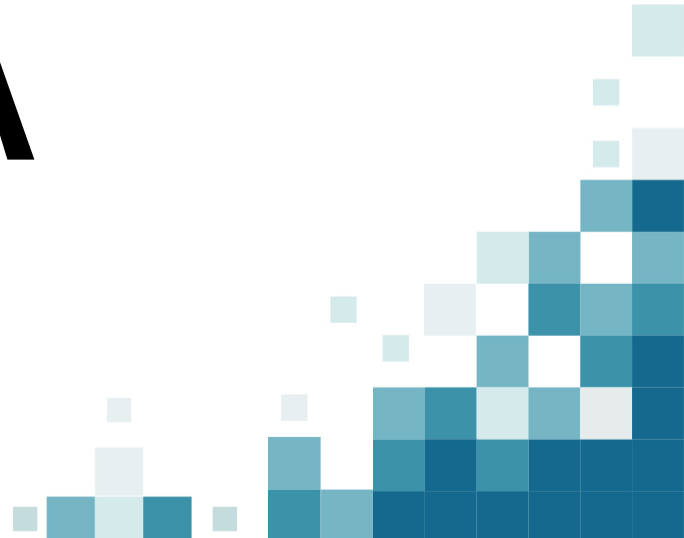




CYBER SECURITY  
SUMMIT 2017

# Discussion on Defense M&A

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Senior Advisor to G2 Capital Advisors





# Agenda

- M&A Trends and Activity
- Budget and Strategy Uncertainty
- Continuing Resolution
- DoD Spending – Areas of Focus
- Cyber Spending and Focus
- Discussion

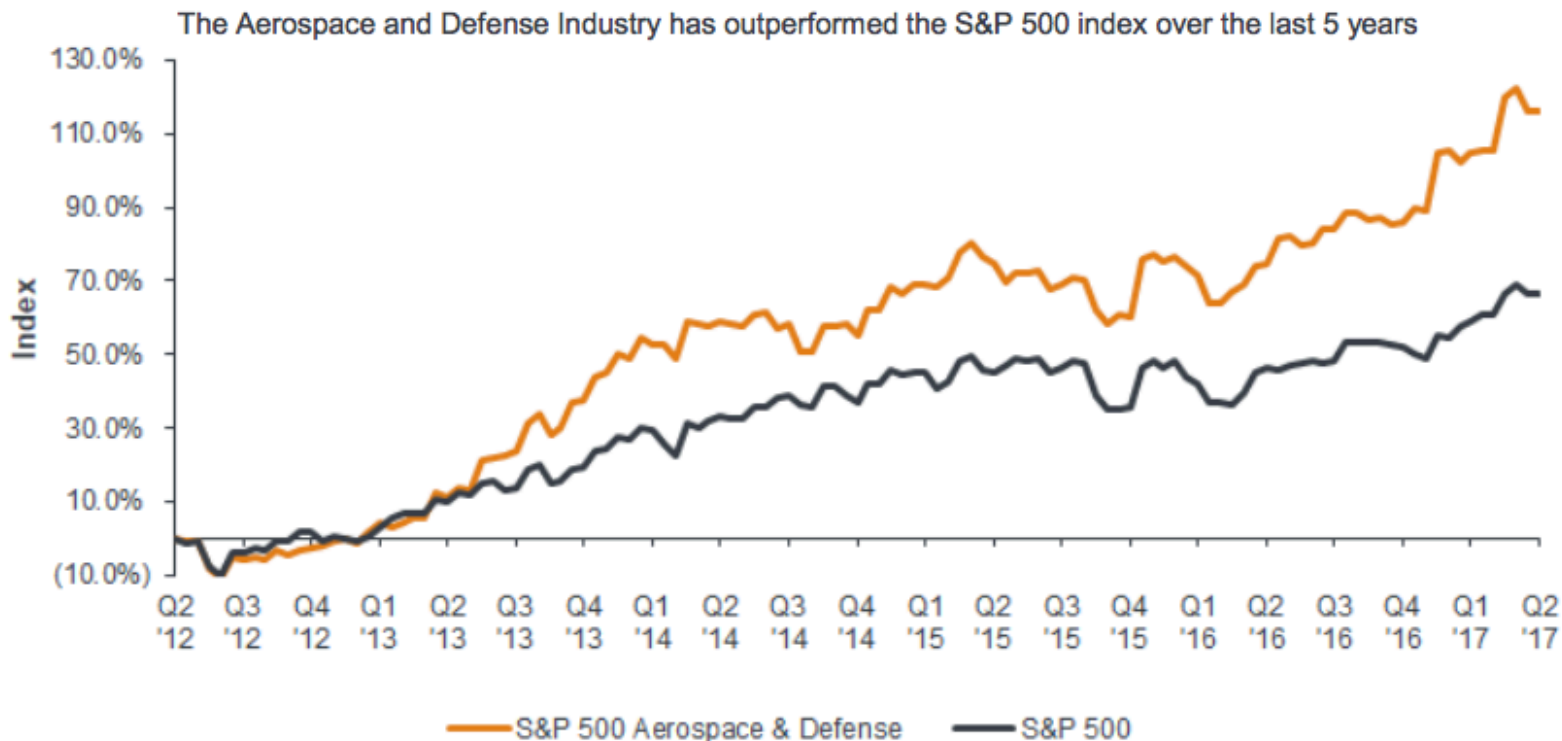
# M&A Trends

- IT Modernization – 2015 Lockheed Martin & Leidos Deal
- Big Primes Acquiring IT Providers to offset expiring contracts



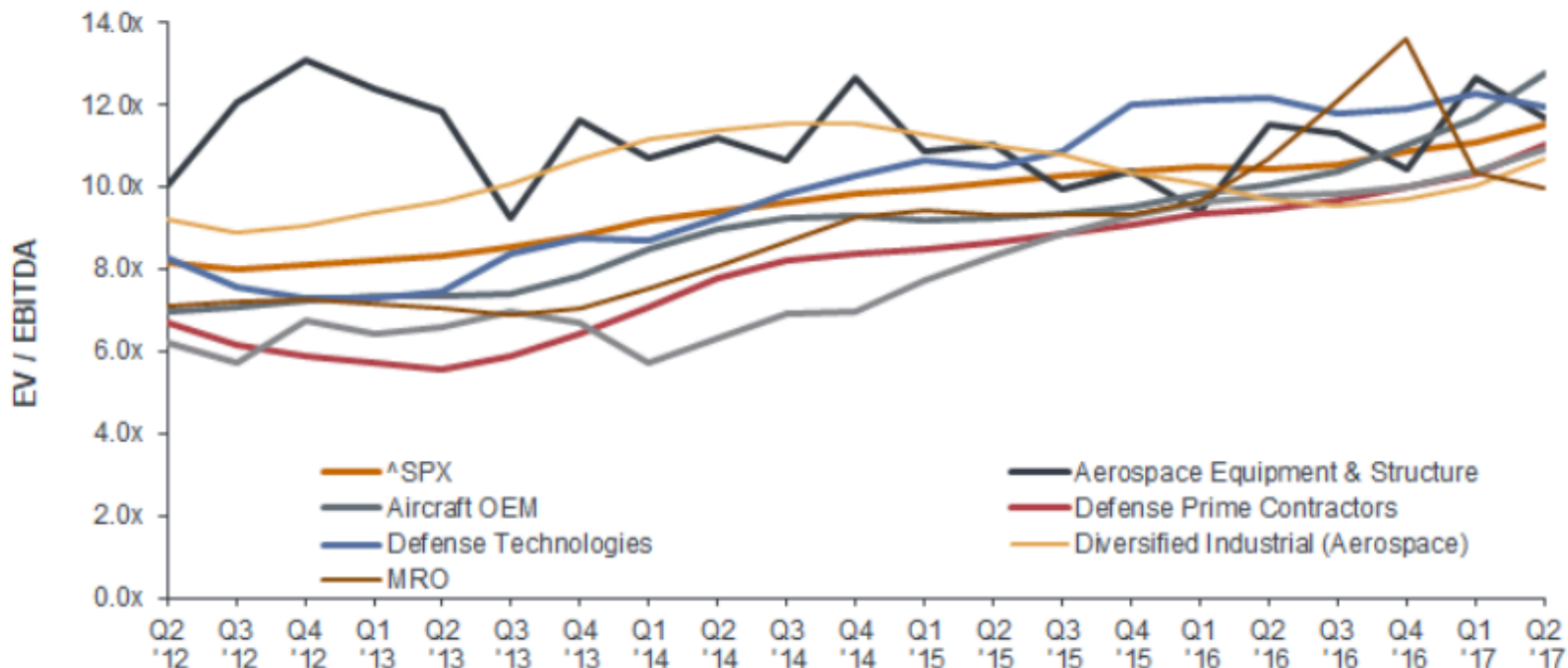
# Trends

## Economic Index Trends



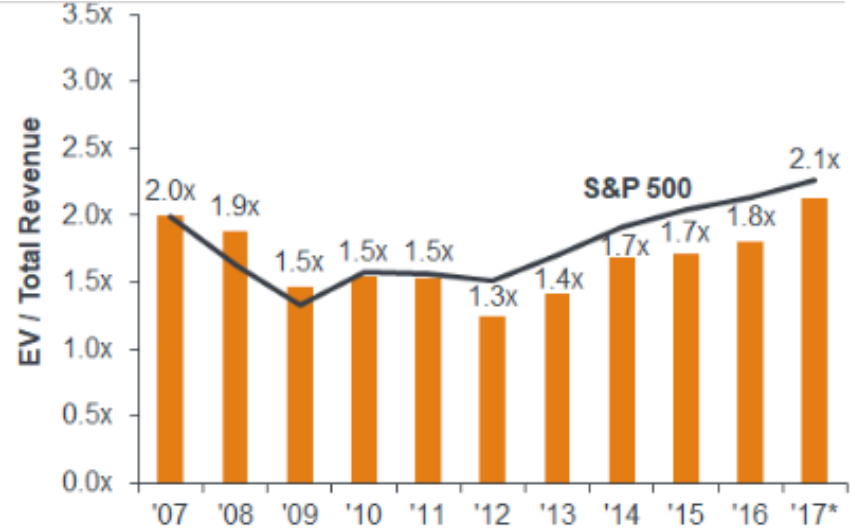
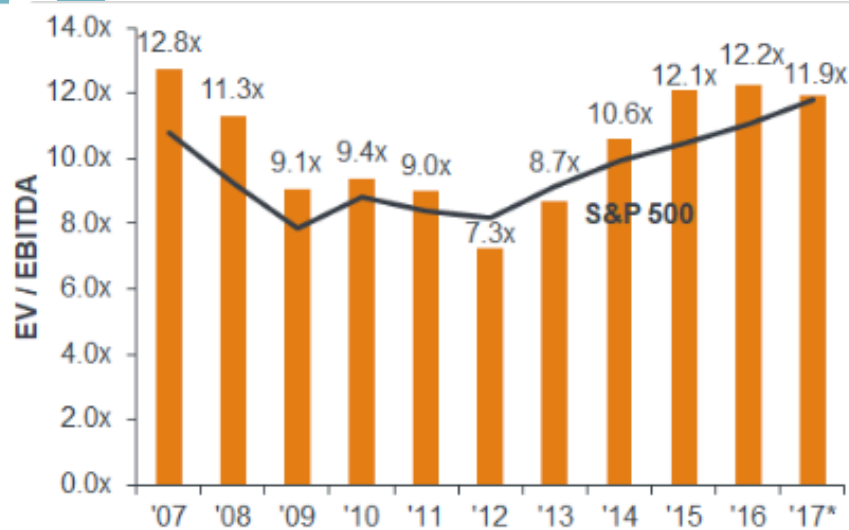
# Trends

## Last 5 Year EV / LTM EBITDA Trend by Industry



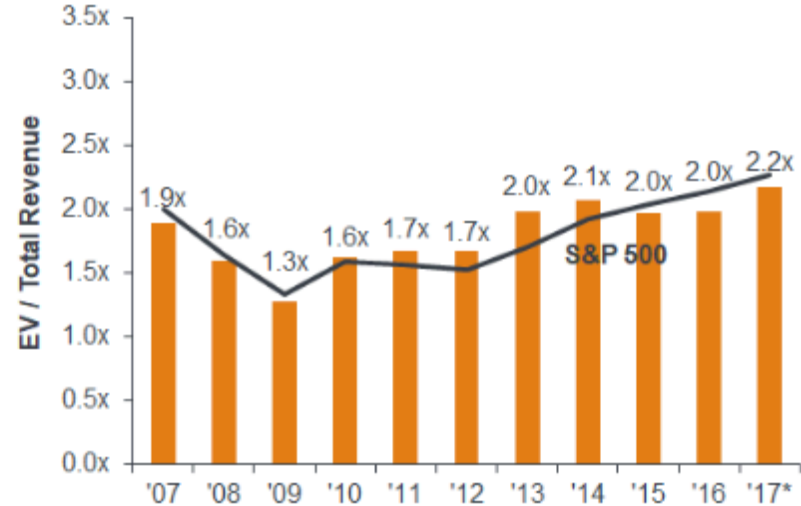
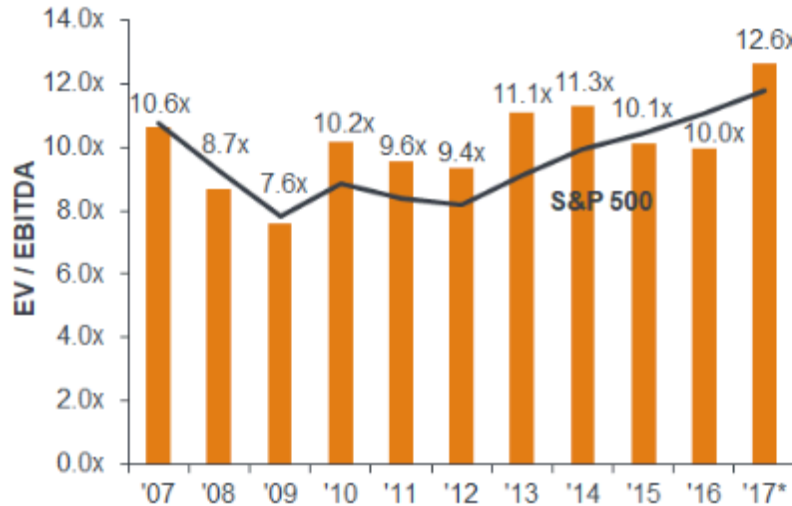
Data sourced through S&P Capital IQ on Friday, June 30, 2017

# Public Trading – Defense Technologies



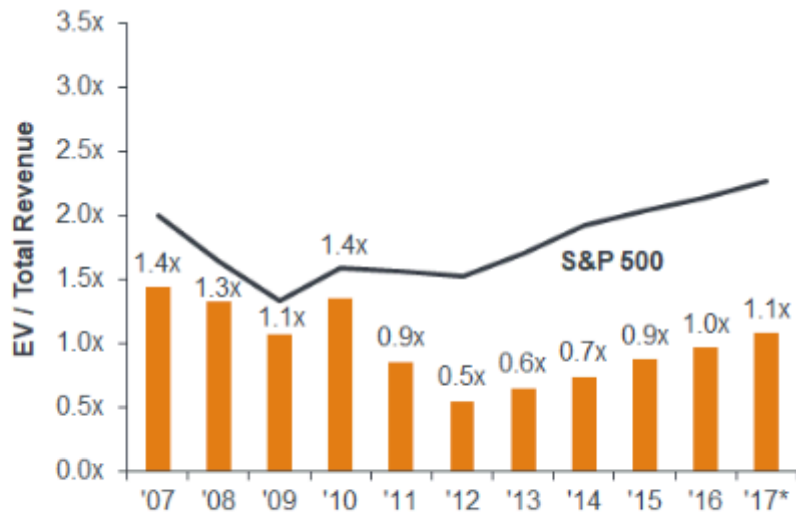
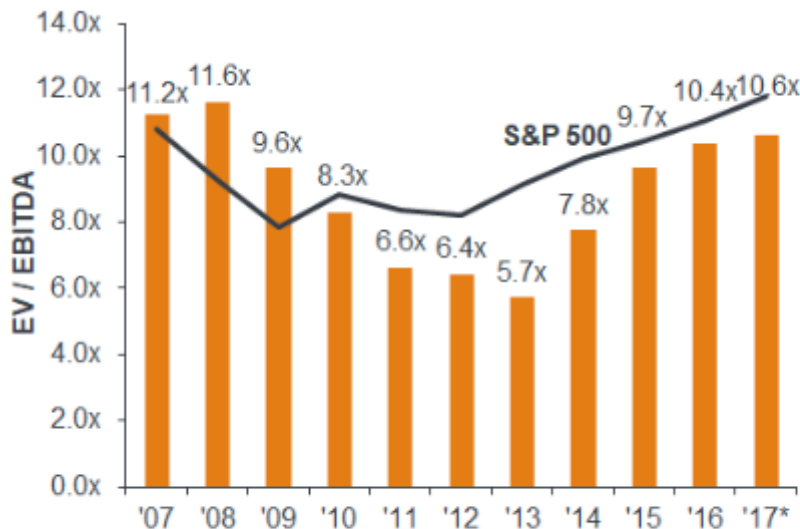
Size figures in Millions USD (converted where necessary)  
Charts show average daily multiples for each year (\* YTD 2017)  
Data sourced from S&P Capital IQ on Friday, June 30, 2017

# Public Trading - Diversified Industrial (Aerospace)



*Size figures in Millions USD (converted where necessary)  
Charts show average daily multiples for each year (\* YTD 2017)  
Data sourced from S&P Capital IQ on Friday, June 30, 2017*

# Government Services



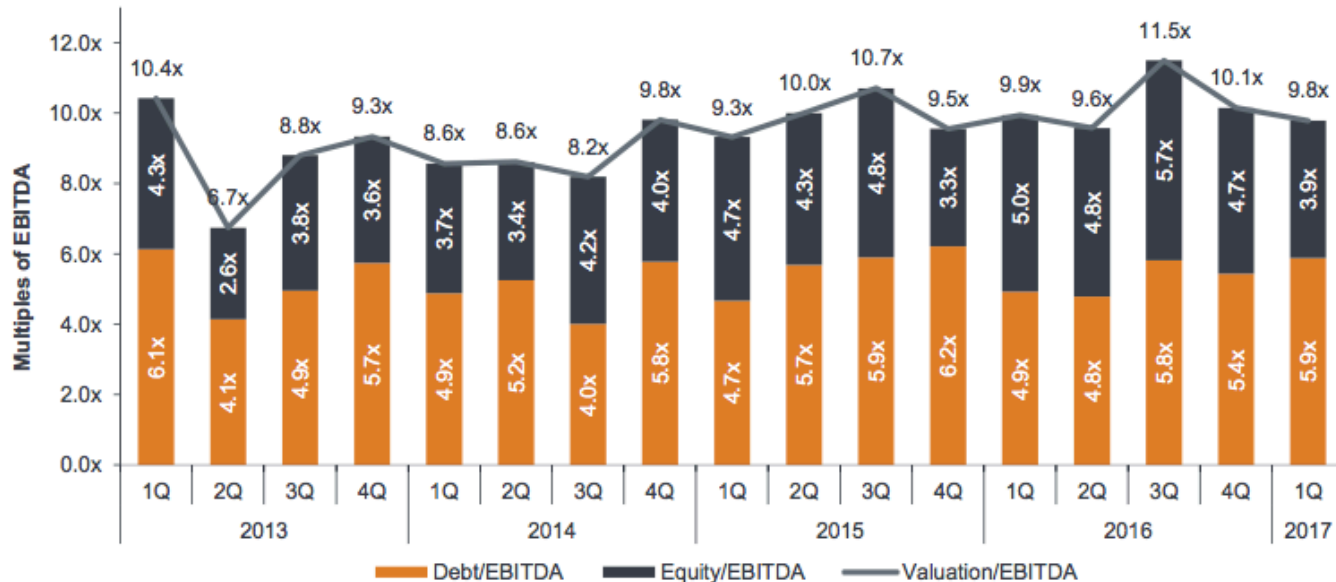
*Size figures in Millions USD (converted where necessary)  
Charts show average daily multiples for each year (\* YTD 2017)  
Data sourced from S&P Capital IQ on Friday, June 30, 2017*



# M&A Activity – Middle

**Market** *Market activity remained steady since Q2 2013; overall deal multiples remain strong.*

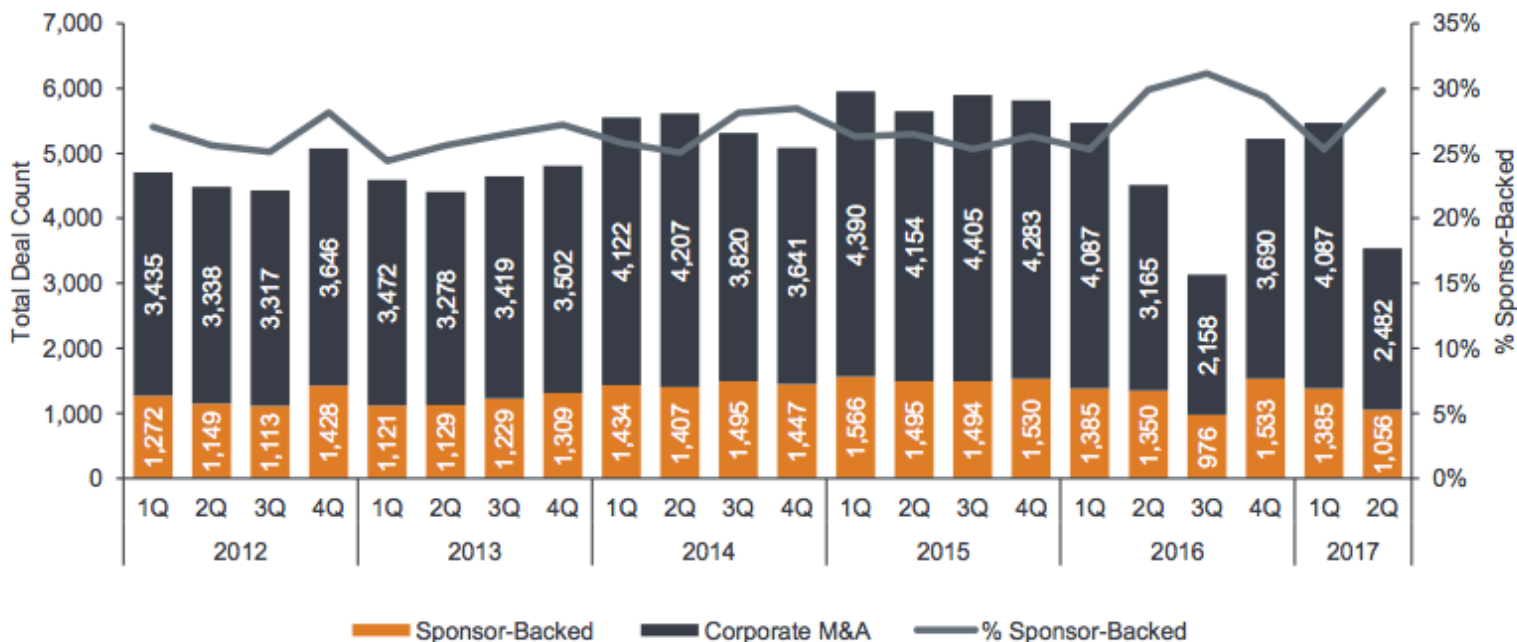
M&A Transaction Multiples



( M&A transaction multiples are the median North American M&A activity independent of target / acquirer industry and enterprise value. The dataset has been restricted to multiples between 0.0x and 30.0x EBITDA; sourced through Pitchbook's 2017 Q2 Report.

# M&A Activity by Acquirer

## M&A Activity by Acquirer Type



The U.S. Middle Market as shown in this chart has been defined as companies with an enterprise value between \$25MM and \$1,000MM, and headquartered in the United States.

Data sourced through PitchBook 2017 Q2 Report

# Uncertainty Affecting Spending

- National Security Strategy (NSS) Mandated by Goldwater-Nichols Act of 1986. Not released since 2015
- No Budget and Continuing Resolutions "Normal"
- Budget Control Act (BCA) – Greater Threat to Security





# Continuing Resolution – What is it?

- Bill to fund government operations expires December 8<sup>th</sup>, 2017
- 10-week stopgap budget measure restricting spending levels – lock in FY-18 government spending at FY-17 levels and prohibit start of new programs
- Advance Procurement Funding cannot be spent to initiate multiyear procurement contracts

# Impacts on Defense of Operating under CR

- Scaled-back training exercises
- Delayed induction of 11 ships
- Postponement of all Army “noncritical” maintenance
- Curtailment of Hiring and Recruitment
- Rising Acquisition Costs from Severed Contracts



# Defense Budget and Continuing Resolution

- DoD sent White House a detailed list of ~75 acquisition program priorities, “Consolidated Anomalies List” it hoped to exempt from CR restrictions
- OMB Denied Request



# Additional Continuing Resolution Effects

- DoD in battle with private industry for Cyber talent
- President, Congress and DoD want to add military personnel in areas like Cyber, Pilots and Nuclear Specialists



# Where is DoD Spending?

- Intelligence, Surveillance and Reconnaissance (ISR)
- Special Operations
- USN New Ships and Maintenance/Overhaul
- USAF - F35
- Cybersecurity Forces







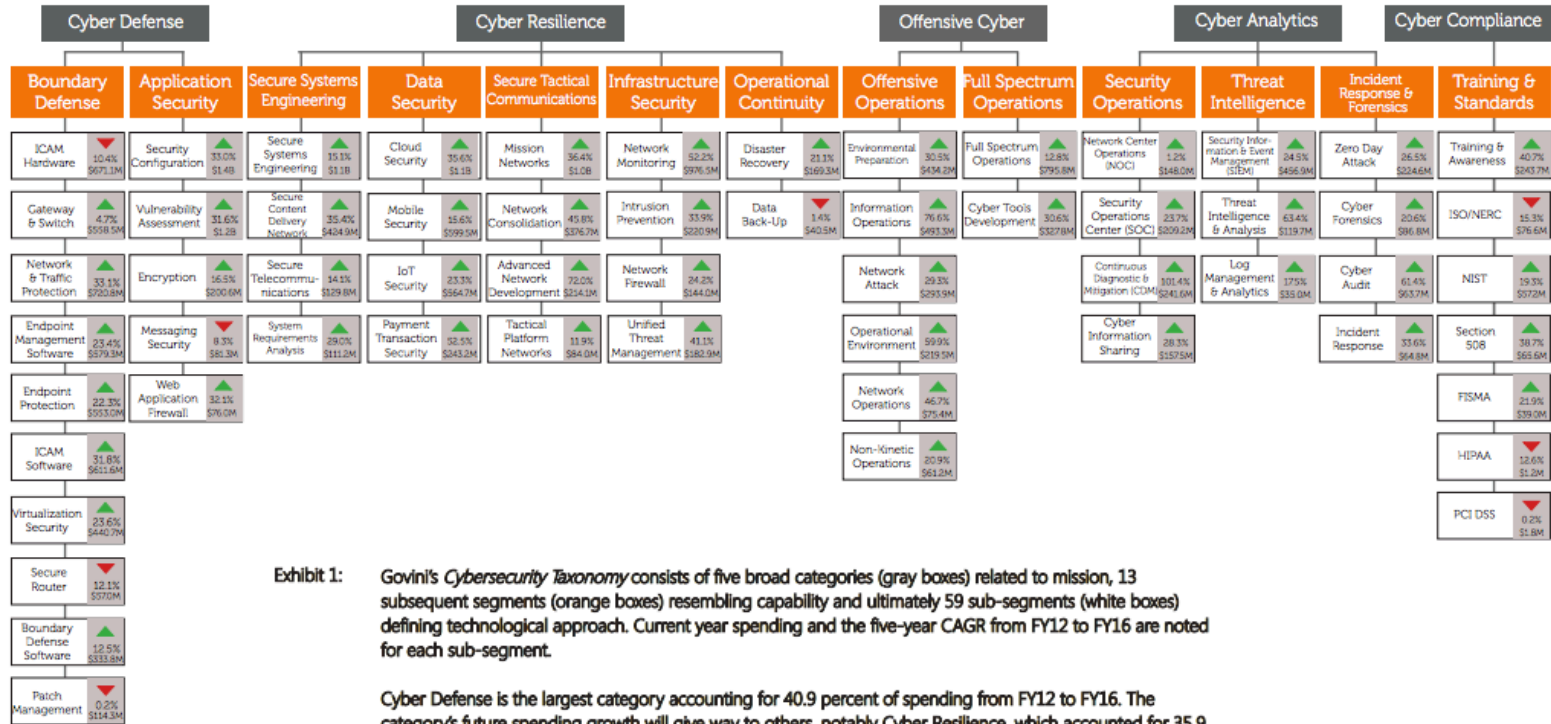
# Cyber Spending and Focus

- Federal Cybersecurity spending reached historic high of \$19.8 Billion
- Number of Cyber vendors active in Federal marketplace increased by 55% in past five years
- Cyber Defense spending growth slowing, while spending on Cyber Resilience and Offensive Capabilities rising
- Push to Modernize legacy IT systems – Greater adoption of Cloud

.govini

# CYBERSECURITY

## FY18 STANDARD MARKET TAXONOMY OF UNCLASSIFIED SPENDING



**Exhibit 1:** Govini's *Cybersecurity Taxonomy* consists of five broad categories (gray boxes) related to mission, 13 subsequent segments (orange boxes) resembling capability and ultimately 59 sub-segments (white boxes) defining technological approach. Current year spending and the five-year CAGR from FY12 to FY16 are noted for each sub-segment.

Cyber Defense is the largest category accounting for 40.9 percent of spending from FY12 to FY16. The category's future spending growth will give way to others, notably Cyber Resilience, which accounted for 35.9 percent of spending over the five years and had the largest compound average growth rate (CAGR) of 30.8 percent. Offensive Cyber, the third largest category, had a CAGR of 29.4 percent. The two smallest categories, Cyber Analytics and Cyber Compliance had CAGRs of 27.5 percent and 12 percent respectively.



# Discussion



# Summary

- M&A Trends and Activity
- Budget and Strategy Uncertainty
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