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# CACI INTERNATIONAL INC
# Third Quarter FY21 Conference Call

## PRESENTATION

**Operator**
Ladies and gentlemen, thank you for standing by. Welcome to the CACI International Third Quarter FY 2021 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 need any assistance during this call, please press star zero, and someone will help you.

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

## INTRODUCTION AND SAFEHARBOR STATEMENT

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

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 financial measures prepared in accordance with 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

Thanks, Dan, and good morning, everyone. Thank you for joining us to discuss our third 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 is joining us from the UK.

Let's turn to Slide 4, please. Turning to our Third Quarter Fiscal '21 results, we again performed well, delivering strong growth, profitability, and cash flow. We grew revenue by six percent, net income by 49 percent, and earnings per share by 51 percent compared to a year ago. We also continued to deliver double-digit growth in Technology revenue, a key driver of our margin expansion.

In addition to the increasing Technology mix and our continued strong operational performance, our profitability, again, benefited from fixed-price program cost efficiencies in the COVID environment. This drove only about a third of our year-over-year adjusted EBIT margin increase. The rest was core operations. We generated strong cash flow from operations and strong free cash flow. Lastly, we won $1.6 billion of contract awards, representing a book-to-bill of 1.0 times for the quarter and 1.5 times on a trailing 12-month basis.

Slide 5, please. As we've discussed before, we are investing ahead of need to ensure we solve our customers' and our nation's most critical priorities. This strategy enables CACI to:

- Provide our customers with high-value technology to execute their missions;
- Enhance our competitive differentiation;
- Generate improved profitability; and
- Drive future growth and shareholder value.

Broadly speaking, the need for IT modernization and the heightened global threat environment are two key market trends driving our investments. And both play to our core Technology strengths. Let me highlight a few investments and recent successes that demonstrate the value of our lead with software or software-defined everything strategy:

- First, CACI is a leader in Agile software development, which enables us to rapidly address customers' needs as they arise. We did so this quarter when our BEAGLE team developed and deployed mobile applications in only a few weeks to enable Customs and Border Protection to better handle the immigration challenges at our southern border. That is simply not possible without deep, agile at scale capabilities. It's why this customer selected CACI to increase efficiency and speed the delivery of mission-critical technology to users.
- Second, an area of investment I discussed a few quarters ago was artificial intelligence or AI. Recall that CACI has over 100 projects incorporating AI capabilities across our business. These capabilities span all types of AI, but one particular capability I'd like to discuss is referred to as "computer vision." Simply put, computer vision leverages AI to identify and track objects in imagery and full-motion video.

During our third quarter, a military services research lab conducted a formal competitive evaluation to assess the AI capabilities of CACI and a number of other companies. The government provided all competitors with the same raw data, including imagery, video, and publicly available information. CACI was the most successful company in the competition, delivering highly accurate and reliable outputs, further positioning us for future opportunities across a broad AI customer set.

It is capabilities just like these that differentiate CACI and allow us to win contracts like the five-year $376 million National Geospatial-Intelligence Agency award to implement and integrate cutting-edge AI computer vision Mission Technology. At CACI, our investments result in tangible, value-creating, intellectual property, and capabilities. These are proven, deployed technologies advancing our customer's modernization and national security missions and further differentiating CACI in the marketplace.

Slide 6, please. During the quarter, we executed a $500 million accelerated share repurchase program. This is the next step in a more opportunistic and flexible capital deployment strategy. We continue to view strategic M&A as an important use of our capital and believe our approach to M&A and proven ability to integrate are strategic differentiators. That being said, M&A is just one element of our capital deployment strategy going forward.

Our healthy cash flow, strong balance sheet, and overall financial strength provide us with the flexibility and optionality to be opportunistic on multiple fronts. It's an "*and*" not an "*or*" strategy. This flexible approach reflects our commitment to shareholders to deploy capital in a number of ways based on the long-term growth plans of the company. I want to emphasize that on an ongoing basis, we are committed to evaluating all capital deployment opportunities to deliver the greatest long-term shareholder value.

Slide 7, please. Turning to the market environment, we remain very optimistic. There's bipartisan support for defense and national security spending, and the new administration's stated priorities align very well with our capabilities. While a detailed Government Fiscal Year 2022 budget proposal has not yet been released, the administration has released a topline proposal for aggregate defense spending of $753 billion, up almost two percent from the current government fiscal year. Our offerings align to priorities that will continue to be funded. And this gives us the confidence that we will be able to continue to grow faster than our addressable market, expand margins and generate strong cash flow.

Slide 8, please. Looking at the remainder of our fiscal year, we are navigating COVID challenges, delivering growth, and expanding margins. That said, we continue to see higher than expected impacts from OCONUS deployment delays, tasking delays, and other COVID-related factors. Putting this all together, we now expect organic revenue growth of approximately five percent at the midpoint of guidance, slightly lower than our prior guidance, but still well ahead of our addressable market growth.

Moreover, the increase to our net income and EPS guidance reinforces our relentless focus on growing both top line and bottom line, which highlights our dedication to creating shareholder value. Our organization continues to deliver strong operating performance while addressing our customers' most pressing needs. And we are more confident than ever about the strength of our strategy.

With that, let me turn the call over to Tom to provide details on our financial performance and outlook. Tom?

## FINANCIAL OVERVIEW

**Tom Mutryn**
Thank you, John, and good morning, everyone. Please turn to Slide number 9.

Our third quarter was another excellent quarter of growth, accompanied with margin expansion. We generated revenue of $1.6 billion, representing overall growth of 5.9 percent and organic growth of 5.3 percent.

Our Technology business grew 12 percent from year-ago, and our operating performance remains strong, with both factors contributing positively to margins. Adjusted EBITDA margin of 11.8 percent in the quarter was more than 200 basis points higher than last year.

Similar to the prior two quarters, we benefited from the fixed-price contract, which is delivering with reduced costs under COVID. This benefit is temporary, adding $12 million of pre-tax profit in the quarter, which represents around 80 basis points of year-over-year margin expansion. The remaining 120 basis points of expansion was core operating performance.

Indirect costs are slightly lower than last year, despite our revenue growth. This improvement is driven by ongoing activities to control expense and improve efficiencies as well as reduced medical, travel-related, and other expenses in the COVID environment. Overall, another strong quarter of operational performance that is consistent with our commitment to expand margins.

Net income in the quarter was $120 million, up 49 percent from a year ago. In addition to the strong operating performance, we benefited from materially greater R&D tax credits than we planned. As a result, tax expense in the third quarter was $8 million lower than expected, with a corresponding increase to net income. Diluted earnings per share were up 51 percent, slightly higher than net income, due to fewer average outstanding shares due to our accelerated share repurchase.

Slide 10, please. I want to draw your attention to two new financial disclosures we are making in our earnings material, which provide additional transparency and clarity to investors:

- Cash and associated metrics are important to both ourselves and investors. As such, we are now including free cash flow in our earnings release, which we define as cash from operations, excluding our AR facility less capital expenditures.
- In addition, we have started disclosing adjusted net income and adjusted diluted earnings per share, which exclude the tax affected impact of intangible amortization associated with acquisitions.

Our M&A program drives material, non-cash, and tangible amortization expense. And we believe that these disclosures make it easier for investors to evaluate our performance, both absolutely and relative to our peers. And we plan to provide guidance for these metrics beginning in our Fiscal Year 2022.

Slide 11, please. Third-quarter operating cash flow, excluding our AR facility, was $128 million, reflective of our revenue growth, margin expansion, and effective working capital management. Less capex of $19 million, free cash flow was $109 million. DSO was at 53 days, excluding our AR facility, down four days from last year. We closed the third quarter with net debt to trailing 12-month adjusted EBITDA at 2.5 times.

As John mentioned, we executed a $500 million share [accelerated share] repurchase in mid-March, representing around 8% of outstanding shares. Within the context of our flexible and opportunistic capital allocation strategy, we believe this ASR was a great opportunity to create value for our shareholders. Our leverage at the end of the quarter includes the incremental debt associated with the ASR, and we continue to have significant capacity to execute M&A and undertake additional capital returns while maintaining leverage within a reasonable range.

Slide 12, please. Turning to Fiscal Year 2021 guidance, let me start off by discussing a tax benefit we expect to realize in the fourth quarter. This tax benefit is enabled by the carryback provisions in the CARES Act and recently finalized tax regulations. By making various tax selections, we are able to shift expenses, recognize tax losses in the current period and carry those tax losses back to prior periods with higher statutory tax rates. This results in $60 million of lower tax expense in FY2021 and a comparable net cash tax savings over the next few years.

This benefit will have two other impacts:

- First, the current portion of our state taxes will be lower in Fiscal Year 2021, reducing the amount of recovery on our cost-plus contracts and lowering fourth-quarter revenue and EBITDA by $16 million and the net income by $12 million. This has the effect of lowering both fourth-quarter revenue growth and EBITDA margins by 100 basis points. This revenue, EBITDA, and net income will be recaptured in future years.
- And second, our cash taxes paid in FY 2021 will increase by approximately $75 million from what we had planned. Despite this, we are maintaining our Fiscal Year 2021 operating cash flow guidance of at least $600 million as we are able to offset this impact with our strong collections. And again, that $60 million of cash tax savings we expect over the next few years is net of the $75 million payment in the fourth quarter.

Slide 13, please. Getting back to our Fiscal Year 2021 guidance, we now expect revenue to be between $6.0 billion and $6.075 billion. Two key factors impacting revenue are:

- First, higher than expected impacts from COVID in the third and fourth quarter. These include the inability to deploy people outside the United States due to travel restrictions, slower government processing of deployment orders, and delays in tasking.
- And second, the cost-plus revenue impact of lower state taxes due to the tax benefit I just mentioned.

And to emphasize the point John made earlier, our updated revenue outlook equates to organic revenue growth of approximately five percent at the midpoint of our guidance, well ahead of our addressable market growth.

On the net income side, we are raising guidance materially to reflect:

- Strong program performance;
- Lower-cost delivery on the fixed price program we've previously discussed;
- Lower indirect expenses;
- Higher than expected R&D tax credits;
- And the large fourth-quarter tax benefit I detailed already.

As a result of the tax benefits, we expect our full-year effective tax rate to be between eight percent and nine percent. The share reduction and additional interest expense of $1.9 million from the ASR are also reflected in our updated FY 2021 guidance.

We now expect full-year FY 2021 adjusted EBITDA margin of about 11 percent at the midpoint on a reported basis. And at this point, the underlying margin, normalized for a number of COVID-related and other factors in FY 2021, is tracking to 10.7 percent. This is a reasonable, normalized, underlying margin to think about for our business in FY 2021 and fulfills our commitment of annual margin expansion.

Slide 14, please. Turning to our forward indicators, our prospects remain strong. For Fiscal Year 2021, we have an immaterial amount of recompeted new business remaining in our guidance. We have $6.8 billion of submitted bids under evaluation, with around 70 percent of that for new business to CACI. And we expect to submit another $13.7 billion over the next two quarters, with almost 80 percent of that for new business to CACI.

In closing, we delivered another quarter of growth, margin expansion, and robust 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 15, please. We're very pleased with our third quarter and year-to-date performance. We delivered strong growth, margin expansion, and cash flow, and we deployed capital opportunistically, taking advantage of a disconnect between performance and equity valuation.

All of this represents a relentless focus to deliver on our performance commitments and generate long-term shareholder value. Our business is purposely aligned with critical national security and modernization priorities, and we believe our strategy and differentiated technology capabilities will continue to deliver growth, margin expansion, cash, and shareholder value.

I'm also immensely proud of our people and their commitment to our customers, our shareholders, and to each other each and every day. They embrace our culture of good character and innovation, which is foundational to our success. It is because of this that CACI was selected for the 10th time as a *Fortune Magazine* World's Most Admired Company. In addition, CACI was selected as a 2021 Top Workplace and Top Technology Company by Energage.

CACI is delivering value through growth, margin expansion, robust cash flow, and opportunistic capital deployment, and I continue to be excited about our prospects looking forward.

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

## QUESTIONS AND ANSWERS

**Operator**
We will now begin the question-and-answer session. [Operator instructions]

Our first question today will come from Robert Spingarn with Credit Suisse.

**QUESTIONS ON MANAGEMENT'S VIEW OF ORGANIC GROWTH IN THE NEW ADMINISTRATION, SUPPLEMENTING GROWTH WITH M & A, AND THE CURRENT M & A PIPELINE**

**Robert Spingarn**
Hi, good morning.

**John Mengucci**
Morning, Rob.

**Robert Spingarn**
We've just talked about organic growth. And, John, I wanted to ask you how you think about, on a go-forward basis, Technology versus Expertise, organic growth under the new administration based on the little bit of strategic and budget insight that we currently have, and might this cause you to accelerate M&A to supplement that growth? And how does the M&A pipeline look today?

**John Mengucci**
Okay, Rob. Well, first of all, thank you for that question.

Let's talk a little bit about, I guess on a qualitative level, how I see some of those. And I'll try to give a few comments about how we see FY 2022 coming as well.

Tech and Expertise, Enterprise and Mission, are very well-understood across the company foundational framework for us. And as we look at the growth levels of Expertise and Technology, we do see differentiation there. I mean, there is no doubt in our mind, nor has there been doubt over the last three to four years, that Expertise, at least on the Enterprise side, would continue to face pricing pressures, and the level you could differentiate there was going to be pretty much muted. I don't want to call Enterprise Expertise a commodity, but it's really, really tough other than price to be able to differentiate. And as you all very well know, we are a topline and bottom line growth company.

So, if I look at the budget moving forward, there's a lot of nice work there. There's some good understanding of what's in the $753 billion. I think it gives nice spending levels for our customers to continue investing in critical requirements.

I think their stated priorities are very much in favor, and they are very much in our favor. There is a focus on Technology, I feel that at the speed of software, not hardware, and I'm reading portions of it, just as much about bits and bytes than bombs and bullets. So, on the positive side, a strong budget on the Technology side, a respectable budget on the Expertise side.

On the Mission Expertise, we have to sort of head into this administration's commitment to withdraw from Afghanistan by September 11th. So, there's a lot of moving windows. There are just a lot of different dates that, as you would imagine, we are operating to. I'd also say beyond the potential pullout of our folks from Afghanistan, the world is still a very dangerous place. There is a lot of budget and a lot of focus on near-peer threats that actually are an end to where counterterrorism goes.

You asked me about gaps. We are a strategically based company. Strategy is where we come from. We're pulling together our FY 2022 planning thoughts now. We're about to review where we go in our five markets. I feel very comfortable, Rob, around the capabilities and the customer sets that we have today. But if I wanted to double down in any area, it would be, as I mentioned prior, in the Mission Tech area, anything related to cyber and data analytics. I like our AI portfolio. I mean, I like it so much that I spent some time during my prepared remarks talking on it.

We've got strong Enterprise Tech credentials. We've got strong, agile software credentials. We move more applications to the cloud in the intelligence agencies than the next five companies combined. So, that's not a pure focus of, if we were to do M&A, where we want to head next.

I think your last part was around M&A properties out there.

**Robert Spingarn**
The pipeline.

**John Mengucci**
Yes.

**Robert Spingarn**
Yes, the pipeline.

**John Mengucci**
Look, there's a reasonable number of properties in the market, and that are coming to market. We're a highly acquisitive company. We do think that's a strategic differentiator against folks in our sector and outside of it, frankly. But there are some nice properties out there.

We continue to look at those. Mike Lewis and his team do an outstanding job. And as I mentioned, talking about capital deployment, M&A is going to be one of our future capital deployment options as we move forward.

**QUESTION ON THE FIXED PRICE CONTRACT GENERATING STRONG PROFITABILITY**

**Robert Spingarn**
Okay, that's very helpful. Just quickly—thank you, John—quickly for Tom, just this fixed-price contract that you've been recognizing the really strong profit on this year. Could you talk a little bit about what that relates to? And does that contract, or renewal of it, extend into next year? Thank you.

**Tom Mutryn**
Yes, thanks, Rob. For sensitivity reasons, we do not want to signal to the customer that we're getting outsized profitability on a particular piece of work. So, we're going to be somewhat circumspect, as we have been.

It is a fixed price contract we're able to execute in the COVID environment at lower expenses, driving materially higher profitability. As COVID restrictions go away, we expect the customer to revert to a more normal operating tempo with that particular contract. So, we keep on stressing the benefit is short-lived. But that is a piece of work we had for a number of years, and we expect to continue that piece of work, albeit it at most likely lower profitability levels. Still respectable, but lower than the outsized profitability we've been realizing.

**Operator**
Our next question will come from Gavin Parsons with Goldman Sachs.

**QUESTION ON THE PACE OF ORGANIC GROWTH IN CACI'S FY2022**

**Gavin Parsons**
Hi, good morning.

**John Mengucci**
Good morning, Gavin.

**Gavin Parsons**
Guys, I wanted to ask you about the pace of growth, just heading into the fourth quarter and into next year. Obviously, I think that is five percent at the midpoint this year. But that's with more than 200 basis points of COVID impact. There's the state tax disruption in the fourth quarter, which I think is what drives the implied slowdown. But how do you think about the pace of growth next year, whether or not you can grow at or above five percent, given you'll presumably have a large tailwind from COVID reversing? Thanks.

**John Mengucci**
Yes, Gavin, this is John. Thanks.

I'm not sure I'll give you a point estimate as you look at FY 2022. But look, part of your question stated something very, very well. Look, there are a lot of moving parts here, right? And we're in the third quarter of FY 21. Tom and his team have done an outstanding job looking at taxes and other areas of savings. So, there is an awful lot of print and an awful lot of numbers here.

If I look at FY 21 and I look at how that sets us up for FY 22, look, we're extremely proud of our organic revenue growth performance. A major distinction of our growth is we're delivering margin expansion at the same time. And I think we are uniquely differentiated across other entities out there. This growth, plus margin expansion, accelerates cash flow generation, which to me is extremely important to our strategy and commitment to deliver shareholder value. So tactically, COVID has had an impact on our top-line growth. But I also would note, we continue to materially expand margins, even heading into that headwind. So, COVID, to me, it's a short-term blip in a long-term growth, margin, cash flow, and shareholder value creation trend.

So, we don't have an exact number of what we're targeting next year, Gavin. But what is important, and I guess from a quality qualitative statement, look, we continue to grow above our addressable market, and we have since we laid that strategy on the table. We continue to expand margins at the same exact time. We're compounding cash flow, which we're committed to deploy across any number of new options to generate the greatest amount of long-term shareholder value. And we expect this performance to continue over the long-term.

So, you are probably going to hear me say that many, many times. We're highly confident of our ability to continue delivering on our commitments to grow above the addressable market at ever-increasing margins.

**QUESTION ON CLARIFYING THE IMPACT OF PAYING CASH TAXES IN 2021 ON FUTURE YEARS**

**Gavin Parsons**
Okay, that's helpful. And Tom, just before I ask on cash flow, just to clarify that the $75 million headwind this year becoming a net $60 million tailwind, does that mean in future years you'll get back $135 million?

**Tom Mutryn**
That is correct, yes. And when I say future years, that will be over the next three years, '22, '23, and '24, somewhat non-linearly. As we provide guidance for FY 22 in August, we'll be more clear of operating cash flow in that particular year. And I will remind you that we also have to repay the deferred payroll tax, which we had some benefits in the last two years associated with the CARES Act.

**QUESTION ON WHAT LEVEL OF FREE CASH FLOW ON WHICH TO BASE FUTURE GROWTH OF THAT METRIC**

**Gavin Parsons**
Okay, perfect. That was the context for my question as well. Then, is there a starting point free cash flow, like the 10.7 percent, ex-COVID EBITDA margin? Is there a starting point, normal free cash flow level that we should think of as the base to grow off?

**Tom Mutryn**
Gavin, a reasonable number would be this year, the $600 million plus the $75 million we're able to offset the tax, which is $675 million, less $50 million of payroll tax. So, I would think $625-ish [million] in terms of a good takeoff point.

**Gavin Parsons**
Okay, thank you very much.

**Operator**
Our next question comes from Cai von Rumohr with Cowen.

**QUESTIONS ON THE PERCENT OF CACI REVENUE FROM OCONUS AND IF THE SLOWDOWN IS ABATING**

**Cai von Rumohr**
Yes. Thank you very much. So, John, you and your peers have kind of talked over the last couple of quarters of the slowdown, administration change-over, various issues. Two parts, one, you mentioned OCONUS. Could you just refresh us in terms of what percent of your revenues are OCONUS-related? And secondly, could you give us an update, are we starting to see these delays abate or are they continuing? What do you look for in the next couple of quarters?

**John Mengucci**
Yes, Cai, let me cover the OCONUS piece first, then I'll talk a little bit around COVID.

It wasn't but ten years ago where we were talking about how much work we were doing on S3, and how much pass-through, war-related work we had. And those were numbers at about 13 percent to anywhere to 20 percent of our annual revenue were based on efforts that were OCONUS. We have been tracking—about two percent of our annual revenue is tied to some of those OCONUS measures. So, one, that is a large measuring stick that really explains the kind of company we've become versus the kind of company that we were.

I'll also tell you that we've been rolling out of our OCONUS work for some time, right? I mean, Afghanistan had a high of about 100,000 troops in 2011. We're down to 2,500. So, if I look at the couple of percent of revenue, that's not an overwhelming headwind as we look to move forward in FY2022.

If we look at COVID, this is one that when Tom and I and the rest of the team sat down looking at the rest of FY 21, we really believed we were starting to see signs of things improving. But in general, facilities have not fully reopened at the level we expected due to some of these densification concerns. And we saw the spike at the end of January. We saw another spike around March. So, that continues to put pressure on us.

Tom mentioned deployed resources remain sidelined. We're unable to travel due to different restrictions. We have to use military transport or we have to use military deployment processing. All of those things have been greatly, greatly slowed. And now we're at a point where that's an area we don't expect to come back if you tie in the president's commitment to a withdrawal from Afghanistan by September 11th. And then we still see general slowness in taskings, which we've mentioned in the past. So, COVID impacts, both direct and indirect, are still here.

Looking forward, I firmly believe that as the vaccination program continues to roll out, we're going to see those pressures lessen. I do believe that tasking pressures will begin to lessen because as more of our customers in the functional areas come back to work, that's going to free those up. In fact, we saw a couple of very nice taskings come out just recently, but we expected those to come out last June, and they've just come out now.

So, I do believe things are going to pick up, Cai. I think we will see COVID abate. And we're very much looking forward to continuing our record of topline growth at ever-increasing margins.

## QUESTION ON THE FACTORS BEHIND THE SLOWDOWN AND POTENTIAL CUSTOMER REACTION

**Cai von Rumohr**
To what extent do you feel the slowdown reflects customers being much more cautious in tasking, not just because of COVID, but because of the anticipation of a Democratic administration and a much tighter DoD budget? And so that now that we're looking at like a 1.7 percent FY 22 request, they may start to loosen up a little bit. Has that been a factor?

**John Mengucci**
Cai, from where we sit, not, not really. I mean, we're looking at a GF 22 increase of a couple of percent. It's at least, at a very high level, a very well-balanced budget. And of course, we're that kind of company that's going to look at more balanced toward bits and bytes versus bombs and bullets.

There is still strong bipartisan support. There are still procurement increases for Counter-UAS. There is still Army RDT&E funding around SIGINT, Cyber, and EW, a lot of IT modernization priorities, a lot of new network buildouts, a lot of talk around where does the military and the like head as it pertains to 5G. And I believe that customers understand where they can spend; they understand where the threats are.

I think, Cai—not I think, I know, the one area that we're actually focused on is this continuing debate around is it near-peer Russia and China or is it counter-terrorism. I hope, I'm very positive that there are folks in the administration who understand that pulling out of Afghanistan does not mean that that CT mission has gone away, okay. It's just when we pull out there are going to be ways that we're going to have to find to make certain that we keep very keen situational awareness on those areas. And those are things that we are well adept at providing in our Technology offerings.

So overall, I do believe it's a counter-terrorism mission and looking at near peers. And I do believe at a very high level this budget has covered down on some of the key areas that we'd like to see them cover down on. Thanks, Cai.

**Operator**
Our next question will come from Seth Seifman with JPMorgan.

## QUESTION ON THE BASIS OF CACI GROWING FASTER THAN ITS ADDRESSABLE MARKET

**Seth Seifman**
Hi, thanks very much, and good morning, everyone.

**John Mengucci**
Good morning, Seth.

**Seth Seifman**
So, I was wondering, when you talk about growing in excess of market, should we think about that two percent increase in the budget as kind of—is that the underlying market? Or are you looking at a segment of the budget that's faster-growing than that?

**John Mengucci**
Yes, Seth.

So, answering that with just the high-level look that we have of the FY 22 budget, which you all know is not the final one, if we look at the skinny budget and we started to shred that, that's a pretty good assumption looking at how our FY 22 starts to shape up. I mean, we do believe that our addressable market will sort of track along somewhere close to that number. And that will set that floor, so what we're looking at growth-wise for FY 22.

## QUESTION ON THE MAXIMUM IMPACT ON CACI'S REVENUE OF THE WITHDRAWL FROM AFGHANISTAN

**Seth Seifman**
And then, as a follow-up, just to put a fine point on it, if the OCONUS exposure is down to two percent or so, I assume Afghanistan is still only a portion of that. There are troops deployed in different places around the world. So, the sort of maximum headwinds that we could anticipate

from Afghanistan for CACI would probably be in the range of 100 basis points or so?

**John Mengucci**
Yes, the numbers that I shared with you all are closer to two percent of our revenue. It is true we have a lot of folks doing an awful lot of other OCONUS work. Very, very different from that number. That is all fully funded. No issues there. We don't see any material changes there.

So, I would tell you that two percent of our FY 21 revenue is tied up in the efforts of what's going on inside of Afghanistan. And just for protection of our own folks, I'm probably not going to give too much of a finer point on that because I don't want to get into number of folks we have there and the like. But very much appreciate that question, Seth.

**Seth Seifman**
Thank you very much, guys.

**John Mengucci**
You bet.

**Operator**
Our next question comes from Joe DeNardi with Stifel.

## QUESTION ON BALANCING CACI'S CAPITAL DEPLOYMENT STRATEGY BETWEEN M & A AND SHARE REPURCHASES GOING FORWARD

**Rob Connors**
Hi, gentlemen. This is actually Rob in for Joe. How are you?

**John Mengucci**
Hi, Rob. We're doing great. Thanks.

**Rob Connors**
Good. So if I could just ask the M&A question in a different way. Just given some of the volatility in the industry over the past several months, and the headwinds facing the business environment, has that impacted the way you think about capital deployment between M&A versus buybacks? And then, just to clarify the strategy, should we now assume more balance between the two going forward versus previously where it was pretty clear it was mostly M&A? Thanks.

**John Mengucci**
Yes, Rob, thank you.

Yes, there have just been a lot of activities in the M&A world. And we're always more than willing to comment on things that we're out there doing. And to be very honest, I don't pay an awful lot of attention as to what everybody else is doing in that area.

But as it pertains to capital deployment—look, when we issued the press release and you heard in my prepared remarks, we'd like to believe that you're hearing us talk a little differently about capital deployment. And that was very purposeful, with a commitment to a continuous evaluation. I mean, of all capital deployment options, we can talk about additional repurchases, M&A, internal investments, debt reduction, and then other potential uses. And when I say there that that order's in no way intended to prioritize our options, but rather that they're all on the table.

As I mentioned earlier to, I believe, Rob's question, we're in our semi-annual strategic planning sessions now. We're always going to look for capability and customer gaps.

So, I don't want to downplay M&A, because I would never downplay something that's a strategic differentiator to us. But I want to just signal more of a balance as this company moves forward. And what I would look at is not quarter-to-quarter but year-over-year.

So there are some nice properties out there. We're going to constantly consider our equity valuations. But I think the key word, just like I talked about counterterrorism and near peer, "and" is the key word in our capital deployment plan going forward: M&A and repurchases and internal investments and debt reduction and whatever else there happens to be. And we're also looking at a combination of those two. So, because we do a share repurchase doesn't mean we can't do an M&A.

No, I think we're at 2.5 times leverage, Tom. And we have plenty of dry powder there, and we are going to continually drive growth across this entire enterprise so that we're always growing better than our addressable market growth with our increasing margins.

Tom, anything you want to add to that?

**Tom Mutryn**
Thank you, Rob. We continue to evaluate it as John says. Given changing facts and circumstances, the valuation of CACI stock is a key factor. Are we attractively priced? We believe we are, hence, the ASR.

The acquisition pipeline, John mentioned some attractive candidates in the next three, six, 12 months. That influences our thought process. Debt levels, interest rates, and the like. So, it is a real-time, continuous evaluation of what makes the most sense, with the definition of making sense is how do we drive long-term value to our shareholders. That is the ultimate decision. And again, that is a continuous process that we take quite seriously.

**Rob Connors**
Thank you.

**John Mengucci**
Thanks.

**Operator**
Our next question comes from Jon Raviv with Citi.

**QUESTION ON CACI PURSUING MORE FEDERAL CIVILIAN CONTRACT OPPORTUNITIES**

**Jon Raviv**
Hi, good morning, everyone. John, you referenced that this administration is currently pitching it's a modestly growing defense budget. It's a big number, still a very high number. But the big focus seems to be on non-defense, a lot of things that have been starved over the last four years, but still a lot of things that require complex technology solutions like the IRS, let's just say for

example. Is there any comment or perspective on current and future exposure to other, call it, non-defense end markets?

**John Mengucci**
Yes, Jon, thanks.

Yes, look, as we look at the overall government funding budgets moving forward, IT modernization from what we see is a priority, maybe whose time has finally come. I'm very, very excited about the monies this administration is putting towards IT modernization, not only in the face of continuous cyber-attacks but in the face of COVID. And in the face of that, it is in dire need of having further updates. You know, the one thing that COVID taught us is that we all most likely will not return back to the same facility we used to do our work in. And that is emblematic of the entire IT Expertise and the IT Technology world.

So look, we think there's ways to save and improve efficiencies there. There are plenty of non-defense customers that we have today. The BEAGLE program with Customs and Border. The large desktop and systems software and solution support job we have with the broader DHS, yes, we're always looking at those.

And when we talk about defense funding and spending, all of our human capital, budget, financial systems—although they find their way in the defense budget, those are all large-scale Enterprise Technology buildouts that are all built in an Agile manner. So, there's plenty out there for us to continue to grow on, whether it's in the Enterprise Tech area or in the Mission Tech area.

## QUESTION ON THE STATUS OF THE CACI LIMITED (UK) BUSINESS

**Jon Raviv**
And just one quick follow-up. A little bit of a pivot. But just onto your European exposure, I know Greg is on the line. Just remind us of how much of the total corporation at this point is exposed to the UK business, and just how you see that trending, going forward—any changes in your customer behavior, loyalty programs—kind of what they want as the continent, I'd say, tries to emerge from the COVID period?

**John Mengucci**
Yes. So a couple of things there. I would say that Greg's UK business is four to five percent of the overall revenue. And if I'm wrong there, Jon, I'll be able to correct them before I get done talking because I'm looking at Tom.

But a lot of what Greg faces is the UK is still very heavily in COVID. Everybody is locked indoors. Everybody's working from home. Greg and his team have done an outstanding job. Revenue is slightly off. Profit, very, very profitable, just as you know we're seeing here. That will absolutely change as Greg's cost structure changes.

But Greg, is there anything you want to add?

**Greg Bradford**
Yes, John, I could, and appreciate the question about the UK.

We're a mix business over here, about 30 percent government and 70 percent commercial. And we sell a mixture of Technology and Enterprise. Our government business has performed very well this past 15 months or so, despite COVID, especially our defensive intel. We have been hammered a little bit on the commercial side because we work with retail, shopping centers, restaurants, pubs, leisure. And of course we know those industries have been closed for good parts of last year.

But as John said, but notwithstanding all that, revenue is up Quarter Three versus last Quarter Three. It's up one percent, nothing to pat ourselves on the back about. But our net income is significantly up, like our U.S. operation. We're up 20 percent, and that's really through operational performance and COVID-related savings. We've got a really strong EBITDA margin of almost 20 percent for Quarter Three.

And so, we are coming out of this and the UK is starting to open up a little bit. There's talk by the end of June it will be pretty much open. We're starting to see a lot of our commercial clients come back to life and they're starting to prepare to conduct business more normally. And we're seeing increased orders there. So, as we look at finishing off the year fine. And we look into FY22, we see real potential growth on the commercial side and our government business continuing to grow as normal.

**John Mengucci**
Thanks, Greg. Tom, do you want to add?

**Tom Mutryn**
Thank you, Greg. Revenue, just to be clear, is a little bit south of three percent with material higher levels of profitability.

The other comment I will add is in the last few years we made some acquisitions in the UK with some national defense businesses in the UK, where we now have access to another market. And we are creating a connectivity between some of the Mission Technology products that we're doing, counter-UAS, EOIR devices, signal collection devices, with our counterparts in the UK. And that is, in my mind, a nice potential market for us to prosecute with that exquisite technology.

**Jon Raviv**
Thanks, John.

**Operator**
Our next question comes from Tobey Sommer with Truist Securities.

**QUESTION ON ANY CHANGES IN THE SPENDING ENVIRONMENT WITH THE CHANGE IN PRESIDENTIAL ADMINISTRATION**

**Tobey Sommer**
Thank you. I was wondering if you could comment on the spending environment and change in administration, and whether or not that may impact any of the trends you've been seeing or the industry has been seeing in recent years, such as customers at the margin more willing to look at solutions, and in other types of contracting that can be advantageous to you in the industry from a profitability perspective.

**John Mengucci**
Yes, Tobey, thanks.

I'd draw attention to a couple of things. One is it's more because of COVID maybe than because of where the budget sits today. But there's what I would call a renewed or an expedited interest in talking about Technology and how it can be used to solve customers' needs without as much Expertise being delivered.

And a couple of examples there that we've used internally. You all know that it'll be three years this July we created our Shared Service Center out in Oklahoma City. That was somewhere between a $20 million to $30 million cost savings annually for us. And now we've got that team out there saying, "Hey, we can do a lot more if we use things like RPA, and if we were to use more technology, rewrite some of our policies and take some of the personal hand touch element out of some of those transactional and tactical things that we're out there doing."

AI, data analytics, machine learning are going to play a large role. So, if I now were to bring in the budget—under budget pressures—I've said this many, many times, the word "joint" is no longer a really bad word, because you have to understand how you can build once and use in many, many different places. And I think in Op centers and those type of environments looking for RFPs to talk more about technology and less about I need N number of people for M number of years, I think that's going to change over the next three to five years how we see some, what may have been Enterprise expertise RFPs, come out looking more like Enterprise Tech.

As for the administration, there's bipartisan support in funding for a lot of critical national security priorities. I mentioned some of those earlier. But I do believe this administration—and I've seen signs of it—that they are pretty concerned about cyber and things in that bits and bytes world, okay. SIGINT is not a wartime DoD effort. It is a situational awareness tool. So, do I see funding in areas like that—and frankly protection against UAS's out there that are going to only expand and get larger and larger threat as we move forward.

So, there are some absolutes that we need to continue to spend money on, and then there are quantities of platforms and the like that have a little different spending model to those. And I think that this administration is going to have to balance spend in both of those areas.

**Tobey Sommer**
Thank you.

**John Mengucci**
Yes. Thanks, Tobey.

**Operator**
Our next question comes from Sheila Kahyaoglu with Jefferies.

## QUESTION ON WHAT IS DRIVING REVENUE IN THE CACI'S TECHNOLOGY AND EXPERTISE AREAS

**Sheila Kahyaoglu**
Hi, good morning, John, and Tom. So, John, I think you mentioned your Technology business was up 12 percent in the quarter. What was driving that? And then, on the other side of that,

does that mean the Mission business is down on the quarter and maybe what's going on there?

**John Mengucci**
Yes. So, if I look at our Technology versus our Expertise business, yes, I believe it's around 12 percent there and around flat on the Expertise side.

Now having said that, Sheila, would I be elated if my Expertise business was up 12 percent, and my Technology business was up 12 percent? Absolutely. But it was predictable enough for us many years back to really make certain that we had a strong Technology offering, because we knew our customers are going to eventually start moving heavier towards that direction.

So, the old days of pure government services, it's becoming a little bit more cloudy. It's a lot of customers out there. Beyond a large platform, what is it that I need to have done, and what's the most cost efficient, Agile-minded way to deliver that? So what you're seeing is the impacts of things like Customs and Border Patrol BEAGLE program. That was one we won, Tom, 18 months back?

**Tom Mutryn**
About that, yes.

**John Mengucci**
And, we had talked about that at the beginning of FY20-21, and said we have a large ramp-up plan and, knock on wood, even throughout COVID, we have achieved some phenomenal growth on that program. And it's also one of those programs that is very crucial to where the administration goes on a lot of items. So, it's things like Agile, it's things like BEAGLE, it's programs that Mastodon and LGS are involved in.

The folks at Mastodon on the Mission Tech side have done an outstanding job. They came in—as you all may or may not remember that's about a $5 million or $7 million business, soaking wet. And they've done an outstanding job and they have positioned us very, very well. They provide the hardware that allows us to deliver software-definable, everything devices out there.

So, in the future, Sheila, if I looked at FY22—I don't have numbers for you—but I think that trend is going to continue. It doesn't mean Expertise is bad business for us. We have a lot of phenomenal people out there doing phenomenal work. But at the end of the day, we are a top and bottom line growth company. And as we see things in the Expertise, either Enterprise or Mission, start to succumb to more and more pricing pressures, that's not who we're going to be in the future.

**QUESTION ON HOW MUCH OF THE CORE PROFIT IMPROVEMENT IN FY21 CAN BE SUSTAINED IN FY22**

**Sheila Kahyaoglu**
Okay. No, that helps. And then maybe just adjacent to that somewhat. Tom, in your remarks, you mentioned the EBIT impact. Of course the fixed price contract is helping you guys lift a little bit. But you also did mention 120 bps of just core profit improvement. So, how much of that is sustainable as we enter Fiscal 2022? How do you think about that 120 bps being core? Is that some of that COVID impact? Maybe if you could just clarify that.

**Tom Mutryn**
Sure, Sheila. There is some COVID impact into that 120 basis points. I did reference medical expense, travel expense, and the like. I do not have that quantified, but there is some of that in those particular numbers.

The other fact to point out, looking at EBITDA going forward, is that the margin performance of Technology is anywhere between 300 and 500 basis points higher than Expertise. And by growing Technology at a faster rate, that will be productive to margin performance. The fact that it has higher margins is not surprising. It is differentiated, different levels of skills. We're able to use solutions, more fixed price type of work. All that contributes to that higher margin performance. And I did point out in my prepared remarks that, looking forward, 10.7 percent is a good estimate for a clean unadjusted margin in FY21.

**Sheila Kahyaoglu**
Well, thank you very much.

**John Mengucci**
Thanks, Sheila.

**Operator**
Our next question comes from David Strauss with Barclays.

## QUESTION ON MANAGEMENT'S VIEW OF THE MIX OF BUSINESS BETWEEN TECHNOLOGY AND EXPERTISE GOING FORWARD

**David Strauss**
Thanks. Good morning.

**John Mengucci**
Good morning, David.

**David Strauss**
So, based on what you've seen in recent bookings and what's in your pipeline, how do you think your mix shift going forward between Tech and Expertise? I think, this quarter you're about 51 percent Tech, a year ago you were 47 percent, 48 percent. So, how does that mix shift going forward, based on what you're seeing in your book of business?

**John Mengucci**
Yes, David, thanks.

So, if I looked at—Tom shared numbers around awards to be made in the six-month submittals. Based on those numbers and just some preliminary, as we come out FY21, looks that the Tech versus Expertise mix is going to continue to grow more favoring the Tech side, just from the nature of the bids we have submitted, David, and some of the ones that we have recently won. I was talking about some of those taskings that had been held up throughout COVID. Some of those taskings showed up in the Mission Tech area that we have been waiting for, for quite a long time.

So, if that's any indication, and I use the government's skinny budget that they have out there, I would have to believe that Tech is going to grow faster than our Expertise is, which then should give our investors peace of mind that the other portion of what we're focused on, which is growing bottom line by the nature of the numbers that Tom shared—300, 500 basis points stronger in margin—we are getting more and more comfortable with continuing to grow bottom line from wherever we take off in from FY21 as we get into FY22.

## QUESTION ON HOW MUCH OF THE TECHNOLOGY PORTFOLIO IS EXPOSED TO MODERNIZATION VERSUS O & M

**David Strauss**
And following up on that, should we think about your Tech portfolio just being more exposed to the modernization budget as opposed to O&M? And, maybe at a high level of your revenue base, how much do you think at this point is exposed to the O&M portion of the budget versus the modernization portion of the budget?

**John Mengucci**
Yes, I mean, it's a pretty even split, David. What we've been successful at doing is even in the O&M budget, if we can do modernization through sustainment, then that allows us to do a lot of system upgrades which includes wholesale changes like taking someone else's dated boxes out of different platforms and inserting ours. That's really O&M dollars. There's not a lot of RDT&E dollars there.

And we also are very well-positioned. The fact that we invest ahead of need, we've been talking to customers. So we sort of have insight as to what they're looking to do. It allows us to invest on our own dollars. We own the intellectual property. What that lets the customer do is buy things as a catalog item. So they can do more with O&M dollars versus just pure RDT&E dollars.

**David Strauss**
Thanks.

**Operator**
And our next question comes from Josh Sullivan with The Benchmark Company.

## QUESTION ON THE RISK PROFILE ASSOCIATED WITH FOCUSING ON THE TECHNOLOGY SIDE OF THE BUSINESS

**John Mengucci**
Good morning, Josh.

**Josh Sullivan**
Good morning. Just a follow-up on this conversation with the commoditization of the Expertise side and the focus on the Technology side. Can you talk about the development risk profile of that longer-term transition? Where do you see risk? How do you mitigate it? Tom mentioned, you've got 300 to 500 basis point improvement with that Expertise. But is that inclusive of any potential overruns? Are there other hurdles you might see with pure Technology development?

**John Mengucci**
Yes, Josh. Excellent question. We love talking about 300 to 500 basis points bigger, right? But it is a risk-reward model, I think, which is where your question's aimed at. And that's exactly why we created that two-by-two framework, frankly. I mean, it does inform us across the entire

company, hey, gang, this is what we're focused on. We want high quality revenue. We want quality of earnings, year-over-year-over-year. And it is possible, given the capabilities and the customer sets we have and a very strong business development team, it's possible for us to bid less and win more, because we want to bid exactly in those sweet spots.

So, delivering Expertise, as you mentioned—lower risk, the actual risk of that is, can I find the individuals that the customer wants, and then can I hang on to them? And many times it's a very price sensitive market. So, the risk is lower. Therefore, margins are going to be lower. When we get into the Tech side, you're absolutely right. We have many more development programs and many more labs in this company than we had seven to ten years back.

And, as you see some of these cyber-protection requirements come out, they're making certain that our development environments are cyber-proof; making certain we can attract talent from high-end engineering schools. The answer to that is we've done a phenomenal job. Can we retain them? Answer to that is a phenomenal job.

But we believe in our folks. Since I've been here, I firmly believe that when we get involved in fixed price engagements, which is what you'll see, Josh, on the Mission Tech side, we have strong conviction within our employees that we're going to deliver. And we're going to not only deliver to our customers who absolutely need that technology to be working better than spec, we have to be delivering the appropriate financials as well.

So, we do watch that. We have reasonable and rational EACs out there. We have reasonable and rational booking rates as well. But, yes, there is higher risk on the Tech side, but we are very well-positioned to be able to deliver.

**Josh Sullivan**
Got it. Thank you.

**John Mengucci**
Yes, you bet. Thank you.

**Operator**
And our next question comes from Mariana Perez Mora with Bank of America.

## QUESTION ON THE MARKET ENVIRONMENT AS THE COVID PANDEMIC EASES

**Mariana Perez Mora**
Good morning.

**John Mengucci**
Good morning, Mariana.

**Mariana Perez Mora**
So, after a year of working under this new COVID-19 normal, according to your ongoing discussions with customers, what kind of headwinds are expected to abate and which are here to stay for longer, let's say like two or three years? And could you help us understand how we should think about that, like as COVID and vaccination goes away and the environment normalizes?

**John Mengucci**
Yes. So, if I look in my crystal ball, what I continually tell people about COVID is it's a horrific, generational pandemic that we're all living through. But there will come a day when we will be out of it.

So, there are going to be some things that are going to be forever changed, which I think are tailwinds to things that we do. IT modernization, network security, network protection, how do we build networks out—that will be more of a plus side. I would expect us, in the future, that we can do more software development work in a very distributed manner, which not only relieves some of the pressures of government facilities, it releases the pressures on our facilities. And then we can talk about something I love talking on, which is how do we come back to work from COVID. That is a tailwind as well.

So, how we do classify software development in the future? How do we interact with our customers in the future? I honestly believe those are tailwinds. I don't know if you can measure that the next six months. Some of these are going to take one to two to three years.

Some of the headwinds are going to be just how long will it be before we can re-densify buildings and keep things like labs and operation centers safe. When we started COVID, go buy Clorox wipes. Right now, they're not really sure if you can get it from actually touching things. All those things, if you picture trying to keep a lab facility with 200 or 300 people in it safe. You need to have more than just shift work to sort of alleviate some of those risks. So, there's a lot that we don't know yet about COVID and its lasting effects.

We will see some further headwinds there. But I'm actually more positive than I am negative based on where we sit today. Clearly, we're more positive back in the January timeframe. But that wasn't so much COVID doing it to us. It was the actions we were taking as customers and providers as we were going through COVID.

So, I do believe that budgets around cyber, cyber-protection are going to continue to increase. I do think in some way the attack vectors and the attack space for cyber-attacks is only going to get larger as we reshuffle where our workforce does our work from.

So, I'm actually more positive than I am negative, Mariana, as we look forward because we're going to see budgets are going to support doing things differently. And different things for us means greater and greater growth.

## QUESTION ON THE FACTORS BEHIND THE SLOWDOWN IN TASK ORDERS

**Mariana Perez Mora**
Thank you. And then would you mind giving us more color on this lower order processing. Is it related to specific agencies? It's related to like Technology versus Expertise contracts? It's related contracts ramping up? What do we need to see for that to normalize?

**John Mengucci**
Yes. So, on those deployment orders—so when we deploy folks overseas, we need to have folks process through government facilities and government policies and different processing centers. When those centers can handle 100, 200 people a day, when those go to 10 to 20 people a week,

that is an absolute, almost near, shutdown. And, for the limited number of flights that military transport, that all gets reduced as well. So, we're in that queue looking to be able to deploy people. So we can't deploy as quickly. So, will that loosen up as we go forward? Certainly, but then we'll have to take a look at the headwind around where are those large troop deployments that we're going to have overseas and how does CACI ride along with them.

So, I don't have an exact—we're in over 60 to 80 different countries out there, prosecuting military operations around the globe. So, if we see the processing centers loosen up, we'll see revenue pick up as we go forward. But as it pertains to Afghanistan, it's about two percent of our annual revenue that we have under careful watch as we get into probably first and second quarter of FY22.

**Operator**
Our next question will come from Matt Sharpe with Morgan Stanley.

## QUESTION ON THE SEQUENTIAL MARGIN DECLINE BETWEEN THE THIRD AND FOURTH QUARTERS OF FY21

**Matt Sharpe**
Hi, good morning, gentlemen.

**John Mengucci**
Good morning, Matt.

**Matt Sharpe**
I hate to beat this one to death, but I just want to touch on the margins once again, looking into Q4. If I back out the $16 million headwind, it looks like the implied margin is around ten percent. That's stepping down, call it 150 basis points from what you guys have been running at the first three quarters of the year. Is that reversal the result of the benefit experience from COVID-19? Or is there anything else in there that is actually causing that sequential decrease?

**Tom Mutryn**
Yes. So Matt, this is Tom. I'll take that one. First, when we look at margins, we guide to a full year. In any particular quarter it may be higher or lower, various fluctuations. As you point out, state tax impact changes our fourth quarter EBITDA margins by 100 basis points or so. In addition to that, we're expecting some higher expenses. Medical expenses, which had been depressed during COVID, appear to be coming back to a more normalized level. So, that is one factor associated with that.

We have product sales, which occur throughout our enterprise, which tend to be both lumpy and very high margin. So that has also impacted EBITDA margins. And then in addition, there are some other expenses which we expect to realize in the fourth quarter. No one singular one I want to point out, but a $1 million here, $2 million here, all add up. And that is the primary drivers of that sequential margin decline. And I'll leave it at that.

## QUESTION ON THE MANAGEMENT'S VIEW OF THE GROWTH RATE OF THE TECHNOLOGY AND EXPERTISE MARKETS UNDER THE NEW ADMINISTRATION

**Matt Sharpe**
Okay. Got it. Thanks, Tom. And then, John, real quick, with the President's skinny budget and what we know now about the administration's broader priorities, any update to the view on Expertise and Technology end market growth? I think last time you guys updated us, it looked like one percent and three percent, respectively, for sort of a composite end market growth rate of two?

**John Mengucci**
Yes, Matt. When we look at the skinny budget, yes, we're looking at the—that budget coming up by two percent, and we're looking at our addressable market most likely pegging out at that two percent point, Matt. I mean, we haven't done the absolute math yet because we're right in the middle of our strategic planning, but two percent from where we sit today feels like the right addressable market growth as we move forward.

And how that plays out, I firmly believe it's going to be higher on the Tech side than it is on the Expertise side. You know, we have a choice on what we want to bid on. And dollar for dollar, pound for pound, if it's a dollar spent for Tech versus Expertise, you're going to see us voting in the Tech area. So two percent rough number today at the end of April. That's sort of how we see it. Thanks, Matt.

**Operator**
This concludes our question-and-answer session, and I would like to turn the call back to John Mengucci for any closing remarks.

## CEO CLOSING REMARKS

**John Mengucci**
Okay. Well, thanks, Eiley, and thank you for your help on today's call.

We'd like to thank everyone who dialed in or listened to our webcast for their participation. We know 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. Thank you and have a great day.

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

END