

**WT BUSINESS BEAT**

By Nick Wakeman



# Four deals, four takes on today's market

The level of merger and acquisition activity has picked up in recent weeks with a diversity of deals and dealmakers.

I want to look at four recent transactions, and what they say about the market:

- Engility and TASC.
- Lockheed Martin and Systems Made Simple.
- Raytheon Co. and Blackbird Technologies.
- Bridge Growth Partners and CRGT Inc.

Each of these deals has interesting aspects to them that say something about buyer motivations and market conditions.

But first, there's the fact that activity has picked up in recent weeks after a very slow spring and summer, and it is worth exploring.

The decision to sell your company isn't one that you make suddenly, investment banker Bob Kipps of KippsDeSanto told me; it takes time. So, we need to look back to the end of 2013 and early 2014.

Sequestration, the lack of a budget, and the government shutdown all converged to create a market rife with uncertainty. The uncertainty made many buyers wary of making deals. Sellers also lacked visibility into their growth prospects. Many also had work to do since they had struggled as the market contracted in recent years.

But once the budget deal was struck and companies had more visibility, more were comfortable with the decision to sell; however, making that decision doesn't mean you're ready to sell.

"You have to reload your pipeline, and that takes time," Kipps said.

He joked that it's like mini-baby booms nine months after a blizzard.

That explains the pickup, and Kipps is predicting that we'll see increased activity over the next 11 months.

So, what kind of deals will we see?

The four deals I want to look at each show the different motivators for buyers and sellers.

### **Raytheon-Blackbird**

Kipps had an interesting take on Raytheon's Blackbird deal. Six3 Systems was acquired by CACI International, and Lockheed Martin acquired Zeta Associates. Both of those deals brought intelligence technologies and services to the buyers.

Raytheon likely felt pressure to make a similar deal and went after Blackbird.

Kipps said that the Six3 deal by CACI kicked off a bit of a frenzy for similar properties just as several years ago, Boeing's acquisition of Argon ST started a string of acquisitions in the command and control arena.

When you see a leading company in an attractive niche get acquired at a good price, it makes the remaining niche players more attractive, and it gets them thinking that it is time for them to sell.

"If the Six3 deal hadn't happened, I don't think we would have seen Zeta or Blackbird get acquired," Kipps said.

### **Bridge Growth Capital and CRGT**

This one caught my eye for a couple reasons. First, Bridge Growth Capital is a new private equity group, but its founders are old hands in the government market. Kevin Parker is the former CEO of Deltek, and Alok Singh was a principle with New Mountain Capital, the private equity group that owned Deltek.

CRGT also was owned by Veritas Capital, so it is interesting to me that the company wasn't sold to a strategic buyer who usually will pay more.

But Kipps said that the current debt market is favorable, so it allows private equity groups to be aggressive and compete with strategic buyers to make deals.

### **Lockheed Martin and Systems Made Simple**

This acquisition is a great example of a strategic acquisition. Systems Made Simple specializes in the health care, an area where Lockheed wants to grow. The company also holds a strong position on the Veterans Affairs' Transformation Twenty-One Total Technology contract.

They've won \$640.6 million in task orders since 2011, and the contract has two more years to go.

As I said in my blog last month, it's a "twofer" for Lockheed: more health IT capabilities and access to a huge contract.

## **Engility and TASC**

There is a compelling buyer and seller side to this deal.

For private equity owners General Atlantic and Kohlberg Kravis Roberts & Co., TASC started with great promise, but it never lived up to expectations. They sold the company for \$550 million less than what they paid to buy it from Northrop Grumman.

But the structure of the deal, an all-stock transaction with Engility, leaves KKR and General Atlantic with a 51 percent stack in Engility.

So, they still believe in TASC, and owning Engility stock gives them future opportunities to recoup their investment.

The key for Engility will be applying their cost structure to TASC. The scale of the combined companies should make their cost model even more compelling, but that will still be Engility's biggest challenge to making this a successful acquisition.

To me, these are four very different deals with different buyers, all driven by different motivations. All have risks. All have great potential. But all are positive signs for the federal market.

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