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Moog, Inc. (MOG.A)

Q2 2025 Earnings Call

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CORPORATE PARTICIPANTS

Aaron Astrachan
Director-Investor Relations & FP&A, Moog, Inc.

Patrick J. Roche
President, Chief Executive Officer & Director, Moog, Inc.

Jennifer Walter
Executive Vice President & Chief Financial Officer, Moog, Inc.

OTHER PARTICIPANTS

Michael F. Ciarmoli
Analyst, Truist Securities, Inc.

Kristine Tan Liwag
Analyst, Morgan Stanley & Co. LLC

Jon Tanwanteng
Analyst, CJS Securities, Inc.

George Anthony Bancroft
Analyst, Gabelli Funds LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Moog Second Quarter Fiscal Year 2025 Earnings Conference Call. At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions] This call is being recorded on Friday, April 25, 2025.

I would now like to turn the conference over to Aaron Astrachan. Please go ahead.

Aaron Astrachan
Director-Investor Relations & FP&A, Moog, Inc.

Good morning, and thank you for joining Moog's second quarter 2025 earnings release conference call. I'm Aaron Astrachan, Director of Investor Relations. With me today is Pat Roche, our Chief Executive Officer; and Jennifer Walter, our Chief Financial Officer. Earlier this morning, we released our results and our supplemental slides, both of which are available on our website. Our earnings press release, our supplemental slides and remarks made during our call today contain adjusted non-GAAP results. Reconciliations for these adjusted results to GAAP results are contained within the provided materials.

Lastly, our comments today may include statements related to expected future results and other forward-looking statements which are not guarantees. Actual results may differ materially from those described in our forward-looking statements and are subject to a variety of risks and uncertainties that are described in our earnings press release and in our other SEC filings.

Now, I'm happy to turn the call over to Pat.

Patrick J. Roche
President, Chief Executive Officer & Director, Moog, Inc.

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Good morning, and welcome to our earnings call. We've just delivered another quarter of strong financial results. The results are reflective of our unrelenting focus on improved business performance. We achieved record sales and drove improved operating margin and earnings per share, both net of prior year's Employee Retention Credit. In addition, we delivered free cash flow in line with our plan.

We feel positive about the outlook for our business. Year-to-date, our revenue is up 3% on prior year and we expect an increase in revenue in the second half with 12 months backlog up sequentially in our defense businesses, steady in industrial, and slightly down in commercial.

Year-to-date, our adjusted operating margin, excluding Employee Retention Credit, is up 40 basis points on prior year and we expect stronger performance in the second half from our defense businesses due to secured pricing. Finally, we expect to see significant free cash flow generation in the back half, as previously indicated, arising from our actions to optimize networking capital.

Given the prominence of the trade policy in the current environment, I want to address tariffs before talking further about our business. The new administration is driving change at a remarkable pace and on multiple fronts. Of the many changes enacted by executive order, the most significant relate to trade policy and tariffs. These changes have created a climate of uncertainty. I want to spend some more time discussing the potential impacts and our mitigations.

Over many decades, our organization has optimized its manufacturing footprint and strategic supply chain to best meet the needs of our customers in an environment of global trade that was relatively free of tariffs. In addition to investing in our US manufacturing operations, we have also built a world class manufacturing facilities in the Philippines, India, Ireland, Costa Rica, Germany and the UK. In addition, we developed overseas supply chain partnerships that have served us well for decades. This strategy allows us to access exceptional talent and created economic benefit for Moog and its customers.

The changes in US tariffs within the last 100 days, but especially since April 2, altered the context in which we operate. We recognize that this situation is fluid and that it will be some time before tariffs uncertainty is reduced. Based on the tariffs in effect today and our operations and supply chain footprint, we would be most impacted by tariffs that apply to the import of steel and aluminum, to the import of goods from around the world, but especially from our facilities and suppliers in Costa Rica, the Philippines, Mexico, the European Union, Canada and the UK.

In our assessment, we've assumed a 25% tariff on steel and aluminum, a 10% country tariffs during the 90-day pause corresponding to our third quarter, and the higher reciprocal rate for the fourth quarter and the 145% tariff on China. We've not attempted to estimate second quarter effects on pricing or on the economy or disruption to supply chain and material availability. In response, we've taken immediate and specific action to mitigate the impact of these tariffs on Moog. These steps include maximum utilization of the US-Mexico-Canada Agreement, the effective administration of import and re-export of goods that by necessity must return to the US for repair, and price adjustments where appropriate to reflect our new cost base.

We will continue to assess our manufacturing footprint and strategic supply chain to ensure that we can deliver for our customers and perform for our shareholders. We will not act in haste, given the risk of disrupting these highly efficient supply chains that are critical to the global aerospace industry and to our many customers. These strategic choices will be given due consideration over a longer period, during which we expect more stability around tariffs.

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We see these tariffs as a potential risk in our business that is otherwise continuing to deliver extremely well. In addition, we believe that our end markets are supportive of further strengthening. So let me describe each of our end markets, starting with defense.

We continue to see strength in our defense businesses, both short term and long term. The Department of Defense budget for 2025 increased with the continuing resolution approved by Congress, and there have been indications that the President's 2026 budget request will be in excess of $1 trillion. Our portfolio of products and capabilities is well aligned with the administration's key defense priorities, such as sixth generation fighters and collaborative combat aircraft, nuclear deterrence, and elements that could be integral to Golden Dome, such as hypersonics, space vehicles, missiles and counter-drone defense. In addition, increased international defense spending, accessed through our extensive European operations, provides further opportunities for growth.

On commercial aerospace, our customers have strong order books but struggled with consistent production throughput. We worked with our customers to maintain a stable production plan that supports their actual needs. Both wide body OEMs are still intent on ramping in the near future. On the aftermarket side, we continue to see the benefits of increased airline activity. The industrial market outlook has been stable over the last couple of quarters and our bookings in the second quarter continue to support that view. In summary, end market conditions continue to favor a significant portion of our business.

Now, let me turn to the initiatives that are driving our strong underlying operational performance as a business. Firstly, on customer focus. The focus of the 40th Space Symposium was space as a warfighting domain. This highlights the significant emerging opportunities for Moog for both components and complex systems of systems. We showcased our meteor satellite with flight proven, radiation hardened electronics and hydrazine propulsion for high thrust avoidance maneuvers. We also have delivered units for the national security space missions. We also highlighted significantly enhanced computational capabilities in our space avionics. The addition of graphical processor units enables sensor data to be processed on orbit, an example of edge computing.

While continuing the space theme, we are delighted to see that United Launch Alliance's Vulcan rocket has successfully completed two certification launches and has been recently certified under the National Security Space Launch program. Sustainability and digitization were the focus of the 34th Bauma construction exhibition, which is one of the largest trade shows in the world. We showcased our TerraTech electric traction and actuation solutions and our ZQuip modular energy system for construction equipment. We were pleased to be recognized by [indiscernible] (00:18:34) as having one of the show's top 10 equipment breakthroughs. We launched our next generation CURLIN 8000 infusion pump at the 34th National Home Infusion Association Conference. This high performance intravenous pump will be the mainstay of our market leading IV business for decades to come. It demonstrates our commitment to the IV market given the decade long journey through development and certification.

These examples across various end markets highlight our continued investment in innovation to meet the evolving needs of our customers. Our innovation successes drive our steady organic growth. In addition, to further strengthen our relationship with our strategic customers and expand our business with them, we've continued to roll out our Voice of the Customer activities. This work is providing valuable customer specific insights, and our response to the feedback has indeed increased business with those customers, reinforcing the value of this work.

Finally, turning to financial strength, we continue to embed 80/20 as part of how we work. Our priority is driving deeper integration at the sites that have been through the first round of simplification. We're applying 80/20 to address specific operational and business challenges at site level. For example, reducing inventory through better flow, simplifying the supply chain using 80/20 analysis, enhancing profitability based on insights from segmented

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P&L analysis, clarifying investment strategy at lower levels in the organization, and differentiating support for strategic customers to expand the business with them. In all cases, lessons learned and best practices are shared across the organization such that we can accelerate further improvement.

Now, let me turn to the guidance for fiscal 2025. We are driving business development and operational improvement in line with our long term goals. We've performed well in the first half of the year and have confidence in the business outlook for the second half. Therefore, financial performance of the business is in line with our prior guidance. Tariffs present a potential risk that could impact our full year results. The high level of uncertainty around tariff landscape [ph] is to a range (00:20:51) of possible outcomes. We will provide an estimate of that impact.

And with that, let me hand over to Jennifer for a detailed breakdown on the quarter, an update on our guidance and an estimate of the impact of those tariffs net of our mitigations.

Jennifer Walter

Executive Vice President & Chief Financial Officer, Moog, Inc.

Thanks, Pat. Our financial performance in the second quarter was strong, with a record level of sales, solid adjusted operating margin and adjusted earnings per share, and free cash flow as we had projected. We continue to simplify our business. As a result, we took $7 million of charges, largely associated with our simplification activities in the second quarter. I'll now talk through our second quarter adjusted results, which exclude these charges.

Sales in the second quarter of $935 million were just above last year's second quarter. Military Aircraft and Commercial Aircraft sales were up nicely, and Space and Defense sales were up marginally, exceeding the prior record, while Industrial sales were down due to our simplification efforts. In Military Aircraft, sales of $214 million were up 6% over the second quarter of last year. Activity on the FLRAA program began to ramp midway through FY 2023 and increased steadily through to FY 2024, driving the sales increase this quarter.

Commercial Aircraft sales of $216 million increased 4% over the same quarter a year ago. Aftermarket sales were particularly strong, driven in part by strong fleet utilization on the A350 program. The aftermarket sales increase was partially offset by lower sales on certain business jet and narrow-body program, for which our customers have experienced disruption and delays in production.

Space and Defense sales were $270 million, up 1% over the second quarter last year. Our sales this quarter were at a record level, reflecting broad-based defense demand. Industrial sales were $234 million in the second quarter, down 7% from the same quarter a year ago. Half of the decrease relates to the divestitures we completed at the beginning of this fiscal year. Other purposeful product exits also contributed to the sales decrease.

We'll now shift to operating margins. Adjusted operating margin was 12.5% in the second quarter, which is down from 13.6% in the prior year. It should be noted, however, that the second quarter is up 40 basis points when excluding the benefit of the Employee Retention Credit. This margin expansion is due to strength in Industrial. Industrial operating margin was 13.4% in the second quarter, up 90 basis points. This increase is attributable to benefits from simplification initiatives, including the divestitures completed at the beginning of this fiscal year. These benefits were offset partially by last year's Employee Retention Credit benefit.

Military Aircraft operating margin was 12.0% in the second quarter, 140 basis point lower than in the second quarter last year. Last year's second quarter included two onetime benefits, the Employee Retention Credit and

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the sale of our mature product line that we exited as part of our simplification efforts. The lack of these items this quarter was partially offset by stronger business performance in this year's second quarter.

Commercial Aircraft operating margin was 11.8%, down 20 basis points from the second quarter last year. Our operating margin was pressured by customer production delays on certain business jet narrow-body programs. Aftermarket strength offset these pressures. In Space and Defense, operating margin decreased 330 basis points to 12.6%. This was driven by the benefit from the Employee Retention Credit in last year's second quarter.

Putting it all together, adjusted earnings per share came in at $1.92, down 12% compared to last year's second quarter, or up 3% excluding last year's Employee Retention Credit benefit. The increase is attributable to higher operating margin.

Let's shift over to cash flow. In the second quarter, we generated $2 million of free cash flow. This quarter turned out as we had planned. Earnings were strong, cash used by net working capital requirements decreased significantly, and capital expenditures ran low compared to our planned run rate for the year. We secured customer advances on multiple defense programs as planned, halted the growth in physical inventories, and faced anticipated pressure on receivables due to the timing of collections. Capital expenditures of $38 million were generally in line with recent spend levels. We're continuing to invest in facilities and equipment to support longer term growth opportunities.

With respect to capital allocation, we returned capital to shareholders in the form of share repurchases and dividend payments. We repurchased roughly 290,000 shares of our stock in the second quarter, spending about $60 million, bringing our total year-to-date spend to $100 million. In addition, we spent $9 million on our dividend policy, which remains unchanged. Our leverage ratio was 2.6 times as of the end of the second quarter, nicely within our target range of 2 to 3 times.

We'll now shift over to our updated guidance for this year. Our underlying business is strong. We're reiterating guidance on sales, adjusted operating margin and adjusted earnings per share from 90 days ago for our underlying business with just minor adjustments. Sales are projected to be $3.7 billion, the same as previously guided, with a shift within Commercial Aircraft. OE sales on A350 are projected to slow, reflecting Airbus' current ordering patterns, while aftermarket sales continue to be robust. We're projecting an operating margin of 13.0% with some puts and takes that net out. We're reflecting a reduction in Military Aircraft due to the mix in that business and an increase in Commercial Aircraft on stronger aftermarket sales, both realized and expected. Earnings per share is projected to be $8.20, plus or minus $0.20.

We're now projecting free cash flow to be near the low end of the range we shared 90 days ago due to near-term pressure on physical inventories related to a change in Airbus' ordering patterns on the A350. We expect significant cash flow generation in the back half of this year, with a considerable amount of cash generation in the third quarter and further improvement in the fourth quarter. The timing of collection on receivables will be a significant driver of our cash flow generation. The other key driver is physical inventories, which will reduce as a result of our planning and sourcing initiatives.

We acknowledge the potential for pressure on our results from tariffs. We expect that Commercial Aircraft and Industrial will be impacted the most, with a lesser impact in Space and Defense and negligible impact in Military Aircraft. In Commercial Aircraft, we have an extensive global supply chain. Industrial is exposed to tariffs within our medical business that sources from our facility in Costa Rica. Within Space and Defense, our supply base includes countries that are subject to tariffs. Military Aircraft supply chain in the US is predominantly US-based and, therefore, not meaningfully impacted.

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We are taking appropriate steps to significantly mitigate the impact on our business. After considering the actions we're taking to offset these risks and assuming current conditions persist, we're estimating the potential for $10 million to $20 million of net pressure on our operating profit guidance for FY 2025. Our estimate does not account for retaliatory tariffs and potential further escalations not does it include effects of negotiations to remove tariffs. It does not factor in the impact of second order effects, non-tariff related trade constraints, recessionary pressures, or other disruptive shocks to the supply chain or the economy. We expect third quarter earnings per share to be $2 plus or minus $0.10. This projection may be impacted by tariffs. Fiscal year 2025 is shaping up to be another strong year, with growth in sales, continued operating margin expansion and enhanced free cash flow generation.

And now, I'll turn it back over to Pat.

Patrick J. Roche

President, Chief Executive Officer & Director, Moog, Inc.

Thank you. Our second quarter delivered strong financial performance, and halfway through the year, we're in good shape. We're guiding that the business will continue to perform well based on our view of the markets and our success in driving business improvement. We have actions in place to limit the potential impact of tariffs on our business.

And with that, let me open up the floor to questions.

QUESTION AND ANSWER SECTION

Operator: Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] Your first question is from the line of Michael Ciarmoli from Truist Security (sic) [Securities] (00:30:09). Your line is now open.

Michael F. Ciarmoli Q

Analyst, Truist Securities, Inc.

Hey, good morning, guys. Thanks for taking the questions. Jennifer, just housekeeping first. Do you have the commercial OE revenue growth and commercial aftermarket growth in the quarter?

Jennifer Walter A

Executive Vice President & Chief Financial Officer, Moog, Inc.

Yes. The commercial OE for the quarter was about $135 million and our aftermarket was $81 million.

Michael F. Ciarmoli Q

Analyst, Truist Securities, Inc.

Got it. Yeah.

Jennifer Walter A

Executive Vice President & Chief Financial Officer, Moog, Inc.

That compares to OE of $140 million last year and $67 million of aftermarket.

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Michael F. Ciarmoli
Analyst, Truist Securities, Inc.
Q

Got it. Okay. Perfect. And then just, can you maybe – you talked about the A350, sort of give us maybe a little bit more detail. What were you kind of shipping at? What you expected? Is there going to be a destock period? And does this kind of resolves towards the end of the year? Or what kind of signals are you getting from Airbus?

Jennifer Walter
Executive Vice President & Chief Financial Officer, Moog, Inc.
A

Sure. Yeah. So Airbus has changed their ordering patterns for us. We experienced this both in the third quarter and fourth quarter last year and caught up a little bit at the beginning of this year. So this is not something new for us. So, for A350, we reduced our sales guidance. Our net sales guidance within commercial is flat because we got the commercial OE going down, that's largely Airbus, being offset by the strength in the aftermarket. So those are offsetting each other.

We've got inventory that's already built and we get very short term orders from Airbus, and that's how we release those orders. Because of the timing and how the ordering patterns are going now, we'll wind up holding on to some of that inventory, so that puts pressure on our cash. We'll see that pressure in our cash in the back half of fiscal year 2025 and we expect that we will then recover that in FY 2026. So that's really what we're seeing on the Airbus front. So it is impacting our sales from what we had previously projected, and then we wind up holding that inventory for a little bit longer, so it's just the timing.

Michael F. Ciarmoli
Analyst, Truist Securities, Inc.
Q

Got it. And then just the last one I had, just on the cash. I mean, even at the low end, the 50% conversion, I mean, it implies, I guess, $300 million or so cash generation in second half. I don't really ever recall you guys doing anything that significant over 3Q, 4Q. Any other puts and takes? I mean, it sounds like 2Q – or 3Q will be stronger, but should we expect an even stronger fourth quarter? And is the sort of the tariff kind of unknowns captured in that?

Jennifer Walter
Executive Vice President & Chief Financial Officer, Moog, Inc.
A

So the tariff unknowns are not captured in that, but we have a couple of major drivers. What we'll see as we go into Q3 is benefit coming through collections on receivables. So we had tough collections on receivables in Q1 and in Q2. And in Q2, we had that planned. It was anticipated. So we have that timing in our favor as we look into Q3. So that's something that we're feeling comfortable with such that, that will be a major driver for cash flow generation, very strong Q2 to Q3. We'll hold that level of collections as we move into Q4 and we'll see a number of things actually helping us out in the back part of the year.

First of all, we've got a higher guide on our earnings in Q4 versus Q3, so that's helping. We also have some benefits that are coming in physical inventories. We're looking for next quarter and Q3 to be about similar to our halting of growth in physical inventories like we had this quarter, have that repeat in Q3 as well and actually generate some cash from physical inventories as we move into the back part of the year. We've got a number of things that are happening on that, Michael, manufacturing efficiencies, we're reducing cycle time, we're still a long way to go on – have opportunities there, but we're making progress and that's actually helping contribute inventory management as we're limiting incoming inventory, hitting milestones so that we can build and collect. Those are all things that are going to drive that physical inventories. And then we've got just some timing and some other things like payables that we're projecting at the end of the year to get us to where we historically are.

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Michael F. Ciarmoli
Analyst, Truist Securities, Inc.
Q

Got it. Perfect. Thanks, guys. I'll jump back in the queue.

Operator: Your next question is from the line of Kristine Liwag from Morgan Stanley. Please go ahead.

Kristine Tan Liwag
Analyst, Morgan Stanley & Co. LLC
Q

Hey, guys. Good morning.

Jennifer Walter
Executive Vice President & Chief Financial Officer, Moog, Inc.
A

Hey Kristine.

Patrick J. Roche
President, Chief Executive Officer & Director, Moog, Inc.
A

Welcome back.

Kristine Tan Liwag
Analyst, Morgan Stanley & Co. LLC
Q

Thanks, thanks. Happy to be back. I was wondering. I know it's still early in the tariff stuff and there's a lot of uncertainty, but I was wondering, can you give some color regarding on where you think your exposures are? Like, is it when you're an importing entity? And then also, from your discussions with your customers, how is this pain going to be shared? Are people sticking to the letter of the contract, or there's discussions of being able to pass through? Any sort of indication on how this would play out? And I realize it's still pretty early and there's a lot of uncertainty, but any indication on the direction of how this flows could be really helpful.

Patrick J. Roche
President, Chief Executive Officer & Director, Moog, Inc.
A

Yeah, no problem. I'll try and address that, Kristine. So, I highlighted in my notes that we have an extensive external supply chain around the world and also manufacturing sites at different locations. They impact our businesses in differing ways. And so, Jennifer sort of highlighted that we would expect maybe the Commercial business to see the highest level of impact in the short term arising from the tariffs. That's followed by the Industrial group, and then, to a much lesser extent, by the Space and Defense group and almost negligible in the Military Aircraft group for the reasons that Jennifer gave.

If I take as an example our Commercial business, aerospace is a very global business in terms of its supply chain. We draw from around the world. So we have, in the main part, an exposure to aluminum and steel imports, because as our products move around the world in our supply chain, they're getting impacted by tariffs on the way back into the US. We also have offshore manufacturing partners in products such as electronics which come back in from Mexico. And so, it's basically those two elements that have the impact on our commercial aerospace business.

On our Industrial business, the Costa Rica manufacturing site is a core part of the pump and accessories business that we have on the medical side. And so, that's subject to tariffs now as it comes into the US. And in our Space and Defense, but also in our Industrial business, we do use some long term partnerships with

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companies in both Mexico and Costa Rica that provide labor. So we send partially finished products to them, they do some work on it and they send it back to the US again. And so, that is also attracting some tariffs in the current model or potentially could attract tariffs in the current model. So that's where it's coming from.

So if you think about our exposure, I would say about a quarter of it or so is coming from the steel and aluminum parts of the tariffs, and then the balance comes from importations from our other intercompany suppliers. All told, we import about $200 million into the US.

Kristine Tan Liwag
Analyst, Morgan Stanley & Co. LLC

Q

That's super helpful. And if I could...

[indiscernible] (00:38:14)

Patrick J. Roche
President, Chief Executive Officer & Director, Moog, Inc.

A

Kristine, if I could talk about the mitigations then, anything that's moving back and forth in the North Americas across the border between Mexico and Canada, potentially falls under elements of the US Canada trade agreement, US-Mexico-Canada trade agreement. And so we're making sure that we are understanding how to apply that to our products and get the administration right on the movement of those goods in and out of the country to minimize the tariff output or the tariff that's claimed.

And then in terms of repair goods for the commercial aerospace business, as product moves back in and out of the US from partner airlines and other parts of the world, we got to make sure that we are importing those specifically for re-export later. So we have to work through the administration of that to make sure that we don't incur tariffs unnecessarily. And then finally, where we have issues associated with pricing, if it's coming in from an offshore partner and it increases our cost base, then we got to reflect on how we pass that through to customers in terms of pricing if necessary, and that's only in certain parts of the business that are impacted.

Kristine Tan Liwag
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you, Pat. Thank you for all the color. A lot to digest there. Maybe another question on the 787. Boeing from this quarter, they talked about there are five per month and going to seven per month later. And it looks like, from their perspective, all 787 KPIs could look green. So – and look good. So I guess, for you guys, you were delivering at a higher pace than they were producing for the past few quarters. I was wondering, where are you now, and when they do get to seven per month, when would you start seeing that uplift in volume for you?

Patrick J. Roche
President, Chief Executive Officer & Director, Moog, Inc.

A

So typically, there's a few months we're working a few months ahead of them as well. So when we're confident that we're at a higher rate, it will pull through from our manufacturing operations. I would describe it as running at a relatively stable production rate during the course of this year, which is aligned with our actual needs. Okay?

Kristine Tan Liwag
Analyst, Morgan Stanley & Co. LLC

Q

Well, thank you. I'll get back in queue.

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Patrick J. Roche
President, Chief Executive Officer & Director, Moog, Inc.

A

Thank you. Thanks, Kristine.

Operator: Your next question is from the line of Jon Tanwanteng from CJS Securities. Please go ahead.

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Q

Hi. Thanks for the question, guys. I was just wondering if you could talk about your exposure to 787 and A350 to China, international and back to the US from Airbus, I guess, and if there's any risk to deliveries and how that would pull through from you guys in the near-term?

Patrick J. Roche
President, Chief Executive Officer & Director, Moog, Inc.

A

Yeah, so...

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Q

[indiscernible] (00:40:51) contemplated all in your guidance or not? I mean, we've seen China refuse deliveries of 737s. Is there a risk there for you guys? And how can we capture that? Does it matter even if Boeing or Airbus can place planes with all the buyers?

Patrick J. Roche
President, Chief Executive Officer & Director, Moog, Inc.

A

Yeah, thanks for the question, Jon, and good morning. We are not anticipating an impact from that on our business. There is quite an extensive backlog on both of the OEMs on the widebodies. It's likely that it's a redistribution of orders that happens as a consequence of any trade restrictions having an impact on their ability to ship into China. I think it was reported earlier in the week that Boeing actually moved aircraft out of China to reuse them for other customers during the course of the week. And so, we don't expect to see any impact of that flowing through, Jon.

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Q

Okay, great. I was wondering if you could touch a little bit on next gen programs, although I think you mentioned Golden Dome. I didn't hear if you mentioned F-47. I think I may have missed that if you did. Are you competing on that or is there an opportunity there that might be substantial?

Patrick J. Roche
President, Chief Executive Officer & Director, Moog, Inc.

A

Yeah, maybe the only thing I'd say under sixth generation aircraft are that we are a leading supplier of primary flight controls for these military aircraft and we have a strong funded development book of business. So this program is a restricted program and we can't speculate who the suppliers are, specifically on F-47, [indiscernible] (00:42:20) to say that we have capabilities that are useful in this type of aircraft.

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And you mentioned Golden Dome, there's no defined architecture for Golden Dome at this point, but in all likelihood, it requires a combination of different types of assets to be effective. It requires missile defense on the ground. It requires assets in space to be able to understand what's going on and to inform decision making. If you're trying to defend against an incoming missile, it could involve counter-drone defenses as well. So we think it has an impact on a whole range of different products and technologies that we actually have a position in. So if you think about our RIwP turret as used in drone defense, that could be an element of it. If you think about our missiles programs, we have a whole range of exposure there; HELLFIRE, Javelin, PAC-3.

As we announced back in the first quarter, we had a large order from Lockheed Martin on that. You'd imagine that would be part of some system like that. Our FAD missile program that we're on also could play a role in it. So we feel that those – and on the space side, we've got space vehicles and we've got space vehicles that are aimed at defense applications. So I mean, they're perfectly suited for this type of roles. So a combination of those technologies and products could form part of Golden Dome when it is defined. And so that's why we think that's a positive for us as well.

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Q

Got it. And then lastly, kind of high level, how do you perceive or reconcile, I guess, the recent commentary that there might be $1 trillion defense budget compared to prior commentary of looking for 8% reductions and reallocations? And how does that square with your longer term outlooks and targets?

Patrick J. Roche
President, Chief Executive Officer & Director, Moog, Inc.

A

So, I think I reflected back in the previous quarters that the threats or the issues that we face in terms of national security, they didn't change. And so, from my perspective, it's a reflection of the necessary investment that is there to ensure you are able to provide for national security. So I think it's a reflection of the reality when you're dealing with large near-peer threats.

Jon Tanwanteng
Analyst, CJS Securities, Inc.

Q

Got it. Thank you very much.

Patrick J. Roche
President, Chief Executive Officer & Director, Moog, Inc.

A

No problem. Thanks, Jon.

Operator: [Operator Instructions] Your next question comes from the line of Tony Bancroft from Gabelli. Please go ahead.

George Anthony Bancroft
Analyst, Gabelli Funds LLC

Q

Thanks so much. And congratulations on a great quarter and all the great work you've done, Pat, Jennifer and Aaron. Just really quickly on, you've seen those article [ph] – there's one (00:45:27) this morning about obviously countries exempting aerospace and defense parts from offsetting from counter tariffs. I think there's one this morning in China, I think last week about France, the French aerospace industry. Just, is there anything you can maybe talk to about that? You sort of mentioned a little bit of before, but maybe some more color on that potential.

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Patrick J. Roche
President, Chief Executive Officer & Director, Moog, Inc.

A

Good morning, Tony, and welcome to the call. This is all the uncertainty around tariffs. I mean, we mentioned it in the note that we've tried to model out what might happen or potentially could happen based on the known imports that we have and the current rate of tariffs, but they change sometimes day by day. So, there's no certainty in this. And I think there will be negotiations on an ongoing basis, on a country basis, but also people lobbying for carve-outs, as well as for certain industries. And you saw that with the automotive side as well. So that certainly could happen and that would definitely help also mitigate what we've indicated as a range here.

George Anthony Bancroft
Analyst, Gabelli Funds LLC

Q

Yeah, that's great. That's all I've got. Thank you so much. Well done.

Patrick J. Roche
President, Chief Executive Officer & Director, Moog, Inc.

A

You're welcome. Thank you.

Operator: Your last question comes from the line of Gautam Khanna from TD Cowen. Please go ahead.

Q

Oh, hi. Actually, this is [ph] Eden (00:46:57) for Gautam. I just have a couple of questions. One is, on the bump you gave for commercial aftermarket, could you give a little more color on what you're seeing in the aftermarket, the positives and if there's any offsetting negatives that you see out there? And the second question is on the potential net tariff risk of $10 million to $20 million, could you remind me sort of exactly what that's addressing? Thanks.

Jennifer Walter
Executive Vice President & Chief Financial Officer, Moog, Inc.

A

I'll start with the first one on the commercial aftermarket. So our commercial aftermarket has been really strong this year. If I go not just to this quarter, but I go to a quarter ago, we were strong both in spares and repairs. We had strong repair activity, lots of flight hours, lots of activity going on there. Spares in the past, we'd also seen on last quarter in particular the shift from some of our customers from kind of materials over into longer term contracts that they actually provision some spares for [indiscernible] (00:47:56).

Looking at this quarter, this quarter is really on the spare – on the repair side, rather. The repairs activity continues to be strong, it continues to be robust. The flight hours are strong and up. We're seeing it on the newer widebody aircraft platforms such that we're expecting it to increase from our previous guide. So that's the offset to some of the A350 ordering patterns that I had mentioned. So definitely commercial aftermarket is helping us from a margin perspective on the commercial business. And it's the repair activity that continues to be robust and we see it continuing in the future to be robust.

Patrick J. Roche
President, Chief Executive Officer & Director, Moog, Inc.

A

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And then, Hi [ph] Ed (00:48:37), welcome. If I think about the tariffs, I mean, our exposure on the tariff side is steel and aluminum, steel and alumina, as I should have said on the call, apologies for using the European version of it. But that's one of the big elements. And then I guess if we look at Costa Rica being one of our plants, importing a lot of materials into the US on the medical business. After that, I would say some exposure to Europe. We have a manufacturing plant in Ireland and another one in Italy that bring product in, which supports our Space and Defense group. And then Mexico, some subcontracting going on there. Canada, some sourcing of sensors and materials to go into some of our military products. So that's how I'd characterize the impact. So the commodity tariff is a large element. And then, those countries that I called out specifically contributing to it.

Q

Okay. Thank you.

Patrick J. Roche

President, Chief Executive Officer & Director, Moog, Inc.

A

You're welcome.

Operator: There are no further questions at this time. I'd like to turn the call over to Pat Roche for closing comments. Sir, please go ahead.

Patrick J. Roche

President, Chief Executive Officer & Director, Moog, Inc.

Thank you. So, that concludes our earnings call. It was a solid quarter, a positive outlook and managed tariff risk. I appreciate you taking the time to listen to the update on the business and I look forward to providing another update in 90 days time. Thank you.

Operator: This concludes today's conference call. Thank you very much for your participation. You may now...

[Abrupt End]

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