



Q4 2023 | INDUSTRY UPDATE

Defense & Government



Prepared by:
Chesapeake Corporate Advisors
January 2024

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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

\$3.4Bn

Aggregate Tx value

20 years

Average experience

28

Transactions Closed
Since 2020

84

2022 Valuations and
Marketability Studies



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.

Lt. Gen. Haugh Confirmed

- The U.S. Senate voted to confirm President Joseph R. Biden, Jr.'s nomination of U.S. Air Force Lt. Gen. Timothy D. Haugh to the rank of General and to assume the duties as the Commander, U.S. Cyber Command (CYBERCOM), Director, National Security Agency (NSA)/Chief, Central Security Service (CSS). Lt. Gen. Haugh is scheduled to assume his new role following a change-of-command ceremony planned for early 2024.

President signs NDAA into Law

- The Senate voted 87-13 to pass the FY 2024 NDAA, which cleared the House in a 310-118 vote. The NDAA reflects a 3 percent hike in the country's total national security budget and a 5.2 percent pay increase for service personnel, according to the report. The defense policy measure authorizes appropriations for the departments of Defense and State, Department of Energy's national security initiatives and the Intelligence Community.

New Cryptologic Center in Colorado

- The NSA has broken ground on a Joint Cryptologic Center at Buckley Space Force Base in Aurora, Colorado. The building will contain training and administrative facilities for NSA Colorado Service Cryptologic Elements and the new Rocky Mountain Learning Center. The new learning center aims to address the comprehensive training demands of NSAC personnel, who support national missions and priorities worldwide.

2023 Cybersecurity Year in Review

- The National Security Agency (NSA) published its 2023 Cybersecurity Year in Review today to share its recent cybersecurity successes and how it is working with partners to deliver on cybersecurity advances that enhance national security. This year's report highlights NSA's work with U.S. government partners, foreign partners, and the Defense Industrial Base.

L3 Harris to Put off M&A Activities

- Christopher Kubasik, chair and CEO of L3Harris Technologies (NYSE: LHX), said the company plans to discontinue its merger and acquisition activity for the “foreseeable future” to strengthen its balance sheet and return all excess capital to shareholders. The company's capital deployment priorities between 2024 and 2026 include research and development investments and efforts to pay down debt to reach a leverage of 3.0x.

Coker Confirmed

- Harry Coker, a former senior executive at the CIA and the National Security Agency, has received confirmation from the Senate to serve as the nation's second permanent national cyber director. He will lead the Office of the National Cyber Director and advise the president on developing policies and strategies for strengthening the U.S. cybersecurity defense posture.



Acquired by



Sell-Side Advisor



Chesapeake Mission Critical Acquired by Fidelity Building Services Group

Chesapeake Mission Critical is a leading provider of advanced power and precision cooling products and services throughout Maryland, Virginia, and the Washington, D.C. area. Chesapeake Mission Critical has served the Maryland, Virginia, and DC markets for over 15 years, offering the most reputable products and solutions in the industry. CMC has developed mission critical solutions for many of the nation's most secure and dependable facilities, from government agencies to Fortune 500 companies.

Deal Team:

CCA's deal team included Managing Director Stuart Knott and Vice President Katie Kieran, who together developed the deal strategy, conducted the negotiations, and provided strategic advice throughout the transaction, along with Analyst Miles Gally.

CCA Serves as the Exclusive Financial Advisor for Two Recent Deals



Target

Acquiror



Closed

August 23, 2023

Sector

Intel & Cyber

Description

Chesapeake Corporate Advisors (“CCA”) served as the exclusive financial advisor to Sealing Technologies, Inc. (“SealingTech” or the “Company”), in its sale to Parsons Corporation in a transaction valued at up to \$200 million, including \$175 million in cash at closing. SealingTech, a Columbia, MD based company, focuses on protecting and defending their customers’ networks and systems through cutting edge research, products, engineering, and integration services for the Internet of Things (IoT), edge combat operations, AI and ML, and cloud industries. The Company delivers innovative cybersecurity solutions across defensive cyber operations, critical infrastructure network protection, and secure data management. SealingTech is a prime contractor on over 90% of its federal contracts and is directly aligned with high-impact national security initiatives. Over 70% of the Company’s employees hold security clearances.

Target

Acquiror



Closed

August 1, 2023

Sector

Intel & Cyber

Description

Chesapeake Corporate Advisors (“CCA”) served as the exclusive financial advisor to Cyber Cloud Technologies, LLC (“Cyber Cloud” or the “Company”), an information technology services firm that provides a suite of enterprise IT services to the Federal Government, including cybersecurity and cloud services, in its sale to T-Rex Solutions, LLC (“T-Rex”), a leading IT professional services firm that helps the Federal Government modernize, protect, and scale its systems and data. This transaction expands T-Rex’s service offerings within the national security business area, where the Company continues to provide agile, innovative IT solutions. The acquisition will enhance T-Rex’s footprint within the intelligence community and provide increased career growth opportunities for cleared employees, the Company said. “Cyber Cloud Technologies and T-Rex have a similar company culture and dedication to mission that sets this collaboration up for success,” said Cyber Cloud Technologies CEO Frank ‘Kip’ Kippenbrock.

Recent Government Technology Services Transaction Highlights



Target

Acquiror



Closed

Sector

December 4, 2023 Intel & Cyber

Description

Reston, VA-based Acclaim Technical Services (ATS), a leader in specialized operational support, technology solutions, and language-enabled services to the U.S. Intelligence Community (IC) announced that it has acquired Alder Technology Corporation, a Chantilly, VA-based provider of high-end network engineering, network security, and data management services and solutions supporting the national security mission. The combination of the two firms cements ATS as a critical middle market company in the core IC landscape.

Target

Acquiror



Closed

Sector

December 4, 2023 Gov-Tech

Description

Capitol Meridian Partners has closed a fourth acquisition in the federal market through its purchase of Clarity Innovations, a provider of data and cyber analytics offerings to agencies. Terms of the transaction were not disclosed, but Clarity Innovations' founders and senior leaders remain with the company and will hold an equity stake in it.

Target

Acquiror



Closed

Sector

November 29, 2023 Gov-Tech

Description

BlueHalo, a leading provider of critical capabilities and technologies across Space, Air, and Cyber domains, announced it has acquired Ipsolon Research. BlueHalo is a portfolio company of Arlington Capital Partners ("Arlington"), a Washington, D.C.-area private equity firm with extensive experience investing in regulated industries. Financial terms were not disclosed. Founded in 2018, Ipsolon designs and manufactures high-performance, ultra-small form factor Software Defined Radios ("SDR") for use in mission-critical spaces constrained by harsh environments.

Target

Acquiror



Closed

Sector

November 27, 2023 Intel & Cyber


Description

Eclipse Technologies, a leading provider of differentiated products and high-end engineering solutions to the Department of Defense (DoD) and Intelligence Community (IC), announced it has agreed to acquire SR Technologies. Eqlipse is a portfolio company of Arlington Capital Partners, a Washington, D.C.-area private equity firm with extensive experience investing in regulated industries. Founded in 1998, SRT is a critical provider of signals intelligence ("SIGINT") and electronic warfare ("EW") technologies to leading governmental, military, and commercial organizations worldwide.

Recent Government Technology Services Transaction Highlights



Target
OASIC
Engineering,
LLC

Acquiror
 **ATS**

Closed Sector

November 17, 2023 Gov-Tech

Description

Acclaim Technical Services, LLC (ATS) acquired the assets of privately held OASIC Engineering, LLC. Monrovia, Md.-based OASIC is a provider of hardware and software engineering services. The company employs highly specialized engineering subject-matter experts in integrated circuit design, engineering, and other critical areas expected to enhance ATS's SIGINT development, collection, and analysis; mission and collection management; and intelligence analysis support.

Target
 **SIXGEN**

Acquiror
 **WASHINGTON HARBOUR**

Closed Sector

November 15, 2023 Intel & Cyber

Description

Washington Harbour Partners LP, a leading private investment firm that specializes in partnering with founders and management teams to unlock their next phase of growth, announced it has acquired SIXGEN Incorporated, a world-class cyber solutions company for the U.S. national security, intelligence, and defense communities, and critical commercial industries. The acquisition of SIXGEN is a natural fit for Washington Harbour's operational and domain expertise in high-growth companies in non-cyclical industries. SIXGEN will continue to be led by the Company's founder and CEO, Ethan Dietrich.

Target
 **A2I**

Acquiror
 **REDHORSE**

Closed Sector

October 31, 2023 Intel & Cyber

Description

Redhorse Corporation has completed its acquisition of Allied Associates International (A2I), a Gainesville, Virginia based cybersecurity and engineering company focused on critical national security concerns.

A2I develops software to extract actionable intelligence from data and provides cutting-edge technical products and services to the Defense, Federal Law Enforcement and Intelligence Communities. Their capabilities include a focus on cyber data analytics and software development in support of a wide range of cyber operations.

Target
 **CASE**

Acquiror
 **FIRETEAM**

Closed Sector

October 26, 2023 Intel & Cyber

Description

Intelligence community services provider FireTeam Solutions acquired another software company that does business with the intelligence community, Case Consulting, expanding its capabilities and broadening its reach. Terms of the deal were not disclosed. FireTeam is a portfolio company of the private equity firm AE Industrial Partners (AEI). FireTeam and Case will continue to use their respective brand names in the market. The combined entity, still a portfolio company of AEI, will be led by CEO Paul Farmer, who founded Case in 2012.



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.

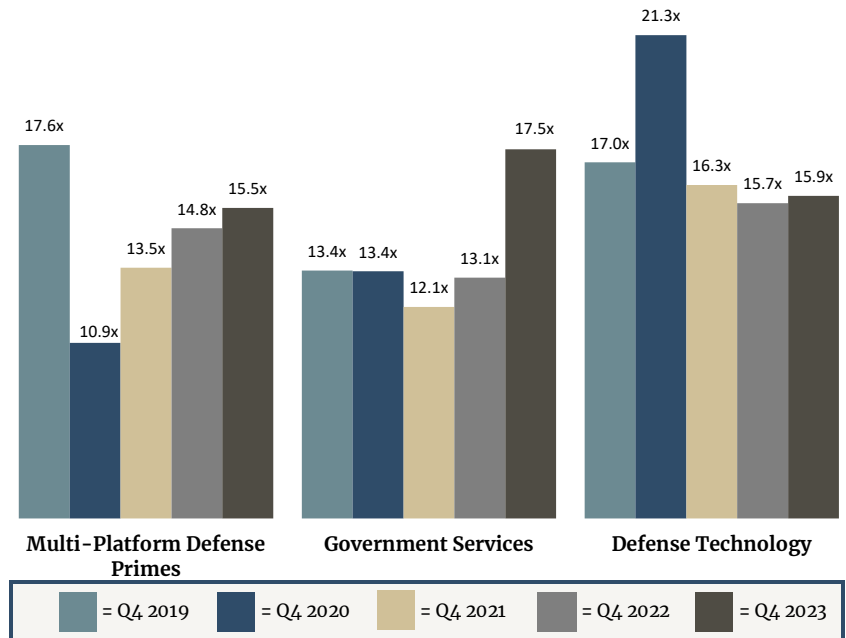


Defense Technology

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



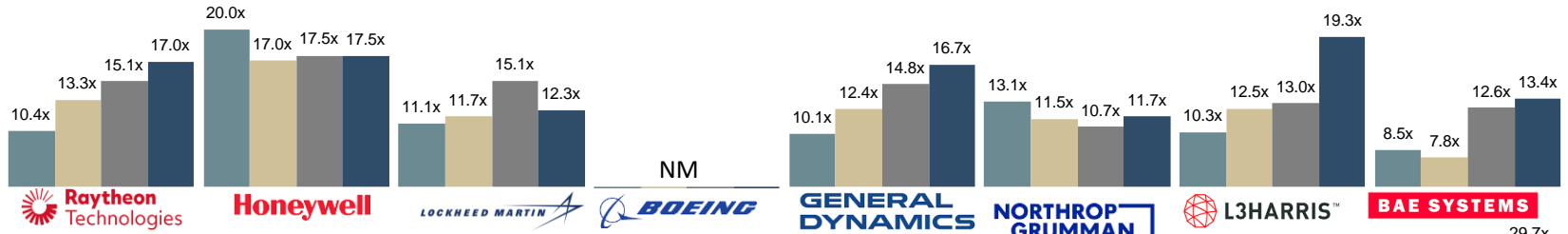
Note: Multiples are based on a weighted average by market capitalization

Historical TEV/TTM EBITDA Public Market Trends



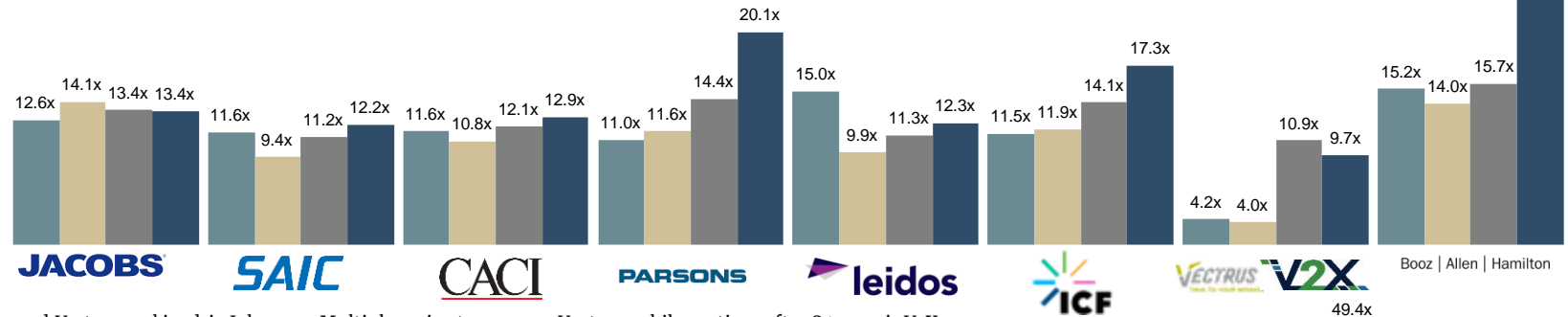
= Q4 2020
 = Q4 2021
 = Q4 2022
 = Q4 2023

Multi-Platform Defense Primes



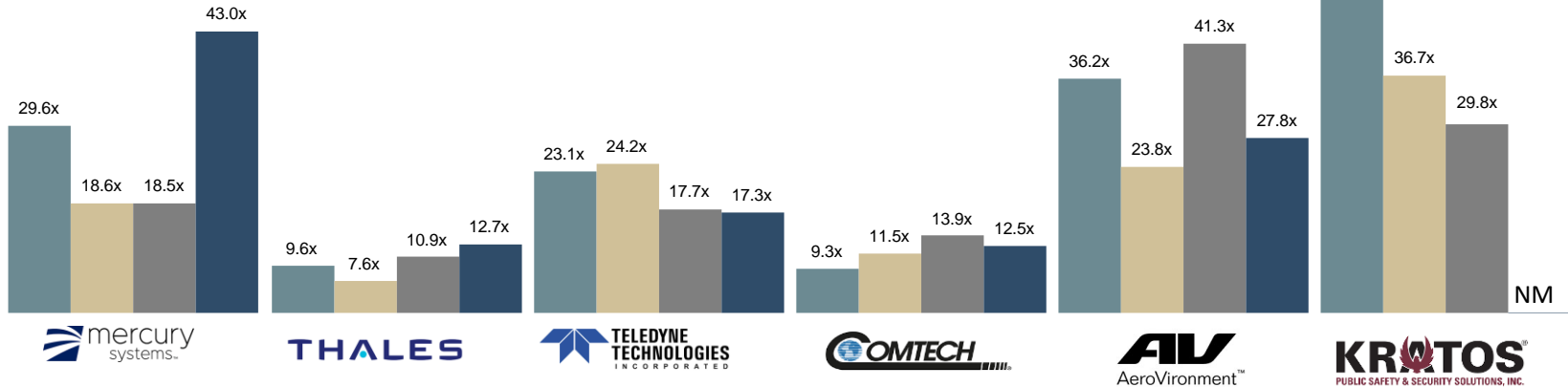
Note: Boeing's TEV/TTM EBITDA multiple has been not meaningful due to low or negative earnings

Government Services



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

Defense Technology



Public Market Data



Multi-Platform Defense Primes

Company	Market Data				Financial Performance						Enterprise Value /			
	(\$ in millions, except share price)				LTM 2023			2023E			Revenue		EBITDA	
	Price	% of 52 Week High	Market Cap	Enterprise Value	Revenue	EBITDA	EBITDA %	Revenue	EBITDA	EBITDA %	LTM	2023E	LTM	2023E
The Boeing Company	\$260.66	97.4%	\$157,693	\$196,605	\$75,756	\$2,873	3.8%	\$76,653	\$1,130	1.5%	2.60x	2.56x	NM	NM
RTX Corporation	84.14	77.3%	120,714	153,691	67,086	9,050	13.5%	73,251	13,095	17.9%	2.29x	2.10x	17.0x	11.7x
Honeywell International Inc.	209.71	96.5%	138,251	152,169	36,408	8,713	23.9%	36,911	9,595	26.0%	4.18x	4.12x	17.5x	15.9x
Lockheed Martin Corporation	453.24	89.2%	112,448	126,286	67,688	10,262	15.2%	66,623	9,912	14.9%	1.87x	1.90x	12.3x	12.7x
Northrop Grumman Corporation	468.14	85.5%	70,592	84,103	38,685	7,161	18.5%	39,088	5,287	13.5%	2.17x	2.15x	11.7x	15.9x
General Dynamics Corporation	259.67	99.9%	70,736	80,381	41,455	4,816	11.6%	42,810	5,282	12.3%	1.94x	1.88x	16.7x	15.2x
L3Harris Technologies, Inc.	210.62	96.0%	39,921	53,794	18,657	2,784	14.9%	19,362	3,483	18.0%	2.88x	2.78x	19.3x	15.4x
BAE Systems plc (United Kingdom)	14.15	98.4%	42,798	47,384	28,613	3,528	12.3%	31,500	4,181	13.3%	1.66x	1.50x	13.4x	11.3x
Mean		92.5%					14.2%			14.7%	2.45x	2.37x	15.4x	14.0x
Median		96.3%					14.2%			14.2%	2.23x	2.12x	16.7x	15.2x

Government Services

Booz Allen Hamilton Holding Corporation	\$127.91	97.4%	\$16,677	\$19,763	\$10,031	\$665	6.6%	\$9,217	\$1,012	11.0%	1.97x	2.14x	29.7x	19.5x
Jacobs Solutions Inc.	129.80	92.0%	16,396	19,726	16,352	1,473	9.0%	16,170	1,446	8.9%	1.21x	1.22x	13.4x	13.6x
Leidos Holdings, Inc.	108.24	97.2%	14,884	19,403	15,155	1,572	10.4%	15,249	1,618	10.6%	1.28x	1.27x	12.3x	12.0x
CACI International Inc	323.86	90.1%	7,215	9,209	6,947	714	10.3%	6,727	722	10.7%	1.33x	1.37x	12.9x	12.8x
Science Applications International Corporation	124.32	91.4%	6,472	8,556	7,675	700	9.1%	7,594	674	8.9%	1.11x	1.13x	12.2x	12.7x
Parsons Corporation	62.71	97.0%	6,578	7,451	5,052	371	7.3%	5,285	452	8.6%	1.47x	1.41x	20.1x	16.5x
ICF International, Inc.	134.09	92.2%	2,523	3,263	1,960	189	9.6%	1,966	213	10.8%	1.66x	1.66x	17.3x	15.4x
V2X, Inc.	46.44	81.8%	1,449	2,569	3,901	266	6.8%	3,929	288	7.3%	0.66x	0.65x	9.7x	8.9x
Mean		92.4%					8.6%			9.6%	1.34x	1.36x	16.0x	13.9x
Median		92.1%					9.1%			9.8%	1.30x	1.32x	13.1x	13.2x

Defense Technology

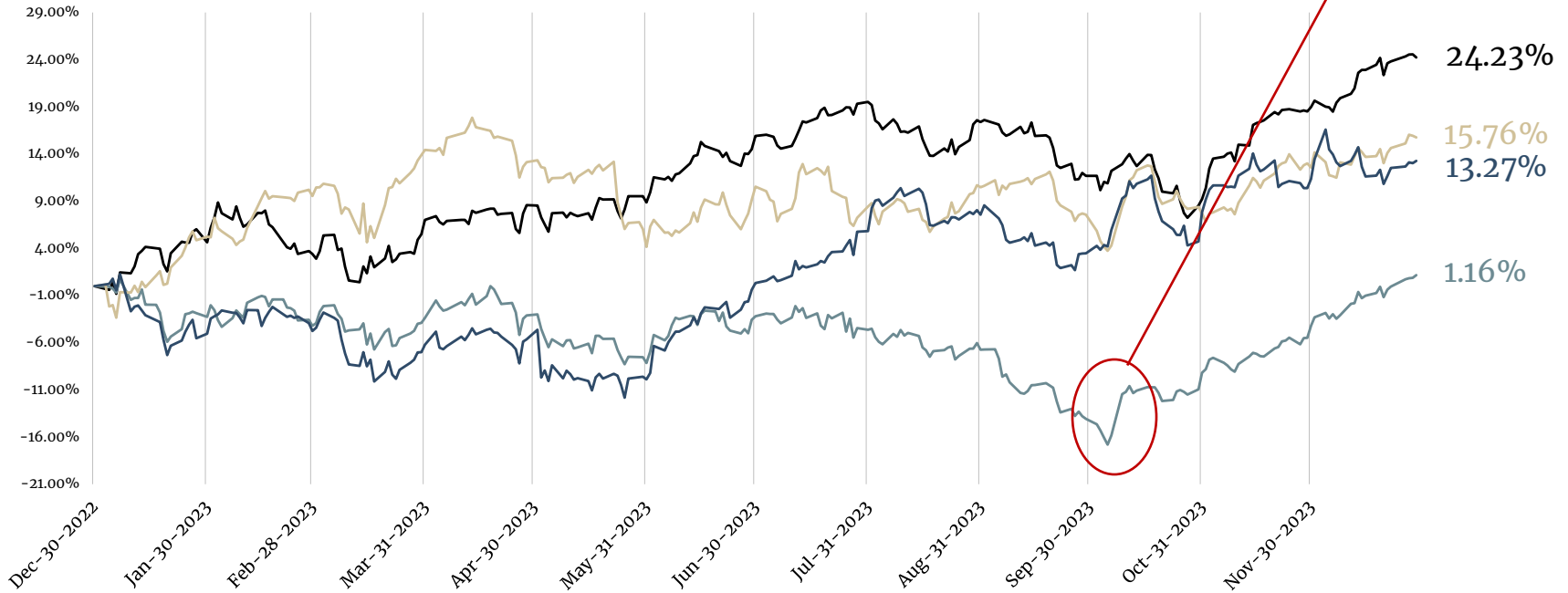
Thales S.A. (France)	\$148.06	91.9%	\$30,867	\$31,957	\$19,682	\$2,509	12.7%	\$20,053	\$3,096	15.4%	1.62x	1.59x	12.7x	10.3x
Teledyne Technologies Incorporated	446.29	99.5%	21,058	23,798	5,629	1,375	24.4%	5,664	1,373	24.2%	4.23x	4.20x	17.3x	17.3x
AeroVironment, Inc.	126.04	87.5%	3,523	3,534	654	127	19.4%	520	91	17.5%	5.41x	6.80x	27.8x	38.9x
Kratos Defense & Security Solutions, Inc.	20.29	94.7%	2,616	2,939	1,013	57	5.6%	1,018	89	8.7%	2.90x	2.89x	NM	33.1x
Mercury Systems, Inc.	36.57	61.8%	2,168	2,735	927	64	6.9%	1,003	164	16.4%	2.95x	2.73x	43.0x	16.7x
Comtech Telecommunications Corp.	8.43	50.0%	240	562	571	45	7.9%	541	48	8.8%	0.99x	1.04x	12.5x	11.8x
Mean		80.9%					12.8%			15.2%	3.02x	3.21x	22.7x	21.3x
Median		89.7%					10.3%			15.9%	2.93x	2.81x	17.3x	17.0x

Source: S&P Capital IQ Data as of 12/29/2023

CCA Government Services & Defense Indices Stock Performance



Legend



Commentary

- Even though Defense stocks witnessed high demand for weapons, their stock prices lagged, partially due to supply chain issues.
- The S&P 500 Index outperformed the Government Services & Defense stocks as a result of inflation subsiding, a steadfast economy, and an anticipation of interest rate cuts in 2024.

Selected GovCon Precedent Transactions in Q4 2023



Date Signed	Target / Acquirer	Target Business Description
Dec-23	Ridgeline International Inc. / Enlightenment Capital	Ridgeline International provides standalone and integrated solutions tailored to each client's needs.
Dec-23	Fenix Group, Inc. / Nokia Oy	Fenix Group, Inc. develops and provides equipment and services for handheld communication devices and broadband networks in support of the defense and intelligence industries.
Dec-23	Alder Technology, Inc. / Acclaim Technical Services, LLC (ATS)	Alder Technology, Inc. offers network engineering, network security, cloud/virtualization, systems engineering, and data management services and solutions.
Dec-23	Clarity Innovations LLC / Capitol Meridian Partners (CMP)	Clarity Innovations LLC provides software and services.
Dec-23	Diversified Technical Services, Inc. (DTSI) / Irys Technologies, Inc.	Diversified Technical Services, Inc. operates as an IT consulting and services company.
Nov-23	Ipsolon Research, Inc. / Arlington Capital Partners [BlueHalo, LLC]	Ipsolon Research, Inc. manufactures ultra-small form factor Software Defined Radio products.
Nov-23	T2S, LLC / Madison Dearborn Partners, LLC	T2S, LLC provides rapid prototyping and experimentation, systems development, integration, testing, and sustainability services.
Nov-23	OASIC Engineering, LLC / Acclaim Technical Services, LLC (ATS)	Oasic Engineering, LLC is a provider of hardware and software engineering services.
Nov-23	SIXGEN, Inc. / Washington Harbour Partners, LP	SIXGEN Incorporated develops cyber security solutions.
Nov-23	Ingalls Information Security LLC / C3 Integrated Solutions Inc.	Ingalls Information Security is a cybersecurity company.
Nov-23	RevaComm, Inc. / Enlightenment Capital [IntelliBridge LLC]	Revacomm, Inc. operates as a digital transformation firm focused on Agile DevSecOps practices that deliver scale, speed, and security for government agencies and enterprises facing continually evolving IT needs and cyber security threats.
Nov-23	SR Technologies, Inc. / Arlington Capital Partners [Eqlipse Technologies]	SR Technologies Inc. operates as a communications equipment company.
Nov-23	CSW Superior IT Solutions, Inc. / Summit 7 Systems, LLC	CSW Systems is a provider of critical IT, cyber, compliance, and engineering services to private sector and U.S. federal government intelligence markets.
Oct-23	Allied Associates International, Inc. / Redhorse Corp.	Allied Associates International, Inc. provides technical products and services to the defense, federal law enforcement, and intelligence communities.
Oct-23	Case Consulting, LLC / AE Industrial Partners, LP (AEI) [Fire Team Solutions, LLC]	Case Consulting is a provider of high-end software development and engineering services to private sector and U.S. federal government intelligence markets.
Oct-23	Vertical Applications, Inc. / MindPetal Software Solutions, Inc.	Vertical Applications, Inc. provides information technology solutions.
Oct-23	Teknoluxion Consulting LLC / NewSpring Capital [Bridge Core, LLC]	teKnoluxion Consulting LLC operates as an IT consulting company that provides software and systems engineering, cloud services, and data analytics solutions to the defense and intelligence communities.

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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