



Capstone Partners

Investment Banking Advisors

MILITARY COMMUNICATIONS

Q3 2014

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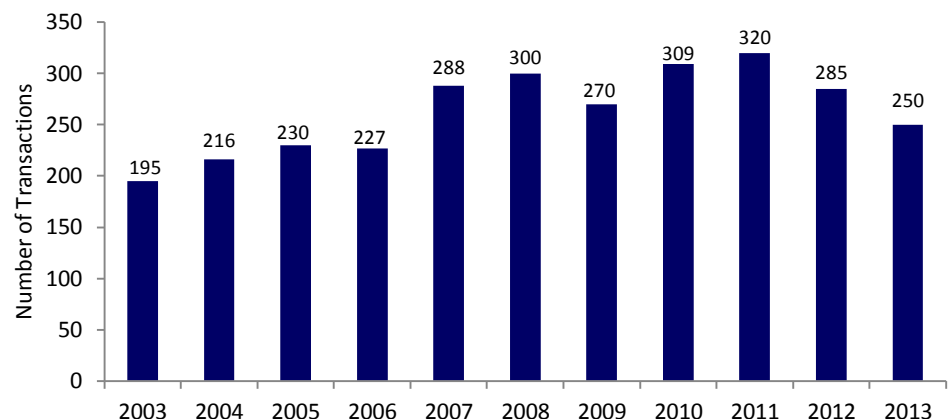
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MERGER & ACQUISITION ACTIVITY

Merger and acquisition activity in the military communications industry has moderated somewhat in the past year, reflective of the general slowing in activity among all defense companies. PricewaterhouseCoopers reports that 250 M&A transactions were completed globally in the aerospace and defense sector in 2013, a 25% decline from 2012 and a nearly 30% decline from record levels in 2011, attributable to defense budget cuts.

Following this decline, activity has picked up somewhat in recent months, and it now looks as if 2013 may have been a trough period. The recent improvement is due to greater certainty regarding defense budgets, including a 2-year reprieve with the passage of the Bipartisan Budget Act of 2013 late last year, which mitigated some of the impact of sequestration and boosted confidence with respect to a future budget compromise. Improved optimism is encouraging activity, supported by pent-up demand by cash-rich buyers. The fact remains that defense contractors are feeling the need to consolidate, especially at the supplier base level, in response to a shrinking market and associated cost pressures. This year has also seen an improvement in valuations and a rise in cross-border transactions, with recuperating European buyers driving more transatlantic deals, which are more likely to meet national security criteria than transactions involving non-NATO domiciled buyers.

M&A Activity: Aerospace & Defense



Source: PricewaterhouseCoopers, 2014

While the defense industry as a whole has suffered an M&A setback, military communications and other equipment related to intelligence, surveillance, reconnaissance, cybersecurity and homeland security are well positioned to be the bright spots in the sector. This favoritism is expected to be driven by a growing market for these categories, fueled by the need to address persistent security threats through technology in place of combat troops.

Due to these trends, the outlook for M&A activity in the military communications sector remains positive. Buyers are expected to be particularly interested in products and capabilities that match priority areas of the defense budget.

NATIONAL SECURITY THREATS UNDERPIN INDUSTRY GROWTH

An unstable geopolitical climate, combined with a trend of defense spending that is increasingly focused on electronics vs. manpower, is continuing to drive growth in the military communications industry and serve as the foundation for continued M&A activity in the sector.

While the GBO has suggested a substantial contraction in military spending (\$40 billion was cut from defense spending in fiscal 2013), an unstable world continues to require military resources, and should result in sustained demand for advanced technology solutions to counteract such threats. Persistent security threats include the Islamic State (ISIL) terrorist group, Russian assertiveness in Ukraine and even the West African health crisis related to the Ebola outbreak.

In response to these threats, President Obama recently announced several new military initiatives. For example, to combat ISIL militants, the U.S. will lead a broad coalition in a comprehensive and sustained counter-terrorism strategy. This effort includes airstrikes, as well as training, intelligence and equipment support for local troops. The cost of this initiative is estimated at \$5-\$10 billion annually. While American intervention in the Middle East escalates, the U.S. is also continuing to rally world support against Russian aggression and the right of Ukraine to determine its own destiny. Despite a current cease-fire, recent U.S. and EU economic sanctions indicate the conflict is far from resolved. Finally, the U.S. is boosting its response to the Ebola crisis, deploying 3,000 U.S. troops to West Africa to help contain the outbreak. Although these challenges vary widely, they exemplify the types of persistent threats requiring military action during “peacetime”. Furthermore, although the EU and its Member States have conceded the importance of a common defense initiative that includes better intelligence and surveillance capabilities, and despite prodding from the U.S. to boost defense budgets, NATO allies are resistant to increase spending, leaving the U.S. to shoulder much of the burden.

Despite these and other new military requirements, the prevailing wisdom is that Americans remain war-weary and the political will to commit combat troops is low. Instead, as troop drawdowns continue abroad, the U.S. military is necessarily shifting its focus to technology-based defense systems to pick up the slack.

Due to these trends, the outlook for M&A activity in the military communications sector remains positive. Buyers are expected to be particularly interested in products and capabilities that match priority areas of the defense budget, including cybersecurity, logistics command and control (LogC2), unmanned systems, and intelligence, surveillance and reconnaissance (ISR) technology. Given that many of the other various defense-related categories are expected to decline in the coming years, the military communications market is expected to remain a priority for prospective investment.

Concurrently, defense companies will feel pressure to consolidate in order meet government demands to reduce costs, improve productivity, increase transparency and adhere to tighter regulations and oversight. While the prime contractors are already tightly concentrated, vast consolidation opportunities remain at the lower tiers and supply base levels, all of which points to growing middle market M&A activity in the sector.

SELECT MILITARY COMMUNICATIONS M&A TRANSACTIONS

Date	Target	Acquiror	Target Business Description	Enterprise Value (mm)	EV / LTM	
					Revenue	EBITDA
Sep-14	HDT Global, Inc.	Charlesbank Capital Partners, LLC	Manufactures command & control and other systems for the military and other markets..	-	-	-
Sep-14	Comrod Communication	Habu Holding AS	Designs and manufactures military antennas and antenna systems, masts and mast systems and power supplies.	\$29.1	1.0x	-
Sep-14	Aeroflex Holding Corp.	Cobham plc	Manufactures microelectronic products and test equipment for military communications applications.	\$1,459.9	2.3x	11.9x
Aug-14	Zeta Associates Incorporated	Lockheed Martin Corporation	Provides communications signals collection & processing systems to intelligence and defense communities.	-	-	-
Jul-14	DataPath, Inc.	Private Investors	Manufactures mobile satellite communications systems for commercial, military and government markets.	-	-	-
Jul-14	Hittite Microwave Corporation	Analog Devices, Inc.	Develops modules, subsystems and instrumentation for military and other communication equipment.	\$1,954.7	7.1x	16.7x
Jul-14	Helmet Integrated Systems Ltd	Gentex Corporation	Manufactures protective helmets and communications equipment for the military.	-	-	-
Jun-14	ISR Group, Inc.	TCFI IG LLC	Provides unmanned services, support and mission essential services for civil and defense markets.	\$18.6	-	-
Jun-14	Celestech, Inc.	Exelis Inc.	Designs & develops military communication systems.	-	-	-
May-14	QinetiQ North America, Inc.	The SI Organization, Inc.	Develops communication systems for defense, security, civilian, utility and other markets worldwide.	\$215.0	-	-
May-14	Techno-Sciences, Inc.	Orolia	Provides satellite aided tracking and surveillance technology for military and other organizations.	-	-	-
May-14	Lighter Than Air Systems Corporation	Drone Aviation Holding Corp.	Provides aerial and land-based surveillance and communications solutions to the military and others.	-	-	-
Mar-14	LGS Innovations, LLC	Madison Dearborn Partners; CoVant Mgmt.	Develops networking solutions for U.S. Department of Defense communications and mission requirements.	\$200.0	-	-
Mar-14	EF Johnson Technologies, Inc.	JVC KENWOOD Corporation	Manufactures mission critical communications solutions for the military, homeland security and first responders.	\$63.0	-	-
Mar-14	SecureForce, LLC	Baum, Romstedt Tech. Research Corporation	Designs mission-critical IT and communication systems for the federal military and other markets.	-	-	-
Mar-14	Data Tactics Corporation	L-3 Communications Holdings Inc.	Provides big data analytics and cyber security technology for the DoD.	\$57.0	-	-
Feb-14	IDSi, LLC	Crescend Technologies, L.L.C.	Manufactures defense electronics for tactical military communications applications.	-	-	-
Feb-14	Allied Technology Group, Inc.	ManTech International Corporation	Provides national security, C4ISR and logistics management solutions for the defense market.	\$45.0	-	-
Feb-14	Anaren, Inc.	Veritas Capital	Manufactures communications components, assemblies and subsystems for the space and defense markets.	\$331.2	2.1x	12.0x
Jan-14	Dynamics Research Corporation	Engility Holdings, Inc.	Provides big data and cyber security solutions for homeland security and the DoD.	\$203.2	0.7x	7.4x
Jan-14	IntriCon Tibbetts Corporation	Sierra Peaks Corporation	Manufactures electronic devices for military communications and other applications.	-	-	-
Dec-13	Globecomm Systems Inc.	Wasserstein & Co.	Provides infrastructure solutions for satellite-based communications, including hardware and software.	\$267.5	0.8x	7.7x
Dec-13	Spacenet Inc.	SageNet	A satellite network company, manages communications and networks for government and other markets.	\$16.0	0.2x	8.0x
Dec-13	Twisted Pair Solutions, Inc.	Motorola Solutions, Inc.	Develops communication software solutions for public safety, military and commercial/industrial applications.	\$36.0	-	-
Dec-13	L-3 Mustang Technology, L.P.	L-3 Communications Holdings Inc.	Designs and develops threat detection, tracking and warning sensor systems for the U.S. military.	\$54.0	-	-
Dec-13	Netcentric Technology Inc.	Vistrionix, Inc.	Provides system design, integration and fielding of cloud technologies for the army's tactical edge.	-	-	-
Nov-13	Six3 Systems Inc.	CACI International Inc.	Designs and develops intelligence, defense and civilian solutions for government agencies in the United States.	\$1,032.5	2.3x	17.0x

SELECT MILITARY COMMUNICATIONS M&A TRANSACTIONS (CONTINUED)

Date	Target	Acquiror	Target Business Description	Enterprise Value (mm)	EV / LTM	
					Revenue	EBITDA
Oct-13	Lucix Corporation	HEICO Electronic Technologies Corp.	Manufactures commercial and military satellite, airborne, and ground systems for space and military applications.	-	-	-
Oct-13	Parvus Corporation	Curtiss-Wright Controls, Inc.	Designs and manufactures rugged embedded computing and communication subsystems.	\$38.0	1.9x	7.8x
Oct-13	Tactical Command Industries, Inc.	The Safariland Group	Manufactures and markets tactical communication equipment for military and other customers.	-	-	-
Sep-13	NEXEYA	Bpifrance; Activa Capital	Manufactures command & control products for the defense, aeronautics, space, and transportation sectors.	\$59.3	0.3x	4.8x
Sep-13	Baier & Baier, Inc. (aka Lark Eng.)	Secure Communication Systems, Inc.	Manufactures radio frequency filters for the commercial, industrial, and military markets.	-	-	-
Aug-13	Renaissance Elec. & Comm.	Gen Cap America	Provides RF, microwave and millimeter wave solutions for military and commercial applications.	-	-	-
Aug-13	Utilipath, LLC	NewSpring Capital; Violle, LLC	Provides complex, mission-critical DOD systems and infrastructure.	-	-	-
Aug-13	RF Neulink, Inc.	Raveon Technologies Corporation	Manufactures wireless data radio modems for the military and other markets.	-	-	-
Jul-13	PHAZAR CORP	Concorde Equity II LLC; QAR, LLC	Manufactures antenna, towers and communication equipment and military grade high performance mesh transceiver radios.	\$2.3	0.4x	-
Jul-13	Clear Government Solutions (Division)	TWD ESS Services, LLC	Security division provides video & other surveillance solutions for homeland security and other markets.	-	-	-
Jul-13	National Hybrid, Inc.	Data Device Corporation	Manufactures military-standard data networking technology, specializing in critical components for the defense market.	\$32.5	-	-
Jun-13	CyOptics, Inc.	Avago Technologies Wireless Mfg.	Manufactures optical components for communication, defense and aerospace markets worldwide.	\$400.0	1.9 x	-
Jun-13	Suncoast Digital Technologies, Inc.	Epec, LLC	Manufactures user interface control panels and keyboard assemblies for the military and defense market.	-	-	-
Jun-13	Reinhold Industries, Inc.	Flight Support Group, Inc.	Manufactures composite components for defense, aerospace and commercial industries.	-	-	-
May-13	Applied Comm. Sciences	The SI Organization, Inc.	Builds networks for military, federal, state and local governments.	-	-	-
May-13	Smart Electronics & Assembly, Inc.	Secure Communication Systems, Inc.	Defense contractor, providing EMS services to communication equipment OEMs.	-	-	-
May-13	Precision Test Solutions	Selima Partners, LLC	Tests and validates electronic components/ devices to ensure they meet military and space requirements.	-	-	-
Apr-13	PCTEL Secure LLC	Redwall Technologies LLC	Manufactures wireless telecommunication systems for defense and other applications.	-	-	-
Apr-13	TrustComm Global Communications.	Global Secure Networks Inc.	Provides global satellite communications services to the DOD and other organizations.	-	-	-
Apr-13	CORWIL Technology Corp.	Tonka Bay Equity Partners LLC	An IC assembly and test subcontractor serving defense communications and other markets.	-	-	-
Mar-13	Lighter Than Air Systems Corp.	World Surveillance Group Inc.	Provides aerial and land-based surveillance and communications solutions to the defense market.	\$0.8	2.0x	-
Mar-13	Luna Innovations (Division)	Macaulay-Brown, Inc.	Provides innovative electronic components and methods for military and national security applications.	\$6.7	-	-
Mar-13	HT MicroAnalytical Inc.	Rosenberger Hochfrequenztechnik	Provides ultra miniature mechanical switch products for military and industrial applications.	-	-	-
Feb-13	CPU Technology, Inc.	Boeing Integrated Defense Systems, Inc.	Manufactures and markets processors that protect critical onboard systems from cyber attacks.	-	-	-
Jan-13	C4i Pty. Ltd.	Exelis Inc.	Designs, manufactures, and integrates communications solutions for defense, public safety, and other markets.	\$23.1	-	-























LTM = last twelve months; EV = enterprise value

Sources: Capstone Partners LLC research; Capital IQ; public filings and press releases

CAPSTONE PARTNERS: SELECTED 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 spanned 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 and 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 and Analysis
- ▶ High Level Consulting
- ▶ Infantry Back Packs
- ▶ Intelligence Data Processing/Decision Support
- ▶ Large Aperture, Deep-Space Antennas
- ▶ Military Infrastructure Construction
- ▶ Mobile and Flyaway VSAT Antennas
- ▶ Photogrammetry
- ▶ Post-Conflict/Disaster Support
- ▶ Remote Sensing Systems
- ▶ Satcom Antennas
- ▶ Tactical Data Linking and Remote Monitoring
- ▶ Testing Body & Vehicle Armor, Explosives & Ordnance
- ▶ Trailers and Shelters for the Military
- ▶ Workforce Automation and Efficiency Tools

<p>A GOVERNMENT SERVICES COMPANY</p> <p>has been acquired by</p> 	<p>CONFIDENTIAL</p> <p>corporate sale (IN PROCESS)</p> <p>Military Simulation Training Systems</p>	<p>CONFIDENTIAL</p> <p>corporate sale (IN PROCESS)</p> <p>Military & Rugged Computers</p>	<p>CONFIDENTIAL</p> <p>corporate sale (IN PROCESS)</p> <p>Specialty Critical System Batteries</p>	<p>CONFIDENTIAL</p> <p>corporate sale (IN PROCESS)</p> <p>Simulation & Training</p>	<p>HDM</p> <p>has been acquired by</p> 
<p></p> <p>has been acquired by</p> 	<p></p> <p>Autometric, Incorporated</p> <p>has been acquired by</p> 	<p></p> <p>ATRIOT Antenna Systems</p> <p>has been acquired by</p> 	<p></p> <p>H.P. White Laboratory, Inc.</p> <p>has been acquired by</p> 	<p></p> <p>Vitronics, Inc.</p> <p>has been acquired by</p> 	<p></p> <p>Integrated Biometric Technology</p> <p>controlling interest has been acquired by</p> <p>L-1 Investment Partners, LLC</p>
<p></p> <p>ProLogic Incorporated</p> <p>has been acquired by</p> 	<p></p> <p>American Sentinel University</p> <p>has been acquired by</p> 	<p></p> <p>MSI MOBILIZED SYSTEMS INC.</p> <p>has been acquired by</p> 	<p>Command System, Inc.</p> <p>has been acquired by</p> 	<p></p> <p>TRITECH SOFTWARE SYSTEMS</p> <p>has been acquired by</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 Valuometrics, 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 15 years of experience in the investment banking industry, primarily focused on advising private business owners in liquidity related transactions. Presently, Lisa is a Director in Capstone's Chicago office, supporting the management of the Central Region. Prior to Capstone, Ms. Tolliver worked in the Capital Strategies Group at Morgan Stanley Smith Barney, where she was involved in the evaluation, marketing and closing of numerous transactions across a wide range of industries. Specifically, Lisa has developed expertise within various industries including government & defense, software & technology, manufacturing and outsourced business services. Lisa received her BA on academic scholarship from Illinois State University and is a Series 7 and 63 Registered Securities Representative.



Daniel Schultz, Director of Business Development

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Dan oversees Capstone's national business development and industry coverage activities, working closely with current and prospective clients of the firm on matters related to corporate sales, recapitalizations, mergers & acquisitions and growth financings. In his role, Dan is able to deliver specific market intelligence to clients regarding M&A, financing, strategic, industry and competitive trends. Prior to spearheading the firm's business development and market initiatives, he was a Vice President in Capstone's M&A group, managing numerous successful transactions across a variety of industries. Dan also gained hands-on transaction experience as an investment banker at Headwaters MB. He started his career with Ernst & Young's National Professional AABS practice in New York and later worked in Assurance and Advisory Business Services in the Denver office. Dan received a BE in Biomedical Engineering with a Business Minor from Vanderbilt University. He earned an MBA and a Master of Accountancy from the Daniels College of Business at the University of Denver.

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ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is a premier investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides corporate sale & divestiture, merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. Capstone maintains various industry specialties including one in the Government & Defense sector. The firm also has a merchant banking capability to actively co-invest in transactions. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, Philadelphia, San Diego, Silicon Valley and Tampa.

**For more information
about our expertise,
please visit
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Capstone Partners
Investment Banking Advisors

World Class Wall Street Expertise. Built for the Middle Market