



INSIGHTS FROM THE BDO GOVERNMENT CONTRACTING PRACTICE

SMALL BUSINESS ADMINISTRATION'S MENTOR PROTÉGÉ PROGRAM BENEFITS GROWTH-FOCUSED MIDDLE MARKET GOVERNMENT CONTRACTORS

In addition to the daily focus on earning and servicing government contracts, succession is a topic that our middle market clients nearing retirement age are increasingly concerned about, particularly those with children who do not wish to carry on the family legacy.

It may come as a surprise then to learn that the Small Business Administration's (SBA) [All Small Mentor Protégé Program \(MPP\)](#) can help to address these organizational challenges for small business and middle market government contractors (GCs).

SBA'S MENTOR PROTÉGÉ PROGRAM

SBA's MPP allows two companies to apply for a legal relationship with one another. If approved, one Mentor (which can be any size by government standards), and one Protégé (which must be small as determined by [SBA standards](#)), will enter a formalized agreement for a three-year term. Joint ventures formed by the Mentor and Protégé assume the full array of past performance from each company, as well as all of the small business set-asides, e.g. small business, woman, veteran, minority-owned and HUBZone certifications. Small business joint ventures have the capability to win government contracts that Mentors and Protégés may be less likely to win on their own. Furthermore, MPP allows for a Mentor to invest upwards of 40% equity into their Protégé without any affiliation issues ([FAR Part 19.101](#)).

MIDDLE MARKET GCs ARE OPTIMAL MENTORS

A "medium" or middle market GC often derives more benefit from the MPP than does a very large contractor. Middle market GCs teamed with small business Protégés are advantaged in their

joint potential to win small business set-aside opportunities once again, whereas full and open competition against companies 100x their size can be daunting.

Here are some key ways that you, and other middle market GCs, can benefit from establishing a joint venture with a smaller partner through the MPP:

Build your Federal Business Pipeline:

As a middle market GC, you have exceeded small business size limits in your product or service category (i.e. [NAICS code](#)), or graduated from 8(a) and are competing for federal business with larger and more established players. Forming a joint venture through the MPP gives middle market GCs the opportunity to bid on small business set-aside RFPs again with their small business partner. For example, in our recent Insight, [Three Steps GCs can take now to build their Federal Business Pipeline in 2020](#), we note that if mid- or large-sized GCs wish to expand their business at the Veterans Administration (VA), it's essential to have a Service Disabled Veteran Owned Small Business (SDVOSB) partner. In FY'19 alone, MPP joint ventures generated nearly \$2 billion in new contract revenue from the government according to SBA data. A MPP should also be considered by small government contractors that are likely to exceed NAICS limits within the next several years and are strategically primed and financially sound enough to become "medium" size via acquisition.

Expand your Value Proposition:

Your capabilities, past performance, and contracting vehicles are what will attract potential Protégés to enter a MPP arrangement with you. However, it behooves middle market GCs not to

overlook what their Protégés are also able to bring to the table in terms of increasing your combined organizations' breadth and depth of service offerings. For example, a Reston, Virginia-based SDVOSB IT services provider and their Mentor, another IT services provider that had grown into Inc. 1000 status, received their MPP approval from SBA in 2017. Fast forward three years – several new multi-million dollar contracts were won by the joint venture. The Mentor acquired the Protégé and then the Mentor (and all of its forward looking contract revenue) was acquired by a much larger government contracting firm. In a nutshell, how your potential Protégé's current services offerings complement yours should be given equal weight to their set-asides when evaluating the right partner for the MPP.

Support your Succession Strategy:

If you are just a few years shy of retirement and are looking to divest your business when the time comes, it may seem counterintuitive to invest in a small business now. To that end, it's critical that Mentors evaluate if a combined organization will ultimately derive more value to a potential acquirer than a stand-alone business after the joint venture's three-year tenure. Needless to say, a middle market GC with set-aside capabilities is a strong selling point for potential acquirers. As noted above, Mentors are able to invest upwards of 40% equity into their Protégé, and a capital infusion of that scale can give the Protégé capital for key objectives and make for stronger combined service

offerings in the market. Should the Protégé meet performance goals during the three-year joint venture term, an acquisitive Mentor may choose to purchase controlling interest in their Protégé or buy them out completely. All of the Protégé's and joint venture's forward-looking revenue and vehicles can be novated to the Mentor. For more information about identifying the right partner, read our recent Insight on the topic, "[Pre-Transaction Considerations when Evaluating Acquisition Targets.](#)"

For middle market GCs, joint ventures through the MPP are a strategic way to build their federal business pipeline and expand service offerings. It should also be considered a defensive strategy: Currently, there are [more than 1,100 active MPPs](#), and participation has been nearly doubling year-over-year. This means your competitors may soon realize the program's benefits and take action—if they haven't already. With the right partner, middle market GCs may be in a better position to maximize their value at the end of the MPP's three-year term. This will make them a more attractive acquisition target and at the same time, will fulfill succession plan objectives for leaders that are ready to retire and start a new chapter.

For more information on the MPP or to schedule a Mentor or Protégé assessment, contact Elvis Oxley, Managing Director, Industry Specialty Services at BDO, at eoxley@bdo.com.

CONTACTS:

AARON RADDOCK

Partner, Managing Director, Government Contracting Industry
National Co-Leader
703-336-1693 / araddock@bdo.com

THOMAS FUCHS

Partner, Industry Specialty Services
703-770-4453 / tfuchs@bdo.com

ELVIS OXLEY

Managing Director, BDO Industry Specialty Services –
Government Contracts
703-245-8665 / eoxley@bdo.com

MEREDITH PILARO

Government Contracting Tax Practice Leader
703-770-6357 / mpilaro@bdo.com

DEREK SHAW

Managing Director, BDO Industry Specialty Services –
Government Contracts
703-336-1501 / dshaw@bdo.com

ALISON TORRES

Principal, Atlantic Region TAS Tax Leader JD
703-770-1063 / atorres@bdo.com

ABOUT BDO

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 65 offices and over 740 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of more than 88,000 people working out of more than 1,600 offices across 167 countries and territories.

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 needs.