ASTRONICS CORPORATION

SIDOTI SMALL CAP VIRTUAL INVESTOR CONFERENCE TRANSCRIPT

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Presenters and Participant

PRESENTERS

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Chairman, President & CEO

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Presentation

John E. Franzreb
Analyst, Sidoti & Co. LLC

My name is John Franzreb. I'm an analyst here at Sidoti & Company. Our next presentation for the day is Astronics Corp. - Ticker, ATRO. For those not familiar with the company, Astronics manufactures equipment for the Aerospace and Defense industries. With us today is Chairman, President and CEO, Peter Gundermann; Executive VP and CFO, David Burney; and Controller and Principal Accounting Officer, Nancy Hedges. The team will provide an overview of the company, following which, there'll be time for Q&A. Should you have a question, please type it into the Q&A box and I'll present it to the management.

With that said, thank you, everybody, for being here. The floor is yours.

Peter J. Gundermann
Chairman, President & Chief Executive Officer, Astronics Corp.

Thank you, John, and thank you, everybody, for tuning into our presentation. I'm Pete Gundermann, as John said, Chairman, President and CEO. Dave Burney is our CFO and retiring CFO. He will step down from the post the beginning of next month. Nancy Hudgens, who is on our panel here today, also will be succeeding as CFO when the time comes in January. So, we're going to do a quick round the horn of who Astronics is and what we do and what our recent experience has been, and we'll follow it up with questions and answers, assuming we have time remaining at the end of the half-hour position here.

So, this is the buyer beware slide that's pretty standard. Some overview aspects of our company, a market cap of just under $600 million these days. We have about 35 million, 36 million shares outstanding, and two classes of stock; the Class B's don't trade. They have to be converted to Common in order to be commoditized and have 10 votes per share. Pretty good institutional ownership and pretty good insider ownership also at just under 10%.

A quick overview of our company. If you look at the pie chart on the left, it talks about two segments that we report in. The biggest one by far is our Aerospace segment, typically, about 90% of our business. The remainder of about 10%, typically, 12% on a trailing 12-months basis, is our Test Systems segment. Most people consider us an Aerospace company, obviously, and we act like an Aerospace company and we will spend most of our time on this presentation today talking about our aerospace initiatives.

The pie chart on the right breaks our business down by, think of it as sources of money or sources of funding. What you see is that Commercial Aerospace is our biggest source of funding by far – our commercial airplanes. So, the airlines and Boeing and Airbus, typically about 65% of our volume or a little bit higher actually. Before we went into the pandemic, it was about 70%.

And then, there's a Defense & Government portion, which is military airplanes, and our Test business, about 10% each typically. And then, General Aviation or Private Aviation business jets, about 10% of our overall business. The portion that's in Commercial Aerospace explains a lot of the drama that's happened to our company over the last five or six years as the world went into a pandemic-related lockdown and travel shut down. That was our core market. Compared with most public aerospace systems suppliers, we were pretty highly exposed to that Commercial Aerospace business and really took it on the chin. We went from about $772 million in sales in 2019, down to about $440 million in 2021. That's a big drop and then started dealing with many of the other aftereffects of the pandemic, even when demand came back and it did come back pretty strongly. But we then started dealing with supply chain issues, the worldwide supply chain breakdown, I guess, I would call it, and the inflation, cost inputs and worker turnover, the Great Resignation, so on and so forth. Our exposure to Commercial Aerospace gives you an insight as to how that affected our business.

This is a general slide on key investment highlights that typically talks about a lot of things. I'm not going to talk to this much. You can come back and look at it later if you are interested. But this is the impact on us that I was talking about before. That red line basically looks at trailing 12-month revenue levels, and you can see how we went off a cliff early in 2020 and 2021 and then it started bouncing back. Just now, really over the last few quarters have we felt the resurgence back to pre-pandemic levels, and that's a combination of continued strong demand in the Aerospace world and an improving supply

chain. Over the last year, our supply chain experiences have become a lot better. Moderating inflation and the ability to reprice long-term contracts has helped us significantly.

And finally, our workforce is settling down. We did a study a couple months ago and found that about 45% of our 3,000 employees have been with us three years or less, which is a pretty amazing statistic, highly abnormal. When you have that kind of turnover or that kind of inexperience in the workforce, efficiencies can lag. We're not unique. I think a lot of companies have gone through similar kinds of experiences, but all those things, the inflation, the continued strong demand, the repricing opportunities, the increasing efficiency of the workforce, makes us look forward here much more enthusiastically, like we're finally coming out of the pandemic compared with where we've been.

So, what do we do? I think the best way to explain our business is to talk through the pie chart on the right here. We call them strategic thrusts. There are four of them. The biggest one, almost half our business for the last 12 months is Inflight Entertainment & Connectivity related, IFEC or I-F-E. It's, basically, a passenger amenity in commercial airplanes. When you sit in a commercial airplane and you plug your computer into a power outlet, that's probably ours. If you stream content over wireless access points, those very well may be ours. If you're streaming content off airplane through a satellite connectivity system, you might be using our modem managers, so on and so forth. The passenger amenity, which has been a standard kind of product capability or product offering in widebody airplanes for many years is becoming increasingly common in narrowbody airplanes, widebodies being two aisles like the 787 or A350; narrowbody being single aisle, most prominently a 737 or an A320. Big part of our business there.

The second biggest portion is our Lighting business. It's 20% to 25%. We're one of the world's largest Aerospace Lighting companies actually. We do everything from cockpit lighting to exterior lighting to cabin lighting. We work in commercial transports, but also in business jets and in military aircraft. And then, Flight Critical Electrical Power. It's a smaller part of our business, but it's a really exciting part. We'll talk about that in a little bit. We're uniquely offering certain technologies to manufacturers of small aircraft that are significantly advanced and offer real advantages over traditional electrical systems. And then, finally, our Test business, which is about an $80 million business. It's typically about 10% of our volume. It's a little bit higher on the trailing 12 months.

So, we're going to go through these strategic thrusts pretty quickly. First, IFE and then Lighting and then Flight Critical Electrical Power and finally Test. And then, I'm going to turn it over to Dave to talk through some of our financial history and situation.

So, IFE, what is it? It can vary depending on the kind of service that an airline wants to offer its customers. It can be seatback displays where you can pick from an array of programming options; it can be off-airplane, Internet browsing; it can be streaming content from file servers over wireless access points. Typically, any of these systems have in-seat power and that's where people can plug their computers or their tablets or their phones into electrical power during the course of a flight. That is one of the things we're best known for, actually. We helped invent this space back in the 1990s, and today, we say that we have about 90% market share. So, chances are you've used our product, whether you knew it or not, flying anywhere in the world. We work in Asia and South America and Europe and certainly in North America too. We again say about 90% market share.

It's an interesting case study because people think of power as being rather static, but the IFE world is where consumer electronics, which has very short lifecycles and high rates of technical evolution, meets Aerospace. People think of power in their homes, a 110-volt outlet, it hasn't changed much in the last 30, 40 years, but in Consumer Electronics, 110 volts has gone to USB type C – type A, which is now USB type C. And so, a lot of the systems that we've installed over the years have to be upgraded, and airlines want to upgrade to keep up with the consumer electronics that their passengers are bringing onboard. It's a chance for us to regularly and routinely replace ourselves, which is a unique market opportunity compared with many parts of the aerospace world.

Lighting, again, is a pretty important part of our business in the cabin, in the cockpit and the exterior. There are some pictures here on this slide. The picture in the upper left is a F-35 Joint Strike Fighter. We do the entire external exterior lighting suite on that airplane. The bottom left, that's kind of an awkward picture. It's looking up at a passenger service unit in a 737 MAX airplane. We do all of those for each and every seat of each and every MAX airplane. It's about $90,000 chipset. Cockpit lighting is a major part of our business in commercial transport and also through the business jets and through military.

We work with companies. Collins Aerospace is a big customer of ours. Our interface devices are mounted on their avionics boxes and then shipped for installation on the airplanes. And then, the business jet world, too. That's a Cessna M2, down in the lower right-hand corner, we do the exterior lights on that airplane. Most of our Lighting business is line-fit. I should have mentioned this earlier. The IFE stuff, the Inflight Entertainment equipment, is half line-fit, but half retrofit due to that short lifecycle and regular need to update. Lighting, on the other hand, is almost all line-fit.

Flight Critical Electrical Power. Mike (Michael Kuehn, President, Astronics Connectivity and Certification Systems) can say a whole lot about this, but we have developed a capability that is focused on two particular advanced technologies. One is electronic circuit breakers, which take the place of thermal fuses in small aircraft; and the second one is high reliability starter generators, which are not on typical machines that might have MTBF, Meantime Between Failure, of 600 hours to 1000 hours. We work with permanent maintenance and induction-based topologies that can go 20,000 to 30,000 hours, much higher reliability.

This picture sometimes shows a lot. The picture on the left is a Learjet 45. It's a pretty common business jet. You see them on tarmacs all over the place. What I want you to look at is the circuit breaker panel to the left of the pilot and the right of the co-pilot. Those are those thermal circuit breakers. Load rated wire has to be run from the generator up to the cockpit for every single load on the airplane, and then, out to the end use system. The issue here is that, if something goes wrong, a circuit breaker pops and the pilot has to respond and do something with it.

The picture on the right is a Pilatus PC-24. Pilatus is a Swiss manufacturer of business jets. This is a relatively new airplane in the last few years and it uses our electrical distribution system with electronic circuit breakers. You see none of those fuse-based components in the cockpit. The electronic circuit breakers can be remotely mounted, which reduces wire weight, and they can be automated, because they're basically little computers, so the plane can kind of fault-resolve itself without the pilot even being involved in many circumstances. Then, the plane tells the pilot what happened and the pilot has the opportunity to adjust or revise the situation as he or she may see fit. And so, safety, weight, flexibility, reliability, big improvements.

And we're winning a number of programs. Here are some of them that are listed. What I want to call your attention to is the FLRAA program. Second from the bottom, Future Long Range Assault Aircraft. It's the US Army's planned replacement for the Sikorsky Black Hawk and Bell is a long customer of ours for this type of product. You'll notice that we did the Bell 505 and Bell 525 also on the list. There are 4,000 Black Hawks out there. We don't know how many FLRAA aircraft are going to be built, but Bell has picked us to develop the electrical power distribution system on that airplane. It's a tiltrotor. It offers significant speed and range advantages for moving troops around the battlefield, which can be particularly important in certain theaters and it promises to be a really big program for us.

Kind of middle of the page there talks about our chipset content expected to approach or exceed about seven digits, about $1,000,000 an airplane. That's a lot. We're about a third of the way, or maybe a quarter of the way, into a $65 million development effort, which will largely be concluded by the end of 2026. This is a list of programs. We are a smaller company by aerospace standards, but I like to describe us as having pretty long fingers, where you name the airplane or the manufacturer and we tend to have pretty good content on some of it.

And finally, our Test business. Our Test business has two main objectives. It's about an $80 million business. It is treading water financially at this point. We have two new initiatives that we're pursuing. One is Transit Test for trains for municipalities. The second one is Radio Test. Our Transit initiatives have struggled, frankly, with the work from home trend that's been going on since the pandemic took place. Work from home means people aren't on trains, which means they're not buying tickets, which means the municipalities are struggling to support their capabilities with transit, and our kind of capital equipment has, I think, suffered accordingly. We won two programs, in New York City and in Atlanta, about $55 million for those two programs. But it's been slow, tough sledding, otherwise, as the pandemic hit hard. We think it's going to improve. But today it's still pretty dire.

The Radio Test world has more promise. We won a program earlier in 2020, $215 million IDIQ, indefinite delivery, indefinite quantity, for the US Army to develop a platform to test all the radios they use. The US Army, as you might imagine, has a lot of communication devices. They want a single test platform that they can use to verify and maintain the capability of those systems before their people go out and do what it is they need to do. And so, of the $215 million, we've been awarded about $14 million to date. We expect this to get into serious production by the end of next year, 2025, and it should be like a five-

year period of performance for that $215 million. So, you can imagine what that kind of impact that can have on an $80 million business.

So, with that, I think I left my friend Dave about five minutes to talk through our financials. Dave, why don't you take it away?

David C. Burney
Executive Vice President & Chief Financial Officer, Astronics Corp.

Sure. The takeaway from the financial slides is going to be a picture of recovery as, if you recall back to the chart Pete showed, over the last five years, we dipped during the pandemic, went through the pandemic at some really low sales levels, and started a recovery mode a few years ago. During 2022 to 2023, we had some headwinds with supply chain, employee turnover and inflation, like most companies, and we have long-term pricing, so we were committed to some pricing where the margin was shrinking as the inflation ramped up significantly in 2022. We're rolling off those long-term contracts, And we're getting better pricing. What you're going to see as we move forward here, and we started to see and realize in 2024, is improving margins. We tend to have in excess of 40% incremental contribution margin when our top line grows, so we have a lot of operating leverage that goes along with that.

Our bookings have been strong and our backlog continues to be strong. We're at over $600 million of backlog right now. The vast majority of that is deliverable within 12 months. If you go back to comparable level of sales prior to the pandemic, say, $200 million a quarter, our backlog at that time was about $400 million, so it's a really healthy backlog right now versus going back to kind of the normal period prior to the pandemic. Next slide here.

You can see the margins growing here as our top line grows. Now, we have some slides at the end of the deck here that I want to point you to. I don't think we'll have time to go through all those, but there were a number of one-time type events that happened in the third quarter that dampened the GAAP margins and operating profit here that would have been better than this. We had a customer bankruptcy and we had some warranty reserves that hit in the third quarter. But the key here is, the incremental volume is going to drive operating margin growth as well as the repricing of our longer-term contracts. Okay. Next.

Again, GAAP earnings per share and EBITDA continues to be suppressed based on some of these one-time things that are in the charts at the end of the slideshow. On an adjusted basis, our EBITDA for the third quarter was up to 13.3%, or $27 million, which is trending toward where we think we should be operationally, which is in the high teens. We, ultimately, think we should be a high-teen EBITDA margin company here and we are moving toward that and the trajectory is on that path. Next.

As many of you may have seen, we just did a convertible note offering. The note allows us to do a couple of things. Most importantly, it provides some additional liquidity and financial flexibility to address a potential obligation with a patent lawsuit. We don't know what the decision will be on that, but the plaintiff in the lawsuit has asked for a significantly larger judgment than what our argument is. We learned this in October and we need to move really quickly to provide liquidity to cover the worst-case scenario there. Again, it was a prepare for the worst type of situation, so we were able to go quickly to the market with a convertible note that has a conversion price of $22.89. That's a 30% premium to where the stock closed before the note was offered. It allowed us to pay down a $55 million high interest term note and the balance was put against our asset-based loan. So overall, our interest expense is going to be down a little bit as the coupon on the convert was 5.5%. Next one.

This just shows the indicative terms of the convert. It was all-in including the greenshoe $165 million offering at 5.5%, provisionally callable after March 20, 2028. It's a five-year and three months' note.

I think that's it. I encourage you to take a look at some of these slides showing our adjusted EBITDA and adjusted margins that are in the addendum to this presentation.

Question and Answer Section

John Franzreb
Okay. Well, we'll try to get them fast and furious. David, you mentioned the 40% incremental margin. What revenue thresholds do you use to get to that dropdown?

David Burney
Well, right now, we have always had a lot of leverage on our sales. Typically, for every extra dollar we see, we see at least $0.40 go to the operating margin line and gross margin lines there. So, that's happening now, and that's where we were prior to the pandemic too. You can see that, as we moved from the beginning of the year into the second and third quarters, we saw that incremental margin be realized.

John Franzreb
A question from the audience. Your book-to-bill was less than 1 for the first quarter and sometimes in 3Q 2024. Do you expect that to be a near-term blip or has the demand environment cooled?

Peter Gundermann
I would not say that the demand environment has cooled; however, we are working through some weird situations in the business, especially with the Boeing strike. Boeing is our single 10% customer and our observation is that they have really held back their orders starting in the third quarter, even in advance of the Astronics Corp. (ATRO) strike. It's almost as though they knew a strike was coming and they didn't want to place orders for product that they didn't expect to meet or want to receive. Our bookings are a little bit lumpier than our shipments, for sure, so we tend not to get too concerned about any particular quarter that might be higher or might be lower. It's really a rolling two or three or four quarter number that you want to stay focused on.

John Franzreb
Since you touched on it, everyone's going to want to know a little bit about your thoughts about Boeing. How do you manage inventory and production levels in light of some of the uncertainty? And you could probably add your thoughts about Airbus also.

Peter Gundermann
Well, they are kind of both in the same boat in that they have huge backlogs and a lot of demand, and they both want to ramp production for widebodies and narrowbodies. That's about where the comparison ends. I mean, Boeing's working off of a very small base, obviously, with the strike especially and some of the problems they've had in terms of production ramps, but we don't know what that means for us. I think they're going to put out a plan that they want to get up to that 38 ships limit that the FAA put on them for narrowbody production in 2025, but I think they're going to start significantly lower than that. What we would expect is that we're going to be turned on for some intermediate delivery level while they initiate production and while they start their ramp. We don't know what that's going to be yet. Our working number is something like 20 ships a month, but we're going to have to wait and see. We don't know for sure.

John Franzreb
Right. Regarding the pricing of contracts, did you include clauses regarding inflation in those contracts or is it a onetime reset?

Peter Gundermann
I think the world is re-learning how to work with inflation and how to anticipate it contractually. We did experience really rapid input cost increases when inflation was hot and heavy. A large percentage of our overall production is governed by long-term contracts. 737, for example, is like a four- or five-year contract, and as those contracts come up and now we're two years into it, you have the opportunity to reprice and we've been doing that. I think inflation hurt us for the last couple of years in terms of margins, but we expect that we're going to make up a lot of that ground in 2025 and onward as those contracts get repriced.

John Franzreb
A question about the lawsuit, what are your thoughts about the timeline of that resolution?

Peter Gundermann
Well, in the UK, we're expecting a decision sometime over the next, say, four to eight weeks. We're expecting an appeal. As it's been indicated to us, either side may have grounds to appeal depending on how the judgment comes down and that appeal in the UK would likely occur in the second half of 2025. So, you can think of it as a battle and a war. The first battle will be this first ruling, but the real war will end with that appeal process later in the year.

John Franzreb
Okay, we've gone a little bit over here, but there's an opportunity here for some closing remarks?

Peter Gundermann
I don't think I have any closing remarks. I'd like to thank Sidoti for putting on this show and thank everybody for attending our presentation.

John Franzreb
Peter, Dave and Nancy, thanks for being with us today. Have a great balance of your day.

Peter Gundermann
Thank you. You too.

Nancy Hedges
You too.

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) Sidoti Conference webcast that occurred on the date noted.