



# Federal Market M&A Update



2024

YEAR IN REVIEW

## DWPA's Transaction Advisory Services practice represented 38 clients across 50 engagements and over \$14B of closed transactions

- Wide range of diligence engagements from new platforms and smaller portfolio tuck-ins to multibillion-dollar public company transactions
- Continued mix of either “busted” or deferred deals that took lower valuation second time around
- Represents 16 distinct financial sponsors as well as 8 sponsor-backed platforms
- Closed deals predominantly reflect firms with a historic dedicated focus on the federal sector; newer entrants seeking a recessionary hedge more likely to go pens down or not advance through deal process
- Represents traditional PMI efforts for sponsor-backed platforms and strategics as well as DWPA's unique capabilities assessing the go-forward growth organization
- Increased interest in federal market SMEs over process generalists for integrations

**41**  
Due Diligence Engagements

**5**  
Proprietary Sourcing Engagements

**24**  
Financial Sponsor Clients

**14**  
Strategic Acquirer Clients

**4**  
Post-Merger Integration Engagements

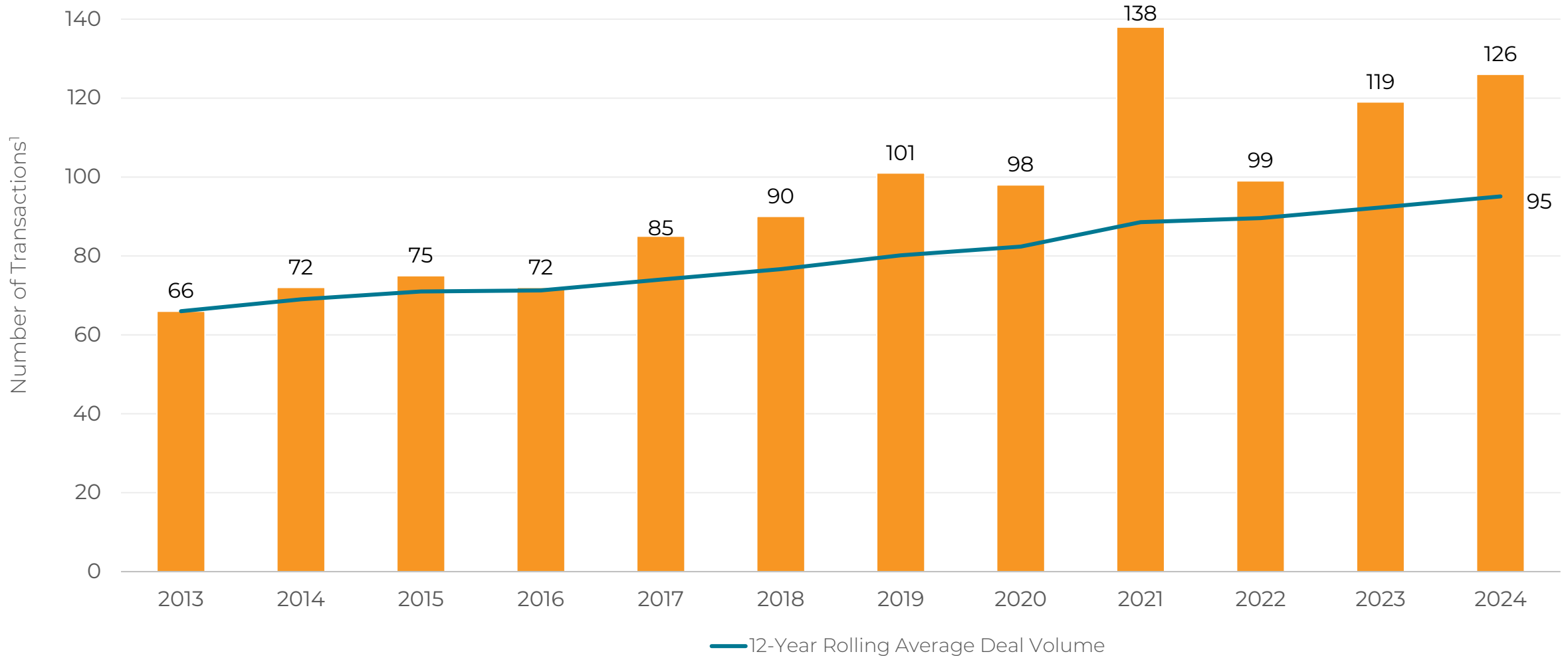
**\$14B**  
Closed Transaction Value

- Subset of buyers continue to pursue in-demand capabilities through pre-emptive buy-side engagements
- Mix of PE and strategic acquirers looking for new growth vectors and opportunities to diversify their portfolios
- Strategics leaned in more heavily in 2024 crowding out newer entrants
- Increased focus on acquiring unique capabilities, differentiated technologies and established customer intimacy
- Represents a subset of over \$15.7B of transactions supported during the year
- Capabilities can scale down to support smaller transactions that comprise the majority of the federal M&A market

## DWPA accurately forecasted increasing deal volume but missed on valuation guidance and IPO activity within government services, earning a 3.4/4.0 GPA for its 2024 predictions

2024 PREDICTION	DWPA PERSPECTIVE	Commentary	Grade
SIMILAR LEVEL OF PE ACTIVITY COMPARED TO 2023	Expect similar level of PE activity driven by high volume of dry powder, with most closed transactions coming from seasoned GovCon PEs, and less from nascent investors who will be turned off by budget and election uncertainty	PE activity remained on par with 2023 levels as PE add-on acquisitions increased while PE platform acquisitions slightly decreased	<b>A+</b>
INCREASED STRATEGIC DEAL VOLUME FOR SMALLER TRANSACTIONS AND CONTINUED AVERSION TO LARGER DEALS	Expect volumes of large deals to remain low due to continued high rates, and budget/election uncertainty; however, anticipate a higher volume of smaller transactions to drive strategic acquirers' growth	Continued aversion towards larger deals remained in 2024 as TEV fell significantly and overall M&A volume saw a slight increase	<b>A</b>
CONTRACT VEHICLE AWARDS AND ADJUDICATION WILL DRIVE 2024 VOLUME AND VALUATION	Losing bidders on Alliant 3, Polaris, T4NG2, CIO-SP4 and OASIS+ will scramble to buy winners when protests eventually clear; volume and valuation will be positively impacted by those who get access to these vehicles	Solicitation delays along with on-going protests on major vehicles delayed M&A activity post awards	<b>Incomplete</b>
GEOPOLITICAL CONFLICTS WILL DRIVE HIGHER DoD SPENDING LIKELY RESULTING IN HIGHER VOLUME AND VALUATION FOR COMPANIES SERVING THOSE MARKETS	Continuing overseas conflict in the Middle-East, Ukraine, and the Indo-Pacific region will drive increased defense spending, which is likely to lead to higher demand for small to mid-size defense contractors, in terms of both deal volume and valuation	Dollars flowed to defense contractors via supplementary spending; increased small and mid-sized M&A transactions in 2024	<b>A</b>
INTEREST RATE CHANGES WILL NOT HEAVILY IMPACT VOLUMES IN GOVCON DEALS	While global M&A volume tends to fluctuate based on interest rate changes, volumes in the GovCon space show relatively stable growth independent of interest rate changes; expect limited impact from any interest rate cuts in 2024 on GovCon deal flow	Interest rate cuts came later than expected in 2024, yet still did not drive an increase in volume	<b>B+</b>
CONTINUED DEMAND FOR HIGHER END CAPABILITIES WILL BE THE LEADING RATIONALE FOR M&A ACTIVITY	Higher-end capabilities such as unmanned and counter-unmanned aircraft systems, electronic warfare, intelligence and counterintelligence, edge computing, AI/ML, data fusion, data analytics and predictive analysis, cloud native processing, DevSecOps, C5ISR, and other space tech will continue to drive volumes	High-end capabilities like UAS/UAV and AI/ML continue to be a leading rationale for M&A activity	<b>A+</b>
OUTSIZED PRIVATE COMPANIES WILL POSITION FOR IPO	As the stock market remains higher than last year, and with many platforms "too big to sell," expect IPOs to be a way for some PE-backed platforms to drive shareholder liquidity	Outside of Amentum/Jacobs RMT deal signed in 2023 and closed via IPO in 2024, IPO activity continued its downward slide in 2024	<b>D</b>
STRATEGIC ACQUIRERS WILL SLOWLY INCREASE PARTICIPATION IN THE MARKET	As interest rates stabilize, M&A will return to the foreground for corporate uses of cash; This will likely coincide with slowing organic growth	Strategic M&A activity was relatively flat in 2024 at 45 transactions (36% of total deals)	<b>B+</b>

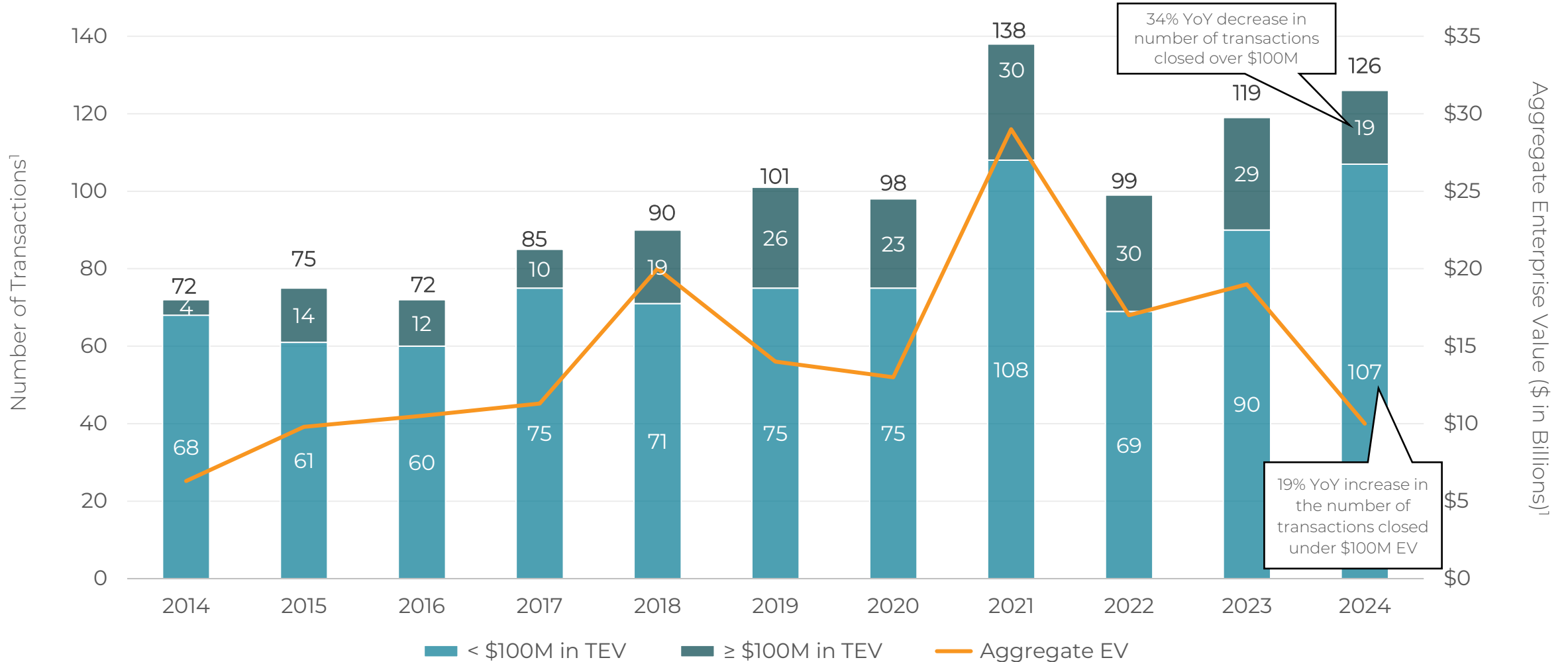
## Government Services M&A volume continues uptrend in 2024



**Note 1:** R.W. Baird & Co. Government Services M&A Volume and Multiples, as of 12/31/24



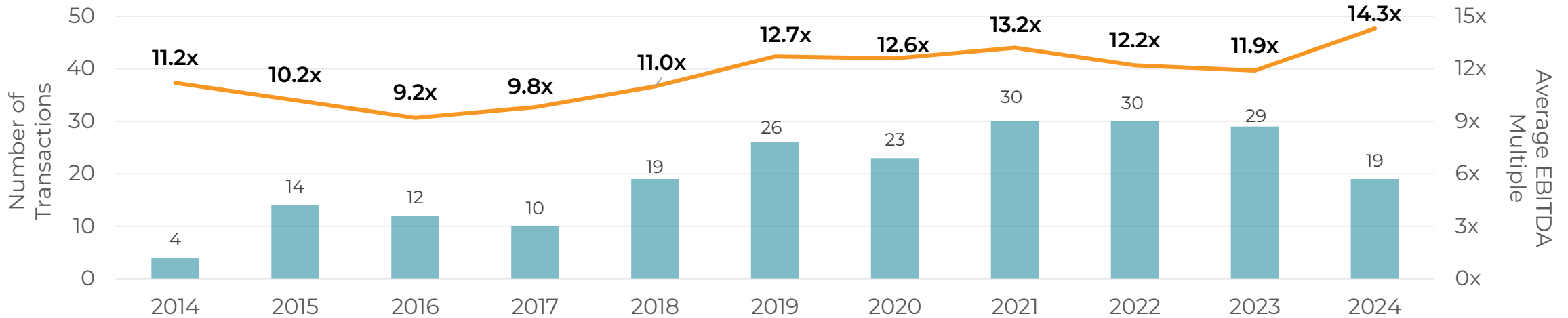
## Overall transaction volume increased despite fewer \$100M+ deals with significant decline in announced transaction value



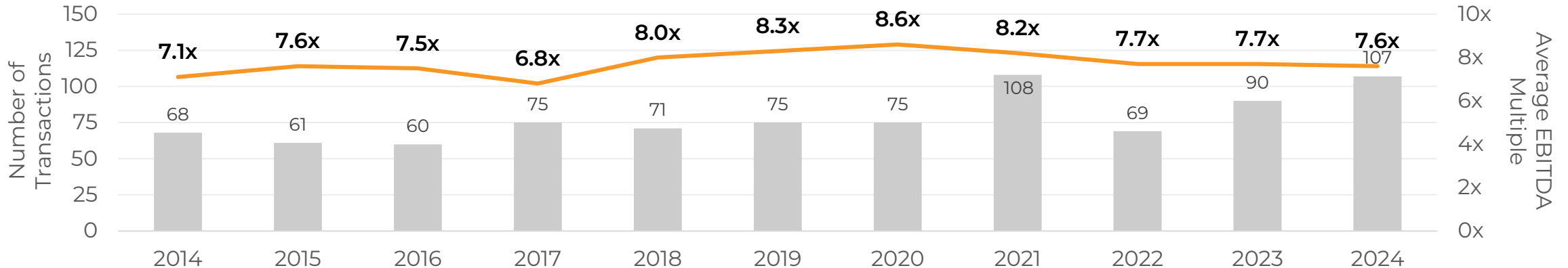
**Note 1:** R.W. Baird & Co. Government Services M&A Volume and Multiples, as of 12/31/24

Multiples increased 20% from 2024 for transactions greater than \$100M EV due to scarcity and hunger for larger deals, with multiples staying relatively flat for transactions under \$100M of EV

### 2014 – 2024 EV/EBITDA Multiples – Greater than \$100M EV



### 2014 – 2024 EV/EBITDA Multiples – Less than \$100M EV



Note 1: R.W. Baird & Co. Government Services M&A Volume and Multiples, as of 12/31/24



# 2025 FEDERAL M&A CLIMATE



## New administration and DOGE-led restructuring of federal government expected to significantly impact deal volume and valuations



### CAPITAL MARKETS

- Public government services company valuations are down over 30% since the election and 15% since the inauguration, decreasing median NTM EV/EBITDA multiples nearly 4x to just over 9x today.
- Public companies benefitting from lower rates have additional capital available for acquisitions; however, they may prioritize share repurchases at what appear to be depressed valuations.
- Near-term rate changes are not expected unless there is unexpected volatility in unemployment or inflation; chance for cuts still in the cards for later in the year.
- Financing conditions are mixed despite lower rate environment. Regardless, banks are eager to lend; credit availability and competitive pricing should not hinder M&A activity in 2025.
- With the Fed still in a quantitative tightening phase, as evidenced by the balance sheet nearing \$7T, liquidity constraints are anticipated to persist despite the market's desire for continued interest rate adjustments.



### FEDERAL BUDGET

- DOGE-led restructuring is reshaping federal budgets and workforce strategy, with a "break it, then fix it" approach, leading to short-term turbulence before possibly stabilizing later in the year.
- GovCon firms will continue to operate under CR-level funding in the near-term, with programs under scrutiny to demonstrate efficiencies
- Expect contractors to get lean and mean and drop indirects wherever possible; bigs likely to increase spans of control, cutting indirect staff and grabbing more direct labor by gutting subs.
- Alternative contracting vehicles (SBIRs, OTAs) will remain attractive, though personnel disruptions and RIFs may impact execution and timing.
- Larger transactions may be avoided due to ongoing budget uncertainty, but serial acquirers will continue pursuing smaller, strategic deals to acquire capabilities and customers.



### GEOPOLITICAL CLIMATE





- The Ukraine-Russia conflict is an early focal point for the new administration and a peaceful resolution remains elusive. Continued U.S. involvement in the region likely despite public clashes between Trump and Zelensky.
- The Pacific remains a strategic priority amid escalating tensions with China over Taiwan. Defense Secretary Hegseth has designated U.S. Indo-Pacific Command as one of the key areas exempt from defense budget cuts, alongside nuclear weapons modernization, missile defense systems, Virginia-class attack submarines, naval surface ships, cyber initiatives, and unmanned systems.
- Overall defense spending is expected to decline, with winners and losers shaking out corresponding to supplemental funding resolutions; maintaining continued expenditure levels across multiple active conflict zones (Middle East, Taiwan, Ukraine).



### NEW ADMINISTRATION

- M&A deal volume will be subdued as buyers and sellers await clarity from DC—deal flow is expected to gradually increase in the latter half of 2025 but not return to prior peaks.
- A reduction in contracting personnel will slow re-compete and net-new efforts, which will reduce the number of GovCon companies coming to market; however, those who have proven the ability to grow and scale will command a scarcity premium.
- Outsourcing opportunities will increase as federal workforce reductions shift work to contractors—creating new demand for outsourced services and targeted acquisitions.
- SBA's recent rule on set-aside status post-acquisition is unlikely to be reversed soon, meaning its full impact will be felt from 2026 onward.

## Flight to quality and preference for in-demand capabilities expected among private equity and strategic buyers

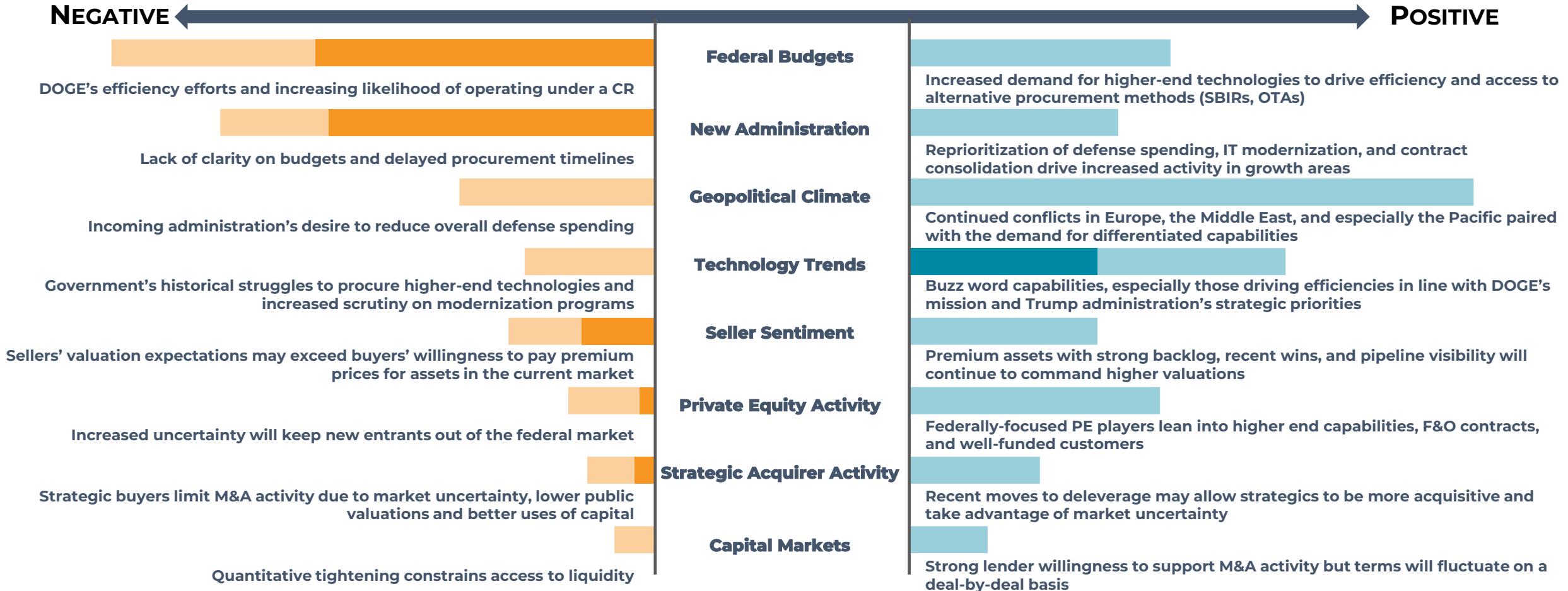
 <b>STRATEGIC ACQUIRER ACTIVITY</b>	 <b>PRIVATE EQUITY ACTIVITY</b>	 <b>SELLER SENTIMENT</b>	 <b>TECHNOLOGY TRENDS</b>
<ul style="list-style-type: none"> <li>➤ Public strategics will be selective, prioritizing transactions where shareholder sentiment and capital allocation align.</li> <li>➤ Expect private strategics to narrow their investment theses, particularly when acquiring companies with set-aside and small business exposure.</li> <li>➤ Larger transactions may be avoided due to ongoing budget uncertainty, but serial acquirers will continue pursuing smaller, strategic deals to acquire capabilities and customers.</li> <li>➤ Expect more contract portfolio pruning driving increased divestiture/spinoff activity, as strategics refine focus areas.</li> <li>➤ Public strategics have been deleveraging over recent historical periods and have additional cash to put to work absent any unforeseen shifts in contract portfolios.</li> </ul>	<ul style="list-style-type: none"> <li>➤ PE's remain flush with dry powder and LP pressure to put money to work; expect this buyer group to continue to play a major role in the GovCon M&amp;A markets in 2025.</li> <li>➤ Traditional PE players will remain active, while PE "tourists" seeking diversification may pull back as other markets will appear more attractive near-term with more apparent return potential.</li> <li>➤ Acquisitive PE-backed platforms will dominate, focusing on tuck-ins, bolt-ons, and mergers of equals to scale EBITDA efficiently.</li> <li>➤ Mega-deals will be scarce, with fewer top-end valuations materializing due to market choppiness and budget uncertainty.</li> <li>➤ Defense tech (AI, Cyber, IT modernization) will see increased PE interest, reflecting a sectoral shift.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Would-be sellers are likely to sit on the sidelines until the dust settles and they get more clarity into the economic and policy landscape under the Trump administration.</li> <li>➤ Sellers remain anchored to 2023 and 2024 valuation levels despite lower public market valuations, likely creating a gap between sellers' expectations and buyers' willingness to pay premiums.</li> <li>➤ Small businesses considering a sale in 12-24 months may test the market in 2025 due to SBA rule changes; likely to result in false starts.</li> <li>➤ High-quality GovCon assets will continue to achieve premium valuations, especially those with in-demand capabilities, robust backlogs, recent wins, and pipeline visibility.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Customer access and in-demand capabilities will continue to drive GovCon M&amp;A, as contract vehicles become less predictive of future revenue due to re-compete delays and saturation of awardees.</li> <li>➤ Despite major federal IT investments, inefficiencies persist, leading to heightened scrutiny of ongoing modernization programs.</li> <li>➤ Emerging warfighting needs will shape technology demand across different theaters: (i) Middle East: Precision strike, counter-missile, ABMS kill-chain integration, (ii) Ukraine: Electronic warfare, UAS/C-UAS, and (iii) Pacific: Cyber, Air/Space/Naval dominance.</li> <li>➤ Contractors specializing in AI/ML, cyber, digital transformation, and other "buzz word" capabilities will attract heightened M&amp;A interest, while firms focused on lower-end or easily-automated capabilities will face valuation pressure.</li> </ul>



2025  
PREDICTIONS

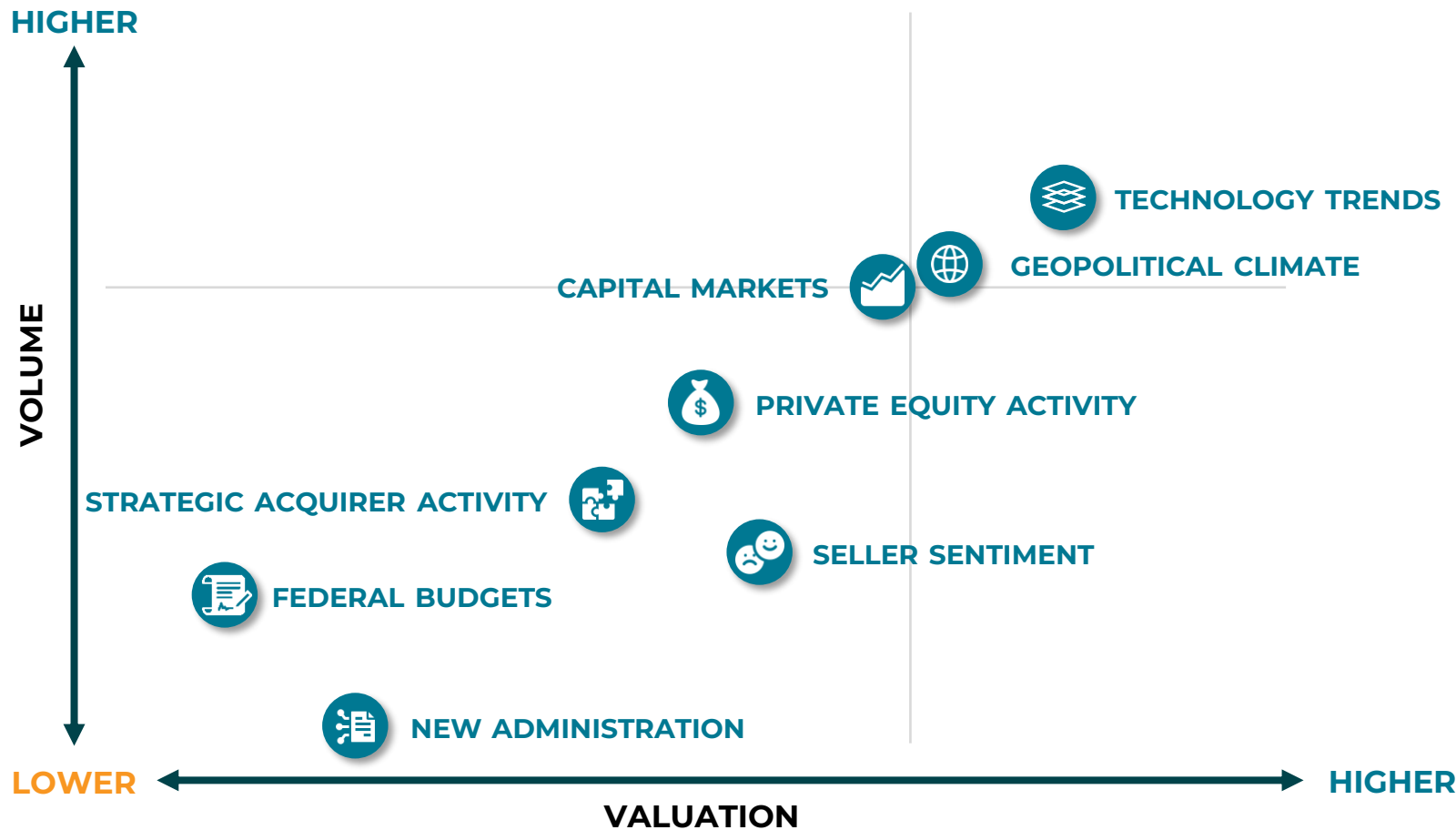
Expect a decrease in deal volume and valuations in 2025 largely driven by uncertainty in federal budgets and procurement cycles

## 2024 → 2025 DRIVERS OF FEDERAL MARKET ACTIVITY



Expect a decrease in volume and valuation as the new administration tightens budgets and emphasizes efficiency, constraining margins and organic growth

**2024 VS. 2025 VOLUME AND VALUATIONS IMPACT<sup>1</sup>**



**SUMMARY TABLE**

FACTOR	VALUATION	VOLUME
FEDERAL BUDGETS	↓	↓
NEW ADMINISTRATION	↓	↓
GEOPOLITICAL CLIMATE	↔	↔
TECHNOLOGY TRENDS	↑	↔
SELLER SENTIMENT	↓	↓
PRIVATE EQUITY ACTIVITY	↓	↓
STRATEGIC ACQUIRER ACTIVITY	↓	↓
CAPITAL MARKETS	↔	↔

*Note 1: The intersection of volume and valuation denotes no change in 2025 versus 2024*



## Predicting 80-90 closed government services transactions with declining valuations

2025 PREDICTION	DWPA PERSPECTIVE
<p>FY2025 WILL LARGELY BE FUNDED THROUGH CONTINUING RESOLUTIONS, AS THE CURRENT ADMINISTRATION WORKS TO IDENTIFY COST SAVINGS WITHIN THE FEDERAL BUDGET</p>	<p>While contractors will continue to perform under existing programs, some of those programs will be under scrutiny for potential FY26 savings, delaying transactions as buyers try to get a handle on agency, contract and contractor winners and losers.</p>
<p>NEW ADMINISTRATION IS HERALDING LARGE CHANGES ACROSS THE FEDERAL GOVERNMENT THAT WILL HAVE SIGNIFICANT IMPACTS ON THE INDUSTRY</p>	<p>M&amp;A deal volume remains subdued as buyers and sellers await clarity from DC—deal flow is expected to gradually increase in the latter half of 2025 but not return to prior peaks; DOGE intends to decrease the federal workforce by approximately 5%-10%, which has historically increased reliance on government contractors. However, the current administration is focused on government wide budget cuts that will lead to the cancellation of contracts that don't drive value, efficiencies, or are redundant, narrowing the pool of attractive contractors to acquire.</p>
<p>EXPECT TOTAL NUMBER OF PRIVATE EQUITY BUYERS TO DECREASE FROM 2024, AS UNCERTAINTY DISSUADES NEW ENTRANTS TO THE MARKET</p>	<p>Uncertainty in the industry will deter private equity “tourists”, but traditional GovCon private equity firms will benefit from continued high levels of dry powder, lower financing rates, and familiarity with the federal marketplace. In contrast, the 2025 M&amp;A market will see a decrease in the number of viable acquisition targets, primarily consisting of companies with higher-end capabilities that have already done the legwork to prepare for a sale. Overall deal volume will decline in 2025 with fewer PE buyers and attractive targets.</p>
<p>STRATEGIC ACQUIRERS WILL INCREASE PARTICIPATION IN THE MARKET IN THE 2<sup>ND</sup> HALF OF THE YEAR</p>	<p>Strategics are experiencing slowing organic growth rates, stabilizing interest rates, and increased cash reserves from deleveraging efforts in prior periods which will lead to an increased appetite for targeted acquisitions amongst strategics; expect these transactions to occur in 2H25 as they await further clarity on federal budgets and impacts of DOGE cuts.</p>
<p>FEWER SMALL BUSINESSES WILL SUCCESSFULLY TRANSACT IN 2025</p>	<p>While many small businesses will test the market due to the SBA ruling, few will successfully transact, as small business exposure is receiving increased scrutiny from buyers who previously were willing to accept set-aside risk. These false starts and busted deals will take time, forcing companies to adjust their strategies to focus on organic growth and transitioning their portfolios.</p>
<p>HIGHLY TECHNICAL COMPANIES WILL COMMAND PREMIUM VALUATIONS, BUT VALUATIONS OVERALL WILL DECLINE ACROSS THE GOVCON SECTOR</p>	<p>“Buzzword” capabilities (e.g. AI, cyber, and digital transformation, etc.) and contractors focused on strategic areas that are insulated from budget cuts will receive premiums above the general market. However, lower public market valuations, scarcity of scaled platforms, procurement delays, and slowing organic growth will cause buyers to adjust their valuation models and will result in lower valuations across the government services sector.</p>
<p>CONTRACT VEHICLES DIMINISH IN VALUE AS VEHICLES EXPERIENCE CONTRACTOR SATURATION AND DECREASE IN PROCUREMENT PREDICTABILITY</p>	<p>Contract vehicles diminish in value to buyers due to the increased saturation of awardees, less visibility and predictability of future revenue forecasts, and increased delays in procurement cycles; there will be an increased emphasis on customer access and differentiated capabilities as the driving factors in GovCon M&amp;A.</p>



# COMPANY OVERVIEW

The most comprehensive end-to-end service offering portfolio in the GOVCON sector—**partnering with you to differentially power your growth**

Delivering visionary planning and strategic execution at the intersection of government and industry

Providing primary source and data-driven insights into agency plans and opportunities

Maximizing contract access, customer knowledge, and vehicle utilization for government and industry

Crafting compelling content and solutions that improve win rates for customers

Driving superior M&A situational awareness and unparalleled buy-side practitioner experience



- Strategy Consulting
- Management Consulting
- Training, Facilitation, and Coaching
- Product Company Consulting

- Market Assessments
- Competitor Insights
- Agency Insights
- Opportunity Intelligence

- BD Delivery
- BD Process
- Vehicles and Portfolios
- Account Development
- Pipeline Development

- Opportunity Shaping
- Deal Capture
- Solution Architecture
- Proposal Development
- Orals Strategy and Support

- Candidate Sourcing
- Due Diligence
- Capital Market Services
- Post-Merger Integration

We deliver differentiated solutions and services that drive real value to you and your customers—**your success fuels our own**



**Commitment to the Public Sector**

Customers range from **small businesses** to the **largest players in the space**, technology firms, private equity and lenders

**32 years average experience** garnered at leading firms and the government—ideal mix of federal and commercial expertise

Serving **75%** of the *Washington Technology Top 20*, including **9** of the **Top 10** and all the **Top 5**



**Unparalleled Reach**

Active engagement with government contacts provides **360° feedback** and **connects you to clients at the right level**

**Expertise across federal agencies** in Federal Civilian, Health and Life Sciences, Defense, and the Intelligence Community

**Cleared personnel** supporting the classified needs of our customers



**Full Life-Cycle Support**

**Federal growth experts** across M&A, strategic planning, capture and proposal, and market research

**\$25B+** in top line transaction value from 2022 through 2024

**500+ bids** and **billions in awards** in federal IT and professional services



**Agile Engagement**

Over **2,000 completed engagements**, with **80%** from repeat clients

**Flexible engagement models** FFP, T&M, retainer, success fee, or subscription

**Exclusive** to customers on competitive bids—**NO** conflict of interest

**No TA equity-based compensation** that can create downstream conflicts of interest



**Proprietary Tools and Research**

**Proprietary tools and models** across the growth life-cycle for superior decisions

Focus on **micro- and macro-drivers** to provide insights for success

**Specific and detailed program intelligence and research** for every customer—one size does **NOT** fit all





Our **Transaction Advisory Services Practice** helps you execute more deals with compelling insights for superior situational awareness and better results

### Client Challenges

- Data-driven insights into potential acquisitions
- Access to agency and market insights to inform go and no-go decisions
- Insight into competitive posture of target's offerings and market position
- Strategic identification and assessment of potential acquisitions

### Our Differentiators

- Proprietary models, including DICE, POINT, Valuation Tornado, miniPEANUT, and Net Proceeds Model deliver superior M&A insights
- Agency and market SMEs with decades of experience in 40+ agencies shape all our investment decisions
- Our best and brightest experts provide exclusive support for only one firm on each deal
- Our recommendations are shaped by qualitative SME judgment as well as quantitative and detailed modeling—all underpinned by our sophisticated market research

# our solutions



### Candidate Sourcing

- Strategic Assessment
- Target Identification
- Transaction Support
- Valuation Guidance
- Structuring Support
- Document Negotiation



### Due Diligence

- Market, Competitive, and Strategic Analysis
- Program-Level Risk and Growth Assessments
- Financial Forecasting and Analysis
- No Fingerprints



### Capital Market Services

- Private Equity Support
- Valuation Structuring
- Sources and Uses of Funding



### Post-Merger Integration

- Integration Strategy and Roadmaps
- Organizational Change and Communications
- Pro-Forma Pipeline
- Day 1, Day 100, Day 100+ Planning
- Integration Management Office
- Pipeline and BD Harmonization
- Synergy Capture
- Functional Integration

Our full spectrum of buy-side M&A capabilities, proprietary analytical methodologies, federal market expertise, and practitioner experience guide clients on their growth journey with end-to-end M&A support.



Comprehensive agency coverage ensures that you always have the best resources and the most recent intelligence on programs, agency trends, markets, and missions



### Defense

We have a cadre of former DoD civilian and military executives with the relationships and experience to successfully pursue business across the largest federal departments



### Federal Civilian

Our in-depth knowledge of the unique mission requirements, operations, and challenges of civilian agencies provides our clients with a competitive edge



### Intelligence Community

We use our diverse IC backgrounds to develop winning strategies to deliver opportunities within each agency, win specific bids, or penetrate the IC market for new entrants



### Health and Life Sciences

Our health and life sciences experts from government and industry have a comprehensive understanding of the market and its opportunities



# Why Choose Us for Your Growth Needs?

**Comprehensive, Bespoke Insights**  
Better decisions driven by experienced practitioners, agency experts, and detailed analysis of complex data

**Agile Delivery**  
Engagement models that meet your needs and cost-effective leveraged models driven by automation and tools

**Proprietary Tools and Methods**  
Used across the entire growth life cycle to deliver insights that are not available from any other firm

**Over 450 Knowledgeable Experts**  
Technology, agency, deal, and market insights to drive improved win rates and exclusive access to M&A deals



**Innovative Solutions**  
Driving growth in existing and new markets, with new or enhanced offerings, or with new clients and deals

**Unrivaled Access**  
Access to government decision makers proven on >2,000 engagements at 40+ federal agencies

**One-Stop Growth Shop**  
End-to-end offerings across strategy, BD, capture and proposal, transaction advisory, and market research

**Strategic Thinking**  
Differentiated insights into your biggest growth challenges—informed by data and unparalleled access

*Our practical, tailored strategy and tactical execution approach drives a blended (organic + acquisitive) growth model through broader capabilities, new offerings, new customers, and improved positioning to meet future growth challenges*

Contact us for more information:  
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