CACI INTERNATIONAL INC
FY19 Annual Guidance Conference Call

PRESENTATION

Operator
Ladies and gentlemen, thank you for standing by. Welcome to the CACI International Fiscal Year 2019 Guidance 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 Dave Dragics, Senior Vice President of Investor Relations for CACI International. Please go ahead, sir.

Dave Dragics
Thanks Andrea, 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 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.

I'd 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 and to open up our discussion this morning, here's Ken Asbury, President and Chief Executive Officer of CACI International. Ken?

CEO OVERVIEW

Ken Asbury
Well thank you, Dave, and good morning to everyone. Thanks for joining us to discuss our Fiscal

2019 guidance. With me this morning are John Mengucci, our Chief Operating Officer; Tom Mutryn, our Chief Financial Officer; DeEtte Gray, President of U.S. Operations; and Greg Bradford, President of CACI Limited, who is once again joining us from the UK.

Let's turn to slide 4, please. Last evening, we raised our net income guidance for Fiscal Year 2018 and provided our growth plan for FY2019. I'll provide more insight into next year's plan and the market environment as we look forward, John will cover the operational aspects of the plan, and Tom will give you the details of the financial outlook.

I'll start by saying that I really am pleased to once again raise net income guidance for Fiscal Year 2018. This record performance is a testament to the talent of our team, the strategy that we've put in place, and the focus on operational excellence that has driven such strong results all year long.

Our guidance for FY19 is based on a program by program bottom-up planning process, and it remains consistent with the key performance goals we have previously established: To grow organically 1% to 4% above our addressable market and to expand our margins 10 to 30 basis points annually. In fact, at the mid-point of our guide, we expect to generate 4.5% revenue growth, 3% of that is being organic. And our planned EBITDA margin is well within the 10 to 30 basis point commitment.

Our team is doing an exceptional job executing our market-based strategy, pursuing high-value solution business and delivering on programs with quality and efficiency. This drove organic revenue and margin expansion above our initial FY18 expectations and puts us in a great place to deliver even more in Fiscal 2019.

Let's turn to slide 5, please. Turning to the external environment, we remain optimistic, given the current government Fiscal Year 2018 appropriations and the budget agreement for Fiscal 2019. We are already seeing an uptick in awards in our June quarter and expect the same in September. In fact, the total discretionary budget is up about 6% in government Fiscal Year '18 compared to 2017. And government Fiscal Year '19 discretionary should be up an additional 3% compared to 2018.

Those additional dollars have a positive impact on our addressable market. In fact, we estimate our addressable market will grow from about 2% in 2019 and increase to a compound annual growth rate of about 3.7% thereafter. This, of course, assumes out-year discretionary growth rates on par with government Fiscal Year 2019, and continued investment in defense, national security, and modernization. Within this growing market, we remain focused on high-value solution content to drive predictable, profitable growth and value for our shareholders.

Let's turn to slide 6, please. The ability to deliver this differentiated growth is only possible with the right capabilities to solve our customers' most critical and difficult problems. To that end, we continue to invest in a number of areas:

- The first is people. We are investing in our overall employee experience through increases in benefits, professional development, work and time off flexibility to attract and retain top talent. I am very, very proud each time CACI is named a top workplace by our employees and in various publications, and we intend to continue that.

- Second, we are increasing our research and development investment in several unique technologies and solutions. John will elaborate on this shortly.

- The third is partnerships with companies such as Amazon Web Services, ServiceNow, and Salesforce to ensure our ability to provide customers with cutting edge commercial offerings in key areas of their modernizations.

- And lastly, we will continue to deploy capital for growth by adding capabilities and customers in strategic areas of our markets through transactions with the right financial returns we are accelerating growth.

This disciplined strategy has proven very effective, generating long-term revenue and profit growth and significant shareholder value; hence, it remains our top priority for capital deployment.

Before I turn the call over to John, I'd like to highlight our recent announcement that CACI has appointed Debora Plunkett to the Board of Directors. Debora brings extensive experience in national security, serving in senior leadership positions with the National Security Agency. She contributed to critical mission areas such as cyber security and information assurance and will be an excellent addition to our Board. Welcome, Debora.

With that, here's John to cover the operational content of our guidance. John?

OPERATIONS OVERVIEW

John Mengucci
Thanks, Ken, and good morning everyone. Turn to slide 7, please.

Our FY18 performance and FY19 guidance reflects the ongoing execution of our successful market-based strategy. We continue to see strong profit performance in our fiscal fourth quarter of 2018, driving the net income increase Ken has already mentioned. I'm extremely pleased with this team's ability to deliver organic revenue growth while at the same time expanding margins and that continues into Fiscal Year 2019.

Slide 8, please. Let's take a minute to talk to our Fiscal Year 2019 plan. First, we will exit Fiscal Year 2018 around the midpoint of our revenue guidance, which is $4.45 billion. On top of that, we expect about $300 million of revenue in Fiscal 2019 to come from growth on existing contracts and new business we won in FY18. For instance, our recent $407 million award to architect, engineer, and integrate advanced cyber security tools and processes for agencies within the Department of Homeland Security is an outstanding example of the type of large solution business we are pursuing and winning to generate growth. We also expect to add another $300 million from new business we plan to win in FY19. We are seeing strong demand in our business systems, enterprise IT, intelligence services, and intelligence systems market areas with increased solution and product content.

On the headwind side, as we do each year, we have natural program lifecycle reductions of about $470 million. These reductions occur as we deliver solutions, programs move from development to maintenance phases, or programs simply come to a natural end of life.

The net of these pluses and minuses drives our 3% expected organic revenue growth in Fiscal

2019. We also have a small amount of acquired revenue of about $70 million, which puts us at $4.65 billion, or 4.5% revenue growth over 2018.

In June, we acquired a classified enterprise IT contract. In addition to being financially accretive, it also provides an avenue of growth into a key intelligence customer and improves our probability of win on several other large enterprise IT contracts.

Slide 9, please. Fiscal Year 2019 forward indicators are very healthy. At the midpoint of our guidance, we expect 79% of our revenue will come from existing contracts, 14% from recompetes, and 7% from new business. We expect to close Fiscal Year 2018 with backlog around $11 billion, providing ample work to drive revenue in 2019 and beyond. Our pipeline metrics are also very healthy, with submitted bids pending award at $6.3 billion, about 60% of that for new business, and we expect to submit another $13.2 billion during the September and December quarters, again with about 60% of that for new business.

Slide 10, please. We're making excellent progress on our Shared Services Center in Oklahoma City. We hired an executive vice president and a Shared Services Officer, Tom Nesteruk, who brings considerable credentials and experience leading service centers supporting large organizations such as our own. And we are on schedule and budget to officially open the facility on July 1st.

As Ken mentioned, we continue to invest in emerging technologies and solutions. For instance, our electronic warfare team is addressing challenges in the electromagnetic spectrum as a war fighting domain, particularly in the area of counter unmanned aerial systems or UAS. As happens frequently, technological advancement has thus far outpaced policy in this area, so I am very encouraged by language of the current NDAA that provides authorities to DoD and other agencies to counter the drone threat and protect our facilities.

We also are seeing draft language in other appropriation bills that will allow additional agencies to protect and defend domestic critical infrastructure facilities and our nation's airspace. We are making investments in artificial intelligence and machine learning to leverage deep learning neural networks and increase the output of intelligence analysts. And we are applying robotic process automation, or RPA, to automate repeatable workloads both to our customers and internally within our Shared Services Center.

In closing, prospects for CACI are extremely positive. The team is executing our strategy and delivering organic revenue growth and margin expansion. We demonstrated that in Fiscal Year 2018, and we expect the same performance in 2019 and beyond.

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

FINANCIAL OVERVIEW

Tom Mutryn
Thank you, John, and good morning everyone. Let's move to slide 11.

As Ken and John mentioned, we are raising Fiscal Year 2018 net income guidance to reflect continued strong operational performance. We now expect full year of GAAP net income to be between $292 million and $297 million. The effective tax rate is down from prior guidance largely due to increases in pretax income. Adoption of tax reform created a large net tax credit of $85 million due to revaluation of the deferred tax liability partly offset by cumulative tax and foreign earnings. This fixed amount is now spread over a larger pretax base, impacting the effective tax rate.

Fiscal Year 2018 net income includes three one-time items related to tax reform. These are:

- the revaluation of our deferred tax liability, which added around $95 million of additional net income;
- tax on cumulative forward earnings which equals a reduction of around $10 million of net income,
- and the impact of a partial year of lower rates under the new tax law. If we had the lower rates for the full year, net income would have been around $18 million higher than reported.

These items total $67 million. Adjusting this amount out of our Fiscal Year of 2018 guidance brings the range to $225 million to $230 million. This allows for better comparisons to FY19.

Slide 12, please. Turning to Fiscal Year 2019, we expect revenue to be between $4.55 billion and $4.75 billion, and GAAP net income to be between $230 million and $240 million. Next slide, please.

Here are some additional details for FY19. We are driving significant indirect cost savings, which we are reinvesting back into the business through employee initiatives, R&D, and business development. The net effect is flat to slightly lower indirect spend compared to 2018. Depreciation and amortization is expected to be around $76 million. FY19 capital spending is forecast at $40 million to $45 million, including our investment in the Shared Service Center, which is expected to be between $6 million and $8 million of our total capital.

Net interest should be about $40 million. This reflects our recent expansion and amendment of our credit facilities. We extended the terms through June of 2023, increased the revolver size from $850 million to $1.1 billion, modified several covenants to provide more flexibility, and reduced our borrowing cost across the pricing grid by at least 25 basis points.

Lastly, we expect an effective tax rate of 25%.

Last quarter we netted $22 million of one-time nonrecurring profit benefits and $10 million of Shared Service Center costs. Subtracting these items from FY18 expense would result in a 30 basis-point improvement in margin in our Fiscal Year of 2019 at the midpoint.

Beginning July 1, 2018, we will be adopting ASC 606 to new revenue recognition accounting standards. The most significant change for us is the treatment of award fees. Instead of recognizing the award fees when they are realized, we will recognize a portioned amount of the expected award fee during the period of the performance. This will help smooth out our quarterly results.

With that, let me turn to call back to Ken.

CEO CLOSING COMMENTS

Ken Asbury
Well thank you, Tom and John. I appreciate your comments this morning. Let's all turn to slide 14, please.

Before we open the call up for questions, I'd like to reiterate a few key takeaways for this call. First, we are closing Fiscal Year 2018 very strong. We'll have more on that for you in August. Second, Fiscal 2019 continues the performance from Fiscal Year '18 with organic revenue growth and margin expansion well within our long-term commitments. And third, we continue to produce high levels of cash, giving us flexibility and capacity to pursue additional growth.

In closing, I want to thank CACI's employees for their innovation, their excellence, and their vigilance in supporting our customers' missions. The foundation of CACI's success is their talent and dedication backed by a great culture. With that, Andrea, let's open up the lines for questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. And our first question comes from Joseph DeNardi of Stifel. Please go ahead.

QUESTIONS ON COMPARING CACI REVENUE GROWTH WITH THE GOVERNMENT BUDGET GROWTH AND IF IT WILL ACCELERATE IN FY20

Joseph DeNardi
Good morning, and thank you for all the details. Very helpful. Just wondering if you can reconcile, I guess, the revenue growth guidance for next year to the budget growth and the plan to grow it 1% to 4% higher than the addressable market. First, is that organic or all in? And then, based on what the addressable market looks to be growing at over the next few years, should we expect the growth rate to accelerate in your FY20? Thank you.

Ken Asbury
Yeah Joe, this is Ken. Thanks for the question this morning.

Let's start this way. We talked about year-over-year growth in the discretionary budget. In 2017 to 2018, we saw about 6%, and in '18 to '19 pegged it at about 3%. When we look at the 12 markets that we serve, and we analyze that from a five-year FYDP planning cycle, we see the growth from '18 to '19 in our addressable markets start at about 2% and accelerate to about a five-year CAGR of 3.7 to 3.8 %.

Obviously, there are some assumptions in that about what happens beyond the bipartisan budget deal, which is really a two-year deal at this point, with some provisions for spending money in the out years. And the point, I think, that is important to make about that is when we see an upturn historically in defense spending, like we are right now, those cycles tend to last from about five to seven years. So, there is some historical precedence for projecting a longer term than the Bipartisan Budget Act. That gives you sort of the facts.

Our plan is we're going to grow 3% organically, 4.5% from '18 to '19 in total growth. We've got about $70 million of acquired growth that is in our plan.

And I will also add that we give a guidance range for a reason. And we end up always talking about the midpoint, and that's the midpoint measure for that. But within, we could have a plan that is much better or much worse. But we'll have a conversation about the midpoint.

Overall, I would say the budget is a great improvement to this in terms of stability and the like. And the second thing I would say about it, and John may want to add a little bit to this, is where we find ourselves positioned vis-à-vis the customer priorities and where the buying behavior is going to be is really favorable toward a lot of our solutions business, including the markets that John talked about that are hot hands right now. John, did you want to add a little bit more to that?

John Mengucci
Yeah, I guess from a market standpoint, Joe, as my prepared remarks mentioned, we're looking at Enterprise IT, Intel Systems and Services. In the Intel Systems area, think space-based, or electronic warfare, RF solutions—one of those systems in those large-scale solutions. There are government needs. In the Intel Services area, it's really growth in our intel analyst work, which is being highly augmented by the solutions we're creating via machine learning.

If we were looking at where the nation's spend is, I'll focus quickly on the EW area. I think I mentioned this last quarter. With DoD realizing that EW is an area that suffered from previous years' lack of investment, it's now increasingly important to the fight. Everything we do on the battlefield is in the electromagnetic spectrum.

We've been working on shaping minds and thoughts around those technologies that are required. And, very happy to report, in our FY19 plan—our FY19 plan does contain results of the work that we have been doing resulting in a couple of sole-source programs awarded solely to CACI. In addition, the current government budget shows material spending growth in this very important area. So, whether it's on the technology side or in the markets that we serve, we're very, very pleased with the 6% growth in the government budget, which is clearly driving our 4.5% overall revenue growth.

QUESTION ON HOW A RECENT CLASSIFIED CYBER CONTRACT WIN POSITIONS CACI TO WIN MORE WORK IN THAT AREA

Joseph DeNardi
Okay. Yeah, that's great. And John, you mentioned the classified cyber contract you guys won and how that positions you to win some more work there. Can you just quantify what that opportunity looks like, and how enthusiastic we should be about that opportunity?

John Mengucci
Yeah, well, we're extremely happy, Joe. So, some of the numbers, $407 million contract. It was a competitive award. We really called on the investments that we've made in the past around some of our unique cyber solutions. As you all know, we've done a couple of bolt-on, very small acquisitions over the last couple of years, one as late as last November, that really sharpened our cyber skills—and exactly those kinds of skills that our DHS customer needs.

We've often spoken about market-based strategies and how we fill gaps. We fill our gaps with investments. We fill them with acquisitions. We fill them with partnerships. And as Ken mentioned, our outstanding partnerships with both Amazon Web Services and a very unique cyber solutions company, Splunk, were very, very critical to us, bringing those commercial-type products together to exquisitely support this very important federal government customer.

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

QUESTIONS ON CACI'S USE OF STRATEGIC PARTNERSHIPS

Jon Raviv
Ok. Thanks, guys, for taking the questions. Hey, John, just on that topic of partnerships. Can you just talk a little bit more about what that enables? What is the value chain there? What does each side of the partnership do? And then also, should we not worry about some of those partners, for example, Amazon, not trying to get into more of the type of work that you all do? Thank you.

John Mengucci
Yeah, Jon. In general, as I just mentioned, we really look at building key partnership relationships. And about three or four years back, Ken and I and the individual who leads this area for us, Glenn Kurowski, talked about what type of partnership model does CACI want? We voted on not having the 140 logo-type relationship. We actually voted on very key partnerships where that partner was investing in us and we were investing in them.

And what I think differentiates us is our partnerships with companies like Splunk, like ServiceNow. We are a systems integrator. We do pull from the commercial market, deliver the federal government the best solutions that we can put together. But we really look for very solid relationships there.

If we think about AWS and where the cloud's going, I don't think it's a stretch to say that within the next couple of years, 70% of the kind of work that we do is going to touch that cloud in some way, shape, or form. The cloud is being used across all 12 of our markets. We were just named a Premier Level partner with AWS. That allows us even greater pricing. That allows us even better training, and early insight and ability to shape where Amazon drives that cloud further.

To your question about do I see partners taking over our market? Well, we've said in the past, CACI is a mission solutions, mission services company. So, we uniquely understand the missions that our customers serve.

And to the extent that we can use enterprise-wide, commercial suppliers and partners to allow us to enable our mission solutions. To allow us to put those on the cloud and generate even better revenue and better margins offering things as a service (TaaS). that's that 1+1=3 power of the partners that CACI has.

QUESTIONS ON WHAT CACI PAID FOR THE CLASSIFIED ENTERPRISE IT CONTRACT AND CACI'S M&A STRATEGY GOING FORWARD

Jon Raviv
Got it. Thank you. And on M&A, just two quick things. Just—can you confirm what you paid for that $70 million worth of business? Or whatever the size of that contract purchase was? And

also, just give us an update on your appetite for something more transformative. Tom mentioned that you had introduced some more flexibility into your covenant. Just give us an update on what you're seeing in the market today. Thank you.

Tom Mutryn
Yes, so in terms of the contract we purchased, the purchase price was approximately $25 million. You'll see that in our Statement of Operating, or investment, Cash Flows for the full year. And in terms of the bigger question, Ken, you probably have some thoughts.

Ken Asbury
Well, Jon, as usual, I'll give you, since I saw you a few weeks ago, the same answer. Our primary goal is to invest our capital to grow ourselves organically and through acquisition. We are very active in the market now, taking a look at different properties.

I think your question was specifically around transformative. You might note that we did make an offer or two for CSRA a couple months ago. That was absolutely a very strategic move on our part.

And it goes without saying that we're not interested in doing a deal just for the size, or the scale of it. But, in that particular case, it was very attractive from a strategy. It would have accelerated our strategy of becoming a much more improved enterprise and mission partner for many of our customers who were going through next generation IT and other heavy solution adoptions.

Obviously we're not going to talk a lot about the things that we're doing other than to say that we will remain active. And we're at a point where we have a good deal of dry powder to be able to do that, and M&A will remain our capital deployment priority for the foreseeable future.

Operator
Out next question comes from Cai von Rumohr of Cowen & Company. Please go ahead.

QUESTION ON WHETHER THE LARGE HOMELAND SECURITY AWARD RELATES TO A RAYTHEON AWARD

Cai von Rumohr
Yes, thank you very much. First on the $407 [million award] with Homeland Security—how does that relate to the DOMino win that Raytheon had recently, given they're both cyber contracts?

John Mengucci
Yeah, Cai, that one I'd have to take a look at. What I can share with you is that CDM across DHS is about grabbing all of the system-level cyber data across all of the records within DHS, bringing that back to a central location, and then, in future steps, being able to put the right defensive mechanisms out there to better protect DHS's .net and .gov networks. We can get back to you on how that compares or contrasts to whatever program it is, that the government wants.

And if I remember right, Cai, DOMino's more of an IT services type of a contract. This is more of an outcome delivery contract that spans across all of DHS.

QUESTION ON CACI'S APPROACH TO A LARGE UPCOMING DoD OPPORTUNITY

Cai von Rumohr
Thank you very much. And as you know, DoD has a big cloud contract coming up: JEDI. AWS presumably is going to be a player there. What's your strategy? Obviously, there are a number of folks who would like to partner with AWS. What's your strategy—I assume you're going to bid. What's your approach to that opportunity?

Ken Asbury
Yeah, Cai, this is Ken. That would be something that we're probably not going to talk about on an open mic.

Suffice it to say that we've got a very strong relationship. In fact, one of our engineers was a keynote speaker last night at the AWS conference here in DC. We were showing them how we were applying artificial intelligence and neural network programming to the problem of full-motion video. I really don't want to get into the competitive parts of it. John, you want to add to that?

John Mengucci
Yes. So, what we bring to opportunities like that, Cai, is not so much the infrastructure of the cloud, having the right partnerships with the cloud providers, whether it's Azure from Microsoft or whether it's what AWS provides. Where our expertise is is the number one company out there who has ported more intel agency applications to the cloud than any other company.

We're called on continuously to be able to move apps to the cloud. Where our revenue and our margin stream comes from is the expertise of getting agencies' applications and their services onto the cloud. That's a highly specialized engineering and IT services-type part of this market. That's what we would bring to any opportunity that is cloud related.

Operator
Our next question comes from Rob Spingarn of Credit Suisse. Please go ahead.

QUESTIONS ON RELATING CACI'S FUTURE GROWTH WITH THAT OF ITS MARKET; ON ANY INTERESTING CONTRACTS CACI WILL BE PURSUING; AND ON CACI'S SHARED SERVICES CENTER

Rob Spingarn
Good morning.

Ken Asbury
Good morning, Rob.

Rob Spingarn
I wanted to ask two very different things. One, sticking on the revenue side of the equation, John talked about the end of Joe's question, marrying the 6% budget growth with the 4.5% CACI growth, which is organically 3%, I'm still struggling with that a little bit unless it's just a timing difference.

I wanted to also ask you about anything interesting coming up post these congressional marks in the FY19 budget; any interesting contracts we should be on the lookout for.

And then I have a separate question on shared services. Really, from the cost side, I just wanted to understand—industrial analysts like us, or some of us, I should say—think of shared services as big cost centers. It sounds like for you it's more of an R&D and technology center. But I want to understand the long-term impact of that on your margins. So that's it for me.

Ken Asbury
Sure Rob, let's start with the first. I mean, reconciling, we've—for the last three of four years, we've been structured around 12 markets that we think are things that are going to be an enduring space and give us purpose for growing our business over time. We also think that they're highly relevant at various times in the budget cycle, or over a long-term period, to the federal government in terms of how they want to buy things.

The second thing I would apply to that—so what that means is when I talk about 6% discretionary growth, I'm not including a lot of things that are commoditized services such as a lot of equipment maintenance, facilities maintenance, the training contracts that have become, over time—those are markets that we're not pursuing. And over a longer period of time, we'll see as we focus more on solutions, we'll see the content of that piece of CACI change, and as its being reflected in being able to grow, maybe at a slower rate than what you want to see in the budget. But, in a way, that's both predictable and is profitable at the same time because we are trying to deliver outcomes more than labor hours these days.

In a growing market like we're seeing right now, there are opportunities to go out and grab large chunks of labor. But we see that as counterproductive to our plan of growing top and bottom line at the same time. You're going to see some disparity in that, driven by the markets that we want to serve and stay in. In other words, our swim lanes, versus what the entirety of the government appetite for spending is. I'm going to ask John to talk a little bit more about that and then go to Shared Services.

John Mengucci
Yeah, Rob, your second question was around if we would look into the government's budget marks and the like, how does that parlay into a win for our FY19.

Rob Spingarn
Right. Their '19 budget and its impact on you down the road.

John Mengucci
Yeah, with any budget—I'll talk a little bit about our SkyTracker family of programs because that's really one of the beneficiaries, not only from the FY18 and '19 budget, but as long as we've been shaping this market for some time.

About three years back we began investments and taken about a 20-year proven technology that came from our Six3 acquisition, really to make it applicable to the domestic market. And we also began to have this discussion around US critical infrastructure protection and some of those law changes that would—that we would require to be able to start to grow this market. Then we also mentioned that with the new administration we were hopeful that we would start to see some of those law changes. And I think it's clear from the recent NDAA that the government has given DoD the authority to protect all of their military installations domestically as well as OCONUS. And in other appropriations language, as we go into government year '19, we're going to see some of those same authorities given to other agencies.

We're very happy with the take-up rate that we've had thus far on SkyTracker. And if we looked at the government's funding priority in that—in that area—we recently won a $50 million, a sole-source, a single award IDIQ with the Navy to start to grow upon some of the Navy CONUS-based installations protection from the commercial UAS areas.

If I think about the Shared Services Center—very exciting. It's going to optimize the transactional elements. We are on track to open on July 1. Great talent pool out there. Several universities close by.

Rob, part of your question was really, these are usually cost centers. The way we see this is it's going to provide scalability in support as we continue to grow both organically and through acquisitions. It also provides an enhanced opportunity for us to take some of our commercial partner technology like AWS, like Splunk, like others, put that into our own infrastructure, and just for us, to ensure those are right for our IT customers.

From a cost side, we did say there were some upfront investments. We're looking for those investments to be finished by the first half of Fiscal Year 2019, and those expenses be paid back in about 18 months.

But what's most exciting, it's really not a cost center for us as a way for us to more affordably provide all of our transactional services to the rest of this business. It's safe to say that, in FY19, the savings that we see from the Shared Service Center more than covered the investments that we wanted to make in our employees—on top of those IR&D investments we wanted to make. And we still returned some of those savings to reduce our indirect SG&A costs.

All in all, a really great play for us. We're doing it in a very methodical manner. And we're very happy that we're right on track to open that center and start to process invoices and the like on July 1.

Operator
Our next question comes from Ben Klieve of Noble Capital Markets. Please go ahead.

QUESTION ON THE NAVY COUNTER-DRONE AWARD AND THE REASON FOR THE ONE YEAR PERIOD OF PERFORMANCE

Ben Klieve
All right, thank you. I actually wanted to ask about the Navy counter-drone award that you just touched on here. First, correct me if I'm wrong, but I believe that award is the largest you've won in that space to date. And then second, with that award being one-year in nature, can you talk a bit about where the Navy and your DoD customers in general stand on adopting the technology? I'm assuming that the shorter- term nature of the award implies that the customer wants to revisit this soon for maybe a potential longer-term opportunity at the end of that 12-month contract. Any color on that would be appreciated.

John Mengucci
Yeah, sure Ben. Look, we're extremely proud and extremely happy to have been selected. That selection didn't happen by accident.

We believe we are the number one provider, domestically. We certainly have more installed systems than anyone else, CONUS-wise. We have been working with the Navy for about two years, looking at some areas that we can't discuss prior to having the authorizations that are provided in the '18 NDAA.

What's really critical is that—and very unique on all our solutions—is that as the counter-UAS threat changes, we are able to react to that with a software addition to a library that explains what the characteristics of that enemy drone is versus having to deploy new hardware out to all these sites. That's a very positive feature not only to the Navy but as we work across the entirety of DoD.

I would have to ask the Navy on the $50 million, one-year spend. But what I would take away from that is this is an extremely important priority to the SecDef and to his staff and his team. I know that General Mattis worked extremely hard in ensuring that this language was put into the NDAA. And we're very, very proud, as you say, to have one of the largest awards out there.

I would say awards like that in the future—whether the customer buys quantity X or whether they put IDIQs out there—is almost irrelevant to us. We do expect to sell many more SkyTrackers this year than we did last year. And, we're not going to talk about volumes and numbers, but, very, very happy with the three years' worth of investments and the extensive shaping that we did to help protect this nation.

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

QUESTIONS ON THE CURRENT PRICING ENVIRONMENT AND WAGE INFLATION AND ON THE LABOR CAPACITY OF THE SHARED SERVICES CENTER

Sheila Kahyaoglu
Thanks. Good morning guys and thanks for the time. A two-part question on pricing. As you see the budget improving, are you seeing more selectivity with your competitors as they bid on awards? Is there a better pricing environment? And then secondly, you alluded to labor availability. Are you seeing any sort of wage inflation as the business turns?

And then on your Oklahoma facility as it relates to labor, based on your current revenue mix, what's the capacity? What portion of the labor force could you move over to that location?

Ken Asbury
Hi Sheila, this is Ken. Let me start with pricing behavior. It depends on the customer, and it depends on what they're looking to buy. On the solutions side of our business, John alluded already that we're still seeing some rather larger, sole-source things because the government has—they want to buy in an expedient fashion. They've determined that our solution is the best. And as a consequence, we're not even really having all that big a discussion about price. We're really talking about schedule, and when can you get the thing fielded, because we've done all of the background work.

In certain parts of the market where we're really talking about labor, labor tends to be more competitive than outcomes. Outcomes is still a battle of ideas and less concerning around—all of the customers are going to have a concern about overall price. But it is less so when we're talking about them wanting to deliver something that is unique in terms of an outcome.

So, generally speaking—most everybody—I'll talk from us. We feel better about the pricing environment than we did four years ago, where it was just a silly season with LPTA and things of that nature. I don't want to be cavalier. We're still very conscientious. We manage our costs and pricing very, very similarly while we're adding these additional investments. And that whole move toward the Shared Service Center was just that.

Now, I'll jump to the end of your question, which was about the Shared Service Center. The Shared Service Center is really around transaction processing, and the perfection of that at the lowest cost and the highest fidelity. It is not yet a tool for us to move direct work into. It is really confined to our indirect functionality. We are studying the ideas of putting Agile software factories in different parts of the country to take advantage of labor pools that aren't in the DC area, where we can put talent in place and make sure that we are able to meet the demand across—.

We are in a low unemployment environment right now. And in certain geographic sectors of the country, we see a lot of—we do see a competition for talent. Hence one of the main driving forces of the Shared Services Center was to be able to reduce our indirect costs, including our direct rates, over some period of time and take some of that money and plow it back into benefits such as lower healthcare costs, increased retirement or 401K plans, more paid time off, or at least a more coherent paid time off, and to invest in a lot more career planning and in skills development of our workforce. That is indeed what we are in the process of doing right now.

Hopefully, I touched on all of your questions, but if you have a follow-up I'll be happy to add to it.

Sheila Kahyaoglu
No, that's great. Thank you.

Ken Asbury
Thank you.

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

QUESTION ON WHETHER THERE HAS BEEN A CHANGE IN THE PACE OF AWARDS

Krishna Sinha
Hi, thanks, guys. In Fed IT in general, bookings have been a little bit soft over the last year. And some of that maybe has been chalked up to some problems in the administration—getting procurement officials and that sort of thing. But you did mention in your remarks that bookings would be strong. You're expecting bookings to be strong in June and same thing in September. Have you seen a wholesale shift in how the customer is awarding things? Or is this just natural budget flow-through? Are you still seeing all the contract bridging that you were seeing before in short-term contract extensions? Or is that going away and the government's getting back to normal business?

John Mengucci
Yeah, Krishna, this is John. This year, like any other year, we would expect awards to be lumpy.

We truly do our best to weigh out timing. As we build any one of these financial plans, it's a pure bottom's up look. So, all of our current book of business sitting with each PM to understand what type of on-contract growth can we expect there.

On the new business side, we're sitting with our senior line leaders and our business development team. And in our FY19 plan, as we have done as in past plans, we do buffer some of those award dates. And then we also have to take into account that ever-present nuisance of protest that can delay revenue from the date that we win awards.

If we look at our recompete work, we've been talking during the FY18 period, much more bridging than we've seen in the past. I think going forward this year, Krishna, we've got a 14% recompete rate. We had 11% in FY18. We're normally at 10% to 15% recompete business. To provide some color around it, the fact that we had bridges in FY18 would be one reason that we see a higher recompete number.

But I also can't tell you that isn't going to change. It's our internal belief that there's just as much of a chance of the customer, with the increased funding and limited amount of time they have to spend it, that to go out and in competitive procurement versus providing that scope and that funding on our existing contracts may actually lead the government to continue to bridge.

So, overall, we're in the same exact spot we were coming into FY18, and we're all happy with the results we had and would expect the results in FY19 to bear the same fruit.

Ken Asbury
Yeah, Krishna, this is Ken. Another way to think about this is the Bipartisan Budget Act was a bit of a—obviously many of us were surprised. We didn't see the outcome of that coming in the way that it did.

The effect of that was, I believe, the Department of Defense felt fairly confident that they would see an increase as a result of the administration's initial budget. And we went through a process for a while where we thought that many of the civilian agencies were going to be bill payers for that. In fact, the initial instantiation of the administration's budget indicated some pretty wholesale reductions.

When those organizations came out to be net increasers in a remarkable way from the act, I think DoD was ready for that. And I think many of the civilian agencies were a little bit back on their heels with regard to how those appropriations would come through and may not have been as prepared for that as the Department of Defense was. In fact, I believe if we look at the run rate of the Department of Defense spending before the Bipartisan Budget Act, we were seeing a higher rate of spend than they were initially allocated on the predicate that we would see more money coming at some point in time in the year.

That suggests that you've still got to get a lot of money in place. DoD for FY18 had to get it onto various contracts. They were probably going to put—particularly for maintenance or training or things that were related to the readiness things that were being talked about as being underfunded before—those went on, largely to existing contracts rather than new acquisitions.

It remains to be seen what will happen with the civilian agencies as they catch up. But I predict that we will see IDIQs get really funded well between now and the government end of the fiscal year to get that money to work. But it will just happen at a slower pace.

QUESTIONS ON POTENTIAL UPSIDE FOR OPERATING CASH FLOW IN FY19 AND NORMALIZED FUTURE FREE CASH FLOW

Krishna Sinha
Okay, thanks. And then moving on to perhaps cash flow drivers. Given the rate of revenue increases you're seeing and your margin expanding the way it's been expanding, I would have perhaps expected maybe a slightly higher low-end of the operating cash flow range--$320 million. It's like a $10 million increase year over year from your current guidance. I'm just trying to figure out—is there an upside to that number?

And then, also on your long-term capex plans—the Shared Service Center and your facility consolidations—those seem sort of like one-time expenditures. What's your normalized free cash flow going forward? And will it remain elevated in the low $40s or mid-$40s range? Or will it come back down into the $30s?

Tom Mutryn
Yeah, this is Tom. I'll take a stab at those questions.

In terms of the longer-term capital spending, we've had a higher than normal capital spending the last couple years--$40 million -- $45 million—driven by a variety of facility consolidations, whereby we were able to take our existing facility footprint, looking at end of leases and when those leases expire, rationalizing some of the facilities that we have within our portfolio. Oftentimes we do acquisitions, we'll inherit facilities. And in a variety of locations, we'll have duplications at facilities. And we're also putting in place new site standards to repurposing of facilities to create a more contemporary modern and dense allocation.

Going forward, I expect steady state capex around $30 million-ish, closer to those particular levels with one caveat. If we win some sizable pieces of new work where the employees need to be on these size locations, that may drive some higher capex, driven by those new business wins. That's capital spending.

In terms of cash flow for FY19, we typically start with net income, just the way the cash flow statement works. Add back noncash items—depreciation, stock-based compensation, some deferred tax, non-cash financing fees—and get a sense of what we expect operating cash flow to date. This year, we expect, on the midpoint of the guidance, right around $200 million of revenue, because more revenue requires more working capital. And, if working capital as a percentage of revenue is typically 5% to 10%, that would be a use of cash.

As we grow we'll need more working capital. It leads to $320 million of operating cash flow. That excludes any changes to DSO or payable activities. We're expecting that to be generally flat on a year-over-year basis. Or I should say we're planning that to be generally flat on a year-over-year basis. But as we move into the Shared Services Center, other opportunities to invoice quicker, collect quicker, drive some efficiencies through some of those processes—those actual processes—we would be looking for those as well. So, there may be some upside. By definition, we're saying at least that particular number, implicit in that is some upward bias to the number.

Operator

Our next question comes from Edward Caso of Wells Fargo. Please go ahead.

QUESTION ON CACI'S CURRENT WIN RATE AND THE IMPACT ON IT BY PURSUING LESS COMMODITY WORK

Edward Caso
Hi, good morning, and congrats on the guidance here. I was curious about your win rate—if you're seeing any change in that. And are your investments making a difference? Or is it more of a refocusing here? It sounds like you're chasing less commodity work here in the last few years, and how has that impacted the win rate?

Ken Asbury
Ed, thanks. This is Ken. Appreciate the question and your comment on the guide.

As we move towards becoming a more outcome-based business over a period of time and select more solution-oriented contracts, it is a harder row to hoe for us. We have to be that—when you're going to take somebody's lunch money that has been doing it for a long period of time, even though you have a disruptive technology, it's still a lot more investment.

I would say that, we've talked about—in the time that I've been here, we have had win rates on an annualized basis as low as like 28% for new and as high as 54%. And I think we're in the 30% to 35% range at this point in time as we go to take on the kind of things like John described as the CDM contract.

There's still a good amount of business on the solutions side. To an earlier answer, that is coming to us sole-source because we're just so differentiated in terms of capability. And nobody—and it's satisfying what that customer's need is.

That being said, we consider ourselves to be a solutions and services company. So, we're not exclusively going in one direction or another. But in services, we are a little less reluctant because—excuse me, I should say we want the portfolio to be shaped downward over a period of time. And there's some things that we aren't going to pursue because there's no value. There's really no long-term value yet.

There are other people that are better suited to want to do that. But with the strategy that's for us of growing top and bottom line, it is much more exciting, if you will, to pursue the outcome-based businesses. And frankly, that's where I believe you're starting to see the results—the impact of those, of that strategy change that we put in place a few years ago.

QUESTION ON WHAT FY18 COSTS SHOULD BE EXCLUDED WHEN COMPARING THE FY19 OPERATING MARGIN TO THAT OF FY18

Edward Caso
My other question is for Tom. I believe at the midpoint for F19 the operating margin assumption is 7.6%. Can you just hold our hand here and normalize? Obviously, you're having a great finish here to F18 on margins. But you mentioned a few exclusions and unusual items. What's the normalized number at the midpoint of guidance for F18 that we can compare that 7.6% to? Thanks.

Tom Mutryn
Yeah, Ed. The normalization is approximately $12 million, which I mentioned. There's $22 million of unique goodness in the third quarter, driven by some work we're performing for the customer to fill specific customer needs and some unique events, offset by $10 million of startup expense for the Shared Service Center, which we expect to incur in the fourth quarter. That's a $12 million goodness, which I suggest that we exclude from both EBITDA and operating margins for FY18. $12 million divided by approximately $4 billion worth of revenue--$4.5 billion—is around 30 basis points. That would be a 30 basis-point reduction.

In terms of the midpoint for FY18, our calculation for EBITDA margin is around 9.15%. That's the margin I have in front of me, and the adjustment would be around that 30 basis points. And then that would work the same for operating margins. It's the $12 million divided by the expected revenue.

Operator
Again, if you have a question please press star then one. Our next question comes from Jon Raviv of Citi. Please go ahead.

QUESTION ON THE LONG-TERM OUTLOOK FOR THE OPERATING MARGIN

Jon Raviv
Hey, thanks for the follow up, and following up on that margin topic. Ken, just curious. I asked it a couple times a year. Just remind us of what the long-term goal is of that low double-digits and describe as the potential for this business before? How much of that is shared services? How much of that would rely on some outsourced software development factors that you mentioned earlier? Just how you're thinking about this as a long-term margin opportunity at this point.

Ken Asbury
Yeah, Jon. This business, in its five to ten-years date from now, is a low double-digit—in the teens—EBITDA margin business. And the reason for that is we want to continue this becoming more outcome based. That's where the market is going to go.

There are—particularly in some of the technologies and some of the things that we've been investing in—those are going to become bigger parts.

And approaching—and I'll give you one example without giving you any definition. We're going through a wholesale change, using one of our products in a major command to disrupt their intelligence analysis capability. And it's just beginning. But it is part and parcel of how we wanted to be running this business when we started looking at doing something different a few years ago.

John gave you some insight into what we're doing with counter UAS. The relevant spin to that is going and attacking the electronic warfare problem, using very, very similar kinds of technologies and tools. And we have a couple really good demonstration projects going on right now with two major service clients that will, again, give them a different way of thinking about how they're going to solve that problem and as they increase the investment in it.

So, I don't want to be predictable in terms of—I think the long-term growth is we stay on the plan—is there are companies out there today that produce that margin. You need the right programs to be able to do that and the right mix. It's not every program that will produce 20% margin. But it is that beautiful assembly of them that allows you to manage a portfolio that is better than where we are today.

But our ambition is manifested in how we want to take away top line, or take market share on the top line, and only do it in a way that is growing our margin profile 10 to 30 basis points. I may change that 10 to 30 basis points someday. There's going to be a tipping point. But it is not right now. My judgment is we're still in a really nice place, and we'll continue to focus on that kind of predictable, profitable growth.

Jon Raviv
Thank you so much.

Ken Asbury
You're welcome.

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 CLOSING REMARKS

Ken Asbury
Well Andrea, thank you very much. Appreciate all your help today on the call. We would like to thank everybody who dialed in or logged on to the webcast for their participation as well. We know that many of you will have follow-up questions, and Tom Mutryn, Dave Dragics, and Dan Leckburg are available for calls later this morning and throughout the day. This concludes our call. Thank you for your interest in CACI, and I hope you all have a very good day.

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

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