



## Astronics Corporation

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*Industrials Sector Spring 2016*

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# Agenda

Investment Recommendation

Industry Summary

Company Overview

Company Trends

Comparable Companies

Valuation Summary

Questions

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# Astronics Corporation: Undervalued

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Recommendation	BUY
Current Price	\$38.55*
1-Yr. Target Price	\$44.68
% Upside	17.1%

- Recent sell off was irrational
- Astronics has positioned itself for success in a stable industry
- Share Repurchase reflects Management's confidence
- Solid historical and projected future financials

# Industry Definition

Companies in this industry manufacture and overhaul complete aircraft, develop prototypes and convert aircraft. The industry also includes the manufacture, conversion and overhaul of aircraft engines and propulsion systems. Additionally, the industry makes related parts and auxiliary equipment.



NYSE:DCO



NYSEMKT:CVU



NYSEMKT:AIRI



NYSE:ESL



NYSE:HEI



NASDAQ:ATRO

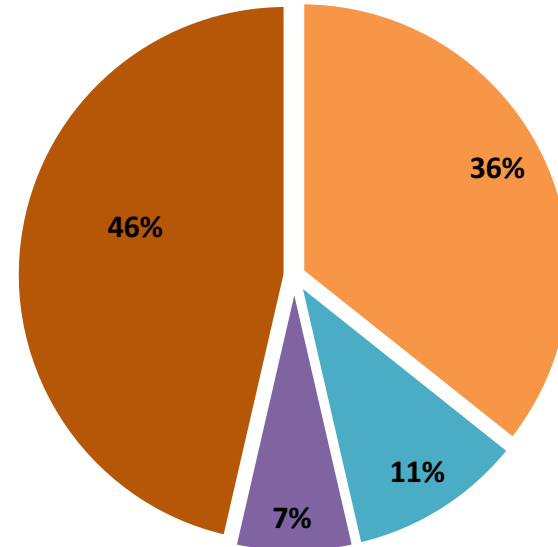
# Industry Summary

Industrials Sector (\$71,213 B)

Aerospace and  
Defense (\$20,008 B)

Industry (\$400 B)

Market Share



■ The Boeing Company

■ United Technologies Corporation

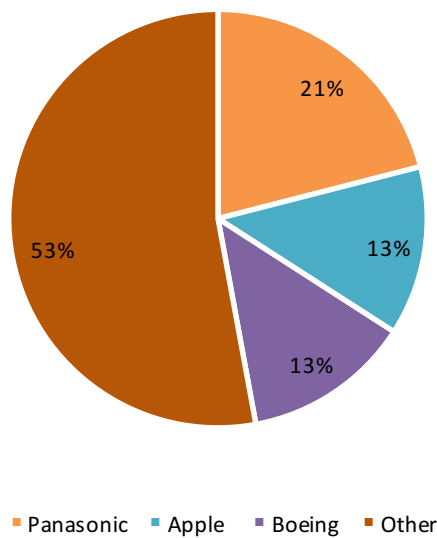
■ Lockheed Martin Corporation

■ Other

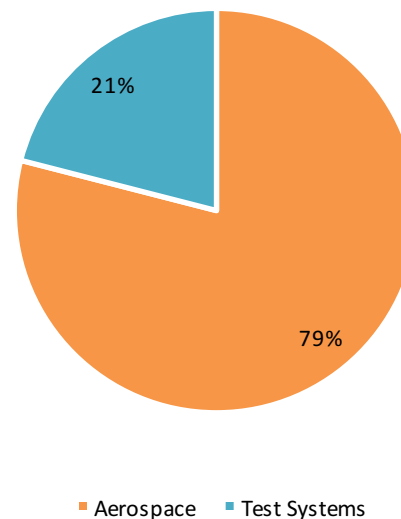
# Astronics Corporation

- Leading supplier of products to aerospace, defense, electronics industries
  - Power generation and distribution
  - Lighting and safety systems
  - Avionics
  - Aircraft Structures
  - Engineering design and system certification
  - Automatic test systems

Major Customers

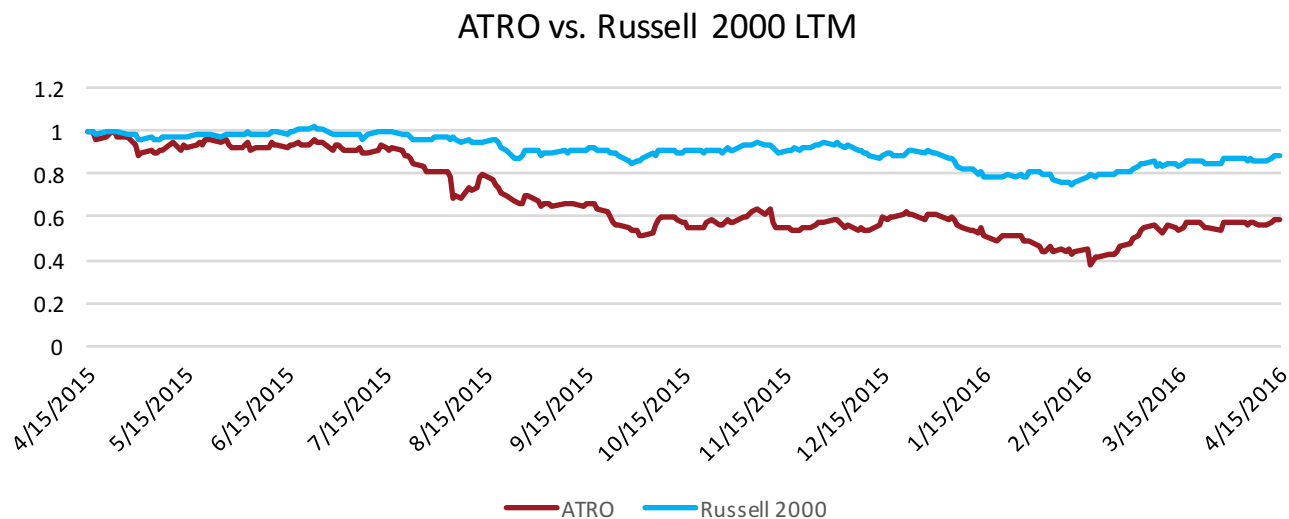


Business Segments



# Fundamentals

Ticker	ATRO
Current Price	\$38.55*
Market Cap	1.006 Billion
P/E	15
EPS (LTM)	\$2.55
EV/EBITDA	8.97



# Value Chain

## Test Systems Segment

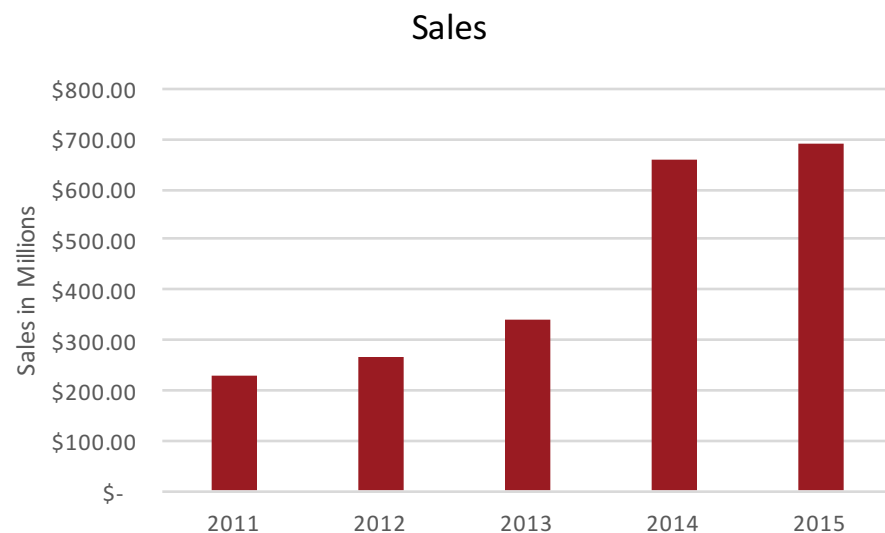
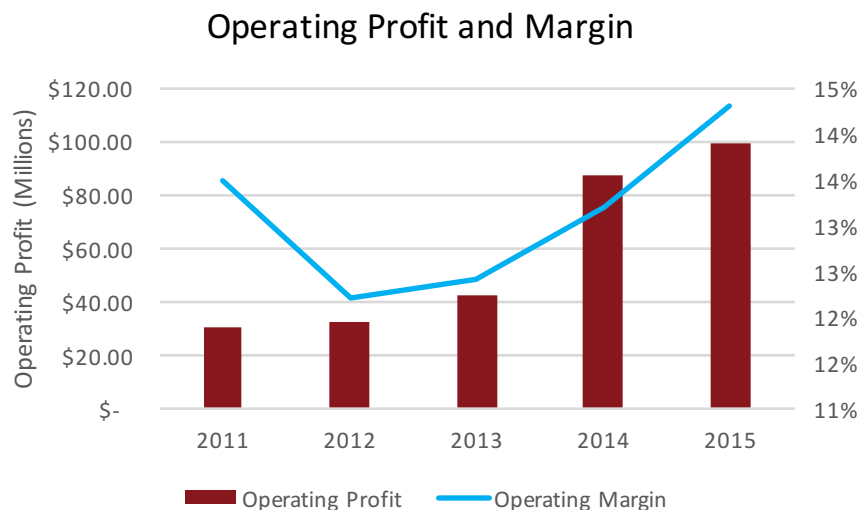
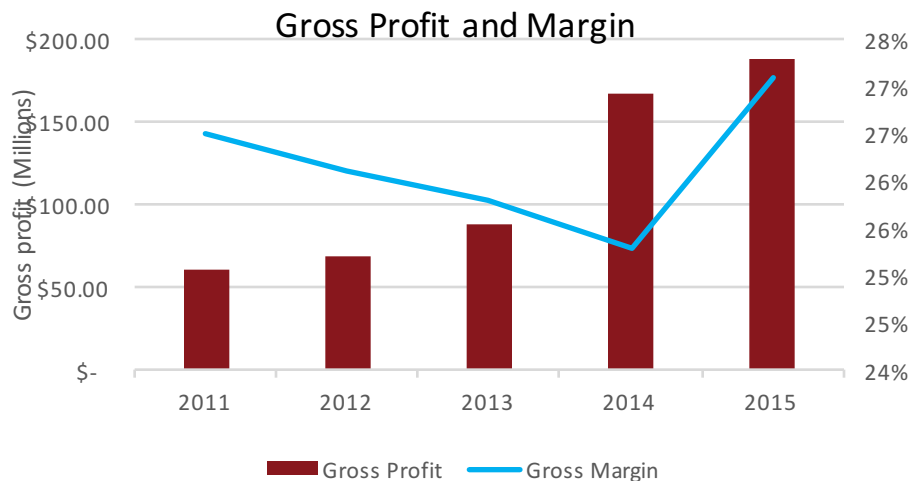


## Aerospace Segment





# Solid Margins and Increasing Revenues



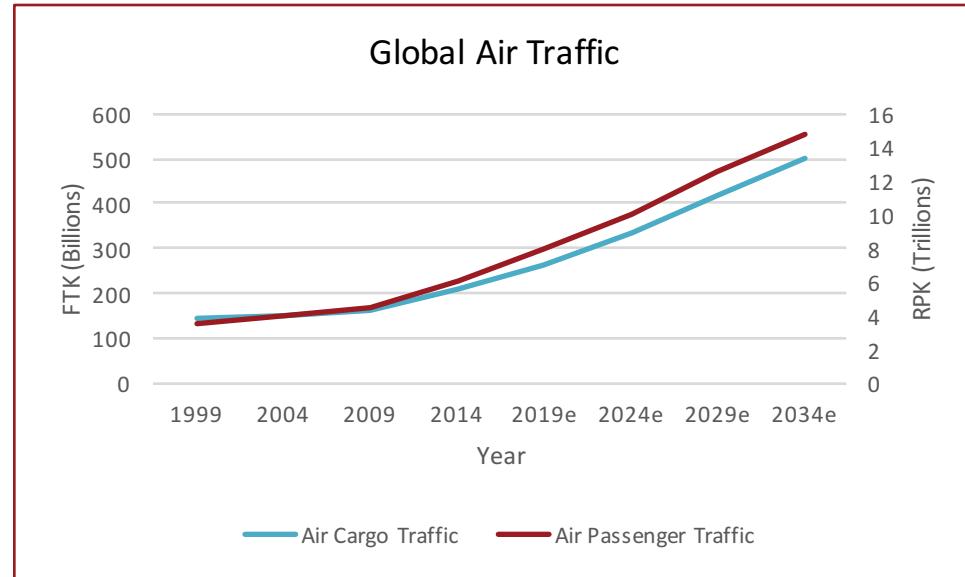
# Trends

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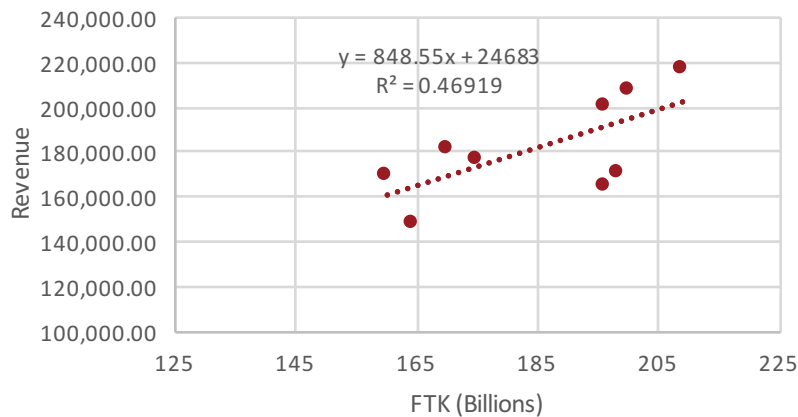


# Increasing Air Traffic

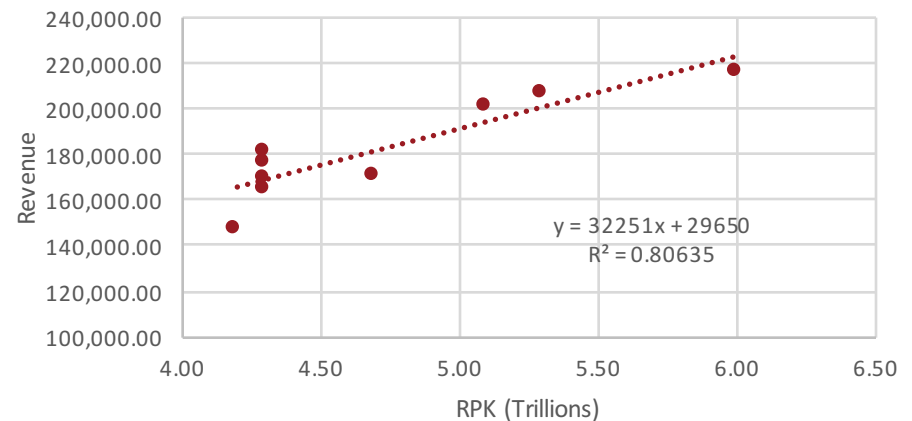
- Demand for Air Traffic has been historically resilient to external shocks
- RPK is projected to increase at a CAGR of 4% until 2034
- FTK is projected to increase at a CAGR of 4.22% until 2034
- Air Traffic is highly correlated with industry revenue



Correlation: FTK-Revenue



Correlation: RPK-Revenue

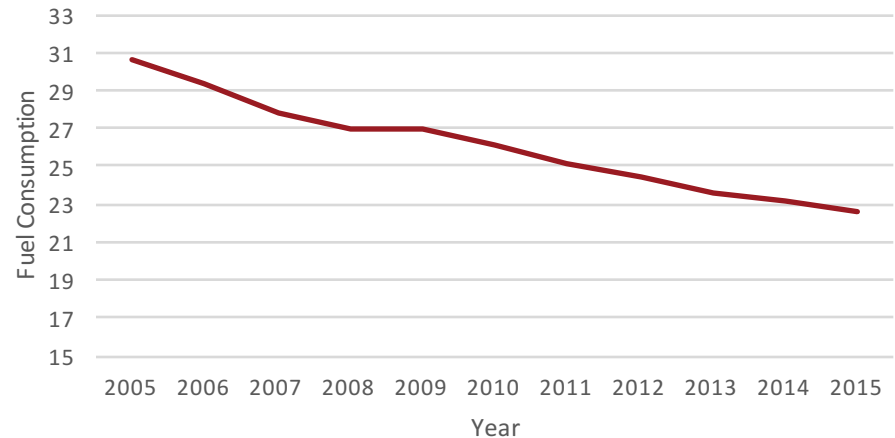




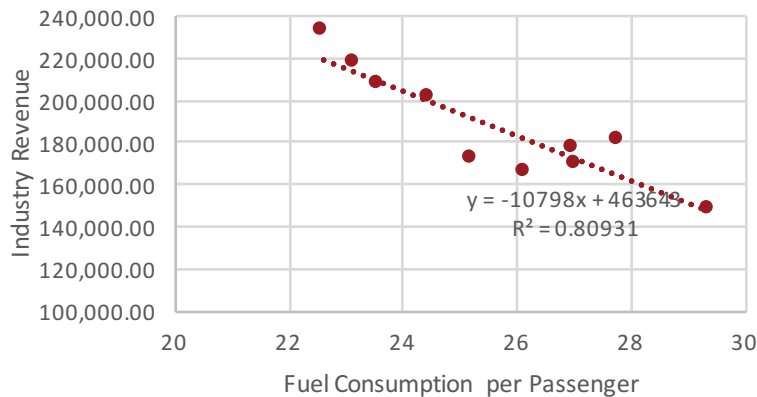
# Decreasing Fuel Prices and Consumption

- Lower input costs for airlines will lead to more free cash flow to purchase new aircraft from the industry
- As technology advances aircraft will become more fuel efficient

Fuel Consumption Per Passenger



Correlation: Fuel Consumption-Revenue



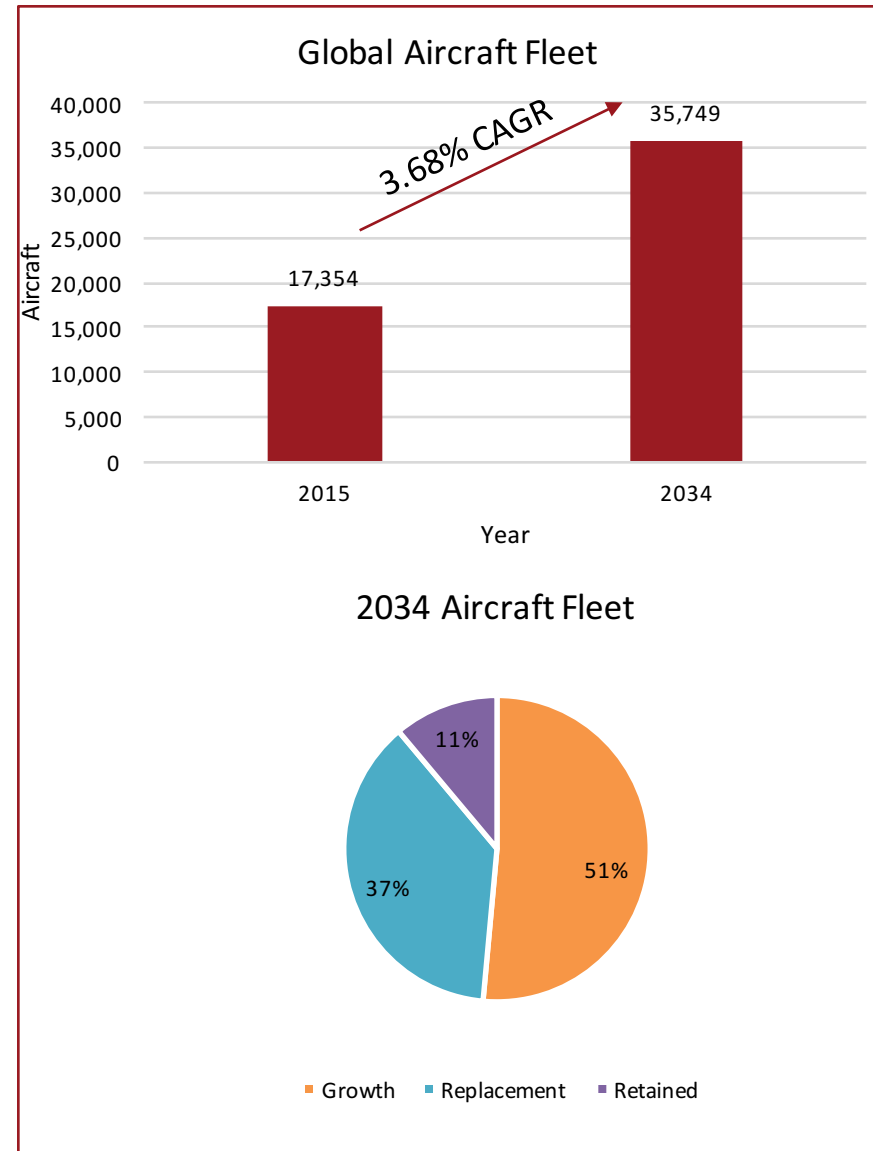
Brent Crude Oil Price





# Global Aircraft Fleet Growth

- Astronics has high exposure to global aircraft deliveries
  - Produces parts for several aircraft
    - Airbus A380
    - Boeing 787
    - F-35
    - Cessna
- Recently entered into contracts with Embraer, U.S. Navy
- Owns 30% of in-seat power market
- The global aircraft fleet is projected to grow at a CAGR of 3.68% to 35,749 by 2034
- Older less efficient aircraft will continue to be replaced
- Increased demand for air travel will drive demand for aircraft







# Recent Acquisitions

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**July 2013**

PECO

**Aerospace  
Segment:**  
Lighting and  
Structures

**December 2013**

PGA

**Aerospace Segment:**  
Motion, Avionics, and  
Lighting

**January 2015:**

Armstrong

**Aerospace  
Segment:** Systems  
Certification, Power,  
and Avionics

**October 2013:**

AeroSat

**Aerospace  
Segment:** Avionics

**February 2014:**

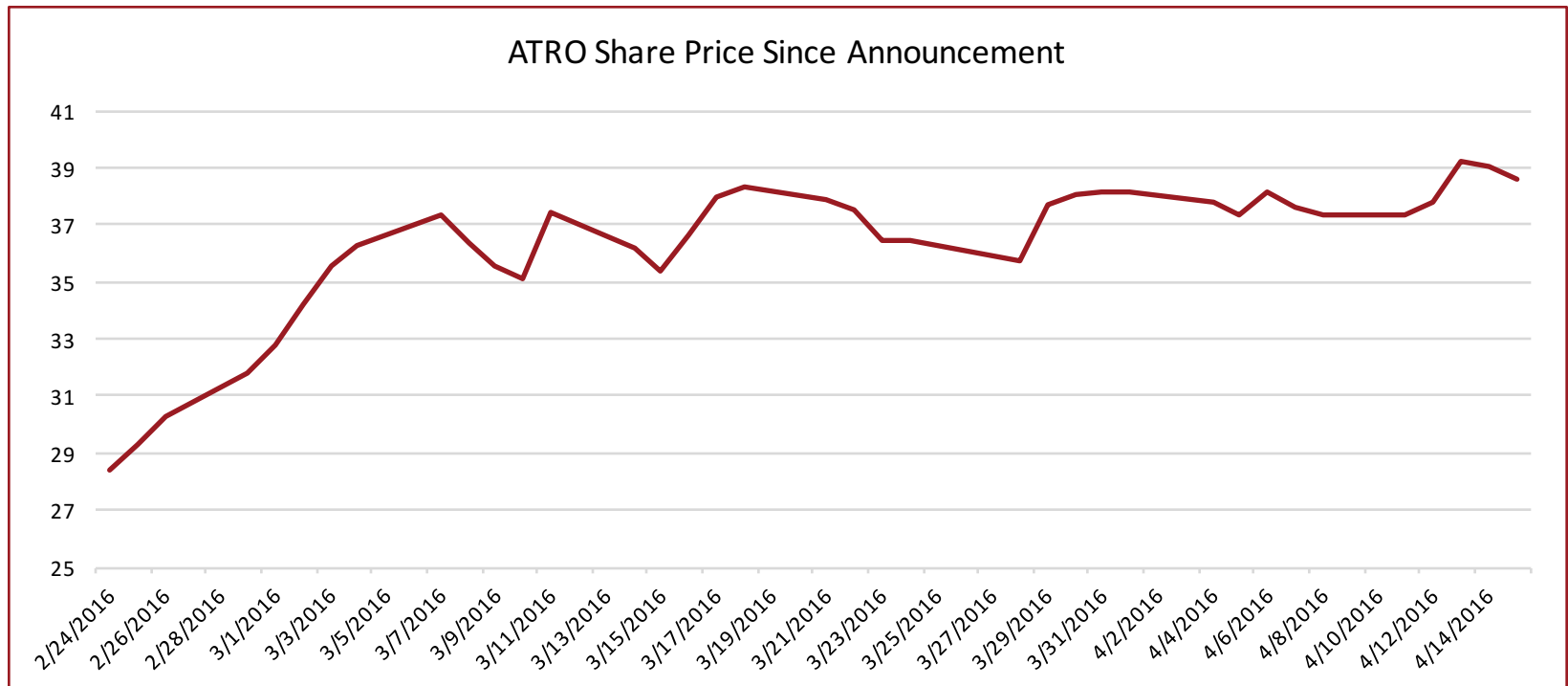
EADS North America  
T&S

**Test Segment:**  
Commercial and  
Defense



# Share Repurchase

- Announced \$50 million share repurchase on 2/24/16
  - Funded by operating cash flow and revolving credit
  - “This share repurchase initiative reflects the company’s belief that our shares represent an attractive investment opportunity”- Peter J. Gundermann, CEO



# Comparable Companies

Company	Ticker	Market Cap (MM)	Price	Revenue(MM)	TTM P/E	EV/EBITDA	EV/Revenue	TTM Profit Margin
Heico Corp	HEI	\$ 3,627.20	\$ 40.06	\$ 1,227.00	30.4	15.3	3.6	40.0%
CPI Aerostructures	CVU	\$ 59.58	\$ 6.93	\$ 100.00	11.9	8.5	0.8	17.0%
Air Industries Group	AIRI	\$ 43.77	\$ 5.79	\$ 80.00	66	14.6	1.4	21.5%
Esterline Technologies	ESL	\$ 1,904.90	\$ 64.29	\$ 1,959.00	24.22	10.9	1.4	34.1%
Astronics Corp	ATRO	\$ 1,060.00	\$ 38.55	\$ 692.00	15.1	9.8	1.8	49.9%
Ducommun Inc.	DCO	\$ 166.13	\$ 14.97	\$ 666.00	4	3.3	0.6	15.1%
High		\$ 3,627.20	\$ 64.29	\$ 1,959.00	66.0	15.3	3.6	49.9%
Mean		\$ 1,143.60	\$ 28.43	\$ 787.33	25.3	10.4	1.6	29.6%
Median		\$ 613.07	\$ 26.76	\$ 679.00	19.7	10.4	1.4	27.8%
Low		\$ 43.77	\$ 5.79	\$ 80.00	4.0	3.3	0.6	15.1%

# Valuation

Discounted Cash Flow	60% Weight
WACC	11.52%
Terminal Growth Rate	4%
EBITDA Multiple	9.7x
Final Output	\$41.88

Comparables	40% Weight
P/E Valuation	\$50.13
EV/EBITDA Valuation	\$53.52
EV/Revenue Valuation	\$40.04

Recommendation	BUY
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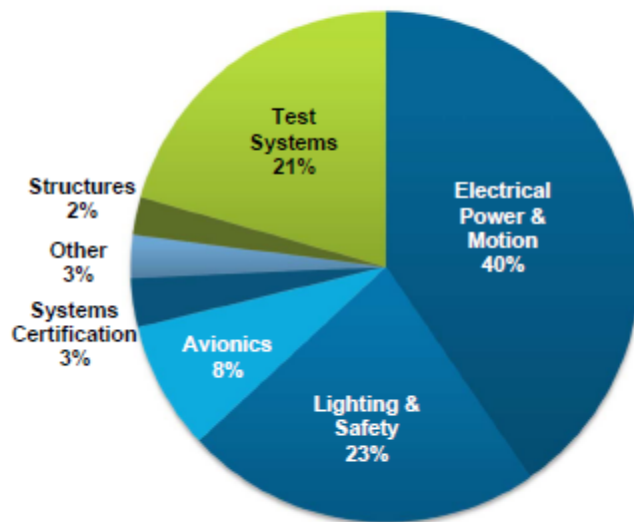
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# Back Up Slides

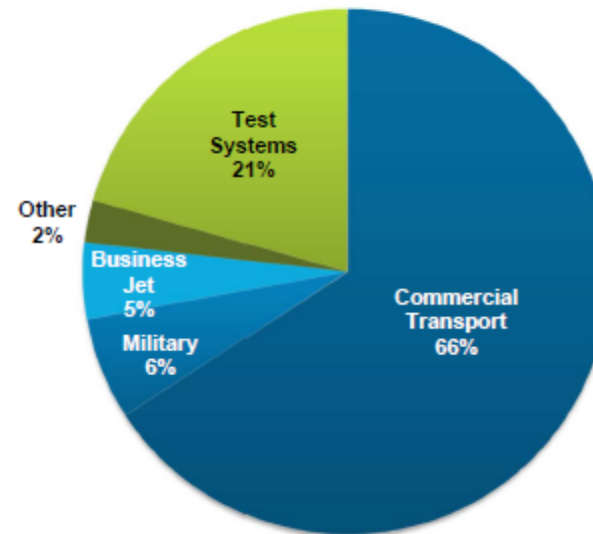
# Sales Breakdown

## Diverse Sales Composition

2015 Sales by Product



2015 Sales by Market



2015 Sales: \$692.3 Million

## Aerospace Segment: Well Positioned

*Wide range of high profile next generation aircraft platforms*

Embraer Phenom 100/300:

*Exterior lighting*

UH-60 Blackhawk:

*Exterior cockpit lighting*

V-22 Osprey:

*Cabin, cockpit & exterior lighting*

Cessna:

*Exterior & cockpit lighting*

Airbus A380:

*Cabin lighting & cabin electronics*

Boeing 787:

*Passenger power & fuel doors*

Boeing 737 NG & BSI:

*PSU, fuel doors & passenger power available*

F-35 JSF:

*Exterior lighting suite & lighting controllers*

Pilatus PC-24:

*Airframe power & induction starter generator*

Airbus 350:

*Emergency egress lighting & passenger power*

Bell 505, 525 & V280:

*Airframe power*

737MAX:

*Exterior lighting system & PSU*

777X: PSU

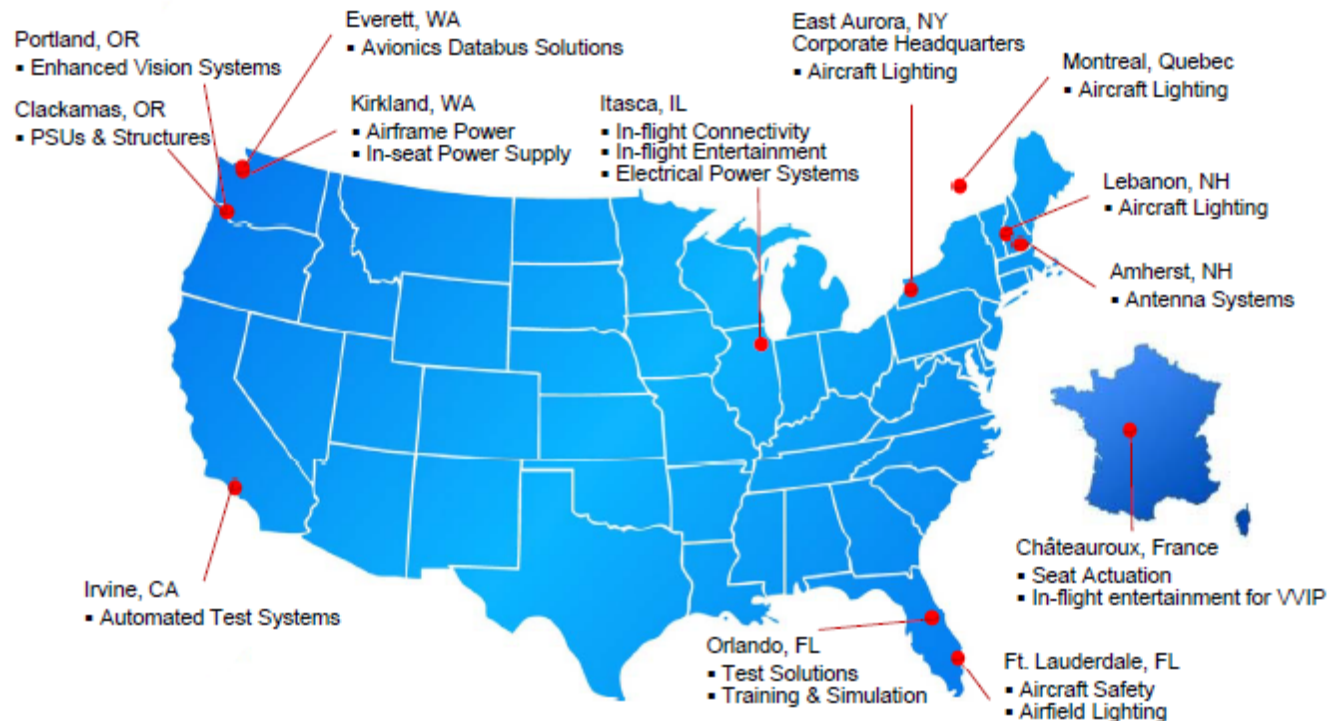
Current



Next Generation



## Astronics Locations



# Valuation Sensitivity



# DCF

	2016	2017	Forecasted 2018	2019	2020
EBIT	\$ 104.05	\$ 111.32	\$ 118.56	\$ 124.98	\$ 130.57
- Taxes	\$ 29.71	\$ 31.78	\$ 33.85	\$ 35.68	\$ 37.28
	\$ 74.34	\$ 79.53	\$ 84.71	\$ 89.30	\$ 93.29
+ D&A	\$ 22.17	\$ 23.53	\$ 25.07	\$ 26.43	\$ 27.60
- CAPEX	\$ (29.00)	\$ (31.59)	\$ (34.19)	\$ (34.50)	\$ (34.57)
- Δ in NWC	\$ (7.00)	\$ (8.10)	\$ (9.29)	\$ (8.22)	\$ (7.09)
Unlevered FCF	\$ 60.51	\$ 63.37	\$ 66.28	\$ 73.00	\$ 79.24
Net Present Value	\$245.76				

Perpetuity Growth Method		Exit Multiple Method	
Growth Rate	4.00%	EBITDA Multiple	9.90x
Undiscounted TEV	\$ 1,087.28	Undiscounted TEV	\$ 1,565.93
Discounted TEV	\$ 628.68	Discounted TEV	\$ 905.44
DCF Value	\$ 874.43	DCF Value	\$ 1,151.20
Equity Value	\$ 723.21	Equity Value	\$ 999.97
Share Price	\$ 37.14	Share Price	\$ 51.36
Implied Exit Multiple	6.87x	Implied Growth Rate	6.21%