AMERICAS AEROSPACE & DEFENSE

Takeaways from AUSA 2026

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We hosted meetings with 14 companies at the 2026 AUSA conference. We met with large-cap defense, smid-cap defense, defense-tech, and government IT companies. We detail our takeaways from the individual company meetings within this note.

Budget inputs: Most industry participants expect a small level of reconciliation and/or supplemental spending, on top of the $1.15tn base budget, for FY27. Most see further growth beyond FY27 given capability requirements, but at slow rates of change given the high base / difficult compares.

Priority areas of spending: There is a high degree of focus on unmanned, counter-UAS, space, electronic warfare, hypersonics, and munitions re-stocking (both exquisite and low cost). Many companies showcased UAS, USV and counter-UAS capabilities at the expo. Companies note demand for autonomous vehicles in aerial and marine domains is driving higher demand for specialized components and payloads. Companies are looking to further diversify supply chain in critical areas to be able to substantially ramp-up production and meet demand.

Our stock views: We continue to recommend more stocks in defense tech than legacy defense, as we see greater growth and margin expansion, driven by exposure to priority areas of spending and better ability to run commercial models. On the defense side of our coverage we are Buy rated on HII (on CL), LHX, AVAV, AVEX, CACI, HAWK, KTOS, DRS, TDY; while we are Sell rated on LMT, GD, MRCY, BAH.

Here's who we met with:

- AeroVironment Inc (AVAV; Buy)
- Aevex Corp (AVEX; Buy)
- Anduril Industries Inc. (Private)
- Beta Technologies Inc (BETA; Buy)
- CACI International (CACI; Buy)
- Ducommun Inc. (DCO; Buy)
- HawkEye 360 Inc. (HAWK; Buy)
- Kratos Defense & Security Solutions Inc (KTOS; Buy)

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- Leidos Holdings (LDOS; Neutral)
- Leonardo DRS (DRS; Buy)
- Northrop Grumman Corp. (NOC; Neutral)
- Parsons Corp. (PSN; Neutral)
- Teledyne Technologies Inc. (TDY; Buy)
- Textron Inc. (TXT; Neutral)

Day 1 meeting takeaways

HawkEye 360 Inc. (HAWK; Buy)
We hosted a group meeting with Patrick Zeitouni (Chief Strategy Officer) and Todd Probert (Chief Operating Officer). Conversation was focused on satellite deployment and development, technological milestones, and the demand environment.

- **Satellite deployment**. Block II Cluster 15 is scheduled for launch NET 10/19 via SpaceX's *Bandwagon-5* mission (Falcon 9), and Block II Cluster 16 is scheduled for launch NET 10/21 via Rocket Lab's *We're Not Hawking Around* mission (Electron). Planned satellite launches through 2028 are papered with launch providers. SpaceX's transition from Falcon 9 to Starship may require eventual satellite reconfiguration depending on Starship's deployment mechanism (PEZ dispenser versus the traditional clamshell fairing), but the company noted the potential for better unit economics given lower cost/kg assumptions.
- **Block III satellites**. In the near-to-medium-term, Block III Kestrel deployments are expected to increase, adding targeted spectrum capacity over high-demand areas like the Middle East, Eastern Europe, and INDOPACOM. Block III satellites are 75% less capital intensive to build than Block II satellites.
- **Revisit rates and latency**. Over the next 2-3 years HAWK is still targeting revisit rates and data latency of 10 minutes (down from ~30-40 minutes currently). Faster revisit rates require more satellites on orbit, and lower latency requires both on-satellite signals processing and a larger number of terrestrial downlink terminals. The 10/10 capability unlocks more tactical (real-time) opportunities like targeting and tracking, in addition to strategic use cases for HAWK today.
- **Satellite monetization and demand environment**. Additional satellite deployments drive gradual revenue growth in the model rather than step function increases. HAWK noted multiple customers are purchasing data related to Iran and GPS interference, and that there is growing Middle Eastern, Eastern European, and INDOPACOM demand given geopolitical conflicts in those regions. Software improvements will enable simultaneous operations for multiple customers during a single regional pass, improving utilization and monetization. The ISA acquisition has helped HAWK penetrate the intelligence community (IC) customer set in addition to providing more signals processing capability.

Leonardo DRS (DRS; Buy)
We hosted a group dinner meeting with Mike Dippold (EVP & Chief Financial Officer), and Camilla Yanushevsky (Investor Relations). The discussion focused on high volume infrared sensors, the steam turbine generator opportunity, and capital allocation.

- **Advanced Sensing and Computing (ASC).** DRS sees strong demand for high-volume, low-cost infrared sensors and tactical radars as the customer prioritizes attritable systems and low-cost effectors. DRS is investing IRAD into uncooled IR sensors that can deliver ~80-90% of cooled sensor capability at ~10% of the cost, and is targeting a ~$1k ASP with annual volumes expected to exceed

>100k. DRS highlighted a recent order for 50,000 drone camera units, and the company just announced a $500mn tactical radar IDIQ. In space, DRS noted its infrared payload combines tracking and communication capabilities, which reduces cost by ~50%. This infrared payload received an SDA Tranche 3 tracking-layer payload award and DRS sees incremental opportunity in missile warning/tracking over the medium-term.

- **Integrated Mission Systems (IMS).** Management sees a ~$300-400mn incremental steam turbine generator opportunity over the long-term, with the Navy funding facility expansion to improve the current ~6-7 year lead time. Columbia margins are accretive to the segment margin and have recently stabilized in part due to the pricing curve. Management noted the recent submarine contracts do not impact the company as GD had been internally funding program development.
- **Capital allocation.** DRS capex has increased from 2.0-2.5% of revenue to ~4% of revenue as the company invests in manufacturing capacity and inventory. DRS highlighted recent facility investments often include a partial subsidy from the government. Management continues to review acquisition targets that align with strategic priorities, noting recent opportunities in Israel and interest in expanding space capabilities.

Textron Inc. (TXT; Neutral)

We hosted a group meeting with Jeff Schloesser (SVP Strategic Pursuits - Bell Flight), Carl Coffman (VP, Military Sales & Strategy - Bell Flight), Ryan Schaffernocker (SVP Air, Land & Sea Systems), Henry Finneral (SVP, Weapon Systems), Matt Stader (Sr Director Weapons Systems Sales & Strategy), Scott Hegstrom (VP, IR and Strategy and M&A), and Kyle Williams (Investor Relations). The discussion focused on product updates across Textron's portfolio and funding updates for the MV-75.

- **MV-75.** The company discussed both funding and production updates:
  - **Funding and Timeline.** TXT is still waiting for above threshold reprogramming (ATR), and the U.S. government has been operating under a continuing resolution (CR) since Oct. 1, both of which could impact program schedule, but it is still too early to gauge. TXT plans to keep suppliers on pace for previously stated customer timelines.
  - **Production Updates.** TXT remains focused on first assembly. TXT's fuselage operations in Wichita, KS have now been vertically integrated from Boeing (formerly under Spirit Aerosystems), and TXT has invested in tools and operations to improve production flow there. Gear boxes are being tested on stand in Arlington, TX. Engines (Rolls Royce 1107F) are being tested in RR test facilities, and after the U.S. Army validates test data, they will be sent to TXT. Final assembly will occur in Amarillo, TX.
- **Textron Systems.** The company provided updates on the product portfolio across Land, Air, and Sea domains:
  - **Land.** TXT is a supplier to American Rheinmetall on the XM30 Lynx, which is competing against General Dynamic's XM30 Wolf to replace the aging Bradley Fighting Vehicle. TXT's investments on the vehicle have prioritized MOSA and

C2 aspects given the DoW's increasing focus on these areas. The down select is currently expected mid to late 2027. TXT also showcased its Ripsaw M1 vehicle, which is a 4-wheel autonomous vehicle with launched effects pods designed to complement TXT's Cottonmouth ARV. The concept of the M1 is similar to that of collaborative combat aircraft (CCA), where multiple autonomous vehicles act as force multipliers for man-operated assets within a C2 schism.

- **Air.** TXT highlighted its Damocles Launched Effect, which is a VTOL UAS designed to semi-or-fully autonomously search for and prosecute armored targets. TXT's Aerosonde UAS family is a mature VTOL UAS (Group 3), and has been competitive in recent Navy efforts to field more ISR assets at sea. Aerosonde's smaller form factor and lower unit production cost allows TXT to be more competitive in contractor owned contractor operated (COCO) agreements, which have become a focus area across the services.
- **Sea.** The Ship to Shore Connector (SSC) is the largest program within Textron Systems. The SSC program of record (POR) with the U.S. Navy is 73 total aircraft (1 test, 72 production). To date, TXT has delivered 18-19. Recent contract modifications purchasing 2-3 ships at a time suggest the price per ship is $115-120mn. There is the potential for a larger purchase order, which could help establish a steady production rate of 4 per year for several years. TXT also has the Common Unmanned Surface Vehicle (CUSV), which is used for mine countermeasures, and the Tsunami USV, which is a low-cost attritable USV based on a commercial design (Brunswick).

Parsons Corp. (PSN; Neutral)

We hosted a group meeting with Paul Decker (Chief Growth Officer), Mike Kushin (President, Defense & Intelligence), Rob Huber (Director, Biometric Product Sales), and David Pang (Investor Relations). The discussion was focused on PSN's product portfolio including its biometric line, C-UAS offerings, and EW systems.

- **Javelin.** Javelin is PSN's mobile biometric line. The line includes lightweight modular kits designed to capture multimodal biometrics, including fingerprint, face, iris, and voice that allows customers to collect, manage and verify identities. The product line is used across the Army, Marine Core, and Coast Guard. The company sees additional commercial use cases for the product line including for banking, healthcare, and airport access; and a large federal opportunity in DHS that could continue to grow the business significantly.
- **Counter-UAS.** PSN is partnering with IPG to create an integrated C-UAS solution. IPG is responsible for producing the lasers for the system. PSN noted it designed the C-UAS solution to maintain accuracy while in motion. The company notes that unlike competitors, whose solutions are more expensive and focused on swarms, PSN is targeting a more niche market. PSN sees opportunities for the product outside of defense, including civil and critical infrastructure applications.
- **Starfall.** Starfall is PSN's new EW system. The system was designed for ease of use and has low training barriers, making proliferation of the system easier for potential

customers and operators. The product creates a barrier which impacts incoming swarms of drones by interfering with the operator's ability to pilot the drone or by disrupting GPS-based navigation. The company sees potential opportunities for Starfall around data centers and utilities facilities.

Day 2 meeting takeaways

AeroVironment Inc. (AVAV; Buy)
We hosted a group meeting with Austin Johnson (Director, US Army Business Development), and Carson Morgan (Business Development Manager - ES Aero). The discussion focused on updates across the company's product portfolio.

- **C-UAS.** The company provided updates on the components of its C-UAS layered defense system.
  - **TITAN.** TITAN is the outer most perimeter layer of the layered defense system and includes multiple jamming capabilities and configurations depending on what a customer requests. The company noted TITAN has an order to delivery timeline of ~1 month.
  - **LOCUST.** LOCUST is a directed energy system and makes up the middle layer of layered defense system. The company has delivered ~15 units, and is focusing on the next ramp in production for LOCUST. LOCUST has been cleared by the FAA and has started to see use on the southern border. LOCUST also recently won a $465mn contract for the Enduring-High Energy Laser (E-HEL) program. The platform will be integrated with various army platforms including JLTV.
  - **Freedom Eagle.** Freedom Eagle is a low cost interceptor and is the final layer within the layered defense system. The interceptor is still in development with the first delivery expected in ~18 months. The company noted the military is looking for low cost interceptors to be in the low 6-figures.
- **Lumberjack.** The Lumberjack is a one way attack system, capable of carrying 10 Hatchets (smaller UAS), which can be released collectively or individually. The hatchets used are produced by NOC. The company noted a broader shift towards low cost munitions, with the government aiming for <$250k/unit.
- **Mayhem 10.** Mayhem 10 is a one way attack (OWA) UAS that can integrate 12 different payloads and is designed to afford the customer a large degree of mission flexibility at low cost. ~16 of these can fit on an attack helicopter.

Aevex Corp (AVEX; Buy)
We hosted a group meeting with Roger Wells (CEO) and Todd Booth (CFO). The discussion focused on the budget and demand environment, product updates on CompassCore, and the company's recent BlackSea acquisition.

- **Budget & Demand Environment.** While upcoming midterm election results may impact the size and shape of the FY27 defense budget (and the interplay between

the base budget and reconciliation), AVEX is confident that near-term programs will remain funded given the bipartisan support for UAS. Demand for AVEX products remains elevated, with ~$175mn of orders in 3Q, which is more than 1H26.

- **CompassCore 2.0.** CompassCore is AVEX's modular, MOSA-enabled hardware stack powering autonomous systems. CompassCore is in AVEX's UAS, and is able to go in BlackSea's assets, with some different navigation and targeting algorithms required given those assets' presence in the sea, as opposed to the air. CompassCore 2.0 is expected to be roughly half the size of CompassCore 1.0, with roll out expected in the next few months.
- **BlackSea.** AVEX completed the acquisition for BlackSea in September. BlackSea FY26 revenues are estimated to be ~$150mn with an EBITDA margin similar to total AVEX EBITDA margins. BlackSea is already producing at scale, with growth expected to be higher in unmanned surface vessels over unmanned aerial vehicles. The company's FY26 guidance from 2Q does not include the impact of the BlackSea acquisition.

Anduril Industries Inc. (Private)

We hosted a group meeting with Tom Keane (SVP of Engineering, leading Mixed Reality, AI & Edge Computing, Communications, Infrastructure Platform, and Command & Control organizations) and Cormac Conners (Investor Relations). Mr Keane oversees Anduril's Connected Warfare division, which includes a number of growing product lines and business units. The conversation focused on those products and business units, as well as the recent Steelfin and Arsenal-2 announcements.

- **Connected Warfare.** Anduril's Connected Warfare portfolio contains a number of products designed to connect soldiers, equipment, networks, and commanders across the battlefield, while improving data processing and decision making at each of those nodes.
  - **Command & Control.** The company discussed scaling the Army's Next-Gen Command and Control (NGC2) effort to connect proprietary networks, applications, and hardware from across the force under a common software architecture. Legacy systems within the Army were developed separately from each other, and there are opportunities to replace outdated government software. Anduril noted a howitzer firing process that was reduced from ~two hours to ~four minutes following Lattice integration. Mr Keane noted NGC2 is performing an operational exercise every ~4 weeks, and believes the program will drive broader Lattice adoption.
  - **Communications.** Anduril highlighted how increasing compute on each soldier creates an opportunity to consolidate legacy standalone equipment (radios, batteries, cables) and shift functionality into software based solutions. The company discussed challenging the Army's prior technology stack, with their goal to reduce each warfighter's hardware burden.
  - **Mixed Reality.** The EagleEye family of wearable augments was designed to improve warfighter situational awareness, and leverages multiple billions of dollars of prior commercial investment in augmented / virtual reality. Anduril's

booth had two pairs of glasses to try on - when worn, a mini-map of the surrounding area was visible, the location of "friendly forces" were populated on that map, and live video feeds coming from a UAS were projected onto the glasses. The company is competing for SBMC (previously IVAS) against Rivet and Elbit.

- **Edge Compute.** Mr Keane discussed Voyager Gateway, a body worn compute and communication system designed to run AI workloads in rugged environments. Voyager allows the warfighter to remain connected to the Lattice network on the front line, even when communications are jammed or degraded. He noted the Voyager business has doubled yoy and has been sold into >10 countries.
- **Infrastructure Platform.** Mr Keane noted strong demand for deployable infrastructure, highlighting the Menace product (growing 10X yoy) as deployable compute and connectivity infrastructure that becomes a battlefield data hub. He expects increasing demand for containerized systems within the military.

- **Steelfin.** This week, Anduril unveiled Steelfin, a family of reconfigurable surface-to-air interceptor missiles aimed to cost a third of the PAC-3's price. Anduril designed Steelfin with a two-stage architecture, enabling interceptor configuration dependent upon mission requirements, which also drives cost savings via reuse of components, production process, and common architecture. Steelfin's modular design allows it to fly with different rocket motors/seekers, and makes it compatible with existing land and sea-based launch infrastructure. Anduril is targeting production of several thousand Steelfin variants per year in the short-term, reaching full rate production late-2028/early-2029.
- **Arsenal-2.** Earlier this month, Anduril announced Arsenal-2, a new 187-acre shipyard in Baltimore, Maryland that will manufacture critical components for the Virginia-class submarine. Under an agreement with the U.S. Navy, Anduril will invest $3.7bn of private capital into the construction of the facility, while the U.S. Navy has awarded Anduril a contract worth up to $2.9bn, with payments tied to production outcomes. Anduril plans to start production with torpedo tubes, moving into larger components over time until it is producing entire sections of the submarine, which should aid industry-wide Virginia class production efforts. Anduril expects Arsenal-2 initial operations to come online in 2030. Concurrently, Anduril is standing up a new 160,000 square foot facility in Orange County, CA to support submarine construction, qualification, and labor training efforts.

Beta Technologies (BETA; Buy)
We hosted a group meeting with Zach White (Defense Program Lead), Larry Smith (Business Development Manager), Mike McKenney (Business Development Manager), and Rob Dickerson (Government Relations). Conversation was focused on MV250 specifications, production ramp, and program funding.

- **MV250.** BETA provided incremental color on MV250 production, highlighting the defense variant shares ~85% commonality with ALIA, which we expect will enable

BETA to ramp defense aircraft deliveries faster than competitors given its current lead in capacity buildout. The MV250's modular design was driven in part by a series of positive meetings with the Pentagon, and allows the aircraft to carry a variety of mission payloads including: cargo, launched effects, and C-UAS payloads, amongst others, which the company believes is a differentiator vs. competitor aircraft. BETA has a company policy of not announcing when first flight will occur until after the first flight is completed, however, we note GE has published slides outlining first proof of flight to occur in 4Q26. BETA noted it could begin LRIP production within the year, but testing requirements and the military's ability to access funds may push Block 1 LRIP to occur in 2027/2028.

- **Funding.** BETA funded MV250 development with IRAD, and expects to self-fund future MV250 prototypes. BETA noted it may raise additional capital for building out production as the program ramps, which we view as a de-risked investment due to the high degree of fungibility between MV250 and ALIA production. Over the long-term, BETA believes funding for hybrid-electric autonomous aircraft is more protected as it is built into the base budget. BETA stated its capital allocation priority is investing in the business.

CACI International Inc. (CACI; Buy)
We hosted a group meeting with Nathan Johnson (CTO - Sensing & Effects), and George Price (SVP Investor Relations). The discussion focused on the company's product portfolio including C-UAS products, Tactical EW, and Gimbals.

- **SkyValor / C-UAS.** SkyValor is a large scale C-UAS suite that detects drones utilizing 4G/5G cellular networks, aiming to destabilize the drones network connection and interfere with operator's ability to pilot and control the drone. The company expects a high percentage of drones will move into the cellular domain, and noted the use of cellular interference was an important capability in Ukraine. SkyValor is part of a layered defense system. The modular design of SkyValor allows the company to sell portions of the system without having to redesign it for each customer.
- **Gimbals.** CACI noted it has seen elevated demand for smaller gimbals following the recent proliferation of C-UAS and UAS. The AVT acquisition has allowed CACI to scale down the size of its gimbals and incorporate software upgrades. The company believes the industry is unprepared to meet the high demand for gimbals. The company is working to scale its own production, including the recently opened manufacturing center in Rochester, where it expects it can produce more gimbals to better meet demand.
- **Tactical EW.** The company produces the TLS Manpack, which provides man-portable SIGINT. The TLS Manpack characterizes the RF spectrum with full battle space awareness around the solider, and identifies where radio signals are originating from. A technicals kit includes 2 TLS Manpacks and a Kraken.

Ducommun Inc. (DCO; Buy)
We hosted a group meeting with Suman Mookerji (CFO) and Clay Bringhurst (VP, Engineered Products). Conversation was focused on pricing, budget expectations, and

engineered product portfolio.

- **Supply Chain.** Defense primes are in the process of ramping up production across products, particularly missiles. DCO highlighted its track record of quality and on-time-delivery to defense primes as one of the reasons it currently has a strong position in price negotiations. The company noted that while price is always a discussion point, the primes have been less price sensitive than in past years as the focus shifts to supply security.
- **Munitions Funding.** The company is watching to see what happens for munitions funding with respect to the 2027 reconciliation bill. DCO noted strong demand for munitions, but there are still ongoing efforts to convert that demand into production contracts. DCO expects that even if there is no top-line growth for the budget, total allocation towards munitions should remain favorable.
- **Engineered Products.** Engineered products (EP) comprise 23% of company revenues today, and the company aims to grow that to 40% by 2032 via new product introduction, pricing, and M&A. EP revenues are expected to grow faster organically than non-EP revenues through 2032.

Kratos Defense & Security Solutions Inc (KTOS; Buy)
We hosted a group meeting with Eric DeMarco (President & CEO), and Deanna Lund (CFO). Conversation was focused on the areas of growth within KTOS's diversified product portfolio.

- **Space ground systems**. KTOS's largest business is space, where its primary role is as a merchant supplier of ground telemetry control solutions to both national security (~70%) and commercial (~30%) customers. Revenue for these systems is growing LDD % yoy, and KTOS is extremely competitive when new market opportunities arise.
- **Hypersonics**. KTOS has a number of hypersonic programs that are inflecting as the DoW focuses efforts on fielding offensive hypersonic capabilities, as well as developing defensive measures for adversarial hypersonic weapons. KTOS is the prime on MACH TB 2.0, which is a program designed to accelerate and lower the cost of hypersonic flight testing. KTOS has a number of other classified hypersonics programs it is actively working on or competing for, and the company expects this end market to drive substantial growth over time.
- **Propulsion.** Engines are a bottleneck across the US missile industrial base, and KTOS described a path for the company's engine business to grow multiples above where it is today through the end of the decade as unmanned systems and missile production rates increase. KTOS highlighted select KTOS engine applications including: LMT missiles (JASSM, LRASM, PrSM 4), NOC UAS (Lumberjack) and BA munitions (JDAM LR).
- **Unmanned Systems**. The KTOS Valkyrie still has substantial market opportunity in years to come, and the company has a dominant position in aerial targets, which are becoming increasingly important as anti-air and anti-missile defense needs are increasing around the world.

Leidos Holdings (LDOS; Neutral)
We hosted a group meeting with Doug Jones (CTO, Defense Sector) and Larry Barisciano (COO, Defense Sector). The discussion focused on recent LDOS munitions and weapons awards.

- **Low-cost containerized munitions.** LDOS is manufacturing 3,000 low-cost containerized munitions (LCCM) under the DoW's "Arsenal of Freedom" initiative, targeting initial production to begin in 2027, and reaching 3,000 annual units in 2028/2029. LDOS internally funded program development; noting it leveraged AGM-190 components, a modular design, and a mixed-use production line to support speed and affordability. LDOS highlighted it may ramp production above 5,000 annual units over the medium-term if the customer demand signal remains strong, with the optionality to do so enabled by the mixed-use production line. LDOS is targeting <$500k cost per shot.
- **Indirect fire protection capability.** The Army is investing in ground-based air defense system capabilities, awarding LDOS $617mn this year to build and deliver additional launchers for the Indirect Fire Protection Capability Increment 2 (IFPC Inc 2) system. LDOS has more than 100 launchers committed for delivery, and is in the process of ramping production from 48 units per year to 96 units per year in 2027. LDOS highlighted the $617mn award brings the company's total IFPC production contract value to $1.2bn, and the company is working with the customer on second-interceptor integration.

Northrop Grumman Corp. (NOC; Neutral)
We hosted a group meeting with John Frick (Director, Business Development), Paul Weaver (Director, Business Development), and Michael Bastin (Director, Programs). The conversation focused on key updates across the product portfolio, and the company's focus on partnerships.

- **IBCS.** This month, NOC was selected to build a new variant for the US Army's IBCS, aimed to extending the system's survivability and mobility. NOC is under contract to provide two manufacturing prototypes to the Army by June 2027. The company noted substantial international interest in IBCS.
- **AN/TPS-80 G/ATOR.** The company's AN/TPS-80 Ground/Air Task-Oriented Radar (G/ATOR) is a radar designed to combine air surveillance and air defense/counterfire target acquisition into one platform with 360-degree long-range capabilities. G/ATOR can relay information to C2 or effectors to destroy airborne threats and hostile fire launch points. The company highlighted the radar performs well even in cluttered and fast moving environments. NOC is currently in full rate production, with capacity to deliver 12 G/ATORs per year. NOC has delivered 34 of the 60 ordered systems for the USMC.
- **Raid Hunter.** Raid Hunter is a Gun-Based Air Defense System aimed scalable and cost-effective protection against complex aerial threat Group 1-3 drones and cruise missiles. Raid Hunter uses 50mm amm magazines, and quick reload times to counter swarming threats. The the development for Raid Hunter was completely self-funded.



- **Partnerships.** NOC noted it is working on delivering mass to customers, and is partnering with non-traditional companies to do so. Recent examples include a partnership with AVAV on Lumberjack, a multi-strike one-way attack UAS, and a partnership with PLTR on automatic targeting systems.

Teledyne Technologies Inc. (TDY; Buy)
We hosted a group meeting with Adam DeAngelis (VP, Global Marketing and M&A). The discussion focused on company products including Black Recon and Gimbal offerings.

- **Black Recon.** Black Recon is an autonomous launch and recovery system that is placed on the back of a vehicle, with 3 UAVs inside. The company highlighted the products' high survivability as a key differentiator. The UAVs primarily navigate by cameras and thermal sensors rather than GPS. TDY makes the thermal sensors, but not the cameras for the UAVs. The company expects LRIP next year, and a full rate production in 2028.
- **Gimbals.** TDY makes and sells gimbals for Group 4 and 5 drones, and produces the gimbal on Rogue 1. The company is considering expansion into Group 2 and 3 drones, but TDY's portfolio does not currently include an 8-inch gimbal as TDY had made the decision to allocate IRAD spend elsewhere. The company noted that rare earths remain a bottleneck for gimbals and it is looking to find alternative supply sources away from China.

Price targets, valuation methodologies, and key risks

AeroVironment Inc. (AVAV; Buy): Our 12-month price target of $261 is based on a 5.5X CY27E price/sales multiple. Key risks include: (1) large potential program awards not coming to fruition, (2) new entrants taking market share, (3) BlueHalo integration.

Aevex Corp (AVEX; Buy): Our 12-month $31 price target is derived from a target 4.0X CY27 EV/Sales. Key risks include geographic revenue concentration, DoW budget and spending priorities, program award timing, competition, and capital intensity of product development and manufacturing.

Beta Technologies (BETA; Buy): Our 12-month price target of $28 is derived from a 1.7X CY30E EV/Sales multiple. Key risks are 1) operational execution, 2) incremental capital investment, 3) production expansion.

CACI International Inc. (CACI; Buy): Our 12-month price target of $713 is based on a 13.0X 5-8QE EV/EBITDA multiple. Key risks include: (1) DoD spending priorities, (2) government efficiency initiatives, (3) M&A pipeline/integration.

Ducommun Inc (DCO; Buy): Our 12-month price target of $213 is derived from a target 20.0X CY27E EV/EBITDA. Key risks include (1) commercial aerospace demand, (2) global defense spend, and (3) M&A pipeline.

HawkEye 360 Inc (HAWK; Buy): Our 12-month price target of $32 is derived from a target 9.5X 2027E EV/Sales. Key risks include: (1) High degree of revenue concentration, (2) Launch availability, cost and success, (3) Defense and national security priorities.

Kratos Defense & Security Solutions Inc (KTOS; Buy): Our 12-month price target of $77 is derived from 6.0X CY27 EV/Sales. Key risks include: DoD spending priorities, funded contract timing, and operational execution.

Leidos Holdings (LDOS; Neutral): Our 12-month price target of $127 is based on a target 8.7X Q5-Q8 EV/EBITDA. Key risks include (1) DoD spending priorities, (2) core company bookings, (3) pace of organic growth.

Leonardo DRS (DRS; Buy): Our 12-month price target of $53 is derived from a target 23.5X 2027E EV/EBITDA. Key risks include: (1) Columbia class execution, (2) more difficult terms with customers, (3) DoD shifts priorities away from DRS products.

Northrop Grumman Corp. (NOC; Neutral): Our 12-month price target of $518 is derived from target relative (to S&P 500) CY27E P/E (ex-pension) multiple of 1.05X. Key risks include (1) Geopolitics, (2) DoD spending priorities, (3) capital deployment, and (4) margins.

Parsons Corp. (PSN; Neutral): Our 12-month price target of $56 is based 85% on fundamental value (8.7X 5-8 quarter EV/EBITDA) and 15% on a theoretical M&A component (20.0X EV/EBITDA multiple). Key risks include (1) US Government budget priorities, (2) Middle East exposure, and (3) M&A pipeline and integration.

Teledyne Technologies Inc. (TDY; Buy): Our 12-month price target of $877 is derived from a target EV/EBITDA of 24.0X applied to our 2027E EBITDA. Key risks include: (1) DoD spending priorities, (2) premium valuation, (3) capital deployment.

Textron Inc. (TXT; Neutral): Our 12-month, $93 price target is derived from targeting a 9.0X 2027E EV/EBITDA. Key risks for TXT include (1) business jet demand, (2) new program execution and (3) DoD spending.