

I am recommending a sell of Kratos Defense & Security Solutions (KTOS) at its current share price at the time of writing of \$74.46 on April 8th, 2026. The current share price implies a nearly double-digit NTM EV/Revenue multiple when compared to management guidance. Even looking out to 2030, my very generous Upside scenario shows 53% Revenue CAGR which is what it would take to get to what the Primes (LMT, GD, NOC, RTX, LHX) trade at in terms of EV/Revenue. Under my base case, I reflect a 28% Revenue CAGR to 2030 which, while still very strong, implies a 4.7x EV/Revenue multiple 5 years later to justify the price.

Three key points to consider:

- 1. Stock exuberance due to Hypersonic and Drone opportunity and subsequent pullback momentum may lead to further correction:** The stock peaked in January of this year at a price of ~\$130 a share (4x increase from a year ago). Today, the stock is down to ~\$74. The initial rise in stock price in late 2025 and early 2026 was a result of a couple factors. Macro tailwinds from the conflicts in Ukraine and Gaza, along with potential for issues in Taiwan leading to interest in KTOS' more "ready now" approach vs competitors who have more expensive to-be-developed concepts/tech. In addition, KTOS securing their largest contract of \$1.45bn from the U.S. government for hypersonic weapons along with their Valkyrie drone becoming a program of record under the MUX TACAIR program. As a result of these factors, the stock exploded past even the most generous fundamental projections and has now begun to pull back. As mentioned in my intro, KTOS is priced to perfection and is at risk of any small earnings hiccup sending the stock tumbling despite the sell off that has occurred already.
- 2. Well positioned company that is overvalued:** As discussed in my first point, the company is in a spot to take advantage of the DoD ramping up spending given geopolitical conflict drivers and the KTOS attractive "ready now" value proposition. That being said, even a goldilocks scenario for KTOS barely meets their valuation needs 5 years down the road (see my charts below). They are currently negative FCF and my model doesn't see positive FCF until ~2028. The EV/Revenue multiples needed to justify the price are exorbitant and don't improve much outside of best-case-scenario outcomes. While the upside case could justify the price, it is a 5-year path that can't have any mistakes. I see this play as similar to my CELH short re-enter pre 3Q25 and my TM short earlier this year. Both companies (CELH and TM) were doing well just like KTOS, and I don't have overly negative things to say about them, but well positioned companies don't justify infinite multiple expansion.
- 3. Dilutive equity raising playbook:** KTOS has moved to running zero debt in the past year. In lieu of this, they have turned to raising capital through dilutive stock issuance. In July of 2025 they raised \$575mm through ~14.9mm share issuance and

then again early this year in February they announced a \$1.17bn raise issuing 14.29mm shares. While I think management is right, especially recently, to take advantage of an overpriced stock to raise capital, this does send the signal that they could continue to do this if the stock price remains overvalued and puts a damper on their upside.

In summation, I think that KTOS is in a great spot to continue growing their revenue over the coming years and I expect the company itself to succeed. That being said, the market has priced them at an unsustainable multiple that will be near impossible to justify in the long-run. The company has recently lost almost half of its January 2026 valuation, and I expect the market to continue to come to its senses over the next quarter or two. In terms of catalysts, I expect the valuation to continue its momentum down and would argue the market needs an earnings surprise to the upside to prevent it. Any earnings surprise to the downside I would project to correct the stock back to a reasonable multiple in a much harsher manner.

Note: Given this pitch is heavily valuation based, I recommend taking a look at my model on my website: jcwresearch.net. I have included a couple tables below, but my methodology involving DoD spending, Backlog Growth, and translation into Segment Revenue should be informative.

• **Base Case**

Backing into multiples that lead to today's stock price of ~\$74 UNDER BASE CASE ASSUMPTIONS
Primes (LMT, GD, NOC, RTX, LHX) trade ~2-3x revenue

EV/Rev Multiple	Implied Enterprise Value 2027	Multiple Sensitivity Analysis for Stock Price	
7.6	16,157		74.6
	Implied Equity Value 2027	4	40.47
	16,719	5	49.96
	PV of Equity Value	6	59.45
	13,940	7.6	74.64
		8	78.44
		9	87.93
		10	97.42
Shares	186.8		
EV/Revenue Valuation Stock Price 2027			
74.6			

EV/Rev Multiple	Implied Enterprise Value 2030	Multiple Sensitivity Analysis for Stock Price	
4.7	22,317		74.5
	Implied Equity Value 2030	2	32.75
	22,880	3	48.20
	PV of Equity Value	4	63.66
	13,910	4.7	74.48
		5	79.12
		6	94.58
		7	110.04
Shares	186.8		
EV/Revenue Valuation Stock Price 2030			
74.5			

• **Upside Case**

Backing into multiples that lead to today's stock price of ~\$74 UNDER BASE CASE ASSUMPTIONS
Primes (LMT, GD, NOC, RTX, LHX) trade ~2-3x revenue

EV/Rev Multiple	Implied Enterprise Value 2027	Multiple Sensitivity Analysis for Stock Price	
7.6	18,256		84.0
	Implied Equity Value 2027	4	45.41
	18,819	5	56.13
	PV of Equity Value	6	66.85
	15,690	7.6	84.01
		8	88.30
		9	99.03
		10	109.75
Shares	186.8		
EV/Revenue Valuation Stock Price 2027			
84.0			

EV/Rev Multiple	Implied Enterprise Value 2030	Multiple Sensitivity Analysis for Stock Price	
4.7	53,006		174.4
	Implied Equity Value 2030	2	75.26
	53,568	3	111.97
	PV of Equity Value	4	148.69
	32,568	4.7	174.39
		5	185.40
		6	222.12
		7	258.83
Shares	186.8		
EV/Revenue Valuation Stock Price 2030			
174.4			