

# AAR CORP. Investor Day

October 7, 2009





# Forward-Looking Statements

This presentation includes certain statements relating to future results, which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on beliefs of Company management, as well as assumptions and estimates based on information currently available to the Company, and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or those anticipated, including those factors discussed under Item 1A, entitled “Risk Factors,” included in the Company’s May 31, 2009 Form 10-K. Should one or more of these risks or uncertainties materialize adversely, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described. These events and uncertainties are difficult or impossible to predict accurately and many are beyond the Company’s control. The Company assumes no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. For additional information, see the comments included in AAR’s filings with the Securities and Exchange Commission.

# Agenda

Time	Topic	Presenter
7:00 AM	Breakfast	
8:00 AM	AAR CORP. Overview	<b>David Storch</b> Chairman and Chief Executive Officer
8:30 AM	Structures & Systems	<b>Terry Stinson</b> Group Vice President
8:50 AM	Government & Defense Programs	<b>Randy Martinez</b> Senior Vice President
9:10 AM - 9:30 AM	BREAK	
9:30 AM	Aviation Supply Chain	<b>Jim Clark</b> Group Vice President
9:50 AM	Maintenance, Repair & Overhaul	<b>Don Wetekam</b> Group Vice President
10:10 AM	Operational Review	<b>Tim Romenesko</b> President and Chief Operating Officer
10:25 AM	Financial Highlights	<b>Rick Poulton</b> Chief Financial Officer and Treasurer
10:40 AM	Q&A	Chaired by David Storch



# **AAR CORP. Overview**

**David Storch  
Chairman and  
Chief Executive Officer**

# AAR Overview

- ▶ 58 years as a market leader in aviation support
- ▶ Diverse markets, products and customers
  - > 57% Commercial, 43% Defense
  - > 66% Aftermarket, 34% Front-end
  - > 80% North America, 20% International
- ▶ 18% Sales CAGR over last four years
- ▶ History of consistent profitability
- ▶ Strong balance sheet
- ▶ Three primary operating segments
  - > Aviation Supply Chain
  - > Maintenance, Repair & Overhaul (MRO)
  - > Structures & Systems
- ▶ Experienced management team
- ▶ 5,900 employees world-wide at 60 locations





# Investment Highlights

- ▶ Diversified base of over **2,600 customers**
- ▶ **Business transformation** has improved portfolio **balance**, **strength** and **consistency**
- ▶ Strong growth and focus on **Government & Defense** business
- ▶ Developing **engineering** capabilities to improve value offering
- ▶ Expertise in providing **integrated supply chain support solutions**
- ▶ **#2 independent MRO provider** in North America with full spectrum of capabilities
- ▶ Strong **balance sheet** to support business and enable growth
- ▶ Attractive long-term **growth** opportunities
- ▶ Experienced **management team** with proven track record



# AAR Provides Products and Services to Over 2,600 Diverse Customers

### Airlines

AIR FRANCE  
AirTran  
Alaska Airlines  
American Airlines  
BRITISH AIRWAYS  
Continental Airlines  
CHINA AIRLINES  
Lufthansa  
Delta  
MEA  
SOUTHWEST AIRLINES  
SINGAPORE AIRLINES  
UNITED

### International Freight Delivery

PHL  
FedEx  
ups



### OEMs & MROs

AIRBUS  
Gulfstream  
BAE SYSTEMS  
LOCKHEED MARTIN  
BOMBARDIER  
HAECO  
NORTHROP GRUMMAN  
BOEING  
Cessna  
Hamilton Sundstrand  
A United Technologies Company  
Honeywell  
Raytheon  
Sikorsky  
A United Technologies Company

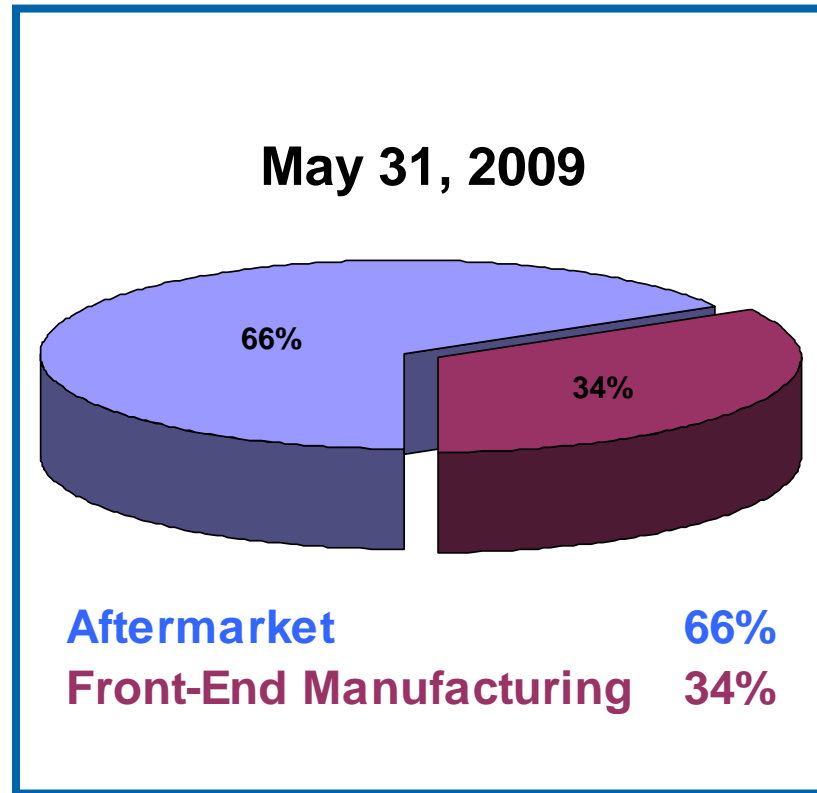
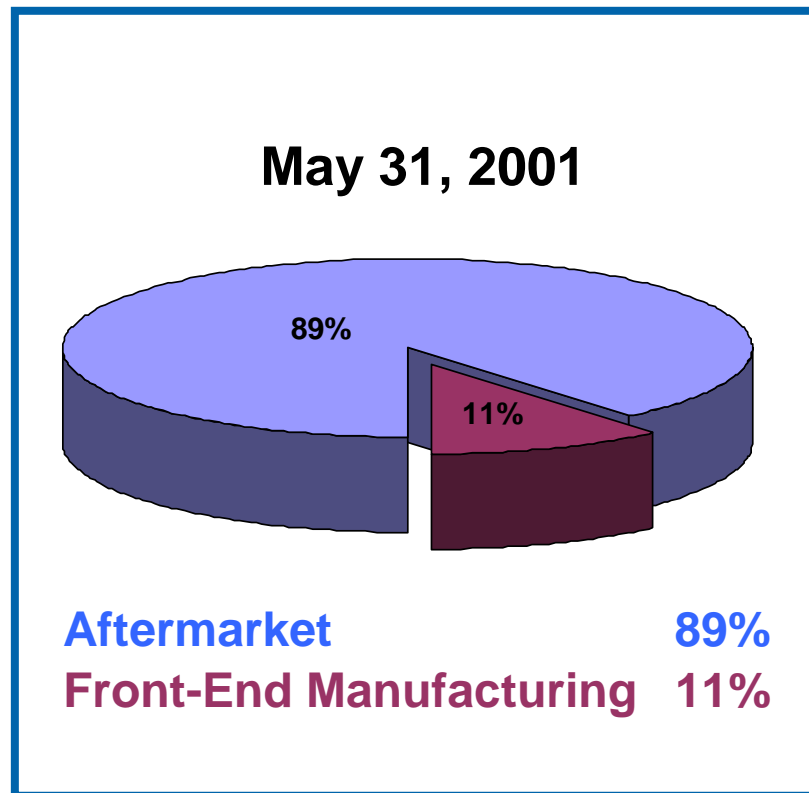
### US & Foreign Governments

US ARMY  
U.S. AIR FORCE  
US Department of Defense  
MARINES  
THE FEW. THE PROUD.  
UAE  
MINISTERO DELLA DIFESA  
REPUBBLICA ITALIANA  
Italian MoD  
Kuwait MoD  
Saudi MoD  
UK MoD





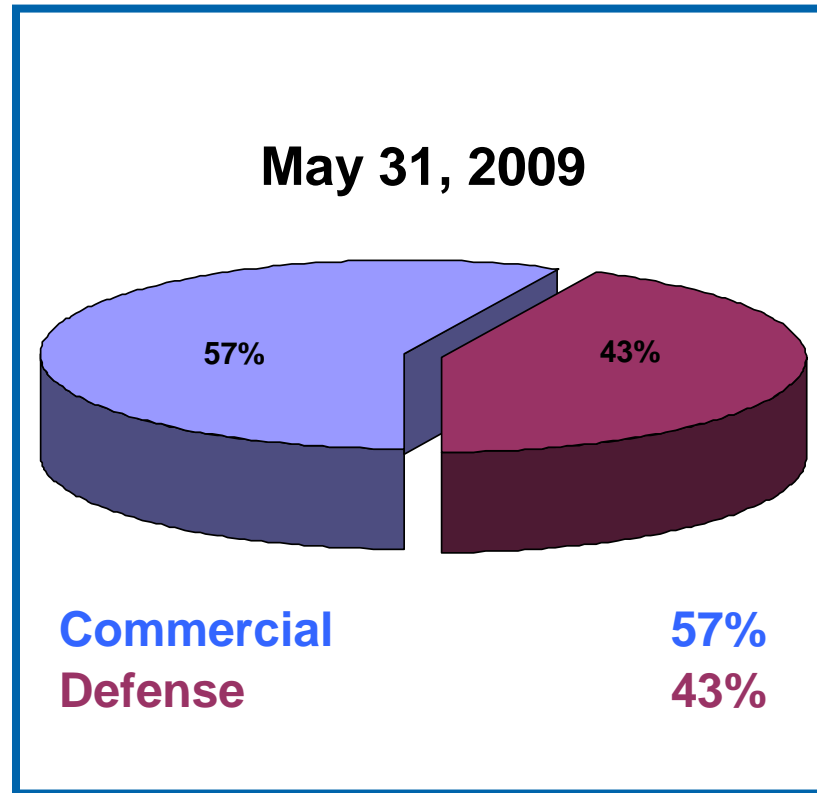
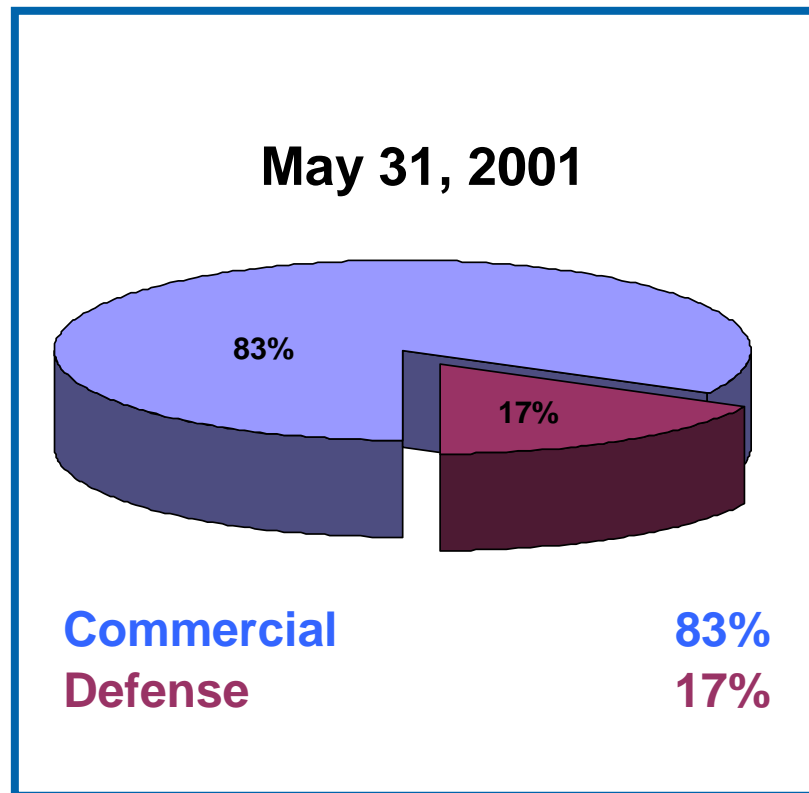
# Diversification Strategy Better Prepared Company for Current Downturn



**A more diversified and balanced portfolio**



# Diversification Strategy Better Prepared Company for Current Downturn



**A more diversified and balanced portfolio**



# Strong Growth in Government & Defense

FY2009 Sales of \$606 million (43% of AAR)

## Products 70%

- ▶ Containers, Shelters, Pallets
  - > Used as in-theatre command and control centers, briefing rooms, kitchens, sleeping quarters
- ▶ Precision Machined Parts
  - > Cargo Roll On Roll Off Pallets
- ▶ Composites Structures
  - > S-92 and CH-148 Helicopter interiors
  - > F22 countermeasures and structures
- ▶ Cargo Handling Systems
  - > CH-47 & C-130

## Services 30%

- ▶ Supply Chain Management
- ▶ Parts Distribution
- ▶ Logistics Support
- ▶ Component Repair
- ▶ Aircraft Maintenance and Modification
- ▶ Representative Programs
  - > UK AWACS
  - > J-STARS
- ▶ AAR Global Solutions



Containers



Supply Chain

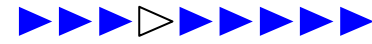


Precision Fabrication



Composites





# Developing Engineering Capabilities

Airframe  
Maintenance



**Added  
Engineering  
Services**

Cargo Systems  
Manufacturing



**Expanded  
Design and  
Engineering  
Capabilities**

Composite  
Manufacturing



**Expanded  
Design and  
Engineering  
Capabilities**

Mobility Shelter  
Manufacturing

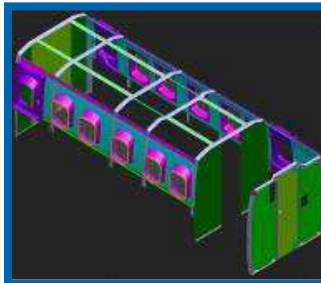


**Added  
Systems  
Integration  
Capability**

Aerostructure  
Manufacturing

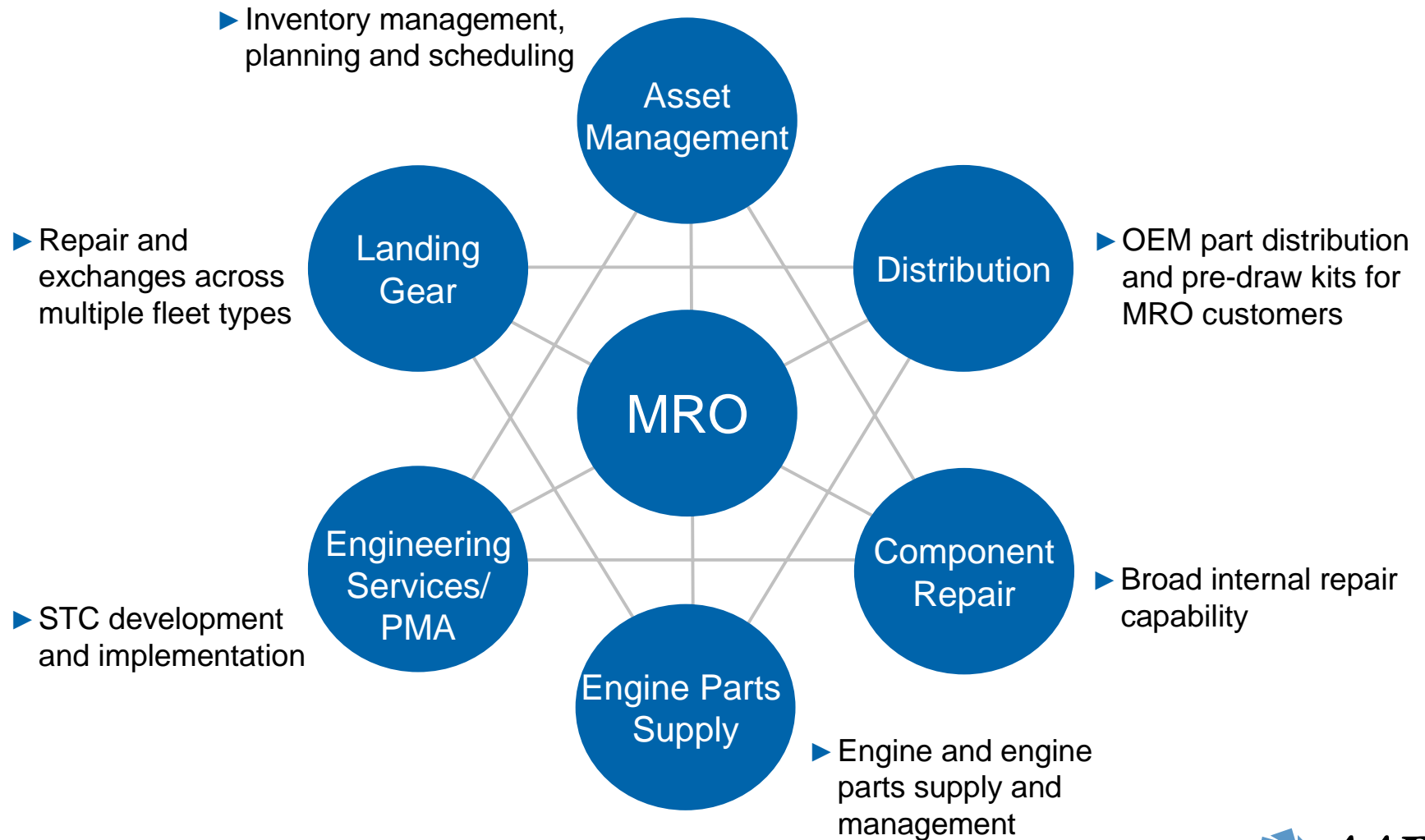


**Added Precision  
Machining and  
Fabrication  
Capability**



**Greater capabilities will create greater opportunities**

# Integrated Supply Chain Support Solutions

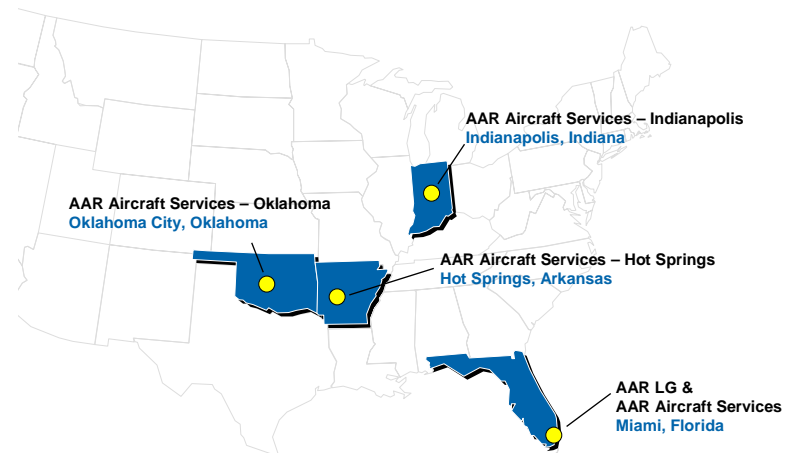
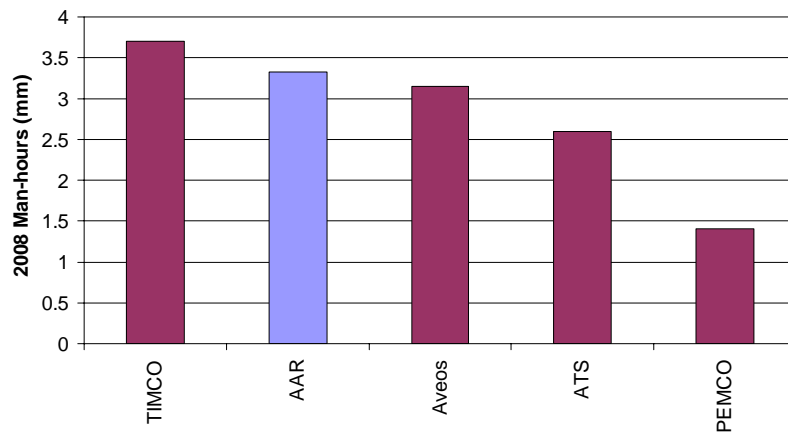


# Continued Growth in Core MRO Platform

## ▶ Added capabilities since 2001

- > Indianapolis – Nose-to-tail state of the art facility for narrow-body aircraft
- > Miami – Wide-body capacity and access to Latin American customers
- > Arkansas – Increased capacity for regional aircraft

Top 5 North American Based Third Party MRO Providers



Expanded MRO platform enhances AAR capabilities across the U.S.

Source: Overhaul & Maintenance – June 2009 (AAR FY 2008 data).





# Financially Strong Position to Support Business and Enable Growth

	<u>May 31, 2003</u>	<u>May 31, 2009</u>	<u>CAGR</u>
<b>Net Sales</b>	\$ 606.3	\$ 1,424.0	15.3%
<b>Operating Income</b>	3.6	134.0	82.7%
<b>Operating Margin</b>	0.6%	9.4%	
<b>Cash and Available Credit Lines</b>	38.2	302.8	41.2%
<b>Net Debt-to-EBITDA</b>	5.9x	1.4x	
<b>Interest Coverage (GAAP)</b>	0.2x	4.3x	
<b>Cash Interest Coverage</b>	0.2x	7.4x	

## Stronger balance sheet and operating performance

Note:

Excludes \$5M and \$31M impairment charges during FY 2003 and FY 2009 respectively.

FY 2009 financials adjusted to reflect new accounting standards for convertible securities.





# Three Pillars of Growth for Commercial Business

## Commercial Market Growth

- ▶ Worldwide commercial fleet expected to grow at a 3.2% CAGR over next 20 years
- ▶ Global MRO spend expected to grow at a 2.3% CAGR



## Increase Outsourced MRO

- ▶ Outsourced share of MRO expected to increase to 73% by 2018, up from 52%
- ▶ Global outsourced MRO expected to grow at a 6.2% CAGR



## Expand AAR Market Share

- ▶ Niche player in \$22 Bn Global Outsourced MRO market with 4% share
- ▶ Significant opportunity to expand share; product and geography



# Significant Growth Opportunity in Government/Defense



## Fleet Sustainment

- ▶ Support existing fleet
- ▶ Army's plan to equip modular units, expand the force and reset equipment



## Troop Sustainment

- ▶ Support in theater activity
- ▶ Mobilization and sustainment of troops into new theaters

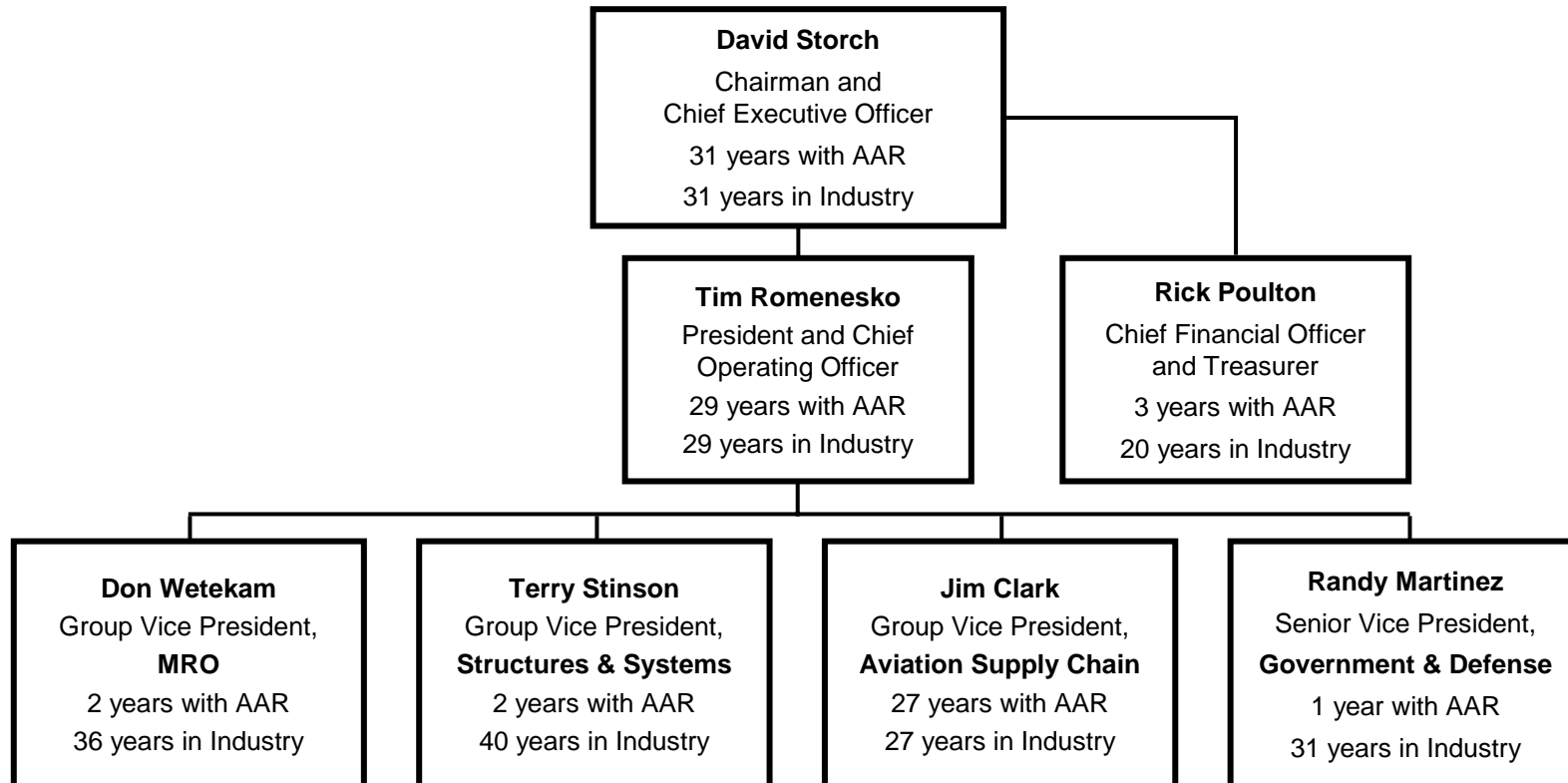


## "Soft Power"

- ▶ Increase efforts to address security, stabilization, reconstruction and capacity-building efforts



# Experienced Management Team with Proven Track Record



An accomplished and experienced leadership team dedicated to integrity, fiscal responsibility, operational excellence, customer satisfaction and stockholder value

# AAR Strategies

Portfolio Strength and Balance	<ul style="list-style-type: none"><li>▶ Increase mix of government &amp; defense services</li><li>▶ Increase front end manufacturing</li></ul>
Higher Quality / Stickier Customer Relationships	<ul style="list-style-type: none"><li>▶ Offer total supply chain support</li><li>▶ Align with OEMs / “Primes”</li></ul>
Strengthen Balance Sheet	<ul style="list-style-type: none"><li>▶ Focus on cash flow generation</li><li>▶ Increase working capital turns</li></ul>
Margin Expansion	<ul style="list-style-type: none"><li>▶ Focus on operational excellence</li><li>▶ Add higher-margin product lines into portfolio</li><li>▶ Increase engineering content</li></ul>
Growth	<ul style="list-style-type: none"><li>▶ Organic commercial: Take market share</li><li>▶ Organic defense: New niches</li><li>▶ Selectively pursuing acquisitions</li></ul>



# Disciplined Approach to Strategic M&A

- ▶ **Focus on Aerospace & Defense industry**
- ▶ **Strategic fit with existing businesses**
  - Complementary capabilities
  - Expand products/services offered
  - Enhance and expand customer relationships
- ▶ **Balance and strengthen business**
  - Increase non-U.S. DoD government business
    - Department of State
    - Homeland Security
    - Other governments
  - Increase front-end manufacturing
- ▶ **Attractive financial characteristics**
  - Accretive to earnings
  - Enhance margins
  - Broader and deeper platforms



# Board of Directors



Board Member	Experience	Years on Board
General Ronald R. Fogleman	Former USAF Chief of Staff	8 years
James E. Goodwin	Former Chairman and CEO, UAL Inc.	7 years
Ronald Woodard	Former President of Boeing Commercial Airplane Group	5 years
David P. Storch	Chairman and Chief Executive Officer, AAR CORP.	20 years
James G. Brocksmith, Jr.	Former Deputy Chairman and COO, KPMG LLP	8 years
Marc J. Walfish	Managing Director, Merit Capital Partners	6 years
Michael R. Boyce	Chairman and CEO, PQ Corporation and Peak Investments	4 years
Gerald F. Fitzgerald, Jr.	President and Chairman, Cornerstone Bancorp and LaSalle Bancorp, Inc.	3 years
Patrick J. Kelly	Chief Executive Officer, Resource One	3 years
Norman R. Bobins	Chairman of The Private Bank — Chicago	2 years
Timothy J. Romenesko	President and Chief Operating Officer, AAR CORP.	2 years



# Structures & Systems

Terry Stinson  
Group Vice President



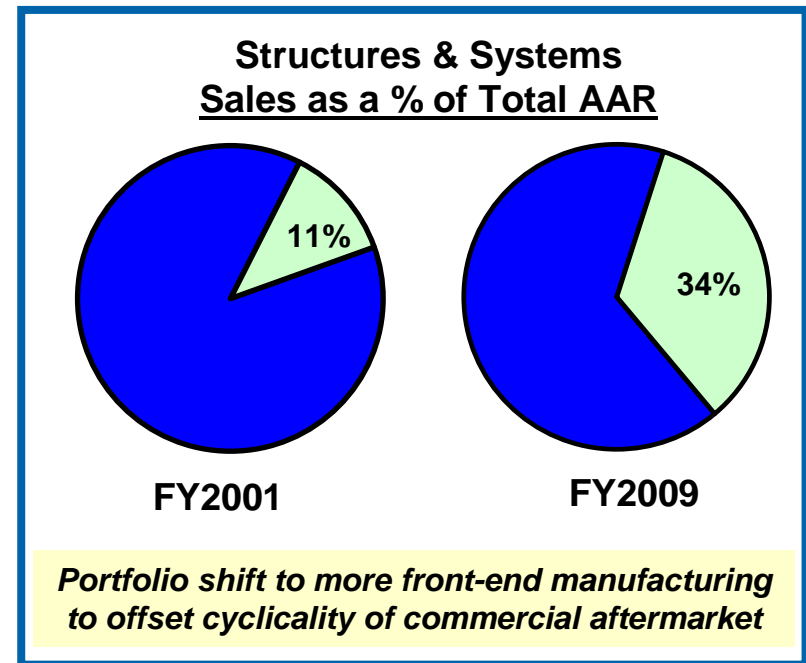
# Terry Stinson

Group Vice President, Structures & Systems

- ▶ **Leads AAR's SUMMA Technology, Cargo Systems, Composites and Mobility Systems businesses**
- ▶ **Joined AAR CORP. in 2007**
- ▶ **An Aerospace industry veteran**
  - President of Commercial Operations for Thomas Group, an operational consulting firm
  - Chairman and CEO of Xelus Inc.
  - Chairman and Chief Executive Officer of Bell Helicopter Textron Inc.
  - President and Chief Executive Officer of Hamilton Standard, a UTC division
- ▶ **Fully qualified fixed wing and helicopter pilot and is certified to fly all commercial products manufactured by Bell Helicopter**
- ▶ **Several awards from US Air Force Reserve and National Guard**
- ▶ **Education**
  - Degree in Industrial Management from Georgia Institute of Technology

# Key Supplier to Aerospace & Defense Industry

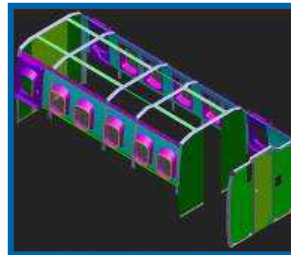
- ▶ Four major businesses
  - Mobility Systems, Summa Technology, Composites and Cargo Systems
- ▶ Key supplier to government and defense industry
  - 88% Government and 12% Commercial
- ▶ 12 facilities in the U.S. across 7 States
- ▶ Solid backlog of \$365M, up 21% in 2009
- ▶ Strong future growth opportunities
  - Strategic initiatives
  - Acquisitions



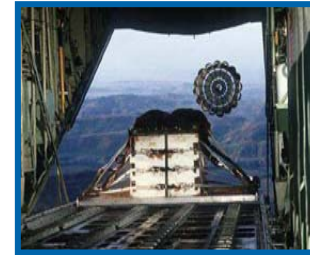
Mobility Systems



SUMMA  
Technology



Composites



Cargo Systems



# Key Strengths - Structures & Systems Group

▶ **Large and diverse customer base**

- Supplier to U.S. & foreign governments, OEMs, Tier 1 suppliers, airlines and international freight delivery

▶ **Strong market positions** across product lines

▶ **Broad machining capability** and expertise in machining hard alloys

▶ Key investments in **manufacturing facilities**

▶ **Well positioned for growth** on major programs & in international markets

# Large Customer Base

**International Freight Delivery**

**Airlines**



**Tier 1 Suppliers**

**OEMs**

**US & Foreign Governments**

US ARMY

U.S. AIR FORCE

US Department of Defense

MARINES  
THE FEW. THE PROUD.

UAE

MINISTERO DELLA DIFESA  
REPUBBLICA ITALIANA

Italian MoD

Kuwait MoD

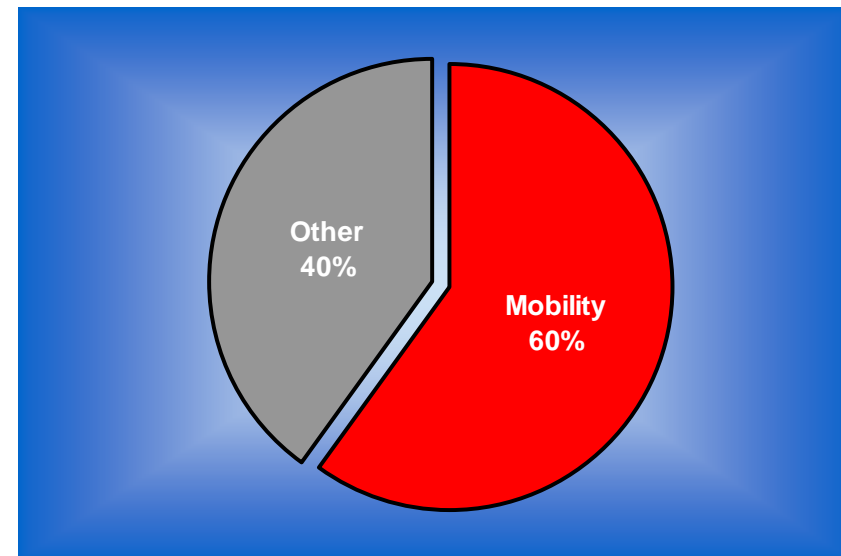
Saudi MoD

UK MoD

# Mobility Systems

- ▶ Rapid Deployment Equipment to aid the mobilization of troops, gear and specialized workspaces:
  - Shelters, pallets and containers
  - Strong market position across product lines
  - 5% annual sales growth rate
  - Growth opportunities
    - International markets
    - Broader definition of Shelter market

**Market Share**  
(Pallets, Containers & Shelters)



Expandable Shelters



Expandable Light Air  
Mobile Shelter (ELAMS)



C-17 Seat Pallets

# Mobility Systems



Standard Automotive Tool Set (SATS)



20' ISO Shelter with US Army Petroleum Quality Analysis System (PQAS)



20' Expandable ISO Shelter with Optional EMI Shielding



Integrated Medical, Shower, Ablution and Laundry Shelter Systems



Integrated USO in a Box Expandable Light Air Mobile Shelter (ELAMS)



# SUMMA Technology

- ▶ Precision machining, fabrication & engineering services
  - Aerospace, Defense & Commercial products
  - Broad machining capability
    - 22 five axis machining centers
    - 7 gantries
    - 15 three & four axis machining centers
  - Expertise in machining hard alloys
  - Machining centers of excellence
  - Growth through acquisitions

## Key Customers

US Army (TACOM)

Gulfstream

Raytheon

Lockheed

Northrop

Others



Double bridge 5 axis Gantry



F-35 Structural part



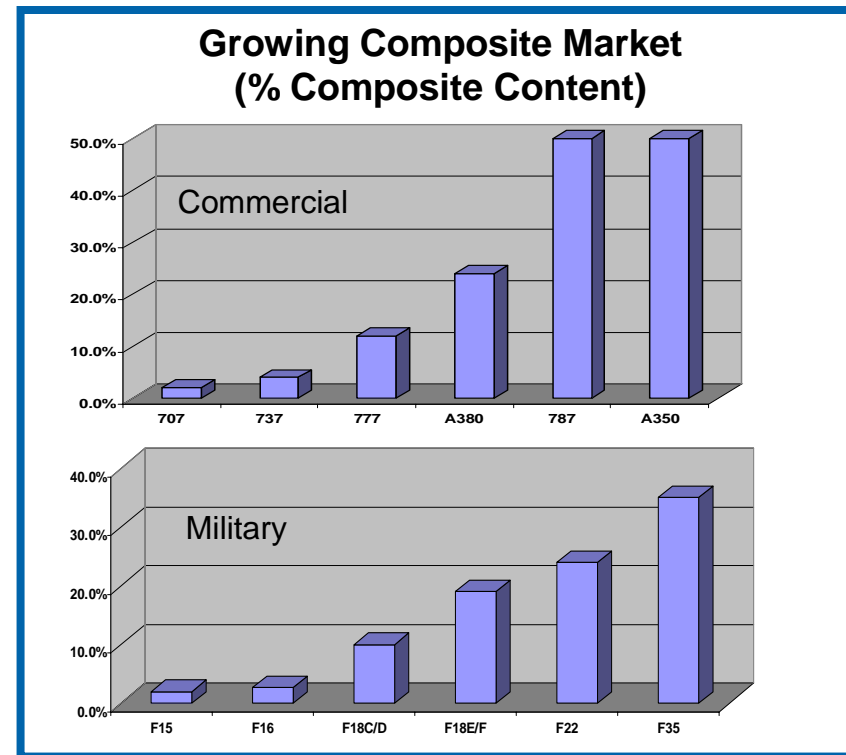
C-130 Flaptrack



Space Shuttle External Tank

# Composites

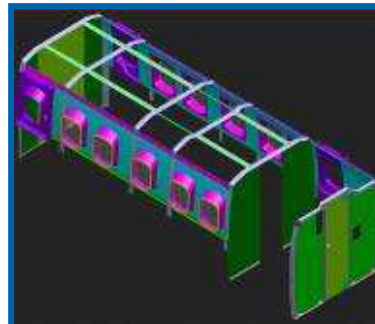
- ▶ Design & manufacture interior & exterior composite structures for commercial & defense customers
  - Growing market of 7.3% per year
  - Transition to a Tier I supplier
  - Leverage customer base from other businesses
  - Large capacity with the addition of Sacramento facility
  - Key supplier on F22 for 12 years
    - Well positioned on F35
  - Significant growth opportunities



Quintax Machining Center



Final assembly of aircraft structure



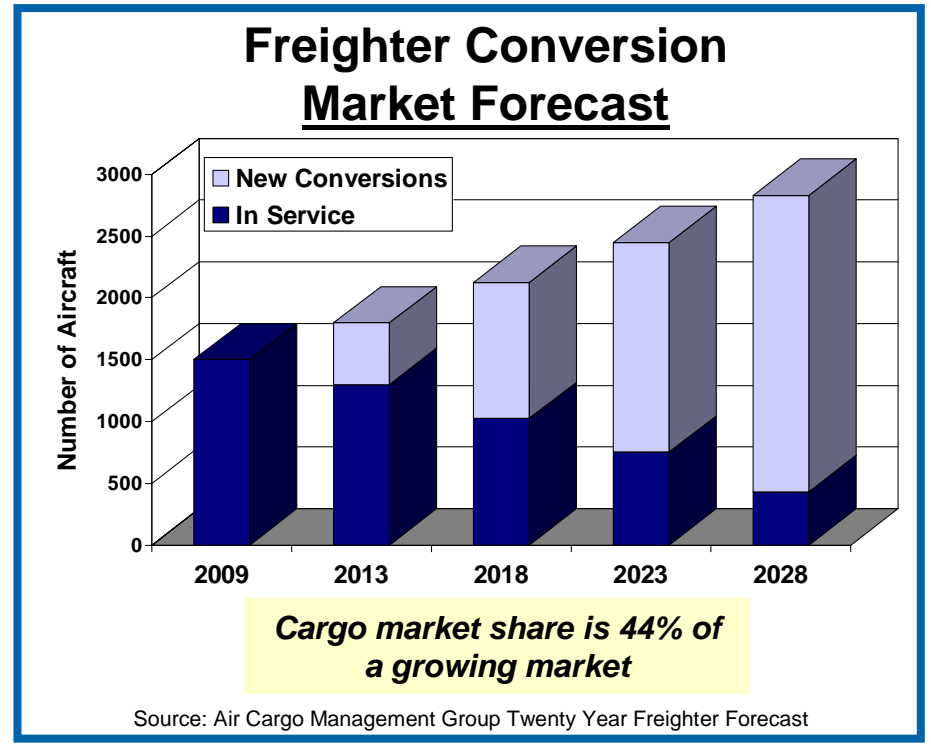
Sikorsky S92 Interior CAD Model



Multiple Autoclaves

# Cargo Systems

- ▶ In-flight Cargo Handling Systems for main deck of military & commercial aircraft
- ▶ Well positioned on major programs
  - Airbus A400M – 200 units at a peak rate of 30 per year
    - Next generation cargo loading & aerial delivery system
  - Northrop AF KC-45 Tanker Program
  - International programs
    - Japanese CX Military Transport
    - Embraer KC-390 Military Transport
- ▶ State of the art manufacturing facility



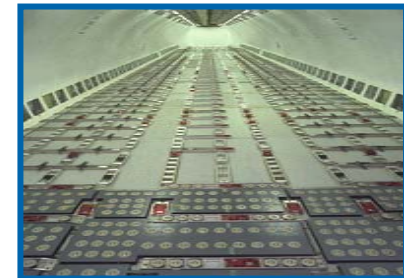
C-130 Hercules



A400M Cargo Compartment Depiction



CH-47 Helicopter Internal Cargo Handling System (HICHS)



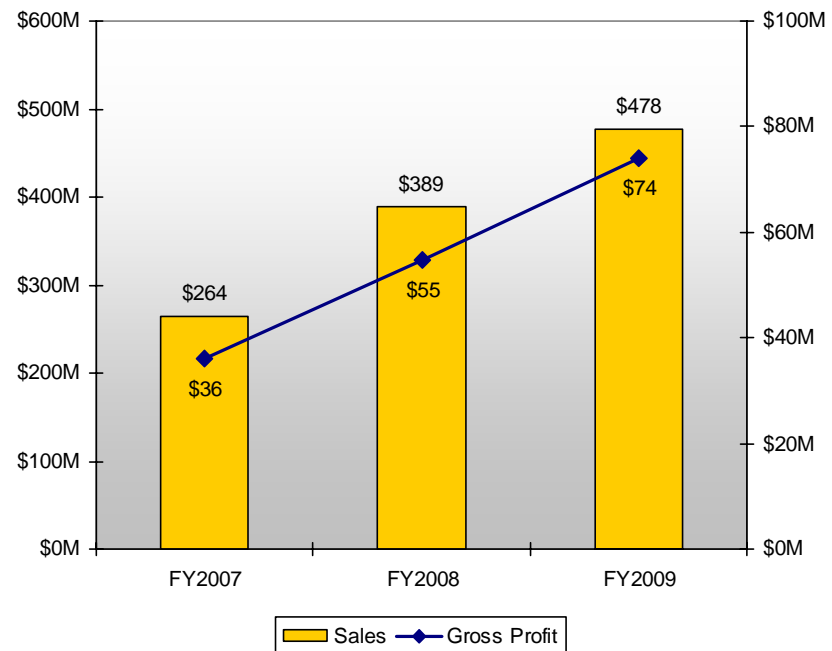
A300B4 DHL Cargo System

# Financial Trends

## Highlights

- ▶ 23% sales growth in FY2009
  - 6% organic
- ▶ Consistent year over year margin improvement
- ▶ Strong Q1 FY2010 performance
  - Sales & Margin increase over FY2009
- ▶ Continued investment in businesses
  - Capex - \$15M to \$20M per year

## Financial Results



% Margin	13.6%	14.1%	15.5%
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# Summary

## Maintaining the Growth Trajectory

- ▶ Broaden market definition
  - ▶ Acquire companies synergistic to the business
  - ▶ Capitalize on commonality across the businesses  
(i.e., customers, processes, etc... )
  - ▶ Transition to a Tier 1 Supplier
  - ▶ Invest in infrastructure
- 
- | Fiscal Year | Relative Growth |
|-------------|-----------------|
| FY2007      | Low             |
| FY2008      | Medium          |
| FY2009      | High            |



# **Government & Defense Programs**

**Randy Martinez**  
**Senior Vice President**



# Randy Martinez

Senior Vice President, Government & Defense Programs

- ▶ **Leads AAR's Defense Systems & Logistics, Brown International, Global Solutions, responsible for government/defense business development and Legislative Affairs program**
- ▶ **Joined AAR CORP. in 2009**
- ▶ **Formerly served as CEO and board member of World Air Holdings, Inc.**
  - Publicly traded \$950M global enterprise with 2,200 employees
  - Also served as World Airways' President, CEO and COO
- ▶ **Distinguished 21-year career with the U.S. Air Force**
  - Principal Advisor to the Chief of Staff of NATO's Strategic Planning Staff
  - Senior Aide-de-Camp to the Chairman of the Joint Chiefs of Staff
  - Command pilot rating, retired Colonel
- ▶ **Education**
  - Bachelor of Science Degree from the U.S. Air Force Academy
  - Master of Science Degrees from the University of Arkansas and the National Defense University



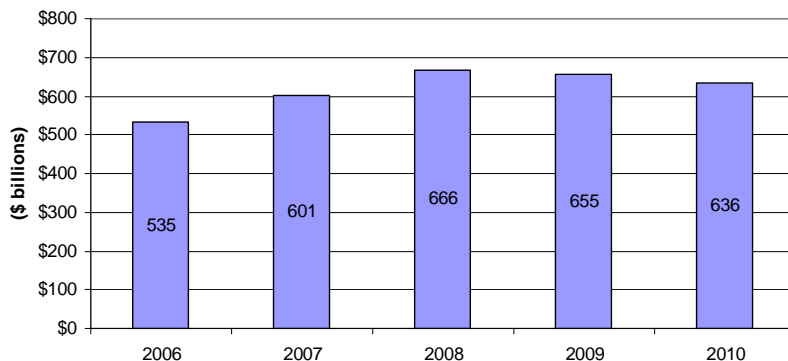
# Increased Government & Defense Focus

- ▶ **Government and Defense business within AAR now accounts for 46% of Net Sales up from 17% in 2001**
- ▶ **AAR recently re-organized Government & Defense Business Development at a corporate level to increase opportunities across business units**
- ▶ **Realigned two P&L businesses**
- ▶ **Centralized and formalized Legislative Affairs approach**
- ▶ **AAR Global Solutions created June 15, 2009**

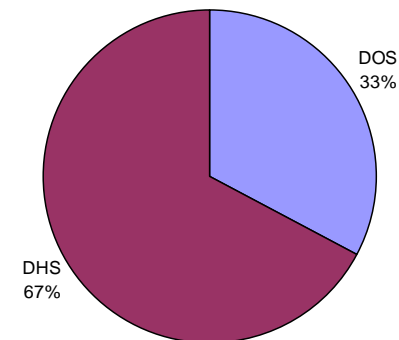
# Government/Defense Budget Trends

- ▶ Department of Defense budget will be slightly reduced
  - > DoD “new program” cancellations not a major issue for AAR business
- ▶ Department of State and Department of Homeland Security expect budget increases
  - > AAR building “Soft Power” capability through Global Solutions
  - > Significant opportunity with domestic and international governments
- ▶ New Administration focus on Coalition and Nation Building
  - > Iraq drawdown and Afghan buildup both offer opportunities
  - > Changing world makes “Soft Power” capabilities a long-term focus

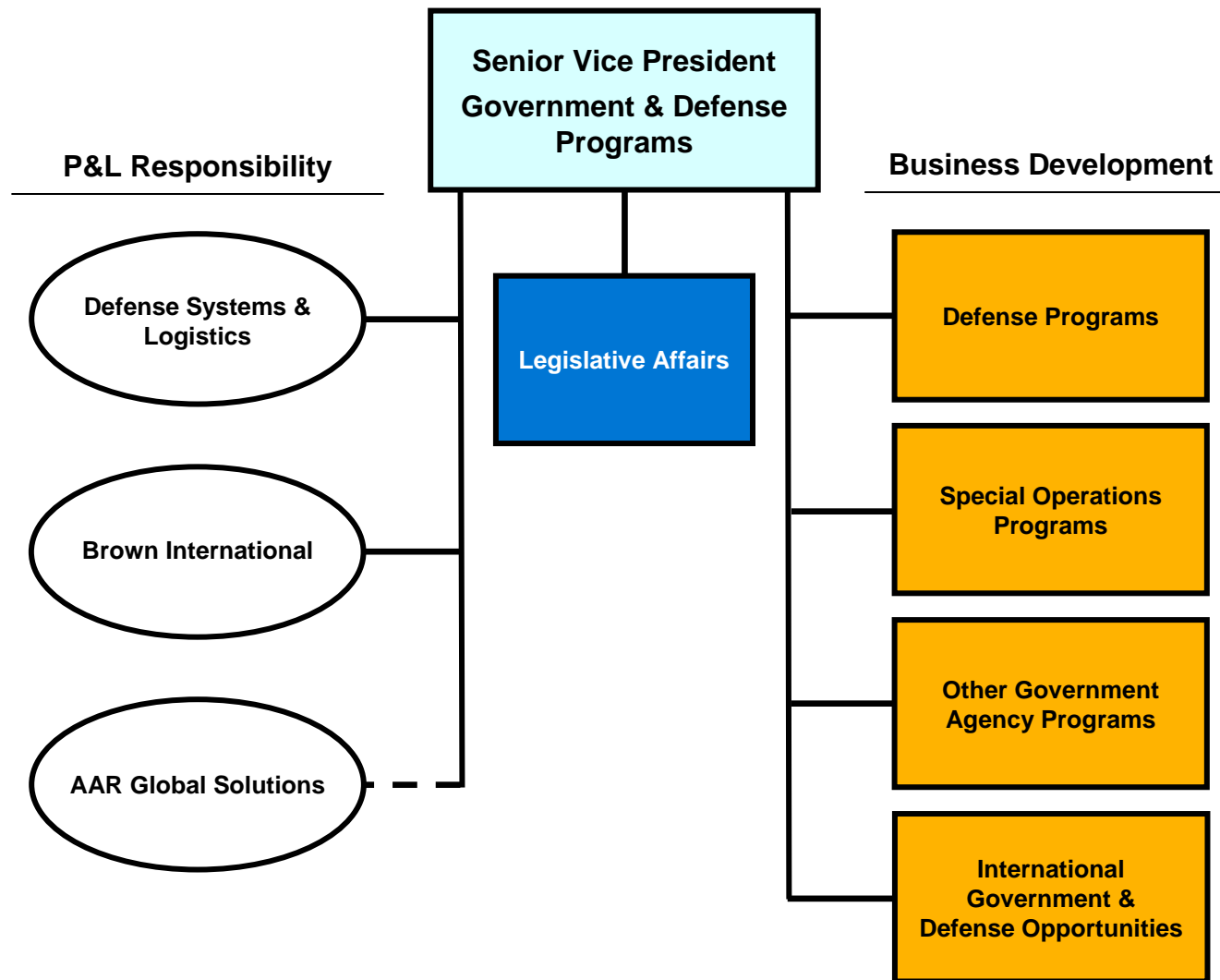
US DoD budget will be slightly reduced



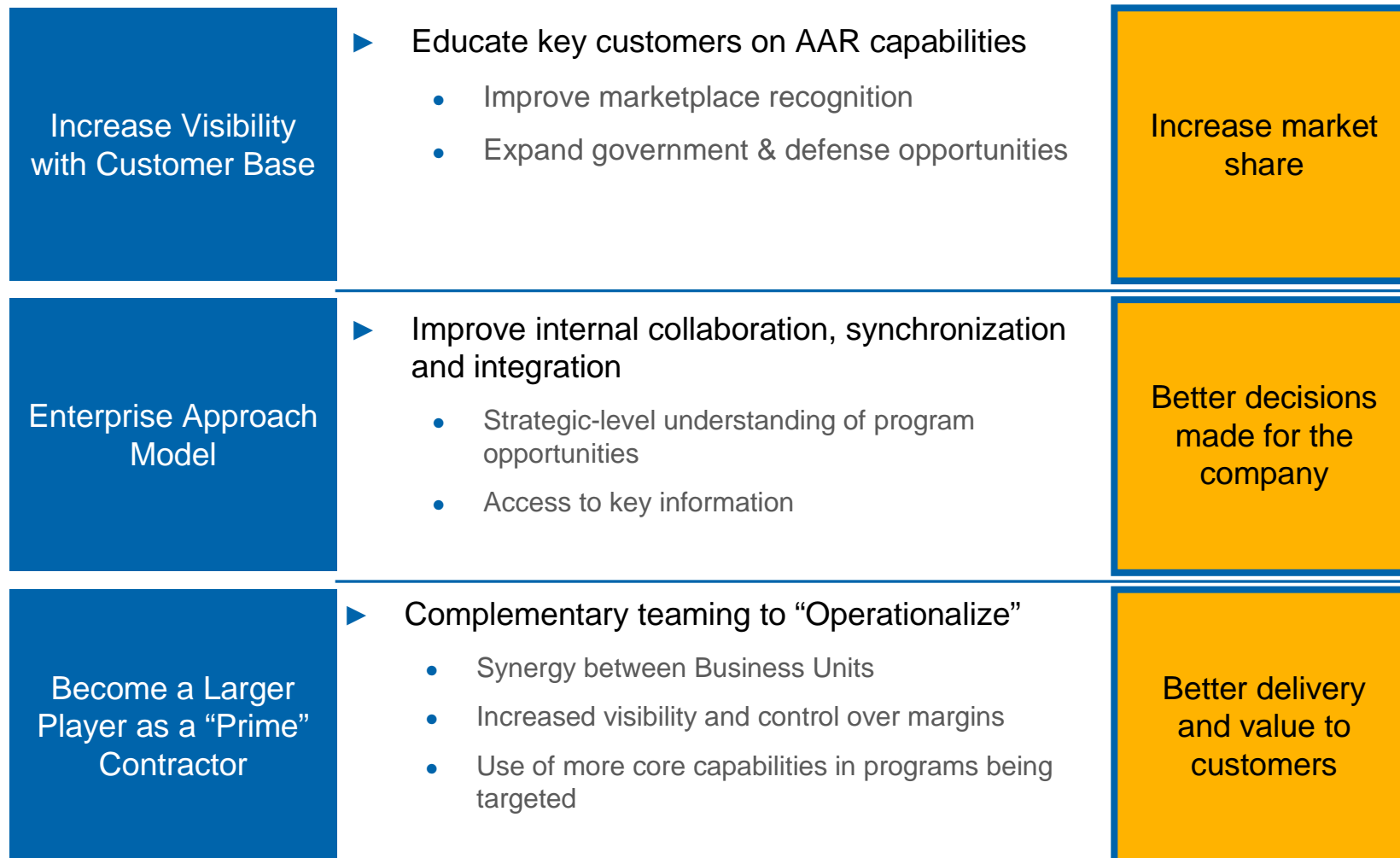
In addition, DoS and DHS budgets are \$76 Bn



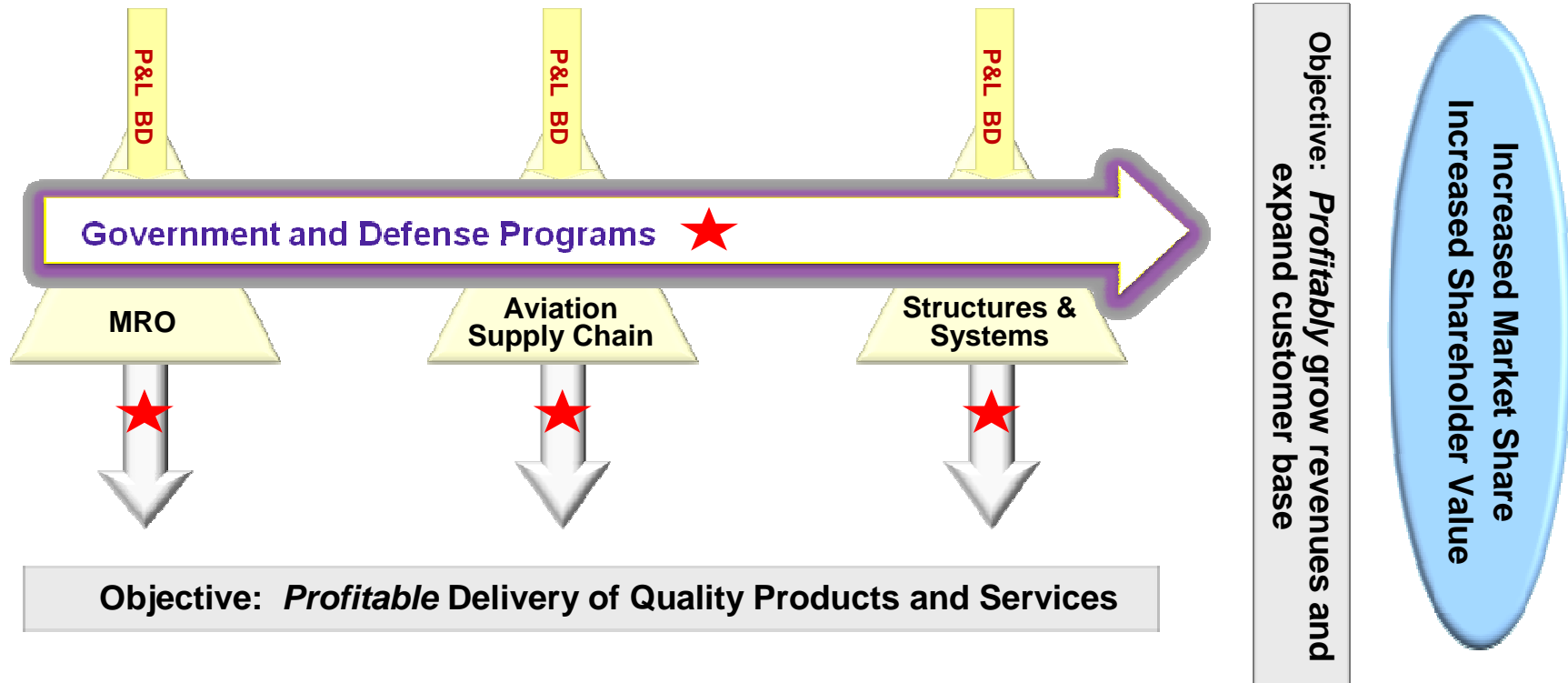
# Government & Defense Programs



# Key Government & Defense Strategies



# Enterprise Approach Model



***Improve Interoperability and Synchronization within AAR CORP.:*** Effective and Efficient delivery of Products and Services to an Increasing Customer Base

★ **Mergers and Acquisitions**

# Defense Systems & Logistics

- ▶ Comprehensive supply chain management services to the U.S. Government, its allies and to the Original Equipment Manufacturers (OEM) that support military aerospace programs
  - 15 Performance Based Logistics (PBL) programs
  - Primary sub-contractor to Tier 1 Primes & OEMs
  - Core competencies include Supply Chain Management, Diminished Manufacturing Sources, IT, Labor Displacement and Parts Distribution

## Major Contract Wins

- ▶ USAF KC-10 Extender (Northrop Grumman)
- ▶ USAF E-8C JSTARS (Northrop Grumman)
- ▶ UK RAF E-3D Sentry (Northrop Grumman)
- ▶ USN/USMC H-46/H-53 APU (Hamilton Sundstrand)
- ▶ USN/USMC F-414 Engine PBL (General Electric)
- ▶ USN MH-60 Helicopter PBL (Lockheed / Sikorsky)
- ▶ USN T-64 Engine PBL (General Electric)
- ▶ US Army FMTV Vehicles Reset (BAE Systems)
- ▶ USAF C-130, B-2 APU PBL (Honeywell)
- ▶ USN/USMC AV-8B Harrier PBL (Boeing)



# KC-10 Contractor Logistics Support

- ▶ Largest contract award in AAR CORP. history
- ▶ Sub-contract to Northrop Grumman Technical Services
- ▶ Primary responsibility is Supply Chain Management for 59 KC-10 aircraft and refueling system support for 2 RNLAF aircraft
  - Global support including deployments and forward operations
  - US Operating Bases (Travis AFB, McGuire AFB)
  - FMS support for Royal Netherlands AF (Eindhoven AFB)
- ▶ World Class Partners – Northrop Grumman, Chromalloy Gas Turbine, MTU Maintenance & Timco Aviation Services
- ▶ AAR committed to USAF goals of increased global aircraft availability and decreased Operations & Support cost (O&S)



# Brown International

- ▶ ISO 9001:2000 registered company
- ▶ Advanced Command and Control System design and integration
  - Rapid prototyping of C4I products
  - Systems integrator & service provider with global presence
  - Top Secret clearances
- ▶ Product lines include
  - Advanced digitized C4ISR facilities
  - Tactical Operations Centers
  - Command Posts
  - Mobile Shelter complexes
  - Trailers
  - Advanced digital Data Link and Satellite Communications Systems



Mobile Command Post (CP)



Bradley Add-on-Armor Mine Resistant Ambush Protected (MRAP) Program



Battlespace Command and Control Center (BC3)

# AAR Global Solutions



## Aviation Services

- ▶ Aviation Supply Chain
- ▶ Maintenance, Repair & Overhaul
- ▶ Operational Flying

### Potential Programs

- US Army - C-12 LCCS
- US AID - Airlift in Afghanistan
- Navy / Air Force – C-12 LCCS



## Technical Services

- ▶ Personal Security & Law Enforcement
- ▶ Logistics Programs
- ▶ Vehicle & Weapons Systems Maintenance Programs

### Potential Programs

- DoS – Criminal Justice Program
- FEMA – First Responder Camps
- DoD – Afghanistan Logistics Support



## Construction Services

- ▶ Facilities & Infrastructure
  - Aviation Facilities
  - Government Housing & Infrastructure
  - General Infrastructure
  - Medical Facilities
  - Educational Institutions
  - Mixed Use Facilities

### Potential Programs

- Corps of Engineers – Afghanistan Construction Projects

# Example: Aviation Services Program



Integrate multiple core capabilities to bid as a “Prime” contractor on select programs



# Summary

- ▶ **Business re-aligned to capitalize on significant opportunity for capture of additional Government/Defense revenue**
- ▶ **Formalize legislative process to raise AAR's visibility at the local, state and federal levels**
- ▶ **Collaboration, synchronization and integration between AAR businesses to drive results**
- ▶ **Increase capability to be a "Prime" contractor in large aviation support programs**



# Aviation Supply Chain

Jim Clark  
Group Vice President



# Jim Clark

Group Vice President, Aviation Supply Chain

- ▶ **Leads AAR's Aircraft Component Services, Aircraft Turbine Center and Allen Asset Management**
- ▶ **Joined AAR CORP. in 1982**
- ▶ **Held various senior level positions**
  - Director of Finance, European Operations
  - General Manager of AAR Aircraft Component Services – Amsterdam
- ▶ **In 2000 became Group Vice President for the Component Repair & Overhaul Group**
- ▶ **Education**
  - Bachelor of Science degree in Accounting from Bradley University
  - Kellogg School of Business CEO Perspectives



# Leading Provider of Airframe & Engine Parts

- ▶ **41% of total corporate sales**
- ▶ **Full range of products and services**
  - Material supply
  - Repair
  - Integrated fleet management programs
- ▶ **Participate in a \$42B market**
  - Addressable market of \$5B
  - International growth opportunities
- ▶ **Focused on lowering our customers' total cost of ownership**
  - Transaction cost
  - Network solutions
- ▶ **Brand power, product knowledge, global presence and breadth of capabilities deliver competitive strength**

# Products & Services Overview

## Airframe and Engine Parts Supply

- ▶ Over 45,000 line items from 250 manufacturers
- ▶ Boeing, Airbus and Regional Aircraft coverage
- ▶ Engine expertise with GE, CFMI, Pratt & Whitney, IAE and Rolls Royce products
- ▶ Trading, leasing and programmatic supply
- ▶ Offices in 12 countries

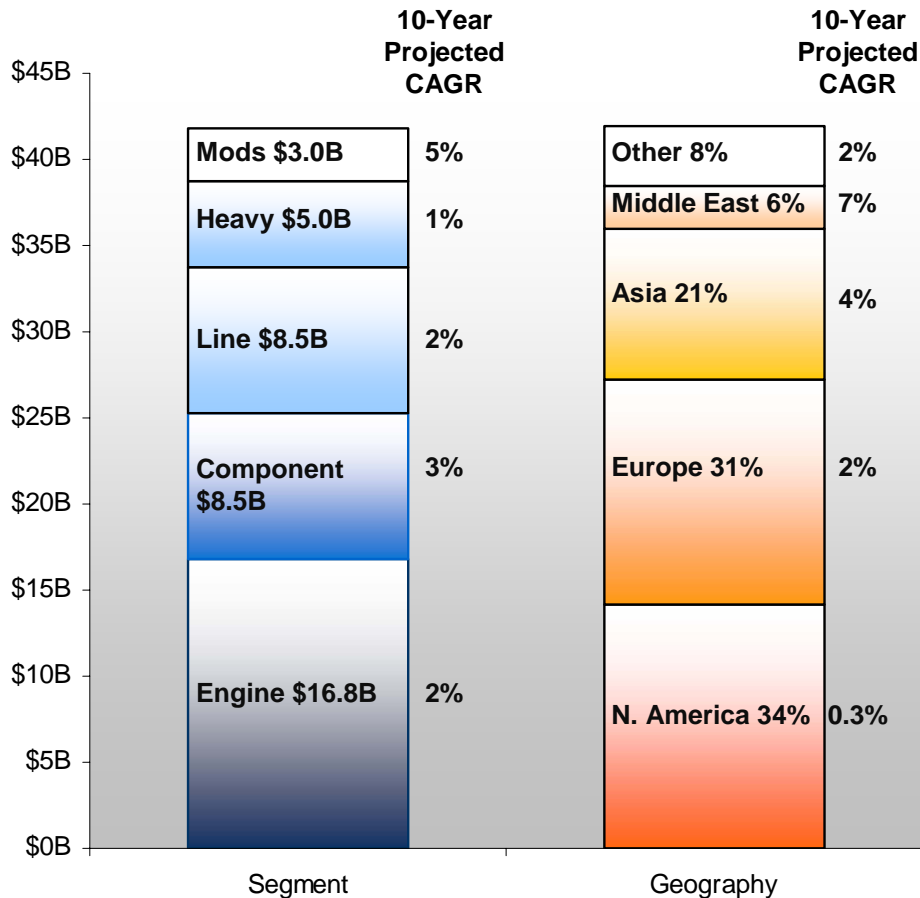
## Component Repair

- ▶ Broad technical capability for commercial and defense platforms
- ▶ Instrument, pneumatic, hydraulic, fuel and electromechanical systems
- ▶ Reliability and configuration management
- ▶ Significant engineering content
- ▶ Facilities in New York and Amsterdam

## Fleet Management

- ▶ Integrated Supply Chain Management programs
- ▶ Material planning, sourcing, logistics, repair and information management
- ▶ Asset ownership
- ▶ Guaranteed service level & cost
- ▶ Airframe and engine applications

# Market Scope - \$42B MRO Spend



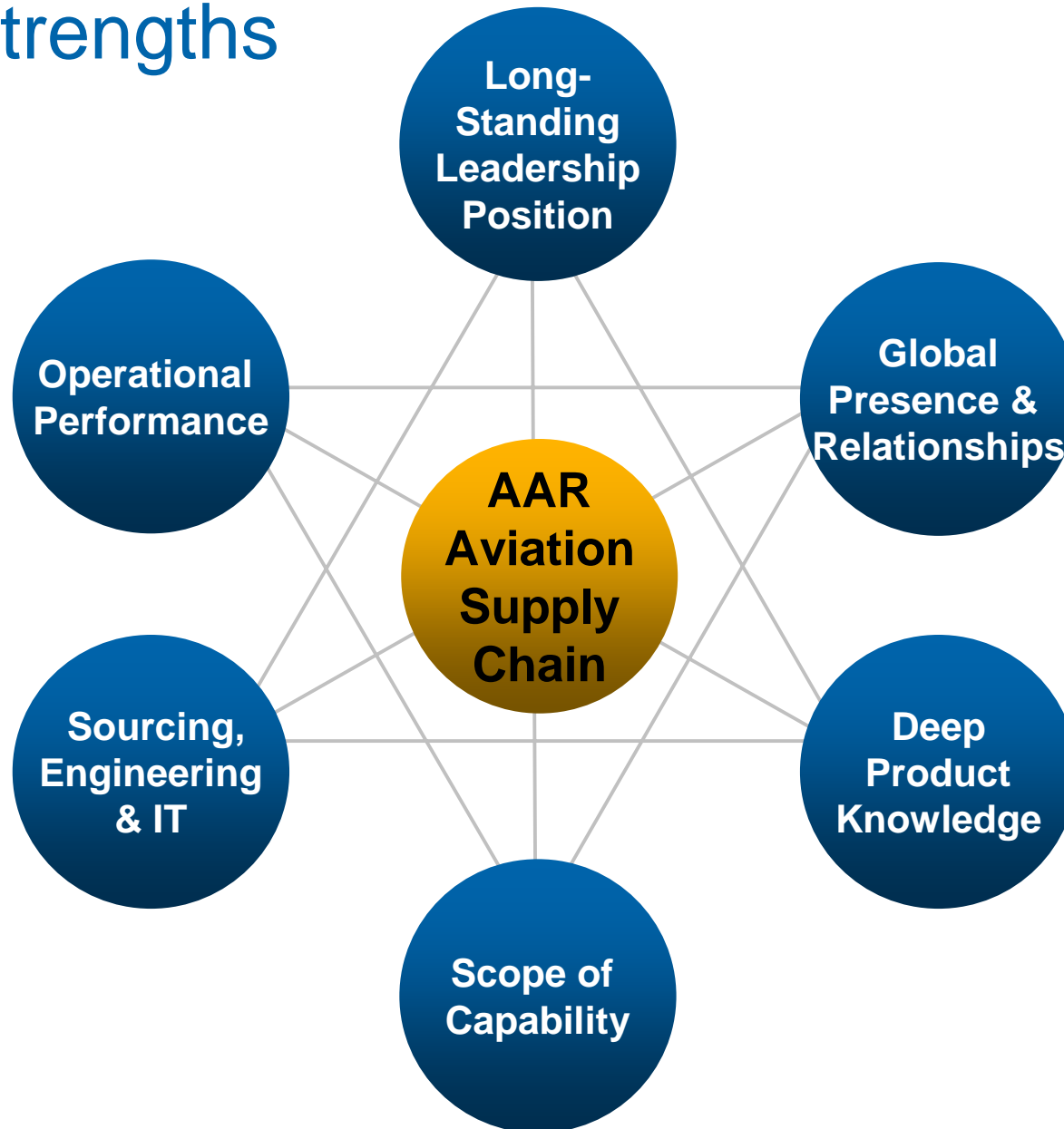
- ▶ Addressable market of up to \$5B
  - Market share opportunity
- ▶ Primarily concentrated in North America and Europe
  - Fastest growth in Asia and Middle East
- ▶ Market trends:
  - Continued outsourcing
  - Integrated support demand
  - Delivery of low cost solutions
  - International markets driving growth

Source: AeroStrategy, 2009 forecast.

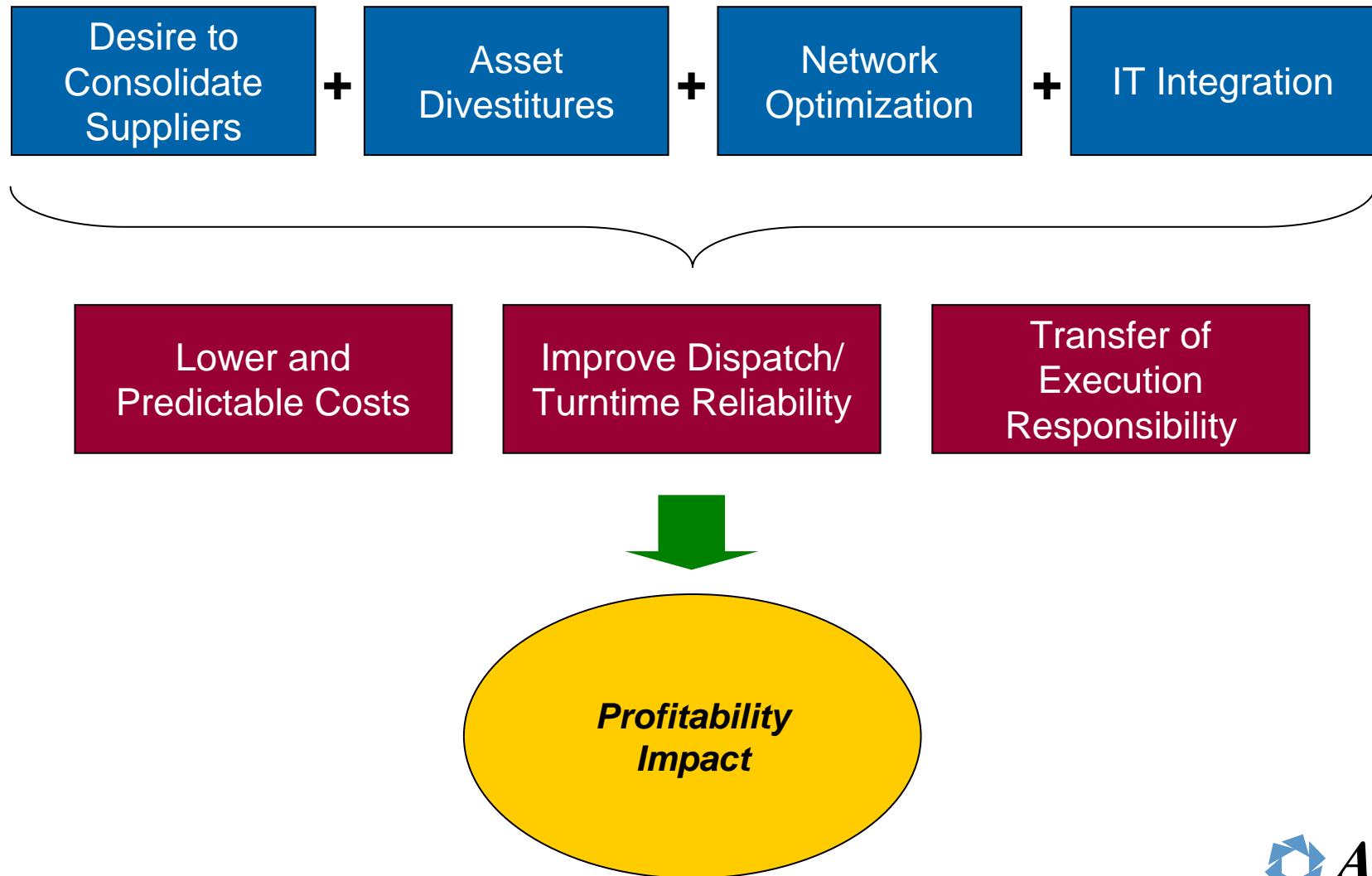
# Key Competitors



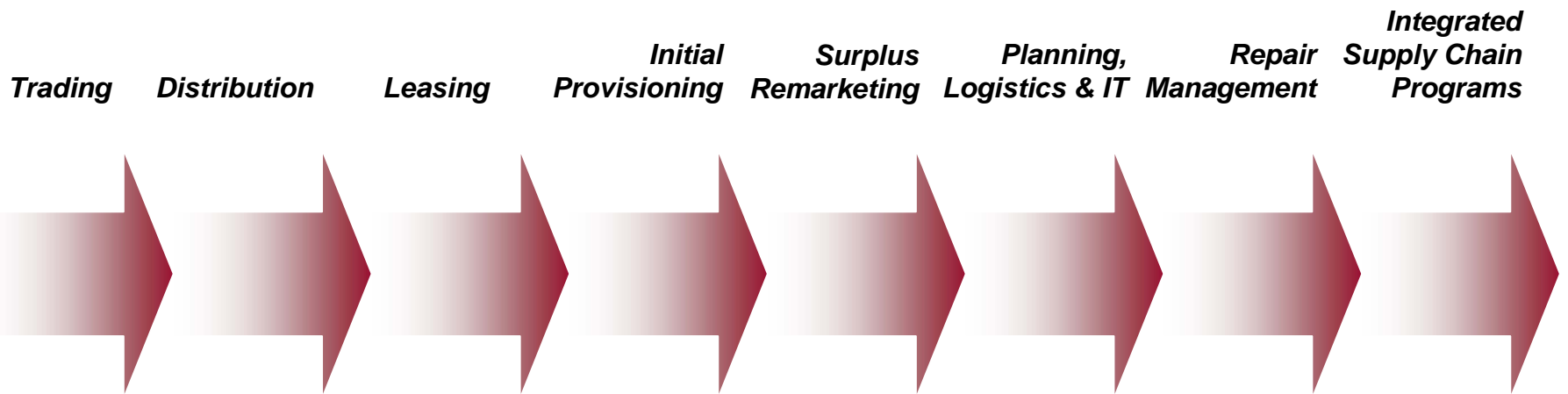
# Key Strengths



# The Customer Perspective



# How AAR Creates Value in the Supply Chain



Maximize impact of lower cost of ownership

# Diversified Customer Base

## Airlines



## OEMs & MROs



## Cargo



## Government



# Recent Program Awards

Within the last year, Aviation Supply Chain has closed new agreements worth over \$250M in total contract value



- ▶ Seven-year supply chain agreement supporting CSA B737 fleet
- ▶ Manage fleet phase-out with transition to new fleet
- ▶ Landing gear and other group opportunities
- ▶ Branding leverage for other Eastern European operators



- ▶ Three-year complete logistics support of Gulf Air in partnership with SIAEC
- ▶ Support 39 new generation Airbus narrow and widebody aircraft – a first for AAR
- ▶ Establish a firm presence in the growing Middle East market
- ▶ Partnership with SIAEC will lead to more opportunities



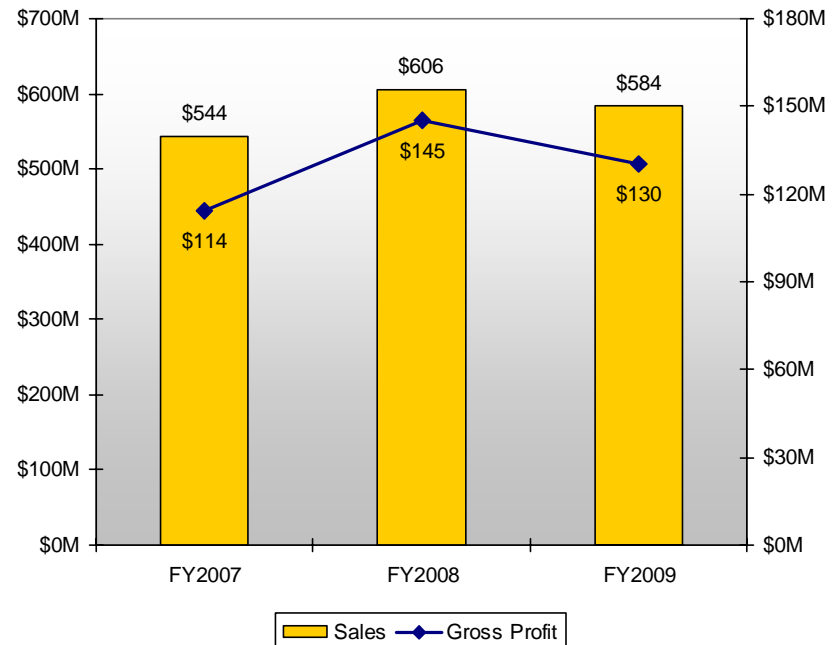
- ▶ Ten-year complete inventory and repair support for Air Canada Jazz
- ▶ Covers 70 new generation and classic Bombardier regional aircraft
- ▶ Leverage existing inventory pool supporting Mesa and Republic Airways
- ▶ First significant supply chain program in Canada

# Financial Trends

## Highlights

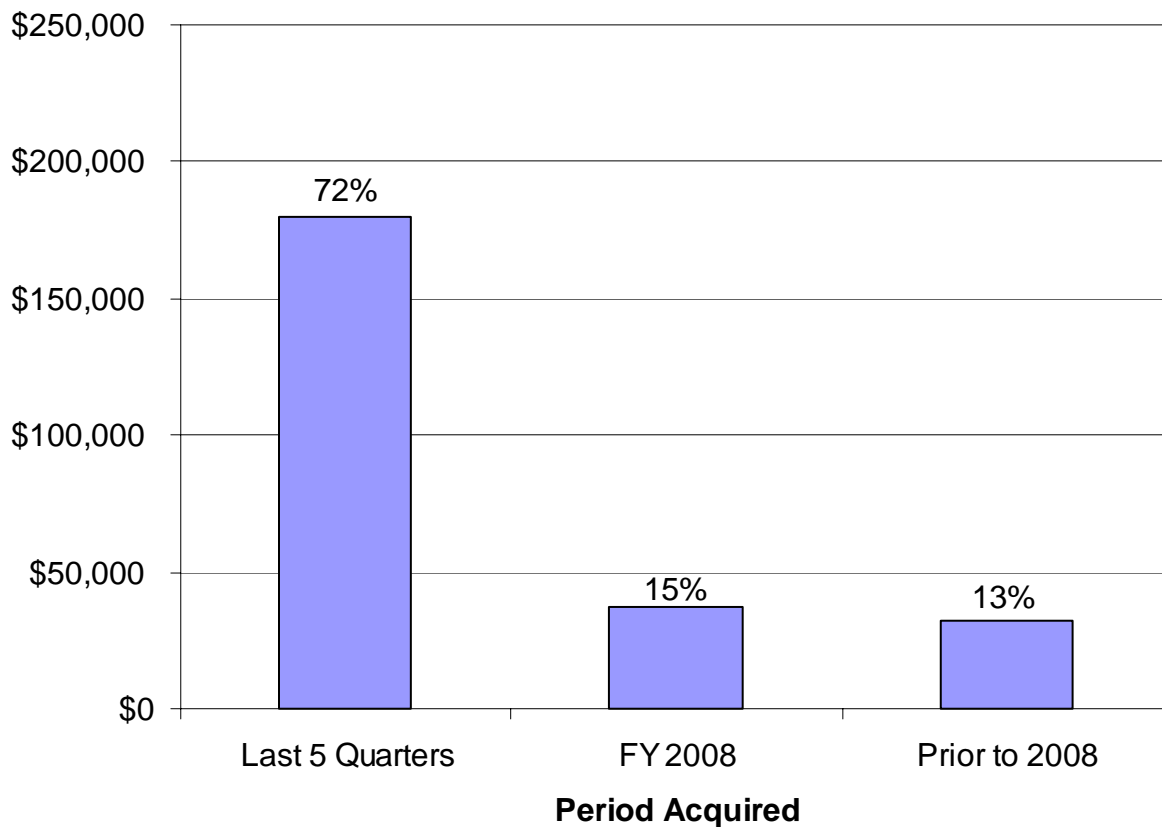
- ▶ Capacity reductions and short-term maintenance deferrals impacted top line in FY2009
- ▶ Short-term focus on turning assets to cash and reducing inventory positioning, in preparation for market recovery
- ▶ Early signs of improved business activity

## Financial Results



% Margin	21.0%	23.9%	22.3%
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# Inventory Position



- ▶ Total Inventory value of ~\$250M
- ▶ 97% of Inventory associated with active aircraft fleets of greater than 500
- ▶ Compatibility across multiple aircraft and engine types

# Summary

- ▶ Continue to build our program baseload
- ▶ Capitalize on market investment opportunities
- ▶ Build relationship networks and enhance geographic positioning to expand market share
- ▶ Foster innovation and technical advancement
- ▶ Deliver operational excellence





# Maintenance, Repair & Overhaul

Don Wetekam  
Group Vice President



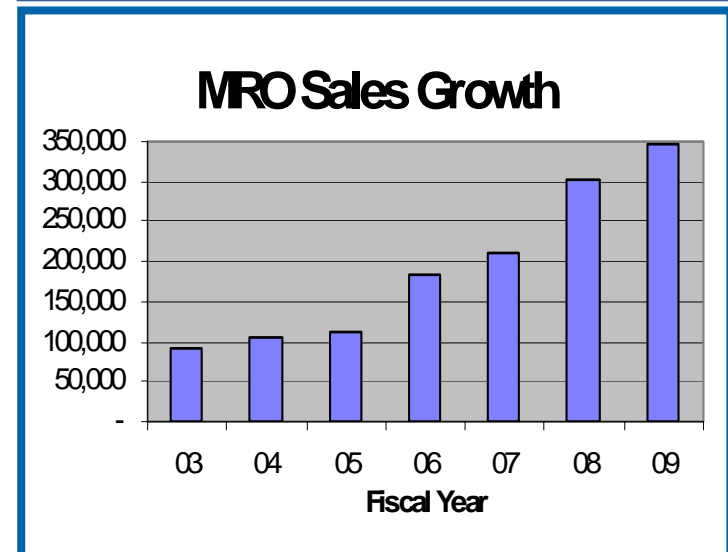
# Donald J. Wetekam

Group Vice President, MRO

- ▶ **Leads AAR's Maintenance, Repair and Overhaul businesses and Landing Gear services**
- ▶ **Joined AAR CORP. in 2007**
- ▶ **Retired Lieutenant General in the Air Force**
  - Final assignment as Deputy Chief of Staff for Installations and Logistics in Washington, DC
  - Directed operations at the Warner Robins Air Logistics Center in Georgia
  - Distinguished 34-year career
- ▶ **Noted proponent of lean process improvement**
  - One of the first public sector inductees into the Shingo Prize Academy
- ▶ **Education**
  - Bachelor of science from the U.S. Air Force Academy
  - Master of engineering administration from the University of Utah
  - Master of national resource management from the National Defense University
  - Adjunct faculty member with the University of Tennessee School of Business Administration

# Major Provider of Outsourced MRO Services

- ▶ **24% of total corporate sales**
- ▶ **Aggressive 5-year growth strategy**
  - Moved from small player in 2003 to #2 outsourcing provider in North America
  - Unifying factor in aviation aftermarket services
- ▶ **Four airframe MRO facilities across the U.S. along with landing gear facility**
  - 2004: Reopened former UAL Indianapolis facility
  - Acquired Reebaire (Hot Springs) in 2007 and Avborne (Miami) in 2008
- ▶ **Provide full range of airframe heavy maintenance services**
  - Narrow to wide body
  - Regional
  - Government



# Extensive Footprint Across the U.S.



## Indianapolis

- ▶ 1.1 Million SF in 10 hangars
- ▶ Climate controlled hangars
- ▶ Aircraft docking systems
- ▶ Back-shop
- ▶ Paint bay
- ▶ Engineering



## Hot Springs

- ▶ Regional aircraft depot maintenance
- ▶ 60,000 SF of hangar space



## Miami

- ▶ Class 4 FAA repair station
- ▶ 226,000 SF in 3 hangars
- ▶ Bridging checks, interior modifications and refurbishments, avionics upgrades
- ▶ Paint bay



## Landing Gear (Miami)

- ▶ 120,000 SF of shop space
- ▶ Largest independent gear facility in North America



## Oklahoma City

- ▶ 300,000 SF in 6 hangars
- ▶ Aircraft painting/strip and paint
- ▶ Propeller/brake overhaul
- ▶ Fixed Base Operations
- ▶ Government programs

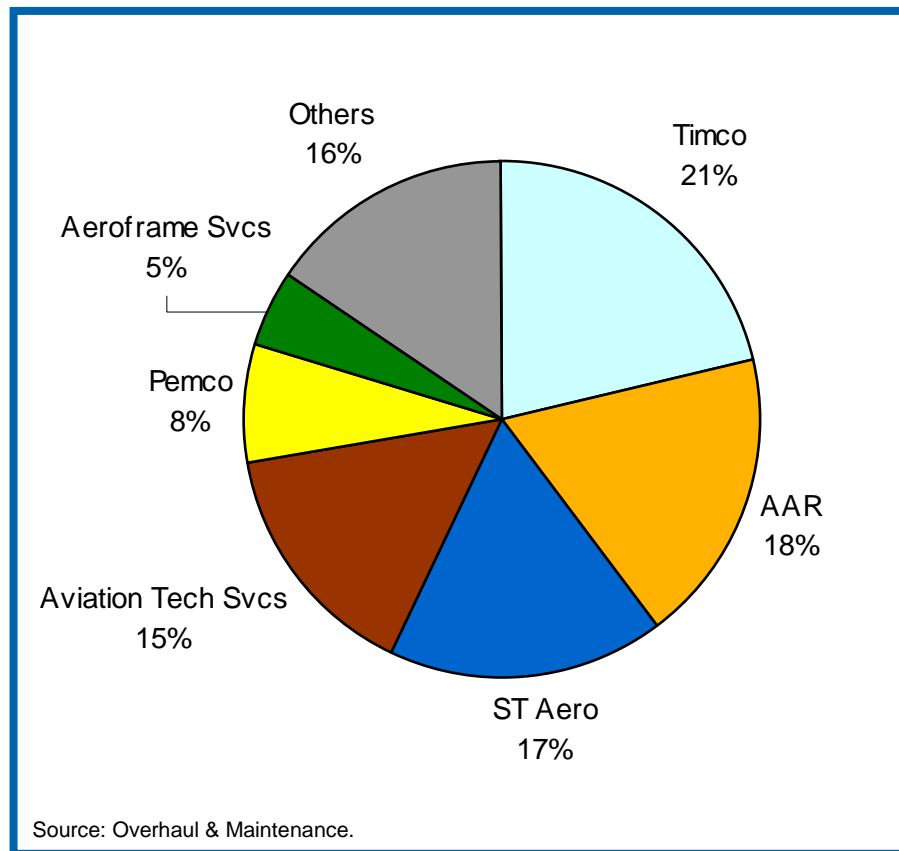
# Growth in Outsourced Heavy Maintenance

	2009	2018	CAGR
Global MRO	41.8	55.2	
% US Share of Global Market	35%	29%	
<b>US MRO</b>	<b>14.6</b>	<b>15.9</b>	<b>0.9%</b>
% of Airframe Heavy Maintenance Outsourced	58%	70%	
<b>Outsourced US Heavy Maintenance</b>	<b>2.0</b>	<b>2.9</b>	<b>4.5%</b>

Source: AeroStrategy. \$ in Billions.

- ▶ Market will shrink near-term due to continued domestic capacity reductions
- ▶ Trend toward outsourcing expected to continue
- ▶ Focus will be on larger airframes for both the regional and narrow-body markets
- ▶ Government MRO business focused on legacy fleets that are expected to remain steady

# AAR Accounts for 18% of the Outsourced Domestic MRO Market



- ▶ Competitors equity fund owned and foreign owned; frequent ownership turnover
  - AAR offers unmatched stability
- ▶ Short-term market contraction due to airline capacity reductions
  - Focus on market share gain

# Airframe Maintenance Outsourcing



# Key Strengths

- ▶ **Strong footprint across the U.S.**
  - #2 MRO provider in N. America
  - Strategic placement of facilities on/near customer routes
- ▶ **Full range of aircraft capabilities**
  - Regional, narrow-body, wide-body
  - Strong synergy with other AAR capabilities
- ▶ **Best-in-class ERP systems – continued investment focused on retaining that edge**
- ▶ **Sophisticated work control processes**
- ▶ **Strong reputation with government primes**
- ▶ **Robust Lean process improvement program**

**Our focus is on being the high value MRO provider  
in a highly competitive market**

# Strong Relationships with Key Customers



- ▶ Fleet size: 544
- ▶ AAR's largest MRO customer and their largest provider
- ▶ Operating 6 check and one special visit lines
- ▶ 2 winglet lines and paint capability added in 2009
- ▶ 2nd largest landing gear customer



- ▶ Fleet size: 163
- ▶ Exclusive MRO arrangement
- ▶ Running 4-5 lines at OKC and 1-2 at HOT
- ▶ Innovative pricing arrangement has been beneficial to both parties
- ▶ Closely manage credit exposure



- ▶ Fleet size: 136
- ▶ Signed exclusive MRO agreement that runs through 2010
- ▶ Long-term MIA customer
- ▶ Strengthened previously existing ties



- ▶ Build on established relationships as preferred subcontractor to L3 and Boeing
- ▶ Current legacy contracts coming to an end
- ▶ Well positioned to win recompetes and new contracts
- ▶ Teamed with Global Solutions

# Major New Business Wins

**Continental Airlines** 

- ▶ 757 winglet program began in Sept at Indy
- ▶ Building on legacy success of previous relationship
- ▶ Working to bring aircraft check work in behind winglet program

 **Sikorsky**  
A United Technologies Company

- ▶ New customer and market
- ▶ Recently began modification of S-92 tail boom pylons at OK City
- ▶ Program off to strong start
- ▶ Good prospects for future helicopter business as a result

  
**HAWAIIAN**  
AIRLINES

- ▶ Won competitive bid for all B717 aircraft at MIA facility
- ▶ Begins Jan 2010
- ▶ Capitalizes on our extensive B717 experience
- ▶ Strong support from AirTran in bid process

*Alaska Airlines*

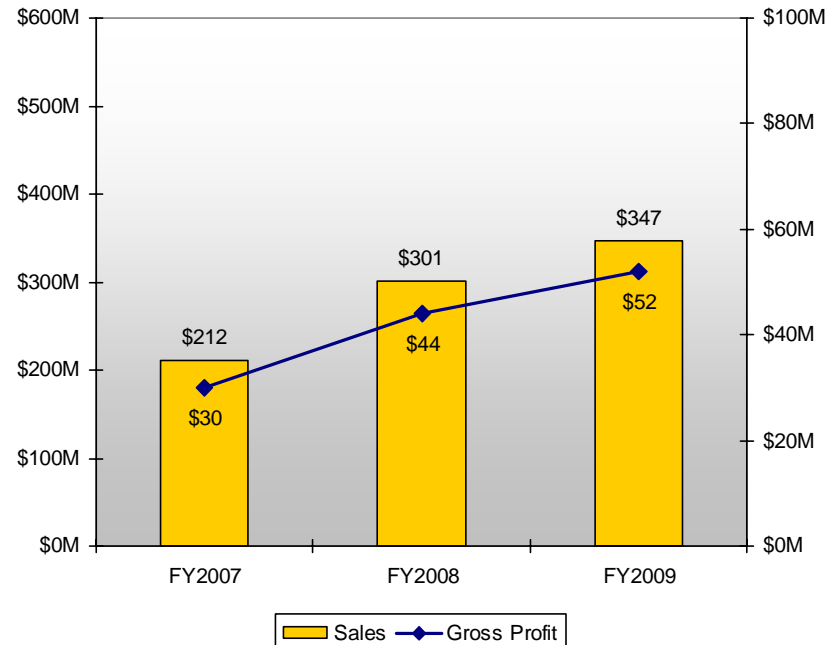
- ▶ Second heavy check line at OK City
- ▶ Begins mid-Oct after completion of hangar renovation
- ▶ Further solidifies long standing partnership of 7 years

# Financial Trends

## Highlights

- ▶ Strong growth from 2007 to 2009, with Net Sales up 64%
- ▶ Capacity reductions and short-term maintenance deferrals impacting top line
- ▶ Gross Margins have held up well
- ▶ Focus on cash generation and cost controls

## Financial Results



% Margin	14.1%	14.6%	14.9%
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## Summary

- ▶ Catapulted to #2 in North American market in last five years
- ▶ MRO provides corporate portal to wider aviation services business
- ▶ We aim to distinguish ourselves as the high value MRO provider



# Operational Review

Tim Romenesko  
President and Chief Operating Officer

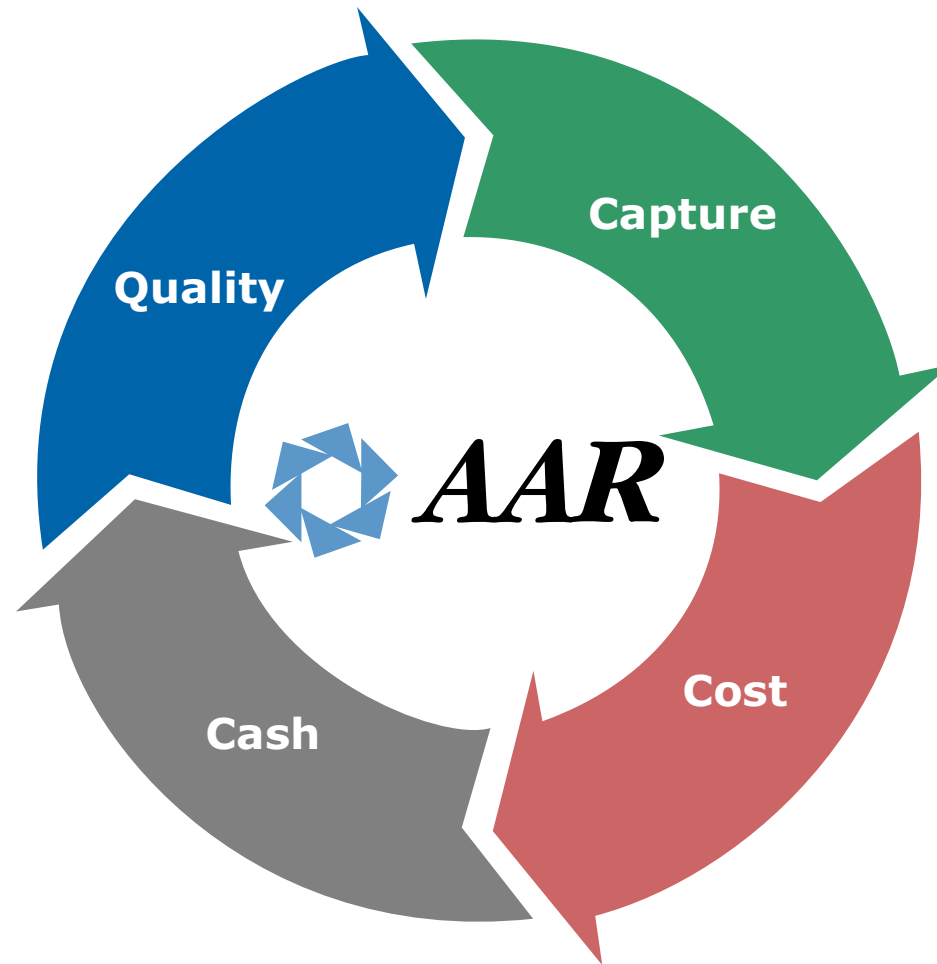


# Timothy Romenesko

President and Chief Operating Officer

- ▶ **Responsible for maximizing the performance of AAR's operating units and implementing the Company's strategies for growth**
- ▶ **Joined AAR CORP. in 1981**
- ▶ **Named Vice President and Chief Financial Officer in 1994**
- ▶ **Named President and Chief Operating Officer in 2007**
- ▶ **Elected to AAR CORP. Board of Directors in 2007**
- ▶ **Education**
  - BA from St. Norbert College
  - MBA from DePaul University
  - Holds a CPA designation in Illinois and is a member of the Financial Executives Institute and the Illinois CPA Society
  - Kellogg School of Business CEO Perspectives

# Operational Focus



Activities are becoming an embedded part of our management system



# Operational Focus – Quality



Quality

Capture

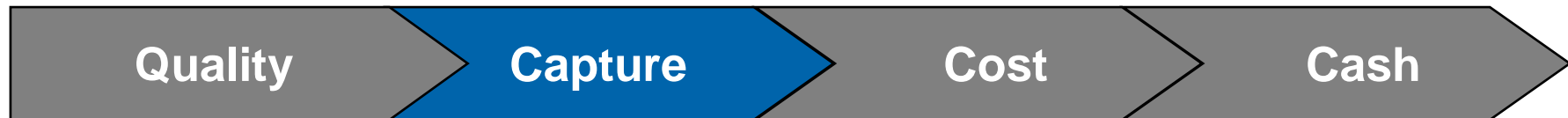
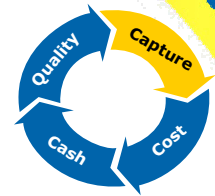
Cost

Cash

- ▶ Process Improvements:
  - Lean Initiatives
    - Lower span times
      - Southwest Airlines; AirTran
    - Higher throughput
      - Landing Gear
    - Margin expansion
      - Low cost manufacturing
- ▶ Training and Systems
- ▶ Culture of Quality and Safety

Goal is to be our customers highest quality supplier

# Operational Focus – Capture

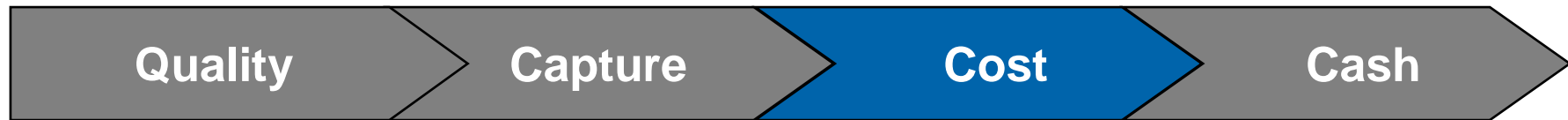


- ▶ Leverage Existing Relationships
  - MRO supporting Components
- ▶ Develop New Customers
  - Jazz; Continental
- ▶ Develop New Products and Capabilities
  - Helicopter Market; Structural Repairs
- ▶ New Markets
  - Global Solutions; Middle East

Driving business development across the company



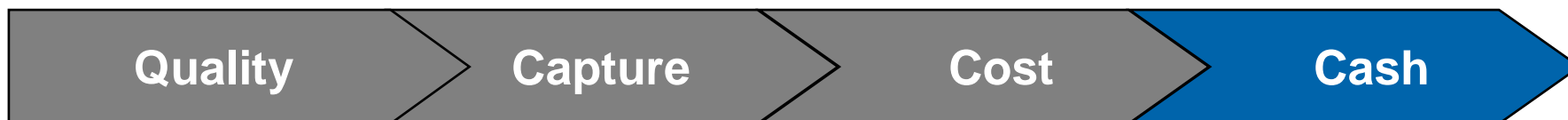
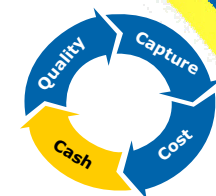
# Operational Focus – Cost



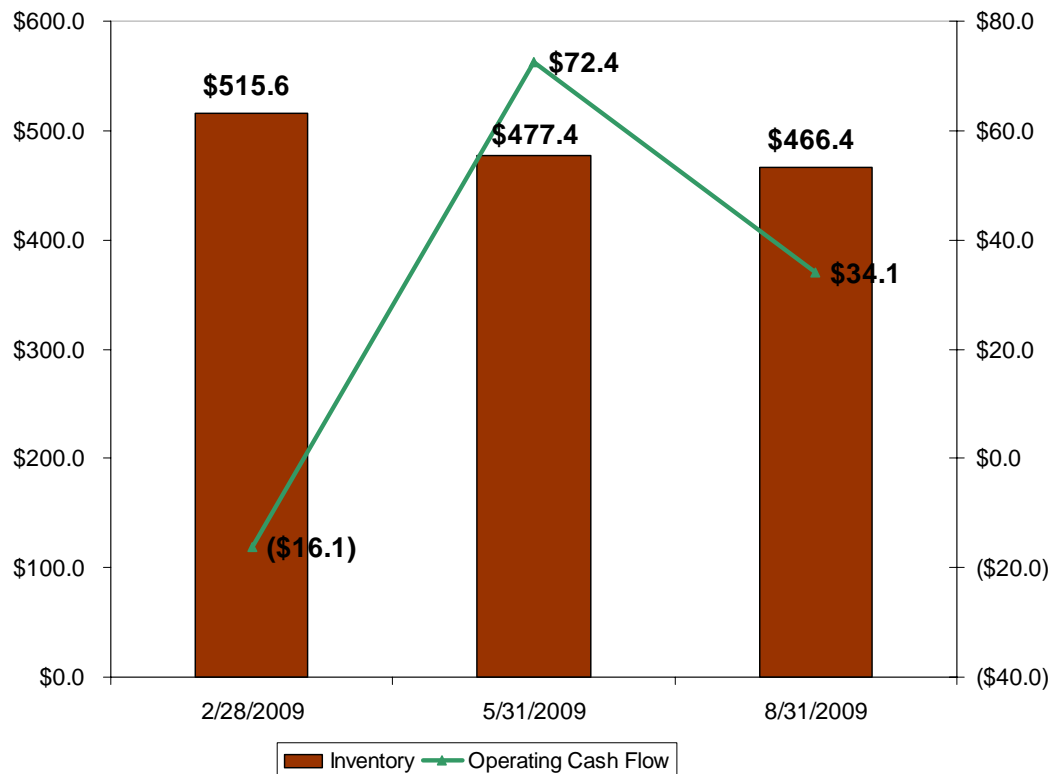
- ▶ Driving Productivity Gains
- ▶ Leverage Technology to Improve Efficiency
- ▶ Acquisition Integration
- ▶ Purchasing Economies of Scale
- ▶ Staffing Levels

Q1 2010 SG&A run-rate is down \$10M year-over-year

# Operational Focus – Cash



- ▶ Very Selective Asset Acquisitions
- ▶ Converting Assets to Cash
- ▶ Cash for New Investments and Growth



**\$106 million in operating cash flow over the past six months**





## Strengthened Management Team

- ▶ **Randy Martinez** – Government and Defense Programs
- ▶ **Dave Cann** – Vice President of Regulatory Compliance
- ▶ **Dany Kleiman** – Vice President of Operations
- ▶ General Managers with Strong Industry Backgrounds



# Financial Highlights

Rick Poulton  
Vice President, Chief Financial Officer  
and Treasurer



# Rick Poulton

Vice President, Chief Financial Officer and Treasurer

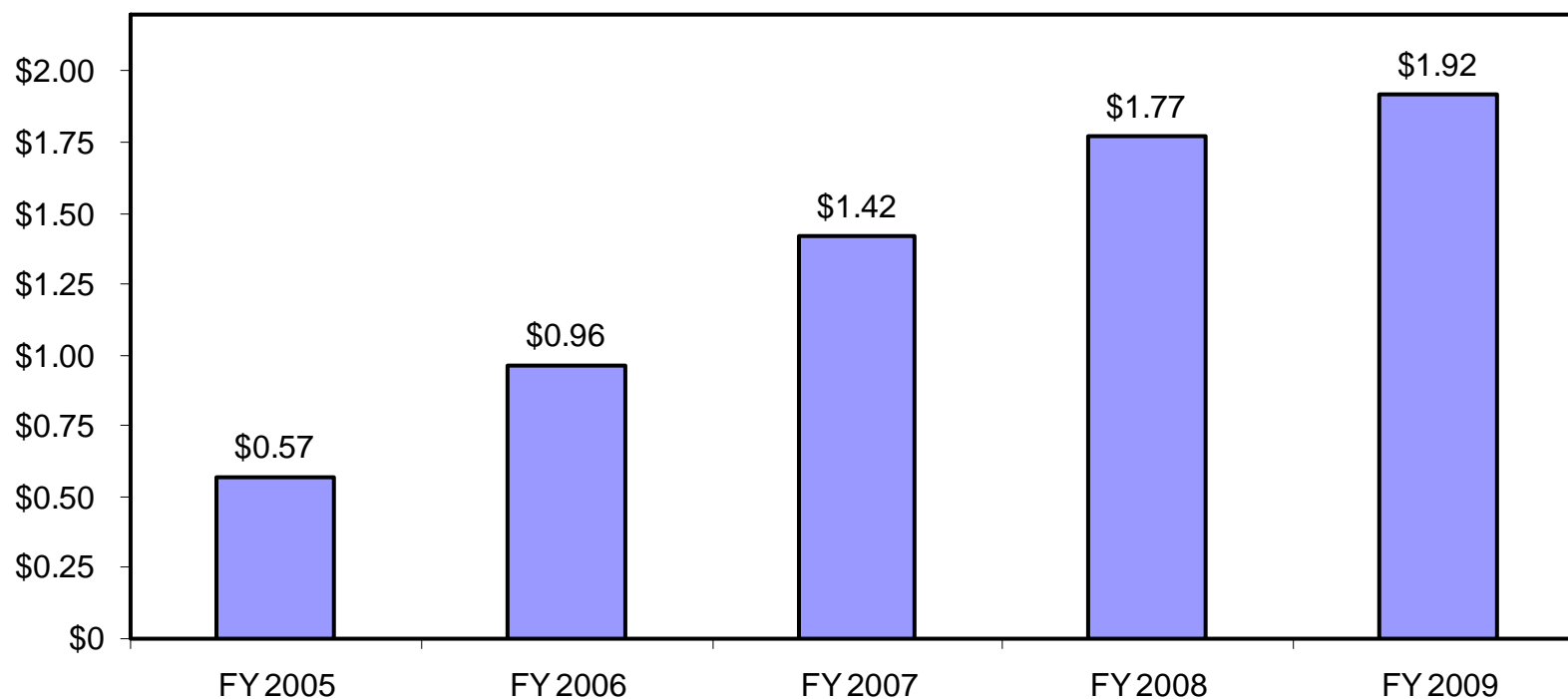
- ▶ **Appointed Chief Financial Officer and Treasurer in June 2007**
- ▶ **Joined AAR CORP. in 2006**
  - Responsible for strategic development
- ▶ **Previous 12 years with UAL Corp. and United Airlines**
  - Senior Vice President Business Development
  - Senior Vice President Strategic Sourcing
  - President and Chief Financial Officer of UAL Loyalty Services
  - Director of Financial Planning and Director of Financial Accounting
- ▶ **Previously served on the Boards of Alliant Credit Union, Airliance Materials, Skytech Solutions and BELAC**
- ▶ **Education**
  - BS in accounting, with honors, from Marquette University
  - Masters degree, with concentrations in strategy and finance, from Northwestern University's Kellogg Graduate School of Management
  - Kellogg School of Business CEO Perspectives

The image features a large, white, rounded rectangular shape centered on a background of curved, overlapping bands. The top band is dark blue, followed by a thin white line, then a thick orange band, a yellow band, and finally a grey band at the bottom. The text "Looking Backward" is centered within the white shape.

Looking  
Backward

# Proven Record Delivering Shareholder Value

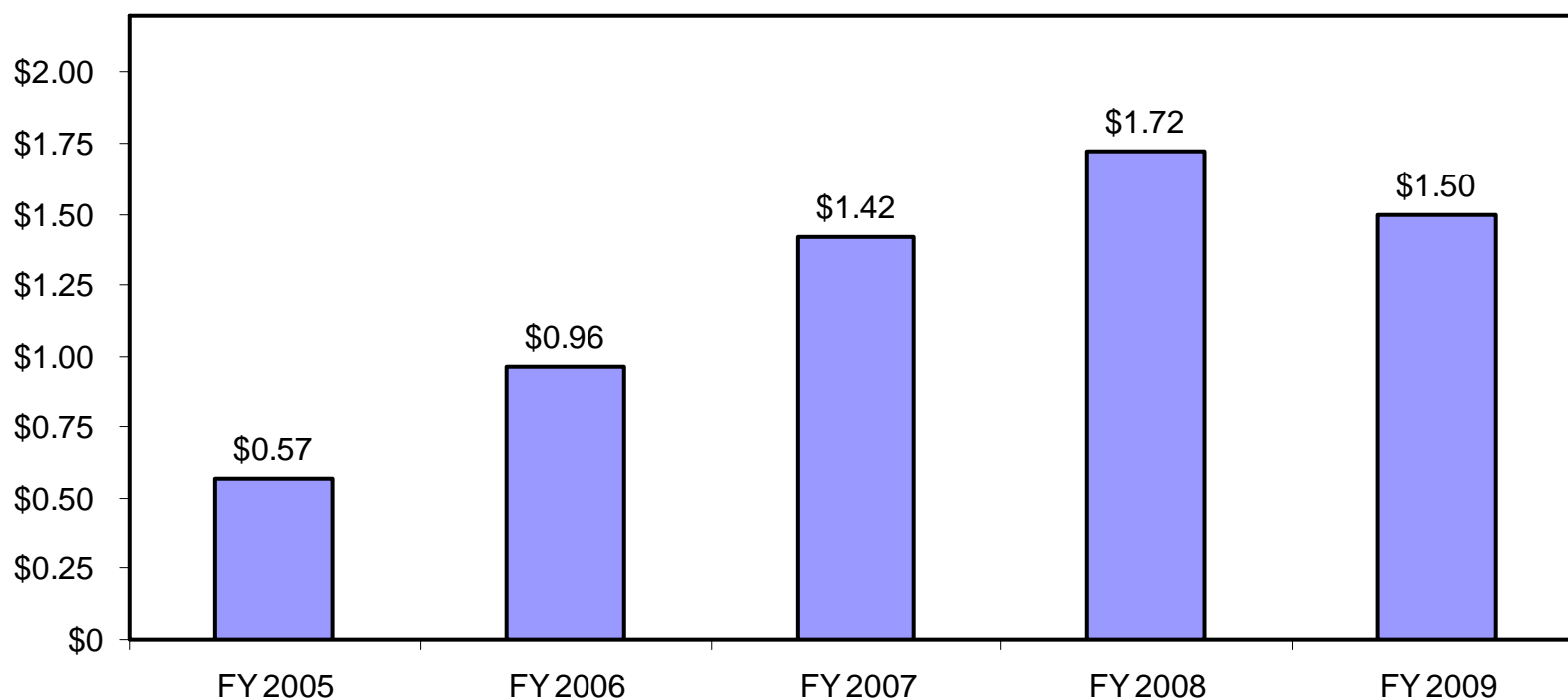
**Diluted Earnings Per Share From Continuing Operations  
(As Reported)**



**35% CAGR - FY2005 to FY2009**

# EPS Reflecting Adoption of New Convertible Debt Accounting Standard (FSP APB 14-1)

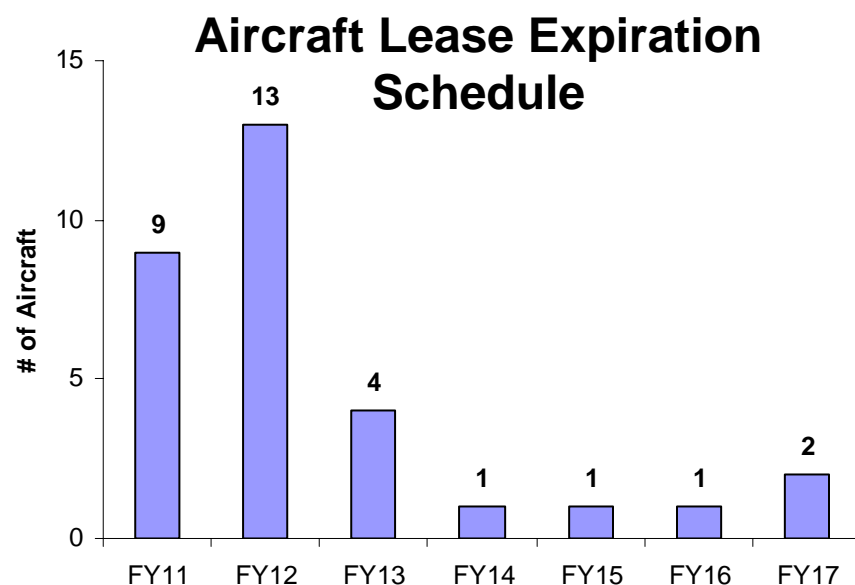
Diluted Earnings Per Share From Continuing Operations



27% CAGR - FY2005 to FY2009

# Aircraft Sales and Leasing Portfolio

- ▶ Equity investment of \$64.3 million
  - 5 wholly owned aircraft (\$24.1 million)
  - 26 aircraft held in joint ventures (\$40.2 million)
- ▶ Opportunistic business with variability in earnings contribution



### Op Profit Contribution

	(\$ Millions)
<b>FY2005</b>	0.6
<b>FY2006</b>	2.7
<b>FY2007</b>	11.3
<b>FY2008</b>	22.0
<b>FY2009 *</b>	10.3
<b>FY2010 est</b>	Break even

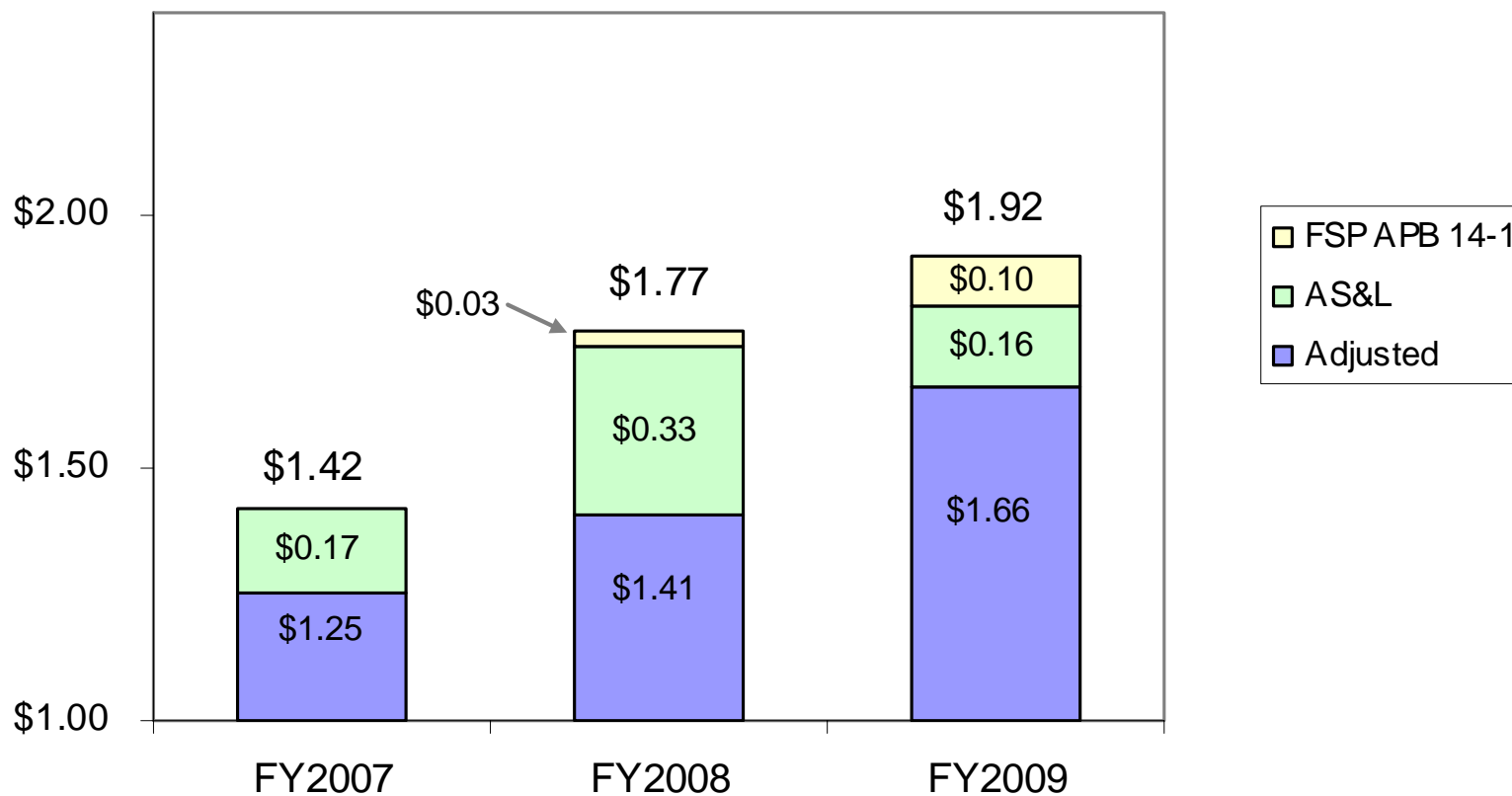
\* excludes Impairment charge of \$21.0M (pre 9/11/01 aircraft)

**We continue to reduce our net equity investment in aircraft**

# Adjusted EPS

## Diluted Earnings Per Share From Continuing Operations

( Adjusted for interest expense impact of FSP APB 14-1 and Aircraft Sales and Leasing)



The image features a large, abstract graphic composed of several overlapping, curved bands. At the top, a solid blue band curves across the width. Below it, a thinner white line follows the same curve. Underneath that is a thick orange band, followed by a yellow band. The bottom portion of the graphic consists of several overlapping, semi-transparent grey bands that create a sense of depth and movement. The overall shape is roughly oval, with the curves meeting at the top and bottom.

Growth  
Opportunity

# Three Pillars of Growth

## Market Growth

- ▶ Worldwide commercial fleet expected to grow at a 3.2% CAGR over next 20 years
- ▶ While DOD spending may be flat to down slightly, DOS and Homeland Security spending is expected to continue to steadily increase



## Increased Outsourcing

- ▶ Outsourced share of domestic MRO expected to increase to 70% by 2018, up from 58% (4.5% CAGR). Global expected to grow at 6.2% CAGR
- ▶ Economic forces that have driven the commercial market to outsource will also impact DOD



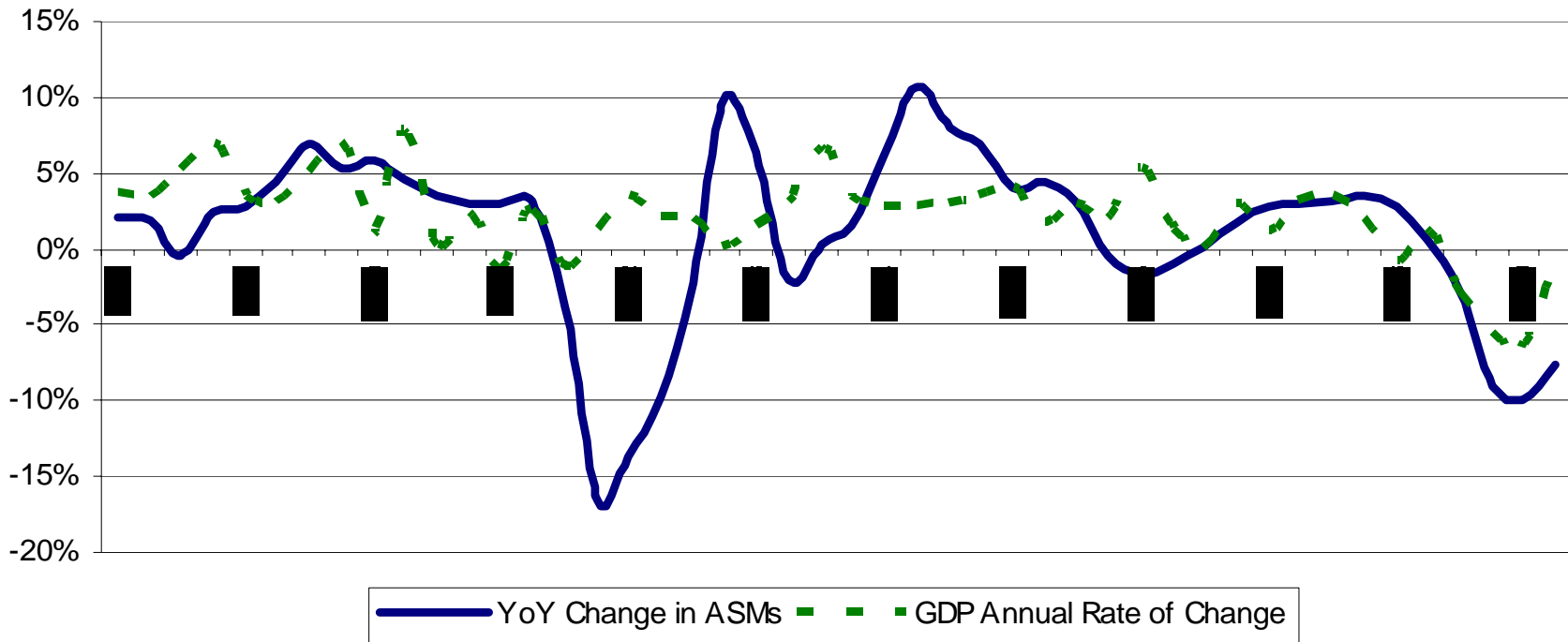
## Expand AAR Market Share

- ▶ Commercial MRO and supply chain services markets are heavily fragmented. Estimate no provider greater than 20% of market
- ▶ Significant opportunity to expand share
- ▶ DOD, DOS, Homeland Security, foreign ally spend close to \$1 trillion. Represents large addressable market



# Commercial Capacity Highly Correlates with GDP Activity

U.S. GDP and ASM Relationship



Pivot point expected beginning 2010



# How We Are Financially Positioned To Capture Growth Opportunity

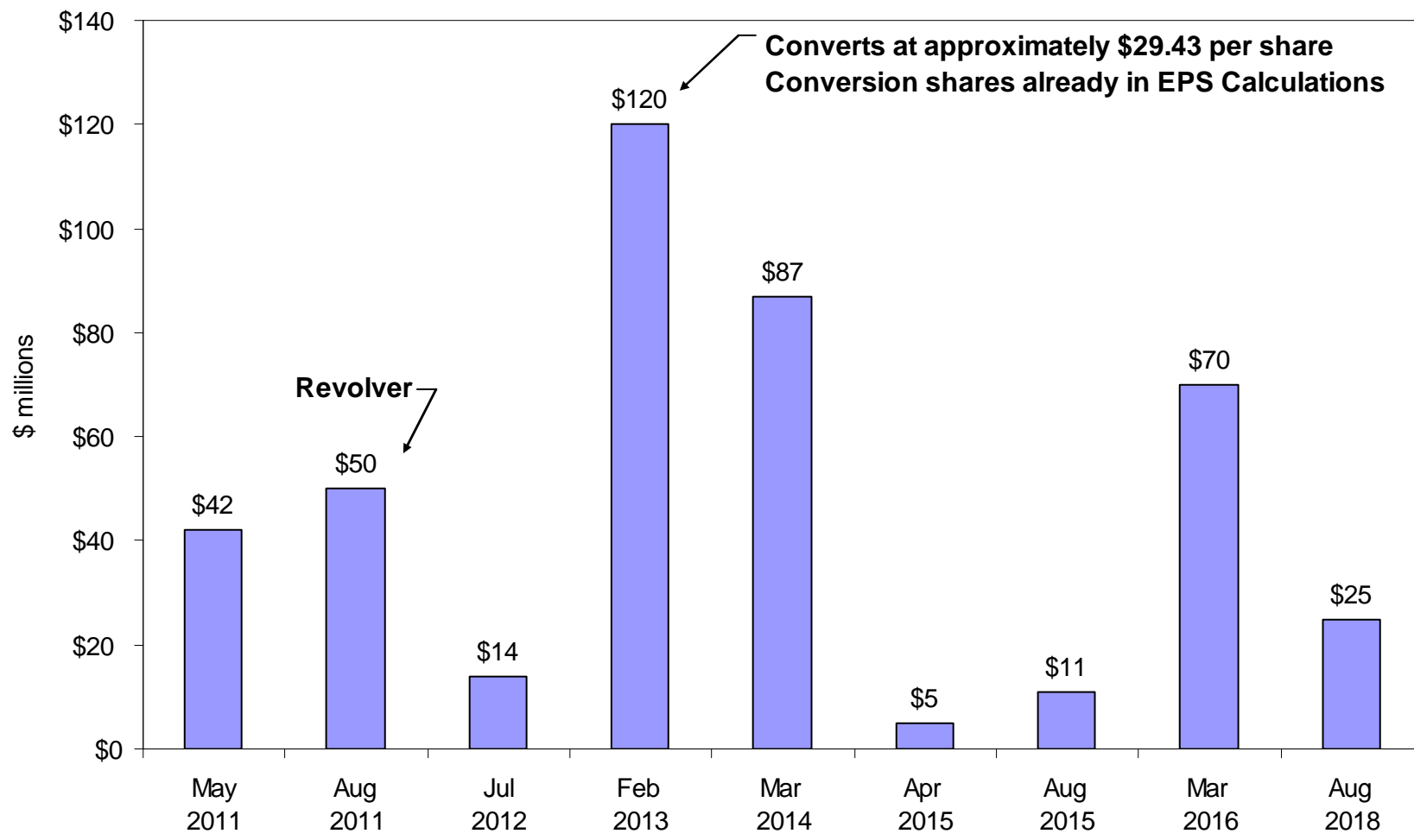
# Financially Strong Position to Support Business and Enable Growth

	<b>Aug 31, 2009</b>
	<b>TTM</b>
Net Sales	\$ 1,405.6
Operating Income <sup>(1)</sup>	119.5
Operating Margin <sup>(1)</sup>	8.5%
Cash and Available Credit Lines	308.2
Net Debt-to-EBITDA <sup>(1)</sup>	1.4
Cash Interest Coverage <sup>(1)</sup>	6.8

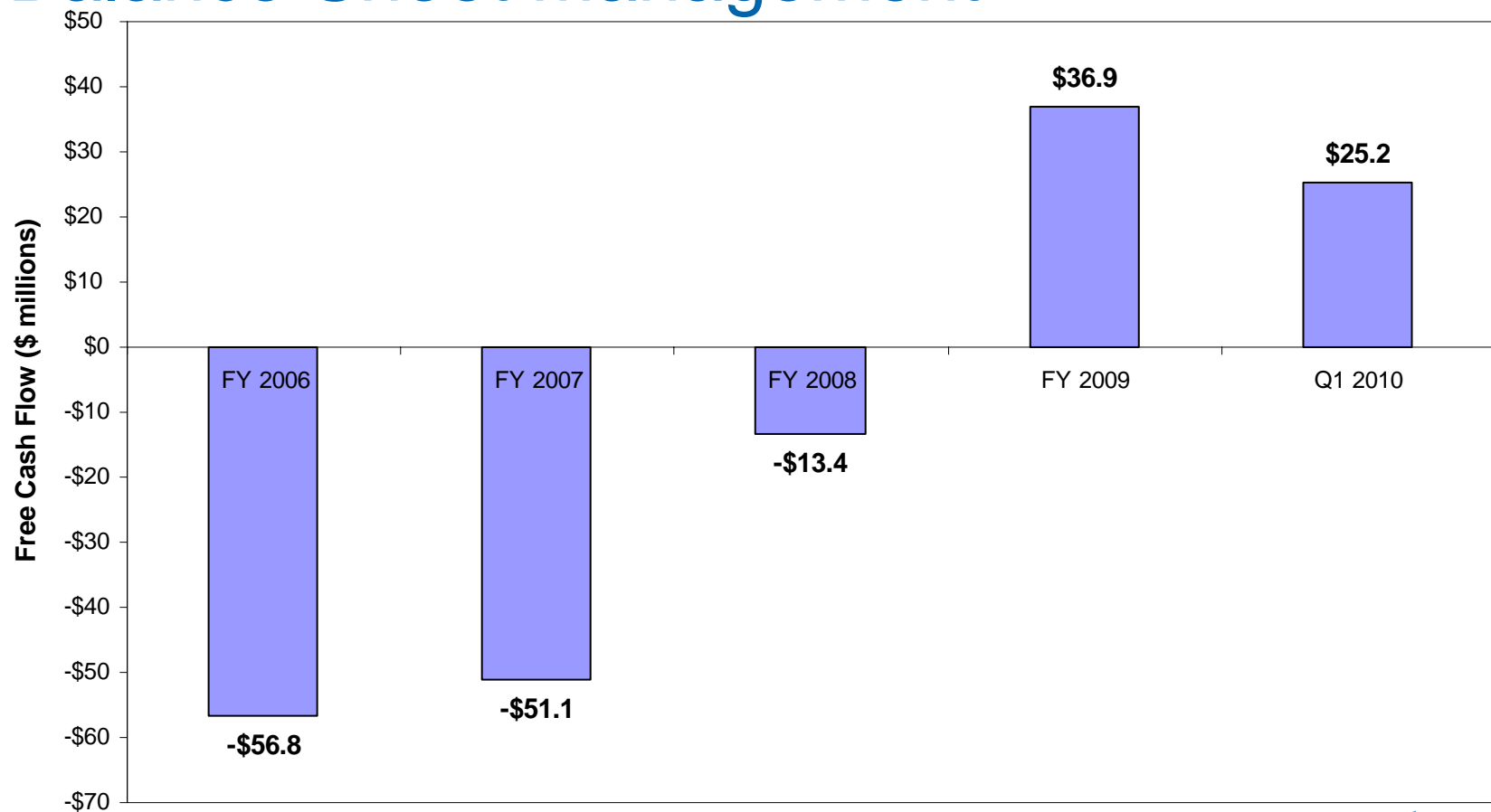
(1) excludes \$31M impairment charges during FY 2009

<b>Revolving Credit Facility</b>	
▶	Extends to August 31, 2011
▶	Attractive pricing: LIBOR + 100 to 237.5 bps
▶	Flexible to allow acquisitions
▶	Significant covenant compliance cushion
•	Debt to EBITDA: <ul style="list-style-type: none"> <li>• 1.36x vs. max of 3.85x covenant</li> </ul>
•	Fixed charge coverage: <ul style="list-style-type: none"> <li>• 4.0x vs. min of 1.5x covenant</li> </ul>

# Modest Debt Maturities for the Next Three Years

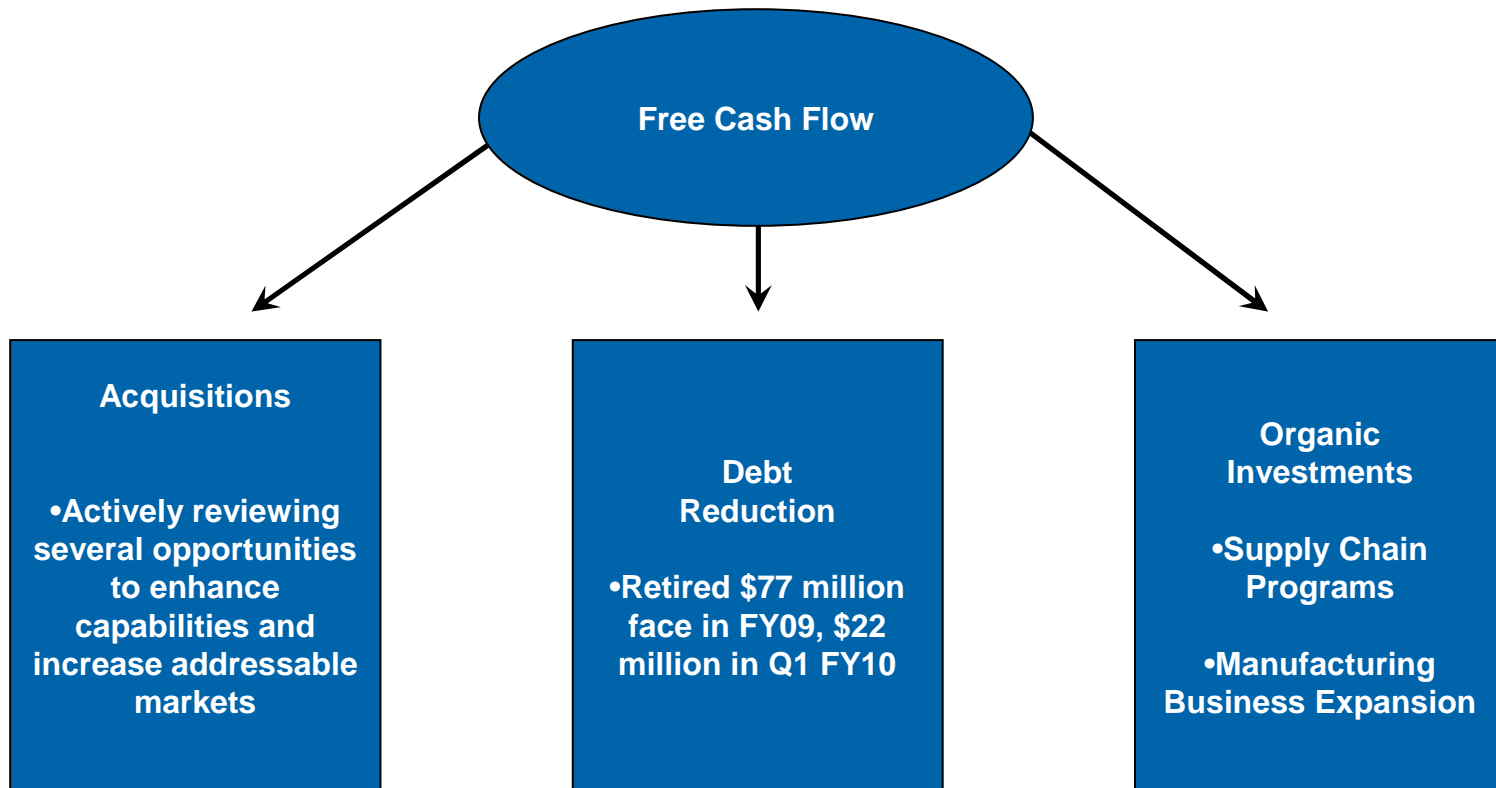


# Free Cash Flow Improvement Through Improved Operational Execution and Balance Sheet Management

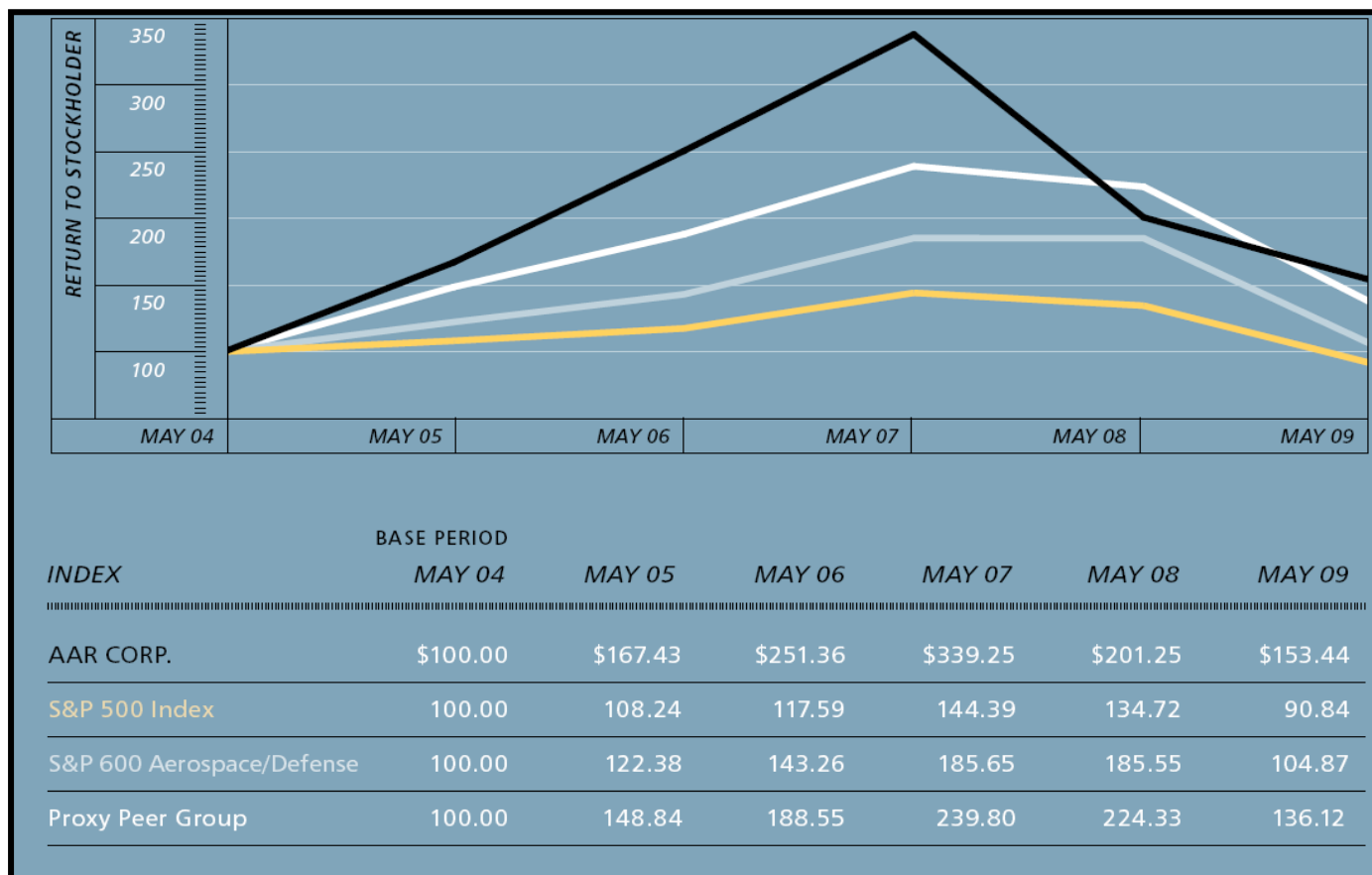


# Well Positioned for Targeted Investments

- ✓ Strong Foundation
- ✓ Low near-term maturities
- ✓ Generating free cash flow from operations



# AAR Share Price Performance – Cumulative Five-Year Total Return



**Significantly outpaced S&P 500**

Note: Assumes \$100 invested on May 31, 2004, including the reinvestment of dividends into each asset class.

# Non-GAAP Disclosure Reconciliations

Pursuant to SEC Regulation G, the Company has included the following reconciliation of operating income reported on the basis of Generally Accepted Accounting Principles (“GAAP”) to operating income on a non-GAAP basis. The Company believes the non-GAAP operating income excluding the impairment charges that occurred in FY 2009 is a better indicator of the Company’s on going performance

(\$ Millions)	<u>Aug 31, 2009</u> <u>TTM</u>
Sales	\$1,405.6
Operating Income As Reported	\$88.3
Impairment Charges	\$31.1
Operating Income ex Impairment Charges	\$119.5
Adjusted operating margin	8.5%

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

(\$ Millions)	<u>Aug 31, 2009</u> <u>TTM</u>
Total Recourse Debt	\$346.1
Cash/Cash Equivalents	(\$122.8)
Net Recourse Debt	\$223.3
Operating Income <sup>1</sup>	\$119.5
Depreciation & Amortization	\$38.3
EBITDA <sup>1,2</sup>	\$157.8
Net Debt / EBITDA	1.4

<sup>1</sup> Operating Income and EBITDA excludes impairment charges related to aircraft in Q2 2009 (\$21.0 million) and inventory impairment in Q4 2009 (\$10.1 million).

<sup>2</sup> EBITDA represents operating income plus amortization and depreciation.