

# Contractor Survival Tactics: KEYW Continues To Make Acquisitions, Expands Into Commercial Market

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In today's challenging federal market, contractors of all sizes are evaluating their current strategies to achieve success over the next several years, while bracing for potential budget cuts that could significantly impact the way they do business moving forward.

At FIA, we are always watching the federal marketplace, and I personally have an interest in what's going on in the mergers and acquisitions (M&A) arena surrounding cybersecurity, a market which is rapidly evolving and always seems to be in the news.

## FIA Perspective:

**KEYW makes two key acquisitions, which should significantly enhance revenues moving forward.** Last week, KEYW said it planned to acquire software maker Poole & Associates Inc. for \$126 million in an effort to boost its ability to win more work within the intelligence community. Based in Annapolis Junction, Md., Poole offers a broad range of high-end technical capabilities including systems and software engineering, program management support, and technical training.

For 2012, Poole is expected to generate about \$60 million in total revenue, which should significantly enhance KEYW's projected top-line growth. Poole is also expected to generate about \$90 million in revenue for 2013, and had a total backlog of around \$225 million at the end of the latest quarter.

In terms of contracts, Poole was recently awarded a five-year \$150 million prime contract to provide systems engineering and program management support to an intelligence customer. Looking ahead, KEYW CEO Leonard Moodispaw said the acquisition will expand KEYW's footprint with one of its most important customers, while adding several prime contract vehicles that have significant growth potential with a key customer.

On Thursday (9/13), KEYW also announced that it's purchasing Sensage Inc., a provider of advanced Security Information and Event Management (SIEM) and event data warehousing software solutions, for \$34.5 million. In addition to providing KEYW an expanded commercial market opportunity, this acquisition strategically supports Project G, KEYW's new cyber awareness and response platform geared towards critical infrastructure.

**KEYW expanding its footprint into commercial and adjacent markets.** In addition to acquisitions, KEYW has several new initiatives on the horizon in order to expand its addressable markets. KEYW recently said it continues to make strides on its "horizontal path" effort (Project G), which will target security for critical infrastructure. The company noted that Project G includes a national-security derived cyber-defense solution for critical infrastructure, and said the Sensage acquisition will be a key component of a new generation of cyber awareness products and services that KEYW is preparing for commercial launch in early 2013.

Elsewhere, KEYW has also invested (via its Flight Landata acquisition) in building an unclassified geospatial data system that is based on its knowledge of the classified version of a similar capability. This system will provide users in the first responder and national guard communities' access to intelligence community (IC) quality data on devices, while expanding the company's footprint beyond cybersecurity. In addition, KEYW said that it's also pursuing opportunities in cloud computing, mobile device applications, classified and unclassified training programs, and synthetic aperture radar, which should all expand KEYW's capabilities moving forward.

In the latest second quarter, KEYW saw its revenues jump 25% to \$56.2 million, while noting that it's "continuing to invest in key R&D initiatives, including Project G." Previously, KEYW said that its "pipeline of new opportunities looks very promising in terms of new proposal activity, growth in existing programs, and opportunistic acquisitions."

## Our Take:

Overall, we believe that KEYW will continue to be aggressive in making moves to remain competitive in the ultra-intense cyber market, especially in the wake of proposed defense budget cuts and increased competition from top-tier rivals.

With the cyber market being targeted as one of the few areas slated for growth over the next several years, numerous contractors are currently looking to invest in cybersecurity as an inorganic means of driving revenue growth, which should further fuel competition for cyber-related opportunities, acquisitions and market share in the near-term.

By continuing its aggressive M&A strategy and expanding into new and adjacent markets (and beyond the intelligence community), we believe KEYW is taking the necessary steps to remain competitive and carve out a niche in today's evolving cyber market, which should ultimately payoff for the company and allow it to achieve success going forward.