



The Deal

PE firm profits on Anteon sale

by Lou Whiteman and David Carey

DECEMBER 14, 2005 — General Dynamics Corp.'s \$2.2 billion cash and debt deal for Anteon International Corp. is a bonanza for private equity firm CI Capital Partners Inc., which funded the defense technology services firm a decade ago when it was difficult to attract investors to the defense sector.

Falls Church, Va.-based General Dynamics said Wednesday, Dec. 14, it would pay \$55.50 in cash for each share of Anteon, a premium of nearly 36% over the target's closing share price Tuesday of \$40.77. The deal, which is expected to close in the first half of 2006, includes about \$100 million in assumed Anteon debt.

Anteon, of Fairfax, Va., was formed in April 1996 through a CI Capital Partners-led management buyout of the professional services division of Ogden Corp. Between 1996 and 1999 New York-based CI Capital Partners put \$32.5 million of equity and debt into the company. After taking Anteon public in 2002 at \$18 a share, the firm pocketed \$555 million by selling down its stake and redeeming debt.

Including the \$194.3 million it will collect selling its remaining 3.5 million Anteon shares, CI Capital Partners will walk away with a 23-fold gain on investment. Over the last 10 years, Anteon's revenues have grown from \$110 million to about \$1.5 billion, and Ebitda has increased from less than \$5 million to about \$140 million thanks to internal growth and a string of acquisitions.

The company today has 9,500 employees in more than 100 offices worldwide, designing and maintaining advanced systems used for national defense, intelligence and homeland security. The investors credited Anteon CEO Joseph Kampf and the rest of the management team for the growth and the premium sale price.

"Joe did an acquisition a year for 10 years, and every acquisition they did was highly strategic in that it put the company into a market that was growing," said Frederick J. Iseman, president of CI Capital Partners and chairman of Anteon.

Defense banker Jon Kutler, who was involved in the original sale of Anteon to CI Capital Partners, said that at the time of that deal the defense industry was out of favor and that companies such as Anteon received little attention from investors. But in recent years the Pentagon has increasingly turned its attention to electronics and information technology, and its key vendors have responded by buying up scale in those areas.

In 2003 General Dynamics, which traditionally had manufactured heavy equipment such as submarines and tanks, spent \$1.5 billion to acquire Veridian Corp. to boost its defense IT business.

"If you look at the evolution of General Dynamics over the last decade, it is illustrative of where the market is headed and where the Pentagon is going to be spending its dollars in the future," said Kutler, founder and CEO of Jefferies Quarterdeck. "General Dynamics is now extremely well-positioned as an information technology and defense electronics provider."

One of the year's other large defense sector acquisitions, L-3 Communications Holdings Inc.'s \$2.65 billion

purchase of Titan Corp., was also predicated on building defense IT capabilities, as was Lockheed Martin Corp.'s unconfirmed interest in buying the government services business of Computer Sciences Corp.

The Anteon deal sent shares of remaining independent defense IT providers soaring on Wednesday, with SI International Inc. and CACI International Inc. of Reston, Va., and Arlington, Va., respectively, leading the charge with share price jumps of about 14% apiece in early afternoon trading.

Yet defense experts caution that while more consolidation could happen, it is unlikely that all of the companies Wall Street now views as targets will be acquired.

"There is a danger in extrapolating the price paid for Anteon to the rest of the marketplace," Kutler said.

"Because the industry has consolidated, the number of companies that are interested and can afford these companies is not as large as some people believe."