The WISTLR Chronicle

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Investment Insights & Government Contracting

Investment Insights | Article 4

Two Magic Money Machines

Jim Chanos, the famed short seller, has often quipped that the US government isn't the only institution in possession of a printing press… Wall St. has one too.

This two-pronged printing press system: Wall Steet's capital markets, and the federal government, has worked wonders for America over the years. Government debt & currencies (especially those backed by rule of law, strong credit, and a world-class military) are the backbone of day-to-day modern commerce. Moreover, capital markets are where businesses like Amazon, Apple (insert any great company), have an easy mechanism by which to issue little pieces of promises (equity) in exchange for something tangible (cash), to help build products and services that make our lives better.

Both systems are amazing inventions of man, but neither is perfect; both have flaws that if left unchecked, can result in Ponzi schemes, corruption, self-dealings, incompetence, etc., that can erode trust and ruin civilizations. As a result, an unrelenting focus to protect the sanctity of each system is extremely important.

What's so fascinating, and a connection we haven't yet seen anyone make, is that the world's richest man; indeed, the world's first **trillionaire**, in one year went from *exposing* legitimate concerns about the Government's printing press, to *exploiting* Wall Steet's printing press for his own benefit. Before some readers get too alarmed about a negative piece on Elon Musk, we will first say that Mr. Musk is a genius, a wonder of humanity, and the greatest product builder since Edison; he was also noble to work to try and clean up excess government spending (albeit in hindsight he could have used a bit more tact & empathy). Regardless, raising capital for a business at a nearly $2 trillion valuation based on fanciful (some may say exaggerated) space-conquest expectations, and AI TAM estimates, is worthy of critique. Especially when the prospectuses and marketing materials were clearly geared for a retail investor base that the SEC has historically tried to protect.

We're hopeful the billions raised by SpaceX advance humanity as much as the prospectuses say it might. It may just turn out that this *swindle* becomes *honorable* in the fullness of time. It wouldn't be the first time a capital markets swindle turned out to benefit humanity (we recommend readers study Ferdinand De Lesseps to see a historical parallel during the building of the Suez and Panama Canals). Irrespective of the outcome though, we find the extreme contrast between one year *exposing* an abuse of one printing press to *exploiting* the other the next year to be nothing if not entertaining (as Mr. Musk likes to say, the most entertaining outcome is often the most likely).

For those who find the contrast a bit perplexing we offer a F. Scott Fitzgerald quote as solace: *"The test of a first-rate intelligence is the ability to hold two opposed ideas in mind at the same time and still retain the ability to function."*

GovCon Guru | Article 4

A Case for Cost-Plus ***Services*** Contracts

Much has been made recently about the folly of cost-plus contracting for large defense systems (think submarines, missile systems, and the like), and we understand the rationale behind this skepticism; as Charlie Munger said: "show me the incentive, and I'll show you the outcome." Clearly, the incentive for large product programs is to *inflate* costs and *stall* time; something not exactly well aligned with military missions. That said, we think cost-plus *services* contracts can make a lot of sense, especially when the services are recurring in nature.

Here are some reasons why:

I. **Cost-plus contracts can encourage better behavior than fixed-price alternatives**. The government spends copious amounts of money to determine the resources (read people) it needs to support programs, with each RFP typically laying out detailed blueprints for staffing requirements. As such, paying a fee *only* for staffing individuals based on RFPs seems like a logical starting point given the amount of money and time devoted to determining requirements. If the government asks for ten people to support a specific mission it will typically have spent a fair bit of time & money to determine why it needs those ten people; if under a fixed-price engagement, however, a contractor works with two people (maybe because the government simply doesn't notice the lack of support) the contractor would earn substantial excess profits. Indeed, contrary to popular belief it could be argued that fixed-price contracts incentivize poor performance (less people, same pay). Many contractors preach "efficiency" as the cause, but count us as skeptical; we think it's more likely the result of limited oversight from a stretched government customer that lacks market incentives to enforce performance. Cost-plus contracts solve this dilemma though, as contractors only get paid for the services (people) provided.

II. **Cost-plus contracts provide a fair return for relatively low-risk work**. Government contractors benefit from a scale of customer spending significantly larger than virtually any other industry. Where else can a small enterprise win a $100mm 5-year contract overnight? Moreover, the revenue is highly predictable (the government spends more money pretty much every year and also issues 5-year contracts which act as quasi bond-like instruments). Given these tailwinds (ease of scalability and certainty of revenue), we think that a cost-plus profit margin (say 4-8%) is more than fair vs. fixed-price alternatives that often carry higher margins.

III. **Cost-plus contracts allow small businesses to invest**. If the country is interested in building out small business capabilities, it has an incentive for small businesses to invest in their companies. Cost-plus contracts can help small businesses better make investments, as they better incentivize the buildout of back-office functions and subject matter expertise vs. fixed-price alternatives.

In conclusion, we don't suggest cost-plus contracts are perfect, but in an imperfect government procurement process (a customer with unlimited funds and lack of typical market incentives), we think they have a place, especially for recurring services.

WISTLR

WISTLR is an M&A advisor and investment firm focused on military & civilian services businesses. We have two goals:

1. To be the go-to sell-side M&A advisor for GovCon owners. *Specifically, we work with the leading GovCon businesses between $2-15mm in EBITDA.*
2. To invest in and be a long-term home for lovingly built small businesses.

See below for a list of businesses that Trust us

Advisory

- 2026: ~$15mm Analytics and Consulting Firm
- 2026: ~$20mm Naval Logistics Business
- 2026: ~$30mm Health IT & Training Business
- 2025: ~$5mm Military Cyber & Cloud Business
- 2024: ~$40mm Civilian Program Management Business
- 2024: ~$10mm Nuclear Engineering Business
- 2024: ~$40mm Marketing & Communications Business

Investments

- 2026: Military Training & IT Ops Business
- 2025: Military IT & Mission Assurance Business
- 2024: Cyber & IT Ops Business
- 2021: Military Testing & Logistics Business

A Constant Pursuit to **Earn** the **Trust** of Business Owners

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"I never gave anybody hell! I just told the truth, and they thought it was hell."
- Harry S. Truman