

GovCon + M&A

2020 YEAR IN REVIEW, OUTLOOK FOR 2021

1:30 - 3 P.M., EST | *Thur, Jan. 14, 2021*

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GovCon + M&A: 2020 Year in Review, Outlook for 2021

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THE MODERATOR

Tom Craig

Managing Partner, FH+H



Tom has extensive experience representing government contractors, especially in high stakes litigation. While he handles all matters related to government contractors, from bid protests to teaming agreements, Tom specializes in high-profile and high-risk matters that require comprehensive coordination of legal, media, political, and consulting efforts.



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TODAY'S PANELISTS



Richard Phillips

Sr. Partner, Crossroads Capital, LLC

A seasoned dealmaker and accomplished financial analyst with over 20 years of corporate finance, consulting, and investment banking experience.



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TODAY'S PANELISTS



Guillaume Laffitte-Smith

Director, Valuation Advisory Services, Cherry Bekaert LLP

In his role at Cherry Bekaert, Guillaume provides valuation, transaction, and financial advisory services to closely-held businesses, private equity and private debt funds, and alternative asset managers, in a wide variety of industries, with a focus on the government contracting industry.



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TODAY'S PANELISTS



Katy (Herr) Hew

Founder and CEO, Audacia Strategies

Katy is the Founder and CEO of Audacia Strategies, an investor relations and strategic communications advisory firm that works with companies to improve their public profile, valuation, and profitability during significant transformations such as M&A, IPO, and C-suite transition.



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TODAY'S PANELISTS



Jim Sherwood

Co-Founder & Chief Product Officer, Federal Compass

In his roles, Jim informs and manages the product development initiatives at Federal Compass, leveraging his 17-years delivering industry-leading GovCon products and consulting engagements.



2020 M&A GovCon Year in Review & Outlook 2021

An analysis of deals in 2020 and their implications for 2021 and beyond

*We help companies and entrepreneurs
make and implement the toughest
business decisions.*

Research
Strategy
Corporate Finance
Mergers & Acquisitions

About Us: Today's Presenter



Richard P. Phillips, *Senior Partner — Crossroads Capital, LLC*

Richard Phillips is the Senior Partner of Crossroads Capital, LLC. He founded the organization with a partner to serve companies in middle market with actionable, data driven intelligence to make better strategic decisions. At Crossroads, he leads a team of experienced financial analysts, research assistants and directors bringing the organization's tailored solutions to middle market companies throughout the US and around the world.

He is a seasoned dealmaker and accomplished financial analyst with over 20 years of corporate finance, consulting, and investment banking experience. During his career, he has completed over 32 M&A and other strategic transactions valued at over \$6.6 billion, across several industry sectors and geographic regions.

Richard received his MS in Applied Economics from Johns Hopkins University and his BA from Lafayette College. He also serves as a Managing Director of Oberon Securities, LLC (<http://oberonsecurities.com>), a member of FINRA and SIPC. He currently holds active Series 7, 63, 79, & 82 FINRA licenses. He also serves as a Senior Advisor to Cyber Capital Partners, LLC, a DC area private equity and consultancy focused on cybersecurity and IT Modernization solutions for the federal and critical infrastructure marketplace.

1. How was 2020 M&A activity and what trends emerged?
2. What deals were particularly representative of 2020 activity?
3. What clues and strategic intelligence from deal activity can we discern from our findings?
4. What are the implications for small and medium-sized companies in the sector?
5. With a mid-January vantage point, what might we expect for 2021?

1. Review of broad level M&A activity in the sector for 2020 along with deeper dive into select M&A transactions and middle market relevant statistics
2. Review of factors & conditions that drive buyer demand and valuation premia
3. Take-aways from a tumultuous but very active 2020 in the sector and discussion of what might influence M&A activity into 2021 and beyond.

1. 2020 M&A Review & Analysis

A detailed look at sector activity

Select Public Trading Comps: Government Services & Solutions

(\$ in millions USD, except per share data)

Financial Statistics									
Company Name	Day Close Price Latest	Market Capitalization Latest	LTM Total Revenue	LTM EBITDA	LTM Diluted EPS Excl. Extra Items	NTM Revenue (Capital IQ)	NTM EBITDA (Capital IQ)	NTM EPS (Capital IQ)	
Booz Allen Hamilton Holding Corporation	87.18	12,022.1	7,794.7	795.9	3.67	8,415.63	844.78	3.9	
CACI International Inc (NYSE:CACI)	249.33	6,287.8	5,816.2	609.0	13.62	6,262.93	666.36	15.08	
ICF International, Inc. (NasdaqGS:ICFI)	74.33	1,402.1	1,469.2	129.1	3.21	1,541.34	144.53	4.17	
Jacobs Engineering Group Inc. (NYSE:J)	108.96	14,162.8	13,567.0	1,047.4	2.67	14,044.57	1,136.61	5.76	
Leidos Holdings, Inc. (NYSE:LDOS)	105.12	14,960.8	11,999.0	1,268.0	4.26	13,642.06	1,426.17	6.33	
ManTech International Corporation	88.94	3,589.3	2,484.0	224.8	3.18	2,621.09	233.4	3.41	
Maximus, Inc. (NYSE:MMS)	73.19	4,497.7	3,461.5	383.5	3.39	3,314.96	395.3	3.59	
PAE Incorporated (NasdaqCM:PAE)	9.18	844.9	2,623.9	100.3	0.07	2,948.59	188.36	0.66	
Parsons Corporation (NYSE:PSN)	36.41	3,667.5	3,992.1	246.0	0.89	4,164.32	385.42	2.19	
Perspecta Inc. (NYSE:PRSP)	24.08	3,876.0	4,475.0	606.0	(4.49)	4,197.01	662.17	2.08	
Science Applications International	94.64	5,510.4	6,879.0	600.0	3.52	7,549.63	667.03	6.92	
Vectrus, Inc. (NYSE:VEC)	49.72	578.0	1,405.5	56.4	2.76	1,465.7	67.74	3.57	
VSE Corporation (NasdaqGS:VSEC)	38.49	425.4	706.9	82.6	(0.11)	659.0	79.05	2.65	
Summary Statistics	Day Close Price Latest	Market Capitalization Latest	LTM Total Revenue	LTM EBITDA	LTM Diluted EPS Excl. Extra Items	NTM Revenue (Capital IQ)	NTM EBITDA (Capital IQ)	NTM EPS (Capital IQ)	
Mean	79.97	5,525.0	5,128.8	473.0	2.82	5,448.22	530.53	4.64	
Median	74.33	3,876.0	3,992.1	383.5	3.18	4,164.32	395.3	3.59	

Source: S&P Capital IQ; data as of December 31, 2020; Note: LTM denotes Last Twelve Months, NTM denotes Next Twelve Months.

Select Public Trading Comps: Government Services & Solutions

Trading Multiples									
Company Name	TEV/Total Revenues LTM - Latest	TEV/EBITDA LTM - Latest	TEV/EBIT LTM - P/Diluted EPS Before Latest Extra LTM - Latest	P/TangBV LTM - Latest	NTM TEV/Forward Total Revenue (Capital IQ)	NTM TEV/Forward EBITDA (Capital IQ)	NTM Forward P/E (Capital IQ)		
Booz Allen Hamilton Holding Corporation	1.7x	15.2x	19.0x	23.7x	NM	1.61x	16.00x	22.33x	
CACI International Inc (NYSE:CACI)	1.4x	11.6x	16.7x	18.3x	NM	1.32x	12.38x	16.53x	
ICF International, Inc. (NasdaqGS:ICFI)	1.3x	11.5x	19.9x	23.1x	NM	1.26x	13.39x	17.81x	
Jacobs Engineering Group Inc. (NYSE:J)	1.1x	12.6x	17.9x	40.8x	NM	1.11x	13.73x	18.90x	
Leidos Holdings, Inc. (NYSE:LDOS)	1.6x	15.0x	19.5x	24.7x	NM	1.44x	13.78x	16.61x	
ManTech International Corporation	1.5x	13.2x	22.9x	28.0x	19.7x	1.38x	15.44x	26.10x	
Maximus, Inc. (NYSE:MMS)	1.3x	9.1x	15.8x	21.6x	9.7x	1.40x	11.74x	20.40x	
PAE Incorporated (NasdaqCM:PAE)	0.6x	9.8x	25.1x	124.2x	NM	0.51x	7.98x	13.97x	
Parsons Corporation (NYSE:PSN)	1.0x	10.9x	25.3x	40.7x	7.5x	0.94x	10.18x	16.63x	
Perspecta Inc. (NYSE:PRSP)	1.4x	9.7x	27.7x	NM	NM	1.52x	9.65x	11.60x	
Science Applications International	1.2x	11.5x	18.5x	26.9x	NM	1.09x	12.35x	13.68x	
Vectrus, Inc. (NYSE:VEC)	0.4x	5.0x	12.3x	18.0x	59.1x	0.40x	8.75x	13.95x	
VSE Corporation (NasdaqGS:VSEC)	1.0x	7.9x	12.1x	NM	92.9x	1.06x	8.87x	14.52x	
Summary Statistics	TEV/Total Revenues LTM - Latest	TEV/EBITDA LTM - Latest	TEV/EBIT LTM - P/Diluted EPS Before Latest Extra LTM - Latest	P/TangBV LTM - Latest	NTM TEV/Forward Total Revenue (Capital IQ)	NTM TEV/Forward EBITDA (Capital IQ)	NTM Forward P/E (Capital IQ)		
Mean	1.2x	11.0x	19.4x	35.5x	37.8x	1.16x	11.86x	17.16x	
Median	1.3x	11.5x	19.0x	24.7x	19.7x	1.26x	12.35x	16.61x	

Source: S&P Capital IQ; data as of December 31, 2020; Note: LTM denotes Last Twelve Months, NTM denotes Next Twelve Months.

Sector Public Trading Comps: Large Defense Prime Contractors

(\$ in millions USD, except per share data)

Financial Summary

Company Name	Day Close Price Latest	Market Capitalization Latest	LTM Total Revenue	LTM EBITDA	LTM Diluted EPS Excl. Extra Items	NTM EBITDA (Capital IQ)	NTM EPS (Capital IQ)
The Boeing Company (NYSE:BA)	207.21	116,976.2	60,765.0	(2,212.0)	(7.89)	5,702.77	(0.95)
Raytheon Technologies Corporation (NYSE:RTX)	70.5	106,340.0	83,559.0	12,234.0	(0.48)	9,224.75	3.09
Northrop Grumman Corporation (NYSE:NOC)	299.46	49,924.8	35,308.0	4,372.0	14.58	5,341.38	23.62
Lockheed Martin Corporation (NYSE:LMT)	345.49	96,662.5	64,244.0	9,706.0	23.41	10,436.99	25.74
L3Harris Technologies, Inc. (NYSE:LHX)	186.73	39,234.2	24,036.0	4,503.0	6.01	4,044.78	12.59
General Dynamics Corporation (NYSE:GD)	152.63	43,700.2	38,217.0	5,149.0	11.04	5,189.13	11.57
BAE Systems plc (LSE:BA.)	6.73	21,640.7	25,637.5	2,654.9	0.52	3,589.88	0.63

Summary Statistics	Day Close Price Latest	Market Capitalization Latest	LTM Total Revenue	LTM EBITDA	LTM Diluted EPS Excl. Extra Items	NTM EBITDA (Capital IQ)	NTM EPS (Capital IQ)
Mean	181.25	67,782.6	47,395.2	5,201.0	6.74	6,218.52	10.9
Median	186.73	49,924.8	38,217.0	4,503.0	6.01	5,341.38	11.57

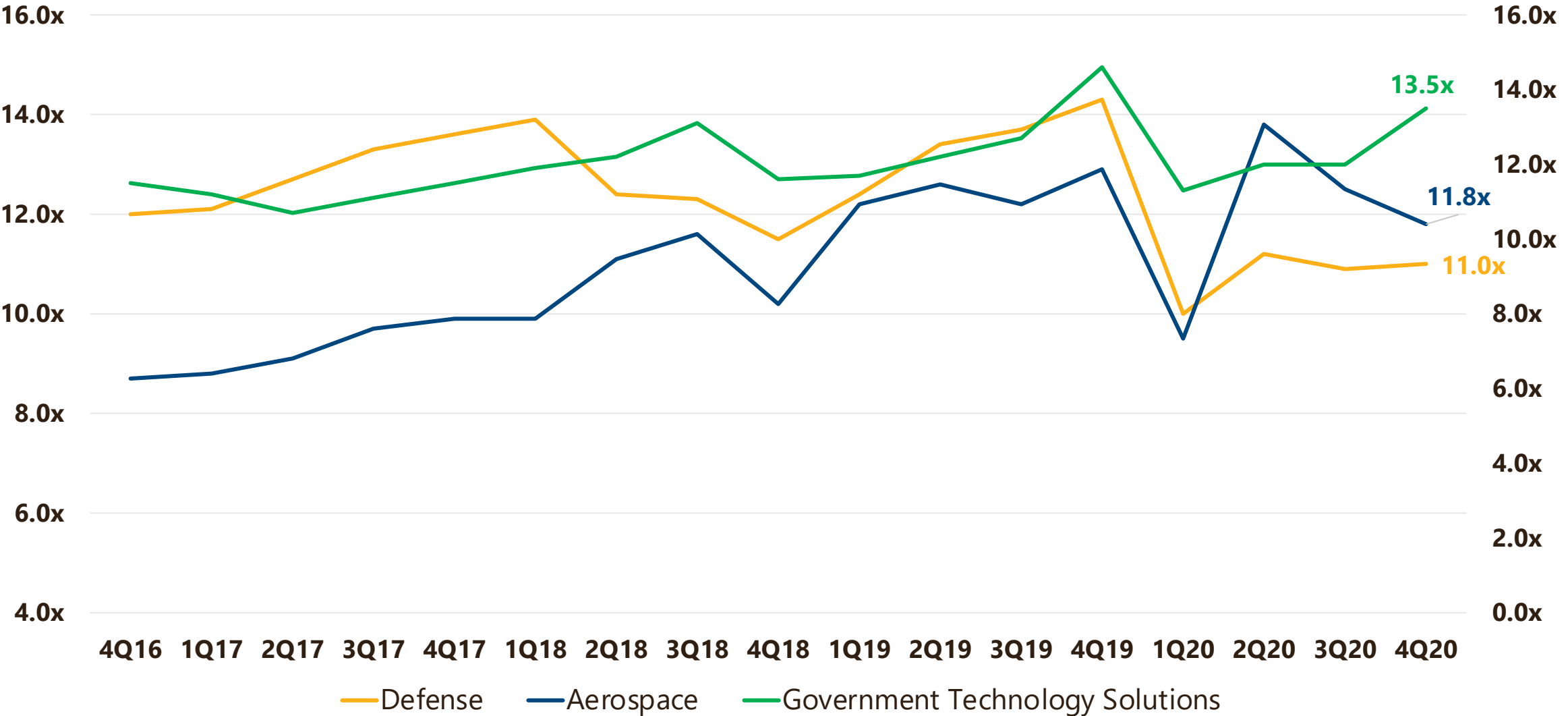
Source: S&P Capital IQ; data as of December 31, 2020; Note: LTM denotes Last Twelve Months, NTM denotes Next Twelve Months.

Sector Public Trading Comps: Large Defense Prime Contractors

Trading Multiples							
Company Name	TEV/Total Revenues LTM - Latest	TEV/EBITDA LTM - Latest	TEV/EBIT LTM - Latest	P/Diluted EPS Before Extra LTM - Latest	NTM TEV/Forward Total Revenue (Capital IQ)	NTM TEV/Forward EBITDA (Capital IQ)	NTM Forward P/E (Capital IQ)
The Boeing Company (NYSE:BA)	2.5x	NM	NM	NM	2.06x	26.49x	NM
Raytheon Technologies Corporation (NYSE:RTX)	1.6x	10.3x	17.7x	NM	2.01x	14.36x	22.79x
Northrop Grumman Corporation (NYSE:NOC)	1.8x	13.0x	18.5x	20.5x	1.67x	11.59x	12.68x
Lockheed Martin Corporation (NYSE:LMT)	1.6x	10.8x	12.3x	14.8x	1.57x	10.14x	13.42x
L3Harris Technologies, Inc. (NYSE:LHX)	1.9x	10.1x	14.4x	31.0x	2.39x	11.29x	14.84x
General Dynamics Corporation (NYSE:GD)	1.5x	10.2x	13.3x	13.8x	1.46x	10.99x	13.19x
BAE Systems plc (LSE:BA.)	1.0x	8.5x	11.1x	13.1x	0.93x	7.37x	10.70x
Summary Statistics	TEV/Total Revenues LTM - Latest	TEV/EBITDA LTM - Latest	TEV/EBIT LTM - Latest	P/Diluted EPS Before Extra LTM - Latest	NTM TEV/Forward Total Revenue (Capital IQ)	NTM TEV/Forward EBITDA (Capital IQ)	NTM Forward P/E (Capital IQ)
Mean	1.7x	10.5x	14.5x	18.6x	1.73x	13.18x	14.60x
Median	1.6x	10.3x	13.8x	14.8x	1.67x	11.29x	13.31x

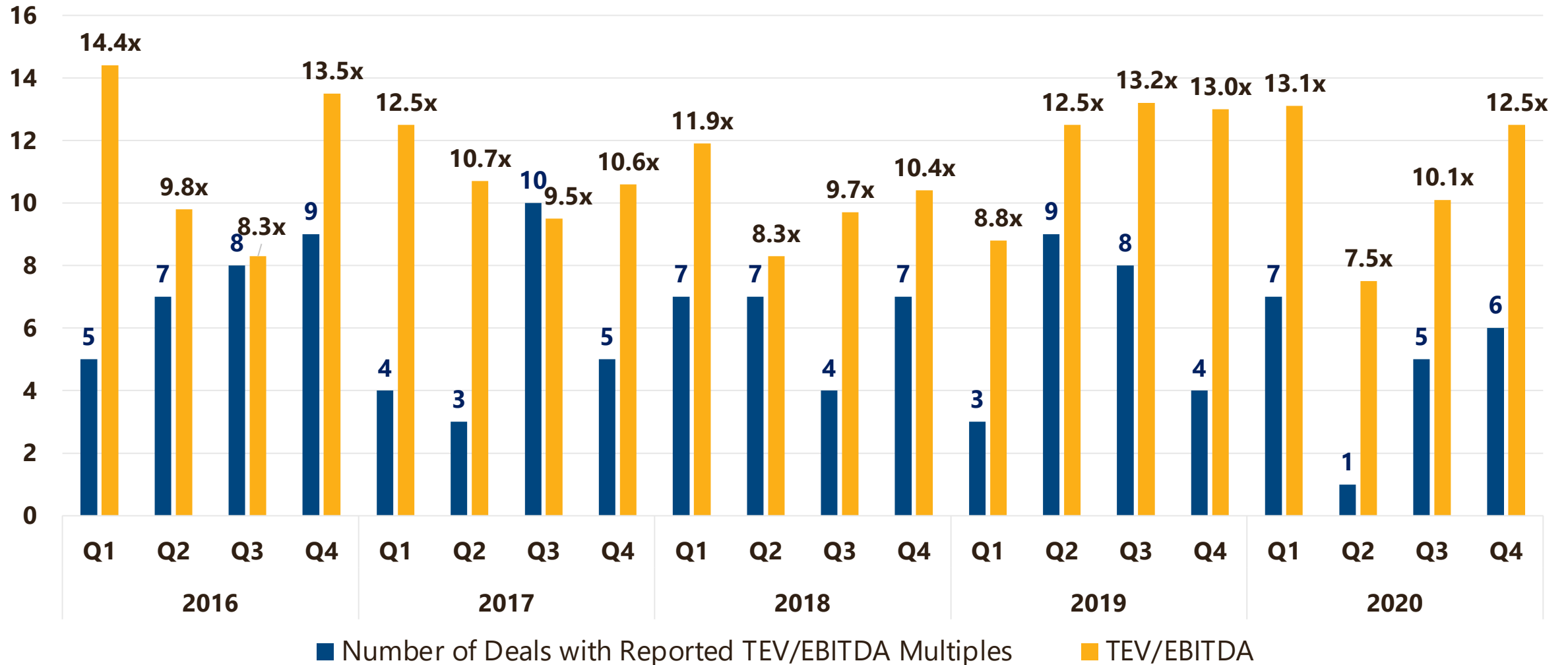
Source: S&P Capital IQ; data as of December 31, 2020; Note: LTM denotes Last Twelve Months, NTM denotes Next Twelve Months.

Public Valuation EV/EBITDA Multiples: Aerospace, Defense, and Government Solutions

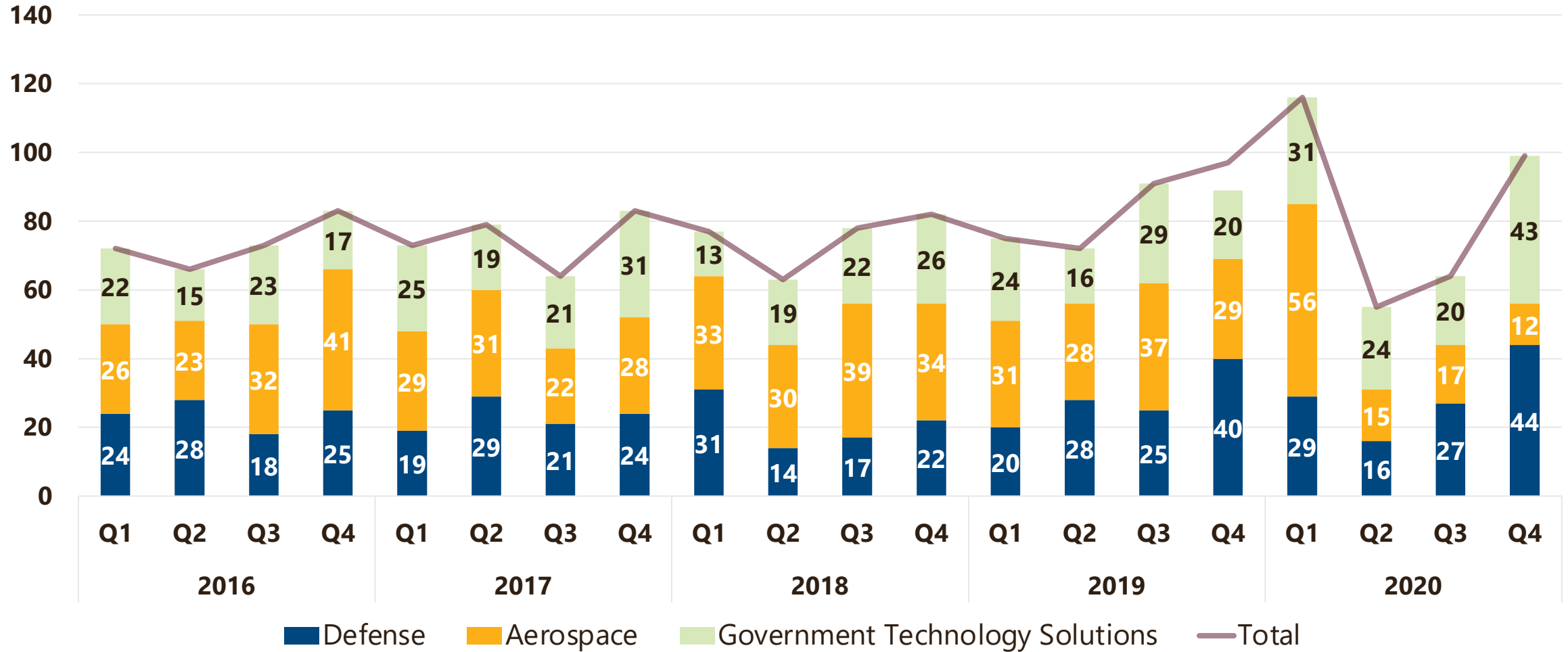


M&A Valuations: Aerospace, Defense, and Government Solutions

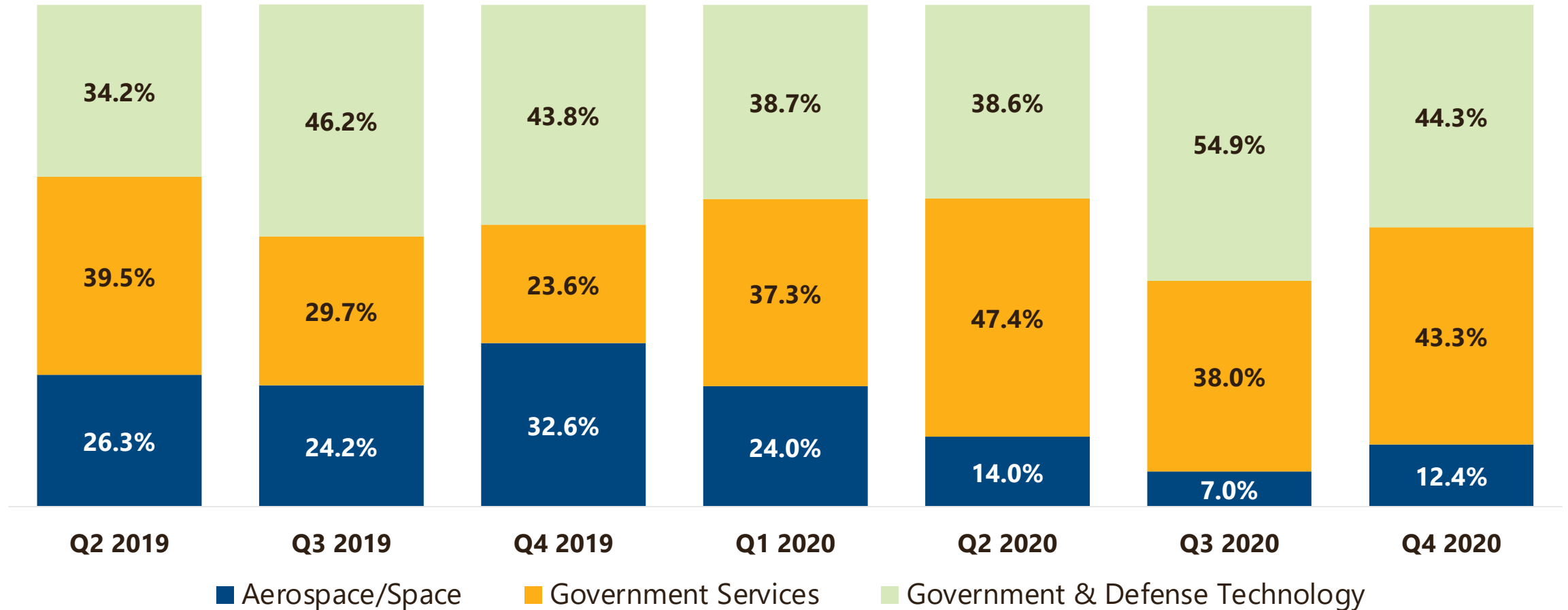
Disclosed Deal Volume and Values



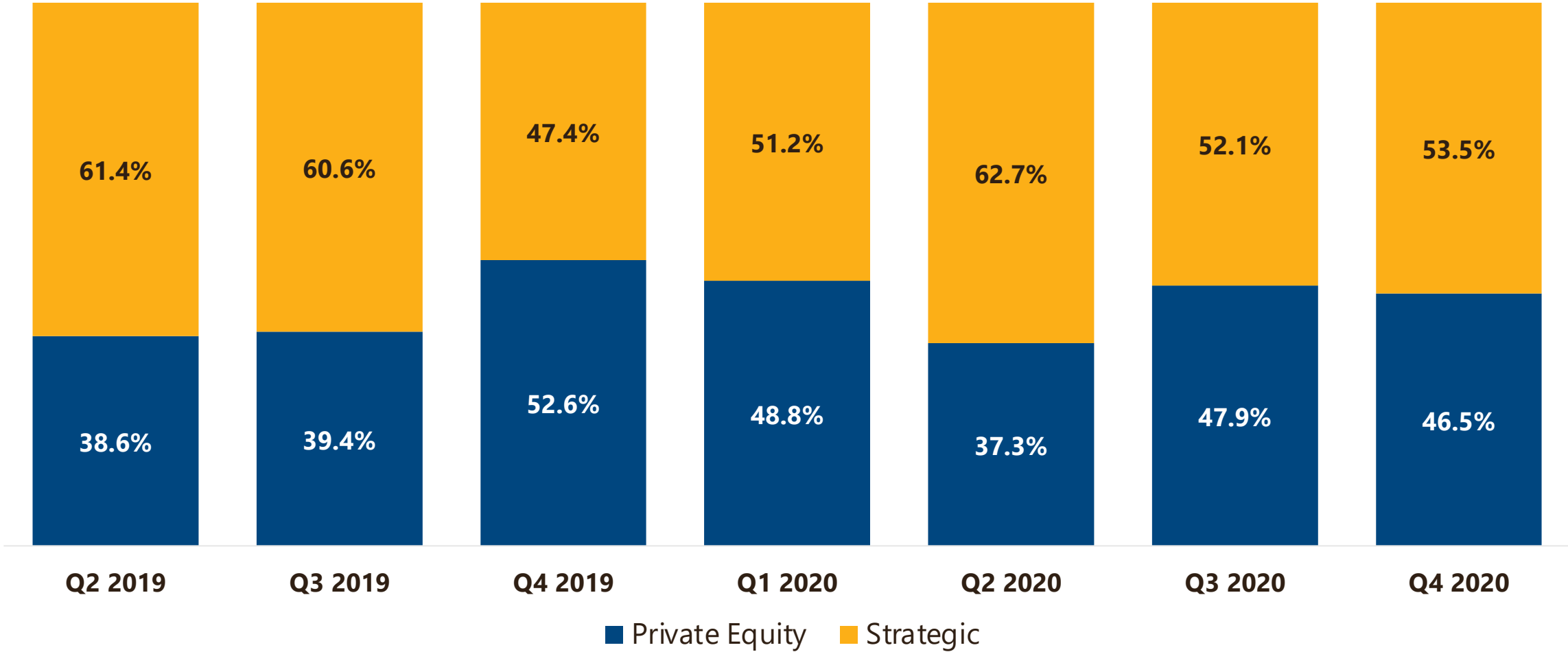
Quarterly Deal Volumes: Aerospace, Defense, and Government Solutions



M&A Activity: Aerospace, Defense, and Government Solutions



M&A Buyer Activity: Private Equity and Strategic Buyer Breakout



Private Equity: Increasingly Active in Sector



NEW MOUNTAIN CAPITAL LLC



Domain Expertise | Market Focus | Strategic Principles



THE CARLYLE GROUP

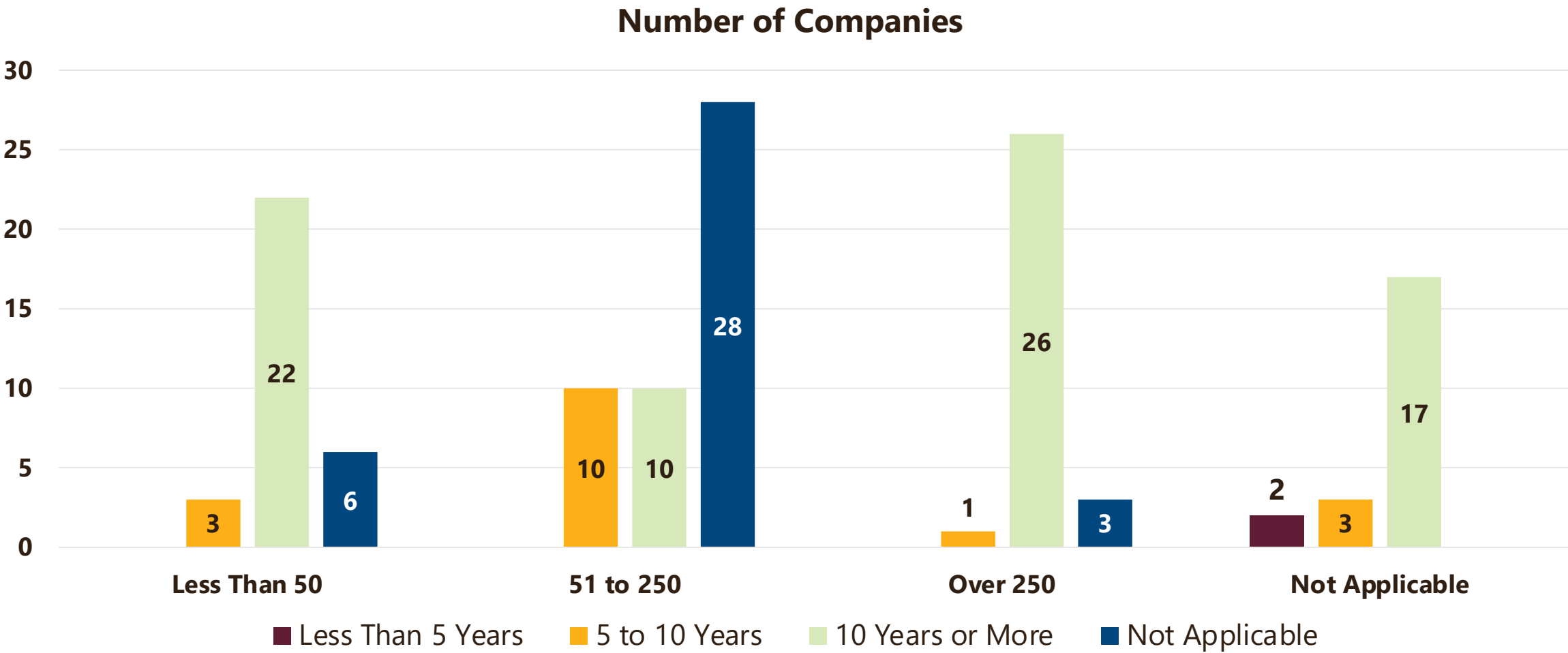


In 2020, private equity accounted for slightly over 45% of deals in the sector. With plenty of dry powder and strong sector fundamentals interest should continue into 2021.

Characteristic Transactions: Considerations, Take-Aways, and Conclusions

1. **Data Collection/Methodology.** Our team compiled deal statistics on **133** transactions we deemed representative for the GovCon space in 2020. About **72%** of the acquired companies that we included in our analysis had **less than \$100M in revenues** for the last 12 months prior to deal announcement. We have selected five good representative deals for today's discussion.
2. **Capabilities Continue to Drive Demand.** Although many factors remain important, such as access to Best-in-Class in GWACs (and as was the case for 2019), differentiated and demonstrated capabilities are the key driver of buyer strategic rationale for M&A in the sector.
3. **Market Conditions are Robust.** M&A activity continued at a brisk pace in 2020, despite the obstacles and temporary disruptions caused by the Covid-19 pandemic. Valuations of the publicly traded companies in the sector are at or near cycle-highs.
4. **Demand Should Continue into 2021.** Solid fundamentals should continue the cycle of consolidation in the industry. Private equity has increased its level of interest as PEG-owned portfolio companies to grow in the space. **PEG's accounted for nearly 45%** deal volume in 2020.
5. **IC & Cybersecurity Solutions Command Premia.** IC and cybersecurity solutions continue to attract greater buyer interest and higher valuations.

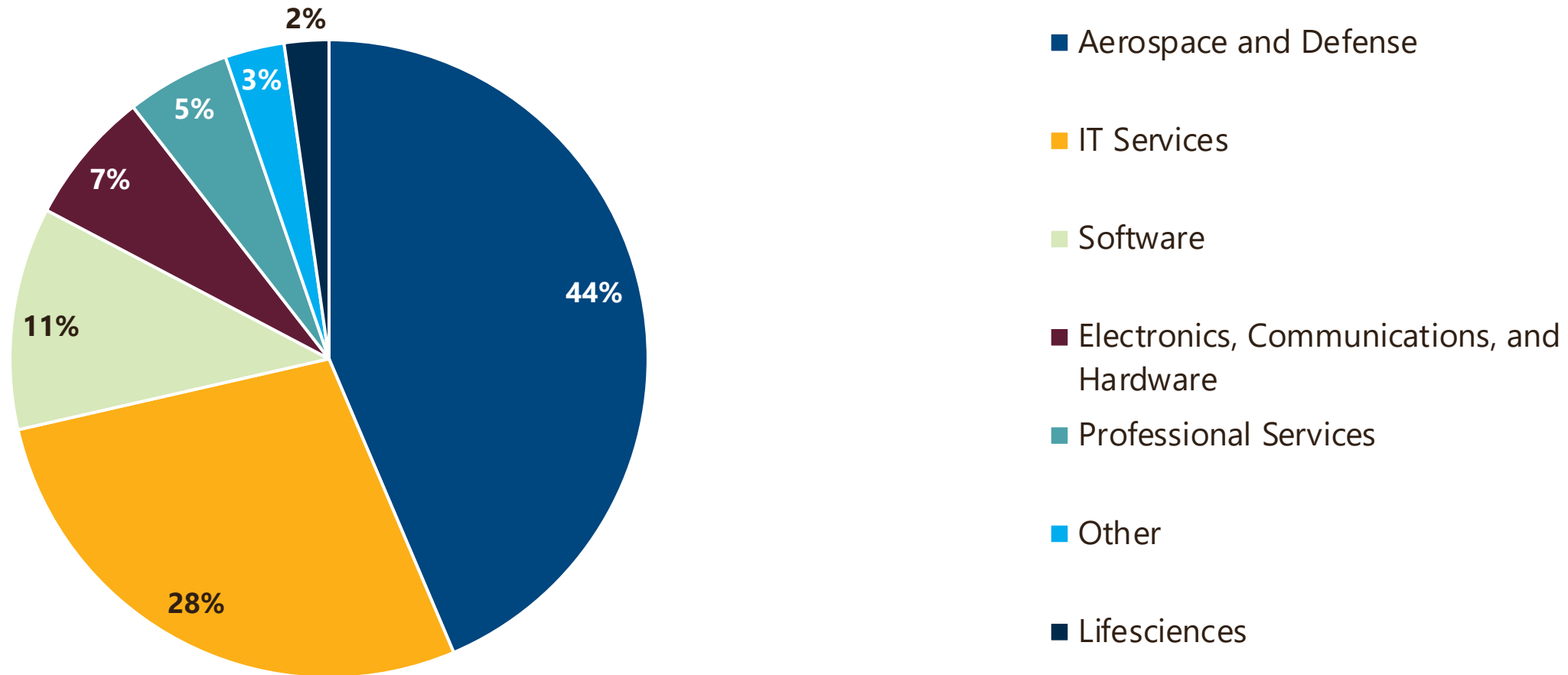
Middle Market M&A Trends: Company Age at Acquisition by Size Cohort



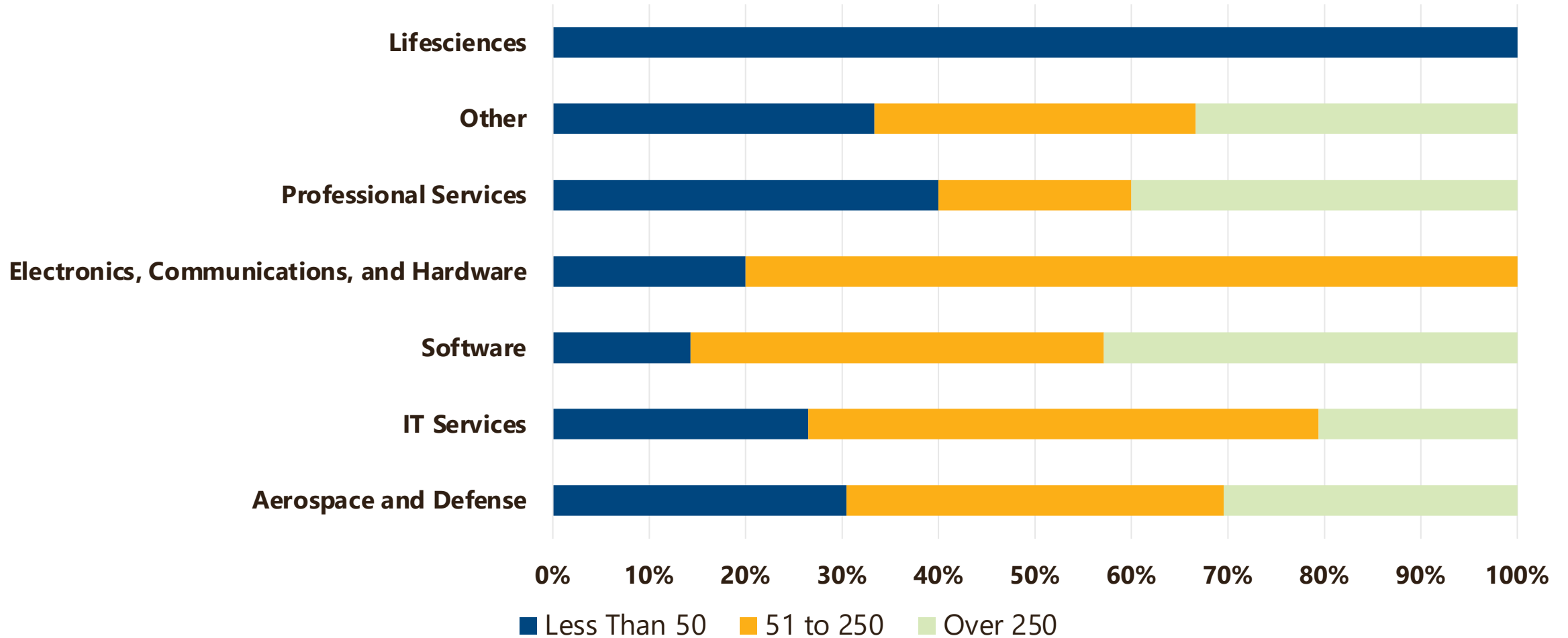
Source: S&P Capital IQ, company reports, and press releases.

Middle Market M&A Trends: Sector Deal Activity Breakout 2020

Acquired Company by Sector

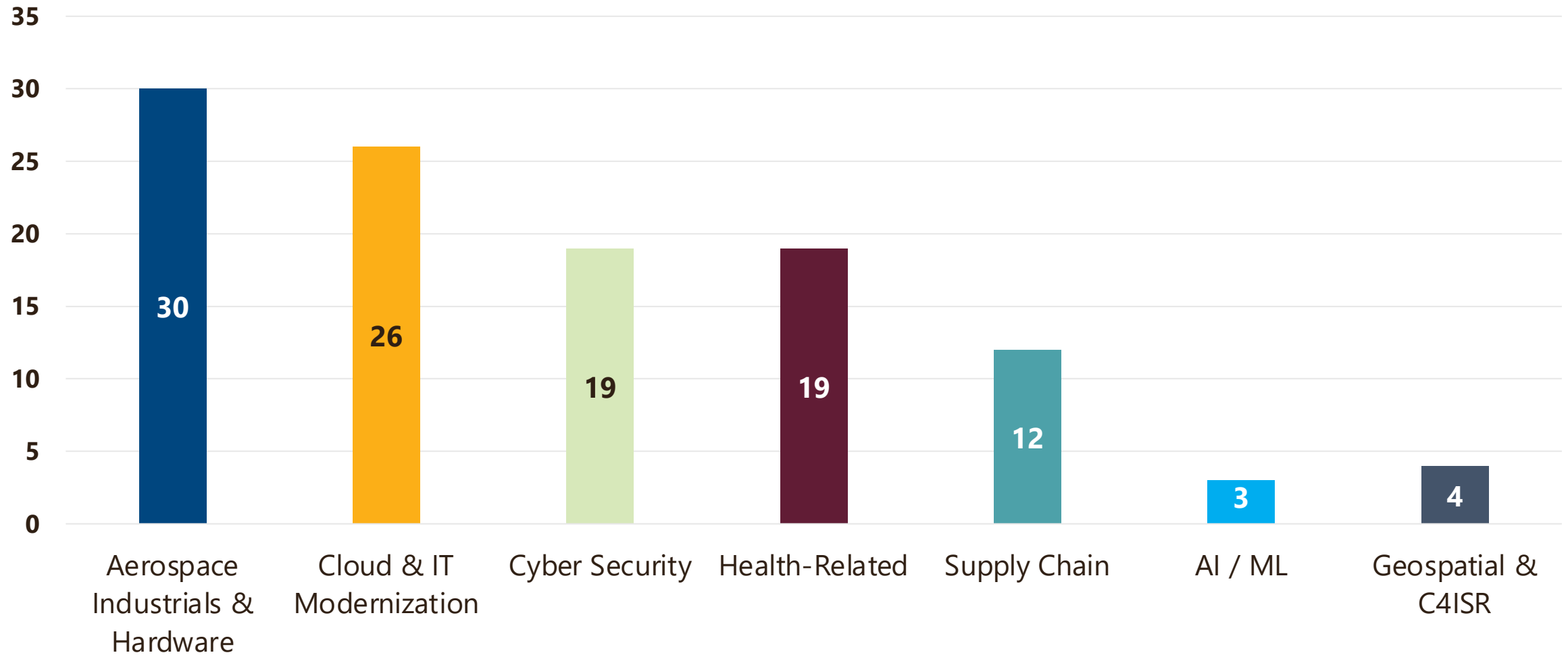


Middle Market M&A Trends: Size of Companies Acquired by Sector

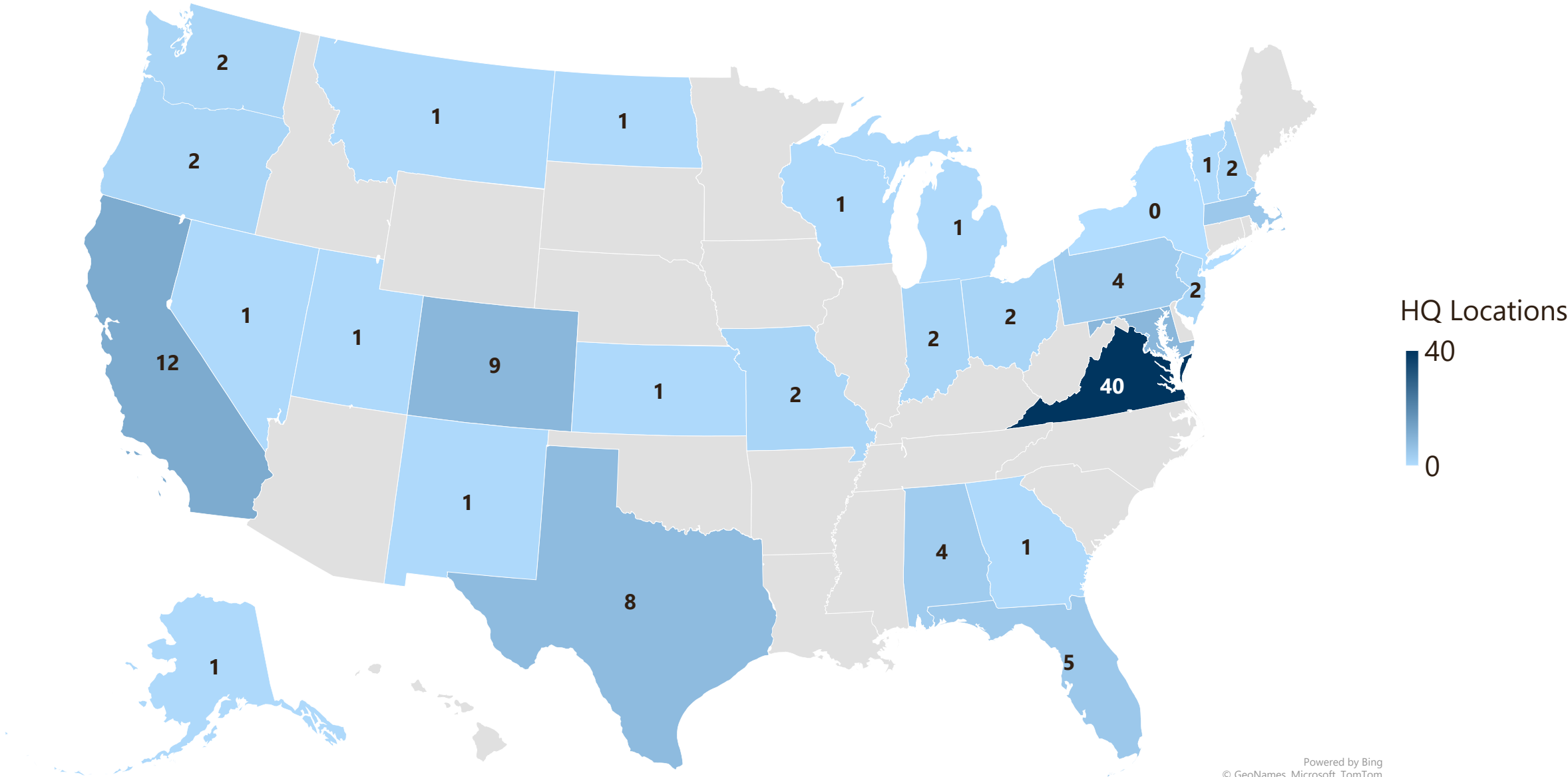


Source: S&P Capital IQ, company reports, and press releases.

Middle Market M&A Trends: Capabilities in Most Demand in 2020



Middle Market M&A Trends: Geographical Distribution of Deal Activity



Source: S&P Capital IQ, company reports, and press releases.

Select Transaction 1: ICF International, Inc. Acquires Incentive Technology Group, LLC

Deal Summary	Announced – Jan 13, 2020		Closed – Jan 31, 2020	
	Target website –		Acquirer website – https://www.icf.com/	
	Target Industry – IT Services, IT Consulting		Buyer Industry – IT Consulting, Other	Buyer Type – Strategic
	Press Release – https://www.icf.com/news/2020/01/icf-announces-definitive-agreement-to-acquire-itg			
Valuation & Structure	Total Transaction – \$255M		Valuation Metrics – 2.8x 2019 revenue multiple	
	Terms – ICF will acquire 100% of the membership interests in Incentive Technology Group in a cash transaction			
Target Description	Incentive Technology Group, LLC provides digital and information technology consulting services to government and commercial clients. The company provides full lifecycle solutions using a broad range of technology platforms.			
Key Target Information	Employee Count – 350 2018 Revenue Estimate – \$45M 2019 Revenue Estimate – \$90M Primary NAICS – 541519 F/O % Prime Obligations – approx. 90%		Customers – Department of Health and Human Services, Department of State, Department of Homeland Security, and others Vehicles – ONE OIT, ESF4SEI, CIO-SP3 Founded – 2010 Location – Arlington, VA	
Strategic Rationale	Acquisition will enable ICF to strengthen its position in the key growth areas.By combining ITC’s and ICF’s domain expertise, robust business development platform and contract vehicles revenue synergies will be created.Acquisition will enable them to Uniquely position to architect and implement technology platforms to meet their new mandates. "This transaction is aligned with our strategy to complement organic growth with acquisitions that strengthen ICF's position in key growth areas. IT modernization and cloud together is estimated to be approximately a \$21 billion federal market and one in which ICF already has gained traction through organic expansion. The 350+ people at ITG are driving transformational solutions through the adoption of next generation technologies for federal government agencies, many of which are long-standing clients of ICF, including the Department of Health and Human Services, the Department of State, the Department of Homeland Security, the General Services Administration and others. Thus, in addition to delivering on ITG's substantial backlog and business development pipeline, we see significant revenue synergies by combining ICF's domain expertise, robust business development platform and contract vehicles with ITG's best-in-class qualifications, performance track record, deep technology partnerships and leading platform expertise." – John Wasson, ICF President and CEO			

Select Transaction 2: Xator Corporation Acquires InCadence Strategic Solutions

Deal Summary	Announced – April 30, 2020		Closed – April 30, 2020	
	Target website – https://www.incadencecorp.com/		Acquirer website – http://www.xatorcorp.com/	
	Target Industry – Systems Software Engineering		Buyer Industry – IT Services	Buyer Type – Strategic
	Press Release – https://www.xatorcorp.com/news/11/			
Valuation & Structure	Total Transaction – Undisclosed		Valuation Metrics – 6.75x – 7.75x TTM 2019 EBITDA (Crossroads est.)	
	Terms – Undisclosed			
Target Description	InCadence Strategic Solutions Corporation develops a mobile biometrics application for government clients in the United States. Additionally, the company offers technical engineering services, tactical communication services, support to intelligence operations, cloud computing services, and information and knowledge management services among others. InCadence Strategic Solutions Corporation was formerly known as IntelX Technologies and changed its name to InCadence Strategic Solutions Corporation in June 2010.			
Key Target Information	Employee Count – 145 2019 Revenue Estimate – \$26.0M 2020 Revenue Estimate – \$42.5M Primary NAICS – 541330 F/O % Prime Obligations – \$20.66M		Top 3 Customers – Army, State, USMC Vehicles – Seaport-NXG, SETI, RS3 Founded – 2009 Location – Manassas, VA	
Strategic Rationale	This transaction reinforces Xator’s position as a leading provider of C4ISR, national security, and intelligence solutions to its U.S. Government partners. “InCadence’s proven ability to leverage its deep domain experience, differentiated by its software and hardware, into customer-focused solutions will catalyze growth opportunities when joined with Xator. Xator’s acquisition of InCadence represents a very exciting combination of technical expertise and intellectual property, which will continue to serve our complementary client sets for years to come.” – David Scott, Xator’s CEO			

Select Transaction 3: KBR Inc. Acquisition of Centauri, LLC

Deal Summary	Announced – Aug 19, 2020		Closed – Oct 5, 2020	
	Target website – https://www.centaurocorp.com/		Acquirer website – https://www.kbr.com/en	
	Target Industry – IT Software, Other Services		Buyer Industry – Aerospace, Defense	Buyer Type – Strategic
	Press Release – https://www.kbr.com/en/insights-events/press-release/kbr-completes-centauri-acquisition-strengthening-military-space-and			
Valuation & Structure	Total Transaction – \$827M		Valuation Metrics – 1.7x 2019 Revenue; 16.5x 2019 EBITDA	
	Terms – Cash consideration of approximately USD 800m, net of tax benefits, for the transaction. KBR expects to fund the acquisition with approximately USD 300m in cash on hand and USD 500 million of debt			
Target Description	Centauri is a technology-driven company that provides high-end engineering and development solutions for critical, well-funded, national security missions associated with space, intelligence, cyber and emerging technologies, such as directed energy and missile defense. Centauri has achieved significant growth over the last four years, becoming a leading pure-play space and intelligence solutions provider and benefitting from its highly cleared and technical workforce, space domain awareness and a customer-focused footprint of classified operations. Centauri also has a substantial and growing pipeline of opportunities in Department of Defense (DoD) and intelligence community programs that benefit from bipartisan support.			
Key Target Information	Employee Count – 1,750 2019 Revenue Estimate – \$475M 2019 EBITDA Estimate -- \$50M Primary NAICS – 541715 F/O % Prime Obligations – approx. 100%		Customers – Department of Defense, IC, Civilian Agencies Vehicles – ABMS, ISRT, OASIS, Seaport-NXG, RS3, IAC Founded – 1998 Location – Chantilly, VA	
Strategic Rationale	The acquisition is in-line with Centauri’s strategy to solve the most complicated space and directed energy challenges faced in the US. The addition of Centauri furthers KBR’s mission to becoming a highly technical, mission-focused organization and expands itself into exciting new and adjacent vectors. The company will significantly expand its military space and intelligence businesses. “By combining with KBR, Centauri will have greater opportunities to grow as part of a larger and more diversified company. Centauri and KBR share strong employee-focused, mission-first cultures and complementary platforms, making this an ideal combination. As part of KBR, our innovation and initiative will enhance our combined company’s ability to develop systems and provide solutions in space, intelligence and cyber. KBR’s global foundation of safety and sustainability will help us drive continuous growth and keep our nation safe.” – Dave Dzaran, CEO of Centauri			

Select Transaction 4: PAE Acquires CENTRA Technology, Inc.

Deal Summary	Announced – Oct 26, 2020		Closed – Nov 20, 2020	
	Target website – https://www.centratechnology.com/		Acquirer website – https://www.pae.com/	
	Target Industry – Aerospace, Defense		Buyer Industry – IT Support Services, Other	Buyer Type – Strategic
	Press Release – https://www.pae.com/news/pae-acquire-centra-technology-expanding-its-intelligence-community-support-portfolio			
Valuation & Structure	Total Transaction – \$208M		Valuation Metrics – 8.8x TTM EBITDA	
	Terms – Cash consideration of USD 208m. The consideration is subject to customary purchase price adjustments.			
Target Description	CENTRA Technology, Inc. provides aerospace engineering services for clients with critical defense, intelligence, and security missions. The company offers government services, including cyber/IT, engineering, executive support and advisory service, intelligence, military support, and risk management solutions. It also provides commercial services, such as analytic services, consulting, equipment, games for business, risk and security management support, and training; and contracting services.			
Key Target Information	Employee Count – 760 Revenue Estimate – \$255M Primary NAICS – 541611 F/O % Prime Obligations – Over 90%		Customers – DARPA, DTRA, DIA, DHS Office of Intelligence and Analysis, USAF, and other defense and domestic agencies Vehicles – Seaport-NXG, TASS Founded – 1985 Location – Burlington, MA	
Strategic Rationale	<p>This transaction enhances PAE's intelligence, defense, and national and homeland security businesses and is accretive to key financial metrics including organic revenue growth, adjusted EBITDA margins and free cash flow. This transaction supports PAE's expansion strategy, enhances shareholder value and offers enhanced product offering for the expanded customer base and market share by approximately USD 36bn in annual spending. The integration of both the companies enhances technology, expertise along with research and development services amongst others for the consolidated company and brings low risk contract portfolios of CTI offering 4x CY2020 revenue estimates.</p> <p>This transaction will further enhance CENTRA's capabilities and create new opportunities for our customers and employees," said Jack Barry, Chief Operating Officer of CENTRA Technology. "The customers, contracts and offerings of each business complement each other well and will be attractive for all stakeholders."</p>			

Select Transaction 5: Octo Consulting Group, Inc. Merges with Sevatec, Inc.

Deal Summary	Announced – Dec 15, 2020		Closed – Dec 15, 2020	
	Target website – https://sevatec.com/		Acquirer website – https://www.octoconsulting.com/	
	Target Industry – Aerospace, Defense and IT		Buyer Industry – IT Consulting, Other	Buyer Type – Strategic
	Press Release – https://sevatec.com/octo-combines-with-sevatec/			
Valuation & Structure	Total Transaction – TBD		Valuation Metrics – TBD	
	Terms – Merger, majority stake change of control			
Target Description	Sevatec, Inc. operates as a national security company. The company specializes in Agile, DevSecOps, data sciences, cyber engineering, and cloud solutions. It offers Agile software engineering, digital, open source and COTS integration, DevOps and cloud enablement, continuous integration/continuous delivery, agile portfolio management, dashboarding/automated code instrumentation, test automation, and build automation services. The company also provides data warehouse implementation, data deduplication, and data migration services; dashboards, scorecards, and KPI's; and data visualization, custom reporting, and analytics services. In addition, it offers security operations center, security architecture, vulnerability management, security assessment and authorization, computer incident response, continuous monitoring and real-time assessments, and continuous compliance services; and data center consolidation, application migration, cloud strategy and deployment, O and M support, disaster recovery and COOP, and chef and puppet services.			
Key Target Information	Employee Count – 400 2019 Revenue Estimate – \$87M 2020 Revenue Estimate – \$95M Primary NAICS – 541519 F/O % Prime Obligations – Over 90%		Customers – Department of Defense, Department of Transportation, General Services Administration, various local and state agencies, and civilian departments Vehicles – Eagle II, CSIPS, CIO-SP3 Founded – 2003 Location – Fairfax, VA	
Strategic Rationale	The combined organization has grown every year since inception and today generates nearly \$300 million in revenue and employs approximately 1,100 skilled employees dedicated to solving technical challenges for government customers across the Defense, Intelligence, National Security, Federal Health, and Civilian marketplaces. “In a market full of multi-billion-dollar organizations that provide a wide variety of traditional products and services, customers are seeking highly specialized, mid-sized technology partners with deep experience in digital modernization, which is exactly what the combination of Octo and Sevatec offers,” – Sevatec Founder and CEO Sonny Kakar			

3. Identifying Value Drivers

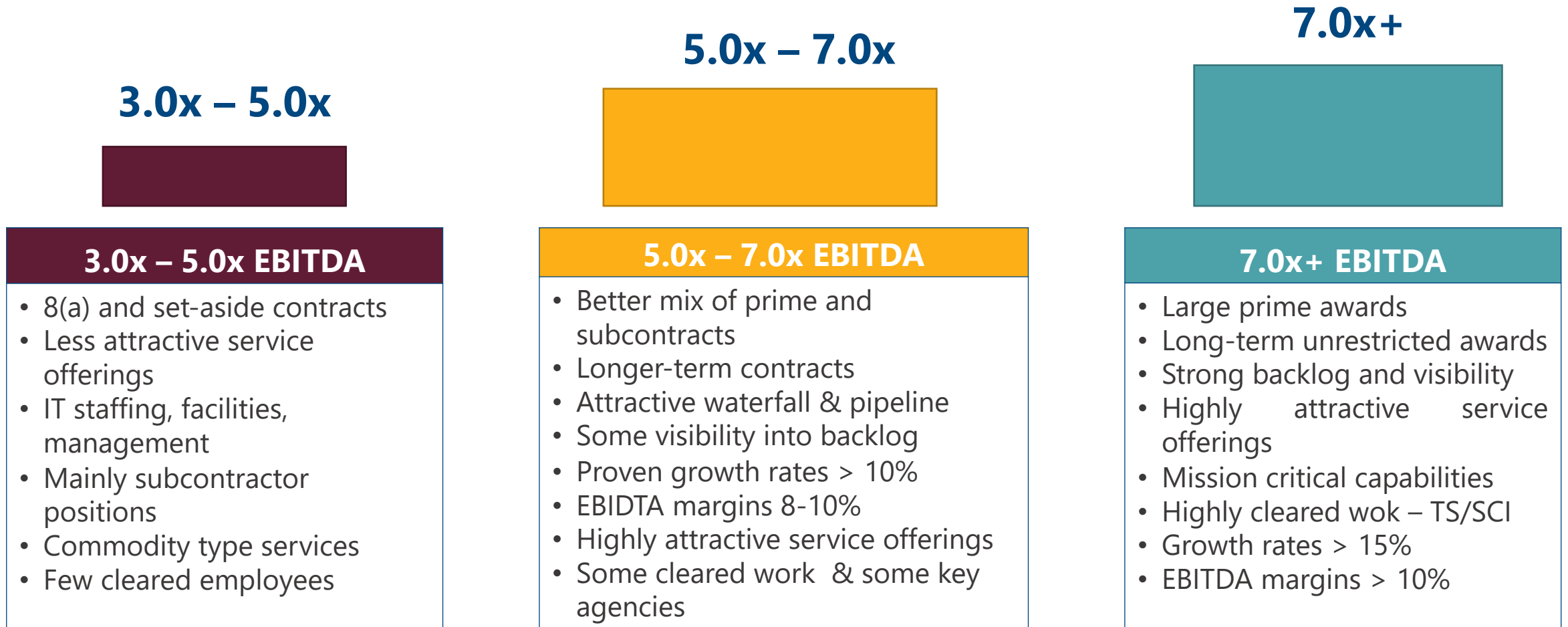
Factors that attract buyers in any market environment

Life-Style & Corporate-Minded Organization Comparison

Attribute	Lifestyle Company	Corporate-Minded
Purpose	Generate short-term cash flow for their owners, with limited appetite to make investments in long term growth	Maximize shareholder value over the medium / long term and is willing to make the corresponding investments.
Corporate Infrastructure	Limited	Strongly institutionalized
Leadership Team	Owner-centric and focused	Professionally managed; division of labor of management
Deal Sophistication	Limited – likely first and last deal, with limited outside help	Deal experience + ability to hire strong advisory team
Diligence Lift	Heavy and difficult, be prepared for hand-holding and helping the target compile	In place and better organized; still don't expect everything ready off the shelf already
Valuation Expectations	High – Sometimes because they don't know any better	High – Because they are market savvy and know their value
Demographic	Small companies, less than \$10 million in revenue	\$15+ million in revenue → reached “escape velocity”

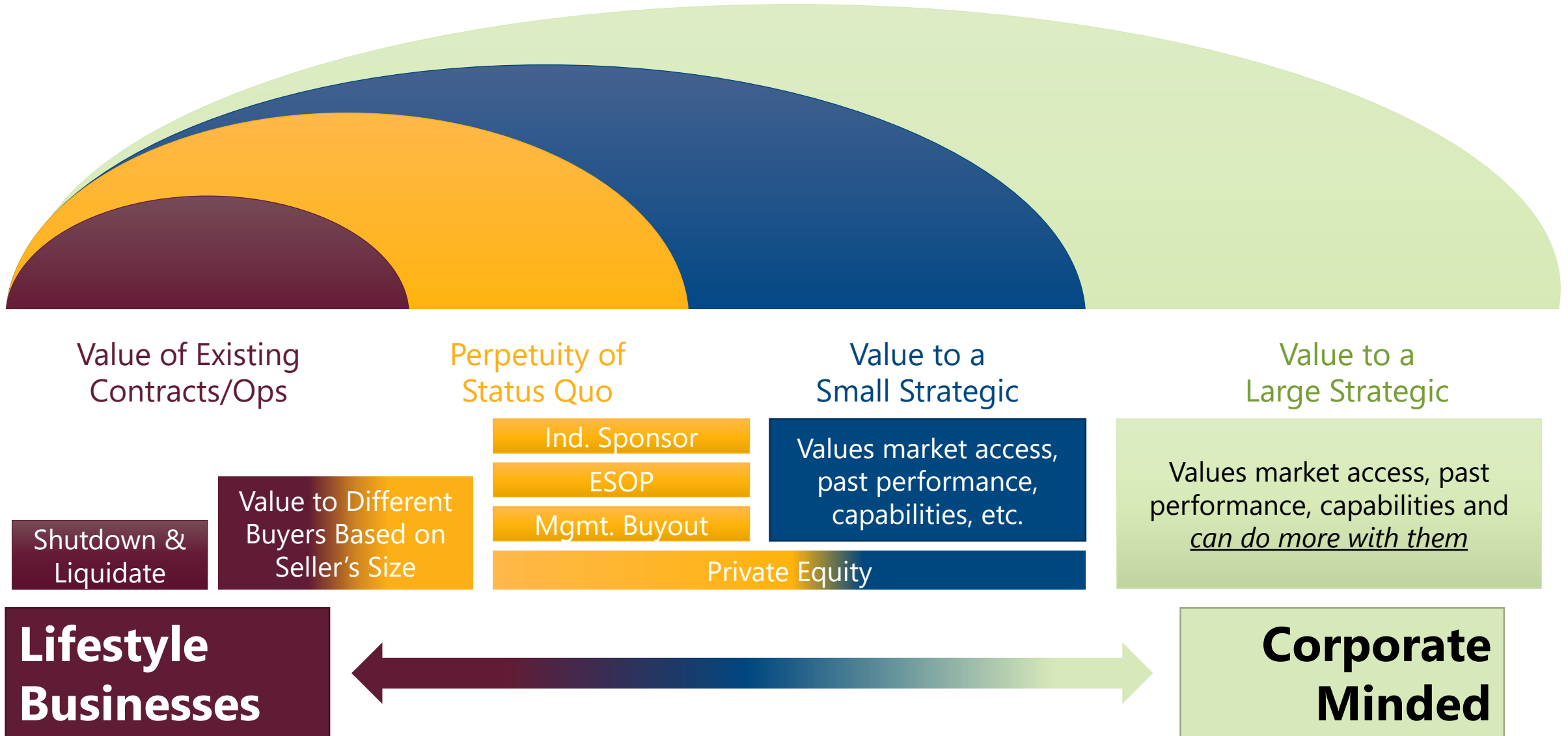
Lifestyle companies do not often appear as attractive sellers, however, for the right buyer, such companies can represent great opportunities for a bargain and upside potential via synergies.

Valuation Multiple Ladder: A GovCon Example

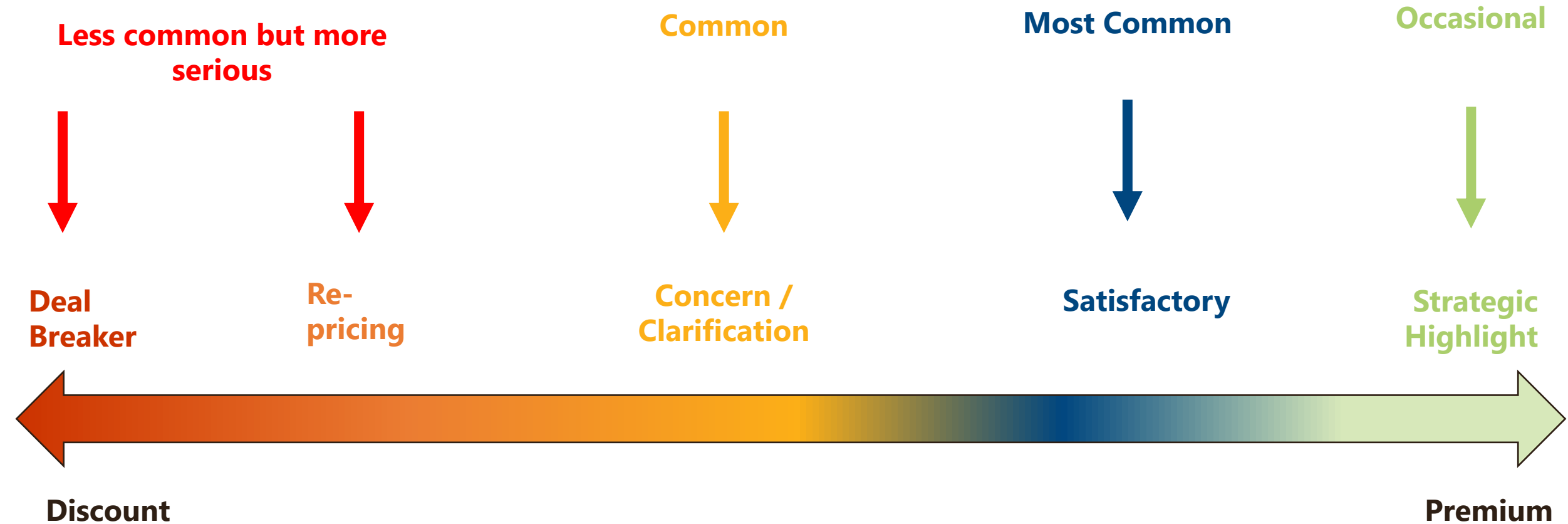


Buyers are more likely to reward companies demonstrating attractive characteristics with higher EBITDA exit multiples.

Buyer Pool Dynamics: Lifestyle versus Corporate Minded Buyer Spectrum



Diligence Evaluation: The Spectrum of Concerns and Value Drivers



Buyers will assess their diligence concerns on a target across a spectrum like the one above. Not all diligence concerns are deal-breakers, nor are they given equal weight and priority.

Communicating Value: Key Elements to Harness Value of the Company



**Compelling
Narrative**



**Large & Discerning
Buyer Pool**



**Competition &
Urgency**



Implemented together, these elements can achieve optimal results for a company at exit and harnessing both tangible and intangible value

Deal Levers: Structural Considerations that Impact Valuation & Price

Deal Lever	Buyer Perspective	Seller Perspective
Cash at Close	<ul style="list-style-type: none"> Financially demanding → Increases risk Can increase upside 	<ul style="list-style-type: none"> Least risk Allows you to “check out”
Differed & Contingent	<ul style="list-style-type: none"> Reduces risks & initial financial outlay Reduces upside 	<ul style="list-style-type: none"> Increases risk → Increases upside Pay for performance
Seller’s Note	<ul style="list-style-type: none"> Reduces cash outlay & risks Does not cut into upside 	<ul style="list-style-type: none"> Transfers some risk to seller Potential tax advantages
CapEx Commitments	<ul style="list-style-type: none"> Reduces risks & potential financial outlays Increase upside as money stay in business 	<ul style="list-style-type: none"> May be able to participate in upside Increases risks
Liabilities Assumed	<ul style="list-style-type: none"> Deploy buyer balance sheet without going to the bank 	<ul style="list-style-type: none"> Financial obligations reduced/removed Will reduce cash at close
Future Role for Owner & Compensation	<ul style="list-style-type: none"> Wants to make the most of seller’s knowledge, experience, and relationships to sustain business and fuel growth 	<ul style="list-style-type: none"> May lessen full lifestyle change Keep perks and benefits May reduce existential angst
Management Considerations	<ul style="list-style-type: none"> Flexibility reduced Facilitates relationship with seller 	<ul style="list-style-type: none"> Legacy with employees & customers Guarantee roles for family members
Deal Type	Tailored deal structures can address these perspectives differences and potential conflicts.	

Key Take-Aways: Identifying Sources of Unique Value

- 1. Peer Comparisons & Benchmarking:** Tools like the Corporate Dashboard help owners and buyers assess how they measure against their peers in their respective marketplaces. It serves as a performance report-card, an improvement punch list, and a diligence readiness checklist.
- 2. Desired Characteristics and Attributes:** Demonstrating unique, differentiated attributes will attract strategic buyers and help drive premium valuations.
- 3. Communicating Value & Crafting a Compelling Narrative:** Possessing unique capabilities and differentiated IP is not enough. Communicating this value to the marketplace is essential to harnessing its benefits. Understanding a company's own markets, customers, opportunities, and competitive pressures is key to crafting a compelling narrative to customers, strategic partners, and in the end – buyers.

4. M&A & Market Outlook 2021

Capitalizing on a return to normalcy

Conclusion: Takeaways from 2020 Informing 2021

- 1. Pace Remains Brisk:** Half-way through the first month of 2021, deal activity has continued. Month-to-date we have already identified 10 meaningful M&A deals in the sector, including a notable bid on DXC from Atos SE, a France-based information technology services provider.
- 2. Capability Still Drives Demand:** A focus on IT modernization, unique AI applications, and cybersecurity solutions will be themes we expect throughout the year, this has not changed from years past and ought to continue into 2021.
- 3. Consolidation Continues:** Consolidation in the sector should continue but we expect it may decelerate as many dance partners have paired up. Pure IT integration plays like the combined Octo-Sevatec entity will be market players to watch.
- 4. Resiliency of the US Economy:** When we conducted a similar study this time last year the fundamental macros and within-sector indices could not have been stronger. Then COVID-19 hit. While in no way intending to diminish the suffering and economic hardships that occurred globally, it is important to note that the market recovered, economic activity resumed, and people adapted the best they could to the “new normal.” No doubt there will be pockets of persistent pain and the recovery is not even – but the sector has withstood this crisis remarkably well.
- 5. 2021 – A Return to Normalcy:** Despite all the turmoil of 2020, deals happened, the same market fundamentals drove buyer interest both from strategics and financials. We hope that 2021 will facilitate a return to normalcy for both businesses and people, and we remain optimistic that 2021 to be another very solid year for the sector.

Outlook 2021: External Headwinds Persist but Outweighed by Sector Fundamentals

- 1. The macro economy is weak but resilient:** The broad US economy will continue to grow but against pandemic headwinds may persist throughout the year. The sector has stood up very well and has outperformed given its counter-cyclical nature.
- 2. Credit conditionals are favorable, capital markets have recovered, now near record levels:** The yield curve has steepened markedly since a year ago, and the Federal Reserve appears willing to keep shorter-term interest rates near zero throughout 2021 as uncertainty about the nature and speed of recovery continues. The ten-year treasury remains near 1.00%, and credit conditions are favorable to acquisition and growth financing. This is especially true for sectors with stronger fundamentals
- 3. Policy inertia with continued budget growth:** Federal budget and DoD spending will continue and demand for high-end IT services will increase as the threat matrix becomes more complex, domestic spending needs are prioritized, and as FedCiv needs come more into focus than in previous years. We expect a constructive deadlock in Washington; therefore, we do not expect major changes or shifts to hit in 2021. The spending and policy cake for 2021 is baked already.
- 4. Consolidation Likely to Continue in the Sector:** Analyst and decision-markets in the sector seem to point to continued consolidation through M&A. Valuation multiple arbitrages between large publics and smaller targets create a path of lower resistance for growth as organic growth becomes more challenging. There still exists excess capacity where there are fewer prime opportunities than contractors to serve them. The cream will continue to rise and signaling value and differentiation to buyers will be challenging.

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Identify New Markets
Decipher Market Trends
Understand Competitors



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Select Focus Areas
Identify Divestitures
Foresee Long-Term Risks
Chart Deliberate Plans



Corporate Finance

What-If Analysis
Exit Value Estimation
Transaction Preparation
Planning and Analysis



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Technology Transfer

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