

Contact:

Paul Serotkin, President, Minuteman Ventures LLC
781 750-8065, paulserotkin@minutemanventures.com

Chuck Chappell, Director, Washington Operations, Minuteman Ventures LLC
703 842-9536, charleschappell@minutemanventures.com

2005 Review: M&A Market for Federal and Defense Services Steams Onward, According to Minuteman Ventures

Chantilly, Va. and Burlington, Mass., January 11, 2006 - The great consolidation wave in the federal and defense services sector continued throughout 2005.

Seventy-seven (77) sector transactions were completed, compared to 79 in 2004.

“Federal contractors provide vitally important functions for defense and civilian agencies,” said Paul Serotkin, President, Minuteman Ventures LLC, an investment bank focused on federal sector mergers and acquisitions (M&A).

The year ended dramatically with the announcement Dec. 14 by General Dynamics (NYSE:GD) that it would acquire Anteon International (NYSE:ANT) for \$2.1 billion in cash.

Top Tier Continues Move Into IT

Tier 1 (large) military platform and electronics contractors bought businesses in the higher-growth intelligence, technology and outsourcing sectors to offset the pruning of big-ticket weapons programs.

Lockheed Martin (NYSE:LMT) in 2005 acquired Aspen Systems, Coherent Technologies, INSYS Group and The Sytex Group. Further, L-3 Communications (NYSE:LLL) acquired Titan Corporation and DRS Technologies (NYSE:DRS) acquired Engineering Support Services.

Added Chuck Chappell, Director of Washington Operations for Minuteman Ventures, “Conditions remain favorable for contractors in well funded areas such as programs that meet the need for advanced technology integrated across platforms and agencies.”

Smaller Transactions Dominate Volume of Deals

Defense/federal services M&A remained a small and mid-tier market.

Fifty-three (53) out of 77 transactions were for firms with purchase values under \$50 million.

Tier 2, “pure-play” federal services contractors – ManTech International (NASDAQ:MANT), SRA International (NYSE:SRX), CACI International (NYSE:CAI), MTC Technologies (NASDAQ:MTCT), NCI Information Systems (NASDAQ:NCIT) and SI International (NASDAQ:SINT) among them – acquired to sustain public market valuations and to bid on larger procurements.

Notably, buyers paid strong value for firms in intelligence services, homeland security, and mission-critical defense programs.

Small and mid-tier firms were also active acquirers, including these private companies with revenue under \$200 million: Indus Corporation, Inc., Vienna, VA; McDonald Bradley, Inc., Herndon, VA; ICF Consulting, Inc., Fairfax, VA; and ITS Corporation, Oxnard, CA.

Smaller public companies also were active, including Analex (ASE:NLX), SYS Technologies (ASE:SYS), and Applied Signal Technology (NASDAQ:APSG).

Private equity (PE) firms – financial buyers – remained active investors. Thirteen (13) federal services acquisitions were completed by PE groups.

Emerging this year were special purpose acquisition corporations (SPACs), public entities that raise money to acquire companies in a specific industry. New York-based SPAC Federal Services Acquisition Corporation (FSAC) raised \$126 million in an IPO to buy federal services companies.

Large U.K. firms remained active buyers of U.S.-based defense services firms, the most active being BAE Systems, QinetiQ and SERCO.

2006 Outlook – Changing Landscape Alters Consolidation

“Acquisitions continue to deplete the ranks of mid-tier firms and public companies – two types of firms that actively acquire – faster than they are being replenished,” said Serotkin.

At the same time, the large number of smaller companies, the push by platform firms into services, the growing activity of financial buyers, the government’s use of outsourcing and generally positive economic conditions all favor continued sector consolidation.

“Consolidation in 2006 looks to be driven by deals among smaller firms and by larger contractors picking up smaller, niche players,” said Chappell.

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