

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

CACI INTERNATIONAL INC

Second Quarter FY21 Conference Call

PRESENTATION

Operator

Good morning and welcome to the CACI International Second Quarter Fiscal Year 2021 Conference Call. All participants will be in listen-only mode. If you need assistance today, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*", then "1" on your touchtone phone. To withdraw your question, please press "*", then "2." We do ask that in the interest of time, that you limit yourself to one question and a single follow up. Please also note, today's event is being recorded.

I would now like to turn the conference over to Dan Leckburg, Senior Vice President of Investor Relations. Please go ahead, sir.

INTRODUCTION AND SAFE HARBOR STATEMENT

Dan Leckburg

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

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 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 with GAAP.

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

CEO OVERVIEW

John Mengucci

Thanks, Dan. And good morning, everyone. Thank you for joining us to discuss our Second Quarter Fiscal 2021 results and guidance. With me this morning are Tom Mutryn, our Chief Financial Officer, and Greg Bradford, President of CACI Limited, who's joining us from the UK.

Let's turn to Slide 4, please. Before I start, I want to acknowledge the passing of our Executive Chairman, Dr. Jack London. Jack joined CACI in 1972 as the company's 35th employee. Under his visionary leadership for nearly half a century, CACI grew from a small professional services firm into a national security and technology leader with \$6 billion in revenue, 23,000 employees and recognition as a Fortune 1,000 and World's Most Admired Company.

Jack will be remembered for many of his attributes and successes, but chief among them will be his architecting CACI's culture of good character and ethics, which to this day guides our company and its people. Like all of us, I will miss Jack greatly. I deeply admired his wisdom, intellect, experience, and good character. He was a leader, mentor, teacher, author, and friend, and left an invaluable example and legacy of success for all of us. There is no doubt that Jack would want us to continue the outstanding work that we do on behalf of our customers and our country, to be ever vigilant in helping to support our country's greatest needs, and to always act with ethics and integrity in all we do. With that, let's get to it. Slide 5 please.

Turning to our Second Quarter Fiscal '21 results, we again delivered significant growth, profitability, and cash flow. We grew revenue by over 5% and net income and earnings per share by more than 34%, compared to a year ago. In addition, we continued to see strong double-digit growth on the Technology side of our business, driving margin expansion. Our profitability benefited from this improved mix as well as continued program cost efficiencies in the COVID environment—the latter we view as temporary or one-time in nature. Lastly, we generated strong operating cash flow of \$190 million and free cash flow of \$174 million.

Slide 6, please. We won \$2.1 billion of contract awards, a healthy level of awards in what is typically a seasonally light quarter. This represents a book-to-bill of 1.4 times for the quarter and 1.5 times on a trailing 12-month basis. These awards include a number of important recompetes wins, with growth above previous run rates.

A few examples are:

- a \$447 million Mission Technology recompetes with the NSA, supporting signals intelligence and cybersecurity missions. This contract not only includes our existing work, but it adds work previously performed by six previous competitors.
- We also expanded scope on a web-based supply chain program to include cloud migration, SAP HANA work, and numerous business modernization initiatives.
- And our AFCENT NOSC II IT support contract, which provides Enterprise Technology to deploy elements of the Air Force community. With great performance and customer relationships, we were able to expand scope to deliver additional network and cyber innovations, which also supports higher margins on the contract.

We also won work supporting the Navy's foreign military sales, representing new business to CACI that leverages the expertise from our Navy Systems Engineering acquisition. This expands our long history of providing engineering and mission expertise to the Navy and is yet another example of our strategic M&A program driving future growth.

Slide 7, please. As we've discussed before, at CACI we are investing ahead of customer needs to ensure we can address our customers' and our nation's most critical priorities. Our customers receive high value technology to execute their missions, and CACI is able to generate intellectual property, enhance our competitive differentiation, and drive future growth and shareholder value.

In the Space domain, CACI is on the forefront of developing and deploying next generation, laser communication technology. Laser communications can transmit data over long distances—in the hundreds of millions of miles—at rates up to 100 times faster than traditional radio frequency systems. Laser communications also lowers the probability of detection, or defeat, by an adversary, which is critical in the increasingly contested Space domain. CACI is currently developing laser communication systems for half a dozen space programs.

CACI's laser communication technology has dramatically lower size, weight, and power characteristics, which aligns well with customer demand and positions our technology for a wide range of large space opportunities. Our laser communications technology can also be used for terrestrial applications, positioning us well for secure communications initiatives. These are demonstrated near-term successes on critical space missions, and we continue to believe space-based technologies will be long-term growth areas in this important domain.

Slide 8, please. As we look at our large and growing addressable market, over \$230 billion, we remain very optimistic. There continues to be bipartisan support for defense and national security spending, especially in the context of a heightened global threat environment, and the new administration has echoed that sentiment. Government Fiscal Year 2021 is now fully funded, providing broad visibility for our customers to invest in their key priorities.

Looking further into the budget, we see a number of specific areas of our business that will benefit, including counter-UAS, cyber, defense health, and our Navy engineering work. Let me give you a few details:

- First, the budget includes the DoD-wide procurement funding increase that includes counter-UAS capabilities for special operations forces. We also see an increase in Army RDT&E funding for counter-UAS to defeat swarms. These increases create opportunities for our counter-UAS Mission Technology, including our CORIAN and our AVT X-MADIS systems.
- The Army RDT&E funding increase I just mentioned also increases funding for cyber work on ground systems, creating opportunities for our Mission Technology business. It also increases funding for the Army Cyber Command, an important customer for CACI.
- The Government Fiscal Year '21 budget includes increased funding for the Defense Health Program, which will benefit our work fielding HALO, or our Health Assessment Lite Operations in-theater medical record systems. HALO was deployed during the early days of the COVID-19 pandemic to field hospitals set up in some of the worst hit areas of our

country. This is a critical capability our government will continue to invest in to increase preparedness for the next potential crisis.

- Finally, the budget includes a multi-billion dollar plus up in naval shipbuilding funding, which will benefit our Navy Systems Engineering programs.

We also believe the broader IT modernization initiatives, including defensive cyber, continue to be high priorities as a result of disbursed operating models due to COVID-19, as well as other recent Cyber events.

Now, we've been through many budget cycles over our company's long history and have purposely positioned this business to be more resilient, aligned to priorities that must be funded in nearly any budget environment. This, in addition to flexibility, speed to market, and how we differentiate technology, gives us continued confidence in our ability to grow and expand margins over the next several years.

With that, I'll turn the call over to Tom to provide details on our financial performance. Tom?

FINANCIAL OVERVIEW

Tom Mutryn

Yes. Thank you, John. And good morning, everyone. Please turn to slide number eight [nine].

Our second quarter was another excellent quarter of growth and profitability as we continued to deliver on our full-year commitments. We generated revenue of \$1.5 billion, representing overall growth of 5.2% and organic growth of 4.3%, with a simultaneous increase in margins. COVID had a slightly higher impact in the quarter than we expected but remains within our \$50 million to \$100 million first half estimates. We saw additional travel restrictions related to overseas deployments, higher than-expected Section 3610 CARES Act billing, and some supply chain disruptions delaying product deliveries. The latter, we expect to realize in the second half. For the quarter, the COVID impact was around \$30 million, resulting in about 2% less revenue growth.

As you know, we are disclosing revenue by Expertise and Technology. Compared with the second quarter of last year, Expertise revenue was essentially flat while Technology revenue grew almost 13%, driven by some of last year's Enterprise Technology awards. As we've discussed before, Technology represents faster growing and more profitable areas of our addressable market. Both Expertise and Technology activities are important to our Enterprise and Mission customers and we see growth opportunities across all four quadrants. That said, the higher growth in Technology is helping us drive our margin expansion. And as John mentioned, we continue to see numerous opportunities in Technology across our business.

Adjusted EBITDA margin in the quarter was 11.9%, an increase of 180 basis points from a year ago. Similar to last quarter, a significant contributor was materially lower cost of delivery on our fixed price contracts in the COVID environment. This drove around \$11 million of additional pre-tax profit in the quarter, and around 75 basis points of margin, which we view as temporary or one-time in nature.

Indirect expenses were in line with last year, which helped our margin performance. We saw some COVID-related benefits of lower medical and travel expense, and we are driving efficiencies and

controlling costs while investing for growth. Net income of \$106.5 million increased more than 34% from the second quarter of last year, as did our diluted earnings per share.

Slide nine [ten], please. Second quarter operating cash flow, excluding our AR facility, was \$190 million, reflective of our revenue growth, margin expansion, and effective cash collection and working capital management. The deferral of the employer payroll tax payments under the CARES Act contributed around \$21 million in the quarter to operating cash flow.

DSO was at 53 days excluding our AR facility, down seven days from last year, representing our lowest DSO in close to a decade. We closed the second quarter with net debt to trailing 12-month adjusted EBITDA at 2.0 times.

Slide ten [11], please. We are reaffirming our Fiscal Year '21 guidance. Our growth in the first half was lower than what it would have been in the absence of COVID. We expect accelerated revenue growth in the second half, consistent with our full-year guidance, with full-year organic growth at about 6% at the midpoint.

First half EBITDA margins were higher than normal due to the non-recurring goodness in the first and second quarter associated with the fixed price contracts I already mentioned, as well as lower medical, travel expense, and other expenses. We continue to expect our full-year EBITDA margin to be 10.8% at the midpoint.

Slide 11 [12], please. Turning to forward indicators, our prospects remain strong. For Fiscal Year '21, we now expect 95% of our revenue to come from existing programs, 2% from recompetes, and 3% from new business. We have \$7.1 billion of submitted bids under evaluation, with over 70% of that for new business to CACI. And we expect to submit another \$13 billion over the next two quarters, with over 70% of that for new business for CACI.

In closing, we delivered another strong quarter of growth, margin expansion, and exceptional cash flow. Our team continues to execute well, and we remain confident in our ability to generate long-term shareholder value. With that, I'll turn the call back over to John.

CEO CLOSING COMMENTS

John Mengucci

Thank you, Tom. Let's go to Slide 13, please.

We delivered a very nice first half of our fiscal year, growing revenue, expanding margins, and generating robust cash flow. The organization is performing well and delivering on its commitments, while effectively dealing with the impacts of COVID.

We are continuing to win new work and develop innovative technology that differentiates CACI in the marketplace. Our employees' talent, innovation, and commitment to our customers' missions is at the heart of CACI's strong performance and our success in executing this long-term strategy. CACI's culture of character and innovation is the driving force of our success, not the result of it.

I am proud of how our people continue to perform in these unprecedented times and I'm honored each and every day to work alongside each of you. With that, Rocco, let's open the call for questions.

QUESTION AND ANSWER

Operator

Thank you, sir. [Operator instructions.]

Today's first question comes from Jon Raviv with Citi. Please go ahead.

QUESTION ON ANY CHANGES IN CACI'S M&A STRATEGY GIVEN THE CURRENT ENVIRONMENT

Jonathan Raviv

Hi, thank you and good morning.

John Mengucci

Good morning, Jon.

Jonathan Raviv

And condolences on Jack as well.

John Mengucci

Thanks, Jon.

Jonathan Raviv

Of course, John.

A question on M&A strategy. So, if I look historically, you guys have done a really good job with a lot of smaller and mid-sized deals. What's your perspective -- I know you've talked about this recently, but a little more unpacking -- what's your perspective on any changes in the market that might drive you towards bigger deals? You guys have historically rejected the scale concepts. But you look around and there are some folks getting quite big, especially Peraton recently. And then, is there a risk that you guys kind of get lost somewhere in the middle there? So, just sort of any sort of expansion on the M&A strategy and what might be and how it's shifting?

John Mengucci

Yes. Jon, thanks. So look, I'll reiterate that M&A remains our number one priority for capital deployment. We've got a lot of experience as you mentioned, Jon. As a public company, supports our belief that M&A is the best use of our capital. And then, we use that to drive long-term shareholder value.

You know, I think what differentiates us, and why we can call M&A a strategic differentiator across this company and across the sector, is that we're always looking at gaps in capabilities and customer relationships that we need that will drive longer-term growth. It's a very different model than buying at scale.

Rarely has this company ever bought something that looks just like something we already have, so we can do more of what we already have. I'm actually looking for our exquisite technologists and our strong Business Development team to use the technology and the capabilities that we

have to go out there and continually win more business in areas we already have capabilities in, in areas we're already growing in.

So, when I hear that term "scale," to me, that's a revenue measure and it's a dollars in each capability I already have. We are always going to bulk capability and customer relationships first. And that's what our absolute priority is.

So, our strategy will not change. You all have heard me here say many, many times, strategy is the place where you come from. When we find gaps, whether we fill that with a company that has a single capability or whether we fill that with a company that has multiple capabilities, that's how we look at size.

So, we've never shied away from doing smaller deals. We've never shied away from doing larger deals. But to us, those words "large" and "small" are really around capability and customer relationships that that company brings with them. It's not the size of revenue that they bring to us. So, hopefully, that provides a little more color.

QUESTION ON DEFINING WHAT A LARGE ACQUISITION FOR CACI IS

Jonathan Raviv

Yes, I know. Thanks, John. So, would you say there is a little, maybe confusion, or just we should all recall--remember that just because an acquisition is large does not mean it's a scale play per se?

John Mengucci

Yes. Thanks, Jon, for that. Look, yes, I honestly would love that people when they hear us talk about a larger asset, that that's something that fills multiple gaps. Does it meet our strategic criteria, first? Is it going to create long-term value, second? We're not just jumping to get into short, fast streams of government funding by doing an acquisition that provides us scale that then we can claim will help us win more work.

We have a great win rate. We have a great Business Development machine here. We've been on a long-term strategy of bidding less and winning more. And then, of course, once we determine if that asset is something that fills it, whether it's \$5 billion or \$5 million, whether it's 5,000 employees or five employees, our integration process handles that simply, swiftly, so that we can move forward on day one with any size acquisition. So, Jon, thanks so much for those questions.

Jonathan Raviv

Thank you.

Operator

And our next question today comes from Seth Seifman with J.P. Morgan. Please go ahead.

QUESTION ON HOW MEANINGFUL THE SPACE MARKET IS FOR CACI

Ben Arnstein

Hi, good morning, everyone. This is Ben on for Seth.

John Mengucci

Good morning.

Ben Arnstein

Yes, I was hoping you could give us a little bit more color on the opportunity in Space that you had been talking about earlier. I guess, how meaningful is Space for your business right now, and how do you kind of think about the revenue opportunity in the years ahead, based on the investments that you're making?

John Mengucci

Yes. Ben, thanks. So when we talk about Space, we're talking about the Space domain. And really, what that's code for is advanced technology.

Some of my prepared remarks focused on laser com and the like. We've been developing laser communication systems currently for about half a dozen space programs and a pipeline of opportunities that we estimate right now at about \$0.5 billion. So, that just shows the power of investing ahead of need, looking at areas where we need capabilities to go after some of those markets that were previously untappable by us. And clearly, this advanced technology comes to us from the acquisition of LGS.

A couple of items here. You would have seen our recent delivery of a laser communications transmitter for the Psyche spacecraft. Our laser communications technology is going to beam high-definition images from the Orion spacecraft when Americans return to the moon. I don't know about you, but I remember watching us land on the moon for the first time. There was a little bit of flicker and some really grainy grayscale photos. This technology is very differentiated, which is another key component of when we decide to get involved in the part of this market which is very technologically driven. We've got to have a highly differentiated product. So, this is all advanced technology, comes to us from LGS.

Ben, we're doing about maybe \$40 million to \$50 million of business today on an annual basis. As I mentioned, a nice pipeline of opportunities. And I guess I'll just reflect back to -- we should compare this discussion to the discussion we had about five years ago. And it should be really simple to assess that we're a very different company than we were during previous budget downturns and when we all faced sequestration. We are far beyond either a low-end or a high-end professional services company. And we actually are able to play and fight well above our weight at a well-balanced role of Expertise and Technology.

And to me, that's what's critical and crucial. It's the long-term nature of the strategy that we've been executing there. And it not only drives top line, above-budget growth, but it's at ever-increasing margins and ever-increasing free cash flow that we think brings the most shareholder value to our shareholders out there. So thanks. Thanks for the question, Ben.

Ben Arnstein

Thanks.

Operator

And our next question today comes from Gavin Parsons with Goldman Sachs. Please go ahead.

QUESTIONS ON WHETHER CACI IS NOW COMPETING AGAINST THE LARGE DEFENSE PRIMES AND WHETHER THOSE PRIMES WILL REENTER THE IT SERVICES MARKET

Gavin Parsons

Hi. Good morning.

John Mengucci

Good morning, Gavin.

Gavin Parsons

So, the whole conversation out there right now, right around the budget deficit and the new administration is, do we have to cut the defense budget and where do budgets go? Now, obviously, you can point it to the administration's support for IT spend. We've seen the large, proposed increase in TMS and Cyber funding even with some of the deficit headwinds. Taking a slightly different approach from where that question normally goes, a lot of prime seemed to have kind of exited their IT businesses and you're moving into some of the faster areas of hardware growth, where you might traditionally expect the hardware guys to play. So, are you competing more with the primes in the go-forward environment or more teaming opportunities? And if you think there is the potential for budget pressure on hardware but support for IT, do you see any risk of them re-entering the market?

John Mengucci

Yes. Gavin, Thanks. Let me try to parse that question. So, first off, we've got a fully-funded Government Fiscal Year 2021 budget. I would expect that '22 will look similar to '21. But it's safe to say probably at the overall budget level, probably nothing better than flattish as we look forward. But I think what's really crucial, on a \$750 billion defense budget there is a lot of choices that have to be made.

I spent a lot of years at one of the large platform aerospace and defense companies. And look, those companies provide phenomenal products and just some spectacular, eyewatering technology. But that's at the platform level.

Where we had been focused on is all those mission packages and all that technology that rides on that platform, whether it's ship-based, whether it's airborne, whether it's space-based now. What are those unique hardware, software solutions that those assets need to be viable and usable by the war fighter, whether it's Air Force capabilities, Army, or Navy?

So, we're sort of in between. We're not at the platform level, but we're at the Mission package level. And that's what gets us talking about products, right? That's what gets us talking about counter-UAS. That's what gets us talking about SIGINT and anything in the RF spectrum. There's many a platforms out there that are monitoring the RF spectrum, trying to both cyber defense protect and go on offensive cyber missions. All of that requires exquisite software solutions that allow devices to be anywhere at any time, supporting any mission. So our angle is more on the Mission package of smaller form factor kind of products.

Now, the other part of our business is a lot about IT modernization. And I don't think you do one without the other, right? When we're trying to cyber protect networks, we're also cyber protecting data links and larger networks. That could be links in between two defensive systems. So, a lot of this work overlaps.

I think it's safe to say that, as we go forward, DoD-wide procurement increases around counter-UAS, everything in the RF spectrum and in the electronic warfare area, we talk a little bit about our Defense Health program, plus-ups, and then of course, naval shipbuilding, where we have a fantastic group doing Navy systems engineering.

So, not all the way to the platform side, more on the Mission package side, as well as IT modernization. We're in that right Expertise and Technology framework, Gavin, that allows us a lot of expansive growth, regardless of where the top line DoD budget goes.

Gavin Parsons

Got it. I appreciate that insight. No, there was a whole lot involved in that question.

John Mengucci

That's fine.

QUESTION ON WHAT THE RANGE OF FUTURE MARGIN EXPANSION WILL BE

Gavin Parsons

Looking at margins, and I think in the prepared remarks you said you believe you can continue to expand margins, Tom called out a number of the maybe non-recurring benefits in the front half of this year that led to stronger than margins have been. So, previously or historically, you've had the 10 to 30 basis points of expansion a year framework. So, my question is, should we continue to think about it as 10-to-30 basis points a year, and is 2021 the right starting point for that?

John Mengucci

Yes. Gavin, thanks. So I'll answer that one. I'll also have Tom talk a little bit around margins as well.

When I became CEO of the company, what I was stressing is this: that we would continue to grow top line above what our addressable market grows at ever increasing margins. One of the lessons that I learned, Gavin, if I said 10-to-30, someone said, so will you accept five, or when will you get to 30, 35, right? So ever increasing margin is a nice target for us. It's served us well the last couple of years. Because what I want is to share the same focus and the same discussions I have with our employee base and our business leaders that I have with you all. Which is, one, full transparency; and two, everything we do, whether it's bidding work, how we execute work, we should always be looking to drive margins. At the end of the day, margins drive investment and investment drives technology and the more we can technology-differentiate, the more business we'll win. Tom, anything more on margins?

Tom Mutryn

Yes. So Gavin, as we said in the last call, I'll be repetitive. In 2017, our EBITDA margins were around 8.5%. This year, we're guiding to 10.8%. So, a significant increase in a relatively short period. So, we've been successful in driving margin increases in the last few years. This year, we have some headwinds associated with COVID in terms of margins, but then we had some goodness associated with those one-time events. And so, those are somewhat offsetting each other. So, as we get into FY '22, we'll make sure that we are clear what the appropriate baseline to use for margin expansion going into FY '22.

Two broad things to keep in mind. Our Expertise and Technology framework is useable. Technology is coming at materially higher margins than Expertise. Both parts of the market, or our space, should be growing but we're growing disproportionately in Technology. So, that is productive to margins and we should expect that to continue going forward.

And secondly, the ability to continue to drive efficiencies from a cost perspective will also be productive to markets. And so, yes, we expect those ever-increasing margins, and we have a path forward to be able to deliver them.

Operator

Thank you. Today's next question comes from Cai von Rumohr with Cowen and Company. Please go ahead. Hello. Cai, your line is open. Perhaps you're on mute.

**QUESTION ON WHICH CAPABILITIES AND CUSTOMER RELATIONSHIPS CACI IS
LOOKING TO ACQUIRE**

Dan Flick

Yes, hello. Can you guys hear me?

John Mengucci

Yes.

Dan Flick

Hi, guys. This is Dan on for Cai. Great quarter.

John Mengucci

Thank you.

Dan Flick

So, I was wondering, could you discuss which technologies or capabilities, in particular, you may look to fill out via acquisition or even what relation--you mentioned customer relationships earlier, which specific agencies you may look to expand in?

John Mengucci

Yes. Dan, thanks. I'm not sure how specific I'll get on getting to the root of your question, but clearly, anything in the electronic warfare, more in the AI and machine learning world. We have some great capabilities there, but there's a couple of gaps we'd like to fill sooner rather than later. But we truly see that what we call electronic warfare in SIGINT in a defense-minded world, we can talk about that just as easily as talking about cyber, when we look at networks and protected comms and the like. So, anything in that area is where we believe there is material growth.

Our acquisition of AVT was an example of looking at another ELINT kind of world where we're looking at imaging technology. Whatever we can find, frankly, that gives the warfighter the full picture of what's going on on the battlefield, whether that's signals collection, whether it's that IMINT, whether that's ELINT. What are all those electronic warfare technologies that when pulled together in these new age command and control systems, how do we provide them the most information out there.

On the customer set, we're going to watch where budgets go. We well understand that there could potentially be more spending in the federal civilian world as well as across the DoD and other customer sets. When people like to say we're a large United States Army house, the United States Army is quite broad. And spectrum and things like that are done in many different areas.

And then, similar to the last question, Space is somewhere that we're consistently building capabilities in. That's going to be long-term funding streams going forward. We do a lot of work today on national ground stations and some of that area. But clearly, as the nation looks to better protect Space, there is a lot of Mission packages, to use a term from an earlier question, that would allow us to grow within that domain. So electronic warfare, anything RF spectrum and Space, and then looking across the entire customer expanse for customers who need those kinds of technologies.

QUESTION ON WHETHER CACI NEEDS STRONGER ENTERPRISE IT CAPABILITIES IN ORDER TO COMPETE

Dan Flick

Okay, great. Thank you. And then, for my follow-up, do you feel that CACI needs a stronger capability set in Enterprise IT, given that Leidos, GDIT, and SAIC have all kind of increased their presence in this area via recent acquisitions? Thanks a lot.

John Mengucci

Yes. Yes, thanks. Yes, I'm very happy with our capabilities there. If you look at—most of that work falls in our Enterprise Technology area, winning jobs like BEAGLE and jobs like TCS and others. Those are great jobs that hit both of our investor messages, and it very strongly hits the kind of company that we have said we are going to be.

We believe we're very strong in all four quadrants. Some are more profitable than others. Some inform others. But when I look at programs like BEAGLE, those are programs that are in the Enterprise IT world. They are providing tremendous capabilities. They're done in an Agile framework manner where the world's going to. So, we're not talking about delivering Enterprise IT in the past. We're not talking about large capex expenditures because we're having to grow margins at the same time. So, it's why when we look at where we go in this specific market in Enterprise IT, we're very much focused on going after that work in a very constructive manner. Bidding less and winning more. Looking at programs where technology differentiation versus lowest price is going to win so that we come back to you all talking about, we just won some fantastic work. Multi-year. Has top line growth. May not be as high as you'd like it, but it's always going to grow better than the market is growing. Which means I'm taking market share, but at ever-increasing margins because that's the only way we can sustain long-term shareholder value.

Thomas Mutryn

Yes. Let me add that we've had various Enterprise IT capabilities for a number of years. The acquisition of L-3 NSS materially boosted our size and scale there. We added several marquee programs, particularly in the Intelligence Community, with some of the forefront of large-scale migration into various systems. And so, that is an example of how acquisitions filled in a particular gap to give us significant credibility and capabilities going forward in that particular area.

Operator

Thank you. Our next question today comes from Mariana Perez Mora with Bank of America. Please go ahead.

QUESTION ON CACI'S EXPOSURE TO DoD GROWTH PROGRAMS IN SLOWER GROWTH DEFENSE SPENDING ENVIRONMENT

Mariana Perez Mora

Good morning, everyone. My condolences on the passing of Jack.

John Mengucci

Thank you.

Mariana Perez Mora

My question is on--with defense budgets expected to flatten in the near future, could you please discuss both what CACI's exposure to growing programs, and how much is your exposure to more challenged by the process?

John Mengucci

Oh, yes. Yes, sure, sure. So, on exposure to the growth side, I would call out two. One of them, I think, were in my prepared remarks. I would talk about Space. Space is a very challenging domain for us to operate in. So, as some of my earlier comments mentioned, building our capabilities up there. Clearly, our LGS being a world leader in laser communications is very important. So, we're watching that stream.

We've been very, very focused, about three years ago, on the Navy shipbuilding budgets, following where the major platforms are and understanding and trying to understand on the Mission Expertise quadrant of our framework, how do we get more involved in that business? So, clearly, we're not going to be building ships, but we'd like to be able to build Mission packages. And we have a number of our products that are riding on many of the different Navy ships today and will continue to ride on them in the future. But that is another large, well-funded funding stream where we are very much involved in the front-end system engineering work. And I might add, in a non-OCI manner that allows us to look at Mission packages once those ships are fully constructed.

Cyber is another area that's going to continue to grow. And not just what we used to call IA on the IT side of Cyber. This is really doing much better job of protecting networks and defense-type capabilities out there. Most of the fight is done over the airways, and most of the communication is done in the RF spectrum. So, we see those really strong funded areas.

Mariana, you also asked about some of the "flatline areas." As we have refocused our Business Development effort over the last five-to-seven years, looking at longer-term programs, the reason why we do that is so that we were closer to things that are closer to the meat of the Defense budget that, under any administration, under any time, would need to be funded.

So, even though those areas are flat, we're a \$6 billion company, with over \$230 billion addressable market. So, even in flat budgets, there is other work that we can go after with our strong capabilities and our customer relationships that will continue to grow our top line as well as our bottom line.

Mariana Perez Mora

Okay, thank you very much.

John Mengucci

Thank you.

Operator

And our next question today comes from Tobey Sommer with Truist Securities. Please go ahead.

QUESTION ON CACI'S EXPOSURE TO THE SPACE MARKET CURRENTLY AND GOING FORWARD

Tobey Sommer

Thanks. So, I wanted to start off just by asking what your Space exposure is, understanding it's come up on the call a couple of times now. But I want to understand how important it is to the income statement of the company currently and understanding that the opportunity may make it more important over time.

John Mengucci

Yes. Tobey, thanks. Look, we're doing about \$40 million -- \$50 million annually. So, I would say it's a material part of our budget. But if I strung some of the questions together, I would still come back to it is a growing area of the Defense budget. It is something that we saw when we did the LGS acquisition now almost two years back. You won't see us building satellites and small sats and those kinds of things but you will see us play a much heavier role within Space.

Clearly, since we're coming at this from a Mission packages kind, could we get ourselves to a position of building some Space qual hardware? Absolutely, because that's where laser com happens, whether it's in LEO or whether it's in the GEO belt. So, we're looking at those areas where we can take our Technology advancements, which is right in the sweet spot of what our LGS folks do and continue to find ways for us to build out our work within Space.

We do--in the Air Force Space area, we are supporting the Air Force's Satellite Control Network. Today, as Tom mentioned, that was really an offshoot from the L-3 NSS acquisition. That team continues to perform exquisitely well. And there is other work within that part of space that we're involved in.

So, I like the fact that we're getting more on the Technology side there. That's a long-term play. But with everything that the nation's spending, whether it's NASA or whether it's Air Force or classified Space, we're beginning to make some really nice inroads there.

QUESTION ON THE FORWARD TREND FOR CACI'S OPERATING CASH FLOW

Tobey Sommer

Perfect. And then, could I ask a question on cash flow? DSOs at historic low. Could you comment on the durability of that or what we should think about as we think of normalized cash flows a year or two from now? Thank you.

Thomas Mutryn

Yes, Tobey. Thank you. The entire team has been very much focused and successful at improving our cash collection cycle—our contracts organization, our line organization, our Shared Service Center. So, we've developed some very good rhythms in terms of making sure that we bill quickly, accurately. We collect quickly. We monitor aged receivables and the like. And as a result of that, we've made significant progress in reducing DSO.

I would think that we should be able to maintain DSO in the mid-50 levels. There is always going to be fluctuations, given the unique circumstances with payment offices or large invoices. But a lot of progress made there, and that has served us well in terms of driving higher cash flows.

Tobey Sommer

Thank you.

John Mengucci

Thanks, Tobey.

Operator

And our next question today comes from Louie DiPalma with William Blair. Please go ahead.

QUESTION ON THE VIABILITY OF CACI'S LASER CAPABILITIES

Louie DiPalma

John, Tom, Dan, and George, good morning.

John Mengucci

Good morning, Louie.

Louie DiPalma

John, you discussed CACI's laser communications/photonics as they pertain to space. Are your lasers also viable for inter-satellite links? And I ask that because DARPA's Project Blackjack is using inter-satellite links and SpaceX now is notably adding inter-satellite links to its StarLink satcom constellation. And so, if you're able to sell your lasers into that end market in addition to general Space security, it would be a much larger TAM.

John Mengucci

Yes, Louie. So here's here how I'm going to answer that one. Yes.

No, look, when I talk to our Photonics team that has done some just eyewatering work here, they often take me down to the lab and show me things and I look. Every time I go there, it's smaller, it's less, it's lighter, and it's also more powerful. Clearly, what we're talking about is not only spacecraft to ground links, but also, it's not that strong of an extension to talk about inter-satellite links.

There was a program many, many years back called T-SAT. It was probably a program long, long before its time that was actually looking to not have to come down to the ground with satellite links, but actually allow multiple satellites up there to be able to pass information. So, that is something that our team is very much involved in and continues to work on.

And then we also could talk about some of the terrestrial applications. It's pretty tough to get into a laser to look at zeroes and ones. It's pretty easy if you're looking at standard RF communication we have out there.

So, I probably exhausted my technology understanding, but what I like about it, as analysts and as shareholders out there, it's yet another example of why CACI is a very different company, okay. We are a very different company going forward. It's why we wanted to be very transparent on the Expertise, that which got us at this point today. When Jack became the modern-day founder, he was looking at trying to get into IT systems and out of professional services. We've never gotten completely out of it because it does inform where technology goes.

So, this is just under example of why this framework works and why we believe we'll see continued growth going forward.

Thomas Mutryn

Yes. And Louie, based on your question, I think you should join our Business Development team. It'd be interesting to having more conversations.

QUESTION ON WHETHER CACI WILL MAKE A COMPETITIVE BID FOR PERSPECTA

Louie DiPalma

Yes. No, I follow the satellite communications industry very closely and so that topic is right up my alley.

And I have another question, if I may. You may not answer this one but I'm just wondering, am I correct to conclude that the team on this call is not explicitly ruling out making a competing bid for Perspecta?

John Mengucci

Louie, I very much appreciate your question. And for those who have been on the call for many, many years, I just don't comment on things like that. It wouldn't be appropriate, and it would be really far-reaching. So, I'll respectfully just say that we don't comment on any acquisitions, whether they're ongoing, whether they're planned, or whether they're in the rearview mirror. So, I think I'll just leave it at that. Thanks, Louie.

Operator

And our next question today comes from Joe DeNardi with Stifel. Please go ahead.

QUESTION ON THE POTENTIAL IMPACT OF THE SOLARWINDS CYBER ATTACK ON CACI'S CUSTOMERS AND THE FEDERAL BUDGET

Jon Ladewig

Hi, guys. This is Jon on for Joe. I'm going to stay away from Space for a second and focus on Cyber. I was wondering if you guys could give us some insight into what you're seeing from the customer in regard to SolarWinds and the hack there. And how you expect this related foreign hack attack to filter down to the budget and down to your specific customers, both on the Fed-Civ side and on the DoD side.

John Mengucci

Okay. Jon, your line was really garbled, but let me just try to play this back. So your focus of your question is around things like SolarWinds and how are we positioned to help in that area. And is that going to be funded in the Fed-Civ and in the DoD world. If I got that wrong, I'll actually ask you to come back.

So, things like SolarWinds is one of many items, Jon, that we are focused on. But I'd also say that the fact that we have been in this marketplace for decades, we shouldn't assume that's the only issue going on out there. Offensive and defensive cyberattacks are out there consistently, whether it's an IT network, whether it's phishing scams, and whether, in the case of the attack that you mentioned, there's many ways to deliver clearly offensive cyber payloads.

Some of you heard me say in the past, for us to just focus on bombs and bullets is a real mistake because bits and bytes are just as lethal. And if you look at that, the digitization of all of our networks, you look at all of us working more and more from home, all of those networks need to be protected as well. I don't believe we're going to go back to a day where we can all work in the same building and not be connected to the Internet to get our work done. So, the minute that we have an open Internet link, we're going to have to watch out for that.

We've got literally a couple thousand of cyber experts, both on the Enterprise area and on the Mission side, that are really out to protecting networks, protecting desktops, but also protecting major weapon systems, and supporting combatant commanders. When, instead of ordering a direct kinetic strike, you'd all be shocked just how much non-kinetic work is being done out there. And we are right in the forefront of that. And we are in many operation centers around this globe, making certain that we support customers in offensive cyber manner as well.

So, I want to stop there talking about Cyber and some of the missions that we're in. But suffice it to say, during the Biden campaign and now early days of his administration, he's still talking about IT modernization, talking about digitization, talking about the use of AI and machine learning, but also talking about Cyber and just how impactful either a near-peer or a small nation state can be very successful at delivering non-kinetic payloads. And we and our people are at the forefront.

Operator

Thank you. And our next question today is a follow-up from Gavin Parsons at Goldman Sachs. Please go ahead.

QUESTION ON WHETHER COVID COSTS ARE ASSUMED IN THE SECOND HALF FY21 GUIDANCE**Gavin Parsons**

Thanks for the follow-up. Tom, quick clarification. Is there no COVID headwind assumed in the back half of the year-end guidance?

Thomas Mutryn

Yes. Gavin, this is Tom. We are seeing continuing effects of COVID. We expect them to be less than they had been in the first half of the year, so, we did not specifically call them out. We believe that perhaps any of those headwinds could be offset by underlying growth in the business. And so, we're maintaining the guidance that we spoke about. As we know, cases have increased since

November-December time period. You've got lockdowns in many locations and the like. So, that's still an ongoing issue for us.

Gavin Parsons

So would you say you've absorbed the potentially higher headwind within the reiterated guidance?

Thomas Mutryn

That's a fair way to put it. Yes, absolutely.

QUESTION ON THE IMPACT OF COVID COSTS ON FUTURE GROWTH

Gavin Parsons

Okay, got it. And then, how does that play out -- obviously, a bunch of potential avenues of vaccine rollout. But how does that play out over the next year or however long it takes to recoup those headwinds or for the delayed growth to come through?

Thomas Mutryn

Some of the COVID impact is permanent. We spoke about deployed Mission expertise OCONUS. Those hours or that revenue is never going to be made up. So there are some permanent changes to that. Some of it is temporal. Product delivery, as we mentioned, where a supply chain issue may result in a delay, but those deliveries will take place on. So, we'll see what the world looks like when we get to a more normal state, whatever that more normal state is.

We spoke on other calls, longer-term implications of how we do business, how Corporate America does business, how our customer does business. You're going to CACI locations, government locations, work from home. So, there will be some long-lasting implications associated with that. I think there'll be the ability to drive the efficiencies and recruit in different parts of the United States than we were probably unable to do so because of kind of working conditions. And so, we shall see. And we shall see how the vaccine rolls out over the next 12 months. A lot of unknowns.

That being said, I believe that the impact of COVID to a company like CACI is relatively self-contained, and minimal to a certain extent. I'm struggling for words because I don't want to minimize the horrific human toll it has taken on many citizens of United States. But I think we're well positioned in that environment.

John Mengucci

Thanks, Gavin.

Gavin Parsons

Thank you.

Operator

And ladies and gentlemen, this concludes the question-and-answer session. I'd like to turn the conference back over to the management team for any final remarks.

CEO CLOSING REMARKS

John Mengucci

Thanks, Rocco. And thank you for your help on today's call.

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 your families. This concludes our call today. Thank you. And have a great day.

Operator

And thank you, sir. Today's conference is now concluded. We thank you all for attending. You may now disconnect your lines and have a wonderful day.

END

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