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## Air Transport Customers Want “Touchless” Experience For Agents, Travelers, Leidos Says

By Calvin Biesecker

After closing its \$1 billion acquisition earlier this month for the security detection and automation businesses of L3Harris Technologies [LHX], Leidos [LDOS] Chairman and CEO Roger Krone said the business case for the deal remains strong and the outlook even brighter despite the crippling blow the air transport industry is suffering from the coronavirus pandemic.

Airport and airline customers now want a “touchless” experience at airport security checkpoints, Krone said during the company’s first quarter earnings call on May 5.



Leidos Smartlane. Photo: Leidos

From the time Leidos agreed in early February to acquire the L3Harris business units until completing the purchase on May 4, the company met with its legacy customers in these areas and its incoming customers to learn their “capital spending plans and views on technology,” Krone said.

“If you were to take a word out of what we have heard, the word ‘touchless’ is what we’re hearing from customers about the transit of passengers through security checkpoints and every customer we have talked to has said ‘We have been doing this in a highly personal, highly contacted environment and going forward we don’t want to put,’ for instance in the U.S., ‘our TSA agents at risk and we don’t want to contact the traveling public,’” Krone said.

“World events have only made us more excited” about the acquisition, he said.

### International Interest

The same is true with international airports in terms of the demand for a “touchless” experience at the checkpoint, Jim Moos, president of Leidos’ Civil Group, told HSR sister publication Defense Daily in an interview following the earnings call.

“I think every customer we’ve talked too outside of the U.S. has kept their security projects critical projects,” he said. “They’re cutting capital in other areas but their security upgrades, their checkpoint upgrades, they keep them at a critical path.”

Moos also said that one international airport customer Leidos has had discussions with is concerned that with social distancing practices likely to remain in effect, at least for a while, even if passenger volumes recover 50 to 60 percent in the next year or so, there will still be longer wait times at checkpoints. One potential way the customer is considering to “combat” this is to increase the number of security lanes and purchase more equipment, he said.

Customers “across the board” want new technologies such as computed tomography (CT) scanners at checkpoints for carry-on luggage, biometrics, temperature screening, and even ways to automatically cleanse the bins that travelers place some of their personal items in before going through an inspection system, Krone said.

He said TSA agents aren’t going to want to touch driver’s licenses, which means finding a different way to verify someone’s identity, and agents aren’t going to want to do pat down searches, which puts a premium on more effective primary screening, hence more urgent demand for checkpoint CT.

“I think this is going to spawn a recapitalization of checkpoints,” he said. “We were talking to one customer that said, ‘Can we put ultraviolet lights in the tray return conveyor so that we could sanitize the tray as it comes back around and is presented to the next traveler?’ All of that is capital investments.”

In the security detection space, Leidos already has strong positions providing products worldwide for scanning vehicles and cargos at ports and borders. The company also has CT systems used at smaller airports to automatically scan checked baggage for explosives.

The L3Harris security detection and automation businesses give Leidos a slew of new aviation and critical infrastructure security products, including body scanners used at airport checkpoints worldwide, CT systems for screening checked bags at large and medium-sized airport, new checkpoint CT systems that the U.S. Transportation Security Administration and airport authorities elsewhere want to purchase, explosive trace detections used at checkpoints and in checked baggage screening, and Automated Screening Lanes for used at checkpoints and feature automated tray return systems, mechanized rollers, multiple divestment stations, automated divert systems for suspect bags, and the ability to collect more data about travelers and their bags to help create a more comprehensive security profile.

“Frankly, they have all the pieces and parts for the ‘Checkpoint of the Future,’” Moos said in the interview. This can all be put together into “a real integrated system,” he said.

The direction for airports, ports and borders, and critical infrastructure is “fast, frictionless and fully integrated,” Moos said.

As aviation security authorities roll out checkpoint CT systems, which offer operators three dimensional views of a bag’s contents, travelers increasingly don’t have to remove their personal electronics and laptops from their carry-on bags, and the technology eventually is expected to allow passengers to leave their liquids in their bags as well. Just as with checked bags, the CT systems are expected to eventually automatically screen carry-on items for threats.

Krone said that the impact of the pandemic is also accelerating demands for inspections at ports and borders, to include not just identifying individuals but “do they have a temperature, things like that.”

In addition to its legacy equipment for border security, Leidos is also a strong player in federal identity solutions arena helping key departments and agencies operate and upgrade their biometric record repositories. The company manages the Defense Department’s Automated Biometric Identification System and the FBI’s Next-Generation Identification System and is the prime contractor for the United Kingdom Home Office’s effort to transform and operate elements of the country’s national biometrics system in support of law enforcement, immigration services and border security.

Leidos expects the L3Harris businesses to contribute about \$290 million in sales for the remaining eight months of this year. When Leidos announced the deal in February, it said annual sales for the businesses are around \$500 million.

There “undoubtedly will be some slowdown” in security detection and automation sales this year due to COVID-19, James Reagan, Leidos’ chief financial officer, said on the earnings call. But, he said, prior to the pandemic the businesses were “outperforming our own projections” and the “pipeline and backlog” of business “still looks good.”

## Number One

Moos said that with the L3Harris deal, Leidos is now a “market leader” in the security detection and automation space, just behind Smiths Detection and “neck and neck” with OSI Systems’ [OSIS] Rapiscan Systems security division.

“Our plan for this market is to be at the top, to be number one,” Moos said.

Leidos is also digging into its legacy ports and borders security business as part of its drive to the top.

Before the February announcement on the deal with L3Harris, Moos said Leidos had already “renewed our investment and the amount we invest in our security products line” around its non-intrusive inspection (NII) set of products. Leidos, with its line of VACIS cargo and vehicle inspection systems, radiation portal monitors, and handheld inspection systems, sells to customers worldwide.

Leidos is the top seller of mobile NII systems to U.S. Customs and Border Protection with 76 units sold to the agency in the past five years, outpacing competitors Smiths Detection and Rapiscan. The company’s VACIS system for high-energy inspection of rail cars is also the only NII system that CBP has purchased for this purpose. The company has sold 26 systems for rail car inspection.

Leidos has been investing in artificial intelligence capabilities and a common viewer capability for its NII systems, Moos said. The common viewer allows an operator to view images and data from various systems in the port including the VACIS, radio frequency identification tags, and more, and is “extensible to biometrics,” he said.

The common viewer capability was developed in about six weeks using the company’s enterprise architecture framework, using secure DevOps development within its software factory. Leidos is working on version two of the viewer, he said.

These investments are crucial as CBP is preparing to acquire hundreds of millions of dollars in new large-scale NII systems in the coming years so that it can scan more cargo and vehicles entering the U.S. for illicit goods and potential threats. The agency is currently reviewing bids for high-energy rail car inspection systems and later this year is expected to ask for proposals for NII systems that will be deployed at ports of entry on the southwest border. CBP also has tens of millions of dollars to acquire new small-scale NII equipment.

As part of the large-scale NII procurement, CBP will be seeking multi-energy systems that can safely scan the cab of a truck at a lower energy level while the driver and occupants drive through a port crossing and then automatically switch to a higher energy level when the system begins scanning the cargo portion of a vehicle.

Moos said that Leidos has three variants for passenger vehicle screening, a portable version for putting up and taking down in the field, a mobile version that is installed on a vehicle, and a multi-lane system this is “like a toll booth.” The multi-lane system is about to begin a pilot evaluation, he said.