Jim Ricchiuti: Good afternoon. Welcome to Day 1 of the 24th Annual Needham Growth Conference. My name is Jim Ricchiuti, senior equity research analyst covering industrial technologies companies at Needham & Company. Our next presentation will be from Astronics Corporation. We're pleased to have from the company Peter Gundermann, Chairman, President and CEO, and David Burney, CFO.

With that, I'll turn it over to the management.

Pete Gundermann: Okay. Thanks, Jim. I'm going to quickly go through an overview of our company, Astronics, and then turn it over to Dave, who is going to go even more quickly through some of the financial summary of our recent experience and recent performance. We have to start with the standard obligatory "Don't believe anything you hear" kind of statement.

These are some of our demographics: market cap of about $400 million, trading today at about $13 and change. We do have two classes of stock, 25 million in common shares outstanding and 6.4 million class B shares. The difference in the two is that the B shares have 10 votes per share. We have, over the years, occasionally done B share distributions to all shareholders to try to distribute those shares a little bit more broadly; although, we haven't done that in a while. We're about 60% institutionally owned, 10% insider. We have been public for actually a long time, since 1972.

This is a slide I want to spend a little bit of time on, because it says a lot about how we're positioned and what happened to us as the pandemic rolled out. You can see, in the pie chart on the left that we did about $773 million in sales in 2019, and we were about 70% involved in the commercial aerospace market. Commercial aerospace includes the kind of airplanes that Boeing and Airbus make for commercial airlines operating around the world. Then, we were about 10% military aircraft, 9% business jet and 10% in our second segment, which is Test.

The impact from the COVID pandemic was very significant on the commercial aerospace market and, therefore, on our company and it's something that we're dealing with still today. The changes are reflected by the transition from the pie chart on the left to the pie chart on the right. It has scaled. You can see that we went from $773 million to $444 million in the 12 months ended with the third quarter of 2021. We haven't yet reported fourth quarter results. We'll do that in the second half of February. If you were to be able to calculate the areas and run the numbers, you would see that our smaller business markets: business jet, military, and Test have fared okay through the pandemic. They're basically about the same size today as they were back in 2019, but the commercial aerospace part has really gotten crunched. Commercial aerospace is a little more than half as big as it was back then. That's a fairly predictable result. It's something a lot of companies in the industry have experienced. We may be a little bit more than most, because we were more exposed to commercial aerospace when the pandemic took hold, but I'm hoping that you get the theme throughout this presentation that we're seeing more signs of progress and recovery right now, with the caveat being the Omicron variant, which is racing around the world.

I think the industry is feeling, at this point, that the variant is proving to be far less lethal and far less dangerous for our industry and, hopefully, something that the western world anyway will roll right through relatively easily. It's not having a big impact on commercial traffic yet. It might delay the return of international travel, but we will have to wait and see. The progress that we've been experiencing over the last
6 to 10 months towards recovery, at this point, we think is holding and continuing and not being negatively affected by Omicron, but that is a watch item. It's something everybody involved in the aerospace industry is sensitive to.

We report financials along a lot of product lines, which are listed on the left side of this chart. If you get under the covers and you look at the major things that we're trying to do as a company, our major efforts or initiatives break down into four strategic thrusts, which is the point of the right side of this slide. The rest of this

presentation is going to go systematically through those major thrusts to give you a sense of what we do and how we do it. Obviously, there is a whole lot of detail that will not fit in a half hour presentation, but if you're going to understand anything about our business, these four thrusts are the best place to start. We're going to start with the biggest one, which is the inflight entertainment and connectivity part of our business, about 36% of sales for the 12 months ended with the third quarter, and this is also the part of our business that's been the most heavily affected by COVID-19.

Aircraft inflight entertainment and connectivity ("IFEC"), basically, involves passenger entertainment. When you get on a commercial airplane and you plug your power, your computer, your phone or a personal electronic device into an electrical outlet, chances are that's our electrical system. We have more than 90% market share in that kind of product in the aircrafts around the world. If you are looking at a flat screen display and you're watching a movie, chances are our power supply is also powering that device. If you're streaming content to a computer, an iPad or your phone, there is a good chance that you are streaming that content through some wireless access points that we provide. If you're going off board and surfing the internet, connecting through a satellite, there is a chance that we built the antenna and the radar assembly that goes on top of the airplane.

This is a big part of our business, like the previous slide noted, 36% of sales, but used to be closer to 60% of sales. This is the area that we will look to for recovery as commercial aerospace recovers from the pandemic. It's kind of an interesting area in that it is where the world of consumer electronics meets aerospace. Consumer electronics is defined by very short life cycles, very entertainment or connectivity oriented, and something that people all around the world are becoming more and more addicted to and sensitive to. The aerospace world by comparison is something that moves relatively slowly with stable, long life cycles and long periods of performance. The advantage of that dynamic for us is, we can replace our own products as technology advances and performance expectations continue to improve or increase, and we essentially get multiple bites of the apple. There are lots of experience where we put a product out there and it might work for 15 years of normal service, but it gets replaced at 5, because there is a new and improved opportunity out there that the airline wants to offer to its flying customers.

A deeper dive in the IFEC world is the in-seat power. I mentioned earlier that this is a major product line of ours. If you plug your computer or iPad or whatever into an electrical outlet, whether it's USB or 110 volts, it's probably our system. We say, on this slide, 90% market share, but I'd say it's over 95% worldwide. It is something that we're well known for and was the foundation for broadening our product line to include a lot of the other things in the previous slide. The takeaway is that, while we are not a system provider to the airlines, we are a component supplier to the system providers. We can offer pretty much everything they need, the total system together or they can pick and choose from our product portfolio. What it means is that most of the names that are providing IFEC systems to airlines are our customs, Panasonic, Pilatus, Safran, Viasat, Gogo Now, Intelsat et cetera. When airlines choose between those various service providers, no matter what they choose, we tend to have a decent content offering on both sides of the competition.

Moving on to lighting, we are one of the larger aircraft lighting companies in the world. Lighting is important in the cockpit, just like it is in, say, a car. On the exterior of an airplane, you see flashing strobes of red and green position lights, other position lights and landing lights. In the cabin, there are a number of lights, emergency egress lighting systems, reading lights, aerial lights, certain access lights for bathroom facilities, things like that. We are involved in all those areas. This is one of those product lines that is active in the military world. That's a joint strike fighter in the upper left-hand quarter there and we do the entire exterior lighting suite for that aircraft. We're very prominent in business jets - in the lower right, that's the Cessna Mustang - but we do everything up to large business jets in that world.

The lower left is a passenger service unit from the 737 MAX, one of our biggest aircraft production programs before the pandemic hit. We do a lot of inflight entertainment equipment, but also a lot of lighting equipment

like those assemblies. A piece of good news for 2022 for our company is the return to production of the MAX and, hopefully, getting back up to the 30, 35 per month rate as the year wears on.

The final critical thrust for the aerospace segment that I want to talk about is what we call flight critical power along the check time. How are we doing, everything going right? Flight critical electrical power is different than the passenger power that I was speaking about earlier, which is essentially an amenity. Frankly, if the passenger power system doesn't work, the airplane still goes, people still get where they want to go. It's not a safety issue. Flight critical electrical power is quite different. It is all the main power generation, distribution, conditioning and control that aircraft require.

We are primarily involved in smaller aircrafts…think business jets, think rotary wing, and think turboprops. We're doing what large aircraft have enjoyed for quite a while and we're bringing that technology down to the small aircraft market. The critical pieces of technology essentially revolve around electronic circuit breakers, and they revolve around high reliability starter generators. Instead of a traditional wound electrical machine, we're using permanent magnets and induction-based machines. They go from 800 hours of expected life to like 30,000 hours. It's a big improvement.

This is an area that we have been working on for quite a while and building a franchise. This picture is designed to show the differences graphically. The picture on the left is a Learjet 45, an older generation airplane from around maybe 2000. The thing I want to draw your attention to are the two prominent circuit breaker panels on the left and right side of these cockpits. Those are basically fuses, like what is in your house typically. They're accessible to the pilot, because if something goes wrong electrically, the pilot needs to decide what to do about it. Oftentimes, the only way to tell that something has gone wrong is to see a circuit breaker popped there. I don't know how many are in this cockpit. I'm guessing there are about 70 or so just on those two panels. The pilots are expected to know what those 70 switches do. There is a big manual probably within arm's reach behind the pilot that he or she can reference if something goes wrong in flight.

The picture on the right is of a Pilatus PC-24, a new generation jet. You'll notice there are no circuit breakers in there. There actually are some, but only a few and they're underneath the yokes I believe. All those other circuit breakers that the Learjet depends upon are incorporated into the electronic circuit breakers that we provide, which are remote to the cockpit. They're remote, because they can be automated and fixed or addressed with the electronics in the avionics, which is a huge safety improvement for the pilots. It's also a weight improvement for the aircraft and a reliability improvement.

The operating characteristics in those thermal fuses in the Learjet start to vary the minute that they're made. Over years, they can become very inconsistent relative to electronic circuit breakers that we put in the Pilatus PC-24. This is an area we have been building our franchise on.

Here is a list of programs that we are on currently, and it's only about 8% of our rolling 12-month revenues right now. It is an area that we think has a lot of growth potential, because we're, basically, the only ones doing this for this class of airplane. I do want to draw your attention to the FARA and FLRAA entries on this slide. Those are future lift aircraft for the U.S. Army. FLRAA stands for Future Long-Range Assault Aircraft. FARA stands for Future Attack and Reconnaissance aircraft. We are a team member with Bell, which is competing with the Sikorsky team for both programs. The FLRAA is a planned replacement for the Black Hawk and the FARA is a planned replacement for the OH-58 Kiowa Scout. For Astronics and the Bell team, these are significant opportunities. If you think of how many Black Hawks are out there or if you think how many Scouts are out there, this could be a significant game changer for our flight critical electrical power initiatives. We're certainly not the biggest company around, but if you look at the list of prominent aircraft program where we play a role, we're proud of that spanning commercial transport, business aircraft and military markets.

Finally, our Test business in normal times is about a $70 million - $80 million business. It was about 10% of our cumulative revenues before the pandemic. Today, because of the impact of the pandemic, it's about 20% of our revenues. It's not because it grew, but because aerospace shrunk. We have three different areas of competition here. There is a prominent picture of a subway or a train, and we have developed a testing capability, which is relatively new to market. We've announced a couple of significant program wins; one with New York City Transportation for about $30 million a couple years ago and one more recently with Atlanta on the MARTA system, which is also about a $30 million program. If you think of the number of cities with the number of subways, the potential is pretty substantial. It will take a while to do it, but we're optimistic and encouraged.

The picture on the lower right is a radio test device used by armed forces, first responders, municipalities and states, border protection and fire and rescue, for example. We rely on radio communications to stay coordinated, stay safe and stay alive in some cases. Those radios are very complex devices. Our Test equipment is actively used to make sure that the radios are operational and predictable and in their full capacity before people go out to do a mission.

The picture on the bottom left is of a test station that would be used at a depot, say for the air force or the marines, where, by plugging in different additional equipment into this test setup, they're capable of testing a wide range of end use systems. Whether they would be scopes, engines or communication gear, the technology that's out with our armed forces is very substantial as you can appreciate. A lot of companies are involved in making that equipment and we're involved in helping to make sure it's working correctly in the space and size and efficient kind of package.

With that, I think I'm going to stop speaking and turn it over to Dave. He is going to take us through three or four pages of financials. Dave?

Dave Burney: Thanks, Pete.

We'll stay on this page. I'm not going to go through in detail a lot of these slides or charts here. They, basically, in picture form, just tell the story that Pete was talking about on what the COVID impact, particularly on our commercial transport business, has been. You can see the sales by historical standards. Our quarterly sales on the chart here, beginning in the third quarter of 2020 going through the third quarter of 2021, are very light by historical standards and comparisons, all COVID-driven and mainly commercial transport related. As we flip back, you'll see that the margins are going to show weak margins during this COVID period as we lost about 40% of our sales almost immediately starting in the middle of 2020.

We responded in 2020 by reducing costs. We had a significant headcount reduction in 2020 and our goal was to swim through the rough waters of the pandemic. We didn't expect it to last this long, but we cut costs, we reduced cap spending, and we're staying compliant with our debt covenants, which doesn't sound like a big chore until you lose 40% of your sales in about three months. Our team has done a great job. If you look at the bookings trend, our bookings have increased pretty significantly as we've gone through 2021 here. That is going to help drive sales growth in 2022. We see, in particular, our Aerospace bookings increasing steadily as we moved through this period from late 2020, where we hit a low point in the third quarter of about $65 million in Aerospace bookings.

In the third quarter of 2021, we're back up to $142 million. It's not where we were pre-pandemic in terms of Aerospace bookings, but we're heading in that direction. I'll call out the Test bookings too. They were only $11 million in the third quarter, much lower than what we had expected. There are several opportunities that we're chasing at the end of the third quarter that haven't gone away. Customers just haven't released the orders at this point, but we're optimistic that the Test bookings are going to show some form of recovery here as well. Backlog is following too. Aerospace backlog is up to $285 million, not quite where we were pre-

pandemic, but it's not too far away. The Test backlog is down at $68 million, a low point reflective of the last two quarters of low bookings.

I'm not going to talk a lot about the margins here, as you would expect. When this top-line is as light as it's been for us for the past year and a half, two years, we haven't sized to business with the expectation that we're going to be running at a quarterly sales run rate of $100 million, $110 million, $112 million. Our expectation, and the infrastructure we've maintained, is to resume and get back to where we were pre-pandemic. It's not going to happen immediately, but we do expect, when international travel resumes and wide body production picks up, that we can edge toward the run rate that we were heading toward prior to the pandemic here.

A couple of things to call out on the income statement are that we were awarded a $14.7 million grant from the Aviation Manufacturing Jobs Protection program. We recognized $1.1 million of that grant in the third quarter. We're going to recognize probably about $7 million in the fourth quarter and the balance in the first quarter of 2022. We collected about $7 million of the award at the end of the third quarter.

Gross profit and operating margins were weak by historical standards, but consistent during the pandemic. We look forward to the top-line growing as we move through 2022 and strengthening the margin profile for us. Prior to the pandemic, our gross profit margin typically was in the 23%, 24%, 25% range there. That sounds like a low percent of sales, but we report our R&D costs and our engineering costs all through cost of goods sold. If you back some of that out for R&D, you're up north of 30% in terms of typical gross margins there.

Earnings per share was driven primarily by the drop in the profitability as we moved through the pandemic. Adjusted EBIDA has stayed on the positive side for the most part, hovering right around EBITDA breakeven in the last quarter. I expect that we're going to see improvement there as well as our top-line growth. We will expand our gross margins also. One thing I'll comment on as we move into 2022, some of our cost cutting efforts were temporary cuts to things like our company contribution to our retirement plans. Those will be reinstituted in 2022. There will be some headwind there as we expect top-line growth, and we haven't provided any guidance on that or on margin. Things to consider in the models that you're building is, we will be adding back our company's contribution to the 401K plan in 2022.

Looking at the balance sheet, our funded debt at the end of the third quarter was a net funded debt of $153 million. If you go back to the end of 2019, we were at $156 million. Despite all the challenges we've had over the last two years, we've been able to retain a neutral level on our net debt position, which was a good accomplishment. Our CapEx has dropped significantly, partially due to not needing the capacity, so we didn't have any capacity CapEx spend over the last year and some programs got moved to the right. A lot of our CapEx is driven by programs and tooling relating to specific programs, some of which were moved to the right. Typically, in a normal year, we're not a CapEx heavy company. CapEx can be anywhere from $12 million to say $20 million, $22 million, depending on what's happening during the year.

We did sell a building that we closed the first week of the fourth quarter. The net proceeds were $8.8 million, and we'll have a gain in fourth quarter of a little over $5 million flow through the income statement. It's a facility that was in Fort Lauderdale that we've talked for a while about consolidating into our East Aurora, New York operation, which is happening. It's not done yet, but that should be fully consolidated into our East Aurora operation by the middle of this year.

Pete Gundermann: I think that concludes our prepared remarks, Jim, and we're five minutes early.

Jim Ricchiuti: Good. Okay. Let's go back to pre-pandemic. What was the organic growth of the business?

Pete Gundermann: Well, that seems like a long time ago now.

Jim Ricchiuti: I think that it does. That was a long time ago unfortunately.

Pete Gundermann: We did $773 million in 2019 and we thought we were in for a very solid 10% growth year in 2020. Because we did some cleanup of things towards the end of 2019, we thought 2020 was going to be a bang-up year on both the top-line and the bottom line. Despite what's happened over the last few years, we think of ourselves as a company that ought to provide superior growth relative to the aerospace industry, in part because we're working off a smaller base and in part because we are pretty good at deploying new technology, which tends to contribute well.

Jim Ricchiuti: Just given what happened with the pandemic, I'm sure the focus, the emphasis at the company was just preserving cash. I wonder, and I don't know how acquisitive you've been in the past, how does that play into the longer-term strategy as we come out of this, which presumably we will at some point?

Pete Gundermann: It's a very good question. We have been selectively acquisitive over the years. I don't know how many we've done, probably 15 acquisitions or so. Right now, in the commercial aerospace market, the pickings are really slim. I mean nothing is moving. Nobody wants to sell anything unless you absolutely must and, if you must, it's not a healthy situation. For us specifically, frankly, with our recent performance, our credit facilities are such that we're pretty limited in terms of the ability to do anything meaningful acquisition-wise anyway. I do expect that will change. We've always been conservatively financed, but conservatism changes when half of your revenue goes away. We've been trying to balance our income statement with our capabilities that we think are important to maintain for our organic growth going forward and, at the same time, stay on the right side of our credit facilities.

It's been a balancing act and we've been doing it at least a year longer than we thought we would. If you look at the book-to-bill, we've seen book-to-bills of 1.3 and 1.5 over the last six months that we've reported, which just gives us a tremendous amount of confidence that we're starting to come out of this. We have not seen anywhere near the level of concern in the industry because of the new variant that I expected. My Thanksgiving was ruined as I was reading the headlines and thinking, oh, here we go again with another Delta. It's turning out not to be a Delta, which is great news. We're reasonably optimistic that the turnaround that's been pretty apparent in our order intake is going to continue. Sooner or later, the shipments will catch up with the bookings, so that's the reason why we keep looking at orders so closely.

Jim Ricchiuti: Got it. Okay. I think we're going to have to end it there, Pete, Dave. Thank you. Thank you for joining us today.

Pete Gundermann: Thank you for having us. We appreciate it.