



SERVICES & INDUSTRIALS

## Aerospace, Defense, and Government Services

SOF Week Update | May 2026



# In This Newsletter

## I. The Stalemate Industry: What Modern Conflict is Teaching SOF Contractors About Speed, Scale, and Survivability

2

*Across Ukraine, the Red Sea, Iran, and Indo-Pacific planning, a consistent signal is emerging: **modern conflict is testing not only military capability, but the industrial and contractor models required to sustain it.** Battlefield advantage increasingly depends on whether systems can be produced, integrated, adapted, supplied, and regenerated under pressure. **For SOF contractors, the customer question is shifting from “Does it work?” to “Can it scale, survive, integrate, and deliver measurable operational outcomes?”** That shift creates opportunities not only for product companies, but also for historically services-based contractors that can turn analysis, advice, training, and technical support into tangible software, AI-enabled tools, fielded capabilities, and mission results.*

## II. Appendix | M&A and Capital Markets

5

*Review of public market performance across Stout’s broader set of ADGS indices*



# The Stalemate Industry

## Speed, Scale, and Survivability Across Modern Conflict

### Modern conflict is rewarding the firms that can shorten the distance between need and fielded capability

The most important lesson from today's conflicts may not be that drones are changing war. It may be that **adaptation speed is becoming a weapon system of its own.**

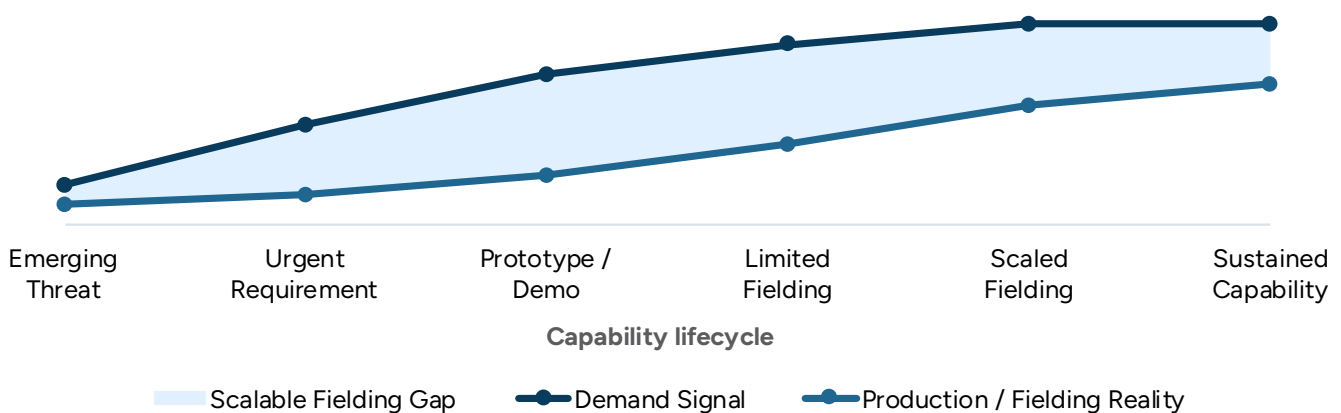
Ukraine has shown how quickly commercial drones, electronic warfare, software, and low-cost sensors can move from improvised tools to battlefield necessities. The Red Sea has shown how persistent drone and missile threats can stretch even advanced naval defenses. Iran and Indo-Pacific planning reinforce the same point: the customer does not just need exquisite systems. The customer needs capability that can be produced, modified, integrated, sustained, and replaced under pressure.

That is the core of the **stalemate industry**. When both sides can observe, target, jam, strike, and adapt quickly, advantage goes to the force that can close the loop fastest: identify the problem, test a solution, field it, learn from use, and improve it before the threat changes again.

For SOF contractors, this creates a practical opportunity. The market is moving beyond "advisory support" in isolation. Customers will value firms that can turn operational insight into working tools: mission-planning software, AI-enabled analysis, rapid prototyping, field integration, training packages, sustainment concepts, and transition support.

The winning contractor is not just the one with the best idea. It is the one that helps the customer make the idea usable.

### Demand Is Moving Faster Than Fielding<sup>(1)</sup>



(1) Chart is illustrative

### What This Means for Historically Services-Based Contractor Firms

**Services-based firms need to show how analysis, advice, training, and personnel support convert into tangible operational results.** The winners will be those that can productize their expertise through software tools, AI-enabled analysis, mission-planning platforms, digital engineering, rapid integration support, or managed capability offerings.

In other words, the market is moving from hours-based support toward outcomes-based, product-enabled services.

# C-UxS Everywhere

## The Cost Curve Is the Capability Gap

### The drone threat is no longer a niche problem. It is a cost, inventory, and survivability problem

A drone does not have to be sophisticated to be operationally disruptive. **It only has to be cheap enough, numerous enough, and persistent enough to force the defender into a bad trade.**

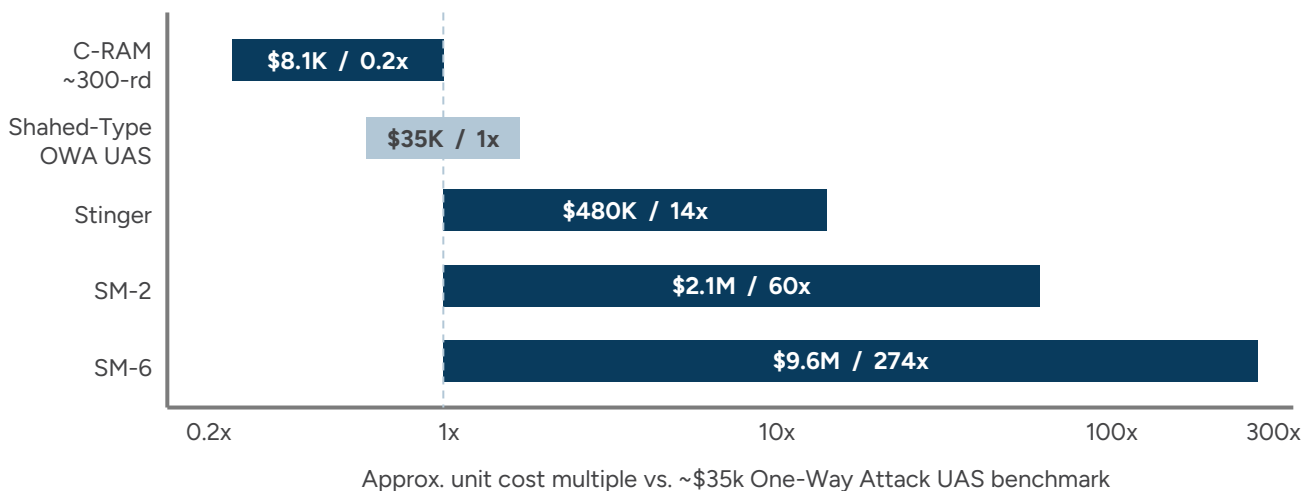
That is the emerging C-UxS problem. In the Red Sea, U.S. Navy ships have faced repeated combinations of drones, missiles, and uncrewed surface threats. The lesson is not simply that the Navy can defend itself. The lesson is that even successful defense can consume attention, inventory, and high-end interceptors at an uncomfortable pace.

For SOF, the same problem appears at smaller scale but with equal urgency. A team operating from a temporary site, a convoy moving through partner territory, a maritime node, or a forward logistics point may not have the luxury of layered national air defense. It needs practical protection: early warning, passive detection, RF sensing, EO/IR, electronic attack, kinetic defeat options, operator training, and a command-and-control layer that does not overwhelm the user.

This is where contractors can add real value. The opportunity is not just selling a sensor or writing a threat report. It is building an integrated, repeatable C-UxS operating model that customers can deploy, train, maintain, and update as the threat evolves.

## The C-UxS Cost-Exchange Problem

Cheap drones create pressure to use cheaper first-line defeat options before drawing down high-end interceptor inventory



Source: Missile Defense Advocacy Alliance, Center for Strategic and International Studies

### What This Means for Historically Services-Based Contractor Firms

Services-based contractors can remain relevant by moving beyond threat assessments, training support, and advisory work alone. They can help customers build, integrate, and operate practical C-UxS solutions.

**The key is to connect services to a tangible capability outcome:** a better defended site, a more survivable convoy, a faster kill chain, a lower-cost defeat mechanism, or a repeatable operating model.

# Redundancy Is the New Readiness

## Supply-Chain Resilience After Ukraine, the Red Sea, and Iran

In modern conflict, a supply-chain weakness can become the critical operational failure

The next readiness gap may not appear on the front line. It may appear three tiers down in the supply chain.

A drone program can be limited by batteries, motors, carbon fiber, rare-earth magnets, semiconductors, or a single unavailable chip. A precision munition can be constrained by energetics, rocket motors, castings, test equipment, or production labor. A communications system can be delayed by a supplier that no one mapped until the part stopped arriving.

Recent conflicts have made this visible. Ukraine’s demand for artillery, air defense, drones, spares, and repair capacity forced the U.S. and allies to rethink production scale. DoW has invested billions to expand munitions capacity, but the broader lesson is bigger than ammunition: capability is only as strong as the industrial base that can regenerate it.

For SOF contractors, supply-chain resilience is becoming part of the value proposition. Customers will increasingly ask: Can this system be repaired forward? Are there second-source suppliers? Is the bill of materials visible? Can the software be updated quickly? Are spares pre-positioned? Can allied partners manufacture or sustain parts of the solution?

Historically, services-based firms have a strong role here. They can map supplier risk, assess manufacturing readiness, build sustainment plans, qualify alternate vendors, model demand spikes, and help product companies become procurement-ready.



### What This Means for Historically Services-Based Contractor Firms

Services-based firms can play a meaningful role by helping customers and product companies understand where supply-chain, manufacturing, sustainment, and integration risks actually sit.

The opportunity is to become the bridge between customer requirements, product companies, primes, and the industrial base. Services firms that can translate supply-chain analysis into procurement-ready, sustainment-ready, and field-ready solutions will be more valuable than firms that only provide static advice.

# Appendix

## M&A and Capital Markets



# Q1 M&A Momentum Expected to Continue Through 1H 2026

## Q1 2026 By the Numbers



Note: Global deals include U.S. deals  
Source: DACIS DM&A

## M&A Updates

ADGS activity surged in Q1 2026, with 128 global deals announced (+21% QoQ, +45% YoY) – the highest quarterly total in the post-2021 period. U.S. volume rose to 113 (+24% QoQ, +47% YoY), with buyers looking through near-term FY2026 budget and FAR-overhaul uncertainty to a sustained multi-year defense spending trajectory.

Strategics drove the majority of global activity, commanding 55% of volume, while sponsors regained 50% U.S. share as PE-backed U.S. deals climbed to 57 (+27% QoQ, +36% YoY) – reflecting LP pressure to deploy ~\$1.6T of dry powder following three consecutive rate cuts in late 2025.

Sector mix continued shifting toward Aerospace (39%, 50 deals, nearly 2x YoY) and Defense (33%) at the expense of Government Services (28%). Notable Q1 deals included VSE / Precision Aviation Group, AeroVironment / Empirical Systems Aerospace, and Antin Infrastructure Partners / Vigor Marine Group.

Subsector activity concentrated in FY2026 priorities: Aerospace Components (9 U.S. deals), Cybersecurity (6), MRO Services (6), and Aerospace Electronics & Avionics (5) led volume, with CMMC 2.0 phased rollout reinforcing cyber-readiness as a baseline diligence item.

## ADGS M&A Outlook for 2026 and Key Themes to Watch

The ADGS deal environment enters 2026 against a supportive macro backdrop. Persistent geopolitical pressure, an accelerating defense modernization cycle, and a rapidly growing commercial space economy are all reshaping the industrial base – with investors prioritizing scale, mission-critical capabilities, and supply chain resilience over pure financial engineering.

Sponsors are meaningfully re-engaging as financing conditions ease and limited partners pressure GPs to clear aged portfolios, while strategics continue to pursue vertical integration in defense electronics, autonomy, and propulsion. Key recent developments ADGS investors are monitoring include:

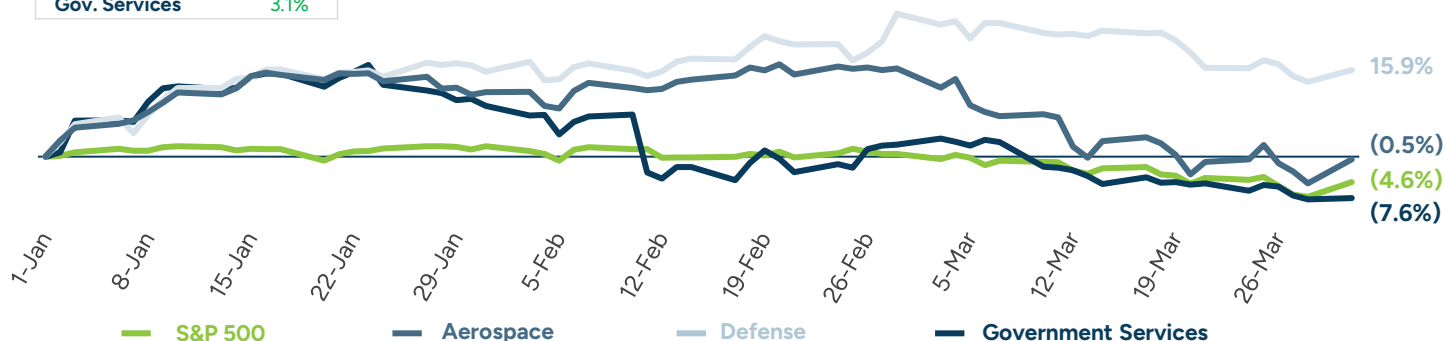
- **FY2026 Defense Budget & FAR Overhaul** – The FY2026 budget reinforces priorities in missiles, missile defense, shipbuilding, space, and nuclear modernization, while the “Revolutionary FAR Overhaul” is reshaping acquisition and small-business rules.
- **CMMC 2.0 & Cyber Compliance** – Phase 1 of CMMC 2.0 took effect November 2025, making cyber readiness a pre-award gating item for DoW bids and reinforcing cybersecurity diligence as a baseline expectation for ADGS targets.



# ADGS Capital Markets Performance

## Q1 2026 Market Performance Across Primary ADGS Sector Indices

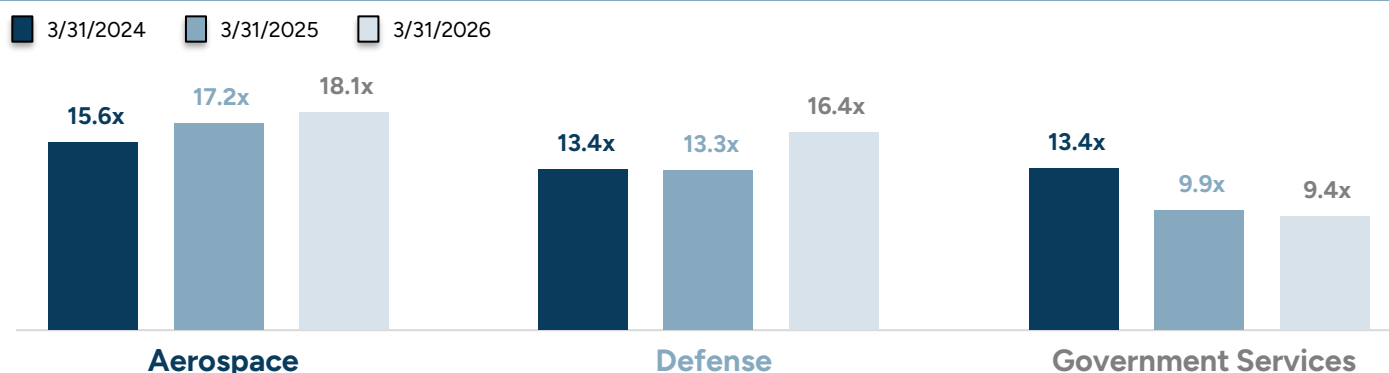
| LTM Performance |       |
|-----------------|-------|
| S&P 500         | 16.3% |
| Aerospace       | 59.2% |
| Defense         | 41.5% |
| Gov. Services   | 3.1%  |



Q1 2026 ADGS performance diverged sharply, with Defense rallying while Government Services lagged:

- **Aerospace** stocks were roughly flat in Q1, declining 0.5%, as gains at AAR (+32.2%) and Astronics (+23.0%) were offset by sharp declines at Airbus (-20.4%) and HEICO (-15.3%).
- **Defense** stocks gained 15.9% in Q1, with all six constituents posting positive returns. BAE led the sector with a 25.9% gain, followed closely by Lockheed Martin at 25.0% and Northrop Grumman at 19.6%.
- **Government Services** underperformed in Q1, declining 7.6% and trailing the S&P 500 by 3.0%. Only V2X (+25.6%) and CACI (+2.1%) posted gains, while Maximus (-25.7%) and ICF (-23.5%) lagged the sector.

## Historical Average EV / NTM EBITDA Multiples



- **Aerospace** multiples expanded modestly to 18.1x (+0.9x YoY), with Astronics adding 8.0 turns of NTM EBITDA on commercial aerospace and defense modernization tailwinds; HEICO (-4.9x) and TransDigm (-3.4x) gave back gains from elevated levels.
- **Defense** multiples rose sharply YoY from 13.3x to 16.4x, driven by sustained defense spending expectations. L3Harris led with 4.9 turns of expansion, followed by Northrop Grumman and RTX, each adding 3.6x.
- **Government Services** multiples slipped to 9.4x (-0.5x YoY) and remain 4.0x below T-2 levels, with CACI the lone meaningful gainer (+2.8x) while Maximus (-2.4x), ICF (-2.1x), and BAH and SAIC (each -1.3x) led declines.

**Aerospace:** AAR, Airbus, Astronics, Boeing, Bombardier, Embraer, HEICO, Hexcel, Safran, TransDigm

**Defense:** BAE Systems, General Dynamics, L3Harris, Lockheed Martin, Northrop Grumman, RTX Corporation

**Government Services:** Booz Allen Hamilton, CACI, ICF, Leidos, Maximus, Parsons, SAIC, V2X

Source: S&P CapIQ as of 3/31/2026



# Stout ADGS Investment Banking Team

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- Batteries & Power Systems
- C5ISR and Cybersecurity
- Cloud Computing & Cloud Migration
- Defense Manufacturing
- Engineered Systems & Components
- Healthcare IT
- High-Frequency Electronics
- Intelligence Community Support
- Interiors
- IT Software & Consulting
- Missiles & Hypersonics
- Modeling & Simulation
- MRO
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- Soldier Systems
- Space & Satellite Systems
- Technical & Prof. Services
- Tooling & Ground Support
- Training Services
- Unmanned Systems
- Weapons & Ordnance

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has been acquired by

Undisclosed Strategic Buyer

SELL-SIDE ADVISOR

Explosive Hazard Detection business of



has been acquired by



a subsidiary of



SELL-SIDE ADVISOR



(IDSI, the Defense Solutions Division)

has been acquired by



a portfolio company of



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Premier provider of digital modernization and automation services to Federal Healthcare and Civilian customers


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## FOR MORE INFORMATION



**Cameron Hamilton**  
Managing Director  
chamilton@stout.com  
703.448.4429



**Travis Waller**  
Managing Director  
twaller@stout.com  
312.763.6621



**Brian Ali**  
Director  
bali@stout.com  
202.370.2402



**Eric Fahmi**  
Associate  
efahmi@stout.com  
703.448.4490



**Zach Finder**  
Analyst  
zfinder@stout.com  
314.278.7067



**Will Smalley**  
Analyst  
wsmalley@stout.com  
312.763.6615

May include work by Stout professionals while at prior firms



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