

ISSC (Innovative Solutions & Support) – 1-6 Month Microcap Analysis

Key Financials

- **Valuation & Size:** Market cap ≈ \$207M with ~17.6M shares outstanding ¹. 52-week price range \$5.30–\$20.00 ². TTM revenue ≈ \$77.4M ¹; gross profit ≈ \$35.0M (≈45% margin) ³. (FY2024 gross margin was ~55% ⁴ ⁵, but recent Q3 saw 35.6% due to Honeywell transition costs ⁶.) Net income TTM ≈ \$11.7M ¹ (EPS \$0.66) with trailing P/E ~18x ⁷. EV/Sales ~3.0x, P/S ~2.7x, P/B ~3.8x ⁷ ⁸. No dividend.
- **Balance Sheet & Cash Flow:** Cash ≈ \$0.6M vs. long-term debt ≈ \$23.3M (6/30/25) ⁹. After new \$100M credit facility (July 2025) ¹⁰, net debt/EBITDA is ~1.1x ¹¹. Book equity ≈ \$56.8M (\$3.22/sh) ¹²; working capital healthy (~\$28.5M) ¹². Operating cash flow modest (~\$10.8M last 12m) vs. high capex (~\$9.9M) ¹³, yielding tiny free cash flow (~\$0.9M) ¹³ (FCF yield ~1.1%). Capex is high due to the new Exton plant (now complete).

Business Model & Competitive Position

Innovative Solutions & Support designs, manufactures and services avionics for **commercial, business and military aviation** ¹⁴. Its product lines include flight management systems (FMS), GPS navigation units, flight displays, autothrottles, air-data computers, and cockpit displays ¹⁴ ¹⁵. The company serves OEMs and aftermarket retrofit for both fixed-wing and rotorcraft (including airlines, corporate jets, DoD and foreign militaries) ¹⁶ ¹⁵.

ISSC's recent strategy has been to acquire **Honeywell** avionics IP and inventory to boost its offerings. In 2023–24 it secured exclusive licenses for Honeywell's inertial, communication and navigation systems, and in Oct '24 for military display generators and flight control computers ¹⁷ ¹⁸. These deals expand its military/naval aviation footprint. Management cites new Honeywell lines as complementary to its legacy portfolio ¹⁹, enabling it to target additional revenue streams in defense and business aviation. Notably, backlog and sales now include major programs: pilots (Pilatus PC-24), turboprops (Textron King Air), US military trainers (Boeing T-7) and tankers (KC-46A), and fighter jets (Lockheed F-16) ²⁰ ²¹. Analysts highlight ISSC's "pivot toward military markets" – military sales rose to ~40–50% of revenue by Q2'25 (vs. <10% in 2022) ²².

Competition comes from large avionics firms (Honeywell, Collins Aerospace, Garmin, Thales, etc.). ISSC's "moat" is its niche access to certain legacy systems (via licensing) and FAA certifications, but overall it operates in a highly specialized, competitive industry. Market size is tied to global aircraft production and retrofit activity (tens of billions), and defense budgets. ISSC's pricing/margins should benefit from high engineering content and operating leverage: Q2'25 gross margin rebounded to ~51% and SG&A fell to ~19.6% of sales, showing room for margin expansion as volumes grow ²³.

Price & Volume Behavior

Over the past year ISSC has been **volatile but strong**: the stock is up ~+72% ²⁴ on weak market beta (~0.83) and has ranged \$5.30-\$20.00 ². After peaking near \$20 (mid-2025), it has pulled back to around \$11. The 50-day moving average (~\$14.8) remains above the 200-day (~\$10.1) ²⁵, suggesting a bullish intermediate trend, but recent RSI (~37) implies some exhaustion. Trading is relatively active for a microcap: 20-day avg volume ≈978k shares ²⁶ (float ~14.7M, institutional ownership ~40% ²⁷), which aids liquidity. However, bid-ask spreads can still be wide at times. Short interest is moderate (~3.7% of float ²⁸), reflecting some bearish bets, and insider ownership is modest (~11.6% ²⁷). Overall ISSC has outperformed its industrial sector peers in 2025 (driven by the Honeywell acquisition story), but is now digesting those gains.

Risks & Red Flags

- **Concentration Risk:** ISSC is highly dependent on a few contracts. In Q3'25 one customer (Lockheed Martin) accounted for ~52% of revenue ²¹. If that program (F-16 avionics) winds down or funding shifts, revenue could plunge. Backlog **excludes** long-term OEM orders, so underlying demand may be less visible than advertised ²⁰.
- **Governance/Legal:** Recently ISSC became the target of class-action “fraud” investigations (Portnoy and Schall Law Firms) ²⁹ ³⁰. These probe whether management misrepresented its business or financials. While unproven, they create uncertainty and could lead to costly litigation or reputational damage. No outcome is known, making future guidance suspect.
- **Dilution & Capital Structure:** The company has an active S-3 shelf (effective Oct 2022) and raised equity in Sept 2023 for acquisitions ³¹. Share count has crept up (~+1.1% YoY ³²). Given ISSC's cash burn and acquisition appetite, further equity raises or ATM offerings remain possible, diluting existing shareholders. There are also sizeable stock-based compensation programs (up to ~1.5M shares authorized). Debt levels rose on the new \$100M credit line ¹⁰, though current leverage is modest.
- **Operational:** Integration risk looms: the transition of Honeywell production to ISSC's Exton facility will “normalize” revenue after a short-term spike ³³. Q4'25 is expected to see lower sales from F-16 as inventory built by Honeywell is depleted ³⁴. Until efficiencies kick in, margins may stay volatile. Also, ISSC carries inventory and is exposed to aerospace cyclical swings (Covid-19 showed carriers can defer orders).
- **Liquidity/Float:** Although volume has improved, ISSC is still a small-cap with thin float (~14.7M) ²⁷. Large trades or institutional exits can swing price sharply. There's no dividend or buyback (shareholder yield is slightly negative) ³⁵.

Upcoming Catalysts (next 6 months)

- **FY2025 Q4 Results (Dec 2025):** Release expected in early Dec 2025. Key to watch: year-over-year growth rate, backlog revisions, and FY2026 guidance. Outperformance could boost the stock, while any guidance cut or accounting caveats would hurt.

- **Investor Conferences (Sep–Nov 2025):** Management will present at the H.C. Wainwright conference (Sept 8–10, 2025) ³⁶ and other roadshows. These could surface new details on execution (e.g. Exton plant ramp, M&A plans).
- **Defense Budget Decisions:** U.S. FY2026 defense budget proposals (typically fall 2025) may signal program funding (e.g. for aircraft modernization). Overseas defense spending (NATO commitments, Israel/Ukraine support) can also influence long-term orders.
- **Exton Facility Ramp-Up:** The new Exton plant (completed summer 2025) should start manufacturing Honeywell-designed products soon ³⁷. Successful ramp to full capacity (tripling output by mid-2026 ³⁸) is a catalyst for margin recovery.
- **Contract Awards/Milestones:** Any new contracts or long-term order book adds (e.g. for military avionics or FAA-mandated upgrades) would be positive, though none are publicly announced yet.
- **Litigation Developments:** No timeline, but if the class-action cases are settled or dismissed (or conversely, if charges are filed), the stock would react sharply either way.

Alpha Thesis

ISSC's potential alpha lies in its transformation into a **high-growth defense avionics play** which the market may still underappreciate. By consolidating Honeywell's avionics product lines under one roof, ISSC has positioned itself to capture stable, long-term military and retrofit revenues that previously went to larger OEMs ¹⁷ ¹⁸. Analysts forecast >30% YOY revenue and EBITDA growth for FY2025 ³⁹, driven by ~\$10–11M/Q from Honeywell programs and an expanding backlog (~\$72M as of Q3'25) ²⁰. Gross margins are expected to rebound (management targets mid-40% once integration costs fade ³⁹), implying substantial leverage on growing sales. The new Exton plant, once fully online, can handle \$250M+ annual sales ³⁸, a 3–4x jump from today, which would drastically improve revenue per share. If ISSC meets these growth targets, its current P/E~18 looks reasonable (PEG~0.5), leaving meaningful upside in the next 1–2 years.

What could go wrong: Key elements could break the thesis. If defense contracts (e.g. Lockheed orders) fail to repeat, backlog proves illusory, or integration synergies don't materialize, ISSC's revenue could stagnate or shrink. Equally, a continued bleed of cash without commensurate profit lift (given heavy capex and interest costs) would undermine valuation. Lastly, negative outcomes from the SEC/class-action probes would shatter confidence, invalidating the growth story.

Final Recommendation

[Sell]. The stock's recent run has priced in much of the positive story, while significant risks loom. Key points:

- **Legal/Governance Risk:** Active class-action fraud investigations ²⁹ ³⁰ introduce major uncertainty. Management credibility is in question, and any adverse finding could wipe out gains.
- **Concentration & Dilution:** Over 50% of sales hinge on one military program ²¹. Success is not yet diversified. Meanwhile, the company's shelf and past equity raises imply potential dilution if growth financing is needed ³¹.
- **Valuation vs. Catalysts:** At ~\$11 (more than double year-ago), ISSC is trading near its highs with little in-hand to justify more upside short-term. Future improvements (margin recovery, backlog orders) are uncertain and may take >6 months to materialize. Given the pronounced downside risks and a lack of imminent clear catalysts beyond steady execution, selling is prudent.

1 2 29 30 **Innovative Solutions and Support (ISSC) Stock Price & Overview**

<https://stockanalysis.com/stocks/issc/>

3 7 8 12 13 24 25 26 27 28 32 35 **Innovative Solutions and Support (ISSC) Statistics & Valuation**

<https://stockanalysis.com/stocks/issc/statistics/>

4 5 **INNOVATIVE SOLUTIONS AND SUPPORT, INC. _September 30, 2024**

<https://www.sec.gov/Archives/edgar/data/836690/000155837024016501/issc-20240930x10k.htm>

6 9 11 20 34 37 **Innovative Solutions & Support Reports Third Quarter 2025 Results**

<https://www.businesswire.com/news/home/20250814074825/en/Innovative-Solutions-Support-Reports-Third-Quarter-2025-Results>

10 **IS&S Announces New \$100 Million Credit Facility**

<https://www.businesswire.com/news/home/20250722023124/en/ISS-Announces-New-%24100-Million-Credit-Facility>

14 16 **Innovative Solutions and Support (ISSC) Company Profile & Description**

<https://stockanalysis.com/stocks/issc/company/>

15 19 **Innovative Solutions & Support Announces Acquisition of Additional Honeywell Product Lines | Innovative Solutions & Support, Inc.**

<https://presscenter.innovative-ss.com/press-releases/news-details/2024/Innovative-Solutions--Support-Announces-Acquisition-of-Additional-Honeywell-Product-Lines/default.aspx>

17 **Innovative Solutions & Support, Inc. Announces Acquisition of Several Honeywell Product Lines**

<https://www.businesswire.com/news/home/20230710069355/en/Innovative-Solutions-Support-Inc.-Announces-Acquisition-of-Several-Honeywell-Product-Lines>

18 **Innovative Solutions & Support Acquires License for Honeywell's Display Generator and Flight Control Computer Product Line, Strengthening Position in Military Market | Innovative Solutions & Support, Inc.**

<https://presscenter.innovative-ss.com/press-releases/news-details/2024/Innovative-Solutions--Support-Acquires-License-for-Honeywells-Display-Generator-and-Flight-Control-Computer-Product-Line-Strengthening-Position-in-Military-Market/default.aspx>

21 33 **INNOVATIVE SOLUTIONS AND SUPPORT, INC. _June 30, 2025**

<https://www.sec.gov/Archives/edgar/data/836690/000155837025011532/issc-20250630x10q.htm>

22 23 38 39 **Singular Research Reports on Innovative Solutions & Support's Q2 2025 Results**

https://www.newsfilecorp.com/release/253302/Singular-Research-Reports-on-Innovative-Solutions-Supports-Q2-2025-Results?utm_source=snapi

31 **Form 10-K for Innovative Solutions Support INC filed 12/30/2024**

https://www.annualreports.com/HostedData/AnnualReports/PDF/NASDAQ_ISSC_2024.pdf

36 **IS&S to Participate in the H.C. Wainwright Annual Investment Conference**

<https://www.businesswire.com/news/home/20250828892301/en/ISS-to-Participate-in-the-H.C.-Wainwright-Annual-Investment-Conference>