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AIR.N - Q3 2026 AAR Corp Earnings Call

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PRESENTATION

Operator

Hello and thank you for standing by. Welcome to AAR Corp's third-quarter fiscal year 2026 earnings conference call.

(Operator Instructions)

I would now like to hand the conference over to Chris Tillett, Vice President, Investor Relations. You may begin.

Christopher Tillett - *AAR Corp - Vice President - Investor Relations*

Good afternoon, everyone. Welcome to AAR's fiscal year 2026 third-quarter earnings conference call.

We're joined today by John Holmes, Chairman, President, and Chief Executive Officer; and Dylan Wolin, Chief Financial Officer.

The presentation we are sharing today as part of this webcast can be found under the Investor Relations section on our corporate website.

Comments made during the call will include forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Accordingly, these statements are no guarantee of future performance.

These risks and uncertainties are discussed in the company's earnings release in the Risk Factors section of the company's annual report on Form 10-K for the fiscal year ended May 31, 2025. In providing forward-looking statements, the company assumes no obligation to provide updates to reflect future circumstances; or anticipated or unanticipated events.

Certain non-GAAP financial information will be discussed during the call today. Reconciliations of these non-GAAP measures to the most comparable GAAP measures are set forth in the company's earnings release and slides.

At this time, I would like to turn the call over to John Holmes.

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Great. Thank you, Chris. Welcome, everyone, to our third-quarter fiscal year 2026 earnings conference call.

I'll begin with key messages for the quarter on slide 3:

First, this was another outstanding quarter for AAR. Our focused business model is driving growth that is delivering durable results in both commercial and government end markets, as evidenced by our third-quarter performance.

Second, we continued our momentum in the quarter and delivered 25% growth in total sales, 31% growth in adjusted operating income, and 26% growth in both adjusted EBITDA and adjusted earnings per share for the period. We saw growth across each of our Parts, Repair, and Software platform activities in the quarter. Total sales increase included 14% organic adjusted sales growth, led by 36% organic growth in our new parts Distribution activities.

Third, we are continuing to execute across key initiatives, advancing our strategic priorities.

For example, in Repair & Engineering, the integration of HAECO Americas is ahead of schedule. Our hangar expansions are on track, with Oklahoma City now complete and Miami expected to be operational later this summer.

In Parts Supply, ADI is performing above expectations. We continue to drive outsized growth in our new parts Distribution activities.

Also, our Trax Software platform continues to gain momentum by growing its base of recurring revenue with new and existing customers.

Finally, we are carefully managing our balance sheet to preserve strategic flexibility, as we maintain our disciplined approach to capital allocation.

We ended the third quarter with net leverage within our target range, supported by our strong operating cash flow in the period.

Before I go to slide 4, I would like to welcome Dylan Wolin back to AAR as the company's new Chief Financial Officer. Dylan was with the company from 2017 to 2024, and he was instrumental in developing the strategy we are executing today.

I would also like to thank Sarah Flanagan for doing an outstanding job as our Interim CFO over the last few months. I'm proud to be part of such a strong team.

I also want to talk for a moment about the current environment. We are closely monitoring the events in the Middle East and have been in constant contact with our customers. As many of our customers have said publicly, fundamental demand for air travel remains strong, with bookings at record levels, even since the start of the conflict.

While some customers may make modest capacity adjustments, at this time, we are not anticipating any meaningful impact to their maintenance schedules or need for parts. They continue to tell us they are preparing for a busy summer travel season, and we are planning accordingly.

What's more, AAR is competitively positioned as an independent, value-added aftermarket solutions provider, which makes us a compelling solution for our customers as they look to reduce spending when fuel costs rise.

Additionally, one of the benefits of AAR's portfolio is our exposure to government and defense end markets. Over the decades, this balance between government and commercial markets has been a real advantage.

On that note, the government side of our business is benefiting from a general need for increased operational readiness in the US military. Our government customers today comprise roughly 30% of our sales and are represented across all segments.

AAR has a long history of working on some of the most critical aircraft for the US military, including the C-17, the P-8, the C-40, the F-16, and the C-130. It was programs like these that helped drive a 19% increase in government sales this quarter and contributed to the strength of our results.

Now on to slide 4, we achieved 36% organic growth in new parts Distribution, driven by our two-way exclusive distribution model. Volumes in government distribution have been increasing steadily over the last year. This quarter represented a 55% organic increase over this period last year.

Also in Parts Supply, our acquisition of ADI outpaced expectations for the second quarter in a row. ADI's adjusted margins were accretive to the company in the quarter.

In Repair & Engineering, our Oklahoma City facility completed its hangar capacity expansion in the quarter and began aircraft inductions in early March. We expect first revenues from these maintenance lines in our fourth quarter.

Our Component MRO business saw key wins from major US and international carriers for expanded scopes of work. This is a testament to our strategy to utilize our whole portfolio to drive more business to the higher-margin Component MRO activity.

Our HAECO Americas integration is progressing ahead of schedule. We expect a full integration process to be complete in the earlier part of the 12- to 18-month window we provided previously.

We also expect our acquisition of Aircraft Reconfig Technologies, or ART, to close in the fourth quarter.

In our Software activities, Trax had another record quarter as a result of growth, with the addition of new customers, as well as existing customer upgrades.

Trax's agreement with Delta continues to ramp. Already, Trax has been deployed to more than 2,000 users across Delta. We expect this to increase to more than 6,000 users in the coming months.

Our Expeditionary Services business was recently awarded $450 million in a multi-year government contract to provide specialized pallets to forward-deployed military units, as a result of increased operational tempo, overseas.

We are pleased with our results this quarter and the growth that we saw across the company.

I would now like to turn the call over to Dylan to go through the financial results in more detail.

Dylan Wolin - *AAR Corp - Senior Vice President, Chief Financial Officer*

Thanks, John.

Looking at slide 5, total sales in the quarter grew 25% year over year, including 14% organic adjusted sales growth to $845 million. We drove revenue growth in each of our Parts Supply, Repair & Engineering, and Integrated Solutions segments.

Sales to commercial customers were up 27%, while sales to government customers were up 19% over the same period last year. For the quarter, 73% of our sales were to commercial customers. The remaining 27% were to government customers.

Adjusted EBITDA in the quarter increased 26% year over year to $102.1 million. Adjusted EBITDA margin increased to 12.1% from 12.0% a year ago.

Adjusted operating income was up 31% to $86.2 million. Adjusted operating income margin improved 50 basis points to 10.2%. The margin improvement in the quarter was driven by Parts Supply and Integrated Solutions, including Trax and Government Programs, despite the expected short-term impact on margins from our recently acquired HAECO Americas business; at which, we are in the process of right-sizing the revenue base, adjusting the cost structure, and deploying our proprietary processes.

Excluding HAECO Americas, adjusted EBITDA margin in the quarter would have been 70 basis points higher or 12.8%. This was the most critical integration quarter for HAECO Americas. We expect sequential margin improvement, going forward, as we move through the remainder of the integration process.

Finally, I'll mention that we recorded a gain in the quarter due to the accounting (inaudible) for HAECO Americas acquisition, resulting in a bargain purchase. The gain reflects the excess of the fair value of the assets acquired over the purchase price and is excluded from our adjusted results.

Adjusted diluted EPS was up 26% year over year to $1.25 per share, driven by our strong operational performance.

Turning to Parts Supply on Slide 6, total Parts Supply sales grew 45% from the same period last year to $392.5 million. We had yet another quarter of above-market growth in new parts Distribution, which grew 62%, in total; and 36%, organically, excluding the impact of our ADI acquisition.

Sales to commercial customers were up 36%. Sales to government customers were up 86%, driven by 55% organic growth in government distribution sales.

Third-quarter adjusted EBITDA of $59 million was up 59%. Adjusted EBITDA margin grew 130 basis points to 14.9%.

Adjusted operating income rose 56% to $53.6 million. Adjusted operating margin increased 100 basis points to 13.7%. Higher margins in the period were driven by both the performance of the existing business and the addition of ADI.

Now, on slide 7, for Repair & Engineering, total sales increased 23% to $265 million. Sales growth was driven by the existing hangar operations; growth at our component repair shops, as we continue to add new capabilities and customers; and the year-over-year impact of the HAECO Americas acquisition.

As I mentioned earlier and consistent with the outlook we described on last quarter's call, margins were negatively impacted in the quarter, as we take actions at the recently acquired HAECO Americas operation to right-size the revenue base, adjust the cost structure, and improve processes.

Segment margins were also impacted by the transition of work out of our Indianapolis facility, which we are in the process of exiting. Specifically, adjusted EBITDA margin decreased 190 basis points to 11.0%. Adjusted operating margin decreased 150 basis points to 9.6%.

We expect our revenue shaping, cost structure, and process improvement actions to be completed toward the earlier end of the 12- to 18-month post-closing timeline that we articulated previously; and for the quarter that we just ended to be the low point in terms of margin impact.

Accordingly, we expect, in the third quarter of fiscal 2027, our actions will result in the same quality and efficiency levels as we have achieved in our other Airframe MRO facilities and for Repair & Engineering margins to return to pre-acquisition levels.

We expect to transition out of the Indianapolis facility, which is our highest cost site, to continue into the fourth quarter of our fiscal 2027 and to realize further margin improvements, once that is completed.

Looking at Integrated Solutions on slide 8, sales increased 3% year on year to $167.8 million, driven by Trax and Government Programs.

Third-quarter adjusted EBITDA of $19 million was up 18%. Adjusted EBITDA margin grew 150 basis points to 11.4%.

Adjusted operating income of $15.5 million was 25% higher, with adjusted operating margin increasing from 7.6% to 9.2%. Improved margins were driven by mix shifts towards higher-margin contracts within Government Programs, as well as by growth and higher margins at Trax.

Turning to the balance sheet on slide 9, we had a strong cash-flow quarter, generating $75 million in cash from operating activities.

Net leverage decreased to 2.17 times net debt-to-adjusted EBITDA, comfortably within our target range of 2.0 times to 2.5 times.

With that, I'll turn the call back over to John.

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Thank you, Dylan.

Turning now to Slide 10 for an update on our outlook for the remainder of the fiscal year:

For Q4, we are expecting total adjusted sales growth of 19% to 21%. Organic adjusted sales growth for Q4 is expected to be between 6% and 8%, as we lap what was a very strong Q4 last year. This excludes the divestiture of Landing Gear, as well as the impact of fiscal 2026 acquisitions. We expect Q4 operating margin of 10.2% to 10.5%.

Our outlook for Q4 has improved from what was implied in our guidance last quarter, given the ongoing strength we see across our markets. As a result, our full-year expectation is for total sales growth of approximately 19% and for organic sales growth of approximately 12%, which is up from our prior outlook.

Finally, on slide 11, I'm excited to share that AAR will be hosting an Investor Day on May 12 in New York City.

AAR has been driving strategic transformation over the last several years. We have a more focused, complete range of aftermarket solution in Parts, Repair, and a Software platform that work together to drive growth. As the last several quarters have shown, this strategy has yielded results.

At our event in May, we plan to share our strategic vision of how we will continue to cement our position as the independent leader in aviation aftermarket through our repositioned portfolio, focused strategy, and differentiated culture. We hope to see many of you there.

Before we open it up for questions, I'd like to thank our talented team members around the world, as they drive excellence in quality, safety, and service in the work we do for our customers.

I'd also like to extend a thank you to our customers and shareholders for their ongoing support of AAR.

With that, we'll turn it over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Michael Ciarmoli, Truist.

Michael Ciarmoli - *Truist Securities Inc - Analyst*

Hey. Good evening, guys. Thanks for taking the question. Nice results.

Welcome, Dylan. Welcome back.

Dylan Wolin - *AAR Corp - Senior Vice President, Chief Financial Officer*

Thanks, Mike.

Michael Ciarmoli - *Truist Securities Inc - Analyst*

John, just on the topic everybody is asking about with oil prices; what we're seeing with some of the carriers trimming capacity. Historically, you've been in this business long enough.

Is there some proxy you could give us? How long do we need to see elevated fuel? Or once we start seeing some of these capacity cuts by the airlines, if it will, at all, translate into your business, fully realizing nobody is parking planes yet? They're just maybe trimming some routes. But any color you could give us there, from a historical context?

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah. I would say the number 1 thing is -- and I appreciate the question -- that fundamental demand for air travel remains very strong. That's what you're hearing from all of our major customers. Obviously, we're hearing that from them every time we talk. They've continued to see record bookings, even after the conflict started.

I would say, just to your point, what you're seeing now are modest capacity adjustments. They're not impacting any airlines' individual fleets. And so adjustments like that are not going to have any meaningful impact on the demand for Parts or maintenance. At this point, we feel very good.

All the customers are talking to us about strong bookings and being prepared for a very, very busy summer. They're making those plans with an assumption that fuel prices are going to remain elevated through that period of time, which we view as encouraging because they're factoring that in, yet their demand signals to us are still very strong.

Michael Ciarmoli - *Truist Securities Inc - Analyst*

Okay. Okay. That's helpful.

And then, maybe just on the positive side, you guys continue to do really, really well on Distribution. That organic 36% on new parts, can you maybe just disaggregate that for us a bit? What new wins? What was same-store sales, maybe pricing?

Just really strong growth. You guys are doing a great job there.

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Thank you, Mike. Really appreciate that.

Yeah. We're very proud of the continued growth we see in Distribution. Our model there is clearly resonating.

To your question, about two-thirds of the growth was same-store sales so continued growth from contracts that have been in place for some time. The remaining third was mostly new contract wins, a little bit of price across all of them but the majority of the growth -- about two-thirds of the growth -- came from growth from existing contracts.

Michael Ciarmoli - *Truist Securities Inc - Analyst*

Got it. Is it -- did anything jump out? Was it engine-related, airframe-related, avionics, any -- or strength across board that you're seeing?

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

[Great] across the board. But, again, I would highlight the continued growth in defense distribution. We've got a great offering there. That was 55%, organic, in the quarter.

That, though, we've been seeing a build. That wasn't a one-off. We've been seeing a build in growth in defense sales to the government. Certainly, our offering is resonating. It reflects this administration's clear prioritization of sustainment and readiness.

Michael Ciarmoli - *Truist Securities Inc - Analyst*

Got it. Great. Good stuff, guys. I'll jump back in the queue.

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Great. Thanks so much.

Operator

Sheila Kahyaoglu, Jefferies.

Sheila Kahyaoglu - *Jefferies LLC - Analyst*

Good afternoon, guys. Welcome back, Dylan.

John, maybe a follow up on Mike's question: As you think about your new parts Distribution business; and Repair & Engineering -- I know we're only seeing modest capacity cuts -- how do you think about how quickly behavior has changed historically and what your visibility looks like in each?

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah. We've got solid visibility, certainly, through the quarter in the guidance we just provided. I would extend that to the summer, as well, 'cause that's what everybody's planning for, right now.

We've been in constant contact with the customers. We have not seen any material change in demand for maintenance lines or component repair. You would have to see, I would say, much more significant changes to their fleet plans for that to have any meaningful impact on our results.

The other thing I would say is that, if I think about this moment that we're in, relative to historical moments, AAR is in a much different position in the marketplace. I would say that we've been so focused on delivering superior service and quality to our customers that we feel pretty confident that they would deprioritize other vendors before they did anything with us.

Sheila Kahyaoglu - *Jefferies LLC - Analyst*

Got it. Maybe if I could ask another one?

Really great execution this quarter. You held margins flat, sequentially; and are guiding to an improvement in Q4, even with the HAECO dilution that's ongoing.

Maybe, can you give us some flavor into the sources of the outperformance? You called out ADI and HAECO outpacing expectations. Anything else notable?

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Those would be the big ones.

ADI. We're second quarter there of outperformance.

HAECO, it's a lot of work. It's a lot of work to complete that integration. As we mentioned, this was the most critical quarter. We've been able to move some of our timetables up so happy to say that we're going to be at the earlier window.

I would also highlight: This was a really strong quarter for Trax. Great momentum, from a sales and margin perspective, with Trax. That's something we've been focused on growing, as you know.

Sheila Kahyaoglu - *Jefferies LLC - Analyst*

Awesome. Thank you so much.

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Thank you.

Operator

Ken Herbert, RBC Capital Markets.

Ken Herbert - *RBC Capital Markets Inc - Analyst*

Hey, John. Really nice results. Welcome back, Dylan.

Hey. Maybe, first, if we look at your commercial aftermarket, John -- the commercial business, broadly -- how much of that business would you characterize as book and ship or short cycle versus more backlog-driven? I know, obviously, a lot of the heavy MRO piece of the business is now much more backlog-driven than maybe it was previously. But is there a way you would frame up that maybe -- that way to look at your business?

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah. As you pointed out, heavy maintenance is definitely backlog-driven. Much of the Distribution business is backlog-driven. Those are, I would say the two long -- and, obviously, Trax is in its own category -- but those would be the two long-cycle elements of the business.

Component repair tends to be a bit more short cycle. Also, obviously, USM is a shorter-cycle business.

But the majority of the revenue now in commercial between Distribution and heavy maintenance is longer cycle.

Ken Herbert - *RBC Capital Markets Inc - Analyst*

Okay. Helpful. Obviously, really nice cash generation in the quarter. Can you give any commentary on what we should expect -- fourth quarter, which, typically, seasonally, is very strong, from a cash generation standpoint? Maybe any highlights -- either for you or Dylan -- on, specifically, some of the -- what we saw in the third quarter in terms of the strength?

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Great. Yeah. No. We were really pleased with the cash flow results. Customers paid us on time so we're appreciative of that.

As it relates to the outlook for the rest of the year, we are planning to be cash flow-positive in Q4; and then, again, cash flow-positive for the whole year.

Ken Herbert - *RBC Capital Markets Inc - Analyst*

Okay. Thanks. I'll pass it back there.

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Great. Thanks, Ken.

Operator

Scott Mikus, Melius Research.

Scott Mikus - *Melius Research LLC - Equity Analyst*

Hey, John and Dylan.

Quick question: I know it's still early in the war in Iran. How long does this potentially have to drag on before it starts maybe impacting your ability to source any of the parts you need in your Parts Supply business?

And then, in contrast, could the war stimulate demand for your component repair business, if airlines are seeking to reduce maintenance costs to offset the higher fuel costs?

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah. Great question.

I wouldn't expect, at this point, that the war or the conflict, at any length of time, would impact the supply of material. Unless you're talking about USM, specifically.

Certainly, if, for any reason, you see more aircraft retirements and subsequent teardowns, that would result in more supply for that material. But in terms of the war or the conflict stimulating demand, yes. It could stimulate demand in a number of ways --obviously, on the defense side. We're highlighting a few of those in the results.

Bu then, also, we are, in many ways, a lower-cost alternative to OEMs and other providers. We have seen this in prior cycles where we're able to win business as an alternative to OEMs, as airlines look to reduce their costs.

Scott Mikus - *Melius Research LLC - Equity Analyst*

Okay. Got it. I wanted to follow up: The organic growth guidance in the fourth quarter implies a deceleration. But you should be getting some revenue contribution from the OKC capacity expansion.

Is that just some conservatism baked into the guidance? Or is there any pull-forward into this quarter, from a top-line perspective?

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah. No. No pull forward into this quarter. Really, the impact you're seeing in Q4 is just lapping a really tough comp from last year.

We had a really strong quarter in Q4 last year in a number of ways. The guide there is reflective of that. But the guide is improved from what we implied with the Q3 guidance we gave last quarter.

Scott Mikus - *Melius Research LLC - Equity Analyst*

Okay. Got it. Thank you very much. Nice results.

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Great. Thank you very much.

Operator

Noah Levitz, William Blair.

Noah Levitz - *William Blair Capital Partners - Analyst*

Awesome. John, Dylan, and Chris, thanks for taking my questions.

Dylan, welcome back to the AAR team.

Dylan Wolin - *AAR Corp - Senior Vice President, Chief Financial Officer*

Thanks, Noah.

Noah Levitz - *William Blair Capital Partners - Analyst*

Yeah. Just to start off, you gave a lot of good color on Trax and the implementation. Drilling in on that, you mentioned that Delta, the partnership with them, has been deployed to 2,000 users. You expect 6,000 in the coming months. I'm curious, like, is 6,000, like, the ninth inning? Or are you still early innings in the Delta deployment?

And, then, following off of that, can you give a little bit more color on the timeline for, Trax establishing that parts marketplace aspect of the business? Thanks.

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah. Great set of questions.

I'm glad you asked about the Delta implementation. Two ways to think about the Delta implementation. The whole thing will take approximately three years. We're coming up on one year into that.

There's three modules.

The first module is, I would say, basic functionality deployed across a large user base. We've got basic functionality up and running. We're deployed roughly one-third of the way across the user base at Delta. Once all those 6,000 users have this first module in hand and working, that completes the first phase.

The next two phase, Phases II and III, will be focused on deploying additional functionality to that large user base. That's where the material ramp-up in the activity and the revenue with Delta will occur. That'll start a few months from now and ramp over the following, call it, six or seven quarters.

And then, as it relates to the Parts marketplace, (inaudible) something we are still very focused on. We do expect to go live on that and launch it, yeah, this calendar year.

Noah Levitz - *William Blair Capital Partners - Analyst*

Awesome. And then, just one follow-up: The defense business is, more or less, killing it. The 55% organic growth in government distribution is really impressive.

In the slide deck, you do mention that higher-margin government work was a positive contributor; I think more so in the Integrated Solutions segment. Is that something that you're expecting to continue as, more or less, like, a new norm? Or was that more like a positive benefit this quarter that was somewhat unexpected? How should we think about, specifically, government margins on an improving basis, going forward?

Thanks.

Dylan Wolin - *AAR Corp - Senior Vice President, Chief Financial Officer*

Yeah. You are referring to the margin improvement in the government portion of Integrated Solutions or Government Programs, specifically. That reflects a mix shift towards higher-margin programs within Government Programs.

We do expect the benefits of that mix shift to continue, going forward.

Operator

Michael Leshock, KeyBanc Capital Markets.

Michael Leshock - *KeyBanc Capital Markets Inc - Equity Analyst*

Hey. Good afternoon.

I wanted to follow up on the HAECO question, just given that that's progressing ahead of schedule. I know there was a cost element to the synergies there. But could you talk about how that integration is progressing in terms of cost-outs or operational efficiencies or just overall utilization? Is there any way to bucket the primary drivers of that integration going ahead of schedule?

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah. Just to describe it in a little bit more detail: We've got to right-size the business in a couple of different ways. It was a much larger business in terms of revenue than how we intend to run it because that revenue was not profitable.

We are continuing to close up those aircraft that will no longer be customers with us and ship them off. That work is getting done.

At the same time, we're also making difficult decisions around the size of the workforce because we want to size the workforce to the new revenue base that we have. Those changes have been made.

When we say this was the most critical quarter, the changes to the size of the workforce to align with the new revenue base, all of those changes have been made so that's in place.

The last two major pieces are moving the work out of our Indianapolis facility and moving that into other AAR facilities; majority of which will go to HAECO in the Greensboro site. That's happening now. That's the next significant phase.

The final phase that will be complete after all of that but is all going on in parallel is the implementation of our systems. We are certainly taking our rigor and our expertise; and deploying it on the floor today. But, ultimately, the paperless systems that we've developed and utilize in most of our AAR hangars, we want that fully deployed inside of the HAECO facilities, as well. That would be the very last piece to complete.

Again, all of that, at this point, is pacing ahead of schedule. It's a really heavy lift. You got a lot of moving parts there but very proud of the way the team is executing.

Also, really happy with the way the HAECO team has embraced the culture that we're promoting. It's been a really good fit.

Michael Leshock - *KeyBanc Capital Markets Inc - Equity Analyst*

Great. And then, within Integrated Solutions, just given the recurring revenue nature of the Trax business, as well as the new customer integration and ongoing upgrade cycle, should we expect growth there to be fairly linear, going forward, within the segment? Or is there anything that could drive lumpiness ahead?

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Overall, linear. You do get lumpiness every now and then because of the way we book new implementations, just based on the software and milestone accounting. That does create some lumpiness in the results there.

But the recurring revenue, which is the base of the business, that we're most focused on growing, that, we expect, to be linear.

Again, we've doubled the size of Trax since we bought it. They were a $25 million business when we closed. It's pacing north of $50 million now.

Based on the customer updates, their upgrades, as well as new customers that we've captured, we see a path to doubling that again from $50 million to $100 million.

Michael Leshock - *KeyBanc Capital Markets Inc - Equity Analyst*

Great. Thank you.

Operator

Thank you.

Ladies and gentlemen, at this time, I would like to turn the call back over to John for closing remarks.

John Holmes - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Great. Thank you very much. Thank you for joining us today.

We continue to execute with a high degree of discipline. We are energized by the opportunities in front of us and really appreciate the support and interest in AAR.

Operator

Ladies and gentlemen, that concludes today's conference call.

Thank you for your participation. You may now disconnect.
