

Operator: Good day, and welcome to the Astronics Corporation First Quarter 2020 Financial Results Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Deborah Pawlowski, Investor Relations for Astronics Corporation. Please go ahead.

Deborah Pawlowski: Thanks, Christina, and good morning, everyone. We certainly appreciate your time today and your interest in Astronics. Joining me on the call are Peter Gundermann, our Chairman, President and CEO; and Dave Burney, our Chief Financial Officer.

You should have a copy of the first quarter 2020 financial results that were released this morning. And if not, you can find them on our website at astronics.com.

Let me mention first that we may make some forward-looking statements during this formal discussion as well as during the Q&A session. These statements apply to future events that are subject to risks and uncertainties as well as other factors that could cause actual results to differ materially from what is stated here today.

These risks and uncertainties and other factors are provided in the earnings release as well as with other documents filed with the Securities and Exchange Commission. These documents can be found on our website or at sec.gov.

During today's call, we will also discuss some non-GAAP financial measures. We believe these will be useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results per accordance to GAAP. We have provided reconciliations of non-GAAP measures to comparable GAAP measures in the tables that accompany today's release.

So with that, let me turn it over to Pete to begin. Pete?

Peter Gundermann: Thank you, Debbie, and good morning, everybody. We are going to talk through a brief summary of our first quarter, and some of the higher issues, but that is probably not what people are most interested in. So, we are going to spend most of the time on the call talking about the COVID-19 situation, how it is affecting Astronics and what we are doing or have done about it.

Before we get into it all though, I thought I would briefly cover three goals that we are trying to simultaneously achieve as a company and all three are important and have to happen. The first is to protect our employees and the safety of our workplace. We had at the beginning of the quarter, close to 3,000 employees working in 18 locations around the world and as the pandemic took over, it became, obviously paramount to learn some new tricks and to develop some new practices. We feel like we have done that pretty well and pretty successfully, and will continue to do that in the future.

Secondly, we wanted to keep serving our customers with the service and products that they expect and need. We were reminded over and over in the first quarter, and have been reminded recently, that we're an essential business and that a lot of very large companies in the U.S. and around the world are highly dependent on our products, and they expect us to keep producing. We feel like we have done that reasonably well through the first quarter and up to today.

The third thing that we have set out to do is to position our company not only for survival during the pandemic, but for success afterwards. We want to come out of this thing as strong or stronger than we have been in the past and we feel like we have taken solid steps to do that, and we'll talk through some of those in the second half of this call.

First quarter review, going back, to the beginning of December, we actually thought that the first quarter was going to be a strong start for 2020. I do not mind telling you now; our internal plan at that point was to see revenues somewhere in the neighborhood of \$190 million. We thought that, it would be the slowest and lowest quarter of 2020. Turns out, we were obviously wrong. The reason we had those assumptions was that we felt we made a lot of success in the fourth quarter resolving and cleaning up some issues that have been plaguing us operationally for some time. I will not go through them in detail now, but many of you who follow the company and probably remember some of them; they had to do with what we used to call our three problem children or problem companies.

We also were under the assumption in early December that the 737 MAX would be recertified at year-end. That was important for us because the grounding, as it went on through all of last year, had begun to create a capacity crisis or challenges for the airlines which we felt was depressing our aftermarket sales. Simply because they didn't want to take aircraft out of service to put on our kind of IFE-related type products in the aftermarket and which is an important part of our business.

Turns out that assumption was obviously wrong. The MAX recertification slid into the new year and at this point, it's still a little bit up in the air. Conventional wisdom, or most people anyway, think that is likely to occur late summer, early fall. We are hoping that is the case, but things actually even degraded a little bit further from that. We have a pretty good line

fit position on the 737 MAX. We were delivering through all of 2019 to the tune of about 40 ships a month at \$95,000 per ship, making it one of the largest aircraft production programs that we had as a company in 2019. Everybody on the call is probably aware that Boeing suspended production of 737 as we entered the new year. So our first quarter went from 40 ships a month essentially to zero, which hurt our revenue.

We issued an update on February 3, and it covered a lot of these topics. It covered a development effort that we called Avenir, which we wrapped up in the fourth quarter. I talked about restructuring of our antenna business, I talked about an IP dispute, I talked about suspension of stock buybacks and withdrawing guidance because of the 737 situation. But, there was no mention in that press release on February 3 of COVID-19, kind of interesting to look back. I haven't gone back to study the transcript from our fourth quarter call, which was February 26, but I bet on that call, if we were to go back, there was little or no mention of COVID-19 also. A week later, that situation started to change. That is when it became clear that the pandemic was affecting Europe and the U.S. and even hitting some of the communities in which our operations are active such as in Kirkland. Washington is one of our largest operations and one of the first places where an outbreak was reported. We proceeded through March to do all kinds of things to our operations that we have never thought about really before, involving social distancing and work from home. Everybody on this call has probably heard all these terms and is familiar with the concept, and I am not going to go through it in detail.

Suffice it to say that approximately half of our employees by the middle of March were working from home and continue to do so today and half of them are working in our facilities. As I said earlier, we have 18 facilities sprinkled around the world. For the most part, we feel that we've been pretty successful keeping those facilities up and running as essential businesses and effectively doing the kinds of things that we're supposed to be doing. We have had a few shutdowns by government action. We have a facility in France that was down for a week. We have an engineering operation in India, which is very limited in terms of being on site, but people are working from home. Across our company, we started the quarter with about 3,000 employees. We did have a handful of positive diagnosis, maybe 12 to 15, no row clusters, but we did have a handful of shutdowns for deep cleaning in our operations. It has been an adventure.

At the end of the day, our top line revenue for the first quarter came in at about \$157.6 million. That is actually in the range of what we expected when we issued our February 3 update release, but it was our lowest quarterly revenue level since way back in 2017. On that, we reported a net loss of \$67 million, but if you have read the press release, as I am sure you have, you know that we had a significant write-down of intangibles during the quarter of \$74.4 million. That is directly related to a change in expectations in the market related to COVID-19 and specifically to airline aftermarkets and aircraft production rates at some of our more recent and larger acquisitions where we carried a lot of our goodwill. That \$74.4 million is a noncash expense, and it essentially removes half of the goodwill and intangibles off our balance sheet.

We used a new measure of profitability, adjusted EBITDA. Even ignoring the write-downs with the reduced revenue level, we were still able to put in an adjusted EBITDA of 10.3% of sales. It is a measure that you can probably expect to see in our financial statements going forward.

Bookings also in the first quarter were relatively strong at \$167 million for a book-to-bill of 1.07. There were some significant wins in there that we will be talking about in the future, but we are not really able to talk about right now.

So long story short, that is really the depth that I intended to go into for the quarter: depressed revenue levels, a big impairment charge, adjusted EBITDA that was perhaps a little bit higher than people might have expected on that revenue level and pretty good bookings, all things considered. We will take questions later on this, if anybody wants to go into more detail.

I want to dive instead into the COVID-19 situation and how it is affecting our business, and what we are doing or have done about it. We have done a lot, in my opinion. The first thing we did is really started studying our customer base and our demand streams or the forces of demand that bring business to our company. These are categories that are a little bit different from how we typically describe ourselves, and are kind of custom crafted for the situation at hand. These numbers are not numbers that people are used to seeing.

The first demand stream that we assessed was the government and defense demand stream. This is largely our Test business and military aircraft or military aerospace. If you add those two together, you end up with a total that was about 20% of our 2019 revenue. If you do the math, that is about \$155 million or so. From our assessment, this portion of the business appears stable and strong and, if anything, even seems to be accelerating. This includes our Test business that does a lot of government work. It's also in Aerospace, missile programs that we do some power conditioning; some structures work and its military aircraft like Joint Strike Fighter which is a very large program for us. Across the board, it appears to us that this part of the business is quite stable and dependable at this point.

The bigger chunk of our business, and the second one I want to talk about has to do with commercial airplane production or maybe more specifically, airplane production for commercial transports and general aviation or business jets. This means that an airplane is produced and in order for the airplane to be completed, our products need to be put on it, which means we supply to the OEMs or the top-tier suppliers who then supply it to OEMs. This category, or this demand stream, was about 55% of 2019 revenue. If you run the numbers, that was about \$425 million of our business last year. Of the two, commercial transports and GA or business jets, transports are by far the most important -- \$350 million out of the \$425 million or so.

I am sure many people on the call follow the industry closely, have been looking at the announcements so it is not a surprise to see that most producers across the board have talked about planned production rate reductions of about 30% to 35% or so. This planned reduction presumably will affect us almost directly. We feel we need to model in 30% to 35% reductions, assuming that the aircraft OEMs stick at those rates, at least for the time being.

The third demand stream is significantly different, it is aftermarket. For us aftermarket is mostly selling IFE-related equipment to commercial airlines around the world. IFE is in-flight entertainment. If you go onto an airplane and you want to use your computer or you want to watch a movie or you want to cruise the Internet, there is a very good chance that you are working with our equipment. A significant amount of our sales in a normal year goes to airlines. Last year, in 2019, it was about 25% of our sales, about \$195 million or so. Not all of it is IFE-related in the aftermarket, but that is the lion's share of what we do. Our expectation based on the status of the airlines, not only in the U.S. but around the world, is that source of demand is going to drop dramatically. We figure perhaps 80% to 90% by the end of the year.

Combining these three demand streams with our existing backlog and our first quarter results, we imagine that 2020 sales could drop somewhere in the region of 30% to 35% from 2019. If you run the numbers, and I am sure many of you have, that puts us in the range of \$500 million to \$540 million of revenue. Last year, we did about \$773 million. I don't mean to suggest this as guidance. Like many companies in the industry, we are not willing to go out and stake a claim at this point or a commitment on what we are going to be able to do, but I want to provide color as to how we think the market is evolving. Of course, when you are sitting in my position and you are running a company and you see that kind of demand change, it implies significant organizational and structural and cost changes in order to stay solvent in the face of the demand change and you need to know what you're shooting for. For now, we are shooting for a revenue level somewhere in that range based on the logic and analysis that I just talked through.

So what have the changes been that get us to where we think we need to be to achieve the 3 goals I talked about earlier, specifically, keeping our customers served and positioning the company for survival during the pandemic and success afterwards? First of all, with a big drop in demand comes the drop in material expense, on material expenses on the order of 35% of sales, and those kinds of reductions are pretty much automatic. You don't ship the product. You don't have the material expense. There are some challenges with reducing ongoing purchasing requirements. The cash may be a little bit of a challenge as we adjust to the lower volume, but we are well on our way with that.

Much more significantly maybe, we have reduced our headcount across the company by the order of magnitude of 30% already. We started the first quarter at about 3,000 active employees. Today, we're operating at about 2,000. That's a significant step-down, a very painful one for our organization, as you can imagine. But, it's one that we think lines up our cost structure with what our expected demand picture is likely to evolve like. We have a number of employees on furlough at this point, hoping to bring them back if demand warrants it. In some cases, we expect we are in a little bit of a short loop of low demand, which will come back in the second and third quarters. So we expect there will be some calling back of people on furlough list. But for the most part, we're down from 3,000 to 2,000.

We have also frozen pay adjustments for the year. We have eliminated cash incentives. One of the things that we do as a company is have some pretty broad cash incentive programs that stretch throughout the organization. It is not just higher-level employees or managers that are affected here, everybody is affected in our little family. So at a minimum, people are seeing 5% to 10% pay reductions at the higher level in the organization. Cash wages will be down closer to 30% to 50%. We have reduced all discretionary expenses, travel, trade shows, that kind of stuff. We have also really taken an aggressive cut to our capital spending plan. When we started the year, we thought we would be in the neighborhood of \$20 million to \$25 million. Our current plan has that closer to \$8 million, so a significant drop in capital spending. wlt probably goes without saying, but we have dropped acquisition and stock buyback initiatives. We think these cost management, cost reduction initiatives have shaved about \$135 million or so from where we thought we would be in 2020 when we began the year.

Again, this is more color than we normally give on the bottom line, but in the current situation, we think it is a service to tell you what we think even though we are reluctant to call it guidance at this point, right? We believe that if demand

turns out to be in the \$500 million to \$540 million range that we, first and foremost, should be cash positive. That is an important benchmark for us because while we have always been conservatively financed, obviously, when you take that bigger hit to your revenue and a big hit to EBITDA, covenants can come into play. And we're not in a crisis situation with our banking arrangement today and we weren't at the end of the first quarter, but we anticipate if demand continues as we expect, that we could be by the end of the year. I will come back to that in a minute. Dave is going to talk through our financing strategy going forward in a moment.

So we think that what we have done at \$500 million to \$540 million will make us cash positive. We also think that we should achieve a positive adjusted EBITDA of the high single-digit percentage of sales. So somewhere 5% to 9% of sales. That is our objective. It is also important to note that if demand turns out to be different from our expectations, we have a number of other levers that we can continue to consider pushing or pulling to keep ourselves cash positive, first and foremost, but also to achieve a reasonable EBITDA given the situation. It is anyone's guess at this point about how things are going to evolve towards the end of this year and into next year. Lots of head-scratching going on about that around the world, not only with our company. But, we're committed to this plan. We want to stay safe for our employees, we want to keep serving our customers, and we want to position the company for survival and success subsequently.

So switching to the third topic, liquidity and the balance sheet. We drew down \$150 million on our existing revolver at the end of the first quarter. We had a reasonable quarter for cash anyway, and so we ended up the quarter with \$188 million cash on hand.

I talked a moment ago about the expectation that while we're not in a problem situation at the moment, if demand turns out like we think it will, we could run in a leverage covenant challenges towards the end of 2020. We got out in front of that situation and initiated a discussion with our banking group. Dave and his team led us through that very well, if you summarize how that went and where we ended up.

David Burney: All right. Thank you, Pete. As Pete mentioned, a little over a month ago, when we started pulling together the forecast as the pandemic information was coming to light, it became clear that if our sales were indeed going to drop to the levels Pete had just talked about, even with changes that we were going to make to the cost structure, that we were going to bump up against and probably exceed our maximum leverage coverage ratio. So proactively, we started working with the bank group. And ultimately, we got a deal done that we closed yesterday. Some of the highlights of the deal is we resized the credit facility down from \$500 million down to \$375 million. We suspended the maximum leverage coverage covenant through the second quarter of 2021. And beginning in Q3 of 2021, the maximum leverage covenant will come back into play at 6x adjusted EBITDA, and it will step-down in subsequent quarters, down to 5.5x in the fourth quarter of 2021 and then step-down beyond that into 2022.

The new minimum liquidity covenant is cash plus the available revolver, and that needs to be at least \$180 million. Our plan is in the next week, we will pay down the outstanding revolver balance to carry about \$50 million of cash on our balance sheet. That will give us about \$50 million of space on that covenant or the \$230 million of liquidity versus \$180 million requirement.

We have a new minimum interest coverage ratio of 1.75x that will be measured quarterly, excepting the first quarter of 2021, which will drop down to 1.5x. We have additional restrictions on acquisitions and share repurchases. And there's a LIBOR floor of 100 basis points on the pricing grid. So right now, for modeling purposes, we're at about 3.25% or 325 basis points for the effective borrowing rate on our drawn facility.

As Pete mentioned, we expect to be cash flow positive. From a very high level, if you use the range of EBITDA that Pete mentioned earlier of 6% on \$500 million, the math comes out to \$30 million of EBITDA. We expect about \$8 million of CapEx and about \$7 million of interest expense, not anticipating any cash taxes, so that, that gets us into about a \$15 million cash positive range for the year, just using the example that Pete threw out there as far as cash flow positive.

Some of the things that we are keeping an eye on is, as revenue goes down in a typical situation, you see some cash flow pick up as your working capital drops. We are expecting to be stretched by some of our customers on our cash collections. We are expecting some drop in our inventory levels. I think these two are going to offset each other largely. We have taken some actions to extend our payables by a couple of weeks to our supply chain. Also, we haven't built in a significant amount of working cap reduction. When I talk about positive cash flow, I think that could be upside to us to the extent that we can manage our inventory levels proportionately to the sales drop. I think that is it, Pete.

Peter Gundermann: Thanks, Dave. I think that concludes our prepared remarks. Again, our three goals, protecting employees and creating a safe workplace. At this point, we feel like we have done that pretty well. Certainly, standards will change as the pandemic fight continues. I think we are well plugged in to what best practices are. We will continue to

do the best we can with that situation. I think we have done a good job hitting our customers' delivery requirements. In many cases, we continue to deal with continuing development of new programs, especially on the military side, which have not abated at all as part of this process. I think with the steps we've taken in terms of cost management and the modified facility with our banking group, which has been very helpful to us, we feel like we're well situated not only to survive the situation, but also to prosper on the other side.

So with that being said, Christina, you can open it up for questions now.

Operator: [Operator Instructions] We will go to our first question from Jon Tanwanteng with CJS Securities.

Jonathan Tanwanteng: Thanks for all the color and detail on the call, just a little bit better than most people have been fearing. I think, first, how should we think about the pacing of the quarters as you see it? Knowing what you have in backlog and when that will deliver and assuming the down 30% to 35% commentary maybe as you exit the year, what kind of production run rate in air traffic are you kind of assuming that puts you at when you exit?

Peter Gundermann: It is a good question. We are expecting that the second quarter could be materially lighter because of shutdowns, customer shutdown and things like that. At the same time, we have not seen the level of cancellations, particularly on aftermarket programs that we kind of expected to see. We are waiting to see how those two forces kind of play out.

I think the safe assumption is that we're going to be materially lower in the second quarter, and it will strengthen in the fourth quarter. It actually is going to be the strongest and part of that is timing on some bigger programs, especially in our Test business.

Jonathan Tanwanteng: Got it. So do you expect Q2 or Q3 to be your trough at this point given that you do have backlog?

Peter Gundermann: It depends on how the customer deliveries kind of play out. I think our current expectation is that Q3 will be a little bit stronger than Q2, but it could go the other way.

Jonathan Tanwanteng: Okay. Fair enough. And Dave, you gave some good color on what your expected cash flows are for this year, again, assuming that range. What was that kind of \$15 million in free cash flow inclusive of cash restructuring cost at all? What would those be?

David Burney: Yes. It wasn't inclusive of that. As of now, we have not called out any restructuring charges at this point to isolate those, but they're netted in with those cost reduction numbers.

Jonathan Tanwanteng: Okay. So that has included in the \$15 million kind of.

David Burney: Yes.

Jonathan Tanwanteng: Okay. Got it. And then, Pete, any update on how, I think you gave a good breakdown just generally how commercial aviation is going, but any update on the business jet side and kind of the problem businesses and how they're looking from last year to this year, given you've tried to improve those things?

Peter Gundermann: Well, Jon, I was hoping we would get through this call with all the other stuff going on without talking about these three. But since you bring it up, I think we're in good shape. I mean Armstrong have basically merged into CSC at this point. The buildings are sold and the people are moved. It is almost not identifiable as a separate stand-alone business at this point.

CCC completed their Avenir development in December. The first quarter was the weakest quarter of the year, but we expect results there to strengthen and then to approach breakeven. One of the watch items, though, to be frank, is that the kinds of airplanes that by their type of equipment are disproportionately operated out of the Middle East and oil prices are a driver of wealth there and oil prices are low. So historically, there has been some kind of linkage between oil prices and demand in that type of market. So we're watching that pretty closely.

Our antenna business, AeroSat, has been significantly restructured and focused on a tail antenna program with Rockwell Collins as a customer. That is actually going really well for Collins Aerospace, I should say. That is one we think is going really well. We are still early in the year, and the program is getting linked up, but we're not expecting that business to be profitable this year, but we think it's on a good track. We have always been enthusiastic about demand in that particular area, that particular corner of the market. And we may have finally found the avenue to get there that we were hoping for. So far so good with all three of those things.

What was your other question, Jon? I feel like I just grabbed on part of it.

Jonathan Tanwanteng: I think that answered most of them, but I do have one last one. Given just the pretty deep cuts and restructuring you've been making. Are there any changes to your incremental margins as you come out of the trough and as demand comes back and maybe you pull back on some of the temporary cost reductions that you've taken?

Peter Gundermann: It is a difficult question because it is hard to see how or when this situation changes. We feel like we have clarity to the end of the year. But as you obviously know, nobody really knows how this pandemic is going to be tamed and what the ramifications are going to be for resurgence to the airline industry. There is a lot of attention going into making airplanes safe. We are actually involved in that. Not necessarily a topic for today, but something we're working on. A lot of attention is being given to treatments and vaccines. I guess our thought is that it is just very unpredictable to know how the recovery is going to come back and when.

I will say that we are handicapped a little bit because we have been involved in development programs, engineering expenses and projects that are more than what a typical \$500 million company might do. We are scaled more to an \$800 million company. We have gone from \$800 million to \$500 million of those obligations and opportunities, and there's significant opportunities we feel have not gone away. So how the margins play out is dependent on that kind of yin and yang element of doing that work for customers who are demanding it and expecting it and when the airline industry gets opportunities and starts flying with load factors above like 10%.

David Burney: I would add to that. If I could be a little bit optimistic that coming through an experience in a situation like this, I would be surprised if we don't identify and find ways to be more efficient than we have been over the last few years. I expect that we will find those opportunities. I can't quantify what they are, but I think when you live through a difficult experience like this, you tend to come out the other side with better processes and some more efficiency in the way you do things.

Peter Gundermann: I just want to point out too that for Dave, incredibly optimistic perspective. I mean that is not something we usually look for from Dave around here, but anyway I'll let that go.

Operator: We will go to our next question from Michael Ciarmoli with SunTrust.

Michael Ciarmoli: Pete, just looking at this forecast for the year, what is your confidence level in shipping the \$268 million out of backlog? If I put together the current quarter plus that backlog, you would have \$425 million in revenues. But is there a risk that, that backlog is canceled, deferred, or pushed out? Any color you could provide there?

Peter Gundermann: There is definitely some risk to that, Michael. As I said earlier, we spent a lot of time probing around our customers. Some of our biggest customers sell to other customers. And those customers are airlines, and airlines are in a little bit of chaos. So it's been a little bit unclear what the quality is in a lot of that backlog. But I will tell you that we've been a little bit surprised that we haven't seen more deferrals and cancellations than we have. So there's some reason for hope.

Let me give you a little bit of color on some of these things. A lot of what we have been involved in from an aftermarket area in particular are our fleet modifications. The fleet modifications typically are quite a bit more involved than just our products. So they involve MRO space in time and they involve seats maybe and they involve certain monuments that are going into a cabin. To the extent that the trains left the station, so to speak, on some of those modifications, it appears that major airlines are continuing with those programs which is getting the program done. I think the ones that are in more trouble are the modification programs that were planned like for the middle of next year, and they're in engineering at this point and there aren't commitments to purchase orders outstanding for the products. At least that is our working thesis right now.

An interesting perspective, and it's way too early take a lot of this to the bank, but we have seen evidence in the airline industry, in particular, that there's an expectation of a lot of churn. Some airlines are going to be certainly parking airplanes, some of them are going to be moving away from certain fleets or certain models, and others may be picking those airplanes up. We tend to do reasonably well in the aftermarket side in that kind of an environment. Because invariably, some airlines will pick up fleets that are not equipped the way their normal fleets would be. Increasingly, it is normal for airlines to want to have our product on it.

So they look for consistency across their fleet. And we've seen some evidence that, that could be a meaningful driver of our business, not necessarily this year because I think everybody is just kind of holding onto their bootstraps. But as we kind of come out of this and as the airline industry settles down, that's going to be something that we're going to watch very carefully. Related to that is the fact that leasing companies have become significant supporters of our business. They like having the name-brand products on their aircraft. So they're increasingly buying bigger portions of the fleets

from the OEMs, Airbus and Boeing, in particular. When used aircraft come through and are reissued, they're up setting the airplanes with our equipment. So that churn, we think, could work to our benefit in time.

Michael Ciarmoli: Got it. That is helpful. Then your modeling, I guess, for the OEM transport declined 30% to 35%. Have you thought about or looked into what kind of inventory is in the channel? And what might have to be burned down from some of your other customers, the Tier 1s or even at Boeing directly? Could that exacerbate some of the OEM declines? And does that maybe run a little bit of a risk to your inventory working capital tailwind?

Peter Gundermann: We really don't think so. Our major OEM shipments in our business, a lot of it comes out of our PECO operation in Portland, Oregon, PSUs, passenger service units from certain structural components and certain injection molded components. We have really been on a fine-tune just-in-time type of situation there for a long, long time. Where we build the parts and load them up into a crate and a Boeing truck pulls up at 5:00 in the afternoon and picks up the crate and take it up to the production line in Everett or wherever and then comes back the next day and get to another one.

So there might be a little bit of inventory, but it's nothing material. The other big source of product that we ship is more on the wide-body side. It's IFE related. It usually doesn't go direct from our facility to Boeing, but it goes through the major IFE companies: Panasonic, Thales, Zodiac. We don't have as much visibility into that pipeline. But when you think about it, the aircraft going down the production line are all fleet aircraft bought by specific airlines who want them configured for their particular fleet.

So Boeing is going to order BFE or maybe the airline is, I don't know how it works with the IFE companies. But there's specific ship sets matched to specific airplanes, and there's no real reason to build up inventory either at the IFE company or on the production line in Boeing or Airbus. So we don't think that's a major source either. There could be some inventory in the aftermarket. But even in the aftermarket, it's usually lease purchases, ship set and materials bought fresh for an airplane. So I don't feel like we think that's a major concern for our business. Does that make sense?

Michael Ciarmoli: That makes sense. That is helpful.

Operator: We will take our next question from Austin Moeller with Canaccord.

Austin Moeller: So just a quick question about the Boeing resumption of production on the MAX. So where does Astronics stand with the MAX shipments? Have they restarted? And sort of how do you expect volumes to ramp this year on the MAX now that production is going again? And do you think that performance could be a little better than what's in the guidance if we get a recertification for the MAX?

Peter Gundermann: Well, there are things that I know and can talk about and there are things I don't know, and often I still talk about those. But what we don't know is when Boeing is going to restart production of the MAX and what their production rate is going to be. That is obviously something for them to work out. I am sure it's linked to FAA certification, and that's something they know much better than I do, for sure.

I can say that we are building, and we are building to the tune of plus 20 ship sets a month or so. We have been shut down for January, February and March, but we've resumed that now, and we have purchase orders going out for a few months. And as far as we know, that's what we think we're going to be continuing at.

I have read, like a lot of people, have that Boeing expects to start slow and ramp to 30. It could be that they want to keep the supply chain going at 20 a month, which means they're going to build some inventory, they're going to eventually get up beyond that, and then we'll be shipping less than their building. I don't know how that's going to work out. I know that some suppliers I see have gone down from 20 a month. They stated that publicly. But today, that has not been our experience.

Austin Moeller: Okay. So you are expecting, going forward for the time being, to maintain 20 a month?

Peter Gundermann: That is the best information we have, yes.

Austin Moeller: Okay. Just sort of shifting gears over to business jet. It seems like OEM build rates are down, but they are starting to see some more business jet retrofit activity. Do you have any color on that part of the business at all?

Peter Gundermann: Not really. That has not been an active part of our business. Certain of our product lines could be adjusted to more adequately address the aftermarket. But today, we're primarily linefit.

Austin Moeller: Okay. Have you seen any changes sort of in the airline industry in general associated with the risk around the Lufthansa lawsuit?

Peter Gundermann: No. Not at all. That is an ongoing process, of course. We have got some events scheduled for this summer, which we are wondering if they're going to actually happen because they're over in Europe. But no, we don't see any market ramifications to that process at this point.

I guess one other comment there, just since you brought it up. Just to make it clear, the infringing technology, even if we are found to be infringing at the end of the day, we designed out of the system way back in 2014. And we got Boeing and Airbus to actually approve the design changes in what I consider record time, like 3 months or something. Everything we have done since then and do today is really not subject to that suit.

Austin Moeller: Okay. So I guess, irrespective of the outcome of the lawsuit, it doesn't really change what you're currently delivering to Boeing and Airbus at all?

Peter Gundermann: No.

Austin Moeller: Okay. Can you comment on the public Test business and what happened to it or for public transit?

Peter Gundermann: Well, it is an active pursuit, and we're working hard on our New York City program that we announced earlier last year, and there are others that we're pursuing. Our plan is to have that be a very active part of our Test business, increasingly active as the year wears on. We are expecting a couple of other program wins and announcements.

Timing is a little bit fuzzy. Municipalities are working from home, just like everyone else. Your question maybe is wondering more specifically whether the pandemic will affect demand for public transit. I think in the short term, that is likely the case. I mean I understand ridership is way down, for example, in New York City. But I think the municipalities that we're in touch with, these are long-range, very expensive programs that go way beyond our company. I think there is a commitment that public transportation is going to become more important in the future, not less important.

We're not seeing any pandemic-related delays associated with those programs at this point.

Austin Moeller: Okay. So even in New York City, that is sort of continuing forward in the pipeline irrespective of the demand shock going on?

Peter Gundermann: Absolutely. Yes.

Operator: [Operator Instructions] We will go to our next question from Scott Lewis with Lewis Capital Management.

Scott Lewis: I was just wondering about the, I think approximately 400 MAXs that Boeing has parked, has IFE been delivered for purchase for those airplanes yet? Or might that be some additional revenue when those start being delivered?

Peter Gundermann: Probably a little bit of both. For the most part, I would say, and I am speculating here a little bit, Scott. It is a good question. I haven't specifically dug into it. But my working assumption is that most of those airplanes were ordered long ago. And when they were ordered, we weren't operable on the airplane. The narrow-body trend really has picked up speed in the last couple of years. Most of the airlines are in the habit of installing IFE after delivery. I would think most of them will get whatever they're going to get aftermarket once they're delivered.

But I have to flag that question, and I got it. I am just not completely confident in my answer. But I think over time, linefit is going to become more of the standard for a narrow-body like it is for wide-bodies. Today, a wide-body airplane, you just don't see wide-body airplanes built without power, for example, from nose to tail. The IFE configuration can vary depending on who the customer is. But for the most part, you're going to see an instant power system and you're going to see a feedback video system. But I think in the narrow-body, we're a good decade behind that. Some will be equipped and some will be equipped aftermarket.

Operator: And it appears there are no further questions at this time. I will turn the call back to management for any additional or closing remarks.

Peter Gundermann: Well, thanks for your attention. As Scott was saying, we feel like we have been through the ringer here a little bit over the last quarter. In a way, we are kind of looking forward to the second quarter being a little quieter. But we look forward to reporting back soon. And again, thank you for your interest in Astronics.

Operator: That concludes today's call. Thank you for your participation. You may now disconnect.