Ducommun






Q1 2023 Earnings Call

Stephen Oswald - Chairman, President and Chief Executive Officer
Suman Mookerji – Senior VP, CFO, Controller & Treasurer

May 4, 2023

Disclosures

Forward-Looking Statements: This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be preceded by, followed by or include the words "believe," "continue," "estimate," "expect," "may," "plan," "potential," "should," "result," "target" or similar expressions. These statements are based on the beliefs and assumptions of our management. Generally, forward-looking statements include information concerning our possible or assumed future actions, events or results of operations. Forward-looking statements specifically include, without limitation, the information in this presentation regarding: the recovery of, and expected increase in build rates for the commercial aerospace industry generally and certain single- and twin-aisle commercial aircraft programs through 2024, the commercial aerospace industry recovery in light of the COVID-19 pandemic and air travel, expected federal defense spending, offloading by defense primes, and related budgetary environments, our expected growth generally through 2023, expectations related to the intended results of BLR's products, and expected expenses incurred and annualized savings realized under the Company's restructuring plan. Although we believe that the expectations reflected in the forward-looking statements are based on reasonable assumptions, these forward-looking statements are subject to numerous factors, risks and uncertainties that could cause actual outcomes and results to be materially different from those projected. We cannot guarantee future results, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. All written and oral forward-looking statements made in connection with this presentation that are attributable to us or persons acting on our behalf are expressly qualified in their entirety by the risk factors and other cautionary statements contained in our filings with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2022.

While it is impossible to identify all such factors, some factors that could cause actual results to differ materially from those estimated by us include, but are not limited to, the risk factors and other cautionary statements contained in our filings with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2022 and the following: our ability to manage and otherwise comply with our covenants with respect to our outstanding indebtedness; our ability to service our indebtedness; our acquisitions, business combinations, joint ventures, divestitures, or restructuring activities may entail certain operational and financial risks; the cyclicality of our end-use markets and the level of new commercial and military aircraft orders; industry and customer concentration; production rates for various commercial and military aircraft programs; the level of U.S. Government defense spending; we are subject to extensive regulation and audit by the Defense Contract Audit Agency; compliance with applicable regulatory requirements and changes in regulatory requirements, including regulatory requirements applicable to government contracts and sub-contracts; further consolidation of customers and suppliers in our markets; product performance and delivery; start-up costs, manufacturing inefficiencies and possible overruns on contracts; increased design, product development, manufacturing, supply chain and other risks and uncertainties associated with our growth strategy to become a supplier of higher-level assemblies; our ability to manage the risks associated with international operations and sales; economic and geopolitical developments and conditions; pandemics, such as COVID-19, significantly impacting the global economy and specifically, the commercial aerospace end-use market; disasters, natural or otherwise, damaging or disrupting our operations; unfavorable developments in the global credit markets; our ability to operate within highly competitive markets; technology changes and evolving industry and regulatory standards; possible goodwill and other asset impairments; the risk of environmental liabilities; the risk of cyber security attacks or not being able to detect such attacks; litigation with respect to us; and other risks and uncertainties.

We caution the reader that undue reliance should not be placed on any forward-looking statements, which speak only as of the date of this presentation. We do not undertake any duty or responsibility to update any of these forward-looking statements to reflect events or circumstances after the date of this presentation or to reflect actual outcomes, except as required by law.

Industry and Customer Information: Market data and industry information used throughout this presentation are based on management's knowledge of the industry and the good faith estimates of management. We also relied, to the extent available, upon management's review of independent industry surveys and publications and other publicly available information prepared by a number of third party sources. All of the market data and industry information used in this presentation involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. Although we believe that these sources are reliable, we cannot guarantee the accuracy or completeness of this information, and we have not independently verified this information. While we believe the estimated market position, market opportunity and market size information included in this presentation are generally reliable, such information, which is derived in part from management's estimates and beliefs, is inherently uncertain and imprecise. No representations or warranties are made by the Company or any of its affiliates as to the accuracy of any such statements or projections. Projections, assumptions and estimates of our future performance and the future performance of the industry in which we operate are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described above. These and other factors could cause results to differ materially from those expressed in our estimates and beliefs and in the estimates prepared by independent parties. Further, the inclusion of customer logos or references to specific programs in this presentation is not an endorsement of the Company.

Non-GAAP Financial Measures: This presentation includes certain non-GAAP financial measures, such as Adjusted EBITDA, Adjusted Gross Profit, Adjusted Gross Profit Margin, Adjusted Operating Income, Adjusted Operating Income Margin, Adjusted Net Income, Adjusted Earnings per Share, and backlog. For a reconciliation of such non-GAAP financial measures to the closest GAAP measure not already included in this presentation, see "Non-GAAP Financial Measures" in the Appendix of this presentation.

Other: The inclusion of information in this presentation does not mean that such information is material or that disclosure of such information is required.

BLR Acquisition

Closed on the acquisition of BLR Aerospace for $115M[1] in April 2023

BLR
PERFORMANCE INNOVATION

- Leading provider of aerodynamic systems including FastFin® systems, winglet systems, propellers, and flow modifiers for rotorcraft and business aviation
- Significant aftermarket content

Metrics for Acquisitions made from 2017 through 2022

Above
Deal Model EBITDA Target through 2022[2]

Double Digit
ROIC[3] for deals closed >12 months

~4x
EBITDA multiple reduction[4]

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[1] Purchase price was $115M, net of cash acquired.
[2] Calculated on cumulative basis from the quarter after Closing, based on full year 2022 actuals versus deal model EBITDA target through 2022.
[3] Based on full year 2022 financials; Present value of acquisition tax benefits netted out from Invested Capital.
[4] Based on full year 2022 EBITDA multiple versus LTM EBITDA multiple at time of acquisition.

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Q1 2023 Recap

Strong top line performance with **revenue up 11% year-over-year**

Continued strength in bookings with **backlog at $961M**

Commercial aerospace revenue **grew 35% year-over-year**

Acquisition of BLR Aerospace, announced on March 21, 2023, and subsequently closed on April 25, 2023

Q1 2023

Revenue
$181.2M
Up 11% y-o-y

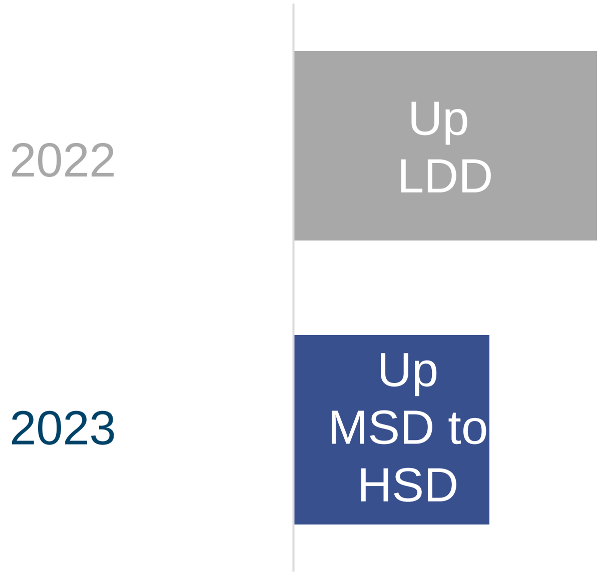
Adjusted OI*
$13.6M
Up 10% y-o-y

Adjusted EPS*
$0.63
Down 6% y-o-y

Solid first quarter with business well positioned for continued Commercial Aerospace recovery

**See Appendix for additional information regarding these non-GAAP financial measures.*

2023 Revenue Outlook Raised



Continued strength in backlog

Commercial aerospace build rates continue to ramp up

Defense prime offloading theme playing out

BLR Aerospace acquisition closed in April 2023

Raising outlook from *Low-Mid Single Digit* to *Mid-High Single Digit* revenue growth

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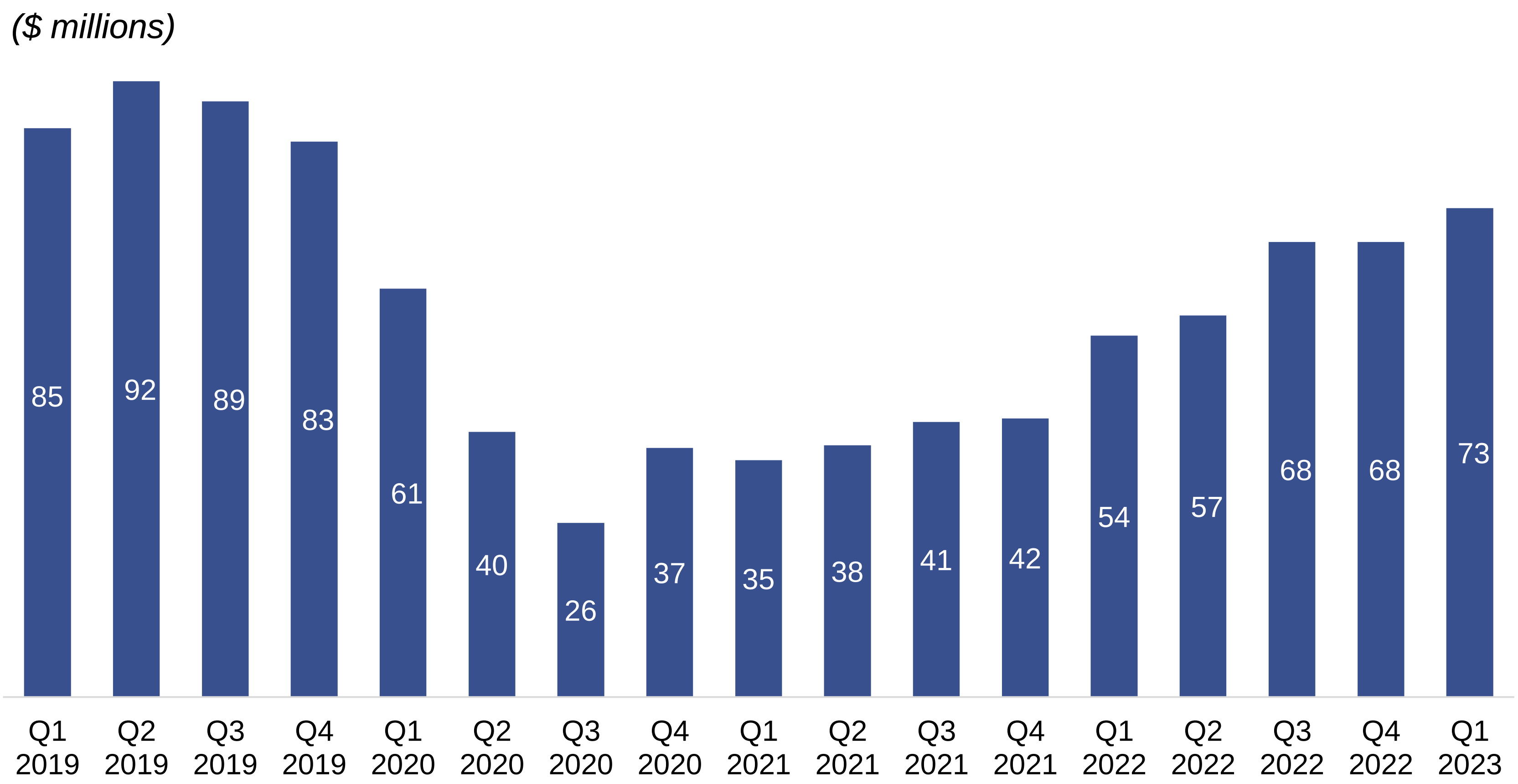
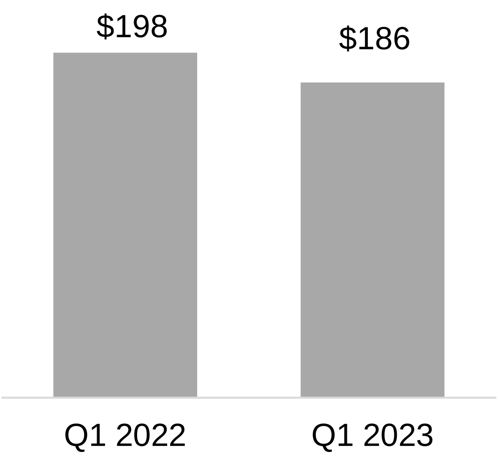
Improving Commercial Aerospace Revenue Trend

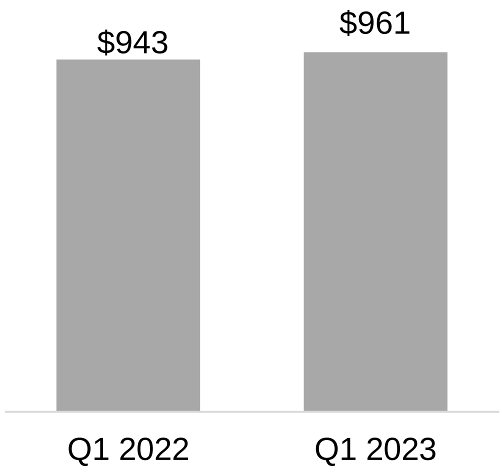


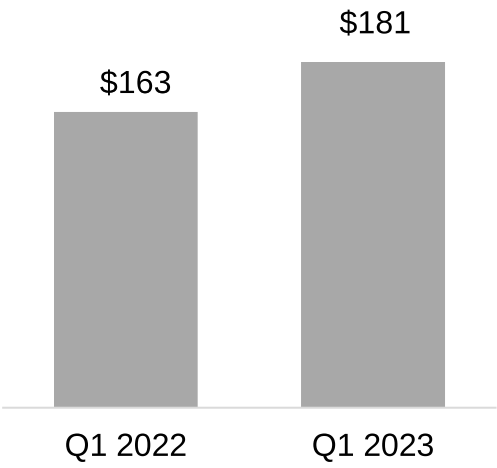
- Commercial Aerospace industry production rates expected to ramp through at least 2025
- Single aisle recovery continues to be primary driver
- Twin aisle production rate increase, mainly the 787, should provide additional support

Continued Strength in Backlog

Bookings[1]	Backlog	Revenue
Down 6%	up 2%	up 11%







<u>Strong backlog</u> of $961M and book-to-bill ratio[2] of 1.0 in Q1 2023

[1] Bookings defined as orders net of cancellations in the period.
[2] Book-to-bill ratio defined as bookings divided by reported revenue.

Structural Segment Highlights

	Reported	Adjusted*	YOY Var.*
Revenue	$75.6	$75.6	+14%
Operating income	$4.7	$9.7	+26%
Operating income margin	6.3%	12.9%	+119 bps

737MAX

New Workshare Award from Spirit in April 2023 to build fuselage skins for the 737MAX

- Strong revenue growth of 14% year-over-year driven by Commercial Aerospace growth of 36%
- Backlog increased 8% over prior year
- Well positioned across major single aisle (737, A320, A220) programs to execute planned rate increases

Well positioned as Commercial Aerospace recovery continues

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**See Appendix for additional information regarding these non-GAAP financial measures.*

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Electronic Segment Highlights

	Reported	Adjusted*	YOY Var.*
Revenue	$105.6	$105.6	+8%
Operating income	$10.0	$12.3	+25%
Operating income margin	9.5%	11.6%	+157 bps

Raytheon Technologies

NORTHROP GRUMMAN

GENERAL ATOMICS

BAE SYSTEMS

Parker

Defense Primes offloading creating key win opportunities across the Electronic Segment

- Revenue increased year-over year by 8%, driven by strong commercial aerospace revenue growth of 32% year-over-year
- Margin improvement driven by scale leverage and value pricing partially offset by product mix

Continued resilience in Defense spending along with offloading from Primes

**See Appendix for additional information regarding these non-GAAP financial measures.*

Restructure Update

- During Q2 2022, Management commenced a restructuring plan
- Executing on manufacturing footprint optimization as we reposition production from Monrovia, CA, Berryville, AR, and Thailand
- Incurred more than $4M of restructure costs during Q1 2023 and estimate an additional $8M to $12M mainly in facility related severance and consolidation costs through 2023
- Expected annualized savings of $11M to $13M, starting in the second half of 2023

Appendix

Non-GAAP Financial Measures

Note Regarding Non-GAAP Financial Information: This presentation contains non-GAAP financial measures, such as Adjusted EBITDA, Adjusted Gross Profit, Adjusted Gross Profit Margin, Adjusted Operating Income, Adjusted Operating Income Margin, Adjusted Net Income, Adjusted Earnings Per Share, and Backlog.

The Company believes the presentation of these non-GAAP financial measures provide important supplemental information to management and investors regarding financial and business trends relating to its financial condition and results of operations. The Company's management uses these non-GAAP financial measures along with the most directly comparable GAAP financial measures in evaluating the Company's actual and forecasted operating performance, capital resources and cash flow. The non-GAAP financial information presented herein should be considered supplemental to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. The Company discloses different non-GAAP financial measures in order to provide greater transparency and to help the Company's investors to more meaningfully evaluate and compare the Company's results to its previously reported results. The non-GAAP financial measures that the Company uses may not be comparable to similarly titled financial measures used by other companies.

We define backlog as potential revenue and is based on customer placed purchase orders and long-term agreements with firm fixed prices and expected delivery dates of 24 months of less. Backlog is subject to delivery delays or program cancellations, which are beyond our control. Backlog is affected by timing differences in the placement of customer orders and tends to be concentrated in several programs to a greater extent than our net revenues. As a result of these factors, trends in our overall level of backlog may not be indicative of trends in our future net revenues.

For more information on our non-GAAP financial measures and a reconciliation of such measures to the nearest GAAP measure, please see the "Non-GAAP Reconciliation" slides on the following pages.

Non-GAAP Reconciliation for Adjusted EBITDA

($ millions)

	Q1 2023	Q1 2022
Net Revenues	**$ 181.2**	**$ 163.5**
Net Income	**$ 5.2**	**$ 8.1**
Interest Expense	$ 4.2	$ 2.4
Income Tax Expense	$ 0.8	$ 1.6
Depreciation	$ 3.7	$ 3.6
Amortization	$ 4.2	$ 4.2
Stock-Based Compensation Expense	$ 3.1	$ 1.6
Guaymas Fire Related Expenses	$ 1.5	$ 1.0
Inventory Purchase Accounting Adjustments [1]	-	$ 0.6
Restructuring Charges	$ 4.2	-
Insurance recoveries related to loss on operating assets [2]	($3.9)	-
Insurance recoveries related to business interruption [3]	-	($3.0)
Adjusted EBITDA	**$ 23.1**	**$ 20.1**
% of Net Revenues	***12.7%***	***12.3%***

[1] Q1 2022 included inventory purchase accounting adjustments of inventory that was stepped up in the purchase price allocation from the acquisition of MagSeal Corporation in Dec 2022, and is part of our Structural Systems operating segment.
[2] Q1 2023 exclude other income received due to loss on operating assets insurance coverage.
[3] Q1 2022 exclude other income received due to business interruption insurance coverage.
**Amount may not total due to rounding.*

Non-GAAP Reconciliation for Adjusted Gross Profit

($ millions)

	Ducommun	
	Q1 2023	**Q1 2022**
Net Revenues	**$ 181.2**	**$ 163.5**
Gross Profit	**$ 36.8**	**$ 32.5**
Gross Profit Margin	***20.3%***	***19.9%***
Guaymas Fire Related Expenses	$ 1.5	$ 1.0
Inventory Purchase Accounting Adjustments [1]	-	$ 0.6
Adjusted Gross Profit	**$ 38.2**	**$ 34.1**
Adjusted Gross Profit Margin	***21.1%***	***20.8%***

[1] Q1 2022 included inventory purchase accounting adjustments of inventory that was stepped up in the purchase price allocation from the acquisition of MagSeal Corporation in Dec 2022, and is part of our Structural Systems operating segment.
**Amount may not total due to rounding.*

Non-GAAP Reconciliation for Adjusted OI

($ millions)

	Ducommun		Structural		Electronic	
	Q1 2023	Q1 2022	Q1 2023	Q1 2022	Q1 2023	Q1 2022
Net Revenues	**$ 181.2**	**$ 163.5**	**$ 75.6**	**$ 66.0**	**$ 105.6**	**$ 97.5**
Operating Income	**$ 6.4**	**$ 9.1**	**$ 4.7**	**$ 4.9**	**$ 10.0**	**$ 9.4**
Guaymas Fire Related Expenses	$ 1.5	$ 1.0	$ 1.5	$ 1.0	-	-
Inventory Purchase Accounting Adjustments [1]	-	$ 0.6	-	$ 0.6	-	-
Restructuring Charges	$ 4.2	-	$ 2.3	-	$ 1.9	-
Amortization of Acquisition Related Assets [2]	$ 1.6	$ 1.6	$ 1.2	$ 1.2	$ 0.4	$ 0.4
Adjusted Operating Income	**$ 13.6**	**$ 12.3**	**$ 9.7**	**$ 7.7**	**$ 12.3**	**$ 9.8**
% of Net Revenues	***7.5%***	***7.5%***	***12.9%***	***11.7%***	***11.6%***	***10.0%***

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[1] Q1 2022 included inventory purchase accounting adjustments of inventory that was stepped up in the purchase price allocation from the acquisition of MagSeal Corporation in Dec 2022 and is part of our Structural Systems operating segment.
[2] Q1 2023 and Q1 2022 include amortization of acquisition related assets from acquisitions of Lightning Diversion Systems, LLC, Certified Thermoplastics Co., LLC, Nobles Worldwide, and MagSeal Corporation on Sep 2017, Apr 2018, Oct 2019, and Dec 2022 respectively, and is part of our Electronic Systems, Structural Systems, Structural Systems, and Structural Systems operating segments, respectively
**Amount may not total due to rounding.*

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Non-GAAP Reconciliation for Adjusted Net Income & EPS

($ millions)

	Q1 2023	Q1 2022
Net Revenues	**$ 181.2**	**$ 163.5**
Net Income	**$ 5.2**	**$ 8.1**
Guaymas Fire Related Expenses [1]	$ 1.2	$ 0.8
Inventory Purchase Accounting Adjustments [1, 2]	-	$ 0.5
Restructuring Charges [1]	$ 3.3	-
Insurance recoveries related to loss on operating assets [1]	($3.1)	-
Insurance recoveries related to business interruption [1]	-	($2.4)
Amortization of Acquisition Related Assets [1, 3]	$ 1.3	$ 1.3
Adjusted Net Income	**$ 7.9**	**$ 8.3**
% of Net Revenues	***4.4%***	***5.1%***
Shares used for Adjusted Diluted EPS	**12.5M**	**12.3M**
Diluted EPS	**$0.42**	**$0.66**
Adjusted Diluted EPS	**$0.63**	**$0.67**

[1] Includes effective tax rate of 20.0% for both 2023 and 2022 adjustments.
[2] Q1 2022 included inventory purchase accounting adjustments of inventory that was stepped up in the purchase price allocation from the acquisition of MagSeal Corporation in Dec 2022, and is part of our Structural Systems operating segment.
[3] Q1 2023 and Q1 2022 includes amortization of acquisition related assets from acquisitions of Lightning Diversion Systems, LLC, Certified Thermoplastics Co., LLC, Nobles Worldwide, and MagSeal Corporation on Sep 2017, Apr 2018, Oct 2019, and Dec 2022 respectively, and is part of our Electronic Systems, Structural Systems, Structural Systems, and Structural Systems operating segments, respectively.
**Amount may not total due to rounding.*

Non-GAAP Reconciliation for Backlog

($ millions)

	Q1 2023	Q1 2022
Remaining Performance Obligations [1]	$874	$767
Backlog [2]	$961	$943

Note: There is no reconciliation between GAAP remaining performance obligations and the non-GAAP backlog amount.
[1] Based on customer placed purchase orders with firm fixed price and firm delivery dates.
[2] Based on customer placed purchase orders and long-term agreements with firm fixed price and expected delivery dates of 24 months or less.