

Fiscal Year 2019 Third Quarter Results

AUGUST 5, 2019

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Today's Agenda

▪ Highlights	Don Guzzardo
▪ Market Review	Tom Gendron
▪ Financial Results & Outlook	Bob Weber
▪ Q&A	

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Cautionary Statement

Information in this presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, including, but not limited to, statements regarding our expectations related to our full fiscal year performance and ability to meet our outlook, our expectations related to the performance of our segments and specific markets within those segments, the effect of our adoption of ASC 606 on future financial results, and our future sales, earnings, earnings per share, liquidity, tax rate, and relative profitability. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Factors that could cause actual results and the timing of certain events to differ materially from the forward-looking statements include, but are not limited to, a decline in our customers' business, or our business with, or financial distress of, Woodward's significant customers; global economic uncertainty and instability in the financial markets; Woodward's ability to manage product liability claims, product recalls or other liabilities associated with the products and services that Woodward provides; Woodward's ability to obtain financing, on acceptable terms or at all, to implement its business plans, complete acquisitions, or otherwise take advantage of business opportunities or respond to business pressures; Woodward's long sales cycle, customer evaluation process, and implementation period of some of its products and services; Woodward's ability to implement and realize the intended effects of any restructuring and alignment efforts; Woodward's ability to successfully manage competitive factors, including prices, promotional incentives, competitor product development, industry consolidation, and commodity and other input cost increases; Woodward's ability to manage expenses and product mix while responding to sales increases or decreases; the ability of Woodward's subcontractors to perform contractual obligations and its suppliers to provide Woodward with materials of sufficient quality or quantity required to meet Woodward's production needs at favorable prices or at all; Woodward's ability to monitor its technological expertise and the success of, and/or costs associated with, its product development activities; consolidation in the aerospace market and our participation in a strategic joint venture with General Electric Company may make it more difficult to secure long-term sales in certain aerospace markets; Woodward's debt obligations, debt service requirements, and ability to operate its business, pursue its business strategies and incur additional debt in light of covenants contained in its outstanding debt agreements; Woodward's ability to manage additional tax expense and exposures; risks related to Woodward's U.S. Government contracting activities, including liabilities resulting from legal and regulatory proceedings, inquiries, or investigations related to such activities; the potential of a significant reduction in defense sales due to decreases in the amount of U.S. Federal defense spending or other specific budget cuts impacting defense programs in which Woodward participates; changes in government spending patterns, priorities, subsidy programs and/or regulatory requirements; future impairment charges resulting from changes in the estimates of fair value of reporting units or of long-lived assets; future results of Woodward's subsidiaries; environmental liabilities related to manufacturing activities and/or real estate acquisitions; Woodward's continued access to a stable workforce and favorable labor relations with its employees; physical and other risks related to Woodward's operations and suppliers, including natural disasters, which could disrupt production; Woodward's ability to successfully manage regulatory, tax, and legal matters; changes in accounting standards that could adversely impact our profitability or financial position; risks related to Woodward's common stock, including changes in prices and trading volumes; impacts of tariff regulations; risks from operating internationally, including the impact on reported earnings from fluctuations in foreign currency exchange rates, and compliance with and changes in the legal and regulatory environments of the United States and the countries in which Woodward operates; fair value of defined benefit plan assets and assumptions used in determining Woodward's retirement pension and other postretirement benefit obligations and related expenses; industry risks, including increases in natural gas prices, unforeseen events that may reduce commercial aviation and increasing emissions standards; any adverse effects on Woodward's operations due to information systems interruptions or intrusions; risks associated with integrating the L'Orange business, including diversion of management time and attention, inability to meet our expectations, unexpected liabilities, loss of employees and difficulties integrating and retaining customers, suppliers and partners; certain provisions of Woodward's charter documents and Delaware law that could discourage or prevent others from acquiring the company; and other risk factors described in Woodward's Annual Report on Form 10-K for the year ended September 30, 2018 and other risks described in Woodward's filings with the Securities and Exchange Commission.

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New Revenue Recognition Standard (ASC 606)

- Adopted October 1, 2018
- Fiscal 2019 results presented under ASC 606
  - Prior year results presented under previous standard, ASC 605
  - Primary impact anticipated to be the inclusion of customer provided inventory in net sales with no related earnings
- For full fiscal year – earnings impact not expected to be material
  - Expect quarterly variability of impact on sales and earnings
- **No impact to cash flow**
- Refer to slide 9, press release tables and 10-Qs for 2019

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Q3 Fiscal Year 2019 Highlights

- Net sales of $752 million
  - Compared to $588 million last year
  - Organic net sales were $673 million, compared to $563 million in prior year, 20% increase
- Net earnings of $66 million, or $1.02 per share
  - Compared to $49 million, or $0.77 per share last year
- Adjusted net earnings[1] of $84 million, or $1.30 per share
  - Compared to $71 million, or $1.12 per share last year
- Net cash provided by operating activities of $219 million year to date
  - Compared to $162 million in the prior year period
- Free cash flow[1] of $141 million year to date
  - Compared to $72 million in prior year period

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Aerospace

- Aerospace segment performing well
  - Ramp-up continues for next gen, fuel efficient narrowbody aircraft
  - Increased content
  - Strong demand for new aircraft
- Defense
  - Favorable defense budgets
  - Strength in fixed wing and guided weapons
- Commercial Aftermarket
  - 9% increase for quarter, versus prior year period
  - Lower initial provisioning, strong legacy, favorable fleet dynamics
- Boeing 737 MAX grounding
  - Closely monitoring situation
  - Do not anticipate significant impact to our production rates
  - Experiencing softer initial provisioning, as anticipated

A320neo



737 MAX





F-35

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Industrial

- Power generation
  - Natural gas engines and clean burning diesel engines gaining market share
  - Gas turbine market continues to stabilize
    - Higher content on new turbines will allow us to grow faster than market
  - Renewables – being impacted by reduction of incentives
    - Significant customer announced bankruptcy
    - Considerable value in intellectual property and a large installed base
- Transportation
  - Increased emissions regulations in China driving healthy natural gas truck market
    - China VI implemented in July, large pre-buy leading up to new regulation
  - Global trade continues to drive cargo ship utilization and aftermarket
- Oil and gas
  - Solid markets
  - Volatility related to fluctuations in supply and demand





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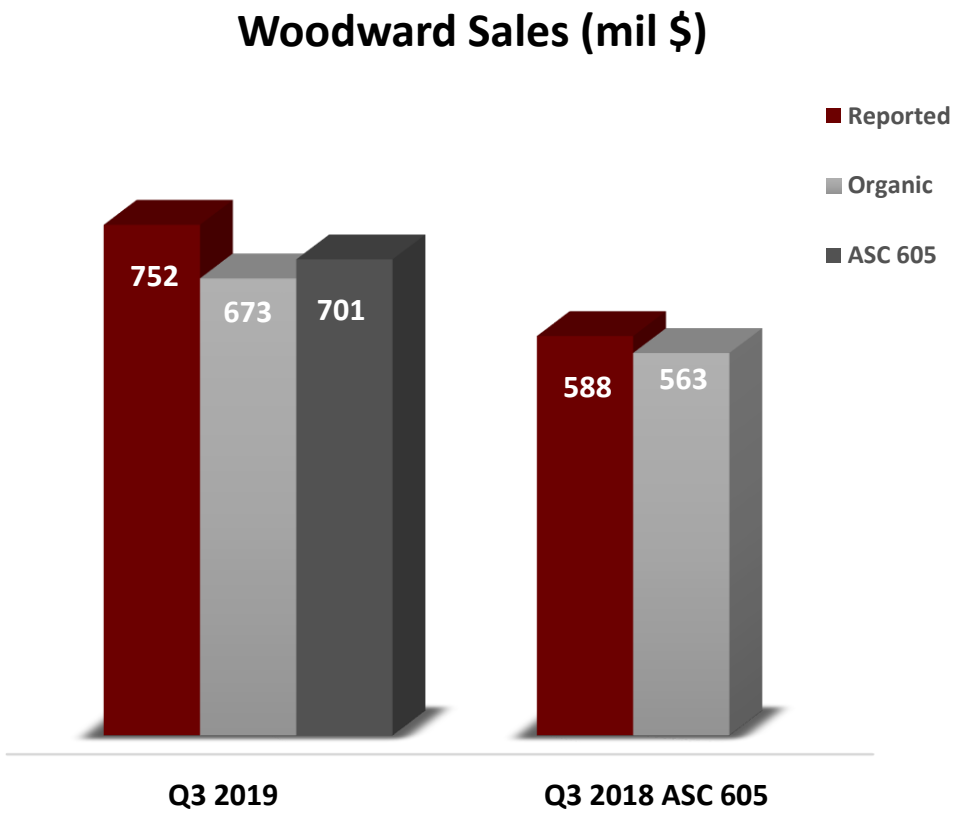
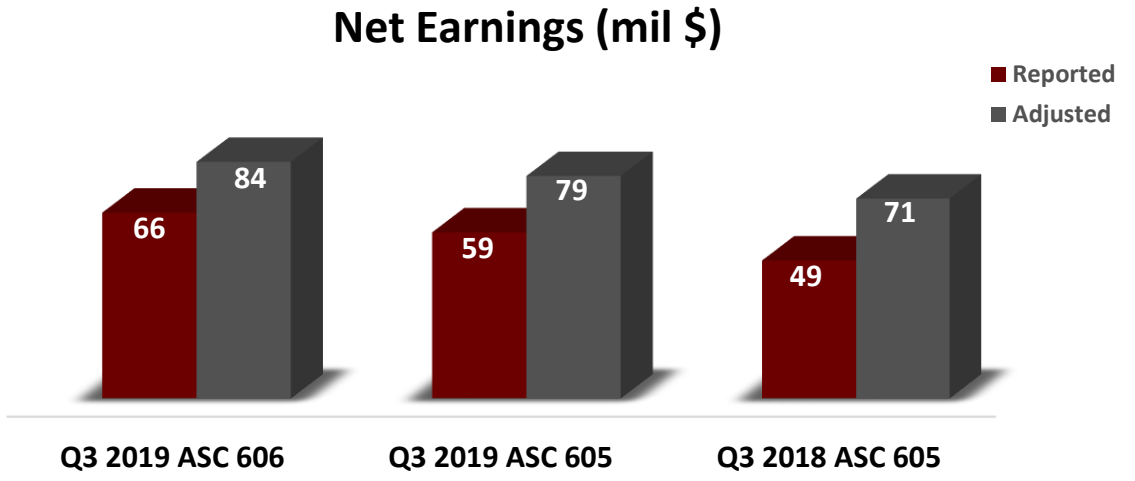
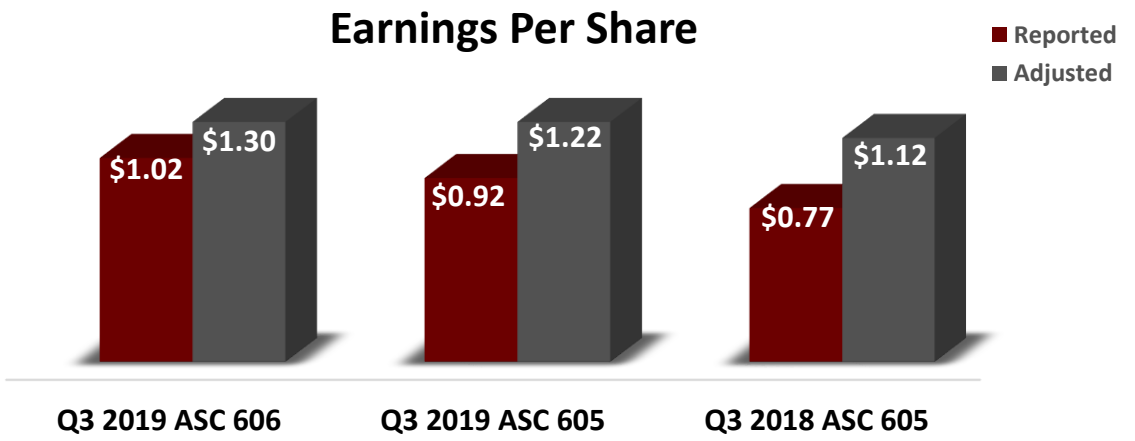
Q3 FY 2019 Consolidated Results



- *Refer to the definition of non-GAAP measures in the appendix.*
- *See slide 9 for impacts of ASC 606.*





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Comparison under ASC 606 and ASC 605

Woodward, Inc. and Subsidiaries

Comparison of financial results under ASC 606 and ASC 605

	As reported			*As adjusted (Non U.S. GAAP)*		
	Three-Months Ended June 30,			*Three-Months Ended June 30,*		
	2019		*2018*	*2019*		*2018*
(Unaudited - in thousands, except per share amounts)	*ASC 606*	*ASC 605*	*ASC 605*	*ASC 606*	*ASC 605*	*ASC 605*
Net Sales:						
Aerospace segment	$ 498,775	$ 448,215	$ 404,612	$ 498,775	$ 448,215	$ 404,612
Industrial segment	253,230	253,211	183,505	253,230	253,211	183,505
Total consolidated net sales	$ 752,005	$ 701,426	$ 588,117	$ 752,005	$ 701,426	$ 588,117
Earnings:						
Aerospace segment	$ 103,238	$ 97,361	$ 83,887	$ 103,238	$ 97,361	$ 83,887
Segment earnings as a percent of segment net sales	*20.7%*	*21.7%*	*20.7%*	*20.7%*	*21.7%*	*20.7%*
Industrial segment	$ 26,240	$ 23,460	$ 10,943	$ 28,844	$ 28,317	$ 19,242
Segment earnings as a percent of segment net sales	*10.4%*	*9.3%*	*6.0%*	*11.4%*	*11.2%*	*10.5%*
Consolidated Net Earnings	**$ 66,107**	**$ 59,407**	**$ 49,117**	**$ 83,856**	**$ 78,576**	**$ 71,445**
Consolidated diluted earnings per share	**$ 1.02**	**$ 0.92**	**$ 0.77**	**$ 1.30**	**$ 1.22**	**$ 1.12**

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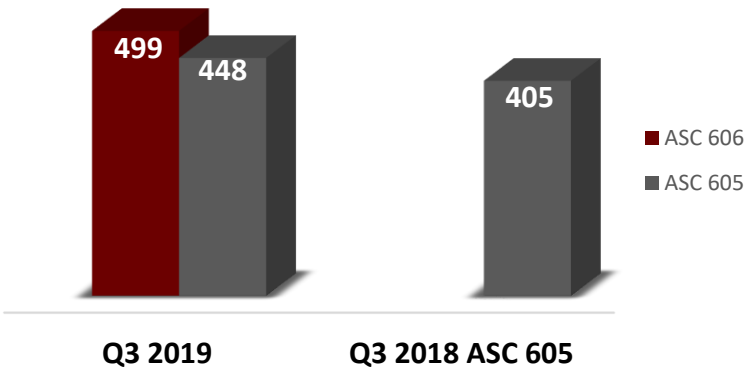
Aerospace Q3 Fiscal Year 2019 Results

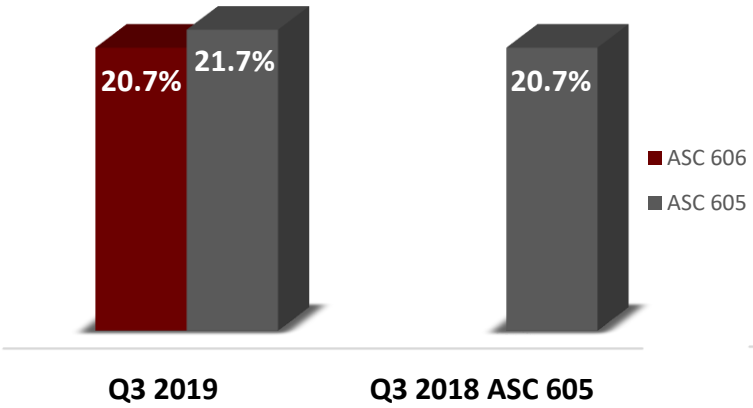
- Segment Net Sales
  - Strong OEM and aftermarket for both commercial and defense
- Segment Earnings
  - Leverage on higher sales volume



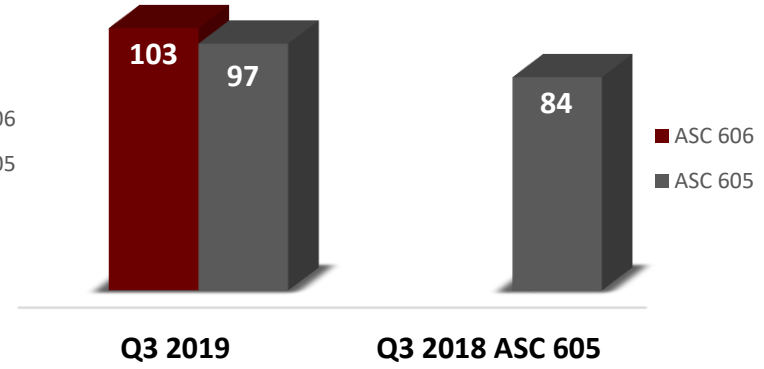
Aerospace Sales (mil $)



Segment Margin %



Segment Earnings (mil $)



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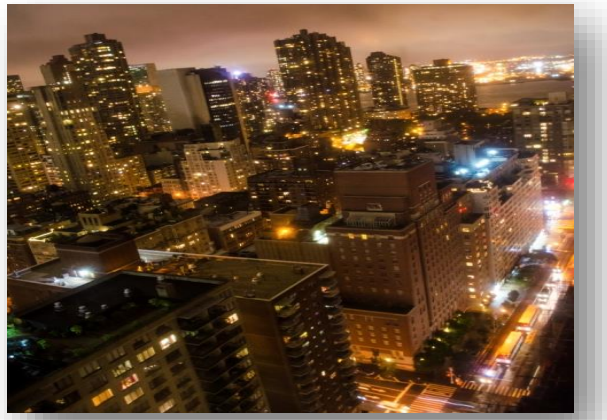
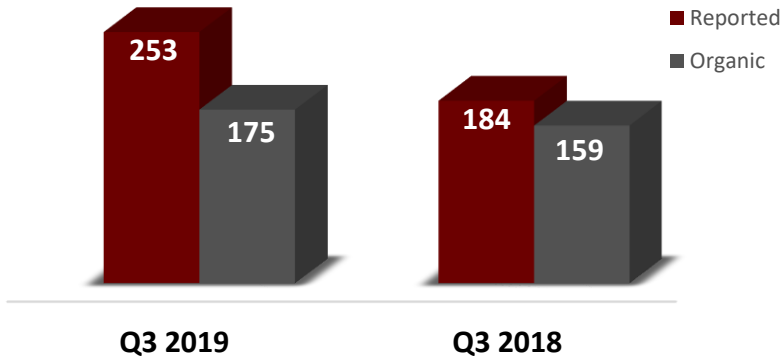
Industrial Q3 Fiscal Year 2019 Results

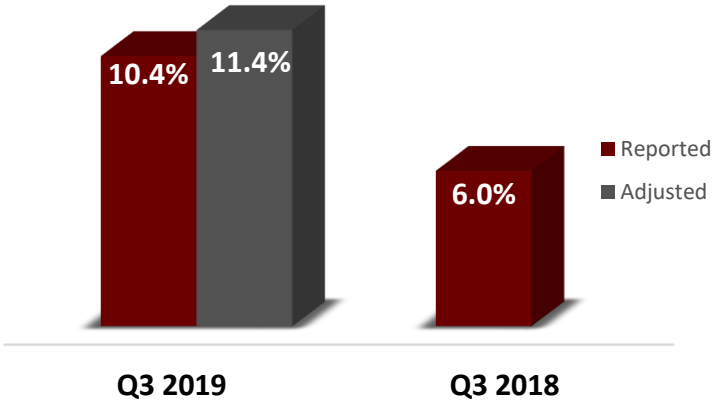
- Segment Net Sales
  - Increase primarily due to addition of Woodward L'Orange, improved recip engines, stability in industrial turbines
- Adjusted Segment Earnings
  - Increase due to addition of Woodward L'Orange and higher organic sales volume
  - Partially offset by weak renewables



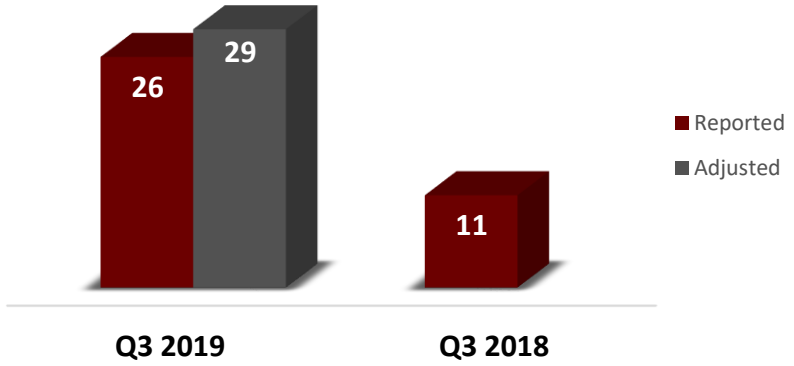
Industrial Sales (mil $)



Segment Margin %



Segment Earnings (mil $)



** Refer to the definition of non-GAAP measures in the appendix.*

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Selected Financial Items

Quarter Comparatives	Q3 FY 19	Q3 FY 18
Gross Margin *	25.2%	27.1%
SG&A Expenses - % of Sales	7.0%	9.3%
R&D Expenses - % of Sales	5.4%	6.7%
Effective Tax Rate	28.4%	9.7%
EBITDA[1] (mils)	$ 136	$ 93
Adjusted EBITDA[1] (mils)	$ 143	$ 115

Year-to-Date Comparatives	YTD FY 19	YTD FY 18
Cash from Operations (mils)	$ 219	$ 162
Capital Expenditures (mils)	$ 78	$ 90
Free Cash Flow[1] (mils)	$ 141	$ 72

* *Gross margin defined as (Net Sales less Cost of Goods Sold) / (Net Sales)*

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Fiscal Year 2019 Outlook

Woodward

- Revenue ~$2.9 billion
- Effective tax rate ~19%
- Free cash flow ~$300 million
- Adjusted earnings per share between $4.70 and $4.80 (65 million shares)

Aerospace

- Revenue up ~19%
- Margin to be ~20%

Industrial

- Revenue up ~35%
- Margin to be slightly less than 14%*

** As Adjusted*

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Appendix

Non-U.S. GAAP Measures

	Q3 FY 19		Q3 FY 18	
	Net Earnings (mils)	Earnings Per Share (mils)	Net Earnings (mils)	Earnings Per Share (mils)
Net Earnings	$ 66.1	$ 1.02	$ 49.1	$ 0.77
Non-U.S. GAAP Adjustments				
Other charges, net of tax*	7.2	0.11	18.7	0.29
Non-U.S. GAAP adjustments	7.2	0.11	18.7	0.29
Transition impact of recent changes to U.S. tax law	10.6	0.17	3.7	0.06
Total Non-U.S. GAAP adjustments	17.7	0.28	22.3	0.35
Adjusted net earnings[1]	$ 83.9	$ 1.30	$ 71.4	$ 1.12

* Includes, as applicable, (i) restructuring charges, (ii) Duarte move related costs, (iii) purchase accounting impact related to the revaluation of the Woodward L'Orange inventory recognized in cost of goods sold and the amortization of the Woodward L'Orange backlog intangible, (iv) transaction and integration costs associated with the acquisition of L'Orange, (v) cost associated with a forward option related to the acquisition of L'Orange, (vi) warranty and indemnity insurance costs associated with the acquisition of L'Orange, and (vii) German real estate transfer tax costs associated with the acquisition of L'Orange.

(Unaudited)

	Q3 FY 19 (mils)	Q3 FY 18 (mils)
Industrial Segment Earnings	$ 26.2	$ 10.9
Purchase accounting impacts	2.6	8.3
Adjusted Industrial Segment Earnings[1]	$ 28.8	$ 19.2

(Unaudited)

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Non-U.S. GAAP Measures (cont.)

	Q3 FY 19 (mils)	Q3 FY 18 (mils)
Net Earnings	$ 66.1	$ 49.1
Income Taxes	26.2	5.3
Interest Expense	10.8	10.1
Interest Income	(0.3)	(0.3)
EBIT[1]	102.8	64.1
Restructuring and other charges*	9.6	26.7
Adjusted EBIT[1]	$ 112.4	$ 90.8

* Includes, as applicable, (i) restructuring charges, (ii) Duarte move related costs, (iii) purchase accounting impact related to the revaluation of the Woodward L'Orange inventory recognized in cost of goods sold and the amortization of the Woodward L'Orange backlog intangible, (iv) transaction and integration costs associated with the acquisition of L'Orange, (v) cost associated with a forward option related to the acquisition of L'Orange, (vi) warranty and indemnity insurance costs associated with the acquisition of L'Orange, and (vii) German real estate transfer tax costs associated with the acquisition of L'Orange.

(Unaudited)

	Q3 FY 19 (mils)	Q3 FY 18 (mils)
Cash From Operations	$ 219.2	$ 162.1
Payments for PP&E	(77.9)	(89.6)
Free Cash Flow[1]	$ 141.3	$ 72.5

(Unaudited)

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Non-U.S. GAAP Measures (cont.)

	Q3 FY 19 (mils)	Q3 FY 18 (mils)
Net Earnings	$ 66.1	$ 49.1
Income Taxes	26.2	5.3
Interest Expense	10.8	10.1
Interest Income	(0.3)	(0.3)
EBIT[1]	102.8	64.1
Amortization of Intangibles	11.3	11.4
Depreciation Expense	21.7	17.7
EBITDA[1]	135.7	93.2
Restructuring and other charges*	7.0	22.1
Adjusted EBITDA[1]	$ 142.8	$ 115.3

* Includes, as applicable, (i) restructuring charges, (ii) Duarte move related costs, (iii) purchase accounting impact related to the amortization of the Woodward L'Orange backlog intangible, (iv) transaction and integration costs associated with the acquisition of L'Orange, (v) cost associated with a forward option related to the acquisition of L'Orange, (vi) warranty and indemnity insurance costs associated with the acquisition of L'Orange, and (vii) German real estate transfer tax costs associated with the acquisition of L'Orange.

(Unaudited)

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Explanation of Non-U.S. GAAP Measures

[1]Non-U.S. GAAP Financial Measures: Adjusted net earnings, adjusted earnings per share, adjusted Industrial segment earnings, adjusted EBIT (earnings before interest and taxes) and adjusted EBITDA (earnings, before interest, taxes, depreciation and amortization), tax rate, and adjusted nonsegment expenses exclude, as applicable, (i) restructuring charges, (ii) move costs associated with the relocation of our Duarte, California operations to the Company's newly renovated Drake Campus in Fort Collins, Colorado ("Duarte move related costs"), (iii) purchase accounting impacts related to the revaluation of the Woodward L'Orange inventory recognized in cost goods sold and the amortization of the Woodward L'Orange backlog intangible, (iv) L'Orange acquisition transaction and integration costs (v) cost associated with a forward option related to the L'Orange acquisition, (vi) warranty and indemnity insurance costs associated with the acquisition of L'Orange, (vii) German real estate transfer tax costs associated with the acquisition of L'Orange, and (viii) the transition impacts of the change in U.S. federal tax legislation in December 2017. Woodward believes that these items are short-term costs or are otherwise not related to the ongoing operations of the business and therefore, excludes them to illustrate more clearly how the underlying business of Woodward is performing. Organic sales and organic Industrial segment net sales exclude sales attributable to Woodward L'Orange, which was acquired on June 1, 2018.

EBIT, EBITDA, free cash flow, organic net sales, organic Industrial net sales, adjusted net earnings, adjusted Industrial segment net earnings, adjusted net earnings per share, adjusted EBIT, adjusted EBITDA, adjusted effective tax rate, and adjusted nonsegment expenses are financial measures not prepared and presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Management uses EBIT to evaluate Woodward's operating performance without the impacts of financing and tax related considerations. Management uses EBITDA in evaluating Woodward's operating performance, making business decisions, including developing budgets, managing expenditures, forecasting future periods, and evaluating capital structure impacts of various strategic scenarios. Management uses free cash flow, which is derived from net cash provided by or used in operating activities less payments for property, plant, and equipment, in reviewing the financial performance of Woodward's various business segments and evaluating cash generation levels. Securities analysts, investors, and others frequently use EBIT, EBITDA and free cash flow in their evaluation of companies, particularly those with significant property, plant, and equipment, and intangible assets that are subject to amortization. The use of any of these non-U.S. GAAP financial measures is not intended to be considered in isolation of, or as a substitute for, the financial information prepared and presented in accordance with U.S. GAAP. Because EBIT and EBITDA exclude certain financial information compared with net earnings, the most comparable U.S. GAAP financial measure, users of this financial information should consider the information that is excluded. Free cash flow does not necessarily represent funds available for discretionary use and is not necessarily a measure of our ability to fund our cash needs. Management's calculations of EBIT, EBITDA, and free cash flow may differ from similarly titled measures used by other companies, limiting their usefulness as comparative measures. We refer to certain financial measures excluding the impact of currency exchange rate fluctuations as "constant currency basis". We calculate financial measures on a constant currency basis by removing any realized or unrealized currency gains or losses on working capital from the particular measure in the current period and then converting our current period local currency financial results using the foreign currency exchange rates in effect during the prior year period. The financial measures, when calculated on a constant currency basis, are intended to supplement our reported operating results and, when considered in conjunction with the corresponding U.S. GAAP measures, facilitate a better understanding of changes in the metrics from period to period and the core operations of the Company.

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