



The Contract Waterfall

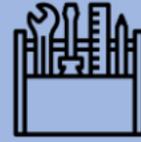
**An Important Financial Tool in a Federal
Government Contractor's Toolset**

What is a Contract Waterfall?

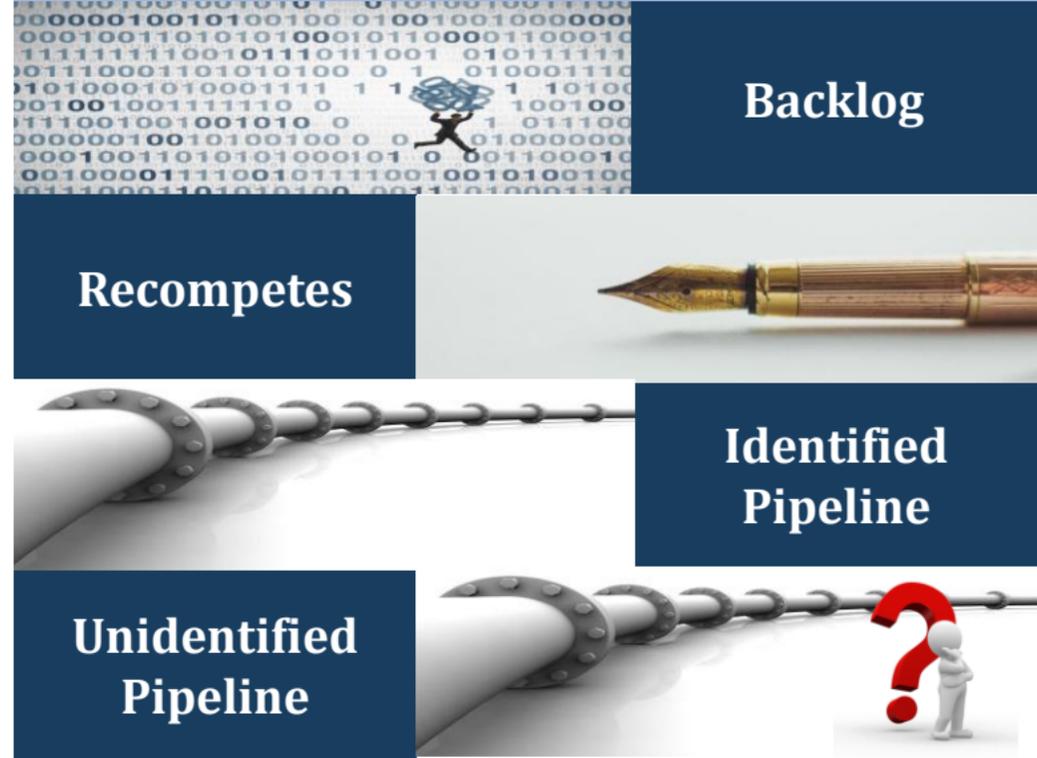
The contract waterfall sets forth all of the details of a federal government contractor's signed contracts and new business pipeline, estimating the revenue and gross margins for each contract over the next three to five years.

What are the Elements of a Contract Waterfall?

- **Backlog:** Includes all active contracts in the company's projections, including funded and unfunded backlog
- **Recompetes:** Includes a projection of new business expected to be awarded resulting from recompetition of active contracts
- **Identified Pipeline:** Includes anticipated new business awards in the company's bid-and-proposal pipeline, including follow-ons and new contracts
- **Unidentified Pipeline:** Also a part of the company's pipeline, a small portion of this section may be included in a company's projections in the transaction process given relatively low revenue visibility, but valued as potential upside ("go-get")



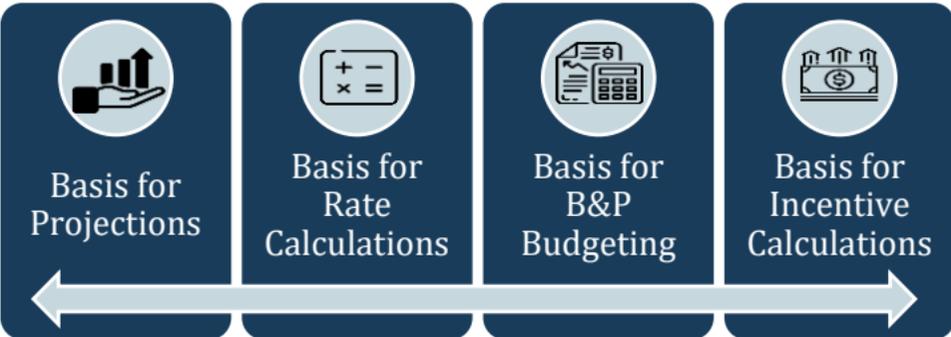
The Contract Waterfall is One of the Most Important Planning Tools in a Federal Government Contractors Financial Toolset



Why is this Important to Your Business?



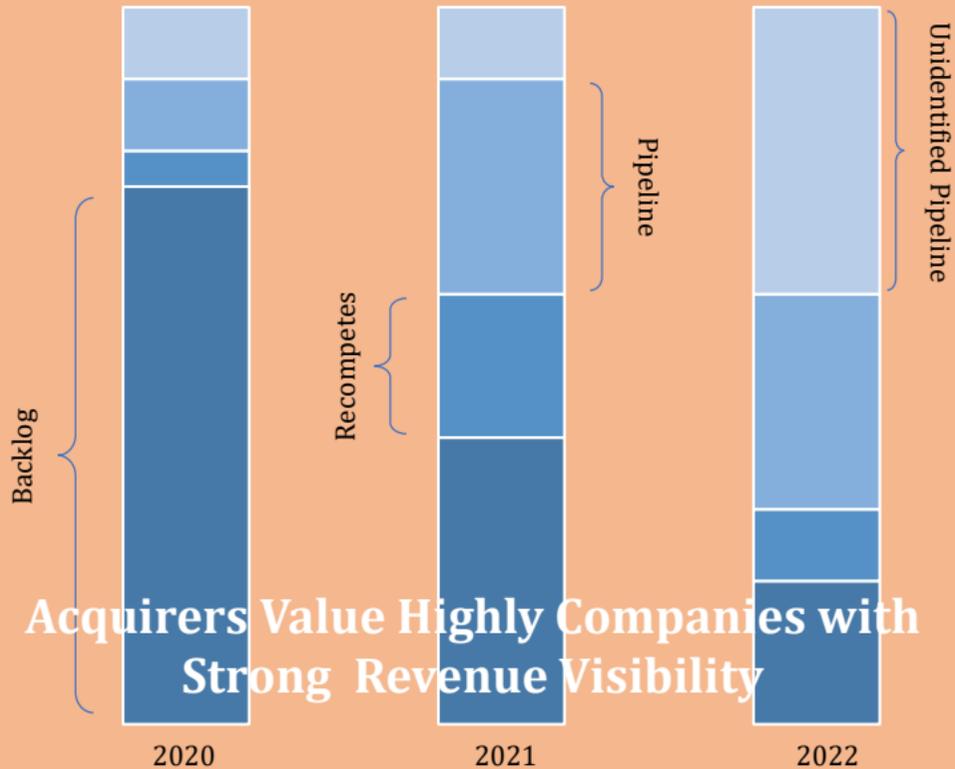
What are the Internal Uses of this Information?



Waterfall Snapshot

	Contract Demographics	Financials
Backlog:	Contract ID	Revenue (Monthly & Annual)
Contract 1...	Revenue Segment	Cost of Goods Sold (Monthly & Annual)
Contract 2...	Industry	Gross Margin % (Monthly & Annual)
Contract 3...	IDIQ Vehicle	
Pipeline:	Type (FFP, CPFF, T&M)	
Contract 1...	Prime vs. Subcontract	
Contract 2...	Prime Name (if applicable)	
Contract 3...	End Customer	
	Period of Performance ("PoP")	
Unidentified:	Total Contract Value ("TCV")	
Contract 1...	Funded & Unfunded Value	
Contract 2...	Unweighted Pipeline	
Contract 3...	Probability of Win ("Pwin")	
	Probability-weighted Pipeline	
	Small Business Set-Aside / Minority-owned / Full & Open	

Revenue Visibility



The **contract waterfall** plays an important role for both the buyer and the seller in an **acquisition** and is arguably the most important information that parties will use to base their **transaction negotiations**.

Federal contractor acquisition candidates who have better visibility into future revenue streams often receive a premium valuation.

Gives the Acquirer a Snapshot of Revenue Visibility and Earnings Quality

- Main analysis to highlight future revenue and profit streams on multi-year government contracts
- Potential considerations arising from recertification on preferential contracts such as SBSA, 8(a), etc.
- Nature of recompetes in terms of timing, type of work, evaluation criteria, cost structure, etc.
- Nature of opportunities in the pipeline
 - Logical follow-ons vs. new business
 - Probability of win for each contract

What Should You Consider When Building a Waterfall?

- 1 Qualitative data such as contract demographics is just as important as the quantitative data:
 - Prime vs. Sub
 - End Customer
 - Preferential Status
 - Type of Work
 - Contract Type
 - Period of Performance
- 2 Not all Backlog is created equal:
 - Funded vs. unfunded; out-year options for ongoing work are considered unfunded backlog
 - Sole source award is valued higher than a multiple award IDIQ
 - Task orders, **not** IDIQ ceilings, are considered backlog
- 3 Pipeline assumptions are critical for projections and buyer diligence questions:
 - Projecting new business wins is both art and science
 - Two of the most important pipeline assumptions are start date and Pwin
 - Building projections on a lot of large “low Pwin” opportunities is fraught with danger
 - Pwin should be determined on a case-by-case basis, and not by the “milestone gate” method

Outcome Capital Key Takeaways



Companies with a Small Business (“SB”) designation that can successfully transition their SB contracts into Full & Open work will often receive “full” valuation

Why Outcome Capital?

- Four Managing Directors each with over 20 years of experience in Technology, Aerospace, Defense & Government Services
- Experience in selling over 150 businesses
- Deep understanding of transaction dynamics involving businesses with various contract demographics, including set-aside federal government work
- Unmatched investor and board room experience having invested in more than 50 companies in the technology and ADGS space



Jonathan Wallace
Managing Director



Michael Cromwell, III
Managing Director



Tom Peltier
Managing Director



Doug Benedict
Managing Director



Parag Sheth
Senior Advisor



Nas Chobanov
Vice President

Recent ADGS Deals

FORWARD PHOTONICS

Has been acquired by

Undisclosed Family Office

Financial Advisor to Forward Photonics

RG | Robbins-Gioia

Has been acquired by



Financial Advisor to Robbins-Gioia

FEDDATA

a portfolio company of

CHART CAPITAL PARTNERS

Has been acquired by



Financial Advisor to FedData

NCI

Has been acquired by



Financial Advisor to NCI

INTELLIGENT DECISIONS

Has sold its VAR and professional services businesses to a private group of investors

Exclusive Financial Advisor to Intelligent Decisions