

Appendix 5B. Major arms industry acquisitions, 2010

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I. Introduction

Large-scale merger and acquisition deals returned to the arms industry in 2010. While there were no deals with a value of over \$1 billion (known as ‘mega-deals’) in 2009, there were three in 2010. The trends for arms producers to acquire cybersecurity, intelligence and military services firms continued in 2010. In addition to acquisitions within and between the major industrialized countries that are members of the Organisation for Economic Co-operation and Development (OECD), companies based in non-OECD countries such as India and the United Arab Emirates (UAE) made several notable purchases in the United States and Western Europe.

This appendix surveys significant merger and acquisition activity in the arms industry in 2010. Section II examines those companies based in OECD member states, while section III addresses those based in other countries.

II. Acquisitions by companies based in OECD countries

Table 5B.1 presents the major arms industry acquisitions completed by companies based in OECD countries. Large arms producers drove the merger and acquisition activity in the United States and Western Europe. Some acquired smaller companies that are expected to fill gaps in product lines or to allow the new owner to develop specific capabilities; other companies made acquisitions that give them access to growing markets; and some sales were made in order to divest non-core assets. These three trends are illustrated by Harris’s acquisition of Global Connectivity Services to develop its capabilities for satellite communication services in remote and harsh environments; Boeing’s acquisition of Argon ST, a service provider operating in the rising cybersecurity and intelligence markets; and Honeywell’s sale of its civil automotive on-board sensor business to the Netherlands-based firm Sensata Technologies.¹

The majority of the arms industry transactions within the OECD with disclosed deal values of \$100 million or more took place in the USA, mainly between US companies. The largest transaction in 2010 was the purchase by United Kingdom-based Babcock International Group of VT Group for £1.33 billion (\$2 billion). The combined annual revenues of VT and Babcock are

¹ Wagstaff-Smith, K., ‘Harris boosts capabilities with satellite communications acquisition’, *Jane’s Defence Industry*, 9 Nov. 2010; Anderson, G., ‘Boeing remains open to C4ISR, cybersecurity acquisitions’, *Jane’s Defence Industry*, 20 July 2010; and Honeywell, ‘Honeywell reaches agreement to sell automotive on board sensor products business to Sensata Technologies’, Press release, 28 Oct. 2010, <<http://www51.honeywell.com/honeywell/news-events/press-releases-details/10.28.10SensataTechnologies.html>>.

expected to be approximately £3 billion (\$4.5 billion).² A key motivation for Babcock is access to the US market, as VT's US operations generated 28 per cent of its total revenues in 2009.³ Apart from this acquisition, there were no major deals leading to further concentration among the largest arms producers in the US and West European arms industries—all other deals were acquisitions of smaller companies. It is possible that the current activity indicates that the arms industry is recomposing itself by expanding beyond the traditional arms market with strategic acquisitions of cybersecurity firms or biometric solutions providers, for example.

As in recent years, in 2010 Israeli companies continued their acquisition strategies of making purchases in Israel and the USA. Reflecting a broader trend, acquisitions in high-technology domains—such as command, control, communications, computers, intelligence, surveillance and reconnaissance (C⁴ISR) and space—were at the forefront. Gilat Satellite Networks acquired the US-based Wavestream Corporation, which is expected to facilitate Gilat's access to contracts with the US Department of Defense.⁴ Elbit Systems purchased the four C⁴ISR-related subsidiaries of Mikal and added the aerospace maintenance and services firm M7 Aerospace to its US subsidiary Elbit Systems of America.⁵ Elbit Systems also increased its presence in South America with the acquisition of Brazilian defence electronics firm Ares Aeroespacial e Defesa and Periscópio Equipamentos Optrônicos.⁶

Acquisitions in the security industry

Continuing a trend highlighted in 2009, arms producers continued to make acquisitions in the wider security industry in 2010, in expectation of growth in the demand for security services and products.⁷ These can be as diverse as alarm systems, electronic access control and biometrics, and surveillance and security consulting sold to governmental institutions (e.g. law-enforcement and intelligence agencies and the military) or private actors.

A significant number of the mergers and acquisitions in 2010 involved acquisitions of cyber security and intelligence services companies.⁸ The markets for these services have been flagged as priority-spending areas in the USA, the UK and elsewhere.⁹ Major arms producers (or their subsidiaries) such as Boeing,

² Anderson, G., 'VT board succumbs to Babcock bid', *Jane's Defence Industry*, 24 Mar. 2010.

³ See appendix 5A; and 'Babcock International Group PLC recommended acquisition of VT Group plc', 23 Mar. 2010, <<http://investors.babcock.co.uk/publication.aspx>>, p. 15. On the companies' strategies see Anderson, G., 'UK OFT gives go-ahead to Babcock takeover of VT Group', *Jane's Defence Industry*, 25 June 2010.

⁴ Selding, P., 'Gilat seeks to boost government business with \$130 million Wavestream purchase', *Space News*, 13 Oct. 2010.

⁵ Bell, M., 'Elbit builds on US presence with M7 buy', *Jane's Defence Industry*, 15 Dec. 2010.

⁶ Anderson, G., 'Elbit's acquisitions strengthen stake in Brazilian market', *Jane's Defence Industry*, 31 Dec. 2010.

⁷ Jackson, S. T., 'Arms production', *SIPRI Yearbook 2010*, p. 264.

⁸ Censer, M., 'Defence contractors on offensive', *Washington Post*, 26 Sep. 2010.

⁹ US Department of Defense (DOD), *Quadrennial Defense Review Report* (DOD: Washington, DC, Feb. 2010); and British Government, *Securing Britain in an Age of Uncertainty: The Strategic Defence and Security Review* (The Stationery Office: London, Oct. 2010).

EADS, BAE Systems and Raytheon completed acquisitions along those lines.¹⁰ Others, such as the French company Safran and the US company SAIC, confirmed their strategies with acquisitions in 2010 of homeland security firms that produce systems for biometric identification or explosive detection.¹¹

It is particularly notable that the majority of the largest purchases in the USA by arms companies based in Western Europe and Canada were of security companies. Safran purchased L-1 Identity Solutions soon after L-1 had sold its intelligence services unit to the UK's BAE Systems, while Canada's CGI Group acquired Stanley.¹² The US private equity firm Cerberus Capital Management bought the US-based services company DynCorp in 2010.¹³

III. Acquisitions by companies based in non-OECD countries

Several acquisitions in 2010 by companies based in non-OECD countries were notable as they reflected the strategies of potential challengers competing against the more established arms producers. Motivated to expand its presence in Europe, UAE-based MAR acquired various assets from ThyssenKrupp Marine Systems, including Blohm + Voss Shipyards in Hamburg and ThyssenKrupp Hellenic Shipyards.¹⁴ India's Mahindra and Mahindra took over the South Korean military vehicle producer SsangYong Motor for \$463 million.¹⁵ Another Indian firm, Tata Advanced Systems, bought a 74 per cent share in the India-based HBL ELTA Avionics Systems, as part of a joint venture with Israel Aerospace Industries (IAI), which owns the remaining 26 per cent share through its subsidiary ELTA Systems.¹⁶

Although not directly related to arms production, China-based AVIC International acquired US-based commercial aerospace manufacturer Continental Motors from Teledyne Technologies for \$186 million.¹⁷ As AVIC International's second international acquisition, it is part of a wider Chinese national strategy to develop dual-use capabilities and to gain access to Western technologies and a presence on the international market, particularly in North America.¹⁸ It also marks a move by Teledyne to focus on its core business.¹⁹

¹⁰ Seetharaman, D., 'Arms makers turn focus from bombs to bytes', Reuters, 10 Sep. 2010.

¹¹ In 2009 Safran acquired Motorola's biometric unit to access the US identification market. Jackson (note 7).

¹² Anderson, G., 'Safran wins \$1 billion race to acquire L-1 Identity Solutions', *Jane's Defence Industry*, 20 Sep. 2010; Anderson, G., 'BAE Systems secures L-1's government consulting businesses', *Jane's Defence Industry*, 20 Sep. 2010; and Anderson, G., 'BAE completes Atlantic Marine acquisition', *Jane's Defence Industry*, 14 July 2010.

¹³ 'Cerberus to buy DynCorp for \$1.5 billion', *New York Times*, 12 Apr. 2010.

¹⁴ Pettibone, R., 'ThyssenKrupp reduces its exposure to shipbuilding', Forecast International, 11 Oct. 2010.

¹⁵ Grevatt, J., 'Mahindra & Mahindra agrees to take majority share in SsangYong', *Jane's Defence Industry*, 26 Nov. 2010.

¹⁶ Raghuvanshi, V., 'Tata buys majority stake in HBL Elta Avionics', *Defense News*, 26 Nov. 2010.

¹⁷ Grevatt, J., 'China's AVIC agrees second US acquisition', *Jane's Defence Industry*, 15 Dec. 2010.

¹⁸ Grevatt (note 17); and Grevatt, J., 'China's 12th Five-Year Plan aims to put defence industry on global stage', *Jane's Defence Industry*, 23 Dec. 2010.

¹⁹ Teledyne Technologies, 'Teledyne Technologies agrees to sell Teledyne Continental Motors to AVIC International', News release, 14 Dec. 2010, <http://www.teledyne.com/news/tdy_12142010.asp>.

Table 5B.1. Major acquisitions in the OECD arms industries, 2010

The table lists major acquisitions in the arms industries of member states of the Organisation for Economic Co-operation and Development (OECD) that were announced or completed between 1 Jan. and 31 Dec. 2010. It is not an exhaustive list of all acquisition activity but gives a general overview of strategically significant and financially noteworthy transactions. Figures for deal value and revenue are in US \$m., at current prices.

Buyer company (country)/ Subsidiary (country) ^a	Acquired company (country)	Seller company (country) ^b	Deal value (\$ m.) ^c	Revenue or employees ^d
<i>Within North America (companies are US based unless indicated otherwise)</i>				
Cerberus Capital Management*	DynCorp	Publicly listed ^e	1 500	22 500 employees
Triumph Group	Vought Aircraft Industries	Carlyle Group	1 440	6 000 employees
Veritas Capital*	Enterprise Integration Group	Lockheed Martin	815	\$626 m.
Boeing	Argon ST	Publicly listed	775	1 063 employees
Harris Corp.	CapRock Communications	ABRY Partners	525	\$359 m.
Veritas Capital*	CPI International	Publicly listed	525	\$333 m.
Raytheon	Applied Signal Technology	Publicly listed	490	\$203 m.
Microsemi	Actel	Publicly listed	430	\$46 m.
Harris Corp.	Global Connectivity Services	Schlumberger Information Solutions	398	\$170 m.
AECOM Technology Corp.	McNeil Technologies	Veritas Capital*	355	1 500 employees
Teledyne Technologies	DALSA (Canada)	Publicly listed	351	1 000 employees
B/E Aerospace	TSI Group	Arlington Capital Partners*	310	\$155 m.
FLIR Systems	ICx Technologies	Wexford Capital	268	\$168 m.
Wyle	CAS	ITT Corp.	235	1 100 employees
L-3 Communications	Insight Technology	Privately owned	210	\$290 m.
AAR Corp.	Aviation Worldwide Services	Xe Services	200	\$175 m.
Vigor Industrial	Todd Shipyards	Publicly listed	130	800 employees
Microsemi Corp.	White Electronic Designs Corp.	Publicly listed	100	\$16 m.
ManTech International	MTCSC Inc.	Privately owned	75	\$83 m.
Heroux-Devtek (Canada)	Eagle Tool & Machine	Privately owned	34	\$38 m.
Textron Systems	MillenWorks	Privately owned	..	\$28 m.
Triumph Group	Fabritech	Privately owned	..	\$25 m.

L-3 Communications	Airborne Technologies	Privately owned	..	\$20 m.
CACI International	SystemWare	Privately owned	..	\$16 m.
Vought Defense Systems	Quality Performance	Privately owned	..	\$9.2 m.
National Technical Systems	Mechtronic Solutions	Privately owned	..	\$7.5 m.
Rockwell Collins	Blue Ridge Simulation	Privately owned	..	\$2.5-5 m.
Orbital Sciences	Spacecraft development and manufacturing business	General Dynamics	..	325 employees
Boeing	CDM Technologies	Privately owned	..	130 employees
Teledyne Technologies/ Teledyne Scientific & Imaging	Optimum Optical Systems	Privately owned	..	25 employees
Textron Systems	Crane Wireless Monitoring Solutions	Privately owned	..	25 employees
<i>Transatlantic: West European acquisitions of companies based in North America</i>				
BAE Systems (UK)	Atlantic Marine (USA)	J.F. Lehman & Company (USA)	352	1 000 employees
Smiths Group (UK)/ Smiths Interconnect (UK)	Interconnect Devices (USA)	Milestone Partners ^{sf}	185	\$530 m.
BAE Systems (UK)	OASYS Technology (USA)	Privately owned	55	65 employees
Cobham (UK)	RVision (USA)	Privately owned	48	40 employees
Chemring Group (UK)	Mecar US (USA)	Allied Defense Group (USA)	59 ^{sf}	\$32 m.
Safran (France)/ Labinal (USA)	Harvard Custom Manufacturing (USA)	Privately owned	..	800 employees
Babcock International (UK)/ VT Group (USA)	Evergreen Unmanned Systems (USA)	Evergreen International Aviation (USA)	..	30 employees
<i>Transatlantic: North American acquisitions of companies based in Western Europe</i>				
Teledyne Technologies (USA)	Intelek (UK)	Publicly listed	52	\$59 m.
Curtiss-Wright Corp. (USA)	Specialist Electronics Services (UK)	Publicly listed	22	\$9 m.
<i>Within Western Europe</i>				
Babcock International Group (UK)	VT Group (UK)	Publicly listed	2 000	\$1 950 m.
Rolls-Royce (UK)	ODIM (Norway)	Publicly listed	236	\$340 m.
Rheinmetall (Germany)	Simrad Optronics (Norway)	Publicly listed	92	\$99 m.

Buyer company (country)/ Subsidiary (country) ^a	Acquired company (country)	Seller company (country) ^b	Deal value (\$ m.) ^c	Revenue or employees ^d
Chemring Group (UK)	Roke Manor Research (UK)	Siemens (Germany)	88	400 employees
Chemring Group (UK)	Mecar SA (Belgium)	Allied Defense Group (USA)	59 ^g	\$122 m.
Indra Sistemas (Spain)	49% of Indra Espacio (Spain) ^h	Thales Alenia Space (France)	50	\$97 m.
Hurlingham (UK) ^{*i}	Manroy Systems (UK)	Publicly listed	5	\$18 m.
Ultra Electronics (UK)	Extec Integrated Systems (UK)	Privately owned	5	50 employees
Thales (France)	SESO (France)	Privately owned	..	\$16 m.
DCNS (France)	33% of Principia (France) ^j	Privately owned	..	\$18 m.
EADS (trans-European)/ Astrium (France)	Jena-Optronik (Germany)	Jenoptik (Germany)	..	\$42 m.
Rheinmetall (Germany)	SEI (Italy)	EPC Groupe (France)	..	\$20 m.
<i>Other</i>				
Gilat Satellite Networks (Israel)	Wavestream Corp. (USA)	Privately owned	130	\$70 m.
Elbit Systems (Israel)	Saymar, Soltam Systems and 87.85% of ITL Optronics (Israel) ^k	Mikal (Israel)	87	..
Elbit Systems (Israel)/ Elbit Systems of America (USA)	M7 Aerospace (USA)	Privately owned	85	500 employees
Mikal (Israel)	19% of Mikal (Israel) ^k	Elbit Systems (Israel)	18	\$240 m. ^l
Austal (Australia)	Australian Technology Information (Australia)	Publicly listed	..	\$5 m.

* = Investment company.

^a In cases where the acquisition was completed by a subsidiary, rather than directly by the parent company, the name of the subsidiary is given.

^b 'Publicly listed' means that the company's shares were publicly traded on a stock exchange of its home country, with no single majority shareholder. 'Privately owned' means the company was owned by one or more private shareholders, with its shares not traded on any stock exchange.

^c In cases where the deal value is not available in US dollars, currency conversion has been made using the International Monetary Fund average exchange rate for the calendar month in which the transaction was made. Companies do not always disclose the values of transactions.

^d The acquired company's annual revenue is listed where known (either actual revenue for 2009 or expected revenue for 2010 or 2011). Where revenue is not available in US dollars, currency conversion has been made using the International Monetary Fund average exchange rate for the appropriate year.

Where information is not available for the acquired company's revenue, the acquired company's number of employees is shown, where known. Within each regional category, acquisitions are listed first in order of deal size where known, then in order of the acquired company's revenue where known. Where only employee numbers are known, the acquisitions are listed according to a conservative estimate of the likely range of revenues of the acquired company.

^e Veritas Capital owned 34.9% of DynCorp.

^f Interconnect Devices was purchased in 2007 by a group led by Milestone Partners. Other members of the group were Quilvest USA, Madison Capital Funding and Hancock Capital Management.

^g The deal value of \$59 million was for Chemring's combined purchase of Mecar SA (Belgium) and Mecar US (USA). Allied Defense Group was dissolved as of 1 Oct. 2010 having sold the majority of its assets.

^h Indra already owned 51% of Indra Espacio.

ⁱ As a result of this reverse acquisition, Hurlingham changed its name to Manroy plc and floated shares on the Alternative Investment Market in London. ^j Principia was purchased by DCNS, 2 businesspeople and the Principia management team.

^k Elbit paid a total of \$87 million for the combined acquisition of Saymar (100% stake), Soltam Systems (100% stake) and ITL Optronics (87.85% stake) from Mikal. These 3 subsidiaries were Mikal Group's main operating units. ITL Optronics' annual revenue was \$58 million.

^l Simultaneously, the shareholders of Mikal bought the 19% of Mikal shares that Elbit had acquired in 2009. ^{l'} This figure is Mikal's reported group-wide revenues in 2008.