Industry Update

2026 M&A Landscape: Multiples, Valuation Drivers, and Strategic Themes

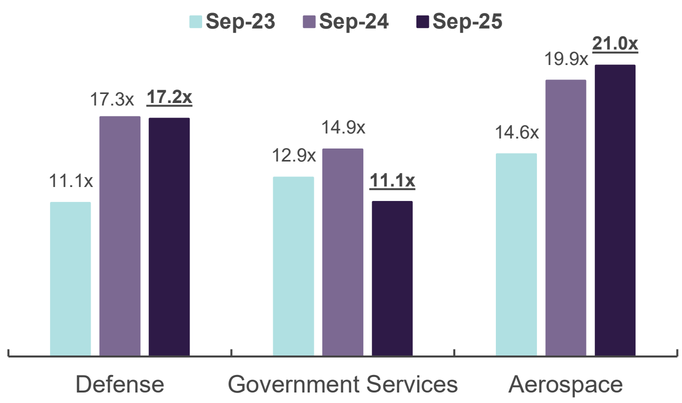
As 2025 closes, the Aerospace, Defense & Government Services (ADGS) industry stands at a pivotal inflection point. Planned record setting defense budgets, as well as increased spending on homeland security, evolving procurement frameworks, and accelerating adoption of advanced technologies are reshaping the competitive landscape. Alternatively, many federal civilian agency budgets are flat or down due to Department of Government Efficiency (DOGE) and budget driven reductions resulting in valuations that are under pressure. For executives, investors, and strategic partners, understanding the forces driving valuations, deal activity, and positioning their companies is essential to navigating the next wave of growth and consolidation.

ADGS M&A Multiples

- Public defense tech companies such as AV, Curtis Wright, and Kratos are currently experiencing higher multiples in the 23 - 27X EBTIDA range compared to Defense Primes in the 15-17X multiple range.
- It is logical that defense-tech heightened valuations will eventually moderate as some new innovations are validated and others are not.
- Government services firms, which include consulting, engineering, and technology firms, have broadly fallen from 13x - 15x EBITDA in 2024 and now cluster near 11x. .
- Aerospace companies such as Curtis Wright, HEICO and TransDigm continue to trade above 20x EV/EBITDA, driven by strong aftermarket economics.
- While not included below, public Homeland Security contractors, such as Smiths Group and OSI Systems are trading in the 15x EBITDA range.
- With the government's national security budget firming up, expectations are that mega-deals will be increasing reflecting a renewed appetite for scale and technology differentiation.

Representative TEV / EBITDA Multiples Across ADGS

Year-to-date in 2025, Aerospace has experienced an increase in TEV / EBITDA multiples, Defense has remained stable, while Government Services has shown signs of deterioration.



TEV / EBITDA Multiples Across Certain Subsegments

Recent public trading and transaction data reveal stark valuation stratifications across ADGS.

Subsector	TEV / EBITDA	Key Drivers
Defense Technology & Systems	20x – 40x	IP rich, AI/cyber, electronic warfare
Aerospace Suppliers	18x – 20x	Aftermarket dominance, pricing power
Defense Primes	15x – 17x	Scale, incumbency, long-term programs
Space & Satellite	14x – 22x	SDA, propulsion, launch tech
Government Services	10x – 11x	Lower margins, contract risk

Data as of 11/08/2025
Sources: S&P Capital IQ, Company Filings, Equity Research Reports

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Valuation Drivers

As 2025 closes, valuations across ADGS remain highly stratified, shaped by a dynamic interplay of technology intensity, scale, growth trajectory, and contract visibility. Key across all types and sizes of government contractors is **growth** and **certainty**. Certainty can occur across all types of ADGS work, from low-tech to high-tech, as measured by contract backlogs, but growth opportunities exist more in high-tech areas that solve problems and create efficiencies. Overall, technology solutions are given preference over labor intensive business models.

1 Technology Intensity: IP Rich Platforms Command Premiums

- Investors continue to favor companies delivering advanced capabilities in AI/ML, cyber defense, autonomy / drones, defense buildup, including Navy shipbuilding and missiles, and space systems.
- The "Golden Dome" missile defense initiative, with $25 Billion in initial funding, has elevated interest in firms specializing in electronic warfare, space-based sensors, and AI-powered early warning systems.
- Similarly, companies with OTA and SBIR Phase III contracts are commanding valuation premiums due to their flexibility and innovation potential.
- As a result of the Administration's August 2025 executive order focused on space leadership, space focused companies are experiencing investor interest even as some smaller companies are not yet cash flow positive.

2 Scale & Financial Profile

- Large prime contractors benefit from incumbency, capital access, and long-term program exposure. Public market leaders like CACI, Parsons, and Leidos continue to earn premium multiples due to differentiated portfolios and alignment with modernization priorities.

3 Backlog Visibility & Growth Trajectory

- Backlog depth remains a critical valuation driver. Defense primes enjoy stability through various military aircraft programs, naval shipbuilding like Columbia-class submarines, and missile systems. Government services firms with strong book-to-bill ratios leaning into AI, cyber, intel, and space modernization are well positioned.

4 Policy Tailwinds and Budget Alignment

These priorities create fertile ground for contractors aligned with national security imperatives. The convergence of policy clarity and technology investment is expected to accelerate M&A activity heading into 2026. The One Big Beautiful Bill will incrementally add defense funding in addition to the proposed U.S. defense budget.

5% NATO GDP Defense Spending Target

$150B One Big Beautiful Bill (OBBB) Defense Spending

$961.6B FY 2026 Proposed U.S. Defense Budget
+12% from FY 2025

$150B OBBB Key Defense Spending Areas

$29B Naval Shipbuilding

$25B Golden Dome missile defense

$25B Munitions and defense supplies

$16B Unmanned and other weapon innovation

$16B Military & Space readiness

$15B Nuclear modernization

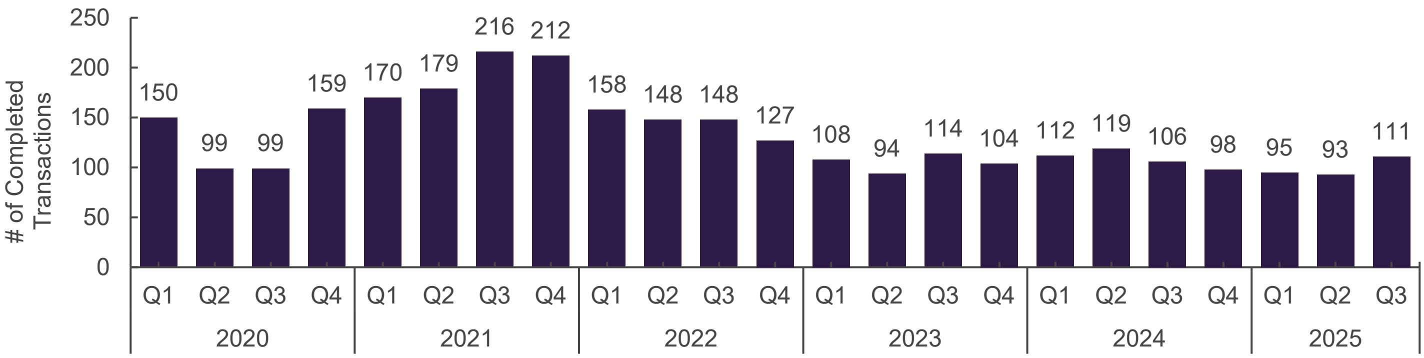
$12B Indo-Pacific command focused on China

$9B Air superiority including aircraft

Strategic M&A Themes Shaping 2026

ADGS M&A slowed in the first half of 2025 as buyers were waiting for the ADGS market to stabilize following the new Administration's policy and spending changes including numerous impactful Executive Orders and DOGE spending cuts. As the impact has become more known, and spending priorities have become highlighted, investments and M&A activity is increasing.

ADGS M&A Transactions



Sources: DACIS DM&A,, Data as of 11/8/2025

Technology Advancements and Efficiencies

- Across the government, even within Federal Civilian Agencies, implementation of technologies to achieve Administration priorities, including use of technology to create efficiencies and replace labor intensive work, generates attractive M&A multiples.
- Examples include health technologies, financial/payment technologies, border surveillance, upgraded FAA systems, and Moon-to-Mars NASA programs.

Defense Tech Convergence

- Buyers are looking for AI, autonomy, digital engineering, and technologies which are reshaping the defense industry.
- Buyers favor platforms integrating software and hardware for multi-domain operations. The Golden Dome initiative exemplifies this trend, requiring interoperability between legacy and next-gen systems.

Military Buildup

- Significant spending in the OBBB and the proposed FY 2026 federal budget will boost investments in naval assets, missiles, unmanned vehicles, etc., and those companies performing the work.

Space as a Strategic Frontier

- U.S. Space Force priorities and commercial launch demand are fueling consolidation among satellite manufacturers, propulsion providers, and SDA specialists. There is heightened interest in firms offering space domain awareness, resilient architectures, and on-orbit cloud services.

Small Businesses Face Unique Circumstances

- **Regulatory Shifts:** SBA recertification rules effective January 2026 and coming FAR simplification revisions may reduce set-aside opportunities as well as potential interested buyers, pressuring valuations downward for firms reliant on small-business programs.
- **Customer Concentration:** Heavy reliance on a single agency or prime contractor, and few contracts, can cap multiples unless offset by IP ownership or diversification.
- **Talent Scarcity:** Cleared personnel and specialized engineering talent can add intangible value, especially for intelligence and classified programs.
- **Strategic Fit:** Niche capabilities in autonomy, space payloads, advanced materials, or cutting-edge technologies, particularly when protected by IP, can command premiums from buyers seeking bolt-on acquisitions even if a company's small-business status may be threatened.

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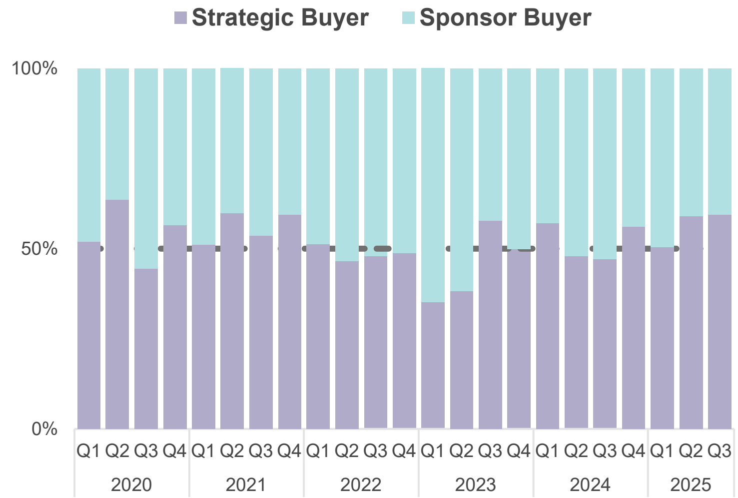
Capital Availability

- Since 2020, strategic and sponsor buyer activity has been split at roughly 50 / 50. Recently, sponsor transactions have outpaced Strategics in 2025 Q2 and Q3.
- Even as large strategic acquisitions slowed in the first half of 2025, public dry powder rose to a record $85B in mid-year 2025, with the most being held by aerospace strategics. Some of the most active large ADGS acquirers include CACI, HEICO, and Parsons.
- Sponsors, which did a record 259 investments in 2024 and now own a record number of ADGS companies, hold record dry powder (~$2.6T globally) but remain focused on high-tech niches and carve-outs, avoiding commoditized segments.



Sources: DACIS DM&A, Company Filings, Data updated as of 11/8/2025

Strategic Imperatives for Executives

Valuations across ADGS are increasingly bifurcated: high-tech, IP-rich businesses command outsized multiples, while low-growth, labor-intensive segments face compression. For executives, the imperative is clear:

- **Align capabilities** with Administration modernization priorities such as defense buildup, Golden Dome, border security, FAA ATC, and space domain awareness.
- **Position strategically for M&A** in a market where speed, technological specialization, and scale will define success.
- **Invest in internal technology and workforce readiness** to better compete by meeting evolving AI requirements, cybersecurity & compliance, and growing government client responsiveness / speed requirements.

The next 12–18 months will likely bring a resurgence in deal activity as policy clarity, budget certainty, and technology imperatives converge. Those who act decisively, amongst the buyers, sellers, or strategic partners, will shape the future of the ADGS industry.