



*DEFENSE & SECURITY SOLUTIONS*

**KRATOS**<sup>®</sup>  
FROM STRENGTH TO SUCCESS

# Kratos Defense & Security Solutions, Inc. (NASDAQ: KTOS)

Investor Brief

January 2017



# Notice Regarding Forward-Looking Statements



Certain statements in this presentation may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are made on the basis of the current beliefs, expectations and assumptions of the management of Kratos and are subject to significant risks and uncertainty. Investors are cautioned not to place undue reliance on any such forward-looking statements. All such forward-looking statements speak only as of the date they are made, and Kratos undertakes no obligation to update or revise these statements, whether as a result of new information, future events or otherwise. Although Kratos believes that the expectations reflected in these forward-looking statements are reasonable, these statements involve many risks and uncertainties that may cause actual results to differ materially from what may be expressed or implied in these forward-looking statements. For a further discussion of risks and uncertainties that could cause actual results to differ from those expressed in these forward-looking statements, as well as risks relating to the business of Kratos in general, see the risk disclosures in the Annual Report on Form 10-K of Kratos for the year ended December 27, 2015, and in subsequent reports on Forms 10-Q and 8-K and other filings made with the SEC by Kratos.

# Investment Summary



- *Kratos is a United States Defense and National Security Company*
- *Kratos Primary Products and Offerings are High Performance Unmanned Aerial Systems, Satellite Communication Equipment, Microwave Electronics and Cyber Security Solutions*
- *Kratos Provides Platforms and Systems Where Kratos Owns the Intellectual Property*



## ***Recapitalization of U.S. Strategic Systems Underway***

- *John McCain Calls for \$430B DoD Increase Over 5 Years*
- *President Trump's "Make Our Military Strong Again" Plan, Calls for End to Sequester, Increased U.S. Defense Spending*
- *Kratos is Strategically Aligned with U.S. DoD Third Offset Strategy and Innovation Initiative, i.e., Rapidly Field Low Cost, Leading Technology Systems to the Warfighter*

# Investment Summary



- *Kratos is the Industry Leader in High Performance Jet Powered Unmanned Aerial Drone Systems*
- *Kratos' Unmanned Systems Business Expected to Double in Size Over the Next 24 Months Driven by Two New Under Contract Programs Expected to Begin Production in 2017*
- *Kratos is the Industry Leader in Satellite Communications Command, Control and Signal Monitoring Ground Infrastructure – KTTS Largest Kratos Business Unit, YOY 12% Organic Growth*

## Investment Summary



- *Kratos' Core Businesses are in Large, Well Funded and Growing Primary Markets, i.e., Unmanned Systems, Satellite Communications, Microwave Electronics*
- *Strong Projected Future Growth Profile from Existing, "Under Contract" and "In-Production" Unmanned Drone System Programs, i.e., USAF AFSAT, USN SSAT, US Army Fire Jet, etc., and Confidential Program*
- *Significant Upside Potential From New Unmanned Combat Aerial System Contract Wins and Opportunities*





*Year to Date Q316 Every Domestic Kratos Business Unit Generates Positive Operating Cash Flow Except Unmanned Systems Where We Have Been In an Investment Mode, i.e.,.....“High Performance Unmanned Aerial Systems for Contested Airspace”*



## Investment Highlights



- *Backlog of ~\$900 Million Expected to Increase 1H 2017, Bid & Proposal Pipeline of ~\$6 Billion*
- *Significant Portion of Kratos' Revenue Generated from Long Term, Multi-Year Strategic Programs: Unmanned Systems, Satellite Communications, Microwave Electronics, Training Systems Provides Visibility and Predictability*
- *Forecasting ~20% YoY Organic Adjusted EBITDA Growth 2017 vs 2016*



# Industry Leader in High Performance Unmanned Aerial Target Drone Systems



BQM-177



BQM-167



BQM-178

- Kratos is the Leader in Development and Production of High Performance Unmanned Aerial Drone Target Systems
- Kratos' Target Drone Systems Represent the Most Advanced Aerial Threats of Our Adversaries and Operationally Test U.S. and Allies' Weapon Systems
- Kratos High Performance Jet Powered Unmanned Aerial Systems are The Highest Performance UAVs In the World
- Kratos' UAVs are Rail Launched and Parachute Recovered, i.e., Runway Independent

# Industry Leader in High Performance Unmanned Aerial Target Drone Systems



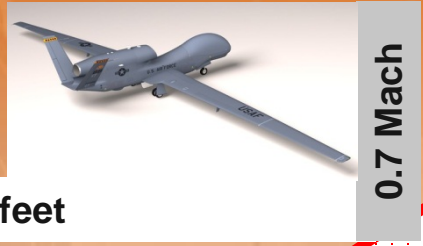
U.S. Navy BQM-177



Confidential

Kratos has Two New Under Contract Target Drone Programs which are Expected to Begin Production in 2017 Driving an Expected Doubling in Size of Kratos' Unmanned Systems Business Over the Following 24 Months

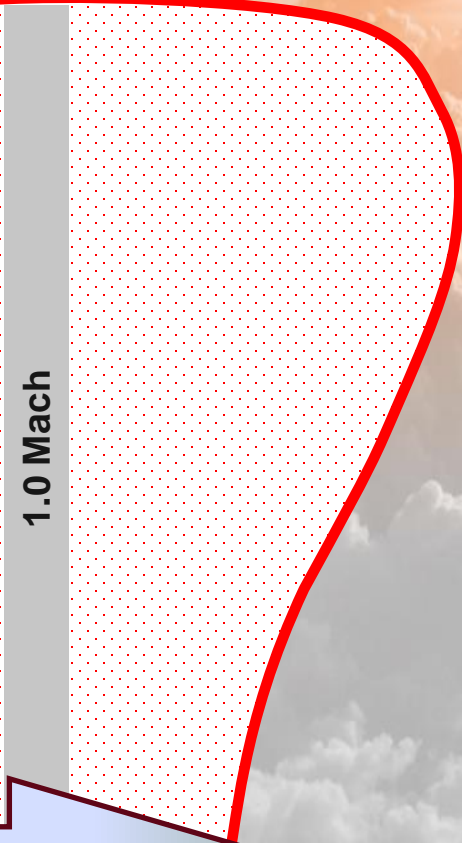
# Gap In U.S. Unmanned Aerial System Capability



50,000 feet



30,000 feet



**Kratos  
UCAS  
Solution**

**Airspeed**

**Altitude**



# Kratos UTAP-22 Unmanned Combat Aerial System



# Recent Notable UCAS Contract Awards

**Low Cost Attributable Strike Demonstration (LCASD) – Air Force Research Lab (AFRL) Production Units Forecast to be in the Hundreds to Thousands @ ~\$2M - \$3M per UCAS**



**Unmanned Tactical Aerial Platform (UTAP-22) – Defense Innovation Unit Experimental (DIUx) (\$12.6M) – Fly in Major Military Exercise FY17**



**Gremlins Air Launched / Air Recovered Unmanned Combat Aerial System (UCAS) – Defense Advanced Research Project Agency (DARPA) (\$3.9M Phase I, Potential Phase 2 \$20M, Potential Phase 3 \$33M). Production Units Forecast to be in the Hundreds to Thousands @ ~\$700K per UCAS**



**Confidential UCAS Program**





# LCASD Single Award Contract Win



- The AFRL Low Cost Attributable Strike Demonstration (“LCASD”) program was conceived to demonstrate an extremely affordable, high performance, mission configurable UCAS

- Base contract award: \$40 million<sup>(1)</sup>

- ~\$7 million / ~\$33 million cost share<sup>(1)</sup>
- Could lead to five follow-on spirals with anticipated funding of \$100 million<sup>(1)</sup>

- Kratos retains intellectual property

- Select attributes:

- Development to flight in ~30 months
- Forward deployable, preferably without ties to runways

## Air Force To Test Target Drone Turned Low-Cost Unmanned Combat Air Vehicle

The USAF is interested to see what it can get out of a very budget-oriented UCAV.

BY TYLER ROGOWAY, JULY 13, 2016



The Air Force Research Laboratory has awarded target drone builder Kratos a contract to execute what it calls a Low-Cost Attributable Strike Unmanned Aerial System Demonstration (LCASD). This proof-of-concept initiative is centered on creating a (relatively) cheap unmanned combat aircraft that the USAF can afford to lose in combat, even opting to do so willingly by sending it on a one-way mission if need be. Alternatively, if the vehicle had the range to return to friendly territory, it could be repeatedly recovered and launched again on other missions, even from small bases without runways.

Provides a “game changing” and rare leapfrog opportunity over traditional UAV manufacturers and Tier 1 companies

<sup>(1)</sup> Kratos July 11, 2016 press release



# DIUx UTAP-22 Single Award Contract Win



- **Defense Innovation Unit Experimental (“DIUx”) reports directly to the U.S. DoD Secretary of Defense**

- DIUx is part of the DoD’s Defense Innovation Initiative geared towards preserving U.S. technological superiority

- **One of the largest single DIUx awards made to date**

- \$12.6 million initial contract for sensor integration into Kratos’ internally developed UTAP-22 to demonstrate multiple UTAP-22s in a large, complex military exercise<sup>(1)</sup>
- Will explore the use of High Speed Drones in either Fully Autonomous or Semi-Autonomous roles to support 4<sup>th</sup> and 5<sup>th</sup> Generation Fighter Aircraft

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## UTAP-22 Unmanned Aerial System

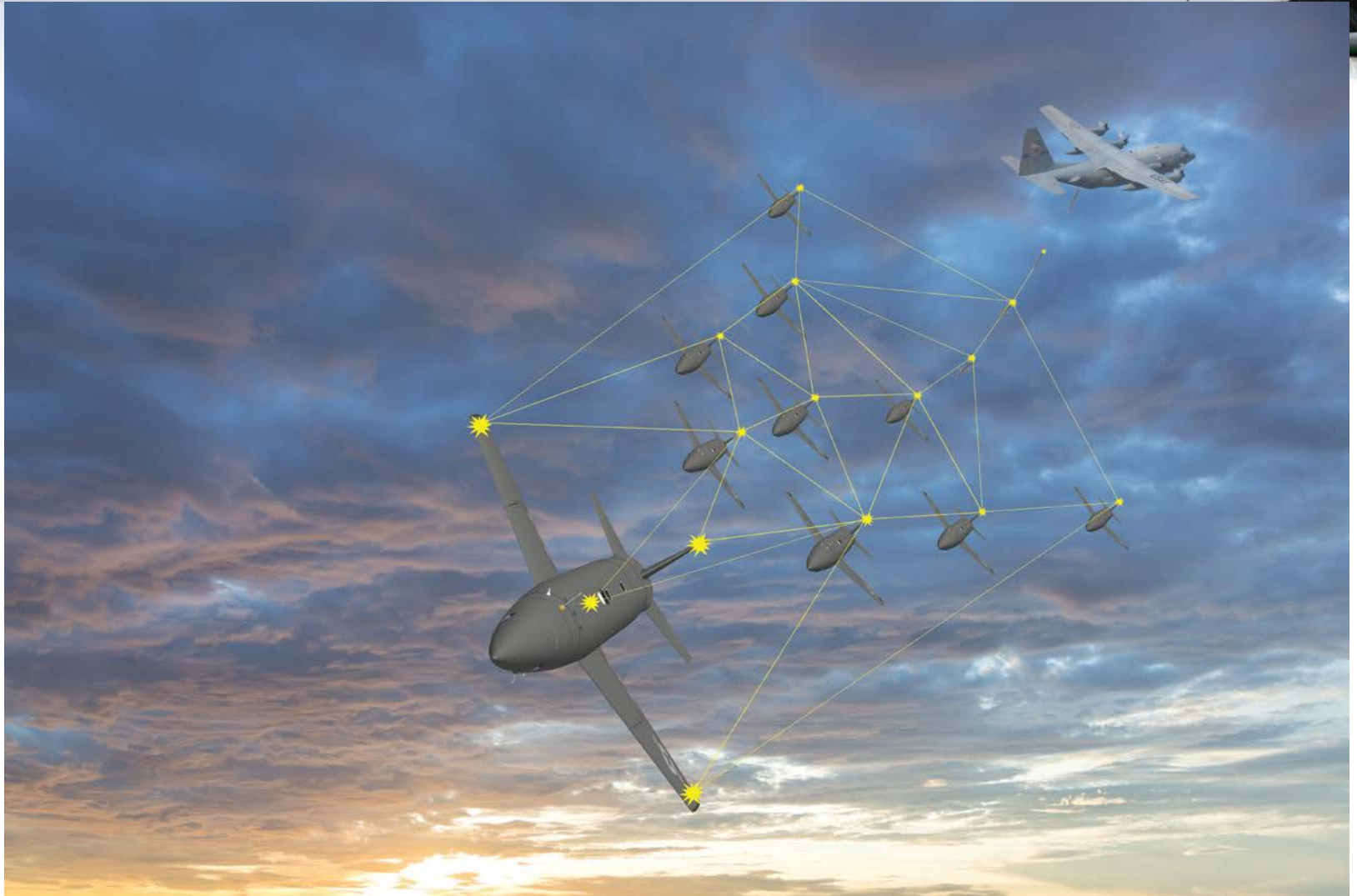
*“Strategic  
Command”*



*“Strategic  
Capabilities  
Office”*

(1) Kratos October 17, 2016 press release

# DARPA Gremlins Phase I Contract Award



- Massive Force Multiplication – Anti-Access/Area Denied Environments

# Industry Leader in High Performance Unmanned Aerial Target Drone Systems

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LCASD



UTAP-22



GREMLINS

“Achievement of Production Status for Any of These Programs Will be Additive to Kratos’ Base Financial Forecast and Our Expectation for Kratos’ Unmanned Systems Business to Double in Size Over the Next 24 Months.”



## STRATEGIC OBJECTIVE

*Be the Leader in High Performance, Low Cost Unmanned Combat Aerial Systems*

## MISSION

*“Deliver To The U.S. Military Jet Powered Drones That Our Potential Adversaries Do Not Possess, That Protect The Lives Of The U.S. War Fighter And the Dollars That The U.S. Tax Payer Provides To Our Government.”*



# Industry Leader in Unmanned Vehicle C<sup>2</sup> Systems, Avionics & Electronics

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# Satellite Communications and Cyber Security



- Industry Leader in Satellite Command and Control Systems – Ground Segment
- Industry Leader in RF Interference, Monitoring, Geo Location and Related Cyber Security Solutions
- Maintaining, Sustaining and Protecting a Significant Majority of U.S. Satellite Systems today (Including Recurring Revenue Programs)
  - Command and control systems
  - Satellite monitoring systems
  - Signal intelligence systems
  - RFID systems
  - GEO location of RFI threats
  - Telemetry processing systems

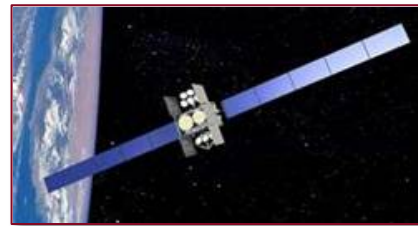
## Representative Satellite Communications Systems Supported



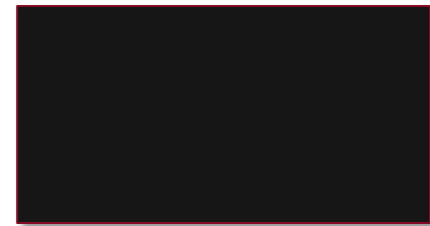
**SBIRS**



**AEHF**



**WGS**



**Classified**



# Satellite Communications (cont'd)



**Kratos Owned and Operated Global Terrestrial Ground Infrastructure Providing Signal Monitoring and Geo Location Solutions and Services**



# Satellite Communications: DoD / Intel Satellite Market Growth



- Emerging Space and Cyber threat from Russia and China
- Unmanned Aerial Systems demanding more bandwidth
- Intelligence, Surveillance, and Reconnaissance demanding more bandwidth
- Drive to commercialization for cost, resiliency, capacity

**STRATCOM Must Be Warfighters,  
Not FAA In Space: Lt. Gen. Kowalski**

**Gen. Hyten Pushes revamp of  
Satellite Control Infrastructure**

**60 Minutes: Critical U.S. satellites  
vulnerable?**  
U.S. and China locked in a high stakes  
contest over satellites that are critical to  
national security and everyday life

A potential conflict on Earth that escalates into space has prompted the Air Force to find an extra \$5 billion to spend on offensive and defensive systems to protect national security satellites.

# Microwave Electronics



- An industry leader in Microwave Electronics Products, Systems and Sub Systems for:
  - Missile
  - Radar
  - Electronic warfare
  - Intelligence, surveillance & reconnaissance
  - Communication systems
  - GaN technology
- Demand for Kratos' Microwave Electronics products is driven by rising Russian, Chinese, North Korean, Iranian, and Other Advanced Nation State Adversarial Threats, Strategic Recapitalization

## Representative Products

SSPAs AND AMPLIFIERS

FREQUENCY CONVERTERS

SHR - RECEIVERS

TRANSCEIVERS / DATA LINKS

SOURCES

CONTROL COMPONENTS

INTEGRATED MICROWAVE ASSEMBLIES

MILLIMETER WAVE

BEAM FORMING MODULES

GPS IMMUNE

RF FRONT ENDS AND DLVAs

*(A central image shows a commercial airplane and a fighter jet flying in the sky.)*

# Microwave Electronics Representative Systems Supported



Iron Dome



Gripen Fighter



Arrow III



Sling of David



Barak



Spyder



# Additional Strategic Programs Supported



Electromagnetic Railgun



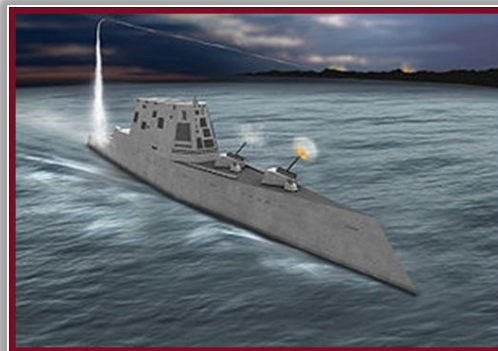
Directed Energy Weapons



Patriot



BMD/Hypersonic Vehicles



DDG-1000



Littoral Combat Ship

- Kratos' Products, Solutions and Services Support Certain of Our Nation's and Allies' Mission Critical National Security Programs

# Growth Strategy – Focused Internally



▶ Concentrate on Existing Primary Markets and Internal Growth ◀

▶ Build on Base of Intellectual Property and Technology Resident in Core Business ◀

▶ Expand Technology and Product Offerings to Existing Customers ◀

▶ Achieve Production on UCAS Opportunities ◀

▶ Targeted Investment in Strategic Growth Areas ◀

▶ Expand Operating Margins and Increase Cash Flow/Operating Leverage ◀

▶ Capitalize on Corporate Infrastructure Investments/Operating Leverage ◀



# Recent Notable Strategic Program/Contract Awards



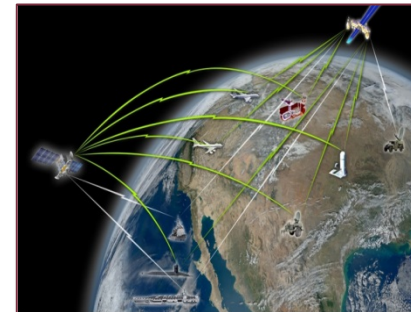
**KC-46 High Fidelity Maintenance Training System - Initial Contract Value \$20M<sup>(1)</sup>**



**Marine Common Aircrew Trainers (MCAT) - Initial Contract Value \$54M<sup>(2)</sup>**



**JFCC / USS Stratcom Global Satellite RF Interference Monitoring (\$6.2M)<sup>(3)</sup>**



*(1) Kratos August 24, 2016 press release*

*(2) Kratos September 12, 2016 press release*

*(3) Kratos October 24, 2016 press release*

# Recent Notable Strategic Program/Contract Awards



*\$23.5 Million U.S.  
Army Aviation and  
Missile Command  
Air Defense System*





*\$18 Million High Performance Unmanned Aerial Target Drone System Contract Award – New Customer*



# Expected Near Term Catalysts

**U.S. Navy Unmanned Subscale Aerial Target Drone (SSAT) Production<sup>(1)</sup> - Under Contract, LRIP Expected Q2 FY17**



**“Black” Program Production<sup>(1)</sup> – Under Contract, LRIP Expected Second Half FY17**



**Unmanned Aerial Drone System Program Award – New Customer – Expected Q1 FY17**



**Unmanned Aerial System Program Award – Existing Customer – Expected Q2 FY17**



*(1) Exercise of low rate initial production expected first half of 2017*

# Expected Near Term Catalysts (cont'd)



**New Major Training System Program Award Expected Q2 FY17**



**Low Rate Initial Production Expected on New Missile System – Second Half FY17**





- *Kratos Provides Annual Financial Guidance*
  - *We are Primarily a Product Based Company with Revenue Driven by Shipments/Deliveries*
- *Majority of Kratos' Work is Funded by the U.S. Government, Providing a "Clear" 12 Month View*
- *Substantial Amount of Kratos' Work is Performed Under Multi-Year Strategic Programs*



# Recent Financial Summary 2016



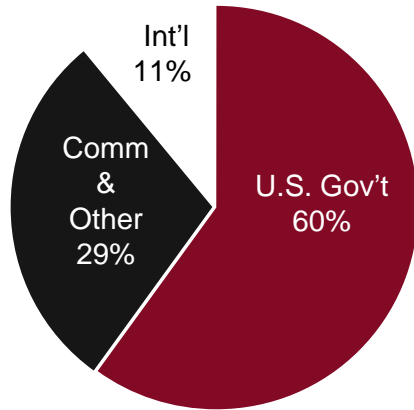
Q316 Revenues	\$165.4M
Year Over Year Increase From Q315	2.3%
Adjusted EBITDA*	\$13.5M
Q316 Operating Cash Flow	\$3.7M
Book to Bill Ratio Q316	1.2 to 1
Book to Bill Ratio LTM 9/25/16	0.9 to 1
Funded Backlog @ 09/25/16	\$582M
Unfunded Backlog @ 09/25/16	\$319M
Total Backlog @ 09/25/16	\$901M
Bid & Proposal Pipeline @ 09/25/16	\$6.3B

\*As defined in Company's Q316 Earnings Release dated November 2, 2016

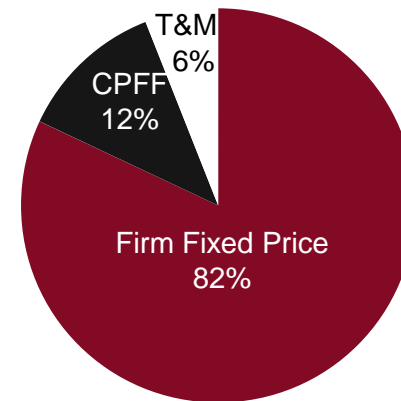
# Summary Financial Information



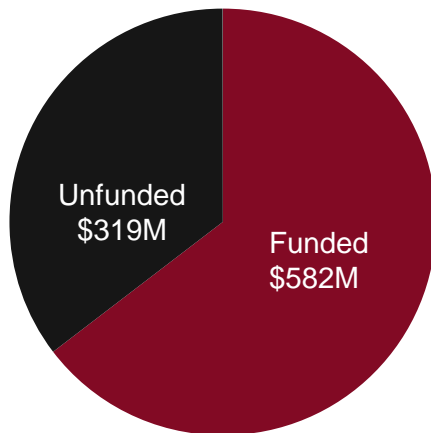
### Nine Months Ended 09/25/16 Revenue By Customer



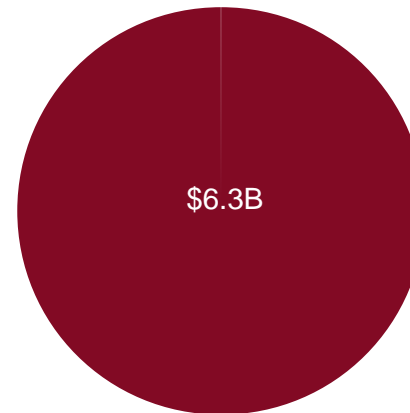
### Nine Months Ended 09/25/16 Contract Mix



### Backlog Ended 09/25/16



### Bid & Proposal Pipeline Ended 09/25/16





## Investment Thesis

- *Improving U.S. DoD Funding Environment, Recapitalization Of Strategic Systems Under Way*
- *Kratos Is The Industry Leader In High Performance Jet Powered Unmanned Aerial Drone Systems*
- *Large New Unmanned Aerial Drone System Program Production Expected Beginning First Half of 2017, Expected to Drive Doubling in Size of Kratos' UAS Business*
- *Satellite Communications Business Benefiting From Multi Billion Dollar Funding Increase*
- *Target Base Case Business Model Projection Of \$800 Million Revenue, \$80 Million Adjusted EBITDA, With Significant Upside Potential if UCAS Programs Production Status Achieved*