



Aerospace | Defense & Government
Intelligence Community

May 2025 Market Snapshot



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How Shifting Risk, R&D and Investment Must Drive the Next Valuation Cycle

For decades, contractors in the federal space have internalized a cautious approach to margins. Compliance culture, cost-plus norms, and political aversion to “excess profit” embedded a mindset of margin minimization—especially for firms in price-sensitive agencies or traditional government lanes. That model is slowly breaking down as policy-makers, driven by urgency across the defense and national security landscape, seek to shift more risk to commercial industry and their investors. Whether through venture capital in dual-use startups, private equity in roll-ups, or growth equity in next-gen platforms, the burden of innovation is being transferred to the commercial market.

This is not just a procurement trend—it’s a strategic pivot. And it has serious implications for our defense industrial base.

As *First Breakfast* aptly argues in [Weaponize Capitalism](#), Washington wants Silicon Valley (and Wall Street) to deliver the future of defense—but still seems uneasy about the business models required to make that happen. If the U.S. government expects investors to fund long-range R&D, sustain hardware innovation, and carry new entrants through long procurement cycles, returns must be commensurate. That means two things must change:

1. *Government must be willing to pay for outcomes, not inputs—even if margins appear “excessive” compared to historical norms.*
2. *The private sector must find those margins—because without them, there is no viable return profile and investment will dry up.*

In a market where top-line growth is constrained by flat budgets, the only way to justify today’s investment levels—particularly in high-valuation, venture-backed firms—is through margin expansion and multiple expansion. VC and PE firms have poured billions into companies building dual-use ISR platforms, autonomy stacks, cyber tools, and space-based architectures. The expectation isn’t just 2x or 3x—it’s 10x or more. Yet in defense, total addressable market size is largely fixed.

So how do you get 10x returns in a flat market? You don’t grow volume—you grow value. That value must come from better economics: productized services, software margins, recurring revenue, and capital-efficient growth. And the government must be willing to pay for those economics—not suppress them. If the government wants commercial risk capital to carry innovation, it cannot simultaneously punish profitability.



Please see additional insights on the satellite & space industry in the [May 2025 Market Monitor](#) from our partners at Quilty Space.

(Continued)

Margins can no longer be just a compliance metric in this industry—they are an economic signal:

- **They enable financing.** Buyers, especially private equity, can use more leverage to acquire high-margin companies. Lenders prefer deals with 20–30% EBITDA margins.
- **They signal defensibility.** Especially in recurring or IP-based models, high margins suggest scale, moat, and pricing power.
- **They allow reinvestment.** A business with strong cash generation doesn't need constant recapitalization. That lowers risk and drives valuation.

We've written in prior Snapshots ([here](#) and [here](#)) about the valuation expectations of venture-backed defense unicorns—expectations well above where traditional primes trade. Those expectations don't disappear. They either get realized or they crash, along with future investment. Margin expansion is the only viable bridge between the two.

The government's push to shift innovation and technical risk to private industry isn't a theory—it's already happening. But the capital structure supporting that innovation needs a path to return. That path runs directly through margin expansion and valuation growth.

This isn't about rewarding greed. It's about sustaining a viable innovation pipeline in an era of budget constraint and technological urgency. Companies that can deliver superior outcomes—faster, cheaper, and more reliably—deserve to be rewarded with margins that support reinvestment, durability, and scale.

If private industry and the investment community is to deliver the next generation of national security capabilities, margins—and valuations—will have to do the heavy lifting. While this sounds like an easy prescription for many issues we see in the contracting environment, the larger issue may be the Government's insistence on ownership/control of Intellectual Property. That, however, is a longer discussion for another day.



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Strategy & Policy



✓ [The Five Keys of Donald Trump's Grand Strategy](#)

"The United States must have ready access to...maritime chokepoints for its commercial vessels and also its navy, both in order to protect U.S. trade and to stay ahead of our global competition with China."

✓ [What Happens When You Let the PRC Get Away with the South China Sea Grabs](#)

"I don't think this would be much of a concern if the PRC had a history of being a good-faith and trustworthy partner on the ocean..."

✓ [Make them Fight](#)

"...senior officers spend more time navigating policy meetings than practicing the art and science of war. Without a culture of competition—of trial by simulated fire—we risk fielding a military led by assistant managers..."

Trends in Technology



✓ [Anduril, Meta Team Up for Army IVAS Recompete](#)

"After a well-documented political fallout with people inside the company, Luckey set off and launched Anduril."

✓ [US Navy to Field "Game Changer" Anti-ship Tomahawk](#)

"The more fungible you make a weapon the more utility it has for different circumstances..."

✓ [The Air Force's Secret New Fighter Jet will be Unstoppable-But its Design is a Clever Deception](#)

"...the images don't 'accurately portray the aircraft'..."

Contracting, Procurement & Budget



✓ [Weaponize Capitalism](#)

"No one asks what Apple's profit margin is before buying an iPhone."

✓ [Re-Imagining America's Defense Industrial Base](#)

"In 1950, the US manufacturing labor force made up 33.7 percent of the domestic economy—a figure that has dwindled to less than 8.4 percent today."

✓ [This is the Greatest Existential Threat to the Republic](#)

"In FY 2024, net interest on the debt was \$882 billion. Spending on defense \$874 billion."

Capital Markets



✓ [Voyager seeks \\$1.6 Billion Valuation in US IPO](#)

"The U.S. government is expected to boost spending on defense and space projects, with policymakers predicting Trump would push ahead with a race to the moon and possibly Mars, bolstered by his friendship with SpaceX founder Elon Musk." Oops - SWC

✓ [Rocket Lab to Acquire Geost, Enter Satellite Payload Market](#)

"With the acquisition of Geost, Rocket Lab enhances its position as an end-to-end provider of national security services."

✓ [Leidos Acquires Cyber Company Kudu Dynamics](#)

"...Leidos is implementing a new "NorthStar" strategy that identifies cyber as one of five primary growth areas for the company."

Aviators & Warfighters



✓ [The Four Chaplains and the True Meaning of Memorial Day](#)

"bureaucratic rigidity denied them the Medal of Honor. Congress responded, and the Eisenhower administration awarded the special Four Chaplains' Medal... recognizing their extraordinary heroism beyond the call of duty. It has never been awarded again."

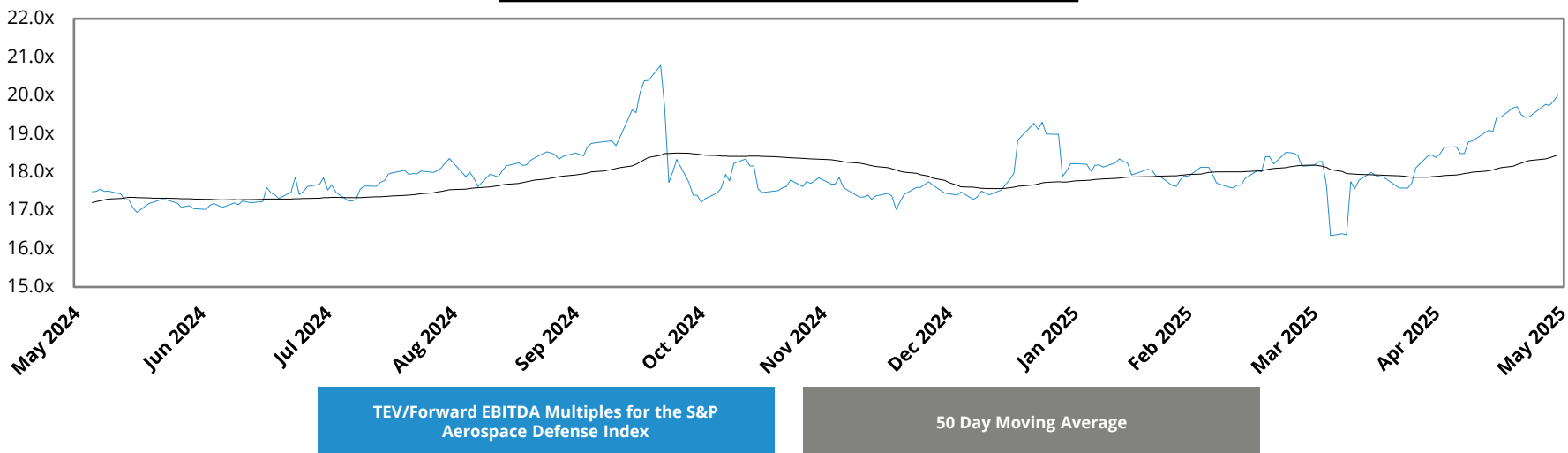
✓ [This WWII Pilot 'Piggy-Backed' his Wingman Home After he was Shot Down](#)

"There was barely enough room to close the canopy..."

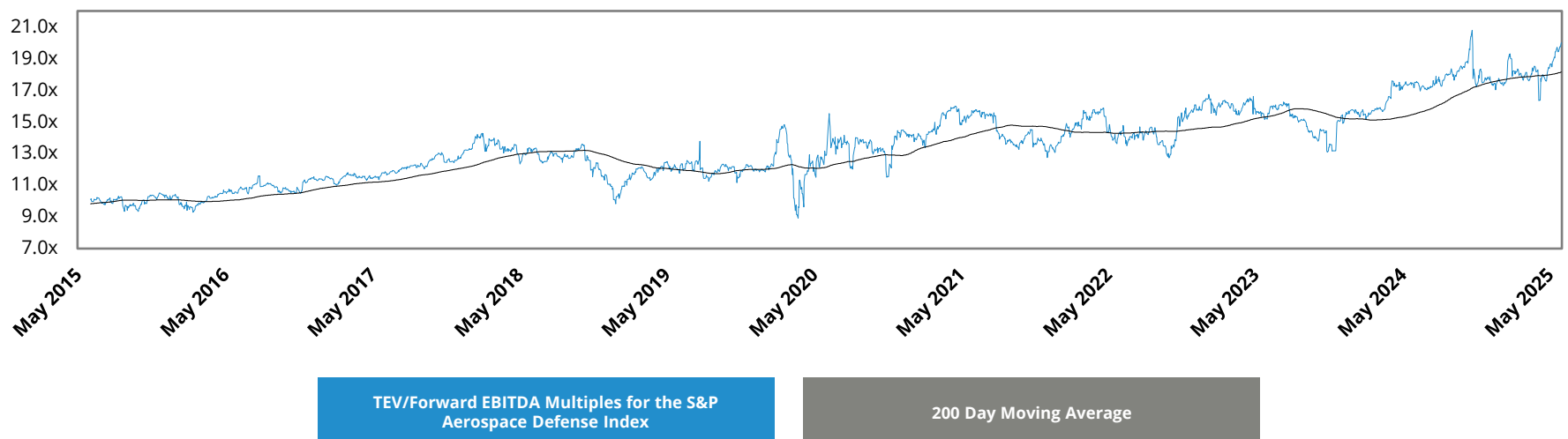
✓ [This Pilot Landed His F-15 with Only One Wing](#)

"Because of the fuel coming from the damaged fuselage, neither he nor his wingman knew that the F-15 was missing a wing."

1-Yr Historical EBITDA Multiples*



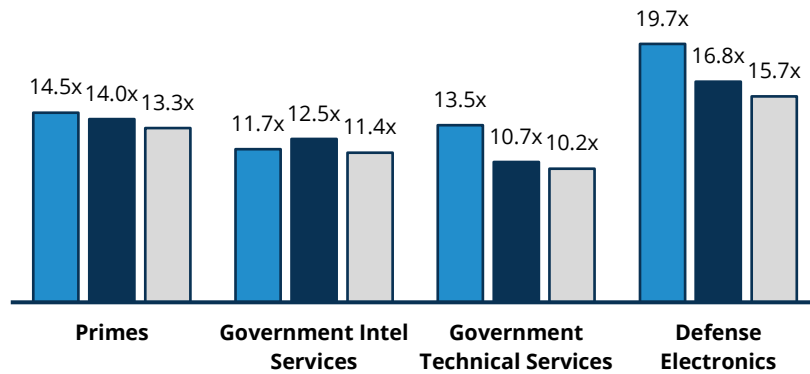
10-Yr Historical EBITDA Multiples*



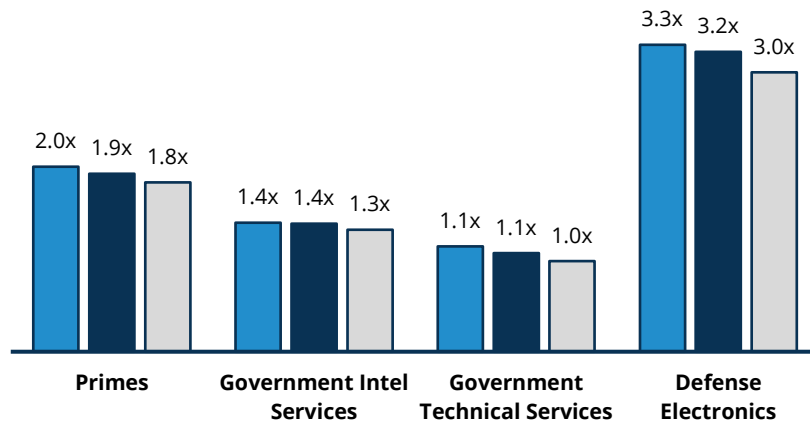
Defense & Government | Intelligence Community*

■ LTM ■ 2025CY ■ 2026CY

Median EV/EBITDA (x)

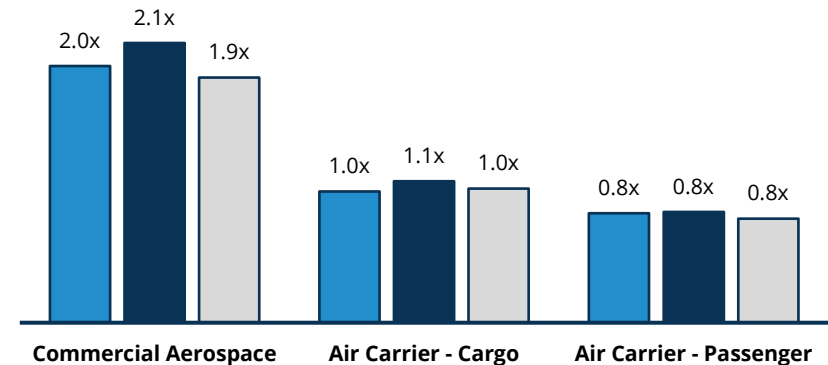
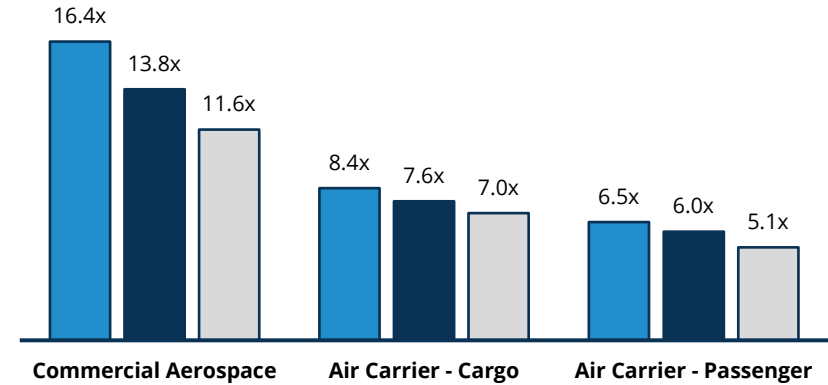


Median EV/Revenue (x)

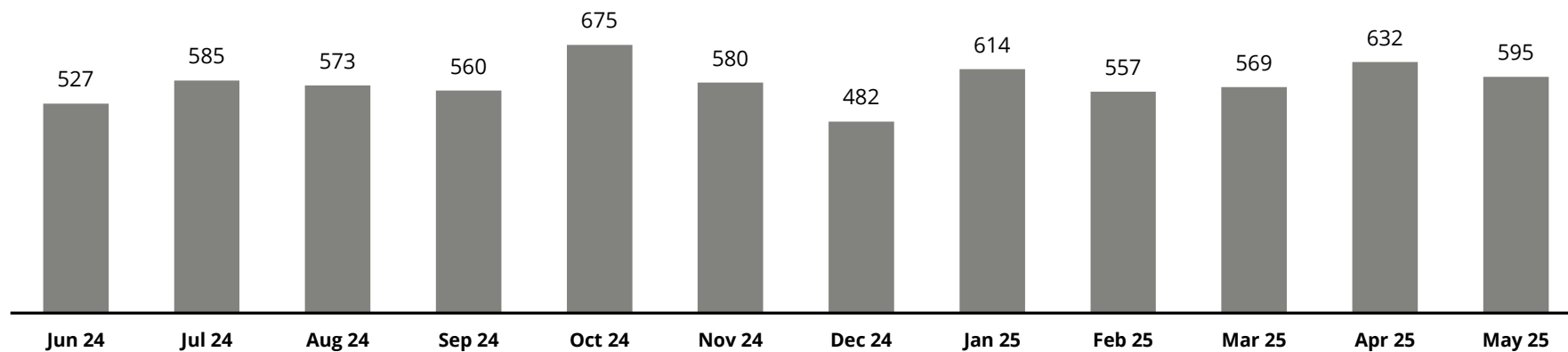


Commercial Aerospace*

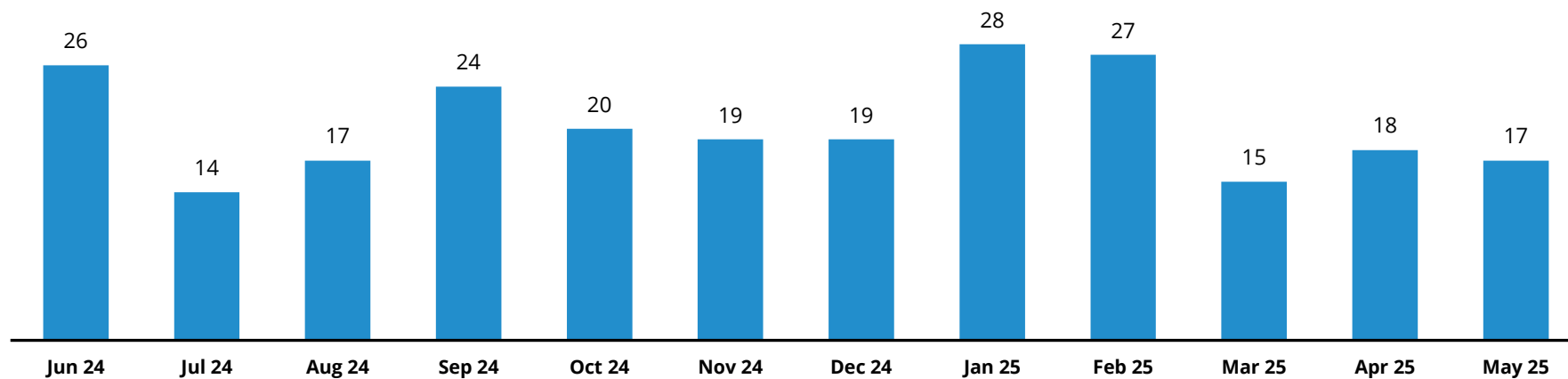
■ LTM ■ 2025CY ■ 2026CY



LTM US M&A Activity—Consolidated*



LTM US M&A Activity—Southwind Industry Universe*



Date	Status	Target	Acquirer/Investor	Transaction Value (US\$ Mil)	Valuation (EV/LTM EBITDA)
05/05/2025	Announced	Klas Limited	Anduril Industries, Inc.	n.d.	n.d.
05/07/2025	Announced	Capella Space Corp.	IonQ, Inc.	\$314.13	n.d.
05/09/2025	Announced	Westjet Airlines Ltd.	Delta Air Lines, Inc.	\$330.00	n.d.
05/18/2025	Announced	Servotronics, Inc.	TransDigm Group Incorporated	\$123.88	273.4x
05/20/2025	Announced	VACCO Industries, Inc.	RBC Bearings Incorporated	\$310.00	n.d.
05/22/2025	Announced	GEOST, LLC	Rocket Lab Corporation	\$325.00	n.d.
05/27/2025	Announced	Silvus Technologies, Inc.	Motorola Solutions, Inc.	\$5,000.00	n.d.
05/01/2025	Closed	Turbine Weld Industries, LLC	VSE Corporation	\$50.00	n.d.
05/01/2025	Closed	Star Lab Corporation	Mercury Systems, Inc.	n.d.	n.d.
05/01/2025	Closed	BlueHalo LLC	AeroVironment, Inc.	\$4,100.00	n.d.
05/06/2025	Closed	SpearMC Management Consulting, Inc.	Mythics, LLC	n.d.	n.d.
05/08/2025	Closed	Columbia Manufacturing, Inc.	Collective Manufacturing Group, LLC	n.d.	n.d.

MONTHLY TRANSACTION ACTIVITY*


Date	Status	Target	Acquirer/Investor	Transaction Value (US\$ Mil)	Valuation (EV/LTM EBITDA)
05/08/2025	Closed	stackArmor, Inc	Tyto Athene, LLC	n.d.	n.d.
05/09/2025	Closed	Byte Systems LLC/iota IT, Inc./Tunuva Technologies	VTG LLC	n.d.	n.d.
05/12/2025	Closed	HiLight Tactical LLC	Clover Acquisition LLC	n.d.	n.d.
05/12/2025	Closed	E-MAG Ignitions, LLC	Hartzell Engine Technologies, LLC	n.d.	n.d.
05/19/2025	Closed	Ampsight, Inc.	AMG HoldCo IV LLC	n.d.	n.d.
05/21/2025	Closed	West Star Aviation, LLC	Greenbriar Equity Group, L.P.	n.d.	n.d.
05/21/2025	Closed	Royal Aircraft Services	Mountain Air Cargo, Inc.	n.d.	n.d.
05/22/2025	Closed	Personal Protective Equipment Business of Honeywell International Inc.	Protective Industrial Products, Inc.	\$1,325.00	n.d.
05/23/2025	Closed	Kudu Dynamics, LLC	Leidos Holdings, Inc.	\$300.00	n.d.
05/27/2025	Closed	Mission training & satellite ground network software business of Northrop Grumman	Serco Inc.	\$327.00	n.d.
05/28/2025	Closed	RCS RMC, Inc.	Karman Holdings Inc.	\$60.00	n.d.
05/30/2025	Closed	Lightsynq Technologies Inc.	IonQ, Inc.	n.d.	n.d.

Date	Status	Company	Deal Type	New Investor(s)	Industry Sector*	Investment Size (US\$ Mil)
5/1/2025	Completed	Dunedain	Seed Round	Context Ventures, Draper Startup House, Outlander VC	A&D	n.d.
5/3/2025	Completed	VastVision Technologies	Grant	New Mexico Economic Development Department	A&D	\$0.93
5/14/2025	Completed	TurbineOne	Later Stage VC	Artisanal Ventures, PROOF, StepStone Group	A&D	\$36.00
5/19/2025	Completed	Sophia Space	Seed Round	CEAS Investments I, Gaingels, Mandala Space Ventures, Unlock Venture Partners	A&D	\$3.50
5/20/2025	Completed	Reveal Technology	Later Stage VC	n.d.	A&D	\$28.47
5/20/2025	Completed	CX2	Early Stage VC	201 Ventures, Pax VC, Point72 Ventures, Upfront Ventures	A&D	\$31.00
5/28/2025	Completed	Walaris	Later Stage VC	n.d.	A&D	\$4.64

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

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





Southwind is a proven merchant bank with exceptional, sector-focused sell-side M&A experience. Our bankers leverage extensive relationships within both the operational and investor communities to provide advice and solutions to product and service providers in the aerospace, defense & government, and intelligence communities.

Multiple Perspectives, Exceptional Advice

- Southwind's senior leadership has decades of industry-specific knowledge and experience as customer, contractor, legal counsel, private equity investor and board member, in addition to over 2 decades of M&A advisory track record.
- We understand the challenges of management and our advice is informed by our background—not only as advisors, but as executives and investors.
- We are also uniquely positioned to anticipate questions and concerns before they arise from prospective suitors, thereby enabling us to effectively (and preemptively) communicate company-specific attributes that will optimize potential outcomes.

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.