

By Dr Jeffrey Bradford, Director of Research, U K Defence Forum

VT Group's (VTG) effort to acquire infrastructure services firm Mouchel (MCHL) has had a third party enter the fray - Babcock International Group (BAB) - who have made an offer to takeover VT Group itself.

In December 2009 an offer from VT Group was rejected by Mouchel. VT Group has made a revised offer for Mouchel and in addition Babcock International moved to make an offer for VT itself.

The story has a long lineage with VT Group and Babcock developing similar capabilities in defence support services with the principal difference being VT Groups business in the United States and shipbuilding assets in the UK (now merged into BVT), whereas Babcock has assets in Africa and a ship support business centered originally on its Scottish dockyard in Rosyth and augmented by the acquisition of DML's operations in the nuclear and non-nuclear surface fleet in Devonport.

The rationale for VT can be seen clearly - Mouchel has built a good position in infrastructure support and fits with VT Group's objectives to build a strong support services business - plus it is sitting on a cash pile after initially putting its shipbuilding assets into a JV with BAE Systems - which BAE bought VT out of on November 1, 2009.

For Babcock, the rationale can be seen as three-fold;

- a) to spoil a bid for Mouchel so they themselves can pursue it downstream;
- b) to capture VT Group before their own balance sheet pulls them away from a roughly equal merger.
- c) to force VT to pay a premium to seal the deal with Mouchel or else inflict some damage onto their credibility amongst institutional investors.

In addition there must be a certain corporate satisfaction in the boardroom at Babcock to be making a play for VT Group after being the threatened party by VT Group and BAE Systems back in 2005. Ironically, the Chief Executive of BAE Systems at that point was Mike Turner... now Chairman of Babcock International Group.

Babcock meanwhile has made massive strides over the past several years from the status of an underdog, whilst VT Group has been one of the darlings of the City - with the penalty of having to change mindsets of investors as to why change a formula which has delivered in the past.

Clearly a good week for corporate advisors on all three sides...

Key statistics (as at Feb 15, 2010):

MARKET CAPITALIZATION:

Mouchel (MCHL) GBP 247.49m

VT Group (VTG) GBP 1,005m

Babcock (BAB) GBP 1,160m

SHARE PRICE (FEB 15 / YEAR LOW / YEAR HIGH)

Mouchel (MCHL) 220.25p / 147.0p / 352.5p

VT Group (VTG) 584.0p / 412.75p / 600.0p

Babcock (BAB) 505.0p / 381.25p / 660.5p

SHARES

Mouchel (MCHL) 196,272,974

VT Group (VTG) 337,999,719

Babcock (BAB) 267,067,075

PRICE/EARNINGS RATIO

Mouchel (MCHL) 8.343

VT Group (VTG) 36.13

Babcock (BAB) 11.88

The Fiancial Times "take" on the story can be found [here](#)