

Washington TECHNOLOGY

Federal sector is an IPO hot spot

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By Patience Wait

One sure sign the government market is gaining respectability is the attention coming from Wall Street, as two government technology companies prepare to go public amid talk that other private firms soon will follow.

ManTech International Inc. and Anteon International Corp., both of Fairfax, Va., have filed paperwork with the Securities and Exchange Commission to conduct initial public offerings.

Jefferies & Company Inc. of Los Angeles is the lead manager, and Legg Mason Wood Walker Inc., Baltimore, is co-manager for the underwriting group handling the ManTech IPO.

The Anteon underwriting group will be led by Goldman, Sachs & Co. and includes Bear Stearns & Co. Inc., Credit Suisse First Boston, Lehman Brothers and Merrill Lynch & Co., all based in New York.

“Five New York firms on Anteon? That’s very surprising,” said Don Blair, senior vice president of the technology investment banking group with the investment firm Raymond James, St. Petersburg, Fla. “Wall Street firms don’t usually focus on those size companies under a billion dollars in market capitalization.”

ManTech filed for its IPO Nov. 23, and Anteon filed Dec. 21, but neither have specified a date for when they will begin publicly selling shares.

Market analysts also said they expect several government information technology companies to join ManTech and Anteon in taking the IPO plunge, including Veridian Corp. of Arlington, Va., and SRA International Inc., also in Fairfax.

All of these companies declined to be interviewed: ManTech and Anteon because of SEC restrictions, Veridian and SRA because they have made no announcements.

SRA has been distributing a statement for several weeks by Ernst Volgenau, president and chief executive officer, saying an IPO is one way to finance growth, and characterizing market conditions as “favorable” for such an approach. But “it is our long-standing policy not to talk publicly about our deliberations,” he said in the statement.

Industry analysts and investment bankers said several factors are creating favorable conditions for IPOs by systems integrators.

The relative strength of the federal sector compared to the commercial sector makes government IT companies prime candidates for investment, said Larry Davis, president of Aronson Capital Partners in Rockville, Md., an investment banking firm focused on the federal sector.

“There is money out there looking for places to invest,” he said.

Another factor is the bursting of the dot-com bubble, according to John Allen, co-president of Quarterdeck Investment Partners, Los Angeles.

“When that happened, from the investor’s point of view, it caused a return to the fundamentals,” Allen said. Investors are “looking for consistent, profitable growth — not just top-of-the-line [revenue] growth, which was the word of the day — and the companies in this space are the epitome of that.”

Interest in federal-sector IPOs also springs from the aftermath of Sept. 11 and its possible effect on technology companies generally, said Rick Knop, managing partner of the Windsor Group in Middleburg, Va. The government has always been the early adopter of technology, Knop said, and the new emphasis on homeland security will provide a boost to companies pioneering that market.

The shifting of federal procurement practices toward more market-oriented procedures also has helped change investors’ perceptions, said Aronson’s Davis.

“Procurement reform has rationalized business practices, so [they’re] not too far from the commercial market. ... The market has become easier to understand,” Davis said. Of course, the real test of the stock market’s receptivity to these IPOs will come when the stocks are priced for the initial offering. That’s when the companies “will see what the market says,” he said.

A key reason for going public is to gain access to capital for paying private investors, retiring debt or financing acquisitions.

“Companies that go public are not only liquefying their own shareholders, to some extent, and raising capital; they have their own stock as currency,” said Blair with Raymond James. “Titan largely used its stock to acquire BTG.”

For all of the interest in this sector, not all companies are created equal. Analysts said private firms considering an IPO have to be large enough to warrant an offering, though they differed on the minimum size requirements.

“The general consensus right now is that a government contractor services company has to have revenue in the \$200 million to \$250 million range,” Knop said. “You need to have a market capitalization of \$200 million to attract institutional investors and analysts.”

The company also wants to have enough volume to trade daily in the stock, he said.

But factors other than revenue also are important, Blair said. “The key things to focus on are growth and margins,” he said.

One example of the balance between size and performance is PEC Solutions Inc. of Fairfax, Va., which had annual revenue of \$68.3 million when it went public in 2000 and was projected by analysts to reach \$105 million for 2001.

The company is generally viewed as a “Wall Street darling,” and its stock performance reflects that opinion. PEC stock, which had an IPO price of \$9.50 per share, was trading at \$34.40 as of the market close Jan. 14.

“PEC Solutions [is] the highest-valued company in the sector,” said Davis. “What drives that is their profitability and perceived growth rate.”

“We think being public makes us appear a bigger and stronger company to our clients,” said David Karlgaard, PEC’s chief executive officer, regarding the effect of going public.

Karlgaard said the company has always focused on its profitability rather than its size. “Many other companies worry too much about the top line, the next dollar of revenue,” he said. “Revenue by itself is not very important.”

The question is whether these government services companies will hold the attention of Wall Street investors when the commercial sector returns to healthier conditions.

“There are a lot of reasons they should be long-term supporters of the federal space, [including] a consistent history of revenue growth and profit

growth thanks to procurement changes,” Quarterdeck’s Allen said.

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IPOs: The promise and the reality

Only a smattering of companies with significant government business have had initial public offerings in the past several years. The results, as these breakdowns attest, have been mixed.

Company	Ticker	Location	IPO	Offering price	Closing price first day	High since IPO	Closing price Jan. 14
Accenture Ltd.	ACN	Hamilton, Bermuda	July 19, 2001	\$14.50	\$15.17	\$27.57 Jan. 9	\$24.95
KPMG Consulting Inc.	KCIN	McLean, Va.	Feb. 8, 2001	\$18.00	\$22.48	\$23.06 Feb. 28, 2001	\$17.46
PEC Solutions Inc.	PECS	Fairfax, Va.	April 20, 2000	\$9.50	\$9.00	\$43.62 Jan. 7	\$34.40
National Information Consortium Inc.	EGOV	Overland Park, Kan.	July 15, 1999	\$12.00	\$17.31	\$67.88 March 13, 2000	\$4.24
*Emergent Information Technologies Inc.	EITI	Newport Beach, Calif.	Jan. 29, 1998	\$12.00	\$12.00	\$31.13 Sept. 23, 1998	\$2.56
*Formerly Steven Myers and Associates Inc.							

Sources: Securities and Exchange Commission, NASDAQ, Yahoo, Edgar-Online

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