

CACI International (CACI)

\$257.29 (As of 06/08/20)

Price Target (6-12 Months): **\$270.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/04/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: A

Summary

CACI International's third-quarter fiscal 2020 results benefit from new business wins and expanding margins, which aided organic expansion. Higher cash flow from operations was driven by growth in billing and collection processes as well as the company's Master Accounts Receivable Purchase Agreement. The company completed three acquisitions recently, adding mission expertise and technology capabilities to its business. CACI expects accelerating organic revenue growth and continued margin expansion throughout fiscal 2020. Shares of the company have outperformed the industry in the past year. However, increased interest expenses kept margins under pressure. Intense competition is a concern as well.

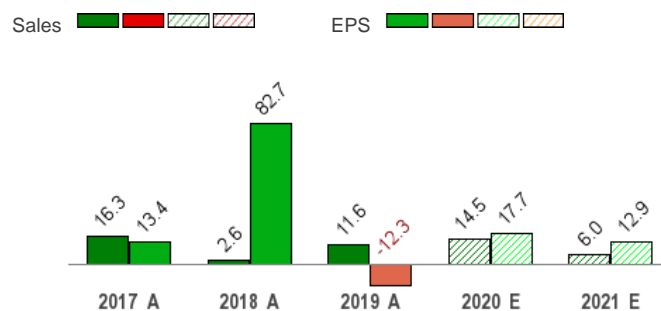
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$288.59 - \$156.15
20 Day Average Volume (sh)	164,275
Market Cap	\$6.5 B
YTD Price Change	2.9%
Beta	1.27
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer - Services
Zacks Industry Rank	Top 35% (88 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.5%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/12/2020
Earnings ESP	0.0%
P/E TTM	23.6
P/E F1	20.9
PEG F1	2.1
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,468 E	1,493 E	1,524 E	1,544 E	6,050 E
2020	1,363 A	1,395 A	1,466 A	1,478 E	5,707 E
2019	1,166 A	1,182 A	1,265 A	1,374 A	4,986 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.21 E	\$3.37 E	\$3.51 E	\$3.68 E	\$13.90 E
2020	\$2.66 A	\$3.11 A	\$3.16 A	\$3.37 E	\$12.31 E
2019	\$3.10 A	\$2.71 A	\$2.69 A	\$1.96 A	\$10.46 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/08/2020. The reports text is as of 06/09/2020.

Overview

Based in Arlington, VA, CACI International delivers IT applications and infrastructure to improve communications and secure the integrity of information systems and networks, enhance data collection and analysis, and increase efficiency and mission effectiveness. The company's solutions enrich defense and intelligence capabilities, assure homeland security, improve decision-making, and help customers operate smartly and proficiently. The company earns its revenues through four customer groups: Department of Defense (DoD), Federal Civilian Agencies, Commercial and Other, and State and Local Governments. DoD customers include the U.S. Army (CACI International's largest customer) and the U.S. Navy. Federal civilian agencies cater litigation support services to the Department of Justice (DoJ). In fiscal 2019, the company reported revenues of \$4.99 billion.

The company primarily operates with two segments:

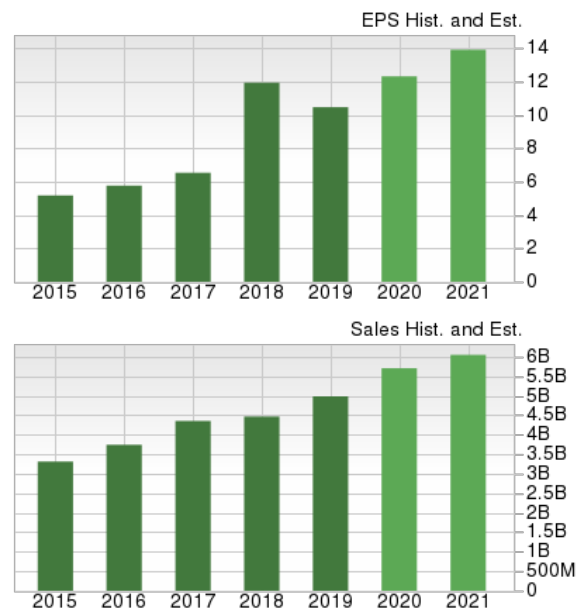
Domestic Operations: The operations are channeled through subsidiaries and a joint venture in which CACI International has a controlling stake. The services offered are categorized as Enterprise IT and Network Services; Data, Information and Knowledge Management Services; Business System Solutions, Logistics and Material Readiness Services; Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) Integration Services; Cyber Security, Integrated Security and Intelligence Solutions and Program Management; and System Engineering and Technical Assistance (SETA) Services.

International Operations: These operations are carried out through the company's subsidiary in Europe. International segment's solutions support commercial and government clients in telecommunications, education, financial services, healthcare services and transportation sectors. It furnishes solutions to specific technical or business requirement by planning, designing, implementing and managing solutions.

CACI's revenues come from three types of contracts:

Cost reimbursable type contracts, which contributed 55.4% to fiscal 2019 revenues; firm fixed price type contracts, which accounted for 29.4% of FY19 revenues; and time and materials, which constituted 15.2% revenues.

CACI faces acute competition from Science Applications in the federal space.



Reasons To Buy:

- ▲ A leader in IT outsourcing for the U.S. federal government, CACI International has ample exposure to the rapidly growing DoD and Department of Homeland Security budgets. CACI International's system integration skills and intelligence expertise consume a significant portion of the funds earmarked for the Department of Homeland Security while creating systems that foster the sharing of critical information among all intelligence agencies. We believe the company is comfortably positioned, given its favored relationship with the DoD. Moreover, cyber attacks are creating increased awareness, leading to more demand for cyber solutions.
 - ▲ Being one of the largest pure-play government service contractors, CACI International is likely to gain from the recently passed two-year Bipartisan Budget Agreement. Higher spending, as proposed in the latest federal government budget, is anticipated to accelerate the pace of contract awards, which, in turn will be beneficial for the company's top-line growth.
 - ▲ The company has a large pipeline of new projects and continues to win more deals at regular intervals. Furthermore, having the government as a big client lends stability to the business and moderates fluctuations in revenue. Although the government generally has a lengthy approval process, the project earns money for a number of years after it is approved. Moreover, government contracts also improve the visibility of future revenue streams. The company has been doing very well with a record level of awards, which reflects its disciplined business development actions, consistent operational excellence and high customer satisfaction. The company's strategy of winning high-value contracts, delivering excellence to its customers and deploying its capital for growth is expected to help it achieve newer heights.
 - ▲ CACI International remains focused on the federal government marketplace and capturing more market share. The company intends to drive operational excellence by intensively focusing on its organic and inorganic growth strategy and strengthening its existing customer relationships while building newer ones. In addition, the company anticipates to significantly benefit from its cost-reduction program. CACI International also remains focused on its strategy to grow in larger markets and leverage mergers and acquisitions to further increase its market share and create long-term value for its shareholders.
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A favored relationship with the DoD and exposure to expanding DoD and Department of Homeland Security budgets are key growth catalysts for CACI International.

Reasons To Sell:

- ▼ CACI International derives a significant portion of total revenue from the U.S. federal government as either a prime contractor or a subcontractor. These contracts are subject to extensive legal and regulatory hurdles, which are stringent, and subject to change from time to time. The government also investigates operations periodically to ensure that the terms and conditions have been properly adhered to. Deviations from the terms laid out by the government may result in huge penalties or termination.
- ▼ CACI International competes primarily in the government IT services arena, which, like other government sectors, consists of many competitors of various sizes. Its main competitors include CGI Group, Inc., SYNNEX Corporation, ManTech International Corporation and Sapient Corporation, all of whom are established players in the industry with their respective strengths. Consequently, CACI International has to continuously invest in value drivers that act as a hedge against competition. These increase its operating costs and reduce its profitability.
- ▼ CACI International generates revenue from contracts and task orders awarded through a competitive bidding process. These contracts contain provisions permitting a government client to terminate the contract for convenience. A decision to terminate contracts on an ongoing basis for convenience is likely to result in significant revenue shortfalls for the company. Evolving rules and regulations remain a significant impediment to margin growth.
- ▼ Investment in CACI stock could be a risky bet considering its high debt level. The company's long-term debt has increased in the last five years to \$1.62 billion at the end of fiscal 2019 from \$1.03 billion at the end of fiscal 2015. As a result, its annualized interest expense has increased during the same time frame. Also, CACI's current debt-to-equity ratio of 74.8% is higher than the industry average of 61.4%. Additionally, the long-term debt level of \$1.6 billion as of Dec 31, 2019 is much more than cash and cash equivalents of \$68.6 million.

Stiff competition and regulatory pressure remain possible headwinds for the company.

Last Earnings Report

CACI International Q3 Earnings Miss Estimates

CACI reported third-quarter fiscal 2020 (ended Mar 31, 2020) results, wherein earnings missed estimates but revenues beat the same.

Earnings were \$3.16 per share, up 17.6% year over year. However, the bottom line missed the Zacks Consensus Estimate by 2.47%.

Revenues were \$1.47 billion, up 15.9% from the year-ago quarter. The rise was primarily attributable to new business wins, acquired contracts and on-contract growth, which aided organic expansion. The top line also outpaced the consensus mark of \$1.45 billion.

Quarter Ending 03/2020

Report Date	Apr 29, 2020
Sales Surprise	0.86%
EPS Surprise	-2.47%
Quarterly EPS	3.16
Annual EPS (TTM)	10.89

Quarter Details

Contract awards in the reported quarter were worth \$1.4 billion, a 45.7% year-over-year decline, of which approximately 50% came from new businesses. Revenues from contract awards excluded ceiling values of multi-award, indefinite-delivery, indefinite-quantity contracts.

Total backlog, as of Mar 31, 2020, was \$19.9 billion, 34% higher than the prior-year quarter. Funded backlog at the end of March was \$3 billion, up 3%.

In terms of customer mix, the Department of Defense accounted for 70.8% of total revenues in the quarter. Federal Civilian Agencies contributed about 24.7%, while Commercial and other customers accounted for 4.6% of revenues.

Revenues generated as a prime contractor and a subcontractor accounted for 91.7% and 8.3% of total revenues, respectively.

Moreover, in terms of contract type, cost reimbursable type contracts fetched 58.2%, fixed-price contracts accounted for 27.7%, and time and material type contracts accounted for 14.1% of total revenues.

Margins

Operating income for the quarter came in at \$113.7 million, up 19.8% from the year-ago quarter.

Operating income margin expanded 30 basis points (bps) to 7.8%. Higher interest expenses were an overhang on margins.

Adjusted EBITDA for the fiscal second quarter increased 19.9% year over year to \$141.4 million. Adjusted EBITDA margin of 9.7% expanded 40 bps.

Balance Sheet and Cash Flow

At the quarter-end, CACI had cash and cash equivalents of \$77.2 million compared with \$68.6 million in the previous quarter.

Total long-term (net of current portion) debt was \$1.46 billion.

Cash flow from operations, as of Mar 31, was \$357.8 million compared with \$237 million in the previous quarter. The increase was driven by growth in net income combined with lower DSO.

Guidance

CACI reiterated its guidance for fiscal 2020. Revenues are expected in the range of \$5.60-\$5.80 billion. Earnings per share are expected between \$11.91 and \$12.70.

Net income is expected in the range of \$305-\$325 million. Moreover, net cash provided by operating activities is expected to be at least \$430 million.

Recent News

On Jun 4, CACI recently won a \$1.5-billion, single-award Indefinite Delivery Indefinite Quantity (IDIQ) contract to render its enterprise Information Technology, transport and cybersecurity services to the National Geospatial-Intelligence Agency (NGA) and its mission partners. Notably, this is the largest contract CACI has ever received.

On Apr 16, CACI was chosen as a prime contractor in a \$249-million, multiple-award, indefinite delivery/indefinite quantity (IDIQ) contract, by the Naval Sea Systems Command (NAVSEA).

On Apr 14, CACI won a single-award task order for one base year and four option-years from the U.S. Navy to provide mission expertise, including planning maintenance and repair of submarines, to the Portsmouth Naval Shipyard in Kittery, Maine. The contract is capped at \$83 million.

On Mar 17, CACI announced that it has been honored by the Global M&A Network with two awards for the successful acquisition of LGS Innovations.

On Mar 16, CACI won a six-year single-award task order to support U.S. Africa Command (AFRICOM) with its advanced mission expertise. The contract value is capped at \$249 million and represents new work for CACI. The deal will help AFRICOM improve communication and mission execution at lower costs and minimize operational risks.

On Dec 2, 2019, CACI announced that it has secured a five-year single-award task order, capped at \$438 million, primarily to support the Air Force Research Laboratory on C4ISR programs.

Valuation

Shares of CACI have lost 11.8% in the year-to-date period and gained 19.7% over the trailing 12-month time frame. Stocks in the Zacks sub-industry decreased 27.7% and the Zacks Technology sector lost 17.9% year to date. Over the past year, the Zacks sub-industry and sector have lost 13.7% and 9.2%, respectively.

The S&P 500 Index has fallen 22.6% in the year-to-date period and 14.1% in the past year.

The stock is currently trading at 18.73X forward 12-month earnings, comparing with 23.57X for the Zacks sub-industry, 25.28X for the Zacks sector and 23.35X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 22.28X and as low as 12.36X with a 5-year median of 17.73X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$270 price target reflects 19.67X forward 12-month earnings.

The table below shows the summary valuation data for CACI.

Valuation Multiples - CACI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.73	23.57	25.28	23.35
	5-Year High	22.28	25.29	25.28	23.35
	5-Year Low	12.36	14.4	16.72	15.23
	5-Year Median	17.73	32.12	19.28	17.49
EV/EBITDA TTM	Current	14.78	8.41	12.4	11.97
	5-Year High	18.81	12.65	12.72	12.85
	5-Year Low	8.68	6.14	7.57	8.25
	5-Year Median	11.99	9.95	10.73	10.81
EV/Sales TTM	Current	1.34	1.71	4.35	3.17
	5-Year High	1.67	2.33	4.43	3.46
	5-Year Low	0.82	1.38	2.59	2.14
	5-Year Median	1.04	1.96	3.59	2.82

As of 06/08/2020

Industry Analysis Zacks Industry Rank: Top 35% (88 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Booz Allen Hamilton Holding Corporation (BAH)	Neutral	3
CGI Group, Inc. (GIB)	Neutral	3
International Business Machines Corporation (IBM)	Neutral	3
Leidos Holdings, Inc. (LDOS)	Neutral	4
Lockheed Martin Corporation (LMT)	Neutral	3
Northrop Grumman Corporation (NOC)	Neutral	3
Science Applications International Corporation (SAIC)	Neutral	3
Virtusa Corporation (VRTU)	Neutral	2

Industry Comparison Industry: Computer - Services				Industry Peers		
	CACI	X Industry	S&P 500	BAH	GIB	SAIC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	A	A	A
Market Cap	6.45 B	1.07 B	23.56 B	11.16 B	17.96 B	5.21 B
# of Analysts	9	3	14	8	5	7
Dividend Yield	0.00%	0.00%	1.8%	1.53%	0.00%	1.65%
Value Score	A	-	-	B	A	A
Cash/Price	0.01	0.14	0.06	0.07	0.01	0.05
EV/EBITDA	17.50	13.90	13.19	16.62	12.87	15.06
PEG Ratio	2.07	3.06	3.18	1.90	3.37	NA
Price/Book (P/B)	2.52	2.56	3.19	13.24	3.56	3.70
Price/Cash Flow (P/CF)	18.08	15.36	12.52	21.16	14.60	10.97
P/E (F1)	20.71	20.91	23.31	22.65	20.47	14.51
Price/Sales (P/S)	1.15	1.52	2.51	1.49	1.95	0.80
Earnings Yield	4.78%	4.40%	4.15%	4.41%	4.89%	6.89%
Debt/Equity	0.69	0.40	0.76	2.66	0.47	1.99
Cash Flow (\$/share)	14.23	2.85	7.01	3.82	4.75	8.18
Growth Score	A	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	18.19%	9.49%	10.87%	18.49%	9.49%	17.71%
Proj. EPS Growth (F1/F0)	17.67%	-4.53%	-10.76%	12.26%	-4.35%	9.26%
Curr. Cash Flow Growth	29.08%	4.40%	5.48%	13.32%	3.80%	74.09%
Hist. Cash Flow Growth (3-5 yrs)	11.71%	8.51%	8.55%	11.25%	1.29%	23.85%
Current Ratio	1.38	1.70	1.29	1.75	1.08	1.05
Debt/Capital	40.99%	27.29%	44.75%	72.68%	31.83%	66.55%
Net Margin	4.96%	3.65%	10.59%	6.47%	10.10%	3.17%
Return on Equity	11.26%	7.66%	16.26%	53.41%	19.58%	25.32%
Sales/Assets	1.04	0.88	0.55	1.61	0.91	1.30
Proj. Sales Growth (F1/F0)	14.45%	0.00%	-2.62%	8.11%	-7.72%	14.22%
Momentum Score	A	-	-	A	C	D
Daily Price Chg	1.30%	0.00%	1.55%	0.42%	0.99%	2.54%
1 Week Price Chg	1.28%	3.91%	7.51%	0.97%	7.62%	-0.64%
4 Week Price Chg	4.12%	8.38%	15.61%	11.33%	8.38%	6.22%
12 Week Price Chg	36.23%	28.20%	38.10%	26.68%	26.81%	56.24%
52 Week Price Chg	24.61%	18.23%	3.66%	22.70%	-8.03%	3.66%
20 Day Average Volume	164,275	53,474	2,648,536	1,077,889	216,966	586,256
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-1.96%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	3.05%	-1.34%	-1.96%
(F1) EPS Est 12 week change	-1.81%	-16.13%	-15.97%	1.09%	-12.33%	-3.21%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	4.34%	0.00%	-1.88%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	A
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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