

Capstone Partners Reports: Shipbuilding and New Buyers Nurture Air, Land, Sea, & Space Systems Market

BOSTON, MA, U.S., July 1, 2024 /EINPresswire.com/ -- Capstone Partners, a leading middle market investment banking firm, released its latest Air, Land, Sea, & Space Systems Market Update, reporting that following a record year for merger and acquisition (M&A) activity in 2023, deal volume through year-to-date (YTD) 2024 has moderated. Although overall U.S. defense



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Tess Oxenstierna, Head of Capstone's ADGS Group

spending has been capped by the Fiscal Responsibility Act of 2023, robust investment in the Sea Systems sector and increased acquisition appetite among Native American buyers have kept the sector's M&A environment healthy.

Volume in the Air, Land, Sea, & Space Systems (ALSS) Systems sector has moderated through YTD 2024, falling 15.5% year-over-year (YOY) to 49 transactions announced or completed. However, acquisition appetite has remained strong to-date, considering the record levels of deal flow in the sector during full-year 2023, which rose 52.6% YOY to

116 transactions. Due to the Department of Defense's (DOD) budget capped at a 1% spending increase for the next two years, supplemental national security funding tailwinds are expected to bolster buyer confidence in the sector's M&A market. The timing of congressional budget procedures has remained the most prominent headwind to M&A by hindering contract deal flow and revenue visibility. Despite this, urgent national security priorities are expected to increase the speed of DOD funding.

Shifting priorities in U.S. defense spending are likely to offer increased contracting and subcontracting opportunities for well-positioned Sea Systems market participants. The DOD's fiscal year (FY) 2025 budget request earmarked \$257.6 billion total for the Department of the Navy (DON), a 0.7% increase YOY. Although a marginal increase compared to the prior year period, this uptick has made the FY 2025 budget request the DON's largest ever, and 4.5% higher than FY 2023's enacted budget of \$246.6 billion. Shipbuilding and the trilateral Indo-Pacific security partnership with the U.K. and Australia, known as AUKUS, were two of the main strategic priorities in the DON's FY 2025 budget request. The integration of the U.S. and U.K.'s defense industrial base with AUKUS has become a key by-product of strengthening the partnership. This has allowed sector players to both expand their customer base and build new recurring revenue

streams.

Alaska Native Corporations (ANCs), Native Hawaiian Organizations (NHOs), and federally recognized American Indian and Alaska Native Tribes, known more broadly as Native Entities, have become active participants in the Federal Contracting marketplace in recent years. Due to their 8(a) status under the Small Business Administrations' (SBA) federal contracting program for experienced small business owners who are socially and economically disadvantaged, Native Entities have been eligible to receive sole-source government contracts regardless of size. These incentives from the DOD have increased Native Entities' acquisition appetite for the ALSS Systems sector.

"The U.S. geopolitical pivot to Asia is driving increased defense spending to maintain warfighting superiority against China - the key pacing threat," said Capstone Managing Director Tess Oxenstierna, Head of Capstone's Aerospace, Defense, Government, & Security (ADGS) Group and the lead contributor in the newly released report.

Also included in this report:

- An [article](#) from Managing Director Tess Oxenstierna on Tribal 8(a) considerations.
- A breakdown of General Dynamics' (NYSE:GD) subsidiary, Electric Boat, and its robust nuclear submarine contracts with the DON.
- How active private equity firms have continued to pay premium valuations for business in the sector, despite unfavorable interest rate conditions.

To access to full report, [click here](#).

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