



# Q1 2023 | INDUSTRY UPDATE

## Defense & Government

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Chesapeake Corporate Advisors  
April 2023

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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.

CCA is a boutique corporate advisory and investment banking firm that has been successfully serving investor-owned and closely held emerging growth and middle market companies since 2005. Our team of managing directors brings 30 years of experience to the Baltimore area.

Together we provide a collaborative, holistic approach to serving clients in the Mid-Atlantic region. For middle market companies looking to create business value with the help of our strategy services, and/or realize value through a merger, acquisition or other transaction, CCA is ready to stand with you, guide you through the process, and help you achieve your goals.

## Corporate Advisory

- Value Creation
- Succession and Exit Planning
- Growth Plan Evaluation
- Valuations & Appraisal
- Fairness Opinion
- ESOP Feasibility Study
- Stockholder Agreement

## Investment Banking

- Sell-Side
- Buy-Side
- Merger
- Recapitalization
- Growth Capital
- Management Buyout

\$3.0Bn

Aggregate Tx value

20 years

Average experience

25

Transactions Closed  
Since 2020

84

Valuations and  
Marketability Studies



*The quarter was characterized by the market headwinds of inflation, interest rates and tightening credit markets, however Defense Technology, Defense Primes and Government Services companies were resilient and still overperformed the broader market.*

## Top Growth Markets

- According to Bloomberg Government, more than one in four federal procurement dollars is spent in six federal markets. In order of spending, they are Cloud Computing, Artificial Intelligence and Machine Learning, Base Operations and Logistics, Business Management and Financial Services, Facilities Services and Digital Services.

## Market Headwinds

- Tightening credit markets, inflation and rising interest rates remain a challenge to the broader M&A market and while the Defense, Aerospace and Government Technology Services market are somewhat insulated, the volatility in the overall capital markets, lingering political instability across the world and recession fears remain an ever-present theme.

## Alliant 3 Unrestricted

- The new Alliant 3 Unrestricted contract through the General Services Administration has an estimated value of \$75 billion. The GSA is currently conducting market research for the contract which represents a significant increase from Alliant 2's initial contract ceiling. RFP release date is expected in FY 2026. Alliant 2 Unrestricted has 41 awardees.

## Market Trends for ADG

- M&A volume has decreased over the last two quarters however there does not seem to be any meaningful decline in valuations. Government Services, remain acquisitive (especially PE backed strategics) as the battle for labor continues and a historically slow contract award condition adds pressure on managers to meet their quarterly targets.

## Private Equity Remain Active

- Private Equity accounts for roughly 50% of current M&A transactions. Private equity dry powder hovers around \$1 trillion as of Q4 2022, according to Pitchbook. Its current rate is down slightly from its previous record, \$1.8 trillion, at the beginning of 2022. The market expects private equity to be active in 2023 through buy and build strategies.

## Defense Technology Perform Well

- Government Services, Multi-Platform Defense Primes, and Defense Technology indices continue to outperform the S&P 500, with Multi-Platform Defense Primes in positive territory for the past year. Defense Technology stocks rebounded after months of tracking near the S&P 500 to end the quarter with the best outperformance during uncertain economic times.



*Companies serving the Intelligence and Cyber Markets encompass a wide range of offerings with a diverse set of skills and market segments. From Artificial Intelligence and Machine Learning to Cybersecurity and support for the war fighter, the people that make up these technology companies are actively involved in national security. Along with these “pointy edge of the sword companies” are support industries in staffing, construction, finance, and legal which serve to support the infrastructure, financial, and legal needs of this community.*

## Cyber Command Releases Budget

- The DoD’s fiscal 2024 budget includes U.S. Cyber Command’s first every budget as it assumed full budget authorities and resources for the cyber mission forces. According to DefenseScoop, “The FY24 budget is a significant milestone for CYBERCOM since it is the first planned budget submission under EBC authorities.”

## National Cybersecurity Strategy

- The National Cybersecurity Strategy calls for two fundamental shifts: rebalancing the responsibility to defend cyberspace and realigning incentives to favor long-term investments. The US will advance cyberspace as a tool to achieve our goals in a way that reflects our values: economic security and prosperity; responsive and rights-respecting democracy; and a vibrant and diverse society.

## Possible New Cyber Intel Center

- U.S. Cyber Command has signaled interest in establishing an independent center focused on collecting and sharing foreign cyber intelligence, according to the Federal News Network. The proposed center would be a joint effort with the NSA and the DIA with a focus on international adversaries’ offensive cyber capabilities.

## ODNI Releases Threat Assessment

- This annual report of worldwide threats to the national security of the United States responds to Section 617 of the FY21 Intelligence Authorization Act. This report reflects the collective insights of the Intelligence Community (IC), which is committed every day to providing the nuanced, independent, and unvarnished intelligence to protect American lives and America’s interests anywhere in the world.

## Cyber Mission Forces Expands

- The Department of Defense’s budget request also funds an additional five Cyber Mission Force teams – now up to 147. The Cyber Mission force is comprised of cyber teams that conduct offensive, defensive, intelligence and support operations on behalf of CYBERCOM. These teams, initially conceived in 2012 were originally set at 133 teams

## HUBZone Maps Changing

- The SBA has released a preview of the updated Historically Underutilized Business Zone maps showing the locations that will become eligible for HUBZone certification. The new maps will take effect on July 1, 2023, highlighting employment and growth opportunities reserved for small businesses in disadvantaged communities.

# Recent Intel Community and Cyber Transaction Highlights



Target	Acquiror
	
<u>Closed</u>	<u>Sector</u>
January 26, 2023	Cyber

## Description

Iron Bow Technologies, LLC, a portfolio company of H.I.G. Private Equity, has acquired Guardsight, Inc., a Cedar City, Utah-based provider of cybersecurity operations as a service (SECOPS) and managed detection and response (MDR) solutions for private sector and U.S. federal government markets. Iron Bow stated that its acquisition of Guardsight will enhance "existing cybersecurity solutions portfolio, combining its public-sector cybersecurity engineering capabilities with GuardSight's private-sector SECOPS and MDR capabilities."

Target	Acquiror
	
<u>Closed</u>	<u>Sector</u>
March 31, 2023	Cyber

## Description

Optiv Security, Inc., a portfolio company of KKR & Co. L.P., has acquired ClearShark, LLC, a Hanover, Md.-based provider of technical and information technology services to the defense and intelligence sectors. Kevin Lynch, CEO of Optiv, stated that the combined companies are "primed to better help federal agencies and contractors ensure a strong cybersecurity posture and build a lasting legacy in the public sector space."

Target	Acquiror
	
<u>Closed</u>	<u>Sector</u>
March 1, 2023	Intel & Cyber

## Description

Altamira Technologies Corp., a portfolio company of ClearSky, McNally Capital, LLC, and Razor's Edge Management, LLC, has acquired (VaST), a Warrenton, Va.-based provider of software development services to private sector and U.S. federal government aerospace and defense markets. Altamira stated that the acquisition of VaST adds "new capabilities in end-to-end SIGINT tasking, collection, processing, exploitation, and dissemination, National/Tactical SIGINT collaborative mission constellation management, and emerging threat identification."



# Recent Intel Community and Cyber Transaction Highlights

Target	Acquiror	Target	Acquiror	Target	Acquiror
					
<u>Closed</u>	<u>Sector</u>	<u>Announced</u>	<u>Sector</u>	<u>Closed</u>	<u>Sector</u>
March 21, 2022	Intel & Cyber	March 1, 2023	Cyber	January 26, 2023	Cyber & Analytics
<b>Description</b>		<b>Description</b>		<b>Description</b>	
<p>In conjunction with its acquisition of CollabSpace, Arlington Capital Partners has formed Eqlipse Technologies, a provider of identity intelligence, advanced research and development, and cyber engineering solutions for private sector and U.S. federal government defense, intelligence, and national security markets. Arlington Capital appoints Dennis Kelly as CEO, Katie Selbe as COO, and Sarah Otchet as CFO. Eqlipse is comprised of CollabSpace, Inc.; Gradient Zero, Inc.; Velocity3 Alliance LLC; Resolute Technologies LLC; and Net Vision Consultants, Inc.</p>		<p>Cherokee Federal, a subsidiary of tribally owned The Cherokee Nation, has acquired Criterion Systems, Inc., a Vienna, Va.-based systems integration and cyber operations solutions firm serving the private sectors and the U.S. federal government. Cherokee Federal stated that the acquisition "expands Cherokee Federal's offerings and ensures the organization is well-poised to continue meeting evolving customer needs."</p>		<p>AE Industrial Partners, LP (AEI) has acquired REDLattice, Inc., a Chantilly, Va.-based provider of full spectrum cyber capabilities and services for private sector and the U.S. federal government aerospace and defense markets. John Ayers, REDLattice founder and CEO, stated that the company's partnership with AEI "will bring the resources and expertise to help achieve our goals, dramatically impacting the capabilities we deliver to address our customers' ever-evolving needs."</p>	



# EV/EBITDA Public Valuation Multiples



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 is 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 support engineering, IT and software development, cyber security project-based initiatives or bolster the Government ability to provide for the national defense.

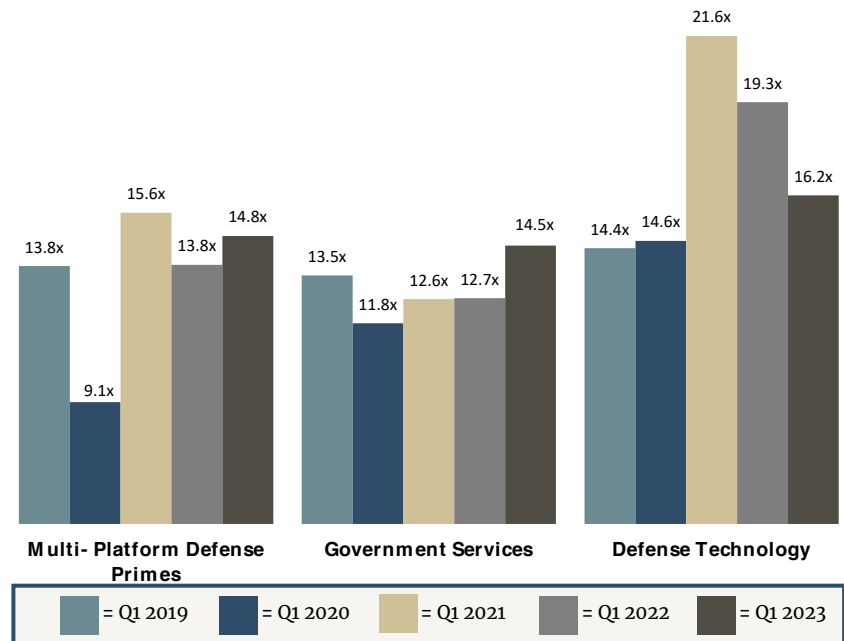


## Defense Technology

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.

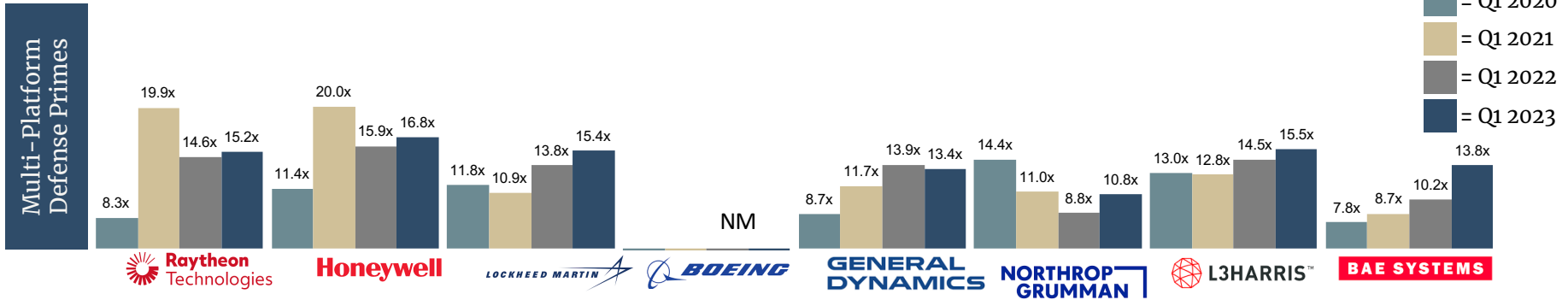


## Historical TEV/TTM EBITDA Multiples

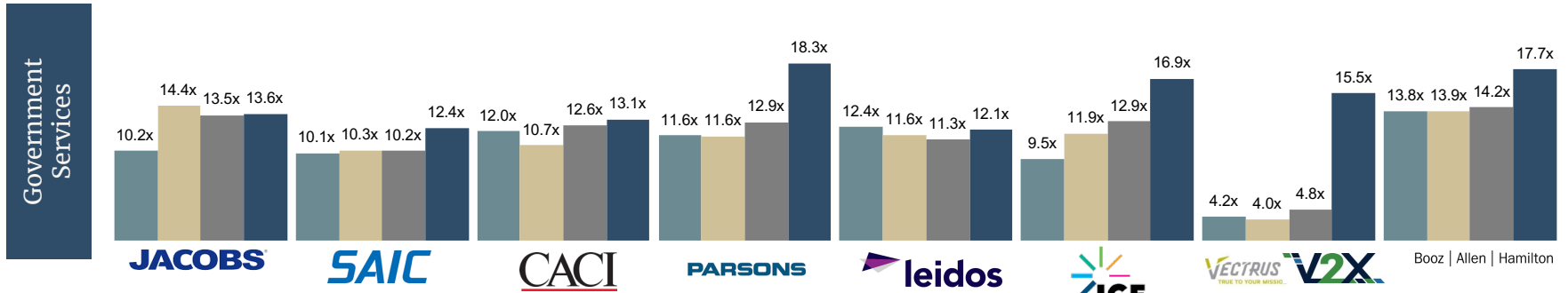


Note: Multiples are based on a weighted average by market capitalization

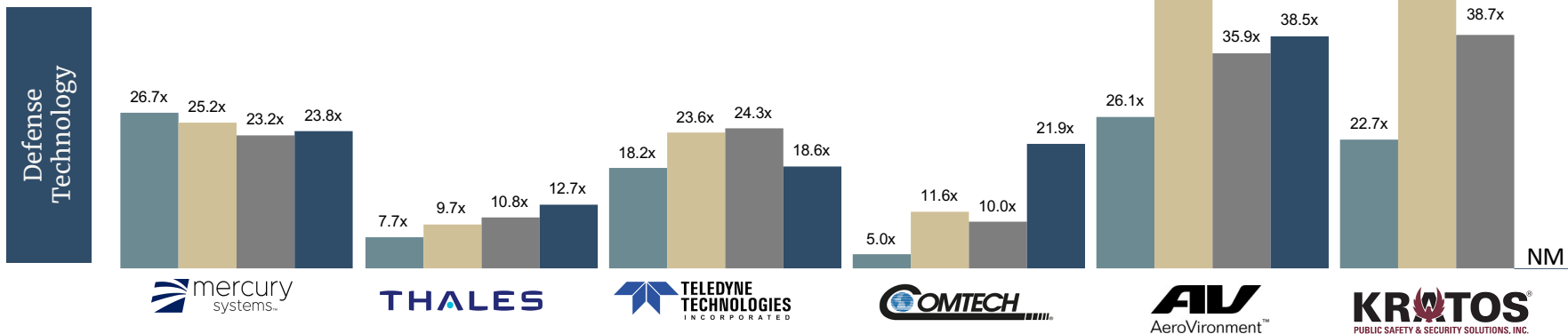
# Historical TEV/TTM EBITDA Public Market Trends



Note: Boeing's TEV/TTM EBITDA multiple has been not meaningful due to low or negative earnings



Note: Vectrus and Vertex combined in July 2022. Multiples prior to 2022 are Vectrus, while Q4 2022 is V2X.





# Public Market Data



## Multi-Platform Defense Primes

Company	Market Data				Financial Performance						Enterprise Value /			
	Price	% of 52 Week High	Market Cap	Enterprise Value	LTM 2023			2023E			Revenue		EBITDA	
					Revenue	EBITDA	EBITDA %	Revenue	EBITDA	EBITDA %	LTM	2023E	LTM	2023E
Raytheon Technologies Corporation	\$97.93	90.0%	\$142,793	\$172,011	\$67,074	\$11,324	16.9%	\$72,430	\$12,840	17.7%	2.56x	2.37x	15.2x	13.4x
Honeywell International Inc.	\$91.12	86.5%	\$127,695	\$138,751	\$35,466	\$8,274	23.3%	\$36,718	\$9,364	25.5%	3.91x	3.78x	16.8x	14.8x
The Boeing Company	\$212.43	96.0%	\$127,283	\$168,680	\$66,608	\$1,647	2.5%	\$78,775	\$5,439	6.9%	2.53x	2.14x	NM	310x
Lockheed Martin Corporation	\$472.73	94.7%	\$120,319	\$133,479	\$66,146	\$8,690	13.1%	\$65,664	\$9,814	14.9%	2.02x	2.03x	15.4x	13.6x
Northrop Grumman Corporation	\$461.72	83.0%	\$70,203	\$82,626	\$36,602	\$7,680	21.0%	\$38,324	\$5,343	13.9%	2.26x	2.16x	10.8x	15.5x
General Dynamics Corporation	\$228.21	88.8%	\$62,581	\$73,453	\$39,407	\$5,485	13.9%	\$41,171	\$5,375	13.1%	1.86x	1.78x	13.4x	13.7x
L3Harris Technologies, Inc.	\$96.24	74.1%	\$37,277	\$44,390	\$17,062	\$2,867	16.8%	\$17,709	\$3,538	20.0%	2.60x	2.51x	15.5x	12.5x
BAE Systems plc (United Kingdom)	\$12.16	99.1%	\$37,081	\$41,933	\$25,614	\$3,038	11.9%	\$30,071	\$3,956	13.2%	1.64x	1.39x	13.8x	10.6x
Mean		89.0%					14.9%			15.7%	2.42x	2.27x	14.4x	15.6x
Median		89.4%					15.4%			14.4%	2.39x	2.15x	15.2x	13.6x

## Government Services

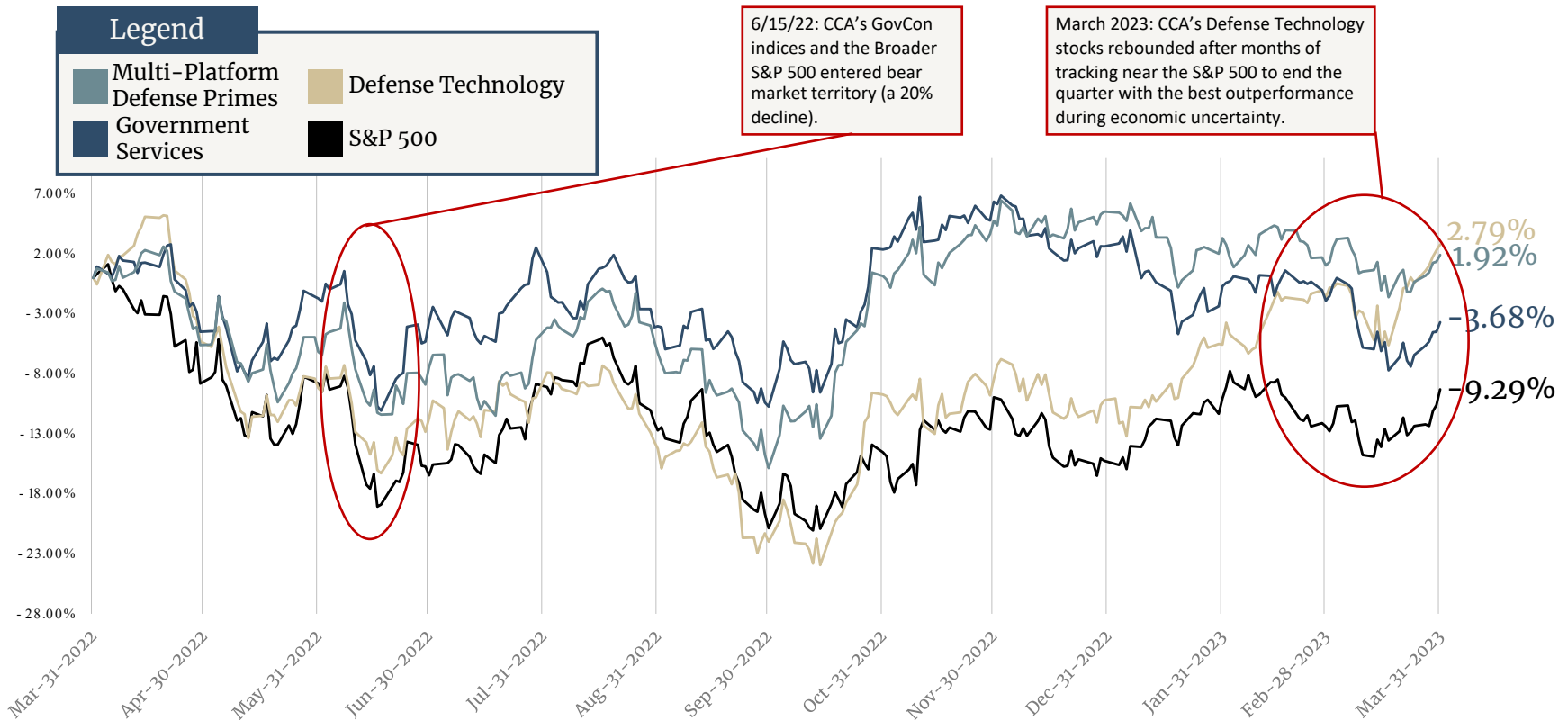
Jacobs Solutions Inc.	\$117.51	78.2%	\$14,890	\$18,602	\$15,341	\$1,365	8.9%	\$15,922	\$1,455	9.1%	1.21x	1.17x	13.6x	12.8x
Leidos Holdings, Inc.	\$92.06	82.8%	\$12,630	\$17,788	\$14,396	\$1,466	10.2%	\$14,998	\$1,559	10.4%	1.24x	1.19x	12.1x	11.4x
Booz Allen Hamilton Holding Corporation	\$92.69	82.4%	\$12,261	\$14,966	\$9,064	\$846	9.3%	\$9,211	\$1,010	11.0%	1.65x	1.62x	17.7x	14.8x
CACI International Inc.	\$296.28	92.8%	\$6,765	\$8,511	\$6,481	\$649	10.0%	\$6,581	\$706	10.7%	1.31x	1.29x	13.1x	12.1x
Science Applications International Corporation	\$107.46	91.1%	\$5,870	\$8,339	\$7,704	\$675	8.8%	\$7,594	\$674	8.9%	1.08x	1.10x	12.4x	12.4x
Parsons Corporation	\$44.74	89.2%	\$4,685	\$5,393	\$4,195	\$295	7.0%	\$4,495	\$386	8.6%	1.29x	1.20x	18.3x	14.0x
ICF International, Inc.	\$109.70	90.5%	\$2,055	\$2,820	\$1,780	\$167	9.4%	\$1,979	\$213	10.8%	1.58x	1.43x	16.9x	13.2x
V2X, Inc.	\$39.72	77.9%	\$1,228	\$2,446	\$2,891	\$158	5.5%	\$3,851	\$302	7.8%	0.85x	0.64x	15.5x	8.1x
Mean		85.6%					8.6%			9.7%	1.28x	1.20x	14.9x	12.3x
Median		86.0%					9.1%			9.8%	1.26x	1.19x	14.6x	12.6x

## Defense Technology

Thales S.A. (France)	\$148.14	98.6%	\$31,130	\$31,537	\$18,776	\$2,482	13.2%	\$19,947	\$3,057	15.3%	1.68x	1.58x	12.7x	10.3x
Teledyne Technologies Incorporated	\$447.36	90.6%	\$21,027	\$24,468	\$5,459	\$1,316	24.1%	\$5,744	\$1,405	24.5%	4.48x	4.26x	18.6x	17.4x
Mercury Systems, Inc.	\$51.12	75.1%	\$2,970	\$3,494	\$1,000	\$147	14.7%	\$1,034	\$204	19.8%	3.49x	3.38x	23.8x	17.1x
AeroVironment, Inc.	\$91.66	80.3%	\$2,299	\$2,417	\$487	\$63	12.9%	\$521	\$91	17.5%	4.96x	4.64x	38.5x	26.5x
Kratos Defense & Security Solutions, Inc.	\$13.48	60.6%	\$1,707	\$1,997	\$898	\$35	3.9%	\$990	\$88	8.9%	2.22x	2.02x	NM	22.7x
Comtech Telecommunications Corp.	\$12.48	74.0%	\$348	\$654	\$514	\$30	5.8%	\$539	\$48	8.9%	1.27x	1.21x	21.9x	13.6x
Mean		79.9%					12.4%			15.8%	3.02x	2.85x	23.1x	17.9x
Median		77.7%					13.1%			16.4%	2.86x	2.70x	21.9x	17.3x

Source: S&P Capital IQ Data as of 03/31/2023

# CCA Government Services & Defense Indices Stock Performance



## Commentary

- Government Services, Multi-Platform Defense Primes, and Defense Technology indices continue to outperform the S&P 500, with Multi-Platform Defense Primes and Defense Technology stocks in positive territory for the past year.
- Globally, government spending is projected to increase to record levels to satisfy demand and continue to invest in R&D.

# Selected GovCon Precedent Transactions in Q1 2023



Date Signed	Target / Acquirer	Target Business Description
Mar-23	Science Applications International Corp. [Logistics and Supply Chain Business] / Arctic Slope Regional Corp. [ASRC Federal]	Science Applications International Corporation provides technical, engineering, and enterprise information technology (IT) services primarily in the United States.
Mar-23	CollabSpace, Inc. / Arlington Capital Partners [Eclipse Technologies]	CollabraSpace, Inc. operates as an application software company.
Mar-23	IPKeys Power Partners, LLC / Parsons Corp.	IPKeys Power Partners, together with the IPKeys Cyber Partners unit, provide cyber security and compliance services for utilities and grid operators.
Mar-23	ClearShark, LLC / KKR & Co. LP. [Optiv Security, Inc.]	ClearShark, LLC operates as value added reseller of IT solutions.
Mar-23	Criterion Systems, Inc. / Cherokee Federal	Criterion Systems, Inc. provides information technology services to government and commercial organizations in the United States.
Mar-23	Virginia Systems & Technology, Inc. / ClearSky [Altamira Technologies Corp.]	Virginia Systems & Technology, Inc. operates as a software development company.
Feb-23	Secure Information Management GmbH / CEA Group [Cyberstratos, LLC]	Secure Information Management GmbH develops and manufactures optoelectronic components and systems.
Feb-23	n2Grate Government Technology Solutions LLC / Source Capital, LLC [Blueally Technology Solutions, LLC]	n2grate Government Technology Solutions, LLC provides data center, information technology (IT) consulting, and cloud solutions.
Feb-23	Axim Geospatial, LLC / NV5 Global, Inc.	Axim uses its geospatial expertise to provide clarity and solutions to help customers solve the world's national security, infrastructure, and environmental problems.
Jan-23	Xcel Engineering, Inc. / MartinFed Consulting, LLC	XCEL provides trusted information technology, engineering, consulting and project management solutions and services to federal agencies and organizations.
Jan-23	Amyx, Inc. / Tetra Tech, Inc.	Amyx, Inc. provides management consulting services to defense and civilian agencies in the United States.
Jan-23	LinTech Global, Inc. / Digital Intelligence Systems, LLC (DISYS)	LinTech Global, Inc. offers information technology (IT) and engineering services.
Jan-23	Xcelerate Solutions / McNally Capital, LLC	Celerity Government Solutions, LLC, doing business as Xcelerate Solutions, is a defense and national security company, which provides IT consulting and services.
Jan-23	Compendium Federal Technology, LLC (CFT) / Boathouse Capital	Compendium Federal Technology, LLC operates as a technology and engineering services firm.
Jan-23	REDLattice, Inc. / AE Industrial Partners, LP (AEI)	REDLattice, Inc. design, develops and implement cutting-edge applications and engineering services.
Jan-23	Guardsight, Inc. / H.I.G. Private Equity [Iron Bow Technologies, LLC]	GuardSight, Inc. provides cyber security services.
Jan-23	Hellebore Consulting Group, LLC / Madison Dearborn Partners, LLC [LinQuest Corp.]	Hellebore Consulting Group, Llc provides software engineering consulting services to commercial and defense (DoD) clients.
Jan-23	Black Sage Technologies, Inc. / Highlander Partners LP.	Black Sage Technologies Inc. manufactures, integrates, and deploys counter-unmanned aircraft systems (C-UAS) solutions.

Note: Entities in brackets represent the subsidiary or portfolio company involved in the transaction

# 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.



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