

Operator: Greetings. Welcome to the Astronics Corporation Fourth Quarter Fiscal Year 2022 Financial Results. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Instructions] Please note this conference is being recorded. I will now turn the conference over to Craig Mychajluk, Investor Relations. You may begin.

Craig Mychajluk: Thank you and good afternoon, everyone. We certainly appreciate your time today and your interest in Astronics. On the call here with me are Pete Gundermann, our Chairman, President and Chief Executive Officer, and Dave Burney, our Chief Financial Officer. You should have a copy of our fourth quarter and full year 2022 financial results, which we released just after the market closed today. If you do not have the release, you can find it at our website, astronics.com.

As you are aware, we may make some forward-looking statements during the formal discussion and the Q&A session of this conference call. These statements apply to future events that are subject to risks and uncertainties, as well as other factors that can cause actual results to differ materially from what is stated here today. These risks, uncertainties, and other factors are provided in the earnings release and with other documents filed with the Securities and Exchange Commission. You can find those 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 tables that accompany today's release.

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

Pete Gundermann: Thanks, Craig, and good afternoon, everybody. Thanks for tuning in for our fourth quarter conference call. As usual, or as is often the case, I have tried to simplify the headlines for the quarter and the things that I would broadly categorize as good news, things that I think will be well-received by our investor base and some other things that are less good, maybe bad, challenges, that we want to also give equal time to. And we will kind of close with turning our attention away from 2022 and turning towards 2023 and talking about what we expect to happen in the current year, and how we think it's going to play out, recognizing that it's pretty early and a lot can happen.

So, the good news headlines, strong demand continues, as evidenced by our bookings, \$182 million in bookings is a very solid performance, our second highest since COVID came in, and a very good close for the year. We'll talk in detail about bookings and how that's translated into a record backlog and how that sets us up for a solid opening frame for 2023. We'll also talk about some reasons why we think that strong bookings level is very likely to continue based on how our market is evolving, and how some of our programs are playing out.

Second positive good news headline is that the revenue ramp that we've been looking for, we believe, has begun. We have, since COVID struck, been stuck in a quarterly revenue band of about \$105 million to \$130 million, and just seemed to have a really hard time getting beyond that level until the fourth quarter. \$159 million, frankly, was higher than we thought we would be as we started the quarter. We think it's a positive indicator. Again, as we head into 2023, it gives us more confidence that our supply chain is pulling out of the real funk that it was in for most of the second half of 2021, and the first half or two-thirds of 2022. Not to say it's perfect, but we think it's getting better, not getting worse.

Third good news headline is that we got our refinance completed. That was technically a January event, not a fourth quarter event, but there was a lot happening behind the scenes in the fourth quarter to bring that about. And we want to talk that over in adequate detail when we get to it.

If I flip over to the other side of the coin, kind of the bad news things that you might pick up on or might be concerned about: margins were under pressure, primarily due to inflation that we've incurred, and some

special charges that we have paid to compensate for supply chains snafus that was apparent, if you look at our cost structure and margins for the quarter. Dave will talk through that in some detail.

And also, during the quarter, it became apparent that a couple of programs that we think, overall, long term, are going to be very positive contributors to our success are going to be delayed over what we thought they would be. I'm talking specifically about a major test program that we've talked about before for the Army of TS-4549/T, it called. It's radio test program. And FLRAA good news, bad news. Good news is that we're on the Bell team and Bell was selected by Army – for the US Army for that program. Bad news is, as everybody probably knows, it's under protest, and that means that we're kind of at a standing stop, whereas we were hoping by now to be underway.

We'll turn our attention at the end of 2023 preview. We are maintaining earlier guidance of \$640 million to \$680 million. That's a big step-up from 2022 we realized, but we believe we have some pretty solid reasons to think that that's achievable. Supply chain, of course, will be critical and we'll tell you what we know about our supply chain. But it's early we think. That \$640 million to \$680 million range has upside potential and downside risk depending on how the supply chain performs as we get into the first half of 2023.

So, taking those topics in the range I just discussed, demand continues to be very strong. Fourth quarter bookings of \$182 million, as I mentioned, the second highest booking result since COVID, only behind the previous quarter, the third quarter of 2022. Bookings for all of 2022 were \$690 million. That's a book-to-bill of 1.29% for the year and sets us up with a record backlog of \$571 million as we began 2023.

You might be interested to know that our previous record backlog pre-COVID was \$416 million in late 2018. That was a year when we did about \$800 million in revenue. So, \$416 million was our previous high. Today, we're at \$571 million or as we entered the first quarter, we were at \$571 million. It's a big step-up. Of that \$571 million, \$451 million is scheduled for delivery in 2023.

Given the range we talked about for 2023 that leaves a couple hundred million of what we might call book and ship over the course of the year in normal course, that's a pretty achievable number. That's pretty low. Our supply chain gives us reason to be a little bit cautious about it. It's one thing to get the order, it's another thing to turn on and ship it. But \$200 million over the course of 12 months, book and ship is pretty modest compared to what we've been used to.

We'd expect to see a strong demand continue for a couple of reasons. Our recovery so far has largely been based on the narrow body, regional market for the commercial transport industry. But now, it appears widebody/long-haul is coming back pretty strongly. Pre-COVID, we were approximately 50/50 narrowbody, widebody. Widebodies have spent most of COVID parked in the desert. Narrowbodies are where the action has been as regional travel barriers have come down. But now, with widebody coming back, we have reason to believe that we're going to see another kind of source of strength from demand in the market and we're looking forward to that.

You probably read the headlines. They're all over the place. Airlines are pulling widebody airplanes out of storage and pressing them back into service. But not too long ago, most experts in the industry were predicting they'd would never fly again A380s, A340s or even some 747s, but demand has come back strong enough that airlines are taking the expense of resurrecting these airplanes, and that's good for us. Airplanes flying is good for us. Similarly, or also along the way, production rates for the prominent wide-body airplanes today, specifically 787 at Boeing and A350, they're talking about upward revisions to plans there and other challenges. There are capacity issues to come across, but I guess my point is that, as we look at what's been driving our demand, it's primarily been narrowbody. Now, we think widebodies – and we've seen this happening over the last few quarters. We think widebody is going to be more and more of a contributor as we go forward, and that's good for a company like us.

Also, along these lines, the opening up of China from travel restrictions is a very positive sign. Geographically, the recovery in the commercial airline industry has been driven by the US and by Europe.

Asia has lagged. China is obviously a very popular location in Asia. It's hard for the industry worldwide to recover without China recovering, and China opening up to less strenuous travel restrictions as they did in early December, we think, is going to have a very positive impact on our industry overall.

The second issue I wanted to call attention to: the reason why we think demand is going to continue to be pretty strong is that while we have talked about a number of pretty major program wins over the last year, those program wins are not really reflected in our booking level today. We think these programs collectively are going to be worth hundreds of millions of dollars. But today, if I were to add them up in backlog, they're probably less than \$20 million cumulative.

And I'm talking about programs that we've announced: the Southwest win that we announced probably year and a half ago now; the antenna program that we're doing with Safran; the TS-4549/T program; some activity that we have going in the electric airplane market; and also, FLRAA. I guess we haven't talked about on a conference call since the Bell decision came down. I think most people who follow our company know this, but we are on the Bell team. We're doing most of the electrical system right after generation-to-end-use system.

And of course, assuming the protest doesn't disrupt things, we expect this program will be a real significant program, hard to overstate its significance for our company over the long haul. We're under a little bit of a gag order. I can't say much more than that. And we certainly don't know what the inner workings are of the protests that's going on currently, but that is one that we think is a major driver.

And again, there are a couple other programs that we're not at liberty to talk about that are similarly significant. And all of these we expect to start contributing to bookings and to demand in the coming quarters. But as of today, or as of the end of the fourth quarter, I think it was less than \$20 million, all of these things cumulatively.

So, I want to switch from bookings and demand to the revenue ramp, as I mentioned. Since COVID hit, we've really been stuck in a band of \$105 million to \$130 million in quarterly revenue even though bookings have been much higher. Our quarter four revenue of \$159 million is a significant step-up towards where we need to be in 2023 to meet our goals and to satisfy customer demand. The limiting factor through 2022 has been, first, supply chain and, second, people, much more of a supply chain issue than a people issue. And when all is said and done, we're going to look back on 2022 as a year of really strong demand and really disrupted supply chains where we had 20% growth and, usually, we would expect 20% growth to be some cause for celebration. But frankly, we were aiming a lot higher when we were started.

We saw the demand coming back. Our original plans for 2022 anticipated growth well beyond 20%. We ended up at 20%, because we were constrained by supply chains. And while our supply chain is not perfect, as I mentioned earlier, we do feel it is improving. A year ago, we saw regular negative surprise disruptions coming across the line. Today, there are more and more positive surprises, and fewer and fewer negative surprises. Hiccups still happen, but they're fewer. And we're better at responding to them, frankly. A year ago, we weren't used to dealing with the level of detail and the climbing down our supply chain to our suppliers' suppliers, as well as effectively as we can and do today. So, while the hiccups happen, they're fewer and fewer and we're better and better at responding to them.

Our refinance was a complicated and drawn-out process. We finally completed it on January 19, as most of you undoubtedly know. It's a deal that we feel is adequate, get us through the rest of the COVID recovery and frankly reflects the reality of our macroeconomic environment and the position that the company is in at this point in the cycle.

We need to perform. But if we can do what we think we can do, it should be an adequate facility for us for the time being. And Dave will cover some of those details in just a minute. The bad news headlines, two of them I talked about, margins under pressure. We had elevated input costs and those costs are going to take some

time to sort out. We have portions of our business where we can react pretty quickly. The order cycles are short.

Frankly, a lot of the strong bookings that we've been taking are very helpful because we've been able to work in pricing that reflects the current cost structure. It's the longer term, older contracts that tend to cause us problems. We also tend to run into troubles when supply chain has a hiccup and we have to make what we call spot buys or pay expedited fees. Those activities are getting fewer and fewer. They're winding down and we expect them to continue to wind down but they were a pretty major source of margin pressure or erosion in the fourth quarter. As we move through 2023, we expect that position to improve.

A couple of program delays that I mentioned earlier, TS-4549/T, the Army radio test program. As a reminder, we were identified or named back in August as the winner of a technical evaluation. But the Army ran between a product we provided and those of the couple competitors. The next step at that point was to negotiate and develop a sole source production contract or directive procurement.

Going forward, we expected that directed procurement would be in place probably by now, if not by the end of the year. It's become apparent now that it's going to be much later than that. We're now thinking, as we understand Army's processes, that this could last until the middle of the year or even a little bit later before we get under contract and before that program starts seriously contributing.

And depending on long lead funding and a couple of other things that are to be determined, it's unclear at this point when that program is going to contribute. But we believe that that order will be somewhere in the neighborhood of \$150 million to a couple of hundred million. In revenue, we expect it will run over two, three years, and we're eager to get at it, but we just can't keep going until the Army wants us to.

The other program that is stretching out because of the protest is the FLRAA program that I talked about earlier. We thought that we would be underway by now. And now, it appears the protest period will last at least till April 6 or 7, I believe, it is. And so, we will not be under contract. We're basically down the water at this point. So, that will be a second quarter start, we believe, rather than a first quarter start.

With that amount of coverage, I think I'll turn it over to Dave at this point. He's got some Q4 specifics to talk through and also a summary of our refinance. Dave?

Dave Burney: Okay. Thanks, Pete. Following on to some of the points Pete made with regard to sales and bookings, they continue to improve through the fourth quarter. The primary driver for both bookings and sales' increases was the commercial transport market. Sales to this market were up 76% to about \$103 million, which was an increase of a little over \$44 million from last year's fourth quarter and up just over \$24 million sequentially from the third quarter.

Global air travel continues to improve, driving demand for the aircraft retrofit spend and increasing OEM build rates. Now, there are a lot of puts and takes to compare last year's P&L to this year's. But the main driver was the increased margin on the sales ramp, partially offset by higher input costs. And additionally, the 2021 fourth quarter had the benefit of \$7.5 million from the AMJP grant program and the \$5 million gain from the building that we sold in that quarter.

This was partially offset in that quarter by a full year's accrual for our 401k cost as we reinstated the company contribution in the fourth quarter of last year, and higher legal fees. The 2022 fourth quarter, on the other hand, had the benefit of a \$1.5 million gain relating to the litigation settlement. Contribution margin and incremental sales is running at about 40% right now. This is somewhat lower than our pre-pandemic contribution margins, which were typically closer to 45% to 50%. These are being impacted by input costs on labor and materials.

The margins continue to face headwinds primarily from supply chain predictability, which impacts shop floor efficiency, as well as increased input costs that eventually will gradually be mitigated as we pass on these costs through new contracts. It does appear that the trajectory of the inflation that we experienced through 2021 and early 2022 has slowed significantly.

Additionally, we continue to source hard to find parts on the spot market, which is a significant impact to our margins. In the fourth quarter, these spot buys were roughly \$2 million above our standard cost for these parts. We are expecting the impact of these spot buys to reduce as we move through this year.

Looking to the balance sheet and cash flow for the company. Cash flow from operations for the fourth quarter improved. There was a positive \$10.8 million as our net loss improved, as compared with prior quarter's share. Net working capital remained flat with the third quarter. And inventory growth was minimal during the quarter, which was a significant improvement over the last three quarters where inventory levels increased roughly \$34 million during the first three quarters of 2022. Increased receivables were offset by lower prepaid expenses and increased accounts payable. We are forecasting our inventory levels to drop as we move through the year as supply chain stabilizes and the shop floor becomes more efficient.

CapEx for the quarter was \$3.4 million, a little below our forecast. We're forecasting CapEx for 2023 to be in the range of \$17 million to \$20 million, which is back in line with our typical spending levels after the last couple of years of cash conversion. At the end of the year, our net debt was \$150.2 million, which was down from \$156 million at the end of the third quarter. We're forecasting to be cash flow positive for the year and the positive cash flow will be used to reduce debt.

We're expecting cash outflow relating to our 2022 taxes that will be paid in 2023 to be about \$6 million during the year and this all relates to the new tax treatment for R&D costs where we're now required to put them on the balance sheet and capitalize them and expense them over five years. To the credit facility update, on January 19th, we announced that we have closed on our new debt financing which we have been working on for the better part of the year. The new financing structure replaces the cash flow-based revolving credit facility that was set to expire in November 2023 with two asset-based credit facilities.

The two pieces to the new debt structure are a four-year \$90 million term loan and a three-year \$115 million revolving credit facility. The term loan will bear interest at SOFR plus 8.75%, and the revolving credit facility will bear interest at SOFR plus 2.25% to 2.75% depending on the available balance.

Scheduled principal payments on the terminal will begin in the second quarter. Scheduled principal payments are \$788,000 in the second quarter, \$1.5 million in the third quarter, and \$2.25 million each quarter thereafter. The term note is not callable in the first year. In the second year, there's a 4% prepayment penalty, and in the third year, there's a 1.5% prepayment penalty. Based on a SOFR rate of 5%, we're forecasting weighted average cash interest rate in 2023 to be between 10% and 12%.

2023 quarterly cash interest expense is expected to be approximately \$4.5 million per quarter. GAAP interest expense on the income statement will include amortization of upfront costs and will be higher by about \$700,000 per quarter. Total upfront fees and closing costs were approximately \$8.6 million that will be amortized over the life of the loans.

Important financial covenants are minimum adjusted EBITDA covenant, a minimum excess availability and a maximum CapEx covenant, all of which are outlined in the lending agreement that was filed back on January 19th.

We feel comfortable with being able to remain compliant with these covenants, given our current forecast. Just a quick note on the tax rate, I expect we'll get a question on that. The effective tax rate is basically meaningless for this year, as it has been for the past year. The more important number to focus on is our cash taxes. We expect our cash taxes that we will pay in 2023 will be about \$6 million to 7 million, primarily for the tax year of 2022.

This all relates to the new tax treatment for the research and development accounting. Our full tax rate for the year is going to be a negative 500%. And I'm just telling you this because it's – somebody is going to ask, and it doesn't make any sense. What this means is in quarters with a profit, we have a tax benefit and for quarters with a loss, we're going to have a tax expense because it's a negative 500% tax rate.

I know it makes no sense to an ordinary person. This is a result of having to fully reserve for our deferred tax assets until we generate cumulative pre-tax income over a three-year period. So, we're not recognizing the income statement impact for the deferred tax assets that are being created by this timing difference.

That's all I had.

Pete Gundermann: Turning to 2023. We are maintaining our initial 2023 revenue guide of \$640 million to \$680 million. That may seem like a pretty big jump from 2022's \$535 million, but there are a couple of things to think about. At the midpoint of that 2023 range, we would be seeing something like 23% growth over 2022. That's actually just slightly more than what we did in 2022 over 2021, so 20% growth in 2022. That initial range anticipates 23% growth in 2023. So, it's certainly a step, but it's a step we've already done once, and we have the backlog to do it.

Another piece of data supportive of that range, again, \$640 million to \$680 million is that our last four quarters bookings were \$690 million, and four of our last five quarters were right up around \$180 million. So, if you annualize that, you get to \$720 million. So, the orders are coming in. We've demonstrated 20% to 23% growth. And the big assumptions beyond that are that COVID continues to moderate around the world that seems to be happening, people are traveling. Travel restrictions are coming down. We talked about China.

Certainly, I assume a majority of people on the call have been on commercial airplanes over the last couple of months. They are packed and loaded and doesn't seem the matter where you are or where you're going. So, people want to travel. And as long as COVID seems tame and with China opening up, we expect solid growth in our markets or solid demand in our markets.

The other big assumption, of course, is the supply chain. We need to continue to see, and we expect to see a cautious but steady improvement. Again, problems still exist but we're better at recognizing them and resolving them when they do occur and we're recognizing that we think we're going to continue to get more positive surprises, which means lead times are going to come down or availability is going to increase and fewer negative surprises.

Now, the cadence of 2023, we're actually expecting first quarter revenues to be a little bit later than what the fourth quarter was. That's a function of just demand scheduling and some of these program slides that I was talking about earlier. And even though we're within a month of the end of the first quarter, it's a little difficult to know exactly what our supply chain performance is going to be like so there's a relatively wide range on our revenue guidance for the first quarter. We're saying \$140 million to \$150 million. Of course, that's what we said in the fourth quarter, we ended up at \$159 million. So, we're doing our best.

We do think that we're going to see a positive mix change in the first quarter with respect to margins. So, model makers out there, you can't just knock off, say, \$10 million and \$12 million off of our fourth quarter result due to simple exercise of knocking off 40% contribution margin or something like you might in normal times. We think the mix exchange is going to get more positive and we think that'll help our first quarter results.

And, of course, we're thinking that our production volume will ramp as the year progresses. We're thinking quarters two through four will be each in the range of \$160 million to \$185 million, starting at the lower end of that ramp and ending at the higher end.

And we will, of course, update this next time we talk. But, again, from a March perspective, there's, as I said earlier, upside potential, downside risk. But we feel it's important to give you our best look, our best perspective on where we think 2023 is going to end up. So, we're excited to get there. We think it's going to be substantially better year than what we saw in 2022 or the previous couple of years before that since COVID came on.

So, I think that ends our prepared remarks. Jamal, why don't we take some questions if we have any?

Question & Answer

Operator: Sure. At this time, we will be conducting a question-and-answer session. [Instructions] And our first question comes from the line of Jon Tanwanteng with CJS Securities. Please proceed with your question.

Jon Tanwanteng: Hi. Good afternoon, guys. Thank you for taking my question. Obviously, nice to see the supply improve. Just to double check that the timing is what's going on in Q1 is not the new supply constricting again or that maybe you had some that pushed out from Q3 into Q4, and you just caught up to that? Just help me understand if supply chain improved into Q1 from Q4 is the question really.

Pete Gundermann: It's a good question and it is not an easy answer. I think the way to answer it is that the top line is going to move a little bit by programmed slides. We did pull a couple of things that we were able to pull into the fourth quarter out of the first quarter, which left the first quarter a little bit light. And I think that the way to think about supply chain is that a year ago, we replaced an order for a part and where we might normally expect it to come in in 10 weeks or 15 weeks, all of a sudden, we were getting quotes for 52 weeks.

And the difference now is that, in many cases, 52 is coming down but it's still not 10 to 15 but the suppliers are more capable of hitting whatever they commit to, which is an improvement. But it's not an improvement to the point where we can accelerate things very easily. Given our backlog, given the orders that we have in Q2, if we had a supply chain that was cooperative or functional like it used to, first, we'd have no trouble filling this hole in the first quarter. But given the way the supply chain is performing, while it's getting better, it's not getting better to the point where we can push and yank and pull all the levers that we are used to operating with.

So, it's kind of a combination of all that. It's just a little bit of a clumsier process. The lead times is still a little bit longer. And we do have the occasional hiccup, but I hear about them fairly regularly. And so, it just limits our ability, we think, to respond in the short term to the first quarter, the way it's working.

Dave, I don't know if you add anything to that?

Dave Burney: No, I think that covers it. It's – a lot of it is, as you said, pre-COVID, we were able to respond really quickly to customer requests if they wanted something in six weeks or eight weeks. And it puts a damper on your ability to do that this time.

I think, generally speaking, what we're seeing is a lot more consistency than what we saw in supply chain six months ago or eight months ago, nine months ago. We're also seeing a flattening out of kind of the inflation that we saw as we went through last year. Prices aren't going down or costs aren't going down, but the trajectory certainly has flattened out on a lot of the materials that we're buying.

Jon Tanwanteng: Got it. Now, that's all very helpful and good to hear. Dave, just a question for you. You mentioned contribution margins close to 40%. Obviously, the spot buy, but you mentioned improvement mix in Q1. How should we think of that contribution margin going through the year? Should it be improving towards that 45% or even 50% as the spot buy goes down? Just help us understand when you hit that \$150 million, \$180 million, what does that incremental margin actually look like?

Dave Burney: Yeah. The way we're forecasting, in particular, with regard to the spot buys, which as I pointed out, are not insignificant on a quarterly basis. They will gradually – we're expecting them to phase out as there's more normalization in the supply chain. We don't expect this to happen until we move into the second half of the year so that by the fourth quarter we're expecting the spot buy cost to decrease.

The other thing that we're expecting to see, as we mentioned earlier, as we roll to the new contracts where our quotes have reflected higher costs and a higher selling price, those will start to become more meaningful as we move through the year and into next year as well. The 40% contribution margin, I think the way we're forecasting, is expecting that to gradually improve as we move through the year as well.

Jon Tanwanteng: Okay. And then last one from me, did you say that your cash tax burden will be \$67 million this year or is that a non-cash number?

Dave Burney: What I intended to say was \$6 million to \$7 million.

Jon Tanwanteng: \$6 million to \$7 million, okay. Understood. That caught me off guard. I apologize.

Dave Burney: Oh, did you hear \$60 million?

Jon Tanwanteng: I heard \$67 million and maybe that was just my phone.

Dave Burney: No, no, no. \$6 million to \$7 million. Yeah.

Jon Tanwanteng: Understood. Thank you. Okay, I'll jump back in queue. Thanks a lot, guys.

Operator: Our next question comes from the line of Michael Ciarmoli with Truist Securities. Please proceed with your questions.

Michael Ciarmoli: Hey. Good evening, guys. Thanks for taking my questions. Peter or Dave, just to stay on that margin kind of the contribution margin and just thinking about aerospace margins. I mean, given the volumes, you know, you put up, I think it was, what 38 in the quarter, should we expect a kind of steady increase in those aerospace margins as we move through the year, and presumably, knock on wood, nothing kind of, gets derailed here with supply chain, but we continue to see the demand flow through. Is that a reasonable expectation that the margins build off this level?

Dave Burney: Yeah. I think when I speak to this 40%, I'm speaking of the incremental contribution margin. But what will happen also as the top line grows is better absorption of the fixed costs. So yeah, we would expect as aerospace continues to have top line growth that we will see those margins continue to improve.

Michael Ciarmoli: Okay. And then, I mean, Pete, you talked a little bit about pricing. I mean, would you be able to kind of elaborate or kind of give us more detail in terms of what you think or what you're trying to push through for price increases, and what that's kind of adding to the equation this year?

Pete Gundermann: It's a little hard to quantify. I guess, I would say that for the most part, I think we're in pretty good shape, in part because we've had a lot of heavy demand, heavy bookings recently and quite a bit of our revenue base turns over on a pretty frequent basis. We certainly have long-term contracts on major programs. And in some of those cases, we're able to increase prices. In some cases, we had to wait for the contract to renew.

But I guess, I feel that assuming that inflation doesn't hop along ridiculously high rates for another two or three years, I think we're going to ride it out and I think it will adjust in due course. I'm not considering at this point a major issue, and that's not to say we don't have our stress points. We got some parts of our business that are adjusting quite a bit better than other parts of our business, and we got to fix that on an operational basis. But for the most part, I don't think we'll do long term be sitting here complaining about inflation as a reason why we can't achieve good margins.

Michael Ciarmoli: It sounds like are you getting real pricing? I mean, are you pricing above inflation or just trying to keep pace with it or...

Pete Gundermann: For the most part, we're adjusting where we think it's going based on when we think we're going to have to execute certain programs. We're also making some use of surcharges, and we're going to our customers and saying, this thing that you want to buy is costing us a lot more than we expected. And in many cases, customers are agreeing to pay that surcharge. In some cases, that's being reworked into the base price. In some cases, it's a temporary arrangement that will go away later. We'll have to deal with it then. But for the most part, I feel like we're staying on top of it and the relatively recent ramp in bookings works to our favor.

Michael Ciarmoli: You talked about widebodies, can you remind us what your chip set content there is? And then, it seems like you called out some older platforms, so it seems like some of these older ones are seeing retrofit opportunities. I mean, we know where the A350 and the 787 are going right now, but – so, I guess I'm asking a seemingly maybe, more sort of, retrofit demand right now. Then just maybe if you can give some color on the content?

Pete Gundermann: Sure. We do a number of things in widebody airplanes. The most prominent, though, are higher fee related, right. So, most every widebody airplane that comes off the production line gets a seatback display in every seat, nose to tail. And for quite a few years now, we have been the prominent provider of power, for example, to those systems for major system manufacturers. So when somebody buys 787 or an A350, they check the boxes, they want provider A, B or C, and whichever one they pick, they get Astronics as a power system.

Additionally, depending on whether they pick A, B or C, we might do other parts of the system periodically file servers, wireless access points, data loaders, things like that. Then, we also do lines fit work. So it's not uncommon for a widebody airplane on the production line to be somewhere in the neighborhood of \$250,000 in revenue, and in theory, it could be a half million or more. But the aftermarket is important too. The aftermarket is important because this IFE product line, when you think about it, it's kind of where customer electronics meets the aerospace industry.

The aerospace industry has very long lifecycles for most of the airplane. Consumer electronics does not, right. It turns over in two or three years. What you do today is obsolete, two or three years from now. Even power, something as basic as that or what people think of is basic is undergoing a lot of changes and the world spent a lot of money and time equipping their hotel rooms, restaurants, seating areas, and airplanes with USB power type A, now type C is prominent. And they're not compatible, they're completely different.

So, one of the things that's great for just having airplanes flying is that lifecycle effect takes place and the systems need to be upgraded. If they're sitting in the desert, they don't need to be upgraded, to be blunt. So, that's all helpful. We like airplanes flying. It doesn't really matter if they're new or old. We just like them flying.

Michael Ciarmoli: I'll jump back in the queue here. Thanks, guys.

Operator: Our next question comes from the line of Jonathan Tanwanteng with CJS Securities. Please proceed with your question.

Jon Tanwanteng: Hi. Thanks for taking the follow-up. I just wanted to follow up actually on the widebody topic. How much widebody revenue do you have in the forecast this year or how much was in the in the revenue last year? And kind of what was the prior peak, I guess? And do you think you get back there, if ever or 50% or 75% of where it used to be? And does it take two or three years to get there maybe?

Pete Gundermann: It's a very good question. Those are numbers that are really hard to – and we have some products and product lines, which are used exclusively on the widebody, and we have some that used exclusively on narrowbody. We have some that are used on both. So, it's really hard to kind of figure out definitively where they're going. But I can tell you that, I would say, just from what I understand of the business, the widebody revenue last year was probably running in the neighborhood of 10% or 15% of where it used to be, and we're probably going to move closer to 30% or 40% this year.

From what I can tell, we're taking a lot of orders and they're widebody specific. And I think what's interesting to me is, you follow the experts in the industry, whereas six months or a year ago, they were all predicting widebody return and global airline traffic getting back to 2019 levels sometime in 2024 or 2025 timeframe. More and more voices are now expecting or predicting that that's going to happen in mid-2023 or late 2023. Again, a lot of that depends on what happens in China, I suppose. But we would expect demand for our widebody products roughly to track with what demand is like for air travel and those kinds of airplanes. So, if

we see a recovery mid-year – I think that's probably a little optimistic – but mid-year or second half of 2023, I guess I'd expect our ordering patterns to be pretty much back to normal by then also.

And by the way, we're not that far off. I mean, we did \$780 million, \$770 million in 2019. We just booked \$690 million in 2022. So, it's not that far from here to there, before we were kind of back to pre-COVID levels of ordering anyway, and then it's up to the supply chain to allow us to execute on.

Jon Tanwanteng: Got it. That's very helpful. Could you just give us a little more color on the expectations for FLRAA and the Army radio test program? When they do actually start up and get going, what are the run rates you expect out of there? Is it consistent or is it lumpy? Just help us understand what the contributions are going to look like.

Pete Gundermann: Recognize that we know not much at this point. The TS-4549, the radio test program, we expect the initial award to be in the – I would say between \$150 million to \$200 million; we think it's going to be towards the high end of that. The timing on it is a little bit of a wildcard at this point. It's going to be a low-rate initial production. There's going to be some call testing involved. And then, eventually, there's going to be a production turn on.

If all that happens sequentially, then the major impact in our production theoretically, depending on lead times, may not happen till late 2024. If we can stack those things or do them concurrently, then I think it becomes probably not a late 2023 thing, but probably in early 2024 thing. So – and we think that that initial order is just the beginning. This is going to be a standard for the US Army. They have a lot of radios and a lot of units and families that our product will be testing, and we think, could be over a decade. So, more on that as it develops.

FLRAA – I've used this analogy to describe the importance of this program for us. You've been following us for a while, Jon, you know we have this flight critical electrical power franchise that we've been building. And it's been pretty successful in terms of becoming a high-end standard in small aircraft, and both the rotary wing, fixed wing, jets, turboprops. And we are extending it now into the electric EV follow area.

But the FLRAA opportunity is kind of a night and day kind of difference in tenor from those other programs. And again, we have a little bit of a gag order, but I've used this analogy. I've said imagine a widebody airplane, where we put absolutely everything that we might possibly put on that airplane that's in our tool kit. And this is a little different than how I answered Michael's question earlier because this is a theoretical airplane that's never really existed. But if it comes down the production line and we put power on it, we put a full suite of IFE equipment on it, we put an antenna on the roof, we put a radio in it, we put a full cockpit lighting suite, a full exterior lighting suite, a full interior lighting suite in terms of passenger service units, et cetera, et cetera. You add all that up, you probably get to somewhere in the neighborhood of a \$700,000, \$750,000 airplane.

And while we are under contract and there's movement in the ships and things that are going to change, we expect that our FLRAA content will be well north of that. So – and then you ask, well, how many aircraft are they going to build and that's a whole another kind of guessing game at this point. So, replacement for the Black Hawk, there are 4,000 Black Hawks out there. Nobody expects a one-for-one replacement, but what do you expect? A little bit of a guessing game. But even if you guessed conservatively, for a company like us, it's a real significant, over time, game changer of a program.

Jon Tanwanteng: Got it. No, that helps put it in perspective. Thank you, Pete. I assume that doesn't go to production until much later though in this decade, so the initial development revenue is what we're thinking about, which would be...

Pete Gundermann: Well, I think I'm older than you are, Jon, but we both would be retired before we know how far this program is going to go and get real volumes. But if it's anything like, well, the Black Hawk has been in production now for 50 years.

Jon Tanwanteng: It could be changed, yeah. Last question from me. Just on the labor issue, let's assume your supply chain cooperates and you get all these wide-body orders that you have to facilitate, can you reach that \$180 million run rate with the workforce that you have now or is it going to take more work just to get those people in the door and supplying that?

Pete Gundermann: For the most part I guess my feeling is that labor is certainly not our biggest problem. Supply chain has been our biggest problem. Your question is insightful, if all of the sudden the supply chain snapped to attention and the trucks pulled up full of parts, then, yeah, we would be short labor to turn our numbers back quickly.

But for the most part and most places of our business, the labor side of it is a little bit better than what it was, say, a year and a half ago at the height of COVID. Nobody wanted to come out of their houses to work. That's changing a little bit. We still have parts of our business that are struggling for labor. But for the most part kind of across the board, I think that we have a general feeling that we're okay, and that we can adjust our head count, and our capacity to the scheduling of the major programs as they happen. Dave, I don't know if you'd answer any differently?

Dave Burney: No.

Jon Tanwanteng: Okay. Great. Thanks, guys. And obviously, congrats on getting all the stuff done over the finish line over the last couple of months.

Pete Gundermann: Thank you, Jon.

Operator: Our next question is a follow up question from the line of Michael Ciarmoli with Truist. Please proceed with your question.

Michael Ciarmoli: Hey. Thanks, guys. Jon picked up my labor question there. But just on FLRAA, too, Pete, is there anything assumed in the current year outlook for FLRAA revenue contribution from the development program?

Pete Gundermann: Yes, we have some NRE built in. As you might imagine, it's probably a couple of year engineering effort. It's a little unclear how that's going to play out at this point. We originally thought that it would be somewhere north of \$30 million, south of \$50 million over 2.5 years. It's delayed, so it's nothing in the first quarter. That hurts us a little bit. If it gets delayed for – let's say, something crazy happens and the whole thing gets thrown up in the air by the GAO and they re-compete it or whatever, and the whole year is lost, that would be a significant downgrade to our internal forecast.

But at this point, we feel that we've got enough demand and enough excess demand that, over the course of the year, while it's going to change the shape of our first quarter a little bit, it's not, at this point, material to the whole year. Again, we're expecting the protest to be resolved early April. That's what we're hoping. And we expect to be kind of hitting the starting blocks right now or pretty close to right now.

Michael Ciarmoli: Does that – I mean Lockheed filed the second complaint, which is that there's a deadline on that for May 17. So, I know the first decision is – I mean, does that have any implications given their additional complaint that they filed?

Pete Gundermann: Not that I know of, but again, I don't know any inside knowledge about what the deliberations are on the protest. I can just say that the longer it goes, the more it becomes a material detractor to our plans.

Michael Ciarmoli: Got it. Got it. Perfect. All right. Thanks, guys.

Pete Gundermann: All right. Thank you.

Operator: And looks like we have reached the end of our question-and-answer session. I'll now turn the call back over to management for closing remarks.

Pete Gundermann: Okay. No closing remarks. Thank you, again, for your attention. We feel like the fourth quarter was a step-up to close 2022 and we're optimistic with 2023. We look forward to talking to you again next time. Have a good night.

Operator: And this concludes today's conference. And you may disconnect your line at this time. Thank you for your participation.

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 (astronics.com), as well as to information available on the SEC's website (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.