

A LETTER FROM OUR CEO

Dear Fellow Shareholders,

Fiscal year 2016 was a pivotal year for Cubic. Since I was appointed president and chief executive officer 2 ½ years ago, Cubic's senior leadership team and I have established Goal 2020. Goal 2020 is Cubic's strategic master plan crafted to drive increased customer focus, market leadership, innovation, effectiveness, and efficiency, and to accelerate our growth and address the increasing pace of change in our markets. In the Q&A section of this report, I describe in detail the individual components of our Goal 2020 strategy and how they are integrated through our *OneCubic* initiative.


In 2016, we significantly expanded and improved our product portfolio. We formed Cubic Mission Solutions to provide leading-edge solutions in the growing command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) market. Due to increasing demand on current programs and with several opportunities to pursue

other larger programs in the U.S. and internationally, we anticipate this business will have top-line growth in the mid-teens with EBITDA margins in the high-teens.

Cubic Mission Solutions consists of four strategic acquisitions completed during the past two years including DTECH Labs, GATR Technologies, TeraLogics, and Vocality International, combined with our legacy data links and secure communications businesses. DTECH Labs provides a wide range of deployable and tactical communications products and services to meet diverse mission requirements. GATR Technologies provides world class satellite communication antenna solutions. TeraLogics provides secure, massively scalable, cloud-based distribution of full motion video. Vocality, our most recent acquisition, provides software solutions that optimize mobile communications links.

Goal 2020

\$2 billion+ sales with 10%+ EBITDA margin, growing 10%+ year-on-year



Winning The
Customer



Building
NextCity
Globally



Growing
C4ISR
Globally



Building
NextTraining
Globally



Living
One Cubic

We have made great strides to improve our market leading positions with innovation. In transportation, we are unique in having deployed proven next-generation solutions in Chicago, Vancouver and London, which form the basis of our OneAccount platform. This, coupled with our award-winning Ventra mobile solution, allows customers to utilize

completed important milestones, including key phases of our *OneCubic* enterprise resource planning system implementation. We also streamlined our manufacturing processes and reduced our supply chain vendors by more than 50 percent and

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a single account for all of their transportation payments across an urban region. Today, we have achieved more than 60 percent market share of ridership in the United States, Canada, United Kingdom, and Australia. We are seeing increased demand and refresh opportunities for our new technologies across our large installed customer base and in the broader market.

We are also transforming defense training by applying a variety of new technologies to increase the operational readiness of our customers globally. We have combined training and gaming technologies in the Littoral Combat Ship program that shows great promise for the U.S. Navy as it launches new ship platforms and increases the size of its fleet. We are combining live, virtual and constructive simulation techniques to revolutionize next-generation fighter pilot training. We are creating an information, surveillance reconnaissance and social media synthetic environment to increase training environment complexity and we are utilizing augmented reality to enhance training fidelity. We are also starting to see traction with our HALO, software definable antenna technology that will bring networked wideband communications to our customers to support the U.S. Department of Defense anti-access and area denial initiatives.

This year we also took important steps forward in our enterprise transformation. We made significant investments in our *OneCubic* initiatives and



consolidated our manufacturing processes into one organization. These actions saved over \$15 million in supply chain costs, which will have a positive impact on future earnings. By implementing *OneCubic* initiatives, our goal is to improve our operating profit margin by 200 to 250 basis points by fiscal year 2019.

We also greatly enhanced our leadership team. Dave Buss, who recently retired from the U.S. Navy as a vice admiral, was appointed to lead our defense business and Mike Twyman, a C4ISR executive with 30 years of industry experience, was chosen to lead our mission solutions business. Matt Cole, the architect of our NextCity vision, had a great first year leading our transportation segment and I am enthusiastic about his plans for the next phase of growth in this segment.

While our sales grew modestly, the year concluded with a disappointing fourth quarter. Due to a change in funding priorities, our department of defense

Sales by Country/Region ¹

(millions)	2016	2015	2014
United States	\$827.0	\$765.0	\$749.9
United Kingdom	243.0	282.4	294.4
Australia	154.0	164.6	161.9
Far East/Middle East	128.4	123.0	118.6
Canada/Other	109.3	96.0	73.6
Total sales	\$1,461.7	\$1,431.0	\$1,398.4

customer delayed the funding and shipping of a few orders in our defense systems segment. Under the new administration, we anticipate the U.S. defense market for our systems and services will improve starting in 2018.

2017 Outlook

The next few years are pivotal for Cubic's future as we leverage *OneCubic* investments toward achieving Goal 2020 targets. We anticipate better financial performance in fiscal year 2017, driven by improved performance in defense systems and growth in our C4ISR business. We expect a decision next summer to move from low-rate initial production to full-rate production on the U.S. Army Transportable Tactical Command Communications program, or T2C2. Under this program of record, our GATR subsidiary was chosen for its innovative inflatable satellite antennas.

Our organic growth prospects in transportation are also sound. We expect an upgrade cycle for next-generation solutions across our customer base, a trend which has already begun with recent awards such as Miami, Baltimore and Sydney. The most significant opportunity is New York City. In July we submitted our bid and anticipate an award decision in the spring of 2017. As the market leader, our credentials to win this and other upgrade opportunities are very strong.

We have the best resume in the transportation payment solutions industry. Our track record of success has been galvanized this year with the completion of the Compass project in Vancouver, our award-winning Ventra mobile solution in Chicago, and the continued global accolades we receive for the system in London. With these projects, we are the foremost integrator of mobile,

account-based and open payment solutions in the industry. We also have a strong pipeline of opportunities to enter additional markets in cities where we are not currently incumbent.

Our capital allocation priorities remain unchanged. Paying down debt is our first priority. Secondly, we want to fund organic growth. We expect our organic growth will improve late in 2017 with a contract decision in New York and from an improving defense environment. Thirdly, we will continue to make acquisitions tied to our strategic priorities in C4ISR, NextTraining and NextCity.

We have paid cash dividends to our shareholders since 1971 and we believe a stable, long-term dividend combined with growth is important for Cubic shareholders. Our dividend capacity is tied to our U.S. profitability, which we expect will improve starting in fiscal year 2018. This will give us more flexibility to raise our dividend over the long term.

In closing, I would like to extend my appreciation to our board of directors for their shared vision, counsel and support. To our 8,500 employees working in 26 nations, I thank you for your dedication, innovative drive and hard work that are essential to Cubic's prosperity. To our shareholders, we thank you for your continued support. We pledge our total commitment as we make Cubic even better.



Bradley H. Feldmann
President and CEO
December 23, 2016