

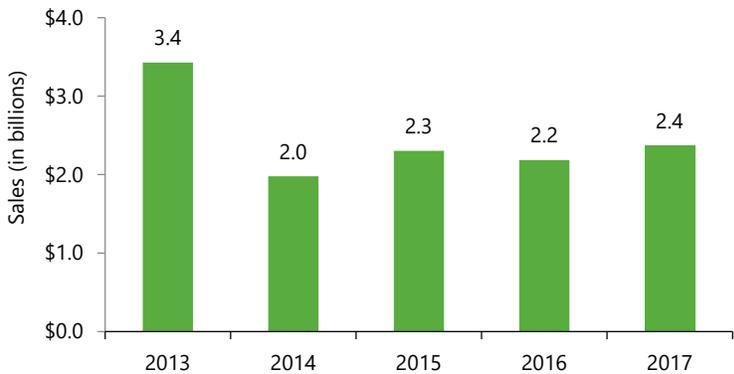


KEY M&A TAKEAWAYS

- ▶ Addressing force readiness is a key priority contained in the FY19 US Defense budget. The proposed 8.0% increase in US Army spending levels is part of a two year bi-partisan compromise agreement and will gradually benefit providers of simulation and training products and services to the US DoD.¹ For many defense contractors in this sector, such demand is welcomed after years of sequestration-motivated spending declines.
- ▶ Capstone Headwaters' Government and Defense (G&D) Index, which includes more than 40 leading G&D companies, evidences a healthy industry outlook, with current average EBITDA multiples of 13.9x exceeding those of the S&P 500 (11.6x). Analogously, as many of the entities in this index also support simulation and training, the present outlook for the military-related portion of this sector is favorable. In addition to the expected increases in defense spending, the sector will also continue to benefit from its ability to utilize advanced technology and offer cost-effective, yet still realistic training solutions.

FOREIGN MILITARY SALES

- ▶ YTD in 2018, the US has sold \$47.0 billion in weaponry to foreign governments, already surpassing the entirety of 2017 with more than two months left in the fiscal year.² Foreign military purchases of US weapons are a leading indicator of forthcoming demand for training simulators and related training services.



Source: DoD Security Cooperation Agency

APACHE HELICOPTER ACTIVITY

- ▶ The Boeing AH-64 Apache helicopter is a great example of equipment with significant looming training requirements. This combat helicopter is used by the US Army and 14 of our allies. Over 2,000 versions of this helicopter have been sold over the past 40 years to customers around the world and in its current budget request, the Pentagon announced interest in purchasing 60 additional helicopters (\$1.3bn).³ Boeing presently manufactures roughly six per month.

Earlier this year, the US government approved roughly \$2.1 billion in sales of the Apache to militaries in both the Netherlands and India, according to the DoD Security Cooperation Agency.⁴ As part of each sale, training devices and simulators used to prepare military forces for real-time combat were included.

Increased budgets notwithstanding, training for equipment such as the Apache will increasingly rely on virtual training products. They enable users to credibly replicate combat conditions while allowing for performance-based measurement and individualized instruction. Strategic acquisitions in the training and simulation sector are expected to favor businesses that offer best-in-class reusable, virtual technology.

NOTABLE TRANSACTION

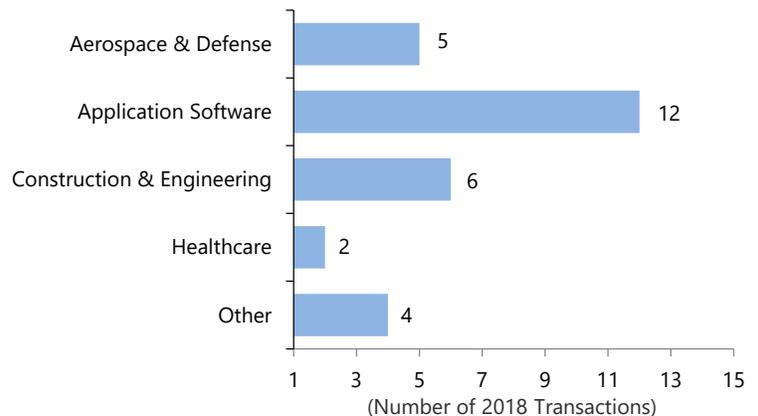
- ▶ **Valiant Integrated Services LLC to acquire Cubic Global Defense, Inc. and Omega Training Group, Inc. (April 2018, ~\$135.0 million)** – Valiant Integrated Services, a provider of resources, high value solutions, and critical support for essential missions of the US government, has agreed to acquire Cubic Global Defense (CGD) and Omega Training Group for approximately \$135.0 million in cash and an additional \$3.0 million contingent on government contracts being awarded.

The CGD division of Cubic Corporation provides mission training, training support services, mission and exercise support as well as associated engineering and analysis to the US government, its agencies and over 35 allied nations. Its mission-critical training solutions include applications in air combat, cybersecurity, ground, maritime, national security, and special operations forces.

Valiant CEO James Jaska, commented, "This acquisition accelerates Valiant's strategic direction of broadening our customer base through a full range of solutions and support services to customers across the globe, especially in the critical and growing training and readiness markets."⁵

M&A ACTIVITY BY SEGMENT

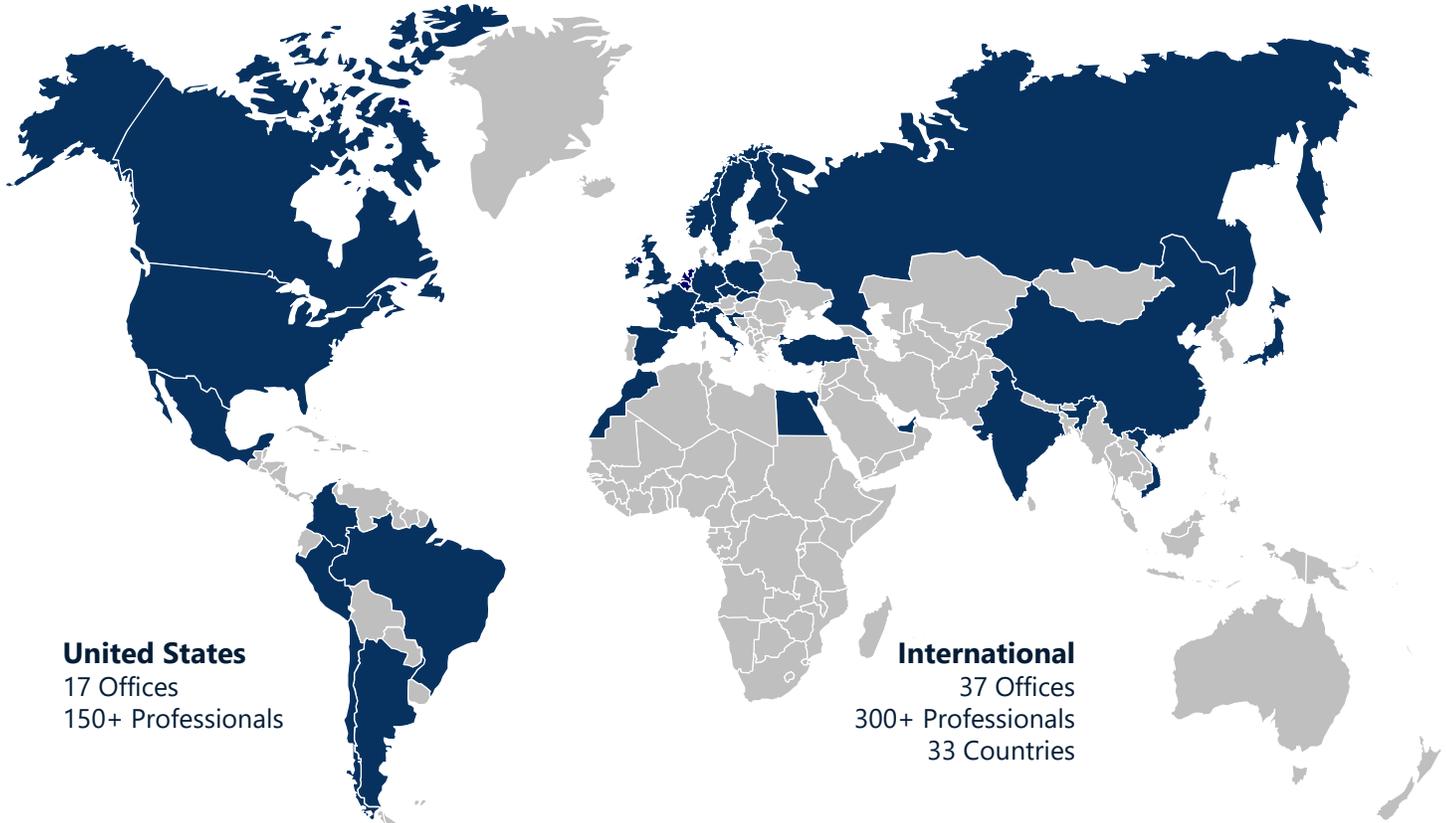
- ▶ Companies that offer application software to support virtual and augmented reality products do continue to lead deal activity in the MM&S industry. The vertical markets supported by current year acquisitions are noted below:



Source: Capital IQ and Capstone Headwaters Research



BUILT FOR THE MIDDLE MARKET



CITATIONS

1. Defense News, "Army's FY19 budget growing by 8 percent to fill readiness gaps, gradually grow force," <https://www.defensenews.com/land/2018/02/12/armys-fy19-budget-growing-by-8-percent-to-fill-readiness-gaps-gradually-grow-force/>, accessed July 23, 2018.
2. Breaking Defense, "U.S. Has Already Sold More Weapons This Year Than All 2017: \$47B," <https://breakingdefense.com/2018/07/the-u-s-has-already-sold-more-weapons-this-year-than-all-of-2017/>, accessed July 18, 2018.
3. U.S. Department of Defense, Office of the Under Secretary of Defense (Comptroller)/CFO, "Fiscal Year 2019 Budget Request," http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2019/FY2019_Budget_Request.pdf, accessed July 18, 2018.
4. Defense Security Cooperation Agency, "India – Support for Direct Commercial Sale of AH-64E Apache Helicopters," "Netherlands – AH-64E Remanufactured Apache Attack Helicopters," <http://www.dsca.mil/search/node/apache>, accessed July 18, 2018.
5. Cision PR Newswire, "Valiant Integrated Services Announces Key Acquisition of Cubic Global Defense Services," <https://www.prnewswire.com/news-releases/valiant-integrated-services-announces-key-acquisition-of-cubic-global-defense-services-300632897.html>, accessed July 18, 2018.

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