GAUGE REPORT PRELIMINARY FINDINGS

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Kim Koster - Unanet
Tysons, VA
July 5, 2018
WHY THE GAUGE

- A fact based baseline for organizations to measure themselves against
- Crystal Ball for 2018 and 2019*
- Report is broken down in 5 categories:

*2019 crystal ball anticipated in Sept 2018
WHO RESPONDED

Accounting Manager CEO Corporate Controller Administrator
Director Chief Financial Officer CFO Principal President
Executive Contracts Federal Operations

REVENUE SIZE OF RESPONDENTS

- Less than $25M: 47%
- $26-$50M: 28%
- $51-$100M: 12%
- >$100M: 13%

Job Title

- VP Ops
- Proj Mgmt
- IT
- Finance
- C-Suite
- Controller
- Contracts
- Complia...
- BD
- Analyst
- Accounting
WHO RESPONDED

67% vs. 65% last year of our respondents are prime contractors

The majority of respondents have contracts with the DOD and Civilian Agencies!

Fixed Price Contracts solidified their place in 2018. The trend is REAL.
% REVENUE CHANGE FROM PRIOR YEAR

Great News for Government Contractors!

- Increased from previous year: 60%
- Decreased from previous year: 29%
- No change from previous year: 11%

Larger opportunities are available and some are purposefully shedding to stay small
Gov Cons utilizing real-time reporting are able to dial in the utilization rate, maximizing the use of their resources.
WHAT DO YOU EXPECT IN TERMS OF YOUR WORKFORCE IN 2018?

- Add +++: 29.13%
- Add +: 46.60%
- Same: 20.39%
- Reduce -: 2.91%
- Reduce --: 0.97%
Pass Thru Entities dominate the Gov Con industry as SCorp and LLCs provide a favorable tax structure and flexibility for owners!
NAICS CODES

- 334 - Computer and Electronics
- 541 - Professional Services (eng, etc)
- 336 - Transportation Equipment
- 511 - Publishing
- 518 - Data Processing
- 519 - Other Info Services
- 561 - Administrative and Support

5% 334 - Computer and Electronics
84% 541 - Professional Services (eng, etc)
3% 336 - Transportation Equipment
1% 511 - Publishing
1% 518 - Data Processing
1% 519 - Other Info Services
5% 561 - Administrative and Support
BIGGEST CONCERNS OF GOV CONS

Funding Constraints and Political Environment drive out talented people from the industry – self fulfilling prophecy!
BIGGEST CONCERNS OF GOV CONS

Other – Comments
• Navigating Small to Large Business
• Government units not funding awarded contracts on a timely basis
• Competition (3 notes on competition)
• Lack of opportunities for mid-tier companies
• Loss of regulation supporting business for small/micro businesses
• Unpredictability of contract selection/RFP process
• Lack of qualified, cleared, talent due to backlog and TS/SCI cleared talent
• Emphasis on price over qualifications in federal procurements
• Proposing new opportunities competitively now that we are out of the 8(a) program
• Low Price Technically Accepting Bidding Environment
## WHAT IS KEEPING YOU UP?

<table>
<thead>
<tr>
<th>Issue</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Govt Shutdown</td>
<td>12%</td>
<td>8%</td>
<td>16%</td>
<td>29%</td>
<td>35%</td>
</tr>
<tr>
<td>Operational efficiency</td>
<td>22%</td>
<td>40%</td>
<td>13%</td>
<td>15%</td>
<td>11%</td>
</tr>
<tr>
<td>Cybersecurity</td>
<td>11%</td>
<td>17%</td>
<td>43%</td>
<td>14%</td>
<td>14%</td>
</tr>
<tr>
<td>Congress Deadlock</td>
<td>11%</td>
<td>20%</td>
<td>15%</td>
<td>30%</td>
<td>23%</td>
</tr>
<tr>
<td>Increasing Competition</td>
<td>47%</td>
<td>18%</td>
<td>12%</td>
<td>10%</td>
<td>14%</td>
</tr>
</tbody>
</table>
Passing of 2 year budget is huge but some agencies are stalled with internal management appointments!
IMPACT OF TAX REFORM

- C Corps reduction in top rate from 35% to 21%
- S Corps should be equalized by 20% credit, except for state tax limitations
- Fringe benefit deductions decreased for all entity types
- All individuals have lower tax brackets
MOBIS, ALLIANT, GSA OR OTHER?

<table>
<thead>
<tr>
<th>Revenue From Schedules</th>
<th>None</th>
<th>&lt;25%</th>
<th>26%-50%</th>
<th>51%-75%</th>
<th>&gt;75%</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>37%</td>
<td>34%</td>
<td>13%</td>
<td>11%</td>
<td>7%</td>
</tr>
</tbody>
</table>
DCAA AUDITS

Oversight Stayed About the same!!!

DCAA Audits

- Incurred Cost Submission: 75%
- Pre-Award: 37%
- SF1408: 25%
- Forward Pricing: 24%
- Accounting System: 24%
- Property System: 18%
- Labor Floor Check: 12%
- Purchasing System: 12%
- Internal Controls: 10%
- CAS: 8%
- Estimating System: 2%
40% have a good relationship with the ACO
60% have a neutral or non-existent
CHALLENGES IN FINALIZING INCURRED COST AUDIT?

<table>
<thead>
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<th>1</th>
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<th>5</th>
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</thead>
<tbody>
<tr>
<td>Auditor delays</td>
<td>47%</td>
<td>17%</td>
<td>12%</td>
<td>7%</td>
<td>17%</td>
</tr>
<tr>
<td>Lack of resources</td>
<td>34%</td>
<td>16%</td>
<td>7%</td>
<td>23%</td>
<td>20%</td>
</tr>
<tr>
<td>Mgmt Understanding</td>
<td>7%</td>
<td>18%</td>
<td>27%</td>
<td>18%</td>
<td>30%</td>
</tr>
<tr>
<td>Govt Delays</td>
<td>23%</td>
<td>23%</td>
<td>15%</td>
<td>23%</td>
<td>17%</td>
</tr>
<tr>
<td>Issue Resolution</td>
<td>11%</td>
<td>26%</td>
<td>34%</td>
<td>19%</td>
<td>11%</td>
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</table>
MOST COMMON INDIRECT COST ISSUES

Rates are always a huge challenge!
ACCOUNTING STAFF EXPERTISE NEEDS

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<tr>
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<th>4</th>
<th>5</th>
<th>6</th>
</tr>
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<tbody>
<tr>
<td>Rates</td>
<td>48%</td>
<td>24%</td>
<td>17%</td>
<td>2%</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>Billing</td>
<td>15%</td>
<td>30%</td>
<td>28%</td>
<td>15%</td>
<td>8%</td>
<td>5%</td>
</tr>
<tr>
<td>Time</td>
<td>21%</td>
<td>11%</td>
<td>26%</td>
<td>29%</td>
<td>11%</td>
<td>3%</td>
</tr>
<tr>
<td>Unallowable</td>
<td>26%</td>
<td>13%</td>
<td>13%</td>
<td>26%</td>
<td>18%</td>
<td>3%</td>
</tr>
<tr>
<td>CAS Compliance</td>
<td>9%</td>
<td>9%</td>
<td>3%</td>
<td>9%</td>
<td>19%</td>
<td>50%</td>
</tr>
<tr>
<td>Executive Comp</td>
<td>19%</td>
<td>14%</td>
<td>8%</td>
<td>8%</td>
<td>24%</td>
<td>27%</td>
</tr>
</tbody>
</table>
COST ACCOUNTING STANDARDS (CAS)

Are you CAS Covered?

- CAS 401 - Consistency in Estimating, Accumulating, and Reporting Costs
- CAS 402 - Consistency in Allocating Costs Incurred for the Same Purpose
- CAS 403 Allocation of Home Office Expenses

CAS Issues

- Consistency
- Home Office
Very positive training numbers!!!

Accounting System Audit requires annual unallowable training!
WINNING!!

Current Win Rate 2017

Win Rate Changes from Last Year

What % of Bids in 2017 were LPTA and Best Value?
### CONTRACT INFORMATION

#### 2017 Report

<table>
<thead>
<tr>
<th>Company Size</th>
<th>Active</th>
<th>Bid</th>
<th>Won</th>
<th>Loss</th>
<th>Delayed</th>
<th>Protested</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $25M</td>
<td>28</td>
<td>13</td>
<td>7</td>
<td>4</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>$26M - $50M</td>
<td>36</td>
<td>38</td>
<td>12</td>
<td>3</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>$51M - $100M</td>
<td>76</td>
<td>79</td>
<td>32</td>
<td>29</td>
<td>18</td>
<td>0</td>
</tr>
<tr>
<td>$101M - $250M</td>
<td>89</td>
<td>129</td>
<td>30</td>
<td>28</td>
<td>1</td>
<td>3</td>
</tr>
</tbody>
</table>

#### 2018 Report

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Active Contracts 2017</th>
<th>Contracts Won 2017</th>
<th>Contracts Lost 2017</th>
<th>Contracts protested</th>
<th>Contracts Terminated</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$25M</td>
<td>24</td>
<td>7</td>
<td>4</td>
<td>0</td>
<td>1.3</td>
</tr>
<tr>
<td>$25M-$50M</td>
<td>30</td>
<td>7</td>
<td>5</td>
<td>1</td>
<td>1.5</td>
</tr>
<tr>
<td>$51-100M</td>
<td>53</td>
<td>11</td>
<td>11</td>
<td>0</td>
<td>1.3</td>
</tr>
<tr>
<td>&gt;$100M</td>
<td>70</td>
<td>24</td>
<td>28</td>
<td>1</td>
<td>0.6</td>
</tr>
</tbody>
</table>

This data is consistent with the win percentages discussed earlier. Very few protests and terminations….optimism has LEGS.
## BUSINESS DEVELOPMENT CHALLENGES

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of past performance</td>
<td>27%</td>
<td>28%</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>Lack of a teaming partner</td>
<td>15%</td>
<td>40%</td>
<td>32%</td>
<td>13%</td>
</tr>
<tr>
<td>Limited reporting tools</td>
<td>9%</td>
<td>14%</td>
<td>30%</td>
<td>47%</td>
</tr>
<tr>
<td>Lack of BD funding and resources</td>
<td><strong>62%</strong></td>
<td>14%</td>
<td>14%</td>
<td>11%</td>
</tr>
</tbody>
</table>
INDIRECT RATES

**Fringe Average**

- <$25M: 34.98%
- $25M-$50M: 36.46%
- $51M-$100M: 33.01%
- >$100M: 26%

**G&A Average**

- <$25M: 17.8%
- $25M-$50M: 17.5%
- $51M-$100M: 17.6%
- >$100M: 15%

**OH Customer Average**

- <$25M: 31.78%
- $25M-$50M: 30.77%
- $51M-$100M: 21.04%
- >$100M: 34.11%

**OH Contractor Average**

- <$25M: 39.1%
- $25M-$50M: 31.72%
- $51M-$100M: 25.8%
- >$100M: 37.62%
RATES CONTINUED

MSH Average

<table>
<thead>
<tr>
<th>Range</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>&lt;$25M</td>
<td>6.01%</td>
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<tr>
<td>$25M-$50M</td>
<td>3.59%</td>
</tr>
<tr>
<td>$51M-$100M</td>
<td>3.62%</td>
</tr>
<tr>
<td>&gt;$100M</td>
<td>3.16%</td>
</tr>
</tbody>
</table>

Wrap Rate Average

<table>
<thead>
<tr>
<th>Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$25M</td>
<td>2.6%</td>
</tr>
<tr>
<td>$25M-$50M</td>
<td>1.81%</td>
</tr>
<tr>
<td>$51M-$100M</td>
<td>1.77%</td>
</tr>
<tr>
<td>&gt;$100M</td>
<td>1.97%</td>
</tr>
</tbody>
</table>
OVERHEAD BASE AND SERVICE CENTERS

What do you use as a base for your overhead rates?

![Bar Chart]

- Location
- Function
- Customer
- Product/Service

Do you use Service Center Allocations?

![Bar Chart]

- Yes
- No
This number is low in relation to the increase in FP contracts – Better planning would help!
GROWTH

What is your current growth rate?

Projected growth rate?

Optimism is fueling the projected growth rates
CASH CYCLE

What is your DSO?

What is your Invoice Cycle?

DSO is aided with automation but length of invoice cycle is surprisingly high.
Growth and Profit are top of mind!
# Headcount in Functional Groups

## 2017 Report

<table>
<thead>
<tr>
<th>Revenue Size</th>
<th>Accounting</th>
<th>HR</th>
<th>Recruiting</th>
<th>IT</th>
<th>Contracts</th>
<th>Business Development</th>
<th>Project Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $25M</td>
<td>2.5</td>
<td>1.1</td>
<td>0.6</td>
<td>1.2</td>
<td>1.4</td>
<td>1.9</td>
<td>1.2</td>
</tr>
<tr>
<td>$26M - $50M</td>
<td>4.4</td>
<td>2.4</td>
<td>1.6</td>
<td>2.3</td>
<td>2.0</td>
<td>3.9</td>
<td>1.6</td>
</tr>
<tr>
<td>$51M - $100M</td>
<td>7.3</td>
<td>3.8</td>
<td>0.8</td>
<td>3.5</td>
<td>3.5</td>
<td>7.3</td>
<td>2.5</td>
</tr>
<tr>
<td>$101M - $250M</td>
<td>15.8</td>
<td>8.3</td>
<td>5.8</td>
<td>11.3</td>
<td>5.3</td>
<td>8.5</td>
<td>5.8</td>
</tr>
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</table>

## 2018 Preliminary Data

<table>
<thead>
<tr>
<th>Revenue Size</th>
<th>Accounting</th>
<th>HR</th>
<th>Recruiting</th>
<th>IT</th>
<th>Contracts</th>
<th>Business Development</th>
<th>Project Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$25M</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>$25M-50M</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>$51-$100M</td>
<td>6</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>&gt;$100M</td>
<td>9</td>
<td>4</td>
<td>4</td>
<td>7</td>
<td>5</td>
<td>9</td>
<td>5</td>
</tr>
</tbody>
</table>
- 55% of the respondents report that 76–100% of their projects are on budget
- Amazing that 77.32% of the respondents say they are 76–100% on schedule
PROJECT MGMT MATURITY

- Very Mature: 25%
- Somewhat Mature: 50.96%
- Somewhat Immature: 19.23%
- Immature: 4.81%
PMO?

- Centralized: 39.80%
- Decentralized: 27.55%
- No PMO: 32.65%
PROJECT MANAGEMENT CHALLENGES

<table>
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<tr>
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<th>4</th>
<th>5</th>
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</thead>
<tbody>
<tr>
<td>Inexperienced PMs</td>
<td>33%</td>
<td>19%</td>
<td>19%</td>
<td>9%</td>
<td>20%</td>
</tr>
<tr>
<td>Poor Scope Definition</td>
<td>17%</td>
<td>15%</td>
<td>18%</td>
<td>32%</td>
<td>18%</td>
</tr>
<tr>
<td>Resource Management</td>
<td>25%</td>
<td>37%</td>
<td>18%</td>
<td>11%</td>
<td>8%</td>
</tr>
<tr>
<td>Forecasting</td>
<td>31%</td>
<td>14%</td>
<td>17%</td>
<td>23%</td>
<td>14%</td>
</tr>
<tr>
<td>Lack of Visibility and Control</td>
<td>10%</td>
<td>21%</td>
<td>24%</td>
<td>15%</td>
<td>31%</td>
</tr>
</tbody>
</table>
Visibility and Control Rating

- High: 33.67%
- Medium: 55.12%
- Low: 10.20%

TOTAL: 100%

PMPs

- 0-25%: 66%
- 26-50%: 20%
- 51-75%: 10%
- 76-100%: 4%

EVM

- Yes: 25%
- No: 50%
- Sometimes on special occasions: 25%
WHAT TO EXPECT IN THE GAUGE 2018 REPORT

• More breakouts by revenue & employee levels
• Trends 2017 to 2018 and looking into 2019
• More correlations and analytics
• New tools, tips, and tricks
• Analysis on the Industry
• Insights from Government Contractors and Colleagues