



## BLUESTONE CAPITAL PARTNERS ADVISES THE KEMTAH GROUP, INC. IN ITS SALE TO BELCAN, LLC

On January 5, 2017, The Kemtah Group, Inc. (“Kemtah” or the “Company”) announced its acquisition by Belcan, LLC (“Belcan”), a global supplier of engineering, technical recruiting, and information technology (“IT”) services supporting the aerospace, industrial, and government services markets. Belcan is a portfolio company of AE Industrial Partners, LLC (“AEI”). Founded in 1987 and headquartered in Albuquerque, New Mexico, Kemtah is a leading provider of IT services to federal and commercial customers within the science and energy (“S&E”) marketplace. The Company provides a comprehensive suite of IT support services and manages the transformation, operation, and optimization of IT and related infrastructure for highly complex organizations, such as Sandia National Laboratory, Aerojet Rocketdyne, Argonne National Laboratory, Kansas City Plant, Office of Secure Transportation, and the National Nuclear Security Administration, to name a few.



The acquisition highlights several key M&A trends in the government technology services market:

- **Market Demand for “Pure Play” Specialization** – While the “catalog” of ~400 M&A transactions completed in the government technology and services M&A market over the past five years encompasses a significant range of capabilities, customers, and individual company characteristics, the single greatest commonality among deals across this universe is their alignment with buyers’ strategic priorities. An acquisition’s ability to spark initial interest, inspire dedicated time and resources, and receive final approval (and funding) is ultimately tied to a “champion” within an acquiring entity identifying and articulating how the transaction supports the organization’s strategic roadmap. While strategic plans are company specific and constantly evolving, acquisition targets with significant or “pure play” focus on specific customers and/or capabilities are often more easily aligned with strategic themes than are more diversified targets. Kemtah differentiates itself through a singular focus on providing IT services within the S&E community, which are unique environments that require a special approach to IT service delivery and transformation – one that integrates mission focus, domain knowledge, cultural understanding, a delicate balance between legacy and state-of-the-art technology, and unique safety and security infrastructures that have very little margin for error and enormous consequence of failure. These significant barriers to entry are highly attractive to Belcan as it seeks to build its IT capabilities and to cross-sell its existing capabilities into the Department of Energy and the broader S&E community.
- **Evolution to Next-Gen IT Service Management** – With a strong presence in the commercial sector, Kemtah has been a pioneer and market leader in transitioning federal customers to more modern IT Service Management (“ITSM”) models in which it provides cloud-based, off-premise IT support from its remote shared service center, resulting in significant cost reductions while improving service efficiency. While the national security community has been slower to adopt these newer ITSM approaches, Kemtah has been highly successful in moving multiple customers to off-premise models, which have garnered strong, industry-wide attention as the first remote managed service contracts awarded within the national laboratory community. Kemtah maintains a dedicated team of ServiceNow subject matter experts that have implemented ServiceNow applications across virtually its entire S&E customer base, providing highly valuable past performance at a time when federal customers are increasingly recognizing the many benefits of migrating to next-gen, cloud-based ITSM platforms.
- **Emergence of “Non Traditional” Buyers** – As traditional consolidators in the government technology and services landscape have increasingly focused on larger deals, the “void” left by their upstream movement has created an opportunity for new buyers to enter the space. This opportunity, combined with broader market optimism regarding the government market as an attractive place to do business (publicly traded government services companies are up 19% since November 1, 2016), has driven a noticeable uptick in the number of government technology and services companies acquired by commercially focused buyers (particularly within the engineering vertical). Historically focused on providing engineering and IT services to commercial aerospace and industrial markets, Belcan has prioritized the federal market, as illustrated by its two most recent acquisitions. Other recent examples of M&A transactions completed by “non-traditional” buyers include KBR’s acquisitions of Wyle and Honeywell Technology Solutions, as well as Huntington Ingalls’ acquisition of Camber.

Kemtah possesses several additional attributes that attracted Belcan’s interest, including a highly credentialed and technical employee base, strong growth profile, and longstanding customer relationships, among others. Based on market insight, Bluestone is confident that companies that share these characteristics will continue to receive strong interest from buyers as companies seek differentiation in a highly competitive government contracting environment.

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