trying to differentiate ourselves on a number of fronts: making sure we have competitive cost structures; making sure that we have a high level of technical solutions in our proposals. And we believe we've been winning a disproportionate share of the work. Hence our very strong trailing 12-month book-to-bill rate, but no expected change in the competitive environment.

**Mariana Perez Mora**

Well, thank you very much.

**Thomas A. Mutryn**

You're welcome.

**John S. Mengucci**

Thank you.

**Operator**

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

## **QUESTION ON THE POTENTIAL COVID IMPACT ON MARGINS IN THE FOURTH QUARTER**

**Cai von Rumohr**

Thank you very much. So, why was the decremental margin as high as it was on the COVID revenue hit of \$10 million, \$6 million or 60 percent? And second, particularly given your cost-plus mix? And looking forward, given that COVID really started to impact results here starting in March, should we expect a bigger negative impact in the fourth quarter, which is what Greg Bradford suggested for the U.K.?

**Thomas A. Mutryn**

So, in terms of the margin in the third quarter related to the COVID impact—at that point in time, although the CARES Act was passed, our third quarter results do not reflect any recovery of the CARES Act, just because of the time again when we close our books per GAAP rules.

And what happened was we lost labor-based work, T and M and cost plus. We lost the revenue associated with that labor-based work, although we maintained the cost structure, so losing revenue flows directly through the P&L with the cost structure being intact, such that it was a relatively high incremental margin for those lost hours.

As we move into the fourth quarter, the phenomenon is slightly different. There is some shift in product sales--temporary--which are higher margins. But the major impact is the lost fees on those CARES Act recovery hours, which we spoke about, which are less impactful on a margin basis.

**Cai von Rumohr**

So, I mean, is the net impact more or less in the fourth quarter?

**Thomas A. Mutryn**

Well, I think we provided--yeah. So, in the fourth quarter, I think we provided that information, the revenue impact is approximately--let me get my kind of notes here.

**John S. Mengucci**

Sixty-five million.

**Thomas A. Mutryn**

Sixty-five million for the full year, so \$55 million in the--revenue in the fourth quarter and net income--\$11 million in the fourth quarter is what the implied numbers are. Greg's impact is fully incorporated into the numbers that I discussed.

**John S. Mengucci**

I guess, Cai, I would also add--back to signal versus the noise kind of thing. I think how we look at where we are is the reiteration of our guidance shows that we have the confidence to--and the ability, frankly--to pivot in this COVID environment that we're in. And when we get--when the dust settles on the CARES Act and the like, and we're able to relay out some of our facilities that will allow us to bring more folks back to work, this problem---this current phase we're in sort of runs its course.



So--and, believe me, we're doing everything we can, looking at it in a very safe manner--is how do we bring folks back? We need access to secure data links. And I've been working with the directors, deputy directors of all the intelligence agencies, looking at, how do we slowly bring folks back. And clearly want to bring those folks back that don't have access to the secure comms that they need today.

**QUESTION ON WHEN CACI WOULD MEET THE "RUN RATE" ON THE BEAGLE AWARD**

**Cai von Rumohr**

Thank you. Last one--when do you expect to hit your run rate on BEAGLE?

**John S. Mengucci**

Towards the end of--well, we finish transitioning the end of May. So, at some point during early 2021, Cai, is what our best estimate is now.

**Cai von Rumohr**

Thank you.

**John S. Mengucci**

You bet.

**Operator**

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

**QUESTION ON HOW CACI IS PREPARING FOR A STRATEGIC PIVOT IN A NEW DIRECTION**

**Jon Raviv**

Hi, thanks for the time here. And I just have to say it was really wonderful hearing Greg this morning. We really appreciate Greg. Good to hear from you.

My question is for John, and I'll keep it to one because I know we're way over time. Just building on your previous answer, John, and you have been around this industry for a couple years, I think, and as you mentioned, you tend to pivot to where the national priorities are. 9/11 made you pivot one way. The last several years have been this very thought-through pivot by you guys towards an adjacent direction. Where do you see--what does the industry generally do? What has your company generally done during these times of pivot? And how are you preparing for a potential pivot over the next, say, the next five years?

**John S. Mengucci**

Yes, Jon, thanks. We're--I think I mentioned earlier, I sort of see where we are in a few different phases. Let me be a little tactical first and then be a little more strategic next.

Look, over the short-term--what I call the short-term is Q3 and Q4 of FY 2020--we're going to have impacts because of shift work and reducing staffing levels and labs and SCIFs and operator centers, and with the current facility layouts. We believe those are all going to be temporary. We're going to continue to remain focused on protecting employees and working with our customers and getting steps towards the new normal. I can tell you all that is going well. Generally, it's opening one key SCIF, bringing 330 people back from having to bill against CARES

Act hours, and fully recoverable with fee hours is a major step forward. As they get six to 12 months, the impact is going to continue to lessen. I believe the nation's response is going to turn into more and more opportunities.

So how would we go about the next pivot? I don't think we require a large pivot, corporation-wise. The use of the term "pivot" in the previous answer was around pivoting from being underneath COVID-19 back to some kind of new normal.

What excites me the most is how do we look at how we perform our work today. And how do we do that in a much more separated, segregated manner. That really plays to the strength of the last three to four years of investments we put into our IT network, plus to be able to work in multiple cities, so that we could be able to recruit and hire in different areas. That plan and that network configuration we put in place clearly was also there, should we find ourselves in the kind of opportunity space that we are today.

So, from a capability side, national security needs today--that we have today--will not go away. I do believe from the actions of some major countries out there, military action specifically, that they have been exercising different regions around this world while the U.S. is going through COVID--is another indicator that there's even more growth out there in areas that the nation will need those kinds of Expertise and Technology solutions that CACI provides.

Thirdly, domestic and intelligence budgets have always been a bipartisan act. And I'm well informed to understand that when you move the federal deficit up by X trillions of dollars, beyond where the press is at--but where business leaders are, are understanding how does the budgeting cycle change--I frankly don't believe that in a period of time that we are today--and even in the three to five-year future which was the focus of your question--I believe there will be more demand for ways to protect this nation.

This was a COVID virus impact. And look at the national security implications that that has placed on us. I think there is only more growth in the space that I and my competitors are in. I believe that CACI is very well-positioned to go and take advantage of those. And, of course, our strong track record of doing mergers and acquisitions to quickly fill gaps in those areas that we believe are going to grow even faster or new areas that we didn't have capabilities for--we're the right kind of company that can pivot quickly to go after additional white space opportunities, which I believe there's a number of them out there.

**Jon Raviv**

Thank you very much for that extensive answer. Thank you.

**John S. Mengucci**

Thanks, Jon.

**Operator**

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

## **CEO CLOSING REMARKS**

**John S. Mengucci**

Thanks, Andrea, and thank you for your help on today's call.

Before we close, I would like to take a moment to wish our Executive Chairman and Chairman of the Board a very happy birthday and thank him for his guidance and support across the many, many, many years.

We would like to thank everyone who dialed in or listened to the webcast for their participation. We know that many of you will have follow-up questions. Tom Mutryn, Dan Leckburg, and George Price are available after today's call.

Please stay healthy and all my best to you and all your families. This concludes our call. Thank you and have a great day.

**Operator**

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

END

*The information contained in this transcript, by its nature, reflects facts known to the company and its management at the time of the earnings release and conference call. All information contained in this transcript, including references to other press releases or public filings, should be read in the context of the latest available information in the company's releases or filings.*