



Capstone Partners

C4ISR

Q2 2017

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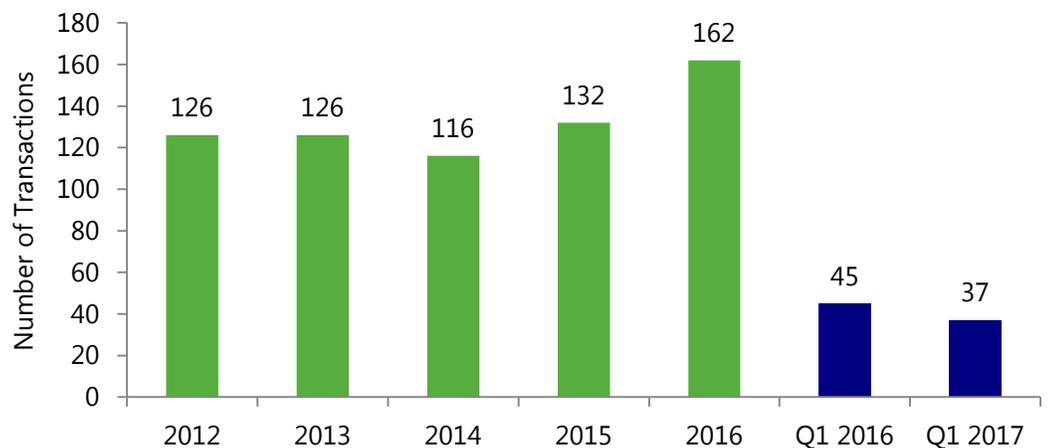
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MERGER & ACQUISITION ACTIVITY

Merger and acquisition activity in the command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) market has moved at a rapid pace, driven by technological advancements and changing needs for modern warfare. In Q1, Capstone identified 12 sector transactions, representing a substantial portion of overall A&D M&A activity, and notably almost all were strategic acquisitions. Companies providing cybersecurity, technology infrastructure, satellite imaging, and/or mission-critical data analysis and intelligence have been the most targeted year-to-date. As the military continues to modernize its equipment, companies have been acquisitive to provide more integrated, comprehensive solutions with greater interoperability. Furthermore, strong tailwinds are expected to drive the entire US Aerospace and Defense industry as the Trump Administration advocates for amplified military spending.

President Trump's recently released "America First Budget" invigorates national defense spending and ramps-up growth in the Department of Defense (DoD) budget to non-wartime heights last reached in the Reagan Administration. The proposed budget will repeal the sequester caps enacted by former president Obama and elevate the Pentagon's budget from \$587 billion to \$639 billion—an increase of \$52 billion with an additional \$2 billion allotted to national defense programs outside the DoD. Within the proposal are plans to build new ships, submarines and planes for the Navy and Air Force and to expand the number of active-duty troops in the Army and Marine Corps. "As the world has become more dangerous—through the rise of advanced potential adversaries, the spread of destructive technology, and the expansion of terrorism—our military has gotten smaller and its technological edge has eroded," according to the budget blueprint. "The President's Budget begins to put an end to this trend, reversing force reductions and restoring critical investments." This overall push to re-energize defense spending will no doubt drive R&D and further acquisitions in the C4ISR market in the near term.

M&A Activity: US Aerospace & Defense



Sources: CapIQ and Capstone Partners LLC Research

INDUSTRY TRENDS AND DRIVERS

There are a number of trends and drivers that have had significant impact on recent C4ISR deal activity. Capstone has identified a few of these key factors and has outlined them below.

“Given the complicated threat environment that we face today in this country and around the world, now more than ever, the IC must work as a team. Seamless. The threats that we face today are more challenging, dynamic, and geographically diffuse than ever before.”

— Dan Coats, Director of National Intelligence, in a February 28 statement.

- ▶ **Increased demand from the Intelligence Community** – The use of advanced technology by the US Intelligence Community (IC), a federation comprised of 17 agencies and offices, has become increasingly crucial to modern warfare as the US contends with more asymmetric enemies. According to the newly confirmed Director of National Intelligence, Dan Coats, rising cyber threats, radical Islamic terrorism, North Korea’s nuclear ambition, Russia’s assertiveness in global affairs and China’s regional activism are some of the key issues facing the IC today. To help address these threats, the US IC requested \$70.3 billion in funding for fiscal year (FY) 2017.

This year, there have already been multiple acquisitions of businesses specifically catering to the IC, including KeyW’s acquisition of Sotera (profiled on the following page); STG’s (cyber and data solutions) acquisition of Preferred Systems (information technology) in February for \$119.5 million; and VOR Technology’s (cyber intelligence) acquisition of Sintel (mission critical intelligence and analysis solutions) in January. These buyers primarily targeted complementary companies in order to combine portfolios and provide more comprehensive, multifaceted solutions.

- ▶ **Drones by land, air and sea** – The transition from drone innovations and experiments, to program integration, has influenced government spending and acquisition initiatives. Back in 2013, the DoD released a comprehensive “Unmanned Systems Integrated Roadmap FY2013-2038,” which projected that by 2018 the DoD would spend more than \$23.9 billion to develop and advance unmanned systems. The report noted that drones will be optimized for “dull, dirty dangerous missions,” where they can provide versatility, survivability and reduce the risk to human life.

Unmanned systems are being developed and implemented not only for air and land, but for water as well. In December, Boeing acquired Liquid Robotics, an unmanned surface robot developer, for an undisclosed sum. Propelled by solar power and water movement, the Wave Glider drone travels on the ocean’s surface, collecting real-time data. This acquisition follows the launch of Boeing’s Echo Voyager last fall, a 51-foot, 50 ton unmanned submarine. As the utility of these machines continues to be refined, we expect unmanned systems to remain an attractive industry sector for investors and buyers alike.

- ▶ **Surveillance tools become more advanced** – State-of-the-art monitoring tools are essential for identifying, pinpointing and tracking mobile enemies and for successfully executing mission-critical operations. As technology progresses, surveillance tools—including lasers, sensors, radar, satellite imaging and Global Positioning Systems (GPS)—are constantly being refined and are driving growth in the C4ISR industry. One recent transaction in this space was SSL MDA Holdings’ acquisition of Earth imaging company DigitalGlobe.

NOTABLE C4ISR TRANSACTIONS

Several notable transactions have already been completed or announced in C4ISR over the past few months. Select transactions are outlined below, followed by a more comprehensive list on the following table.

- ▶ **Sotera acquired by KeyW (March 2017)** – The KeyW Corporation agreed to acquire Sotera for \$235.0 million. Both companies provide mission-critical support and solutions to US defense, intelligence and national security agencies. The deal will enhance KeyW's portfolio (which will include cyber, geospatial, data analytics, engineering and machine learning), expand its clientele (adding highly-sought customers such as the FBI and Defense Department) and create significant scale (adding around 1,100 new employees, of which, nearly 80% have Top Secret clearance or above).

"Both KeyW and Sotera deliver advanced technologies to the Intelligence, Cyber and Counterterrorism communities to secure our nation and its allies," commented KeyW CEO Bill Weber. "We share a common goal to expand our footprints among IC customers and leverage unique capabilities to significantly benefit existing and new customers, as well as add scale."

- ▶ **DigitalGlobe acquired by SSL MDA Holdings (February 2017)** – SSL MDA Holdings, a subsidiary of Canadian technology company MacDonald, Dettwiler and Associates (MDA), agreed to acquire Earth imagery leader DigitalGlobe for \$3.4 billion at an 8.7x EBIDTA multiple. Founded in Colorado in 1993, DigitalGlobe is used by companies such as Uber and Facebook and serves more than 40 governments, providing satellite imagery, data and analytics such as location-based risk predications and crowdsource-enriched geospatial datasets. Through the acquisition, MDA will expand market access, increase scale, diversify revenue and distinguish itself as an end-to-end provider of Earth imagery, space systems and geospatial solutions.

Howard L. Lance, MDA President and CEO, commented, "This combination has the scale, resources and technology to serve the large and increasingly complex needs of government and commercial customers globally. By combining MDA and DigitalGlobe, we are significantly expanding our total addressable market by broadening both companies' capabilities and facilitating future growth."

- ▶ **IDV acquired by Everbridge (January 2017)** – Everbridge, a software company that provides critical communications and enterprise safety applications, acquired IDV, a software solutions provider for powering command centers. The deal closed for \$27.5 million. Everbridge will utilize IDV's leading risk intelligence and response software Visual Command Center to help create a critical event management system that will assess and respond to organizational threats. According to Everbridge CEO Jaime Ellertson, the CEM will provide a cost-effective solution for their more than 3,000 corporate and government customers who need a collaborative command center that "combines security, supply chain and IT operation threats and incidents in one common view."

SELECT C4ISR M&A TRANSACTIONS

Ann. Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM Revenue	LTM EBITDA
03/20/17	Zephyr Photonics	Inneos	Provides optoelectronic technology solutions for DoD, aerospace and intelligence markets.	-	-	-
03/20/17	Communication Cable	Optiv Security	Provides technology and security solutions.	-	-	-
03/08/17	Sotera	KEYW	Provides technology-based systems and solutions for national security agencies and the US government.	\$235.0	1.0x	11.8x
02/24/17	DigitalGlobe	SSL MDA	Provides Earth imagery, data and analysis in the US and internationally.	\$3,401.6	4.7x	8.7x
02/21/17	Preferred Systems	STG	Provides information technology and intelligence to government and commercial clients.	\$119.5	-	-
01/31/17	IDV	Everbridge	Provides enterprise software solutions for powering command centers.	\$27.5	-	-
01/09/17	FluxData	Halma	Develops multispectral and polarimetric imaging systems for aerospace and defense.	\$27.5	5.3x	-
01/03/17	Enlighten IT	Macaulay-Brown	Provides mission-critical IT services to the DoD, IC and other government and commercial organizations.	-	-	-
01/03/17	Sintel	VOR Technology	Provides mission-critical defense intelligence and analysis solutions to customers.	-	-	-
12/29/16	Edge Technologie	Lotus Innovations	Develops data visualization and information integration solutions worldwide.	-	-	-
12/22/16	Impact Radio Accessories	Founders Advantage	Manufactures communication products for public safety, military and security.	\$17.1	-	-
12/07/16	Teletronics Technology	Curtiss-Wright	Offers data acquisition systems, signal conditioners, data encoders and high-speed data multiplexers.	\$233.0	-	-
12/06/16	Liquid Robotics	Boeing	Develops unmanned surface robot for real-time ocean data collection and communications.	-	-	-
11/30/16	Prox Dynamics	FLIR Systems	Manufactures unmanned aerial systems for military, surveillance and reconnaissance applications.	\$134.0	-	-
11/15/16	US Safety & Security	TorchStone	Provides security and threat assessment services worldwide.	-	-	-
11/15/16	Siege Technologies	Nehemiah Security	Provides defensive cyber security solutions for private and government sectors in the US.	-	-	-
11/03/16	CES Creative Electronics	Mercury Systems	Designs and manufactures rugged embedded computers and boards.	\$38.0	1.7x	-
11/02/16	Camber	Huntington Ingalls	Provides mission-critical support services and training solutions to commercial and governments customers.	\$380.0	1.0x	8.6x
10/11/16	Radiant	DigitalGlobe	Provides technical solutions and systems engineering services to defense and government sectors.	\$140.0	-	-
08/17/16	Vistrionix	ASRC Federal	Delivers software to collect, ingest, process, analyze and present mission-critical data.	-	-	-
07/18/16	TDC Acquisition	5D Robotics	Supports ultra-wideband hardware and software solutions for precision ranging and location.	-	-	-

CAPSTONE PARTNERS: SELECT GOVERNMENT CONTRACTOR TRANSACTIONS

Capstone Partners has represented numerous companies that serve the needs of federal, state and local or foreign governments, as well as the needs of civilian and defense-related agencies. We understand the nuances associated with sole-sourced, multi-year or subcontracted awards, the value of partnerships, GWACs, IDIQs and GSA schedules. We have completed transactions requiring complex CIFIUS filings, ITAR registrations and contract negotiations, and those involving classified information. Our advisory work has included multiple industries and involved companies of diverse specialties, many of which sell in both the public- and private-sector markets. Capstone's professionals have completed transactions and/or developed sector-specific expertise in the following areas:

- ▶ Battlefield Simulation Software
- ▶ Biometric Identification Software Systems
- ▶ C4ISR Products & Services
- ▶ Cryptography
- ▶ Data Communication Systems
- ▶ Educational Training of Defense/Government Personnel
- ▶ Enterprise IT Support
- ▶ Enterprise Software Systems for State Governments
- ▶ First Responder Public Safety Software
- ▶ Geospatial Information & Analysis
- ▶ Infantry Back Packs
- ▶ Intelligence Data Processing/Decision Support
- ▶ Large Aperture, Deep-Space Antennas
- ▶ Military Infrastructure Construction
- ▶ Mobile & Flyaway VSAT Antennas
- ▶ Photogrammetry
- ▶ Post-Conflict/Disaster Support
- ▶ Remote Sensing Systems
- ▶ SATCOM Antennas
- ▶ Tactical Data Linking & Remote Monitoring
- ▶ Testing Body & Vehicle Armor, Explosives & Ordnance
- ▶ Trailers & Shelters for the Military
- ▶ Workforce Automation & Efficiency Tools

<p>CONFIDENTIAL</p> <p>Corporate Sale (IN PROCESS)</p> <p>MILITARY SIMULATION TRAINING</p>	<p>CONFIDENTIAL</p> <p>Corporate Sale (IN PROCESS)</p> <p>AUDIO/VIDEO & IP CONNECTIVITY PRODUCTS</p>	<p>DiSTI[®]</p> <p>has been acquired by</p> <p>A K O Y A DOS RIOS PARADISE</p>	<p>ON POINT[™] TECHNOLOGY, INC.</p> <p>has been acquired by</p> <p>cp Lakeshore Capital Partners</p>	<p>Yardney TECHNICAL PRODUCTS, INC.</p> <p>has been acquired by</p> <p>CMG OM Group</p>	<p>HDM HAWAIIAN DEFENSE MANAGEMENT</p> <p>has been acquired by</p> <p>THE FIRST AMERICAN CORPORATION The First American Corporation</p>
<p>EET</p> <p>has been acquired by</p> <p>ESU</p>	<p>Autometric, Incorporated</p> <p>has been acquired by</p> <p>BOEING</p>	<p>ATRIOT Antenna Systems</p> <p>has been acquired by</p> <p>COBHAM Defense Electronic Systems</p>	<p>H.P. White Laboratory</p> <p>has been acquired by</p> <p>Intertek</p>	<p>Vitronix, Inc.</p> <p>has been acquired by</p> <p>WTB Technologies</p>	<p>ADVANCED ARMAMENT TECHNOLOGY</p> <p>Controlling interest has been acquired by</p> <p>L-1 INVESTMENT PARTNERS, LLC</p>
<p>ProLogic INCORPORATED</p> <p>has been acquired by</p> <p>Ultra ELECTRONICS</p>	<p>AMERICAN SENSING UNIVERSITY</p> <p>has been acquired by</p> <p>JLL</p>	<p>MSI MOBILIZED SYSTEMS INC.</p> <p>has been acquired by</p> <p>ESU</p>	<p>Command System, Inc.</p> <p>has been acquired by</p> <p>GENERAL DYNAMICS Strength On Your Side</p>	<p>AVC</p> <p>has been acquired by</p> <p>TRITECH SOFTWARE SYSTEMS</p>	<p>MilesTek[®]</p> <p>has been acquired by</p> <p>CASTLE ISLAND PARTNERS, LLC</p>

THE GOVERNMENT & DEFENSE TEAM

**Ted Polk, Managing Director**

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Ted is Managing Director and Head of the Central Region at Capstone, based out of Chicago. Prior to Capstone, Ted ran the corporate finance practice in the Central region for Morgan Stanley Smith Barney's Capital Strategies Group and its predecessor, Citi Capital Strategies. He has over 20 years of experience, having completed strategic sale and recapitalization transactions across a variety of industries. Ted is a frequent public speaker on the topic of business exits and recapitalizations of privately owned businesses. In 2008, Ted was recognized by The M&A Advisor for the Cross-Border Middle-Market Deal of the Year. In 2009, another of his transactions was recognized as the Middle-Market M&A Financing Deal of the Year and in 2011 he was recognized for lead-managing the Middle-Market Deal of the Year. Previously, Mr. Polk worked at Valuemetrics, Inc. and in the Corporate Banking Group at The Bank of New York. Ted received his BSBA degree from Georgetown University and MBA from the University of Chicago. He is a Chartered Financial Analyst (CFA), a Series 7 and 63 Registered Securities Representative, and a Series 24 Registered Securities Principal.

**Lisa Tolliver, Director**

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Lisa has over 18 years of experience in the investment banking industry, primarily focused on advising middle market private business owners in liquidity related transactions. As a Director based in Capstone's Chicago office, she works closely with clients to advise and execute domestic and cross-border M&A transactions, recapitalizations and capital raises. Prior to Capstone, Lisa worked in the Capital Strategies Group at Morgan Stanley Smith Barney and also spent 10 years working for the middle market investment banking arm of Citigroup, where she was involved in the evaluation, marketing and closing of numerous transactions involving private businesses and corporate divestitures. Over her career, Lisa has developed M&A expertise in several industry sectors including technology-enabled business services, consumer products, ecommerce and government & defense. Lisa received her BA on academic scholarship from Illinois State University and is a Series 7 and 63 Registered Securities Representative.

**Parker Dwyer, Associate**

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Parker is an Associate in Capstone's Chicago office, working closely with private business owners to execute and optimize corporate finance transactions. Prior to joining Capstone, Parker was an Associate in Deloitte's Business Valuation practice, specializing in enterprise, equity and intangible asset valuations across multiple industries including consumer, industrials, manufacturing and healthcare. Parker received his BA in Finance from the University of Notre Dame and is a Series 79 and 63 Registered Investment Banking Representative.

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ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is an award-winning investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. Over the past 15 years, Capstone has earned a reputation as one of the most innovative firms in the industry, offering corporate sale & divestiture, merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. The firm maintains seven industry practices, including: Business Services, Consumer Products, Education & Training, Government & Defense Services, Health & Medical, Industrial & Manufacturing, and Technology & Telecom. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, New York, Orange County, Philadelphia, San Diego, Silicon Valley and Tampa with an international presence that spans 450+ professionals in 70 offices across 31 countries.

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about our expertise,
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