BLUESTONE
CAPITAL PARTNERS

BLUESTONE CAPITAL PARTNERS SERVES AS ADVISOR TO BABCOCK INTERNATIONAL GROUP PLC IN THE DIVESTITURE OF VT SERVICES INC. ("VT SERVICES")

VT Services, Inc.
a subsidiary of
babcock
has been acquired by
TJC
THE JORDAN COMPANY
Divestiture (Public)

On July 12, 2012, Babcock International Group PLC announced the completion of the sale of its U.S. defense business, VT Services Inc., to The Resolute Fund II, LP, a private investment fund managed by The Jordan Company II, LP. VT Services is a provider of engineering and logistics services primarily in support of Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) and sustainment and readiness initiatives for U.S. Department of Defense customers. The announced value of the transaction was $98.75 million.

This transaction highlights multiple interesting trends in the defense and government services market, including the following:

- **Accelerating Pace of Divestitures:** Increasing uncertainty surrounding the U.S. federal budget environment is causing many companies in the defense and government services sector to reexamine strategy and market positioning. The divestiture path is a frequent outcome of these strategic review efforts. Companies that earn a small percentage of total revenue from U.S. federal government customers and/or lack scale relative to top tier defense and government services businesses can build shareholder value by divesting federal government assets and re-investing proceeds from such transactions into building core business areas. Certain companies may also find that divestitures are a great way to "unlock" the value of a smaller, high multiple business that resides within a much larger platform trading at a lower valuation multiple (the inverse is also true: value can be created by divesting lower multiple assets to create a more pure-play, higher multiple business). More frequently, companies will pursue a Jack Welch-like divestiture strategy, exiting lines of business that are far from holding a leadership position in the marketplace and redeploying capital into business segments where the company can be a more meaningful participant. Whatever the rationale, it is clear that divestiture activity in the federal marketplace will accelerate in the coming months.

- **Increased Private Equity Interest:** While private equity buyers have long had an interest in the defense an government services industry, they have become increasingly active buyers. Based on data compiled by Bluestone, private equity buyers were involved in just over 25% of defense and government services acquisitions during 2010 and 2011. So far this year, however, private equity groups and their platform companies have been the buyer in more than 40% of completed transactions. Given the significant dry powder available to many private equity groups, relatively strong debt markets, and the need to see add-on acquisitions for recently acquired platforms, Bluestone expects private equity interest in the defense and government services sector to remain elevated.

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