Ducommun

Q2 2022 Earnings Call

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August 4, 2022

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 major single-aisle commercial aircraft programs through 2024, the commercial aerospace industry in light of the COVID-19 pandemic and air travel; expected federal defense spending and budgetary environments; our expected top-line growth through 2023, backlog, and expected expenses incurred 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, 2021.

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, 2021 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 Operating Income, Operating Income margin, Adjusted Earnings per Share, Adjusted Gross Margin, 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.

Q2 2022 Highlights

Strong financial performance **with revenue up 9% year-over-year** and Commercial aerospace **growing 52%**

Backlog continues to grow at a now **all-time record of $976M**

Defense revenue lower in Q2, however **backlog remains strong at $494M**

Adjusted gross margin of 21% down ~220bps versus previous year

Net leverage of **2.4x reduced from 3.3x in prior year**

Q2 2022

Revenue
$174.2M
Up 9% y-o-y
Up 7% sequentially

Adjusted OI*
$14.2M
Down 5% y-o-y
Up 15% sequentially

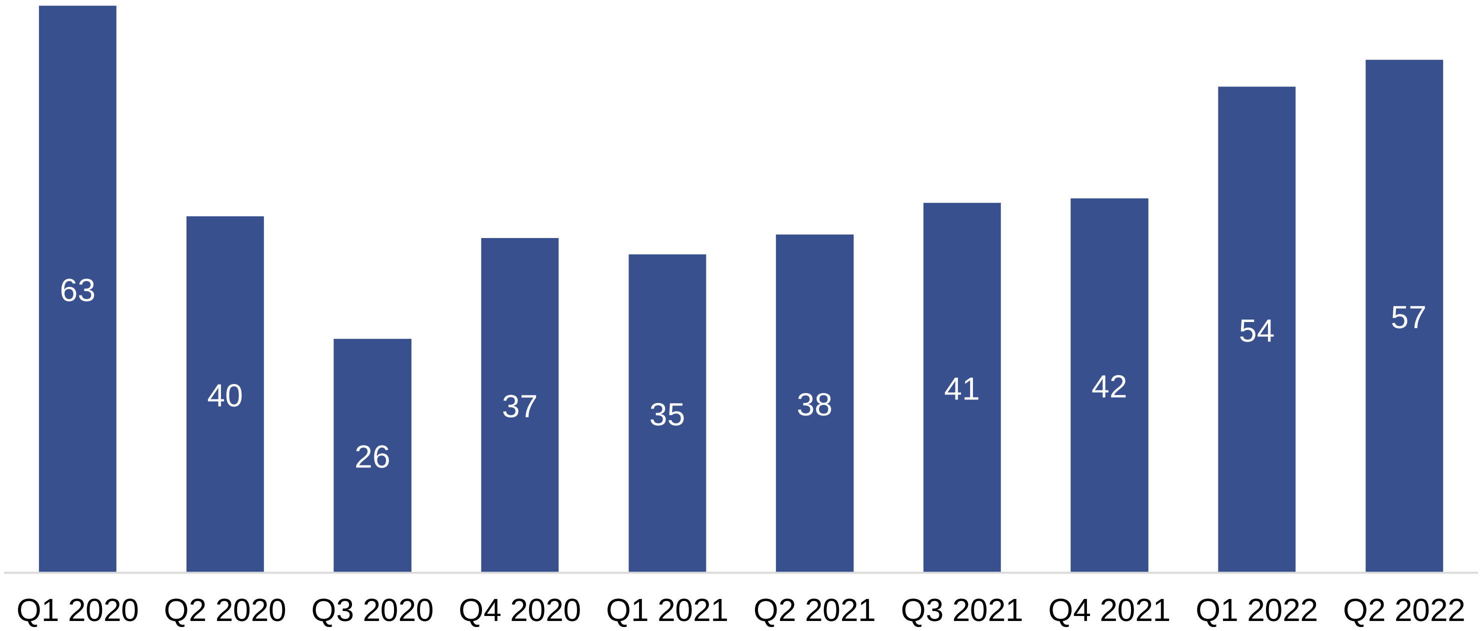
Adjusted EPS*
$0.76
Down 7% y-o-y
Up 13% sequentially

Solid quarter with business well positioned for Commercial Aerospace recovery

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

Improving Commercial Aerospace Revenue Trend

($ millions)



- **<u>Sequential growth in each of the last five quarters</u>**
- Growth expected to continue in 2022 as rates are forecasted to increase throughout the year
- Commercial Aerospace industry production rates expected to ramp through at least 2024

Positioned for Growth in 2022 & 2023

Bookings[1]

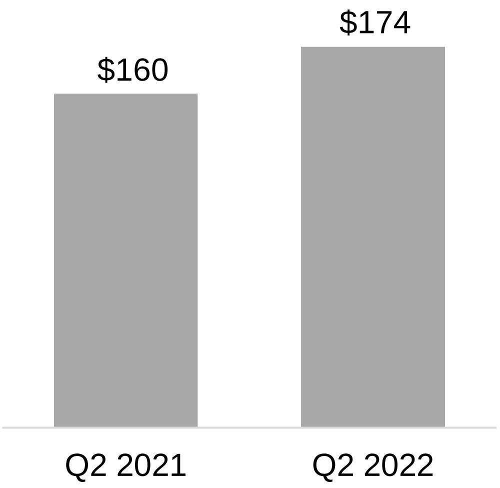
up 16%

Backlog

up 20%

Revenue

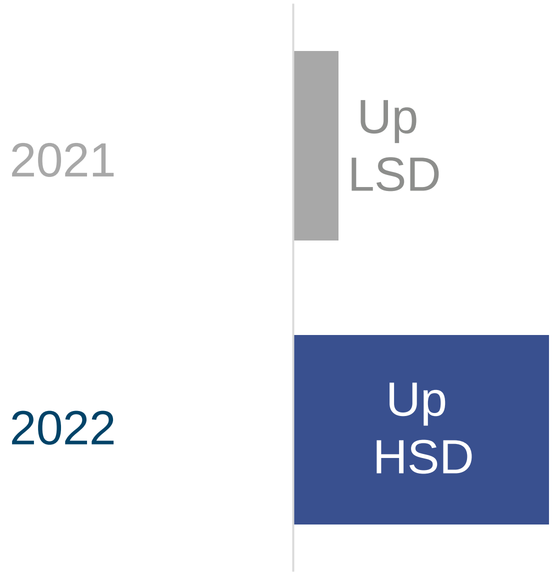
up 9%



All-time record backlog of $976M and strong book-to-bill ratio[2] of 1.1 in Q2 2022

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

2022 Revenue Outlook



Commercial aerospace build rates continue to ramp up

Continued strength in defense spending

Defense prime offloading theme continues to play out

Strong book to bill ratio

Increasing build rates and resilient defense spending driving growth

Project Updates

Restructure

- During Q2, Management commenced a restructuring plan
- We incurred $3.2M, mainly in severance and benefits
- We expect an additional $3M to $5M of expense, mainly in facility consolidation related costs

Debt Refinance

- Subsequent to the end of our second quarter, we announced completion of an opportunistic refinancing
- Includes favorable grid pricing from our existing Term Loan A and eliminates the Term Loan B, which carried higher interest pricing
- Pricing at current leverage is SOFR + 1.625%
- Debt maturity is July 2027

Structural Segment Highlights

	Reported	Adjusted*	YOY Var.*
Revenue	$64.5	$64.5	+12%
Operating income	$1.3	$6.1	-15%
Operating income margin	2.0%	9.4%	-296bps

- Strong revenue growth of 12% year-over-year driven by Commercial growth of over 50%
- Backlog increased 26% over prior year
- Well positioned major single aisle (737, A320, A220) programs with rates expected to increase
- Effective supply chain management including inventory investment is providing rate readiness

Ducommun is an Airbus Detail Parts Partner (D2P) and supplier of titanium products on the A320 platform

Well positioned as Commercial Aerospace recovery continues

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

Electronic Segment Highlights

	Reported	Adjusted*	YOY Var.*
Revenue	$109.7	$109.7	+7%
Operating income	$13.6	$15.3	+4%
Operating income margin	12.4%	13.9%	+43bps

- Revenue improved year-over year by 7%, driven by Commercial revenue increased 54% year-over-year
- Backlog increased 15% over prior year
- Several key wins with customers such as Raytheon, Lockheed, Northrop, BAE, Blue Origin, and Palomar

Raytheon Technologies NORTHROP GRUMMAN GENERAL ATOMICS BAE SYSTEMS Parker

Defense Primes offloading creating key win opportunities across the Electronic Segment

Continued resilience in Defense spending along with offloading from Primes

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

Appendix

Non-GAAP Financial Measures

Note Regarding Non-GAAP Financial Information: This presentation contains non-GAAP financial measures, including Adjusted Operating Income, Operating Income margin, Adjusted Earnings per Share, Adjusted Gross Margin, 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 customer placed purchase orders and long-term agreements with firm fixed prices and firm 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. Backlog in industrial markets tends to be of a shorter duration and is generally fulfilled within a 3-month period. 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)

	Q2 2022	Q2 2021
Net Revenues	**$ 174.2**	**$ 160.2**
Net Income	**$ 4.1**	**$ 8.4**
Interest Expense	$ 2.7	$ 2.9
Income Tax Expense (Benefit)	$ 1.0	$ 1.8
Depreciation	$ 3.6	$ 3.5
Amortization	$ 4.3	$ 3.5
Stock-Based Compensation Expense	$ 3.6	$ 2.6
Guaymas Fire Related Expenses	$ 1.0	$ 0.7
Inventory Purchase Accounting Adjustments [1]	$ 0.6	-
Restructuring Charges [2]	$ 3.2	-
Adjusted EBITDA	**$ 24.1**	**$ 23.4**
% of Net Revenues	***13.8%***	***14.6%***

[1] Q2 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 2021, and is part of our Structural Systems operating segment.
[2] Q2 2022 restructuring charges include $0.5 million of restructuring charges that were recorded as cost of sales.
**Amount may not total due to rounding.*

Non-GAAP Reconciliation for Adjusted Gross Profit

($ millions)

	Ducommun	
	Q2 2022	**Q2 2021**
Net Revenues	**$ 174.2**	**$ 160.2**
Gross Profit	**$ 34.6**	**$ 36.8**
Gross Profit Margin	***19.9%***	***23.0%***
Guaymas Fire Related Expenses	$ 1.0	$ 0.7
Inventory Purchase Accounting Adjustments [1]	$ 0.6	-
Restructuring Expense [2]	$ 0.5	-
Adjusted Gross Profit	**$ 36.8**	**$ 37.5**
Adjusted Gross Profit Margin	***21.1%***	***23.4%***

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[1] Q2 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 2021, and is part of our Structural Systems operating segment.
[2] Q2 2022 includes only the portion of restructuring charges recorded as cost of sales.
**Amount may not total due to rounding.*

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Non-GAAP Reconciliation for Adjusted OI

($ millions)

	Ducommun		Structural		Electronic	
	Q2 2022	Q2 2021	Q2 2022	Q2 2021	Q2 2022	Q2 2021
Net Revenues	**$ 174.2**	**$ 160.2**	**$ 64.5**	**$ 57.4**	**$ 109.7**	**$ 102.8**
Operating Income	**$ 7.8**	**$ 13.1**	**$ 1.3**	**$ 5.6**	**$ 13.6**	**$ 14.4**
Guaymas Fire Related Expenses	$ 1.0	$ 0.7	$ 1.0	$ 0.7	-	-
Inventory Purchase Accounting Adjustments [1]	$ 0.6	-	$ 0.6	-	-	-
Restructuring Expense [2]	$ 3.2	-	$ 1.9	-	$ 1.3	-
Amortization of Acquisition Related Assets [3]	$ 1.6	$ 1.2	$ 1.2	$ 0.8	$ 0.4	$ 0.4
Adjusted Operating Income	**$ 14.2**	**$ 15.0**	**$ 6.1**	**$ 7.1**	**$ 15.3**	**$ 14.7**
% of Net Revenues	***8.2%***	***9.4%***	***9.4%***	***12.4%***	***13.9%***	***14.3%***

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[1] Q2 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 2021 and is part of our Structural Systems operating segment.
[2] Q2 2022 restructuring charges include $0.5 million of restructuring charges that were recorded as cost of sales.
[3] Q2 2022 and Q1 2021 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 2021 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)

	Q2 2022	Q2 2021
Net Revenues	**$ 174.2**	**$ 160.2**
Net Income	**$ 4.1**	**$ 8.4**
Guaymas Fire Related Expenses	$ 0.8	$ 0.6
Inventory Purchase Accounting Adjustments [1]	$ 0.5	-
Resrucruring Charges [2]	$ 2.6	-
Amortization of Acquisition Related Assets [3]	$ 1.3	$ 1.0
Adjusted Net Income	**$ 9.3**	**$ 9.9**
% of Net Revenues	***5.4%***	***6.2%***

		Q2 2022		Q2 2021
Diluted shares outstanding		**12.3**		**12.2**
EPS	**$**	**0.34**	**$**	**0.69**
Adjusted EPS	**$**	**0.76**	**$**	**0.81**

[1] Q2 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 2021, and is part of our Structural Systems operating segment at estimated 20% tax rate.
[2] Q2 2022 restructuring charges at estimated 20% tax rate include $0.5 million of restructuring charges that were recorded as cost of sales at estimated 20%.
[3] Q2 2022 and Q2 2021 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 2021 respectively, and is part of our Electronic Systems, Structural Systems, Structural Systems, and Structural Systems operating segments, respectively at estimated 20% tax rate.
**Amount may not total due to rounding.*

Non-GAAP Reconciliation for Backlog

($ millions)

	Q2 2022	Q2 2021
Remaining Performance Obligations [1]	$879	$729
Backlog [2]	$976	$814

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.

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