

Is now the right time for bold thinking?

With an ongoing worldwide pandemic and economies in free fall – our world is fully of uncertainty. Many businesses are faced with the challenge of survival daily. Does this sound like a good time to be thinking about long term issues of growth or ways to enhance the value of your business? If you are a government contractor, particularly with revenues in the range of \$10 - 50 million the tumult throughout the world could present an unparalleled opportunity to do just that!!!

As we saw during the financial meltdown in 2008, the impact of macroeconomic factors on government contractors is not as profound as that experienced by other sectors of our economy. That's not to say there that there are not challenges that need to be addressed. But they tend to be more operational rather than financial in nature. Some examples include no in person meetings with clients, transferring work previously being performed at the client site to different locations, and the impact on efficiency and creativity due to the inability to meet in person and exchange ideas. For classified work, these can be particularly challenging adjustments to make. On the other hand, from most of the government contractors we have been talking with recently, their people are still working at generally the same level of effort and bills are being paid in a timely manner. In fact, for those who are directly supporting the PPP and other efforts, they have seen an exponential expansion of their business. While procurements for goods and services to support the effort to fight the pandemic are expedited, the biggest concern we have heard is that the procurement process and new contract awards for items that are not essential to the current problems are experiencing a slowdown. Eventually business will return to the "new normal" and a price tag of trillions of dollars resulting in a huge deficit will have to be dealt with. It seems logical to assume that Federal and state governments will look to increase revenues through a combination of higher taxes and fees and implement significant reductions in spending. Picking the winners and losers and how that will play out is something that government contractors will have to contend with over the next few years. This is the biggest challenge which is causing a lot of consternation to owners of small and medium sized businesses.

For some time, M&A activity in the government contracting arena, particularly at the upper end has reflected strong buyer demand resulting in a sellers' market. At the lower end of the market, small and medium sized companies with a large amount of restricted work, with some exceptions has experienced a slow but steady contraction in valuations as market multiples continue to decline. Faced with many of the structural challenges that make growing beyond the small business size standards and/or being able to compete for larger, more technical awards and the uncertainty presented in the future has already begun many owners who were previously "on the fence" to begin seriously considering an exit. For those who are up to the challenge, the opportunity to obtain new contracts, clients, skills or products while enhancing critical mass and the ability to pursue larger procurements at a reasonable price may never be better than right now. In addition, being a well-capitalized and motivated buyer at the lower end of the market will be a strong differentiator. Though conventional financing for an M&A transaction is still available, in conversations with bankers they indicate that underwriting standards and pricing will be tighter going forward. Finally, there are other more alternative financing sources than ever before that are interested in getting into or expanding their portfolios in the government contracting arena. Creative financial structures are usually one of the ways these transactions get done in a manner that meets the goals of all parties.

So, is now the time for bold thinking? We believe the answer is an unqualified "YES". Please feel free to contact me to discuss this article in further detail or discuss your specific situation for an free evaluation of your options.

