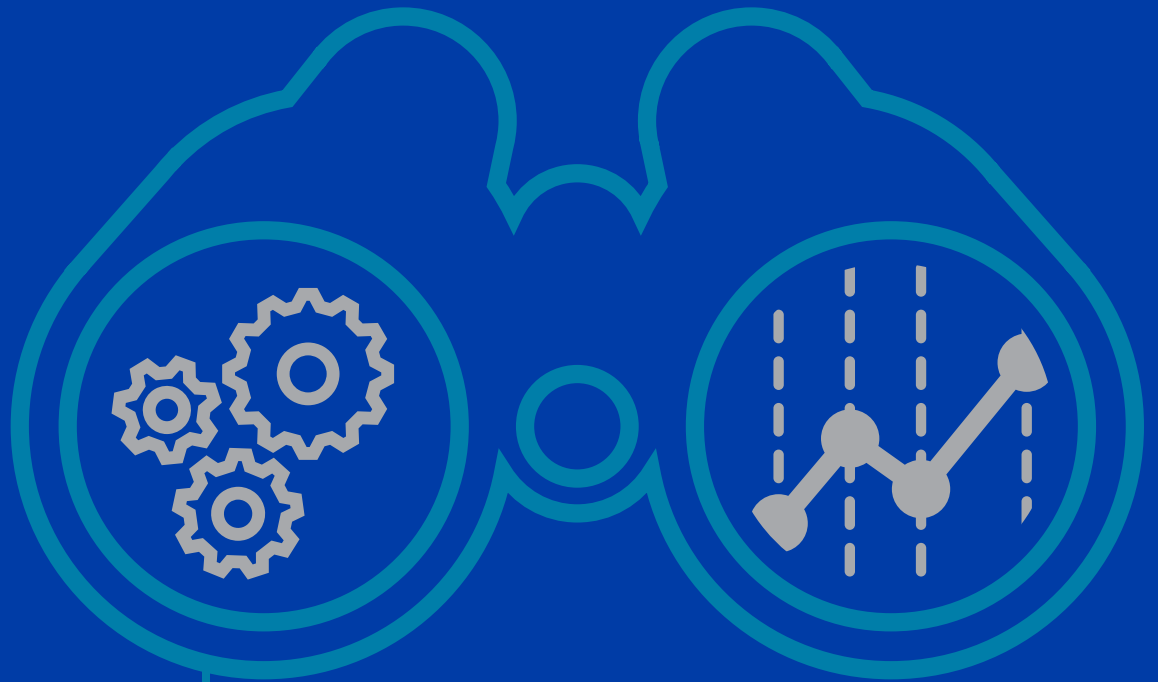


2018 CONTRACTOR CONFIDENCE INDEX & MARKET OUTLOOK



INSIDER
REPORT

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Introduction

Government contractors see 2018 as a year of great opportunity and as we move deeper into the year, their confidence is soaring that the market is headed in the right direction.

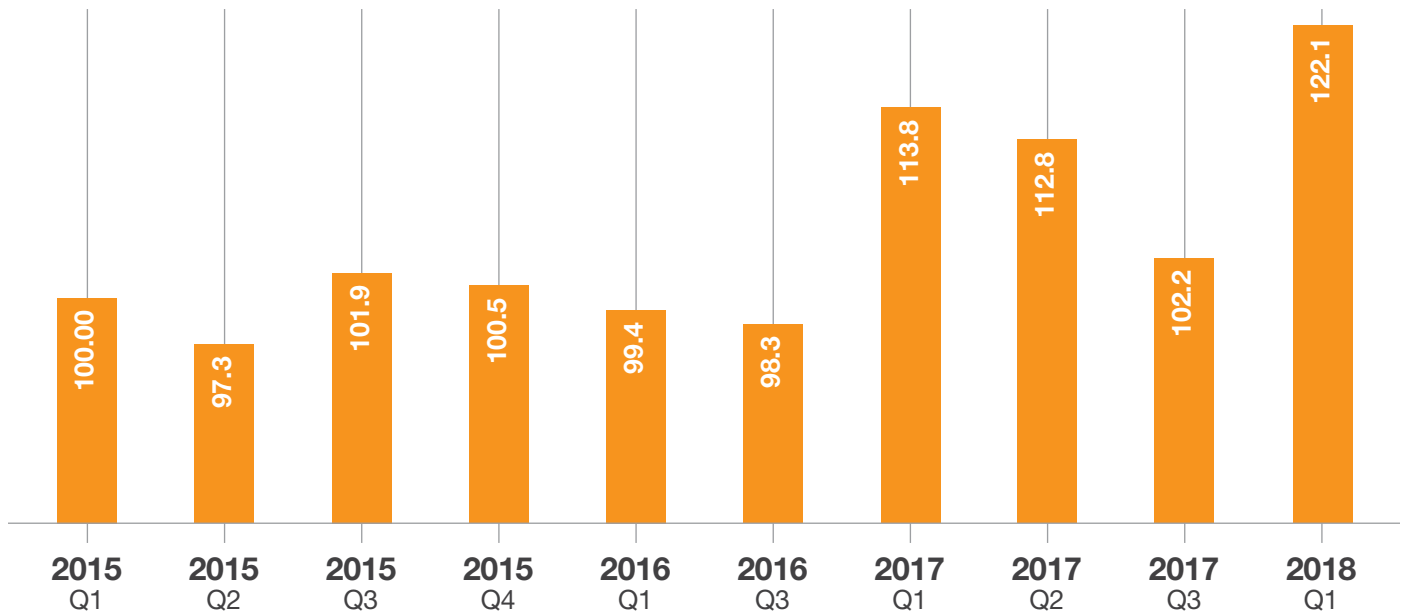
The Washington Technology Contractor Confidence Index hit 122.1 in our latest survey taken by more than 220 people across the market. That is the highest ranking since we started this survey in 2015. It held steady during the last two years of the Obama Administration, never moving much from the 100 level set in the first survey

But with the more pro-business stand of the Trump Administration, the Index has climbed as contractors see budgets stabilize and gain more visibility into long-term customer priorities.



With this version of the Contractor Confidence Index we have expanded our set of questions and are taking a deeper dive into what respondents see as the major trends and opportunities in the market.

Index shows growing confidence



In this report we'll explore industry views on IT modernization, emerging technologies and mergers and acquisitions as well as views on hiring and investments over the coming years. Because we have conducted our Contractor Confidence Index survey multiple times, we'll also compare today's results with previous surveys.

Growth Expectations

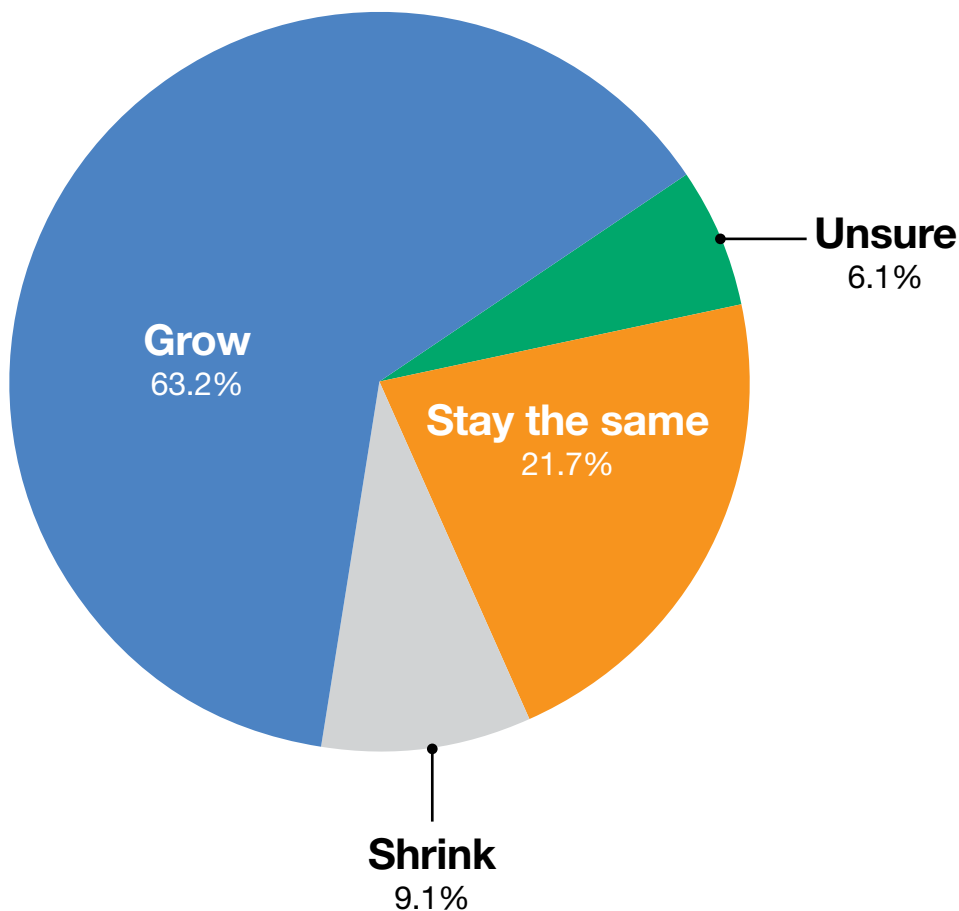
The best place to start is to look at whether respondents expect their company's revenue to grow.

As you'll see in the chart, a very strong majority (63.2 percent) said that their company's revenue will grow in the coming year. Less than 10 percent feel revenue will shrink. A significant portion (21.7 percent), however, feels that revenue will stay the same.

Compared to two years ago, expectations are much higher today. In the first quarter of 2016, less than half (49.7 percent) expected growth, 13.7 percent thought revenue would fall, and 29.2 percent said it would stay the same.

2016 also was the year when the market started to turn ever so slightly upward and as the current survey results indicate that trend has continued.

Do you expect your company's revenue to grow in the next 12 months?

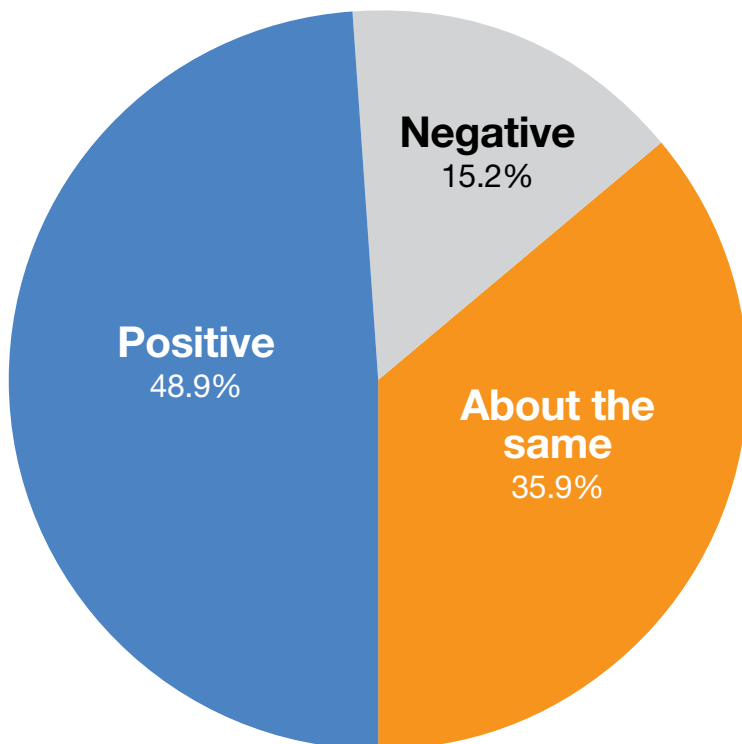


Closely related to growth expectations are whether the market is headed in a positive or negative direction.

Nearly half (49.1 percent) said the market is headed in a positive direction and 36.1 percent said it is headed in about the same direction as a year ago. Just 14.8 percent said it is headed in a negative direction.

Looking back to 2016, we also see a very positive upward trend. In 2016, 30.2 percent of respondents said the market was headed in a positive direction, while 31.4 percent said negative and 38.4 percent said about the same as last year.

Do you feel the market is headed in a positive or negative direction?



Hiring and Job Satisfaction

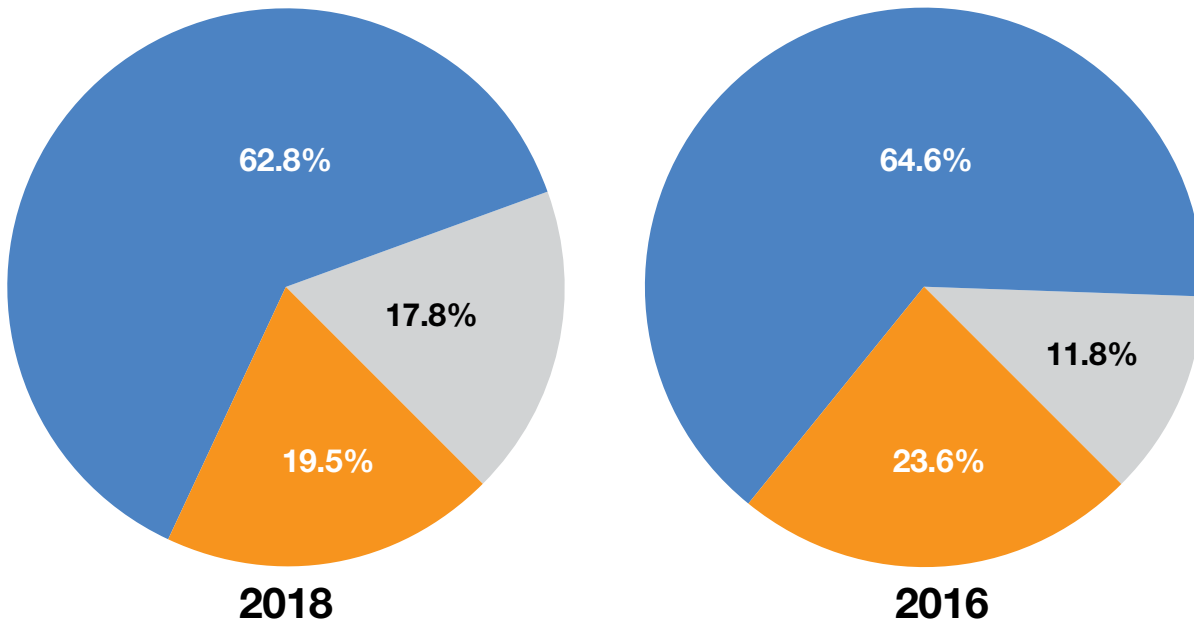
Government contractors are a confident bunch when it comes to their job security expectations.

Over 60 percent said they don't expect their company to conduct layoffs in the coming years. Over 51 percent expect hiring to increase in the coming year. Over 63 percent said they are satisfied with their jobs.

Remarkably, the results are consistent with the survey results from the first quarter of 2016 as the charts below show.

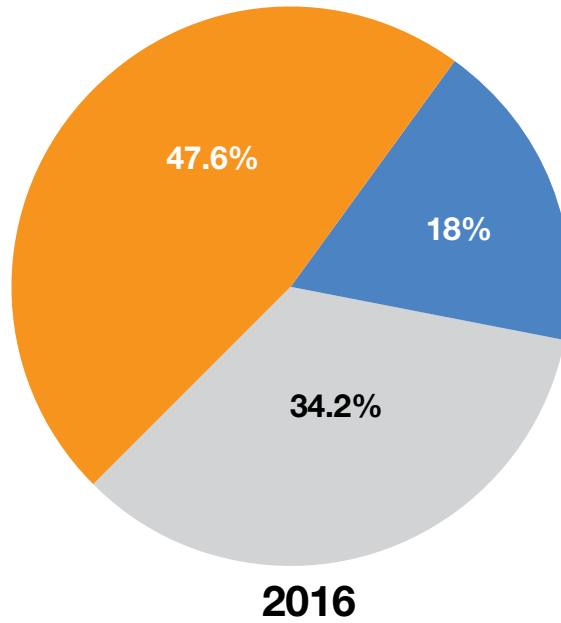
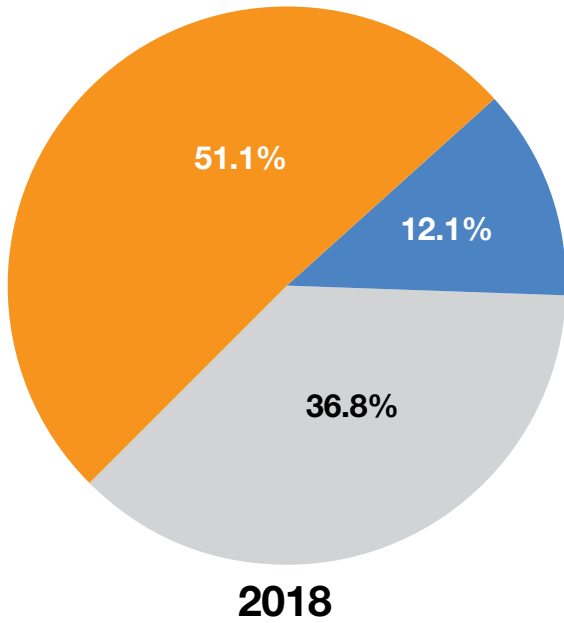
The primary message from these results is that government contractors enjoy what they do and take immense satisfaction in it.

Do you expect your company to announce layoffs during the next year? ■ Yes ■ No ■ Unsure



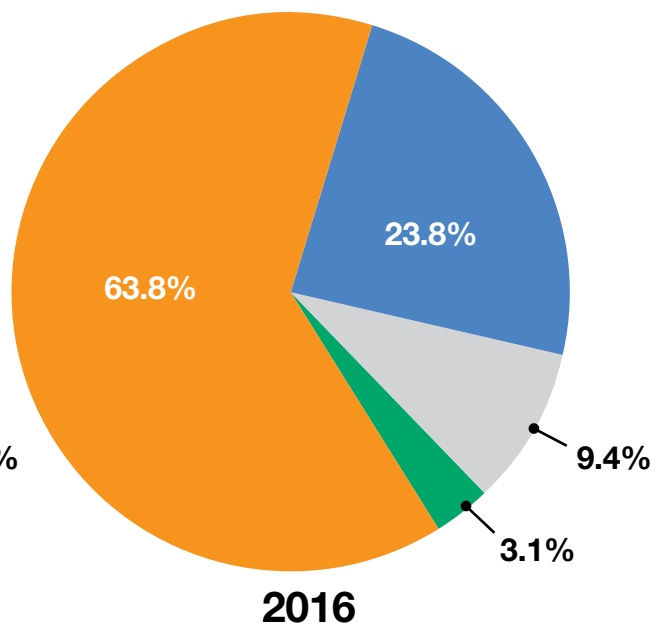
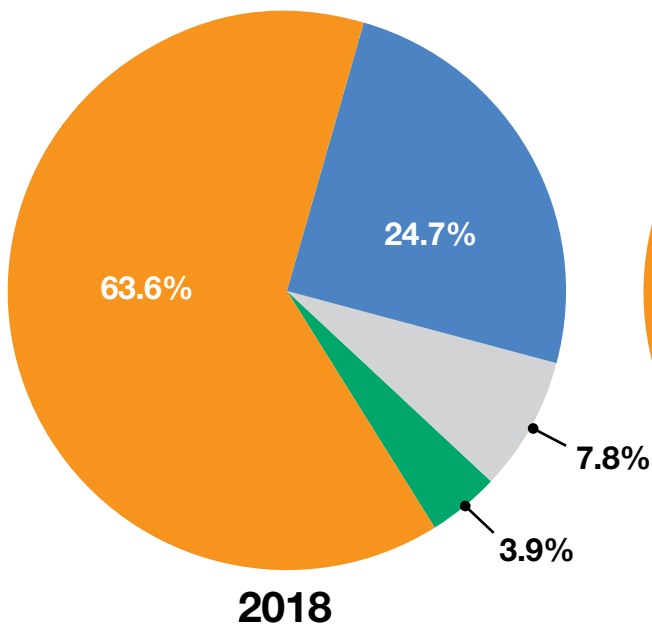
Do you expect hiring to increase or decrease during the next year?

■ Increase ■ Decrease ■ Unsure



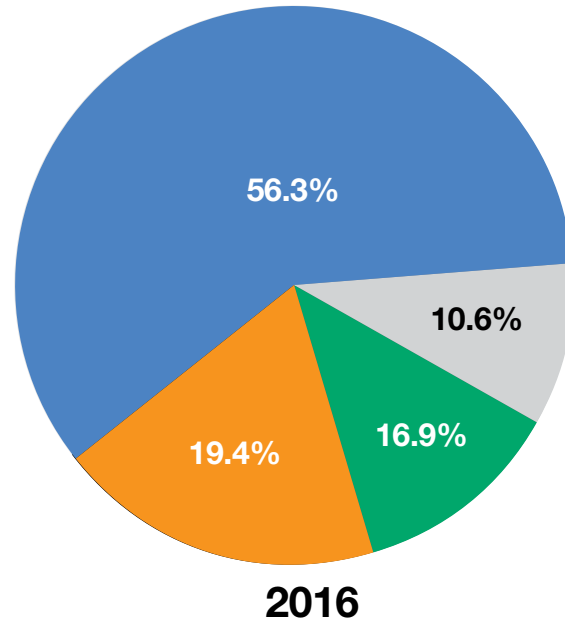
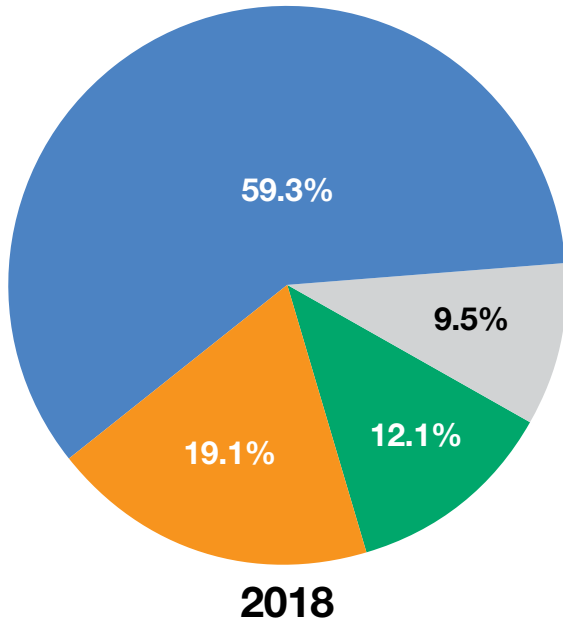
Are you happy with your job?

■ I love what I do ■ It's a job ■ I should move on ■ I dread going to work



Are you looking for a new job?

■ Yes ■ No ■ No, but I plan to start ■ No, I plan to retire in next 1-3 years



Technology Investments

It seems that each year new hot technologies emerge that promise to be the latest and greatest, but the best measure of whether a technology has legs or has reached critical mass is what customers are asking their contractors for.

As you'll see in the chart below, we asked respondents to reflect on what their customers are asking them for. For each technology we asked whether customers expressed no interest, weak interest, some interest, had growing interest or if it was a top priority.

Not surprisingly, cybersecurity was a picked as a top priority by 60.8 percent of respondents. No other technology even cracked 35 percent.

But cloud computing and IT modernizations were picked as top priorities by over 30 percent of respondents. While nearly 25 percent said that IT support and Big Data/Analytics were top priorities for their customers.

Interestingly, health IT, which often makes the list of hot market areas was picked by 20 percent of respondents who said their customers showed no interest. But this likely depends on the customers that respondents serve. It did have one of the higher "some interest" scores at 31.5 percent.

Blockchain is definitely a technology that is just emerging with nearly a quarter of respondents saying their customers had "no interest" but nearly half said their customers had either "some interest" or "growing interest."

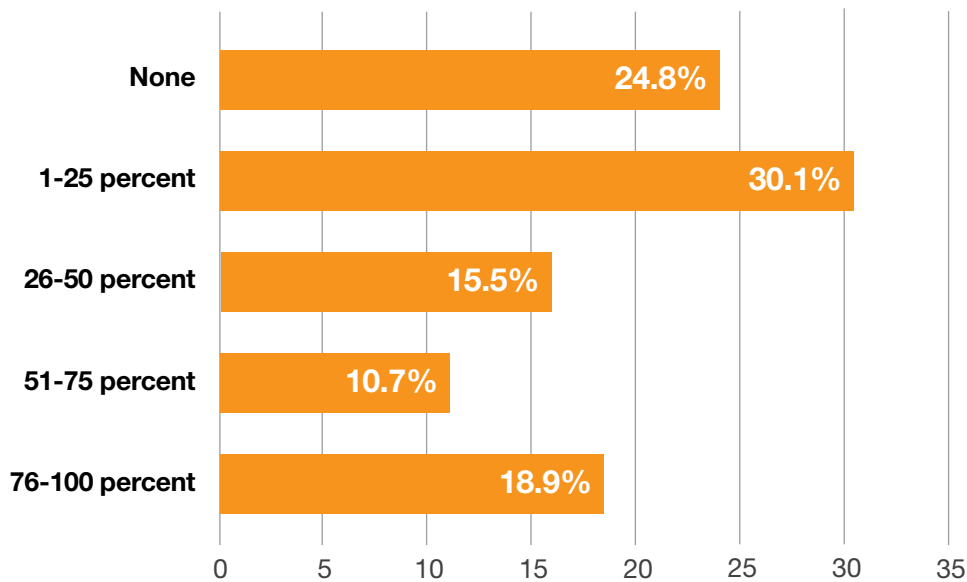
Rank the interest level among your customers for the following technologies and services, with 1 being no interest and 5 being a top customer priority.

Factors	No Interest (1)	Weak Interest (2)	Some Interest (3)	Growing Interest (4)	Top Priority (5)
Cloud computing	7.04%	6.53%	13.07%	41.21%	32.16%
Data center consolidation	10.66%	14.21%	28.43%	33.5%	13.2%
Cybersecurity	2.51%	4.02%	6.53%	26.13%	60.8%
Big data/analytics	8.04%	8.54%	22.61%	36.18%	24.62%
Mobility	10.71%	7.14%	28.57%	33.67%	19.9%
Storage	13.07%	16.08%	35.68%	23.62%	11.56%
IT modernization	4.48%	3.48%	18.91%	23.62%	11.56%
Health IT	20%	16.5%	31.5%	18.5%	13.5%
Blockchain	24.87%	22.34%	29.44%	19.29%	4.06%
Artificial intelligence	14.72%	12.69%	28.43%	34.01%	10.15%
Agile development	6.6%	6.09%	29.44%	19.29%	4.06%
IT support	6.06%	7.58%	31.82%	29.8%	24.75%

X as a Service

Over the last 10 years, X as a service, whether it be software, infrastructure, platform or something else as a service has been a growing phenomenon in the government market. But as you can see in the first chart below a quarter of respondents say they sell no products or services as a service and another 29.8 percent said they sell just 1 percent to 25 percent as a service. For the other 45.3 percent, however, X as a service is a significant portion of their business.

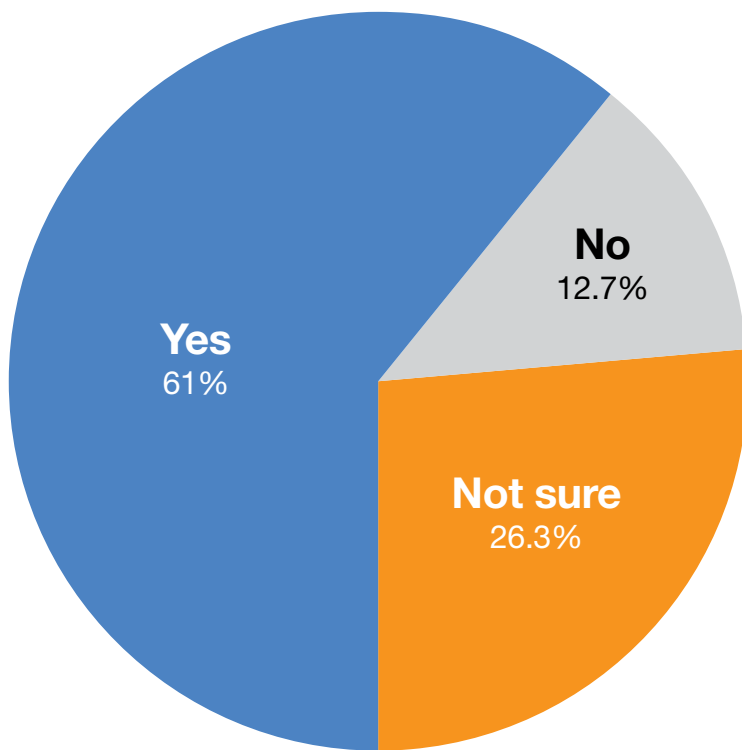
What percentage of your products and services do you sell “as a service?”



But X as a service is a growing business area with nearly 61 percent of respondents saying they expect customers to buy more as a service offerings going forward. Just 12.75 percent do not expect this area to grow and 26.5 percent are not sure.

The message here is that if you do not have X as a service offerings, you need to be moving in to this space or at least watch it very closely.

Do you expect your customers to buy more “as a service” offerings going forward?

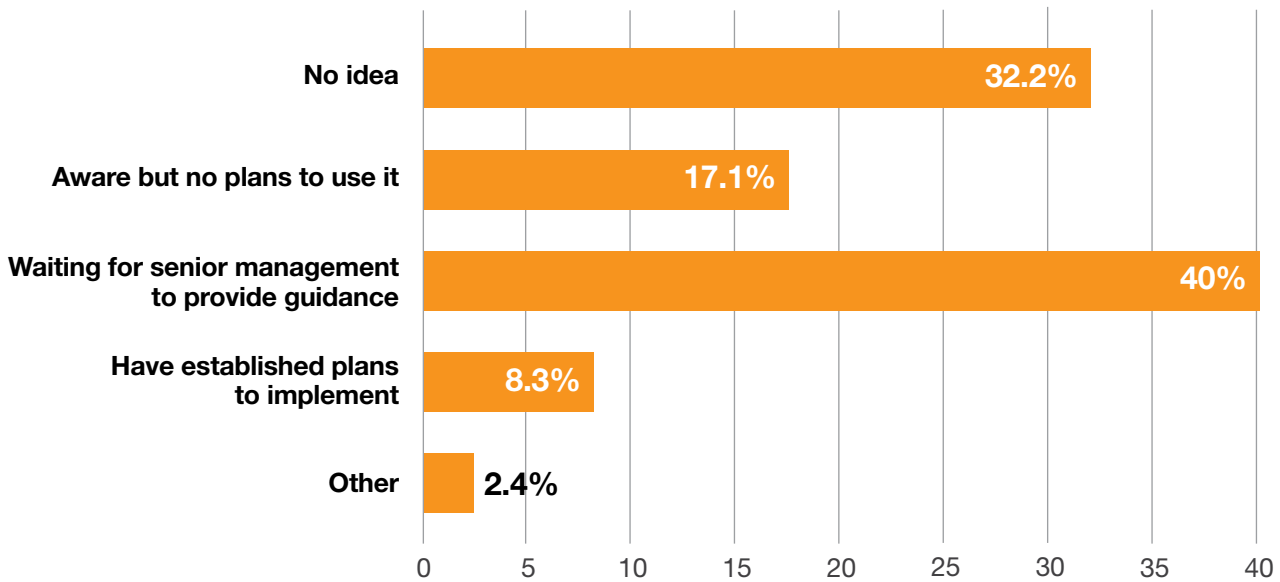


IT Modernization

It took several attempts over several years to get Congress to pass the Modernizing Government Technology Act. The act was part of the 2018 National Defense Authorization Act and allows agencies to keep a portion of their savings from modernization to spend on other such efforts.

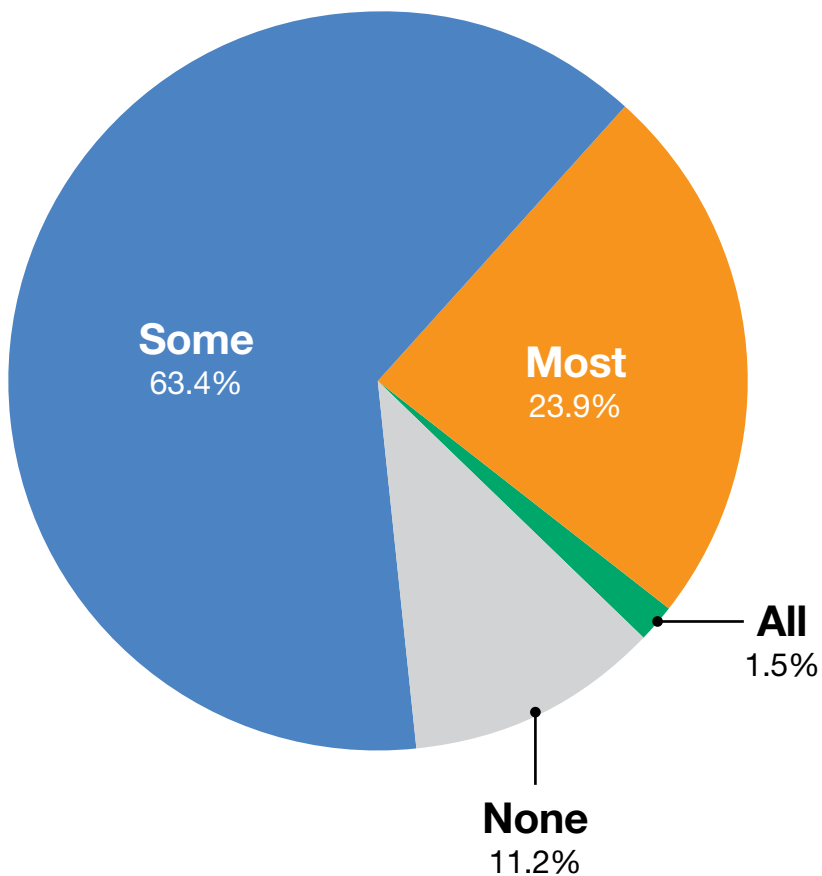
Here there is a marketing and education opportunity for contractors as 32.4 percent of respondents said their customers had no idea or no awareness of the act. Also significant is that 40.2 percent said their customers are waiting for senior management to provide guidance. That high percentage tells us that contractors should take the opportunity to talk to their customers about how the provisions of the law may help them.

How aware are your customers of the Modernizing Government Technology Act?



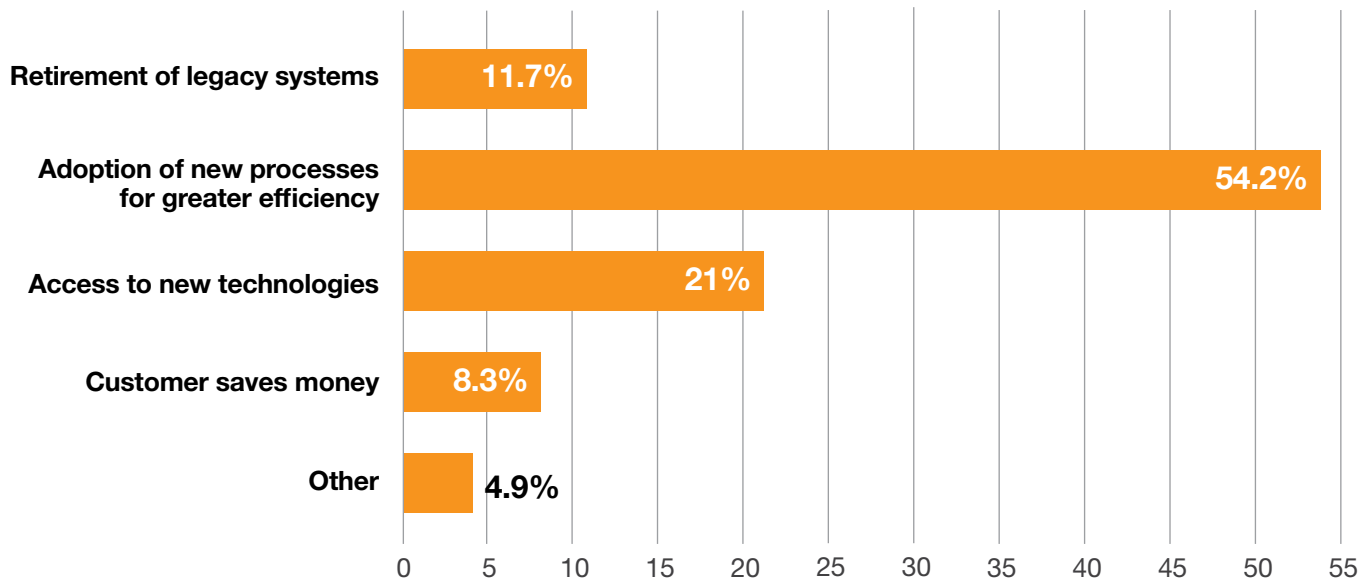
IT modernization is an important business area for contractors as only 11.3 percent said that none of their customers plans to launch a modernization project in the coming year. Over 60 percent said some of their customers had plans and nearly a quarter said that most customers had plans.

How many of your customers are launching IT modernization projects in the next year?



We found a range of measures of success for an IT modernization project but the majority felt it was the adoption of new processes and becoming more efficient. Saving money was not a significant measure of success. Those who answered “other” primarily said that success is a combination of all of our choices.

What do you consider to be a successful IT modernization project?

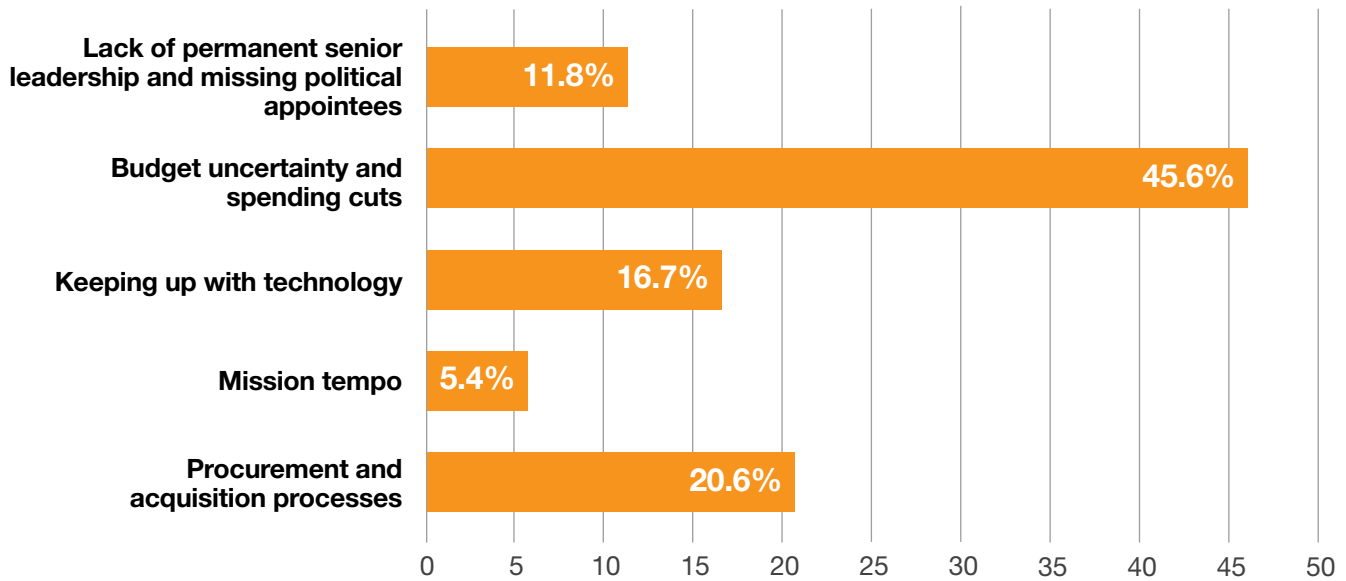


Customer Challenges

Not surprisingly budget uncertainty and spending cuts is far and away the biggest challenge that contractors believe their customers face but at more than 20 percent procurement and acquisitions processes also are seen as a challenge. And in a sign of the times under the Trump Administration, a lack of permanent senior leadership and missing political appointees is seen as the biggest challenge by nearly 12 percent of contractors.

But all of the challenges represent opportunities for contractors to help and support their customers.

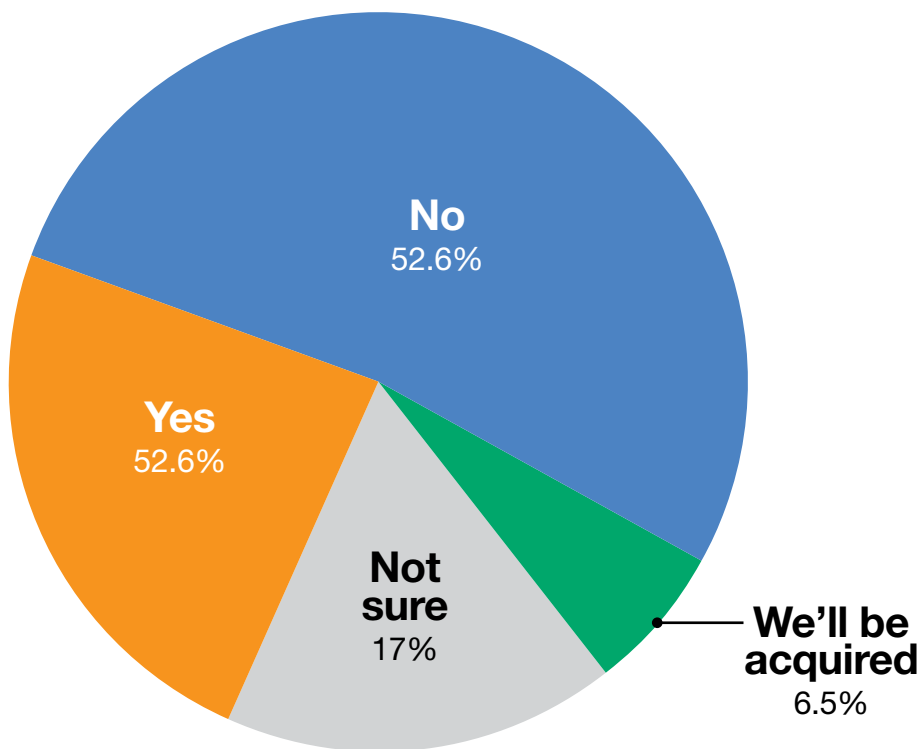
What do you see as your customers biggest challenges?



Mergers and Acquisitions

More than half of our respondents said they do not expect their company to make an acquisition in the next year, which contradicts the prevailing wisdom that every company in the market is either buying or for sale. But having said that nearly a quarter thought their company would make an acquisition. A very small percent said they expected their company to be acquired.

Do you expect your company to make an acquisition during the next year?



Undercovered Issues

When we asked respondent to name an issue they felt was not getting the attention it deserved we received a wide range of responses:

- Engineering services
- Lifecycle costs and total cost of ownership
- Global positioning system technology
- Applied analytics
- Drones in warfare
- Corporate damage control and contingency planning
- Small business size recertification
- Artificial intelligence
- Retiring legacy systems
- Lack of customer competence

The list goes on and on and brings home the reality that the government market is not monolithic but is a diverse and mature market place.

Conclusion

This report brings forth a wide range of views on the government market but as our Contractor Confidence Index shows government contractors are optimistic about the market and where it is headed. They like their jobs and they see customers embracing new technologies. They feel good about growth prospects and investment opportunities.

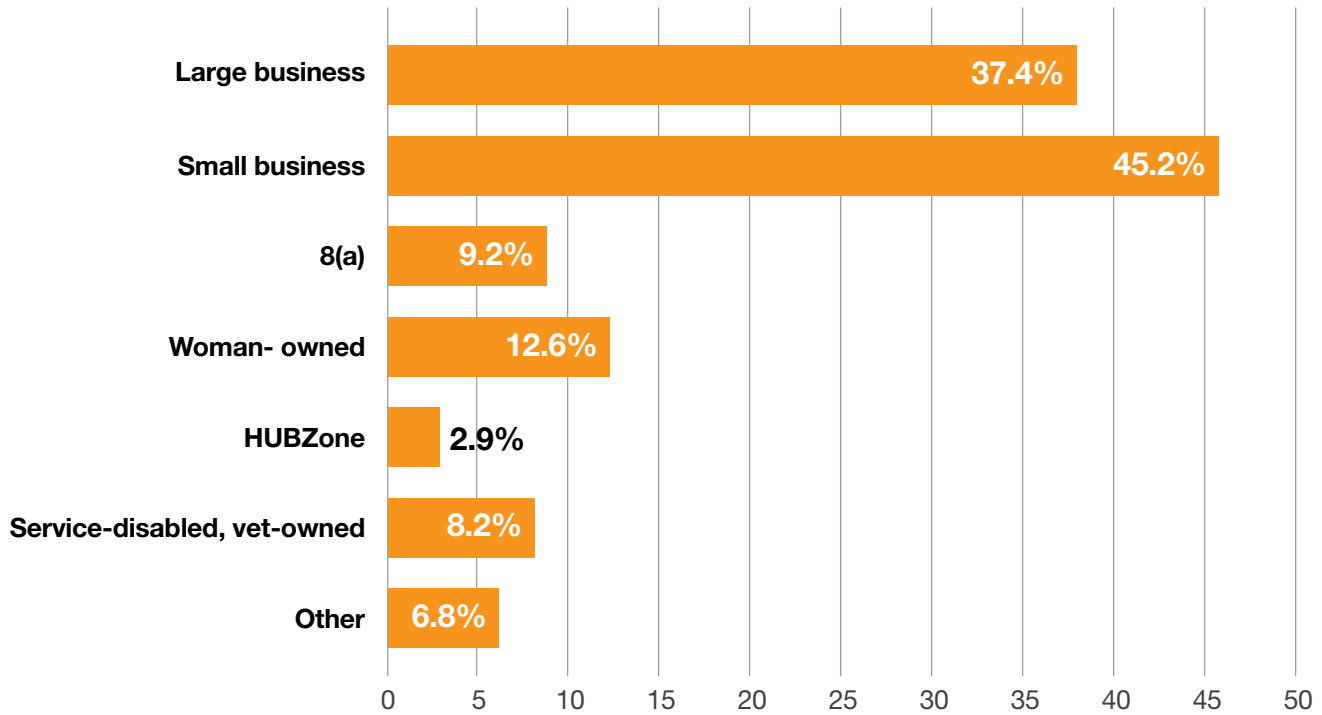
They also see the challenges their customers face, mostly brought by a dysfunctional budget process that hinders predictability and visibility into the market. But this also creates an opportunity for contractors to support their customers in valuable ways.

They also see a market that is evolving as new technologies emerge. All of this feeds the high level of confidence we see in the market.

Only time will tell if the confidence is misplaced or not.

Appendix

Tell us about your company



Your company primarily sells:

