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PRESENTATION

Operator

Hello, and thank you for standing by. Welcome to AAR Corp. Q2 2025 earnings conference call. (Operator Instructions) I would now like to hand the conference over to Denise Pacioni. You may begin.

Denise Pacioni - *AAR Corp - Director of Investor Relations*

Good afternoon, everyone, and welcome to AAR's fiscal year 2025 second-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 on 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.

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

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

Thank you, and welcome, everyone, to our second quarter fiscal year 2025 earnings call. I'm pleased to report another strong quarter with record top-line results for Q2. Our second-quarter sales of $686 million improved 26% from the same quarter last year. Our adjusted earnings of $0.90 per share were 11% higher than in the same period last year, also setting a second-quarter record for adjusted EPS.

These results, which included double-digit sales growth for both our commercial and government businesses, clearly demonstrate the strong demand for our aftermarket aircraft and engine services. We are very proud of the performance we delivered this past quarter and are even more excited for the remainder of fiscal year 2025 and beyond.

AAR continues to drive value throughout the company by focusing on growing our aftermarket services offering while diligently improving margins through portfolio optimization, scaling efficiencies, and realizing acquisition-related synergies. In addition to these efforts, we continue to benefit from a strong aviation aftermarket due to the elevated levels of consumer air travel and aging fleet and increasing demand from the government end market. This strong demand is not slowing down, and we expect it to continue through calendar year 2025.

As mentioned, we delivered quarterly sales of $686 million, up 26% year over year. Moreover, we saw an increase in organic sales growth, which accelerated from 6% last quarter to 12% this quarter. All three of our core business segments contributed to this growth. Parts Supply remains our largest segment by sales and due to strong demand for both new and used parts, sales grew 20% over the last year and it was entirely organic.

Our Repair & Engineering segment grew 57% over the last quarter as a result of the product support contribution and continued strong demand at our hangers. Integrated Solutions also posted growth in the quarter. Overall, consolidated sales to commercial customers increased 30% from the same quarter last year and sales to government customers increased 16%.

While top-line growth accelerated from the same period last year, we also demonstrated improvement in our bottom-line results. Adjusted EBITDA of $78.3 million was higher by 42% from the same quarter last year. EBITDA margin increased from 10.1% in the second quarter of last year to 11.4% this year. Our adjusted operating margin increased from 8.1% last year to 9.2% this year.

I will now discuss our three core segments in more detail. Parts Supply continues to be our largest business segment contributing nearly 40% of sales to our company. This segment has benefited greatly from the strong aftermarket dynamics that I mentioned earlier, including strong demand for engine maintenance as 60% of our parts sales are engine components or engine accessories.

Our second-quarter sales of $274 million were 20% higher compared to the same quarter last year and improved 10% sequentially. Second-quarter EBITDA for Parts Supply was $33.9 million, 13% higher than the same quarter last year. Adjusted operating income was $31.6 million or 11% higher than the same period last year.

Within Parts Supply, Distribution continued its stellar performance. As discussed previously, our independent distribution model and our focus on exclusive contract allows us to win new business like the multi-year agreement with Whippany, a TransDigm company, that we announced in the quarter. We are excited about this new win and have many more opportunities in the pipeline.

Our USM business also returned to growth this quarter, driven by piece part and whole asset sales. We are seeing an increase in availability of whole assets in the market, which combined with continued strong demand, will drive further growth in USM.

As mentioned, 60% of our parts supply sales are engine-related. Serving the engine aftermarket has always been core to our business. An example of this is our partnership with FTAI to provide CFM56 engine material to the aftermarket.

Additionally, we continue to see engine-related growth opportunities, such as the recently announced exclusive distribution agreement with Chromalloy to sell their PMA parts for the CF6-80C2 engine type. Securing this agreement further expands our engine part offering and demonstrates the value we bring to both suppliers and customers.

Turning now to our Repair & Engineering segment. Second-quarter sales of $229 million grew 57% from the same quarter last year. Adjusted EBITDA grew to $30.9 million, up 132% from the same quarter last year, while adjusted operating income was $27.4 million, higher by 143% from the same period last year.

The Product Support acquisition continues to perform well and drive growth inside the Repair & Engineering segment. The integration is on schedule, and we are on track to realize the $10 million of cost synergies previously communicated. The integration is expected to be completed in our fiscal Q1 FY26, which is when we expect to be at run rate synergy realization.

While we are integrating the business, we are also growing it as evidenced by the recently announced joint venture with Air France for engineering and maintenance support on next-generation aircraft in the Asia Pacific region.

On the heavy maintenance side of Repair & Engineering, we continue to see strong underlying demand for our services and are focused on implementing process improvements that continue to increase efficiency and improve throughput at our existing facilities. Our hangar capacity expansions in Miami and Oklahoma City are in process and once completed in FY26 will take one or two more quarters to ramp up to achieve the $60 million of incremental annual revenue for the company.

Turning now to Integrated Solutions. Sales for the quarter were $163 million, up 4% from the same quarter last year. Adjusted EBITDA in Integrated Solutions for the second quarter was $12.3 million, slightly lower from the same quarter last year. Adjusted operating income of $8.3 million was lower by 8% from the same quarter last year due to mix shift within certain programs. Going forward, we expect growth to improve as our government program activities convert their pipeline of opportunities to new business wins and our recent contract wins mature.

An example of a recent government new business win is the award from the U.S. DoD for engine overhaul work related to the Navy's P-8 fleet. While we are still working with the government to finalize the demand requirements, we do expect contributions to be in the low single-digit millions per quarter initially ramping to a more significant level later in our FY26.

Additionally, we are incredibly well positioned to help the new administration realize its efficiency goals, whether that be through the DOGE Commission or otherwise. Our offerings help our government customers reduce costs while maintaining or improving performance. We look forward to continuing to demonstrate our capabilities to the U.S. Department of Defense, State Department, and other agencies.

Before turning the call over to Sean, I'd like to briefly touch on two announcements that we made right before the holidays.

First, on December 19th, we announced that we have reached resolutions with the Department of Justice and the Securities and Exchange Commission to resolve our previously disclosed potential violations of the Foreign Corrupt Practices Act. This relates to certain transactions signed in 2016 and 2017 in Nepal and South Africa. After self-reporting to the government in 2019 and cooperating with a multi-year investigation, AAR has entered into a non-prosecution agreement with the DOJ and reached resolution with the SEC.

The total amount associated with the settlement is $55.6 million. This has been a long process, and we are pleased that this issue is now settled. And I'm proud of the way our company dealt with this matter, and we have made significant investments and improvements to our compliance program over the last several years.

Separately, on December 20, we announced that we entered into a definitive agreement to sell our Landing Gear Overhaul business to GA Telesis for $51 million. This strategic decision was made so that we could put an even greater focus on our higher growth, higher-margin aftermarket activities. It also allows us to allocate even more resources to driving an integrated approach between Product Support, heavy maintenance and part supply where we see significant opportunities for revenue synergies.

We expect the Landing Gear transaction to close in the first calendar quarter of 2025 and upon close, it will be immediately accretive to margins and earnings. We appreciate all the hard work and dedication from our Landing Gear team and we wish them and GA Telesis much success in the future.

I'll now turn it over to Sean to discuss our Q2 results in more detail.

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

Thanks, John. Total sales in the quarter grew 26% to $686 million, setting a new company quarterly sales record. Excluding the impact from the recently acquired product support business, organic sales growth for the quarter was 12% which accelerated from last quarter's organic growth rate of 6%.

Commercial sales increased 30% during the quarter compared to 20% from the prior quarter. This additional increase in sales growth came from all three of our core business segments led by commercial distribution and Product Support sales.

Government sales also increased 16% for the quarter, primarily due to increased order volume in new parts distribution. Total commercial sales for the quarter made up 73% of total sales, while government sales made up the remaining 27%.

Compared to the same quarter last year, adjusted EBITDA margin increased from 10.1% to 11.4%. Adjusted operating profit margin improved from 8.1% to 9.2%. Our focus on airframe maintenance efficiencies and contribution from our recently acquired product support business has helped us significantly improve margin performance.

Net interest expense for the quarter was $18.8 million, reflecting the financing of the Product Support acquisition.

We expect Q3 net interest expense to remain consistent with these levels. We also expect our Q3 effective tax rate to be approximately 27%. Average diluted share count in the quarter was 35.5 million shares, adjusted diluted EPS increased from $0.81 to $0.90, reflecting the benefit of our growth and margin expansion.

With that, I'll turn to the detailed results by segment. Parts Supply sales grew 20% to $274 million, driven by growth in both distribution and USM. An increase in commercial volume drove growth in both businesses, along with an uptick in government demand for new parts distribution. Part Supply adjusted EBITDA margin decreased from 13.2% to 12.4% and adjusted operating margin decreased from 12.5% to 11.5% in the quarter, which was due to whole asset sales at lower margins than the same period last year.

Repair & Engineering sales increased 57% to $229 million. On an organic basis, sales increased 6%. Demand remains strong for our heavy maintenance and component repair capabilities, and we look to continue to drive growth in these activities.

Repair & Engineering adjusted EBITDA increased from 9.1% to 13.5%, and adjusted operating margins increased from 7.8% to 12% in the quarter, driven by the inorganic impact of our Product Support business and continued efficiency gains in the hangers.

Going forward, we expect to drive further margin expansion in the segment from the realization of Product Support synergies, continued rollout of our paperless hanger initiatives and the capacity expansions once they come online in FY26.

Integrated Solutions sales increased 4% to $163 million, driven by growth in commercial activities. Integrated Solutions adjusted operating margin and adjusted EBITDA margin slightly decreased to 5.1% and 7.5%, respectively, in the quarter.

Turning to consolidated cash. Cash flow generated in operating activities was $22 million in the quarter. This cash generation, along with EBITDA growth, reduced our net debt leverage from 3.3 times to 3.17 times during the quarter.

When we closed the Product Support acquisition in March of last year, net leverage at the time was 3.6 times, and we said we expect it to be back towards 2 times net leverage in two years. We are on track to achieve that target as we expect to continue to de-lever for the balance of this year and into next.

Next, I'd like to address the financial impact of the two recent announcements. First, with the FCPA resolution, the settlement amount of $55.6 million was recognized in the fiscal Q2 results we are discussing today. The payment of the settlement has been made and will be reflected in our third-quarter cash flows. The combination of cash on hand and funds from our revolving credit facility were used for that payment.

Second, in regards to the Landing Gear Overhaul business, we anticipate this transaction to close in the first quarter of calendar year 2025. If it closes by the end of February, we will receive a cash payment of $51 million less applicable fees and expenses in our Q3 results. As stated in the press release, when the transaction closes, the benefit will be immediately accretive to earnings and margins.

In conjunction with our decision to divest the business, we expect to recognize a noncash pretax loss of approximately $60 million, which will be in our Q3 results. Going forward, we anticipate the magnitude of our adjustments between our GAAP results and our adjusted non-GAAP results to be significantly less. Over the next few quarters, our acquisition and integration-related costs will wind down as the contingent consideration, retention, and related integration costs are fully recognized.

For our divestitures, we would anticipate that the exit costs associated with our Landing Gear Overhaul and Composites businesses will also wind down by mid-fiscal 2026. At that time, we would expect our ongoing non-GAAP adjustments to be largely comprised of acquisition intangible asset amortization of approximately $4 million per quarter.

With that, I'll 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 our second-quarter results and the continued momentum since the beginning of this fiscal year. Regarding the balance of the fiscal year and for Q3 specifically, we expect year-over-year sales growth of 22% to 25% and adjusted operating margin in the range of 9.2% to 9.4%. As I look ahead into the balance of our fiscal year and into next fiscal year, we expect to continue to see strong demand for our services.

The overall macroenvironment for commercial aviation remains very strong. In addition, we have multiple levers to continue to drive significant growth. We have strong bookings and new contracts ramping up in Distribution and we are seeing more assets come available to fuel growth in our USM activity.

In Repair & Engineering, the two hangar expansions are expected to contribute to growth in the next fiscal year, and our global sales team will drive incremental growth across the recently acquired Product Support business. Finally, in Integrated Solutions, we have a strong pipeline of new opportunities across our government and commercial offerings, including Trax.

Turning to profitability. We continue to make tremendous progress towards executing on our long-term objectives.

I'm incredibly proud of the progress we have made. Our adjusted operating margins are up from 5.5% pre-COVID to 9.2% today, and we expect continued improvement. The margin expansion from here will come from primarily from three areas: first is realizing the synergies from our recent product support acquisition.

As I mentioned earlier, we expect to achieve the run rate $10 million of synergy in Q1 of next fiscal year. Further, as we drive more volume through the Product Support sites, we anticipate additional margin expansion.

Second is in our heavy maintenance hanger network. The new capacity coming online next fiscal year will not only drive growth but also improve operating margins as we leverage the existing cost structure to meet the increased demand.

Additionally, in the hangars, we expect improved efficiencies driven by several digital initiatives that we have invested in over the last several years. The third will come from mix benefit as we drive growth in our Parts Supply segment. We continue to see significant opportunity in Distribution as evidenced by our strong pipeline of OEM contracts and recent wins. As these new distribution agreements mature, we expect additional margin expansion.

It is important to note that the exclusive contract focus for our Distribution business allows us to earn higher margins than traditional distribution models due to the added value that we provide to both suppliers and customers.

Finally, as Sean said, we remain focused on generating cash and continuing to reduce our leverage.

Before turning it over to the operator for questions, I would like to thank our team of dedicated employees, our customers and our shareholders for your continued interest and support of AAR. And with that, we'll open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Scott Mikus, Melius Research.

Scott Mikus - *Melius Research - Analyst*

John, you mentioned the new distribution agreement with Chromalloy for the PMA parts on the CF6 engine. Chromalloy has also PMA'd some parts on the CFM56 and V2500 for FTAI. Are there any restrictions that would prevent you from distributing those PMA parts for those engines? And if so, is there some sort of deal that could be worked out with FTAI and Chromalloy to let you distribute those PMAs for the CFM56 and V2500?

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

I appreciate the question. What I would say there is we're very aware of the PMA portfolio that Chromalloy has. And obviously, we've got a joint venture with FTAI and now a long-term relationship with Chromalloy. There are a number of other discussions that we're having with both of them as existing partners, and the three of us are always looking for ways to grow the business together.

Scott Mikus - *Melius Research - Analyst*

Okay. And then another question on just the broader market and the commercial aftermarket. There's a lot of questions regarding the long-term viability of some of the low-cost carriers in the US. So just wondering if you could size your revenue exposure to some of the lower cost carriers?

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

Yes. Great question. We are heavily skewed towards the larger carriers. Our largest customers are United Airlines, Delta Airlines, American, et cetera. And so while we do some business with the lower cost carriers, it's a very small part of our business in North America.

Scott Mikus - *Melius Research - Analyst*

Okay. Got it. And then one quick question for Sean. Sean, if you happen to have it, do you have the organic growth numbers for commercial and government.

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

No, I don't have that handy. I mean you can back into it in terms of the inorganic growth came from TPS and most of that is commercial activity. Second half, we did something close to that, but we don't disclose organic growth by each of those activities.

Operator

(Operator Instructions) Ken Herbert, RBC Capital Markets.

Kenneth Herbert - *RBC Capital Markets - Analyst*

John, you mentioned growth in the second quarter in your USM portfolio. Can you help quantify that?

And maybe talk a little bit about sort of where you're seeing that specifically on the whole asset side. And how should we think about that into the second half of the fiscal year in terms of -- is that accelerating? Is it sort of moving sideways? How much upside can that provide into the back half?

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

Let's see, we're not breaking out growth specifically by USM. But what we can say is that it absolutely accelerated from the first quarter to the second quarter, and we are seeing growth in -- we are seeing opportunities in USM in terms of assets available for sale.

We're seeing many more now than we did a quarter ago. It's hard to call that a trend because we're a quarter into it. But generally speaking, we are having more conversations and again, seeing more assets available that fueled growth in this quarter, and we would expect more growth through the balance of the fiscal year as long as we're able to capture those assets.

Kenneth Herbert - *RBC Capital Markets - Analyst*

How is pricing on some of these assets? Like, for instance, legacy engines like CFM56 and V25 for example, are you continuing to see upward pressure on pricing? Are you starting to get a sense that maybe that market's peaked? How are you talking -- what are you seeing in terms of pricing on some of the legacy engines?

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

I'd say the pricing, the values are still very, very strong. I would not say that they are accelerating at the rate that we had seen, but they're still very, very strong. And of course, the prices that we pay for assets we're able to command equally strong pricing in the market to preserve our spreads.

Kenneth Herbert - *RBC Capital Markets - Analyst*

Okay. Great. And last year, in fiscal '24, you saw a real sequential first half, second half uptick in margins in the Part Supply business. As we think about sort of the cadence first half, second half, I know you don't give specific guidance maybe by segment. But directionally, how do we think about margins in Parts Supply?

And is there any reason we wouldn't see sort of similar strengthening into the back half in that segment margins?

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

I don't have the last year margins specifically in front of me, but we do expect margin expansion in the second half of our year versus the first half of the year. So Q3 margins, as we said, would expand into Q3. And then also, we would expect expansion on top of that in Q4 and that's driven across the company, but related to Parts Supply specifically, as new distribution agreements that we signed ramp-up, we typically see margin expansion there.

And as you know, we've been stacking win after win on top of each other, so you've got a compounding effect in the Distribution business. In USM, now that we're seeing more assets available to us, we expect further growth in USM.

The margin profile of USM is more difficult to predict because it's such a transactional business. And so you're dealing with assets as they become available. But generally speaking, the Parts Supply, we'd expect to see an upward trend largely driven by distribution.

Operator

Michael Ciarmoli, Truist Securities.

Michael Ciarmoli - *Truist Securities - Analyst*

Nice results. John, maybe just to stay on the margins, I think I heard you that the Parts Supply EBITDA margins down year-over-year. I think you called out maybe the mix for whole assets, but even down sequentially. Is there any reason for concern? Any change with underlying distribution margins there by customer either commercial or government or was everything truly just whole asset related.

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

No reason for concern. It's largely driven by the whole asset. So last year, we had whole asset sales that were at a higher margin. This year, we had whole asset sales that were lower margin. And that's simply the nature of that business based on what whole assets become available to us and the cost to get into those assets.

So I wouldn't focus on that as any sort of trend. I think the important thing to note is that whereas in the first quarter of this year, we had really struggled to find whole assets at all to sell. We were pleased to see assets come available to us that were closed in the quarter, and we have a much stronger pipeline of assets available to us as we go throughout the balance of this fiscal year.

Michael Ciarmoli - *Truist Securities - Analyst*

Just -- yes, that's a great point on that topic. What do you think is driving that? I mean, obviously, Boeing and Airbus are still struggling mightily to get some.I mean, what's driving that change?

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

Yeah, exactly. I wouldn't say that this is related to increased production rates, et cetera. I think, again, it's situational. And we've got a very, very talented sourcing team that's able to find assets out there in the market. And I believe we're doing a good job of outmaneuvering the competition and getting our hands on assets ahead of them.

So I would not characterize this as a trend related to increased production out of the OEM. I think that you are seeing maybe a slight loosening due to some of the things going on with the lower-cost carriers and the larger lessors lead portfolios. But again, I would characterize that as a situational right now. And we're just playing a really good ground game to make sure that we're in front of line if those things become available.

Michael Ciarmoli - *Truist Securities - Analyst*

Got it. Got it. And maybe just last one, Sean. Can you maybe level set us on the R&E margins. So you're -- maybe by February or so, you get rid of the money-losing landing gear.

Can you calibrate us in terms of just for modeling revenue and then what that actually does to margins. And I don't know if it's material enough that it moves the needle for kind of the three- to five-year targets you put out there for margins, but presumably, it's going to help.

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

Yes. I would say as part of achieving the three- to five-year targets in terms of the margin expansion, what will happen in R&E. And as John mentioned, it's really going to come from two primary things. the realization of the synergies associated with the Product Support acquisition, which is the completion of that kind of getting to that $10 million number, as John said, will be in our Q1 of the next fiscal year here. That's when that will be complete and realized.

And then the other piece from that will come from the hangar expansion. And so both of those are kind of next fiscal year for that next bigger move in margin. In the more near term here, I think we'd expect pretty consistent performance, maybe a slight improvement, as you mentioned, with landing gear coming out. I would note the landing gear won't come out of the results until the deal closes. So for our fiscal Q3, it will likely be in the results and then out of the Q4 results.

Operator

(Operator Instructions) Louie DiPalma, William Blair.

Louie DiPalma - *William Blair & Company - Analyst*

Denise, congrats on joining the AAR team. My question, USM seems to have hit an inflection with your commentary about the better supply and this quarter's growth after recent declines. John, would you say that the worst is behind us in terms of USM and have we turned a corner there?

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

Again, I think it's early. So it's been a quarter of loosening, if you will, in terms of supply. But I would point back to -- we've been talking about this for some time that we expect at some point we will enter a period where you still have extremely high demand for material, and you'll start to see more supply come on the market and that will provide a great opportunity for us to accelerate the growth of USM.

We definitely saw that this quarter. We are seeing it for the balance of this fiscal year. Beyond that, it's tough to tell. That's just the nature of that business. But certainly, very, very early signs are encouraging that we will be in an environment where we have more supply meet the very elevated demand.

Louie DiPalma - *William Blair & Company - Analyst*

And so along those lines, you would forecast for there to be a period of time in which both distribution and USM are both clicking at the same time, right?

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

Well, they definitely clicked at the same time this quarter. In Distribution, it's a very different business than USM, right? Because you have assured supply out of your OEM partners, and in many cases, because of the nature of the product, it's much more forecastable and the backlog is much larger. I should say that the backlog for both commercial and government and distribution has been growing, and that's on existing lines as well as the new lines that we've been signing up.

So Distribution has been on just a tremendous run for the last couple of years, and we absolutely expect that to continue, thanks to the compounding of all the new contracts that we continue to sign. And there, again -- going back to USM, again, a much, much different business with different dynamics. But this was a very good quarter where we saw strong demand and strong asset availability, and you can see it come through in the results.

Louie DiPalma - *William Blair & Company - Analyst*

Great. And you announced the new distribution agreements with Chromalloy, as you discussed in your response to the first question and the Whippany, the TransDigm company, but how long should it take those distribution agreements to scale to a normalized rate as I think they were signed in November. So will there be contributions in like this fiscal year? Or is it more of like fiscal '26?

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

That's a great question. And the answer is it varies by contract. In the case of the Chromalloy contract, we would expect an immediate contribution starting this quarter and ramping likely to close to full run rate by the end of this fiscal year. So that one is on a relatively nice path.

Whippany, along with other distribution agreements on the new parts distribution side, those typically have a longer ramp. And the reason is often you are taking that and we've been taking share in the distribution business, often you're taking that business from another distributor, and they may still -- or multiple distributors. And those prior distributors may have inventory sitting on the shelf, and it just takes a while for the channel to drain out and then to ramp fully over to us. So Whippany, I would expect to ramp over a multi-quarter period and will be more of a contributor in our FY26.

Louie DiPalma - *William Blair & Company - Analyst*

Right. So Whippany was a takeaway?

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

Yes. I believe that one was, but let me confirm that.

Louie DiPalma - *William Blair & Company - Analyst*

Got you. And for Sean, many different stocks in the stock market over the past month or so, they've been under pressure due to the rise in interest rates with the 10-year yield spiking. And we were wondering, what is your long-term view of net leverage and your appetite for M&A in regards to the recent increase in interest rates and the deleveraging plans.

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

So yes, as we mentioned, deleveraging is a focus of ours. We've seen pretty significant deleveraging from 3.6 at deal close to 3.17 today and we'd look to stay on track to get towards 2 times net leverage two years post close of the acquisition, which we're on track for.

And in terms of the rising interest rate environment, we have a combination of fixed and floating. We have fixed rate debt on the $550 million bond we put in as part of the acquisition. So no exposure to rising interest rates where the revolver is floating. And so there's a little bit of exposure there, but that's the instrument we'd be using to pay down debt. So that portion of the capital stack would come down as we delever.

As it relates to appetite for M&A, in the near term here, we're clearly focused on integrating TPS, realizing the synergies and deleveraging. But we do continue to expect to play offense as it relates to acquisitions in the aftermarket.

Operator

Josh Sullivan, Benchmark.

Joshua Sullivan - *The Benchmark Company LLC - Analyst*

Can you just expand on the commentary you made around potentially being part of the DOGE conversation or helping with any government in efficiency efforts. And I know this is probably a premature conversation, but can PMA fit into that conversation as well?

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

Yes. I would say, just to answer the last part first, certainly, PMA would be part of that conversation. But for -- and we're in that business and it's still a very small effort for us but a focus, I would say, more broadly in the areas where we have a much, much greater impact would be simply the utilization of used parts by the government.

And we've said many times that if the US Air Force bought parts like Delta Airlines, there's billions of dollars in the savings there. And one example that I believe everyone on the call is familiar with is when we sold two used C-40 aircraft to the Marines. And as you know, a C-40 is the 737 commercial derivative aircraft converted for military use, the government was going to buy two factory new C-40s from Boeing.

We convinced the government that they can achieve the same objective by buying used aircraft. We work with the government to source aircraft and ultimately convert used 737s to C-40s and those aircraft have since been delivered to the Navy and Marines and are in operations today, and we were able to save the government approximately $60 million on two aircraft alone.

And so when we think about those and the approach to looking at how can the government be more efficient we are hopeful that they will look to commercial solutions like what we offer and apply more of those commercial solutions to the government setting, and we've got great examples like the C-40 we talk to them about.

Joshua Sullivan - *The Benchmark Company LLC - Analyst*

Great. I'll keep it to one.

Operator

(Operator Instructions) Ken Herbert, RBC Capital Markets.

Kenneth Herbert - *RBC Capital Markets - Analyst*

Okay. Appreciate the follow-up. Just two quick questions.

First, as you start to maybe do more in PMA and it sounds like it's limited initially, but how are you managing any potential sort of conflicts with some of your OEM partners? And I'm just thinking specifically Unison has obviously been a great relationship and a great product line for you. Is that something that's at all a concern? Or how are you managing that as you communicate into the marketplace?

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

We are managing those relationships very, very carefully. We would never do anything that would run afoul with our OEM partners and distribution or any other part of our business. The good news is, as you know, there are thousands and thousands of parts on the aircraft. And there are lots of OEMs out there, big ones, small ones that we don't have any conflict with. And those are the type of parts that we're targeting.

Kenneth Herbert - *RBC Capital Markets - Analyst*

Okay, perfect. And maybe just for Sean. Can you give any color on the free cash flow outlook for the year? I mean, nice quarter this quarter.

Typically, you have a very strong quarter in your fiscal fourth quarter. How is thinking on full-year free cash shaped up? And should the trajectory look similar this year as it has in prior years with the fourth quarter?

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

Yes. I think the trajectory should look pretty similar. Obviously, the only thing different being the FCPA payment and the timing of the close of landing gear, but those will both have been either all in Q3 or certainly in this second half of the fiscal year.

As it relates to the balance of the free cash flow, I think it should look pretty similar to last year in terms of positive cash in Q3 and a stronger Q4 to close out the year. And that will help as we think about the deleveraging. That's a piece of it, and then the EBITDA growth will be another piece.

Operator

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

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

Great. Well, thank you very much. We really appreciate you all joining us today, and we look forward to being back next quarter to talk about Q3 results. Thank you.

Operator

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