

CACI International (CACI)

\$248.97 (As of 02/27/20)

Price Target (6-12 Months): **\$262.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/09/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: B

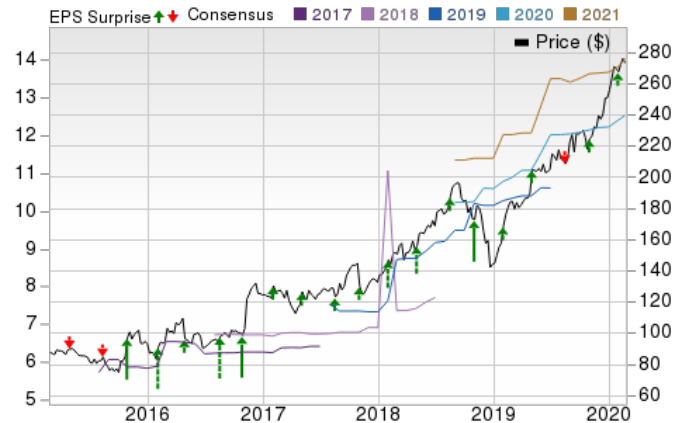
Growth: B

Momentum: C

Summary

CACI International is benefiting from new business wins, acquired contracts and on-contract growth, 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. Several investments of significant value are expected to be short-term overhangs on margins. Intense competition is a concern as well.

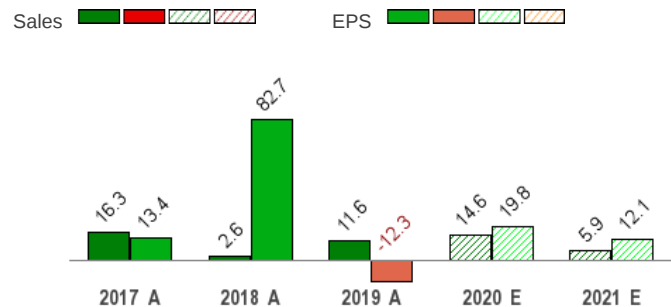
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$288.59 - \$176.31
20 Day Average Volume (sh)	164,206
Market Cap	\$6.2 B
YTD Price Change	-0.4%
Beta	1.27
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Computer - Services
Zacks Industry Rank	Top 5% (13 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.9%
Last Sales Surprise	2.0%
EPS F1 Est- 4 week change	2.6%
Expected Report Date	05/06/2020
Earnings ESP	0.3%
P/E TTM	23.9
P/E F1	19.9
PEG F1	2.0
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,481 E	1,506 E	1,530 E	1,556 E	6,053 E
2020	1,363 A	1,395 A	1,464 E	1,501 E	5,715 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	\$3.24 E	\$3.36 E	\$3.56 E	\$3.75 E	\$14.04 E
2020	\$2.66 A	\$3.11 A	\$3.30 E	\$3.51 E	\$12.53 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 02/27/2020. The reports text is as of 02/28/2020.

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:

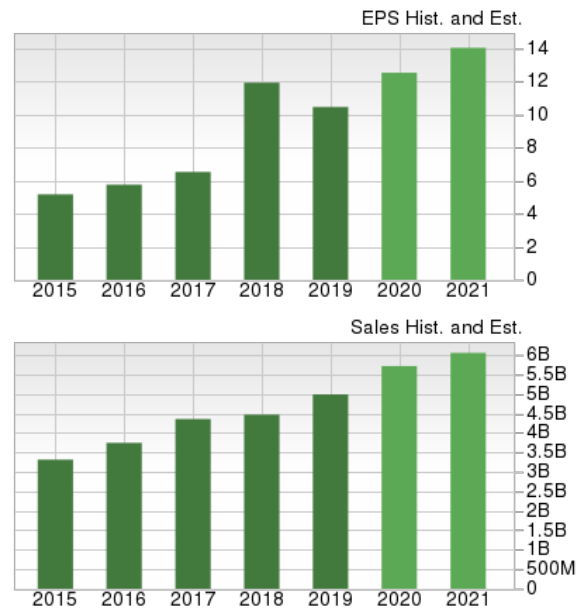
Domestic Operations: The operations are channeled through subsidiaries and a joint venture in which CACI International has a controlling stake. The services offered are categorized as Enterprise IT and Network Services; Data, Information and Knowledge Management Services; Business System Solutions, Logistics 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.

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.

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

Last Earnings Report

CACI's Q2 Earnings Top Estimates, View Up

CACI reported solid second-quarter fiscal 2020 (ended Dec 31, 2019) results, wherein both earnings and revenues beat estimates.

Earnings were \$3.11 per share, up 15% year over year. The bottom line also beat the Zacks Consensus Estimate of \$2.78.

Revenues were \$1.4 billion, up 18.1% 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 \$1.37 billion.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	2.00%
EPS Surprise	11.87%
Quarterly EPS	3.11
Annual EPS (TTM)	10.42

Quarter Details

Contract awards in the reported quarter were worth \$2.7 billion, up a whopping 108% year over year, of which approximately 60% came from new businesses. Revenues from contract awards excluded ceiling values of multi-award, indefinite-delivery, indefinite-quantity contracts.

Total backlog, as of Dec 31, 2019, was \$20.3 billion, 61% higher than the prior-year quarter. Funded backlog at the end of December was \$2.8 billion, up 14%.

In terms of customer mix, the Department of Defense accounted for about 71% of total revenues in the quarter. Federal Civilian Agencies contributed about 24.5%, while Commercial and other customers accounted for 4.5% of revenues.

Revenues generated as a prime contractor and a subcontractor accounted for 90.9% and 9.1% of total revenues, respectively.

During the quarter, CACI secured several notable contracts. These included a five-year, \$1.1-billion task order to provide advanced and full lifecycle information technology support to enterprise and mission technology.

Margins

Operating income for the quarter came in at \$110.19 million, up 7.7% from the year-ago quarter.

Operating income margin contracted 80 basis points (bps) to 7.3%. Higher interest expenses were an overhang on margins.

Adjusted EBITDA for the fiscal second quarter increased 14.6% year over year to \$140.9 million. Adjusted EBITDA margin of 10.1% contracted 30 bps.

Balance Sheet and Cash Flow

At the quarter-end, CACI had cash and cash equivalents of \$68.6 million compared with \$83.2 million in the previous quarter.

Total long-term (net of current portion) debt was \$1.55 billion.

Cash flow from operations, as of Sep 30, 2019, was \$237 million compared with \$114.6 million in the previous quarter. The increase was driven by growth in billing and collections processes as well as the company's Master Accounts Receivable Purchase Agreement (MARPA).

Guidance

CACI raised guidance for fiscal 2020. Revenues are now expected in the range of \$5.60-\$5.80 billion, up from the previously guided \$5.55-\$5.75 billion.

Net income is now expected in the range of \$305-\$325 million compared with the earlier expectation of \$298-\$318 million.

Earnings per share are expected between \$11.91 and \$12.70, up from the previously forecasted range of \$11.64-\$12.42.

Moreover, net cash provided by operating activities is expected to be at least \$430 million compared with up to \$420 million estimated earlier.

The company expects accelerating organic revenue growth and continued margin expansion throughout 2020.

Recent News

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.

On Oct 31, 2019, CACI was awarded a five-year, \$907 million task order, for new and continuing work to support the U.S. Army Intelligence and Security Command Global Intelligence Support Service to protect U.S. forces deployed in Afghanistan with its intelligence operations and analytics.

On Oct 28, 2019, CACI secured a five-year, single-award IDIQ contract, capped at \$250 million for new work, to provide enterprise technology for post deployment system support for the U.S. Marine Corps' Global Combat Support System.

On Oct 23, 2019, CACI and BlackBerry joined forces to provide the secure and certified government multi-tenant mobile communications app for voice and text messaging on both iOS and Android devices that exceeds federal requirements.

On Oct 17, 2019, CACI secured a five-year task order to provide scientific, systems, and software engineering and technical services to the U.S. Army Reprogramming Analysis Team Program Office. The task was awarded under the SSES NexGen contract vehicle.

On Oct 7, 2019, CACI was awarded a five-year task order, under the SeaPort-e contract vehicle, to provide technological support to the U.S. Navy in assessing weapons and integrated combat systems. The contract value is capped at \$70 million, and requires the company to continue boosting the Naval Surface Warfare Center Corona Division with engineering and IT expertise, including combat systems acquisition readiness and performance assessment support.

On Sep 25, 2019, CACI was awarded a four-year plus task order by the U.S. Army Fixed Wing Project Office to provide technical and training solutions to the latter's special electronic mission aircraft flight operations worldwide. The contract value is capped at \$197 million, and requires the company to offer 24/7 surveillance and reconnaissance support to U.S. and NATO forces deployed abroad.

Valuation

Shares of CACI have rallied 12.7% in the past six months and 35.1% over the trailing 12-month time frame. Stocks in the Zacks sub-industry increased 0.1% and the Zacks Technology sector are up 7.4% in the past six months. Over the past year, the Zacks sub-industry and sector have gained 5.3% and 11.4%, respectively.

The S&P 500 Index has risen 2.3% in the past six months and 5.4% in the past year.

The stock is currently trading at 18.4X forward 12-month earnings, comparing with 17.8X for the Zacks sub-industry, 19.94X for the Zacks sector and 17.03X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 21.36X and as low as 16.56X with a 5-year median of 17.91X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$262 price target reflects 19.32X 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	18.4	17.8	19.94	17.03
	5-Year High	21.36	23.22	22.04	19.34
	5-Year Low	16.56	17.8	16.87	15.18
	5-Year Median	17.91	19.44	19.33	17.44
EV/EBITDA TTM	Current	17.69	10.78	12.31	12
	5-Year High	17.84	11.72	12.31	12.16
	5-Year Low	12.01	9.83	10.11	10.48
	5-Year Median	15.07	10.49	11.13	11.2
EV/Sales TTM	Current	1.49	1.99	3.82	2.89
	5-Year High	1.67	2.3	4.2	3.33
	5-Year Low	1.16	1.96	3.53	2.8
	5-Year Median	1.41	2.09	3.81	3.01

As of 02/27/2020

Industry Analysis Zacks Industry Rank: Top 5% (13 out of 254)



Top Peers

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

Industry Comparison Industry: Computer - Services				Industry Peers		
	CACI Neutral	X Industry	S&P 500	BAH Neutral	GIB Neutral	SAIC Neutral
VGM Score	A	-	-	A	C	A
Market Cap	6.24 B	1.04 B	21.35 B	10.05 B	18.93 B	4.61 B
# of Analysts	7	3	13	9	6	6
Dividend Yield	0.00%	0.00%	2.02%	1.73%	0.00%	1.85%
Value Score	B	-	-	C	C	B
Cash/Price	0.01	0.16	0.04	0.07	0.01	0.03
EV/EBITDA	17.27	11.34	12.70	17.07	13.01	23.25
PEG Ratio	1.99	1.99	1.84	1.75	2.05	2.35
Price/Book (P/B)	2.49	2.45	2.92	10.98	3.53	3.32
Price/Cash Flow (P/CF)	17.50	14.81	11.89	21.23	14.81	17.69
P/E (F1)	19.87	18.82	16.90	22.81	18.27	12.94
Price/Sales (P/S)	1.16	1.42	2.39	1.38	2.06	0.76
Earnings Yield	5.03%	5.31%	5.90%	4.38%	5.48%	7.73%
Debt/Equity	0.75	0.31	0.70	2.51	0.28	1.35
Cash Flow (\$/share)	14.23	2.63	6.94	3.38	4.75	4.52
Growth Score	B	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	17.55%	8.89%	10.85%	17.07%	8.89%	15.97%
Proj. EPS Growth (F1/F0)	19.83%	25.34%	6.79%	13.85%	8.66%	13.95%
Curr. Cash Flow Growth	29.08%	8.78%	5.92%	28.37%	3.80%	33.43%
Hist. Cash Flow Growth (3-5 yrs)	11.71%	9.09%	8.38%	7.77%	1.29%	16.56%
Current Ratio	1.33	1.56	1.23	1.93	1.04	1.20
Debt/Capital	42.79%	22.11%	42.53%	71.54%	22.11%	57.41%
Net Margin	4.92%	2.60%	11.57%	5.96%	10.18%	2.62%
Return on Equity	11.01%	7.29%	16.80%	54.84%	19.23%	22.10%
Sales/Assets	1.02	0.88	0.54	1.66	0.94	1.30
Proj. Sales Growth (F1/F0)	14.61%	4.99%	4.07%	10.98%	5.01%	3.99%
Momentum Score	C	-	-	B	F	D
Daily Price Chg	-3.61%	-1.14%	-3.99%	-0.32%	-3.10%	-5.97%
1 Week Price Chg	-1.01%	-0.03%	-0.94%	-4.58%	-2.49%	0.55%
4 Week Price Chg	-11.10%	-3.33%	-9.83%	-8.98%	-9.79%	-11.62%
12 Week Price Chg	5.34%	-1.61%	-6.79%	-0.76%	-14.86%	-4.82%
52 Week Price Chg	36.60%	-5.43%	2.79%	35.60%	4.83%	6.99%
20 Day Average Volume	164,206	45,727	2,169,477	1,244,164	250,728	557,198
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	2.62%	0.00%	-0.09%	0.24%	-1.87%	-0.06%
(F1) EPS Est 12 week change	2.62%	1.85%	-0.24%	0.67%	-2.41%	-0.60%
(Q1) EPS Est Mthly Chg	1.37%	-1.22%	-0.72%	-1.88%	-3.27%	0.00%

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	B
Growth Score	B
Momentum Score	C
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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