



# Baird 2019 Global Industrial Conference

November 6, 2019

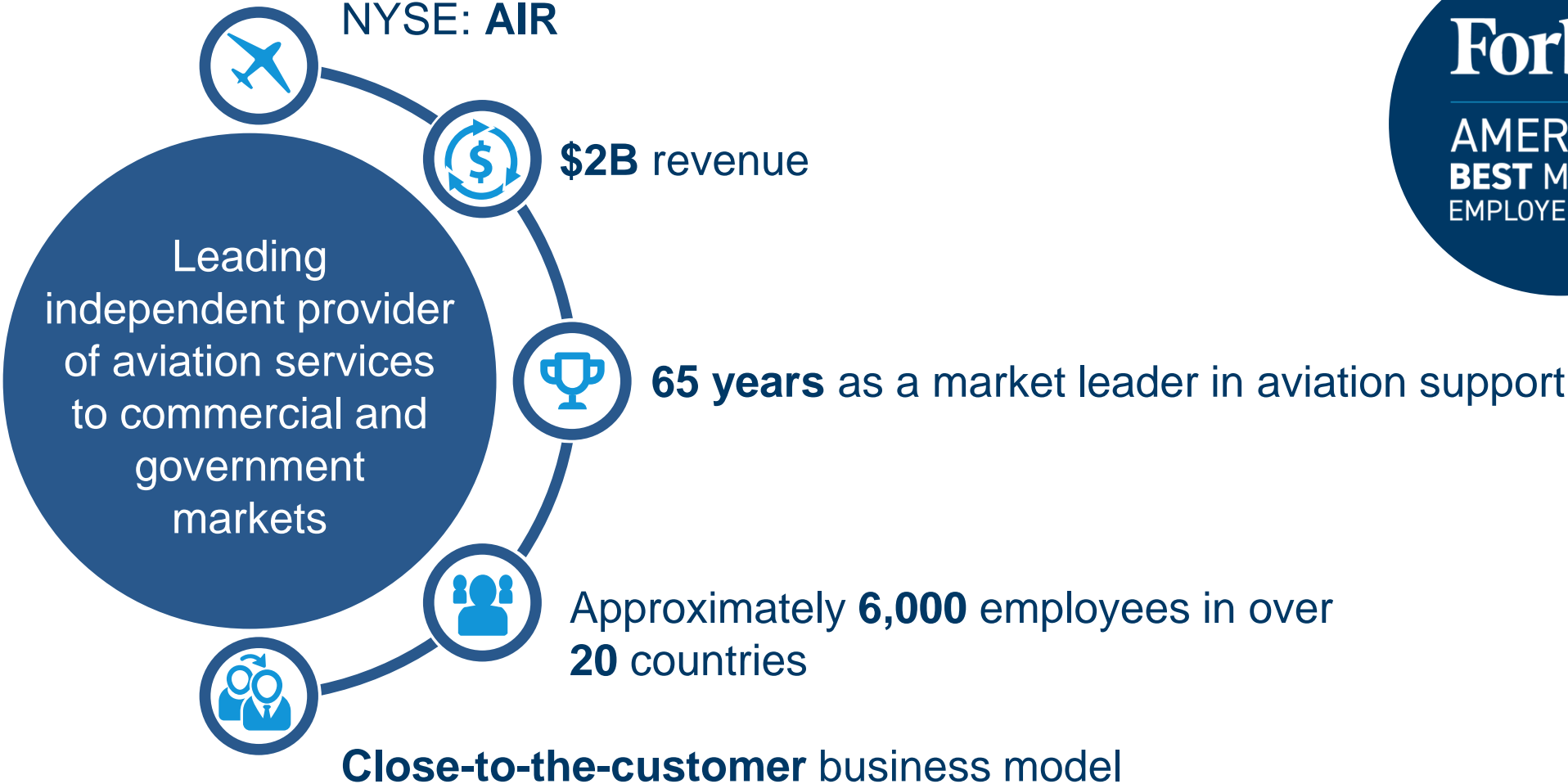


# Forward-Looking Statements

This presentation includes certain statements relating to future results, which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on beliefs of Company management, as well as assumptions and estimates based on information currently available to the Company, and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or those anticipated, including those factors discussed under Item 1A, entitled “Risk Factors,” included in the Company’s most recent Form 10-K. Should one or more of these risks or uncertainties materialize adversely, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described. These events and uncertainties are difficult or impossible to predict accurately and many are beyond the Company’s control. The Company assumes no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. For additional information, see the comments included in AAR’s filings with the Securities and Exchange Commission.

# Aviation Services Market Expert

Since 1955



# Company Overview

## Aviation Services



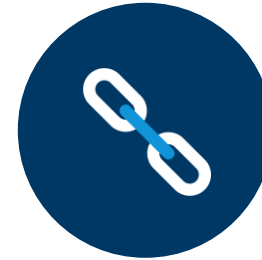
### Parts Supply

- Serviceable and OEM factory-new parts
- Engine solutions, management, leasing and exchange
- Aircraft sales and leasing
- Online PAARTS™ Store



### Repair & Engineering

- Airframe MRO
- Component repair
- Landing gear
- Wheels and brakes
- Engineering services



### Integrated Solutions

- Flight hour-based component support
- Contractor logistics support (CLS)
- Performance-based logistics (PBL)

## Expeditionary Services



### Manufacturing

- Composites: structures and interiors
- Mobility Systems: shelters, containers, pallets

**65% Commercial and 35% Government**

# Corporate Strategy



- ✓ Entrepreneurial
- ✓ Nimble
- ✓ Portfolio

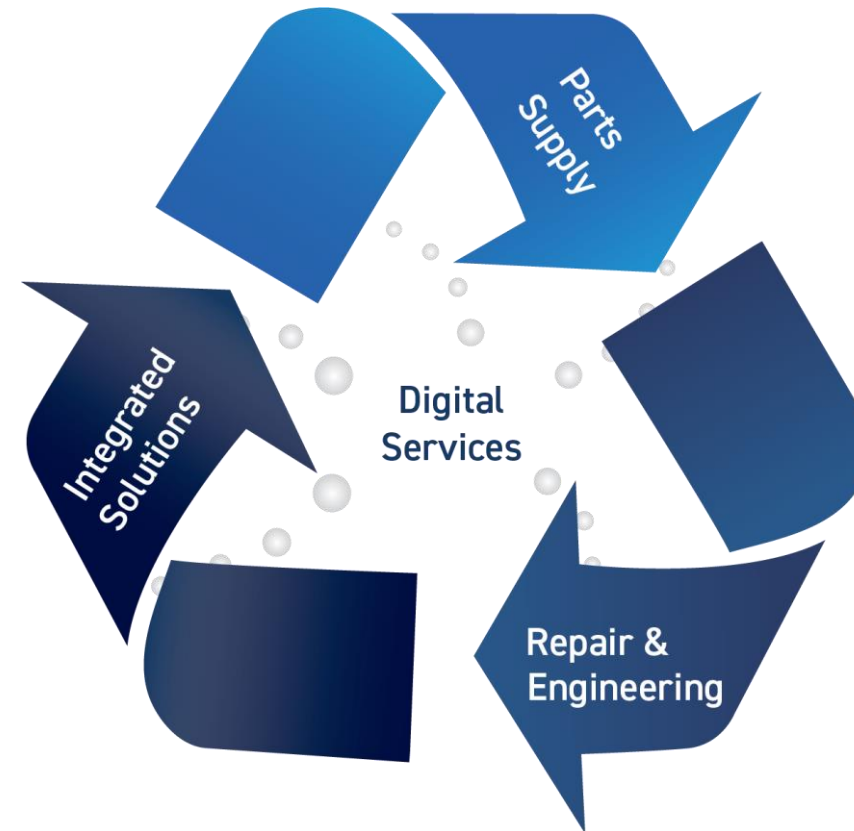
- Drive connected businesses that reinforce collective growth prospects
- Expand margins through differentiated capabilities / intellectual property
- Utilize data and digital solutions to improve offerings and efficiency
- Leverage independence to offer OEM/airline alternative
- Increase international presence
- Attract, empower and deploy exceptional, entrepreneurial talent

- ✓ Fewer, more integrated businesses
- ✓ Intellectual property
- ✓ Predictable revenue
- ✓ Scale, global
- ✓ Entrepreneurial

*Be the Leading Independent Aviation Services Provider Globally*

# Connected Businesses Model

Integrated businesses leveraged to reinforce and grow the whole



## Integrated Solutions

- Strategic relationships with airlines, MROs, OEMs and repair vendors
- Fuel parts supply business
- Fund component repair capability development
- Long-term contracts / predictable revenue

## Parts Supply

- Transactional data collection
- Exclusive relationships with OEMs and customers
- Inventory pooling with programs

## Repair & Engineering

- Strategic relationships with airlines
- Technical repair knowledge and data collection
- Develop parts for internal and external consumption

*Unique Value Proposition*

# Differentiated Capabilities and Predictable Revenue

## Parts Supply

- Exclusive aftermarket parts supply contracts
- Exclusive new parts OEM distribution contracts
- Long-term new parts supply contracts with comm'l and gov't customers
- Digital channels to market

## Repair & Engineering

- Long-term contractual maintenance relationships
- Proprietary (DER) repair development and utilization
- PMA utilization
- OEM partnerships and licensing

## Integrated Solutions

- Long-term contracts with government and commercial customers
- Increase internal repair content
- More PMA/DER usage and partnerships

# Parts Supply: Overview

## Key offerings

- Serviceable and OEM factory-new parts
- Engine solutions, management, leasing and exchange
- Aircraft sales and leasing
- Online PAARTS™ Store

## Key OEM Partners



## Customers





# Repair & Engineering: Overview

 Employees 3,600

 Sites 14



- Hangars
- Components
- Landing Gear
- Engineering Services



**#1 MRO**  
In Americas



**>5.5M**  
Man Hours



**950+**  
Aircraft



**600+**  
Landing gears



**3,000+**  
Aircraft Maintenance  
Technicians



**30+**  
ATA Chapters



**25,000+**  
Components  
Repaired






Oklahoma City	Indianapolis	Miami	Duluth	Rockford	Trois-Rivières	Windsor	New York	Amsterdam
<ul style="list-style-type: none"> <li>• Narrow body &amp; regional MRO</li> <li>• 300,000 SF</li> </ul>	<ul style="list-style-type: none"> <li>• Narrow &amp; wide body MRO</li> <li>• 1.1 million SF</li> </ul>	<ul style="list-style-type: none"> <li>• Narrow &amp; wide body MRO</li> <li>• 226,000 SF</li> <li>• Landing gear MRO</li> <li>• 150,000 SF</li> </ul>	<ul style="list-style-type: none"> <li>• Narrow body MRO</li> <li>• 188,000 SF</li> </ul>	<ul style="list-style-type: none"> <li>• Narrow &amp; wide body MRO</li> <li>• 200,000 SF</li> </ul>	<ul style="list-style-type: none"> <li>• Narrow body &amp; regional MRO</li> <li>• 150,000 SF</li> </ul>	<ul style="list-style-type: none"> <li>• Narrow &amp; wide body MRO</li> <li>• 143,000 SF</li> </ul>	<ul style="list-style-type: none"> <li>• Commercial &amp; military component repair</li> <li>• 150,000 SF</li> </ul>	<ul style="list-style-type: none"> <li>• Commercial &amp; military component repair</li> <li>• 80,000 SF</li> </ul>

# Integrated Solutions: Overview

**Commercial:** Flight-hour-based component support | **Government:** Contractor Logistics Support, supply chain management



“Tailored, deployable, scalable”

				
46 commercial & government fleets	37 countries	250,000 repair transactions	\$4B government assets managed	55% of IS-G workforce cleared

# Digital Solutions: Overview

## PAARTS™ Store

*E-commerce portal*



- >1 million parts available online
- Factory-new parts from >30 OEMs
- Overhauled, serviceable and repairable parts
- Immediate purchase and checkout

## AIRvolution™

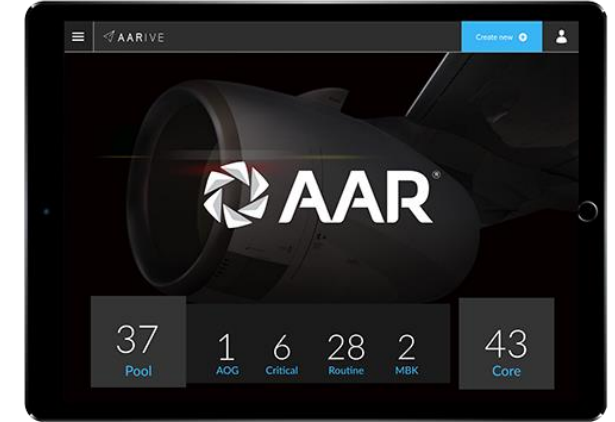
*Parts repair management software*



- Cloud-based solution for aircraft component repair management
- Maximizes repair cycle efficiencies and reduces operational costs
- Integrates with existing systems

## AARIVE®

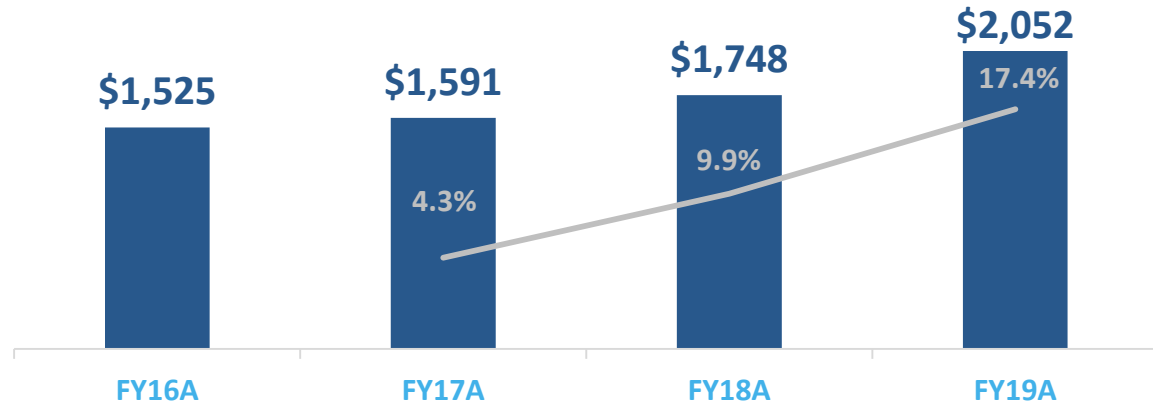
*Self-service portal*



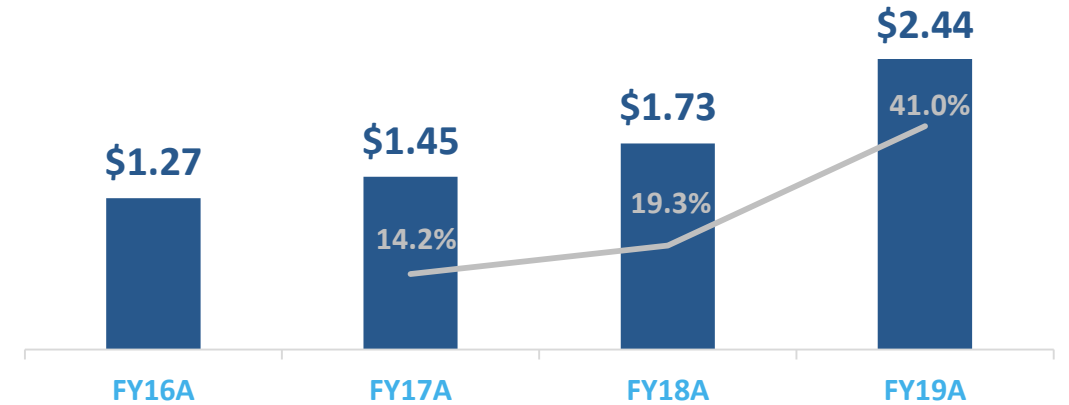
- Online self-service tool for flight-hour component support customers
- Access to pool parts, required paperwork ahead of part shipment and tracking of orders in real time

# Historical Financial Performance (\$M)

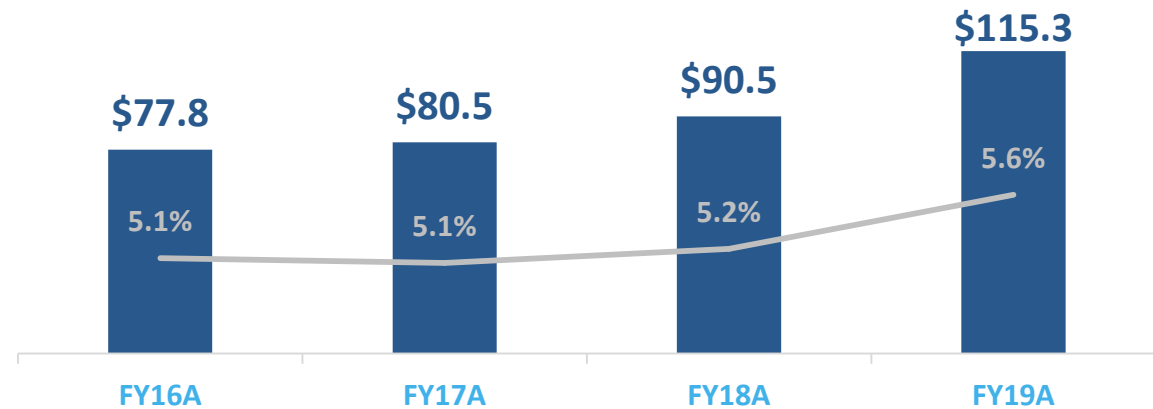
## Revenue and Growth



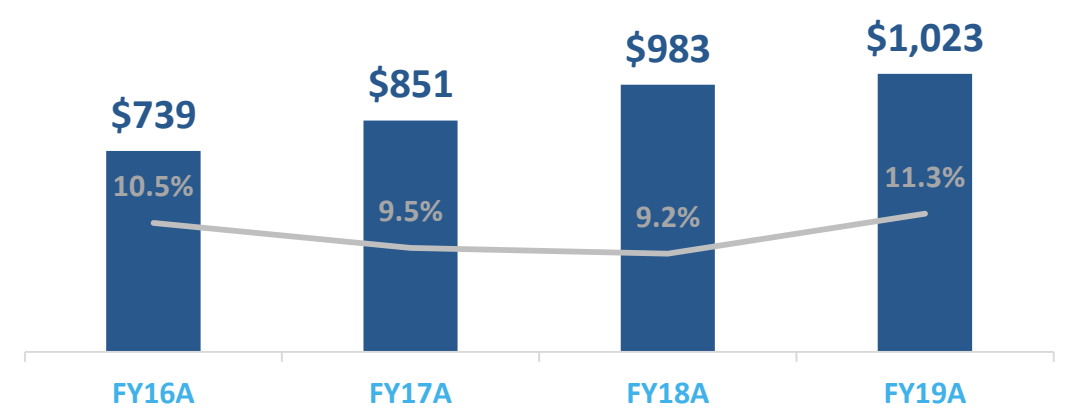
## Adjusted Diluted EPS from Continuing Operations



## Adjusted Operating Income and Margin



## Invested Capital and Adjusted Pretax ROIC



See the Appendix for reconciliations of non-GAAP financial measures

# Q1 FY20 Income Statement Highlights

<i>in millions except EPS</i>	Q1 FY20	Q1 FY19	Variance
<b>Sales</b>	<b>\$541.5</b>	\$466.3	\$75.2
<b>Gross Profit</b>	<b>\$81.6</b>	\$71.2	\$10.4
<i>% Margin</i>	<b>15.1%</b>	15.3%	(0.2%)
<b>SG&amp;A</b>	<b>\$58.1</b>	\$48.2	\$9.9
<i>% Margin</i>	<b>10.7%</b>	10.3%	0.3%
<b>Operating Income</b>	<b>\$22.8</b>	<b>\$22.4</b>	\$0.4
<i>% Margin</i>	<b>4.2%</b>	4.8%	-0.6%
<b>Interest Expense, net</b>	<b>\$2.1</b>	\$1.6	\$0.5
<b>Income Tax Expense</b>	<b>\$3.4</b>	\$2.3	\$1.1
<b>Income from Continuing Ops</b>	<b>\$17.1</b>	<b>\$18.9</b>	(\$1.8)
<b>Adjusted Income from Continuing Ops</b>	<b>\$20.0</b>	\$18.8	\$1.2
<b>Diluted EPS – Continuing Ops</b>	<b>\$0.49</b>	\$0.54	(\$0.05)
<b>Adjusted Diluted EPS – Continuing Ops</b>	<b>\$0.57</b>	\$0.54	\$0.03

# FY20 – Financial Guidance

P&L Metrics	FY20 Guidance
Sales	\$2.1 to \$2.2 Billion
Adjusted Diluted EPS	\$2.45 – \$2.65
Other Metrics	
SG&A % of Sales	~ 10.5%
Effective Tax Rate	24%

# AAR Investment Highlights

1

Supportive macroeconomic environment with strong global aviation aftermarket growth and robust government spending expected

2

Leading aftermarket parts supplier distinctly positioned to benefit from market dynamics

3

Largest independent aerospace distributor of OEM factory-new parts leveraging exclusive relationships and unique sales channels

4

#1 Americas MRO footprint enables integrated services model

5

Integrated solutions offering well-positioned for continued growth in both government and commercial markets

6

Strong balance sheet supports continued investments in growth and/or increased capital return to shareholders

*Unique Combination of Integrated Services Leveraging Our Independent Market Position*



# Appendix



# Non-GAAP Financial Measures

Adjusted operating income, adjusted diluted earnings per share from continuing operations, adjusted return on invested capital, adjusted EBITDA, and net debt are “non-GAAP financial measures” as defined in Regulation G of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We believe these non-GAAP financial measures are relevant and useful for investors as they provide a better understanding of our actual operating performance unaffected by the impact of certain items. When reviewed in conjunction with our GAAP results and the accompanying reconciliations, we believe these non-GAAP financial measures provide additional information that is useful to gain an understanding of the factors and trends affecting our business and provide a means by which to compare our operating performance against that of other companies in the industries we compete. These non-GAAP measures should be considered as a supplement to, and not as a substitute for, or superior to, the corresponding measures calculated in accordance with GAAP. Adjusted EBITDA is income from continuing operations before interest income (expense), other income (expense), income taxes, depreciation and amortization, stock-based compensation and other items of an unusual nature. These non-GAAP measures exclude items of an unusual nature including but not limited to certain income tax benefits, severance, restructuring costs, facility repositioning costs and impairment charges, investigation and remediation compliance costs, gains on certain asset sales, and significant customer bankruptcies.

Pursuant to the requirements of Regulation G of the Exchange Act, we are providing the following tables that reconcile the above mentioned non-GAAP financial measures to the most directly comparable GAAP financial measures:

# Non-GAAP Financial Measures

## Adjusted Diluted EPS from Continuing Operations

	FY2016	FY2017	FY2018	FY2019	Q1 FY19	Q1 FY20
Diluted EPS from continuing operations	\$ 1.30	\$ 1.51	\$ 2.11	\$ 2.40	\$ 0.54	\$ 0.49
Deferred tax re-measurement from Tax Reform	-	-	(0.41)	-	-	-
State income tax benefit	-	-	(0.06)	(0.15)	-	-
Recognition of previously reserved income tax benefits	-	-	-	(0.19)	-	-
Other income tax benefits	(0.07)	-	-	-	-	-
Customer bankruptcy charge, net of tax	-	-	-	0.27	-	-
Gain on asset disposal, net of tax	-	(0.08)	-	-	-	-
Investigation and remediation compliance costs, net of tax	-	-	-	0.08	-	0.07
Facility repositioning and impairment costs, net of tax	0.02	-	-	0.02	-	-
Severance and restructuring charges, net of tax	0.02	0.02	0.09	0.01	-	0.01
<b>Adjusted Diluted EPS from Continuing Operations</b>	<b>1.27</b>	<b>1.45</b>	<b>1.73</b>	<b>2.44</b>	<b>0.54</b>	<b>0.57</b>

## Adjusted Return on Invested Capital

	FY2016	FY2017	FY2018	FY2019
Operating income	\$ 75.5	\$ 82.3	\$ 86.0	\$ 98.3
Customer bankruptcy charge	-	-	-	12.4
Gain on asset disposal	-	(2.6)	-	-
Investigation and remediation compliance costs, net of tax	-	-	-	3.5
Facility repositioning and impairment costs	1.0	-	-	0.9
Severance and restructuring charges	1.3	0.8	4.5	0.2
<b>Adjusted Operating Income</b>	<b>77.8</b>	<b>80.5</b>	<b>90.5</b>	<b>115.3</b>
Invested capital	<b>739.0</b>	<b>851.0</b>	<b>983.0</b>	<b>1,023.0</b>
<b>Adjusted Return on Invested Capital</b>	<b>10.5%</b>	<b>9.5%</b>	<b>9.2%</b>	<b>11.3%</b>

# Non-GAAP Financial Measures (Cont'd)

## Adjusted EBITDA

	FY2019	Q1 FY19	Q1 FY20
<i>(In millions)</i>			
Net income	\$ 7.5	\$ 15.1	\$ 4.4
Loss from discontinued operations	76.6	3.8	12.7
Income tax expense (benefit)	4.9	2.3	3.4
Other expense (income), net	0.8	(0.4)	0.2
Interest expense, net	8.5	1.6	2.1
Depreciation and intangible amortization	42.8	10.1	10.8
Customer Bankruptcy Charge	12.4	-	-
Investigation and remediation compliance costs	3.5	-	3.1
Severance charges (reversals)	0.2	(0.1)	0.7
Facility repositioning costs	0.9	-	-
Stock-based compensation	13.5	4.0	4.3
<b>Adjusted EBITDA</b>	<b>\$ 171.6</b>	<b>\$ 36.4</b>	<b>\$ 41.7</b>

## Net Debt to Adjusted EBITDA

	8/31/2019
<i>(In millions)</i>	
Total debt	\$ 203.3
Less: Cash and cash equivalents	(39.9)
<b>Net debt</b>	<b>\$ 163.4</b>
<b>Adjusted EBITDA over last 12 months</b>	<b>\$ 176.9</b>
<b>Net debt to adjusted EBITDA</b>	<b>0.92</b>

# Non-GAAP Financial Measures (Cont'd)

## Adjusted Income from Continuing Operations

	Q1 FY19	Q1 FY20
<i>(In millions - unaudited)</i>		
Income from Continuing Operations	\$ 18.9	\$ 17.1
Investigation and remediation compliance costs, net of tax	-	2.4
Severance and restructuring charges (reversals), net of tax	<u>(0.1)</u>	<u>0.5</u>
<b>Adjusted Income from Continuing Operations</b>	<b><u>\$ 18.8</u></b>	<b><u>\$ 20.0</u></b>