

# PROLIFERATION OF UNMANNED AUTONOMOUS SYSTEMS SUPPORTS C4ISR MARKET HEALTH

C4ISR SECTOR UPDATE | NOVEMBER 2023



**CAPSTONE  
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# C4ISR

## Proliferation of Unmanned Autonomous Systems Supports Sector Health

### KEY SECTOR TAKEAWAYS

Capstone Partners' Aerospace, Defense, Government, & Security (ADGS) Group is pleased to share its Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) report. Activity in the C4ISR merger and acquisition (M&A) market has moderated through year-to-date (YTD) compared to the prior year period. However, new initiatives and consistent investments in unmanned autonomous systems (UAS) from the U.S. Department of Defense (DOD) stand to bolster growth for sector players and increase buyer appetite from private equity firms in 2024. Several key report takeaways are outlined below.

1. C4ISR M&A activity has slowed year-over-year (YOY) to 42 transactions announced or completed to-date, a 27.6% decline compared to YTD 2022.
2. Sector participants are expected to capitalize on revenue opportunities provided by the DOD's Replicator drone initiative.
3. Favorable operating conditions have insulated businesses in the sector from macroeconomic volatility through YTD 2023, driving expectations of a M&A market rebound in the near-term.
4. Leading unmanned systems manufacturers have reported strong financial performance in recent quarters, highlighting UAS initiatives and funding as a significant tailwind for sector players.

Capstone Partners has developed a full suite of corporate finance solutions, including, financial advisory services, merger and acquisition advisory, debt advisory, and equity capital financing to help privately owned businesses and private equity firms navigate through each stage of a company's lifecycle.

To learn more about Capstone's wide range of advisory services and Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance sector knowledge, please [contact us](#).

## UAS INITIATIVES DRIVE DEMAND FOR SECTOR SERVICES

The C4ISR market has experienced rapid modernization alongside the expanded usage of UAS throughout recent years. The proliferation of autonomous aircraft and land vehicles has spurred significant demand for participants in the C4ISR sector. Radio frequency (RF) communications, electro-optical (EO) components, and satellite positioning sensors have been critical to the operation and development of autonomous systems and software. New initiatives from the DOD have aimed to expand the U.S. military’s autonomous systems across multiple domains, subsequently driving consolidation activity in the C4ISR sector.

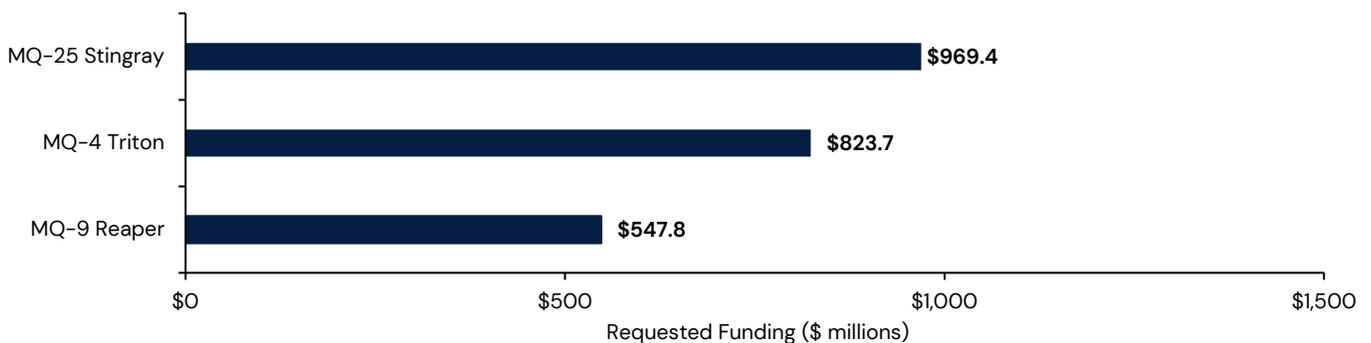
The DOD’s Replicator initiative, announced in September 2023, plans to mass-produce thousands of smaller and less expensive autonomous drones. The program’s ambitious goal to build the drone swarms at scale within the next 18 to 24 months is expected to provide new contracting opportunities for sector players. “The biggest challenge is that the DOD hasn’t addressed how unmanned systems will be integrated in ways that are going to enable them to communicate with one another and be managed by a command and control system,” said Bryan Clark, Senior Fellow at the Hudson Institute, at a congressional hearing.<sup>1</sup> Middle market businesses with command and control solutions that provide integration for unmanned systems are poised to garner increased revenue opportunities and buyer appetite in the long-term.

Active buyers in the space have already begun to tailor their acquisition strategies to fit the DOD’s UAS investments and initiatives. Of note, Anduril



Industries’ acquisition of Blue Force Technologies (September, undisclosed), the developer of the Fury Autonomous Air Vehicle (AAV), coincided with the launch of its Lattice command and control software for unmanned systems. Anduril has positioned itself as a leader in developing solutions for the DOD’s UAS modernization and Replicator initiative through investing in UAS hardware and compatible C4ISR software. Additionally, the DOD has continued to invest in its current UAS capabilities, especially in airborne C4ISR, providing sector players with increased subcontracting opportunities. The DOD has requested \$969.4 million for program acquisition costs in Fiscal Year (FY) 2024 for the MQ-25 Stingray, which provides aerial refueling and ISR to the U.S. Navy, according to a DOD weapon systems report.<sup>2</sup> The Stingray also received \$1.1 billion in program acquisition funding in FY 2023, a 205.2% increase compared to FY 2022.

**Top UAS Procurement Programs Supporting C4ISR Capabilities in FY 2024 Budget Request**

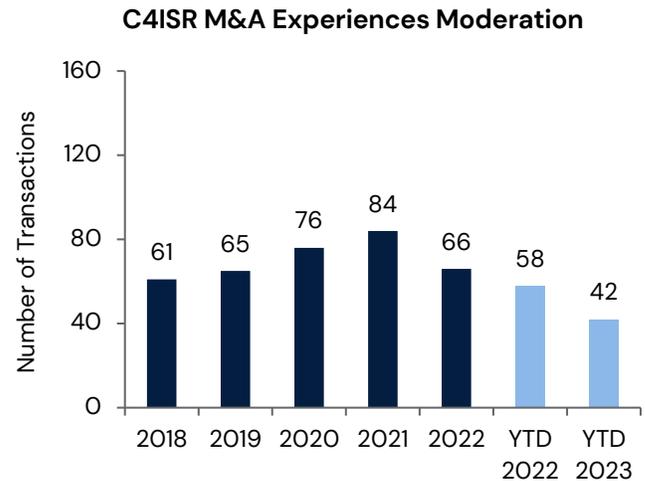


Source: U.S. Department of Defense and Capstone Partners

## SPONSOR DEALMAKING SHOWS SIGNS OF REBOUND

The C4ISR M&A market has experienced headwinds through YTD 2023, with 42 transactions announced or completed, compared to 58 in the prior year period. Moderation in the transaction environment has been accompanied by an uptick in strategic buyer activity, who have accounted for 73.8% of total deals to-date, with private strategic buyers comprising 40.5% of deals. This is a reverse in trend for the sector compared to historical precedent, as the total share of transactions has typically been more evenly distributed among buyer types. Financial buyers have accounted for 26.2% of total deals through YTD 2023, with sponsor-backed buyers comprising the majority of private equity transactions. Comparatively, private equity buyers accounted for 38% of total deals in the sector in YTD 2022.

Despite a decrease in private equity transaction activity, sponsors are expected to be highly acquisitive in the sector moving into 2024. This is largely due to lower counter-party risk in a recession resistant sector, the expectation of the FY 2025 DOD budget to be accelerated in an election year, and mounting geopolitical crises. Notably, a costly debt environment has stymied sponsor platform deal flow in the sector, with firms opting to use more of their own equity to finance transactions. The average equity contribution from private investment firms for middle market transactions increased 2.3% YOY to 52.5% through Q2 2023, according to GF Data.<sup>3</sup> Additionally, U.S. private equity firms have access to \$955.7 billion in dry powder, according to Pitchbook.<sup>4</sup> Capstone expects access to abundant dry powder and projected revenue visibility in a recession resistant sector to increase future sponsor M&A activity.



Year-to-date (YTD) ended October 20  
Source: Capital IQ, FactSet, PitchBook, and Capstone Partners



Enlightenment Capital-backed iNovex, a software development company focused on signals intelligence (SIGINT), announced its acquisition of Innoplex in May for an undisclosed sum. Innoplex provides software engineering services for SIGINT applications and has worked closely with iNovex for more than 20 years. The addition of Innoplex is expected to cement iNovex as one of the largest middle market SIGINT providers to the Intelligence Community and DOD, with over \$2 billion in combined contract awards, according to a press release.<sup>5</sup> This acquisition is the most recent in the C4ISR sector by Enlightenment Capital portfolio companies, including Boecore’s acquisition of Orbit Logic (February, undisclosed).

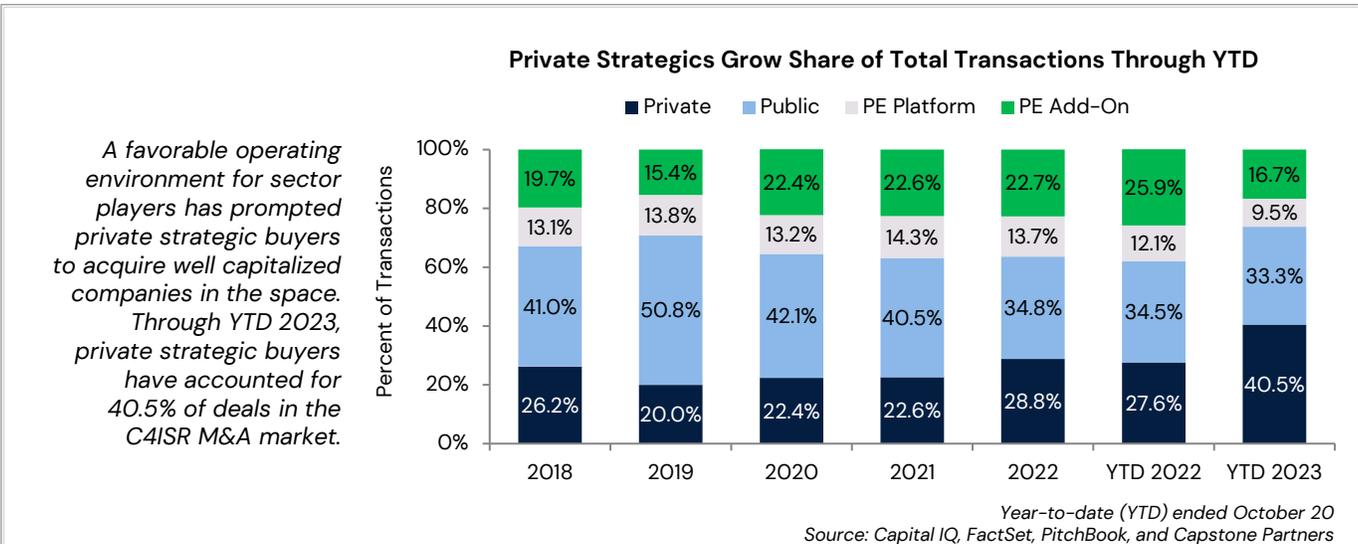
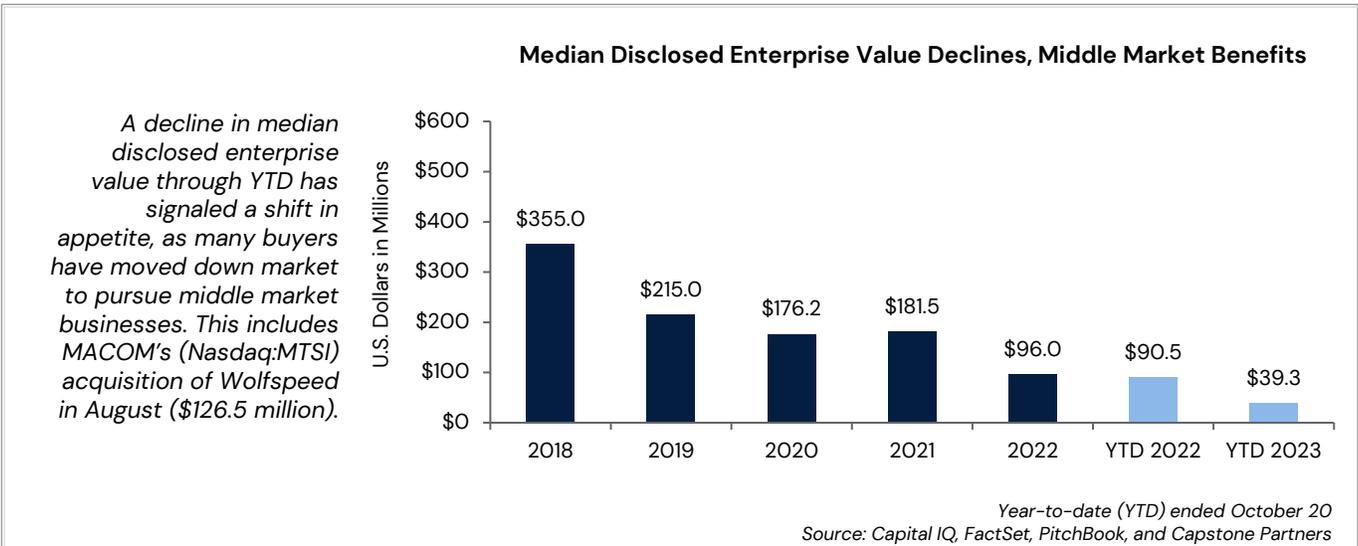
### Leading Financial Buyers Targeting C4ISR Sector Players

Capstone has tracked sponsors that have been highly acquisitive in the C4ISR sector, particularly those that have completed notable transactions. For more information on relevant buyers, please reach out to Managing Director [Tess Oxenstierna](#).



Source: Capstone Partners

# BUYERS TARGET MIDDLE MARKET BUSINESSES



## PUBLIC COMPANY SPOTLIGHT: AEROVIRONMENT



**Ticker:** Nasdaq:AVAV  
**Headquarters:** Arlington, Virginia  
**Markets:** Aerospace and Defense  
**LTM Revenue:** \$584.4 Million  
**Market Capitalization:** \$2.9 Billion

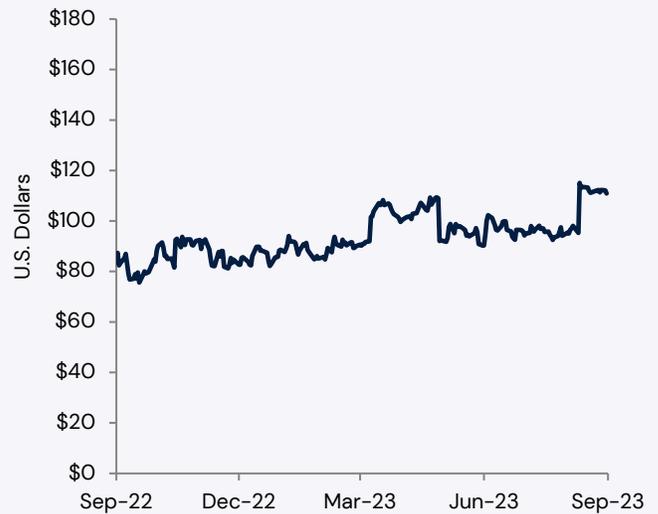
### Company Description & Activity

AeroVironment (Nasdaq:AVAV) has had a banner year from an earnings perspective through YTD 2023. The company reported a 361% YOY increase in net income to \$21.9 million and a healthy revenue mix across all business segments, according to its most recent earnings release.<sup>6</sup> The company’s gross margin in its FY Q1 2024 improved 95% YOY to \$65.7 million, while its gross margin as a percentage of sales rose to 43% from 31% in FY 2023. AeroVironment’s earnings have been bolstered by robust revenue from products sales which accounted for 78% of total revenues in FY Q1 2024. Additionally, the company’s announced acquisition of robotics developer, Tomahawk Robotics (August, \$116.3 million), has heavily affected its share price. Between when the acquisition was announced on August 22, and when it closed on September 15, the company’s share price rose from \$95.6 per share to \$111.4 per share, reaching as high as \$115.1 per share on September 6, according to Capital IQ.

“We expect this transaction to drive incremental revenues, adjacent market growth opportunities, and product performance synergies driven by the integration of our respective technologies,” said AeroVironment President and Chief Executive Officer, Wahid Nawabi, in an earnings call.<sup>7</sup>

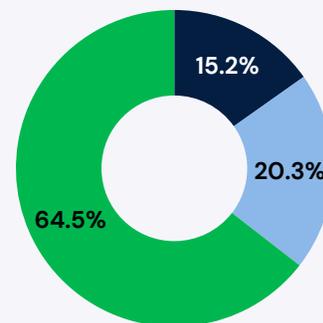
AeroVironment has updated its FY 2024 revenue guidance as of September 5, bringing its revised guidance range to \$645 million – \$675 million, up from \$630 million – \$660 million as of June 27, according to an investor presentation.<sup>8</sup> Strong product order flow and the addition of Tomahawk Robotics’ advanced control, communications and multi-domain integration capabilities have been cited as major contributors to the company’s enhanced revenue visibility. AeroVironment’s foundation of robust organic growth, supplemented by select accretive acquisitions, has positioned the company to increase its market share in the sector.

### Share Price Performance



### Revenue Share by Segment FY Q1 2024

- MacCready Works
- Loitering Munitions
- Unmanned Systems



Source: Capital IQ as of September 27, 2023; AeroVironment Investor Presentation and Capstone Partners

## NOTABLE STRATEGIC M&A TRANSACTIONS



To Acquire

Cyberlux (OTCPK:CYBL), a developer of innovative defense technology systems, announced its intent to acquire Datron World Communications in September for an undisclosed sum. Datron supplies tactical military communication equipment including high frequency (HF), multiband (MB), and very high frequency (VHF) radios for land and sea combat applications. Datron provided over 100,00 HF and VHF radios as the primary supplier of communications to the Afghan National Defense and Security Force (ANDSF), according to a press release.<sup>9</sup> This acquisition is expected to bolster Cyberlux's UAS business unit, which offers industry leading drone surveillance solutions for the military.



Cyberlux's has driven operational growth through acquisitions, using portfolio expansion to diversify its suite of product offerings and break into new end markets. This acquisition is the most recent in Cyberlux's inorganic growth strategy, following Catalyst Machineworks (March 2022, undisclosed) and Digital Automation Solutions (February 2022, undisclosed).



Acquires

General Atomics Electromagnetic Systems (GA-EMS), a manufacturer of electric power generation systems, acquired EO Vista in September for an undisclosed sum. EO Vista develops advanced space-based and airborne EO payloads. Founded in 2013, the company has a proven track record of success, reaching an estimated annual revenue of \$7.9 million, according to GrowJo.<sup>10</sup> EO Vista is currently providing services to GA-EMS under its contract with the U.S. Space Force, Space Systems Command to deliver weather system satellites. "The EO Vista team is excited to join General Atomics, a company whose commitment to delivering innovative solutions in support of the national interest strongly aligns with our legacy," said EO Vista President and CEO, Dr. Steven Wein, in a press release.<sup>11</sup> This is GA-EMS' fourth transaction in the space since 2017, and first since 2021.



"EO Vista has a proven track record of rapid innovation that set new standards for performance and affordability in electro-optical payload designs. We look forward to bringing EO Vista's unique capabilities on-board as we continue to expand our weather and science programs and our growing portfolio of sensor system payload designs to support a wide range of customer requirements, including Intelligence, Surveillance, and Reconnaissance [ISR] missions," said GA-EMS President, Scott Forney, in the press release.



Acquires

AeroVironment acquired Tomahawk Robotics in August for an enterprise value of \$116.3 million. Tomahawk's artificial intelligence (AI)-enabled robotic control and integrated communications systems have garnered frequent use across the DOD and greater Defense industry. The company's flagship Kinesis Common Control System pairs with over 20 uncrewed systems from over a dozen UAS manufacturers. The Kinesis system is a body-worn control system that is viewable on a single pane of glass and controllable from a common user interface. Kinesis unifies a fleet of unmanned systems into a common operating picture, allowing the warfighter to operate them from a handheld device. The Kinesis system is the most widely used solution for common controllers in the DOD, according to a press release.<sup>12</sup> Tomahawk is expected to become part of AeroVironment's Small UAS business while utilizing AeroVironment's growing customer base of more than 55 allied nations, according to the press release.



"Now that the acquisition is finalized, we're able to further integrate both companies' technologies and accelerate our implementation of autonomy into AeroVironment's platforms," said AeroVironment Chairman and CEO, Wahid Nawabi, in the press release.

## SELECT TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV/LTM Revenue	EBITDA
09/29/23	Datron World Communications	Cyberlux (OTCPK:CYBL)	Manufactures tactical communications equipment.	-	-	-
09/26/23	Evertel Technologies	Genasys (Nasdaq:GNSS)	Offers real-time intelligence sharing, military-grade encryption, and a communication platform.	\$4.7	-	-
09/19/23	Tone Commander Systems	Patton Electronics	Develops secure telephony solutions for the Defense and Intelligence market.	-	-	-
09/15/23	EO Vista	General Atomics Electromagnetic	Provides space and airborne electro-optical sensor systems for the Aerospace and Defense industry.	-	-	-
09/15/23	Broadcast Microwave Services	Vislink Technologies	Offers analog and digital transmitters, receivers, antennas, and accessories.	-	-	-
09/07/23	CrowdAI	Saab (OM:SAAB B)	Develops image recognition software that can be installed on satellites and automated drones.	-	-	-
09/05/23	Infinite ID	First Advantage (Nasdaq:FA)	Provides biometric identity solutions to the Defense and Intelligence industries.	\$41.0	-	-
09/05/23	Clearpath Robotics	Rockwell Automation (NYSE:ROK)	Offers sensors and controllers for unmanned vehicles.	-	-	-
08/22/23	Tomahawk Robotics	AeroVironment (Nasdaq:AVAV)	Develops and delivers robotic control software for military uses.	\$116.3	-	-
08/22/23	Klein Marine Systems	General Oceans	Manufactures and supplies side scan sonar equipment and waterside security and surveillance systems.	\$11.5	-	-
08/22/23	Wolfspeed Radio Frequency Business	MACOM (Nasdaq:MTSI)	Operates a radio frequency business catering to Aerospace, Defense and Industrial sectors.	\$126.5	0.8x	-
08/22/23	Hypergiant	Trive Capital	Helps institutions innovate with breakthrough machine intelligence-driven technology.	-	-	-
08/17/23	Ball Aerospace	BAE Systems (LSE:BA.)	Provides electronic warfare solutions.	\$5,550.0	2.8x	-
08/07/23	Aethercomm	Frontgrade Technologies	Supplies high powered linear and pulsed microwaved and millimeter wave amplifiers for military satellites.	-	-	-
07/26/23	Bridge Core	New Spring Holdings	Provides visual intelligence and other technical solutions to the government intelligence community.	-	-	-
07/24/23	Navigant System	RSC2	Offers professional engineering services for global warfighters and system engineers.	-	-	-
07/19/23	Ecliptic Enterprises	Arquimea	Provides rugged aerospace-grade data acquisition.	-	-	-
07/17/23	Trident Systems	LightRidge Solutions	Offers technology solutions for mission critical government and commercial needs.	-	-	-
07/17/23	BWI Eagle	Catron Holdings	Designs and manufactures industrial wireless remote controls and proximity sensors.	-	-	-
07/17/23	Shepard Electric	Graybar Electric	Offers sensors for government organizations.	-	-	-
06/19/23	MicroStrain	Spectris (LSE:SXS)	Provides wireless sensor networks for unmanned military vehicles.	\$37.6	2.4x	-
06/07/23	Emergent Space Technologies	York Space Systems	Researches and develops advanced systems and software for military space missions.	-	-	-
06/05/23	Systems Engineering & Management	ONE Dev	Provides radio frequency products and services in support of intelligence agencies.	-	-	-

Source: Capital IQ, PitchBook, FactSet, and Capstone Partners

## PUBLIC COMPANY DATA

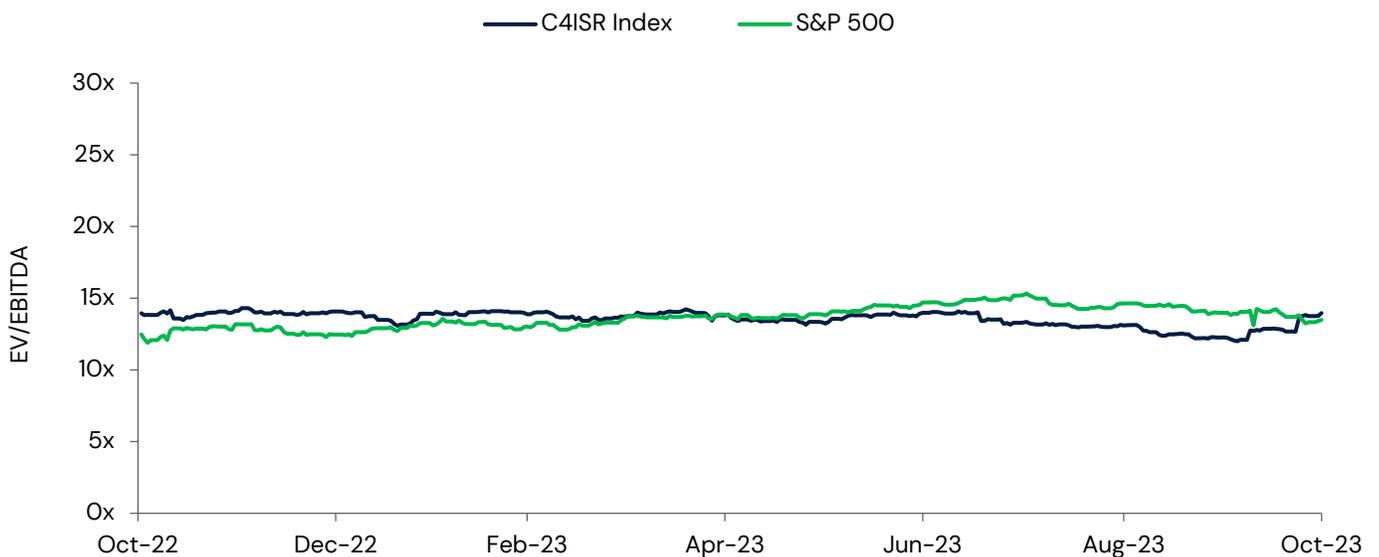
Company	Price 10/31/23	% 52 Wk High	Market Cap	Enterprise Value	LTM			EV / LTM	
					Revenue	EBITDA	Margin	Revenue	EBITDA
Booz Allen Hamilton Corporation	\$117.86	90.4%	\$15,366.7	\$18,452.8	\$10,031.1	\$744.0	7.4%	1.8x	24.8x
CACI International, Inc	\$317.48	88.4%	\$7,072.8	\$9,067.0	\$6,946.9	\$809.8	11.7%	1.3x	11.2x
Elbit Systems Ltd.	\$185.56	87.2%	\$8,229.2	\$9,541.7	\$5,702.8	\$580.0	10.2%	1.7x	16.5x
General Dynamics Corporation	\$238.98	93.0%	\$65,100.1	\$74,745.1	\$41,455.0	\$5,198.0	12.5%	1.8x	14.4x
Hexcel Corporation	\$60.76	76.8%	\$5,110.6	\$5,767.1	\$1,760.9	\$363.1	20.6%	3.3x	15.9x
Jacobs Solutions, Inc.	\$131.20	92.9%	\$16,520.4	\$20,047.8	\$15,944.8	\$1,332.1	8.4%	1.3x	15.1x
Leidos Holdings, Inc.	\$91.79	82.8%	\$12,607.5	\$17,776.5	\$15,155.0	\$1,572.0	10.4%	1.2x	11.3x
L3Harris Technologies, Inc.	\$174.36	69.7%	\$33,048.2	\$46,921.2	\$18,657.0	\$2,784.0	14.9%	2.5x	16.9x
Lockheed Martin Corporation	\$445.84	87.7%	\$110,612.3	\$124,450.3	\$67,688.0	\$10,262.0	15.2%	1.8x	12.1x
Northrop Grumman Corporation	\$468.68	84.7%	\$70,673.5	\$83,866.5	\$38,685.0	\$7,161.0	18.5%	2.2x	11.7x
RTX Corporation	\$78.57	72.2%	\$112,722.8	\$145,699.8	\$67,086.0	\$9,050.0	13.5%	2.2x	16.1x
Science Applications International Corporation	\$107.14	86.7%	\$5,671.5	\$7,704.5	\$7,689.0	\$932.0	12.1%	1.0x	8.3x
TransDigm Group Incorporated	\$819.67	87.2%	\$45,232.0	\$61,897.0	\$6,243.0	\$2,998.0	48.0%	NM	20.6x

<b>Mean</b>	<b>15.4%</b>	<b>1.9x</b>	<b>15.5x</b>
<b>Median</b>	<b>12.6%</b>	<b>1.8x</b>	<b>15.5x</b>
<b>Harmonic Mean</b>	<b>12.7%</b>	<b>1.7x</b>	<b>15.4x</b>

EV = enterprise value; LTM = last twelve months  
 \$ in millions, except per share data  
 NM = Not Meaningful

### C4ISR Index Average EBITDA Trading Multiples Outperform S&P 500



C4ISR Index includes: BAH, CACI, ESLT, GD, HXL, J, LDOS, LHX, LMT, NOC, RTX, SAIC, TDG; market capitalization weighted  
 Source: Capital IQ as of October 31, 2023

## STRATEGIC UNIVERSE

Capstone has built relationships with and tracked strategic buyers that have been highly acquisitive in the Aerospace, Defense, Government, & Security industry, particularly those that have completed notable C4ISR transactions. Our industry expertise and network provides us with unique insights into this buyer universe and industry and growth drivers for the companies within it.

### Leading Strategic Buyers



Source: Capstone Partners

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Tess is a Managing Director with over 25+ years of experience in the Aerospace & Defense industry, government policy arena and Financial Services sector. Tess has deep domain knowledge and transaction advisory skills, especially in the high-growth markets of Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR), and the Air, Land, Sea, & Space (ALSS) sector.

Prior to Capstone, Tess founded the Aerospace & Defense practice at a middle market boutique investment bank, focusing on private and public corporate clients with diverse products such as command and control software for aerial drones, satellite-based force tracking systems and electronic warfare devices used in Afghanistan and Iraq. She was Global Head of Equities Strategy at Lehman Brothers, responsible for strategy development leveraging competitive intelligence, market analysis and acquisitions across Americas, Europe and Asia. Transactions included investments in stock exchanges, a NYSE specialist market-maker and international broker dealers. Tess was also Director of Corporate Development and Strategy at Raytheon, with deal team transactions valued at over \$3.4 billion in sensor automation/information synthesis, geospatial mission support, network forensics, interoperable communications for homeland security, and commercial aviation/life cycle support. She holds a PhD in War Studies from Kings College London, an MA in Law & Diplomacy from Harvard's Kennedy School of Government, and a BA in International Relations from UCLA. A recognized industry expert, she was honored with deal awards, such as M&A's Most Influential Women 2021, M&A Atlas Awards for Industrials 2019, and M&A Advisor, Corporate / Strategic Deal of the Year 2018. She has also spoken at Thompson Reuters A&D Summit, Int'l AUVSI Conferences, New York Capital Roundtable and on a tv interview on ABC's Government Matters. She serves on the Board of the U.S. Navy League – CT Council.

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Hilary is a Vice President in the Aerospace and Defense group, bringing over 10 years of experience spanning investment banking and equity research. Prior to Capstone Partners, Hilary worked as a Vice President on the Textile Manufacturing team at Lehman Brothers. She has significant public company expertise with a focus on Industrials and Manufacturing M&A and carve-outs. She has also worked on numerous strategic advisory and company valuation assignments. Hilary earned a BBA in International Finance & French from Texas Christian University, M.J. Neeley School of Business. She is a Series 79 Registered Investment Banking Representative.

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Joe is a Market Intelligence Analyst at Capstone Partners primarily focusing on the Aerospace, Defense, Government & Security (ADGS) and Healthcare industries. Prior to joining Capstone's Market Intelligence Team, Joe was an intern at Recount Media Inc., a digital media and political news company. At Recount Media he worked on client outreach, social media strategy, and database management for content produced by the company's slate of news podcasts. Joe has a BA in Politics from Bates College.

## FIRM TRACK RECORD

Capstone’s Aerospace, Defense, Government & Security Group has represented numerous companies that serve the needs of federal, state and local or foreign governments, as well as the needs of civilian and defense-related agencies. We understand the nuances associated with sole-sourced, multi-year or subcontracted awards, the value of partnerships, Governmentwide Acquisition Contracts (GWACs), Indefinite Delivery Indefinite Quantity (IDIQs), and General Services Administration (GSA) schedules. We have completed transactions requiring complex Committee on Foreign Investment in the United States (CFIUS) filings, International Traffic in Arms Regulations (ITAR) registrations and contract negotiations, and those involving classified information. Our advisory work has included multiple industries and involved companies of diverse specialties, many of which sell in both the public- and private-sector markets.



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## ENDNOTES

1. Breaking Defense, "Lawmakers, experts raise concerns over Pentagon's ambitious Replicator drone initiative," <https://breakingdefense.com/2023/10/lawmakers-experts-raise-concerns-over-pentagons-ambitious-replicator-drone-initiative/>, accessed October 27, 2023.
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### Disclosure

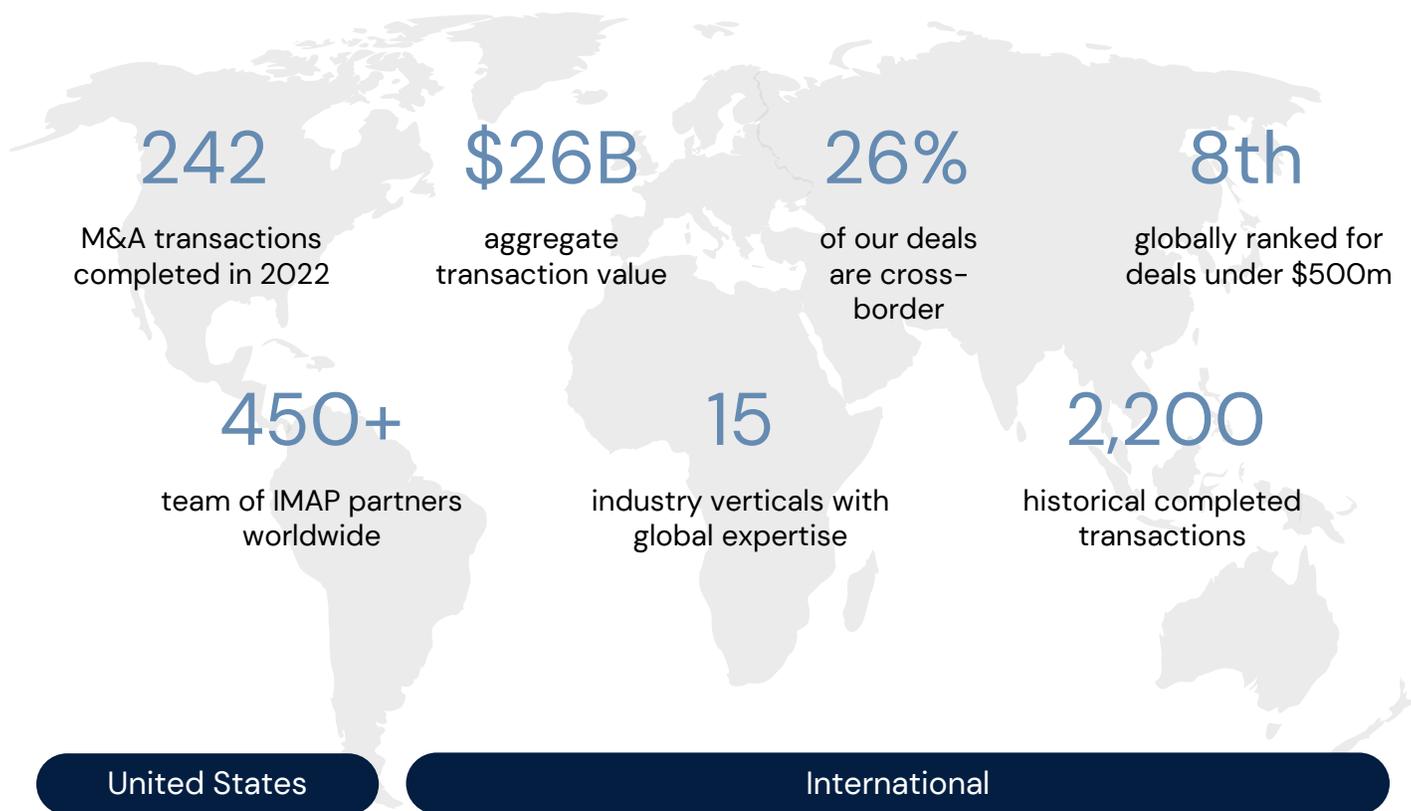
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