MOOG

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<<Aaron Astrachan, Head of Investor Relations>>

Good morning. Welcome to Moog's 2023 Investor Day. I'm Aaron Astrachan, Head of Investor Relations here at Moog. What an amazing turnout. Thank you, everyone, in the room. And for those of you following online, thank you for joining as well. We're very excited to share both the latest developments and the direction of the company.

A few disclosures to start. Today's discussion includes forward-looking statements, and those statements are not guarantees as our actual results could differ materially from our projections and have the same risks and uncertainties as described in our SEC filings. Also today's presentation includes non-GAAP measures. Reconciliations to those measures are included in the appendix of the presentation. Also, today's presentation includes forward-looking – all of our projections, our baseline against fiscal 2022.

Moving on. So the agenda today, first, the CEO, Pat Roche, will talk about why this is an inflection point here at Moog and what's changing. Second, our COO, Mark Trabert, will talk about how we're achieving the initiatives. And third, Jennifer Walter, CFO, will give more color and depth to the resulting financials. After that, we'll have a Q&A, where those of you in the room will be able to ask questions. Also, those of you online, you'll be able to follow the slides and videos, same as here in the room. Also, you will be able to submit questions in the online forum. One last thing, you'll be – the presentation is available to download from our Investor Relations website.

With that, let's get started.

[Video Presentation]

<<Patrick J. Roche, Chief Executive Officer>>

Well, that video fills me with pride. That's what motivates our employees to excel every day as they deliver for our customers. They affect the lives of millions of people around the world, securing their security, their well-being and their safety. They really make a difference. And that's why I am over 23 years working with the company. I have the honor to be in the CEO role, and I'm passionate to lead the 13,000 people who work for us. So – good morning, and welcome. I'll add to Aaron's welcome to the room. It's great to see so many of you and so many familiar faces in front of us today. Thank you for making the time and taking the effort to come here and see us today. And for those of you online as well, welcome.

We are really pleased to be here and roughly, what is it, 110 days or 120 days into the role at the moment. And I've been waiting to come out and tell you what we want to achieve as an organization. So I'm pleased that you can be here to hear this exciting story about the future of Moog. Over the next 90 minutes, Jennifer, Mark and I will set out our goals for FY 2026. We'll talk about the change we need to drive in the organization to achieve these and describe the financial output. I want you to be as excited as we are about the future of Moog, when we finish the conversation.

So – as I mentioned, I'm a short time in the role, but I had ample time in the Chief Operating Officer role to learn what was going on within the organization. I spent the time visiting our own sites throughout the company, joining at trade shows, joining customer meetings and attending investor conferences and all of that provided me with valuable insight as to what was going on. It was incredibly important for me to understand the relationships that we have with customers in the different markets that we serve and to see what business opportunities and challenges there were. So what did I learn? Three things. First, I reaffirmed my view that we have a very strong customer value proposition.

We have trusting relationships with our customers that span decades. We have a way of working with those customers that encourages deep engagement and real problem solving. And that problem solving leads to innovation in the solutions that we provide to solve their most difficult technical challenges. As a result, we are delivering real value for the customers, and that shows up in the growth of our company. In fact, over the last decade, pre-pandemic, our growth rate was 5% CAGR. Secondly, I saw an unnecessary level of complexity within the organization in delivering on that business model. We've grown and expanded our business over decades and acquired companies. That has led to a complex landscape. We have a confusing organizational structure. We have a large number of physical sites around the world.

We have a mix of different product types flowing through the same facilities, with poor alignment of customers to channel. We have a long tail of legacy products that have grown over the years, and we have a multitude of different IT systems throughout the organization. And it was clear to me that complexity was a drag on our margins and a significant opportunity to improve. Thirdly, we faced an uncomfortable truth that our margin performance wasn't good enough as an organization. We have not shown improvement over the course of the last decade in our margins. We lag behind our peers, and we've not articulated a clear plan to address this.

So in summary, an outstanding customer value proposition that leads to consistent growth, a complexity in the business model that is a drag on our margins and a financial performance that does not reflect the underlying strength of our value proposition. Therefore, we need to make a change.

So what's going to change? Our focus will be on driving progressive and substantial margin expansion over the course of the next few years. We're using two principal levers. Firstly, simplification and secondly, pricing. Simplification is all about unraveling the complexity that I've just described in our business model. We know where it's embedded in the organization. We've built insight and capability over the last year to drive simplification, and that change is already underway, and it will deliver results in FY 2023. So we're building momentum.

Pricing is all about fair recognition for the value that we deliver for our customers. We are committed to long-term relationships with our customers, and we care about the impact of our performance on theirs. But it's the right time to reset our pricing expectations. We've done through several challenging years in the industry. We're tackling price in every one of the markets that we serve, and we're ensuring that price is based on the value we deliver that it is fair and that it is sustainable. Together, simplification and pricing will generate substantial margin improvement for our business. And Jennifer and Mark will help me describe how we go about doing that and the impact that it creates. We've also changed our approach to margin enhancement. Underpinning our drive to improve margins is the commitment of our leadership and our staff.

For the leadership team, margin enhancement is the number one priority. We know that the margin performance is not good enough, and we understand what needs to change to make it effective. Together as an executive and a business leadership team, we've scoped out the margin problem. We understand where the performance gaps are. We know how to go about changing those gaps, and we've invested the time and energy to develop credible and realistic plans to deliver progressive margin improvement over the next few years. And those early results will begin to show through in FY 2023 and we're confident we can deliver on the goals we're laying out.

For our staff and organization, we have much greater clarity on the goals and performance expectations right down through the organization, segment, business unit and site. We've actually reorganized part of our business to make sure that we had clear accountability flowing down to site level. Those businesses have the necessary resources that they need and the business leaders have the ability to flex those businesses to meet both operational and financial performance expectations.

And today, we want to provide you with visibility as to our key financial goals for the next few years. The reason for sharing them with you is that you can be clear on what you should expect of us between now and FY 2026. So we have a great business. We have strong customer relationships, great technology, a unique culture in our organization that has delivered strong growth, and now you will see a change in the margin performance of this business. I'm convinced that this change will significantly enhance the value of our company.

So before I go much further, I want to describe who we are as a company. Firstly, I would describe us as a technology company. We design and manufacture precision motion control components. We create and own our own intellectual property. We have deep manufacturing know-how to produce those components. Our engineering and manufacturing teams pushed the boundaries of performance, creating world-beating products. If you consider the dynamic performance of an actuator that's used in moving the surfaces of a wing or if you think about high-bandwidth data transmission within a CT scan machine that uses our slip rings, we innovate, we create those solutions for our customers.

And in addition, over the last decade, we've built system capability within the organization. We can integrate together these components together with control electronics, real-time software, user interface software to deliver sophisticated control solutions for our customers to meet their most demanding motion control problems. Those capabilities include everything from the physics, the material science, the ingenious mechanical systems that we develop, the electronic control boxes, real-time, fault-tolerant software. Just think about an Embraer E2 jet. Everything from the wing surfaces that move through to the cockpit electronic control system is Moog software and Moog hardware. It gives you an idea of the sophistication of the systems that we produce.

Secondly, how we work. We are collaborators and problem solvers at heart. We're proud of the unique culture our organization has, which is based on core values of mutual respect and trust. It defines how we work together internally in the organization with our colleagues, and it's a key part of being a great place to work. It also defines how we work with our customers, and I think that's an important differentiator. We have open and honest conversations with our customers. You have to have those if you want to have decades-long relationships of trust. The quality of our engagements then with our customers is of a really substantive level. We understand their problems and we uncover innovative solutions for them.

Thirdly, we operate in a number of different markets. Those markets are characterized by when performance really matters. We focus on applications where we believe we can add great value. And our solutions are trusted in applications where failure can lead to significant economic impact or risk to human life. Great examples of this would include safety-critical primary flight control systems used on fighter jets, our precision control of a metal forming press on an automotive production line. Our landing a rover on Mars, seven years worth of development, seven months of a journey to the planet and just one shot to get it right for that mission to be successful.

Finally, that range of end markets, I would describe us not as an industrial conglomerate. We have key engineering capabilities and an operating culture that is a backbone for our company. We apply those skills and that way of working to multiple end markets. We share knowledge, process and sometimes even resources between those markets when we believe it is in the best interest of the company. I believe we are more resilient to industrial cycles within any one of those markets as a consequence. So in summary, we have a very clear and coherent view of what makes us successful as an organization and how we deliver value for our customers.

Underpinning the business model are our staff, who make us successful. They deliver unbelievable solutions that others might think impossible. I'm so proud of the 70 years heritage of this company. Let me share a few examples.

Consider a fifth-generation fighter coming in and landing on the deck of a ship at sea vertically. All of the maneuverability of that jet is down to Moog systems. Think about troops out in the field who are being deployed. Our remote integrated – our reconfigurable integrated weapons platform allows them to change the armaments on that weapon protection platform depending on the context – the battle context that they're entering into. So that's incredible levels of flexibility that they did not have before.

I think about our medical pumps, which allow a chronically ill patient to enjoy a better quality of life. So these are the ways in which we've impacted people through our innovation. So my vision for the company is not really an endpoint, but it's a journey. It's continuing to have that positive impact on the lives of people around the world, making a difference every day. And our employees really are shaping the way the world moves.

So we're building on a 70 years heritage and we want that to continue for decades to come. And the reason for doing that is for current and future generations, not just of our employees, but also the customers that we serve. Our relationships with customers go on for decades, as I've said, the life of an aircraft over its development cycle, production and into aftercare or aftermarket is measured in 50-year or longer than 50-year times.

But this isn't about just maintaining a status quo and not changing the organization. It's a journey where we must continue to evolve and grow. It means staying relevant for our customers through innovation. It means building our own capabilities so we can deliver those solutions. It means being profitable as a company and investing in the future in the long term, and it means balancing short-term and long-term decisions.

So our commitment to purpose, our clarity on what we do as a company and our desire to see the next-generation benefit from our work leads to really high levels of motivation and engagement from our staff around the world. And it's our people that really do deliver for Moog.

So let me move from the context who we are, what we do and talk a little bit about the change and how we work on setting that up for the company. When I was thinking it through having gained insights from all of the visits I talked about at the beginning, I organized my thoughts around 3 key priority areas: Customer focus; people, community and planet and financial strength.

Now if I address each of those. Customer focus is about earning the right to be a trusted partner with our customers. It's about delivering on our commitments whether that's a product development, on time, on schedule and to scope or whether it's production where we give lead time commitments and delivery commitments, which we must need. For me, customer focus is all around operational excellence and driving ongoing continuous improvement within our organization, so that we can deliver for our customers and so that we can sustain those decades-long relationships.

People, community and planet is because we care about the people that work for us, the communities in which we are based on our planet. We have a very clear agenda in the organization. We want to sustain the collaborative culture that we have and the way that we work as a true differentiator and a great place to work. We want to embrace the communities in which we are based, so that we can draw upon the full diversity of talent that they have to offer us as an organization, and we want to minimize our impact on the planet.

Thirdly, financial strength. We're going to cover this in a lot more detail through the rest of the presentation. We're on a path to change our financial performance as an organization. We are at a key inflection point from my perspective that we're highlighting today and that inflection point is the change in margin performance. We will continue to grow our revenue, and we will manage our cash prudently. At this point, I'm going to jump to the punchline and share the financial goals for FY2026.

The first target is top line revenue growth. We're projecting revenue growth of between 5% to 7% CAGR. We have a track record of delivering growth within our organization. The markets that we serve are undergoing sustained growth, and we continue to innovate and build upon that momentum. We also have strategic acquisitions. We haven't reflected these in the numbers, but we continue to be active in looking for acquisitions that fit our agenda.

Our second financial target is operating margin improvement. We're projecting operating margin expansion, averaging 100 basis points per year throughout the period to 2026. This is a significant inflection point, as I've said, we're at the start of a sustained period of margin expansion. We have a clear, attainable goal and a different approach to achieving it. Let me be clear. I don't see this as an aspiration. We have a plan to deliver on this growth.

Thirdly, financial target around earnings per share growth is 15% to 20% CAGR. This is a strong improvement, and it is based on the operating margin performance and not share repurchasing, which are not factored into the plan.

Finally, but no less importantly, our fourth financial target is free cash flow. Our strategy is to invest in organic growth, and our free cash flow will be somewhat constrained in FY2024, but we will return to a range of 75% to 100% free cash flow in the period FY2025 to FY2026.

Now let me expand on the growth and the margin changes that we're projecting. We'll start with a short video.

[Video Presentation]

Isn't that amazing. Even if you're not an engineer, you must appreciate what's going on in those products. As an engineer, I can tell you that the solutions we deliver are pretty unbelievable. It takes both design engineering and manufacturing expertise to be able to produce those solutions. So that's a high level of innovation in applications where the expectation is almost impossible.

So let me now step through those five markets. Defense constitutes over 40% of our business, and we're projecting that this business for us will grow at mid-single-digit rates between now and FY2026. We're in a strong position on multiple platforms across all domains, air, land, sea and subsea. We all know about the shift in the geopolitical environment that has gone on since February 2022.

That has resulted in governments changing their position around defense investment. I remember the fall of Berlin Wall and the resulting peace dividend. And we're not at that point now, we have to invest in peace and order throughout the world. And you see that with European governments and the U.S. government expressing what needs to happen between now and 2030 in terms of defense spending.

I think we're participating in now in a period of prolonged growth within the defense industry. In the near term, we are well positioned to support that growth with the current platforms that we're on. And in the future, we've invested to be a participant on future platforms. We already announced the win of FLRAA, which is the V-280 with Bell Textron. We already last week moved into the engineering and manufacturing development phase of that project. So we're under contract for the next phase.

And we have several other funded developments underway within the organization that I can't share the details of, but all of these have the potential to add significant production for us in the periods 2030 and beyond. So it's outside the time frame of our financial goals, but it's worth noting.

Space constitutes just over 10% of our business, and in this market, for our business, we're projecting high single-digit growth rates. We deliver trusted, reliable components with proven flight heritage for launch, for spacecraft and for satellites, that includes space-rated avionics.

We're seeing unprecedented pace of activity in this market and investment driven by three key factors: The defense needs of the nation, commercial exploitation of space and human exploration. There's plentiful market opportunities for us to pursue in this market in these three – driven by these three factors, and we have the capability to continue to win new business here.

I listed space and defense side by side for a reason. About 80% of our space business is driven by defense needs. And if I combine that with our defense market, about half of our revenue as a company comes from defense-related activities.

If I move to industrial, this constitutes just over 20% of our business. We are expecting low single-digit growth rates for this business, net of portfolio adjustments. We're market leaders in flight simulation platforms and high-performance components, such as servovalves and slip rings. We continue to innovate and invest in those precision components and to introduce energy-efficient products. Over the next few years, we continue to fine-tune our business model here.

Commercial constitutes 17% of our business today, but this grows rapidly to about 23% in FY2026. We're expecting mid-teens CAGR growth for our commercial business. We're a leading supplier of primary and secondary flight control systems for commercial aircraft, be that wide-body jets, regional or business jets. The biggest change occurring in this market for us is the recovery post pandemic. It means for us a doubling of our wide-body production rates in support of our customers' build forecasts.

Business jets for us have been strong throughout the pandemic and will continue to grow at a healthy rate. And finally, we're developing opportunities in maintenance, repair and overhaul. Medical constitutes just under 10% of our business and will experience mid-single-digit growth over the period. We're a market leader for home care infusion pumps and high-performance CT slip rings. Our business is projected to grow in line with the market.

So I would summarize our opportunities in the core markets as follows: We've demonstrated consistent growth over a decade. We've won strong positions on key platforms. You saw in the video, F-35, the Joint Strike Fighter, V-22, 787, A350, those 4 platforms alone constitute 25% of our revenue.

In addition, we hold market leadership position in a variety of the markets that we serve. We continue to innovate. I mentioned FLRAA, but other funded developments are already underway. And the markets that we're operating in are undergoing a period of sustained growth. Space and Defense due to that geopolitical environment I talked about and our commercial aviation business as a result of the recovery post pandemic.

We have end market diversity that gives us resilience to market changes. So in all, I'm very confident in our ability to deliver between 5% and 7% CAGR growth over the period to 2026. But that's not the full picture and I believe that we have significant upside potential outside that FY2026 period. That's down to a number of new ventures that we're investing in. Joe Alfieri, who is President of our Space and Defense Group spent the prior two years running one of those new ventures and he's going to give an overview of our company-wide approach.

[Video Presentation]

So Joe has described three specific ventures that we've been developing over the last number of years. These are creating opportunities for us in adjacencies to our core business. So in the case of construction, we're entering into a new market, but we're bringing our know-how about how to innovate in systems and software and safety.

In space vehicles, it's a market that we know very well. We have a heritage on the component side, but we're repositioning ourselves in the value chain and we're moving up to provide a full satellite ready for payload to be added. So each of these is in markets where there's a substantial addressable market and there's a disruption that's causing an unmet need in that market.

We can access these opportunities because of that system capability that we've built over the last decade. That's the basis of entering into the market. It sets us apart from our peers and also the way in which we work has allowed us to respond in a very agile way. I mentioned the culture and the value of that, but that has allowed us to move resources around the organization as needed to pursue some of these applications.

So for instance, in construction, we drew engineers from Aircraft Group, Space and Defense Group, and Industrial Group to push that forward at the beginning. And we were able to create working prototypes for OEMs within six months of getting a delivery of one of their machines. They were not able to do that themselves.

Today, each of these three ventures are sub-$100 million businesses. They're all at a point where they're ready to scale. They have access to a significant addressable market, and they will be as important to us in the future as some of our existing businesses are today. So for me, these all offer upside potential beyond the FY2026 period. So growth is not a problem either from our core businesses or the adjacencies we're pursuing beside them.

Now, let me turn the attention to operating margin enhancement. I said earlier in the presentation that we needed a new approach, I personally took many lessons from the very successful management of liquidity, which we did at the early stages of the pandemic. In that case, we set a clear priority for ourselves. We set measurable goals. We assembled the team together and jointly problem solved what needed to happen. We reviewed our progress on a weekly basis with finance and executive leadership teams.

We monitor performance against our own dashboards and we adjusted our plans as necessary to make sure that we delivered. It may sound simple, but that goal path clarity delivered results for us and we're applying that approach now as we manage margin enhancement. It's the clear priority of our leadership teams at executive level and down through the organization.

We're committed to making the changes that are needed in the organization so that we deliver on the plan. Operating margin will be the key financial measure that you should use to assess our performance as a team. So we took a fresh look at our business from a margin perspective. We were very clear down through the groups, business units, sites, and to product line level where we saw margin challenges and that's where we've applied our problem solving, where we've built our plans and initiatives to change the situation.

We've set financial targets at each level in the organization and we've laid out the progression by which they must improve on a quarterly basis. And we're reviewing that as part of our regular executive briefings. We've never had this degree of focus nor specificity about the margin enhancement plans that we're following, and we know that we need to be disciplined in our execution.

Let's consider it from the behavioral side. Our success relies on engagement throughout the organization and accountability to deliver at every level. So at every leadership level in the company, we've set clear expectations. The leaders are empowered to make the changes that they need to and they are accountable to deliver. In order to achieve this, we actually made some significant organizational changes, which were announced, and Michael and Mark will describe the change in Aircraft Group a little bit later.

All of these changes and the focus on margin enhancement has been widely communicated throughout our organization. Our success also depends on a mindset shift breaking some established paradigms that may exist, all revenues, good revenue, all customers are equal, or every business is a growth business. We're progressively breaking down those beliefs in order to achieve a different margin outcome.

Finally, our success depends on taking a very systematic approach to this and driving the change. We've studied our peer companies and how they've been successful in driving margin enhancement improvement. We've invited in other business leaders who've talked to us about their journey and shared their experience, and we've engaged experts to educators on new approaches such as 80/20. We've actually gone out and hired practitioners to bring them into our organization. We now have a clear approach and the tools we need to pursue margin enhancement.

Now, let me describe how we'll make an impact. First, it's about simplification. I've already explained the complexity challenge. Complexity comes at a cost and simplicity is about unraveling those many layers of complexity within the organization. This has impact across all businesses and all functions and at all levels in the organization.

Simplification is a mantra for us that will continue to drive ongoing and continuous improvement within the organization. We have a clear approach to simplification and we have the necessary tools to support it. It's a systematic approach and I realize that it'll take a few years to complete. However, let me be clear, we have what we need. We know what needs to be done and we have the tools to do it, and the journey is underway and you'll begin to see results coming through in FY2023. Mark is going to go through in more detail that systematic approach and explain how it works.

The second area is pricing. Pricing is about getting fair recognition for the value that we are delivering to our customers. We recognize that we're in long-term relationships with our customers and the necessity for our customers to remain competitive. Our customers value our partnership and they also value the solutions that we deliver that enable their products to perform the way they do.

All sides recognize the unprecedented disruption we've gone through over the last few years, and it's in that context that we're resetting pricing expectation across all markets. We've acted quickly where we have the flexibility but also purposefully and consistently to reset pricing expectations in each of those markets. We've made a lot of progress already on pricing. We've been working on this in the background over the last couple of years. We have good visibility and confidence on the impact that the pricing will make on our margins over the entire period to FY2026.

In summary, we've got a clear line of sight to achieving the margin improvement goals that we've laid out. It's based on improvement across all of the businesses, and it's the result of a systematic approach, and we internally have the impact mapped out by quarter. We're well underway, and as I said, you'll see results flowing through in 2023.

Now, let me turn my attention to us a further factor that lead – will lead to our success. I brought our entire senior leadership team with me today so that you could meet them in-person. So please meet and get to know the team during the session. This is the group of people that are going to deliver on this plan. Could I ask the five members of the team who are not on the podium to stand up as I call you out? So Paul Wilkinson is our Chief HR Officer; Joe Alfieri is the President of our Space and Defense Group; Mark Graczyk is President of our Military Aircraft Group; Stu McLachlan, President of our Industrial Group; and Michael Schaff, President of our Commercial Aircraft Group.

So I'm really grateful to have such a team of talented individuals in place from the beginning of my tenure as CEO and I'm very confident that we have the skills and the experience in that team to deliver on the results we're expecting. I know that Moog will be in good hands for years to come.

We are all strongly vested in the company. We have tenure that ranges between 15 years and 38 years. We each bring specific domain experience with us be that engineering, finance, program direction, or people management. And we've worked across or within many of the businesses within Moog. Michael Schaff, for instance, has worked in Aircraft Group and Space and Defense Group in both Salt Lake City and East Aurora. Mark Graczyk has worked in Industrial Group and Aircraft Group in California and in East Aurora.

Joe has worked in all of the groups within the company and the corporate functions. And Stu has worked in Aircraft Group and Industrial Group. We are a motivated and incentivized team to deliver growth and operating margin at a company level in line with these plans. Whilst you see new faces around the table, it's been a smooth transition over the last 18 months for our company.

This is a direct result of a very effective talent development program that we have in place, which Paul Wilkinson led the setup of over a decade ago. While many of us are new to the role, every one of us has had the opportunity and support to prepare for these transitions. So this team developed the plans for the growth and margin enhancement that we're presenting today. And we believe that these plans – we believe in the plans and are committed to delivering them.

The first significant step in that simplification agenda was to unravel the matrix structure within our Aircraft Group. So Mark Graczyk and Michael Schaff were appointed to drive this transformation and lead the two separate businesses.

We'll hear a short video clip now.

[Video Presentation]

So this change has been really well received within our own organization. Our staff understand the rationalization, the rationale for making the change, that it can give more focus and the better ability to respond to changes at their customer side. It's a credit to Mark and Michael, and they put a great deal and it puts them in a great position to deliver for the future.

Now, let me wrap up with a few key takeaways from my perspective. We are a strong growing company. We continue to evolve our technologies and grow through innovation. We create our own intellectual property. We're exposed to markets with prolonged high growth rates, space and defense being very notable here. We're positioned on current platforms and have a nice position on new platforms for the future. We're supporting the rapid recovery of the commercial aircraft business, and we're accessing adjacent market opportunities that give us growth potential beyond FY2026.

In summary, a solid business that is resilient and stable. We will become a more profitable business. We've a clear line of sight to the improvements. We know the gaps, we have detailed plans, and we're actively reviewing our progress against those plans. We're leveraging simplification and pricing to drive that change. We're well underway and building momentum.

This will have a significant impact on our performance and the value of the company over the next few years. We're taking a different approach to achieve it. It's a systematic approach. It's strong and execution discipline. It's a priority of our leadership team. We have clarity on the goals and the timeframe we're working to. We have internal reviews with clear milestones. We have engagement throughout the organization to make this successful and accountability flowing down to the lowest levels.

I'm known at Moog as a – for my structured approach in driving systematic change. It's worth pointing out that I'm a marathon runner. I know what it takes to commit to a program of work to get to an end goal over a long period of time, working hard week in, week out to build stamina and mental resilience. It's the same type of journey here.

The only way to build that stamina is actually by doing it. And we have been working on this over the course of the last year or more on the pricing side, and more specifically, on 80-20 for over a year, doing pilots, learning about it, that's building the muscle to make these changes. We've a leadership team in place, we've had the opportunity now to meet. It's their clear priority and focus of our team to deliver on these results with excellent alignment and collaboration within the team to drive the changes that are necessary and with the necessary skills and expertise to deliver. I've led many transformations in Moog over the last 23 years. I have a reputation for being a team player, a collaborator, and forging a common purpose within those teams. I know and respect the culture of our company and how you make change within that culture. And I know that we can deliver on the plans.

So I'd like now to hand over to Mark Trabert, who's our Chief Operating Officer, and Mark is going to give you more insight into how we approach the margin enhancement program. So Mark, over to you.

<<Mark J. Trabert, Executive Vice President and Chief Operating Officer>>

Thanks, Pat. Good morning, everybody. Welcome, thank you all for coming out today. We are excited. Pat talked to you about what it is that we're committing to as a management team. He shared with you targets that we're all driving toward as a company. And it's those targets that this team has rallied around and we're really happy to share those with you today. As Pat said, I'm the Chief Operating Officer of the company, Mark Trabert. I've been in this role since March 1, but prior to that I had been the Aircraft Group President since 2015. I've been with the company though for 38 years prior to that. So I'm the person on that chart that has been the 38-year tenure person.

So Pat talked to you about all the great things that we do in our company, and it is amazing. As I said, I've been here 38 years and I'm still amazed when I see some of the things that we do. But he also shared with you the financial targets that we as a management team are driving toward and we're committed. So Pat talked to you about the what, and I'm going to talk to you a little bit today about the how, how we intend to achieve those targets. What you see in front of you is a pie with a bunch of pieces or a puzzle with a bunch of pieces that fit together and really what those are a company-wide set of initiatives that drive the performance improvement. As you can imagine across all of our company, that there are lots of initiatives that go on throughout the company, but these are the core, the backbone initiatives that we're going to follow as an entire company as we move forward.

Pat talked about simplification to the organization and most of our initiatives on this – in this pie are all about simplification. Portfolio shaping, which is driven by strategy. 80-20, which provides us better visibility toward margin improvement opportunities inside of our company. Footprint rationalization, which takes our strategy and looks forward in our strategy and we ensure that the footprint we have in place is fit for purpose for us to execute the strategy that we are intending to execute and also simplification of that business.

We'll do that through factories that are focused on the unique needs of each of the markets and will reduce complexity and costs by way of automation through many of our factories as we go forward. Those are all of the internal – internally focused things that we're intending to do. As we look at externally, of course, pricing is the other thing that Pat talked about and we'll talk a little further about where we've gotten on our journey to ensure that the pricing that we get back, the value we get back from our customers is reflective of the value that we believe we deliver to our customers.

So the first of the initiatives is portfolio shaping. And many of us, when we think of portfolio shaping, we think of, okay, we're going to divest businesses, we're going to prune businesses. We've been trying to – we have been looking at this in a much more holistic manner. What are the things as we sit here today, what are the things that we do as a company? Where do we want to go as a company? What does our portfolio need to look like? So that includes investing in businesses that we want to grow. And Joe Alfieri talked to you about a few of those businesses and Pat did as well. And we're really excited about those. Those are really – as Pat said, they're all sub-$100 million businesses at the moment that we expect larger growth from outside of the FY2026 period.

There are other things that we're doing within our core business as well, growth and different initiatives within the aftermarkets, not just in our airplane business, other parts of our defense business, and even within our industrial business. So we have a lot of exciting plans for growing, even the core business where we're at today. But there are large pieces as we stand back, there are pieces of our business that no longer fit as we look to the future and there are both products and businesses that we look at and we say, you know what, those would be better inside of a different company than Moog, because they really don't fit our strategy. I've listed three of them here for you, recent divestitures that we've made, I'll talk about a couple.

Tritech is a UK company that we bought in 2012 and they do sonars for undersea oil exploration. So I think you're familiar with what's – what kind of the state of the undersea oil exploration business, where that marketplace is today and where that product also fits within the scheme of where we're trying to go in that marketplace.

We've decided, you know what, that company would really be better off inside of another company that where their products are more core part of the strategy of that company since they're not a part of ours. And we sold that business in 2022. The business at the bottom, the Navigation Aids business, we bought a flight control actuation business from Raytheon in 1998 in Salt Lake City. And with that business came this smaller Navigation Aids business and that business has been a part of our company since that period of time.

It hasn't grown, it hasn't shrunk. It's maybe a little bit, it's been kind of a choppy business along the way. Sometimes it makes money, sometimes it doesn't. It's one of those things that happens inside of a bigger company that businesses exist and they get momentum. We took a step back about three years ago in the aircraft business and began to look at this and decided, you know what, that just does not fit in our business. And we went on a journey to sell that business as well. And we found a company and a home for those people and for that technology that's a much better fit with their future plans than with Moog's future plans.

The next initiative I want to talk to you about is 80-20. 80-20 is a process. It's not a project. So this isn't something we're going to do for like two years and then we're done. This is really a process. It's really changing a way and the process the way we look at the business going forward. It's data driven, it's systematic. It's looking at the business in a different way, evaluating the business in a different way, looking through a different set of lenses to better understand the potential improvement opportunities that exist. It's not emotional. You're not emotionally attached to businesses. You're letting the data help drive you to where profit is inside the company and where profit is not inside the company. So it gives us a deeper understanding of profitability through the company and it really helps us improve our decision making and the actions we take to help us capture margin enhancement.

Of course, it helps us simplify the business and it's really – that's a really important part of 80-20. It allows the people in the organization to understand the complexity that they're living in every day and how do we simplify that and provide better clarity for resource deployment. So it helps us as we're deciding. So where should – where do we want our people to be working? Where do we want to make our capital equipment investments? What kind of acquisitions do we want to make? As we look at an acquisition, we now look at it through a subtle lenses, it says, okay, there's that business. What would we do? What – how would we 80-20 that business as if we get that business to make it a better fit with inside our company and more profitable as we move forward.

So it's undergoing a mindset change. Pat's talking about the mindset change we're going through as a company. 80-20 is requiring a mindset change and it's ongoing within our organization. There are people, as I said, as you can imagine when a company that's been around since 1951, and there are people that have worked on the same – with the same customers on the same products, maybe in the same supply chain, making the same supply chain decisions for a long time.

And so as you take a step back and you look at the data and the data tells you what they've been doing maybe isn't contributing as much to the company's margin performance or strategic performance as maybe the – for the effort that they're putting in. It's eye-opening for people and it's taking a while for people to really come around. But our organization has really begun to embrace 80-20. They see the power of it.

I'll just give you a couple of examples. We're early in our journey, so those of you that are familiar with the airplane business, the commercial airplane business, we – you'll know that we are required as a supplier into the commercial airplane business. We have to support our hardware in the field for as long as that airplane is flying for the entire life of the program, so 747s out of production, 757s out of production, some of the even older airplanes.

If you have hardware on those airplanes, you need to support the airlines for that hardware. That requires people, it requires process, it requires inventory, it requires test equipment. So there's lots of costs and complexity that's tied up in all that. Well, there are actually companies that exist in our industry, the core of their company is supporting end of life programs.

So we're engaged in discussions with a number of them right now, and we're working on deals to actually sell them some of the end of life programs that we've got, where they would buy the test equipment. They would buy the inventory. We may even get a royalty in some of the cases that we're talking about. But most importantly, it frees us up as a company from the complexity of that business that has little to no return and maybe a loss, but we're required to support it in the business.

Another quick story I'll tell you is our Industrial Group, one of our divisions in our Industrial Group has been on an 80-20 journey for about 15 months – 15, 16 months now. And they have identified a pathway for their business, a pathway for margin improvement of 50%. Now I don't – we're not expecting 80-20 to drive 50% margin improvement across the entirety of our company, so don't write that part down. But what it's doing though is those early wins are demonstrating to the organization, the power in 80-20 if we embrace it as a company and we really see it as a way to help us simplify the in business and expand our margins.

Footprint rationalization is the next of our initiatives. Now Bill Moog started the company – excuse me for a second. Bill Moog started the company in 1951 and those you don't know in East Aurora or outside of Buffalo. And early in the life of our company, Bill thought he wanted to have a global company, which is really an unusual thing, especially back in the 1950s, especially for a company as small as Moog was at the time. Fast forward till the late 1960s and Bill had actually begun to achieve what he wanted to achieve, we opened our first facility outside – our first operation outside the United States at Moog Germany in the late 1960s.

Well, since that time, Moog has developed into a complex global infrastructure that's really been built over decades. And it's a combination of expansion of our businesses, acquisitions that we've made over time. And as we take a step back, we talked about portfolio shaping, we talked about 80-20. And then as we take a step back and we think, what is our strategy going forward and what are the facilities, what does the footprint need to look like to support that strategy as we move forward? And we're taking a very – we're looking at some of those businesses and deciding, you know what, some of those just don't fit as we move forward in our business. So rather than me talking any further about it, we have a video of our Industrial Group President Stuart Mclachlan, who's – who'll share with you the Industrial Group journey for footprint rationalization.

[Video Presentation]

Thanks, Stu. You can see on the timeline along the bottom, just since 2021, we've made a lot of progress through today on rationalization of our footprint. And you can see where we're targeting to get to the range we're targeting to get to in 2026. And it's not just in our Industrial business it's across all of our segments. But let's be clear, what we're talking about with footprint rationalization is structural cost reduction inside of our company and simplification of our business. Both of those integrate to margin expansion for us. We think that's an important piece of it.

Pat talked to you about the aircraft group – breaking the aircraft group into two separate operating groups. That same philosophy we're using to realign production facilities and ensure we have focus factories and production facilities for all of the unique markets that are unique for the requirements of each market. Defense, space, industrial, commercial, medical, those are all very different markets, very different markets. The FAA is quite different than the FDA. And the Aerospace and Defense business we need to comply with AS9100, the Industrial business, it's ISO 9001.

As we built this complex organization that we've got today, we have a number of factories that are really integrated where we'll deliver products for multiple markets out of the same factory. For instance, we have a few – a number of our factories actually that deliver both commercial and military airplane business out of the same factory. So within that factory then you have the military requirements for quality, audits, inspections, all the infrastructure that's required to be a supplier to the defense industry.

Within that same factory, there's a different set of requirements, quality requirements, audit requirements, FAA compliance that's required to deliver commercial aircraft. Within that same factory, there's a lot of complexity, there's a lot of layers and a lot of costs trapped inside of that. So what we're doing, we're beginning to untangle those. Untangle those integrated factories and focus those factories around the products and the markets that we're trying – that we want them to focus on. And then from there, take that and then lean the heck out of those – continue to lean the heck out of those factories to make sure that we get the cost efficiency and the quality that we expect out of those factories.

We're optimizing supply chains. We're optimizing the factories themselves. So we make sure that the parts, the quality and the regulatory agencies are met – all those requirements are met and we untangle that cost. We even have situations in our comp – we've got a few situations in our company where one of our defense operations will buy, say, an electric motor from one of our Industrial Group operations. What that immediately does is the Industrial Group operation now has to have requirements in place to be a supplier into the defense industry. So that too adds complexity. Think we're being a good corporate citizen buying something from inside the company. What it's actually doing is, it's adding complexity inside of our company, which of course, complexity equals cost almost always.

The last of our internal, what I call backbone initiatives is automation. Automation reduces manufacturing system complexity and costs. It reduces product lead time. It can reduce product lead time by quite a bit. And there's a lot – when you reduce product lead time, you're reducing work and process, which is code for inventory. It's a reduction in inventory. It results in balance sheet improvements as you reduce corporate lead times – I'm sorry, product lead times. It also of course, provides better – our ability to serve our customers better because we're able to more quickly react as we reduce lead times.

We improve our quality by way of automation and process capability. If you get the process right and it's programmed right through the factory, those – through that focused factory, those same products will come down that line all the time and they'll be the same all the time. It reduces cost to scrap or reduces cost to rework. And so the cost of poor quality gets reduced the more we can automate our factories.

Those of you that are familiar with our company know that we recently broke ground for a fully automated factory in East Aurora. And we've just recently – Pat, Michael and I recently attended the soft opening of a new facility that we have a new focused factory that we have in the UK around building a certain product for a certain market and that we're also – that's a focus factory that's been built around lean and it's automation ready when the time is right for that factory. So you shouldn't just think though that automation needs a new factory. We are inserting automation where it makes sense within our existing factories around the company. What we're doing – I mean, what we're doing is targeting automation in the areas where we think we'll get the best return.

So those are the five main initiatives as we look inward in the company. Now I want to look to the outside and share with you what we're doing with regard to pricing. When I started in the company back in late 1984, I worked on the B-2 program. If any of you were familiar with the B-2 stealth bomber, that's that big, it looks like a bat flying, no tail on it. And we do the primary flight controls for that system. And if you sit in an airplane and you look out a window at the wing – the trailing edge of the wing, those surfaces moving around, those are primary flight control surfaces. And that's what we do in the primary flight controls business. We move those surfaces around.

So I remember, I was sitting in a very early meeting with a customer. I was a young guy, back then. And we were sitting in this customer meeting and the customer was describing for us, Northrop Grumman was the customer at the time and said, what you have to do is each of those – the flight control surfaces are the size of a barn door. You have to move them at the speed of a fly swatter with accuracies measured in thousands of an inch.

And so it was really early in my career, I was like, well, that's – we really do unbelievable things inside of this company. And as we continue on every day, every week, I continue to be amazed and some of the videos that you saw, the really tough things that we do inside of our company, the technically challenging things that we do inside of our company. Pat talked about the Mars lander.

So the Mars lander takes off and our hardware is dormant for seven months, while we travel – while it travels to Mars. In the last seven minutes, they call it the seven minutes of terror. The last seven minutes our hardware turns on and controls the – helps control the landing of that lander. If our hardware fails, seven months in space, lasts seven minutes, if our hardware fails that missions a failure. Those are the kind of things that we do. That's really exciting.

And our customers, over the years, we've built really collaborative relationships. You can imagine, you can't deliver this kind of stuff to our customers without really being close with them, without really having the relationships, without them seeing us as a really valuable part of their enterprise really. Well, over the past number of years, we've begun to realize that in many cases the pricing that we're getting back from those companies, our customers, the value that we're getting back from our customers is not reflected – is not reflective, does not commensurate with the value that we think we deliver to those customers.

So across all segments of our business, we've been on a journey over the last few years of working collaboratively with customers to make sure that the pricing that we get from them is aligned with the value that we're delivering to them. And you can imagine some of these discussions haven't always been very easy and they take time. So we've made really significant progress over the last couple years, but we're really just beginning now to see the impact of that progress, because as I said, some of these can take – it can take over a year to come to some agreement with a customer on modifications and then with timing of contracts and the like. A big portion of the benefit that we'll see from pricing is really out in front of us.

So I have – I hope you walk away with these three key takeaways. Simplifying the business, the core of what we're doing. This is the how, the how we're doing what Pat has shared with you earlier is simplifying our business and securing pricing that's commensurate with the value that we deliver. That will help drive the margin enhancement that we're talking about. We have a clear plan that drives sustained performance. I mean, anybody can be good for a couple of quarters or even a year or two. Our expectation for ourselves is to change the trajectory that we're on from a margin standpoint. We have a plan. We think we believe that plan drives performance improvement. We're executing the plan and we're beginning to see the expected results.

So now I'm going to turn it over to Jennifer Walter and she's going to share in more detail with you the numbers that Pat's talked about earlier. Thank you.

<<Jennifer Walter, Chief Financial Officer>>

Thank you, Mark. Hi, everyone. I'm Jennifer Walter. I'm Moog's Chief Financial Officer. I've been in this role for three years now and with the company for 23 years. So today I'm going to talk about building financial strength and the results that we'll see and achieve over the next few years.

So I'll begin with fiscal year 2023 guidance. Today we are reaffirming fiscal year 2023 guidance that's the guidance we shared on our Q2 earnings call back in April. So sales. Sales in 2023 will be $3.2 billion that's a 5% increase over FY2022 and it's 7% when we adjust for divestitures and foreign currency movements. And we're seeing growth in each of our segments. For operating margins, we'll have an operating margin of 11.0%, that's up 80 basis points over fiscal year 2022. And we're seeing margin expansion in each of our segments.

We're using fiscal year 2022 as a base year for our projections that we'll be sharing with you today. And we're making solid progress already in FY2023 as we work towards 5% sales growth and 80 basis points of margin expansion.

So let's start with sales. We've got strong organic sales growth throughout the projection period and our projection period runs through fiscal year 2026. During this period, we'll have a compound annual growth rate in sales of 5% to 7%. We'll see increases in each of our segments. The aircraft increase will be the largest, both in terms of dollars and in growth rate at 7% to 9%, followed by space and defense at 6% to 8% and industrial systems at 2% to 3%.

So let's take a look at the drivers within each of our segments. So let's start with aircraft. Again, aircraft will grow at a rate of 7% to 9%. Within aircraft most of the increase will be on the commercial side of the business. In fiscal year 2022 commercial represented 40% of the segment sales. In FY2026 it'll be half.

So let's start with commercial aircraft. This is a story of recovery and half of the commercial increase that we'll see is on the ramp up of the wide-body platforms. The 787 is going from four a month to 10 a month in FY2026, and the A350 is going from five a month to nine a month in fiscal year 2026. We also have growth on other platforms such as the 737 E2, C919 and business jets and that significant growth as well. In addition, aftermarket is increasing though it's going to be modest because the larger increase is going to be beyond fiscal year 2026, because that's when we get the benefit from the upcoming production ramp up and those aircraft move out of warranty.

On the military aircraft side, we've gotten – we've got a sales increase there, it's just not as significant as it is in commercial. And I described this as an evolving book of business. We've got some new platforms, we've got some stable platforms, and there's some wind down of programs as well.

So let's start with a FLRAA. So the V-280 development work, we got turned onto that development work a week ago, so we're off and running on that. It's $60 million to $70 million of annual sales for us from here through the end of the projection period. There's also a shift in funded development into production. Over the last several years, we've had a nice increase in our funded development work. Now over the next few years that's going to decrease, but it's being replaced by an increase in production work as those development programs turn into production. And the net is a positive on that. There's more production than versus the decline in the funded development. The F-35 is our largest military aircraft program and it's got stable production over this period. We do have it being muted a little bit by the wind down of legacy platforms and that's on the V-22 and the F-18.

I'll move next into Space and Defense Controls. So we're going at a growth rate of 6% to 8% in this segment. And it's a story of growing defense demand. So of course, it's the defense side of the business, but as Pat mentioned, it's also most of the space side of the business as well. There's accelerated growth of space products for emerging defense needs. That's satellite components. It's controls for launch vehicles, it's hypersonics, it's space vehicles. We also have a ramp up in the reconfigurable integrated weapons platform to full rate production. Now we actually just reached full rate production in our first quarter this year, but again, we're starting off with FY 2022 is our base year and we'll have solid production throughout this projection period. And finally, there's geopolitical tensions that are driving higher levels of defense activity. We're seeing it in defense spending and replenishment of munitions for ongoing conflicts.

Next in Industrial Systems, again, a growth rate of 2% to 3%. This is a portfolio that we're refining. We are seeing growth in our major markets associated with macroeconomic conditions. It will be muted somewhat by the loss of sales associated with portfolio shaping activities.

Let's now move to operating margin expansion. Pat highlighted that this is an area of key focus for us, and we're looking to increase our margins by a 100 basis points on average every year throughout this projection period that's driving substantial margin expansion in each one of our segments. By the time we get to FY 2026, each of our segments, aircraft controls, Space and Defense and industrial will all have operating margins in the teens.

So let's look at the drivers. In Aircraft Controls, as in all businesses, we are collaboratively working with our customers to better align pricing with the value that we're providing. There's a mixed shift within military aircraft. I mentioned the development of production. So we had development programs that were a mixture of cost plus and fixed fee in nature and they're shifting to production jobs that are fixed price in nature. And that helps us from a margin perspective in two ways. First, it reduces our development risk and next it gives us a greater margin opportunity on our production work. We're also portfolio shaping and we're growing in areas with margin emphasis there, such as in mission systems. Commercial recovery, with the volume increases, we'll have production efficiencies and better factory utilization, and that's more than going to offset the unfavorable mix associated with a lower relative amount of aftermarket sales.

In Space and Defense, again, pricing for the value that we provided. Here we've have examples where we're using 80/20 as a process that Mark described, and those are driving business decisions around profitability. We have efficiencies associated with sales growth. We've got very strong organic sales growth here and we're working to contain the cost structure to expand our margins. And we're moving beyond the space vehicle challenges. In fiscal year 2022, which is our base year again, we encourage charges on space vehicle programs and we're delivering on those contracts this year. We're looking forward to bidding on future work with the knowledge and experience that we've gained over this period.

And in Industrial Systems, in this business, it's our most frequent natural pricing opportunities due to the transactional nature of this business. As material and labor costs have increased, we've taken steps to mitigate those pressures. In addition, we are looking at that business in a detailed way and adjusting prices to reflect value. We have benefits of portfolio shaping. We're growing strong margin sales. This is not in any specific submarket, but rather it's throughout our entire book of business. And we're looking to exit non-strategic low margin work.

Benefits of footprint rationalization. We've talked about this over the last year or two, and much of the footprint rationalization that we have is happening in Industrial Systems, and you heard Stu talk about that. This gives us a benefit of combined facilities, a lower cost structure that helps to improve our margins. This leads to a robust levels of earnings per share. So we've got really great earnings per share growth here. On a compound annual growth rate, it's 15% to 20% over this projection period. It's really driven by the strong operational performance. Two-thirds of that is driven by our operating margin expansion and the rest through our sales growth. The assumptions that we've made on taxes is we've assumed a tax rate of 24% to 25% in fiscal year 2024 and beyond. And for the purposes of calculating EPS, we have assumed no share purchases. So this EPS really reflects the quality of the earnings that will generate.

Free cash flow generation. We have increases in free cash flow over the projection period. We'll have modest cash flow in fiscal year 2024, and then we'll return to historical norms for a growing business in 2025 and 2026. That's at free cash flow conversion levels of 75% to a 100%. We're making deliberate decisions to support our organic growth. We're investing in facilities expansion automation, and this comes in the form of capital expenditures. Right now our capital expenditures are about 5% of our sales and our historical norms are 3% to 4%. So that's really where we're investing.

Now, what doesn't show up in free cash flow are the benefits, the inflows that we get from our footprint and our portfolio shaping activities. For instance, we got about $100 million of cash in related to sales of businesses and buildings over the past year or so, and that doesn't benefit us in free cash flow, but it still gives us a cash to use and redeploy for other investments. We'll make improvements in the out years. This is really driven on the inventory side and the normalization of capital expenditures, but customer advances are going to work against us and be a little bit of an offset. So our greatest opportunity for converting networking capital into cash are in physical inventories. That's the inventories on our balance sheet and the unbuild receivables associated with our long-term contracts.

We're implementing additional inventory management systems. We're adjusting the levels at, which we're purchasing, and we're also optimizing the levels of safety stock to the current environment. Capital expenditures by fiscal year 2026 will normalize to our historical rate of 3% to 4% of sales. As I mentioned, customer advances is going to work against us in the out years here. Customer advances for us are volatile, so they're going to go up and down. We'll see some range in that. Customer advances are really strong for us in the pandemic years and they're peaking this year. They will be moving down, but they're still going to be at levels higher than historical norms. But overall it is going to be pressure just because of the strong position that we're starting at in customer advances.

Shifting over to capital deployment, we will have $2 billion of capital that will be available for us to deploy through fiscal year 2026. That includes the cash that we generate from our operations and the borrowing capacity that we have on existing facilities. Now over time, we've taken a balanced approach to capital deployment and that still holds true, but there's periods where we're more concentrated in one area versus another. For instance, we had years where we focused on acquisitions and completed several. It was followed by other periods where we had high levels of share repurchases.

Well, in today's environment, our focus is on organic growth. We're investing in facilities, advanced manufacturing capabilities and this requires capital expenditures to support that growth and to support that margin expansion. We're also investing in new business ventures. Those are typically smaller and scale and there's a learning curve associated. So they are for the long term growth of the company, but it comes with some investment as well.

Acquisitions. So acquisitions we are still looking at. We do have a robust pipeline. We look for acquisitions to complement our existing book of business, to fulfill our own strategies. We look for acquisitions to give us adjacent technologies to reach customers, a new channel to market. We want to make sure that they make sense from a strategic standpoint with the rest of our businesses, and that they make sense from a financial perspective as well. When we look at deal size, our sweet spot is $50 million to $250 million of enterprise value.

With respect to returning capital to shareholders, we do have a dividend policy in place, and we most recently increase that dividend, that quarterly dividend earlier this calendar year. And from time to time, we may make opportunistic share repurchases.

I'll summarize with respect to building financial strength. We have the initiatives in place to drive margin expansion. Some of them like portfolio shaping and footprint. They're well underway. We're continuing on those, and they're already driving margin expansion. Others such as automation and focused factories, they're in the earlier stages and they're going to provide longer term benefits for us. And as Pat described, in the early days of the pandemic, our financial focus was on liquidity and we put key initiatives in place, and we followed a process similar to this, and we achieve record levels of free cash flow generation during that period.

Our strong organic sales growth will also assist in our margin expansion, and we're deploying our capital in a consistent way as we're focused on those organic growth opportunities. Our management team is committed to building financial strength. We are committed to achieving these financial results, and we look forward to sharing our progress over the coming quarters and years with you.

And with that, I'm going to turn it back over to Pat.

<<Patrick J. Roche, Chief Executive Officer>>

Thanks, Jennifer. So, I appreciate you giving us your attention for the last 90 minutes. We wanted to tell the entire story, and set the scene, the context of the company that we're in and what we're trying to do and how we're going to go about doing it. I think what the message we wanted you to go away with is that we are a strong growing, resilient company. We innovate, we continue to grow. We're accessing new markets. We're pursuing adjacencies. We're on platforms that are really solid and that will carry us into the future. And we're winning new platforms. So for me, growth isn't a challenge. What we need to change as an organization is our margin enhancement. Our margin performance as a company. And we've got clear plans to do that as an organization. We've been building that muscle.

So I'm what – in the role since February, but we've been working on this. I have given presentation to the Board last May, talking about the complexity in the organization and that we needed to make change. And we've been building the capabilities through 80/20. We've been doing pilots. So this has been underway. As Mark said, some customer negotiations take a couple of years before you get the results to flow through. And those results are beginning to flow through in fiscal 2023. They're beginning to boost our margin. You see the 80% improvement – 80 basis point improvement coming through in 2023, and that will continue throughout the period.

So we are building the financial strength of the company and it's far for me for the long haul. And it's to have a sustainable organization. And as I say, we invest in those conversations with customers, which are difficult, but they're necessary for us as an organization. And we're – we've made great progress with them. So I'm feeling really confident about the plan. I've got the team around me that can deliver on the plan. And now we'd be happy to take any questions you have. So again, thanks for the patience. Kristine? For questions, Aaron has got a roving mic and he's going to walk around and allow you to ask your questions.

<u>Q&A</u>

<Q – Kristine Liwag>: Great. Thanks guys. Kristine Liwag from Morgan Stanley. When you looked at 5% to 7% revenue target through fiscal year 2026. I guess, I would've thought it'd be a little higher, right? Because for commercial aerospace, when you look at the Boeing and Airbus production rates, they're talking about rate increases 40% to 60% step up and aftermarket we're seeing across the board has been growing in excess of inflation too. So why is it that your portfolio would be growing at a much lower rate? And then also for space and defense, you look at the DoD budget for space, we're looking at 20% growth in space, 20% growth in missiles, ammunitions, which are all core to your portfolio. So I guess my question is, how much conservatism is there embedded in your fiscal year 2026 outlook versus some sort of headwind that we should be considering?

<A – Patrick J. Roche>: Yeah, I'll start and you can add in Jennifer. Thanks for the question, Kristine. So yeah, you're right to point out that the recovery of the commercial aerospace business is the highest growth rate that we have. I mean, the doubling of rates really pushes that up. And you've got about 15% CAGR growth rate within the commercial aircraft side of the business. There are some balancing things going on in our organization. If I look at our defense sector, I could ask – I asked the same question as you asked, what's going on with all of the additional spend? Why don't we see it all coming through?

Part of it is the platforms that we're on, some of the old legacy ones like V-22, they're beginning to wind down somewhat at the moment. And so that counterbalances some of the increase that we're seeing on the newer platforms. And I think in industrial group, we would have higher growth coming through there as well, except for the fact that we're doing the portfolio shaping that necessary cleaning house and pruning that's going on. So there are some counterbalancing forces internally that are sort of pulling it down, but there is a vibrancy out there and there is good progress in building the new business. Jennifer, do you have any comments add to that?

<A – Jennifer Walter>: Nope, that's fair.

<A – Patrick J. Roche>: Okay. Thanks, Kristine.

<**Q – Mike Ciarmoli>:** Hey, good morning guys. Thanks for taking the question. Mike Ciarmoli with Truist. Great presentation. Just I guess Pat or Jennifer on the pricing, what sort of flexibility do you have and I guess specifically within aircraft, within Airbus or Boeing on some of these longer-term programs and contracts, thinking about how you get price either on the OEM side or maybe on the more lucrative aftermarket. Is there some flexibility there or is it just tough negotiation tactics or how do you go about that?

<A – Patrick J. Roche>: So I did emphasize, Michael, that we're tackling the pricing issue on in all markets. So yes, we've had all of those conversations. I mentioned earlier in my speech that where we had flexibility, we moved quickly. If I take industrial group, you have an opportunity to reprice frequently. In fact, we do annual price increases with an industrial. We introduced mid-year price increases as we needed throughout the pandemic. So we were able to quickly respond there. You're right to point out that other parts of the business are more constrained. It's not as easy to do those negotiations, but the way we work as a company, I talked about the long-term relationships. Those customers are dependent on us and we are dependent on them.

And if you want to have a sustainable business, you got to recognize the business context in which you're working as a company. They open an honest communication. We are very happy to go and share our costs with our customers to explain what needs to happen and why. And we have a very responsive group of customers as well. So we've worked through those discussions. As I say, they are time consuming. But they're in the best interest of both organizations in the long run, and we've reached conclusion on those discussions. So you'll begin to see the impact of that flowing through in the coming results.

<**Q – Mike Ciarmoli>: Okay.**

<A – Patrick J. Roche>: Hi, Cai.

<Q – Cai von Rumohr>: Yes, thank you. Cai von Rumohr, Cowen. So to follow up on Michael's question, you talked about industrial, but if we look at commercial aircraft, Boeing and Airbus, basically you're under long-term agreements. You're under long-term agreements for what 80% of your aftermarket. So it's a little bit more difficult to see how you actually implement price hikes similarly in space and defense. And you mentioned you've been working this for about a year, like when are we going to see this come through and maybe give us some more specificity in terms of commercial aircraft in defense markets in terms of how do you implement the price hike? Is there inflation escalation? How do you get Boeing to change a long-term contract on the 787?

<A – Patrick J. Roche>: So we have had those discussions with all of those major customers. So I don't want to get into specifics about any one customer Cai, but we have looked at our book of business on the OE and the aftermarket side, and we have considered how they work together to deliver profitability for us and a sustainable supply chain for our partners. And we've gone through those difficult discussions and we've made trade-offs one side to the other. So there's no perfect answer for either of the two parties, but both parties recognize that you need to have a sustainable business going forward. And we found an accommodation with all of those customers. So I don't want to go into the details of the specific contract negotiations themselves, but to say that they have been successfully concluded.

<Q – Cai von Rumohr>: And when do we see the results?

<A – Patrick J. Roche>: You begin to see results flowing through as the next placement of orders flows through from those customers. So some of those, it depends on the timing of them. Some of those begin to flow through in the course of fiscal 2023. And so that's why I pointed out earlier in the conversation that you begin to see the benefits of this repricing happening in this fiscal year. Hey, Jennifer, do you want to add anything?

<A – Jennifer Walter>: No. That's good.

<Q – Byron Callan>: Sure. Byron Callan, Capital Alpha Partners. Jennifer, the change in customer advances, there was a step down in progress payment rates, is that a factor in the…

<A – Jennifer Walter>: I'm sorry?

<Q – Byron Callan>: There was a step down in progress payment rates for product. Is that a factor in the lower customer advances you mentioned. Mark, can you talk about cadence? You do these factories, there has been a lot of concern about bottlenecks and how quickly the defense industrial base can get things out. Does that help you build product faster? And Pat, what's the international defense angle on this? You've talked a lot about U.S. programs, obviously they're exports, but what are you thinking from an international standpoint to participate on some of the defense programs in Europe or Asia? Thank you.

<A – Jennifer Walter>: Okay. I'll start. Thanks for the questions.

<A – Patrick J. Roche>: Thanks for tuning in.

<A – Jennifer Walter>: So customer advances, the changes that we have there are not connected to the 90% to 80% drop in progress payments. What we have is it's very program specific and we've got some large platforms that we do have customer advances on. And so with every time we get into a renegotiation where there's a new start that it happens. So it's not a seasonal thing, but it is lumpy based on when we have those specific programs. I mentioned during the pandemic year is a really increase and that was some of the programs that were happening to increase at that time. And of course our focus on liquidity made sure that we were knocking on all the doors as well to see what opportunities were out there. So our projection that's got pressure on is just we're at a really high strong spot right now and it's great. And even when we get to fiscal year 2026, it's still going to be strong, but we'll have a net consumption during that timeframe.

<A – Mark J. Trabert>: Okay. Factories, I think your question was around focused factories or cadence. You ought of – so the – I talked to you a little bit about the factory that we're building in East Arora, a fully automated factory in East Arora. Our expectation is that factory will be up and running by the end of 2025 and into 2026, really full rate production in 2026 of our existing military business. In other places, we unwind those and they all have their own cadence. There isn't a specific cadence. Each factory has its own footprint. Each factory has its own story. And so we've gone to work on that. And a lot of the outcome of some of that will happen beyond the period. Some of it will happen toward the end of the period, toward the end of 2025, 2026, and then more of it beyond the period. So when I did talk about the East Arora factory that we're building, you ought to be thinking that's 2025 and 2026 when that becomes available.

And foreign military sales or international defense work, yes, we are pursuing opportunities. Some of it comes through foreign military sales through the program's office of platforms that we're already on. Others arise from our mission systems, our agile prime business, where we're looking to see whether we can take any of our technology that's ready for deployment and assemble a solution for a specific application. And that doesn't necessarily need to be U.S. government only.

<Q – Mike Ciarmoli>: Hey, thanks guys. Mike Ciarmoli, again. Just maybe could you quantify or articulate a little bit more on the simplification? It sounds like there's still a pretty big review underway with either product line divestitures or other operating units, any sense as to the size of revenues that you might be thinking about pruning off? And then just one other one on margins. Anything changing in terms of R&D in terms of how you think about product development? How you work with customers or maybe optimizing your R&D spend going forward?

<A – Patrick J. Roche>: On the – let me take R&D spend first. I think we see some shift in funded development programs over a period of time. Jennifer talked about some of those coming to conclusion. When we're involved in the space vehicles business, we've invested and in the construction business, we've invested into those businesses which has driven some higher levels of R&D as well. But I wouldn't suggest that there's a major shift going on in our level of R&D spending over the period involved. And the first question, Michael, can you just remind me?

<Q – Mike Ciarmoli>: Sorry, just the simplification, any quantification of revenues [Question Inaudible]?

<A – Patrick J. Roche>: I think as we've looked at product lines and companies in the past, they've been typically in the $10 million to $50 million range. I wouldn't anticipate that there's a major market that we're exiting in the company or that we're carving off a division or anything like that Michael, I would regard it more as pruning that will go on over time. So think in those terms, smaller size businesses. Hi Kristine.

<Q – Kristine Liwag>: Thanks. Kristine, again. In terms of your margin outlook, you talk about 100 basis points average margin expansion, I mean, just math by fiscal 2026, that's 400 basis points higher than where you guys were in 2022. I mean, that's a level the company has never been before. So one, in terms of your simplification path, is there some sort of investment that you have to make, enable in order to generate those savings or the efficiency synergy?

And then the second one to that would be when you think about the, I guess the pricing dynamics in the business, is there some sort of pressure that is more in particular to your business that kind of keeps margin at this level versus when you look at other aerospace and defense peers their margins are already much higher. Is there a reason why – is there an inherent reason why the business should be, and even at 14% EBIT margin that's still a little bit on the low end of [indiscernible] (1:35:58)?

<A – Aaron Astrachan>: Okay. Thank you, Jennifer.

<A – Jennifer Walter>: Yes. Thanks Kristine. Yes, as far as investments to achieve the margins it goes hand-in-hand with the investments that we're making in capital expenditures. So some of the things that we're doing are for automation, the factories, the growth in our factories and these investments are the same ones that are necessary and they're built into our plan in order to achieve. It actually achieves both our sales expansion, especially when we're talking about the facilities but also when we've got the automation or focus factories aspect of it. It helps also from the margin standpoint, so we have the investments built-in. We'll have those investments as higher this year and they'll go into next year, that's why we've got modest levels of cash flow.

We think those investments are worth it because we will get the nice returns associated with them, so we've got those built-in. With respect to pricing from – and the opportunity there, one of the things that Mark said, and I'll just try to emphasize that is we do some really great technologies, and you're right, we haven't historically gotten the prices that are commensurate with that. And so we're taking this as an opportunity. It's a fresh look, and we're going back to say, what can we get for the value that we're providing?

We recognize that we're providing value, but now we're taking just a steeper look and we're going throughout all aspects of our business. So you ask about 14% over there, this and a lot of other things go into those factors. And so we're comfortable with the 400 basis points over the next four years. There's a lot of work that still needs to be done on that and the other initiatives to do that, but we believe that it's very achievable target that we've set out there and it will more closely represent the value that we're providing.

<A – Aaron Astrachan>: So we had a question online. With respect to the outlook, are supply chain constraints easing and when do you see them returning to normal?

<A – Patrick J. Roche>: We typically mentioned supply chain on most of our earnings calls. Supply chain challenges have not gone away. They sort of vary in character from time-to-time. I think the generic issue that we have at the moment still remains around electronics, which impacts all parts of the business. But at the moment, I – and I foresee that that's going to continue for the next 12 or 18 months as well. From time-to-time we have issues that pop-up around forgings, our bearings, our castings, so they're the ones that sort of move around. And we've been dealing with those now for the last year or more as we've worked through the pandemic. So we know how to manage them, they are disruptive to our operations. They have to change the sequencing of production that's going through. It's maybe not as efficient as it could be, but that's been the status quo for the last year. I think that's going to continue for the next year as well.

<Q Unknown>: Yes. So networking capital, if we define it as inventories, receivables, payables, advances you guys for 10 years have been running about $0.35 per dollar of sales. Your peers running $0.17 to like $0.28 per dollar of sales, so you've talked about inventory, but what are you doing, I mean, like your receivables are like – DSOs are like, excuse me, 127 days something like that. Your payable is much shorter. I mean, are you – what are you thinking about because you got a lot of levers there and I know it's tough in this environment with supply chain to kind of do it quickly, that will be a longer term effort. But what are you thinking in terms of what you can do to all of those four levers and where that ratio might be in 2026?

<A – Jennifer Walter>: So as a percentage of sales we will be able to lower that percentage. It won't meet the levels that you said that you've seen in some other companies in this timeframe. In our physical inventories, that's, so if I go – if you look at the balance sheet you'll see inventories as a percentage of sales, roughly 20%. You'll see receivables roughly 20%. And you'll see customer advances the other direction at about roughly 10% right now. So when we look at the opportunities that we have, we have the physical inventories that I described before. So we certainly have those opportunities. The receivables – the build receivables, those are a little bit tougher because they happen to be the terms of contracts that we've negotiated. We certainly try to talk and adjust those, but we keep it in the overall context of pricing and terms and everything along those lines from it.

We certainly have opportunities. Why it's the improvement might be muted in some folks' views is that we do have a growing level of sales that we're also trying to support in this as well. So that's – that's one of the things that's working against us. And then as I mentioned on the customer advances, it's just volatile and it's lumpy and it just happens in the out years that it's working against us. You may recall we got very strong customer advances in our first quarter. We worked down not all of them, but maybe two-thirds of them in the second quarter. We're going to see some benefit in the back half of this year. Our first half this year was – is very pressured as you know in free cash flow. So we will be making a movement to improve in all of those areas, mostly in the physical inventories, which is in the inventories and the receivables line.

<Q Unknown>: So you didn't mention payables, so like base environment, it's very difficult to kind of push the payables because your suppliers are smaller. But as we get back to normal circumstance, I've always been struck that basically you give your customers a long time to pay and you pay your suppliers very quickly. I mean, could you get more better balanced alignment between those two ratios over time?

<A – Jennifer Walter>: We have an opportunity to do that from the payables perspective, but due to the contractual structure that we've put in place for some of our receivables, there will be a gap. We won't be able to close it, but you're right, we will be able to push and make adjustments on the payables as well.

<A – Patrick J. Roche>: So we're working on all of these issues, Cai. I mean, we know that we have to bring the level down. We have discussions going on about using vendor managed inventory more extensively, maybe using third-party logistics to house goods on the way in, still under the ownership of the supplier to use Kanban more extensively throughout parts of the business. So there's a number of initiatives that are underway that are all trying to work down the inventory level.

<A – Aaron Astrachan>: Into another online question. This one is for Mark. How are you evaluating your footprint and portfolio decisions?

<A – Mark J. Trabert>: What we do – what we're doing as we, we look at the strategy of what we're trying to achieve as we move forward. And then we look at the footprint and we understand how does that – how does that footprint that we have today? How do the different facilities that we have today? How do they support where we're trying to go as we move forward? Also, what are some of the – what are some of the complexities that are built in to our existing facilities?

For instance, we've taken product, we haven't divested necessarily product. We've taken product that might be built around two or three or four different facilities and decided to consolidate those into one and to free up the other facilities for ourselves. So this is an ongoing process that happens within the operating groups. We're looking – we're looking at the footprint all the time, especially in our industrial business. Looking at that footprint all the time and developing a plan that we showed you in the chart, there's a plan out through 2026. What notionally where we think that, well they are the targets that we're trying to get to from a footprint rationalization standpoint out through the end of this period. It's around strategy and it's around simplification of the business.

<A – Patrick J. Roche>: So we've good examples in the past of taking all of our North American slip ring operations and moving them into one facility in Christiansburg, Virginia? So we had a plant in Blacksburg South, which is in Blacksburg, Virginia. We had a plant in Naples, Florida. We had another building on the same campus in Blacksburg, which is our Blacksburg North facility. We took all three of those operations and put them into one 100,000 square foot building, which is now our North American slip ring operation. So that's an example of footprint consolidation. Part of the trigger for that was the defense business was growing in the Blacksburg North site and they needed to expand. So either they expanded or we took the CT scan slip ring out of that building and put them into this new building. So as we're making decisions as they come up, where Kristine, you asked the question earlier about what limits the growth?

We're reaching physical limits in our space business in Plant 20 in East Aurora due to the growth of the business. And that we announced in our second quarter or the first quarter – second quarter call that we had built – we had just bought another building across the highway from our home campus there. That building will be dedicated to manufacturing thrust vector control actuators for launch vehicles. And that's a growing business with all of the launch of commercial satellites. We're on many of the rockets that are putting those up into space. So we go from something like five ship set production to 50 ship set production per annum for those type of products. So we've invested in the new space, but that also then is in line with the focus factory strategy that we have. We put them in one building. It takes them out of a building that allows them to focus on defense, for instance. So we use it to move jigsaw pieces around and you use each opportunity as we need to expand with the business growing to make those changes.

<Q – Kristine Liwag>: Thanks. And thanks for letting me ask another question and I might do two unrelated ones. So first, Mark, you mentioned earlier how some of the simplification process is convincing people to do things differently based on data to make it more efficient. So I mean, sometimes people changing what they've been doing for 20 to 30 years could be difficult. So is there a change in incentives, either compensation or operating metrics in which your employees are measured by in order to get them aligned to these initiatives?

And then a second unrelated question maybe for Pat. Pat, their announcements or discussions in the market today that Raytheon may be selling its actuation business and Safran may be bidding for it. It's all in the media. How do you think of that kind of asset change? Is there a change in the competitive dynamics for actuation? And is there – are you looking at the strategic value of actuation systems differently in light of this transaction?

<A – Patrick J. Roche>: I slipped the question.

<A – Jennifer Walter>: Yeah. Go ahead.

<A – Patrick J. Roche>: So when switching the answers around, Mark's going to take the Safran one, so we'll start.

<A – Mark J. Trabert>: Okay. Yes, we're very familiar that Raytheon is selling that business. And our expectation, our belief was that, well we were guessing that it would end up with a larger French company. And so does this change the competitive landscape? We do not think it changes the competitive landscape. It's the same, I mean that same business. It started out in my days, it was Lucas then it became Goodrich and then it became UTC. So it's the same business that's transferred through a number of different conglomerates.

All along the way, though, we've had our relationships. Our competitive landscape is still we have four main people that do flight control actuation systems, are still – there are still four competitors. And our belief is that those same four competitors will continue to compete on the same airplanes, we still bring the same value to those customers that we would bring just under a different owner.

So, we don't see that as a change in the competition. And then the commercial – and large – that business is mostly commercial business, that business that was sold, the Raytheon business is mostly commercial. And as far as we know, as we look forward, we don't see any new airplane starts and anywhere in the next number of years, certainly not within the period, and it will be quite some time, we think before they'll be into airplanes start between Boeing and Airbus. We all have our opinions, I guess, right? That's our belief right now. So, we all are on the programs that we're on. And our – the best way for us to be competitive in the future is to improve the performance on the programs that we're on today and that's what we're working.

<A – Patrick J. Roche>: I think, Kristine, as well, if there was a new platform available to us today to bid on, it would have to be a different business model than the ones which we currently have. So, we will look at the attractiveness of those opportunities when they come up and decide what we want to do with those. But again, we're not anticipating any in the near term.

So a question on incentives, Kristine. We have common – I think, as you know, incentives across the company. So all of the leaders in the company are awarded in the same way. It doesn't matter, which division they're in or which business they are running that applies to, let's say, the 400 senior management roles that we have within the organization or are short-term and long-term incentive plans in place that are linked to the performance of the company overall. So our long-term performance goals are linked to the growth of the company and margin improvement, which is completely aligned with what we're delivering today as our plan.

So we're not intending to change that in any way. We think it helps us in terms of our flexibility. It allows us to put people where they're needed in the company and not have internal debates, about the impact on my P&L. Thank you.

<Q – Louis Raffetto>: Louis Raffetto from Wolfe Research. Jen, you laid out the possibility of M&A. You mentioned EV $50 million to $250 million. Any hurdle rates we should think about? And then also the $2 billion of deployable capital, anything to just help us analyze that?

<A – Jennifer Walter>: Yes. So acquisitions. So when we look for acquisitions, the larger deals have typically worked out well from us from just a implementation and integration standpoint. They typically come with systems and processes and procedures. So it's more of it from the perspective of that, that I would consider it. As far as hurdle rates, what we are – we look at is, we want to make sure that it's got a return on invested capital that can support the cost of the capital for that specific target. So it's more generic in that standpoint. The second question was...

<Q – Louis Raffetto>: The $2 billion.

<A – Jennifer Walter>: Yes. Yes. So as far as the deployment there, we don't – we're not project – we're not putting out any specific projections on there right now. But the thing I will emphasize is that our focus right now is on organic growth. So one of the areas you're going to see, you do see higher-than-normal capital expenditures this year, you'll see that next year as well. So that's part of the thing that's causing the more modest free cash flow generation in the near term.

We are – as I mentioned, we are looking at acquisitions. And it's oftentimes its opportunistic because we need to make sure that we find the acquisitions that are really strategic for the business and make financial sense at the same time. So it's hard to plan and time for those, but we are continuing to look at those to grow our business right now. But first and foremost, right now, our focus is on organic growth because we need those facilities and everything in place support the growth that we've got. We need to put those investments there. And those investments also help from the margin expansion standpoint. So that's our primary focus right now.

<Q Unknown>: Hey guys. Just I guess, looking at the growth trajectories and specifically within defense, 6% to 8%, I hope you guys handicap that? Or how are you thinking about the budget dynamic if we go into a full year continuing resolution at a 99% level of fiscal 2023. Can you still meet those growth objectives? Are there any new starts that you're counting on that might add some pressure. Just trying to get a sense of how you're thinking about the budget environment?

<A – Patrick J. Roche>: I think from our perspective, if there's changes in the budget; they take a couple of years before they flow through into our business. I mean, the programs that we're on at the moment, and what might happen is if I have a production rate on a joint strike fighter that goes up or down, maybe five or 10 units in the year or something like that. It's not going to have a material impact, we believe, on the business. So, we're pretty confident in the numbers that we have in independent of the conversation about where it's capped. You have anything to add to that?

<A – Mark J. Trabert>: Yes. As Pat said, typically, it flows through whatever happens today, so the budget they're working on today will be the 2024 budget, we really won't see that flow through into our back down to us until back half of 2025 and into 2026. So – and we don't see any material impact certainly within this period. We don't see any material impact on our business from that. And as far as – we don't really necessarily talk about new awards, but there are no huge pending awards that we think would be delayed by continuing resolutions. Thankfully, V-280 got in before that.

<Q Unknown>: Yes. So you talk about all three of your businesses being in the mid-teens when you hit 2026. But if you look at them structurally, how would you rank the potential for relative margin levels? I mean, is space likely to be that – has the potential to be the highest Space and Defense aircraft, industrial? Maybe talk about that a bit.

<A – Jennifer Walter>: Yes. So each of our businesses, each of those segments will get into the teams. So, when we look at them in the chart, I put out something that kind of gives you a relative outlook as far as where the margin profiles are. And it's based on our current book of business plus what we expect to get and how much we'll achieve through the initiatives here. Space and Defense probably has the strongest opportunity to be in the higher part of that range. So that range as highlighted in that schedule shows at 13% to 16% for each of the segments, with industrial in the middle and then aircraft solidly in that range as well.

<Q – Byron Callan>: Byron Callan, again Capital Alpha Partners. Do you want to talk a little bit about your IT backbone. Your clients are talking about digital threat, digital design is a major thrust. How are you aligning with that? And also, what are you doing with your supply network as you change how will that get rationalized or changed?

<A – Patrick J. Roche>: So I mentioned earlier on, we have a complexity of IT systems within the organization. We probably have 12 ERP systems that we're running throughout the organization. We're on a progressive program to work out to clear up that. We have 70 data centers throughout the company that we've already reduced down to 20 data centers, that's saving 100 tons of carbon emissions a year. So we're on a journey with those things. We're tightening them up. I think it's getting our all of the platforms in place that are providing us the opportunity them to grow from those. So some housekeeping over the next couple of years to tie those.

And in terms of the impact of digital, it is a conversation we've been having within the organization, a lot of our products, as I said, as we build capability move to having electronics and software in them already. So we're already using digital or digitization within our products. When we think about some of the new markets, we're entering such as construction, our whole goal there is to start with electrification as our entry point, but to go then towards semi automation and autonomy as a next step. And then cloud, how do you actually utilize the data coming off those vehicles to create some extra value? I would say we're in early stage in that journey trying to work out what might the business model look like? How do we share it between us and the OEMs and the cost and the dealers in those networks. And so there's a lot more work to do to understand how to fully exploit that.

We also have an initiative on digital within the organization as well. I think something like 70% of our machining centers are connected within our manufacturing environment sort of we know whether the machine is up, how it's being used, all of that sort of things. So, we're trying to harvest data from those environments as well to help us optimize the business. And artificial intelligence is probably an area where we're just not sure how to use it at the moment. We've already had some internal meetings where 20 or 30 people come together and they say, Here's how I'm using it to do my job. We have engineers who are using it to help them put together test reports. Things like that. But each – it's down to individual initiative in that case, and we really need to come together as a company and say, how could we actually leverage this to do something bigger? Don't have an answer to that one yet. But these are all things we're actively reviewing.

<Q Unknwn>: As you guys look at the portfolio, kind of renewed look, are you also looking at the two class systems, the Class A shares and Class B shares. Are there any plans to simplify that and go to a single plus shareholder system?

<A – Patrick J. Roche>: So as you know, we have a dual-class stock structure, which part of the history of the company. Originally, the founder held the stock that had the higher voting rights within our company. I would describe us as an organization unlike the big tech companies where the founder holds all of the control within the company. In our case, those B shares that have higher voting rights are actually held by distributed population. They're held mostly by our employees in 401(k) and other such investments. And therefore, we see it as great, Kristine, for alignment within the organization. Our employees who hold a lot of our stock are interested in the wealth of the business, the value of the business increasing over time. And that's totally aligned with your interest as shareholders as well. There are no plans to unwind the dual class structure that we have.

<Q Unknown>: Just one last question here online. Pat, what gives you and the new leadership team, the confidence that you'll be able to achieve the results?

<<Patrick J. Roche, Chief Executive Officer>>

As I said, I think if you're a marathon runner and you put in the training, you know you can actually complete the distance when you get to the race day. We've put in a lot of hard work on this over the last couple of years building up these plans. This isn't something that was invented since I came into the role in February; we've actually been working to build our capability around improving the business. And I think we have a set of plans now that are very, very credible. And the teams are working through them, and we're beginning to see those results coming through in each of our business. So I'm really confident in our ability to deliver.

So, I think we are finished. I would like to thank everyone for your time and the attention you gave us during the course of the last two hours and the great questions you came up with as well. For me, this is an ongoing conversation. So some of you, we have long-term relationships with already. You know our company very well, but others in the room are new to our company, and I'd invite anyone who would like to learn more about our organization to come up and visit us in our East Aurora campus. We are – you're more than welcome, I think, understanding how the company works and meeting with our staff and seeing the technology that we're engaged in may help improve your understanding of our organization and what we're about. So feel free to reach out to Aaron in Investor Relations if you want to come and meet and talk to us more.

So thank you for your time. And we're going to close the session now in the room and online. And for those in the room, there's an opportunity to mingle and have some food. So thank you.

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