

# A SPECIAL MARKET MONITOR

# The Rising 10 of 2010

By PHILIP FINNEGAN

BY ITS NATURE, THE TOP 25 HS COMPANIES CAN INCLUDE ONLY SOME OF THE DYNAMIC COMPANIES THAT ARE BUILDING UP THEIR HOMELAND SECURITY BUSINESSES.

The Rising 10 companies are noteworthy because they include companies involved in the diverse activities that make up homeland security. They range from major systems integrators to detection companies to manufacturers of new technologies such as unmanned aerial vehicles. These companies promise to grow quickly in coming years, because of either recent contract wins or their overall positioning in growing areas within homeland security.

This listing, which makes no claim of comprehensiveness, looks at 10 of those companies that show promise as future leaders in homeland security. Many of these companies are likely to reach the Top 25 in coming years. Some already do considerable homeland security business, but because they're acting as subcontractors to other companies, their contributions are not fully recognized in contract awards from the Department of Homeland Security (DHS). Others conduct a considerable amount of business overseas, so they are not reflected in the Top 25.

The listing includes the Franco-German European Aeronautic

Defense and Space Co. (EADS), Italy's Finmeccanica and France's Safran in recognition of the growing role of foreign companies in the US homeland security market.

The Rising 10 also includes the large American companies Raytheon Co. and Harris Corp. Although they already do considerable homeland security work, that subcontract work is not counted in the rankings.

In addition to those large companies, the listing includes small to mid-sized companies, which may not reach the Top 25 but show the dynamic and technologically driven nature of homeland security. They include a number of different specialty areas: unmanned aerial vehicles (General Atomics, AeroVironment), detection (ICx Technology) and sensors (FLIR Systems).



#### **Raytheon Co., Waltham, Mass.**

Raytheon Co.'s homeland security business often flies under the radar of the Top 25 because its work often involves a considerable amount of subcontractor and international work.

In 2009, the company achieved notable success in building up

its \$1 billion homeland security business. New business booked exceeded by 1.3 times revenues with international sales responsible for much of the gain. Raytheon's management sees international sales continuing to drive growth, with 70 percent of the company's addressable bid opportunities being in international markets. Raytheon has a broad range of homeland security work, including border security, immigration control and identity management, and critical infrastructure protection.

The UK e-Border contract, Raytheon's highest profile international victory, is one of the contracts driving international growth. In November 2007, a Raytheon-led team—which also includes Accenture Ltd., Hamilton, Bermuda; Detica Group plc, Guildford, UK; and Serco Group, Hook, UK—beat a team led by British Telecom to win a \$650 million (\$1 billion) contract that involves tracking travelers to the United Kingdom to examine possible links to high risk individuals or those on terrorist watch lists. That contract is leading to discussions with other nations on replicating the work in their own countries.

Raytheon's homeland security strategy puts a high priority on research and development to develop higher-value, lower-cost systems. For example, the company is working on an open architecture, scalable command and control system for security perimeters, ranging from individual installations to national borders. The company also is working on a system that would be able to detect suicide bombers in areas such as subway stations and expects to complete development within two years.

2

### **Harris Corp., Melbourne, Fla.**

Harris Corp. is pushing aggressively into the \$9 billion land mobile radio market with its planned \$675 million acquisition of Tyco Electronics Wireless Systems. The acquisition is the latest move challenging the leadership of Motorola, Schaumburg, Ill., which holds more than half of the market.

Trends in the market would appear to favor Harris' thrust. There is a movement from analog to digital systems similar to that which is already happening in defense. The drive toward more complex statewide and other networks requires higher levels of support.

Harris' RF Communications segment already showed the high priority it is placing on building up its homeland security business by introducing several new products in the past two years. In July 2008, it introduced the Unity family of multiband portable land mobile radios to provide federal, state and local public safety authorities with secure interoperable communications. The first product of the family is the Unity XG-100.

The Tyco acquisition combines Wireless Systems' expertise in end-to-end network infrastructure solutions with Harris' expertise in radio technology. In addition to complementary technologies, the two companies will have a broader marketing reach. Wireless Systems has strong marketing capabilities in state and local markets, while Harris is extremely strong in federal government agencies such as the Department of Defense. It has also sold radios to 100 different countries.

Wireless Systems derives about 75 percent of its \$463 million in annual sales from public safety, with another 10 percent to 12 percent coming from the federal market. The remaining business comes from various commercial applications in industrial, transportation, transit and the utilities markets. It has set up statewide networks in Pennsylvania, Florida and Nevada. It is used by law

enforcement in the National Capital Region and on army bases. In Canada, it is used by the Royal Canadian Mounted Police and Saskatchewan Public Safety.

3

### **European Aeronautic Defense & Space Co. (EADS), Amsterdam, the Netherlands**

EADS has made a strong push into homeland security, winning a coveted Saudi Arabian border contract and expanding its public sector radio business.

EADS' homeland security business has tripled in revenues from 2000 to 2008, increasing from €300 million to €900 million (\$408 million to \$1.2 billion). Backlog over the same period soared from €300 million to €2.5 billion (\$408 million to \$3.4 billion).

The Saudi Arabian border contract awarded in June 2009, worth an estimated \$2 billion, expands EADS Defence & Security's work on northern border security along the border with Iraq to all of the Kingdom's borders.

In April 2008, EADS purchased California-based PlantCML, a communications company, its largest US-based acquisition to date, in an effort to build its US homeland security business. The \$350 million acquisition provides EADS with an extensive homeland security presence in the United States. PlantCML had approximately \$170 million in annual revenues at the time of its acquisition.

4

### **Safran Group, Paris, France**

France's Safran has been making a strong acquisition push into the United States. It is building a transatlantic biometrics and detection business.

Safran has made two noteworthy acquisitions in the United States. It expanded its core work with the acquisition of US-based Motorola's biometrics business in 2008. It broadened into detection with its \$580 million purchase of an 81 percent stake in General Electric's homeland security detection business.

Although Smiths Group, London, UK, initially planned to establish a joint venture with General Electric, it ultimately walked away from the deal. That left the door open for Safran to move in.

Safran even took the step of engaging in a bidding war with L-1 Identity Solutions for Digimarc, Beaverton, Ore., a communications company, in its efforts to penetrate the US market. It lost that war in July 2008, but still managed to build up its US presence with other acquisitions.

5

### **Finmeccanica SpA, Rome, Italy**

Italy's defense champion signaled the high importance it has put on the US homeland security and defense market with its \$5.2 billion acquisition of DRS Technologies, Parsippany, NJ, a major US homeland security and defense firm, in October 2008.

As Finmeccanica begins to work more closely with DRS, it anticipates that it will be able to both sell DRS' products with its own worldwide marketing network and bring its own products into the United States through DRS. For example, it sees the possibility of selling communications systems to first responders and state and local police forces.

In border security, the two companies have considerable synergy. Despite the DRS acquisition, a much sought-after Saudi border contract went to competitor EADS. Still, Finmeccanica signed a

€300 million (\$408 million) agreement with Libya for border control and security in October 2009.

DRS also has a strong position in Middle Eastern border security programs. In April 2008, it won a contract for the initial phase of a contract to provide the Jordanian Armed Forces with an end-to-end border security system. In addition, DRS has a long-standing project to control Egyptian borders.

Finmeccanica's ultimate goal is to sell combined DRS/Finmeccanica border control and maritime surveillance solutions to both the US market and overseas.



### **General Atomics Aeronautical Systems, San Diego, Calif.**

The acquisition of its first maritime unmanned aerial vehicle (UAV) by US Customs and Border Protection (CBP), a maritime Predator B dubbed the Guardian, offers strong potential for General Atomics Aeronautical Systems to make further inroads into the homeland security UAV market. The Guardian is to be ready for operational test and evaluation in early 2010. The joint testing will involve CBP and the US Coast Guard. It will then be deployed to support joint counternarcotics operations along drug routes.

The Guardian will be equipped with maritime sensors to detect small, fast vessels often used in drug smuggling. It will patrol in areas off of south Florida and the Caribbean. A second Guardian, scheduled to be delivered in early 2010, is planned to patrol the western Gulf of Mexico and US southwest.

General Atomics has already delivered six Predators to DHS for use on land borders. Initially, those UAVs were all used along the southern border with Mexico from Libby Army Airfield in Sierra Vista, Ariz., but in 2009 some began operating from Grand Forks Air Base in North Dakota to begin patrolling the northern border. As Predator orders continue, DHS' goal is to use Predator B throughout the border areas from a network of ground control stations. As more Predators are ordered, DHS plans to operate them along all the borders by 2015 using a network of UAV ground control stations. Ultimately, CBP's strategic plan calls for a fleet of 18 Predator Bs distributed in groups of six among the three operation operations centers in different regions: Sierra Vista, Ariz.; Grand Forks, ND; and a new center in Cape Canaveral, Fla.



### **American Science and Engineering Co. (AS&E), Billerica, Mass.**

AS&E has made a name for itself with its Z Backscatter vans that have detected improvised explosive devices in Iraq and Afghanistan. Its products also offer considerable promise in domestic homeland security markets. CBP began using the company's Z Portal for vehicle screening at the San Ysidro, Calif., border checkpoint. The company's SmartCheck Z Backscatter Personnel Screening System has been tested at New York's JFK International, Los Angeles International and Phoenix Sky Harbor airports.

AS&E's competitive edge comes from Z Backscatter, a technology designed to detect different materials than traditional transmission X-ray technology. It can provide photo-quality images that can detect contraband, including explosives, smuggled human beings, money and many other items. By combining traditional X-ray and Z Backscatter, AS&E is able to detect a broader range of threats and

contraband than many other systems.



### **FLIR Systems, Wilsonville, Ore.**

FLIR Systems is putting a high priority on increasing its homeland security business both in the United States and overseas. The company, which already has a strong Coast Guard presence, is using reorganization, a push into international markets, research funding and acquisitions to build its homeland security presence. It created its Commercial Vision Systems division in 2006 in part to foster the growth in its homeland security work.

A noteworthy element of FLIR's growth strategy for homeland security is the heavy spending on research to develop new products. The company spent 8.4 percent of revenues on research and development in 2008, a very high figure for a company in defense and homeland security. Moreover, its research funding has grown by 20 percent compounded annually from 2005 to 2008.

This funding is enabling FLIR to develop products geared specifically for the homeland security market. In July, Commercial Vision Systems announced the launch of its new H-Series line of handheld law enforcement thermal imaging cameras, which the company cites as having four times the resolution of competing units. FLIR has had discussions with CBP about providing cameras to the agency.



### **AeroVironment, Monrovia, Calif.**

AeroVironment, the leading provider of small UAVs for the US military, is developing the Global Observer, a new high-altitude, long-endurance UAV that has considerable homeland security potential. The Global Observer, which would fly at 65,000 feet for five to seven days, has the potential to observe land borders and coastlines, as well as provide communications relay for border sensors. It also has the potential for use in disaster recovery and wildfire detection. Its demonstration for the US Army's Special Operations Command is to be completed this year.

AeroVironment's current family of small UAVs, some small enough to be carried in a backpack or in a vehicle, is waiting for the Federal Aviation Administration (FAA) to open US airspace to unmanned systems. While the FAA studies ways to proceed, AeroVironment has demonstrated the use of its UAVs for border control.



### **10. ICx Technology, Arlington, Va.**

ICx Technology is well positioned to boost its homeland security sales. It has a broad portfolio of products that can detect chemical, biological, radiological, nuclear and explosive threats. This has enabled it to grow quickly.

Following the failed Christmas Day attack on an American airliner, the company sees the potential for more than a \$1 billion market that its Fido explosives detector could meet. Fido was developed under a \$20 million investment by the Defense Advanced Research Projects Agency to replicate the detection capability of a dog's nose. The \$20,000 system is being used extensively by the US military. ICx sees the potential to deploy Fido to all 2,200 airport check-in lines in the United States within a year if TSA decides to move ahead. **HST**



**PHILIP FINNEGAN** is the director of corporate analysis at the Teal Group, a firm based in Fairfax, Va., that provides strategic and market analysis to major corporations. He can be reached at [pfinnegan@tealgroup.com](mailto:pfinnegan@tealgroup.com).