

Contractor Survival Tactics: General Dynamics Making Acquisitions To Offset Tightening Budgets

Posted At : September 28, 2012 10:22 AM | Posted By : Brian Coyle

Related Categories: Homeland Security, Communications Services, Federal, Mergers & Acquisitions, Emerging Technologies, Mobility, Department of Defense, Technology Trends, Announcements, Information Security, Justice/Public Safety & Homeland Security, Virtualization, Cybersecurity, Contract Opportunities

Over the past few weeks, we have been highlighting how various vendors are dealing with today's challenging federal market, and outlining some of the steps these contractor's are taking to achieve success going forward.

In this edition, we would like to turn the spotlight on defense giant General Dynamics Corp., which has been among the most active participants in the M&A arena since early May, acquiring five companies to expand its list of capabilities and addressable markets.

FIA Perspective:

General Dynamics expanding capabilities in several growing markets via recent acquisition spree. Below we highlight the recent acquisitions GD has made, and detail how these purchases may help the company going forward.

- In early May, GD acquired IPWireless Inc. for an undisclosed sum. Based in San Francisco, IPWireless provides 3G and 4G LTE wireless broadband network equipment and solutions for first-responder and military customers. The acquisition will allow GD to expand its commercial networking solutions to better serve the needs of its customers, including municipalities who are moving to broadband public safety networks such as the FirstNet nationwide interoperable broadband network.
- In late June, General Dynamics bought Earl Industries ship repair and coatings division to enhance its ability to compete for Naval contracting opportunities. The ship repair and coatings division of Earl Industries is a prime contractor for nuclear aircraft carrier programs, and provides maintenance and repairs for other Naval ships. Financial terms for the transaction weren't disclosed.
- In mid-August, GD said it would acquire Fidelis Security Systems, a provider of network security tools that provide real-time network visibility, analysis and control. Based in Waltham, Mass., Fidelis' solutions help customers stop advanced threats and prevent data breaches by providing visibility into the complex layers of a network, exposing malicious content in real-time. This acquisition will allow GD to expand its capabilities in the growing cybersecurity market, with a particular focus on incident response and situational awareness. Earlier this year, GD opened its Cyber Intelligence and Solutions Center located in Annapolis Junction, which houses experts working on cyber threat detection and mitigation solutions.
- In late August, General Dynamics acquired the defense operations of Gayston Corp., which supplies precision metal components used in several munitions programs. Gayston's defense unit makes rocket motor tubes for the U.S. Army's Hydra-70 air-to-ground rocket program. It also provides liners and cartridges for 40mm ammunition rounds and components for 60-120mm mortar rounds, among other things.
- Earlier this month, GD also acquired virtualization security software start-up Open Kernel Labs Inc. for an undisclosed amount. OK Labs provides virtualization software for securing wireless communications in the corporate and government sector. In addition, Open Labs creates apps and content for mobile devices and in-vehicle 'infotainment' systems. This acquisition will expand GD's capabilities as a provider of secure mobile devices for public safety, civilian, military and commercial customers.

In 2011, General Dynamics spent \$1.6 billion on six acquisitions, compared with three purchases in 2010 for \$233 million.

Our Take:

Overall, we believe that General Dynamics will continue to be aggressive in making moves to remain competitive, while expanding its capabilities in growing markets such as cybersecurity and wireless.

Over the next few years, companies which will succeed in this challenging environment will need to be flexible and make strategic adjustments where needed. We believe General Dynamics is taking these necessary steps, and that the company's M&A strategy will expand its addressable markets and list of customers moving forward, while enhancing its ability to pursue future opportunities in growing markets.

At the end of last quarter, GD had about \$2.54 billion in cash and cash equivalents in its war chest to put towards future acquisitions.