

## **DHG** government contracting





GovCon M&A: How to Tank A Deal in 8 Ways

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## **Your Presenters**





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## Agenda



- M&A Overview and Trends
- Areas of Conventional Financial and Risk Due Diligence
- 8 Examples of Surprise Diligence Findings and Risks
- Transaction Implications
- Questions?





### **ACTIVITY TRENDS**



**2019 ACTIVITY EXPECTED TO BE SIMILAR TO 2018** 



**M&A INVOLVING PRIVATE EQUITY BUYERS/SELLERS** 



**2019 EXPECTED TO EXCEED 2018** 

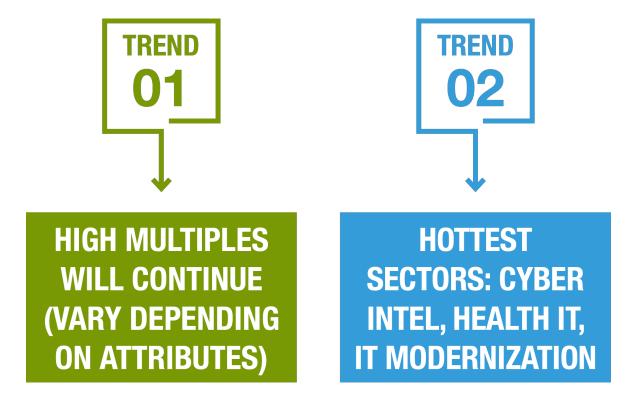


**REVENUE OF** \$100M OR LESS **LEADING THE WAY** 





### **VALUE TRENDS**





## **IMPACT EVENTS**





# Areas of Conventional Financial and Risk Due Diligence

## Areas of Conventional Financial and Risk Due Diligence



Conventional due diligence items that impact transaction price and terms generally include:

#### **FINANCIAL**

- Project/contract profitability erosion
- Unsigned or open change orders
- Revenue recognition issues
- Unrecorded overbilling liabilities on 'cost plus' contract types
- Working capital trends

#### **CONTRACT COMPLIANCE**

- Outstanding Incurred Cost Proposal audits, unsettled contracts and risk reserves
- Other open audits and unresolved adverse audit findings
- CAS applicability and compliance
- Unresolved REAs or claims
- Adverse CO final decisions
- Contractor business systems approval status
- Contract compliance processes, controls and talent

#### **LEGAL**

- Set-aside v. full and open
- 8(a) contracts v. other small business contracts
- Stock v. asset deal (i.e., will novations be necessary)
- Remaining length of existing contracts
- Exclusivity arrangements
- Intellectual property
- Organizational conflicts of interest
- Key personnel and subcontractors

#### TRANSACTION NEGOTIATIONS





# 8 Examples of Surprise Diligence Findings and Risks

## 8 Examples of Surprise Due Diligence Findings/Risks



#### **FINANCIAL**

- 1. Unrealistic value expectations
- 2. Overbillings on cost-plus contracts
- 3. Change orders were assumed

#### **GOVERNMENT CONTRACTS**

- 4. The task order that wasn't quite
- The contract pricing dispute that didn't look good

#### **LEGAL**

- 6. Existing contracts awarded based on faulty small status representation(s)
- 7. Existing contracts' pricing noncompliant (e.g., GSA Schedule PRC issues)
- 8. Existing federal audits/investigations





# Transaction Implications

## **Transaction Implications**



#### **BUYERS**

- Take wide-aperture approach to target due diligence; don't miss the unexpected due to too narrow an inquiry approach
- Don't assume anything trust but verify (e.g. diligence the backlog schedules)
- Follow your intuition if something doesn't seem or feel right
- Ensure that you have the right resources with sufficient bandwidth to conduct sufficient diligence; you don't get "doovers"

#### **SELLERS**

- Prepare for the conventional information requests in advance
- Identify and be prepared to provide information and address any know risk areas during the diligence process (e.g., adverse audit findings, penalties, CPARS, unresolved claims, disputes)

## Questions?



