

Government Contracting Ecosystem Update

Technomile ELEVATE

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SO NICE TO MEET YOU!



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MEET RSM.
FIRST CHOICE ADVISOR
TO MIDDLE MARKET
LEADERS, GLOBALLY.



RSM BY THE NUMBERS

COMBINED RSM US AND RSM CANADA

\$3.3B
REVENUE IN FISCAL 2022

1,101
PARTNERS AND PRINCIPALS
IN FISCAL 2022



13,549
EMPLOYEES IN FISCAL 2022

6 LOCATIONS IN CANADA

1 LOCATION IN EL SALVADOR

1 LOCATION IN INDIA

82
CITIES IN THE UNITED STATES

RSM INTERNATIONAL

\$7.3B
REVENUES IN CALENDAR 2021

860+
OFFICES



123
COUNTRIES



51K+
PEOPLE



Macroeconomy

Federal government

Executive branch

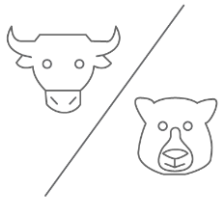
Industry executives

Investors



Economic themes

- Economy resilient with upside
- Labor market remains tight; capital expenditure boom possible once price stability reached
- Acute inflation peaked at 9.1% (June '22); wage growth 4-5%
- Fed right at terminal rate, balance sheet runoff continues
- Recession probability 40%



Core economic fundamentals

- 50-plus year low unemployment, strong household balance sheets
- Still adding >150k jobs per month; prime-aged employment near record high
- Steady corporate profits, low leverage
- Tighter lending conditions for middle market to persist

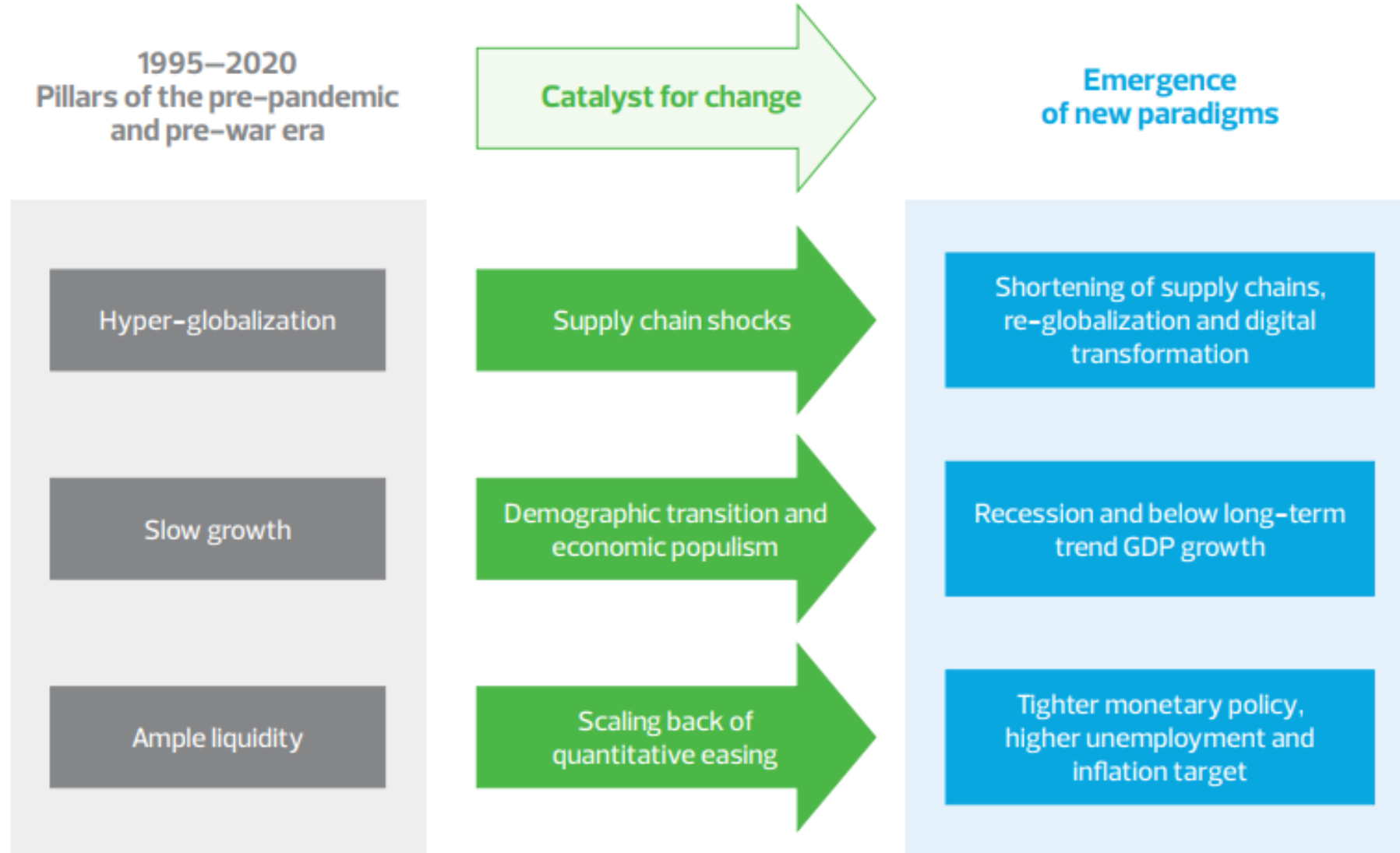


Consumption outlook

- There is no “The Consumer”; highly segmented, targeting bolstered by data, artificial intelligence
- US core inflation remains sticky in services 5.1%, top line all-items inflation falling markedly
- Easing inflation bolstering real wages
- Average interest rate charged on credit card near 20%.

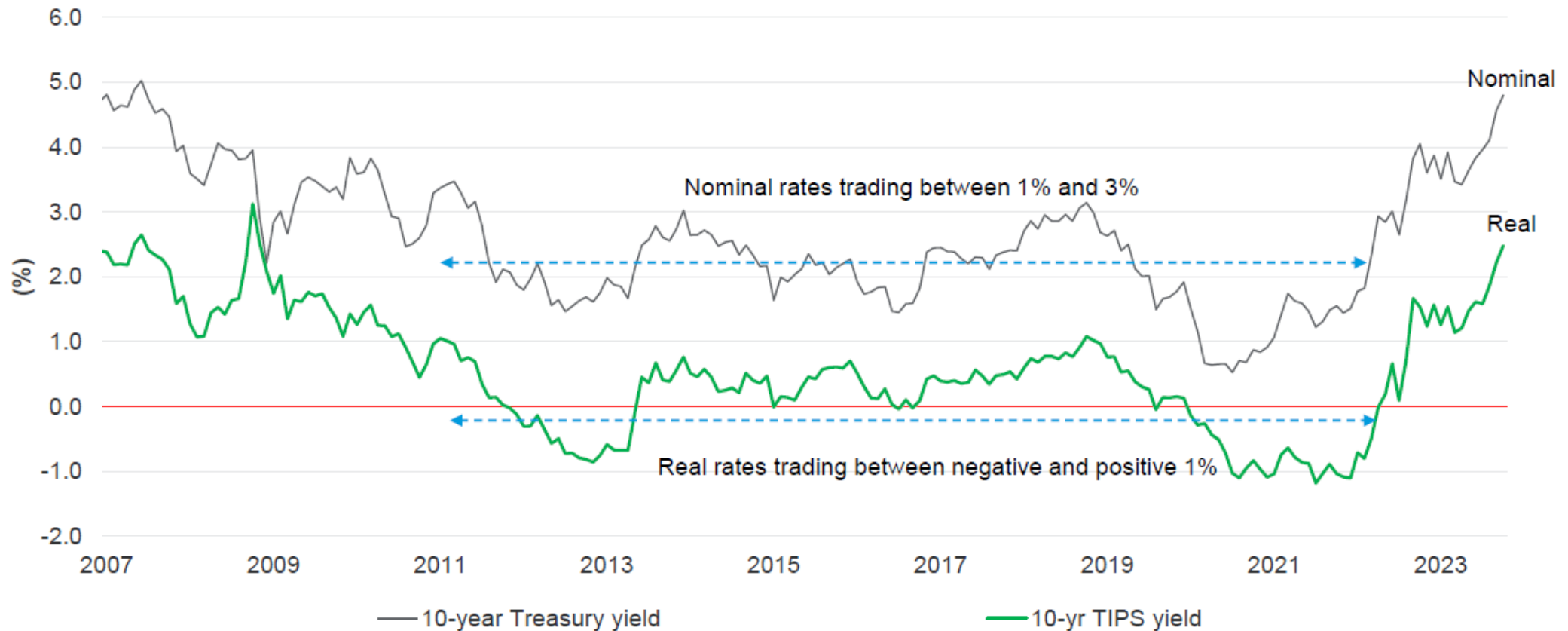
A break from the past

Regime change: Globalization, growth and liquidity to significantly change



Nominal 10-year interest rates are approaching 5%

Real 10-year interest rates are approaching 3%



Source: Bloomberg; RSM US

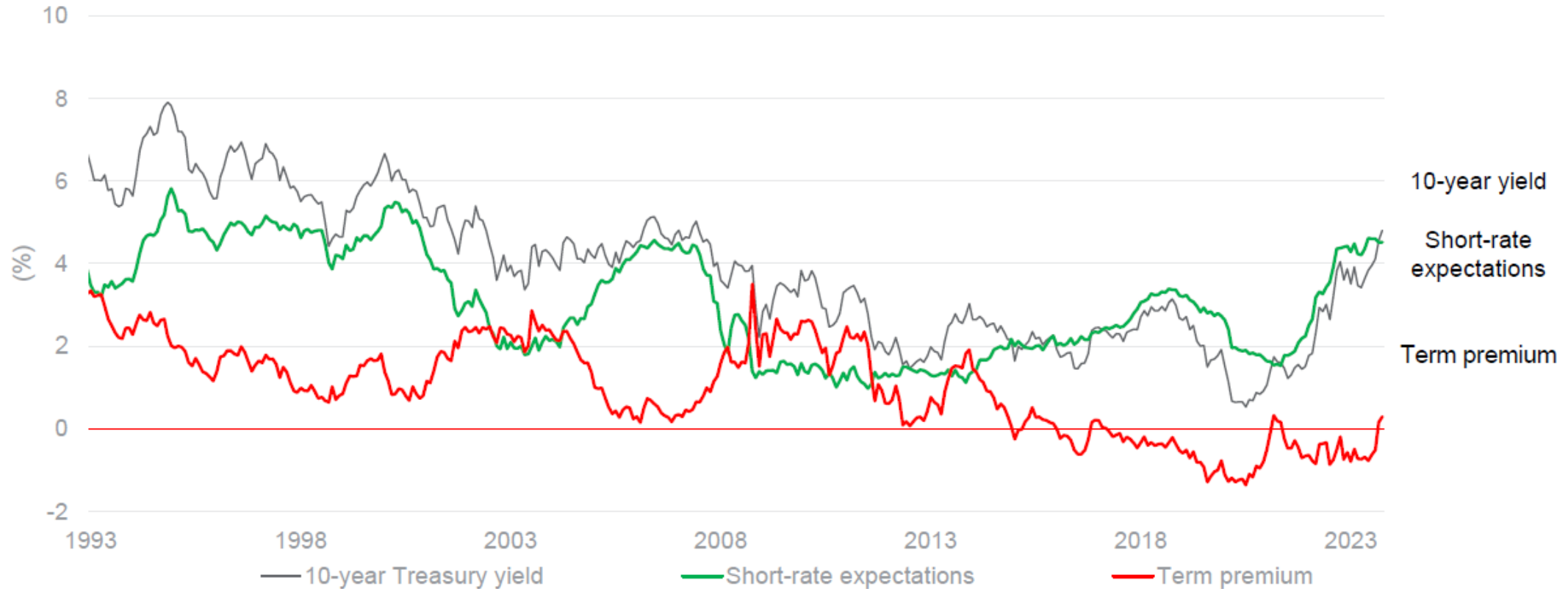
Nominal interest rate: Coupon rate – the actual price borrowers pay lenders with no adjustments.

7 **Real interest rate:** Nominal interest rate adjusted for inflation. Better illustrates borrower's buying power when making investment decisions.

Signs of normalization: Term premium is positive again



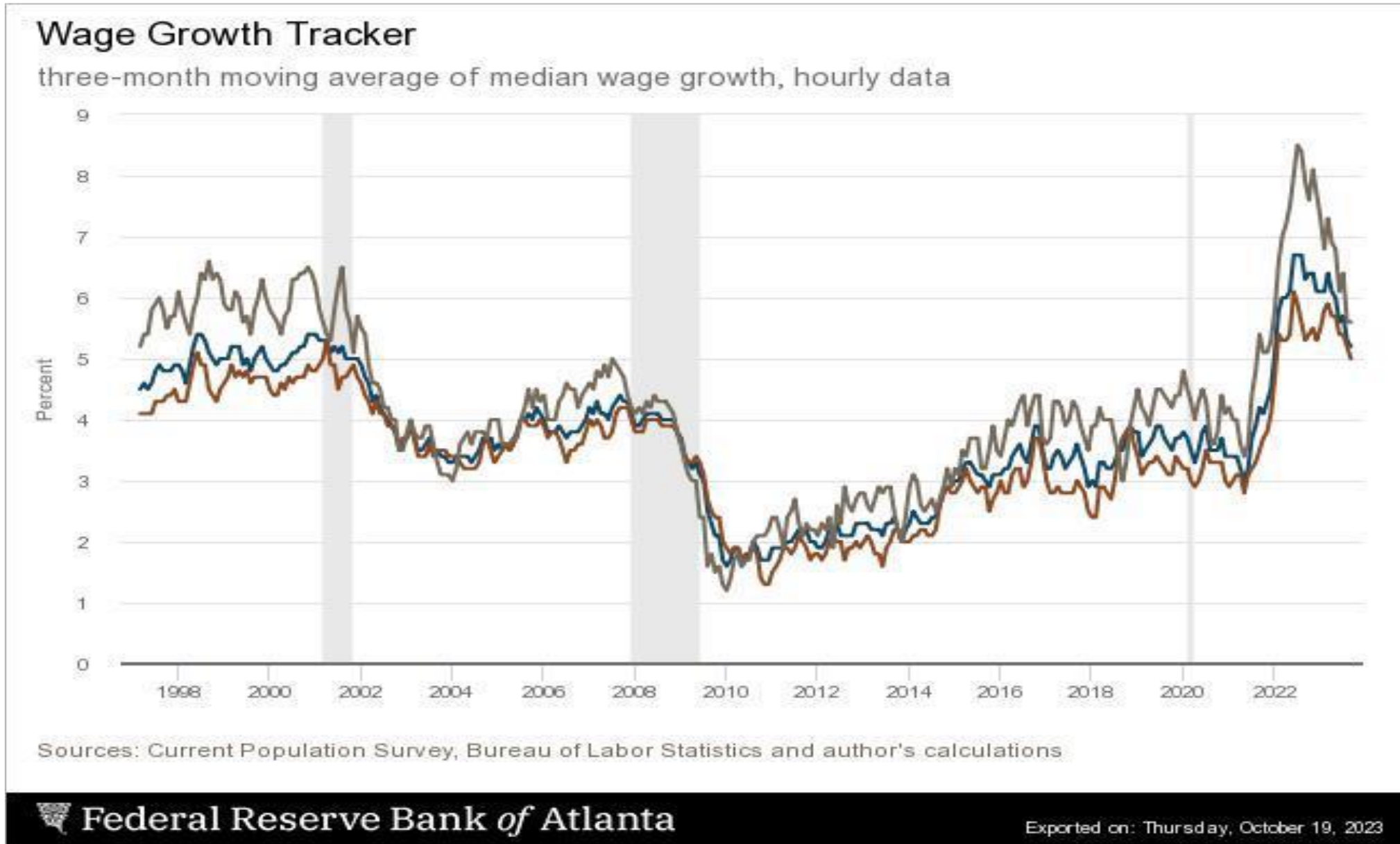
The impact of expectations of monetary policy on 10-year bond yields and the normalization of the term premium



Source: Adrian, Crutch and Moench; NY Fed; Bloomberg; RSM US LLP

Term premium: the added compensation investors expect for the unknown associated with holding longer-term debt.

Wage growth for switchers has peaked; reset higher



Prime age employment near record high

Labor force participation rate: Prime age 25-54

In percentages



Source: BLS, RSM US

China's debt and deleveraging crisis

There could be a further slowdown in China's property sector, a domestic debt overload or the inability of emerging economies to repay Chinese loans. These type of crisis take 7-10 years to work through.

Geopolitical uncertainty

An escalation of the war in Ukraine remains a major threat, further destabilizing energy and food markets and further fragmenting the global economy. The recent outbreak of hostilities between Israel and Hamas, if it spills over to a conflict with Iran risks a prolonged period of volatility in oil and energy markets.

Repercussions for emerging markets

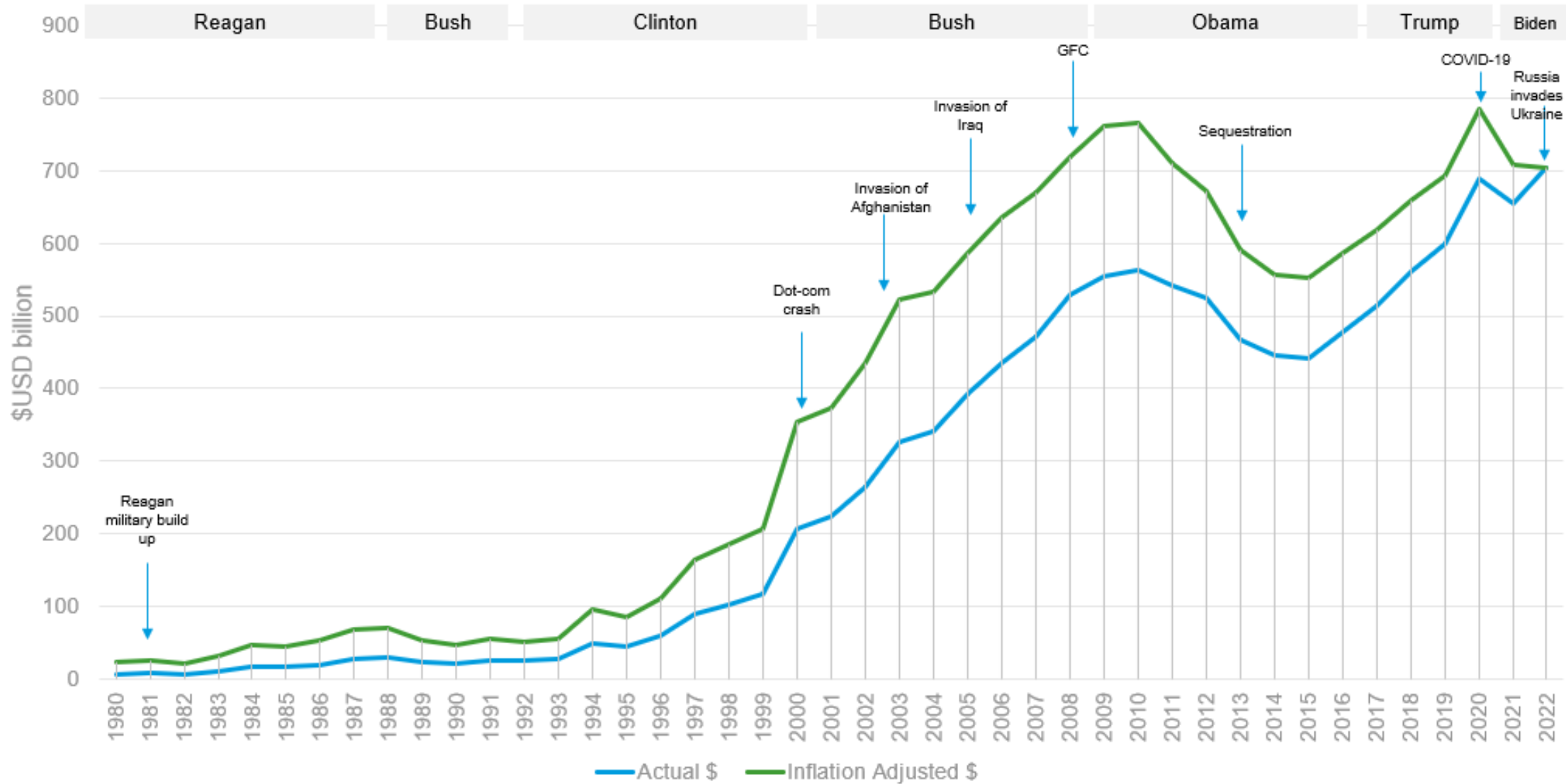
Unchecked inflation, particularly in Europe, could disrupt the financial markets, with increased financial risk affecting the ability of emerging economies to maintain debt requirements.

Price stability = corporate and investment visibility

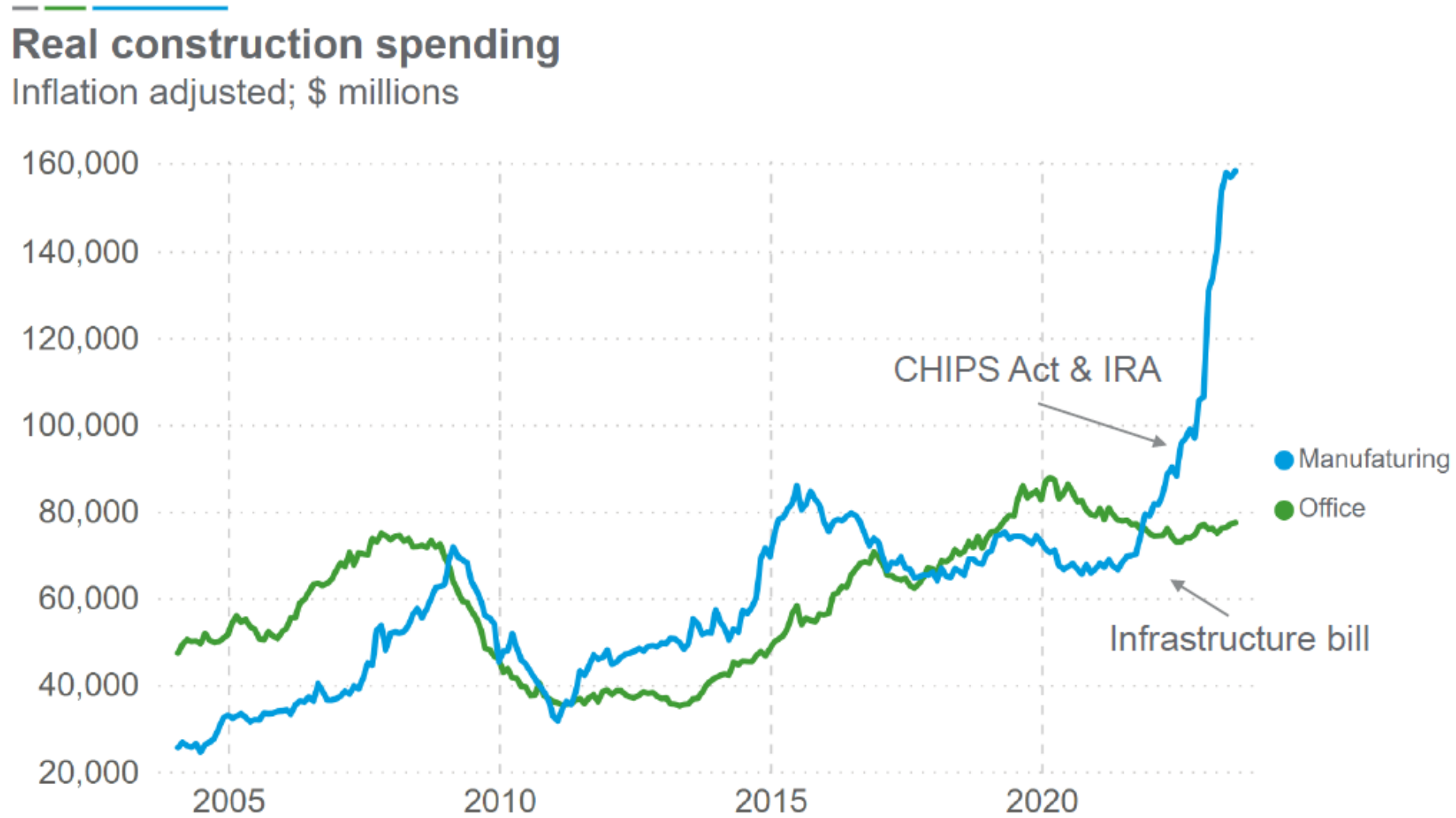
Growth, consumption and policy normalization

- Consumer remains resilient
- Capex boom due to decades of underinvestment, both corporate and infrastructure
- Growth persistently surprises to upside
- Adjustment across economy to higher rates (not without pain)
- Global turmoil directs investment to US, mitigates potential interest rate shock

Perspective: federal government contract spending over time



Industrial policy takes center stage



Source: BLS, Census Bureau, RSM US

31 “Regional Innovation and Technology Hubs” announced

- Authorized by the CHIPS and Science Act (signed in August 2022)
- Tech Hubs will catalyze investment in **technologies** critical to **economic growth**, **national security**, and **job creation**, and will help communities across the country become centers of innovation critical to **American competitiveness**.
- Bring together industry, state and local governments, higher ed, labor unions, tribal communities and non-profit organizations.
- \$75m of grants to further develop fields of focus
- Chosen from 370 applications
- Future rounds of the program expected

More info: [White House Fact Sheet](#)

Critical industries / areas of focus:



- Enabling safe and effective **autonomous systems** (3)



- Maintaining our **quantum** edge (2)



- Advancing biotechnology in **drugs and medical devices** (6)



- Advancing biotechnology **precision and prediction** (5)



- Accelerating America’s **clean energy** transition (5)



- Strengthening our **critical minerals** supply chain (2)



- Regaining leadership in **semiconductor** manufacturing (4)



- Growing the future of **materials manufacturing** (4)

An evolving defense landscape

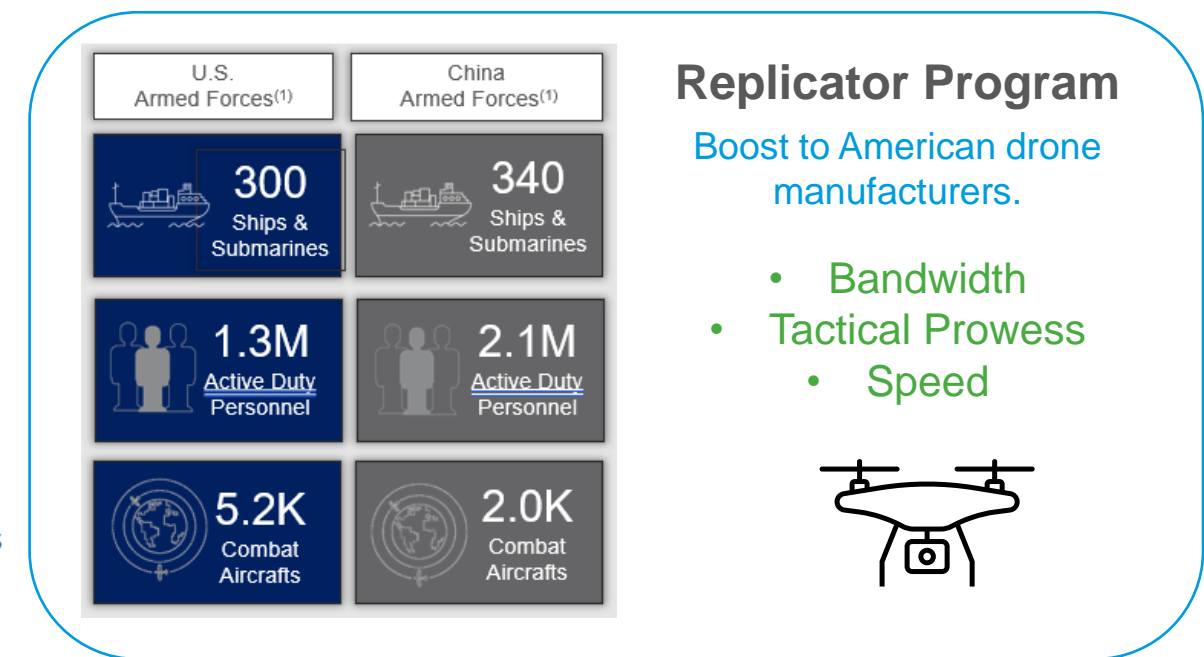
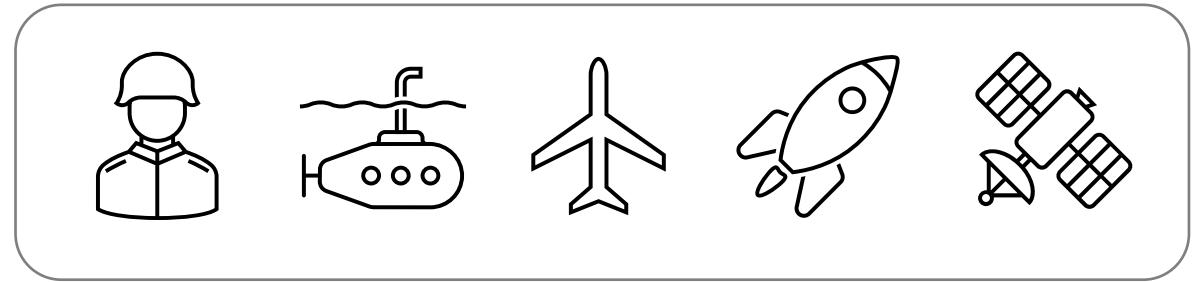
The 2022 National Defense Strategy, or NDS, places a primary focus on the need to sustain and strengthen U.S. deterrence against **China**. It also advances a focus on **collaboration** with a growing network of U.S. allies and partners on shared objectives.

In addition to addressing both China and an increase in the importance of partnerships, the NDS also takes into account the challenges posed by **Russian** — especially considering its invasion of Ukraine — along with threats posed by **North Korea**, Iran and **violent extremist organizations**. The NDS also includes a focus on challenges to security, such as **pandemics** and **climate change**.

With the U.S. nuclear capability remaining the "ultimate backstop" for strategic deterrence, the secretary said the department plans to continue **modernization efforts on the nuclear triad**. The fiscal 2023 budget request, for instance, includes some \$34 billion to sustain and modernize nuclear forces, he said.

"**Innovation** is central here," he said. "Last year, for instance, we established the Rapid Defense Experimentation Reserve, which funds different parts of the department to work together to fill critical joint warfighting gaps. And our fiscal year 2023 budget request included **more than \$130 billion for research**, development, testing and evaluation — that's the largest R&D budget number in DOD history."

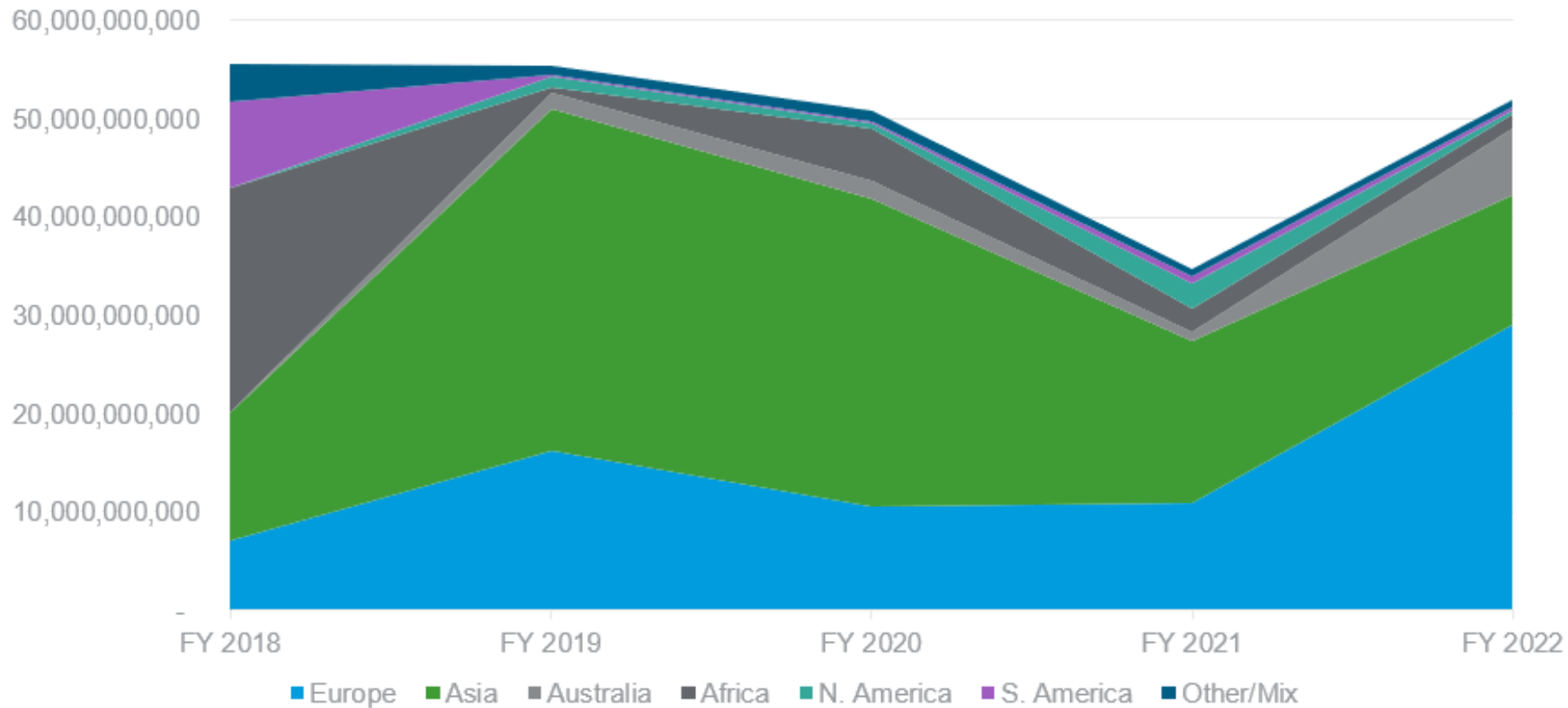
The department is also working with industry partners to **strengthen supply chains** within the defense industrial base, and tackling the dangers of **climate change**, including ensuring that the military can continue to operate in both **hotter and harsher environments**.



<https://www.defense.gov/News/News-Stories/Article/Article/3202438/dod-releases-national-defense-strategy-missile-defense-nuclear-posture-reviews/>



Foreign military sales by continent



FY 2022 Top 5	
Finland	\$11.8B
Australia	\$6.7B
Switzerland	\$5.7B
Poland	\$4.8B
Japan	\$2.8B

FY 2021 Top 5	
Japan	\$3.9B
United Kingdom	\$2.9B
Taiwan	\$2.7B
Canada	\$2.6B
Egypt	\$2.0B

FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
\$55.7B	\$55.4B	\$50.8B	\$34.8B	\$51.9B

Source: Department of Defense Security Cooperation Agency Historical Sales Book Fiscal Year 2022





Executive orders ... just to name a few

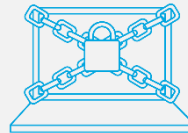
EO 14005: Ensuring the Future is Made in American by All of America

January 25, 2021



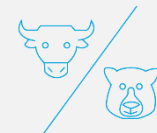
EO 14028: Improving the Nation's Cybersecurity

May 12, 2021



EO 14036: Promoting Competition in the American Economy

July 9, 2021



EO 14017: America's Supply Chains

February 24, 2022



EO 14032: Addressing the Threat From Securities Investments that Finance Certain Companies in China

June 3, 2021



EO 14057: Catalyzing America's Clean Energy Economy Through Federal Sustainability

December 8, 2021



EO 14026: Increasing the Minimum Wage for Federal Contractors

April 27, 2021



EO 14034: Protecting Americans' Sensitive Data from Foreign Adversaries

June 9, 2021



EO 14063: Use of Project Labor Agreements for Federal Construction Projects

February 4, 2022





Executive orders ... just to name a few more

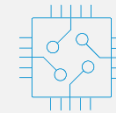
EO 14069: Advancing Economy, Efficiency, and Effectiveness in Federal Contracting by Promoting Pay Equity and Transparency
March 15, 2022



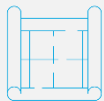
EO 14073: Enhancing the National Quantum Initiative Advisory Committee
May 4, 2022



EO 14080: Implementation of the CHIPS Act of 2022
August 25, 2022



EO 14082: Implementation of the Energy and Infrastructure Provisions of the Inflation Reduction Act of 2022
September 12, 2022



EO 14083: Ensuring Robust Consideration of Evolving National Security Risks by the Committee on Foreign Investment in the United States
September 15, 2022



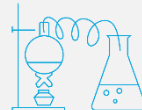
EO 14086: Enhancing Safeguards for United States Signals Intelligence Activities
October 7, 2022



EO 14093: Prohibition on Use by the United States Government of Commercial Spyware That Poses Risks to National Security
March 27, 2023



EO 14104: Federal Research & Development in Support of Domestic Manufacturing and United States Jobs
July 28, 2023



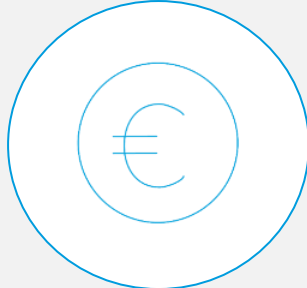
EO 14105: Addressing United States Investments in Certain National Security Technologies and Products in Countries of Concern
August 9, 2023



Key themes from executives in the ecosystem



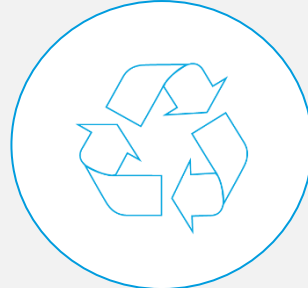
M&A slows but continues



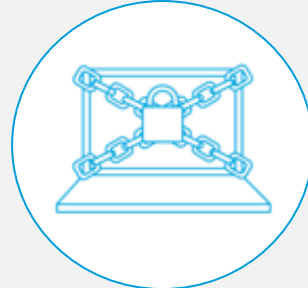
The world doubles down on defense



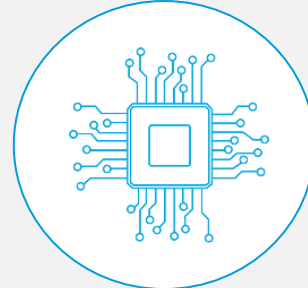
Record funding for R&D



ESG brings regulation and opportunity

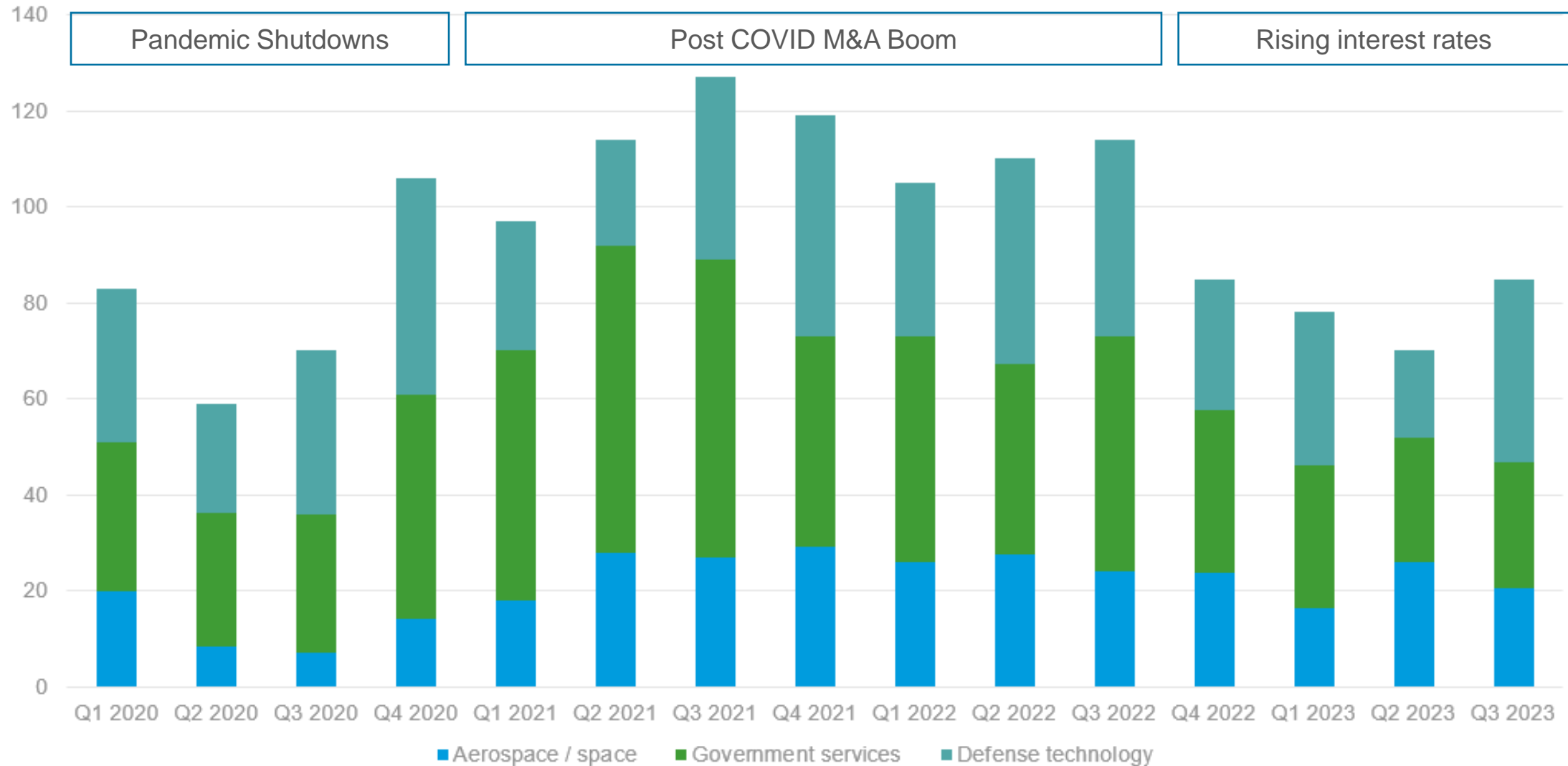


Cyber requirements continue to climb

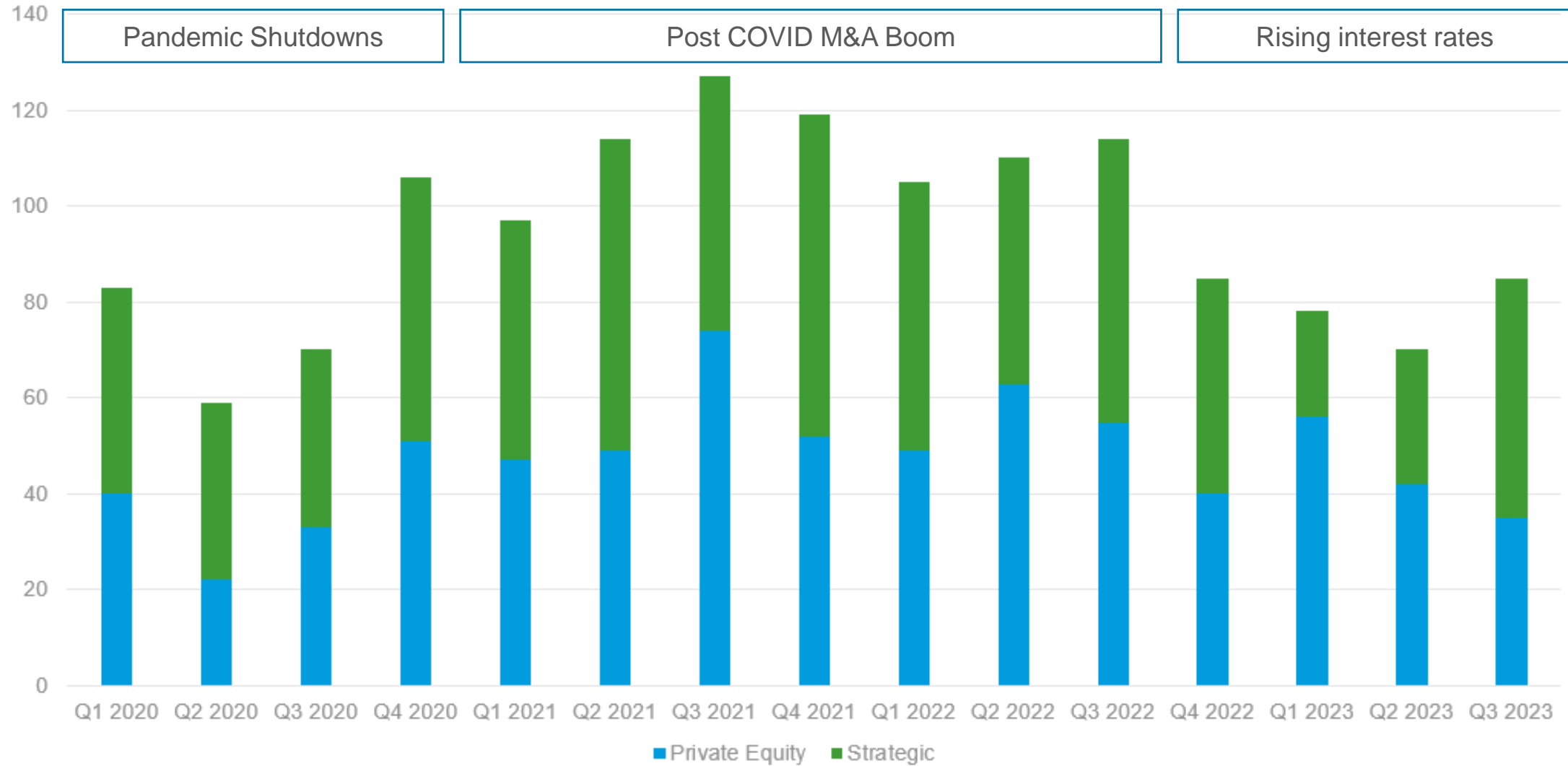


Industrial policy ushers in a new era

Quarterly M&A deal count by sector



Quarterly M&A deal count by buyer type



First OSC program activity: The SBIC critical technologies initiative

1

Licensed SBICs raise capital from private investors as limited partners ...

Private investors
Pension, foundations, banks,
high-net-worth individuals

\$1

U.S. Small Business
Administration (SBA)

\$2*



3

SBICs are able to invest levered-equity capital into companies ...

\$3*



2

... and receive up to \$2 of government guaranteed debt for every \$1 of private capital.

4

... reducing the portfolio cost of capital and increasing returns on investors.

Source: Office of Strategic Capital

*Up to two times leverage in the standard SBIC debenture. The deferred accrual debenture leverage amount is undergoing final rulemaking.



**THANK YOU FOR
YOUR ATTENTION**

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