

Ten Questions to Ask Sellers

1. Do they demonstrate the ability to pair domain and technical knowledge?
2. Are they recognized as subject matter experts in their customer domains?
3. In which technical domains are they thought leaders or the “go to” provider?
4. Do they have any proprietary offerings or repeatable methodologies?
5. Beyond the contract vehicles themselves, how much of their revenue is from their DL on their prime contracts?
6. How competitive are their rates in the current LPTA environment?
7. How will the acquisition impact these rates?
8. Have they introduced innovative business models into their current efforts?
9. Do they share your strategic vision and can they overcome cultural differences?
10. What are their top 5 bids next year and what will it take for them to prevail?

Federal Services M&A Best Practices

- 🐾 Pay the right price by asking the right questions – beware of Buzzword Bingo
- 🐾 Start with a disciplined plan and budget time for the lengthy identification and courting process (Wolf Den TRACKS™ methodology)
- 🐾 Blend proactive sourcing and opportunism, but apply hard screens (Wolf Den’s “Heat Map”)
- 🐾 Carnegie’s advice – wealth is created through concentration and preserved through diversification – narrow/deep maximizes value
- 🐾 Keep it simple – “how” can trump “how much” when introducing structured transactions
- 🐾 Integration life begins before conception – the blueprint for integration precedes first meetings

Apocalyptic Perceptions and Candy Store Realities

As we highlighted in our inaugural newsletter, current headlines are intimidating and headwinds are real. Intense budget deficit pressures and increasing competition threaten margins and organic growth rates. Nevertheless, the federal market is also characterized by immense annual spending, fragmentation, barriers to entry, high revenue visibility, and robust borrowing capacity. There is abundant “lights on” funding and pockets of double-digit spending growth, if you know where to look. As growth erodes, those companies with access to capital and forward leaning management teams are turning to M&A to catalyze growth.

Sourcing and Screening

M&A ideas are everywhere, so it is critical to employ strict screening criteria rooted in formal strategic planning. Absent clearly defined acquisition criteria to guide the way, M&A candidate sourcing can devolve into an all-you-can-eat buffet of banker “teasers,” CIMs, and opportunity cost. Evaluation criteria should reflect collective corporate priorities and be communicated clearly and consistently both internally and externally to the broader M&A ecosystem. Because sellers control deal timing, there is always an opportunistic element to acquisitions. However, it is vital to be deterministic about proactively pursuing targets of interest and successful buyers maintain an M&A “Draft Board” that ranks “best athletes” available at each of their “positional needs.”

Not in Kansas Anymore – The Valuation “Tornado”

While valuation measures what someone is ultimately willing to pay, not what a company is worth, it is useful to have a tool to anticipate what someone should be willing to pay for a given opportunity. This has become

increasingly important of late, as the distribution of M&A valuations has widened dramatically. In the “Tornado” depicted below, the length of each axis correlates with each variable’s valuation impact. Organic growth and profitability remain paramount, followed by price competitiveness, customer mix, contract mix, award type, contract vehicles, recompute timing, barriers to entry, and type of work. Companies are rated along each axis and the resulting composite multiple range provides a useful tool to gauge valuation. Size is not a factor. For example, in the last quarter alone, we have seen a \$25M revenue company that garnered over 14x LTM EBITDA, despite having no prime contracts (it was off the charts on the first three

axes) and a \$250M company with prime contracts and good barriers to entry go for under 5x LTM EBITDA (it hugged the far left of the first two axes and was mostly PM support). Also remember that with respect to consideration, “how” can matter even more than “how much.”

Beware Buzzword Bingo
Absent a strategy and a thorough analysis of

comparative advantage, many companies reflexively lean on the buzzwords du jour. Cyber, Cloud, UAS, Health IT, Big Data, and Mobility represent the current cohort, but they change over time. Companies must focus their efforts where they can enhance their ability to compete, regardless of the prevailing buzzwords.

Integration Life Begins Before Conception

Far more M&A transactions fail than most buyers will admit. The culprits range from a lack of shared strategic vision, cultural differences, and poor organizational fit to overly optimistic cost savings targets, misalignment of incentives from transaction structuring, and fissures created during due diligence and negotiation. Integrate early and communicate often to avoid pitfalls. 🐾

