

By Marc Raybin
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Defensive Investing

Not a day goes by in the news when we are not given the latest update on something either directly involved in or related to national defense, homeland security or fighting terrorism. With the government pouring billions of dollars into the sector, it is little wonder private equity has targeted the space as one of the places to invest.

According to **Gregg Smith, the former principal investment banker for military contractor The Prince Group, the aerospace and defense sector has changed greatly in the last few years. It is no longer just about fighting terrorism. Rather, it is now looked at as the defense, homeland security and stability sector. Smith is now a senior managing director with restructuring and crisis management firm Conway MacKenzie.**

Smith points to the worldwide threat of terrorism, tension in the Middle East, piracy issues in Somalia, African civil unrest, Mexican drug violence and border control as being included in the basket of this sector.

“If you put all of those together, you’ve got infrastructure issues all over the world,” Smith says. “When you put most of those things together . . . there is a lot to do.

“It is a broad, broad area and there are a lot of different ways to invest in it.”

Private equity has recognized this for the last few years and has been pouring some of its own money into the sector as well.

According to numbers provided by Capital IQ, in the last three years, billions of private equity dollars have been invested in the sector. In 2007, there were 33 deals in the aerospace and defense sector valued at nearly \$2.5 billion. The next year had 28 deals valued at \$645 million. Not surprisingly, last year had the fewest number of transactions with 19, however, the industry invested the most amount of capital at nearly \$3.4 billion.

Corporate America has a long history of supplying the U.S. with goods and services in the name of defense - everything from bullets to Jeeps.

At the end of January, DC Capital Partners agreed to sell portfolio company National Interest Security Co. (NISC) to IBM for an undisclosed sum. In announcing the deal, IBM said it would use NISC to strengthen its IT solutions to the public sector, citing the company’s expertise in working with federal agencies.

Fairfax, Va.-based NISC provides information technology, management and consulting services and solutions in support of national security. The company works with the Departments of Defense, Homeland Security and Energy. The company provides systems engineering, cyber security, biometrics, as well as decision support, intelligence operations and infrastructure protection. The company has more than 1,000 employees, most of whom hold high-level security clearances.

NISC's expertise fall into the ISR category – intelligence, surveillance and reconnaissance, an exciting part of the sector, Smith says.

“It is enormous right now,” he says. “Obviously, if we don't get it right, cyber-security is a threat to shutdown systems all over the country. There is a lot of money going into that.”

Smith says this is a particular area in which private equity can invest. The future, he says, is bright for investment.

He says the space is highly fragmented and therefore ripe for consolidation – exactly what private equity investors want to see.

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