PROGRESS PARTNERS

Federal Government Technology Services

Tom Peltier, Managing Director

Spring 2026

Government Technology Services Investment Banking Lead

Tom Peltier
Managing Director

Sector Focus

- Government Services
- Intelligence & Defense
- Select Commercial IT Services
- Cybersecurity

Recent Transactions

Defense, Intelligence, and Government

Tom is a Managing Director of Progress Partners and focuses his efforts on providing investment banking services in the government services, defense, and intelligence sectors, as well as in the commercial technology services sector on a select basis.

His 30 years of experience at Stifel, Nicolaus & Company and Legg Mason have given him a long-term and in-depth knowledge of the technology solutions and services segments that enables him to provide unique insights of significant value to clients. Tom has assisted clients in both the public equity and private sector markets. He is best known for his track record in the government technology solutions and services market where he has completed over 90 M&A transactions and 35 public offerings raising over $5 billion in proceeds.

Tom was the founder and Group Head of the Aerospace, Defense and Government Services Group at Stifel, Nicolaus & Company (including the former Legg Mason investment banking business) before joining Progress Partners. He has been a trusted advisor to executives, founders, boards and investors, and maintains an extensive network among both the sources of capital for these companies as well as the potential buyers of these businesses.

Tom is a frequent speaker at various GovCon M&A conferences. In 2010, Tom was named Dealmaker of the Year by the Association for Corporate Growth (ACG), Capitol Chapter. Tom is currently the Board President of The Family Tree, the largest organization focused on preventing child abuse and neglect in the state of Maryland.

Sector Overview

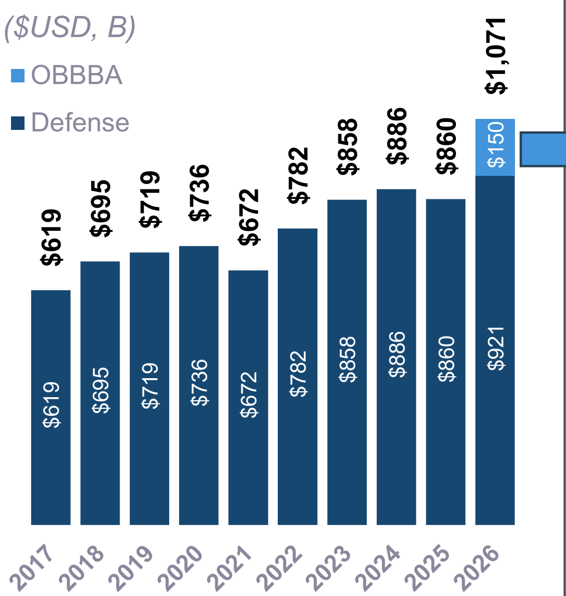
- The Federal Technology Services sector experienced significant headwinds with DOGE and the subsequent record 43-day government shutdown for most of 2025. The prevailing sentiment in the "traditional" GovCon sector—particularly companies not focused on AI, space, autonomous systems, cyber for National Security sectors—was that "any growth in 2025 is a miracle," to quote a longtime PE GovCon investor

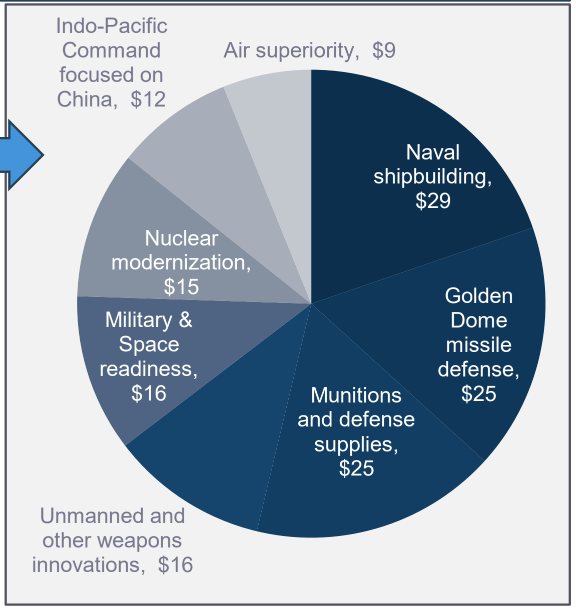
- Thus far in 2026, the environment could not be more bullish for the National Security sector and contractors. DOGE has ended, with minimal impact on spending reductions and tremendous disruption. The government shutdown ended with both parties chagrined. Regardless, the Civilian Agency contracting environment remains very tough.

- The U.S. National Security spending ramp is awe-inspiring. The FY 2026 National Defense Authorization Act (NDAA) calls for a record base of Defense spending of $921B, but added to this is $156B from the Trump Administration's One Big Beautiful Bill Act (OBBBA) focused on Defense modernization and border security. Combined, we are looking at a Defense Budget over $1T, and a total U.S. discretionary federal budget of ~$1.7T (down from $1.83T in FY 2025). New Defense programs like the $175B Golden Dome, $15B more in DHS spending over FY 2025, as well as increasing Defense spending among NATO allies provides for more Defense and Homeland Security opportunities throughout the sector

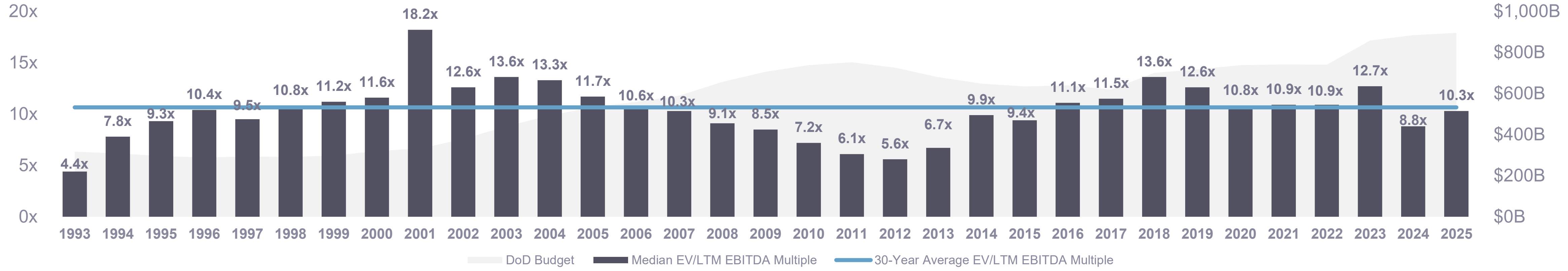
- **Tom Peltier**, *Managing Director*

U.S. Defense Budget (NDAA Enacted)





Valuation Trends



Public Market Perspective

- After a DOGE-driven sell-off in late 2024 / early 2025, although partially buoyed by strong overall equity market performance in 2025, the Progress Partners GTS index ended up 9.5% through 2025 although the sector then finished down -3.3% quarter-over-quarter in Q4 over government shutdown concerns. GTS sector valuations now stand at 11.0x EBITDA, still well below highs of 16.5x in mid 2024
- Q4 in particular was defined by the record 43-day government shutdown, which delayed awards and further clouded forward visibility after months of uncertainty created by DOGE, while federal spending became more concentrated on National Security and DHS initiatives at the expense of discretionary civilian budgets
- Regardless, the outlook is very favorable, with total U.S. Defense spending expected to exceed $1T and initial indications of a $1.5T request for FY 2027, in addition to increased budgets at DHS and VA. Civilian Agency contractors, on the other hand, continue to face declining budgets at nearly all agencies
- We expect sector valuations to further recover and reach ~14x driven by the large increase in Defense spending, individual company performance and capabilities combined with the same attributes that make the sector investor-friendly – stable and growing cashflows backed by the federal government with low capital/capex requirements

Government Technology & Services Index Performance (2021-2025)[1]

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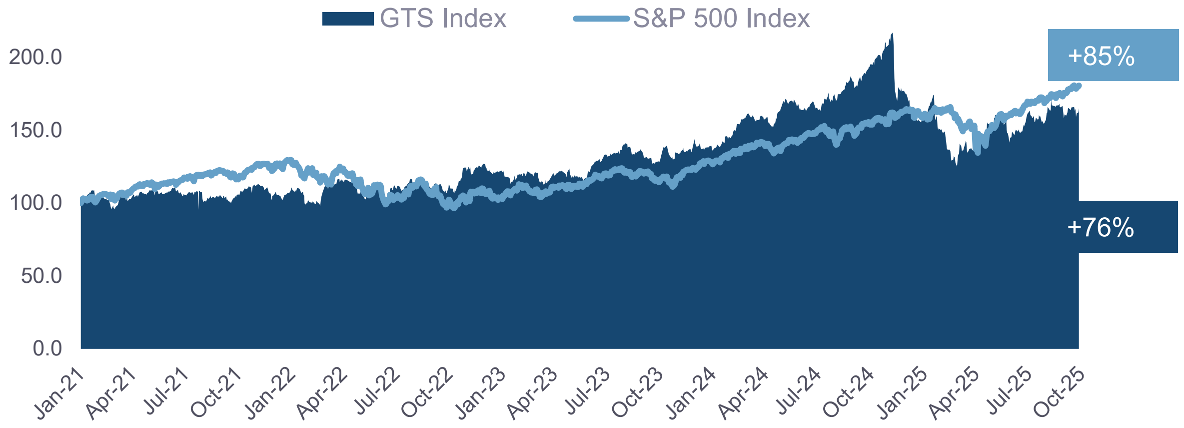
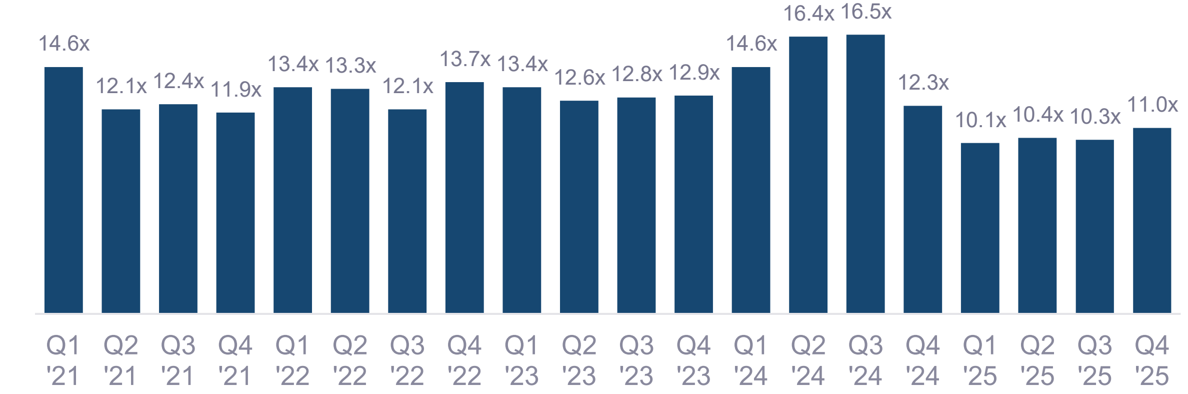


GTS EV/EBITDA Multiple Trends



GTS Index Relative Performance

Index	2021 – 2025	2025	Q4 2025
Dow Jones	56.9%	12.7%	3.6%
S&P 500	85.0%	16.6%	2.0%
NASDAQ	80.3%	21.1%	2.6%
Progress Partners GTS Index	**76.4%**	**9.5%**	**(3.3)%**

1) Through Q4 2025
Source(s): S&P Capital IQ

M&A Overview

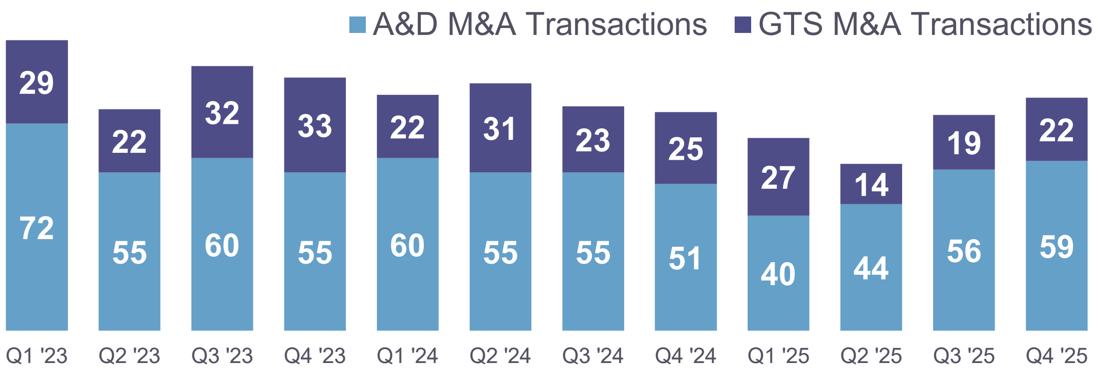
- The uncertainty around DOGE and turmoil in the contract acquisition departments at federal agencies, where early retirements and other actions severely reduced staff, created a very difficult environment for M&A for sellers (and buyers): (1) revenues and EBITDA not growing/declining despite having the contracts and even new awards, (2) multiple compression of 1-2 turns as buyers see the market weakness, and (3) unfavorable deal structures reflecting buyer concerns about revenue timing. During this period, buyers were also skittish and PE buyers often forced more and more structure on deals as they sought to avoid risk

- Despite these headwinds, it is worth noting that the hotspots in federal technology M&A – AI/ML, space systems, autonomous systems/drones, digital engineering, cyber defense – continued to flourish, with National Security being the prevailing customer set

- This market dislocation for the traditional technology services contractors significantly reduced M&A activity earlier in 2025, although we have seen a strong resurgence in December of Q4, and thus far in 2026. For Q4, we saw 22 pure-play federal technology M&A transactions close, and all were focused on National Security (in our M&A deal counts, we do not count companies where the federal government is not the primary customer and only those companies that deliver services and solutions and not solutions that represent broad weapon-system-type platforms). This deal count is up from 14 closed federal technology deals in Q2 and 19 in Q3. The average federal technology deal count on a quarterly basis since COVID is approximately 25 to 32 with a mean of 27 deals

- How quickly things change, and M&A activity has reflected this new environment. Since the beginning of December through early February, we have seen 29 Federal Technology Services transaction announcements in just over two months. At this pace, 2026 will most likely be another record year for federal technology services M&A, with pent-up deal flow from 2025 flowing into 2026 and buoyed by nearly $1.5T in U.S. and European Defense spending and substantial technology investment driven by AI, space, autonomous systems, cyber, IT modernization, health IT, quantum computing, etc. The focus remains on National Security, but it is only a matter of time before civilian agency technology contractors also see a recovery as the threat to their revenue streams wanes

M&A Activity



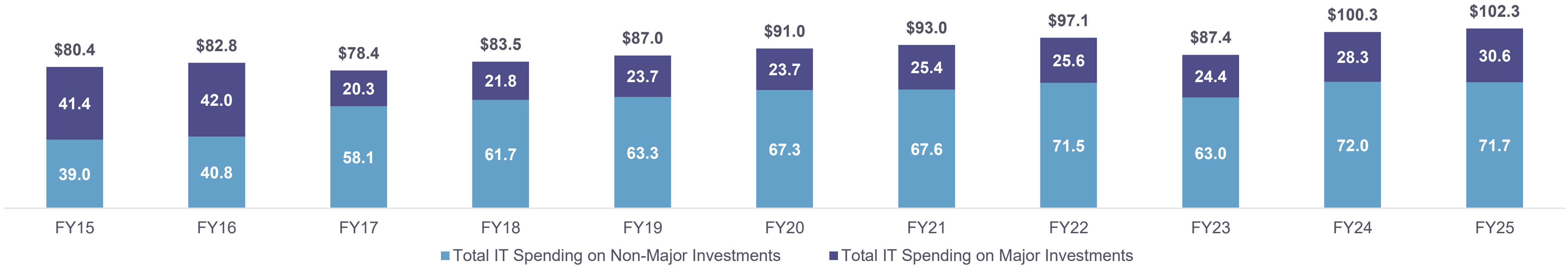
Notable M&A Transactions (Q4 2025)

Date	Acquirer	Target	Implied EV	EV/EBITDA
Dec 2025	Arcfield / Veritas Capital	rite Solutions	ND	ND
Dec 2025	Godspeed Capital	nextpoint group	ND	ND
Dec 2025	ManTech / The Carlyle Group	Elder Research	ND	ND
Nov 2025	Veritas Capital	MetroStar	ND	ND

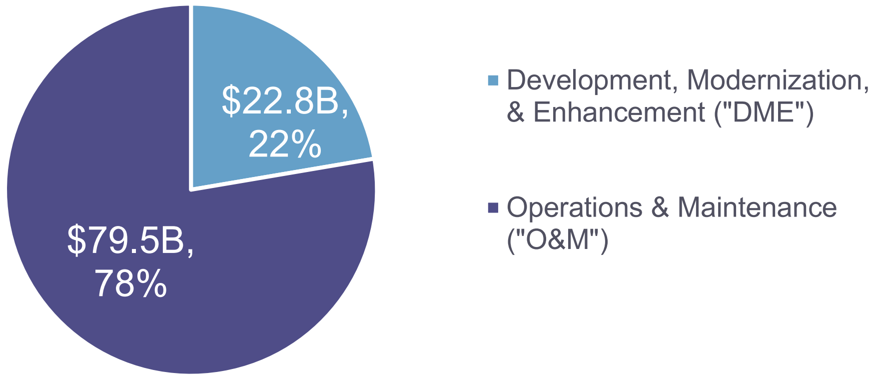
Federal IT Spending Update

O&M spend continues to comprise the vast majority of IT spend; recent mandates to "buy before build" and unify federal IT procurement aim to shrink O&M as a proportion of spend

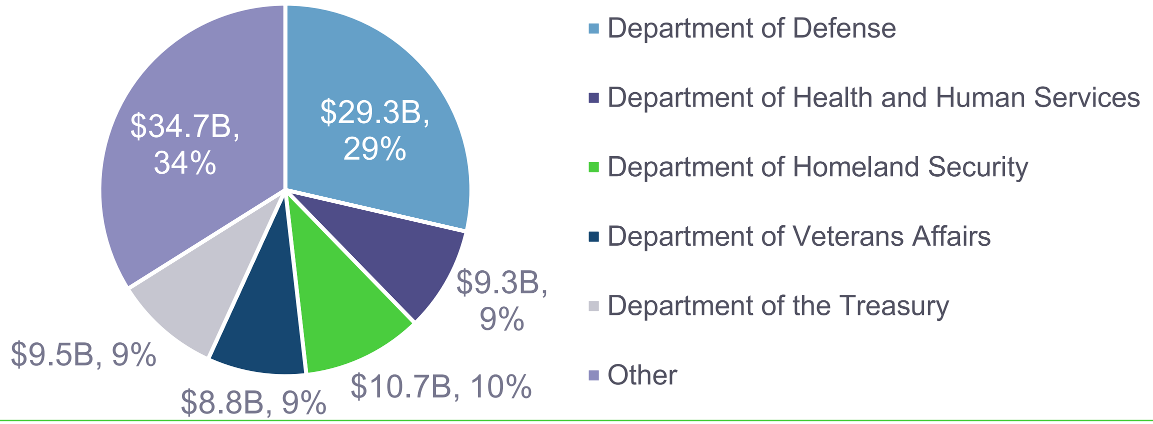
Federal IT Spending ($USD Billions)



IT Spending by O&M and DME (2025)



IT Spending by Agency (2025)



DoD IT Goals and Tailwinds for Federal Contractors

Sustained multi-year government priorities in digital modernization is expanding funded execution opportunities across the federal contractor ecosystem

The DoD has Clearly Laid Out Its Plans for IT Modernization

Goal 1

Accelerate the DoD Enterprise Cloud Environment

Scaling a secure, multi-cloud ecosystem, with stronger FinOps cost discipline and faster SaaS authorization. The priority is enterprise-grade cloud access, with zero trust and real-time cyber defense.

Goal 2

Establish a Department-wide Software Factory Ecosystem

Delivering better software faster depends on scalable cloud infrastructure and modern development practices

Goal 3

Transform Processes to Enable Resilience and Speed

DoD is expanding mature cloud contract vehicles and using automation to speed adoption across the enterprise

Key Takeaways for Technology Contractors

- DoD cloud modernization is a multi-year spend cycle, creating sustained demand for partners to deliver secure, production-scale cloud and data platforms
- AI data infrastructure is directly in scope, as DoD accelerates enterprise cloud adoption and mission-ready analytics environments
- Software factory and DevSecOps scaling requires proven integrators who understand mission domains and legacy systems, positioning these companies to support secure pipelines, cATO adoption, and rapid deployment workflows
- Zero trust and cloud security modernization are core priorities, expanding opportunity for contractors to deliver Snowflake-enabled solutions within compliant cyber architectures
- Legacy system transformation and enterprise-wide modernization remain large addressable markets, where contractors can drive cloud migration, data consolidation, and AI-enabled operational outcomes
- **It is critical for contractors to offer the broadest possible suite of partner-enhanced cloud and digital solutions and having a vendor-agnostic approach to their technology solutions**

Source: President's Budget (PB) 2026 Budget Request

Industry Takeaways

Theme	Description
Strong DoD Budget Growth	▪ In FY 2025, Defense and DHS accounted for 54% of the federal government's total discretionary budget; in FY 2026, they are projected to account for 65%. In FY 2024, the federal government outsourced $769B, or 46% of its $1.66T discretionary budget to government contractors. Of that $769B, 62% or $474B, went to Defense contractors, and ~75% went to contractors in Defense, Intelligence, DHS, and Nuclear programs ▪ The FY 2027 DoD budget is likely to exceed $1T, depending on the midterms
COTS & OneGov	▪ The federal government has a strong and growing mandate to prioritize COTS technology over custom-built solutions to reduce costs, improve efficiency, access the latest innovations, and accelerate modernization. This direction is driven by recent executive orders and existing law ▪ OneGov is a GSA mandate to unify federal IT procurement from commercial technology solutions providers, acting as one buyer to receive large discounts from technology vendors, standardize contracts, and modernize procurement
Modernization	▪ Modernizing the federal government's IT infrastructure continues to be a bipartisan but poorly coordinated priority, with $100B+ spent annually on IT - 80% of which is spent maintaining legacy systems vs. 50% in the private sector ▪ Defense, Civilian and IC are migrating IT systems to the cloud and/or replacing outdated and monolithic IT networks with cloud-native technologies ▪ Critical systems, such as those at the SSA, still rely on COBOL, while many critical legacy systems still lack comprehensive modernization plans
Space	▪ Space remains a strategic priority despite fiscal pressure, with the Space Force's 2026 budget at $39.9B, up significantly from last year. Priorities include missile defense (SHIELD), GPS, and space-based communications ▪ With NASA steady at ~$25B and the Missile Defense Agency slightly down at $9.6B, total space-related federal spend remains around $65B, excluding commercial activity - focused largely on countering Chinese and Russian advancements

Theme	Description
Cybersecurity	▪ Digital acceleration that began in the COVID era continues to drive significant cyber investment. DoD's IT and cyber budget is $66B for FY 2026, with $15.1B (23%) earmarked for cyberspace activities ▪ Civilian agencies' cyber budgets are flat at $11B, focused on improving network resilience, response capabilities, and threat detection as attack surfaces and vulnerabilities grow
Cloud	▪ Spending on federal cloud was $17B in FY 2024, $20B in FY 2025, and to grow to $30B by FY 2028. Key driver is modernizing legacy IT infrastructures across Civilian, DoD, and Intelligence sectors (e.g., the DoD's $9B JWCC program). ▪ The advent of AI and the mandatory adoption of zero-trust security infrastructures are accelerating cloud adoption, as well as the Trump Administration's emphasis on data security, availability and cost effectiveness via commercially available cloud technologies
AI / ML	▪ AI / ML continue to reshape federal operations, with a $13.4B DoD budget request for FY 2026, 80%+ of which will be allocated to autonomous systems ▪ The Pentagon's $200M deal with OpenAI emphasizes the DoD's focus on rapid deployment of AI using commercial AI capabilities ▪ The National Artificial Intelligence Research Resource initiative is building a national AI infrastructure and encouraging commercial partnerships via OTAs
AI Impact on Technology and Warfighting	▪ AI is transforming all technology and warfighting initiatives: Golden Dome, emphasizing AI-powered early warning systems, Cloud migrations being accelerated to accommodate the implementation of AI technologies, AI-enabled cybersecurity measures to protect DoD systems and data, AI to analyze ISR data to improve target detection, intelligence and data analysis, predictive analytics for supply chain management, etc. ▪ OTAs and SIBR Phase III contracts are in demand to rapidly acquire AI tech

Source(s): Government Accountability Office, Air Force Financial Management, Washington Technology, DoD, Grandview Research

Progress Partners – Our EIR Takeaways

Barry Tishgart
US Army

"The Army Applications Laboratory is accelerating the integration of cutting-edge commercial technologies into real-world military capability at speed and scale. We are creating pathways for non-traditional partners to deliver mission-ready solutions that strengthen national security. The future of defense will be defined by our ability to rapidly translate innovation into operational advantages."

Ian Greenblatt
Board Member, BNS Inc.

"For a small SDVOSB (Service-Disabled Veteran-Owned Small Business) operating in the government contracting space, both funding instability and global conflicts create significant downstream risk. A full or even partial government shutdown immediately disrupts the entire contracting ecosystem—work slows or stops, payments are delayed, and contract timelines shift to the right across the board. At the same time, increased operational tempo driven by global conflicts can accelerate demand for products and services. However, this creates a mismatch: while mission requirements and delivery expectations remain fixed—or even accelerate—the time available to execute contracts is compressed once funding resumes. This combination of funding volatility and shifting demand creates an unpredictable environment, making it difficult for SDVOSBs to plan, staff, and deliver effectively while maintaining financial stability - and at the same time, reduces our services' ability to be mission-ready when called upon. "

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