



SHUTDOWN

Small biz vulnerability grows as shutdown continues

By Ross Wilkers Jan 23, 2019

The partial government shutdown is now in week five and it continues to records as the longest-ever stoppage. It is causing all kinds of adjustments by contractors given how long many civilian agencies have been closed and likely will remain so.

Given the shutdown's uneven but prolonged nature, analysts and market watchers see small government contractors in particular as fast-approaching the point where the impacts spread from the workers to the businesses themselves.

Professional Services Council CEO David Berteau described a dire set of choices some small firms face in a call with reporters Thursday. He said some small firms are telling PSC they are having to decide to “get rid of my employees and get to keep my money, or do I spend my money so I can keep my employees and then go out of business?”

But they may have another option. Chris Meissner, an Avascent principal who focuses on public sector IT, said some small businesses facing those existential questions could look to put themselves up for sale if the shutdown stretches their cash position too far.

“Some of the ones that have valuable contract positions might give room for a larger company to pick them up,” Meissner said. “I don't think they're looking for it, they might just end up in a dire enough situation where there's few available options to maintain the company and its workers.”

It seems inevitable that the longer the shutdown goes, the “tens of thousands” number of lost contracting jobs as told to reporters Thursday by PSC will grow into

the hundreds of thousands given the dual hits to business' revenue and cash flow. As Meissner pointed out, some companies also may face an inability to pay health care costs for employees and that leads to existential questions as well.

Despite this shutdown being partial and the much-larger defense and intelligence budgets in place for the current fiscal year, the main reason this stoppage is particularly painful for many companies is certainly the length.

Whereas the 2013 full government shutdown was 16 days and one pay period, this current stoppage has now taken up two full pay periods. For contractors that means either entirely halted projects or ongoing critical work with unpaid invoices quickly piling up, both of which means money lost they likely will not see again.

In industry's defense somewhat, Meissner did tell me that "companies have actually gotten pretty good at planning" for shorter disruptions like the one six years ago. Contractors and their agencies typically follow a fixed set of procedures to ensure both an orderly shutdown and orderly resumption of business-as-usual.

But this shutdown is not business-as-usual given the length will drive much of the pain for contractors as opposed to the pattern, he said.

"When we start to look at a month (or) a third of a fiscal quarter, now all of a sudden we're talking about real concern, especially for publicly-traded companies who have quarterly obligations to report to investors," Meissner said.

Starting next week, many publicly-held contractors will report financial results through to the end of February. We will be all ears.

The sample size of large public contracting companies is small, but their regulatory filings and disclosures help illustrate how all businesses take into account both budget and general political uncertainties in their planning. All public GovCon companies explain that as a risk factor for investors to take into account.

Take this disclosure in CACI International's annual 10-K regulatory filing for instance.

Joey Cresta, public sector IT analyst at Technology Business Research, said the timing of this shutdown being in January might help some companies to an extent.

Given the fact that “we know the shutdown has already been in effect for this first month of the year,” he said “vendors can bake that into their forecasts for annual performance.”

“It’s something they all plan for, it’s just far more front and center right now given the current situation,” Cresta added.

One other piece in every company’s planning approach is how they look at their customer mix, namely the share of revenue in defense and intelligence versus that of civilian. Meissner said to not discount the possibility of companies re-evaluating their exposure to some civilian agencies.

Include in that category those affected by the shutdown and whose funding is a subject of disagreement between both sides of the political aisle. Many civilian agencies have long been targeted for cuts by the Trump administration to create disagreements between them and Democratic lawmakers.

“The area of agreement seems to be national security and defense, and that seems to be able to get funded,” Meissner said.

About the Author

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