All right without skipping a beat, now I'd like to introduce Aerojet Rocketdyne. Today we are honored to have Ms. Eileen Drake, CEO of Aerojet Rocketdyne with us. Aerojet develops and manufacture propulsion and power systems for space launch vehicles and missiles for the department of defense and NASA.

The company has also large real estate assets in Northern California. Aerojet has 78 million shares outstanding trades at $51 for a $4 billion market cap, $400 million of net cash for – about a $4 billion total enterprise value.

We are delighted to have Eileen here today with us to discuss Aerojet and it’s growing role in the aerospace industry. Welcome Eileen.

I highlighted NASA's SLS space launch system on here. Very proud that we're a part of NASA's SLS with the booster, the upper stage. We do the propulsion for the Orion crew vehicle and we have about 20 different motors and thrusters on that system. You probably have heard that the President mandated that we send astronauts back to the moon by 2024 and we're really proud to be on this program.

In the middle you can see our defense portfolio. We have tactical and missile defense, nice bump up in our backlog, which I'll talk a little bit more about some of our key programs in defense. Specifically, in Q2 of this year, a lot of people referred to Aerojet Rocketdyne as a national asset. If you look at what we make and what we do for a living, it really supports and defends the war fighter, the nation and our allies.
Down in the bottom left they show advanced programs. This is both on space and defense and this is where we do our highly technical development work. Everything from green propulsion for in space to our hypersonics work.

And then on the right small segment of our business, Easton is our real estate portion of the business with the goal of monetizing the remainder of some excess real estate we have, which is predominantly in Sacramento. This is a glimpse of our defense business. You can see that we have solid, liquid, air-breathing propulsion, the air-breathing being on the hypersonics piece, I highlight standard missile which we provide to our prime Raytheon and THAAD which is a Terminal High Altitude Area Defense for Lockheed Martin.

Combined these two programs are about 25%, of Aerojet Rocketdyne’s revenue. The Patriot and GMLRS very important franchise programs for Aerojet Rocketdyne and they contributed to the nice growth that you saw in our backlog in Q2, which was about $800 million up from Q1.

What I don't have on this chart is some of the newer programs, I'll talk more about that specifically around the Ground Based Strategic Deterrent and our focus on hypersonics. This is our space portfolio. You're not going to see anybody else, especially in the United States that has this breadth of portfolio that we have on the space side of the business, everything from our smallest in-space thruster propulsions, which are basically two tenths of a pound of thrust up to our largest engines like the RS-25 for NASA's SLS program, which is an excess of 400,000 pounds of thrust.

I highlight the RS-25 on NASA. It's our largest program right now in the space portfolio. Defense launch, you can see our RL10 upper stage engine on the top right. We produce that and manufacture it, do all the technical work in our West Palm Beach, Florida site. This is really a workhorse.

Right now we have the RL10 upper stage on ULA’s Atlas and Delta. We were awarded the business for the upper stage on NASA’s SLS. And then you might’ve seen last year we won two big awards, one with Northrop Grumman on the new OmegA launch vehicle and then ULA with their Vulcan vehicle. So nice upside when it comes to the RL10 program.

I mentioned in-space where we do work basically for the maneuvering of satellites and in space and like to highlight the commercial space piece of our business where we support Boeing on their commercial crew transportation capability program, which will once again put astronauts on the international space station with vehicles made in the U.S.

This is just I want to talk about the strong macro fundamentals and I often say at Aerojet Rocketdyne the time is now most of us who have been in this business have never seen a time where we have the administration and Congress focused both on space and on defense.
So you can see the macro numbers. I put the DoD acquisition, then appropriations numbers, so the administration and Congress just settled on a two year budget for national defense. It's $738 billion next year, $744 billion the year after that. If you peel that back and look out for that national defense budget, if you're looking at what piece of that goes to DoD, it's a huge piece of it, about $691 billion for next year.

And many of the programs that we do that I mentioned on our defense portfolio, you'll see plus ups in this budget. It still has to go through approps this fall, and then we'll really see how it impacts Aerojet Rocketdyne. But right now, strong support from appropriations.

And equally on the NASA side, if you look at NASA, we expect the budget to be up year-over-year. You can see the estimate number there for next year. One thing I want to highlight, for this year for NASA’s budget, there was a specific carve-out of $1.8 billion just for NASA’s SLS program that I mentioned which is right now our largest program with RS-25 on our space portfolio. So this is good news for Aerojet Rocketdyne and shows the commitment the administration and Congress has for this program. Also there was a carve-out of about $1.3 billion just for the Orion crew vehicle of which we do the propulsion on.

The interesting piece about this or we think it's pretty interesting when, shortly after the president's proposal came out for the budget for NASA in 2020, NASA asked for a supplemental $1.6 billion so we can accelerate our return back to the moon again. That's good news. And that shows support for our products as well as for the SLS program.

Just a bit on this, when I say there's so much support right now from the administration, not only on SLS but on space, you probably saw earlier this year where the President stood up the Space Command, which is the eleventh combative command, which will be led by Gen. Raymond, which is really the focus is on our defense and maintaining our interest in space. And also stood up a few months ago, I think it was in March, the Space Development Agency or SDA, which will be led by Dr. Griffin who is Under Secretary of Defense for Research and Analysis and Engineering.

And basically that's where we'll work on brand new concepts when it comes to space, so a lot of focus not just on the programs but on the organizations that will overlook our interests in space.

I talked a little bit about our strong portfolio in space and defense. We have what we call franchise programs, many of them 20 years in duration. What I want to talk about quickly is some of our next generation programs, and these are programs typically not in our current annual operating plan. When we look at hypersonics right now, it's our nation's top priority for national security is hypersonics.

If you hear anybody who's a decision maker talk, they'll say that hypersonics is key. I mentioned Dr. Griffin and also Dr. Roper who is Assistant Secretary of the Air Force for ATL. And right now there's a huge focus on hypersonics. Aerojet Rocketdyne has been
working on hypersonics for 40-plus years and we continue to develop and advance these tough technologies when it comes to Scramjet, boost motor, propulsion systems integration and warhead technologies from missile and aircraft platforms.

So we're in a good space. We're winning our fair share of those hypersonic programs. We're working with every single prime and many of the different divisions within DoD. Ground Based Strategic Deterrent huge program for Aerojet Rocketdyne, and this is replacement of the Minuteman. Right now we're working with both primes that’s Boeing and Northrop Grumman.

There's three stages of the solids plus a post-boost. So when you look at the 20-year pipeline for GBSD just for propulsion, which is what we do, it's between $3 billion and $8 billion of revenue. We feel like we're in a good spot to compete against our competitor with both primes and we've spent a lot of time and energy and funds to make sure that our Camden Arkansas site is ready for GBSD.

We've partnered with Governor Hutchinson from Arkansas. We have the newest, most state-of-the-art buildings being put up right now and it's really going to be the Center of Excellence, not only for solid rocket motors for Aerojet Rocketdyne but it's going to be the home for GBSD.

Down on the bottom again, I talked about SLS. Right now we have already shipped the first set of engines for the first launch. We're getting ready to ship the second set later this year, very much on target. And then we'll be working on the new production contract for SLS. And I mentioned RL10 before, but I want to talk about the next generation, upper stage RL10, which is our liquid upper stage engine. And I said we make it out of West Palm Beach.

This has been around for a long time and I mentioned all the customers that use it. ULA, NASA, Northrop Grumman now, but also we entered into a public private partnership with the Air Force last year to develop the next generation, lower cost, a lot of additive manufacturing in this engine and the goal is to reduce the cost by about 25%. The throughput from 25% to 50% and we're going to reduce the part count by 90% with additive manufacturing.

Matter of fact, we just produced the largest additive part that we've ever made at Aerojet Rocketdyne, the copper thrust chamber, which is really going to take the cost down on the engine and help us reduce the part count. So very well positioned, we have a great book of business on our franchise programs, are very excited about the next-gen programs coming down.

This is a snapshot of our financials. You can see the sales and the profit growth. You can see and I started from 2015, that's when I came to Aerojet Rocketdyne. A lot of CEOs like to show the financials from when they started to now, especially if the numbers are good, our numbers are pretty good.
You can see the growth in sales. Right now we're up about 2% for 2019, Q2 was up 4%. What I don't show on this chart that I'd like to just mention is our backlog. Backlog is at $4.6 billion, the highest that we've seen, in the company. And the nice thing about that is if you look over the next 12 months, about $2 billion of that will turn to revenue.

Backlog was up $800 million from Q2 to Q1. And that was predominantly some of the programs in our defense portfolio, like the THAAD, GMLRS, and the Patriot. Adjusted EBITDAP, that’s how we measure profit at Aerojet Rocketdyne. You can see the numbers from 2015 to 2018. You see a top hat in 2018. That was an adjustment we made for our environmental recovery numbers. There was a one time gain of about $43 million.

If you look at the margin just from 2016 to 2018 an improvement of about 250 basis points, so some nice improvement on margins. And you can see year-to-date our EBITDAP was up 21% for the year.

Cash flow, we can look at the numbers and the improvement from 2015. We always focus on free cash flow greater than net income. And that's our expectation this year. And going forward we drove a lot of working capital improvement and that's a big focus of ours to lessen the demand on cash. This was a big focus of ours when we launched our Competitive Improvement Program in 2015 to take down our overhead rates improve our program efficiency and work on some of our factory utilization.

CapEx is really focused on facility expansion. As I mentioned with our Competitive Improvement Program, we moved like product with like product in our factories as we really worked on the synergies of Aerojet and Rocketdyne. So we moved some of our product like the THAAD to Camden, Arkansas and our standard missile work to Orange, Virginia.

We’re going to continue to focus on those factories as well as our expansion in Huntsville, Alabama where we just moved our defense headquarters and a bit of focus in expansion in our California factory, to meet the demands of NASA’s SLS program. And again, cash pension contributions will resume next year.

So in summary, before we get to questions, you can see that we have the strong macro fundamentals. Again, most of us that have been in the aerospace and defense over the years have never seen where there’s so much focus on both space and defense at the same time. We have a well balanced portfolio both on space and defense and, obviously through our metrics we’re focused on revenue, profitable growth, and obviously doing the right thing for the shareholders.

So with that, Tony, I guess, I join you on the hot seat.

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

Yes, thank you. I mean, that was a wonderful overview. And again, congratulations on an outstanding job you've done in the last two years. The stock obviously is no pun intended,
been a rocket ship, trading around $51 now. I think we were sitting here last year in low 30s. Maybe you two talked about the hypersonics program, but maybe in a little more detail. There's some big numbers you threw around with pots of money that potentially, you could go after and just the Department of Defense in general. What are those opportunities? And maybe just explain – maybe explain that market and why it's so important right now?

<<Eileen Drake, Chief Executive Officer>>

Sure. So hypersonics is very important as I mentioned, it's right now, its our top national security focus and interest based on what's going on around the world with other countries, especially Russia and China. We've been working on hypersonics over 40 years, predominantly on the Rocketdyne side of the business. Lots of focus we're working with all of the primes, we're getting our fair share of the programs. Unfortunately, the hypersonics part of the business is stuff that we can't talk about in a forum.

We more or less let our primes talk about those programs when they feel like it's the opportune time. We’re also working with the Department of Defense, specifically one-on-one with some of the areas that we have in hypersonics. But it's really a huge upside, when I came to Aerojet Rocketdyne in 2015, we were talking about hypersonics, we didn't have a program of record yet out there. We were talking about do we continue to spend our very precious research and development funds on this.

I'm glad we made the decision to do it because we're at a great point right now where we can meet those demands, but we see great upside in it. There's tons of commitment from Dr. Griffin and Dr. Roper around this and those two are the decision makers when it comes to what programs we're going to spend funds on but nice upside for Aerojet Rocketdyne on that.

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

Sure. That's boy, you can't open a trade magazine without that being or an earnings call without that being the first question in general. Maybe switching over to GBSD, can you sort of talk about the recent dynamics that have been going on and how you're looking to compete and/or work with your competitors obviously Northrop potentially being one of the other people in this market. How is that going to play out? I know there's been a lot of news recently. Could you maybe give us some background there a little more?

<<Eileen Drake, Chief Executive Officer>>

Sure. So Ground Based Strategic Deterrent or GBSD is replacement of the Minuteman, huge priority of the military and of the administration. So right now, there's two primes competing, it's Boeing and it's Northrop Grumman. Right now the RFP is out and is supposed to answer the RFP in December.
We've been working with both. And I think when you mentioned a comment there’s been a lot of news. I've also read it that Boeing has said, they're not going to compete. But they do have until December to answer that RFP. So we're working with both primes. This three stages as I mentioned, one, two, and three. We're bidding on all three stages and then the post boost is liquid.

Right now, we have a huge advantage over our competitors on the liquid side. On the solid side, that's why we decided to transition to Camden, Arkansas. We are building right now a beautiful site. It's going to be an engineering, manufacturing and development site, one-stop shopping for GBSD and for solids. It's going to be the most up-to-date state-of-the-art facility when it comes to solid rocket motor production.

And the reason we did that is so that we can compete on affordability so that we can compete. The biggest thing about this program right now is timing, they’re trying to move this program to the left and make sure we stay on target for it. We feel really good about our position with both of the primes right now. So we'll see what Boeing decides to do. But nonetheless, we're keeping our head down and doing what we need to do with both primes.

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

That sounds like you've done a good job positioning yourself on that potential program. Maybe switching over to other competitors, new competitors with the entrance of SpaceX and Blue Origin, could you maybe talk about how the dynamics in the industry have shifted, changed a little bit and where you fall out and compete your advantages versus some of these new entrants?

<<Eileen Drake, Chief Executive Officer>>

Sure. So SpaceX and Blue Origin that's owned by Jeff Bezos for Amazon, newer entrants in the market really within the last 10 years, we like to say that competition is good. It makes us look at what we're doing. It makes us focus on our affordability. It makes us look at where we competing on the right programs. We don't necessarily compete with them one-on-one because they're launch providers.

We do propulsion, so they compete against some of the people that we provide propulsion for. I think it's all good. I think you see that what we do for a living is very, very tough. When I was here last year, we were talking about the AR1 engine versus Blue Origin’s BE-4 engine. And we were both competing to be the booster engine for ULA to replace the Russian RD-180 engine where Congress mandated after this year we get off our reliance on the Russian engines for booster engines.

BE-4 was selected by ULA. This engine continues to be years late. For AR1, we entered in a public private partnership with the Air Force to complete this engine. We'll complete it by Q1 of next year and then we'll go to test. And we believe that there'll be a market for
the AR1 engine in the medium range, but we'll also be there if some of the primes decide that they need a booster engine.

But it's been good. I think the fact that we have new entrants, it makes us look at ourselves. I mean, quite frankly, when we started the CIP program, in 2015, a lot of that was looking around and saying, we need to make sure that we're as lean and mean as we can possibly be. That transition is done now. We reduced a million square feet. We took our overhead rates way down, our program efficiency is pretty good. You see that in some of our nice EAC’s, which I'll be surprised if you don’t ask me about EACs today. So I think it's all been good. It's been good for us and it's made us get better.

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

I think you've proven that. And with your background as a military aviator, I'm sure that's going to continue. For the strategic implications, obviously you’ve been asked this question a lot with Orbital and Northrop, what are the – maybe now the broad opportunities and risks that have come from a consolidation? How do you see the market going forward now that essentially there's – your left I guess.

<<Eileen Drake, Chief Executive Officer>>

There's been a lot of consolidation and I think when companies consolidate, it's beneficial because they can lower their rates sometimes, their factory utilization perhaps can go up or it can go down. It just depends on how good they are at combining the companies just like we did when Aerojet and Rocketdyne merged in 2013. We haven't seen a huge impact or really any impact to our business as I mentioned, especially on the defense side, a lot of our programs are long franchise programs that last 20 years. We've been performing very well when I put my chart up and I talked about the defense programs that have had a bump in our backlog.

When you look at THAAD, you look at Patriot, you look at GMLRS, all of those programs we compete with the legacy O-ATK, you can see how the backlog numbers went up, $800 million Q1 versus Q2. So we haven't seen an impact, but we're not naïve to it, which is why we continue to look at how we can add additive manufacturing, take down our cost, work on program efficiency.

We rolled out an operating system, Aerojet Rocketdyne business operating system, two years ago, which is focused even more soonthe day to day of how we do our operations to look at affordability and efficiencies not just in our factories, but in our business operating processes as well.

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

Well, obviously your results have shown that that's working – that program is working. Maybe could you just – you've mentioned, you talked quite a bit about Space Force in your introduction, but maybe just what are the implications of having now essentially
fourth estate, DoD, with Space and where you see that going and how you will participate as Aerojet in that branch?

<<Eileen Drake, Chief Executive Officer>>

Right. So there's been a ton of focus on Space. I mentioned that, the president re-enacted the Space Council and that had been inactive since the late 1980s. And the Space Council is chaired by Vice President Pence. He meets with all of the CEOs of Space, we've met six times. Our last meeting was just in August in DC. So when you think about Space Force, maybe to kind of talk about the big picture, we started with the Space Council, which has gotten us aligned.

And then they stood up Space Command and that was just announced in this August meeting. So General Raymond, who's a great guy, he’s going to be leading up Space Command. So it's the 11th combative command, just focused on our interest in Space and then you take below him the Space Development Agency, which will be led by Dr. Griffin Under Secretary of Defense for research and engineering. And his focus will be how do we work on new capabilities related to Space, so some things could be in there like hypersonics.

And then the other piece is Space Force, which is right now at the proposal level. And the Space Force, it could be underneath the Air Force, it could be a separate branch of the military. And the focus of the Space Force would be on defending our interest in space. So it doesn't necessarily affect us. What it does do is it gives tremendous support for what we do for a living.

And I think the focus that the administration has is they want to put a separate focus with organizations that support Space Command just around Space to make sure that we not only maintain our interests in Space, but we accelerate them. So I see it as all good.

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

I agree. I think last quarter we saw that defense was a sizable portion of your growth. Can you talk about a little more in color about the budget outlook for your programs and what's the probability on new programs – these new programs will get funded?

<<Eileen Drake, Chief Executive Officer>>

So if you look at space and defense and traditionally we've always been about 50/50, defense is now I think in the long run, you'll see maybe defense more at 60% and space at 40%, because of the huge focus on defense. Space is probably going to be a little flattish year-over-year.

With the AJ-60 contract that we had that expired. ULA is now expiring the Delta, which we have the RS-68 booster engine on and the upper stage. Defense when you see the appropriations numbers. And what we do is we take the big numbers, the $691 billion
and then we looked down for each program that we support for DoD and we look to see where the plus up is.

Now until it goes through appropriations in the fall and we get the purchase orders, you can't book those numbers. But we see some nice upside growth. So they are being funded in DoD. And then the next-gen, which is hypersonics and the GBSD are a few years away but nice upside for Aerojet Rocketdyne and they are being funded.

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

Maybe I'll open the floor up to the audience for questions.

Q&A

<Q>: Thanks. You've mentioned several times the comments on the current administration's focus on Space. What threats do you see to the business in case the current administration doesn't become the current administration? And what kind of keeps you up at night?

<A – Eileen Drake>: I sleep really good, not a lot keeps me up. Well, we spend a good sleep. I slept through a hurricane when I was five years old. But that's a great question.

<Q – Tony Bancroft>: Thinking of a military pilot there.

<A – Eileen Drake>: We've all seen when there's different administrations, different focus. I think the focus will continue there on the defense side. When you look at the space side, I think we all remember when President Obama came and he stopped the constellation program and that was an impact to Rocketdyne at the time.

When we look at the focus on SLS and I mentioned the RS-25 is a big piece of our business. That's something that we are very conscious of. So what we do is we work with the other primes that are on SLS and on that program, companies like Boeing and Lockheed Martin, Northrop Grumman. And we continue to work with the administration, with our local individuals, state governments to make sure that those programs are supported and they're funded.

There is a lot of support for those programs right now. But if I was – if you were to ask me what concerns me, the macro is the piece that we can't control. We can control how we react to it. So if there's ever a macro or government tailwind, we look at what we have to do at Aerojet Rocketdyne in the best interest of the shareholders. And if this headwind the same way, but I would say that's a piece that we can't control. We can influence it. We can work to support that, but that's always the political side of the dimensions that we can't necessarily control at the supplier level.

<<Tony Bancroft, Analyst, Gabelli & Company>>
Well, that has been a wonderful overview, Eileen. Thank you for coming today. We love hearing from you and hopefully we'll have you back next year. Congratulations on all your achievements.

<<Eileen Drake, Chief Executive Officer>>

Thanks Tony. Thank you.