

ASTRONICS CORPORATION
MIDWEST IDEAS CONFERENCE TRANSCRIPT
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Presenters

Peter Gundermann

Chairman, President & Chief Executive Officer

Nancy Hedges

Vice President & Chief Financial Officer

Presentation

Hello, everybody. Your next presentation will be Astronics, traded on Nasdaq, ticker ATRO. With the company today, we have Peter Gundermann, Chairman, President and CEO, and Nancy Hedges, VP and CFO.

Peter Gundermann

Chairman, President & Chief Executive Officer

Hello, everybody. I'm Pete. That's Nancy, in case there was any confusion. I see some familiar faces, so thank you for being with us this afternoon. I'm going to spend a few minutes going through an overview of our business; then Nancy is going to talk through some of the numbers associated with our recent events. I think we will plan to hold questions until the end, but if you have something really burning that you just have to ask, you can raise your hand, and we'll try to fit it in during the middle of the presentation.

Slide 3. Here are some overview numbers of our company, with market cap just above \$1 billion these days. We're trading at a 52-week high of \$37.32 or really close to it. We have two classes of stock. Our B shares have ten votes. Common shares have one vote, 31 common; 4 million Class Bs. Pretty strong institutional ownership and pretty strong insider ownership also.

Slide 4. Here are a couple of ways to look at our company. The pie chart on the left shows that we have two segments. Aerospace is 90%; Test runs around 10%. We look and act and feel a lot like an aerospace company, much more so than a test company. That's how people typically think about us.

The pie chart on the right looks at our major markets and the big portion of the pie is Commercial Aerospace. These are commercial airplanes built by companies like Boeing and Airbus and operated by airlines around the world. That's our biggest market. Behind that, we have a Defense and Government market of about 20% of recent 12 months sales, and General Aviation is a smaller 8%.

That bigger Commercial Aerospace portion of the pie has been consistent for many years, and it explains our behavior and experience during the pandemic. It's beginning to feel a little bit like history at this point, but we all remember when airlines stopped flying and passengers stopped flying and, you know, travel restrictions were in place. That really hit our company hard.

Slide 5. The bar chart on the left looks at our sales from 2019, which was pre-pandemic, up through where we expect to end up in 2025. You can see that we really experienced the bottom falling out of our business from \$770 million down to \$445 million. Since then, we've been climbing back. So, it's a bad news, good news kind of story.

The pandemic hit us hard, but bookings have been really strong. As the world has recovered in terms of supply chain and inflation and employee churn, our business has come back pretty strongly. So, bookings have been very strong. Backlog is at or near record high, so we're feeling pretty good about our prospects going forward.

Slide 6. If you read our press releases, we break our business down a number of different ways. The product line list on the left is one of those ways, but the better way to understand the business, I think, has to do with the pie chart on the right where we break our business in a strategic thrust; or you can think of these as verticals, areas of business focus. The rest of my presentation, basically, is going to work through these four verticals or strategic thrusts.

The biggest, one half of our business, is In-flight Entertainment and Connectivity. So, if you sit in the passenger compartment of a commercial airplane and you do anything with electronics, there's a really good chance that you're touching our products. If you plug your computer or your iPad or your phone into an electrical outlet, that's probably ours. If you stream content, you're very likely using our wireless access points. If you're going off airplane, you might be using some of our connection equipment that helps the airplane connect to satellite constellations. If you're watching a movie on a flat screen in the seat ahead of you, that's probably our electrical power system driving that system. That's half of our business, a big part of our business, and we'll spend a fair amount of time talking about it.

Our next biggest portion is Aircraft Lighting. Actually, at this point, we're probably one of the world's largest aerospace lighting companies. We're active in all types of airplanes, military, commercial, private. We're active in the cockpit, we're active in the cabin and we're active in the exterior of the airplane. We'll spend some time talking about that.

And then, thirdly, on the Aerospace side is our Flight Critical Electrical Power. We're going to talk about electrical power here, there and everywhere as we go through this presentation. In the cabin, the IFE, in-flight entertainment, part of electrical power is a passenger amenity. That's for people, like us, who fly in commercial airplanes and plug in your computers. This other type of electrical power, though, is flight critical, which means it's not a passenger amenity. It's one of the basic systems on the airplane, powering the avionics, powering landing gear, powering communication, navigation, all the critical stuff on the airplane. If that system fails, then the airplane has trouble. That's very important.

Finally, our fourth strategic thrust is our Test Systems business. We'll spend a little bit of time on that, but it's only 10% of our volume, so it's going to get less than 10% of our time.

Slide 7. Starting with in-flight entertainment, what is it? Most airplanes these days, more and more, have some level of passenger electronics to entertain or to communicate or to surf the Internet, whatever it is that passengers want to do. There are some basic elements to the system, and they're shown here in different ways. We're unique in the industry, in that we have a very broad range of hardware that we offer our customers. Who are our customers? They're, typically, the in-flight entertainment companies. The big ones are Panasonic or Telos or Safran or we're selling to connectivity, internet service providers. Think of companies like ViaSat Inmarsat, SES. There's a range of them. These companies need our hardware, basically, to complete the system and have it perform as intended on an aircraft.

Again, we're unique in that we have a wide range. We have competitors in various portions or various elements of a system. We do not have competitors that offer, comprehensively, the whole system nose to tail, and that gives us certain marketing and scale advantages.

Slide 8. One of the things we're best known for is power. This is how we really got active in the cabin. We essentially developed in-seat power, or passenger power, and we have a dominant market share. The slide here says 90% plus, but we think it's quite a bit higher than 90%. You know, 200 airlines around the world; a big part of our presence with the OEMs, with the airlines. It's basically from the starting point that we rounded out that product line with the wireless access points and the other ancillary equipment that we developed or gained by acquisition over the last decade.

Slide 9. Moving on to lighting, I mentioned lighting in the cockpit, lighting on the exterior and lighting in the cabin. There's a range of products shown on this slide. We're active in all three areas and all types of aircraft.

Slide 10. Some pictures tell a story here. In the upper left, that's a joint strike fighter, an F-35. We do the exterior lighting suite directly with Lockheed on that airplane. Lower left. That's kind of a weird picture, but that's from the perspective of sitting in a cabin of a 737. That's what we call the passenger service unit that's above your head. It has reading lights in it. It has the air, gas spurs. It has an emergency oxygen system. It's standard equipment on every 737. We also do this work on 777, which has been really light the last few years, but some of you may know that Boeing is in the process of certifying the 777AX. That's going to be a good contributor for us in the next few years. We also do this kind of work for the Airbus A220, which was formerly known as the Bombardier C series that Airbus bought a few years back. So, we have a good mix of military, commercial and private or business jet aviation.

There's a cockpit picture there. That's a Cessna jet, I believe, and it has a lot of Collins avionics in it. The former Rockwell Collins is a big customer of ours.

Slide 11. Finally, Flight Critical Electrical Power. Again, this is basic power that makes the airplane go. Our unique sauce here is, we developed a very high-tech electrical power system that is uniquely suited for smaller aircraft. We don't do flight critical electrical power for big planes like a 737. We wouldn't get involved there. Boeing wouldn't let us get involved there. But there is a range of smaller aircraft, military, business jet, and eVTOL, that we are very involved in.

Our secret sauce involves electronic circuit breakers. The big difference there is electronic circuits are flexible and programmable and can be remotely located in a cockpit compared with thermal fuses, which is, you know, the technique of yesterday and still prominent in a lot of airplanes today; also high reliability starter generators instead of traditional wound machines that generate electricity driven off an engine. Ours are based on an induction, or permanent magnets, so much less friction, much longer life, more expensive, but better performance.

Slide 12. A picture sometimes, you know, tells a thousand words. The cockpit on the left is a Lear 45. It's an older airplane, but not that old. There are a lot of them out on the tarmac. You notice the busyness of the cockpit, especially the big circuit breaker panels on the left and right side of the cockpit here. Those are thermal fuses. Basically, if something goes wrong with the circuit and one of those fuses pops, there may or may not be a system that tells the pilot that something happened. He or she may have to notice that the circuit breaker popped by observation and then figure out what to do about it. Traditional thermal based fuses in an aircraft at this point in this day, we feel are pretty obsolete.

The picture on the right looks very different and it is very different. That's a Pilatus PC-24. It's a modern airplane built out of Switzerland. As you can see, there are no obvious circuit breakers in that cockpit. The reason is that we provide the electrical system on this airplane, and we use electronic circuit breakers. An electronic circuit breaker is, basically, a miniature computerized circuit that monitors the load and cuts it off or manages it as it is programmed to do. It can be located remotely and it can be automated. If you're a pilot in that airplane and something goes wrong and a circuit pops, the system is smart enough to take the first few steps, anyway, of an emergency procedure before the pilot even knows that something happened. It's much safer. It's also much more reliable, much more stable over time, and it's really, we think, the way of the future.

Slide 13. One program that we talk about and are pretty proud of is something called the FLRAA program for the U.S. Army. FLRAA stands for future long-range assault aircraft. The U.S. Army is developing this aircraft with Bell, a Textron company, and we are doing the entire electrical system on this aircraft. It's a big deal. The airplane is going to be the intended replacement for the Sikorsky Black Hawk. There are some 4000 Blackhawks out there. There

isn't an official count for how many FLRAA aircraft are going to be built, otherwise known as the V-280, but most people involved in the industry expect that number to be up around 2000 or so, when it's all said and done - and our shipset content is still being determined. It is going to be dependent on evolving aircraft needs, which we're still working through with Bell, but we expect it's going to be somewhere in the million-dollar range. For a company of our size, this is a real needle mover, and this aircraft is expected to get into production as we approach 2029 and 2030. It could be a couple of years earlier, depending on how the Army decides to execute the program. They're investigating various options right now, but this is a program where a company like us is very much swinging above our weight.

Slide 14. I'm not going to go through this entirely, but you can just scan the names of the aircraft. The point of this is to give you a little bit of an idea of the content that we have on various airplanes. This year, we're planning to be somewhere in the \$850 million range. We have really long fingers, and we're involved in the major commercial transports. We're involved in a wide range of military aircraft and business aircraft also. This is not a comprehensive list, of course, but representative of the range of capabilities and products that we offer.

Slide 15. Here's a quick overview of our Test business. Our Test business has two major pursuits. One is radio test for military and government agencies. We have a major program underway right now with the Marines, which is a \$40 million five-year program. We have an even bigger one on the books for the Army. That's going to be a \$200 million program for four or five years. We expect or hope to get that started, finally after long delays, at the turn of the year here, early first quarter of 2026.

Our Test business is about an \$80 million business. If you layer on a \$200 million program over four or five years, you can kind of see what the impact might be. We think it's going to be very positive.

The second pursuit of our Test business has to do with trains, with subway systems. We won a couple significant programs, one with New York, one with Atlanta prior to the pandemic, but it has been a dry market since then. Many of you are from major cities. Major cities have transit systems, but the transit systems have been struggling with work from home trends. Ridership is way down, financing is down, and it's a bit of a tough market right now. We think, long term, there are and will be opportunities, but at this point, we just have those two programs to work on. Those two programs have been our first two programs into this market and let me just say that we've learned a lot. If you look at our financials, it's been difficult. We just took a pretty big EAC adjustment in the second quarter, which we think will clean up these two programs as we work towards conclusion at the end of 2026 or early in 2027.

Slide 16. With that, I will turn it over to Nancy to talk through our recent financials.

Nancy Hedges

Vice President & Chief Financial Officer

Thanks, Pete. I just have a handful of slides to go through here.

Slide 17. Our second quarter sales came in at about \$204.7 million, driven largely by about \$193.6 million in our Aerospace segment, which was a record for the segment. Those record sales helped to offset the adjustment Pete mentioned earlier. We had about a \$6.4 million negative impact on sales related to the adjustment to those estimated cost to complete those mass transit contracts in our Test segment.

Turning to bookings, you can see our bookings for the quarter were \$177 million. They can be lumpy as you can certainly see here. Our bookings were lower, which is primarily a result of timing. We came off a record first quarter booking level, but we're not concerned about the lower bookings. Our opportunities remain robust, and we aren't seeing a decline in our demand.

Backlog remains elevated at \$645 million. The vast majority of that is deliverable within 12 months. We have, historically, been a book and ship type business, but the supply chain issues of the last several years have resulted in customers placing orders earlier than they had been pre-pandemic. As those lead times have come down and the supply chain issues are largely resolved, we're seeing the order timing normalizing. We expect that we may see a little bit lower bookings in the future as a result of that.

As a point of reference, though, for the trailing 12-month period, we're at \$823 million of revenue, which is roughly consistent with where we were in the immediate pre-pandemic period. In that period, when we had \$800 million of annualized revenue, we had just over \$400 million of backlog.

Slide 18. Turning to gross profit, our GAAP gross profit for the second quarter was \$52.8 million and was negatively impacted by that EAC adjustment that I mentioned earlier, which had a \$6.9 million effect on gross profit. In addition, we executed on some restructuring actions in our Aerospace segment, so we incurred some costs related to product portfolio shaping and some resulting footprint rationalization actions, which amounted to \$5.8 million in charges affecting our GAAP gross profit. We do provide some adjusted gross profit and operating profit and margin data here on this slide, which takes out some of the atypical costs so you can better see the performance of the underlying business. On an adjusted basis, our gross margin was 29.2% for the quarter. We did not adjust out the impact of the EAC adjustment.

At the operating profit level, the Aerospace segment has been demonstrating strong operating leverage, driven by strong growth and operating efficiencies that helped to offset the somewhat weak results in the Test segment for the quarter. Encouragingly, though, we do expect the second half of 2025 to be much improved in the Test segment as the volume picks up and the benefits from recent cost savings initiatives become more visible. As these are adjusted measures, I'd refer you to the slides at the back of the deck that present more information on those adjustments and the calculation of our adjusted metrics.

Slide 19. Quickly on EPS and EBITDA. After adjusting for restructuring in Aerospace that I talked about, some litigation related costs and charges and some other smaller, less significant items, our adjusted net income for the quarter increased about six and a half million dollars to \$13.7 million or \$0.38 per diluted share. This demonstrates stronger profitability and also lower interest expense.

Our consolidated adjusted EBITDA, over on the right, increased 25.5% to \$25.4 million and was 12.4% of our consolidated sales. Again, we didn't add back the EAC adjustment to that metric.

Slide 20. Finally, coming to our balance sheet and cash flows. We generated \$13 million worth of operating cash flow in the first half of 2025. That's despite some pretty heavy payments that we made in the second quarter related to a legal settlement. We paid about \$22 million in damages, interest and legal fee reimbursement related to some UK patent litigation that we were facing. We also paid about \$13 million in the first half related to income tax payments; some of that related to true up payments from 2024.

We're in a good position with more than sufficient liquidity and financial flexibility to invest in our organic growth opportunities like Pete addressed. This provides us with cushion to continue to invest in our growth. To that end, you can see our 2025 CapEx expectations are elevated.

We're expecting \$40 million to \$50 million for 2025. That higher level is a combination of catch up capital expenditures as we've operated on a very lean budget over the last four or five years, coupled with CapEx related to facility consolidation and expansion, which helps us to be ready for the FLRAA program when that kicks off in a couple of years, which we expect to be a game changer for our company.

At the end of the second quarter, we had about \$191 million in total liquidity, primarily consisting of \$178 million in availability under our asset-based revolving credit facility and about \$13 million of cash on hand. This provides us with the cushion that we would need to weather any uncertainties related to the remaining patent litigation that we're addressing.

In closing, this is a very exciting time for Astronics. We have solid visibility into the next five years and believe we can execute to deliver value for our shareholders.

Peter Gundermann

We have 9 minutes left, so now is a good time to ask questions.

Question and Answer Section

[Inaudible Question]

Peter Gundermann

Tariffs and rare earth magnets. They are both a problem. Our observation is that the tariff world keeps evolving and changing, and it's hard to know where it's going to land even today. If the current rates that are in place were to stay there, we think that the unmitigated impact on our business would be about \$20 million. We think half of that comes from Malaysia, frankly, so if you want to watch our company and pay attention to tariffs, watch Malaysia. Our product from Malaysia is generally material that we could move elsewhere if we need to, but at this point, it's not obvious where else we would go, because all the tariff rates are in flux everywhere. So, what do you do?

Half of it comes from Malaysia, roughly a quarter of it comes from China, including some rare earths and other components that, frankly, are difficult to source. I'll come back to that in a second. At this point, China is on another 90-day extension of temporary tariffs. So again, who knows where that goes and what that looks like at the end. And then, a quarter of the tariff load comes from Canada and Mexico, which we think is generally going to be USMCA compliant. We're in the process of trying to understand that and get that more clarified. We think there's a whole range of mitigation opportunities we can pursue. We haven't pulled the trigger on anything significant yet, because we just don't know what we're aiming at.

So, getting back to rare earths, that's kind of an interesting story. We do use some rare earths in electrical motors in some of our products. One of our product lines, which we don't talk a whole lot about, but we're actually pretty prominent worldwide, is the high-end aircraft seat market. So, we don't fly this way, maybe you do, but when you sit in a first class or business class seat and you want to recline or you want to lie flat or you want to put up the divider to separate yourself from your pesky neighbor, there are little motors that do all that stuff. There are permanent magnets in those motors, and we source many of those from China like the rest of the world. That's becoming problematic. There has been a little bit of a breakthrough in the logjam, so we're hoping that the situation kind of resolves itself, but it turns out, as part of our investigation, we found that there are other potential materials that we can use other than rare earths that would satisfy this purpose. The big difference is that they have a narrower operating range.

When you think about a motor in a high-end aircraft seat, how wide a temperature range do you really need for that machine to operate? And it turns out that the comfort range for the permanent magnet far exceeds the comfort range of the individual who's sitting in the seat. So, we're looking at redesign options and requalification options to get away from the rare situation. At this point, between the relaxation of the rules and the potential redesigns we can go to, we're not feeling too stressed about that.

Question

You mentioned the FLRAA program for 2027. Could you elaborate on what the FLRAA program is?

Peter Gundermann

Yeah, it's a big deal. You can look it up. V-280, or FLRAA, is the army's planned replacement for the Sikorsky Black Hawk. It's in development right now. We have a \$90 million development program that we're about maybe 20% through that will carry us through 2026 and probably a little bit into 2027. The aircraft is a tiltrotor, so it's like the V 22, if you know what that is. It takes off with two rotors vertically and then transitions to horizontal flight. It's going to be a big deal. Unofficially, or semi-officially, the army feels like that aircraft is critical for a potential conflict in Southeast Asia where there are big bodies of water and you have to get or move people and equipment into crowded territory over big stretches of water. They're trying to accelerate the program. If you look on the Bell website and can find the FLRAA page where they talk about what they call team FLRAA, there are a bunch of very big names in the program. It's kind of a who's who, and the neat thing about it is, they list them alphabetically, so being Astronics, we're, like, first on the list. It's marketing brilliance from many years ago, but it's going to be a big program for us. Take a potential of 2000 airplanes, multiply it by \$1,000,000 an airplane, and it's hard to overstate the impact it's going to have on our business.

Question

It looks like Boeing is one of the larger customers for you. Just curious, obviously, their production isn't what you had, but they seem to be recovering. Where do you think they are in terms of full production capabilities, and I guess just how that is going to affect you?

Peter Gundermann

So, the question has to do with Boeing production rates, and our presentation does not adequately address this. Thank you for bringing it up. It's a great tailwind for us. You're right. 737 went down. 787 they moved from Seattle to Charleston, and for a while they had trouble building airplanes and now it's all seemingly coming back together. They are shipping at 38 a month right now. My understanding is that they are going to be asking the FAA for permission to go up to 42 over the next couple of months. They recently issued a skyline, which is their production ramp over years, where they want to get to 82 a month. It's a big step and it's a very important program for us. We put probably on average about \$200,000 per airplane, but it's not the only piece of good news. Their 787 is also on a ramp there, low mid-single digits right now, planning to get to double digits.

And you asked about Boeing, but the same picture holds true at Airbus. Airbus production is just as important to us as Boeing production. We put more product on Boeing narrow-bodies, but Airbus builds a lot more narrow-bodies and they're talking about going from mid-fifties up to eighties. The A350, which is their widebody offering at this point, is also kind of low single digits, mid-single digits, planning to get to double digits over the next year or two. So, it's a huge shot in the arm.

Another thing that wasn't necessarily heavily featured in our presentation is the marginal contribution of a revenue dollar for us is 40% to 50% to margin, so as revenue ramps, we have a lot of upside in terms of margin potential. It's a good tailwind for us.

Question

Is the supply chain built out for that production?

Peter Gundermann

Supply chain question. That's more of a Boeing question than an Astronics question. If they want it, we'll ship it. We're not going to have a problem. But yeah, there are well known supply chain problems. Engines are a problem. Interiors are somewhat of a problem. But in general, I think Boeing and Airbus are experiencing the same things that we have, which is the supply chain is in a heck of a lot better shape today. In fact, I would dare say it's about where it was before the pandemic started. It's not quite a non-issue for us, but it's pretty close, and I think that's generally true of manufacturers around the world.

I have a red light and a negative 15 seconds on my clock, so does that mean that we're done? Okay. Thank you very much for your attention.

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) event that occurred on the date noted. Please refer to the webcast version of the event, which is available on the Company's website (astronics.com) before making an investment decision. Please also refer to the opening slide of the presentation associated with this webcast for ATRO's announcement concerning forward-looking statements that were made during this event.