

INTERVIEW

# George Pedersen

CEO and Chairman  
ManTech International  
Corp.



**DM&A:** *The acquisition of Gray Hawk Systems (completed in May 2005) was ManTech's largest (approximately \$90 million in revenue). Is that a signal that the company will be more attracted to larger transactions?*

GP: We review companies of all sizes, including ones significantly larger than Gray Hawk. Having said that, the most likely targets would be firms in the \$50 to \$100 million revenue range. \$25 million would be on the low side, but if a firm has truly differentiating technology or customers, we'd consider it.

**DM&A:** *How active is the ManTech M&A machine at this time?*

GP: Extremely active! Even though we have completed two acquisitions a year since going public, I am surprised, quite frankly, that we

**G**eorge J. Pedersen, CEO and Chairman of ManTech International (NASDAQ: MANT), has used M&A to maximum effect.

Pedersen, who is also the company's co-founder, has used strategic acquisition as a mechanism for bolstering growth, adding capabilities and customers, and increasing the value of the company since his first acquisition in 1971. Since that time, ManTech has completed over 40 other acquisitions, six of them occurring after the company's IPO in 2002. Consistent with its history, ManTech used much of the capital raised from the public offering to acquire its way into the very lucrative high-end Intelligence and Department of Defense market. Now approaching \$1 billion in revenue, the company boasts a market capitalization of slightly over \$900 million, an astronomical return on Pedersen's initial \$150,000 investment to launch the company in 1968.

ManTech has taken full advantage of the public market and the growth in DoD and Intelligence Community spending. It more than doubled in size from the \$431 million in revenue recorded prior to the IPO.

The public market has taken notice. Since its low near \$11 per share in the summer of 2004, ManTech shares now trade at close to \$30, about a 250% rise in 15 months.

Based in Fairfax, Va., ManTech provides solutions for mission-critical national security programs for the Intelligence Community and the Departments of Defense, State, Homeland Security, Justice and other federal agencies. Over 95% of its revenue comes from the DoD and the Intelligence Community.

Minuteman Ventures' President Paul Serotkin, reporting for **DM&A**, caught up with Pedersen recently.

haven't closed more deals given our focus on external growth. One factor is to find properties in the right sector at the right price. We have a disciplined process through which all deals are filtered.

The transaction must be accretive to earnings within the first year of acquisition, adding an additional filter.

**DM&A:** *What is ManTech's objective for organic vs. external growth as a percent of overall growth?*

GP: We have consistently targeted 12-15% organic growth, which we have been exceeding thus far in 2005. In addition to the organic growth, we generally look to add

acquisition growth that allows us to total over 20% growth annually. Some years we have more acquisition growth than others but overall we look for 20% or better growth.

**DM&A:** *What underpins your confidence that ManTech will continue to be an aggressive buyer in the sector?*

GP: We have significant financial flexibility to complete meaningful acquisitions and the team to find and attract the right targets into ManTech. Our current credit facility has capacity of up to \$200 million and as of June 30 our borrowings were only slightly over \$75 mil-

.....Continued on page 7



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

## George Pedersen

Continued from page 6

lion. Even if we used the whole line, we would still be levered in the 2x Debt/EBITDA range, which is a level we are very comfortable operate at.

M&A is ingrained into the ManTech culture, meaning we understand how to integrate companies for maximum leverage. By and large, our acquired companies have outperformed expectations. M&A success begets more of the same. We told the capital markets what we would be doing in M&A and then went out and successfully did it!

**DM&A: What market sectors is ManTech seeking in acquired firms?**

GP: We will continue to grow in the Intelligence, Defense and Homeland Security related communities and look for firms that provide new or complementary customers and differentiating solutions.

This fits squarely with our efforts starting in 2001 to refocus the business back on our core markets. Now, through acquisition and internal development, some 70% of our 6,000 employees hold secret level clearances and higher. We plan to build on that foundation and continue to reinforce the ManTech brand across the national security and Intelligence Community.

Wall Street certainly likes that strategy, which vindicates our decision. Unfortunately, I believe we are in a '10-20 year war' (regarding the anti-terrorism campaign) and the government will need to continue to push money into solutions like ours that combat this enemy.

**DM&A: What makes ManTech an attractive home to acquired companies?**

GP: They have access to the market power brought by our 6,000 employees and benefit from the clearances held by our people, our diverse capabilities all focused on national security solutions, as well as from our worldwide presence in many countries. Also, we offer professional growth opportunities that they would not necessarily have in a much smaller firm.

Additionally, as you can see from our current senior management staff, it is filled with founders and managers of our previous acquisitions [ManTech President and COO Bob Coleman - formerly IDS founder; ManTech CFO and Corporate VP Kevin Phillips - formerly CTX CFO]. We provide ample opportunity for acquired companies to help drive the organization going forward, which I believe is unique to a larger company like ours.

**DM&A: Generally, or specifically, are there aspects of ManTech's M&A transactions that you would have done differently?**

GP: The deal that brought us MSM Security Services. [Ed. a company that processes investigations for government security clearances, acquired in March 2003.]

Based on an existing contract where ManTech was teamed with MSM, we ramped up our staff sharply and invested \$1.8 million in software to support a request by the customer to increase by tenfold the number of clearances processed each day. It turned out that the government was reorganizing its responsibility for conducting background investigations, making a lot of that investment unimportant. As a

result, ManTech took a \$24 million write-down [Ed. ManTech shares fell sharply after the market understood the financial scope of the problem.]

It was not the wrong acquisition, however. We simply did not anticipate the policy shift that undermined our position in that market.

**DM&A: What advice do you have for CEOs in small and mid-tier government contracting companies seeking to sell their company?**

GP: Make the commitment to sell before you decide to move in that direction. Principals say they want to sell then too often change their minds.

Preparation is key for this exercise as is it for selling to the federal government. Strongly consider retaining an investment bank or broker to help.

Certainly make every effort to understand the M&A market for your company. Too often entrepreneurs note the last big deal completed (often for a firm much larger that commands more market power) and infer M&A deal multiples beyond what the smaller company will attract. You can't know from the press release what diamond the buyer valued in the transaction. Those diamonds drive value.

**DM&A: You've spent most of your life as a CEO of a private company. How have you found being the CEO of public company?**

GP: Going public was the best thing that [ManTech] ever did. The logic to go public when we did was overwhelming. It has given the company enormous resources to grow and create wealth for our shareholders. ♦