



*DEFENSE & SECURITY SOLUTIONS*

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

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

Bank of America Leveraged  
Finance Conference

November 29, 2016



# 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



*Improving DoD Funding Environment, Including White House and Congress Now Under One Party Control Portends Smoother Federal Budgeting Process, Shorter Continuing Resolutions*

*Recapitalization of U.S. Strategic Systems Underway*

*Strategically Aligned with Department of Defense (“DoD”) Third Offset Strategy and Innovation Initiative*

*Industry Leader in High Performance Jet Powered Unmanned Aerial Drone Systems*

*Industry Leader in Satellite Communications, Command and Control Ground Infrastructure, Signal Monitoring, RF ID & Geo Location, Strong IP Position and FCF Generation*

*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” Programs, with 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”*





- *Kratos Satellite Communications, Training and Microwave Electronics Business Positioned for Significant Revenue, EBITDA and FCF Growth*
  - *Backlog of ~\$900 Million Expected to Increase 1H 2017, Bid & Proposal Pipeline of ~\$6 Billion*
  - *Intellectual Property Ownership in Key Products*

# 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 UAV's In the World
- Kratos UAV's are Rail Launched and Parachute Recovered, i.e. Runway Independent

# Unmanned Aerial System Operations – Kratos UAV's Carry Diverse Payloads



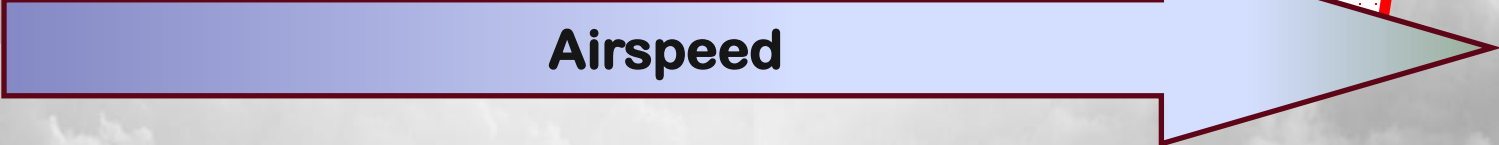
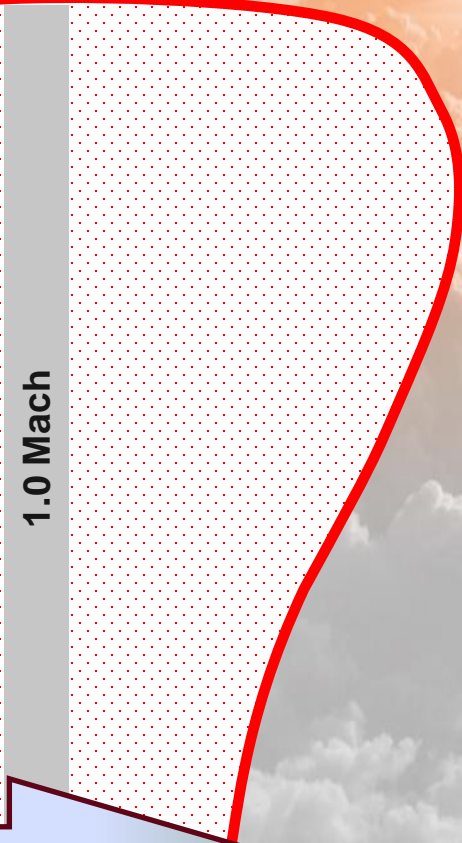
## Special Customer Missions



# Gap In U.S. Unmanned Aerial System Capability



**Kratos  
UCAS  
Solution**





# Kratos UTAP-22 Unmanned Combat Aerial System – China Lake Q4 2015



# Recent Notable UCAS Contract Awards

**Low Cost Attritable Strike Demonstration (“LCASD”) – Air Force Research Lab (“AFRL”) (\$7.3M government funded/cost share contract with potential additional Spirals valued up to \$100M)<sup>(1)</sup>**



**Unmanned Tactical Aerial Platform (“UTAP-22”) – Defense Innovation Unit Experimental (“DIUx”) (\$12.6M) – Fly in major military exercise FY17<sup>(2)</sup>**



**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)**

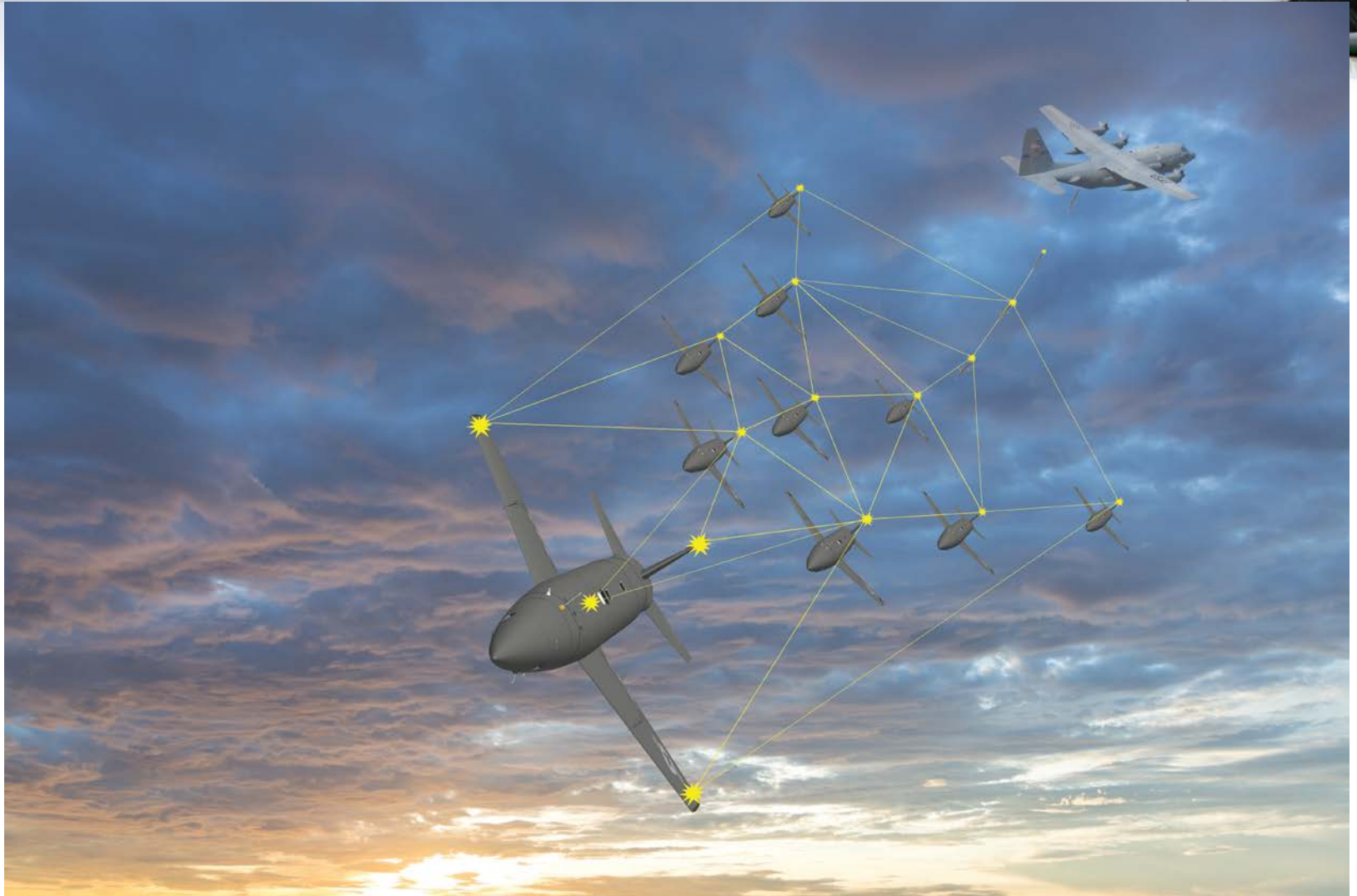


**Confidential UCAS Program**

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

<sup>(2)</sup> Kratos October 17, 2016 press release

# DARPA Gremlins Phase I Contract Award



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

# 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

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

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# Satellite Communications: DoD / Intel Satellite Market Dynamics



- Emerging space threat with 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.

# Satellite Communications (cont'd)

- Industry Leader in Satellite Command and Control Systems – Ground Segment
- Industry Leader in RF Interference, Monitoring and Geo Location
- Maintaining, Sustaining and Protecting a Significant Majority of U.S. Satellite Systems today (including recurring revenue)
  - Command and control systems
  - Satellite monitoring systems
  - Signal intelligence systems
  - RFID systems
  - GEO location of RFI threats
  - Telemetry processing systems

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

**Satellite Communications Representative Systems Supported**



**SBIRS**



**AEHF**



**WGS**



**Classified**



# Microwave Electronics



•An industry leader in Microwave Electronics Products, Systems and Sub Systems for:

- Missile
  - Intelligence, surveillance & reconnaissance
- Radar
  - Communication systems
- Electronic warfare
  - 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

GPS IMMUNE

CONTROL COMPONENTS

INTEGRATED MICROWAVE ASSEMBLIES

MILLIMETER WAVE

BEAM FORMING MODULES

RF FRONT ENDS AND DLVAs

# Microwave Electronics Representative Systems Supported



Iron Dome



Arrow II



Arrow III



Sling of David



Barak



Spyder

# Additional Strategic Programs Supported



Electromagnetic Railgun



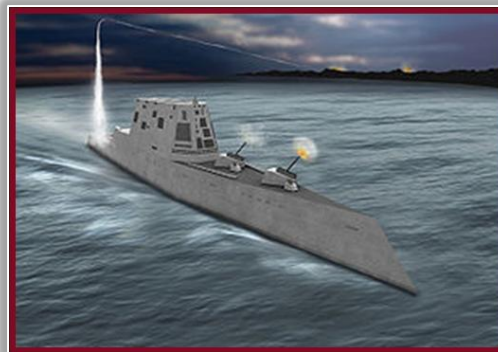
Directed Energy Weapons



Patriot



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



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

▶ Concentrate on Primary Markets and Internal Growth ◀

▶ Targeted Investment in Strategic Growth Areas ◀

▶ Expand Technology and Product Offerings to Existing Customers ◀

▶ Expand Customer and Contract Base in Primary Market Areas ◀

▶ Expand Operating Margins and Increase Cash Flow ◀

▶ Capitalize on Corporate Infrastructure Investments ◀

## Recent Notable Contract Awards

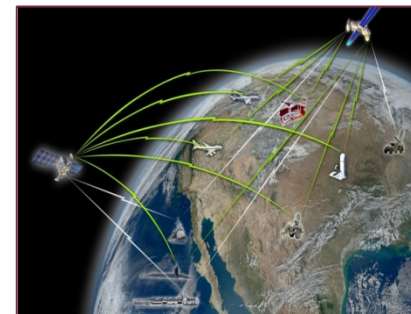
**KC-46 High Fidelity Maintenance Training System (Initial contract value \$20M)<sup>(1)</sup>**



**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

# Expected Near Term Catalysts

**U.S. Navy Unmanned Subscale Aerial Target Drone (“SSAT”) Production<sup>(1)</sup> - Under Contract**



**Classified Program Production<sup>(1)</sup> - Under Contract**



**Sole Source Unmanned Aerial Drone System Program Award – New Customer – Expected Q4 2016**



**Sole Source Unmanned Aerial System Program Award – Existing Customer – Expected Q1 2017**



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

# Expected Near Term Catalysts (cont'd)



## Missile and Aerial Defense System Upgrade



## New Major Training System Program



(1) Low rate initial production expected first half of 2017

# 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

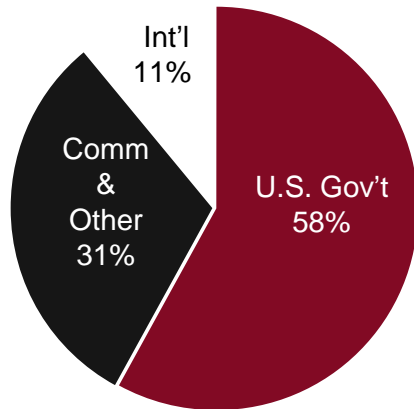
\*As defined in Company's Q316 Earnings Release dated November 2, 2016



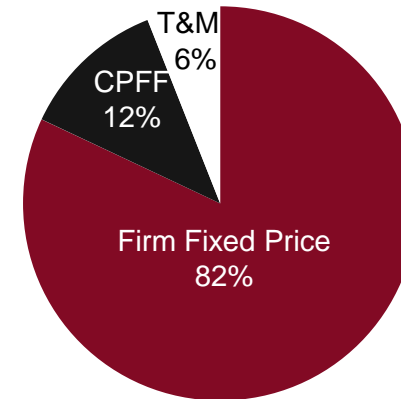
# Summary Financial Information



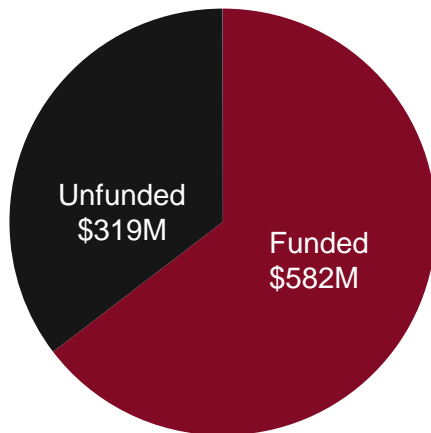
### Six Months Ended 09/25/16 Revenue By Customer



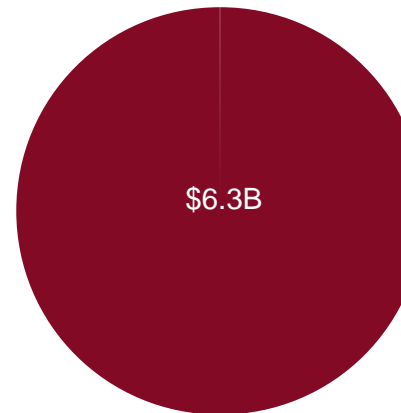
### Six Months Ended 09/25/16 Contract Mix



### 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 Beginning Production First Half of 2017*
- *Satellite Communications Business Benefiting From Multi Billion Dollar Funding Increase*
- *Microwave Electronics Business “Designed In” on New Programs Preparing for Initial Production*
- *Target Base Case Business Model of \$800 Million Revenue, \$80 Million Adjusted EBITDA, with UCAS Upside Potential*