



## Aerojet Rocketdyne Holdings, Inc. Reports 2022 Third Quarter Results

November 1, 2022

EL SEGUNDO, Calif., Nov. 01, 2022 (GLOBE NEWSWIRE) -- Aerojet Rocketdyne Holdings, Inc. (NYSE:AJRD) (the "Company") today reported results for the three and nine months ended September 30, 2022.

### Financial Overview

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	(In millions, except percentage and per share amounts)			
Net sales	\$ 549.8	\$ 545.3	\$ 1,589.4	\$ 1,598.3
Net income	13.7	42.5	57.9	105.6
Net income as a percentage of net sales	2.5%	7.8%	3.6%	6.6%
Adjusted Net Income (Non-GAAP measure*)	36.7	47.7	89.8	126.0
Adjusted Net Income (Non-GAAP measure*) as a percentage of net sales	6.7%	8.7%	5.6%	7.9%
Earnings Per Share ("EPS") - Diluted	0.17	0.51	0.70	1.29
Adjusted EPS (Non-GAAP measure*)	0.45	0.58	1.08	1.54
Adjusted EBITDAP (Non-GAAP measure*)	75.7	82.5	186.5	227.6
Adjusted EBITDAP (Non-GAAP measure*) as a percentage of net sales	13.8%	15.1%	11.7%	14.2%
Cash provided by (used in) operating activities	35.0	75.2	(73.8)	95.4
Free Cash Flow (Non-GAAP measure*)	22.3	70.2	(98.0)	78.1

\* The Company provides Non-GAAP measures as a supplement to financial results based on accounting principles generally accepted in the United States ("GAAP"). A reconciliation of the Non-GAAP measures to the most directly comparable GAAP measures is included at the end of the release.

"Aerojet Rocketdyne delivered a solid quarter, with strong operating profit, improved cash flow and a healthy backlog that demonstrates our role as a preferred supplier," said Eileen P. Drake, Chief Executive Officer and President of Aerojet Rocketdyne Holdings, Inc. "While we continue to experience certain short-term supply chain delays, notably on the RS-25 program, the actions we're taking to mitigate those are showing results. As we look to the future, we are intently focused on investing in line with our nation's defense and space priorities, driving improvements to increase our competitive edge and positioning Aerojet Rocketdyne for enhanced shareholder value creation."

### Third quarter of 2022 compared with third quarter of 2021

The increase in net sales was primarily driven by an increase on the Next Generation Interceptor ("NGI") and Standard Missile programs partially offset by a decline in the Guided Multiple Launch Rocket System ("GLMRS") and RL10 programs.

The decrease in net income was primarily driven by: (i) loss associated with the settlement of convertible debt; (ii) costs associated with the proxy contest and associated litigation matters in the current period; and (iii) favorable changes in contract estimates on the RL10 program in the prior year comparative period. These factors were partially offset by (i) lower retirement benefits expense and (ii) lower terminated merger costs incurred in the current period.

### First nine months of 2022 compared with first nine months of 2021

The decrease in net sales was primarily driven by a decline on the RS-25 partially offset by an increase on the NGI and Patriot Advanced Capability-3 ("PAC-3") programs.

The decrease in net income was primarily driven by: (i) costs associated with the proxy contest and associated litigation matters in the current period; (ii) costs associated with legal matters in the current period; (iii) favorable contract performance on the RS-68 program in the prior year; (iv) cost growth from supply chain disruptions and necessary technical and manufacturing changes on a portion of the Standard Missile program; and (v) increased costs on debt settlements in the current period. These factors were partially offset by (i) lower retirement benefits expense and (ii) lower terminated merger costs incurred in the current period. The Company had \$20.9 million of net unfavorable changes in contract estimates on net income in the current period compared with net favorable changes of \$24.1 million in the first nine months of 2021.

### Backlog

As of September 30, 2022, the Company's total remaining performance obligations, also referred to as backlog, totaled \$6.7 billion. The Company expects to recognize approximately 34%, or \$2.3 billion, of the remaining performance obligations as sales over the next twelve months, an additional 25% the following twelve months, and 41% thereafter. A summary of the Company's backlog is as follows:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
	(In billions)	
Funded backlog	\$ 3.0	\$ 3.1
Unfunded backlog	3.7	3.7
Total backlog	<u>\$ 6.7</u>	<u>\$ 6.8</u>

Total backlog includes both funded backlog (unfilled orders for which funding is authorized, appropriated and contractually obligated by the customer) and unfunded backlog (firm orders for which funding has not been appropriated). Indefinite delivery and quantity contracts and unexercised options are not reported in total backlog. Backlog is subject to funding delays or program restructurings/cancellations, which are beyond the Company's control.

#### **2¼% Convertible Senior Notes ("2¼% Notes")**

On July 15, 2022, the Company announced that it issued a notice of redemption to holders of its outstanding 2¼% Notes, stating its intention to redeem all outstanding 2¼% Notes in full on September 19, 2022, in accordance with the terms of the indenture governing the 2¼% Notes. The Company elected to settle conversions of the 2¼% Notes using Cash Settlement, as defined in the indenture for the 2¼% Notes. In the three months ended September 30, 2022, the Company settled the outstanding balance of \$145.9 million of its 2¼% Notes with cash totaling \$242.0 million, including principal, conversion premium, irrevocable cash conversion option value, and interest.

As a result of the irrevocable cash settlement redemption notice issued on July 15, 2022 to holders of its outstanding 2¼% Notes, the Company was required to separate a derivative from the 2¼% Notes. The irrevocable cash conversion option became a forward sale contract, which was not eligible for the "own stock" scope exception allowed under the accounting guidance and resulted in the Company recording a loss on debt of \$22.6 million in the three and nine months ended September 30, 2022.

#### **Revision of Previously Issued Consolidated Financial Statements**

During the three months ended March 31, 2022, the Company identified an error in its accounting for income taxes associated with its 2¼% Notes. Upon issuance of the 2¼% Notes in 2016, the Company did not record the applicable deferred tax liability associated with the conversion option that had been reflected in other capital, which resulted in an overstatement of other capital, an understatement of deferred tax liabilities and an error in income tax expense in subsequent periods. The Company evaluated the errors and concluded that the errors were not material, either individually or in the aggregate, to its current or previously issued consolidated financial statements. Accordingly, the accompanying financial tables have been revised to correct for such immaterial errors.

#### **Forward-Looking Statements**

This release contains certain "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such statements in this release and in subsequent discussions with the Company's management are based on management's current expectations and are subject to risks, uncertainty and changes in circumstances, which could cause actual results, performance or achievements to differ materially from anticipated results, performance or achievements. All statements contained herein and in subsequent discussions with the Company's management that are not clearly historical in nature are forward-looking, and the words "anticipate," "believe," "expect," "estimate," "plan," and similar expressions are generally intended to identify forward-looking statements. We caution you that any forward-looking statements made in this release are not guarantees of future performance, events or results, and you should not place undue reliance on these forward-looking statements, which speak only as of the date of this release. We do not intend, and we undertake no obligation, to update any forward-looking information to reflect new information, future events or otherwise, except as required by law. A variety of factors could cause actual results or outcomes to differ materially from those expected and expressed in the Company's forward-looking statements. Important risk factors that could cause actual results or outcomes to differ from those expressed in the forward-looking statements include, but are not limited to, the following:

- effects of the recent changes to the Company's Board of Directors and their strategic oversight;
- reductions, delays or changes in U.S. government spending;
- cancellation or material modification of one or more significant contracts;
- failure of the Company's subcontractors or suppliers to perform their contractual obligations;
- loss of key qualified suppliers of technologies, components, and materials;
- the release, unplanned ignition, explosion, or improper handling of dangerous materials used in the Company's businesses;
- risks inherent to the real estate market;
- the COVID-19 pandemic and its impact on economic and other conditions worldwide, including global spending, sourcing and the business operations of the Company and its customers and suppliers, among others;
- actions taken by governments, businesses and individuals in response to the COVID-19 pandemic, including mandated vaccinations;
- cost overruns on the Company's contracts that require the Company to absorb excess costs;
- failure of the Company's information technology infrastructure, including a successful cyber-attack, accident, unsuccessful outsourcing of certain information technology and cyber security functions, or security breach that could result in disruptions to the Company's operations;
- changes in economic and other conditions in the Sacramento, California metropolitan area real estate market or changes in interest rates affecting real estate values in that market;
- the loss of key employees and shortage of available skilled employees to achieve anticipated growth;
- a strike or other work stoppage or the Company's inability to renew collective bargaining agreements on favorable terms;

- changes in estimates related to contract accounting;
- the funded status of the Company's defined benefit pension plan and the Company's obligation to make cash contributions in excess of the amount that the Company can recover in its current period overhead rates;
- the substantial amount of debt that places significant demands on the Company's cash resources and could limit the Company's ability to borrow additional funds or expand its operations;
- the Company's ability to comply with the financial and other covenants contained in the Company's debt agreements;
- failure to secure contracts;
- costs and time commitment related to potential and/or actual acquisition activities may exceed expectations;
- failure to comply with regulations applicable to contracts with the U.S. government;
- failure of the Company's information technology infrastructure or failure to perform by the Company's third party service providers;
- product failures, schedule delays or other problems with existing or new products and systems;
- the possibility that environmental and other government regulations that impact the Company become more stringent or subject the Company to material liability in excess of its established reserves;
- environmental claims related to the Company's current and former businesses and operations including the inability to protect or enforce previously executed environmental agreements;
- reductions in the amount recoverable from environmental claims;
- significant risk exposures and potential liabilities that are inadequately covered by insurance;
- limitations associated with our stockholders' ability to obtain a favorable judicial forum for certain disputes due to the Delaware exclusive forum provision in our Certificate of Incorporation;
- business disruptions to the extent not covered by insurance;
- changes or clarifications to current tax law or procedural guidance could adversely impact the Company's tax liabilities and effective tax rate;
- exposures and uncertainties related to claims and litigation;
- distraction of management caused by internal governance matters or other developments;
- effects of changes in discount rates and actuarial estimates, actual returns on plan assets, and government regulations on defined benefit pension plans;
- inability to protect the Company's patents and proprietary rights; and
- those risks detailed in the Company's reports filed with the SEC.

#### About Aerojet Rocketdyne Holdings, Inc.

Aerojet Rocketdyne Holdings, Inc., headquartered in El Segundo, California, is an innovative technology-based manufacturer of aerospace and defense products and systems, with a real estate segment that includes activities related to the entitlement, sale, and leasing of the Company's excess real estate assets. More information can be obtained by visiting the Company's websites at [www.rocket.com](http://www.rocket.com) or [www.aerojetrocketdyne.com](http://www.aerojetrocketdyne.com).

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#### Aerojet Rocketdyne Holdings, Inc.

##### Unaudited Condensed Consolidated Statement of Operations

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	(In millions, except per share amounts)			
Net sales	\$ 549.8	\$ 545.3	\$ 1,589.4	\$ 1,598.3
Operating costs and expenses:				
Cost of sales (exclusive of items shown separately below)	459.3	446.5	1,354.3	1,310.6
Selling, general and administrative expense	5.6	5.2	23.4	27.8
Depreciation and amortization	13.8	13.5	42.0	44.4
Other expense, net				
Legal matters	(0.4)	—	15.7	—
Proxy costs and related litigation	16.3	—	28.3	—
Other	1.9	8.7	1.5	24.0
Total operating costs and expenses	496.5	473.9	1,465.2	1,406.8
Operating income	53.3	71.4	124.2	191.5
Non-operating:				
Retirement benefits expense	0.3	8.5	0.8	25.4
Loss on debt	22.7	0.9	22.7	10.5
Interest income and other	(2.2)	(0.2)	(2.0)	(1.5)
Interest expense	5.1	4.9	13.3	15.1
Total non-operating expense, net	25.9	14.1	34.8	49.5
Income before income taxes	27.4	57.3	89.4	142.0

Income tax provision	13.7	14.8	31.5	36.4
Net income	\$ 13.7	\$ 42.5	\$ 57.9	\$ 105.6
Earnings per share of common stock				
Basic earnings per share	\$ 0.17	\$ 0.53	\$ 0.72	\$ 1.33
Diluted earnings per share	\$ 0.17	\$ 0.51	\$ 0.70	\$ 1.29
Weighted average shares of common stock outstanding, basic	80.3	79.9	80.3	79.0
Weighted average shares of common stock outstanding, diluted	81.2	82.3	84.3	81.5
Cash dividends paid per share	\$ —	\$ —	\$ —	\$ 5.00

**Aerojet Rocketdyne Holdings, Inc.**  
**Unaudited Operating Segment Information**

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	(In millions)			
Net Sales:				
Aerospace and Defense	\$ 549.2	\$ 544.7	\$ 1,587.6	\$ 1,596.2
Real Estate	0.6	0.6	1.8	2.1
Total Net Sales	\$ 549.8	\$ 545.3	\$ 1,589.4	\$ 1,598.3
Segment Performance:				
Aerospace and Defense	\$ 69.5	\$ 76.0	\$ 169.7	\$ 213.3
Environmental remediation provision adjustments	(1.9)	(2.2)	(2.9)	(3.2)
GAAP/Cost Accounting Standards retirement benefits expense difference	6.9	2.7	25.2	8.6
Unusual items (see below)	0.4	(2.9)	(15.9)	(7.5)
Aerospace and Defense Total	74.9	73.6	176.1	211.2
Real Estate	(0.3)	(0.1)	(0.6)	(0.7)
Total Segment Performance	\$ 74.6	\$ 73.5	\$ 175.5	\$ 210.5
Reconciliation of segment performance to income before income taxes:				
Segment performance	\$ 74.6	\$ 73.5	\$ 175.5	\$ 210.5
Interest expense	(5.1)	(4.9)	(13.3)	(15.1)
Interest income and other	2.2	0.2	2.0	1.5
Stock-based compensation	(0.5)	(0.5)	(2.5)	(10.6)
Corporate retirement benefits	0.1	(1.6)	0.2	(4.9)
Corporate and other	(4.9)	(4.2)	(19.2)	(15.6)
Unusual items (see below)	(39.0)	(5.2)	(53.3)	(23.8)
Income before income taxes	\$ 27.4	\$ 57.3	\$ 89.4	\$ 142.0

The Company evaluates its operating segments based on several factors, of which the primary financial measure is segment performance. Segment performance represents net sales less applicable costs, expenses and provisions for unusual items relating to the segment. Excluded from segment performance are: corporate income and expenses, interest expense, interest income, income taxes, and unusual items not related to the segment. The Company believes that segment performance provides information useful to investors in understanding its underlying operational performance.

**Aerojet Rocketdyne Holdings, Inc.**  
**Unaudited Condensed Consolidated Balance Sheet**

	September 30,	December 31,
	2022	2021
	(In millions)	
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 334.5	\$ 700.4
Restricted cash	3.0	3.0
Marketable securities	9.2	10.6
Accounts receivable	134.0	60.6
Contract assets	403.3	354.2
Other current assets	117.7	99.5
Total Current Assets	1,001.7	1,228.3
Noncurrent Assets		
Right-of-use assets	49.5	52.6
Property, plant and equipment, net	413.3	421.1

Recoverable environmental remediation costs	221.5	226.2
Deferred income taxes	189.3	55.6
Goodwill	161.4	161.4
Intangible assets	29.8	34.9
Other noncurrent assets	207.1	243.3
Total Noncurrent Assets	1,271.9	1,195.1
Total Assets	<u>\$ 2,273.6</u>	<u>\$ 2,423.4</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Current portion of long-term debt	\$ 14.7	\$ 166.7
Accounts payable	117.0	132.2
Reserves for environmental remediation costs	39.5	37.7
Contract liabilities	351.1	366.5
Other current liabilities	280.6	172.7
Total Current Liabilities	802.9	875.8
Noncurrent Liabilities		
Long-term debt	292.1	294.6
Reserves for environmental remediation costs	253.9	258.7
Pension benefits	223.1	255.9
Operating lease liabilities	40.1	41.3
Other noncurrent liabilities	136.4	173.8
Total Noncurrent Liabilities	945.6	1,024.3
Total Liabilities	1,748.5	1,900.1
Commitments and contingencies		
Stockholders' Equity		
Common stock	8.0	8.0
Other capital	505.1	578.1
Treasury stock	(63.0)	(64.4)
Retained earnings	160.4	102.6
Accumulated other comprehensive loss, net of income taxes	(85.4)	(101.0)
Total Stockholders' Equity	525.1	523.3
Total Liabilities and Stockholders' Equity	<u>\$ 2,273.6</u>	<u>\$ 2,423.4</u>

### Aerojet Rocketdyne Holdings, Inc.

#### Unaudited Condensed Consolidated Statements of Cash Flows

	<b>Nine months ended September 30,</b>	
	<b>2022</b>	<b>2021</b>
	<b>(In millions)</b>	
<b>Operating Activities</b>		
Net income	\$ 57.9	\$ 105.6
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	42.0	44.4
Amortization of debt discount and deferred financing costs	1.3	4.5
Stock-based compensation	2.5	10.6
Retirement benefits, net	(14.1)	10.2
Loss on debt	22.7	10.5
Other, net	2.0	(0.9)
Changes in assets and liabilities:		
Accounts receivable	(73.4)	(9.6)
Contract assets	(49.1)	(39.1)
Other current assets	(18.2)	19.1
Recoverable environmental remediation costs	4.7	(1.8)
Other noncurrent assets	40.4	16.9
Accounts payable	(18.2)	(2.8)
Contract liabilities	(15.4)	(65.0)
Other current liabilities	116.5	2.9
Deferred income taxes	(139.2)	(3.7)
Reserves for environmental remediation costs	(3.0)	2.7
Other noncurrent liabilities and other	(33.2)	(9.1)
Net Cash (Used in) Provided by Operating Activities	<u>(73.8)</u>	<u>95.4</u>

**Investing Activities**

Purchases of marketable securities	(1.0)	(1.9)
Capital expenditures	(24.2)	(17.3)
Net Cash Used in Investing Activities	(25.2)	(19.2)

**Financing Activities**

Dividend payments	(1.3)	(428.5)
Debt amendment costs	(1.7)	—
Debt repayments including conversion premium and irrevocable cash conversion option value	(259.6)	(175.5)
Repurchase of shares for withholding taxes and option costs under equity plans	(4.7)	(4.5)
Proceeds from shares issued under equity plans	0.4	7.7
Net Cash Used in Financing Activities	(266.9)	(600.8)

**Net Decrease in Cash, Cash Equivalents and Restricted Cash**

Cash, Cash Equivalents and Restricted Cash at Beginning of Period	703.4	1,152.5
Cash, Cash Equivalents and Restricted Cash at End of Period	\$ 337.5	\$ 627.9

**Use of Unaudited Non-GAAP Financial Measures***Adjusted EBITDAP, Adjusted Net Income, and Adjusted EPS*

The Company provides the Non-GAAP financial measures of its performance called Adjusted EBITDAP, Adjusted Net Income, and Adjusted EPS. The Company uses these metrics to measure its operating and total Company performance. The Company believes that for management and investors to effectively compare core performance from period to period, the metrics should exclude items that are not indicative of, or are unrelated to, results from the ongoing business operations, such as retirement benefits (pension and postretirement benefits), significant non-cash expenses, the impacts of financing decisions on earnings, and items incurred outside the ordinary, ongoing and customary course of business. Accordingly, the Company defines Adjusted EBITDAP as GAAP net income adjusted to exclude interest expense, interest income, income taxes, depreciation and amortization, retirement benefits net of amounts that are recoverable under the Company's U.S. government contracts, and unusual items. Adjusted Net Income and Adjusted EPS exclude retirement benefits net of amounts that are recoverable under its U.S. government contracts and unusual items which the Company does not believe are reflective of such ordinary, ongoing and customary activities. Adjusted Net Income and Adjusted EPS do not represent, and should not be considered an alternative to, net income or diluted EPS as determined in accordance with GAAP.

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	(In millions, except per share and percentage amounts)			
Net income	\$ 13.7	\$ 42.5	\$ 57.9	\$ 105.6
Interest expense	5.1	4.9	13.3	15.1
Interest income and other	(2.2)	(0.2)	(2.0)	(1.5)
Income tax provision	13.7	14.8	31.5	36.4
Depreciation and amortization	13.8	13.5	42.0	44.4
GAAP retirement benefits expense	0.2	8.5	0.7	25.4
CAS recoverable retirement benefits expense	(7.2)	(9.6)	(26.1)	(29.1)
Unusual items (see below)	38.6	8.1	69.2	31.3
Adjusted EBITDAP	\$ 75.7	\$ 82.5	\$ 186.5	\$ 227.6
Net income as a percentage of net sales	2.5%	7.8%	3.6%	6.6%
Adjusted EBITDAP as a percentage of net sales	13.8%	15.1%	11.7%	14.2%
Net income	\$ 13.7	\$ 42.5	\$ 57.9	\$ 105.6
GAAP retirement benefits expense	0.2	8.5	0.7	25.4
CAS recoverable retirement benefits expense	(7.2)	(9.6)	(26.1)	(29.1)
Unusual items (see below)	38.6	8.1	69.2	31.3
Income tax impact of adjustments (1)	(8.6)	(1.8)	(11.9)	(7.2)
Adjusted Net Income	\$ 36.7	\$ 47.7	\$ 89.8	\$ 126.0
Diluted EPS	\$ 0.17	\$ 0.51	\$ 0.70	\$ 1.29
Adjustments	0.28	0.07	0.38	0.25
Adjusted EPS	\$ 0.45	\$ 0.58	\$ 1.08	\$ 1.54
Diluted weighted average shares, as reported and adjusted	81.2	82.3	84.3	81.5

(1) The income tax impact is calculated using the federal and state statutory rates in the corresponding period.

*Free Cash Flow*

The Company also provides the Non-GAAP financial measure of Free Cash Flow. Free Cash Flow is defined as cash flow from operating activities

less capital expenditures. Free Cash Flow should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes, or as an alternative to cash flows from operations presented in accordance with GAAP. The Company uses Free Cash Flow, both in presenting its results to stakeholders and the investment community, and in the Company's internal evaluation and management of the business. Management believes that this financial measure is useful because it provides supplemental information to assist investors in viewing the business using the same tools that management uses to evaluate progress in achieving the Company's goals. The following table summarizes Free Cash Flow:

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
	(In millions)			
Net cash provided by (used in) operating activities	\$ 35.0	\$ 75.2	\$ (73.8)	\$ 95.4
Capital expenditures	(12.7)	(5.0)	(24.2)	(17.3)
Free Cash Flow	<u>\$ 22.3</u>	<u>\$ 70.2</u>	<u>\$ (98.0)</u>	<u>\$ 78.1</u>

Because the Company's method for calculating these Non-GAAP measures may differ from other companies' methods, the Non-GAAP measures presented above may not be comparable to similarly titled measures reported by other companies. These measures are not recognized in accordance with GAAP, and the Company does not intend for this information to be considered in isolation or as a substitute for GAAP measures.

#### Unusual Items

The following table presents total unusual items in the unaudited condensed consolidated statements of operations:

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
	(In millions)			
Unusual items				
Legal matters (component of other expense, net)	\$ (0.4)	\$ —	\$ 15.7	\$ —
Proxy contest and related litigation costs (component of other expense, net)	16.3	—	28.3	—
Terminated merger costs (component of other expense, net)	—	7.2	2.5	20.8
Loss on debt	22.7	0.9	22.7	10.5
	<u>\$ 38.6</u>	<u>\$ 8.1</u>	<u>\$ 69.2</u>	<u>\$ 31.3</u>