

PErspective in GOVERNMENT CONTRACTING

A FEATURE EXAMINING THE ROLE OF PRIVATE EQUITY IN THE GOVERNMENT CONTRACTING SPACE.

A number of trends in the government contracting space are expected to draw interest from private equity firms in the coming year.



Given the continued onslaught of individual and state-sponsored cyber attacks, cybersecurity will remain high on the agenda for both the government and

industry in 2016. There is strong demand for high-end network security solutions, and private equity firms are making significant investments in this area.

In September, the Carlyle Group—together with security and risk management advisory firm the Chertoff Group—[acquired a majority stake](#) in cybersecurity and technology services provider Coalfire Systems. Financial terms were not disclosed, but according to *Yahoo Finance*, Coalfire has 300 employees in the U.S. and U.K., and services 60 of the Fortune 500 as well as multiple other sectors, including local and state government entities.

“Cyber threats are an existential risk to governments, companies and individuals around the world. As the threat environment continues to accelerate, and bad actors continue to become more sophisticated, the demand for cutting-edge cybersecurity solutions will only increase,” says [Jason Kaufman](#), managing principal at the Chertoff Group. “Investment capital will certainly continue to pour into the cybersecurity industry, especially for highly innovative companies addressing the latest cyber risks.”

Cybersecurity software firm Tanium—which enables clients to scan networks of up to several million computers and deploy patches or quarantine a detected bug in 15 seconds or less—[recently raised \\$120 million](#) at a \$3.5 billion valuation in its third fundraising round in just over a year. The firm is now the highest-valued VC-backed cybersecurity company in the world, according to CB Insights research. The round was joined by private equity firm TPG Capital, T. Rowe Price and Institutional Venture Partners, *Reuters* reports.

Another sector that may garner increased attention from the private equity world in the coming year is that of professional employer organizations (PEOs), firms that provide human resources, benefits and compliance assistance solutions. [Recently issued executive orders](#) mandate improved labor standards for government contractors, such as an increased minimum wage and paid sick leave. Government contracting firms now face a complex patchwork of local, state and executive-ordered, labor-related obligations, and ensuring compliance is no easy task.

The PEO sector, currently worth up to \$156 billion in gross revenues, has shown strong, consistent growth over the last 30 years and currently provides services to up to 180 million small and mid-sized businesses, according to the National Association of Professional Employer Organizations (NAPEO).

This October, Morgan Stanley Global Private Equity [completed a majority investment](#) in Tampa, Fla.-based PEO CoAdvantage, which provides outsourced human resources solutions to firms in all 50 U.S. states. It remains to be seen, however, whether this deal is part of a larger trend.

As the burden of compliance for government contractors continues to grow, private equity funds may expect to see opportunities among unique, cutting-edge companies that help both government agencies and contractors stay ahead of the latest challenges. In a constrained budget environment, however, it appears that the private equity sector is taking a targeted approach to investment, placing its bets on specific services rather than the continued growth of the government contracting industry.

PErspective in Government Contracting is a feature examining the role of private equity in the government contracting space.



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