



Aerospace, Defense & Government Services – 2015 Notable Transactions

FAIRMONT
CONSULTING GROUP

March 2016



Acquired By



| | |
|---------------------------------|----------------------|
| Closing Date: April 2015 | Revenue: n/a |
| TEV/EBITDA: n/a | Price: \$259M |

Marlin Equity Partners acquired Fidelis Cybersecurity from General Dynamics, which originally acquired the company in August 2012. **The divestiture was another example of defense contractors focusing on core markets and capabilities and financial sponsors' eagerness to enter the commercial cybersecurity market.** Fidelis offers a comprehensive portfolio of products, services, and expertise to help customers combat advanced threats and prevent data and IP theft; however, the company is primarily a commercial company and has very little exposure to prime contracts or subcontracts with the US Government.

**Continued divestiture of non-core assets;
General Dynamics exits commercial cyber**

now
dba

Acquired By

Raytheon

| | |
|-------------------------------|----------------------|
| Closing Date: May 2015 | Revenue: n/a |
| TEV/EBITDA: n/a | Price: \$1.6B |

Raytheon purchased a controlling interest in Websense and combined it with their Cyber Products product line to create a new cybersecurity venture. **Latest in a series of cyber acquisitions that included SafeNet and Trusted Computer Solutions.** The seller, Vista Equity Partners, retained a 20% stake in the venture. Forcepoint revenues were flat in 2015 (estimated to be ~\$300M). This deal provides an established platform to capitalize on the quickly growing commercial cybersecurity market without the burdensome cost structure that historically has plagued DoD prime contractor success in the commercial marketplace.

**Significant expansion into commercial
cybersecurity by DoD Prime**



Acquired By



Closing Date: May 2015 **Revenue:** ~\$600M
TEV/EBITDA: n/a **Price:** \$790M

McLean, VA-based SAIC acquired Scitor, a leading national security provider, from private equity group Leonard Green & Partners in an all-cash transaction valued at \$790M. **The acquisition reaffirms the attractiveness of the government intelligence market, specifically firms involved with mission-critical systems engineering and classified contracts.** After losing the vast majority of its intelligence business units during its split with Leidos, the Scitor acquisition affords SAIC a new foothold in the Intelligence Market with access to classified contracts, a reputable security infrastructure, and 1,500 highly-skilled personnel – 90% of whom hold high-level security clearances. Scitor will be rolled into SAIC's newly-formed Intelligence Community Customer Group.

SAIC bolsters presence in the intelligence market



Acquired By

THE CARLYLE GROUP

Closing Date: Pending **EBITDA:** \$40-50M
TEV/EBITDA: ~12x **Price:** \$555M

The Carlyle Group reached an agreement with fellow PE firm Arlington Capital to acquire Novetta Solutions, a leader in advanced data analytics solutions. The deal is estimated by analysts to be valued at \$555M. Arlington's strategic buy-and-build approach to Novetta yielded substantial returns reflected in the acquisition price for the combined entity. Novetta's acquisition by a private equity group was surprising with many of the market experts believing it would be acquired by a strategic buyer. Carlyle **intends to seek complementary acquisitions for Novetta in the attractive national security space**, bolstering Novetta's technical portfolio. Carlyle considers Novetta to be a world leader in analytics with a focus on data and cyber initiatives within the government space.

Leading big data / cyber security firm trades Private Equity hands

EXELIS

Acquired By

HARRIS®

Closing Date: May 2015

Revenue: \$8B

TEV/EBITDA: 8.8x

Price: \$4.8B

Harris Corporation acquired Exelis, noting that the combination of the two companies' highly complementary core franchises creates a competitively stronger company with significantly greater scale. **Harris is expanding reach within a market where they have decades of past performance. The acquisition fills gaps in Harris' existing C4ISR portfolio.** Both of the companies have strong product offerings in space, weather, defense communications, and naval intelligence. Harris will gain expertise in electronic warfare. The deal positions the company as a top 10 defense contractor and spurs more consolidation within the industry. **Also noteworthy is that Harris has recently announced the sale of its commercial aerostructures business.**

Acquisition completes C4ISR portfolio, without triggering regulatory concerns

Orbital ATK®

Closing Date: February 2015

Revenue: \$4.5B

TEV/EBITDA: n/a

Price: n/a

The \$4.5 Billion merger of equals between Orbital and ATK positions the newly founded company to compete with traditional defense primes with strong expertise in missile systems and flight systems. **Merger aims to take advantage of immediate cost savings, ultimately increasing the company's ability to pass competitive pricing onto government clients facing elevated budget pressures.** Immediate cost synergies expected to result in \$100m per year in savings due to supply chain integration and back-office rebalancing. Long term synergies expected to increase revenue through enhanced product lines and expanded geographic presence. Continues theme of consolidation within a sector where end customers value mass and product depth within specific market segments.

Merger of mid-tier federal contractors increases ability to compete against primes



Sikorsky

A United Technologies Company

Acquired By



Closing Date: November 2015 **Revenue:** \$7.5B

TEV/EBITDA: n/a

Price: \$9B

Ranked as the second largest A&D deal in 2015, Lockheed Martin's (LMT) acquisition of Sikorsky Aircraft from United Technologies (UTX) highlights the strategies of these major A&D giants. **For UTX, this deal is about finances and portfolio shaping.** Sikorsky was continually the least profitable segment for the conglomerate. LMT, who beat out Airbus, Blackstone, and Bell Helicopter, likely saw an opportunity to gain deeper integration into defense markets. Sikorsky's margins are more in line with Lockheed's portfolio, although LM has already provided a Sikorsky earnings warning for 2016.

**Portfolio shaping drove sale of Sikorsky;
Lockheed gains deeper DoD access**



Precision Castparts Corp.

Acquired By

BERKSHIRE HATHAWAY INC.

Closing Date: January 2016 **Revenue:** \$10B

TEV/EBITDA: 13x

Price: \$37B

The largest deal announced in 2015 was the acquisition of Precision Castparts by Berkshire Hathaway. **Depressed by a weak Oil & Gas market, PCC's stock had dropped 20% in 2015 creating an opportunity for sale.** PCC is positioned to benefit from continued growth in commercial aerospace particularly as their customer mix has shifted towards commercial (currently ~70%). Buffett's confidence in PCC may help to allay fears among many investors over a pending commercial aerospace market bubble. Berkshire's annual shareholder letter hinted that PCC will continue its historical growth path via acquisition in the years to come.

**Renowned investor shows confidence in
commercial aerospace market**

BARCO*A&D Division*

Acquired By

Esterline**Closing Date:** February 2015 **Revenue:** \$200M**TEV/EBITDA:** n/a **Price:** \$175M

Esterline acquired the aerospace and defense division of Barco N.V. in early 2015 as a strategic bolt-on into its Avionics Systems group. This acquisition bolsters Esterline's display and human-machine interface capabilities. Curtis Reusser, Esterline CEO, noted operational synergies and efficient use of overseas capital as additional benefits of the deal. Barco's CEO noted a **focus on commercial segments as rationale for shedding the A&D division** and that a US owner would be a better fit at unlocking the division's full potential, which suggests a potential business pipeline targeted at US defense opportunities.

Esterline finds strategic bolt-on of leader in display technology

COBHAM
Advanced Composites**EDAC**
TECHNOLOGIES*Composites Division*

Acquired By

MEGGITT**Closing:** Nov/Dec 2015 **Revenue:** \$81M / \$104M**TEV/EBITDA:** n/a **Price:** \$200M / \$340M

Meggitt completed two acquisitions in 2015 targeted at growing composite manufacturing capabilities. Both acquisitions: Cobham Advanced Composites and EDAC Technologies Composites Division (legacy Parkway) provide capabilities in high temperature composites with engine and airframe exposure. Cobham's business brings greater exposure to defense markets, while EDAC is more focused on commercial applications. **Meggitt capitalized on a year that brought a number of niche composite-related companies to market.** The combined entity provides commercial & defense penetration and furthers Meggitt's US exposure strategy.

Two opportunistic acquisitions create a sizable position in engine composites



Acquired By



Closing Date: December 2015 **Revenue:** \$2B
TEV/EBITDA: 15X **Price:** \$5.5B

Dutch company Solvay announced the planned acquisition of Cytec on July 29, structuring the acquisition as a merger with Solvay's Advanced Materials subsidiary. In addition to broadening Solvay's portfolio offering of specialty chemicals, market access was an important driver of the acquisition – 52% of Cytec's 2015 revenue was derived from Aerospace, compared to only 18% for Automotive & Aeronautics for Solvay as of 2014. **This transaction is as interesting for the landscape it leaves as it is for the deal itself.** Cytec had already led a significant consolidation of the composite raw materials market with its 2012 acquisition of UK-based Umeco. Hexcel is now the last remaining major US-owned epoxy composite pre-preg supplier, though several smaller pre-preg suppliers occupy some niches.

Significant acquisition shifts composite raw materials landscape



Acquired By



Closing Date: February 2016 **Revenue:** \$750M
TEV/EBITDA: n/a **Price:** \$2.1B

BBA gained US regulatory approval to acquire Landmark Aviation, America's third largest business jet FBO and MRO network, from Carlyle. This marks the second time Carlyle has sold Landmark after last selling and re-acquiring in 2007 and 2012, respectively. **BBA has bet big on the slow but stable recovery of the world's largest business aviation industry – N. America,** forecasting \$35M in cost synergies and tax benefits by 2017. Although the sector is no stranger to consolidation, BBA's resulting 143 Signature brand FBO and MRO facilities in the US are likely troubling for independent MROs in the space. The new firm will have both the technical capabilities and geographic reach to squeeze smaller MROs who have historically benefitted from large FBOs' past inability to dominate the MRO space.

BBA bets big on the benefits of scale within the N.American business aviation market



Acquired By

BAE SYSTEMS
Closing Date: June 2015

Revenue: n/a

TEV/EBITDA: n/a

Price: \$28M

Eclipse is a maker of Commercial Off The Shelf (COTS) Intelligence, Surveillance, and Reconnaissance (ISR) equipment with sales predominately with the US government. BAE leadership noted this move aligns with the strategy of investing in technologies critical to US security and defense needs, however the purchase may have also been driven by the comparatively low price. **Esterline, who noted the move as shedding non-core assets, purchased Eclipse in 2010 for \$124 million.** It is unclear what drove the decline in the business, but force drawdowns, budget cuts, and program positioning likely played a role. This move is all the more interesting given Esterline's acquisition of the larger Barco A&D division in 2015 as well.

BAE is beneficiary of technology asset deemed non-core by Esterline



Acquired By

Closing Date: April 2015

Revenue: \$275M

TEV/EBITDA: n/a

Price: \$80M

The acquisition of Cobham Inmet and Weinschel will increase API's product portfolio within the RF and microwave space. **The addition of the Aeroflex products increased their portfolio of component and subsystem solutions.** Both brands are known for their innovative and reliable products and recognized as leaders within the industry. The two companies sell into similar end markets including the defense, space, and commercial aviation markets. The RF companies were considered by Cobham to be inconsistent with current portfolio which considers scale positions an important asset. API Tech. (ATNY) acquisition by JF Lehman announced 29 February represents value play following dramatic decline in ATNY stock in late 2015.

JF Lehman acquisition of API captures legacy Aeroflex business units as well



Acquired By

MAXIMUS[®]

Closing Date: April 2015 **Revenue:** \$210M
TEV/EBITDA: n/a **Price:** \$300M

Following a trend of mid-tier government contractor M&A, Maximus acquired Acentia from Private Equity firm Snow Phipps Group in order to increase growth opportunities for US federal business. Acentia will introduce Maximus to new contract vehicles and help the company expand operations in the federal space. **As Maximus continues to build federal portfolio they will pick up health related contracts with agencies such as Health and Human Services, Centers for Disease Control and Prevention, and Defense Health Agency.** Acentia, a pioneer in IT solutions for healthcare, financial, and regulatory markets, has embraced the big data, cloud, and mobility revolution and claims to lead the way within the federal contracting space.

Increases exposure to the federal sector, focus on healthcare IT



Acquired By

ENGILITY

Your Mission. Our Commitment.

Closing Date: February 2015 **Revenue:** \$1.1B
TEV/EBITDA: 14.4X **Price:** \$1.3B

Engility acquired TASC from controlling companies: Kohlberg Kravis Roberts and General Atlantic. TASC is a provider of government technical services with exposure to national security and public safety markets. Since KKR and General Atlantic's acquisition of TASC in 2009, the defense industry has seen a significant decline resulting in TASC's revenue falling by 31% (from \$1.6B to \$1.1B). **Engility likely saw an opportunity for a large deal at a reasonable price, however many view a multiple of ~14X as being significantly overpriced.** Since the acquisition Engility's stock has decreased by ~60%, however Engility points to multiple contract wins in 2015 as justification for the mega deal.

Long term market reaction raises questions regarding TASC / Engility combination