



*DEFENSE & SECURITY SOLUTIONS*

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

Kratos Defense & Security Solutions, Inc.

Eric DeMarco  
President & CEO

Bank of America 2017  
Leveraged Finance Conference

November 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 25, 2016, and in subsequent reports on Forms 10-Q and 8-K and other filings made with the SEC by Kratos.

# Kratos – A Differentiated Growth Opportunity



*Kratos is a Differentiated Growth Opportunity in the Defense and National Security Industry, with Expected Future Growth Driven Primarily by Recently Received New Long Term Contract/ Program Awards and Near Term Opportunities*

*Kratos is at the Forefront of U.S. DoD Third Offset Strategy, with the Demonstrated Ability to Innovate and Rapidly Develop, Demonstrate and Field Leading Technology Systems at an Affordable Cost*

*Kratos Makes Internally Funded Investments to Own Critical Intellectual Property in its Products and Systems, Resulting in “Designed In” Sole Source Positions and Strong Barriers to Entry*

# Kratos Debt Refinancing



- Reduced debt from \$373M to \$300M.
- Annual cash interest reduction ~ \$7M.
- Fixed 6.5% interest rate over 8-year period in an expected increasing interest rate environment.
- Ability to further pay down up to 10% or \$30M annually for first 3 years.
- Kratos' net leverage today < 3.0X, with expectation to decrease further
- Improved capital structure including pro forma cash \$140M on balance sheet supports expected continued significant future organic growth as new and existing production programs ramp or increase.
- No other financing transactions anticipated for foreseeable future.



# Kratos Defense & Security Solutions Overview



## Unmanned Systems



- High performance jet powered unmanned aerial drone systems
  - Aerial drone target systems
  - Tactical combat drones
- Rail launched and parachute recovered (runway independent)
- Rapid mission turn around
- Low Cost / Affordable

## Satellite Communications



- Leader in providing secure management, delivery and distribution of data and information from space and land
- Used by more than 75% of the world's satellite operators and 85% of U.S.-based space missions
- C<sup>3</sup>, RFI detection and mitigation products

## Training Systems



- Offers systems & solutions across the entire training continuum
- Exhibit knowledge and skills to develop a lifecycle training program to support specific training needs
- Leading training systems & solutions provider for ground, air and sea platforms

## Microwave Electronics



- One of the largest international independent microwave solutions developers
- Products used in a variety of demanding environments, including airborne, ground and naval systems; missiles, radar, aircraft, guided munitions

## Ballistic Missile Defense Targets



## Laser Systems



## Patriot System



## THAAD System



## Electromagnetic Railgun

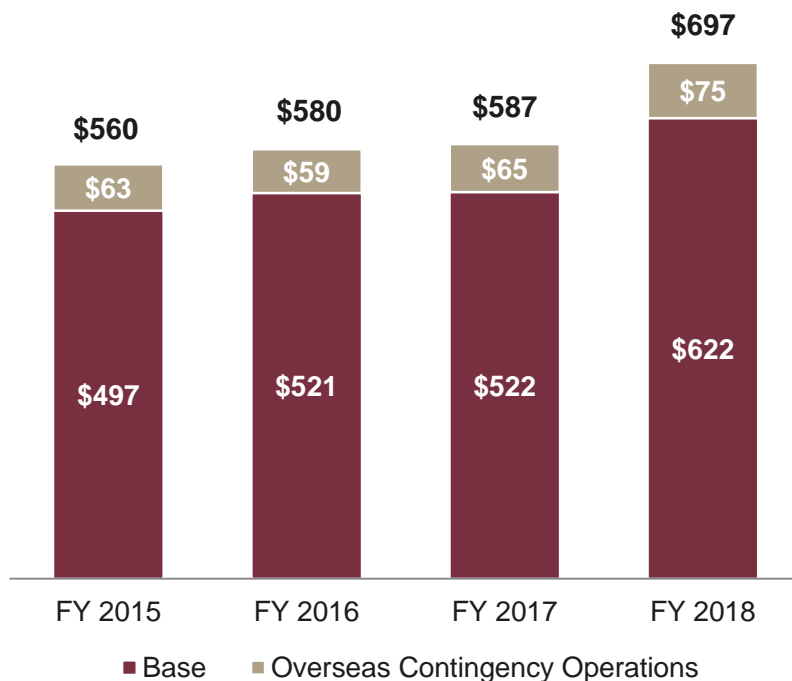


# U.S. Defense Industry Budget Environment Improving



Improving outlook for defense spending focused on enhanced power projection, warfighting readiness, and recapitalization of key strategic defense systems

## U.S. Department of Defense Budget (\$bn)



## Overview

- Trump/Congress looking to increase defense spending by ~9%, returning to pre-sequestration levels
- Defense spending focused on identifying and investing in innovative technologies to counter new and emerging threats
- Continued commitment to Third Offset Strategy to pursue next-generation technologies and concepts
- Proposed budget increases DoD Science & Technology budget 5.6% above FY2017 request
- Proposed budget allocates \$3.1 billion to the Defense Advanced Research Projects Agency (“DARPA”) to develop technologies for revolutionary, high-payoff military capabilities

*“[Strategic Capabilities Office’s] three primary focus areas: enabling systems to cross or blur domains, creating teams of manned and autonomous systems, and leveraging enabling commercial designs and technologies”<sup>1</sup>*

Source: U.S. DoD  
 Note: FY2018 figures reflect the initial budget submission  
<sup>1</sup>Senate Appropriations Subcommittee on Defense

# National Security Agency Budgets Important to Kratos are Increasing



Recapitalization of Strategic Systems Beginning

Defense and National Security Budgets are increasing to address peer and near-peer threats

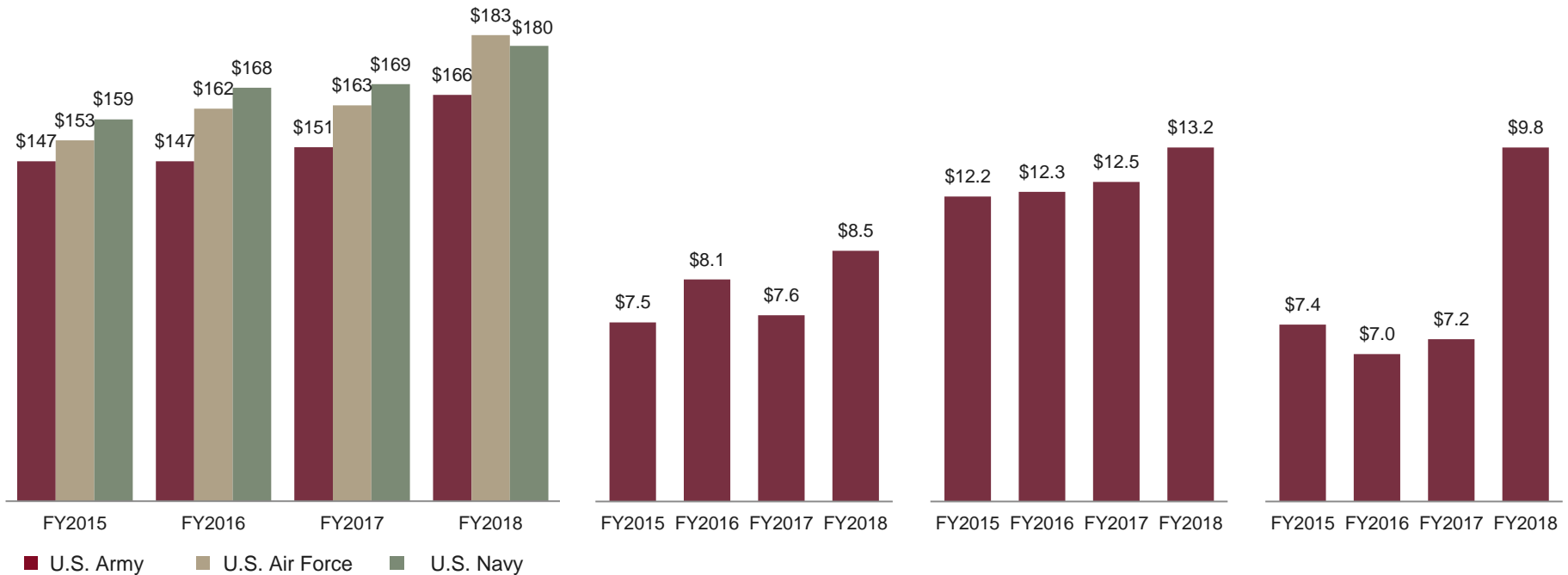
Armed Forces Budget

Missile Defense Agency

Science & Technology<sup>1</sup>

Space-Based Systems

(in \$bn)



Source: U.S. DoD

Note: FY 2018 figures reflect the initial budget submission

<sup>1</sup> Science & Technology budget includes DARPA, DIUx, Strategic Capabilities and Defense Tech Initiatives

# Kratos – Differentiated Organic Growth Opportunity



- ❖ Kratos Returned to Organic Growth in 2016, Which is Accelerating in 2017 and Into 2018
- ❖ Kratos' Unmanned Systems Business Q3 2017 Year Over Year Revenue Growth ~127 Percent – Q317 Book to Bill Ratio 1.4 to 1.0
- ❖ Kratos' Public Safety & Security Business Q3 2017 Year Over Year Revenue Growth ~14 Percent – YTD Bookings Gross Margin of 30 Percent +
- ❖ Kratos' Satellite Communications and Training Business Q3 2017 Year Over Year Revenue Growth ~11 Percent – Q317 Book to Bill Ratio 1.3 to 1.0



## Kratos – Positioned for Sustained Growth

- *Q317 Consolidated Book to Bill Ratio 1.2 to 1.0 – Backlog of ~\$799 Million, Bid & Proposal Pipeline of ~\$6.6 Billion*
- *Significant Portion of Kratos' Revenue Generated from Long Term, Multi-Year Strategic Programs Providing Visibility and Predictability:*
  - *Unmanned Aerial Drone Systems*
  - *Satellite Communications*
  - *Training Systems*
  - *Microwave Electronics*
- *Forecasting ~20% YOY Organic Adjusted EBITDA Growth 2017 vs 2016 and Continued Growth for 2018 Over 2017*
- *Targeting \$800 Million Revenue, \$80 Million EBITDA*

# Significant Investment Cycle in Next Generation Unmanned Aerial Drone Systems Ending



*Investments are Winding Down. Production Programs are Beginning. Kratos is Expected to be Free Cash Flow Positive in 2018!*



# Industry Leader in High Performance Unmanned Aerial Target Drone Systems



BQM-177



BQM-167



MQM-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 Drone Systems are The Highest Performance UAVs In the World
- Kratos' UASs are Rail Launched and Parachute Recovered, i.e., Runway Independent with Rapid Mission "Turn Around"

# New Major Program Entering Production Expected to Drive Future Growth



U.S. Navy BQM-177  
LRIP Awarded June 2017



# Significant Growth Projected for Target Drone Market – Operational Readiness



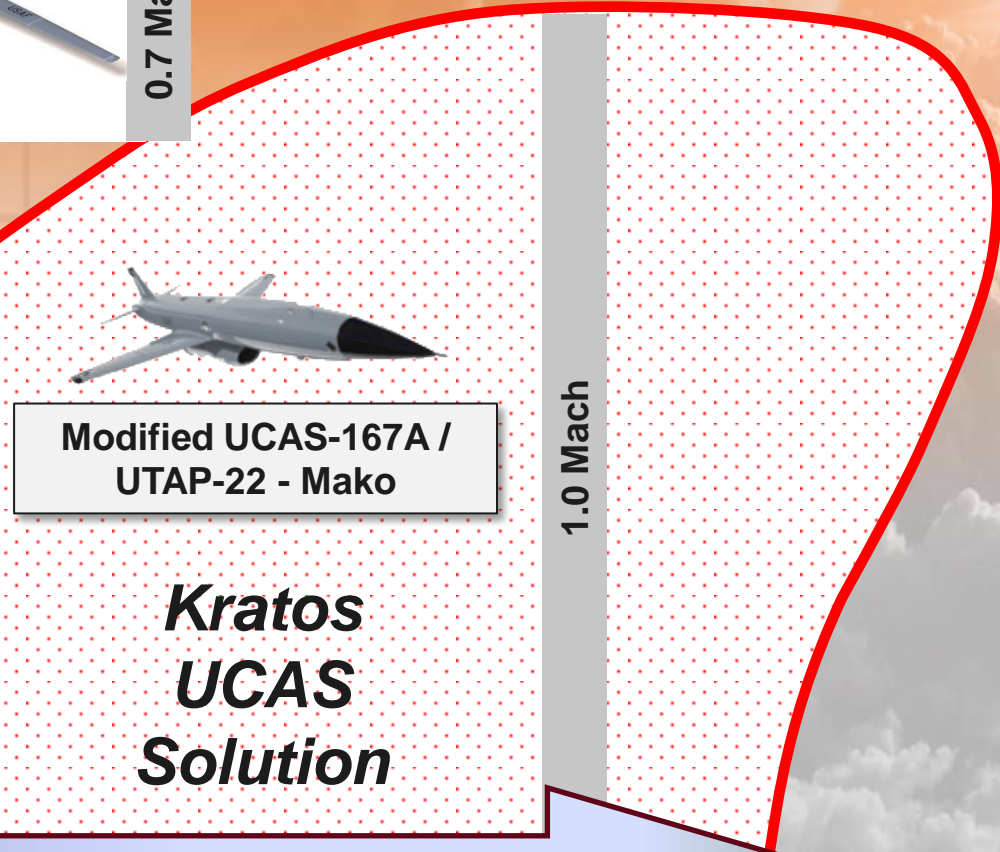
Market for target UAVs to reach \$6.2 billion by 2022;  
defense sector will see highest growth

By: Lisa Daigle, Assistant Managing Editor - ASDReports

SEATTLE. The global market for target drones -- or unmanned aerial vehicles (UAVs) used in the training of anti-aircraft crews -- is projected to grow from \$3.79 billion in 2016 to \$6.20 billion by 2022, at a combined annual growth rate (CAGR) of 8.55 percent during the forecast period, according to research from MarketsandMarkets.



# Kratos Addresses Gap In U.S. Unmanned Aerial System Capability



Altitude

Airspeed

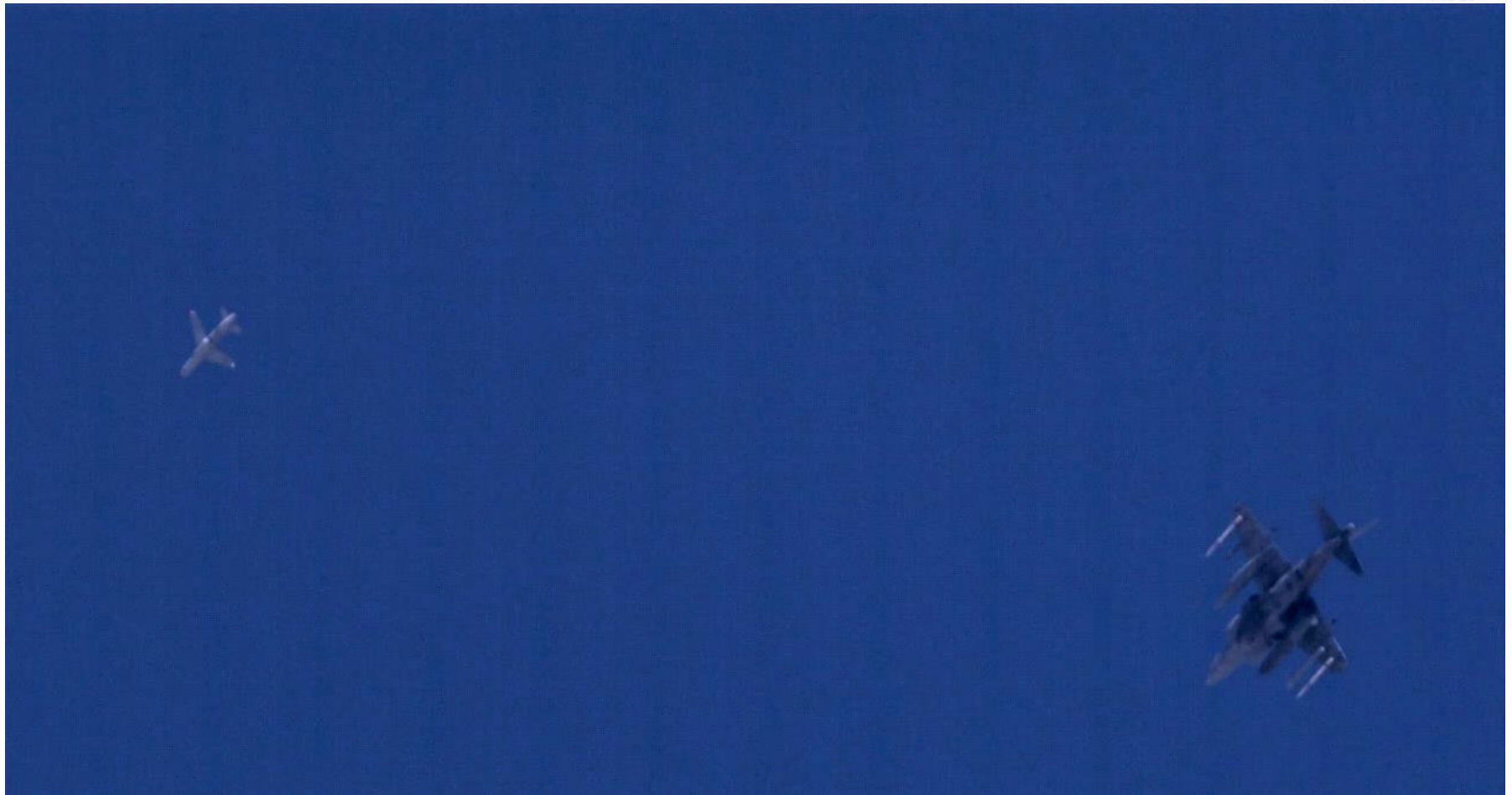
# Kratos – High Performance, Jet Powered Unmanned Combat Aerial System - Mako





# Kratos – UCAS “Loyal Wingman” to Manned Aircraft – Low Cost, High Performance Force Multiplier

**KRATOS**  
FROM STRENGTH TO SUCCESS



See YouTube Video – Search “UTAP-22” and enjoy

# Kratos Wins Multiple Competitive UCAS Contract Awards



**Low Cost Attritable Strike Demonstration (LCASD) –  
Single Award (Development/Demonstration)  
Contract to Kratos – July 2016**



**Kratos UCAS –Fly in Major Military Exercise FY17 –  
Single Award (Development/Demonstration)  
Contract to Kratos – September 2016**



**Gremlins Air Launched / Air Recovered Unmanned  
Combat Aerial System (UCAS) – Phase II Contract  
Award Received March 2017**



# UCAS Opportunity, Recent Contract Wins, Provide Large Future Upside Growth Potential



LCASD



Mako



GREMLINS

Achievement of Production Status for Any of  
These Programs will be Additive to Kratos' Base  
Financial Forecast

**Plus**

Multiple Additional Other Opportunities in Process



# Kratos Unmanned Combat Aerial System Opportunity



Teal Predicts \$100 Billion Military Spending on Drones, UCAVs over 10 years

By  
Tamir Eshel, Nov 10, 2017, 1064

# Kratos – Tactical UAVs

## 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



## More Details Emerge On Kratos' Optionally Expendable Air Combat Drones

The USAF doesn't seem interested in fielding a high-end unmanned air combat vehicle, but they might be interested in fielding lots of cheaper, lower-end ones that they can even choose to throw away for certain missions.

BY TYLER ROGOWAY FEBRUARY 7, 2017



## Expendable US Combat Drones set to Dominate Future Air Combat

By Arthur Dominic Villasanta | May 31, 2017 12:14 PM EDT



Prototype XQ-222 in flight. (Photo : USAF)

## The US Air Force Wants Cheap, Disposable Killer Drones

DAVID AXE

May 30 2017, 5:00am



Image: US Air Force



# Kratos – Leader in Satellite Communications, Command, Control and RF Interference Mitigation



## Core Capabilities

- Command and control systems
- Satellite monitoring systems
- Signal intelligence systems
- Radio Frequency Identification (“RFID”) systems
- Identification of and Geosynchronous Orbit (“GEO”) location of Rapid Fielding Initiative (“RFI”) threats
- Telemetry processing systems
  - Specialized cyber products for govt. agency customers

## Attractive Growth Drivers

- U.S. Air Force space funding request is expected to substantially increase
- Emerging space and cyber threats from adversaries
- Hundreds / thousands of new nano, cube and small satellites, planned launches
- Drive to commercialization for cost, resiliency and capacity
- Increasing demand for bandwidth from Unmanned Aerial Vehicles (“UAVs”), intelligence, surveillance and reconnaissance, etc.

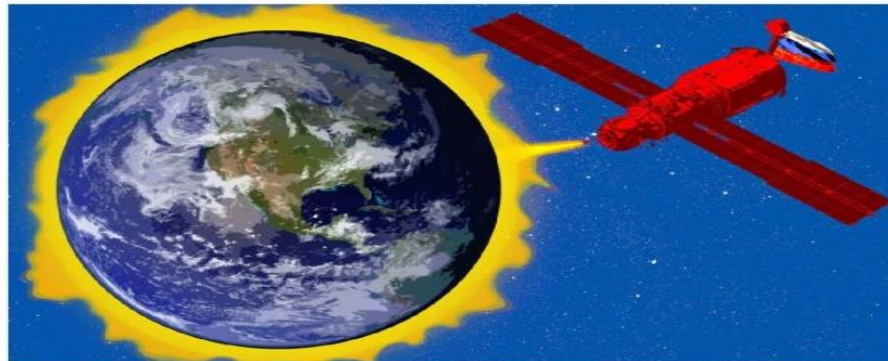
## Market Leading Solution

- Used by more than 75% of the largest satellite operators and 85% of U.S. space missions
- Market leading Commercial-off-the-shelf products (“COTS”), best-of-breed industry tools, custom developed modular software, and top notch engineering services
- An industry leader in RF interference identification, monitoring, GEO location and related cyber security solutions including Kratos owned and operated global surveillance network
- Enhanced protection through continuous monitoring, cloud security and operational and risk management



***Among the leaders in spot beam monitoring & signal acquisition***

# Kratos – Satellite Market – Rapid Growth



DON'T SLEEP

## Russia's 'Killer Satellites' Re-Awaken

The trio of mysterious spacecraft were idle for at least a year. Now they're zooming toward foreign satellites again—and no one really knows why.

## How Russia and China Would Wage War Against America: Kill the Satellites



They would attack American space assets.

## Air Force Seeks Big Funding Boost for Space Capabilities

5/24/2017

By Jon Harper



# Kratos – Industry Leader in Aviation Maintenance Training Systems



CH-47 Avionics Trainer



UH-60 Remove/Replace Trainer



CH-53K Maintenance Training System



UH-60 Avionics Trainer

## UH-60, CH-47 & CH-53 Full Fidelity and Part Task Maintenance Trainers

UH-60 Landing Gear & Braking System Trainer



Aviation Basic Electronics Trainer



UH-60 Rotor Brake Trainer



UH-60 Avionic Wiring System Trainer



UH-60 Stabilator Trainer





## *Recent Wins Provide Long Term Growth Platforms*



**MCAT**  
MARINE COMMON  
AIRCREW TRAINING



KC-46



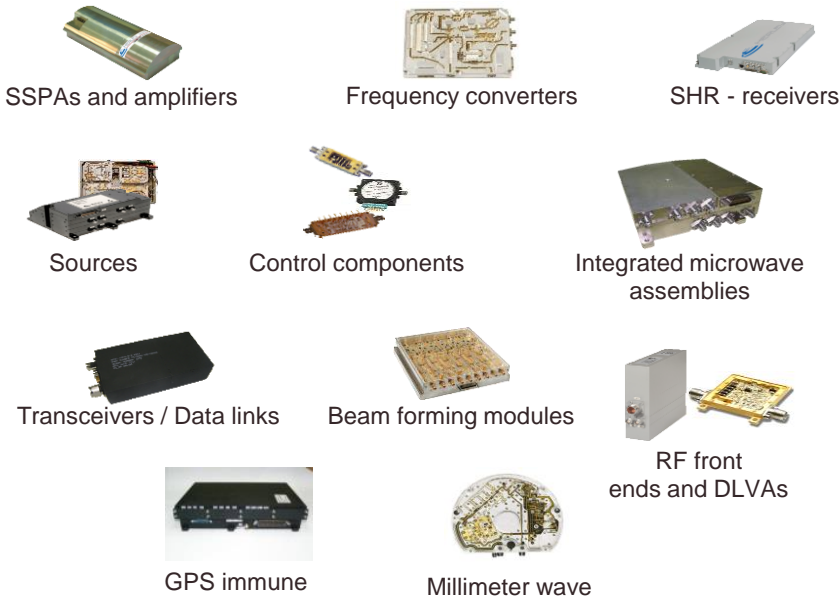
Royal Saudi Navy  
Potential \$100M

# Kratos – Industry Leader in Microwave Electronics Products, Systems and Sub Systems



- An industry leader in Microwave Electronics Products, Systems and Sub Systems for:
  - Missile
  - Radar
  - Electronic warfare
  - Intelligence, surveillance & reconnaissance
  - Communication systems
  - Gallium Nitride (“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



## Applications



# Kratos – Microwave Electronics – Large Growth Opportunities Under Contract



Gripen Fighter



Barak Missile

Gripen and Barak Expected to Begin Production 2018 Providing Expected Long Term Growth Potential

## Kratos – Financial Overview



- *Kratos Provides Annual and Next Quarter Financial Guidance*
  - *We are Primarily a Product Based Company with Revenue Driven by Shipments/Deliveries, I.E., Backlog and Revenue can be “Lumpy”*
- *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 Providing Long Term Financial Predictability*

# Recent Financial Summary



**Q3  
2017**

**Revenue**

**\$196.2M**

**↑ 19%  
YOY**

**Adjusted EBITDA**

**\$14.5M**

**↑ 7%  
YOY**

**Backlog**

**\$799M**

**Bid and Proposal Pipeline**

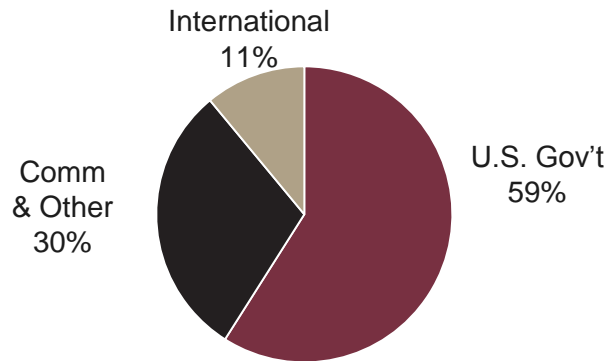
**\$6.6B**



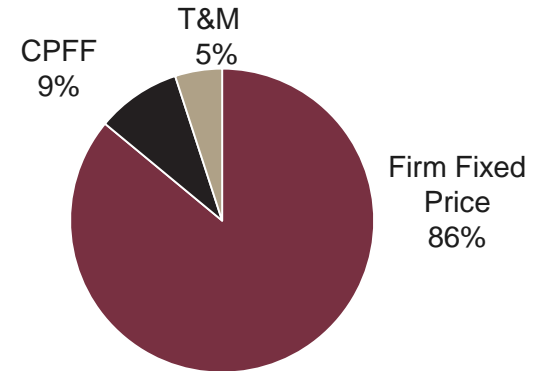
# Financial Summary (cont'd)



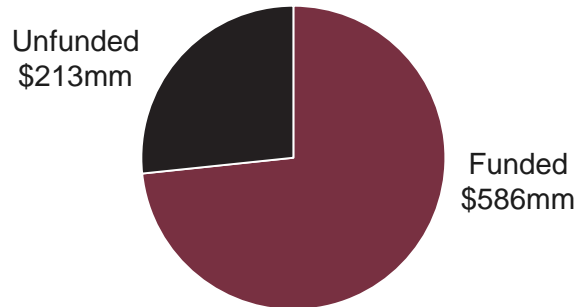
Nine Months ended 10/01/17  
Revenue by Customer



Nine Months ended 10/01/17  
Contract Mix



Backlog ended 10/01/17



Bid & Proposal Pipeline ended 10/01/17



# Growth Drivers Under Contract - Summary



## SSAT

New Production Program Beginning  
Annual Incremental Revenue: Up to \$100M+



## AFSAT

Expected Increased Production Quantities  
Annual Incremental Revenue: Up to \$15M



## RSNF TRAINING PROGRAM ~ \$100M+

New Training Program  
Annual Incremental Revenue: ~\$35M



## KC-46

New Training Program  
Annual Incremental Revenue: ~\$10M



## MCAT

New Training Program  
Annual Incremental Revenue: ~\$15M



## BLACK

New  
Annual Incremental Revenue: ~\$20M

# Potential Growth Drivers Under Contract - Summary



LCASD – In Development  
Annual Incremental Revenue: TBD



Mako – In Demonstration  
Annual Incremental Revenue: TBD



Gremlins – In Competition  
Annual Incremental Revenue: TBD

Plus – Additional Non Disclosable UAV Opportunities!

# Potential Growth Opportunities - Summary



**UAS #1**  
Potential Value:  
\$100M+



**BMD Targets**  
Potential Value:  
\$50M+



**Gripen EW**  
Potential Value:  
\$25M+



**Barak**  
Potential Value:  
\$100M+

# Investment Summary

- ✓ *Differentiated Growth Opportunity*
- ✓ *Defense and Security Budgets are Increasing Globally*
- ✓ *High Technology Innovative National Security Product Company*
- ✓ *Owns Critical Intellectual Property in our Core Products and Systems → “Designed In”, Sole Source Positions*
- ✓ *Industry Leader in High Performance Unmanned Aerial Drones, Satellite Communications and Training Systems*
- ✓ *Recognized Leader in Innovation, Rapid Development, Demonstration and Fielding of High Technology Affordable Systems*
- ✓ *Investment Cycle Ending, Production Programs Starting, Expected Long Term Organic Growth Cycle Beginning*
- ✓ *Significant Profit Margin Expansion Expected with Organic Growth with Leverage on Fixed OH and Public Company G&A*
- ✓ *FCF Expected to Turn Positive in 2018 and Growing*