



AAR

Canaccord Genuity Growth
Conference

Boston
August 8, 2018

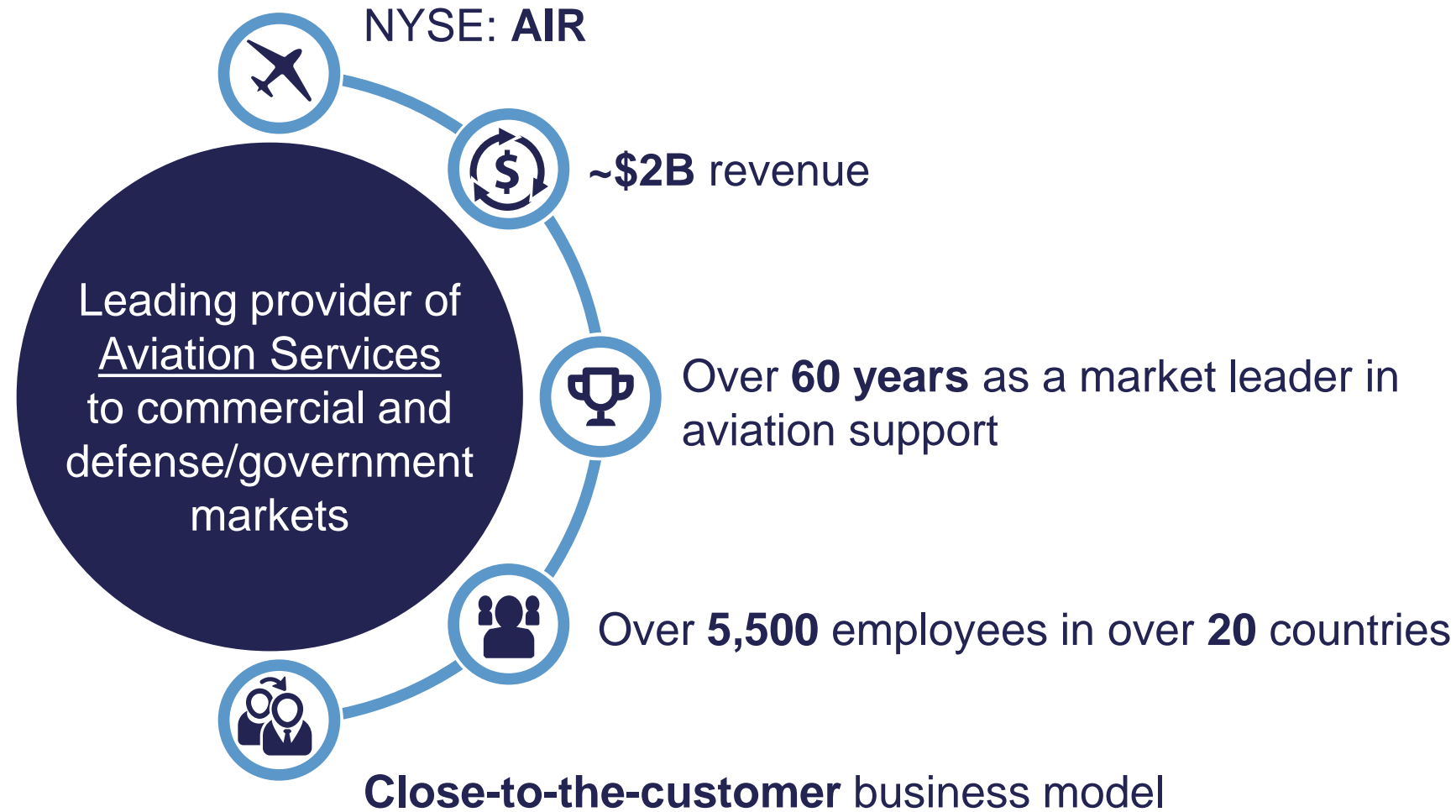
Our Mission

To be the best at designing and delivering technical, operational and financial solutions to enhance the efficiency and competitiveness of our commercial aviation and government customers



**DOING IT
RIGHT**

Established Player Serving the Global Aviation Services Market



Financial Highlights

- Continued growth projected in revenue and earnings
- Leadership position in value-added Aviation Services markets
- Long-term favorable aftermarket growth trends
- Diverse global base of commercial and government customers
- Strong balance sheet with substantial available liquidity
- Strong growth in commercial and government programs
- Focus: Cash Flow Generation, Margin Improvement and ROIC

Commitment to Strong Shareholder Returns

Company Overview

Aviation Services



MRO SERVICES

- Airframe
- Landing gear systems
- Components
- Engineering



PARTS SUPPLY

- Trading
- OEM aftermarket solutions



INTEGRATED SOLUTIONS

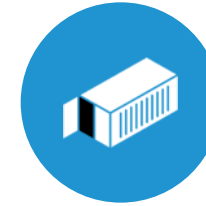
- Commercial & government
- Flight hour programs
- Performance-based logistics (PBL)
- Total fleet services

Expeditionary Services



GOCO

- Aerial Transport
- Passengers & cargo
- Fleet management & operations



MOBILITY

- Mobile tactical shelter systems
- Pallets & containers
- Integrated command & control centers



COMPOSITES

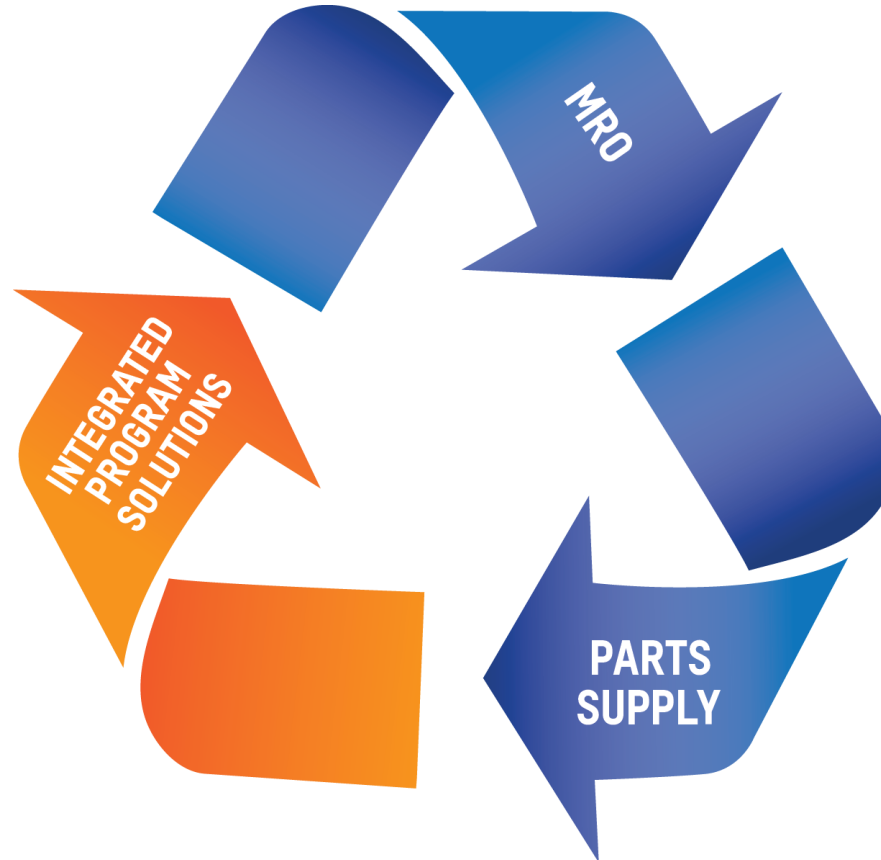
- Interior structures
- Flat panels
- Aerostructures

Connected Businesses Strategy

Drive growth through best in class services within each discipline and leverage each to reinforce and grow the whole

Integrated Program Solutions

- Increase strategic relationship with airline MRO, OEMs and repair vendors through aggregated spend
- Fuel parts supply business
- Fund component repair capability development
- Long term contractual revenue



MRO

- Strategic relationship with airlines
- Build technical repair knowledge and data collection
- Support integrated solutions with component repair
- Generates parts requirements

Parts Supply

- Inventory pooling with programs
- Transactional data collection
- Strategic relationship with OEMs

Unique Value Proposition to Drive Growth and Pricing Power

AAR Global Presence



Strategically Located in Close Proximity to Key Customers

Strong Industry Relationships

Airlines



Cargo Airlines



Regional Airlines



OEMs



Governments

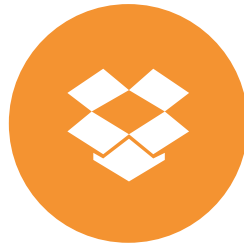


PARTS SUPPLY (TRADING)

Largest trading company providing airframe and engine assets to airlines, MROs, component repair facilities, leasing companies and other parts providers



**1 MILLION
PARTS**



**10,000
SHIPMENTS**



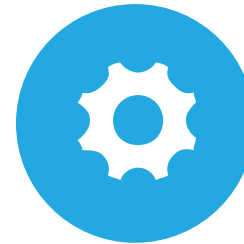
**1,000
CUSTOMERS**



**80+
COUNTRIES**

PARTS SUPPLY (DISTRIBUTION)

Largest independent aviation distributor, serving as a commercial and government aftermarket channel multiplier under long-term agreements with component OEMs



200,000 PARTS



**7 STOCKING
LOCATIONS**



15 OEMs



**1,500
CUSTOMERS**

IS - COMMERCIAL

Largest independent and third largest power-by-the-hour (PBH) component repair, inventory pool access and logistics management provider in the world.



1,500 AIRCRAFT



41 AIRLINES



**250,000 REPAIR
TRANSACTIONS**



24 COUNTRIES

IS - GOVERNMENT

Provide third party logistics, supply chain performance-based logistics (PBL) and contractor logistics support (CLS) to US Armed Services, Foreign Governments and OEMs



28 CONTRACTS



24 LOCATIONS



24 FLEETS



**\$3B ASSETS
MANAGED**

Aviation Services | MRO



#1 MRO
of the Americas



3,000
Aircraft Maintenance
Technicians



>5.5M
Man Hours



950+
Aircraft per year



600+
Landing gears per year



24,000+
Components repaired
annually

Airframe Maintenance Facilities



OKLAHOMA CITY

- Regional & narrow body
- 300,000 SF



INDIANAPOLIS

- Narrow & wide body
- 1.1 Million SF



MIAMI

- Narrow & wide body
- 226,000 SF in three hangars



DULUTH

- Regional & narrow body
- 80,000 SF



ROCKFORD

- Narrow & wide body
- 200,000 SF hangar



TROIS-RIVIERES

- Narrow-body
- 150,000 SF in three hangars



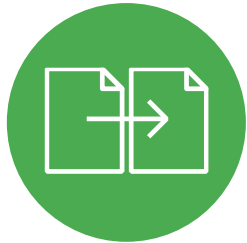
WINDSOR

- Narrow & Wide body
- 143,000 SF hangar

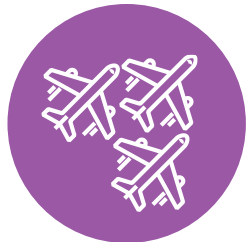
Expeditionary Services | GOCO, Mobility & Composites

GOCO

Support INL/WASS for US Department of State



5 LOCATIONS



CAPITAL LITE

MOBILITY

Total Solution Provider; designs, manufactures, integrates and services a variety of products to support military and disaster relief operations



4 LOCATIONS



5 PRODUCT CATEGORIES



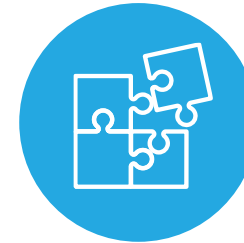
6 IDIQ CONTRACTS



3 FOREIGN MILITARY CONTRACTS

COMPOSITES

Leader in the design, fabrication and assembly of aero structures and interiors for commercial and government customers



AEROSTRUCTURES & INTERIORS SOLUTIONS



10 PLATFORMS SUPPORTED



13,600 PANELS SOLD YEARLY



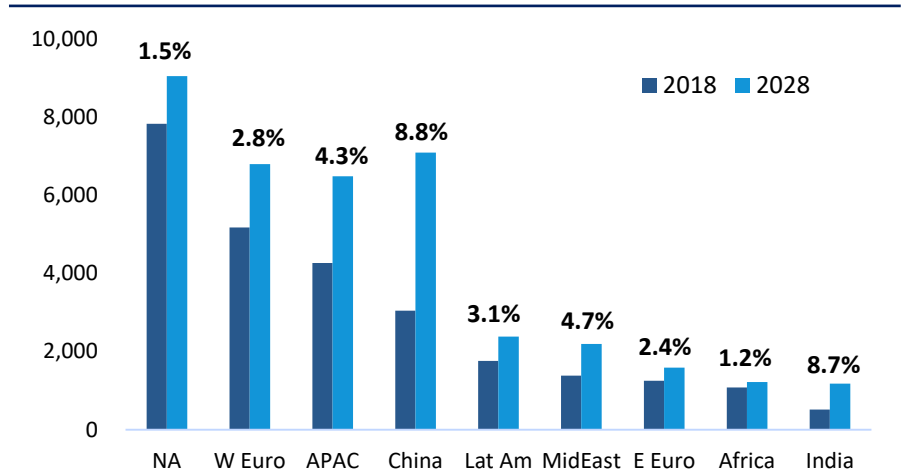
8 DEFENSE PROGRAMS

Key Market Dynamics

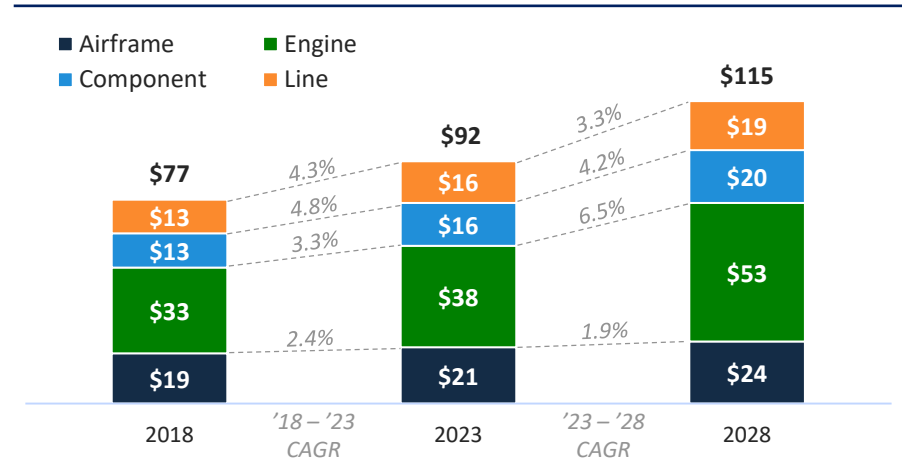
- Fleet growth in Asia and Middle East outpacing growth in North America and Europe
- U.S. defense budget growth
- Aerospace OEMs entering aviation aftermarket as service integrators
- Increased data creation and digital solution demand driving technology companies to transform the industry and how we do business
- Technology companies driving digital transformation throughout industry
- Cost, price and labor pressure in MRO businesses

Commercial Market Growth

Fleet Size and Growth by Region



MRO Market (\$B)

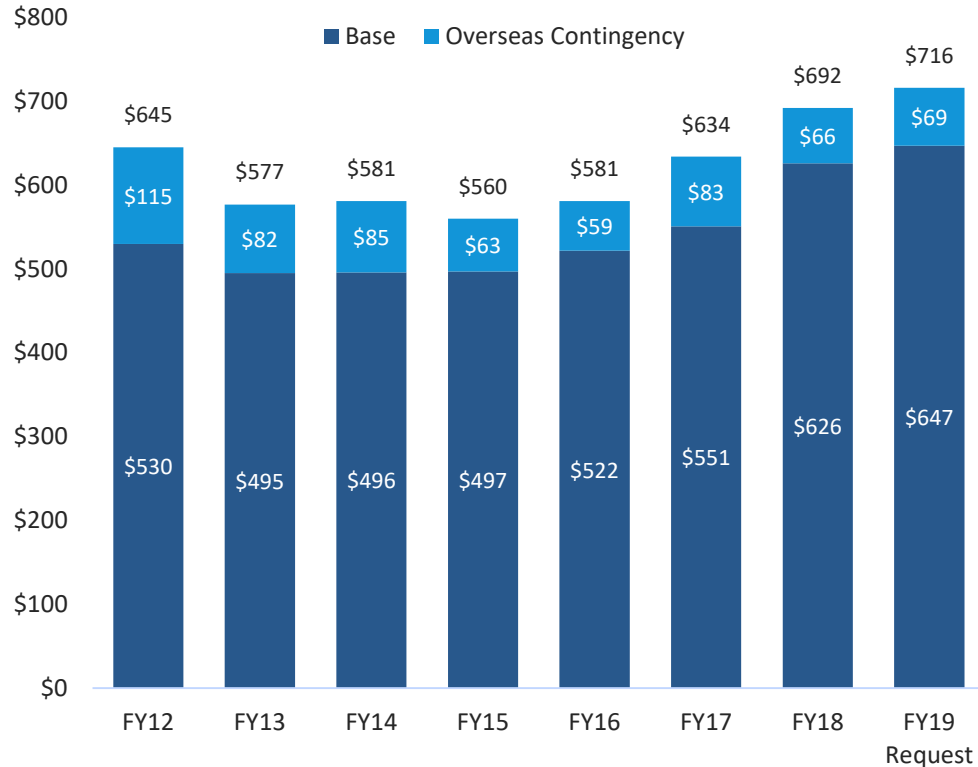


Source: Oliver Wyman

- **Fleet growing fastest in Asia, particularly China**
 - Increasingly younger fleets
 - Enhanced data acquisition capabilities from new equipment
 - Newer airline organizations with high affinity for innovation
- **Slower growth in North America and Europe**
 - More conservative airline operations
 - Slower adoption of newer technologies
 - Aging fleet profile

U.S. Defense Spending

U.S. Defense Budget (\$B)



- Budget rebound continuing
- Geopolitical tensions remain high
- Proposed FY19 budget reflects power competition with China and Russia
- Emphasis on maintaining technological advantage
- Budgets in place and seeing near term spending increases

AAR's Strategic Imperatives

- **Execute** through focus on customer satisfaction and cost leadership
- Pursue **connected businesses** that reinforce collective growth prospects
- Leverage **data and digital** to deliver better customer-focused solutions
- Expand margins through **intellectual property**
- Increase our **global** footprint into emerging markets
- Leverage our **independence** to provide flexible solutions

**Leading
Independent
Provider of
Innovative
Solutions to the
Aviation
Aftermarket**

FY18 Financial Highlights

- Revenues were \$1,748M compared to \$1,591M in prior year
 - Up \$158M or 10% from the prior year
- AS revenues were \$1,619M, up \$134M or 9% over the prior year
 - Wind down of KC-10 contract resulted in a decrease in sales of \$82M to \$29M from \$111M
- ES revenues were \$129M, up \$24M or 23% over the prior year
- Gross profit margin increased to 16.9% from 16.6% in the prior year
 - Both AS and ES experienced increased gross profit margins in FY18
- SG&A increased to \$209M from \$181M in the prior year
 - Excluding severance/stock based compensation costs of \$19.7M in FY18, SG&A as a % of sales was 10.8% compared to 10.6% in prior year
- Income from continuing operations of \$73.7M in FY18 compared to \$52.0M in the prior year
- Adjusted Diluted EPS of \$1.79* in FY18 which reflects a 17% increase over the \$1.53* in FY17

FY18 Income Statement Highlights

<i>in millions except EPS</i>	<i>Actual FY18</i>	<i>Prior Year FY17</i>	<i>Variance PY</i>
Sales	\$1,748.3	\$1,590.8	\$157.5
Gross Profit	\$294.6	\$263.4	\$31.2
<i>% Margin</i>	16.9%	16.6%	0.3%
SG&A	\$208.6	\$181.1	\$27.5
<i>% Margin</i>	11.9%	11.4%	0.5%
Operating Income	\$86.0	\$82.3	\$3.7
<i>% Margin</i>	4.9%	5.2%	-0.3%
Income from Continuing Ops	\$73.7	\$52.0	\$21.7
GAAP Diluted EPS - Continuing Ops	\$2.11	\$1.51	\$0.60
Adjusted Diluted EPS – Continuing Ops*	\$1.79	\$1.53	\$0.26

FY18 Segment Results

AVIATION SERVICES <i>in millions</i>	<i>Actual</i> FY18	<i>Prior Year</i> FY17	<i>Variance</i> PY
Sales	\$1,618.9	\$1,485.4	\$133.5
Gross Profit	\$271.9	\$246.0	\$25.9
<i>% Margin</i>	16.8%	16.6%	0.2%

EXPEDITIONARY SERVICES <i>in millions</i>	<i>Actual</i> FY18	<i>Prior Year</i> FY17	<i>Variance</i> PY
Sales	\$129.4	\$105.4	\$24.0
Gross Profit	\$22.7	\$17.4	\$5.3
<i>% Margin</i>	17.5%	16.5%	1.0%

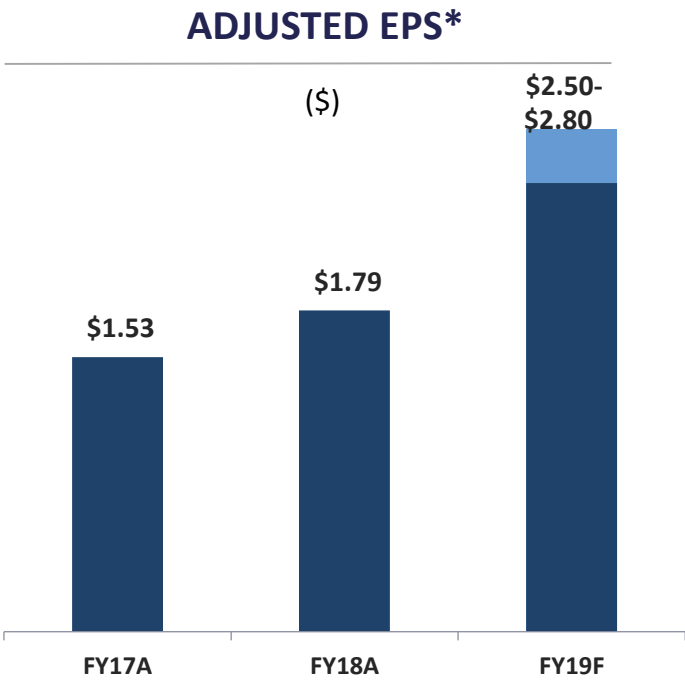
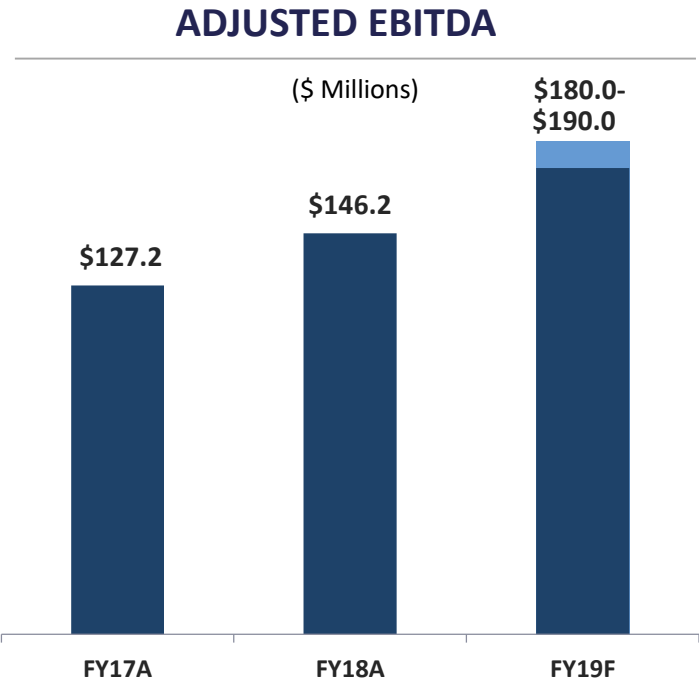
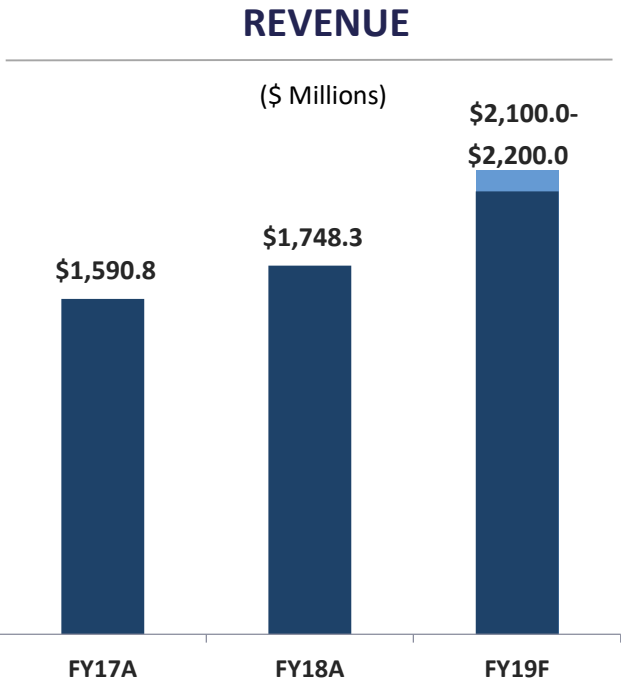
Balance Sheet Highlights

<i>In millions</i>	<i>Actual 5/31/18</i>	<i>Year End 5/31/17</i>	<i>Variance</i>
Accounts Receivable, net	\$202.0	\$234.5	(\$32.5)
Inventories, net	\$460.7	\$433.4	\$27.3
Assets Supporting LT Programs	\$183.4	\$159.6	\$23.8
Assets of Disc Ops	\$125.0	\$219.4	(\$94.4)
Total Assets	\$1,524.7	\$1,504.1	\$20.6
Net Debt	\$147.8	\$145.9	\$1.9
Total Liabilities	\$588.4	\$589.9	(\$1.5)
Total Equity	\$936.3	\$914.2	\$22.1

- ⚙ FY18 Capex of \$22.0M; D&A of \$40.5
- ⚙ Premier acquisition of \$22.9M in Q2
- ⚙ Paid dividends of \$2.6M Q4, \$10.3M FY18

Balance Sheet solid with \$442M of Availability on Credit Facility & AR Program

Financial Overview



Q & A

Appendix

Non-GAAP Financial Measures

Adjusted income from continuing operations, adjusted diluted earnings per share from continuing operations, and net debt are “non-GAAP financial measures” as defined in Regulation G of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We believe these non-GAAP financial measures are relevant and useful for investors as they provide a better understanding of our actual operating performance unaffected by the impact of severance charges and other items. When reviewed in conjunction with our GAAP results and the accompanying reconciliations, we believe these non-GAAP financial measures provide additional information that is useful to gain an understanding of the factors and trends affecting our business and provide a means by which to compare our operating performance against that of other companies in the industries we compete.

Net debt represents total debt less cash and cash equivalents and we believe that the presentation of net debt provides useful information for management and investors to evaluate overall liquidity, financial flexibility, capital structure and leverage.

Pursuant to the requirements of Regulation G of the Exchange Act, we are providing the following tables that reconcile the above mentioned non-GAAP financial measures to the most directly comparable GAAP financial measures:

Non-GAAP Financial Measures

Adjusted diluted earnings per share from continuing operations	<i>TWELVE MONTHS ENDED MAY 31,</i>	
	2018	2017
Diluted earnings per share from continuing operations	\$ 2.11	\$ 1.51
Deferred tax re-measurement from the Tax Cuts and Jobs Act	(0.41)	-
Severance and restructuring charges, net of tax	0.09	0.02
Adjusted diluted earnings per share from continuing operations	\$ <u>1.79</u>	\$ <u>1.53</u>

Non-GAAP Financial Measures

Adjusted Selling, General & Administrative Expenses <i>\$ in millions</i>	TWELVE MONTHS ENDED MAY 31,	
	2018	2017
Selling, general & administrative expenses	\$ 208.6	\$ 181.1
Severance and restructuring expenses	(4.4)	(0.8)
Stock-based compensation	(15.3)	(11.0)
Adjusted selling, general & administrative expenses	<u>\$ 188.9</u>	<u>\$ 169.3</u>

Adjusted EBITDA & Financial Metrics

Adjusted EBITDA	Actual FY18	Prior Year FY17
<i>In millions</i>		
Net Income	\$ 15.6	\$ 56.5
Loss from discontinued operations	58.1	(4.5)
Income tax expense (benefit)	3.5	25.1
Other expense	0.9	-
Interest expense, net	7.9	5.2
Depreciation and intangible amortization	40.4	35.7
Early retirement and severance charges	4.5	0.8
Gain on asset disposal	-	(2.6)
Stock-based compensation	15.3	11.0
Adjusted EBITDA	<u>\$ 146.2</u>	<u>\$ 127.2</u>

Non-GAAP Financial Measures

<i>Net debt - \$ in millions</i>	MAY 31, 2018	MAY 31, 2017
Total debt	\$ 178.9	\$ 156.2
Less: Cash and cash equivalents	(31.1)	(10.3)
Net debt	<u>\$ 147.8</u>	<u>\$ 145.9</u>