

GUEST ARTICLE

Defense Technology Services M&A Activity Running Strong

Seven months into 2007, market activity is being propelled by many factors, writes Paul Serotkin, President of Minuteman Ventures.

Seven months into 2007, the M&A market for federal/defense technology services firms remains brisk. While down modestly in total transactions from the corresponding 2006 period, varied circumstances and trends drove many to the deal table. Forty-seven deals have been transacted so far this year v. 48 in 2006. Transactions were completed by a wide breadth of acquirer-types.

At the macro level, federal contractors—mostly larger companies—look to add assets in sectors they expect to be well funded in 2-3 years. Analysts see budget movement toward healthcare consulting and healthcare IT services, as well as the government's increasing need for outsourcing business processes. Another growth area is—and will continue to be—the refurbishment and modernization of battle-worn equipment. Demand for intelligence and security-based companies continues strong as well.

Big splashes were made by several of the sector public companies, who also looked to M&A in light of the

2% decline in federal IT spending in FY 2007 v. the prior year.

Key among them were SRA International (NYSE:SRX), which paid \$185 million for Constella Group, a health care consulting services provider, and Mantech International (NASDAQ:MANT), spending \$195 million

Look for many more sector transactions, given the diversity of the buyer base and the need by public companies to grow their top lines.

for SRS Technologies, which builds the buyer's footprint in high-end intelligence, homeland security and defense markets.

Inveterate federal acquirer SAIC (SAI:NYSE) took on 800-employee Benham Investing Holdings to expand its energy management services penetration. Harris Corp. (HRS:NYSE) bought Multimax for \$400 million while ICF Consulting (ICFI:NASDAQ) completed three transactions for companies with close to 300 employees combined.

CACI International (CAI:NYSE),

one of the M&A stalwarts in the federal sector, wrapped up two deals, including the purchase of \$100 million Wexford International. Stanley (SXE:NYSE) purchased Techrizon as well.

L-1 Identity Solutions (ID:NYSE) continued its rapid penetration in the federal identity and asset management market by paying up to \$72 million for network security firm Advanced Concepts Inc., and McClendon Corp., imagery intelligence specialists. NCI, Inc. (NCIT:NASDAQ) re-entered acquisition mode by purchasing two firms, including San Antonio's Karta Technologies.

Honeywell (HON:NYSE) acquired defense logistics leader Dimensions International for \$230 million.

Dimensions provides logistics support for the U.S. Army, Navy, Air Force, Marine Corps, Coast Guard and other defense agencies located at military facilities in the Middle East and throughout the world.

Small Business Rule Changes as M&A Driver

New rules took effect July 1, 2007 regarding the re-certification of smaller companies as 'small businesses' under government definition. Before that date, the government allowed the 'non-small' business to continue working previously awarded small business set aside contracts after the transaction. Under the new rule, the combined entity must

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certify as a 'small business' within 30 days of the transaction, which will cause some companies to lose their funding.

The effect: federal agencies can still use that contractor for tasking but can no longer take valuable small business credits toward meeting their small business contracting goals. The June 30th

tractors. QinetiQ subsidiary Apogen acquired \$33 million 3H Technologies on June 27, perhaps another deal timed to beat the small business rule change date.

VT Group, an active U.S. acquirer, picked up Milcom Systems in February, for its U.S. segment, VT Services.

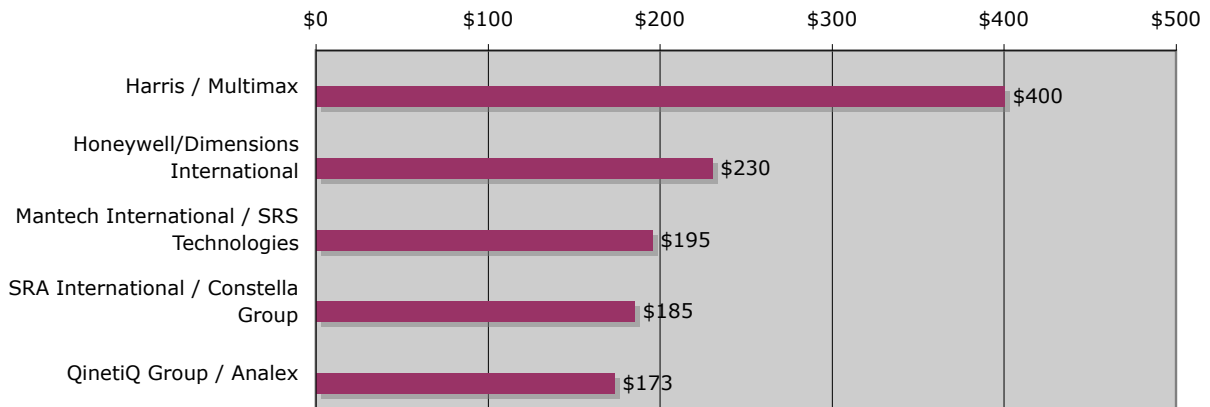
Interests Security Co. L.L.C. (NISC).

IT Solutions, backed by Edgewater Funds, acquired ITEQ Integrated Technologies.

SPAC Deal

ATS Corporation, the federal platform company launched in an IPO in October 2005, acquired Reliable Integration Services. ATS grew out

Largest Federal/Defense Technology Services Transactions, FY 2007 through July 31



rush saw SI International purchase Logtec International, a respected Dayton-based IT heavyweight in Air Force markets with significant small business revenue whose value might have diminished if the deal closed 38 days later.

The "Pond" Keeps Coming

The trend of UK companies launching and growing US services units keeps surging.

UK-headquartered QinetiQ Group continued to ramp up its US visibility by acquiring ITS Corporation and Analex Corporation, two well positioned federal technology con-

Equity Firms Still Like the Federal IT Market

Private equity firms continue to enter and grow their federal services portfolios, both directly and through their platform companies.

DC Capital Partners, headquartered in Washington, DC, invests primarily in the defense and federal sectors. On July 25, DC Capital Partners completed the acquisitions of Omen, Inc.; Global Analytic IT Services, Inc.'s intelligence services division; and Technology and Management Services, Inc. The acquired businesses, now a 350 person firm, will operate under the name National

of a funded SPAC. SPACs are non-operational entities that raise funds in public markets to invest in a given industry sector. This SPAC was formed by the venerable CM Equity, which backed ICF International and several other federal properties.

Outlook

Look for many more sector transactions, given the diversity of the buyer base and the need by public companies to grow their top lines. Any 'post-Iraq' plan might also accelerate deal-making for companies best suited to facilitate redeployment of troops and equipment.