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INTERVIEW: Post-war policing will drive homeland security growth, says Monroe Capital
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The homeland security sector will continue to grow at a double-digit rate for the next five to ten years as companies seek out internal security opportunities in countries such as Iraq and Afghanistan, according to US investment group Monroe Capital.

As the war effort in the Middle East switches its focus to stability and national security, spending will migrate to "police-type" services as Western governments look to protect their embassies and staff from the risk of attack, Zia Uddin, a Managing Director at Monroe, told Global Security pipeline in a recent interview.

"We are very bullish on homeland security," he said. "It's roughly a $113 billion dollar industry on the federal side and about $47 billion on the private side, so it's a huge market and a huge opportunity."

In June, Monroe – a middle market investor with about $700 million of assets under management – agreed to its first deal in the homeland security sector with a $23 million investment in Cincinnati, OH-based O'Gara Group, a defense and security services provider to government agencies, including the US embassy in Baghdad.

"There's a lot of money being spent and allocated in Congress at the moment to do this kind of work," said Uddin. "O'Gara Group already does a lot of the embassy security overseas, so they are tied into this business, they have the networks set up, and from a value perspective these guys are uniquely positioned."

Uddin said Monroe is "very opportunistic" in its investment strategy and is always scouting for "interesting" transactions in the homeland security sector, identifying critical infrastructure services as the most likely area it will target.

"There are a lot of pockets of growth, but the biggest one I think we've seen is on the bio-detection side and the non-lethal weapon side for policing," he said.

Though the $23 million unitranche credit facility it arranged with the O'Gara Group was Monroe's first in the homeland security sector, the firm has previously invested in the defense industry. In 2005 it supplied an $18 million term loan to TIMCO Aviation Services, a provider of maintenance, repair and overhaul services for commercial and military aircraft.

Uddin said the Chicago, IL-based firm is currently looking at smaller companies that fit into big military programmes, such as those that make components for helicopters, adding that the companies it is looking at – those in the lower middle market price bracket – are generally insulated from the spending cuts that will dampen the profit of big defense contractors such as Lockheed Martin and General Dynamics.

Conversely those cuts might create another challenge for Monroe as those large public defense companies turn to acquisitions to maintain growth, potentially luring smaller companies away from the refinancing market, Uddin said.

“Ultimately the owners of those smaller businesses will have to decide whether they want to get folded into the big companies or just carry on doing what they’re doing,” he said.