WOODWARD



# Fiscal Year 2020 First Quarter Results

February 3, 2020

# 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 position within our markets and ability to compete effectively, including statements about the effect of the 737Max grounding, expectations related to the performance of our segments and specific markets within those segments, our plans and expectations regarding our proposed merger with Hexcel, the sale of our Duarte real estate, the sale of our renewable power systems portfolio, and our outlook regarding future sales, earnings, earnings per share, liquidity, tax rate, and relative profitability, and the factors that may affect that outlook, including the coronavirus. 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, such as diseases, epidemics and natural disasters, 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; risks associated with the proposed merger with Hexcel, including, without limitation, the occurrence of any event, change or other circumstances that could give rise to the right of one or both of Hexcel or Woodward to terminate the merger agreement; the outcome of any legal proceedings that may be instituted against Hexcel, Woodward or their respective directors; the ability to obtain regulatory approvals and meet other closing conditions to the merger on a timely basis or at all, including the risk that regulatory approvals required for the merger are not obtained on a timely basis or at all, or are obtained subject to conditions that are not anticipated or that could adversely affect the combined company or the expected benefits of the transaction; the ability to obtain approval by Hexcel stockholders and Woodward stockholders on the expected schedule; difficulties and delays in integrating Hexcel's and Woodward's businesses; prevailing economic, market, regulatory or business conditions, or changes in such conditions, negatively affecting the parties; risks that the transaction disrupts Hexcel's or Woodward's current plans and operations; failing to fully realize anticipated cost savings and other anticipated benefits of the merger when expected or at all; potential adverse reactions or changes to business relationships resulting from the announcement or completion of the merger; the ability of Hexcel or Woodward to retain and hire key personnel; the diversion of management's attention from ongoing business operations; uncertainty as to the long-term value of the common stock of the combined company following the merger; the continued availability of capital and financing following the merger; the business, economic and political conditions in the markets in which Hexcel and Woodward operate; the fact that Hexcel's and Woodward's reported earnings and financial position may be adversely affected by tax and other factors; 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 December 31, 2019, which we expect to file shortly, and its Annual Report on Form 10-K for the year ended September 30, 2019, and other risks described in Woodward's filings with the Securities and Exchange Commission.

# Cautionary Statement

**Additional Information and Where to Find It**

In connection with the proposed merger, Woodward will file with the SEC a registration statement on Form S-4 to register the shares of Woodward's common stock to be issued in connection with the merger. The registration statement will include a preliminary joint proxy statement/prospectus which, when finalized, will be sent to the respective stockholders of Hexcel and Woodward seeking their approval of their respective transaction-related proposals. INVESTORS AND SECURITY HOLDERS ARE URGED TO READ THE REGISTRATION STATEMENT ON FORM S-4 AND THE RELATED JOINT PROXY STATEMENT/PROSPECTUS INCLUDED WITHIN THE REGISTRATION STATEMENT ON FORM S-4, AS WELL AS ANY AMENDMENTS OR SUPPLEMENTS TO THOSE DOCUMENTS AND ANY OTHER RELEVANT DOCUMENTS FILED OR TO BE FILED WITH THE SEC IN CONNECTION WITH THE PROPOSED MERGER, WHEN THEY BECOME AVAILABLE, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT HEXCEL, WOODWARD AND THE PROPOSED MERGER.

Investors and security holders may obtain copies of these documents free of charge through the website maintained by the SEC at www.sec.gov or from Hexcel at its website, www.hexcel.com, or from Woodward at its website, www.woodward.com. Documents filed with the SEC by Hexcel will be available free of charge by accessing Hexcel's website at www.hexcel.com under the heading Investor Relations, or, alternatively, by directing a request by telephone or mail to Hexcel Corporation at 281 Tresser Boulevard, Stamford, Connecticut 06901, (203) 352-6826, and documents filed with the SEC by Woodward will be available free of charge by accessing Woodward's website at www.woodward.com under the heading Investors, or, alternatively, by directing a request by telephone or mail to Woodward, Inc. at PO Box 1519, Fort Collins, Colorado 80522, (970) 498-3580.

**Participants In The Solicitation**

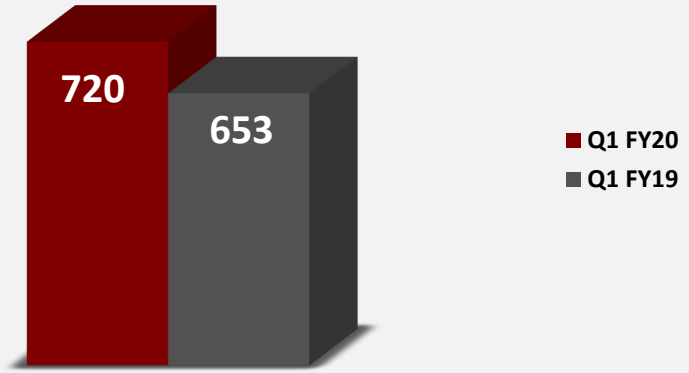
Hexcel, Woodward and certain of their respective directors and executive officers may be deemed to be participants in the solicitation of proxies from the respective stockholders of Hexcel and Woodward in respect of the proposed merger under the rules of the SEC. Information about Hexcel's directors and executive officers is available in Hexcel's proxy statement dated March 22, 2019 for its 2019 Annual Meeting of Stockholders. Information about Woodward's directors and executive officers is available in Woodward's proxy statement dated December 13, 2019 for its 2019 Annual Meeting of Stockholders. Other information regarding the participants in the proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, will be contained in the joint proxy statement/prospectus and other relevant materials to be filed with the SEC regarding the merger when they become available. Investors should read the joint proxy statement/prospectus carefully when it becomes available before making any voting or investment decisions. You may obtain free copies of these documents from Hexcel or Woodward using the sources indicated above.

**No Offer Or Solicitation**

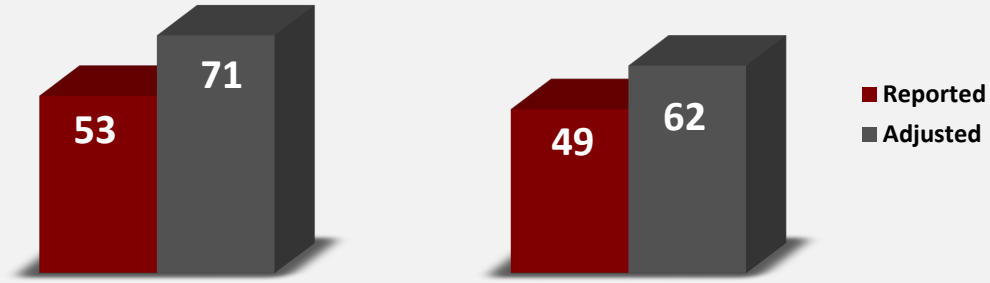
This communication shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities, in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offering of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

# Q1 Fiscal Year 2020 Consolidated Results

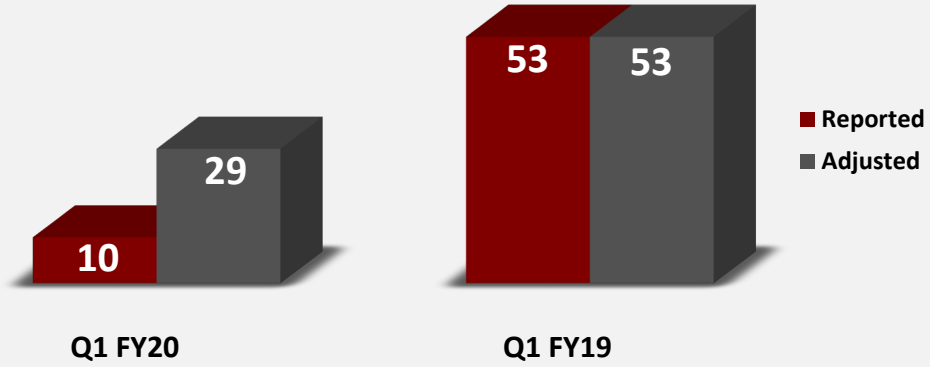
## Woodward Sales (mil $)



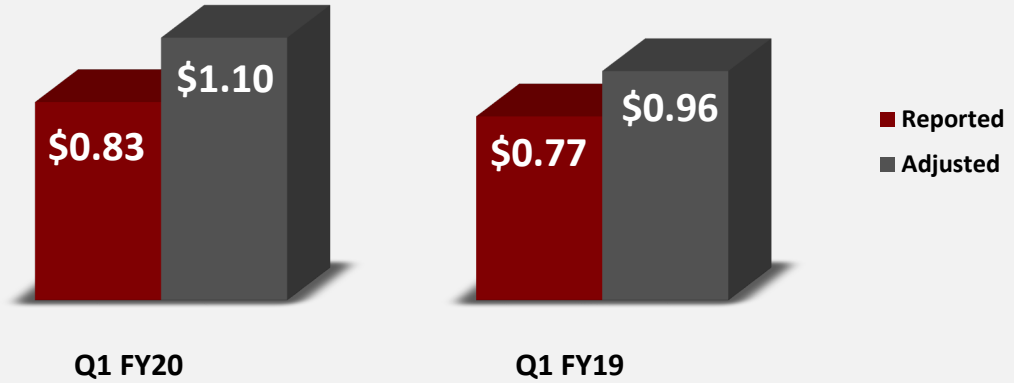

## Net Earnings (mil $)




## Free Cash Flow[1] (mil $)




## Earnings Per Share



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# Transformative Merger of Equals

Unites global **industry leaders** in advanced materials and control systems to create a **premier integrated systems provider** focusing on technology-rich innovations that deliver **smarter, cleaner and safer** customer solutions.

WOODWARD

Global Leader in Control Solutions for Aerospace, Defense and Industrial

HEXCEL

Global Leader in Advanced Composites Technology for Aerospace, Defense and Industrial

**Premier integrated systems provider**
accelerating innovation in aerodynamics, propulsion and energy efficiency

**~$5.3 billion sales**
~$1.1 billion EBITDA (21% margin) pro forma FY19

**~$1.0 billion FCF**
annually & growing

**$125 million+**
in annual cost synergies by second full fiscal year post-closing

**Strong balance sheet**
~1.4x leverage ratio at closing



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# Transaction Overview

| | |
|---|---|
| **Transaction Structure** | • All-stock merger of equals<br>• Hexcel shareholders will receive 0.625 shares in Woodward Hexcel for each share of Hexcel<br>• Woodward shareholders will own ~55% and Hexcel shareholders will own ~45% of combined company |
| **Financial Profile and Policies** | • ~$1.5 billion share repurchase program within 18 months of closing<br>• Strong balance sheet<br>• Targeting investment grade rating<br>• Competitive dividend yield with an initial target of 1%<br>• Woodward is increasing its quarterly cash dividend to $0.28 a share starting with its next dividend<br>• ~$1 billion of free cash flow in the first full fiscal year – and growing |
| **Expected Synergies** | • More than $125 million of annual cost synergies by the second full fiscal year post-closing<br>• Improved customer access and cross-selling opportunities |
| **Leadership and Governance** | • Executive Chairman: Tom Gendron<br>• Chief Executive Officer: Nick Stanage<br>• 10 total directors, 5 each from Woodward and Hexcel (including Gendron and Stanage) |
| **Company Name and Headquarters** | • Combined company to be named Woodward Hexcel<br>• Woodward Hexcel to be headquartered in Fort Collins, Colorado |
| **Timing and Closing** | • Transaction approved by Boards of Directors of both companies<br>• Closing expected in the third calendar quarter of 2020, subject to customary closing conditions including regulatory and shareholder approvals |


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# Aerospace

## Commercial aerospace

- Strong aircraft utilization and passenger traffic growth
- Boeing 737 MAX grounding
  - Estimating return to service in Q2 FY20
  - Build rates in line with Boeing expectations

## Commercial Aftermarket

- 14% increase for quarter versus prior year period
- Strong initial provisioning 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

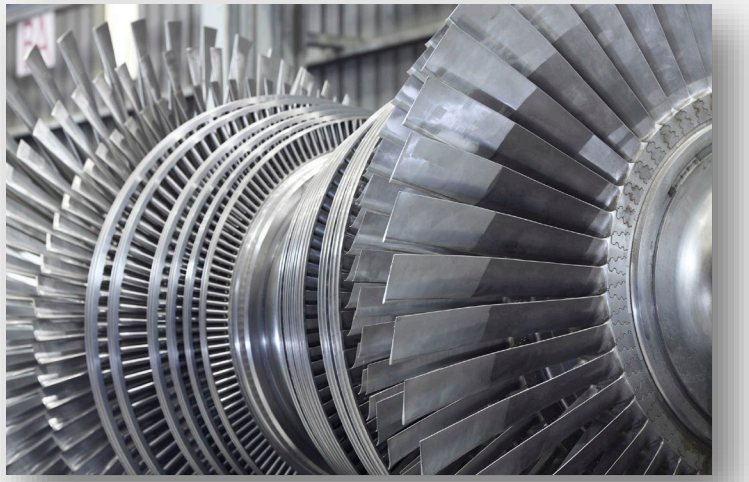
- Gas turbine market continues to stabilize
- Continue to expand content wins on new turbines

## Transportation

- Strong China natural gas truck production
  - China is enforcing new regulations and natural gas is securing larger share of truck market

## Oil and gas

- Pressured markets due to economic uncertainty, price volatility, reduced capital investment







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# Renewable Power Systems Portfolio*

No longer a key focus area for Woodward

Entered into agreement with Aurelius Group to divest renewable power systems and protective relays businesses

- Price:  $23.4 million, subject to customary purchase price adjustments
- Expect transaction to close in third quarter of fiscal 2020

Recognized after-tax impairment charge

- $28 million ($38 million pre-tax), or $0.43 per share
- Pre-tax amount recorded in Non-Segment results

Industrial sales estimated to be reduced by $45-50 million for FY20

- Related earnings impact estimated to be approximately zero
- Favorable FY21 Industrial margin impact of approximately 100 bps



**Predominantly related to the renewable power systems and protective relay businesses.*



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# Aerospace Q1 Fiscal Year 2020 Results

## Segment Net Sales

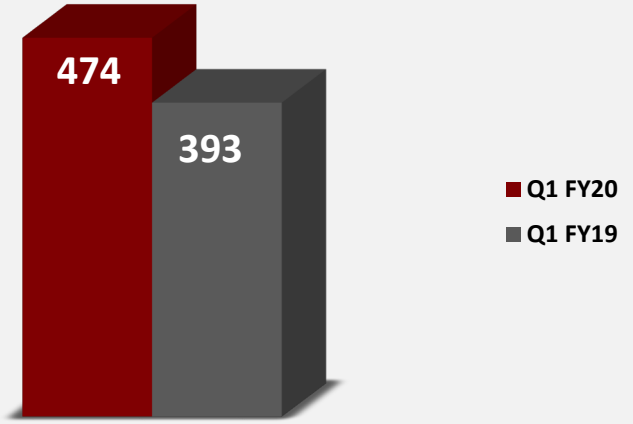
- Strong OEM and aftermarket in both commercial and defense

## Segment Earnings

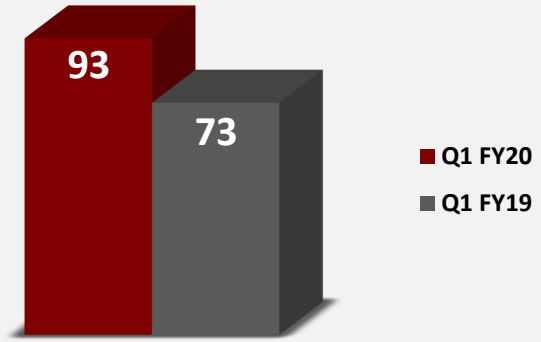
- Leverage on higher sales volume



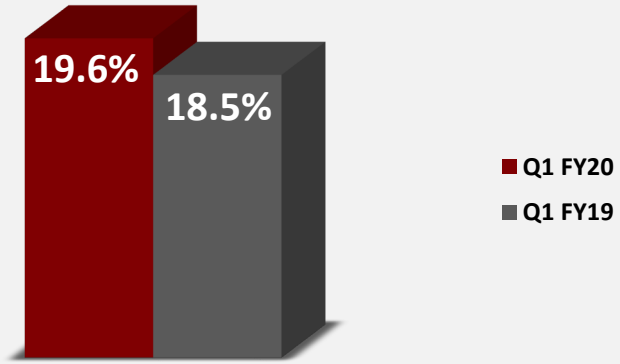

**Aerospace Sales (mil $)**




**Segment Earnings (mil $)**




**Segment Margin %**

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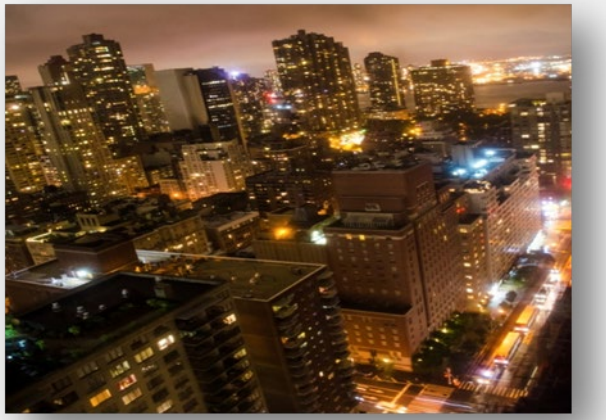
# Industrial Q1 Fiscal Year 2020 Results

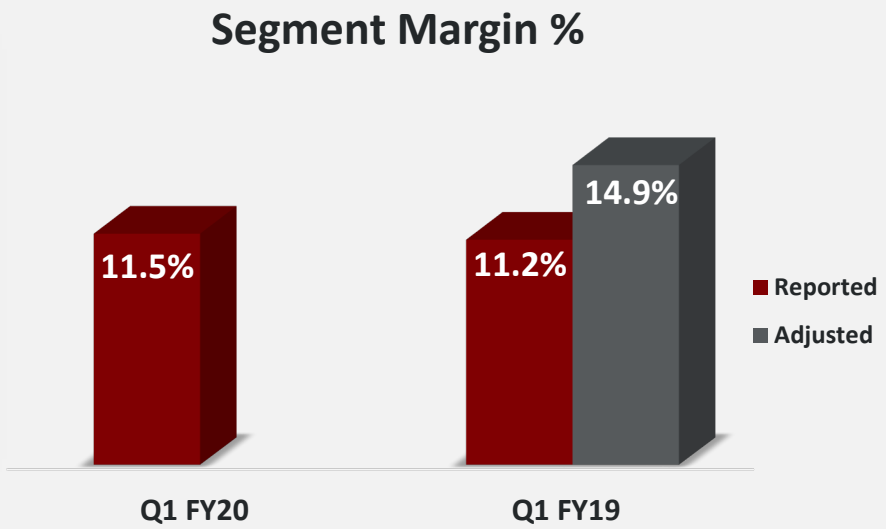
## Segment Net Sales

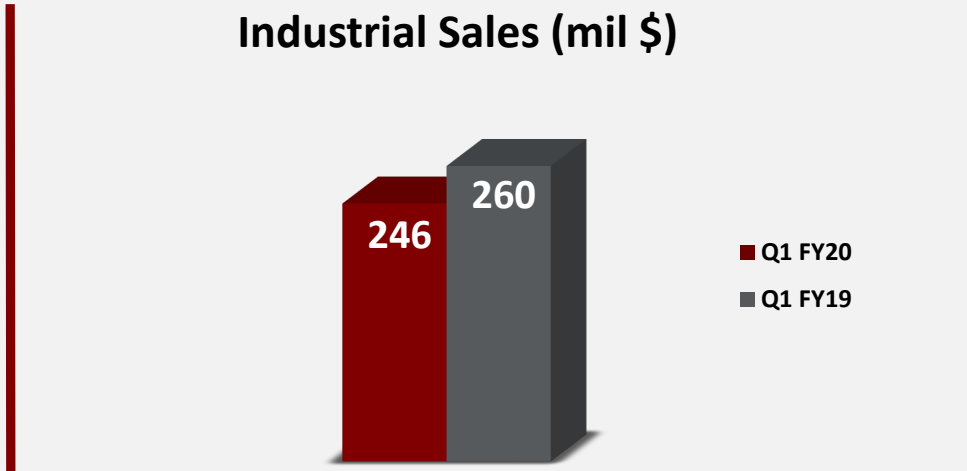
- Softness in oil and gas partially offset by higher renewables

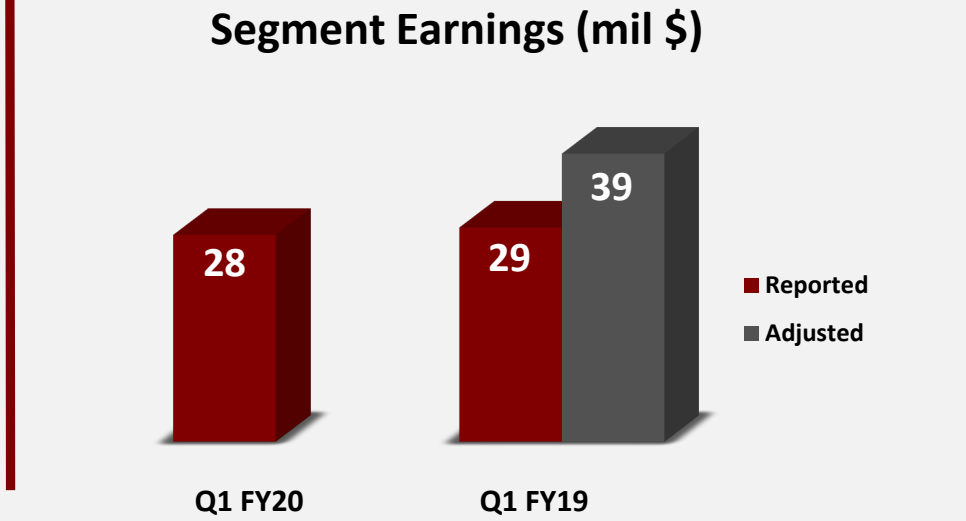
## Industrial Segment Earnings

- Lower sales volume and aftermarket





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# Selected Financial Items

| Quarter and Year-to-Date Comparatives | Q1 FY 20 | Q1 FY 19 |
|---|---|---|
| Gross Margin * | 25.7% | 24.6% |
| SG&A Expenses - % of Sales | 8.6% | 8.0% |
| R&D Expenses - % of Sales | 5.1% | 6.0% |
| Effective Tax Rate | 13.3% | 20.1% |
| Adjusted effective Tax Rate[1] | 17.1% | 21.0% |
| EBITDA[1] (mils) | $ 103 | $ 112 |
| Adjusted EBITDA[1] (mils) | $ 127 | $ 119 |

| Year-to-Date Comparatives | YTD FY 19 | YTD FY 18 |
|---|---|---|
| Cash from Operations (mils) | $ 27 | $ 85 |
| Capital Expenditures (mils) | $ 17 | $ 31 |
| Free Cash Flow[1] (mils) | $ 10 | $ 53 |
| Adjusted Free Cash Flow[1] (mils) | $ 29 | $ 53 |


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# Fiscal Year 2020 Outlook

## Woodward

- Revenue between $2.9 and $3.0 billion
- Adjusted effective tax rate ~20%
- Adjusted free cash flow ~$420 million
- Adjusted earnings per share[1] between $5.22 and $5.52
- ~65 million shares

## Aerospace

- Revenue up low single digits
- Margin ~21%

## Industrial

- Revenue approximately flat
- Margin ~14%


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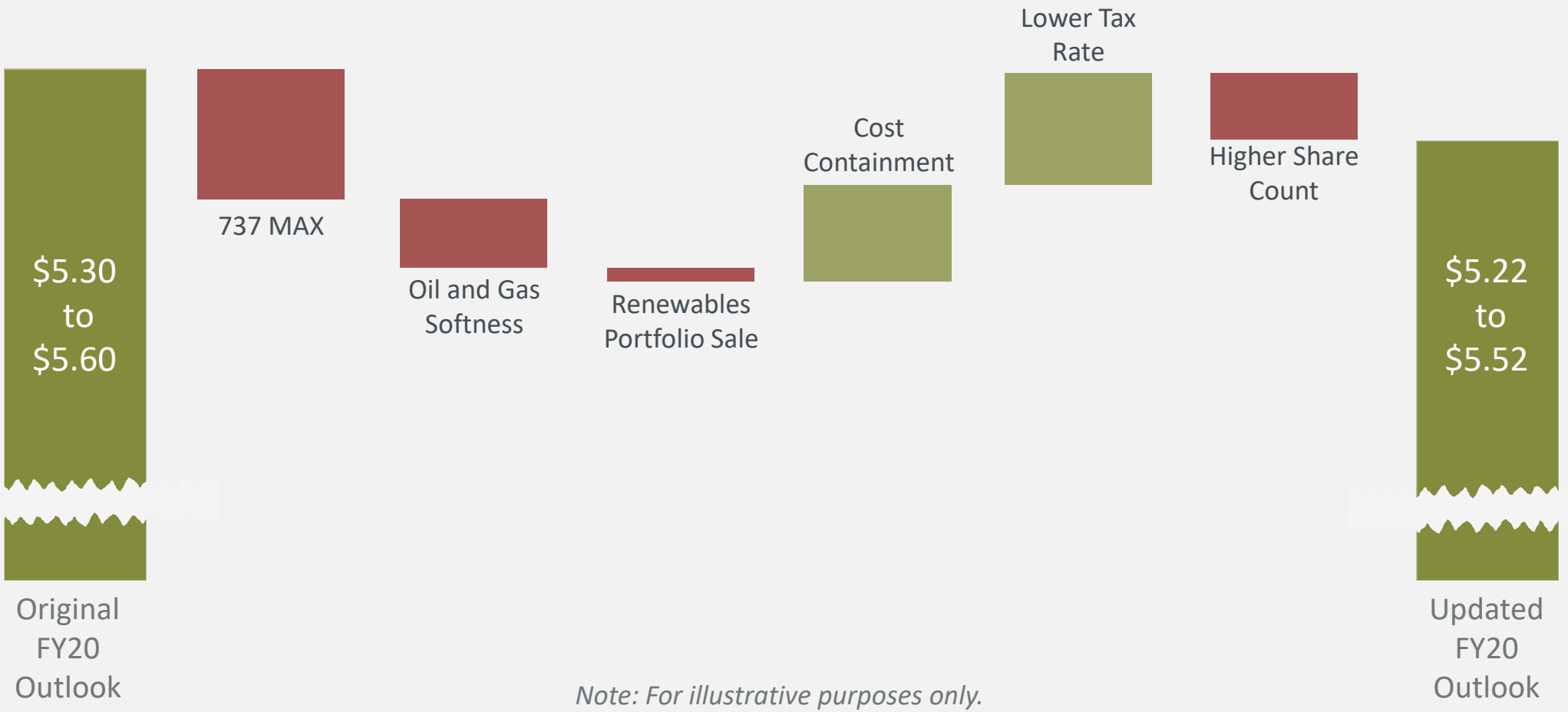
# Adjusted Earnings Per Share Bridge – FY20 Outlook




*Note: For illustrative purposes only.*



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# Appendix

# Non-U.S. GAAP Measures

| | Q1 FY 20 | | Q1 FY 19 | |
|---|---|---|---|---|
| | Net Earnings (mils) | Earnings Per Share (mils) | Net Earnings (mils) | Earnings Per Share (mils) |
| Net Earnings | $ 53.4 | $ 0.83 | $ 49.1 | $ 0.77 |
| Non-U.S. GAAP Adjustments | | | | |
| Other charges, net of tax* | 17.8 | 0.26 | 12.5 | 0.19 |
| Total Non-U.S. GAAP adjustments | 17.8 | 0.26 | 12.5 | 0.19 |
| Adjusted net earnings[1] | $ 71.2 | $ 1.09 | $ 61.6 | $ 0.96 |

* Includes, as applicable, (i) the gain on sale of the Duarte property, (ii) the impairment loss on assets held for sale, (iii) Duarte move related costs, (iv) purchase accounting impact related to the amortization of the Woodward L'Orange backlog intangible, and (v) the write-off of Senvion related assets.

*(Unaudited)*

| | Q1 FY 20 (mils) | Q1 FY 19 (mils) |
|---|---|---|
| Industrial Segment Earnings | $ 28.2 | $ 29.2 |
| Purchase accounting impacts | - | 9.5 |
| Adjusted Industrial Segment Earnings[1] | $ 28.2 | $ 38.7 |

*(Unaudited)*

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

| | Q1 FY 20 (mils) | Q1 FY 19 (mils) |
|---|---|---|
| Net Earnings | $ 53.4 | $ 49.1 |
| Income Taxes | 8.2 | 12.4 |
| Interest Expense | 9.0 | 11.9 |
| Interest Income | (0.5) | (0.4) |
| EBIT[1] | 70.1 | 73.0 |
| Non U.S. GAAP adjustments* | 24.4 | 16.5 |
| Adjusted EBIT[1] | $ 94.5 | $ 89.5 |

* Includes, as applicable, (i) the gain on sale of the Duarte property, (ii) the impairment loss on assets held for sale, (iii) Duarte move related costs, (iv) purchase accounting impact related to the amortization of the Woodward L'Orange backlog intangible, and (v) the write-off of Senvion related assets.

*(Unaudited)*

| | Q1 FY 20 (mils) | Q1 FY 19 (mils) |
|---|---|---|
| Cash From Operations | $ 27.4 | $ 84.7 |
| Payments for PP&E | (17.2) | (31.3) |
| Free Cash Flow[1] | $ 10.2 | $ 53.4 |
| Cash proceeds from the sale of the Duarte facility | 18.8 | - |
| Adjusted Free Cash Flow [1] | $ 29.0 | $ 53.4 |

*(Unaudited)*



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

| | Q1 FY 20 (mils) | Q1 FY 19 (mils) |
|---|---|---|
| Net Earnings | $ 53.4 | $ 49.1 |
| Income Taxes | 8.2 | 12.4 |
| Interest Expense | 9.0 | 11.9 |
| Interest Income | (0.5) | (0.4) |
| EBIT[1] | 70.1 | 73.0 |
| Amortization of Intangibles | 9.9 | 17.5 |
| Depreciation Expense | 22.5 | 21.2 |
| EBITDA[1] | 102.5 | 111.7 |
| Non U.S. GAAP adjustments* | 24.4 | 7.0 |
| Adjusted EBITDA[1] | $ 126.9 | $ 118.6 |

* Includes, as applicable, (i) the gain on sale of the Duarte property, (ii) the impairment loss on assets held for sale, (iii) Duarte move related costs, and (iv) the write-off 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) the gain on sale of assets associated with the sale of the Company's Duarte real estate, (ii) the charge from the impairment of assets held for sale associated with the Company's decision to divest its renewable power systems portfolio, (iii) Duarte move related costs, (iv) the purchase accounting impacts related to the amortization of the backlog intangible acquired in connection with the acquisition of Woodward L'Orange on June 1, 2018 (the "L'Orange Acquisition"), and (iv) 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, uses them to illustrate more clearly how the underlying business of Woodward is performing. Adjusted free cash flow is free cash flow (defined below) plus the cash proceeds from the sale of real property at our former Duarte operations. Management believes the inclusion of these proceeds in free cash flow better portrays the net cash impact of relocating the Duarte, CA operations to the Drake Campus in Fort Collins, CO. For future periods, adjusted free cash flow will also exclude the cash impacts of the costs associated with the anticipated merger.

EBIT (earnings before interest and taxes), EBITDA (earnings before interest, taxes, depreciation and amortization), adjusted cash flow from operating activities, free cash flow, adjusted free cash flow, 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 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, as well as adjusted free cash flow (as described above), 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, adjusted net earnings, adjusted earnings per share, adjusted EBIT and EBITDA, adjusted effective tax rate, adjusted nonsegment expenses, free cash flow, and adjusted free cash flow may differ from similarly titled measures used by other companies, limiting their usefulness as comparative measures.


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