TABLE OF CONTENTS

Key Industry Takeaways 4
Industry Outlook 5
M&A Overview 6
Segment Highlight:
Military Flight Training 7
Deal Highlight 8
Capstone Client Case Study
Study: SAG 9
Q&A: DiSTI 10
Q&A: AroTech 12
Notable Transactions:
Simulation 15
Select Transactions 16
Buyer Universe 17
Report Contributors 18
Firm Track Record 19
Endnotes 20

CONTACT OUR MAPPING, MODELING, & SIMULATION INDUSTRY EXPERT

Ted Polk
Managing Director
708-921-8961
tpolk@capstonepartners.com
Capstone Partners is one of the largest and most active independently-owned investment banking firms in the United States. Over the past 20 years, thousands of business owners, investors, and creditors have trusted us to help guide their strategic decisions and maximize financial outcomes at every stage of the corporate lifecycle.

Mergers & Acquisitions
- Sell-side Advisory
- Buy-side Advisory
- Recapitalizations
- Mergers & Joint Ventures

Capital Advisory
- Equity Advisory
- Debt Advisory
- Infrastructure Finance

Financial Advisory
- Transaction Advisory
- Interim Management
- Performance Improvement
- Valuation Advisory
- Litigation Support

Special Situations & Restructuring
- Special Situations
- Turnaround
- Restructuring
- Bankruptcy
- Insolvency

A DIFFERENT KIND OF FIRM. BUILT FOR THE MIDDLE MARKET.

Sign Up for Industry Insights.
Delivering timely, sector-specific intelligence to your inbox

One of our core capabilities is to deliver sector-specific intelligence designed specifically for industry leaders, private equity firms and their advisors. Our industry reports and featured articles deliver real-time access to key sector data including:

- Emerging industry trends
- Acquirer and investor appetites
- Mergers & acquisitions market analysis
- Notable transactions
- Public company data

Receive email updates with our proprietary data, reports, and insights as they're published for the industries that matter to you most.

Subscribe
capstonepartners.com
KEY INDUSTRY TAKEAWAYS

Capstone Partners is pleased to share its April 2021 Mapping, Modeling, & Simulation (MM&S) report. We have closely tracked industry dynamics throughout the COVID-19 pandemic and our report highlights two recent conversations with the owners of private companies DiSTI and Arotech. Capstone remains an active advisor in the MM&S industry and the report features our recently-advised sale of Special Applications Group, an innovative provider of mission-critical tactical helicopter training, operational planning, and support services to domestic and allied military agencies and government organizations, to a strategic acquirer.

Through our ongoing conversations with active industry players and analysis of merger & acquisition (M&A) activity, we have identified key industry takeaways below complemented by additional insight on the following pages.

1. The MM&S industry showed its strength amid the COVID-19 pandemic and subsequent recession—not only keeping pace with historic M&A levels but also surpassing 2019 activity by 19.6%.

2. The Simulation segment became increasingly targeted in Q4 2020 and Q1 2021, driven by the need for and acceptance of remote training and innovative solutions during the pandemic.

3. Training demand will be needed for the foreseeable future to address looming pilot shortages for both commercial aviation and the military.

4. Participants expect to benefit from the emphasis on readiness and modernization expressed in the National Defense Strategy as they drive demand for training.

5. In response to the pandemic, the U.S. government experienced a record budget deficit in fiscal year 2020. This could limit funding for more expensive live training and will likely benefit providers of virtual training products and services.

6. Technological advances continue to improve the fidelity of virtual training devices and holistically are increasing the value of training methodologies.

Capstone Partners has developed a full suite of corporate finance solutions, including M&A advisory, debt advisory, financial advisory, and equity capital financing, to help privately-owned businesses and private equity firms through each stage of the company’s lifecycle—ranging from growth to an ultimate exit.

To learn more about Capstone’s wide breadth of advisory services and Mapping, Modeling, & Simulation industry, please contact Capstone Managing Director and MM&S Expert Ted Polk.
INDUSTRY OUTLOOK

The MM&S industry is poised for a tremendous year of merger and acquisition (M&A) activity, supported by fiscal policies that will spur economic growth and were accelerated by tectonic shifts in technology that have forever changed the industry’s landscape. Namely, the rapid and necessary shift to new technology solutions during the COVID-19 pandemic has heightened demand for innovation and has served as a litmus test for a broader and more permanent adoption of its virtual products and services.

Virtual products have emerged as pivotal tools to aid in training and to recreate real-life experiences in the remote environment. In a recent Capstone interview, John Hayward, CEO of customized 3D virtual training provider DiSTI, explained: “COVID has really allowed us to prove that distance learning and remote work is effective, from a learning, price, and cost perspective.” (See page nine for full interview). While the global pandemic heightened usage, demand is expected to remain high for virtual products as they are seeing increased application across a variety of industries including Healthcare, Aerospace & Defense, Construction, Education & Training, Automotive, and Industrials. For example, in Education & Training, colleges such as Columbia and Bucknell University have used headsets for virtual-reality (VR) tours of campuses. Within Construction, real-time 3D content development provider Unity (NYSE:U), has acquired architecture technology company VisualLive (March 2021, terms not disclosed) to further bridge the gap between design and construction through the use augmented reality (AR) and VR. Within Aerospace & Defense, the U.S. Space Force has contracted Science Applications International Corporation (NYSE:SAIC) to create a gamified VR platform which will prepare troops to work on national security satellites prior to traveling into space. Boosted by new uses and widespread adoption, the global Virtual Reality market, valued at $3.1 billion in 2019, is projected to see an impressive annual growth rate of 44.3%, to reach $57.6 billion by 2027, according to Fortune Business Insights.

As highlighted throughout the report, Military Simulation & Training (S&T) is a key driver of overall industry activity. While the Biden administration has yet to send its proposed fiscal year (FY) 2022 defense budget to Congress (expected in May), the FY2021 budget of the previous administration focused heavily on modernizing and expanding training programs over the next several years in each military branch. This included improved use of live, virtual, constructive (LVC) training, improved air combat training, expanded joint combat operations training, and development of Joint Force capability to train in contested environments. We anticipate training and readiness will remain a key long-term priority of the Department of Defense (DOD) as it continues to shift focus from counterterrorism to near-peer competitors Russia and China under the 2018 National Defense Strategy. Furthermore, protecting America’s economic, diplomatic, and technological advantage over geopolitical rivals has necessitated military agility across air, land, sea, and space to prepare for the high-end fight. This is expected to boost virtual training as it is a cost-effective and efficient form of training.

Ted Polk,
Managing Director

“There has been a noticeable pick-up in M&A activity involving training and simulation companies and we expect this trend to continue. The competitive landscape is changing, and investment capital remains readily available. Companies that remained relatively stable or grew during the pandemic will be viewed favorably from a valuation perspective.”
M&A OVERVIEW

The MM&S industry has shown its strength amid the COVID-19 pandemic and subsequent recession—not only keeping pace with historic M&A levels but also surpassing 2019 activity by 19.6%. This robust deal making environment is in stark contrast to the overall middle market, where activity declined 16.4% year-over-year (YOY) as companies shifted from growth initiatives to employee safety and shoring up balance sheets (read more in our Q4 Capital Markets Update). The MM&S industry’s momentum has continued into 2021, with 27 deals announced or closed in Q1 compared to 20 during the same period last year. Going forward, we expect a historically active M&A environment, supported by favorable financial conditions, pent up demand, and innovation driven by pandemic-induced disruptions that will continue to spur strategic M&A. In addition, the pending hikes to corporate, individual, and capital gains taxes are expected to galvanize deal flow as business owners seek to complete an exit in the near-term to maximize liquidity.

Public companies continue to drive the largest share of buyer activity in the MM&S space, accounting for 43.1% in 2020. These leading players are expected to continue to consolidate the space while also divesting non-core businesses to streamline operations. This strategy was most recently exemplified by CAE Inc.’s (TSX:CAE) March 2021 agreement to acquire L3 Harris’ (NYSE:LHX) Military Training business for $1.05 billion (see page eight).

Notably, the Simulation segment has become increasingly attractive with 50% of the Simulation companies targeted in 2020 announced in Q4. Heightened demand has extended into 2021, with 12 Simulation deals in Q1 compared to 20 in all of last year. With the rising interest in use of digital twins and the growing use of technology to simplify complex tasks, we expect buyer interest to remain elevated in this space in both the short and long-term. Consistent with prior years, Mapping companies were most frequently targeted and made up 59% of 2020 acquisitions. The largest transaction was also in Mapping, with BAE Systems’ (LSE:BA) $1.9 billion acquisition of Collins Aerospace’s Military Global Positioning System (GPS) Business, which closed in July. The business is slated for demand due to the needs of modern battlespace and will complement BAE’s defense electronics capabilities.
SEGMENT HIGHLIGHT: MILITARY FLIGHT TRAINING

~25% SHORTAGE OF FIGHTER PILOTS IN EACH MAJOR MILITARY BRANCH

The U.S. military is suffering from a severe shortage of fighter pilots—with the Air Force, Navy, and Marine Corps each short ~25% of pilots in crucial areas, according to a 2018 U.S. Government Accountability Office (GAO) report. The shortage is expected to worsen in the coming years, driven in part by demand for commercial pilots, poor pay and benefits, and a large portion of pilots reaching retirement age. The DOD flagged the Army’s aviation capabilities specifically as a concern due to factors including pilot protection and retention. As a result, the DOD has continued to increase the number of rotary aircraft (UH-60s, CH-47s, and AH-64s) available for training. The Army has also increased support for flight schools in order to meet the branch’s pilot requirements and has increased flight crew member readiness through additional training exercises.

Flight training using simulators and simulation tools plays a key role in advancing force readiness, particularly as shortages have limited the number of instructors available for one-on-one training. Use of simulation tools also helps cut costs for training, which ranges from $3 to $11 million per Air Force fighter pilot. The appeal of innovative simulation solutions was recently highlighted in a December DOD article, which discussed the use of immersive training programs for T-6 and T-38 aircraft. The training combines VR, artificial intelligence (AI), and machine learning to augment flight training on an individual student’s laptop. The new program was created in partnership with four leading companies: VERTEX Solutions providing software, hardware, and a gaming chair; Alphabet (Nasdaq:GOOGL) providing cloud infrastructure and cybersecurity; CAE providing a learning management system; and Discovery Machine providing AI-based monitoring and coaching.

In March, the Air Force announced that it would seek to outsource solutions to private companies to further improve flight training and to find alternate means to produce ~200 pilots a year for the next five years. This intensifying pilot shortage has created a key opportunity for simulation and training companies to leverage technology and to create alternative solutions to assist the DOD and other agencies in overcoming this significant shortcoming in readiness.

As a result of these drivers, we expect M&A to increase in military aviation training, as leading players seek to bolster their offerings and secure access to government contracts. Two representative deals, including Capstone–advised Special Applications Group, are highlighted on the following pages.
CAE Inc. agrees to acquire L3Harris Technologies’ Military Training Business, (March 2021, $1.05 Billion, ~13.5x EV/EBITDA)

Canadian training solutions provider CAE Inc. (TSX:CAE), has agreed to acquire L3Harris’ (NYSE:LHX) Military Training business for $1.05 billion. The transaction represents ~13.5x adjusted 2020 EBITDA or ~10x cost synergies which are projected to range from $28 to $35 million annually two years after the acquisition is completed, according CAE’s press release. The transaction is highly complementary to CAE’s U.S. military training business and will expand its simulation training presence across multi-domains including air, space, and cyber.

L3Harris’ Military Training business saw annual revenues of ~$500 million in 2020 across three segments:

1. Link Simulation & Training, a leader in flight simulation for more than 80 years, provides innovative solutions both domestically and internationally including aircrew training systems, fixed-wing simulators, and air traffic control training.
2. Doss Aviation is a premier provider of flight training and provides programs and to the United States Air Force (USAF).
3. AMI designs and manufactures facility for simulator hardware.

The acquisition will significantly enhance CAE’s delivery of training systems for fighter and bomber aircraft as well as remotely piloted aircraft. In addition, L3Harris’ Military Training business brings a significant backlog, according to the press release, including “the USAF Simulators Common Architecture Requirements and Standards (SCARS) program, USAF F-16 Simulators Training Program (STP), US Navy/Marine Corps F/A-18 aircrew training systems, USAF Ground Based Strategic Deterrent (GBSD) training and USAF B-2 training system.”

CAE has been an active acquirer, announcing four acquisitions since November 2020. The company has leveraged inorganic growth opportunities to expand its customer base within Defense & Security, penetrate new geographies, add new products offerings, and enter adjacent markets.

### CAE Strengthens Offerings with Recent Acquisitions

<table>
<thead>
<tr>
<th><strong>Company</strong></th>
<th><strong>Acquisition Amount</strong></th>
<th><strong>Date</strong></th>
<th><strong>Details</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>FSC</td>
<td>$105.2 Million</td>
<td>November 2020</td>
<td>Based in Hungary, FSC provides airline training solutions, primarily focused on simulators for Airbus (ENXTPA:AIR) and Boeing (NYSE:BA). The deal expands CAE’s addressable market.</td>
</tr>
<tr>
<td>TRU</td>
<td>$40.0 Million</td>
<td>November 2020</td>
<td>TRU develops and manufactures aviation simulation and portable desktop devices for civil and military markets. The acquisition will expand CAE’s global civil training capabilities.</td>
</tr>
<tr>
<td>Merlot.aero</td>
<td>$29.5 Million</td>
<td>December 2020</td>
<td>Based in New Zealand, Merlot offers a cloud-based airline crew management system. As part of CAE, Merlot will expand its services to also include training operation solutions.</td>
</tr>
<tr>
<td>L3Harris (Military Training Business)</td>
<td>$1.5 Billion</td>
<td>March 2021</td>
<td>The Military Training Business of L3 Harris includes Link Simulation &amp; Training, Doss Aviation, and AMI. The deal will significantly enhance CAE’s solutions and backlog.</td>
</tr>
</tbody>
</table>
CAPSTONE CASE STUDY

Capstone advised Special Applications Group (“SAG”), an innovative provider of mission-critical tactical helicopter training, operational planning, and support services to domestic and allied military agencies and government organizations, on its sale to a strategic acquirer. Terms of the deal were confidential.

SAG was formed in 2004 in Tampa, Florida by Bryan Bean and Dave Lawrence, two former Special Operations officers. They identified a market need for responsive studies and assessments within the Special Operations community, and demand for standards-based training in support of Federal and local law enforcement in the post-9/11 era. The founders were able to address this market need by assembling a core team of proven former Special Operations Forces (SOF) leaders.

The company now serves a global client base, providing needs-driven training for clients with U.S. and foreign-owned aircraft. Its flight training includes initial training concept development, hands-on aircraft and simulator-based flight instruction, and post-training integration.

SAG’s Training Readiness Management System (TRMS) software program allows units to accurately assess readiness and the ability to conduct operations by customizing the program to use the unit’s defined standards to measure success. TRMS is simple to use and, as a web-based product, can be operated on any workstation or network. The program provides instant reports to leaders assessing the individuals, team, and tactical unit strengths and weaknesses.

The Capstone team was relentless in pursuit of the most advantageous transaction and provided exceptional leadership, technical advice, and support that enabled us to achieve our objectives. Thanks, is not enough to express my gratitude, appreciation, and respect for the professionalism I witnessed from the entire team.

David Lawrence, CEO of Special Applications Group

HAS BEEN ACQUIRED BY

AN UNDISCLOSED STRATEGIC BUYER

SAG’s Core Competencies

**Basic Tactical Flight Training**
Designed for newly assigned personnel to increase individual or aircrew skills through a foundational program.

**Advanced Tactical Flight Training**
Advanced tactics, techniques, and unique procedures training for seasoned U.S. and key partner nation aircrews.

**Security Force Assistance**
Support to foreign military organizations via capability assessments, needs analysis, training, and program implementation.

**Operational Staff Support**
Manpower augmentation focused on providing a wide range of mission-critical professional services to federal agencies.
Capstone spoke with John Hayward, CEO of The DiSTI Corporation, to discuss the company’s unprecedented growth amid the COVID-19 pandemic and to learn about DiSTI’s operations and strategy.

For more than 25 years, DiSTI has provided turn-key and customized 3D virtual maintenance training and HMI/UI (human machine interaction/user interface) software to the Aerospace & Defense, Energy & Power Generation, Automotive, Medical, and Industrial industries. DiSTI has pioneered the development and commercialization of virtual maintenance training (VMT) solutions and its graphical user interface software remains the industry standard. Leading companies worldwide including Siemens (NSEE:SIEMENS), Garmin (Nasdaq:GRMN), Jaguar, and Land Rover, use DiSTI’s products to help teach complex technical activities. DiSTI’s products and services are also purchased by governmental agencies around the world including NASA, the U.S. Coast Guard, European Space Agency (ESA), and Army National Guard.

In 2015, Capstone was retained as the exclusive advisor to DiSTI to solicit strategic and financial acquirers and help its three owners complete a transaction. The ultimate buyers were private equity firms Dos Rios Partners and Akoya Capital Partners. Terms of the deal were confidential.

Despite market volatility, DiSTI saw a record-breaking year in 2020 with 200%+ growth in new orders. What were key factors contributing to this outcome? Overall, if you separate the Training and Simulation industry into Commercial and Military, the Commercial market has taken a beating. We have some projects that are on the commercial flight training side and we’ve struggled to close them out because the customers were either not working or had other priorities. The majority of our work has been either in the DOD space this year or in the Industrial segment—and both of those have held pretty strong. The week before I started at DiSTI in July, we received an award for the U.S. Army Family of Maintenance Trainer program. That initial award really made the rest of our year and we received several follow-up awards. 2020 was about three times the biggest bookings year we’ve ever had. A couple of things have driven this including the acceptance of virtual training. That is, training being delivered either in full VR [virtual reality] headsets, through an augmented reality headset, or just through a desktop. The pandemic has allowed, through use of the right tools, training to be delivered remotely.

What attracted you to work at DiSTI? I’ve been in the industry for 30 plus years, and this was an opportunity to run a company focused on training and simulation. I’d always worked in big multi-industry companies before, so they weren’t necessarily focused on training and simulation, but it was one of the areas they worked in. So, it’s fun for me, everybody here understands the business. We’re able to be agile and quickly react to customer’s requirements because we are small and the decision-making is happening here and not in headquarters in another state. That ability to be responsive to our customers and to be focused on this market is really what attracted me to the company. DiSTI also has great technology in the virtual environment, which is an area that I’d looked at previously and hadn’t been able to get traction within my previous company to take a step in that direction. But DiSTI has made a number of investments in that space and has been well ahead of it and competitors.

You joined DiSTI during the pandemic, how was COVID-19 impacting the company and how did DiSTI adapt? Our employees are still not in the office. I would say 90% work remotely and we’ll continue that at least through the pandemic and likely will allow remote work going forward. The IT Department here did have to beef up some connections and provide some additional tools so folks could work effectively, remotely. This was especially true for the heavier users, the ones that are doing software development, graphics, and virtual environment creation. Those folks had some struggles initially, but I think we’ve been able to get through it. That investment in IT infrastructure earlier in the year has helped us to enable our remote workforce now for customers.
Q&A: DISTI (CONTINUED)

Can you tell us about the launch of DiSTI Schoolhouse? What other solutions are you focused on? What Schoolhouse offers is the ability to deliver high-fidelity content over the web on almost any device. It provides student management and tracking, and provides configuration management of the training courses for our customers. We can deliver intensive graphics to a mobile phone, tablet, or to a computer where the user can plug in a VR headset. For example, I’m delivering classroom training for the Army’s Family of Maintenance Trainer program. The classrooms have high-end computers with all the graphics capabilities you could imagine, and it allows the students to run virtual environment there in the classroom. They get highly detailed 3D environment delivered to practice their maintenance tasks and go through testing to validate that the knowledge is transferred. We can run the same thing on the Amazon GovCloud, so it’s all secure and they can use that as a delivery method for students before they arrive at classrooms. While cloud delivery for commercial customers is being used today it is really in the exploratory phase for our DOD customers.

What are specific growth opportunities within the Military segment of the Simulation & Training industry? What we’ve seen in the military is that different branches are adopting VR and AR training solutions at different speeds. The Army, in particular, and the Navy, have seen a pretty heavy adoption of virtual reality, augmented reality, training where they are using a headset. It varies from customer to customer depending on their preference, but we’ve seen a heavy adoption of VR/AR headsets and large desktop displays. Which is perfect for us, that is right in our sweet spot. We expect to see that continue with some opportunities coming from the Navy.

Do you consider DiSTI to be more of a virtual maintenance trainer destination or a services provider that owns its own intellectual property? We offer a unique value proposition in that we’ll build your simulator for you, or we’ll sell you the tools and train you to use them and you can build it yourself. We offer that to really any customer who’s interested. But we are really a solutions company that does happen to have our own IP and sells that IP as commercial products as well. If you know anybody that owns a Jaguar, the vehicle entertainment system is GL Studio-driven so that’s DiSTI software, and we have a number of other automotive companies that we do business with as well. That technology is unique, it’s very scalable and portable. It can run in an embedded application like an automobile, or it can run on a desktop for training simulators. So, it’s the same software that we use both to create touchscreen displays for a flight simulator and to create a display in a car. I think you’ll see the focus going forward is more on the solution space. There the revenue in the solution space is much higher and provides greater opportunity to grow the business. We’re probably the number one user of our own products, and we’re believers in the products we have, and how they allow us to operate more efficiently. But we’re much smaller as a software company than we are as a solutions provider.

What do you see as the long-term impacts of COVID–19 on the Training & Simulation industry? We’ve seen that this type of distance learning works across the spectrum for maintenance and operations of complex equipment. We’ve proven that it works. COVID has really allowed us to prove that distance learning and remote work is effective, from a learning perspective, price perspective, and from a cost perspective. I can deliver distance learning training at about a 10th of the cost of an in-person class. If you look at it from a recurring perspective, every time I hold a class, I’ve got to pay somebody to fly to the class. That flight and hotel stay alone, are more expensive than the delivery of the courseware itself. My expectation is we will continue to see adoption of the virtual and distance training once we get through the pandemic and believe DiSTI is well positioned to take advantage of that growth.

John Hayward, CEO of DiSTI

John Hayward was appointed CEO in July 2020 and leads DiSTI’s business segments and strategic growth. Mr. Hayward has spent many years in his career focused on the successful training of pilots and vehicle operators for both commercial and military applications, with his career launching at the Link Company, one of the first to develop the concept of simulation for flight training. Mr. Hayward has also held leadership roles at TRU Simulation & Training and Textron Systems Support Solutions, where he advanced the businesses strategies and leadership teams.

Learn more about DiSTI at www.disti.com
Capstone spoke with Dean M. Krutty, CEO and President of Arotech Corporation, together with Noah Blitzer, Director at Greenbriar Equity Group where the company is backed, to discuss Arotech’s transition from a public to private company in Q1 2020 and to learn how COVID–19 has impacted the Simulation & Training industry.

Arotech provides defense and security products and services and through three business divisions: Training & Simulation, Advanced Electronics, and Enriched Energy Solutions. Arotech’s Training & Simulation Division develops and provides high-tech multimedia and interactive solutions for engineering, use-of-force, and operator training simulations used by military, law enforcement, security, municipal and private industry personnel. Its solutions include vehicle simulation, military operations, and judgmental use-of-force (intensified simulation training that focuses on the use of firearms as well as tactical judgement in various scenarios).

In December 2019, Greenbriar completed the acquisition of Arotech Corporation (then listed as Nasdaq:ARTX) for an enterprise value of $103 million dollars or 17.7x EV/EBITDA in a take private transaction. For the nine months ending September 30, 2019, Arotech reported revenues of $67.6 million, according to the company’s Q3 results. Of this, Arotech’s Training & Simulation Division generated $44.3 million in revenue (a YOY increase of 1.6% driven by military contracts and commercial vehicle sales).

How has Arotech evolved over the years and what differentiates it from competitors? Krutty: If you go back in our history, we started out purely DOD weapon simulation-oriented focused on pilot training. In the mid-90s, when personal computers became capable, we had a vision that said, ‘okay, a driver of a big rig could do a similar type of training at a cost point that made sense to actually get into the market.’ It was a tougher economic sale in the mid-nineties than it became shortly thereafter because computer prices continued to go down. By the late ‘90s, you could put in a very compelling system to do really effective driver training. That’s really when Arotech simulation companies started to take off. We were the leader in simulators for ground vehicles, so all of your Marine Corps. and Army vehicle operators could train in a simulator for all of the different types of vehicles that they would operate. We became a leader in simulation for wheeled vehicles and began a bunch of commercial endeavors as well. So that’s really kind of the inflection point for the company, and we began to add nice adjacent areas.

Do you have most of your own IP and software? Krutty: Yes, we have a tremendous amount of intellectual property in our software. Intellectual property in some of our business areas dates back into the ‘70s. The R&D spend that we continue to make, allows us to stay ahead of the competition and abreast of all of the technology changes that continue to happen at a faster and faster pace. It’s what’s required if you want to be a player in this industry. We’re committed to staying in front and we get a lot of investment from our customers to do new R&D, but we also look at the very important cutting-edge things that are happening and spend our own money to make sure we’re ready.

What attracted Greenbriar to invest in Arotech and take the company private? Blitzer: Arotech’s entire simulation platform is self-built and its IP sits in-house. The core of the business is founded on the Air Warfare Simulation business which has built a lot of IP over the last 30 to 40 years. That business now has complex integrated systems imbedded in the U.S. fighter jet fleet. We found an opportunity to partner with Dean and his team to support their investment plans and accelerate growth. We’ve primed the M&A engine and allowed the team to focus on developing best solutions for the customers. We completed three acquisitions in 2020 while bolstering our team. The first one was Inter-costal Electronics in February, which is a rotorcraft training business with an incredible amount of both software and hardware IP. They are the only company that can make on-aircraft integrated training systems for the Apache.
helicopter. They have uniquely partnered directly with Boeing with this solution. The second one was Shooting Range Industries, which we’ve now rebranded to MILO Ranges. This is a product extension for our MILO business. MILO Ranges makes a ballistically sealed shooting range. So, think of this as a shipping container, or multiple shipping containers, that you can fire live rounds in from a pistol or rifle and nothing gets out. It’s completely sealed and has an advanced HVAC system with HEPA filters to also protect the trainee from breathing contaminants. Our MILO team had already worked with this business to offer our simulation software in a more realistic, live-fire setting. It’s a cost-efficient way to provide better training where access to outdoor ranges is limited. The third acquisition we completed was within our advanced electronics division. We bought a business called UST-Aldetec, which is a component manufacturing business that helps us build out our capabilities on the electronics side.

The take-private acquisition of Arotech itself was completed in December, right at the onset of the pandemic. How did Arotech respond and how has the company performed? Krutty: There’s been a tremendous lift from being private. With Greenbriar’s support, the work we’ve already done has transformed the company to something much better one year later. We’re fortunate that all three of our divisions are essential businesses. We were never forced to shut down any of our manufacturing capacity. We went to shifts, had as many people as possible work from home, and did all the things recommended by the CDC. We’ve had zero cases of COVID propagating in our facilities. In the end, we were able to keep all three of our divisions up and running and turned in numbers that were in line with our expectations despite the pandemic. It’s been a lot of work, but we’ve come through it quite successfully and have not suffered any ill-effects from the pandemic.

Blitzer: Historically, system sales and installations were predominately done in-person with government agencies that were shut down or working remotely. The team had to pivot its entire approach to effectively deliver services in a remote setting—using the innovative core of the business to evolve. At the same time the country was in the midst of social unrest. Arotech’s MILO training solution was designed for bias and decision-making training for police and government officials. The team has several PhDs on staff who study decision-making bias, and we’ve taken a scientific-learning based approach to how we train people to avoid bias and train them in decision-making.

What do you see as long-term impacts from the COVID-19 pandemic on the Training and Simulation industry? Krutty: I think big picture, we’ve all been forced to embrace technology just to do our day-to-day jobs. I think it helps people when you look at using advanced tools for training and simulation as opposed to doing live training; it helps them make that leap more effectively. I don’t think we’ll ever go back to all of our employees being in the office nine to five. Also, I think about the way we do our business outreach. I would never have dreamed a year ago, that we could have the number of meetings that we’ve had virtually — that have been effective. As we go forward, we’re going to be more efficient in our BD spend and more effective, because we’ve all realized that the amount of time we spent traveling actually limits the number of interactions we could have. We have been forced as an entire country and world to look at technology a little bit differently as a result of the pandemic. I think that helps because that’s really the tough sell for training and simulation is ‘Is this going to be effective training versus doing it live?’ We’re all seeing that you can do quite a lot virtually.

What potential changes do you see under the Biden administration and how do you expect that to impact the industry? Krutty: It’s unclear at this point. I think we’re certainly looking at the possibility that there’ll be an overall decrease in enthusiasm for Defense spending, but that remains to be seen. When you look at where we’re positioned in that market, most of the things that we’re providing are cost-effective training alternatives to the way things would have been done traditionally. A lot of times we can provide a solution for getting things done in a cost-constrained environment. We’re certainly hopeful that the way we’re positioned is somewhat protected from the likelihood of budget cuts. The threat environment is not decreasing, and we pivoted as a military a couple of years ago to a near peer threat response. That’s certainly accelerating. The most important thing is that our military is well prepared and well trained, and that calls for readiness and training solutions.
**Q&A: AROTECH (CONTINUED)**

**What are some of Arotech’s key focus areas for 2021?**

Krutty: For training and simulation specifically, as Noah mentioned, we made the addition of MILO Ranges to our portfolio. It’s a very synergistic and adjacent capability that we look to really expand in 2021 and beyond. There’s a lot of ways that it plays together with the rest of our MILO bias and decision training systems that we expect to capitalize on. But also, if you look at our Air Warfare Simulation Division, we have heavy demand right now for that technology despite the pandemic. So those programs and those contracts have not suffered at all in the pandemic. Our backlog is very strong going into 2021 and we feel like it is a growth year for us across our divisions. Coming out of a challenging 2020, we’re in quite nice shape to see growth this year.

Blitzer: In 2020, we focused on our team and expanding the foundation to drive growth. Looking to 2021, we’re going to keep our growth and M&A engine moving. Dean mentioned integrating our recent acquisitions and that’s a key priority. But we plan to continue adding capabilities across the platform. We’re in a number of dialogues today and we hope to continue to find good opportunities. Today we’re more nimble and aggressively pursuing growth. For business owners, we can provide value, speed, and certainty in a way that’s constructive and not disruptive to the business.

**Can you offer any additional insight into the types of acquisitions you’re looking for?**

Blitzer: We’re always trying to add technology, capabilities and customers to our portfolio. We’re always looking for growth capabilities that expand the solutions we have today so we can offer a broader and more robust set of services to our customers.

---

Dean M. Krutty,
President and CEO of Arotech

Dean M. Krutty became President and CEO of Arotech in 2018 after serving as acting CEO since 2017. He first joined Arotech in 2004, when the company acquired immersive S&T company FAAC Incorporated, where Mr. Krutty had been part of the management team for more than a decade. After the acquisition, Mr. Krutty became President of Arotech’s Training and Simulation Division (ATSD). He began his career at FAAC as an electrical engineer in FAAC’s Part Task Trainer Division and served as FAAC’s Director of Operations prior to becoming its President.

Learn more about Arotech at [www.arotech.com](http://www.arotech.com)

Noah Blitzer,
Director at Greenbriar Equity

Noah Blitzer first joined Greenbriar in 2011 as an Associate and returned in 2015 after completing his MBA from the University of Pennsylvania, Wharton School. Mr. Blitzer’s current portfolio company involvement includes Arotech, STS Aviation Group (provider of aircraft parts; maintenance, repair, and operations; and integrated services), and Whitcraft Group (manufacturer of precision metal and machined parts). Prior to his career at Greenbriar, Mr. Blitzer worked for several years in the Alternative Assets Group at Citigroup.

Learn more about Greenbriar at [www.greenbriarequity.com](http://www.greenbriarequity.com)
NOTABLE TRANSACTIONS: SIMULATION

Acquires

WRAP Technologies (Nasdaq:WRAP) acquired NSENA, a developer and provider of immersive virtual reality training simulators for law enforcement, in December for an undisclosed sum. Founded in 2016 in New York, NSENA's training platform utilizes Computer Graphics VR and 360 Video as well as proprietary hardware and content to create training environments that recreate the stress of real-world scenarios. NSENA's robust content library includes 47 modules to train police officers on everything from de-escalation and conflict resolution to all levels of use-of-force to help improve decision making on the job. The acquisition will enhance WRAP's portfolio of innovative public safety solutions and NSENA will be rebranded as WRAP Reality—solidifying WRAP's position in the multi-hundred-billion-dollar VR training market.

"In the wake of global protests surrounding excessive use of force, 2021 is expected to be a year focused on domestic police and public safety reform, with an increased focus from community groups, government organizations and the media on safer tactics and tools," Tom Smith, WRAP President & Interim said in the company's Q4 results. WRAP reported 466% growth in net sales in FY2020 for a total of $3.9 million as the company continues to accelerate its international reach and distribution.

To Acquire

Private equity firm OpenGate Capital has agreed to acquire ScioTeq and TREALITY in March from the TransDigm Group Incorporated (NYSE:TDG) for $200 million or 1.5x EV/Revenue. ScioTeq and TREALITY manufacture visualization solutions primarily for the Defense, Air Traffic Control, and Security markets. The companies have a global reach, with offices in both Belgium and the U.S., and generated $135 million in revenue for FY ending September 30, 2020, according to TransDigm's press release.

“ScioTeq and TREALITY are both well-established businesses and represent the type of investment where we can utilize our global operations team to build upon the success of these businesses and guide them toward a new chapter of growth,” OpenGate Capital's Founder and CEO, Andrew Nikou, said in a press release. OpenGate Capital is headquartered in both Paris and California and focuses on bringing innovation to businesses in the lower middle market.

Acquires

By Light Professional, a portfolio company of Sagewind Capital, acquired Raydon Corporation in December for an undisclosed sum. Raydon is a leading provider of adaptable military virtual training and simulation technology primarily for the DOD. Founded in 1988 and based in Florida, Raydon designs and develops simulated vehicles and weapons to create effective training environments for warfighters.

By Light Professional serves federal and commercial clients worldwide and specializes in hardware, software, engineering, and information technology integration services. The acquisition will strategically expand By Light's existing Modeling & Simulation services, which include live, virtual, constructive, gaming; live training technology; scenario development; and extreme faster-than-real-time simulations.

"Raydon will enable By Light to provide end-to-end solutions in support of the Army's virtual training, ultimately advancing warfighter proficiency with an extremely high transfer of skills from simulation to live engagement," Bob Donahue, By Light Founder and CEO, said in a press release.
## SELECT TRANSACTIONS: MAPPING, MODELING, & SIMULATION

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Acquirer</th>
<th>Target Business Description</th>
<th>Enterprise Value (mm)</th>
<th>EV / LTM</th>
<th>Revenue</th>
<th>EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>03/31/21</td>
<td>R&amp;S Digital Services</td>
<td>SAM Companies</td>
<td>Operates as a digital mapping company that provides geographic information system (GIS) services.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>03/09/21</td>
<td>Visual Live 3D</td>
<td>Unity Software (NYSE:U)</td>
<td>Develops augmented reality software for design, engineering, and construction companies.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>03/01/21</td>
<td>LHarris’ Military Training Bus.</td>
<td>CAE (TSX:CAE)</td>
<td>Supplies simulation systems, training services, and aircraft contractor logistics support.</td>
<td>$1,050.0</td>
<td>2.1x</td>
<td>-13.5x</td>
<td></td>
</tr>
<tr>
<td>02/24/21</td>
<td>IrisVR</td>
<td>The Wild</td>
<td>Develops virtual reality (VR) software applications for Architecture, Engineering, and Construction industries.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>02/15/21</td>
<td>Special Applications Group</td>
<td>Undisclosed Buyer</td>
<td>Provides tactical helicopter training to domestic and allied military agencies and government organizations.</td>
<td>CF</td>
<td>CF</td>
<td>CF</td>
<td>CF</td>
</tr>
<tr>
<td>02/10/21</td>
<td>Systems Engineering Group</td>
<td>QuantTech</td>
<td>Provides threat engineering and simulation services to government agencies.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>02/01/21</td>
<td>Geographic Information Services</td>
<td>Continental Mapping</td>
<td>Develops geospatial solutions for the government, military, airport authorities, and Healthcare industry.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>01/20/21</td>
<td>Mimic Technologies</td>
<td>Surgical Science</td>
<td>Offers a robotic surgery simulator to train residents, fellows, surgeons, and practitioners.</td>
<td>$33.6</td>
<td>16.0x</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>01/08/21</td>
<td>Imbellus’ IP Assets</td>
<td>Roblox (NYSE:RBLX)</td>
<td>Provides game- and simulation- based assessment for the workforce and education.</td>
<td>$11.7</td>
<td></td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>12/16/20</td>
<td>NSENA</td>
<td>Wrap Technologies (Nasdaq:WRAP)</td>
<td>Offers a law enforcement training platform that uses virtual reality with software, hardware, and content.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>12/08/20</td>
<td>Simcoach Games</td>
<td>Sigma Resources</td>
<td>Develops 3D games and simulation products for workplace safety and product operations training.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>12/04/20</td>
<td>Raydon</td>
<td>By Light Professional IT</td>
<td>Develops and manufactures virtual, adaptable integrated military training technology solutions.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>12/01/20</td>
<td>MasterpieceVR</td>
<td>Cemtrex (Nasdaq:CETX)</td>
<td>Develops virtual reality 3D modeling products.</td>
<td>$6.3</td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>11/25/20</td>
<td>TRU Simulation + Training Canada</td>
<td>CAE (TSX:CAE)</td>
<td>Develops and manufactures aviation simulation and portable desktop devices for civil and military markets.</td>
<td>$40.0</td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>11/11/20</td>
<td>Visual Kinematics</td>
<td>Tech Soft 3D</td>
<td>Develops software development toolkits for computer- aided engineering (CAE) applications.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>11/04/20</td>
<td>Nor East Mapping</td>
<td>Cooper Aerial Surveys</td>
<td>Provides photogrammetry services to private and governmental agencies.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10/26/20</td>
<td>Virtual Driver Interactive</td>
<td>Cemtrex (Nasdaq:CETX)</td>
<td>Offers driver training simulation solutions including virtual hazard detection and boating skills.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10/07/20</td>
<td>Metamoto</td>
<td>Foretellix</td>
<td>Develops a simulation platform to provide scenario- based training and testing of autonomous system.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10/06/20</td>
<td>Box Robotics</td>
<td>Seegrid Corporation</td>
<td>Provides high-definition maps, and three-dimensional LiDAR to mobile robots.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10/01/20</td>
<td>Vascular Simulations</td>
<td>Mentice (OMMNTC)</td>
<td>Develops and manufactures a simulation replicator for endovascular procedure trainings.</td>
<td>$6.0</td>
<td>2.7x</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>07/28/20</td>
<td>Kidde Fire Trainers</td>
<td>Undisclosed Buyer</td>
<td>Offers live-fire training simulators that realistically replicate the heat, smoke, flames and chaos.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>07/01/20</td>
<td>Meggitt Training Systems</td>
<td>Pine Island Capital</td>
<td>Offers high fidelity virtual reality training for military, law enforcement, and commercial customers.</td>
<td>$146.0</td>
<td>1.1x</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: CF = confidential; highlighted deals are Capstone’s transactions
Source: Capital IQ, PitchBook, and Capstone Research
BUYER UNIVERSE

Capstone has built relationships with and tracked buyers that have been highly acquisitive in the Aerospace, Defense, Government, & Security industry, particularly those that have completed notable MM&S 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

Leading Financial Buyers

Source: Capstone Research
MAPPING, MODELING, & SIMULATION REPORT CONTRIBUTORS

Ted Polk
Managing Director
tpolk@capstonepartners.com | 708–921–8961

Ted is a Managing Director at Capstone, based out of Chicago. Previously, Ted was also a Managing Director in Morgan Stanley’s Capital Strategies Group and with Citi Capital Strategies. He has over 25 years of transactional experience in various service and product categories, such as training and simulation. Transactions he has led have been the recipient of multiple industry awards including Cross-Border Middle-Market Deal of the Year, Middle-Market M&A Financing Deal of the Year, Middle-Market Deal of the Year, Professional Services Deal of the Year, Corporate M&A Deal of the Year and USA Recapitalization Deal of the Year. Previously, Mr. Polk worked at Valuemetrics, Inc. and in the Corporate Banking Group at The Bank of New York. Ted received his BSBA degree from Georgetown University and MBA from the University of Chicago. He is a Chartered Financial Analyst (CFA), a Series 7 and 63 Registered Securities Representative, and a Series 24 Registered Securities Principal.

Sarah Doherty
Vice President of Research
sdoherty@capstonepartners.com | 617–619–3310

Sarah joined Capstone in 2016 and oversees the firm’s corporate Research Team, which produces more than 150 reports annually on middle-market M&A activity. Sarah specializes in the Aerospace, Defense, Government, & Security, Education & Training, and Healthcare industries. Previously, Sarah was the Data Graphics Specialist at a think tank in Washington, D.C., where she collaborated with economists and industry experts to analyze and present data for congressional testimonies and research publications. Prior to that, she covered the economy and Capitol Hill as a reporter. She holds a BA in Journalism and Political Science from Biola University and is a certified Market Research Analyst through the International Institute of Market Research and Analytics.

Brianna Conway
Associate
bconway@capstonepartners.com | 847–849–0913

Brianna is an Associate in the firm’s Chicago office, working closely with private business owners to advise and execute mergers, acquisitions and strategic capital raises. Prior to joining Capstone, Brianna was an Analyst at PwC Corporate Finance on their M&A team where she focused on healthcare provider and services sell-side transactions. Brianna graduated with honors from Indiana University’s Kelley School of Business with a major in Business Economics and Public Policy. She holds her Series 7, 63 and 79 licenses.

Brian Gerner
Associate
bgerner@capstonepartners.com | 847–989–8057

Brian is an Associate in the firm’s Chicago office, working closely with private business owners to assist with deal process management and the creation of marketing materials. Prior to joining Capstone, Brian was an Analyst at AGC Partners, a middle market investment bank focused on M&A in the Technology Sector. Brian earned a BA from Wesleyan University with degrees in both Economics and History.
FIRM TRACK RECORD

Capstone has represented numerous companies that serve the mapping, modeling and simulation needs of federal, state, local, municipal or foreign governments, as well as the needs of civilian and defense-related agencies. Sample recent engagements include the following:

**CONFIDENTIAL**

**CORPORATE SALE**
**(IN CLOSING)**

**PROVIDER OF MEDSIM PRODUCTS & TRAINING SERVICES**

**HAS BEEN ACQUIRED BY**

**Sedaru**

**Special Applications Group**

**HAS BEEN ACQUIRED BY**

**AN UNDISCLOSED STRATEGIC BUYER**

**DiSTI**

**HAS PARTNERED WITH**

**A K O Y A D O S R I O S PARTNERS**

**HAS BEEN ACQUIRED BY**

**Sensor Concepts Inc.**

**Raptor Scientific**

**A Cadmus Company**

**HAS BEEN ACQUIRED BY**

**OBSIDIAN**

**Cadmus Capital Partners**

**HAS BEEN ACQUIRED BY**

**Cadmus**

"From our first meeting several years ago through close a few weeks ago, Capstone’s pedigree and thorough knowledge of the M&A landscape was present. The entire Capstone team made a tremendous effort to understand the uniqueness of SCI and provide the appropriate guidance and advice that directly attributed to maximizing the value of the acquisition. This transaction was not simple nor easy, but the team never wavered through the seemingly endless negotiations, always with a simple goal of doing what is right for SCI. We definitely had the Capstone heavyweights going to battle for us. A huge thank you to the team for their tireless efforts throughout the entire process."

John Ashton,
General Manager & Executive VP of SCI
ENDNOTES


5. CAE, “CAE to acquire L3Harris Technologies’ Military Training business for US$1.05 billion,”  


7. Transdigm, “Transdigm Plans to Divest ScioTeq and TREALITY Business to OpenGate Capital,”  


Disclosure
This report is a periodic compilation of certain economic and corporate information, as well as completed and announced merger and acquisition activity. Information contained in this report should not be construed as a recommendation to sell or buy any security. Any reference to or omission of any reference to any company in this report should not be construed as a recommendation to buy, sell or take any other action with respect to any security or company. We are not soliciting any action with respect to any security or company based on this report. The report is published solely for the general information of clients and friends of Capstone Partners. It does not take into account the particular investment objectives, financial situation or needs of individual recipients. Certain transactions, including those involving early-stage companies, give rise to substantial risk and are not suitable for all investors. This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Prediction of future events is inherently subject to both known and unknown risks and other factors that may cause actual results to vary materially. We are under no obligation to update the information contained in this report. Opinions expressed are our present opinions only and are subject to change without notice. Additional information is available upon request. The companies mentioned in this report may be clients of Capstone Partners. The decisions to include any company in this report is unrelated in all respects to any service that Capstone Partners may provide to such company. This report may not be copied or reproduced in any form or redistributed without the prior written consent of Capstone Partners. The information contained herein should not be construed as legal advice.
Market Presence

With a long-established U.S. footprint, together with an international partner platform, we provide clients with broad expertise and access to key market relationships on a global basis. Our presence is backed by ~200 professionals in the U.S. with 450+ professionals across 43 countries.

- **218** M&A transactions completed in 2020
- **$12.5B** aggregate transaction value
- **30%** of our deals are cross-border
- **6th** globally ranked for deals under $500m
- **$65.1M** average transaction value
- **51** deals involving foreign private equity firms
- **65%** completed with a European partner

**United States**
- 170+ professionals
- 12 offices
- Boston · Chicago · Dallas · Denver · Detroit · Los Angeles · New York · Orange County · Philadelphia · Richmond · San Diego · Tampa

**International**
- 450+ professionals
- 60+ offices in 43 countries
- Asia: China · India · Japan · Thailand
- Africa: Congo · Egypt · Ghana · Ivory Coast · Mauritius · Morocco · Nigeria · Senegal · South Africa
- Americas: Toronto · Vancouver · Argentina · Brazil · Chile · Colombia · Mexico · Panama & Central America · Peru
- Europe: Belgium · Bosnia & Herzegovina · Croatia · Czech Republic · Finland · France · Germany · Hungary · Ireland · Italy · Netherlands · Poland · Portugal · Russia · Serbia · Slovakia · Slovenia · Spain · Sweden · United Kingdom

capstonepartners.com