



# AAR CORP. Investor Presentation

Jefferies Global Industrial Conference

August 14, 2013





## Forward-Looking Statements

This presentation includes certain statements relating to future results, which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on beliefs of Company management, as well as assumptions and estimates based on information currently available to the Company, and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or those anticipated, including those factors discussed under Item 1A, entitled “Risk Factors,” included in the Company’s Form 10-K for the fiscal year ended May 31, 2013. Should one or more of these risks or uncertainties materialize adversely, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described. These events and uncertainties are difficult or impossible to predict accurately and many are beyond the Company’s control. The Company assumes no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. For additional information, see the comments included in AAR’s filings with the Securities and Exchange Commission.



## Key Investment Highlights

- ▶ **Balanced portfolio of businesses**
  - **Leading provider of Aftermarket Solutions for the global aviation industry**
    - Maintenance, Repair and Overhaul (MRO)
    - Aviation Supply Chain
    - Airlift Services
  - **Recognized leader in cargo systems design and manufacturing**
  - **Market leader in specialized mobility products**
- ▶ **Steady organic growth supplemented by accretive strategic acquisitions**
- ▶ **Strong financial position underpinned by record free cash flow**
  - Free cash flow over 2.0x Net Income for 2013

# 2013 Performance Highlights – Delivering Strong Results

## Financial

- ▶ Record sales of \$2.14B, up 4% over prior year
- ▶ Generated \$125M of free cash flow
- ▶ Reduced net debt position by \$91M
- ▶ Returned \$27M to shareholders
  - Repurchased nearly 1 million shares at an average price of \$14.90
  - Paid out ~\$13M in dividends

## Operating

- ▶ Growth in Commercial aviation
  - MRO gaining market share - new Duluth facility opened with anchor customer
  - Supply Chain in new accounts and geographies – new account wins e.g., Air Canada, Flybe, ExpressJet
  - Cargo Systems - Loading systems on 747-8 and A350
- ▶ Strong position in Defense
  - Colombian Air Force contract
  - Airlift contracts renewed

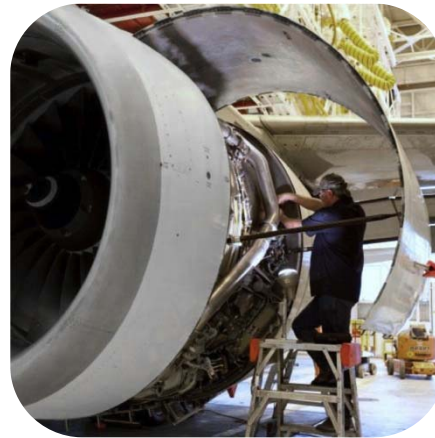


# Company Overview & Strategy

## Established Niche Player Serving Global Aviation & Aerospace

Leading provider of Aviation Services and specialized Technology Products to commercial and govt./defense markets

- ▶ Diversified \$2.1B+ revenue stream
- ▶ 60 years as a market leader in aviation support
- ▶ Over 6,000 employees at more than 60 locations worldwide
- ▶ Customer-centric business model



# A Leader in Aviation Services...

## Aviation Services

- ▶ Number one independent provider of **aircraft maintenance, repair and overhaul (MRO) and modifications** in North America
  - Oklahoma City
  - Indianapolis
  - Miami
  - Hot Springs
  - Duluth
  - **Lake Charles**
- ▶ Ranked among the top providers of **aircraft parts and supply chain services** in the world
  - Supply chain management and logistics programs
    - The right parts to the right place at the right time
  - Component repair and repair chain optimization services
  - Distribution of OEM components
- ▶ Leading provider of **Airlift Services**



## ... And A Leading Provider of Technology Products

### Technology Products

#### ▶ Leading provider of **Cargo Systems**

- **OEM:** Airbus A330, A340, and A400M, Boeing 747-8, CH-47 helicopter
- **Conversions:** Airbus A330, Boeing 747-400 and 767-200/300
- Manufactures the lightest certified cargo container in the industry
- Driving innovations in RFID, GPS location monitoring and fire containment

#### ▶ Leading provider of **Mobility Products**

- Military and humanitarian applications





# Strong Platform and High Value Add Partner to Customers...

## Aviation Services

### Competitive Advantage

Experience  
Breadth of products  
Scale of network  
1-MRO strategy  
Proprietary systems  
Government licenses

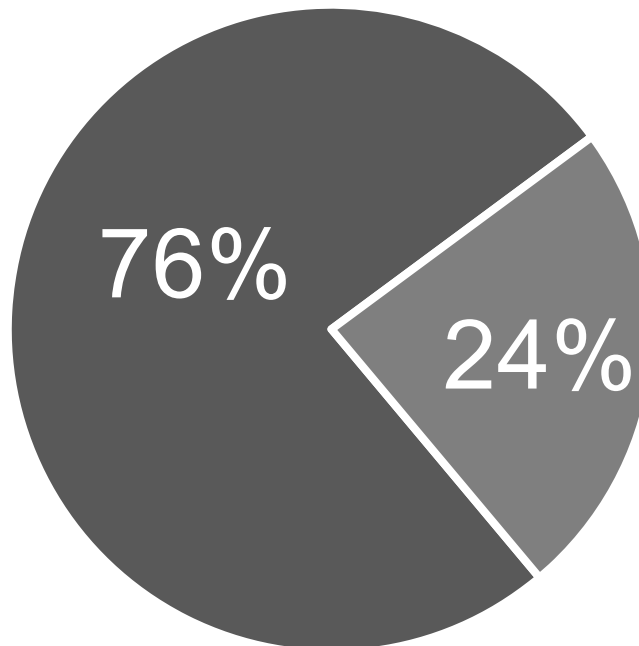
### Customer Benefits

Full service provider  
Lower cost solutions

- Fewer people
- Less capital
- Avoiding obsolescence

Faster service  
High-quality results

\$2.1B+\*



## Technology Products

### Competitive Advantage

Innovative products  
Design & certification capabilities  
Fully integrated with OEM

### Customer Benefits

Strong tier 1 and tier 2 partner  
Life cycle cost reduction  
Lower-weight systems

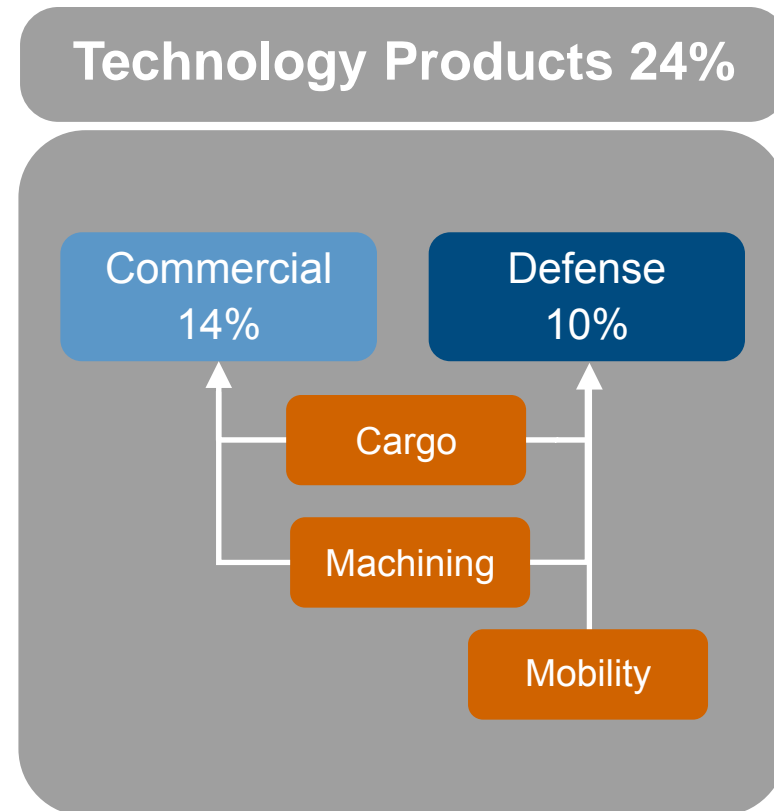
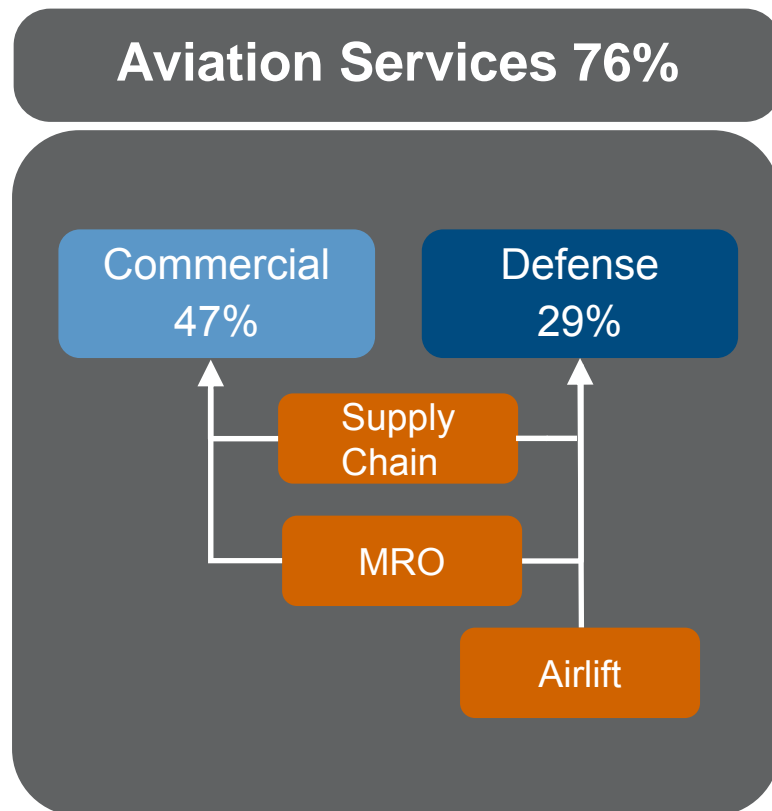
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**Customer-centric value proposition**

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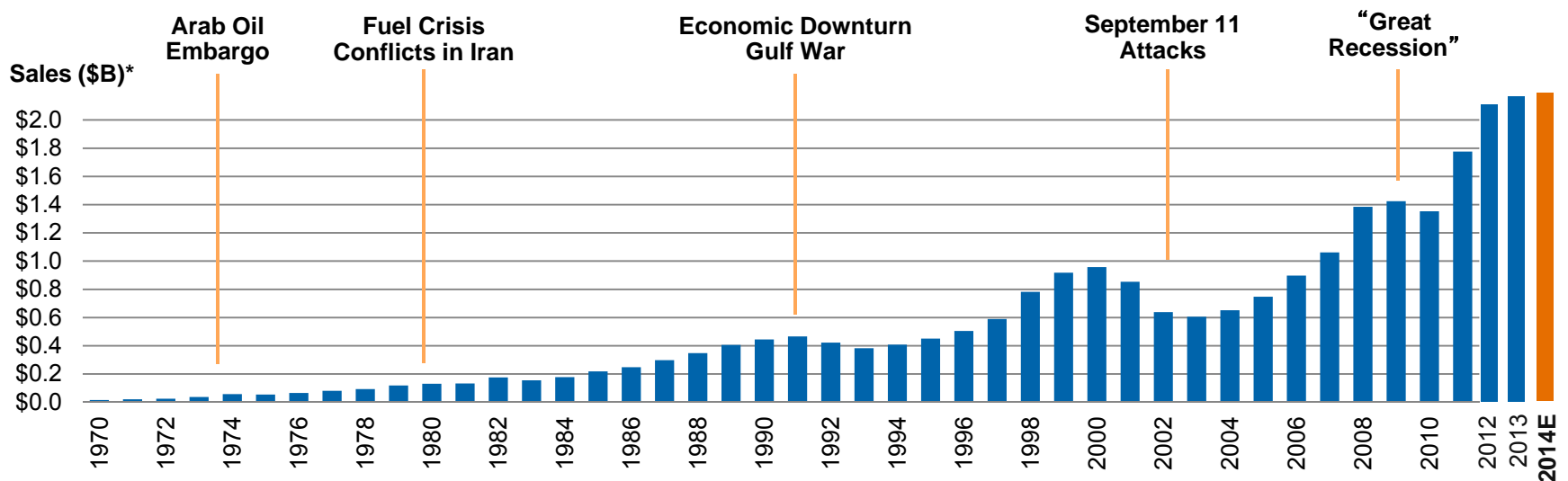
\* Percentages reflect FY 2013

## ... With a Well Balanced and Diversified Portfolio



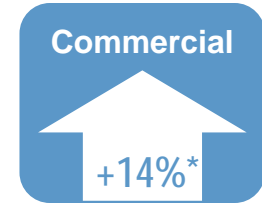
Strong portfolio of aerospace and defense businesses provides **balance, strength and consistency** through industry cycles

# Navigated Through 5 Major Industry Cycles



After each down cycle, AAR has emerged a **stronger and more diverse** company

# AAR in Commercial



**Well Positioned**  
with leading international  
passenger and cargo  
airlines



**Strong Value  
Proposition**  
as outsourcing services  
saves airlines money

- ▶ Airlines looking to reduce cost = increased outsourcing
- ▶ Airlines investing in customer experience = engineering opportunities
- ▶ Airlines investing in fleet = strong commercial OE build cycle

- ▶ Outsourcing trend set to continue (e.g., Air Canada)
- ▶ Worldwide third party MRO CAGR of 3.3% through 2022\*\*
- ▶ Increasing demand for integrated support services

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**Increasing importance of commercial markets**

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## AAR in Defense



**Strong Value Proposition**  
via lowering cost  
and doing  
“more without more”



**Long-Term Requirements**  
for  
Airlift Services

- ▶ Proven track record
- ▶ Cost reductions and efficiency gains a central strategy in future budgets
- ▶ Leadership position in niche markets

- ▶ All current options exercised
- ▶ Adjacent market opportunities
  - DoD
  - DoS
  - Foreign Governments
  - Commercial operations in austere environments

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Defense customers utilize AAR for cost savings

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# Strong Customer Relationships

## Airlines



## OEMs



## Cargo

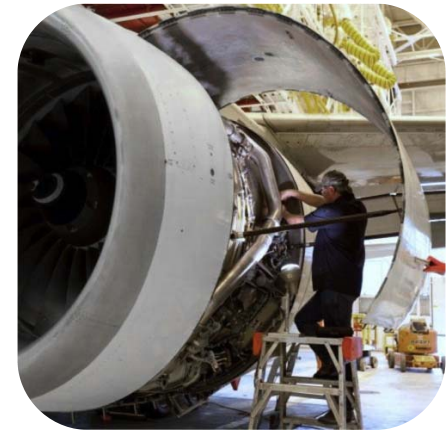


## Government



## Growth Initiatives

- ▶ **Cross-sell services and leverage platform**
  - Created Aviation Services Group
    - Air Canada Supply Chain/MRO/Landing Gear
    - UK Flybe Supply Chain/MRO
    - ExpressJet MRO/Landing Gear
    - Colombian Air Force
    - U.S. Marshals Service
  
- ▶ **Expand capabilities**
  - Airinmar repair management solutions
  - Increase design and engineering content
  
- ▶ **Pursue geographic expansion**
  - Telair, Nordisk and Airinmar acquisitions accelerated global presence
  - Opened parts warehouse in Singapore

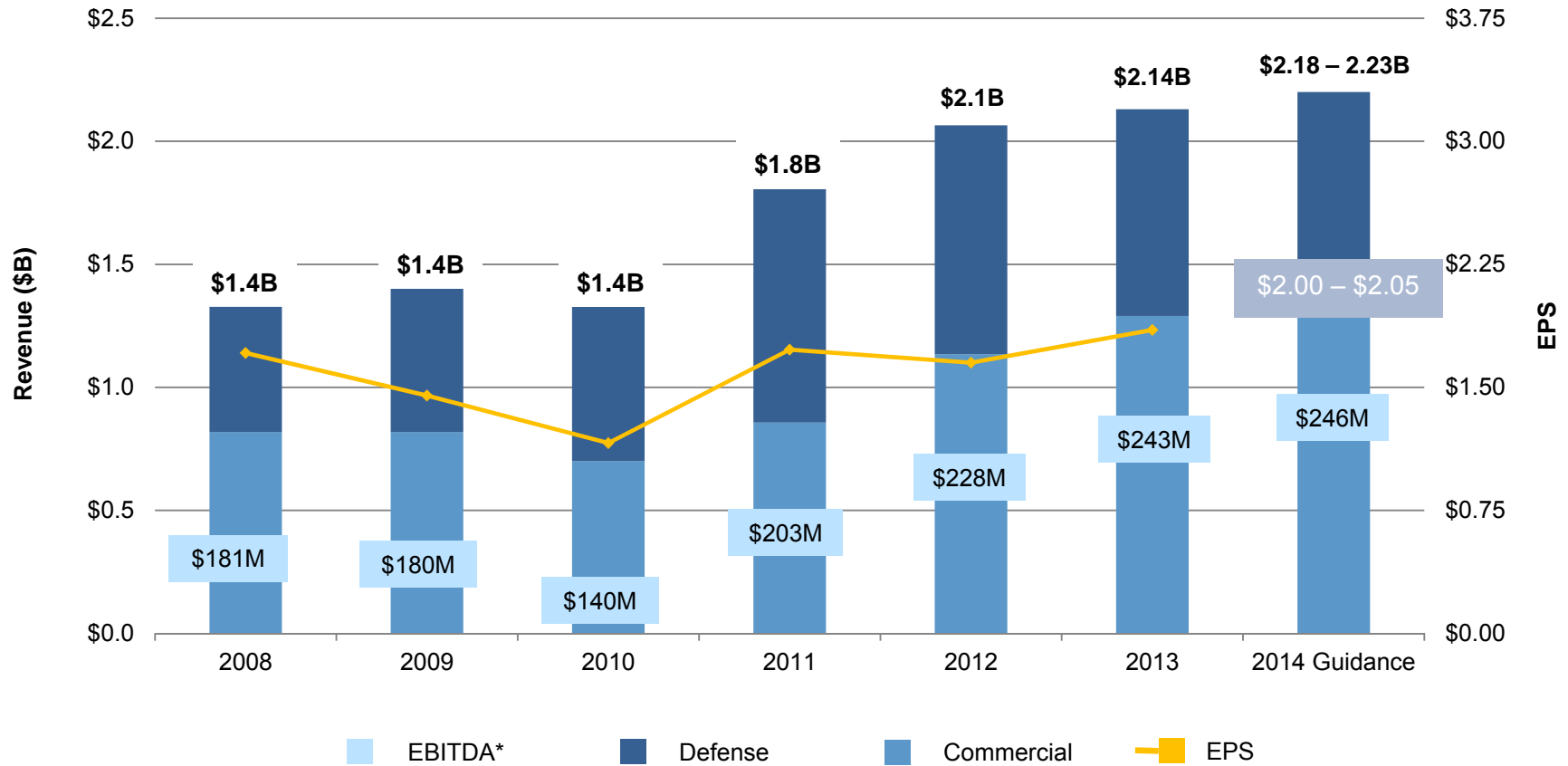




# Financial Performance



# AAR Today: A Diversified \$2B+ Business



Diverse capabilities + unique value propositions = steady growth

\* EBITDA is defined in the Appendix

# Generating Strong Cash Flow From Operations

- ▶ Generated \$366M in operating cash flow during the last three fiscal years (FY2011 – FY2013)
- ▶ Cash reinvested in the business
  - Acquisitions
  - Airlift growth
- ▶ FY2013 Cash flow from Operations of \$163 million\*
  - Reduction in net debt: \$91M
  - Capital expenditures: \$38M
  - Acquisitions: \$21M
  - Share repurchases: \$15M
  - Dividend payments: \$13M

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**Intense focus on operating cash flows**

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## AAR Delivers

### Sustained Growth

- Revenue CAGR of ~9% over the last five years

### Leading Position in Niche Commercial Markets

- #1 MRO in North America; # 3 worldwide\*
- Voted Parts Supplier of the Year\*\*

### Strong Cash Flow

- Superior cash generating profile with free cash flow >2.0x Net Income



# Appendix

## Non-GAAP Disclosure Reconciliation

Pursuant to SEC Regulation G, the Company has included the following reconciliation of operating income reported on the basis of Generally Accepted Accounting Principles (“GAAP”) to Adjusted EBITDA on a non-GAAP basis. The Company believes the non-GAAP Adjusted EBITDA and ratios using Adjusted EBITDA are used by banks, debt holders and investors as important measures of the Company’s performance and ability to service debt obligations.

(\$ in millions)	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>
Net income attributable to AAR	\$68.2	\$56.8	\$44.6	\$69.8	\$67.7	\$55.0
Provision for income taxes	36.6	27.5	21.0	33.6	25.5	26.8
Interest expense, net	27.7	30.0	25.8	30.3	36.5	40.1
Loss (gain) on debt extinguishment	2.0	(14.7)	(0.9)	(0.1)	0.7	0.3
Loss (gain) on sale of investments	(0.5)	1.4	1.2	-	-	-
Loss from Discontinued Operations net of Tax	0.6	1.9	-	-	-	-
Depreciation & Amortization	39.6	40.1	38.9	57.8	72.0	79.7
Amortization of Stock-Based Compensation	6.4	6.2	9.3	12.3	12.5	11.1
Gain on sale of product line	-	-	-	(5.9)	-	-
Impairment & Non-recurring Charges	-	31.1	-	5.3	13.2	29.8
<b>Adjusted EBITDA</b>	<b>\$180.6</b>	<b>\$180.3</b>	<b>\$139.9</b>	<b>\$203.1</b>	<b>\$228.1</b>	<b>\$242.8</b>