Financial Benchmarking and Market Trends for Government Contractors: How Does Your Company Compare?

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June 14, 2017
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AGENDA

• Current Environment
• Demographics
• Financial Benchmarking
• FTE Benchmarking
• Contract Activity
• DCAA Trends
• Key Take Aways
Growing internal & external pressures currently impacting the GC industry

- Trump-onomics
- Federal Budget Passed Through September 2017
- Government’s Need for Greater Efficiencies
- Impending Tax Reform
- Increasing combinations and M&A activity
- Middle Market No-MansLand
- Need to Grow Revenue & Profits
- Increased Competition
- Pricing Pressure
- Increasing interest rates
1. Continued contract consolidation through category management
   • Category management concepts introduced in 2015, procedural foundation set in 2016. 2017 will identify which contracts are preferred source for acquisition of goods and services
   • Expected decrease in the number of MACs and more fierce competition at the order level.

2. Anticipation of relief of the stringent budgets from the last 8 years.
   • Preliminary spending have increased for civilian agencies
   • Anticipated spending for DOD and Intelligence agencies

Source: Bloomberg Government
3. Increased agency use of Simplified Acquisition Procedures
   - Simplified Acquisition Procedures (SAP) spending has grown.
   - Threshold amounts have changed and agencies relying on the SAP competition procedure to avoid protest delays.
4. Increase in compliance and accountability
   - Contractors are required to submit various data points monthly due to transactional data reporting rule
   - Agencies must standardize their spending reports to comply with DATA Act by May 2017.
5. Contractors will continue to divest, merge and restructure

- Contractors need to change to protect profits amid higher competition.
- Strategic sourcing, aggressive small-business utilization strategies and continued use of LPTA bid evaluation strategies.
- Companies will restructure internal operations to reduce costs. Many operating in a “virtual” environment.
- Large Prime Contractors will separate lower-margin from higher margin work. Many shifting focus to weapon systems.
- Combinations, spin-offs and M&A activity on the rise
- Increase focus on the use of Joint Ventures

Source: Bloomberg Government
Survey Respondent Demographics
SERVICE TYPES

Revenue by NAICS Code

- 541330 - Engineering Services
- 541511 - Custom Computer Programs
- 541512 - Computer System Design
- 541519 - Other Computer Related Services
- 541611 - Administrative Management
- 541712 - Human Resources Consulting
- 541715 - R&D, Physical Engineering & Life Sciences
- 541990 - Other Professional Scientific and Technical
- other

21% 21% 11% 17% 6% 6% 6% 8% 4%
ENTITY STRUCTURE

- S Corp: 57%
- LLC: 18%
- C Corp: 23%
- Other: 2%
- No response: 2%
OWNERSHIP

Entity Ownership

- Closely Held: 62%
- PE: 17%
- ESOP: 21%

ESOP

- 100%: 33%
- 26%-49%: 34%
- less 25%: 72%

PE

- 100%: 14%
- 26%-49%: 14%
- less 25%: 72%
CONTRACT TYPES

- Cost Plus: 21%
- Time and Material: 40%
- Fixed Price: 39%
AGENCIES

Agencies

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>DOD</td>
<td>52%</td>
</tr>
<tr>
<td>Intelligence</td>
<td>11%</td>
</tr>
<tr>
<td>Civilian</td>
<td>15%</td>
</tr>
<tr>
<td>Commercial</td>
<td>9%</td>
</tr>
<tr>
<td>Other</td>
<td>13%</td>
</tr>
</tbody>
</table>
ACCOUNTING SYSTEMS
Financial Benchmarking
DIRECT COSTS

Costs as a % of Revenue

- Direct Labor
- Subcontract Labor
- Other Direct Costs
- Gross Margin
DIRECT COSTS AS A % OF REVENUE
DIRECT LABOR AS A % OF REVENUE

<table>
<thead>
<tr>
<th>Revenue Range</th>
<th>Labor Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $25M</td>
<td>33%</td>
</tr>
<tr>
<td>$25M - $50M</td>
<td>25%</td>
</tr>
<tr>
<td>$51 - $100M</td>
<td>23%</td>
</tr>
<tr>
<td>$100 - $250M</td>
<td>38%</td>
</tr>
</tbody>
</table>
SUBCONTRACTOR AS % OF REVENUE

- **Up to $25M**: 18%
- **$25M - $50M**: 28%
- **$51 - $100M**: 17%
- **$100 - $250M**: 18%
ODC AS A % OF REVENUE

- Up to $25M: 3%
- $25M - $50M: 7%
- $51 - $100M: 9%
- $100 - $250M: 4%
GROSS MARGIN AS A % OF REVENUE

<table>
<thead>
<tr>
<th>Revenue Range</th>
<th>Gross Margin</th>
</tr>
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<tbody>
<tr>
<td>Up to $25M</td>
<td>45%</td>
</tr>
<tr>
<td>$25M - $50M</td>
<td>31%</td>
</tr>
<tr>
<td>$51 - $100M</td>
<td>24%</td>
</tr>
<tr>
<td>$100 - $250M</td>
<td>29%</td>
</tr>
</tbody>
</table>
INDIRECT COSTS

Costs as a % of Revenue

- Fringe Costs
- Indirect Labor
- Net Profit
- Health Insurance Expense
- Rent Expense
- Business Development Expense
- EBITDA
INDIRECT COSTS AS A % OF REVENUE

- Up to $25M: 17% Fringe, 10% Indirect Labor
- $25M - $50M: 19% Fringe, 9% Indirect Labor
- $51 - $100M: 16% Fringe, 16% Indirect Labor
- $100 - $250M: 14% Fringe, 3% Indirect Labor
INDIRECT COSTS AS A % OF REVENUE
EBITDA AND NET PROFIT AS A % OF REVENUE

<table>
<thead>
<tr>
<th>Revenue Range</th>
<th>EBITDA</th>
<th>Net Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $25M</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>$25M - $50M</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>$51 - $100M</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>$100 - $250M</td>
<td>6%</td>
<td>6%</td>
</tr>
</tbody>
</table>
FRINGE COSTS AS A % OF REVENUE

- Up to $25M: 17%
- $25M - $50M: 19%
- $51 - $100M: 16%
- $100 - $250M: 14%
INDIRECT LABOR AS A % OF REVENUE

- Up to $25M: 10%
- $25M - $50M: 9%
- $51 - $100M: 16%
- $100 - $250M: 3%
NET PROFIT AS A % OF REVENUE

<table>
<thead>
<tr>
<th>Revenue Range</th>
<th>Net Profit %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $25M</td>
<td>5.2%</td>
</tr>
<tr>
<td>$25M - $50M</td>
<td>5.2%</td>
</tr>
<tr>
<td>$51 - $100M</td>
<td>5.9%</td>
</tr>
<tr>
<td>$100 - $250M</td>
<td>6.1%</td>
</tr>
</tbody>
</table>
HEALTH INSURANCE AS A % OF REVENUE

- Up to $25M: 4%
- $25M - $50M: 3%
- $51 - $100M: 3%
- $100 - $250M: 3%
RENT AS A % OF REVENUE

- **Up to $25M**: 2%
- **$25M - $50M**: 2%
- **$51 - $100M**: 3%
- **$100 - $250M**: 2%
BD EXPENSE AS A % OF REVENUE

- Up to $25M: 2%
- $25M - $50M: 1%
- $51 - $100M: 6%
- $100 - $250M: 1%
EBITDA AS A % OF REVENUE

- Up to $25M: 6%
- $25M - $50M: 7%
- $51 - $100M: 4%
- $100 - $250M: 6%
INDIRECT RATES

By Revenue Segment

- Fringe
- Overhead – Government Site
- Overhead – Contractor Site
- Material/Subcontractor Handling
- General & Administrative
- Wrap rate without fee
FRINGE RATE

<table>
<thead>
<tr>
<th>Fringe Rate</th>
<th>$100 - $250M</th>
<th>$51 - $100M</th>
<th>$25M - $50M</th>
<th>Up to $25M</th>
</tr>
</thead>
<tbody>
<tr>
<td>30% or less</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>31% - 35%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>13%</td>
</tr>
<tr>
<td>36% - 40%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>13%</td>
</tr>
<tr>
<td>41% +</td>
<td></td>
<td></td>
<td></td>
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</table>
OH CONTRACTOR RATE

<table>
<thead>
<tr>
<th>Percentage Range</th>
<th>$100 - $250M</th>
<th>$51 - $100M</th>
<th>$25M - $50M</th>
<th>Up to $25M</th>
</tr>
</thead>
<tbody>
<tr>
<td>20% or less</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>21% - 30%</td>
<td>6%</td>
<td>18%</td>
<td>12%</td>
<td>6%</td>
</tr>
<tr>
<td>31% +</td>
<td>12%</td>
<td>12%</td>
<td>6%</td>
<td>28%</td>
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</table>
HANDLING RATE

<table>
<thead>
<tr>
<th>Category</th>
<th>17%</th>
<th>67%</th>
<th>16%</th>
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<tbody>
<tr>
<td>1% or less</td>
<td>17%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2% - 5%</td>
<td>25%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6% +</td>
<td>8%</td>
<td></td>
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</table>

Distribution:
- $100 - $250M: 17%
- $51 - $100M: 25%
- $25M - $50M: 8%
- Up to $25M: 8%
G & A RATE

<table>
<thead>
<tr>
<th>Category</th>
<th>17%</th>
<th>40%</th>
<th>22%</th>
<th>21%</th>
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</thead>
<tbody>
<tr>
<td>10% or less</td>
<td>9%</td>
<td>13%</td>
<td>9%</td>
<td>4%</td>
</tr>
<tr>
<td>11% - 15%</td>
<td>4%</td>
<td>22%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>16% - 20%</td>
<td>4%</td>
<td>9%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>21% +</td>
<td>4%</td>
<td>13%</td>
<td>10% or less</td>
<td>11% - 15%</td>
</tr>
</tbody>
</table>

- $100 - $250M
- $51 - $100M
- $25M - $50M
- Up to $25M
WRAP RATE WITHOUT FEE
(USING GOVERNMENT RATE)

<table>
<thead>
<tr>
<th>Rate</th>
<th>1.51 - 1.75</th>
<th>1.76 - 2.0</th>
<th>2.01 - 2.25</th>
<th>2.26 +</th>
</tr>
</thead>
<tbody>
<tr>
<td>35%</td>
<td>10%</td>
<td>15%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>20%</td>
<td>10%</td>
<td>15%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>30%</td>
<td>15%</td>
<td>15%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>15%</td>
<td>5%</td>
<td>10%</td>
<td>5%</td>
<td></td>
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</tbody>
</table>
FTE Benchmarking
FTE ANALYSIS

By Revenue Segment

- Revenue per FTE
- FTEs Per Function
FTES PER FUNCTION

- **$100 - $250M**
- **$51 - $100M**
- **$25M - $50M**
- **Up to $25M**

**Accounting**
- $100 - $250M: 2.0
- $51 - $100M: 1.2
- $25M - $50M: 1.0
- Up to $25M: 4.6

**HR**
- $100 - $250M: 2.7
- $51 - $100M: 1.1
- $25M - $50M: 1.0
- Up to $25M: 4.0

**Recruiting**
- $100 - $250M: 6.0
- $51 - $100M: 1.4
- $25M - $50M: 2.3
- Up to $25M: 4.0

**IT**
- $100 - $250M: 13.0
- $51 - $100M: 1.5
- $25M - $50M: 4.0
- Up to $25M: 4.0

**Contracts**
- $100 - $250M: 5.0
- $51 - $100M: 2.3
- $25M - $50M: 9.3
- Up to $25M: 9.0

**BD**
- $100 - $250M: 8.3
- $51 - $100M: 3.8
- $25M - $50M: 3.8
- Up to $25M: 2.3

**Project Control**
- $100 - $250M: 6.7
- $51 - $100M: 1.7
- $25M - $50M: 7.4
- Up to $25M: 1.2
Contract Activity
CONTRACT ACTIVITY

- Won
  - Up to $25M: 7
  - $25M - $50M: 12
  - $51 - $100M: 32
  - $100 - $250M: 30
- Loss
  - Up to $25M: 4
  - $25M - $50M: 3
  - $51 - $100M: 29
  - $100 - $250M: 28
- Delayed
  - Up to $25M: 1
  - $25M - $50M: 1
  - $51 - $100M: 1
- Protested
  - Up to $25M: 0
  - $25M - $50M: 0
  - $51 - $100M: 0
  - $100 - $250M: 3
**Contract Activity**

- Active: 28
- Bid: 13
- Won: 7
- Loss: 4
- Delayed: 1
- Protested: 0

Up to $25M
CONTRACT ACTIVITY

$25M - $50M

- Active: 36
- Bid: 38
- Won: 12
- Loss: 3
- Delayed: 1
- Protested: 0
CONTRACT ACTIVITY

$51 - $100M

<table>
<thead>
<tr>
<th>Category</th>
<th>Active</th>
<th>Bid</th>
<th>Won</th>
<th>Loss</th>
<th>Delayed</th>
<th>Protested</th>
</tr>
</thead>
<tbody>
<tr>
<td>$51 - $100M</td>
<td>76</td>
<td>79</td>
<td>32</td>
<td>29</td>
<td>18</td>
<td>0</td>
</tr>
</tbody>
</table>
CONTRACT ACTIVITY

$100 - $250M

- Active: 89
- Bid: 229
- Won: 30
- Loss: 28
- Delayed: 1
- Protested: 3
DCAA Trends
DCAA TRENDS

By Revenue Segment

➢ Types of DCAA Audits

➢ Year Indirect Rates Audited Through
TYPES OF DCAA AUDITS IN 2016

- Incurred Cost: 34%
- Pre Award: 11%
- Purchasing System: 6%
- Accounting System: 11%
- Provisional Rates: 11%
- Billing Review: 11%
- Forward Pricing: 3%
- Voucher: 6%
- Floor Checks: 6%
DCAA Trends

Year Rates Audited Thru by DCAA

- 2011: 19%
- 2012: 35%
- 2013: 15%
- 2014: 8%
- 2015: 19%
- 2016: 4%
KEY TAKE AWAYS

- Infrastructure (G&A) spending is up
- Be aware of the struggles of no-man’s land
- Government shifting to purchases thru MAC’s
- M&A is considered on the rise – lots of shoppers
- Monitor your wrap rate
- Use of the vertical income statement analysis
- Be prepared for any type of possible contract audit
- Monitor your largest indirect expenses
- Share results with management
- Begin budget process early to see where you co lands in comparison
- Its healthy to benchmark!
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