

Operator: Greetings, and welcome to the Astronics Corporation Third Quarter 2020 Financial Results Call.

[Operator Instructions] As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Deborah Pawlowski, Investor Relations for Astronics Corporation. Thank you. You may begin.

Deborah Pawlowski: Thanks, Melissa, 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 David Burney, our Chief Financial Officer. You should have a copy of the third quarter 2020 financial results and the contract award release that was 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 that 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 in accordance with 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. Thank you for joining us. Our agenda today is to, first and foremost, talk about our third quarter, which was a very light quarter, heavily impacted by the ongoing COVID-19 pandemic. We will also talk a little bit about what we see happening in the future. We're coming up on the end of the year here, so the fourth quarter is something we can talk about with some level of surety.

We'll review our major market segments or perspectives on the market, and then we'll open it up for questions and answers. Before we get going though, just a quick review of our major overlying goals of the company as we work through our current situation.

We have the ongoing objective of protecting our employees and the safety of our workplace. I think we're doing a pretty good job there. In general, we've learned to deal with the pandemic and work from home and all the stuff that comes along with it. We have little interruptions, here and there, but for the most part, we continue to function and continue to operate pretty well.

Second, we want to keep serving our customers with the level of service and productivity that they expect and need. That's been a little bit of an exercise through the pandemic as the goalposts keep moving, sometimes in, sometimes out. But I think we're doing a pretty good job, in general, staying in front of our customers' requirements, which is important.

And finally, we want to position the company, not only for survival during the pandemic but for success afterwards. We are not optimizing the company for our current level of volume or what the market is giving us currently, but we're keeping an eye on where we expect to be on the other side of this as the markets recover as we believe they surely will.

That being said -- digging into the third quarter, it was a very difficult quarter, very light sales and orders, heavily impacted by COVID-19 in the vast majority of our business.

As a reminder, in normal times, 2019 before the pandemic hit, 70% of our revenue or so came from the commercial transport industry, both line fit production of new aircraft and the aftermarket servicing airlines

and leasing companies. That has been a pretty good place for us to be over the last decade or more. But during a pandemic, when people stop traveling, that's a pretty tough place to be.

When we last talked, we were beginning to see a resurgence of air travel - domestically, anyway, in the U.S. in the July-August time frame. We had the hope at the time that, that resurgence was going to continue and strengthen through year-end, but that has not happened.

But our core market, our commercial transport market has largely stagnated since that time in terms of flights and passengers up modestly, but not where we thought it would be and not where most people in the industry thought it would be. We'll talk more about that later on in the call here.

With that as a backdrop, our revenue for the quarter was \$106.5 million, that's as low as we've done since back in 2013, down 40% year-over-year, down 13% sequentially from the second quarter. Our Aerospace segment, which, in normal times, is 90% of our business, was responsible for all the draft, down 48% year-over-year.

Our Test business, normally 10% of our business, was actually up 37% year-over-year, excluding the semiconductor business that we sold a year ago. That increase in Test is a function of consistent and robust government spending also aided by a couple of acquisitions that we did, smaller acquisitions, in 2019.

Fortunately, we implemented a number of cost-saving measures as the pandemic took hold. These are a little bit old news at this point, so I'm not going to go through them in detail. We figure today when we look at the way our company is structured, we took about \$160 million or so of costs out of our business from where we thought we would be when we entered 2020, which seems like a long time ago now.

These cost-saving measures make our income statement look somewhat tolerable, GAAP loss was a negative \$5.2 million, or 4.9% of sales. Our adjusted EBITDA was just about breakeven, Dave will talk about adjustments in a second. Cash from operations was a negative \$10 million, something we're a little bit disappointed by, but we think we're coming to grips with as our business stabilizes at the current level.

Bookings during the quarter saw a slight uptick of \$81.6 million, that's fairly significant on a percentage basis, but it goes from disappointing bookings in the second quarter to mildly less disappointing bookings in the third quarter, but it's going the right way. We feel that we've experienced some destocking effect as OEMs settle down at reduced production rates.

We continue to see a pretty weak aftermarket in commercial transport, we'll talk about that a little bit later in the call. One positive aspect in the business, in general, is represented by a program that we announced earlier today from a customer called Xenex, a \$20 million order, which is not exactly mainline aerospace business for us, but is a complement to some of the design capabilities that we offer the world, in general, and are now complementing with contract manufacturing services.

We also announced earlier this week a pretty good order for the Atlanta Rapid Transit Authority or our customer, specifically Stadler, that's a \$30 million program. For those who keep track of such things, the Xenex order was included in our third quarter bookings totals. The MARTA-Stadler order was not. That's a fourth quarter booking. So that will show up in our fourth quarter numbers when we release them at the end of the year.

I think with that, I will turn it over to Dave to go through some details on our income statement and balance sheet and financing, and then I'll come back and talk about how we see our markets, in general. Dave?

David Burney: Thanks, Pete. Really, for the quarter, it was a pretty straightforward quarter. Not a whole lot of commentary from me. But walking through the operating results for the quarter, we had GAAP net loss of \$5.3 million. That's net of an income tax benefit of \$5.8 million and a GAAP pretax loss of \$11.1 million on sales of \$106.5 million, which, as Pete mentioned, was our lowest level of sales since 2013.

For the first time in a few quarters, we didn't have any large reserves or accruals affecting the quarter. The loss was simply a function of the low sales level for the quarter and representative of our margin profile and our current cost structure at this time.

Roughly speaking, our EBITDA breakeven point is about this level of sales, but it can vary subject to mix changes. The \$6.3 million Aerospace segment operating loss is reflective of the low sales level during the quarter, and our cost structure, which supports our current product development initiatives and an expectation that revenues will increase over the coming quarters.

The Test segment margins were lower than expected, primarily due to higher legal costs and inventory reserve that combined totaled \$1.3 million.

Adjusted EBITDA for the quarter was roughly breakeven, as I mentioned, at \$55,000 loss. Adjusted EBITDA is reconciled to net income in a table on Page 11 of our press release.

Regarding our liquidity, managing liquidity is critical as we bridge to a recovery. To that end, we believe we can hover around cash flow breakeven and positive EBITDA at our current cost model over the foreseeable future, assuming no further declines in our markets.

For the third quarter, cash flow from operations was a negative \$10 million for the quarter and positive \$31.5 million year-to-date. The negative cash flow from operations during the quarter was driven by net working capital increase that used \$5.3 million of cash.

Our challenge during the rapid downturn in sales since the start of the pandemic has been to renegotiate purchase commitments for raw materials. Slowing down incoming raw material inventory continues to be a struggle with raw material inventory increasing by \$8.7 million during the quarter and \$20.5 million year-to-date.

We're contractually obligated for these commitments to purchase minimum volumes of certain high-volume long-lead items. These commitments were made generally during the fourth quarter of 2019 prior to the pandemic and based on our sales forecast and backlog at that time which were based on our pre-pandemic run rates.

Our supply chain teams across the company have been working extremely hard with our key suppliers to renegotiate delivery schedules and commitments and continues to do so, and have been successful in many cases, helping to dampen the impact. Nevertheless, with such a significant drop in aerospace sales, the result is this buildup of raw material inventory. We expect that we will ultimately consume these raw materials, and we're forecasting that the current level of inventory is stabilizing and expect inventory levels to drop as we move through 2021, consuming the excess on-hand material as we adjust our purchase commitments for 2021.

Switching to CapEx for the quarter. It was just \$1.7 million, bringing year-to-date CapEx expenditures to \$5.6 million. We expect we will have another \$2 million or so in CapEx in the fourth quarter. And in 2021, right now, we're looking at a CapEx spend rate of about \$11 million.

Our outstanding balance on our revolver at the end of the quarter was \$168 million. We had cash of \$29.9 million, giving us net debt of \$138.1 million, or about 2.5x trailing 4 quarter adjusted EBITDA as calculated by our credit agreement.

I'll touch a little bit on our amended credit facility that we amended back in May. The facility matures in February 2023, and it's a \$375 million revolving credit facility. The key financial covenants of the facility as it's amended is that the maximum leverage covenant was waived until the third quarter of 2021, referred to as a suspension period.

Then it begins phasing in, starting at 6x EBITDA as defined in the agreement and then decreasing to 5.5x in the fourth quarter of 2021. There's currently 2 key financial covenants during the suspension period of

minimum liquidity and a minimum interest coverage ratio. We're required to maintain a minimum liquidity of \$180 million, and liquidity is defined as cash plus the undrawn balance on the revolver.

We had roughly \$57 million of available liquidity, or negative cash flow cushion, as of the end of the quarter. We're also required to maintain an interest coverage ratio of 1.75x adjusted EBITDA as defined in the agreement with the exception of the first quarter of 2021, which is set at 1.5x.

Other covenants include temporary restrictions on acquisitions, shareholder repurchases and dividends. And we're currently on the pricing grid paying LIBOR plus 225 basis points with a LIBOR floor of 100 basis points. So that equates to about 3.25% interest rate right now.

That's all I had for my prepared remarks. Pete, back to you.

Peter Gundermann: Okay. Thanks, Dave. So I'm going to assess our markets and talk through some of the things that are included in the press release, so there will be some duplicity here, or duplication, but we'll start with commercial aerospace. Commercial aerospace is our largest single market. That's, again, commercial airplanes, both the production of new airplanes and the operation of those airplanes or the maintenance of those airplanes, it was about 70% of our business back in 2019, back in the good old days.

Roughly 2/3 of the 70% was related to the production of airplanes, primarily at Boeing and Airbus, and 1/3 was aftermarket related, primarily to airlines, but also to the leasing companies. Looking at those 2 parts of the commercial transport market, most people are aware, line fit production rates by Boeing and Airbus have been ratcheted down or are being ratcheted down roughly 30% to 50%. That's pretty much across the board.

For us, a special consideration is the 737 MAX, which everybody knows, remains uncertified. For us, that airplane right now is down 100%. We're basically on hold on that program. And last year, in 2019, that was actually our biggest single production program.

It's important kind of looking forward here that the MAX gets recertified, as most of the world expects sometime in the next month or 2, and that Boeing resumes production on a meaningful basis, we're kind of counting on that in the second half of next year to start being a positive impact on our business.

The aftermarket is driven by airline spending. And for us, it's mostly inflight entertainment and connectivity equipment, IFEC equipment, or passenger amenities. Obviously, everybody knows, no news here, airlines are having a very difficult time. Worldwide airlines are operating about 50% of the flights that they did last year this time. Load factors are down. 40% of the fleet is grounded. International flights are sparse, to put it kindly. And it's really a function of travel restrictions and quarantine requirements and the fear that people have, rational or not, of virus transmission in an airplane environment.

We're hopeful, looking at China, one of the bigger populations that has got the pandemic under control that people very much want to fly. And many people realize that flight levels in China have pretty much come back to normal, which is what we expect to happen around the world, if and when the world ever gets in front of this pandemic.

There are some testing protocols that are being developed and some quarantine agreements that certain airlines are having with certain geographies that we think hold promise, and we're hopeful that the airlines will learn to manage testing in conjunction with officials from various governments and municipalities to enable international flights sometime in the near future, and we hope that, that market picks up.

We expect commercial transport sales to settle at the reduced production rates. And again, 737 is important to our 2021 expectations, and we expect the aftermarket, frankly, will remain pretty depressed until airlines see a pickup in traffic. We don't know when that's going to happen. Most experts seem to be predicting that there will be a major rebound in 2021. It's looking like the middle or the second half of the year, something in the order of 60% to 70% improvement. But, that doesn't get us back to 2019 levels, that is not expected for a few years. But a 60% to 70% improvement in the market in general in terms of flights and capacity sounds pretty good from today's perspective.

The second part of our market that I'd like to talk about is the general aviation or business jet market. This is much smaller for us in normal times, about 10% of our revenue. So last year, about \$78 million. For us, the GA market is mostly line fit. There's a little bit of an aftermarket element, but mostly line fit. We would say, it's 80-20 or something like that.

When the pandemic hit, most manufacturers who build business jets and business aircraft announced pretty significant production rate cuts similar to commercial transports on the order of 35% or so. However, utilization has rebounded to near prepandemic levels, especially in North America, which is the biggest market for general aviation aircraft or business jets. That's driven very much by strong fractional activity. From what we understand, corporate flight activity is still lagging as companies continue to, in many respects, work from home.

The future here is a little bit of a question. Will the increased utilization be reflected in higher production rates? There are some indications that production rates may rebound in 2021 relative to 2020 sooner than we might have thought a few months ago, but it's still unclear, and we are waiting to see how that develops.

The third part of the market that we cater to is what we call government and defense spending. And this part of our market is about 20% of our revenue in normal times in 2019. It includes military aircraft like Joint Strike Fighter, Black Hawk, numerous others and all of our Test business for the most part. So military aircraft and all of our Test business is about 20%. This portion of our business appears stable and strong.

We think it's perhaps continuing to accelerate. One of the best indicators we have of that. Even in these COVID times, we continue to see pretty good activity in our test business, in our transit product line, which we are developing and improving. The MARTA-Stadler award that we announced earlier this week is a clear indication of that. It's about a \$30 million program, which we'll be executing over the next couple of years for consolidated Test for a number of new trains, cars that Stadler will be developing to MARTA. MARTA contracted with Stadler; Stadler contracted with us. And this is the second major program we've announced in recent times. The first one was a major program for New York City, New York Transit Authority. That also was about a \$30 million program.

You might ask with ridership way down, where is the money coming from for these major capital improvements? And as best we can tell, it's basically a different color on money, a different bucket. Federal grants for long-term capital improvements is a funding source other than ticket sales. Ticket sales are obviously way off and the transit authorities are having a hard time, but these programs are major capital programs designed for a post-COVID environment years from now.

Finally, the other thing worth mentioning is what we will call "other markets". Our design-build capability; the Xenex order I talked about earlier is related to this. We have had a company that goes by the trade name of PDT, which offers design services traditionally to a wide range of industries using a wide range of technologies, not necessarily aerospace, although since PDT came into our orbit a few years ago, many of PDT's resources have been employed internally on aerospace applications, but they also reach out to the rest of the world using technologies like near-field communications and high-speed data transfer and certain sanitization and cleanliness kinds of missions, which happen to coincide pretty nicely with the COVID-19 environment that we're in right now.

One of the things we started doing actually before the pandemic was complementing PDT's design services with manufacturing capabilities. We tend to be pretty good at manufacturing things being an aerospace company. And we found that the combination of design and manufacturing has certain appeals to companies in this space.

The Xenex order is reflective of this capability. I don't mean to speak for them, and it's their technology, and it's not our market, but I encourage interested listeners to look them up on the web at xenex.com, and you will see that they have a branded disinfecting robot called LightStrike, which uses pulsed UV energy to neutralize pathogens, including those that cause the coronavirus. They are traditionally pretty active in health care facilities, but you can imagine that in this environment, these kinds of machines are finding homes in a wide

range of applications that can be schools or hotels or meeting facilities or athletic facilities or locker rooms or even airports, and they are seeing pretty high demand. So this order that we announced is basically our stepping in to help them with capacity as they ramp in the face of the COVID-19 pandemic.

I will tell you that this Xenex program is representative of a number of initiatives that we have underway. These initiatives collectively could be pretty important as we move into 2021. It's unclear, we got a bunch of gates to get through, but we have a handful of initiatives underway, which we're pretty excited about.

So with that summary of our market, we're sitting here at the very end of October within shouting distance at the end of the year. When you look at what we did through 3 quarters in our existing backlog, we are expecting that 2020 sales will be on the high side of \$500 million, \$500 million or slightly above, I think it's how we worded it. That implies fourth quarter sales of \$112 million or a little more. Our scheduled backlog as we entered the quarter was actually \$112 million. So to the extent that we execute on the scheduled backlog and to the extent that we get book and ship business, we have the potential of being above that level by a bit, and we expect we will be.

2021, on the other hand, is still unclear. We are waiting for some confirmation of production rates on the aircraft programs, both in the commercial transport level and business jets. Business jets are more fluid. The commercial transport manufacturers, Boeing and Airbus, have established rates and stuck with them for quite a while, although there's some speculation that if people don't start flying soon, then there could be downward pressure there.

We'll have to wait and see. We don't pretend to know anything, but you can see and read about it in the newspaper every day. The 737, as I mentioned earlier, is an important element here. That's a little bit different circumstance. Of course, most people in the industry are well familiar with that, but that is an important program for us.

We put standard line fit of \$95,000 per ship on each airplane with optional IFEC equipment; that number can double easily. And then, of course, the airline aftermarket. As I said earlier, it's a significant part of our overall business. Historically, we spend a lot of time with airlines, and the airlines are just not in the mood, not capable at this point, to pull the trigger on programs, although there is a fair amount of planning going on. They realize that the world keeps turning in terms of consumer expectations and brand differentiation. And our products and capabilities are an important part of that. We are involved in certain exercises and conversations with airlines that we expect will turn into orders when the environment improves. The question is, when will the environment improve? So we are not issuing guidance for 2021 at this point. Normally we would. Hopefully, we'll be able to, in the future, maybe when we announce Q4 results in February.

That ends our prepared remarks. Melissa, we'll open it up for questions at this point.

Operator: [Operator Instructions] Our first question comes from the line of Jon Tanwanteng with CJS Securities.

Jon Tanwanteng: In your prepared remarks, you said you expect Q3 to be troughed. But to be clear, do you expect a pickup in OEM or aftermarket orders in Q4, especially if COVID surges across the globe? Or is this more of a comment that maybe other pieces of your business are going to pick up and make up for that?

Peter J. Gundermann: It's a little bit of both. I think part of what was happening in the third quarter, John, it's hard for us to quantify this, but there's a bit of a destocking process that goes on as production rates drop. Just the normal scheduling of orders turned out to be such that we were shorter in the third quarter than we expect to be in the fourth quarter. And then there is some pickup in business. The Xenex thing, I was just talking about, is actually something that we expect to contribute pretty significantly to the fourth quarter. And a lot of the things, just the way the customers have scheduled their orders, we expect the fourth quarter to be stronger.

We certainly need to see bookings pick up in order to support a reasonable business plan for 2021. One of the things that you can do is look at the stated production plans for the OEMs and that should provide a floor

for revenue expectations for us, assuming destocking is resolved as we work through the fourth quarter here, and I expect it will be with the possible exception of the 737 because, as best we know, that production rate is just really, really low.

The complex part is the aftermarket part. And for us, again, that's mostly airlines, that's mostly IFEC equipment. And I don't think they know at this point when they are going to be in a position to start pulling the trigger on some of those programs. I think they need to see some improvement in air traffic before that happens.

Jon Tanwanteng: Got it. That's helpful, Pete. And then just a follow-on on the Xenex order. Is that all going to hit in Q4? Is that spread out over a longer time period? And if that's successful, do you expect a follow-on order to that?

Peter Gundermann: Good questions. So it's going to contribute to the fourth quarter. I think it may dribble into the first quarter also. I believe, at this point, we are expecting another order, but that will be a function of their success in the market, and we're complementing their capabilities from a manufacturing standpoint. It's unclear when that would happen or how large it would be. But at this point, we are hoping for a continuation of that line of work in the next year.

Jon Tanwanteng: And maybe just to follow-on to that, what is the margin for that business? Is it close to your average or is there something special one-off about it?

Peter Gundermann: It is not as good a margin compared to our aerospace business. It's 2 ways to look at it. If you stack up the normal overheads and structures, it's really thin because of the contract manufacturing after all. On the other hand, if you look at it, on an incremental basis, we expect it to contribute.

Jon Tanwanteng: Okay. Got it. And just finally, on the transit business, congratulations on the Atlanta win. I was wondering how many more programs you have like that, like New York, like Atlanta, in the pipeline? Just assuming the state and local budgets are getting hit going into next year. I know you said it's not based on ticket sales, but with ridership down, with federal and state funding, an open question, I'm wondering how much of that market can contribute in 2021?

Peter Gundermann: Yes. It's a very good question, and we are watching it very closely. So far, it appears that ridership is one thing and capital projects are another thing. And the capital projects are continuing, even though ridership is way down. That obviously is not a long-term sustainable kind of thing. But I think the people who run New York City, for example, are kind of assuming that when 2024 comes around, they are not going to have a pandemic on their hands anymore, and they are going to have ridership back at pretty high levels in there, as I understand it. Not to speak for them, but as I understand it, they have pretty, pretty pressing modernization needs, overall. And I think that's the balance that the municipalities have to deal with. So yes, ridership is down. Yes, that means they may not buy as many cars or field as many test stations right now but they are proceeding, as best we can tell, with those capital improvements.

And I'll tell you that we are actively pursuing a number of other municipalities and a number of other opportunities. So we don't see that slowing down at this point. Both the MARTA program and the New York City program should contribute pretty well to our overall results in 2021. Maybe your question had to do with bookings, we would expect to have another win, maybe 2 over the next 12 months, let's say.

Operator: Our next question comes from the line of Ken Herbert with Canaccord Genuity.

Ken Herbert: Pete, with the visibility you have now on the fourth quarter, with all the moving pieces, is the aerospace business profitable in the fourth quarter at the segment level based on sort of your current thinking?

Peter Gundermann: No. Fourth quarter?

Ken Herbert: Fourth quarter?

Peter Gundermann: Yes. No, on an adjusted EBITDA basis, we would like to think, to the extent that, that is an approximation for cash flow, we would like to think we can run the business cash-neutral at those levels, but we would not expect our aerospace business to be profitable at that level. It's kind of the catch we're in, right?

We've got a business that's structured for a much higher volume. We've won and are pursuing a number of what we think are very attractive development programs in the market. Last time on this call, we talked about our FARA and FLRAA exercise with Bell/Textron, which is, we think, a premier program. And all of a sudden, we have kind of the legs cut out by the pandemic such that the production side of the house goes way down. And with that, some amount of engineering effort also goes down, but it's not proportional, not anywhere close. So it hurts margins.

David Burney: Yes, Ken, it gets close to breakeven at that point. It could go slightly positive. It could go slightly negative, but it gets close to that GAAP breakeven point at the operating segment level for the fourth quarter.

Ken Herbert: Okay. Okay. That's helpful. And I appreciate all the additional detail, Dave and Pete, you continue to provide on the business. I'm just curious, as you look at the 70% of your business that's aerospace, is there any discernable difference in margins between the line fit side of the business and the aftermarket?

Peter Gundermann: Not really. That's a good question, and I think we're a little different than most companies in that sense and the reason is that a lot of our line fit work is really sold to airlines or sold to other prime suppliers, who, in turn, provide both the line fit side of the business and the aftermarket.

I'll use American Airlines as an example. If they decide to standardize on our in-seat power product for part of their fleet, say, the 737 fleet, they will put it on their existing airplanes and they will also have it installed on line fit applications up in Seattle. It's the same price. It doesn't really matter whether it's going aftermarket or a line set.

Our aftermarket is not repair and overhaul, which is sometimes people hear aftermarket and they think repair and overhaul. It's really more of an upgrade aftermarket application for the most part.

Ken Herbert: But within that, I'd imagine you get some spare parts sales or provisioning sales and who knows how those are classified, but spare parts sales into the aftermarket, which should be higher margin, correct?

Peter Gundermann: It's a very small part of our business, Ken. It is something that I expect will grow. But if you think about it, we're sitting here in 2020, if you go back 5 years, maybe a little more, our Cabin Power franchise, for example, was much smaller than it is today. So much of the installed base has only been out there for 5 years or less, and our products are designed to last longer than that. There is a spares element, but it's not anywhere near as big as you would think. Dave, I don't know if you want to add anything?

David Burney: And if there are any spares on the in-flight entertainment side of it, it's going to the same customer in many respects that the original sale went to under the same pricing. On the lighting side of things, there's some margin opportunity on the commercial transport side, but again, we're new into the exterior lighting on the commercial transports, relatively new and don't see a whole lot of volume there.

Peter Gundermann: Right. To Dave's point, if I use my American 737 example, if they have a problem with a box on an airplane, they don't necessarily call us up and order to replace them, they just go to their inventory. It's a modular product, they can repair it or replace it as they want to. There's not much of a pricing opportunity for us in that context.

Kenneth Herbert: Okay. And just one final question on the MAX. It sounds like because of maybe inventory issues and just the low bill rates, or sounds immaterial in terms of its contribution here in the third and into the fourth quarter. Did I hear you correctly, Pete, and that you don't really expect much or sort of a positive inflection in terms of your shipments on that program until mid-'21 or second half of next year?

Peter Gundermann: You heard that correct. We're basically shut down and we had a couple of false starts early in the year, but we've essentially been shut down for 3 quarters since the end of last year.

David Burney: Yes. I think starting end of the first quarter into the second quarter of next year, we'll start seeing some low single-digit shipsets go out the door.

Peter Gundermann: But it's not meaningful really until the second half. And you know that story, Ken. It assumes that they get recertified, it assumes that they move a certain number of planes out of inventory, and it's based on discussions they've got ongoing with their customers, none of which we are really privy to.

Operator: [Operator Instructions] Our next question comes from the line of Michael Ciarmoli with Truist Securities.

Michael Ciarmoli: Pete, maybe just on the destocking side. I mean I know your company is different from clearly some of the other raw material suppliers. But do you guys have the visibility? I mean you kind of just use that analogy with Ken that airlines got some inventory. Do you have good line of sight into what, say, the ISE providers Panasonic has what maybe Collins Aerospace and Safran have, what Boeing has. And I guess, just trying to think about where production rates are? I mean, obviously, the MAX has shut down, but still seems like some of the wide-body rates are flowing through the system here. I mean do you have good line of sight to see a path and say, "Hey, your inventory out there has kind of been soaked up, and we will see a restart?" Or is it more just trying to triangulate what's out there?

Peter J. Gundermann: I would tell you, Michael, we don't have great line of sight. It's hard to get an answer on a lot of this stuff. Our belief, for the most part, when it comes to wide-body airplanes, most of our content is IFE related. That's through the big service providers. And we believe that for the most part, that's build-to-order because it's not standard products. So there's not a big inventory bubble waiting to be built or drawn down, it should be that if Singapore is going to buy a certain number of A350s and they want, say, a Panasonic product that uses our power system on those A350s if they are buying 10, they will buy 10 shipsets from Panasonic, who will buy 10 shipsets from us. So there's not really an obvious mechanism for a whole lot of inventory buildup there.

I think where we're seeing it instead is, when you have line fit product, which is, for us, the 737 primarily, and 777 for better or for worse, there's no destocking there because it's been a little down over the last year or so pretty significantly.

Business jets is another area where we could be seeing quite a bit of destocking because we're on pretty much every business jet that's out there. And not as high as shipset content, but a lot of standard product and those rates are all coming down, too. We're just going to have to wait and see.

Clearly, we've got a shipment expectation in the market that is much higher than the bookings we've seen over the last 2 quarters. We would expect to see bookings come up to match that shipping level if that shipping level is representative of the production plans that the OEMs are putting forward, and we think that's got to happen.

Michael Ciarmoli: Okay. I mean you did have good sequential bookings growth from the second quarter. Should we expect the bookings, I mean, from what you're seeing through this month, maybe other kind of quoting activity? I mean, do you have some confidence in that booking, maybe not at the sequential level of what you just saw from June to September, but do you think bookings can continue to improve here?

Peter Gundermann: I sure hope so. And again, the MARTA-Stadler order is a fourth quarter booking. So that's a \$30 million program. That's a big chunk of what we did in the second quarter or the third quarter. So yes, I would expect sequential improvement. It's a little early in the quarter to tell. And the fourth quarter is always a little fluky because you have the holidays and Thanksgiving and Christmas and everything. So it's too early to tell. I don't see much room for it to go down, frankly. So I'm thinking it's got to go up.

Michael Ciarmoli: Okay. And then, I mean, I'm sure I know the answer to this, but just airline retrofit programs. I mean, obviously, airlines are kind of saving money as best they can, cutting everything. But I

thought I saw American is kind of proceeding with its A320 kind of interior and they're not doing a lot, they're sort of doing them as they come up. But how are you guys thinking about the retrofit side of the market? Are you seeing any signals or signs from certain airlines out there?

Peter Gundermann: We are. We definitely are. We do work with some 300 airlines around the world. Some of them are smaller and primarily internationally oriented and those are the ones that are really struggling the most right now. The ones with bigger domestic routes in the U.S. or wherever, China even, are a little bit more active in terms of thinking about what are they going to do next for a connectivity and a passenger entertainment standpoint, and we're involved in those discussions. They are not inclined to pull the trigger to spend millions of dollars to upgrade an airplane that is sitting in a desert or somewhere. It's a little bit of a "chicken and the egg thing." If they knew they were going to be returning another 50% increase in flights in the third quarter, we might see a lot more activity.

But they want to see the activity before they spend that money. But there definitely are plans to move forward. And, for better or for worse, a lot of our types of products have relatively short life cycles. The phone that you use is very advanced compared to the phone that you used 5 years ago, if you're like most people.

People expect and require continual improvement in the IFE and entertainment capabilities in airplanes, and I think airlines, in today's day and age, understand that. Nobody is talking about ripping this stuff out and rebuilding their airline after the pandemic without any kind of IFE entertainment options for their customers. We think we're well past that point as being an option.

Operator: Our next question comes from the line of Dick Ryan with Colliers.

Dick Ryan: Pete, I understand all the caveats on commercial aero side for 2021. But in past and maybe outside of transit, you talked about some robust programs and the stability there. Can you give us a sense of what you think Test can do in 2021?

Peter Gundermann: We're still collecting that, but there's growth if you back out the semiconductor part of their business has been pretty robust this year. And if you add the Stadler order to bookings, their book-to-bill ratio for the last trailing 12 months is very positive. It's like up 10%. It's one of those businesses, as you know, that it's not run rate business, you got to have big drinks. They're like camels. They can go long ways without water, but when it finds a pond, it's got to feed up.

So they get big chunks of business, and our revenue next year will be based on big bookings that they are pursuing. We call them whale hunts. And Stadler was definitely a whale. New York City was a whale. There are a couple of others that may fall in the near future, and that will determine where they are going to be in 2021. And we're not quite ready to issue guidance, but I think for the most part, with our Test business, which you've seen in the past, is the best indication of what we will see in the future in the near term here.

Dick Ryan: Okay. And just the tail mount in the business jet, your tail-mount antenna, what's currently going on or not going on there?

Peter Gundermann: Well, we're running down the road. That is going pretty well. We're a supplier to Collins Aerospace. They are marketing the program, and they are pursuing the sales. And technically, we are having, we think, very good success from a performance perspective, and we are actually awaiting word now as to what Collins wants to do in terms of volume for 2021. We expect a significant uptick, it's just a little bit premature. You'll probably see a press release on that, I would guess, here, sometime by the end of the year.

Operator: Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Mr. Gundermann for any final comments.

Peter Gundermann: No final comments. Thank you for your time and attention. We look forward to talking to you at the end of the fourth quarter, hopefully, with better news. Have a good day.

Operator: Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.