

**Operator:** Greetings, and welcome to Astronics Corporation Second Quarter 2020 Financial Results Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Ms. Deborah Pawlowski, Investor Relations for Astronics Corporation. Thank you. You may begin.

**Deborah Pawlowski:** Thanks, Laura, and good morning, everyone. We appreciate your time today and your interest in Astronics. Joining me on the call are Peter Gundermann, our Chairman, President and CEO, and David Burney, our Chief Financial Officer. You should have a copy of the second quarter 2020 financial results that were released this morning. And if not, you can find them on our website at [www.astronics.com](http://www.astronics.com).

Let me mention first that we may make some forward-looking statements during this formal discussion as well as during the Q&A session. These statements apply to future events that are subject to risks and uncertainties as well as other factors that could cause actual results to differ materially from what is stated here today. These risks and uncertainties and other factors are provided in the earnings release as well as with other documents filed with the Securities and Exchange Commission. These documents can be found on our website or at [www.sec.gov](http://www.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 in accordance with GAAP. We have provided reconciliations of non-GAAP measures to comparable GAAP measures in the tables that accompany today's release. So with that, let me turn it over to Pete to begin. Pete?

**Peter Gundermann:** Thank you, Debbie, and good morning everybody. Thank you for being with us today. Our agenda, as usual, will be to discuss the second quarter in some level of detail, spend some time talking about our markets as we see them emerging given the pandemic crisis that we're all working through and then, finally, do some questions and answers.

Before we get going though, I wanted to revisit some of the three overlying goals that I talked about in our last call and give you a brief assessment as to how I think we're doing on those three goals. The first goal was protecting our employees and providing a safe workplace from which we can operate. And I feel today that we are doing a reasonably good job in this area.

Most of our facilities have continued to work with only minor disruptions, and in general, we have been able to stick to our tasks and the expectations our customers place on us without too much disruption. I'm not going to say a whole lot more about this throughout this call because it's kind of a nonissue as of today.

Our second objective is to keep serving our customers' needs as they direct us and expect of us, and that's been a little bit more of a fluid environment. Our customers, over the course of the quarter, have told us a lot of different things as late as this week. So it is a challenge for our entire organization to stay in front of what our customers think they're going to be expecting from us in the short term and in the medium term going forward. But I think we're doing a reasonably good job of it. We are being as flexible as possible and as proactive as possible in anticipating what they need and responding when they give us instruction.

The third overlying goal is to position the company for survival through the pandemic and position it for success afterwards. And again, I think we're doing a reasonably good job there, certainly, in terms of liquidity, which was a major concern as we slid into the pandemic back in March and April. With the cooperation of our banks, I think we're pretty well positioned to get through the immediate future and we have the objective of organizing ourselves and positioning ourselves to come out of the chute as strong as possible when this pandemic passes.

I think those overlying goals remain valid, and I think we're doing a reasonably good job. We'll probably touch on them individually as we go through the rest of this presentation, but for now, I think we're doing all right.

The second quarter was obviously quite an experience. In assessing it, it's helpful to keep in mind that in normal times, say, pre pandemic, Astronics would generate a majority of its revenue, as much as about 70%, from the commercial transport market, which, during a pandemic, turns out to be a pretty bad place to be. That 70% of our business is basically for the manufacturers of commercial aircraft and to operators, the airlines, the people who operate those commercial aircraft. I don't feel a need today to describe for everybody what's been going on in that market. Suffice it to say that at the low point in April, worldwide commercial flights were down to 20% of what they were before the

pandemic. They've since rebounded generally to about 50%. At the peak of lockdown, 60% of the world's commercial airplane fleet was parked. That percentage has dropped to about 40%. So, airlines have been pulling aircraft back into service as traffic has picked up.

During the quarter, major manufacturers, including primarily Boeing and Airbus, started pulling back on production plans. They have been pulling them back successively as the quarter went on, and even this week, a little bit more than we expected. But we'll talk about that a little bit more later in this discussion.

In sum, 70% of our traditional market has been involved in commercial transport airplanes, and it has been pretty badly affected by the pandemic. Another 10% traditionally comes from business jet manufacturing. Rates are down there also, maybe not quite as much as commercial transports, but that part of our business is also under stress. The final 20% comes from government and defense revenue streams. Demand here has held up reasonably well and, in fact, it was one of the highlights of our first quarter. I'll get to it a little bit more in a minute.

Taking all this into account, revenue for the second quarter was \$123.7 million. That's actually a little bit higher than we expected when the pandemic hit, but it's certainly a weak number for our company, down 35% year-over-year and down 22% sequentially from the first quarter. In fact, it was our lowest quarter since way back in 2013.

Fortunately, as we discussed in our May 6 first quarter call, we implemented a number of cost-saving measures across our business pretty early on intended to preserve cash and right size the business. Those include pretty substantial capacity reductions, including head count, to the tune of about 25% of our workforce before the pandemic hit. We've frozen pay levels, eliminated cash incentives, reduced travel, cut capital spending by 2/3 and dropped acquisition and buyback initiatives and so on and so forth, such that, at the end of the day, we were able to report an adjusted EBITDA of 7.4%, even with that drastically reduced revenue level in the second quarter.

Also positive, from our perspective, cash from operations was a positive \$18.3 million. Dave will talk through some of the specifics here on our adjusted EBITDA calculations in just a minute to give some color to our performance during the second quarter. Bookings for the quarter were very low at \$61.5 million. That's about half of shipments.

Aerospace, in particular, took most of the drop. On the one hand, that's a surprising number perhaps. On the other hand, we think it's kind of a logical destocking adjustment as our customers adjust to the new reality of their expected run rate going forward. We expect bookings to recover in the current quarter pretty strongly, and we'll obviously be keeping our eye on that very closely as this current quarter progresses.

A couple of other topics on the quarter before I turn it over to Dave. A couple of weeks ago, we issued a press release that Textron's Bell has selected us to provide the electrical power and distribution system for their entrance in the Army's FARA and FLRAA competition. FARA stands for future attack reconnaissance aircraft. FLRAA stands for future long-range assault aircraft. FARA is the planned Army replacement for the OH-58D, and FLRAA is the planned army replacement for the UH-60 Black Hawk.

These programs obviously have a while to run. They're not guaranteed, and Bell has not been selected, but is 1 of 2 parties competing in both of these programs. They selected us to provide an electrical power distribution system based on some core technology which we've been developing for a number of years and which is proving to be pretty well accepted in the light aircraft industry.

Our technology is somewhat unique in that it depends entirely on electronic circuit breakers and solid-state starter generator technology, which has much higher reliability and better performance than traditional starter generators. This is not our first time around the ring with Bell. They've selected us also for their 505, 525 and V-280 platforms. We've developed a really good working relationship with them over time. We're also developing systems, or have developed systems, for the Textron Denali, the Pilatus PC-24 and some other aircraft that are emerging in the near future. We feel like we're building a very strong market position here and something that will serve the company very well for a long time in the future.

The other kind of highlights for the second quarter is our Test business, which flies a little bit under the radar these days given all that's happening in aerospace. They actually had a really good quarter. Sales were up 43% with operating margin of 12.3%. It's still relatively small in terms of our overall business. But it has very solid prospects in the market.

Our expectation is that we're going to have quite a bit of good news about our Test business for the rest of this year. So we're happy to have that as part of our portfolio these days. That ends my comments on the second quarter. I think I'll turn it over to Dave to cover some specifics in our financials.

**David Burney:** Thanks, Pete. First, I want to point out on Page 10 of the release is a reconciliation of our adjusted EBITDA to our net income if you're following along here. As far as Q2 results, the quarter tracked pretty well within the range we expected regarding the top line. However, the operating margin was below our expectation, but can be explained by a goodwill impairment we recorded for our PECO unit and higher-than-expected noncash charges, particularly relating to inventory and receivables reserves.

Walking through the operating results for the quarter, we had GAAP operating loss of \$18.7 million. Included in that was several items I wanted to bring your attention, some anticipated and others I mentioned previously.

First as a result of further passenger service unit, or PSU, demand reductions communicated to us during the quarter, we recorded additional goodwill impairment of \$12.6 million relating to lower customer demand and corresponding reduction in future cash flow expectations at our PECO operation.

Second, we recorded severance accruals totaling \$4.9 million relating to reorganization plans and layoffs affecting most of our facilities.

Third, we increased our reserves relating to receivables and inventory by \$2.4 million during the quarter.

These items summarized to about \$20 million of charges that affected operating income during the quarter. Another item of note below the operating income line and reflected in other income or expense: we recorded a noncash impairment of a minority equity investment in a small startup business of \$3.5 million.

As mentioned, we took another impairment to goodwill in the aerospace segment relating to our PECO unit. PECO's largest customers, Boeing, providing passenger service units and other content on several Boeing aircraft, including 737 MAX, the 777 and 777X, and 787. As build rates for those aircraft have been delayed and/or reduced, it has driven a significant reduction in our forecast for PECO over the next several years. This is specifically what has driven the impairment for this quarter.

We recorded a goodwill impairment relating to PECO in Q1 relating to lower expectations, we had at that time. And again, in the second quarter, we received instructions that there would be further reductions or delays, thus driving our recent downward revisions to our forecast for PECO.

We currently have \$58.4 million of consolidated goodwill in our balance sheet. \$21.9 million is in the Test segment and \$36.5 million is in the Aerospace segment with the PECO unit accounting for \$20.2 million of the remaining goodwill. Hopefully, that adds some color to the goodwill situation that we have.

Next, I want to talk to liquidity. First and most importantly, we continue to be in compliance with all of our debt covenants, and we expect to remain that way based on our current forecast. All things considered, we had decent cash flow from operations in the quarter totaling \$18.3 million, enabling us to pay down \$10 million on the revolver during the quarter. Our outstanding balance on our revolver at the end of the quarter was \$173 million, and we had cash of \$46.6 million, giving us net debt of \$126.4 million. From this our net debt to trailing 4-quarter EBITDA was roughly 1.8x as calculated by our credit agreement.

I'll recap the amendment that we did to our credit facility that we talked about last quarter, but some of you may not have been on the call. In early May, we amended the credit facility. The facility matures in February of 2023. It's a \$375 million revolving credit facility. The key financial covenants under the amendment are as follow:

- the maximum leverage covenant has been waived until the third quarter of 2021, referred to as a suspension period; then it begins phasing in starting at 6x EBITDA in Q3 of next year, as defined in the agreement; it decreases to 5.5x in Q4 and 4.5x in Q1 of 2022; then returns to 3.75x leverage after that.
- There's 2 key financial ratios, or covenant ratios during the suspension period.

- There's a minimum liquidity and a minimum interest coverage ratio. We're required to maintain a minimum liquidity of \$180 million. Liquidity is defined as cash plus undrawn balance on the revolver. We had about \$68 million of available liquidity, or negative cash flow cushion, available at the end of the year, which we expect will be more than enough to cover us over the suspension period.
- Also we're required to maintain interest coverage ratio of 1.7x adjusted EBITDA.
- Other covenants include the temporary restrictions on acquisitions, share repurchases and dividends.

At the high end of the pricing grid, which we're at right now, we're paying about 3.25% interest with a LIBOR floor of 100 basis points plus 225 basis points spread on that. So the effective interest rate is 3.25%. That's all I had.

**Peter Gundermann:** Thanks, David. We're going to turn the conversation a little bit more now to the future and what we see happening in our markets and where we expect things to go specifically through the end of 2020, which is only six months away. And I'm going to revert to a structure that we introduced and used for the first time in our first quarter call which is a little bit of a different presentation than how we normally look at our business and a little bit different than the tables that are attached to our press release. We basically want to divide the business into different revenue streams to try to assess how those revenue streams are likely to evolve in the current climate.

The first one that I want to address is the government and defense revenue stream. These are products that are basically sold to government entities around the world or to military forces. And for us, it basically includes military aircraft production and almost all of our Test business.

Those two combined last year were about 20% of our revenue and our feeling has been, and continues to be, that this portion of our business is strong and stable and, to some extent, even accelerating. The Test side, in particular, seems to be accelerating. So that portion of our business, 20% pre-pandemic, we think it's in good shape.

The next portion I want to talk about, the bigger chunk of our business, 55% last year has to do with airplane production for commercial transports and for business jets, either direct to the OEMs or through other companies that are in turn selling to the OEMs, again, about 55% of our volume last year. And of the two, transports and business jets, transports are by far the most important, probably 80% of that total.

Most producers up to today have announced volume reductions in their production plan of 35% to 45% or so going forward, which affects our volume to them directly. This reduction is somewhat higher than we originally expected, or what we expected when we last talked in May.

I think the numbers we gave then were 30% to 35%. So the reductions have come a little bit more substantially, and we're obviously keeping our ears tuned to further developments. But for the immediate future, that's where we think that bogey is going to be, a reduction of 35% to 45% of that part of our business.

The third portion is the aftermarket for commercial transports, which, for us, was about 25% of our sales last year, and these are primarily in-flight entertainment and connectivity-related equipment sold to commercial airlines and leasing companies around the world, again, 25% of our volume last year.

We now expect this portion of our business to drop about 50% from where it was last year, which is actually a pretty substantial improvement over the expectations that we stated in our May 6 call when we predicted that those reductions could be 80% to 90%. At this point, we would say the reductions are going to be about 50%, and that's based on, obviously, communication with our customers, order activity and orders that we've taken in.

So, airplane production has basically gone down from when we talked in May, but the aftermarket has come up, and it's almost a wash between those two, as we'll see in a minute.

We're finally introducing a fourth element of demand flow, and this is what I would call a design-build capability, which we have had kind of working in the background for some period of time with our CSC operation in Chicago, where we have, for quite a while, offered design services selectively to outside companies, sometimes in the aerospace industry, but a lot of times not in the aerospace industry. But we have limited our approach and our interest to technologies which we think are relevant to what we would otherwise someday do in aerospace and then, for example, maybe things like

near-field communications; high-speed data transfer; in the current environment, maybe some sanitization and cleanliness initiatives with outside companies.

And we've paired this capability on the design side with the ability to support the customers also with manufacturing initiatives. And that's been in work for some time now, I would say, a couple of years, but it's starting to come to fruition and we expect it to start contributing pretty substantially here going forward to the tune of approximately \$20 million or so potentially through the rest of the year, depending on timing. That's up from a typical run rate of maybe \$2 million or \$3 million a quarter. Now we're talking about maybe \$10 million a quarter and it starts to be substantial.

We have some orders in this area that we can't talk about more specifically today because of customer concerns or timing, but I expect we will over the coming weeks.

When you combine those puts and takes with our existing backlog and our second quarter cumulative result, we imagine still the 2020 sales could be just north of \$500 million, somewhere in the \$500 million to \$525 million range. That's substantially similar to what we talked about in May, except the top sides come down from what was then \$540 million.

I want to be a little careful and point out that this isn't necessarily guidance at this point, more of a thesis that we're working to and testing every day and offering to you today, in the interest of being transparent in all the things that we see happening in our markets and where we think it's all going to shake out.

I might comment a little more specifically that our current backlog is \$307 million, and of that, \$178 million is still planned for 2020 delivery, which means we need another \$40 million or so to book and ship yet this year to hit the low end of that range. In normal circumstances, that would be a pretty achievable thing for us to do. So that's kind of the target we're looking at. And of course, it would be helpful if the \$178 million of current backlog scheduled for this year didn't shift into the future, which, given our customers' fluidity these days, there is always that risk.

We think further that with the actions taken to date and the way we're structured right now, that if demand does settle in that \$500 million to \$525 million range, we should be cash positive for the year. We should achieve an adjusted positive EBITDA of high single digits, keeping in mind that if demand turns out to be different, we'll have to deal with it. But we are certainly very tuned these days to everything our customers are telling us. And we're poised and positioned to respond as quickly as possible, both to the upside and to the downside, if necessary.

I think that ends our prepared comments. So, Laura, let's open it up for questions.

**Operator:** [Operator Instructions] Our first question comes from the line of Ken Herbert with Canaccord.

**Ken Herbert:** Pete, I just wanted to first follow up on your comments regarding maybe a little better trend you're seeing on the 25% of your business, the commercial transport aftermarket, specifically the IFE market. Relative to your comments coming out of the first quarter, specifically, can you provide any more detail on maybe where you're seeing the strength, either geographically or is maybe some airlines taking advantage of, obviously, the aircraft being parked to pull forward some work? Any more sort of color around that would be helpful.

**Peter Gundermann:** Yes. You've hit on a couple of parts of the answer, Ken. We are seeing increased activity in those areas of the world that are doing better at managing the virus. So that involves Asia, to some extent. In China, specifically, we're seeing higher quote activities there, also in Europe, and also more narrow-body maybe than widebody.

The widebody world is under a lot more pressure. The airplanes are parked. The turnaround or the recovery is expected to take a little bit of a longer period of time. Our sense is that some airlines are expecting to bring back narrow-body airplanes sooner than later. I don't know if they're initiating programs as much as sticking with programs that already were planned or scheduled. And that's different than what we maybe expected where we thought everything was going to get slammed on hold. It's less of a production line, so it's more difficult to predict going forward out beyond, say, 6 or 9 months.

But for now, it seems like a higher portion of those programs are being maintained than what we originally expected. I think the next couple of quarters will be very instructive as to whether those rates maintain themselves going into next year. With a little bit of luck, this feared fall pandemic surge is less than some people expect, and maybe vaccine trials

show a little bit more promise, and there will be more of an appetite on the part of airlines to continue those investments and upgrades.

But I can't really swear to that at this point. All we can say is, as of today, our backlog and our volume and our activity for IFE field kind of retrofit activity is higher than we thought it would be. So that's a good thing.

**Ken Herbert:** That's encouraging. And in this environment, are you still getting sort of normalized pricing on these products? Or are you feeling incremental pressure as airlines maybe look to do some of these programs, you get a little bit more aggressive on price or as they look to pull things forward?

**Peter Gundermann:** No. I would not say that there's a major pricing impact related to the pandemic situation.

**Ken Herbert:** Okay. That's great. And just finally, on obviously, the sort of the downward revisions you're getting from your customers on the OE side of the business, I mean, clearly, we've all been following the no MAX and what your customers have been talking about. Just to level set, are you sort of looking this year that MAX for you is about still a, give or take, \$40 million to \$50 million headwind? And what's your sort of confidence or visibility as you head into '21 about volumes and how much that business could be up for you next year?

**Peter J. Gundermann:** That has been a real wild card for us this year, actually, for the last 18 months. When we last talked, I think we were pretty clear we had orders in place for 21 ships a month. That was reduced days later to under 10 a month, and now all those have come into question. We're not sure what our 737 deliveries are expected to be for the rest of the year.

For good news or bad news, we've got enough other things compensating that it's not a one-for-one hit to our revenue expectation, but it certainly puts a lot of pressure on our PECO operation, in particular, where we make most of our production line content for Boeing aircraft, including the 737. That reduction that I talked about just now basically drove the impairment charge that Dave talked about specific to PECO.

At this point, it's a major headwind. We still think we're in that \$500 million to \$525 million range, which, I guess, if you want to be an optimist, creates upside opportunity for 2021 as that airplane comes back into production in serious volumes.

**Operator:** Our next question comes from the line of Jon Tanwanteng with DGS Securities.

**Jon Tanwanteng:** I think, Pete, you said you expect bookings to recover pretty strongly in the quarter here. Are you expecting that from aftermarket or new business lines, the ones that you mentioned? And given that you expect an increase from Q2, how does that square with that \$40 million hurdle you need to reach on the book and ship business through the second half to meet your goals for the year? Or maybe that's soft guidance that you gave.

**Peter Gundermann:** Yes. Most of that design-build backlog has actually been achieved already in this quarter. You could say we've chipped away at that \$40 million target pretty substantially already this quarter. But what do I expect? I expect continued strength in aftermarket sales. Hopefully, that's the one that we're keeping our eyes on the most, but also on general production flow because there was a destocking element as business jet manufacturers and commercial transport manufacturers a lot of them were shut down for major parts of the second quarter, I didn't talk about that too much in my prepared script. But it's hard to deliver when there's nobody to empty the truck on the other side.

So that helped build inventory to some extent. And as customers adjust to their lower rates, they need to rationalize their order flow with us. We think that was a major element in our bookings in the second quarter. An annualized \$60 million quarterly rate, it doesn't get us where we need to go. Based on our communication with customers and what we think is coming, we would expect bookings to recover pretty significantly in the third and fourth quarter.

**JonTanwanteng:** Got it. Okay. And then just going to the Test business. What was the driver of strength there? You mentioned that you're seeing acceleration there. Is there a specific program? I think you had a big transit program that was starting this year. Just give us a little color on what is going on "under the hood" and what we can expect in the second half of the year for that business.

**Peter J. Gundermann:** I'll talk about bookings first. And I guess I would say that there's a large number of programs all kind of coming in at once from our Test business' various initiatives. Nothing that's super huge. It's not a one-trick pony at all. It's a whole surge of business in general that's been feeding our current results.

You're right. We are working hard on the transit order that we won for New York City, but that's not a major driver of results at this point yet either. It's getting bigger, but it's still not that big. I think that one of the most exciting things is just there are a number of high-value targets.

And if we can get one or two or three of those, we'll have a pretty different situation on our hands with that business. And I expect they will all kind of play out over the next three or four months. These are things that will affect us this year a little bit, but affect us next year even more.

So that's what I was saying. 10% of our business traditionally has been Test. With Aerospace dropping and Test growing, that could get up to 20% or more next year. Too early to tell. But if we're successful in some of these new programs, that's where that business should be. So, it's encouraging to see the margin profile improving there also.

**Jonathan E. Tanwanteng:** Got it. And just a follow-up on that. Do you think that 12% operating margin is sustainable going forward? Or is there going to be lumpiness as we go through the quarters?

**Peter J. Gundermann:** Well, Test is lumpy. But the way the business is structured right now, it's not like it used to be when we are heavily involved in the semiconductor business when we had \$50 million swings from one quarter to the next. Those days are not with us. So, we're not lumpy in that sense. And the bookings we're getting right now should make it a little smoother just because it's a lot of little orders rather than a few big orders.

**Operator:** Our next question comes from the line of Michael Ciarmoli with SunTrust Robinson Humphrey.

**Michael Ciarmoli:** Pete, just back to the aftermarket. I just want to try and gauge the confidence level there. It seems like the current quarter aftermarket may have just benefited more the suppliers in general with a backlog of work. But did you see trends pick up in May and June? What are you seeing in July? Have you seen that activity sort of reinforce the view? Or is it just more kind of an indication of quoting activities? I'm just trying to get a sense if the aftermarket performed better in the quarter because of the backlog that was already in place and shops were full and airlines were doing the work? Or are you seeing kind of tangible signs of pickup in work out there?

**Peter Gundermann:** It's a good question. And I guess I'd tell you two perspectives on it. Most of what we did in the second quarter and have lined up right now were things that were already in backlog. We're delivering to that, the pre-existing orders, so to speak. But it's also true that our booking activity has picked up from a low in April pretty substantially, and you don't get orders until you quote them a few times, right? I can't tell you that we're seeing bookings already that are driving that higher assumption, but what we're not seeing is the cancellations and delays that we expected.

And in communication with customers, they're trying to decide if they're going to bring back, say, their 37 NG fleet next year, and they want to modify it, maybe they need to do that this fall. Those are the kinds of discussions that we're having.

And it is true, too, that aircraft utilization has picked up, as you know, quite a bit in regions in the world where the travel restrictions have been decreased and the virus is more under control. And it's taken a little bit of a step back in late June and early July with what's happened here in the U.S., which is disappointing. That's really hurt domestic narrow-body travel.

But in a lot of places around the world, they're a couple of steps ahead of us here, and so we're seeing more quoting activity there and more interest from airlines than we are here. So there definitely is some risk in that assumption. But from today's perspective, based on what we expect to happen over the next 6 months, we're more optimistic on the aftermarket, certainly, than we were back in May.

**Michael Ciarmoli:** Got it. And then just even the aftermarket mix, I don't know, even historically, you called out 25% in '19. And from the airline customer, specifically, was there more of a weighting towards wide-bodies, narrow-bodies, was it equally split? And I guess I'm trying to figure out if a lot of these older wide-bodies or even current carriers looking to

deprioritize wide-bodies, does that fall into the category of they might not get retrofitted with the latest and greatest? Have you guys got any insights there?

**Peter Gundermann:** I'm shooting from the cuff here a little bit because these retirement decisions are ongoing, as you know. But in general, we're encouraged, I guess, I would say, that older wide-bodies are being retired in favor of continuing to operate those old wide-bodies and not buying new ones, right? There's a surplus in wide-body dearth of demand right now. But in general, people aren't holding on to old wide-bodies and taking advantage of low oil prices, for example, which is one of the thesis in the industry a month ago or 2 months ago. In general, they're retiring those older airplanes, which, realistically, from a retrofit standpoint for us, for IFE, maybe weren't great candidates anyway because a lot of those airplanes are at this point are really old and unlikely to get much attention.

There's been the shift going on in passenger entertainment over the last ten years whereas, say, ten years ago, it was all wide-bodies, essentially. It was all wide-body and very, very little narrow-body. It's become more and more narrow-body, which is a really good thing for us because narrow-bodies are more in favor, and there are more of them to retrofit right now. I don't know how that all plays out exactly. But more A320s and more 737s being built, we think, is good for us. And the increasing expectation on the part of flying consumers or passengers all around the world is that they don't really care whether they're on an A320 or they're on a 787. They want to have entertainment. They want to have things to do. More planes are better than fewer planes. More seats are better than fewer seats. And I think we're better off with narrow-body becoming a more prominent part of the fleet compared to wide-bodies. Does that make sense?

**Michael Ciarmoli:** That makes sense. And then just the last one. On the OE side, I mean, it sounds like the MAX is in a total state of flux, and I'm assuming your prior view is based on that 216 and now it's down to 125. But it sounds like that will obviously be the headwind. But what about your shipping rates on the 787 and the A350? Where are you now on those? Clearly, planes haven't been getting delivered. The 787, had you still been shipping at ten. Just trying to get a sense of how big those headwinds are going to be and if you're synced up with the OEMs right now.

**Peter Gundermann:** I think we are. Most of the wide-body work and those two platforms in particular, 787 and A350 we're indirect suppliers to the major IFE guys, so Panasonic, Thales, Zodiac. I mean, Airbus sells an A350 or a bunch of A350s to an airline. That airline picks their IFE provider. The IFE provider buys equipment from us. It's a little bit of a build-to-order kind of production schedule. I don't think we would say that there's a whole lot of inventory in the channel.

**Operator:** [Operator Instructions] Our next question comes from the line of Dick Ryan with Colliers.

**Dick Ryan:** I was wondering if you could give us your current thoughts on the tail mount offering for the business jet. Is anything changing in that competitive side of that offering?

**Peter J. Gundermann:** We're working with a new program with Collins and SES. And from our perspective, it's going pretty well. We actually have a press release that's in process on some flight tests that have happened recently that were very positive. I can tell you that there's increased excitement because large business jet utilization rates are up. They've survived the pandemic pretty well for various reasons.

And from my understanding, from a Collins perspective, they're very enthusiastic about the program, and we think we're on to something pretty good here. It's still early in the development stage or in the commercialization stage, but they're flying ahead with STCs and things like that. We're pretty optimistic. The pandemic has negatively affected business jet production plans going forward. But aircraft utilization for the fractional guys and some of the biggest buyers of business jets, that's up. So people who can, want to fly private, I guess, for safety reasons. We think it's not going to help us a whole lot in 2020, but it's got a lot of promise for 2021. And with all the restructuring and all the things we've done with that business, we're in relatively good shape. The crew here has done a good job latching on to this program, which we've really narrowed the focus of the business. And so far, so good. We had hoped to have that press release out before this call today, but didn't make it.

**Dick Ryan:** Okay. And just to clarify that the kind of the new revenue bucket of this design service of \$20 million. Was that in your previous soft guidance assumptions of \$500 million to \$525 million?

**Peter Gundermann:** It was, but at a slightly lower level. I mean, there's some timing questions as to when these things will get going, but we're more confident today than we were back in May that we have some programs that are going to be consequential.

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

**Peter J. Gundermann:** No closing remarks. Thank you for your attention today, and we look forward to talking to you at the end of our third quarter. Have a good day.

**Operator:** This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation and have a great day.