

Company Name: Aerojet Rocketdyne Holdings, Inc. (AJRD)
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<<Tony Bancroft, Analyst, Gabelli & Company>>

All right, ladies and gentleman, now I'd like to introduce, Ms. Eileen Drake, CEO of Aerojet Rocketdyne. Aerojet Rocketdyne develops, manufactures propulsion and power systems for space launch vehicles and missiles for the Department of Defense and NASA. The company owns also a large set amount of real estate assets in Northern California. Aerojet Rocketdyne has 73 million shares outstanding, trades around \$29 for \$2.1 billion market cap and a \$260 million of net debt for \$2.4 billion total enterprise value.

We are delighted to have Eileen here with us today to discuss Aerojet Rocketdyne and its growing role in the aerospace and defense industry. Thank you.

<<Eileen P. Drake, Chief Executive Officer and President>>

Good morning. Let's see, how we click this next. Okay, so I just have to flash this for the – my lawyers in the group and this is our statement about any comments that I might make today about future direction of the company and some non-GAAP measures. Also if you want access to our presentation, after today it will be on the Aerojet Rocketdyne website. So a little bit about Aerojet Rocketdyne at a glance. As Tony mentioned, we're a technology-based manufacturing company. We develop, provide, manufacture propulsion systems and power for both space and defense. You can see the diversity of our products on this slide.

For space really two big areas, our space launch and our in-space business that's basically the thrusters are direct, the satellites you can see on the defense side, missile defense as well as tactical and I'll get a little bit more into that. Bottom left we have advanced technologies in both space and defense and that's where we do our development work predominately on the defense side that would be things like Supersonic and Hypersonic and on the defense side that would be – I mean are not space side that would really be about green propellants, some of our new booster engine technology and other manufacturers technologies.

And then we also have some excess real estate predominately in Sacramento that we're working to entitle and monetize. We work with the all of the primes; Boeing, Lockheed Martin, Raytheon and also a big supplier to the Department of Defense as well as NASA as you'll see in my presentation. Finished up 2016 at \$1.8 billion of revenue, \$202 million of adjusted EBITDA and had about \$4.5 billion in backlog.

This is a slide I'm pretty proud of. I joined the company in 2015 from United Technologies, where we brought in I would say super manufacturing team that really is

one of our competitive advantage. As you can see the members on this team today, Arjun Kampani joined me as my GC, he was a head M&A lawyer for GD; Mark Tucker, who's is my COO, retired from Northrop Grumman, strong in programs. Mo Khan joined us from Orbital ATK, and previous to that in Air Force. He's my brand new Senior VP of Defense; Paul Lundstrom, whose is with me today, new CFO since December of last year joined from United Technologies where he ran all of Investor Relations.

John Schumacher runs my Washington Office, strong background in both NASA, Airbus as well as the Navy; Jim Simpson joined me from Boeing 35 years in business development on the space side; Jerry Tarnacki runs my brand new space business, joined us from UTC, where he ran the entire aftermarket business there. So a strong team with over 200 years of experience in the industry.

Along with restructuring the management team we also restructured the business units. You saw in my previous slide how we really have moved from six business units to two space and defense, which has really let us take out costs, take out layers, take out spends and added waste and took a lot of costs out of the business, and along with that we restructured the site.

So now we have a corporate headquarters in El Segundo, California that's where I sit with my team. We have a brand new defense headquarters in Huntsville, Alabama that we've just announced. And our headquarters for the space business is in Canoga Park, California. So we were able to put light products with light facilities and take out and restructure some of our manufacturing square footage.

Along with that we announced pretty big initiative for Aerojet Rocketdyne. In 2015 after joining the company we announced our competitive improvement program and that was to take \$145 million of cost out of the business. And it was really around three things, was on factory utilization, we took 1 million square feet out of our Sacramento site, it was about overhead reduction in program efficiency. And then just recently and earlier this year we announced phase two of our competitive improvement program to take out a further \$85 million of cost out of the business.

We will be migrating the rest of our manufacturing from Sacramento, California to Huntsville Alabama. We're going to open up a brand new state-of-the-art manufacturing facility for advanced composites additive manufacturing and some work around our new AR1 booster engine. And we'll also be migrating the rest of the space work, primarily program work to Canoga Park in California, so a big, big focus on cost reductions. So combined is taken out \$230 million of costs out of the business beginning in 2021, so big focus on cost reduction.

If I talk a little bit about our space portfolio, I will talk about space – excuse me, I will talk about defense. Super dry up here. So for the space portfolio, we by far have the largest domestic portfolio for space propulsion and power systems. We do everything from the tiniest of thrusters that give out two-tenths of a pound of thrust in our in-space business the direct satellites all way to one of our largest engines which is a 650,000

pound thrust, RS-68 the powers of delta for our customer United Launch Alliance. So bigger array of products.

You can see down below I selected just a couple of different areas in the space portfolio to highlight. We're really proud they were parting with NASA on the Space Launch System, SLS, that will once again put humans into deep space flight to places like Mars in the 2030 timeframe. On the SLS alone we have the RS-25 which was the Space Shuttle Main Engine that will be used and it takes four of them on the SLS, and we also selected for the upper stage for the RL10 that we produce out of West Palm Beach for them as well. But on SLS we have over 30 propulsion systems alone on SLS and alliance. So big business for Aerojet Rocketdyne and we were awarded in excess of \$1.4 billion contract, so really proud.

Along with that we were selected by Boeing on their CCT cap or Commercial Crew Transportation capability which is putting people back on the International Space Station and we make the propulsion for this service module for CCT caps. So very strong space business, particularly strong with NASA. And you'll see later when I get into the financials that the NASA business in 2017 is up 50% versus last year and it contributes to a big portion of our 10% year-over-year improvement in top line organic growth.

Defense, strong portfolio. And if you see anything in the news today, you can see all the geopolitical instability and the focus of what's going on in North Korea, this is a very strong portfolio for us. You recognize products like the Tomahawk, the TOW, the Patriot, the CNN missile and the THADD. The THADD or the Terminal High Altitude Area Defense getting a ton of attention. This summer the Missile Defense Agency had a very high profile tests where for the very first time they intercepted an intercontinental ballistic missile target and Aerojet Rocketdyne which really I'd like to say is behind the success of that test.

We provide and manufacture the DACS or the Divert and Attitude Control that actually maneuvers the velocity in the altitude and the attitude of the Exoatmospheric Kill Vehicle, which is actually what intercepts that target. So huge profile test not only for MDA, for the U.S., but also for Aerojet Rocketdyne. And so this is a strong portfolio, lot's of long-term growth, you've seen a lot of chatter in the news about facility one, seven batteries of badge. We haven't seen those orders come in yet. Until they come in we can't book it or count on it. But this is really a great portfolio for Aerojet Rocketdyne and we see a lot of runway for long-term growth.

So when we talk about competitive positioning, Aerojet Rocketdyne has what we call a lot of franchise programs, particularly on the THADD, on the defense side, in the RS-25 on the space side. So if we talk about that for a minute. These two areas combined were about 25% of our revenue for 2017 year-to-date. And I said mentioned with the THAAD, we've been developing and producing that since the mid-90s and it's got a long franchise with our customers. And the RS-25 which was the engine that was used for the Space Shuttle Main Engine is now being repurposed for the Space Launch System for NASA.

So part of our strategy at Aerojet Rocketdyne is to invest in technologies, products and programs that have long-term viability and needs by the customers, and we tend to get sole source, multi-year contracts on these type of products. So we're constantly reinventing these products. So I mentioned the RS-25 we're purposing that, but half of that engine now is with additive manufacturing components. Aerojet Rocketdyne is really the leader in additive manufacturing when it comes to space in particular liquid rocket engines. So with this we reinvent the products, we become more affordable and now it let us to be successful on our new works.

So you can see below some of the new programs on the horizon, particularly Ground Based Strategic Deterrent, that's a replacement for the Minuteman. Just recently in the last two weeks the U.S. Air Force gave Boeing and Northrop Grumman, Technology Maturation and Risk Reduction contracts for this replacement. They'll down select supposedly at one time in 2020 and the propulsion provider will be selected around 2019. So we're very competitive on this program, we're working with both of the primes; Boeing and Northrop Grumman. In this business when you look at the post-boost vehicle in the three stages of solids is upwards to \$9 billion of propulsion business over the next 20 years. So this is huge for Aerojet Rocketdyne.

In the center I wanted to highlight hypersonics. Aerojet Rocketdyne is the leader in hypersonics. This area is one that I can't talk a lot about based on the classified nature, but I will tell you that the U.S. government wants to feel hypersonic weapons to include missiles, missile defense targets, and NAF aircraft. We are partnering in all of those areas, we're competing and we're winning with the primes. And the recent advances that we've made in hypersonics, particularly on the Pratt & Whitney legacy side is making these products very affordable and possible for the war fighter. So we see this as a long-term very successful franchise portfolio for Aerojet Rocketdyne.

And then again the RS-25 is alive and well again on XSP. It's a new experimental aircraft with Boeing and Doppler recently announced that they choose Aerojet Rocketdyne's RS-25 engine. This will be a reusable RS-25 and the goal of Boeing on this program is to have low cost launch of satellites into low earth orbit. They want to launch 10 times in 10 days which is pretty significant. So we're excited to be partnering with Boeing. So strong portfolio, a lot of franchise programs, but really redesigning and putting advanced technologies in manufacturing processors into some of these legacy products to get us competitive on some of the new programs coming out.

If I talk a minute about some of their financials, so you can see the year-to-date sales as well as the bookings. So for Q2 you can see the sales at \$460 million up 13% and also year-to-date \$865 million up 13%. About 3% of that year-to-date is attributed to the acquisition that we made with L3, we purchased Coleman. Coleman's a business in Orlando that makes mid range ballistic missile targets. This was a small acquisition but it was a great acquisition for us. It gives us improved capability and systems integration to get competitive on the Ground Based Strategic Deterrent that I just mentioned. And also enables us to be a prime with Missile Defense Agency which we're not a prime right now, so a nice acquisition and a strategic acquisition for Aerojet Rocketdyne.

I will say the remainder of that 10% is predominately around the NASA business that I mentioned on the SLS Space Launch System and CCT cap with Boeing. For NASA we had a huge upraise in our sales in 2017 and predominately that's because these major programs went from the development phase to the qualification phase. So as we're qualifying these new products and these new systems the sales is up. And that NASA business tends to be lumpy, which is great, it was great for 2017 but frankly a puts a tough compare on 2018 as we go into the next year.

And to kind of put that in perspective, if you move the clock to the left at the beginning of 2017 we set our aspirations for long-term revenue growth. Organic revenue growth was single in the mid-digit revenue growth. And if you look at where we are year-to-date is almost like we've got two years of that in one year, which is a good form to have again a tough compare on 2018. And then if you look at the backlog, we're out about \$4.3 billion and we expect \$2 billion of that to convert to revenue over the next four quarters.

Turning to the next slide, EPS and adjusted EBITDA. So you can see the adjusted EBITDA numbers both year-to-date and for the quarter and you can see the improvements in margin. Nice year-to-date margin improvement 80 basis points. Margin improvement is a huge focus of mine as well as my management team. For Q2 we had some significant improvements, predominantly we had a low labor costs, we had some program efficiencies, we under spend, planned overhead spend, and we also had a reduction in some of our program list that let us reduce some of our management reserves.

So some true operational performance and also some nice runway with our competitive improvement program initiatives that I mentioned. I don't expect this bump to happen again in Q3 and Q4, it was really a bump in Q2. And to kind of put that in perspective, in Q4 of 2016 we had a nice favorable adjustment in some of our key contracts which supposes a head on head, year-over-year headwind as we go into Q4 of 2017. So some nice improvement but I don't expect that bump again in Q3 and Q4. So overall really happy with the growth in the performance of the business, I would say, I'm cautiously optimistic about long-term margin improvement at Aerojet Rocketdyne, but all in all performing very well.

And then just in summary you can see new management team, great portfolio, we're partnering with the primes on all of the key programs on the horizon, particularly with GBSD, SLS, XSP, and some of our hypersonics work; very diversified portfolio, absolutely focused on revenue and profitable growth to enhance our shareholder value.

So with that, I think we'll open it up for some Q&A, Tony?

Q&A

<Q – Tony Bancroft>: That's was great. Thank you, Eileen, always enjoy having a chance to speak with a fellow military pilots and I get to do it in this capacity here,

Eileen, the former army officer and pilot. Maybe you can talk about the RD-180 replacement program, you're competing with a new engine there. Can you talk about how the AR1 compete against Blue Origin in the program? And give some differences between the AR1 and BE-4.

<A – Eileen P. Drake>: Yes, so one of my favorite topics. Recently Congress and the administration mandated that we get off our reliance on Russia, particularly the RD-180 engine, booster engine for national security missions. So up until now all of the national security missions that ULA, United Launch Alliance does is with a Russian engine. And based on what's going on around the world, we want to get off that reliance.

So Aerojet Rocketdyne partnered with the United States Air Force on a public private partnership to develop an engine to replace the RD-180 engine and our engine is called AR1. Very, very successful. We've been developing this since 2014. We just made a pretty big milestone with our critical design review CDR in May, which is basically where you prove the design of the engine and now we go into some other qualification tests.

So we're absolutely on track for to meet 2019. As Tony mentioned, we're competing against Blue Origin's BE-4 engine which is a company owned by Jeff Bezos. So ULA said that they'll make a down select probably some time next year. I will say that our engine is a LOX/kerosene engine, the same type of engine that the RD-180 engine is. So it can be easily changed out on to either the current Atlas vehicle or ULA's new launch vehicle that they're designing which is called the Vulcan. The BE-4 is methane engine, so there's a lot of retrofit between the vehicle, the launch pad, the instrumentation, everything that has to do which adds up cost and adds up complexity. So we feel like we're in a great spot to be down selected with ULA for this engine and it's performing flawlessly, passing all of its tests and absolutely on target to meet the 2019 deadline.

<Q – Tony Bancroft>: And then maybe to follow-up on that, I'm an optimistic person. How important is this development, where you mentioned versus production getting the contract? How complicate is the transitioning from that development phase to the production phase of the program?

<A – Eileen P. Drake>: You can image when you develop a new booster engine and we don't do these very often, you have to go from development to production. And without being overly technical, the same engine that we're developing right now and qualifying is the same engine that will go into production. So we validated our entire production facilities. By the way, we have 11 factories around the U.S. strong factories, strong processes, we have 100% reliability in mission success right now across all of our products which is very, very hard to replicate.

So we can very easily go into production, it doesn't have to be recall that you compare that to my competitor, their qualification design engine is a different flight weight from their production engine and they currently don't have a factory. So you can imagine all the work that has to go into that to meet 2019, so that's another huge competitive

advantage the Aerojet has with a 5,000 employees, rocket scientists, and 11 factories around the U.S. absolutely can meet the challenge of going from quality to production.

<Q – Tony Bancroft>: Maybe Eileen, due to time, I'll open it up to audience here.

<Q>: [Question Inaudible]

<A – Eileen P. Drake>: The boss is asking the question.

<Q>: Eileen, I have prove, you didn't touch on the real estate. You have plans to monetize on stage basis anything on a lump sum given the strength of certain markets.

<A – Eileen P. Drake>: Yes. So we have excess property particularly in Sacramento, we have 5,600 acres, we work to entitle that. We have about 1,600 acres left to entitle out of that 5,600. Our goal is to entitle it or monetize it for both commercial and residential use. You saw that we made our first big deal with about 770 acres about a year ago. We're working with all of the developers, we absolutely would love to sell it anybody who wants some property; see me after this meeting.

But, yes, I mean it's tough to convert or dump all of that real estate obviously at one time. So we're right now in conversations in encoding multiple people for the sale of that property, but the goal is to get it all entitled and then to monetize it.

<Q>: You gave a lot a little speed bumps to the earnings for the next three or four quarters in terms of pluses and minuses, but you also gave us a fairly large cost reduction program. How much of that is kept by the Aerojet shareholders and how much goes back to the government in terms of price adjustments?

<A – Eileen P. Drake>: Yes, great question. So for the competitive improvement program, all of that does not go down – back down on the bottom line. Most of it is very advantageous to our customers and enables us to lower our pricing, it lets us be more competitive and that's really important, because if we want to bid on these new products like hypersonics and GBS, we have to be affordable. There's new entrants into the market specifically on the commercial side on space, so it's really important that we lower our costs. Not all of that goes to the bottom line, a great portion of that enables us to lower our prices. Our customers see the benefit, couple of the primes are already seeing that for the first time in a long time, and seeing the improvements go towards reducing our cost to the customer, but it's really important that we get focused on and stay focused on the affordability of our products and that's where all of our customers want. Yes, sir.

<Q>: I have the pleasure also following Aerojet as well as GenCorp with Mario. But I'm under Mario. What are you trying to do going out beyond the real estate? Obviously whatever you got from real estate I'm assuming it'll be some venting of your debt, so your debt will come down from \$0.25 billion to some much lower number. What you sort of through the five-year of vision and what are you trying to get to in terms of size and

technology breadth and sort of revenue dimensions? This is an industry that's obviously is going through a scale up from consolidation. So can you show your vision of what you're trying to be when you grow up?

<A – Eileen P. Drake>: Yes, great question. So for Aerojet Rocketdyne, and if I take the space side, I mean, you can see that probably one of the biggest upsides for us is on the Space Launch System. Right now for SLS and NASA they planned one flight every 18 months to 24 months. You can imagine when I talked about four RS-25s, four RL10s, 30 subsystems. If that goes to what NASA really wants, one launch even a year you can imagine the growth on the space side of the business.

On defense, we have a huge portfolio. I mean GBSB is farther out there, low rate production is 2025, high rate production is 2028, but you can see with all the geopolitical stress. On the defense market we see that portfolio growing. We haven't seen the order yet on it, until it's appropriated and authorized when we get the contract in our hand, but I will tell you we're doing scenario planning with our primes right now and also on the hypersonics piece.

So we have not given a number for, hey, we want to be 2x, 3x,4x, but I'll tell you we see the strong portfolio growth when it comes to both of those dimensions. And then another focus we have obviously is on the M&A side. And when we look at M&A we just did a small one, a very small one with Coleman, but it was a great one and a strategic one that's really going to put us in a nice position for GBSB. We look at things for vertical integration, horizontal integration, add-ons to improve our base which also helps us with our overhead and our costs. And we're also looking at strategic equation.

When we brought Coleman that wasn't totally intuitive to a lot of people and it was very, very strategic for us and now people say, hey, I get it. And it helps us be a systems integrator, prime with MDA and partner with them on GBSB down the road. So we look at strategic opportunities, we look at vertical horizontal and also things we can add to the base. So coupled with the focus I mentioned on space in defense and then in organic opportunities, huge opportunity and one way long-term for Aerojet Rocketdyne.

<Q>: You trying to put a number, like if you went out five years you want to be a \$3 billion, \$4 billion, \$5 billion is sort of more incremental stages through bolt-on transactions.

<A – Eileen P. Drake>: So we have not put a number on it, we obviously look for smart capital deployment. We want to make sure that we return the value to the shareholders where it makes sense. We do not go out to just grow in the base or the top line if it's not profitable, so it's smart allocation, we have not put an overall number on it.

<Q>: Okay, thanks.

<<Tony Bancroft, Analyst, Gabelli & Company>>

Well, I think that was a great discussion. Thank you so much Eileen for coming today.

<<Eileen P. Drake, Chief Executive Officer and President>>

Thank you. Thanks, Tony.