

PErspective in GOVERNMENT CONTRACTING

A FEATURE EXAMINING THE ROLE OF PRIVATE EQUITY IN THE GOVERNMENT CONTRACTING SPACE.



Despite major budget cuts, proposed legislative shifts and unfilled federal government positions, the outlook for government contractors has been optimistic.

Earlier this year, private equity activity for the government contracting industry was looking up. According to a [Washington Technology](#) report, a post-Trump bump boosted sector valuations, averaging 11x forward earnings before interest, tax, depreciation and amortization (EBITDA).

Today, the mood in Washington remains positive as contractors—especially in the aerospace and defense industries—predict growth, federal government spending and budgets will be in their favor. According to [Bloomberg Government](#), many contractors who were taking a “wait and see” attitude prior to the November elections are now leaning into an “invest and grow” mentality in areas like infrastructure and technology.

As contractors are actively investing more in technology, expect strategic IT deals to play a major role in the year ahead. We’ve already seen top contractors making big moves in the deal space this year. Lockheed Martin recently divested its Information Systems & Global Services business to Leidos, which resulted in Lockheed slipping from number one in Washington Technology’s Top 100 to number two. Leidos assumed the top spot post-transaction.

Companies lower on Washington Technology’s list are also making moves in cyber, IT and cloud technologies through strategic hires and partnerships. Other notable deals in the space this year include the merger of HPE’s enterprise services business with

Computer Sciences Corp. to create DXC Technology. DXC will aim to “modernize and digitize outdated government processes.”

We continue to see many large and mid-sized government contractors consider carving out non-strategic business lines. Their boards and senior leaders are reassessing their portfolio of capabilities and customers to focus the company’s resources on areas of expertise and growth. Financial buyers and smaller government contractors have shown great interest in these discarded businesses as they possess or have access to senior leadership to run the carve-outs though are keen to fully understand the stand-alone abilities of the carve-out businesses and the areas of investments needed.

Overall, we are currently experiencing a seller’s market for government contracting M&A. Investment bankers are very active with robust auctions for small and mid-sized government contractors with unrestricted contracts and a healthy pipeline to capture higher valuations. While we are seeing smaller government contractors with set-aside revenue completing transactions, the market of buyers for these businesses is shrinking as buyers see the risk of the set-aside work not continuing post-transaction, which then produces a lower valuation, or no transaction at all.

Sources: Washington Technology, Bloomberg Government



People who know Government Contracting, know BDO.

www.bdo.com/government-contracting

Government Contracting Industry Contacts:

JOE BURKE

Greater Washington, D.C.
703-770-6323 / jburke@bdo.com

CHRISTOPHER CARSON

Greater Washington, D.C.
703-770-6324 / ccarson@bdo.com

STEPHEN RITCHEY

Greater Washington, D.C.
703-770-6346 / sritchey@bdo.com

JEFF SCHRAGG

Greater Washington, D.C.
703-770-6313 / jschragg@bdo.com

ERIC SOBOTA

Greater Washington, D.C.
703-770-6395 / esobota@bdo.com

ANDREA WILSON

Greater Washington, D.C.
703-752-2784 / aewilson@bdo.com

Private Equity Industry Contacts:

KAREN BAUM

Dallas
214-969-7007 / kbaum@bdo.com

LENNY DACANAY

Chicago
312-730-1305 / ldacanay@bdo.com

JERRY DENTINGER

Chicago
312-239-9191 / jdentinger@bdo.com

LEE DURAN

San Diego
858-431-3410 / lduran@bdo.com

ERIC FAHR

Washington, D.C.
703-770-6328 / efahr@bdo.com

JOE GORDIAN

Dallas
214-969-7007 / jgordian@bdo.com

RYAN GUTHRIE

Costa Mesa
714-668-7385 / rguthrie@bdo.com

SCOTT HENDON

Dallas
214-665-0750 / shendon@bdo.com

TUAN HOANG

Los Angeles
310-557-8233 / tmhoang@bdo.com

KEVIN KADEN

New York
212-885-8000 / kkaden@bdo.com

TODD KINNEY

New York
212-885-7485 / tkinney@bdo.com

MATT SEGAL

Chicago
312-616-4630 / msegal@bdo.com

DAN SHEA

Los Angeles
310-557-8205 / dshea@bdocap.com

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, and advisory services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 60 offices and over 550 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of 67,700 people working out of 1,400 offices across 158 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: www.bdo.com.

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.