Nov 06, 2023

Defense

KTOS

NASDAQ

Rating

Outperform

Unchanged

Current Price

$17.25

Target Price

$18.00

Market Capitalization
2.22B

Shares Outstanding
128.94M

Float
126.27M

Institutional Holdings
1.2%

12-Month Low/High
$8.91/$18.04

Average 90-Day Volume
1040000

Fiscal Year End
12/31/2023

Revenues ($ MIL)

Period	2022A	2023E	2024E
Q1	196.2A	231.8A	
Q2	224.2A	256.9A	
Q3	228.6A	274.6A	
Q4	249.3A	250.0E	
	898.3A	1,013.3E	1,110.0E

EPS ($)

Period	2022A	2023E	2024E
Q1	0.04A	0.06A	
Q2	0.07A	0.09A	
Q3	0.08A	0.12A	
Q4	0.08A	0.08E	
	0.31A	0.35E	0.49E

Kratos Defense & Security

Third Quarter Results Above Expectations

3Q23 Results. Partially helped by one extra week, third quarter results came in above expectations. Revenue totaled $274.6 million, up 20.1% y-o-y. Adjusted EBITDA came in at $27.7 million, up from $20 million in 3Q22. GAAP EPS loss was $0.01 and adjusted EPS was $0.12, compared to a EPS loss of $0.06 and adjusted EPS of $0.08, respectively, a year ago. We had forecasted $250 million, $20.5 million, breakeven, and $0.09, respectively.

Organic Growth Again the Driver. Kratos generated 20.1% overall organic growth in the quarter. The Government Solutions Segment saw overall revenue increase 22% organically to $217.9 million. The Unmanned Systems segment saw 13.4% organic revenue growth, with revenue of $56.7 million.

Backlog, Opportunity Remain Strong. Kratos reported consolidated bookings of $282.3 million in the quarter for a book-to-bill of 1.0x. Consolidated backlog was $1.17 billion at quarter end and the bid and proposal pipeline was $10.3 billion as of October 1st.

Projections. 4Q23 will be constrained due to the ongoing CR. We tweaked our model to reflect the Q3 performance. For the fourth quarter, we are projecting revenue of $250 million, adjusted EBITDA of $22.5 million, an EPS loss of $0.01, and adjusted EPS of $0.08. For the full year, we are estimating revenue of $1,013.3 million, adjusted EBITDA of $88.8 million, a GAAP EPS loss of $0.02, and adjusted EPS of $0.35.

Maintaining Outperform and $18 PT. We are maintaining our Outperform rating and our $18 price target. We believe the current price level presents investors with a compelling risk/reward opportunity. We view the recent awards as further confirmation of the Kratos strategy in providing leading edge disruptive technology products and systems.

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Third Quarter 2023 Operating Results

Revenues increased $46.0 million to $274.6 million for the three months ended October 1, 2023 from $228.6 million for the three months ended September 25, 2022. We would note the third quarter of 2023 was 14 weeks long, while the same period last year was a 13 week period. Revenues came in above management's forecasted range of $240 million to $260 million, with organic growth in the Space and Satellite, Turbine Technologies, Microwave Products, C5ISR, Training Solutions, and Unmanned Systems businesses.

Revenues in the Kratos Government Solutions (KGS) segment increased $39.3 million primarily due to a net increase of $19.7 million in C5ISR, turbine technologies, microwave electronics products, defense and rocket support and training solutions businesses, and an increase of $19.6 million in the space and satellite communications business. Revenues in the Unmanned Systems (US) segment increased $6.7 million to $56.7 million for the three months ended October 1, 2023, primarily due to increased target drone activity as a result of timing of program contract awards and increased production volume as compared to the three months ended September 25, 2022.

Product sales increased $28.1 million to $168.1 million in the quarter, up from $140.0 million in the third quarter of 2022. The increase was driven as a result of increased production in the KGS segment and in the US segment. As a percentage of total consolidated revenues, product sales were 61.2%, level with last year. Service revenues increased by $17.9 million to $106.5 million in the quarter, up from $88.6 million for the three months ended September 25, 2022, primarily related to increased activity in turbine technologies, and space and satellite business in the KGS segment.

Cost of revenues increased $27.5 million to $201.2 million from $173.7 million last year. The increase in cost of revenues was primarily related to increased activity in turbine technologies, and space and satellite business. Gross margin increased to 26.7% from 24.0% in the third quarter last year. Margins on services decreased to 25.8% from 26.5% while margins on products increased to 27.3% from 22.4% for the three months end September 25, 2022. Margins in the KGS segment increased to 27.9% from 24.7%, primarily due to a more favorable mix of revenues. Margins in the US segment increased to 22.0% from 21.4%, primarily due to a more favorable mix of products produced and shipped in the three months ended October 1, 2023.

SG&A expenses increased to $50.9 million from $48.5 million last year. As a percentage of revenues, SG&A decreased to 18.5% in the third quarter of 2023, from 21.2% in the third quarter of 2022. R&D expenses increased $0.7 million to $10.3 million, primarily due to increased development efforts in the space and satellite communications business. As a percentage of revenues, R&D decreased to 3.8% from 4.2% in the same period last year. Operating income for the third quarter of 2023 was $12.2 million, compared to a reported operating loss of $3.6 million last year.

Kratos reported third quarter 2023 GAAP net loss of $1.6 million and a GAAP net loss per share of $0.01, compared to a GAAP net loss of $8.0 million and a GAAP net loss per share of $0.06 for the third quarter of 2022. Included in third quarter 2023 net loss and operating income is non-cash stock compensation expense of $6.4 million and Company-funded R&D expense of $10.3 million, including significant ongoing development efforts in the Space and Satellite Communications business to develop Kratos' virtual, software-based OpenSpace command & control (C2), telemetry tracking & control (TT&C) and other ground system solutions. The third quarter 2023 Net Loss includes $4.6 million attributable to a non-controlling interest, which includes a charge of $4.2 million adjustment recorded to reflect the estimated increase in the value of the redeemable non-controlling interest to the estimated redemption amount by Kratos.

Adjusted earnings per share was $0.12 for the third quarter of 2023, compared to $0.08 for the third quarter of 2022. Third quarter 2023 adjusted EBITDA of $27.7 million, increased from $20 million in the same period last year.

Book and Bill

KUS’s book-to-bill ratio for the third quarter of 2023 was 0.5 to 1.0 and 1.1 to 1.0 for the last twelve months ended October 1, 2023, with bookings of $27.7 million for the three months ended October 1, 2023, and bookings of $244.8 million for the last twelve months ended October 1, 2023. Total backlog for KUS at the end of the third quarter of 2023 was $227.8 million

compared to $256.7 million at the end of the second quarter of 2023.

KGS reported a book-to-bill ratio of 1.2 to 1.0 for the third quarter of 2023, a book to bill ratio of 1.1 to 1.0 for the last twelve months ended October 1, 2023, and bookings of $254.6 million and $863.9 million for the three and last twelve months ended October 1, 2023, respectively. KGS's total backlog at the end of the third quarter of 2023 was $937.3 million, as compared to $900.6 million at the end of the second quarter of 2023.

Kratos reported consolidated bookings of $282.3 million and a book-to-bill ratio of 1.0 to 1.0 for the third quarter of 2023, and consolidated bookings of $1.11 billion and a book-to-bill ratio of 1.1 to 1.0 for the last twelve months ended October 1, 2023. Consolidated backlog was $1.17 billion on October 1, 2023 and $1.16 billion on June 25, 2023. Kratos' bid and proposal pipeline was $10.3 billion at October 1, 2023, up from $10.0 billion at June 25, 2023.

Opportunity Updates

Recent Kratos business highlights include the Air Force disclosing that an artificial intelligence combat enabled Valkyrie successfully recently flew at the Eglin Gulf Test and Training Range. As reported, AI algorithms developed and trained by the United States Air Force Research Lab Autonomous Air Combat Operations with the AI trained through deep reinforcement learning, use neural networks to fly the Valkyrie against simulated opponents, mission systems and weapons. Also recently reported in a separate flight, Kratos' Valkyrie successfully demonstrated all defined artificial intelligence enabled high performance unproved air vehicle specified relevant functions. Kratos' Valkyrie with United States Marine Corps also continues to progress with the Marines recently announcing the successful first flight of Kratos' Valkyrie under the penetrating affordable autonomous collaborative killer portfolio, or PAACK-P program. Kratos' drones, including Valkyrie, also continue to progress under the Rapid Defense Experimentation Reserve or RDER program, including as related with the USMC.

Kratos has executed Phase 1 of an expected 5-year funded contract initiative with a new national security entity for Kratos' Valkyrie B version mission capability expansion. The Company also has completed negotiations and expect to receive in the fourth quarter a Valkyrie-related contract in the tens of millions of dollars from a separate national security entity for a Valkyrie version A category. And Kratos has recently received an entirely new tactical system related contract award.

Kratos is negotiating with a customer related to Kratos' Thanatos Tactical Drone System, a version of which is flying today with multiple Thanatos systems expected to be performing funded mission capability demonstration expansion flights with this new customer in the future, and has recently entered discussions with the customer regarding Kratos' Athena tactical drone system, also which is now flying. The Company hopes to be under contract next year.

Kratos' Ghost Works continues to make progress on a separate new system. And assuming the range scheduling holds, the Company expects to demonstrate this system later this year. Kratos' Ghost Works also has recently been focused on a large new prime program opportunity, which includes the rapid design and build of an additional separate new system.

The Company has received a contract to integrate Kratos' running engines into certain Kratos' jet drones, both target and tactical. Once integration is complete, Kratos will be one of the only companies in the world vertically integrated, building both the jet aircraft and propulsion system, significantly reducing cost and supply chain risk while also increasing system performance for customers with new technology provided by Kratos' engines. The demand for Kratos' turbine products, technology and solutions is strong across the portfolio, including in the turbofan, space propulsion, hypersonic and other classified areas.

Updated Projections

Fourth quarter operating results will be impacted by the Continuing Resolution and a challenged labor market, a development the Company has highlighted over the past couple of quarters. Management noted they were looking to fill some 400 open positions, many of which require some type of security clearance. In fact, management noted, "Our primary operational challenge remains the obtaining, retaining, and related escalating cost of qualified individuals, including those willing and able to obtain a National Security clearance." The Company continues to make progress on the revenue mix, transitioning from older firm fixed price contracts, where Kratos was unable to pass on significant inflation and increased costs, to newer, more recent contract award related revenues, where the Company negotiated higher rates and costs with customers. This should help with

margins in the future.

Based on the back of the strong third quarter, management increased top line full year guidance, maintained its adjusted EBITDA projection, and lowered its free cash flow estimate as the Company is investing in some new programs in the fourth quarter that will require some additional capital expenditures. We adjusted our model to reflect the Q3 performance. For the fourth quarter, we are projecting revenue of $250 million, down from a prior $260 million, adjusted EBITDA of $22.5 million, compared to a previous $27.5 million, a GAAP EPS loss of $0.01, versus a prior EPS estimate of $0.04, and adjusted EPS of $0.08 compared to a prior $0.13 estimate. In the fourth quarter of 2022, Kratos reported revenue of $249.3 million, adjusted EBITDA of $19.2 million, a GAAP EPS loss of $0.07, and adjusted EPS of $0.08.

For the full year, we are estimating revenue of $1,013.3 million, adjusted EBITDA of $88.8 million, a GAAP EPS loss of $0.02, and adjusted EPS of $0.35.

Company Profile

Kratos Defense & Security Solutions is a National Security technology provider with proprietary expertise in the area of unmanned aerial vehicles, electronics for missile defense systems, electronic warfare systems, satellite control and management systems and support services for emerging naval weapon systems. Revenues from U.S. Government agency customers in aggregate accounted for approximately 69%, 70% and 73% of total revenues in 2022, 2021, and 2020, respectively.

Fundamental Analysis — 4.5/5.0 checks

In our assessment, we give the KTOS 4.5 checks out of 5.0, which falls within our "Superior" range of 4.5 to 5.0 checks. Given the long term visibility of growth from several areas of the business, and the multi-decade nature of major UAS platforms, we believe KTOS has a significant market opportunity ahead. Furthermore, given switching costs, intellectual property, and competitors that cannot effectively compete within the low cost unmanned space, KTOS has developed a unique competitive position to capitalize on macro trends. The Kratos management team has developed this position with a patient and effective M&A strategy over the years, and we believe management has minimized execution risk as major platforms transition to production. As such, we believe the management team is of high quality. Finally, while the company is financially strong, given the low to mid-teen ceiling on the margin structure of the business, operating and financial leverage is a tick below our top possible rating, but still of meaningful quality. For further explanation of our fundamental analysis, refer to the disclosures at the end of this report.

Valuation Summary

We are maintaining our Outperform rating and price target of $18. In spite of the current challenging conditions, we believe the current price level presents investors with a compelling risk/reward opportunity. We continue to believe it is a question of when, not if, the long-term prospects of Kratos will be realized. We believe the Company to be well positioned to capitalize on new and emerging trends in defense. We believe the Company's technology, intellectual property, proprietary products, and designed-in positions on customers' programs, platforms, and systems provide Kratos with a competitive advantage. We derive our target price from an assumed M&A valuation of the Company.

Risks include: defense budget funding risks; timing of contract awards and protest risks; competition from larger prime contractors; fixed price performance risks and the risk of new system development.

Kratos

Income Statement	FY 2021	Q1 2022 Mar-22	Q2 2022 Jun-22	Q3 2022 Sep-22	Q4 2022 Dec-22	FY 2022	Q1 2023 Mar-23	Q2 2023 Jun-23	Q3 2023 Sep-23	Q4 2023E Dec-23	FY 2023E	FY 2024E
Service Revenue	219.4	67.9	78.8	88.6	89.9	325.2	91.6	103.7	106.5	100.0	401.8	425.0
Product Revenue	592.1	128.3	145.4	140.0	159.4	573.1	140.2	153.2	168.1	150.0	611.5	685.0
Total Revenue	**811.5**	**196.2**	**224.2**	**228.6**	**249.3**	**898.3**	**231.8**	**256.9**	**274.6**	**250.0**	**1,013.3**	**1,110.0**
Cost of Service Revenue	156.2	49.9	56.2	65.1	67.8	239.0	68.2	80.0	79.0	75.0	302.2	314.0
Service Revenue Gross Profit	63.2	18.0	22.6	23.5	22.1	86.2	23.4	23.7	27.5	25.0	99.6	111.0
Service Revenue Gross Margin	*28.8%*	*26.5%*	*28.7%*	*26.5%*	*24.6%*	*26.5%*	*25.5%*	*22.9%*	*25.8%*	*25.0%*	*24.8%*	*26.1%*
Cost of Product Revenue	430.2	94.4	110.2	108.6	120.1	433.3	104.2	113.0	122.2	111.0	450.4	507.0
Product Revenue Gross Profit	161.9	33.9	35.2	31.4	39.3	139.8	36.0	40.2	45.9	39.0	161.1	178.0
Product Revenue Gross Margin	*27.3%*	*26.4%*	*24.2%*	*22.4%*	*24.7%*	*24.4%*	*25.7%*	*26.2%*	*27.3%*	*26.0%*	*26.3%*	*26.0%*
Total Gross Profit	225.1	51.9	57.8	54.9	61.4	226.0	59.4	63.9	73.4	64.0	260.7	289.0
Gross Profit Margin	*27.7%*	*26.5%*	*25.8%*	*24.0%*	*24.6%*	*25.2%*	*25.6%*	*24.9%*	*26.7%*	*25.6%*	*25.7%*	*26.0%*
SG&A	158.2	43.3	44.6	48.5	43.5	179.9	47.8	47.3	50.9	48.0	194.0	210.0
% of Revenue	*19.5%*	*22.1%*	*19.9%*	*21.2%*	*17.4%*	*20.0%*	*20.6%*	*18.4%*	*18.5%*	*19.2%*	*19.1%*	*18.9%*
Research & Development	35.2	9.2	9.2	9.6	10.6	38.6	10.2	9.9	10.3	10.0	40.4	38.0
% of Revenue	*4.3%*	*4.7%*	*4.1%*	*4.2%*	*4.3%*	*4.3%*	*4.4%*	*3.9%*	*3.8%*	*4.0%*	*4.0%*	*3.4%*
Other Operating Expenses	3.8	0.6	5.9	0.4	3.2	10.1	0.9	-	-	0.5	1.4	2.0
Operating Profit	**27.9**	**(1.2)**	**(1.9)**	**(3.6)**	**4.1**	**(2.6)**	**0.5**	**6.7**	**12.2**	**5.5**	**24.9**	**39.0**
Operating Profit Margin	*3.4%*	*-0.6%*	*-0.8%*	*-1.6%*	*1.6%*	*-0.3%*	*0.2%*	*2.6%*	*4.4%*	*2.2%*	*2.5%*	*3.5%*
Interest Expense, net	23.4	5.9	2.9	4.1	4.8	17.7	5.3	5.1	5.1	5.0	20.5	18.0
Other Non-Operating Expenses (Income)	0.1	12.9	-	1.1	(1.6)	12.4	0.3	(0.2)	0.3	-	0.4	-
Income Before Taxes	4.4	(20.0)	(4.8)	(8.8)	0.9	(32.7)	(5.1)	1.8	6.8	0.5	4.0	21.0
Income Tax Expense	3.9	(4.3)	0.5	(0.8)	6.0	1.4	0.7	2.4	3.8	0.1	7.0	5.4
Tax Rate	*88.6%*	*21.5%*	*-10.4%*	*9.1%*	*666.7%*	*-4.3%*	*-13.7%*	*133.3%*	*55.9%*	*20.0%*	*175.0%*	*25.7%*
Income From Continuing Ops	0.5	(15.7)	(5.3)	(8.0)	(5.1)	(34.1)	(5.8)	(0.6)	3.0	0.4	(3.0)	15.6
Discontinued Operations	2.1	0.2	(0.9)	-	(0.2)	(0.9)	-	(0.2)	-	-	(0.2)	-
Net Income	(1.6)	(15.9)	(4.4)	(8.0)	(4.9)	(33.2)	(5.8)	(0.4)	3.0	0.4	(2.8)	15.6
Noncontrolling Interest	0.4		0.3		3.4	3.7	1.2	2.3	4.6	2.0	10.1	-
Net Income Attributable to Kratos	(2.0)	(15.9)	(4.7)	(8.0)	(8.3)	(36.9)	(7.0)	(2.7)	(1.6)	(1.6)	(12.9)	19.0
Diluted Shares	128.0	125.9	126.4	127.2	127.3	126.7	128.1	129.1	129.6	129.6	129.0	130.0
Diluted EPS from Continuing Ops	($0.02)	($0.13)	($0.04)	($0.06)	($0.07)	($0.29)	($0.05)	($0.02)	($0.01)	($0.01)	($0.02)	$0.12
Diluted GAAP EPS	($0.02)	($0.13)	($0.04)	($0.06)	($0.07)	($0.29)	($0.05)	($0.02)	($0.01)	($0.01)	($0.10)	$0.12

Adjusted EPS	FY 2021	Q1 2022 Mar-22	Q2 2022 Jun-22	Q3 2022 Sep-22	Q4 2022 Dec-22	FY 2022	Q1 2023 Mar-23	Q2 2023 Jun-23	Q3 2023 Sep-23	Q4 2023E Dec-23	FY 2023E	FY 2024E
Income from Continuing Operations	4.4	(20.0)	(4.8)	(8.8)	0.9	(32.7)	(5.1)	1.8	6.8	0.5	4.0	27.5
Add: Depreciation & Amortization	25.7	7.3	6.9	8.9	7.7	30.5	7.9	7.9	8.2	11.0	35.0	36.0
Add: Stock-based Compensation	25.8	7.0	6.3	6.6	6.4	26.3	6.6	6.0	6.4	6.0	25.0	26.0
Add:Foreign Transaction (gain) loss	0.8	-	0.1	1.4	(1.4)	0.1	0.8	0.2	0.4		1.4	-
Add: Acq. & Restructuring items	1.8	0.6	6.0	7.4	0.5	14.5	0.9	-	-		0.9	-
Add: Loss on Extinguishment of Debt	-	13.0	-		-	13.0	-	-			-	-
Add: Other	1.0	-	0.3	0.4	0.3	1.3	0.6	0.6	0.8		2.0	-
Estimated Tax Provision	(14.0)	(2.8)	(5.4)	(5.7)	(3.7)	(13.1)	(3.5)	(5.1)	(6.9)	(7.5)	(23.0)	(26.3)
Adjusted Income From Continuing Operations	**45.5**	**5.1**	**9.4**	**10.2**	**10.7**	**39.9**	**8.2**	**11.4**	**15.7**	**10.0**	**45.3**	**63.2**
Adjusted EPS	**$0.36**	**$0.04**	**$0.07**	**$0.08**	**$0.08**	**$0.31**	**$0.06**	**$0.09**	**$0.12**	**$0.08**	**$0.35**	**$0.49**
Adjusted Net Margin	*5.6%*	*2.6%*	*4.2%*	*4.5%*	*4.3%*	*4.4%*	*3.5%*	*4.4%*	*5.7%*	*4.0%*	*4.5%*	*5.7%*

Adjusted EBITDA*	FY 2021	Q1 2022 Mar-22	Q2 2022 Jun-22	Q3 2022 Sep-22	Q4 2022 Dec-22	FY 2022	Q1 2023 Mar-23	Q2 2023 Jun-23	Q3 2023 Sep-23	Q4 2023E Dec-23	FY 2023E	FY 2024E
Operating Profit	27.9	(1.2)	(1.9)	(3.6)	4.1	(2.6)	0.5	6.7	12.2	5.5	24.9	39.0
Depreciation & Amortization	26.1	7.9	6.9	9.9	7.7	32.4	7.9	7.9	8.2	11.0	35.0	36.0
Stock Based Compensation	25.8	7.0	6.3	6.6	6.4	26.3	6.6	6.0	6.4	6.0	25.0	26.0
Other Adjustments	3.1	0.1	6.4	7.1	1.0	14.6	2.0	1.0	0.9	-	3.9	-
Adjusted EBITDA*	**82.9**	**13.8**	**17.7**	**20.0**	**19.2**	**70.7**	**17.0**	**21.6**	**27.7**	**22.5**	**88.8**	**101.0**
Adjusted EBITDA Margin	*10.2%*	*7.0%*	*7.9%*	*8.7%*	*7.7%*	*7.9%*	*7.3%*	*8.4%*	*10.1%*	*9.0%*	*8.8%*	*9.1%*

* Note that Adjusted EBITDA has not been restated post-PSS divestiture. Historic annual figures are estmated by Noble Capital Markets

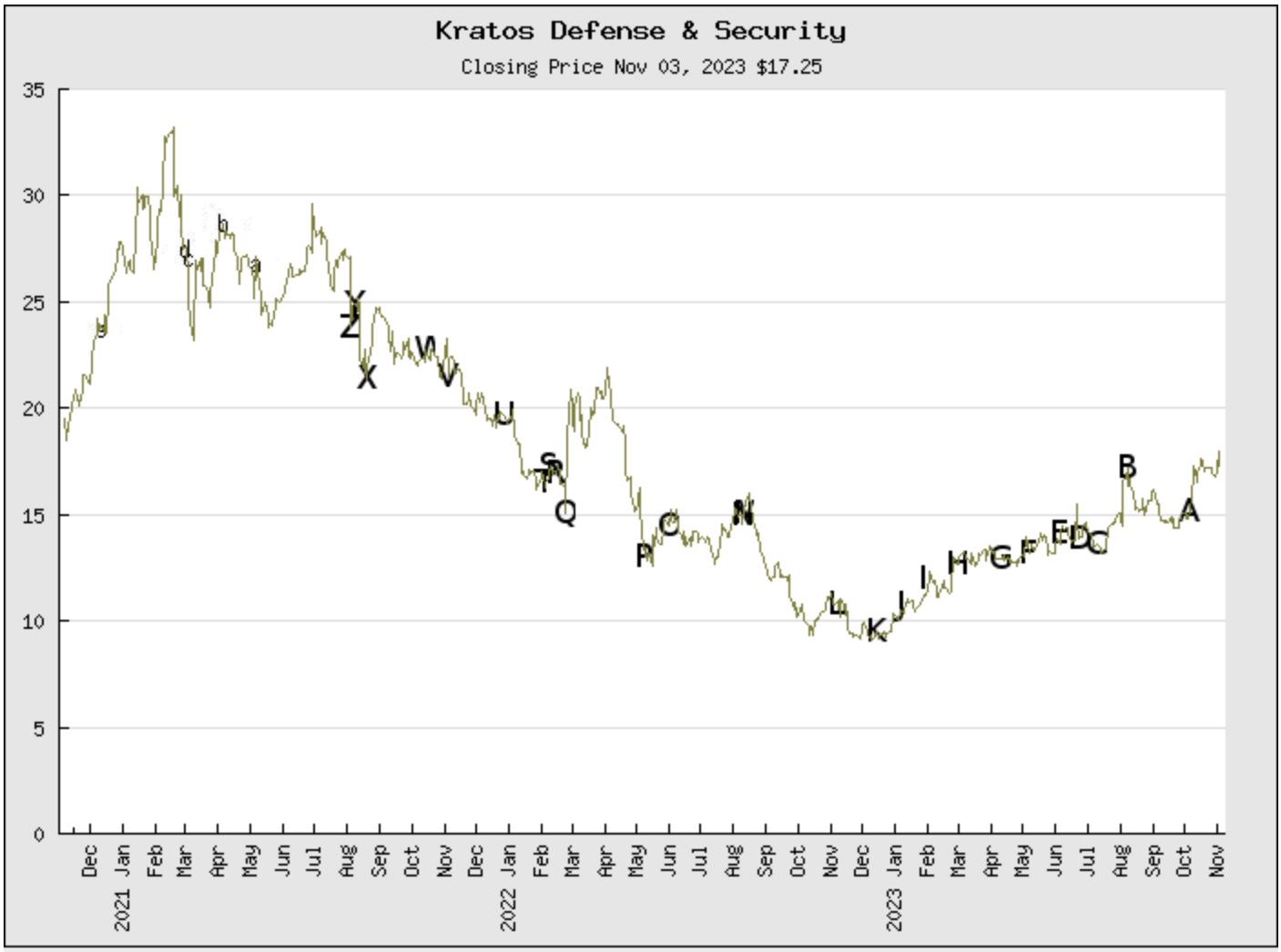
Source: Company Reports and Noble Capital Markets Estimates

Balance Sheet	FY 2021	Q1 2022 Mar-22	Q2 2022 Jun-22	Q3 2022 Sep-22	Q4 2022 Dec-22	FY 2022	Q1 2023 Mar-23	Q2 2023 Jun-23	Q3 2023 Sep-23
Cash and Equivalents	349.4	254.4	142.4	125.2	81.3	81.3	46.7	48.2	42.2
Accounts Receivable	284.7	65.9	100.6	83.7	105.7	105.7	143.9	115.7	128.2
Billings Receivable	190.8	214.8	214.4	218.5	222.8	222.8	209.9	222.0	223.7
Inventory	91.7	107.1	118.2	120.3	125.5	125.5	134.0	145.9	150.1
Other Current Assets	32.3	45.7	48.7	53.6	47.3	47.3	53.6	56.0	60.2
Total Current Assets	758.1	687.9	624.3	601.3	582.6	582.6	588.1	587.8	604.4
PP&E	168.3	173.5	212.2	217.9	213.1	213.1	213.6	218.6	227.3
Operating Leases	38.5	39.6	38.1	41.7	47.4	47.4	46.6	48.2	50.6
Goodwill	493.9	522.9	551.9	551.8	558.2	558.2	558.2	558.2	558.2
Intangible Assets	43.2	51.5	64.9	61.9	55.2	55.2	53.6	52.2	50.7
Other Long Term Assets	87.5	90.1	91.9	93.5	95.0	95.0	97.0	97.8	99.6
Total Assets	**1,589.5**	**1,565.5**	**1,583.3**	**1,568.1**	**1,551.5**	**1,551.5**	**1,557.1**	**1,562.8**	**1,590.8**
Accounts Payable and Accruals	126.4	142.8	144.6	137.8	144.8	144.8	148.5	154.9	154.7
Current Portion of LTD	-	-	-	-	-	-	-	-	-
Operating Leases	10.1	10.5	10.6	10.7	10.8	10.8	11.1	11.6	12.1
Other Current Liabilities	84.6	60.0	72.6	65.0	78.6	78.6	85.4	84.4	96.2
Total Current Liabilities	221.1	213.3	227.8	213.5	234.2	234.2	245.0	250.9	263.0
Long Term Debt	296.7	295.0	293.8	292.6	250.2	250.2	250.3	232.1	234.2
Operating Leases	32.7	33.3	31.5	35.3	40.8	40.8	40.0	41.0	43.0
Other Long Term Liabilities	78.7	76.4	84.3	83.5	78.8	78.8	78.2	78.5	77.9
Total Liabilities	**629.2**	**618.0**	**637.4**	**624.9**	**604.0**	**604.0**	**613.5**	**602.5**	**618.1**
Redeemable Non-controlling Interest	15.2	15.2	7.8	7.8	11.2	11.2	12.4	14.7	19.3
Common Stock and APIC	1,578.9	1,582.0	1,593.1	1,602.1	1,608.4	1,608.4	1,610.0	1,623.7	1,633.5
Retained Earnings	(634.4)	(650.3)	(655.0)	(663.0)	(671.3)	(671.3)	(678.3)	(681.0)	(682.6)
Treasury Stock	-	-	-	-	-	-	-	-	-
Other Shareholder Equity	0.6	0.6	-	(3.7)	(0.8)	(0.8)	(0.5)	2.9	2.5
Total Shareholder Equity	**945.1**	**932.3**	**938.1**	**935.4**	**936.3**	**936.3**	**931.2**	**945.6**	**953.4**
Total Liabilities and Shareholder Equity	**1,589.5**	**1,565.5**	**1,583.3**	**1,568.1**	**1,551.5**	**1,551.5**	**1,557.1**	**1,562.8**	**1,590.8**

Cash Flow Statement	FY 2021	Q1 2022 Mar-22	Q2 2022 Jun-22	Q3 2022 Sep-22	Q4 2022 Dec-22	FY 2022	Q1 2023 Mar-23	Q2 2023 Jun-23	Q3 2023 Sep-23
Operating Activities									
Net Income	0.5	(15.7)	(5.3)	(8.0)	(5.1)	(34.1)	(5.8)	(0.6)	3.0
Depreciation and Amortization	35.7	7.0	6.9	8.9	7.7	30.5	7.9	7.9	8.2
Stock Compensation	25.8	7.0	6.3	6.6	6.4	26.3	6.6	6.0	6.4
Other Non Cash Adjustments	(0.6)	15.9	8.7	2.6	(0.6)	26.6	3.8	3.0	3.3
Balance Sheet Adjustments	(26.1)	(22.1)	(38.2)	(12.9)	(1.7)	(74.9)	(38.2)	7.3	(21.0)
Total Operating Cash Flow	35.3	**(7.9)**	**(21.6)**	**(2.8)**	**6.7**	(25.6)	**(25.7)**	**23.6**	**(0.1)**
Investing Activities									
Capital Expenditures, net	(46.5)	(10.8)	(11.1)	(12.9)	(10.6)	(45.4)	(7.7)	(11.2)	(14.2)
Cash Paid for Acquisitions	(12.3)	(58.5)	(73.4)	(0.3)	-	(132.2)	-	-	-
Other Investing Activities	6.7	-	0.1	-	0.1	0.2	-	8.3	-
Total Investing Cash Flow	(52.1)	**(69.3)**	**(84.4)**	**(13.2)**	**(10.5)**	(177.4)	**(7.7)**	**(2.9)**	**(14.2)**
Financing Activities									
Net Debt	(5.1)	(109.8)	-	(1.2)	1.2	(109.8)	(1.3)	(18.2)	5.7
Equity Issuance	-	2.9	-	3.2	0.1	6.2	2.9	-	3.6
Other Financing Activities	(4.2)	89.7	(5.0)	(1.2)	(43.2)	40.3	(3.0)	(1.2)	(0.6)
Total Financing Cash Flow	(9.3)	**(17.2)**	**(5.0)**	**0.8**	**(41.9)**	(63.3)	**(1.4)**	**(19.4)**	**8.7**
Effect of Exchange Rates	(1.5)	(0.7)	(0.5)	(2.1)	1.6	(1.7)	0.2	0.3	(0.5)
Discontinued Operations	(4.5)	0.1	(0.5)	0.1	0.2	(0.1)	-	(0.1)	0.1
Net Change in Cash	(32.1)	(95.0)	(112.0)	(17.2)	(43.9)	(268.1)	(34.6)	1.5	(6.0)
Cash at Beginning of Period	381.5	349.4	254.4	142.4	125.2	349.4	81.3	46.7	48.2
Cash at End of Period	349.4	254.4	142.4	125.2	81.3	81.3	46.7	48.2	42.2

Free Cash Flow	FY 2021	Q1 2022 Mar-22	Q2 2022 Jun-22	Q3 2022 Sep-22	Q4 2022 Dec-22	FY 2022	Q1 2023 Mar-23	Q2 2023 Jun-23	Q3 2023 Sep-23
Net Income	0.5	(15.7)	(5.3)	(8.0)	(5.1)	(34.1)	(5.8)	(0.6)	3.0
Depreciation and Amortization	35.7	7.0	6.9	8.9	7.7	30.5	7.9	7.9	8.2
Other Non Cash Adjustments	25.2	22.9	15.0	9.2	5.8	52.9	10.4	9.0	9.7
Balance Sheet Adjustments	(26.1)	(22.1)	(38.2)	(12.9)	(1.7)	(74.9)	(38.2)	7.3	(21.0)
Operating Cash Flow	35.3	(7.9)	(21.6)	(2.8)	6.7	(25.6)	(25.7)	23.6	(0.1)
Capital Expenditures, net	(46.5)	(10.8)	(11.1)	(12.9)	(10.6)	(45.4)	(7.7)	(11.2)	(14.2)
Free Cash Flow	**(11.2)**	**(18.7)**	**(32.7)**	**(15.7)**	**(3.9)**	**(71.0)**	**(33.4)**	**12.4**	**(14.3)**
Free Cash Flow Per Diluted Share	**($0.09)**	**($0.15)**	**($0.26)**	**($0.12)**	**($0.03)**	**($0.56)**	**($0.27)**	**$0.10**	**($0.11)**

Source: Company reports and Noble Capital Markets estimates



A - 10/06/2023 Outperform Target $18.00 Current $15.13
B - 08/08/2023 Outperform Target $18.00 Current $17.18
C - 07/10/2023 Outperform Target $18.00 Current $13.64
D - 06/23/2023 Outperform Target $18.00 Current $13.87
E - 06/06/2023 Outperform Target $18.00 Current $14.11
F - 05/08/2023 Outperform Target $18.00 Current $13.21
G - 04/10/2023 Outperform Target $18.00 Current $12.88
H - 02/27/2023 Outperform Target $18.00 Current $12.64
I - 02/01/2023 Outperform Target $18.00 Current $11.98
J - 01/11/2023 Outperform Target $18.00 Current $10.82
K - 12/14/2022 Outperform Target $18.00 Current $9.52
L - 11/08/2022 Outperform Target $18.00 Current $10.80
M - 08/10/2022 Outperform Target $30.00 Current $15.10
N - 08/08/2022 Outperform Target $30.00 Current $15.00
O - 06/01/2022 Outperform Target $30.00 Current $14.45
P - 05/09/2022 Outperform Target $30.00 Current $12.99
Q - 02/23/2022 Outperform Target $30.00 Current $15.04
R - 02/14/2022 Outperform Target $30.00 Current $16.98
S - 02/09/2022 Outperform Target $30.00 Current $17.29
T - 02/04/2022 Outperform Target $30.00 Current $16.48
U - 12/27/2021 Outperform Target $30.00 Current $19.66
V - 11/04/2021 Outperform Target $30.00 Current $21.44
W - 10/14/2021 Outperform Target $30.00 Current $22.74
X - 08/19/2021 Outperform Target $30.00 Current $21.39
Y - 08/09/2021 Outperform Target $30.00 Current $24.92
Z - 08/04/2021 Outperform Target $30.00 Current $23.83
a - 05/06/2021 Outperform Target $30.00 Current $26.75
b - 04/06/2021 Market Perform Current $28.64
c - 03/02/2021 Market Perform Current $27.05
d - 02/26/2021 Market Perform Current $27.50
e - 12/09/2020 Outperform Target $26.00 Current $23.72

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Noble intends to seek compensation for investment banking services and non-investment banking services (securities and non-securities related) within the next 3 months.

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The fundamental assessment rating system is designed to provide insights on the company's fundamentals both on a macro level, which incorporates a company's market opportunity and competitive position, and on a micro/company specific level. The micro/company specific attributes include operating & financial leverage, and corporate governance/management. The number of check marks that a company receives is designed to provide a quick reference and easy determination of the company's fundamentals based upon the following five attributes of the company (weighting reflects the importance of each attribute in the overall scoring of company's fundamental analysis):

Attribute	Weighting
Corporate Governance/Management	20%
Market Opportunity Analysis	20%
Competitive Position	20%
Operating Leverage	20%
Financial Leverage	20%

For each attribute, the analysts score the company from a low of zero to a high of ten based upon the analysis described below. The final rating and resulting check marks is a result of dividing the overall score (out of 100%) by ten.

Rating	Score	Checks
Superior	9.1 to 10	Five Checks
Superior	8.1 to 9	Four & A Half Checks
Above Average	7.1 to 8	Four Checks
Above Average	6.1 to 7	Three & A Half Checks
Average	5.1 to 6	Three Checks
Average	4 to 5	Two & A Half Checks
Below Average	3 to 3.9	Two Checks
Below Average	2 to 2.9	One & A Half Checks
Low Quality	0 to 1.9	One Check

While these are the attributes currently used for the analyst's fundamental analysis, the attributes and weighting may be reviewed, updated with additional attributes, and/or changed in the future based on discussions with the analysts and recommendations from the Director of Research.

Following is the description of each attribute in the fundamental analysis.

Corporate Governance/Management

We believe that a review of corporate governance and assessment of the senior management are important tools to determine investment merit. Good corporate governance aligns management with the interests of stakeholders. As such, analysts are to rank the company on the basis of good corporate governance principles that may include rules and procedures, board composition and staggered term limits, rights and responsibilities, corporate objectives, monitoring of actions and policies, and accountability. In addition, analysts will assess issues with controlling shareholders and whether decisions have been made in the past that were in the interests of all shareholders. In addition, management will be assessed based on industry experience, expertise, and/or track record.

High ranking example: Board and management that is aligned with the interests of shareholders with incentives based on stock price appreciation and with an experienced management team known for exceptional shareholder returns.

Low ranking example: Concentrated ownership without independent directors that do not necessarily align with all shareholders' interests.

The Market Opportunity Analysis

In this review, the analyst assesses the company's macro environment as a measure of understanding the industry. Factors considered include the size and growth potential of the industry under various economic conditions, the emerging demands in the market, technological benefits/disruptions, competition, geographical opportunities, and customer demands/needs, and an assessment of supply and distribution channels. In addition, the analyst will review legal and regulatory trends, as well as potential shifts in consumer or social behavior and natural environment changes.

High rank example: A company in an industry that is growing revenues well above GDP rates (which are on average 2% plus) and/or may have unmet or under-served needs in a rapidly growing market opportunity.

Low rank example: A mature industry that is in secular decline and likely to grow below GDP rates.

Competitive Position

The evaluation of the company's competitive position is another macro environment attribute designed to measure the relevance, market share, position and value proposition, and sustainable differentiations of the company and its products/services within its industry. Ease of entry into the industry and the ability of other well-funded players to potentially enter the market would be determined. As such, the assessment would consider the company's strengths and advantages of its products/services against weaknesses and limitations. This may include the company's current brand awareness, pricing and cost structure, current market strategies and geographic penetration that may affect demand for its products/services. In addition, the company's competitors would be evaluated.

High rank example: An analyst would consider the company's product to be superior to its competitors and that should allow the company to gain market share.

Low rank example: A company with a "me-too" product that does not have any significant technology advantages in an industry that has low barriers to entry.

Operating Leverage

Simplistically, operating leverage is determined by the operating income relative to changes in revenue. The analyst will calculate the impact on sensitivity on gross margins and variable costs to determine operating leverage. The analyst will take into account the ability of the company to cut fixed and variable costs in a challenged revenue environment and technological changes that may impact operating expenses. In addition, the analyst is to assess corporate strategies that include capital investment, which may be required for sustainable revenue growth, marketing expenses, and the company's ability to attract and retain talent and/or employees. The analyst should focus on the revenue opportunity and determine the price elasticity of demand for the company's products or services. In other words, the analyst is to rank the company based on improved operating margins going forward on an absolute and relative basis.

High rank example: A company that has improving margins for the foreseeable future, with significant price elasticity.

Low rank example: A company that is in a challenged revenue environment with a fixed cost structure and limited ability to cut costs, indicating an outlook for declining margins.

Financial Leverage

A strict definition of financial leverage is total debt divided by total shareholder's equity. Financial leverage analysis is to determine the company's ability to improve shareholder value by means of utilizing its balance sheet to grow organically or to acquire assets. Analysts may look at the company's debt to cash flow leverage ratio, interest coverage ratios, or debt to equity ratios. In addition, the interest rate environment and the outlook for interest rates are a factor in determining the company's ability to manage financial leverage. Finally, the analyst is expected to determine the ability to service the debt given the industry and/or company profile, such as cyclicality, barriers to entry, history of bankruptcy, consistency in revenue and profit growth, or predictability in sales and profits and large cash reserves. The analyst is expected to take into account capital intensity of the company and the anticipated of capital allocation decisions.

High rank example: A company with predictable and growing revenue and cash flow with modest debt levels. This may indicate that the company could improve shareholder value through growth investments, including acquisitions, using debt financing.

Low rank example: A company in a cyclical industry in a late stage economic cycle that has above average debt leverage and is in an industry that has a history of financial challenges, including bankruptcies.

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Outperform: potential return is >15% above the current price	92%	24%
Market Perform: potential return is -15% to 15% of the current price	8%	0%
Underperform: potential return is >15% below the current price	0%	0%

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Report ID: 26219