



Q4 2022 | INDUSTRY UPDATE

Defense & Government



Prepared by:
Chesapeake Corporate Advisors
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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 year was characterized by market headwinds such as inflation, higher interest rates and tightening credit markets, however Defense Technology, Defense Primes and Government Services companies were resilient and still overperformed the broader market.

Headwinds Are Stiff

- 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.

Strategic Growth in Key Tech Areas

- Key technology growth areas continue to emerge in our conversations with strategic and financial buyers. Areas such as Artificial Intelligence and Machine Learning with the cloud as an enabler are in demand. Markets such as Cyber, both offensive and defensive, Space, and Ubiquitous Surveillance see continued growth and investment.

Anti-Trust Scrutiny Remains

- Booz, Allen's defense of its acquisition of Everwatch and Lockheed Martin's termination of its agreement to acquire Aerojet Rocketdyne in the face of antitrust regulator opposition may represent a new client of DOJ oversight in the Defense, Aerospace and Government Technology Services marketplace.

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's Increase Presence

- Dry powder in private equity sits 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. Private Equity accounts for roughly 50% of current M&S transactions. The market expects private equity to be active in 2023 through buy and build strategies.

GovCons Outperform the Market

- Defense Technology, Defense Primes and Government Services indices have overperformed the broader market (S&P 500) over the past year. Public companies in the ADG have demonstrated resilience driven by and increasing Defense budget and an expectation of accelerating top line growth.



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.

Clearance Changes in the NDAA

- A pilot program to ease the process for “innovative technology companies” to obtain security clearances for their employees. The gov’t would sponsor employees’ clearances while the company works towards obtaining their own facility clearance. The pilot will be limited to 75 companies that are small businesses or non-traditional defense contractors.

Booz Allen Closes Everwatch Deal

- In June, the DoJ sued to block Booz Allen from acquiring Everwatch. In its complaint, the government alleged the combination would imperil market competition, harm taxpayers and crimp services provided to the NSA. Booz Allen closed on the Everwatch transaction on October 14th.

Cyber Workforce Crunch

- Many regional Intel and Cyber companies have been impacted by the labor shortage of Cyber professionals – often losing senior software staff to the commercial sector. According to Cyberseek, an analytics platform from the National Institute for Standards, US cyber job openings listed in November stood at 769,736.

National Cyber Director to Step Down

- Chris Inglis reportedly plans to step down from his post and retire after serving as the president's top adviser on cybersecurity issues since July 2021. Inglis served as the first national cyber director since the office was established. Under Inglis, the office of the national cyber director, or ONCD, has served as a critical source for guidance amid multiple significant national cyber incidents

SDVOSB Certification Changes

- The SBA issued a ruling in line with the 2021 National Defense Authorization Act (NDAA), which transferred authority for certification of SDVOSBs and VOSBs from the VA to the SBA as of January 1, 2023. There are a number of nuances to the ruling but one that could impact the M&A market is the duty to notify SBA within 30 days of a change in ownership of an SDVOSB.

Inflationary Relief for Some

- Section 822 authorizes a novel authority for defense contractors to obtain inflationary relief on fixed-price contracts. While this is welcome news to defense contractors struggling with increased costs due to inflation, many questions remain on how this authority will be implemented, including to what extent Congress is willing to fund this initiative. Source: (Piliero Mazza)

The Intelligence Community Budget

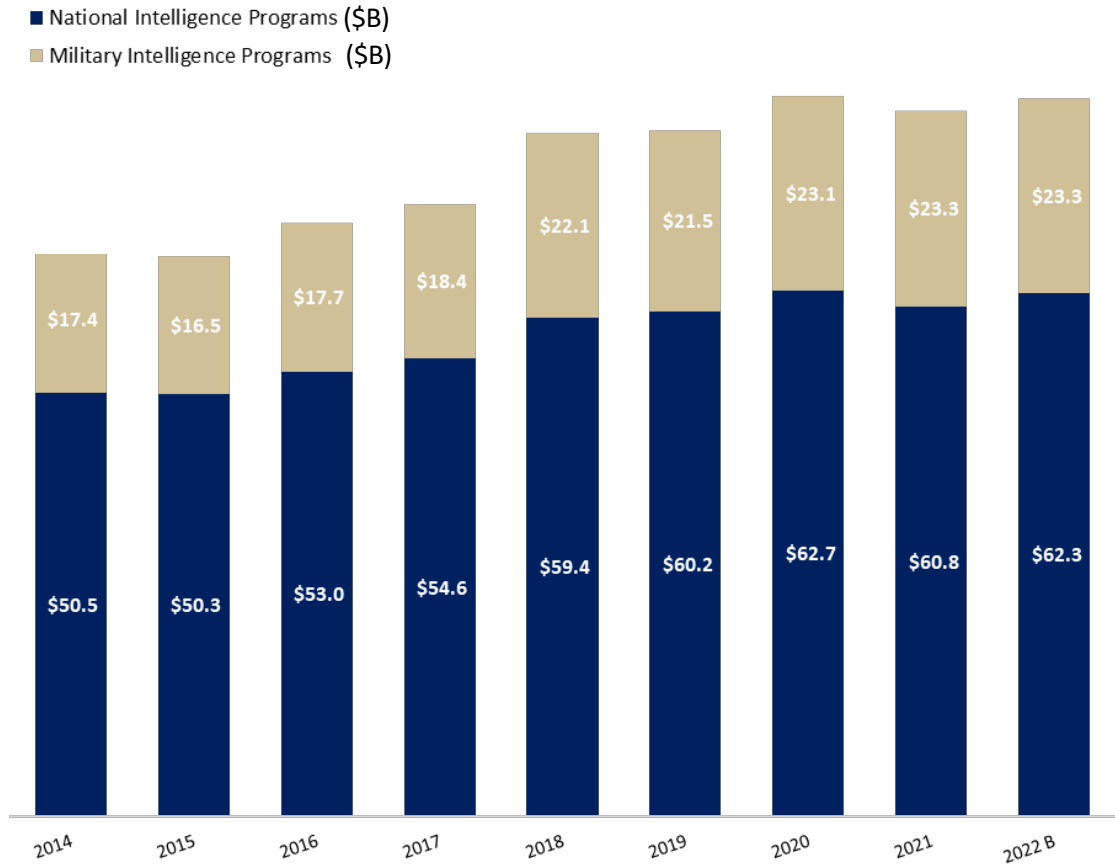


The United States Intelligence Community is a group of separate United States government intelligence agencies and subordinate organizations that work separately yet together to conduct intelligence activities to support the foreign policy and national security of the United States.

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.



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>
December 7, 2022	Digital Services	November 30, 2022	Intel & Cyber	November 23, 2022	Cyber & Analytics
<u>Description</u>		<u>Description</u>		<u>Description</u>	
<p>Octo Consulting Group, a provider of digital services to the federal government with expertise in AI, DevSecOps, analytics and cyber, was acquired by IBM. Octo was a portfolio company of Arlington Capital Partners with 1,500 employees who will now join IBM Consulting's US Public and Federal Markets organization. The acquisition of Octo enhances IBM's ability to support federal agencies with a flexible, modern approach to digital transformation and their public and federal market organization of 4,200 highly-skilled employees.</p>		<p>iNovex, a provider of technology services to defend against cyber threats was acquired by Enlightenment Capital. The partnership provides iNovex with the financial and strategic resources needed to build a mid-tier Intelligence Community focused platform with a mission to support critical National Security programs. Enlightenment plans to continue to invest in the platform and drive growth – both organic and through acquisitions. iNovex acquired Aurora, CO based Mercury Systems in 2014</p>		<p>QinetiQ, Inc., a subsidiary of QinetiQ plc (LSE: QQ.L), completed its acquisition of Avantus Federal, LLC, a portfolio company of NewSpring Capital. Avantus generated revenues of \$300M. The transaction price was a reported \$590M. The combination of QinetiQ US and Avantus creates a unique platform to offer comprehensive mission-led innovation for the most sensitive and complex challenges intelligence, defense, homeland, civilian, and other government customers face today.</p>	

Recent Intel Community and Cyber Transaction Highlights



Target

Acquiror


Closed
November 15, 2022

Sector
Cyber & Software

Target

Acquiror


Closed
October 24, 2022

Sector
Intel & Cyber

Target

Acquiror
Booz | Allen

Closed
October 14, 2022

Sector
Intel & Cyber

Description

VT Services (VTG), a portfolio company of The Jordan Company L.P. acquire 100% of Next Rev Technologies. Next Rev, a Davidsonville, MD based company is a provider of cloud security, multi-cloud, enterprise software development, and data analytics solutions for private sector information technology and intelligence markets.. Next Rev adds differentiated digital, software, and cyber expertise to VTG's growing suite of technical capabilities, and greater depth in data science and advanced analytics.

Description

SilverEdge Government Solutions, a portfolio company of Godspeed Capital has acquired 100% of Counter Threat Solutions. CTS is a provider of all source and counterintelligence analysis, identity intelligence, and enterprise IT for private sector and U.S. federal government intelligence markets. CTS employs more than 100 technical and mission support specialists, nearly 100% of whom hold high-level security clearances. The company will continue to operate with its current leadership under the SilverEdge platform.

Description

Booz Allen Hamilton announced it had completed its acquisition of EverWatch Corp., a portfolio company of Enlightenment Capital for an enterprise value of approximately \$440 million. Terms of the transaction were not disclosed. On September 23, 2022, Booz Allen revealed in a court filing that the company values Everwatch Corp. at \$440 million. With the closing of the transaction, EverWatch will operate as a wholly owned subsidiary of Booz Allen, working closely with the firm's National Security Sector.



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.

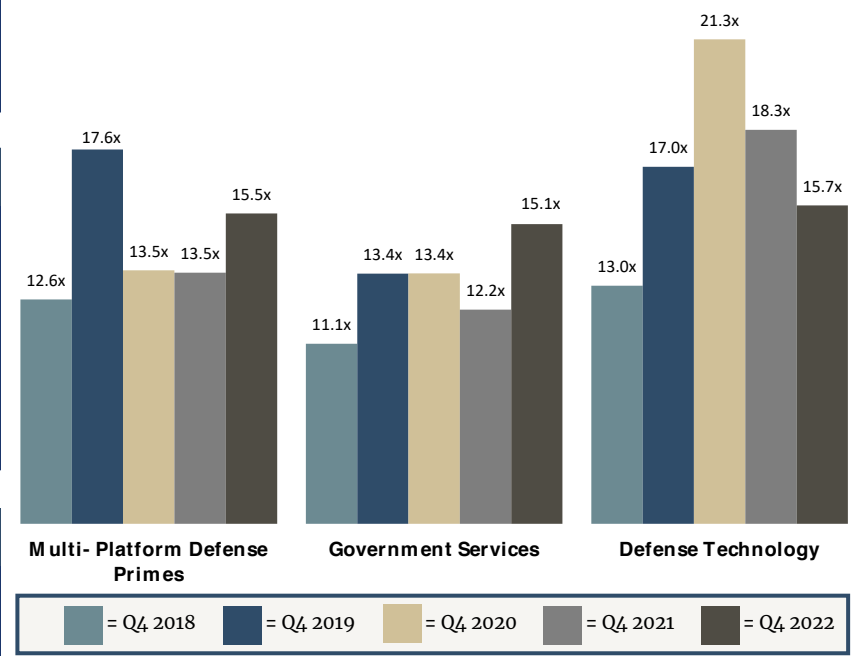


Defense Technology

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

Public Market Data



Multi-Platform Defense Primes

Company	Market Data				Financial Performance						Enterprise Value /			
	Price	% of 52 Week High	Market Cap	Enterprise Value	LTM 2022			2022E			Revenue		EBITDA	
					Revenue	EBITDA	EBITDA %	Revenue	EBITDA	EBITDA %	LTM	2022E	LTM	2022E
Raytheon Technologies Corporation	\$100.92	95.2%	\$148,530	\$179,716	\$66,025	\$11,370	17.2%	\$67,186	\$12,031	17.9%	2.72x	2.67x	15.8x	14.9x
Honeywell International Inc.	214.30	96.6%	144,079	154,691	34,937	8,499	24.3%	35,547	8,949	25.2%	4.43x	4.35x	18.2x	17.3x
The Boeing Company	190.49	82.9%	113,529	156,555	61,421	(2,681)	NM	66,117	(98)	NM	2.55x	2.37x	NM	NM
Lockheed Martin Corporation	486.49	97.5%	127,496	136,546	64,722	8,623	13.3%	65,241	9,679	14.8%	2.11x	2.09x	15.8x	14.1x
Northrop Grumman Corporation	545.61	98.1%	83,976	96,878	35,208	8,580	24.4%	36,229	4,852	13.4%	2.75x	2.67x	11.3x	20.0x
General Dynamics Corporation	248.11	96.6%	67,986	78,612	38,848	5,322	13.7%	39,276	5,130	13.1%	2.02x	2.00x	14.8x	15.3x
L3Harris Technologies, Inc.	208.21	74.4%	39,644	46,994	16,834	3,454	20.5%	16,825	3,229	19.2%	2.79x	2.79x	13.6x	14.6x
BAE Systems plc (United Kingdom)	10.31	98.1%	31,671	37,865	24,207	2,592	10.7%	27,676	3,707	13.4%	1.56x	1.37x	14.6x	10.2x
Mean		92.4%					17.7%			16.7%	2.62x	2.54x	14.9x	15.2x
Median		96.6%					17.2%			14.8%	2.64x	2.52x	14.8x	14.9x

Government Services

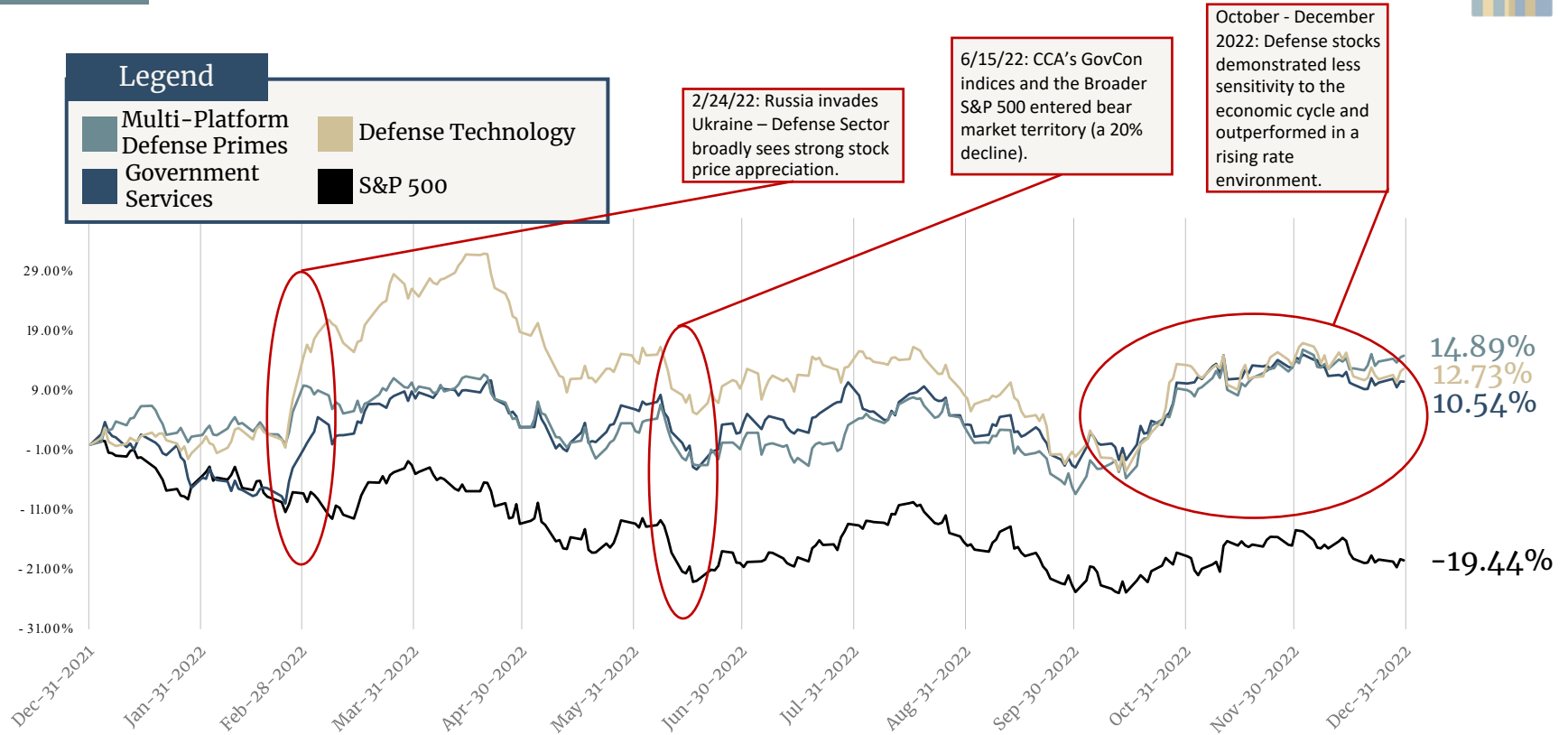
Jacobs Solutions Inc.	\$120.07	79.9%	\$15,202	\$18,904	\$14,923	\$1,311	8.8%	\$14,899	\$1,364	9.2%	1.27x	1.27x	14.4x	13.9x
Leidos Holdings, Inc.	105.19	94.7%	14,378	19,217	14,190	1,434	10.1%	14,316	1,471	10.3%	1.35x	1.34x	13.4x	13.1x
Booz Allen Hamilton Holding Corporation	104.52	92.9%	13,820	16,164	8,817	948	10.8%	8,341	929	11.1%	1.83x	1.94x	17.0x	17.4x
CACI International Inc	300.59	94.1%	7,063	8,860	6,318	639	10.1%	6,219	651	10.5%	1.40x	1.42x	13.9x	13.6x
Science Applications International Corporation	110.93	94.1%	6,060	8,545	7,518	653	8.7%	7,381	676	9.2%	1.14x	1.16x	13.1x	12.6x
Parsons Corporation	46.25	92.2%	4,787	5,570	4,043	295	7.3%	4,169	352	8.4%	1.38x	1.34x	18.9x	15.8x
ICF International, Inc.	99.05	81.7%	1,866	2,781	1,692	159	9.4%	1,777	189	10.7%	1.64x	1.57x	17.5x	14.7x
V2X, Inc.	41.29	90.7%	1,258	2,468	1,362	123	9.0%	2,886	192	6.6%	1.81x	0.86x	20.0x	12.9x
Mean		90.0%					9.3%			9.5%	1.48x	1.36x	16.0x	14.2x
Median		92.5%					9.2%			9.7%	1.39x	1.34x	15.7x	13.7x

Defense Technology

Thales S.A. (France)	\$127.50	91.0%	\$26,995	\$28,120	\$17,541	\$2,117	12.1%	\$18,725	\$2,872	15.3%	1.60x	1.50x	13.3x	9.8x
Teledyne Technologies Incorporated	399.91	81.0%	18,744	22,320	5,416	1,214	22.4%	5,453	1,292	23.7%	4.12x	4.09x	18.4x	17.3x
Mercury Systems, Inc.	44.74	61.9%	2,594	3,135	991	154	15.6%	1,006	211	21.0%	3.16x	3.12x	20.3x	14.9x
AeroVironment, Inc.	85.66	75.1%	2,140	2,231	443	43	9.6%	448	59	13.1%	5.04x	4.98x	NM	38.0x
Kratos Defense & Security Solutions, Inc.	10.32	46.4%	1,300	1,578	861	40	4.6%	892	73	8.2%	1.83x	1.77x	39.9x	21.5x
Comtech Telecommunications Corp.	12.14	49.9%	337	624	501	28	5.7%	482	38	7.8%	1.25x	1.29x	22.0x	16.5x
Mean		67.5%					11.7%			14.9%	2.83x	2.79x	22.8x	19.7x
Median		68.5%					10.9%			14.2%	2.50x	2.44x	20.3x	16.9x

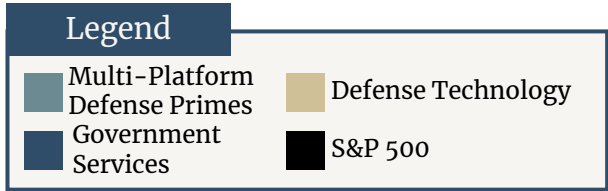
Source: S&P Capital IQ Data as of 12/30/2022

CCA Government Services & Defense Indices Stock Performance



Commentary

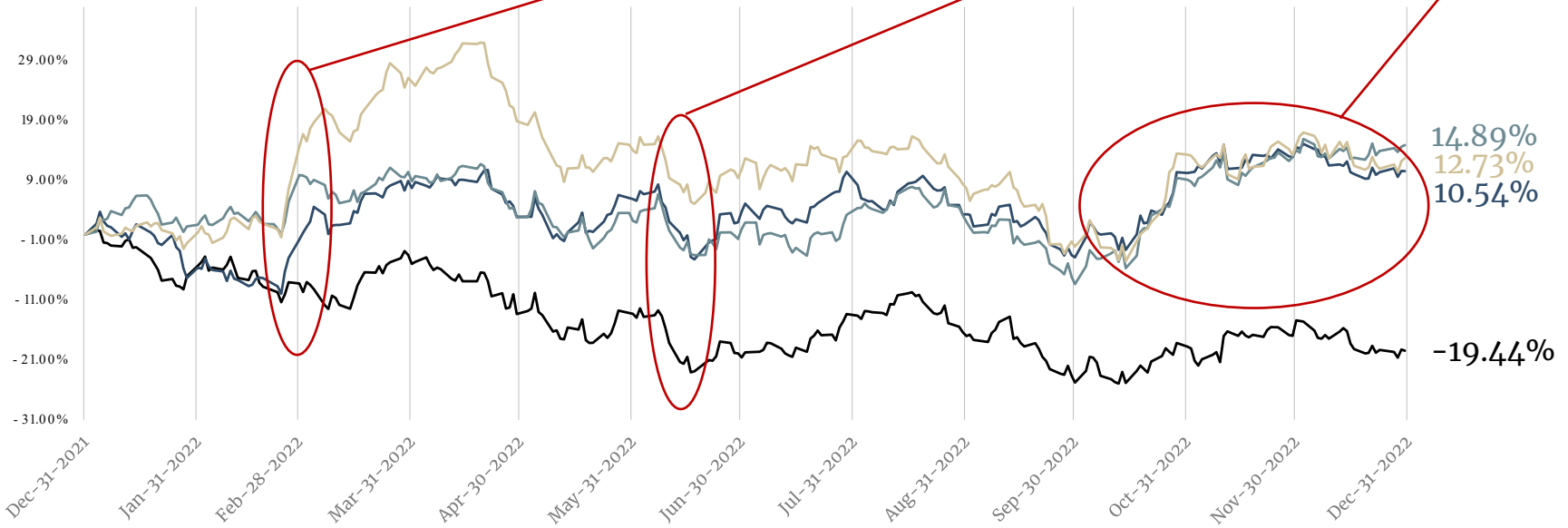
- Government Services, Multi-Platform Defense Primes, and Defense Technology indices have rallied during the recent months, significantly outperforming the S&P 500.
- While the war in the Ukraine persists, countries worldwide are increasing or have committed to increasing defense spending.



2/24/22: Russia invades Ukraine – Defense Sector broadly sees strong stock price appreciation.

6/15/22: CCA's GovCon indices and the Broader S&P 500 entered bear market territory (a 20% decline).

October - December 2022: Defense stocks demonstrated less sensitivity to the economic cycle and outperformed in a rising rate environment.



Commentary

- Government Services, Multi-Platform Defense Primes, and Defense Technology indices have rallied during the recent months, significantly outperforming the S&P 500.
- While the war in the Ukraine persists, countries worldwide are increasing or have committed to increasing defense spending.

Selected GovCon Precedent Transactions in Q4 2022



Date Closed	Target / Acquirer	Target Business Description
Dec-22	Wind River Systems, Inc. / Aptiv plc	Wind River Systems, Inc. offers cloud native toolset for developing, deploying, operating, and servicing mission-critical intelligent systems.
Dec-22	Grove Resource Solutions, Inc. (GRSi) / DLH Holdings Corp.	Grove Resource Solutions, Inc. provides information technology solutions to federal, military, and commercial clients.
Dec-22	Synaptch, LLC / Logistics Management Institute (LMI)	Synaptch, LLC develops digital engineering, modeling, and simulation software for the national security and space industries.
Dec-22	Optistar Technology Consultants, Inc. / Synoptek, LLC	Optistar Technology Consultants, Inc. provides information technology (IT) consulting services in managed services, cyber security, digital forensics, and software development.
Dec-22	Isos Technology / The Acacia Group	Isos Technology operates as an IT consulting and services company.
Dec-22	Sequa Corp. / Veritas Capital Fund Management, LLC	Sequa Corporation offers aftermarket services to the aerospace, energy, and metal coatings industries.
Nov-22	Wheelhouse Group, Inc. / CI Capital Partners, LLC [The Cadmus Group, LLC]	Wheelhouse Group LLC provides organizational change management, strategic communications, program management, leadership strengthening, team development, and meeting design and facilitation services.
Nov-22	Auspex LLC / Edgesource Corporation	Auspex LLC. provides IPv6, testing and verification solutions for federal agencies, service providers and network equipment manufacturers.
Nov-22	Agile Defense, Inc. / Enlightenment Capital	Agile Defense, Inc. provides information technology services to the federal government.
Nov-22	iNovex Information Systems, Inc. / Enlightenment Capital	iNovex Information Systems, Inc. provides software development, cybersecurity, signals intelligence (SIGINT), data analysis, and robotic process automation services to the federal government and commercial sectors.
Nov-22	Avantus Federal, LLC / QinetiQ, Inc.	Avantus Federal, LLC provides program, acquisition, financial, facilities, and engineering management services to government and industry clients.
Nov-22	Next Rev Technologies, LLC / The Jordan Company, LP. [VTG]	Next Rev Technologies, LLC provides cloud strategy, cyber security, big data, data science, product management, and software development solutions.
Oct-22	Iron Vine Security, LLC / ASGN Inc.	Iron Vine Security, LLC is a cybersecurity company that designs, implements, and executes cybersecurity programs for federal customers.
Oct-22	EverWatch Corp. / Booz Allen Hamilton, Inc.	EverWatch Corporation, a government solutions company, provides advanced defense, intelligence, and deployed support to customers in the federal government.
Oct-22	Counter Threat Solutions LLC / Godspeed Capital Management LP [SilverEdge Government Solutions]	Counter Threat Solutions LLC (CTS) is a leading technology services and solutions company providing mission-focused subject matter experts in all source and counterintelligence analysis, enterprise IT and data management, and identity intelligence services to the U.S. intelligence and defense communities.
Oct-22	QVine Corp. / Godspeed Capital Management LP [SilverEdge Government Solutions]	QVine provides agile software development, cloud computing, and bespoke software as a service ("SaaS") solutions to critical intelligence community customers.
Oct-22	Ambit Group, LLC / OceanSound Partners, LP. [Digital Management, LLC]	Ambit Group, LLC provides Information Technology (IT) support and program implementation services.

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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