

# **MarketView**

## **Winter 2015**

### **Aerospace / Defense and Government Technology Solutions**



**Kipps DeSanto**   
INVESTMENT BANKING

8000 Towers Crescent Drive  
Suite 1200  
Tysons Corner, Virginia 22182  
703.442.1400  
[www.kippsdesanto.com](http://www.kippsdesanto.com)

## Operational / Funding Environment

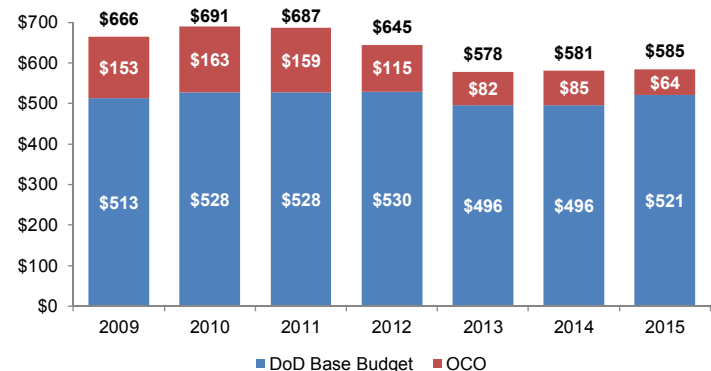
In November’s mid-term elections, Republicans gained control of the Senate majority and secured their largest majority in the House of Representatives since World War II. The outcome of the midterm elections will shape the dynamics of the incoming Congress and result in noticeable impacts on defense policymaking. Specifically, given retirements and incumbent losses, there will be a change in leadership on the committees and subcommittees with jurisdiction over defense. Senator John McCain assumed the role of Chairman of the Senate Armed Services Committee when the 114<sup>th</sup> U.S. Congress took over in January. Historically, McCain has been a critic of cost overruns and schedule delays on weapon programs, issues expected to become a priority during his tenure. Specifically, Lockheed Martin’s F-35 Joint Strike Fighter and Littoral Combat Ship programs, along with the USS Gerald R. Ford aircraft carrier, have been frequent targets of the Senator’s criticism. However, McCain has also been a proponent of increasing annual defense spending and maintaining a strong, well-equipped military.

The U.S. Department of Defense (“DoD”) will undergo a critical shift in leadership following Chuck Hagel’s resignation as Secretary of Defense. Following the announcement of Hagel’s resignation, President Obama nominated Ashton Carter, former Deputy Secretary of Defense, to take over as the fourth defense secretary under the current Administration. Carter’s confirmation process will present a stage for political leaders to criticize Obama’s foreign policy and handling of conflicts in Iraq, Syria, Afghanistan, and Ukraine. The new defense secretary will immediately be challenged with addressing rising tensions between Russia and Ukraine, the Ebola crisis in West Africa, regional instability in North Africa, emerging threats in North Korea and China, and terrorist activity in the Middle East, as well as constrained defense resources and reports of micromanagement from the White House.

Congress approved a compromise version of the 2015 National Defense Authorization Act (“NDAA”) that allocates \$521.3 billion to the base defense budget and \$63.7 billion to Overseas Contingency Operations (“OCO”). The legislation provides \$350 million to fund operations and maintenance efforts for the A-10 Warthog aircraft and prevents the U.S. Air Force from retiring the fleet. The OCO section of the agreement includes funding for operations against the Islamic State of Iraq and the Levant (“ISIL”) – specifically, \$3.4 billion for operations against ISIL and an additional \$1.6 billion to train and equip Iraqi forces. Moreover, the compromise fully funds the Obama administration’s request for Special Operations Forces (“SOF”), in addition to authorizing a new \$1.3 billion Counterterrorism Partnership Fund.

### DoD Budget

GFY2009 – GFY2015  
 (\$ in billions)

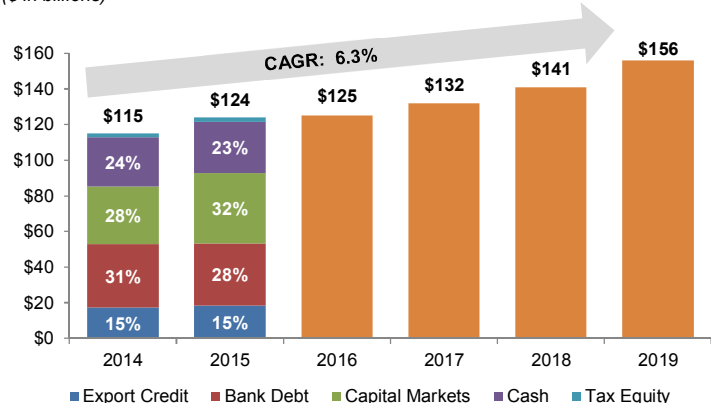


In the commercial aerospace market, airlines saw an uptick in profitability throughout the second half of 2014, a trend anticipated to continue in 2015. Specifically, earnings for North American airlines are forecasted to reach \$19 billion by 2015, a 73% annual increase. This rise in profitability across the industry is largely attributable to recent declines in oil prices, rising travel demand in the Asia Pacific region, and new innovations driving fuel consumption down. Despite the drop in oil prices, jet fuel remains one of an airline’s top costs, thus continuing to spur demand for newer, more fuel-efficient aircraft over the near-term.

Commercial aircraft orders and deliveries were strong in 2014, with Boeing and Airbus having record years in terms of orders and deliveries. Boeing secured 1,550 new orders, received 118 cancellations, and delivered 723 aircraft. Meanwhile, Airbus received 1,328 new orders and 297 cancellations, while delivering 554 jets through November. In its “2015 Current Aircraft Finance Market Outlook”, Boeing forecasted demand for aircraft financing to remain strong, with increased competition among lenders and historically low interest rates. Industry-wide commercial aircraft deliveries in 2015 are forecasted at approximately \$124 billion, double the amount from 2010. Meanwhile, financing growth is projected to moderate over the near-term, with anticipated need for \$125 billion to fund deliveries

### Commercial Aircraft Delivery Financing Requirements<sup>(1)</sup>

(\$ in billions)



(1) Boeing Current Aircraft Finance Market Outlook 2015

in 2016 and \$156 billion for deliveries in 2019. Ultimately, the strength demonstrated in the aircraft finance market is largely attributable to healthy and balanced demand for new aircraft, anticipated growth in global passenger traffic, record airline profitability, and robust replacement demand for newer models with improved fuel and performance efficiency.

As 2014 concluded, Congress worked diligently to pass the \$1.1 trillion “Cromnibus” Bill, a combination of a Continuing Resolution (“CR”) and an omnibus spending bill that will fund the majority of Government agencies through September 2015. The bill includes full funding for 11 of the 12 regular appropriations bills Congress is expected to pass each year, excluding the Department of Homeland Security (“DHS”), which will operate under a CR until the end of February. The passing of the bill provides increased visibility into program spending for contractors and agencies alike, and more specifically increased funding for healthcare efforts, fraud prevention, and auditors in GFY2015.

On the healthcare front, the National Institutes of Health (“NIH”) received increased funding for operations, as well as a portion of the \$2.7 billion set aside to fight Ebola and other infectious diseases. The money allocated for research, response, and preparedness will also be divided among the Centers for Diseases Control and Prevention (“CDC”), Food and Drug Administration (“FDA”), and DoD researchers. Additionally, funding levels for the Affordable Care Act were kept at GFY2014 levels, despite discussions of cuts to the program.

With identity theft, fraud, and cybersecurity breaches continuing to make headlines, the “Cromnibus” bill also increased funds allocated to the prevention of such activities in multiple agencies across the Government. For example, (i) the Government Accountability Office (“GAO”) and many inspectors general received increases in funding to further conduct investigations and hire additional staff, (ii) the Centers for Medicare and Medicaid Services (“CMS”) received a \$336 million increase in funds for fraud control, and (iii) the Social Security Administration (“SSA”) received \$199 million in excess of its GFY2014 funding to monitor fraud. Furthermore, the Federal Bureau of Investigations’ (“FBI”) cybersecurity budget was increased to combat the continued problems with identity theft, while fraud control measures related to cybersecurity resulted in higher levels of funding for agencies, such as the DoD and the Department of Energy (“DoE”).

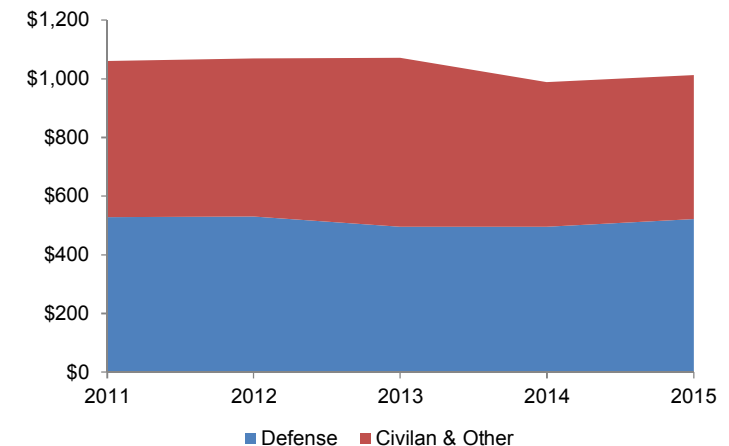
By addressing the government-wide concerns around identity theft, fraud, and security, the “Cromnibus” bill emphasizes the continued importance of the public safety marketplace across all agencies.

Moreover, the National Intelligence Programs (“NIP”) and Military Intelligence Programs (“MIP”) budget requests increased after the OCO budget amendments made on November 10<sup>th</sup>. The Office of the Director of National Intelligence requested \$50.4 billion for the GFY2015 NIP, an increase of \$1 billion over the original request in June, and the DoD proposed \$16.6 billion for the GFY2015 MIP, an increase of \$600 million over its original request in June. These additional funds are intended to enable U.S. intelligence programs to gather, process, and make national intelligence decisions via data analytics. Additionally, these funds demonstrate the United States’ ongoing commitment to intelligence in response to continued data breaches, cooling relations with Russia, and interactions in the Middle East.

With the majority of the Government funding in place for the remainder of the year, GFY2015 spending is expected to pick up as the new calendar year begins, especially for contractors with a focus in the healthcare and public security marketplaces.

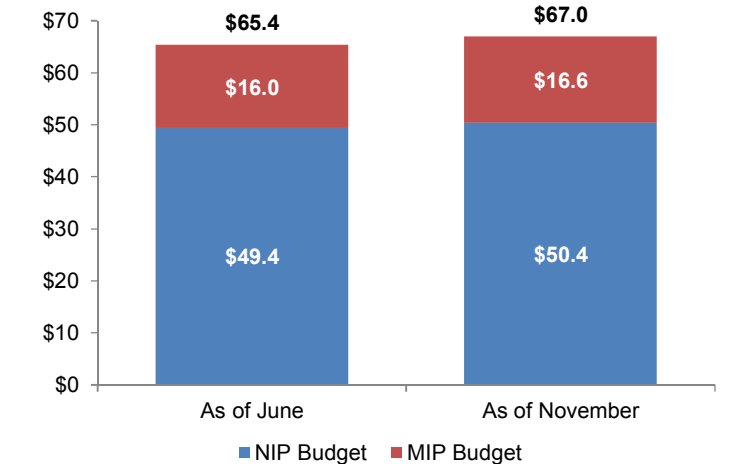
**Discretionary Base Budget**

GFY2011 – GFY2015  
 (\$ in billions)



**Increased Intelligence Budgets Requests**

GFY2015 as of June 2014 and November 2014  
 (\$ in billions)



## Capital Markets and Public Market Valuation Trends

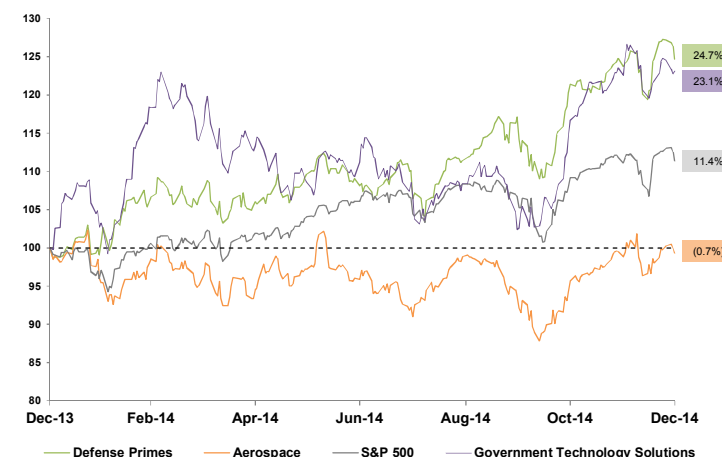
Aerospace and defense (“A&D”) companies experienced divergent pricing and valuation trends in 2014. Share prices and valuation multiples of major defense contractors experienced strong growth in 2014, supported by an improved funding environment, leaner cost structures, favorable capital deployment strategies, and the overall market increase. However, despite strong financial performance throughout 2014, share prices and valuation multiples of major aerospace companies faced headwinds over uncertainty around the longer-term sustainability of current dynamics in the aerospace market. Government Technology Solutions companies realized strong growth in 2014, with share prices and valuation multiples benefiting from heightened budgetary clarity and strategic realignment of contractors’ market positioning.

Defense contractors had a strong 2014 in the capital markets, as an improved funding environment and favorable capital deployment policies provided tailwinds for defense stocks. Defense shares were up 24.7% in 2014, while median Enterprise Value (“EV”) / Next Twelve Month (“NTM”) Earnings Before Interest Taxes Depreciation and Amortization (“EBITDA”) multiples rose from 8.6x at the end of 2013 to 9.5x at the end of 2014. With improved spending levels, defense primes saw strong growth in backlog, which provided investors with greater visibility into near-term revenue and earnings. General Dynamics (“GD”) (up 44.0% in 2014) proved the strongest performer in this category among the primes, with backlog as of 3Q FY2014 reaching \$62.4 billion, a 194.5% increase from year-end 2013. GD is projected to grow diluted Earnings per Share (“EPS”) and Free Cash Flow (“FCF”) 10.2% and 38.9%, respectively, in 2014. Additionally, portfolio-restructuring and cost reduction initiatives have allowed defense primes to deliver solid earnings despite headwinds to top-line revenue. Raytheon (up 19.3% in 2014) is projected to experience a 4.0% year-over-year (“YoY”) decline in revenue in 2014, yet is projected to grow diluted EPS by 8.0% over the same period. Similarly, Lockheed Martin (up 29.5% in 2014) is projected to experience a 0.9% YoY decline in revenue in 2014, yet is projected to grow diluted EPS by 17.0% over the same period. Finally, favorable capital deployment strategies supported defense shares over the past year, providing investors with strong potential for both price appreciation and current income. Lockheed Martin remained committed to returning 100% of FCF to shareholders, and plans to repurchase ~\$2 billion in shares in 2015, along with its policy of continued dividend growth. Northrop Grumman (up 28.6% in 2014) plans to repurchase 60 million shares by the end of 2015, after repurchasing a total of 38 million through 3Q FY2014. Raytheon continued to capitalize on its low net debt levels to repurchase shares, pay dividends, and make acquisitions, including its purchase of Blackbird Technologies. With the new composition of Congress taking effect in January, defense analysts anticipate a slightly stronger budget environment for defense in 2015, which should bode well for defense contractors over the next year.

Aerospace companies faced a difficult 2014 in the capital markets, with prices and valuations pressured over uncertainty around the long-run sustainability of current production levels, delivery schedules, and the potential for market saturation over the intermediate term. Aerospace shares declined 0.7% in 2014, compared to the 11.4% return of the S&P 500. Additionally, median EV / NTM EBITDA multiples retreated from 11.7x at the end of 2013 to 10.6x at the end of 2014. However, despite broader pricing pressure and a moderation of valuation multiples, aerospace companies had a strong year from a financial perspective, which may support better market performance in 2015. At the Original Equipment Manufacturer (“OEM”) level, major aerospace primes saw continued demand for new orders, which led to rising backlogs and provided support to planned increases in build rates over the near-term.

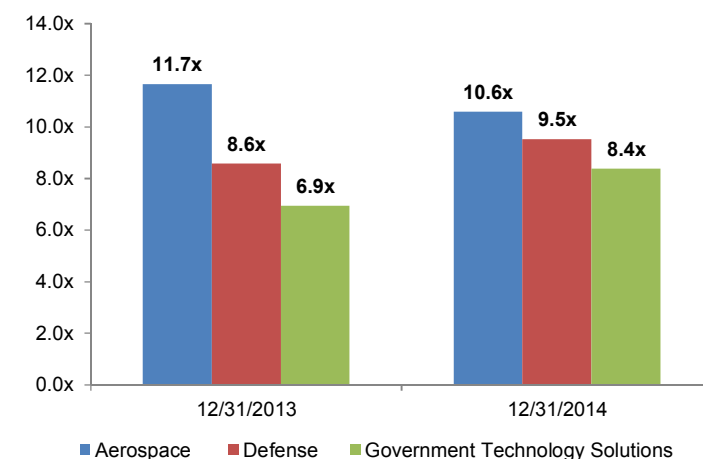
### Relative Stock Price Performance<sup>(1)</sup>

YTD as of December 31, 2014



### EV / NTM EBITDA Multiples<sup>(1)</sup>

As of December 31, 2013 and December 31, 2014



(1) S&P Capital IQ, company filings, and KippsDeSanto research

Boeing (down 4.8% in 2014), which announced additional production-rate increases for its 737 series in 2014, is projected to grow revenue and diluted EPS by 3.8% and 17.5%, respectively, from 2013 to 2014, with strong backlog growth and higher deliveries contributing to its strong financial performance. At the supplier level, heightened OEM activity continued to drive robust demand for engines, aerostructures, and components. The strong demand for major aerostructures led to Spirit Aerosystems (up 26.3% in 2014) beating consensus estimates for revenue and operating income each quarter from 1Q FY2014 – 3Q FY2014; it is also projected to beat previous estimates for both metrics again in 4Q FY2014. General Electric's ("GE") (down 9.9% in 2014) Aviation business experienced YoY growth in commercial engine shipments in every reported quarter in 2014, with shipments of its GENx series projected to grow from 180 in 2013 to ~300 in 2014. As such, revenue and net profit at GE's Aviation business exhibited strong YoY growth in each reported quarter in 2014. Continued strength in order flow, backlog, and production activity in 2015 should alleviate investor concerns over longer-term market dynamics, which may allow prices and valuations to rebound over the next year.

For the YTD period ending December 31, 2014, Government Technology Solutions stocks realized a return of 23.6%, compared to 37.8% in 2013. These stocks outperformed the broader market for the year despite a late September through mid-October downturn attributable to uncertainty associated with the Federal political and fiscal environment as a result of the mid-term elections. Returns in 2013 had been particularly robust as a result of a rally from 2012 budgetary uncertainty, strategic realignment of contractors' market positioning, and record breaking S&P gains. Meanwhile, 2014 stock performance was largely achieved through dividends, share buybacks, and the contractors' abilities to maintain earnings via cost reductions, strong bookings, and a slowing rate of top line shrinkage. In its 2Q FY2015 earnings call, Booz Allen indicated that its primary avenue to return value to shareholders is a quarterly cash dividend of \$0.11 per share as well as special dividends and share repurchases. Additionally, in 3Q FY2014, NCI had its best bookings quarter since 3Q FY2012. Finally, SAIC not only slowed its revenue shrinkage rate throughout the year, but was able to achieve 2.0% growth in 3Q FY2015. By the end of 2014, the majority of solutions providers met analyst expectations and maintained earnings guidance. Given these achievements, it appears Government Technology Solutions companies are well positioned for continued improvement in calendar year ("CY") 2015.

## Government Technology Solutions Financial Outlook<sup>(1)</sup>

### Analyst Projections as of December 31, 2013

(\$ in millions, except price per share)

Government Tech. Solutions	Revenue Estimates		EBITDA Estimates		Enterprise Value /			
	2013	2014	2013	2014	Revenue		EBITDA	
					2013	2014	2013	2014
Booz Allen Hamilton	\$5,477.7	\$5,274.5	\$555.3	\$527.5	0.74x	0.76x	7.3x	7.6x
Leidos Holdings	5,751.0	5,498.8	234.8	486.8	0.81x	0.85x	19.8x	9.5x
SAIC	4,113.2	3,898.8	197.3	258.7	0.48x	0.50x	10.0x	7.6x
CACI International	3,682.0	3,630.7	322.4	332.6	0.83x	0.85x	9.5x	9.2x
ManTech International	2,342.2	2,124.7	166.5	155.4	0.45x	0.49x	6.3x	6.7x
ICF International	952.6	993.9	86.9	96.4	0.76x	0.73x	8.3x	7.5x
Engility Holdings	1,402.6	1,385.2	133.9	124.2	0.54x	0.55x	5.7x	6.1x
The KEYW Holding Corporation	303.0	350.1	25.4	42.7	1.88x	1.62x	NM	NM
VSE Corp.	466.3	464.4	65.0	62.2	0.80x	0.80x	5.7x	6.0x
Vectrus	NA	NA	NA	NA	NA	NA	NA	NA
NCI	322.6	286.2	19.0	16.0	0.27x	0.30x	4.5x	5.4x
<b>Median</b>	<b>\$1,402.6</b>	<b>\$1,385.2</b>	<b>\$133.9</b>	<b>\$124.2</b>	<b>0.76x</b>	<b>0.73x</b>	<b>7.3x</b>	<b>7.1x</b>

### Analyst Projections as of December 31, 2014

(\$ in millions, except price per share)

Government Tech. Solutions	Revenue Estimates		EBITDA Estimates		Enterprise Value /			
	2014	2015	2014	2015	Revenue		EBITDA	
					2014	2015	2014	2015
Booz Allen Hamilton	\$5,274.5	\$5,367.7	\$533.1	\$553.8	1.01x	0.99x	10.0x	9.6x
Leidos Holdings	5,072.5	4,945.9	426.3	436.0	0.80x	0.82x	9.5x	9.3x
SAIC	3,859.8	3,926.5	259.5	273.2	0.65x	0.64x	9.7x	9.2x
CACI International	3,564.6	3,436.8	330.4	316.9	0.89x	0.92x	9.6x	10.0x
ManTech International	1,799.9	1,787.8	126.4	127.9	0.60x	0.60x	8.5x	8.4x
ICF International	1,051.7	1,253.7	98.5	131.9	0.86x	0.72x	9.2x	6.8x
Engility Holdings	1,400.0	1,614.3	123.3	149.5	0.76x	0.66x	8.7x	7.1x
The KEYW Holding Corporation	294.2	332.8	17.1	32.7	1.58x	1.40x	NM	NM
VSE Corp.	433.6	407.1	59.5	57.5	1.00x	1.07x	7.3x	7.6x
Vectrus	1,189.0	1,146.0	49.0	54.0	0.32x	0.34x	7.9x	7.1x
NCI	318.3	319.4	21.5	21.6	0.35x	0.35x	5.2x	5.2x
<b>Median</b>	<b>\$1,294.5</b>	<b>\$1,434.0</b>	<b>\$110.9</b>	<b>\$129.9</b>	<b>0.78x</b>	<b>0.69x</b>	<b>8.7x</b>	<b>7.6x</b>

(1) S&P Capital IQ, company filings, and KippsDeSanto research

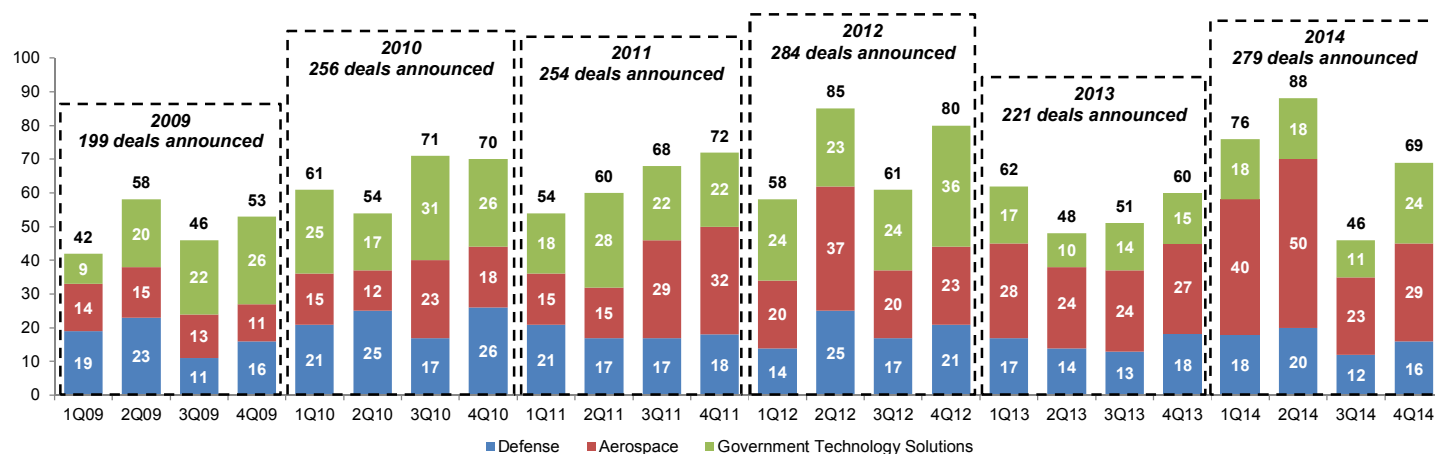
Consensus analyst estimates and metrics suggest the expectation for growth in 2015. At the end of 2013, overall revenue and EBITDA projections for Government Technology Solutions anticipated shrinkage between 2013 and 2014. While there were exceptions to the expected top-line and earnings declines, most were not driven by top-line organic growth. For example, while Leidos and SAIC's EBITDA projections were up from 2013, the expected growth was driven by cost savings as evidenced by the earnings growth coupled with top-line declines. Additionally, the EBITDA growth seen in the projections for CACI reflected its November 2013 acquisition of Six3 Systems, a business that generated \$60 million of EBITDA in the twelve months ended September 30, 2013. When the acquisition is stripped away, CACI also shows shrinkage going into 2014. In contrast, at the end of 2014, analysts are projecting overall revenue and profitability growth for Government Technology Solutions providers in 2015, suggesting that analysts believe top line shrinkage bottomed out in 2014. Government Technology Solutions companies will likely continue to drive growth by realigning strategic focus, and by deploying capital through M&A.



## M&A Trends & Activity

There were a total of 279 A&D and Government Technology Solutions deals announced in 2014, a 26.2% increase over 2013. Of all announced deals in 2014, defense accounted for 66 deals, with a specific focus on defense electronics, C4ISR, and advanced platforms and systems; the aerospace sector accounted for 142 deals, with particular strength in the aerostructures / components and Maintenance, Repair, and Overhaul (“MRO”) subsectors; and Government Technology Solutions accounted for 71 deals, with a strong focus on cybersecurity, intelligence, and big data. While strategics were the primary buyer for the majority of 2014’s headline deals, financial sponsors remained active participants in the A&D and Government Technology Solutions sectors, accounting for ~25% of all activity. Additionally, divestitures experienced a strong trend in 2014 as restructuring initiatives remain a common strategy for major aerospace manufacturers, defense primes, and government contractors.

### M&A Transaction Volume<sup>(1)</sup>



With 66 deals announced in 2014, defense M&A remained relatively unchanged compared to 2013. While overall transaction activity was relatively flat, certain subsectors showed more robust deal activity, including defense electronics, C4ISR, and advanced platforms and systems. One example was Alliant Techsystems announced merger with Orbital Sciences Corporation, a provider of advanced rockets and space systems, representing a total estimated EV for Orbital of approximately \$1.7 billion, implying an 11.5x LTM EBITDA multiple. Another significant example was Cobham’s acquisition of Aeroflex Holding Corporation, a provider of radio frequency (“RF”) and microwave integrated circuits for harsh environments and wireless communication systems, for \$1.4 billion, representing an 11.7x LTM EBITDA multiple. Apart from Lockheed Martin, which announced eight deals in 2014, transaction activity for defense primes was highly selective in 2014, as share repurchases and dividends were the preferred method of capital deployment. Defense primes did, however, pursue M&A for select opportunities in order to fill perceived gaps in their capability and customer sets. Raytheon acquired Blackbird Technologies, a provider of cybersecurity and surveillance solutions to the Intelligence Community (“IC”), for \$420 million, while Lockheed Martin acquired Zeta Associates, a provider of signals intelligence and analytics solutions to the national security community. With the recent shift in the Congressional balance of power, defense contractors will be keenly focused on key mission areas and capabilities with budget support to shape M&A activity in 2015.

The aerospace sector experienced another exceptional M&A environment in 2014, with transactions increasing 37.9% over already strong 2013 levels. With persistent growth in new orders and rising backlogs, OEMs continued to create strong demand for major aerostructures and components, which drove significant consolidation activity throughout the aerospace supply chain in order to manage heightened production levels and tight delivery schedules. Examples in 2014 included Precision Castparts’ \$625 million acquisition of Aerospace Dynamics International, a manufacturer of machined parts and complex assemblies, representing 15.5x LTM EBITDA, and Alcoa’s acquisition of Firth Rixon Limited, a manufacturer of rings, forgings, and metal products, for \$2.9 billion. The MRO subsector accounted for ~30% of all aerospace deals in 2014, as companies continued to look for ways to diversify their service offerings, as well as reduce some of the natural cyclical in the business by acquiring more lifecycle-focused companies. Specific MRO deals in 2014 included Wesco Aircraft Holdings’ \$550 million acquisition of Haas Group International, a provider of chemical management, product distribution, and supply chain logistics services, and Hong Kong Aircraft Engineering Company’s acquisition of TIMCO Aviation Services, a provider of aircraft maintenance schedules, exterior and interior

(1) S&P Capital IQ, company filings, and KippsDeSanto research

modifications, installations, upgrades, and conversions, for \$389 million, representing 15.0x LTM EBITDA. Given continued positive dynamics in the aerospace market, transaction activity in 2015 is expected to remain strong.

Divestitures accounted for nearly 20% of all A&D transaction activity in 2014, as companies focused on restructuring capability and customer portfolio sets. In the aerospace sector, headline divestitures included Barco N.V.'s \$187 million sale of its Aerospace and Defense Display business, which manufactures harsh-environment displays and visualization solutions, and GE's \$70 million sale of its Hydraulic Actuation business, which provides landing gear actuation systems, hydraulic fuses, and locking mechanisms. Within the defense sector, 2014 divestitures included ThyssenKrupp's \$52 million sale of its Marine Systems business, which designs and builds submarines and naval surface ships, and GD Advanced Information Systems' sale of its Advanced Systems business, which designs and produces radar and other information sensors.<sup>(1)</sup> After back-to-back years of heightened divestiture activity, 2015 is likely to see additional divestitures, while companies also begin to refocus on growth efforts.

The M&A market in the Government Technology Solutions industry picked up slightly in 2014, ending the year with 71 deals in 2014, compared to the 64 deals announced in 2013, reflecting an ~11% increase. 3Q14 was the slowest quarter of the year with 11 transactions as compared to 14 during the 3Q13, while all other quarters showed YoY activity with an average of ~20 deals per quarter. Of the 2014 deals, 24 were announced in 4Q14. Additionally, 18 were private-equity backed transactions, reflecting a 28.6% increase in private equity activity over 2013, which may indicate a heightened interest / confidence in the Federal services space by the financial sponsor community. With respect to priority market areas, 21 targets provided cyber related capabilities and solutions and 18 served the IC, a ~31% and ~80% increase over 2013 totals, respectively.

Overall, Government Technology Solutions deals are largely occurring in two distinct buyer markets – one governed by the large, public contractors and the other by middle-market acquirers. With more capital ability, deals done by the public contractors are generally deals larger than \$100 million, with a median size of \$250 million in 2014. In addition to a disparity in size between deals done in each market, the M&A rationale also differs. The large, traditional system integrators and defense prime contractors continue to focus on deals involving high-end technology and IP assets that pivot them into priority areas, such as cybersecurity, intelligence, healthcare IT ("HIT"), big data, and cloud computing. These types of transactions are typically done at premium valuations given the strategic fit with internal priorities and strategic goals in combination with the magnitude of market footprint that is acquired. For example, Raytheon's acquisition of Blackbird Technologies expanded Raytheon's footprint in the priority IC market while growing its cybersecurity operations and special missions support capabilities. Additionally, Lockheed Martin's acquisition of Systems Made Simple captured HIT solutions that were a natural extension of Lockheed Martin's existing capabilities while expanding its presence in the coveted Department of Veterans Affairs ("VA") market. With healthy balance sheets and low costs of capital, these companies are turning to M&A to supplement organic revenue and signal focused strategies to the public markets in order to preserve shareholder value. Portfolio shaping also continues to be a prevalent theme, as a number of large primes have indicated that additional divestitures are expected in the next 12 months.

The second market segment, inclusive of middle-market firms and financial sponsors, is focused on sub \$100 million deals and underscores the theme of smaller buyers aiming to use M&A to scale footprints and grow capability sets quickly in order to better position for competition against the larger contractors. While these smaller deals exhibit a wide range of multiples across a variety of capability sets – Systems Engineering and Technical Assistance ("SETA"), consulting, diversified IT, etc. – they generally do not show the relative transaction premium as shown by deals done by the larger public buyers. Additionally, this market segment is characterized by a number of "alternative" type transactions (e.g., "mergers of equals," highly-structured acquisitions by middle-market buyers, contract sales, and management buyouts). In contrast to traditional deals (e.g., Large Company "X" acquires Small Company "Y" to gain "Z" customer / capability set / etc.), these transactions are more of a "means to an end" – the first step in a broader strategy to achieve a goal vs. the goal itself. For example, Dovel Technologies' acquisition of RNSolutions served as an avenue for Dovel to immediately become a larger player in HIT and heighten its presence as a prime contractor in the Federal IT space.<sup>(2)</sup> Likewise, the acquisition of Global Net Services was the next step in Information Innovators' strategy to expand its footprint within priority customer areas, diversify its revenue base, and establish itself as a major systems integrator.<sup>(3)</sup> Similar "alternative" and otherwise middle-market M&A activity can be expected in the near-term, as a heightened competitive landscape continues to encourage the evolution / consolidation of middle- and small-sized Federal contractors.







(1) KippsDeSanto acted as the exclusive financial advisor to General Dynamics  
(2) KippsDeSanto acted as the exclusive financial advisor to RNSolutions  
(3) KippsDeSanto acted as the exclusive financial advisor to Global Net Services



## Defense Update

### Defense Earnings Update<sup>(1)</sup>

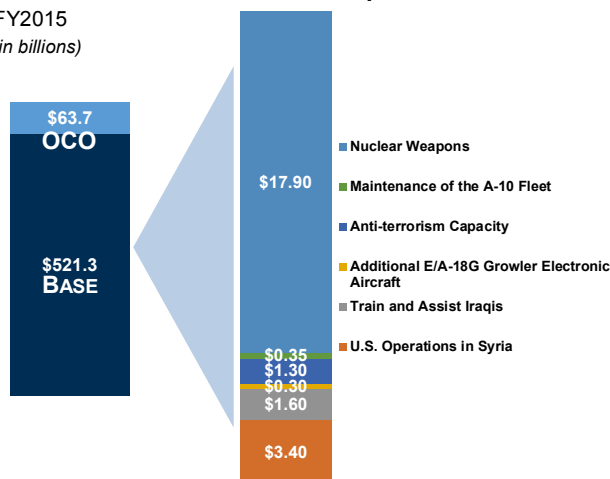
Defense	EPS		EPS Growth Y/Y
	2014E	2013	
<b>GENERAL DYNAMICS</b>	\$7.76	\$7.03	10.3%
	7.47	8.17	(8.6%)
	11.22	9.58	17.1%
	9.50	8.35	13.7%
<b>Raytheon</b>	6.90	6.38	8.1%
	5.51	4.91	12.1%

### DEFENSE EARNINGS: YEAR IN REVIEW

Defense stocks exhibited strong performance in 2014, buoyed by tailwinds from a stronger contracting environment, leaner cost structures, and favorable capital deployment policies. GD was one of the strongest performers among the primes, and is expected to reach \$7.76 in EPS in 2014, a 10.3% increase over 2013. Lockheed Martin experienced similar growth in EPS despite top-line pressures, with expectations for \$11.22 in EPS in 2014, 17.1% higher than 2013. Both companies benefited from more focused portfolios and strong bottom line earnings, and have continued to return cash to shareholders through stock repurchases and dividends.

### NDAAs Breakdown and Relevant Inputs

GFY2015  
 (\$ in billions)



### BREAKDOWN OF THE 2015 NDAAs

The NDAAs, passed by the House and Senate in early December, provides authorization for GFY2015 defense spending. The bill, now awaiting Presidential approval, authorizes \$585.0 billion for GFY2015, including \$521.3 billion in base funding and \$63.7 billion in OCO funding. Important highlights from the bill include further nuclear weapons funding, the continuation and maintenance of the A-10 fleet, the injunction of the transfer or divestiture of the KC-10 tanker fleet, additional E/A-18 Growler aircraft and Hercules vehicles, and incremental funding for additional Littoral Combat Ships and LPD-28 amphibious transport ships. The OCO portion of the bill also includes \$3.4 billion to fund U.S. operations in Syria and surrounding areas and \$1.6 billion to train and equip Iraqi soldiers.

### Select "Third Offset" Strategy Priority Technologies



Hypersonic Aircraft



3-D Printing



Underwater Systems



Robotics



Drones



Hypersonic Missiles







### DEFENSE INNOVATION INITIATIVE

In the last major address prior to his resignation as Secretary of Defense, Chuck Hagel outlined the Pentagon's Defense Innovation Initiative, or the "third offset" strategy. The initiative is intended to spur the development and fielding of a new generation of U.S. military technologies to counter the advances being made by China and Russia with respect to new fighters, missiles, and cybersystems. Specifically, the plan identified a number of investment priorities including robots and drones that act more autonomously, data systems that can improve surveillance and reconnaissance, advanced manufacturing techniques such as 3-D printing, cybersecurity, undersea systems, and hypersonic planes and missiles. Furthermore, the initiative addresses plans to spend more of the Pentagon's budget on new technologies from beyond its traditional supplier base, potentially posing a challenge for established defense contractors. Ultimately, the offset strategy could significantly reshape the portfolios and investments made by large military contractors over the course of the next decade.

(1) S&P Capital IQ, company filings, and KippsDeSanto research

## Aerospace Update

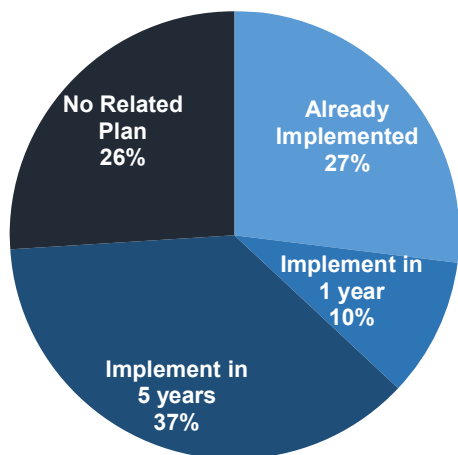
### Aerospace Earnings Update<sup>(1)</sup>

Aerospace	EPS		EPS Growth
	2014E	2013	Y / Y
 BE AEROSPACE	\$4.12	\$3.55	16.0%
 BOEING	8.32	7.07	17.6%
 HEXCEL	2.15	1.85	16.4%
 MOOG	3.71 <sup>(2)</sup>	3.50	6.0%
 Rockwell Collins	4.51 <sup>(2)</sup>	4.58	(1.5%)
 United Technologies	6.80	6.21	9.5%

### AEROSPACE EARNINGS: YEAR IN REVIEW

Aerospace prices and valuations faced headwinds in 2014, despite strong financial performance throughout the year. Record backlogs and robust order rates positively affected earnings while stock prices and valuations remained pressured. Boeing had one of the strongest years among aerospace OEMs from a financial perspective, and is expected to reach \$8.32 in EPS in 2014, a 17.6% increase over 2013. Further driving share price, the company announced a 50% dividend increase and a \$10 billion share buyback in December. Another strong financial performer, BE Aerospace, is expected to reach \$4.12 in EPS in 2014, a 16.0% increase over 2013.

### Aerospace Manufacturers Expecting to Implement 3-D Printing Over the Next Five Years<sup>(3)</sup>



### THE RISE OF 3-D PRINTING

Additive manufacturing, also known as 3-D printing, has the potential to revolutionize the aerospace industry. The process involves layering materials using digital models and special material deposition devices to build physical objects. It yields significant benefits, including minimization of scrap and the ability to rapidly produce prototypes as it does not require additional investment in machinery. The process is currently used in just 0.002% of the \$150 billion aerospace manufacturing market, leaving significant room for growth. GE has taken steps to capitalize on this opportunity, with a \$50 million investment towards a new factory for 3-D printed fuel nozzles to be used in the next generation LEAP engine and others. The LEAP engine currently includes 19 3-D printed parts and will begin production in 2016. GE has also predicted that in the near-term, jet engines will utilize 3-D printing for as much as 25% of parts.

### Representative Aerospace Supplier Transactions

#### SELECT LARGE / PUBLIC CONSOLIDATORS IN 2014



#### SELECT SMALL / PRIVATE CONSOLIDATORS IN 2014



### AEROSPACE SUPPLIER TRENDS

With extensive growth in the commercial aerospace market leading to continued pressure for OEMs to meet heightened demand and fulfill tighter delivery schedules, suppliers have been tasked to deliver a greater amount of components, parts, and assemblies within expedited timeframes. In order to guarantee successful delivery, top tier suppliers have considered entering into long-term agreements with highly-reliable companies down the supply chain, or acquiring those same companies. With confidence that strength in OEM demand will continue, many top tier suppliers have chosen to pursue acquisitions of strategic partners. For example, Alcoa, Inc. acquired Firth Rixson for \$2.9 billion and TITAL for an undisclosed sum in order to expand precision casting capabilities. Additionally, Precision Castparts acquired Aerospace Dynamics International and KG Coating, and Air Industries Group acquired AMK Technical, to expand the companies' ability to access key aerospace components and materials.

(1) S&P Capital IQ, company filings, and KippsDeSanto research  
(2) Represents FY 2014A EPS  
(3) GE Capital

## Technology Solutions Update

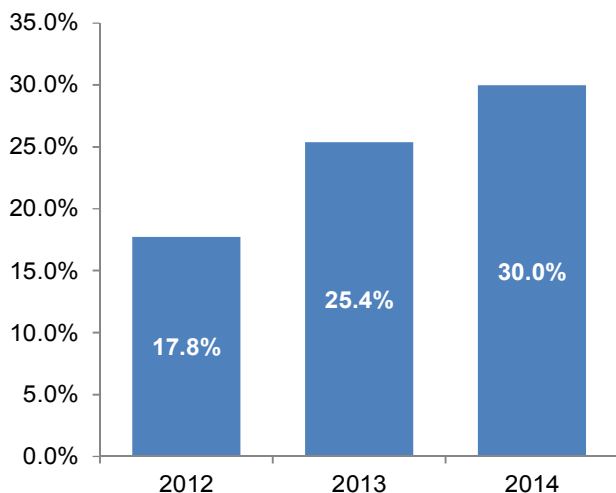
### Government Technology Solutions Performance<sup>(1)</sup>

	Stock Price Performance			
	10/01/14	12/31/14	% Change	% of 52 Wk High
Booz   Allen   Hamilton	\$23.86	\$27.07	13.5%	97.3%
<b>CACI</b>	71.40	87.87	23.1%	95.7%
<b>ENGILITY</b>	31.33	43.68	39.4%	94.4%
<b>ICF</b>	31.00	41.84	35.0%	94.4%
<b>KEYW</b>	11.04	10.52	(4.7%)	45.6%
<b>leidos</b>	34.49	44.23	28.2%	91.6%
<b>ManTech</b>	27.02	30.70	13.6%	98.0%
<b>nci</b>	9.69	10.54	8.8%	80.3%
<b>SAIC</b>	45.14	50.77	12.5%	95.9%
<b>VECTRUS</b>	19.73	28.53	44.6%	88.2%
<b>VSE CORPORATION</b>	51.80	66.23	27.9%	88.5%

### GOVERNMENT TECHNOLOGY SOLUTIONS STOCKS SOAR WITH INCREASED BUDGET CLARITY

The passage of the “Cromnibus” deal provides increased insight into funding levels for the remainder of GFY2015 and the contract award environment. Amidst this improved visibility, Government Technology Solutions stocks increased an average of 22.0% in 4Q14. Notable movements include Engility up 39.4% after announcing its acquisition of TASC, demonstrating investor approval of the accelerated growth strategy and further diversified customer base resulting from the transaction. The market continues to be bullish on ICF International, whose stock increased nearly 35.0% throughout the quarter, due to strong revenue and growth trajectory expected by analysts and investors. Leidos was also up 28.2% after announcing strong 3Q FY2015 earnings and reaffirming its full year guidance. Finally, Vectrus, the spinoff of Exelis’ Mission Systems business, has received a positive response from investors, given its independent performance thus far and expected growth.

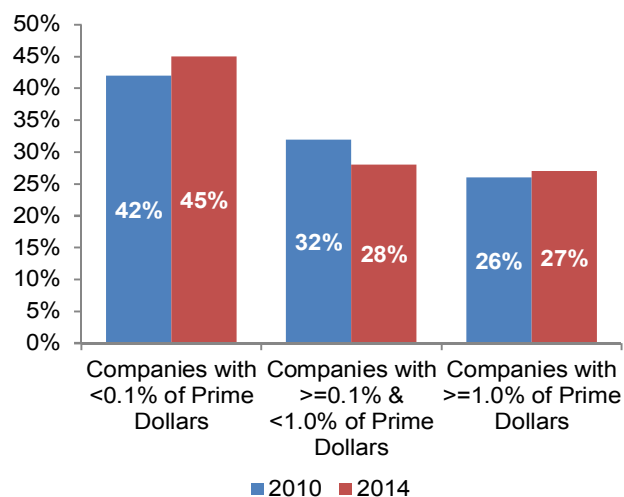
### Cybersecurity Deals as a Percent of Total Deals<sup>(2)</sup>



### UPTICK IN CYBERSECURITY THREATS DRIVES THE 2014 M&A MARKET

The need for security capabilities has grown exponentially given the recent uptick in cybersecurity threats and the predictions for increased threats moving forward. This continued growth has created a window of opportunity for these capabilities in the M&A marketplace over the past year, and cybersecurity is anticipated to continue as a priority market area throughout 2015. Dialogue regarding a potential attack to U.S. critical infrastructure networks before 2025 and the high number of public sector employee-caused threats is prevalent across the industry, and the M&A market has seen an increase in activity around companies that help mitigate or inhibit such events. In 2014, ~30% of companies sold had cybersecurity solutions or services components, compared to only ~25% and ~18% of total Technology Solutions deals in 2013 and 2012, respectively.

### Distribution of Prime Contract Dollars<sup>(3)</sup>



### PRIME CONTRACT DOLLARS ALLOCATION SHIFTS TOWARDS SMALLER PLAYERS IN THE MARKET

Between 2010 and 2014, a squeeze of the middle market concentration of prime contract dollar awardees occurred. Prime contractors with >1.0% of prime contracting dollars (which equated to >~\$400 million in 2014) have increased by 1.0% in the past four years. A greater change is seen in the number of contractors with <0.1% (<\$40 million in 2014) of prime contracting dollars, jumping from 42.0% of prime contract awardees in 2010 to 45.0% in 2014. These shifts encroach on prime contract dollars that were once held by the middle market of prime contract awardees and shift funding more heavily toward the ends of the spectrum, especially for smaller contractors. The trend is likely a result of agencies being more keen on meeting small business goals and the seemingly decreased incumbency value for traditionally larger Federal contractors.

(1) S&P Capital IQ, company filings, and KippsDeSanto research  
(2) Deltek and KippsDeSanto research  
(3) USAspending.gov

## Public Company Trading Analysis<sup>(1)</sup> (\$ in millions, except per share amounts)

Defense Primes	Stock Price 12/31/14	% of 52 Week High	Market Cap	Enterprise Value	CY2014E			CY2015P			EV / CY2014E		EV / CY2015P	
					Rev.	EBITDA	Margin	Rev.	EBITDA	Margin	Rev.	EBITDA	Rev.	EBITDA
Boeing	\$129.98	89.9%	\$92,667	\$91,642	\$89,914	\$9,379	10.4%	\$93,459	\$10,351	11.1%	1.02x	9.8x	0.98x	8.9x
Lockheed Martin	192.57	96.9%	60,491	63,693	44,943	6,520	14.5%	44,263	6,618	15.0%	1.42x	9.8x	1.44x	9.6x
General Dynamics	137.62	94.2%	45,606	44,412	30,594	4,392	14.4%	31,107	4,580	14.7%	1.45x	10.1x	1.43x	9.7x
Raytheon	108.17	97.0%	33,356	34,149	22,761	3,605	15.8%	22,509	3,656	16.2%	1.50x	9.5x	1.52x	9.3x
Northrop Grumman	147.39	96.2%	29,773	32,300	23,848	3,650	15.3%	23,490	3,395	14.5%	1.35x	8.8x	1.38x	9.5x
BAE Systems	7.36	97.0%	23,194	25,161	26,296	3,219	12.2%	26,635	2,139	8.0%	0.96x	7.8x	0.94x	11.8x
<b>Median</b>		<b>96.6%</b>	<b>\$39,481</b>	<b>\$39,281</b>	<b>\$28,445</b>	<b>\$4,021</b>	<b>14.4%</b>	<b>\$28,871</b>	<b>\$4,118</b>	<b>14.6%</b>	<b>1.39x</b>	<b>9.6x</b>	<b>1.40x</b>	<b>9.6x</b>

Defense Systems	Stock Price 12/31/14	% of 52 Week High	Market Cap	Enterprise Value	CY2014E			CY2015P			EV / CY2014E		EV / CY2015P	
					Rev.	EBITDA	Margin	Rev.	EBITDA	Margin	Rev.	EBITDA	Rev.	EBITDA
Safran	\$62.03	93.9%	\$25,827	\$29,107	\$18,734	\$3,210	17.1%	\$19,921	\$2,934	14.7%	1.55x	9.1x	1.46x	9.9x
Rockwell Collins	84.48	97.6%	11,231	13,080	5,160	1,220	23.6%	5,387	1,285	23.9%	2.53x	10.7x	2.43x	10.2x
L-3 Communications	126.21	97.6%	10,745	14,269	12,074	1,330	11.0%	11,799	1,330	11.3%	1.18x	10.7x	1.21x	10.7x
Cobham	5.05	98.4%	5,698	6,236	2,833	599	21.1%	3,358	466	13.9%	2.20x	10.4x	1.86x	13.4x
Huntington Ingalls Industries	112.46	96.7%	5,431	6,405	6,932	900	13.0%	7,031	928	13.2%	0.92x	7.1x	0.91x	6.9x
FLIR	32.31	86.3%	4,552	4,364	1,516	328	21.6%	1,606	382	23.8%	2.88x	13.3x	2.72x	11.4x
Alliant Techsystems	116.25	73.5%	3,713	5,764	5,157	777	15.1%	5,168	803	15.5%	1.12x	7.4x	1.12x	7.2x
Exelis	17.53	81.8%	3,274	3,528	3,398	490	14.4%	3,281	506	15.4%	1.04x	7.2x	1.08x	7.0x
Kongsberg Gruppen	16.44	81.2%	1,964	1,494	2,225	272	12.2%	2,339	2,257	96.5%	NM	5.5x	NM	0.7x
Cubic	52.64	94.5%	1,414	1,299	1,419	129	9.1%	1,453	140	9.6%	0.92x	10.1x	0.89x	9.3x
AeroVironment	27.25	65.4%	636	428	248	6	2.4%	272	22	8.0%	1.73x	NM	1.58x	19.6x
<b>Median</b>		<b>93.9%</b>	<b>\$4,552</b>	<b>\$5,764</b>	<b>\$3,398</b>	<b>\$599</b>	<b>14.4%</b>	<b>\$3,358</b>	<b>\$803</b>	<b>14.7%</b>	<b>1.37x</b>	<b>9.6x</b>	<b>1.34x</b>	<b>9.9x</b>

Defense Electronics / Comm.	Stock Price 12/31/14	% of 52 Week High	Market Cap	Enterprise Value	CY2014E			CY2015P			EV / CY2014E		EV / CY2015P	
					Rev.	EBITDA	Margin	Rev.	EBITDA	Margin	Rev.	EBITDA	Rev.	EBITDA
Harris	\$71.82	90.5%	\$7,512	\$8,692	\$4,933	\$1,052	21.3%	\$4,893	\$1,076	22.0%	1.76x	8.3x	1.78x	8.1x
Teledyne	102.74	94.1%	3,756	4,252	2,393	381	15.9%	2,546	413	16.2%	1.78x	11.2x	1.67x	10.3x
ViaSat	63.03	84.3%	2,953	3,641	1,377	307	22.3%	1,484	364	24.5%	2.64x	11.9x	2.45x	10.0x
Ultra Electronics	28.05	90.6%	1,955	2,192	1,151	208	18.0%	1,215	141	11.6%	1.90x	10.5x	1.80x	15.5x
Orbital Sciences	26.89	78.7%	1,638	1,347	1,361	152	11.2%	1,494	175	11.7%	0.99x	8.8x	0.90x	7.7x
Comtech Telecommunications	31.52	77.5%	511	367	333	57	17.3%	384	69	18.0%	1.10x	6.4x	0.96x	5.3x
Mercury Systems	13.92	96.5%	472	423	220	32	14.8%	242	45	18.6%	1.93x	13.1x	1.75x	9.4x
Kratos Defense & Security Solutions	5.02	54.7%	290	937	878	75	8.5%	915	97	10.6%	1.07x	12.5x	1.02x	9.7x
<b>Median</b>		<b>87.4%</b>	<b>\$1,796</b>	<b>\$1,769</b>	<b>\$1,256</b>	<b>\$180</b>	<b>16.6%</b>	<b>\$1,350</b>	<b>\$158</b>	<b>17.1%</b>	<b>1.77x</b>	<b>10.9x</b>	<b>1.71x</b>	<b>9.5x</b>

Homeland Security	Stock Price 12/31/14	% of 52 Week High	Market Cap	Enterprise Value	CY2014E			CY2015P			EV / CY2014E		EV / CY2015P	
					Rev.	EBITDA	Margin	Rev.	EBITDA	Margin	Rev.	EBITDA	Rev.	EBITDA
Smiths Group	\$17.11	71.5%	\$6,754	\$8,126	\$4,605	\$876	19.0%	\$4,677	\$596	12.7%	1.76x	9.3x	1.74x	13.6x
MSA Safety Incorporate	53.09	86.9%	1,988	2,177	1,120	169	15.1%	1,191	202	16.9%	1.94x	12.9x	1.83x	10.8x
OSI Systems	70.77	94.6%	1,403	1,410	936	177	18.9%	986	191	19.3%	1.51x	8.0x	1.43x	7.4x
Analogic	84.61	84.6%	1,047	930	528	83	15.8%	569	88	15.5%	1.76x	11.2x	1.64x	10.6x
Smith & Wesson	9.47	54.8%	509	619	528	119	22.5%	566	117	20.8%	1.17x	5.2x	1.09x	5.3x
American Science & Engineering	51.90	69.4%	408	294	157	5	3.2%	158	9	5.5%	1.87x	NM	1.86x	NM
<b>Median</b>		<b>78.1%</b>	<b>\$1,225</b>	<b>\$1,170</b>	<b>\$732</b>	<b>\$144</b>	<b>17.3%</b>	<b>\$777</b>	<b>\$154</b>	<b>16.2%</b>	<b>1.76x</b>	<b>9.3x</b>	<b>1.69x</b>	<b>10.6x</b>

(1) S&P Capital IQ, company filings, and KippsDeSanto research

**Public Company Trading Analysis, cont.<sup>(1)</sup>**  
(\$ in millions, except per share amounts)

<b>Aerospace Systems</b>	Stock Price 12/31/14	% of 52 Week High	Market Cap	Enterprise Value	CY2014E			CY2015P			EV / CY2014E		EV / CY2015P	
					Rev.	EBITDA	Margin	Rev.	EBITDA	Margin	Rev.	EBITDA	Rev.	EBITDA
TransDigm	\$196.35	97.7%	\$10,300	\$16,979	\$2,438	\$1,098	45.0%	\$2,581	\$1,192	46.2%	6.97x	15.5x	6.58x	14.2x
Zodiac Aerospace	33.78	99.0%	9,301	10,704	5,357	843	15.7%	5,836	801	13.7%	2.00x	12.7x	1.83x	13.4x
Meggitt	8.09	94.1%	6,489	7,461	2,416	671	27.8%	2,584	473	18.3%	3.09x	11.1x	2.89x	15.8x
B/E Aerospace	58.02	57.4%	6,110	8,447	4,084	749	18.4%	2,900	856	29.5%	2.07x	11.3x	2.91x	9.9x
HEICO	60.40	92.9%	3,502	3,926	1,153	256	22.2%	1,266	286	22.6%	3.41x	15.3x	3.10x	13.7x
Esterline	109.68	89.5%	3,482	3,877	2,120	369	17.4%	1,983	384	19.3%	1.83x	10.5x	1.96x	10.1x
Triumph Group	67.22	84.1%	3,414	4,937	3,806	563	14.8%	3,970	725	18.3%	1.30x	8.8x	1.24x	6.8x
Astronics	55.31	75.8%	1,207	1,395	652	120	18.3%	671	133	19.8%	2.14x	11.7x	2.08x	10.5x
AAR	27.78	88.4%	1,105	1,615	1,939	204	10.5%	2,092	233	11.2%	0.83x	7.9x	0.77x	6.9x
<b>Median</b>		<b>89.5%</b>	<b>\$3,502</b>	<b>\$4,937</b>	<b>\$2,416</b>	<b>\$563</b>	<b>18.3%</b>	<b>\$2,581</b>	<b>\$473</b>	<b>19.3%</b>	<b>2.07x</b>	<b>11.3x</b>	<b>2.08x</b>	<b>10.5x</b>

<b>Aerospace Structures</b>	Stock Price 12/31/14	% of 52 Week High	Market Cap	Enterprise Value	CY2014E			CY2015P			EV / CY2014E		EV / CY2015P	
					Rev.	EBITDA	Margin	Rev.	EBITDA	Margin	Rev.	EBITDA	Rev.	EBITDA
Precision Castparts	\$240.88	87.6%	\$34,333	\$38,274	\$10,136	\$3,218	31.8%	\$10,879	\$3,540	32.5%	3.78x	11.9x	3.52x	10.8x
Sprint AeroSystems	43.04	94.8%	5,907	6,611	6,886	997	14.5%	7,065	986	14.0%	0.96x	6.6x	0.94x	6.7x
Hexcel	41.49	89.3%	3,958	4,353	1,851	389	21.0%	2,014	435	21.6%	2.35x	11.2x	2.16x	10.0x
Senior	4.73	94.6%	1,975	2,171	1,265	213	16.8%	1,359	144	10.6%	1.72x	10.2x	1.60x	15.1x
LMI Aerospace	14.10	89.5%	183	454	396	44	11.2%	406	52	12.8%	1.15x	10.2x	1.12x	8.7x
<b>Median</b>		<b>89.5%</b>	<b>\$3,958</b>	<b>\$4,353</b>	<b>\$1,851</b>	<b>\$389</b>	<b>16.8%</b>	<b>\$2,014</b>	<b>\$435</b>	<b>14.0%</b>	<b>1.72x</b>	<b>10.2x</b>	<b>1.60x</b>	<b>10.0x</b>

<b>Government Technology Solutions</b>	Stock Price 12/31/14	% of 52 Week High	Market Cap	Enterprise Value	CY2014E			CY2015P			EV / CY2014E		EV / CY2015P	
					Rev.	EBITDA	Margin	Rev.	EBITDA	Margin	Rev.	EBITDA	Rev.	EBITDA
Booz Allen Hamilton	\$26.53	95.4%	\$3,921	\$5,325	\$5,299	\$523	9.9%	\$5,349	\$541	10.1%	1.00x	10.2x	1.00x	9.8x
Leidos	43.52	90.2%	3,223	4,034	5,073	426	8.4%	4,946	436	8.8%	0.80x	9.5x	0.82x	9.3x
SAIC	49.53	93.5%	2,263	2,507	3,860	260	6.7%	3,927	273	7.0%	0.65x	9.7x	0.64x	9.2x
CACI	86.18	93.9%	2,051	3,168	3,468	311	9.0%	3,526	330	9.3%	0.91x	10.2x	0.90x	9.6x
ManTech	30.23	96.5%	1,127	1,072	1,800	126	7.0%	1,788	128	7.2%	0.60x	8.5x	0.60x	8.4x
ICF International	40.98	92.4%	795	903	1,052	99	9.4%	1,254	132	10.5%	0.86x	9.2x	0.72x	6.8x
Engility	42.80	92.5%	753	1,068	1,400	123	8.8%	1,614	149	9.3%	0.76x	8.7x	0.66x	7.1x
KEYW	10.38	45.0%	390	466	294	17	5.8%	333	33	9.8%	1.58x	NM	1.40x	NM
VSE Corp.	65.90	88.0%	353	434	434	60	13.7%	407	58	14.1%	1.00x	7.3x	1.07x	7.6x
Vectrus	27.40	84.7%	287	385	1,189	49	4.1%	1,146	54	4.7%	0.32x	7.9x	0.34x	7.1x
NCI	10.21	77.8%	132	113	318	22	6.8%	319	24	7.4%	0.35x	5.2x	0.35x	4.7x
<b>Median</b>		<b>92.4%</b>	<b>\$795</b>	<b>\$1,068</b>	<b>\$1,400</b>	<b>\$123</b>	<b>8.4%</b>	<b>\$1,614</b>	<b>\$132</b>	<b>9.3%</b>	<b>0.80x</b>	<b>9.2x</b>	<b>0.72x</b>	<b>8.4x</b>

<b>Engineering &amp; Construction</b>	Stock Price 12/31/14	% of 52 Week High	Market Cap	Enterprise Value	CY2014E			CY2015P			EV / CY2014E		EV / CY2015P	
					Rev.	EBITDA	Margin	Rev.	EBITDA	Margin	Rev.	EBITDA	Rev.	EBITDA
Babcock International	\$16.49	71.7%	\$8,261	\$10,471	\$5,241	\$625	11.9%	\$7,610	\$651	8.6%	2.00x	16.8x	1.38x	16.1x
Jacobs Engineering	44.69	66.8%	5,835	5,939	12,806	792	6.2%	13,409	895	6.7%	0.46x	7.5x	0.44x	6.6x
AECOM Technology	30.37	79.4%	4,672	5,187	11,089	584	5.3%	19,922	1,151	5.8%	0.47x	8.9x	0.26x	4.5x
Tetra Tech	26.70	86.4%	1,672	1,754	2,002	197	9.8%	1,889	218	11.6%	0.88x	8.9x	0.93x	8.0x
<b>Median</b>		<b>75.5%</b>	<b>\$5,253</b>	<b>\$5,563</b>	<b>\$8,165</b>	<b>\$605</b>	<b>8.0%</b>	<b>\$10,509</b>	<b>\$773</b>	<b>7.6%</b>	<b>0.67x</b>	<b>8.9x</b>	<b>0.69x</b>	<b>7.3x</b>

(1) S&P Capital IQ, company filings, and KippsDeSanto research

**Select Recent Aerospace / Defense M&A<sup>(1)</sup>**  
(\$ in millions)

Announce Date	Buyer / Investor	Target	Target Description	EV	Revenue	EBITDA		EV / LTM	
						Margin	Rev.	EBITDA	EBITDA
12/24/14	VSE Corporation	Killick Aerospace Group's Prime Turbines, CT Aerospace, Kansas Aviation, and Air Parts & Supply Co.	Specializes in maintenance, repair, and overhaul services and parts supply for corporate and regional jet aircraft engines and engine accessories	\$184.0	\$111.0	NA	NA	1.66x	NA
12/24/14	Astronics Corporation	Armstrong Aerospace	Provides engineering, design, and certification solutions for commercial aircraft, specializing in connectivity, in-flight entertainment, and electrical power systems	51.0	27.0	NA	NA	1.89x	NA
12/23/14	Zodiac Aerospace	Enviro Systems Incorporated	Designs and manufactures environmental control systems including vapor cycle air conditioning, bleed air control, cabin pressure systems, and related equipment and components	NA	34.0	\$6.0	18%	NA	NA
12/22/14	EnPro Industries, Inc.	Fabrico, Inc.	Provides highly engineered products and solutions to the land-based turbine industry	NA	NA	NA	NA	NA	NA
12/17/14	Ruag Space GmbH	Patria Finance Oyj, Space Unit	Manufactures turnkey equipment for different spacecraft demands	NA	NA	NA	NA	NA	NA
12/17/14	Krauss-Maffei Wegman GmbH & Co. KG	Diehl Defence Land Systems GmbH	Manufactures different track types for tanks and armored vehicles	NA	NA	NA	NA	NA	NA
12/16/14	Cubic Corporation	DTECH LABS, Inc.	Designs and integrates deployable and tactical communications products and solutions for military, government, first-responder, and civilian customer base	114.5	NA	NA	NA	NA	NA
12/16/14	Wartsila Corporation	L-3 Marine Systems International Business	Supplies complete electrical systems, as well as integrated navigation, automation, communications, and power and propulsion systems for all types of ships	355.9	NA	NA	NA	NA	NA
12/15/14	Hexcel Corporation	Formax UK Limited	Manufactures carbon fiber and specialty composite reinforcement materials	NA	45.0	NA	NA	NA	NA
12/15/14	Alcoa, Inc.	TITAL GmbH	Manufactures titanium and aluminum investment casting products	NA	96.0	NA	NA	NA	NA
12/12/14	COM DEV International Ltd.	MESL Microwave Limited	Designs and manufactures components and subsystems for radar, communications, defense, aerospace, space, security, medical, and transportation industries	20.1	NA	2.4	NA	NA	8.5x
12/11/14	BAE Systems	Esterline Corporation's Eclipse Electronic Systems	Provides highly-advanced intelligence, surveillance, and reconnaissance products and services to the U.S. defense and IC	28.0	NA	NA	NA	NA	NA
12/10/14	The Burtel Group	Process Fab, Inc.	Manufactures ground support equipment, tooling, and airframe subsystem components to the aerospace industry worldwide	NA	NA	NA	NA	NA	NA
12/09/14	Triumph Group, Inc.	Spirit AeroSystems, Inc., G280 and G650 Programs	Manufactures both the G650 and G280 aircraft wing programs	160.0	NA	NA	NA	NA	NA
12/08/14	Sparton Corporation	Argotec, Inc.	Develops and manufactures sonar transducer products and components for the U.S. Navy	NA	NA	NA	NA	NA	NA
12/05/15	AVIC International Holding (Zhuhai) Company Limited	Align Aerospace, LLC	Supplies hardware and related components to aerospace and defense OEMs and their subcontractors	NA	NA	NA	NA	NA	NA
12/02/14	AIP Aerospace Tooling Group, LLC	AREVA TA's Aerospace Integration Business	Offers innovative turnkey solutions for the design, planning, and implementation of assembly lines for major pieces of equipment for the aerospace industry	NA	NA	NA	NA	NA	NA
12/01/14	Littlejohn Capital & Co.	ArmorWorks, Inc.	Provides armor, survivability, and security products to military and enforcement agencies	NA	NA	NA	NA	NA	NA
12/01/14	Stadco Acquisition, LLC	STADCO, Inc. and GroupAero Mexico and Survirn Engineering Limited	Manufactures high-precision, close tolerance, large-scale, flight-critical components and tooling for the commercial aerospace, defense, space, and industrial markets	NA	NA	NA	NA	NA	NA
11/30/14	Graycliff Partners and Renovus Capital Partners	Hillsboro Aero Academy	Provides professional pilot training to domestic and international students	NA	NA	NA	NA	NA	NA
11/26/14	Hanwha Corporation	Samsung Techwin Co. Ltd.	Engages in the security solution, engine and energy equipment, semiconductor equipment, and defense program businesses in South Korea	2,735.7	2,520.2	150.1	6%	1.09x	18.2x
11/24/14	Onex Corporation	Advanced Integration Technology, Inc.	Designs, manufactures, and installs turnkey systems, automated tooling, and equipment for the assembly of aerospace structures	NA	NA	NA	NA	NA	NA
11/12/14	Exchange Income Corporation	Provincial Aerospace Ltd.	Provides airborne and maritime surveillance solutions for industry, military, and government markets in Canada and internationally	246.0	185.0	46.4	25%	1.33x	5.3x
11/11/14	Harbert Private Equity	FDS Avionics Corporation	Designs, develops, and manufactures cabin electronics for business and commercial aircraft, as well as ruggedized special mission military monitors and retrofit solutions	NA	NA	NA	NA	NA	NA

(1) S&P Capital IQ, company filings, and KippsDeSanto research

**Select Recent Aerospace / Defense M&A, cont.<sup>(1)</sup>**  
(\$ in millions)

Announce Date	Buyer / Investor	Target	Target Description	EV	Revenue	EBITDA		EV / LTM	
						Margin	Rev.	EBITDA	EBITDA
11/04/14	Optex Systems Holdings, Inc.	L-3 Communications Corporation's Applied Optics Center	Designs and manufactures laser protection filters and precision optical assemblies	NA	NA	NA	NA	NA	NA
11/04/14	Teradyne, Inc.	Avionics Interface Technologies, Inc.	Provides equipment for testing state-of-the-art avionics data buses	NA	NA	NA	NA	NA	NA
11/04/14	Sheltair Aviation Services, LLC	FlightLevel Aviation Lakeland at Lakeland Linder Regional Airport (KLAL)	Provides complete general and commercial aviation fuel and ground handling services and offers numerous amenities	NA	NA	NA	NA	NA	NA
10/31/14	ATLAS North America, LLC	Marine Sonic Technologies, Ltd.	Develops and manufactures ultra-high resolution side scan sonar systems offering the highest resolution currently available	NA	NA	NA	NA	NA	NA
10/30/14	Delta Information Systems, Inc.	Ampex Data Systems Corporation	Designs, develops, manufactures, and distributes digital storage systems	NA	NA	NA	NA	NA	NA
10/29/14	OM Group, Inc.	Ener-tek International, Inc., (Yardney Technical Products)	Designs, develops, and manufactures high-performance lithium-ion and silver-zinc cells and batteries for niche applications in the defense and aerospace markets	\$24.0	\$24.0	\$3.0	13%	1.00x	8.0x
10/28/14	Gen Cap America, Inc.	AeroSystems Engineering	Provides testing and engineering services to the aerospace and energy markets	NA	NA	NA	NA	NA	NA
10/23/14	Teledyne Technologies, Inc.	Oceanscience Group Ltd.	Develops oceanographic, hydrographic, and hydrologic deployment equipment	NA	NA	NA	NA	NA	NA
10/22/14	Outdoor Venture Corp.	Sotera Defense Solutions, engineered solutions division	Provides services and components for U.S. military field kitchens and sanitary equipment	NA	NA	NA	NA	NA	NA
10/22/14	Selex ES	Tactical Technologies, Inc.	Provides electronic warfare analysis software and services to customers world-wide	NA	NA	NA	NA	NA	NA
10/20/14	Extant Components Group Holdings, Inc.	Rockwell Collins Inc., Customer Specified Avionics product line	Manufactures individual assemblies, including electronic controls, audio and annunciator panels, current sensors, and converters used on various business jets	NA	NA	NA	NA	NA	NA
10/17/14	H-D Advanced Manufacturing Co.	Crown Precision Machining, Inc.	Provides high-precision machining services to manufacturers serving the commercial aerospace and defense industries	NA	NA	NA	NA	NA	NA
10/17/14	Triumph Aftermarket Services Group, LLC	North American Aircraft Services, Inc.	Offers fuel tank maintenance and repair services to the aerospace industry	NA	NA	NA	NA	NA	NA
10/15/14	Twin Haven Capital Partners, LLC	Impresa Aerospace, LLC	Designs, manufactures, and supplies structures and components for the civilian and military aerospace industry	NA	NA	NA	NA	NA	NA
10/15/14	Novaria Group, Inc.	Weatherford Aerospace, Inc.	Engages in the chemical treatment and machining of materials for the aerospace industry	NA	NA	NA	NA	NA	NA
10/13/14	GE Capital Aviation Services Limited	Milestone Aviation Group Limited	Provides helicopter operating lease financing solutions to aviation operators worldwide	1,780.0	NA	NA	NA	NA	NA
10/09/14	Channel Technologies Group, LLC	Materials Systems, Inc.	Manufacturers piezoelectric ceramics, transducers, and complex sonar and navigation systems used in the defense, medical, and energy industries	NA	NA	NA	NA	NA	NA
10/06/14	Novetta Solutions, LLC	Digital Results Group, Inc.	Designs and develops software and technology solutions for government and commercial clients	NA	NA	NA	NA	NA	NA
10/02/14	Air Industries Group	AMK Technical Services	Provides sophisticated welding and machining services for diversified aerospace and industrial customers	6.8	NA	NA	NA	NA	NA
10/01/14	Generation Growth Capital, Inc.	Atlantic Precision, Inc.	Provides prototyping and low volume production parts that meet the highest standards of the aerospace industry	NA	NA	NA	NA	NA	NA
10/01/14	Fastenal Company	Av-Tech Industries' assets	Provides wholesale distribution of aerospace fasteners, electronic components, and miscellaneous aircraft parts	NA	NA	NA	NA	NA	NA
09/30/14	Rift Valley Equity Partners, LLC	MW Crow, Inc.	Manufactures forged metal components for aerospace, defense, and industrial customers	NA	NA	NA	NA	NA	NA
09/29/14	Esterline Technologies Corporation	Barco N.V. Aerospace and Defense Display Business	Manufactures high-technology, harsh-environment displays and visualization solutions, for the avionics, defense, and training and simulation markets	187.0	NA	NA	NA	NA	NA
09/24/14	AIM Aviation Ltd.	Altitude Aerospace Interiors Ltd.	Provides interior product, interior reconfiguration, and VIP completions and refurbishment services for the commercial airline industry	NA	NA	NA	NA	NA	NA

(1) S&P Capital IQ, company filings, and KippsDeSanto research

## Select Recent Government Technology Solutions M&A<sup>(1)</sup>

(\$ in millions)

Announce Date	Buyer / Investor	Target	Target Description	EV	Revenue	EBITDA		EV / LTM	
						Margin	Rev.	Rev.	EBITDA
12/29/14	NCI	CompuTech, Inc.	Provides agile and lean application software development and IT operations and maintenance	\$55.8	\$40.0	NA	NA	1.40x	NA
12/18/14	Atos	Xerox IT Outsourcing Business	Provides IT outsourcing services, including database administration, systems monitoring, network and infrastructure management, cloud computing, and desktop virtualization	1,100.0	1,500.0	NA	NA	0.73x	NA
12/11/14	Vistrionix	ExaTech Solutions, Inc.	Provides software, systems and network engineering support to various customers in the IC	NA	NA	NA	NA	NA	NA
12/11/14	Vistrionix	Objective Solutions, Inc.	Provides for the IC in key mission areas including big data, cyber, collection, and advanced analytics	NA	NA	NA	NA	NA	NA
12/11/14	Vistrionix	Agency Consulting Group	Provides enterprise mission information technology solutions to the IC	NA	NA	NA	NA	NA	NA
12/10/14	Periscope Holdings	BidSync	Provides cloud-based e-procurement solutions that help public sector agencies streamline their procurement process, maintain compliance, reduce costs, and enable transparency	NA	NA	NA	NA	NA	NA
12/09/14	Preferred Systems Solutions	Government Contract Solutions	Provides acquisition, contract services, and project management solutions for federal agency and government contractor clients	NA	NA	NA	NA	NA	NA
11/12/14	Alvarez and Marshal Capital Partners	G4S Government Solutions, Inc.	Provides fire and emergency, facilities maintenance and base operations support, and training support and services to the U.S. Government	135.0	NA	NA	NA	NA	NA
11/10/14	Ishpi Information Technologies, Inc.	Advanced Information Services, Inc.	Provides software systems and development solutions	NA	NA	NA	NA	NA	NA
11/05/14	Bridge Growth Partners	CRGT	Provides IT services to national defense, homeland security, intelligence, federal civilian agencies, and state and local governments	225.0	NA	NA	NA	NA	NA
11/05/14	Raytheon	Blackbird Technologies	Provides technology based solutions to defense, intelligence, and law enforcement communities, as well as the private sector	420.0	NA	NA	NA	NA	NA
10/30/14	Lockheed Martin	Systems Made Simple, Inc.	Provides information technology services to Fortune 500 companies and government agencies	NA	NA	NA	NA	NA	NA
10/29/14	Booz Allen Hamilton	Epidemico, Inc.	Provides health data collection and analytics solutions and services	NA	NA	NA	NA	NA	NA
10/28/14	Acentia, LLC	Optimos, Inc.	Provides IT strategy and consulting services to government clients	NA	NA	NA	NA	NA	NA
10/28/14	Engility	TASC	Provides systems engineering and integration, intelligence missions and operations, and other services to the U.S. Government	711.0 <sup>(2)</sup>	1,100.0	\$90.0	8.2%	0.65x	7.9x
10/22/14	ICF International	Olson, Inc.	Offers advertising, digital and design, analytics design and measurement, brand strategy, loyalty and CRM, mobile marketing, and social media engagement	295.0	126.0	28.4	22.5%	2.34x	10.4x
10/21/14	StoneCalibre, LLC	NetPlus	Provides telecom infrastructure management software solutions for commercial and government entities	NA	NA	NA	NA	NA	NA
10/21/14	BAE Systems	Perimeter Internetworking (SilverSky)	Provides cloud-based email and network managed security services	232.5	75.0	NA	NA	3.10x	NA
10/20/14	Booz Allen Hamilton	Genova Technologies Healthcare Unit	Provides IT solutions and strategy for CMS with a deep understanding of CMS information systems and business practices	NA	NA	NA	NA	NA	NA
10/16/14	Fort Sill Apache Industries, LLC	Tessada & Associates, Inc.	Provides infrastructure, acquisition support, engineering and logistics, supply chain management, IT support, and program management services and solutions	NA	NA	NA	NA	NA	NA
10/03/14	Novetta Solutions, LLC	Sentinel Applied Analytics	Provides data analytics using applied statistical techniques to identify patterns, trends, and relationships; primary customer is the DHS	NA	NA	NA	NA	NA	NA
10/03/14	MacDonald, Detwiler & Associates	Advanced Systems Line of Business of General Dynamics Advanced Informations Systems	Provides development and application of radar and other information sensors for the U.S. Government	NA	NA	NA	NA	NA	NA
09/04/14	Information Innovators, Inc.	Global Net Services, Inc.	Provides IT systems engineering, software development and related HIT services to Federal clients, primarily to the FDA	NA	NA	NA	NA	NA	NA
08/19/14	Datapipe, Inc.	Layered Technologies, Inc.	Provides enterprise secure cloud, dedicated, and hybrid hosting services to federal, state, and local government agencies	NA	NA	NA	NA	NA	NA

(1) S&P Capital IQ, company filings, and KippsDeSanto research

(2) Adjusted for the net present value of TASC's acquired tax assets



## Select Recent KippsDeSanto & Co. Advised Transactions

 <p><i>has been acquired by</i></p>  <p><b>October 2014</b></p>	 <p><i>has been acquired by</i></p>  <p><i>a portfolio company of</i></p>  <p><b>October 2014</b></p>	<p>Advanced Systems Line of Business of</p>  <p>Advanced Information Systems</p> <p><i>has been acquired by</i></p>  <p><b>October 2014</b></p>
 <p><i>has been acquired by</i></p>  <p><i>a portfolio company of</i></p>  <p><b>August 2014</b></p>	 <p><i>has been acquired by</i></p>  <p><b>May 2014</b></p>	 <p><i>has been acquired by</i></p>  <p><b>May 2014</b></p>
 <p><i>has been acquired by</i></p>  <p><b>April 2014</b></p>	 <p><i>has been acquired by</i></p>  <p><b>March 2014</b></p>	 <p><i>has been acquired by</i></p>  <p><b>February 2014</b></p>
 <p><i>was acquired by an entity controlled by</i></p>  <p><b>January 2014</b></p>	 <p><i>has been acquired by</i></p>  <p><b>January 2014</b></p>	 <p><i>has been acquired by</i></p>  <p><i>a National Defense Corp. Company</i></p> <p><b>January 2014</b></p>

## About KippsDeSanto & Co.

KippsDeSanto is an investment banking firm focused on delivering M&A and financing expertise. Our solutions are focused on the sectors we know – Aerospace / Defense and Government Technology Solutions. We are recognized for our depth of industry experience, knowledge of sector-specific transaction drivers, and long-standing relationships with industry participants.

We welcome the opportunity to have a more detailed discussion of developments in our focus industries. For more information, please contact us:

**Robert D. Kipps**

*Managing Director*

[bkipps@kippsdesanto.com](mailto:bkipps@kippsdesanto.com)

**Kevin P. DeSanto**

*Managing Director*

[kdesanto@kippsdesanto.com](mailto:kdesanto@kippsdesanto.com)

**Michael J. Misantone**

*Managing Director*

[mmisantone@kippsdesanto.com](mailto:mmisantone@kippsdesanto.com)

**Karl M. Schmidt**

*Managing Director*

[kschmidt@kippsdesanto.com](mailto:kschmidt@kippsdesanto.com)

**Marc B. Marlin**

*Managing Director*

[mmarlin@kippsdesanto.com](mailto:mmarlin@kippsdesanto.com)

**Jon Yim**

*Director*

[jyim@kippsdesanto.com](mailto:jyim@kippsdesanto.com)

**Toby Albright**

*Director*

[talbright@kippsdesanto.com](mailto:talbright@kippsdesanto.com)

**Jamie L. Graham**

*Director*

[jgraham@kippsdesanto.com](mailto:jgraham@kippsdesanto.com)

**Robert G. Dowling**

*Vice President*

[rdowling@kippsdesanto.com](mailto:rdowling@kippsdesanto.com)

**Brian T. Tunney**

*Vice President*

[btunney@kippsdesanto.com](mailto:btunney@kippsdesanto.com)

**Christos G. Tsentas**

*Associate*

[ctsentas@kippsdesanto.com](mailto:ctsentas@kippsdesanto.com)

**Kenneth L. Morris**

*Associate*

[kmorris@kippsdesanto.com](mailto:kmorris@kippsdesanto.com)

**Christopher W. Sherman**

*Associate*

[csherman@kippsdesanto.com](mailto:csherman@kippsdesanto.com)

**Stephen M. Jonas**

*Associate*

[sjonas@kippsdesanto.com](mailto:sjonas@kippsdesanto.com)

Connect with KippsDeSanto:



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**KippsDeSanto**   
INVESTMENT BANKING

8000 Towers Crescent Drive  
Suite 1200  
Tysons Corner, Virginia 22182  
703.442.1400  
[www.kippsdesanto.com](http://www.kippsdesanto.com)