

**Operator:** Greetings, and welcome to the Astronics Corporation Fourth Quarter and Full Year 2017 Financial Results. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Deborah Pawlowski, Investor Relations for Astronics Corporation.

**Deborah Pawlowski:** Thank you, Dana, and good evening, everyone. We certainly appreciate your time this evening and your interest in Astronics. On the call with me today are Peter Gundermann, our President and CEO; and Dave Burney, our Chief Financial Officer. Pete is going to go through his prepared remarks, Dave will make some comments as well and then we'll open it up to take your questions. You should have in hand the news released across the wire just moments ago I guess and it is available on our website at [astronics.com](http://astronics.com).

As you are aware, we may make some forward-looking statements during the formal presentation as well as during the Q&A portion of this teleconference. 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 where we are today. These factors are outlined in the earnings release as well as in documents filed by the company with the Securities and Exchange Commission. You can find these documents both at our website and at [sec.gov](http://sec.gov).

So with that, let me turn it over to Pete to begin the call. Peter?

**Peter Gundermann:** Thanks, Debbie. Good afternoon, everybody, and I'd like to first thank everybody for tuning in at this time. It's not our normal time and we appreciate your flexibility. It does not necessarily represent a change in policy on our part, but just a situational adjustment based on other things we've got going on in terms of travel schedules and things like that. So we appreciate people's flexibility.

The rough agenda as usual is to start with a discussion on the fourth quarter results and put a post-mortem on 2017, I'll turn it over to Dave who will talk through some capitalization and balance sheet issues and then I'll come back and talk about 2018 as it looks to us today.

So wrapping up the fourth quarter, it was one of those quarters where there were a lot of moving parts, some of the good parts were very good, some of the bad parts were pretty bad. We'll try to hit through them systematically. But at the end, it leaves us in a really good shape going in 2018 and that's one of the things that I hope to emphasize as we move through this discussion.

Revenue in our fourth quarter was \$171 million, that is the highest quarter of 2017 by a substantial amount. In the first three quarters, we had revenue around \$151 million per quarter, it varied a little bit plus or minus, but that was the average. So to get \$171 in the fourth quarter show some significant stretching, but at the same time, it could've been quite a bit better. We had a number of things in our plan that slipped due to customer delays or qualification delays or award delays. Those things don't represent loss business, but they did move probably \$15 million of revenues out of the fourth quarter 2017 and in the 2018.

Our revenue of \$171 million in the fourth quarter was also substantially above our comparator quarter of the Q4 of last year 2016, that is, when we had revenues of \$154 million. So, that's growth of about 11%. We benefited from our Telefonix acquisition which we made at the very end of the year in December to the tune of about \$6.2 million in revenue for the quarter and compared to the comparator quarter, we also benefited from \$2.3 million in revenue approximately from CCC, a company we acquired in the early days of 2017. You subtract that acquired growth out and we ended up with organic growth over the comparative period of about 6%.

Looking at the segments for the fourth quarter, Aerospace sales were just shy of \$140 million, up 9% from our fourth quarter 2016 sales of \$128 million and within shouting distance actually of our all-time record, which was set in the second quarter a couple of years ago in 2016 when we had revenues of \$143 million. So, we're just shy of that record.

Test in the fourth quarter, our Test segment had sales of \$31.7 million, that's up 22% from where we were last year 2016 in the fourth quarter and ended up 60%, up substantially from our average for the first three

quarters of 2017 when we ran an average of about \$19.5 million in sales. So we're going from \$19.5 million for each of the first three quarters up to \$32 million in the fourth quarter.

The bottom-line results, however, were not that great. We were down substantially showing a net loss of \$5.6 million or a negative 3.3% of sales compared to a positive \$9.9 million and 6.4% of sales in our comparative period over the fourth quarter of 2016. Our 2017 quarterly results ended up in diluted earnings per share loss of \$0.20 per share. The biggest contributor by far to this result was \$16 million goodwill impairment charge against our Armstrong acquisition which we made a few years ago in early 2015, which we previously announced in a press release in the first half of January.

The other thing contributing to our margin situation these days has to do with our head count and our staffing levels which I'll discuss more in a little bit. Our engineering and development expenses in the fourth quarter were \$25.4 million or 13% of sales, that includes our acquisitions. But by far, the best part of the fourth quarter were our bookings, they were very strong at \$238 million, \$239 million which is a new record and the first time we've ever been above \$200 million, so it's a record by substantial amount. Our book to bill of 1.4 to 1, so 40% above our shipment levels.

And it continued a string of steady increases throughout 2017. If you look at the last page of our press release, you find the right column or the right part of the table, you can see looking from first quarter to fourth quarter, we had bookings of \$147 million, then \$159 million, then \$186 million and then \$239 million. So we're pretty pleased with that – strength in that growth sequentially certainly over the period in 2017 and left us at the end of the year with a backlog of \$394 million, again a new record.

So looking at the year in summary, 2017 revenue came to a total of \$624.5 million, that's marginally down 1.4% from \$633 million in 2016. Net income was \$19.7 million or 3.2% of sales, down substantially 59% from \$48.4 million in 2016 or \$0.67 per diluted share versus \$1.61 in 2016.

And the margin declines driven again by the impairment charge with a drop in volume, but the important thing or one of the important things that we feel is going on in our business is that we have over the last two years, the 2016 and 2017, been building a company which we think is capable of substantially more than we've been doing and one reflection of that is higher staffing levels.

We did some analysis and have found that or quantified that when you compare the staffing level we started 2016 with to the one that we ended 2017 with excluding the Telefonix acquisition which happened very late in 2017, we still were up 160 people across our company and those 160 people were generally not production people, they were generally professional types with a heavy engineering orientation. So adding 160 people without really adding any revenue definitely has a negative impact on our financial results in the short-term. Again, the good thing in 2017 was our bookings, not only in the fourth quarter but throughout the whole year, bookings ended up being \$731 million compared to shipments of \$624 million, so a book-to-bill of 1.17 to 1.2, so 17% ahead of shipments.

Looking at our segments, Aerospace in the fourth quarter revenues as I said before \$140 million, up 9% compared to the comparator period of \$128 million in the fourth quarter of 2016 and again just shy of where we were at our all-time revenue record of \$142 million, but we incurred the operating loss in that segment of \$7.9 million or 5.6%, driven largely by the goodwill situation at Armstrong. But bookings were strong in the Aerospace segment, they were strong in both segments.

But in the Aerospace segment fourth quarter bookings were \$180 million, which is our strongest ever and continued a very strong trend, again evident in that page – on the last page of our press release where sequentially by quarter over the course of 2017, we had bookings of \$123 million, then \$135 million, then \$146 million and then finally \$180 million in the fourth quarter, our fourth quarter book-to-bill of 1.3 and ending backlog of \$299 million, also a new record for our Aerospace segment.

Year-to-date Aerospace revenues were \$535 million, 86% of our consolidated total and about even with 2016 operating profit of \$39 million or 7.3% of sales, down substantially from \$78 million operating profit in 2016. And our bookings again, a good news story where our totals ended up being \$585 million for a book-to-bill of 1.1.

Looking at our sales by market, commercial transport sales were \$415 million total, about 66% of our consolidated total and actually down 4.8%, that's important story for our year, commercial transport our

biggest section are down 4.8%. Sales to the military aircraft market were \$61 million, 10% of total and up 12.3% and business jet \$41 million, 6.6% of total and substantially up 62%. That's largely based on CCC and PGA are both having accelerated revenues into or contributing more revenues into the VVIP portion of the market.

Cutting our sales the other way that we like to do by major product line are Electrical Power & Motion product line ended up with revenues of \$264 million for the year, that's down 8% and 42% of our total, very rare to have a down year for that portion of our product offering, first time that's happened in about a decade. Lighting & Safety was \$159 million, up marginally 1% over 2016, making up 25% of our total and then Avionics, about 9% of our total, was up 65% over the course of the year. This product line was helped again by CCC and PGA and also most of our Telefonix acquisition will end up being categorized in the Avionics product line.

Turning to our Test segment, revenues in the fourth quarter were \$32 million, up 60% on our average revenue for the first three quarters which was \$19 million per quarter. So \$19 million, \$19 million, \$19 million up to \$32 million in the fourth, operating profit in the fourth of \$4.5 million or 14% of sales. Revenue year-to-date was \$90 million, down 9% from \$99 million in 2016 and operating profit for the complete year was \$7.3 million or 8.2% of sales versus \$8.5 million or 8.6% of sales in 2016.

Bookings again were the strength in the fourth quarter. Our bookings were \$58 million for Test which is a book-to-bill of 1.8, 80% above our shipment level and it continues a string of increasing bookings throughout 2017 where we basically went from \$24 million in the first couple quarters each up to \$40 million, up to \$58 million in the fourth quarter which means our bookings year-to-date were \$146 million versus shipments of \$89 million, that's a book-to-bill of 1.63, again sets us up well for entry into 2018. Our fourth quarter year-end backlog was \$95 million for our Test Systems segment.

And I'll turn it over to Dave here to talk through our balance sheet and capitalization issues, and then I'll come back and talk a little bit about where we see 2018 shaping up.

**David C. Burney:** Okay. Thanks, Pete. A couple of items that I'm going to touch on here are our new credit facility that we amended and extended, short conversation on working capital and capital deployment, and then a few income statement topics.

So on December 1st, we acquired the Telefonix business and borrowed \$104 million on our revolver bringing our year end outstanding borrowings on the revolver up to \$262 million and total long-term debt to \$271 million. At that debt level, our adjusted leverage ratio for debt covenant purposes was about 2.9 to 1, so still at a very digestible level of debt within our business there. We took a look at the requirements going forward that we think the company is going to have in the existing debt market.

Working with our bank group, we're able to amend and extend our credit facility for a new five-year term that's expiring in 2023 now. We expanded it from \$350 million to \$500 million and we were able to increase the maximum leverage up to 3.75 times adjusted EBITDA. At the same time, we are able to lower the pricing on our borrowings anywhere from 37.5 basis points at the low end of the pricing grid up to 175 basis points or 150 basis points lower than where we were on our previous facility. At our current borrowing at 2.9 times EBITDA, that would mean that we are roughly at the 2.6 times to 3 times or 2.6% to 3% interest rate on a cash basis.

Turning to working capital, the combination of fourth quarter expected sales that pushed into 2018 and a more robust backlog and sales forecast for the upcoming year has driven our investment of working capital up a little bit and particularly inventory. I expect we'll remain at those levels on the high side as we build throughout the year to deliver on that backlog that Pete spoke about earlier.

Regarding capital deployment, our focus will remain as it has been, first de-levering, then investing and growing the business, and lastly, executing on our stock buyback that was authorized in December. Back in December, we put in place \$50 billion authorization to acquire on the market up to \$50 million worth of Astronics stock.

Ideally as we get back to generating positive cash flow, our focus again will remain on de-levering first, targeting to get down to 2.5 times EBITDA and then from there we will work toward the \$50 million authorization.

Regarding, our CapEx forecast for the year, we're looking at between \$24 million and \$28 million in CapEx that's higher than in 2017, as there were a number of projects that were planned for 2017 that rolled into 2018 and we have the acquired Telefonix business coming into that forecast for CapEx as well.

Switching to the income statement. There are a few accounting issues worth talking about and first is the new tax rate as everybody is aware – the new tax bill went in place at the end of December. Our expectation is that our 2018 tax rate will be in the range of 18% to 22%. At the same time there is – we're working through the new revenue recognition rules and have built into our forecast that we disclosed in this press release, the new revenue recognition rules and our expectation is that we don't expect that to have a significant influence on our revenue this year. There were some puts and some takes going into it, but overall we're not expecting a big change in our revenue recognition methodologies. That is all I had on my list, Pete. If you want to switch back to.

**Peter Gundermann:** Okay. So looking at 2018 specifically, we issued revised revenue guidance in early January, on the 11th, on a press release. And for now, we are sticking with that forecast, that expectation, and that is for consolidated top line revenue of \$745 million to \$815 million. The midpoint of that range is \$780 million which would be an increase of about 25% over our 2017 revenues. Looking at the segments, our Aerospace range is \$630 million to \$680 million. Again, the midpoint would be \$655 million, suggesting growth of 22% or a \$117 million of where we end – over where we ended up in 2016 – 2017. And our Test segment, we're putting out a range of \$115 million to a \$135 million. The midpoint being \$125 million, which suggests growth of almost 40% over where we ended up in 2017.

These ranges from today's perspective capture a wide range of reasonable results and I will say that we are dependent in achieving these numbers on some opportunities coming in that we have been pursuing, continue to pursue. And we're pretty confident in our risk reduced ranges that we're putting out here. It is possible, of course, always that we could end up on the low side of the range, but I would tell you that it's also possible that we'll end up on the high side especially in our Test business where we have a number of pursuits in play at the moment that we hope to bring in early enough in the year to have an impact kind of towards the end of the year. So, I expect we'll be talking about that as time goes on certainly in each of our quarterly releases and in due course as opportunities allow, we'd put out a special press release as necessary or as is appropriate for how that effort is going.

And I think that's all I have for my prepared remarks. So, Dana, if you want to open it up for questions, we'll go from there.

**Operator:** At this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Ken Herbert from Canaccord. Please proceed with your question.

**Ken Herbert:** Good afternoon, Pete, Dave and Deb.

**Ken Herbert:** Pete, just the first question, the \$15 million or so of revenue that slipped out of the fourth quarter into 2018. Is it fair to say that the majority of that is Aerospace and a lot of that within the electrical power business or can you just provide any more specifics on that?

**Pete Gundermann:** You know, it was all over the place actually. Most of it was Aerospace, because most of our business is Aerospace, but we also had some test business that slipped because anticipated award slipped. And there were awards that we thought we could recognize revenue on fairly quickly. So, the important thing about it is that there are programs that we think are all still alive and intact and we're expecting to execute on them in the – for the most part in the first half of 2018. But, there were probably 5 or 6 different things all of approximately equal size that kind of got us to that \$15 million number.

**Ken Herbert:** Okay that's helpful. And then specifically even if – when I add back Armstrong, it looks like segment margins within Aerospace were some of the lowest they'd been in quite a while. How much of that was the impact of Telefonix and maybe the CCC versus anything else that we should be aware of in that segment in the fourth quarter?

**Pete Gundermann:** I would say it's a range of things that are driving margins as you can expect we have strengths in the business and we have weaknesses, but one of the things that is true is that we've added these people and really beefed up our organization and I don't know if I said in my prepared remarks, but those were almost all on the Aerospace side of the business. So, if you look at our Aerospace side of our

business kind of our staffing levels from the beginning of 2016 versus the end of 2017 including the CCC acquisition which happened on January of 2017, but excluding the Telefonix acquisition because that was very year end.

We added 150 people to our organization and revenues went down. So, that hurts our margins obviously, but we also think that the investments we've made and continue to make in new products is a large part of the reason why we're getting the booking response that we got. You asked specifically about Telefonix, and there's some purchase accounting that's going to hurt margins there, but for the most part, they were a very positive contributor to our fourth quarter results. Dave, I don't know if you want to color those comments at all?

**Dave Burney:** Sure. During December we expensed about \$600,000 of inventory stepped-up cost as part of the acquisition. There was about \$1.3 million left to go on this stepped up inventory for Telefonix.

**Ken Herbert:** Okay.

**Dave Burney:** Additionally, early on in the amortization period here of the intangible assets, there's a pretty high amortization rate for intangibles. In fact, relating to that business our expectation is that the amortization of intangible assets will be about \$8.7 million in 2018. So, that business did the one month that we reported in December for Telefonix. It was profitable on an EBITDA basis, slight loss on a GAAP basis on \$6 million in sales.

**Ken Herbert:** Okay. So, it sounds like you've got almost a \$9 million headwind this year in Aerospace margins just from Telefonix and the accounting adjustments alone?

**Dave Burney:** Yeah. And you'll see most of that goes through the year on the amortization expense disclosure that we make.

**Ken Herbert:** And Dave, just one final question, your target 2.5 times leverage on EBITDA, do you have a timeframe as to when we should expect you to hit that level or how quickly here do you plan to pay down the debt?

**Dave Burney:** Not quickly during 2018. In fact, our models as I talked a little bit about the working capital, as we continue to grow throughout the year, I don't think that we're going to pay down – be able to pay down much of the debt until we get to the second half of the year and probably not until the late third, maybe fourth quarter as I expect receivables will grow as we get into the middle of the year as the deliveries grow particularly with the Test business.

**Ken Herbert:** Thank you very much for the additional detail.

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

**Jon Tanwanteng:** Good afternoon, guys. Thank you for taking my questions.

**Pete Gundermann:** Hi, Jon.

**Jon Tanwanteng:** Can you talk about your expectations for profitability at CCC and how that kind of impacts your Aerospace margins as you progress through the year?

**Pete Gundermann:** Sure. CCC been a bit of a struggle for a couple of reasons, revenues were lighter than we thought they'd be and we've made some pretty big investments in terms of staffing additions to execute the book of business in front of the company, but I guess we are pretty optimistic. We try to think a little bit more long-term than just quarter-by-quarter and we've been pretty encouraged by the book of business that the company is facing in some pretty unique niches and they're not niches that we've talked about a whole lot yet, but in due course we very well expect, we will. So, I think long-term we're going to be fine there, but so far it's been on the lower end of what we expected.

**Jon Tanwanteng:** Okay, got it. Just to go back to what you said on the Q3 earnings call you'd expect it to be profitable sometime in 2018. Do you still expect that to be the case and is that for the year or just turning profitable within a quarter or something like that?

**Pete Gundermann:** I would hope it is towards the end of the year that business is one of the businesses where we are – revenue recognition rules are a little bit different – will represent some changes to how we do revenue there and we're inheriting a bunch of contracts, which are kind of set in stone already, so you can't really change them. And one of the things about the revenue recognition rules as you understand them as a company, you can kind of prepare yourself for new business you get involved with. But – for the existing book of business you're kind of stuck with what you have to begin with.

So, we're working our way through that and trying to make sense of it, but it's definitely a factor particularly with that business where you have long term contracts, developing products for specific customers that you can't really take anywhere else in some instances very easily.

**Pete Gundermann:** Dave, I don't know if you want add anything to that?

**Dave Burney:** Yeah. I'd say that the biggest hindrance right now to the margins at CCC it's a volume thing. And when we acquired the company earlier this year, we knew it was going to be slow through 2017 and getting into 2018 is that VVIP market, is not expected to rebound until starting toward the end of 2018 and getting into 2019 for a handful of reasons. But, it's – it wasn't that we didn't expect it I'd say. I agree with what Pete said that, it was a little slower than we expected, but we did not expect this to come out of the gate contributing a lot of profit.

**Jon Tanwanteng:** And Pete you talked about higher expenses as a result of all the hiring you've been doing. Are there any adjustments that need to be made there in terms of head count or are you confident that the revenue is coming to support all the increased people that you've added and kind of getting it back to that mid-teens margin in the aerospace segment?

**Pete Gundermann:** if we execute on the plan that we think we have ahead of us I think we'll grow our way out of it, pretty well. It's just been a little bit – the timing hasn't been as smooth as we might have hoped combined with some of the challenges we faced in the market. But, we're doing the right things in terms of product development and I think we have good roadmaps in our core business areas and we need people to execute and develop those products. So, for the most part, we're going to be just fine. I don't think it's a situation where we need to cost cut our way to higher profitability at this point.

**Jon Tanwanteng:** And finally any update on your Semi Test businesses, regards to new programs or whether it's repeat demand from your legacy customer, especially given kind of fears the production cuts and kind of lower sales in the mobile phone space?

**Pete Gundermann:** Well a lot of the bookings strength that we've shown on the Test side is Semi related. So, if you look at over the course of the year, or in the fourth quarter anyway book-to-bill of 1.8 times, and over the course of the year 1.6 times, certainly semiconductor has driven a lot of that, and we can't talk about what we can't talk about, but we think of it more in terms of programs than customers.

And as you know, as most of our followers know, our Test business has been driven in recent times by one large program with one large customer, we certainly see that diversifying, we see multiple programs, and we have more to pursue. So, I think you know when, I look at the big opportunities to exceed our plan as stated, certainly Test has quite a bit of potential, and it's a question in my view of timing and whether these things are going to come in, in time to help us much in 2018.

**Jon Tanwanteng:** Great. Thank you very much and nice job on the quarter.

**Pete Gundermann:** Sure. Thanks.

**Operator:** Our next question comes from the line of Mike Ciarmoli from SunTrust. Please proceed with your question.

**Les Sulewski:** Good afternoon, guys. This is actually Les Sulewski in for Michael.

**Pete Gundermann:** Sure.

**Les Sulewski:** So, if we go back to some of the investments you made in the headcounts, you did mention it was particularly in aero. So, is there any kind of strategy change going from production more into engineering, are you looking more different type of programs win with the addition of this head count?

**Pete Gundermann:** Well, I'd tell you that we feel we have some established products that are – perform well and are kind of proven contributors to our business and we certainly continue to make investments there. We don't want to sit on our keisters and wait for somebody to dethrone us in those areas. But, we are also at the same time looking at some pretty new product diversifications. I'd actually say both on Test and on Aerospace things that we're not known for doing. So, we're kind of itching to talk about these things when we can and based on their scale, we would have to talk about them when the time comes but we can't now.

So, I guess the short answer to your question is it's both Aerospace and Test. It's both established product areas and also some pretty new areas that we haven't talked about before, haven't or known to be active in.

**Les Sulewski:** Got it. Just to build on that and of course you don't have to mention any of the programs or product lines but I guess some of those wins that you would expect would they be perhaps higher margin business than something – some of the legacy items or something similar to that or lower how would you look at that?

**Pete Gundermann:** I'd consider them to be consistent with what we do elsewhere in our business. I wouldn't look at them as big game changers in that regard at this point.

**Les Sulewski:** That's helpful. Thank you. On the bookings in Aero, can you give us a little bit more color on where it's coming from, certain programs, customers, is it specific to a certain customer or just sort of more color there if you will?

**Pete Gundermann:** I'd say it's pretty broad-based. We're very optimistic about the kind of our evolving strategy in terms of connectivity and communication. We think our Power franchise is strong and in the business jet community in particular getting quite a bit stronger as time goes on. And I guess we think our existing initiatives in terms of Lighting & Safety, all of our three major product areas are well-positioned. So we're seeing kind of a wide array of opportunities coming in. It's not just one product. It's not just one customer. If anything, we're diversifying out pretty substantially compared to where we used to be as a company a few years back which I view as a positive thing.

**Les Sulewski:** One last one for me. Any impact that you've seen from pricing pressure on the Aero side resulting from price step-downs?

**Pete Gundermann:** That's a good question. It's very popular in this industry these days. We compete in competitive markets. There always are price pressures. Some of the big OEMs, Boeing in particular has been aggressive in this regard. And we feel it to some extent, I guess, I would tell you that it's not as big an issue for us simply because we're not as big a supplier to them. But we definitely live in a competitive world, and it's geographically competitive, and it's technically competitive, and we are in some product areas that evolve pretty quickly.

So we definitely look for a way to create better and better value for our customers, and at the same time, protect our margins, and sometimes that is a struggle. But we are holding our own. We're doing pretty well. It's not as though we view this as with dire alarm at this point.

**Les Sulewski:** Got it. Thank you so much.

**Pete Gundermann:** Sure.

**Operator:** Our next question comes from the line of George Godfrey from C.L. King & Associates. Please proceed with your question.

**George Godfrey:** Thank you. Couple of questions. Pick up on that pricing theme, and I understand the cost Pete that you have with the head count. If I look at the margin, starting in Q3 of 2016, at 11%, then 10% in Q4, 11% in Q1, 8%, 7%, and now if I back out the impairment charge, I'm coming out around 5% operating margin. So my question is, are double-digit margins in the near term or by the end of the next year achievable? And then two, sticking on that margin theme is peak profit margins, are they still going forward what they were for Astronics previously?

**Pete Gundermann:** Well, over that time period, we made some acquisitions and we've seen some parts of the company evolve successfully, we've seen some parts evolve less successfully and we have a range of

options that we can control as managers to dramatically change margin profile. But sometimes that happens at the expense of long-term interests and long-term opportunities. So we try to strike a balance.

I would tell you that overall there isn't a substantial change in our margin potential compared to what it's been historically. We have some challenging areas we need to work on, we need to fix. I mean, we had an antennae business, that's been struggling. We've got the VVIP side of the business, it's been struggling with the market, couple of other areas in between. And our challenge is to improve those areas. But I guess I'll tell you George that our goal is to get back there and our goal is to do it in a broad-based way kind of across our product lines. So nothing has changed that would make that impossible.

**George Godfrey:** Okay. So the revenue streams still have the same profitability. That's all I wanted to get at.

**Pete Gundermann:** Okay.

**George Godfrey:** And then if I go to the midpoint on the revenue range, \$780 million and back out \$75 million call to Telefonix, the organic growth in revenue for next year about 13% at the midpoint versus the \$625 million for 2017, is that fair?

**Pete Gundermann:** Yeah, that sounds about right.

**George Godfrey:** One more question...

**Pete Gundermann:** Keeping in mind that we've got one just a couple of months with Telefonix which we've renamed of course, but you've seen that press release.

**George Godfrey:** Yeah.

**Pete Gundermann:** So there's a little bit of range expectation there and range expectation in other parts of our business. But yeah, your numbers are basically correct.

**George Godfrey:** And then if you said this forgive me I didn't call it, the exact the 50 – I got the \$15 million on the revenue push-out. What were some of the exact reasons why those programs or products or platforms got pushed out, is it funding related, is it products performance related, if you can just give a little detail, perhaps an example why one of the programs was pushed out?

**Pete Gundermann:** Yeah. One was the qualification effort that ran in the complications schedule-wise with the customer airline – customer airplane, which was a foreign military airplane, which always makes it a little bit more complicated with another program that's we expected to get underway with again a foreign fleet, which was [ph] FMS (00:46:07) sale, which got a little cross-wise logistically, nothing that we were directly involved in, but we couldn't get rectified.

We had a cost plus program, maybe that's not the right term, but a program that would've been another I guess some other FMS sale, which would have allowed for progress billings and progress revenue recognition, which did not come in during the quarter like we thought it would. So it's kind of a range of issues like that.

**George Godfrey:** Understood. Thank you for taking my questions.

**Pete Gundermann:** Sure.

**Operator:** Our next question comes from the line of Dick Ryan from Dougherty & Company. Please proceed with your question.

**Dick Ryan:** Thank you. Hey, Pete, on the Test side, the guidance for 2018, how do you see that rough break out between the commercial and the military side?

**Pete Gundermann:** You mean Semi and A&D?

**Dick Ryan:** Yeah.

**Pete Gundermann:** I don't know if I have that in front of me. How about if you ask Dave a question and I'll come back to it?



**Dick Ryan:** Sure. Dave, customer concentration, can you give us a sense for what that was in the quarter?

**Dave Burney:** I knew you're going to ask me that, and I didn't bring it into the room with me. I'll get it in a second.

**Dick Ryan:** Shall I ask Debbie one?

**Dave Burney:** Yeah, ask Debbie. She had that words for you?

**Deborah Pawlowski:** I'm showing them.

**Dave Burney:** So, again, one customer at 16% of our quarterly sales and another one at 15% of our quarterly sales.

**Dick Ryan:** Okay.

**Dave Burney:** Both Aerospace.

**Dick Ryan:** Yeah. Okay.

**Pete Gundermann:** And coming back to your first question, Dick, I'd say we expect roughly two-thirds of our Test revenues in 2018 to be on the Semi side.

**Dick Ryan:** Earlier you mentioned maybe multiple programs, now is that with the anchor customers or is that moving into other customers?

**Pete Gundermann:** We certainly have a continuing relationship with the anchor customer. We have had come pretty compelling opportunities with others and are hoping our real opportunity to outperform would be to have multiple programs with multiple customers by the end of the year. I think we've got a good chance of doing that.

**Dick Ryan:** This might cover into the business jet as well, but you got Panasonic on – customer on the Power side, also on your antennae side in the business jet. How's the relationship with Panasonic, and what are you seeing on both sides of those issues, the in-seat power demand from them and the antennae for the business jet?

**Pete Gundermann:** Well, Panasonic has been and continues to be an important customer for us certainly in the IFE side, I think they've had a range of evolutionary issues going on in their company that are difficult and challenging, but I think for the most part, we would expect them to rise to the occasion like they have in the past.

And they're suffering a little bit as are we with the slowdown in the wide-body world. But our expectation is that it's kind of sorting itself out and we'd expect some smooth sailing compared to what last year was like going forward. I can't speak for them, but I expect they see the same kind of things in the market that we do on the tail mount, business jet, antenna business that continues to be a little bit of a struggle.

We work with them and we're hoping to bring that to market in a broader way. We do have some airplanes flying, but it's been a slow slog so far. But they're putting resources on it and we're putting resources on it and we continue to believe there is pretty strong demand. It just takes a lot longer to get things done sometimes than you'd hoped.

**Dick Ryan:** Where is the struggle, are there any competitive issues coming from Gogo's platform or SmartSky kind of entering the business jet world, or is it just with the antennae itself and maybe certification issues?

**Pete Gundermann:** I would not say it's competitive at this point, but certainly there are competitors kind of lining up to go after this market. I would probably characterize it more as we're \$700 million company with lots of things going on and this is one part that we're trying to keep focused on. And they're even a much bigger company with a lot of things going on and they're trying to keep resources on it and kind of between the two of us working together just hasn't got to where it's got to get yet.

So I can't tell you there's any real specific issue on it. It's a matter of getting everything lined up and everything approved and proven out and having customers satisfied with the experience, because we don't

want to do something where we introduce a product into a pretty tight-knit community of users and not have it go absolutely perfectly so – and they feel the same way so...

**Dick Ryan:** One last from the business jet, EPDS, any updates there you can share with us?

**Pete Gundermann:** Not particularly other than, we're thinking that as we get into 2019 and some of the programs that we've been developing and working on, that'll start to become more and more of a prominent contributor to our financial results. We've made a lot of investment in that. We think it's great technology. We largely have I think established ourselves with the go-to people for electronic circuit breaker technology in the smaller end of the business jet environment. So there's not a platform that gets developed without us having a pretty good look at it and we've proven the technology in turboprops and helicopters and jets kind of the full range of aircraft flying. So over time, it's going to be a pretty valuable franchise.

**Dick Ryan:** Can you refresh me just what – how many different programs there are on the planes and the helicopter side?

**Pete Gundermann:** Well, let's say we have three helicopters at this point. We have, I'd say, probably one substantial turboprop – two substantial turboprops and three or four jets at this point.

**Dick Ryan:** Okay.

**Pete Gundermann:** All of which kind of at the early end of their life cycles.

**Dick Ryan:** Okay. Thank you.

**Pete Gundermann:** Sure.

**Operator:** Our next question comes from the line of Ken Herbert from Canaccord. Please proceed with your question.

**Ken Herbert:** Hi, thanks. Just a couple of real quick follow-ups. First, as part of the restructuring on the Armstrong business, can you just talk about, just maybe some of the changes you've made there and how that outlook might get reflected now in on organic growth assumption for that business here in 2018 and maybe what you assume is guidance for growth there?

**Pete Gundermann:** We're taking a pretty conservative look, but let me take the opportunity to remind everybody that we have essentially combined Armstrong and Telefonix and PDT operating under that umbrella and we are going to refer to it as CSC from this point going forward. We've taken a pretty conservative lower growth expectation of Armstrong going forward, but I'm encouraged that there's a perspective in our market reach that comes from the combination that is perhaps quite a bit broader than what Armstrong had on its own.

So I'm hoping that that market reach in those customer relationships will translate into additional opportunities. It's early, but I would tell you that a couple of months into it, I'm pretty optimistic. So we'll talk more as that story evolves. It's going to be a good story despite the write-off of intangibles, you know how that works.

**Ken Herbert:** And Dave, what was cash from operations in the quarter?

**Dave Burney:** Well, I don't have it for the quarter; I can give it to you for the year. It was about \$37 million for the year, \$38 million for the year.

**Ken Herbert:** That's all I've got. Thank you very much.

**Pete Gundermann:** Thanks, Ken.

**Operator:** Our next question comes from the line of George Godfrey from C.L. King & Associates. Please proceed with your question.

**George Godfrey:** It's already been answered. Thank you.

**Operator:** Our next question comes from the line of Mike Wallace from White Pine Capital. Please proceed with your question.

**Mike Wallace:** It sure looks like op margins, adjusted op margins bottomed here in Q4. How should we think about margin EBITDA and op margin progression as we move through 2018?

**Pete Gundermann:** Do you want to take that one, Mr. Dave?

**Dave Burney:** Yeah. Our expectation is that the operating margins will improve and as our business typically does, it responds very well to increased sales growth and organic sales growth, in particular. So I think as you see us push more volume through the various businesses, we should see that operating income definitely recover from where we were in 2017 and start to get up into the teens.

**Mike Wallace:** Could it be there by the end of the year?

**Dave Burney:** Yeah, I'd say so. None of us feel that this business should operate its single-digit operating income levels and largely for the reasons Pete said, we've added a fair amount of heads or people in the business in planning to grow the business. And now, we just have to grow that top-line and we're off to a pretty good start with the backlog that we're getting into the year with.

And we're going to have a fair amount of amortization for the acquired businesses that we have. So, in particular when you look at EBITDA margins, those are going to recover too and get up to where – closer to where we historically have been.

We enjoyed extremely high operating margins three and four years ago when we were a little bit of a different company than we are right now. We've acquired some businesses and we're digesting those and those businesses need to grow into themselves and what we expect them to be. And we'll see margin improvement as that happens.

**Mike Wallace:** EBITDA margins, they will grow faster than op margins because of the additional depreciation expense that you are going to fall through?

**Dave Burney:** Yes.

**Mike Wallace:** And so, would EBITDA margins be up sort of mid-teens and op margins sort to be low-teens?

**Dave Burney:** We can get there on the EBITDA margins, yeah.

**Mike Wallace:** By year end 2018.

**Dave Burney:** If we can grow the sales number through the – to the levels that we're expecting, particularly as we get into the mid end of that range there, I think we can get there.

**Mike Wallace:** And the 150 or so engineers you brought on in Aerospace, how should we think about that in terms of this cycle and perhaps the length of the cycle versus previous cycles?

**Pete Gundermann:** Well, that's a big debate in the industry as you know. I would say that the core markets that we are in are – it's not as though we're not touched by the cycles, but I think we kind of run in our own universe in that the IFE world, the connectivity world, the connected airplane world is more of a growth area maybe than the industry in general. So we've got two things working for us there.

But even if the cycle were to slow down and I guess from a – as a suppliers' perspective, we just don't see evidence of that. Backlogs continue to be really, really high and production rates are expected to go up and up, and we don't see evidence that the cycles turning and other people who feel differently about it, but that's not what we see on the ground here.

**Mike Wallace:** Do you have any sense of in your backlog numbers, how much of that is a cyclical component versus a secular component that you just discussed?

**Pete Gundermann:** I'd have to do some math there and certainly things can change. But I guess I think we're pretty well-diversified. We have a – we're certainly heavily oriented on commercial transports, but even there we have a lot of aftermarket opportunities and pursuits and that's where a lot of our activity goes.

We also have a military element and we are on some great programs, Joint Strike Fighter comes to top of mind as I was just there recently in Fort Worth, in the production line and on the business jet side like I was talking earlier, we are building our franchise that I think is going to be very durable and very established.

So I think we're about as diversified as we can be within the industry and yet with a healthy OEM linefit aftermarket balance. So I'm not going to say phooey to all the talk about a cycle, but I like the way we as a company are positioned in the industry right now.

**Operator:** Our next question is from Dick Ryan from Dougherty & Company. Please proceed with your question.

**Dick Ryan:** Thanks for the follow-up. Dave, what was the stock-based comp in the quarter? And then Pete, maybe, do you have any broad brush kind of comments on the commercial transport, what you're seeing in the connectivity kind of transfer from airlines, anything...

**Pete Gundermann:** Yeah. I think we talked for much of 2017 about our observation that the industry was kind of in a between moment I guess I would call it, where they've made a lot of investments and we're sitting back and trying to decide where to go from there. I think we see evidence that some major decisions are being made and the airlines are moving forward. And I guess we feel as you know our primary product in that arena has been power historically and no matter which direction you take, you need power. So, that's good news for us, and that's part of the reason why we're optimistic for 2018, part of the reason why our backlogs up.

But we got into the antennae systems and we got into actually many of the products that Telefonix makes because we think they're complementary fits and we think that one of the things that we're building is a company that can contribute to customers desires in the area of connectivity and a wide variety of areas and really an unprecedented variety of areas and yet we're not the frontline, we're not the name brand that goes on the airline. We're supporting those guys. So we continue to think it's an interesting space and it's one that's been good to us and one that we have high hopes for going forward. So I think we're happy with how things are evolving.

**Dick Ryan:** Good.

**Dave Burney:** So Dick, the stock comp for the quarter was about \$500,000.

**Dick Ryan:** Thank you, guys.

**Pete Gundermann:** Thanks, Dick.

**Operator:** Ladies and gentlemen, we have reached the end of the question-and-answer session. And I would like to turn the call back over to Peter Gundermann for closing remarks.

**Pete Gundermann:** Well, no closing remarks. Thanks everybody for tuning in. We look forward to talking to you if not before at the end of the first quarter. Have a good evening. Bye.

**Operator:** This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.