



# ARONSON

CAPITAL PARTNERS

## *JANUARY DEFENSE TECHNOLOGY & GOVERNMENT SERVICES MARKET UPDATE*

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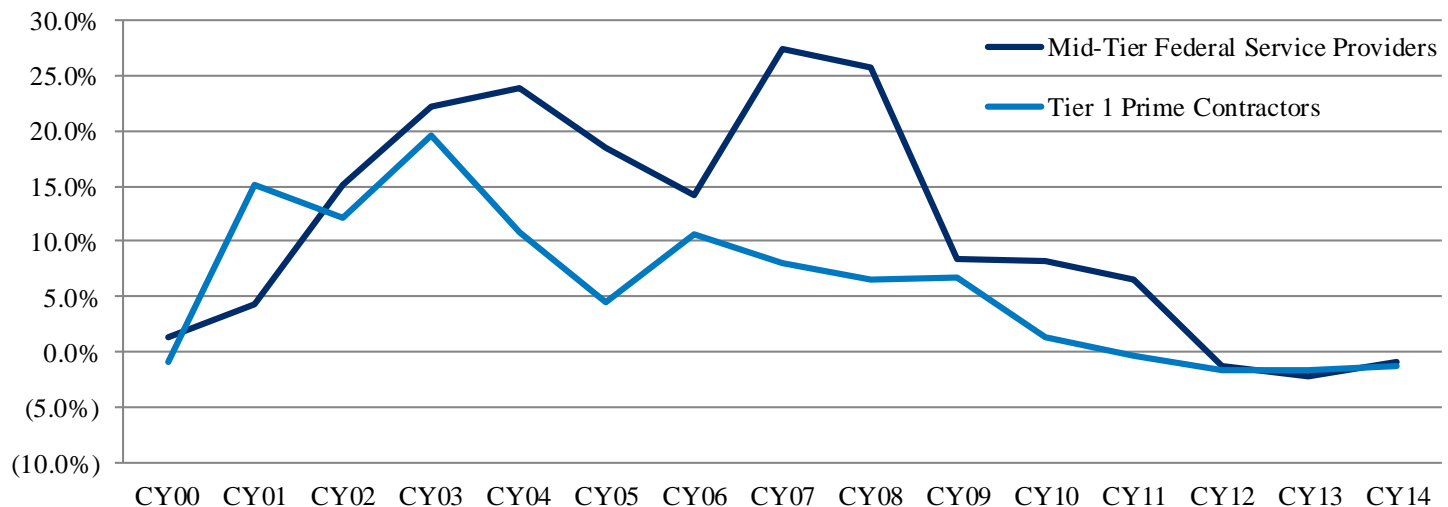
## Q4 2012 Government IT Services Earnings Calls

General Dynamics Corp. (NYSE:GD) released its Q42012 results on January 23, 2013, marking the beginning of earnings call season for our Tier 1 and Mid-Tier government services indices. In addition to GD, nine other companies released Q42012 earnings by January 31, including: The Boeing Company (NYSE:BA), Booz Allen Hamilton Holding Corporation (NYSE:BAH), CACI International Inc. (NYSE:CACI), CGI Group, Inc. (TSX:GIB.A), L-3 Communications Holdings Inc. (NYSE:LLL), Lockheed Martin Corporation (NYSE:LMT), Mercury Systems, Inc. (NYSE:MRCY), Northrop Grumman Corporation (NYSE:NOC), and Raytheon Co. (NYSE:RTN).

Unsurprisingly, the results are less than encouraging. Each of the 10 companies expressed continuing concerns about U.S. budgetary uncertainty, the continuing resolution, and the looming threat of sequestration. All claimed to have experienced significant top level and margin pressures in CY2012 that are expected to continue into CY2013, and many have already undertaken pre-emptive cost-cutting measures.

Mirroring these concerns, analysts' outlooks for these companies is grim over the next 12-24 months. The graph below shows the median historical and projected revenue growth over prior year since 2000. CY2012 is the first year in which both the Tier-1 and Mid-Tier indices are projected to experience negative growth, continuing through CY2014.

### Revenue Growth Over Prior Year (Median)



Source: CapIQ

Mid-Tier Index: BAH, CACI, DRCO, EGL, ICFI, KEYW, MANT, NCIT, SAI, VSE, XLS

Tier-1 Index: BA, GD, LLL, LMT, NOC, RTN

Responding to the news, the median percentage change in the per share price on the next trading day following the earnings release for these 10 companies was -1.1%, with only two companies' shares (CGI and L-3) increasing the following day. As a whole, the smaller, more specialized government IT services Mid-Tiers suffered a greater loss, while the more diversified Tier-1 contractors have been able to offset losses in the government IT services sector with gains elsewhere. For example, both Boeing and LMT experienced record deliveries in the commercial and defense aerospace markets, (respectively) in 2012, and only experienced a share price drop of -1.0% and -0.9% (respectively).

In addition to strength from commercial markets, contractors have also been able to offset losses in the U.S. market with gains internationally. International customers comprised 24% of Boeing's Defense, Space & Security sales in CY2012, and currently comprise 41% of the division's total backlog going into 2013. Raytheon experienced a similar trend, with international customers comprising 27% of Q42012 revenue and a full 40% of bookings for the quarter.

The following pages include an in-depth analysis of each earnings call, and keep a look out for ACP's February Market Update, where we will be releasing Round 2 of Q42012 Earnings Calls, to include: DRCO, EGL, ICFI, KEYW, MANT, MMS, NCIT, SAI, VSEC, and XLS.



<b>Report Date:</b>	1/30/2013
<b>Share Price Change:</b>	(1.0%)
<b>Consensus Revenue:</b>	\$22,360
<b>Consensus EPS:</b>	\$1.19
<b>Reported Revenue:</b>	\$22,302
<b>Reported EPS:</b>	\$1.28

*“Our defense business continues to maximize efficiencies and reduce infrastructure costs. ... And while the threat of budget sequestration creates added uncertainty, unmanned systems, C4ISR, cyber security and international markets continue to offer a broad range of new opportunities.” – Chairman, President & CEO*

- ❑ BA’s Defense, Space & Security unit saw a revenue decrease of 2% in Q42012 over Q42011, but an overall 2% increase for total FY2012 over FY2011. Chairman, President & CEO Jim McNerney mentioned the overall budgetary pressures in the U.S. defense market, but cited growth from international customers, which represent 24% of Defense, Space & Security’s CY2012 revenues and 41% of its backlog.
- ❑ Small growth in the U.S. defense market was driven by greater than expected P-8 and Apache deliveries.
- ❑ BA posted impressive revenue growth for FY2012 of 18.9% over FY2011, driven primarily by its commercial air business, having delivered 601 planes over the year (most since 1999).
- ❑ CY2013 revenue guidance reflects a low single-digit percentage increase, under the assumptions of continued growth in commercial aircrafts and a “continued challenging DOD environment.”

## Booz | Allen | Hamilton

<b>Report Date:</b>	1/30/2013
<b>Share Price Change:</b>	(5.5%)
<b>Consensus Revenue:</b>	\$1,430
<b>Consensus EPS:</b>	\$0.38
<b>Reported Revenue:</b>	\$1,390
<b>Reported EPS:</b>	\$0.38

*“At every level in our Company, we are making changes to ensure our cost competitiveness to win and perform work in the current business environment” – CEO*

- ❑ Though not historically an active acquirer, BAH closed two acquisitions last quarter; CEO Ralph Schrader commented, “We are shaping our destiny by continuing to invest in growth areas such as cyber, cloud, and health, in our emerging commercial and international markets, and in new capabilities such as predictive intelligence and rapid prototyping.”
- ❑ BAH expects revenue to decline by a low single digit percentage for Booz Allen’s fiscal 2013, as compared with the prior fiscal year, even though it is inclusive of the ARINC DSES acquisition.
- ❑ Due to the uncertainty in the market, BAH did not provide initial guidance about management’s expectations for the next fiscal year.
- ❑ The Company authorized and declared a regular quarterly cash dividend of \$0.09 per share.



<b>Report Date:</b>	1/31/2013
<b>Share Price Change:</b>	(3.0%)
<b>Consensus Revenue:</b>	\$962.0
<b>Consensus EPS:</b>	\$1.64
<b>Reported Revenue:</b>	\$931.6
<b>Reported EPS:</b>	\$1.69

*“We have made some small divestitures, not material in nature, but we don’t see an aspect of our portfolio at the moment that we feel is in need of consideration for divestitures.” – CEO*

- ❑ CACI revises guidance lower: “In the back half of our [second] quarter, we began to see our customers take a more cautious approach to spending as well as awarding contracts, driven by the uncertainties around sequestration. As we look to the second half of our fiscal year, we expect our customers' behavior to continue with fewer contract awards than planned. Given these conditions, we are revising our guidance for the remainder of this fiscal year.”
- ❑ FY 2013 revenue guidance lowered from \$3.8 - \$4.0B to \$3.7B - \$3.9B.
- ❑ FY 2013 EPS guidance lowered from \$6.64 - \$6.93 to \$6.54 - \$6.79.
- ❑ With regards to capital deployment, M&A has always been a priority and will continue to be a priority.
- ❑ CACI closed two acquisitions in the recent quarter – IDL Solutions and Emergint Technologies.



<b>Report Date:</b>	1/30/2013
<b>Share Price Change:</b>	8.3%
<b>Consensus Revenue:</b>	\$2,484
<b>Consensus EPS:</b>	\$0.46
<b>Reported Revenue:</b>	\$2,530
<b>Reported EPS:</b>	\$0.44

*“Our clients continue to respond in a positive manner to the expanded scale and scope of our offerings and operations following our merger.” - CEO*

- ❑ Share price rises 8.3% after the earnings release and the CEO’s positive commentary on the integration of Logica plc and the potential accretion to earnings per share in the range of 25% to 30% (excluding acquisition and integration costs); accretion rate will gradually increase throughout the three year integration period.
- ❑ “After just five months of operations, we can confirm that the anticipated fit of this transaction, strategically, operationally and financially. I can also confirm that we are aggressively adjusting the cost base to reduce overhead and increase our competitiveness while transforming the business into the CGI performance-based model.”
- ❑ Quarterly year-over-year revenue growth of 145% with a 1.1x book to bill in the quarter.
- ❑ Maintain over \$1B of liquidity to execute on CGI’s buy and build strategy.

## GENERAL DYNAMICS

<b>Report Date:</b>	1/23/2013
<b>Share Price Change:</b>	(1.1%)
<b>Consensus Revenue:</b>	\$8,800
<b>Consensus EPS:</b>	\$1.89
<b>Reported Revenue:</b>	\$8,078
<b>Reported EPS:</b>	(\$6.07)

*“The plan contemplates a full year’s continuing resolution and is reasonable, subject to some risk on the sales side in the event of sequestration and more draconian budget cuts than currently contemplated. Due to its short cycle businesses and O&M exposure, the IS&T outlook will remain most sensitive to any additional budget cuts that may occur.”- Chairman, President, CEO & COO*

- ❑ GD posted a significant loss in Q42012. The largest contributor to this loss is a nearly \$2B Impairment of Goodwill related to past acquisitions. Since 1997, GD’s Information Systems & Technology (“IS&T”) group has completed 38 acquisitions, totaling \$8.1 B of Goodwill (58% of GD’s total Goodwill). Top line and margin pressures brought about by slow defense spending caused GD to reduce the carrying charge value of IS&T’s Goodwill by 25%.
- ❑ Chairman, CEO, President, and COO Phebe Novakovic, on GD’s acquisition process: “I can tell you, there are almost no acquisition candidates in the current pipeline. I also believe that the acquisition process is somewhat broken, and I will not venture back into that market until we have reestablished the discipline in this process.”
- ❑ CY2013 revenue guidance reflects a 1% increase over CY2012. This represents a 16% increase in Aerospace, offset by 3% - 4% declines in the Defense market.



<b>Report Date:</b>	1/30/2013
<b>Share Price Change:</b>	(0.3%)
<b>Consensus Revenue:</b>	\$3,500
<b>Consensus EPS:</b>	\$2.12
<b>Reported Revenue:</b>	\$3,560
<b>Reported EPS:</b>	\$2.25

*“The threat of the sequestration has caused significant problems in valuing businesses – in many cases, it’s hard to tell who’s the winners and who’s the losers.” – Chairman, CEO & President*

- ❑ L-3 ended the year with funded backlog of \$10.9 billion, up about 10% year-over-year.
- ❑ In Q4, the company’s decrease in DoD was offset by increases in commercial, international, and acquisition-based revenue; the Company plans to continue to grow its revenue in commercial, international, and acquisition opportunities.
- ❑ In Q4 L-3 repurchased \$368 million of its common stock and paid dividends of \$46 million; the Company plans to buy back more shares in 2013.
- ❑ Management expects a decline in sales for 2013 versus 2012 of about 4% or \$500 million at mostly due to the Afghanistan drawdown, which will reduce sales by about \$400 million.
- ❑ 2013 guidance for operating margin is 10%, which is 30 basis points lower than 2012 due to higher pension expense and sales mix changes, primarily in Electronic Systems.



<b>Report Date:</b>	1/24/2013
<b>Share Price Change:</b>	(0.9%)
<b>Consensus Revenue:</b>	\$11,160
<b>Consensus EPS:</b>	\$1.82
<b>Reported Revenue:</b>	\$12,099
<b>Reported EPS:</b>	\$1.73

*"[The CR] will cause funds to run short in some accounts and we'll continue last year's dated priorities that don't necessarily reflect the new defense strategy. We are strongly urging Congress to pass the defense appropriations bill in March and not extend the CR for the remainder of the year." – President & CEO*

- ❑ LMT closed on two acquisitions last quarter, ChandlerMay and CLD Systems. According to President & CEO Marilyn Hewson, "Both of these acquisitions expand our offerings in support of our customers increased emphasis on advanced unmanned systems," and continue LMT's "string of pearls" acquisition strategy in growing its unmanned systems footprint.
- ❑ For CY2012, LMT grew revenues to an all-time high of \$47.2 billion, with three out of five business units growing revenue – only Information Systems & Global Services showed a reduction in sales versus 2011. LMT's largest growth driver was deliveries under the F-35 Joint Striker Fighter program, which is currently contributing \$4.4B of backlog going into 2013. Margin for the year also came in at an all-time high at 11.8%, reflecting the extensive cost-cutting measures undertaken throughout the year.
- ❑ CY2013 revenue guidance reflects a low single digit percentage decrease, and assumes the extension of the continuing resolution.



<b>Report Date:</b>	1/29/2013
<b>Share Price Change:</b>	(7.7%)
<b>Consensus Revenue:</b>	\$48.9
<b>Consensus EPS:</b>	\$0.09
<b>Reported Revenue:</b>	\$49.8
<b>Reported EPS:</b>	(\$0.16)

*"We believe that the expense reductions that we've taken to date is sufficient for the environment... we're taking things one quarter at a time." – CEO*

- ❑ Mercury revenue for CY Q42012 of \$49.8 million was approximately 25% less than revenue for CY Q42011.
- ❑ The Company recently closed on a \$200 million unsecured revolving credit facility intended primarily for future M&A.
- ❑ The company incurred a net loss of \$4.8 million CY Q42012 compared to earnings of \$9 million in CY Q42011 due to lower gross margin resulting from lower revenue and an unfavorable product mix.
- ❑ The Company is projecting CY Q12013 gross margin to be in line with CY Q42012.
- ❑ Mercury is anticipating a full-year of continuing resolution.



<b>Report Date:</b>	1/30/2013
<b>Share Price Change:</b>	(0.6%)
<b>Consensus Revenue:</b>	\$6,300
<b>Consensus EPS:</b>	\$1.75
<b>Reported Revenue:</b>	\$6,476
<b>Reported EPS:</b>	\$2.14

*"Our financial results demonstrate the positive impact of superior program performance driven by cost reductions, affordability initiatives, innovation and portfolio shaping." – Chairman & CEO*

- ❑ Northrop returned more than \$1.8 billion in cash to shareholders through share repurchases and dividends in CY Q42012.
- ❑ Company backlog increased 3% to \$40.8 billion and funded backlog increased more than 10% to \$25.7 billion.
- ❑ Management expects sales to decrease by approximately \$1 billion in 2013 for total revenues of \$24 billion due to lower volume in space programs, target attack radar systems, design and production of the F/A-18 strike fighter; troop drawdowns overseas; and the continuing resolution.
- ❑ Northrop expects low single-digit growth for core capabilities in cyber and unmanned systems.
- ❑ The Company expects international revenue as a percentage of total revenue to increase from 8% in 2012 to more than 10% in 2013.



# Raytheon

<b>Report Date:</b>	1/24/2013
<b>Share Price Change:</b>	(2.9%)
<b>Consensus Revenue:</b>	\$6,400
<b>Consensus EPS:</b>	\$1.30
<b>Reported Revenue:</b>	\$6,439
<b>Reported EPS:</b>	\$1.60

*“Our focus on lowering costs and program execution drove higher than expected earnings and cash flow for the year.” – Chairman, CEO*

- ❑ The Companies Q42012 international revenue increased 8% over last year and represents 27% of the quarter's total revenue.
- ❑ Q4 bookings were \$7.9 billion, resulting in a book-to-bill of 1.23 with international awards comprising 40% of Q4 bookings.
- ❑ Raytheon completed two acquisitions during the quarter: SafeNet Government Solutions, a world-class provider of encryption technology and Teligy, a specialized provider of wireless RF communication, vulnerability analysis, reverse engineering, and rapid prototyping.
- ❑ During Q4 the Company repurchased 1.8 million shares of common stock for \$100 million.
- ❑ In Q4, the Company issued \$1.1 billion of 10-year debt at 2.5% using the proceeds primarily to retire debt with 2014 and 2015 maturities.

## Selected M&A Transactions

### *CACI International, Inc. Acquires IDL Solutions, Inc.*

CACI International announced on January 2, 2013 that it has acquired IDL Solutions, a 100+ employee IT solutions provider operating at the intersection of healthcare IT and big data analytics. IDL seeks to drive cost effective business processes, improve patient care, and increase mission success by gaining new insights via the large amount of health data that is currently available yet underutilized.

According to the transaction announcement, "This acquisition expands CACI's presence in the \$33.5 billion addressable healthcare market and the federal health insurance area in particular, and complements its November 2012 acquisition of healthcare IT provider Emergent Technologies, Inc." Key drivers behind the acquisition include IDL's prime, multi-billion, multi-award IDIQs, including CMS's \$4 billion Enterprise Systems Development ("ESD"), FDA's \$2 billion Enterprise Systems Life Cycle Management ("ELMS"), and NIH's \$20 billion Chief Information Officer-Solutions and Partners 3 ("CIO-SP3").

IDL's 2012 revenues are estimated at \$18.5 million. Financial terms of the deal were not disclosed.

### *CRGT, Inc. (Portfolio Company of Veritas Capital) Acquires Guident Technologies, Inc.*

CRGT, Inc. announced on January 7, 2013 that it has acquired Guident Technologies, Inc., a provider of end-to-end data analytics strategy and planning services, as well as enterprise solutions including data warehouse, data management, and business analytics services.

The acquisition highlights the federal M&A market's continued interest in big data solutions providers, as Guident addresses the three largest big data challenges today: "volume, variety, and velocity." According to CRGT CEO & President Tom Ferrando, "Data volume is currently generated at an exponential level and is expected to double every two years with an expected compound annual growth of over 40%. Fragmented sources of data continue to complicate the challenge of aggregating, synthesizing and storing that data in an economical fashion. The acquisition of Guident will help us provide compelling solutions to manage both structured and unstructured data challenges for our clients." Guident represents Veritas' third bolt-on acquisition to the CRGT platform since it first acquired CRGT in 2008. Financial terms of the deal were not disclosed.

### *ManTech International Corp. Acquires ALTA Systems, Inc.*

ManTech International announced on January 9, 2013 that it has acquired ALTA Systems, a prime small business contract holder of CMS's \$4 billion Enterprise Systems Development ("ESD") multiple award IDIQ. ALTA provides IT solutions in support of capital planning and investment control; system design, development and operation; and fraud detection and statistical analysis. ALTA marks the sixth prime small business ESD contract holder to be acquired, joining (in chronological order): ViPS (General Dynamics), Buccaneer (Vangent), Maricom (CSC), 2020 (Acentia), and IDL (CACI).

According to ManTech Chairman and CEO George Pedersen, "The Patient Protection and Affordable Care Act ("PPACA") will require significant investment in IT systems and processes. With the acquisition of ALTA, ManTech is better positioned to help government programs and healthcare providers meet their responsibilities to provide efficient and comprehensive health care." Financial terms of the deal were not disclosed.

## Priority Acquisition Market Analysis: NSA

In recent years, the National Security Agency (“NSA”) market has been an acquisition hot spot, as large contractors attempt to re-position their contract portfolio into the faster growing segments of federal spending. The pace of acquisitions accelerated in early 2010 following the creation of the U.S. Cyber Command (USCYBERCOM), especially once it was confirmed that the sub-unified command would be co-located with both the NSA and recently relocated Defense Information Systems Agency (“DISA”) at Ft. Meade. Well-positioned NSA contractors not only offer an acquirer access to the largest U.S intelligence agency, but an entrée into USCYBERCOM, which is commanded by General Keith Alexander, the Director of the NSA.

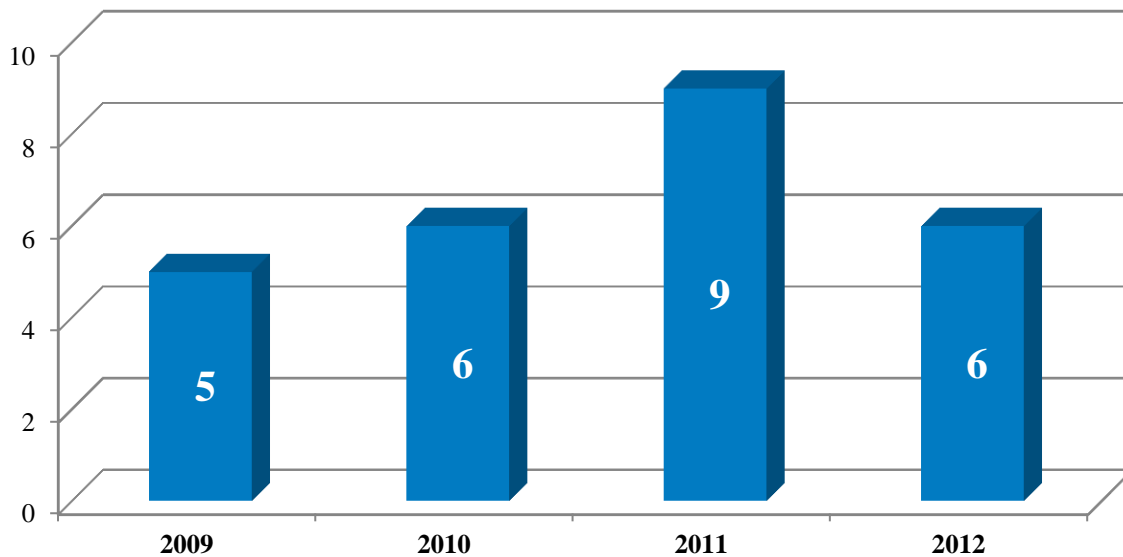
On January 27, 2013, the Washington Post published an article stating that in late 2012, the Pentagon approved a major expansion of USCYBERCOM, from 900 personnel to approximately 4,900. In the midst of sequestration risk, a continuing resolution, and debt ceiling headlines, such a significant increase in personnel only highlights the significance of the cyber threat to our nation.

According to the Washington Post, the increased personnel at USCYBERCOM will fall into one of three categories:

- National Mission Forces – to protect computer systems that undergird electrical grids, power plants, and other critical infrastructure
- Combat Mission Forces – to help commanders abroad plan and execute attacks (offensive operations)
- Cyber Protection Forces – to fortify the Defense Departments networks

Because USCYBERCOM is so intertwined with the NSA, we expect this increase to further validate a buyer’s investment thesis on the Fort Meade market. When government personnel increase, contractor dollars typically follow. In the past four years, there have been 26 acquisitions of companies whose primary customer was the NSA. This number peaked in 2011 when there were nine transactions closed, as shown in the below graphic. In 2013 & 2014, we expect that targets focused on the NSA market will continue to stay at the forefront of strategic buyers’ acquisition criteria.

### Completed NSA Transactions



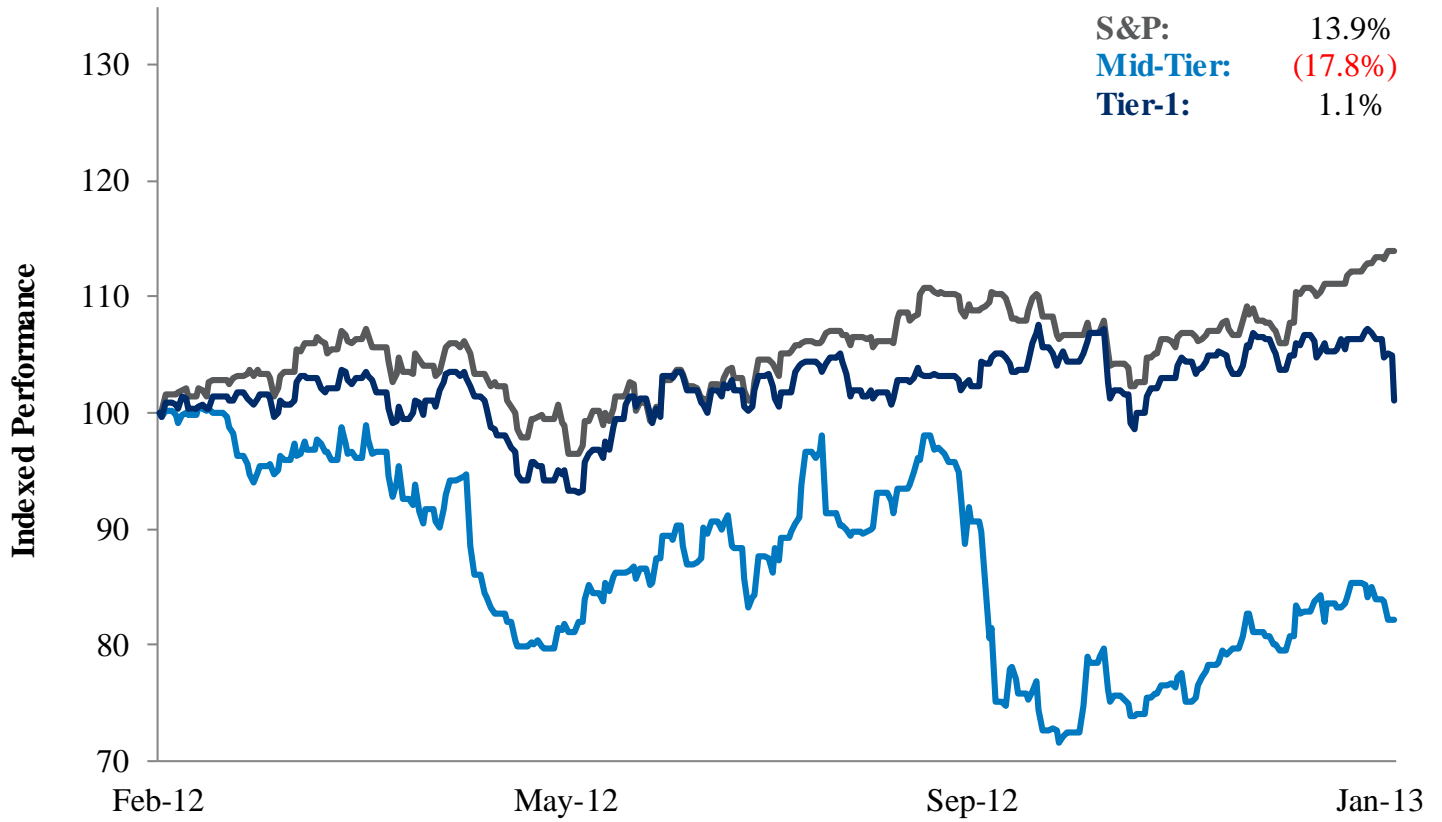
Source: ACP Research

See the full Washington Post article [here](#); to receive the acquisition detail for the above graphic and corresponding valuation metrics, please contact [Aronson Capital Partners](#).

## Government Services Industry Performance

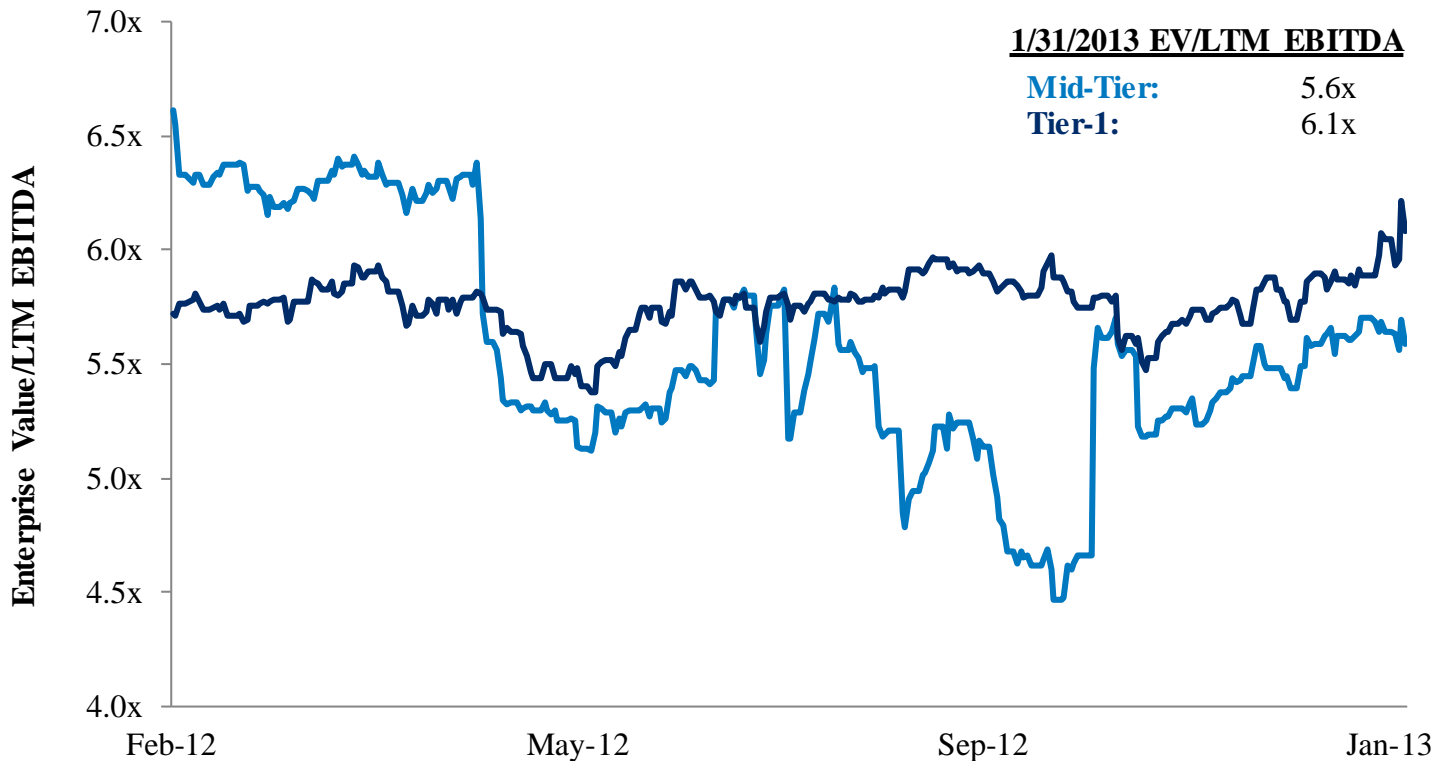
### LTM 1/31/2013 Returns

<b>S&amp;P:</b>	13.9%
<b>Mid-Tier:</b>	(17.8%)
<b>Tier-1:</b>	1.1%



### 1/31/2013 EV/LTM EBITDA

<b>Mid-Tier:</b>	5.6x
<b>Tier-1:</b>	6.1x



Source: CapIQ

Mid-Tier Index: BAH, CACI, DRCO, EGL, ICFI, KEYW, MANT, MRCY, NCIT, SAI, XLS

Tier-1 Index: BA, GD, LLL, LMT, NOC, RTN



## Public Company Comparables

(USD in Millions, excluding share prices)

Company	Price 1/31/2013	Annual High	Annual Low	% of High	Equity Market Value	Enterprise Value	LTM Revenue	LTM EBITDA	EV as a Multiple of				EBITDA Margin		Revenue Growth		
									LTM		NTM		CY12E	CY13E	CY12E	CY13E	
									Revenue	EBITDA	Revenue	EBITDA					
<b>Mid-Tier Federal Service Providers</b>																	
SAIC, Inc.	\$12.19	\$14.20	\$10.31	85.8%	\$4,174	\$4,942	\$11,023	\$634	0.4x	7.8x	0.5x	5.9x	7.5%	8.3%	6.0%	(2.9%)	
Booz Allen Hamilton	13.80	19.23	11.85	71.8%	1,981	3,229	5,753	520	0.6x	6.2x	0.5x	6.2x	8.9%	8.7%	(0.4%)	1.7%	
Exelis, Inc.	11.17	12.88	9.01	86.7%	2,157	2,746	5,641	722	0.5x	3.8x	0.5x	4.2x	12.6%	12.5%	(5.7%)	(5.3%)	
CACI International Inc.	55.27	63.11	41.29	87.6%	1,280	1,913	3,781	344	0.5x	5.6x	0.5x	5.6x	9.1%	9.0%	(0.2%)	(0.4%)	
ManTech International Corporation	25.76	37.16	19.74	69.3%	961	952	2,642	260	0.4x	3.7x	0.4x	4.6x	8.8%	8.1%	(8.0%)	(2.2%)	
ICF International Inc.	22.86	29.22	17.28	78.2%	466	575	919	89	0.6x	6.5x	0.6x	6.0x	10.0%	10.1%	11.6%	2.4%	
The KEYW Holding Corporation	13.02	14.38	7.00	90.5%	456	404	219	27	1.8x	14.7x	1.2x	9.3x	12.9%	13.7%	28.3%	44.8%	
Engility Holdings, Inc.	19.05	20.75	13.91	91.8%	324	654	1,844	156	0.4x	4.2x	0.4x	5.7x	(19.2%)	8.1%	NA	(11.0%)	
VSE Corp.	24.12	27.20	20.55	88.7%	130	312	581	74	0.5x	4.2x	0.5x	4.6x	12.8%	11.1%	(6.8%)	7.3%	
Dynamics Research Corporation	6.79	11.95	4.84	56.8%	71	168	332	37	0.5x	4.5x	0.6x	6.0x	9.1%	9.2%	(1.3%)	(4.7%)	
NCI, Inc.	5.28	8.00	3.21	66.0%	69	87	394	18	0.2x	4.9x	0.3x	5.4x	5.4%	5.0%	(34.3%)	(13.1%)	
									<b>Mean</b>	<b>0.6x</b>	<b>6.0x</b>	<b>0.5x</b>	<b>5.8x</b>	<b>7.1%</b>	<b>9.4%</b>	<b>(1.1%)</b>	<b>1.5%</b>
									<b>Median</b>	<b>0.5x</b>	<b>4.9x</b>	<b>0.5x</b>	<b>5.7x</b>	<b>9.1%</b>	<b>9.0%</b>	<b>(0.8%)</b>	<b>(2.2%)</b>
<b>Tier 1 Prime Contractors</b>																	
The Boeing Company	\$74.59	\$78.02	\$66.82	95.6%	\$55,538	\$55,702	\$81,698	\$7,850	0.7x	7.1x	0.6x	7.0x	9.7%	9.2%	18.9%	7.8%	
Lockheed Martin Corporation	88.21	96.52	80.14	91.4%	28,895	33,305	47,182	5,422	0.7x	6.1x	0.7x	6.2x	11.2%	11.7%	(0.5%)	(2.2%)	
General Dynamics Corp.	68.43	74.54	61.09	91.8%	24,492	25,105	31,513	3,846	0.8x	6.5x	0.8x	6.0x	13.6%	13.2%	(1.4%)	(1.9%)	
Raytheon Co.	54.15	59.34	48.33	91.3%	18,110	18,961	24,414	3,444	0.8x	5.5x	0.8x	6.0x	13.8%	13.3%	(1.9%)	(2.1%)	
Northrop Grumman Corporation	66.34	71.25	56.59	93.1%	16,388	16,794	25,218	3,640	0.7x	4.6x	0.7x	5.2x	14.1%	13.4%	(5.1%)	(2.8%)	
L-3 Communications Holdings Inc.	78.11	79.80	66.46	97.9%	7,326	10,793	13,146	1,579	0.8x	6.8x	0.9x	7.2x	12.1%	12.0%	(14.0%)	(3.6%)	
									<b>Mean</b>	<b>0.7x</b>	<b>6.1x</b>	<b>0.7x</b>	<b>6.3x</b>	<b>12.4%</b>	<b>12.1%</b>	<b>(0.7%)</b>	<b>(0.8%)</b>
									<b>Median</b>	<b>0.7x</b>	<b>6.3x</b>	<b>0.8x</b>	<b>6.1x</b>	<b>12.9%</b>	<b>12.6%</b>	<b>(1.6%)</b>	<b>(2.1%)</b>
<b>Defense System / Electronics Firms</b>																	
Rockwell Collins Inc.	\$59.23	\$61.84	\$46.37	95.8%	\$8,086	\$8,872	\$4,694	\$1,084	1.9x	8.2x	1.9x	8.0x	26.0%	23.7%	(2.6%)	0.3%	
Harris Corporation	46.90	52.23	38.33	89.8%	5,348	6,949	5,353	1,140	1.3x	6.1x	1.3x	5.8x	22.1%	22.2%	(8.3%)	(2.3%)	
Teledyne Technologies Inc.	68.82	72.31	56.46	95.2%	2,579	3,091	2,127	318	1.5x	9.7x	1.3x	9.0x	15.1%	14.8%	8.7%	8.5%	
Cubic Corporation	47.52	52.53	41.92	90.5%	1,272	1,071	1,381	151	0.8x	7.1x	0.8x	7.4x	11.0%	10.6%	4.8%	(0.4%)	
Kratos Defense & Security Solutions	4.60	7.79	4.14	59.1%	268	880	928	102	0.9x	8.6x	0.9x	7.2x	11.6%	12.3%	35.9%	5.2%	
Mercury Systems, Inc.	7.34	14.99	7.50	49.0%	256	222	227	14	1.0x	16.4x	1.0x	12.0x	9.2%	8.2%	(5.5%)	0.2%	
									<b>Mean</b>	<b>1.2x</b>	<b>9.4x</b>	<b>1.2x</b>	<b>8.2x</b>	<b>15.8%</b>	<b>15.3%</b>	<b>5.5%</b>	<b>1.9%</b>
									<b>Median</b>	<b>1.1x</b>	<b>8.4x</b>	<b>1.1x</b>	<b>7.7x</b>	<b>13.3%</b>	<b>13.5%</b>	<b>1.1%</b>	<b>0.3%</b>
<b>Foreign Contractors</b>																	
EADS	\$46.68	\$48.83	\$32.92	95.6%	\$38,363	\$36,169	\$68,964	\$5,286	0.5x	6.8x	0.5x	5.2x	8.0%	9.3%	16.5%	4.9%	
BAE Systems plc	5.38	5.80	4.24	92.8%	17,503	18,828	26,550	3,432	0.7x	5.5x	0.6x	5.1x	12.3%	12.3%	7.6%	3.5%	
Finmeccanica SpA	6.49	7.02	3.54	92.4%	3,749	11,771	22,277	199	0.5x	59.1x	0.5x	5.1x	9.4%	10.2%	2.7%	1.8%	
Thales SA	36.59	39.23	31.31	93.3%	7,289	7,104	17,079	1,447	0.4x	4.9x	0.4x	3.9x	9.5%	10.1%	10.8%	(0.0%)	
Serco Group plc	8.83	9.57	7.98	92.3%	4,331	5,344	7,438	575	0.7x	9.3x	0.7x	8.7x	7.7%	7.7%	7.0%	4.8%	
Cobham plc	3.33	3.83	2.88	87.0%	3,597	4,443	2,832	642	1.6x	6.9x	1.6x	7.3x	22.8%	22.3%	(3.6%)	(0.9%)	
QinetiQ Group Plc	2.99	3.29	2.03	91.0%	1,936	1,910	2,282	355	0.8x	5.4x	0.9x	6.7x	13.8%	12.8%	(6.6%)	(1.5%)	
Ultra Electronics Holdings plc	25.91	28.24	22.42	91.8%	1,792	1,900	1,190	206	1.6x	9.2x	1.5x	9.0x	17.4%	17.7%	6.7%	2.6%	
									<b>Mean</b>	<b>0.9x</b>	<b>13.4x</b>	<b>0.8x</b>	<b>6.4x</b>	<b>12.6%</b>	<b>12.8%</b>	<b>5.1%</b>	<b>1.9%</b>
									<b>Median</b>	<b>0.7x</b>	<b>6.9x</b>	<b>0.6x</b>	<b>6.0x</b>	<b>10.9%</b>	<b>11.3%</b>	<b>6.9%</b>	<b>2.2%</b>
<b>Commercial IT Firms</b>																	
IBM	\$203.52	\$211.79	\$181.85	96.1%	\$230,393	\$252,657	\$104,507	\$26,217	2.4x	9.6x	2.4x	8.7x	26.0%	27.1%	(2.4%)	1.8%	
Accenture plc	72.34	72.87	54.94	99.3%	46,199	41,005	28,008	4,266	1.5x	9.6x	1.4x	8.4x	16.1%	16.5%	5.8%	6.3%	
Xerox Corp.	8.16	8.55	6.10	95.4%	9,962	17,697	22,390	3,210	0.8x	5.5x	0.8x	5.4x	14.2%	14.5%	(1.3%)	1.3%	
Computer Sciences Corporation	42.23	42.78	22.19	98.7%	6,617	8,170	15,689	1,582	0.5x	5.2x	0.5x	4.3x	10.8%	13.0%	(1.6%)	(2.1%)	
Navigant Consulting Inc.	11.47	14.62	9.47	78.5%	594	749	720	103	1.0x	7.2x	0.9x	6.5x	12.7%	13.5%	19.5%	5.0%	
Black Box Corp.	22.81	30.94	19.31	73.7%	400	563	1,016	76	0.6x	7.4x	0.6x	6.7x	7.5%	8.5%	(7.2%)	(2.0%)	
Kforce Inc.	13.70	15.40	10.34	89.0%	494	489	1,178	34	0.4x	14.2x	0.4x	7.1x	5.8%	6.5%	(2.7%)	6.2%	
Unisys Corporation	21.75	22.87	14.40	95.1%	832	387	3,706	374	0.1x	1.0x	0.1x	0.8x	12.9%	13.0%	(5.3%)	(0.2%)	
									<b>Mean</b>	<b>0.9x</b>	<b>7.5x</b>	<b>0.9x</b>	<b>6.0x</b>	<b>13.2%</b>	<b>14.1%</b>	<b>0.6%</b>	<b>2.0%</b>
									<b>Median</b>	<b>0.7x</b>	<b>7.3x</b>	<b>0.7x</b>	<b>6.6x</b>	<b>12.8%</b>	<b>13.2%</b>	<b>(2.0%)</b>	<b>1.6%</b>

Source: Capital IQ

EV: Enterprise Value

LTM: Trailing Twelve Months

NTM: Next Twelve Months

## Recent Industry M&A Transactions

Date	Buyer	Target	Target Business Description	EV(\$M)	EV/LTM Revenue Multiple	EV/LTM EBITDA Multiple
Jan-13	DigitalGlobe, Inc.	GeoEye, Inc.	Provider of earth imagery and geospatial analysis	900.0	2.5	5.2
Jan-13	DC Capital Partners	Computer Security Solutions Inc.	Evaluates, designs, tests, certifies, selects and integrates software and hardware solutions that meet the unique mission parameters within the Intelligence Community	N/A	N/A	N/A
Jan-13	ManTech International Corp.	ALTA Systems, Inc.	Provides a broad range of IT and professional services in three major practice areas: capital planning & investment control; system design, development & operation; and fraud detection & statistical analysis	N/A	N/A	N/A
Jan-13	Vistrionix, LLC	Technology Associates International Corp.	Develops highly specialized geospatial and data visualization software applications and systems, as well as builds and operates command and control centers for the Defense community	N/A	N/A	N/A
Jan-13	CRGT, Inc.	Guident Technologies, Inc.	Provider of enterprise solutions, with an end-to-end data analytics strategy and planning services, along with data warehouse, data management and business analytics solutions	N/A	N/A	N/A
Jan-13	CACI International Inc.	IDL Solutions, Inc.	Provider of information technology solutions, applications, and mission-critical systems support to healthcare IT clients and other civilian agencies	N/A	N/A	N/A
Dec-12	The Berger Group	Hawthorne Services, Inc.	Provider of full lifecycle aircraft fuel services and facilities operations and maintenance services across the southeast United States for the Defense Logistics Agency—Energy and the state of South Carolina	N/A	N/A	N/A
Dec-12	Mind Over Machines, Inc.	The Seva Group	Provides IT consulting services including mobile computing, cloud implementation, and enterprise system integration to a variety of commercial and federal industries	N/A	N/A	N/A
Dec-12	Camber Corporation	Novonics Corporation	Provides software development and engineering services specializing in simulation-based training, command and control, and information management technologies for the DoD and international partners	N/A	N/A	N/A
Dec-12	SRA International	MorganFranklin National Security Business	Provides services in C4ISR, continuity of operations and emergency planning, information assurance and cyber security, intelligence analysis, and project management office support services for the defense, intelligence, homeland security, and health sectors	34.2	N/A	N/A
Dec-12	Cubic Corporation	NEK Special Programs Group, LLC	Provides special operation forces training services in the areas of combat marksmanship, close quarter battle, sniper and survival training, as well as other areas	52.0	N/A	N/A
Dec-12	Raytheon Co.	SafeNet Government Solutions, LLC	Provides security technology products including cloud security, fully trusted authentication, hardware security modules, data encryption and control, multi-factor authentication, high speed encryption, and professional services to corporations and government agencies	N/A	N/A	N/A
Dec-12	Booz Allen Hamilton Holding Corporation	ARINC, Inc. (Defense Systems Engineering & Support Division)	Provides advanced aviation and maritime engineering, advanced weapons modernization and sustainment, and advanced systems engineering and integration	154.0	N/A	N/A
Nov-12	Ingram Micro Inc.	Promark Technology, Inc.	Distributor of data storage, data management and electronic document imaging products	N/A	N/A	N/A
Nov-12	CACI International Inc.	Emergent Technologies, Inc.	Provider of IT consulting services to federal and state health organizations	N/A	N/A	N/A
Nov-12	The KEYW Corporation	Rsignia, Inc.	Provides advanced cyber security solutions to both government and commercial customers designed to detect and remediate solutions	N/A	N/A	N/A
Nov-12	Lockheed Martin Corporation	Chandler/May, Inc.	Specializes in technology systems for unmanned aerial vehicles and technology for C4ISR missions	N/A	N/A	N/A
Nov-12	TWD & Associates, Inc.	The Engle Group	Provider of IT services including capabilities in IT service management, cloud computing, and application development and security to the federal government	N/A	N/A	N/A
Nov-12	Infinitive, Inc.	Convergent Domains, LLC	Provider of business intelligence, data warehousing and IT services	N/A	N/A	N/A
Nov-12	Salient Federal Solutions, Inc.	LIST Innovative Solutions, Inc.	Provider of application software services to the government	N/A	N/A	N/A
Nov-12	American Systems Corp.	SAIC Test and Evaluation Business Unit	Provides T&E resources that enable a wide range of services to include testing, scientific, engineering, logistic, administrative, and ancillary support	N/A	N/A	N/A
Oct-12	ISC8 Inc.	Bivio Networks, Inc., NetFalcon and Network Content Control System Business	Business comprises researching, developing, designing, manufacturing, producing, marketing, selling and distributing cybersecurity software products and systems for data retention and analytics and content control	10.8	4.9 x	N/A
Oct-12	Raytheon Co.	Teligy, Inc.	Provides a suite of cybersecurity offerings in wireless communications, vulnerability analysis, reverse engineering and custom kernel software/device driver development	N/A	N/A	N/A
Oct-12	Fulcrum IT Services	Corbin Company	Offerings include healthcare and HR services, quality assurance, and strategic planning for military and healthcare agencies	N/A	N/A	N/A

Source: Company Press Releases; Capital IQ; Infobase

EV: Enterprise Value

LTM: Last Twelve Months

## Representative ACP Transactions

<p>Advised</p>  <p>on its sale to</p> 	<p>Advised</p>  <p>on its sale to</p>  <p>Portfolio company of</p>  <p>NEW MOUNTAIN CAPITAL</p>	<p>Advised</p>  <p>on its sale to</p> 	<p>Advised</p>   <p>on their sale to</p> 	<p>Advised</p>  <p>on its sale to</p>  <p>Portfolio company of</p> 
<p>Advised</p>  <p>on its sale to</p>  <p>Portfolio company of</p>  	<p>Advised</p>  <p>on its sale to</p> 	<p>Advised</p>  <p>on its acquisition of</p> 	<p>Advised</p>  <p>on its sale to</p>  <p>Quality In Everything We Do</p>	<p>Advised</p>  <p>on its sale to</p>  <p>Portfolio company of</p>  <p>NEW MOUNTAIN CAPITAL</p>
<p>Advised</p>  <p>on its sale to</p>  <p>Portfolio company of</p>  <p>NEW MOUNTAIN CAPITAL</p>	<p>Advised</p>  <p>on its sale to</p>  <p>A Wholly Owned Subsidiary of WPC Holding, Inc.</p>	<p>Advised</p>  <p>on its sale to</p>  <p>Portfolio company of</p> 	<p>Advised</p>  <p>on its sale to</p> 	<p>Advised</p>  <p>on its sale to</p> 
<p>Advised</p>  <p>on its sale to</p>  <p>Portfolio company of</p> 	<p>Advised</p>  <p>on its sale to</p> 	<p>Advised</p>  <p>on its sale to</p> 	<p>Advised</p>  <p>on its sale to</p>  <p>Portfolio company of</p> 	<p>Advised</p>  <p>on its sale to</p> 

### WHO IS ARONSON CAPITAL PARTNERS?

Aronson Capital Partners is a leading financial advisor to government services and technology firms. We exercise our special domain expertise in the Defense, Intelligence, and Federal Civilian markets to achieve exceptional results for our clients. In addition to completing more than 100 transactions in the federal sector, our principals have decades of executive level, hands-on experience in the industry – a key differentiator that leads to success.

#### Mergers & Acquisitions:

- Sell-Side M&A
- Buy-Side M&A
- Private Equity Platform Acquisitions
- Management & Leveraged Buyouts
- Divestitures
- Asset Sales
- ESOP

#### Corporate Finance:

- Recapitalizations & Restructurings
- Common & Preferred Equity
- Senior Debt
- Subordinated Debt
- Convertible Debt
- Private Equity Investments
- Minority Equity Investments

#### Financial Advisory:

- Internal Capital Transaction Advisory
- Independent Corporate Valuations
- Fairness Opinions
- Strategic Alternatives Assessments