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Sources of Data

Richter & Company's Wrap Rate results reflect our independent assessment of the targeted company. To develop these models, we perform research in a manner that is compliant with all applicable laws, and is consistent with the Strategic and Competitive Intelligence Professionals' Code of Ethics and the policies of both Richter & Company and our clients. We use only non-proprietary information in our work, and fully comply with all non-disclosure agreements we have in place with our many clients. **We fully respect every company's right to protect its proprietary information.**

Only publicly available, non-proprietary open-source data is used in these assessments. Common data sources used in the development of wrap rates include:

- * SEC filings (10-K, 10-Q, etc) – financial data including costs
- * Company websites – job postings, salary/benefit data, hiring practices/policies
- * Social media (e.g. LinkedIn, GlassDoor) – personnel information, descriptions of compensation and hiring practices, facility descriptions, discussions of management capabilities, issues
- * Reports from financial analysts (e.g., brokers and investment banks)
- * Contract award data (obtained through FOIA requests)
- * Kaiser Family Foundation (historical healthcare costs and trends)
- * Commercial databases (e.g., CoStar real estate database)
- * Government databases (e.g., Bureau of Labor Statistics, state business registration and real property databases)

Approach

Wrap Rates are the indirect burdens covering Fringe Benefit, Overhead and General & Administrative costs which are applied to direct labor costs to derive the true cost of labor. To develop their own wrap rates, companies assign costs within these general categories based on actual historical data recorded in their accounting system and reasonable forecasts. The sum of the costs assigned within a category is then divided into the total direct labor cost to provide a percentage rate. For example:

- * Company X has a direct labor cost (the "labor base") of \$100,000
- * Costs assigned to the Fringe Benefit pool total \$40,000; its Fringe Benefit Rate is 40% ($\$40,000/\$100,000$)
- * Costs assigned to the Overhead pool total \$30,000; its Overhead Rate is 30% ($\$30,000/\$100,000$)
- * Costs assigned to the General & Administrative pool total \$10,000; its G&A Rate is 10% ($\$10,000/\$100,000$)

Richter & Company's wrap rate models use a consistent definition of the elements of cost assigned within each category. Unfortunately, there is no requirement that companies assign costs to these pools in the same way; per the Department of Defense, "Contractors assign costs based on their production processes and the accounting systems which work best for them...as long as the accounting system is in accordance with Generally Accepted Account Principles (GAAP) and meets with Defense Contract Management Agency (DCMA) approval...". This lack of a universal process means that costs assigned to the Fringe Benefits category by one company may (properly) be assigned to Overhead by another. This makes "apples to apples" comparisons difficult.

Small companies often have one wrap rate applicable to their entire organization. More sophisticated companies, who possess accounting systems capable of allocating costs to lower-level organizational units (sectors, divisions, business units, groups, etc.) and contracts, may have many wrap rates. These reflect differences in the costs allocated to each pool. Two common examples:

- * When work is performed in facilities provided by the company, facility, upkeep, and staff-related infrastructure costs will generally be higher than when the same work is performed on client site. (We refer to these as "Contractor Site (Plant)" and "Off-Contractor Site (Field)" respectively).
- * Benefit costs associated with recruiting and retaining highly-skilled technical labor are generally higher than for lower-skilled administrative labor.

Each example requires use of different pools to properly allocate costs (and survive post-award contract audits). Also keep in mind that wrap rates reflect historical conditions. Sophisticated companies take into account future changes in costs and bid wrap rates based on these projections. Using the previous example:

- * Company X has a current direct labor cost (the "labor base") of \$100,000. It anticipates adding \$100,000 of additional labor if awarded a new contract, resulting in a \$200,000 base.
 - * Costs assigned to the Fringe Benefit pool are projected to double to \$80,000; its Fringe Benefit Rate will remain at 40% ($\$80,000/\$200,000$)
- However, costs assigned to the Overhead pool are projected to increase by only 50% because the new contract will be performed on customer site, therefore totaling \$45,000; its likely Overhead Rate will be 22.5% ($\$45,000/\$200,000$) – down from 30% today.
- * The company expects no significant changes to General & Administrative pool costs (still \$10,000); its likely G&A Rate will be 5% ($\$10,000/\$200,000$) – down from 10%.

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Wrap Rate Calculation

These three pools are combined to define an overall wrap rate. Two basic approaches (illustrated in equation form) are accepted by the Defense Contract Management Agency:

$$\begin{aligned} ((1+\text{Fringe Benefit Rate}) * (1+\text{Overhead Rate})) * (1+\text{G\&A Rate}) &= \text{Wrap Rate Before Fee} \\ (1+(\text{Fringe Benefit Rate} + \text{Overhead Rate})) * (1+\text{G\&A Rate}) &= \text{Wrap Rate Before Fee} \end{aligned}$$

Given the example above, the calculated wrap rates excluding fee are:

$$\begin{aligned} (1+0.40) * (1+0.30) * (1+0.10) &= 2.00 \\ (1+(0.40+0.30)) * (1+0.10) &= 1.87 \end{aligned}$$

A company may use either method so long as its use is consistently applied and supported by its standard accounting system and processes. **Richter & Company's standard models normally use the second approach** - but this can be changed by selecting "Alternate" in the "Wrap Rate Formula" on the Parameters tab.

Analysis and results are based on most current available financial and business information for the targeted company. All calculations reflect the knowledge, experience - and as a result, the judgement - of the analyst that developed the model. Results are intended to project the rates a reasonable company may offer as part of its bid strategy based on the importance of a specific opportunity to the bidding unit and/or company as a whole. These map to Richter & Company's Aggressiveness model (a standard component in our Price To Win Analyses) as follows:

- (1) **Business Unit Standard** - this illustrates a "business as usual" approach. All subsequent models use these results as a base.
- (2) **Business Unit Nice To Have** - this model reflects a desire to pursue an opportunity with little or no performance risk.
- (3) **Business Unit Important** - results reflect a high level of commitment from (and scrutiny by) business unit executives, likely resulting in higher investment in IRAD and B&P.
- (4) **Business Unit Must Win** - this model reflects a serious commitment to winning a program; strategies will be communicated to higher levels, who will monitor results.
- (5) **Corporate Must Win** - this model illustrates the impact of significant commitment of corporate resources for a true "bet the company" program.

In this approach, the wrap rate is expected to decrease as importance increases. Resulting rate reductions (which are shown under "Aggressiveness" and "Margin" on the Parameters tab) are based upon the assumption that the factors reduced could be justified to a local DCAA auditor. In general, this is a zero sum game, that is, the increase in base from the increased business would justify the rate reduction. A similar argument would be made to corporate in regards to the corporate flow down reductions in that they (corporate) would receive the same amount albeit at a lower rate. This strategy resulted in varying proposal value pursuit thresholds for the target companies.

Keep in mind that many additional elements will be added to create a winning solution. Effective competitive analysis and Price To Win assessments may provide additional benefits beyond these projections to improve your win probability and post-award performance.

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