Government IT Quarterly Update

Defense & Government Services Investment Banking | Greater Washington, D.C.
RAYMOND JAMES OVERVIEW

Raymond James is a full service investment bank with more than 400 industry focused professionals across the U.S., Canada, and Europe. The Defense & Government Services group at Raymond James possesses significant transaction experience and is driven by a client-first, entrepreneurial focused spirit. The team specializes in mergers and acquisitions, capital markets transactions, recapitalization and restructuring advisory, and private placements. Our team of seasoned professionals brings a deep level of industry expertise and a comprehensive range of strategic and financial advisory services.

REPRESENTATIVE RAYMOND JAMES TRANSACTIONS

- **PIXIA** has been acquired by **CUBIC**
- **ADVANTOR** has been acquired by **VECTRUS**
- **merlin** has received financing from **cerberus**
- **POLARIS** has been acquired by **PARSONS**
- The Global Defense Services Business of **CUBIC** has been acquired by **ACP**
- **STEG** has been acquired by **SOSi**
- **Xebec** has been acquired by **ACP**
- **PHASEONE** has been acquired by **accenture**
- **Schafer** has been acquired by **Booz | Allen | Hamilton**
- **Metalmark** has been acquired by **Belcan**

PROPRIETARY CONFERENCES

- 2020 Raymond James Defense & Government Services Conference
  - May 27, 2020, Washington, D.C.
- RAYMOND JAMES® MASTERY OF THE DEAL
  - May 12, 2020, Tampa, FL
  - November 19, 2020, Tysons, VA

EQUITY RESEARCH COVERAGE

- **AEROSITA**
- **APTIV**
- **AXON**
- **CACI**
- **CERENCE**
- **Cognex**
- **CUBIC**
- **FLIR**
- **FORTIVE**
- **L3HARRIS**
- **iLIGHT**
- **iRobot**
- **MAXIMUS**
- **NIC**
- **Roper**
- **Trimble**
- **Visteon**
GOVERNMENT IT SUBSECTOR SPOTLIGHT: CYBER

KEY THEMES IN THE FEDERAL CYBER MARKET

PROLIFERATION OF SENSITIVE DATA DRIVING INCREASED SPEND
Cybersecurity is a top priority for federal agencies, with approximately $20 billion in annual spend. The proliferation of sensitive data is accentuating the need for data protection and resulting in the formation of large, well-funded, multi-agency initiatives (see CDM case study on following page) designed to combat the ever-growing cyber threat.

INTEGRATION OF COMMERCIAL TECHNOLOGIES
The desire to quickly and effectively modernize agencies’ cyber infrastructure is resulting in a push to adopt best-in-class commercial technology. Proven, well-established cyber tools such as Forescout, Okta, and CyberArk are often ideal fits for government customers as commercial technology is often readily scalable and designed for large, complex organizations in a rapidly evolving cyber risk landscape.

INCREASED STANDARDIZATION & REGULATION
The increasing prevalence and visibility of cyber breaches has led to an ever-broadening regulatory framework at both the national and industry level. New regulations and initiatives further exacerbate security needs due to complex purchasing requirements, the need to manage highly sensitive data, and low levels of risk tolerance.

TOP FEDERAL AGENCIES BY FY2019 CYBER SPEND (1)

<table>
<thead>
<tr>
<th>Agency</th>
<th>Spend (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>VA</td>
<td>$145</td>
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<tr>
<td>Commerce</td>
<td>$175</td>
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<tr>
<td>Treasury</td>
<td>$185</td>
</tr>
<tr>
<td>HHS</td>
<td>$225</td>
</tr>
<tr>
<td>Energy</td>
<td>$275</td>
</tr>
<tr>
<td>Justice</td>
<td>$360</td>
</tr>
<tr>
<td>Other DoD</td>
<td>$559</td>
</tr>
<tr>
<td>Navy</td>
<td>$680</td>
</tr>
<tr>
<td>Army</td>
<td>$855</td>
</tr>
<tr>
<td>Air Force</td>
<td>$1,110</td>
</tr>
<tr>
<td>DHS</td>
<td>$1,150</td>
</tr>
</tbody>
</table>


(1) Excludes Intel-related funding
THINGS TO WATCH

CONTINUOUS DIAGNOSTICS AND MITIGATION (‘CDM’) PROGRAM

A $6 billion initiative, covering 50+ federal civilian agencies, CDM provides critical funding that enables agencies to upgrade and continuously monitor cyber networks

MARKET IMPLICATIONS

CDM, a multi-year program designed to fortify the security of government networks and systems, continues to accelerate in activity heading into 2020. Federal civilian agencies utilize CDM to procure both critical integration services as well as industry-leading, commercial off-the-shelf (“COTS”) tools required to maintain a modern, robust network

IN 2020, CDM WILL BUILD UPON ITS 2019 SUCCESS BY:

1. Proactively reaching out to cloud service providers to better understand ways that cloud offerings can be incorporated to achieve inventory and data collection goals
2. Continuing to award Dynamic and Evolving Federal Enterprise Network Defense (“DEFEND”) task orders which support cloud and mobile cybersecurity, with a wider selection of products and services that give agencies the ability to implement CDM on their own terms
3. Expanding the CDM Approved Product List by including FedRAMP-certified solutions

CYBERSECURITY MATURITY MODEL CERTIFICATIONS (‘CMMC’)

The final version of DoD’s CMMC requirements was published this month, changing how contractors address cybersecurity hygiene

MARKET IMPLICATIONS

CMMC is poised to become a “go” / “no-go” requirement for DoD solicitations within FY2020, in a continued effort to properly secure the defense industrial base. CMMC will feature several levels of certification and a mandatory, third-party certification for all DoD contractors and subcontractors

WHAT CMMC WILL MEAN FOR DEFENSE CONTRACTORS:

1. RECOMPETES: Contracts, upon recompete, may be particularly vulnerable to competition, depending upon which CMMC level is required by the contracting authority. Contractors will need to understand the intended CMMC requirement during the RFI and question submittal periods of the acquisition lifecycle
2. TEAMING AND SUBCONTRACTING: The DoD has stated that all contractors and subcontractors – including commercial item subcontractors – at any level of the defense supply chain will need to be certified at a minimum of Level 1 in order to be eligible to receive DoD-funded contracts and agreements
3. PRICING: CMMC related costs will be an allowable charge on contracts moving forward, and will be an element of best value proposals. Thus, new rates and bidding strategies will come into play within pricing volumes
HIGHLIGHTED RECENT GOVERNMENT IT TRANSACTIONS

**Pending**

The Federal Systems Business Unit of Unisys

Is being acquired by SAIC

$1.2 Billion

**SELECT CAPABILITIES**

- Infrastructure Modernization
- Cloud Migration
- Managed Services

**SELECT CUSTOMERS**

US Department of Homeland Security
- National Nuclear Security Administration
- U.S. Department of Veterans Affairs

**KEY TAKEAWAY**

Transactions of scale continue to be attractive to buyers looking to meaningfully expand their capabilities. Unisys Federal positions SAIC amongst the leaders in digital transformation

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**January 2020**

JHC Technology, Inc.

Has been acquired by Effectual

A portfolio company of Lumerie Capital

N.D.

**SELECT CAPABILITIES**

- AWS Cloud Integrations
- DevOps
- Cloud Security Implementation

**SELECT CUSTOMERS**

US Space and Missile Systems Center
- United States Army
- National Geospatial-Intelligence Agency

**KEY TAKEAWAY**

Firms with established positions supporting leading cloud providers, such as AWS, continue to attract capital partners to support ongoing investment and growth

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**January 2020**

Blackstone Technology Group

Has been acquired by ASGN Incorporated

$85 Million

**SELECT CAPABILITIES**

- DevOps
- Cybersecurity
- Cloud Modernization

**SELECT CUSTOMERS**

Department of Transportation
- Massachusetts Department of Public Services
- National Geospatial-Intelligence Agency

**KEY TAKEAWAY**

Acquirers remain focused on assets that enable the delivery of large and complex IT solutions within large customer sets with sophisticated requirements

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Sources: Capital IQ, Deltek GovWin, DACIS, and publicly available information

N.D. ("Not Disclosed")
## HIGHLIGHTED RECENT GOVERNMENT IT TRANSACTIONS (CONTINUED)

<table>
<thead>
<tr>
<th>January 2020</th>
<th>December 2019</th>
<th>December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>iTG</strong></td>
<td><strong>Smarttronix</strong></td>
<td><strong>DLT</strong></td>
</tr>
<tr>
<td>Has been acquired by</td>
<td>Has been acquired by</td>
<td>Has been acquired by</td>
</tr>
<tr>
<td>ICF</td>
<td>OCEANSOUND PARTNERS</td>
<td>TechData</td>
</tr>
<tr>
<td>$255 Million</td>
<td>N.D.</td>
<td>$205 Million</td>
</tr>
</tbody>
</table>

### SELECT CAPABILITIES

- **Cloud Services**
- **Big Data Analytics**
- **Digital Transformation**
- **Mission Systems Integration**
- **Managed Services**
- **Enterprise Network Operations**
- **Infrastructure Modernization**
- **Application Lifecycle**
- **Business Applications**

### SELECT CUSTOMERS

![Government Agencies](government-agencies.png)

### KEY TAKEAWAY

**January 2020**

*Differentiated capabilities in sought-after customer sets remain attractive to strategic buyers focused on transformational solutions in the federal market.*

**December 2019**

*Private equity continues to deploy significant capital in the Government IT market, targeting businesses supporting next generation solutions to both defense and civilian agencies.*

**December 2019**

*Public sector-focused businesses remain of interest to large, diverse companies for whom the federal market represents a meaningful growth opportunity.*

*Sources: Capital IQ, Deltek GovWin, DACIS, and publicly available information*
Government IT firms continue to outperform the overall market as agencies continue to invest in modernization efforts to replace legacy systems and processes. Year to date, the Government IT market index has outperformed the S&P 500 by over 400 basis points.

Despite added volatility from concerns over international trade disputes, overall equity markets have remained strong.
### GOVERNMENT IT QUARTERLY UPDATE

#### Q1 2020

**PUBLIC MARKET PERFORMANCE (CONTINUED)**

$ in millions (except for stock price)

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Ticker</th>
<th>Stock Price at 1/31/2020</th>
<th>% of 52-Week High</th>
<th>Equity Value</th>
<th>Enterprise Value</th>
<th>Financial Performance</th>
<th>Valuation Multiples</th>
<th>Valuation Multiples</th>
<th>Valuation Multiples</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Total LTM Sales</td>
<td>EBITDA</td>
<td>EBITDA Margin</td>
<td>TEV / LTM</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Booz Allen Hamilton Holding Corporation</td>
<td>NYSE:BAH</td>
<td>$78.04</td>
<td>95.2%</td>
<td>$10,942</td>
<td>$12,685</td>
<td>$27,74</td>
<td>$728</td>
<td>10.0%</td>
<td>1.7x</td>
</tr>
<tr>
<td>CACI International Inc.</td>
<td>NYSE:CACI</td>
<td>$267.44</td>
<td>95.3%</td>
<td>$6,705</td>
<td>$8,640</td>
<td>$5,398</td>
<td>$505</td>
<td>9.3%</td>
<td>1.6x</td>
</tr>
<tr>
<td>ICF International, Inc.</td>
<td>NasdaqGS:CFI</td>
<td>$87.59</td>
<td>92.0%</td>
<td>$1,648</td>
<td>$2,041</td>
<td>$1,460</td>
<td>$134</td>
<td>9.2%</td>
<td>1.4x</td>
</tr>
<tr>
<td>Leidos Holdings, Inc.</td>
<td>NYSE:LDOS</td>
<td>$100.47</td>
<td>96.3%</td>
<td>$14,223</td>
<td>$17,132</td>
<td>$10,787</td>
<td>$1,063</td>
<td>9.9%</td>
<td>1.6x</td>
</tr>
<tr>
<td>ManTech International Corporation</td>
<td>NasdaqGS:MANT</td>
<td>$80.28</td>
<td>93.0%</td>
<td>$3,219</td>
<td>$3,339</td>
<td>$2,115</td>
<td>$182</td>
<td>8.6%</td>
<td>1.6x</td>
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<tr>
<td>Parsons Corporation</td>
<td>NYSE:PSN</td>
<td>$40.90</td>
<td>93.3%</td>
<td>$4,060</td>
<td>$4,442</td>
<td>$3,846</td>
<td>$185</td>
<td>4.8%</td>
<td>1.2x</td>
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<tr>
<td>Perspecta Inc.</td>
<td>NYSE:PRSP</td>
<td>$28.07</td>
<td>93.9%</td>
<td>$4,541</td>
<td>$7,389</td>
<td>$4,448</td>
<td>$559</td>
<td>12.6%</td>
<td>1.4x</td>
</tr>
<tr>
<td>Science Applications International Corporation</td>
<td>NYSE:SAIC</td>
<td>$87.77</td>
<td>91.4%</td>
<td>$5,066</td>
<td>$7,136</td>
<td>$6,031</td>
<td>$510</td>
<td>8.5%</td>
<td>1.2x</td>
</tr>
<tr>
<td>Median:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>93.6%</td>
<td>$4,804</td>
<td>$7,263</td>
<td>$4,923</td>
<td>$507</td>
<td>9.3%</td>
<td>1.6x</td>
</tr>
<tr>
<td>Average:</td>
<td></td>
<td></td>
<td>93.8%</td>
<td>$6,301</td>
<td>$7,851</td>
<td>$5,170</td>
<td>$483</td>
<td>9.1%</td>
<td>1.5x</td>
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<tr>
<td>Diversified IT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accenture plc.</td>
<td>NYSE:ACN</td>
<td>$205.21</td>
<td>96.2%</td>
<td>$130,307</td>
<td>$128,310</td>
<td>$43,968</td>
<td>$7,069</td>
<td>16.1%</td>
<td>2.9x</td>
</tr>
<tr>
<td>CGI Inc.</td>
<td>TSX:GIB.A</td>
<td>$76.62</td>
<td>88.5%</td>
<td>$20,565</td>
<td>$22,697</td>
<td>$9,408</td>
<td>$1,645</td>
<td>17.5%</td>
<td>2.4x</td>
</tr>
<tr>
<td>Cognizant Technology Solutions Corporation</td>
<td>NasdaqGS:CTSH</td>
<td>$61.38</td>
<td>82.0%</td>
<td>$33,610</td>
<td>$32,233</td>
<td>$16,783</td>
<td>$3,177</td>
<td>18.9%</td>
<td>1.9x</td>
</tr>
<tr>
<td>International Business Machines Corporation</td>
<td>NYSE:IBM</td>
<td>$143.73</td>
<td>94.0%</td>
<td>$127,293</td>
<td>$186,727</td>
<td>$77,147</td>
<td>$16,602</td>
<td>21.5%</td>
<td>2.4x</td>
</tr>
<tr>
<td>Perficient, Inc.</td>
<td>NasdaqGS:PRFT</td>
<td>$49.70</td>
<td>97.8%</td>
<td>$1,621</td>
<td>$1,736</td>
<td>$552</td>
<td>$73</td>
<td>13.2%</td>
<td>3.1x</td>
</tr>
<tr>
<td>SAP SE</td>
<td>DB:SAP</td>
<td>$130.82</td>
<td>92.9%</td>
<td>$155,916</td>
<td>$167,736</td>
<td>$30,920</td>
<td>$5,741</td>
<td>28.3%</td>
<td>N.M.</td>
</tr>
<tr>
<td>Tyler Technologies, Inc.</td>
<td>NYSE:TYL</td>
<td>$323.68</td>
<td>99.8%</td>
<td>$12,619</td>
<td>$12,449</td>
<td>$1,040</td>
<td>$196</td>
<td>18.8%</td>
<td>N.M.</td>
</tr>
<tr>
<td>Xerox Holdings Corporation</td>
<td>NYSE:XRX</td>
<td>$35.57</td>
<td>90.1%</td>
<td>$7,562</td>
<td>$9,672</td>
<td>$9,066</td>
<td>$1,577</td>
<td>17.4%</td>
<td>1.1x</td>
</tr>
<tr>
<td>Median:</td>
<td></td>
<td></td>
<td>93.4%</td>
<td>$27,087</td>
<td>$27,465</td>
<td>$13,095</td>
<td>$2,411</td>
<td>18.2%</td>
<td>2.4x</td>
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<tr>
<td>Average:</td>
<td></td>
<td></td>
<td>92.7%</td>
<td>$61,186</td>
<td>$70,195</td>
<td>$23,610</td>
<td>$4,885</td>
<td>19.0%</td>
<td>2.3x</td>
</tr>
</tbody>
</table>

Source: Capital IQ; Data as of 1/31/2020

Financial projections are sourced from Capital IQ consensus estimates; foreign traded companies are listed in U.S. dollars at 1/31/2020 spot exchange rate; TEV / EBITDA valuation multiples less than 0.0x or greater than 40.0x and TEV / Total Sales multiples less than 0.0x or greater than 5.0x are considered not material ("N.M."); "N.A." indicates no Capital IQ consensus estimates are available.

Note: LTM Total Sales and EBITDA for CACI International, Inc.; CGI, Inc.; IBM Corp.; Parsons Corporation; Perficient, Inc.; Leidos Holdings, Inc.; and Tyler Technologies, Inc. are not reflective of recent acquisitions / divestitures.
GOVERNMENT IT BENCHMARKING

REVENUE GROWTH: CY19E & CY20P

<table>
<thead>
<tr>
<th>Company</th>
<th>CY19E Revenue Growth</th>
<th>CY20P Revenue Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>CACI</td>
<td>16%</td>
<td>12%</td>
</tr>
<tr>
<td>ManTech</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>ICF</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Parsons</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

LTM EBITDA MARGIN

<table>
<thead>
<tr>
<th>Company</th>
<th>LTM EBITDA Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perspecta</td>
<td>13%</td>
</tr>
<tr>
<td>Leidos</td>
<td>10%</td>
</tr>
<tr>
<td>CACI</td>
<td>10%</td>
</tr>
<tr>
<td>ICF</td>
<td>9%</td>
</tr>
<tr>
<td>ManTech</td>
<td>8%</td>
</tr>
</tbody>
</table>

TOTAL DEBT TO LTM EBITDA RATIO

<table>
<thead>
<tr>
<th>Company</th>
<th>Total Debt to LTM EBITDA Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perspecta</td>
<td>5.3x</td>
</tr>
<tr>
<td>Leidos</td>
<td>4.4x</td>
</tr>
<tr>
<td>CACI</td>
<td>4.0x</td>
</tr>
<tr>
<td>ICF</td>
<td>3.3x</td>
</tr>
<tr>
<td>PARSONS</td>
<td>3.0x</td>
</tr>
<tr>
<td>ManTech</td>
<td>2.6x</td>
</tr>
<tr>
<td>SAIC</td>
<td>0.8x</td>
</tr>
</tbody>
</table>

Sources: Raymond James Research, Capital IQ; Data as of 1/31/2020
(1) SAIC excluded due to insufficient historical financial data
Note: Statistics for CACI International, Inc.; Parsons Corporation; and Leidos Holdings, Inc. are not reflective of recent acquisitions
DIVERSIFIED IT BENCHMARKING

REVENUE GROWTH: CY19E & CY20P

LTM EBITDA MARGIN

TOTAL DEBT TO LTM EBITDA RATIO

CAPITAL STRUCTURE

Sources: Raymond James Research, Capital IQ; Data as of 1/31/2020
Note: Statistics for CGI, Inc.; IBM Corp.; Perficient, Inc.; and Tyler Technologies, Inc. are not reflective of recent acquisitions / divestitures
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