WOODWARD



Fiscal Year 2019 and Fourth Quarter Results

November 18, 2019

Today’s Agenda

▪ Highlights	Don Guzzardo
▪ Market Review	Tom Gendron
▪ Financial Results & Outlook	Jack Thayer
▪ 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 positon within our markets and ability to compete effectively, expectations related to the performance of our segments and specific markets within those segments, 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 filings with the Securities and Exchange Commission, including its Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 and its Annual Report on Form 10-K for the year ended September 30, 2019, which we expect to file shortly, and other risks described in Woodward's filings with the Securities and Exchange Commission.

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

No impact to cash flow

Refer to slide 11, press release tables and 10-K for 2019

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Adjusted and Organic Financial Results

Reporting on U.S. GAAP, adjusted and organic basis

Organic net sales exclude L'Orange

Adjusted amounts exclude:

- Transition impacts of change in U.S. tax legislation
- Special charges
  - Restructuring charges, Duarte move related costs, M&A transaction and integration costs, purchase accounting related to inventory step-up and backlog, impairment of Senvion related assets

Refer to tables in the Appendix

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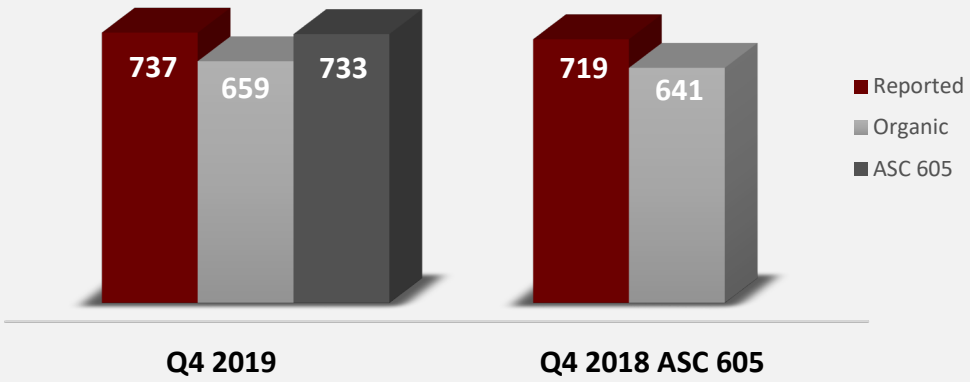
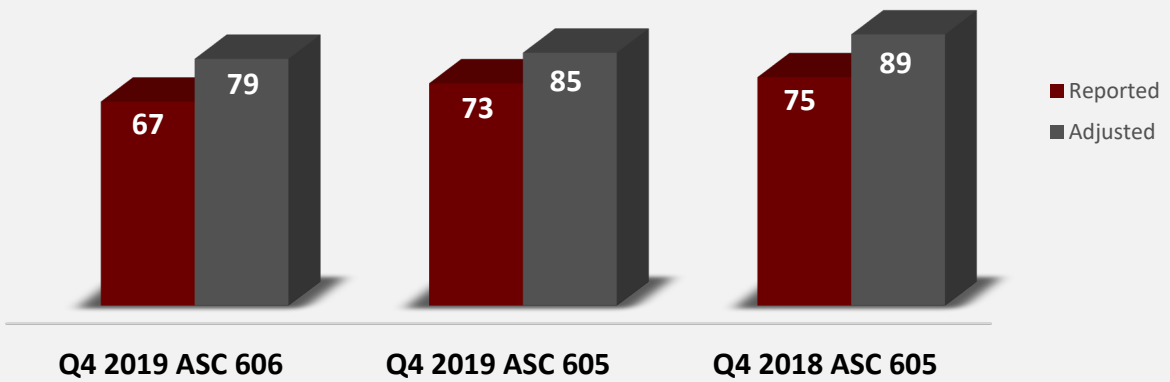
Q4 FY 2019 Consolidated Results

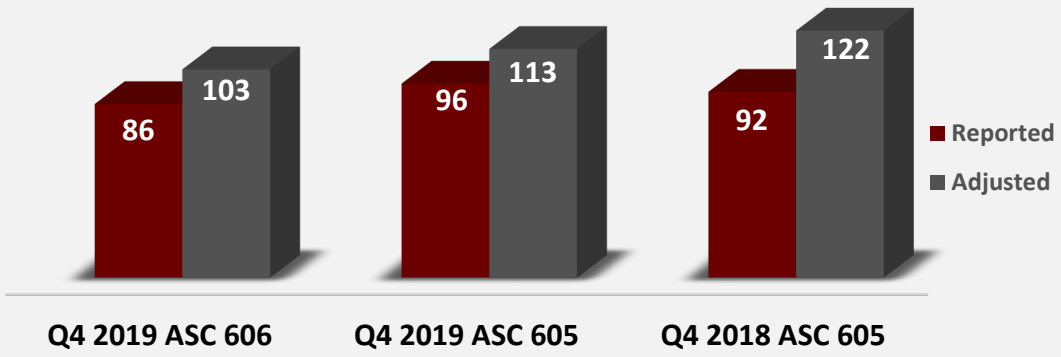
Woodward Sales (mil $)



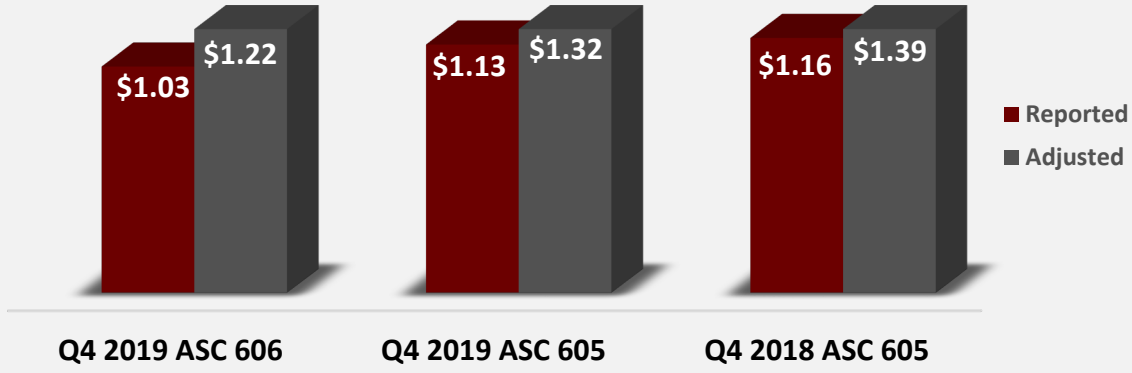
Net Earnings (mil $)



EBIT[1] (mil $)



Earnings Per Share



- *Refer to the definition of non-GAAP measures in the appendix.*
- *See slide 11 for impacts of ASC 606.*

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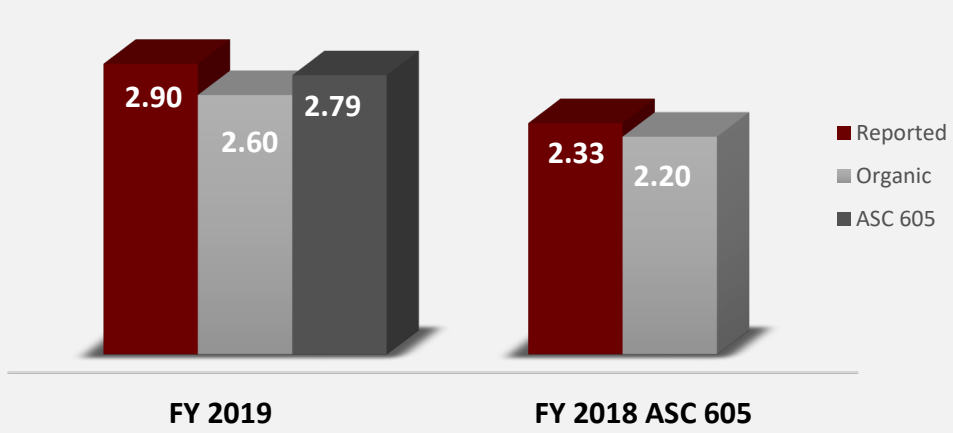
Fiscal Year 2019 Consolidated Results

Woodward Sales (bil $)



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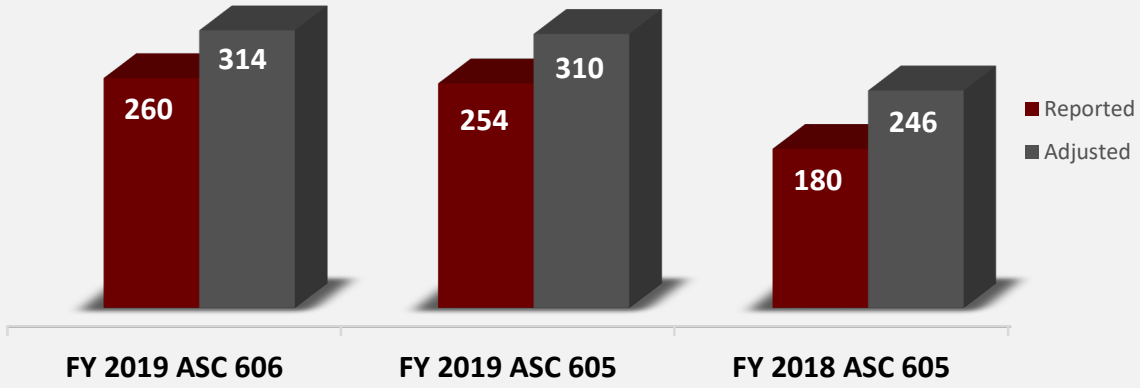
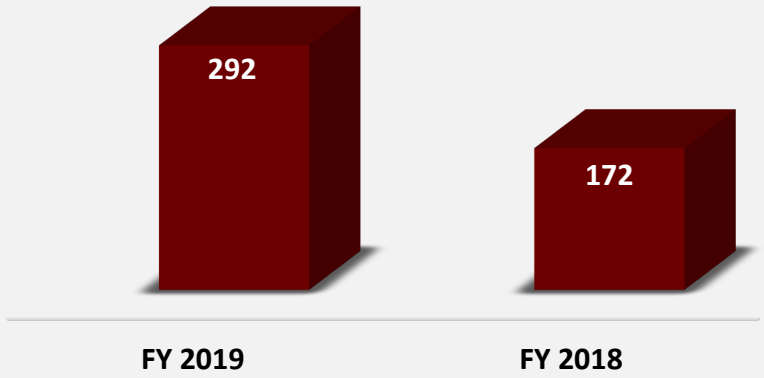
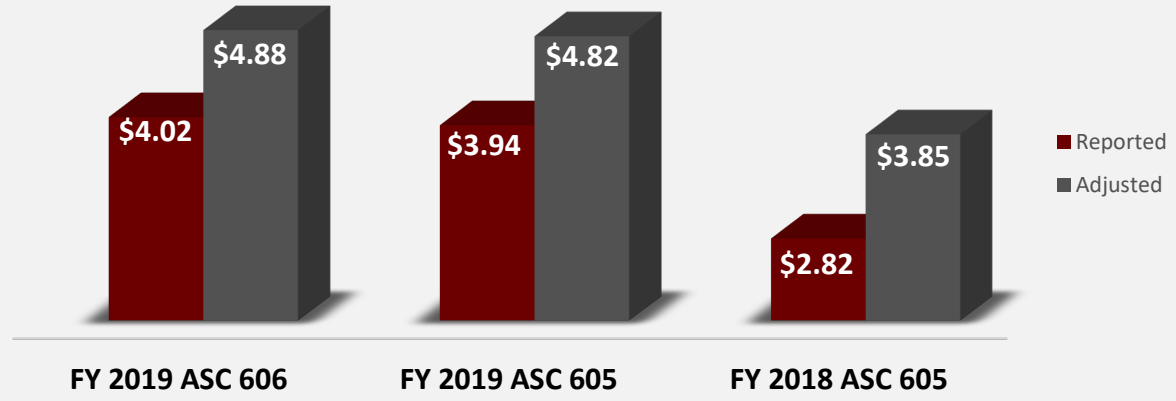


Free Cash Flow[1] (mil $)



Earnings Per Share



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- *See slide 11 for impacts of ASC 606.*

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Aerospace

Aerospace segment performing well

- Desire for air travel driving demand for fuel efficient narrowbody aircraft

Boeing 737 MAX grounding

- Estimating return to service in Q2 FY20
- Build rates in line with Boeing expectations
- Expect initial provisioning to ramp up in second half of fiscal year

Commercial Aftermarket

- 9% increase for quarter, versus prior year period
- Lower initial provisioning, higher aircraft utilization and volume of shop visits

Defense

- Favorable defense budgets
- Strong aftermarket in support of improving combat readiness

A320neo



737 MAX





F-35

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Industrial

Power generation

- Gas turbine market continues to stabilize due to content wins on new turbines
  - Mitsubishi content represents new program and share gains
- Renewables remains uncertain due to Senvion bankruptcy
  - Siemens announced agreement to acquire part of Senvion
    - Considerable value in aftermarket with a large installed base

Transportation

- China natural gas truck production soft in Q4, as expected, due to large pre-buy leading up to China VI implementation
  - Started to see strong recovery China VI compliant truck sales at end of September
  - China is enforcing new regulations and natural gas is securing larger share of truck market
- Global trade continues to drive cargo ship utilization and aftermarket

Oil and gas

- Pressured markets due to economic uncertainty, price fluctuation, reduced demand





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Q4 FY 2019 Results 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 September 30,			*Three-Months Ended September 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	$ 505,904	$ 490,743	$ 461,128	$ 505,904	$ 490,743	$ 461,128
Industrial segment	230,633	242,521	258,231	230,633	242,521	258,231
Total consolidated net sales	$ 736,537	$ 733,264	$ 719,359	$ 736,537	$ 733,264	$ 719,359
Earnings:						
Aerospace segment	$ 111,312	$ 112,645	$ 104,769	$ 107,931	$ 109,264	$ 104,769
Segment earnings as a percent of segment net sales	*22.0%*	*23.0%*	*22.7%*	*21.3%*	*22.3%*	*22.7%*
Industrial segment	$ 10,984	$ 15,039	$ 8,483	$ 10,984	$ 15,098	$ 34,569
Segment earnings as a percent of segment net sales	*4.8%*	*6.2%*	*3.3%*	*4.8%*	*6.2%*	*13.4%*
Consolidated Net Earnings	**$ 66,796**	**$ 73,132**	**$ 74,512**	**$ 78,701**	**$ 85,096**	**$ 89,083**
Consolidated diluted earnings per share	**$ 1.03**	**$ 1.13**	**$ 1.16**	**$ 1.22**	**$ 1.32**	**$ 1.39**

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

FY 2019 Results 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)*		
	Year Ended September 30,			*Year Ended September 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	$ 1,880,520	$ 1,761,389	$ 1,557,988	$ 1,880,520	$ 1,761,389	$ 1,557,988
Industrial segment	1,019,677	1,029,168	767,885	1,019,677	1,029,168	767,885
Total consolidated net sales	$ 2,900,197	$ 2,790,557	$ 2,325,873	$ 2,900,197	$ 2,790,557	$ 2,325,873
Earnings:						
Aerospace segment	$ 389,126	$ 380,687	$ 308,553	$ 389,126	$ 380,687	$ 308,553
Segment earnings as a percent of segment net sales	*20.7%*	*21.6%*	*19.8%*	*20.7%*	*21.6%*	*19.8%*
Industrial segment	$ 93,521	$ 95,538	$ 49,894	$ 114,621	$ 118,951	$ 84,279
Segment earnings as a percent of segment net sales	*9.2%*	*9.3%*	*6.5%*	*11.2%*	*11.6%*	*11.0%*
Consolidated Net Earnings	**$ 259,602**	**$ 253,971**	**$ 180,378**	**$ 314,476**	**$ 310,480**	**$ 245,930**
Consolidated diluted earnings per share	**$ 4.02**	**$ 3.94**	**$ 2.82**	**$ 4.88**	**$ 4.82**	**$ 3.85**

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

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Aerospace Q4 Fiscal Year 2019 Results

Segment Net Sales

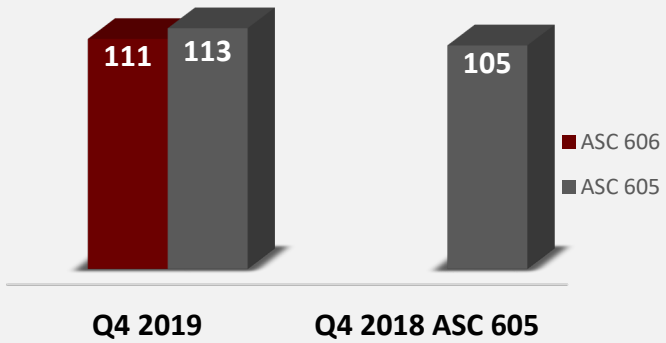
- Strong defense OEM and aftermarket, and commercial OEM

Segment Earnings

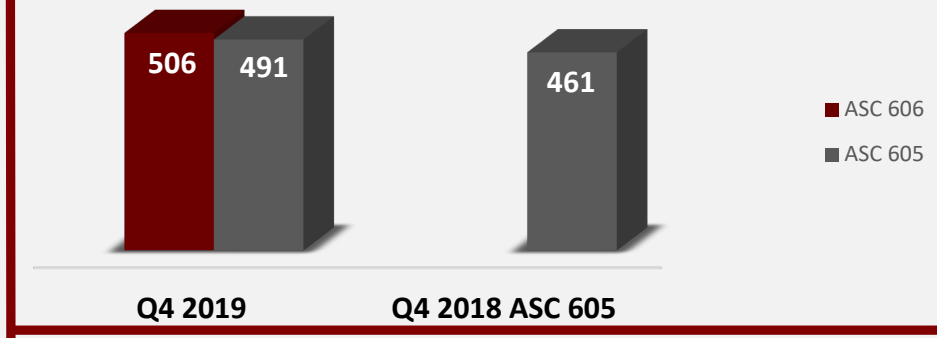
- Leverage on higher sales volume
- Partially offset by higher capacity expansion costs



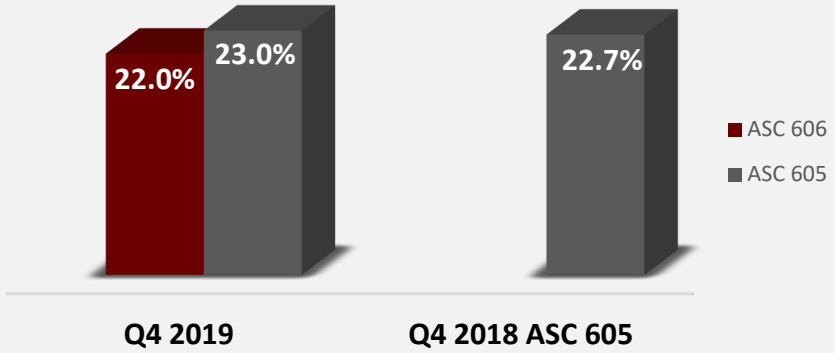
Segment Earnings (mil $)



Aerospace Sales (mil $)



Segment Margin %



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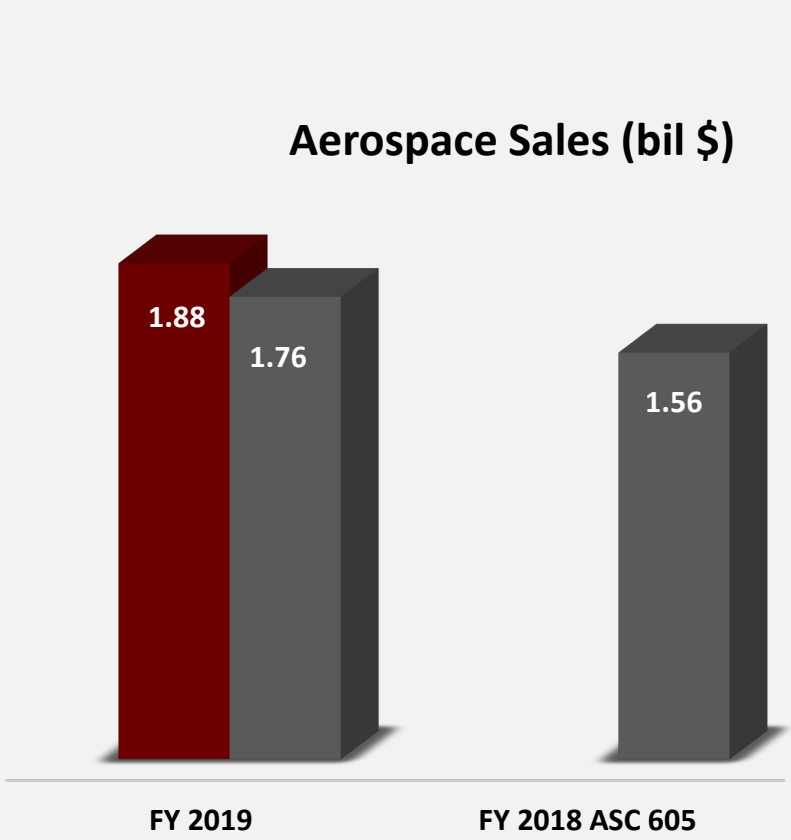
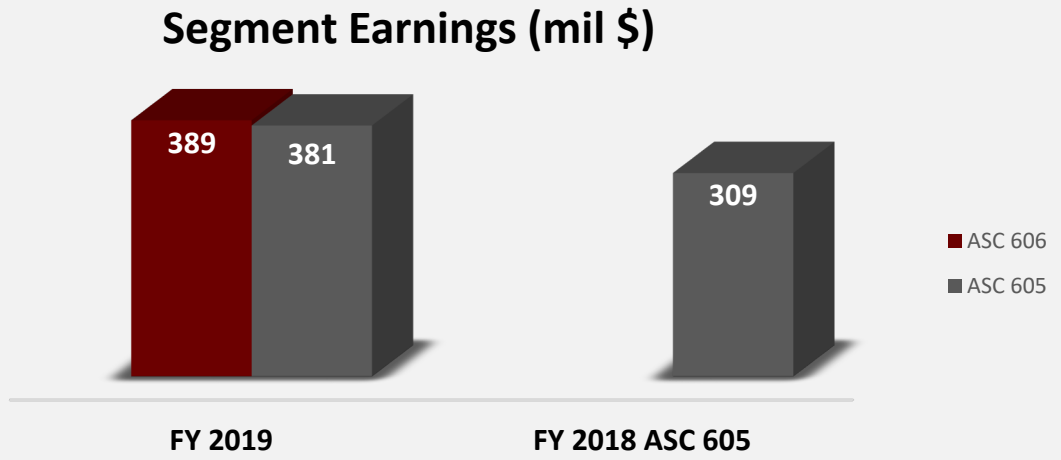
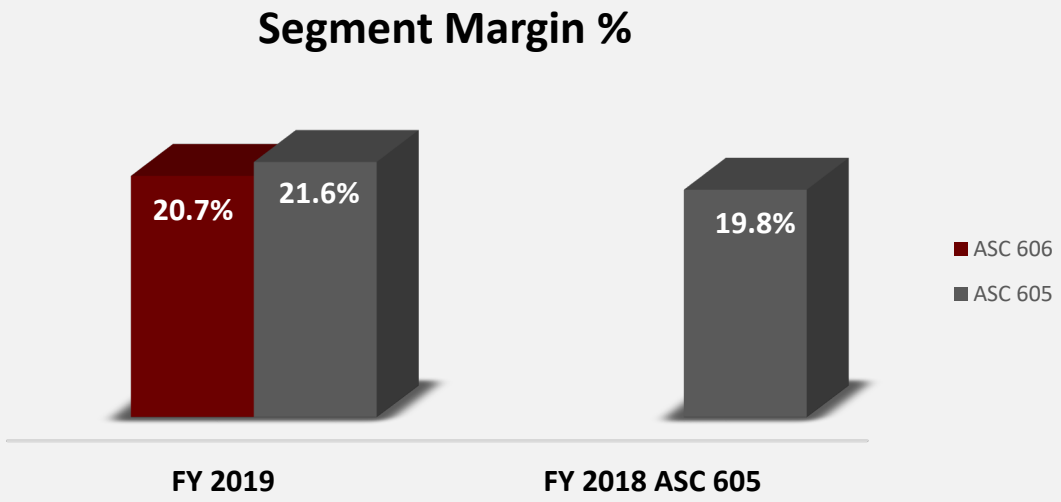
Aerospace Fiscal Year 2019 Results







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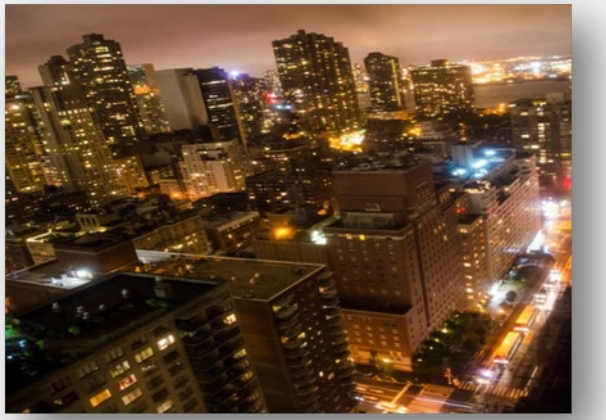
Industrial Q4 Fiscal Year 2019 Results

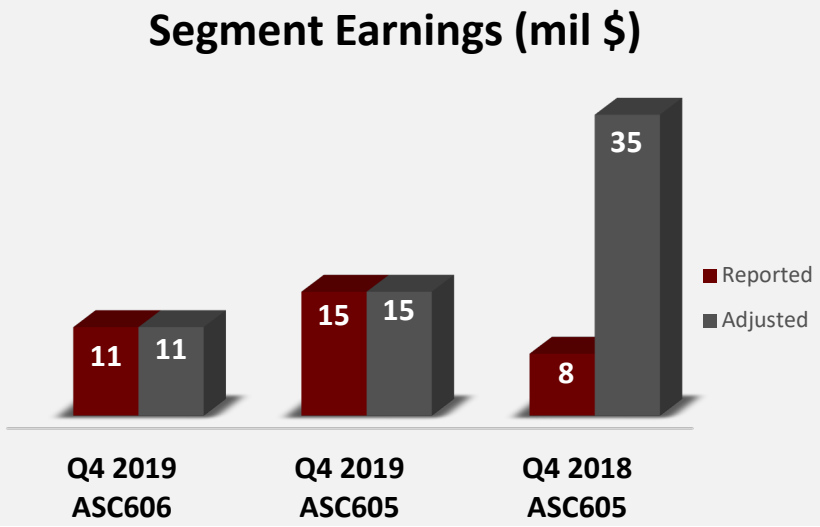
Segment Net Sales

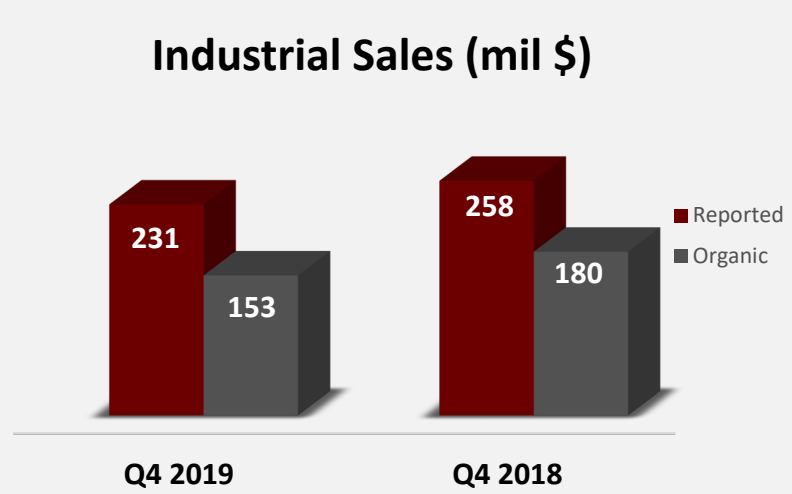
- Decreased primarily due to reduced demand for natural gas trucks in Asia, as well as lower renewables sales

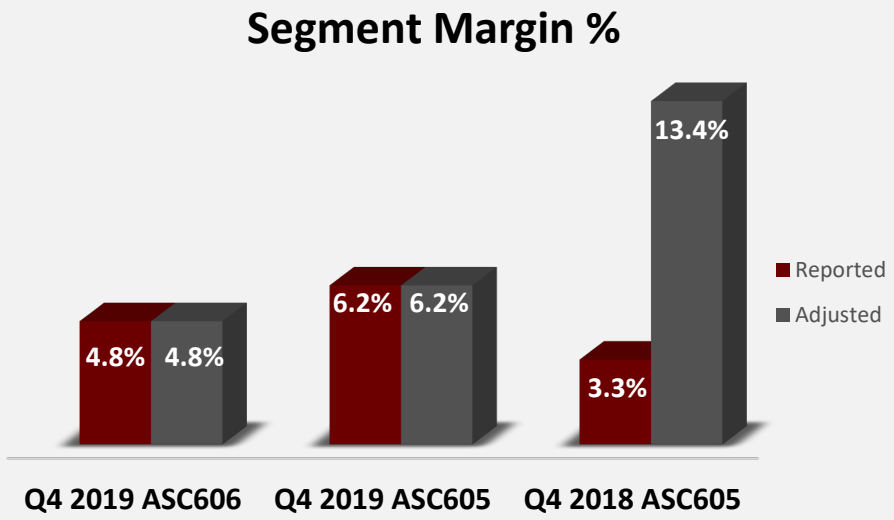
Adjusted Industrial Segment Earnings

- Declined mainly as a result of lower sales volumes, higher manufacturing costs, and an engine product warranty expense









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

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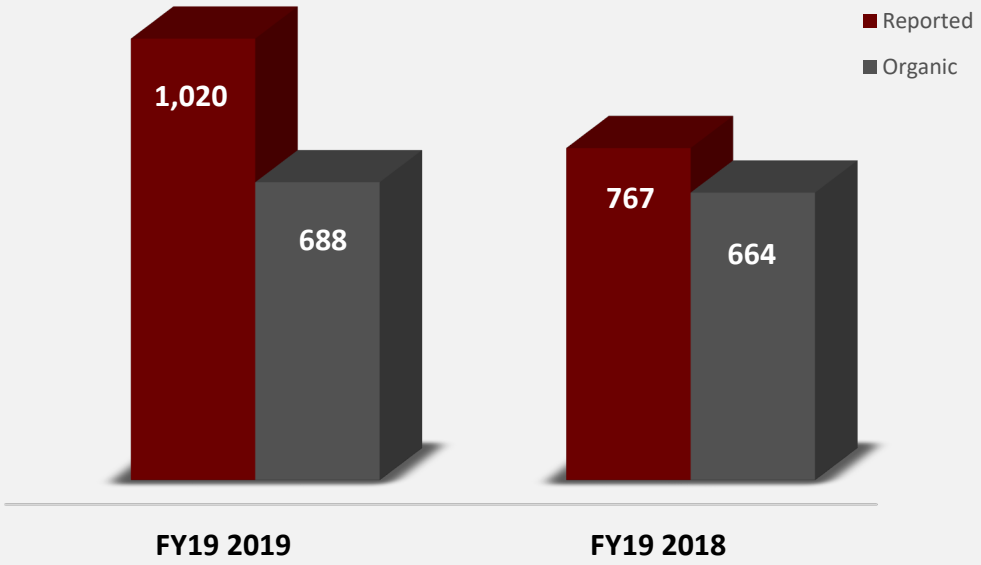
Industrial Fiscal Year 2019 Results

Industrial Sales (mil $)



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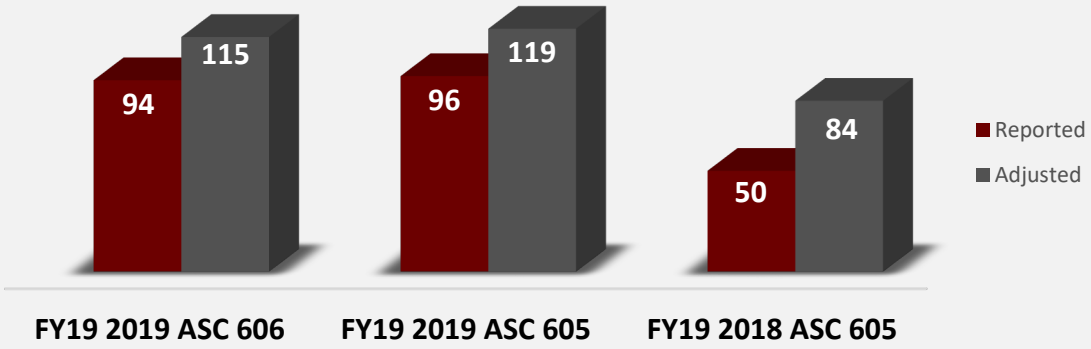
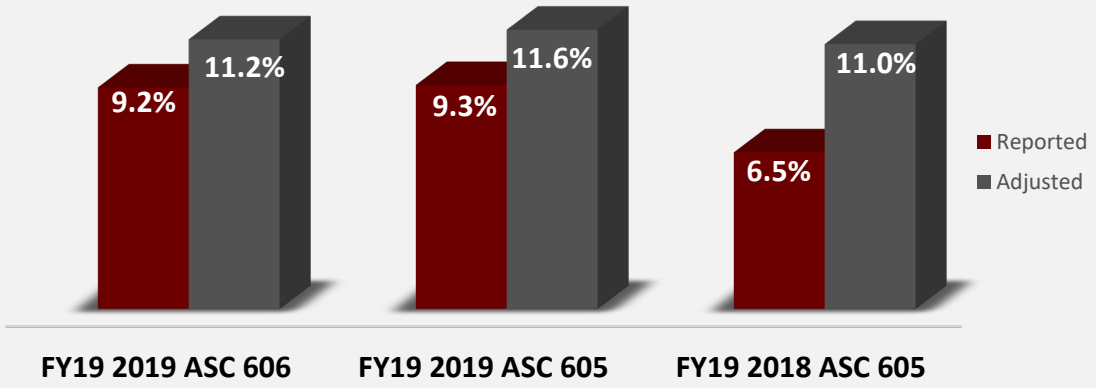
Segment Earnings (mil $)



Segment Margin %



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Selected Financial Items

Quarter and Year-to-Date Comparatives	Q4 FY 19	Q4 FY 18	YTD FY 19	YTD FY 18
Gross Margin *	22.5%	24.3%	24.4%	25.9%
SG&A Expenses - % of Sales	7.0%	7.3%	7.3%	8.3%
R&D Expenses - % of Sales	4.9%	5.1%	5.5%	6.4%
Effective Tax Rate	12.8%	5.7%	19.0%	17.9%
EBITDA[1] (mils)	$ 120	$ 135	$ 505	$ 375
Adjusted EBITDA[1] (mils)	$ 136	$ 153	$ 545	$ 432

Year-to-Date Comparatives	YTD FY 19	YTD FY 18
Cash from Operations (mils)	$ 391	$ 299
Capital Expenditures (mils)	$ 99	$ 127
Free Cash Flow[1] (mils)	$ 292	$ 172

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Fiscal Year 2020 Outlook

Woodward

- Revenue between $3.0 and $3.1 billion
- Effective tax rate ~22%
- Free cash flow ~$400 million
- Earnings per share between $5.30 and $5.60
- ~64 million shares

Aerospace

- Revenue up ~6%
- Margin ~21%

Industrial

- Revenue flat to up low single digits
- Margin ~14%

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Appendix

Non-U.S. GAAP Measures

	Q4 FY 19		Q4 FY 18	
	Net Earnings (mils)	Earnings Per Share (mils)	Net Earnings (mils)	Earnings Per Share (mils)
Net Earnings	$ 66.8	$ 1.03	$ 74.5	$ 1.16
Non-U.S. GAAP Adjustments				
Other charges, net of tax*	11.9	0.19	22.2	0.35
Non-U.S. GAAP adjustments	11.9	0.19	22.2	0.35
Transition impact of recent changes to U.S. tax law	-	-	(7.6)	(0.12)
Total Non-U.S. GAAP adjustments	11.9	0.19	14.6	0.23
Adjusted net earnings[1]	$ 78.7	$ 1.22	$ 89.1	$ 1.39

* Includes, as applicable, (i) Duarte move related costs, (ii) 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, (iii) transaction and integration costs associated with the acquisition of L'Orange, (iv) cost associated with a forward option related to the acquisition of L'Orange, (v) warranty and indemnity insurance costs associated with the acquisition of L'Orange, (vi) German real estate transfer tax costs associated with the acquisition of L'Orange, and (vii) the impairment of Senvion related assets.

(Unaudited)

	Q4 FY 19 (mils)	Q4 FY 18 (mils)	YTD FY 19 (mils)	YTD FY 18 (mils)
Industrial Segment Earnings	$ 11.0	$ 8.5	$ 93.5	$ 49.9
Purchase accounting impacts	-	26.1	21.1	34.4
Adjusted Industrial Segment Earnings[1]	$ 11.0	$ 34.6	$ 114.6	$ 84.3

(Unaudited)

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

	Q4 FY 19 (mils)	Q4 FY 18 (mils)	YTD FY 19 (mils)	YTD FY 18 (mils)
Net Earnings	$ 66.8	$ 74.5	$ 259.6	$ 180.4
Income Taxes	9.8	4.5	61.0	39.2
Interest Expense	9.8	12.7	44.0	40.5
Interest Income	(0.4)	(0.5)	(1.4)	(1.7)
EBIT[1]	86.1	91.2	363.2	258.4
Restructuring and other charges*	16.5	30.8	60.8	76.0
Adjusted EBIT[1]	$ 102.6	$ 122.0	$ 424.0	$ 334.4

	Q4 FY 19 (mils)	Q4 FY 18 (mils)
Cash From Operations	$ 390.6	$ 299.3
Payments for PP&E	(99.1)	(127.1)
Free Cash Flow[1]	$ 291.5	$ 172.2

(Unaudited)

* 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) L'Orange Acquisition transaction and integration costs, (v) cost associated with the Forward Option, (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 impairment of Senvion related assets.

(Unaudited)

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

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Interest Income	(0.4)	(0.5)	(1.4)	(1.7)
EBIT[1]	86.1	91.2	363.2	258.4
Amortization of Intangibles	10.6	20.9	56.0	44.7
Depreciation Expense	23.0	23.1	86.0	71.4
EBITDA[1]	119.6	135.2	505.2	374.5
Restructuring and other charges*	16.5	17.3	39.7	57.9
Adjusted EBITDA[1]	$ 136.1	$ 152.6	$ 544.9	$ 432.4

* 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) L'Orange Acquisition transaction and integration costs (v) cost associated with the Forward Option, (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 impairment of Senvion related assets.

(Unaudited)

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Explanation of Non-U.S. GAAP Measures

[1]Adjusted and Non-U.S. GAAP Financial Measures: Adjusted net earnings, adjusted earnings per share, adjusted Industrial segment earnings, adjusted EBIT and EBITDA, adjusted effective 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) the purchase accounting impacts related to the revaluation of the L'Orange inventory recognized in cost of goods sold and the amortization of the backlog intangible, (iv) the L'Orange transaction and integration costs, (v) cost associated with the L'Orange acquisition-related forward option, (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, (viii) the transition impacts of the change in U.S. federal tax legislation, and (ix) the asset impairment charge related to the Senvion bankruptcy. Woodward believes that these items are short-term costs or are otherwise not related to the ongoing operations of the business and therefore, uses 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 L'Orange.

EBIT (earnings before interest and taxes), EBITDA (earnings before interest, taxes, depreciation and amortization), free cash flow, organic net sales, organic Industrial segment net sales, adjusted Industrial segment earnings, adjusted net earnings, adjusted 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 believes that EBIT and EBITDA are useful measures to the investor when measuring operating performance as they eliminate the impact of financing and tax laws and regulations and, in the case of EBITDA, the non-cash charges associated with depreciation and amortization. Further, as interest from financing, income taxes, depreciation and amortization can vary dramatically between companies and between periods, management believes that the removal of these items can improve comparability. Management also 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 depreciation or 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.

The Company presents both (i) adjusted Industrial segment earnings excluding the renewable power systems business and (ii) adjusted Industrial segment earnings excluding the renewable power systems business as a percent of Industrial segment net sales excluding net sales attributable to the renewable power systems business because the Company believes such numbers illustrate how the Industrial segment of the business is performing without the renewable power systems business and provides more comparable year-over-year information with regards to the core performance of the Industrial segment.