



InBrief

SAIC To Spin Off Services Business

By ZACHARY FRYER-BIGGS

Science Applications International Corp. (SAIC), the world's 12th-largest defense contractor, will divest its government "technical" and IT services business, the company announced in a news release Aug. 30. SAIC will make the split in the form of a spinoff during the second half of 2013.

The company will break off a new publicly traded company, which will be a pure-play government services business, while keeping its larger science and technology solutions business and focusing on the national security, engineering and health markets.

The plan mirrors one employed by L-3 communications, which spun off part of its services in the form of Engility this year.

"I still think it's more along the lines of the same thought process that went along with the Engility divestiture. The services market is a much more competitive market where the bidder with the lowest cost structure wins," said Byron Callan, a defense analyst with Capital Al-



SAIC

Different Roles: John Jumper, CEO of SAIC, said the company split will give each business the chance to be more competitive in its area.

pha Partners. "If two companies have reached that conclusion, who else might reach that conclusion in 2012 or 2013?"

Services businesses tend to have smaller margins and require more capital to achieve a smaller return than systems businesses, leading to what can be a complicated picture for investors when both exist in the same company, said Steven Grundman, the Lund Fellow at the Atlantic Council.

"This may be a trade-off for a cleaner simpler story for shareholders, but the trade-off is that they won't be as diverse," said Grundman, who also heads Grundman Advisory. "It's a way to distinguish a stock that they might believe is undervalued."

The announcement comes the same day that the company released its second quarter financials, which revealed that the company's net profit after taxes dropped 38 percent to \$110 million compared with the same quarter last year. Discontinued operations accounted for a large portion of the difference, and the financials also revealed that revenue had climbed nearly 10 percent to \$2.8 billion. SAIC's Defense Solutions Group led the charge with a 14 percent increase in revenues.

"Our two new companies will be designed so that their businesses can be more differentiated and more competitive in their own space," SAIC CEO John Jumper said in the news release announcing the move.

SAIC projects that those segments that will be organized into the new technical services business will bring in about \$4 billion in revenue through the end of this fiscal year, while the segments in the remaining science and technology solutions business will bring in about \$7 billion. Last year, the company's total revenue was \$10.7 billion. Both new companies would likely be among the world's top 20 defense contractors.

The reorganization comes less than half a year after Jumper, former U.S. Air Force chief of staff, took over the company. □

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