

INTERVIEW

Brad King

Chief Executive Officer
SERCO Group, Inc.



DM&A: How and when did the SERCO strategy to approach the U.S. federal market take shape?

BK: We have been active in the U.S. since the late 1990s with the acquisition of Barton Aviation and JL Associates. Barton, in particular, put us in position to become the leading provider of managed services in the U.S. for Level 1 Air Traffic Control.

That business - and our entire North America operations (which includes Canada) - has been growing nicely since. In 2004 we'll end at \$170 million.

Serco's global strategy, however, is to be the leading services provider in the market we choose (emphasis added).

It was apparent that we were not going to achieve that objective in the U.S. with only organic growth.

DM&A: What were the characteristics about RCI that so appealed to SERCO in making this US acquisition?

The British M&A invasion in the U.S. continues. BAE, Smiths, Cobham, Ultra and Meggitt have made acquisitions of U.S. defense firms in recent months, taking advantage of a low dollar and close political ties. The "pond-jumpers" have not been as keen to acquire U.S. federal and defense services firms.

Enter SERCO Group plc (LSE:SRP.L), the \$2.8 billion (U.S.) services firm, helping national and local governments around the world improve services across all aspects of operations.

The company's activities are extraordinarily diverse, and include the management of research laboratories, local education authorities, operation of the Docklands Light Railway in London, operating buses and trains in Australia, operating air traffic control towers in the Middle East and across the USA, and providing defense support services worldwide.

What they had not cracked was the U.S. defense market. With the announcement Dec. 16, 2004 that SERCO intended to acquire \$270 million RCI Holdings Corp. from U.S.-based CM Equity, its majority owner, that barrier fell as well.

Minuteman Ventures LLC President Paul Serotkin, writing for DM&A, caught up recently with Brad King, CEO of SERCO Group Inc., one of the architects of SERCO's North American strategy and the RCI transaction. King, a former Day & Zimmerman and Boeing executive, had joined SERCO in 2001 to help shape its North American pursuits.

BK: RCI brought strong management (that is staying), access to a wide variety of GWAC vehicles not held by SERCO, a record of growth and had DoD as its lead customer.

We had met with George Troendle, RCI's President, well in advance of the start of the formal acquisition process. Serco had expressed great interest in the company—RCI fit very well with our strategy for North America.

DM&A: Had SERCO considered any smaller companies?

BK: Our size parameters ranged from \$200 to \$500 million, though we did review several targets below that threshold. For us to have gone to the \$100 million level, the technology differentiators would have had to be that much greater.

DM&A: Where do you expect to see the synergies between RCI and existing SERCO NA operations?

BK: Our strength is in delivering managed services. For example, in the province of Ontario, Canada, we provide driver examination services directly to the public on behalf of the Ministry of Transportation. Where government wants to bring in the private sector to deliver public services, we excel. RCI fits squarely in the this space and adds immeasurably to that brand, now giving us additional technology based capabilities and excellent past performance within DoD.

DM&A: How important is the North American market to SERCO?

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Paul Serotkin is President of Minuteman Ventures, LLC, an investment bank focused on sell- and buy-side M&A for defense and federal technology companies. Reach him at: paulserotkin@minutemanventures.com

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BK: Prior to the RCI transaction, it constituted 5% of global revenue. With RCI, the figures spikes to 12%. [Ed note: based on 2004 revenue as if RCI had been with SERCO the entire year.]

We believe that the U.S. federal market is the fastest growing of any of SERCO's worldwide markets. It is our goal to increase Serco's share of this market so that North America makes up well beyond 12% of our global revenue.

DM&A: RCI has an established brand in human capital management for the federal government, having just won two lots under the DoD's HR Solutions vehicle. How much did that brand factor into RCI's appeal?

BK: The human capital experience is one of the aspects about RCI that particularly appealed to us. Two of the five initiatives under President Bush's Management Agenda are Competitive Sourcing and Human Capital. RCI strongly supports both.

DM&A: How active in North American M&A do you expect SERCO to be from here on?

BK: We are always looking to expand the business, though we will be very selective, as we were this time. [Ed. note: SERCO assiduously reviewed 60 companies over three years before settling on RCI.]

Once the RCI deal is completed and we begin operating together, we will review our North American offering for gaps. Once gaps have been matched to market opportunity, our M&A requirements will fall out. I'd expect that size again will be a determinant for the next deal, staying within the \$200-500 mil-

lion range. However, if we found a smaller company that responds to the opportunity, size will probably be less of a factor than in the RCI transaction.

DM&A: How do you envision the integration of RCI?

BK: SERCO's regional units are somewhat self sufficient. Given that, our optimal route will be to leverage RCI's very mature infrastructure and integrate the SERCO North America operation into those systems. We expect a lot of cost synergies as result. ❖