



# Q2 2022 | INDUSTRY UPDATE

## Defense & Government

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Prepared by:  
Chesapeake Corporate Advisors  
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### IN THIS ISSUE

Firm Overview	2
Key Themes	3
M&A Activity	6
Market Multiples	8



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.

**17**

**Exclusive Sell-Side Advisory Deals**

**36**

**Strategic Assessments Completed**

**72**

**Valuations and Marketability Studies**

## 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 second quarter saw increased volatility in the capital markets, with an increased focus on quality deals.*

## Carlyle Group makes a Big Splash

- In May, Carlyle Group (Nasdaq: CG) announced the acquisition of ManTech International (Nasdaq: MANT) in a deal reportedly valued at \$4B. In December 2021, ManTech acquired Gryphon and more recently acquired the intel company TMAC. The Carlyle Group is a global alternative asset manager with \$216 billion of assets under management.

## Valuations under Pressure

- The IPO market is very quiet, and tech firm valuations have lowered in the last year. There is still capital that needs to be deployed but buyers are becoming a bit more selective. With the increase in interest rates, PE groups will place additional focus on a targets' ability to service debt.

## Contract Awards Slide to the Right

- For a variety of reasons such as turnover, the desire to work from home, and the great resignation, many Federal Agency contracting organizations have experienced high turnover. This lack of resources has increased the time in Source Selection and has pushed many awards to the right.

## A Diversity of Deal Sizes

- Private Equity firms such as The Carlyle Group, Enlightenment Capital Proteus Capital Solutions and Publicly traded strategics Parsons and BAE Systems were among the most active companies in the Government Technology Services market. There were huge deals announced like Broadcom's \$61B acquisition of VMWare but also smaller deals in the market such a Axiologic's acquisition of Data Intelligence Technologies.

## Capital in Reserve

- The increase in interest rates has had an impact on valuation and deal size however, there remains significant capital in reserve. According to Capital IQ, S&P 500 companies held \$3.7 trillion in cash and equivalents at the end of 2021. Additionally, as of June 2022, there was \$949.9 billion in dry powder held by PE firms. (Source: Prequim)

## GovCon Outperforms the Market

- Government Services, Multi-Platform Defense Primes, and Defense Technology indices have overperformed the broader market (S&P500) by at least ~900 basis points over the past year. However, only the Government Services and Defense Technology indices have remained positive during recent volatility amid increasing inflation and rising interest rates.



*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.*

## SBA Updating Small Business NAICS

- The Small Business Administration is updating the dollar value for small business thresholds. Many small businesses in the National Security market are in the 540000 range and have seen significant increases. These changes reflect the competitive landscape of the market by allowing additional growth before competing in a full and open setting.

## Ft Meade East Campus Construction

- Balfour Beatty has won a \$697.8 million contract from the U.S. Army Corps of Engineers to provide design and construction services to Fort Meade in Maryland. The project involves work on the fourth East Campus Building and a new parking structure and multistory office buildings for the National Security Agency and the U.S. Cyber Command.

## More Unclass Work for Intel Agencies

- In a May 2022 interview with “GovCon Wire”, Ryan Agee, technical director for NSA’s capabilities directorate said “I believe NSA can and should do more work at the unclassified levels, and we are. We have environments now at the unclassified level for collaboration.” Agee shared that the unclassified work effort is a “big area of emphasis” for him.

## Lt. Gen. Timothy Haugh – Cybercom

- Lt. Gen. Timothy Haugh, commander of the 16th Air Force, was confirmed by a voice vote in the Senate to become the next deputy commander of U.S. Cyber Command. He was nominated by President Biden to the No. 2 post at Cybercom one month ago and will succeed Lt. Gen. Charles Moore, who has held the role since September of last year.

## NSA Releases OIG Report on CARES

- The OIG found that NSA had significant issues implementing the CARES Act. The Agency did not perform sufficient reviews of CARES invoices. Evolving guidelines, reduced contract oversight, staffing during the pandemic, an overreliance on contractor provided information, and the absence of clear and comprehensive procedures for CARES invoices caused the OIG to question more than \$16.4 million, or 40 percent of the sampled CARES invoice charges.

## US Cyber Command Outreach

- The USCYBERCOM held an industry day in June for over 100 companies whose technical experts were briefed by the command's leaders on their needs for advanced cyber capabilities. The defense of the cyber domain remains a high Federal Government priority. The Industry Day was open to cleared industry partners with skillsets relevant to national defense.

# The Intelligence Community Budget

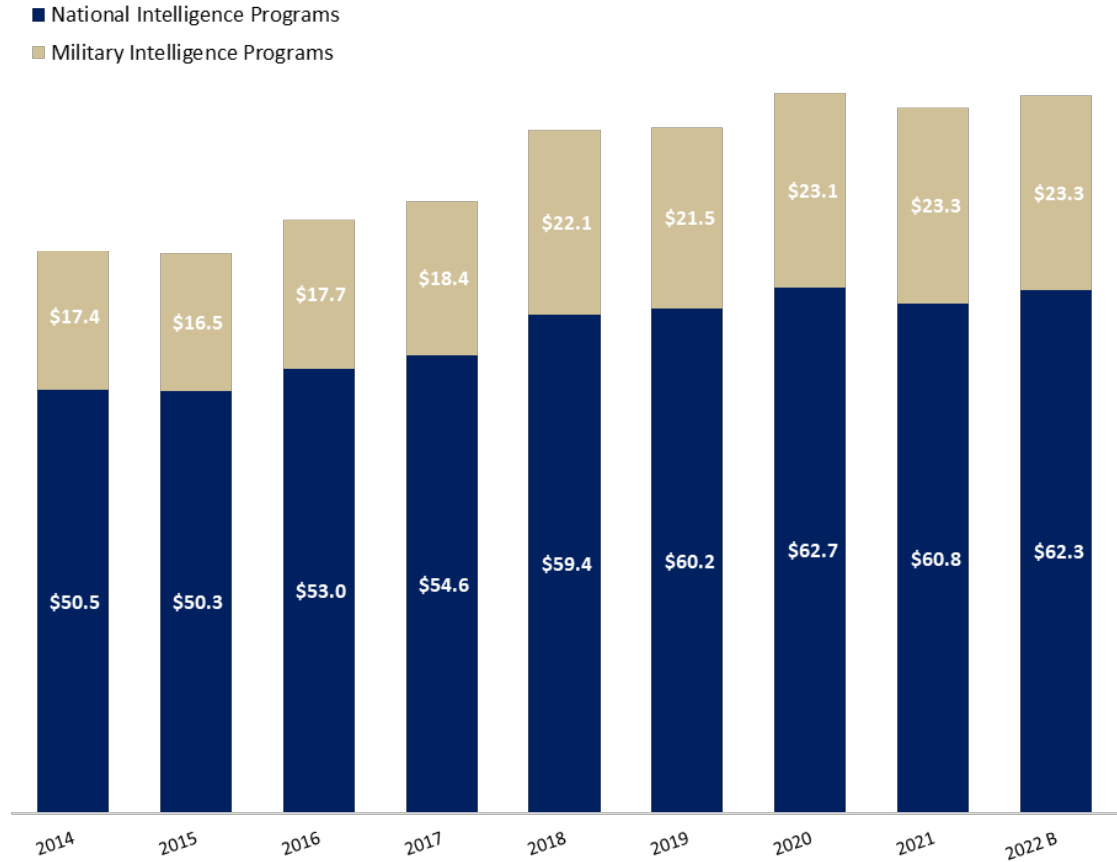


The United States Intelligence Community is a group of separate United States government intelligence agencies and subordinate organizations that work separately yet together to conduct intelligence activities to support the foreign policy and national security of the United States.

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 Transaction Highlights



Target	Acquiror	Target	Acquiror	Target	Acquiror
					
<u>Announced</u>	<u>Sector</u>	<u>Announced</u>	<u>Sector</u>	<u>Announced</u>	<u>Sector</u>
April 6, 2022	Professional Services	April 11, 2022	Intel & AI	April 12, 2022	Intel & Cyber
<u>Description</u>		<u>Description</u>		<u>Description</u>	
<p>Government market investment firm Enlightenment Capital is putting more of its small business development funds to work. Enlightenment’s latest backing goes to PM Consulting Group, a provider of management consulting and other professional support services to agencies involved in international development and healthcare. The investment involves financial backing and strategic support as the contractor looks to build on its growth to date.</p>		<p>In December of 2020, BigBear.ai acquired ProModel Government Services, expanding the company's modeling and simulation capabilities for federal customers. With the acquisition of ProModel Corporation, BigBear.ai can now leverage these capabilities in the commercial sector to optimize decision making with improved insights into supply chains, market conditions, equipment maintenance, capacity planning, and process efficiency.</p>		<p>The acquired companies – OSI LLC, Agency Consulting Group, Kimmich Software Solutions and ExaTech Solutions – all of which previously operated within ASRC Federal’s Defense and Intel group, are now part of PCS-Mosaic’s Athenix Cyber &amp; SIGINT Solutions business, which is based in Columbia. Altogether, PCS-Mosaic Holdings is now home to more than 400 employees serving intelligence, cyber, and special operations customers.</p>	

# Recent Transaction Highlights



Target



Acquiror



Announced

May 11, 2022

Sector

Intel and Big Data

Description

The acquisition of FedBiz IT brings ClearShark skilled resources with a deep understanding of contracts capture, contracts management, and compliance along with a broad set of contracts to simplify the acquisition of critical information technology and related services to modernize and secure information technology within the Federal Government. Specifically, FedBiz IT's contracts portfolio include many widely-used contracts including NASA SEWP V, Army ITES-SW2, Army ADMC-3, SEC Blanket Order Agreement, among others.

Target



Acquiror



Announced

April 11, 2022

Sector

Intel & AI

Description

Axiologic Solutions has acquired Data Intelligence Technologies to expand its services and client base in the national security and intelligence communities. Data Intelligence Technologies specializes in artificial intelligence, data science and cybersecurity and adopts Blur Search Technologies as a platform to design and develop applications to facilitate rapid search, data retrieval and indexing in support of the client's mission. Data Intelligence Technologies supports the missions of federal civilian and defense agencies and commercial entities.

Target

ManTech

Acquiror



Announced

May 16, 2022

Sector

Government Services

Description

Private equity firm The Carlyle Group has agreed to acquire ManTech, in an all-cash deal valued at \$4.2 billion. Founded in 1968, ManTech provides services in cybersecurity, data and analytics, enterprise IT, software development, systems engineering, intelligence missions support, and mission operations. The firm had \$2.55 billion in revenue in 2021 and saw year-over-year growth of 6.7% to reach \$676 million in revenue for Q1 2022. The deal will give Carlyle additional exposure to the hot cybersecurity and government IT consulting markets.



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.

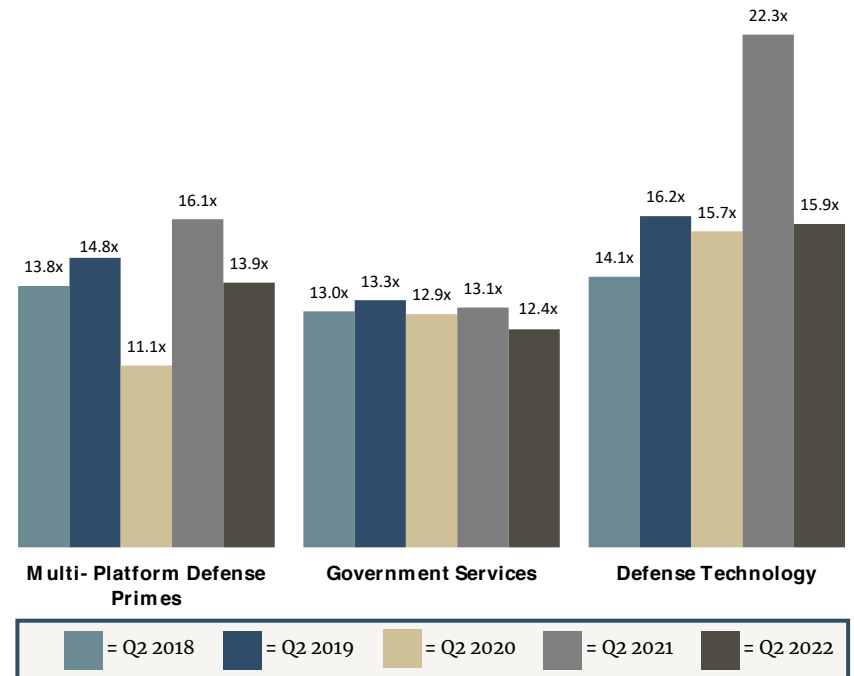


## Defense Technology

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

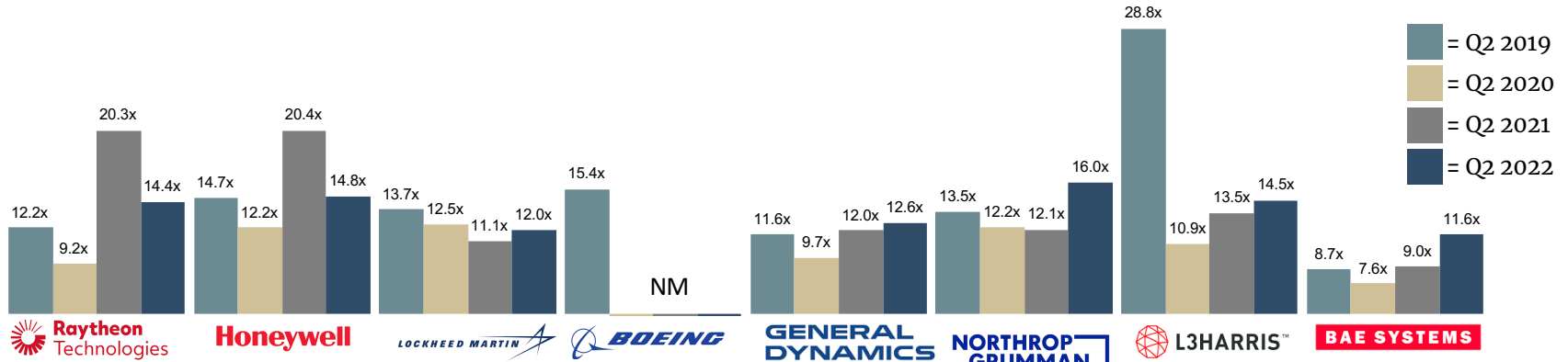




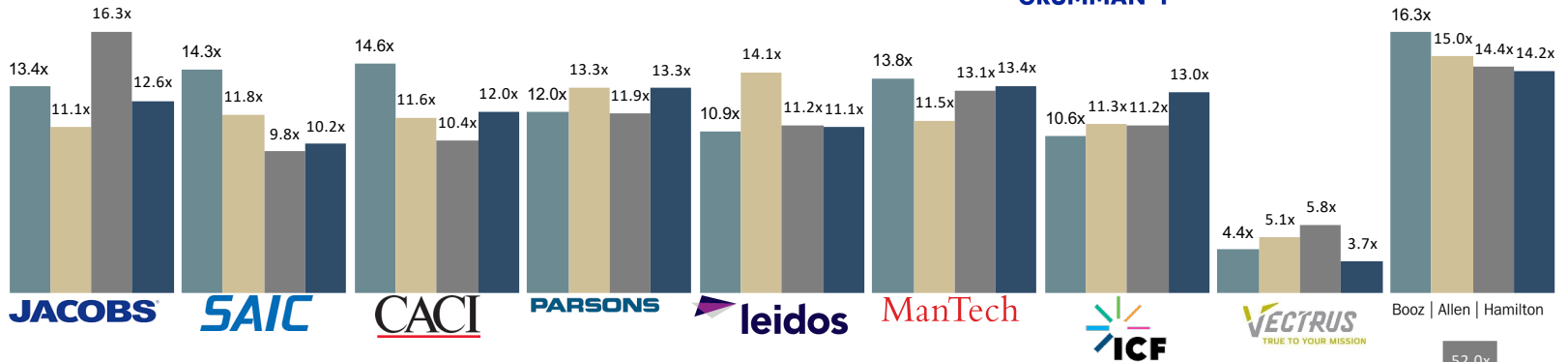
# Historical TEV/TTM EBITDA Public Market Trends



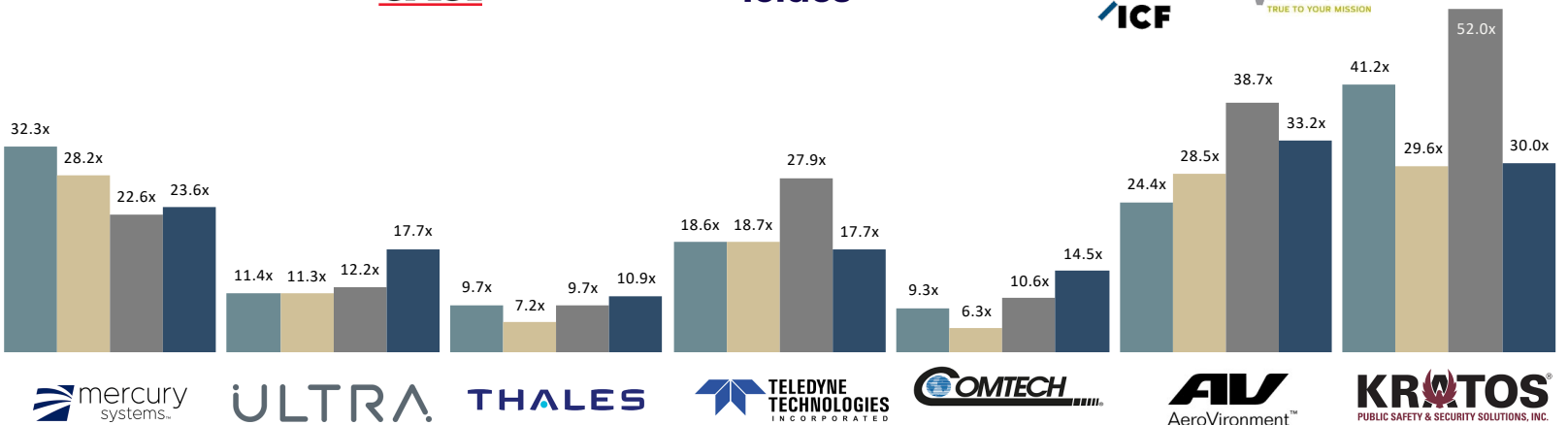
## Multi-Platform Defense Primes



## Government Services



## Defense Technology



# Public Market Data

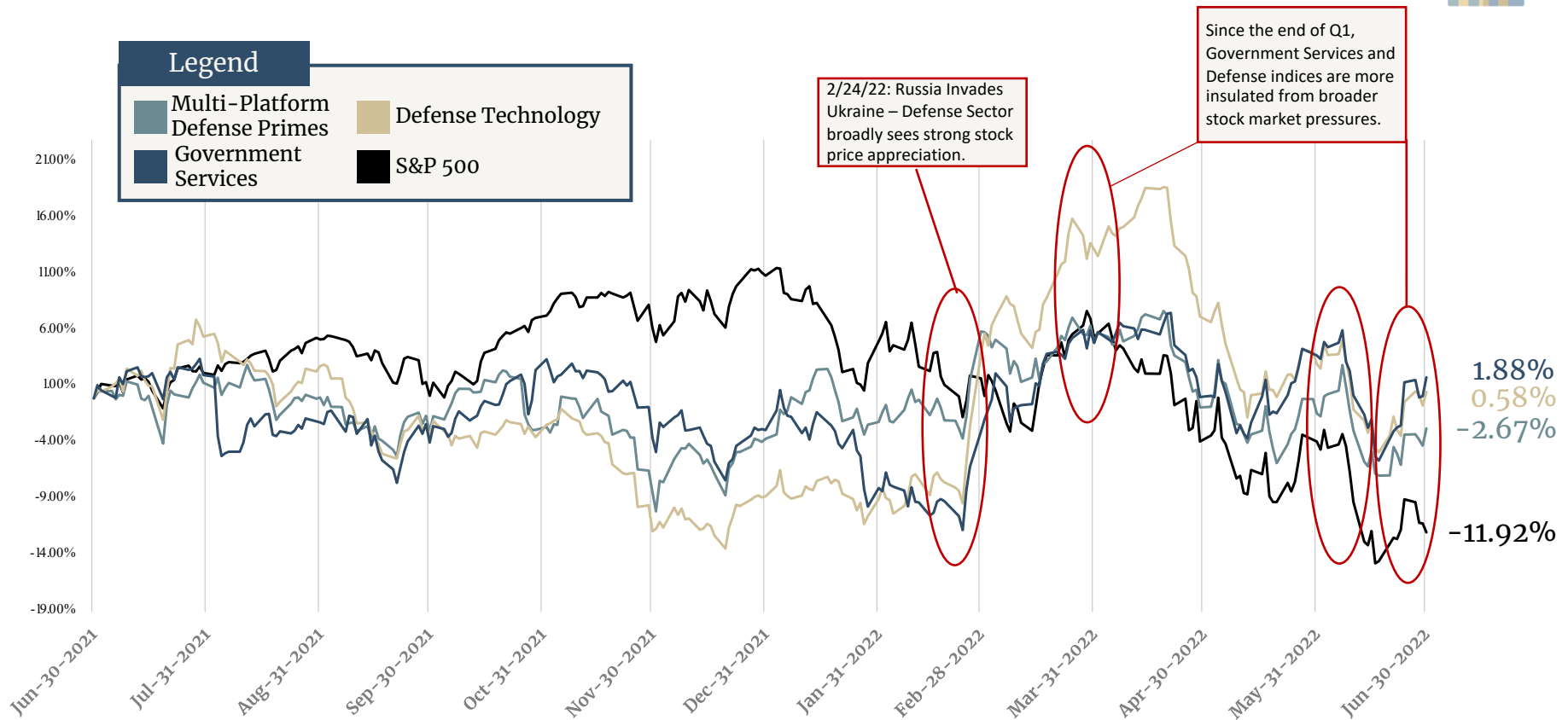


Company	Market Data				Financial Performance						Enterprise Value /			
	(\$ in millions, except share price)				LTM 2021			2022E			Revenue		EBITDA	
	Price	% of 52 Week High	Market Cap	Enterprise Value	Revenue	EBITDA	EBITDA %	Revenue	EBITDA	EBITDA %	2021	2022	2021	2022
Raytheon Technologies Corporation	\$96.11	90.7%	\$142,537	\$171,156	\$64,853	\$11,350	17.5%	\$68,328	\$12,518	18.3%	2.64x	2.50x	15.1k	13.7k
Honeywell International Inc.	173.81	73.4%	118,318	129,655	34,314	8,415	24.5%	36,079	9,138	25.3%	3.78x	3.59x	15.4k	14.2k
Lockheed Martin Corporation	429.96	89.6%	114,599	124,361	65,750	9,924	15.1%	66,004	9,873	15.0%	1.89x	1.88x	12.5k	12.6k
The Boeing Company	136.72	56.5%	80,888	126,477	61,060	52	0.1%	75,137	5,201	6.9%	2.07x	1.68x	NM	24.3x
Northrop Grumman Corporation	478.57	97.2%	74,391	86,710	35,307	4,974	14.1%	36,552	4,834	13.2%	2.46x	2.37x	17.4k	17.9k
General Dynamics Corporation	221.25	86.8%	61,325	71,591	38,472	5,268	13.7%	39,493	5,170	13.1%	1.86x	1.8k	13.6k	13.8k
L3Harris Technologies, Inc.	241.70	86.4%	46,618	54,159	17,350	3,561	20.5%	17,543	3,751	21.4%	3.12x	3.09x	15.2k	14.4k
BAE Systems plc (United Kingdom)	10.09	98.8%	31,789	36,970	26,433	3,011	11.4%	27,074	3,686	13.6%	1.40x	1.37x	12.3k	10.0k
Mean		84.9%					14.6%			15.9%	2.40x	2.29x	14.5k	15.1k
Median		88.2%					14.6%			14.3%	2.26x	2.13x	15.1k	14.0k
Jacobs Engineering Group Inc.	\$127.13	84.6%	\$16,352	\$19,934	\$14,378	\$1,409	9.8%	\$15,070	\$1,403	9.3%	1.39x	1.32x	14.1k	14.2k
Leidos Holdings, Inc.	100.71	90.6%	13,763	19,239	13,916	1,464	10.5%	14,189	1,474	10.4%	1.38x	1.36x	13.1k	13.1k
Booz Allen Hamilton Holding Corporation	90.36	98.8%	11,954	14,363	8,364	922	11.0%	8,341	927	11.1%	1.72x	1.72x	15.6k	15.5k
CACI International Inc	281.78	89.9%	6,597	8,660	6,125	620	10.1%	6,220	651	10.5%	1.4k	1.39x	14.0k	13.3k
Science Applications International Corporation	93.10	97.0%	5,184	7,778	7,512	647	8.6%	7,381	676	9.2%	1.04x	1.05x	12.0k	11.5k
Parsons Corporation	40.42	96.6%	4,193	4,728	3,735	251	6.7%	3,880	334	8.6%	1.27x	1.22x	18.9k	14.2k
ManTech International Corporation	81.97	89.1%	3,357	3,698	2,596	269	10.3%	2,669	257	9.6%	1.42x	1.39x	13.8k	14.4k
ICF International, Inc.	95.00	87.8%	1,785	2,459	1,588	152	9.6%	1,709	172	10.0%	1.55x	1.44x	16.1k	14.3k
Vectrus, Inc.	33.46	63.5%	396	537	1,806	67	3.7%	1,851	85	4.6%	0.30x	0.29x	8.0k	6.4k
Mean		88.7%					8.9%			9.3%	1.27x	1.24x	14.0k	13.0k
Median		89.9%					9.8%			9.6%	1.39x	1.36x	14.0k	14.2k
Thales S.A. (France)	\$122.36	89.2%	\$26,061	\$27,339	\$18,415	\$2,357	12.8%	\$18,008	\$2,845	15.8%	1.48x	1.52x	11.6k	9.6k
Teledyne Technologies Incorporated	375.11	75.9%	17,571	21,558	5,130	1,174	22.9%	5,519	1,344	24.3%	4.20x	3.9k	18.4k	16.0k
Mercury Systems, Inc.	64.33	89.0%	3,710	4,142	949	162	17.1%	1,007	212	21.1%	4.36x	4.1k	25.5k	19.5k
Ultra Electronics Holdings plc (United Kingdom)	42.07	99.9%	3,018	3,072	1,152	182	15.8%	1,110	202	18.2%	2.67x	2.77x	16.9k	15.2k
Kratos Defense & Security Solutions, Inc.	13.88	47.7%	1,735	1,879	814	50	6.2%	896	87	9.7%	2.3k	2.10x	37.3k	21.7k
AeroVironment, Inc.	82.20	72.0%	2,036	2,151	446	52	11.7%	448	59	13.1%	4.83x	4.80x	4.13k	36.6k
Comtech Telecommunications Corp.	9.07	32.7%	241	494	505	17	3.3%	482	38	7.8%	0.98x	1.02x	29.9k	13.1k
Mean		72.4%					12.8%			15.7%	2.98x	2.89x	25.8k	18.8k
Median		75.9%					12.8%			15.8%	2.67x	2.77x	25.5k	16.0k

Source: S&P Capital IQ Data as of 06/30/2022

Note: ManTech International Corporation's data is as of May 13, 2022, the last trading day prior to the announcement of The Carlyle Group Inc.'s intent to acquire ManTech

# CCA Government Services & Defense Indices Stock Performance



## Commentary

- Government Services, Multi-Platform Defense Primes, and Defense Technology indices have overperformed the broader market (S&P500) by at least ~900 basis points over the past year. However, only the Government Services and Defense Technology indices have remained positive during recent volatility amid increasing inflation and rising interest rates.
- 6/15/2022 – CCA’s GovCon indices and the Broader S&P 500 entered bear market territory (a 20% decline) in anticipation of the Fed instituting a 75bps rate increase to try and reduce inflation but increasing fears of a recession.

# 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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