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ENGINEERED SUPPORT SYSTEMS INC

Form 425

September 22, 2005

Filed by DRS Technologies, Inc.  
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The slides contained in this filing were used in a DRS Technologies conference call and simultaneous internet broadcast on September 22, 2005, which was hosted by Mark S. Newman, chairman, president and chief executive officer; Richard A. Schneider, executive vice president and chief financial officer; and Patricia M. Williamson, vice president, corporate communications and investor relations.

**DRS TECHNOLOGIES**

**CONFERENCE CALL**

**Mark S. Newman**

Chairman of the Board,

President and Chief Executive Officer

September 22, 2005

**SAFE HARBOR**

**SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION**

REFORM ACT OF 1995: This press release contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on management's beliefs and assumptions, current expectations, estimates and projections. Such statements, including statements relating to DRS Technologies and Engineered Support Systems' expectations for future financial performance, are not considered historical facts and are considered forward-looking statements under the federal securities laws. These statements may contain words such as believes, anticipates, plans, expects, intends, estimates or similar expressions. These statements are not guarantees of the companies' future performance and are subject to risks, uncertainties and other important factors that could cause actual performance or achievements to differ materially from those expressed or implied by these forward-looking statements and include, without limitation, demand and competition for such companies' products and other risks or uncertainties detailed in such companies' Securities and Exchange Commission filings. Given these uncertainties, you should not rely on forward-looking statements. Such forward-looking statements speak only as of the date on which they were made, and the companies undertake no obligations to update any forward-looking statements, whether as a result of new information, future events or otherwise.

**WHY WE ARE ACQUIRING ESSI**

Good for our stockholders

Accretive to earnings

Generates strong cash flow

Enhances our position in growing markets

Good for our customers

Complements our product lines

Adds services and support to our offerings

Increases our value to our customers

**TRANSACTION OVERVIEW**

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**Offer Price**

\$43.00 per share

**Consideration**

70% cash/30% stock:

\$30.10 in cash

\$12.90 in DRS common stock, subject to

collar agreement

\$1,965.6 million total consideration

**Collar structure**

\$12.90 fixed price, provided DRS stock is

between \$46.80 and \$57.20 per share

Exchange ratio will be no greater than 0.2756

and no less than 0.2255 share

**Break-up fees**

\$60 million plus expenses

**Expected closing**

By the end of DRS's fiscal year, March 2006

**SOURCES AND USES**

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**Sources**

**Amount**

Excess cash

\$

215.7

Borrowings with new revolving credit

124.7

Expansion of existing term loans

200.0

High-yield senior notes

500.0

High-yield senior subordinated notes

200.0

Senior subordinated notes convertible notes

250.0

Issuance of DRS common stock

(11,044,230 shares at \$52)

566.8

\$

2,057.2

**Uses**

Purchase of ESSi shares

\$

1,889.4

Repayment of ESSI debt

88.3

Estimated fees and expenses

67.5

Other closing costs

12.0

\$

2,057.2

**ESSI OVERVIEW**

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**Key Capabilities:**

Environmental control

Power generation/conditioning

Vehicle & shelter integration

Automatic test equipment

Chem/bio protection

Transport systems

Fuel & water distribution

**SUPPORT SYSTEMS**

**Key Capabilities:**

Logistics support

Electronic tech manuals

Repair & return

Communications services &

support

Training

Asset protection

**SUPPORT SERVICES**

**ESSI AT A GLANCE**



**AREAS OF EXPERTISE**

Environmental Systems

Power Systems

Telecommunications Services

Defense Systems

Electronic Systems

Integrated Logistics Services

ESSI is a leader in:

**AREAS OF EXPERTISE**

Environmental Systems

Petroleum and Water Systems

Collective Protection

Shelters and Containers

Heating, Ventilation and AC

**AREAS OF EXPERTISE**

Power Systems

Generator Sets

Starters

Inverters

Converters

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**AREAS OF EXPERTISE**

Telecommunications Services

Satellite Communications

Network Services

Bandwidth Management

**AREAS OF EXPERTISE**

Defense Systems

Aircraft Loaders

Military Trailers and Shelters

Heavy Equipment Transporters

Add-on Armor

Electronic Systems

Automatic Test Equipment

Radar Systems

Security Systems

Reconnaissance, Surveillance &  
Target Acquisition Systems

**AREAS OF EXPERTISE**

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**AREAS OF EXPERTISE**

Integrated Logistics Services

Supply Chain Management

Life-Cycle Support Services

Engineering Services

Technical Data Management

Interactive Electronic Technical  
Manuals (IETMs)

**STRATEGIC RATIONALE**

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**STRATEGIC RATIONALE**

Business portfolio matches future DoD requirements

Solves DRS's strategic need for services capability

Provides customer and program diversification

Creates synergistic opportunities

Provides foundation to sell into emerging Homeland  
Defense marketplace

**BUSINESS PORTFOLIO MATCHES DOD  
REQUIREMENTS**

Future DoD requirements underscore the need for deployable,  
mobile forces

Emphasis on Army modularization

De-emphasis of NEW, big-ticket weapons and platforms

U.S. military troop end strength will need to be increased to support  
ongoing and future missions

Modularity and increased troops will result in an increased demand  
for soldier support and services

DRS will be better positioned to provide sustainment, reset,  
modernization and transformation for its customers.

**SOLVES DRS' S STRATEGIC NEED FOR  
SERVICES CAPABILITY**

DRS has a long history of providing products

ESSI has well-established services and support  
businesses providing

Increased intimacy with customer

Access to flexible contract vehicles

Enhanced access to DoD O&M accounts

Additional sources for organic growth

DRS can provide significantly higher value to its customers  
by providing logistics services and support with its hardware

**DIVERSIFICATION**

ESSI provides complementary businesses

Environmental systems

Power systems

Telecom services

Post-closing

Top 10 programs account for 20% of sales

Single largest program accounts for 3% of sales

Growth prospects enhanced across Army and Marine  
Corps

Air Force business is more than doubled

Support systems

Electronic systems

Integrated Logistics Support  
(ILS)

Diversification creates a stronger company

**CREATES SYNERGISTIC OPPORTUNITIES**

Can do more for our customers

Expanded product base

More integrated turnkey solutions and product offerings

Increases leverage on supply chain

Economies of scale

Leverages across the organization

Increased opportunities to become more competitive

DRS has a proven track record

**PROVIDES FOUNDATION TO SELL INTO  
HOMELAND DEFENSE MARKET**

Small scale systems integration capabilities

Perimeter security

Access control and asset protection

Catalog of products and subsystems

Night vision

Rugged computing

Intelligence

Environmental

Power

Chemical / biological

Telecom

DRS will build credibility and brand awareness

in Homeland Defense

**THE NEW DRS**

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**COMBINATION CREATES . . .**

**Market**

**Leadership**

Significant scale   pro forma revenues in excess of \$2.5 billion

Repositions portfolios   combines services/logistics with products

**Customer**

**Diversification**

Complementary customer base with significant presence in the Army and strong positions with the Air Force and Navy

**Enhanced**

**Technology**

**Capabilities**

DRS and ESSI each have expertise in radar, power management and EO/IR

ESSI's SATCOM services and integration capabilities coupled with DRS's product offerings

**Homeland**

**Security**

DRS's electro-optics, camera, and C2 capabilities combined with ESSI's intrusion detection, access control, and surveillance sensors create enhanced value for the emerging Homeland Security market.

**Program/**

**Platform Mix**

The combination of DRS's product focus with ESSI's support and services focus creates a diversified company aligned with future DoD requirements

***DEFINING EXCELLENCE IN DEFENSE TECHNOLOGY***

**A LEADING PROVIDER OF PRODUCTS & SERVICES**



**PRO FORMA FINANCIALS**

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2006

2007

**Revenue**

DRS

\$

1,510.0

\$

1,670.0

ESSI

\$

277.4

\$

1,230.0

**Total**

\$

**1,787.4**

\$

**2,900.0**

**EBIT**

DRS

\$

166.5

\$

184.0

ESSI\*

\$

31.2

\$

145.8

**Total EBIT**

\$

**197.7**

\$

**329.8**

**EBIT %**

**11.1%**

**11.4%**

**Pro Forma EPS**

\$

**2.50**

\$

**3.04**

**% growth**

**19.6%**

**21.6%**

**Debt/EBITDA**

**5.1x**

**4.3x**

**Debt/Cap**

**60.9%**

**57.3%**

\* Includes synergies and amortization of intangibles.

NOTE: Above amounts reflect DRS's guidance

**COMBINATION ACHIEVES CRITICAL MASS  
DEFENSE NEWS TOP 100**

2004 Defense

Sales

Rank

Total

**A Top 25 Defense Firm**

***DEFINING EXCELLENCE IN DEFENSE TECHNOLOGY***

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DRS

41

\$

1,258

\$

1,309

ESSI

57

831

884

Total

24

\$

2,089

\$

2,193

**CUSTOMER DIVERSIFICATION**

Army  
42%

USAF

23%

Navy  
18%

Other  
9%

International  
Military

8%

**DRS Pro Forma FY2006E**

**Well-Balanced Portfolio in Excess  
of \$2.5 Billion**

***DEFINING EXCELLENCE IN DEFENSE TECHNOLOGY***

Army  
41%

USAF

9%

Navy  
26%

Government Agencies/

Commercial  
11%

International  
Military

13%

**DRS Standalone FY2006E**



**Well-Balanced Portfolio in Excess  
of \$2.5 Billion**

**PROGRAM DIVERSIFICATION**

***DEFINING EXCELLENCE IN DEFENSE TECHNOLOGY***

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Before

After

Top 10 programs

(% total revenue)

29%

21%

Single largest program

(% total revenue)

6%

3%

Customer funding sources

Procurement

O&M

RDT&E

Procurement

RDT&E

**United Kingdom**

**Canada**

**23 States, Canada and the U.K.**

**9,000+ Employees**

**GREATER GEOGRAPHIC DIVERSITY**

***DEFINING EXCELLENCE IN DEFENSE TECHNOLOGY***

**DRS**

**ESSI**

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**BROAD SPECTRUM OF CAPABILITIES**

Creates a Leading Supplier of Integrated Hardware,  
Software, and Support and Services

Surveillance &

Reconnaissance

Support &

Services

C4I

***DEFINING EXCELLENCE IN DEFENSE TECHNOLOGY***

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Gen Sets (ESSI)

Power Conversion

Shipboard (DRS)

Ground (ESSI)

Airborne (ESSI)

UPS (ESSI)

Hybrid Electric (DRS)

**COMPLEMENTARY PRODUCT BASE  
EXPANSION**

Ground Vehicles (DRS)

Airborne EW (ESSI)

MSTAR (ESSI)

Scout/Squire (DRS)

SPS-67 (DRS)

APQ-170/175 (ESSI)

Core (ESSI)

Niche (DRS)

Core (DRS)

Niche (ESSI)

Services & Integration (ESSI)

Products, subsystems (DRS)

Power

Radar

SATCOM/Wireless

Diagnostics/Prognostics/ATE

EO/IR

Support/Services

***DEFINING EXCELLENCE IN DEFENSE TECHNOLOGY***

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### **INTEGRATION HISTORY**

Integration strategy used with IDT was very successful

Strategic Business Units (SBUs) were established to anchor the operating business

Lines of business (LOBs) were organized within SBUs

Common customers, products and technologies were grouped together

Group organizations were formed to provide day-to-day and strategic oversight to nascent SBU organizations

SBU organizations are now integrated, independent business units moving in the right direction

**MOVING FORWARD WITH ESSI**

Integrated company with 3 operating Groups

C4I

Surveillance and Reconnaissance

Support and Services

Rationale

Retains existing organization

Manageable number of reporting entities to  
Corporate HQ

Permits refinement of existing DRS Group and  
SBU structure

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**WHY WE ARE ACQUIRING ESSI**

Good for our stockholders

Accretive to earnings

Generates strong cash flow

Enhances our position in growing markets

Good for our customers

Complements our product lines

Adds services and support to our offerings

Increases our value to customers

**DRS & ESSI**

The combination creates a leading defense supplier of integrated products, systems, services and support serving U.S. military forces, intelligence agencies, prime contractors, and international military forces.

The combination would employ in excess of 9,500 people worldwide and generate annual revenues greater than \$2.5 billion.

**ADDITIONAL INFORMATION**

DRS Technologies and Engineered Support Systems intend to file with the Securities and Exchange Commission one or more registration statements on Form S-4 that will include a joint prospectus and proxy statement to stockholders of DRS Technologies, Inc. and Engineered Support Systems, Inc. and other relevant documents in connection with the proposed transaction. INVESTORS AND SECURITY HOLDERS OF DRS TECHNOLOGIES AND ENGINEERED SUPPORT SYSTEMS ARE URGED TO READ THE JOINT PROXY STATEMENT/PROSPECTUS AND OTHER RELEVANT MATERIALS IF AND WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT DRS TECHNOLOGIES, ENGINEERED SUPPORT SYSTEMS AND THE PROPOSED TRANSACTION. Investors and security holders may obtain a free copy of these materials (when they are available) and other documents filed with the Securities and Exchange Commission at the Securities and Exchange Commission's web site at [www.sec.gov](http://www.sec.gov). A free copy of the joint proxy statement/prospectus, when it becomes available, also may be obtained from Engineered Support Systems, Inc., 201 Evans Lane, St. Louis, MO 63121, Attn: Investor Relations, and from DRS Technologies, Inc., 5 Sylvan Way, Parsippany, NJ 07054, Attn: Investor Relations. In addition, investors and security holders may access copies of the documents filed with the Securities and Exchange Commission by Engineered Support Systems on its web site at <http://www.engineeredsupport.com>, and investors and security holders may access copies of the documents filed with the Securities and Exchange Commission by DRS Technologies on its web site at <http://www.drs.com>. Engineered Support Systems, DRS Technologies and their respective executive officers and directors may be deemed to be participants in the solicitation of proxies from their respective stockholders with respect to the proposed transaction. Information regarding DRS Technologies' directors and executive officers is available in its proxy statement filed with the Securities and Exchange Commission by DRS Technologies on June 30, 2005, and information regarding Engineered Support Systems directors and executive officers is available in its proxy statement filed with the Securities and Exchange Commission by Engineered Support Systems on January 31, 2005. Other information regarding the participants in the proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, will be contained in the joint proxy statement/prospectus and other relevant materials to be filed with the Securities and Exchange Commission when they become available.

This communication shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offering of securities shall be made except by



means of a  
prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

*Tomorrow s*

*Technology.*

*Today.*

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