

FEDBIZ EXTRA

An in-depth look at federal contracting in the Washington region



THE DYNAMIC DUO

If you want to sell or merge your government contracting company, start with these two

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Jean Stack and John Song started working together a decade ago, creating the region's most prominent government services M&A team.

JOANNE S. LAWTON / STAFF

It was a late Monday night in March 2011.

Jean Stack, managing director at global investment bank Houlihan Lokey, was talking strategy with the management team of Era Systems Corp., a unit of SRA International. The contracting behemoth wanted to divest Era, an earnings drag, to prime the company for a sale. It was a loose end SRA needed to tie up before it could get a deal closed.

Stack, who led the financial advisory team handling SRA's sale, didn't leave the company's Fairfax offices until 11 p.m. that night, nothing out of the ordinary for one of the industry's most recognizable merger and acquisition specialists. But the next morning was going to be big: She was going to have her third daughter – a “late-in-life” baby. She went to the hospital at 8

a.m. to have the baby amid negotiations for what would be the biggest deal of her career.

“Jean was emailing me just before she was delivering,” said

► CLOSER LOOK

JEAN STACK

Managing director and founding member of Houlihan Lokey's Aerospace-Defense-Government Group

Age: 47

Education: Bachelor's in economics, minor in math, Duke University

Residence: Reston

Family: Husband Kevin; three daughters ages 14, 13 and 5; Dog Oreo

Past jobs: Comptroller for local company

John Song, her partner and the other managing director on Houlihan's government services team. “I'm making her seem like she's crazy. But she's a little bit crazy,”

JOHN SONG

Managing director at Houlihan Lokey's Aerospace-Defense-Government Group

Age: 43

Education: Bachelor's in political science from Boston University; MBA, University of Chicago

Residence: Potomac

Family: Wife, Moon; two daughters 12 and 10; Son, 7

Past jobs: Citi, Credit Suisse, Bankers Trust, Booz Allen Hamilton Inc.

he added with a laugh.

Stack was back in the office the following Monday.

A couple weeks later on April 1, SRA inked a deal to be bought. The publicly traded government services icon agreed to sell itself for \$1.88 billion to Rhode Island-based private equity shop Providence Equity Partners.

By its sheer scale, it would become the deal that defined Houlihan Lokey's growing government services practice, which has become the pre-eminent M&A shop for middle-of-the-market, Beltway-centric and public sector-oriented companies to sell themselves. And behind the scenes, as always, were Houlihan's Song and Stack, who last year closed \$3 billion in transactions with a 98 percent close rate. If you're a

government contractor in Greater Washington and in the hunt for an M&A deal, chances are you start with Song and Stack.

"They're the gold standard," said Dennis Kelly, now CEO of Iomaxis, a technology engineering company based in Lorton.

Kelly should know. He was president and CEO of A-T Solutions when it sold to PAE in 2015, with Song and Stack as advisers. He was also president of Tech-Team Government Solutions when that company bought New-Vectors LLC in 2007 with the help of the Houlihan team.

"John and Jean and the team are the first stop that people go to," Kelly said. "I would suspect that when they don't take the deal, that's when people go somewhere else."

A chance that pays off

Song and Stack met in 2006. Stack was an industry vet and Song a management consultant-turned-investment banker. By then, Stack had already been at Houlihan for 12 years, joining in 1994 as an analyst when the Los Angeles bank first opened D.C.-area offices as a relative unknown. While Houlihan was "industry agnostic," Stack said, its proximity to Beltway companies had it looking for someone to lead its nascent government services practice.

"I raised my hand and I said, 'I'd like specialize in something. I'd like to become an expert on something,'" Stack said.

"It was really an industry that was just up-and-coming," she said. "It had been a whole bunch of little companies – owner-entrepreneur businesses. It was a business where there was a lot of enthusiasm around growing practices."

She hit the industry at the right time, with government services M&A beginning to heat up in the late 1990s and coming to a head in 2001 after the Sept. 11 terrorist attacks sparked a federal spending bonanza.

In 2003, meanwhile, Song had

graduated from business school at the University of Chicago and went to work for Booz Allen Hamilton Inc. Prior to that, he held various jobs trading derivatives for Citibank, Bankers Trust and Credit Suisse. In 2006, he decided to bring together his financial background with his work as a consultant, joining Houlihan's government services M&A deal team as an associate.

It wasn't long before the team went through a major change: A number of bankers left the firm in 2007 to start KippsDeSanto & Co., a boutique M&A firm based in Tysons.

The shakeup led to their first big opportunity: Song and Stack were tapped to lead the government services group.

A change in strategy

For the next couple of years, their team largely served small and mid-sized entrepreneur-owned firms.

"While it was the heyday for deal-making, we were more or less an average investment bank in the government services space," Song recalled.

In 2009, Song and Stack refocused their efforts. Houlihan was growing. The team was going to pursue larger, more strategic deals, partnering with other dealmakers across the firm. And it was going to get picky.

They built their brand on hard work and word of mouth, with their practice relying primarily on testimonials from past clients.

"We've turned down more deals than we take on at the practice," Song said. "Sometimes it's just because a seller's expectation doesn't align with where we think the market is – and what we're not going to do is give them bad advice. We're not going to lie to them. If the truth is difficult to swallow, we're probably not the right adviser for them."

The practice also benefitted from a change in industry. At the time Song and Stack remade their strategy, the leader in government

services M&A was BB&T, which formed its practice through the purchase of the Windsor Group, a Reston-based investment bank, in 2005. Leading the dealmaking team were Richard Knop, John Allen and John Hagan.

But following the financial crisis, BB&T began to focus more on commercial lending. This led to a mass exodus of the top government services bankers. Knop founded a private equity firm, FedCap Partners LLC, in 2010. Allen started the Bluestone Group in 2011. Hagan eventually went to Raymond James. The rest of the team was dispersed across the sector, ending up at Bluestone, Raymond James or the McLean Group.

Over the last decade, Stack and Song have been the only consistent team under the same consistent banner, which provided a lot of momentum for the firm as others were just building out new practices.

"There is that stability in the faith that your banker is going to stay there with you because they've been there for so long," Stack said.

Their efforts culminated in November 2010, when they were named the financial adviser for SRA International, whose founder Ernst Volgenau was looking to cash in on his 20 percent stake for philanthropic purposes. That led to the late-night meeting a day before Stack gave birth – and the final deal to sell to Providence.

"That was a transaction that normally you would see the bulge bracket doing – the Goldmans, the Morgan Stanleys of the world – but it was a Houlihan deal," Song said.

Big, little and in between

Houlihan emerged from that deal as the most active dealmaker in government services M&A for the middle-of-the-market, which for Houlihan is between \$100 million and \$1 billion.

Even in 2013, when spending began to crater in an uncer-

THE WORK

RECENT DEALS

Recent mergers and acquisitions in the government services space. Deal value listed if disclosed.

- ▶ **Buyer:** Arlington Capital Partners
Seller: EOIR Technologies
Date: June 24, 2016
- ▶ **Buyer:** Xator Corp.
Seller: TSM Corp.
Date: June 13, 2016
- ▶ **Buyer:** ManTech International Corp.
Seller: Oceans Edge Cyber
Date: June 13, 2016
- ▶ **Buyer:** Altamira Technologies Corp.
Seller: Prime Solutions LLC
Date: May 6, 2016
- ▶ **Buyer:** Platinum Equity
Seller: PAE (portfolio company of Lindsay Goldberg)
Date: March 15, 2016
- ▶ **Buyer:** Marlin Equity Partners
Seller: Surveillance business of Cobham
Date: Jan. 15, 2016
- ▶ **Buyer:** LookingGlass Cyber Solutions
Seller: Cyveillance (wholly owned subsidiary of QinetiQ)
Date: Dec. 11, 2015
- ▶ **Buyer:** LGS Innovations (portfolio company of CoVant and Madison Dearborn Partners)
Seller: Axios Inc.
Date: Oct. 1, 2015
- ▶ **Merger between Salient Federal Solutions and CRGT to create Salient CRGT**
Date: Sept. 15, 2015
Price: Created \$355M company
- ▶ **Buyer:** ManTech International Corp.
Seller: Knowledge Consulting Group
Date: June 16, 2015
Price: \$68.2 million
- ▶ **Buyer:** PAE (portfolio company of Lindsay Goldberg)
Seller: A-T Solutions
Date: June 1, 2015
- ▶ **Buyer:** ManTech International Corp.
Seller: Welkin Associates Ltd. (wholly owned subsidiary of Computer Sciences Corp.)
Date: April 28, 2015
Price: \$34 million
- ▶ **Buyer:** SRA International (portfolio company of Providence Equity)
Seller: Qbase
Date: March 31, 2015
- ▶ **Buyer:** Maximus
Seller: Acentia (portfolio company of Snow Phipps)
Date: March 9, 2015
Price: \$300 million
- ▶ **Buyer:** OGSystems (portfolio company of General Catalyst Partners)
Seller: Urban Robotics
Date: March 5, 2015
- ▶ **Buyer:** Lookingglass Cyber Solutions
Seller: CloudShield (wholly owned subsidiary of Leidos Holdings Inc.)
Date: March 2, 2015

tain federal budget environment, Houlihan stayed busy, increasing its share of the mid-market deal flow.

But its place in the market has presented some challenges: Some potential customers might wonder whether they fit the bank's mold.

"They might think that they're not the right profile for Houlihan to take on – maybe too small or too 'something,'" Song said. "We are very flexible in terms of what we decide to take on. From our perspective the lens is really, how strategic of a transaction is it?"

Houlihan was the financial adviser on the sale of PAE, a \$2.1 billion company by revenue, to Platinum Equity, though Song and Stack still build relationships with small companies and help sell them. Dan Quinn, a vice president at North Bethesda-based PTFS, a small business, can attest to this.

"They're very good at finding young companies and nur-

turing them and really maintaining a good line of communication with them," Quinn said. "I compare them very much to a wealth management company nurturing the kids that are coming out of college."

They straddle the line between a Wall Street investment bank and a boutique M&A firm. The duo helped sell Computer Sciences Corp.'s Applied Technology Division, an \$800 million business to PAE in 2013 – the same year Houlihan sold a cyber company for about \$20 million.

"The big guys can only do big deals, the little guys typically only do little deals, and we do them across the board," Song said.

Houlihan is able to chase a lot of deals because the bank serves several industries, not just government services. This allows Song and Stack to take advantage of relationships that other Houlihan teams, including one dedicated to private equity, have.

Government services make up

a very nebulous industry, if you can even call it that.

"It's not really an industry in and of itself," Song said. "'Government services' is really defined by who the end buyer is, which is the government. It's quite expansive. You deal with health care, you deal with tech companies, you deal with services companies and so from that perspective, we have commercial brethren who address those markets."

Attached at the hip

M&A is a high-stress industry. Successfully closing a deal takes hundreds of hours of preparing financial materials, presentations, meetings, coaching – and it happens at all hours of the day. The process involves legal teams and buyers and sellers who hardly ever see eye-to-eye on the terms of a deal. It tests everyone's resolve.

"Every deal brings people to their breaking point," Stack said. "The adage is, you don't know that you've got the right deal until both the buyer and the seller are ready to walk away."

Stack said that in her time with Houlihan, she's never worked under 60 hours in a week. Song said, "Vacation's not vacation, it's just working remotely."

And for all the careful precision and long hours it takes to sell a company, the slightest hiccup can upend a deal.

"It takes so little for a deal to die," Stack said. "Every deal dies. It really takes a whole lot more to make it survive."

Stack and Song play the role of financial adviser very well: They talk about how they're "mission-focused," committed to "operational excellence" and have "a passion for delivery." But they also break character a lot. Bankerspeak is interrupted by playful mocking.

"It's a fun dynamic," said Stephen Vather, ManTech International Corp.'s director of corporate development and M&A, who

has worked on three deals with the duo over the last year. "They balance each other out – John can be a joker, Jean can be serious and they can flip that on you."

Song jokingly said of his meeting with Stack: "We saw each other and we thought we were long-lost siblings immediately."

Oftentimes, they tag team on deals, and clients have noted their complementary skill sets.

"I'm much more of a sequential thinker," Stack said. "My approach to problems is starting here and figuring out all the steps."

Song is the creative one.

"I'm perhaps not as disciplined about my thinking," Song said. His process involves "just putting things out there that are probably a little bit unconventional in terms of how to frame concepts and position companies."

While they each have their own clients and business relationships, they always have each other's ear. Song joked that they are "attached at the hip."

"We share a wall, but Jean talks so loud, it's like we're in the same room together," Song joked.

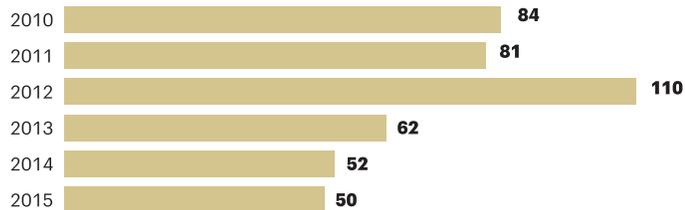
"He always conference calls me in even though he's sitting right on the other side of the wall," Stack responded.

At one point in our conversation, Stack had an epiphany. "I don't think I've ever not talked to you," she said to John. "There have been days I've gone without talking to my husband, but I've never not talked to you every day." ❧

DEAL HISTORY — AND WHAT'S NEXT

M&A deals in the government services space have slowed since 2012, around the time the government spending slowed and sequestration took hold. Here's a look at the number of deals nationally, according to Houlihan Lokey. The firm declined to break down how many of these deals it handled, but it did 23 deals valued at \$3 billion between 2012 and 2014. In 2015, it handled 19 deals, also valued at \$3 billion. Many of the factors that have slowed deal volume – the uncertainty around federal budgets and the increase in awards to small businesses at the expense of mid-market companies – are expected to clear up. And because private equity owns about 47 government services companies – many for a number of years – Houlihan expects to see an uptick in deals. This includes Vencore Inc., which has been held by Veritas Capital for close to six years, Camber, held by New Mountain Capital for eight years, and Schafer Corp., held by Metalmark Capital also for about eight years.

DEALS LESS THAN \$100M



DEALS GREATER THAN \$100M

