CACI INTERNATIONAL INC
Moderator: Ken Asbury
October 27, 2016
8:30 AM ET

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the CACI International Q1 Fiscal Year '17 Conference Call. Today's call is being recorded. At this time all lines are in a listen-only mode. Later we will announce an opportunity for questions and instructions will be given at that time. [Operator Instructions] A special reminder to our media guests who are listening in, please remember that during the question-and-answer portion of the call, we are only taking questions from the analysts.

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

INTRODUCTION AND SAFEHARBOR STATEMENT

Dave Dragics: Thanks, Jason 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 number 2.

Now 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. Now 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. And our Safe Harbor statement is included on this exhibit and should be incorporated as part of any transcript of this call.

And I'd also like to point out that our presentation today will include discussion of non-GAAP financial measures, and these non-GAAP financial 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 number 3. And to open up our discussion this morning here is 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 CACI International's FY17 first quarter results.

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

Let's please turn to slide 4. I'm pleased with CACI's strong first quarter 2017 results. We won important new business, including larger, more complex solutions business, which is at the very heart of our long-term strategy. We delivered outstanding customer service and won a number of key and critical re-competes.

Our focus on M&A for growth continues to pay off with exceptional financial performance and strategic value from our National Security Solutions acquisition. We could not be more pleased with them joining our team. Our achievements this quarter reflect the value that CACI solutions and services provide to our government customers.

As our nation continues to face a broad spectrum of security threats, our customers increasingly rely on us to support them in responding to both enduring and rapidly-emerging challenges to global stability. Our first quarter awards demonstrate our success in doing so.

Let's turn to slide 5, please. While we won contracts in all of our market areas, we received a significant number of awards in intelligence systems and support, surveillance and reconnaissance, and communications. These are all areas in which the government is currently investing to enhance its capabilities and in which CACI is delivering innovation and value to those critical national security missions.

On that note, I'm happy to continue to note that this is the third consecutive quarter we have recorded more than $1 billion in awards, adding almost $2 billion awards this quarter. Across that $4.7 billion that we've done over the last three quarters in awards, 32% of that are for new business, which puts us in a great position for our work going forward. And that number does not include the re-compete win of our OPM work this quarter, which we expect will continue at its current revenue run rate during the next contract period. We are proud to continue supporting OPM as a trusted supplier.

Now, turning to the market environment, the government is operating under a current continuing resolution until December 9th. A full-year federal budget would provide better visibility and a more stable planning environment for our customers and for the entirety of industry.

Now that said, we remain confident in our long-term goals because of the diversity and resilience of our market-based strategy. Beginning in FY'18, we expect to grow revenue organically 1% to 4% above our addressable market. And for the addressable market, we see it expanding at about 1% to 1.5% on a compound annual growth rate over the next five years. In addition, we expect to expand profit margins by 10 to 30 basis points annually, as we continue to pursue high-value, enduring solutions business with a focus on firm fixed price work.

Now before I turn the call over to Tom, I want to reiterate the first quarter was a great start to our FY17 plan. However, one quarter does not drive the entire year. Our first quarter had some pull-aheads and one-time events that provided goodness. But we have additional re-compete and new business to win and we need to see how Congress handles the budget past December 9th. Our view is that a multiple, short-term CR environment would impact procurement activities and likely tamp down awards and funds flow. We hope that that doesn't happen. Based on our current forecast, reiterating our FY17 guidance is a prudent decision.

Now, let me ask Tom to share the details of our first quarter financials. Tom?

FINANCIAL OVERVIEW

Tom Mutryn: Yes. Thank you, Ken and good morning, everyone. Let's turn to slide number 6.

We are off to a strong start for the year. Revenue in the quarter was $1.07 billion and net income was $36.7 million, ahead of our plan and the expectations we spoke about on our August call. The results reflect continued strong operating performance and some positive activities that took place in the quarter.

Our revenue was up 30.5% year-over-year, driven by the $254 million revenue contribution of NSS. In addition, unplanned material purchases late in the quarter added to our revenue, driving the better-than-expected revenue performance. Organic revenue in the quarter was down 1.3%.

In terms of earnings, we had several contract actions which we expected to take place in our second quarter but which occurred in the first. And we have strong performance on a number of fixed-price programs, which also contributed to the strong earnings in the quarter.

Our tax rate benefited from the adoption of the new accounting rules related to share-based payments, gains from the change in value of our deferred compensation assets invested in corporate-owned life insurance policies, and the benefit of the work opportunities tax credit.

Slide 7, please. DSO or day sales outstanding were 59 days, a three-day improvement from the June quarter, reflective of our focus on cash generation.

We realized $58 million of operating cash flows in the quarter, or 157% of our net income, keeping us on pace to generate at least $240 million of operating cash flows in the year.

Net debt at the end of September was $1.3 billion and our net debt to trailing-12-month pro forma adjusted EBITDA leverage ratio is now at about 3.7 times.

Turning to our FY17 guidance, based on our first quarter results and our expectations for the rest of the year, we are reiterating our revenue and net income guidance. We are increasing our GAAP-diluted share count guidance as a result of the new share-based accounting rule, which reduced our GAAP tax expense and at the same time increased share count. The lower expected tax rate is reflective of the tax items I mentioned earlier in my remarks.

Now here is John to provide operational highlights, John?

OPERATIONS OVERVIEW

John Mengucci: Thanks, Tom. Let's go to slide 9, please. I, too, am very pleased with our performance this quarter. We won a considerable amount of new business while protecting our revenue base through re-compete wins. These awards and the successful resolution of key protests give us continued confidence in our full-year guidance.

Our backlog and pipeline remains very healthy and further validates our focus on mission-critical, enduring business, and delivering valued solutions and high-end services. As Tom mentioned, revenue in the quarter exceeded expectations, driven by unplanned material purchases requested by our customers.

As we have stated in the past, we do this type of purchasing as a service to the government when needed, and we are extremely happy to be in a position with the right contracts to serve our customers evolving mission requirements. We view this as an end of government fiscal year purchase that will not continue beyond the first quarter. Our higher than planned profit was due primarily to core CACI contract performance and the timing of the certain contract actions.

Slide 10, please. Turning to awards and funding, we continued to win business across all of our addressable markets. We won $1.9 billion in contract awards during the quarter, which as Ken mentioned, does not include any value for our award of the OPM re-compete since it is a multi-award IDIQ.

This still results in a trailing-12-months awards-over-revenue ratio of 1.3 times—very healthy. It's also important to note that two of our three protested awards, with a combined value of approximately $500 million, have been resolved in our favor as expected. The remaining $100 million award made in the June quarter of our fiscal 2016 is still under protest, although we do expect a similar positive outcome and no additional awards received in the first quarter of Fiscal 2017 have been protested.

Some of our key awards this quarter were a prime position on a $480 million multiple-award IDIQ contract for the Office of the Assistant Secretary of Defense for Special Operations and Low-Intensity Conflict supporting Counter-Narcotics and Global Threats. This contract represents new work for CACI in multiple market areas, primarily intelligence systems and support.

Five IDIQs, worth a combined ceiling value of approximately $495 million with a classified customer to provide intelligence systems and support, and on which CACI has already won more than $44 million in task orders.

And it's worth highlighting the successful resolution in our favor of CACI's award by the US Air Force of its $446 million contract to provide operations, maintenance, and sustainment for the consolidated Air Force Control Network or AFSCN, modifications, maintenance and operations contract called CAMMO. As we successfully implement this new program, we will expand the support we provide to command and control and large-scale global space systems sustainment programs.

We also booked more than $1.2 billion of contract funding orders in the quarter. The combination of awards and funding brings our combined backlog to $11.5 billion, 4.3% above our backlog at the end of Fiscal Year 2016. This not only positions us to achieve our FY17 guidance but also provides a long-term base of business as we look to future years.

Slide 11, please. Our revenue plan now consists of 90% existing business, 7% re-compete, and 3% new. And our opportunity pipeline remains strong with over $10.2 billion in pending contract awards, which about 80% is for new business to CACI. We also expect to submit another $16.8 billion over the next two quarters with 84% for new business.

Our market-based strategy is working and we are resolute on winning new business and delivering innovative and high-quality mission-critical solutions and services for our customers.

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

CEO CLOSING COMMENTS

Ken Asbury: Thank you, John. Thank you, Tom. I appreciate your comments. Let's turn to slide 12, please.

We started FY17 well. We delivered excellent financial results and we continue to build our backlog with the third consecutive quarter of awards above a $1 billion. And we reiterated our revenue and net income guidance for FY17.

CACI is focused on winning high-value solution business across each of our 11 market areas. And we look to the future with confidence in our strategy and in our supremely-talented employees who are committed to ensuring our customers succeed in all of their critical missions. I thank all 20,000 CACI employees for our success.

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

Operator: Thank you. [Operator Instructions] And our first question comes from Brian Kinstlinger from Maxim Group.

QUESTION ON NEW BUSINESS TRENDS AND HOW MANAGEMENT SEES FUTURE NEW BUSINESS AWARDS

Brian Kinstlinger: Great. Thanks. How are you? Nice quarter.

Ken Asbury: Thank you.

Brian Kinstlinger: My question—I've always asked about business from new awards—so you posted about $380 million in the quarter, and that was about flat year-over-year. And if we look at last year, new business awards were down. So, I guess my question is you're a bigger company. It seems like the pace of awards at industry wide are improving. So I'm curious if you could explain, or maybe give your thoughts on, the new business trends and maybe what's led to that decline, and maybe how you see the future with new business awards?

Ken Asbury: Yes, great question. First of all, I'm very pleased with—I think as you could tell from the call—we've set a record now over three quarters. We've never been at a $1 billion worth of overall awards, and particularly with 32%, 33% of all these awards, about $1.5 billion in the last three quarters being for business that is new to CACI. To me that's representative of the way that our strategies have been working in the marketplace.

As to first quarter, frankly, first quarter could have been a completely different number were it not for two weeks. CAMMO came in the latter part of the fourth quarter of FY16. We had actually thought that it might be in the first quarter. So, frankly that's a matter of timing.

But the important part of that is that we're winning and we're winning these larger jobs at a rate that I think is consistent with where we want to be in the future, particularly around the higher-value solutions business which, to be honest, they are harder, takes more time, takes a lot much longer endeavor in order to be successful at that kind of business.

But that's sort of the bigger picture. I'm going to ask John to give you a few more stats on how you might also be thinking about how new business gets added into CACI. So, John?

John Mengucci: Yes, sure. So, Brian, we always share numbers like bids we expect to submit in the next six months and pending awards. If we focus, specifically, on when we announced awards for the quarter—a little more transparency on what that number means—about 20% of our contract awards in the first quarter were clearly for what we've always talked about being new business. Another 35% of that total were for re-compete awards. So, about 55% of that is what those new and re-compete award categories traditionally are.

What we don't talk a lot about is 45% of the awards in the first quarter are driven by growth on existing business. So this is particularly noteworthy for us and very reflective of the quality and the customer relationships we have. When we look at that work, we internally talk about that as on-contract growth. But, frankly, as we all look at our awards numbers on a quarterly basis, we would consider that 45% work to be new because that is new to CACI. That is work that a customer could have put on anyone else's contract or the customer could have openly competed. And instead they made a decision to provide that new work to us.

So if we look at the $1.9 billion in the first quarter, all up, 65% of that would be considered new and 35% of that would be considered re-compete. And it's been that way for every quarter that we have shared that number. But we felt that it was probably time to be even more transparent as to what that awards number means.

QUESTION ON WHEN MANAGEMENT RECOGNIZED THE CAMMO AWARD

Brian Kinstlinger: Great. That's actually super helpful. I thought it was always new and expanded work, so that helps me out a lot. The CAMMO contract, was that recognized in fourth quarter bookings, and was it a new program? Or will it be recognized in Q2 in bookings?

Ken Asbury: No, it was recognized in fourth quarter in bookings. We went through the protest. The protest has been resolved and what you'll start to see now in the second quarter is the revenue ramp up as a result of the successful resolution of the protest.

And by the way I should tell you that that was—we thought the award might be late fourth quarter, early first quarter. We did plan the protest period into it. So the impact of the protest was thought of in our planning cycle. We plan for it to start in second quarter anyway.

John Mengucci: Yes. We have to be fully up and operational by November 23rd, and we are right on track for that.

Operator: Thank you. Our next question comes from Edward Caso from Wells Fargo.

QUESTION ON FACTORS UNDERLYING THE FIRST QUARTER PERFORMANCE

Ken Asbury: Good morning, Ed.

Edward Caso: Hi. Good morning. Tom, could you help us break down a little bit on outperformance in the quarter and how much was pulled forward? Obviously, you had suggested a very soft first fiscal quarter that came in tremendously well. So, how much was the pull-forward and how much was an upside? Help us with that?

Tom Mutryn: Yes. So, when we provided some color to the first quarter, we told the market that we expected net income to be below $30 million. We came in higher than that. You see the numbers in front of you. Ken and John and I spoke about it in a couple different events—some pull-forwards, some increases in underlying performance. I would say that, roughly speaking, the majority of that was pull-forward activity. The remaining part was probably one-time singular events.

There were some contract modifications where we were having ongoing discussions with our contracting officers about changing some rate structures, other arcane pieces to our business. We expected those to be resolved favorably in the second quarter. Some of them were resolved favorably in the first quarter, and some of those had some retroactive pieces to it. So some of the look-back was for several quarters, and so that drove some one-time events.

The other piece was we had some fixed price programs, and we do a very good job of managing fixed price programs. At the end of every accounting period, every month we true-up fixed price programs, look at the profitability of those. And we had some goodness associated with those fixed price programs.

QUESTION ON FINANCIAL LEVERAGE AND WHEN CACI WILL BECOME ACTIVE IN THE M&A MARKET

Edward Caso: My other question is on comfort level with financial leverage and at what point do you get back in the acquisition mode again? Maybe a sense of what the market is and what you are looking for out there in the market today? Thank you.

Ken Asbury: Yes. Thanks for the question. This is Ken. We consider ourselves to be a strategic integrator, and so we're always looking at what's going on in the market. Presently, I think we are at about 3.7 to 3.8 net-debt-to-EBITDA ratio. So there is not a lot of dry powder in the house. There are some things that are in the marketplace, and we continually look at them but that's just our normal course of business.

It is really important, I think, that as we have with our last couple of acquisitions, to talk a little bit about what is it that we're looking for when we go? We value strategic capabilities that we could see and access to new customers as a result of acquisitions. And they've got to play a long-term role in the growth of CACI in terms of getting us into areas. We don't want to buy sales. What we want to do is buy access to places where we think we could cross-sell or where we think we can expand, frankly expand, the number of markets that we support by getting into completely new areas where we have.

I think we're at a really good size today. So we're not playing this game right now to look at scale or to add revenue. We are looking to add areas where we believe the market is going to grow, such as we talked about in the acquisition of NSS. And I think as of the fourth quarter last year, it was better than 20% accretive for us and highly successful in terms of the people that it brought to us, the philosophies it brought to us, the scale and the entry points into some very key growing markets such as enterprise, IT, and intelligence systems.

We will do something again in the market. That's the third pillar of our overall strategy. But I couldn't tell you that I would do—I couldn't say anything about the timing of that right now.

Operator: Thank you. Next, we have Cai von Rumohr from Cowen and Company.

QUESTION ON MODELING OF THE FISCAL SECOND QUARTER AND BEYOND

Lucy Guo: This is Lucy calling in for Cai.

Ken Asbury: Hi, Lucy.

Lucy Guo: Hi. Follow-up on the question about the pull-forwards. Are those coming out of Q2, or spread through the rest of the year? And is it fair to assume that without the true-ups and some revenues being pulled forward that Q2 may be sequentially down from Q1?

Tom Mutryn: Yes. I will start off. The pull-forwards were generally from Q2. So, I think that's a fair assumption. As you know, we're reluctant to get into that habit of providing quarterly guidance. Every time I try to dip my toe in the water, I then get proved wrong. So I'm going to refrain from talking specifically about the second quarter guidance.

QUESTION ON THE INCREASED OTHER DIRECT COSTS IN THE FIRST QUARTER

Lucy Guo: And also—so a housekeeping—just on the other direct costs—that's about 54% of your COGS, costs of goods sold, that's slightly above your typical 50 percentage level. Is that all of the material buys that you spoke of that's one-time? Or is there anything else in that?

Tom Mutryn: Yes. Lucy, exactly right. It was due to those one-time material buys that both increased the revenue in the first quarter and also changed that ratio. We've been trending 50-50, and as you know in this quarter we had a slightly more ODCs in direct labor. That's not reflective of our direct labor base that's more reflective of a one-time material purchases.

Operator: Thank you. Next, we have Bill Loomis from Stifel.

QUESTION ON THE AWARDS RECORDED AS MODIFICATIONS

Bill Loomis: Hi. Thank you. Good morning. Good quarter.

Ken Asbury: Thank you.

Bill Loomis: First, just one clarification, the 45% of the new business contract wins that are business driven by growth in existing business, is that 45% the value of the incremental portion or is it the total contract value, including what you were doing plus the incremental portion?

John Mengucci: Yes, Bill. This is John. It's the incremental portion.

QUESTION ON THE FLOW OF WORK ON THE OPM CONTRACT

Bill Loomis: Okay. Good. And then on OPM, I know you don't like to talk specifics about it but can you help us on how you see task order flow, the visibility you have? You said the contracts going to--your task orders are running at the same run rate with the renewal. But how frequently are the task orders coming out for new jobs? How much visibility do you have over the next year on the work that you're doing on OPM?

John Mengucci: Yes, Bill, thanks. I guess first off, extremely proud that we were successful in this re-compete. It was our largest re-compete for FY17, and the team has done an outstanding job. I guess I will address two different pieces of this. First is, it's clear that the customer added two additional providers, and that's really so that we all collectively can get at this backlog issue, which has been out there for many, many years, and will continue to be a high level of background investigations.

Secondly, as we look at it, and as Ken mentioned, the award value for OPM re-compete numbers is zero. We only booked those awards as those task orders come in. Frankly, we receive new taskings each week. So as those come in, those are actually booked as incremental orders that will be considered re-compete business.

I think we shared couple quarters back we are north of a $100 million worth of revenue on an annual basis. That's about all we can say on that. We would expect that number to stay the same. It's not slightly greater based on the number of background investigators we're able to continue to attract. I think what's very important is that there's plenty of work to be done. So for those of you who were looking at OPM having two providers and now having four, that just means that more of the governments' backlog will be addressed sooner versus all of us receiving some smaller amount of the share.

Operator: Thank you. Our next question comes from Jon Raviv from Citi.

QUESTION ON REVENUE GROWTH OVER THE NEXT FEW QUARTERS AND THE IMPACT ON EBITDA MARGINS

Jon Raviv: Hey. Good morning. Thanks for taking the question.

Ken Asbury: Good morning, Jon.

Jon Raviv: Can you address sales growth linearity over coming quarters? This quarter seemed to be a little—looked to be down about 1% organic. How do you see that trending going forward, and how does that interplay with EBITDA margin as material purchases come off as mix improves?

Tom Mutryn: Thank you, Jon. This is Tom. So, we are providing annual guidance. And what we said previously based on the midpoint of guidance, we would expect our organic growth to be negative 5%, 5.5%. A nice quarter for us due to those one-time events. But we are keeping our guidance intact, and so therefore that organic growth guidance would be intact.

We expect to see some good improvements near the end of the year, particularly going to FY18, and FY18 is driven by some of the new business wins that Ken spoke about already, some that we anticipate. And so that's generally what the trends would look like without being very specific and, Ken, you may want to elaborate?

Ken Asbury: I think that was okay.

QUESTION ON WHAT GIVE MANAGEMENT CONFIDENCE IN BELIEVING CACI CAN GROW 1% - 4% GREATER THAN ITS ADDRESSABLE MARKET

Jon Raviv: That was good. And then talking about FY18, Ken, what gives you the confident on being able to outgrow the market by a 100 to 400 basis points? Is there a notion of how much more business or new business you have to go and get, or as far as you are concerned the vast majority of that is already in your backlog and in previously awarded vehicles?

Ken Asbury: Yes, Jon. Thanks for the question. So, honestly, I think the bigger impact to our business is we've been growing all along, but we've also been shrinking in certain parts of our business that have gone away. I used the example in our guidance call of a single contract vehicle that had revenues in the $840 million range in 2012 and about $75 million [now].

We are largely not planning on that business anymore. And now, we have a base of business that we know is more enduring. Not -- of course, as an example in the first quarter, we did see that contract come up with additional funding that wasn't in our plan. But that was consistent with rebasing that plan. And frankly, I'll take that goodness, and I'll give that support to that customer anytime of the day because that's what we do being a national security company.

But where the confidence comes from is three quarters of greater than a $1 billion [awards], the 32% in the last three quarters that we've done. I expect a stronger quarter, because of the way the contracts are laying out, in the second quarter that we may have ever had historically. We've got to win—we still have some additional business to win. But at the end of this year, once we get rid of the—once our plan takes into full effect, the reduction of those ODC pass-through work and replaces that with higher value solution and higher end services, that's where the confidence comes from.

And frankly, starting the way we have started first quarter, that does nothing but reinforce that the strategy that we put in place four years ago has been working. It's taken its time to do that but it really is a reflection of the newness of how customers are buying versus where we were positioned as a business three to four years ago.

Operator: Thank you. Our next question comes from Amit Singh from Jefferies.

QUESTION ON HOW MUCH OF THE REVENUE GROWTH IN FY18 AND BEYOND IS EXPECTED TO BE ORGANIC

Amit Singh: Hey guys. Thanks for taking my question. Just a follow-up on Fiscal ’18 guidance, you are projecting revenue growth of around 2% to 5.5%. So is that completely organic or you are baking into it potential M&A that might come along?

Ken Asbury: Amit, this is Ken. I will answer that part of it. That is a projection around organic growth. I mean the thing that we strive most on here at the company is returning to organic growth. It is—much of our senior incentive systems are based on that these days. If we acquire somebody, that will be in that mix. But we are really looking to come to the street. We saw the benefit in the first quarter of ’16—first and second quarter of ’16. We felt that we were there, but we weren’t quite ready yet. We think getting through ’17, redoing our plan in such a way that is reflective of the new solutions business, is really what’s going to drive that.

So if we acquired then we’d be growing more. We grew year-over-year 13%. So, we like that but that was acquired growth. Once we add organic growth to that, then I believe we will be hitting on all cylinders.

QUESTION ON WHY ORGANIC REVENUE GROWTH IS EXPECTED TO DECLINE IN FY17 BASED ON THE GUIDANCE PROVIDED

Amit Singh: Okay. Great. And just in this year, this quarter the organic revenues were down slightly more than 1%, but full year you are guiding negative 5% to 5.5%. But the commentary seems to suggest that things should improve as we move forward in the year. So if you could help explain why organic revenue growth will actually decline based on your guidance for the rest of the year?

Tom Mutryn: Yes. Amit, this is Tom. I will take that. When we provided our FY17 guidance, we spoke about a bridge from FY16 to FY17, some of the good things which would add to revenue, new business wins both from ’16 and ’17 and NSS and the like. But we also had some reductions, some headwinds associated with our reduced pass-through material purchases. A couple of re-competes, which were being commoditized, which we were unsuccessful with, part of a strategic strategy in a natural contract lifecycle. Those are such that they spread out differently among each quarter.

And so I think to your question, if we expect five-year decline for the full year, the first quarter was down 1%. Mathematically that suggests the other quarters are down greater than 5%, and those are concentrated more in the second and third quarter. As we get closer to the fourth quarter we expect to see some of those items I mentioned—the reduced pass-throughs, commoditized re-competes in the natural contract lifecycle—to abate. And so that should provide a little bit more color as to how we’re thinking about organic revenue by quarter.

Ken Asbury: Amit, this is Ken. I think it’s also useful in terms of executing our plan this year, as well as we did in the first quarter. There’s three more quarters to go, a little bit—we’re not sure what the headwinds would likely be as a result of the budget. There is also an election going on which I don’t know that that has that big of an impact But it could have an impact on how Congress and the administration in a lame-duck session tries to come to grips with what they do with a full-year budget. We hope that that happens.

But we still have 6% of our re-compete and 3% of our new business to go out and capture. We have a very strong pipeline. Based on the way we started first quarter, I’m confident that we will do that. But I don't want to be overly confident, given that there is a lot of runway. I’m never going to give up runway in front of me versus runway behind me. So, we continue to believe that reiterating guidance is a bit prudent at this point in time but that should be—we should know more about that by the end of the second quarter.

Operator: Next, we have Tobey Sommer from SunTrust.

QUESTIONS ON THE PACE OF AWARDS AFTER THE ELECTION AND ORGANIC REVENUE GROWTH IN FY18 AND BEYOND

Kwan Kim: Hi. This is Kwan coming for Tobey. Thanks for taking my question.

Ken Asbury: You bet.

Kwan Kim: Given the upcoming election and assuming the polls stay the way they are now, what are you anticipating in terms of any changes to the pace of contract awards? And if you could talk about your long-term organic growth beyond Fiscal 2018, that would be great, thank you.

Ken Asbury: So, predicting the election is not something that I'm going to—I've not been paid to do that like many others and so probably won't do that. But here is what I can tell you, generally, having been in this business for 33 years and been through a few of these. Typically, the first year you don't really see a great deal of impact. First year is really about whoever the winner is bringing on their staff, bringing on their team. And then you start to see a bit of the policy be played out in the second and third year, and that's what I would be looking to see.

In the general macro sense of the things that—we're being a national security business, I don't think that our election's going to solve anything on the global front. And so I've read an article recently that says you have everything else and every other industry in the world, the defense industry is probably going to be quite stable through this period of time because I don't see our election having an impact on the thought processes with some of the hotspots around the globe, at least not anywhere in the near-term.

As far as longer-term, I'm not ready to give FY19 to FY25 guidance quite yet. But I would tell you that in a stable environment, given that we have shifted away from a predominance or a certain part of a kind of business, such as the pass-through contracting, to more enduring value-added work, I think that's sustainable over a longer period of time. And business systems are going to need to be bought. Next-generation IT systems are going to need to be put in place.

The efficiency of government is going to continue be a very strong desire, and we are in the midst of all of that in addition to the things that we can't talk about because we have near-peer parity in a number of places that are government, in a classified sense it's going to continue to invest in very heavily. So, over the long run I believe once we hit—and once we get to FY18—the goals we have set for ourselves, I believe that is sustainable and I'd be looking to increase that slightly every single year.

Operator: Thank you. [Operator Instructions]. Our next question comes from Mark Jordan from Noble Financial.

QUESTION ON HOW MANAGEMENT PRIORITIZES THE CONTRACTS IT WILL BID AND THE NECESSARY RESOURCES TO GET A WIN

Mark Jordan: Good morning, gentlemen. Question relative to your backlog of submitted bids and what you are planning to put in the next two quarters. That totals about $27 billion. About $22 billion of that is new business by your numbers. I guess, one, my questions here is that's obviously a very large number, multiple questions around that. How do you prioritize what you're going after and is it possible to focus what you're going after and put more resources behind the bids to potentially increase your possibility of a successful conclusion?

Ken Asbury: Yes, Mark. Great question. And let me start by answering it this way. When we started adjusting the way we needed to address the changing market three to four years ago, we put in place a philosophy that said we needed to bid fewer, larger and more complex. And why, why was that? Well, we wanted to get away from the commoditized side of the business which was where that that short-cycle part of the business is—what becomes the bill payer in ‘13 and ‘14 in particular where we saw 10% declines in overall business.

So, we need to look at our size now. We are capable of competing for and winning any job of almost any size that is not a hardware procurement inside of the federal government. That could be IT. It could be the O&M of major complex enterprises, such we won with Air Force Satellite Control Network most recently. And so what you described is exactly that philosophy.

There is one very large bid. In fact, one of the changes we saw in our bidding from—in our bids to be submitted was a very large bid that we didn’t believe—after we did considerable work on it—that the customer was really serious about having something new happen. So we dropped it, and that was a $5 billion contract opportunity.

There was another one that we are pursuing, which shall remain nameless, that has a total value of about $8 billion over a seven or eight-year period, that will be submitted here in the next week. And that’s part of the business to be coming.

But what you described is we are putting more effort into a smaller number of larger contracts and starting much earlier. And it has taken some time to adjust to that, both culturally and, frankly, you’ve got to get in front of the customer with enough cycles that they see you as a serious potential supplier to them.

And that’s what I believe you have started to see with our $1 billion plus quarters, which typically we would have won on an annual basis. And then we would be $600 million or $700 million. Some of that gets acquired. Some of that is through acquisition but a lot of it is through we’re winning bigger jobs and performing on bigger jobs.

QUESTION AS TO WHETHER THE CURRENT BID AND PROPOSAL PROCESS COULD RESULT IN HIGHER GROWTH THAN THE STATED GOALS

Mark Jordan: Okay. I guess the final question related to that. As an outgrowth of that strategy as the process matures, if you have sort of unique or surprisingly positive outcomes, then you could be in a position where you could meaningfully surpassed that 1% to 4% organic growth in excess of market?

Ken Asbury: Yes. I mean, absolutely. And I have to tell you that in the private moments, when we’re talking about our business, that’s really what we want to target. But to be realistic and to not ski—at the front of our ski or over ski our skis I should say—we put out a range and we put it out rather modestly. That is our goal. Our goal always has to be to win everything that we bid. That’s probably statistically not possible but it certainly is a goal, and you get better by trying to achieve that goal.

Operator: Thank you. And that will conclude our question-and-answer session. I will now turn the call back to Ken Asbury for closing remarks.

CEO CLOSING REMARKS

Ken Asbury: Well, thanks, Jason, and thanks for 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 Daniel Leckburg are available for calls later this morning and today.

So this concludes our call. Thank you. Have a very good day and we really appreciate your interest in CACI. We will talk to you again soon. Thank you.

Operator: Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for your participation. You may now disconnect.

END

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