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
Fourth Quarter FY17 Conference Call

PRESENTATION

Operator
Ladies and gentlemen, thank you for standing by. Welcome to the CACI International Fourth Quarter and Fiscal Year 2017 Earnings Conference Call. Today's call is being recorded.

At this time, all lines are in a listen-only mode. Later, we will announce the opportunity for questions and instructions will be given at that time. If you should need any assistance during this call, please press star then zero and someone will help you. A special reminder to our media guests who are listening in, please remember that during the question-and-answer portion of this call, we are only taking questions from the analysts.

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

INTRODUCTION AND SAFEHARBOR STATEMENT

Dave Dragics
Thanks, Carrie, and good morning, ladies and gentlemen. I'm Dave Dragics, Senior Vice President of Investor Relations of CACI International, and we're very pleased that you're able to participate with us today. And as is our practice, we are providing presentation slides, so let's move to slide 2.

About our written and oral disclosures and commentary, there will be statements in this call that do not address historical fact and as such constitute forward-looking statements under current law. These statements reflect our views as of today and are subject to important factors that could cause our actual results to differ materially from anticipated results. Factors that could cause our actual results to differ materially from those we anticipate are listed at the bottom of last evening's earnings release and are also described in the company's Securities and Exchange Commission filings. And our 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 today will include discussion of non-GAAP financial measures. These non-GAAP measures should not be considered in isolation or as a substitute for performance measures prepared in accordance with GAAP.

So, let's turn to slide 3. And to open up our discussion this morning, here's Ken Asbury, President and Chief Executive Officer of CACI International. Ken?

CEO OVERVIEW

Ken Asbury
Well, thank you, Dave, and good morning to everyone. Thanks for joining us to discuss our Fiscal Year 2017 fourth quarter and full-year results.

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

Last evening, we released our fourth quarter and full-year results for Fiscal Year 2017 and reiterated our Fiscal Year 2018 guidance. This morning, I'll provide you some insight into our results for the quarter and the year. Tom will give you the details on the financials, and John will cover the operational aspects of FY '17.

Let's turn to slide 4 in the charts please. Let me start off by saying I'm extremely pleased with our fourth quarter and full-year performance. The quarter caps off a year that ended better than we expected. Looking back at the full Fiscal Year 2017, organic revenue closed flat compared to FY '16. This was significantly better than we expected when we planned FY '17. Most importantly, we generated organic revenue growth throughout the second half of Fiscal Year '17, positioning us very well for continued organic growth in Fiscal Year 2018.

We continued to win a significant amount of business. The fourth quarter marks the sixth consecutive one with awards over a billion [dollars]. This level of performance is not possible without innovative solutions, compelling proposals and efficient cost structure and the capability to consistently deliver with quality and customer satisfaction.

We also continued to generate significant levels of operating cash. Operating cash of $281 million in Fiscal 2017 is a record for us.

Let's turn to slide 5 please. Shifting to the market environment, it is relatively unchanged since we issued our FY 2018 guidance at the end of June. We continue to expect strong awards in the September quarter, and our assumption is that we will enter the government's Fiscal Year '18 under a continuing resolution. That said, we remain confident in our ability to win business and deliver in any environment. This was demonstrated by our performance in FY '17, during which we operated for seven months under a CR and delivered record results.

During the year, CACI was named *Military Times*' Best for Vets Employer, and we repeated our standing as *Washington Post's* Top Place to Work for the third consecutive year. Now I'm extremely proud to receive recognition like that, as it distinguishes us as an employer of choice within our industry.

We will continue working every day to differentiate CACI through the people we hire, the business we pursue and the solutions we deliver. Our market-based strategy is working. We are winning new business, delivering operational excellence and deploying our capital to drive additional growth. This gives us continued confidence to reiterate of our FY '18 guidance as we deliver predictable, profitable growth.

Now here's Tom to discuss our financials. Tom?

FINANCIAL OVERVIEW

Tom Mutryn
Thank you, Ken, and good morning, everyone. Please turn to slide 6.

Our fourth quarter revenue was $1.1 billion, 2.1% greater than the fourth quarter of last year, with 2% organic revenue growth. Full-year revenue was $4.35 billion, up 16%, driven primarily by the NSS acquisition, which closed February 1, 2016.

Net income for the quarter was $44.2 million with strong performance across the company. Full-year net income was up 15% from last year, driven by NSS, strong operational performance, and lower taxes, partly offset by certain one-time, long-term incentive plan for LTIP expenses and facility-related expenses. Our adjusted net income, which excludes several non-cash expenses, was $224 million for the year, 37% higher than our GAAP net income.

For the full year, operating income was up 12% with a margin of 6.8%. Margins would have been 20 basis points higher without the one-time LTIP and facility expenses.

Please turn to slide 7. We generated $281 million of operating cash flow for the full year, with our DSO at 59 days, reflecting efficient performance, invoicing, and collections. Cash flow was up 16% versus last year and is more than a 170% of our net income.

As we have said, in the absence of additional acquisitions, we have been using our cash flow to retire debt. Net debt at the end of June was $1.2 billion. Our net debt-to-trailing 12-month EBITDA leverage ratio is now at 3.2 times, down from 3.9 times in the third quarter of Fiscal '16 immediately after the NSS acquisition.

Slide 8 please. And lastly, as Ken said, we are reiterating our FY '18 guidance that we issued at the end of June.

Now here's John to provide operational highlights.

OPERATIONS OVERVIEW

John Mengucci
Thanks, Tom. Let's go to slide 9 please.

Echoing Ken's comments, I'm very pleased with our performance in the fourth quarter and full FY '17. Our market-based strategy is providing focus and driving success across our large addressable market. We are winning business, capturing market share, building a healthy backlog and delivering solutions and services with quality and efficiency. Looking forward to FY '18, our pipeline remains healthy and our risk profile is comfortable.

Awards in the quarter totaled $1.1 billion and for the full year, we won roughly $6 billion of contract awards, a record for us, with almost 60% new business to CACI. This translates into a 1.4 times book-to-bill for FY ‘17.

Some of the key wins during the year were:

- our JIDO award with a ceiling value of $1.77 billion to provide deployable analytical operations, integrate intelligence and training services to the Joint Improvised-threat Defeat Organization;
- a prime position on a $978 million multiple award ID/IQ to provide full motion video capabilities to the National Geospatial-Intelligence Agency;
- a $140 million prime contract to provide global logistics support services for the U.S. Fleet Forces Command;
- and last, a $93 million prime contract to provide technical communications engineering and maintenance support services to the Department of U.S. Immigration and Customs Enforcement.

Our backlog now stands at $11.2 billion, which translates into over two years of revenue at our FY ‘17 run rate.

During the year, we had a number of notable accomplishments, two of which were:

- we earned an enterprise-wide ISO 27001 certification for Information Security, which confirms that our corporate IT infrastructure adheres to industry best policies and practices;
- we were selected for the Amazon Web Services Public Sector Program recognizing CACI’s strong overall cloud solutions and services capabilities.

Let’s turn to slide 10 please. Looking forward to Fiscal Year 2018, our revenue profile now stands at 86% existing business, 10% re-compete and 4% new. And our pipeline remains very healthy. As of today, we have $8.4 billion of submitted bids that are awaiting award with 74% of those for new business to CACI. This excludes the $8 billion SOF GLSS bid which was awarded last week to another bidder. By the end of the calendar year, we expect to submit another $6.2 billion with about 80% of that for new business.

I would like to take a minute to provide bit more commentary around our SOF GLSS pursuit. First, the award value was not included in our forward-looking guidance. Second, pursuing large, higher solution content work like this is part of our strategy and something we will continue to do. This bid was a great example of our ability to leverage CACI’s capabilities and relative strong past performance in our logistics to material readiness market. Our team provided an outstanding proposal that advanced us to the final stages of customer evaluation, and we look forward to learning about the evaluation during the debrief later today. Although we are disappointed CACI was not the awardee, we will continue to pursue other large bids in our adjustable markets where our innovative solutions and services can bring great value to our customers’ enduring missions.

In closing our prospects remain strong. We will continue to execute our market-based strategy that enables us to win new business and deliver quality, value and customer satisfaction.

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

CEO CLOSING COMMENTS

Ken Asbury
Well thank you John, thank you Tom, I appreciate your contributions this morning. Let's all turn to slide 11 please.

Before we open up the call for questions, I would like provide a bit of perspective on where CACI is headed. Just over a year ago, we laid out a long-term growth target of 1% to 4% organic revenue growth above our addressable market and a margin expansion of 10 to 30 basis points annually. Over the past four years we have made very deliberate changes to our business, which positioned CACI to achieve those targets. Our market alignment drives greater focus on high demand areas of our large addressable market. We enhanced our business development organization with top talent. We are bidding fewer opportunities and winning more of them. We are winning larger contracts with a focus on solution content. Our operations of organization has the people, the processes, credentials, and technical expertise to deliver innovation, quality, and value to our customers. And we added to our capabilities in past performance credentials in critical market areas through strategic acquisitions, such as Six3 Systems and NSS. All of this has built a very strong foundation, allowing us to deliver on our long-term goals in Fiscal '18 and beyond. We will continue executing this strategy while remaining agile and continually evolving to meet the critical needs of our customers.

I would like to thank all the CACI employees for their commitment, their integrity, character and the mission of each of our customers. They bring incredible talent to our customers' most complex challenges each and every day. Our success as a company is a result of their daily efforts.

Now on a final note, we were very sad to learn in this week that Bill Fairl, the former chief operating officer of CACI up until 2012, passed away last Friday. Bill was a driving force in the rapid growth of CACI from 2000 to 2012. He will be missed and he will always be loved.

So with that, Carrie, let's open the call up for questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session.

The first question will come from Krishna Sinha from Vertical Research Partners. Please go ahead.

QUESTIONS ON WHETHER MANAGEMENT HAS A GOAL OF BIDS TO REBUILD THE PIPELINE AND HOW MANY BIDS IN THE CURRENT PIPELINE ARE FOR CONTRACTS WITH A CEILING VALUE GREATER THAN $500 MILLION

Krishna Sinha
Hi, thank you. First on your bid pipeline. Obviously the outstanding bids have come down to the SOF GLSS announcement. But, do you have a stated goal for the amount of outstanding bids you would like to build backup to as a running pipeline? And then secondly, in that current pipeline that you have, of $8.4 billion, how many bids would you say are for contracts that have ceiling values in excess of $500 million?

John Mengucci

Krishna, thanks, this is John. Do we have a stated goal? No, I think we mentioned in the past that awards and RFPs and bids submitted are extremely lumpy. If we were to look at the bids to be submitted, we're at about $6.2 billion now. We've had some of those initial bids move to the right from our December quarter to our March quarter. We have had re-compete bids that we have submitted within the last 60 days and have since been awarded, which is what's driving our expected re-compete revenue from 11% down to 10% now.

And in addition, as we look at revenue and earnings, we plan for jobs to be slipped anywhere from 90 days to 120, to a 180 days. So, although the bids to be submitted number looks slightly lower than what it's been in the past, it will not have any impact on our FY '18 plan.

I think, secondly, you asked how many bids we have above $500 million. I guess we have somewhere five to seven bids greater than $500 million, which is directly in line with our stated goal of continuing to want to go after larger, more solution-type bids.

Ken Asbury
Yes, Krishna, this is Ken. Another way to think about it is we look for the amount of awards that we're pursuing—we're targeting specific win rates. If we're really deep in re-competition, we want to win about 90% plus of those, and that's been our average over the last ten years. It's fluctuated from time-to-time. A couple of years ago, we were a little bit below that but that's because we were bidding jobs that we really didn't want. They were very low value. We were going to bid them at rates that made sense to us, and we weren't successful.

On the other hand, our new business now, we're targeting on an annual basis 30% to 50%--so the numbers were—30% to 50% capture rate. So you can come up with a mathematical formula to do that, but given the fact that the market presents itself over a course of six months by what the customers want to buy. It's not easy to always get to that. But that will help you see what we might be targeting for an overall awards target.

QUESTION ON WHETHER THERE ARE ANY LARGE AWARDS IN THE REVENUE TO BE RECOMPETED

Krishna Sinha
Okay. And then just on your re-compete—10% of your revenue. You said that's come down a little bit as some of that re-compete has slipped to the right. Are there any particular awards in there that stand out as being outsized in that 10%?

John Mengucci
Krishna, no, I think we have traditionally looked at programs like Mega which were a very large dollar value re-compete. We had to re-compete for OPM during FY '17. We were highly successful there. But no, compared to other years, nothing that stands out on a high dollar value.

What we have seen, however, as we started FY '18, is there's been a higher material number of re-competes where the customer has pushed that out by another year. And I would just say, to your earlier question that will also impact the dollars of submitted bids in the next six months. Because as our re-compete work continues to be bridged, that will actually drive less re-compete bids out there.

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

QUESTIONS ON WHY DIRECT LABOR WAS DOWN IN THE QUARTER AND WHAT MIX OF OTHER DIRECT COSTS IS EXPECTED

Cai von Rumohr
Yes, thank you very much. So your direct labor as a percent was down in the quarter and your ODCs were up. Could you explain why the direct labor was down, and what kind of mix of ODCs do you anticipate for Fiscal '18?

John Mengucci
Yes, Cai. This is John. Thank you. Yes, it's true that both direct labor and our headcount declined a bit during FY '17. As we said in the past, direct labor is less important to our solutions business. So as we see our percentage of solutions business grow, that's going to lower the higher level requirements for direct labor.

What's also driven this more pronouncedly as we came on to '17, going into '18, where we had two large awards—one of those being JIDO—that were really contract consolidation contracts. And during the first, I think as we mentioned, the first two to four quarters are going to be much higher revenue based on subcontracted labor as the government consolidated some of those larger contracts to us first.

We also spoke that as JIDO continues to grow, we'll be looking at generating higher value, more CACI self-perform. And, as of this point, we've been successful on two task orders worth about $45 [million] to $50 million, which will be about 70% to 80% CACI DL.

So, all that said, direct labor is extremely important. We have a material component of our revenue is in the professional services area, and we have added an element of direct labor growth in certain areas to our incentive compensation plan to go for FY '18, because it is extremely important to the long-term growth of this company.

Operator
And the next question will come from Jon Raviv of Citi. Please go ahead.

QUESTION ON THE LOWER END OF THE FY18 GUIDANCE RANGE

Jon Raviv
Hi, good morning. Ken, could you just talk about—or Ken and Tom, or the group—can you just talk a little bit about the low end of sales and EPS range—the reiterated range? It implies a potentially flattish year on a sales growth and also EPS perspective. How should we differentiate between the low versus high end of guidance? What has to happen?

Ken Asbury
Yes, Jon, excuse me, are you talking about '18? This is Ken.

Jon Raviv
I'm sorry, yes, 2018.

Ken Asbury
Okay, fair enough. At this point, I'm not going to worry a great deal about '18. I think we've started off very well. As we talked about—we took a look at the way we finished '17, which was quite

strong—very happy with those results—and ‘18 starting out very well, as well, in terms of some of the new awards. However, I think the simple fact that we're waiting on a budget out of a brand new administration puts a little bit of pause in how that's going to work out. And we felt it was prudent six weeks into the quarter not to do anything with our range.

And so, really where we sit at now is a matter of timing. A little bit of outperformance in ‘17 is putting some pressure on the lower end of our ‘18 guidance. But we remain confident in the ‘18 guidance.

Tom Mutryn
Let me add to that, Jon. The way we develop our forecast is a very systematic in a process. So you had a program-by-program bottoms up. We use that process for our annual plan, and we refresh the forecast on a monthly basis. And based on the forecast that we have today, and those forecasts will change I'm sure, but based on the forecast we have today, that suggests that we should keep our guidance unchanged.

QUESTION ON WHAT DROVE THE PERFORMANCE IN FY17, WHAT TRENDED INTO FY18, AND IF HIGHER OTHER DIRECT COSTS WILL BE A HEADWIND

Jon Raviv
Thanks, and just as a follow-up, just speaking about our growth specifically. If you revisit some of the various tailwinds and headwinds on growth, remind us what drove the upside in FY ‘17 versus expectations and how some of those things trend into FY ‘18 and to what extent some of those higher material purchases might actually be a headwind.

Ken Asbury
You bet, so let's take ‘17 first, Jon. We had had a period—let's say over the '15-‘16 time period—where we really saw a change in behavior on a number of the big contracts that supported war-related activities. And we were finding that it was really almost ridiculous to try to predict what the behavior was going to be.

We obviously exited out of Iraq fundamentally at that time, in ‘14 and ‘15 or slightly earlier, and Afghanistan was winding down and then got to a steady state. And we saw a couple of things happen. You know, the last three months of President Obama's administration we saw the surge to go after ISIS. That provided an uplift on those contract because we were providing material support to allies and other forces to conduct those activities. Then we changed administrations and that increased even more.

And so how do we think that translates to '18? By the way, the other part of it—John answered in his question—was we won two major consolidation contracts, where customers took, in one case, 14 different contracts, put them together into one. The base of that contract represented the value of those 14. Then they put almost another $1 billion worth of options, or surge options on it, which we're starting to execute on now. So, by definition, we wouldn't have seen as much of direct labor group as a result of that but will measure that overtime as we see task orders come into the surge CLIN, We'll perform more of that work than we will have the consolidated subcontractors do.

So as I look at '18, the trend around world situation, I think, is going to be the same. We have modeled our direct labor group and our ODC group to be about the same. Right, Tom? A couple points better than ‘17.

What could change that? Honestly, if there was a conflict that can't be predicted, right now, that required a surge support of activity. That would probably have an impact on ODCs. I will tell you, without telling you anything until November, that we've already seen a number of key wins in areas that are impacted by a change in philosophy from a national security point of view that we can't talk about at this point in time, because they're recent wins, but that will add a significant amount of direct labor.

In terms of headwinds, we still have in certain areas the Washington DC area, there's competition for talent. The overall unemployment rate in the country is down pretty significantly. It's having an impact. Three years' worth of the Budget Control Act, and that kind of activity, has driven some talent out of the market making it—we got to increasingly roll our own, in terms of training people to do some of the jobs we have.

The clearance process issue—that's as an industry and an incoming administration is working pretty well to start to understand what some of the hold ups are on that. And we expect over a period of time to see some action taken to help that. But all those are the headwinds.

What are the tailwinds for this is—look, at every single budget that has come out of this administration—proposed or has been authorized in the NDAA and by the appropriators—and you see a great deal more funding. I believe the NDAA request was $38 billion more than what the President had asked for in his original budget back in, I think, June or July. How that gets played out remains to be seen, since that's just going to take some time to work it out.

What does all that say? It says that the world is not a safe place. Businesses that are in our business that are configured to be national security support organizations against that template of what's going on in the world will likely do quite well. We just have to get through what will be the machinations of how this budget activity plays out.

Operator
The next question comes from Edward Caso from Wells Fargo Securities. Please go ahead.

QUESTION ON WHETHER THERE WILL BE A GOVERNMENT SHUTDOWN AND IF CACI IS PREPARING FOR IT

Edward Caso
Hey good morning. I was trying to think of a question for Greg Bradford, but couldn't, so let me ask about your thoughts on a potential government shutdown. What are you hearing? How are you preparing in case that happens and what impact might it have? Thank you.

Ken Asbury
Hey, thanks for the question. I'll take a shot at that. I've seen probably the same things that are coming out of Professional Services Council that you have. I think David Berteau is right to put up a red flag, but I will say that for the last seven or eight years, at least the five years that I have been here or almost five, we have had our planning every single time that prepares us for a shutdown. The last one was, what '13, coincided with my first year, I don't know if that was coincidental or not.

But we executed a plan where we didn't lay off a single employee. We were able to recover a lot of our costs, we did have an impact at the end of the day, because not all of that was recoverable.

And I think, frankly, I read your note this morning where, on average, we might see a percent of revenue. If we saw that kind of deal, that would still have us growing organically for FY '18 at the high end of our guidance range.

So I worry about it. We don't need any more uncertainty. There's enough uncertainty in the world. And I hope that cooler heads will come together and make sure—that's why we've intimated that we believe that we'll start with the CR. I don't think anybody wins as a result of shutting down the government at this point.

QUESTION ON WHETHER THERE WERE ANY ADJUSTMENTS TO BACKLOG

Edward Caso
My other question is on your backlog. I assume you review it every quarter. Did you have more or less up or downward adjustments this quarter? Thanks.

Tom Mutryn
Yes, Ed, we do it every quarter, so we did have slightly more a downward adjustment to the backlog, approximately $500 million for the quarter. And I think people can back into that because we're giving backlog awards, revenue, and the adjustments. For the full year, the adjustments were approximately $1.4 billion. And so, we have a pretty diligent process going forward. We review all our programs and make sure that the backlog numbers are clean as they can be. So that's where we are.

Operator
The next question comes from Mark Jordan of Noble Capital Markets. Please go ahead.

QUESTION ON MANAGEMENT'S OUTLOOK FOR CAPITAL EXPENDITURES IN FY18 AND WHAT THE NEW NORMAL MIGHT BE

Mark Jordan
Good morning, gentlemen. First, a question on capex. In Fiscal '17 it went to $43.3 million, up from $20.8 [million]. I think the guidance in June was for $35 [million] to $40 million. Is that still the capex outlook? And what is it that you fundamentally started spending more on in '17? Looking out into '18, is $35 million to $40 million more of the new normal going forward?

Tom Mutryn
Yes. Thanks, Mark. This is Tom. In FY '17, we had the opportunity to do a pretty large facility consolidation. We had one building. We occupied a four-story building for a number of years and we were able to relinquish the lease of that building at the normal lease expiration date and we were able to take the folks in that building and put them into existing facilities. That necessitated us going to those existing facilities and doing somewhat of a complete redo of the facilities to make sure we had more efficient, effective, up-to-date office standards. And so that major relocation drove capital spending in FY '17.

In FY '18 the higher facility expense will drive the capex. What we have in our pipeline, in our expectations, is that we're going to win some relatively large pieces of new business. Those new business pieces will require employees to work at CACI locations.

And over time, we've squeezed our footprint down such that we don't have surplus space to that level to accommodate the additional work. And so as we get additional work we will need to make those necessary investments in facilities and that is the driver.

Mark Jordan
Beyond '18, do you expect those types of expenditures to be recurring or do you see a reversion back down to the $20 [million] to $30 million range?

Tom Mutryn
Yes I would say I hope to see those types of expenditures in the future because that is indicative of us winning business and having to staff business at CACI facilities. It's a little bit too early to say, but I think the fact that we're a larger company than we used to be will drive an ambient level of capital expense higher than it used to be to $15 million range, perhaps it's the $20 - $25 million range and on top of that we'll overlay additional facility expenses.

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

QUESTION ON WHAT GROWTH COULD BE ACHIEVED IF THERE WERE NOT GOING TO BE A CONTINUING RESOLUTION AS THE GOVERNMENT'S FY18 BEGINS

Robert Spingarn
Good morning. So Ken, this may be a little redundant, but back to the sales growth. Given that it's flattish at the low end for the year, if we don't have a CR, are you saying you could be about high end without a CR? And that's the question. What does a no CR environment look like for growth? And at what point do you think you can outgrow the market by the 1% to 4% that you've been talking about, just given that O&Ms already up 4% in '17 and much higher in '18?

Ken Asbury
Great question. So our assumptions around this work this way. When we planned our addressable market in '16, we started looking. And in June of year before last, we had our Investor Day and we talked about establishing something where we could grow 1% to 4% higher than we saw in the addressable market. What I believe is being laid out to happen is we will continue to see 1 to 1.25 CAGR in the very near-term, such as through '18, because it's simply going to be too hard.

I'll give you an example. When we got out of the CR and they added, what, $18 million as a result of the omnibus in June of this year I think—or excuse me, maybe it was earlier in April—we had a lot of our customers complain that they were getting too much money and they didn't have the acquisition authority to put it on contract. And I think it's going to—with more money coming into the system, particularly into O&M, it's still going to take some time for the acquisition machine on the government side to get that placed on contract. And they'll do it in certain expedient ways where they find ceiling value on certain contracts and we've seen that. We've seen a lot of adaptation to that money coming in. In other words, we've seen faster determinations on certain jobs and we've been the beneficiary of that already here in '18. So I think '18 stays at that 1% to 4%. So I would tell you I'm still comfortable with our original guidance range. The downside of that is we get some form of shutdown, or that's really prolonged, and that could obviously have an impact on everybody in the industry.

But, Rob, looking forward, I think we'll start to see budgets, or addressable market growth, that are going to be in the 3% to 4%, maybe in the out years 5%, based on some of the modeling that we've seen and then our guidance regarding that is going to change dramatically. We'll still look at 1% to 4%, but if I'm starting with 3% addressable market growth, my bottom line expectation of my team is going to be 4%.

Robert Spingarn
Ken, what I was going to ask you is, I think what you're saying is '18 is an exception to the rule because of the CR and some of the natural headwinds because of your tougher comps, but your fiscal '19 would be the first year that the dynamic you're forecasting would hold true.

Ken Asbury
If all the moons and stars and everything else aligned up, like the eclipse on Monday, and we manage to get an appropriated budget with the amounts that everybody could agree to earlier, then I think we would see the opportunity. It'll take some time. It'll take some time for that money to make its way in.

I do think, in the national security space, we are going to see an increasing budget, period. I just think it's tempered now by a new administration that is trying to get its real first budget in place, and is trying to figure out what does it take to legislate that. And their learning curve is high at the moment and will get better overtime. Does that help?

QUESTION ON ORGANIC GROWTH OF THE SIX3 AND NSS ACQUISITIONS

Robert Spingarn
It does. And I just have a quick one for Tom if I'm still here. Tom, just on NSS and on Six3, just some sense of what the organic growth is there.

Tom Mutryn
I'll go back to Six3, we did the acquisition quite a while ago and it's fully integrated into our business. And so we have ceased even attempting to track it, or even ask that question. And I think for NSS, again, a similar situation, fully integrated business. The businesses are performing well, but we do not do that level of tracking.

John Mengucci
Yes, Rob, this is John. When we brought NSS in two market areas that was crucial to Enterprise IT, our Intel Services business and shortly after we closed on that in February, we quickly moved those programs and that entire pipeline into the core CACI market. So that's a real tough measure for us to actually carve back out NSS in those two markets.

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

QUESTIONS ON WHAT IMPACTED MARGINS IN FY17 AND WHAT ARE THE DRIVERS FOR MARGINS IN FY18

Sheila Kahyaoglu
Hi, good morning all, thanks for taking my question. Just the first one on margins, they were slightly underwhelming given just the better top line which came in much better than I thought. What else impacted profitability aside from 20 bps of higher of relative expense? And as we head into 2018 what are the drivers we should be thinking of on EBIT margins?

Ken Asbury

Sure, so Tom went through some of the expenses—LTIP and then what we wrote down on facilities. The other part of it was we were very successful in winning a couple very large consolidation contracts, one at that end of '16, one at the beginning of '17. Those contributed a great deal of revenue, not a great deal of bottom line.

Let me say it this way. Our estimate for '17 was to be about 7%. I think if we didn't have the two items that Tom talked about—the facility charge as well as the LTIP—we would have been approximately 7%.

As we ramp up on the two consolidation contracts, which are very large, we will start to see increasing CACI participation in those as those options get exercised, and we will see that will, in and of itself, pull up our margin.

Third, I would tell you that, you'll see an increasing component, over time—a little slower at the moment—but we've held our own in terms of where our fixed price levels have been. We should see that increase over a period of time. We have a number of very key bids that will convert from level of effort, cost plus level of effort, to fixed price in a managed service kind of way—sometime about the middle part of this year. So that contribution, over time, will also be driving a higher gross margin and higher profitability.

QUESTION ON WHAT DROVE DoD REVENUE GROWTH AND THE DECLINE IN FEDERAL CIVILIAN REVENUE

Sheila Kahyaoglu
Great, thank you. And then one more if I may. Your DoD revenues in the quarter were up 5% and Civil was down 2%. I know Civil has been strong up until now, but maybe can you talk about some of the drivers of the lift and the decline within the civil business?

Tom Mutryn
Yes, good, this is Tom. Yes civil was down a bit, there's a number of different agencies within the civil bucket, DHS, Department of State, the CIA is a civilian agency. So there's no singular contractor piece of work which is driving that. It's a series of puts and takes throughout that in a subset of some of the customers we serve. So in our minds the distinction between civil and DoD is a bit artificial, although we do report them.

At the end of the day, our focus is on national security. A lot of the civil work we do is focused on National Security as well as helping the government to be more effective and efficient, business systems, EIT, across the entire government enterprise.

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

QUESTION ON THE IMPACT OF ADVANCED TECHNOLOGIES ON CONTRACTS BEING OFFERED FOR BID BY THE US GOVERNMENT

Joseph Vafi
Hey, guys, good morning. Just one question for me today. I was just wondering, at a high level, if you could discuss how new advanced technologies, like cloud and perhaps other internet technologies, are changing some of the contracts that you're seeing coming out of the DoD and out of the civilian side in terms of structure, in terms of how the contracts are going to be serviced,

or any other notable characteristics these new technologies are bringing to the contract environment. Thanks.

Ken Asbury
Yes, Joe. This is Ken. If we take cloud—cloud really takes the onus off the customer of having to own infrastructure. They can concentrate then on—we get somebody else that's building cloud infrastructure and deploying that worldwide. They do that in a much more efficient, scalable, economy of scale basis. Then, the organizations that used to spend a heck a lot of time managing that, managing their networks, managing all those other things, then get to focus on what the value-added propositions are of having that virtualized environment that they can work on. So, they then focus on their apps, they then focus on their data science.

And to be frank, we then do not have to depend on short-term or mid-term, I should say, changes in technology in order to drive that. You got a technology base—all that's going to be done by an outside provider. And pretty soon you become the person that helps the customer as a systems integrator like CACI is and some of our competi-mates, we have the mission knowledge then to take that lower cost of ownership and turn it into a lot more value.

As you think about it, this is a fun topic, I don't know how much time we have, but if you think about where we're going, not just with cloud but let's talk about the Internet of Things now. It used to be that we'd spend a fortune on building exquisite sensors and exquisite platforms to carry those sensors. And then we'd spend less money on the front-end processing of the information that was coming out. We'd only be able to get a partial look at what data was being collected, because we could collect so much. Now we're going to collect almost an infinite amount more.

And all our processing power now can be virtualized. If somebody else can do that, you don't have to spend any money doing it. You spend all your time on mining, turning that data into information that then does your enterprise, whatever it is your mission may be. And so that's obviously the exciting part of that.

I think what we'll see—in our own world, the things that we're concentrating on now—we have some exciting stuff is when we used to put sensor systems on a ship. Now we can do it with a radio. We can basically do it in software. And so I think increasingly doing things on any piece of hardware, as long as it's got reasonable capacity, is going to benefit by advanced software capabilities.

And so modernization of our capabilities is not going to be dependent on building a new piece of hardware or something else but simply writing some pretty slick code that takes advantage of existing processing power or even a different way of doing it.

We saw a demonstration just a few weeks ago where our guys were using machine learning on a particular intelligence problem. And by the time they were done, over the course of a couple months, we were predicting what a bad guy was going to do by simply what their patterns of life were. Instead of waiting for them to do something and then try to go back and figure out what they did, now we can predict what they're going to do based on their patterns of behavior. And I think that is going to be a very powerful tool for our national security going forward.

So sorry I could go on and on but I will stop.

Joseph Vafi
Thanks, it was helpful.

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

QUESTION ON THE AVERAGE PERIOD OF PERFORMANCE OF RECENT CONTRACT AWARDS

Kwan Kim
Hi, this is Kwan Kim on for Tobey, thank you for taking my questions. First off, what is the average duration of recent contract awards and has it lengthened at all recently? Thank you.

Ken Asbury
Kwan, I don't think we have the exact number, but I could tell you that when we were back in '12 and
'13, excuse me '13 and '14 we were seeing some very short-term contract behavior. We think that's more normalized now. We've seen a number, in fact we won a couple of seven- and eight-year contracts here recently. And there's a couple of other ones that are in our future that are ten-year. So I think that with a little bit more understanding about how we were going to budgets and the like, in learning how to work with the Budget Control Act, we've seen contract terms somewhat lengthen out.

John Mengucci
This is John. I'll add also that when we were going through Better Buying Power 1.0 and 2.0 in our professional services work, those contracts were being awarded, they were being re-competed on a much more rapid scale. We're now seeing those periods start to go back to the three- to five-year period, which has been very positive for us. It does tie into some of our comments earlier around getting a quicker handle on some of our re-compete revenue.

QUESTION ON WHAT THE GROWTH OF CACI'S ADDRESSABLE MARKET WAS IN FY17 AND FOR THE MOST RECENT QUARTER

Kwan Kim
Got it, that's helpful. And secondly, sorry if I missed this, what was CACI's addressable market growth in fiscal '17 and the most recent quarter?

Ken Asbury
So from '16 to '17 I believe it was about 1.1% at the addressable market line and over a five-year average which is what we based our thinking on, our '17 plan on. We saw about a 1.4% CAGR over a five-year period starting in '16.

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

QUESTION ON THE CHANGING LANDSCAPE OF BUSINESS DEVELOPMENT

Brian Ruttenbur
Yes, thank you very much. Major competition seems to be ramping up their business development departments. It doesn't seem to impact you guys yet with your strong bookings. But

can you talk about that—what you're seeing on the competitive landscape? Anything changing? We've seen Agility, KYW—I can go down through the list—everybody seems to be reshaping, hiring, focusing on growth. You guys seem to have led the way on that. Can you talk a little about the changing landscape that you see out there in the bidding activity?

Ken Asbury
Well, I think there were different sorts of strategies that people took when we saw the decline in the budget, and one of them was get to incredibly low cost and cut out everything. And what we decided to do was invest in good companies, and pay decent dollars, more to position for the future and invest a great deal in our business development organization. Because the only thing that's going to get you out of a downturn—and we can go back to the downturn in '90, '91, where people either bought companies or invested aggressively in business development. That was at the prime level. And the ones that did the best at that, they came out, when the budget started to turn up, they did a lot better.

That was basically our predicate for when we entered into '13: really be strong at business development; look for enduring contracts; hire the absolute right kind of talent; stop going to rubber chicken dinners thinking that was marketing; and really concentrating on what do customers want and when do they want it, how do they want it. So that's been the key to our success, and we expect the market to be competitive.

I also expect the market to be bigger, and so I don't know how that's going to even out. I do believe as well, Brian, that we'll continue to see some consolidation in the market. So there might not be as many players as time goes on. So less players, bigger market, great business development engine, I like where we are.

Brian Ruttenbur
Thank you.

Operator
The next question is a follow-up from Jon Raviv of Citi. Please go ahead.

QUESTION ON THE OTHER LARGE OPPORTUNITY IN THE PIPELINE THAT WAS PREVIOUSLY MENTIONED

Jon Raviv
Hey, thanks for taking the follow-up. John, could you just update us on the other large opportunity, I think you flagged on the previous call? Still see that coming in January, February timeframe?

John Mengucci
Yes Jon, the last information we have from that customer is we're looking for a January to February work date. That has not changed. I would tell you, I expect to see that anywhere between the December timeframe and the March timeframe.

Jon Raviv
And can you just give us sense for the kind of work that it is, solution, consolidation related to new priorities by this administration? What kind of stuff is it?

John Mengucci
Yes. So it would be in our enterprise IT market, more around moving from traditional help desk

support more into a managed-services type of arrangement.

Operator
The next question comes from Cai von Rumohr of Cowen and Company. Please go ahead.

QUESTION ON THE POSSIBILITY OF THE OPERATING MARGIN EXPANSION IN FY18 BEING AT THE UPPER END OF THE 10% - 30% RANGE

Cai von Rumohr
Yes, thank you very much, guys. So, historically your gross margin has varied inversely with ODC. When ODCs go up, gross margin goes down. And you've had two years with ODCs going up as a percent of COGs, particularly this last year. I believe you said that ODCs would be stable next year as a percent. And then we don't have the drag of the LTIP charge. And I think you mentioned the bids converting to fixed price presumably should be more profitable. What's the opportunity that your EBIT margin could be at the top of your up 10% to 30% range, or perhaps a little bit higher?

Tom Mutryn
Yes, Cai, I think the observations you point out are good observations. ODCs, given the contract structure that we have, often come in as lower profitability than direct labor. This year in FY '18 we're expecting DL and ODC to grow comparable rates, and hence that drives the margin guidance that we put out there—or the implicit margin guidance that we put out there.

What would drive it higher is our ability to drive more direct labor proportionately. John mentioned the importance of direct labor and our focus on direct labor. John also mentioned a few other important areas, fixed price, products, etc.

John, anything you want to add to that?

John Mengucci
Yes, I think the other element to this, Cai, is we've talked about professional services, talked about managed services. You heard us talk about solutions, and you heard us talk about contract types, trying to move more from cost plus to fixed price. I think some news I received in the last a couple of weeks is rather exciting as well, which is with this current administration providing the SecDef with the authorities to protect DoD bases from drone incursions.

So if you think about our large suite of electronic warfare products and solutions, and you think about defending CONUS-based DoD installations from drone incursions, we believe that we'll see an additional uptick in our product-based business as well, which as you know build it once, make some software definable changes. We can address many more customer needs on a much more rapid basis and at materially higher margins. So we would expect throughout 2018 and beyond, as we grow our product line in the EW area, that would also tend to drive us towards the higher end.

Ken Asbury
Yes, Cai. If I could just add real quick. I think that over time a business like this, that's focused on solutions and services, should be approaching low double-digit margins, if it were optimally configured. And that's going to take one or two really incredible programs where we're going to take a little bit of risk. But the reward is going to be there, and that begins to add to the overall

portfolio and that's the path that we find ourselves on.

QUESTION ON IMPACT OF THE JIDO CONTRACT ON MARGINS DURING FY18

Cai von Rumohr
Just one follow-up. I think, John, you mentioned JIDO would be front-end loaded in terms of ODC-related work. Should we expect the pattern of quarterly results in the year to have higher ODC growth and therefore a little margin pressure early on in the year and then better margins as we get to the second half?

John Mengucci
Yes, Cai, if we look specifically at JIDO, we'll see those pretty much normalize throughout FY '18. I think I mentioned earlier we were successful at putting a couple of new task orders on there, which will drive higher margin on that work. But the proportion of how much initial contract consolidation work still far exceeds what it is we're doing on the task order basis. I would say through FY '18, sort of I think Tom used the term ambient—more of a level over the course of the year.

Tom Mutryn
Yes, but that being said, we expect to have a slight drift up in margin from the beginning of the year to the end of the year. Then, on top of that, we have our award fees layered on those, and some seasonality layered on those as well, so those are the patterns.

Operator
The next question is a follow-up from Krishna Sinha of Vertical Research Partners. Please go ahead.

QUESTION ON THE M&A PIPELINE AND PARTICULAR AREAS OF INTEREST

Krishna Sinha
Hi, I just wanted to ask on your M&A pipeline. Are there any particular focus areas of customer sets you're trying to build through acquisition as you go forward? I know in the past you've mentioned DevOps and space and a few other things. Is there anything you're seeing out there that you're interested in and what the timeline looks like for maybe a new acquisition?

Ken Asbury
Yes Krishna, this is Ken. Since we've gone to market alignment, we really developed each one of the strategies to look for ways to fill gaps in terms of capability about where we think that particular market is going. I mentioned in one of my answers I speak to one of the questions, talked about what we will do with machine learning and things of that nature.

In general, we're going to look for things that are technologically differentiating. There's a number of key companies out there, not necessarily large, that have some pretty remarkable technologies that we think could be applied over a broader scale. And they, themselves, need companies such as us that have broad reach and broad customer channels that would allow that to happen more quickly.

In particular, I wouldn't expect us to go buy something for the sake of just adding to growth, because now that we've returned to organic growth, that's our number one priority. The kind of acquisitions that we will make, and in terms of timing, that depends. It really depends on when we could find the right kind of cultural fit, financial fit, and make sure that we vetted each of those companies appropriately. I wouldn't be surprised for us to make a series, or a couple of small ones, sometime in the FY '18 timeframe.

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

CLOSING REMARKS

Ken Asbury
Well, thanks, Carrie. And thanks for all your help today on the call. We would like to thank everyone who dialed in or logged on to the webcast for their participation as well. We know that many of you will have follow-up questions and Tom Mutryn, Dave Dragics and Dan Leckburg are available for calls later this morning and throughout the day.

So thank you for your interest in CACI International. This concludes our call. Have a very good day.

Operator
The conference is now concluded. Thank you for attending today's presentation. You may now disconnect your lines. Have a great day.

END