Amid a constant cycle of defense-focused mergers and acquisitions, Mercury Systems has used consolidation as a tool to gradually build its portfolio of processing subsystem and sensor technologies for insertion onto larger military platforms.

But aside from M&A, how Mercury sees itself playing in a defense market universe replete with blue chip, long-time and entrenched players may be the larger story for the 35-year old outfit. Mercury’s vision of itself can help describe how the company wants to move further up the scale food chain and past its slightly sub-$500 million size to become a more formidable second-tier supplier.

“We like to say that we’re a high-tech company operating in the defense industry, we’re not a defense company developing high technology,” CEO Mark Aslett said. “Big picture, what we’re trying to do is be the company that is able to provide all the different types of subsystems on board a military platform.”

The company seeks to align that “high-tech” thinking with how the Defense Department has attempted to more quickly field new weapons and other systems through procurement reform and other mechanisms, Aslett told me.

When I spoke with Aslett, he described how Mercury views the traditional model of commercial-off-the-shelf procurements the U.S. military and other government customers have used in the past as “kind of broken.” That approach usually sees the customer buy different parts from different suppliers and then integrate them to produce the first item.
But that comes with the risk of added integration costs on top of the product procurement, according to Aslett. Andover, Massachusetts-based Mercury is instead seeking to build an alternative model for the technology areas it focuses on, mainly by creating a pre-integrated subsystem ready for use almost immediately.

Even with defense spending on the way up, Aslett indicated that DOD is getting somewhat pickier in certain aspects of how it brings in some products with an eye toward the future.

“Now that the government has basically shifted to firm-fixed-price contracts and our customers aren’t spending much on (research-and-development), they don’t want to do the integration effort,” Aslett said. “We do it once and we can sell those systems to many customers.

“What we see happening increasingly is the level of outsourcing has moved from historically COTS products to today, where customers are seeking those more integrated subsystems.”

A look at Mercury’s run of acquisitions over the past two years in particular shows how the company has tried to further build that model with mission computing, processing, rugged server and “C4I – command, control, communications, computers and intelligence.

Having gone public in 1998, Mercury has undertaken seven transactions in the past two-and-a-half years with an overall spend of nearly $600 million on M&A.

That push into the second tier with M&A as a tool has led Mercury to shift its business model away from its original form. Aslett said the company sought to get all the technology suites in-house in order to build more complete tools.

“What we’ve in essence done is move from being a product-oriented company where all we did 10 years ago was just provide the compute elements or the individual compute products associated with the sensor processing,” Aslett said.

“Today, what we’re able to do is provide the complete suite of capabilities into a pre-integrated subsystem that would basically allow our customers to port their
sensor processing application, plug in the antenna or sensor itself into the product to produce that capability.”

The M&A program has helped Mercury go from $270 million in revenue for its 2016 fiscal year to $493 million in sales for the most recent fiscal 2018 period ended June 30. But that is one component of Mercury’s move up the food chain. The company has also seen organic growth of 9-10 percent over the last five years even as it increasingly used M&A, Aslett said.

Mercury is also not done buying as it looks to further scale up its portfolio with the same underlying thinking that has overwhelmed the government market’s M&A landscape this year as buyers of all shapes and sizes try to place themselves in areas of long-term growth after the current budget framework expires Oct. 1, 2019.

Aslett described the areas Mercury is looking at acquisitions for as including the radio frequency domain, sensor processing, so-called "C2I" (command, control and intelligence) and avionics. The company has also “dipped our toe in the water internationally as well” through the deals it has already made and will also examine that prospect, he said.

All of that is envisioned at putting Mercury at nearly every phase of the technology supply chain for the areas it views as in the company’s core.

In Aslett’s view, that sums up to “one set of compute capabilities associated with doing the processing associated with data that is generated by the different types of sensors on board the platform.”

---

About the Author

Ross Wilkers is a senior staff writer for Washington Technology. He can be reached at rwilkers@washingtontechnology.com. Follow him on Twitter: @rosswilkers. Also find and connect with him on LinkedIn.

© 1996-2018 1105 Media, Inc. All Rights Reserved.