

Q4 2026 AAR Corp Earnings Call

2026-07-21

Company Participants

Chris Tillett - Vice President, Investor Relations

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

Dylan Wolin - Senior Vice President, Chief Financial Officer

External Participants

Scott Mikus - Melius Research

Adam Samuelson - Jefferies

Ken Herbert - RBC Capital Markets

Louie DiPalma - William Blair Capital Partners

Michael Leshock - Keybank Capital Markets

Alexandra Mandery - Truist Securities

Operator: Hello, and welcome to AAR's fourth-quarter fiscal year 2026 earnings conference call. (Operator Instructions)

I would now like to hand the conference over to Chris Tillett, Vice President of Investor Relations. You may begin.

Chris Tillett: Good afternoon, everyone, and welcome to AAR's fiscal year 2026 fourth-quarter earnings conference call. We're joined today by John Holmes, Chairman, President, and Chief Executive Officer; and Dylan Wolin, Chief Financial Officer.

The presentation we're sharing today as part of this webcast can be found under the Investors section on our corporate website. Comments made during the call will 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 in the Risk Factor section of the company's annual report on Form 10-K, the fiscal year ended May 31, 2025. 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 during the call today. Reconciliations of these non-

GAAP measures to the most common GAAP measures are set forth in the company's earnings release and slides.

At this time, we'd like to turn the call over to John Holmes.

John Holmes: Great, thank you, Chris. And welcome, everybody, to our fourth quarter fiscal year 2026 earnings conference call. I'll begin with key messages on slide 3.

Momentum continued with another strong set of results in the quarter, demonstrating how our connected platform approach the parts, repair, and software is delivering higher, more profitable growth. Second, we delivered 26% growth in adjusted sales, 27% growth in adjusted EBITDA, and 32% growth in adjusted earnings per share for the period. The adjusted sales increase included 13% organic adjusted sales growth led by 19% organic growth in our new parts distribution activities and significant growth at Trax.

Notably, our adjusted EBITDA margin in the quarter, excluding Legacy Commercial Programs segment was 13%, already demonstrating our ability to achieve the three-year range provided at our Investor Day event held in May. While progress will not be linear, this quarter's results underscores the high degree of confidence we have that we will ultimately be able to achieve or exceed the high end of our range, as we continue to execute on our strategy. For the full year, the adjusted EBITDA margin excluding Commercial Programs was 12.7%.

Third, we continue to expect double-digit sales growth and further margin expansion as we execute on our plan. Finally, our strong cash flow in the quarter helped us further reduce our net leverage. We continue to carefully manage our balance sheet in order to support our disciplined approach to capital allocation and preserve financial flexibility.

Looking slide 4, total sales in the quarter were a record \$928 million and grew 26% year over year, including 13% organic growth. We drove revenue growth in each of our key parts, repair, and software activities in the period. Sales to commercial customers were up 31%, while sales to government customers were up 5% over the same period last year. 73% of sales were to commercial customers, and the remaining 27% were to government customers during the quarter.

Adjusted EBITDA in the quarter increased 27% year over year to \$116 million and adjusted EBITDA margin increased from 12.4% to 12.5%. Margin expansion in the quarter was driven by growth in new parts distribution and continued mix shift in government programs. We

continue to expand EBITDA margins despite the year-over-year comparable impact of a one-time gain in use serviceable material in the prior year.

Also, as we mentioned in detail, last quarter, the integration of HAECO Americas is tracking ahead of schedule, and slightly dilutive to near-term margins. Last quarter, the impact of HAECO was roughly 70 basis points, which we cited as the low, and this quarter the impact was roughly 40 basis points. Adjusted diluted EPS was up 32% year over year to \$1.53 per share, driven by our strong operational performance. Lastly, we have strong cash flow generation, with adjusted cash from operations of \$58 million in the fourth quarter, or \$94 million for the full year.

On slide 5, you will see the results for full year fiscal 2026. We had growth across all key performance metrics this year, demonstrating our disciplined execution, and the power of our parts, repair, and software platform. I'm extremely proud of our performance this year as we hit a record high on sales, adjusted EBITDA, and adjusted EPS.

We also closed on four separate acquisitions in 2026 and have been successfully executing on complicated integrations that involve site consolidation, workforce repositioning, and detailed customer coordination. These achievements are a testament to the dedication of our team and the effectiveness of our growth strategy.

For the year, adjusted sales were up 20% to \$3.3 billion, which included 14% organic adjusted sales growth. Adjusted EBITDA grew 24% for the full year, while margins were up 30 basis points to 12.1%, or 12.7% excluding our Legacy Commercial Programs segment. Adjusted EPS of \$5.05, was up 29% marking our fifth consecutive year of mid-teens or greater adjusted EPS growth.

Turning to slide 6, we continue to execute on our core strategic objectives. We signed another exclusive distribution agreement with Woodward in the quarter to provide distribution for high-demand parts for the LEAP, GENx, and CF34 engines. Our relationship with Woodward began with defense distribution, and we are excited to now extend our support into commercial distribution.

We continue to make progress on our airframe MRO expansions with Oklahoma City completed in March, and our Miami facility that will come online after this summer. We also continue to make progress on our strategy to grow our component MRO activity. And this quarter, we won multiple awards with leading airlines, which drove double-digit organic sales growth for the quarter.

In April we launched Airvoyant, our AI-driven procurement solution for airlines and MROs. This new software is entering beta testing with our launch partners, and we are encouraged by the broad interest the solution is generating. We're in the process of rolling out our paperless hanger technology at our Oklahoma City and Greensboro facilities. When complete, this will result in roughly 66% of our airframe MRO capacity using our paperless hanger technology.

In March, we were awarded a follow-on contract for \$305 million with the US Navy and Marine Corps to provide contractor logistics support for their C40 fleet, demonstrating once again our ability to bring commercial best practices to government customers.

As mentioned previously, the integration of the HAECO Americas acquisition is pacing ahead of schedule. And we expect the acquisition to reach margins consistent with our other airframe MRO sites in the second half of fiscal 2027.

And software of note, Trax continues to expand its relationship with Delta and has now reached Phase 2 of its implementation. Today, more than 10,000 professionals at Delta are using Trax. Lastly, we closed the previously announced acquisition of Aircraft Reconfig Technologies in April, bringing in-house certification capabilities and proprietary engineering solutions into our portfolio.

With that, I'll turn it over to Dylan to discuss the results in more detail.

Dylan Wolin: Thank you, John. Turning to Parts Supply in slide 7. Total Parts Supply sales grew 39% from the same period last year to \$424 million. We had another quarter of above-market growth in new parts distribution, which grew 19% organically, excluding the impact of our ADI acquisition.

Commercial distribution grew 28% organically, and government distribution grew 7% organically despite strong government sales in the year-ago quarter. Adjusted EBITDA of \$61.7 million, was up 18% over the prior year. Adjusted EBITDA margin of 14.6%, was down 250 basis points, driven primarily by a one-time gain in the year-ago quarter of \$6.5 million in our used parts activities.

Now on slide 8, for Repair, Engineering, and Software. Total sales increased 35% to \$314 million driven by the HAECO Americas acquisition, record growth in our component MRO activity, higher volumes at our airframe facilities, and increases in recurring revenue at

tracks. Adjusted EBITDA of \$36 million, was up 29%. Adjusted EBITDA margin of 11.5%, was down 50 basis points from the prior year.

As John mentioned earlier, consistent with our expectations, margins were negatively impacted in the quarter by our continued integration of HAECO Americas. The acquisition had an approximately 130-basis point impact on segment adjusted EBITDA margins in the quarter. This is an improvement over what we saw in the third quarter. And it's consistent with our expectation that margins will continue to improve as we complete our integration activities during the first half of FY27. Segment margins were also impacted in the quarter by approximately 90 basis points by certain costs in our component MRO operations that we do not expect to continue going forward.

Looking at Government Solutions on slide 9. Sales were down 8% year over year to \$130 million, and adjusted EBITDA of \$20.8 million was up 58%. Adjusted EBITDA margin, 670 basis points to 16.0%. The decline in revenue is driven by reduced activity on our WASS program supporting the State Department. We were able to partially offset this impact through expansion of other government programs that we have won over the last couple of years, as well as by strong pallet sales and our mobility operations. The other government programs, along with the greater mobility volumes, drove the segment margin expansion in the quarter.

Turning to the balance sheet on slide 10. We had another strong cash flow quarter, generating \$58 million in adjusted cash from operating activities. Importantly, we drove improvement in accounts receivable days and inventory terms, both year over year and quarter over quarter. Net leverage decreased from 2.17 times net debt to adjusted EBITDA at the end of Q3 to 2.03 times at the end of Q4, despite our funding of the ART acquisition in the quarter. Adjusted operating cash as a percentage of adjusted EBITDA was 50% for the quarter and 24% for the full year, demonstrating meaningful progress toward our long-term target of 30% plus.

With that, I'll turn the call back to John.

John Holmes: Thank you, Dylan, turning out a slide 11. The demand environment across our portfolio remains very strong. Commercial passenger volumes have been resilient, despite higher ticket prices, and the elevated aircraft fleet age continues to drive demand for our core parts and repair offerings. We expect these favorable conditions to continue.

In Parts Supply, order volume remains strong. And we continue to increase our offering with

the addition of new distribution agreements. In Repair, Engineering, and Software, our airframe MRO facilities remain largely full and demand for our component MRO services continues to increase. In addition, we have strong momentum in our software offering as we capture additional customers for Trax, Aerostrat, and Airvoyant.

Finally, in government solutions, although we expect a continued decrease in activity on our WASS program, we anticipate being able to more than offset that with growth on other programs at higher margins. As a result, in FY27, we expect another year of strong growth.

Specifically in Q1, we're expecting total sales growth excluding the Legacy Commercial Programs segment to be 21% to 23%. We expect Q1 adjusted EBITDA margin of 12.25% to 12.75%, also excluding Legacy Commercial Programs. Notably, we are getting to metrics on an ex-Legacy Commercial Programs basis, as we believe this more accurately reflects how we are managing the ongoing performance of the company. We expect the Legacy Commercial Programs business to wind down rateably over the next three to four years. And we will continue to provide updates on that progress as they become available. This timeline could shift based on the speed with which we exit inventory positions and contracts with customers.

On slide 12, you will see our outlook for the full fiscal year 2027. We expect another year of strong growth with total sales excluding Legacy Commercial Programs to be in the range of low double-digits to low-teens. This full-year guidance assumes conditions remain consistent with what I just described. Specifically, we expect continued strength in our new parts distribution activity within Parts Supply; continued growth in Repair, Engineering, and Software as a result of capturing more component work; our facility expansions coming online; and growth in our software offering.

Finally, we expect to see the benefit of the mix-shift in our Government Solutions segment towards newer, higher margin programs. This FY27 guidance supports the three-year revenue growth targets that we issued at our Investor Day, and we are confident in our ability to meet or exceed those targets.

I'll conclude on slide 13. ARR has been driving strategic transformation over the last several years. And today, we are a more focused company offering a complete range of aviation aftermarket solutions in parts, repair, and software. I'm very proud of all that we have accomplished in fiscal year 2026 and over the last several years.

Achieving our level of growth, while continuing to expand our margins, completing and

integrating six acquisitions, building new airframe capacity, and exiting activities that have become non-core is a complex set of activities to execute simultaneously. I'm immensely grateful to our team for their dedication and commitment to AAR. In addition, I'd like to thank our customers and shareholders for their ongoing support.

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

Q&A

Operator: Scott Mikus, Melius Research.

Scott Mikus: Good evening, John and Dylan, very nice results.

John Holmes: Thanks, Scott.

Scott Mikus: A quick question. Based on GE's results, it seems like their spare parts orders and commercial engines and services were very strong in April and May and then kind of started to normalize maybe later June. At parts supply, how have your orders trended for new parts, particularly to commercial customers since the end of May? And then with the recent uptick in hostilities with Iran, are you seeing tailwinds to your new parts distribution sales to government customers?

John Holmes: Yeah, great question. Our growth and distribution on the commercial side has been actually relatively consistent -- consistently strong, throughout the year and throughout the recent months. And just to break that down for you, growth in distribution is kind of roughly 50% coming from increase in same-store sales, if you will, existing distribution agreements. A little bit less than 50% is coming from the ramp up of new agreements, and then a little bit is coming from price increase.

But the volumes and the demand from the customers has been relatively consistent on the commercial side for the last several quarters. In defense, in particular, we had a very strong year overall. Organic growth and government distribution was 34% for the year. We started to see an increase more meaningfully last year at this time. So we're starting to lap some tougher comps right now. But we are encouraged by the demand patterns that we're seeing out of our government customers, most notably, the DLA.

Operator: Sheila Kahyaoglu, Jefferies.

Adam Samuelson: Yes. Hi. It's Adam Samuelson, I'm on for Sheila. Good evening, and thank you. I guess, the question is, if we look at the 2027 sales guidance ex-LCP, up low-double-digits to low-teens, be at the high end of the 8% to 12%, three-year guidance that you provided. So just help us think about the strength in 2027 that you're forecasting. And kind of, is there actually an implied slowdown in 2028 or 2029? Or is that just a conservative approach to multi-year planning? Thank you.

John Holmes: Thank you. No. We -- I mean, at this point, we're obviously not thinking about a slowdown in those out year. We're encouraged by the strength that we see in the near term here as we think about the next 12 months. We -- for all the reasons we talked about, I mean, we're very encouraged with the end market demand. The solutions we have, whether it's component repair, certainly new parts distribution software, et cetera, they all continue to traction in the marketplace. So generally speaking, we feel that the first year of that three-year guide will be strong. And we don't see any reason why the acceleration would occur in '28, '29.

Operator: Ken Herbert, RBC.

Ken Herbert: Hey, John and Dylan. I just wanted to ask on parts supply. If I take out the USM impact of last year and margins were still down slightly in the quarter, we just mixed -- was this anything else going on in that segment you could specifically call out? And how do we think about margins in the parts supply segment as we go through fiscal '27?

John Holmes: Yeah. Great question. It's USM. As we talked about the USM, margin has been constrained because asset availability has been constrained, and therefore, we had to pay more for assets and the spread at which we buy assets and sell assets in USM has narrowed. So you actually saw some sales growth throughout the year, in USM, so you did see sales growth in USM, but it came at a lower margin.

And so that mix shift drove the change that you saw in the fourth quarter. As we think about FY27 going through it, we are, as we did this year, have a very conservative expectation for USM and a much more robust expectation for distribution. At this moment, distribution is a higher margin than USM. And so as we see continued growth and distribution, we would expect margins to continue to improve.

Ken Herbert: Great. Thank you.

John Holmes: Thanks, Ken.

Operator: Louie DiPalma, William Blair.

Louie DiPalma: John, Dylan, and Chris, good afternoon, and congrats on the successful fiscal 2026.

John Holmes: Thank you.

Louie DiPalma: For your parts distribution business, organic growth remains strong. What is the expected impact from the new Woodward expansion? And what is the pipeline for other expansions from existing customers and also for new logos? I think you mentioned how you had the existing agreement with Woodward on the defense side, but is there potential for other customers to do the same?

John Holmes: Great set of questions. Woodward specific, I think the deal that we did, originally on the defense side and the deal that we've now done on the commercial side, both of those relative to all of distribution, are good but relatively small.

Having said that, what we like to see is exactly what's happening with Woodward, is we start in one area, we're successful, we move into another area and are successful, and then we see more and more opportunity. So we look at Woodward in general as a potentially large partner for us over time, and we're encouraged that we've already expanded the business.

And as it relates to new logos in the pipeline, absolutely. As we've talked about the momentum that we've seen in distribution continues. The situation where the more we win, the more we can win, our two-way exclusive distribution model has gained a tremendous traction of the model in the market. This is not something two or three years ago we were known for. We are known for it now, and we have lots of opportunities coming to us.

We've got a team over at Farnborough right now. Dylan and I were here stuck in Chicago, but the team is at Farnborough right now. And we -- I can tell you we're having a -- spoke to him this morning, we're having a -- there's lots of opportunity out there. And we're encouraged by the meetings that we're having.

Louie DiPalma: Right, yeah. I'm also stuck in Chicago. At the Analyst Day, John, you discussed how you and AAR currently generate \$100 million worth of heavy maintenance revenue with some of your largest customers. However, for some of these same customers

you only generate \$3 million of component repair revenue. And I was wondering, what is the timeframe we should expect, in terms of you being able to, like, cross sell the heavy maintenance with component repair in order to increase the component repair revenue from that bundling process?

John Holmes: Yeah. You're absolutely right. And just to kind of fill anybody else in who may not remember that comment, we -- a big part of the growth and component strategy is cross selling between where we have leadership positions on heavy maintenance and lesser positions on the component side. And if I think about some of our largest heavy maintenance customers, we could be doing \$100 million a year business or more in low-single-digit million business on the component side.

And interestingly, many airlines actually spend more money on component maintenance than they do on airframe heavy maintenance, so the opportunity there is larger. I would say, we're in the early innings of executing on that strategy. The conversations that we're having with some of our largest customers are just at the beginning stages, but the opportunity is there.

Even before though we get to that cross selling, we had a really nice growth quarter in component MRO. And that came from not -- opportunities from cross selling, but just straight up wins in the marketplace, most notably, in our Asia operation in Thailand.

So we're encouraged by -- now that we've got the integration done, now that we've got the pieces in place, we're encouraged by the momentum that our sales force is seeing with, I would call it, more traditional wins. And then on top of that, would come the larger deals from cross selling.

Louie DiPalma: Great. And are there any particular areas of the component repair that you're focusing on? Or are you able to share in terms of the success in Thailand, like the particular area that --?

John Holmes: Yeah. Thailand, in particular -- yeah. Thailand in particular has been more structures repairs. So doing work on the cells, thrust reversers, elements like that on the aircraft. The work that we've been winning here in the US has been mechanical components, particularly around engines accessories.

Louie DiPalma: Fantastic. Thanks, John, Dylan, and Chris.

John Holmes: Great, thank you.

Dylan Wolin: Thanks, Louie.

Operator: Michael Leshock, KeyBanc Capital Markets.

Michael Leshock: Hey, good afternoon. I just wanted to ask on the growth opportunities that had now that you're at the low end of the targeted leverage range. Could you talk about where you see the future growth opportunities and kind of what your appetite is for organic versus inorganic?

And then maybe, secondly, is there any more color you can provide on how the M&A pipeline looks today, whether it's valuations, deal sizes, targeted segments? Any color that would be great, thank you.

John Holmes: Thanks for the question. I would say, we continue to see opportunities. First of all, let me take a step back. We're really proud of the progress that we've made on the balance sheet throughout the year. As you noted, we are well within at the low end of our targeted leverage range which gives us, not only capacity to go out there and continue to invest in our growth, but also the confidence that when we make those investments, we can delever and do it again. So we see opportunity certainly to continue to deploy capital inside the company, most notably, in support of the parts supply business, and then -- so from an organic standpoint.

But then inorganically, yes. The M&A pipeline remains full. There are a number of opportunities that we've been tracking for years. If I think about the six acquisitions we've done in the last three years, almost all of those were acquisitions that we had known about for some time, and the stars aligned and we were able to complete them. And there's a list of more deals out there like that that we're focused on,

And everybody should expect that M&A will be part of our continued growth strategy going forward. So we're proud of the accomplishments that we've achieved with, managing leverage to where it is, and that gives us the confidence to go out there and continue to deploy capital to fund the growth.

Michael Leshock: And then maybe on Airvoyant, how is the early adoption been there for that platform? I know it's something that's been in the works for a long time now, but was finally released. So just wondering what the customer feedback has been there so far? And

maybe, also as we look longer-term, are you expecting competitors to adopt the platform? And if you could explain the incentive for them to do so, that would be great.

John Holmes: Yeah, great. So a great question, and I would -- kind of key off of what we said at Investor today, which was we watched Airvoyant at the MRO conference in April, the enthusiasm was significant. I think we're all very pleasantly surprised by the amount of interest that we had from a very broad range of airlines. And there was not a single airline that we met with or spoke to there or since that have kind of questioned the need for the tool. Everybody understands that this is a problem in our industry that needs to be solved.

The conversation has been more about great, I like it, but can it also do this, and this, and that's kind of what we're working on right now. So we've got a number of customers that we've partnered with for beta testing. We're working on getting them all hooked up, if you will, right now, because it's a software platform that has to integrate with either be the tracks, or the customer's procurement system if they're not on track, and it needs to access customers data in order to work.

It takes a little bit of effort to get each customer signed up. It's not like you fill in your login credentials and you're ready to go. It is more of an effort. And so the process is moving. It's just taking a little bit of time. But the interest is significant, and we've got a number of great airlines that are signing up, or in the process of signing up to be beta users.

And then as for competitors, it's -- Airvoyant is not meant to be an AAR-only product by any means. And it is meant to allow airlines to leverage AI, to source the broad market. And as we've described, we are using the Aeroxchange network that connects roughly 5,000 vendors to hundreds of airlines around the world. And so by sitting on top of that network, we have the ability to leverage our AI tool from the airline's perspective to access those 1,000 vendors that are already on it. They can start responding that they would receive from Airvoyant. So again, we're very encouraged. It's early days. The product didn't exist a few months ago, but, there's a lot of interest.

Michael Lachak: Makes sense. Thank you.

John Holmes: Thank you.

Operator: Scott Mikus, Melius Research.

Scott Mikus: Hi, yes. John, quick question on the software sales. If I -- on my estimates, it

was slightly north of \$50 million in fiscal '26 with low-20s EBITDA margins. And you talked to the Investor Day about growing the software sales to about \$200 million in the future. So you go from \$50 million to more than \$200 million. Should we be thinking about the incremental margins on those software sales being in the 40% range and that driving further positive mixed shift within the business?

John Holmes: The short answer is yes. We've got a clear line of sight to -- we double tracked from \$25 million when we bought it to \$50 million and we've got a clear line of sight to get it to \$100 million. And the quarter we just wrapped up, it gives a lot of confidence in getting there. \$200 million is -- I would say, that's an out year number. But if we think about the growth in tracks, if we think about certainly Airvoyant -- and the airline element of software that we haven't talked about specifically is Aerostrat. And that's a long range, heavy maintenance planning tool that we acquired also in FY26.

That has been -- we can't put out a press release for everyone, but that has been -- that particular offering has had tremendous success in the marketplace. And the team at Aerostrat, they're doing an incredible job of selling that software. So that is definitely exceeding our expectations from when we made the acquisition.

So, if we think about it in stages, clear path in the near to medium term to the \$100 million, and then beyond, as you said, to \$200 million. And as we scale, yes. We have to go from 20% to 30% or 40% as the software offering grows.

Scott Mikus: Okay. And then one more quick one. So you announced the new distribution agreement with Woodward for parts on various engine platforms. Woodward also sells very similar parts and other industrial end markets to support power gen, oil and gas. Would you consider distributing those non-aerospace parts as well, just given the growth profile we're seeing in electricity to support data centers?

John Holmes: Yeah, great question. And yes, we would. It would have to be absolutely the right set of circumstances. We're very focused on being focused and staying in our lane, and leveraging the expertise and the relationships that we have in the aerospace market. But to the extent the right opportunity comes along with an OEM that we're good partners with and we feel like we can be successful for them in another market, we certainly look at that.

I would point that elsewhere in distribution, ABI, for example, our electronics business, well, that's -- vast majority of the sales are to aerospace, being in the business of

distributing electronics to manufacturers does open up opportunities for us with other industries. But of course our focus, at this moment is aerospace.

Scott Mikus: Okay, got it. Thank you very much.

John Holmes: Thank you.

Operator: Ken Herbert, RBC Capital Markets.

Ken Herbert: Hey, John and Dylan. I just wanted to clarify government solutions. Looks like you benefited significantly from a mix standpoint, as WASS sales we're down in the quarter and obviously margins seem to be up very nicely. Was the sales decline and the margin strength in the segment really just WASS or was there anything else going on in the segment?

John Holmes: The decline was WASS. And as we said, we were actually able to partially offset that. So it gives you a sense for the degree of the -- just the shrinkage in that program. And then from a margin perspective, mobility systems, which is obviously a small part of that segments, had strong margin performance as a function of mixed shift towards pallets, which we talked about being in high demand in the current environment.

Ken Herbert: Thanks. And Dylan, how do we think about free cash flow in '27, in terms of the pace and we maybe see a little more even loading up the cash across the year, or is it still pretty seasonal? And how do we think about the key opportunities, working capital or other areas, that should be sort of head -- or headwinds or tailwinds, as we think about expectations for '27 free cash flow?

Dylan Wolin: Yeah. I mean, I would say we are focused on driving progress towards that 30%-plus operating cash flow as a percentage of adjusted EBITDA metric. We talked about it at Investor Day. WASS should be measured over multiple periods. We obviously talked about it on a trailing basis this quarter and I expect we'll continue to do that going forward.

You obviously have quarter to quarter, things will happen, and we'll have inventory investments. But it's, over time, making progress on that metric, and I would say in particular, driving a lower accounts receivable days and greater inventory turns. And we want to continue to make a year-over-year progress in those two metrics.

Ken Herbert: Great. Thanks, Dylan.

Operator: Alexandra Mandery, Truist Securities.

Alexandra Mandery: Hey, John, Dylan, and Chris. Nice results. And thanks for taking my question. Sorry if I missed it, but just wanted to see if you could provide some additional color on HAECO integration? And wanted to see if you could quantify any remaining cost the revenue synergy is expected to hit in fiscal '27? And I guess, maybe what processes or systems might be left integrated, including the paperless hanger initiative amongst others?

John Holmes: Absolutely, great question. So I guess a few different ways. There are a few different things to think about. We're largely through, I would say, the right sizing of the facilities we acquired with HAECO. Meaning, we brought the workforce to the level that supports the volume that we anticipate. And that is a lower volume of work than HAECO was performing before, because a lot of that work doesn't meet our margin requirements. So nearly, all of that work has been closed up and shipped off. And we're now kind of fully in line with the customers that we will support of those facilities for the long-term, so that's kind of part one.

Part two is the shift of work from our Indianapolis facility to mostly the HAECO Greensboro facility. That is underway, we would expect to have that, complete by the end of this calendar year, and then we will exit the, fully closed down the HO facility and kind of be pulling up and running in the HAECO facility with that volume, so that's a lot of activity between now and the end of the calendar year. You get all of that done.

And the last kind of major piece is the implementation of the paperless hanger in the Greensboro facility, that would occur at the back end of this year. We need customer cooperation to get that fully online, but the expectation, I would say Q4 of FY27 will have the HAECO facility kind of up and running with consistent margins and performance with the other existing AAR aircraft facility. So, a lot -- a few moving parts there, but the headline is we'll have all of the work done and kind of running at the levels we envisioned by the end of this fiscal year.

Alexandra Mandery: Awesome. And then I guess, with owning tracks, Airvoyant and Aerostrat, you have a good set of software capabilities. Is there anything you see missing in your software capabilities that you were looking to fill or you're remaining focused on further developing and enhancing these businesses and onboarding more customers at this time?

John Holmes: I think it's definitely that. I would say that's the headline, continuing to build out the functionality that tracks Aerostrat and Airvoyant. And there's lots to do in each of those areas. And the Trax platform, in general, I mean, it's a very broad platform. There's a tremendous amount of capability. We're building a lot of new capabilities as part of the Delta integration -- or the Delta implementation. And then it'll be a function of -- once that capability is built for Delta, you can roll it out to other tracks customers. So there's a lot to get done there.

Having said that, from an M&A standpoint, when we kind of thought about Aerostrat this way, so think about Trax is the operating system and then there are applications, apps that you can that are out there that you could acquire. Aerostrat could be an example of that. And there are other capabilities that exists out there, as independent companies that we see is opportunity for us to add to the portfolio.

But then, I would say there are discrete things. Like, take Aerostrat, for example. They are the leaders in airframe heavy maintenance planning. There's also engine maintenance planning as something we could look at. There's also line maintenance planning, is an activity that we could look at. And those things all go together.

So there are -- it's a long way to say there are definitely investments that we want to make, to strengthen the product offering that we already have, but then additional things we could either build organically or add in organically over time.

Alexandra Mandery: Awesome. Thank you.

John Holmes: Thank you very much.

Operator: Thank you. Ladies and gentlemen, I'm showing no further questions in the queue. I would now like to turn the call back over to John for closing remarks.

John Holmes: Right. Well, thank you very much. We really appreciate the time and the interest, everybody. And we look forward to being back here in a couple months with our Q1 results. Thank you.

Operator: This concludes today's conference call. Thank you for your participation, you may now disconnect.

