

65 years strong

2020 Annual Report



Globally strong

North America
 HQ & warehouse near O'Hare Airport; MRO Services network with Component Repair; Manufacturing services; and Integrated Solutions – Government supporting WASS and other large-scale government programs

UK
 Integrated Solutions – Commercial and Parts Supply team in Gatwick; Airinmar® Component Repair management services; Integrated Solutions – Government in Waddington and Parts Supply sales office in Heathrow

Europe
 Component Repair in Amsterdam; warehouse network includes Brussels & Hannover serving EMEA & supported by sales office in Paris

China
 Sales support in Shanghai

Singapore
 Regional sales office based in Singapore; warehouse and engineering services for interior modifications for Asian airlines

Japan
 Regional sales support office

AAR now operates at 60 locations serving customers in 100+ countries. FY20 delivered one of our strongest years for global business development, as we signed new customers based throughout Africa, Asia, Europe and North America.

AAR announced a joint venture with Sumitomo Corporation to form AAR Sumisho Aviation Services to deliver parts distribution and logistics management solutions to the Japanese defense and system OEM market. AAR also signed its largest commercial deal in Japan, a multimillion dollar Parts Supply agreement with Mitsubishi Heavy Industries Aero Engines supporting PW4000 engine maintenance for international airlines.

As the largest independent MRO services provider in North America, Aviation Week Magazine ranked AAR as one of the world's Top 10 Airframe MROs in 2019 for our global reach and delivery of 4.9 million airframe maintenance man hours and 5.7 million total MRO man hours annually.

The newest members of our MRO network, AAR Aircraft Services—Trois-Rivières and Windsor in Canada—have transitioned smoothly into our network. They now perform narrow-body heavy maintenance and painting, primarily for Air Canada and Republic Airways.

Strong solutions

MRO Services

- Airframe
- Landing Gear, including Wheels and Brakes
- Component Repair
- Engineering

Manufacturing

- Composites
- Mobility Systems

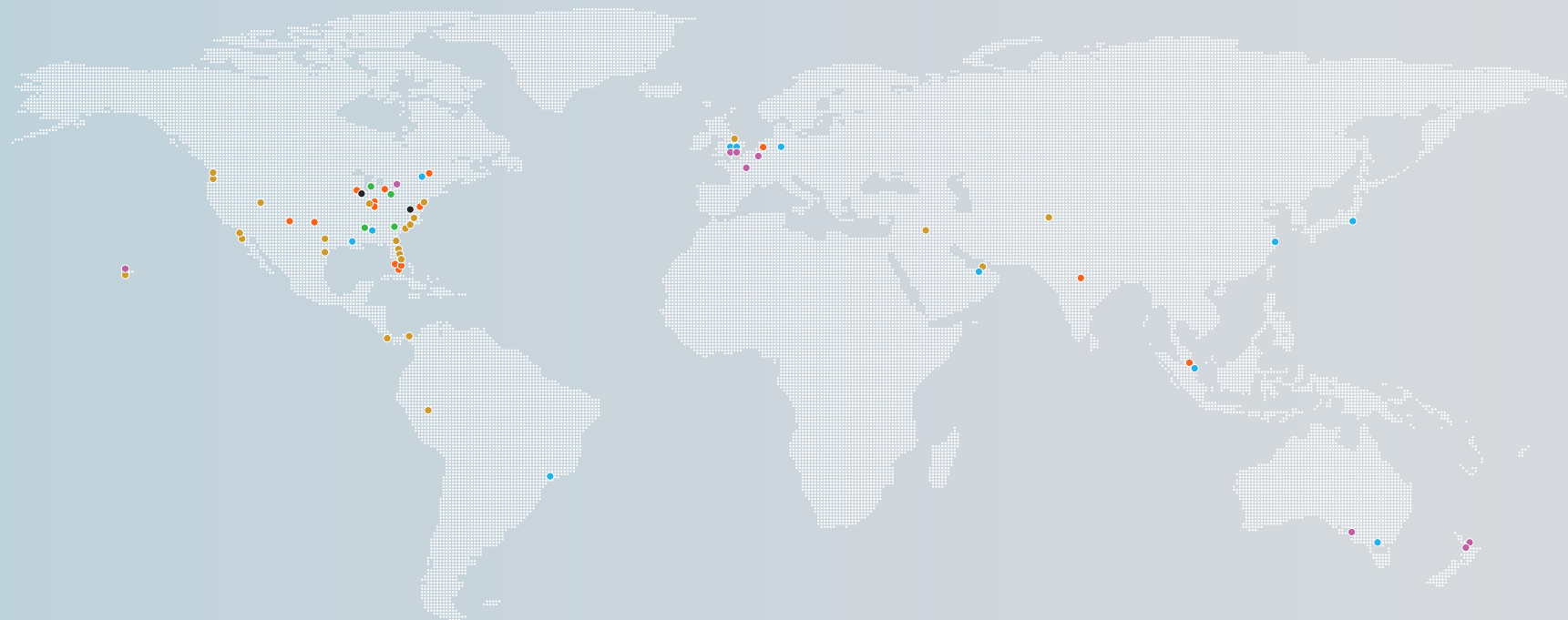


Parts Supply

- Serviceable & OEM factory-new parts
- Airframe parts sale, exchange, loan and lease
- Engine part sale, exchange and loan
- Engine solutions, management sales, leasing and exchange
- Aircraft sales and leasing
- OEM Solutions
- Online PAARTSSM Store
- 24/7 worldwide AOG service

Integrated Solutions

- Total fleet services
- Flight-hour support
- Contractor logistics support (CLS)
- Performance-based logistics (PBL)
- Third-party logistics (3PL)
- Consumables and Expendables aggregator



- Corporate
- MRO Services
- Parts Supply
- Integrated Solutions – Commercial
- Integrated Solutions – Government
- Manufacturing

Central and South America
 Sales offices supporting customers in Latin America and Integrated Solutions – Government supporting WASS

Middle East
 Warehouse and sales support in Dubai for EMEA; Integrated Solutions – Government supporting WASS

Australasia
 Flight hour support in New Zealand and sales support based in Australia

20 global commercial and military stocking locations*

60k+ repair orders managed by Integrated Solutions team*

36m+ parts transacted*

1.6m+ parts listed in PAARTSSM Store*

*in FY20

65 years strong

AAR was founded 65 years ago with the same focus we hold today — a customer-first business model, the continuous expansion of our aviation services, and the agility to navigate any economic shift and emerge stronger than before. Fiscal Year 2020, our 65th anniversary, celebrates record annual revenue and a proven position of financial strength heading into the future.



1955

Allen Industrial Sales, founded by Ira A. Eichner to supply radio and other equipment to aviation industry, is incorporated.



1967

Allen Airmotive in Amsterdam is established to provide services to the European aviation community, and AAR Corp. goes public as NYSE: AIR.



1971

Acquires its first aircraft maintenance business (MRO) at Will Rogers Airport in Oklahoma City.



1981

Acquires Mobility Systems, providing pallets and containers for troops and establishes Aircraft Turbine Center to expand engine business.



1982

Opens an office in Singapore to serve customers in the Asia-Pacific region.



1985

Enters F-15 and F-16 military aircraft component repair business, with customers including the Dutch Air Force, U.S. Air Force and NATO.



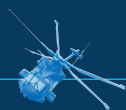
1986

Expands component repair portfolio by acquiring a landing gear overhaul and exchange facility in Miami.



1997

Two more acquisitions get the Company into the new parts distribution business, adding OEM products to its aftermarket network.



2000

Increases military partnerships including supply chain management for the U.S. Navy and UK Defense plus mission support in Afghanistan.



2004

Leases a world-class facility at the Indianapolis Maintenance Center with over 1 million square feet featuring 10 hangars for heavy maintenance.



2008

Acquires an MRO facility at Miami International Airport close to its landing gear overhaul facility.

AIRINMAR
An AAR Company

2011

Acquires component repair and warranty management provider Airinmar® to grow its component repair and flight-hour support business.



2016

Opens two brand new wide body hangar bays in Rockford, Illinois, to service next-generation aircraft.



2017

Acquires MROs in Canada –Trois-Rivières in Québec and Windsor in Ontario; opens warehouse at Dubai DWC; gets awarded by U.S. DoS to support WASS program.



2019

Ranks as No.1 MRO in North America, No. 3 in the world, surpasses \$2b record revenue and establishes workforce pipeline program EAGLE with local colleges.



2020

Expands digital initiatives introducing drone maintenance technology, launching a component repair management system, Airvolution®, and adding new inventory to PAARTSSM Store.

Dear fellow shareholders,

In the first 10 months of Fiscal Year (FY) 2020, AAR demonstrated continued steady growth as demand was strong across our end markets. However, the unprecedented grounding of the world's commercial fleet due to the COVID-19 pandemic impacted our services supporting commercial aviation in the fourth quarter of FY20.

In FY20, we saw an increase in sales to government customers as well as increased demand from our cargo customers. We continued to execute our multi-year strategy to focus our portfolio on our core aviation services offerings. In response to COVID-19, we took several actions to reduce our overhead and fixed costs in businesses supporting commercial aviation including exiting underperforming contracts and product lines. We are confident these actions will enable us to drive greater earnings growth and improved margin when demand recovers.

I am extremely proud of the dedication and hard work that the AAR team has demonstrated throughout the year. Despite the impact from COVID-19, we have maintained the highest level of service and commitment to our customers around the world. We will emerge from this downturn as an even stronger and more focused Company. I am proud to be part of the best team in aviation.

The following are AAR's highlights and developments from our FY20.

Financial Results

FY20 consolidated sales were \$2.07 billion, an increase of 1% over FY19. Full FY20 income from continuing operations was \$24.8 million, or \$0.71 per diluted share. Our adjusted diluted earnings per share from continuing operations was \$2.15 in the current year compared to \$2.44 last year, reflecting the significance of the fourth quarter impact of COVID-19.



John M. Holmes
President and Chief Executive Officer

Operational Highlights

Aviation Services represented 95% of our FY20 sales, which includes the sales of new and repaired engine and airframe parts, inventory, repair, and logistics planning services, as well as airframe maintenance, repair and overhaul (MRO) services.

Over the last several years, we have built a strong franchise within the government markets. AAR continues to focus on pursuing and expanding government programs. As the U.S. Government (USG) shifts its preference to Indefinite Delivery Indefinite Quantity agreements (IDIQs) over long-term contracts and increases its focus on cost and operational efficiency, AAR has successfully adapted and secured several IDIQs with our customized programs that incorporate commercial best practices to meet the USG's goals while maintaining performance excellence.

AAR currently serves as a prime contractor to the U.S. Navy, U.S. Air Force, U.S. Marshals Service and U.S. Department of State (DoS), and recently added four new foreign military partnerships. One of our largest wins of FY20 was the \$118M contract award with the Naval Air Systems Command (NAVAIR) to procure and modify two 737 aircraft supporting the U.S. Marine Corps, which follows our excellent standing and performance rating with the Navy as the prime contractor on the NAVAIR C-40A Contractor Logistics Support program.

AAR's DoS Worldwide Aviation Support Services (WASS) program continues to expand its locations and fleet coverage. We have successfully set up WASS sites in Asia, Africa, Central and South America, the Middle East and the U.S., and maintain DoS' diverse fleet of fixed and rotary-wing aircraft. AAR's P-8A MRO program continues to deliver overhauled like-new P-8As to the warfighter.

In our commercial business, we currently hold contracts with over 130 commercial airlines, with a strong focus on narrow-body aircraft and international operators, including long-term customers like Air Canada, Alaska Airlines, Delta Air Lines, Southwest Airlines and United Airlines. Despite the temporary market disruptions surrounding COVID-19, we expect that global air traffic will recover and grow. This will drive an increasing need for replacement parts and maintenance solutions. As travel and business industries recover and bring back flight demand, we anticipate our commercial partners will reactivate fleets and address deferred maintenance. Our MRO network will be ready to support that demand.

During this time of uncertainty in the commercial passenger airline industry, our government business continues to be healthy and growing, and we are having success placing more emphasis on our cargo end-markets. While the environment continues to be very dynamic, our commercial airline businesses have performed better than expected as a result of the early cost actions that we took in the quarter, as well as our deep customer relationships.

Expeditionary Services was 5% of our FY20 sales. Mobility Systems received over \$150 million in orders to produce cargo pallets, lightweight multipurpose shelters, and specialized shipping and storage containers for customers including the U.S. Air Force, Army Contracting Command and the Defense Logistics Agency (DLA).

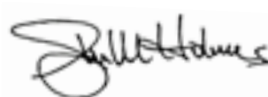
65 years strong

FY20 was a historical year in so many respects. We commemorated the 65th anniversary of AAR's founding as a small aircraft radio distributor and are proud of our growth and where we stand today. At the same time, the aviation industry experienced an unexpected and historical downturn. As AAR has with all the industry and market cycles of the past, we will not only endure but we will emerge stronger. In concluding my second year as CEO of AAR, I am truly honored and humbled by the unity I have seen across the Company, as our team members banded together amidst unimaginable circumstances.

With FY20 as our highest revenue year to date, new long-term contracts and a diverse business share, AAR is proudly entering the new fiscal year with financial strength, operational stability and an even more rigorous business development plan for the future.

I want to thank our AAR team members for their unwavering commitment, our customers for their partnership, our shareholders for their confidence, and our Board of Directors for their guidance.

Here's to 65 years strong and so many more to come!



John M. Holmes
President and Chief Executive Officer

Selected financial highlights

(dollars in millions except per share data)

For the year ended May 31	2020	2019	2018	2017	2016
Operating performance					
Net sales	\$ 2,072.0	\$ 2,051.8	\$ 1,748.3	\$ 1,590.8	\$ 1,525.4
Operating income	41.3	98.3	86.0	82.3	75.5
Diluted earnings per share from continuing operations	\$ 0.71	\$ 2.40	\$ 2.11	\$ 1.51	\$ 1.30
Financial position					
Working capital	1,055.6	595.0	609.4	553.4	540.3
Total assets	2,079.0	1,517.2	1,524.7	1,504.1	1,456.0
Total debt	602.0	142.9	178.9	156.2	145.3
Stockholders' equity	902.6	905.9	936.3	914.2	865.8

Adjusted operating income

(in millions)

For the year ended May 31	2020	2019
Operating income	\$ 41.3	\$ 98.3
Investigation and remediation compliance costs	10.1	3.5
Customer contract termination and restructuring costs	31.3	-
Impairment charges related to exited product lines	11.0	-
Facility consolidation and repositioning costs	4.9	0.9
Severance and furlough costs	7.1	0.2
Customer bankruptcy charges	1.6	12.4
Government workforce subsidies (loss)	(2.8)	-
Strategic financing evaluation costs	0.4	-
Adjusted operating income	\$ 104.9	\$ 115.3

Adjusted diluted EPS from continuing operations

For the year ended May 31	2020	2019
Diluted EPS from continuing operations	\$ 0.71	\$ 2.40
Investigation and remediation compliance costs, net of tax	0.22	0.08
Customer contract termination and restructuring costs, net of tax	0.68	-
Impairment charges related to exited product lines, net of tax	0.25	-
Facility consolidation and repositioning costs, net of tax	0.11	0.02
Severance, furlough and pension settlement charges, net of tax	0.19	0.01
Customer bankruptcy charges, net of tax	0.04	0.27
Government workforce subsidies	(0.06)	-
State income tax benefit	-	(0.15)
Recognition of previously reserved income tax benefits	-	(0.19)
Strategic financing evaluation costs, net of tax	0.01	-
Adjusted diluted earnings per share from continuing operations	\$ 2.15	\$ 2.44

Adjusted operating income and adjusted diluted earnings per share from continuing operations are "non-GAAP financial measures" as defined in Regulation G of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We believe these non-GAAP financial measures are relevant and useful for investors as they illustrate our actual operating performance unaffected by the impact of certain items. When reviewed in conjunction with our GAAP results and the accompanying reconciliations, we believe these non-GAAP financial measures provide additional information that is useful to gain an understanding of the factors and trends affecting our business and provide a means by which to compare our operating performance against that of other companies in the industries we compete. These non-GAAP measures should be considered as a supplement to, and not as a substitute for, or superior to, the corresponding measures calculated in accordance with GAAP. These non-GAAP measures exclude items of an unusual nature including but not limited to certain income tax benefits, workforce actions and costs, restructuring costs, facility consolidation and repositioning costs, impairment charges, investigation and remediation compliance costs and significant customer bankruptcies. Pursuant to the requirements of Regulation G of the Exchange Act, we are providing the tables on the left that reconcile the above mentioned non-GAAP financial measures to the most directly comparable GAAP financial measures.

Commercially strong

AAR has built our reputation within the commercial market on being a reliable and flexible partner. During FY20, we continued to deliver for an ever-expanding list of OEM, government and airline customers.

AAR Parts Supply continues to support commercial, cargo and government operators worldwide. Its market-leading used serviceable solutions include long-term contracts with Delta TechOps and MTU. AAR OEM Solutions, a trusted parts distributor to over 30 OEMs, was named the exclusive global distributor for AeroControlex and main distributor for Leach International Corporation.

AAR's MRO excellence continues to drive long-term customer retention, including long-term base load customers Air Canada, Alaska Airlines, Southwest Airlines and United Airlines. AAR signed a 10-year letter of intent with Air Canada adding new aircraft types and an aircraft maintenance center of excellence to our MRO contract maintaining Airbus platforms. BAE Systems expanded AAR's Component Repair contract to include a wider range of components for regional jet support programs. We also won and extended MRO contracts with large cargo carriers including Amazon Air, FedEx and UPS.

AAR Digital Services has developed software platforms that have been integrated by our customers. Airvolution®, a component repair management system, is our newest to the market. Our online PAARTSSM Store continues to expand rapidly with 350% growth in new customer registrations. In our MRO facilities, AAR also launched the pilot phase of drone technology for aircraft inspections, as well as introduced augmented reality technology for employees nationwide to engage in remote training sessions and cross-collaboration on program solutions.



600+ landing gears
(single leg)*

6m+ MRO man hours*

1,000+ airframes
maintained*

22k+ repair transactions
managed by
Component Repair*

Government and defense strong

By integrating commercial best practices and developing state-of-the-art integrated solutions, AAR continues to be a sought-after supplier for government and defense customers.

In FY20, AAR secured a contract with the Naval Air Systems Command (NAVAIR) to procure and modify two 737 aircraft supporting the U.S. Marine Corps. These two aircraft will join the fleet of U.S. Navy C-40 aircraft to which AAR is currently providing full CLS support. The U.S. Air Force (USAF) also awarded AAR a new CLS contract covering a fleet of 18 AN/MSN-7 deployable air traffic control towers.

Within the defense parts market, AAR was named the exclusive distributor for Woodward for the sales and distribution of selected spare piece parts to the U.S. Military.

MRO support to our military customers continues to grow. In our USAF landing gear contract, our program leaders overcame significant challenges and improved the KC-135, E-3 and C-130 landing gear systems supply support, earning strong kudos from the USAF. AAR's P-8A program remains strong delivering overhauled like-new P-8A's to the U.S. Navy. Additionally, we secured another contract with the Royal Netherlands Air Force to service the CH-47 APU, adding to our list of overhauled commodities.

In manufacturing, Mobility Systems continues to produce cargo pallets, lightweight multipurpose shelters, and specialized shipping and storage containers for customers including the U.S. Air Force, Army Contracting Command and the Defense Logistics Agency.

Our Company's success in supporting the U.S. Military and allied countries is in large part due to the valuable skills of our employee base of military veterans. *U.S. Veterans Magazine* named AAR one of the "Best of the Best Top Veteran-Friendly Companies" for 2020.



4 continents where CLS is provided, supporting DoD, DoS, UK and Central Asia customers*

28 government fleets supported*

\$4b in government assets managed*

\$3b government contracted revenue*

AAR leadership

Corporate Officers

John M. Holmes
President and Chief Executive Officer

John B. Cooper
Vice President, Global Government and Defense; Lt. General, U.S. Air Force (Ret.)

Sarah L. Flanagan
Vice President, Financial Operations

Jessica A. Garascia
Vice President, General Counsel and Secretary

Sean M. Gillen
Vice President and Chief Financial Officer

Nicholas P. Gross
Vice President, Integrated Solutions

Christopher A. Jessup
Vice President, Chief Commercial Officer

Salvatore J. Marino
Vice President, Parts Supply Group

Eric S. Pachapa
Vice President, Controller and Chief Accounting Officer

Brian E. Sartain
Vice President, Repair and Engineering

Gerritt Wieringa
Vice President, Chief Ethics and Compliance Officer

Dylan Z. Wolin
Vice President, Strategic & Corporate Development and Treasurer

Eric J. Young
Vice President, OEM Solutions

Board of Directors

David P. Storch³ - Chairman
Chairman of the Board, AAR Corp.

Anthony K. Anderson²
Former Vice Chairman and Managing Partner of Midwest Area at Ernst & Young LLP

Michael R. Boyce^{2,4}
Chairman and Managing Director, The Peak Investments, LLC

H. John Gilbertson, Jr.
Former Managing Director, Goldman Sachs

James E. Goodwin^{1,3,4} - Chairman, 5
Former Chairman and Chief Executive Officer, UAL, Inc. and United Airlines, Inc.

John M. Holmes³
President and Chief Executive Officer, AAR Corp.

Patrick J. Kelly^{1,4}
Managing Director, KMK & Associates, LLC

Robert F. Leduc
Former President, Pratt & Whitney

Duncan J. McNabb^{1,4}
General, U.S. Air Force (Ret.); Co-Founder and Managing Partner of Ares Mobility Solutions, Inc.

Peter Pace^{1,2}
General, U.S. Marine Corps (Ret.); Former Chairman of the Joint Chiefs of Staff

Jennifer L. Vogel^{2,3,4}
Former Senior Vice President, General Counsel, Secretary and Chief Compliance Officer, Continental Airlines

Marc J. Walfish¹ - Chairman, 3, 4
Founding Partner, Merit Capital Partners

Ronald B. Woodard^{1,2} - Chairman
Former President, Boeing Commercial Airplane Group

- ¹ Member of Audit Committee
- ² Member of Compensation Committee
- ³ Member of Executive Committee
- ⁴ Member of Nominating and Governance Committee
- ⁵ Lead Director

AAR awards reflect our strength



Stockholder information

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F: +1 630.227.2058
www.aarcorp.com

Transfer agent and registrar

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Providence, Rhode Island

Independent registered public accounting firm

KPMG LLP
Chicago, Illinois

Annual meeting of stockholders

The annual meeting of stockholders will be held at 9a.m. (Chicago time) on Wednesday, October 7, 2020.

Investor service program

AAR CORP. provides its stockholders the opportunity to purchase additional shares of common stock of the Company by automatic reinvestment of dividends and optional additional investments. Stockholders may obtain information regarding this plan by contacting the Corporate Secretary, AAR CORP., 1100 N. Wood Dale Rd., Wood Dale, IL 60191.

Ticker symbol

AAR stock is traded on the New York and Chicago Stock Exchanges under the ticker symbol AIR.

Forward-looking statements

This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 related to management's expectations about future conditions, including our ability to navigate the COVID-19 pandemic and emerge stronger. Actual business, market or other conditions may differ materially from management's expectations and, accordingly, may affect our sales and profitability or other results and liquidity. Any forward-looking statements represent our views only as of today and should not be relied upon as representing our views as of any subsequent date and we undertake no obligation to update any forward-looking statement. Actual results may differ materially due to various other factors, including those found in the "Risk Factors" section in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission.



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