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**CACI INTERNATIONAL INC.**  
**Moderator: Ken Asbury**  
**January 29, 2015**  
**8:30 a.m. ET**

**Operator:** Ladies and gentlemen, thank you for standing by. Welcome to the CACI International Second Quarter Fiscal Year 2015 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 question and instructions will be given at that time. If you should need any assistance during this call, please press star zero and someone will help you. A special reminder to our media guests who are listening in, please remember that during the question-and-answer portion of this call, we are only taking questions from the analysts.

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

**INTRODUCTION AND SAFEHARBOR STATEMENT**

**David Dragics:** Thanks, Amanda, 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 two and about our written oral disclosures and commentary. There will be statements in this call that do not address historical fact and as such constitute forward-looking statements under current law. These statements reflect our views as of today and are subject to important factors that could cause our actual results to differ materially from anticipated results. Factors that could cause our actual results to differ materially from those we anticipate are listed at the bottom of last evening's earnings release and are also described in the company's Securities and Exchange Commission filings. And our Safe Harbor statement is included on this exhibit and should be incorporated as part of any transcript of this call.

I'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.

So let's turn to slide number three and open up the discussion today. Here's Ken Asbury, President and Chief Executive Officer of CACI International. Ken?

**CEO OVERVIEW**

**Ken Asbury:** Well, thank you, Dave, and good morning, everyone. Thank you for joining us to discuss CACI International's 2015 second quarter results. With me this morning are John Mengucci, our Chief Operating Officer and President of U.S. Operations; Tom Mutryn, our Chief Financial

Officer; and Mr. Greg Bradford, Chief Executive Officer CACI Limited, who is joining us from the United Kingdom.

Please turn to Slide number four. Last night, we released our results for the second quarter of 2015. We won a record level of contract awards. Our plan for this year called for significant new business and our awards so far position us well to meet that plan. Our net income was in line with our expectations, given the investment necessary to expand our background investigations work for the Office of Personnel Management. With the new business we have won and the steady ramp-up of our OPM work in the third quarter, I am confident in reiterating our FY '15 guidance.

Turn to Slide five, please. Our business continues to be influenced by dynamics that shape our customers' behaviors, priorities and requirements. For example, the timing of most of the contract awards occurred at the end – first half of this year occurred at the end of our first and second quarters and coincided with macro events. The large value of awards at the end of the September quarter aligned with the government's year-end spending. We saw relatively little award activity through the middle part of our second quarter. The fiscal environment stabilized significantly and contract awards accelerated after the President signed the authorization and appropriation bills in mid-December.

For the government fiscal year, looking forward, our customers have a stable platform to plan, program and obligate funds. We continue to experience protests by unsuccessful incumbents. Thus far, we have prevailed in all of the protests that the government has adjudicated. John will cover the impact of award protests in the operations overview in just a few moments.

As a result of the November elections, a transition is underway in the House and the Senate. A new Secretary of Defense is due to take the reins at the Pentagon. Now, transitions are always full of promise, however, they can also be time consuming. This could impact awards in the future and extend bridging activities, especially if Congress proves unable to strike a new budget deal.

Global threats continue to shape our customers' priorities and requirements. A wave of terrorism is sweeping the world. U.S. forces are engaged in combat against the Islamic State in Syria and Iraq. Operation Enduring Freedom in Afghanistan has ended, but more than 14,000 U.S. troops remain focused on that part of the world. Military operations to deter Russia and reassure NATO have gained momentum. And the bolder ability of U.S. commercial and government networks to cyber attacks is demonstrated daily.

Slide six, please. The demand for CACI's tailored, affordable solutions and services is growing across all 10 of our market areas. We celebrated our first significant synergy-driven win since we acquired Six3 Systems. And I expect that we will see many more of these types of wins over the next few years.

We are very proud that our customers are increasingly choosing CACI to help them meet a broad array of challenges. The record number of contract awards we won in the first half of FY '15 and the significant increase in our backlog is testimony to the key strategic, talent, organization and efficiency decisions we've made to adapt our country – excuse me, our company to a rapidly changing marketplace and to gain market share.

Going forward, we will continue to execute our strategy of winning high-value contracts, delivering excellence to our customers and deploying our capital for growth.

With that, let me turn the call over to Tom to present our financials for the quarter. Tom?

## FINANCIAL OVERVIEW

**Tom Mutryn:** All right, thank you, Ken, and good morning, everyone. Let's go to Slide number seven. We are pleased with this quarter's record awards, new business wins, strong backlog and solid earnings. Revenue was down 8.8 percent year-over-year, with a five percent increase in direct labor more than offset by a 20 percent decline in lower-margin subcontractor labor in material other direct costs.

As we anticipated, earnings for the quarter were negatively impacted by the increased activity under the OPM contract that resulted in an \$11 million reduction in net income as we ramped up our work, incurring the expense of the increased number of employees but not the steady state revenue. This is greater than the \$7 million to \$8 million impact we anticipated on our October call driven by a longer-than-expected ramp-up period.

Our tax rate for the quarter was 36.7 percent, which reflects the positive impact of the work opportunity job credits, which were part of legislation enacted at the end of 2014 and made retroactive for the full calendar year of 2014.

Slide eight, please. For the second quarter, Six3 generated \$91 million of revenue. For all of calendar year 2014, the acquisition met our stated goals and was five percent accretive to our GAAP earnings per share and 13 percent accretive to cash earnings per share, excluding transaction expenses.

With the integration of the people contract and programs into CACI last July, we are managing our U.S. operations business as an integrated unit, not as legacy CACI and Six3. As such, going forward, we will be reporting and discussing our results on an integrated, combined basis. The integrated organization is performing well, and we are pursuing a variety of new opportunities with our combined capability.

Turn to Slide number nine, please. For the first half of the year, our operating cash flow was a positive \$93 million, and we generated a negative operating cash flow of \$18 million for the second quarter, which was driven by increased working capital primarily due to greater accounts receivable and our OPM ramp-up.

DSO increased about six days during the quarter as a result of an increase in the amount of time for CACI to be paid after invoices were submitted to the payment offices. Our invoicing and collection processes are robust and remain unchanged with no singular CACI issue driving the working capital increase. We are maintaining our full year operating cash flow guidance of \$200 million, assuming an improvement in DSO.

Trailing 12 months free cash flow is \$232 million, and our annualized free cash flow yield per share is 10.7 percent at an \$88 share price. With \$1.2 billion of total debt, our net debt to trailing 12-month EBITDA leverage ratio is at 3.7x.

Next slide, please. We are reiterating our Fiscal Year '15 guidance, which we first provided in late June and reiterated it in October. Our plan was based on CACI winning new business, and we have strong new business awards in the first two quarters.

Compared to our second quarter, our third quarter will benefit from an improvement in OPM performance, offset by significantly lower award fees, a slightly higher tax rate and fewer product-related sales. With the expected timing of additional new awards and protest resolution, strong fourth quarter awards and continued OPM ramp-up, our fourth quarter net income is expected to be materially greater than the third quarter, with a sequential change greater than last year.

Next slide, please. We now expect our full year direct labor to increase in the high single-digit and our other direct costs to decline in the high teen.

With that, let me turn the call over to John.

## OPERATIONS OVERVIEW

**John Mengucci:** Thanks, Tom. Let's go to Slide 12. I am pleased with CACI's record contract awards, successful execution on current contracts and positive forward indicators. All position us to deliver to our current plan.

We won about \$1.9 billion in contract awards across all 10 of our market areas, a record level of CACI awards for the quarter. About 50 percent of awards in the second quarter are for new business.

In spite of the record level of awards, I want to share our perspective on why revenue remains flat sequentially. This was driven by the timing of the awards in each of our first two quarters and the impact of protests. In our Q1, the majority of our awards were received at the close of the quarter, which did not support revenue generation as planned. Of those awards, \$300 million of the new business award value was protested, shifting revenue generation a full four to five months. In our Q2, once again, the majority of our new business awards remain at the close of the quarter, and of those awards, nearly \$700 million in award value was protested. This has driven revenue generation from those awards into early fourth quarter as most of these protest decisions will not be made until early in that quarter.

What has offset the material amount of these delays in revenue have been the success in growing our existing work already on-contract, winning a higher percentage of our recompetes and securing option year extensions to current work at higher levels of effort. All three of these offsets are result of an absolute focus on operational excellence and delivering value to our current customers. We continue to be pleased with the revenue these contract wins will provide to CACI over the long term.

Slide 13, please. I'm very pleased with the synergies we are creating as a result of our acquisition of Six3. This quarter for example, we won an important contract in the geospatial market area by combining Six3's expertise in cost effectiveness and program management, with geospatial expertise we initially gained through our prior acquisition of TechniGraphics. This example and others are representative of synergistic wins we've had and we look forward to many more. We are confident that the added capabilities we've gained through acquisitions such as Six3 will continue to contribute to CACI's growth.

We added almost 1,300 investigators in the first half of FY '15 in response to the increased workload for background investigations from the Office of Personnel Management. We are making steady progress in ramping this program up.

We also received \$571 million in contract funding orders in the second quarter. This brought our funded backlog to \$1.9 billion at the end of December. Our book-to-bill ratio was 1.05x for the trailing 12 months. Total backlog was \$9.8 billion, a 29 percent increase from a year ago. This provides us an estimated 36 months of revenue at the second quarter revenue run rate.

Let's go to Slide 14, please. Our fiscal year revenue guidance in October consisted of 89 percent existing business revenue, five percent recompetes and six percent from business that is new to CACI. I'm pleased to report that at the end of December, we have improved that position to 94 percent existing business revenue, two percent recompetes and four percent new business at the

midpoint of our FY '15 revenue guidance range. This means we have contracts in hand on nearly 96 percent of our planned revenue for the year. In addition, 88 percent of our existing business revenue was already funded, an increase from 71 percent at the time of our October call. This is a good position. It reflects the importance of the missions we support and gives me confidence in the future.

Our opportunity pipeline remains extremely strong. Our pending contract awards now total \$9.5 billion, with 75 percent of that amount new business to CACI. In addition, we plan to submit another \$14 billion in bids for qualified opportunities over the next six months. Sixty percent of those bids will be for new work for CACI. These qualified opportunities reflect our refined strategy of pursuing and winning larger contracts with higher financial and strategic value.

Our performance in the first half of the fiscal year and these forward indicators are encouraging. Given our enhancements to business development, our ability to consistently deliver operational excellence, our continued focus on cost effectiveness and synergies in delivering our solutions and services, we are well positioned for the future.

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

### **CEO CLOSING COMMENTS**

**Ken Asbury:** Well, thanks, John, and thanks, Tom. I appreciate your comments this morning.

Please turn to Slide 15. We believe the progress that we've made in the first half of this year has put us in an excellent position for the next six months and for the foreseeable future. Our contract awards in the first six months and significantly increased backlog validate the investments we made in our business development team. And our strong contract funding orders in the first half reflect our continued delivery of operational excellence in support of our customers' most critical missions. We are determined and confident that we will be able to sustain this progress.

We'd like to take a moment to thank the 16,300 employees of CACI for their hard work and dedication to our clients' missions and objectives. Their creativity, adaptability, character and determination drive our success. Thank you all.

Now Amanda, let's open the call up for some questions.

**Operator:** Thank you. Ladies and gentlemen, if you have a question at this time, please press star then the one key on your touchtone telephone. If your question has been answered or you wish to remove yourself from the queue, please press the pound key.

Our first question comes from Bill Loomis with Stifel. Your line is open.

### **QUESTION ON MARGINS EXPECTED FOR THE OPM CONTRACT RELATIVE TO CACI'S OVERALL MARGINS**

**Bill Loomis:** Hi. Thank you. Great awards this quarter and last quarter. Just looking at the OPM contract, what type of – I know it's fixed price and you bill as you complete the cases – but what type of margins should we expect as that program ramps up? And maybe put it in relative to what your corporate, normal full year corporate average margin is as we look over the next two quarters.

**John Mengucci:** Yes, Bill, this is John. Let me talk a little bit about our OPM because there's so many moving parts with it. A few weeks prior to our first quarter earnings call, we estimated what the investment was going to be to bring on 1,300 new investigators and also the time required for

us to ramp that team up and actually begin casework. What we experienced, as Tom mentioned, was an increase in our startup costs, but also a longer ramp-up time to full productivity on this program. As you all would imagine, we have rigorous standards for this program, given the nature of work that we do. So we really took our time to ensure we train, test it, equipped and performed all the various quality checks. Those efforts took longer than planned. As you remember, last quarter I shared, this is a fixed-unit price contract, so costs are incurred ahead of revenue as we don't invoice a case until the case is completed. So it does create the delay to a consistent revenue and profit model that we had earlier laid out.

Bill, specifically to your question, margins. We would expect margins to be similar to the current operating margin we have across the current CACI portfolio. We're also working through some of these residual start-up issues and you'll actually see a much more consistent run rate of both revenue and earnings as we get into our FY '15 fourth quarter.

#### **QUESTION ON WHEN MANAGEMENT EXPECTS REVENUE TO ACCELERATE IN FY15**

**Bill Loomis:** OK. So the contracts you won in first quarter and second quarter, none of which included much value, if any, for OPM. You get past the protest period, you think all those will be fully staffed up by fourth quarter. How soon in fourth quarter though, because obviously you're back-end weighting the year pretty significantly? Do you think we'll start to see that in April or is it going to be June? When do you think things really start to accelerate in terms of revenue and margin?

**John Mengucci:** Yes, sure. Bill. We had about \$1 billion total awards protested, 40 percent of those have been adjudicated in our favor. In fact, we just received notice late last night that yet another first quarter protest had been resolved in our favor. The majority of the second quarter protests come due the third and fourth week of April, Bill. So we'll probably see one to two months of revenue in our Q4 FY '15. That's if those protests run the entire 110 days. If things end sooner, then we'll be out there generating revenue sooner than that.

**Tom Mutryn:** Yes, and Bill, let me add. This is Tom. In some of the programs, there is an established workforce, and it would be relatively easy to transfer a large number of people to CACI so we can generate revenue and profit very quickly. Other programs are such that there'll be a recruiting, hiring effort and the nature of the work is such that the work gets phased in over time. So it would not be a knife-edge cutover, so with a mix depending upon the type of program.

**Operator:** Our next question comes from Edward Caso with Wells Fargo.

#### **QUESTION ON THE MIX OF PROTESTED AWARDS AND CACI'S HISTORICAL WIN RATE ON PROTESTS**

**Ed Caso:** On the protested contracts, how many of them are your recompetes and how many of them are new? And what's been your historical success rate in winning protests?

**John Mengucci:** This is John. Look, all of this is new business so there are no recompetes that we have had protested. Our win rate thus far in FY '15 is 100 percent. We've had all of them adjudicated in our favor. We're actually planning on slightly lower than that number as we look at our – Ed, as we look at our plan going forward. But we've got six contracts values in \$100 million to \$200 million range that we're actually – need to follow through on.

#### **QUESTION ON THE REASON FOR THE INCREASE IN DSOs?**

**Ed Caso:** And Tom, could you go a little bit more into the DSOs? Is this a timing issue on contracts? Is this an issue on the CACI side or an issue on the client side? Thanks.

**Tom Mutryn:** Yes. Thank you. So our processes, in terms of the monthly close are unchanged and pretty robust. So you close the book at the end of the month. Most of our work is direct labor. And very soon thereafter, we will submit invoices to the customers through electronic Wide Area Workflow processes. Typically, we'll invoice at anywhere between the third and the fifth business day. Our invoice process is such that 99-plus-percent of invoices go through the system and are not rejected as they – a very strong, again, robust process.

Once they go to the government, there are certain government approvals, depending upon the customer, and then it goes to the payment offices, several different DFAS payment offices in the United States. And we track the time between submitting an invoice and getting paid. And there have been fluctuations in that particular statistic: how many are paid within 10 days; how many are paid between 20 days; how many are paid in excess of – in 50 days – 30 days, for example, and that has – that, by definition, drives our DSO.

In the end of the calendar year, in the fourth quarter, we saw a significant increase in the time to get paid, perhaps due to the fact that was the start-up of the new government fiscal year, gearing back with funding and the like. Sometimes there are vacations in the payment offices, somewhat random fluctuations, and then we expect our DSO to return to more normalized levels. Within the past four quarters, our DSO ranged from 59 days to 66 days. And so there are these fluctuations. And it's a question of timing: when we get the money, we will definitely get the cash flow. So hopefully, that provides a bit of a color.

**Operator:** Our next question comes from a Cai Von Rumohr with Cowen and Company.

#### **QUESTION ON WHY THE GUIDANCE REVENUE RANGE WAS NOT NARROWED**

**Cai Von Rumohr:** Yes. So if I kind of listen to what you say and then I look at your guidance, normally the third quarter is better than the second. It sounds like that should happen this time. But the geometry just suggests there's no way you're going to get the \$3.6 billion. I mean, wouldn't it be – make more sense to kind of narrow that range? I mean, that would just have numbers that would just be stratospheric, which sounds like it's not likely, given – is that a correct assumption?

**Ken Asbury:** Cai, I think, we – obviously, this is Ken. We debated whether to do that or not. But should we see a change in the protest criteria, we could easily be to the top of the guidance range. If we had early adjudication on some of these protests and we started work now instead of planning for a much more conservative 100 days, there are close to 1,000 additional employees that would be part of that—that could be part of the revenue generation. In addition, should we've been conservative in our estimate of the ramp up of OPM, and that could also be a contributor. So right now, we are very comfortable staying with inside of that guidance range. I would not just, given the nature of the fact that we've won all of this work, we have OPM, I would not raise that guidance range at this point, but I want to keep open the possibility that good things could happen if we pull to the left. So I hope that helps.

#### **QUESTION ON SIX3 REVENUE FOR CACI'S FY15**

**Cai Von Rumohr:** Now that's very helpful. So you did, what, \$91 million at Six3, \$90 million in the first [quarter]. I think you were talking about, what, \$415 [million], \$420 [million] for the year. Is that – now that we're still looking at that separately, is that still a plausible number?

**Tom Mutryn:** So Cai, at the last call, we spoke about Six3 revenue for our Fiscal Year '15. We anniversaried the acquisition and we provided data with regards to performance in the first and second quarter. We are not refreshing that in particular number. Six3 continues to perform quite well. From our perspective, John referenced an exciting win, driven by the synergy between Six3

and legacy CACI. And very pleased with the performance, very pleased with the acquisition and looking forward to Six3 continuing to add to our accretion both on a GAAP and cash basis.

**Ken Asbury:** Yes, Cai, if I may add on to what Tom was talking about. There are a number of things that are really going to be difficult for us to talk about, that are world events right now that are having an impact on Six3, and so we will see some additional growth through the end of the year. If we look back over the course of the last year and when we looked at the acquisition to begin with, we knew there was about 60 percent to 70 percent of the business that was very high-end solutions—digital signal processing, cyber—that was, frankly, where we saw the long-term growth of the business. The traditional Harding work, which was similar to our intelligence services work, was the work that was under pressure and has had the most difficulty over the – I would say over the last year. The contract that John discussed was won by that group of people. So there's a bit of a turnaround in the process for that piece of the business, and we see a steady ramp-up. If there's anything holding back the digital signal processing right now, it is we have a lot of openings, and we're trying to find exactly the right kind of people with the right clearances to go into that work. So I think, all-in-all, meeting the accretion target was our first goal. But over the next few years, I think we'll see this to have, again, a transformative effect on some of the things that CACI does in this marketplace.

#### **QUESTION ON WHETHER CACI'S FY16 WILL HAVE HIGHER REVENUE THAN FY15**

**Cai Von Rumohr:** Terrific, and last question, whether you kind of get the protest or not, it sounds like this is – the timing of whether they get adjudicated early or not. I mean, it sounds like you have a bow-wave of business that's clearly going to help you in Fiscal '16. So that – I mean, is it incorrect to think about Fiscal '16 as likely to be a fairly solid revenue gain?

**Ken Asbury:** Yes, Cai. I mean, obviously, we're just starting through that process now. But there are really for – different than last year, a lot more positive indicators. On one hand, there are the things that we've began to control institutionally: how we win business, how we deliver on business, how we have really focused our strategies in the individual market areas in particular ways. The truth of the matter is, is we have bid much less in terms of actual numbers of contracts, but much higher in terms of their value, which was, to go back a couple of years, was sort of a principal caveat for how we were going to look at the future. That's manifesting itself now.

When you think about it, in the first half of this year we won more than we did last year. And it's a tribute to moving from just building a great business development organization to institutionally growing – having everybody in the company decide that we're going to grow business as Job 1 and deliver business as Job 1b. So thanks for recognizing that.

**Operator:** Our next question comes from Brian Kinstlinger with Maxim Group.

#### **QUESTION ON THE OPERATING MARGIN CONTRIBUTION OF THE NEW AWARDS RECEIVED IN THE QUARTER AND PRICING COMPARED TO A YEAR AGO**

**Brian Kinstlinger:** It sounds like you won several large contracts that were enriched with direct labor content. I know you mentioned OPM specifically on the margins. But I figured these are generally takeaways. So I'm curious how the operating margin contribution compares to the average direct labor margin of your business, and then how aggressive you had to get on price compared to pricing wins maybe a year ago.

**Ken Asbury:** Brian, this is Ken. Let me start. There's a sort of a mix of this business. I don't know the exact number but it's some LPTA; but there's really a preponderance of best value in this. So it's not one of those where we're necessarily competing on price. A number of these were won on competing with new ideas or new approaches to the way an agency is doing something. So I

would expect that our margins would at least stay the same as they are, if not adding. We believe that we add direct labor and we don't have as much ODC. That's generally going to be more margin-favorable.

But we want to get into each one of those before I get too predictive about that. I want to get to each of these programs—get them into a rhythm. And my expectation is, is we would see somewhat higher margins as we go forward, as we get to full operational capability.

#### **QUESTION ON EXPECTED PRICING TRENDS OVER THE NEXT 12 TO 18 MONTHS**

**Brian Kinstlinger:** And a follow-up. With that said, one of your peers yesterday said that pricing pressure seems to be easing, I think, is what they said. So I'm curious of your view overall on the pricing trends today. But then, more importantly, where you expect – 12 to 18 months, how we'll be in pricing. Will we be at a stable price environment or will we be at marginal price contraction, which has always been part of this space but maybe better than we were, maybe in the last six months?

**Ken Asbury:** I think the pendulum's swinging a little bit. I mean we've had a couple of years where LPTA was used for things that it shouldn't have been used for. And I think people have – I think our customer community has had the experience of that, and maybe it hasn't been as great an experience that they would like. There is a lot of discussion out of the people that are running the acquisition organizations, particularly in DoD, where they want to look at a more balanced project.

I believe there's still going to be a commodity-related business out there where they are buying ours. But when you're buying outcomes, it's a different game. And outcomes are a competition of ideas. And I think the market's going to settle out. We won't be so much just trying to save money. We want to make sure that we get the missions accomplished. So I think we'll see some improvement in that.

**Tom Mutryn:** And I think the other – and the factor, Brian, buying is that – one is pricing, the other one is CACI's cost and rates. And do we have the cost structure, the rate structure, the efficiencies to be competitive in a dynamic competitive environment. And make no mistake, it is a competitive business that we're in and very capable, well-respected competition. Our focus over the last few years is ensuring that we have that foundational principle, rates and structures which allow us to compete effectively.

**Operator:** Our next question comes from Jason Kupferberg with Jefferies.

#### **QUESTION ON OPERATING MARGIN ASSUMPTION FOR FY15**

**Amit Singh:** This is Amit Singh for Jason. Just quickly on the overall operating margins. Of course, they were impacted this quarter because of costs related to OPM. But, as you are thinking about operating margins for the full year, do you still expect that to be at the similar level to as in last year, which would mean, you would have to do operating margins closer to eight-ish percent in the second half?

**Tom Mutryn:** Yes, this is Tom, and I'll take that. Initially, we guided to essentially flat margin on a year-over-year basis, despite the fact that our ODC is predominant, our direct labor was up. So we had a richer mix of business, but several other factors were such that the margins were flat. The OPM contract fee ramp-up associated with it has had a, to my mind, significant negative impact on our second quarter GAAP reported results. That is such that we now expect our full year margin to be in a slightly below where we were last year.

#### **QUESTION ON THE REVENUE GUIDANCE RANGE AND WHAT THE MIDPOINT IMPLIES**

**Amit Singh:** OK, great. And then, just digging a little deeper into your revenue guidance range, which is, earlier mentioned, is pretty wide. If I just look at the middle—the midpoint of that revenue guidance range—it would indicate you would have to do around eight percent average sequential growth and one percent year-over-year growth over the next 2 quarters. So just trying to get a sense of what does that midpoint imply? Does that mean all your – everything that has been contested get – goes in your favor, as you expect on time, as you're expecting right now?

**Tom Mutryn:** I'll start and John may want to add to that. A few things which are productive in terms of revenue in the back half, one is OPM. We did bring on 1,300 employees, and those employees will be generating revenue in the third and fourth quarter as the program ramps up. I think that's positive. And the second, major variables, is the timing of the protest adjudication. When will those protests be finalized? Will they be in our favor? We believe so. And how quickly can we ramp up, and that's program specific. We still have some new business in the back half of our plan. I think the number was four percent in new business and so now we need to win that business and start that business as well. So there are a few variables associated with the revenue in the back half.

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

#### **QUESTION ON WHAT "FAIR MARGINS" ARE IN CACI'S INDUSTRY**

**Jon Raviv:** And Ken, or maybe Tom, or anyone, really. I wanted you to talk to what you think fair margins are in this industry, keeping your mind that your EBITDA margins are a bit below the industry leader and margins this year sound like they're going to be sub 7.2 [percent] on the EBIT line?

**Tom Mutryn:** I'll start off, Jon. So what are we focused on? To my mind, I care about driving value to our shareholders. And we believe that the key metrics driving shareholder value are net income/earnings per share as well as positive, strong, increasing in cash flow. So that has been our focus in our business. Trying to determine what a fair margin is is somewhat a nebulous question.

We need to have a competitive cost structure in which allows us to compete, which drives efficiencies in our cost structure. The government conducts auction processes for businesses. And the government does a very good job, in my mind, as a taxpayer of trying to generate value and making sure that they buy goods and services effectively and efficiently on the taxpayers' behalf. And as a result of that, this industry is not a high-margin business compared to Apple Computer, for example.

I think our margins are fair. Our returns are solid returns. And we generate cash flow, generate earnings and that should drive our performance. We're not focused on margin as the key metric driving value, but it's a subsidiary metric based on our ability to generate revenue and profit.

**Ken Asbury:** And, Jon, this is Ken, maybe to chunk it up a level. There is space within the large addressable market that we pursue that the government is willing to pay for certain solutions and doing under different contract base—for instance, the fixed price. We like the idea of fixed price because we know how to perform under those contracts if we understand their requirements. If it's a good, solid RFP, we understand what they want to do that's in our capabilities, we expect to make more on that. As time goes on, we want a favor. If I have a chance to do a commodity-oriented contract or a fixed-price contract of the same size, and I'm capable of performing either one, I want the fixed-price one because I'm going to bet that we will get a better margin on it.

### QUESTION ON THE SUSTAINABILITY OF CASH FLOW CONVERSION

**Jon Raviv:** Understood. Thanks for the additional color there. And with your focus on cash, obviously, and we had your FY '15 guidance reiterated, is that sort of 140 percent conversion sustainable? Is that what we should be thinking about going forward?

**Tom Mutryn:** Jon, yes it is. Because looking at a company like CACI, we do have – we start out with net income and we add back noncash items. We historically, we had large noncash depreciation, amortization, largely due to the acquisition that we've undertaken, stock-based compensation, deferred taxes and the like, and so we will have solid, higher cash conversion ratios.

**Operator:** Again, ladies and gentlemen, if you would like to ask a question, please press star then one on your touchtone telephone. Our next question comes from Tobey Sommer with SunTrust.

### QUESTION ON THE CYBER MARKET ENVIRONMENT GOING FORWARD

**Frank Atkins:** This is Frank in for Tobey. I wanted to ask a little bit about the cyber spending environment going forward. What are you seeing there in terms of growth and budgeting?

**Ken Asbury:** Yes, Frank. In terms of a single budget, I don't see it as a big line item. It is really across a number of things. I know for example, in this current budget we have, there is \$5 billion just as a set-aside that's totally targeted on cyber for certain parts I would imagine in the DoD and Intelligence space. What we are seeing, generally speaking, is a lot of money flowing towards cyber training. There is a big need across the government to build up people that are capable of sitting in cyber network operations centers and have the ability to defend against and understand and characterize cyber attacks. So there's a lot of money flowing into that.

There's also – as we discussed in our last conference call—our look at cyber—is we want to look at network platforms, not necessarily just IT systems. We want to look at that whole array of computing or digital devices that goes inside of the U.S. arsenal or the power generation plant. And we want to make sure that we understand how they work, how they could be protected and the like. So, I believe that there is a lot of – this is going to be a growing area but it's really hard to get a number on it. Our last addressable market look at this showed it as a relatively small standalone number but growing at high-single, digit compound annual growth rate. So we expect to see that for quite some time.

### QUESTION ON CACI'S ABILITY TO RECRUIT CLEARED PEOPLE FOR THE NEW BUSINESS WON

**Frank Atkins:** OK, great. And in terms of the recruiting of cleared people and just good talent, what are you doing to kind of increase that pace and what initiatives do you have in the face of some of these large potential contract wins and the revenue ramp that may be associated?

**Ken Asbury:** Yes, I think in general, we have a – this is Ken. So we have a world-class recruiting organization. We've been – we're kind of recognized nationally for doing that. For the majority of these contracts where we're getting cleared software developers that are truly in our wheelhouse. The folks from Six3 that I referred to earlier, that maybe where you got the reference, there is a particular kind of skill that they have found successful.

I'll take you through a couple ways that they do it. Probably, a 1/5 of that workforce today is made up of interns that have been brought in from the time—I don't know, that Tom Ladd may have brought them in from grade school if they knew math. But they got in. They understood the nature of the business and they end up becoming great contributors as soon as they come in to the business. So, a lot of focus on that.

We also make sure that – there's a lot of change in this market right now. Companies being bought and sold as we bought Six3. There are some other ones. And I'm sure that trying to make sure that the environment that we create, it's a particular kind of environment, we preserve that the best we possibly can, and that should help us attract and retain talent.

Finally, we do the typical bounty systems or referrals and we provide employees – somebody that knows somebody that's really good at this. If you can attract them in, we'll pay you some money to be able to do it because it's worth us getting the right people. I will tell you, it's a selective process. It's the equivalent of – it's got to be – you got to be culturally adapted. You got to have the technical skills, but then you got to fit in to the culture. And so you got to have a lot of integrity, you got to have character and you got to have the talent. So I'm confident that we'll get it solved. It's just – it's a fun problem to have.

**Operator:** Our next question comes from Mark Jordan with Noble Finance.

#### **QUESTION ON WHAT THE NORMALIZED RUN RATE OF THE OPM CONTRACT WILL BE**

**Mark Jordan:** Given the 1,300 people that you've added plus the prior business you did at OPM, could you give us a sense of when this relationship is fully ramped, what's its normalized run rate should be?

**John Mengucci:** Yes, Mark, this is John. We're looking total on OPM, the number of investigators we have, total are about 1,600. We'll be fully ramped up to be able to process that level of workload during the fourth quarter. Because of the restrictions we have on the type of work that we do and how we're restricted, talking about caseload, we really can't talk about the revenue expectation. What I can share is that we're looking at a full productive run rate beginning in our fourth quarter.

#### **QUESTION ON WHETHER THE OPM CONTRACT WILL BE PROFITABLE BY THE END OF FY15**

**Mark Jordan:** I note on OPM that, I believe, at the first quarter conference call, you had estimated startup cost of \$7 million to \$8 million, and you said that you believed that you could recoup that investment in the third and fourth quarter. Obviously, the Q2 investment was larger than you planned. Will you be profitable in OPM in Q3 or above the breakeven point and do you believe that you'll still be able to recoup those investments and profitability by the end of the year?

**Tom Mutryn:** This is (Mark). In answer to your question, in the third quarter we should generate positive pretax income for OPM, reaching a steadier state in the fourth quarter. And let me characterize the ramp-up of OPM. Instead of viewing it as an investment, view it as timing of expense and revenue. We've hired the people. We're paying their salaries. Once they submit the cases, we will receive the revenue. So if there is a shortfall in our second quarter of \$11 million, at the end of the contract, whenever that maybe, perhaps many, many years from now, we'll have a quarter with \$11 million of additional profit because we don't have the expenses and we have the revenue. So with the timing – for the full year, OPM, I'm not sure. It could be slightly negative to CACI in total.

**Operator:** Our next question comes from Brian Kinstlinger with Maxim Group.

#### **QUESTIONS ON THE PACE OF AWARDS IN THE THIRD QUARTER AND PROPOSALS PENDING AWARD**

**Brian Kinstlinger:** Great. Two follow-ups. Is the pace of awards continuing to be solid in the first quarter? Traditionally, it's been an average quarter – first calendar quarter. Or do you think the signings of the appropriation bill pulled the awards earlier than expected, which would make 2Q

may be weaker than expected? And the other one is, I missed outstanding proposals in the December quarter, at the end of the quarter.

**Ken Asbury:** Yes, Brian, this is Ken. I mentioned in my opening remarks that we've seen somewhat lumpiness. And it is probably driven by some of the events like signing of the appropriations bill and the like. The start of each quarter has been somewhat slow, although, second, and we talked about this in our call in the first quarter, we did see some fairly strong awards at the very beginning of our second quarter, the government's first quarter. And then, it really kind of bottomed out. We were getting some contract extensions and we saw funding flow, but not a lot of award activity. And then after the appropriations bill was signed, it was really another sort of logarithmic jump-up.

John's going to tackle the second part of your question. Hopefully, that gives you some color on what we're experiencing. By the way, for this quarter, we have seen it to be a more normal quarter so far. There has been some award activity but we'll wait and see what the end of our third quarter looks like.

**John Mengucci:** Brian, this is John. Pending awards, \$9.5 billion, 75 percent of that new. That's up from \$8.7 billion last quarter, and over the next six months, submitting \$14 billion, a 60 percent of that's new, that's up from \$13 billion last quarter.

**Operator:** Our next question comes from Steven Cahall with Royal Bank of Canada.

#### **QUESTION ON THE CURRENT PRICING ENVIRONMENT AND WHETHER IT'S STABILIZING**

**Steve Cahall:** Maybe, a first question just on pricing. One of your competitors said yesterday that they really saw the pricing environment is stabilizing, that it was still competitive, but maybe stable for the first time in a while. Is that a similar trend that you're seeing or is your book of business maybe either better or less good to that stability?

**Ken Asbury:** Steve, what we're seeing – I mean, we're seeing a mix. And frankly, we get to control that. As we look at the next six months of bids, it's still a very large market and we're going to be drawn increasingly to things that are going to be, if you will, more complex, more solution-oriented. We believe the hypothesis of that is where we can go in and convince our customer for an outcome instead of just selling ours to them, that's likely to command higher margin, particularly if we perform well on it.

So I think in general, I see, we feel more best value. Best value is becoming a little bit more prominent, whereas, maybe a year ago, we saw a lot of people going to LPTA because that was their way—that one way of controlling their budget. And with a little bit more money within appropriation that goes to the end of this fiscal year, I think – and I think, honestly, customers have admitted that they've gotten bitten by buying certain outcome-oriented contracts on an LPTA basis. So it feels like it's an improved market. And so I'm not sure who said it, but we feel very much the same way. And that is having an impact on how we pick the jobs that we are going to pursue in the future.

#### **QUESTION ON WHEN THE OPERATING MARGIN WILL REFLECT A BETTER PRICING ENVIRONMENT**

**Steve Cahall:** OK. And then, I guess, if I kind of extrapolate that forward to the medium term, as we think about the direct labor coming up as a percentage of the cost base and ODCs coming down, where do we think about maybe seeing an inflection point in margins? Understanding that there's some phasing of things like OPM that will always be a little bit lumpy, but we've kind of got the

inflection point potentially with organic growth the end of this year. Next year is a little further out that we might see that operating margin start to reflect the turnover in the pricing environment.

**Ken Asbury:** I'm going to let Tom talk about the operating margin, because he has a particular theory on that. But I will tell you this. We've not planned '16 yet. But when I look at my team, I see a team that's done a very good job of adapting to the more difficult part of this environment. And should we see things that we hear about, I'm not quite there in believing that we're going to see more money in the budget. I'm not going to believe that we're going to see the end to the budget battles and fiscal cliffs and all that because that's still very much a part of the fabric of the last couple of years. And say, I'm from Missouri, I want to – you got to show me that's happened before, I'll agree with it.

But the things that we control with higher win rates, the work that we've done on our strategies and being in specific areas of very large markets and focusing there, having an emphasis on outcome-based business more than simply selling labor hours. I like the way it feels going into '16. But I'm going to let my team come and tell me. I'm giving them some encouragement that, don't bring me flat and don't bring me declining, be in the right business. But I've got a few more months before I get into – before we get to talk about that.

**Operator:** I'm showing no further questions at this time. I will like to hand the call back to Ken Asbury for any closing remarks.

#### **CEO CLOSING REMARKS**

**Ken Asbury:** Well, thank you, Amanda, and thanks for all your help today on the call. We would like to thank everybody who dialed in or logged in on the webcast for their participation as well. We know that many of you will have follow-up questions. And Tom Mutryn and Dave Dragics and Jeff Christensen are available later this morning to take some calls. So this concludes our call. Thank you, and have a very good day.

**Operator:** Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone, have a great day.

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*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.*