

ASTRONICS CORPORATION

NEEDHAM GROWTH CONFERENCE TRANSCRIPT

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Presenters and Participants

PRESENTERS

Peter Gundermann
Chairman, President & Chief Executive Officer

Nancy Hedges
Vice President & Chief Financial Officer

PARTICIPANTS

Jim Ricchiuti
Analyst, Needham & Co. LLC

Presentation

Jim Ricchiuti

Analyst, Needham & Co. LLC

Okay. Good morning. Welcome to the 28th Annual Needham Growth Conference. Our first session this morning will be a presentation from the management of Astronics, which works with customers in the aerospace, defense and other markets, providing a range of products, power, connectivity, lighting products, interior, test products. So, my name is Jim Ricchiuti, senior analyst in the equity research department at Needham. We're pleased to have with us this morning the company's Chairman, President and CEO, Peter Gundermann, and CFO, Nancy Hedges. Welcome, Peter, Nancy. Thanks for joining us today.

Peter J. Gundermann

Chairman, President & Chief Executive Officer

Thanks for that introduction, Jim, and maybe sometime you can explain what we did to get the 8 AM slot of your conference. We'd prefer something more middle of the morning, something like 10 AM, 11 AM.

Anyway. Good to be with you. Thanks for attending. We have a typical overview presentation of our company. Nancy Hedges, our CFO, is with me. She will go through some of the numbers, some of the financials at the end; and, if we time it just right, we'll leave about 35 seconds for questions. So, pick carefully once we get there.

Leave it at your own risk. Here is an overview of some of the salient characteristics of our company. We're about a \$2.3 billion, \$2.4 billion market cap company. We are trading consistently these days at all-time highs, and the stocks perform pretty well. Most of you probably know that, over the last 12 months, we're up like 300% or so. We'll talk a little bit about what the main drivers are of that performance. We also have two classes of stock. It's a relevant characteristic. 31 million common shares outstanding, one vote per share. The B shares, about 4 million shares outstanding. Those shares have 10 votes per share; and we're largely institutionally owned.

Here are a couple of pie charts to explain relevant aspects of our company. The pie chart on the left tells you that we report in two segments. The bigger one by far is our aerospace segment, where we build parts and systems for military, commercial transport and private aircraft. The smaller segment is our test segment, consistently about 10% of our volume. The pie chart on the right breaks it into markets and tells you that the commercial aerospace is by far our dominant segment, about 70% of our total volume. About 21% of our volume comes from government sources, typically defense, and a smaller portion, about 10% of our volume consistently, is general aviation.

That commercial transport portion of our business explains roughly what our stock performance has been like during COVID. Because we're so exposed to commercial transport, we got hit really hard proportionately compared with other aerospace companies. We've also come back very strongly. A 70% exposure to that market, actually, is pretty high compared with almost all other suppliers in the industry. This series of bar charts on the left shows you our volume over the last few years, and that's what reflects that exposure to commercial transport. If the commercial transport industry gets shut down, people aren't traveling, production rates plummet, and our sales almost got chopped in half from pre-COVID levels. Since then, we've stormed back pretty strongly.

Last year, we finally got up to the volume where we were before the pandemic, and we think we're on to bigger and better things. We recently issued a press release that talked about volume for 2026 being up on 2025 somewhere in the neighborhood of 10% to 15%. That's our expectation at this point. Nancy will talk through some of the ramifications of that in a few minutes.

The last pie chart that I'm going to talk to describes our strategic thrusts. So, if you want to know what we do as a company and you want to know what our product lines are centered around, this chart, I think, is

the most useful one to understand. It tells you that roughly half our sales are in the in-flight entertainment or connectivity space. So, what does that mean? That's what people do in the cabins of commercial airplanes with their computers, or with the in-flight entertainment, IFE system that the airplane offers, watching movies, staying connected. There's a secular trend that we're all part of in the world today, where people want to be connected and entertained at all times, in all places, and a big part of what we do is make that possible in airplanes. It's a big part of our business, and it's not the easiest part of our business to understand, but it's a dynamic part. It's something that we think is a big part of our past and a big part of our future.

The next biggest part of the pie chart is the lighting business. Basically, there are lighting systems on the exterior of airplanes, in the cockpits, and in the cabins. We're active in all of those areas. We're one of the world's largest lighting companies. Basically, our lighting sales are a function of aircraft production rates. There's a little bit of spares, not much; a little bit of aftermarket, not much. It's all related to production rates, and production rates for the most part are going up all across the industry.

And then, the smallest part, the light blue portion of the pie chart there is our flight critical electrical power. I'll talk about this in more detail, but basically, this is the real important parts of the electrical system that allows aircraft to operate and fly. We call it flight critical. It's the generators and the starters that hang off the engines. It's the power conditioning units. It's the electronic circuit breakers. We have a lot of momentum. It's a small part of our business today, but it's one where we have a lot of growth opportunities.

The big thing that people are beginning to pay attention to is our position on the FLRAA aircraft, the MV-75. We're doing the entire electrical distribution system there, and that's going to be a huge program for our company. We describe it as north of \$1 million an aircraft once production starts, so it's going to be a really high shipset content for us, a program where we're very much punching above our weight.

And then, finally, our test business. Our test business is 10% roughly of our overall volume. It has been a struggle over the last few years as we've gone through the pandemic. We have a very significant program with the U.S. Army in work. We thought it was going to get started right about now, but there was a government shutdown. The government shutdown, we think, hurt us probably to the tune of 60, 90 days. We're now thinking that it starts at the end of first quarter. I'll talk about the ramifications of that as we work through the presentation.

So really quickly, the rest of this presentation that I'm going to talk about basically goes through the various portions of these pie charts with some pictures, aircraft, in-flight entertainment and connectivity again. If you are in an airplane and you plug your computers or your phone or your laptop or your tablet into a power system, there's a very good chance that that's ours. If you stream content from a file server over wireless access points, that file server could be ours. Those wireless access points probably are ours. If you go off aircraft for satellite connectivity or even an air-to-ground kind of scenario, you're probably using some of our hardware to get off aircraft with those data streams.

We are unique in that we have a very broad product line in the in-flight entertainment and connectivity, and we can go to the entertainment companies like a Panasonic or a Thales or a Safran. They're all customers of ours. Or we can go to a connectivity company like an Intelsat or a ViaSat or an Inmarsat or an SES and offer that whole suite of products or go direct to airlines. We work with 200, 250 airlines around the world. So, you won't see the name Astronics on those systems, but we have a very broad product range that we can offer to all those customers that's unrivaled by any other supplier in the industry.

Power is a big part of it. This is how we got started. I'm not going to talk a whole lot about it here, except to tell you that we do have roughly 90% market share, and it's a pretty dynamic place, even power. We started off with the DC system. We went to 110-volt system. We went to USB type A. Now it's USB type C. If you haven't already, you are likely in the near future to see wireless charging in the cabin of airplanes, and those are, again, a 90% probability that that's our system.

The presentation doesn't say it, but one important thing to understand about in-flight entertainment, aircraft, aerospace life cycles can be pretty long, right? If you make a brake system and it goes on a new 737, that brake system is probably going to be there for 20, 30 years. It might get repaired or replaced, but it's not going to change a whole lot. Consumer electronics, your computer, your phone, your tablet, those life cycles change really quickly. So, we work at that intersection where the short life cycles of consumer electronics meet the long-life cycles of aerospace. What does that mean? That means that we have continual opportunities to replace ourselves over the course of an aircraft's life.

If you think of a typical in-flight entertainment or connectivity system, having maybe a five-to-seven-year life and an airplane lasting for 25 to 30 years, that means we get an opportunity to replace our system, not because it wears out, but because of technical changes and upgrades, four or five times. Consequently, we have a very large aftermarket element to our in-flight entertainment and connectivity sales. The pie charts we just worked through, with 50% of our sales being in-flight entertainment, roughly half of that 50% is retrofit or aftermarket, and half of it is line fit. That's an important thing to understand if you want to understand our business.

Lighting, I talked about this already. there's not a whole lot more to say. We're active in the cockpit. We do a lot of work with avionics companies like Collins. We do a lot of work on the exterior of airplanes. Those go direct to airframe manufacturers like Lockheed on the Joint Strike Fighter or Boeing on the 737, or Textron on a Cessna Citation Jet. If you sit in the cabin of a 737 and you adjust that air nozzle above your head or put on the reading light, or if you're in a decompression incident and an oxygen mask drops down, I mean, that whole assembly is ours, and it's a big part of what we do in commercial transport. I guess those are the three aspects.

If you're in the very unfortunate situation of having a crash, there's a lighting system that usually comes on in the cabin to help you find an exit. That's probably our system on many airplanes. Here are some pictures. Again, that upper left is a Joint Strike fighter. We do the exterior lighting suite on the F-35. Overhead in the lower left, that's that overhead panel that we put on the 737 MAX interior. I think that's a Cessna Citation cockpit in the upper right. Most of what you see there is ours; and then there's an exterior of, I think, it's an Embraer business jet in the lower right.

I don't have a timer up here. Am I roughly on track or are we – oh, is that what that is? Okay.

The third part of that pie chart is flight critical electrical power, again a highly sophisticated integrated system. What we're specialists in is making these kinds of systems for small aircraft. We're not going to do a 787. We're not going to do a G7 or something like that. We're going to do a smaller aircraft. The brilliance here or the magic has to do with electronic circuit breakers, which are different from thermal fuses. They're basically little computers that monitor a circuit without getting too nerdy here. There's an advantage to having a little computer doing that job instead of a thermal circuit breaker in terms of fault resolution and emergency planning and weight.

And then, there are high reliability spinning machines, starter generators. Instead of traditional wound machines, we use permanent magnet or induction-based topologies. As a result, we can make very capable and sophisticated systems again for small aircraft. Small aircraft for us originally started out being business jets, but have morphed, and the industry's kind of come to us to a certain extent. Sometimes it's better to be lucky than to be good. I'll talk about that, I guess, in the next slide.

This is a picture that kind of dramatizes the capability of our system. The picture on the left is a Lear 45 cockpit. If you go out to any airport, you'll see Lear 45s. They're a very common corporate jet. What I want you to see is on the left and the right side of that cockpit are these circuit breaker panels. There are probably 130 circuit breakers in there. Those are thermal fuses, and the pilots need to work those fuses in order to respond to problems on the airplane or to emergencies. That can be pretty tricky when you're zipping around at 250 knots and 3,000 feet in the clouds trying to do an ILS approach.

The cockpit on the right is a relatively modern Pilatus PC-24. Pilatus is a Swiss manufacturer. You will look to the right and look to the left, and you don't see any of those circuit breakers there. That's because we

did the electrical power system there with electronic circuit breakers. So, the electronic circuit breakers are controlled through the flight computers or the aircraft computers. A lot of the fault resolution that can happen in an airplane can happen automatically in that airplane; and then, the pilot is told by the displays what happened; and then, the pilot has the opportunity to manage the system as he or she sees fit.

So, it's a big step forward. We're doing a lot of programs in the business jet world. Here's a list of some of them. The exciting thing in the short term is the FLRAA program that I mentioned earlier. I'm not going to describe FLRAA here, other than to say it's the new tiltrotor being developed by the U.S. Army through Bell, which is a Textron company, as a replacement for the Sikorsky Black Hawk. So, there are about 4,000 Black Hawks out there. Nobody expects 4,000 FLRAAs. The number 2,000 is kicked around a lot. Our shipset is in development right now. We work for Bell, and roughly somewhere in the neighborhood of \$1 million an aircraft is probably reasonable to think. And this program is getting a lot of attention by the U.S. Army and Congress, if you were to look it up.

Also, again, what do we do? We do flight critical electrical power for small aircraft. What are other classes of small aircraft getting a lot of attention for these days? Drones are a big deal in the military; not little handheld drones, we don't get involved in those, but think of CCA (Collaborative Combat Aircraft), or loyal wingman kind of aircraft. These are unmanned autonomous type aircraft. Our system is ideal for that, because it can be remotely managed. We're actively involved in a lot of development efforts. There's a lot of classified work going on in that neighborhood.

And eVTOL, electric aircraft, are again small aircraft with a lot of electrical power content. We're involved with many of the development programs that are underway right now and are probably going to be certified as we work our way through the end of 2026 and into 2027. There's a lot of debate about business models and who's going to be successful. We're not betting the company on this market by any stretch, but we have developed a commercial off-the-shelf capability that many of them are designing into their aircraft.

I think this is a chart that talks about the breadth and range of our business. We're not the biggest company in the world by any means, but we have pretty long fingers, and we are involved in many of the major aircraft programs in all segments all around the world.

And with that – yeah, we did two acquisitions recently. I haven't done my homework yet this morning because it's 8 o'clock. I mean, if it was 10 o'clock, I'd be more on top of my game. We made two little acquisitions. If you were to look at our recent history, we went through a stressful period during COVID, no doubt about it, but we stuck to our knitting, repaired our balance sheet, and we did some financial engineering to make it all work.

And so, we commonly get the question of how we prioritize acquisitions at this point in time. Our answer is that, in general, we feel we have a really good line of sight to some opportunities in the market, and the best way for us to create value is to simply execute on what's on our plate, and that's our first priority. But we do have our eyes open for little tuck-in things that might make sense.

We bought an ODA company, which is basically an FAA certification capability. Because we do so much aftermarket in the cabin, having an ODA allows us, basically, to approve on behalf of the FAA our own work, which may sound kind of funny, but that's the way the system works. It allows us to more reliably meet schedule and meet customer expectations rather than outsourcing that capability.

And then, we bought a little aircraft seat motion company in Germany that lines up well with the capability we have with a company in France. My little line is we bought a German company that speaks English but not French. We have a French company that speaks English but not German. We're going to have the German company reporting to the French company. We'll see how that works out.

And then, our Test business. We have two parts to the Test business. We're involved in transit programs, which are subways basically, and we're in New York City. We're doing a major program for the New York Transit Authority. It's a \$30 million program. We have another one going with Atlanta, the MARTA system.

We also do radio test. Think of militaries and first responders, fire departments, border control, but also the U.S. Army. We have a significant program. I mentioned it earlier. Codename is 4549/T. I don't know where that number comes from, but it's basically the Army's next generation test platform for managing all the radios that the U.S. Army uses.

And you can imagine that the U.S. Army uses a lot of radios, something like 28 different families. We have a \$215 million IDIQ that we've been working on. In the early phases, we expect a production go-ahead. I'm hoping by the end of the first quarter here. We were hoping by the end of the year, but the government shutdown got in way of that. So, the way to think about our Test business is, we think we have it operating these days as maybe a \$75 million, \$80 million business, positive EBITDA, but mid-single digits probably. This quarter will be an interesting quarter to verify that, because we've done a lot of cost cutting as we worked our way through 2025. We think we have positive EBITDA.

We think, when we layer on this U.S. Army 4549/T radio test program, we're going to layer on somewhere between \$25 million to \$35 million, \$40 million maybe in high production years of very profitable business. So, you layer on \$35 million, \$40 million onto \$75 million, \$80 million, it should be a pretty positive contributor to our overall results once we get that going. We hope, again, that we get that production go-ahead sometime towards the end of the first quarter.

And I think that's all I have, so I'll turn it over to Nancy.

Nancy L. Hedges

Vice President & Chief Financial Officer

All right. Thanks, Pete. I'll take you through the numbers briefly. We now expect our fourth quarter revenues to land in the range of \$236 million to \$239 million. We had expected that step change to occur, given some strength in market dynamics that have been supporting our growth. The fourth quarter did include sales from the acquisition date forward of that small seat motion actuation that Pete mentioned earlier. Those market dynamics driving our strength are demonstrated by the robust orders that you can see in the bookings chart. We're expecting our Q4 bookings to be approximately \$257 million, including the acquisition. The order book was typical, with some projects coming in, but nothing really out of the ordinary.

If anyone's heard me before, I'll note again, bookings can be lumpy from quarter to quarter, so we won't necessarily always have a book-to-bill ratio above 1 consistently, but we are concerned quarter over quarter unless we see a longer trend in that. I'll note that our book-to-bill over the last five years, though, has been above 1. Historically, we have been a book and ship business, but the aerospace supply chain issues over the past few years have resulted in customers putting in longer lead time orders. Now that those issues have largely resolved and we can deliver consistently and timely, those lead times are normalizing.

That can be seen with the size of our backlog. Our preliminary year-end backlog of \$669 million is elevated compared with historical norms, if we look back as a point of reference to just before the pandemic, when we are doing about \$800 million in revenue off of just \$400 million in backlog. But we believe that strong order book and backlog combined with the opportunities that we see for 2026 supports our outlook for the year of \$950 million to \$990 million, as Pete mentioned.

Looking back to the third quarter, we haven't put out earnings guidance yet. Gross margin of 30.5% for the third quarter reflects about 31% gross margin realized by the Aerospace business, which was muted somewhat by about 21.6% gross margin of Test. Our operating profit was up to about \$26 million. We do generally enjoy incremental operating leverage of about 40% to 50%. So, as sales increase, the impact on our operating profit is strong. The Aerospace segment continues to demonstrate strong operating leverage within that range that I mentioned, driven by volume growth, pricing actions, labor efficiency... all tailwinds for us. That helped to somewhat offset the current weakness in the Test segment. We also have some litigation expenses. Those were down significantly in the quarter, which also benefited our operating profit performance.

As Pete mentioned, our Test operating performance is improving as a result of cost reduction initiatives that we've carried out over the last couple of years. Even at the modest revenue levels that we're seeing now that business is operating at or near breakeven. So, again, as Pete mentioned, once we layer on those Army radio tests incremental sales into production, we expect profitability will increase in kind.

We believe that the expected volume should contribute to a higher rate of growth of profits for 2026. There's going to be some puts and takes. For example, we have some new projects, new products that are starting up, that are somewhat of a margin drag. It's in the early production cycles, and we anticipate some degree of inefficiency as we complete the consolidation into our new facilities in Seattle. But we also see a good mix profile in 2026.

Again, looking at the third quarter, after adjusting for the income statement effect of our recent convertible bond refinancing, which I'll touch on shortly, and some other less significant items, adjusted net income increased about \$7 million to \$19.4 million, or \$0.49 per diluted share, demonstrating stronger profitability and lower interest expense of about \$3 million.

Consolidated adjusted EBITDA increased about 21% to \$32.7 million and was 15.5% of consolidated sales, which is a level that we haven't seen since before the pandemic.

We believe our fourth quarter adjusted EBITDA and bottom-line results will reflect those higher volumes. We continue to benefit from the improved pricing and build rates are increasing also, which drives volume and margin expansion. We continue our self-help efforts to drive productivity as our sales continue to grow. Tariffs are a headwind, though we believe we can largely mitigate that effect over time.

We generated \$47 million of cash from operations in the first nine months of the year, with \$34 million of that coming from the third quarter. Free cash flow for the first nine months was \$27 million.

We continue the investment in our facility consolidation and expansion project related to our Seattle operations that I previously mentioned. That's why capital expenditures for 2025 we're expecting to be in the range of \$40 million to \$50 million, but even with that level of spend, we do expect to be free cash flow positive for the year.

We haven't yet published our expectations for CapEx for 2026, but there's going to be some carryover spending related to that facility consolidation. That will result in elevated CapEx for 2026 as well.

Turning to our capital structure. That currently includes \$258 million of convertible bonds, in addition to borrowings under our revolving credit facility. During the quarter, we executed a refinancing of a substantial portion of our 5.5% convertible bonds by issuing a new 0% convertible bond. I'll get into the terms of that in a minute here.

The accounting requirements are a little goofy there. About \$32.6 million of that ran through the income statements, with the remainder having to run through the balance sheet as a direct reduction of equity. That's the reason for the shareholders' equity reduction.

After the end of the third quarter, we also transitioned from a \$220 million limit on an asset-based revolving credit facility to a \$300 million limit traditional cash flow revolving credit facility. The new revolver currently bears interest at SOFR plus 2%. So, while it's similar in interest rate on our old instrument, it's significantly less administratively burdensome and it contributes that additional liquidity for our future.

We had \$169 million of available liquidity between amounts available to be borrowed under our revolver, plus available cash on hand as of early November, and we feel comfortable with our liquidity levels given the new financing structure.

In addition to CapEx, our fourth quarter cash flow statement will reflect the acquisition of that small German company that Pete discussed, both in terms of the purchase price running through the cash outflow, as well as operating activity from the acquisition date forward.

A little more information on our recent refinancing of those convertible bonds. We did issue \$225 million and 0% interest convertible bonds. The net proceeds of that issuance, combined with about an \$85 million draw and our revolver plus cash on hand of \$11 million was used to repurchase about 80%, or \$132 million in principal, of our 5.5% convertible bond.

Why did we do that? The 5.5% convertible bond was significantly in the money, with a \$22.89 conversion price; meaning, it was already getting expensive to settle and only would get more so as the stock prices continue to rise. So, not only did the refinancing lower our cost of debt, but it also eliminated 5.8 million shares of potential dilution that were underlying the portion of the 5.5% bonds that we repurchased.

Our new bond matures in January 2031. We will settle the principal in cash, and we have the flexibility to settle any premium in cash, stock or a combination of either. The conversion price is \$54.87; however, we did purchase a capped call in association with this refinancing transaction, which effectively sets the conversion price at \$83.41. What that means is, there's no potential dilution underlying those bonds, unless and until our stock price exceeds that \$83.41. There will be an impact on our diluted EPS calculation once we exceed the \$54.87 conversion price.

So, summarizing, at the end of the day, our only potential share dilution at this point is the 1.4 million shares that are underlying the remaining portion of our 5.5% notes, again, until our share price exceeds the capped call price of \$83.41.

There's a supplemental slide later in the deck that I won't go through, but that provides a more detailed explanation and also some illustrations of what dilution could potentially look like under different share price scenarios. The refi, we feel, worked out very well for our shareholders, reducing potential dilution, also reducing the higher coupon debt that was becoming even more expensive with our stock price movement. And that's it.

Question and Answer Section

Jim Ricchiuti

Okay. Question. You did mention Boeing in there for a gradual recovery in production. How's that in fact?

Peter J. Gundermann

Well, it's a good thing. Boeing is one of our largest customers. Their production rates are very important to us. They've made a lot of progress, and I guess I'm speaking for me and not for the industry, but I think they've made a lot of progress. I think they have a lot of credibility. They're regaining credibility with the FAA, which is important. They currently have permission to go up to 42 737s a month. I think we started the year at like 23 a month or something, so they're not quite at 42 yet, but they're on their way. They want to get up to like 60 something, so there's a lot of runway there. On the 787, the wide body world, their main wide body, they're going from mid-single digits up to low double digits over the next couple of years. That's good for us. 777 is good for us. 777s have been basically on hold. Their 777X, they call it, is going to be a major program for us. It's been kind of grounded for probably four years or four years behind schedule, but that is making progress. Hopefully, that gets certified and starts to go in service towards the end of 2026, 2027.

And while we're talking about production rates, you didn't ask this question, but Airbus is just as important to us. We put less content on a typical Airbus airplane, but Airbus builds a lot more airplanes. Their A320s are running at the range of low 50s a month, and they want to go up to 70. And their A350 is kind of like the 787. It's mid-single digits on its way up to low-double digits. So, in general, production rates are a major tailwind for us right now.

Jim Ricchiuti

We have time for maybe one more question. Pete, maybe a quick one. Just you alluded to punching above your weight in shipset content. Can you elaborate on that?

Peter J. Gundermann

So, what do I mean by that? Well, if you look at the major suppliers on the Bell FLRAA program, they have like 8 or 9 of them, and they're companies that you might expect, Collins, Safran, Raytheon, GE. Early on in the program, I haven't seen it so much recently, but at AUSA and at Paris and some of the other shows, Bell would have a little plaque or a stand with their major suppliers listed, and the suppliers would be listed in alphabetical order. So, what's first? Astronics. It's another piece of marketing brilliance that we're listed ahead of GE and everybody else. That's what I mean by punching above our weight.

I think we woke up a lot of people in the industry by winning that program. You didn't ask this question, but how did we win it? We first did the Bell 525, which is a commercial program. That aircraft is still not certified. It's been troubled, but our system worked really well. Bell then developed something called the 505, and we were kind of automatically ported over there. And then, they got into FARA and then they got into FLRAA, and we were brought along with both of those. So, I think it's an example of how, if you get in with a good company, a good customer, and you do a good job. I'm not sure we were competitively bid frankly. We just are part of their outsourced electrical engineering capability.

Thank you for staying awake. We appreciate it.

Note: This transcript has been edited slightly to make it more readable. It is not intended to be a verbatim recreation of the Astronics Corp. (ATRO) Needham Growth Conference 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) before making any investment decisions.