Building Shareholder Value for Successful Exit

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Minuteman Ventures LLC - Overview

- Mergers & Acquisitions (M&A) transaction advisory services firm
- Focus: aerospace, federal, defense, intelligence and homeland security markets
- Represent:
  - Smaller/mid-tier companies for sale
  - Mid-tier acquirers
- Principals: Senior executives who led M&A function at defense/federal contractors
- Team:
  - Nationally based at strategic defense locations
  - Former owners, CEOs, and senior executives in founder-led and larger companies, all with federal/defense sector background
Today’s Topics

• Defense M&A Market Dynamics
  – M&A Drivers

• M&A Valuation
  – Metrics
  – Factors

• M&A Process

• Preparing for Sale
Defense Sector M&A Market Dynamics (1)

• Workforce:
  - Outsourcing accelerates
  - Aging federal employee base

• Contracts:
  - GWAC/GSA to agency-specific versions

• Technology:
  – Enterprise driven
  – Modernization and Sustainment
  – Net enabled, network-centric

• Consolidation
  – OCI - Conflict-driven opportunities
Defense Sector M&A Market Dynamics (2)

• Government Funding:
  – Accelerated budgets for intel, GWOT, Homeland Security
  – Growing IT budgets
  – Takeaway strategy from slowed overall DoD budgets

• Programs:
  – Shift from platforms to IT, O&M
  – Technology capture/transfer from smaller company to larger businesses

• Strong Capital Market Response to Budget Flows:
  – IPO Activity, particularly in IT services
  – Private equity active in defense, homeland security markets
  – New financing mechanisms – SPACs

• Macro:
  – Market fragmentation
  – Reasonably price cost of capital
Representative Defense Sector M&A Transactions – March 2006

Defense M&A Transaction by Segment:

- Space/Satellites – 3
- Manufacturing – 5
- MRO – 2
- Components/subsystems – 8
- Software - 1
- Telecom – 1
- Sensors/Technology Equipment – 5
- System Integration/Engineering – 3
- IT Services/Consulting – 5

Total: 33
Defense/Federal M&A Market:
Seller Transaction Profile (Services)

200+ transactions since Q4 ’02
# Defense M&A Valuation: Size Matters

<table>
<thead>
<tr>
<th>Target Revenue</th>
<th>Transaction Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $20 million</td>
<td>4-6x EBITDA</td>
</tr>
<tr>
<td>$20-50 million</td>
<td>6-8x EBITDA</td>
</tr>
<tr>
<td>$50-100 million</td>
<td>8-10+x EBITDA</td>
</tr>
</tbody>
</table>
How is Value Determined

• Valuation tools buyers use
  – M&A Market comparables (adjusted for size, liquidity)
  – Public company comparables (adjusted for size, liquidity)
  – Discounted Cash flow (company projections)
  – Make v. buy analysis

• Always Company-specific
  – Price is based on investment value – what you must receive to justify giving up cash flows

• Timing is Critical
  – Best when owner(s), company and market interests are aligned
The ‘Value Table’ – 10 Leading Factors in Determining Value for Privately held Defense Companies

<table>
<thead>
<tr>
<th>Factor</th>
<th>Weak Alignment</th>
<th>Strong Alignment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Contract Alignment with Critical Missions</td>
<td>- 1</td>
<td>- 10</td>
</tr>
<tr>
<td>2. Cleared Employees</td>
<td>0-20% Employees Cleared</td>
<td>- 1</td>
</tr>
<tr>
<td></td>
<td>20-60% Cleared</td>
<td>- 10</td>
</tr>
<tr>
<td></td>
<td>60% or Over Cleared</td>
<td></td>
</tr>
<tr>
<td>3. Recaptured Business</td>
<td>0-20% Recompete Revenue</td>
<td>- 1</td>
</tr>
<tr>
<td></td>
<td>20-50% Recompete</td>
<td>- 10</td>
</tr>
<tr>
<td></td>
<td>50% or Over Recompete</td>
<td></td>
</tr>
<tr>
<td>4. Prime Contract Awards</td>
<td>0-20% Prime Contract Revenue</td>
<td>- 1</td>
</tr>
<tr>
<td></td>
<td>20-70% Prime</td>
<td>- 10</td>
</tr>
<tr>
<td></td>
<td>70% or Over Prime</td>
<td></td>
</tr>
<tr>
<td>5. Small Business Set Aside (SBSA) Awards</td>
<td>70-100% SBSA Revenue</td>
<td>- 1</td>
</tr>
<tr>
<td></td>
<td>30-70% SBSA</td>
<td>- 10</td>
</tr>
<tr>
<td></td>
<td>30% or Under SBSA</td>
<td></td>
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</tbody>
</table>
### The ‘Value Table’ – 10 Leading Factors in Determining Firm Value in the Defense/Federal Sector (cont’d)

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>6. Time in Business</strong></td>
<td>1-3 years</td>
<td>- 1</td>
</tr>
<tr>
<td></td>
<td>4-6 years</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>7-10 years</td>
<td>- 10</td>
</tr>
<tr>
<td><strong>7. Contract Concentration</strong></td>
<td>60%+ revenue from 1 contract</td>
<td>- 1</td>
</tr>
<tr>
<td></td>
<td>25-60%</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>less than 25%</td>
<td>- 10</td>
</tr>
<tr>
<td><strong>8. 8a Revenue</strong></td>
<td>50-100% rev. from 8(a)</td>
<td>- 1</td>
</tr>
<tr>
<td></td>
<td>15-50% from 8(a)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Less than 15% from 8(a)</td>
<td>- 10</td>
</tr>
<tr>
<td><strong>9. Competent Management</strong></td>
<td>Lightly regarded management</td>
<td>- 1</td>
</tr>
<tr>
<td></td>
<td>Highly regarded management</td>
<td>- 10</td>
</tr>
<tr>
<td><strong>10. Sustained Revenue Growth</strong></td>
<td>0-7% compounded ann. rev. growth</td>
<td>- 1</td>
</tr>
<tr>
<td></td>
<td>8-15% growth</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>15%+ growth</td>
<td>- 10</td>
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</tbody>
</table>
Owner Options for Liquidity

- Employee Stock Ownership Plan (ESOP)

- Sale of entire company to third party

- Private equity investment (partial sale)

- Buy from/sell to other shareholders

- Family transfer
Optimizing M&A Success

Planning and Process Are Key to a Successful Transaction

- Engagement Begins
- On-Site Client Visit
- Target Research
- Approach Buyers
- Management Meetings with Buyer Candidates
- Prioritize Bidders

Day 0 14 28 42 56 70 84 91

Diligence Strategy
Tax Analysis
Recast Financials
Prospectus Development
Optimizing M&A Success

Planning and Process Are Key to a Successful Transaction (continued)

<table>
<thead>
<tr>
<th>Day</th>
<th>Negotiate with Lead Candidates</th>
<th>Due Diligence Requests</th>
<th>Due Diligence Response</th>
<th>Buyer Presents Definitive Agreement</th>
<th>Definitive Agreement Negotiated</th>
<th>Consents/ Final Items</th>
<th>Integration Planning</th>
<th>Employee Communication</th>
<th>Closing; Money Transferred to Sellers</th>
</tr>
</thead>
<tbody>
<tr>
<td>105</td>
<td>119</td>
<td>133</td>
<td>147</td>
<td>161</td>
<td>175</td>
<td>182</td>
<td></td>
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</tr>
</tbody>
</table>

Select Winner; Negotiate/Sign LOI
Preparing for Sale: The Readiness Cycle

Advanced Planning (in advance of ‘formal’ selling campaign)

- Auditor review of financial statements
- Current on obligations
- A/R in order
- Contract transition strategy set
- Equity allocation certain/estate planning in order
- Contract cycle timing

M&A Process Readiness (once ‘formal’ selling campaign commences)

- Recast financials
- Tax options at sale spelled out
- Acquisition attorney lined up
- Dedicated internal resources
- Customer communication
- Post-transaction owner position specified
Readying the M&A Team

• Internal Company Resources
  – Diligence requests
  – Cataloguing/managing data flows
  – Operating to plan during process

• Attorney
  – Corporate documents review
  – Purchase agreement negotiation

• Accountant/Tax Advisors
  – Year-end/mid-year financial statements
  – Analyzing tax impacts to shareholders

• M&A Advisors
  – Capture manager role:
    • Positioning company for sale/drafting prospectus
    • Valuation
    • Inducing bids/prioritizing bidders
    • Transaction negotiation
Thank You

• Q&A

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