

Contractor Survival Tactics: Booz Allen Makes C4ISR Acquisition, Expands Into Commercial Cyber

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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 keeping tabs on what's going on in the federal market, and I recently noticed that consulting firm Booz Allen Hamilton is making some interesting moves in order to remain competitive and continue its success in today's evolving government market.

In fiscal 2012, Booz Allen derived 98% of its revenue from services provided to more than 1,200 client organizations across the U.S. government under more than 5,800 contracts and task orders.

FIA Perspective:

Booz continues to look for "opportunistic" acquisitions. Last week, Booz Allen agreed to acquire the Defense Systems Engineering & Support (DSES) division of ARINC for \$154 million. This acquisition will bring strong capabilities in advanced aviation and maritime engineering, advanced weapons modernization and sustainment, and advanced systems engineering and integration to complement Booz Allen's existing services, which span engineering and operations, technology, analytics, and strategy and organization. DSES is well-positioned in the growing C4ISR and engineering services/prototyping segments of the defense market, and Booz sees opportunities for these capabilities in adjacent intelligence, law enforcement, homeland security, and international systems sectors.

Taking a look at its acquisition strategy, Booz said it's seeing consolidation in the market, and is "open to evaluating potential opportunities" with a focus on companies that are a cultural fit that will bring additional client access or enhanced capabilities. It also said it would "pursue inorganic growth options ideally in the \$100 to \$200 million range."

Booz continues to win significant contracts despite tightening market conditions. In terms of contracts, Booz Allen was recently one of 12 vendors who won a \$7 billion Army contract for software and engineering services. In August, Booz was also one of five contractors to receive an Army award (with a \$489 million ceiling) to manage chemical weapons. In addition, Booz said it won 35 healthcare contracts, totaling more than \$112 million, in August and September timeframe to support a wide range of federal healthcare agencies and private organizations.

In its fiscal first quarter, Booz Allen also won a series of major awards totaling over \$300 million to support the U.S. Navy Space and Naval Warfare Systems Command in areas such as cyber, intelligence systems, infrastructure protection, and C4I. Booz also added an IDIQ contract with a ceiling of \$20 billion from the National Institute of Health for services and solutions with the Chief Information Office, and a \$73 million contract from the Department of Energy to provide scientific, engineering, and technical support.

For fiscal 2012, Booz said it achieved an overall win rate of 55% on new contracts and task orders that it pursued, and a win rate of more than 91% on re-competed contracts and task orders for existing or related business.

Booz Allen looking for commercial opportunities in cyber security. While cybersecurity is one of the federal market's few bright spots in terms of spending, Booz Allen is aiming to use its federal cyber expertise as a bridge to commercial opportunities in the field, according to a recent Washington Post article.

Currently, Booz is one of a handful of contractors looking to make the transition to the commercial sector to expand its addressable market in cyber. Other firms seeking to make this jump include KEYW Holdings Corp., ManTech International, SAIC and Computer Sciences Corp., according to the article.

As part of its foray into the commercial market, Booz Allen recently entered into a consulting and services partnership with EMC's security division, RSA, to provide enhanced offerings and make it easier for commercial and public sector customers to use both companies' information security expertise and specialized technologies. The partnership's objectives include: developing joint information security service offerings; simplifying client engagements for security preparedness and incident response; and further assessing the commercialization of advanced security technologies (from Booz Allen) that play a crucial role in detecting and defeating today's sophisticated computer attacks.

In its annual report, Booz noted that it will continue to pursue new opportunities in the commercial market by building on its cyber-related work and leveraging its core competencies, with a focus on serving industries in which there is a strong intersection between government and commercial interests, such as financial services, healthcare, and energy.

Currently, Booz Allen's key service offerings to commercial clients include: dynamic defense (cyber), next-generation virtual infrastructure, decision analytics, design for affordability, and smart compliance. Its commercial clients include major commercial banks and investment banks, healthcare providers, energy companies, and utilities.

Booz posts nice bottom-line growth in latest quarter. In the latest fiscal first quarter, Booz Allen's profit jumped 21% to \$61.9 million, or 43 cents per share. This compares with \$51.1 million, or 37 cents per share, in last year's comparable quarter. At the same time, the company's revenue slipped 1% to \$1.43 billion, compared with \$1.45 billion in last year's first quarter. At June 30, Booz Allen had total backlog of \$10.23 billion, of which \$2.58 billion was funded.

Looking ahead, Booz said it expects adjusted earnings of between \$1.60 and \$1.70 per share for the year, down from its earlier estimates of between \$1.71 and \$1.81 per share. Moving forward, Booz believes that the investments it's making in areas such as cyber, cloud, health, engineering services, enterprise effectiveness and efficiency, commercial, and international businesses will "position the company well for future growth."

On its first quarter earnings call, Booz highlighted that it's "investing resources and deploying leaders to business areas that are growing, while noting that it "will continue to grow in government, commercial, and international markets, such as health, finance, and intelligence surveillance reconnaissance."

Booz also noted that it continues to win major contract awards across all markets in its government business, despite the generally challenging conditions in that sector. The company has also been "proactive and diligent in managing its cost base which has enabled Booz to continue to deliver on bottom-line commitments."

Our Take:

Overall, we believe that Booz Allen will continue to be aggressive in making moves to remain competitive in today's challenging federal market, especially in the wake of expected defense budget cuts and increased competition from top-tier rivals.

We like that Booz is making opportunistic acquisitions to expand into new and adjacent markets (especially commercial cyber), while continuing to win key contracts in markets in which it already competes. Looking ahead, we believe that Booz's growth strategy will ultimately payoff for the company and allow it to achieve success in today's

evolving markets.