WOODWARD



FISCAL YEAR 2022 THIRD QUARTER RESULTS

August 1, 2022

Q3 FY22 AGENDA

HIGHLIGHTS

Dan Provaznik

FIRST IMPRESSIONS & MARKET REVIEW

Chip Blankenship

FINANCIAL RESULTS & OUTLOOK

Mark Hartman

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FOR YOUR INFORMATION

CAUTIONARY

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 business and financial outlook for fiscal year 2022, including assumptions regarding our outlook, trends in our business, statements about the continued and expected or potential effects of global supply chain and labor disruptions, the ongoing net inflationary pressures on our materials, labor and manufacturing costs, inefficiencies related to training recent hires, the potential impact of such disruptions, inefficiencies and pressures on our business and the management of our business, including our ability to effectively mitigate the effects of such disruptions, inefficiencies and pressures to fully realize the ongoing recovery in our end-markets, ongoing challenges in the China natural gas truck market, the anticipated recovery in aircraft passenger traffic and fleet utilization, continued demand increases for power generation and process industries, our ability to improve our operational execution, and expectations related to the performance of our segments and specific markets within those segments, and our future sales and the anticipated future sales growth, earnings, earnings per share and adjusted earnings per share, segment earnings as a percent of segment net sales, cash flows, free cash flows and adjusted free cash flows, our anticipated financial performance during the remainder of fiscal year 2022. 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: (1) uncertainties related to the COVID-19 pandemic; (2) global economic uncertainty and instability in the financial markets that affect Woodward, its customers, and its supply chain; (3) risks related to continued constraints and disruptions in the global supply chain and labor markets; (4) Woodward's long sales cycle; (5) risks related to Woodward's concentration of revenue among a relatively small number of customers; (6) Woodward's ability to implement and realize the intended effects of any restructuring efforts; (7) Woodward's ability to successfully manage competitive factors including expenses and fluctuations in sales; (8) changes and consolidations in the aerospace market; (9) Woodward's financial obligations including debt obligations and tax expenses and exposures; (10) risks related to Woodward's U.S. government contracting activities including potential changes in government spending patterns; (11) Woodward's ability to protect its intellectual property rights and avoid infringing the intellectual property rights of others; (12) changes in the estimates of fair value of reporting units or of long-lived assets; (13) environmental risks; (14) Woodward's continued access to a stable workforce and favorable labor relations with its employees; (15) Woodward's ability to manage various regulatory and legal matters; (16) risks from operating internationally; (17) cybersecurity and other technological risks; and other risk factors described in Woodward's filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended September 30, 2021, any subsequently filed Quarterly Report on Form 10-Q, as well as its Quarterly Report on Form 10-Q for the third quarter ended June 30, 2022, which we expect to file shortly, and other risks described in Woodward's filings with the Securities and Exchange Commission.

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SUMMARY

STRONG DEMAND ACROSS THE BUSINESS

SALES NEGATIVELY IMPACTED BY

- $100M OF GLOBAL SUPPLY CHAIN AND LABOR DISRUPTIONS
- UNFAVORABLE FOREIGN CURRENCY EXCHANGE RATES

EARNINGS NEGATIVELY IMPACTED BY

- NET INFLATIONARY PRESSURES
- MATERIAL AND LABOR COSTS
- GLOBAL SUPPLY CHAIN DISRUPTIONS
- INEFFICIENCIES RELATED TO TRAINING RECENT HIRES

YTD ADJ. FREE CASH FLOW[1] OF $52M

2.0 TIMES LEVERAGE

RETURNED $462M TO SHAREHOLDERS YTD THROUGH JUNE 2022

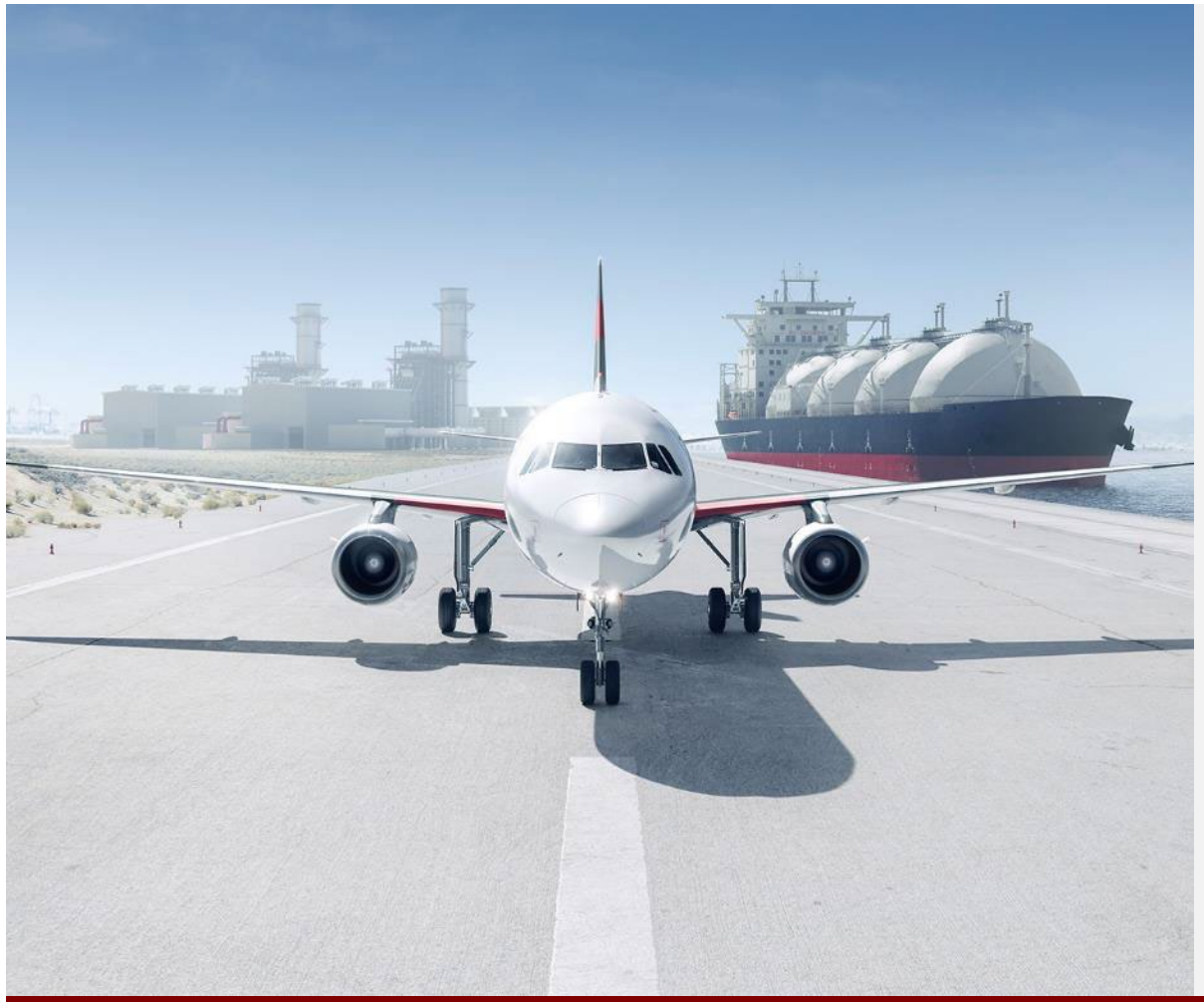
- $428M IN SHARE REPURCHASES
- $34M IN DIVIDENDS

Q3 FISCAL YEAR 2022 CONSOLIDATED RESULTS



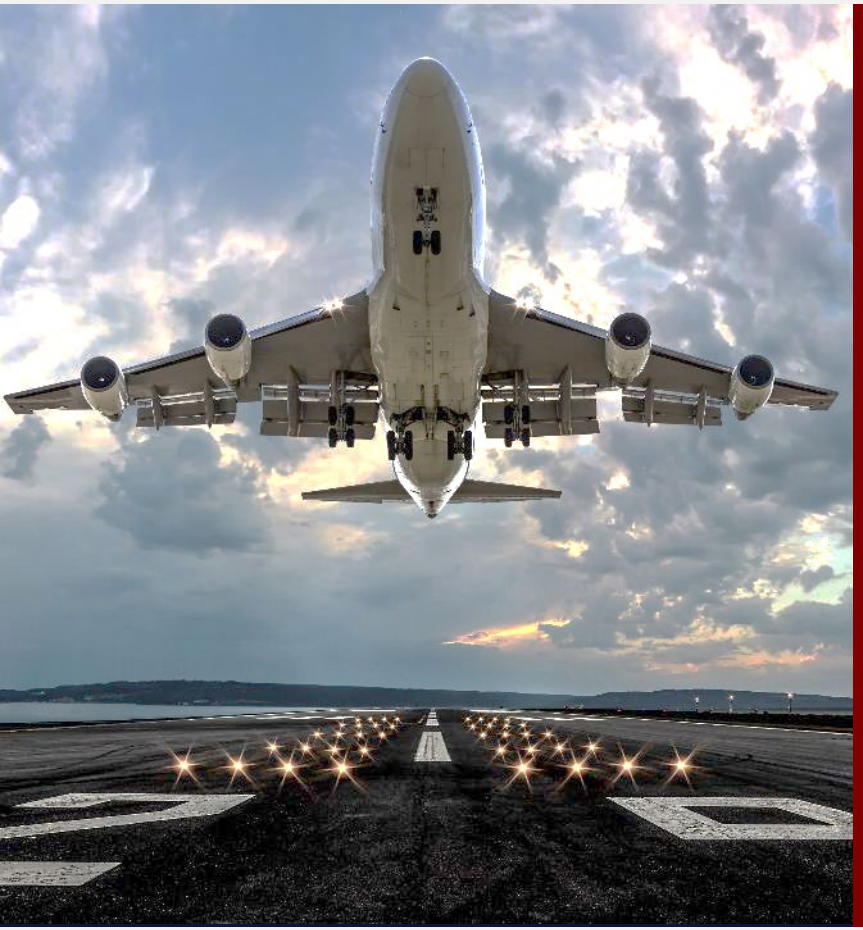
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AEROSPACE OVERVIEW

AEROSPACE MARKETS



COMMERCIAL OEM

- 37% sales increase over the prior year quarter
- Higher OEM build rates

COMMERCIAL AFTERMARKET

- 44% sales increase over the prior year quarter
- Increased passenger traffic – both domestic and international
- Increased fleet utilization

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AEROSPACE MARKETS



DEFENSE OEM

- 2% sales decrease over the prior year quarter
- Markets were stable

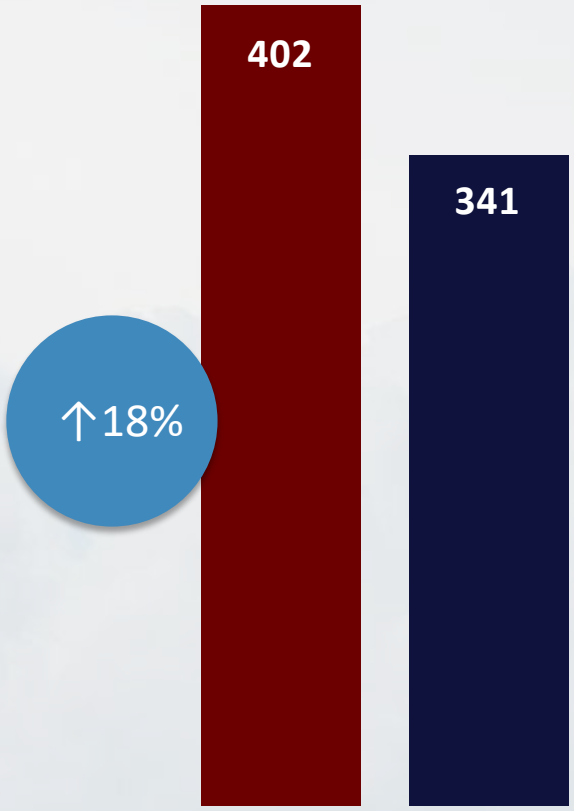
DEFENSE AFTERMARKET

- 12% sales decrease over the prior year quarter
- Impacted by global supply chain and labor disruptions

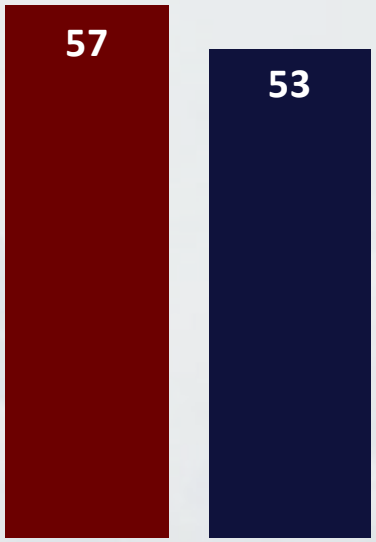
AEROSPACE Q3 FISCAL YEAR 2022

FY22 FY21

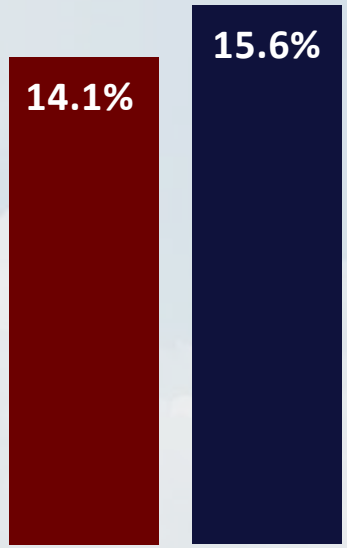




Segment Sales (mil $)

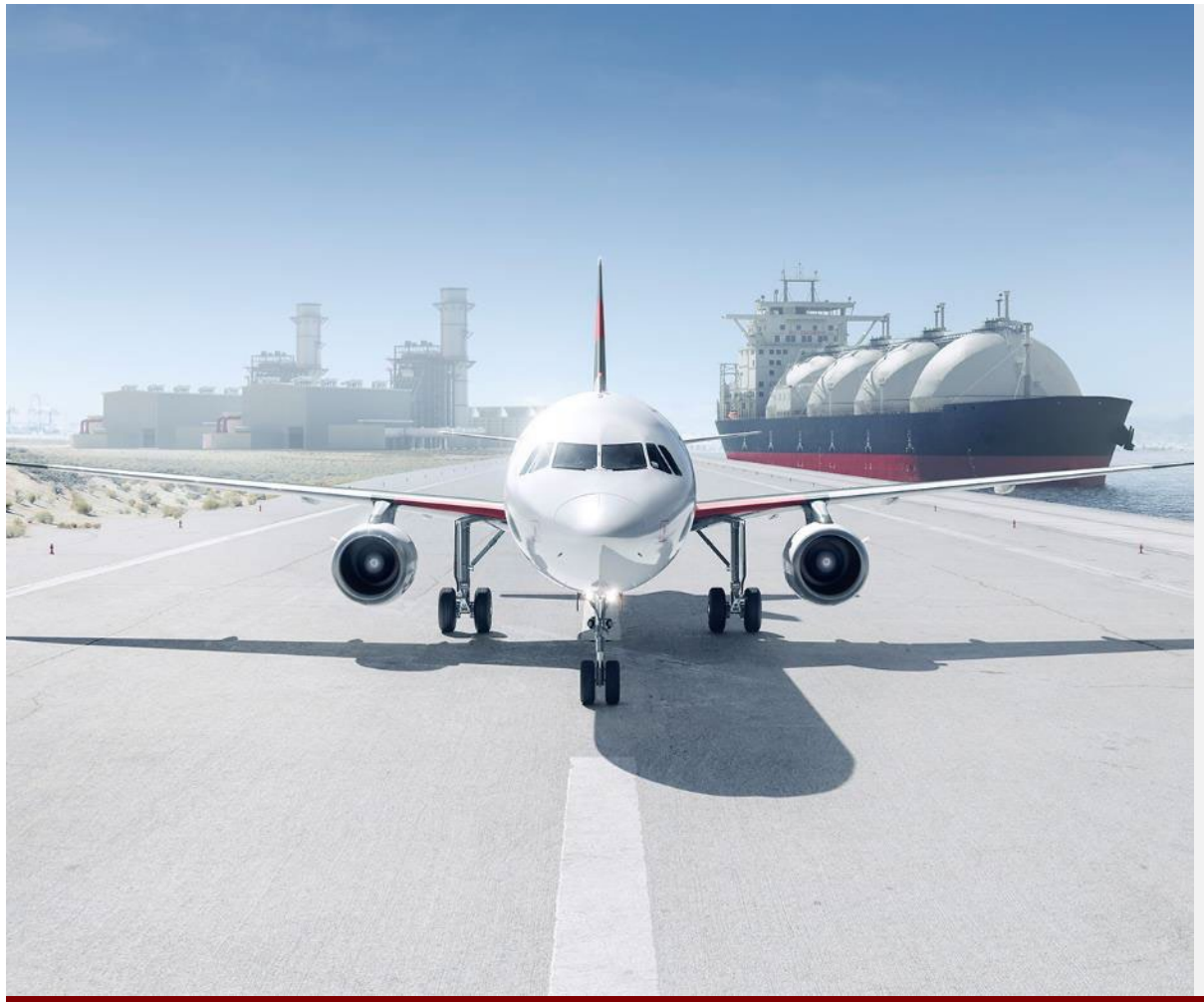


Segment Earnings (mil $)



Segment Margin

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INDUSTRIAL OVERVIEW

INDUSTRIAL MARKETS





POWER GENERATION

- Strong growth in Asia driving demand for industrial turbomachinery
- Aftermarket activity increasing
- Data center back-up power demand is strong

TRANSPORTATION

- Global marine market strong on increasing ship build rates, higher utilization, and elevated transport pricing
- China natural gas truck production remains depressed

OIL AND GAS

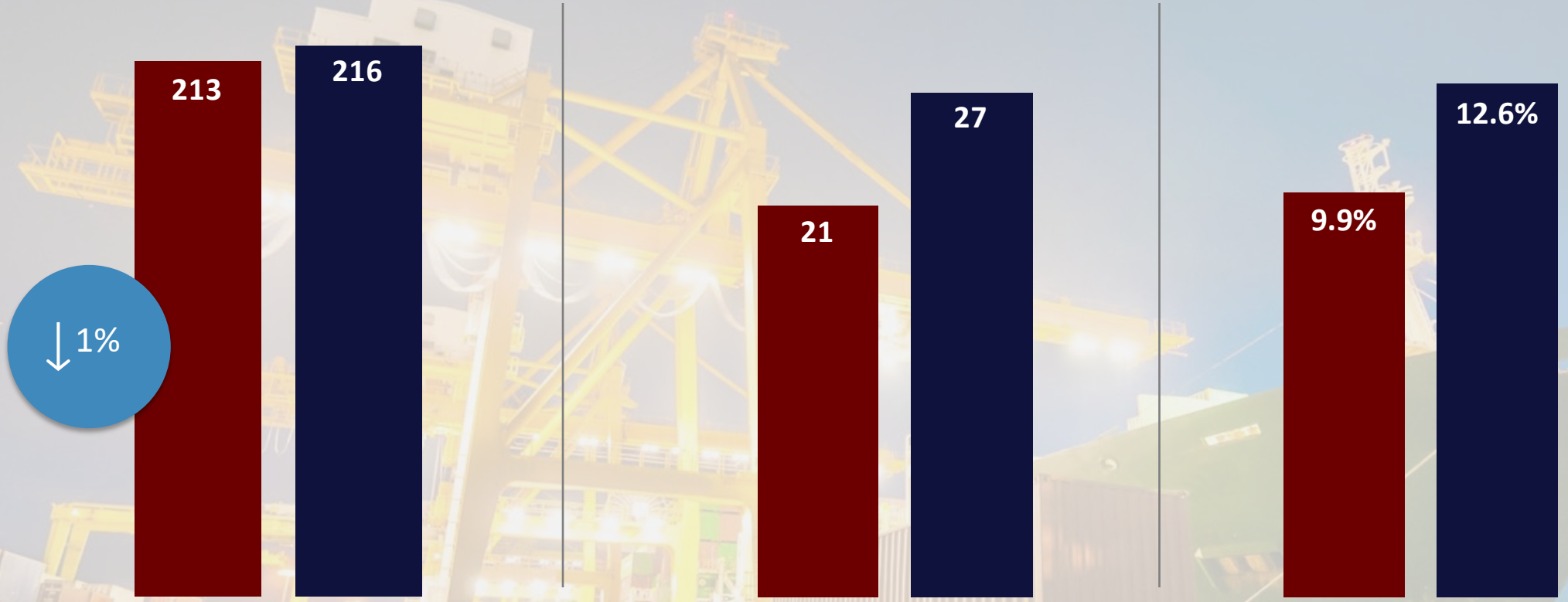
- Market favorable on high commodity prices and strong equipment utilization





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INDUSTRIAL Q3 FISCAL YEAR 2022



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SELECTED FINANCIAL RESULTS

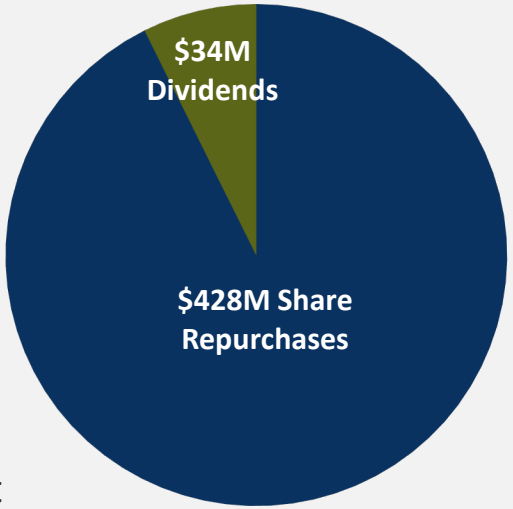
Quarter and Year-to-Date Comparatives				
	Q3 FY 22	Q3 FY 21	YTD FY 22	YTD FY 21
Gross Margin *	21.8%	24.1%	22.4%	24.9%
SG&A Expenses - % of Sales	7.6%	8.6%	8.8%	8.9%
R&D Expenses - % of Sales	5.2%	5.3%	5.2%	5.3%
Effective Tax Rate	21.6%	16.8%	17.2%	14.1%
EBITDA[1] (mils)	$ 88	$ 99	$ 257	$ 307
Adjusted EBITDA[1] (mils)	$ 88	$ 99	$ 263	$ 307
Cash from Operations (mils)			$ 86	$ 318
Capital Expenditures (mils)			$ 37	$ 21
Free Cash Flow[1] (mils)			$ 49	$ 297
Adjusted Free Cash Flow[1] (mils)			$ 52	$ 297

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

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CAPITAL DEPLOYMENT TO STOCKHOLDERS

$462M RETURNED TO SHAREHOLDERS Q3 FY22 YTD



RETURN TO SHAREHOLDERS

Long term commitment to return minimum 50% of net earnings to Shareholders, via

- Dividends
- Share Repurchases

DIVIDENDS

- Returned $34M year to date

SHARE REPURCHASES

- $428M of shares repurchased in the first nine months of fiscal 2022
- $800M share repurchase program authorized in January 2022
  - $156M of shares repurchased during the third quarter of fiscal year 2022
  - $399M remaining under the authorization

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REVISED FISCAL YEAR OUTLOOK – 2022

WOODWARD –

- Revenue between $2.35 and $2.40 billon
- Adjusted effective tax rate[1] ~17%
- Adjusted EPS between $2.55 and $2.75 based on ~63 million shares
- Adjusted free cash flow between $100M and $120M
  - Capital expenditures ~$60M

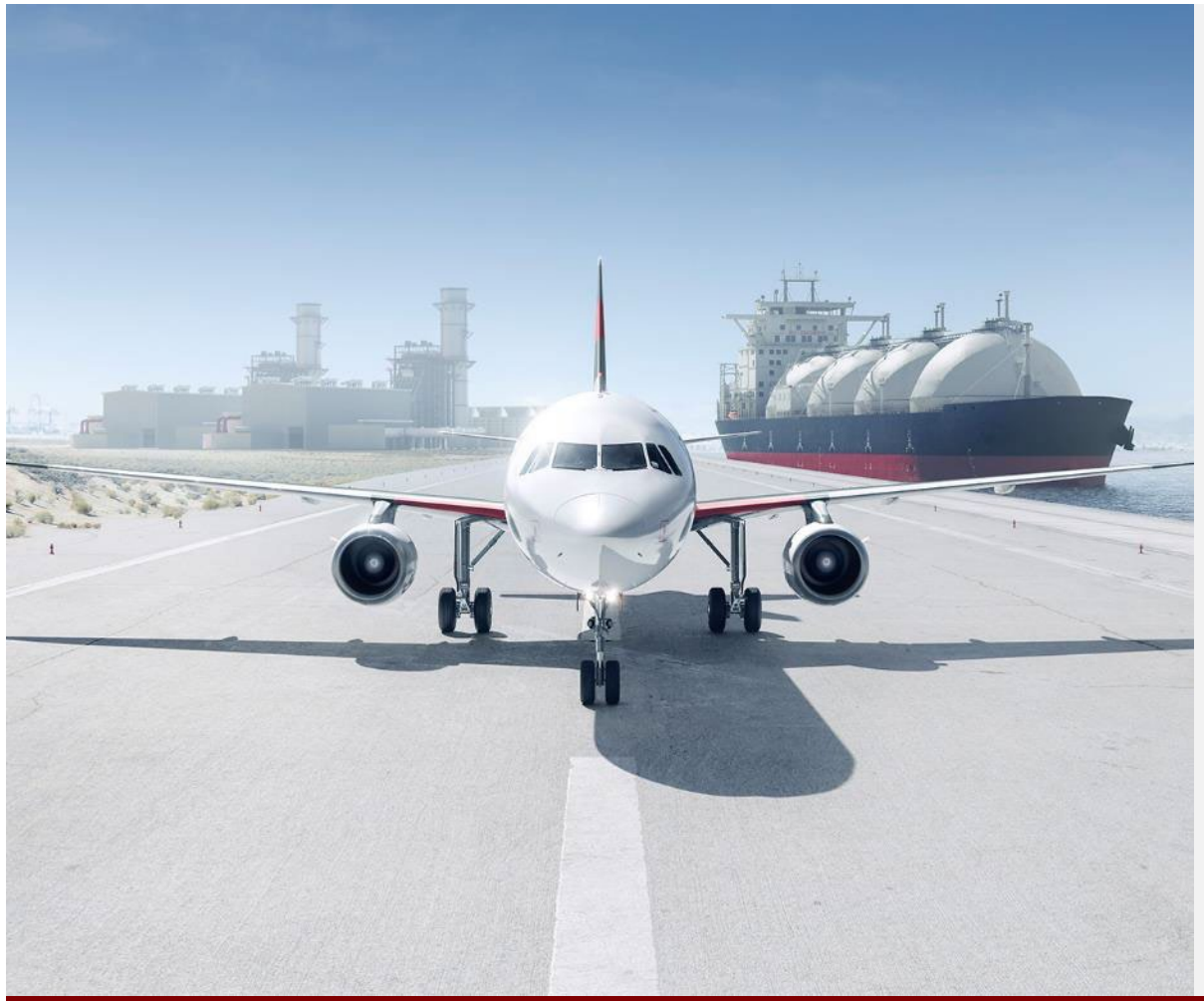
AEROSPACE –

- Revenue increase between 8 and 10%
- Margin of ~15%

INDUSTRIAL –

- Revenue expected to be flat
- Margin between 9 and 10%

GREATER THAN ANTICIPATED GLOBAL SUPPLY CHAIN AND LABOR DISRUPTIONS, MATERIAL AND LABOR INFLATION, AND FOREIGN CURRENCY EXCHANGE RATE IMPACTS IN Q3; NOT EXPECTING SUBSTANTIAL IMPROVEMENT IN Q4



APPENDIX

NON-U.S. GAAP RECONCILIATIONS

Woodward, Inc. and Subsidiaries

RECONCILIATION OF EARNINGS TO ADJUSTED EARNINGS[1]

(Unaudited - in thousands, except per share amounts)

	Three-Months Ended June 30, 2022			*Three-Months Ended June 30, 2021*		
	Before Income Tax	*Net of Income Tax*	*Per Share, Net of Income Tax*	*Before Income Tax*	*Net of Income Tax*	*Per Share, Net of Income Tax*
Earnings (U.S. GAAP)	$ 50,287	$ 39,446	$ 0.64	$ 58,698	$ 48,861	$ 0.74
Non-U.S. GAAP adjustments:						
Non-recurring matter unrelated to the ongoing operations of the business	-	-	-	-	-	-
Business development activities	-	-	-	-	-	-
Total non-U.S. GAAP adjustments	-	-	-	-	-	-
Adjusted earnings (Non-U.S. GAAP)	$ 50,287	$ 39,446	$ 0.64	$ 58,698	$ 48,861	$ 0.74

Woodward, Inc. and Subsidiaries

RECONCILIATION OF EARNINGS TO ADJUSTED EARNINGS[1]

(Unaudited - in thousands, except per share amounts)

	Nine-Months Ended June 30, 2022			*Nine-Months Ended June 30, 2021*		
	Before Income Tax	*Net of Income Tax*	*Per Share, Net of Income Tax*	*Before Income Tax*	*Net of Income Tax*	*Per Share, Net of Income Tax*
Earnings (U.S. GAAP)	$ 142,129	$ 117,657	$ 1.84	$ 184,769	$ 158,744	$ 2.42
Non-U.S. GAAP adjustments:						
Non-recurring matter unrelated to the ongoing operations of the business	3,272	2,454	0.04	-	-	-
Business development activities	2,982	2,236	0.03	-	-	-
Total non-U.S. GAAP adjustments	6,254	4,690	0.07	-	-	-
Adjusted earnings (Non-U.S. GAAP)	$ 148,383	$ 122,347	$ 1.91	$ 184,769	$ 158,744	$ 2.42

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APPENDIX

NON-U.S. GAAP RECONCILIATIONS

Woodward, Inc. and Subsidiaries

RECONCILIATION OF NET EARNINGS TO EBIT[1] AND ADJUSTED EBIT[1]

(Unaudited - in thousands)

	Three-Months Ended June 30,		*Nine-Months Ended June 30,*	
	2022	*2021*	*2022*	*2021*
Net earnings (U.S. GAAP)	$ 39,446	$ 48,861	$ 117,657	$ 158,744
Income taxes	10,841	9,837	24,472	26,025
Interest expense	8,533	8,397	25,036	25,552
Interest income	(353)	(308)	(1,494)	(1,086)
EBIT (Non-U.S. GAAP)	58,467	66,787	165,671	209,235
Non-U.S. GAAP adjustments*	-	-	6,254	-
Adjusted EBIT (Non-U.S. GAAP)	$ 58,467	$ 66,787	$ 171,925	$ 209,235

*See Reconciliation of Earnings to Adjusted Earnings[1] table above for the list of Non-U.S. GAAP adjustments made in the applicable periods.

Woodward, Inc. and Subsidiaries

RECONCILIATION OF NET EARNINGS TO EBITDA[1] AND ADJUSTED EBITDA[1]

(Unaudited - in thousands)

	Three-Months Ended June 30,		*Nine-Months Ended June 30,*	
	2022	*2021*	*2022*	*2021*
Net earnings (U.S. GAAP)	$ 39,446	$ 48,861	$ 117,657	$ 158,744
Income taxes	10,841	9,837	24,472	26,025
Interest expense	8,533	8,397	25,036	25,552
Interest income	(353)	(308)	(1,494)	(1,086)
Amortization of intangible assets	9,309	10,526	28,584	31,555
Depreciation expense	20,618	21,717	62,674	66,244
EBITDA (Non-U.S. GAAP)	88,394	99,030	256,929	307,034
Non-U.S. GAAP adjustments*	-	-	6,254	-
Adjusted EBITDA (Non-U.S. GAAP)	$ 88,394	$ 99,030	$ 263,183	$ 307,034

*See Reconciliation of Earnings to Adjusted Earnings[1] table above for the list of Non-U.S. GAAP adjustments made in the applicable periods.

NON-U.S. GAAP RECONCILIATIONS

Woodward, Inc. and Subsidiaries

RECONCILIATION OF CASH FLOW FROM OPERATING ACTIVITIES TO FREE CASH FLOW[1] AND ADJUSTED FREE CASH FLOW[1]

(Unaudited - in thousands)

	Nine-Months Ended June 30,	
	2022	*2021*
Net cash provided by operating activities (U.S. GAAP)	$ 86,016	$ 317,915
Payments for property, plant, and equipment	(37,105)	(21,347)
Free cash flow (Non-U.S. GAAP)	48,911	296,568
Cash paid for business development activities	2,982	-
Cash paid for restructuring charges	505	-
Adjusted free cash flow (Non-U.S. GAAP)	$ 52,398	$ 296,568

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APPENDIX

NON-U.S. GAAP MEASURES

[1]Adjusted and Non-U.S. GAAP Financial Measures: Adjusted net earnings, adjusted earnings per share, adjusted EBIT, adjusted EBITDA, adjusted effective tax rate, and adjusted nonsegment expenses exclude, as applicable, (i) costs related to business development activities and (ii) a charge related to a non-recurring matter unrelated to the ongoing operations of the business. Woodward believes that these items are short-term costs or charges and are otherwise not related to the ongoing operations of the business. Therefore, Woodward 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 payments for costs related to business development activities and restructuring activities. Management believes these adjustments to free cash flow better portray Woodward's operating performance. Guidance with respect to non-U.S. GAAP measures as provided in this release excludes, as applicable, costs, charges and payments related to (i) business development activities, and (ii) restructuring activities.

EBIT (earnings before interest and taxes), EBITDA (earnings before interest, taxes, depreciation and amortization), free cash flow, adjusted free cash flow, 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 and adjusted EBIT to evaluate Woodward's operating performance without the impacts of financing and tax related considerations. Management uses EBITDA and adjusted 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, EBITDA, adjusted EBIT, and adjusted 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, adjusted 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.

[2]Website, Facebook, Twitter: Woodward has used, and intends to continue to use, its Investor Relations website, its Facebook page and its Twitter handle as means of disclosing material non-public information and for complying with its disclosure obligations under Regulation FD.

ALWAYS INNOVATING FOR A BETTER FUTURE



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