



BLUESTONE CAPITAL PARTNERS ADVISES PHASE ONE CONSULTING GROUP IN ITS SALE TO RLJ EQUITY PARTNERS

On January 12, 2015, Phase One Consulting Group, Inc. (“POCG” or the “Company”) announced the completion of its sale to RLJ Equity Partners (“RLJ”), a middle-market private equity firm founded by Robert L. Johnson and The Carlyle Group. Headquartered in Alexandria, Virginia, POCG is a leading provider of technology-based consulting services and solutions. The Company specializes in every phase of the IT project lifecycle from strategy, planning, and enterprise architecture optimization to application design, development, implementation, and maintenance. Serving a diverse base of civilian clients, POCG brings its full continuum of capabilities together to successfully lead large-scale IT transformation and modernization efforts and address the major IT challenges facing government agencies today.



The Company’s sale transaction highlights several key M&A trends in the government services market:

- **Continued Private Equity Interest** – Private equity buyers and private equity-backed portfolio companies continue to be active acquirers in the government services sector. This transaction represents RLJ’s first government services investment and underscores a strong interest in the marketplace from “new entrant” investment groups seeking solid platforms in the sector. In addition, the cost of debt capital used to support private equity buyouts remains very favorable. Traditional commercial banks, mezzanine lenders, and a host of new debt financing alternatives, such as Business Development Companies (“BDC’s”), continue to provide attractive terms to finance transactions.
- **Benefits of Civilian Agency Exposure** – Sequestration has emphasized the importance of maintaining a diversified customer base. Many civilian agencies maintain solid budgets for mission-critical services, providing avenues of budget stability and growth in contrast to the more challenging defense spending environment experienced over the past few years. POCG’s customer base consists of more than 15 civilian agencies in several attractive market segments where the Company possesses deep domain expertise, including national infrastructure, financial and regulatory services, healthcare, homeland security, and international development. By developing deep domain knowledge of mission programs across a diverse base of civilian agencies, POCG has become a trusted resource for key decision makers across the federal IT marketplace.
- **Increasing Adoption of Agile Methodologies** – According to the Government Accountability Office, the federal government allocates nearly 70% of its IT budgets, equivalent to approximately \$54 billion a year, to operating and maintaining existing and legacy systems. This dynamic, which presents significant challenges to agencies seeking to invest in modern IT systems, is creating strong demand for more cost-efficient and rapid application development alternatives to traditional custom system and software development methodologies. As a result, there is a large emerging opportunity for companies, such as POCG, that leverage Agile application development techniques and possess experience implementing large scale, platform-based applications and infrastructure, including the utilization of Platform-as-a Service (“PaaS”) for migration to the cloud. POCG is at the forefront of this significant shift in the federal civilian market having recently won a large contract with USDA to consolidate several disparate IT mission systems onto a unified infrastructure leveraging the Salesforce platform. POCG’s innovative solution will generate substantial time and cost savings when compared to a conventional software development approach.

In addition, POCG possesses several additional attributes that attracted RLJ’s interest, including its differentiated business model, prime contract base, significant backlog, solid profit margins, and strong management team, to name a few. Our current market insights give us confidence that financial and strategic buyers alike will continue to pursue acquisitions that share these strong characteristics and will place premium valuations on differentiated businesses.

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