

June 2023 Market Snapshot

PERSPECTIVES:

A recent industry trend is the emergence of several Defense Technology “unicorns”. These are companies that in their most recent funding round have been valued at approx. \$1 billion or larger. Similar to the technology FAANG stocks (Facebook, Amazon, Apple, Netflix, Google), they even have their own acronym: SHARPE. The exhibit below shows this list of companies (excluding Palantir, which is already public), amount of capital raised, along with a summary of market capitalization for the consolidated defense prime contractor universe for comparison purposes.

Company \$ in millions	Revenue LTM	Market Capitalization	Company \$ in millions	Latest Post Money Valuation	Valuation at 15x	Year	VC Investment	Valuation at 15x
Raytheon Technologies Corporation	\$68,572	\$137,193	Shield AI Inc.	\$2,300	\$34,500	2021	\$17	\$255
The Boeing Company	\$70,538	\$125,107	Hawkeye 360 Inc.	\$757	\$11,352	2022	\$34	\$510
Lockheed Martin Corporation	\$66,146	\$113,880	Anduril Industries, Inc.	\$8,500	\$127,500	2027 Projected	\$185	\$2,771
Northrop Grumman Corporation	\$36,602	\$66,592	Rebellion Defense, Inc.	\$1,150	\$17,250			
General Dynamics Corporation	\$39,896	\$57,222	Epirus, Inc.	\$1,350	\$20,250			
Total	\$281,754	\$499,002	Total	\$14,057	\$210,852			

Source: Capital IQ

Source: Capital IQ

Source: Pitchbook

This exhibit also shows VC funding for the Defense Technology sector for 2021, 2022 and a projected number for 2027. These are significant levels of investment and indeed are being encouraged by Congress and the Administration through the creation of entities such as the Office of Strategic Capital.

Working under the assumption that mid-stage VC firms will be looking for 10x – 20x on their investment (we show 15x for comparison purposes above) and that these investors are making rational judgments on the market based on rational demand signals from the customer (Congress & the DoD), the SHARPE (less 'P') might be expected to grow to a size equal to 40% of the current market size for existing prime contractors, while the 2022 VC sector investment of \$34b might be expected to grow to over \$510b, **larger** than the current market cap of the primes (\$499b). Let's not even talk about the projected \$2.7 trillion value for 2027's VC vintage.

Many conclusions could be drawn from this (including that our assumptions are flawed), but notable ones include:

- 1) Congress fully intends to disaggregate the prime contracting universe, reversing years of consolidation
- 2) We are likely entering a new golden age of defense technology investment that has the potential to spur even greater commercial opportunities.



PLEASE SEE ADDITIONAL INSIGHTS ON THE SATELLITE & SPACE INDUSTRY IN THE [JUNE 2023 MARKET MONITOR](#) FROM OUR PARTNERS AT QUILTY SPACE.

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What We're Reading:



STRATEGY & POLICY

- ✓ [A Failure of American Leadership](#)
"In truth, geopolitical competition never disappeared, but victory in the Cold War clouded US geopolitical judgment."
- ✓ [A Rational China Oriented Military Strategy](#)
"The United States is foolishly building a strategy and force to attack where this potential adversary is most fortified."
- ✓ [War over Taiwan? Let's Discuss This First](#)
"You cannot wish away, spin, or 'offset' geography."



TRENDS IN TECHNOLOGY

- ✓ [Low Earth Orbit: Disruptive Military Technologies](#)
"The advantages of LEO have been known for some time, but technology and scale constraints have made them cost-prohibitive to build."
- ✓ [The Transformative Potential of Additive Manufacturing in Defense](#)
"Off-shoring our manufacturing capabilities has resulted in a generational loss of expertise in manufacturing."
- ✓ [How to Leverage America's Software Advantage in the Decisive Decade](#)
"However, current acquisition systems...are poorly optimized for software development."



CONTRACTING, PROCUREMENT & BUDGET

- ✓ [Venture Capitalists, Tech Firms Beg Defense Secretary to Speed up Innovation](#)
See our comments on page 1 "Perspectives" - SWC
- ✓ [Culture War Fights, China Dominate Initial Defense Bill Markups](#)
"...the months ahead have plenty of political landmines..."
- ✓ [Wittman Proposes Way to Keep Next-Generation Air Dominance On Track](#)
"The Navy is behind, and I don't want the Air Force to mark time while the Navy's trying to catch up."



CAPITAL MARKETS

- ✓ [Lockheed Acquires Stake in One of its Component Suppliers](#)
"...a company that uses 3D printing to make certain products for flight applications."
- ✓ [Anduril Launches into Hypersonics, Missiles Market with Adranos Acquisition](#)
"...clear need for greater competition and expanded supply in solid rocket motors..."
- ✓ [Venture Capital Provides the Asymmetric Advantage Needed for National Security](#)
See our comments on page 1 "Perspectives" - SWC

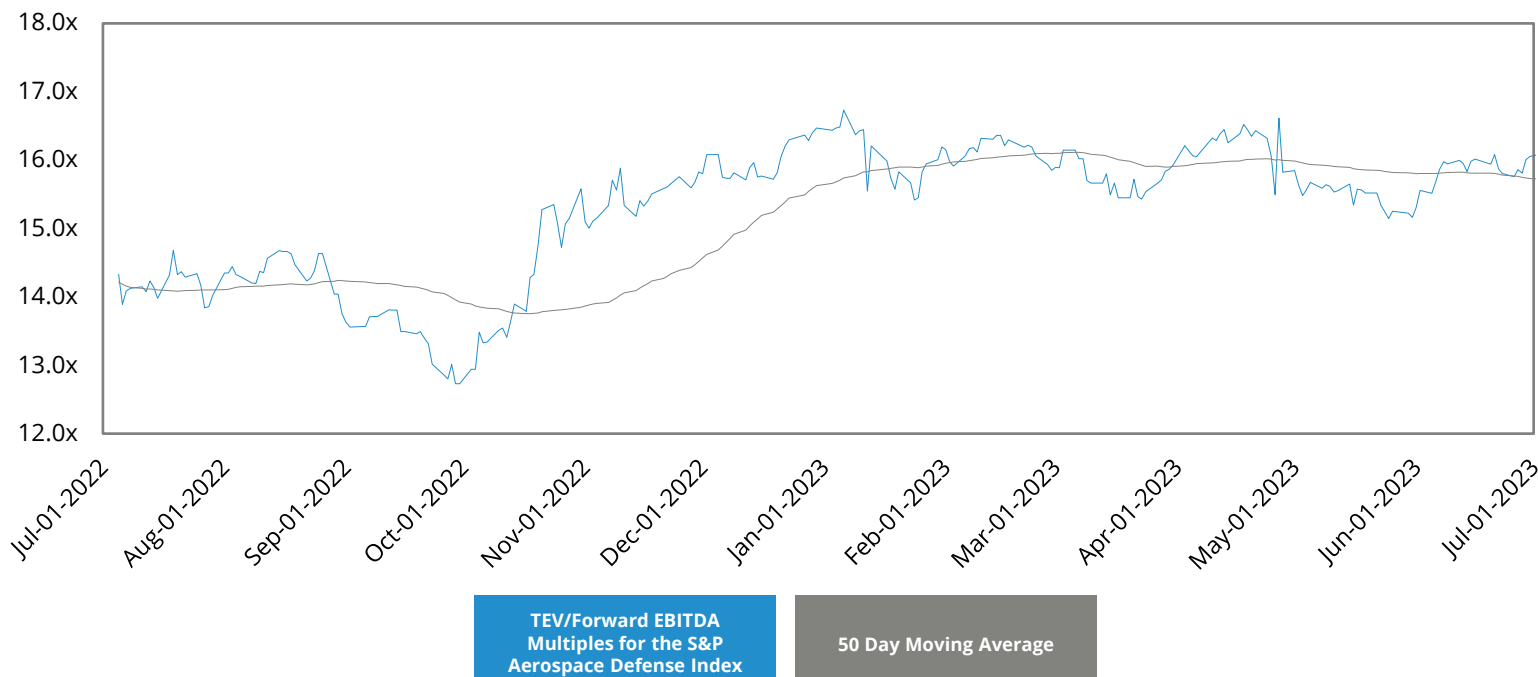


AVIATORS & WARFIGHTERS

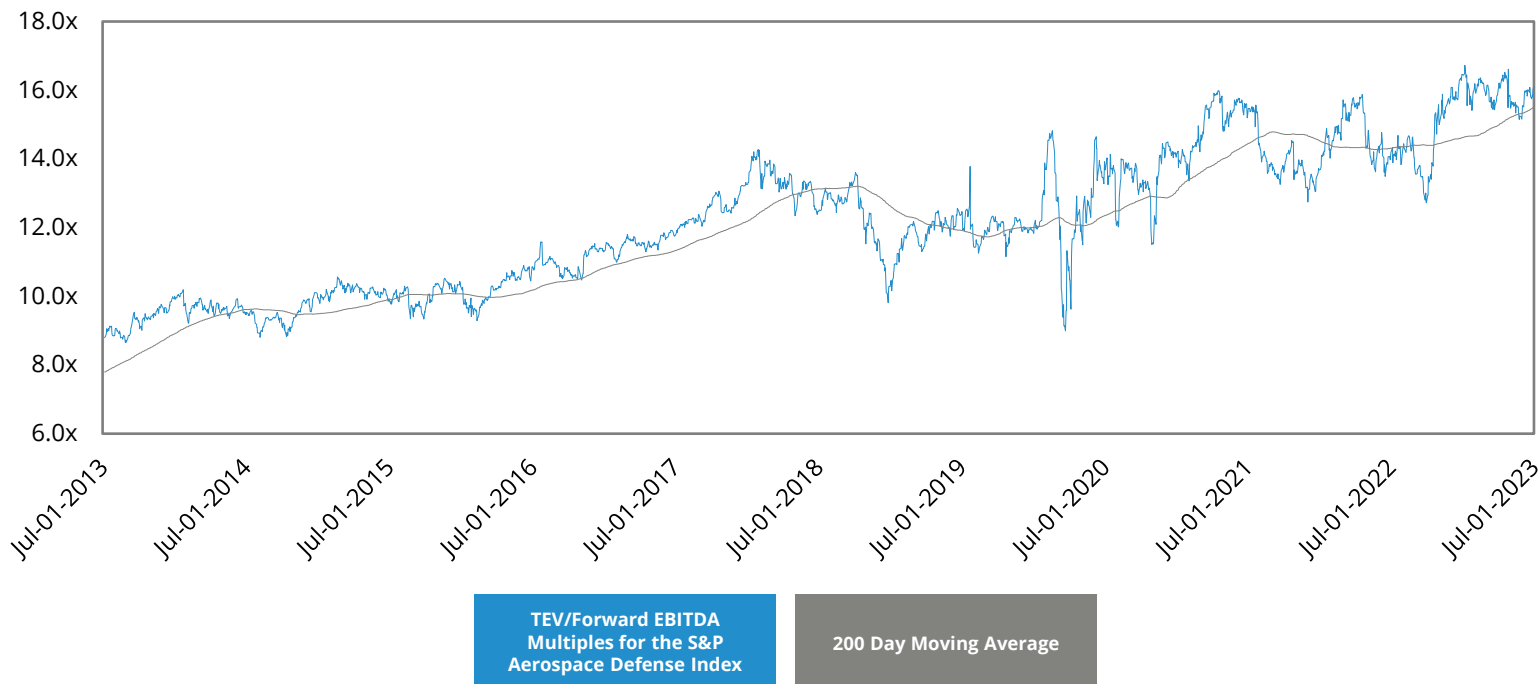
- ✓ [Their Existence Was Denied by the US Government. Their Mission Photos Proved Otherwise](#)
"SOG left zero public footprint and performed clandestine missions that remain unknown to many today."
- ✓ [Morgan's Riflemen - The Difference a Small Elite Unit Makes](#)
"- he was also the inspiration for Mel Gibson's character in the film *The Patriot* -"
- ✓ [Special Forces Parachuted With Nukes Strapped to Them During the Cold War](#)
"ADMs were designed to be used on or below the ground's surface (or even underwater) against specific targets to block and deny enemy forces."

Valuation Trends:

1-Yr Historical EBITDA Multiples*



10-Yr Historical EBITDA Multiples*



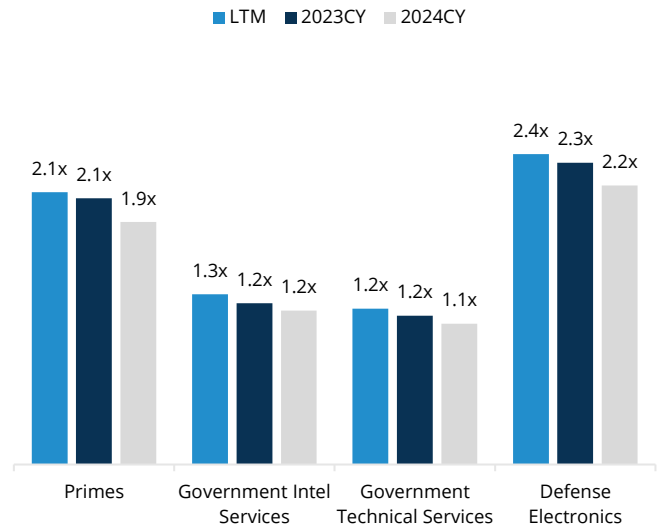
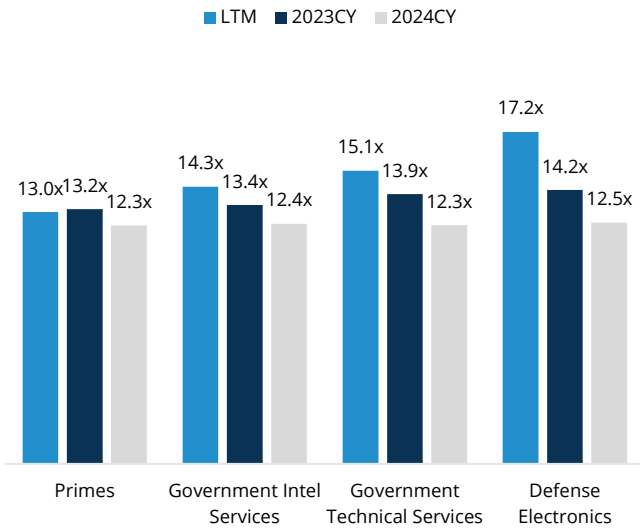
* Source: S&P Capital IQ.

Public Company Valuations:

Defense & Government | Intelligence Community*

Median EV/EBITDA

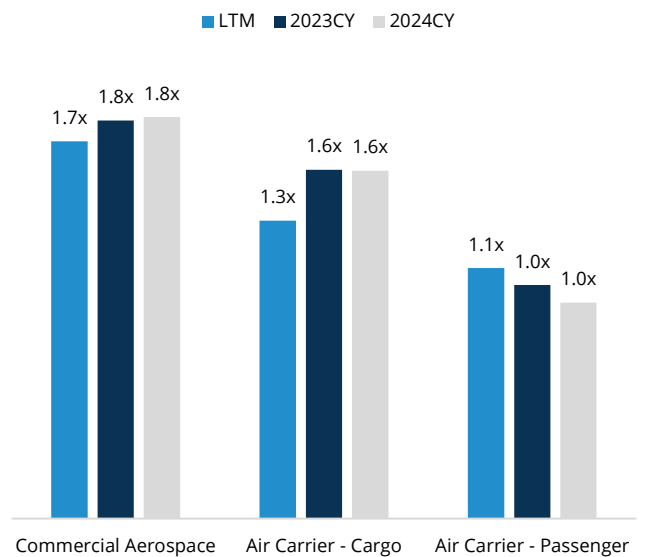
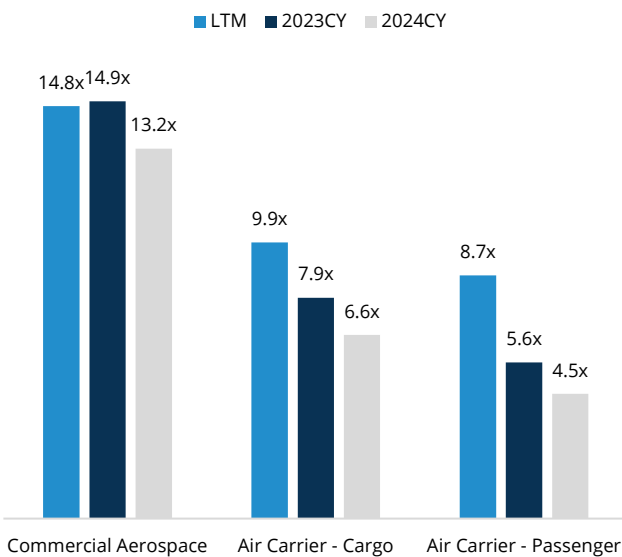
Median EV/Revenue



Commercial Aerospace*

Median EV/EBITDA

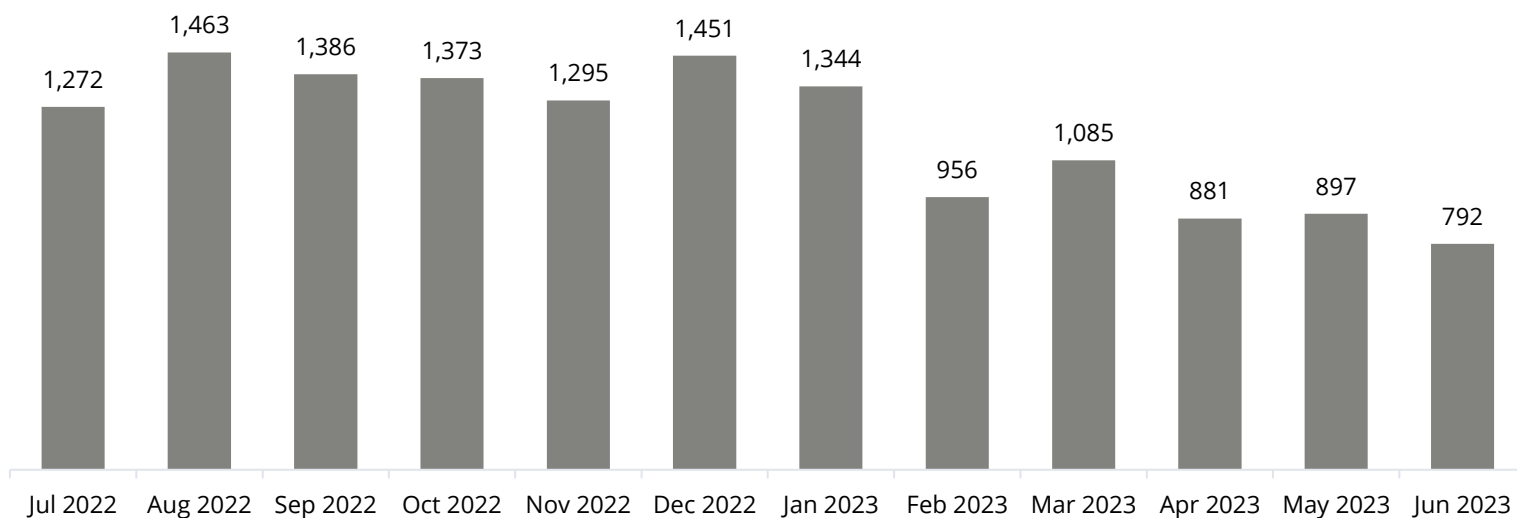
Median EV/Revenue



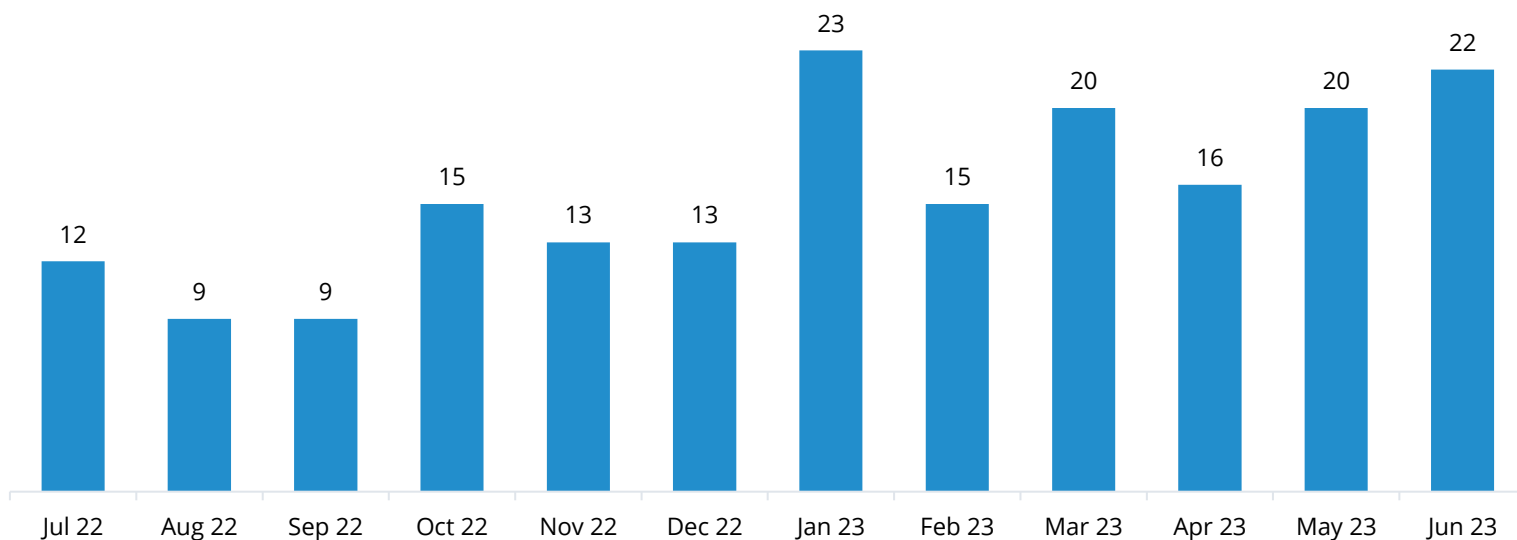
* Source: S&P Capital IQ as of June 30, 2023. For a full list of companies within each index, see page 8.

M&A Trends*:

LTM US M&A Activity—Consolidated



LTM US M&A Activity—Southwind Industry Universe



* Source: S&P Capital IQ. These charts consist of completed transactions that were announced within the last twelve months.

June Transaction Activity*:

Date	Status	Target	Acquirer / Investor	Transaction Value (US\$ Mil)	Valuation (EV/LTM EBITDA)
6/1/2023	Closed	Secure Innovations, LLC	iNovex Information Systems, Inc.	-	-
6/1/2023	Announced	LaGuardia Airport	Frontier Group Holdings, Inc.	-	-
6/2/2023	Closed	ExcelAire LLC	Executive Fliteways Inc.	-	-
6/2/2023	Closed	Certain Long Beach California Aerospace Production and Manufacturing Assets of Virgin Orbit Holdings	Rocket Lab USA, Inc.	\$16.12	-
6/2/2023	Closed	Mojave Desert facility	Launcher Inc.	\$2.70	-
6/5/2023	Closed	Certain Assets of Virgin Orbit Holdings, Inc.	Stratolaunch LLC	\$17.00	-
6/5/2023	Closed	Yingling Aircraft, Inc.	AE Industrial Partners, LP	-	-
6/5/2023	Announced	CIRCOR International, Inc.	KKR & Co. Inc.; KKR North America Fund XIII SCSp	\$1,717.21	12.8x
6/6/2023	Closed	Enquizit Inc.	CDW Corporation	-	-
6/7/2023	Closed	Emergent Space Technologies, Inc.	York Space Systems LLC	-	-
6/8/2023	Closed	Spaceflight, Inc.	Firefly Aerospace Inc.	-	-
6/8/2023	Closed	Certain Equipment of Air Power Dynamics, LLC	CAD Enterprises, Inc.	\$0.19	-
6/12/2023	Closed	F-1 Firearms LLC	Watchtower, Inc.	-	-
6/12/2023	Announced	Assets of Uniflight Global	Optima Aero Inc.	-	-
6/14/2023	Closed	Pegasus Steel, LLC	Arlington Management Employees, LLC	-	-
6/15/2023	Closed	Titan Acquisition Holdings L.P.	Lone Star Americas Acquisitions, Inc.	-	-
6/17/2023	Closed	Remaining Assets of Virgin Orbit	Firefly Aerospace Inc.	\$3.80	-

* Source: S&P Capital IQ. This list represents select deals within Southwind's industry universe that have been announced and/or closed in the past month.

June Transaction Activity (cont.):*

Date	Status	Target	Acquirer / Investor	Transaction Value (US\$ Mil)	Valuation (EV/LTM EBITDA)
6/18/2023	Closed	SecuLore Solutions, LLC	Exacom, Inc.	-	-
6/19/2023	Closed	BBA Logistics	Grupo Traxión, S.A.B. de C.V.	\$10.00	-
6/20/2023	Closed	Assets of Custom Alloy Corporation	Trident Maritime Systems, LLC	-	-
6/22/2023	Closed	Joint Research and Development, Inc.	Broadtree Partners	-	-
6/25/2023	Closed	Adranos, Inc.	Anduril Industries, Inc.	-	-
6/27/2023	Closed	Vulcan Machine, LLC	Prince Industries, Inc.; HC Private Investments	-	-
6/27/2023	Closed	3B Aviation, Inc.	FlyUSA, LLC	-	-
6/28/2023	Announced	Heads-Up-Display Assets of Saab AB	Honeywell International Inc.	-	-
6/30/2023	Closed	Pinnacle Solutions, Inc.	Akima, LLC	-	-

* Source: S&P Capital IQ. This list represents select deals within Southwind's industry universe that have been announced and/or closed in the past month.

About Southwind Capital:

More Than **60** Transactions · Over **\$6 Billion** in Transaction Value

Core Values Driving Success



Client-Focused Solutions

Mergers & Acquisitions

Underpinned by proprietary modeling and detailed marketing and diligence support, our focus on preparation fosters buyer interest and efficiency.

Equity & Debt Financing

Southwind maintains relationships with leading industry capital providers and assists in equity and debt financing services from cradle to grave.

Valuation & Fairness Opinions

Southwind offers professional evaluations of a company to determine whether a merger, acquisition, or other transaction is fair and viable.

Merchant Banking

Through deep relationships with board-level advisors and family office and high net worth investors, Southwind helps facilitate capital formation.

Southwind Publicly Traded Company Indices

Primes	Government Intel Services	Government Technical Services	Defense Electronics
Raytheon Technologies Corporation The Boeing Company Lockheed Martin Corporation Northrop Grumman Corporation General Dynamics Corporation Huntington Ingalls Industries, Inc.	Leidos Holdings, Inc. Booz Allen Hamilton Holding Corporation CACI International Inc Science Applications International Corporation Parsons Corporation	Jacobs Solutions Inc. AECOM KBR, Inc. ICF International, Inc. V2X, Inc.	L3Harris Technologies, Inc. BAE Systems plc Thales S.A. Teledyne Technologies Incorporated Textron Inc. Mercury Systems, Inc. AeroVironment, Inc. Kratos Defense & Security Solutions, Inc.

Commercial Aerospace	Air Carrier - Cargo	Air Carrier - Passenger
Honeywell International Inc. Airbus SE TransDigm Group Incorporated HEICO Corporation Embraer S.A. Curtiss-Wright Corporation Spirit AeroSystems Holdings, Inc. Hexcel Corporation Aerojet Rocketdyne Holdings, Inc. Moog Inc. Triumph Group, Inc. AAR Corp. Ducommun Incorporated Astronics Corporation	United Parcel Service, Inc. FedEx Corporation Expeditors International of Washington, Inc. Atlas Air Worldwide Holdings, Inc. Air Transport Services Group, Inc. Exchange Income Corporation Forward Air Corporation Cargojet Inc. Hub Group, Inc. Chorus Aviation Inc. AAR Corp. Sun Country Airlines Holdings, Inc. Mesa Air Group, Inc. Air T, Inc.	Delta Air Lines, Inc. United Airlines Holdings, Inc. Southwest Airlines Co. Spirit Airlines, Inc. Alaska Air Group, Inc. JetBlue Airways Corporation Frontier Group Holdings, Inc. SkyWest, Inc. Copa Holdings, S.A. Allegiant Travel Company Hawaiian Holdings, Inc. Mesa Air Group, Inc.

