



Kratos Defense Inc. (NASDAQ: KTOS)

Recommendation: Long | 57.5% upside | Target Price: \$114.63

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Death From Above Capital

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Company Overview of Kratos (KTOS)

Kratos Defense and Security Solutions reports their revenue from two parts of their business. Within both parts, there are six branches in which products are manufactured

Kratos Government Solutions focuses on a range of products and services including cybersecurity training and satellite communications

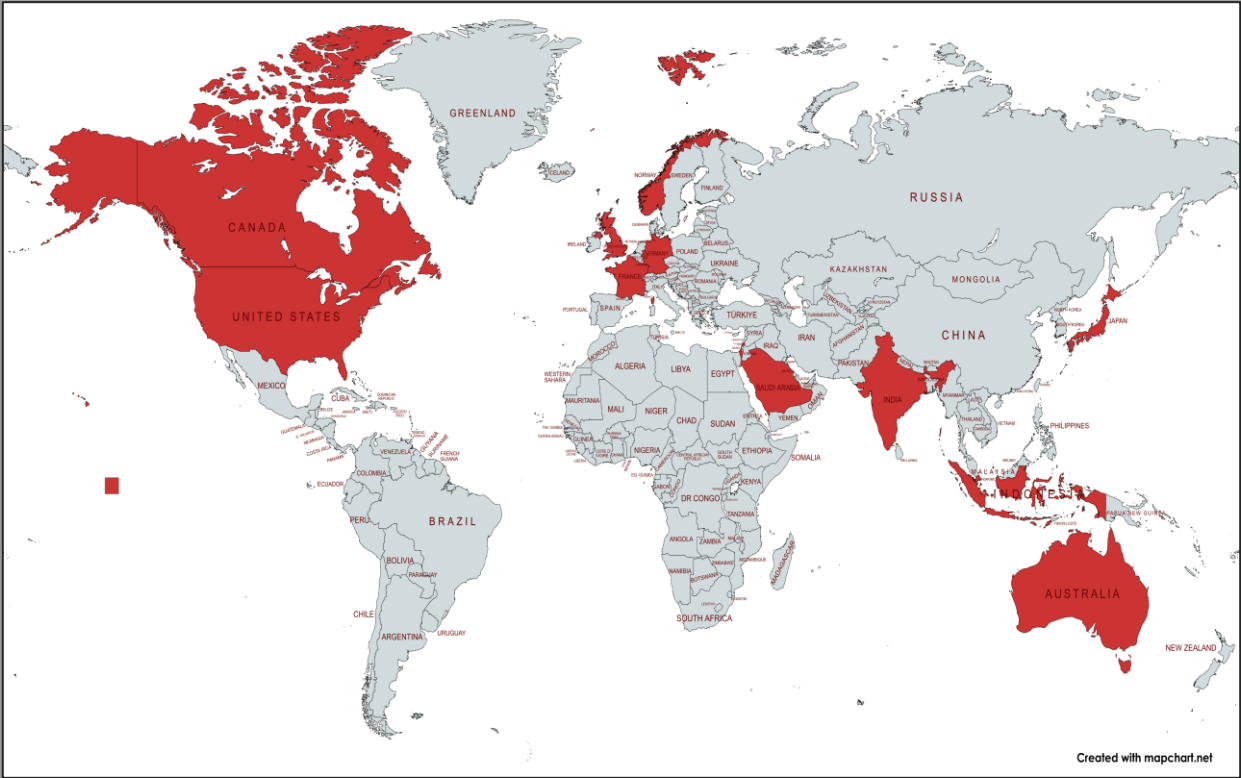
Kratos Unmanned Systems specializes in the development and manufacturing of unmanned vehicles such as drones as well as ground and seaborn systems

Understanding how Kratos operates

Kratos is partnered with U.S. allies and has locations scattered across the globe as seen with the map below (highlighted in red).

Countries with Kratos locations:

United States, Canada, UK, France, Germany, Norway, Saudi Arabia, India, Indonesia, Singapore, Japan, Australia



Company Overview of Kratos (KTOS)

Kratos' Business Model

Understanding what Kratos is and what they do for their customers

Based in San Diego, California, **Kratos** has strategically partnered with both large and small countries so regardless of the global tension situation, there will always be demand for their products. **Kratos** offers a line of products spanning from high-energy lasers and tethered drones to in-flight connectivity systems and frequency converters. Additionally, **Kratos** is recently starting to pivot to commercial customers for products under the Hypersonics and Unmanned Systems. Kratos either develops the products in house or partners with governmental or commercial entities to develop products. A notable partnership was with GE aerospace to produce high-thrust turbofan propulsion systems.

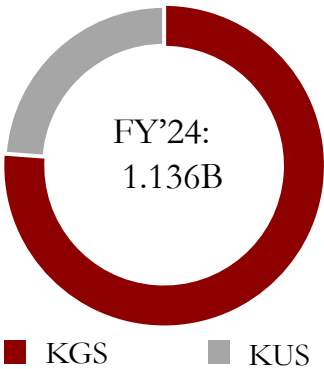
Key Growth Drivers

Demand for autonomous systems, hypersonics, and space defense

International expansion and strategic partnerships

KGS is the bigger and more consistent engine while KUS is the more unpredictable, but high risk-high reward play

Revenue Breakdown



KUS accounts for 23.8% of revenue

KGS accounts for 76.2% of revenue

Business Model Overview

Disruptive Defense

Focus: Builds low-cost, high-performance systems for emerging military needs, emphasizing affordability and speed

Key Revenue Streams:

Unmanned and Space Systems, Hypersonics and Missiles and Defense Electronics (C5ISR)

Strategic Differentiators:

Cost-Disruptive approach, Vertical Integration, and Agile Development (Combining Modular design, in-house engine production, and rapid prototyping using small teams for quick distribution)

Customer Base: U.S. DoD, International Defense, and Commercial Space Operators

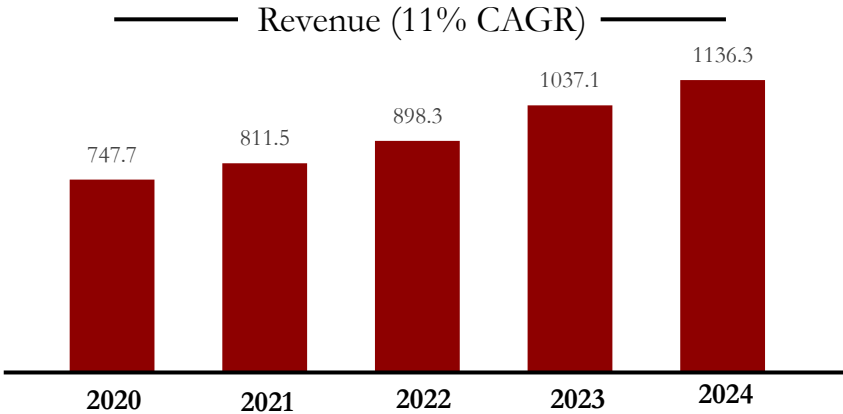
Revenue Model: A mix of Fixed-Price and Cost-Plus contracts, plus recurring maintenance/support

Key Financials

Ticker	NASDAQ : KTOS
Share Price	73.21
Market Cap	12,299
Enterprise Value	12,345
FY'24 EBITDA	85
Debt/EBITDA	-0.53x
EV/EBITDA	144.7x
P/E	488.1x

Although **Kratos**' P/E is considered "high", they operate in high-growth defense niches. These areas are forecasted to see massive demand as warfare shifts toward autonomous and cost-effective platforms

Historical Performance



The Aerospace and Defense Industry and How Kratos Fits In

The Defense Industry has no shortage of massive competitors, but that doesn't mean that Kratos cannot find a way to succeed

The Aerospace and Defense industry is shifting toward low-cost, quick distributed, rapidly deployable, unmanned systems. **Kratos** is uniquely positioned as a disruptive challenger to industry giants.

Segment Focus: Unmanned drones, satellite comm., hyper-sonics, propulsion, and defense systems

Funding Tailwinds: Growing DoD investment in AI-enabled systems, space resilience, and drone proliferation

Key Market Dynamic: Demand for affordable unmanned systems and attritable UAVs is rising

Customer Base: Primarily U.S. Department of Defense and international allies

Key Industry Trends:

- **Shift to Attritable UAVs:** Countries need lower-cost drones that can be deployed in high volumes (Kratos' sweet spot.)
- **Defense Modernization:** Department of Defense prioritizing autonomous systems, electronic warfare, and resilient satellite communications.
- **Commercialization of Space:** Demand increasing for affordable launch, satellite ground systems, and cybersecurity. (Growth of Space Force)
- **Budget Reallocation:** More funding moving to unmanned systems & advanced propulsion vs. legacy manned platforms.

Competitors By Segment:

- **UAVs:** General Atomics (high-end), AeroVironment (small-UAS), Boeing/LM (large platforms)
- **Space/C5ISR:** L3Harris, ViaSat, Northrop Grumman
- **Rocket/Propulsion:** Aerojet (RTX), Northrop Grumman

Positioning Summary:

- Kratos competes by:**
- Lower-cost, faster-to-field disruptor
 - Nimble R&D model vs. Industry Giants
 - Strong positioning in niche high-growth categories (attritable drones, satellite comms, hypersonic test systems)

Industry Outlook:

- **Outlook remains favorable:** Global conflict heightens the demand for unmanned systems, space resiliency, and rapid prototyping.
- **Kratos benefits from DoD:** The prioritization of speed, affordability, and modular unmanned solutions, though competition from primes and budget variability remain key risks.

Kratos’ Pristine Balance Sheet Sets it Up For Success



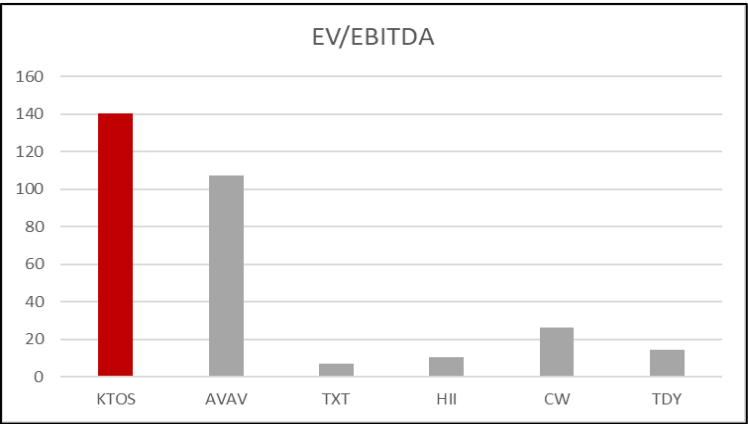
Kratos’ management has setup the company to where the company has cash for expansion while having no debt.

Fiscal Year 2024 (in millions, USD)	
Cash and Cash Equivalents	\$329.3
Total Current Assets	\$872.1
Property, Plant and Equipment	\$512.3
Intangible Assets	\$622.7
Goodwill	\$568.9
Total Assets	\$1,950.9
Total Current Liabilities	\$296.7
Total Non-Current Liabilities	\$301
Total Liabilities	\$597.7
Shareholder Equity	\$1,353.2
Net Debt	(\$54.4)

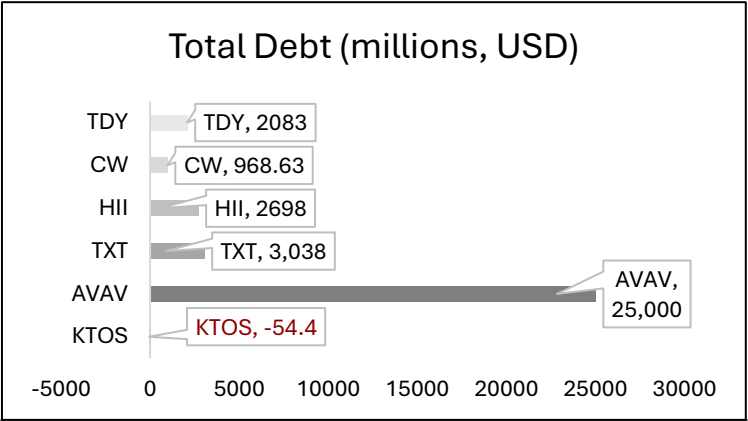
With high cash and cash equivalents, **Kratos** is prepared for unforeseen circumstances, acquisitions, and securing contracts.

Kratos can have an aggressive approach in the next 12 months in spending and expansion due to their low current liabilities.

Kratos’ management has done a great job at limited net debt levels, and in some years, net debt was negative.



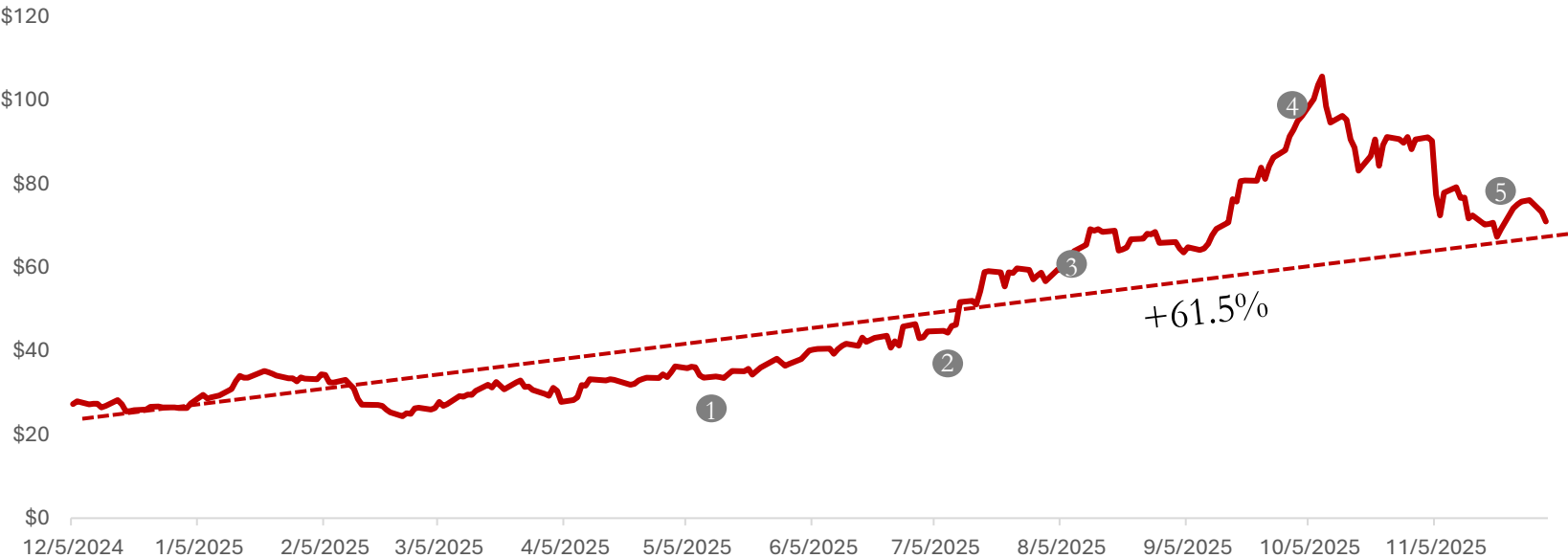
Although, **Kratos** has an extremely high EV/EBITDA, compared to its competitors, which typically indicates overvaluation, the high multiple is misleading. Their EV/EBITDA is so high due to their abnormally low debt value.



Kratos' Stock Price Is Fueled By The Strength Of Countries' Militaries



Numerous positive catalysts in 2025 have sent the stock price soaring



Event	
1.) Q1 Earnings	Revenue of US\$302.6 million — up 9.2% year-over-year — and GAAP net income of US\$4.5 million
2.) “Drone Day”	DoD held an exhibition at the Pentagon to showcase a batch of new unmanned aerial systems and autonomous equipment.
3.) Q2 Earnings	Revenue of US\$351.5 million, a 17.1% rise over Q2 2024, while GAAP net income was US\$2.9
4.) Oct. 5th	Russian missile and drone barrage on Lviv killed five people, a large-scale attack of 53 missiles and nearly 500 drones.
5.) Q3 Earnings	Revenue of US\$347.6 million, up 26% year-over-year, and GAAP net income of US\$8.7 million

Sources: Kratos Earnings Report, Breakingdefense.com, CNN.com

Kratos is Positioned for 34%+ Upside Driven by Three Key Growth Catalysts

Our Thesis

We believe Kratos Defense is positioned for solid growth over the next 3-5 years, supported by rising global tensions, the fast adoption of AI-Driven defense systems, and the company's strong track of record of operating efficiently and keeping the cost low

Global Tension

NATO airspace incursions are rising, with **10 NATO nations** experiencing drone intrusions since April 2025.

The EU has increased defense spending **37% since 2021**, with Germany adding **€500M** in incremental funding.

Smaller nations are shifting procurement toward **cost-effective, rapidly fieldable systems**, directly favoring Kratos' low-cost unmanned and hypersonic platforms.

Artificial Intelligence

Kratos is ahead of major defense prime in embedding AI into Autonomous platforms

AI-Enabled Systems like the XQ-58 Valkyrie and Taiwan's Chien Feng IV (Co-developed with Kratos) demonstrate real-world deployment of AI-Driven combat capabilities.

Kratos' AI also extends to autonomous trucks and roadway systems, giving it commercial + defense dual-use upside.

Efficiency

Kratos specializes in low-cost, attritable, rapidly manufactured systems; A segment rapidly gaining budget priority.

New facilities in Oklahoma, Michigan, Indiana, and Israel expand production capacity and reduce per-unit costs.

International Tensions Are Increasing; Driving Demand for Kratos Solutions

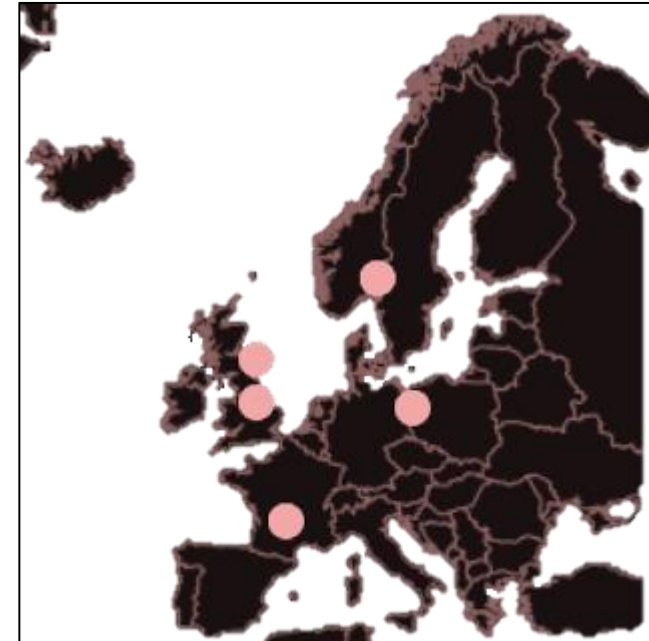
Growing geopolitical threats across Europe and Asia materially strengthen the outlook for Kratos.

Investment Setup

- **NATO countries are facing escalating drone incursions**, with **10 NATO members** experiencing airspace violations since April 2025. This has accelerated demand for counter-UAS, radar, and unmanned systems.
- **European defense budgets are rising rapidly**, the EU is spending **37% more on defense than in 2021**, with Germany alone allocating **€500M** in incremental funding.
- Kratos has **strategic locations across Europe** (Norway, UK, France, Germany), enabling faster delivery and stronger relationships relative to US competitors.
- Smaller European nations **cannot afford high-cost platforms from major defense primes**, pushing them toward **cost-effective suppliers like Kratos** whose systems are cheaper but still technologically cutting-edge.
- **Ukraine's use of FPV drones** and ongoing Russian aggression continue to expand NATO's need for unmanned and EW-resistant systems areas where Kratos is already strong

Our Take

We believe geopolitical instability will remain structurally elevated over the next 3–5 years. **Kratos** is uniquely positioned to benefit due to its **low-cost, rapidly deployable unmanned systems and hypersonic testing infrastructure**, both of which align with the urgent procurement needs of NATO and allies. This creates **multi-year visibility** into rising international demand.



Growing geopolitical threats across Europe and Asia materially strengthen the outlook for Kratos.

NATO Countries Experiencing Russian Drone Incursions Since April 2025



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Impact on European Defense Demand

- These incursions show increasing pressure along NATO's eastern and northern borders, especially in countries closest to Russia.
- Several of these nations have smaller defense budgets, making them more likely to procure cost-effective unmanned systems like those **Kratos** produces.
- Rising regional tensions create ongoing demand for counter-UAS, radar, and autonomous systems segments where **Kratos** already has strong global traction.

Interpretation : *The countries highlighted in red: Norway, Sweden, Finland, Denmark, Estonia, Latvia, Lithuania, Poland, Germany, and Romania represent NATO members that have reported drone incursions into their airspace since April 2025.*

Kratos Has Implemented AI Into Military and Consumer Products

Kratos is adopting artificial intelligence into their catalog of weapons, and this will only drive more customers towards spending on Kratos products

Investment Setup

- Kratos is significantly ahead of competitors in **integrating AI into autonomous systems**, giving it a technological edge in both defense and commercial markets.
- The **XQ-58 Valkyrie**, Kratos' flagship platform, is fully autonomous and has already been acquired by the U.S. Air Force, Navy, Marines, and even the **German Air Force**, validating international demand.
- Kratos partnered with Taiwan's NCSIST to develop the **AI-enabled Chien Feng IV**, featuring an AI-driven target acquisition system, optical sensors, and advanced data links.
- Kratos' AI capabilities extend to **ground vehicles**, with successful autonomous truck platooning demonstrations in Canada and AI-driven roadway safety systems (ATMA) deployed across U.S. federal and state transportation agencies.
- AI integration across aerial and land-based systems positions Kratos as a leader in the shift toward **autonomous, low-cost, high-volume defense platforms**.

Our Take:

With the incorporation of Artificial Intelligence (AI) into **Kratos'** products, customers will be driven to purchase Kratos' robust catalog of products.



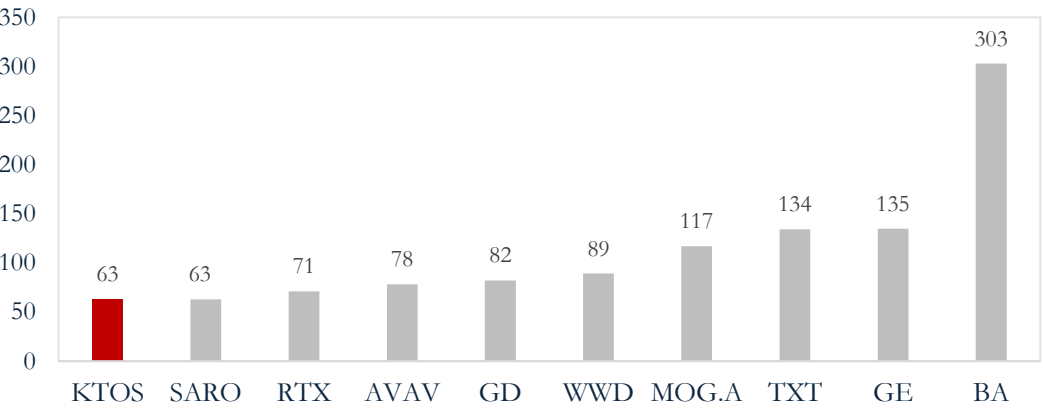
Kratos Is Expanding Across The World: Speeding Up Production and Strengthening Distribution

How does DIO and rapid expansion propel Kratos past competitors?

What is DIO?

- DIO stands for Days Inventory Outstanding. This measures the average amount of days inventory remains before sale or use.
- The formula is $\text{Average inventory} / \text{COGS per day}$
- The relevancy of it is the lower the DIO, the faster inventory turnaround is, better cash flow, and proves operational efficiency.

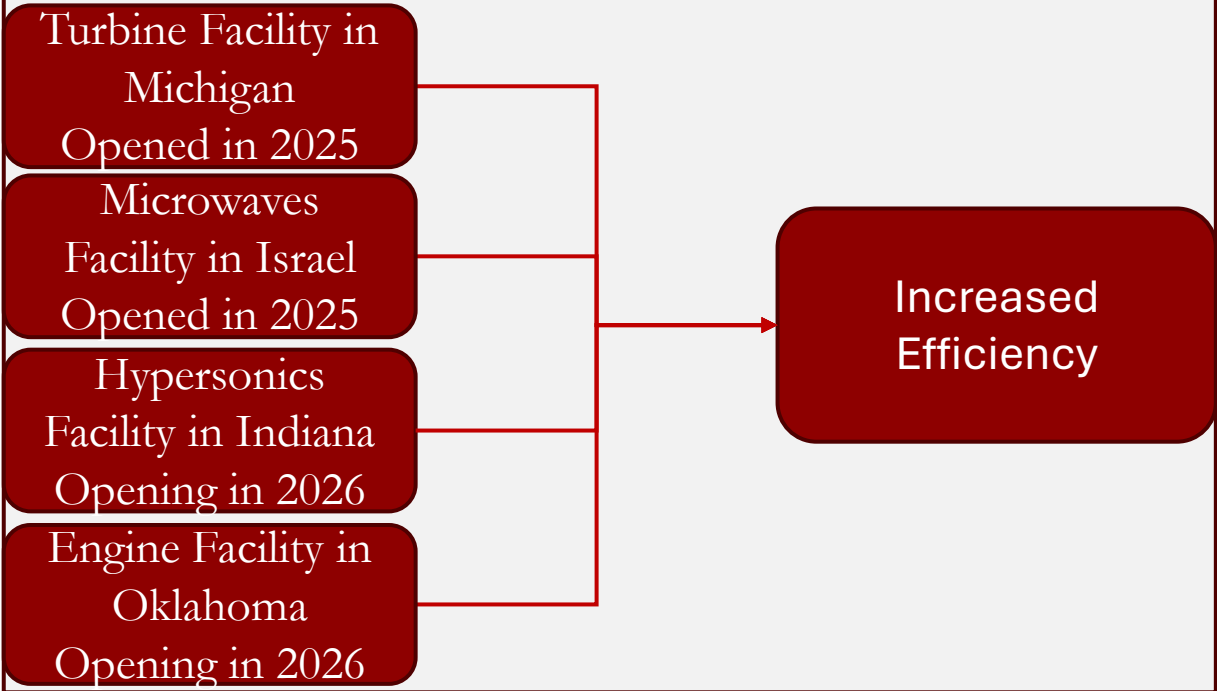
Inventory Days Comparison



Interpretation: *Kratos maintains significantly lower inventory days than large defense primes, signaling lean operations, faster manufacturing cycles, and more efficient working capital management, which is critical for periods of rapid expansion.*

The XQ-58 Valkyrie went from concept to development in roughly 18 months as per Undersecretary of Defense for Research and Engineering Emil Michael. This demonstrates the efficiency all facets of Kratos work at.

New Facility Locations in 2025 and 2026



When modelling out, Kratos has massive potential upside

Below, are Kratos' top 5 competitors, with their key multiple values. Additionally, our calculation is included underneath.

Comp Table

Company	Ticker	Market Data					Financials			Valuation		
		Share Price	Shares Outstanding	Equity Value	Net Debt	Enterprise Value	Revenue	EBITDA	Net Income	EV/Revenue	EV/EBITDA	P/E
Kratos Defense and Securities	KTOS	73.40	168	12,331	-45	12,377	1,285	85	25	9.6x	145.1x	489.3x
AeroVironment Inc.	AVAV	258.54	50	12,901	11	12,890	1,086	123	44	11.9x	104.5x	293.2x
Textron Inc.	TXT	82.02	176	14,436	2,042	12,394	14,237	1,738	1,021	0.9x	7.1x	14.1x
Huntington Ingalls Industries Inc.	HII	306.67	39	12,021	2,889	9,132	12,012	882	485	0.8x	10.4x	24.8x
Curtiss-Wright Crop	CW	545.66	37	20,135	627	19,508	3,376	748	482	5.8x	26.1x	41.8x
Teledyne Technologies Inc.	TDY	492.34	47	23,140	2,005	21,135	6,005	1,450	842	3.5x	14.6x	27.5x
High		546	176	23,140	2,889	21,135	14,237	1,738	1,021	11.9x	104.5x	293.2x
75th Percentile		492	50	20,135	2,042	19,508	12,012	1,450	842	5.8x	26.1x	41.8x
Average		337	70	16,527	1,515	15,012	7,343	988	575	4.6x	32.5x	80.3x
Median		307	47	14,436	2,005	12,890	6,005	882	485	3.5x	14.6x	27.5x
25th Percentile		259	39	12,901	627	12,394	3,376	748	482	0.9x	10.4x	24.8x
Low		82	37	12,021	11	9,132	1,086	123	44	0.8x	7.1x	14.1x

Kratos Defense and Securities Valuation											EV/EBITDA
Implied Enterprise Value											18,731
Net Debt											-45
Implied Market Value											18,777
Shares Outstanding											168
Implied Value Per Share											111.76

After our calculations, we have concluded that **Kratos** has a 34.5% upside, interpreted as an implied price target of \$111.76.

2024	
Weighted Average Cost of Capital (WACC)	
Equity (mm)	1353.2
Debt (mm)	283.9
Cost of Debt	5.35%
Tax Rate	38.49%
D / D + E	17.34%
After Tax Cost of Debt	3.29%
Risk Free Rate (10-yr Treasury yield)	4.00%
Expected Market Return	11.00%
Market Risk Premium	7.00%
Levered Beta	1.13
E/(D+E)	82.66%
Cost of Equity	7.39%
WACC	6.68%

Kratos is uniquely positioned with catalysts to drive the price up.

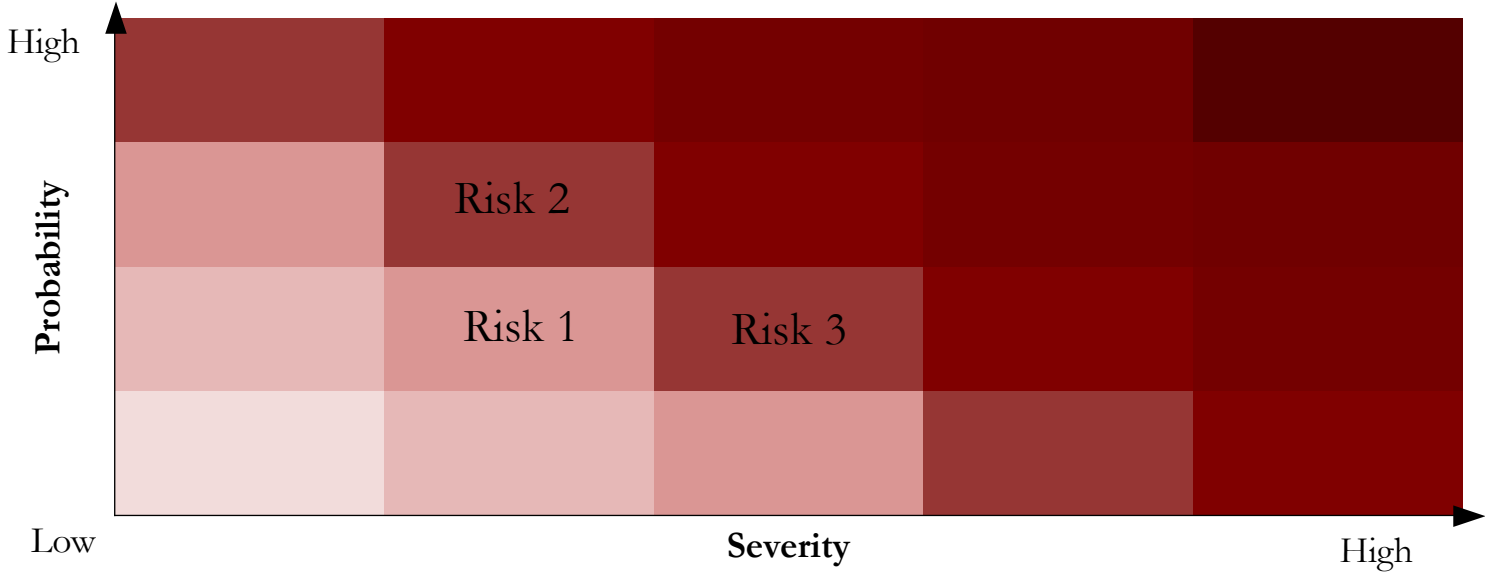
Key Debates	Global Tensions	Artificial Intelligence	Efficiency
Street's View	Global tensions could increase in both Europe and with China, however it is uncertain whether this provides Kratos an advantage in the market.	Artificial intelligence is ingrained with the products of Kratos. Other companies offer similar technologies and if a sentiment change in AI occurs, the stock could see significant downside.	Kratos has a quicker Days Inventory Outstanding (DIO) than their competition, but that has little affect on the consumers likelihood to buy Kratos products.
Our View	With Global tensions rising in different spheres of the world, Kratos gets the opportunity to test their weapons in any conflict that arises. Additionally, more countries will be driven to spend on weapons, helping Kratos	While an AI bubble is certainly possible, even if it were to happen, the weapons Kratos makes are still superior and effective. Also, there are growth possibilities commercially with Kratos' AI technology.	Kratos' impeccable efficiency gives them a moat compared to competitors. Countries will always want to go to a supplier that quickly provide weapons during times of peril.



Potential Risks for Kratos



Kratos seems like a no brainer, but there are some possible risks in near future



Risk and Mitigant Description

Risk 1: Acquisition	- As a smaller market cap company in the defense industry, it is possible that Kratos could be acquired. - Management clearly has loyalty to the company and would only do an acquisition if a heavy premium comes with the sale.
Risk 2: CEO Retirement	- Although Eric DeMarco, CEO, has been extremely loyal to the company, he is 61 and near retirement age. - There isn't a current plan for his retirement. If he were to retire, there is no reason to believe that the replacement would be incapable.
Risk 3: AI Bubble	- With Kratos having a big exposure to AI, any negative sentiment in the market towards AI could pose serious downside to the stock. - Regardless of market speculation, Kratos has great AI intellectual properties

Q&A

Appendix Slides

Leadership Overview

Kratos' leadership team brings decades of defense-sector experience and has a track record of scaling complex, mission-critical businesses.



Deep operational expertise, long tenures, and proven program execution underpin Kratos' competitive advantage.

Industry-Leading Leadership Bench

Leadership team brings 30-45+ years of experience across hypersonic, unmanned systems, secure communications, and defense electronics.

Experience Across All Six Segments

CEO Eric DeMarco and division heads have a proven track record scaling complex defense businesses and executing mission-critical programs.

Kratos' long-tenured leadership team ensures continuity, disciplined execution, and strong alignment with long-term shareholder value.



Eric DeMarco
President & CEO



Stacey Rock
President, Turbine Technologies Division



Steve Fendley
President, Unmanned Systems Division

Leadership Overview

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Industry-Leading Leadership Bench

Each of Kratos' branches have selective presidents ensuring quality, efficiency, and success within each respective branch.

Leadership Across All Six Branches

There are other management for respective branches not shown due to a lack of headshot images. They will be listed below.



Phil Carrai
President, Space Training and Cyber Division



David Carter
President, Defense & Rocket Support Systems Division



Tom Mills
President, C5ISR Systems Division

Yohan Adelman,
President of the
Microwaves
Electronics Division

Will Hoglund, the
Chairman of the
Board.

Deanna Lund, EVP,
CFO, and Director

The Ethics of Kratos

Being a defense contractor does come with some moral questions about Kratos, however there is more than what meets the eye

What are the impacts?

In 2023, Kratos completed a project in partnership with Indonesian satellite operator Pasifik Satelit Nusantara to help make the WIFI for Indonesia faster. Kratos did the on the ground equipment necessary for satellites to work.

According to Kratos' press release, "[it] will carry more than 150 gigabits per second over the entire Indonesian territory to connect thousands of schools, hospitals and public buildings across the Indonesian archipelago"

Why is this Important?

Defense contractors are not the most ethical companies. However, this is just one example of how Kratos is serving an important role in society by providing much needed internet for rural Indonesia. All of this is to say, Kratos has some morality in its business.

