WOODWARD



Fiscal Year 2020 Second Quarter Results

May 4, 2020

Today’s Agenda

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

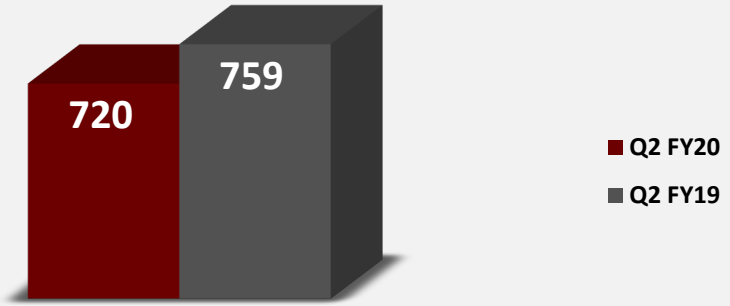
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Cautionary Statement

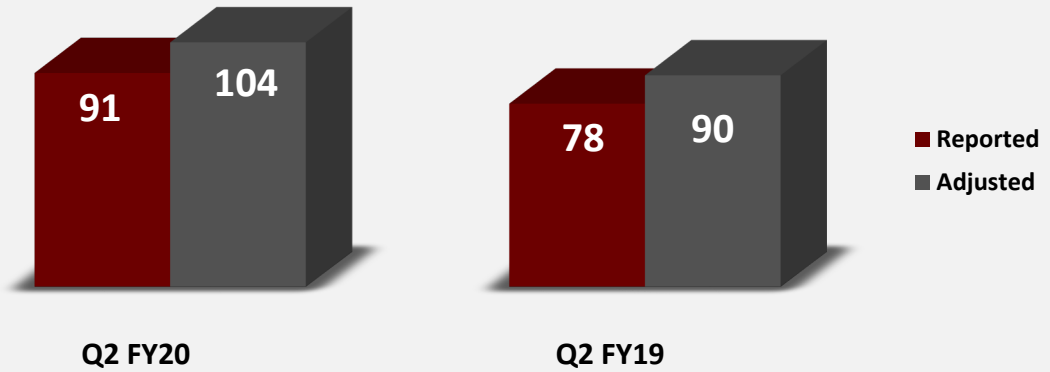
Information in this presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, including, but not limited to, statements regarding our position within our markets and ability to compete effectively, including statements about the effect of the Boeing 737 MAX grounding, COVID-19 pandemic on our business and our customers and suppliers, expectations related to the performance of our segments and specific markets within those segments, our strategies and investments, the sale of our Duarte real estate, the sale of our renewable power systems portfolio, and our outlook and plans regarding our net sales, expenses, including capital expenditures, cash flows and working capital, and the factors that may affect that outlook, including COVID-19 and volatility in economy and financial markets. 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, the COVID-19 pandemic and related volatility in financial, commodities (including oil and gas) and other markets and industries (including the aviation industry), 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 and COVID-19 related impacts, 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, pandemics and natural disasters, and increasing emissions standards; any adverse effects on Woodward's operations due to information systems interruptions or intrusions; 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 March 31, 2020, 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.

Q2 Fiscal Year 2020 Consolidated Results

Woodward Sales (mil $)

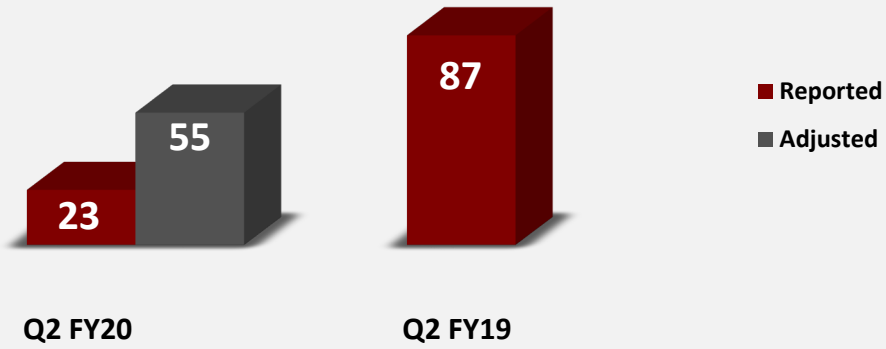


Net Earnings (mil $)

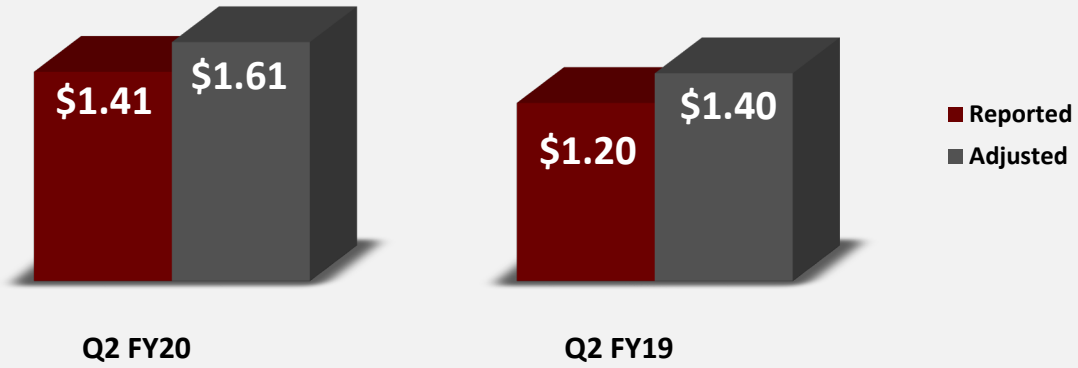


Free Cash Flow[1] (mil $)

(Fiscal Year-to-Date)



Earnings Per Share



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COVID-19 Actions

Communicating daily, both internally and externally with suppliers and customers

Proactively revising demand and supply plans in accordance with changing market conditions

Took numerous cost cutting and cash preservation steps

- Implemented layoffs and furloughs
- Reduced company directors' retainers and officers' salaries through 2020
- Eliminated 2020 annual bonuses
- Decreased our dividend
- Restricted capital expenditures
- Reduced non-essential costs
- Reduced working capital

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Aerospace

Commercial aerospace

- Boeing 737 MAX grounding negatively affected both OEM and initial provisioning
- Passenger and cargo traffic decreased significantly near end of quarter due to COVID-19
- In April, build rates declined as a result of plant closures and expected long-term impacts of COVID-19

Commercial aftermarket

- 4% decrease for quarter versus prior year period
- Weak initial provisioning partially offset by strong legacy programs

Defense

- Demand remained healthy
- Historically, defense has remained strong during down cycles

A320neo



737 MAX





F-35

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Industrial

Power generation

- Gas turbine market continued to recover
- End-user upgrade initiatives increased
- On April 30th, we closed on the divestiture of our renewable power systems and related businesses

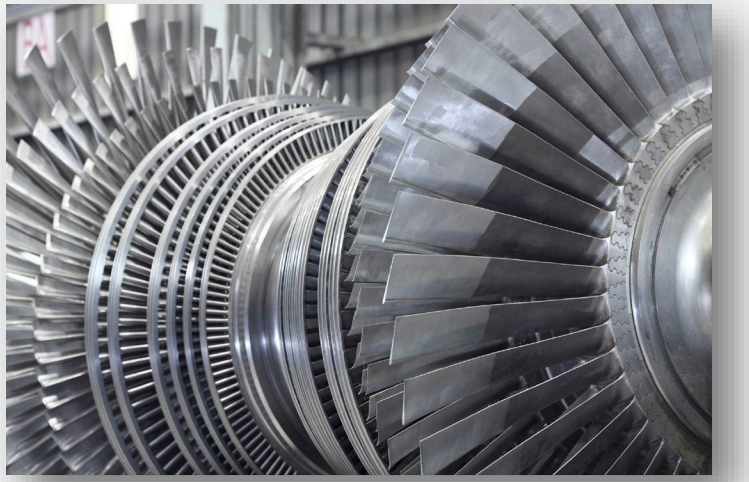
Transportation

- COVID-19 related plant shutdowns in China negatively affected production and demand for natural gas trucks
- Decreased cruise and container ship utilization negatively impacted marine

Oil and gas

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

Anticipate negative impacts in most of our markets due to COVID-19 and sharp decline in oil and gas prices





Aerospace Q2 Fiscal Year 2020 Results

Segment net sales

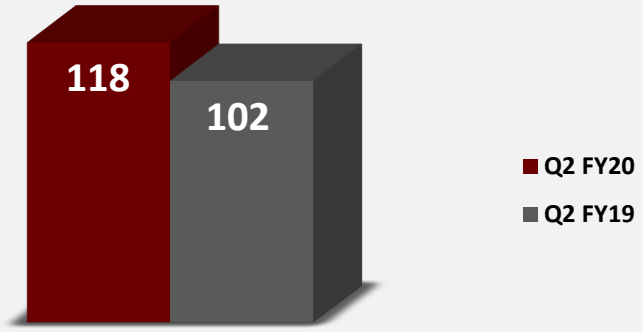
- 737 MAX production halt and related decline in initial provisioning

Segment earnings

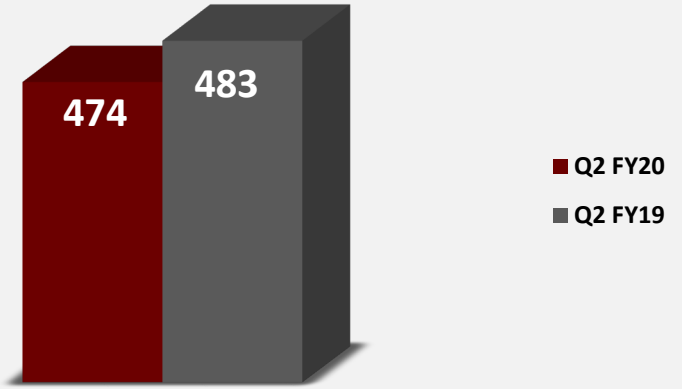
- Benefited from elimination of annual bonus for 2020
- Partially offset by lower sales volume



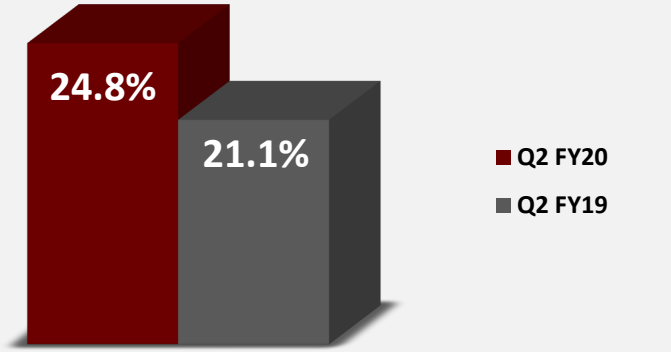
Segment Earnings (mil $)



Aerospace Sales (mil $)



Segment Margin %



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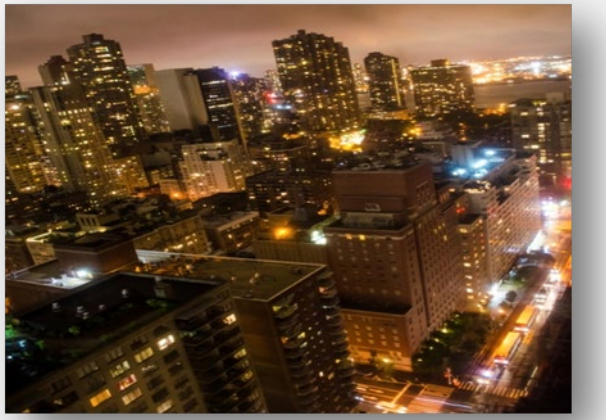
Industrial Q2 Fiscal Year 2020 Results

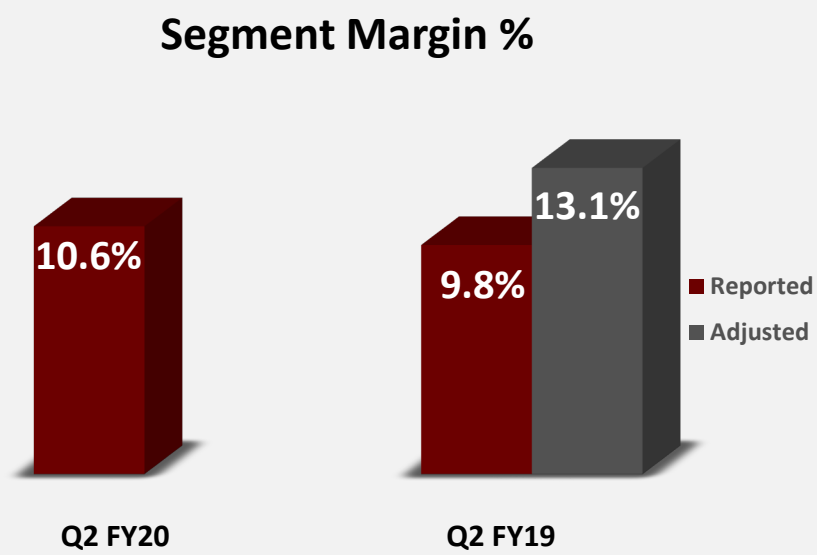
Segment Net Sales

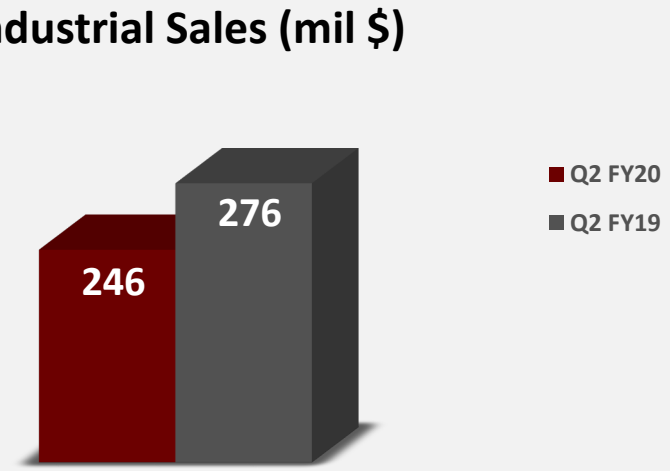
- Ongoing weakness in oil and gas and lower natural gas truck sales
- Partially offset by higher gas turbines and renewables

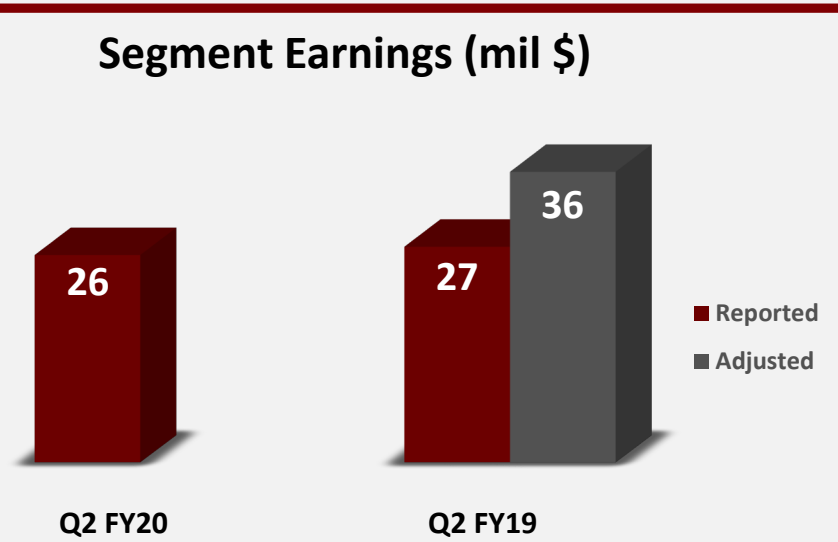
Industrial Segment Earnings

- Lower sales volume, partially offset by the elimination of annual bonus for 2020









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Selected Financial Items

Quarter and Year-to-Date Comparatives	Q2 FY 20	Q2 FY 19	YTD FY 20	YTD FY 19
Gross Margin *	28.1%	25.3%	26.9%	25.0%
SG&A Expenses - % of Sales	8.0%	7.2%	8.3%	7.6%
R&D Expenses - % of Sales	4.8%	5.8%	5.0%	5.9%
Effective Tax Rate	14.8%	14.0%	14.3%	16.5%
EBITDA[1] (mils)	$ 149	$ 138	$ 251	$ 250
Adjusted EBITDA[1] (mils)	$ 165	$ 147	$ 292	$ 266

Year-to-Date Comparatives	YTD FY 20	YTD FY 19
Cash from Operations (mils)	$ 52	$ 141
Capital Expenditures (mils)	$ 29	$ 54
Free Cash Flow[1] (mils)	$ 23	$ 87
Adjusted Free Cash Flow[1] (mils)	$ 55	$ 87

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

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Fiscal Year 2020 Outlook

As announced in our April 6th press release, we have withdrawn our full-year 2020 guidance due to the unpredictable nature of the evolving COVID-19 pandemic and its unknown impact on our customers and suppliers. While current conditions have made accurate forecasting extremely difficult at this time, we will continue to evaluate our ability to generate an outlook for 2020 as the broader economic and industry specific impacts of this pandemic become clearer.

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Appendix

Non-U.S. GAAP Measures

	Q2 FY 20		Q2 FY 19	
	Net Earnings (mils)	Earnings Per Share (mils)	Net Earnings (mils)	Earnings Per Share (mils)
Net Earnings	$ 91.3	$ 1.41	$ 77.6	$ 1.20
Non-U.S. GAAP Adjustments				
Other charges, net of tax*	12.7	0.20	12.7	0.20
Total Non-U.S. GAAP adjustments	12.7	0.20	12.7	0.20
Adjusted net earnings[1]	$ 104.0	$ 1.61	$ 90.3	$ 1.40

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

	Q2 FY 20 (mils)	Q2 FY 19 (mils)	YTD FY 20 (mils)	YTD FY 19 (mils)
Industrial Segment Earnings	$ 26.0	$ 27.1	$ 54.2	$ 56.3
Purchase accounting impacts	-	9.0	-	18.5
Adjusted Industrial Segment Earnings[1]	$ 26.0	$ 36.1	$ 54.2	$ 74.8

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

	Q2 FY 20 (mils)	Q2 FY 19 (mils)	YTD FY 20 (mils)	YTD FY 19 (mils)
Net Earnings	$ 91.3	$ 77.6	$ 144.7	$ 126.7
Income Taxes	15.9	12.6	24.0	25.0
Interest Expense	8.8	11.5	17.8	23.4
Interest Income	(0.5)	(0.3)	(1.0)	(0.7)
EBIT[1]	115.5	101.4	185.5	174.4
Non U.S. GAAP adjustments*	16.9	18.1	41.3	34.6
Adjusted EBIT[1]	$ 132.4	$ 119.5	$ 226.8	$ 209.0

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

	Q2 FY 20 (mils)	Q2 FY 19 (mils)
Cash From Operations	$ 52.2	$ 141.0
Payments for PP&E	(29.4)	(54.4)
Free Cash Flow[1]	$ 22.8	$ 86.6
Cash proceeds from the sale of the Duarte facility	18.8	-
Cash paid for merger and divestiture transaction costs	13.1	-
Adjusted Free Cash Flow [1]	$ 54.7	$ -

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

	Q2 FY 20 (mils)	Q2 FY 19 (mils)	YTD FY 20 (mils)	YTD FY 19 (mils)
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Interest Income	(0.5)	(0.3)	(1.0)	(0.7)
EBIT[1]	115.5	101.4	185.5	174.4
Amortization of Intangibles	9.8	16.7	19.8	34.2
Depreciation Expense	23.2	20.2	45.7	41.3
EBITDA[1]	148.5	138.2	251.0	249.9
Non U.S. GAAP adjustments*	16.9	9.2	41.3	16.1
Adjusted EBITDA[1]	$ 165.4	$ 147.4	$ 292.3	$ 266.0

* Includes, as applicable, (i) Merger and divestiture related costs (ii) the gain on sale of the Duarte property, (iii) the impairment of assets held for sale, and (iv) Duarte move related costs.

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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"), (v) the transition impacts of the change in U.S. federal tax legislation in December 2017, (vi) costs associated with the previously proposed merger with Hexcel Corporation, which merger agreement was terminated on April 5, 2020, and (vii) transaction costs associated with the completed divestiture of our renewable power systems portfolio. 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 and cash payments added back for merger and divestiture transaction costs. 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 and excludes the unusual or infrequent cash payments for merger and divestiture transaction costs not indicative of Woodward's operating performance for the period.

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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