Operator: Greetings, and welcome to the Astronics Corporation Third Quarter Fiscal Year 2021 Financial Results Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. I would now like to turn the call over to Deborah Pawlowski, Investor Relations. Thank you. You may begin.

Deborah Pawlowski: Thanks, Daryl, and good morning, everyone. We appreciate you joining us here today. On the call with me are Pete Gundermann, our President and CEO; and Dave Burney, our Chief Financial Officer. You should have a copy of our third quarter 2021 financial results, which we released earlier this morning, and, if not, you can find them on our website at astronics.com.

Let me mention first, as you're likely aware, that we may make some forward-looking statements during the formal discussion as well as during the Q&A session. These statements apply to future events that are subject to risks and uncertainties as well as other factors that could cause actual results to differ materially from what is stated here today. These risks and uncertainties and other factors are provided in the release as well as with other documents filed with the Securities and Exchange Commission. You can find the documents on our website or at sec.gov.

During today's call, we will also discuss some non-GAAP financial measures. We believe these will be useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. We have provided reconciliations of non-GAAP measures with comparable GAAP measures in the table that accompanies today's release.

With that, let me turn it over to Pete to begin. Pete?

Pete Gundermann: Thank you, Debbie, and good morning, everybody. Our agenda this morning is to review the third quarter, again, which was a mixed quarter. If you've read the press release, sales were light as was the income statement. On the other hand, bookings were very strong, with a consolidated book-to-bill of 1.37. So, our discussion will basically vacillate between reviewing the income statement, which is disappointing to us, and bookings, which we're very pleased about.

Also sprinkled throughout the conversation will be a couple of significant cash events. Dave will go through the details, but we have an AMJP award, which happened late in the quarter and had a minor impact on our income statement. It will have a bigger impact in the fourth quarter and the first quarter. Also, subsequent to the third quarter, we sold a facility which will be reflected in our fourth quarter results, but is another worthwhile cash event to spend some time on.

We'll close with some expectations of the fourth quarter as far as we can see and a little bit of discussion on 2022, although, we're not going to be at a point today where we can provide much guidance going forward.

So, for a Q3 summary, sales were disappointing at $112 million. We guided with our second quarter release to sales of $115 million to $120 million, so we obviously missed our own target. The big challenge, frankly, is supply chain-related, probably a recurring theme that you've heard about from a bunch of companies; and secondly, personnel challenges or shortages.

We figured the supply chain hit for the quarter was somewhere in the $8 million to $10 million range. We can talk through the specifics of how that plays out, but, long story short, we use a lot of electronic assemblies and a lot of smaller components in our products and lead times are extended and unpredictable, which leaves us less able to respond to short-term requests for changes from customers.

So, there's a constant churn among our customer base over the course of the quarter. Sometimes they want to push things out a little bit, that's not a problem, but when they want to pull things in, we can't respond these days the way we normally could if our supply chain was acting normally. So, if you accept the $8 million to $10 million number, that puts us at or above the predicted range, and that's, I guess, the frustrating backwards look at our third quarter.

In terms of personnel, across the company we are at about 2,200 people right now. We would like to be at about 2,400 and we're actively trying to bring up our resources. That shortage had some impact on our revenue levels in the third quarter, but it pales in comparison to what the supply chain problems were.

Weak revenue hurt the income statement, obviously, but the bottom line does show some improvement over a comparable revenue in previous quarters. The second quarter had comparable revenue of $111 million and an adjusted EBITDA of just above breakeven in the most recent quarter. On similar revenue, adjusted EBITDA of about $2.8 million. That has more to do with mix than anything; more Aerospace and less Test, we feel, drove the positive EBITDA in the third quarter.

I mentioned AMJP earlier. For those unfamiliar, that stands for Aviation Manufacturing Jobs Protection Act. It's a program that's been run by the Department of Transportation. There are a bunch of qualifications and requirements. We put in an application probably 5 or 6 months ago.

Dave Burney: It was worked on for that period of time and signed at the end of September.

Pete Gundermann: Right. We got the award at the end of September. Dave will talk a little bit about what the requirements are, but we basically got our full application amount of $14.7 million. There was a small benefit in the third quarter of $1.1 million and a reduction of cost of goods. It will be a much more significant impact in the fourth quarter and the first quarter as the award has a six-month period of performance.

The bright spot in the quarter for sure was bookings, consolidated of $153.5 million and book-to-bill of 1.37. That continues a very positive trend over the last four quarters, and I'm going to throw out a bunch of numbers, which are evident in the table on the last page of our press release. The last four quarters of total bookings have trended very positively from $116 million to $120 million to $126 million to $154 million. Total for the last four quarters was $516 million, with book-to-bill of 1.16.

The numbers are driven by a very positive Aerospace trend and a negative Test trend, so a real mix change in the business in terms of bookings. Aero bookings in this most recent quarter were $142 million for a book-to-bill of 1.49, so 50% higher than shipments. Again, the sequence over the last 4 quarters, if you look at that table, is very noteworthy from our perspective, from $74 million to $100 million to $118 million to $142 million. That means the total for the last four quarters in our Aerospace segment was about $435 million, with a book-to-bill of 1.22.

One caveat in there is that, in the most recent quarter, we did get a significant amount of bookings that are categorized in our Aerospace group, but when they ship, they will appear in the other category, which we expect to happen over 2022, and that total is somewhere in the neighborhood of about $17 million.

The Aerospace news is driven by a pretty solid set of good news across most of the industry that we service. Narrow-body activity, in particular, is very strong. Flights are up, load factors are up and production rates are ramping, primarily driven by 737 MAX. We're shipping in the mid- to high teens these days, or we were through the third quarter, in terms of shipsets per month and retrofit activity is picking up noticeably.

We think that's been a major driver not only for the strength in the last quarter, but, looking forward, we see a target-rich environment there that we expect will drive us very positively for the foreseeable future.

Wide-body activity, on the other hand, remains pretty subdued, but we are encouraged by the current easing of international travel restrictions, particularly in the U.S., which should promote wide-body utilization as we close out 2021 and enter 2022.

Similarly, business jet demand for the OEMs has been very strong. I'm sure you've all read about the book-to-bills that the major OEMs are reporting. We should benefit from that in terms of higher production rates forecast for 2022. We aren't necessarily seeing that in our production yet. There's a lag between their orders from their customers and their orders to us, but we're sitting on that and looking to see what our 2022 production rates are going to be like. We expect them to be higher.

And finally, military aircraft, about 10% of our business in a typical year, is stable and remains strong, mostly driven by F-35 these days and a few other premier programs.

While I'm talking about the Aerospace market and industry, I do want to take a little bit of a detour here and talk about an emerging opportunity, which we're pretty excited about and some of you have probably read about. There is a trend with a number of startups in the industry and more established companies also who are developing electric aircraft. Often, these aircraft are categorized as eVTOL airplanes, electric vertical takeoff and landing airplanes, but also conventional aircraft with electric propulsion.

We are of the opinion, after having done some development and a pretty comprehensive review of the industry, that some of our skill set is directly applicable to these types of aircraft. We haven't talked about it too much as a main course of conversation over the last couple of years, but we have been busy developing a franchise of electrical power distribution, primarily for smaller airplanes. Many of you have heard us talk about programs like the Textron Denali or the Pilatus PC-12 or the Bell 525. More recently, we've been talking about our involvement in the FARA and FLRAA competition for the U.S. Army future lift.

The capabilities we have and the expertise we have developed is increasingly apparent as being directly applicable to this emerging electric or eVTOL segment of the industry. I don't have a whole lot of predictions beyond this here today, other than to do this little bit of introduction, because we expect that, as we wrap up this year and move into next year, this part of our business will get a few headlines. We expect that it should be a promising area for us to plan as we go forward.

Skipping over to our Test business. Test has had a tough spell here. It's been a downward trend with both sales and bookings under pressure the last few quarters. We think of it as an $80 million plus business, so we need to average at least $20 million a quarter in bookings to keep things healthy. The last few have been about half of that. Our second quarter was about $8.2 million and this third quarter was $11.1 million, way off where we want to be.

We've talked about it before and the story has not changed. We feel like these delays in orders are largely related to the COVID-19 pandemic and the work-from-home scenario that a lot of our customers in this space are dealing with. We do not feel that we have lost anything competitively and we are seeing some signs of life.

Our October bookings subsequent to the third quarter, the first month of the fourth quarter, came in at just shy of $12 million, at $11.9 million. So, we booked more in October than we did in the third quarter, which was more than in the second quarter. The optimist in me says that, hopefully, things are starting to break loose and our fourth quarter bookings level should put us back on a healthy track.

Taken together, we ended the quarter with a backlog of $354 million. That's up from the beginning of the year, when we began with $283 million, and we think sets us up pretty well for expectations going forward, which I'll talk about more in a few minutes.

For now, I want to turn it over to Dave to go through some of the specifics of the income statement, our banking arrangement and some of the cash events. Dave?

Dave Burney: Thanks, Pete.

Consolidated sales in the third quarter were $111.8 million, lighter than we expected, but up 5% from last year's third quarter and flat sequentially with the second quarter of this year. Going into the quarter, we were expecting higher revenue, but material shortages had a larger impact than expected. At the end of the quarter, we had about $8 million to $10 million of backlog, as Pete mentioned, that we could have shipped if we had the inventory to complete the work.

Aerospace segment sales continued to improve, with sales up 16% over last year's third quarter, up 7.3% sequentially from the second quarter and up 17.6% from the first quarter of this year. Most of the improvement this year has been in the commercial transport market, which had sales of $57.5 million, a 30.6% increase compared with the third quarter of last year and up 20.4% sequentially from the second quarter.

Driving the increase is increased volume of our seat and passenger power products as activities with the airlines have increased. Additionally, volume increases for passenger service units, primarily for the 737 MAX, have increased.

In the Test segment, revenue declined by about 33% compared with last year's third quarter and was driven by decreases in defense and transit areas. Operating margins improved compared with last year's third quarter, reflecting the higher sales volume and the recognition of $1.1 million of AMJP money. We received the proceeds for about half of the $14.7 million grant during the quarter, but we'll recognize the income from the grant over a six-month period that started near the end of September, when the grant agreement was signed.

We expect that we'll recognize about $7 million as a benefit to gross profit in the fourth quarter, with the remainder recognized in the first quarter of 2022. We expect a second cash installment of approximately $5 million to $6 million to be received in December of this year and the balance upon final reconciliation of the allowable labor costs in mid next year.

The AMJP is a grant program administered by the Department of Transportation that provides grants to eligible aerospace companies to support those companies in retaining jobs in the area of commercial aerospace. Grants are based on an estimate of eligible labor cost over a six-month period and require grantees to retain those jobs.

Switching over to a little bit of a forward look, we're forecasting near-term margin headwinds as we move into 2022, due to increased raw material costs and shortages as well as a tight labor market. The supply chain situation is complicated, changing on a daily basis and difficult to predict.

Regarding tax rate, some of you will notice that we have a bit of a strange tax rate. Typically, in a period of loss, you see a tax benefit. Ours continues to look a little strange as we fully reserve and will continue to reserve all of our deferred tax assets. We fully expect to be able to realize these and utilize these assets to offset future income tax expense, but the guidance for accounting for such assets when the company has had several years of losses requires us to fully reserve them. We do not expect that we will have any federal cash income tax expense or GAAP income tax expense or benefit through the 2022 into 2023 periods.

In terms of liquidity and debt, we were in and continue to forecast to be in compliance with our debt covenants. For covenant purposes, we were slightly below our maximum leverage limit of 6x adjusted EBITDA for the quarter. Forecasted top line growth in the coming quarters as well as some positive onetime items, such as the AMJP grant, sales of the Fort Lauderdale building and tax refunds, will help.

The Fort Lauderdale building sale was concluded at the beginning of October, so it was a fourth quarter event and is part of a planned facility consolidation. The consolidation is expected to be completed by the end of the second quarter in 2022. We're forecasting a rolling four-quarter EBITDA margin improvement as we move through 2022, with the goal of moving our leverage below 3.5x adjusted EBITDA. Our maximum leverage for the fourth quarter of this year is 5.5x and is based on net debt as a reminder.

Short note on cash flow. Cash flow from operations for the third quarter was poor and was driven by an increase of about $21 million in net working capital in the quarter. The larger pieces of the working capital changes during the quarter were accounts receivable, which increased by $10 million, inventory increased by $4 million and payables were down by $6 million. Having an impact on the receivable balance was increased sales to customers with payment terms of 90 days during the quarter. So, that is driving a lot of the receivable increase that you see on the balance sheet.

And that concludes my remarks, Pete.

Pete Gundermann: Okay. Looking ahead, we are forecasting fourth quarter revenue of $115 million to $118 million. We did consider supply chain constraints in determining this number. Our backlog at the beginning of the fourth quarter was $354 million, $113 million of which is scheduled to ship in the fourth quarter. So, you might think getting from $113 million into the range of $115 million to $118 million shouldn't be that hard, and I would agree with you. In normal circumstances, kind of book and ship business, if we go in with $113 million, we might expect to be in the mid-$120s at least, but, given the supply chain constraints, it's just difficult to count on doing that. There's noise and opportunity, I guess, both on the high side and the low side, but our best range right now is $115 million to $118 million.

We're not ready to predict 2022 yet. Hopefully, we will be comfortable saying something when we talk about our fourth quarter results. But, we are comfortable saying that we expect it will be a strong year of strong double-digit growth. We believe everything is lining up such that, unless there's another Covid variant round, which would be terrible, or something crazy in the world, we think we're in for a strong double-digit year looking forward to 2022. We frankly can't wait to get there.

I think that ends our planned remarks. Daryl. If you want to open it up for questions, now would be good.

Operator: [Operator Instructions] Our first questions come from the line of Jon Tanwanteng with CJS Securities.

Jon Tanwanteng: I think you said that you booked something into Aerospace that you said would have gone to the other segment. I'm not sure I quite understand what that means.

Pete Gundermann: No. We break out our revenue into military, business jet, commercial and other, and it will show up in other in the Aerospace segment.

Jon Tanwanteng: That makes more sense now. I caught the comment that you had planned for supply chain disruptions in Q4. I was just wondering, if you reached $8 million to $10 million or pushed out that much into Q4 from Q3. Is there an expectation of the same amount as you go into Q4 and roll into 2022 or is that number going to increase or decrease? I'm just wondering how you try to handicap that going forward.

Pete Gundermann: It's a really good question. We think it's going to get a little bit bigger going forward. We do regular reviews with our business units and one of my recurring questions is, is the supply chain picture getting better or getting worse? We have 12 or13 different operating units and nobody is telling me it's getting better, frankly, at this point. Some are saying it's kind of staying the same, but nobody is telling me it's getting better. That tells me that, as a group, it's probably getting a little worse, which is discouraging.

We tried to factor that into what we expect is going to happen in the fourth quarter, and we'll obviously report a number when we get there, but we think that $115 million to $118 million number is pretty safe.

Jon Tanwanteng: I was just wondering, what are your thoughts on wide-body production and retrofits going into next year now that these travel restrictions are lifting and, frankly, everybody was hoping and waiting for this. Is it in line with your expectations or do you think there might be some upside? Just help us understand how much is being made now versus how much you think it will get to next year.

Pete Gundermann: I don't expect production rates necessarily to move much next year. I think the well-publicized rates by Boeing and Airbus probably take this into account. We would hope that there would be activity on the retrofit side for our main products for commercial transports, which are mostly in-flight entertainment-related. I guess I would tell you that, if the narrow-body trends are any indication, when it comes back, it should come back pretty strong. So, production rate is nice, but aftermarket is nice also, I'd expect to benefit from an aftermarket pickup before a production rate pickup.

Operator: Our next questions come from the line of Michael Ciarmoli with Truist Securities.

Michael Ciarmoli: Dave, first, are you adjusting or adding anything else back to the EBITDA to get to the covenant level? I think you said the rolling four-quarter leverage should improve to below 3.5x.

Dave Burney: I said that's what our goal is as we move into 2022. To get to the covenant adjusted EBITDA number, you need to adjust your traditional EBITDA calculation for the noncash expense, items that you have on the top part of the income statement. That's the largest. And we did utilize about $6.6 million of excludable legal expense for the quarter to increase our adjusted EBITDA.

Michael Ciarmoli: That's helpful. And then, just more on the supply chain. Pete, looking at Aerospace, you had that little bit of a $1.1 million tailwind, but you were just about at breakeven operating margins, which probably could have been significantly better had you had that extra $8 million to $10 million drop-through in there.

When we think about the pressures from supply chain and, maybe, the inability to get product out the door, can you specify, is this all electronic components, chips? And then, can you talk about the pricing environment as well? Are you having to pay significantly more for some of your raw material inputs and whether there's freight logistics and how we should think about that going forward in terms of impacting segment margins?

Pete Gundermann: Sure. We are seeing pressures in a wide range of commodities that we buy. I would say the biggest general area is in electronic components, because we build a lot of electronics and a lot of assemblies that require chips and diodes and capacitors and components that come primarily from Asia. That has definitely been a point of pain.

But, we're also seeing it in things that you might not expect, like plastics or even paint. We have some parts of our business that are heavily dependent on electric, on molding and die casting, things like that, and even those kinds of materials have been problematic. So, it's pretty widespread and part of the frustration, frankly, is it's unpredictable.

You bid on a program and you refresh your suppliers and you get pricing and lead times and you relay that to your customer; and then, the customer gives you an order and you go to place an order and something they said was 8 weeks is now 30 weeks. That kind of thing that can really screw up a delivery schedule.

We are seeing some price pressure, primarily in the area of going out and doing spot buys because our blanket arrangements with existing subcontractors are falling short. They're just not delivering on time. So, we are seeing some of that. I think it's not something that we would consider permanent at this point, but certainly, troubling and problematic. It's going to play through our income statement in the beginning of next year. We're still trying to figure out exactly how to quantify it.

Our perspective is that our customers want parts, and we have a history of servicing them to a certain standard. We're going out and buying some components over and above what existing backlog justifies in anticipation of being able to support those orders when they come in. It's a little bit of a guessing game to some extent, but when you're looking at customers that expect things in 12 weeks, maybe, and suppliers that are now pushing things out to 20 or 30 weeks, you have to take proactive actions.

I'm going to turn it over to Dave to see if he wants to augment that discussion at all.

Dave Burney: Yes. It's particularly hard to quantify because you can take one group of materials, say resistors, and some are available and some aren't available. Some have had 20% or 30% price increases and some have not. It's not a straight across the board situation on all similar components and it's difficult to project.

Michael Ciarmoli: What about pricing? I mean, are you increasing your prices to your customers? I think you're probably still 80% to 90% market share globally. I would think you'd have some success just pushing that through, whether it's to airline customers or the OEs directly or IFE providers. Any kind of color there?

Pete Gundermann: Yes, I think you're right. Compared with a lot of companies, we probably have a little bit more pricing flexibility and short-term ordering patterns that will allow us to do that. But, I use the word "will" allow us to do it, not that we've done it already. I mean, frankly, in some parts of our business, we have increased pricing to reflect increased costs or reduced volume and we have blanket agreements with some of our major customers, which are volume-dependent and the volumes dropped as part of the whole pandemic effect on the industry. In some parts of our business, we're doing other kinds of innovative things, like putting on a temporary surcharge to cover what we think are temporary increases in cost, and that's actually been working, I guess. We haven't had much pushback on that.

We definitely have an eye out for it, but I would tell you that the price increases that we've seen so far are outpacing the opportunities that we have to increase pricing going to our customers. Over time, that will all equal out, but there's probably going to be, hopefully, a three- or four-month lag, but could be a six-month or a year lag, before it all kind of balances out.

Operator: Our next questions come from the line of Dick Ryan with Colliers Securities.

Dick Ryan: Say, Pete, what's the status of the earn-out on the semiconductor business sale? Where does that stand at this point?

Pete Gundermann: No real change in that. We're hoping to get that resolved here. We have an opportunity perhaps later this month where something may break loose, but we don't have anything new to report on that at this point, Dick.

Dick Ryan: Okay. You've had some strong orders in AeroSat, the tail-mount satellite antenna. What's your outlook there? You've had two bulk orders I'd think you'd probably classify them, maybe not but what's your outlook going into '22 for the tail mounts?

Pete Gundermann: It's pretty solid. Percentage-wise, it's probably going to be one of our fastest-growing product lines in the business, but it's still relatively small. I think we're expecting revenue of about mid-$20 million range. That's going to be up 30% to 50%. Just to tie all this together, because it's all kind of interrelated, that's one of the areas where we could probably deliver significantly more if we could get the parts, but it's a very complex assembly. It has a pretty long supply chain, and we're really challenged to do that, but that is an example where, especially here in the fourth quarter, we could probably do twice what we're actually planning to do if we could just get the parts.

Dick Ryan: Can you comment on the downselect, maybe timing as you see it for FARA or FLRAA and how you're playing into either one or both?

Pete Gundermann: Yes. Well, FARA's out a ways, it is behind FLRAA, so I'll concentrate my discussion on FLRAA. We think that the architecture that the Army wants favors our technology very strongly. We think there's going to be a down select between the Lockheed/Sikorsky team and the Bell team sometime late first quarter or into the second quarter of 2022. We are a primary team member on the Bell team and our role there is pretty defined, although still evolving.

We're hopeful of opportunities with Sikorsky, if the Sikorsky team were to be successful, but that's less firm at this point. But, if the Bell team wins, it will be a real significant program for us as early as the second half of next year from a development perspective. Shipset contents will easily be the biggest we've ever seen in that type of product, the electrical power distribution system, to date. More on that as it happens but it's basically a first half 2022 event.

Operator: Our next questions come from the line of Jon Tanwanteng with CJS Securities.

Jon Tanwanteng: Dave, I was wondering, with the net working capital use and slightly up revenue and maybe a margin headwind next quarter, do you expect to remain with your covenants next quarter? What are the puts and takes to get there, especially with some of these onetime items you're talking about?

Dave Burney: Yes, we do expect to remain compliant and actually to improve on our leverage ratio in the fourth quarter. There are a couple of onetime things to rehash a little bit. We expect about $5 million of additional AMJP cash to come in during the fourth quarter. We received just under $9 million for the sale of the building in the beginning of the fourth quarter, and we're expecting tax refunds of roughly $10 million to come in during the fourth quarter.

So, $$23 million or $24 million of cash inflow from kind of nonoperating types of stuff there will help and the top line growth that we're expecting, going from $111 million in the third quarter to up $4 million, $5 million in the fourth quarter is going to add margin that's going to help there as well.

Jon Tanwanteng: As we head into next year, Pete, I think you said you felt confident in strong double-digit growth. I was just wondering, with the component headwinds, other inflation, everything that's out there like plastic and labor, like you mentioned hiring more people and retaining more people, what kind of EBIT or EBITDA margins are possible in that environment? I don't know if you're looking at a full year basis or maybe as we roll through the quarter that things get better. How should we think about the potential next year if you hit the growth targets you're thinking about?

Pete Gundermann: Well, there are obviously a lot of big unknowns, and we don't typically give bottom line guidance, so if we're reluctant to issue top line guidance at this point, the bottom line is even that much more complex. But, if we can do strong double digit, and I would expect, if things were to work halfway reasonably, that we're going to be well into double-digit growth, it ought to have a very strong positive impact to our income statement.

I don't think we're set up to get back to 15% EBITDA numbers at this point, but we should take some pretty solid steps in that direction. I think we need to table the discussions before we get into any more detail until we can talk about revenue confidently, but, certainly, we would expect to start to see stronger adjusted EBITDA numbers at that higher revenue level. Dave, I don't know if you want to comment.

Dave Burney: I agree. I think it's the top line and we're going to have the additional contribution margin from that strong sales growth we're expecting, but there'll be some offset to it with the inputs on costs going up a little bit there. I think we'll start the process of working our way back. We won't get into those double-digit EBITDA multiples next year, I don't think, but certainly, as we move into 2023, that's something that is within range. But, I do think we'll improve steadily as we move through 2022.

Jon Tanwanteng: Just with regards to the orders in the quarter, $153 million, does that mean you have line-of-sight to a quarter that's about that big in terms of revenue within the next two or three quarters or is the timing or lumpiness of that going to preclude that from happening as you see it? Just help me understand what the timing and lumpiness in the backlog looks like.

Pete Gundermann: It's a good question. I think we do have line of sight trending in that direction. If you look at the last 4 quarters, cumulatively, we have bookings of $516 million, and that's with $280 million or so in the last two quarters. If we get any kind of continued improvement, we ought to be able to push that four-quarter moving total up close to the $600 million level. Sooner or later, you have to ship that stuff, right?

Obviously, we're going to struggle, we think, for a while with supply chain, like everybody else in the world, and I don't know where all the workers went, but hopefully, some people start coming back into the labor market. The best takeaway from our position right now, looking backward at the third quarter and even the early days of the fourth quarter, is that demand picture is really strengthening nicely; and so, we think that's a very positive trend.

Dave and I were talking this morning, and we both agree that you'd much rather have supply chain problems and very strong demand rather than demand problems and no supply chain or supply chain working normally. So, if you have to have problems in one place or the other, we like it where it is.

Operator: [Operator Instructions] Our next questions come from the line of Michael Ciarmoli with Truist.

Michael Ciarmoli: Pete, I know you said that $17 million of bookings that's in aero goes into other. What sort of products are they?

Pete Gundermann: They are not aerospace-related. You might recall, Michael, when the pandemic took hold, we took some of our facility resources and personnel resources and applied them toward some of our contract design, contract build programs, and some of them are, apparently, coming through in pretty significant volumes.

I think we did an announcement a few quarters ago or a few months ago, about a handwash station using oxygenated ozone, and that turns out to be a really big hit in organizations and facilities that are concerned about the COVID pandemic. We've received some very strong orders there and that makes up a bulk of that $17 million.

But, I will tell you that there are others in the pipeline, but it’s difficult to predict at this point. It has taken longer than we had hoped when we launched this kind of initiative as a response to COVID, but it's going to be, we think, pretty good business throughout 2022 and one of our drivers.

Michael Ciarmoli: Two other quick ones. How are you guys thinking about F-35 into next year? Is that going to be a potential headwind, just given the re-baselining of that program?

Pete Gundermann: Yes. It's an evolving picture, isn't it? F-35 is a pretty important program for us. We have a shipset content, off the top of my head, somewhere in the neighborhood of $80,000 or so on that airplane, so it's an important program for us. I guess rates are expected to drop a little bit next year, but there are other things in terms of upgrades and changes that we think might compensate, so we don't think that's going to be a serious headwind for us next year.

Michael Ciarmoli: Last one, and this might be a tougher one. I think, in the prior calls, you've said the breakeven point for the company in terms of revenue might be around that $150 million level. I know it's tougher right now with supply chain and elevated costs, and you've obviously taken some cost actions, but as we think about kind of a run rate business, should we think about $115 million, $120 million as sort of the breakeven level?

Dave Burney: In terms of EBITDA breakeven?

Michael Ciarmoli: I was thinking operating income.

Dave Burney: Yes. For the reasons you said, it's tough to predict there. It has probably moved up a little bit from there and changes from day to day, given where the material costs are going, but the breakeven point has definitely gone up a little bit from where we were, say, a year ago in that regard.

Operator: Thank you. There are no further questions at this time. I would like to turn the call back over to Mr. Gundermann for any closing comments.

Pete Gundermann: No comments. Thank you for your attention today. We look forward to talking to you again. Have a good day.

Operator: Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Have a great day.

Note: This transcript has been edited slightly to make it more readable. It is not intended to be a verbatim recreation of the Astronics Corporation (ATRO) financial results teleconference and webcast that occurred on the date noted. Please refer to the webcast version of the call, which is available on the Company's website (https://www.astronics.com), as well as to information available on the SEC's website (www.sec.gov) before making an investment decision. Please also refer to the opening remarks of this call for ATRO's announcement concerning forward-looking statements that were made during this call.