News & Intelligence

INTERVIEW: KippsDeSanto & Co: Transaction activity is focused on health IT and intelligence, cyber and analytics

18 Jun 2012

Global Security Finance talks to Bob Kipps, co-Founder of defense and technology-focused investment bank KippsDeSanto & Co. Prior to founding KippsDeSanto & Co. in 2007, Bob was a Managing Director in Houlihan Lokey's Washington, DC office and a leader of Houlihan Lokey's Aerospace·Defense·Government industry investment banking group.

The company advises mainly sellers in the defense and technology spaces, in transactions ranging from $25 to $500 million. Recent deals include the sale of WBB Consulting to private equity group Lake Capital, High Performance Technologies, Inc. being acquired by Dynamics Research Corp. for $143 million, and Worldwide Information Network Systems, Inc. by ManTech International Corporation for $90 million.

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What does the current deal flow in the market look like?

"We had seven transactions last year, and have seen three so far this year, so we are on track to exceeding those levels. Right now, however, sellers are anticipating difficulties so are looking to capitalize before the business climate changes – the uncertainty is acting as a catalyst for them to consider an exit, at least in the short-term. That being said, buyer caution demand has not similarly increased which has put somewhat of a damper on the number of deals actually getting closed."

What sectors do you believe are really appealing to buyers at the moment?

"Because of the aforementioned uncertainty, transaction activity is largely focused on those sectors where there is a high level of confidence, where there are going to be good business opportunities, in the "high priority and funded" areas that are expected to continue growing regardless. Those sectors are health IT - where we are seeing enhanced deal flow – and intelligence, cyber and analytics, where the level of transactions has been high for while.

"In addition, it is really a buyers' market at the moment for targets not the aforementioned high priority areas. Strategic buyers are more focused on avoiding acquisitions that involve companies outside the high priority areas, so this leads to a lot of the smaller deals involving pure play targets in the areas that I have alluded to. So now, we are not seeing many billion dollar acquisitions where a large contractor might buy a business with very diverse areas of activity. Instead, it will be buy a smaller, cyber security company for $50 million, for example."

What effect have government budget cuts had?

There is talk of consolidation, yes. But right now the larger industry firms are mainly thinking about prioritizing how they spend their money, and re-evaluating their business model and offering. That is the main thing, I believe.

We are seeing a number of private equity firms making large acquisitions of companies in the security space generally. What role do you think private equity has to play in the sector?

"Private equity is playing a key role in the marketplace, at the moment. PE firms operate privately, and maintain a more long-term view of industry performance than a lot of public companies per se. Plus, one of the main advantages is the availability and inexpensive cost of debt capital.

"We are seeing those PE firms acquire companies that are not a perfect pure-play fit for strategic buyers. They are able to offer competitive/attractive buying prices because they are acquiring more diverse businesses that do not necessarily fit today's strict strategic buyer criteria."

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Organisation: KippsDeSanto & Co.

Subject: Deal pipeline / M&A (Buyside)

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