VT Group 's dilemma - Defence Viewpoints from UK Defence Forum

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(this is an edited version of a post made on Defense Industrial Base)

The Financial Times recently published three articles by Sylvia Pfeifer about the decision of defence support services company VT Group to divest its shipbuilding arm, currently in a joint venture with BAE Systems, through the use of a put option on its disposal to the largest defence contractor in the United Kingdom (see "VT to double in size after strategy shift" and "VT signals sale of shipbuilding arm" and "VT sells shipbuilding business" on January 28th and 29th 2009).

VT Group is in a strategic bind. The exchange rate challenges of a US operation at ($2:�1) have reduced. The sale of the shipbuilding business would provide a healthy cash injection, while the current market makes lending for M&A challenging, and VT Group a possible acquisition target.

The business mix makes the business quite attractive to players such as Serco, whose defence business has languished over the past few years, and Babcock International Group (for whom in particular the business is a mirror image of its own). It would seem an unlikely target for a major contractor due to the plethora of non-defence activity which would be hard to absorb.

The best outcome for VT Group could be a merger with a support services business of similar scale and cultural fit. For VT Group to pursue a series of small acquisitions which would push it to above �1 billion in annual turnover is arguably an inefficient use of capital in such times as these.

Still, acquisitions to use up the cashpile could be a positive spur for someone sensible to make a merger approach.</p>