

## Practitioner Perspectives

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### Half a Year in Review: GovCon M&A Olympics

*A little past the halfway point of the year, it is time to reflect on 2024 M&A activity and see which DWPA predictions have performed well and earned a medal*

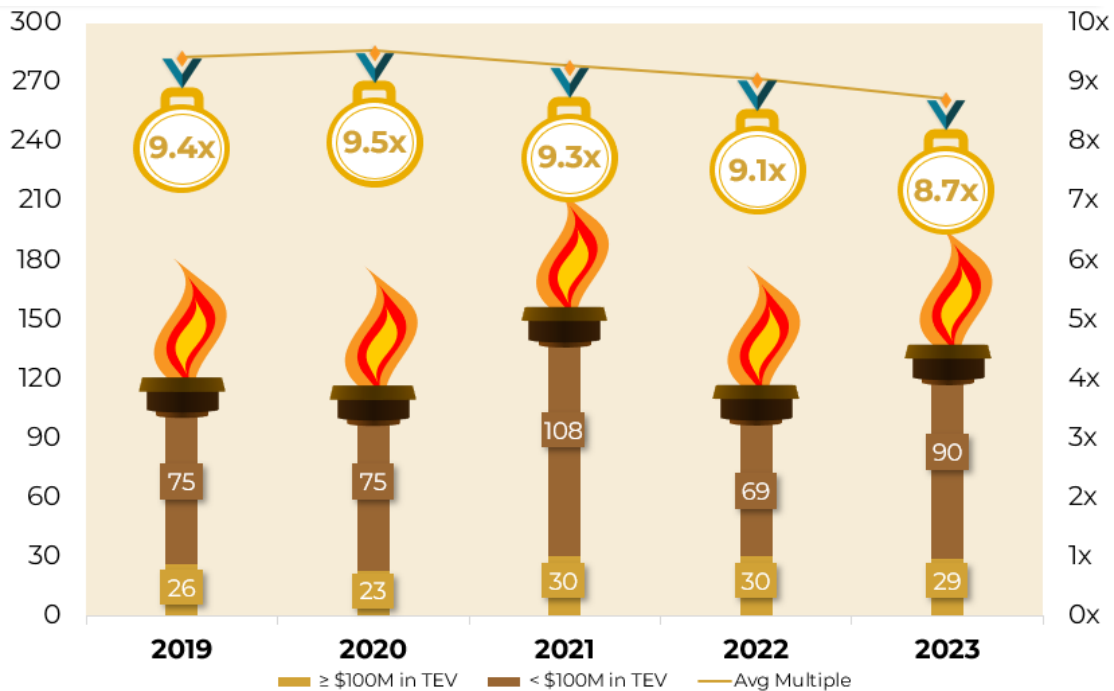
- Gold: High-end capabilities win it all as demand of AI/ML and cloud among other capabilities drives surge of deal volume
- Silver: Private Equity continues to lead federal M&A activity as it did in 2023
- Bronze: Increased strategic deal volume through the first half of the year includes unexpected large dollar deals from the large and public strategics
- Postponed: Murky waters of procurement delays and protests hinder wave of M&A activity following awards and adjudication of contract vehicles
- GovCon M&A predictions ring true through the first half of 2024; DWPA still expects a slow down in deal volume in the second half of 2024 with the upcoming the presidential election

#### High-End Capabilities Land at the Top of the Podium

Winning the gold is the DWPA prediction that high-end capabilities will be a leading rationale for M&A activity. High-end capabilities have been the star athlete of the 2024 GovCon M&A market as both PEs and strategics are looking to remain competitive and move up the value chain. Increased demand for AI / ML spurred by the AI boom and demand signals from federal customers for capabilities such as intelligence and counterintelligence, edge computing, AI/ML, data fusion, data analytics and predictive analysis, cloud native processing, DevSecOps, C5ISR have driven steady deal volume in the federal market this year. In 2023, 38% of government technology services acquisitions involved targets with AI/ML and Cloud capabilities, and, to date in 2024, that number has risen to 46% showing an increasing appetite from PEs, financial-backed platforms, and strategics to invest in these differentiated capabilities.

#### Private Equity's Strong Showing

Finishing with a Silver Medal is the prediction that there would be a similar level of PE activity in the market as the extremely high level in 2023. Following a very deal heavy 2023 during which PE M&A activity accounted for 68% of deals in government technology services, and private equities have no intention of slowing down. Halfway through 2024, PE activity accounts for 63% of deals in government technology services, statistically a slight decrease, but still significantly higher than the 55% of deals PEs accounted for in 2022. Higher PE deal volume within the federal market can be attributed to buyers looking for a safe way to deploy the abundance of dry powder during economic uncertainties around interest rates, federal budget, and presidential election outcomes.



### Strategics Score Bronze for Increased Activity

Rounding up the podium in bronze is the DWPA prediction that there will be increased deal volume by strategics with a continued aversion to large deals. While strategics sat on the sidelines in 2023 and focused on organic growth, many have chosen to compete in the 2024 M&A Olympics. Large strategics such as Booz Allen Hamilton, Parsons, CGI, Honeywell, and others have rejoined the market with their respective acquisitions. Smaller sized strategics have also increased M&A activity as many are actively scooping up companies with the desired capabilities referenced previously. Contrary to the prediction that strategics would refrain from large acquisitions, there have been a number of mega deals such as Honeywell’s \$1.9B acquisition of CAES and TransDigm’s \$655M acquisition of Raptor Scientific causing this prediction to fall short of the gold or silver medals

### Murky Waters Delay Predictions

One of the predictions has not yet had the chance to compete in the GovCon M&A Olympics due to murky waters continuing to obscure contractors’ picture of the future as they await key vehicles. Many high-profile, high-dollar value vehicles continue to suffer procurement delays as several factors including challenges defining requirements have resulted in endless rounds of protests. The contractors who lose out on vehicles such as T4NG2, CIO-SP4, SEWP VI, and OASIS+ will have to ensure access to their contracts, causing a scramble to buy up winning bidders for their vehicle access but this wave of M&A activity may delay another year as these vehicles are facing challenges. NASA recently announced a strategic pause on SEWP IV, while T4NG2, OASIS+, and CIO-SP4, after making preliminary awards, face many protests that will not likely receive a decision until 2025. Unlike the Court of Arbitration for Sport, the GAO and Court of Federal Claims are looking to resolve protests and look to award these vehicles as soon as possible, kicking off a new wave of M&A activity.

### Events Shaping '24 and Beyond

1. Historically, elections have had negligible impact on deal volumes within election years, but an increase in the following year once the new administrations priorities are known
2. The situation in the Middle East has reversed the flow of funds from near-peer threats back towards counterterrorism
3. Continued emphasis of alternative contracting methods like SBIRs and OTAs to accelerate procurement cycles which continue to shift right
4. Interest rates have minimal impact on the GovCon market as it is often considered a safe harbor during economic storms
5. Resolution of protests on several BICs and IDIQs (i.e. Alliant 3, CIO-SP4, T4NG2) will unleash a wave of acquisitions as losing bidders scramble to buy seats
6. Buyers continue to either significantly discount or simply refuse to consider contractors with significant SBSA exposure
7. Increased geopolitical conflicts (i.e. Middle East, Ukraine) will help break the Congressional deadlock leading to an increase in supplemental funding resolutions

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