



HOULIHAN LOKEY



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2016 PURCHASE PRICE ALLOCATION STUDY

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Houlihan Lokey's 14th annual Purchase Price Allocation Study for the aerospace, defense, and government (ADG) sector focused on determining the percentages of purchase consideration in transactions that were allocated to intangible assets, in-process research and development (IPR&D), earnouts, and goodwill. We captured data on key types of intangible assets, such as customer relationships, developed technology, and trademarks and trade names.

The study reviewed ADG sector transactions announced and closed in 2016 based on public filings. (Not all transactions had sufficient disclosures to be included in the study, and some disclosures were preliminary.) We segmented findings by aerospace & defense (A&D) and government services (GS). Presented below are the results of the study.

- Customer-related intangible assets continue to represent the largest single intangible asset category in both the A&D and GS segments. In this year's study, the median percentage of purchase consideration allocated to customer-related intangible assets in the A&D segment was 24%, which was flat with 2015. The median percentage of purchase consideration allocated to customer-related intangibles in the GS segment increased to 23% in 2016 from 19% in 2015.
- Overall, the median percentage of purchase consideration allocated to intangible assets in the A&D segment was higher than that in the GS segment this year: 33% for A&D and 27% for GS. The primary reason for the differences in the amounts allocated to intangibles was that the transactions in the A&D segment frequently have value attributed to developed technology. For example, around 60% of the A&D transactions in this year's study had value allocated to developed technology, with a median percentage of 4% of purchase consideration, compared to only one transaction in the GS segment.
- Trademarks and trade names were valued in approximately two-thirds of the transactions in each of the segments. However, the median percentage of purchase consideration in the A&D segment, 5%, was nearly double that of the GS segment, 2%.
- The sector continues to see very few earnouts in the reported transactions. Only one of the 18 transactions in the A&D segment and two of the eight transactions in the GS segment included earnouts. In 2015, only two of the 15 transactions in the A&D segment and none of the three transactions in the GS segment included earnouts. Consistent with the prior years, earnouts were typically found in smaller transactions.
- The median percentage of purchase consideration assigned to goodwill decreased from 2015 for both the A&D and GS segments. The median for the A&D segment decreased to 33% in 2016 from 35% in 2015, and the median for the GS segment decreased to 46% in 2016 from 68% in 2015. The decrease in the GS segment was influenced by larger value assigned to customer-related assets.
- As in past years, on average, the A&D segment had lower amounts allocated to goodwill than the GS segment. This is primarily due to the larger percentage of purchase consideration allocated to tangible assets for A&D, in addition to higher amounts allocated to intangible assets.

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Percent of Purchase Consideration Allocated to:

Closed	Buyer	Target	Purchase Consideration	Earnout	Developed Technology	IPR&D	Trademarks & Trade Names	Customer-Related Assets	Other/Not Disclosed	Indefinite Lived Intangibles	Total Intangible Assets	Tangible Assets	Goodwill	
21-Dec	LightPath Technologies, Inc.	ISP Optics Corp.	\$20.13	0%	0%	0%	11%	29%	13%	0%	53%	40%	6%	
7-Nov	ESCO Technologies, Inc.	Mayday Manufacturing Co. and Hi-Tech Metals, Inc.	102.70	0%	0%	0%	5%	32%	0%	5%	37%	34%	29%	
4-Nov	Mercury Systems, Inc.	Creative Electronic Systems (CES)	51.11	0%	11%	0%	0%	19%	0%	0%	30%	27%	44%	
3-Oct	Carlisle Companies Incorporated	Star Aviation, Inc.	84.80	0%	6%	0%	0%	28%	0%	0%	34%	15%	51%	
16-Sep	ON Semiconductor Corporation	Fairchild Semiconductor International, Inc.	3,028.40	0%	9%	4%	0%	5%	0%	4%	18%	60%	22%	
9-Sep	OSI Systems, Inc.	American Science & Engineering, Inc.	338.77	0%	9%	1%	4%	8%	0%	5%	22%	43%	34%	
26-Aug	American Outdoor Brands Corp.	Crimson Trace Corporation + Taylor Brand, LLC	205.62	0%	1%	0%	8%	32%	0%	0%	41%	20%	39%	
6-Jun	Carlisle Companies Incorporated	Micro-Coax, Inc.	100.80	0%	11%	0%	1%	14%	1%	0%	26%	33%	40%	
17-May	KLX, Inc.	Herndon Aerospace & Defense Company	241.50	0%	0%	0%	0%	28%	1%	0%	29%	50%	21%	
2-May	Mercury Systems, Inc.	Microsemi Corp. - RF Integrated Solutions	330.55	0%	9%	0%	0%	22%	0%	0%	31%	17%	52%	
8-Apr	Albany International Corp.	Harris Corp (Blue Falcon I Inc)	262.66	0%	0%	0%	0%	27%	1%	0%	27%	36%	36%	
7-Apr	Atlas Air Worldwide Holdings, Inc.	Southern Air Holdings, Inc.	136.99	0%	0%	0%	1%	19%	0%	0%	20%	51%	29%	
6-Apr	Handy & Harman Ltd.	SL Industries, Inc.	240.69	0%	4%	0%	6%	28%	0%	0%	38%	39%	22%	
4-Apr	Microchip Technology Incorporated	Atmel Corporation	4,181.03	0%	26%	3%	0%	16%	0%	3%	45%	23%	32%	
23-Feb	Comtech Telecommunications Corp.	TeleCommunication Systems, Inc.	721.01	0%	5%	0%	3%	31%	0%	0%	39%	40%	21%	
18-Feb	PCS Edventures!.com, Inc.	Thrust-UAV LLC	108.55	0%	0%	0%	9%	85%	0%	0%	94%	5%	1%	
2-Feb	Cubic Corporation	GATR Technologies, Inc.	246.70	1%	4%	0%	2%	22%	0%	0%	29%	8%	63%	
11-Jan	HEICO Corporation	Robertson Fuel Systems, LLC	261.55	0%	0%	0%	11%	21%	15%	11%	47%	17%	36%	
Summary Statistics for All Transactions with Available Information:				Low	0%	0%	0%	0%	5%	0%	0%	18%	5%	1%
				High	1%	26%	4%	11%	85%	15%	11%	94%	60%	63%
				Mean	0%	5%	0%	3%	26%	2%	2%	37%	31%	32%
				Median	0%	4%	0%	1%	24%	0%	0%	33%	34%	33%
Summary Statistics for Transactions Reporting Greater than Zero Values:				Mean	1%	9%	3%	5%	26%	3%	6%	37%	31%	32%
				Median	1%	9%	3%	5%	24%	1%	5%	33%	34%	33%

GOVERNMENT SERVICES

Percent of Purchase Consideration Allocated to:

Closed	Buyer	Target	Purchase Consideration	Earnout	Developed Technology	IPR&D	Trademarks & Trade Names	Customer-Related Assets	Other/Not Disclosed	Indefinite Lived Intangibles	Total Intangible Assets	Tangible Assets	Goodwill	
27-Dec	Roper Technologies, Inc.	Deltek, Inc.	\$3,381.71	0%	4%	2%	4%	18%	0%	6%	29%	5%	66%	
16-Sep	KBR, Inc.	Honeywell Technology Solutions, Inc.	343.00	0%	0%	0%	0%	20%	0%	0%	20%	41%	38%	
16-Aug	Leidos Holdings, Inc.	Lockheed Martin Information Systems & Global Solutions, Inc.	6,263.00	0%	0%	0%	0%	26%	0%	0%	26%	19%	55%	
1-Jul	Magellan Health, Inc.	Armed Forces Services Corporation	183.68	4%	0%	0%	2%	26%	0%	2%	28%	30%	42%	
1-Jul	KBR, Inc.	Wyle, Inc.	793.00	0%	0%	0%	6%	12%	0%	6%	18%	21%	61%	
3-May	DLH Holdings Corp.	Danya International, LLC	45.67	0%	0%	0%	1%	36%	1%	0%	39%	23%	38%	
2-Mar	Digital Barriers plc	Brimtek, Inc. [1]	33.92	9%	0%	0%	1%	46%	0%	0%	46%	19%	34%	
2-Feb	CACI International, Inc	L-3 National Security Solutions & L-3 Data Tactics Corporation	719.62	0%	0%	0%	0%	15%	0%	0%	15%	35%	50%	
Summary Statistics for All Transactions with Available Information:				Low	0%	0%	0%	0%	12%	0%	0%	15%	5%	34%
				High	9%	4%	2%	6%	46%	1%	6%	46%	41%	66%
				Mean	2%	1%	0%	2%	25%	0%	2%	28%	24%	48%
				Median	0%	0%	0%	1%	23%	0%	0%	27%	22%	46%
Summary Statistics for Transactions Reporting Greater than Zero Values:				Mean	7%	1%	2%	3%	25%	1%	5%	28%	24%	48%
				Median	7%	0%	2%	2%	23%	1%	6%	27%	22%	46%

Notes:

- [1] Transaction completed in GBP and converted to USD per exchange rate on deal closing date.
 Some of the purchase price allocation data may be preliminary.
 All dollar figures in millions.
 Summary statistics are also presented detailing the mean and median numbers based only on those transactions that disclosed positive values for the various asset categories.
 Source: Public filings.



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Houlihan Lokey (NYSE: HLI) is a global investment bank with expertise in mergers and acquisitions, capital markets, financial restructuring, valuation, and strategic consulting. The firm serves corporations, institutions, and governments worldwide with offices in the United States, Europe, and the Asia-Pacific region. Independent advice and intellectual rigor are hallmarks of our commitment to client success across our advisory services. Houlihan Lokey is ranked as the No. 1 M&A advisor for all U.S. transactions, the No. 1 global restructuring advisor, and the No. 1 global M&A fairness opinion advisor over the past 20 years, according to Thomson Reuters. For more information, please visit www.HL.com.

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