

Cubic CFO Commentary

FY2018 Financial Results

FY2018 Key Takeaways

Continuing operations

- Achieved all six Goal 2020 growth catalysts
- Highest backlog in company history: \$4.1b
- 4Q: record sales and record Adj. EBITDA
- FY18: record annual sales
- Major project execution on track
- Achieved FY18 guidance
- T2C2 unused ceiling of ~\$750m (not included in backlog)
- Acquired Trafficware for \$235.7m to advance our NextCity strategy¹

FY2019 Outlook

- FY2019 Guidance
(constant currency basis; adoption of ASC 606)
 - Sales: \$1,370m - \$1,450m
(13% organic growth at midpoint)
 - Adj. EBITDA: \$135m - \$155m
(24% organic growth at midpoint)
- Includes Trafficware Fiscal 2019P contribution: Sales \$50m and Adj. EBITDA \$14-\$15m (~11 months)
 - Expected to be Cash EPS accretive first full year, excluding transaction costs

FY2018 Key Metrics

Continuing operations

- Bookings \$2.78b, up 124% YoY²
- Book to bill ratio of 231%
- Sales \$1.203b, up 8% YoY²
- Non-GAAP Adjusted EBITDA \$104.6m, up 17% YoY²
- Operating income \$24.4m compared to \$2.6m in FY17
- Net income from continuing operations attributable to Cubic of \$8.1m, or \$0.29 per share
- Free Cash Flow³ of (\$23.1m) compared to (\$39.9m) in FY17
 - (\$0.7m) Adjusted Free Cash Flow (Boston)³

1. The acquisition of Trafficware was announced and closed on October 24, 2018.

2. Growth rates reflect constant currency basis, adjusted for FX tailwinds of \$12.0m bookings, \$11.9m sales, and \$2.2m Adj. EBITDA. Unadjusted growth rates: bookings +125%, sales +9%, and Adj. EBITDA +20%.

3. Free Cash Flow, which is a non-GAAP financial measure, is defined as Net cash provided by (used in) continuing operating activities minus capital expenditures. Adjusted Free Cash Flow is Free Cash Flow minus operating cash flow associated with the Boston SPV. See appendix for reconciliation.

Cubic Key Financial Highlights FY17 – FY18

(In \$ millions, except earnings per share)

	FY17	FY18	YoY Change
Bookings	\$ 1,234	\$ 2,780	125% ⁽¹⁾
Book to Bill %	111%	231%	120 pts
Sales	1,108	1,203	9% ⁽²⁾
Gross Profit	328	368	12%
% to Sales	30%	31%	1 pts
SG&A	241	259	7%
% to Sales	22%	22%	0 pts
Research & Development	53	52	0%
% to Sales	5%	4%	-1 pts
Adjusted EBITDA	87	105	20% ⁽³⁾
% to Sales	8%	9%	1 pts
Operating Income	3	24	828%
% to Sales	0%	2%	2 pts
EPS from continuing operations attributable to Cubic (\$)	(\$0.95)	\$0.29	131%
Free Cash Flow ⁽⁴⁾	(40)	(23)	42%
Capital Expenditures	37	32	-14%
	30-Sep-17	30-Sep-18	Change
Total Cubic Backlog	2,537	4,065	60%

(1) constant currency bookings growth is 124%

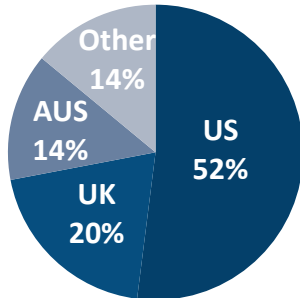
(2) constant currency sales growth is 8%

(3) constant currency Adjusted EBITDA growth is 17%

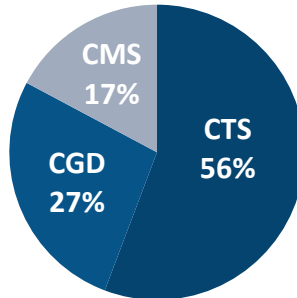
(4) Free Cash Flow, which is a non-GAAP financial measure, is defined as Net cash provided by (used in) continuing operating activities minus capital expenditures

Cubic Sales Mix

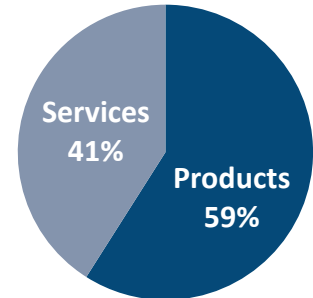
Sales by Geography



Sales by Segment



Sales by Type



Cubic Transportation Systems

Bookings

- Total FY18 bookings of \$2,239m, up 182% YoY (constant currency)
- Book to bill ratio of 334%

Backlog

- Backlog of \$3.5b

Sales

- Total FY18 sales of \$670.7m, up 14% YoY (constant currency)

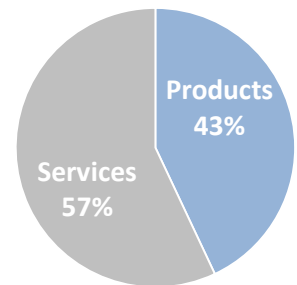
R&D

- R&D decreased by \$12.9m to \$13.4m in FY18. FY17 R&D included \$6.4 million of expenses related to our New York MTA contract that was awarded in early fiscal 2018; expenses incurred in 2018 are classified as cost of sales.

Adjusted EBITDA

- Adjusted EBITDA of \$73.3m, up 45% YoY (constant currency)

CTS
Sales By Type



Cubic Global Defense

Bookings

- Total FY18 bookings of \$327.5m, up 20% YoY

Backlog

- Backlog of \$442.6m

Sales

- Total FY18 sales of \$325.2m

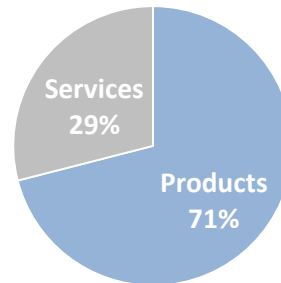
R&D

- Research and development expense increased by \$1.8m in FY18 to \$16.3m due to our development of next generation live, virtual, constructive, and game-based training systems.

Adjusted EBITDA

- Adjusted EBITDA of \$26.3m. FY17 Adjusted EBITDA was favorably impacted by an \$8m gain recognized on an equitable contract adjustment.
- Similar Adj. EBITDA YoY excluding R&D investment (\$1.8m YoY), legal arbitration (\$1.7m in Q4), and FY17 REA impact (\$8m)

CGD Sales By Type



Cubic Mission Solutions

Bookings

- Total FY18 bookings of \$213.4m, up 24% YoY

Backlog

- Backlog of \$77.0m
(excludes ~\$750m of T2C2 unused ceiling)

Sales

- Total FY18 sales of \$207.0m, up 23% YoY

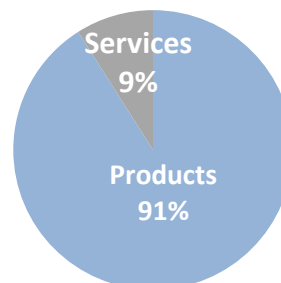
R&D

- Research and development expense increased by \$10.8m in FY18 to \$22.7m, largely related to the acceleration in our development of our software definable antenna technology.

Adjusted EBITDA

- Adjusted EBITDA of \$26.2m, up 82% YoY

CMS Sales By Type



APPENDIX

GAAP to Non-GAAP EBITDA & Adjusted EBITDA Reconciliation Continuing Operations - Twelve Months and Three Months Ended September 30, 2018 and September 30, 2017

(\$ In Millions)	Twelve Months Ended September 30,		Three Months Ended September 30,	
	2018	2017	2018	2017
Cubic Transportation Systems				
Sales	\$ 670.7	\$ 578.6	\$ 192.6	\$ 170.7
Operating income	\$ 60.4	\$ 39.8	\$ 17.7	\$ 23.3
Depreciation and amortization	12.0	8.8	2.9	2.0
Acquisition related expenses, excluding amortization	0.5	(0.2)	0.5	-
Restructuring costs	0.4	0.4	(0.2)	-
Adjusted EBITDA	\$ 73.3	\$ 48.8	\$ 20.9	\$ 25.3
Adjusted EBITDA margin	10.9%	8.4%	10.9%	14.8%
Cubic Mission Solutions				
Sales	\$ 207.0	\$ 168.9	\$ 95.1	\$ 65.6
Operating income (loss)	\$ (0.1)	\$ (9.3)	\$ 17.1	\$ 5.2
Depreciation and amortization	22.4	23.8	6.6	5.7
Acquisition related expenses, excluding amortization	3.7	(0.1)	1.1	0.5
Restructuring costs	0.2	-	0.2	-
Adjusted EBITDA	\$ 26.2	\$ 14.4	\$ 25.0	\$ 11.4
Adjusted EBITDA margin	12.7%	8.5%	26.3%	17.4%
Cubic Global Defense				
Sales	\$ 325.2	\$ 360.2	\$ 92.0	\$ 112.8
Operating income	\$ 16.6	\$ 28.1	\$ 3.0	\$ 9.7
Depreciation and amortization	8.5	10.4	2.4	3.1
Acquisition related expenses, excluding amortization	(0.1)	-	-	-
Restructuring costs	1.3	0.9	0.3	(0.3)
Adjusted EBITDA	\$ 26.3	\$ 39.4	\$ 5.7	\$ 12.5
Adjusted EBITDA margin	8.1%	10.9%	6.2%	11.1%
Cubic Consolidated				
Sales	\$ 1,202.9	\$ 1,107.7	\$ 379.7	\$ 349.1
Net income (loss) from continuing operations attributable to Cubic	\$ 8.1	\$ (25.7)	\$ 22.0	\$ 9.6
Noncontrolling interest in loss of VIE	(0.3)	-	1.6	-
Provision for income taxes	7.1	14.6	2.8	8.7
Interest expense, net	8.8	14.1	2.5	2.6
Other non-operating expense (income), net	0.7	(0.4)	(1.2)	0.3
Operating income	24.4	2.6	27.7	21.2
Depreciation and amortization	46.6	48.0	12.5	12.2
Other non-operating (expense) income, net	(0.7)	0.4	1.2	(0.3)
EBITDA	70.3	51.0	41.4	33.1
Acquisition related expenses, excluding amortization	4.5	(0.2)	2.0	0.6
ERP/Supply chain initiatives	24.1	34.4	5.3	10.8
Restructuring costs	5.0	2.3	1.6	0.7
Loss on sale of fixed assets	-	0.4	-	-
Other non-operating expense (income), net	0.7	(0.4)	(1.2)	0.3
Adjusted EBITDA	\$ 104.6	\$ 87.5	\$ 49.1	\$ 45.5
Adjusted EBITDA margin	8.7%	7.9%	12.9%	13.0%

Items backed out of Adjusted EBITDA are comprised of expenses incurred in the development of our ERP system and the redesign of our supply chain which include internal labor costs and external costs of materials and services that do not qualify for capitalization, business acquisition expenses including retention bonus expenses, due diligence and consulting costs incurred in connection with the acquisitions, expenses recognized related to the change in the fair value of contingent consideration for acquisitions, restructuring costs, gains and losses on disposals of fixed assets, and income and expenses classified as other non-operating income and expenses which may vary for different companies for reasons unrelated to operating performance.

APPENDIX

GAAP to Non-GAAP Reconciliation: Adjusted Free Cash Flow Continuing Operations - Twelve Months and Three Months Ended September 30, 2018 and September 30, 2017

(\$ In Millions) Cubic Consolidated	Twelve Months Ended September 30,		Three Months Ended September 30,	
	2018	2017	2018	2017
Net cash provided by (used in) continuing operating activities	\$ 8.6	\$ (3.0)	\$ 40.4	\$ 42.3
Capital expenditures	(31.7)	(36.9)	(10.6)	(11.4)
Free Cash Flow	(23.1)	(39.9)	29.8	30.9
Less: operating cash flow associated with SPV	(22.4)	-	(6.6)	-
Adjusted Free Cash Flow	\$ (0.7)	\$ (39.9)	\$ 36.4	\$ 30.9

Free Cash Flow and Adjusted Free Cash Flow are non-GAAP financial measures. Free Cash Flow is defined as Net cash provided by (used in) continuing operating activities minus capital expenditures. Management believes that Free Cash Flow is meaningful to investors because management reviews cash flows generated from operations after taking into consideration capital expenditures, which are necessary to maintain and expand Cubic's business. Adjusted Free Cash Flow is Free Cash Flow minus operating cash flow associated with the Boston Special Purpose Vehicle (SPV). Additional information regarding the company's Boston SPV can be found in Form 10-K for the year ended September 30, 2018.

It is important to note that Free Cash Flow or Adjusted Free Cash Flow does not represent the residual cash flow available for discretionary expenditures since other non-discretionary expenditures are not deducted from the measure. Cubic reconciles Free Cash Flow and Adjusted Free Cash Flow to Net cash provided by (used in) continuing operating activities.