

Aerospace | Defense & Government |
Intelligence Community

October 2023 Market Snapshot

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Private Equity Math

An article published in Forbes on October 11, titled: [“The Math: A Venture Capitalist Breaks Down Investment in Defense Startups”](#) outlines presentations that Jake Chapman from Marquee Ventures has been providing to stakeholders in the DoD that present the challenges venture capital (VC) firms face investing in Defense Technology. Similar to later stage investment pools, commonly referred to as private equity (PE), VC funds seek to return 3x to 5x money on invested capital (MOIC) to their investors.

While later stage PE funds have been making money on Defense contractors for at least as far back as the 1990s when Carlyle purchased companies like GDE Systems and Magavox, we thought it might be valuable to briefly outline for founders and owners of defense contractors that have not experienced a PE investment, the financial constraints PE firms face when considering how to value an investment in a company.

Unlike VC funds, which rely on 3 out of 10 of their investments to generate virtually all their returns (placing a much higher return burden – up to 20x and possibly as much as 100x - on the successes), later stage PE generally plan for all their investments to be successful and do not need to plan for 70% failure by seeking outsized returns. One similarity between early-stage VC and later stage PE is the fees. As outlined in the Forbes article, approximately 20% of the committed capital from investors will be utilized to pay the overhead of the fund managers over the life of the fund, leaving 80% of the capital to be invested. Hitting 5x would actually require 6.25x return from the capital invested.

The chart on the right shows how much organic compound annual growth rate would be required for an investor to generate just 3x returns over 3-6 years based on varied leverage levels, assuming the investor sold the company for the same value multiple for which they purchased it. At 50% leverage, a company will have to demonstrate the ability to generate almost 20% annual growth over a 5-year period.

There are many other variables at play here but if a seller cannot show 20% growth (including from acquisitions – they are not free), expect a heavy discount to market multiples as investors will need to generate return partially from paying a lower entry valuation. The ‘good news’ here is that virtually all private equity investors will require a seller to participate by re-investing or rolling a portion of their proceeds, allowing the seller to participate in this upside growth.

PE is an active and growing category of buyer in our industry. If you are considering a sale of your company, a professional investment banking partner should be working with you to demonstrate this growth to what is likely the largest buyer category for lower middle market companies. This will still serve you well, even if you are fortunate enough to be an attractive target to other investors that have lower return targets & hurdles (and thus can afford to pay higher valuations).

Observations

	Returns				Returns				Returns			
Holding Period (Yrs)	3	4	5	6	3	4	5	6	3	4	5	6
MOIC	3.0x	3.0x	3.0x	3.0x	3.0x	3.0x	3.0x	3.0x	3.0x	3.0x	3.0x	3.0x
ROI	73%	44%	32%	25%	73%	44%	32%	25%	73%	44%	32%	25%
Organic Annual Growth Required	58%	36%	26%	20%	41%	26%	19%	15%	22%	14%	11%	8%
Leverage	25%				50%				75%			



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

Strategy & Policy



✓ [What If Everyone Wanted a Maritime Strategy but We Never Got One?](#)

"Today, the United States ranks just 19th in shipbuilding and produces less than ½ a percent of the world's commercial ships."

✓ [SOCOM Needs New Tech, Old Approaches](#)

"Going forward, SOF won't be able to call the timeline and the shots against a peer competitor."

✓ [The Role of the Private Sector in Warfare](#)

"...insufficient attention has been paid to the actions that will be required of the private sector beyond just the defense industrial base as part of accomplishing an effective defense."

Trends in Technology



✓ [Lawmakers, Experts Raise Concerns Over Pentagon's Ambitious Replicator Drone Initiative](#)

"As it currently stands, Replicator is kind of aiming at the wrong problem..."

✓ [DoD Needs to Step Up Support for Commercial Space](#)

"The danger stemming from under investment by the DoD in the commercial space sector is that the VC community begins to withdraw from the market because it doubts a return on its investment."

✓ [The Story Behind "The Secret History of Silicon Valley"](#)

"Part I. Thailand: Bats, Moths and John Scoggins."

Contracting, Procurement & Budget



✓ [Space Force Sees SATCOM Awards Surging to \\$20B this Fiscal Year](#)

"The total value of the contracts to be solicited this fiscal year, which began Oct. 1, is an exponential increase from the \$1.6 billion awarded across the SATCOM and PNT portfolios in fiscal 2023."

✓ [Buy Commercial or Lose](#)

"The defense industrial base continues to shrink five percent annually and lost 40% of small businesses over the last decade."

✓ [SpaceX Selling 'Starshield' Will Be a Gamechanger](#)

"Space Force has set aside \$900 million through 2028 to build "space architecture" in low Earth orbit."

Capital Markets



✓ [The Math: A Venture Capitalist Breaks Down Investment In Defense Startups](#)

READ THIS - SWC

✓ [Hot in Here](#)

"We've seen a shift from defense technology as a niche sub-sector in the VC industry, to it becoming the "it" sector."

✓ [Defense Industrial Base: DoD Needs Better Insight into Risks from M&A](#)

"DoD's most recently published statistics on defense M&A...indicated that approximately 400 defense M&A occurred annually."

Aviators & Warfighters



✓ [Hawkeye Bailout at 4,000 Feet](#)

"This article is dedicated to the memory of Lieutenant Robert A. Forwalder, 24 April 1967–26 March 1993."

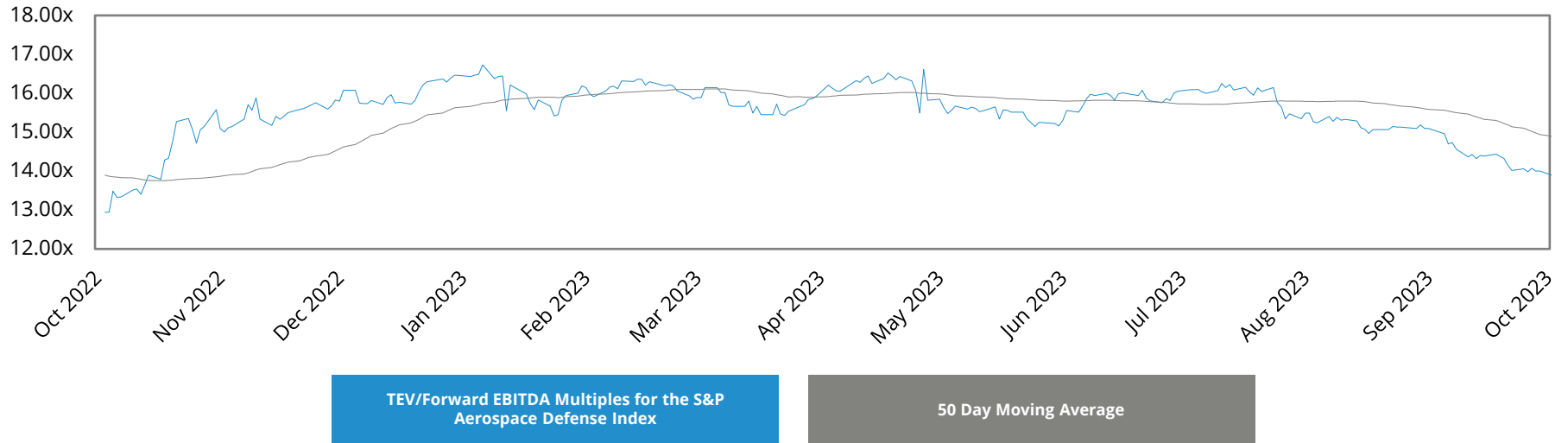
✓ [On the Ground in Grenada, 40 Years After Urgent Fury](#)

"Operation Urgent Fury was also the first major use of the Black Hawk helicopter..."

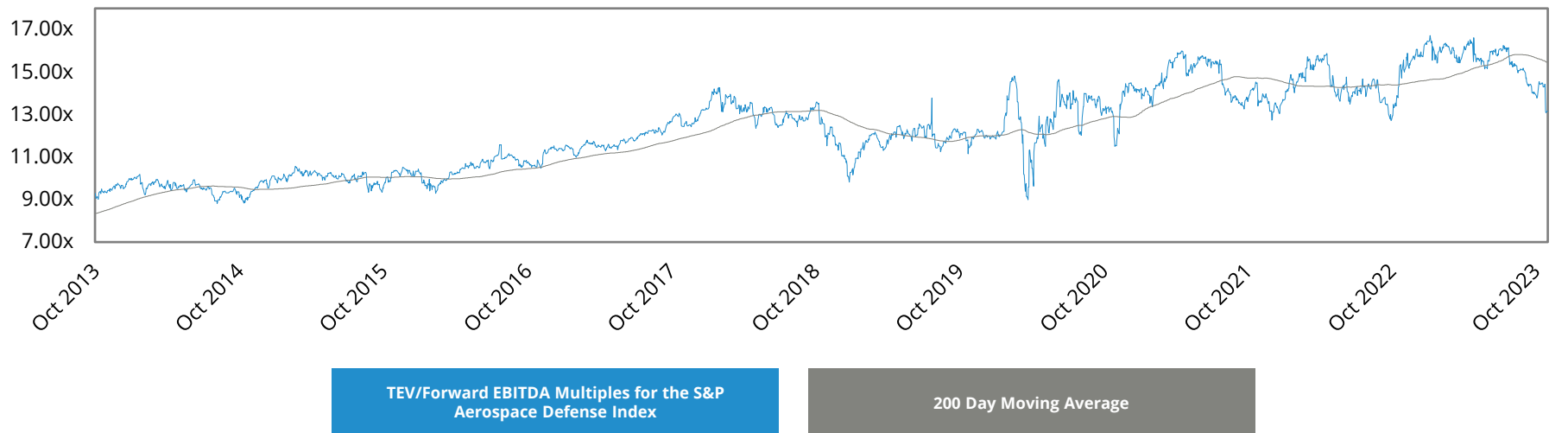
✓ [The Navy SEALs' Two Original and Little-Known Missions](#)

"...it seems shortsighted to rule out the possibility of amphibious landings in a future large peer-to-peer conflict."

1-Yr Historical EBITDA Multiples*



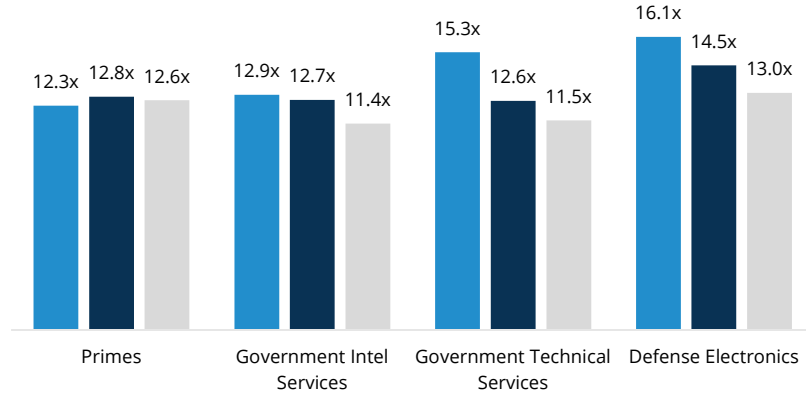
10-Yr Historical EBITDA Multiples*



Defense & Government | Intelligence Community*

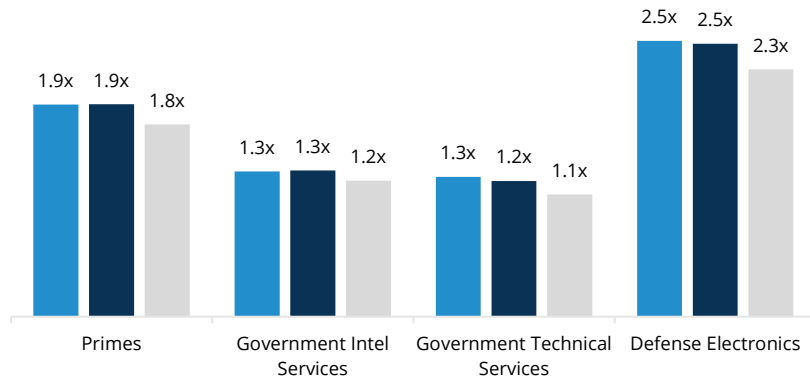
■ LTM ■ 2023CY ■ 2024CY

Median EV/EBITDA (x)



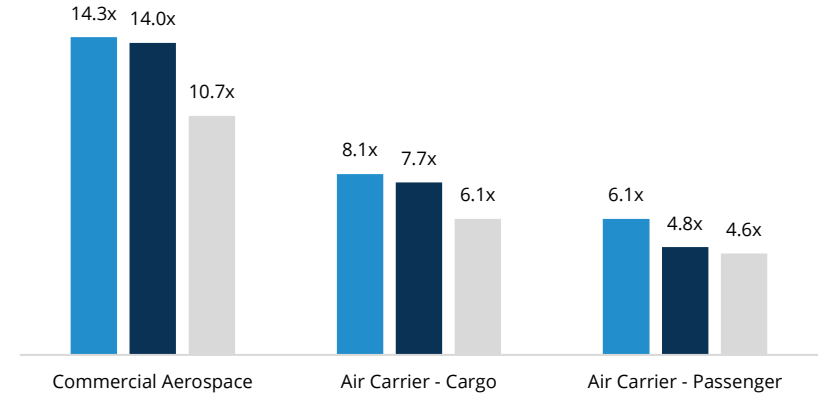
■ LTM ■ 2023CY ■ 2024CY

Median EV/Revenue (x)

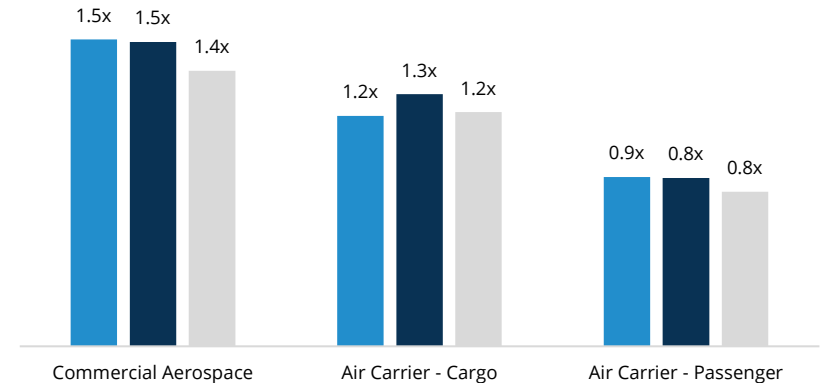


Commercial Aerospace*

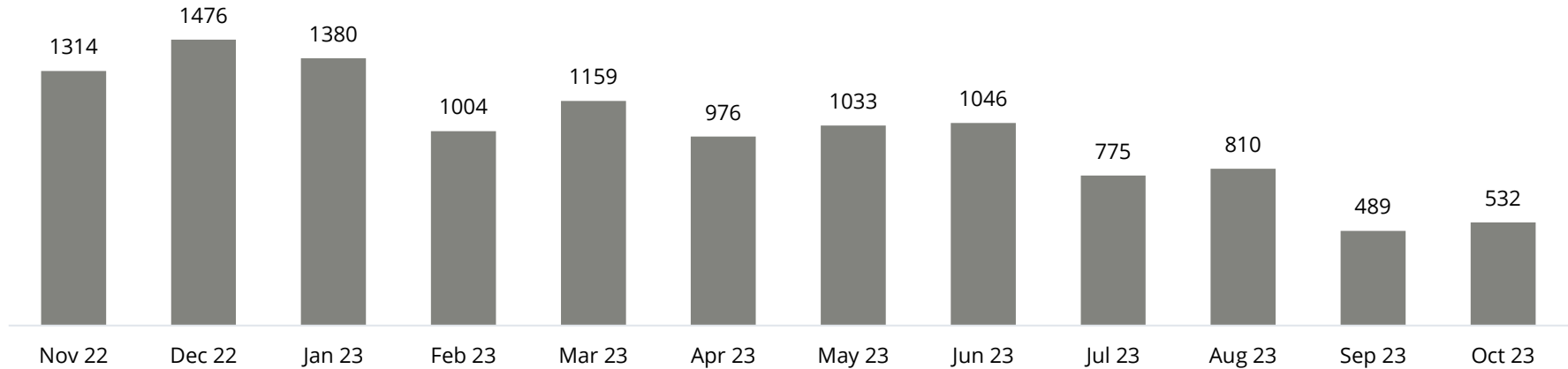
■ LTM ■ 2023CY ■ 2024CY



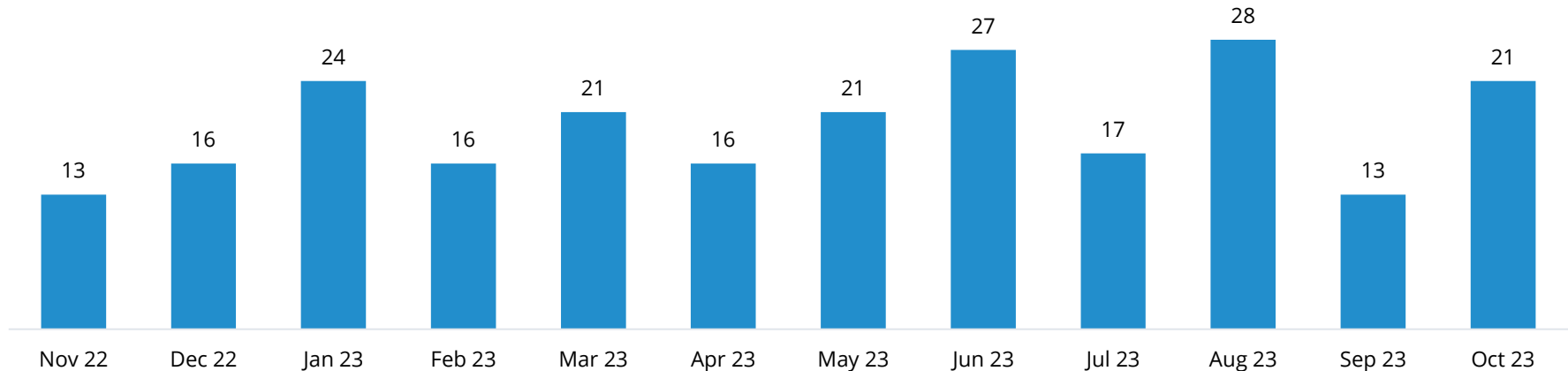
■ LTM ■ 2023CY ■ 2024CY



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)
10/30/2023	Announced	Superior Technical Ceramics Corp.	IDEX Corporation	\$206.00	n.d.
10/24/2023	Announced	CAE Healthcare, Inc.	Madison Industries Holdings LLC	n.d.	n.d.
10/24/2023	Announced	Cybersecurity, Intelligence and Services Business within Raytheon Segment of RTX Corporation	[undisclosed]	\$1,300.00	n.d.
10/17/2023	Announced	Gama Aviation Engineering, Inc.	West Star Aviation, LLC	\$131.70	n.d.
10/17/2023	Announced	BP Aerospace, LLC	ITP Aero US	n.d.	n.d.
10/17/2023	Announced	Vertical Applications, Inc.	Mindpetal Software Solution, Inc.	n.d.	n.d.
10/16/2023	Announced	Hartzell Aviation	Arcline Investment Management LP	n.d.	n.d.
10/16/2023	Announced	Airspace Experience Technologies, Inc	ShoulderUp Technology Acquisition Corp.	n.d.	n.d.
10/12/2023	Announced	Power Systems Technology of Comtech Telecommunications Corp.	Stellant Systems, Inc.	\$40.00	n.d.
10/31/2023	Closed	Shaw Development, LLC	Madison Dearborn Partners, LLC	n.d.	n.d.
10/31/2023	Closed	ARINSPECT Inc.	Tyler Technologies, Inc.	n.d.	n.d.


Date	Status	Target	Acquirer/Investor	Transaction Value (US\$ Mil)	Valuation (EV/LTM EBITDA)
10/31/2023	Closed	Resource Exploration, Inc.	Tyler Technologies, Inc.	n.d.	n.d.
10/26/2023	Closed	Allied Associates International, Inc.	Redhorse Corporation	n.d.	n.d.
10/24/2023	Closed	Iris Automation Inc.	uAvionix Corporation	n.d.	n.d.
10/17/2023	Closed	Military/Aerospace Division of West Penetone	Integrity Partners Group, LLC	n.d.	n.d.
10/17/2023	Closed	Queues Enforth Development, Inc.	22nd Century Technologies, Inc.	n.d.	n.d.
10/17/2023	Closed	Cartridge Technologies, Inc.	CenterGate Capital, L.P.	n.d.	n.d.
10/10/2023	Closed	Creoal Consulting, LLC	SMX Group, LLC	n.d.	n.d.
10/09/2023	Closed	Flight Training Division of Azure Flight Support	Nashville Flight School LLC	n.d.	n.d.
10/09/2023	Closed	Compaero, Inc.	Isodyne, Inc.	n.d.	n.d.
10/07/2023	Closed	Pax Aero Solutions LLC	AIRtec Inc.	n.d.	n.d.
10/06/2023	Closed	Lancair International, Inc.	JetEXE Aviation Corporation	n.d.	n.d.

Date	Status	Target	Acquirer/Investor	Transaction Value (US\$ Mil)	Valuation (EV/LTM EBITDA)
10/06/2023	Closed	teKnoluxion Consulting LLC	Bridge Core LLC	n.d.	n.d.
10/05/2023	Closed	Airline Strategy Group, Inc.	Seabury Capital Group LLC	n.d.	n.d.
10/05/2023	Closed	HAECO Cabin Solutions, LLC	Zim Aircraft Seating GmbH	n.d.	n.d.
10/04/2023	Closed	Assets of Honeywell International Inc.	VSE Aviation, Inc	\$105.00	n.d.
10/04/2023	Closed	BRI Holdings, LLC	VideoRay LLC	n.d.	n.d.
10/03/2023	Closed	Sierra Technical Services, Inc.	Kratos Defense & Security Solutions, Inc.	\$27.27	n.d.
10/02/2023	Closed	Avenu Insights & Analytics, LLC	Arlington Management Employees, LLC	n.d.	n.d.
10/02/2023	Closed	Global Governments and Critical Infrastructure Business of Forcepoint LLC	TPG Capital, L.P.	n.d.	n.d.

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.