

GAO Highlights

Highlights of [GAO-24-106129](#), a report to congressional committees

Why GAO Did This Study

DOD has reported that consolidation of its suppliers through M&A is a key risk imperiling the health and resilience of the defense industrial base. While M&A may create benefits, such as improving a supplier's financial health, they may also reduce competition and increase the risk of higher costs and reduced innovation.

To help manage these risks, DOD has established a process for assessing the potential effects of defense-related M&A. Under certain circumstances, DOD also provides input to the federal antitrust agencies, which review and, when necessary, take action to mitigate competition risks from M&A.

Congressional reports included provisions for GAO to evaluate DOD's efforts to assess the effects of M&A on the defense industrial base. This report assesses (1) the extent to which DOD has insight into defense-related M&A, and (2) the extent to which DOD monitors the effects of M&A on the defense industrial base, among other things. GAO reviewed agency policy and documentation, analyzed agency-provided and commercially available data, and interviewed agency officials.

What GAO Recommends

GAO is making four recommendations for DOD to: provide additional direction on assessing all risks and benefits identified in policy, clarify which defense suppliers' M&A need to be prioritized for assessment, assess whether Industrial Base Policy's M&A office is adequately resourced, and require monitoring of identified risks. DOD concurred with the recommendations and described its actions to address them.

View [GAO-24-106129](#). For more information, contact W. William Russell at (202) 512-4841 or RussellW@gao.gov.

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DEFENSE INDUSTRIAL BASE

DOD Needs Better Insight into Risks from Mergers and Acquisitions

What GAO Found

The Department of Defense (DOD) has estimated that hundreds of defense companies undergo mergers and acquisitions (M&A) each year. DOD's Industrial Base Policy office and DOD stakeholders work together to conduct assessments of such M&A's risks and benefits. When M&A present risks to competition, DOD's Industrial Base Policy office also works with the antitrust agencies, which review and regulate M&A that may substantially lessen competition.



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DOD's insight into defense M&A is limited. Industrial Base Policy's M&A office and DOD stakeholders assessed an average of 40 M&A per year in fiscal years 2018 through 2022, which represents a small portion of defense M&A. DOD's most recently published statistics on defense M&A, which were included in its *Fiscal Year 2017 Annual Industrial Capabilities* report, indicated that approximately 400 defense M&A occurred annually.

Most DOD assessments are initiated in response to antitrust reviews of large M&A valued over a certain dollar threshold, currently \$111.4 million. Therefore, Industrial Base Policy's M&A office and DOD stakeholders focus on evaluating competition risks in their M&A assessments. While DOD policy directs Industrial Base Policy and DOD stakeholders to assess other types of risks, such as national security and innovation risks, they have not routinely done so. Moreover, DOD policy does not provide clear direction about which M&A DOD should prioritize for assessment, beyond those conducted in response to antitrust reviews. DOD officials noted that the M&A office—which is comprised of two to three staff—does not have the staff resources to initiate more assessments of smaller M&A that may also present risks. Assessing whether the M&A office has adequate resources to meet its responsibilities and clarifying which defense suppliers' M&A should be prioritized would help DOD better assess risks.

DOD generally does not monitor whether risks identified in its M&A assessments were realized. GAO found that DOD policy does not require Industrial Base Policy and DOD stakeholders to conduct monitoring. As a result, they cannot determine if risks occurred and whether further action is needed to mitigate them.