CACI INTERNATIONAL INC
Fourth Quarter FY19 Conference Call

PRESENTATION

Operator
Ladies and gentlemen, thank you for standing by. Welcome to CACI International Q4 and Year-End FY19 Earnings Conference Call. Today's call is being recorded. At this time all lines are in a listen-only mode. Later we will announce the opportunity for questions and instructions will be given at that time. If you would need any assistance during this call, please press star-zero and someone will help you.

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

INTRODUCTION AND SAFEHARBOR STATEMENT

Dan Leckburg
Well, thank you, Nicole, and good morning, everyone. I'm Dan Leckburg, Senior Vice President of Investor Relations for CACI, and I thank you for joining us this morning. We are providing presentation slides, so let's move to slide number 2.

There will be statements in this call that do not address historical facts, and as such, constitute forward-looking statements under current law. These statements reflect our views as of today and are subject to important factors that could cause our actual results to differ materially from anticipated. Those factors are listed at the bottom of last night's press release and are described in the company's SEC filings. Our Safe Harbor statement is included on this exhibit and should be incorporated as part of any transcript of this call.

I would also like to point out that our presentation will include discussion of non-GAAP financial measures. These should not be considered in isolation or as a substitute for performance measures prepared in accordance with GAAP.

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

CEO OVERVIEW

John Mengucci
Thanks, Dan and good morning everyone. Thank you for joining us to discuss our Fiscal Year 2019 fourth quarter and full-year results. With me this morning are Tom Mutryn, our Chief Financial Officer; and Greg Bradford, President of CACI Limited, who is joining us from the UK.

Let's turn to slide 4, please. Last night, we released our fourth quarter and full-year results for Fiscal 2019, and I am pleased with our performance. We delivered several significant accomplishments during the year, including record revenue, record operating income, record cash from operations, record awards, and record staffing levels. We booked $10.3 billion of awards, $6.9 billion of that for new business.

We went up against the best incumbents in the best competitors in our market space and won. In fact, we were successful on seven of every ten new business competitions in 2019 and establish new beachheads in the areas of secure communications, electronic warfare, SIGINT, and cyber. We won nearly 90% of our recompetes for $3.4 billion of awards. We finished the year delivering 11.6% revenue growth and EBITDA margin expansion in excess of our commitment, which Tom will cover in more detail.

We also opened our Shared Services Center in July 2018, which is performing exceptionally well, and further enables us to invest in long-term growth and employee initiatives, maintain competitive rates, and deliver on our commitment to expand margins. We are utilizing our M&A program to further differentiate by adding new capabilities and customers across our addressable market.

Slide 5, please. We continue to successfully execute our strategy to win larger, more enduring contracts with a focus on technology, which will sustain both organic revenue growth and margin expansion. A few examples of these awards are:

- a seven-year $880 million task order to develop software for the Army's Force Management Systems utilizing our Agile software development factory. In the five recompetes of this work, this is the first time an incumbent has re-won this business, which is a testament to CACI's people, our credentials in Agile software development, and the performance, value, and innovation we deliver.
- CACI also won an $810 million contract with the United States Air Force to develop, modernize, deliver, and sustain mobile and transportable command and control systems. This work is vital to our national security and was awarded on a sole source basis, given our differentiated offering.
- And CACI also won two large signals intelligence and electronic warfare programs in the quarter. The first is a five-year, $415 million contract; the second, a five-year $318 million contract. Both awards are to design and deploy new technologies to enhance capabilities in signals intelligence, electronic warfare and cyber security.

These awards illustrate the investments our customers are making in these critical areas and the differentiated, distinctive technology CACI delivers to solve our customer's most pressing requirements.

Slide 6, please. We continue to invest in long-term growth in a broad sense. First, growth of our capability set to stay ahead of customer demand and technology trends. To internal R&D, we are developing technology at the convergence of signals intelligence, electronic warfare, cyber, and communications. These solutions provide software-defined agility and multi-domain operations within the electromagnetic spectrum, where we are fielding capabilities in near real-time to counter highly dynamic threats.

In the space domain, we're delivering situational awareness tools to address a critical and now contested environment. And we are investing in other innovative ideas to include space-based photonic laser communications.

We're also investing in the growth of our talent base, ensuring we attract and retain the best and the brightest. This includes enhanced benefits and work life experiences and extensive training and certification programs. Our efforts are paying off, as CACI was recently recognized as a top workplace in seven cities across the U.S., in addition to being named in the *Washington Post* as a Top Workplace in Washington, D.C., for the fifth consecutive year. These rankings are based on our employees' feedback from third-party surveys, evaluating CACI's leadership, culture, and benefits. This kind of recognition greatly supports our hiring efforts.

And lastly, we remain focused on the growth of our leadership team to take this company to new levels. During Fiscal Year 2019, we added several strategic hires in important areas of growth for CACI. These are senior leaders with the right vision and experience to drive continued success across many areas of our business.

Slide 7, please. M&A remains our priority for capital development. We continue to pursue quality companies to fill capability gaps and drive further differentiation in our customers' most critical investment areas. During Fiscal 2019, we acquired the Navy Systems Engineering business, which is a premier platform engineering and life-cycle support provider to nearly all Navy ship building, and it's performing very well. It gives CACI the leading role in the revitalization and long-term operations of the nation's naval fleet and insight into future technology demands.

In June, we acquired a small company in our UK operations, which provides proprietary data analytic software to the Ministry of Defense and National Security Community, growing our presence in priority areas to address UK national security. And in our third quarter, we acquired LGS and Mastodon, two exquisite companies with highly differentiated capabilities in the areas of signals intelligence, electronic warfare, communications, and cyber. As you saw in our record contract awards, these are areas of increasing priority and demand.

During the first four months at CACI, LGS and Mastodon are performing very nicely, right in line with our expectations. We continue to expect the combined businesses to deliver 17% EBITDA margins as we look at Fiscal Year 2020. Given the nature of the Mastodon business and its schedule of part deliveries, profitability will naturally increase during the year with a higher level of deliveries. And Tom will provide additional color on that in just a few minutes.

Slide 8, please. Turning to the federal government budget, we are very encouraged by the recently signed two-year budget agreement, providing healthy spending levels for defense and non-defense customers, particularly in areas aligned to CACI capabilities. This agreement dispenses with sequester cuts and suspends the debt-ceiling through 2021, creating much needed fiscal stability.

While 12 appropriation bills still need to be passed, the progress is very encouraging, allowing our customers to plan, program, and invest with greater visibility and consistency. But what's more encouraging is our customers' spending priorities are in areas like system and infrastructure modernization, electronic warfare, cyber, and space, all of which are aligned with long-term CACI capabilities.

In closing, we achieved a number of successes in Fiscal Year 2019 that will continue to serve us well in 2020 and beyond. We delivered record financial performance with expanded gross and EBITDA margins, reflecting a higher quality mix of business. We won a record amount of contract awards with high-technology content. These awards now provide record backlog; upon which we will continue to grow over the next several years.

We closed on four strategic acquisitions during the year, adding differentiated capabilities in highly relevant areas of our market. And we continue to invest in technology offerings to differentiate and disrupt. These star distinctions continue to drive CACI's success within the market.

As I look to Fiscal 2020, we have nothing but success in mind. We have an industry-leading financial plan: 12.3% top-line growth, with approximately double the organic growth levels we achieved in 2019. We expect to grow adjusted EBITDA margins by 100 basis points from 9.3 to 10.3 and net income by 14.8%.

We also plan to spend about $90 million of B&P and IRAD, levels that are materially higher than in past years, indicative of the technology business we are pursuing. And we come into the year with a $220 billion addressable market made larger by our investments, partnerships and acquisitions, and a federal budget and spending plan that's more than sufficient to support our growth.

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

FINANCIAL OVERVIEW

Tom Mutryn
Thank you, John and good morning everyone. Please turn to slide number 9.

Our fourth quarter revenue is $1.4 billion, 17.4% greater than last year with 2.8% organic growth and strong performance from our acquisitions. Net income for the quarter was $50 million, capping off of the year of exceptionally strong performance, and in line with our expectations and guidance.

As we noted in our May earnings call, there are two items to note when comparing this year's fourth quarter to last.

- First, we adopted ASC 606 in Fiscal Year 2019, which had the effect of spreading award fees throughout the year. This reduced award fees in the fourth quarter of 2019 by $7 million when compared to 2018.
- Second, we made $13 million of one-time investments in the fourth quarter of 2019 for IT systems to drive enhanced security and efficiency for increased business development and IR&D, given a robust pipeline of opportunities and for some HR initiatives.

Mastodon and LGS's contribution to the quarter were consistent with our expectations. During the five and four months as part of CACI, they added $150 million of revenue with a combined EBTIDA margin of around 12%. Given our forecast and pipeline, we continue to expect 17% EBTIDA margins for the first 12 months. For Mastodon, the timing of product orders and deliveries will create fluctuations in profit and margins from quarter-to-quarter. Their products are highly specialized, which results in very high margins but with orders coming in discrete batches. We are confident that Mastodon will drive significant value.

Please turn to slide 10. Full year revenue was $5 billion, up 11.6%, also with 2.8% organic growth. Net income was $266 million. Assuming a full year of tax reform in Fiscal Year 2018, which is detailed on our earnings release, net income for Fiscal Year 2019 was 14.4% greater than last year, driven by strong program performance.

We continue to expand EBITDA margins in line with our long-term commitments. For a more meaningful year-over-year comparison, it is helpful to normalize for two items:

- First, Fiscal Year ‘19 adjusted EBITDA includes $14 million of non-recurring transaction expenses associated with the acquisition of LGS and Mastodon.
- Second, and conversely Fiscal Year ‘18, adjusted EBITDA includes about $12 million of net one-time benefits, which we spoke of last year.

Adjusting for these items reflects an even healthier profit growth in Fiscal Year 2019.

Please turn to slide 11. We generated $363 million of operating cash flow for the full year, excluding our A/R purchase facility, an increase of 13% over the last year. Days’ sales outstanding excluding the facility, was about 64 days at year-end, showing continued improvement from 66 days in the third quarter. We ended the year with net debt to trailing 12-month adjusted EBITDA at 3.2 times, having ample debt capacity to fund potential acquisition opportunities.

Before discussing 2020 guidance, let me turn to another matter. In August, we were informed that the IRS filed several tax liens against CACI related to various employment-related payroll taxes. Bottom line, we have paid all the appropriate taxes on time and these liens are results of administrative errors and without merit. As a background, in 2017, we undertook an internal reorganization to streamline our structure, transferring several thousand employees from various subsidiaries to CACI, Inc. Federal. All payroll taxes were paid by the appropriate legal entity. The fact that the subsidiary ceased to employee personnel was not immediately recognized by the IRS, and they subsequently filed $156 million in liens against these entities. We are in communication with the IRS to resolve this matter, and provided them with all appropriate evidence and documentation. We are highly confident that this issue will be resolved favorably and without any financial consequences.

Slide 12 please. We are reiterating our Fiscal Year 2020 guidance, which we provided on June 19th. We continue to expect strong revenue and earnings growth with accelerating organic revenue growth and margin expansion.

To help with your modeling, let me give you some color on the first quarter of Fiscal 2020. In first quarter of last year, we disclosed $12 million of pretax profit associated with sales activities occurring earlier in the year than expected. In addition, the effective tax rate in the first quarter last year was a low 13% as a result of the tax benefits of stock vesting at prices higher than at grant date. This year, we are expecting our first quarter effective tax rate to be around 19%.

Normalizing for the revenue timing and applying a higher tax rate would reduce First Quarter ‘19 net income by around $14 million. This year, we expect modest first quarter net income growth over the normalized 2019 level, and we expect sequential improvement in net income as the year progresses. LGS and Mastodon are expected to contribute around $18 million of EBITDA in the quarter. This will be offset by additional intangible amortization and interest expense, such that the acquisitions will be about neutral from an EPS accretion perspective for the quarter.

Slide 13, please. Our forward indicators remain healthy. At the midpoint of our guidance, we now expect 85% of our revenue will come from existing contracts, 11% from recompetes, and 4% from new business. Our pipeline metrics are strong with submitted bids pending awards now at $9.3 billion, around 65% of the debt for new business at CACI. And we expect to submit another $16.8 billion worth of bids during the remainder of the calendar year, with around 80% of that for new business at CACI.

And with that, let me turn the call back over to John.

CEO CLOSING COMMENTS

John Mengucci
Thank you, Tom. Let’s go to slide 15.

In closing, I am very pleased with our performance in Fiscal Year 2019, and confident in our prospects going forward. We delivered record financial results for the year, including sustained organic revenue growth and margin expansion. We won a record amount of contract awards in areas of our market that will continue generating profitable growth. And we expect accelerating organic revenue growth and continued margin expansion throughout 2020.

This team’s successful execution of every element of our strategy gives me great confidence in our ability to deliver on our commitments in Fiscal Year ‘20 and beyond. None of this happens without the talent, innovation, and commitment to our customers’ missions by our employees. I’d like to say how incredibly proud I am, and I thank you all for what you do each and every day.

With that, Nicole, let’s open up the call for questions.

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin the question-and-answer session. [Operator instructions]

Our first question comes from Gavin Parsons of Goldman Sachs. Please go ahead.

QUESTION ON THE RISKS TO ACHIEVING THE HIGHER END OF THE RANGE OF REVENUE GROWTH FOR FY20

Gavin Parsons
I’ve been looking at the revenue growth for the year—obviously really strong bookings in the quarter and in the year. I think, on the guidance call, you mentioned if you got a two-year budget

deal, you think you'd be towards kind of the right end of that growth goalpost. So maybe, just an update on what the upside risks are to kind of the range of revenue organic growth.

John Mengucci
Yes, Gavin, thanks. So, one of the things that we haven't had in the past was a very solid next year budget. We are starting FY20 strong with our business awards. And as we look at risk to hitting our guidance, we don't see any risk going forward. If we look at the high end, if we get the awards awarded on a timely basis—which is where we have them planned within our FY20 plan—if some of those were pulled to the left, that would allow us to start some of these larger technology-based development programs sooner.

As it pertains to our Mastodon folks, the only risk there is if we see any move to the right of some of the product orders that we have planned for the year. We don't see that in our near-term view now, due to budgets and due that the contractual vehicles that we need are already in place. So we're very confident on the midpoint of our guidance. Should we be able to get some awards coming in sooner, that would help us keep our momentum forward and finish somewhere closer to the right side.

QUESTION ON THE EXPECTED PACE OF GROWTH OF THE PRODUCTS AND SOLUTIONS PART OF CACI'S BUSINESS

Gavin Parsons
And then as I think about the target to outgrow the market organically, it hasn't been the case the past few years—the 7.5% at the midpoint. Maybe, it wouldn't be as fast versus the public peer group as you've been looking for but the bookings are a lot stronger. So maybe, what inning do you think you're in as far as kind of the strategy to pivot towards the products and solutions? Obviously, it's paying off in bookings but do we see that outgrowth kind of accelerate going forward over the next couple of years versus the market?

John Mengucci
Yes, Gavin, thanks. So, I'll focus on two areas. One is our focus on long-term, sustainable growth for this company as we've done the last 57 years. Also focus on the fact that we are looking to drive both top and bottom-line growth. So we, too, read of other top-line growth. We're actually focused on the strategy we have, which is looking at the markets that we serve today, making actually certain that our IR&D investments are being made ahead of customer need so that when budgets arrive, CACI is ready to deliver.

We're very, very proud of the awards, of the book of business that we did during 2019. I mean who wouldn't at $10.3 billion. But a lot of that is also representative of us moving to longer-term contractual relationships with some of our technology-driven customers. If I were to look back over the last five to six years, where the majority of our business was on delivering expertise, those contract turns were three to three-to-four years. And during LPTA time, it was closer to, every year, to 18 months.

So we're looking this coming year to nearly double the level of organic growth. At the same time, we don't have a three-year plan to grow margins, we have a year-over-year plan to grow margins. And last two years, being able to exceed 10 to 30 basis points is what we believe shareholders are going to be looking for, not only now but in the future.

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

QUESTION ON THE $13 MILLION OF INVESTMENTS MADE IN THE FOURTH QUARTER OF FY19

Cai von Rumohr
Yes. Thanks so much, and good quarter. So, the $13 million investment in the fourth quarter—give us a little more color about what percent was to each of the items you mentioned. Where is it in the P&L? And are you considering kind of doing more special investments in FY20?

Tom Mutryn
Yes. So, in terms of the—I can give you specific details. In terms of order and magnitude, the B&P and IR&D was the largest item, either followed by the internal IT investment, followed by HR initiatives. And let me point out that there's a variety of other HR initiatives, which are ongoing and sustainable. But these are more unique activities to jump start certain activities associated with those. And in the off flow through the indirect expense line on our P&L.

John Mengucci
Cai, you also asked around some special investments—is there any plan in FY20. When we announced early in the third quarter those special investments in the fourth, we're looking at what our FY20 plan looked like. We were within all of our guidance ranges for the full year FY19. And we found it prudent for the long-term growth of this company for us to make some of those investments in the fourth quarter of 2019.

As we look at FY20, will we do the same exact thing? It will most likely be in two areas, if we happen to do that. Some of the technology investments that we have may or may not require additional investment for us to hit customer plans ahead of need. And we will always be investing in not only retaining the best and brightest folks but attracting them. And that is an ongoing focus that CACI has. And we will continue to make the prudent investments. I will say all the while making certain we're living within our very competitive rate structure. So we're not looking at making investments to then push our rates greater. We're actually balancing cost and spend.

QUESTION ON WHETHER THE EBITDA MARGINS FOR LGS AND MASTODON ARE SUSTAINABLE

Cai von Rumohr
Terrific. And last one. You mentioned that 12% EBITDA margin for LGS, Mastodon in the four months, and 17% next year with the sequential build, which would imply—I don't know—the exit rate's going to be 19% to 20%. Is that sustainable? Or is that just a function of when the Mastodon products deliver? Thank you.

Tom Mutryn
Yes. Thank you, Cai. Right now, it’s a little bit premature for us to talk about margins to the performance in 2021. I would hope sustainable. And certainly that's our goal and our aspiration. But at this point in time, I think your latter comment that this could be some fluctuation, some quarters are going to be higher than others, given those product orders and deliveries will create some, again, noise is associated with that steady state. So we get, aspirationally, [indiscernible] higher margins. And I will point out that the margin characteristics of Mastodon are materially

higher than LGS. I think that's what we've disclosed when we purchased the acquisition. And so, to the extent that, that organization can grow disproportionately, that would be very productive to markets going forward.

John Mengucci
Yes. Cai I also add a little more color? When we talk about Mastodon, we talk about them being a product-based company. But they aren't a large-scale production company. So as we look at the quarter-to-quarter orders for what they create, it's not that kind of production model, where once we get through the first 20 or 40 units, we'll see even greater margins. It is really of more than respectable margins on unique technology products that they deliver. So that mix of products will change from time to time. But as Tom mentioned, they came into us with a promise of materially greater margins and the rest of CACI. And we're very pleased with where we'll finish in FY20.

Operator
Our next question comes from Matt Sharpe of Morgan Stanley. Please go ahead.

QUESTION ON THE TREND FOR INVESTMENT IN R AND D AND INFRASTRUCTURE FOR FY20

Matt Sharpe
Good morning, gentlemen.

John Mengucci
Good morning, Matt. Welcome.

Matt Sharpe
Thank you. So, I just wanted to touch—I know we've discussed this a bit thus far but the higher investment in R&D and infrastructure—how should we think about that as it carries forward? Will there be a continued, sort of, higher level into early Fiscal '20 and then sort of tail off as the year goes on? Or will the indirect be relatively consistent as a percentage of revenue throughout the year?

John Mengucci
Yes, Matt. So, when we look at IRAD investments, we were looking at it in two different areas—where those areas we have to invest to sustain. When we go after these large-scale recompetes, as we did on the Army RCAS program, we really looked at about two years before the recompete what are those star distinctions, or those type of differentiated technologies, we have to put in place? So that was an investment to make certain that we are able to retain some of the business that we have, albeit delivering more of a technology bend.

We're going to continue to increase our investments in signals intelligence, electronic warfare, communications and the like. And that's a very dynamic market. The world is a very dangerous place. Threats continue to change. And the model that both LGS and Mastodon have brought into our business is one of continuous investment.

So, to provide some kind of modeling guidance, I would say we're really looking at full-year bid and proposal and IRAD investments. I think you'll continue to see that level grow year-over-year, knock on wood, as we get out of FY20, continue to drive more technology solutions means greater investments. But again, never to a point where we are busting rates, which then make us less competitive. We really are looking to grow our innovative dollars within our means.

Tom Mutryn
Yes. And looking at the fourth quarter level indirect spend as a percentage of revenue, excluding those $13 million items, that's somewhat indicative of where we'll be going forward in 2020.

And as John mentioned, I'll just embellish, the higher value-add, solution technology requires a higher level of indirect support: laboratories, IR&D, smart people trying to solve problems in advance of customer requirements. The good news is that customers are willing to pay for that. And the wrap rates that we're able to command in some of those areas are materially higher than average wrap rates. And so, spend the money, the customers pay for them, and we can still deliver increasing margin and increasing profitability.

QUESTION ON THE TREND OF THE LEVEL OF CAPITAL EXPENDITURES IN FY20

Matt Sharpe
Got it. And then sort of on a related note on the capex side. How should we think about the profile of that from here? Obviously, 4Q was relatively high—and it's usually a light quarter for CACI. So, are you seeing upward pressure, just given some of the acquisitions that are a little bit more product or solutions-based? And again, how do we think about that going forward? Does it revert back down towards the sub-1% level that you're traditionally at? Or just gravitate towards the current 1.3%?

Tom Mutryn
Yes. So, we guided to full year capex of $55 million for 2020, approximately 1% of revenue for revenues of approximately $5.6 billion. The absolute level is higher than we have seen in the past—two large buckets, some internal IT, other infrastructure to support a larger organization. The other bucket is facility expense. And as we win programs, oftentimes these programs need to be performed at CACI facilities. And to the extent that we need facilities in new locations, we need to make those investments for those facilities. Some of those facilities require SCIFs, or secured spaces, which are even more expensive. And so that is driving some of the higher absolute dollars of capex. I would think that going forward, that 1% seems to be about reasonable set of numbers for CACI, barring any unusual type of program, which would require material capex.

John Mengucci
But I'll also add that those that will require a higher level of capex are most likely going to be technology-driven programs that have their own unique investment plan. I'm almost certain that we won't be able to predict capex by quarter. But I can tell you by the type of business that we're out there winning, we'll, always be within the right level of spend, given the type of programs that we continue to win.

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

QUESTION ON WHETHER CACI CAN CONTINUE THE PACE OF AWARDS IN FY20 GIVEN THE PIPELINE OF OPPORTUNITIES AND THE BUDGET ENVIRONMENT

Joseph DeNardi
Yes. Thanks very much. John, when you look at kind of the pipeline of opportunities, the budget backdrop, your expectations for kind of the timing of some of the bigger awards that may be out there, can you maintain the type of book-to-bill that you've had the last 12 months? Or should the expectation be that that moderates some in FY20?

John Mengucci
Yes, Joe, thanks. I always answer every award question with "lumpy." I've been in this business far too long that when we celebrate the absolute highs, customer changes a couple of awards and they award July 2nd versus June 28th, and book-to-bill looks crazy. And can we maintain the book-to-bill?

I'll tell you what we can maintain. We can maintain the level of success that we have had. It wasn't five or six years back when we were in a slightly different place. We really took the time to add the right business development talent. We actually drove market strategies, so that we were, in two words, disciplined and focused. I don't see anything different in our business development team as we come into FY20 other than discipline and focus.

So, I would expect us to continue to win more than we don't. I would expect us to continue to bring back 90%, if not better, of our recompete wins. Frankly, internally, we have an absolute goal of we win 100% of our recompetes. And when we don't, we're not happy. So if I look at budget support, if I look at the investments, if I look at the areas of the federal government budget that CACI now plays in, I feel very confident that we are on the right path and we will continue to win new business as well as recompetes at the FY19 pace.

Joseph DeNardi
Okay. I mean, does the nature of the pipeline in terms of duration and size support? I mean because I think that's been a tailwind for you guys recently, does it support maintaining that type of book-to-bill? Or even if you're successful, that number will come down, just because the duration may be changed? Just trying to set expectations a little bit, given how strong it's been for you guys.

John Mengucci
Sure. Given the nature of our pipeline, the type of business which is in there, we're pretty confident that we are continually finding larger programs for us to go out there and win. So, I honestly believe that we have the right formula there. Now that pipeline though is also going to change a little bit, and maybe it has the last couple of years, because you're bringing a company like Mastodon, which is really product deliveries, that is probably a 30- to 90-day delivery cycle. So that's more choppy, shorter term kind of business.

But I have to tell you, we have some multi-dollar B bids submitted that we feel as confident as we ever had. So time will tell, but I can tell you is that what our plans for new business awards are very much support our FY20 guidance.

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

QUESTION ON WHETHER THE SURGE IN FY19 BACKLOG IS RELATED TO THE SURGE IN FY18 SPENDING AND IF THAT IS A ONE-TIME SITUATION

Robert Spingarn
Hi, good morning.

John Mengucci
Good morning, Rob.

Robert Spingarn
Just following up on that—and I appreciate your answer before that your performance is going to be consistent, your relative performance to the others. But when I do look at the budgets, I'm wondering if this big surge in your backlog in your Fiscal ‘19 reflects the big surge in the budget, which peaked in Fiscal ’18, in government Fiscal ‘18. And so, is this money that's coming into your coffers this year—these orders—is this Fiscal ‘18 money and it's kind of a onetime deal, because clearly, the budget slows through 2021.

John Mengucci
Yes, Rob, thanks. So let me answer that from a couple different angles. Budget clearly helps, right, clearly, absolutely helps. But I think as much as the FY18 budget looked and as we go forward in FY19 budget, what I try to look at is when we get up to FY21, if the budget isn't going—and it's flat—what does that present for CACI, and sort of measure that against the business that we have in our backlog today.

What is different, I think, with CACI than potentially other folks out there is that, as we move more towards technology-based awards, those are longer term, and they are fully funded. So we look at these five- to seven-year $800 million, $900 million awards, those are fully funded awards. So just like a long-term production program, it's really hard to change course when you have a five- to seven-year technology development program that is very software intensive.

I would also tell you that the fact that we are on that technology track, it also allows us to look at a very different addressable market. So, although budgets may be fluctuating, what CACI can go out there and capture with more than making a fist in kind of capabilities that will grow. So $220 billion addressable market, which is fully funded, even a flat budget environment, we're a $5.6 billion company. So I look at our team all the time saying, if our addressable market is $220 billion, there are ample things we can go out there and invest in and go forward in and win.

So will it be for the same percentage? Perhaps not. But we're very confident on what our investment strategy has been over the long term, and really believe, large budget or not, the areas of budget that are growing are in areas that we, three or four years ago, began to invest in.

QUESTIONS ON HOW MUCH OF THE BACKLOG IS FROM THE ACQUISITION OF LGS AND MASTODON AND THE M&A OUTLOOK FOR SIMILAR COMPANIES

Robert Spingarn
Okay. And then just want to ask a couple of things on the acquisitions, on LGS and Mastodon, in terms of where you've been surprised on the upside and the downside. Sounds like the margins are coming nicely. But upside and downside there, I wanted to ask Tom if he could just clarify for us how much of this expansion in the backlog—in the funded orders and so forth—was acquired or was added at the time of acquisition. It’s possible you told us that last time, but I just wanted to get an idea of that. And then what is the M&A outlook with companies, or for companies like

these that are product-based? Is there more out there that you can expand this part of the business with? Thank you.

John Mengucci
You bet, Rob. Thanks. So, let me take the first and third question. I'll have Tom handle the second.

So, how do we feel about where LGS and Mastodon are and what has gone well, and what hasn't gone so well? Let me start with the not so well, because I'm struggling with what it is that hasn't gone well. Look, it's the first time we, as a company, reached out and stretched ourselves to close two acquisitions at the same exact time. So if you're a functional leader inside of CACI, my CHRO or my IT folks, we really stretched that. And frankly, in some areas, we most likely stressed the incoming employees from Mastodon and LGS, because we weren't as sharp as we normally are when we do a single acquisition. The good news is, we're about five months in and most of those employees have forgotten that.

On a more positive side, I'm really happy, Rob, with, over the last five months, the level of collaboration we've seen across core CACI folks, LGS and Mastodon folks. I'll give you a couple of examples, because for me to give you qualitative statements don't really mean much. LGS has already contributed with a triple million-dollar award, $200 to $300 million, of an updated sole source where it competes. And that's part of the business case for that part of our acquisition. It's also proof that the business does continue to operate just as they did prior to the integration.

On our E3I award that I spoke about earlier, what's most exciting is that that was a job won by CACI, and in the delivery cycle, we're watching LGS, Mastodon and CACI technology being put into those capabilities, enhancing those. And also, on single award IDIQs that we have, we're combining all of the technology know-how for us to be able to spend more than what that customer's initial spend plan was.

Tom, you want to talk about the second portion? I'll wrap up with comment on where we see the M&A.

Tom Mutryn
Yes. Thank you. I don't have the specific number that LGS or Mastodon has added to the backlog or the awards. We added those numbers at the end of the third quarter, and that was reflected in our market results. And I think it's reasonable to assume that their backlog is relative to their size. Core CACI versus LGS is a 10:1 ratio. So, while it is contributing, it’s not a huge driver in the overall backlog number. And as John mentioned, going forward, it’s going be hard to subscribe backlog numbers to LGS or CACI, given the fact that the credentials of both organizations, or parts of CACI, I should say, are driving wins.

John Mengucci
So on the M&A piece, Rob, for everyone on the call, we are very much sticking with the M&A strategy that we’ve had in the past. We know what our focus areas are. We know the markets that we serve. We review our market-based strategies twice each year to look for gaps. And then we turn our Corporate Development team on, going to look for new properties.

In the areas, they’re going to be very technology-centric, everything from supporting Enterprise IT and business systems customer as they continually look for new creative enterprise-wide solutions. But closer to where Six3, Mastodon, and LGS are, really in that SIGINT, EW, Cyber, and communications area.

I mean look, it's no secret that our edge, vis-à-vis other great powers, has eroded and that needs to be rebuilt. We saw that about 36 months back. We started to build upon what CACI already was creating. We then went to Six3 and then did that with LGS and Mastodon.

There are other properties out there that could potentially fill other niche areas for us in this EW/SIGINT/cyber world. But I have to tell you, I'm extremely pleased with everything we knew about LGS coming in and, frankly, in the meetings I've been sitting in, learning even more of the areas that they covered. So we're always involved in M&As. We're always looking for those long-term strategic targets. And I think you'll continue to see more of the same for us in the near and the long-term future.

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

QUESTIONS ON THE FORECASTED ORGANIC REVENUE GROWTH RATE IN FY20

Jon Raviv
Hi, good morning. Just first of all, clarification and a question here on the organic growth. The slides last month had 5.5% organic revenue growth in FY20. It's now a 5% organic growth. Can you just bridge those two numbers for me, please? I know it's small, but any comment there.

And just on organic growth, can you just give us a sense of some of the programs and/or markets that were headwinds in FY19 that are rolling off in FY20 to prove out and to support the accelerated growth? How do you get to the 3% to 5%? Thank you.

Tom Mutryn
Yes. So I'll start. When we provided initial guidance, we guided from the midpoint of FY19 guidance to the midpoint of 2020 guidance, which mathematically was a 5.5% organic growth. We'll be closing FY19 a bit higher than those midpoint numbers. And so if you keep 2020 intact, you get a 5% number.

I will caution you all that using a point estimate is simply using a point estimate. We have a range of revenue. And I think it's insufficient to say that inorganic revenue will be 5%--5.5%, perhaps more, given the upper end of the range; perhaps less with the lower part of the range. So I think that's the—hopefully, that will clarify those set of numbers.

In terms of where the areas of growth are in supporting the higher organic growth, lot of the areas that John mentioned, we're winning a large number of awards. Our information that we put out talks about awards in communication, secured communication, electronic warfare, a number of Enterprise IT work, and those are all supporting that growth. I would say the broad areas continue to be Enterprise IT, business systems, electronic warfare, digital signal processing, C4ISR. Those are the larger areas: intelligence solutions, Intelligence Services.

John Mengucci
And Jon, I would also add that it will quickly become tough for us to differentiate organic versus non-organic. What I'd focus on is growth. We're very clear that we do M&As to drive long-term

growth. An example of that is in our secure communications award—the $800 million-some award. There's about $400 million of that, which is programmed against current visible deliveries. The other $400 million of that single award IDIQ is funded ceiling.

So when I look at the capabilities of LGS and Mastodon and look at how they could come up with even in more enhanced solutions, we could spend more than $800 million and deliver even better capability for our customer. Frankly, whether I count that as organic or non-organic, it's outstanding growth that we wouldn't have had, had I not done LGS and Mastodon.

QUESTIONS ON THE SIZE OF M&A OPPORTUNITIES AND CACI'S CAPACITY TO MAKE ACQUISITIONS

Jon Raviv
Great. Thanks for that perspective. This is a follow-up on—John, you mentioned the two kind of maybe buckets in M&A: EIT and biz systems, and then also SIGINT, EW, cyber. Would it be fair to characterize the first as being a bit bigger in terms of deal size and the second being a bit smaller in terms of deal size? And then also on the call, on your prepared remarks, you mentioned that at 3.2 times net leverage, you have ample capacity. What is ample capacity when you do approach the M&A market, and what do you think in terms of sizing?

John Mengucci
Yes. Jon, thanks. So if I look at those two buckets, Enterprise IT and business systems, that, for us—if we look at the total addressable market—that's a much larger market today. We have clearly long-term decade's worth of experience there. So that's a larger total addressable market but a smaller growth rate. So you would expect deals in that area to be companies potentially of like size, if they fill capability and customer gaps, okay? If I find someone out there that's just like us, where this becomes a volume buy, that's not what we'll be interested in.

On the SIGINT/EW/cyber/comms, that second bucket, I think traditionally, what we're looking for are companies that have the right kind of capabilities. I probably won't share—in fact, I will not share any of those companies that we're taking a look at. I wouldn't say they're all small. Some could be larger as well. Some of the larger players there most likely will fill even more gaps. So if we can find someone that fills four gaps versus four smaller companies that only fill one each, then it's sort of a toss-up. They have to meet our investment criteria. They have to have the right cultural fit as well. But hopefully, that provides some light.

And, Tom, on our leverage?

Tom Mutryn
Yes, capacity. So assuming a couple of reasonable purchase price and margin of the acquired companies, we could undertake a $1 billion purchase price acquisition while maintaining leverage south of four times. So, if you want to take leverage up slightly higher than that, there is even more capacity. So we feel pretty comfortable that we can look for a wide variety of small independent-type companies with an all-cash deal.

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

QUESTION ON HOW MUCH OF THE FY19 AWARD TOTAL WAS FROM ON-CONTRACT GROWTH VERSUS TAKEAWAYS

Justin Donati
Hi, it's Justin Donati on for Ed. Thank you for taking my question.

John Mengucci
You bet.

Justin Donati
The first one I had—just on the new work that you've won over the last 12 to 18 months—how much of that has been from on-contract growth versus takeaways?

John Mengucci
Yes, Justin, this is John. I don't have that number, top of mind. But what I will tell you is this, as it pertains to going forward in future growth. Earlier to someone's question, I used the term single-award IDIQ, and realized there may be folks out there that don't understand how we explain that. Single-award IDIQs are where a customer awards only CACI a large contract. We have been very successful. It's shaping large ceilings as well. So, although we won a job—an $800 million ceiling—what's very creative to us is there may be $400 million worth of current book of business that we can see, but that's $400 million of guaranteed on-contract growth. So we do have an absolute focus over the last few years.

One of my focus areas coming into the CEO role is to put an even stronger focus on that. What we're good at is, when we sign a contract with our federal government customers, we do deliver. We make things right. And what we're going to really start doubling down on is how we continue to grow with on-contract growth.

If you think about it, it takes very little investment, right? We've already won the actual vehicle for us to deliver on. We're not competing against all the next five- to six-year task orders. So I'm well aware I'm not answering your specific question, but I can tell you, it's a healthy mix, and it's one that supports growth going forward.

QUESTION ON HOW MUCH TECHNOLOGY AND SOLUTIONS IS IN CURRENT BIDS COMPARED TO TWO YEARS AGO

Justin Donati
That's helpful. And then, as you've talked here today about more technology and solutions, can you just provide any more color on how much of that has been inserted into bids today versus maybe one to two years ago?

John Mengucci
Yes. Thanks, Justin. Over the last—I would say when we bought Six3 and both Ken and I had this vision of people know CACI as a provider of expertise and some level of technology solutions. What our vision was—and it'll be my vision to enhance that going forward—is let's talk about what technology means and how do we get ahead of where the government's spending so that we're not trying to punch above our weight, but we're actually punching at our weight.

So if you look at technology offerings today, I would say our offerings today are materially different than they were five years back. There's not as materially different, maybe over the last couple of years. But going forward, the addition of LGS and Mastodon, we will continually drive technological discriminators, everything that we're out there bidding. Even on those programs where it looks like it's a delivery of expertise or professional services, we're really driving to put technological differentiators in there as well. If a customer wants to have 45 people in an operations center, why isn't our bid showing technologies if the customer only needs to have 20? And that repurposes their dollars. It drives our margins. It really is a true win-win.

Tom Mutryn
Yes. And I will add, probably five years ago, the bids in the universe had the technology criteria, evaluation criteria, but we were not able to bid on those, because we didn't have the investments in those underlying capabilities. And so our aperture has changed materially, given those investments. And so, we can go after a lot of things today that we were not qualified to go after five to ten years ago.

Operator
Our next question comes from Greg Konrad of Jefferies. Please go ahead.

QUESTION ON CHANGE IN THE COMPETITIVE MARKETPLACE AS A RESULT OF MORE COMPANIES PURSUING A MORE PRODUCT-BASED M&A STRATEGY

Greg Konrad
Good morning.

John Mengucci
Good morning, Greg.

Greg Konrad
Just to follow-up on some of the last questions. More broadly speaking, it seems like a lot of the services companies are maybe pursuing a more product-focused M&A strategy. I mean, have you seen any noticeable change to the overall market, either from an M&A pursuit aspect or just overall competition in the market?

John Mengucci
Yes. Greg, thanks. When we look at our technology-focused part of our business and talk about some of the competitive nature of what it is we're going after, it sort of makes you think about where we deliver technology to solve a customer's mission area. There's a lot of different competitors there. Very different from maybe the traditional government services providers who are really predominantly looked at and delivering expertise with the desire to go towards products.

What I will tell you is that six years ago, we made a very defined move towards mission-type technology. And that's what brought us Six3 and really has changed the conversation on these types of calls as it pertains to where this company's going.

The competitors in the technology place are very, very different. Some of those are going to be the larger aerospace and defense companies. Some of those are going to be niche tech firms that are out there trying to move up the food chain and take some of that government budget.

What I think we've done a great job on, which is supporting FY20 growth, is making certain that as we've been building our technology plan out, we've been trying to get involved in a conversation of what our customers need. And you haven't heard us talk about AI very often or machine learning because, frankly, as the CEO of this company, I believe that those terms have been greatly overused, maybe harkening back to 12 years back, when we first heard about cyber. We've been doing artificial intelligence and machine learning to support space-based assets for a decade and a half. We just didn't call it that.

So our technology is going to be set up such that the larger companies who are looking at attacking this technological market with a product, we're looking at our device being delivered as software definable. And that means that I can build software to put in a device. I can also take that same software, put it on a much larger scale system and be able to get that customer both mobile and fixed-site coverage to what their problems are.

And a lot of times, what we've learned with the LGS capabilities, the word "uniqueness" comes to mind. Then what they do, there's most times few, if any, competitors that can do what that national asset does. And clearly, no one out there who can do it better than them.

QUESTIONS ON ORGANIC HEADCOUNT IN FY19 AND ANY CHANGE IN HR INITIATIVES FOR TALENT IN THE HIRING ENVIRONMENT

Greg Konrad
Thank you. And then just kind of as a follow-up, two-part. One, any color around what organic head count growth was in Fiscal Year '19? And then as part of that, I would assume as solution grows, it's probably a less headcount-based business. Has there been any change around HR initiatives or what you're seeing in terms of competition for talent in the market?

John Mengucci
Yes. Greg, thanks. So I think it was probably four or six quarters back where as we, as a company, moved to a mix of both delivering expertise and technology. We sort of moved away from how many noses we have in our business because it's actually a misleading guide as to where CACI is going in the future. Now to answer your direct question, we were very successful during FY18 to bring additional folks into this business. And it more than supported our FY19 growth rates.

As we look forward, you're absolutely right. Some of our solutions-based work doesn't take as many folks. Especially as we move to software definable, where you're looking at having high quality folks out there delivering solutions we can build once, hopefully—I shouldn't say hopefully—with an investment model that allows us to own the intellectual property that we can sell many times over. So on that solutions side, that's what I would say there.

Your other question was around sources of talent. Look, it's a competitive labor market. We hear that all the time. If I talk about the Washington, D.C. area, it's even more competitive. But what we have done is over the last four years, we've branched out to look at six to eight other major cities where there's phenomenal universities out there that aren't in the Washington, D.C. area where, oddly enough, you can actually still get people cleared and have those folks work collaboratively across these six-to-eight different cities. So it helps us bring great system and software engineers in.

Earlier, we talked about addition FY19 investments. Some of those investments are, how do we do co-development across eight different sites, because we're not going to penalize ourselves to only do development work in the greater Washington area. So that takes a great IT infrastructure. There's many new government laws and regs out there to protect their information. So how do we put infrastructure in place sooner so we can take full advantage of being able to source candidates in numerous different cities?

So overall, talent is always going to be a challenge. We continually work on how we reward and put different benefits packages in place for our current employees and with our upcharge referral program looking to bring in even more people in. So thank you for that question.

Operator
Our next question is a follow-up from Joseph DeNardi of Stifel. Please go ahead.

QUESTION ON MAKING INVESTMENTS IN THE BUSINESS DURING FY20

Joseph DeNardi
Yes. Thanks for squeezing me in here. John, just want to go back to some of the commentary you and Tom had about making additional investments this year. I mean, obviously, you guys well exceeded the FY19 planned revenue and EPS, and that kind of gave you the confidence to pull forward the investments. Is that how we should think about FY20—that you need to exceed the kind of guidance that you've provided us before you would consider making additional investments? Or, if you're on plan to kind of meet guidance, that would give you enough confidence to pull forward and make some additional investments? What's the right way to think about that? Thank you.

Tom Mutryn
Yes, I guess I'll start out. As you know, it's always a balancing act. So we're wanting to invest in our business. We believe in the long-term prospects and the investments are long-term in nature. That being said, do we care about annual earnings and do we care about quarterly earnings? The answer is absolutely yes. And so, making those particular balancing acts.

In addition, we have commitments to increase margin. We take those commitments seriously. And we also watch and maintain our rates. At the beginning of the year, we submit to the government what our billing rates will be for the year. And if we make additional spending versus the plan, that has an impact on billing rates. And we want to maintain those particular rates.

So I think the way I would characterize it is, we will continue to make reasonable levels of investments, which are reflected in our plan. And anything beyond that, we would give it consideration. We're not going to be bound by "Well, it's not in the plan." We can undertake good decisions. We're here to make good decisions, but we do take those commitments seriously.

John Mengucci
Joe, I would also say—and one real example is in the third quarter of FY19—we won a couple of extremely large technology-based jobs. And if I harken back to my earlier answer, we all sat around the table saying, we need quite a number of specialized people. We can go it alone and fight for talent in the Washington area, but we have these seven, somewhat networked locations out there. It sounds like the time for us to make those even thicker is right now. So the focus really was on the awards that came in and how quickly do we want to ramp those jobs up. And the entire leadership team said, "We've got to go make these seven sites even thicker because

of the rate we're winning this technology business, we've got to have a broader footprint to be able to bring people in." So yes, did it help? Was it one factor that we were on plan? Certainly. Is it the only factor though? No.

So I really can't give you the color at the end of '20. We just have to wait toward '21. Most times, we're actually doing things in the current year for the current year. So time will tell but we'll always be transparent. We'll always talk about when our indirect spend comes up, this is what we're spending on.

Joseph DeNardi
Got it. That's helpful. Thank you.

John Mengucci
Yes. Thanks, Joe.

Operator
Once again, if you have a question, please press star, then one. Again, that's star, then one to ask a question. And we will pause momentarily.

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

CEO CLOSING REMARKS

John Mengucci
Thanks, Nicole, and thank you all, and thank you for your help on the call today. We'd like to thank everyone who dialed in and listened to the webcast for their participation. We know that many of you will have follow-up questions. So Tom Mutryn, Dan Leckburg, and George Price are available after today's call.

Before you disconnect, I would like to remind everyone of CACI's next Investor Day, which we're going to hold on Tuesday, September 17, in New York. We'll be presenting some of our innovative capabilities that we talked about today, and that are absolutely aligned with our customers' most critical missions. This is a perfect opportunity to see what differentiates CACI. We will also be discussing our plans to drive additional growth and profitability over the long term, and how we expect to continue to deliver shareholder value. We really look forward to spending time with you all in September.

With that, this concludes our call. Thank you. And have a great day.

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

END

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