

Calian Group Ltd. (TSE: CGY)

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Initiating Coverage with a Buy-Rating

Short-Term Issues Easing & Defense Tailwinds on the Way

Calian Group is a diversified professional services and technology firm that provides personnel and engineering expertise to governments and global corporations. The firm can be viewed as a portfolio company, as it serves its clients across four different verticals: Health, IT and Cybersecurity, Advanced Technologies, and Learning (defense training).

For example, the company provides technical training and support for aircraft technicians in the Royal Canadian Air Force. In its Advanced Technologies division, Calian designs and installs large scale satellite ground stations for space communications.

Calian is currently sharply increasing its exposure to Canadian and NATO defense, from about 40% of sales in 2022 to now representing 70% of backlog. We believe Calian is set to benefit from the highest growth in Canadian defense spending since World War II, as well as the recent boom in NATO spending.

Per our management meetings, we believe the company has recently changed its tone and investor marketing material to position the company as a defense beneficiary. We believe, this has not yet been reflected in the share price. As we move past short term issues with the ITCS segment (to be divested) & Canadian government delays, we expect earnings growth to be much higher than historical levels.

Investment Thesis Summary

1) Direct Exposure to Fast Growing Canadian and NATO Defense: We expect Canadian and NATO defense spending to grow in the high single digits over the next five years, with Calian positioned as a direct beneficiary of this increase. Defense contracts typically carry higher margins, which creates a long-term tailwind that could support a valuation multiple re-rating.

2) Proven Accretive Acquisition Strategy: Since the arrival of Kevin Ford, the company has executed a disciplined acquisition strategy. Calian generates consistent cash flow (60% EBITDA conversion) and acquires companies that can be integrated into its verticals for cross-selling and cost synergies. CGY typically pays around 6.0x EBITDA and targets businesses with higher margins than its consolidated average, which delivers great returns for shareholders.

3) Through Valuation, Moving Past Short-Term Issues: Calian has faced delays in government spending and challenges within its ITCS segment over the past year. However, organic growth is beginning to recover as government delays ease, and a potential sale of the ITCS segment would remove a key drag on results.

Rating (2025/12/01)	BUY
Industry	Industrials

Price Targets	
Share Price (2025/12/01)	\$55.48
1-Year Price Target	\$86
5-Year Price Target	\$168

Financial Overview (USD)	
Market Cap	649.1M
Net Debt / (Net Cash)	85.0M
Enterprise Value	734.0M
Dividend Yield	1.68%

Financials Estimates (FY 2026E)	
Sales	861.2M
Adj. EBITDA	97.1M

Valuation Metrics (NTM)	
EV/EBITDA	7.6x
EV/FCF	13.0x
P/E	11.5x

Five-Year Price Performance Chart

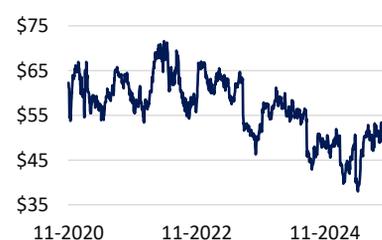


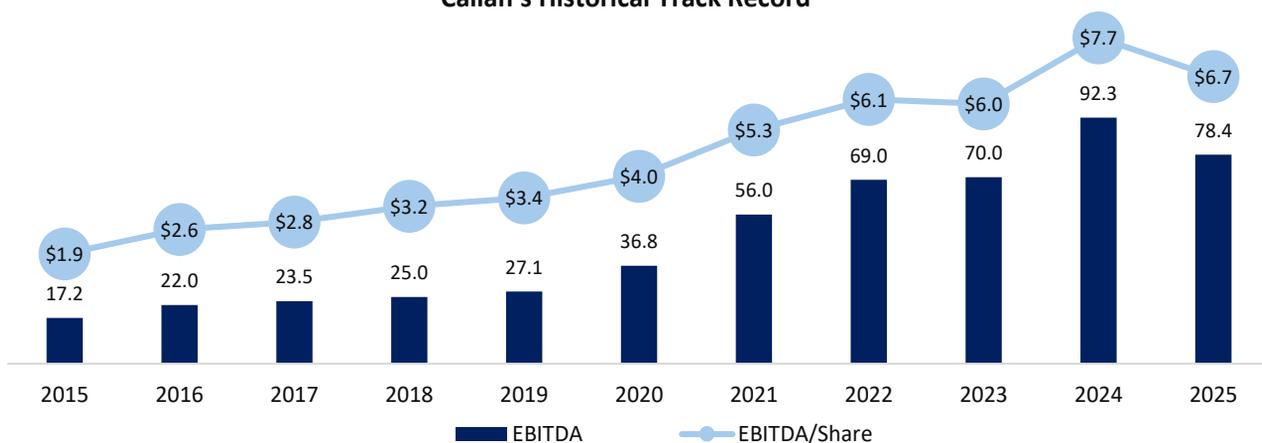
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Initiation Rationale Following Q4 2025 Results

Calian has been in an interesting position over the past few years, with changing investor views. Since the appointment of Kevin Ford as CEO in 2015, the company has pursued a new, more shareholder friendly strategy. Under his leadership, Calian shifted its business mix toward defense and mission-critical services, whereas the company was previously more focused on traditional IT and professional staffing. M&A became more disciplined, with a clear playbook and an increased focus on margin expansion. This led Calian to become a quality compounder, increasingly proving itself in the North American market.

Calian's Historical Track Record



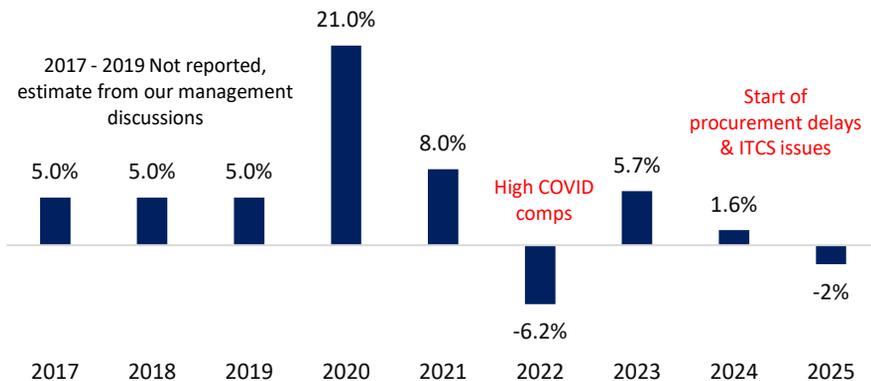
Source: Aurelion Research, Company Filings

However, following a sharp increase in the stock price in late 2020, the company began to face issues within the IT & Cyber Solutions segment, alongside delays caused by a new election cycle and government transition in Canada. These factors led to several quarters of organic revenue decline.

As a result, the view that the business was largely protected from negative organic growth due to its diversification weakened. The stock declined to approximately 5.8x forward EBITDA, well below its long-term average of ~8x and its 2021 peak of ~15x. Moreover, these periods of negative organic growth were not always anticipated or clearly communicated, as guidance was lowered multiple times and earnings were missed. Throughout this period, Aurelion's team spoke with management, including Kevin Ford, Patrick Houston, and Jennifer, multiple times to better understand the situation. We believe these issues were temporary rather than structural.

We now believe this is the right time to enter the company and gain exposure to a stable compounder positioned to benefit from improving growth. In addition to Calian's long-term playbook, we see two shorter-term opportunities that enhance the investment case.

Calian Consolidated Organic Growth



Source: Aurelion Research, Company Filings

1. Improved Visibility and Recovery in Growth and Margins

We now have higher visibility that short-term issues are fading, leading to a recovery in both organic growth and margins. Q4 2025 results delivered 6% organic growth, alongside 6% acquired growth, which we view as a clear turning point in the story.

First, delays related to Canadian government procurement appear to be largely resolved. Second, Patrick Houston, formerly CFO, has been appointed CEO. We believe management will seek to divest the ITCS segment when conditions improve, allowing for a more attractive valuation. During this transition, the company has been more vocal about the potential sale of this division. We also believe Patrick Houston will place an increased focus on profitability, as there remain several opportunities to improve margins.

Third, we believe the ITCS segment is approaching a trough, and fiscal 2026 faces very easy comparables following negative organic growth in 2025. Finally, we view this period as a management credibility reset. Communication has become more conservative, with guidance likely set to allow for a beat-and-raise dynamic. Given the current valuation and low expectations embedded in the stock, conservative guidance should not be a headwind.

2. Increasing Defense Exposure and Structural Tailwinds

The second key factor is Calian’s increasing exposure to defense. After several years of limited funding, defense spending in Canada is now accelerating, with budgets approved and higher spending already planned. We believe this creates the opportunity for Calian to grow faster than its historical ~5% organic growth rate (while maintaining the acquisition strategy).

In addition, Calian is exposed to NATO related defense spending. Organic growth excluding ITCS reached approximately 9% in Q4, clearly proving this trend. Defense mix continues to increase, backlog is at an all-time high, and defense-related services generally carry higher margins. These factors could support stronger organic growth over the next several years and potentially lead to multiple expansion. While this is not reflected in our valuation, it clearly represents additional upside for investors.

Company Overview

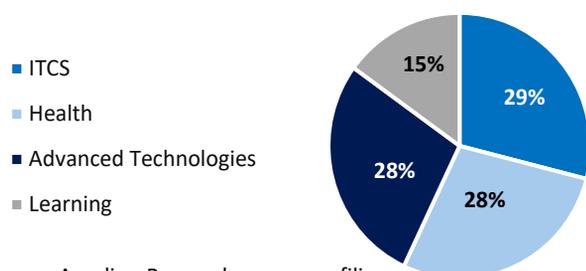
A Defense-Focused, Mission-Critical Services Company

Calian Group Ltd. is a Canadian company providing mission critical services and technology to defense, space, healthcare, and government customers. Founded in 1982 and headquartered in Ottawa, the company has evolved into a key supplier to the Canadian Armed Forces, NATO partners, and public-sector agencies through long duration and highly regulated contracts. Today, Calian generates the majority of its revenue from defense-related activities, with services and products embedded in military training, satellite communications, secure networks, healthcare delivery, and operational readiness.

Service Overview

Calian operates through four business divisions that serve distinct end markets.

Revenue Mix per Segment



Source: Aurelion Research, company filings

Advanced Technologies

Designs and builds satellite, defense, and space systems such as:

- Ground antennas and secure communication networks
- Precision equipment for defense and aerospace
- Nuclear consulting and environmental safety services

Defense now accounts for more than half of total segment revenue, supported by multi-year NATO and space contracts. Growth momentum should remain strong as Calian broadens its presence in satellite communications and defense-grade hardware.

Health

Runs one of Canada's largest clinical and medical service networks, serving the Armed Forces, Veterans Affairs, and public health agencies.

- Primary and occupational health across 2,800+ clinicians
- Pharma and life-science support programs

Health supports military readiness and benefits from recurring contracts and steady demand. It remains a stable cash generator within Calian's portfolio.

Learning

Delivers advanced training and simulation programs for military and government.

- Live and virtual training for Canadian and NATO forces
- Simulation software and defense learning systems

Over 80% of revenue is defense related. The Mabway U.K. acquisition expands European exposure, and NATO spending growth supports a strong multi-year pipeline.

IT & Cyber Solutions (ITCS):

Provides cloud, data, and cybersecurity solutions to government and enterprise clients.

- Cybersecurity operations, now migrating to Microsoft-based infrastructure
- Managed IT and cloud integration
- Secure network modernization for defense and healthcare

Performance has been soft, but we expect it to rebound as platform upgrades conclude and new defense cyber projects ramp up.

Business Model and Competitive Positioning

Calian’s business model is built around long-term government contracts, security clearances, and technical expertise that create barriers to entry. Its ability to offer multiple capabilities under one platform is a key differentiator in government procurement, where customers increasingly favor integrated solutions over single service providers.

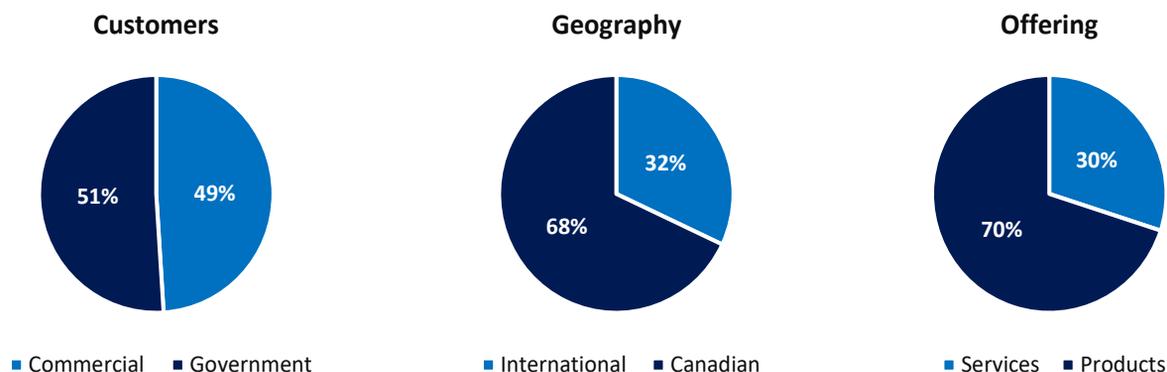
Defense related contracts typically carry higher margins, stronger visibility, and longer duration than commercial IT services. **As Calian’s revenue mix continues to shift toward defense and space, overall earnings quality and cash flow stability are improving.**

Key Customers



Source: Aurelion Research, company filings (across end-markets rather than segments)

Calian Group Revenue Exposure



Source: Aurelion Research, investor presentation, based of 2024 revenue

Customer Mix

In our prior meetings, Kevin told us that Calian has shifted overtime from roughly 60-70% of revenue in 2018 from government mix to now a 50/50 government/commercial mix. The company shifted toward commercial revenue through acquisitions in Advanced Technologies and Health. According to Kevin, this was a risk management decision, not a response to slowing growth.

The benefits of commercial contracts are that they carry higher margins and shorter decision cycles. On the government side, contracts provide long duration and backlog visibility. The current near 50/50 mix is stronger than the prior model as it reduces volatility while preserving defense exposure.

Geography Evolution

A decade ago, more than 80% of revenue came from Canada, now it accounts for 68%. Since 2019, international exposure has increased through U.K. defense training, European NATO programs and space consulting.

Defense spending growth is currently faster in Europe than in Canada. This international shift is important for the company as NATO programs reduce exposure to Canadian election cycles. Moreover, international defense contracts tend to scale faster once awarded. The current 32% international share will grow significantly in the next 2-3 years, as defense represents roughly two-thirds of backlog and is increasingly focused on Europe.

Product & Service Offering

We believe Calian's services are mission-critical, not commoditized with few players able to compete on most of its services. They include defense training, secure communications, and satellite ground systems support. Product revenue consists of specialized hardware, not capital-intensive manufacturing.

Contract Structure and Economics

Contract Types

Calian's defense and government revenue is primarily generated through long-duration service contracts, rather than one-off projects. These contracts typically run **3 to 7 years** and include extension options.

Pricing Mechanisms

Like most competitors, pricing is conservative and designed to offset inflationary risk. Typically, contracts include explicit labor and cost escalation mechanisms, particularly in labor intensive services. The dominant models are:

- Time and materials contracts with labor rate cards
- Cost plus contracts, mainly in defense, health and training
- Selective fixed-price contracts in Advanced Technologies

A key takeaway is that because many of these revenues are variable within a contract, an important driver is whether customers increase their usage under the contract.

For example, Calian may secure a defense training contract for VR training with the Canadian military, but the revenue can grow if more training sessions are delivered. This is clearly positive when conditions are strong, as they are currently, but it can become a headwind as well. Last year, for instance, budgets were frozen following the change in government, which limited spending on programs such as military VR training.

Current Defense Exposure

Segment	FY24 Revenue	FY24 % Defense Revenue	Description
ITCS	\$214M	~15-20%	Delivers IT professional services to both private and government customers operating in the defense space
Health	\$212M	~65-70%	Delivers primary care and occupational health services to the Canadian Armed Forces
Advanced Tech.	\$208M	~20-25%	Provides engineering services, solutions and communication products to large defense prime contractors or the government
Learning	\$113M	~95-100%	Provides military training for the Canadian Armed Forces and NATO member countries
Total	\$747M	~45%	= \$330M 2024 defense exposure

Source: Aurelion Research, company filings

Defense exposure has increased steadily over the past decade and accelerated after 2022 as demand expanded beyond training into health services and advanced communications. Defense now represented ~45% of FY24 revenue, we estimate ~50% of FY25 and a higher share of backlog, making it a core earnings driver rather than a niche activity.

Management messaging has materially changed. Following a call with management and attendance at their investor presentation, it is clear that Calian has changed on how it presents itself to investors. It no longer presents itself as a diversified Canadian services company. Instead, management now frames the business as a defense platform serving NATO-aligned customers, with defense acting as the organizing principle across segments.

This reframing has been communicated deliberately through direct engagement with investors, including targeted sell-side conferences, and is reflected in updated investor materials that emphasize military capabilities. **This shift toward defense aims to position the company as a defense business, which would support a higher valuation multiple.**

Aiming to Shift Towards Prime Contractor

A subtle but important strategic change is Calian’s move up the defense value chain toward prime contractor and lead integrator roles on select defense and space programs. Historically, Calian often operated as a subcontractor, providing specialized services within larger programs. Especially as of 2025, management is increasingly focused on contracts where Calian leads delivery, coordinates subcontractors, and serves as the primary customer interface. This shift could allow for potentially higher margins and larger contracts.

Management & Ownership

CEO Succession and Guidance Reset

Patrick Houston becomes CEO on January 1, 2026, following Kevin Ford’s retirement. The leadership change coincides with a clear reset in guidance. Management is now issuing conservative guidance that excludes unannounced acquisitions and pending defense contract wins. This is a clear shift from prior periods of optimistic guidance that the company missed. This transition comes as defense growth increase sharply and short-term organic growth issues start to fade. As we mentioned prior, we believe this is set for a beat and raise story for next quarters.

Board Refresh

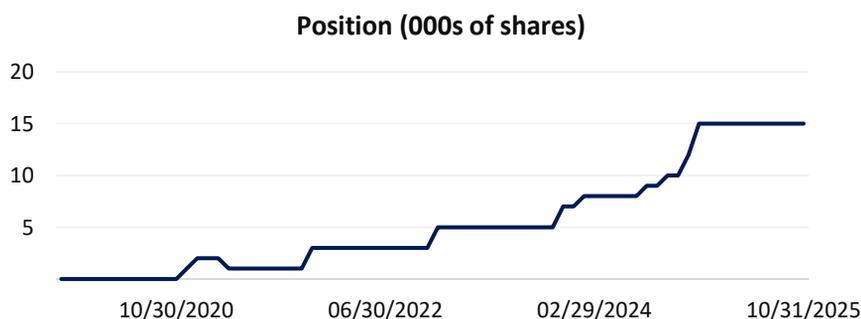
Calian refreshed its Board in 2025 with directors focused on capital allocation, technology, and M&A oversight, with the departure of long-tenured members.

Management Compensation

Executive compensation is tied primarily to EBITDA, revenue growth, and ROIC. We appreciate the inclusion of ROIC, as it aligns pay with shareholders. Long-term equity incentives also align management further.

Ownership

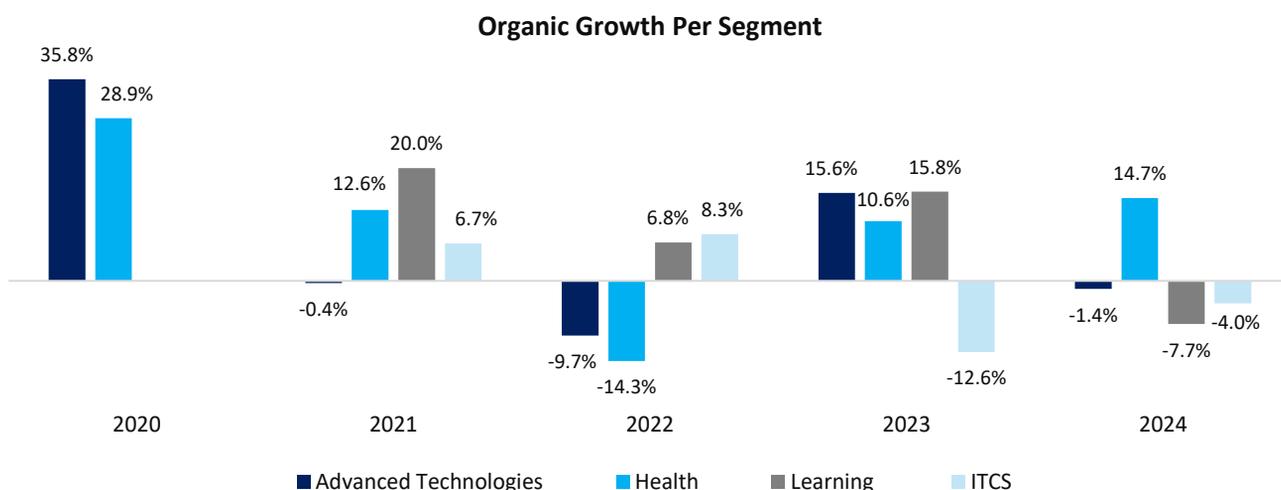
Insider ownership is low at 0.8% which is a negative in our view. Patrick Houston owns approximately 0.2%, or close to \$1M, which is low for a \$650M market capitalization company, although his ownership has been increasing recently.



Company Financials Analysis

Organic growth has varied since the pandemic, as the business received a strong boost in 2020 and 2021, particularly from health-related activity. This was followed by headwinds in 2024 related to government spending constraints tied to the budget and election cycle, as well as ITCS. However, with the company’s “four-piston engine” model, Calian still delivered a more consistent organic growth profile.

Prior to the pandemic, the company operated in a roughly 5% organic growth range and was able to maintain relatively stable growth, based on management discussions, though this was not consistently reported.



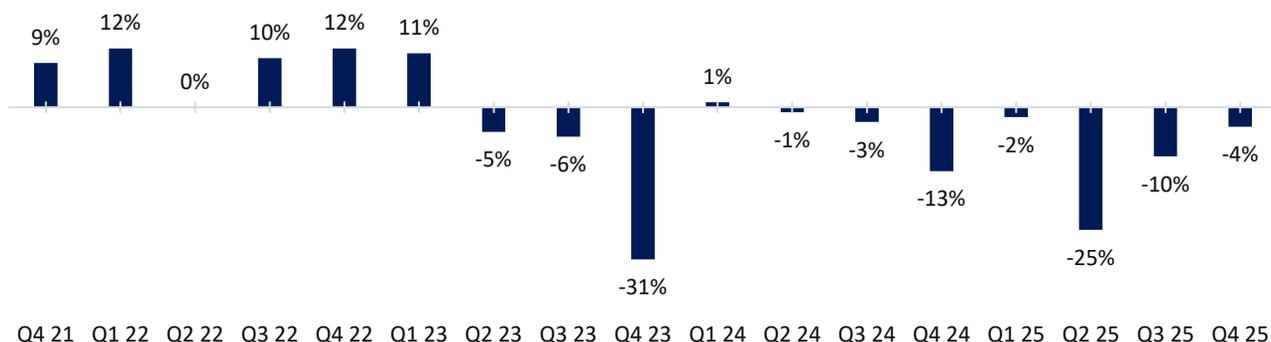
Source: Aurelion Research. 2020 Learnings and ITCS numbers not reported.

Our view across most segments is that periods of elevated demand allow the business to temporarily accelerate growth, but organic growth typically normalizes back toward a ~5% baseline driven by modest pricing and volume gains. As a result, years with exceptionally strong organic growth around 20% are often followed by weaker or negative growth in the subsequent year. That said, the outcome depends on whether the growth was driven by a large, multi year contract or by more structural, trend driven usage increases within existing contracts.

ITCS Organic Growth

As mentioned earlier, ITCS is the problem child. Issues started in Q4 2023 and have not recovered since. Underperformance is due to delays and disruption from the transition to a new Microsoft-based platform, which temporarily slowed projects and customer demand. We believe this is a lower-quality business that does not materially improve Calian’s core diversified offering, and that selling a portion of this segment would be a clear positive for shareholders.

ITCS Organic Revenue Growth

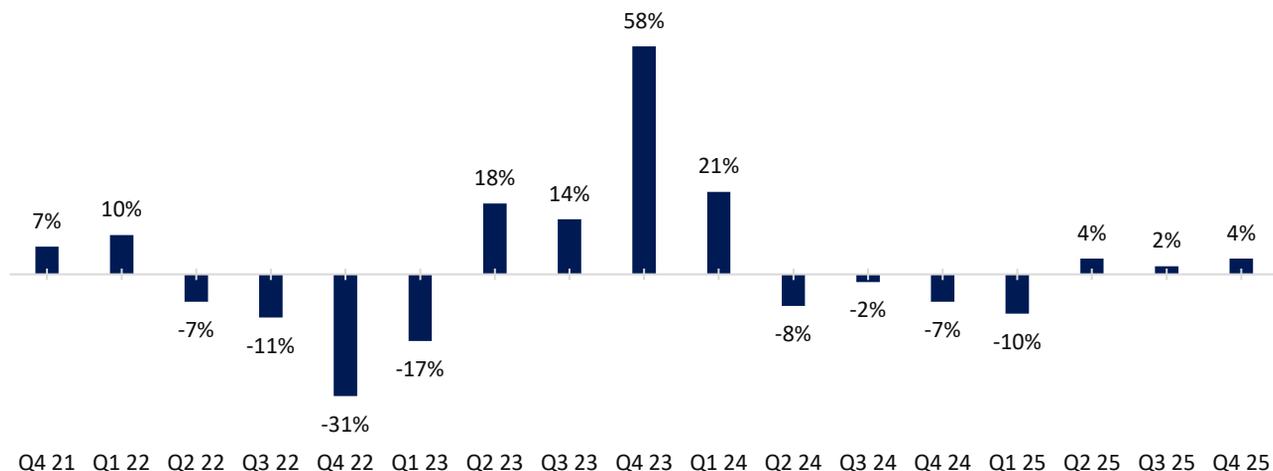


Source: Aurelion Research estimates, company filings

Advanced Technologies Organic Growth

The sharp acceleration in Advanced Technologies organic growth in late FY23 reflects the ramp-up of large defense and space contracts, while the subsequent moderation in FY24 primarily reflects tough YoY comparisons rather than weakening underlying demand.

Advanced Technologies Organic Revenue Growth

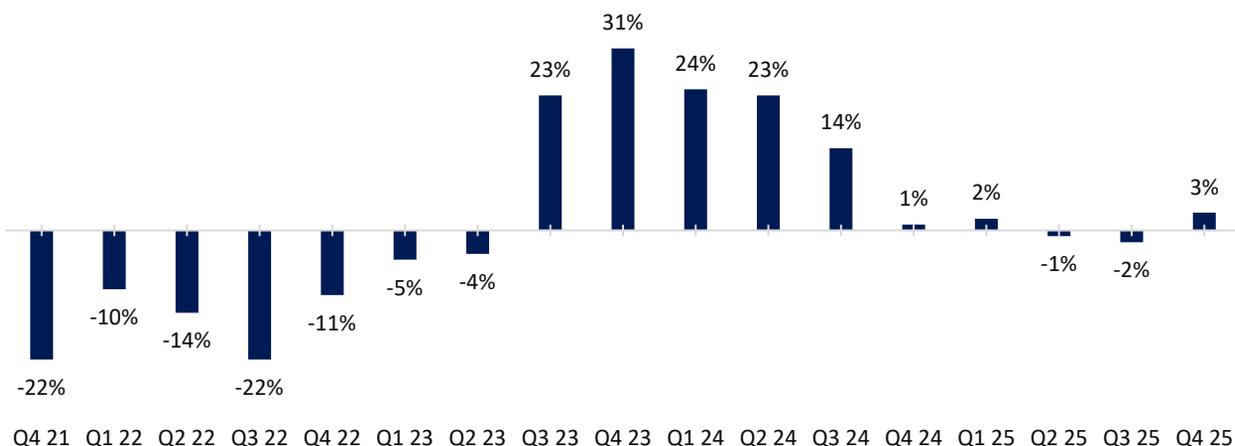


Source: Aurelion Research estimates, company filings

Health Organic Growth

Health follows a similar pattern to Advanced Technologies. The sharp decline in 2022 reflects difficult YoY comparisons after the COVID surge in 2020 and 2021, when Calian’s benefited from demand tied to testing, vaccination support, and emergency services for government clients. Growth rebounded in late 2023 as comps normalized and defense healthcare activity reaccelerated, particularly within Canadian Armed Forces health services. 2025 reflects tough comps and the discussed Canadian government spending delays.

Health Organic Revenue Growth

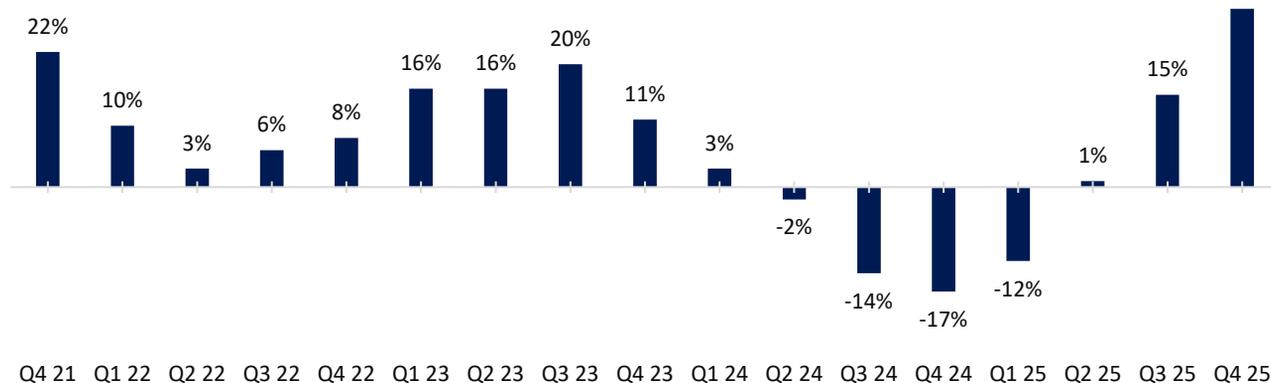


Source: Aurelion Research estimates, company filings

Learning Organic Growth

The Learning segment is almost entirely focused on defense training for NATO and Canadian military forces. Given this exposure, we expect it to be the company’s fastest-growing segment over the medium term as it moves past Canadian government spending delays and benefits from strong industry tailwinds.

Learning Organic Revenue Growth



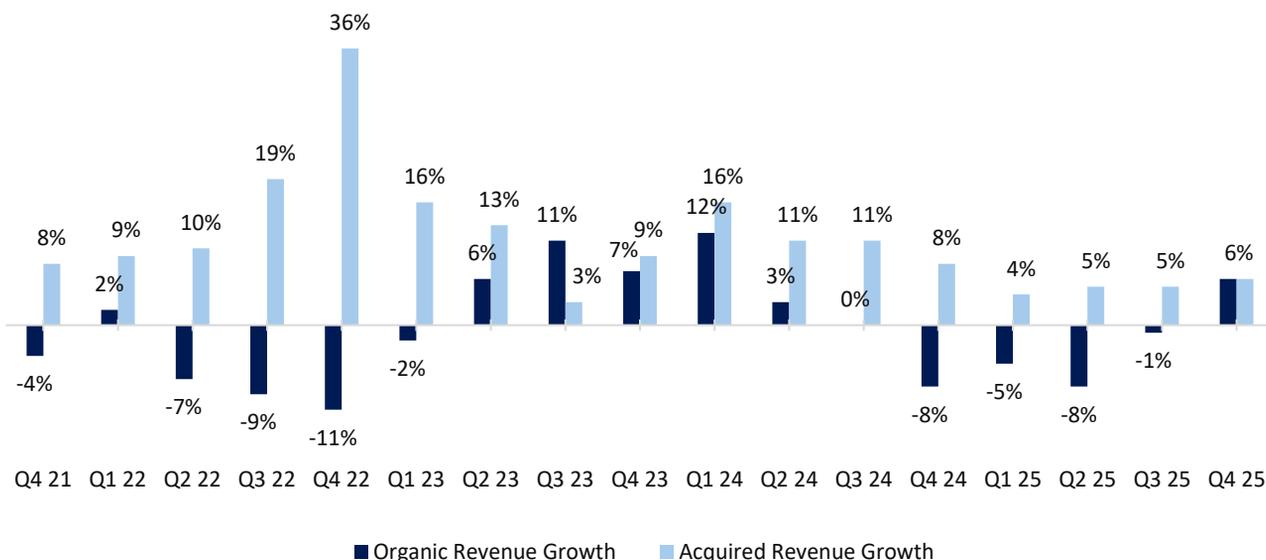
Source: Aurelion Research estimates, company filings

On the next page, we present Calian’s consolidated quarterly growth. We think the stock trades mostly on organic growth. Investors began to punish the company last year when it turned flat and negative. Then, organic growth recovered when Calian reported 6% organic growth in the most recent quarter.

Historical Revenue Growth Framework

- 5% Organic Growth
- 5-10% Acquired Growth

Consolidated Quarterly Organic & Inorganic Growth

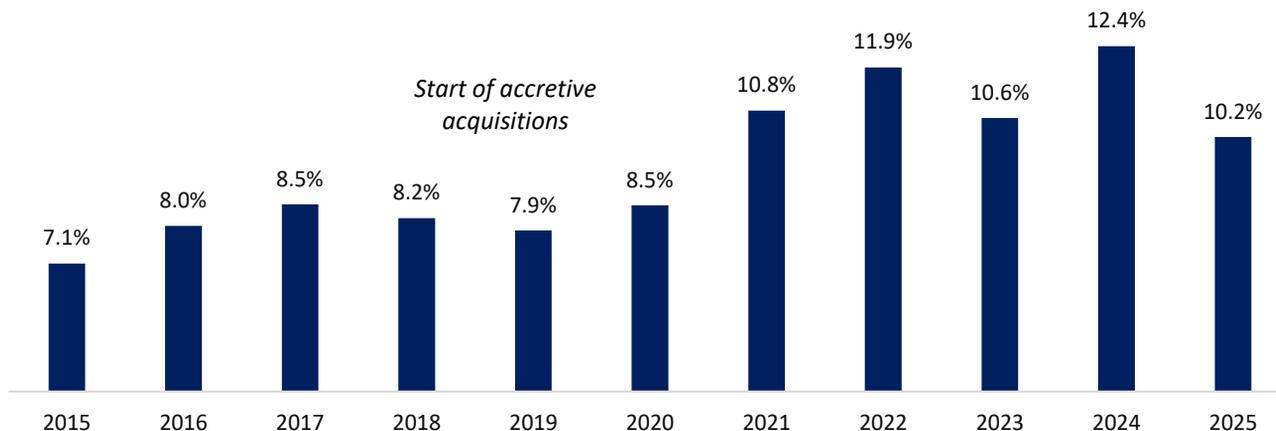


Source: Aurelion Research, company filings

Margin Evolution

We believe the best margin metric to properly compare Calian is adjusted EBITDA margin. Adjusted EBITDA margins have stepped up meaningfully over time, **driven first by margin accretive acquisitions**, as Calian acquired several higher margin businesses that improved the overall mix. In addition, margins have benefited from economies of scale and an increased focus on profitability since 2015 under CEO Kevin Ford, who placed greater emphasis on margin discipline. According to management, margin expansion ex-acquisitions was due to “a more cautious approach,” rather than spending cuts.

Adjusted EBITDA Margins



Source: Aurelion Research, company filings

Cost structure

We point out that CGY changed their income statement reporting and line items multiple times, so the best approach is to focus on adjusted EBITDA or adjusted EPS. You may find that Bloomberg/FactSet diverge from the 2025 Annual Report.

Gross margins

Gross margins are the main driver of the EBITDA margin improvement and have increased since 2015 primarily due to a shift in business mix toward higher-margin defense and specialty services (both organically and through acquisitions). Over time, CGY moved away from lower-margin contracts toward critical programs in training, health, secure communications, and defense engineering.

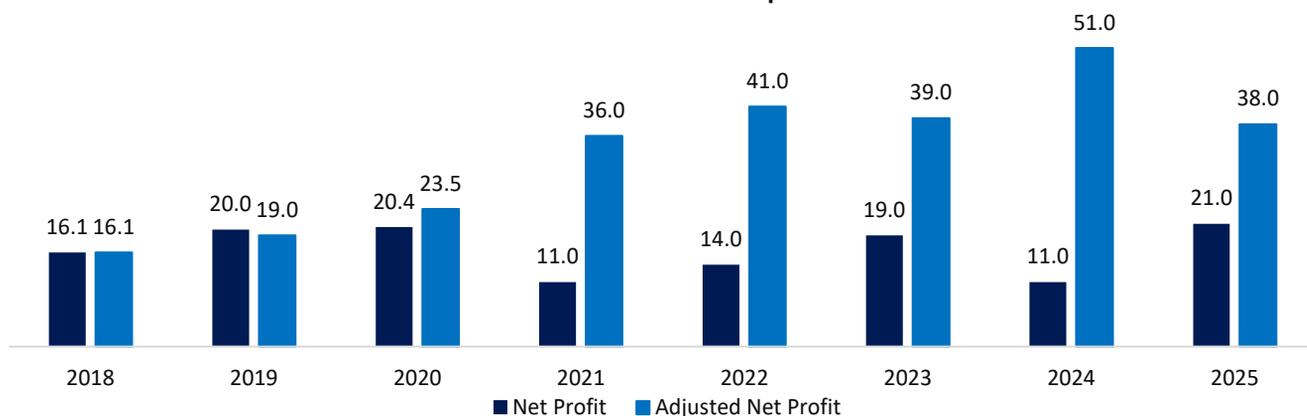
In millions of CAD	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Fiscal Period Ended	2015-09-30	2016-09-30	2017-09-30	2018-09-30	2019-09-30	2020-09-30	2021-09-30	2022-09-30	2023-09-30	2024-09-30	2025-09-30
Revenue	242.3	274.6	275.4	305.0	343.0	432.3	518.4	582.2	658.6	746.6	774.1
<i>% growth</i>		13.3%	0.3%	10.7%	12.5%	26.0%	19.9%	12.3%	13.1%	13.4%	3.7%
<i>% Organic</i>								-6.2%	5.7%	1.6%	-2.0%
<i>% Acquisitive</i>								18.5%	7.4%	11.8%	5.7%
Gross Profit	41.5	48.8	52.9	64.1	74.7	89.2	126.7	169.2	204.2	254.0	259.3
<i>% Gross margin</i>	17.1%	17.8%	19.2%	21.0%	21.8%	20.6%	24.4%	29.1%	31.0%	34.0%	33.5%
Adjusted EBIT	14.5	19.4	20.9	22.0	21.7	25.9	36.9	37.8	41.6	50.5	31.7
<i>% EBIT margin</i>	6.0%	7.1%	7.6%	7.2%	6.3%	6.0%	7.1%	6.5%	6.3%	6.8%	4.1%
D&A	2.7	2.6	2.6	3.0	5.4	10.9	19.1	31.2	28.4	41.8	46.7
<i>% of revenues</i>	1.1%	0.9%	0.9%	1.0%	1.6%	2.5%	3.7%	5.4%	4.3%	5.6%	6.0%
Adjusted EBITDA	17.2	22.0	23.5	25.0	27.1	36.8	56.0	69.0	70.0	92.3	78.4
<i>% EBITDA margin</i>	7.1%	8.0%	8.5%	8.2%	7.9%	8.5%	10.8%	11.9%	10.6%	12.4%	10.1%
Net Profit	9.8	13.6	15.4	16.1	20	20.4	11	14	19	11	21
<i>% net profit margin</i>	4.0%	5.0%	5.6%	5.3%	5.8%	4.7%	2.1%	2.4%	2.9%	1.5%	2.7%
Total Adjustments	1.0	0.6	0.0	0.0	-1.0	3.1	25.0	27.0	20.0	40.0	17.0
<i>% of adj net profit</i>	9.3%	4.2%	0.0%	0.0%	(5.3%)	13.2%	69.4%	65.9%	51.3%	78.4%	44.7%
Adjusted Net Profit	10.8	14.2	15.4	16.1	19	23.5	36	41	39	51	38
<i>% net profit margin</i>	4.5%	5.2%	5.6%	5.3%	5.5%	5.4%	6.9%	7.0%	5.9%	6.8%	4.9%
Diluted Shares Outstanding (000s)	7400	7700	7700	7800	7,900	9,100	10,600	11,400	11,700	11,900	11,700
Adjusted EPS (as reported)	\$1.48	\$1.92	\$2.01	\$2.07	\$2.41	\$2.59	\$3.50	\$3.68	\$3.37	\$4.22	\$3.28

Source: Aurelion Research, company filings

Adjusted Results

As shown on the previous page, there is a sharp increase in D&A costs, attributable to the amortization of intangibles added through acquisitions. Management adds these back in adjusted results, which we believe is reasonable in this context. This, combined with slightly larger acquisitions that have led to multiple one-time acquisition costs, has resulted in a widening gap between reported and adjusted results. We believe adjusted EBITDA should be modestly penalized by not adding back certain one-time acquisition costs, as we expect these to recur annually. These adjustments would be relatively small.

Widening Gap Between GAAP and Adjusted Earnings Driven by Increased Intangible Amortization and One-Time Acquisition Costs



Source: Aurelion Research, company filings

Here, we simply present Calian’s historical adjusted EPS. We argue that its strategy of growing earnings (12.3% EPS CAGR 2015-2024) while returning capital to shareholders has been effective, and that this recent setback represents an attractive entry point.

Calian’s Adjusted EPS



Source: Aurelion Research, company filings

Cash Flow Generation & Capital Allocation

Calian converts a meaningful portion of its adjusted EBITDA into free cash flow. Capex is relatively low, as this is not a highly capital-intensive business, with approximately 70% of revenue coming from services. Working capital dynamics are slightly negative and have been more volatile since the pandemic. Since 2021, Calian has converted roughly 60% of adjusted EBITDA into free cash flow, and we expect this to remain broadly within that range.

In millions of CAD	2017	2018	2019	2020	2021	2022	2023	2024	2025
Fiscal Period Ended	2017-09-30	2018-09-30	2019-09-30	2020-09-30	2021-09-30	2022-09-30	2023-09-30	2024-09-30	2025-09-30
CFO before change in NWC	31.9	3.8	5.1	-39.2	50.6	31.8	60.3	104.4	40.2
% adj EBITDA conversion	135.6%	15.0%	18.7%	(106.5%)	90.3%	46.0%	86.1%	113.1%	51.3%
- Change in NWC	6.7	-7.6	-8.5	-36.4	4.0	-11.4	3.5	17.2	-5.2
% of sales	2.4%	(2.5%)	(2.5%)	(8.4%)	0.8%	(2.0%)	0.5%	2.3%	(0.7%)
Cash From Operations	25.2	11.4	13.5	-2.8	46.5	43.1	56.8	87.2	45.4
% adj EBITDA conversion	107.1%	45.5%	49.9%	(7.5%)	83.1%	62.5%	81.1%	94.5%	58.0%
PPE			-3.0	-4.6	-7.4	-7.1	-8.4	-11.8	-10.6
% of revenues			0.9%	1.1%	1.4%	1.2%	1.3%	1.6%	1.4%
Capitalized R&D			-1.1	-1.2	-0.4	-0.2	-0.1	0.0	0.0
% of revenues			0.3%	0.3%	0.1%	0.0%	0.0%	0.0%	0.0%
- CAPEX			-4.1	-5.8	-7.8	-7.3	-8.4	-11.8	-10.6
Free Cash Flow	22.3	6.0	9.4	-8.6	38.7	35.8	48.3	75.4	34.8
% adj EBITDA conversion	94.8%	24.0%	34.8%	(23.2%)	69.1%	51.9%	69.1%	81.7%	44.4%

Source: Aurelion Research, company filings

Share Issuances

In February 2020, Calian Group completed a significant equity issuance, raising ~\$69.2M in gross proceeds at a price of \$44.00 per share. The capital was primarily deployed to fund the transformational acquisitions of Alio Health Services and Allphase Clinical Research Services. These transactions expanded Calian's Health segment into clinical drug trials and specialized medication support, materially increasing the company's healthcare capabilities and addressable market. Calian also issued equity in 2021 to finance other acquisitions.

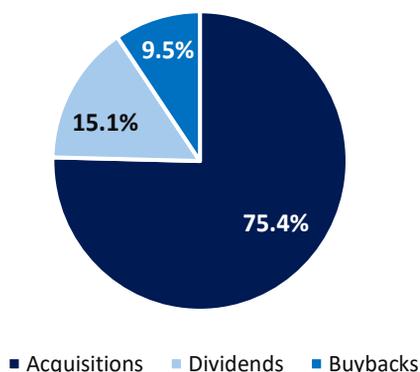
Management has indicated that future growth and acquisitions will be funded primarily through internal cash flow and disciplined use of debt, with **equity issuance viewed as a last resort.** With the new CEO we expect a higher emphasis on buybacks, especially at the current share price level.

In millions of CAD	2017	2018	2019	2020	2021	2022	2023	2024	2025
Fiscal Period Ended	2017-09-30	2018-09-30	2019-09-30	2020-09-30	2021-09-30	2022-09-30	2023-09-30	2024-09-30	2025-09-30
Acquisitions	-5.3	-5.0	-20.8	-29.3	-48.8	-65.6	-68.5	-87.9	-39.1
Dividends	-8.5	-8.7	-8.8	-9.9	-11.8	-12.8	-13.2	-13.4	-13.0
Buybacks	-3.2	-2.1	-3.3	-70.5	-79.3	-2.7	-2.9	-2.8	-2.5
Issuance	0.0	0.0	0.1	13.0	0.0	0.0	1.7	5.6	25.5
FCF	22.3	6.0	9.4	-8.6	38.7	35.8	48.3	75.4	34.8

Source: Aurelion Research, company filings

While these were accretive acquisitions and ultimately benefited Calian’s shareholders, we believe the new CEO is fully aware of the challenges associated with repeating this process. As a result, we expect the focus to shift toward share buybacks rather than equity issuance.

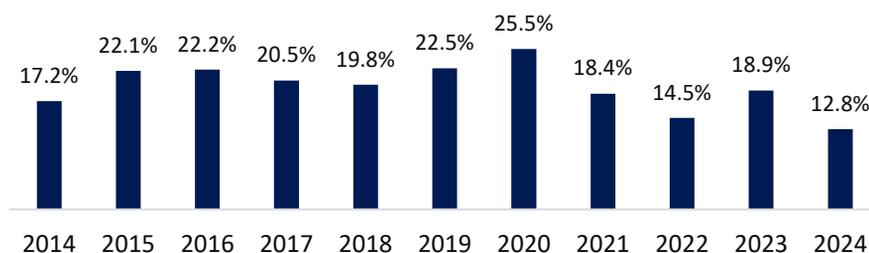
Capital Allocation Mix Since 2022



Source: Aurelion Research, company filings

Return on invested capital remains strong, though it was impacted in 2020 and 2021 by larger acquisitions. More recently, temporarily lower margins in 2024 weighed on ROIC. We believe this ROIC profile shows that Calian’s acquisition strategy has been successful in creating value overtime.

Return on Invested Capital (Adj NOPAT/Invested Capital)



Source: Aurelion Research, company filings

Industry Overview

The Canadian Defense Industry in Context

Canadian defense spending has been trending up from roughly 1.2% to 1.7% of GDP across the early 2020s, but still below the NATO 2% target.

Canada is now entering a generational moment in defense with a firm target of 2% of GDP by March 2026 and a long-term commitment to 5% by 2035. **This 5% target is not a passed bill, and we view it as a goal the government will likely fall short of**, it would nonetheless imply that the federal defense budget would more than triple within a decade. **This would equate to a 14.5% CAGR** in Canadian defense spending and mark the most significant national rearmament since WWII (source: Calian Annual Report; PBO; Canada's Defense Policy, 2024).

Currently, the Canadian Parliamentary Budget Officer forecast implies military spending rising to ~\$51B by 2026–2027, which implies as ~9% CAGR from 2022–2023 through 2026–2027. Beyond the 2026–2027 budget, we do not expect defense spending at 14.5% CAGR. However, we believe **HSD Canadian defense spending growth is highly likely** and is what we forecast.

NATO Defense Spending

The NATO spending story is now well known, having made headlines in early 2025 as member countries committed to materially increase defense spending, both through a near-term ramp-up and sustained long-term programs. Reflecting this backdrop, the Select STOXX Europe Aerospace & Defense ETF has risen approximately 70% over the past year.

At the June 2025 Hague Summit, member nations established a new long-term investment benchmark of 5% of GDP by 2035. While not a legally binding "mandatory" standard for all, the Hague Investment Plan was approved by consensus, with all 32 members pledging support (though Spain received a specific exemption due to domestic budget constraints). This 5% goal is separated into two distinct spending pillars: 3.5% of GDP is targeted for "core defense requirements" (military equipment, personnel, and operations), while up to 1.5% is allocated to security-related resilience, including cyber-defense, critical infrastructure protection, and civil preparedness.

Current aggregate projections indicate that the overall NATO market is expected to grow at a ~8.6% CAGR. The equipment & modernization vertical in Europe is the primary area of acceleration. This should grow more in the low double digits range through 2030, reaching an estimated \$340B annually.

Calian is well positioned to benefit from this growth through its exposure to faster-growing defense spend categories such as training, operational readiness, secure communications, cyber, and satellite ground systems.

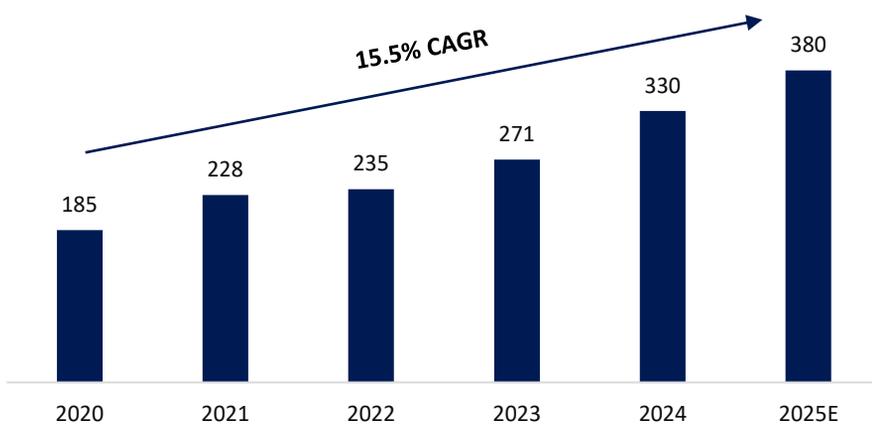
Calian’s Expected Defense End-Market Growth Through 2030 (Canada and NATO)



Source: Aurelion Research estimates

Calian is well positioned to benefit from this growth through its exposure to faster-growing defense spend categories such as training, operational readiness, secure communications, cyber, and satellite ground systems. **With 70% of its \$1.4B backlog already defense-linked and European defense revenues increasing 51% in Q4 FY25**, Calian is a clear direct beneficiary.

Calian’s Defense Revenues (\$M)



Source: Aurelion Research, company filings. 2025 estimates are based on management commentary in the 2025 annual report, including statements such as “15% YoY growth in defense revenue in Q4 2025,” as well as the \$363M LTM figure disclosed in Q2 2025.

Defense Security Clearance

A primary barrier to entry is the specialized workforce of over 6,100 people, many of whom possess high-level security clearances required for mission-critical government work. In the defense and space sectors, this "human capital" moat is significant; competitors cannot easily replicate a workforce that has been vetted through decades of integration with the Department of National Defense (DND) and NATO. This makes the company "sticky" within long-term programs like the Canadian Forces School of Aerospace Technology and Engineering.

Key Competitors per Segment

Advanced Technologies (Defense & Space): Magellan Aerospace and Kratos Defense & Security Solutions, which are more hardware- and platform-focused.

Learning (Military Training and Simulation): Babcock International Group and GP Strategies, which operate at larger international scale.

Health (Military and Government Healthcare): McKesson and TELUS Health, though both are more commercially oriented.

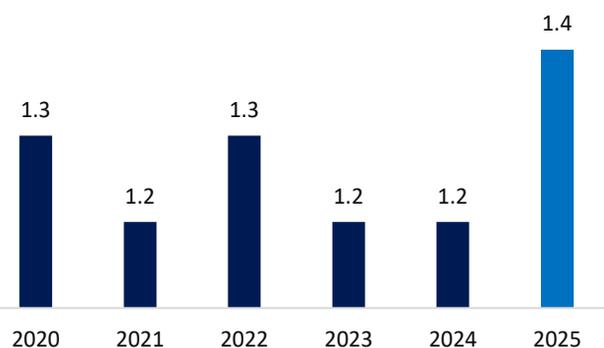
IT and Cyber Solutions (ITCS): Leidos and DXC Technology, which compete on scale and breadth.

Investment Thesis

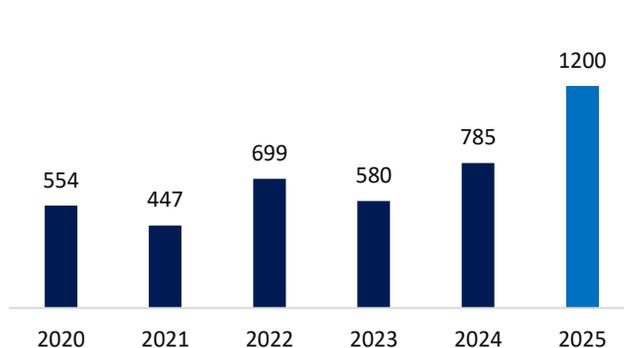
1) Direct Exposure to Fast Growing Canadian and NATO Defense

We expect Calian to deliver outsized organic growth over the next several years, driven by exposure to high-growth defense end markets in Canada and NATO. We estimate approximately 9% growth in both Canadian and NATO defense spending through 2030. This outsized growth already began in 2025 with commitments from NATO countries and is already starting to be reflected in backlog and new contract signings.

Backlog (\$B)



New Contract Signings (\$M)



Source: Aurelion Research estimates

Defense now represents approximately 70% of total backlog and is expected to continue increasing as a share of the mix over the coming years. Another key factor is that defense contracts typically carry higher margins than the rest of the business. While management has not disclosed a specific margin differential, this dynamic should support margin expansion going forward.

Higher organic growth combined with expanding margins should translate into clearly outsized earnings growth. We believe this alone could drive a valuation re-rating. Both Calian’s evolution into a defense focused company, which typically commands higher multiples in North America, and its higher growth profile support the case for a potential re-rating.

2) Proven Accretive Acquisition Strategy

We believe acquisitions are an important part of Calian’s investment story, as a significant portion of free cash flow is being deployed toward acquisitions. Margins have improved and ROIC has remained relatively strong following a greater strategic focus since 2015. The new CEO intends to continue this strategy. In this section, we outline the merits of this approach and why we believe it is attractive.

Management’s aspirational goal was to reach \$1B in revenue by 2026. Due to weaker organic growth and a greater emphasis on share buybacks rather than acquisitions (driven by the low share price), we expect a **clear miss of this target in 2026**. However, the framework remains useful in illustrating the business’s long-term potential.

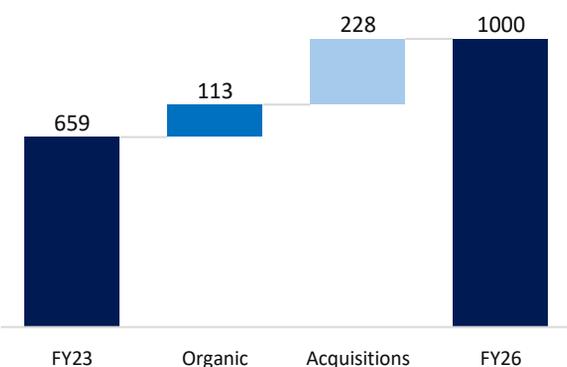
Assumptions in Management’s Aspirational Revenue Bridge

- 5% organic growth
- 10% inorganic growth

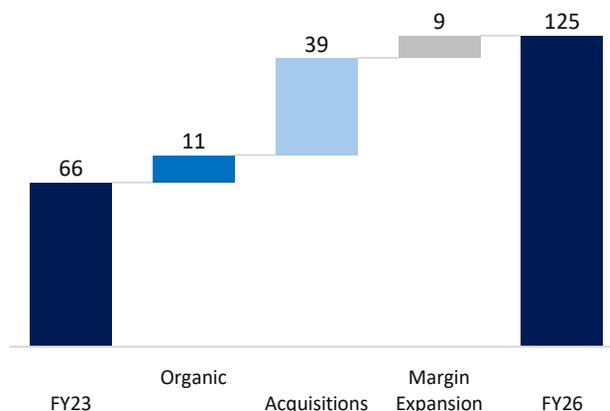
Assumptions in Management’s Aspirational EBITDA Bridge

- 10% margin on the organic business
- 17% margin on the acquired business

Management Aspirational Revenue Bridge (\$M)



Management Aspirational Adj. EBITDA Bridge (\$M)



Source: Aurelion Research, investor presentation

Types of Companies Targeted

Calian targets small, profitable, security-cleared businesses in defense, training, health, and communications that operate in niche markets. They typically generate recurring revenue and can be integrated onto its existing government and NATO customer base.

Calian typically targets businesses with \$10-50M in revenue, EBITDA margins in the mid-to-high teens or higher (mgmt stated ~17%) and **EV/EBITDA multiples in the 6-8x range.**

Several acquired companies grew EBITDA by ~50% within two years, effectively reducing the acquisition multiple to about 3-4x on a post-integration basis. However, the acquisitions are typically structured with 70–80% cash at closing and 20–30% contingent on multi-year EBITDA performance targets (earn-outs), which increases the effective purchase price.

Acquired companies are integrated into the broader segment, with businesses folded into existing structures. Management teams typically remain for several years through the earn-out framework.

Key Acquisitions Over the Last 3 Years

Acquisition	Purchase Price (\$M)	Revenue (\$M)	Adj. EBITDA (\$M)	Adj. EBITDA Margin	EBITDA Multiple
Decisive	50	40	8	20%	6.3x
MDA Nuclear Assets	8	8	3	31%	3.2x
Mabway	32	35	8	23%	4.0x
AMS	22	40	5	11%	4.8x
Total	112	123	23		
Average	28	31	6	21%	4.8x

Source: Aurelion Research, investor presentation

Combined with organic growth, the acquisition strategy has historically delivered 10–15% total revenue growth. **Coupled with margin expansion, this has translated into 15–20% total earnings growth,** with minimal share issuance. Excluding the equity issuance in 2020–2021, earnings growth was approximately 15%, and closer to 20% when including that period.

We do want to highlight that we expect defense company multiples to increase, which could limit the number of acquisitions the company is able to pursue. This represents a potential risk to the strategy and should be monitored.

3) Through Valuation, Moving Past Short-Term Issues

As discussed earlier, we believe Calian is at an inflection point. Organic growth is starting to recover as government delays ease, and a potential sale of the ITCS segment would remove a key drag on results. The transition to a new CEO, conservative FY26 guidance, and early evidence of defense growth in Q4 (9% organic ex-ITCS) create a solid setup for 2026.

We believe the setup is in place for a double whammy: a recovery in margins and organic growth, combined with a higher multiple.

Investment Risks

1) Divestiture Execution

Under pressure from activist investor Plantro Ltd., Calian is aggressively reviewing "non-core assets" (specifically the ITCS segment) for sale. There is a risk that Calian may have to sell these assets at a discount.

2) Government Concentration & Revenue Timing.

Government procurement can be subject to timing delays related to budgeting and approvals, as seen last year, which can temporarily depress organic growth and impact investor sentiment. In addition, the Canadian government represents a significant portion of revenue, which we estimate at approximately 35-45%, making customer concentration and contract timing an ongoing risk to monitor.

3) Fixed-Price Contract Sensitivity

A portion of the Advanced Technologies revenue is based on long-term, fixed-price contracts for space and defense hardware. If inflation or supply chain costs spike, Calian bears the cost. Management recently flagged "technical risks on fixed-price projects" as a potential concern for FY26.

4) Trade & Tariff Volatility

New 2026 macro-concerns include potential U.S. tariffs on Canadian aerospace and defense exports. While Calian is primarily service-based, its hardware exports in the space and GNSS antenna verticals are vulnerable to "Buy American" mandates and retaliatory trade measures.

Financial Forecasts

Revenue

On organic growth, we forecast a recovery in 2026, with 6.8% organic growth. This is slightly above current consensus, as we believe the 2025 comparables are very easy. We expect the ITCS segment, which represents roughly one quarter of sales, to continue lagging in 2026. However, as ITCS was already weak in 2025 and is now working off a lower base, it should not be a major driver of underperformance. The 6.8% growth assumption for 2026 still reflects ongoing challenges in ITCS and only a modest defense tailwind.

For 2027, we expect organic growth to pick up to 9%, as ITCS should no longer be a headwind at that point. Growth then moderates back to the MSD range in 2030 and beyond, as not the entire business is defense and therefore will not grow at HSD or LDD rates.

On inorganic growth, we use management commentary to forecast a 5% acquired growth contribution in 2026 from currently announced acquisitions. We do not assume further acquisitions and instead allocate excess free cash flow (substantial driver) to share buybacks in our model.

Margins

We note that we do not forecast a sale of the ITCS segment, as the transaction would likely involve only a partial divestiture. Estimating a valuation is highly uncertain without clarity on the earnings base and the applicable multiple, which could vary widely depending on the extent of the recovery.

As acquisitions are the primary driver of margins, we are not forecasting a substantial step-up. Instead, we expect Calian to return to approximately 12.4% adjusted EBITDA margins (reached in 2024) in 2028. Most of the leverage comes from SG&A as the line continues to increase while organic revenues declined 2% in 2025. Thereafter, we believe margins should continue to improve modestly, supported by a higher defense mix and a greater focus on prime contracts. Acquisitions could provide additional margin upside, although the benefit to shareholders will depend on the multiples paid.

Cash Flow Dynamics

We expect cash flow dynamics to remain consistent, with Calian converting approximately 59% of adjusted EBITDA into free cash flow over the next 5 years. The lower conversion is primarily driven by taxes, modest capital expenditures of roughly 1.3% of sales, and working capital investments in the range of ~1% of sales. While Calian does pay a dividend, we do not expect it to grow meaningfully, as management has better uses for capital, including share buybacks and acquisitions.

In millions of CAD, except per share	2024A	2025A	2026E	2027E	2028E	2029E	2030E	2031E
Fiscal Period Ended	2024-09-30	2025-09-30	2026-09-30	2027-09-30	2028-09-30	2029-09-30	2030-09-30	2031-09-30
Revenue	747	774	861	939	1,014	1,085	1,150	1,207
% revenue growth	13.4%	3.7%	11.3%	9.0%	8.0%	7.0%	6.0%	5.0%
% organic growth	1.6%	(2.0%)	6.8%	9.0%	8.0%	7.0%	6.0%	5.0%
% acquired growth	11.8%	5.7%	5.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Adjusted EBITDA	92	78	97	113	127	138	148	157
% adj EBITDA margin	12.4%	10.1%	11.3%	12.0%	12.5%	12.7%	12.9%	13.0%
% EBITDA growth		(15.1%)	23.9%	16.0%	12.5%	8.7%	7.7%	5.8%
Cash From Operations Before NWC	104	40	77	89	100	109	117	124
Change in NWC	17	(5)	(8)	(11)	(11)	(12)	(12)	(12)
Cash From Operations	87	45	69	78	89	97	105	112
% adj EBITDA conversion	94.5%	58.0%	70.5%	69.5%	70.2%	70.5%	70.8%	71.4%
Capital Expenditures	(12)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
Free Cash Flow	75	35	56	65	75	82	89	95
% adj EBITDA conversion	81.7%	44.4%	58.1%	57.8%	59.0%	59.5%	60.0%	60.7%
FCF/Share	\$6.34	\$2.98	\$5.20	\$6.49	\$8.07	\$9.60	\$11.26	\$13.00
% FCF/share growth		(53.0%)	74.7%	24.8%	24.4%	18.9%	17.4%	15.4%
Diluted Shares Outstanding	11,900	11,700	10,852	10,037	9,257	8,544	7,900	7,325

Source: Aurelion Research estimates

We derive from our estimates a 7.7% revenue CAGR, a higher growth profile than the historical 5% due to defense trends. We expect an EBITDA CAGR until 2031 in the ~12% range, with a higher contribution from the margin recovery in 2026 and 2027.

With its current Enterprise Value (EV), Calian will generate a significant FCF yield. Using the current EV (\$734M), we calculate a 7.7% FCF yield in 2026.

Calian Group FCF Yield	2026E	2027E	2028E	2029E	2030E	2031E
FCF Yield (Using Current \$734M EV)	7.7%	8.9%	10.2%	11.2%	12.1%	13.0%
Implied EV/FCF Multiple	13.0x	11.3x	9.8x	9.0x	8.2x	7.7x

Source: Aurelion Research estimates

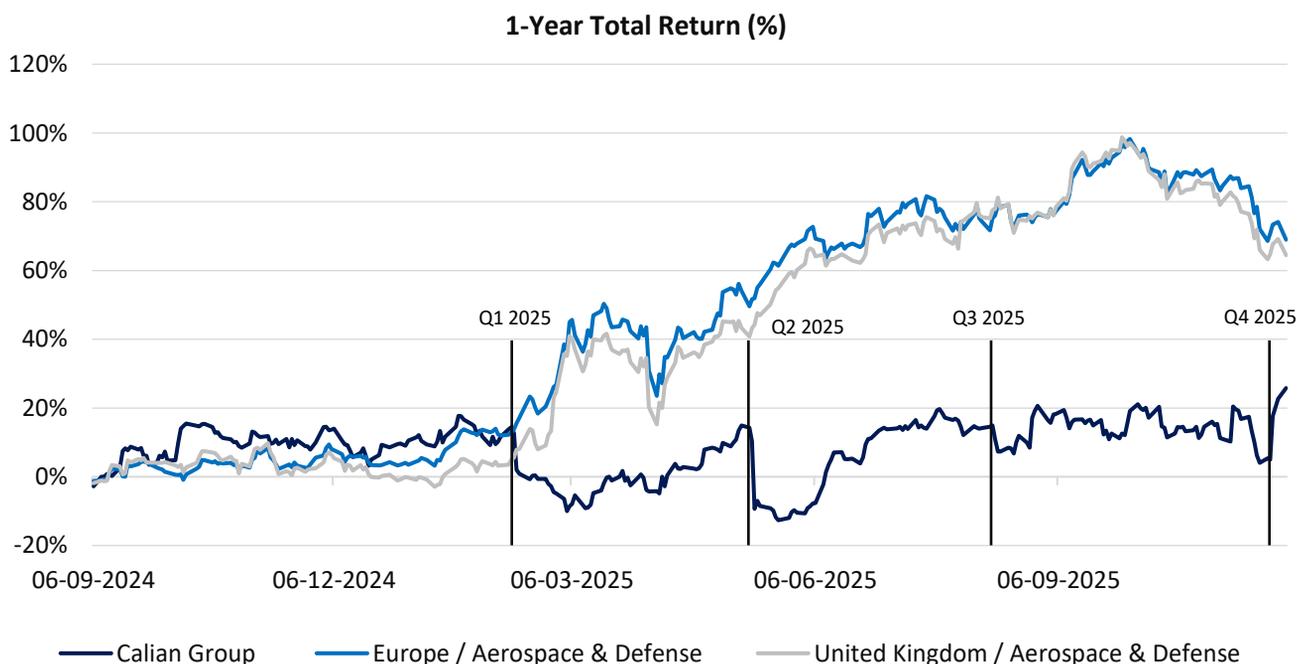
This high FCF yield allows us to model Calian repurchasing a significant number of shares, although in practice the capital will more likely be deployed towards acquisitions. This represents a meaningful source of upside to our five-year price target and a key reason we find the stock attractive, as value creation does not rely solely on defense growth.

Valuation

Increasing Correlation with Defense Sector Indexes

As the chart shows below, while not clearly apparent on an aggregate basis, certain periods begin to display a higher correlation with defense stocks and ETFs. Although this correlation was disrupted by sharp earnings revisions, we believe the long-term correlation will continue to increase.

Another interesting point is that this is the first time over the last four quarters that the market has reacted positively. **We expect sentiment to remain constructive and the share price to appreciate over the coming months.** Additionally, given the relatively small float and trading volume, larger institutions may accumulate positions gradually rather than only immediately following earnings.



Source: Aurelion Research

Historical Multiples

Calian historically traded at a lower multiple prior to 2020, as it was at the early stage of the new strategy led by Kevin Ford. Fewer acquisitions had been completed, and the model was not yet fully proven. In 2020, Calian became one of the few Canadian companies whose business model was accelerated by the pandemic, as its Health segment became a critical infrastructure partner for the Canadian government.

However, as the health-related tailwinds faded and Calian faced tough comparables, the market began assigning a lower earnings multiple. As these issues emerged in 2024, the EBITDA multiple became significantly depressed.

EV/EBITDA - NTM



Source: Aurelion Research, FactSet data

We believe Calian deserves a higher multiple than in the period prior to 2019, as it has now proven its business model and has increased exposure to defense.

The P/E ratio shows a similar story. With low depreciation and interest expense, EBITDA and EPS multiples are relatively close.

P/E - NTM



Source: Aurelion Research, FactSet data

We believe the current 11.5x P/E and 7.6x forward EBITDA (based on our estimates) represent a highly attractive entry point for the stock. In our view, not much needs to be done to excite the market.

Comparable Companies Analysis

We identify comparables at Calian's segment level. There are no strong comparable companies, but the table allows us to put the financials into perspective. Our takeaway does not change, and we believe Calian is undervalued, especially relative to its peers.

We do not use multiples from that table to explicitly drive our valuation because the business are very different but rather use it as a mental framework.

Company Name	Ticker	Enterprise Value	P/E NTM	EV/EBITDA NTM	EV/FCF NTM	Net Debt/ EBITDA	EBITDA %	Gross %	FCF %	ROIC %	3 Year CAGR %		
											Revenue	EBITDA	FCF
Calian Group Ltd	CGY-CA	734	11.5x	7.6x	13.0x	1.7x	10.1%	33.5%	6.5%	12.8%	9.4%	17.6%	28.9%
Advanced Technologies													
Viasat Inc	VSAT-US	16,337	-	7.3x	-	4.0x	31.9%	27.5%	-	(4.5%)	4.7%	3.3%	-
Mercury Systems Inc	MRCY-US	8,568	76.0x	37.3x	80.5x	3.5x	9.2%	23.9%	10.2%	(1.4%)	7.5%	25.6%	6.0%
MDA Space Ltd	MDA-CA	5,208	25.4x	14.8x	68.0x	1.0x	15.5%	20.2%	4.8%	6.7%	7.0%	6.7%	10.6%
Ducommun Inc	DCO-US	2,784	26.8x	13.3x	-	2.2x	12.5%	25.8%	5.5%	(3.8%)	7.0%	13.5%	69.1%
Health													
AMN Healthcare	AMN-US	2,208	28.7x	8.9x	9.0x	3.9x	7.6%	23.7%	8.2%	(15.4%)	(3.8%)	(16.4%)	(21.3%)
Cross Country Healthcare	CCRN-US	268	-	7.5x	4.3x	(4.1x)	2.1%	18.7%	4.1%	(3.7%)	(7.7%)	(16.0%)	(73.8%)
WELL Health	WELL-CA	1,693	10.3x	7.7x	18.5x	5.3x	8.5%	32.3%	(4.7%)	(3.3%)	8.1%	72.2%	37.4%
Learning (defense)													
Booz Allen Hamilton	BAH-US	18,127	13.4x	10.6x	15.1x	2.5x	11.0%	20.8%	8.2%	17.1%	0.5%	0.6%	2.1%
L3Harris Technologies	LHX-US	105,787	28.9x	18.1x	25.8x	3.2x	16.7%	22.3%	8.7%	5.8%	6.8%	9.2%	6.6%
CAE Inc	CAE-CA	16,850	28.9x	12.8x	41.0x	3.0x	22.1%	28.1%	12.2%	5.7%	5.4%	7.5%	(4.0%)
ITCS													
CGI Inc	GIB.A-CA	26,961	11.8x	7.8x	12.3x	1.0x	20.6%	16.8%	14.5%	12.6%	3.5%	3.8%	7.2%
ICF International Inc	ICFI-US	3,055	13.0x	9.6x	21.5x	2.6x	11.2%	34.3%	7.3%	6.2%	5.9%	7.5%	(10.6%)
Alithya Group Inc	ALYA-CA	298	21.0x	5.3x	10.3x	2.8x	9.3%	29.0%	3.5%	(9.2%)	5.1%	13.0%	8.9%
Average			20.8x	10.3x	22.6x	2.4x	13.7%	24.9%	6.9%	1.0%	3.8%	10.0%	3.2%
Median			23.2x	9.2x	16.8x	2.8x	11.2%	23.9%	7.8%	(1.4%)	5.4%	7.5%	6.3%

Price Targets

2026 Price Target: \$86

Using a 9.0x EBITDA multiple on our 2027 EBITDA estimate, we derive an \$86 price target by year-end 2026, representing a 54% potential upside from current levels.

5-Year Price Target: \$168

Using a similar 9.0x multiple on our 2031 EBITDA estimate, we derive a \$168 price target over a five-year horizon, representing a ~200% upside (or 24.8% CAGR) from the current share price.

Aurelion Research Price-Target	2026E	2027E	2028E	2029E	2030E
EBITDA (NTM)	113	127	138	148	157
EBITDA Multiple (NTM)	9.0x	9.0x	9.0x	9.0x	9.0x
Enterprise Value	1,014	1,141	1,240	1,335	1,413
(-) Net Debt	-85	-85	-85	-85	-85
Equity Value	929	1,056	1,155	1,250	1,328
DSO (000s)	10,852	10,037	9,257	8,544	7,900
Value per share	\$85.6	\$105.2	\$124.8	\$146.3	\$168.1
Upside	54.3%	89.6%	124.9%	163.7%	202.9%
5-Year CAGR					24.8%
FCF (NTM)	65	75	82	89	95
Implied EV/FCF (NTM)	15.6x	15.3x	15.1x	15.0x	14.8x
Implied FCF Yield	6.4%	6.6%	6.6%	6.7%	6.7%

Source: Aurelion Research estimates

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