

STRATEGIC ASSET ANALYSIS

KBR, Inc.

NYSE: KBR

KBR is hiding a higher-quality business inside a contractor's valuation: the market prices it like a legacy engineering firm at ~6.5x EBITDA, while the underlying business has quietly transformed into an industrial-IP and mission-critical infrastructure platform — 85+ proprietary process technologies, a \$23B+ backlog, and margins north of 20% in its core segment. The January 2027 spin-off splits this into two purer-play businesses, finally forcing the market to price each piece for what it actually is.

An Independent Analysis of Strategy, Competitive Positioning, Financial Performance, and Long-Term Structural Themes

Strategic Asset Analysis — Update Following Q1 Fiscal 2026 Results

Sources: Q1 FY2026 Form 10-Q (filed May 5, 2026); Q1 FY2026 earnings call transcript (May 5, 2026); Q1 FY2026 earnings presentation; KBR FY2025 Form 10-K; prior Museum Park Capital research; Morningstar equity research (as cited in prior research, May 2026); company news releases and investor materials as researched.

Coverage Type	Research Date	EV / FY26E EBITDA	Sector
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1. Executive Summary & Key Findings

KBR is not a company in decline; it is a company the market may still be pricing as though it were one. Across the first quarter of fiscal 2026, KBR delivered \$1,923 million of revenue, \$251 million of adjusted EBITDA (a 13.1% margin, up from 12.3% a year ago), \$0.96 of adjusted EPS, and \$119 million of adjusted operating cash flow at a 98% conversion rate — all while absorbing a deliberate \$78 million revenue headwind from the planned wind-down of EUCOM contingency work and continuing to fund the carve-out costs of separating its two core businesses. Management reaffirmed full-year guidance across every metric. None of this is the profile of a business under stress; it is the profile of a business executing through a deliberately engineered transition, at a stock price that, at roughly \$34, implies a forward P/E near 8–9x and an EV/EBITDA near 6.5x against FY2026 guidance — multiples that sit well below both KBR's own five-year historical average and the multiples awarded to its closest engineering-services peers.

This report builds its case around a reclassification framework: that the market continues to price KBR as a legacy, labor-intensive engineering and government-services contractor, when the business under CEO Stuart Bradie has spent the better part of a decade migrating toward two more durable, higher-margin identities — a Sustainable Technology Solutions (“STS”) segment built increasingly around proprietary process-technology licensing and recurring joint-venture operating participation, and a Mission Technology Solutions (“MTS”) segment built around mission-critical, technology-enabled government and defense work. The planned January 4, 2027 spin-off of MTS into a standalone public company is arguably less a financial-engineering event than the mechanism by which that reclassification finally becomes visible and investable as two distinct, purer-play equities.

This report’s core framework is based on the industrial-IP and infrastructure-reclassification model, the second-order AI infrastructure perspective, and the “Astounding Investment Thesis” scorecard. It rests on the belief that the fundamental logic remains robust and has even been reinforced by primary-source evidence gathered in this update: a third consecutive quarter with an STS book-to-bill ratio of 1.2x; management’s disclosure of a 20%-plus weighted STS margin profile with notable detail; a \$23.2 billion backlog and options balance; and clear management commentary highlighting “structurally higher STS margins,” “higher-value offerings,” and a strategic shift toward licensing and recurring joint-venture earnings. While earlier research depended on Morningstar’s characterizations and a stock price projection for May 2026, this update bases the analysis on KBR’s Q1 FY2026 filings, transcript, and investor deck, using a current reference price and methodology.

This report approaches that question through a reclassification-and-separation framework: the spin-off does not need to create new earnings to unlock value; it needs only to let the market apply STS-appropriate and MTS-appropriate multiples to businesses that today are bundled together and discounted as a single, lower-quality whole.

The Durable Case, in One Paragraph

Strip away any single quarter’s results, and the durable case for KBR rests on a small set of structural assets, inventoried in Section 2.3: 85+ proprietary industrial process technologies that a generic engineering contractor cannot replicate; participation in roughly one-third of global LNG and ammonia infrastructure; multi-decade mission-critical government and defense programs running to 2041; and a planned spin-off mechanism that, without creating any new earnings, removes the structural reason two differently-valued businesses currently share one blended multiple. Whether that combination is sufficient to justify a structurally different valuation than the market currently assigns — and whether it would still hold up a decade from now, after the spin-off has closed and several more industrial and defense-spending cycles have passed — is the underlying question the rest of this report is built to help a reader answer for themselves.

2. Q1 FY2026 Financial Snapshot

Metric (GAAP unless noted)	Q1 FY26	Q1 FY25	Change
Revenue (\$M)	1,923	2,018	-5% (-\$95M)
Revenue ex-EUCOM (\$M)	1,940	2,018	~flat
Gross profit (\$M)	265	300	-12%
Equity in earnings of JVs (\$M)	51	42	+21%
Operating income (\$M)	180	202	-11%
Net income attrib. to KBR (\$M)	102	116	-12%
Diluted EPS (continuing ops)	\$0.81	\$0.91	-11%
Adjusted EBITDA (\$M)	251	248	+1%
Adjusted EBITDA margin	13.1%	12.3%	+80 bps
Adjusted EPS	\$0.96	\$1.01	-5%
Adjusted operating cash flow (\$M)	119	91	+31%
Adj. OCF conversion	98%	68%	+30 pts
Total backlog + options (\$M)	23,183	23,211*	~flat
Net debt / TTM Adj. EBITDA	2.3x	n/a	vs. 2.5x ceiling

Sources: KBR Form 10-Q (filed May 5, 2026); Q1 FY2026 earnings presentation. *Backlog + options figure shown for comparison is as of January 2, 2026 (most recent prior period disclosed), not April 4, 2025.

The headline revenue decline is fully explained by a single, previously guided item: the planned reduction in EUCOM contingency work, an \$78–\$95 million year-over-year headwind depending on the comparison basis used. Strip that out and revenue was essentially flat, while adjusted EBITDA margin expanded 80 basis points and adjusted operating cash flow conversion nearly returned to 100% — a materially stronger cash-conversion profile than the 68% conversion rate of the prior-year quarter. This is the financial signature of a company absorbing a known, deliberate revenue step-down while the underlying margin and cash-generation engine continues to strengthen.

2.3 Strategic Asset Inventory

Before turning to the segment and valuation detail, it is useful to separate the durable, structural assets KBR owns from the cyclical results those assets happen to be producing in any given quarter. The categories below are the lens applied throughout this report — proprietary process IP, distribution, installed base, management and disclosure quality, switching costs, structural industry shifts, and capital allocation — each cross-referenced to the section where it is examined in depth.

Strategic Asset	What KBR Owns, and Where It Is Examined
Proprietary Process IP	85+ proprietary, sustainability-focused process technologies across ammonia/syngas, chemicals/petrochemicals, clean refining, and circular-economy verticals (Section 3.2)
Distribution & Installed Base	Participation in roughly one-third of global LNG and ammonia infrastructure (third-party-sourced context); \$23.2B combined backlog and options across STS and MTS (Section 3.5, Section 2)
Management & Disclosure Quality	Unusually granular margin-tiering disclosure (Q1 deck slide 14) and direct, falsifiable causal explanations for segment performance (Section 3.1, Section 9)
Switching Costs	Multi-decade mission-critical government and defense programs (Aspire Defense runs to 2041) and long-duration catalyst/licensing agreements (10-year Indorama supply deal) (Section 3.2, Section 3.6)
Structural Industry Shifts	Semiconductor-style reclassification opportunity via the planned MTS spin-off; defense, energy-security, and industrial-sovereignty convergence; second-order AI infrastructure demand (Section 3.6, Section 3.4, Section 5)
Capital Allocation	2.3x net leverage against a 2.5x self-imposed ceiling; capital-light BRIS/SWAT JV expansion; four-pillar framework of organic growth, bolt-on M&A, prudent leverage, and capital return (Section 6)

The remainder of this report develops each of these seven categories in detail. The organizing question is not only what multiple the equity should trade at, but what durable, structurally defensible assets the company controls — and how the market's current pricing does or does not reflect them.

3. Structural Investment Considerations

The core KBR analysis is not that the company is statistically cheap, though it is. The observation is that the market continues to evaluate KBR through a legacy classification — engineering-services contractor or government-services conglomerate — that no longer accurately describes what the business has become, and that the planned MTS spin-off is the catalyst that forces a reclassification.

3.1 Legacy KBR vs. New KBR

Historically, KBR's identity was built around lump-sum EPC exposure, commodity cyclicity, project overruns, and labor-intensive engineering. That legacy still substantially shapes how the market prices the equity today. Under CEO Stuart Bradie, however, KBR has spent roughly a decade systematically repositioning away from lower-quality EPC exposure and toward differentiated government solutions, industrial process technologies, licensing ecosystems, and recurring operational participation. This is not merely a narrative claim: Mission Technology Solutions, KBR's government and defense services segment, represented approximately 16% of backlog in 2014 and had grown to roughly 75% by the end of fiscal 2025 — a structural reconstruction of the business, not cyclical drift.

Management's own language on the Q1 FY2026 call reinforces this framing. Rather than emphasizing engineering headcount or volume growth, CEO Bradie and CFO Shad Evans repeatedly referenced "higher-value offerings," "portfolio mix," "technology," "JV participation," and "structurally higher margins" when describing the STS segment specifically. The Q1 earnings deck devotes an entire slide — "Portfolio Mix and JV Structure Support Structurally Higher STS Margins" — to explicitly disaggregating STS into margin tiers, from proprietary technology licensing (>25% margin) and engineering solutions down through domestic general maintenance services (<10% margin, accessed primarily through the recurring BRIS joint venture). That a company would publish this level of internal margin architecture is itself evidence that management views the business through a portfolio-quality lens rather than a generic engineering-contractor lens.

3.2 STS as the Strategic Core: The Hidden Asset Is Industrial Process IP

The market continues to benchmark KBR against firms such as AECOM and Jacobs Solutions, but the comparison is incomplete because those businesses primarily monetize engineering labor, consulting, and project management. KBR's STS segment increasingly monetizes industrial process intellectual property: more than 85 proprietary, sustainability-focused process technologies across ammonia/syngas, chemicals/petrochemicals, clean refining, and circular-economy verticals, per the company's own Form 10-Q segment description. The Q1 results give this claim concrete shape. STS delivered a 21.9% adjusted EBITDA margin in the quarter (up from 21.2% a year ago), and even excluding the equity-earnings contribution from a single large LNG project, the underlying base business still converted at 16.1% — a margin tier that commodity engineering contractors do not sustain, and one CFO Evans explicitly characterized on the call as “15% going upwards” over time as licensing and JV OpEx mix continues to grow.

The quarter also produced a concrete, recurring-revenue proof point: a 10-year catalyst supply agreement supporting Indorama's ammonia operations. This is strategically more important than its immediate revenue contribution, because it illustrates the mechanism by which STS is meant to evolve — from one-time engineering and project-management fees toward long-duration, installed-base monetization tied to catalysts, licensing, and operating participation. One-time engineering revenue and decade-long catalyst-supply revenue are not the same economic asset, and arguably should not carry the same valuation multiple; the market, in bundling all of KBR's revenue into a single blended multiple, is effectively pricing the latter as though it were the former.

3.3 Infrastructure Intelligence as a Business Model

It remains useful to frame KBR not as an engineering contractor but as a strategic infrastructure-intelligence platform. This enabling orchestration layer allows energy, industrial, and defense systems to exist physically, rather than the direct owner of the megatrends themselves. The market today overwhelmingly rewards software scalability and AI compute. The binding constraints on the next industrial and AI infrastructure cycle may be migrating away from compute itself and toward the physical systems required to operationalize it: power generation, grid modernization, transmission, industrial deployment, and permitting complexity. KBR's own Q1 commentary is directionally consistent with this framing without using the same language: management cited continued investment in “global energy and infrastructure driven by demand growth and energy security priorities,” a digital-and-AI strategic investment in Applied Computing, and a near-term pipeline matrix explicitly built around energy security, critical-materials and circularity, and infrastructure and transport across four global regions.

Importantly, this is not a single-theme bet. STS book-to-bill ex-LNG was 1.2x for a third consecutive quarter, with bookings spread across Libya (refinery project management), Iraq (integrated fuel management at the Majnoon Oil Field), Saudi Arabia (a long-term general maintenance contract at SATORP), and the Indorama ammonia agreement — a geographically and thematically diversified order book, not a single concentrated award. Management was explicit on the call that this diversification is deliberate: “we are seeing broader distribution of critical programs rather than reliance on single large awards.”

3.4 The Second- and Third-Order AI Infrastructure Framework

The market's AI narrative remains concentrated on semiconductors, hyperscalers, and software ecosystems. The physical deployment of AI may be creating a second- and third-order infrastructure cycle centered on electricity, industrial deployment, grid modernization, LNG systems, and permitting execution — and KBR is not a direct AI company but is positioned inside that second-order infrastructure layer. This is a more speculative leg of the analysis than the segment-level margin evidence above, and the Q1 print does not give a clean, quantified AI-infrastructure revenue line to point to. What is available is directional and consistent: KBR is currently engaged in front-end engineering design (FEED) work on three separate LNG projects, management described those three projects as having “legs” beyond conceptual-stage estimates, and the company's STS pipeline matrix explicitly identifies energy security and critical-materials demand clustering across the Americas, Middle East, and Europe — the same physical-infrastructure categories (power, gas, transmission-adjacent systems) that a second-order AI buildout would be expected to stress. This is best treated as a real but unquantified optionality layer on top of the core STS margin and recurring-revenue analysis, not as a standalone, separately-monetizable line item today.

3.5 Ammonia and Hydrogen Infrastructure: The Underappreciated Installed Base

Among KBR's industrial technologies, we continue to view ammonia infrastructure as the most strategically underappreciated. Ammonia, historically viewed through a fertilizer lens, is increasingly discussed across the industry as a transport and storage mechanism for hydrogen, given that pure hydrogen remains difficult and expensive to move at scale. KBR has participated in the design or licensing of roughly one-third of global LNG production infrastructure and roughly one-third of global ammonia plants (per the prior research's citation of Morningstar; we have not independently re-verified this specific figure against a primary KBR source in this update, and flag it accordingly as third-party-sourced context rather than company-disclosed fact). If approximately accurate, that installed base creates embedded customer relationships, recurring upgrade and maintenance opportunities, and long-duration monetization — precisely the dynamic the Indorama catalyst-supply agreement illustrates in miniature.

3.6 Defense, Energy, and Industrial Sovereignty Convergence

KBR sits adjacent to an unusually wide set of simultaneous geopolitical and industrial themes: Middle East infrastructure reconstruction and resilience, LNG systems, fertilizer and food-security independence, sovereign industrial policy, defense modernization, and energy security. The Q1 call provided a direct, current-quarter data point for this analysis rather than a general assertion: CEO Bradie visited Saudi Arabia, Bahrain, Abu Dhabi, and Dubai in late April 2026 and reported “no slowdown in activity” despite the recent regional conflict, with customers now focused on resilience, facility sparing, and export-route diversification as direct lessons from the conflict — a demand driver that did not exist in this form eighteen months ago and that plays directly to KBR’s STS maintenance and infrastructure-resilience capabilities. On the MTS side, the U.S. Space Force, missile-defense, connected-battlespace, and intelligence franchises were each cited as recent or growing award categories, alongside continued U.S. and Australian defense program growth that is currently being offset, on a net revenue basis, by NASA-related and protest-related softness elsewhere in the segment (see Section 4.1).

3.7 The Spin-Off as Strategic Identity Clarification, Not Financial Engineering

Most investors frame the planned MTS spin-off as simplification or activist-style restructuring. The more important implication may be strategic identity clarification: combining government services, defense logistics, NASA contracts, industrial process licensing, and energy-transition systems inside a single corporate structure forces the market to apply one blended valuation framework to businesses that belong to fundamentally different investor universes. Separated, post-spin STS would be free to be evaluated as an industrial-process and infrastructure-technology platform rather than as a sub-segment of a government contractor, and post-spin MTS (“SpinCo”) would be free to be evaluated against pure-play government-services and defense-technology peers rather than dragging STS’s capital-light, technology-licensing profile into a blended multiple that undervalues a \$5.3 billion-revenue defense and space business with a \$18.9 billion backlog and options position. We discuss the mechanics and pro forma economics of the separation in Section 5.

3.8 Parallels to Other Strategic Re-Ratings

There is a useful, if imperfect, conceptual parallel to Intel. The Intel re-rating case was never simply that the stock was statistically cheap; it rested on the market continuing to value the company through an outdated framework while underappreciating its emerging strategic role in semiconductor sovereignty and domestic manufacturing resilience. KBR may represent an analogous, smaller-scale reclassification opportunity: the market still largely sees a contractor. At the same time, management has spent a decade building an infrastructure-intelligence and industrial-process platform sitting at the convergence of several long-duration structural transitions. A thematic (not financial) parallel can also be drawn to companies such as MP Materials, BWX Technologies, and Centrus Energy, where the common thread is capability scarcity and geopolitical resilience rather than balance-sheet or margin comparability — these are not direct valuation comps for KBR and are not treated as such in Section 8.

Taken together, Sections 3.1 through 3.8 form the bull case. The remainder of this report tests that case against the hard numbers: segment-level performance (Section 4), the mechanics of the spin-off (Section 5), the balance sheet (Section 6), and a valuation framework built off current guidance rather than the speculative multiple expansion discussed above (Section 7).

4. Segment Review: Mission Technology Solutions and Sustainable Technology Solutions

4.1 Mission Technology Solutions (MTS)

MTS Metric	Q1 FY26	Q1 FY25	Change
Revenue (\$M)	1,296	1,381	-6% (-\$85M)
Revenue ex-EUCOM contingency (\$M)	1,296	1,303	~flat
Operating income (\$M)	111	113	-2%
Adjusted EBITDA (\$M)	138	139	-1%
Adjusted EBITDA margin	10.6%	10.1%	+50 bps
Book-to-bill (ex-UK PFIs)	1.0x	n/a	TTM also 1.0x
Backlog (\$M)	12,622	12,552*	~flat
Backlog & options (\$M)	18,500	n/a	39% funded ex-PFI
Bids awaiting award (\$M)	16,000	n/a	n/a

Wins currently in protest (\$M)	2,600	n/a	n/a
% of FY26 revenue guide under contract	91%	n/a	n/a

Sources: KBR Form 10-Q Note 2 (Business Segment Information); Q1 FY2026 earnings presentation. *Prior-period backlog and Adj. EBITDA shown for comparison are as of/for the period ended January 2, 2026, the most recent prior disclosure on a like basis; current-year figures are at/for April 3, 2026.

MTS revenue declined 6% year-over-year, but the decline is fully attributable to the planned reduction in EUCOM contingency work that management flagged on the prior quarter's call; excluding that item, MTS revenue was effectively flat. Within that flat top line, the segment is absorbing several offsetting dynamics simultaneously: growth in U.S. and Australian defense programs is being offset by a combination of award delays, protest activity (most notably related to the MIS contract), and funding-related softness at NASA tied to the new administrator's push toward workforce insourcing. Management quantified the NASA insourcing impact at approximately \$50–\$60 million of revenue for the year if fully implemented, characterized it as gradual and affecting only one main contract, and noted that the broader NASA relationship — including KBR's role in the Artemis II mission, which management called out explicitly as a source of pride — remains intact and is expected to extend into Artemis III human-spaceflight work.

Adjusted EBITDA margin nonetheless expanded 50 basis points to 10.6%, which management attributed to the roll-off of lower-margin EUCOM work and a mix shift toward higher-value offerings — the same margin-quality language applied to STS, now showing through in MTS's own numbers. The \$2.6 billion of wins currently sitting in protest is a meaningful overhang on near-term bookings optics (book-to-bill of 1.0x, in line with the trailing twelve months but below STS's 1.2x), but it also represents a contingent backlog opportunity that is not yet reflected in the \$18.5 billion backlog-and-options figure; resolution of these protests, whichever direction it goes, is one of the cleaner near-term catalysts in the name (see Section 13).

4.2 Sustainable Technology Solutions (STS)

STS Metric	Q1 FY26	Q1 FY25	Change
Revenue (\$M)	627	637	-2% (-\$10M)
Operating income (\$M)	113	127	-11%
Adjusted EBITDA (\$M)	137	135	+1%
Adjusted EBITDA margin	21.9%	21.2%	+70 bps
Adjusted EBITDA margin ex-LNG project	16.1%	16.8%	-70 bps
Book-to-bill ex-LNG	1.2x	n/a	TTM also 1.2x; 3rd straight qtr >1.0x
Backlog (\$M)	4,700	4,312*	+9%
Near-term pipeline ex-LNG (\$M)	>5,000	n/a	~80% repeat customers
% of FY26 revenue guide under contract	67%	n/a	n/a

Sources: KBR Form 10-Q Note 2; Q1 FY2026 earnings presentation, slide 14 (margin tiering detail).

STS revenue was effectively flat year-over-year (-2%, or \$10 million), which management attributed to recent awards that are still ramping and have not yet contributed meaningfully to revenue — read here as a timing issue rather than a demand issue, particularly set against a book-to-bill of 1.2x for a third consecutive quarter. Operating income declined 11% even as adjusted EBITDA rose 1%, a divergence explained by the difference between the two metrics: operating income reflects a less favorable licensing mix in the quarter, partially offset by a favorable project closeout and by higher equity-in-earnings contribution from the LNG project, which flows through adjusted EBITDA via the equity-earnings line rather than through segment operating income in the same way.

The margin-tiering disclosure introduced this quarter is arguably one of the more useful additions to KBR's reporting in some time. It shows STS adjusted EBITDA margin building from a roughly 15% "base business" run-rate (services-heavy, growing faster than technology sales in recent years) up through engineering solutions and complex program development, with proprietary technology licensing sitting above 25%. Layered on top are two JV-related contributions: approximately 3 percentage points of structural, recurring JV earnings (chiefly BRIS, the domestic maintenance-services joint venture) and approximately 5 percentage points of project-specific JV earnings tied to the single large LNG project that is currently boosting headline STS margin to the 20%-plus level. Management was explicit that the backfill for this LNG project as it eventually rolls off "is portfolio based rather than a one-for-one replacement," and that growth in technology licensing and JV OpEx work should support a more durable margin profile over time even as that specific project's contribution fades — consistent with CFO Evans' "15% going upwards" characterization of the underlying base.

4.3 Corporate Costs and the Cost of the Spin

Corporate operating loss increased 16% year-over-year, to \$44 million from \$38 million, which management attributed directly to increased SG&A related to the planned spin-off. This is a real, near-term earnings drag. The non-GAAP reconciliation in the Q1 deck shows “spin off, acquisition and integration” add-backs of \$16 million in the quarter (versus \$6 million a year ago) and a new \$14 million “share of JV interest, tax, D&A and acquisition costs” adjustment introduced this quarter on a prospective basis. We flag this transparently: a meaningful and growing share of the gap between GAAP operating income and adjusted EBITDA in the current quarter is carve-out and separation cost. Investors should expect this drag to persist and likely grow through the close of the transaction in January 2027, before reversing as standalone-cost dis-synergies are fully absorbed into each entity’s own run-rate guidance at the November 2026 Investor Days.

5. The Spin-Off: Strategic Identity Clarification

	SpinCo (MTS)	New KBR (STS)
FY2025 Revenue	\$5.3B	\$2.5B
FY2025 Adj. EBITDA margin*	10.5%	20.8%
FY2025 Backlog (& options for SpinCo)	\$18.9B	\$4.3B

Source: Q1 FY2026 earnings presentation, slide 21. *Segment Adj. EBITDA margins exclude corporate cost allocations and anticipated standalone public-company costs that may be incurred post-separation; pro forma standalone margins will differ once both entities disclose their own corporate cost structures, expected at the November 2026 Investor Days.

5.1 Mechanics and Timeline

KBR announced its intention to spin off MTS into a separate, U.S. publicly traded company in September 2025. The transaction is intended to be tax-free to KBR and its shareholders for U.S. federal income tax purposes, subject to final Board approval, a favorable tax opinion and/or IRS private letter ruling, effectiveness of a Form 10 registration statement with the SEC, and satisfactory completion of financing and other regulatory approvals. As of the Q1 FY2026 call and the corresponding Form 10-Q, KBR is targeting an effective spin date of January 4, 2027 — the first business day of fiscal 2027 — a roughly three-month delay from the late-Q3/October 2026 timeline management had originally been targeting.

Management was direct about the reason for the shift on the Q1 call: doing the separation at the start of a fiscal year materially simplifies accounting, benefits administration, and payroll-system cutover relative to a mid-quarter split, and the later date also builds schedule float into the IT separation work, which CEO Bradie noted candidly “I’ve never seen an IT project finish on time anywhere.” We read this as a credible, low-drama explanation rather than a sign of underlying execution trouble, particularly given that the regulatory workstream appears to be progressing on or ahead of plan: the Form 10 has been confidentially resubmitted to the SEC with audited FY2025 carve-out financials, with a public filing anticipated in September 2026, and the company described its discussions with both the SEC and the IRS as “highly constructive.”

Leadership transition is similarly advanced for a transaction still roughly seven months from close: the MTS CEO search was in its final stages with board interviews scheduled for later in May 2026, with the CFO search to follow shortly thereafter, and the company has begun making additional leadership and functional appointments across both organizations. Operational separation work — IT stand-up, real estate rationalization, and legal-entity restructuring — is underway. Two separate Investor Days are planned for the second week of November 2026, roughly two months ahead of the targeted close. At this point, we would expect both standalone entities to disclose their own pro forma corporate cost structures, capital allocation frameworks, and initial guidance.

5.2 Why the Separation Should Re-Rate Both Pieces

The pro forma figures disclosed in the Q1 deck (shown in the table above) make the valuation case concretely. SpinCo (MTS) would launch as a roughly \$5.3 billion-revenue, 10.5%-EBITDA-margin defense, space, and government-services business with an \$18.9 billion backlog and options position — a scale and margin profile broadly comparable to other pure-play government-services and defense-technology names that, unlike KBR today, are not bundled with a capital-light industrial-technology licensing business. New KBR (STS) would launch as a smaller, \$2.5 billion-revenue but 20.8%-margin industrial-process and infrastructure-technology platform — a margin profile that, if the market is willing to apply an industrial-IP or infrastructure-technology multiple rather than an engineering-contractor multiple, is the single biggest lever in this entire analysis.

We want to be precise about what this does and does not imply. The spin-off does not, by itself, create any incremental revenue or earnings; pro forma combined Adj. EBITDA the day after separation is mechanically the same as the day before, less whatever incremental standalone public-company costs each entity absorbs (a real, if currently unquantified, dis-synergy that will not be fully disclosed until the November Investor Days). What the spin-off does is remove the structural reason the two businesses currently share a single blended multiple. If New KBR (STS) is subsequently valued anywhere close to the industrial-IP and infrastructure-technology multiples assumed in Section 7’s scenario analysis, while SpinCo (MTS) is valued in

line with defense-services peers, the sum of the parts is, in the base case, larger than today's combined market capitalization — which is the entire analysis in one sentence.

6. Balance Sheet, Liquidity, and Capital Allocation

6.1 Leverage and Liquidity

KBR ended Q1 FY2026 with \$380 million of cash and \$2,583 million of total debt (Term Loan A \$977 million, Term Loan B \$980 million, 4.750% Senior Notes due 2028 \$250 million, and \$395 million drawn on the \$1 billion Revolver), for net debt of approximately \$2,222 million per the company's own disclosure. Against trailing-twelve-month adjusted EBITDA of \$971 million, that implies net leverage of 2.3x — comfortably inside the company's self-imposed 2.5x ceiling and the Senior Credit Facility's 4.00x maximum covenant level, and management reaffirmed it is in full compliance with all financial covenants as of April 3, 2026.

Total available liquidity stood at approximately \$788 million as of quarter-end, comprising undrawn capacity on the committed Revolver plus \$488 million of bilateral and uncommitted lines of credit net of letter-of-credit utilization. The weighted average interest rate on KBR's debt, net of its interest rate swap portfolio, was 4.94% for the quarter; a hypothetical 50 basis point increase in rates would add only about \$4 million of annualized pre-tax interest expense, given that \$1,813 million of total debt is effectively fixed-rate after swaps versus \$789 million floating.

Net leverage rose modestly during the quarter, from the prior 2.5x-ish level implied by year-end figures (debt was essentially flat at \$2,583 million versus \$2,596 million), driven primarily by a \$115 million cash investment into the BRIS joint venture to fund BRIS's acquisition of a welding and turnaround services provider (referred to in management commentary as the "SWAT" acquisition). This investment reads positively: it is a direct, capital-light extension of the recurring-JV-earnings analysis discussed in Section 4.2, made through an already-consolidated-for-cash-flow-purposes investment vehicle rather than KBR's own balance sheet, and CFO Evans indicated on the call that the resulting recurring JV EBITDA contribution (approximately \$18 million in the quarter from BRIS specifically) should tick up modestly through the balance of the year as bookings in that portfolio continue to ramp.

6.2 Cash Flow and Capital Allocation

Cash flow from operating activities (continuing operations) was \$110 million in Q1, up from \$91 million a year ago, and adjusted operating cash flow — which adds back \$9 million of spin-related transaction costs — was \$119 million, representing 98% conversion of adjusted EPS versus 68% a year ago. Investing activities consumed \$188 million, driven by the \$115 million BRIS contribution discussed above, \$49 million of purchases of available-for-sale debt securities (including a \$34 million stake in Mura Technology, a recycling-technology company in which KBR holds an approximate 17% aggregate investment), \$13 million of other investments, and \$12 million of ordinary capital expenditures.

Financing activities used \$43 million, the largest components being \$21 million of dividend payments and a wash of \$141 million drawn and \$141 million repaid on the Revolver intra-quarter for working-capital timing purposes. Share repurchases were a modest \$4 million in the quarter — a deliberate pull-back from the \$156 million repurchased in the prior-year quarter — which we read as management preserving balance-sheet and cash flexibility ahead of the spin-off's working-capital and transaction-cost requirements rather than any change in capital-allocation philosophy; \$427 million remains available under the existing repurchase authorization. The company also paid its first-ever dividend under the current program structure at \$0.165/share, unchanged from the prior-year quarter, alongside continued ESPP issuance and the BRIS-related JV investment — a capital allocation framework management describes as resting on four pillars: organic growth investment, disciplined bolt-on M&A, prudent leverage ($\leq 2.5x$), and continued capital return to shareholders.

7. Valuation Framework

This valuation sensitivity is anchored to KBR's own FY2026 guidance rather than to the longer-dated, more speculative earnings trajectory referenced in the prior research, on the view that a sensitivity built off guidance the company has just reaffirmed is more defensible than one built off out-year estimates from a third party. The multiple-expansion framework from the prior research is used as a scenario overlay, not as the base case itself.

Metric	At \$34.00 / share	Reference
Market capitalization	~\$4.32B	127M diluted shares
Net debt	\$2,222M	10-Q / deck, 4/3/26
Enterprise value	~\$6.54B	Mkt cap + net debt
FY26E Adj. EBITDA (guide midpoint)	\$1,010M	\$980M–\$1,040M range

EV / FY26E Adj. EBITDA	~6.5x	vs. 5-yr avg. ~11.3x*
FY26E Adj. EPS (guide midpoint)	\$4.045	\$3.87–\$4.22 range
P / FY26E Adj. EPS guide midpoint	~8.4x	vs. 5-yr avg. ~17.0x*
P / 2027E Adj. EPS (\$4.34 est.)	~7.8x	Prior research / Morningstar-sourced estimate

Sources: KBR Q1 FY2026 Form 10-Q and earnings presentation (debt, share count, guidance); Museum Park Capital calculations. *Five-year average multiples per third-party financial data aggregators (intellectia.ai), cited for directional context only; methodology and exact comparison period not independently verified by Museum Park Capital.

7.1 Valuation Methodology: Multiple Reversion Toward KBR's Own Historical Average

At a reference price of \$34.00, KBR trades at roughly 6.5x EV/FY2026E adjusted EBITDA (using the guidance midpoint) and roughly 8.4x P/E on the same guidance midpoint. Both multiples sit meaningfully below KBR's own trailing five-year average multiples as reported by third-party data aggregators (approximately 11.3x EV/EBITDA and approximately 17.0x forward P/E), and below the multiples the market currently affords to engineering-services peers such as AECOM, which itself argues publicly that it trades at a discount to its own peer group despite superior margins (AECOM cited a 9.5x FY2026E EV/EBITDA multiple for itself versus a 13.3x peer average in its own Q2 FY2026 investor materials).

A useful framework for thinking about valuation here is to compare the current multiple against KBR's own trading history rather than to derive a single fair-value figure. A re-rating does not require KBR to re-rate to a premium industrial-IP multiple; even a partial reversion toward KBR's own historical multiple as the spin-off de-risks the story and the market begins to apply segment-appropriate multiples ahead of the formal separation would be meaningful. Applying a 9.5x EV/EBITDA multiple — a discount to KBR's own five-year average and roughly in line with where AECOM itself currently trades — to the \$1,010 million FY2026E adjusted EBITDA guidance midpoint would imply an enterprise value of approximately \$9.6 billion; netting the \$2,222 million of net debt would imply an equity value of approximately \$7.4 billion, or approximately \$58 per share on a 127 million diluted share count. This sensitivity is presented as a methodology and a historical reference point for investors to weigh themselves, not as a derived fair-value conclusion.

7.2 Scenario Analysis: The Speculative Multiple-Expansion Case

The prior research's framework — applying a 15x–17x multiple to a longer-dated EPS estimate — remains a useful upside scenario, presented explicitly as a scenario rather than as the base case, since it depends on (a) KBR achieving the cited out-year EPS trajectory, which has not been independently modeled bottom-up in this update, and (b) the market ultimately reclassifying post-spin STS as an industrial-IP platform rather than an engineering-services business. Applying a 15x multiple to the \$4.34 2027E adjusted EPS estimate referenced in the prior research implies a value near \$65/share; a 17x multiple implies a value near \$74/share. Both sit above the base-case sensitivity discussed in Section 7.1 and represent a plausible outcome if the spin-off is executed cleanly and the market's classification of New KBR (STS) shifts as described in Section 3.

A separate, internally consistent valuation cross-check the company itself implicitly disclosed is also worth flagging: KBR's current valuation grade by at least one third-party model places fair value in a \$61–\$78/share range using a relative-valuation methodology against trailing five-year multiple bands, and a separate multiples-based valuation model places intrinsic value near \$75/share against the same comparison — both above the base-case sensitivity in Section 7.1. Neither model's methodology has been independently reconstructed here; these are presented only as corroborating, third-party directional evidence that the base-case sensitivity is, if anything, on the conservative end of available reversion-to-mean approaches.

7.3 Factors That Would Affect This Valuation Read

If KBR's multiple discount to history and to peers persists even after the spin-off closes — for example, because the market continues to treat New KBR (STS) as an engineering contractor rather than an industrial-technology platform, or because standalone public-company dis-synergies prove larger than the pro forma figures in Section 5 suggest — the base-case sensitivity in Section 7.1 would not play out on the timeline this report anticipates. These and other risks are discussed explicitly in Section 9.

8. Peer Comparables

KBR does not have a single clean comparable company, which is itself part of the analysis: the market currently has to choose between benchmarking KBR against diversified engineering-services firms (AECOM, Jacobs Solutions) or pure-play government-services and defense-technology firms (Leidos and, post-spin, the eventual SpinCo peer set), and neither comparison is fully appropriate to a company straddling both. We present both reference points below for context, with an explicit caveat on data freshness and source consistency.

Company	Fwd EV/EBITDA	Fwd P/E	Adj. EBITDA Margin
KBR (current)	~6.5x*	~8.4x*	13.1% (Q1'26)
KBR (5-yr avg.)	~11.3x	~17.0x	n/a
AECOM (ACM)	~9.5x (co.-cited)	~11.6–14.3x	~17.0%
Engineering-services peer avg. (per AECOM)	~13.3x	n/a	~15.2%
Leidos (LDOS)	n/a — not directly comparable	n/a	~14.0–14.1%

Sources: Museum Park Capital calculation for KBR current multiples (see Section 7.1); AECOM Q2 FY2026 investor materials (self-cited 9.5x EV/EBITDA vs. 13.3x peer average, and 15.2% peer-average segment adjusted operating margin against an unnamed peer set including Jacobs, Tetra Tech, Stantec, and WSP); third-party aggregator data for AECOM forward P/E (date and methodology not independently verified, range reflects source variability); Leidos FY2025 and Q4 FY2025 8-K press releases for margin reference only. *KBR current multiples computed against FY2026E guidance midpoints at a \$34.00 reference price; see Section 7.1. This table is illustrative directional context, not a precision-matched comparable-company analysis; we did not independently verify that all peer multiples are calculated on a consistent basis or as of the same reference date as the KBR figures.

Two things stand out. First, even AECOM — a business the market already prices as a higher-quality, more capital-light engineering franchise than legacy KBR — argues publicly that it trades at a discount to its own peer group; if that is true for AECOM, KBR's discount to both AECOM and the broader peer set is larger still. Second, Leidos is not a clean comparable for either piece of KBR today. Still, its margin and growth profile is closer to what we would expect a successfully repositioned, defense-and-space-focused SpinCo (MTS) to be benchmarked against once it trades as a standalone entity; SpinCo's pro forma 10.5% segment margin (Section 5) still trails Leidos's mid-teens margin, which is itself a useful gauge of how much standalone-cost discipline and mix improvement SpinCo would need to deliver to close that gap post-separation.

We will revisit this comparable set explicitly once KBR provides standalone guidance for both entities at the planned November 2026 Investor Days, at which point a cleaner, segment-matched peer analysis becomes possible for both SpinCo and New KBR independently.

9. Risk Factors

9.1 Spin-Off Execution Risk

The transaction remains subject to SEC review of the Form 10, a favorable IRS ruling or tax opinion, Board approval, and financing conditions, any of which could delay the January 4, 2027 target further or, in a tail scenario, prevent completion altogether. A second delay beyond the current timeline, even for the same benign accounting and IT-readiness reasons management cited for the first delay, would push the catalyst calendar in Section 13 to the right and likely weigh on sentiment, independent of any change in the underlying operating businesses.

9.2 NASA and U.S. Government Funding and Policy Risk

KBR has already embedded a modest, \$50–\$60 million revenue headwind from potential NASA workforce insourcing into FY2026 guidance, but the broader policy direction — an industry-wide push by the current administration toward insourcing certain contractor competencies, alongside volatility between presidential budget requests and Congressional appropriations — is a genuine, ongoing source of estimate risk for the MTS segment specifically. Management has been clear this is currently contained to one contract, but the framework that produced it is a directive applicable industry-wide and could, in principle, expand.

9.3 Protest and Award-Timing Risk

\$2.6 billion of MTS wins currently sit in bid protest, and management explicitly cited unresolved first-half protests — particularly related to the MIS contract — as a driver of the “flat to modestly down” MTS revenue guidance for the year. Protests can resolve in KBR's favor, against KBR, or simply persist and delay revenue recognition further; the \$16 billion of bids currently awaiting award and the \$25 billion FY2026 bid-volume target both carry similar binary, timing-dependent risk that is largely outside management's direct control.

9.4 STS Margin Mix and the LNG Project Roll-Off

Roughly 5–6 percentage points of STS's current 21.9% adjusted EBITDA margin is attributable to a single large LNG project's equity-earnings contribution, which management has said should continue into early 2027 but will eventually roll off. Management's own framing is that the backfill is “portfolio based rather than a one-for-one replacement,” which we read as a

candid acknowledgment that no single contract has yet been identified to replace this specific earnings stream; if the broader licensing, technology, and recurring-JV mix shift described in Section 4.2 does not advance quickly enough, consolidated STS margins could compress more than the gradual, mix-driven improvement management is currently guiding to.

9.5 Corporate Cost Drag and Standalone Dis-Synergies

Corporate operating losses grew 16% year-over-year in Q1, explicitly tied to spin-related costs, and this drag is highly likely to continue growing through the close of the transaction. The pro forma segment margins disclosed in Section 5 exclude standalone public-company costs for both entities; if those incremental costs — separate boards, separate audit and compliance functions, separate executive teams, and potential loss of intercompany scale efficiencies — prove larger than the market is currently assuming, the sum-of-the-parts re-rating analysis in Section 5.2 would be correspondingly smaller.

9.6 Legacy Government Contract and Litigation Exposure

KBR carries a \$39 million accrual (as of April 3, 2026, up from \$37 million at fiscal year-end) for probable and reasonably estimable unallowable costs associated with open MTS government matters, and remains in active, multi-front litigation tied to its legacy LogCAP III work in Iraq, including the First Kuwaiti Trading Company (FKTC) dispute. We discuss this in more detail in Section 10; the key point for risk purposes is that a Kuwait civil court ruled against KBR for \$41 million in March 2026 on a claim KBR considers duplicative of arbitration proceedings already decided in its favor. KBR has appealed, with no accrual currently booked against that judgment.

9.7 Macro and Geopolitical Exposure

Management reported no material Q1 revenue impact from the Middle East conflict and described continued strong activity across Saudi Arabia, Bahrain, Abu Dhabi, and Dubai as of a late-April 2026 site visit. Still, STS's near-term pipeline remains meaningfully weighted toward the Middle East and other geopolitically sensitive regions. A renewed escalation, a reversal of the post-conflict resilience-spending dynamic discussed in Section 3.6, or a sustained decline in oil and gas prices that reduces customer capital spending in the region would each pressure the STS bookings trajectory that much of this analysis depends on.

9.8 The Speculative Reclassification May Simply Not Happen

This risk is stated plainly rather than buried: the central analytical premise of this report is that the market will eventually apply different, higher-quality valuation multiples to KBR's constituent businesses, whether before or after the spin-off closes. There is no guarantee this occurs on any particular timeline, or at all. KBR could continue to trade at or near its current discounted multiple indefinitely if the market continues to view both post-spin entities through a legacy-contractor lens, in which case the realized return would be limited to whatever organic EPS and EBITDA growth the company delivers against an unchanged multiple — a meaningfully smaller, though still potentially attractive, return profile than the base-case sensitivity in Section 7.1 implies.

10. Legal and Government Contract Matters

KBR's government-services exposure carries an ordinary-course but non-trivial tail of legacy litigation and contract-compliance matters, summarized below from the Form 10-Q's Notes 10 and 11.

10.1 DCAA / DCMA Contract Audits

KBR's U.S. government contracts remain subject to audit by the Defense Contract Audit Agency, which advises the Defense Contract Management Agency on contract administration matters including allowable-cost determinations, billing-rate approval, and compliance with the Federal Acquisition Regulation and Cost Accounting Standards. Management states it does not believe any completed or ongoing audit will have a material adverse effect on results, financial position, or cash flows, but has nonetheless accrued \$39 million as of April 3, 2026 (up from \$37 million at the prior fiscal year-end) for probable and reasonably estimable unallowable-cost exposure tied to open MTS government matters.

10.2 LogCAP III Legacy Closeout

KBR provided extensive support to the U.S. Army and other agencies under the LogCAP III contract in Iraq between 2002 and 2011, and has been in a multi-year closeout process since 2011 that the company expects to continue for at least another year. This closeout includes ongoing third-party vendor litigation, of which the First Kuwaiti Trading Company (FKTC) arbitration and related civil litigation is the most material publicly disclosed matter.

10.3 FKTC Arbitration and Civil Litigation

- Arbitration track: an arbitration panel awarded KBR a net \$16 million in 2022; after a series of motions, the Eastern District of Virginia confirmed the award and ultimately set the net amount due to KBR at \$8 million (September 2023); FKTC's appeal was denied in June 2025, a rehearing en banc was denied in July 2025, and FKTC did not pursue a further appeal to the Supreme Court by the October 13, 2025 deadline. This track is now resolved in KBR's favor.
- Civil litigation track: separately, FKTC filed a civil action in Kuwait in March 2022 seeking \$100 million, which KBR considers duplicative of the arbitrated claims. After a series of jurisdictional motions, a Kuwait lower court ruled in FKTC's favor in March 2026 for \$41 million, disregarding KBR's jurisdiction and other defenses. KBR filed an appeal on April 1, 2026, and has booked no accrual against this judgment, based on its assessment of existing law, precedent, and legal counsel's views.

This is a real, binary tail risk — a \$41 million adverse judgment is approximately 1% of KBR's current market capitalization, manageable in isolation, but the duplicative nature of the claim and the divergent outcomes across the two legal tracks (arbitration resolved favorably; civil court unfavorably, on what KBR considers the same underlying claims) introduce genuine uncertainty about the ultimate net outcome that is not yet reflected in KBR's financial statements.

10.4 Spin-Off Conditionality

As discussed in Section 5, the Planned Spin-Off remains conditioned on Board approval, an effective SEC registration statement, a favorable IRS ruling or tax opinion on the transaction's tax-free status, and satisfactory completion of financing and other regulatory approvals. Because the transaction is structured as a spin-off rather than a sale, MTS is not classified as held-for-sale and continues to be reported within continuing operations until closing — investors should not expect MTS to be carved out of KBR's consolidated financial statements until the transaction actually closes.

11. Relevance to Long-Term Structural Themes

Evaluated directly against Museum Park Capital's stated investment philosophy, KBR scores well across nearly every stated principle:

Principle	Application to KBR
Think in Themes, Not Tickers	Direct expression of industrial-IP, infrastructure-intelligence, and mission-critical government/defense themes — explicitly named in the stated portfolio themes.
Seek Variant Perception	Market prices KBR as a legacy engineering/government-services contractor; primary-source Q1 FY2026 evidence supports an industrial-IP and recurring-revenue reclassification narrative (Section 3).
Management Matters	CEO Stuart Bradie's decade-long repositioning of the business (MTS backlog mix from ~16% in 2014 to ~75% by FY2025) plus unusually granular, falsifiable margin-tiering disclosure (Section 3.1, Section 9).
Margin of Safety	~6.5x EV/FY26E Adj. EBITDA, below both KBR's own 5-yr average (~11.3x) and AECOM's self-cited 9.5x — a setup consistent with low expectations and a discounted multiple (Section 7).
Structural Over Cyclical	The EUCOM revenue step-down is cyclical/known and already guided; the STS margin-mix shift toward licensing and recurring JV earnings, and the MTS spin-off itself, are structural, multi-year drivers (Section 3.1–3.2, Section 5).
Second-Order Effects	Second- and third-order AI infrastructure exposure via LNG/grid/industrial-deployment FEED work is directionally supportive but explicitly flagged as the most speculative, least-quantified leg of the analysis (Section 3.4).
Concentrated Conviction	Spin-off execution risk, NASA funding-policy uncertainty, and an unresolved \$41 million adverse legal judgment under appeal are factors that would weigh on position sizing for any investor considering this name (Section 9, Section 12.2).

One area of partial tension with the stated philosophy is the "Margin of Safety" principle's implicit preference for businesses whose discount is purely a function of sentiment rather than unresolved structural risk. A portion of KBR's current discount reflects genuine, unresolved questions — spin-off execution, NASA policy risk, and standalone dis-synergies — that are addressed directly in the risk-weighting considerations below (Section 12.2) rather than treated as disqualifying.

12. Valuation Observations

Consistent with the prior research, we evaluate KBR against our “Investment Thesis” framework — a lens centered on strategic chokepoints, infrastructure bottlenecks, second-order beneficiaries, long-duration industrial systems, geopolitical leverage, and asymmetric market mispricing. We have re-scored each criterion against the primary-source evidence assembled in this update rather than simply carrying forward the prior research’s scores unchanged; in most cases the new evidence supports scores in the same range, with two adjustments noted explicitly below.

Criterion	Score	Rationale (grounded in Q1 FY2026 evidence where available)
Chokepoint / Bottleneck Exposure	9.5/10	Engaged on FEED for 3 active LNG projects; STS pipeline matrix spans energy security, critical materials, and infrastructure across 4 global regions; ~1/3 of global LNG and ammonia installed base (third-party-sourced, not independently re-verified).
Nondiscretionary Demand	9.5/10	STS book-to-bill ex-LNG of 1.2x for 3 consecutive quarters; MTS 91% of FY26 revenue guide already under contract; 39%+ of MTS backlog currently funded ex-PFI.
Second-Order AI Infrastructure Exposure	8.5/10	Directionally supportive (3 LNG FEED projects, Applied Computing digital/AI investment) but no quantified, separately disclosed AI-infrastructure revenue line; scored down 0.5pt from prior research to reflect this evidentiary gap.
Geopolitical Tailwinds	9.5/10	Post-conflict Middle East resilience/sparing/export-diversification demand cited directly by CEO following April 2026 regional visit; no material Q1 revenue impact from the conflict; scored down 0.5pt given genuine re-escalation risk (Section 9.7).
Long-Duration Demand Visibility	9.5/10	\$13.6B remaining performance obligations, 23% recognized beyond 5 years (Aspire Defence runs to 2041); \$2.9B of proportionate unconsolidated JV backlog; 10-yr Indorama catalyst supply agreement signed in Q1.
Strategic Importance	9.0/10	U.S. Space Force, missile defense, LOGCAP/AFCAP, NASA human spaceflight (Artemis II/III), and Aspire Defence are each mission-critical, multi-decade programs; tempered slightly by NASA insourcing policy risk.
Mispricing / Asymmetry	9.0/10	EV/FY26E Adj. EBITDA ~6.5x vs. 5-yr avg. ~11.3x and AECOM's self-cited 9.5x; raised 0.5pt from prior research given the equity has continued to de-rate since the original analysis while the spin-off catalyst has moved closer to execution.
Crowding Risk (inverse — higher score = less crowded)	8.5/10	Short interest of ~3.5–4.6% of float per third-party data; consensus price targets (\$42–\$61 range across sources, dates vary) sit well above the current price, suggesting limited momentum-driven ownership.
Capital Cycle Exposure	9.5/10	STS bookings span energy security, critical materials/circularity, and infrastructure/transport across 4 regions simultaneously; reduces dependence on any single macro theme; not scored a full 10/10 given STS revenue was flat, not growing, in Q1.
Scarcity of Expertise	9.0/10	85+ proprietary STS process technologies; 20%+ weighted STS margin profile management now discloses with unusual transparency; BRIS/SWAT JV expansion extends recurring operational participation.
Overall Weighted Assessment	9.15/10	Simple average across the 10 criteria above; a differentiated, high-conviction research case still subject to spin-off execution and reclassification timing risk (Section 9, Section 12.2).

Two scores moved from the prior research. Second-Order AI Infrastructure Exposure is scored at 8.5/10 rather than 9.0/10, reflecting that this remains the most speculative leg of the analysis and that Q1 FY2026 reporting does not yet give a clean, quantified way to size KBR’s AI-infrastructure-specific revenue exposure separately from its broader energy-security and industrial-infrastructure bookings. Mispricing / Asymmetry is scored at 9.0/10 rather than 8.5/10, reflecting that the valuation gap to both KBR’s own history and to peers such as AECOM has, if anything, widened since the original analysis, even as the spin-off catalyst has moved measurably closer to execution. The prior research’s separate 10/10 Capital Cycle Exposure and 9.5/10 Scarcity of Expertise scores were not carried forward unchanged; both are restated above at levels believed to be equally supportable but slightly more conservative once benchmarked specifically against this quarter’s flat (not growing) STS revenue print.

12.1 Valuation Observations

Taken together, the analysis in this report points to a multi-year reclassification-and-separation theme rather than a near-term catalyst, depending for its full upside case on the market eventually reclassifying KBR's constituent businesses rather than simply rewarding near-term earnings delivery. At a reference price of \$34.00 (June 19, 2026), the equity traded at a discount both to its own five-year average multiple and to peers such as AECOM, on the valuation sensitivity built off a 9.5x EV/FY2026E adjusted EBITDA multiple applied to the guidance midpoint discussed in Section 7.1.

This is fundamentally a reclassification-and-separation analysis with three reinforcing legs: (1) the underlying business is performing in line with or ahead of its own guidance — adjusted EBITDA margin expanded 80 basis points and adjusted operating cash flow conversion nearly doubled year-over-year even as headline revenue absorbed a fully anticipated EUCOM step-down; (2) the planned January 4, 2027 spin-off of MTS is progressing through its regulatory, leadership, and operational workstreams largely on schedule, with the one disclosed timeline shift driven by sensible accounting and IT-readiness considerations rather than execution trouble; and (3) the valuation gap between KBR's current multiple and both its own history and its closest peers is wide enough that even a partial, base-case reversion — not the full speculative re-rating discussed in Section 7.2 — would represent a meaningful valuation gap closing from current levels.

12.2 Risk-Weighting Considerations

This is not a low-risk holding. Section 9 lays out eight distinct risk factors, the most important of which is simply that the reclassification analysis may not play out on the timeline this report anticipates, or at all. Spin-off execution risk, government-funding policy uncertainty, and an unresolved \$41 million adverse legal judgment under appeal are factors that would weigh on position sizing for any investor considering this name.

13. Monitoring Framework

13.1 Near-Term Catalysts (Next 1–2 Quarters)

Catalyst	Expected Timing
Resolution of \$2.6B of MTS wins currently in bid protest	Ongoing through 2026
Q2 FY2026 earnings and updated EUCOM / Middle East cash flow commentary	~August 2026
Form 10 public filing with the SEC	Anticipated September 2026
MTS CEO and CFO appointments finalized	Expected through mid/late 2026
Two standalone Investor Days (SpinCo and New KBR)	Second week of November 2026
IRS private letter ruling / final tax opinion on spin-off	Ahead of close
Targeted spin-off effective date	January 4, 2027
FKTC Kuwait civil appeal outcome	Timing uncertain

Sources: Q1 FY2026 earnings call and presentation; Form 10-Q Note 18.

13.2 What Would Make Us More Constructive

- STS book-to-bill ex-LNG sustaining or accelerating above 1.2x for a fourth and fifth consecutive quarter, confirming the bookings momentum is durable rather than lumpy.
- Continued, increasing disclosure of STS margin-tier and recurring-JV-earnings detail (the slide 14 framework introduced this quarter), which would support the industrial-IP reclassification argument with each incremental data point.
- A clean, on-schedule public Form 10 filing in September 2026 with no further timeline slippage.
- Additional recurring-revenue, licensing-style wins similar in structure to the 10-year Indorama catalyst supply agreement.

13.3 Red Flags to Monitor

- A second delay to the spin-off timeline, particularly one attributed to IT, regulatory, or financing complications rather than the benign fiscal-year-alignment rationale given for the first delay.
- Expansion of NASA insourcing beyond the single contract currently affected, or a broader industry-wide acceleration of the underlying policy directive.

- STS adjusted EBITDA margin compressing meaningfully as the LNG project's equity-earnings contribution rolls off, without a clearly identified portfolio backfill.
- An adverse outcome on the FKTC Kuwait civil appeal that meaningfully exceeds the current \$41 million judgment, or any indication of additional, previously undisclosed legacy LogCAP III exposure.

14. What Would Change Our Mind?

This report represents a point-in-time analytical assessment, not a fixed position. The structural themes discussed throughout — the reclassification-and-separation framework, the industrial-IP margin thesis, and the second-order AI infrastructure framework — are testable, and this section sets out, in advance, the specific evidence that would strengthen or weaken the assessment as new information becomes available. Readers are encouraged to track these markers independently rather than rely on any single section of this report as a final word.

14.1 Evidence That Would Strengthen This Assessment

- STS book-to-bill ex-LNG sustaining or accelerating above 1.2x for a fourth and fifth consecutive quarter, confirming the bookings momentum is durable rather than lumpy.
- A clean, on-schedule public Form 10 filing in September 2026 with no further timeline slippage, and continued constructive SEC/IRS engagement.
- Additional recurring-revenue, licensing-style wins similar in structure to the 10-year Indorama catalyst supply agreement, plus continued STS margin-tier disclosure detail.
- Standalone guidance at the November 2026 Investor Days showing pro forma dis-synergies smaller than the market is currently assuming.

14.2 Evidence That Would Weaken This Assessment

- A second delay to the spin-off timeline, particularly one attributed to IT, regulatory, or financing complications rather than the benign fiscal-year-alignment rationale given for the first delay.
- STS adjusted EBITDA margin compressing meaningfully as the LNG project's equity-earnings contribution rolls off, without a clearly identified portfolio backfill.
- Expansion of NASA insourcing beyond the single contract currently affected, or a broader industry-wide acceleration of the underlying policy directive.
- An adverse outcome on the FKTC Kuwait civil appeal that meaningfully exceeds the current \$41 million judgment, or evidence that standalone public-company dis-synergies are larger than the pro forma figures in Section 5 suggest.

Disclaimer and Sourcing

This report updates and extends Museum Park Capital's prior KBR research (originally prepared by Yousef Salama, May 2026), incorporating KBR, Inc.'s Q1 FY2026 Form 10-Q (filed May 5, 2026), the Q1 FY2026 earnings call transcript (May 5, 2026), and the Q1 FY2026 earnings presentation. The prior research's qualitative and thematic content — the industrial-IP reclassification framework, the second- and third-order AI infrastructure framework, the Astounding Investment Thesis scorecard architecture, and references to Morningstar fair-value estimates, long-dated EPS projections, and historical KBR installed-base claims (e.g., approximately one-third of global LNG and ammonia infrastructure) — is carried forward from that prior research and has not, in every instance, been independently re-verified by Museum Park Capital against primary sources in this update. Where a claim has been grounded in this update's primary-source materials, the specific filing, transcript, or presentation is cited; where a claim remains sourced only to the prior research or to third-party commentary (Morningstar, financial data aggregators), this is flagged explicitly in the relevant section.

Third-party valuation, peer-multiple, and consensus price-target data referenced in Sections 7 and 8 were gathered from public financial-data websites and aggregators as of mid-June 2026 and are subject to material date and methodology inconsistency across sources; this is noted explicitly wherever such data is used and is treated as directional context rather than precision input. This report is intended for informational and analytical purposes as part of an independent company research process and is not a substitute for independent due diligence, legal advice, or the advice of a licensed financial advisor. This report does not contain investment recommendations or price targets; all valuation multiples, historical trading ranges, and sensitivity analyses represent analytical judgment based on the cited sources as of the analysis date and are not guarantees of future performance. Morningstar and other third-party research referenced herein is the work of its respective providers and is cited for comparative and analytical purposes only; Museum Park Capital is not affiliated with Morningstar, AECOM, Leidos, or any other company referenced as a comparable.