

# Mergers, Acquisitions and Small Business

Howland – May 2008



# Background

## Current

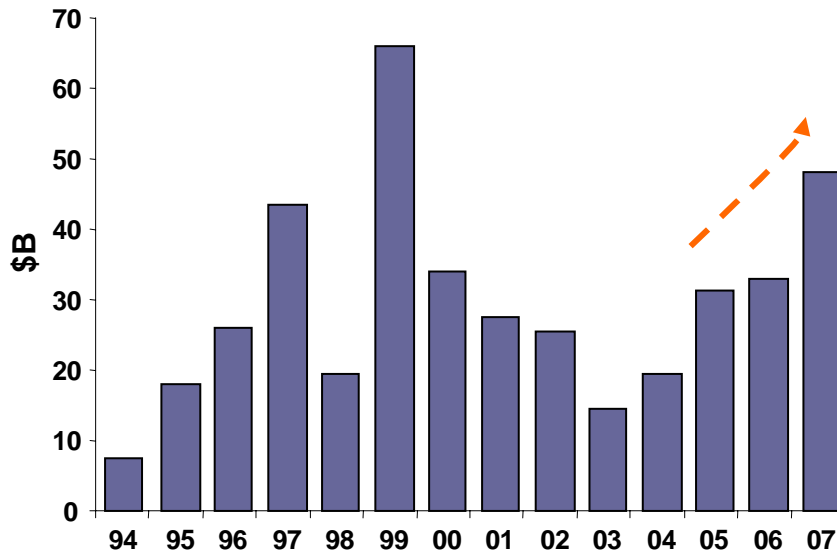
- **Director and GM, Retail Division, BAE Systems Products Group**
- **Formerly Armor Holdings Products Group**
- **Retail Portfolio includes:**
  - *Hatch* law enforcement and military gloves
  - *Hiatt* handcuff and restraints
  - *Protech* tactical apparel
  - *Kleenbore, Break-Free, B-Square, Speedfeed* weapon accessories
- **All were small business acquired between 1996 and 2006**

## Past

- **Co-led M&A practice for DFI International (now Avascent Group)**
  - Advised defense services firm on Mod&Sim small business acquisitions
  - Advised large defense electronics firm on services acquisition
- **Strategy and M&A at Raytheon Company**
  - Led acquisition of UTD, a small business in intelligence services
- **Navy Surface Warfare Officer** (stationed at 32<sup>nd</sup> Street)

# Current Trends in M&A

## Estimated Defense M&A Deal Volume

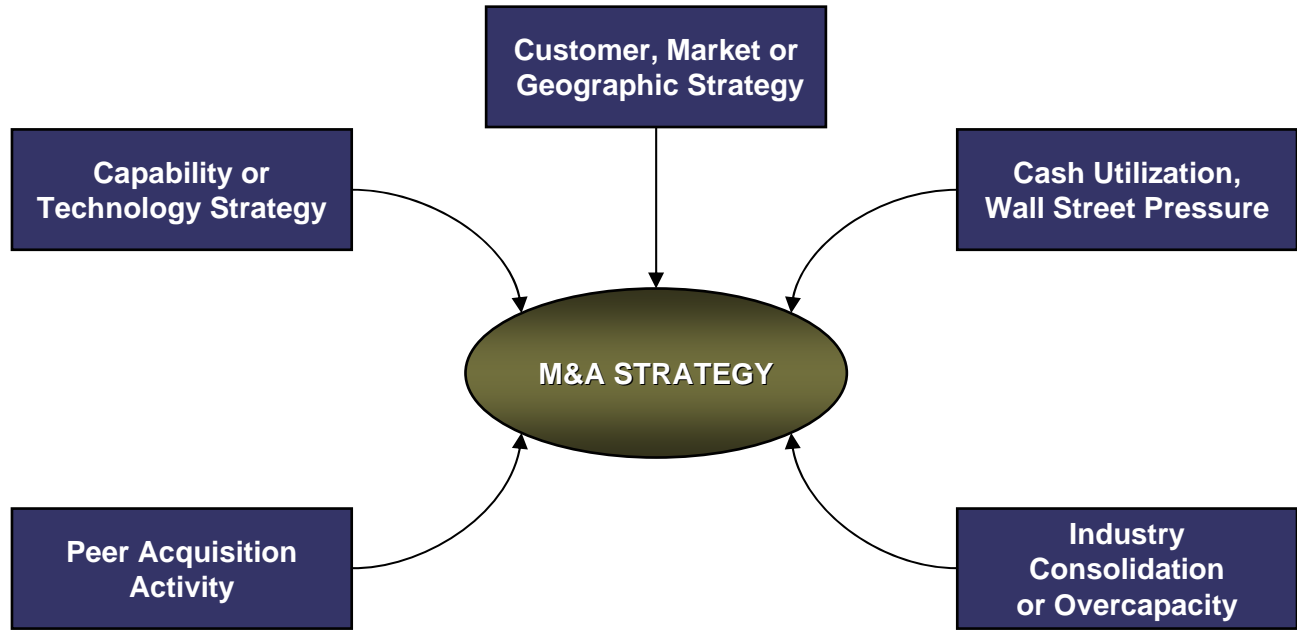


Source: Infobase DM&A articles, projections

## Analysis

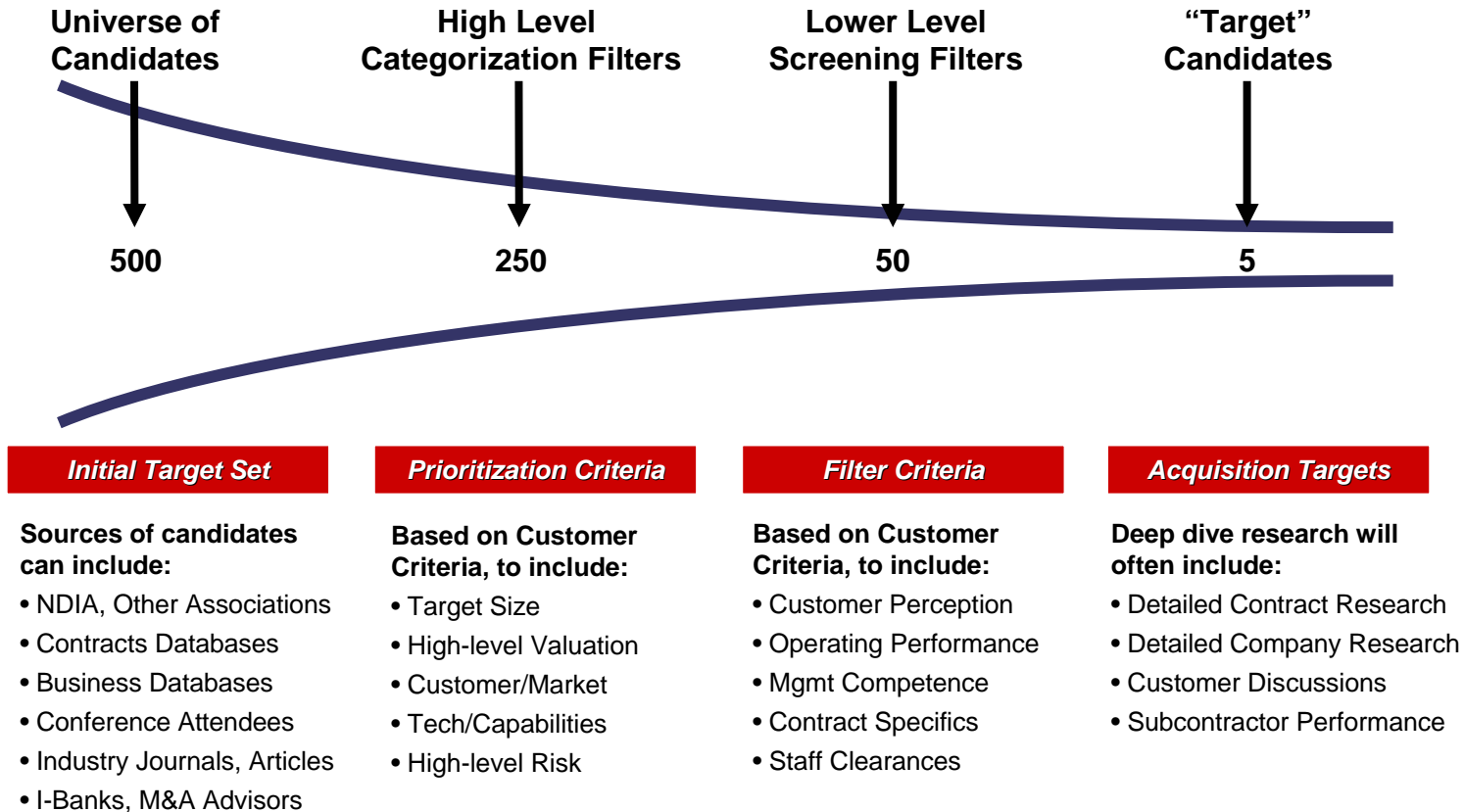
- Large deals drove the volume in 2007
  - Armor Holdings
  - Washington Group
  - Smiths
  - Raytheon Aircraft
- As expected, foreign firms (led by the UK) were prolific acquirers, directly or via new U.S. platforms
  - BAE Systems
  - QinetiQ
  - Meggitt
  - VT Group
- Logistics and high-end product support services became sought after in FY07
  - As did key component manufacturers down the supply chain

# 5 Key Factors Drive Prime M&A Strategies



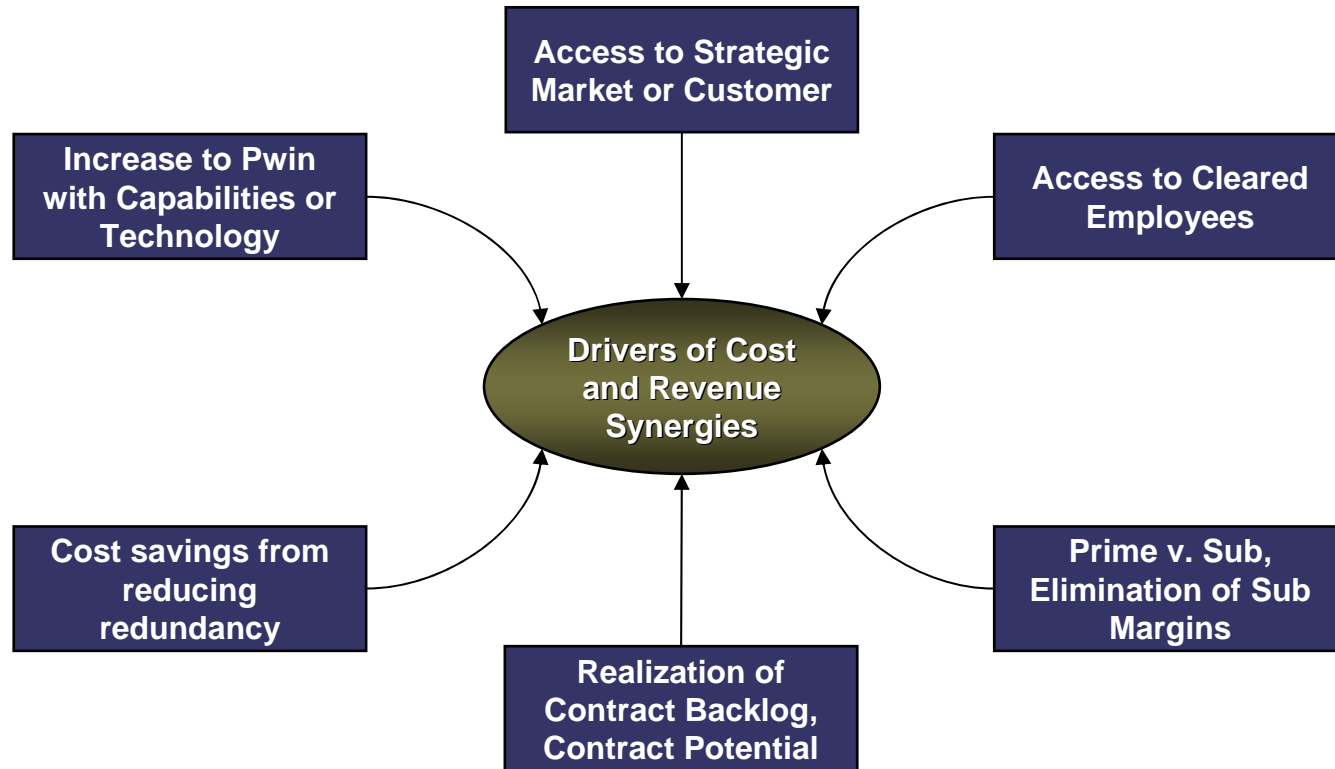
**Example M&A strategy: Aggressive entry into Chem/Bio detection through fold-in acquisitions of leading CBRNE R&D firms in the \$50-\$100M revenue range**

# Ways that Primes Screen Candidates



**Will also find candidates through teaming, subcontracting, competitions or personal relationships ... these candidates usually bypass the screening**

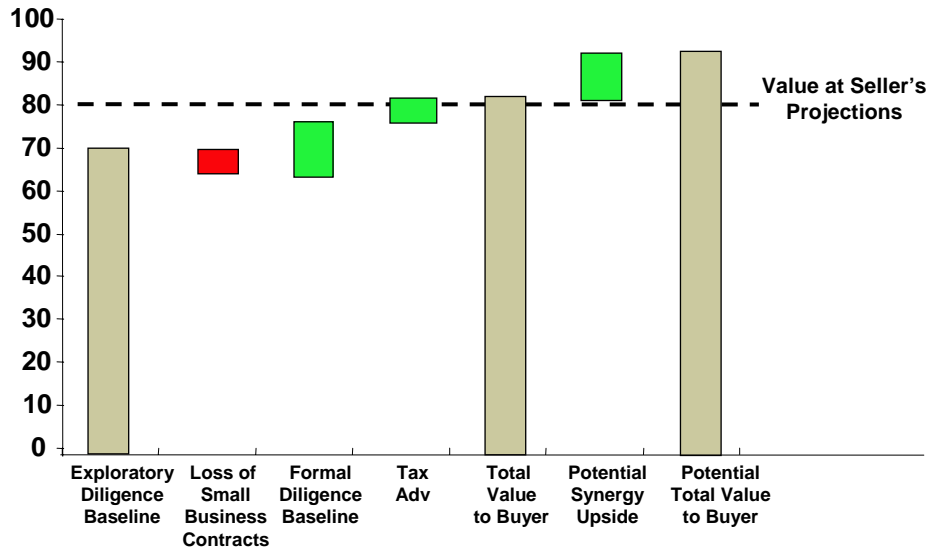
# Factors in Exploratory Diligence



**Buyers or their consultants will draft an “Investment Thesis” focusing on strategic fit and value for executive level and/or Board level decision-making**

# Factors in Valuations

## Hypothetical Prime Valuation Scenario \*



\* Based on ranges set by Trading multiples, Comparable Transaction multiples, complex NPV analyses

## Factors in Valuation

- *Contracts* (full value, life, backlog, EACs, Prime v. Sub) to determine sustainability, risks, opportunities, including value of small business contracts
- *Customer base and relationships* to determine risks and opportunities
- *Capabilities and Technologies* (including IP and staff clearances) to quantify potential revenue synergies by allowing additional opportunity or raising capture probabilities
- *Financial metrics* (rates, book-to-bill ratios, revenue growth, margins, cash flow) to generate valuation model assumptions
- *Leadership/Management* to include analysis of a firm's cultural characteristics and the incentives offered to employees

The final price is a combination of a number of factors: target baseline value, synergy value, intensity of competition, what a target is willing to accept, etc.

# Summary and Key Points

- **Get into key market niches within the larger markets Primes are targeting**
- **Once there, get yourself known**
- **Work closely with the primes in these markets and develop your company relationship with key customers**
  - Operational excellence and intimacy with a desirable customer set are the best ways to sell yourself
- **Transition your small business contracts where possible**
  - Besides allowing the Buyer to factor the full value of the contract into the valuation, it demonstrates the customer's reliance on your services
- **Ensure you have a compatible company culture and are not overly reliant on key management or personnel**
  - Don't be the firm that attracts employees with "off the wall" incentives that will not be replicable under a public company, compliance culture



# Contact Information

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**Nick Howland**

**Office: 904 - 807- 4943**

**Mobile: 904 - 525 - 1761**

**E-mail: [nick.howland@baesystems.com](mailto:nick.howland@baesystems.com)**