

July 11, 2023

ISSC: Acquisition Announced Should Be Highly Accretive to EBITDA and EPS

Yesterday, Innovative Solutions and Support announced an exclusive license agreement and acquisition of multiple product lines from Honeywell International (HON; not rated). This unique agreement provides ISSC with exclusive intellectual property rights for the manufacturing, upgrades and repair of specified Honeywell Inertial, Communication and Navigation products. It also includes existing inventory, testing equipment and tooling.

The press release stated that ISSC expects this transaction to add a material amount of sales and EBITDA to its results for its next fiscal year ending September 2024. ISSC also stated EPS accretion is expected for next year and this acquisition has a similar EBITDA margin profile to ISSC's current EBITDA margin or likely will after integration.

An important component of our investment thesis was ISSC's goal of increasing its capacity utilization to trigger a step-up of incremental gross margin and EBITDA margin. We expect this acquisition and exclusive licensing agreement to achieve that and likely closed already during the past week or so.

ISSC will host a conference call on Thursday, July 13, at 10:00 am EDT to provide further details. Investors are welcome to listen to the call by dialing 1-844-739-3798.

The press release did not specify figures or estimates for the contribution of revenues or EBITDA. We look forward to learning more about these specifics on Thursday morning. In our experience, when a company uses the word "material" in reference to the amount of contribution from an acquisition, we have typically interpreted that as a double-digit percentage addition.

We are unsure of how many financial details might be revealed during this public call on Thursday. More specifically, we refer investors to Page 3 of this report or Page 12 of our initiation of coverage report dated April 5. Three months ago, we estimated that ISSC could spend approximately \$50-55 million on an acquisition and fund 40% of it with its cash balance.

We present a possible scenario on Page 3 of this report. We look forward to fine-tuning our estimates either after the upcoming conference call or in August after the 10-Q filing, which might contain figures depending on the extent of confidentiality or restrictions by Honeywell. Our preliminary expectation is that the pricetag of this acquisition and licensing agreement could be \$45-55 million and add \$0.14-\$0.17 EPS on annual basis for the next fiscal year (September 2024). There could be up to 43% EPS accretion if ISSC structured an attractive purchase price, achieve successful integration and increase its overall incremental gross margin.

Funding. We are likely to learn the funding sources split on Thursday and assume that ISSC will use \$12-14 million of its recent \$20 million cash balance to fund this deal. The remaining cost will likely be funded from its new credit facility, which we estimate could be at a 6.6% interest rate.

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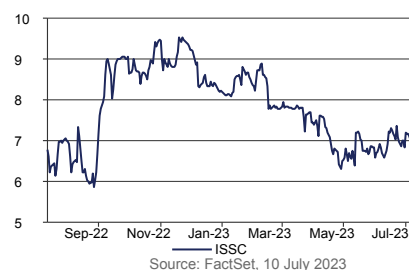
MARKET DATA

Rating	Buy
Price Target	\$11.00
Price	\$7.16
Average Daily Volume	14
52-Week Range	\$5.77-\$9.60
Market Cap (\$M)	\$124.9
Enterprise Value (\$M)	\$103.9
Dividend Yield	0.0%

ESTIMATES

		2022A	2023E	2024E
Revenue (\$M)	Q1	6.7	6.5	7.3
	Q2	6.8	7.3	8.2
	Q3	6.9	7.2	7.9
	Q4	7.3	7.6	8.1
	FY	27.7	28.6	31.6
EV/Sales		3.7x	3.6x	3.3x
EBITDA Adjusted	Q1	1.6	1.2	2.0
	Q2	2.1	1.9	2.4
	Q3	1.8	1.8	2.2
	Q4	2.4	1.9	2.3
	FY	7.9	6.7	8.9
EV/EBITDA		13.1	15.5	11.7
EPS Adjusted	Q1	0.07	0.05	0.08
	Q2	0.09	0.11	0.10
	Q3	0.08	0.08	0.10
	Q4	0.09	0.08	0.10
	FY	0.33	0.32	0.38
P/E		21.7x	22.4x	18.8x

One Year Performance Chart



Please see analyst certification and important disclosures on page 9 of this report.

Valuation. Our \$11 price target is based on a 29x P/E multiple of our 2024 adjusted EPS of \$0.38 (excluding the likely positive EPS accretion from the acquisition) compared to the peer group average of 28x P/E 2024. We believe ISSC warrants a slight premium for its above-average EBITDA margin next year and ability to significantly increase its capacity utilization to trigger higher gross margin.

Investment Risks. Risks include liquidity of the shares (low average daily volume traded), loss of a major customer, customer concentration, a severe slowdown in sales of its UMS product to Pilatus, quality control issues or failure of a major product, bankruptcy or insolvency of a large customer and acquisition integration.

Our Prior Estimates Before the Acquisition News

Our 2023 adjusted EPS estimate is \$0.32 for a 4% decline due to higher R&D and SG&A. This does not include the potential accretion from the recently announced acquisition and licensing deal. This year is unlikely to have EPS growth because of the one-off expenses of legal, professional, compensation catch-up for the executive management team, higher R&D expense and acquisition integration costs.

Our 2024 EPS estimate is \$0.38 for 19% growth, which does not include any acquisition contribution.

Acquisition Impact Assumptions

We estimate ISSC can generate a 75% incremental gross margin if it reaches \$45 million of annual sales. For perspective, we forecasted \$28 million of sales this year and \$32 million next year if no acquisitions had occurred. While we do not know the amount of revenues or EBITDA being acquired from Honeywell, we assume that ISSC was willing to utilize most of its cash balance and borrow more than its cash balance from a new credit revolver facility.

We assume that ISSC could have acquired up to \$18-20 million of annual sales, which should help it meet the \$45 million of sales inflection point needed to achieve a significant operating leverage benefit.

We calculate 43% EPS accretion if ISSC acquires \$18 million of sales to likely help its EBITDA margin expand from 28.2% to 31.5%. Our estimates assume a temporary increase in SG&A expense.

If ISSC spends possibly \$55 million on this acquisition and licensing deal, we estimate its debt leverage could become 2.2x Net Debt/EBITDA 2024 (excluding operating leases), but possibly 1.7x after our estimate of \$9 million of free cash flow next year to reduce debt.

Acquisition Analysis Estimate Scenario		
Sales (millions)	\$18.0 annual	
EBITDA at 25% Margin	\$4.5 annual	
Pricetag if 3.0x Sales paid	\$53.1	
Pricetag if 13x EV/EBITDA paid	<u>\$57.6</u>	
Blended Average Pricetag	\$55.4 possible acquisition pricetag	
Cash Balance Recently	\$19.8 March '23	
Cash Balance Forecast	\$21.1 June '23	
If 60% of Cash Used to Co-Fund	\$12.7	
Cash Remaining	<u>\$8.4</u> for working capital/operations	
Debt Raise Needed	\$42.7 estimate	
Interest Expense at 6.6%	\$2.8 annual if from credit facility	
EPS Accretion	\$0.17	annual
EPS % Accretion	43%	versus 2024 no acquisitions

Source: EF Hutton analysis and estimates

	2024E	2024E	
	Without Acquisitions	With Acquisitions	Increase Impact
Sales (millions)	\$31.6	\$49.6	\$18.0
Gross Margin	62.9%	67.3%	439 bps
SG&A % of Sales	24.2%	24.9%	68 bps
EBITDA Margin	28.2%	31.5%	329 bps
EPS Adjusted	\$0.38	\$0.55	43%
FCF (millions)	\$6.3	\$9.2	\$2.9

Source: EF Hutton analysis and estimates

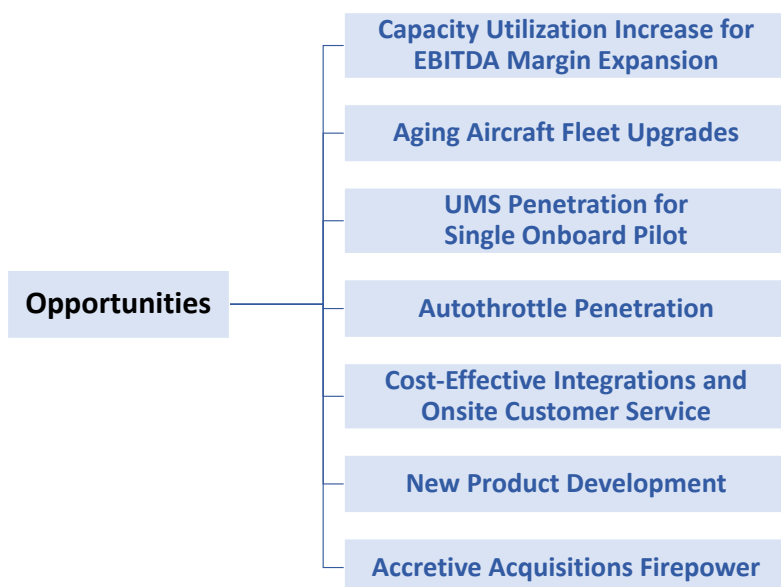
Investment Thesis

Innovative Solutions and Support is an under-followed stock, which could gain more institutional investor awareness over the next year. We like its UMS penetration opportunity, recurring revenues from retrofit upgrades of aging fleets, significant firepower for accretive acquisitions and an EBITDA margin higher than its peer group average next year.

In our view, investors are not fully appreciating how ISSC can utilize its cash balance and take on a reasonable debt to possibly achieve 43% EPS accretion (\$0.17) to our 2024 EPS estimate if it acquires \$18 million of sales. This important thesis component could improve ISSC's adjusted EBITDA margin to 31% as capacity utilization climbs at its manufacturing facility to better cover its fixed costs. Furthermore, we estimate that the company would not have to spend much on labor hiring or capital expenditures to double its revenues over the next several years.

We continue to see a path to \$0.50+ adjusted EPS in 2024 versus our \$0.32 estimate for this year. We look past this year's transitory EPS. For next year, we forecast 10% organic sales growth.

Growth catalysts include the UMS to help alleviate the ongoing pilot shortage, new product development, penetration of autothrottle, penetration of additional business jets, penetration of helicopters, expanding its onsite customer service and cost-effective timely integrations.



Source: EF Hutton analysis

Valuation

Our \$11 price target is based on a 29x P/E multiple of our 2024 adjusted EPS of \$0.38 (excluding the likely positive EPS accretion from the acquisition) compared to the peer group average of 28x P/E 2024. We believe ISSC warrants a slight premium for its above-average EBITDA margin next year and ability to significantly increase its capacity utilization to trigger higher gross margin.

If ISSC acquired \$15-20 million of annual sales from the recent deal with Honeywell, this could add up to \$0.17 and our \$11 price target could equate to pro-forma 20x P/E 2024 and 12.5x EV/EBITDA 2024.

Peer Group

Company	Ticker Symbol	Stock Price	Market Cap (\$ million)	Enterprise Value (\$ million)	P/E 2023E	P/E 2024E	EV/EBITDA 2023E	EV/EBITDA 2024E	EBITDA Margin 23E	EBITDA Margin 24E
Honeywell Intl.	HON	\$207.74	138,237	148,730	22.7x	20.6x	15.8x	14.7x	25.5%	26.0%
TransDigm Group	TDG	\$881.49	48,419	65,946	39.4x	33.1x	21.1x	19.3x	50.6%	50.7%
Curtiss-Wright	CW	\$185.48	7,112	8,311	21.0x	19.3x	14.3x	13.5x	21.6%	16.0%
HEICO Corp.	HEI	\$174.99	20,975	21,909	57.9x	50.1x	30.5x	27.7x	26.4%	27.0%
Woodward	WWD	\$118.59	7,120	7,807	33.4x	27.9x	18.7x	16.1x	15.2%	16.5%
Aerojet Rocketdyne	AJRD	\$54.85	4,419	4,507	25.2x	24.8x	15.0x	14.0x	12.6%	13.1%
AeroVironment	AVAV	\$97.97	2,551	2,535	59.6x	41.0x	24.2x	18.2x	18.8%	21.6%
Mercury Systems	MRCY	\$33.85	1,970	2,488	18.8x	14.7x	12.8x	10.5x	18.6%	21.2%
RBC Bearings	RBC	\$218.08	6,288	7,652	28.3x	24.9x	16.9x	16.4x	30.2%	29.6%
Howmet Aerospace	HWM	\$50.24	20,764	24,035	29.6x	24.7x	16.8x	14.8x	22.5%	23.9%
Safran SA	ENXTPA:SAF	€ 136.84	€ 57,481	€ 57,384	27.3x	21.6x	12.9x	10.9x	19.2%	20.4%
Hexcel	HXL	\$77.83	6,567	7,145	40.1x	30.4x	19.1x	16.0x	21.1%	22.6%
Collins Aerospace	part of Rockwell Collins/United Technologies/Raytheon Technologies									
Esterline Technologies	part of TransDigm									
Peer Average					33.6x	27.8x	18.2x	16.0x	23.5%	24.1%
Peer Median					28.9x	24.8x	16.8x	15.4x	21.3%	22.1%
Innovative Solutions & Support	ISSC	\$7.16	125	129	22.3x	18.7x	19.3x	14.5x	23.4%	28.2%

Source: S&P Capital IQ & EF Hutton estimates as of 7/10/23. Past performance is not indicative of future results or performance.

Financial Model & Forecasts (*not pro-forma; excludes the positive contribution from Honeywell deal*)

We expect to update our estimates after learning the financial figures and estimates from the acquisition.

	Dec Mar June Sept						Dec Mar June Sept						Dec Mar June Sept					
(In Millions USD, September Year-End)	2020	2021	1Q	2Q	3Q	4Q	2022	1Q	2Q	3QE	4QE	2023E	1QE	2QE	3QE	4QE	2024E	
Revenues:																		
Products & Systems	20.8	22.8	6.7	6.6	6.9	7.0	27.3	6.1	7.3	7.0	7.6	28.1	7.2	8.0	7.7	7.9	30.9	
% change (yoy)	29%	9%	39%	30%	16%	2%	20%	-8%	3%	1%	8%	3%	17%	10%	10%	5%	10%	
Engineering Development Contracts	0.8	0.3	-	0.2	-	0.3	0.5	0.4	-	0.2	-	0.6	0.2	0.2	0.2	0.2	0.7	
% change (yoy)	-44%	-64%	-100%	934%	-100%	NM	62%	NM	-100%	NM	-100%	23%	-59%	NM	-25%	NM	23%	
Total Revenues	21.6	23.0	6.7	6.8	6.9	7.3	27.7	6.5	7.3	7.2	7.6	28.6	7.3	8.2	7.9	8.1	31.6	
% change (yoy)	22.9%	6.7%	37.5%	33.7%	12.2%	5.7%	20.4%	-2.7%	7.2%	3.9%	4.1%	3.2%	12.7%	12.3%	9.0%	7.6%	10.3%	
Organic Sales Growth (excl Acquisitions)	22.9%	6.7%	37.5%	33.7%	12.2%	5.7%	20.4%	-2.7%	7.2%	3.9%	4.1%	3.2%	12.7%	12.3%	9.0%	7.6%	10.3%	
Backlog	3.6	9.1	6.2	7.5	12.6	11.8	11.8	8.5	14.8	15.3	15.3	15.3	15.8	16.3	16.8	16.8	16.8	
% change (yoy)	-38%	151%	48%	13%	33%	29%	29%	37%	96%	22%	30%	30%	86%	10%	10%	10%	10%	
% change (sequential qoq)	-38%	151%	-32%	21%	67%	-6%	29%	-28%	74%	3%	0%	30%	3%	3%	3%	0%	10%	
Orders	19.3	31.5	3.8	5.3	13.3	6.5	28.8	3.3	13.6	7.7	7.6	32.1	7.8	8.7	8.4	8.1	33.1	
% change (yoy)	10%	63%	-30%	-35%	16%	-1%	-9%	-14%	159%	-42%	17%	12%	141%	-36%	8%	8%	3%	
% change (sequential qoq)	10%	63%	-42%	39%	153%	-52%	-9%	-50%	319%	-43%	-2%	12%	-76%	11%	-4%	-3%	3%	
Book/Bill	0.90x	1.37x	0.57x	0.77x	1.92x	0.89x	1.04x	0.50x	1.86x	1.07x	1.00x	1.12x	1.07x	1.06x	1.06x	1.00x	1.05x	
Cost of Sales	9.8	10.3	2.7	2.7	2.9	2.8	11.1	2.8	2.6	2.8	2.9	11.0	2.8	3.0	2.9	3.1	11.7	
Gross Profit	11.8	12.8	4.0	4.2	4.1	4.5	16.7	3.7	4.7	4.4	4.7	17.6	4.6	5.3	4.9	5.1	19.9	
Gross Profit Margin	54.7%	55.5%	59.3%	61.1%	58.5%	61.5%	60.1%	57.1%	64.6%	61.7%	61.8%	61.4%	62.4%	64.1%	62.7%	62.3%	62.9%	
Gross Margin Change (yoy)	(167 bps)	81 bps	657 bps	442 bps	421 bps	392 bps	464 bps	(211 bps)	348 bps	320 bps	27 bps	131 bps	524 bps	(45 bps)	105 bps	49 bps	148 bps	
Gross Profit Margin (Products)	54.0%	55.2%	59.3%	60.2%	58.5%	62.1%	60.0%	55.5%	64.6%	61.7%	61.8%	61.1%	62.3%	64.1%	62.7%	62.2%	62.8%	
Gross Profit Margin (Engineering Dvlp)	71.5%	72.7%	NM	91.6%	NM	45.3%	65.2%	84.4%	NM	62.0%	62.0%	76.5%	66.0%	66.0%	66.0%	66.0%	66.0%	
Operating Expenses:																		
Selling, General and Administrative	6.1	6.3	1.8	1.7	1.7	1.5	6.8	2.3	2.4	1.9	1.9	8.6	1.8	2.0	1.9	1.9	7.7	
% change (yoy)	4%	3%	4%	8%	12%	8%	8%	25%	42%	14%	27%	27%	-19%	-17%	-3%	-2%	-11%	
Research & Development	3.0	2.6	0.7	0.7	0.7	0.6	2.7	0.7	0.9	0.9	1.0	3.5	1.0	1.1	1.0	1.0	4.0	
% change (yoy)	19%	-11%	23%	-6%	5%	-6%	3%	-9%	33%	38%	58%	29%	45%	23%	5%	-1%	15%	
Total Operating Expenses	9.1	8.9	2.5	2.4	2.4	2.2	9.5	2.9	3.3	2.9	3.0	12.1	2.8	3.1	2.9	2.9	11.7	
% change (yoy)	8%	-2%	9%	4%	10%	4%	7%	15%	39%	21%	36%	28%	-4%	-7%	0%	-1%	-3%	
Operating Income (Loss)	2.7	3.9	1.4	1.8	1.7	2.3	7.2	0.8	1.4	1.6	1.7	5.5	1.8	2.2	2.1	2.2	8.2	
% change (yoy)	80%	NM	513%	196%	41%	23%	85%	-44%	-21%	-7%	-25%	-24%	124%	54%	31%	25.7%	49%	
Interest Income or Expense	0.2	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.4	-	-	-	-	-	
Other Income or Expense	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	-	-	0.0	-	-	-	-	-	
Income before Taxes	3.0	4.0	1.4	1.8	1.7	2.4	7.3	0.9	1.6	1.7	1.7	5.9	1.8	2.2	2.1	2.2	8.2	
Income Taxes	(0.3)	(1.1)	0.3	0.4	0.4	0.8	1.8	0.2	0.3	0.4	0.4	1.4	0.4	0.5	0.5	0.5	2.0	
Tax Rate	-10.4%	-27.4%	21.3%	21.4%	20.9%	32.2%	24.8%	24.5%	19.6%	25.7%	25.7%	23.9%	24.7%	24.7%	24.7%	24.7%	24.7%	
Net Income (GAAP)	3.3	5.1	1.1	1.4	1.4	1.6	5.5	0.7	1.3	1.3	1.3	4.5	1.3	1.7	1.5	1.6	6.2	
Add-back: Stock-based Compensation	0.2	0.3	0.1	0.2	0.1	0.0	0.3	0.3	0.7	0.2	0.2	1.4	0.2	0.2	0.2	0.2	0.7	
Net Income Adjusted (excl stock comp)	3.4	5.3	1.2	1.6	1.4	1.6	5.8	0.9	1.9	1.4	1.4	5.6	1.5	1.8	1.7	1.8	6.9	
EPS (GAAP, diluted)	\$0.19	\$0.29	\$0.07	\$0.08	\$0.08	\$0.09	\$0.32	\$0.04	\$0.07	\$0.07	\$0.07	\$0.26	\$0.08	\$0.10	\$0.09	\$0.09	\$0.35	
EPS Adjusted (excl stock-based comp)	\$0.20	\$0.31	\$0.07	\$0.09	\$0.08	\$0.09	\$0.33	\$0.05	\$0.11	\$0.08	\$0.08	\$0.32	\$0.08	\$0.10	\$0.10	\$0.10	\$0.38	
% change (yoy)	70%	55%	336%	103%	-49%	4%	8%	-24%	19%	0%	-13%	-4%	58%	-5%	20%	23%	19%	
EBITDA	3.2	4.3	1.5	1.9	1.8	2.4	7.6	0.9	1.5	1.7	1.8	5.8	1.9	2.3	2.1	2.2	8.6	
% change (yoy)	61%	36%	338%	164%	36%	22%	75%	-42%	-21%	-7%	-25%	-23%	113%	52%	30%	25%	46%	
EBITDA Adjusted (excl stock-based comp)	3.4	4.7	1.6	2.1	1.8	2.4	7.9	1.2	1.9	1.8	1.9	6.7	2.0	2.4	2.2	2.3	8.9	
% change (yoy)	56%	39%	309%	123%	36%	21%	70%	-28%	-9%	-4%	-21%	-15%	74%	26%	28%	23%	33%	
Shares Outstanding (diluted)	17.1	17.2	17.2	17.3	17.3	17.3	17.3	17.3	17.4	17.4	17.4	17.4	17.4	17.5	17.5	17.5	17.5	
Margins:																		
Gross Margin	54.7%	55.5%	59.3%	61.1%	58.5%	61.5%	60.1%	59.3%	64.6%	61.7%	61.8%	61.4%	62.4%	64.1%	62.7%	62.3%	62.9%	
EBITDA Margin	14.7%	18.8%	22.6%	27.8%	25.6%	32.9%	27.3%	13.5%	20.6%	23.0%	23.8%	20.4%	25.4%	27.8%	27.3%	27.6%	27.1%	
EBITDA Adjusted (excl stock-based comp)	15.5%	20.3%	23.9%	30.2%	26.4%	33.3%	28.6%	17.8%	25.6%	24.4%	25.1%	23.4%	27.5%	28.7%	28.6%	28.8%	28.2%	
Operating Margin Adjusted (excl stock comp)	13.5%	18.4%	22.5%	28.8%	25.1%	32.1%	27.2%	16.5%	24.4%	23.2%	24.0%	22.2%	26.2%	27.6%	27.5%	27.7%	27.0%	
Net Margin	15.1%	22.0%	16.9%	20.9%	19.6%	22.1%	19.9%	10.7%	17.3%	17.5%	16.9%	15.8%	18.2%	20.1%	19.7%	19.9%	19.5%	
Operating Expenses as % of Sales	41.9%	38.5%	38.0%	34.7%	34.2%	29.9%	34.1%	45.0%	45.1%	39.9%	39.1%	42.2%	38.2%	37.4%	36.6%	35.8%	37.0%	
SG&A as % of Sales	28.2%	27.2%	27.0%	25.2%	24.4%	21.0%	24.3%	34.7%	33.3%	26.9%	25.7%	30.0%	25.0%	24.5%	24.0%	23.5%	24.2%	
R&D as % of Sales	13.7%	11.4%	11.0%	9.5%	9.8%	8.8%	9.8%	10.3%	11.8%	13.0%	13.4%	12.2%	13.2%	12.9%	12.6%	12.3%	12.7%	

Adjusted EPS & Adjusted EBITDA are non-GAAP figures. We exclude stock-based compensation & restructuring expense to match the company's methodology and many peers.

Backlog is mostly comprised of Pilatus PC-24, Textron King Air and KC-46A programs. Other customers have included DHL, FedEx, Amazon, Air Transport Services, American Airlines, Boeing, Lockheed Martin, L3 Harris, U.S. Dept of Defense, L

Source: EF Hutton estimates, Company Reports & Filings

Free Cash Flow (*not pro-forma; excludes the positive contribution from Honeywell deal*)

(In Millions USD, September Year-End)			Dec	Mar	June	Sept		Dec	Mar	June	Sept	
2020	2021	2022	1Q	2Q	3QE	4QE	2023E	1QE	2QE	3QE	4QE	2024E
Debt (excl operating leases)	0	0	0	0	0	0	0	0	0	0	0	0
Cash & Equivalents (excl restricted cash)	13	8	17	19	20	21	22	22	25	27	28	22
Net Debt (incl operating leases)	33	35	11	6	4	2	0	0	-3	-4	-6	-1
Net Cash (excl operating leases)	-13	-8	-17	-19	-20	-21	-22	-22	-25	-27	-28	-22
Debt/EBITDA LTM (excl op leases)	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x
Net Debt/Adj EBITDA LTM (excl one-offs)	-3.8x	-1.8x	-2.2x	-2.6x	-2.7x	-2.9x	-3.3x	-3.3x	-3.3x	-3.3x	-3.2x	-2.5x
Free Cash Flow:												
Net Income (reported)	3	5	6	1	1	1	1	5	1	2	2	6
Depreciation & Amortization	0	0	0	0	0	0	0	0	0	0	0	0
Working Capital/Other Non-Cash Items	-2	-1	0	1	-1	0	0	0	1	0	0	0
Operating Cash Flow	2	5	6	2	0	1	1	5	2	2	2	7
Capital Expenditures (gross, not net)	0	0	0	0	0	0	0	0	0	0	0	0
Free Cash Flow	2	4	6	2	0	1	1	5	2	2	2	6
Dividends*	20	0	0	0	0	0	0	0	0	0	0	0
Acquisitions (gross, not net of divestitures)	0	0	0	0	0	0	0	0	0	0	0	0
FCF Conversion of Adjusted EBITDA	62%	91%	75%					71%				71%

Source: EF Hutton estimates, Company Reports & Filings

Balance Sheet & Liquidity (*as of 3/31/23*)

(US Dollars in Millions)

Assets	3/31/23	Liabilities	3/31/23
Current Assets		Current Liabilities	
Cash & Cash Equivalents	19.8	Accounts Payable	1.5
Accounts Receivables	4.0	Accrued Expenses	2.0
Contract Assets	0.2	Contract Liability	0.2
Inventories	6.0	Contract Liability (related party)	0.0
Prepaid Expenses & Other Current Assets	2.0		
		Non-Current Liabilities	
Non-Current Assets		Other Liabilities	0.4
Property & Equipment (net)	6.2	Commitments & Contingencies (see Note 6)	
Deferred Income Taxes	0.6	Total Liabilities	4.1
Other Assets	0.2		
		Shareholder's Equity	
		Total Shareholder's Equity	34.5
		Total Liabilities & Shareholder's Equity	38.6

Source: Company Reports & Filings

Risks to Our Buy Rating & Price Target

In addition to the risks mentioned below, we strongly encourage investors to review the regulatory filings for additional risk factors.

- Economic recession or a macro slowdown
- Loss of a large customer and customer concentration risk from Pilatus and Textron Aviation
- Bankruptcy or insolvency of a key customer
- Cancellation of an aircraft program
- Supply chain disruptions
- Increased competition or substitutes
- Failure to achieve adequate sales volumes on its UMS product or autothrottle product
- Quality control issues or failures
- FAA regulation changes that negatively impact revenues
- Intellectual property infringement by competitors
- Inventory write-down
- Cybersecurity incident or hacking of ISSC systems or products
- Liquidity of the stock shares (low average daily volume traded)
- Dilution to shareholders from an equity raise or private placement to fund an acquisition
- Integration of acquisitions
- Overpaying for acquisition targets

Important Disclosures

Analyst Certification

I, Tim Moore, CFA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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EF Hutton rating definitions are expressed as the total return relative to the expected performance of S&P 500 over a 12-month period.

BUY (B) - Total return expected to exceed S&P 500 by at least 10%

HOLD (H) - Total return expected to be in-line with S&P 500

SELL (S) - Total return expected to underperform S&P 500 by at least 10%

Distribution of Ratings/IB Services

EF Hutton

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	163	97.02	0	0.00
HOLD	5	2.98	0	0.00
SELL	0	0.00	0	0.00

Innovative Solutions and Support, Inc. Rating History as of 07/07/2023

