

Ultra Electronics Holdings plc
("Ultra" or "the Group")

Ultra acquires leading RF and Microwave supplier to the international EW market

Ultra announces that it has today agreed to acquire the Electronic Products Division ("EPD") of Kratos Defense & Security Solutions (NASDAQ: KTOS) for a cash consideration of up to \$265m¹.

Strategic rationale:

- Establishes a major presence in the growing market of electronic warfare (EW)
- Provides market and customer synergies with Ultra's C2ISR² market segment
- Well established supplier to the attractive US EW market, which is growing at over 3% per annum
- Long-term contracts strengthen Ultra's order book visibility
- The combined technologies under Ultra's ownership will provide opportunity to gain market share

EPD (formerly Herley Industries Inc.) is a leading designer and producer of RF and microwave integrated systems and subsystems for use in EW, radar, communication, missile, flight test and simulation applications. The company, headquartered in Massachusetts, US, employs 433 people across four offices in the US and UK.

EPD is a sole-source provider of proprietary technology on numerous established strategic platforms, including P-8A Poseidon, Trident II D5 missile, F-16 Fighting Falcon, Eurofighter, AMRAAM missile, and EA-18G Growler. Given its continuing investments, key capabilities, customer relationships and strong historical programme performance, EPD is also well-positioned for opportunities on the F-35 Joint Strike Fighter and on multiple, next-generation strategic national defence and security programmes.

EPD has a proven track record of more than 20 years of successful participation on major defence programmes and long-standing relationships with a diverse international customer base. Major customers include Northrop Grumman, Lockheed Martin, Boeing, Raytheon, and Harris as well as the governments of the US, Australia, Germany and South Korea.

The Group has identified electronic warfare as a targeted growth area within its core markets in which Ultra is under-represented. EPD has a well-established position in the US EW market which is projected to grow at over 3% CAGR. The acquisition of EPD will augment the Group's existing specialist EW capabilities in Australia and Canada and give access to new customers and markets. Equally, access to Ultra's secure networks and military datalink capabilities will allow the EPD business to increase the scope of future offerings into their existing customer base.

EPD will be integrated into Ultra's Tactical & Sonar Division. EPD will be renamed Ultra Electronics Herley Industries and its current head, Richard Poirier, will remain as President.

¹ Ultra is acquiring Kratos' Electronic Product Division (EPD). EPD has separate Israeli businesses named Kratos-General Microwave Israel and Kratos GMI-Eyal, which are not part of this acquisition.

² C2ISR - Command, Control, Intelligence, Surveillance & Reconnaissance

In the year ended 31 December 2014, EPD generated EBITDA of \$22m, Profit Before Tax of \$11m and reported gross assets of \$217m. The acquisition will be earnings accretive from the first full year. The purchase price represents an implied transaction multiple of approximately 10.7x LTM EBITDA, after allowing for a tax benefit associated with the transaction resulting from a Section 338(h)(10) election. This benefit has a net present value of approximately \$43m. The combined businesses of EPD and Ultra's C2ISR segment are expected to achieve recurring pre-tax cost synergies of approximately \$8m per annum, to be delivered in full by the end of 2019 as the culmination of some programmes allow the elimination of duplicate overheads. These synergies, together with the Section 338(h)(10) tax benefit, would take the implied transaction multiple to approximately 8x LTM EBITDA.

The acquisition of EPD will be financed using Ultra's existing facilities and a new 4 year Term Loan provided by four banks from Ultra's existing core banking group. Key terms and covenants match those of the existing facilities. Net debt/EBITDA following the transaction will be within Ultra's guided range and is expected to be comfortably below 2x by the end of 2016, the first full year of ownership of EPD.

The transaction is subject inter alia to US regulatory approvals. Assuming satisfaction of all closing conditions and approvals, the transaction is expected to close in the third quarter of 2015. Under the terms of the acquisition, Ultra will pay \$260m in cash at closing, and up to another \$5m in cash expected to be paid over the next 12 months.

Rakesh Sharma, Chief Executive of Ultra, commented:

"I am pleased to announce the acquisition of EPD, and to welcome the business and its people into the Ultra Group. EPD adds significant core technologies in the RF and microwave sectors and complements the Group's communications and sensor portfolio. EPD has a strong position on supported legacy programmes as well as future strategic ones. Together, we have the technology, innovation and market reach which will enable us to enhance our market position in the attractive EW market, both within the US and internationally."

– Ends –

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Further information about Ultra:

Ultra Electronics is an internationally successful defence, security, transport and energy company with a long, consistent track record of development and growth. The Group manages a portfolio of specialist capabilities generating innovative solutions to customer needs. Ultra applies electronic and software technologies in demanding and critical environments ranging from military applications, through safety-critical devices in aircraft, to nuclear controls and sensor measurement. These capabilities have seen the Group's highly differentiated products contributing to a large number of platforms and programmes.

Ultra has world-leading positions in many of its specialist capabilities and, as an independent, non-threatening partner, is able to support all of the main prime contractors in its sectors. As a result of such positioning, Ultra's systems, equipment or services are often mission or safety-critical to the successful operation of the platform to which they contribute. In turn, this mission-criticality secures Ultra's positions for the long term which underpins the superior financial performance of the Group.

Ultra offers support to its customers through the design, delivery and support phases of a programme. Ultra businesses have a high degree of operational autonomy where the local management teams are empowered to devise and implement competitive strategies that reflect their expertise in their specific niches. The Group has a small head office and executive team that provide to the individual businesses the same agile, responsive support that they provide to customers as well as formulating Ultra's overarching, corporate strategy.

J.P. Morgan Limited (which conducts its UK investment banking business as "J.P. Morgan Cazenove"), which is authorised and regulated by the Financial Conduct Authority, is acting as financial adviser and corporate broker to Ultra Electronics and no one else in connection with the Acquisition, will not regard any other person as a client in relation to the Acquisition, and will not be responsible to anyone other than Ultra Electronics for providing the protections afforded to its clients or for providing advice in connection with the Acquisition or any other matter referred to herein.

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