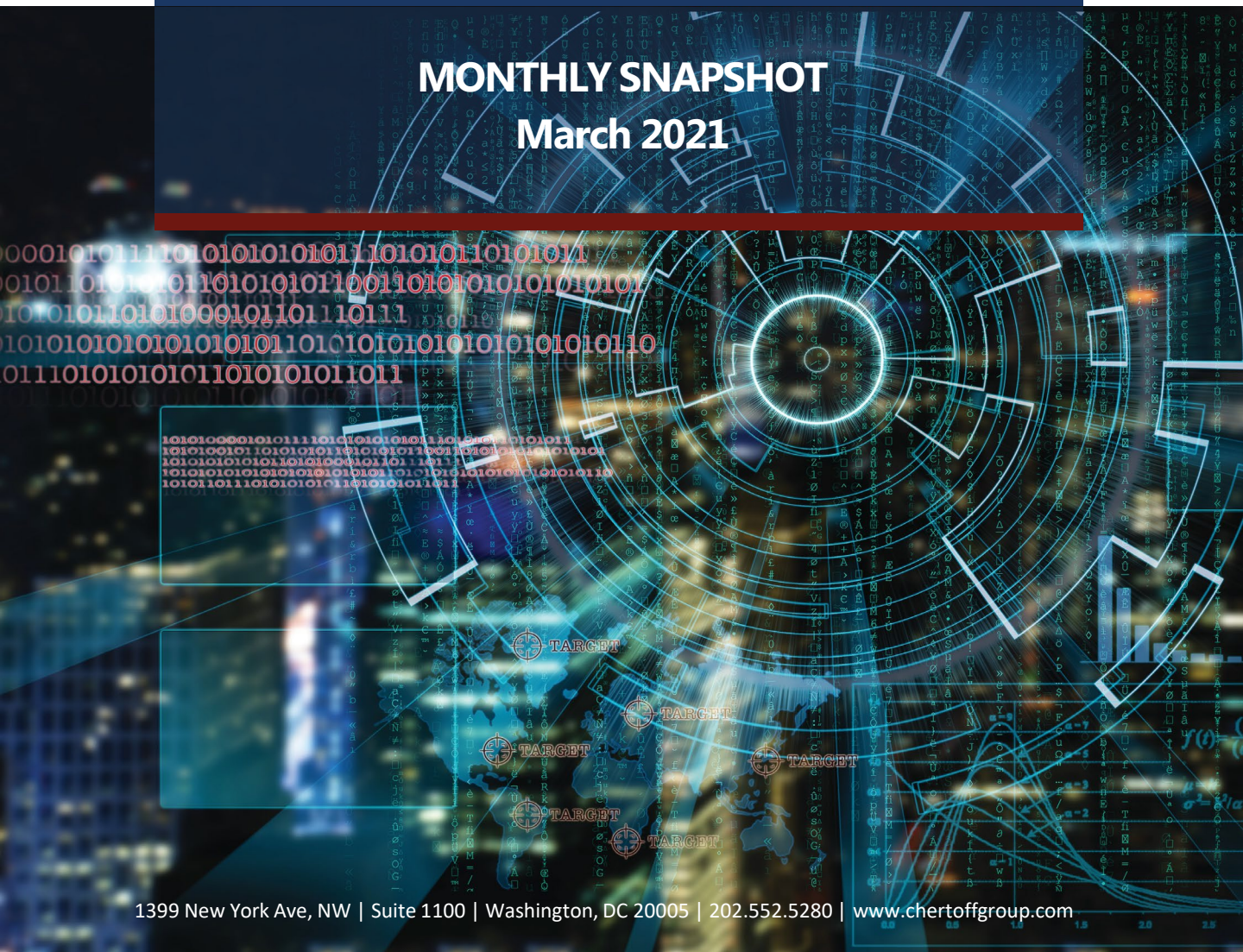
Chertoff Capital

TRUSTED M&A ADVISOR TO THE SECURITY SECTOR

MONTHLY SNAPSHOT
March 2021



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Chertoff Capital – A Differentiated Investment Bank

Chertoff Capital is an industry leading investment bank serving high-growth, mission-focused companies in the national security, information security, and government technology markets.

As the investment banking subsidiary of The Chertoff Group, Chertoff Capital works closely with senior executives and subject matter experts across the entire firm to provide our clients with a highly differentiated advisory offering that brings together our transaction experience with unparalleled business strategy insights.

Chertoff Capital professionals have advised on well over 100 transactions over the last 20 years in our sectors of focus.

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Select Investment Banking Transactions:

- SEG Intelligence Applied — a subsidiary of Telephonics & Griffon Corporation — has been acquired by QuantiTech — a portfolio company of Sagewind Capital
- Skyris — has been acquired by ECS — a subsidiary of ASGN Incorporated
- Delta Risk — has been acquired by Motorola Solutions
- Excivity — has been acquired by AEgis Technologies — a portfolio company of ACP
- NextCentury — has been acquired by CACI Ever Vigilant

Select Strategic Advisory Transactions[1]:

- LinQuest Corporation — a portfolio company of MDP and Covant — has acquired TMC Design
- BlueHalo — a portfolio company of ACP — has acquired base2 Engineering LLC, Fortego
- BlueHalo — a portfolio company of ACP — has acquired ATA Applied Technology Associates, Brilliant Solutions Inc.
- MDP and Covant — have acquired AEVEX Aerospace
- ActZero.ai — has acquired IntelliGO

The information contained herein is provided solely for informational use and is not intended to be investment advice and should not be used or relied upon by any person for investment purposes.

(1) Strategic Advisory engagements completed through Chertoff Group, LLC. Chertoff Capital, a wholly-owned subsidiary of Chertoff Group, LLC, is a registered broker dealer and member of FINRA and SIPC.

Market Commentary: Early Defense Priorities under the Biden administration

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Early indications on the Defense budget and strategy to combat China and Russia provide insight into the Biden administration's key national security priorities

Defense Spending Under the Biden Administration

- Early planning under the Biden administration suggests that the new Defense budget will likely match last year's request, with a top line budget of $696 billion for FY 2022, which is only $2.6 billion more than the enacted FY 2020 budget and marks the second year in a row that the budget request will not keep pace with inflation
- This will mark a significant deviation from the Trump administration's draft FY 2022 Defense budget of $722 billion, and will likely result in a reprioritizing of efforts to meet the budget's spending capacity, with Navy initiatives such as ship procurement and shipyard modernization likely taking precedence over Army end-strength and retaining cold-era platforms
- Unsurprisingly, the potential for a flat Defense budget has been received in partisan fashion with progressives calling for significant cuts and House Republicans requesting increases of 3% to 5%
  - FY 2022 will mark the first year without the spending caps included in the *The Budget Control Act of 2011*, which House Republicans argue have undermined military readiness and allowed China to gain advantage over the U.S.
  - However, the Biden administration is also facing the COVID-19 pandemic, which will likely put pressure on military spending as Washington continues to invest trillions to combat the virus

Biden's Stance on China and Russia

- Similar to the Trump administration, Biden's national security team views China and Russia as its most significant national security challenges, recently noting concern around the countries' growing military presence in the Arctic
- Both Republicans and Democrats recognize the need to adequately defend against China, as both parties advocated for the Pacific Deterrence Initiative, a multi-billion dollar effort to deter China and optimize the presence of U.S. forces in the Indo-Pacific, in the FY21 National Defense Authorization Act (NDAA)
- Biden also seeks to work closely with allies and international organizations to combat the growing threats from China and Russia
- Furthermore, Biden is encouraging Canada to ramp up its defense spending, suggesting it upgrade the North American Aerospace Defense Command (NORAD) in order to effectively address threats from China and Russia in the Artic
  - NORAD, once a state-of-the-art deterrence strategy against the former Soviet Union, has since become outdated and would most likely be unable to respond to the latest missile technology being deployed by China and Russia

M&A Market Implications

- While a flat defense budget is not expected to spur additional M&A activity within the defense sector, it reaffirms investor sentiment that the defense market remains stable, especially during the volatile times of the pandemic
- Defense M&A has remained extremely active over the course of the last 9 months, with a notable uptick in Q4 2020 and Q1 2021, and we expect the current level of M&A activity to continue through 2021 as the outlook on defense spending remains stable and the COVID-19 environment improves

Sources: Breaking Defense: No Growth, no Big cuts Likely for First Biden Defense Budget; DefenseNews: key Republicans press Biden to hike defense budget 3 to 5 percent; the Wall Street Journal: Cold War-Era Defense System to Get Upgrade to Counter Russia, China

DEFENSE TECHNOLOGY SECTOR PERFORMANCE

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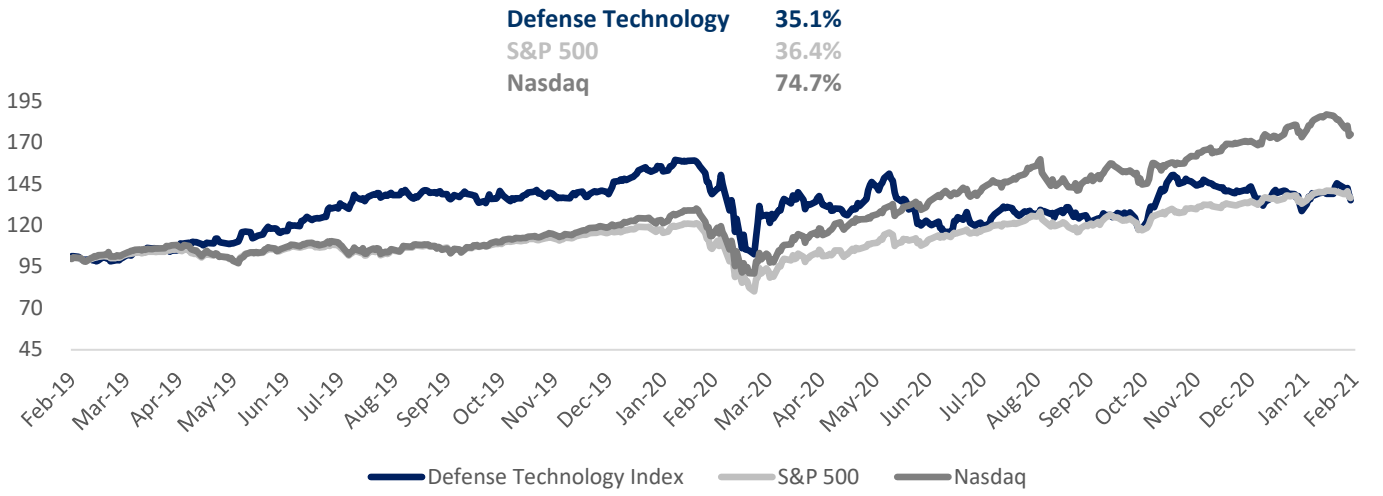
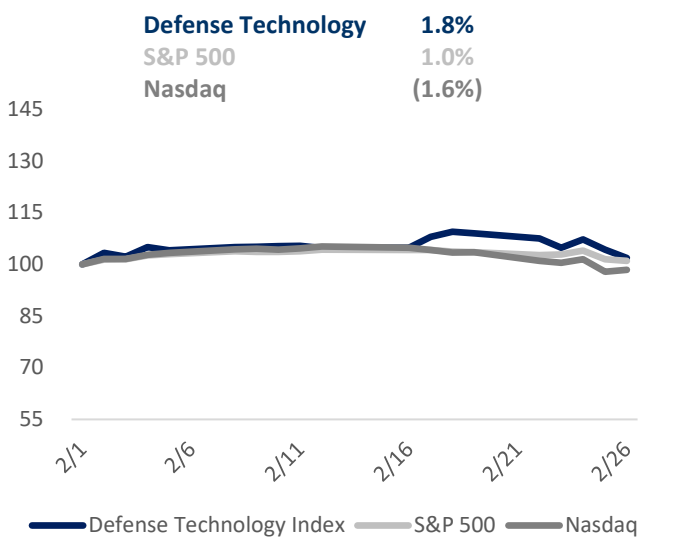
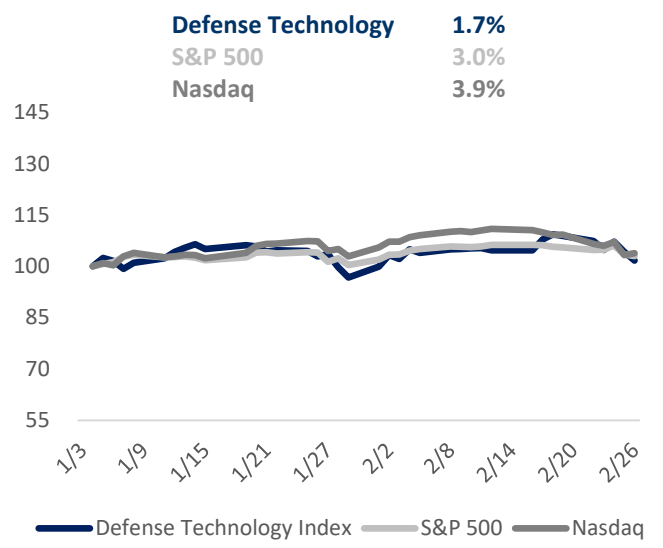
2-Year Stock Performance



February 2021 Stock Performance



YTD Stock Performance



Public Metrics

			Revenue			EBITDA			Valuation Multiples: EV/LTM		Valuation Multiples: EV/CY 2021E	
Company	Mkt. Cap.	EV	FY 2019	CY 2021E	2-Yr CAGR	LTM	LTM Margin	CY 2021E	Revenue	EBITDA	Revenue	EBITDA
Mercury Systems, Inc.	$3,669	$3,805	$655	$1,060	21.1%	$153	18.2%	$229	4.5x	24.8x	3.6x	16.6x
Teledyne Technologies Incorporated	$13,710	$13,956	$3,164	$3,264	1.6%	$629	20.4%	$674	4.5x	22.2x	4.3x	20.7x
Cubic Corporation	$2,205	$3,081	$1,496	$1,545	0.8%	$185	12.6%	$168	2.1x	16.6x	2.0x	18.4x
FLIR Systems, Inc.	$6,997	$7,477	$1,887	$1,945	1.5%	$452	23.5%	$462	3.9x	16.5x	3.8x	16.2x
L3Harris Technologies, Inc.	$38,221	$44,597	$18,526	$18,824	0.8%	$3,585	19.7%	$3,965	2.5x	12.4x	2.4x	11.2x
Kratos Defense & Security Solutions, Inc.	$3,395	$3,417	$718	$831	7.6%	$56	7.5%	$85	4.6x	NM	4.1x	NM
Median	**$5,333**	**$5,641**	**$1,692**	**$1,745**	**1.6%**	**$319**	**19.0%**	**$345**	**4.2x**	**16.6x**	**3.7x**	**16.6x**

Note: $ in millions; Source: S&P Capital IQ

Defense Technology Sector Performance

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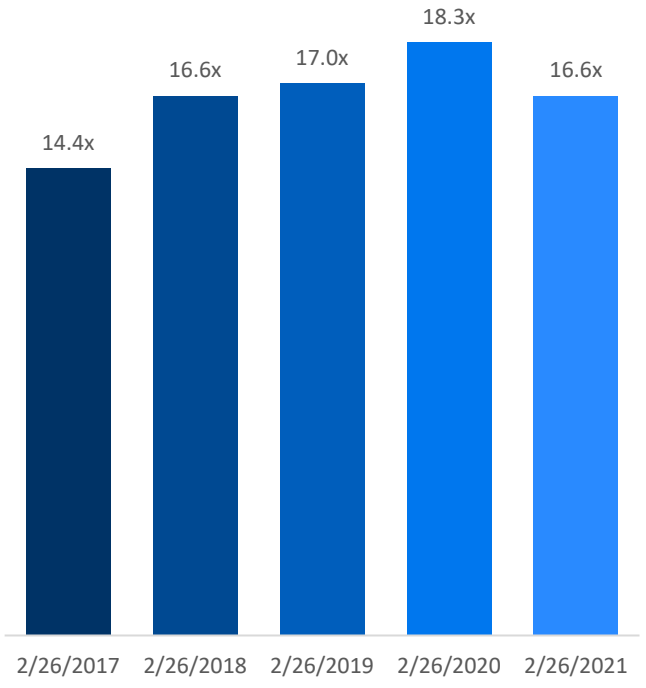
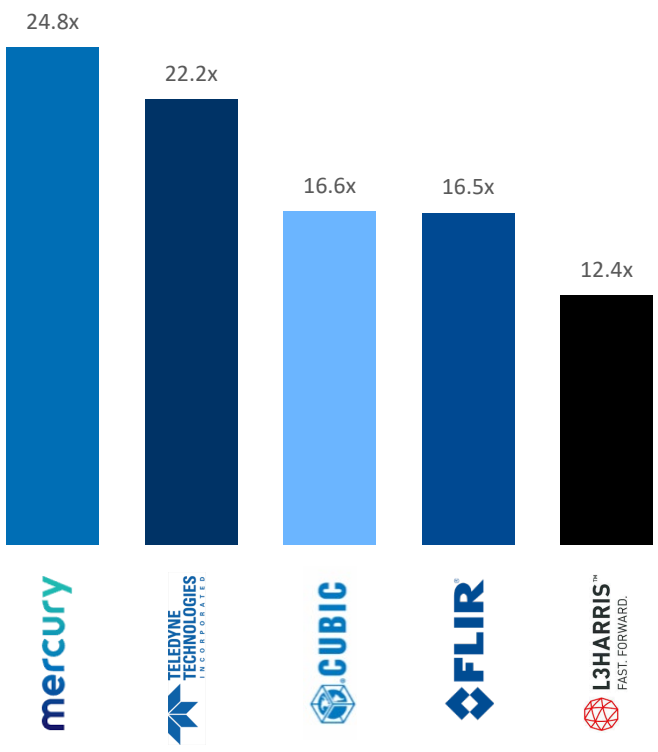
Market Valuation Trends

EV / LTM EBITDA Multiple

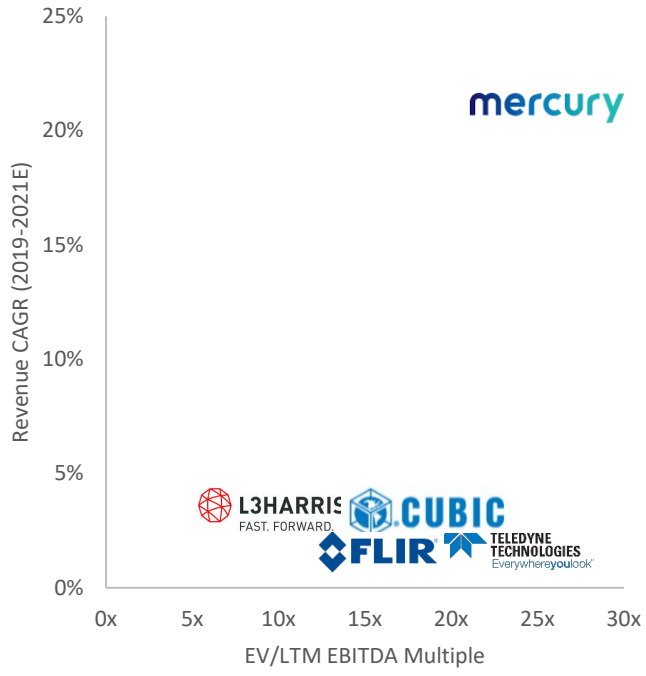


Defense Technology Valuation Multiples

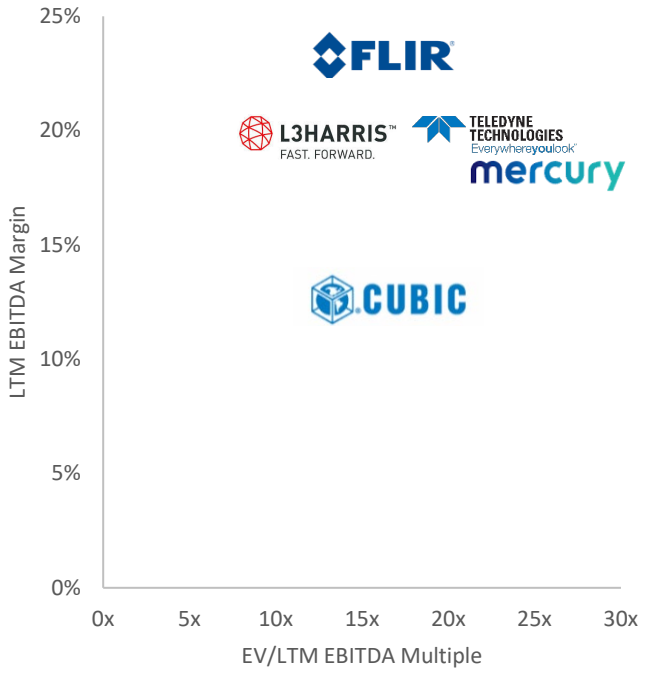
EV / LTM EBITDA Multiple



Revenue Growth and Valuation Multiples



EBITDA Margin and Valuation Multiples



Note: Kratos excluded due to exorbitant multiples; Source: S&P Capital IQ

Defense Primes Sector Performance

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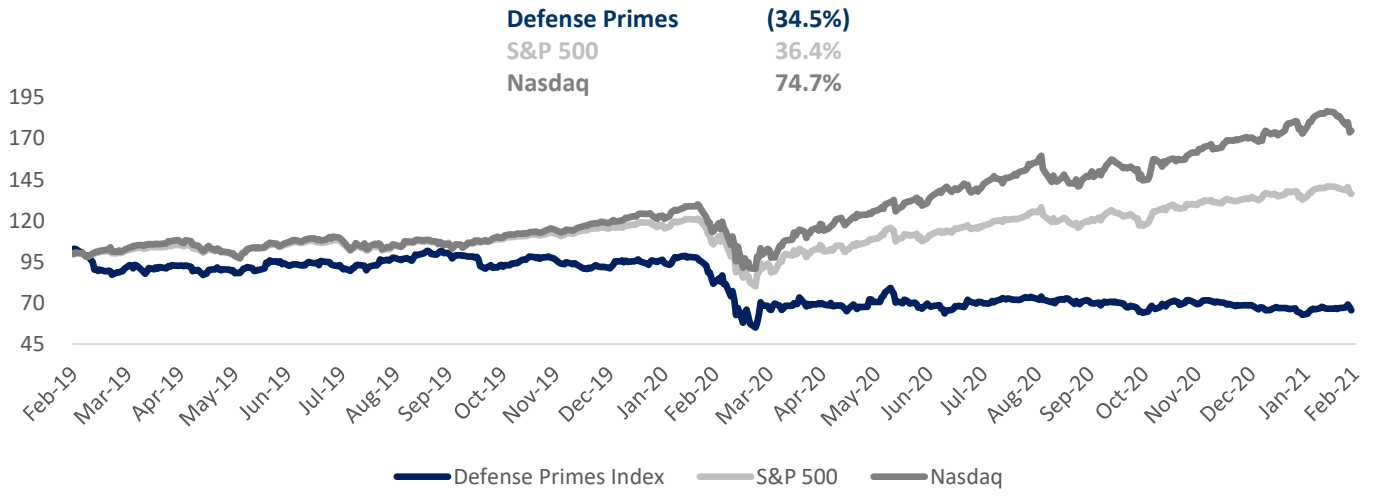
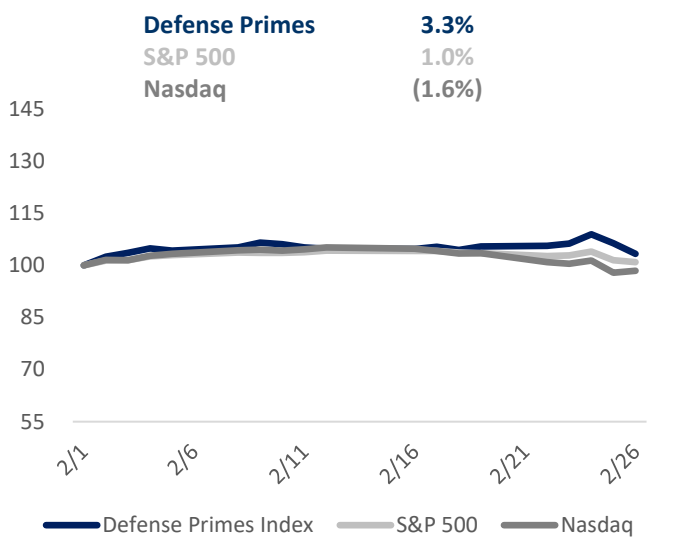
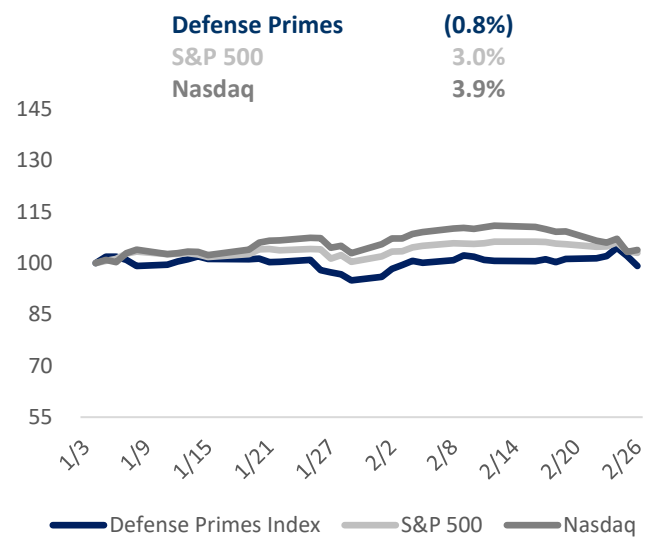
2-Year Stock Performance



February 2021 Stock Performance



YTD Stock Performance



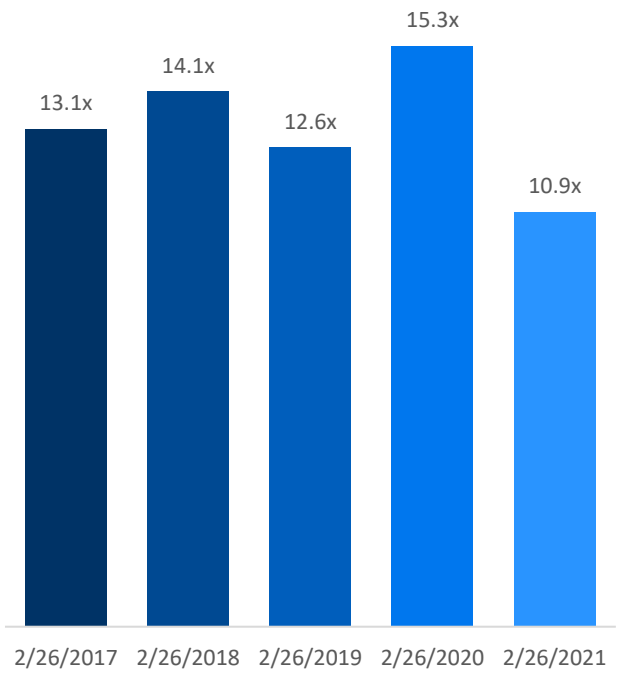
Public Metrics

			Financial Performance						Valuation Multiples			
			Revenue			EBITDA			EV/LTM		EV/CY 2021E	
Company	Mkt. Cap.	EV	LTM	CY 2021E	2-Yr CAGR	LTM	LTM Margin	CY 2021E	Revenue	EBITDA	Revenue	EBITDA
Raytheon Technologies Corporation	$108,708	$135,448	$56,587	$65,476	20.2%	$6,641	11.7%	$9,752	2.4x	20.4x	2.1x	13.9x
General Dynamics Corporation	$46,716	$58,624	$37,925	$38,780	(0.7%)	$5,090	13.4%	$4,990	1.5x	11.5x	1.5x	11.7x
Northrop Grumman Corporation	$48,625	$59,931	$36,799	$35,465	2.4%	$5,496	14.9%	$4,822	1.6x	10.9x	1.7x	12.4x
Lockheed Martin Corporation	$92,504	$102,651	$65,398	$68,133	6.7%	$10,001	15.3%	$10,592	1.6x	10.3x	1.5x	9.7x
BAE Systems plc	$21,678	$27,250	$26,319	$29,992	11.2%	$3,391	12.9%	$3,844	1.0x	8.0x	0.9x	7.1x
The Boeing Company	$123,601	$163,187	$58,158	$81,125	2.9%	($6,413)	(11.0%)	$5,567	2.8x	NM	2.0x	29.3x
Median	**$70,565**	**$81,291**	**$47,256**	**$52,128**	**4.8%**	**$5,293**	**13.2%**	**$5,279**	**1.6x**	**10.9x**	**1.6x**	**12.1x**

Note: $ in millions; Source: S&P Capital IQ

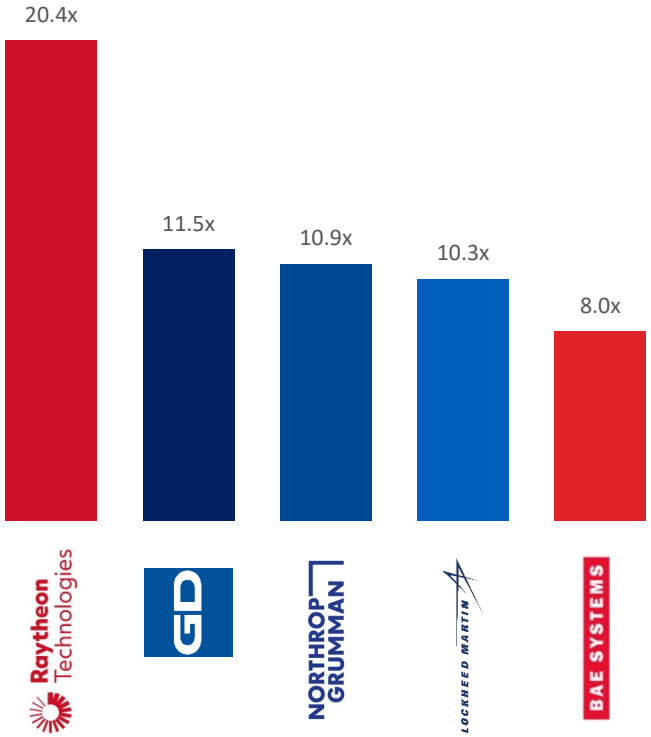
Market Valuation Trends

EV / LTM EBITDA Multiple

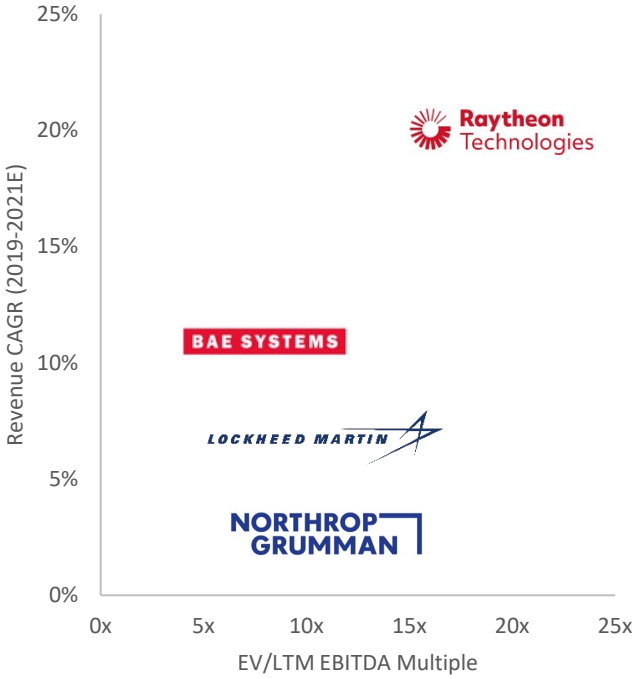


Defense Primes Valuation Multiples

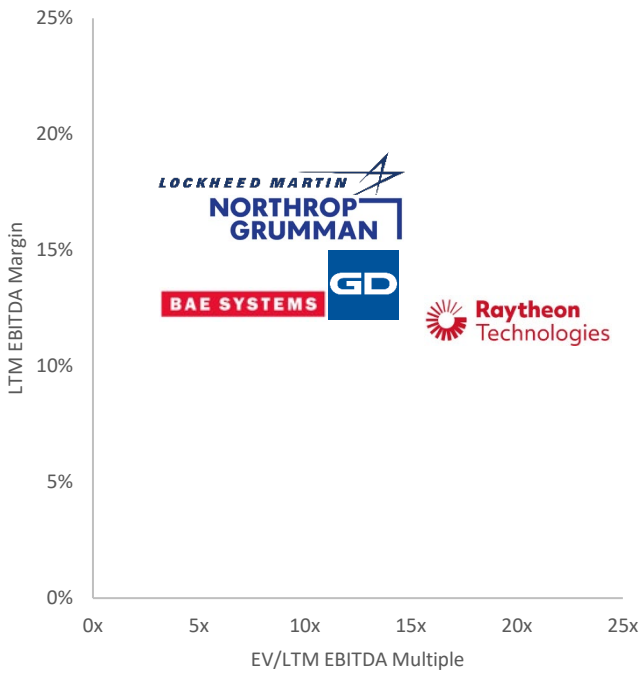
EV / LTM EBITDA Multiple



Revenue Growth and Valuation Multiples



EBITDA Margin and Valuation Multiples



Note: Boeing and General Dynamics excluded from bottom left chart due to negative 2yr CAGRs; Boeing excluded from bottom right chart due to negative EBITDA; Source: S&P Capital IQ

Federal IT Sector Performance

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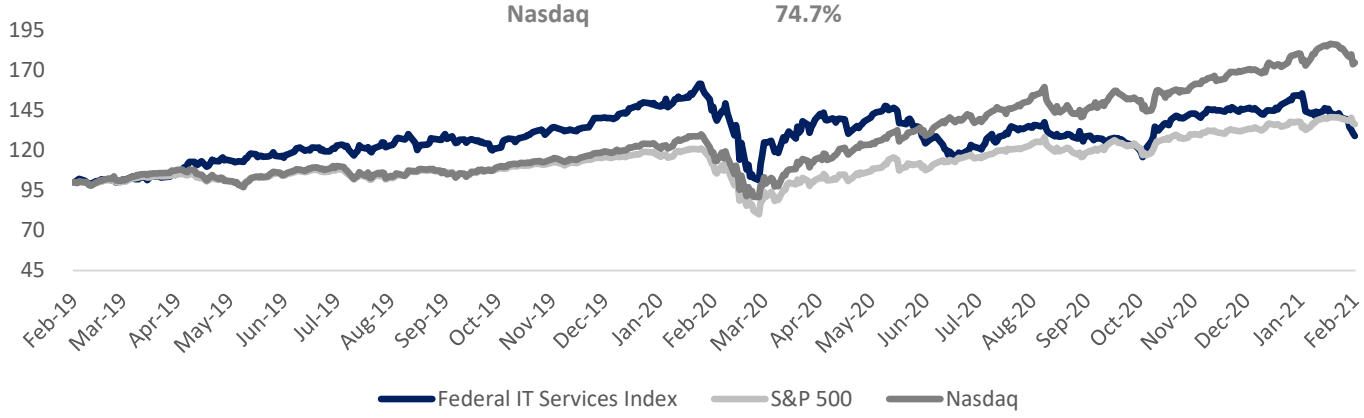
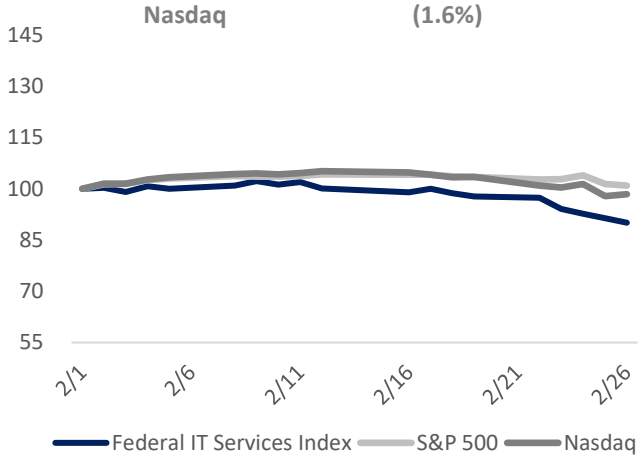
2-Year Stock Performance

Federal IT	29.0%
S&P 500	36.4%
Nasdaq	74.7%



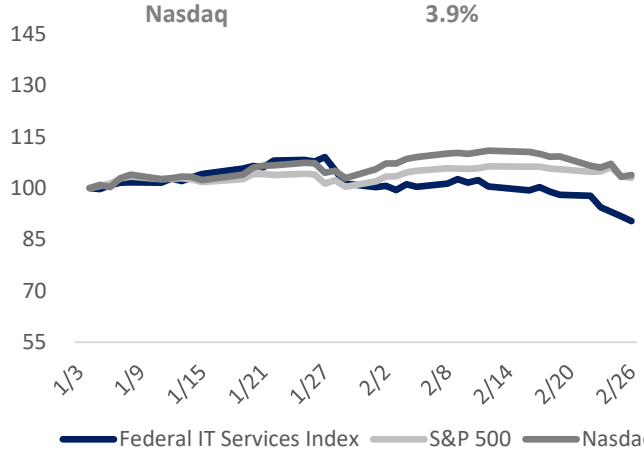
February 2021 Stock Performance

Federal IT	(9.9%)
S&P 500	1.0%
Nasdaq	(1.6%)



YTD Stock Performance

Federal IT	(9.6%)
S&P 500	3.0%
Nasdaq	3.9%



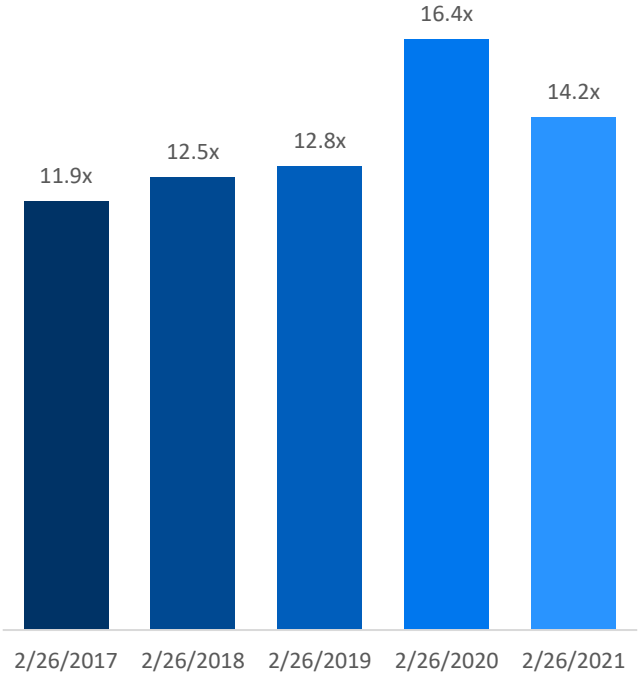
Public Metrics

			Financial Performance							Valuation Multiples			
			Revenue				EBITDA			EV/LTM		EV/CY 2021E	
Company	Mkt. Cap	EV	LTM	FY 2019	CY 2021E	2-Yr CAGR	LTM	LTM Margin	CY 2021E	Revenue	EBITDA	Revenue	EBITDA
Booz Allen Hamilton Holding Corporation	$10,623	$12,027	$7,849	$6,704	$8,237	6.4%	$812	10.3%	$847	1.5x	14.8x	1.5x	14.2x
ICF International, Inc.	$1,574	$2,023	$1,507	$1,479	$1,558	2.6%	$137	9.1%	$150	1.3x	14.7x	1.3x	13.5x
Parsons Corporation	$3,658	$4,052	$3,919	$3,955	$3,983	0.4%	$283	7.2%	$366	1.0x	14.3x	1.0x	11.1x
ManTech International Corporation	$3,166	$3,250	$2,518	$2,223	$2,691	10.0%	$229	9.1%	$246	1.3x	14.2x	1.2x	13.2x
Leidos Holdings, Inc.	$12,551	$17,574	$12,297	$11,094	$13,869	11.8%	$1,317	10.7%	$1,446	1.4x	13.3x	1.3x	12.1x
Science Applications International Corporation	$5,015	$7,743	$8,780	$4,659	$7,689	9.8%	$600	6.8%	$701	0.9x	12.9x	1.0x	11.1x
CACI International Inc	$5,585	$7,374	$7,790	$4,986	$6,322	8.2%	$645	8.3%	$668	0.9x	11.4x	1.2x	11.0x
Median	**$5,015**	**$7,374**	**$7,790**	**$4,659**	**$6,322**	**8.2%**	**$600**	**9.1%**	**$668**	**1.3x**	**14.2x**	**1.2x**	**12.1x**

Note: $ in millions; Source: S&P Capital IQ

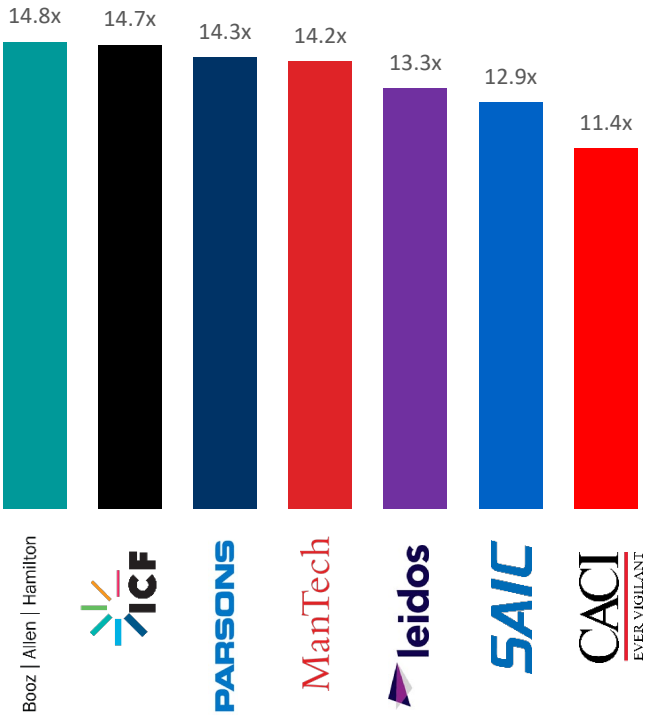
Market Valuation Trends

EV / LTM EBITDA Multiple

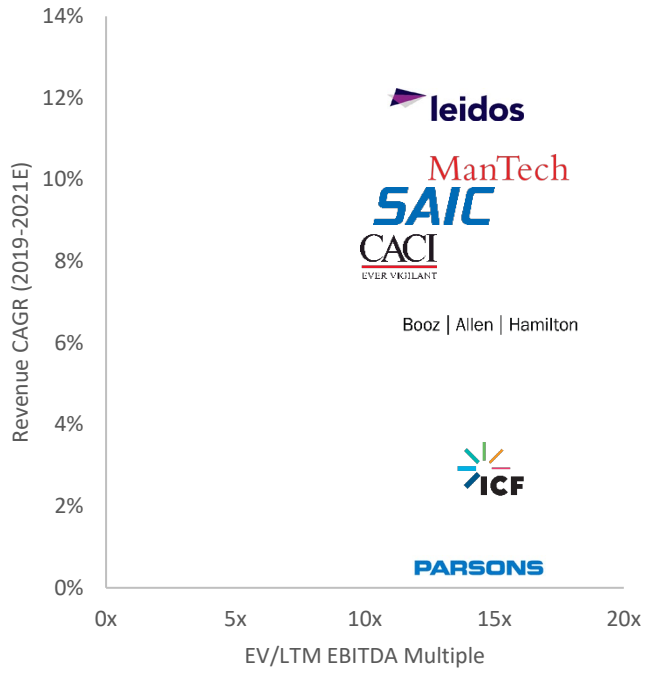


Federal IT Valuation Multiples

EV / LTM EBITDA Multiple



Revenue Growth and Valuation Multiples

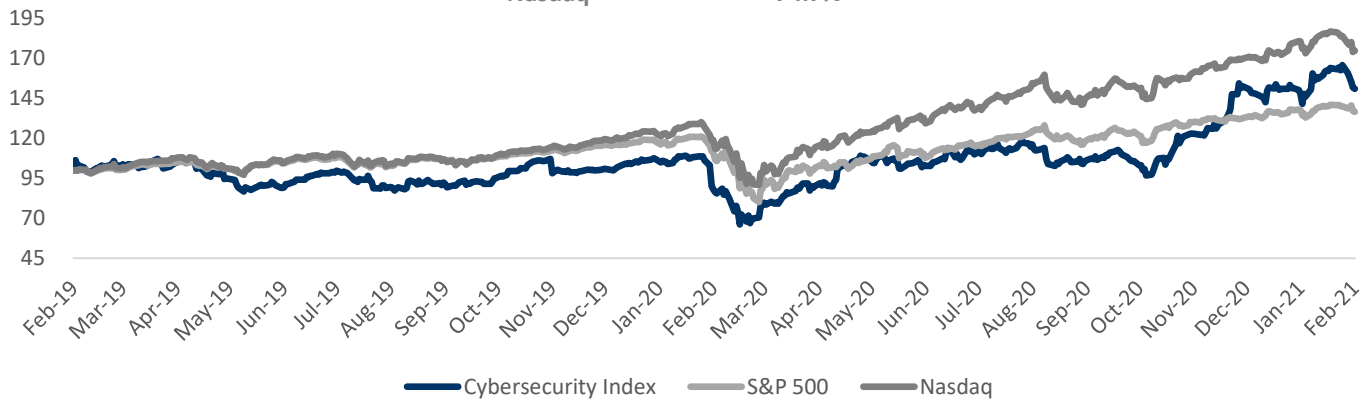


EBITDA Margin and Valuation Multiples

Source: S&P Capital IQ

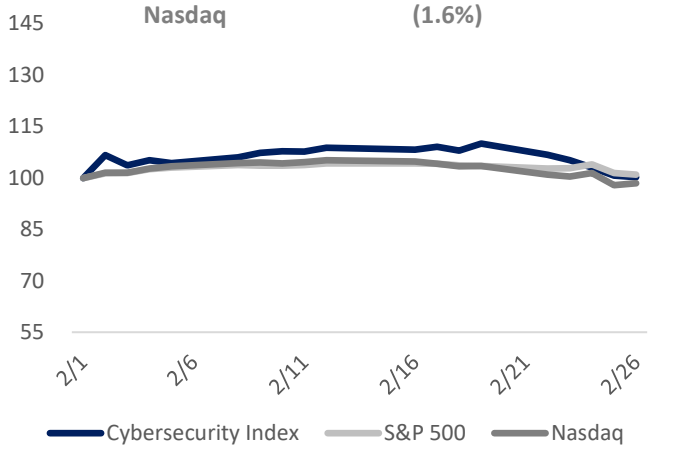
2-Year Stock Performance

Cybersecurity	50.9%
S&P 500	36.4%
Nasdaq	74.7%



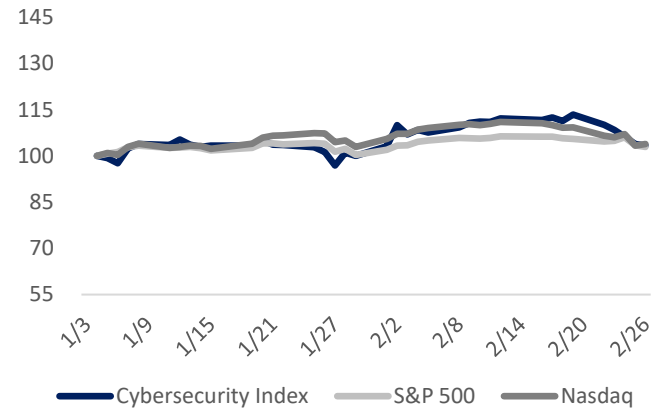
February 2021 Stock Performance

Cybersecurity	0.2%
S&P 500	1.0%
Nasdaq	(1.6%)



YTD Stock Performance

Cybersecurity	3.4%
S&P 500	3.0%
Nasdaq	3.9%



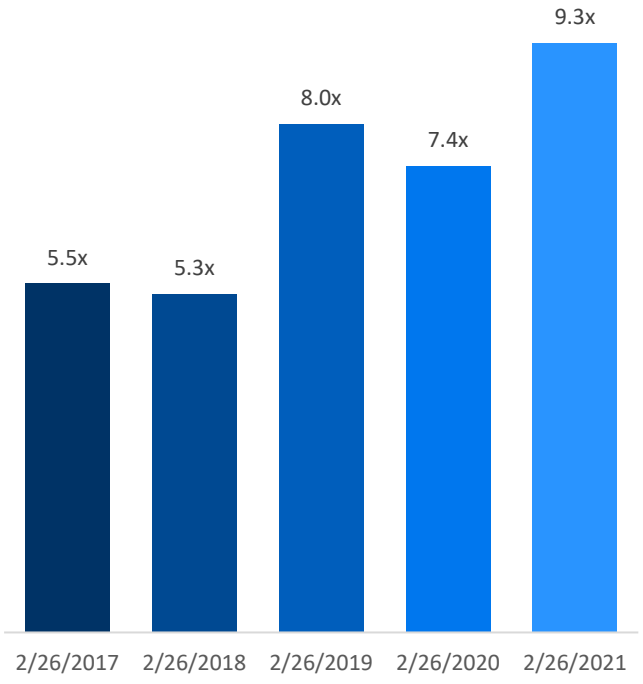
Public Metrics

			Financial Performance						Valuation Multiples			
			Revenue			EBITDA			EV/LTM		EV/CY 2021E	
Company	Mkt. Cap	EV	LTM	CY 2021E	2-Yr CAGR	LTM	LTM Margin	CY 2021E	Revenue	EBITDA	Revenue	EBITDA
CyberArk Software Ltd.	$5,687	$5,034	$464	$492	6.5%	$22	4.7%	$44	10.8x	NM	10.2x	NM
Splunk Inc.	$23,128	$23,813	$2,229	$2,537	3.7%	($675)	(30.3%)	($13)	10.7x	NM	9.4x	NM
Rapid7, Inc.	$4,017	$4,168	$411	$494	22.9%	($48)	(11.8%)	$29	10.1x	NM	8.4x	NM
Fortinet, Inc.	$27,555	$25,771	$2,594	$3,056	18.9%	$560	21.6%	$881	9.9x	NM	8.4x	29.3x
Qualys, Inc.	$3,809	$3,412	$363	$401	11.6%	$129	35.7%	$165	9.4x	26.4x	8.5x	20.7x
Palo Alto Networks, Inc.	$34,843	$35,144	$3,783	$4,557	20.8%	$26	0.7%	$1,041	9.3x	NM	7.7x	NM
Proofpoint, Inc.	$6,940	$7,020	$1,050	$1,199	16.2%	$1	0.1%	$210	6.7x	NM	5.9x	NM
Check Point Software Technologies Ltd.	$15,456	$11,489	$2,065	$2,133	3.4%	$925	44.8%	$1,028	5.6x	12.4x	5.4x	11.2x
FireEye, Inc.	$4,575	$4,694	$941	$1,004	6.3%	($51)	(5.4%)	$152	5.0x	NM	4.7x	NM
OneSpan Inc.	$936	$836	$216	$221	(6.6%)	$3	1.6%	($0)	3.9x	NM	3.8x	NM
SecureWorks Corp.	$1,187	$1,029	$561	$565	1.1%	$9	1.6%	$28	1.8x	NM	1.8x	NM
Median	**$5,687**	**$5,034**	**$941**	**$1,004**	**6.5%**	**$9**	**1.6%**	**$152**	**9.3x**	**19.4x**	**7.7x**	**20.7x**

Note: $ in millions; Source: S&P Capital IQ

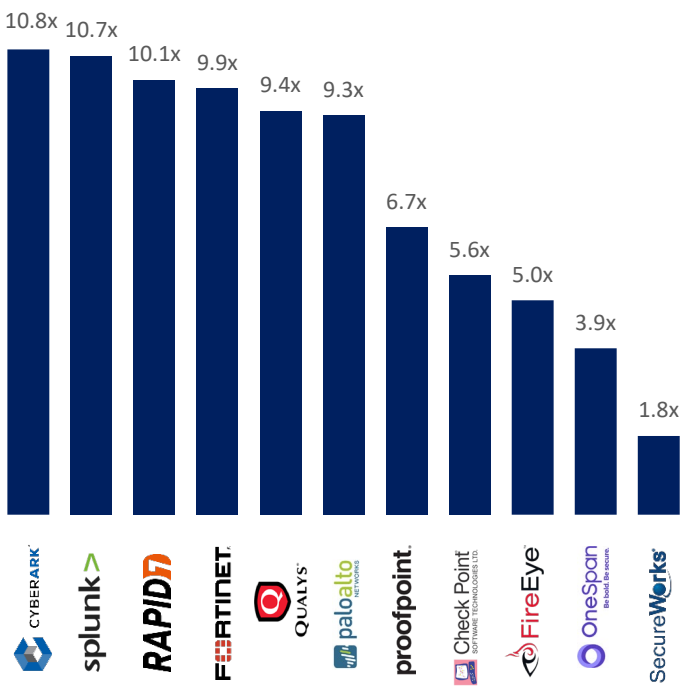
Market Valuation Trends

EV / LTM Revenue Multiple

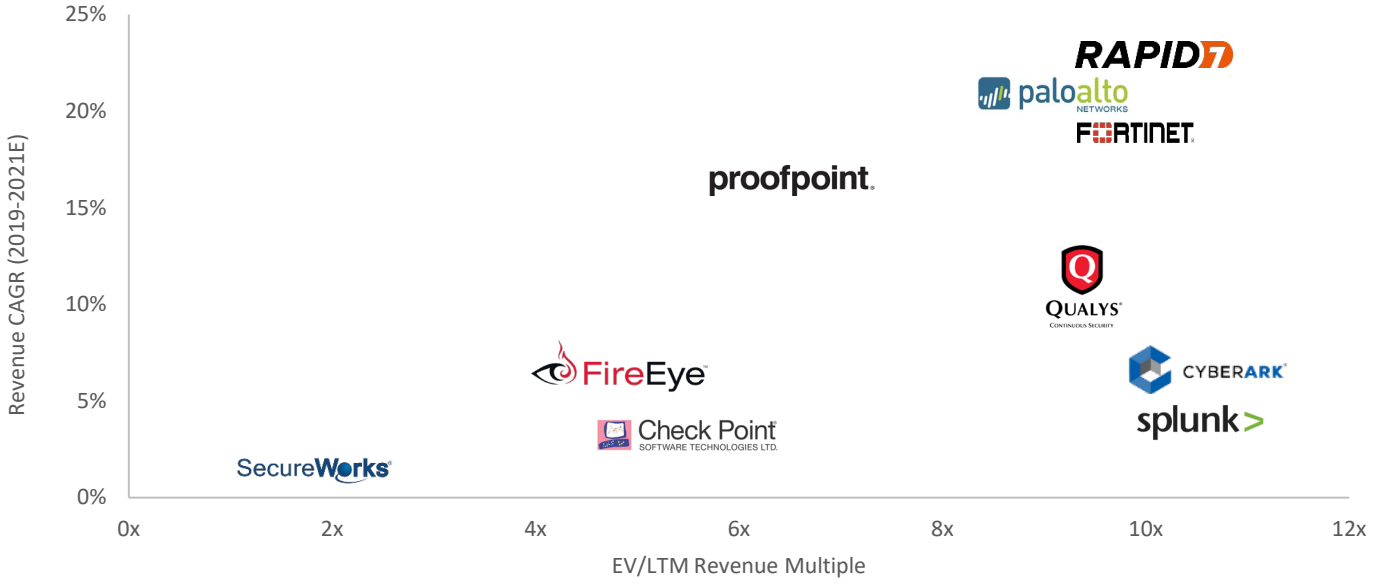


Cybersecurity Valuation Multiples

EV / LTM Revenue Multiple



Revenue Growth and Valuation Multiples



Note: OneSpan excluded due to negative 2yr CAGR; Source: S&P Capital IQ

National Security M&A Snapshot

ChertoffCapital

Date	Target	Acquirer(s)	Transaction Notes
Announced	WBB	serco	• **Purchase Price:** $295.0 million • **Revenue / EBITDA:** $212.0 million / Not Disclosed • **Employees:** 1,000 • **Buyer:** Subsidiary of Public Strategic (LSE:SRP.L) • **Seller:** PE-Backed Strategic (H.I.G. Capital) • **Rationale:** Acquisition deepens the breadth of services that Serco can offer to existing customers and grants access to additional customer sets across the DoD enterprise
	Target Description: Provides program management, mission performance, advanced analytics, and machine learning support to the DoD and other federal agencies		
Announced	CUBIC	VERITAS CAPITAL / ELLIOTT	• **Purchase Price:** $2,800.0 million • **Revenue / EBITDA:** $1,476.2 million / $158.3 million • **Employees:** 6,100 • **Buyer:** Private Equity Consortium • **Seller:** Public Strategic (NYSE:CUB) • **Rationale:** The privatization of Cubic will accelerate product development and drive growth as the company continues to improve its innovative defense and transportation solutions
	Target Description: Provides communications; cloud-based computing; intelligence delivery; and training, readiness, and performance solutions to the DoD and IC		
Feb-23	DSS Deployable Space Systems	REDWIRE	• **Purchase Price:** Not Disclosed • **Revenue / EBITDA:** Not Disclosed • **Employees:** Not Disclosed • **Buyer:** PE-Backed Strategic (AE Industrial Partners) • **Seller:** Private Strategic • **Rationale:** Acquisition expands Redwire's technology portfolio to include leading deployable solar arrays and structures, contributing to the company's mission to provide sustainable space infrastructure
	Target Description: Provides satellite mechanisms, deployable structures, and deployable solar array systems to the global space market		
Feb-17	bridges	ai applied insight	• **Purchase Price:** Not Disclosed • **Revenue / EBITDA:** Not Disclosed • **Employees:** 100+ • **Buyer:** PE-Backed Strategic (The Acacia Group) • **Seller:** Private Strategic • **Rationale:** Acquisition positions Applied Insight further down the value chain, allowing the company to deliver end-to-end hybrid and multi-cloud solutions and expand its portfolio of intellectual property
	Target Description: Provides security assessment and breach response, insider threat, secure network, and software engineering services to the IC		
Feb-16	Artlin Consulting	Enlightenment Capital	• **Purchase Price:** Not Disclosed • **Revenue / EBITDA:** Not Disclosed • **Employees:** Not Disclosed • **Buyer:** Private Equity • **Seller:** Private Strategic • **Rationale:** Enlightenment looks to leverage its SBA loan participation to assist Artlin in its next phase of growth, particularly when considering acquisitions
	Target Description: Provides agile and responsive business solutions such as program management, data management and analytics, and IT system development to government customers		
Feb-10	Millennium Engineering and Integration Company	QuantiTech	• **Purchase Price:** Not Disclosed • **Revenue / EBITDA:** Not Disclosed • **Employees:** Not Disclosed • **Buyer:** PE-Backed Strategic (Sagewind Capital) • **Seller:** Private Strategic • **Rationale:** Combination unites two highly complementary companies that offer an extraordinary depth of talent and expertise in high-end engineering, better positioning the enterprise to serve its customers' missions
	Target Description: Provides systems engineering, systems integration and testing, test facility development, and sensor systems to the Air Force, NASA, and MDA		

Source: DACIS, S&P Capital IQ

Date	Target	Acquirer(s)	Transaction Notes
Announced	bridgecrew	paloalto NETWORKS	• **Purchase Price:** $156.0 million • **Revenue / EBITDA:** Not Disclosed • **Employees:** Not Disclosed • **Buyer:** Public Strategic (NYSE:PANW) • **Seller:** PE-Backed Strategic (Battery Ventures, DNX Ventures, et al) • **Rationale:** Acquisition allows Palo Alto to provide cloud security from build time to runtime, seamlessly connecting security and DevOps teams to deliver security across the full application lifecycle
	Target Description: Develops a cloud security platform that offers continuous cloud security, infrastructure as code (IaC) security, and cloud DevSecOps workflows		
Announced	HERJAVEC GROUP	Apax PARTNERS	• **Purchase Price:** Not Disclosed • **Revenue / EBITDA:** Not Disclosed • **Employees:** Not Disclosed • **Buyer:** Private Equity • **Seller:** Private Strategic • **Rationale:** Partnership will provide a leading MSSP with growth capital that will fuel international expansion and product innovation efforts, advancing the deployment of the company's two proprietary platforms
	Target Description: Provides managed services, privacy and compliance, incident response, and identity and access management solutions to customers globally		
Announced	humio	CROWDSTRIKE	• **Purchase Price:** $400.0 million • **Revenue / EBITDA:** Not Disclosed • **Employees:** Not Disclosed • **Buyer:** Public Strategic (NasdaqGS:CRWD) • **Seller:** PE-Backed Strategic (Accel Partners, Dell Technologies Capital, et al) • **Rationale:** CrowdStrike intends to leverage Humio's expertise in log aggregation to upgrade its extended detection and response offering
	Target Description: Develops a platform that enables data aggregation, exploration, reporting, and analysis from a wide range of sources, serving technology and educational customers		
Feb-9	SCALYR	SentinelOne	• **Purchase Price:** Not Disclosed • **Revenue / EBITDA:** Not Disclosed • **Employees:** Not Disclosed • **Buyer:** PE-Backed Strategic (Sequoia Capital Operations, Qualcomm Ventures, et al) • **Seller:** PE-Backed Strategic (Heroic Ventures, et al) • **Rationale:** Acquisition creates a highly integrated extended detection and response platform that delivers advanced real-time threat mitigation capabilities
	Target Description: Develops a cost-effective, complete log analytics and observability SaaS offering that supports modern cloud applications		
Feb-4	handshake|networking	GFAI	• **Purchase Price:** Not Disclosed • **Revenue / EBITDA:** Not Disclosed • **Employees:** Not Disclosed • **Buyer:** Public Strategic (OTCPK:GRDA.F) • **Seller:** Private Strategic • **Rationale:** Acquisition expands Guardforce AI's expertise from physical security to IT security, bolstering its suite of solutions available to customers
	Target Description: Provides internal and external penetration testing, wireless network testing, web application testing, and forensic services to blue-chip customers in the Asia-Pacific region		
Feb-1	alcide	RAPID7	• **Purchase Price:** $50.0 million • **Revenue / EBITDA:** Not Disclosed • **Employees:** 30 • **Buyer:** Public Strategic (NasdaqGM:RPD) • **Seller:** PE-Backed Strategic (Creditease Corp., et al) • **Rationale:** Acquisition aligns with Rapid7's strategy of inorganically expanding its cloud security portfolio, specifically adding expertise in Kubernetes and container-based architectures
	Target Description: Provides an end-to-end Kubernetes security platform, using vulnerability scanning, firewall and anomaly detection, and log analyzing techniques		

Source: DACIS, S&P Capital IQ