

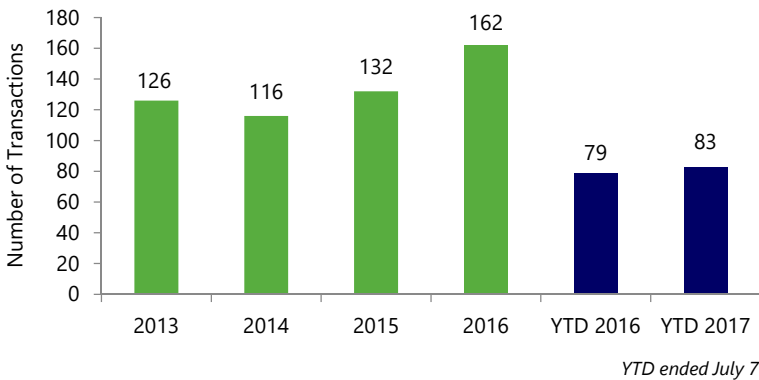


KEY M&A TAKEAWAYS

- Through June 26, merger and acquisition activity in the command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) industry has been robust with 28 announced or closed deals. This is compared to just 10 transactions identified during the same period in 2016. The market is on the cusp of rapid expansion due to heightened security needs, counterterrorism efforts and re-energized attention on rebuilding America's warfighting abilities.
- The President has proposed a \$603 billion baseline defense budget for fiscal year 2018 and \$65 billion for Overseas Contingency Operations (OCO). This represents a 5.5% increase from 2017 and a 3% increase over the Obama Administration's proposed 2018 base budget. Furthermore, the budget exceeds the sequestration caps by \$52 billion, aligning with Trump's promise to remove the Budget Control Act (BCA) spending caps of 2011 in order to reverse the degrading of the US Armed Forces and to prepare to meet the challenges of modern warfare. The increase in defense spending is expected to drive demand across the entire defense industry and with it grow the C4ISR market and its M&A activity.

US AEROSPACE & DEFENSE TRANSACTIONS

- Year-to-date, 83 deals were announced or closed in the US Aerospace & Defense industry suggesting that M&A activity will exceed that of 2016.
- Total disclosed transaction value to-date is \$9.5 billion, as compared to \$4.3 billion in 2016. Blockbuster deals included Ultra Electronics' acquisition of Sparton Corp (June, \$235.0 million) and SSL MDA's acquisition of DigitalGlobe (February, \$3.4 billion).



INDUSTRY DRIVERS

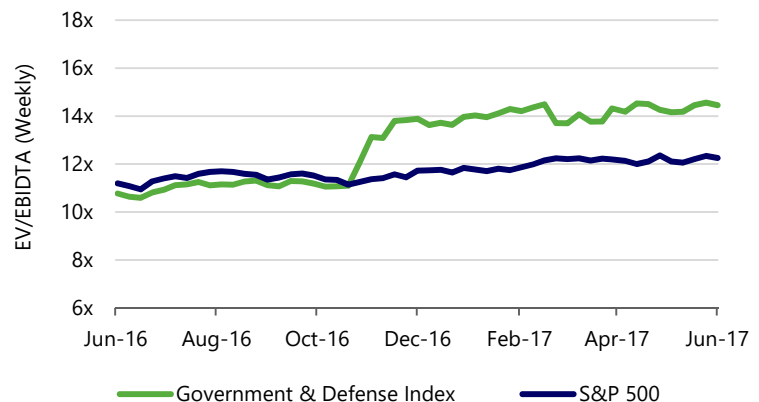
- Arms deal with Saudi Arabia creates industry demand**
 In what has been heralded one of the largest deals in American history, the US has agreed to a ten-year, \$350 billion arms deal with Saudi Arabia. According to a White House statement, the package will equip Saudi Arabia and the Gulf region with security needed to face Iranian threats and will thereby reduce the burden on the US military in the region. American companies and workers are expected to benefit from the package as the Department of Defense (DoD) contracts businesses to modernize the Kingdom's command and control networks and to supply weapons including intelligence-gathering aircraft, defense missiles and patrol boats, helicopters and armored personnel carriers.
- Congress pushes for higher defense budget**
 As of late June, defense hawks in congress have sought to raise the Trump Administration's baseline budget by as much as \$37 billion. "By supporting \$640 billion for defense, this legislation begins to address the readiness shortfall, crisis in modernization and eroding military advantage by recapitalizing and reinvesting in our forces," stated Senate Armed Services Committee Chairman John McCain (R-Ariz.). McCain's counterpart in the House, Chairman Mac Thornberry (R-Texas) has also proposed to increase the baseline budget to \$696.6 billion with and additional \$75 billion for OCO.

SELECT TRANSACTIONS

Date	Target	Acquirer	Target Description	EV	EV / LTM	
					R	EBITDA
07/17	Sparton Corp.	Ultra Electronics	Designs and manufactures electromechanical devices.	\$235.0	0.6x	10.3x
05/17	NES	CSRA	Offers data center and IT infrastructure.	\$105.0	-	-
05/17	Gnostech	Individual Investor	Offers C4ISR systems and GPS engineering.	-	-	-
05/17	Maryland Aerospace	Adcole	Develops space systems and components.	-	-	-
05/17	BEI Precision & Space Co.	J.F. Lehman & Co.	Provides positioning sensor technologies.	-	-	-
05/17	Thinklogical	Belden	Offers secure video distribution for C4ISR.	\$160.0	3.1x	9.3x
05/17	Morgan 6	Mission Solutions	Offers government IT and cyber security services.	-	-	-
05/17	Advatech Pacific Division	General Dynamics	Develops tactical solutions for information sharing.	-	-	-
02/17	DigitalGlobe	SSL MDA	Provides earth-imagery, data and analysis.	\$3,401.5	4.7x	8.7x

GOVERNMENT & DEFENSE INDEX

- Capstone's Index, which includes more than 40 leading public companies in the sector, increased 37.7% from June 2016. This marked improvement, as well as the index's current EV/EBIDITA growth relative to the S&P 500, reflect the overall health of the market.



All chart sources: CapIQ and Capstone Partners LLC Research