

Dong Capital Research - Investment Memo (LONG)

1 June 2025

Ondas Inc. (ONDS)

Target Entry Zone: <\$10

Position sizing: Starter position of 5% only below entry zone

EXECUTIVE SUMMARY

Ondas Inc. is becoming one of the more aggressive public market plays on autonomous defense systems, counter-drone technology, robotics, and mission critical security infrastructure.

The company has transformed from a smaller wireless and drone technology business into a broader defense autonomy platform through a rapid acquisition strategy. Ondas now operates across autonomous aerial systems, ground robotics, loitering munitions, ISR platforms, sensing, communications, and defense software.

Q1 2026 showcased a major inflection:

Metric | Q1 2026 / Latest

Revenue | \$50.1M

YoY Revenue Growth | +1,065%

Gross Margin | 49%

Pro Forma Backlog | \$457M

Cash / Investments | \$1.48B

2026 Revenue Target | At least \$390M

Q2-to-date Orders | \$110M+

June 1 Close | \$13.46

The market has already begun recognizing Ondas as a defense autonomy platform, not just a small-cap drone company. The stock has moved sharply, and at the current price above \$13, I do not believe the risk/reward is as attractive as it was earlier in the year.

However, I believe Ondas deserves to remain on the LONG watchlist. The ideal entry zone is below \$10, where the valuation becomes more reasonable relative to backlog, revenue guidance, cash balance, and long term defense autonomy demand.

I recommend watching Ondas for a pullback into the <\$10 zone, with a 6-month target price of \$15/share if entered below \$10.

INVESTMENT THESIS

1) Ondas is Positioned Directly in the Defense Autonomy Trend

The most important part of the Ondas thesis is not current earnings. It is market positioning. Defense spending is increasingly shifting toward:

- Counter drone systems
- Autonomous aerial platforms
- Ground Robots
- Border and infrastructure security
- AI enabled mission systems

Ondas is building a platform across these categories. This matters because the future of defense is not only larger weapons systems. It is cheaper, distributed, software enabled systems that can be deployed at scale.

The company's recent order momentum supports this. Ondas reported more than \$100M of Q2 to date orders through the end of May 2026, including more than \$30M in May alone.

2) Backlog Provides Revenue Visibility

Ondas ended Q1 2026 with approximately \$457M in pro forma backlog. This is the most important number in the memo. The company's 2026 revenue target is at least \$390M. Backlog is already larger than the full year revenue target, which gives management visibility if execution remains.

This does not eliminate the risk. Backlog still has to convert into revenue. But it does suggest the business has moved beyond the early proof of concept stage.

3) Q1 2026 Was an Inflection Quarter

Q1 2026 revenue was \$50.1M, compared to \$4.3M in Q1 2025. This is not normal growth. Gross profit reached \$24.7M, with a gross margin of 49%. That is important because Ondas is not just buying low quality revenue through acquisition. The revenue mix appears capable of supporting attractive gross margins if the company can scale operating expenses.

The current issue is operating expenses. Operating expenses were \$67.3M in Q1 2026, producing an operating loss of \$42.7M. Ondas is still not profitable, and the business is still in heavy investment mode.

4) The Balance Sheet Gives Ondas Time

Ondas ended Q1 2026 with \$1.48B in cash, cash equivalents, restricted cash, and short term investments. Undeniably a major advantage.

Many small defense technology companies fail because they run out of capital before they can scale. The cash balance does not guarantee success, but it lowers near term financing risk and gives management room to execute. Ondas is pursuing an acquisition heavy strategy, and while integration risk is high; the company has capital to support the platform buildout.

5) The Market May Still be Underestimating the Platform Strategy

The market often struggles to value companies during transformation periods. Ondas is not purely a drone company. It is becoming an operating platform across defense autonomy.

If Ondas executes, the market may eventually value it as a high growth defense autonomy platform with exposure to multiple major themes:

- Drones
- Robotics
- ISR
- AI-enabled defense
- Homeland Security

The upside case is that Ondas becomes a category platform before the market fully understands what it owns.

RISKS

1. Valuation Risk

At

\$13.46, Ondas is no longer cheap. The stock already prices in a significant amount of success. A pullback below \$10 would create a better risk/reward setup.

2. **Acquisition Integration Risk** Ondas
has acquired many businesses in a short period of time. Integration is difficult. If management fails to combine these assets into one operating platform, the thesis weakens.
3. **Operating Losses** Ondas
remains unprofitable at the operating level. Q1 2026 operating loss was \$42.7M. Revenue growth must eventually translate into operating leverage.
4. **Backlog Conversion Risk**
Backlog is only valuable if it converts into revenue and cash flow. Delays, cancellations, customer issues or government procurement timing could pressure results.
5. **Geopolitical Risk** The
thesis depends on continued demand for autonomous defense systems. A change in budget priorities, procurement cycles, or geopolitical urgency could slow growth.

VALUATION

The primary valuation metric is EV/Forward Revenue. Ondas is not currently best valued on earnings because earnings are distorted by:

- Acquisition costs
- Integration costs
- Platform buildout
- Operating investment

At the June 1 close of \$13.46, Ondas is already pricing in major growth. Using approximate market value and cash, the company trades around the low teens range on 2026 revenue guidance.

At an entry below \$10, the valuation becomes more attractive. Investors would be closer to a high single digit EV/2026 revenue multiple for a company growing revenue more than 600% year over year with a large backlog and strong cash balance.

The thesis is that Ondas becomes attractive if the stock pulls back below \$10 while the company continues executing against its revenue and backlog targets.

SCENARIO ANALYSIS

Scenario	Price	Return vs \$9.50 Entry
Bear	\$6	-37%
Base	\$12	-26%
Target	\$15	+58%
Bull	\$20	+111%