

Welcome aboard!

Why mergers and acquisitions play a part in IDS' growth plans

By Stanley Holmes

The days of the blockbuster mergers of aerospace and defense giants may have come to an end for now. But smaller deals are still happening. In fact, Boeing last year closed on six targeted acquisitions that bolstered Integrated Defense Systems' capabilities and remains in the market for deals that fit IDS' carefully calibrated growth strategy.

The common thread that ties these deals together: relatively small companies selected for their products, their position in growing markets, and the incredible talent and customer knowledge of their people.

Mergers and acquisitions will continue to be an element of the IDS growth strategy, IDS executives said. "All of these acquisitions are tied to our strategy of becoming more vertically integrated and also moving into adjacencies that we think will grow faster than the rest of the (U.S.) defense budget," said Jim Albaugh, IDS president and CEO.

A good example is the purchase of Insitu Inc., makers of the ScanEagle, a leading tactical unmanned aerial vehicle. Given the constrained budgets and needs of customers, demand for unmanned aerial vehicles is expected to continue to develop and

The U.S. Marines use the ScanEagle unmanned aerial vehicle in Iraq. Boeing and Insitu, which Boeing has acquired, developed and built ScanEagle, which serves intelligence, surveillance and reconnaissance needs. U.S. MARINES





Integrated Defense Systems has sought smaller firms that can “augment and accelerate strategies and customer intimacy,” says Chris Raymond, vice president of Business Development.

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grow. “We wanted to have an internal capability and a strong established position with customers,” Albaugh said.

The other five companies fall into the intelligence, command and control and logistics markets. Tapestry Solutions, Federated Software, RavenWing, Kestrel Enterprises and Digital Receiver Technology are known for their robust software capabilities and knowledge of key customers. Boeing officials said they believe these markets will also grow faster than the U.S. defense budget.

M&A activities for Boeing are conducted in partnership between the business units and corporate Business Development and Strategy, led by Mike Cave. “Our role is to support the businesses with a centrally managed, repeatable process that evaluates, values, conducts due diligence, negotiates and closes transactions,” said Cave. “We help marry our functional expertise with business unit strategies, ultimately to strengthen the company’s overall competitive position.”

As IDS and Boeing’s corporate M&A team built a pipeline of roughly 70 candidate companies worldwide, a close collaboration developed between the two groups in identifying priority markets to pursue growth. It is a marked improvement from how Boeing evaluated companies in the past, said Joe Lower, vice president, Corporate & Strategic Development. It all starts with a strategy. “What really changed in the past 18 months is that IDS identified markets that were priorities for growth, and we worked together to pursue targets that could address needed capabilities or customer access,” Lower said. “This is not a single-company approach, but rather a market-based pursuit.”

Corporate Development works closely with Chris Raymond, vice president of Business Development for IDS, and his team, led by Bill Bonadio. The two groups sift through the candidate companies. If they agree there is a fit, then Corporate Development actively pursues the targeted company. “It is almost a seamless transitioning team,” Lower said. “It’s a highly integrated, coordinated approach.” And one that appears to be helping position IDS in key growth markets.

Boeing Frontiers caught up with Raymond, one of the architects of the strategy, to learn more about this new M&A approach.

Q: Why are mergers and acquisitions an important part of the IDS growth strategy?

A: As we looked at our future, we realized we needed to more actively pursue adjacent markets and select vertical capability. M&A is a great way to accelerate strategies; I don’t think M&A is in itself a strategy. When you have a market-based strategy, then M&A is a great way to more quickly gain the needed people and products. Internally generated, or organic, growth is always our priority, but M&A is a great way to augment that growth and accelerate it.

Q: The six acquisitions closed in 2008 serve different defense-related markets. Explain the common theme behind these acquisitions.

A: We wanted to selectively get more vertically integrated in some areas and move more quickly into adjacencies. We started taking a harder look at some companies in the unmanned market, in the intelligence market, and in the services and logistics market. Those were adjacent areas we identified as having higher interest to us. They’re also areas where we thought we could accelerate our strategy via acquisitions for the products those companies have—and for the people and customer intimacy they have.

Q: These firms are generally smaller-size companies, rather than big mergers. It seems that for the IDS strategy, less is more.

A: That is certainly true in our case. The approach has been to acquire smaller companies that can augment and accelerate strategies and customer intimacy. And then what we have to work hard on bringing those companies into Boeing in a way that we get the appropriate amount of integration—but, at the same time, not integrating them so fully that we destroy or constrain the intellectual property we wanted to gain in the first place.

Q: How does today's recession affect opportunities for further acquisitions?

A: On the opportunity side, valuations have probably come down in certain markets, in others they have not come down as much as you might think. But I believe that's the result of the big aerospace companies having strong enough balance sheets, coming out of this last business cycle, to still pursue acquisitions, at least at the smaller to mid-tier level.

Obviously a large acquisition is a different issue. Everybody is going to be more thoughtful about that at a time when their financial liquidity is more constrained.

I think the smaller to mid-tier players, when you see something that can help augment a market strategy or accelerate a market strategy, will remain fairly active. So the valuations may not have come down as much as you would think in spaces like intelligence, cyber security and even unmanned vehicles, because everybody is looking at those as future growth areas. As long as it is not breaking the bank, there is still a fair amount of interest from potential buyers.

Q: How many companies do you consider as potential merger or acquisition candidates at any one time?

A: We probably went from not having a pipeline 18 months ago to maybe 60 to 70 companies we might be interested in.

Obviously, you want strategy to drive the potential acquisitions. They have to fit with our strategic growth plan. Occasionally, a company comes from out of the blue and you want to use your strategy as the filter, because you may have to move fast.

Q: Are you mostly looking at U.S. companies?

A: It is mostly U.S. at this point. We try to keep track of the international companies, and we are working to further build the international pipeline.


Q: How does IDS make sure its acquisitions turn out to be to be successful?


A: Appropriate integration is very important. I think first and foremost we don't want to do anything that can erode the innovation and customer intimacy they have. But the key is making sure that they get attached to an IDS business and that their work force is brought in not only for their current portfolio, but to integrate the team and their know-how for other areas of growth in that business. They already have a lot of customer intimacy and knowledge that we may not have had as deeply. ■

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Added to the roster

Here's a look at the companies Boeing acquired in 2008 to boost Integrated Defense Systems' capabilities.

 **RavenWing Inc.:** Provides mission critical information technology to the intelligence community, U.S. Special Operations Command and the U.S. Department of Defense.

 **Insitu Inc.:** Holds a leading position in the small tactical unmanned aerial vehicle market and makes the ScanEagle, a leading light-weight UAV. The transaction accelerates Boeing's unmanned vehicle strategy, which IDS targeted as a rapidly growing market to pursue.

 **Digital Receiver Technology Inc.:** Is a leading supplier of tactical signal intelligence, or SIGINT, equipment to the U.S. government. This acquisition supports the IDS strategy to further penetrate the command, control, communications, intelligence, surveillance and reconnaissance market by adding key capabilities in digital signal processing hardware and software for wireless surveillance.

 **Tapestry Solutions Inc.:** Specializes in services and software systems that improve the tracking and distribution of equipment, spare parts and personnel for the U.S. Department of Defense and other government agencies.

 **Federated Software Group Inc.:** Represents another key piece of the IDS strategy to penetrate the logistics command and control market and build capabilities that complement Tapestry Solutions.

 **Kestrel Enterprises Inc. and Skarven Enterprises Inc.:** These companies, which are jointly owned and operated entities, provide mission-critical information technology to the U.S. intelligence community and certain U.S. defense contractors. They provide data fusion and information sharing capabilities that allow real time processing of massive amounts of streaming data.