

# On sale now

## UK companies have tried to reduce costs as contractors have reshuffled portfolios to make the best of a difficult market, according to IHS Jane's and Grant Thornton's review of M&A activity in January and February 2011. Guy Anderson and Ian Wilson report

**E**fforts by larger contractors to reshuffle portfolios amid challenging market conditions continued to drive mergers and acquisitions (M&A) activity in the defence domain during the first eight weeks of the year.

In particular, UK firms pursued sold-off subsidiaries in low-growth areas and shaved costs at home in parallel with a strategy of growth in higher priority areas, notably the intelligence and C4ISR markets in the US.

Such investments continued to create opportunities for lower-tier buyers and private equity firms, with a degree of consolidation still evident below the level of the primes.

*Jane's* tracked 29 publicly disclosed transactions during the eight weeks compared with 40 transactions during the final three months of

2010 as a whole. The volume of transactions between 1 January and 28 February was comfortably ahead of each quarter of 2009, when uncertain market conditions and poor economic conditions contributed to a deal drought.

Activity over the first two months of 2011 was characterised by small in-fill acquisitions. However, the total disclosed value of deals stood at just USD1.8 billion compared to USD4.8 billion during the fourth quarter of 2010. Transformational activity was scarce, with only the UK company Meggitt's proposed buy-out of Pacific Scientific Aerospace (valued at USD685 million) breaking the USD500 million barrier during the period.

The relatively small-scale activity was reflected in the market sectors targeted, with the purchase of sub-systems and components manu-

facturers, particularly in the aerospace domains, accounting for 32 per cent of transactions.

There have been strong parallels between the strategies employed by UK market leaders such as BAE Systems, Meggitt and Cobham.

All have acted to reduce costs in the home markets; Cobham and Meggitt are seeking savings of USD48 million and USD93 million respectively in 2011 while BAE Systems axed about 4,000 UK jobs last year. Cobham and BAE Systems have also actively pursued a strategy of divesting non-core interests. Cobham sold its UK Engineering Consultancy Group to its management team while BAE Systems cut loose its Swiss-Photonics subsidiary during the last eight weeks and withdrew its US Platform Solutions business from sale.

However, the three UK firms, plus stablemate Ultra Electronics, have made strong inroads into international markets during 2011.

Meggitt added US aerospace components firm Pacific Scientific Aerospace to its portfolio in January; BAE Systems re-bought US C4ISR operation Fairchild Imaging and purchased Irish cyber security group Norkom. Meanwhile, Cobham took over German robot ground vehicles manufacturer Telerob and US surveillance technology operation Corp Ten International.

Ultra Electronics, which told *Jane's* in January that it expected to pump GBP100 million into acquisitions this year, bought US secure communications group 3e Technologies International.

**Guy Anderson** is the editor and lead analyst of the *Jane's Defence Industry* division of *IHS Jane's*. **Ian Wilson** is corporate finance partner and aerospace and defence sector leader within Grant Thornton UK LLP. He advises on mergers and acquisitions transactions, recapitalisations and buyouts

## Market intelligence: signposts from January and February 2011

**Israel Military Industries (Israel)** State-owned Israel Military Industries (IMI) and Israeli stablemate Rafael are heading towards a merger creating a USD2.2 billion venture with 9,000 employees. The fate of IMI has been under discussion for a number of years. Both Elbit Systems and Israel Aerospace Industries are likely to lobby for the right to take parts of IMI.

**Saab (Sweden)** The Swedish group said it will continue a strategy of divesting non-core business units, but there are no

plans to sell off whole divisions, CEO Hakan Bushke told *Jane's*.

**Ultra Electronics (UK)** Following a two-year hiatus, Ultra is to re-enter the acquisitions fray with new credit lines valued at GBP100 million underpinning the push, according to Chief Executive Douglas Caster told *Jane's*. The group has made 41 acquisitions since 1995.

**Cobham (UK)** The UK group is continuing to explore the acquisition of targets in the

unmanned systems and C4ISR segments, particularly in the US. A strategy of exiting from "sub-scale" businesses is also likely to continue, the company said.

**United Aircraft Corporation (Russia)** UAC will not move towards an initial public offering in 2011 while the prospects for a listing in 2012 also appear bleak, the company told *Jane's*. The company behind MiG, Sukhoi and Tupolev has been expected to list since 2006. The Russian state holds the bulk of shares.

# BRIEFING

## M&A JANUARY AND FEBRUARY 2011 ANALYSIS

### Deal Focus BAE Systems takes back Fairchild

**21 January:** BAE Systems agreed to re-acquire US electronic imaging specialist Fairchild Imaging, which it sold to private equity firm The Carlyle Group in 2001, for USD86 million in cash.

BAE Systems retained a stake of 8.7 per cent in Fairchild following the original sale and, in addition to Carlyle's holding, it will be buying the stakes held by Fairchild employees.

Fairchild employs 150 people and returned sales of USD42.6 million in 2009. It previously traded as BAE Systems Imaging Sensors prior to the 2001 spin off, a move attributed at the time to BAE Sys-

tems North America's strategy of focusing on its then core business of aerospace. The price paid by Carlyle was never disclosed.

Fairchild has been owned some of the biggest names in the defence industry since the 1980s including Loral, Lockheed Martin and British Aerospace - prior to the formation of BAE Systems.

**Significance / outlook**

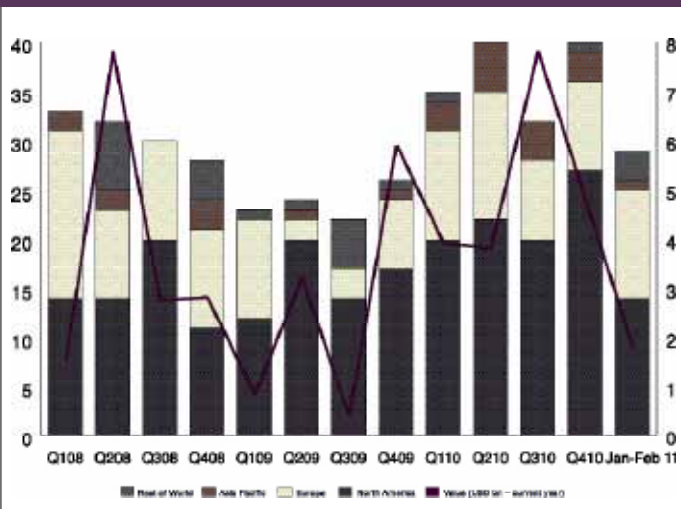
The buy-back said much about BAE Systems current strategy. A strong push for growth has been notable in recent weeks, with an agreement to buy

Norkom Group earlier in January and Oasys Technology in October 2010.

The purchases of Norkom and Fairchild point to a strategy of buying companies with exposure to adjacent markets to defence.

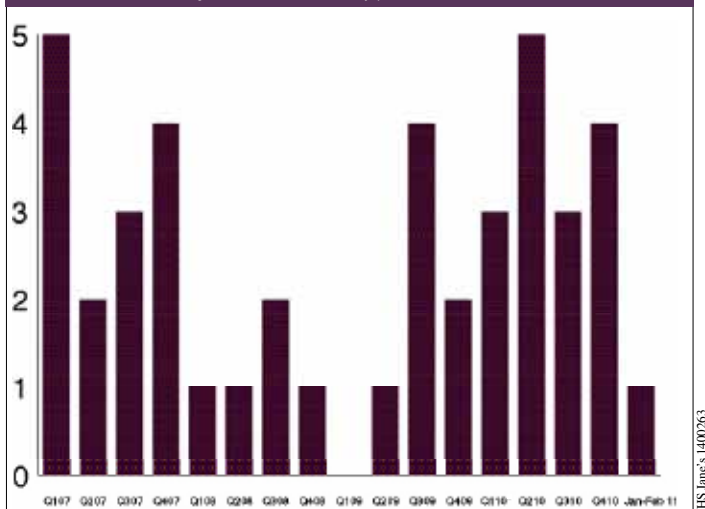
Fairchild serves commercial aerospace, industrial and medical markets, while Norkom provides cyber security solutions for financial services organisations. Additionally, both Oasys Technology and Fairchild have exposure to the US electronic imaging domains and are therefore likely to prove complementary.

#### Defence sector M&A activity: volume/value



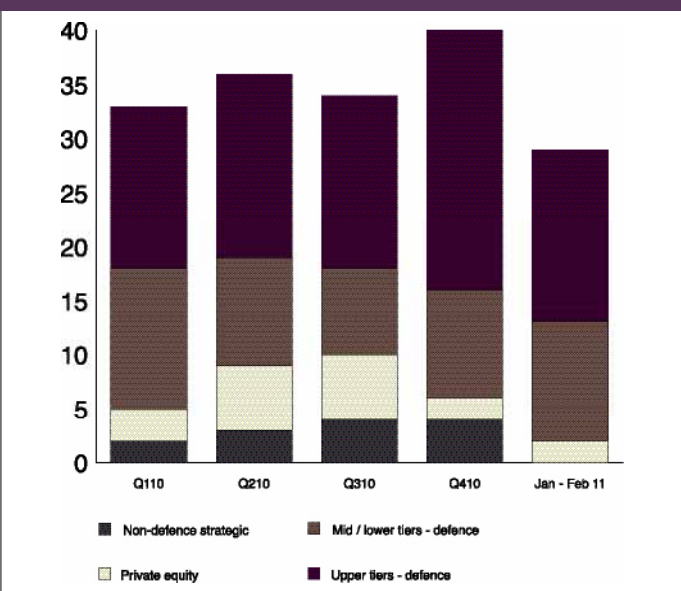
#### Transformational deal activity

Transactions with a disclosed value greater than USD500 - volume by quarter



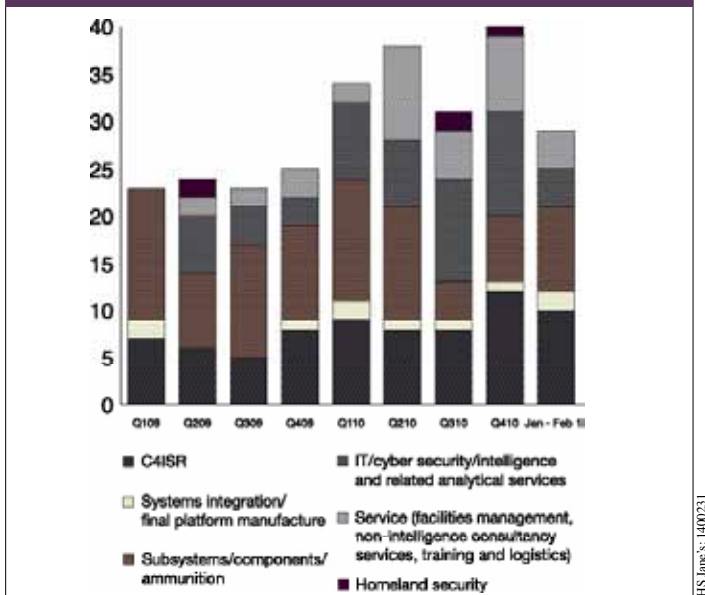
#### Transaction by profile of buyer

Volume of deals



#### Transactions by market sector of target

Volume of deals



IHS Jane's: 1400232

IHS Jane's: 1400263

IHS Jane's: 1400230

IHS Jane's: 1400231

# BRIEFING

## Defence sector M&A: January – February 2011

Buyer	Buyer country	Target name
Rheinmetall	Germany	Verseidag Ballistic Protection
DRS Sonar Systems	United States	Advanced Acoustic Concepts (AAC)
Cubic Corporation	United States	XIO Strategies
Saab	Sweden	E-COM
RUAG	Switzerland	Base Ten Systems and Electronics
Rheinmetall	Germany	ADS Gesellschaft für aktive Schutzsysteme
Mobilarm	Australia	Marine Rescue Technologies
Washington Technologies	United States	Washington Precision Engineering
CAE Inc	Canada	RTI International Technology Assisted Learning
Lindsay Goldberg	United States	Pacific Architects and Engineers (PAE) - Lockheed Martin subsidiary
Man Tech	United States	Tran Tech
Curtiss-Wright Corporation	United States	BASF Surface Technologies
Meggitt	United Kingdom	Pacific Scientific Aerospace
BAE Systems	United Kingdom	Norkom Group
Kratos Defense and Security	United States	Herley Industries
Esterline	United States	Eclipse Electronic Systems
Cobham	United Kingdom	Telerob
Elbit Systems	Israel	Elisra Electronic Systems
Ultra Electronics	United Kingdom	3e Technologies International
API Technologies Corporation	United States	SenDEC Corporation
Cobham	United Kingdom	Corp Ten International
[Existing management team plus private equity input]	United Kingdom	Cobham Engineering Consultancy Group
Elbit Systems	Israel	Pearls of Wisdom Advanced Technologies
Curtiss-Wright Corporation	United States	Predator Systems Incorporated (PSI)
Forensic Technology WAI Inc	Canada	Swiss-Photonics AG
Elbit Systems	Israel	ITL Optronics
Singapore Technologies Engineering	Singapore	PM-B
Quadnetics Group	United Kingdom	Persides Technology Limited
BAE Systems	United Kingdom	Fairchild Imaging

Market sector of target	Country of target	Value (US\$m)	Target revenue (US\$m - last full year)	Value - EBITDA multiple
Land systems - armouring services	Germany	N/D	N/A	N/A
Underwater systems for naval markets	United States	N/D	N/A	N/A
Military services provider - logistics	United States	N/D	N/A	N/A
Simulation and training	Czech Republic	N/A	N/A	N/A
Military electronics - robotics technologies	Germany	N/A	N/A	N/A
Military vehicles active protection technologies	Germany	N/A	N/A	N/A
Marine safety technologies	United Kingdom	N/A	N/A	N/A
Aerospace manufacturing services	United Kingdom	N/A	2.3	N/A
Simulation and training	United States	N/A	N/A	N/A
Mission readiness and disaster relief services	United States	N/A	N/A	N/A
Cyber security	United States	N/A	N/A	N/A
Aerospace subsystems / services	United States	N/A	29	N/A
Aerospace components and services - military and commercial	United States	685.0	378.0	8.7
Cyber security / counter-fraud software	Ireland	290.4	67.0	20.7
Aerospace - microwave technologies	United States	270	188	16
C4ISR - signals intelligence architecture for aerospace systems	United States	120.0	N/A	N/A
Unmanned ground systems - ordnance disposal robots	Germany	104	N/A	N/A
C4ISR - electronic warfare systems	Israel	67.5	N/A	N/A
Cyber security / secure communications	United States	30.0	29.1	N/A
C4ISR - military electronics	United States	30.0	131.5	8.3
C4ISR	United States	24	N/A	N/A
Consultancy services - engineering	United Kingdom	21.8	N/A	N/A
C4ISR - sensor systems for unmanned aerial vehicles	Israel	18.0	N/A	N/A
Aerospace and ordnance subsystems - motion control	United States	13.3	8.0	N/A
Electro-optical systems	Switzerland	10.9	8.3	N/A
Electro-optical systems	Israel	5.31	20	N/A
Cyber security	Singapore	1.5	N/A	N/A
C4ISR - battlefield electronic monitoring systems	United Kingdom	0.4	N/A	N/A
C4ISR	United States	86	43	N/A