CACI INTERNATIONAL INC
First Quarter FY19 Conference Call

PRESENTATION

Operator
Ladies and gentlemen, thank you for standing by. Welcome to the CACI International First Quarter Fiscal Year of 2019 Earnings Conference Call. Today's call is being recorded. At this time, all lines are in a listen-only mode. Later, we will announce the opportunity for questions and instructions will be given at that time. If you should need any assistance during this call, please press star then zero and someone will help you.

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

INTRODUCTION AND SAFEHARBOR STATEMENT

Dan Leckburg
Thank you, Andrea, and good morning, everyone. I'm Dan Leckburg, Senior Vice President of Investor Relations for CACI International, and we appreciate you joining us on the call this morning. As is our practice, we are providing presentation slides.

So, let's move to slide 2 please. About our written and oral disclosures and commentary. There will be statements on 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 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 described in the company's Securities and Exchange Commission 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 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.

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

CEO OVERVIEW

Ken Asbury
Well, thank you, Dan, and good morning to everyone. Thank you for joining us to discuss our Fiscal Year 2019 first quarter results. With me this morning are John Mengucci, our Chief Operating Officer; Tom Mutryn, our Chief Financial Officer; DeEtte Gray, the President of US Operations; and Greg Bradford, President of CACI Limited, who is joining us from the UK.

Please turn to slide 4 in your decks please. Last evening, we released our first quarter earnings for Fiscal Year 2019 and raised earning guidance for the full year. We delivered record revenue, net income, and earnings per share. We also won $2.5 billion of contract awards with nearly 60% of that for business new to CACI, including several large solution awards that John will cover in a few minutes.

Our increase to net income guidance reflects strong operational performance and a lower tax rate. First quarter results provide an excellent start to our Fiscal 2019. And our expectations looking forward reinforce our confidence in CACI strategy and ability to deliver organic revenue growth, margin expansion, and shareholder value.

Turn to slide 5, please. I am very pleased by the passage of the two most recent appropriations bills. They passed with bipartisan support and cover a significant amount of the government's discretionary spending. In fact, over three quarters of the nearly $1.3 trillion to be appropriated in the current government fiscal year was already signed into law. That amount includes appropriations for the Department of Defense, military construction and Veterans Affairs. This is quite a positive result for us and the rest of our industry.

And with that as a backdrop, I am confident in our prospects within our addressable market. The government's current national security priorities continue to reflect a long-term commitment to investing in war fighting, intelligence, and homeland security capabilities, as well as modernization of systems and infrastructure. All of this aligns very well with the capabilities of CACI.

Turn to slide 6 please. We continue to invest in talent and capabilities. We're providing additional benefits, training, and certification for our team members. Our R&D efforts are focused on emerging technologies that can be leveraged to differentiate our solutions in bids for future work. M&A remains our priority for capital deployment. And we are pursuing quality companies and contracts that add new customers and fill capability gaps across our addressable market.

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

FINANCIAL OVERVIEW

Tom Mutryn
Yes. Thank you, Ken, and good morning, everyone.

Please turn to slide 7. Our first quarter revenue was $1.2 billion, 7.4 % greater than last year, with organic growth at 3.3%, the seventh consecutive organic growth quarter.

Pre-tax income for the quarter was up 62%, or $35 million, driven by organic and acquired growth, strong program performance, and meaningful cost controls, as well as three timing-related items.

- First, we realized a greater percentage of our annual award fees in the first quarter of this year than in prior years due to our adoption of the new revenue recognition accounting standards.
- Second, certain product sales occurred in the first quarter earlier than anticipated, which added to profitability.
- And third, we realized benefits related to changes in estimates associated with the fixed-price contract which would otherwise had been realized in subsequent periods. These three items increased first quarter profit by around $18 million with corresponding reductions in latter quarters.

Slide 8 please. Net income for the quarter was $79 million, up around 88%, driven by the factors that contributed to pre-tax income and by a lower tax rate. The largest driver of the lower tax rate is the accounting related to stock compensation. The difference between accounting expense at award date and the actual expense at vesting created a larger tax deduction. For those awards vesting in September, our stock prices at grant date were in the $80 range compared to the $190 range at vesting. This resulted in $4 million of tax deductions greater than planned.

Another tax benefit of $2 million was due to the final determination of the transition tax on foreign cumulative income associated with recent tax legislation. And $2 million of lower taxes was driven by the favorable impact of the corporate-owned life insurance policies, disaster relief credits, and deductions associated with executive compensation.

Turn to slide 9. We generated $83 million of operating cash flow for the quarter and we ended the quarter with net debt to trailing 12 months EBITDA at 2.3 times. Days sales outstanding was at 67 days, which excludes the Navy Systems Engineering acquisition, as we are still analyzing the AR closing balance sheet account.

Beginning in July, we have transitioned a number of billing and collection activities to the Shared Services Center. The higher than normal DSO was due to both that transaction activity as well as normal fluctuations in collections. And we are confident we will bring DSO back to normalized levels during the year.

We adopted ASC 606, the new revenue recognition accounting standard, on July 1. The two significant changes for us are the treatment of award fees and the deferral of sales-tied bonus expense over the life of the related contract. In addition to reporting our results under the new standard, we will disclose in our Form 10-Q how much each financial statement line item was affected by the new standard.

Slide 10, please. As Ken mentioned, we are raising Fiscal Year 2019 net income and earnings per share guidance, given the strong first quarter performance and our expectations for the rest of the year. We now expect net income to be between $250 million and $260 million. Midpoint to midpoint, this is an increase of $16 million, with around $6 million coming from better operating performance and the rest from lower taxes. The comparison of FY 2019 to FY 2018 GAAP net income is complicated by the recent tax reform legislation. To that end, we have provided a table in our earnings release, which is just FY 2018 assuming the legislation was in effect for the full year to help with comparisons.

Let me note two items to keep in mind when comparing the remainder of the year to the same period last year. In Fiscal Year 2018, we disclosed $12 million of net tax benefits, which were one-time in nature. And second, I earlier noted $18 million of pre-tax items, which normally would be realized in the remainder of FY 2019, but which were recognized in quarter one. Adjusting for these two items provides a better picture of the underlying earnings growth in quarters two through four. And lastly, we are increasing our operating cash flow expectations to be at least $240 million [*see corrected statement to $340 million below*].

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

OPERATIONS OVERVIEW

John Mengucci
Thanks, Tom. Let's go to slide 11, please. I'm extremely pleased with our team's ability to deliver such strong operational performance in the first quarter. Revenue growth was driven by new business wins, plus ups to existing programs, and acquired revenue. As Tom mentioned, we were able to accelerate several profit drivers into the first quarter. Program performance was also very strong, and our acquisition of the Navy Systems Engineering business contributed, as expected, levels of revenue and pre-tax profit. This all reflects CACI's culture of operational excellence and our team's ability to deliver efficiently.

Turning to contract awards, we won a record $2.5 billion during the quarter, with about 60% of that new business to CACI. Our total backlog now stands at $13 billion, 17.5% greater than this time last year and amounts to almost three years of revenue at our current run rate.

In addition, we saw strong contract funding orders of nearly $1.7 billion as the government closed out its fiscal year with robust dollars, which they placed on contract in a very timely manner, increased our funded backlog by 18.2% greater than this time last year.

During the quarter, we received several large solutions-based contract awards in the market areas we highlighted during our initial guidance call.

- In our intelligence systems market, a $413 million award with the US Army to support and upgrade TROJAN STRONG systems that provide intelligence collection and dissemination, access to signals intelligence, and information in near real-time,
- and a $162 million contract with the Army that includes developing and integrating technical solutions into mission command platforms, again giving Army and joint force commanders better tools for battlespace awareness.
- In Enterprise IT market, we won a $194 million contract with the Transportation Security Administration. We will be optimizing TSA's enterprise IT infrastructure, strengthening the cybersecurity posture, and engineer and integrate platforms and technology in support of TSA's current and future plans. The contract was awarded to CACI during our June quarter, protested and resolved in our favor during the September quarter.
- And last, in our Health market, we're helping to innovate in the field of defense health with a $135 million recompete award to upgrade a legacy medical logistics IT system. This will integrate current systems into a single environment and support additional migration to the cloud.

These awards reflect our ability to win both new and recompete business. I give our team great credit for winning large enduring programs to support our customers' important missions.

Our Shared Services Center, which opened in July, is performing very nicely. We are already realizing cost savings that have been invested back into people initiatives and technical capabilities. The center was also integral in the rapid integration of our recently acquired Navy Systems Engineering business.

Speaking about that acquisition, the organization has a fantastic cultural match with a similar commitment to customer mission and quality. It is fully integrated with no disruption to contract deliveries. And during the quarter, this business won several new and recompete awards.

Slide 12 please. As Ken noted, we continue to invest in high-end capabilities to differentiate CACI's offerings. One area is in the electronic warfare space, where we are developing open architecture solutions to disrupt current technologies. Specifically, we have developed an Advanced RF Exploitation System called ARES, which is transforming how our customers approach the convergence of signals intelligence, electronic warfare, and cyber. Because signal threats change so quickly, we saw a need to build a fully open architecture that allows developers the ability to refine technologies and develop techniques against adversarial signals as fast as they are identified. This is directly in line with customer requests around delivering more lethality in an agile manner, with increased speed to the field, getting new capabilities out to end users quicker than ever before.

Slide 13, please. Looking at the remainder of Fiscal Year 2019, our forward indicators are healthy. Revenue composition stands at 92% existing business, 4% recompete, and 4% new. Our pipeline of opportunities is strong, with submitted bids pending award at $8.9 billion with over 60% of those for new business to CACI. We expect to submit another $11 billion over the next two quarters, again with more than 60% of those for new business.

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

CEO CLOSING REMARKS

Ken Asbury
Well, thank you, John and Tom. I appreciate your comments this morning.

Let's all turn to slide 14 please. In closing, I'm encouraged by our prospects, both near and long-term. We are investing in key areas of growth. We are winning business across our addressable market with a focus on solution and fixed-price contracts. Our operations organization is delivering with quality and profitability. We generate significant levels of cash and are deploying that capital to accelerate growth through M&A. The bottom line is our strategy is working, and we remain focused on driving long-term shareholder value.

Before we open the call up for questions, I'd like to say how incredibly proud I am of our employees. Their talent, innovation and commitment to our customers is outstanding. Thank you, all.

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

QUESTIONS AND ANSWERS

Operator
Question and answer instructions.

And our first question will come from Edward Caso of Wells Fargo. Please go ahead.

QUESTIONS ON CACI'S ORGANIC GROWTH AND THE GROWTH OF CACI'S ADDRESSABLE MARKET

Edward Caso
Yes. Good morning and congrats on the great trend here. Can you talk about organic growth—what the number is, what the trends are? And following on that, do you see a higher bogie for the market? I think you've talked 1% to 4% over the market. But it seems like the market is rising. So, is that 3%-is organic? Are you in line with the market now or do you think you're actually above it? Thank you.

Ken Asbury
Yes, Ed. Thank you for the question. This is Ken. When we laid out our five-year addressable market look at the beginning of FY 2019—the way we saw money flowing into the elements of our addressable market—we thought the baseline was about 2% to 2.5%. So, we're roughly 1% above that. We see that rising as we head into FY 2020 and 2021, just given the nature of the way we saw money going into the addressable market on a line item by line item basis. So, I think we're looking good there.

I think there's opportunities to accelerate that. A lot of this money has come in pretty fresh and new and fast into the procurement organizations. We've seen a lot of on-contract growth opportunity. Over time, I believe that will turn into solid, long-term enduring procurements.

So, I have expectations that we will continue to drive higher levels of organic growth. Then if I take the indicators of how we did in the first quarter by what our capture rates were—normally we talk about our capture rates in a spectrum of about 30% to 50% for all work that we pursue. We were at the higher end of that. And, in fact, actually over the higher end of that for the first quarter.

That's one point. That's one point, but if we continue that trend, we could see additional organic growth.

Tom Mutryn
And let me just add a point, which is not relevant to your question. When I was talking about operating cash flow, I believe I misspoke in the script. I said we were expecting $240 million. The number is $340 million of operating cash flow, just to correct that misspeaking.

Edward Caso
Thank you.

Ken Asbury
You're welcome.

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

QUESTION ON THE FUTURE PACE OF CACI'S PRODUCT SALES

Krishna Sinha
Hi. Thanks. Tom, I think you mentioned some products sales were pulled forward into the first quarter, that you were expecting to be spread out over some more quarters. Can you just talk about your product sales cadence overall in the near-term outlook—say in the next 12 months to 18 months, and what the prospect is for growing that business, the product business?

Tom Mutryn
Yes. Thank you. Just allow me to turn that over to John. Product sales are definitionally more lumpy. It's becoming an important part of our business from a profit perspective, but John has more commentary on this.

John Mengucci
Yes, sure. So, when we think about our solutions business and now, more specifically, products that we would deliver, we're really focused on EW, SIGINT, and cyber. Today, we're only speaking about the SkyTracker product. The SkyTracker product was actually derivative of something, some work we've been doing for years with our intelligence customer.

Most of our products today are delivered to special units and our intel community customers which, Krishna, is really why it is tough for us to discuss specific offerings and the like. But what we are seeing is that the requirements are growing. As my prepared remarks mentioned, as the threat signatures change, our customers are looking for rapid change. And we're very proud that CACI has become one of the select number of companies that our customers are coming to for such solutions.

Between the end of last year and the end of our first quarter, we had very strong presence at both AUSA and at the AFCEA events. And, for those of you who were there, you would have seen in our CACI booth a wide spectrum of different product offerings we're doing today and those that will be there in the future.

What our customers are really looking for--and we've listened—over the last three years of technology investments: agility, speed delivery to the field, software definable, fixed price, short cycle deliveries, and, frankly, willingness to invest in solutions that do address their most difficult needs. That investment thesis within CACI started about five years back, when we did the acquisition of Six3. We've been picking up smaller string of pearl-type companies that we haven't talked a lot about. But they have exquisite capabilities.

As for how that will roll out, we would expect to see the number of products and the earnings and the revenue from those grow over the 18 months. Both the Army and the Navy are looking for ways of getting solutions out to the field faster. And we're extremely proud that we've been investing over the last five years, making certain that we were one of those companies that would both help our customers and as well as support our shareholders.

Ken Asbury
Yes, Krishna, this is Ken. I think to take this up a bit as well—as John mentioned, a lot of our special customers have been buying these products, but they haven't necessarily been in the hands of the main services at this point, largely because the laws governing their use were not enabled. There needed to be determinations about how you use certain capabilities that were developed. And much of that has now passed into law, which creates a far more favorable environment for people to explore using some of these tools.

So, the recent passing of the NDAA gave us a lot of capabilities to defend Department of Defense activities. And then, in the FAA reauthorization bill, there was a great deal more authorities provided for these kinds of tools to be used on a domestic level. So, we expect to see that part of our business grow over a period of time. But it really required those things to help us get them in the hands of people that could use them.

QUESTION ON CACI'S ABILITY TO GROW IF FUTURE DEPARTMENT OF DEFENSE BUDGETS DO NOT INCREASE

Krishna Sinha
Okay. And then you did bring up the budget earlier, too. We did get a budget agreement this year on time. But now the Trump Administration has come out with some preliminary comments that they think that the budget should come down to about $700 billion—the Defense budget should come down to $700 billion. Can you talk about your ability to grow in an environment that's maybe shrinking? And can you talk about what you're hearing in terms of policy positions in the Trump Administration about what would be cut in a defense cut environment?

Ken Asbury
Well, I think the most recent comments—and thanks for the question, that's a really good one. I think it's healthy for all of us to review where we've come over the last three or four years. In 2017, we had a budget of $634 billion. 2018 was about $700 billion, and it was added like halfway through the year. So, it was sort of a difficult one. This year, we're looking at $716 billion, in that neighborhood, and I'm talking about just DoD plus OCO.

In 2020, there's two proposals that I've heard Deputy Secretary of Defense Shanahan talk about. He's talking about a $700 billion submission, and $733 billion submission. I can tell you the desire is to have the $733 billion but I think we're going to have to wait and see. Either way, we're not talking about that much of a haircut. Where it could have an impact is, I would suggest, more on the RDT&E side than it would happen on the readiness and O&M side of the business. But that's speculative. We have not seen—they're working on the FY 2020 POM cycle right now, and I think we'll know more as we get to the beginning of December.

I believe—as Tom mentioned earlier—for us, we returned to organic growth seven quarters ago as the budget was coming up. I still think a steady-state budget of $700 billion is a very healthy market, if that's where it ends up at. And we'll have to see what happens on the civilian side of the ledger as a result of Defense.

We know what happened in 2018 and 2019. There was sort of an agreement in order to get that done—agreement between both sides of Congress. We'll see what happens going forward but I don't see it as a real tailing off event. Some things may get stretched out longer. But for our world, the things that we're doing, where we're enabling near-time, short-term mission capability development, I think that's going to be a strong investment profile.

Krishna Sinha
That's great. Thank you.

Ken Asbury
You bet.

Operator

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

QUESTION ON THE PACE OF FUNDING DURING THE CURRENT QUARTER

Cai von Rumohr
Yes. Thank you very much. And good quarter. So, we're basically in a very strong—the September quarter was particularly strong. And you normally have a budget flush at the end of the quarter. But then the issue is that what about this year? Because we've heard that some of the agencies and services have the ability to kind of push some funding into the next year, which they don't usually have. So, maybe give us some color on what you're seeing for this first December quarter and sort of the general tone of the market. Thank you.

Ken Asbury
Well, Cai, in general, we do know that certain accounts were able to be pushed from one year to another, just because of the lateness of the way the Bipartisan Budget Act came into being. We saw in the September quarter very strong awards flow. And I think we've heard that across the industry. Thus far, we see a more regular scheduled sort of set of awards. It remains to be seen. We've won some nice things already in the December quarter, but we've got a couple more months to go to see how that entirely plays out.

It is for the first time—I think since 2010, where at least on the DoD side—we have the full appropriation and we're not under a CR. We are under a CR for other pieces of it. And so, whether that has an effect or whether they're able to work that out by December 7th that remains to be seen. But right now, we're happy with the deal flow. We're happy with our ability to have won the kinds of things that we've won. I think we've mentioned it, we've added about 60% new contract base to CACI. So, I hope that trend continues, but I've got one data point from the beginning of FY 2019.

QUESTION ON WHETHER THE PACE OF FUNDING IN THE CURRENT QUARTER WILL INCREASE

Cai von Rumohr
And in the quarter—the September quarter—your awards-to-sales were well above your 10-, 15-year average. But your funding-to-sales was kind of in line—actually a little bit below the average. Do you expect the funding to sales to pick up in the December quarter from—I think, historical is a little below 0.8? Thanks.

John Mengucci
Yes, Cai, this is John. I mean, I think the way we look at funding: very strong funding in the first quarter. It has more than funded what our incremental revenue growth is, as evidenced by the large increase in our funded backlog. I mean, we don't see any changes. There's full budgets out there and nothing that would impact quarter two through four revenue rates.

Cai von Rumohr
Okay. Thank you very much.

John Mengucci
You bet.

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

QUESTION ON PROGRESS TOWARDS FY19 PLANNED REVENUE AND IMPACT ON PROFITABILITY IF MORE THAN PLANNED NEW BUSINESS IS WON

Sheila Kahyaoglu
Good morning and nice quarter, guys.

Ken Asbury
Thank you, Sheila.

Tom Mutryn
Thanks.

Sheila Kahyaoglu
I was wondering, given the strong order book and run rate, can you remind us what percentage of revenue for 2019 is in the backlog at the moment? What percentage is recompete and still yet to win? And how we think about the profitability impact if there is a larger proportion of revenues from new contracts?

John Mengucci
Yes. Sheila, I guess when we started the year, I believe we were at 79% of our FY 2019 revenue was existing, or fully won and ready for us to go execute on. That's gone from 79% to 92%. We've got 4% of our FY 2019 revenue still to be won in the new business area and that equivalent amount in our recompete area.

When we look at our profitability—I guess I'll relate back to, as Ken mentioned, what the mix of our awards were for Q1. He mentioned that 60% of our awards were for new business, which is strong. But another point—given that we're market aligned—so that by being market aligned, it means very less—more or less to us whether it's a DoD or Fed, civil.

If we look at the award type, it is a function how we can grow the bottom line. 60% of our awards were for managed services or solutions. So, when we look at that mix of business that we have, both of those types of contracts tend to come with higher margins than some of the lower risk professional services engagements. So, if I look at the profit profile going out: a very strong performance in Q1; and very comfortable with the level of awards and a mix of those awards, both type and customer set; very well positioned to hit our bottom line growth numbers of between 10 to 30 basis points over FY 2018.

QUESTION ON WHO THE COMPETITION AND CUSTOMER IS FOR THE ARES AWARD

Sheila Kahyaoglu
Great. Thank you for the color. And then, just one on the ARES solution that you mentioned. Can you elaborate on maybe who you are competing with there? Is there a customer for that? Just if you could provide some more color?

John Mengucci
Okay. Yes. On our ARES product. So today, we are focused on deliveries to some of the Special Forces as well as the larger Army and the larger Navy. There's some competitive procurements

out there that have come up on the Navy side. So, I probably won't say too much on that.

But it suffices to say that the systems that are out there today, when there's time to modernize those, most of the folks in that field are looking at three-, to five-, to six-year large-scale cost-plus development. If you can relate back to the comments I made earlier—what our customers are looking for is more agility, a faster delivery path, all software definable—that's what ARES is about. We also strongly believe that there are smaller companies out there that have some unique algorithms that can help our war fighters in the EW area.

So, ARES is a platform that we can deliver, where we can bring other solutions in and immediately plug those in. So, in the Navy regard, instead of bringing the ship in to do a two- to three-month upgrade to go attack tomorrow's signals, we're able to have a platform where a lot of small companies—as well as yourself—can develop new algorithms and rapidly field those.

So, it's a real breakthrough type of deliverable. We'll have competitive procurements, and we'll continually look to shape the market and try to pull some of those down in a front-leading, sole source manner.

Sheila Kahyaoglu
Great. Thank you.

John Mengucci
Thanks. Thanks for the question.

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

QUESTION ON THE EBITDA MARGIN TARGET AND CACI'S ABILITY TO SUSTAIN EXPANDING THE EBITDA MARGIN

Jon Raviv
Hi, good morning, everyone.

Ken Asbury
Good morning, Jon.

Jon Raviv
Tom, could you just update us on the EBITDA margin target for FY 2019? I think you had previously talked about 9.1% to 9.2%. But your higher guidance obviously implies thinking a bit better than that. And then, just talk to how sustainable that upside is, going forward. I know, Ken, you've talked about low double-digit over time.

Tom Mutryn
Yes. Okay. Thanks, Jon. I'll start off with the short-term outlook. Last year, 2018, we had some one-time events, which I spoke about several different times. And so, in our mind, the normalized margin for FY 2018 was 9.0% in terms of EBITDA margin. And the goal was 10-to-30 basis points in excess of that. So, in FY 2019, we expect to hit that particular range.

We did increase the bottom end of our guidance range without increasing the top end, which would imply slightly higher margins. So, we should be around the 9.2% to 9.3% range, consistent with those 10-to-30 basis points improvements.

Ken Asbury
Yes, Jon. I get withering looks from Tom and John every time I talk about mid-double-digits. But, the truth is, the kind of work that we are aspiring to—and that we're incrementally putting ourselves in a position to deliver on—are things that drive higher margins. And how we manage that percentage of our business on a predictable, profitable growth basis is where it's going to get there. The time horizon is—it probably dependent on a few things: one, if we do it organically, it'll take us a number of years to be able to get to that EBITDA margin of 10%. We're not far away at this point. And at 10-to-30 basis points, you can do the math.

What's really, I think, important here is the strategy of the business is starting to really show itself. We could have gone out, and there is still a lot of services business that drives high top-line growth. But we chose to be more discriminating in this. The quality of each job is looked at to see how we can deliver on the long-term commitment of driving both top line and bottom line.

So, I'll accept a lower top line growth number. Still want to outpace what the addressable market growth is. But I don't want to do it and sacrifice what happens at the bottom line. And all of the things that John is talking about, and plus some things that we haven't talked about in a while—such as our analytics and visualization tool, which is just gaining huge adoption across a number of activities—is also part of feeding that 1 to 4 [percent] above addressable market top line growth and the 10-to-30 basis point bottom line.

QUESTION ON HOW LONG A FAVORABLE BUDGET ENVIRONMENT CAN LAST

Jon Raviv
Thank you. And then as a follow-up. There's obviously a lot of noise around the budget. I know Krishna asked about it. But let's just take the kind of money that you have so far that's going through the system. How much visibility do you think there is, just based on what we've had so far? Because it seems like calendar 2018 has actually gone exceptionally well from an industry perspective, having larger budgets done on time as well. So, what's your sense for how long that goodness takes to flow through the system? How much runway we have there?

Ken Asbury
Yes. So, I need to chunk it up to not talking about the budget but talking about inflection points for the Department of Defense. When you emerge from a declining budget environment and then decide that, all of a sudden, you're behind—which is where we find ourselves at the moment, and the entirety of our national defense and national security posture has shifted from almost a counterterrorism kind of mode back to a great power competition—those cycles in the past, looking at history, when you begin to emerge, and we're in our what—second year, maybe 2.5 years into the identification of that change in policy—those tend to last five-to- seven years.

And so, when we looked at our addressable market using external folks that really understand how these budgets play out, I understand the near-term rhetoric and things that are being said. And I don't know what is political. But, the fact is we are behind in two, maybe three, other nations in certain kinds of capability. And there is a very real, palpable concern on the part of the leadership of all the services and the joint activity of the Department of Defense and the Intelligence Community that we need to play catch up.

So, we'll see how things play out politically and that sort of thing. But the existential threat is a real one. I don't think it's contrived. And as the world has become a more dangerous place rather than less, I think we'll continue to see this cycle for quite some time. I also would point you to, and maybe it's not the right pointer, but this budget for the Department of Defense for FY 2019 was a bipartisan agreement. And I think there is a bipartisan recognition that we are in a weaker position than we have been historically.

John Mengucci
Ken, I might also add that more—and more specific, Jon, to CACI, back to how quickly the money is coming out, based on our Q1 funding orders. We didn't see any delays in getting funding to us on any of our new wins or with some of the additional scope they're putting on a lot of our solutions programs. And, that's just another indicator that we're in the right markets at the right time, solving the right national security issues.

Jon Raviv
Thanks, everyone, for your perspective.

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

QUESTION ON THE CURRENT PACE OF CACI'S M&A ACTIVITY

Joseph DeNardi
Yes. Good morning, everybody. Ken, you mentioned that capital deployment is the number one priority—or M&A is the number one priority from a capital deployment standpoint. I'm wondering if you can just talk about maybe what's held you back there at this point. Is it valuation primarily? Business overlap? Just being more specific in terms of what you're looking for. Just any commentary there. Thank you.

Ken Asbury
You bet, Joe. I don't think anything has held us back. I think we've made a couple of acquisitions already this year, or maybe three, if you include contracts.

So, I will tell you we're very discriminating and we have a very active process. As we've described before, when we went to a market-based strategy, part of how we strengthen each one of our market areas, and our ability to pursue and win business, is to use acquisitions as a way of building—either getting into new customers or acquiring some of the exquisite skills that John was describing before.

We have a lot of things that we look at, but we have to make sure that they fit our strategic premise. From a transformational point of view, we went after CSRA because we actually saw a wonderful strategy out of—the combination of us from both an enterprise to our mission capability as well as the broad variety of very, very neat business models that they had that generated much higher profitability than building cost plus. And to have had that in our stable with some of the technology that we are now developing, we felt was a very compelling thing.

But another thing I will point out—we're also very disciplined. It had to make financial sense. We took a couple bites at that. But when it looked like it was not going to be a financially decent return, we backed away.

And so, I will tell you that we were never going to buy sales for sales sake. We will execute on things that fulfill and make our market strategies better. And without being able to go into specifics, we're active as we speak, but you won't know until we tell you. And that's all I could say.

QUESTION ON THE 2020 FEDERAL GOVERNMENT BUDGET

Joseph DeNardi
Yes, that's helpful. And then, just another one on the budget. Obviously, there's a little bit of concern as to what spending looks like in FY 2020. But with a Democratic-controlled House, maybe the likelihood of getting rid of sequestration goes up. So, I'm wondering if you could just talk about the tradeoff between those two in terms of the impact on your business. Maybe a flattening of spending but a resolution longer term of sequestration.

Ken Asbury
Well, in raw numbers, we could go from current estimates of $700 billion to $730 billion. Let's just use DoD as an example. I think if the budget caps come back in 2020, we're talking about $563 billion. So that's obviously a humongous change for the entirety of the industry.

Without getting into the politics of it, we've been at this for 57 years and we've been through every single combination of change that is possible. I don't think just the simple change in perspective from one house of Congress to a different party is going to overwhelm the urgency at which the United States needs to reclaim certain intelligence and defensive capabilities. And it may be that it is a thing that even works better between the House and the Senate, because there can be strength on either side instead of one party holding it all.

I don't know. That's speculative. But, what I'm optimistic about is really smart people know that we have to invest more in order to make sure that our country is safe and that our allies are protected. I think that will be more important than simple partisan politics.

Joseph DeNardi
Thank you.

Ken Asbury
You're welcome.

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

QUESTION ON THE AMOUNT OF FIXED PRICE AND SOLUTIONS WORK IN THE ADDRESSABLE MARKET AND WHERE CACI RELATIVE TO THE MARKET

Tobey Sommer
Thanks. I wanted to get your perspective on a couple of things relative to your move to emphasize more fixed and solutions-based work. Where do you think the percentage of that kind of work is in the market right now that you serve, and where might it be in, kind of, three-to-five years? And if you could, compare and contrast those figures or estimates with where you sit with the company and where you hope to be in five years. Thanks.

John Mengucci
Yes. Tobey, thanks. So, given that we're in 12 markets, I believe, Tobey, when we did our 2019

guidance call, we tried to provide a little more transparency around where we saw growth. Because frankly, when we look at the measures that the SEC asked us to provide, like DoD, and Fed civil and commercial and cost plus and fixed price, it sort of clouds that.

During our guidance call, we did talk about our Intelligence Services market, our Intelligence Systems market, Business Systems, and Enterprise IT. And then, the next couple weeks, that was in our Logistics and Material Readiness area, and our Surveillance and Reconnaissance area. So, a little bit on what goes on within those markets.

In the Intelligence Services area, I think intel analysts—folks that help our customers turn data into knowledge and knowledge into courses of action. In the Intelligence Systems area, everything we talk about in the EW and in the Cyber domain—how do we find targets, whether they're electronic, whether they're fixed, whether they're mobile targets. How do we find them and how do we come up with ways to mitigate those threats. Business systems, think personnel, pay, supply chain type systems, which the government consistently refreshes, and then Enterprise IT clearly.

If we looked at our awards for the first quarter, the majority of our awards and a large percentage of our revenue came from those four areas. So, as Ken and Tom like to state, we're only one quarter in. But so far, what we shared with you all back in the early August time frame has played out.

If we look at growth, our growth is going to continually come from looking at larger programs, mostly in the solutions space and some of the managed services area. And if you look at the investments and the type of acquisitions that we've done, given the earlier question, we find ourselves, not by accident but actually by plan, where this nation needs help. Products will be in our Intel Systems area. Margins, we'd expect those to increase. But that's a long-term, long-play strategy for us.

So, I'd also tie in that—so the mix of fixed price and cost plus and although that changes from quarter-to-quarter, it's usually because programs came to an end or the customer changed the program type. But at the macro level, those are the four markets, Tobey, that we're really focused on. It's where the government is spending the majority of their uptick money, and it's also where this nation needs to improve.

QUESTION ON MANAGEMENT'S VIEW OF HOW QUICKLY THE SOLUTIONS WORK MARKET IS GROWING

Tobey Sommer
Thanks for all that color. I guess, I'm interested also, as a follow-up, to know how quickly do you think the market for solutions is growing as opposed to the company's ambitions for growth, which I understand are probably bigger than the market growth? Thank you.

Ken Asbury
This is Ken, Tobey. I think you have to look at—if you listen to the words of all the acquisition officials, and again using the Department of Defense, they need new capabilities faster than they ever were. They don't believe that they can depend on their normal acquisition system to be able to deliver those. They're going to use that to do it for planes, trains, and trucks and that sort of thing because they're used to being able to do that.

But in the world that we're talking about, the kind of solutions that we're dealing with, which involves signal collection—understanding what that signal does, understanding how you could mitigate whatever it is that that signal is doing—that is a world that's going to happen at a hell of a lot faster rate than what 5000.2 can get you from an acquisition point of view. So, we need to look at what the Navy is talking about—about using OTAs and rapid capability development. And that's replete through the Army as well. They need things now that they can put in the field.

John talked about being at AUSA and looking at one of our backpack portable RF 6 analytical systems. It was almost like people wanted to buy them right off of the showroom floor, and they had urgent and compelling needs to be able to do that. So, I think that part of the market and where we're sitting in it is—we're going to continue to see that grow. It'll still take a while.

There was a note last week, and I forget where it was that I read it, where the Air Force talked about buying satellites using other than OTA kind of capabilities, because they needed rapid prototypes and they needed to get them into space to test certain phenomenology. So that's where I think the forward indicators of where that solutions market is going to be headed.

John Mengucci
Yes, Tobey, to the last part of your question, acquisition leaders like Hondo Gert's on the Navy and his peers on the Army side, they are working as fast as they can move to get the acquisition tools that they have to be better placed against what the Navy and the Army are trying to buy.

Case in point, today, if you want to put a major modification to a ship to handle the EW threat, that is a DoD 5000, 3.5-year system requirement and a three-year delivery cycle. If you listen to Mr. Geurts and his peers, they're talking about 24-hour delivery cycles. So, I think that the acquisition community is catching up to that.

Do we have an insatiable appetite to deliver solutions and products? Yes. We also have a customer who has that same level of insatiable desire to get them. I think the acquisition systems are coming around to that.

We, as a company, have gotten outstanding—what I would say, outstanding—ink over the last two quarters as we look to shape how the government can buy those. And the more agile and nimble we are—agile and being nimble is not defined by scale, it's defined by having top notch folks, having built our products and our solutions portfolio through well-planned out M&As, as Ken mentioned. So, we believe that those two curves will, within the next 12-to-24 months, cross.

Tobey Sommer
Thank you very much.

John Mengucci
You're welcome.

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

QUESTION ON THE INCREASED AMOUNT OF BIDS CACI WILL BE SUBMITTING

Joseph Vafi
Hi, guys. Good morning. Great results. It sounds the amount of bids that you intend to submit

here is going to ramp pretty materially. Is that a function of more RFPs in the market? A broader net that you're casting? Perhaps more product RFPs in the mix? Or maybe renewals? Just some color on where that ramp in submitted bids is coming from.

John Mengucci
Yes. Joe, thanks. This is John. I think as we've mentioned, and as Ken's leadership has been driving us to, bid less, win more, and bid larger. So, when we talk about dollar value, in reality, the number of bids we have is actually less as we move forward because the dollar values are such that they support both top and bottom line growth. Over time, we'd like to clearly see us more in the solutions space. I mentioned on an earlier question, four of those markets, some of those four are in our list of awaiting awards in the next six months and waiting to be bid.

A nice statistic that we take a look at is—and our recompete data, which is responsible for about 40% of our awards. As a measure to show where we've come as a company, the recompetes we have in our bids contain only 6% managed services or solutions. And if you think through that, that's another indicator of the advantage that these types of programs are for us. They recompete far less often. So, the fact that we have a very small percentage of recompetes in those two areas that help drive top and bottom line growth, it means less B&P funds being spent on those recompetes. And what we like most is far more going towards winning new business and winning larger ones. And in those four markets that I mentioned, we're very well poised and looking forward to the next six-to-nine months.

QUESTION ON WHETHER OTHER DIRECT COSTS WERE A HEADWIND OR TAILWIND TO REVENUE IN THE SECOND QUARTER

Joseph Vafi
Great. And then, maybe just a quick one for Tom. Were ODCs a headwind or tailwind to the top line in the quarter? Thanks a lot.

Tom Mutryn
Yes. Thanks, Joe. The variables, as we're in the year, gets into the new business. We have approximately 4% of our new business to be won and executed. And, to the extent that we're more successful in increasing our win rates and there's less protest and we can start that work quicker, certainly adds to profitability and revenue. And the converse is true if things slow down a bit, or we're not quite as successful.

On-contract quota is important for us—growing existing programs, converting sub labor to CACI labor—those are the major variables. Then there's always the unknown unknowns. As we position ourselves to have an array of products and capabilities, there's the upside potential for government customers looking for quick reaction capability solutions to take advantage of the offerings that we have, which would provide some upside to revenue and profitability.

Joseph A. Vafi
Thanks, Tom.

Tom Mutryn
Sure.

Joseph Vafi
Thanks, everyone. Good results.

Ken Asbury
Thank you, Joe.

Operator
Our next question comes from Josh Sullivan of Seaport Global. Please go ahead.

QUESTION ON CACI'S SOFTWARE CAPABILITIES AS THEY RELATE TO DEPARTMENT OF DEFENSE NEEDS

Josh Sullivan
Good morning.

Ken Asbury
Good morning.

Josh Sullivan
You spent some time here talking about agile response. And we hear a lot of commentary from the defense industry as a whole about growing importance of software. Given it's a core competency of CACI, you've talked a little bit about ARES, analytics and visualization tools, how do you frame your total software exposure capabilities at this point?

John Mengucci
Yes. Josh, you mentioned a few what we're doing in machine learning and in AI. And we've been delivering those types of solutions to some of our Intel customers. And what we're doing internally is throughout our US Ops scene—really taking our algorithms and our knowledge and applying that to other data sets across all of our other markets.

When you take a look at software—software definable—I guess, I would say X--whether it's a radio, it's a device, it's a system--what makes us deep is the acquisition of Six3—our Six3 business in Austin that does direction finding and just some exquisite geolocation solutions. A large bench and very deep bench of digital signal processing engineers. They both have both an electrical engineering background and a software engineering background. So, the depth to which we have those skill sets, to be able to deliver almost anything software-defined, is going to be a differentiator. And, frankly, a disruptor to the traditional firms that are providing these types of products and solutions today. So, by having things more software definable, we're talking about less production facilities, of which we don't have very many. So that's not disruptive to us.

But it is where our customers need—our customers need to buy devices once and lay on as many mission-focused applications, if I can use that word, just as we buy our mobile devices today. And we can go out there and add applications to it for quite a long time. Imagine a world where every time you want to put a new app on your iPhone, you have to buy a new iPhone. That's not what this DoD and our intel customers need. I'd say our DHS customers, if you look at ICE and you look at those folks who are—their missions are defined by hours and days, not by years.

So, software and engineering skills here, deep. As Ken always says, we'd like to have another thousand of them. Yes. But we are actually able to keep up with the demand by being able to move our work into different cities that are outside of the national capital region. It allows us to find really great, great talent out there. It allows us to continue moving in this direction. So, a combination of what we've done on our recruiting, our hiring, our M&A program and our internal investments, as well as partnerships have us very well-positioned.

QUESTION ON HOW MUCH CONTRACTS PROCESSING WORK IS BEING DONE AT THE SHARED SERVICES CENTER

Josh Sullivan
Okay. Thank you for the detailed answer there. And then just as a follow up on the Shared Services Center, what percentage of your contracts have some form of operations running through the center at this point? Are you at a 100% capability? Or is there still some ramp there?

John Mengucci
Yes. Josh, thanks. I guess if we're talking about the Shared Services Center, first, I want to thank everyone at CACI who helped us with the transition and frankly made this transition possible. To think that we as a company went from an empty building in Oklahoma City on December 1st and we're there with about 250 or so people has been outstanding.

Since this is a Shared Services Center where we are providing, if I may, back office support to the entire company, which means every program gets something from that Shared Services Center. Today, about 75% of all of our transactional processes have been fully turned over to the Shared Services Center.

But as Tom mentioned, that hasn't been without its share of challenges. In the items such as invoicing and collections, we had some initial challenges there. But what was nice to see is that the teams worked through the last quarter. And we believe that we're getting through some of those initial startup pains.

And last, it's driving savings, which are really already being invested in our people, and growing capabilities. But it's safe to say that every one of our programs buys something. Today, we're not doing any on-contract work there. It's purely contracts, finance, some of our recruiting functions—

Tom Mutryn
Security processing.

John Mengucci
—yes, and our security processing—thank you, Tom—that are really a great support to all of our programs. But we're not doing any direct bill work from that center.

Josh Sullivan
Okay. Thank you.

Operator
Again, if you have a question, please press star then one. Our next question is a follow-up from Krishna Sinha of Vertical Research Partners. Please go ahead.

QUESTION ON JUST HOW LARGE CACI CAN GROW TO BE AND IF BEING LARGER MAKES IT MORE DIFFICULT TO GROW

Krishna Sinha
Hi. Thanks for taking the follow-up. So, I just want to talk about your broader strategy. You've

outlined M&A as a key driver. Obviously, you've done 70-plus deals in the corporate history. I'm trying to figure out if there is an upper limit to how large CACI can get. I mean, is there a point when the customer pushes back and says, you're too big, we don't want sole source services provider, one stop shop. We want to have 10 or 15 guys out there that we can go to. Or is that not the signal you're getting at all?

And as a sort of a follow-up to that. I mean, if you do get bigger, does it make it harder to grow as we've seen some of the larger peers that they've struggled with growth and winning enough awards to sort of feed the beast? I mean, is that something that you guys think about as you get bigger? Or do you feel like there's enough addressable market out there for you to continue to grow at a pretty steady clip if you do get bigger? Thanks.

Ken Asbury
Wow. Well, thank you for the question, Krishna. I don't know that there's an upper boundary to the size that we can get. I think it really depends on the strategy and what the opportunities are to do that.

Our first priority right now is to continue to accelerate our organic growth. We've been able to do that now for seven quarters. I mean, it was a tough period going through 2012, 2013, and 2014 when the market shifted. I loved the shift--I love the position that we find ourselves in now.

We've looked at a couple of things that could have gone transformational. There have been other transformational things that we might have peeked, but it didn't make sense with regard to our strategy. And so, we're always going to be strategy driven.

I think the one thing that has been consistent about where we're going is: we never look for the next shiny object unless that shiny object is already in our hands, and we can do something with it and make it more relevant to customers. And I think that's coinciding right now with this huge need on the part of our intelligence communities and our defense and homeland security customers for really being able to assess situations a lot faster than they could before and make decisions a lot faster than they could before. And that involves everything from weapon systems to how do we look at biometrics, and who is it that's in that caravan coming across different parts of the world?

And to us, the whole underpinning of our business and what we're doing with all of this is about decision making. Whether it is a human interfacing with a machine that has to be in the loop, or a machine making a decision—

We were talking about the Shared Services Center a moment ago. At some point in time, we see other processes going there that maybe these robotic process automation tools that help people do the job—that do this sort of the ticking and tying of numbers—and then we spend more time analyzing the implications of those numbers. And that's where we increased the value of the human content and let the machine do more things. Sorry, waxing a little poetically, but that's in our space.

That's what we're applying to a lot of our Intel solutions now. It's one thing to be able to identify a signal. But what if you could identify that signal and you could automatically tie that signal to what boat, plane, ground vehicle, human being carrying a particular capability. And then you geo-locate them. And then you decide whether you're in a defensive position or you need to do something on an offensive. Those are the kinds of things we see the future as. I don't know that there is a limit on where we can go to grow.

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

CEO CONCLUDING REMARKS

Ken Asbury
Well, thanks, Andrea. Thank you so much for your help today on the call. And we would like to thank everybody who logged onto the webcast for their participation as well. We know that many of you have follow-up questions and Tom Mutryn and Dan Leckburg are available for calls through the day or through the rest of the week.

This concludes our call. Thank you and have a very good day. And thank you so much for your interest in CACI.

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

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