



Q1 2022 | INDUSTRY UPDATE

Defense & Government



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Chesapeake Corporate Advisors
May 2022

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CCA provides customized investment banking and corporate advisory services to middle market companies in the mid-Atlantic region. No matter where you are in your business life cycle, CCA can help you build shareholder value and achieve outcomes that best suit your goals.

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Corporate Advisory

The CCA Corporate Advisory team takes a holistic approach that's proven to help businesses create sustainable value through the right combination of strategy and execution. Our process is rooted in a structured, proprietary, data-based approach that leverages the most robust analytical tools and methodologies.

We start by assessing the value and marketability of your business—arriving at an objective business valuation that serves as the essential foundation for determining how to enhance that value through strategic initiatives.

Then we use our proprietary framework to evaluate and arrive at the optimal strategic alternatives to help you achieve your goals. If a business succession or exit is in your plans, our team will help you explore the best options to set you on the right path and ensure a smooth transition—so the business is ready when you are.

Investment Banking

Whether you're buying or selling a business, looking to recapitalize, or seeking new capital to fuel your growth, CCA understands the importance of this transaction in the life of your company. You need an investment banking expert you can trust wholeheartedly to guide you through a complex process and achieve a successful outcome.

Clients have trusted CCA as their investment banking advisor for 30+ years. When you choose CCA as your investment banker, your goals become our goals. We take a comprehensive, holistic approach to achieving the most successful transactions, both domestically and across borders—from preparing you to go to market, through the process of negotiating and closing a deal that produces the optimal results.



The ADG markets weathered economic challenges in 2021 and still saw record M&A activity.

Private Equity Dominated the Market

- Private Equity was the dominant player in the Government Contracting market. PE activity ranged from very large transactions such as Peraton (Veritas Capital) to newcomer in the Godspeed Capital (newcomers in the Intel market).

The \$1.2T Infrastructure Bill

- In November, Congress passed the \$1.2T infrastructure bill providing opportunities for government contractors to pursue high priority programs in highways, internet access, and electric grid upgrades.

Technology Remains Paramount

- Government funding in Artificial Intelligence, Machine Learning, Edge Computing and 5G remains high. Defense agencies are prioritizing cybersecurity, enterprise technology, unmanned systems, and threat detection.

Defense Primes Remain Active

- Publicly traded strategics were also active. Accenture Federals (ACN), CACI, ManTech (MANT), Parsons (PSN), Raytheon (RTX) and SAIC (SAIC) were among the most active companies in the Government Technology Services market. Public company valuations did decline 4% in 2021; however, and organic revenue growth rates in the Gov't Tech Services was less than 5%, potentially feeding additional acquisitions.

Record Transaction Volume

- M&A transaction volume increase approximately 40% in 2021. The number of transaction in the second half of the year eclipsed any full year from 2012 through 2018. Buyer interest was high, which aligned with sellers keen to capture historically high valuations and potential avoid any future tax consequences.

Focus on Cybersecurity and the Cloud

- Increased funding levels for addressing cybersecurity and the movement toward cloud-based systems, along with continued IT modernization have translated into a continued strong M&A market. Recent large scale cybersecurity breaches have led to a focus on shoring up the federal government's defense against cyber attacks.

The Intelligence Community Budget

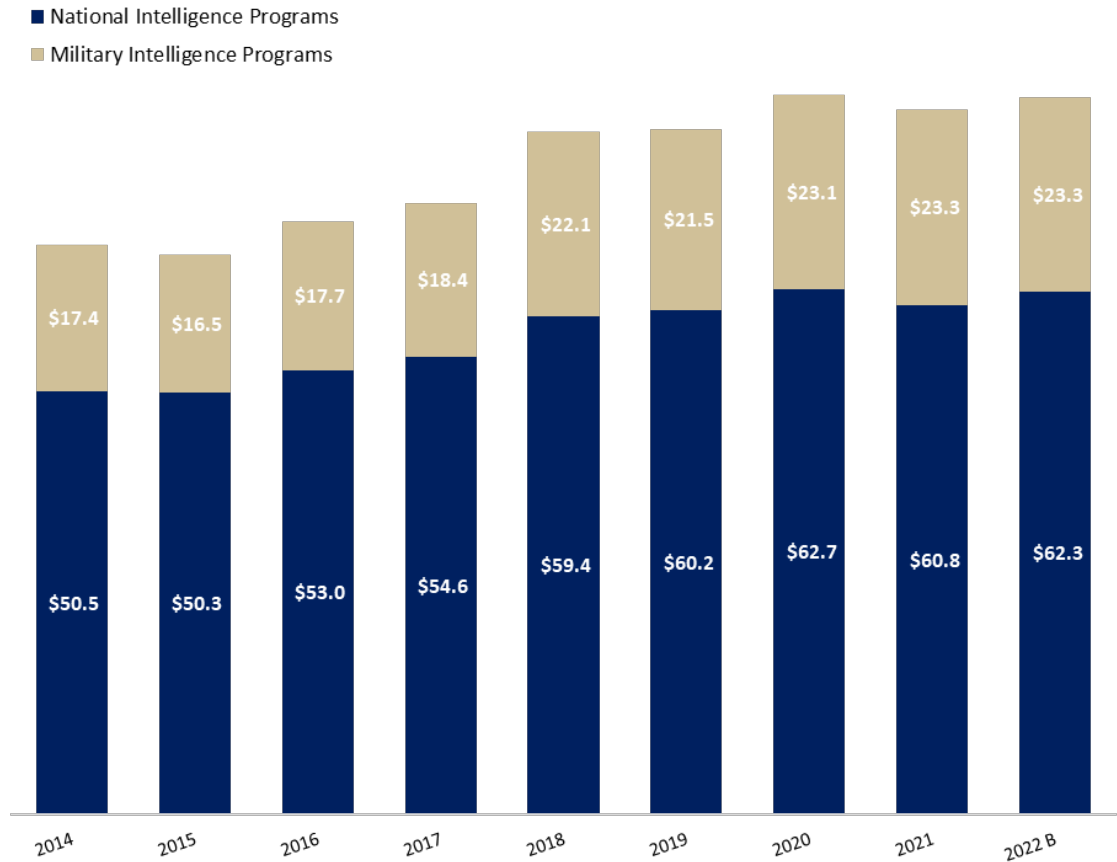


The United States Intelligence Community is a group of separate United States government intelligence agencies and subordinate organizations, that work separately and together to conduct intelligence activities to support the foreign policy and national security of the United States.

The National Intelligence Program (NIP) includes all programs. IC programs are funded through the: (1) NIP, which covers the programs, projects, and activities of the IC oriented toward the strategic requirements of policymakers, and (2) Military Intelligence Program (MIP), which funds defense intelligence activities intended to support tactical military requirements and operations.

A program is primarily NIP if it funds an activity that supports more than one department or agency (such as satellite imagery), or provides a service of common concern for the IC (such as secure communications). The NIP funds the Central Intelligence Agency (CIA) and the Office of the Director of National Intelligence (ODNI) in their entirety, and the strategic intelligence activities associated with departmental IC elements (such as DOD's National Security Agency (NSA)).

A program is primarily MIP if it funds an activity that addresses a unique DOD requirement. Additionally, MIP funds may be used to "sustain, enhance, or increase capacity/capability of NIP systems." The DNI and USD (I&S) work together in a number of ways to facilitate the integration of NIP and MIP intelligence efforts. Mutually beneficial programs may receive both NIP and MIP resources.





The government contractor middle market is home to many small, highly technical service providers and other high-growth niche players – companies that are attractive to the bigger players in the hunt for growth, added capabilities and access to specific contract vehicles. The result is a robust and dynamic market for acquisitions. However, doing business with the government adds a layer of complexity to growth and risk considerations.

Strategic Buyers

Strategic buyers tend to be operating companies that provide similar service capabilities or product offerings and are often competitors or strategic partners. In some instances, they may be commercial providers looking to enter the intelligence community, or government contractors trying to diversify their customer base and/or revenue sources.

Historically, M&A activity amongst government contractors has been driven by strategic acquisitions in which larger companies have paid premiums to acquire cleared personnel, new technological capabilities, or access to certain contract vehicles. Strategic buyers evaluate acquisitions largely in the context of how the business will “tie in” with their existing company and business units.

Despite the low cost of capital (interest rates at unprecedented levels), many strategic buyers have put acquisitions on hold and are waiting for more clarity on future economics.



Financial Sponsors

Financial sponsor is another term for a private equity investment firm. Private equity firms use outside capital to invest in companies that show sustainable revenue and cash flow opportunities, so that they may produce a return on their capital to investors.

Historically, private equity has not been active in government contracting. However, over the past decade firms like Arlington Capital Partners, AE Industrial Partners, Enlightenment Capital, CM Equity Partners, GodSpeed Capital and others have made significant investments in the space, recognizing the growth opportunities and value in consistent and predictable revenue vehicles.

Private equity firms are focusing on developing business contingency plans for their portfolio companies. They are also assessing how each of their companies may be affected, and most of them have begun preparing financial models to account and plan for downside scenarios.



Recent Intelligence Community Transaction Highlights



Private Equity and Strategic buyers have been active in the Intelligence Community in the last year. Private Equity backed platform companies such as Blue Halo and IntelliBridge continued to add to their Intel portfolio, while Strategics such as Accenture Federal, ManTech and Huntington Ingalls focused on acquisitions to bolster their growth.

 <p>Acquired by</p>  <p>August 2021</p>	 <p>Acquired by</p>  <p>December 2021</p>	 <p>Acquired by</p>  <p>December 2021</p>	 <p>Acquired by</p>  <p>January 2022</p>	 <p>Acquired by</p>  <p>September 2021</p>
 <p>Acquired by</p>  <p>November 2021</p>	 <p>Acquired by</p>  <p>August 2021</p>	 <p>Acquired by</p>  <p>March 2021</p>	 <p>Acquired by</p>  <p>January 2022</p>	 <p>Acquired by</p>  <p>August 2021</p>
 <p>Acquired by</p>  <p>August 2021</p>	 <p>Acquired by</p>  <p>June 2021</p>	 <p>Acquired by</p>  <p>May 2021</p>	 <p>Acquired by</p>  <p>January 2022</p>	 <p>Acquired by</p>  <p>August 2021</p>

EBITDA Valuation Multiples

Historical EV/EBITDA multiples have generally increased in each of the last three years in line with the broader public market's performance.

Q1 2020

With the brunt of COVID's impact on the public markets yet to be fully incorporated, valuation multiples remained reasonably supported, but were still at 3-year lows in March of 2020.

Q1 2021

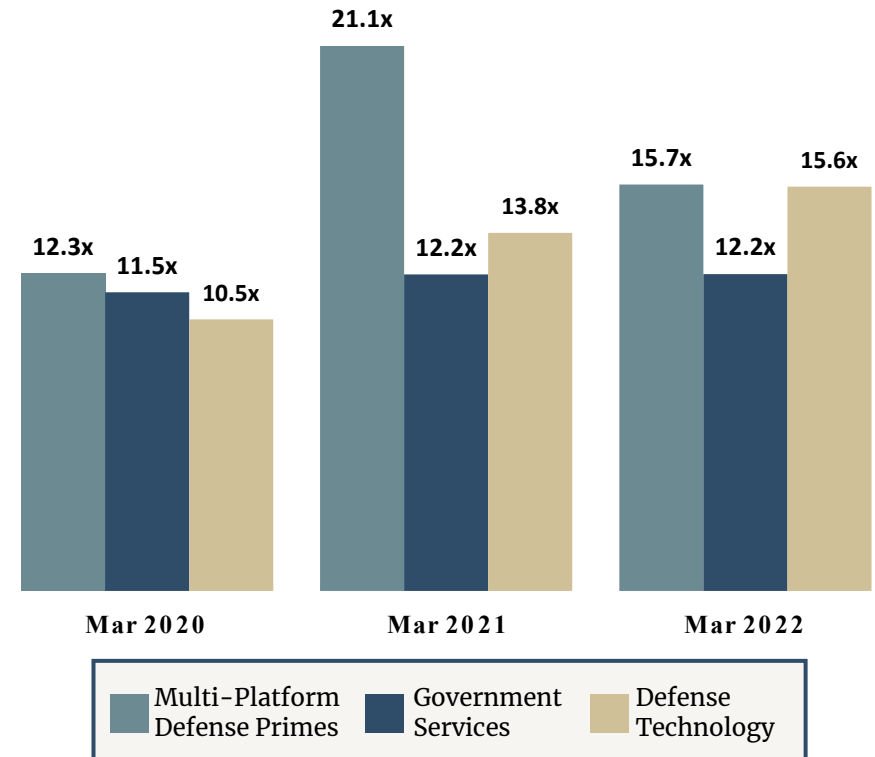
Valuation multiples had generally rebounded from the COVID lows of 2020. Multi-Platform Defense primes were driven by an anomaly with Boeing's TEV/EBITDA multiple being artificially inflated.

Q1 2022

Valuation multiples continued to rebound from 2020 lows, inline with the broader market, with an average of 14.5x (EV/ EBITDA) across CCA's defined government contracting sectors. (Multi-Platform Defense Primes, Government Services and Defense Technology)

Historical TEV/EBITDA Multiples

(ADG average based on public indices)





As we monitor the Government Contracting Industry, we have classified some of the largest government contractors into three main industry sub sectors defined below.

Multi-Platform Defense Primes

Companies typically involved in the interdisciplinary fields of engineering and engineering management in the delivery of defense related products and services. This includes, but not limited to weaponry, munitions, electronics and cyber related products and services.



Government Services

Government contractors focused on the delivery of professional services. These services typically augment or are support of engineering, IT and software development, cyber security project-based initiatives or to bolster the Government ability to provide for the national defense.

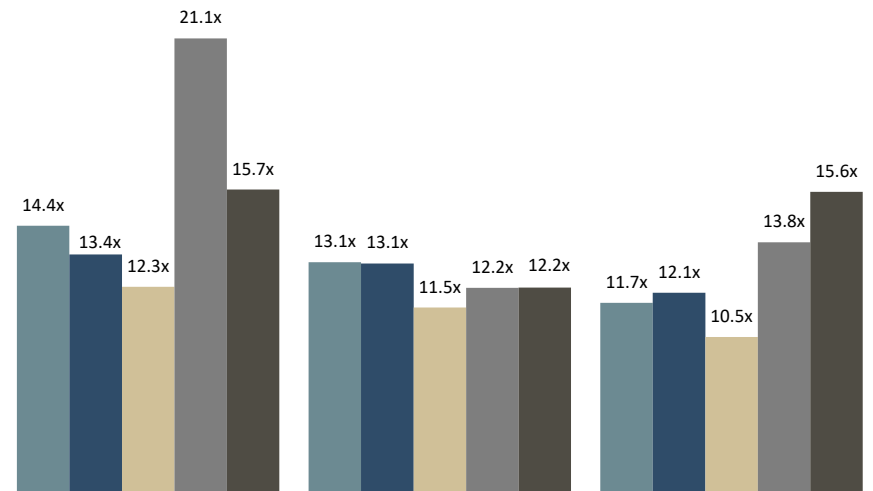


Defense Technology

Defense prime contractors specialize in the design, construction and support of defense-based products and services. Their work with the Federal Government is typically in a prime contracting relationship as they manage their supply chains and furnish services, supplies or construction to the Government.



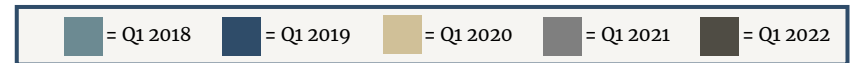
Historical TEV/TTM EBITDA Multiples



Multi- Platform Defense Primes

Government Services

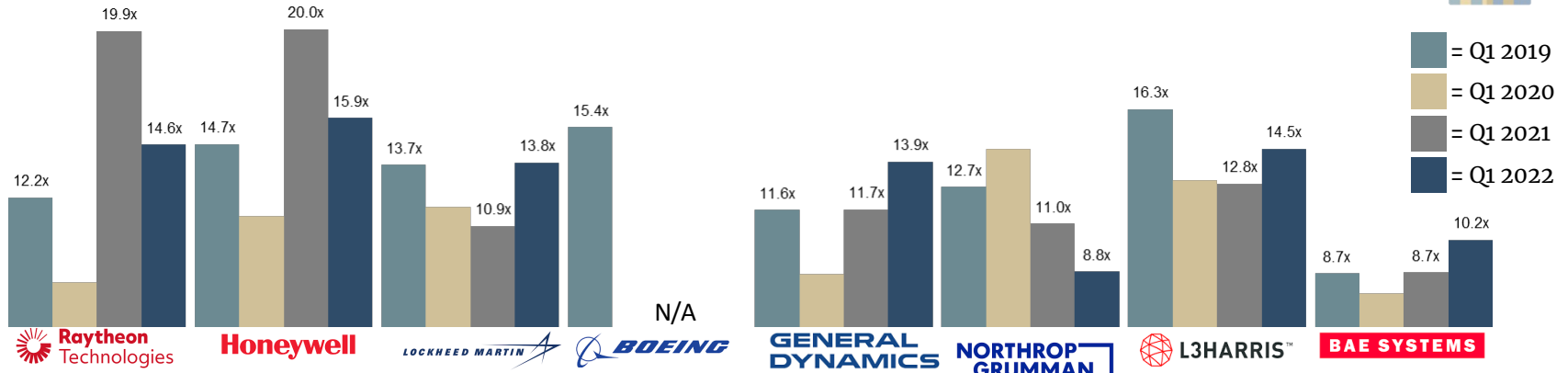
Defense Technology



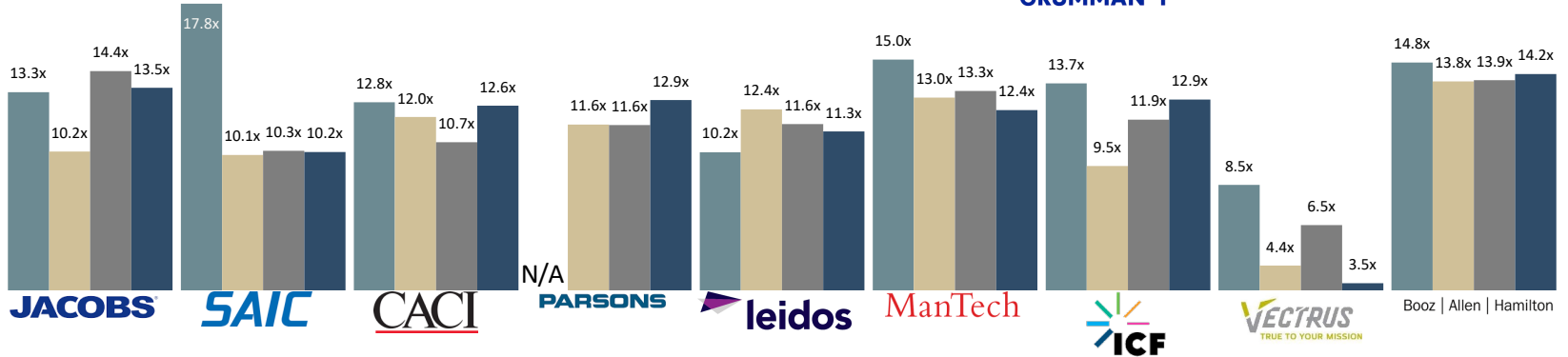
Historical TEV/TTM EBITDA Public Market Trends



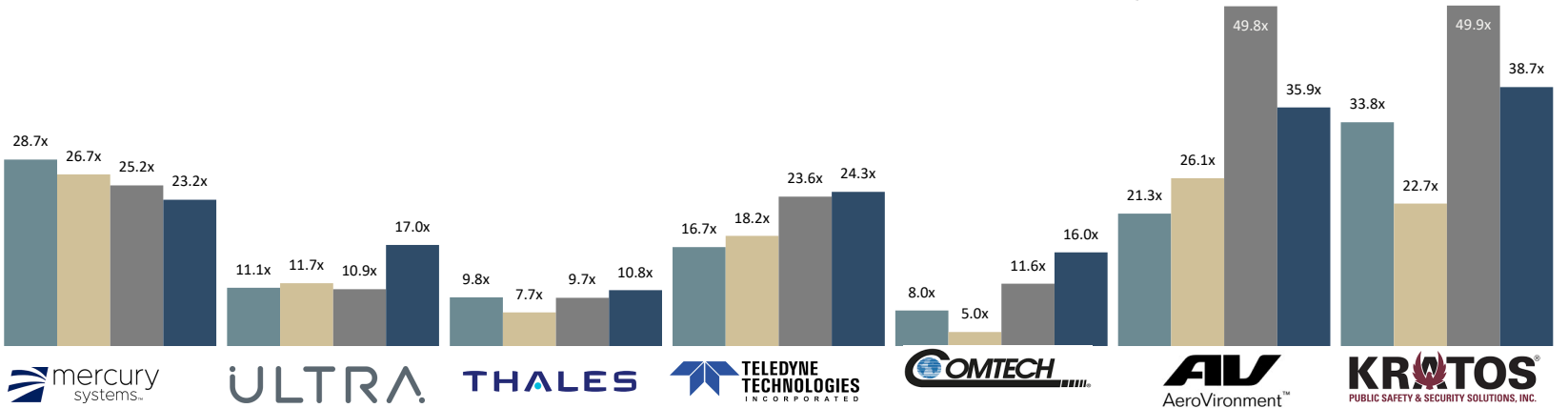
Multi-Platform Defense Primes



Government Services



Defense Technology



Public Market Data



Multi-Platform Defense Primes

Company	Market Data				Financial Performance						Enterprise Value /			
	Price	% of 52 Week High	Market Cap (Basic)	Enterprise Value	2021			2022			Revenue		EBITDA	
					Revenue	EBITDA	EBITDA %	Revenue	EBITDA	EBITDA %	2021	2022	2021	2022
Raytheon Technologies Corporation	\$99.07	94.9%	146,928	174,280	64,388	11,374	17.7%	69,049	12,512	18.1%	2.71x	2.52x	15.32x	13.93x
Honeywell International Inc.	\$194.58	82.1%	133,381	143,169	34,392	8,696	25.3%	36,129	9,288	25.7%	4.16x	3.96x	16.46x	15.41x
Lockheed Martin Corporation	\$441.40	92.0%	120,205	129,703	67,044	9,010	13.4%	66,110	10,024	15.2%	1.93x	1.96x	14.40x	12.94x
The Boeing Company	\$191.50	73.5%	113,059	156,609	62,286	1,457	2.3%	81,342	8,066	9.9%	2.51x	1.93x	NM	19.42x
Northrop Grumman Corporation	\$447.22	91.1%	69,812	80,939	35,667	8,734	24.5%	36,587	4,865	13.3%	2.27x	2.21x	9.27x	16.64x
General Dynamics Corporation	\$241.18	94.6%	66,953	78,525	38,469	5,271	13.7%	39,345	5,172	13.1%	2.04x	2.00x	14.90x	15.18x
L3Harris Technologies, Inc.	\$248.47	88.8%	47,970	55,073	17,814	3,637	20.4%	17,569	3,810	21.7%	3.09x	3.13x	15.14x	14.46x
BAE Systems plc (United Kingdom)	\$9.43	93.6%	29,665	34,845	26,433	3,011	11.4%	29,193	3,936	13.5%	1.32x	1.19x	11.57x	8.85x
Mean		88.8%					16.1%			16.3%	2.50x	2.36x	13.87x	14.60x
Median		91.5%					15.7%			14.3%	2.39x	2.10x	14.90x	14.82x

Government Services

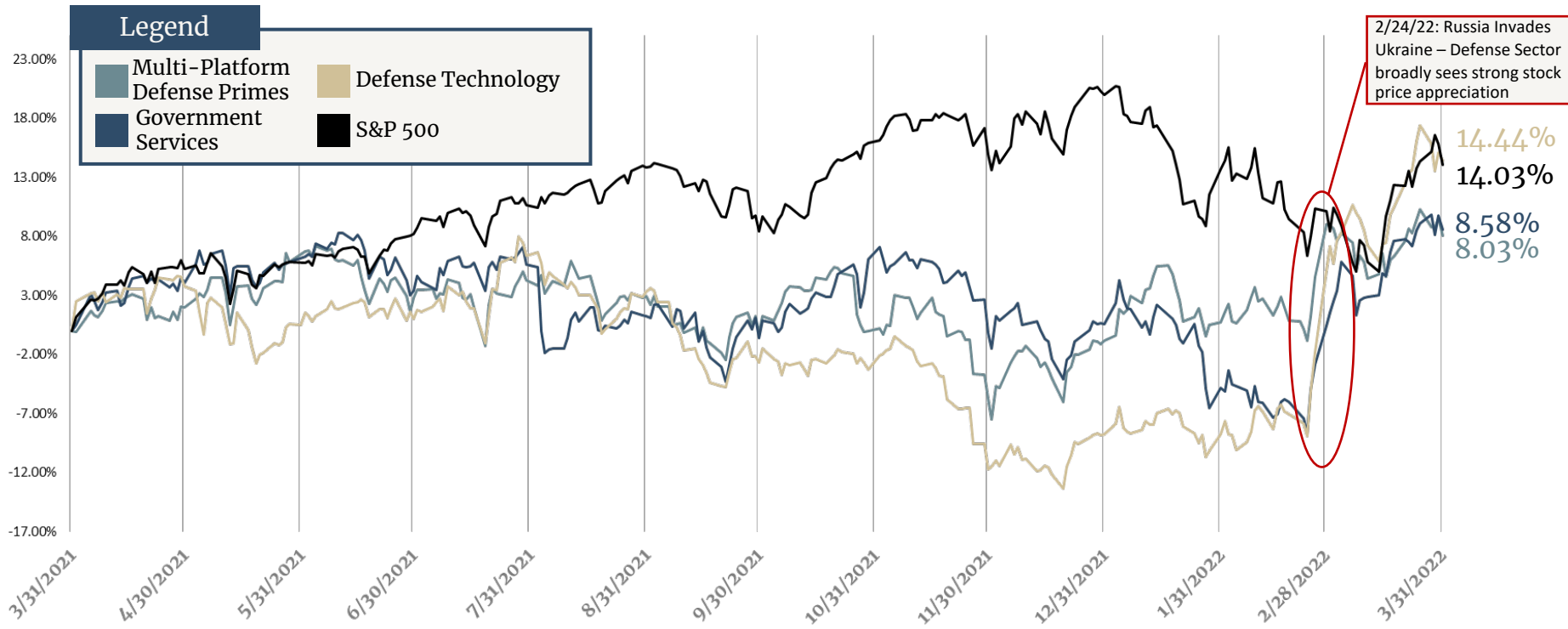
Jacobs Engineering Group Inc.	\$137.81	92.1%	17,807	21,233	14,091	1,392	9.9%	15,005	1,385	9.2%	1.51x	1.42x	15.25x	15.33x
Leidos Holdings, Inc.	\$108.02	98.5%	14,728	19,912	13,737	1,488	10.8%	14,106	1,467	10.4%	1.45x	1.41x	13.38x	13.57x
Booz Allen Hamilton Holding Corporation	\$87.84	96.5%	11,705	14,214	8,105	916	11.3%	8,341	927	11.1%	1.75x	1.70x	15.52x	15.33x
CACI International Inc	\$301.26	96.1%	7,051	9,408	6,093	643	10.6%	6,328	676	10.7%	1.54x	1.49x	14.63x	13.91x
Science Applications International Corporation	\$92.17	95.5%	5,166	7,883	7,394	652	8.8%	7,381	676	9.2%	1.07x	1.07x	12.09x	11.66x
Parsons Corporation	\$38.70	86.0%	4,012	4,507	3,661	243	6.6%	3,801	330	8.7%	1.23x	1.19x	18.55x	13.65x
ManTech International Corporation	\$86.19	93.7%	3,518	3,861	2,554	264	10.3%	2,641	255	9.7%	1.51x	1.46x	14.61x	15.12x
ICF International, Inc.	\$94.14	87.0%	1,767	2,411	1,553	151	9.7%	1,694	169	10.0%	1.55x	1.42x	15.99x	14.26x
Vectrus, Inc.	\$35.86	64.8%	421	534	1,784	79	4.4%	1,854	85	4.6%	0.30x	0.29x	6.79x	6.29x
Mean		94.1%					9.8%			9.9%	1.44x	1.39x	14.86x	14.08x
Median		95.5%					10.3%			9.7%	1.51x	1.42x	14.63x	13.91x

Defense Technology

Thales S.A. (France)	\$126.58	92.6%	26,960	28,238	18,415	2,332	12.7%	19,033	3,010	15.8%	1.53x	1.48x	12.11x	9.38x
Teledyne Technologies Incorporated	\$472.63	98.9%	22,306	26,098	4,614	1,034	22.4%	5,508	1,361	24.7%	5.66x	4.74x	25.25x	19.18x
Mercury Systems, Inc.	\$64.45	81.1%	3,658	4,079	953	163	17.1%	1,007	220	21.8%	4.28x	4.05x	24.98x	18.57x
Ultra Electronics Holdings plc (United Kingdom)	\$43.69	97.2%	3,117	3,171	1,152	189	16.4%	1,199	213	17.8%	2.75x	2.65x	16.79x	14.89x
Kratos Defense & Security Solutions, Inc.	\$20.48	67.6%	2,553	2,602	812	55	6.8%	895	88	9.8%	3.21x	2.91x	NM	29.61x
AeroVironment, Inc.	\$94.14	74.3%	2,328	2,460	449	60	13.4%	448	57	12.7%	5.48x	5.49x	NM	NM
Comtech Telecommunications Corp.	\$15.69	56.6%	416	660	522	23	4.5%	517	50	9.6%	1.26x	1.28x	28.08x	13.31x
Mean		81.2%					13.3%			16.0%	3.45x	3.23x	21.44x	17.49x
Median		81.1%					13.4%			15.8%	3.21x	2.91x	24.98x	16.73x

Source: S&P Capital IQ Data as of 03/31/2022

CCA Government Services Indices Stock Performance



Commentary

- Government Services and Multi-Platform Defense Primes underperformed the broader market (S&P500) by ~700 basis points over the past year. Both indices made up significant ground over the final month of the period due to market reaction to the war in Ukraine.

How CCA Helps Government Contractors



Strategy & Corporate Advisory

Chesapeake Corporate Advisors provides a framework for business owners to focus on building sustainable value and to explore their succession and exit alternatives. We use our proprietary tools and methodologies to assess the market and maximize value through strategy.

Investment Banking Services

CCA is a leading investment bank with extensive expertise in mergers, acquisitions, divestitures, and corporate advisory. We use a comprehensive approach to assist clients develop and execute a buy-side, sell-side or recapitalization strategy domestically and in cross-border transactions.

Business Valuations & Financial Opinions

At CCA, understanding shareholder value is at the center of everything that we do. Our analysis considers the feasibility of mergers, acquisitions, divestitures, ESOPs, management buy-outs and recapitalizations. We provide an objective, assessment of value that is deeply rooted in qualitative and quantitative analysis using our proprietary methodologies.

CCA's Government Contracting team is a blend of Corporate Advisory, Investment Banking, and Government Contracting Executives. We have worked with dozens of companies in projects ranging from Sell Side Investment Banking, to Ownership Alternatives, to Valuations to Boards of Directors.



The CCA Government Contracting Team



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