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AIR.N - Q1 2025 AAR Corp Earnings Call

EVENT DATE/TIME: SEPTEMBER 23, 2024 / 9:00PM GMT

## CORPORATE PARTICIPANTS

**John Holmes** AAR Corp - Chairman of the Board, President, Chief Executive Officer

**Sean Gillen** AAR Corp - Chief Financial Officer, Senior Vice President

## CONFERENCE CALL PARTICIPANTS

**Scott Mikus** Melius Research LLC - Analyst

**Michael Ciarmoli** Truist Securities, Inc. - Analyst

**Ken Herbert** RBC Capital Markets LLC - Analyst

**Louie DiPalma** William Blair - Analyst

## PRESENTATION

### Unidentified Company Representative

Good afternoon, everyone, and welcome to AAR's fiscal 2025 first quarter earnings call. We're joined today by John Holmes, Chairman, President and Chief Executive Officer, and Sean Gillen, Chief Financial Officer.

Before we begin, I'd like to remind you that the comments made during the call may include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Accordingly, these statements are no guarantee of future performance. These risks and uncertainties are discussed in the company's earnings release and the risk factors section of the company's annual report on Form 10-K for the fiscal year ended May 31, 2024.

In providing the forward-looking statements, the Company assumes no obligation to provide updates to reflect future circumstances or anticipated or unanticipated events. Certain non-GAAP financial information will be discussed in the call today. A reconciliation of these non-GAAP measures to the most comparable GAAP measures is set forth in the company's earnings release. A replay of the conference call will be available for on-demand listening shortly after the completion of the call on AAR's website.

At this time, I would like to turn the call over to AAR's, Chairman, President and CEO, John Holmes.

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### **John Holmes** - AAR Corp - Chairman of the Board, President, Chief Executive Officer

Great. Thank you, and thank you to everyone for joining us this afternoon to discuss our most recent quarter's results. We're very proud of the performance we delivered during our first quarter of fiscal 2025, which was a very solid start to the year, and I'm grateful to our team for continuing to deliver.

AAR advanced strategic initiatives and continued to execute well across the company. We are benefiting from structural tailwinds, elevated levels of air travel, and an aging fleet which drives demand for our aftermarket services. Our company is more focused than ever within our three main operating segments; Parts Supply, Repair and Engineering, and Integrated Solutions.

We are making investments in each of these three segments to drive growth, improve our efficiency, and deliver higher margins. You saw that this quarter, and we expect the benefit from these investments to continue throughout our fiscal 2025. With that, I will turn to our first quarter results.

We delivered quarterly sales of \$662 million, up 20% year over year, driven by growth in each of our segments. Additionally, we had growth in both our commercial and government businesses with each growing at 20%. Our Distribution and Hangar activities had particularly strong performance and our recent acquisitions of Triumph Product Support were also meaningful contributors this quarter.

Regarding profitability, I'm pleased that once again, we demonstrated significant operating margin expansion. Our adjusted operating margins increased by 180 basis points year over year from 7.3% to 9.1%. This was the result of the continued organic margin expansion as well as contribution from Trax and Product Support acquisitions. I'm now going to go into these results in a little more detail for each of our three main segments.

Parts Supply is our largest and most profitable segment and where we have very significant opportunity for organic growth. This segment contains two activities. New parts distribution and used serviceable material or USM. Distribution represents nearly 60% of Parts Supply and 22% of consolidated sales. USM represents approximately 40% of parts supply and 15% of consolidated sales. In new parts distribution, sales grew 26% organically, driven by continued market share gains. We benefited from both continued commercial demand strength and recovery in our government volumes.

We're the largest independent distributor of OEM parts and our independent status is a key strategic advantage, which eliminates conflicts and allows our OEM partners to serve all aircraft types. This is a key driver behind our consistent market share gains and we believe we have a long runway ahead of us because we have a strong pipeline of opportunities.

For the USM activity within part supply. We saw a decline in year-over-year sales driven entirely by the lack of whole assets, predominantly engine available in the market. The decrease in whole assets sales is a result of the current dynamics in the aviation aftermarket, the continued delay of new aircraft deliveries, ongoing challenges with new engine platforms resulted in a greater use of the existing fleet, which has resulted in lower retirements. Overall, this is good for AAR, and USM specifically, it means that there's less supply available. We do anticipate more aircraft retirements over time, which will increase the supply of USM to service that demand.

Turning to repair and engineering. Sales growth was 58% in the quarter. Excluding the Product Support acquisitions, sales growth was 6% as we continue to see strong underlying demand for our MRO services. Even though our hangars are largely at capacity, we continue to grow inside of our existing footprint with both increased efficiency and improved throughput. That said, our hangar capacity expansions in Miami and Oklahoma City remain on track for operation beginning in the second half of calendar 2025. As a reminder, these expansions will add approximately \$60 million of annual sales.

Regarding the Triumph Product Support acquisition, the business has exceeded our initial expectations in the first two quarters. So we are in the early stages of unlocking significant additional value. In terms of cost synergy, we are on track to achieve the previously announced target of \$10 million and are confident we will exceed this number once the complete consolidation of our -- once we complete the consolidation of our existing Long Island facility into the facilities in Grand Prairie, Texas and Wellington, Kansas. Additionally, we continue to make progress on in-sourcing repair work in support of our commercial programs and USM activities.

Turning to integrated solutions. In the quarter, we drove growth across both our commercial and government offerings, which resulted in total sales growth of 8% for the segment. Trax had a particularly strong quarter with some significant new business wins and customer implementations. Customer interest in Trax offering remained strong, and we are excited about the potential to continue to win market share with new customers and expand our services with existing customers.

Our government program activities in integrated solutions had a strong quarter as well. Subsequent to the quarter, we had two significant business wins in government programs. We were awarded a five-year firm fixed price IDIQ contract with the Navy to perform airframe maintenance on their P8 fleet. This award is a continuation of existing work. We also won a new contract to support the engine maintenance for the Navy on the same P8 aircraft fleet. These wins demonstrate the significant value proposition that AAR brings to its government customers.

Overall, I'm incredibly proud of the quarter that we just delivered. And with that I'll turn it over to Sean.

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**Sean Gillen** - AAR Corp - Chief Financial Officer, Senior Vice President

Thanks, John. The total sales in the quarter grew 20% to \$662 million. Excluding the impact from the recently acquired product support business, organic sales growth for the quarter was 6%. Commercial sales increased 20% with growth in all three of our core segments. Our commercial

distribution sales were particular standouts as we continued to drive sales growth on existing product lines and expanded newlywon product lines as well.

Government sales also increased 20%, an improvement from the 15% growth we experienced in the fourth quarter. The sales increase was driven by an ongoing recovery across our government program activities and increased order volume for our new parts and distribution activities. Adjusted operating profit margin improved 180 basis points from 7.3% to 9.1%. Adjusted EBITDA margin increased 180 basis points from 9.5% to 11.3%.

We have a clear road map for continued margin improvements over the medium term as our mix shifts towards our higher margin segments and we realized synergies in the recently acquired product support business. We continue to roll out our airframe maintenance efficiency improvement initiatives and expect further margin improvement as capacity expansion projects come online. Net interest expense for the quarter was \$18.3 million, reflecting the financing of the product support acquisition and we expect Q2 interest expense to be approximately the same as Q1.

Average diluted share count in the quarter was 35.6 million shares. For FY25, we continue to expect our effective tax rate to be approximately 28%. Adjusted diluted EPS increased from \$0.78 to \$0.85, reflecting the benefit of our growth and margin expansion. The product support acquisition was accretive to earnings for the quarter, which we expect to continue through FY25. With that, I'll turn to the detailed results by segment.

Parts supply sales grew 5% to \$250 million, driven by 26% growth in distribution and a 22% decline in USM. We once again drove double digit growth in distribution as we continue to gain market share. Growth in the quarter were positively impacted by the expansion of both existing product lines and the ramp-up of new business wins as well as greater purchases by both the US and foreign governments. Our USM activity was down due to lack of availability of whole assets.

Product supply adjusted operating margins increased by 110 basis points to 12.1% in the quarter, driven by distribution which benefited from scale and mix. The improvement of distribution sales to government customers also contributed to the increase in margins. Repair and engineering sales increased 58% to \$218 million. On an organic basis, sales increased 6%. Demand remained strong for our heavy maintenance and component repair capabilities. And we look to continue to drive growth in these activities.

Repair and engineering adjusted operating margins increased by 460 basis points to 11.2% in the quarter, driven by the inorganic impact of product support and continued efficiency gains in the hangars. Going forward, we expect to drive further margin expansion in this segment from the realization of product support synergies, rollout of our paperless hanger initiatives, and the capacity expansions once they come online in FY26.

Integrated Solutions sales increased 8% to \$169 million, driven by growth in commercial power by the hour activities, certain government programs, and from Trax. Integrated Solutions adjusted operating margin decreased by 40 basis points to 6.2% in the quarter, based on the mix within government program. In Expeditionary Services, our government customer has decided to revert to the current generation pallets and as a result, terminated our contract to provide next-generation pallets.

We are the incumbent on current generation pallets and will continue to support the government's demand for these products as we await the potential new RFP for the next generation pallet. We do not expect any material change in the outlook for expeditionary services due to the government's decision. However, related to the termination in the quarter, we recognized revenue of \$9.5 million and a net loss of \$3.2 million, which are excluded from our adjusted results.

Turning to consolidated cash, cash flow used in operating activities was \$19 million in the quarter as we made investments in the business, particularly in inventory to support the growth in distribution. Despite this cash use, we maintained net leverage of 3.3 times net debt to adjusted pro forma EBITDA. For the balance of the fiscal year, we expect to reduce net leverage through both growth and EBITDA as well as reduction in net debt. Our balance sheet and capital structure affords us sufficient flexibility to manage our business and make decisions that maximize shareholder value.

With that, I will turn the call back over to John.

**John Holmes** - AAR Corp - Chairman of the Board, President, Chief Executive Officer

Great. Thank you, Sean. I'm very pleased with the results that we delivered in Q1 and a strong start to our fiscal year. Demand for our services remains exceptionally strong and the current dynamics in the aviation supply chain overall are in our favor.

Looking to Q2 of fiscal 2025, specifically, we expect sales growth of 18% to 22% and adjusted operating margin similar to Q1, which was 9.1%. We continue to make tremendous progress towards executing our long-term objectives. We continue to gain market share in distribution and are on track with capacity expansions and repair and engineering are growing the Trax software offering and driving higher margins through investments in efficiency and differentiated capabilities. We are exceptionally well positioned to capitalize on the strength that we are seeing in our markets, and I'm very excited about our future.

With that, I'll turn it over to the operator for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Scott Micrus, Melius Research.

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**Scott Mikus** - Melius Research LLC - Analyst

Hi, John, Sean, good evening. John, I wanted to ask on the Triumph Product Support asset. So it came as 6,000 proprietary DER repairs. So I'm just wondering how should we think about the growth in the number of DER repairs that you can do to add to that? So should I be thinking an annual growth rate on that or just a simple number of repairs you want to add per annum?

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**John Holmes** - AAR Corp - Chairman of the Board, President, Chief Executive Officer

It's a great question. And an important asset that came with the acquisition. What I would say there is rather than trying to quantify the types of repairs, I would say that the majority of the 6,000 DER repairs the Triumph has are focused on structures. And we are focused on broadening that DER repair capability to the accessories and components that are repaired in the other areas of Triumph of TBS. And so again, rather than trying to quantify every growth rate or number of repairs, I would say that from a product type, we would look to capture the opportunity beyond what they've done in the structures world.

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**Scott Mikus** - Melius Research LLC - Analyst

Okay, got it. And then I also wanted to stick with repair and engineering and just thinking about the MRO hangar. So you have the capacity expansions in Oklahoma City and Miami that will be ready for the fall of 2025. But I'm just wondering, do you have the pipeline of workers to fill those hangars on day one? Or is it going to take time to train, hire, and ramp up those new employees to generate sales and profits?

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**John Holmes** - AAR Corp - Chairman of the Board, President, Chief Executive Officer

Yeah, great question. And we're very excited about that capacity coming online. We're also excited that it's sold, and we went into markets where we knew we would have a long-term baseload customer and we knew to your point that we would be able to come to higher and higher up. So both Miami and Oklahoma City are favorable labor markets for us. We've had a long-time presence in each place. We've got relationships with local providers and schools, et cetera.

And so we feel really good about our ability to recruit talent in both locations. There will be a ramp up in each facility. There always is, there's a bit of an operational curve though. But we feel very confident in a relatively short ramp up and our ability to hire the labor to support that business.

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**Scott Mikus** - *Melius Research LLC - Analyst*

All right, thanks for taking the questions.

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**John Holmes** - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Thank you.

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**Operator**

Michael Ciarmoli, Truist Securities.

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**Michael Ciarmoli** - *Truist Securities, Inc. - Analyst*

Good evening, guys. Thanks for taking the questions, nice results.

Hey, John, just on the USM. and kind of the challenges there, I mean, how are you guys thinking about or how are you potentially forecasting whole asset sales for the year? I have got to imagine that's a challenge.

And does that market? I mean, just given what's going on with the Boeing strike, I mean, obviously hard to tell long it lasts, but presumably airlines aren't getting planes they need it. Does that market potentially get even tighter for you?

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**John Holmes** - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

Yeah. So a great question. First of all, I would say that despite the decline that we saw in the USM business, we are really happy that the rest of the company performed really, really well. And we were able to deliver 20% growth in the quarter. And that's one of the reasons we called out, USM have 15% of our business. And to your point, yes, anything that puts more pressure on the existing fleet like the Boeing strike, it's going to extend the tightness in the USM market, but more importantly, it's going to extend the robust demand that we see for the other 80%- plus of the company.

So we -- it is a difficult thing to forecast and and we do expect that at some point, as these aircraft are retired and disassembled, it will result in more asset availability and that will occur. And while there is still strong demand for these assets and we're in the right position to capture that. But right now, the overall tailwinds and dynamics that you described or that we're seeing in the market are benefiting the overall company as a whole.

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**Michael Ciarmoli** - *Truist Securities, Inc. - Analyst*

Got it. Is there any way to parse out maybe the piece parts or component sales of USM versus the headwind that that kind of or maybe you had an underlying growth that was masked by the whole asset sales?

**John Holmes** - AAR Corp - Chairman of the Board, President, Chief Executive Officer

Yeah, what I would say is that the fourth quarter for individual piece parts sales was the highest quarter we've ever had in individual parts sales and USM. The quarter we just ended was the second highest we've ever seen. So the individual parts sales there are very strong, and we are able to locate that material. It's the whole assets right now that are constraining. The other thing I would add there that market very situational right.

I mean, you can see like what we saw a couple of years ago with American Airlines deciding to exit a certain fleet, you can see things break loose. And our job is to make sure that we are in the right place at the right time to be able to move quickly and capture assets when they become available, even if there's not an overall change in the market, and that's what we're focused on doing.

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**Michael Ciarmoli** - Truist Securities, Inc. - Analyst

Got it. Got it. And just as we're talking here, I mean, what's the environment like are there just very limited assets or are you seeing maybe, you know, airline operators actually looking to buy equipment to make an ROI on it just because they need to service their planes? I mean, are you seeing a high level of --

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**John Holmes** - AAR Corp - Chairman of the Board, President, Chief Executive Officer

Yes. No, it's predominantly the latter. You are seeing airlines, they just need the lift. And so as assets come available from the airlines themselves or lessors are going right after those assets, because lease rates are extremely favorable right now because there's tremendous demand because the airlines just the belief. (multiple speakers) But the other point to mention there is, as those engines are in operation, you're burning off a lot of green time at once which means that once these assets once these do go in for maintenance, they're going to require a lot of parts. And that, again has a favorable dynamic demand environment for us.

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**Michael Ciarmoli** - Truist Securities, Inc. - Analyst

Got it. Last one, Sean, just on the the adjustments in the quarter, any detail on the investigation costs that were \$0.14 and the contract termination costs of \$0.09, any color you can provide there?

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**Sean Gillen** - AAR Corp - Chief Financial Officer, Senior Vice President

Nothing further on the investigation. It has been the same investigation line item for the past number of quarters. And then the kind of contract termination in the expeditionary services, pallet contract that I talked about in the opening remarks, those are the items.

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**Michael Ciarmoli** - Truist Securities, Inc. - Analyst

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

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**John Holmes** - AAR Corp - Chairman of the Board, President, Chief Executive Officer

Thank you.

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**Operator**

Ken Herbert, RBC.

**Ken Herbert** - RBC Capital Markets LLC - Analyst

Hey, good afternoon, John and Sean. And maybe, John, I wanted to first start on the P-8. It sounds like the airframe IDIQ is sort of a continuation of work you've been doing. But I just wanted to clarify that there isn't maybe a step up there in terms of the revenue opportunity. But then second and maybe more importantly on the engine side, can you talk about how much of that could be incremental from a revenue standpoint this year, how that phases in? And what exactly are you doing on the engine side? Is it more sort of parts support or maybe a little more color there?

**John Holmes** - AAR Corp - Chairman of the Board, President, Chief Executive Officer

Great, appreciate you asking about those two awards. So gas for the first one, the airframe award, that is a continuation of work that we have today. The volumes of heavy maintenance for that fleet do change over time. And there is a chance that we do see more volume out of that contract in this next phase than we saw in the previous phase. We've got to wait to secure the award and get the schedule from the Navy. But based on what the proposal that we submitted set, it's possible you could see a step up in volume there.

As it relates to the engine award, that is entirely new business for AAR and what we will be doing is helping to manage the supply chain and provide parts. We have a partner that will actually be doing the wrench turning that will come out once the government releases more information. But we will be working that partner to manage the overall engine flow and then supply parts to that partner in support of the engine overhaul.

**Ken Herbert** - RBC Capital Markets LLC - Analyst

Can you quantify maybe how much growth the engine, the parts supply part of that contract could provide this year?

**John Holmes** - AAR Corp - Chairman of the Board, President, Chief Executive Officer

Once we get a full clarity from the government on our position on the contract, we will be able to give more data on that. But we do feel it will be a nice contributor in terms of revenue and income. And in terms of when it starts, obviously, we're going to see if there's a process, et cetera, but we do feel like it will be a meaningful contributor.

**Ken Herbert** - RBC Capital Markets LLC - Analyst

Okay, great. And as we look at the parts supply business, nice margins this quarter. How do we think about the progression there? I mean, is a more meaningful step-up really held back until you can see a maybe more pronounced pull asset opportunity within USM.? Or is there an opportunity through mix and through efficiencies to continue to sort of drive incrementally higher margins on parts supply as we think about the cadence of this year and even into fiscal '26?

**John Holmes** - AAR Corp - Chairman of the Board, President, Chief Executive Officer

Sure. For USM, again, it's somewhat situational and dependent on the availability of material and the price of which we are able to acquire and sell that material so that that moves with the market. What we do see is just continued strength out of our new parts distribution business. The margins there because of our exclusive distribution model are better than what you would normally see in a parts distribution business. And with each new win, we're able to continue to leverage our fixed cost base. So I would say over time, we see the improvement of margin and parts supply on a steady basis coming from the growth in distribution and then on, I would say, more situational basis based on the opportunities we see in USM.



**Ken Herbert** - RBC Capital Markets LLC - Analyst

Okay, helpful. And just finally coming out of your fiscal fourth quarter, there was some incremental concern around capacity growth and some spending by more specifically some of the low-cost airlines. And it sounds like that was predominantly sort of idiosyncratic to a few specific airlines situations. But can you just comment more from a macro standpoint on what you're seeing in terms of your airline customers and spending into sort of the back half here of calendar '24? And then I guess, any changes in your schedules backlogs demand as you think about spending into the first part of some sort of calendar '25?

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**John Holmes** - AAR Corp - Chairman of the Board, President, Chief Executive Officer

Sure, and again, a great question. I'd say for certain customers, certain lower-cost carriers to your point that, yes, they have seen some softness. However, they are not major customers of AAR. The larger carriers, the long-haul carriers, those are the ones that some are continuing to do very well, and those are the ones that are the largest customers of AAR. So from our major customers, we see continued very strong demand signals and they recognize the value proposition.

We have definitely been in a position where they have favored our maintenance solutions, our part solutions over that of our competitors, even if even if there's a decline in their own volumes. But I would say, broadly, our largest customers are continuing to new express and strong demand throughout the rest of the fiscal year.

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**Ken Herbert** - RBC Capital Markets LLC - Analyst

Great. Thanks, John.

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**Operator**

Louie DiPalma, William Blair.

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**Louie DiPalma** - William Blair - Analyst

John and Sean, and good afternoon. Great. Can you talk about the business development and pipeline activity with Trax? And when do you expect that Trax can become a viable sales channel for your your parts business?

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**John Holmes** - AAR Corp - Chairman of the Board, President, Chief Executive Officer

But yes, thanks for asking about Trax. It was a good quarter for Trax that made a nice contribution to the results in a couple of ways. One, they upgraded certain of their existing customers and they actually were able to capture some new customers. Not all of these things were able to announce customer by customer, but they're making really nice progress in the market.

One of the main reasons we felt that we should acquire tracks that could bring value to their business was our ability to open doors for them, big doors for them in the market with larger airlines that may not have been comfortable turning their ERP system over to a smaller company like Trax. We are seeing that play out. We're very encouraged by the pipeline of activity we Trax, particularly with some very large airlines. And we're hopeful that in the coming quarters, we'll be able to secure that business which will validate that important element of the acquisition thesis. So we feel good about that.

And then to your second part of your question about Trax as a pipeline for our part sales, that is still something we feel very, very strongly about. In the early years, the first year of the Trax acquisition, our priority has been to improve the operations of Trax, so that they could scale to ultimately

support larger customers. And we made a great deal of progress in that regard. Once we feel good about what we've done there, we will turn our attention to the integration between a are on track around selling parts, but we're still a little bit away from being able to get that done.

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**Louie DiPalma** - *William Blair - Analyst*

Great. A few quarters ago still on track. I think you mentioned Singapore Airlines and Archer Aviation as new customers. How are the implementation coming?

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**John Holmes** - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

They're complete and those customers are up and running and live. There's another significant customer that we hadn't announced publicly that in that same period of time is up and running and live. We upgraded another existing customer to the latest and greatest suite of offerings from Trax. That implementation went well and have live.

So again, going back to your prior question, one of the main area of focus for us is to be able to handle multiple implementations and upgrades at the same time. That's something that was difficult for Trax to do when they were on their own. And so we've made a lot of progress in being able to take on many things at the same time.

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**Louie DiPalma** - *William Blair - Analyst*

Great. And following up Ken's question for the Navy, the pair of the Navy P-8 contract. For the engine services contract, did you take that contract away from an incumbent? And is that why you think there's an increased likelihood of a protest?

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**John Holmes** - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

I can't say about the incumbent, but we -- I don't know if there will be a process or not. We don't. But to the extent that there were multiple bidders rather than roll up, whether it was an incumbent on that, that's why we always have our eye open to a potential further. But as you know, in the government world, that's it's very common.

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**Louie DiPalma** - *William Blair - Analyst*

Yeah, definitely. And are there many other types of these engine contracts out there for the different of the Navy or Air Force platforms that you can either take away from at the incumbents or just new work in general?

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**John Holmes** - *AAR Corp - Chairman of the Board, President, Chief Executive Officer*

I would say yes, I would just answer it broadly. I'd say that we feel very strongly that our commercial offerings should play very well for all commercial derivative military aircraft. And so whether it's airframe maintenance or accessory repair or component repair or engine support, we think that we're in a position to take what we do really well in the commercial markets imported to the government markets.

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**Louie DiPalma** - *William Blair - Analyst*

Sounds good. And one final question on perhaps this is yet for both of you, John and Sean. As it relates to Triumph, can you talk about progress or the plans to in source our repair work for USM? Are we still in the early innings of and integrating trends such that you can and I take some of the Triumph repair capabilities and support your USM business?

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**John Holmes** - AAR Corp - Chairman of the Board, President, Chief Executive Officer

Yes, we have a couple of different factors there. One, in terms of the transfer of work from our existing facility in New York to the facilities in Wellington, Kansas, and Dallas, we're on track there. There is two buckets of work, there's commercial work and there's government work. The commercial work is right on track and the majority has been transferred. The government work takes longer because we have to build capability, get it audited and approved by the government. Once that happens, we can cut the work-over. Both of those areas are absolutely on track.

As it relates to in-sourcing really two main buckets of work there. One is to support the USM business, as you just mentioned, that is largely done were insourcing all that we can out today for the USM business. The longer term element of that is the work supporting our commercial programs business. And there, I would say that generally we actually see more opportunity to in-source work for the modest amount of investment in Triumph than we did when we when we agreed to do the deal.

So we're very encouraged by the opportunity there. It will take longer because it's not just work that we control. It's ultimately work that we're doing in support of a third-party customer that's got to prove everything. But the headline there is we see more opportunity to in-source commercial programs work than we previously thought.

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**Louie DiPalma** - William Blair - Analyst

Fantastic. Thanks, John and Sean.

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**John Holmes** - AAR Corp - Chairman of the Board, President, Chief Executive Officer

Thank you.

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**Operator**

Scott Mikus, Melius Research. .

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**Scott Mikus** - Melius Research LLC - Analyst

Yes, I just have a quick one for Sean. Sean, do you have the growth rates for defense and commercial within just the new parks distribution business?

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**Sean Gillen** - AAR Corp - Chief Financial Officer, Senior Vice President

Not at my fingertips. Yeah, just for this quarter or you mean over the past several quarters?

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**Scott Mikus** - Melius Research LLC - Analyst

I mean, you just for this quarter, if you have it. If not, we can follow up offline.

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**Sean Gillen** - AAR Corp - Chief Financial Officer, Senior Vice President

Yes, I'll follow up. And then the Q will be filed later, which will wrap up some of that information. So we can follow up after that.

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**Scott Mikus** - *Melius Research LLC - Analyst*

Okay, perfect. Thank you.

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**Operator**

Ken Herbert, RBC.

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**Ken Herbert** - *RBC Capital Markets LLC - Analyst*

Maybe, Sean, just another quick follow up. Last year, you had a similar sort of cash burn in the first quarter, but then you were nicely positive in terms of cash from operations and free cash through the rest of the year. Do you expect a similar sort of cadence now starting in the second quarter of this fiscal year in terms of cash generation?

And I guess, bigger picture, how should we think about full year free cash generation? Maybe just sort of relative to EBITDA or maybe how much of an improvement should we expect relative to fiscal '24?

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**Sean Gillen** - *AAR Corp - Chief Financial Officer, Senior Vice President*

Yeah. So I would expect a similar cadence from Q1 for the balance of the year in terms of cash flow generation, just seasonality with Q1 and timing of cash flows. And then as it relates to the balance of the fiscal year, I would expect that inventory will be a net user of capital of cash as we continue to grow the parts supply businesses specifically. In terms of AAR, I think from a DSO standpoint, we keep that pretty consistent and you can use that on your sales growth assumptions.

CapEx run rate for this quarter is probably a good number to use. And then interest expense, yes, we mentioned on the call or in my opening remarks that interest expense will be similar to Q1. And then when you think about the back half of the year, that should come down both with a little bit of rate relief on the revolver as well as reduction in net debt on the average borrowings.

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**Ken Herbert** - *RBC Capital Markets LLC - Analyst*

Okay. So for full year free cash up over last year, but maybe similar to maybe sort of the growth, it sounds like working capital is going to continue to be a tail or a headwind in terms of free cash generation this year as well.

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**Sean Gillen** - *AAR Corp - Chief Financial Officer, Senior Vice President*

Yeah, up over last year with net working capital still be a net consumer of cash with overall cash flow higher than last year.

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**Ken Herbert** - *RBC Capital Markets LLC - Analyst*

Perfect. Thanks, Sean.

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**Operator**

Thank you. Ladies and gentlemen, at this time, I would like to turn the call back over to management for closing remarks.

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**John Holmes** - AAR Corp - Chairman of the Board, President, Chief Executive Officer

Thank you very much. We really appreciate all the time and the interest and support. And we look forward to being back here in the January to talk about Q2. Thank you.

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**Operator**

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

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