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Sheppard Mullin Launches Aerospace/Defense Effort

Sheppard, Mullin, Richter & Hampton LLP (SMR) is firing up its aerospace and defense engine.

On Jan. 3, the law firm announced that the corporate VP and secretary of \$23 billion market cap **Northrop Grumman Corp.**, **John Mullan**, joined its newly formed aerospace and defense M&A practice. Los Angeles-based SMR expects high deal flow this year in the space's information technology, homeland security and specialized technology segments, said the partner heading the new practice, **Lawrence Braun**, in an interview with *Mergers & Acquisitions Report*.

Braun said SMR advised on about 45 aerospace and defense M&A deals over the last three years and has nine active engagements. "Aerospace and defense' is code for any company that either deals directly with the government or is part of the food chain providing products and services to the government," he said. "We don't want to say 'aerospace, defense, IT, homeland security M&A'—it's not catchy."

Braun, formerly co-chairman of SMR's corporate practice group, declined to divulge takeout multiples for deals he has worked on, but he said several were between seven and 12 times EBITDA. Smaller technology companies sell for as low as four times EBITDA, he said.

The federal government has encouraged consolidation in the space, said Braun. "So, some of the bigger players are going out and acquiring smaller technology businesses." At the government's urging, companies such as

Northrop, Lockheed Martin Corp., The Boeing Co. and Raytheon Co. want to be "system integrators" that not only sell products but offer support solutions for problems that may arise. "Some of the businesses were incredibly small, and when you deal with the U.S. government you need a lot of expertise, [which] these smaller companies didn't have," said Braun. "The government has encouraged the systems integration approach so it can deal with Boeing or Lockheed and get the solutions to complex problems."

The emergence of more private equity buyers in the sector has also increased competition for targets, he said. "You only had firms like **The Carlyle Group** willing to do aerospace and defense transactions 10 to 15 years ago, because Carlyle had former [Department of Defense] people who understood how to deal with the U.S. government," noted Braun. "During the past five to eight years, other private equity groups have become more knowledgeable about this industry and are more comfortable buying assets." For example, a buyout group led by Santa Clara, Calif.-based **Shah Capital Partners** purchased the San Dimas, Calif.-based GPS navigation business of **Thales SA** for \$170 million on Aug. 31.

SMR's aerospace and defense practice has 12 attorneys and is growing. "We're already hiring people," said Braun. Although Mullan is in Los Angeles, Braun noted, "The growth in bodies will likely be on the East Coast." —*Joshua Hamerman*