

Credit Rating Report

Credit Rating Summary

Credit Rating	BB+ (Stable)
Net Debt/EBITDA	2.3x (Stable)
Interest Coverage	4.1x (Adequate)
On-Time Delivery Rate	98.2% (Strong)

BB+ long-term issuer credit rating assigned September 10, 2024, with outlook revised to positive December 3, 2024. AeroTech Manufacturing Corp. operates as a Tier 2 aerospace components supplier specializing in complex machining and advanced materials processing for both commercial aviation (60%) and defense (35%) sectors.

Key rating strengths include established market position serving 47 OEMs, AS9100D certification, and specialized expertise in titanium and Inconel manufacturing. Multi-year contracts averaging 3.2 years cover 68% of revenue, providing stable visibility. Operational metrics demonstrate strong execution with 98.2% on-time delivery and 12% reduction in production costs over two years.

Financial profile features \$412 million revenue (FY2023), 14.2% EBITDA margin, and manageable leverage at 2.3x Net Debt/EBITDA. Recent contract wins totaling \$340 million over five years strengthen forward outlook. Liquidity position remains adequate with \$63 million available (\$28 million cash, \$35 million undrawn revolver).

Rating constraints include customer concentration (top 5 = 52% of revenue) and ongoing OEM pricing pressure. However, technical differentiation and balanced commercial-defense exposure provide competitive advantages. Rating positioned at upper end of BB category, with potential upgrade to BBB- possible within 12-18 months contingent on successful execution of new programs and sustained margin improvement.

Rating Rationale

AeroTech's BB+ rating reflects its established position as a Tier 2 aerospace supplier with strong technical capabilities and operational execution, balanced against industry cyclicalities and customer concentration risks. The company's diversified exposure across commercial aviation (60%) and defense (35%) segments provides stability, while long-term relationships

with 47 OEMs and multi-year contracts averaging 3.2 years enhance revenue visibility.

Key strengths supporting the rating include specialized manufacturing expertise in complex materials, demonstrated by AS9100D certification and a 98.2% on-time delivery rate. Operational improvements have yielded a 12% reduction in production costs over two years, while six U.S. manufacturing facilities provide strategic geographic coverage and customer proximity.

Financial performance shows adequate metrics for the rating category, with FY2023 revenue of \$412 million and EBITDA margin of 14.2%. Net debt-to-EBITDA of 2.3x, while elevated, remains manageable with sufficient covenant headroom against the 3.25x maximum. Liquidity position of \$63 million provides adequate coverage for working capital and near-term obligations.

Primary credit concerns include: - Customer concentration with top five accounts representing 52% of revenue - Ongoing OEM pricing pressure affecting margin expansion potential - Industry cyclical exposure to commercial aviation dynamics - Competition from international suppliers in certain product segments

Recent positive developments include two major contract wins totaling \$340 million over five years and successful completion of a facility consolidation program yielding \$6.8 million in annual cost savings. These factors, combined with Q4 2024 performance showing EBITDA margins of 16.1% and strong cash flow generation, support the positive outlook revision and potential for upgrade to BBB- within 12-18 months.

The rating compares favorably to aerospace manufacturing peers, positioning at the upper end of the BB category due to operational excellence, technical differentiation, and balanced end-market exposure. This alignment reflects adequate but not robust financial flexibility typical of the rating category.

Financial Profile

Revenue growth demonstrates positive momentum, reaching \$412 million in FY2023 despite a 3% year-over-year decline from post-pandemic normalization. EBITDA of \$58 million yielded a 14.2% margin, reflecting operational efficiency gains that partially offset volume impacts. Net income of \$26 million maintained a healthy 6.3% margin in a challenging pricing environment.

Key metrics indicate solid financial fundamentals: - Net Debt/EBITDA: 2.3x (elevated but within covenant limit of 3.25x) - Interest Coverage: 4.1x demonstrating adequate debt service capacity - Liquidity: \$63 million (\$28M cash + \$35M undrawn revolver) - Working Capital: 111-day cash conversion cycle - Capital Expenditure: 4.2% of revenue

Debt structure comprises \$165 million total obligations: - \$120 million Term Loan A - \$15 million drawn on revolving facility - Remaining undrawn capacity provides operational flexibility

Forward-looking indicators suggest strengthening performance: - Updated 2024 revenue guidance: \$418-422 million - Projected EBITDA margin expansion to 15.1-15.5% - Free cash flow forecast: \$22-25 million - Expected leverage reduction to 2.1x Net Debt/EBITDA

Recently secured contracts totaling \$340 million over five years enhance revenue visibility: - Boeing 737 MAX component contract: \$195 million - F-35 avionics housing program: \$145 million - Expected gross margins 32-35% vs. current 28.4% average

Operational optimization initiatives completed in October 2024 target \$6.8 million in annual cost savings, supporting margin expansion goals. Q4 2024 preliminary results show acceleration with revenue of \$108 million (+12% YoY) and EBITDA margin improvement to 16.1% from 13.8% prior year.

Primary financial risks include customer concentration (top 5 = 52% of revenue) and working capital intensity from extended production cycles. However, diversification across commercial and defense sectors provides stability through economic cycles.

Market Position and Outlook

AeroTech maintains a solid competitive position as a Tier 2 aerospace supplier, commanding approximately 8% market share in its specialized component segments. The company's technical expertise in complex machining and advanced materials processing creates meaningful barriers to entry, particularly in titanium and Inconel components where qualification requirements are stringent.

Revenue diversification across commercial aviation (60%) and defense (35%) provides stability through industry cycles, though customer concentration remains elevated with the top five accounts representing 52% of sales. Multi-year contracts averaging 3.2 years cover 68% of revenue, offering good visibility into future cash flows.

The broader aerospace sector demonstrates strong recovery momentum, with commercial aviation production rates approaching pre-pandemic levels. Global passenger traffic has reached 102% of 2019 levels, while projected commercial aircraft deliveries of 1,850 units in 2024 represent 15% year-over-year growth. Defense spending remains robust, supported by a \$886B U.S. defense budget for FY2025 including \$58.2B for aircraft procurement.

Industry headwinds include persistent skilled labor shortages, with 2.1M aerospace jobs projected to remain unfilled by 2030, and ongoing supply chain complexity managing 15,000+ parts per aircraft. However, AeroTech's operational metrics demonstrate resilience, achieving a 98.2% on-time delivery rate and 12% reduction in production costs over two years.

Growth prospects appear favorable given increasing narrow-body production rates, defense modernization programs, and limited supplier capacity. The company's investment in advanced manufacturing capabilities and strategic positioning near key aerospace clusters should support market share expansion. However, maintaining pricing power and managing working capital intensity (111-day cash conversion cycle) remain key challenges in an environment of OEM pricing pressure.

Rating Sensitivities

Positive rating momentum could materialize if AeroTech achieves:

- Revenue exceeding \$450 million with sustained EBITDA margins above 16%
- Net debt-to-EBITDA maintained below 2.0x through operational cash flow generation
- Market share expansion beyond current 8% through new program wins
- Reduction in customer concentration with top 5 customers below 45% of revenue
- Successful execution of recently awarded Boeing and Lockheed Martin contracts (\$340M combined value)

Negative rating pressure could emerge from:

- Revenue declining below \$375 million or EBITDA margins falling under 12%
- Net debt-to-EBITDA exceeding 3.0x for two consecutive quarters
- Loss of major programs representing >15% of revenue
- Quality or delivery performance deterioration below 95% on-time delivery rate
- Working capital deterioration pushing cash conversion cycle beyond 120 days
- Failure to execute facility consolidation benefits (\$6.8M annual savings target)
- Operational setbacks in new program ramp-ups, particularly the 737 MAX and F-35 contracts
- Material cost overruns on capital projects exceeding 15% of budgeted amounts

Outlook

Positive, reflecting AeroTech's strengthening credit profile and potential for upgrade to BBB- within 12-18 months. Recent contract wins totaling \$340 million over five years, combined with successful facility consolidation delivering \$6.8 million in annual cost savings, demonstrate improving operational and financial metrics. Q4 2024 preliminary results show EBITDA margins reaching 16.1% (vs. 13.8% prior year) with strong cash flow generation. The trajectory assumes successful execution of new program ramp-ups, particularly the Boeing 737 MAX and F-35 contracts starting Q1-Q2 2025. Upgrade potential is supported by projected revenue growth to \$485-505 million in 2025, sustained EBITDA margins above 16.5%, and leverage reduction below 2.0x. The company's balanced commercial/defense exposure (65%/35%) and reduced customer concentration (top customer now 28% vs. 34%) provide stability through market cycles.

This analysis contains synthetic data for demonstration purposes only. All company names, financial data, and credit ratings mentioned in this report are fictional and should not be used for actual investment or credit decisions. The default rates, financial metrics, and market analysis presented are illustrative examples intended solely for educational and demonstration use.